us bank Economic commentary

Author: Matt Schoeppner *Senior Economist*

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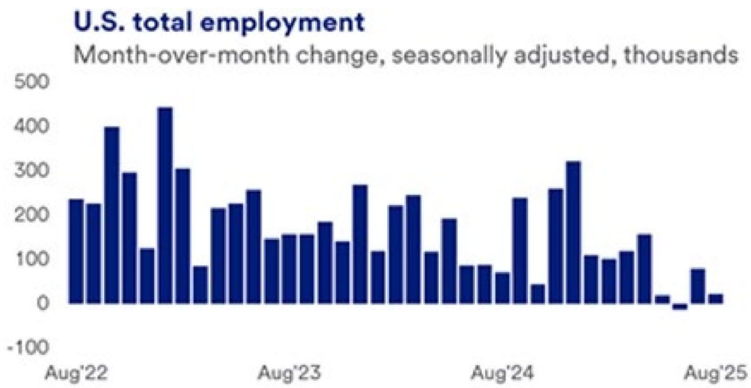
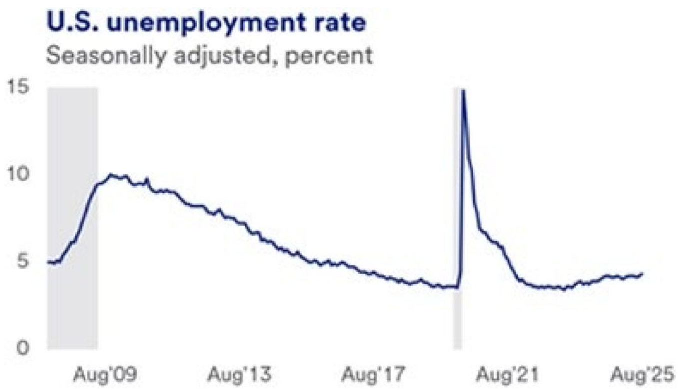
The low-hire, low-fire labor market: Stability on the surface, vulnerability beneath

The U.S. labor market has entered an unusual phase – what Federal Reserve Chair Jerome Powell recently called a "low-hire, low-fire" environment.[1] Payroll growth has slowed to a crawl, averaging just 29,000 per month over the summer – and that's before a large impending downward revision to the data. Yet the unemployment rate remains relatively low at 4.3% in August. In our view, this combination reflects a sharp drop in both labor demand and labor supply, leaving the market less dynamic and increasingly vulnerable to downside risk. Powell has described it as a "curious balance," where the ratio of job openings to job seekers has converged to roughly one-to-one, but only because both sides of the labor market have retrenched. Why does this matter? Because what looks like stability can mask fragility – meaning we think even a modest shock could have an outsized impact on unemployment, growth and policy decisions.



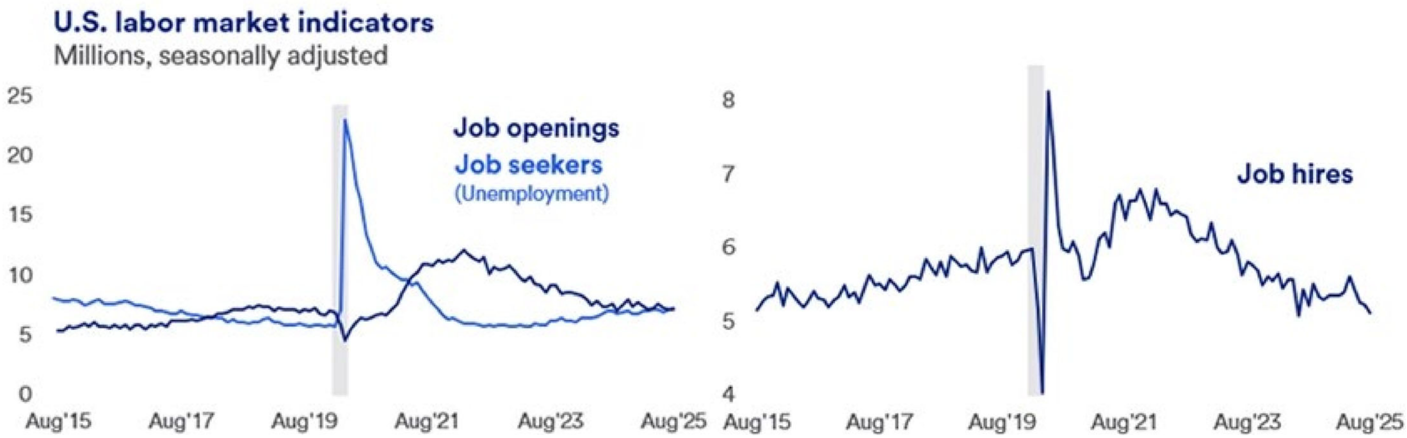


Source: U.S. Bank Economics, Bloomberg, U.S. Bureau of Labor Statistics

Why <100k breakeven job growth matters

A key to understanding this paradox is the decline in 'breakeven' employment growth – the monthly pace of job creation needed to keep the unemployment rate steady. In recent years, that figure was estimated to be as high as 250,000 to 300,000, driven by strong immigration and labor force gains. Today, however, with population growth slowing and labor force participation stalling, we estimate breakeven closer to 75,000 – or even less if immigration continues to fade.

This matters for two reasons. First, it explains how unemployment can hold in the low 4-percent range, even as job creation flatlines. Second, it underscores a loss of labor-market dynamism. While layoffs/discharges remain historically low, job openings are steadily declining, fewer workers are quitting their jobs, and the hiring rate is near its lowest level outside of recessions – all classic low-churn conditions evident in JOLTs data. Meanwhile, households' perceived job-finding prospects have fallen to a series low, according to a New York Fed survey.[2] In our view, this mix is the hallmark of a low-hire, low-fire labor market: stability and balance on the surface, but fragility underneath.



Source: U.S. Bank Economics, Bloomberg, U.S. Bureau of Labor Statistics

Forces behind the slowdown

We see the drivers of this twin slowdown in labor demand/supply as both structural and cyclical. Immigration policy shifts have sharply reduced labor force growth, pulling breakeven job gains down and limiting dynamism. Tariffs have added cost pressures and uncertainty – a mix that tends to discourage or delay hiring, particularly in goods-producing sectors. Federal spending cuts and large DOGE-related layoff announcements have created localized shocks and heightened caution among contractors, while an extended government shutdown could amplify these fiscal headwinds by disrupting operations and confidence. Consumer spending has softened, especially among lower- and middle-income households, where poor affordability and diminished purchasing power are constraining discretionary outlays. And AI adoption may be curbing demand for entry-level tech roles. In total, we believe this adds up to a labor market that is not collapsing, but increasingly brittle.

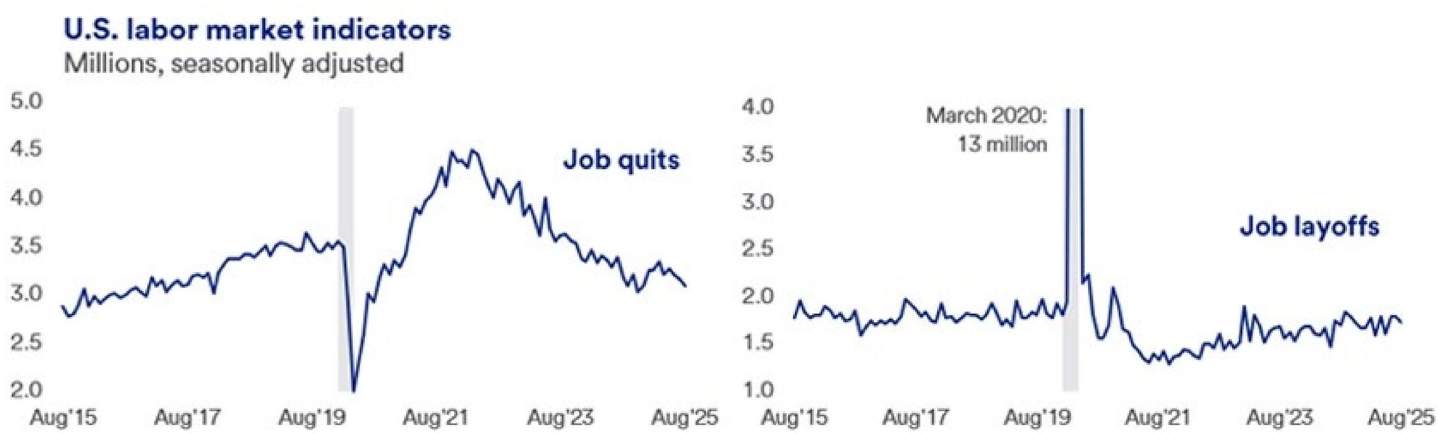
Layoffs, not hiring, are the cycle's last defense

In our view, the firewall between a soft patch and a downturn is low layoffs. For now, that barrier is holding, partly because firms are hoarding labor after the painful rehiring scramble of the pandemic.

Businesses learned that mass layoffs can be costly to reverse, so instead they are adjusting at the margins – through hiring freezes, shorter hours and cuts to temporary help.

As a result, alternative data show that weekly initial claims for unemployment insurance remain comfortably below 250,000 through mid-October, signaling that layoffs are still subdued. Continuing claims have also turned a corner. After steadily rising through mid-summer, ongoing filings have receded and are now estimated back among their lowest levels since May. To be sure, their level remains elevated, suggesting workers are still having a harder time finding new jobs and exiting UI benefits – but the situation looks less dire than a few months ago.

Still, we see the dividing line as fragile, a concern echoed by Chair Powell. If layoffs rise even modestly, the unusually low hiring rate means displaced workers may struggle to land new jobs, pushing unemployment up quickly. With hiring already near recessionary lows, any shock that forces cost-cutting – whether from weaker demand, fiscal disruptions or another hit to confidence – could bring that firewall down fast. History suggests that once layoffs begin to climb, they often accelerate quickly as firms follow one another's lead. That is why the firewall matters: it is the last line of defense.



Source U.S. Bank Economics, Bloomberg, U.S. Bureau of Labor Statistics

Our stance: Soft landing still possible, but the margin for error is thin

Our economic outlook hinges on whether this labor market balance can hold. If layoffs stay low, the economy can continue to skirt recession even with minimal job growth. If they jump, however, the adjustment could be abrupt.

The Fed's recent pivot toward a more neutral policy stance reflects this reality. Risks to its dual mandate are moving toward balance, and the cost of remaining overly tight in a vulnerable labor market is rising.

We still lean toward a soft landing scenario for three reasons. First, layoffs remain subdued. Both initial and continuing claims suggest that while job-finding has slowed, employers are not yet cutting aggressively. Labor hoarding also remains a powerful force. Second, wage growth is moderating, not collapsing. The Atlanta Fed's Wage Growth Tracker, for example, shows pay gains easing toward 4%, consistent with cooling inflation but continued real income support.[3] Third, the Fed retains optionality, signaling readiness to adjust if labor conditions deteriorate further. That reduces the risk of a monetary policy-induced recession.

Nevertheless, the margin for error is razor thin. An extended government shutdown, a sharper pullback in consumer spending, or another adverse surprise could tip the balance. The next few months will test whether low-hire, low-fire can persist – or whether the fragility Powell warns about becomes the dominant story. One early complication is that the government shutdown has halted key economic reports – including the September employment report, limiting near-term visibility into payroll trends. In the meantime, we will be watching key indicators closely: weekly jobless claims (initial and continuing), JOLTS data on hires and quits, breakeven job growth estimates, and the Fed's evolving policy stance. We'll also lean on alternative private data sources – such as ADP's National Employment Report, high-frequency job postings, and proxy data for layoff trends such as Challenger Job Cut announcements – to gauge momentum while official releases are delayed.

[1] Federal Reserve Board. "Transcript of Chair Powell's Press Conference," September 17, 2025, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20250917.pdf.

[2] Federal Reserve Bank of New York, "Survey of Consumer Expectations," https://www.newyorkfed.org/microeconomics/sce.

[3] Federal Reserve Bank of Atlanta, "Wage Growth Tracker," https://www.atlantafed.org/chcs/wage-growth-tracker.