ECONOMIC UPDATE

REGIONS

July 3, 2025

June Employment Report: A Weak Report Hiding Behind Shiny Headline Numbers

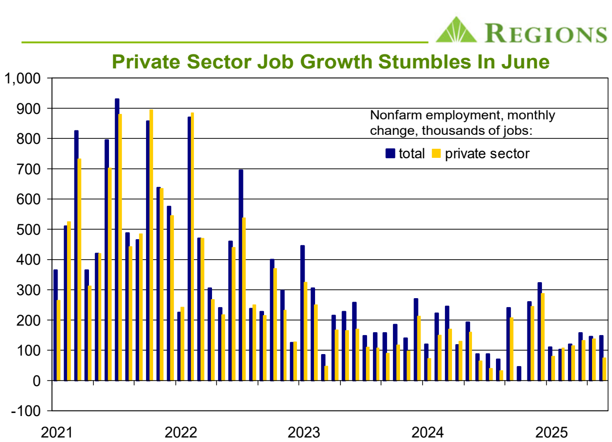
- Nonfarm employment rose by 147,000 jobs in June; prior estimates for April and May were revised up by a net 16,000 jobs
- Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings were flat (up 4.5 percent year-on-year)
- The unemployment rate fell to 4.1 percent in June (4.117 percent, unrounded); the broader U6 measure fell to 7.7 percent

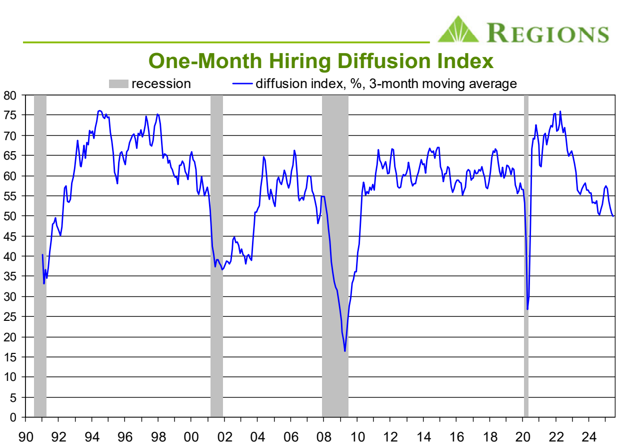
Total nonfarm employment rose by 147,000 jobs in June, seeming to make a mockery of the consensus forecast (106,000) and our forecast (98,000), the operative word here being "seeming." While public sector payrolls rose by just 74,000 jobs, falling well short of our forecast of 104,000 jobs, public sector payrolls are reported to have risen by 73,000 jobs, an increase which reflects nothing more than an outsized boost from seasonal adjustment in the education segment of state and local governments (combined unadjusted education payrolls fell by 542,000 jobs). In a break from the recent trend, prior estimates of job growth in April and May were revised up by a net 16,000 jobs for the two-month period, but private sector payrolls are now reported to have risen by 16,000 fewer jobs over this period than previously reported while public sector payrolls rose by 32,000 jobs more. In and of itself, the gain of 74,000 private sector jobs isn't a condemnation of the June report, particularly given that by year-end 2025 we think that would be higher than the pace needed to keep the unemployment rate from rising. There are, unfortunately, several glaring weak spots in the June report that make the 74,000 jobs increase in private sector payrolls a bit more concerning. The initial collection rate to the June establishment survey was only 59.5 percent, right away casting a shadow over the reliability of the initial estimates of June employment, hours, and earnings. The average length of the private sector workweek fell by one-tenth of an hour, which acted as a powerful drag on private sector earnings growth. Perhaps of most concern, the employment diffusion index, a measure of the breadth of job growth across private sector industry groups, fell to 49.6 percent in June, marking the second time in the past three months in which this gauge has fallen below 50.0 percent. While some are pointing to the drop in the unemployment rate, to 4.1 percent from 4.2 percent in May, as a positive sign, we'll simply note that the decline is entirely a function of a decline in labor force participation amongst younger adults as the annual June inflow of summer job seekers was smaller this year than is typical.

We pointed to all of these factors in this week's *Economic Preview*, but rather than patting ourselves on the back, we bring that up now to again highlight the importance of not simply taking headline numbers at face value. For instance, some are pointing to the "beat" on the headline job growth print and the upward revision to the past two months as a sign of the underlying strength of the labor market. We've also seen some tout the drop in the unemployment rate as further proof of the strength of the labor market, with some even going so far as to say it is "the only thing that matters." The details beneath these headline numbers, hiding in plain sight for anyone actually looking for them, suggest otherwise. To be sure, we're not arguing that the labor market has rolled over, but it clearly has cooled and there are signs that it may continue to do so.

Though many are attributing a slowing pace of private sector job growth to the impact of looming uncertainty over trade policy, we'll once again highlight the probable role of changes in immigration policy. We say "probable" because we cannot quantify any such effects in the data from the establishment survey, but the household survey data offer powerful clues. Foreign born participation has fallen by more than 1.1 million persons over the past three months, and the intra-year trends in this series are significantly weaker than has been the case for years (toss out the 2020 data). At the same time, the increases in not seasonally adjusted payrolls have been weaker over the past few months than historically has been the case in those months. After having been a powerful boost to labor force growth over the past few years, immigration flows are now acting as a powerful drag, which is one reason we expect the "break even" pace of job growth will, by year-end, be on the order of 50,000-75,000 per month. As such, the value of the unemployment rate as an indicator of conditions in the labor market or the broader economy is less than has historically been the case. In other words, we'd take great issue with anyone referring to it as "the only thing that matters."

We have long pointed to the one-month hiring diffusion index and total private sector hours worked as our two most important "beneath the headline" indicators. That both deteriorated in June is troublesome, but another low survey response rate is a caution against putting too much stock in the June data alone. The hiring diffusion index, however, has been weakening for some time, and a narrowing base of private sector job growth raises the risk of the labor market rolling over.





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