Nonfarm payrolls increased by 78,000 jobs in May, the smallest monthly gain since August 2003. However, job growth averaged 176,000 throughout April and May, generally in line with the average monthly gain of 184,000 in the previous 12 months.

Service-providing industries showed the most significant moderation, adding 64,000 jobs in May, less than half the average monthly gain this year. Education and health services added 40,000 jobs. Employment growth slowed in several sectors, including retail, leisure and hospitality, and information. Notably, employment in professional and business services fell by 1,000 jobs after adding 33,000 in April. Employment in goods-producing industries, which is still 2.6 million jobs below the previous peak of 24.7 million in July 2000, grew by 14,000 jobs in May. The construction industry grew by 20,000 jobs, down from the 30,000 monthly average for the year to date. Manufacturing employment, which contracted in nine of the 12 previous months, fell by 7,000 jobs.

The unemployment rate dropped 0.1 percentage point to 5.1%—the lowest since September 2001—largely because of stronger employment growth in the household report. The employment-to-population ratio reached 62.7%, the highest in more than two years.

Meanwhile, although workers’ year-over-year productivity growth rate has continued to slow, falling from 2.8% in 2004:IVQ to 2.5% in 2005:IVQ, it still exceeds the post-1980 average rate of 2.1%. Slower productivity growth and rising compensation growth have pushed up unit labor costs, which reached the highest 12-month growth rate in more than four years.