Economics

ECONOMIC INSIGHTS

March 17, 2026

How healthy is the US labor market?

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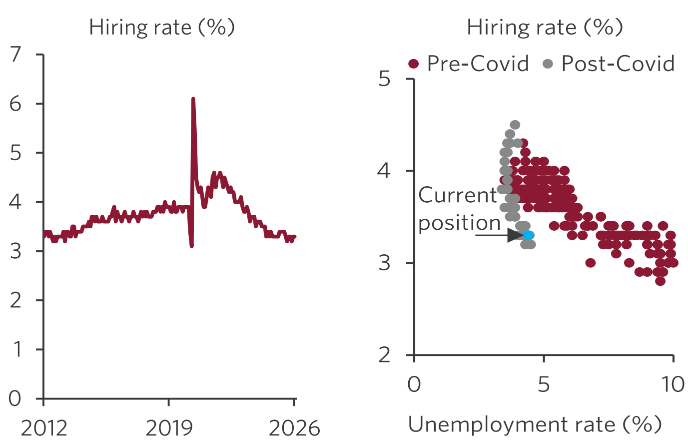
Can you describe the health of the US labor market in one word? We can't. There are too many conflicting signals. However, with a more nuanced assessment, we see indications that the labor market remains healthy, though not as robust as some headline figures suggest. More importantly, the underlying trend points to a gradual weakening. That evolving landscape should help mitigate the inflationary pressures brought on by higher oil prices, and likely provides the Federal Reserve with scope to begin easing policy by Q3.

Conflicting signals

The current US labor market is confusing. The tale is a function of your relative position. While individuals with established positions are doing well, those seeking to enter or transition within the workforce are encountering significant challenges. The job openings and layoffs rates are still consistent with a healthy labor market. The U6 unemployment rate, a broader measure than the headline rate which accounts for those marginally attached to the workforce, is at a reasonably contained level, while the core-age participation rate is close to record high levels, and the core-age employment-to-population ratio is at the highest level seen since the early 2000s. Combined with wage growth that is still running a touch hot, it would appear that the labor market is on solid ground.

Chart 1: Hiring rate has plummeted (l), and is below what pre-Covid norms would imply given unemployment rate (r)



Source: BLS, CIBC

There are some signs of fragility, however, with private average hours worked easing off, the quits rate at a level consistent with past recessions, and the percentage of those unemployed for at least fifteen weeks rising to 41%, up from 36% a year ago. Perhaps the most concerning indicator is the hiring rate, which is currently at 3.3%, the lowest rate seen since 2013, excluding the most severe months of the pandemic. Since 2022, the hiring rate has declined and has now stabilized at a historically low level. It is currently in the eleventh percentile looking back at the entire series history to 2001.

The question is why? It's hardly an AI story since the hiring rate was already reaching its lows before AI applications took off in 2025. Similarly, if current policy uncertainty was the main factor, the decline would have begun in 2025, rather than before.

A more plausible explanation is that the pandemic disrupted the traditional relationship between hiring and unemployment. Before the pandemic, low hiring rates typically coincided with high unemployment. But since 2023, the hiring rate has declined more rapidly and earlier than payroll employment growth. The post-pandemic recovery involved significant hiring and labor reallocation, with some companies hiring more than necessary (Chart 1).

Table 1 provides information on the current position of ten key job market variables, while Chart 2 attempts to capture this array of conflicting indicators in one measure by aggregating the relative position of those variables over the past 19 years. The picture is clear, as it stands now, despite the jobless rate sitting only a hair away from full employment, the labour market is no stronger than where it has averaged over that period.

Table 1: Current labor market indicators' percentiles (100=strongest score)*

Core-age participation rate	87
Core-age employment-to-pop ratio	83
U6 unemployment rate	76
Real wage growth	75
Job openings rate	69
Quits rate	40
Unemployed for 15+ weeks	25
Payrolls growth	21
Average hours worked	18
Hiring rate	11

Source: Haver Analytics, CIBC

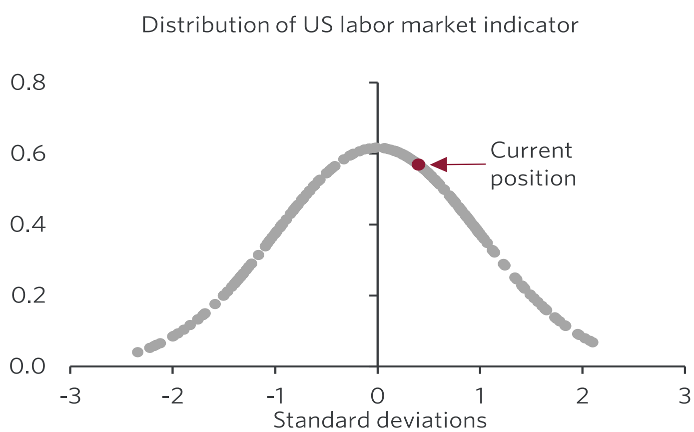
Note: *Percentile of latest data reading relative to history, going back in series entire history, to a max. of 1990. Note that inverse of unemployment variables are shown.

What's in the pipeline?

While the relative position of the labor market appears to be reasonably healthy and inconsistent with a near-term easing by the Fed, there are emerging signs that the trend is not in the right direction.

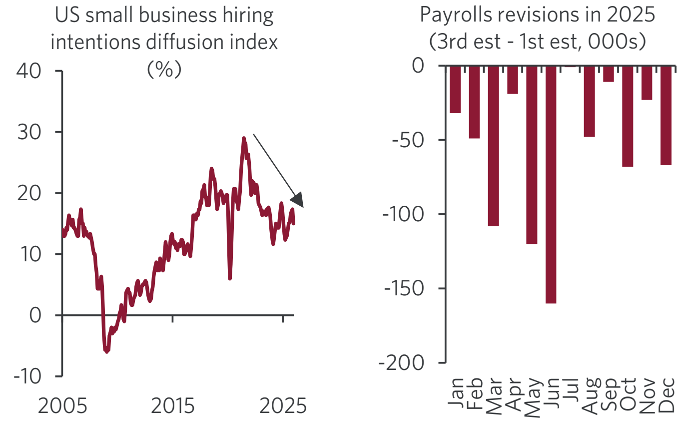
February's 92,000 decline in nonfarm payrolls was a reality check for those anticipating a turnaround in the labor market. Weather was not a factor, as the major snowstorm occurred after the survey date. While the healthcare workers' strike in California did play a role, it accounted for only about one-third of the monthly job losses.

Chart 2: US labor market indicators signaling average conditions



Source: Haver Analytics, CIBC

Chart 3: Small businesses not hiring much (l), payrolls revisions consistently weaker (r)



Source: Bloomberg, BLS, CIBC

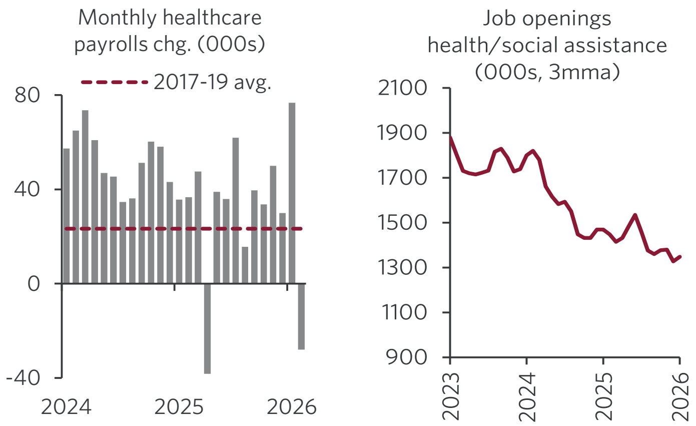
Currently, we estimate the trend in the first release of private payroll estimates to be around 60,000, with total nonfarm payrolls closer to 35,000 — reflecting the ongoing federal hiring freeze. First estimates of payrolls are subject to upward bias, primarily due to a significant decline in survey response rates among small and mid-sized firms, which are facing greater economic headwinds, and are paring back hiring plans (Chart 3, left). These firms typically reduce survey participation during challenging periods, and since much of the labor market weakness is concentrated in this segment, the initial estimates tend to overrepresent the relative strength of larger firms.

Consequently, in the current environment, subsequent revisions — when more comprehensive data is available — have been generally negative. In fact, all monthly revisions in 2025 were negative, marking the first time this has happened, looking back to 1979 (Chart 3, right). Additionally, the average downward revision of roughly 60,000 last year was the largest since the 2008 recession (excluding Covid). If this trend persists, and we think it will, it is plausible that the current estimate of a 35,000 trend monthly gain in payroll employment could be revised closer to zero in the coming months.

The February payroll numbers offer additional insights into the near term direction of the labor market. The sharp increase in healthcare employment in January caught many observers off guard, but this was followed by a decline in February. It is evident that the healthcare sector is undergoing substantial structural change, with job gains since the onset of Covid now twice as high as those recorded before the pandemic (Chart 4, left). However, one should not overstate that factor, as job openings in health care and social assistance have been declining. That suggests that the sector's capacity to offset weaker areas within the broader US job market is limited (Chart 4, right).

That said, we're seeing a weakening trend in labor supply that will stand in the way of a sharp rise in unemployment (see Table 3), and which will therefore lean against the Fed having to deliver an aggressive easing campaign. It is

Chart 4: Strong healthcare payrolls growth (l), likely not sustainable in the near term (r)

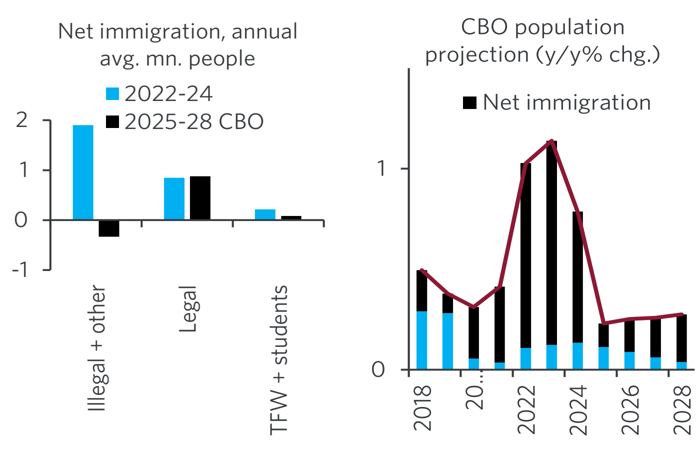


Source: BLS, CIBC

important to note that the previously discussed revisions are in addition to the 2025 benchmark adjustment, which, by our calculations, reduced the breakeven employment rate from approximately 100,000 to about 30,000. Most of the decline in the participation rate in February was among individuals aged 55 and over, who are unlikely to re-enter the workforce. With participation among prime-age workers at historically high levels, the potential for new entrants to the labor market will be limited in the months and quarters ahead.

The exodus of unauthorized immigrants is putting additional pressure on the prime-age labor supply pool. The first seven months of 2025 saw an average monthly decline of 48K net unauthorized immigrants, compared to 2024 that saw an average monthly increase of 129K. And the CBO is expecting an average annual drop of 300K for net "other foreign nationals", which includes illegal immigrants, asylum seekers, and people with legal parole, over the next few years (Chart 5, left). With the bulk of those outflows within the core working-age population, the CBO projects growth in that segment of the population of only 0.1% in 2026 and 0.3% in 2027, a sharp slowdown from the prior post-Covid years' average of 1.0%. The country's slowing birth rate is compounding the slowdown, and the CBO expects total population growth to average only 0.2% per year through 2028 (Chart 5, right).

Chart 5: Illegal immigration subtracting from population (l), compounding the slowdown from net births (r)



Source: CBO, CIBC

With the energy-induced acceleration in inflation appearing in the coming months and relatively healthy labor market conditions, the Fed is not even thinking about easing policy anytime soon. But assuming that the US/Israel-Iran war is short lived, the ongoing weakness in the job market will provide the Fed with enough justification to ease by the third quarter (see Table 5).

Table 2: Canada forecast detail (real % change, SAAR, unless otherwise noted)

Variable	25Q4A	26Q1F	26Q2F	26Q3F	26Q4F	2025A	2026F	2027F
Real GDP Growth (AR)	-0.6	1.4	1.8	2.0	2.0	1.7	1.2	2.0
Real Final Domestic Demand (AR)	2.4	0.2	1.8	1.5	1.6	2.1	1.3	1.9
Household Consumption (AR)	1.7	1.2	2.0	1.9	2.1	2.3	1.5	2.0
All Items CPI Inflation (Y/Y)	2.2	2.1	2.8	2.2	2.0	2.1	2.3	1.7
Unemployment Rate (%)	6.7	6.6	6.6	6.5	6.4	6.8	6.5	6.0

Table 3: US forecast detail (real % change, SAAR, unless otherwise noted)

Variable	25Q4A	26Q1F	26Q2F	26Q3F	26Q4F	2025A	2026F	2027F
Real GDP Growth (AR)	0.7	2.3	2.1	1.7	1.5	2.1	2.2	1.8
Real Final Sales (AR)	0.4	2.3	1.4	1.6	1.5	2.2	2.2	1.7
All Items CPI Inflation (Y/Y)	2.7	2.7	3.1	2.5	2.8	2.7	2.8	2.4
Core CPI Inflation (Y/Y)	2.7	2.5	2.6	2.4	2.6	2.9	2.5	2.4
Unemployment Rate (%)	4.5	4.4	4.4	4.3	4.3	4.3	4.4	4.3

Table 4: Canadian interest rates (end of period)

Variable	2026 Mar 16	2026 Jun	2026 Sep	2026 Dec	2027 Jun	2027 Dec
Overnight target rate	2.25	2.25	2.25	2.25	2.50	2.75
98-Day Treasury Bills	2.24	2.20	2.20	2.25	2.55	2.80
2-Year Government Bond	2.73	2.55	2.65	2.80	3.10	3.30
5-Year Government Bond	3.00	2.85	2.90	3.00	3.25	3.40
10-Year Government Bond	3.44	3.30	3.30	3.45	3.65	3.70
30-Year Government Bond	3.89	3.75	3.70	3.75	3.80	3.90
Canada - US T-Bill Spread	-1.45	-1.35	-1.10	-0.85	-0.70	-0.55
Canada - US 10-Year Bond Spread	-0.78	-0.95	-0.80	-0.65	-0.65	-0.70
Canada Yield Curve (10-year — 2-year)	0.71	0.75	0.65	0.65	0.55	0.40

Table 5: US Interest rates (end of period)

Variable	2026 Mar 16	2026 Jun	2026 Sep	2026 Dec	2027 Jun	2027 Dec
Federal funds rate (midpoint)	3.625	3.625	3.375	3.125	3.125	3.125
91-Day Treasury Bills	3.68	3.55	3.30	3.10	3.25	3.35
2-Year Government Note	3.68	3.50	3.40	3.30	3.65	3.85
5-Year Government Note	3.81	3.60	3.55	3.55	3.80	4.00
10-Year Government Note	4.22	4.25	4.10	4.10	4.30	4.40
30-Year Government Bond	4.86	4.80	4.65	4.75	4.95	5.15
US Yield curve (10-year — 2-year)	0.54	0.75	0.70	0.80	0.65	0.55

Table 6: Foreign exchange rates

Exchange rate	2026 Mar 16	2026 Jun	2026 Sep	2026 Dec	2027 Jun	2027 Dec
CAD-USD	0.73	0.74	0.74	0.75	0.76	0.75
USD-CAD	1.37	1.36	1.35	1.34	1.32	1.33

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