

U.S. Payrolls Preview: Jan 2026 Report

MNI View: Watch The Forest, Not Just The Trees

February 9, 2026 - By Chris Harrison and Tim Cooper

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Executive Summary

- Wednesday sees an unusual BLS nonfarm payrolls report after a brief delay following last week's government shutdown, with January details released at 0830ET.
- The report will need to be assessed holistically rather than focusing on any single number, although the unemployment rate should offer the cleanest single take.
- Consensus looks for a circa 70k increase in nonfarm payrolls coming almost entirely from private payrolls.
- Some specific factors beyond more eye-catching calls are Scotiabank warning on a drag from the expiry of ACA subsidies and Morgan Stanley on a potential 35k public sector drag when accounting for a somewhat extended deferred resignation program.
- The unemployment rate is expected to hold at 4.4% after last month's surprise drop to 4.38% from 4.54%, leaving a profile of broad stabilization on net since Aug/Sept. In doing so it ruled out a more dovish base case that seven FOMC members had pencilled in at the December SEP.
- Along with typical two-month revisions, we will also see annual adjustments from the benchmark revision up to Mar 2025 (a large negative revision in the region of -800k is roughly expected), a new birth/death model from Apr 2025 onwards and seasonal adjustment factors for the past five years.
- The household survey population control which would usually come with this month's January report has been delayed to next month's February report due to last year's extensive government shutdown.
- We suspect the market is shaping up for a weaker number than the 68k consensus for NFPs after last week's suite of weak labor releases and today's (Monday's) comments from NEC's Hasset on not panicking about lower jobs numbers despite appearing to talk on broader trends.
- With Tuesday's retail sales for December still to come, the market currently sees a next Fed cut with the June meeting under a new Fed Chair (former Fed Governor Warsh awaiting nomination proceedings).
- In the event of a large surprise, which will presumably see suspicion given ongoing data quality issues, the February payrolls report on Mar 6 will allow the FOMC to see whether those surprises are confirmed before the Mar 17-18 FOMC meeting and its fresh economic forecasts/dot plot.

Payrolls Growth Expected To Firm Slightly, U/E Rate Still Holding Onto Recent Stabilization

This week sees an unusual Wednesday release for BLS nonfarm payrolls having been delayed a few days after last week's brief government shutdown. The December report published last month had marked the first time since the much longer Oct-Nov government shutdown that the BLS had returned to its original data release schedule for payrolls and CPI, with other major releases still catching up. This week's report sees additional intrigue from a range of annual adjustments, with the bottom line being that the Fed will have a better idea of latest trends after this report. In the event of any large surprises it will still receive another payrolls report before the March 17-18 FOMC decision.

Summary Of Expectations For Jan 2026 Report

Payrolls M/M (000s)	Nov	Dec	Jan estimate		
			BBG cons	Primary dealer	
NFP	56	50	68	75 (range 0-135)	
Private	50	37	70	75 (range 40-140)	*a reduced range for private

U/E Rate	Nov	Dec	Jan estimate		
			BBG cons	Primary dealer	
%	4.56	4.38	4.4	4.4 (range 4.3-4.5)	Views slightly skewed to lower figure

AHE % M/M	Nov	Dec	Jan estimate		
			BBG cons	Primary dealer	
	0.24	0.33	0.3	0.3 (range 0.2-0.5)	Views generally centered on median

Source: Bloomberg Finance L.P., BLS, MNI

Multiple Additional Revisions/Adjustments To Be Aware Of

Nonfarm payrolls growth is seen in the region of 70k in January (Bloomberg survey 68k, primary dealer analysts 75k) after 50k in December, 56k in November and a hugely negative -173k in October when federal government deferred resignations showed up. The private sector should drive increases almost entirely this month, with the Bloomberg estimate of 70k after 37k in December, 50k in November and just 1k in October. Being a January release, we're also set to receive i) the annual benchmark revision adjusting the level of nonfarm payrolls to more comprehensive administrative records up to Mar 2025, ii) new birth/death model adjustments that will impact the underlying non-seasonally adjusted data from Apr 2025 onwards, and iii) new seasonal adjustment factors which will affect only the seasonally adjusted values for payrolls and wages over the past five years. In short, there could be a significantly different trend in payrolls jobs growth than what the data currently show. As things stand, nonfarm payrolls growth averaged 49k per month in 2025 and ended 2025 with a three-month average of -22k, whilst private payrolls growth averaged 61k with a latest three-month average of 29k. A word of warning on private sector job creation; exclude health & social assistance and this averaged just 2k in 2025 including -19k in the three months to December. Scotia, the lowest primary dealer for payrolls growth with zero pencilled in, warn on the impact from the expired Affordable Care Act subsidies that ended as the calendar flipped over to 2026. The annual averages will be biased lower simply from the likelihood of a large downward revision back in 1Q25 whilst subsequent revisions will be down to new birth/death adjustments and seasonal factors.

Note that these revisions are confined to the establishment survey figures and there won't be revisions to the household survey (e.g the unemployment rate). The household survey saw its annual seasonal factor revisions with last month's update – they didn't have a major impact, slightly more hawkish in 4Q25 – and the annual population control adjustment is coming next month, a one-month delay due to last year's government shutdown.

Annual Benchmark Revision: Large Negative Adjustment Baked In

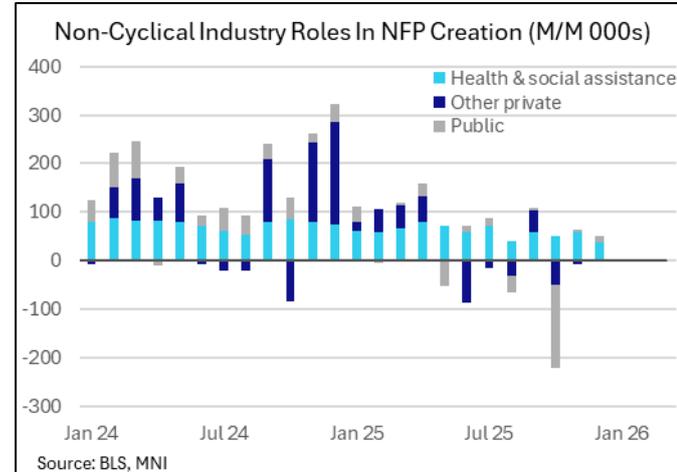
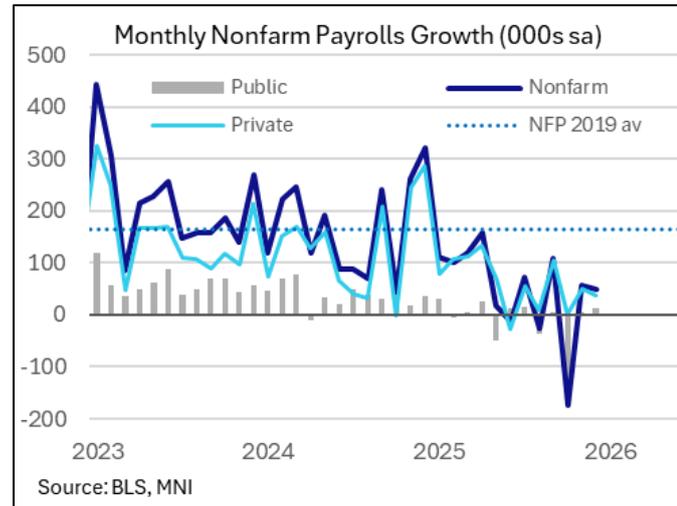
Cumulative growth in nonfarm payrolls across April 2024 to March 2025 was likely significantly lower than first reported judging by data from the more comprehensive QCEW survey. We expect a 700-800k downward revision to the level of Mar 2025 payrolls in this month's payrolls release, with some limited analyst estimates in a roughly similar range albeit a little higher with a median mid-point of 825k across five estimates. There's a general consensus that we see a smaller downward revision than the 911k indicated in the preliminary benchmark revision estimate published in Aug 2025, but with Barclays a standout with that 1 million downward revision (Scotiabank also don't rule out a larger downward revision either). This sort of magnitude for a downward revision has long been expected – with repeated references by senior Fed figures – and is a continuation of what was seen in the previous year's revisions as well. Indeed, Fed Chair Powell has for a few months now touted that monthly payrolls growth in current vintages could be overstated by 60k/month (i.e. ~720k annualized) "and, you know, that could be wrong by 10 or 20 in either direction".

Benchmark Revision To Mar 2025 Level

Analyst	Expected Downward Revision
Citi	Around 700k
JPMorgan	About 800k
BofA	800-850k
Goldman Sachs	750-900k
Barclays	1mln
Scotiabank	"Could be more or less" than 911k
UniCredit	"Somewhat smaller" than 911k
Wells Fargo	"Somewhat smaller" than 911k
Median	825

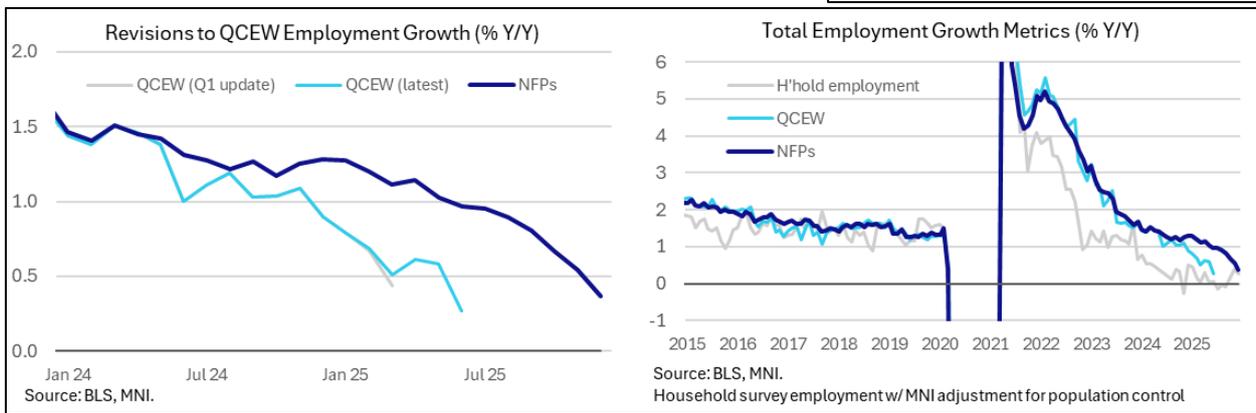
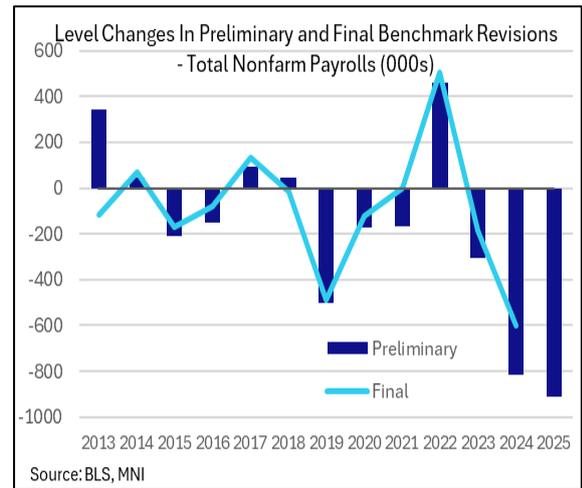
Median estimate from mid-point of quantitative estimates

More recently, Fed Governor Waller in his dovish dissent after last month's FOMC meeting: "Compared to the prior ten-year average of about 1.9 million jobs created per year, payrolls increased just under 600,000 for 2025. And, last year's data will be revised downward soon to likely show that there was virtually no growth in payroll



employment in 2025. Zero. Zip. Nada. Let this sink in for a moment—zero job growth versus an average of almost 2 million for the 10 years prior to 2025. This does not remotely look like a healthy labor market.” For context, last year’s benchmark revision process saw a preliminary estimate of -818k before a final -598k in non-seasonally adjusted terms. We suspect it will take a benchmark revision either side of -600k and -1,000k to have an impact in isolation. What that reaction should look like is questionable though: whilst a particularly large downward revision would likely be met with a snap dovish reaction, it would also imply a lower breakeven pace for payrolls growth considering the unemployment rate will have been unaffected. Of course, that’s likely only of so much comfort for the Fed, per Waller’s argument.

The below charts from our latest write-up of the Q2 QCEW report released in December:

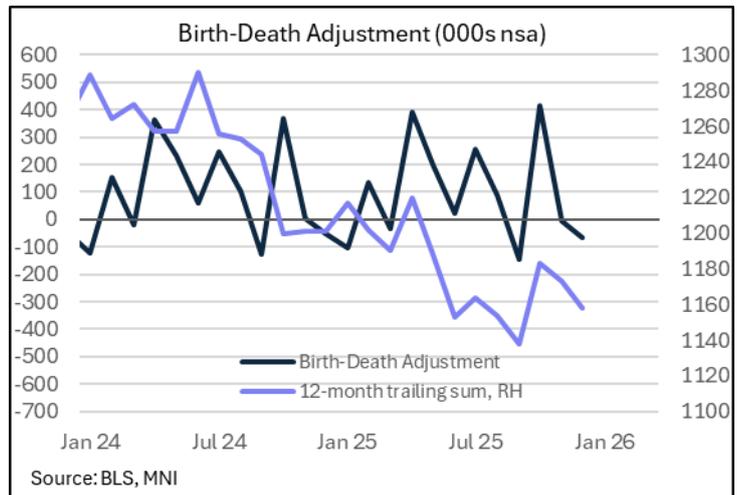


Birth-Death Model Updates Set To Contribute Downside And Introduce Volatility

While the annual benchmark revisions will change the starting point of 2025 (to March), the BLS’s firm Birth-Death model-based revisions for the April-December period will be a key aspect of this payrolls round. This Birth-Death update incorporates the new QCEW benchmark and the latest monthly payrolls surveys which suggest that downward revisions to net business formations in the Apr-Dec 2025 period are likely.

The Birth-Death model attempts to account for net employment changes from new/“births” and closed/“deaths” establishments. To put this into perspective, this factor upwardly adjusted payrolls by almost 1.16 million in 2025 (total nonfarm payrolls gains were closer to 580k, so without this adjustment, reported payrolls would have been negative).

There’s another wrinkle: starting with this report, the BLS will henceforth use current sample information to adjust the birth-death model. The thinking behind this change is to reduce the large annual revisions by providing a more timely assessment of surveyed establishments. The lagged impact of the long-standing birth-death model’s outputs was intended to smooth out the cycle in downturns and upturns in the economy but that was considered ineffective in the post-pandemic period as it produced large forecast errors so it’s been trying out the newer higher-frequency approach.



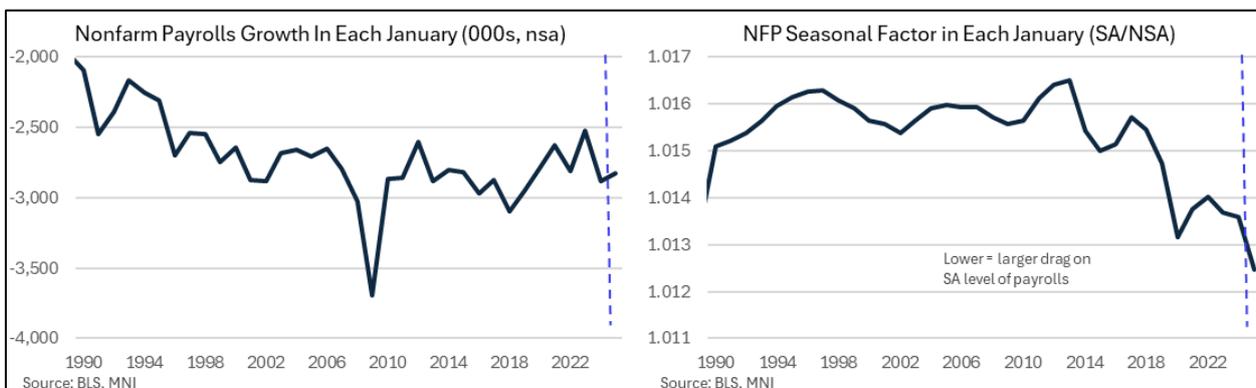
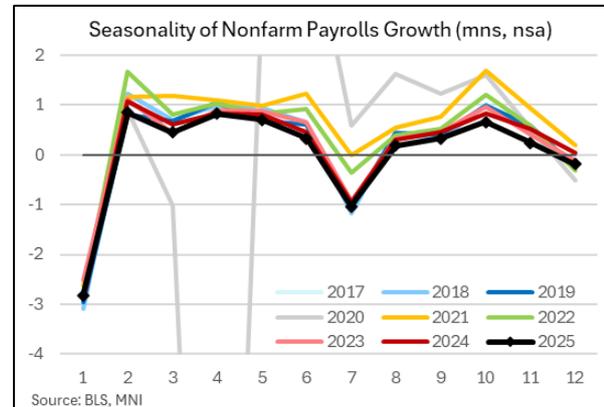
The BLS’s analysis has suggested smaller forecast errors via the “real-time” estimates vs waiting for the large annual revisions.

However, some analysts including Goldman Sachs have noted that this change could lead to greater month-to-month volatility in the Establishment Survey's payroll readings. For January, in which the seasonal adjustment (see below) plays a big factor, it's possible that an unusual swing in birth-death adjustments in the new methodology could play an outsized factor (birth-death is reported non-seasonally-adjusted). A lower-than-usual birth-death figure under the new methodology vs what has historically been seen would likely mean a drastic undershoot vs consensus on January payrolls, for example.

Analyst expectations for the Birth-Death adjustment are scarce, but BofA writes "Using real time survey signals as part of the new methodology should lower the Birth-Death model contribution to job gains, particularly in a cooling labor market. Hence, incorporating the difference from pre-pandemic levels, we estimate a 20-30k downward revision to monthly payroll growth starting April 2025 due to the updated Birth-Death model...If our estimate for the Birth-Death model-based revision is correct, payroll growth was likely running close to zero on average in the April-December 2025 period. In this period, the unemployment rate went up about two tenths. This is consistent with our lower breakeven job growth rate estimate of roughly 20k on account of tighter immigration policies implemented in 2025....if the Birth-Death model related revisions in the post April 2025 period are sizeable, this could generate a more significant market response."

Seasonality: A Heavy Layoff Month In A "Low Hire, Low Fire" Market and New Factors Due

January brings specific seasonal adjustment considerations as it sees by far the most pronounced pattern of the year with large declines in the non-seasonally adjusted number of payrolls after the holidays. Payrolls fell by 2.8mIn in Jan 2025 and 2.9mIn in Jan 2024, both closer to the 2.94mIn averaged in 2015-19 for a crude pre-pandemic trend after the 2.5mIn in Jan 2023 (a period of particularly labor tightness), was its smallest decline since 1995. With the labor market softening but still seemingly in a "low fire, low hire" state, this month's update could see fewer layoffs than would historically be the case although that's increasingly being normalized by the growing weight on the post-pandemic sample. Going against this, seasonal factors have been increasingly penal for January readings in recent years, with the 2025 factors boosting the seasonally adjusted level of nonfarm payrolls by its least in at least thirty-five years. The past five years of seasonal factors will be revised with this release.



Analyst Estimates: A Wide Range For NFP Plus A Slightly Hawkish Skew For The U/E Rate

- Primary dealer analysts look for monthly seasonally adjusted nonfarm payrolls growth of 75k in January for slightly stronger than the 68k median in the full Bloomberg survey.
- There's a reasonable range to these estimates across primary dealer analysts, from 0k (Scotiabank) to 135k (Citi) – both captured in our analyst section below.
- Most expect a limited contribution from the public sector this month but that's not a uniform view, with three looking for a 10k boost and then Morgan Stanley a clear standout with -35k on account of a somewhat extended deferred resignation program.
- The unemployment rate is broadly expected to round to 4.4% again although a 4.375% starting point from December sees a slight bias to round down to a hawkish looking 4.3%.
- Analysts were surprised last month, with that realized 4.38% going against consensus of 4.5% where risks had tilted towards a 4.6% print.
- Average hourly earnings growth is mostly expected to come in at 0.3% M/M with mostly offsetting limited views of risks in either direction.

Primary Dealers See Slight Risk Of Lower U/E Rate

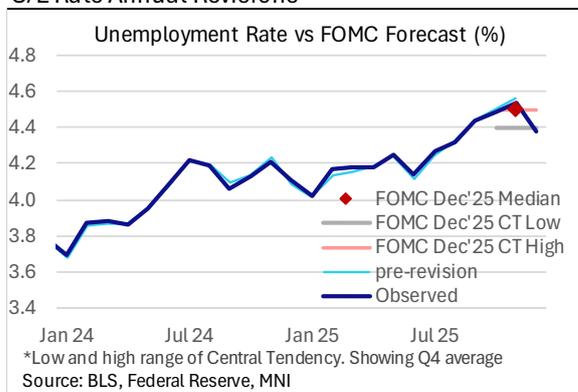
mni	Payrolls (chg M/M, k)			U/E Rate	AHE
	Total	Private	Govt	(%)	(% M/M)
Scotiabank	0			4.3	0.2
BofA	45	40	5	4.4	0.3
Goldman Sachs	45	45	0	4.4	0.35
TD Securities	45	40	5	4.4	0.3
Barclays	50	50	0	4.3	0.3
BMO	55			4.4	0.3
Morgan Stanley	55	90	-35	4.4	0.2
RBC	63			4.3	0.5
HSBC	65			4.5	0.3
Deutsche Bank	75	75	0	4.4	0.3
J.P.Morgan	75	70	5	4.4	0.3
NatWest	75	65	10	4.5	0.3
Societe Generale	80			4.4	
Wells Fargo	80			4.4	0.3
Nomura	85	75	10	4.3	0.3
Mizuho	90			4.4	0.3
UBS	90	85	5	4.3	0.3
BNP Paribas	105	110	-5	4.4	0.3
Jefferies	110	110	0	4.4	0.3
Santander	130	120	10	4.4	0.4
Citi	135	140	-5	4.4	0.3
Median	75	75	3	4.4	0.3
<i>Prior</i>	50	37	13	4.38	0.33

Entered in Bloomberg survey or seen by MNI.

Red denotes tighter than consensus, blue looser

Adding to the above on analyst expectations for the unemployment rate, the following table shows how last month's seasonal adjustment revisions were marginally hawkish in most recent months. The u/e rate averaged 4.47% in Q4 (using an interpolated value for Oct) to match the 4.5% the median FOMC participant forecast in the Dec SEP, quite firmly ruling out a baseline for seven FOMC members who had looked for 4.6-4.7% across Q4. Scotiabank, whilst warning on the hit to jobs from ACA subsidy expiry, also cite a wildcard from ICE detentions on the labor supply: "An estimated 73,000 were detained in January. If, say, we applied about a 50% labour force participation rate, then this would imply around 30-40k who were directly held out of the workforce by ICE. The indirect effect could be larger as people cower in fear, avoiding public places including work."

U/E Rate Annual Revisions



	Latest	Pre-Revision	Diff.
Jan 25	4.02	4.01	0.01
Feb 25	4.17	4.14	0.03
Mar 25	4.18	4.15	0.03
Apr 25	4.18	4.19	0.00
May 25	4.25	4.24	0.01
Jun 25	4.14	4.12	0.02
Jul 25	4.27	4.25	0.02
Aug 25	4.32	4.32	0.00
Sep 25	4.44	4.44	0.00
Oct 25	4.49	4.50	-0.01
Nov 25	4.54	4.56	-0.03
Dec 25	4.38		

Red shading = higher u/e rate or cooler labor market

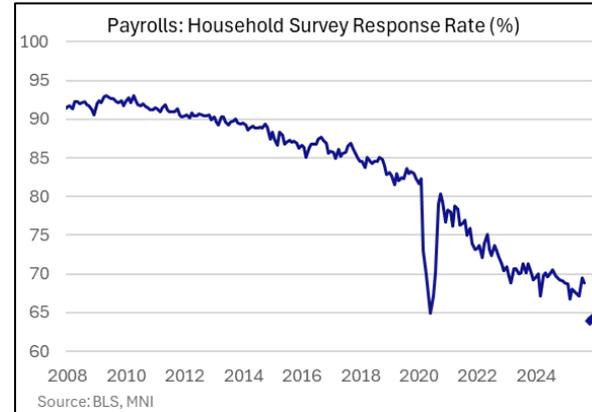
Oct 2025 value from crude interpolation

Source: Bloomberg Finance L.P., BLS, MNI

Recapping A Lack Of Improvement In Data Quality After Shutdown Disruption

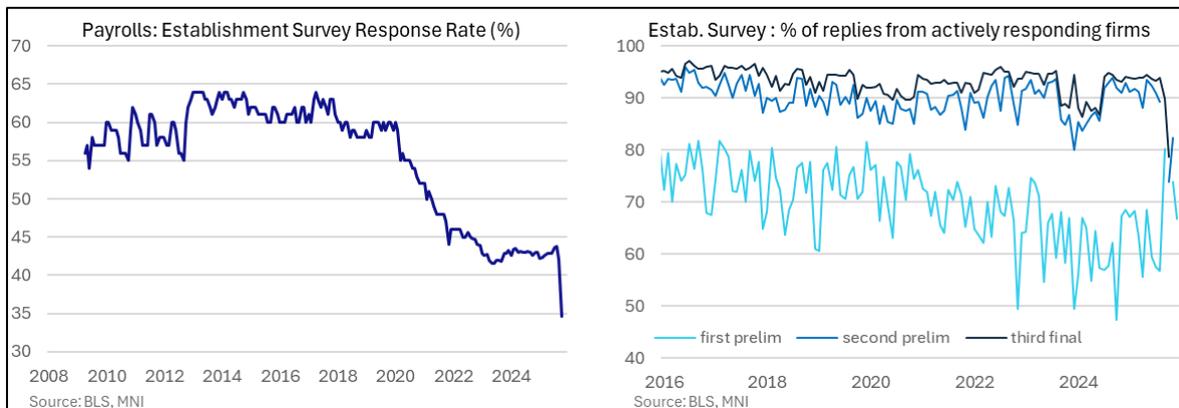
The BLS last month said its household survey in the payrolls report wasn't materially impacted by the government shutdown in December but the response rate remained close to a record low seen in last month's highly unusual November release. The very low response rates will add month-to-month noise to the data.

- The 64.2% in Dec after 64.0% compares with 68.9% in the Sept report that had mostly been collected prior to the government shutdown delayed its actual publication. It averaged 68% through Jan-Aug as part of a clear downward trend.
- The BLS on limited shutdown technical impact: "The federal government shutdown did not impact the collection of household survey data for December 2025. The household survey returned to the usual composite weighting methodology in December. The impact of the November weighting change on the standard error for the December unemployment rate was negligible."
- Recall that November's release saw a higher standard error owing to a combination of a lower response rate, composite weighing changes and two- rather than one-month analysis period. Those changes meant it required a 0.26pp change to be statistically significant vs the 0.21pp in Sept. The weighting methodology change alone, which didn't have an impact this month, increased the standard error by a factor of 1.06 in November.



The payrolls data from the separate establishment survey also look prone to continued large revisions.

- 66.8% of actively reporting sample units gave a first response (from which the 50k increase is formed from). That's down from elevated recent readings including a high of 80% in September owing to the longer collection periods by delayed release dates but is at the high end of recent ranges (average 62% in Jan-Aug, ranging from 55.7-68.4).
- The third and final response share, i.e. covering the October details as we now see them, was notably lower than normal at 78.7% (94% Jan-Aug av). With the regular revision window now passed, we suspect this October reading, which saw particularly weak jobs growth (-173k nonfarm, 1k private), will remain a relatively less reliable reading.
- In between the two, the second response share improved but still lags pre-shutdown rates, at 82.4% after 73.9% last month and vs 91% Jan-Aug av. Assuming the final response rate gets back to the 90s that can still be a sizeable amount of new historical information due in next month's release.



Still Sensitive To Further Unemployment Rate Increases

Consensus may be for nonfarm payrolls growth of 68k but market pricing probably looks for softer jobs growth following last week's string of softer labor updates. Thursday saw an unusual sweep of outright soft or at least softer than expected releases across the Challenger job cuts report (as usual a concentrated report but nevertheless the highest job cuts for a January since 2009), Revelio labor statistics (estimated nonfarm payrolls fell 13k on the month in January), weekly jobless claims (higher than expected but in a release that comes after the

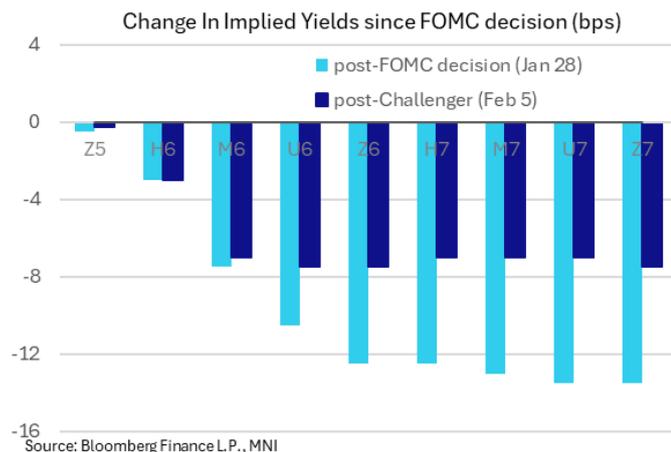
payrolls reference period for January) and the JOLTS report for December (far lower than expected job openings). It sees us head towards Wednesday's nonfarm payrolls report with a next Fed cut priced for the June FOMC vs July before Thursday's data and a combined 57bp of cuts for 2026. That said, with so many additional annual factors to consider, it's clearly unwise to just focus on the latest payrolls figures and their latest two-month net revision. The establishment survey has many moving parts, so we suspect the unemployment rate from the household survey will play a particularly large role in helping shape the market reaction. Whilst a low unemployment rate could see a renewed delayed in Fed rate cut expectations to July and potentially even beyond, we suspect greatest sensitivity is to any dovish surprises. As for whether a single report could see a March cut come into play, we suspect a report that is at face value that dovish would see suspicions given ongoing heightened data concerns and the market would need to see confirmation of a renewed uptrend in the unemployment rate in the February report that is currently scheduled for release on Mar 6 ahead of the Mar 17-18 FOMC meeting. For now, the unemployment rate has in net terms stabilized, with the 4.38% in December back between the 4.32% in August and 4.44% in September vs 4.54% in November in a particularly contentious post-shutdown release.

Another point to consider when thinking about how the market is shaping up ahead of Wednesday's payrolls release is the jump in Treasuries seen as Bloomberg ran the headline "**HASSETT: SHOULD EXPECT SLIGHTLY LOWER JOBS NUMBERS**". Some took it to suggest NEC Director Kevin Hassett was signaling a disappointing print was upcoming. However, his full comment on the labor market on CNBC sounded less of a reference to this week's report and more to the broader trend: *"There's a pretty big decline in the labor force because of illegals leaving the country. And so the breakeven job number is quite a bit lower than it was under Joe Biden, when there were people basically coming across the border willy nilly. And so I think that you should expect slightly smaller job numbers than/that [hard to tell if he was saying "that" or "than"] are consistent with high GDP growth right now, and that one shouldn't panic if you see a sequence of numbers that are lower than you're used to, because again, population growth is going down and productivity growth is skyrocketing. It's an unusual set of circumstances."* Recall that the White House is only supposed to get the jobs data the day before the release, so in theory Hassett shouldn't be privy to the January numbers which have been delayed to Wednesday. Still, it's possible that any downside surprise won't see quite the same reaction as it otherwise would have considering today's rally on the headlines has been held.

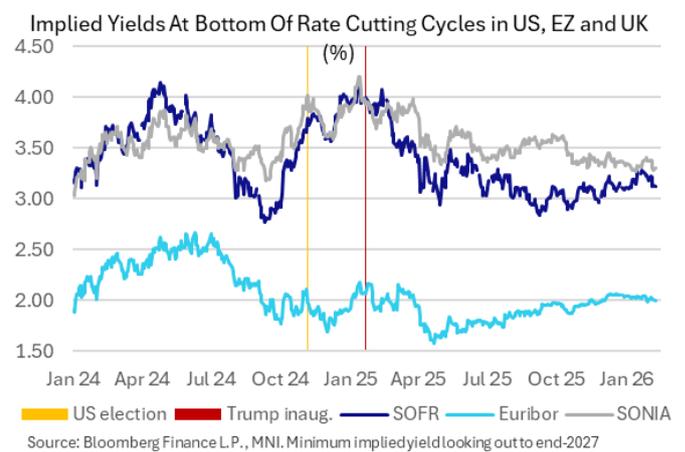
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Challenger (Feb 5)			chg in rate bp	pre ISM Services (Feb 4)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	3.64			3.64				3.64			
Mar'26	3.59	-4.9	-4.9	3.61	-3	-2.7	-2.2	3.61	-3	-3	-2.2
Apr'26	3.54	-5.4	-10.3	3.57	-4	-6.8	-3.5	3.58	-4	-6	-4.1
Jun'26	3.39	-14.6	-24.9	3.46	-11	-18.0	-6.9	3.47	-11	-17	-8.2
Jul'26	3.30	-9.4	-34.3	3.38	-8	-26.2	-8.1	3.40	-7	-24	-10.1
Sep'26	3.18	-11.4	-45.7	3.26	-12	-38.1	-7.6	3.29	-11	-35	-10.4
Oct'26	3.12	-6.1	-51.8	3.20	-6	-44.3	-7.5	3.23	-6	-41	-10.5
Dec'26	3.07	-5.5	-57.3	3.14	-6	-49.9	-7.4	3.17	-5	-47	-10.5

Source: Bloomberg Finance L.P., MNI. Assuming same EFFR-target lower bound spread from latest fix going ahead



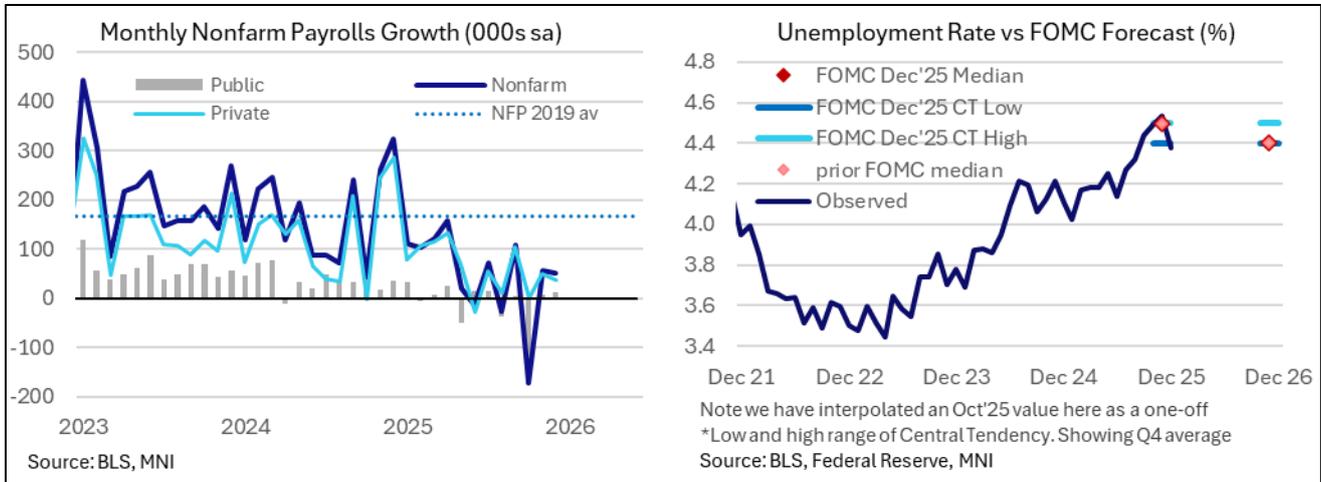
Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

Recent Labor Market Developments

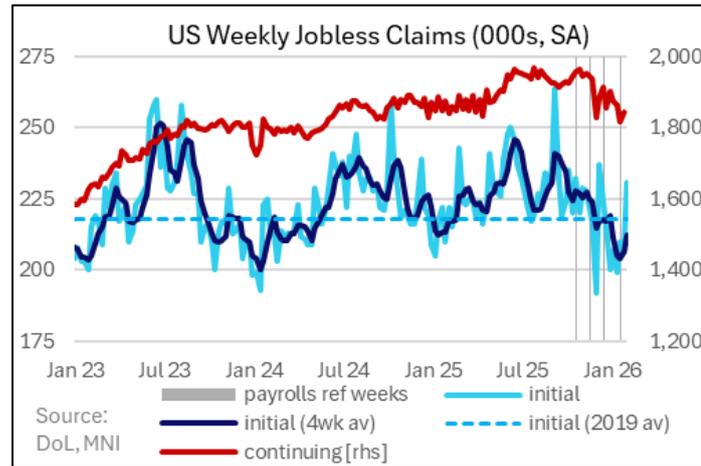
The recap of the Dec payrolls report: MNI US Employment Insight: U/E Rate Improves But Payrolls Soft ([link](#)).



Upside

Jobless claims data for the reference week were comfortably lower than those seen in recent months' reference periods.

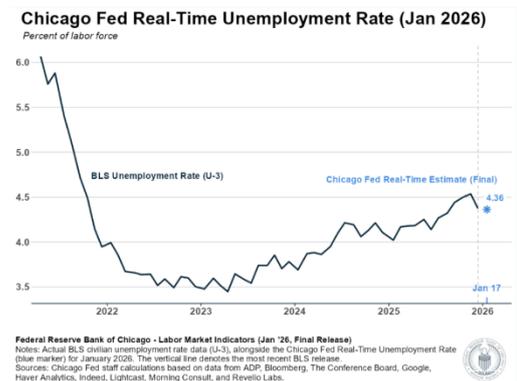
- Initial claims printed 210k in the week to Jan 17 vs 224k in Dec, 222k for Nov, 231k for Oct, 232k for Sep and 234k for Aug.
- Continuing claims printed 1819k, comparing particularly favorably to the 1914k in Dec, 1944k in Nov, 1957k in Oct, 1916k in Sep and 1944k in Aug.
- However, residual seasonality remains a concern, especially for the initial claims data where early January seasonally adjusted readings were biased lower before they start to pick up heading into February as has indeed happened.
- As such, it's possible that these claims data overstate the latest strength of the labor market although they are nevertheless at impressively low levels compared to the past year.



Neutral

Chicago Fed U/E Rate Nowcast Sideways

The Chicago Fed's final nowcast for January again sees no material change from the previous month's BLS unemployment rate, estimated at 4.36% after 4.375%. As for the slight decrease from December: "This forecast is a product of slight changes in hiring and separations, as measured by the Chicago Fed's Hiring Rate for Unemployed Workers and the Chicago Fed's Layoffs and Other Separations Rate."



Downside

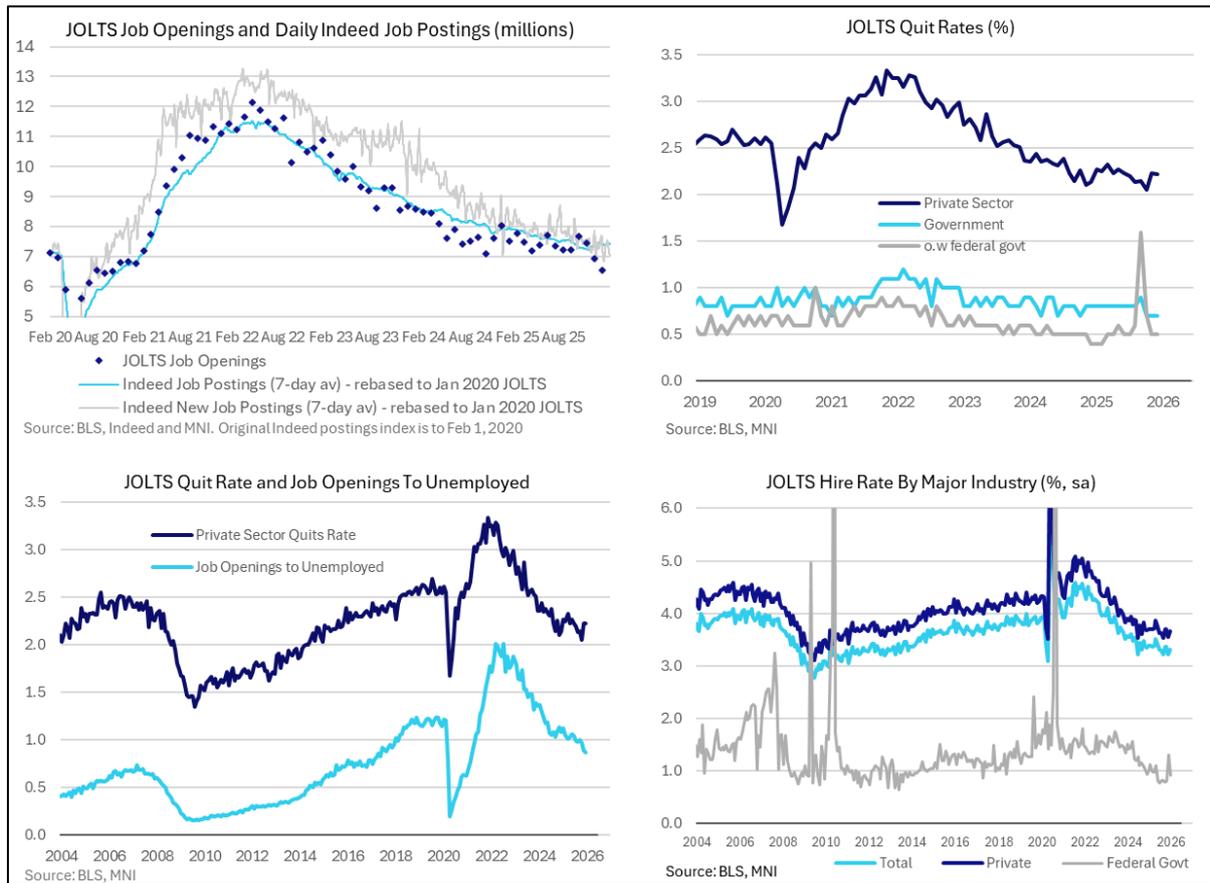
Far Lower Than Expected JOLTS Job Openings In December

Job openings were far weaker than expected in the JOLTS report and stand out against an alternate measure such as Indeed job postings. Other areas fared better such as the tick higher in hire rates and quit rates holding onto a prior increase although they are still low historically, hires especially.

- **Job openings** were significantly lower than expected in December at 6542k (sa, cons 7250k) after a downward revised 6928k in Nov (initial 7146k).
- Job openings have now declined by 1.1mln since the end-September, i.e. since just before the Oct 1 - Nov 12 government shutdown.
- As noted beforehand, Indeed job postings had shown an improvement relative to end November, rising 1.1% by end-Dec, even if that was then mostly reversed by end-Jan with a net 0.3% increase.
- They had presumably helped shape consensus view, with the JOLTS outturn far weaker even than that implied by the more volatile but timely new postings data also from Indeed - see chart.
- The ratio of opening to unemployed slipped to 0.87 in December from a downward revised 0.89 (0.92) for a fresh low since early 2021. The ratio avoided a sharper drop due to the sharp decline in household unemployment in December after a potential upward bias in Nov data after the government shutdown.
- Pre-pandemic, it last saw 0.9 readings in 2017 having averaged 1.2 in 2019 and 1.0 in 2017-18.

Other key metrics meanwhile were flat to slightly better on the month.

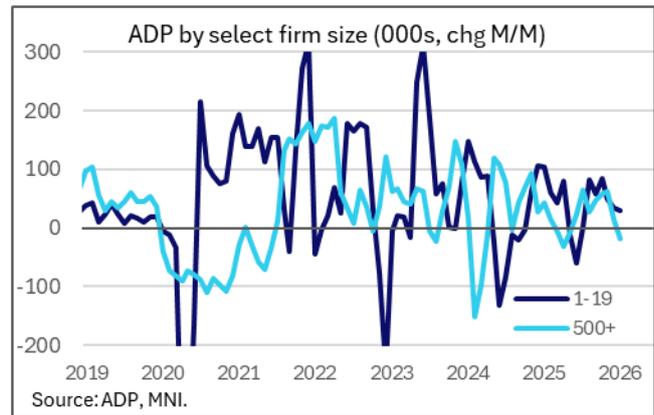
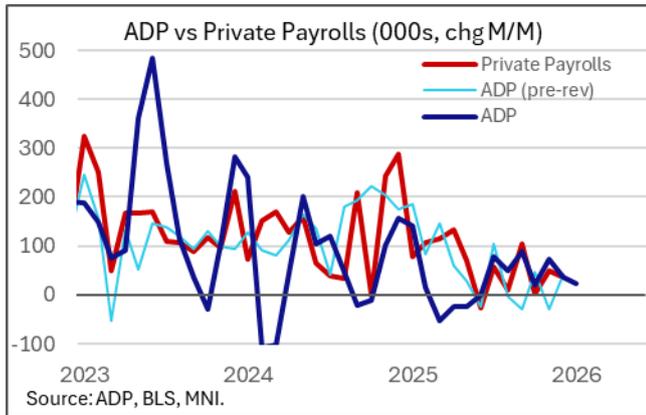
- The **quits rate** came in at 2.01% in Dec after an upward revised 2.00% (initial 1.98) in Nov, confirming an improvement to 2.0 for its highest since June having hit 1.86% in October (lowest since May 2020).
- It's a relative improvement though, with quit rates still depressed compared to pre-pandemic levels in an additional sign of a lack of labor market churn (it averaged 2.3% in 2019, 2.2% in 2017-18).
- The **hires rate** firmed to 3.32% from an unrevised 3.21%, although is clearly still low - the 3.21% in Nov was its lowest hire rate since Aug (also 3.21%), one month in the pandemic (3.09% in Apr 2020) and then back to 2012.
- Fed officials, most notably Powell, have been eager to warn that this low hire rate could see any further cooling in the labor market drive a sharper increase in the unemployment rate.



ADP Employment Sees Modest Miss and Large Downward Revisions On QCEW (1/2)

ADP employment was a little softer than weekly tracking had implied with a larger miss against Bloomberg consensus. It was part of a release that was clouded by some large annual revisions, negative across 2025 as a whole but with a small net upward revision to Q4.

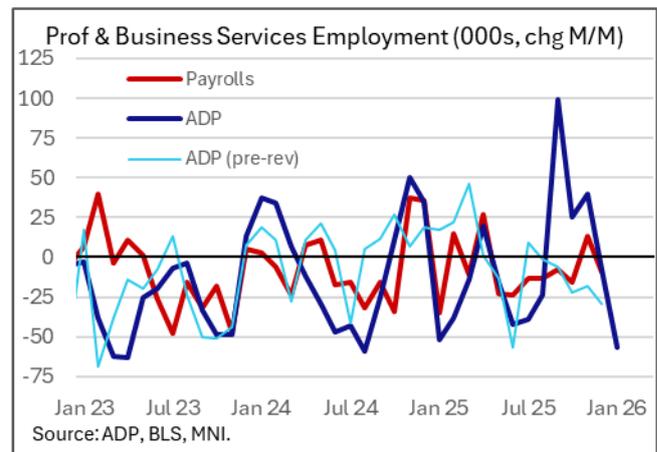
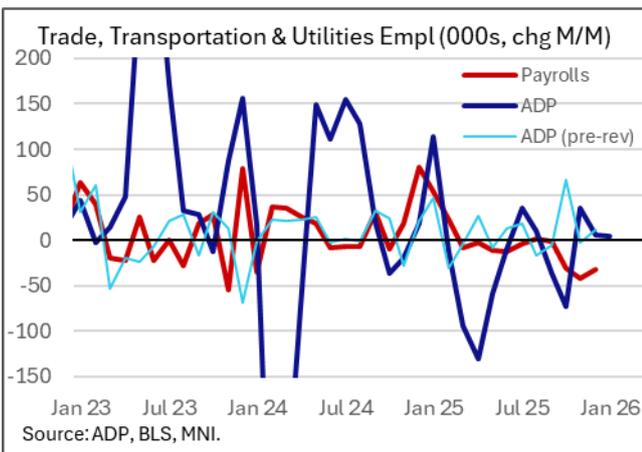
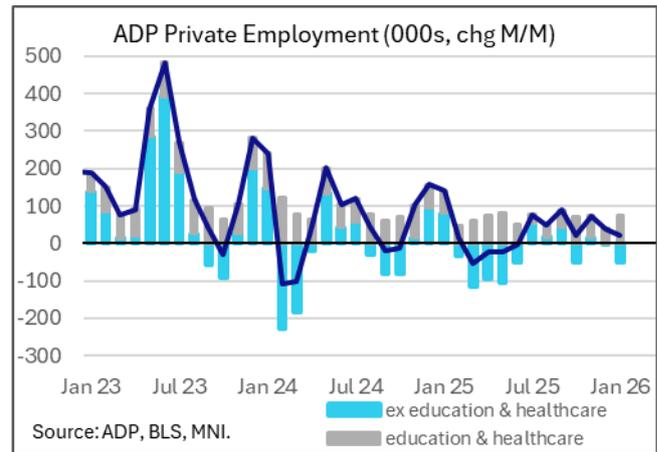
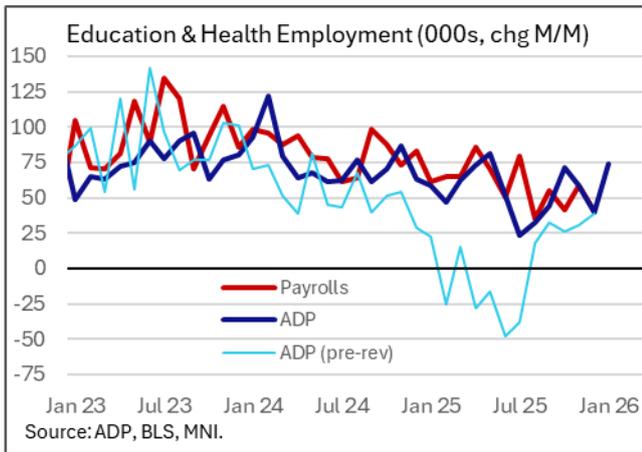
- ADP private employment was softer than Bloomberg consensus in January, rising 22k vs 45k expected, with the latest weekly series' 31k monthly equivalent having hinted at risk of a downward surprise as we had flagged.
- However, the fact it was broadly close to consensus seems down to luck as much as anything following large annual revisions.
- Cumulative private sector jobs growth now stands at 398k across 2025 vs the 614k seen after last month's update.
- These downward revisions were concentrated in the first half of 2025 whilst more recently there were net upward revisions in Q4 owing to a large change to Nov (+74k vs -29k). It leaves the latest three-month rate at 44k, unchanged from 44k in December vs what was originally 20k.
- The monthly profile now shows what was a much more aggressive slowdown in job creation back in March, with a particularly large downward revision to -53k vs +147k shown in last month's vintage (linked to QCEW revisions - more on this below). March also coincided with an increased touting of tariff threats before the Liberation Day announcements in April and indeed the three-month average has for now bottomed at -33k in May before recovering in 2H25.
- On today's revisions: "The January 2026 report reflects a scheduled annual revision of the ADP National Employment Report. The data series has been reweighted to match the Quarterly Census of Employment and Wages (QCEW) benchmark data through March 2025."
- "Beginning this month, in addition to the annual benchmark revision, the ADP National Employment Report also will reflect data from the most recent QCEW release."
- Recall that these QCEW data have been pointing to significant downward revisions to the level of nonfarm payrolls to March 2025. Fed Chair Powell has previously estimated a hit worth circa 60k/month.



ADP Revisions See Healthcare As A Major Driver, Echoing Payrolls (2/2)

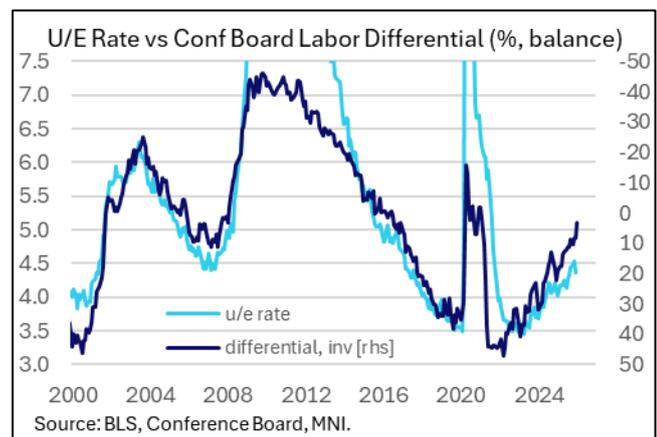
The wide-ranging revisions have seen the education & healthcare sector provide a much larger contribution, more closely reflecting trends in BLS private sector job creation.

- Education & healthcare jobs increased a cumulative 642k over 2025 vs the 28k previously estimated.
- This net revision of +614k across 2025 was in stark contrast to most industries considering the cumulative revision of -216k. The next largest positive revision was other services at +39k whilst the largest downward revision was trade, transportation & utilities at -325k.
- The BLS private payrolls data have for some time shown a large contribution from health & social assistance, rising 49k on average in the three months to December vs -19k for all other private industries.
- The broader ADP category of education & healthcare has now increased an average of 58k per month in the three months to January vs -13k for other industries.
- This reliance on healthcare has received plenty of attention, including Governor Bowman on Jan 30 ([link](#)): "Despite some tentative signs of the unemployment rate leveling off, it seems too early to say that the labor market has stabilized,... Job gains have been concentrated in just a few nonbusiness service industries that are less cyclically sensitive, with health care accounting for all private job gains last quarter."



Consumers Increasingly Concerned On The Labor Market

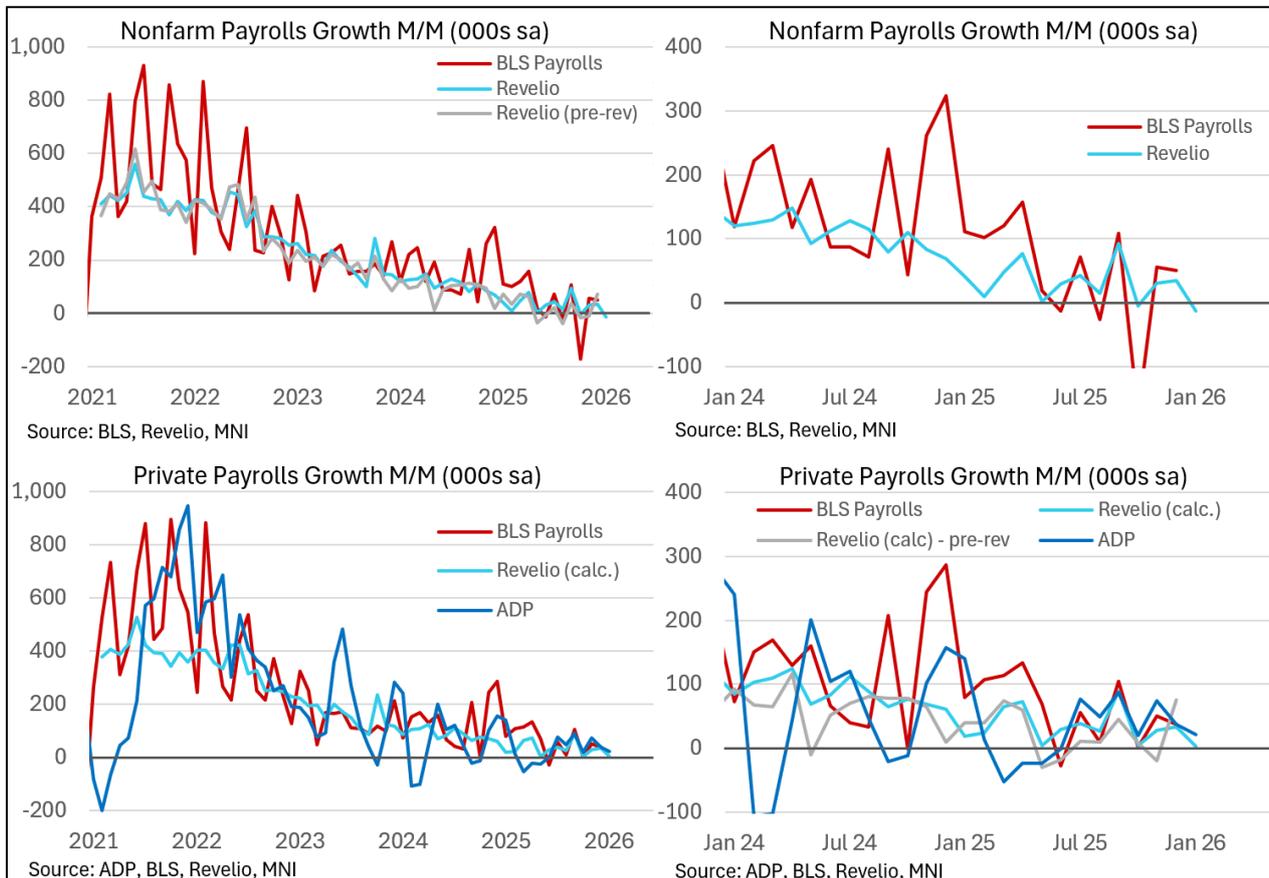
The "labor differential" in the January Conference Board consumer survey fell to a new recent low of 3.1 in January, last lower Feb 2021, after an upward revised 8.4 (initial 5.9) in Dec. * The move was driven by jobs plentiful falling to 23.9 from 27.5 in Dec and 28.2 in Nov although jobs hard to get also saw a solid increase to 20.8 after 19.1 in Dec and 20.1 in Nov. * A reminder here that these initial values are preliminary readings and prone to revisions with next month's update. * Whilst we caution against putting too much weight on this labor differential on a month-to-month basis, it's clearly points to a further uptrend in the unemployment rate. That's in contrast to a recent stalling in the u/e rate in shutdown-hindered BLS payrolls reports, most recently at 4.38% in Dec having stepped higher to 4.44% in September after a swift climb from 4.14% in June.



Revelio Estimates Point To Continued Payrolls Deterioration

Revelio Labs' latest payrolls report ([link](#)) points to further deterioration in the labor market entering 2026. They estimate that nonfarm payrolls contracted by 13.3k in January, the biggest fall in the series history going back to 2021, with the prior month's downward revision to 34.4k (from 71.1k) adding a further cautionary note. The 3-month moving average of payroll changes fell to +17k, also unsurprisingly the weakest in series history.

- The details don't alter the very poor headline takeaway. Private sector payrolls rose 3k, a new series low, after prior was revised down from 75k (highest in a year) to 33k (highest in 3 months).
- And even the limited rise in January was driven by education and health services payrolls jumping 42k, a 5-month high, in what is discounted as a non-cyclical sector. Government payrolls fell 16k, the worst month since March 2025.
- We take this series with significant caution, not least because of the frequent sizeable revisions to the series, but the overall trend matches the slowdown in other indicators including ADP private payrolls (+22k in Jan) and overall BLS payrolls (which are currently estimated at +71k, with +75k private).
- Revelio estimates monthly changes in unemployment by looking at professional profiles sourced from professional networking websites eg LinkedIn: "RPLS provides a set of employment statistics derived from over 100 million professional profiles sourced from professional networking websites. After deduplication, adjustments for reporting lags, and reweighing to ensure that the data resembles the national distribution of the workforce, these data yield timely and detailed measures of employment dynamics."

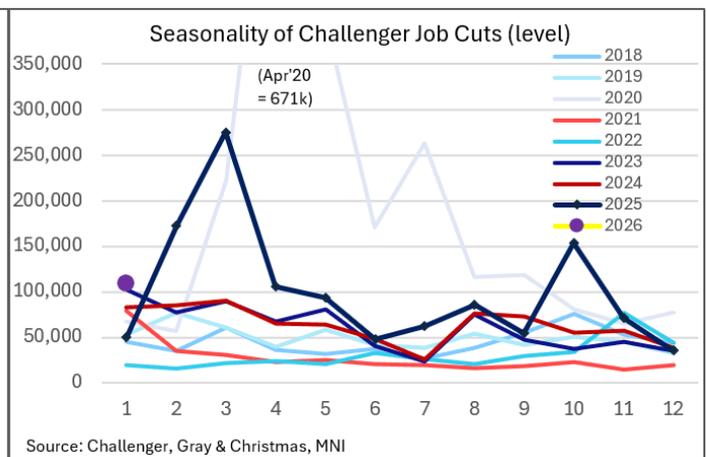
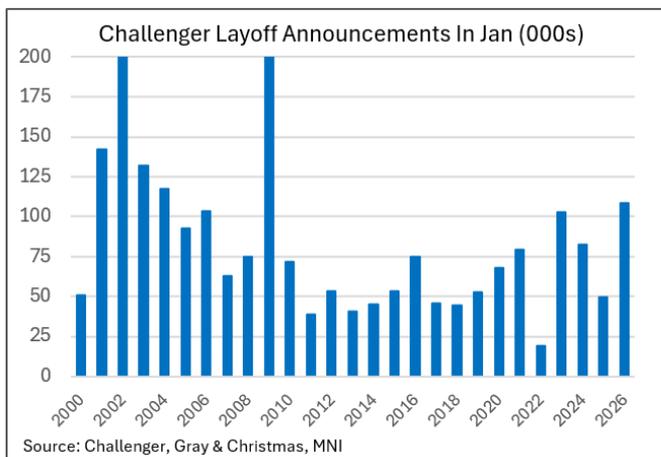


Challenger Points To Low Hiring And... High Firing To Open 2026

In a very weak Challenger report for January, job cut announcements surged 118% Y/Y to 108k, the highest for a January since 2009. That's another similar comparison to October (also highest since 2009) after somewhat more historically contained November and December readings. But while a lot of that could be attributed to Amazon both directly and indirectly, there was weakness across other major sectors including Transportation and Healthcare. And notably the month also saw the weakest hiring plans in the history of the series.

- The jump in Transportation sector job cuts, to 31.2k (+2,112% Y/Y) marked easily the highest for any month since Covid (65k in July 2020). And tech job cuts - up 198% Y/Y to 22.3k - stood out as the second-biggest hit. Both were attributed to Amazon, who announced 16k layoffs in the tech sector, and UPS's 30k in the Transportation sector after "severing ties with Amazon", per Challenger.

- Healthcare companies and health products manufacturers, which includes hospitals, announced 17.1k in cuts (up 494%) for the highest since April 2020 - perhaps notable as the healthcare sector more broadly has helped prop up overall national payrolls in recent quarters. The report notes "Healthcare providers and hospital systems are grappling with inflation and high labor costs. Lower reimbursements from Medicaid and Medicare are also hitting hospital systems. These pressures are leading to job cuts, as well as other cutting measures, such as some pay and benefits".
- Pharma (+15%) and Government (+281%) also saw notable upside but not nearly on the scale of tech/transport/healthcare (combined around 2.7k).
- Other major sectors, including Retail, Financial Activities, Warehousing, and Services, actually each saw sizeable %Y/Y declines.
- While the Amazon layoffs accounted for a little under half of the January layoff announcement surge so potentially can be discounted at least to some extent, also very concerning was the low level of hiring, with just 5.3k announced plans to hire, a 13% Y/Y drop for the worst January since the Challenger series began in 2009.
- All of these series are extremely volatile and announcements don't necessarily translate into action, but they don't challenge the narrative of a weakening labor environment over the past year. That said if broader layoffs start coinciding with lower hiring though, that would be a challenge to the "low hiring, low firing" equilibrium seen in recent quarters.



Selected Sell-Side Views

Ranked from largest to smallest NFP figure for January:

Citi: Residual Seasonality To Boost Jobs Before Weakening More Likely To Appear From The Spring

- NFP growth of 135k in Jan (private 140k) and u/e rate unchanged at 4.4%
- "January employment data is unlikely to materially change the outlook for the labor market after a drop in the unemployment rate in December alleviated some concerns over a further weakening in employment."
- "We would caution that seemingly stronger January job growth may heavily reflect issues with seasonal adjustment that have boosted January employment figures in the past."
- "Very low initial and continuing jobless claims, also like in previous years, suggest this residual seasonality is repeating. Fundamentals of low hiring, with substantial revisions lower to job growth in 2025 incorporated with January data, keep us seeing risks for the unemployment rate as tilted to the upside. This may become clearer in data by the spring."
- "Strong residual seasonality also means that a potential downside surprise to January employment data could be a more meaningful signal for the health of the labor market. Some data that have shown residual January strength in the past have not been as favorable in early 2026 readings, such as the Conference Board's labor market differential."

- “Benchmark revisions released with January figures should also show much lower employment in 2025, likely by around 700k, complicating the market reaction to the data.”
- “Data after March 2025 will also be revised, but these revisions will only be based on updated seasonal factors and birth/death adjustments, not on the official count of jobs. We will be curious to see if seasonal factor revisions at all change the familiar residual seasonal pattern in jobs data since 2023.”
- “Overall, we do not expect that January employment data will significantly change our view that the labor market will continue to gradually weaken, even if this weakening is not consistent each month and more likely to appear into the spring and summer.”
- More detail on birth/death adjustments: “One source of uncertainty with the January jobs report will be an update to birth/death model adjustments. This could imply downside risks to monthly employment figures as the updated B/D model is intended to bring monthly payroll estimates closer to “true” employment levels that have been consistently lower. The BLS briefly incorporated these new model adjustments in data from April 2024 to October 2024. The B/D adjustments in these months were about 50k lower than ones used in the previous year. But with B/D adjustments for January already negative (unlike many other months of the year), it is not clear to us how impactful the adjustments will be for January specifically (if B/D adjustments in the previous model were overstated because fewer new businesses were being created rather than more closing).”

Jefferies: Strong NFP Growth To Be An Outlier Versus Softer Alternate Indicators

- NFP growth of 110k in January (private 110k) and u/e rate unchanged at 4.4%
- “Since publishing [our] preview, we received a lot of questions looking for clarity on how to reconcile this “strong” jobs number against our expectation that the Fed is going to cut rates again at the next meeting in mid-March. Prior to this past week, we were limited to “trust me, the data is going to get worse” as a justification, but the releases of ADP Employment, jobless claims, JOLTS job openings, and the employment report from Revelio labs this week give us greater confidence that January NFP is likely to be an outlier in the payroll data when all is said and done.”
- “According to the JOLTS data, job openings fell to 6.542m in December, the lowest level since April 2020. The ratio of openings to unemployed people fell to 0.87x, which compares with 1.2x in the lead-up to the pandemic and over 2.0x during the period of maximum tightness in the labor market in early 2022 during the so-called Great Resignation. [...] Were it not for the demographic shifts caused by an aging workforce with lots of retirements, and a stark reduction in immigration flows, the unemployment rate would probably be closer to 5% today as well, rather than 4.4% as of December.”
- “We admit that even though a March cut remains our base case, it is possible that there is not enough time for a critical mass of negative data to accumulate before the meeting to get everyone on board for supporting a cut. If that is the case, then we would expect this cut to come in April instead.”

SocGen: View Didn’t Materially Change After Weak Indicators Last Week

- NFP growth of 80k in Jan and u/e rate unchanged at 4.4%
- “Our view on what to expect from the January jobs report did not materially change [last] week”.
- “For January, regional Fed surveys of firms in manufacturing and the services sector suggests that (private) payrolls continued to expand at a real solid pace, especially compared to the levels seen for the average of these surveys over the past two years. Furthermore, on a four-week average basis, initial claims have remained around their lowest levels seen since the start of last year, suggesting that the inflow into the pool of unemployed people did not pick up in January.”
- “Similarly, continued claims (people who claim benefits beyond the first week), smoothed over four-week windows, have come down since November (in line with the slight easing in the unemployment rate over that period) and now are close to levels not seen since Q1 2025. Comparing the four-week average of continued claims for the reference week of the January jobs report with that of the December jobs report, continued claims eased somewhat from 1892k in December to 1868K. This likely points to another month with a stable unemployment rate.”

UniCredit: Fall In Labor Demand Has Been Largely Offset By Lower Labor Supply Growth

- NFP growth of 80k in Jan and u/e rate unchanged at 4.4%
- “The January release will include benchmark revisions to payrolls for the year to March 2025. According to the BLS’ preliminary estimate, payrolls were overstated by a large 911k. The final revision is likely to be somewhat smaller but still large and negative. Fed Chair Jerome Powell previously said that Fed staff had

estimated that, after accounting for likely benchmark revisions, average monthly job gains have been broadly flat or even negative.”

- “Still, we expect the unemployment rate to have held at 4.4% in January, indicating that the fall in labour demand has been largely offset by lower labour-supply growth.”

Wells Fargo: Expect Net Revisions To Show 2025 Monthly Payroll Growth of 20-30k vs 49k Currently

- NFP growth of 80k in Jan and an u/e rate unchanged at 4.4% but with upside risks
- “A slower moderation in job postings and a rebound in small business hiring plans indicate some firming in labor demand since the summer. That said, January’s pickup is likely to overstate the recent improvement due to fewer layoffs in seasonally-sensitive industries after retailers and delivery firms hired fewer holiday workers last year.”
- They see upside risks to their call for an unchanged u/e rate at 4.4%. “Some mean reversion in the noisier household survey would lead to the number of unemployed rising and the number of employed falling in January. More broadly, signs of the labor market gradually loosening continue to pile up, with the most recent readings on the Conference Board’s labor differential and the ratio of job openings per unemployed worker falling to fresh cycle lows.”
- “The January jobs report will incorporate the 2025 annual benchmark to the establishment survey data. As a reminder, the benchmark revisions only cover employment through March 2025, and we expect the final revision to be somewhat smaller than the preliminary estimate of a 911K decline based on the most recent Q1 QCEW data.”
- “While monthly data from April onward will not be directly affected by the 2025 benchmark, updated birth-death model forecasts and new seasonal adjustment factors to the past five years will be additional sources of revisions”.
- “On net, we expect revisions, including the usual incorporation of late survey responses, to show monthly payroll growth in 2025 averaged closer to around 20K-30K than 49K as currently reported. Most of last year’s downgrade should occur in Q1:25 and leave the recent pace of hiring little changed. Nevertheless, the sharp stepdown in job growth last year will highlight the weaker support to household income and consumer spending growth from the labor market.”

JPMorgan: Warm Weather Could Have Acted As Small Jobs Boost But U/E Rate Could Be ‘High’ 4.4%

- NFP growth of 75k in Jan (private 70k) and u/e rate unchanged at 4.4%
- “In recent January reports, the November and December change has tended to get revised up, so the trend could soon look stronger. There is also a slight tendency for January to print above the trend that was known at the time of the release. Further, warm weather in the first half of January should help. Leading employment indicators, meanwhile, have been largely stable.”
- “Both ADP and Revelio estimates of private payrolls softened. The 22k gain in ADP may suggest some downside risk to our forecast, though we do expect a weather lift and weather is less relevant for ADP.”
- Benchmark revision: “employment growth from March 2024 to March 2025 should be revised down by about 800k, with the lower growth evenly spread across the 12 months.”
- “Updated birth/death forecasts from April 2025 onward will come from a new birth/death model [...] Instead of basing the birth/death factors solely on realizations from the past 5-6 years, the new model will also adjust the factor for each month based on the change in employment among establishments who reported employment in that month and the prior month. This model was also used as part of last year’s benchmark, though only to reset the birth/death factors for April 2024 to November 2024. By including the employment change as part of the model it will make the birth/death factors more procyclical, with the intention of reducing the size of future benchmark revisions. The model will only use the first print of the employment change, so that subsequent second and third revisions do not alter the birth/death factor.”
- Unemployment rate: “We think the increase in unemployment that occurred through 2025 is likely not over yet, though. While we expect the unemployment rate will continue to round to 4.4%, it could move from a low-side to a high-side reading, setting up a rise to 4.5% by February. [...] We expect no change in the labor force participation rate. Residual seasonality that was pushing 16-24 year old participation higher is largely over for now, though it will push participation lower again later in the year.”

Westpac: Unemployment Rate Expected To Edge Up Towards 5% Over 2026

- NFP growth of 70k in Jan and u/e rate unchanged at 4.4%

- “Nonfarm payrolls growth has essentially stalled over the past six months as labour demand abated and supply was restrained by decelerating population growth. In the short term, employment growth is likely to remain relatively weak and susceptible to a downside surprise.”
- “Over the course of 2026, employment growth should stabilise at a low but positive rate, seeing the unemployment rate edge up towards 5.0%, assuming constant participation. A more abrupt rise is possible but not probable given recent data. Without such a shock, the FOMC is unlikely to cut more than once more over the coming year.”

Morgan Stanley: Labor Market Slack More Important To Fed Than Benchmark Revisions

- NFP growth of 55k (private 90k) and u/e rate unchanged at 4.4%
- “We expect that payrolls in retail and in transport & warehousing rebound sharply – and temporarily – in January from a weak 4Q.” Seasonal factors not having caught up with changes in hiring could have been a factor here whilst looking ahead, “In our forecast, retail payrolls rebound from -25k in December to +30k in January. Transport and warehousing payrolls swing from falling to flat.”
- “In the other direction, we expect a 40k decline in federal government payrolls. The DRP, originally aimed at October resignations, appears to have been extended somewhat and perhaps enlarged somewhat. OPM Director Kupor indicated that about two-thirds of the resignations occurred in September, with the remaining one-third occurring at the end of the year. We have also seen commentary that the total size of the program was somewhat larger than the 150k estimate. We’ve allowed 40k in layoffs in January simply because the October decline in federal government payrolls, -160k, was so large.”
- On benchmark revisions, “more important to the Fed than the downward revision to payrolls is the amount of slack in the labor market. The unemployment rate is unaffected by the payroll revisions. A downward revision simply means that the breakeven pace for payrolls was lower than we knew and would suggest immigration controls have slowed labor force growth more sharply than previously estimated.”
- On new treatment of the B/D model: “The net method may imply some downward pressure on payrolls from the birth-death estimate as payroll growth has slowed since early last year. We would assume that slower payroll growth is related to net weakness in employment related to firm openings and closings. The BLS has applied this method on data from April through October 2024. It’s a short period, and while payrolls appeared no more volatile, it was a period in which job growth is reported to have slowed, and the net birth-death adjustment contributed to the slowdown. Still, the impact of the new method is likely small relative to overall benchmark revisions.”

Barclays: A Better Sense Of Underlying Trends, Benchmark Revision To Cut 1 Million Jobs

- NFP growth of 50k in Jan (private 50k) and u/e rate to round down to 4.3%
- The incoming numbers should provide a better sense of the underlying pace of job gains following some wild swings during Q4 25 amid various disruptions from the government sector.”
- “Uncertainty about our official forecast remains elevated, with various indicators and approaches sending different signals.”
- AHE seen at 0.3% M/M (3.6% Y/Y), in line with the average pace over 2025, with the workweek remaining at 34.2 hours.
- The u/e rate is expected to edge down from December’s unrounded 4.375%. “This reflects our view that January’s job gain exceeded the current breakeven pace, which we think is in the neighborhood of 15k/m. The tick-down in the unemployment rate would also be consistent with signals from initial claims, which have remained weak throughout January.”
- “Updated QCEW job counts for the April 2024-March 2025 period, released in December, suggest that the actual benchmark revision could possibly even exceed that initial estimate. Although there is some uncertainty about next week’s actual magnitudes, our best guess is that the revision will trim the job count by about 1.0mn, or roughly 85k/m. But any way we slice it, the magnitude of the revision seems quite likely to surpass the the 2024 benchmarking, which trimmed 598k jobs (~50k/m), and the 2023 revision, which trimmed 187k jobs (~15k/m).”
- On B/D adjustments: “the BLS will revisit those forecasts, incorporating more up-to-date information about discrepancies through Q1 25. In principle, these revisions could be meaningfully downward, given that the models had overshot true birth-death effects over the remainder of the 2025 benchmark period. However, we do not have much confidence about the likely magnitude of these revisions.”
- “Starting with next week’s estimates, the BLS will amend the aforementioned time series models to incorporate sample-based information each month. Specifically, the fitted regression will be adjusted incorporate the sample-based estimate of the employment change from the CES. [...] Our sense is that the

tweaked procedure will make the real-time monthly estimates more sensitive to employment developments in the CES sample. Although this is a step in the right direction, we are skeptical that this would have meaningfully reduced the large revisions seen in recent years.”

CIBC: Poor Readings For Jan and Feb Data Needed For Fed To Cut In March

- NFP growth of 50k in Jan and u/e rate unchanged at 4.4%
- “The headline figures will look ok, but the details won’t be so great. We are expecting job growth of 50K, driven entirely by health care, but there is a high risk of the pattern of negative revisions continuing. Cold weather in the month may also be a factor in weighing down hiring.”
- “We expect that the jobless rate will be unchanged at 4.4%, but see the participation rate and employment-to-population ratio to move down a tick.”
- “It will take poor readings from both January and February data for the Fed to cut in March. If not, the first cut of 2026 will likely be around the middle of the year.”

BofA: Benchmark Revision Would Need -1mln To Surprise

- NFP growth of 45k in Jan (private 40k) and u/e rate unchanged at 4.4%
- “The weaker jobs forecast reflects expected downward revisions tied to the updated Birth-Death model. That aside, we think job growth was steady at about 75k.”
- “We would see signal value in i) Movement in the Jan u-rate, up or down, ii) The size and timing of the benchmark revisions, especially if they are large and spill into early 2025 instead of being concentrated in 2H24 and iii) An outlier payroll print in Jan, especially if it is significantly weaker than the current breakeven estimate of 20k.”
- Benchmark revision: “We estimate payrolls as of Mar '25 will be revised down by 800k-850k (65k-70k/month), still historically large but slightly smaller than the preliminary estimate of -911k. Most of the revisions should fall in 2H24, particularly in leisure & hospitality, trade & transportation and professional & business services.”
- “If the downward revisions are modest and concentrated in 2H24, they should be less concerning for the Fed because policymakers are more focused on the recent outlook. The Fed has already been penciling in a 60k/month downward revision. Hence, this would further reinforce the Fed's optimism about the labor market. [...] But larger downward revisions (1mn+) or clear evidence that job growth weakened meaningfully in early 2025 would skew risks in the dovish direction. The Jan u-rate will matter even more to the markets than payrolls.”
- Birth/Death model: “Also, Apr '25 onwards, we think the updated firm Birth-Death model will lead to a 20-30k downward revision to monthly jobs.”

Golman Sachs: Birth-Death Model Updates Could Drag 30-50k

- NFP growth of 45k in Jan (private 45k) and u/e rate unchanged at 4.4% but with risks skewed lower
- Negatives: “[W]e estimate that the birth-death model—which will be updated with this report—could contribute 30-50k fewer jobs to payroll growth on a seasonally adjusted basis than in recent months; big data indicators suggested a modest pace of private sector job growth; and we expect unchanged government payrolls.”
- Positives: “[T]he pace of layoffs—a particularly important determinant of net job growth in January—remained subdued. However, the seasonal factors have evolved to expect smaller declines in employment in recent Januarys, limiting the potential boost from this channel.”
- “At the industry level, we expect rebounds in retail trade and construction employment. We do not expect a drag from winter storm Fern, which formed about a week after the refence week.”
- Unemployment rate seen unchanged at 4.4% in January but with risks skewed to a decline: “the bar for rounding down to 4.3% is not high from an unrounded 4.38% in December and the January unemployment rate appears to suffer from modestly negative residual seasonality (the unrounded unemployment rate has declined in each of the last three Januarys).”
- AHE seen rising 0.35% M/M, “reflecting positive calendar effects”.
- Revisions: Cumulative payroll growth between April 2024 and Mar 2025 likely 750-900k lower than shown in existing payrolls data, “somewhat smaller” than the 911k implied by the preliminary benchmark estimate.
- “The BLS will also update the net birth-death forecasts in the post-benchmark period (April 2025-December 2025) to incorporate information from the QCEW and the monthly payrolls survey, and a downward revision to the post-benchmark period appears likely. Starting with this month’s report, the birth-death model will incorporate current sample information each month. This methodological change is intended to

reduce the magnitude of annual revisions; however it could contribute to greater month-to-month volatility in payrolls readings.”

TD Securities: Risk Of 4.3% U/E Rate Greater Than 4.5%

- NFP growth of 45k (private 40k) and u/e rate unchanged at 4.4% but with risk lower
- “We expect January payrolls to show that job gains remain subdued at 45k (consensus: 70k), in line with the recent trend. Private payrolls likely saw a 40k gain, supported by outsized gains in healthcare and construction.”
- “We look for a modest 5k gain in government payrolls. Private payrolls continue to be supported by a few sectors, underscoring the precarious position of the labor market despite recent stabilization.”
- “The UE rate likely went sideways at 4.4%, reflecting labor market stabilization that led to a pause in cuts at the January FOMC. [...] We view risks as largely hawkish given the recent move lower in continuing claims, and believe a decline to 4.3% is more likely than an increase to 4.5%.”
- “Our forecast materializing would raise the risk that the Fed stays on hold for longer. The labor market showing further signs of stabilization would allow the Fed to stay patient as they assess inflation risks after January retail repricing by firms.”
- “The Fed is still likely to cut by the middle of this year. Lower labor market risks just shifts the burden of further cuts to the inflation side of the mandate. Our expectation for inflation to peak in Q2 would give the Fed confidence that they would not be cutting prematurely.”

Scotiabank: ACA Expiration To Weigh On Jobs Growth But ICE Detentions To Weigh On Workforce

- NFP growth of 0k and unemployment rate and u/e rate could dip to 4.3%
- “I’m more confident in my below consensus reading of 0k after this past week’s readings. I think there is more downside than upside risk to 0k.”
- Why zero jobs growth? “One reason is that seasonal adjustment factors are expected to be a notable weight against job growth. Last year’s SA factor for January was the lowest on record when comparing like months of January over time. I’ve gone with a similar SA factor reflecting the recency bias in how they are calculated. This means that the change in payrolls would be tamped down relative to, say, a more middle-of-the-road SA factor.”
- “Then it turns to exactly how weak seasonally unadjusted hiring will be. January is typically a down month for hiring in the US before applying seasonal adjustments. Last January, for instance, saw about 2.83 million Americans lose their jobs or not gain new ones before seasonality was controlled (NSA). I’m estimating only a slightly worse NSA number of about 2.9 million this time and think the risks are tilted more to the downside than the upside.”
- “Why expect a weaker seasonally unadjusted drop in jobs this January? One reason is concern that health sector hiring might stall” because of “expired Affordable Care Act subsidies that ended as the calendar flipped over to 2026, citing studies using a model to suggest 286-340k jobs might be lost this year because of the ACA expiration.” “That’s big if so, since the only thing propping up private nonfarm payrolls has been the health care sector.”
- They also cite two wildcards from the weather and ICE. On the latter “An estimated 73,000 were detained in January. If, say, we applied about a 50% labour force participation rate, then this would imply around 30–40k who were directly held out of the workforce by ICE. The indirect effect could be larger as people cower in fear, avoiding public places including work.”
- “The final benchmarking revision could be more or less [than the -911k preliminary estimate]. The BLS had also announced that starting with this month’s report they will provide updated birth-death model adjustments that include rolling current sample information. The growth in payrolls since March 2025 will perversely benefit from the downward revision to that month in the official series. That’s because the likely ongoing overstatement of payrolls since March won’t be addressed until the preliminary annual benchmarking revisions to March 2026 payroll levels until September. Treat carefully.”
- “I like 3 cuts in our forecast this year, down to 3%, which is a bit more than consensus and markets are expecting on the amount and timing. We have enough evidence that the job market is rolling faster than inflation risk is rising. That may change and there is enormous uncertainty going forward, but this was originally conditioned as a debate around which part of the dual mandate would deteriorate the most and the answer would determine what to do on policy. We’re closer to that answer now. Jobs are teetering, even though inflation risk remains and faces upside risk going forward.”

MNI Policy Team Insights

MNI INTERVIEW: ISM Services Set To Grow With Little Hiring

By Evan Ryser (Feb 4, 2026)

WASHINGTON - U.S. service sector growth will persist this year, supported by AI investments and a fiscal boost from the Trump administration, but that will probably not lead to a lot of job growth and could be accompanied by fresh inflation pressures, Institute for Supply Management services chair Steve Miller told MNI.

"We have a continued positive trend on the services sector in terms of growth. We've been on a direct positive trend since March," Miller said in an interview. "It's actually watching the curve shift up. I think that's a real positive sign."

The January ISM services survey remained at 53.8. The ISM improvement came as the new order index fell 3.4pt to 53.1 and new export orders plunged 9.2pt to 45.0. The employment index eased 1.4pt to 50.3 and the prices index increased 1.5pt to 66.6.

Miller is expecting demand to tick higher, portending faster growth overall for the services PMI. "I'm expecting to see new orders go up another percentage point going into the summer. It seems like there's generally positive commentary."

"We've been an expansion in the services sector for 19 straight months, and over the last two months we actually shifted to a positive trend in the 12-month average for the PMI," he said. (See: MNI INTERVIEW: US Manufacturing Rebound Not Yet A Trend - ISM)

LITTLE HIRING

While the employment outlook has improved, it looks like overall hiring hasn't picked up much, Miller said. "The employment index has continued on a positive trend that started back in the July timeframe, from 46.9 up into the 50s," he said. "It's been a very weak increase but its going in the right direction." A level at 50 represents the breakeven point dividing expansion and contraction.

Miller said there will be jobless growth through the year. "The short answer is, yes, the longer answer is, there's winners and losers, which I think are going to be offsetting each other."

PRICES PERKY

The prices index continued to creep up, now 0.2pt above its 12-month seasonally adjusted average of 66.4, Miller said. "But if you look back just to April when the 'Liberation Day' stuff started, it's flat."

Still, there is a risk of some increased price pressures this year. "If we start injecting money like it seems the Trump administration is on a tear to make sure happens, I think that's a big risk on inflation."

He added that "the last time we saw a string of 60s was back in 2023. If we see that to start accelerating, and we see backlog start to increase, I think we can say there's a supply chain impact that's driving some of the economic behavior. But business activity is very high."

MNI INTERVIEW: Fed To Keep Cutting On Jobs Weakness - Tilley

By Pedro Nicolaci da Costa (Feb 2, 2026)

WASHINGTON - A weak labor market and improving inflation will prompt the Federal Reserve to keep cutting interest rates at its next few meetings, former Philadelphia Fed officer and economic adviser Luke Tilley told MNI.

Tilley said the nomination of Kevin Warsh to take over as Fed chair from Jerome Powell when his term ends in May was a victory for central bank independence, but will not drastically alter the course of monetary policy.

"We don't have inflation pressure, I think the labor market is going to get worse, so we've got three cuts before the middle of the year – two of them I guess would be with Powell," Tilley said in an interview Monday. (See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts This Year)

Warsh would be inclined to continue easing but only if economic data call for it, not because he is somehow beholden to President Donald Trump, Tilley said.

"The president has chosen an independent thinker. Of the candidates that were being considered it's one of the better ones in terms of markets and to preserve Fed independence," said Tilley, now chief economist at Wilmington Trust. "I don't think that he's going to come in and push for lower rates because of the administration. He could do it because he believes that the way things should go."

INSTITUTIONAL CONSTRAINS

Tilley said it remains unclear how much Warsh will be able to overhaul the policy framework on everything from economic modeling and rates policy to the balance sheet given institutional constraints within the Fed.

"It opens up the question of, are we going to get wholesale changes to the way the policy is being done? It's a lot easier to think and speak outside the box when you are outside of the box. When, when you get there, it's much harder to push and implement that change," Tilley said. (See MNI POLICY: Regional Fed Banks Could Face Revamp Under Warsh)

"It is a committee and there's a very large, entrenched research staff, I think it's lost on the public sometimes how much influence the staff has in terms of guiding policy and the discussion. So I think there could be some larger changes to how policy is carried out over the course of years, but I don't see it being a whiplash moment of, 'oh my goodness, we have this new chair, and everything is going to change right away.'"

That will be true even for balance sheet policy, of which Warsh is a long-time skeptic and critic. "I think that is a tough, uphill climb to make immediate changes to the way that the balance sheet is run," Tilley said.

Warsh has also expressed skepticism about things like forward guidance and the Summary of Economic Projections, which Tilley said could be candidates for medium-term reform.

"I wouldn't be surprised if there is a long-term review into the Fed's monetary policy and you end up getting less communication at some point than you have now," he said, adding this would not come without its own dangers. "If you're going to pull back on communication, you know you could have more market volatility."

MNI INTERVIEW: US Manufacturing Rebound Not Yet A Trend - ISM

By Evan Ryser (Feb 2, 2026)

WASHINGTON - U.S. manufacturing activity is still on shaky ground despite the first month of expansion in a year and a sharp rebound in new orders that could be temporary, Institute for Supply Management manufacturing chair Susan Spence told MNI.

"A fair number of comments said customers are restocking the shelves after the holiday, and then there was a little bit about avoiding the next round of tariff threats and tariff circus," Spence said. "If it really is a replenishment thing and post holiday ordering customer inventory is so low, then maybe what we're going to see is you have this nice uptick but that's it. And it gets weeded down."

The ISM manufacturing chief said that despite the strong January report, she does not have confidence that the PMI will remain above 50 in coming months. "In any other time it would, but it doesn't yet," she said, wanting to see a couple more months of increased demand. "The commentary, the sentiment, and the confidence has been so consistently bad that this report doesn't yet give me confidence."

The ISM manufacturing index increased by 4.7pt to 52.6 in January, well above consensus expectations for a smaller increase, returning to expansionary territory for the first time in 12 months. The composition of the report was strong, with gains in the new orders, production, and employment components.

WEATHERING DISRUPTIONS

Survey respondents' commentary however were somewhat at odds with the improvement in the index. There are positive signs for the start of the year, but they are tempered by indications that January is a reorder month after the holidays, Spence said.

"There's arguments to be made for both sides," she said. But "I am glad we have an underlying strong economy because we're weathering" trade disruptions.

New orders surged 9.7pt to 57.1, the highest since February 2022. Production jumped 5.2pts to 55.9, and the backlog of orders increased 5.8 points to 51.6. The new export orders component increased 3.4pts to 50.2. The prices paid measure increased 0.5pts to 59.0.

The employment subindex rose 3.3pt to 48.1, still in contraction territory. "Companies not hiring, holding with who they have -- that's worrisome, too. Does it mean that we're going to have a huge uptick in the unemployment? I don't think so. But the longer term decisions in these companies to hire more people, that's not yet happening because they're not confident."

Of the six largest manufacturing industries, five expanded in January, said Spence.

MNI: Warsh Credible Pick, Needs To Earn FOMC Support: Ex-Offis

By Jean Yung and Pedro Nicolaci da Costa (Jan 30, 2026)

WASHINGTON

Former Fed officials Friday welcomed the nomination of Kevin Warsh as Federal Reserve Chair, telling MNI he is a seasoned central banker who knows the institution but he will need to work to persuade the FOMC on his policy ideas and earn the institution's trust as a leader.

Warsh's argument that "we can lower interest rates a lot" to help bring down mortgage rates and revive the housing market would be a minority view among current policymakers, while his preference for a smaller Fed balance sheet would require a number of regulatory changes and could end up disrupting market functioning, former officials said.

"Kevin Warsh is an experienced central banker having served as a Fed governor during normal economic times as well as during the Global Financial Crisis," former Cleveland Fed President Loretta Mester told MNI, noting his knowledge of both financial markets and academic debate as a partner and advisor at Duquesne Family Office and Hoover Institution visiting fellow.

"As with any new chair, he will have to establish his credibility and show that he is making monetary policy decisions independently of any political influence and basing those decisions on sound economic reasoning in pursuit of price stability and maximum employment for the American public."

MARKET SAVVY

Former Atlanta Fed President Dennis Lockhart hailed Warsh as "a fine choice," lauding his significant experience as a policymaker during the treacherous financial crisis. Warsh became the youngest person ever to join the central bank, as a Fed governor from 2006 to 2011.

"He is very market savvy and will communicate well with Wall Street. He is an excellent communicator overall and will be adept at translating economic and policy information to diverse audiences," Lockhart told MNI.

His nomination comes against the backdrop of significant pressure from President Donald Trump, who has proclaimed his preference for the Fed to slash interest rates to around 1%, down from the range of 3.5% to 3.75% today.

REFORM AGENDA

In recent months, Warsh has argued the Fed's hesitancy to cut rates has hurt its credibility and led to stagflation. He has criticized the Fed's operating framework, its models and staff. Rather than benefiting Wall Street, the Fed should shrink its balance sheet to "redeploy that money to Main Street so that Main Street can have the strong economy that we're seeing in financial markets" and create room for lower interest rates.

Former policymakers said Warsh was likely to push for these reforms over time. "He has clearly laid out his criticisms of the institution in recent years, and I would expect him to act on them over time," Lockhart said.

However, shrinking the balance sheet significantly may be more problematic.

"It's unclear he is going to get to a smaller balance sheet without disrupting funding markets," Donald Kohn, a former vice chair of the Fed who worked with Warsh during the financial crisis, told MNI. "There are ideas around -- lower liquidity requirements for banks, easier use of the discount window, but I don't think we've heard from Kevin how he would implement this."

Kohn is also not sure how a possible Treasury-Fed accord might look like in practice, which Warsh discussed with MNI back in October. "The Treasury should be in charge of debt management most of the time, with rare overrides by Fed at the zero lower bound. I don't think this requires an accord but he may have other things in mind," Kohn said. (See: MNI: Warsh Wants Fed Out Of U.S. Treasury's Business)