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COSTAR ECONOMY

US job growth beats forecasts again in May, giving Fed less reason to cut rates

Employers added 172,000 positions, about double what economists expected



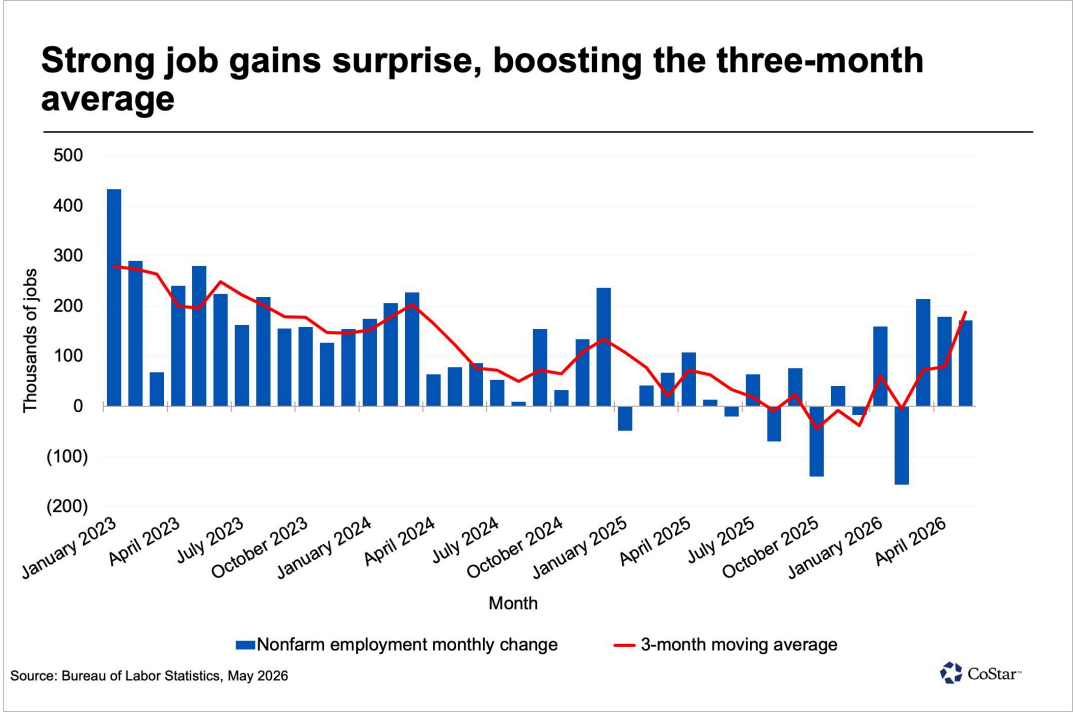
By Christine Cooper
CoStar Analytics

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U.S. employers went on a hiring spree in May, adding 172,000 jobs, the third consecutive monthly gain.

The data boosted the three-month moving average gain in jobs to 188,000, its highest level in more than two years. The unemployment rate remained unchanged from prior months at 4.3%.

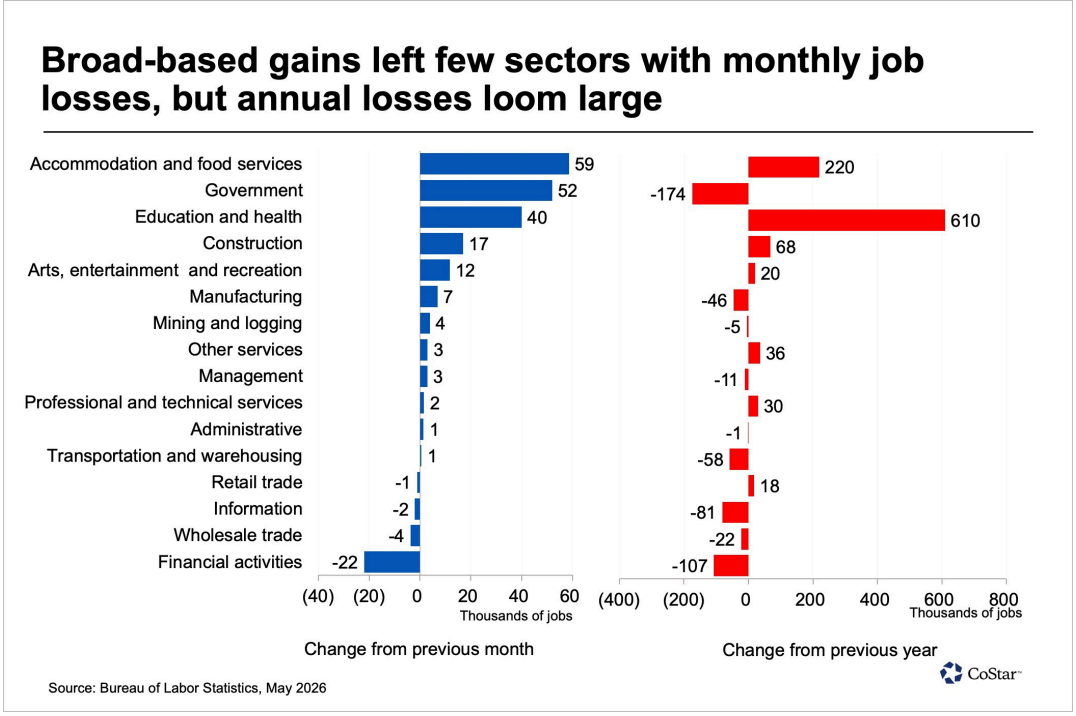
The number was double market expectations of roughly 85,000 jobs, and revisions to earlier data suggested a strengthening after a period of weakness over the previous 12 months. From May of last year through early this year, monthly job gains and losses see-sawed, with the slowest net job growth occurring in the fall and winter. Revisions to April and March figures, however, cemented the notion of a recovering market, with 93,000 jobs added to previously reported data.



Job gains were seen in most sectors, with accommodation and food services adding the most, 59,000, as the summer travel season warms up.

Governments added 52,000 jobs, mostly at the local level. Government employment overall has seen the largest job losses over the past year, a consequence of federal job cuts initiated by the Department of Government Efficiency. Roughly 275,000 positions in the federal government were cut in the last 12 months, and 48,000 were cut in state-level governments. As responsibilities have shifted toward local governments, that sector has added almost 150,000 positions over the last 12 months.

Education and health services continue to add large numbers of positions, including 40,000 in May, and are responsible for the most job gains over the past year. Indeed, jobs added in this sector alone offset more than all other job losses in the last 12 months.



Other big gainers in May included construction, specifically in nonresidential buildings and in specialty trades, such as electricians, plumbers and drywall installers, as data centers proliferate. The arts and entertainment sector added 12,000 jobs in May, highlighted by sports activities and gambling businesses, which have seen a booming business. Manufacturing saw gains of 7,000 in May, but the sector has lost 46,000 jobs in the last 12 months and almost 265,000 in the last three years.

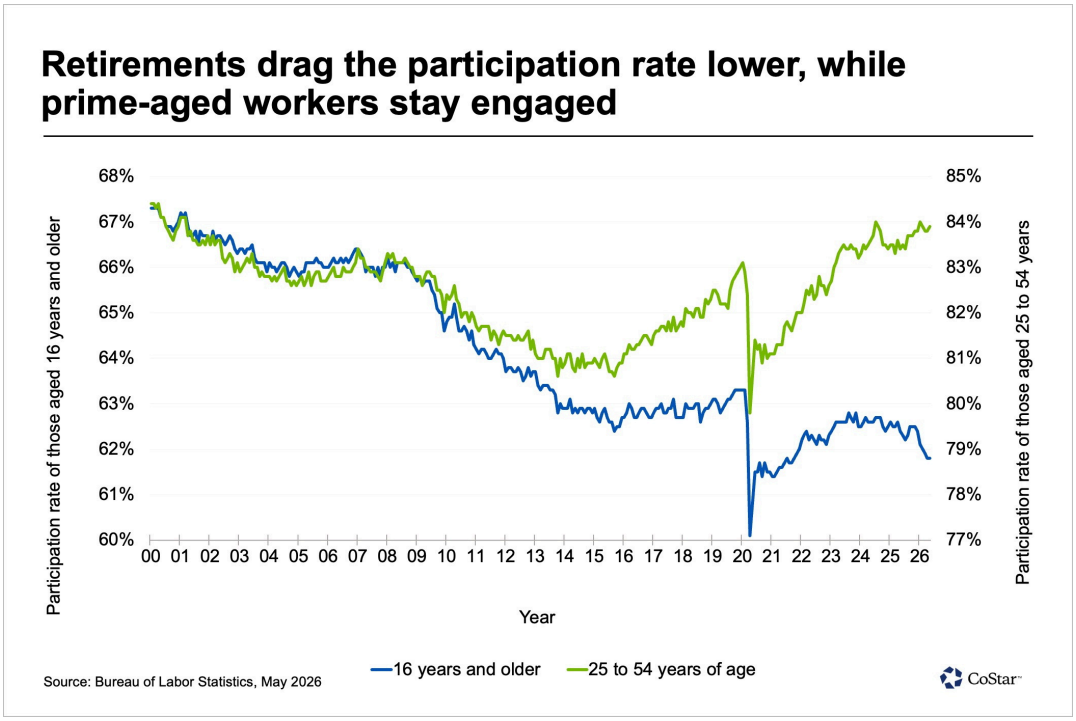
The information sector, populated by many technology workers, has been shedding jobs since its workforce peaked in November 2022, posting losses in all but four months during that time and representing a cumulative shaving of more than 330,000 positions, a staffing reduction of more than 10%. Layoff announcements from many large tech firms investing heavily in artificial intelligence are a major contributor to job losses here.

Similarly, the financial activities sector continues to shed jobs, trimming 22,000 positions in May and 107,000 over the past 12 months, also likely related to burgeoning AI adoption.

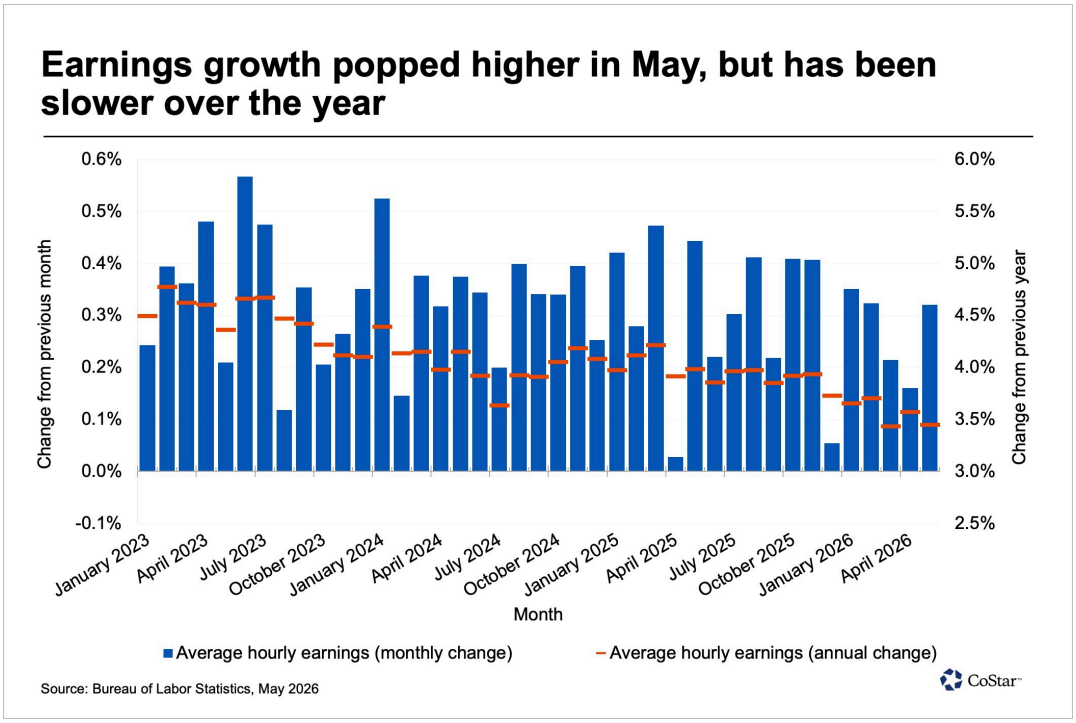
Among other data reported, the labor force participation rate fell 10 basis points in May to 61.8%, its lowest level in almost five years, as tighter immigration restrictions and retirements pulled more people out of the labor force.

The labor force peaked in November 2025 at 171.5 million people. Since then, almost 1.5 million have left the employment market. A net

positive number of women have entered the labor market, but not nearly enough to offset the 1.6 million men who have left. The labor participation of prime-aged workers, a figure closely followed as a measure of the health of the labor market, edged higher in May, reaching 83.9%.

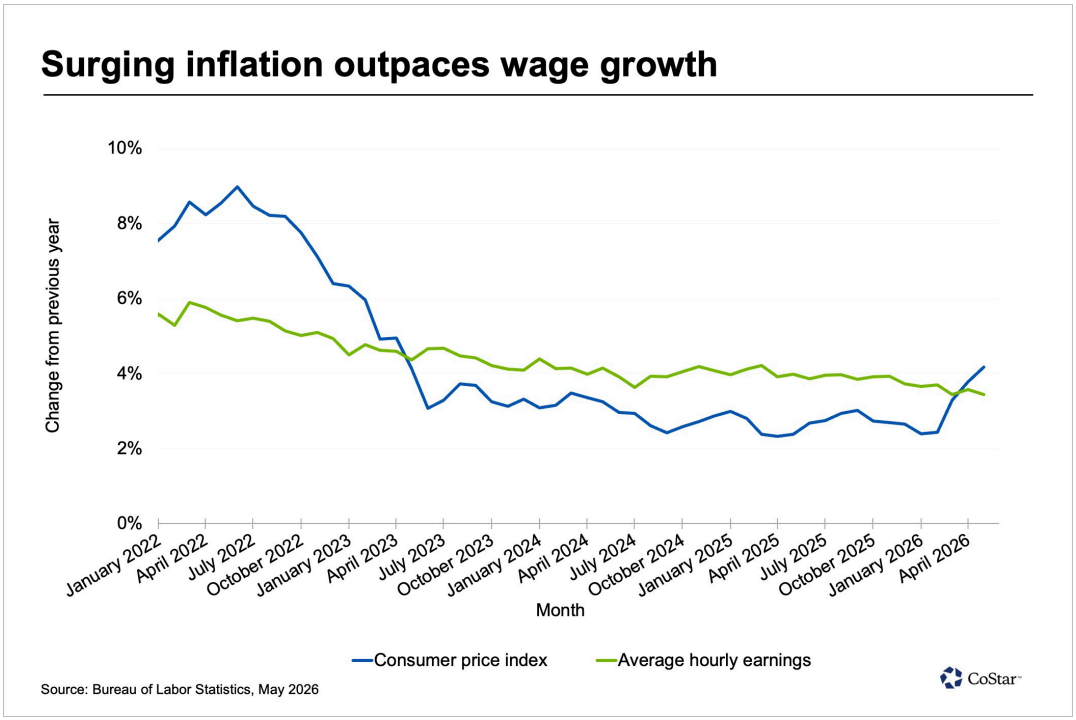


Average hourly earnings growth popped in May, doubling to 0.32% in May compared to 0.16% in April. However, the annual increase slowed from 3.6% to 3.4%.



Moreover, the recent rise in inflation, driven by surging energy costs, has eaten into those wage gains. Wage growth has outpaced inflation

for almost three years, strengthening households' purchasing power. But the tables turned in April with inflation exceeding wage growth in both April and May, eroding households' purchasing power.



Some cracks in the labor market persist. The share of workers who have been unemployed for 27 weeks or longer rose to 27.5% in May, up from 25.3% in April, and the highest level since December 2021. Furthermore, consumer sentiment, as reported by the University of Michigan, fell to a record low in its latest report due to concerns about future inflation.

What we're watching ...

The labor market's apparent stability has altered expectations for the Federal Reserve's next policy-setting move.

When job growth was weaker, many predicted the Fed would move to cut rates to bolster economic activity and hiring. But with job growth still strong, policymakers are likely to focus their attention on addressing inflation, which has surged since the start of the Middle East conflict.

Higher energy costs are still feeding into transportation and grocery prices, threatening additional price pressures. As of this writing, markets are now expecting a 25 basis-point rate increase by the end of the year, and probably a second one by mid-2027.

CoStar Economy is produced this week by Christine Cooper, CoStar's managing director and chief U.S. economist.

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