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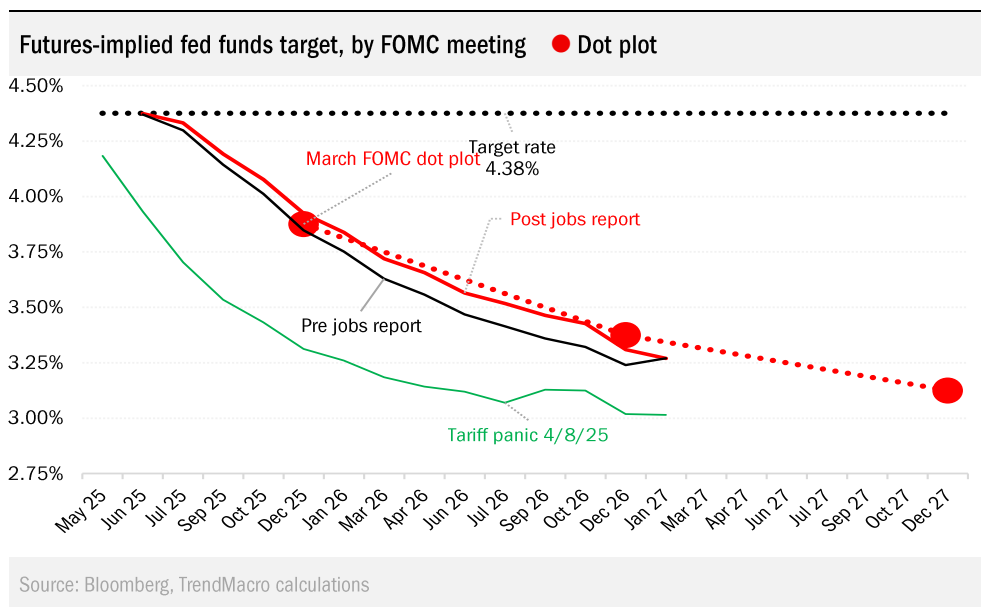
On the May Jobs Report: Immigration in Reverse while the Fed Hallucinates

Friday, June 6, 2025

Donald Luskin

There is weakness under this seeming “beat.” But can the Fed let itself see it?

This morning’s [May 2025 Employment Situation Report](#) with 139,000 net payroll growth was a modest beat of the consensus of 126,000. Arguably it was enabled by sharp downward revisions of 30,000 and 65,000 to April and March, respectively. But the whisper number must have been way lower, because as of this writing markets are enjoying a risk-on moment with stocks making new recovery highs, and futures-implied expectations went from 2.11 rate cuts by year-end to 1.79 (please see the chart below).



- Expectations for year-end rate cuts are now below the “dot-plot” published at the March FOMC (see [“On the March FOMC: Dots in the Headlights”](#) March 19, 2025). With a new “dot-plot” due in two week at the June FOMC, we have to consider that this jobs report provides cover for an increasingly unhinged Fed reaction against the possible inflationary effects of tariffs. There’s no historical evidence that tariffs are inflationary, and we can argue there isn’t even any theoretical reason for them to be (see [“Will the Trump Tariffs Be Inflationary?”](#) April 9, 2025).
- And there isn’t any evidence here and now that new tariffs are contributing to inflation – yet Fed officials are imagining that they see it happening already.

Update to strategic view

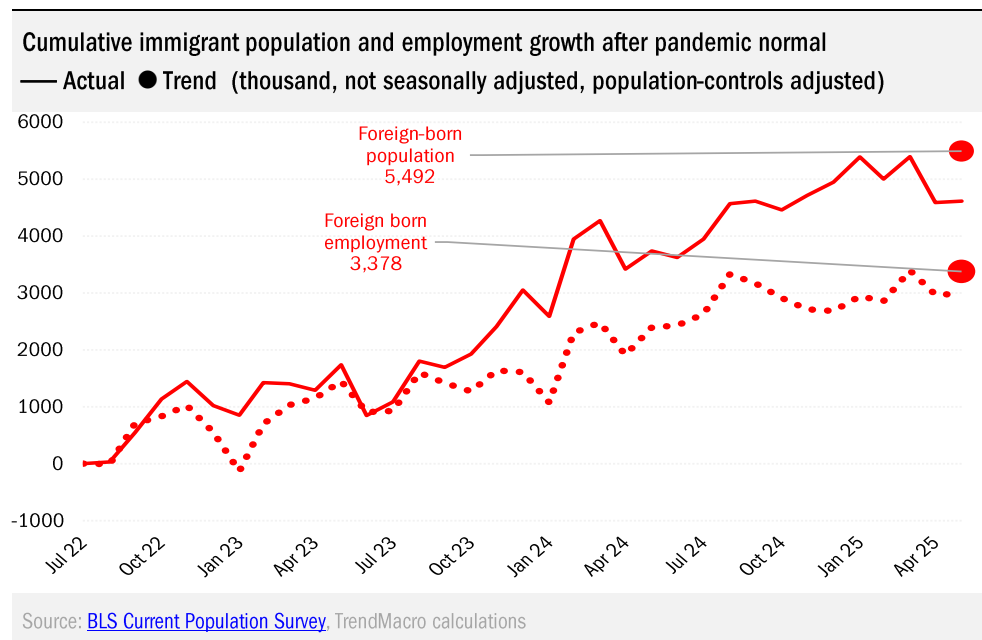
US MACRO, FEDERAL RESERVE, US STOCKS:

Payrolls at 139,000 beat expectations for 126,000. The whisper-number must have been far lower, with stocks making new recovery highs and futures markets reducing expectations for Fed rate cuts. The Fed is worried about inflationary effects of tariffs, despite lack of historical precedent or theoretical support. Officials are literally hallucinating that they see it already, when by all the numbers it simply is not. The seeming beat was arguably enabled by sharp downward revisions to the prior two months. The unemployment rate rose, but it didn’t show in the unrounded published reports. Since Trump took office, immigration is running in reverse. Immigrants added only 10,000 jobs, in contrast to a Biden-era norm of 98,000. Native-born employment has risen sharply since Trump took office, more than underlying population growth. Unless we want to imagine that, with immigration halted, native-born Americans will suddenly take jobs previously taken by immigrants, we can look forward to jobs growth of only 74,000 per month.

- [In a speech yesterday](#), Federal Reserve Board Governor Adriana D. Kugler (appointed by President Joseph R. Biden, Jr.) wrung her hands at the New York Economic Club about all the uncertain effects of all the various elements of President Donald J. Trump's economic agenda (there was no such handwringing by any Fed official over the Biden administration agenda, which was just as sweeping). But of all the possible effects of Trumponomics, Kugler said, "So far, we are beginning to see the impact only of higher tariffs on inflation."
- Who exactly is "we"? And what does it mean to "see"? We ask, because there is no "impact" whatsoever visible in the recent data. Over the last two months, Consumer Price Index and Personal Consumption Expenditures inflation, both headline and core, have all been below the Fed's targets for them (headline CPI was in outright deflation for March).
- Kugler must be an AI. She is hallucinating.

But there was plenty in this report not to love, and it would be a mistake for the Fed to be distracted from it by their hallucinations.

- The unemployment rate was reported as unchanged at 4.2%, but in fact it rose to 4.24% from 4.18% (see ["Data Insights: Jobs"](#) June 6, 2025).
- This was the result of the ["household survey"](#) starkly contradicting the ["payroll survey"](#) with a loss of 696,000 jobs, and rise in unemployment of 71,000 – netting to a contraction in the labor force of 625,000. If all those who left employment had stayed in the labor force to be counted among the "unemployed," the unemployment rate would have been 4.59%.
- Federal government payrolls fell 21,000, extending last month's contraction of 10,000. In both months it was offset by payroll expansion at the level of state and local government, but at the margin it still has to be seen as an element contributing to slower



jobs growth. We've seen nothing like that in the unemployment claims data (see ["Data Insights: High Frequency Data and DOGE Monitor"](#) June 5, 2025). So it must be the joint result of some combination of Trump administration initiatives to offer federal workers retirement packages, on the one hand, and to freeze hiring, on the other.

There is also evidence of a troubling development in the labor dynamics of immigration.

- We now have two months in a row of shrinking foreign-born population and foreign-born employment, taking them both below the strongly defined trend we've seen since post-pandemic labor market stabilization (please see the chart on the previous page). We take "foreign-born" in the "household survey" data as analytically identical to new immigrants. We don't draw any distinction in either case between legal and illegal. *So we think we are starting to see immigrants leaving the country – and shrinking immigrant employment.*
- Setting aside all the various political, legal and ethical issues involved, we have argued for a long time now that the immigration boom during the Biden administration contributed mightily to employment growth (see, first among many, ["Video: What you're not hearing about the effects of immigration on the post-pandemic boom"](#) April 9, 2024).
- In the 30 months from July 2022, when the labor market had completely stabilized in the wake of the pandemic crisis, to January 2025, when Donald J. Trump became president, *immigrant employment growth at 2.94 million more than explains the entire growth of 2.81 million* (in other words, native-born employment actually decreased by 136,000). For that period, immigrant

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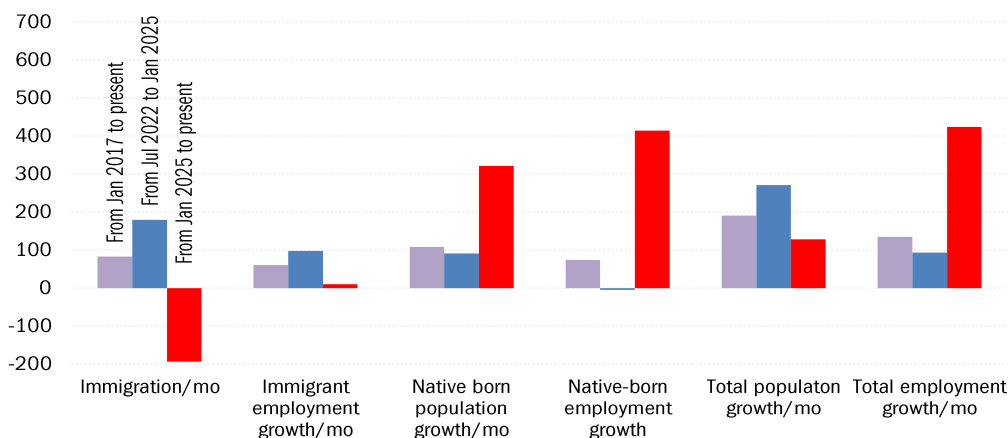
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Population and employment (thousands, not seasonally adjusted, population-controls adjusted)



Source: [BLS Current Population Survey](#), TrendMacro calculations

employment grew, on average, 98,000 per month while native-born employment contracted by 5,000 (please see the chart below).

- So far under the four months so far of the Trump administration, the immigrant population has contracted by 773,000, or 193,000 per month. But immigrant employment has grown nevertheless, by 41,000, or 10,000 per month. So as a first cut, and in isolation from other factors, under the Trump administration immigrant employment growth has slowed by 88,000 per month (again, please see the chart on the previous page).
- But there are other factors. Native-born employment has sharply accelerated – 1.66 million so far under the Trump administration, (far more than the population increase of 1.29 million), or 424,000 per month (again, please see the chart on the previous page).
- This is noisy data from the “household survey” and it is not seasonally adjusted (although we have made adjustments for BLS changes in so-called [population-controls](#)). And we’re not trying to make the case that as soon as immigrants stop taking jobs from native-born Americans, the native-born will suddenly take their rightful place in the jobs market. That may be true, one has to at least consider it, but it’s way too soon, and there’s too little data, to make such a claim. America isn’t made great again in a day (if that even is making America great again).
- We are more confident that we are seeing a systematic slowing of immigration and immigrant employment. A total halt in those factors would leave the labor market entirely in the hands of the native-born. From 2017 to present – so looking at history before, during and after the pandemic – the native-born population grew on average at 108,000 per month. Employment grew on average by 74,000 per month (again, please see the chart on the previous page). So with no immigration contribution to the labor market, we’d expect going forward to see the first-Friday BLS reports with just 74,000 new jobs every month. That isn’t what recessions are made of. But it’s not what rapid economic expansion is made of, either.

Bottom line

Payrolls at 139,000 beat expectations for 126,000. The whisper-number must have been far lower, with stocks making new recovery highs and futures markets reducing expectations for Fed rate cuts. The Fed is worried about inflationary effects of tariffs, despite lack of historical precedent or theoretical support. Officials are literally hallucinating that they see it already, when by all the numbers it simply is not. The seeming beat was arguably enabled by sharp downward revisions to the prior two months. The unemployment rate rose, but it didn’t show in the unrounded published reports. Since Trump took office, immigration is running in reverse. Immigrants added only 10,000 jobs, in contrast to a Biden-era norm of 98,000. Native-born employment has risen sharply since Trump took office, more than underlying population growth. Unless we want to imagine that, with immigration halted, native-born Americans will suddenly take jobs previously taken by immigrants, we can look forward to jobs growth of only 74,000 per month. ▶

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