

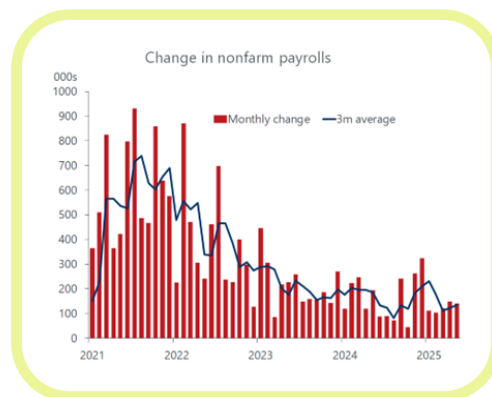
# Weekly Economic Commentary

June 6, 2025

**It may be the calm before the storm, but the markets are heaving a big sigh of relief that the chaotic tariff policy, heightened uncertainty and downbeat household confidence have yet to do significant damage to the job market.**

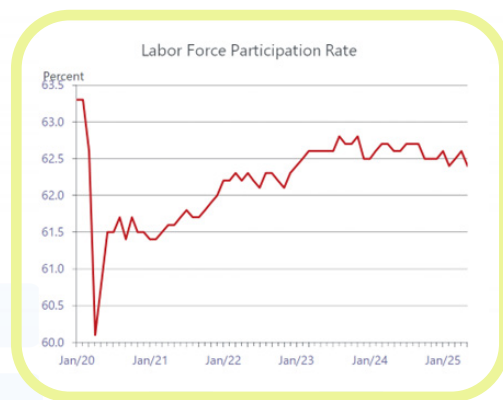
True, job growth is slowing, which is to be expected for a number of reasons. An aging expansion, slowing labor force growth and elevated interest rates are time-honored weights on the labor market. But the 139 thousand increase in nonfarm payrolls last month, reported on Friday, hardly amounts to a sinking ship. Even the downward revisions that lowered the gains over the previous two months by 95 thousand jobs, do not alter the narrative. Jobs are growing fast enough to prevent a rise in the unemployment rate, which remained at 4.2 percent in May for the third consecutive month.

Overall, the latest employment report further validates the Federal Reserve's "wait-and-see" strategy. Keep in mind that the Fed is data dependent, not forecast dependent. For several months, the latter has consistently argued for policy makers to cut interest rates sooner than later. It was only a matter of time before the negative influences listed above would become a serious drag on the economy's growth rate. Anecdotally, that prospect is well under way. Companies are announcing a pause in hiring and investment plans due to mounting uncertainty stemming from the ongoing trade war, households are increasingly saying that jobs are harder to find, and the latest surveys of purchasing managers paint a gloomy picture, bordering on recession by their reporting companies.



But the hard data, the most important of which are consumer spending and the employment reports, continue to defy the gloom and doom portrayed in the soft data. As long as paychecks continue to fatten the wallets of consumers, the economy should have enough firepower to grow. In May, that condition was firmly met. Worker pay rose by a solid 0.4 percent, sustaining an annual increase at 3.9 percent for the fourth consecutive month. The consumer price index for the month is not yet available, but it increased by 2.3 percent through April. Hence, workers are staying comfortably ahead of inflation, pointing to continued spending prowess. By this metric, there is no urgency for the Fed to step in to rescue an economy that shows no sign of falling off a cliff.

But as the saying goes, the devil is in the details, and a trapdoor awaits policymakers who rely too long on backward looking data. From our lens, the economy is coping with headwinds that will ultimately slow the growth engine. Indeed, when parsing the latest employment data there are some soft spots that tarnish an otherwise bright headline report. For one, job conditions in sectors that are linked to cyclical forces, such as manufacturing and retail, are turning decidedly weaker. Both reduced payrolls last month. Conversely, the healthcare and social services grouping, which is more insulated from cyclical forces, added 78 thousand jobs last month, accounting for 56 percent of the payroll increase. That's an outsize contribution from a sector that accounts for less than 15 percent of total employment.



Simply put, a shrinking slice of the workforce is contributing to the payroll gains. The Labor Department's diffusion index, which measures the percentage of industries that are expanding payrolls, fell to 50% in May and to 41.7% in manufacturing, which is the lowest in 15 months. Meanwhile, the unemployment rate has remained low in good part because labor supply is growing more slowly. The share of adults participating in the labor force fell 0.2 percent in May to 64.2%, which equals the lowest share since January 2023. More broadly, the employed share of the total population fell 0.3% to 59.7%, the lowest since January 2022. Nor is the shrinkage due solely to aging

baby boomers taking retirement. Both the labor force participation rate and the employment/population ratio fell for prime-age workers. The slower the labor force grows, the fewer new jobs are needed to keep the unemployment rate

from rising.

But that reduced breakeven rate masks growing stress in the labor market. While less hiring is needed to keep the unemployment rate low, it also means that unemployed workers are finding it increasingly hard to land a job. That stress is reflected in the steady climb in recurring claims for unemployment benefits. Initial claims are still historically low because employers are holding on to workers. But continuing claims have been steadily rising this year and are hovering at the highest level in more than three years. The increased difficulty that unemployed workers are having finding job is also reflected in the job finding rate, i.e., the percentage of unemployed workers that find a job each month. Aside from an aberrational plunge linked to heightened trade jitters at the start of the year, that rate has fallen to the lowest level since the summer of 2021.

Still, it is hard to portray the job market as turning seriously weak until companies start to lay off workers on a larger scale and job growth falls below the breakeven rate that keeps the unemployment rate stable. That breakeven rate has been steadily falling under the tighter immigration policies of the current administration. We estimate that job growth can slow to as low as 50 thousand a month before the unemployment rate starts to climb. We are still comfortably above that threshold, but caution that once the worm turns, it happens fast and is difficult to stop. Keep in mind also that while the private sector continues to expand payrolls, the public sector is not.

Indeed, the Federal government under DOGE purged 22 thousand workers in May, bringing the total job losses in the Federal sector to 59 thousand over the past four months. That total is poised to increase substantially as many Federal workers are on paid leave and won't fall off the payroll count until their severance runs out. That will start to happen in October, setting the stage for some 75 thousand workers to drop out of the employment rolls in the fourth quarter. At that point, total payroll growth could well turn negative and lift the unemployment rate to 4.5 percent. Importantly, negative job growth will almost certainly dominate the headlines, which along with the cut to disposable incomes, will heighten recession fears. We expect the Fed to then shift its priority from keeping inflation in check to preventing employment from spiraling downward towards recession, prodding it to resume its rate-cutting campaign by December, if not before.



## Key Financial Indicators

| Interest Rates                            | June 6   | Week Ago | Month Ago | Year Ago |
|---|----------|----------|-----------|----------|
| 3-month Treasury bill                     | 4.34%    | 4.34%    | 4.33%     | 5.38%    |
| 6-month Treasury bill                     | 4.30     | 4.31     | 4.25      | 5.37     |
| 2-year Treasury note                      | 4.05     | 3.91     | 3.91      | 4.90     |
| 5-year Treasury note                      | 4.13     | 3.97     | 4.02      | 4.47     |
| 10-year Treasury note                     | 4.51     | 4.41     | 4.39      | 4.44     |
| 30-year Treasury bond                     | 4.97     | 4.94     | 4.84      | 4.55     |
| 30-year fixed mortgage rate               | 6.85     | 6.89     | 6.76      | 6.99     |
| 15-year fixed mortgage rate               | 5.99     | 6.03     | 5.89      | 6.29     |
| <b>Stock Market</b>                       |          |          |           |          |
| Dow Jones Industrial Index                | 42762.87 | 42270.07 | 41249.38  | 38798.99 |
| S&P 500                                   | 6000.36  | 5911.69  | 5659.91   | 5346.99  |
| NASDAQ                                    | 19529.95 | 19113.77 | 17928.92  | 17133.13 |
| <b>Commodities</b>                        |          |          |           |          |
| Gold (\$ per troy ounce)                  | 3334.00  | 3313.10  | 3329.10   | 2309.10  |
| Oil (\$ per barrel) - Crude Futures (WTI) | 64.78    | 60.79    | 61.06     | 75.25    |

## Key Economic Indicators

|  | Latest<br>Month/Quarter | Previous<br>Month/Quarter | Two-Months/<br>Quarters Ago | Average-Past<br>6 Months or<br>Quarters |
|--|-------------------------|---------------------------|-----------------------------|---|
| ISM manufacturing index (May)            | 48.5                    | 48.7                      | 49.0                        | 49.4                                    |
| ISM non-manufacturing index (May)        | 49.9                    | 51.6                      | 50.8                        | 52.1                                    |
| Nonfarm Payrolls (May) - 000s            | 139                     | 147                       | 120                         | 157                                     |
| Unemployment Rate (May) - Percent        | 4.2                     | 4.2                       | 4.2                         | 4.1                                     |
| Average Hourly Earnings (May) - % change | 0.4                     | 0.2                       | 0.3                         | 0.3                                     |

**Millennium Corporate Credit Union**

8615 West Frazier Street  
Wichita, KS 67212