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Job Growth Slows as U.S. Labor Market Shows Signs of Fatigue

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The U.S. labor market has maintained a steady, if slowing, pace of job growth through the first half of the year, but new data suggest that momentum is fading. With hiring activity cooling and economic uncertainty lingering, the latest indicators point to a more restrained employment landscape heading into the second half of 2025.

The July jobs report due Friday is expected to show around 110,000 new jobs, down from June's 147,000 job gains, according to consensus estimates from FactSet. The unemployment rate is forecast to tick up to 4.2 percent, from 4.1 percent in June. From January through June, monthly job growth ranged from around 102,000 to 158,000, yielding an average of about 130,000 jobs per month, the slowest first-half pace since 2010, excluding 2020. While this level of hiring meets the breakeven point necessary to keep pace with labor force growth, it represents the slowest first-half average, roughly 130,000 jobs per month, since 2010, excluding the 2020 pandemic period.

Analysts say much of the hiring is now concentrated in a narrow segment of the economy, particularly in health care and education. Heather Long, chief economist at Navy Federal Credit Union, highlighted this imbalance in an interview with CNN, noting, "We're getting more and more reliant on a very small part of the economy to drive any sort of job growth."

Broader hiring has slowed, with employers hesitant to expand due to ongoing uncertainty chiefly regarding tariffs and trade policy. Elizabeth Renter, senior economist at personal finance company NerdWallet, pointed out that "in the current environment, that predictive information is changing from week to week," which has contributed to businesses holding off on workforce changes.

This cautious approach has led to minimal labor turnover, a trend confirmed by the latest Job Openings and Labor Turnover Survey (JOLTS), which reported fewer job openings in June, a one-year low in hiring, and a quits rate below the five-year average. Despite layoffs trending higher on paper, driven largely by federal agency budget reductions, initial jobless claims remain relatively low, though continued claims have edged near a four-year high.

Data from the Labor Department showed that initial jobless claims rose slightly to 218,000, while continuing claims held at 1.946 million, levels nearing highs not seen since late 2021. July job cuts announced totaled 62,075, up roughly 29 percent from June, according to Challenger, Gray and Christmas.

"Federal budget cuts are affecting not just government, but also nonprofits and health care," said Andrew Challenger, senior vice president of the outplacement firm. Artificial Intelligence (AI) was cited as a reason for over 10,000 job cuts in July alone, while concerns over tariffs have contributed to nearly 6,000 job losses so far this year.

Meanwhile, labor force participation has shown signs of retreat. Although unemployment dipped slightly in June, so did the total number of people in the workforce. Analysts have raised concerns that long-term joblessness is becoming more entrenched, with the average duration of unemployment climbing to 23 weeks and the share of long-term unemployed reaching 23.3% just shy of a three-year high.

An analysis from Wells Fargo in June emphasized the growing reliance on foreign-born workers, noting they have made up nearly 75% of labor force growth since February 2020. With immigration policy tightening, labor supply may further contract, adding pressure to an already tight job market.

Employment gains remain largely confined to a few sectors. In June, about 94 percent of job gains came from health care, social assistance, and state and local government positions, sectors that account for under 15 percent of total U.S. employment. Economists caution that some of these gains, especially in government roles, may be inflated due to seasonal adjustments.

Looking ahead to July, expectations remain centered on similar sectors, particularly health care, social assistance, and hospitality. But a broader slowdown is evident. The BLS diffusion index for private industry hiring stood at 49.6 in June, indicating more industries lost jobs than gained.

Tariff uncertainty remains a leading drag on job growth. Long cited trade policy instability as the top factor holding back hiring, followed by ongoing adjustments from the pandemic and, to a lesser degree, the impact of AI. While wages have continued to outpace inflation, the uneven recovery has fueled what economists call a “K-shaped economy,” where high-income earners experience growth while many working-class Americans fall behind.

“People are really stretched thin,” Long noted. “There simply is not much hiring, white-collar or blue-collar.” She added that a clearer trade outlook and potential interest rate cuts in the coming months could provide some relief.

In summary, the American labor market continues to post gains, but at a pace that raises caution rather than confidence. Concentrated hiring, economic uncertainty, and growing long-term unemployment are reshaping the job landscape, making sustained recovery more complex than headline figures suggest.