ECONOMIC UPDATE
REGIONS
June 6, 2025

May Employment Report: Revisions Temper Headline Beat

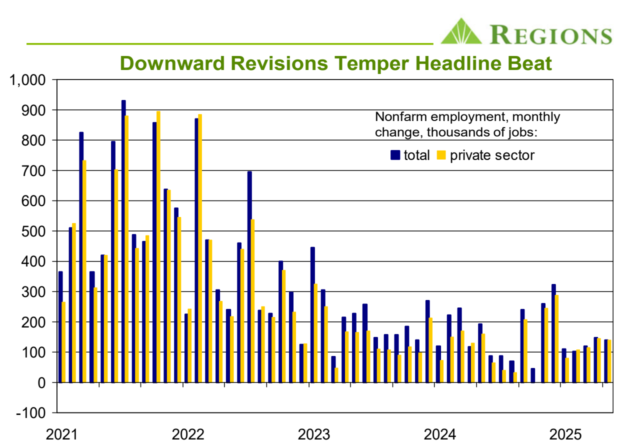
- Nonfarm employment rose by 139,000 jobs in May; prior estimates for March and April were revised down by a net 95,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.5 percent (up 5.0 percent year-on-year)
- The unemployment rate was unchanged at 4.2 percent in May (4.244 percent, unrounded); the broader U6 measure held at 7.8 percent

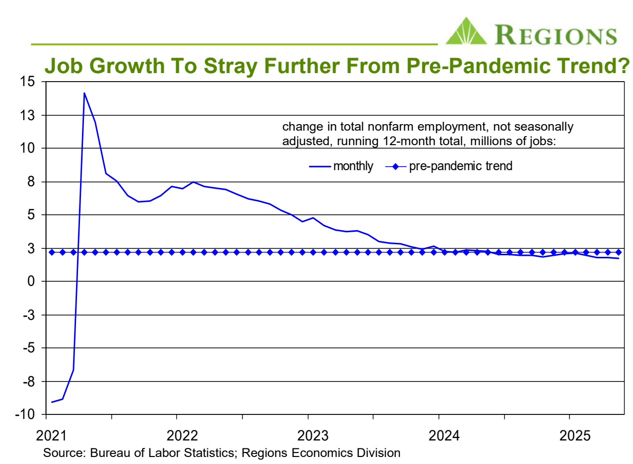
Total nonfarm employment rose by 139,000 jobs in May, slightly better than anticipated and even better than feared, with private sector payrolls up by 140,000 jobs and public sector payrolls down by 1,000 jobs. For the second straight month, however, a "beat" on the headline job growth number looks less inspiring thanks to a sizable downward revision to estimates of job growth in prior months. In this case, prior estimates of job growth in March and April were revised down by a net 95,000 jobs for the two-month period. As a general rule, the direction of revisions tends to match the trend in job growth, and in what has clearly been a period of slowing job growth downward revisions to prior estimates of job growth have become the norm. As we anticipated, the increase in not seasonally adjusted private sector payrolls was smaller than is typical for the month of May, but less so than we anticipated, while at the same time the May seasonal factor was a bit more forgiving than we anticipated, hence our forecast (+97,000 private sector jobs) falling short of the mark. Average weekly hours were unchanged at 34.3 percent while average hourly earnings rose by 0.4 percent which, along with the growth in private sector payrolls, yielded a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.0 percent year-on-year. The unemployment rate held at 4.2 percent in May, but this masks steep declines in labor force participation and household employment. The broader U6 rate, which also accounts for underemployment, held at 7.8 percent. The initial market reaction seems to be focused on "better than expected" May job growth while overlooking the run of downward revisions and what, to us, are clear signs of further softening in labor market conditions. That does not mean we think the labor market to be on the verge of collapsing, but it is reasonable to expect further slowing in the trend rate of job growth in the months ahead.

In our preview of the May employment report, we pointed out the industry groups – construction, leisure and hospitality services, and transportation/warehousing/delivery services – which we thought likely to post smaller increases in not seasonally adjusted payrolls than is typical for the month of May. While that was the case in each of these industry groups, it was a much closer call in leisure and hospitality services than we had anticipated given what has been a marked softening in discretionary services spending. We did, however, note that one exception to this general rule was dining out and, as it turns out, hiring at restaurants (+30,200) accounts for the bulk of the increase in seasonally adjusted leisure and hospitality services payrolls (+48,000). We also noted that we were a bit suspicious of the initial estimate of April job growth in transportation/warehousing/delivery services, which seemed out of line with the collapse in imports of goods seen during April, and our thought was that the early end to the April establishment survey period may have been a factor. That initial estimate was revised down, and the May data show virtually no change in not seasonally adjusted payrolls in this industry group. Barring a resolution of trade tensions, this industry group will likely be a drag on job growth in the months ahead.

More broadly, the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, slipped to 50.0 percent in May which, barring July 2024, is the lowest reading since the onset of the pandemic. We attach more significance to the hiring diffusion index than many others seem to, our premise being that the more narrowly based private sector job growth is, the more susceptible the labor market is to an adverse shock. To that point, private sector job growth in May was almost entirely accounted for by health care/social services and leisure and hospitality services. Payrolls in business services fell by 18,000 jobs in May, while manufacturing payrolls fell by 8,000 jobs, and retail trade payrolls dropped by 6,500 jobs. Additionally, federal government payrolls fell by 22,000 jobs, as cutbacks across a host of agencies seem to be making their way into the data even though the bulk of these cuts will not turn up until the October data.

Average weekly hours held at 34.3 hours, whereas we anticipated a one-tenth of an hour decline. This is encouraging in that firms will alter hours worked before they will make large alterations to head counts. At the same time, there was a modest decline in the number of people working part-time due to slack business conditions. These metrics tell us that while the demand for labor is cooling, this is occurring in an orderly manner. Whether that remains the case, however, remains to be seen.





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