

Economics

# ECONOMIC FLASH!

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January 9, 2026

## US Non-farm payrolls: Not great, but good enough

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Employment change (thousands, unless otherwise noted)	Dec 25	Nov 25	Oct 25	Sep 25	Aug 25
Unemployment rate (%)	4.4	4.5		4.4	4.3
Avg. hrly earn all (Monthly % Chg)	0.3%	0.2%	0.4%	0.2%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.0%	0.5%	0.4%	0.2%	0.1%
Nonfarm employment	50	56	-173	108	-26
Total private	37	50	1	104	10
Goods-producing	-21	18	-21	17	-33
Construction	-11	22	-13	25	-20
Manufacturing	-8	-2	-9	-5	-11
Priv. Serv providing	58	32	22	87	43
Wholesale trade	-2	-1.2	-1.6	8.9	-6
Retail trade	-25	-16.9	-23.9	23.4	5
Transp. & Warehousing	-6.6	-25.2	-6.1	-33.4	3
Information	0	-3	-7	-3	-5
Financial	7	0	1	6	-15
Business services	-9	13	-16	-8	-13
Temporary help	-5.7	-5.4	-23.8	-6.2	-10
Education, health	41	59	41	56	34
Leisure, hospitality	47	-3	33	42	23
Government	13	6	-174	4	-36
Federal Government	2	3	-179	-4	-19

Source: Haver Analytics

- There were mixed elements in the December jobs report, but there were enough positives to keep the Fed on hold later this month. Job gains in December came in at 50K, below expectations of a 70K increase. There were significant downward revisions over the prior two months (-76K), which put the three-month average payroll gain at -22K, or +29K for private payrolls. Most of the downward revisions were in the retail trade and education/health sectors. However, wage growth was solid at 0.3%, in line with expectations, and the prior month was revised up a tick to 0.2%, while average hours worked declined a tick to 34.2. The household survey looked better, with the jobless rate edging down to 4.4%, a notch below consensus expectations of 4.5%, and the prior month was also revised down to 4.5%. The participation rate fell as expected to 62.4%, and the U6 rate declined three ticks to 8.4%. The job market is definitely not strong, but it also isn't collapsing with a jobless rate modestly above the long-run . With data distortions and sampling issues muddying the signal in recent data, the Fed has time to wait for more data to assess the underlying signal for both the job market and inflation for at least another couple of months.

- The only sector where job gains remain substantial is healthcare. Excluding government and healthcare, the three-month average job change is -19K, and this average has been negative since June. In other words, hiring has essentially been frozen for the latter half of 2025. Several factors are converging to cause this: the impact of tariffs and uncertainty around future trade policy, restrictive immigration policies, strong hiring in 2024 in the service sector, and a greater reliance on technology and capital to deliver more output. So, even though the job gains this month were not far from the average pace seen over the past few months, it's clear that labor demand in cyclical industries is anemic, and the Fed has good reason to remain ready to provide a dose of interest rate adjustment in the coming months.
- The household survey improved, as the November report was affected by a larger than normal share of first-time respondents. Employment gains were strong (+232K) in the volatile survey; the labor force slightly declined, but unemployment fell by more, pushing the jobless rate down by 0.16pp. The jobless rate now sits at the 4.3-4.4% border, which is more consistent with activity data. Prime-age participation remains very strong, and the prime-age unemployment rate ticked down two notches to 3.7%.
- The spread between the soft jobs data and the booming activity data narrowed today, with the jobs picture being somewhat less concerning. The data were not great, but were good enough to allow the Fed time to sort out what is a very complicated macroeconomic story. The economy remains strong, spurred by AI investment and a spendthrift consumer, while unpredictable policy shifts are having a disproportionate impact on the job market but a surprisingly modest effect on GDP and inflation, at least so far. The pass-through of soft market rents is now showing up in inflation, but healthcare costs are also expected to rise. Tariffs might remain, or might go, we still don't know after today. It's a foggy and complicated picture, and taking some time to see where the dust settles is the right course of action.

## Implications & actions

**Re: Economic forecast** — We expect the Fed to be on hold at the FOMC meeting this month, but still expect two cuts this year. The first in March and the second in June.

**Re: Markets** — Yields initially dipped but have since returned close to their pre-data level, while the broad dollar has more than recovered its decline after the release.

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