Outlook

CoStar Economy: Slower job growth sets the stage for a rate cut

From CoStar News <info@email.costar.com>
Date Wed 9/10/2025 12:23 PM
To spryor@ohioequities.com <spryor@ohioequities.com>

[CoStar Economy]

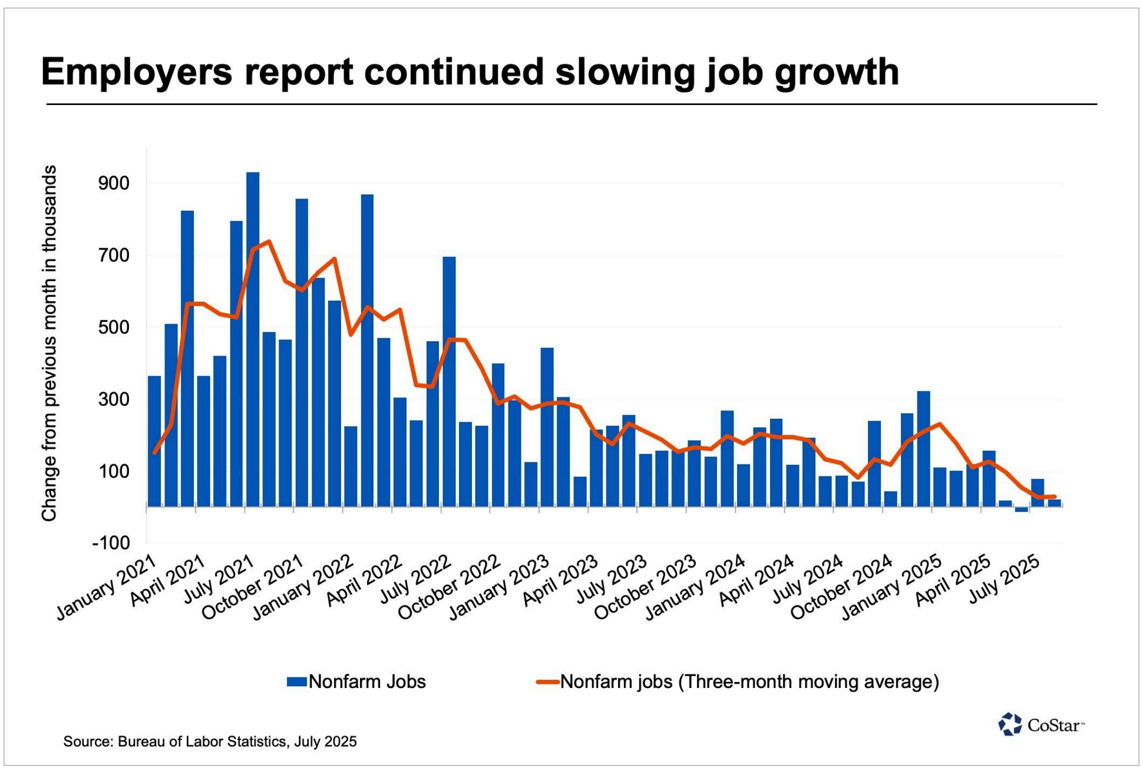
September 10, 2025
INSIGHTS ON DATA POINTS AND ECONOMIC POLICY

Slower job growth sets the stage for a rate cut

Recent data releases illustrate a stagnating American labor market, one that is attracting notice from the Federal Reserve.

Job growth is slowing, and though unemployment remains relatively low, younger workers are struggling to get hired, and the unemployed are staying out of work longer. Additionally, recent trends in stricter immigration and deportation policies, combined with an acceleration of longer-term demographic aging, are limiting growth in the labor supply.

Employers added only 22,000 jobs in August, well below market expectations. While revisions to July data showed an additional 6,000 jobs were added, the market saw 13,000 jobs disappear in June, the first negative monthly payroll posting since December 2020. This brought the three-month average of monthly job growth to 29,000, the slowest rate in more than four years. The unemployment rate ticked higher to 4.3%.



Other recent data confirms the slowdown in hiring. The number of job openings in July fell below the number of unemployed people for the first time since May 2021.

As in other months, the bulk of hiring in August came in the noncyclical education and health care sectors, adding 46,000 new jobs. Other low-paying sectors also saw gains, including leisure and hospitality at 28,000 and retail trade at 10,500. Higher-paying cyclical sectors showed continued decline, including professional and business services (down 17,000), manufacturing (minus 12,000), wholesale trade (a decline of 11,700), information (down 5,000) and financial activities (negative 3,000).

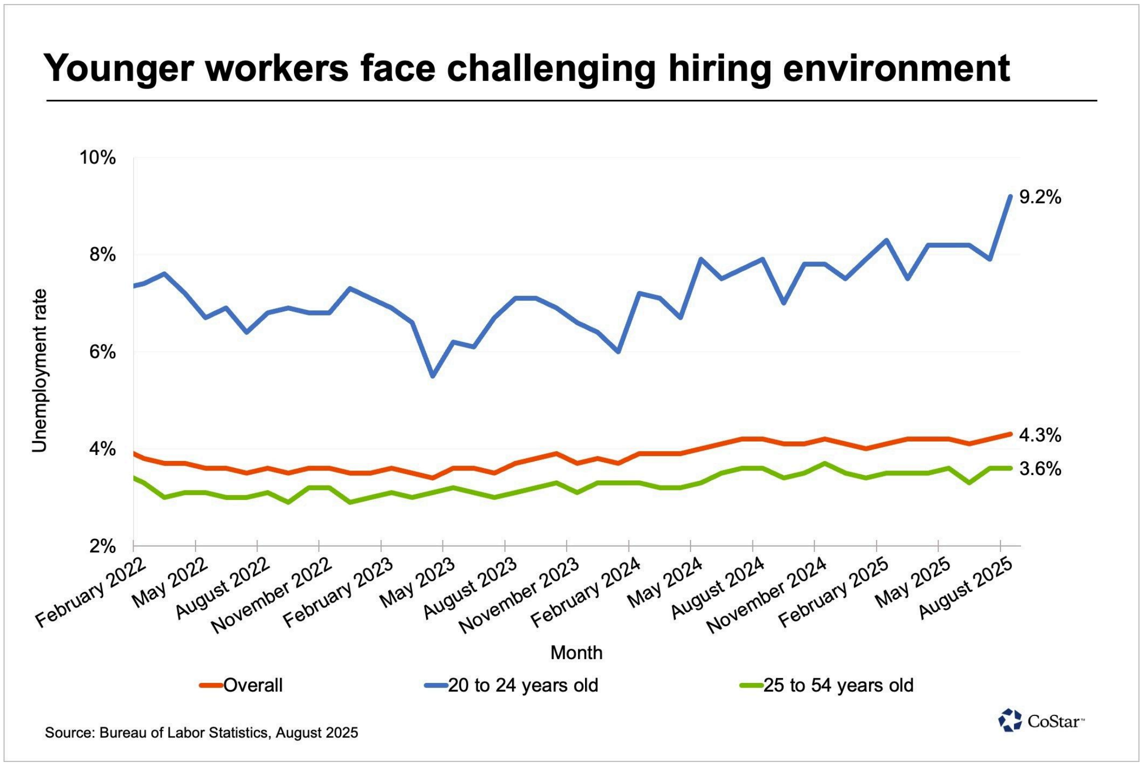
Government jobs fell by 16,000 in August, the largest monthly decline since February. The federal government has shed more than 97,000 positions since February, but substantial cuts are still expected as those who accepted deferred resignations earlier in the year officially leave the workforce in October.

Sector-specific monthly job numbers come from the Bureau of Labor Statistics' survey of establishments, which double-counts people who hold jobs but excludes the self-employed. On the other hand, the unemployment rate is derived from the household survey, which counts individuals and includes the self-employed.

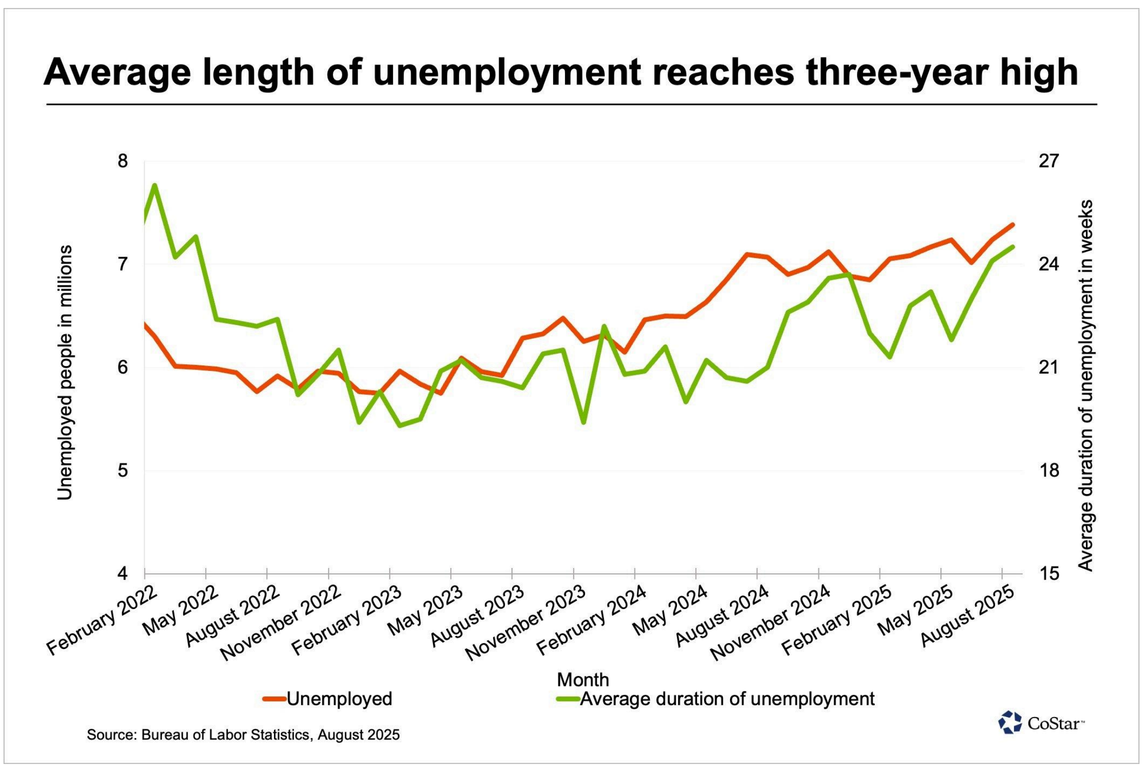
An increase in self-employment drove all the improvement in the household survey in August. The number of self-employed workers increased by 304,000, while overall employment grew by 288,000, suggesting that workers who lost payroll jobs in the past months moved into self-employment. Despite the August uptick, overall employment is down about 575,000 from April.

Though the unemployment rate rose to 4.3% from 4.2%, that was largely due to an increase in the labor force for the first time since April. While labor force participation among the prime-age 25-54-year-old cohort remains near an all-time high of 83.7%, an encouraging sign, participation by younger workers has stagnated as limited new hiring has locked some new entrants out of the market.

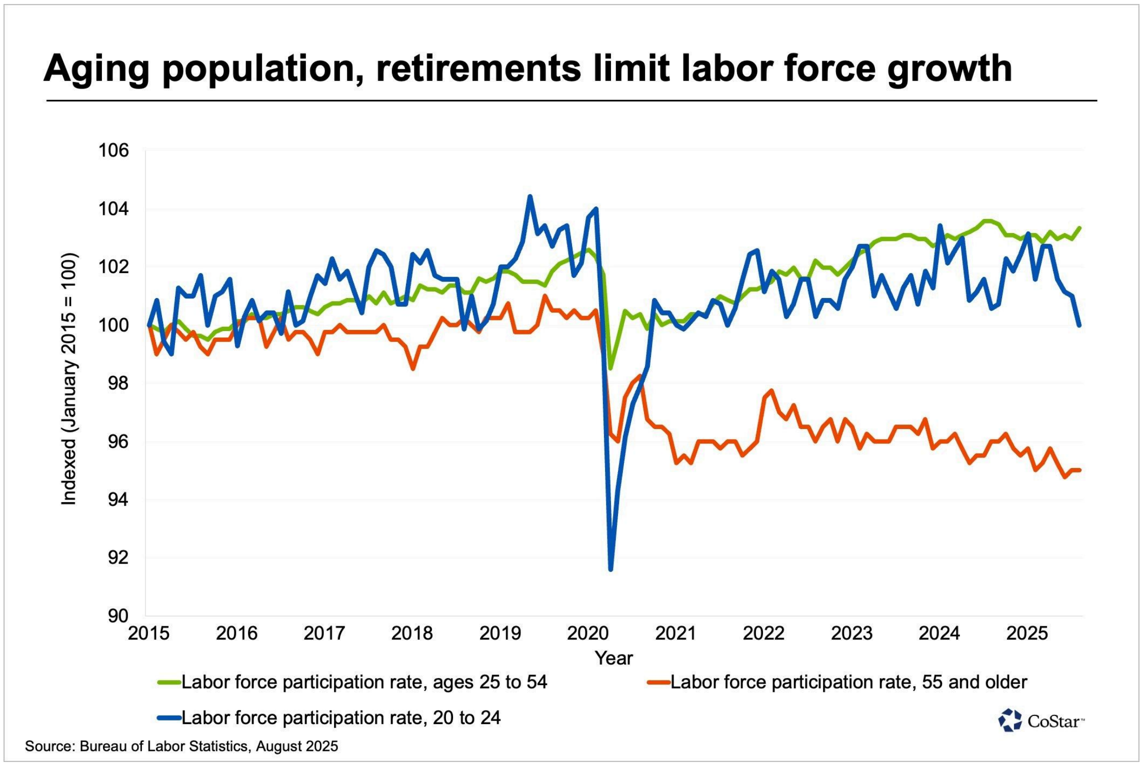
The unemployment rate among the 20-to-24-year-old cohort is volatile because workers in these age groups tend to enter and exit the workforce more frequently. However, unemployment among this group has shown a clear upward trend over the past two years and reached a four-year high of 9.2% in August. Over 70% of the 313,000-person annual increase in those unemployed as of August 2025 were workers ages 20 to 24.



Those workers are likely to search for longer as employers put hiring plans on hold. More than one-quarter of all unemployed workers were unemployed for 27 weeks or longer, up from 21.5% in August 2024. The average duration of unemployment ticked up to 24.5 weeks, its highest level since April 2022.



As new workers' initial entry into the workforce is proving challenging, an aging population also limits the prospects for growth through the re-entry of older workers. Though the prime-age labor force participation rate now outpaces its pre-COVID high of 82.9% in February 2020, labor force participation among the 55-and-older cohort has never recovered. It is down to 38.1% from a high of 40.3%.



As the median age of those workers continues to rise, future expansionary cycles could face constraints in increasing labor supply.

In more evidence of a slowing labor market, the Bureau of Labor Statistics recently released its preliminary benchmark revision of annual jobs data, estimating that the labor market added 911,000 fewer jobs than initially reported between April 2024 and March 2025. This is roughly half the 1.8 million new jobs reported during that period, the largest overcount since 2009. Job growth was revised lower in seven out of the past 10 years.

A final benchmark revision is to be released with the January 2026 monthly employment situation report after a full year of administrative data is available. In 2024, preliminary revisions showed an 818,000 overcount in payrolls, which was finalized as a 598,000 overcount.

What we’re watching …

Recent weakness in economic data, including the labor market, raised expectations that the Federal Reserve’s policymaking committee will attempt to