The Daily Dish

Labor Market Slack

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At first glance, much of the current data suggests the U.S. labor market is on a pretty solid footing. The headline unemployment rate has remained remarkably steady at 4.3 percent and an uptick in the pace of hiring has lifted the three-month average of net job creation to 188,000 per month.

These headline numbers, however, hardly reflect the growing frustration among job seekers struggling to find gainful employment. Recent survey data from The Conference Board found that the difference in the share of consumers saying jobs are "plentiful" and jobs are "hard to get" slipped to +2.4 percent in June. Moreover, the percentage of consumers saying jobs are "hard to get" rose to a five-and-a-half-year high in June at 22.5 percent.

A look beyond the headlines reveals growing slack in the labor market.

The headline unemployment rate, known as the U-3, captures all people without a job but who have looked for one in the past four weeks. Alternative measures – the U-4, U-5, and U-6 – each include an increasingly broad set of those who are unemployed or underutilized and fall outside the traditional definition of unemployment. The U-4 includes discouraged workers; the U-5 adds in marginally attached workers; and finally, the U-6 captures the full picture of underutilization by counting all of the above plus those working part-time for economic reasons (that is, who can't find full-time work).

Looking at the components of each measure of the unemployment rate reveals several pressure points. The U-4 and U-5 measures of unemployment have trended higher since 2013, as failure to find work pushed more individuals out of the official workforce (discouraged and marginally attached workers). While the movement of the U-3, U-4, and U-5 have been benign, the U-6 has been climbing, driven by those working part-time for economic reasons. More than 4.8 million workers in May 2026 wanted full-time work but had to settle for part-time employment. While that represents a significant improvement from November of 2025, when the number was 5.5 million, it is a notable increase from January 2023, when just 4 million workers were forced to settle for part-time work. Since January 2023, the U-6 measure of the unemployment rate has shot up from 6.7 percent to 8.1 percent.

It is not just underutilization that is concerning. The length of unemployment has also been steadily rising. The average duration has climbed from 20.4 weeks in January 2023 to 26 weeks in May 2026, while the median duration is up from 9.6 weeks to 11.6. Nearly two million people, or 27.5 percent of those unemployed, have been out of work for 27 weeks or more.

Chairman Kevin Warsh recently made it clear that the Federal Reserve was committed to achieving its 2 percent inflation target. The slack in the labor market could complicate the process.

FREDDY'S FORECAST: JUNE JOBS

The May jobs report showed payrolls increased by 172,000. The unemployment rate was unchanged at 4.3 percent, where it has been since March. Average hourly earnings inched up 0.3 percent for the month and 3.4 percent for the year. The recent uptick in inflation, however, has caused real hourly earnings to turn negative. In other words, consumers are experiencing a decrease in purchasing power.

Since the last report, data from ADP showed the pace of private-sector hiring slowed in June to 98,000 from 122,000 in the prior month. Small businesses added 53,000 workers while large and medium businesses increased headcount by 25,000 and 29,000, respectively. Job gains were concentrated in the services sector, which added 96,000 workers to payrolls. Education and health services led the way, adding 48,000 workers while trade, transportation, and utilities sector gained 15,000. Goods-producing industries added just 2,000 workers, dragged down by 5,000 job losses in the natural resources and mining industry. Construction added 2,000 jobs and manufacturing boosted employment by 5,000.

The Bureau of Labor Statistics' Job Openings and Labor Turnover Survey data showed that job openings were steady at 7.6 million in May amid increased openings in the trade, transportation, and utilities industry. The hiring rate, however, remained low at 3.3 percent.

Initial jobless claims dropped for a second straight week ending June 20 to 215,000. The four-week moving average, which smooths out weekly volatility, increased to its highest level since mid-November 2025 at 224,250. Continuing claims, meanwhile, have trended higher since April, when they were at 1.758 million, to 1.821 million the week ending June

13. That’s still historically low.

The Institute for Supply Management reported that manufacturing activity expanded in June, albeit at a slower pace than in May. The overall index slipped 0.7 percentage points to 53.3 as new orders and new export orders slipped slightly. The employment index signaled a slower contraction in June compared to May. June data for the services sector will not be available before the release of the June jobs report.

The holiday-shortened week has pulled forward the monthly jobs report to Thursday. For June, expect gains in payrolls to decelerate to 92,000 and the unemployment rate to rise to 4.4 percent. Growth in average hourly earnings holds steady at 0.3 percent for a 3.5 percent annual gain.