

U.S. Job Market Hit a Wall This Year

BY HARRIET TORY

The U.S. labor market is ending 2025 on a sour note. While companies didn't resort to full-scale layoffs, many did trim head count, especially later in the year. Many also stopped hiring. Fewer employees quit jobs.

Wage gains slowed. The unemployment rate drifted higher over the course of the year and last month hit its highest level in four years. The number of Americans who are unemployed increased by more than 700,000 to 7.8 million.

The U.S. economy has added just shy of half a million jobs so far this year, a sharp slowdown from the 1.6 million added in the first 11 months of 2024. The unemployment rate has moved up, mainly during the second half of the year. It ended November at 4.6%, the highest since 2021.

A host of factors are at play. Companies spent much of the year juggling steady consumer demand with uncertainties surrounding tariffs and the impact of artificial intelligence on their workforces. The government took a hatchet to its payrolls.

The long-awaited jobs report released last Tuesday showed other signs of a weakening jobs picture.

The unemployment rate for Black Americans has jumped by more than 2 percentage points since the start of the year, a much faster rise than for other groups. That threatens to unravel employment gains made by Black workers during and after the pandemic.

Economists say that rising unemployment among Black Americans is a potential warning sign for the broader labor market. Black workers are more likely to hold low-skilled or entry-level jobs, which are often cut first when the economy weakens.

Younger people in particular are struggling in the current labor market, as many entry-level jobs face disruption from AI.

The unemployment rate for teenagers age 16 to 19 has shot up by nearly 5 percentage points since the start of the year. The unemployment rate for Americans aged 20 to 24, a group that comprises many recent college graduates, has also drifted slightly higher this year, though it eased a bit in November.

Higher unemployment is particularly scarring for young workers since they miss out on gaining skills and experience at a crucial time of their professional lives, making it more difficult to catch up later.

Wage growth has cooled this year.

As demand for workers has eased, employers haven't had to offer the same heady pay raises as in the years immediately following the pandemic.

Note

For the Federal Reserve, cooling wage gains are an encouraging sign that inflation remains in check. However, that is little comfort to workers who are trying to stretch their pay after years of high inflation.

The federal government has led this year's job cutting, as the Trump administration's Department of Government Efficiency quickly moved to downsize the federal workforce early in 2025.

Rounds of layoffs, the deferred- resignation plan and other voluntary departure programs, including an early-retirement push, slashed the number of civil servants in the federal workforce to its smallest in more than a decade as of November.

Sectors that are sensitive to tariffs and swings in the economy— such as temporary help services, manufacturing, and transportation and warehousing— also trimmed head count this year. And the tech sector cut jobs as companies accelerated investment in AI.

There have been bright spots. One sector in particular has driven the lion's share of jobs growth in 2025: education and health services. Without it, the American labor market would have shed more than 100,000 jobs this year through November, instead of notching gains.

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