

Special Commentary — October 3, 2025

No Payrolls, But Still Plenty to Stew Over in the Jobs Market

Summary

Delayed economic data due to the federal government [shutdown](#) comes at a particularly ill-opportune time for the U.S. labor market. As we have highlighted for months, the jobs market is in a precarious place. The unemployment rate has moved up to the top end of estimates of "full employment." Although the climb has been gradual this year, it comes amid a sharp drop in labor force participation and a near-stalling in job growth. Reluctance among companies to add headcount is evident across an array of public and private data on hiring, but so too is their reticence to lay off workers. Thus, while the jobs market is not unraveling, it continues to teeter on a knife's edge. Strengthening in end-demand could unleash pent-up demand for workers, but a further moderation or negative shock to growth could tip the scales the other direction, setting off a negative feedback loop between income, spending and hiring.

So when it comes to the labor market, what's keeping our guard up and making us nervous about flying partially blind in the days, and potentially weeks, ahead? The chartbook that follows highlights the indicators we watch to gauge the labor market's underlying momentum and vulnerability.

A Sidebar on the Shutdown

The federal government shutdown will delay the September Employment Situation report, originally slated to be released by the Bureau of Labor Statistics on October 3. The reference period of the report spanned September 7-13, so the furloughing of BLS workers should not impact data collection but rather the final steps in processing. Following the 2013 shutdown, the September jobs report was released Tuesday, October 22, four businesses days after the federal government resumed operations. The publishing time *could* be a touch sooner after re-opening this go round, with the shutdown occurring a day closer to the originally scheduled publication, but the timeline will depend on the ultimate duration of the shutdown.

Come the release of the October Employment Situation (currently scheduled for November 7), the shutdown should not have a *direct* bearing on nonfarm payrolls. Even though furloughed workers do not receive pay during a shutdown, Congress passed a law in 2019 guaranteeing back pay. As such, federal government workers are still counted in the establishment survey's measure of payrolls. The unemployment rate, however, would be pushed higher if the shutdown lasts all the way through October 17 (the end of the reference week), since the ~750K furloughed workers would be classified as "unemployed on temporary layoff."¹ If the current shutdown becomes prolonged, the October report would also likely be delayed, as it was by one week in 2013. This lack of government data for the time being means more scrutiny of private sector data, most of which also paints a tenuous picture of the labor market.

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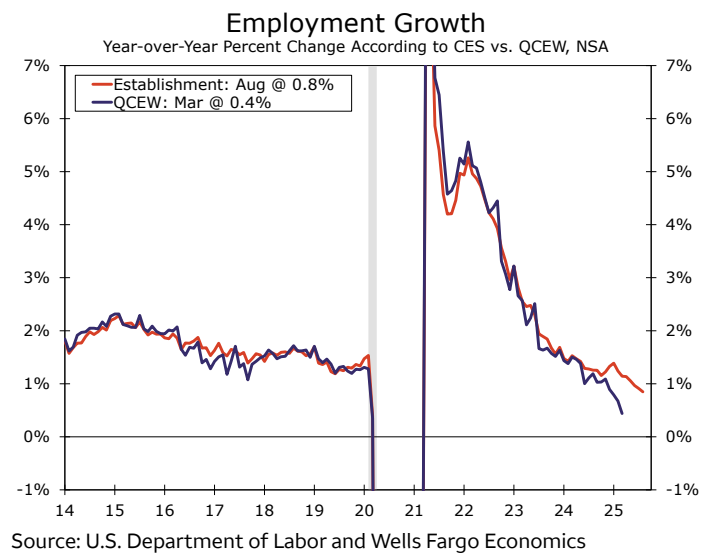
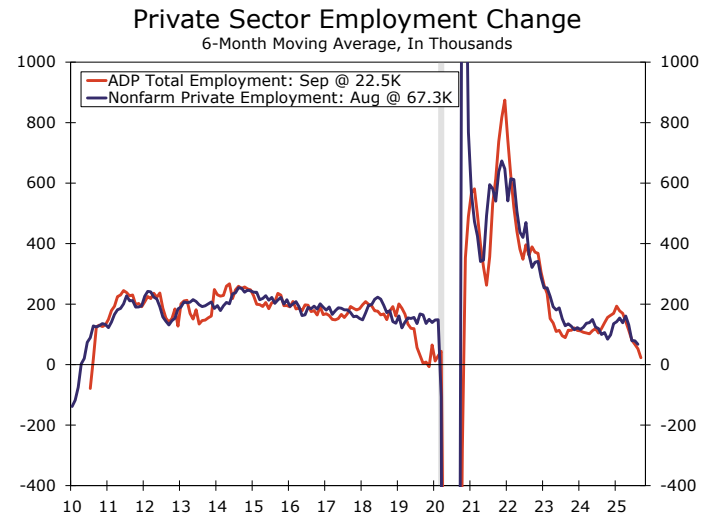
How Much Has Job Growth Slowed?

The labor market has weakened materially in the last few months, with the latest nonfarm payrolls print showing the U.S. economy added just 22K jobs in August. The downshift has pushed the three-month average pace of payroll growth to only 29K, a significantly slower clip than at the start of the year.

Separate data from ADP (a payroll processing firm) show the private sector shedding 32K jobs in September. While not a reliable predictor of the first monthly estimate of private sector payrolls, the ADP data track the direction of travel for nonfarm payrolls well and add further evidence that job growth has lost significant momentum.

The preliminary benchmark revision suggests job growth could be even weaker. The BLS recently estimated that total payroll employment was 911K lower than currently published in March 2025 (not seasonally adjusted), equivalent to a 76K reduction in the currently reported 12-month average pace of payroll growth in March.

But the QCEW, which is the primary source data for the benchmark, suggests much of the weaker momentum implied by the preliminary benchmark occurred during Q1-2025. With the issues that generate the discrepancy between the CES survey and actual level of employment (e.g., sampling and response bias) not immediately resolved, the preliminary benchmark suggests payroll growth might not just be stalling of late, but declining.

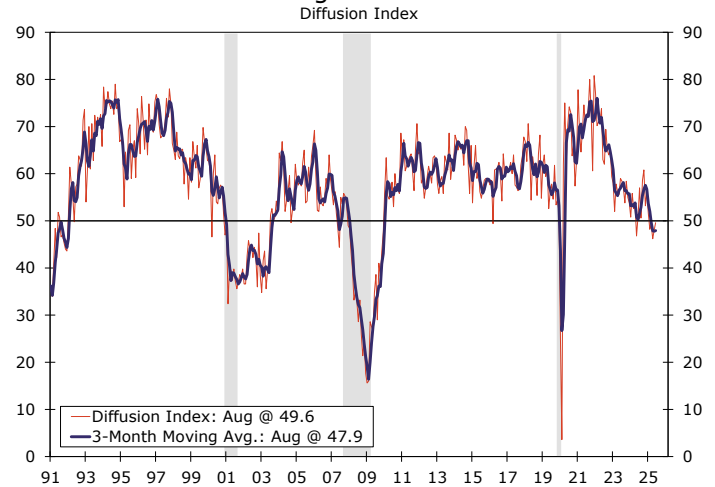


Is Weakness in Employment Growth Widespread?

The breadth of hiring also remains uncomfortably narrow. Health care & social assistance has been the primary driver of aggregate job growth recently, accounting for 93% of net hiring since the start of the year despite comprising only 15% of the workforce.

Elsewhere, weakness has been widespread. The diffusion index has been below 50 for five consecutive months, signaling that more industries are cutting jobs than adding them. That is an unprecedented stretch outside of recessions and recoveries.

Industries Adding Jobs Over Past Month

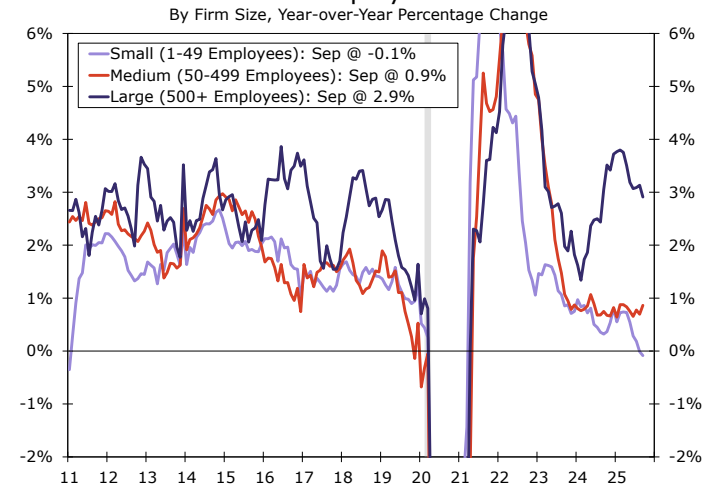


Source: U.S. Department of Labor and Wells Fargo Economics

Meantime, job growth has been skewed toward larger firms. Smaller firms, which typically operate on thinner profit margins, have been cutting jobs according to ADP.

The divergence in job growth at small versus large firms may be playing a role in the large downward revisions to nonfarm payrolls in recent months. Bill Beach, the former head of the BLS, said in August: "The revisions are done because we get more information from businesses. Oftentimes big businesses answer first. They have the capacity to do so. And then we get smaller entities; state and local governments, smaller businesses answer in those next two months." ²

ADP Employment



Source: ADP and Wells Fargo Economics

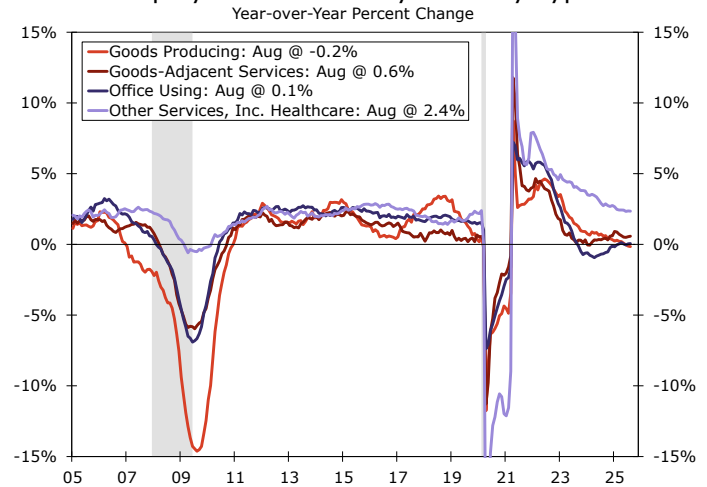
What's Driving the Slowdown?

There is no shortage of reasons for firms to have curtailed hiring of late. Significant changes to trade policy have weighed on goods-producing industries directly, contributing to a decline in employment over the past year. Yet, broad policy uncertainty has weighed on other industries through a generally less sanguine outlook for the U.S. economy. While uncertainty has abated somewhat from its "Liberation Day" peak, many employers have responded by holding the line on what is usually their largest cost—personnel.

At the same time, there are nascent signs of broader adoption of generative AI beginning to limit opportunities for entry-level workers, particularly those in highly exposed occupations such as software engineering and customer service.³ Office using employment, which includes traditional "white collar" jobs in information, finance and professional services, is little changed over the past year.

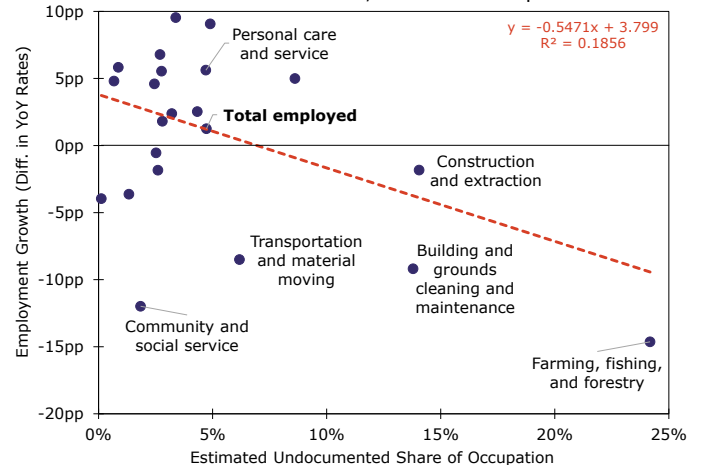
Stricter immigration enforcement has also exacerbated labor shortages. For instance, 10% of construction firms recently reported that workers left or failed to appear because of actual or rumored immigration actions.⁴ While still early to fully discern, there are tentative signs of employment growth slowing more sharply in occupations more reliant on undocumented workers. The strain on labor availability is likely to place upward pressure on wages for these roles, while also intensifying the incentive for employers in these occupations to automate production where possible.

Employment Growth by Industry Type



Source: U.S. Department of Labor and Wells Fargo Economics

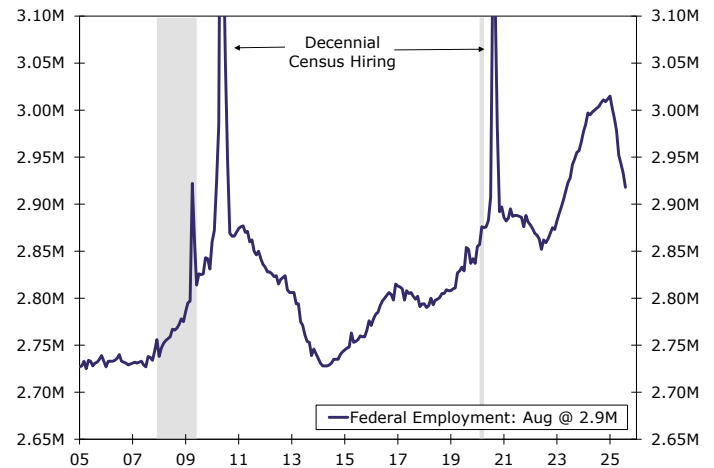
Weaker Job Growth in Occupations with Larger Undocumented Workforces, But Relationship Is Loose



Source: U.S. Department of Labor, Pew Research Center, Center for Immigration Studies, Center for Migration Studies and Wells Fargo Economics

Cuts to, and uncertainty around, federal funding has been another headwind to private sector hiring. But more glaringly, the ongoing federal hiring freeze and reduction-in-force orders have led to federal government employment declining by 97K since January (-3.2%), compared to an increase of 27K during the same period in 2024. A more precipitous drop off is in store for October when roughly 125K deferred resignations will show up in the payrolls data.

Federal Government Civilian Employment



Source: U.S. Department of Labor and Wells Fargo Economics

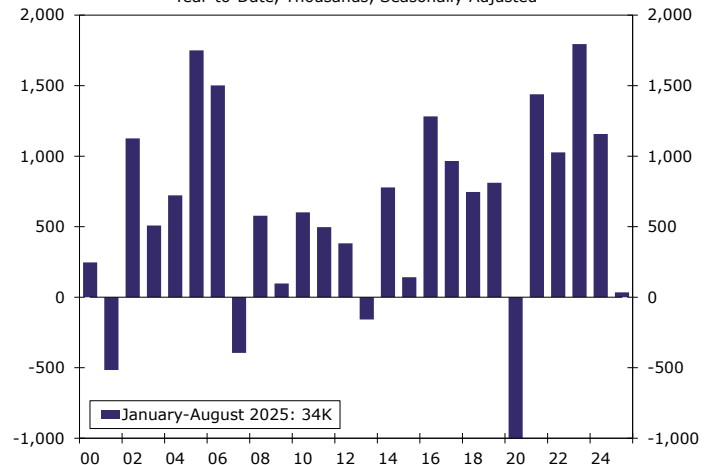
So It's Not Just a Matter of Lower Supply?

The slowdown in job creation has coincided with weaker growth in the supply of workers. The labor force has expanded by a mere 34K individuals since January according to the household survey, which is the smallest year-to-date gain since 2013, excluding 2020.

Stricter immigration enforcement has been a meaningful contributor even though the magnitude is difficult to pin down. Deportations from immigration detention centers total 184K year-to-date, 47% more than last year. Border patrol encounters from January to August have fallen by nearly 1.5 million relative to the same time last year—an 85% drop. The dearth of new entrants and ramp-up in deportations have led the foreign-born labor force to decline by an average of 153K per month since February, although the drop may be exaggerated if fewer foreign-born individuals respond to the survey or answer that they are native born.

Growth in the Labor Force

Year-to-Date, Thousands, Seasonally Adjusted



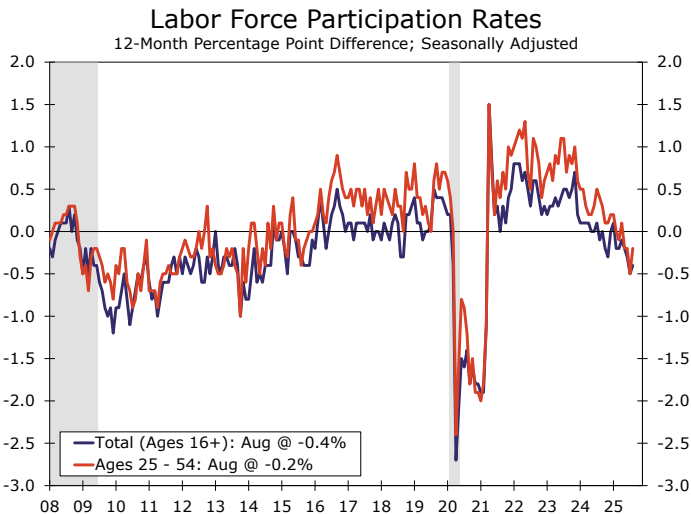
Source: U.S. Department of Labor and Wells Fargo Economics

The weaker trend in labor supply is also evident in the drop in labor force participation. The overall labor force participation rate has fallen 0.4 percentage points over the past 12 months, its largest one-year decline in a decade excluding the pandemic and last month's drop.

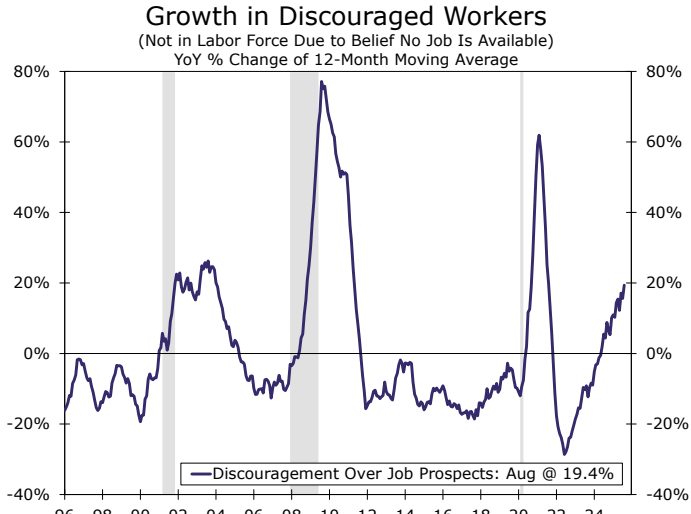
It is worth remembering that, while labor supply trends tend to be dominated by secular forces, they still bear a cyclical element. Thus, dwindling job opportunities and more arduous job searches can also weigh on labor supply. To that end, the labor differential (i.e., the share of consumers who rate jobs as "plentiful" less "hard to get") fell to 7.8% in September, a four-year low.

The dearth of opportunities has lengthened the time it takes to find a job. The average duration of unemployment rose to 24.5 weeks in August, the longest since mid-2022. This dynamic has been mirrored in the ongoing climb in continuing jobless claims, which have been rising around a 5% year-over-year pace since January.

Extended periods of unemployment have led many potential workers to stop seeking jobs entirely. The number of individuals not in the labor force because they believe no suitable job is available (i.e., discouraged workers) continues to steadily increase.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

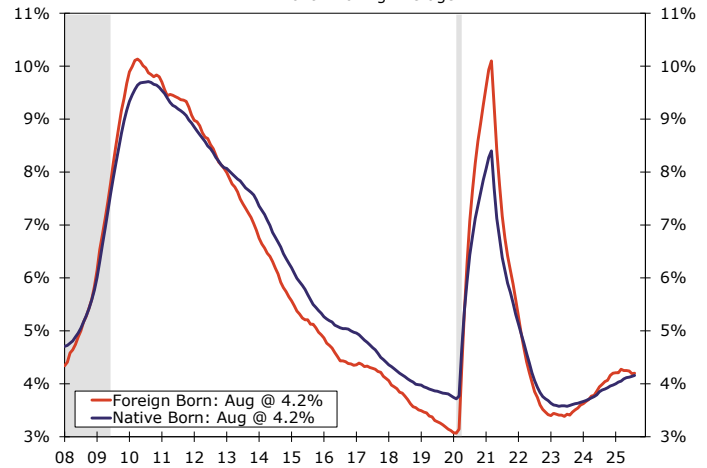
Is the Jobs Market Still in Balance?

The unemployment rate has inched up the past two months to a nearly four-year high of 4.3% in August. Although slower immigration is reducing growth in the foreign-born labor supply, and thereby lowering the pace of job creation needed to maintain stable unemployment, the unemployment rate among native-born workers has been edging higher. And while the upward drift in the overall unemployment rate has been more gradual than this time last year, it has come despite the flat-lining in labor supply.

Other gauges similarly suggest the jobs market is no longer tight. The ratio between job openings and unemployed workers fell below 1.0 in August for the first time in more than four years, while the drop-back in the quit rate to a level that last prevailed in 2015 similarly points to workers no longer having the upper-hand.

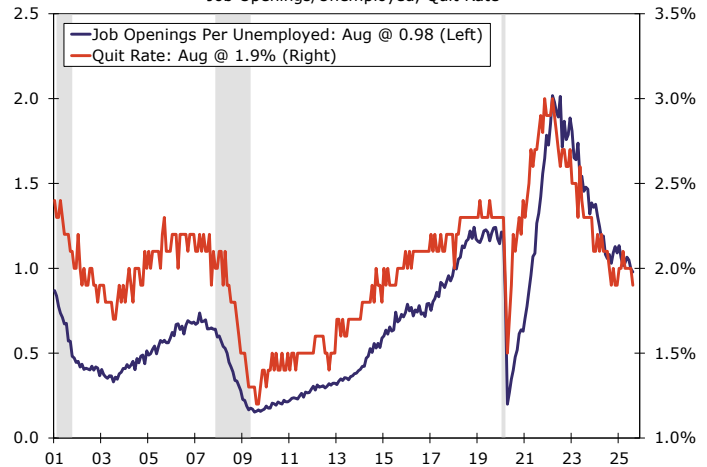
The temperate pace in wage growth, at a little under 4% despite the solid trend in productivity and elevated inflation, tells a similar tale of a jobs market that is no longer overheated, albeit not glaringly loose.

Unemployment Rates
12-Month Moving Average



Source: U.S. Department of Labor and Wells Fargo Economics

Labor Market Slack
Job Openings/Unemployed, Quit Rate



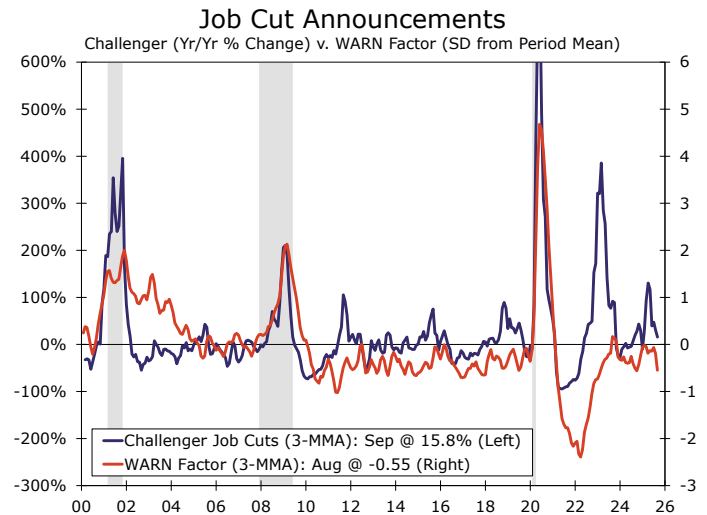
Source: U.S. Department of Labor and Wells Fargo Economics

Are There Any Signs of the No Hire, No Fire Balance Tipping?

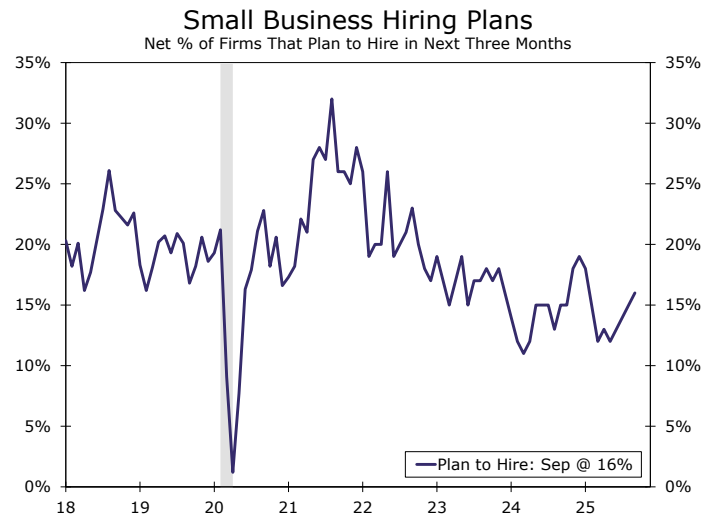
A key element of the jobs market merely softening, rather than unraveling, is the still-low level of layoffs. The layoff rate, at 1.1% in August, remains below its pre-pandemic pace, while initial jobless claims still looked benign ahead of the national report's publishing pause due to the government shutdown.

Moreover, forward-looking measures of layoff activity are not showing signs of employers buckling. Challenger job cut announcements have trended higher over the past year, but the pace of growth has slowed more recently and is not unprecedented during a jobs market expansion. The latest WARN data, which capture the 60-day advance notice required for large layoffs, similarly suggest the pace of discharges has slowed over the past few months.

With layoffs already low, a rebound in job growth will require more firms looking to bring on new workers. Encouragingly, small business hiring plans have edged higher for four consecutive months, offering one signal that labor demand is finding a floor as early-year policy shocks are digested and economic activity generally has held up better than expected.

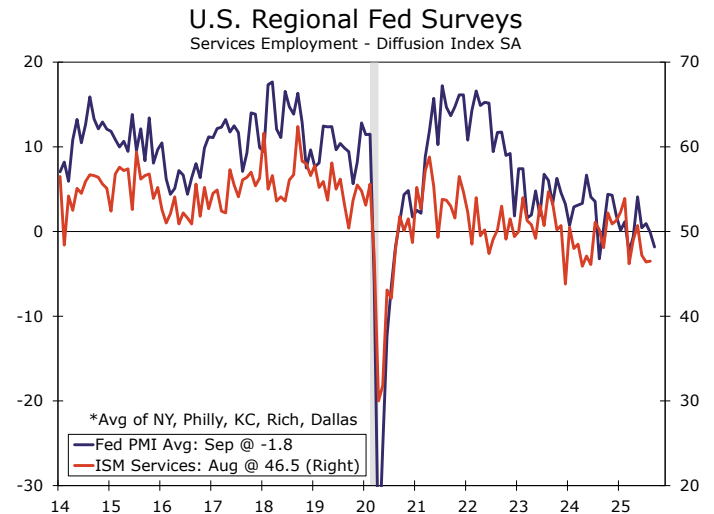


Source: Challenger, Gray & Christmas, Bloomberg Finance L.P. and Wells Fargo Economics



Source: NFIB and Wells Fargo Economics

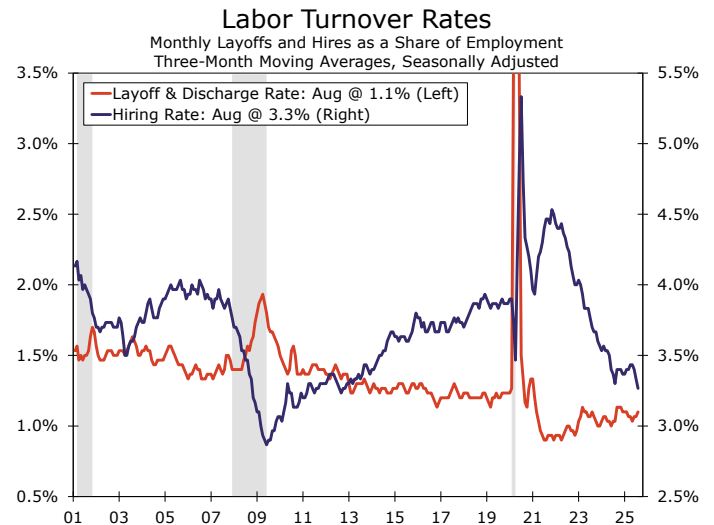
The recent improvement in labor demand signaled by the NFIB survey has not been echoed elsewhere, however. The three-year slide in job postings on Indeed and JOLTS job openings has slowed, but not yet to convincingly come to a halt. At the same time, a simple average of the employment components from various regional Fed purchasing manager surveys for the service sector shows hiring activity still losing steam in September. Although only available through August, the ISM Services survey, which captures industries covering 92% of U.S. employment, also shows more businesses are reducing headcount than adding to their payrolls.



Source: U.S. Regional Federal Reserve Banks and Wells Fargo Economics

The simultaneously low rate of layoffs and hiring has created an uncomfortable equilibrium in the jobs market. Firms remain reluctant to let go of existing workers, but subdued demand for new employees has locked a growing segment of the workforce out of employment and curtailed job-switching opportunities for those that are employed. With more workers staying put, it has become harder for firms to rely on attrition to manage headcount, creating upside risk for layoffs.

Our base case remains that the jobs market will weather the current headwinds stemming from the recent policy and technological shocks. The FOMC has grown more concerned about the jobs market the past couple of months, which we expect to lead to an additional 100 bps of policy easing through the first half of 2026 despite still-elevated inflation. While easier monetary policy alone will not put the jobs market on firmer footing, additional time to adapt to the shifting economic policy landscape and supportive fiscal policy following the [One Big Beautiful Bill](#) should help to shore up labor demand and drive a rebound in job growth early next year. That said, the labor market's current fragility leaves an uncomfortable degree of downside risks. We recognize it would not take much further moderation in activity to tip the labor market's current state to where it causes more perilous reverberations across the economy.



Source: U.S. Department of Labor and Wells Fargo Economics

Endnotes

1 – Congressional Budget Office. September 30, 2025. "[Re: Potential Effects of a Federal Government Shutdown.](#)" ([Return](#))

2 – Bloomberg Odd Lots. August 4, 2025. "[Bill Beach on How Trump Just Politicized US Economic Data.](#)" ([Return](#))

3 – Brynjolfsson, Erik, Bharat Chandar and Ruyu Chen. August 25, 2025. "[Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence.](#)" Stanford Digital Economy Lab. ([Return](#))

4 – The Construction Association. September 23, 2025. "[New Survey Finds Construction Workforce Shortages are Leading Cause of Project Delays as Immigration Enforcement Affects Nearly 1/3 of Firms.](#)" ([Return](#))

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