

Economics

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US Non-farm payrolls: Vindication for the Fed

by **Ali Jaffery** ali.jaffery@cibc.com

Employment change (thousands, unless otherwise noted)	Jan 26	Dec 25	Nov 25	Oct 25	Sep 25
Unemployment rate (%)	4.3	4.4	4.5		4.4
Avg. hrly earn all (Monthly % Chg)	0.4%	0.1%	0.4%	0.4%	0.2%
Avg. wklly hour all (Monthly % Chg)	0.7%	-0.2%	0.7%	0.4%	0.2%
Nonfarm employment	130.0	48.0	41.0	-140.0	76.0
Total private	172.0	64.0	72.0	13.0	68.0
Goods-producing	36.0	-12.0	25.0	-20.0	11.0
Construction	33.0	-4.0	36.0	-12.0	16.0
Manufacturing	5.0	-8.0	-10.0	-9.0	-3.0
Priv. Serv providing	136.0	76.0	47.0	33.0	57.0
Wholesale trade	-0.4	-5.1	-6.4	2.8	8.8
Retail trade	1.2	-35.4	-0.9	-15.4	13.1
Transp. & Warehousing	-11.2	-1.0	-58.9	0.6	-39.3
Information	-12.0	-2.0	-5.0	-6.0	-1.0
Financial	-22.0	-1.0	1.0	-5.0	4.0
Business services	34.0	15.0	56.0	-24.0	-16.0
Temporary help	9.1	5.5	13.7	-19.8	-11.7
Education, health	137.0	53.0	56.0	44.0	54.0
Leisure, hospitality	1.0	45.0	-12.0	41.0	37.0
Government	-42.0	-16.0	-31.0	-153.0	8.0
Federal Government	-34.0	-13.0	-15.0	-166.0	-2.0

Source: Haver Analytics

- Clearly, the rumor mill was churning out fiction. The January jobs numbers were anything but soft, with job gains coming in at 130K, far above consensus estimates of 65K, and private job gains were a very healthy 172K. The main driver was a surge in healthcare and construction hiring during the month. Net revisions over the prior two months were -17K, putting the three-month average payroll gain at 73K in January. Today's report was also accompanied by the annual benchmark revisions up to March 2025, the only sore point in the report, which showed expectations were almost right on the money with 862K negative revisions. Wage growth was solid at 0.4% (although coming off a downwardly revised 0.1% in the prior month) and average hours worked nudged back up to 34.3. The household survey was consistent with the solid establishment numbers. The jobless rate ticked down one notch to 4.3% and the participation rate edged up one tick to 62.5%. The signal from this data is clear: this is evidence in favor of the job market stabilizing and supports the Fed's wait-and-see approach. We're pushing back the timing of our Fed call, and now expect the first cut in June, but continue to pencil in two cuts for the year.

- Healthcare and social assistance added 124K jobs during the month, an almost 75K increase from the month prior. That helped to offset 42K job losses in the government sector. Construction employment jumped again to 33K in the month, and the bleeding in the manufacturing sector appears to have stopped with net positive job gains (+5K) for the first time since November 2024. Stripping out health care and government, the trend in cyclical job gains is turning up, reaching nearly 50K this month and the highest level of job gains in over a year. On average, with today's revisions, job growth in cyclical sectors was -27K per month, with the bulk of the weakness concentrated in the first half of the year.
- That changes the story a bit, and suggests that trade uncertainty may have played a more significant role than believed, population flows may have stalled much faster, or perhaps both. But the more important element of the story is that the job market now looks a little less bad over the past six months and positive cyclical job growth squares with an economy that remains in decent shape.
- The household survey showed a jump in hiring (+528K) and a dip in unemployment but perhaps the most encouraging signal from the survey was the improvement in labor supply. Prime-age participation now sits at a cycle high of 84.1%, hairs away from all-time highs in the late 1990s when the US economy was in the midst of a productivity boom. Like payroll job gains, prime-age participation was weak in the first half of the year but has since rebounded, pointing to a change in underlying economic momentum.
- The Fed will feel vindicated about its cautious approach to noisy data and also, its response to weakening job numbers in the second half of last year, because as it turns out, the reality was actually worse and the Fed was right to act when and how it did. There will be a few extra fist bumps and high fives in the Eccles building today, and expect to see more swagger from the committee in the next round of communication. Today's report also helps in resolving some of the tension between activity and job market data, with activity data winning this round in terms of being the better real-time signal of where the economy is (assuming those aren't revised down!).

Implications & actions

Re: Economic forecast — We are changing the timing of our call for the Fed. We previously expected a cut in March and then a second in June. We now expect the first cut to be in June, followed by the second in July.

Re: Markets — Yields and the broad dollar rose in response to the large positive surge on payrolls this morning.

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