

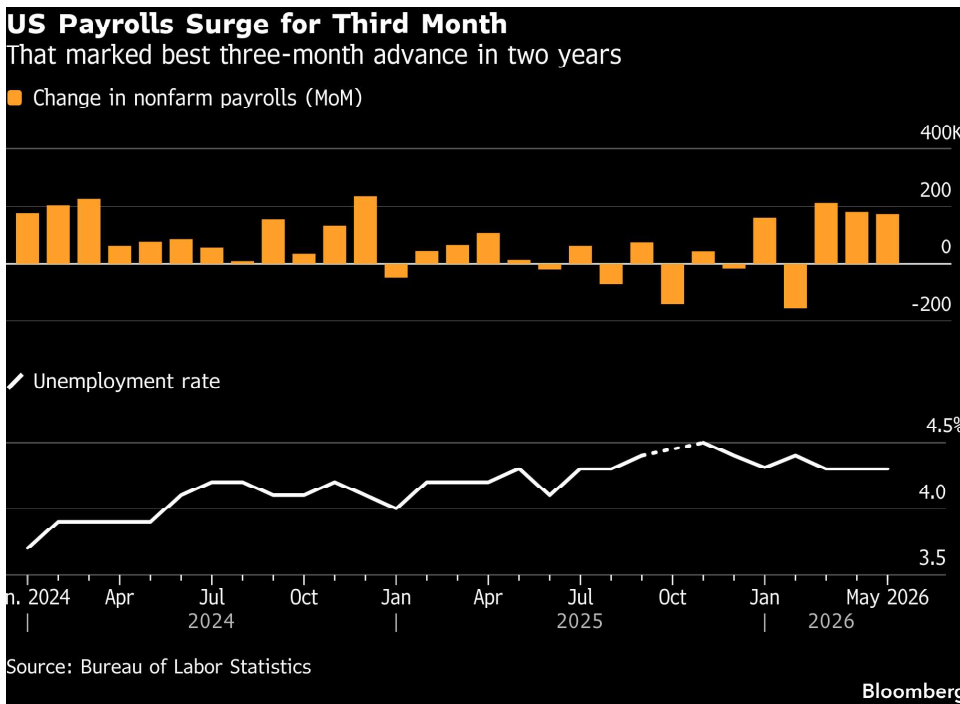
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US Hiring Surged in May, Boosting Bets on Fed Rate Hike (1)

By Mark Niquette

(Bloomberg) -- US job growth topped all forecasts in May and the unemployment rate held steady at 4.3%, offering the clearest sign yet that the labor market may be breaking out of a prolonged period of lackluster hiring.

Nonfarm payrolls increased 172,000 last month after upward revisions to the prior two months, according to Bureau of Labor Statistics data out Friday. That marked the strongest three-month advance in more than two years.



The figures boosted bets that the Federal Reserve will consider an interest-rate increase this year in order to contain inflation. The report suggests the labor market is firming across multiple sectors after near-zero job growth last year, despite more recent concerns about rising energy prices that have driven consumer sentiment to a record low.

Treasuries sold off after the release, sending two-year yields up about 9 basis points to 4.13%, while S&P 500 futures added to losses. Interest-rate swaps showed that traders are now fully pricing in a quarter-point rate increase by year-end.

Friday's numbers are "further evidence that the labor market is not a concern," said Christopher Hodge, the chief US economist at Natixis. "We are skeptical that this strength can continue indefinitely, but at least for now, the Fed's focus will remain squarely on inflation."

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The advance in hiring was led by leisure and hospitality, which added 70,000 jobs, the most in more than three years. The [healthcare and social assistance](#) sector, which has been the primary driver of job growth over the last year, continued to hire at a firm pace.

[Nonresidential construction](#) employment rose for a seventh month, likely fueled by strong demand from the [data center buildout](#). A separate report this week showed construction spending on data centers [eclipsed \\$50 billion in April](#) for the first time.

The [manufacturing](#) sector also added jobs in May. Recent reports have shown a pickup in US factory activity thanks to strong demand from data centers, [defense production](#) and [broader stockpiling](#) as customers have rushed to get ahead of additional war-related price increases.

Employment in air transportation fell by the most since 2020. The BLS said that was “largely reflecting a business closure,” a likely reference to the [collapse](#) of Spirit Airlines last month.

The report also contained signs of the ongoing impact of artificial intelligence on hiring. Employment in the information sector — which includes software publishers, social networks and web search portals — fell again in May, for the 16th time in the last 17 months. Big Tech companies like [Meta Platforms Inc.](#) and [Microsoft Corp.](#) are [reducing headcount](#), in part to offset heavy spending on AI.

The US economy still faces potential headwinds in the months to come, especially if the Middle East conflict isn't resolved soon and the Strait of Hormuz remains mostly shuttered, keeping oil prices elevated.

In that scenario, consumer spending could [come under more pressure](#) as budgets get tighter — especially in lower-income families. A pullback in the stock market could dent spending among wealthier households, and ongoing deployment of AI by businesses could [pose a larger threat](#) to hiring trends as the year goes on.

Economists are paying close attention to how labor supply and demand dynamics are impacting pay — especially as [inflation begins to outpace](#) wage growth. The report showed [average hourly earnings](#) rose 3.4% from a year earlier, matching the slowest pace since 2021.

The jobs report is composed of two surveys — one of businesses and government agencies, which produces the payrolls figures, and another of households, which is used to calculate unemployment and labor force participation rates. The household survey also has its own measure of [employment](#), which rose in May for the first time this year.

The [participation rate](#) — the share of the population that is working or looking for work — was unchanged at 61.8%. The rate for workers of [ages 25-54](#), also known as prime-age workers, edged higher. A broader [measure of unemployment](#), which includes people working part-time for economic reasons and discouraged job-seekers, ticked lower.

Other indicators in the report:

- Median duration of unemployment rose to [11.6 weeks](#), highest since 2021
- Black unemployment fell to [6.6%](#), lowest since May 2025
- Unemployment for bachelors' degree holders fell to [2.7%](#), lowest since August 2025

Kevin Warsh, the Fed's new chairman, will preside over his first policy meeting on June 16-17. The central bank is widely expected to leave its benchmark rate unchanged at that meeting, but investors have marked up the

odds of an increase in the second half of the year as more officials have called for the Fed to officially signal in its post-meeting statement that a rate hike is just as likely as a cut.

Other recent reports have sent mixed signals about whether the labor market might be exiting the “low-hire, low-fire” environment that has prevailed in recent years. Job openings jumped in April to the highest level since 2024, though the increase was narrowly concentrated.

Layoffs have remained close to historically low levels, but consumers are still somewhat pessimistic about job opportunities relative to recent years, and small businesses are scaling back hiring plans.

(Updates with chart and economist comment in fifth paragraph.)

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