ECONOMIC UPDATE
REGIONS
May 2, 2025

April Employment Report: A Cooling, But Resilient, Labor Market

- Nonfarm employment rose by 177,000 jobs in April; prior estimates for February and March were revised down by a net 58,000 jobs
- Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings rose by 0.3 percent (up 5.3 percent year-on-year)
- The unemployment rate was unchanged at 4.2 percent in April (4.018 percent, unrounded); the broader U6 measure fell to 7.8 percent

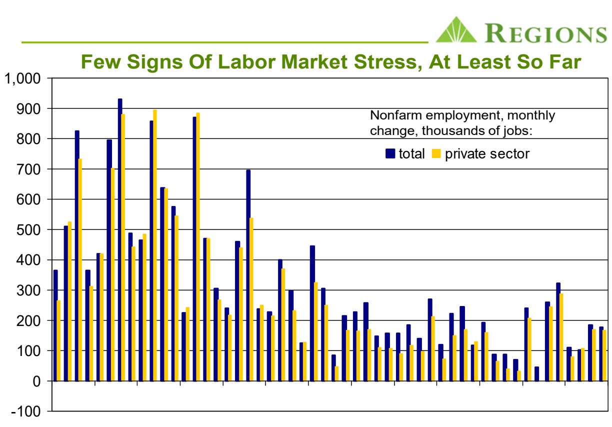
Total nonfarm employment rose by 177,000 jobs in April, better than we and the consensus expected, with private sector payrolls up by 167,000 jobs and public sector payrolls up by 10,000 jobs. As for April's beat on headline job growth, prior estimates of job growth in February and March were revised down by a net 58,000 jobs for the two-month period, which leaves the level of nonfarm payrolls almost exactly where we expected it would be with our forecast of 111,000 jobs added in April. Moreover, the initial collection rate for the April establishment survey was only 55.7 percent, suggesting that one should not get too attached to the first estimate of April job growth. The prior estimate of average weekly hours for March was revised up to 34.3 hours, a level which held in April, contrary to our expectation of a shorter workweek. Average hourly earnings rose by 0.2 percent, matching our below-consensus forecast, which yields a year-on-year increase of 3.8 percent. Of more relevance, aggregate private sector wage and salary earnings rose by 0.3 percent but are up 5.3 percent year-on-year, still easily outpacing inflation. Despite an increase in labor force participation, the unemployment rate held steady at 4.2 percent in April while the broader U6 rate, which accounts for underemployment, ticked down to 7.8 percent from 7.9 percent.

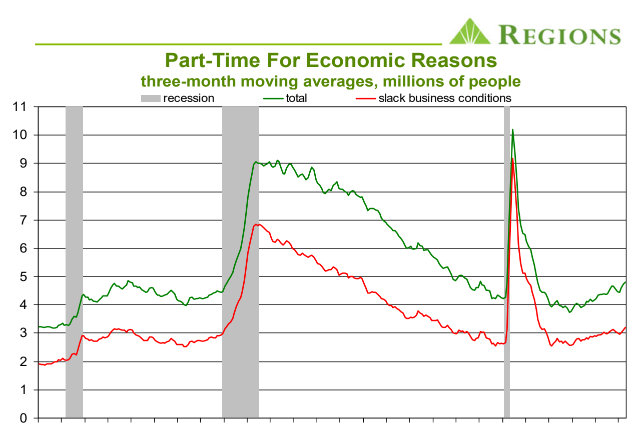
Hiring remained fairly broad based in April, with the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rising to 54.6 percent. Within the manufacturing sector, however, the one-month hiring diffusion index fell further, with April's read of 42.4 percent in stark contrast to February's read of 59.0 percent. This is consistent with the message sent by the ISM Manufacturing Index over this same period, which is that higher tariffs are acting as a drag on manufacturing orders, production, and employment. The establishment survey measure of manufacturing employment fell by 1,000 jobs in April.

In our preview of the April employment report, we identified retail trade, construction, transportation/delivery services, and leisure and hospitality services as industry groups in which smaller increases in payrolls than is typical for the month of April would be treated harshly by seasonal adjustment. As it turns out, we were half right but, in our defense, we'd argue that the half we got right is the half that actually matters. In each of these industry groups, this April's increase in unadjusted payrolls was smaller than the typical April increase, but in each instance seasonal adjustment was much more forgiving than we anticipated. We'll also note that April marks the fourth straight month in which the change in not seasonally adjusted construction payrolls was smaller than the normal change in that month. While atypically harsh winter weather no doubt played a role in January and February, that clearly was not the case in March and April. This could be one instance of changes in immigration policy impacting the employment data, but softening demand for home purchases may alleviate any construction labor supply constraints.

It is interesting that average weekly hours rose to 34.3 hours in March and held there in April. That we anticipated average weekly hours to fall in April was predicated on uncertainty over the course of trade policy amid a slowing pace of overall economic activity weighing on the demand for labor, but with firms not yet at the point where they'd start letting workers go, reducing hours worked was how they would lower total labor input. That average weekly hours have ticked higher could simply reflect pretty much the opposite story, i.e., firms not willing to take on additional workers amid all of the uncertainty but instead upping hours worked to increase total labor input. Clearly, this will be a metric to watch in the months ahead; historically, changes in aggregate hours worked have been a better indicator of turns in the business cycle than changes in either the level of nonfarm employment or the unemployment rate. That said, the household survey data show modest upward drifts in the numbers of permanent job losers and people working part-time due to slack business conditions over recent months. The levels of both are still fairly low but whether the modest upward drifts persist, or intensify, is another beneath the headline detail to watch over coming months.

Accounting for revisions, the April data leave the level of nonfarm employment almost right where we thought it would be. We and many others have been bracing for a hit stemming from changes in trade policy, but thus far the labor market, though continuing to cool, has been notably resilient. Some de-escalation of trade tensions would go a long way toward that remaining the case.





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