

Weakening Labor Market Complicates Economic Outlook for Illinois: *Executive Summary*



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As the Illinois General Assembly takes up Governor Pritzker's FY2027 budget proposal, a realistic picture of the current state of labor markets is essential. The labor market is one of the clearest signals about the strength of the State's economy, underlying lags and weaknesses compared to national trends, and how reliable state revenues will be in the coming fiscal year. This report discusses both national and state labor market conditions, highlighting a cooling labor market that could impact Illinois' largest revenue sources: income, corporate income, and sales taxes.

A March 6 **employment report** from the U.S. Bureau of Labor Statistics confirmed that the U.S. labor market is slowing after several years of stronger post-pandemic growth. Employers added the lowest number of new jobs in 2025 since the COVID-19 recovery began. Illinois faces a similar but even weaker employment outlook. The State's economic recovery since the pandemic has lagged behind the nation, and recent job creation in Illinois has also been modest. Based on average monthly employment levels, the State added about 19,000 jobs in 2025, little changed from the 21,000 jobs added in 2024—and 2025 gains in public sector jobs accounted 12,000 of 2025's total job gains. Monthly employment trends have been uneven, with more months showing job losses than gains. Overall, both national and state labor markets appear to be in a holding pattern, characterized by slow job growth but relatively low unemployment.

Several sectors are particularly important to understanding which industries are supporting employment growth in Illinois and where risks are concentrated.

- **Education and Health Services:** A key driver of Illinois job growth in recent years. Without employment gains in that sector, Illinois would have experienced a net decline in jobs over the past year. Weakness in this sector could therefore significantly affect statewide employment trends.
- **Public Sector:** Employment in the government sector has been the second-largest contributor to job gains in Illinois since COVID, with strength in state and local government jobs more than offsetting a loss of federal jobs.
- **Manufacturing:** Illinois' share of manufacturing is somewhat higher than the nation overall, making it more vulnerable to declines in manufacturing jobs. Recent job losses have been linked to tariffs, trade policy uncertainty, and broader economic conditions. Rising oil prices could further affect manufacturing and other energy-intensive sectors such as transportation.

Looking ahead, several factors could influence employment and economic conditions in Illinois.

- Continued uncertainty around trade and immigration policy, slowing hiring and investment.
- Rising global tensions and higher oil prices, placing pressure on energy-intensive industries while also increasing inflation.
- Longer-term factors such as the evolving role of artificial intelligence in the workplace.

As the Illinois General Assembly considers the FY2027 budget, legislators should closely monitor labor market conditions and sector-specific risks that could affect the State's economic performance and revenue outlook.

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