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All Signal, No Noise

MARKET ANALYSIS

U.S. Employment Insight: Feb 2026

MNI View: Strong NFP Report Delays Rate Cuts

Feb 12, 2026 - By Chris Harrison and Tim Cooper

Quick Take: Robust NFP Report Contradicts Softer Alternative Indicators, Delaying Rate Cut Expectations

- The BLS nonfarm payrolls report for January was far stronger than expected, going against various alternative indicators that either surprised lower or were outright soft in the past two weeks.
- Nonfarm payrolls rose 130k (sa, cons 65k) after negligible two-month revisions of -17k (mainly in Nov).
- Private payrolls saw a larger beat at 172k (sa, 68k cons) and a two-month revision of +49k. A little of that gloss was taken off by particularly strong 124k rise from health & social assistance, a cyclically insensitive category that has been a lifeline for private sector job creation.
- The benchmark revision saw cumulative payrolls growth revised down by -862k in NSA terms (-898k SA) over the twelve months to March 2025, its largest downward and absolute revision in recent history.
- That was towards the more negative end of expectations but within a margin of error. Still, private sector ex health & social assistance payrolls are now estimated to have declined by a heavy -326k across 2025 (and that's with the benchmark revision only going to March) vs an already tepid 20k increase previously.
- Sticking with NSA details, nonfarm payrolls 'only' fell by -2.65mln in January after -2.91mln in Jan 2025 (revised from -2.83mln due to the benchmark revision) and -2.89mln in Jan 2024.
- The Household Survey was anticipated to provide a cleaner read on current labor market conditions in January than the much-revised Establishment Survey, but whether it accomplished that is questionable.
- There were clearly strong signs, such as the unemployment rate of 4.283% not just below the consensus of 4.4% and 4.375% prior, but also the lowest since July. However, a response rate of 64.3% is the 3rd lowest in history, with only the prior 2 surveys having been lower. Unlike the Establishment survey, the BLS notes, "The severe weather did impact the collection of household survey data", and that is reason enough to take the results with a grain of salt.
- The release drove a sizeable front-loaded hawkish reaction after a firmly dovish build-up following the previous week's slew of weak labor indicators (all reviewed below) and more recently Trump administration comments ahead of the release plus weak retail sales data.
- A next Fed 25bp cut has tilted back to being fully priced for July rather than June whilst a second 25bp cut is still fully priced for December.
- It also spurred multiple analyst view changes, eyeing later cuts or none at all, including from CIBC, Citi, Commerzbank, ING, Natixis, TD Securities and Wells Fargo.
- Initial Fedspeak has stuck to previously drawn lines: hawks Hammack and Schmid welcomed the report and don't support near-term rate cuts whilst outright dove Governor Miran still sees many reasons to cut.
- Market attention immediately turns to January CPI on Friday but with another round of February NFP and CPI reports due before the next FOMC meeting on March 17-18.

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Payrolls Summary Statistics For January 2026

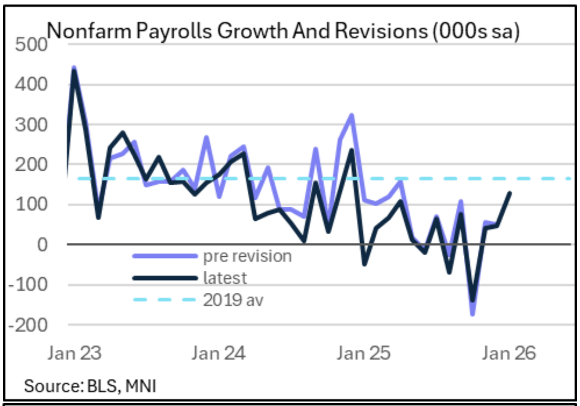
	Actual	Cons.	Surprise on mth	2-mth Rev	Dec	Nov	Net Surprise
Monthly growth (000s)							
NFP	**130**	65	65	**-17**	-2	-15	48
Private	**172**	68	104	**49**	27	22	153

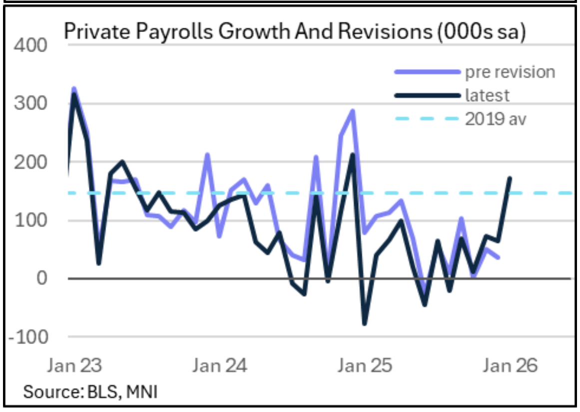
	Actual	Cons.	Prior mth	Cycle low		2019 av
U/E rate (%)	**4.28**	4.4	4.38	3.45	Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	**Actual**	Cons.
AHE (%)	**0.41**	0.3	**3.71**	3.7

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

Private Payrolls Drive NFP Beat (With Caveats) After Major Revisions





- Nonfarm payrolls growth was far stronger than expected in January at 130k (cons 65k) after negligible two-month revisions of -17k (mainly in Nov).
- Private payrolls saw a larger beat, both with the 172k (68k cons) in January but with also a two-month revision of +49k (fairly evenly split over Dec and Nov). However, taking some of the gloss off, the Jan increase was led by a huge 124k rise from health & social assistance, a cyclically insensitive category that has been a lifeline for aggregate private sector job creation.
- Latest three-month averages after significant revisions, which we touch on below: NFP at 73k, private at 103k and private ex health & social assistance at 25k.
- The annual benchmark revision was -862k nsa (or -898k sa) i.e. the amount cumulative payrolls growth was lowered over the twelve months to Mar 2025.
- We had expected somewhere in the region of -700k to -800k and had seen a median estimate of -825k, but -862k is still within the analyst range seen. It leaves a relatively small improvement vs the -911k in the preliminary estimate.
- See the table below for latest monthly profiles, factoring in this benchmark adjustment up to Mar 2025 plus subsequent revisions from the new birth/death model and revised seasonal adjustment factors over the past five years.
- The heaviest downward revisions were concentrated back in Nov 2024-Jan 2025 along with May 2024.
- Looking at what revisions mean for latest data, NFP growth was 5k/month higher in 4Q25 than previously thought but 28k/month lower in 3Q25. Private payrolls fared relatively better, revised up an average 20k/month in Q4 after -19k/month in Q3 with these revisions driven by non-healthcare.
- However, largely owing to the benchmark revision, what was seen as just 20k of jobs creation over 2025 for private ex health & social assistance is now estimated to have been a heavy -326k decline.

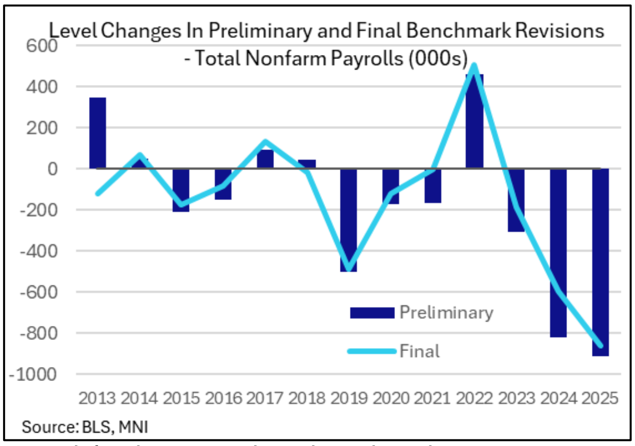
Seasonally Adjusted Payroll Growth Profiles

	Nonfarm payrolls						Private Payrolls						Private Payrolls ex Health & Social Assistance					
	M/M Growth		Revisions		Annual Growth		M/M Growth		Revisions Change		Annual Growth		M/M Growth		Revisions Change		Annual Growth	
	Latest	pre-rev	Change	Qtrly av	Latest	pre-rev	Latest	pre-rev	Change	Qtrly av	Latest	pre-rev	Latest	pre-rev	Change	Qtrly av	Latest	pre-rev
Jan 24	175	119	*56*				126	73	*53*				49	-7	*56*			
Feb 24	206	222	*-16*				135	151	*-16*				39	62	*-23*			
Mar 24	228	246	*-18*				143	169	*-26*				58	87	*-29*			
Apr 24	64	118	*-54*				63	129	*-66*				-20	46	*-65*			
May 24	78	193	*-115*				45	160	*-115*				-20	81	*-101*			
Jun 24	87	87	*0*				78	66	*12*				9	-6	*15*			
Jul 24	53	88	*-35*				-8	40	*-48*				-56	-22	*-35*			
Aug 24	9	71	*-62*				-27	33	*-60*				-72	-21	*-51*			
Sep 24	155	240	*-85*				142	208	*-66*				55	129	*-74*			
Oct 24	33	44	*-11*				-4	-1	*-3*				-85	-85	*0*			
Nov 24	134	261	*-127*				116	244	*-128*				39	165	*-126*			
Dec 24	237	323	*-86*		1,459	2,012	212	287	*-75*		1,021	1,559	142	212	*-69*		138	641
Jan 25	-48	111	*-159*				-76	79	*-155*				-135	17	*-152*			
Feb 25	42	102	*-60*				40	107	*-67*				-8	50	*-58*			
Mar 25	67	120	*-53*	*-91*			67	114	*-47*	*-90*			-1	47	*-48*	*-86*		
Apr 25	108	158	*-50*				99	133	*-34*				23	54	*-31*			
May 25	13	19	*-6*				20	69	*-49*				-45	-3	*-42*			
Jun 25	-20	-13	*-7*	*-21*			-45	-27	*-18*	*-34*			-106	-86	*-20*	*-31*		
Jul 25	64	72	*-8*				65	56	*9*				-18	-15	*-2*			
Aug 25	-70	-26	*-44*				-20	10	*-30*				-43	-30	*-13*			
Sep 25	76	108	*-32*	*-28*			68	104	*-36*	*-19*			13	45	*-32*	*-16*		
Oct 25	-140	-173	*33*				13	1	*12*				-35	-49	*14*			
Nov 25	41	56	*-15*				72	50	*22*				12	-8	*20*			
Dec 25	48	50	*-2*	*5*	181	584	64	37	*27*	*20*	367	733	15	-2	*17*	*17*	-326	20
Jan 26	130						172						49					

Source: Bloomberg Finance L.P., BLS, MNI. Color shading is across the 2024-25 range so some negative readings still show as red (hotter)

Historically Large Negative Benchmark Revision Within Estimates

The benchmark revision was within a wide range of estimates and shouldn't materially move the needle although it was possibly on the more negative side of Fed expectations. That said, as noted in the preview, if it is seen as on the more negative side then it's not necessarily a dovish development as 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 in a backdrop of subdued trend jobs growth, per Waller's argument.



- The annual benchmark revision saw cumulative payrolls growth revised down by -862k in NSA terms (-898k SA) for its largest downward and absolute revision certainly in recent history.
- We had expected somewhere in the region of -700k to -800k and had seen a median estimate of -825k, but -862k is still within the analyst range seen (even a limited range of estimates we'd seen ran from -700k to -1mln).
- Fed Chair Powell had previously noted that prior NFP growth could be overstated by 60k/month "and, you know, that could be wrong by 10 or 20 in either direction". It gave a crude range of 720k +/- 240k when thinking about these benchmark revisions, but it's hard to know whether that was directly from today's benchmark revision to Mar 2025 or factored in estimates to new birth/death models going forward/potential subsequent benchmark estimates.
- The -862k compares with -598k in last year's benchmark revision as the split between stronger-looking nonfarm payrolls figures and more comprehensive QCEW data has widened further.
- Further, it saw little relative improvement compared to the -911k in the preliminary estimate released in August, despite a subsequent QCEW update in December looking set for a smaller downward revision.
- Within the details, the private sector unsurprisingly drove this with -845k. Largest negative contributions were seen from leisure & hospitality (-152k), professional & business services (-131k), retail trade (-127k) and wholesale trade (-113k).
- Interestingly, overall monthly downward revisions were particularly concentrated Nov 2024-Jan 2025 and May 2024 rather than suggesting immigration policies under the second Trump administration from late January onwards had an immediate impact (considering QCEW is based on unemployment insurance records with lower scope for including undocumented workers).

BLS Benchmark Annual Payrolls Revisions: Preliminary vs Final

	Total nonfarm					Private sector				
	Prelim.		Final (NSA)		Final - Prelim	Prelim.		Final (NSA)		Final - Prelim
	000s	%	000s	%	000s	000s	%	000s	%	000s
2013	345		**-119**	-0.1	-464	333		**-126**	-0.1	-459
2014	47		**67**	*	20	7		**105**	0.1	98
2015	-208		**-172**	-0.1	36			**-232**	-0.2	
2016	-150		**-81**	-0.1	69			**-151**	-0.1	
2017	95	0.1	**135**	0.1	40	98		**133**	0.1	35
2018	43		**-16**	*	-59	-17		**-104**	-0.1	-87
2019	-501	-0.3	**-489**	-0.3	12	-514	-0.4	**-505**	-0.4	9
2020	-173	-0.1	**-121**	-0.1	52	-229	-0.2	**-184**	-0.1	45
2021	-166	-0.1	*	*	166	-421	-0.3	**-256**	-0.2	165
2022	462	0.3	**506**	0.3	44	571	0.4	**607**	0.5	36
2023	-306	-0.2	**-187**	-0.1	119	-358	-0.3	**-249**	-0.2	109
2024	-818	-0.5	**-598**	-0.4	220	-819	-0.6	**-635**	-0.5	184
2025	-911	-0.6	**-862**	-0.5	49	-880	-0.7	**-845**		35

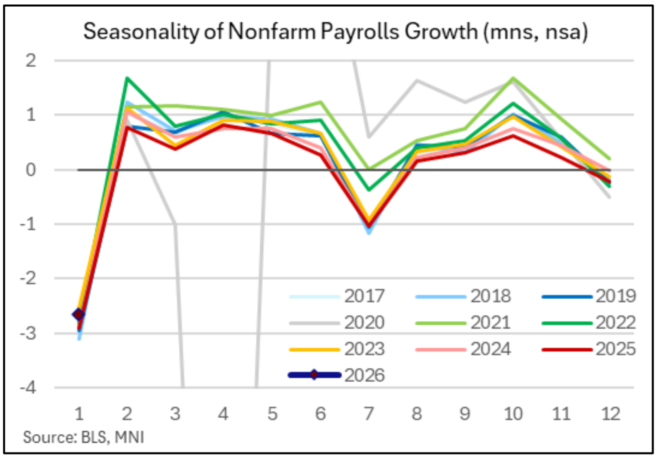
* Less than 0.05% or 500 jobs

Many of the individual industry series show larger percentage revisions than the total nonfarm series, primarily because statistical sampling error is greater at more detailed levels than at an aggregated level.

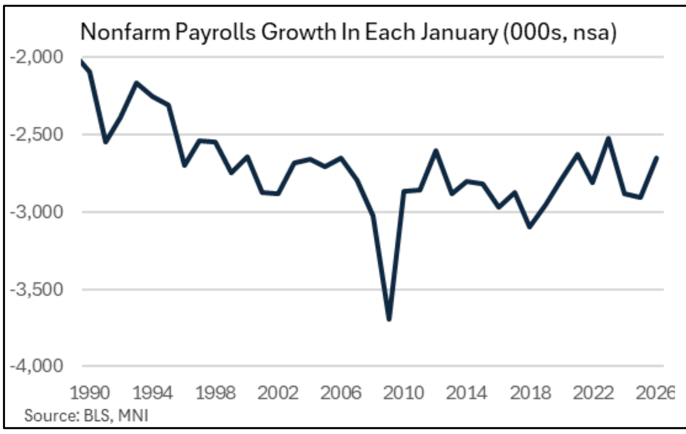
Source: Bloomberg Finance L.P., BLS, MNI

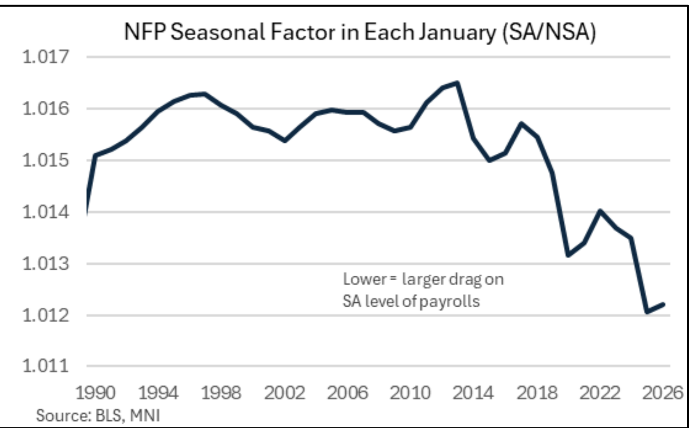
January Actual Layoffs Low By Recent Year Standards

January non-seasonally adjusted data compared strongly with prior Januarys, continuing to support the description of a “low fire, low hire” labor market considering January sees heavy net layoffs after the holidays. Seasonal factors were also particularly unfavorable in the past two Januarys. February data set for release on Mar 6 should offer a better test of hiring demand.



- Chiming with a labor market in a “low fire, low hire” state, nonfarm payrolls ‘only’ fell by -2.65mln in January in non-seasonally adjusted terms.
- It follows -2.91mln in Jan 2025 (revised from -2.83mln due to the benchmark revision) and -2.89mln in Jan 2024. For broader context, nonfarm payrolls saw an average decline of -2.94mln the five Januarys through 2015-19 ahead of the pandemic whilst the -2.52mln in Jan 2023 (when the unemployment rate was essentially at multi-decade lows) was its smallest downward revision since 1995 (when the level of payrolls was 25% smaller).
- Of this relative improvement of 258k in Jan 2026 vs 2025, 351k came from the private sector of which 102k was from the health & social assistance industry with zero net layoffs this year, a sector that has been dominating payrolls growth. The 93k relative deterioration for the public sector over that period came on a -438k outright decline vs -345k a year ago.
- It’s worth remembering that this 258k relative improvement is likely to look lower after next year’s benchmark revisions, at least judging the magnitude of this week’s benchmark revision and broader QCEW trends. Nevertheless, it still likely points to firms remaining cautious about firing with skill shortages still anecdotally reported in some industries.
- January developments were therefore provisionally fairly encouraging then in NSA terms, which showed with a 130k monthly increase in seasonally adjusted terms vs consensus of 65k.
- It could have been stronger though as the seasonal factor at 1.0122 in Jan 2026 saw little ‘improvement’ from a downward revised 1.0121 in Jan 2025 (initially 1.0125) for its lowest in at least the last forty years. We show this as SA/NSA, with a lower figure boosting the SA value by less. To give a very crude idea of sensitivity here, were the Jan 2025 factors unrevised the -48k monthly decline now shown in the data would have been a 15k increase.

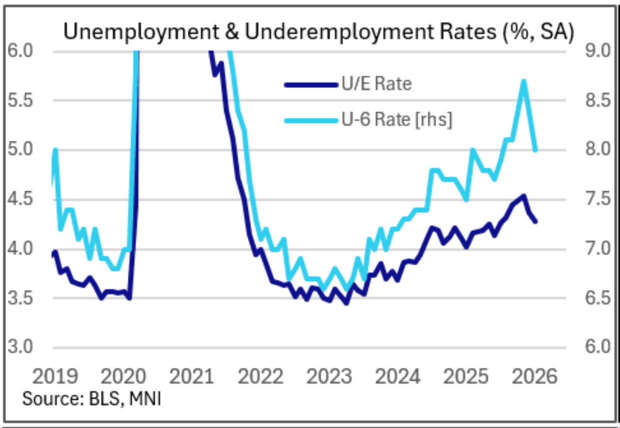


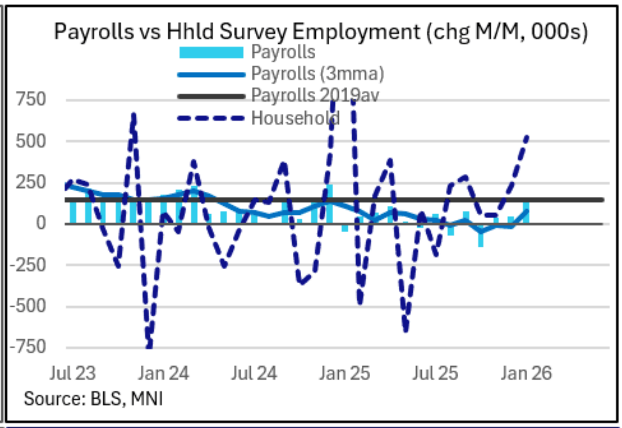


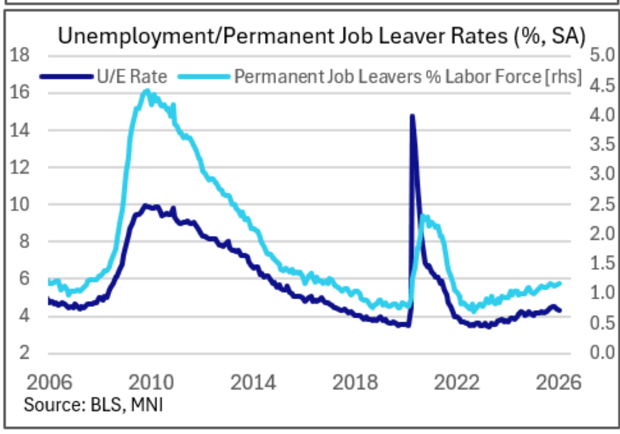
Strong Household Survey Contains Several Questionable Findings (1/2)

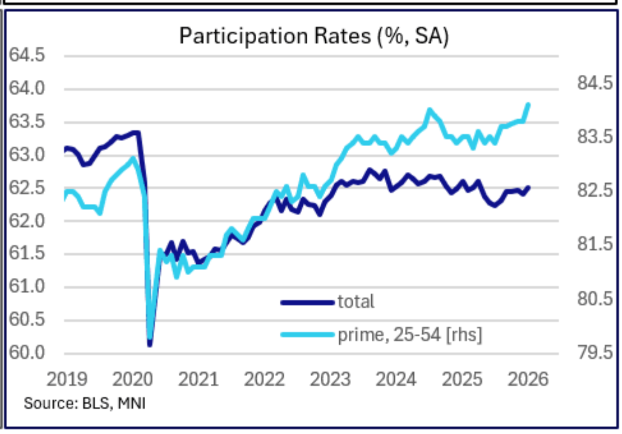
The Household Survey was anticipated to provide a cleaner read on current labor market conditions in January than the much-revised Establishment Survey. Whether it accomplished that is questionable. It showed a stronger labor market than expected, with the unrounded unemployment rate of 4.283% not just below the consensus of 4.4% and 4.375% prior, but also the lowest since July. We start by looking at the areas of strength in the report, before examining some of the curiosities that call that apparent strength into question.

- The number of unemployed dropped 141k, after December's 278k reduction, marking the biggest 2-month drop since early 2022.
- And total household employment rose 528k (after +232k), the best since November 2023 (for a non-population revision month).
- It came as the labor force rose 387k with participation up 0.1pp to a 9-month high 62.5%, resulting in the highest employment-to-population ratio since April 2025 at 59.8%.
- U-6 underemployment fell 0.4pp to 8.0%, like the U-3 rate a post-July low, with those working part-time for economic reasons dropping 453k in the biggest monthly fall since mid-2022.
- The mean duration of unemployment pulled back to 23.9 weeks after December's 24.4, with the total number unemployed 27 weeks or more falling to 1,835k for the lowest since September.
- And we also note a drop in unemployment rates across some key demographics that have been cited by the Fed: black/African-American (7.2% after 7.5% for the lowest since July and down from 8.2% in November), and those with less than a high school diploma (5.2% after 5.6%, for a 12-month low)





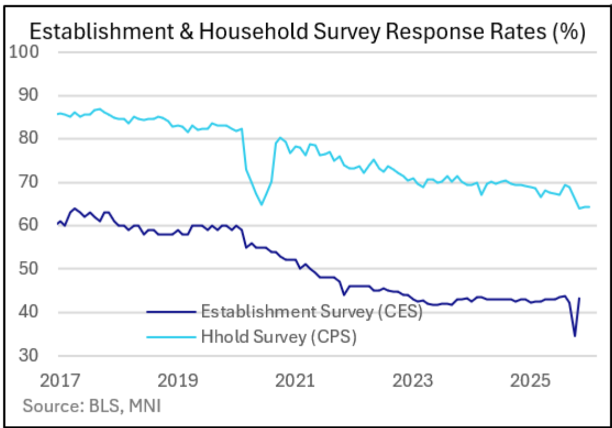


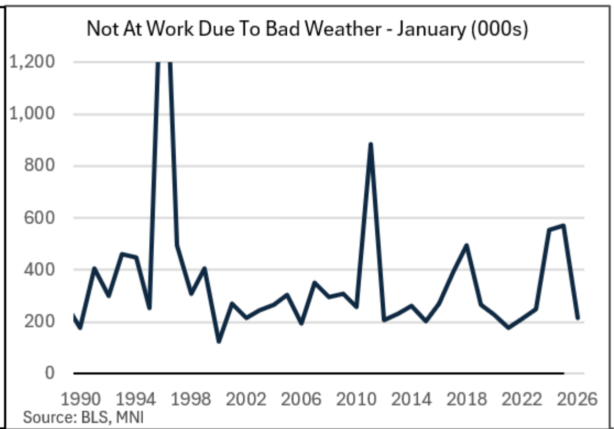


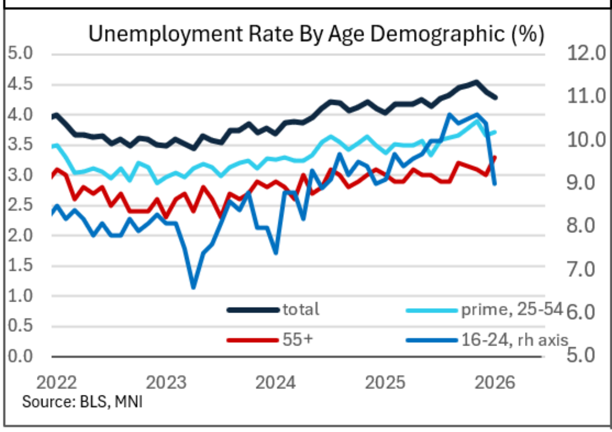
Weather, Youth, And Survey Responses Were Sources Of Distortion (2/2)

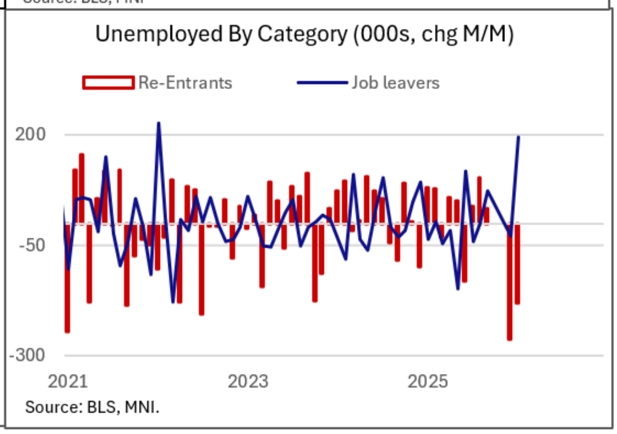
There were clear areas of apparent strength in the Household report, but there were some oddities that must be noted that cast some doubt. We should start by noting that the response rates to the Household survey have been very poor of late: 64.3% in January is the 3rd lowest in history, with only the prior 2 surveys having been lower. Unlike the Establishment survey, the BLS notes, "The severe weather did impact the collection of household survey data", and that is reason enough to take the results with a grain of salt.

- On the topic of weather, it was actually a key reason for January's strong household numbers: just 217k (non-seasonally-adjusted) were not at work due to bad weather, compared to 553k in Jan 2024 and 573k in Jan 2025. It's the lowest for a January since 2021 and a reversion to some of the least weather-hit Januarys in the last couple of decades. Of course, the reference week came just before the massive winter storms in late January could have an effect (as noted by the BLS). So while this category didn't have a "discernable effect" per the BLS, the absence of such an effect vs the prior 2 years was a key reason for the solid overall numbers.
- One apparently encouraging sign was that prime-age (25-54) workers drove the overall increase in the participation rate, within which it increased to 84.1% from 83.8% prior to increase above 84% for the first time since 2001. It offset the 0.5pp drop in 16-24 age participation (55.3% for the lowest since August 2025), with 55+ steady at 37.9%.
- But the composition of the change in the unemployment rate was somewhat puzzling and perhaps a one-off. Prime-age unemployment (25-54) actually rose, to 3.72% from 3.65%. 55+ year old unemployment jumped to 3.3% from 3.0% for the highest since late 2021. It was instead 16-24 year old unemployment that drove the overall decline, falling to 9.0% from 10.4% prior for the lowest since December 2024 and the biggest monthly drop since October 2020. At a guess, the latter looks to be down to survey response issues.
- Looking at the unemployment rate drop, the oddities were mixed. Re-entrants to the workforce - a prime cause of the jump in unemployment in November - fell 180k after 263k, for the lowest total in a year, while new entrants fell 48k and those on temporary layoff fell 83k (after 73k continuing to unwind November's spike that looks related to the government shutdown).
- That offset an astonishing 197k jump in job leavers - one of the highest monthly figures in history in this category of unemployed, with the total exceeding 1 mlilion people for the first time since 2013. It's hard to know what to make of that - a factor that drove the unemployment rate higher, all else equal - but at least the number of permanent job losers remained relatively low (38k after 33k).





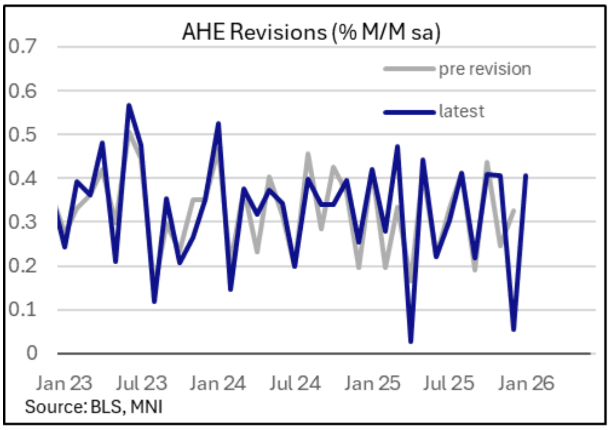


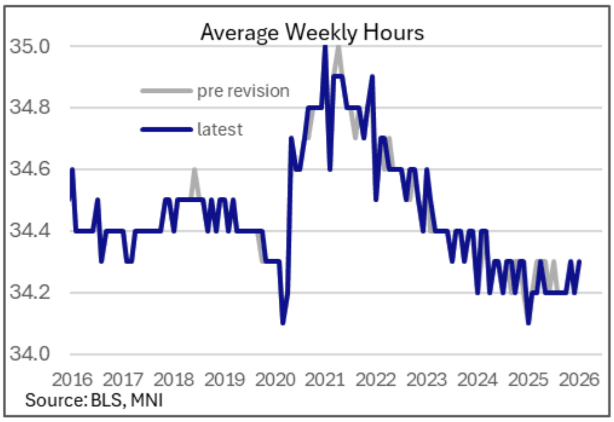


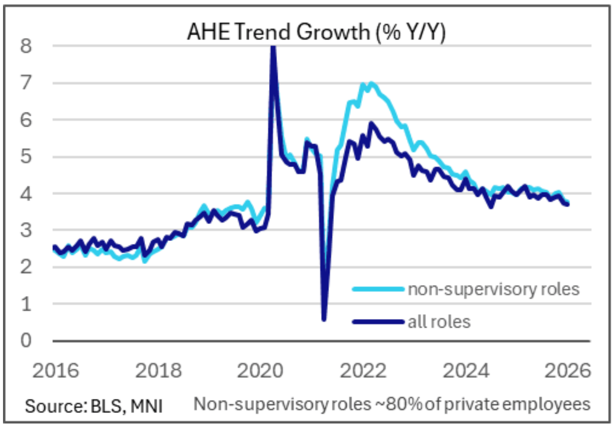
Surprisingly Strong AHE and Hours Worked In January

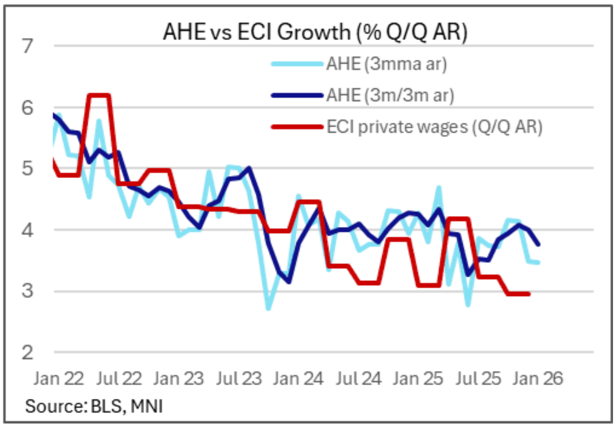
Back to the establishment survey, average hourly earnings growth was stronger than expected in January, despite a surprise uptick hours worked, and continues to run at a hotter pace than the more comprehensive ECI data released for Q4 yesterday. The two are either consistent with neutral or disinflationary pressures stemming from the labor market if assuming a continuation of 2% productivity growth.

- AHE growth was stronger than expected in January at 0.41% M/M (cons 0.3), partly offset by some mixed recent revisions.
- There were historical revisions including new seasonal factors over the past five years but we'll only focus on latest trends, where a surprisingly weak downward revision to just 0.05% M/M in Dec (initial 0.325%) was partly offset by an upward revised 0.41% in Nov (initial 0.24%).
- It's seen AHE growth at 3.71% Y/Y in January after 3.73% in Dec (revised from 3.76%) whilst a latest 3m/3m run rate was similar at 3.8% annualized. Recent run rates of 4.0% annualized in Q4 and 3.9% in Q3 were little changed.
- The non-supervisory category has seen a slightly softer recent trend, rising 0.38% M/M in Jan after 0.13% M/M in Dec and 0.28% M/M in Nov. It saw 3.5% annualized on a 3M/3M basis, or 3.8% in Q4 and 3.6% in Q3.
- Both AHE metrics continue to suggest stronger wage pressures than the more comprehensive ECI data, updated Tuesday to show private sector wages & salaries increased a modest 3.0% in Q4 and 3.2% in Q3.
- These wage growth rates are against a backdrop of productivity growth at 1.9% Y/Y back in Q3.
- Returning to other establishment survey details, this upside surprise in January wage growth came despite average weekly hours worked surprisingly ticking up a tenth to 34.3 rather than remaining at 34.2 for close to cycle lows of 34.1 from Jan 2025 (adverse weather driven).
- It's only the third 34.3 reading since Dec 2024 having been at 34.2 in every remaining month bar that 34.1. For context, the pre-pandemic range was 34.3-34.6.









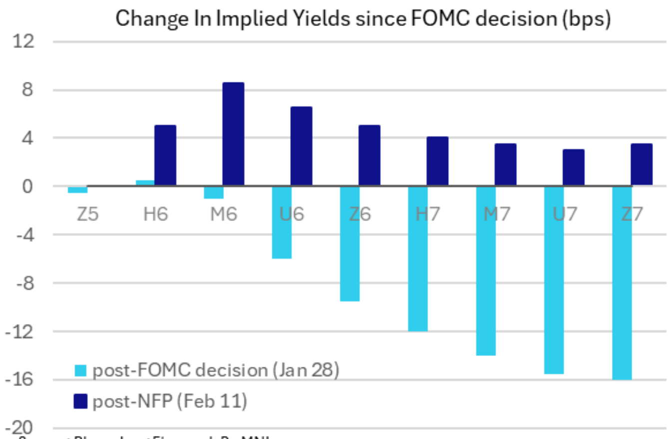
STIR: A Front-Loaded Hawkish Reaction After A Firmly Dovish Build-Up

January jobs growth comfortably above recent estimates of the breakeven pace and the unemployment rate pushing lower to 4.28% drove a sizeable hawkish reaction. It reversed the dovish adjustment on next rate cut expectations seen after last week's suite of soft labor indicators, Tuesday's disappointing retail sales and Trump administration officials' comments ahead of the payrolls report, but didn't fully reverse the prior dovish shift for year-end pricing. A next Fed rate cut is priced for July (cumulative 27bp vs 18bp for June) and 53.5bp of cuts to year-end vs 59bp prior to payrolls.

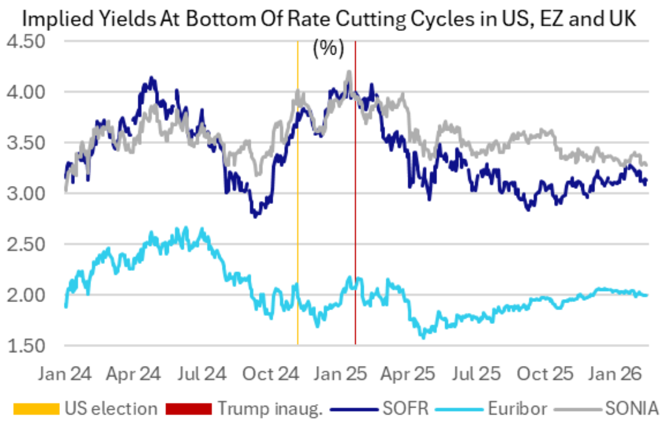
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Feb 11)			*chg in rate*	pre Challenger (Feb 5)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	3.64			3.64				3.64			
Mar'26	3.62	-2.5	-2.5	3.59	-5	-5.4	*2.9*	3.61	-3	-3	*0.2*
Apr'26	3.58	-3.3	-5.8	3.52	-6	-11.7	*5.9*	3.57	-4	-7	*1.0*
Jun'26	3.46	-12.5	-18.3	3.38	-15	-26.4	*8.1*	3.46	-11	-18	*-0.3*
Jul'26	3.37	-8.9	-27.2	3.28	-9	-35.7	*8.5*	3.38	-8	-26	*-1.0*
Sep'26	3.24	-12.9	-40.1	3.17	-11	-46.8	*6.7*	3.26	-12	-38	*-2.0*
Oct'26	3.17	-6.7	-46.8	3.11	-6	-52.8	*6.0*	3.20	-6	-44	*-2.5*
Dec'26	3.10	-6.9	-53.7	3.05	-6	-59.0	*5.3*	3.14	-6	-50	*-3.8*

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

Post-NFP Fedspeak

KC Fed's Schmid (not a 2026 FOMC voter, hawk): the January jobs report was "good news" and he repeated that structural changes are reducing the level of job creation. It followed him continuing to convey a hawkish monetary policy view in a speech Wednesday (link), and we continue to believe he's among a sizeable minority on the FOMC who don't have rate cuts as part of their 2026 baseline. In short, "With demand outpacing supply and inflation running closer to 3% than 2%, I see it as appropriate to maintain a somewhat restrictive policy stance."

Cleveland Fed's Hammack ('26 voter, hawk): The labor market looks like it's stabilizing, finding a healthy balance. She doesn't think rates are putting much restraint on the economy and repeated that she thinks the Fed should keep rates on hold.

Fed Governor Miran (voter, dove): Still a variety of reasons to lower rates, with a number of factors pushing supply side growth in the US.

Analyst View Changes

Analysts Eye Later Fed Cuts (Or None At All) After January Payrolls

Multiple analysts have pushed back expectations for the resumption of the Fed easing cycle this morning, following stronger-than-expected January employment figures. We suspect they won't be the last, with some analysts having come into February still anticipating a March cut, though some will be waiting for the January CPI data out at end-week to reassess. (A March cut is now well under 10% market-priced.)

- TD Securities: "We expect the Federal Reserve to stay on the sidelines for longer amid a resilient backdrop for economic activity and a stabilizing labor market as we start 2026. Today's January employment report confirmed the recent positive evolution of the jobs market... While we still project another 75bps of rate cuts in 2026, we now look for easing to be implemented in the back half of the year (vs. starting in March). We continue to forecast quarterly rate cuts of 25 basis points in June, September, and December, bringing the Fed funds rate to our projected terminal of 3.0%." Their analysts don't see a deteriorating labor market as the trigger for the next cut, but rather inflationary progress. "The onus will be on the data to force the Fed's hand in 2026. We expect that next lever to be clear inflation progress toward the 2% objective... particularly the m/m evolution of core PCE prices. We look for the monthly path to be running close to 0.2% m/m on average (Mar-May) by the time of the June FOMC meeting."
- Similarly CIBC have officially changed their forecast: "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" while Natixis "no longer are calling for a cut in March" but still appear to expect 3 easings this year.
- Wells Fargo - which came into February seeing two additional 25 bps cuts at the March and June meetings this year - appear to be reconsidering their position, noting "We have been saying for some time now that the window for the FOMC to cut rates is closing, and today's data suggest another rate cut under Chair Powell is increasingly unlikely. If cuts are coming this year, it appears that it will be up to a future Chair Warsh to win over the hawks on the Committee and deliver before year end."
- ING had anticipated March and June cuts but write today "while the headlines from the revisions look grim, this is unlikely to tip the central bank into cutting before March".
- Natixis: “While this print does change our near-term forecast – we no longer are calling for a cut in March – we still think that the labor market is more tenuous than today’s print suggests. […] Our call for three cuts this year is contingent upon our labor view and that, in the near-term, inflation remains stable and does not accelerate.”
- Finally, Commerzbank - which has topped our table of analysts' Fed easing calls for 2026, looking for 125bp in reductions - now write "A Fed interest rate cut in March is ... virtually off the table. The Powell era will probably come to an end in May without any further interest rate cuts. Regardless of this, however, rate cuts are likely to resume under the new Fed Chairman Kevin Warsh after he takes office in mid-May."

Citi On The Mark For Jan Payrolls, But Still Pushes Back March Cut View

One of the last major institutions that still saw a March Fed cut in its baseline going into January's payrolls report has pushed back its timeline by one meeting. Citi writes that the data "will further support the Fed's recent assessment that the labor market has stabilized and makes a March rate cut less likely. We still expect 75bp of cuts this year but now with cuts in April, July, and September". (ie they had previously seen March, July, September).

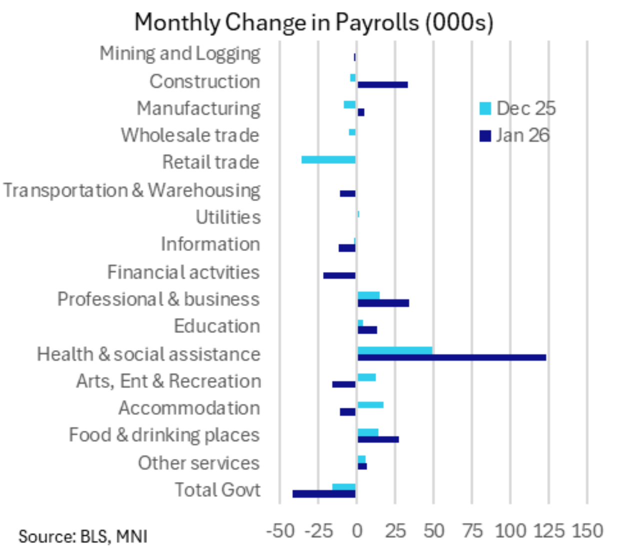
- That being said they are skeptical that the January report was as strong as it seemed on the surface - indeed their forecast of 135k Establishment payroll gains was very close to the mark (130k actual): "despite all around positive details, January employment data do not change our view that the labor market continues to gradually weaken."
- They explain: "The reason for our stronger January forecast was due to technical factors of substantial residual seasonality, not a fundamental improvement in demand for labor. Typically, activity and employment fall substantially in January after the holiday period, with a very positive seasonal adjustment to employment data. As hiring and labor market churn are already very low, this decline in January is smaller than usual and the adjustment too positive..."
- "This seasonality may have also contributed to the decline in the unemployment rate, which has fallen each of the last three Januarys... We continue to expect the unemployment rate gradually rising again by the spring/summer."

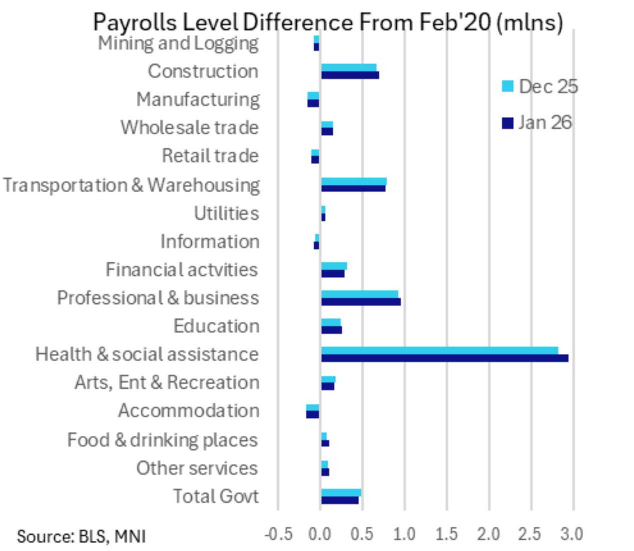
Other unchanged views of note:

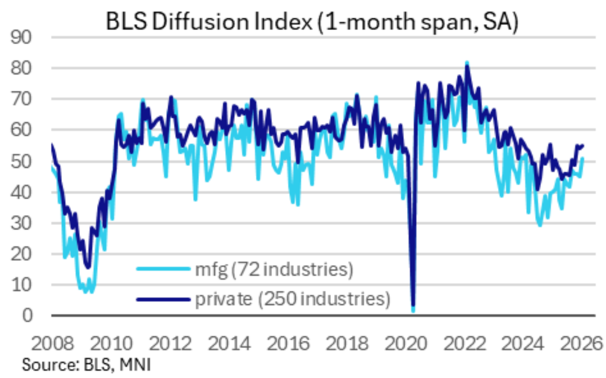
- BofA: "What happens under a potential Warsh Fed? For now, we are holding onto our forecast of two cuts under his leadership. However, we've argued that the key risk to his call for significant cuts is a decline in the u-rate. Therefore, the path to cuts under Warsh (which we don't think the economy needs) now looks narrower. If the u-rate is stable or down even further by June, Warsh might be stuck on hold for the rest of the year."
- JPM: "As usual, there are some notes of caution: January employment gains were unusually strong in healthcare, residual seasonality could have contributed to the drop in unemployment, and a range of private-sector surveys have not been as favorable. All of those points argue against getting too excited about one report. At the same time, there should be enough good news here to make the FOMC comfortable continuing to keep rates on hold for a time."
- RBC: "A strong payroll gain of 130k and a drop in the unemployment rate to 4.3% both signal that the labor market remains on solid footings despite last week's softer labor data and recent layoff announcements. While we do expect the unemployment rate to drift slightly higher in 2026, the supply side remains structurally tight, limiting how high it can go."
- Scotia: "Markets only paid heed to the dip in the unemployment rate and the headline beat without fussing over details. The Fed should fuss over details that paint a continued picture of a very weak job market under the hood and fade the unemployment rate."
- UniCredit: "Overall, we think today's job release gives the Fed breathing space to keep rates steady. The next key US data release will be the January CPI report due on Friday. We expect it to show that inflationary pressure picked up at the turn of the year. We still see just one rate cut this year, in June."

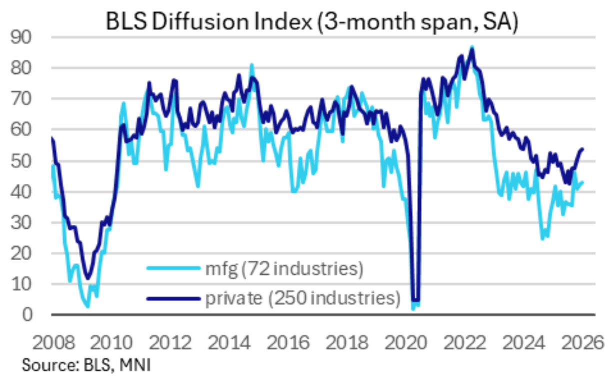
[The NFP chart pack and analysis of alternative labor indicators continues below]

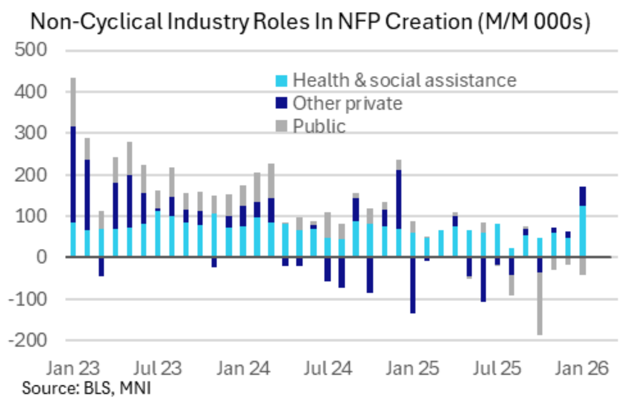
Payrolls Report Chart Pack

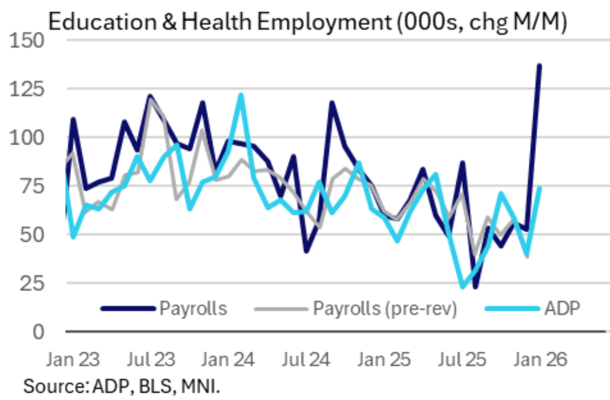


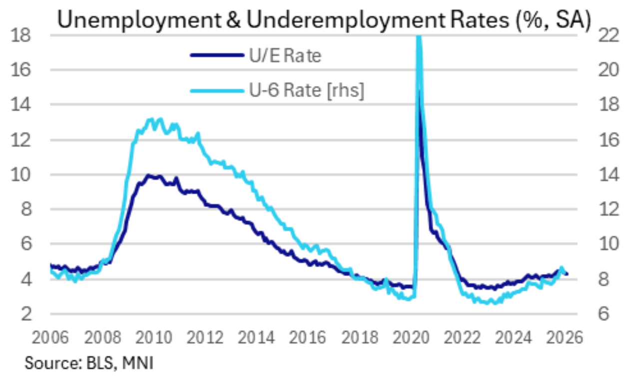


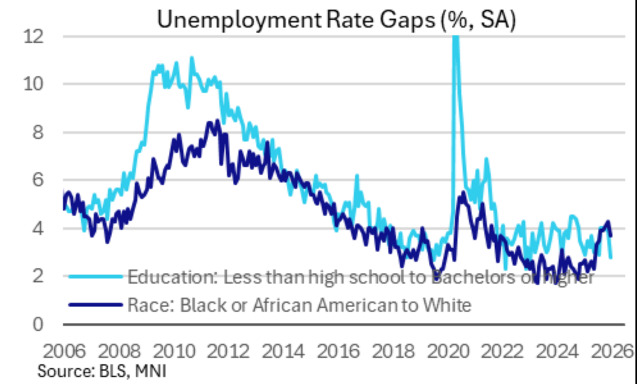


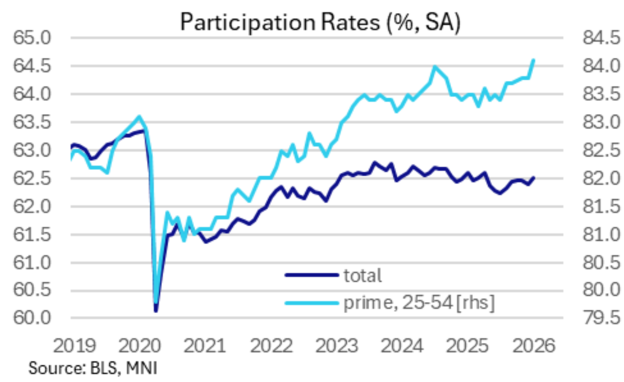


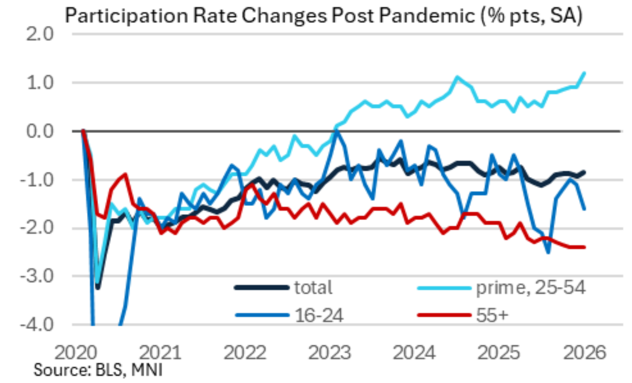


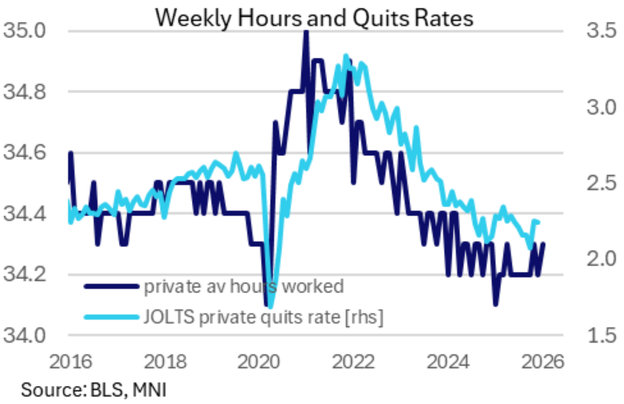


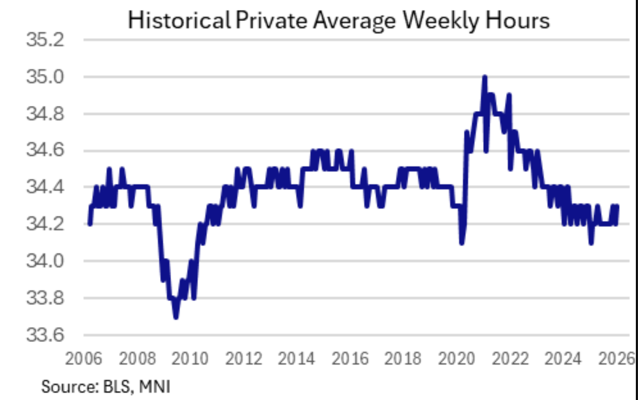

Unemployment & Underemployment Rates (%, SA)
U/E Rate
U-6 Rate [rhs]
Source: BLS, MNI

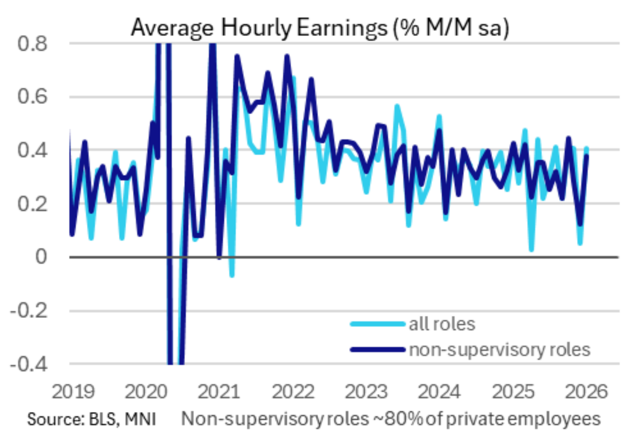

Unemployment Rate Gaps (%, SA)
Education: Less than high school to Bachelors or higher
Race: Black or African American to White
Source: BLS, MNI

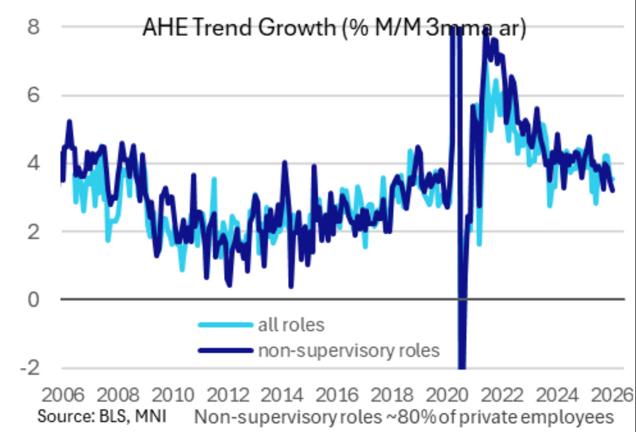

Participation Rates (%, SA)
total
prime, 25-54 [rhs]
Source: BLS, MNI


Participation Rate Changes Post Pandemic (% pts, SA)
total
prime, 25-54
16-24
55+
Source: BLS, MNI


Weekly Hours and Quits Rates
private av hours worked
JOLTS private quits rate [rhs]
Source: BLS, MNI


Historical Private Average Weekly Hours
Source: BLS, MNI


Average Hourly Earnings (% M/M sa)
all roles
non-supervisory roles
Source: BLS, MNI
Non-supervisory roles ~80% of private employees


AHE Trend Growth (% M/M 3mma ar)
all roles
non-supervisory roles
Source: BLS, MNI
Non-supervisory roles ~80% of private employees

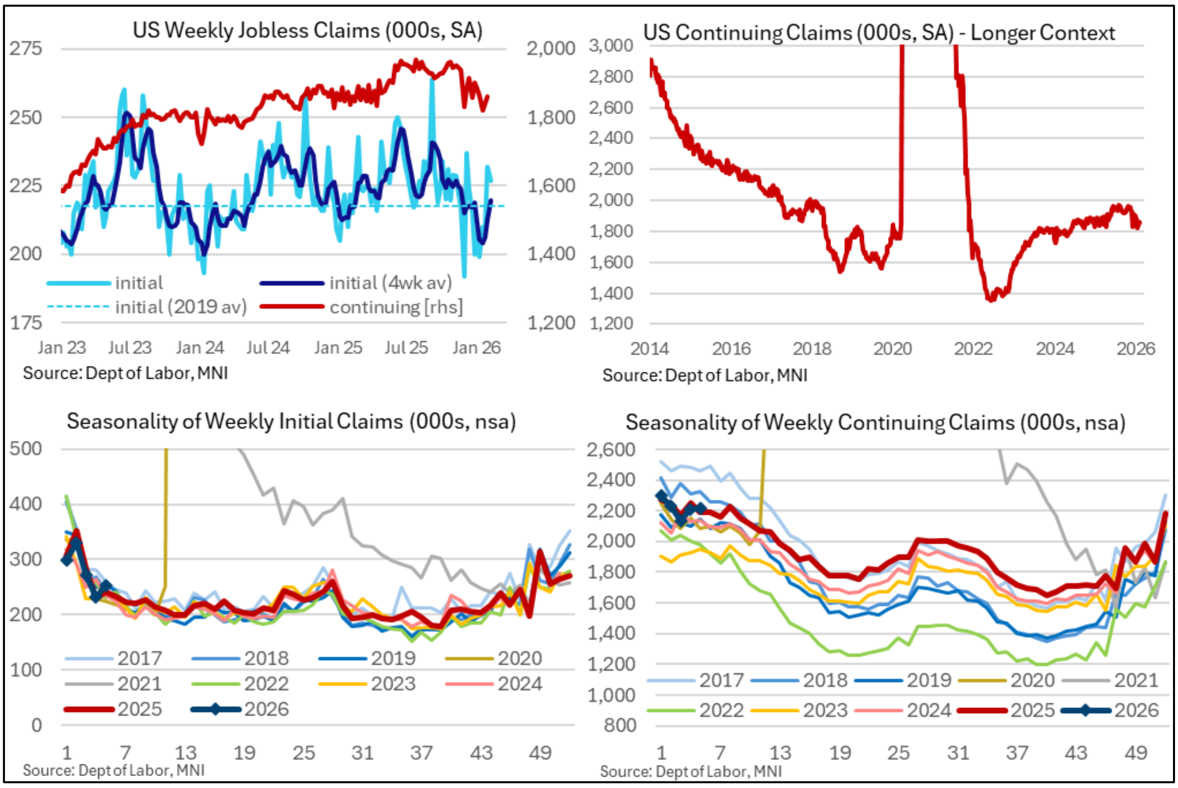
Other Labor Indicators Of Note

Weekly jobless claims have on balance lifted over the past two weeks, whilst a raft of other releases were all clearly soft/softer than expected.

Initial Claims Off Recent Lows, Continuing Still Lower Than 2H25

Weekly jobless claims surprised a little higher on both an initial and continuing basis. Initial claims still dipped a little after last week's surprisingly large increase in what looks like a reversal of weather disruption, although residual seasonality more broadly looks to explain recent trends (both lower and now higher).

- Initial claims were a little higher than expected at 227k (sa, cons 223k) in the week to Feb 7 after a marginally upward revised 232k (initial 231k).
- Recall that last week's upside surprise for initial claims looked to have been boosted by severe winter weather in the last weeks of January, and there are tentative signs that this might have faded in this latest week.
- There was some reversal of those states which saw the largest increases in the prior week: Pennsylvania saw -3.3k after +5.3k, Missouri -2.9k after +2.8k and Illinois -2.3k after +2.2k. These state-level details are in NSA terms as always, so some caution is needed, but they compared with national initial claims falling by 4.6k in NSA terms.
- There is still likely some residual seasonality at play though, having biased initial claims lower in December and January (the 4-week average hit a recent low of 204k up to Jan 17) before tilting higher again into February (220k latest 4-week average) and potentially beyond.
- Continuing claims were also a little higher than expected at 1862k (sa, cons 1850k) in the week to Jan 31 after a marginally downward revised 1841k (initial 1844k).
- Whilst it sees continuing claims extend their lift off a recent low of 1819k two weeks prior in the week to Jan 17, they are still comfortably lower than prior payrolls reference weeks including 1914k in Dec, 1944k in Nov and 1957k in Oct.
- Non-seasonally adjusted levels of continuing claims had for much of last year been tracking right at the top of ranges seen in previous years, before dropping somewhat back more into ranges so far in 2026, as indeed was the case in early 2025.



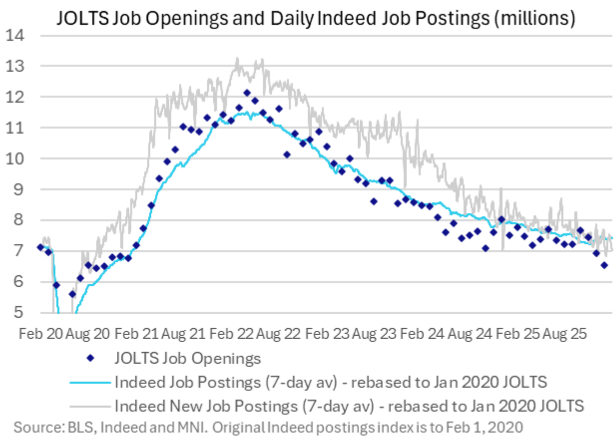
Far Lower Than Expected JOLTS Job Openings In December

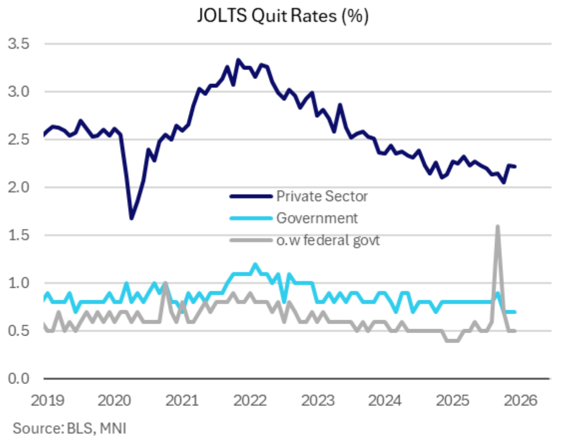
Job openings were far weaker than expected in the JOLTS report and stand out against an alternate measure such as Indeed job postings. Other areas fared better such as the tick higher in hire rates and quit rates holding onto a prior increase although they are still low historically, hires especially.

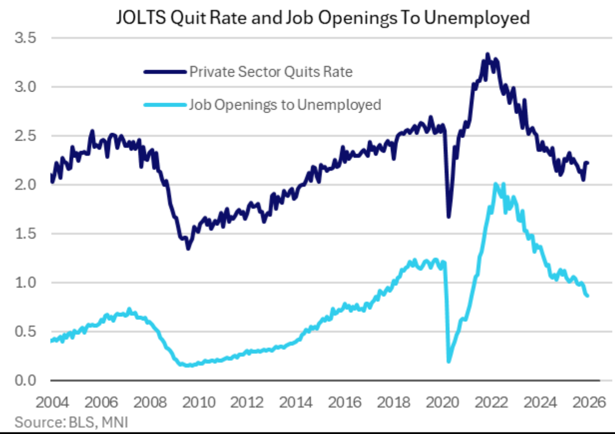
- **Job openings** were significantly lower than expected in December at 6542k (sa, cons 7250k) after a downward revised 6928k in Nov (initial 7146k).
- Job openings have now declined by 1.1mln since the end-September, i.e. since just before the Oct 1 - Nov 12 government shutdown.
- As noted beforehand, 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.

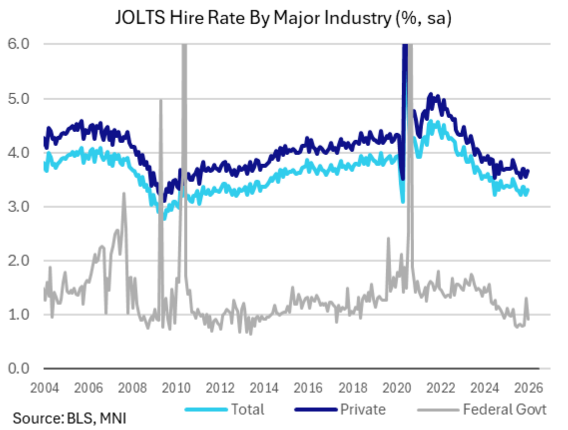
Other key metrics meanwhile were flat to slightly better on the month.

- 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.





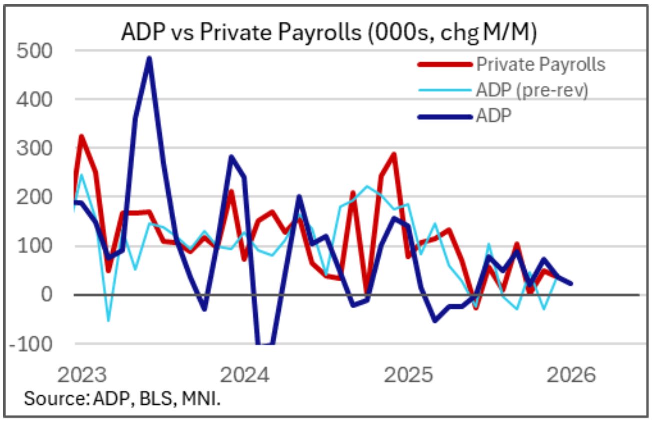


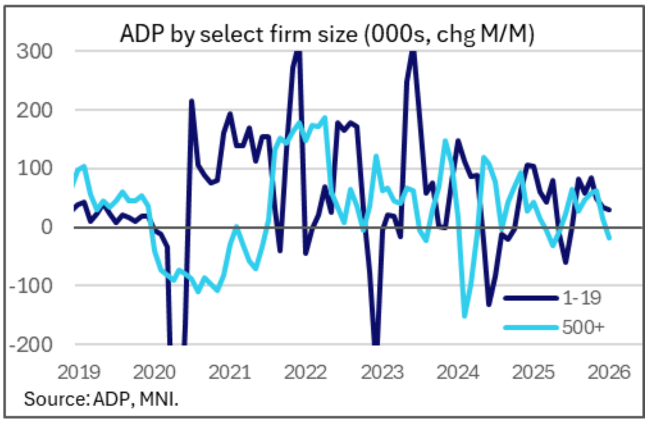


ADP Employment Sees Modest Miss and Large Downward Revisions On QCEW (1/2)

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.



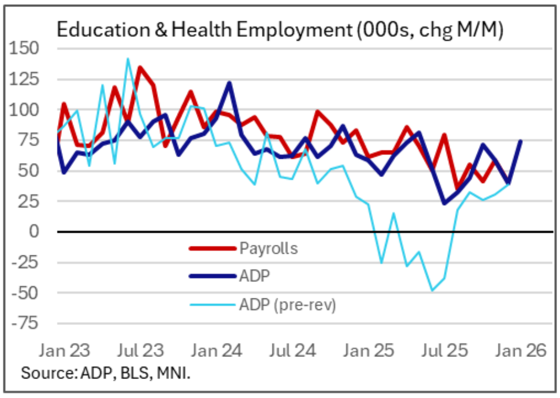


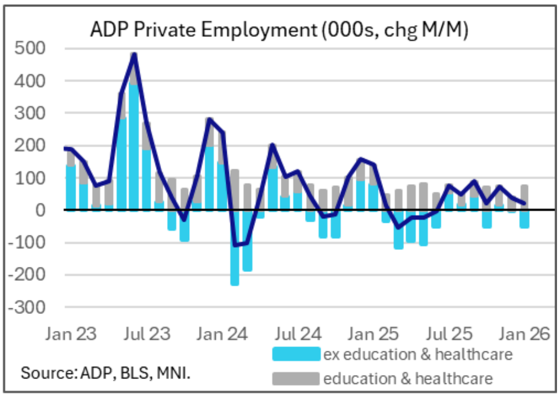
ADP Revisions See Healthcare As A Major Driver, Echoing Payrolls (2/2)

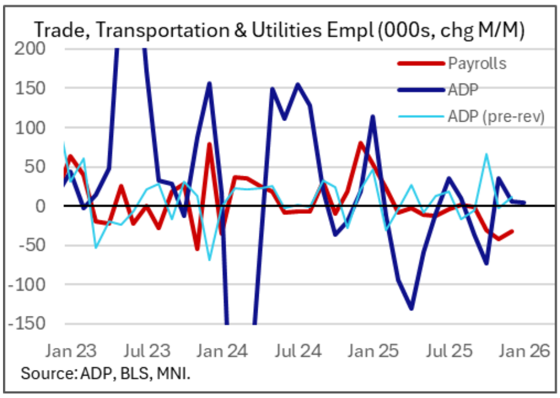
The wide-ranging revisions have seen the education & healthcare sector provide a much larger contribution, more closely reflecting trends in BLS private sector job creation.

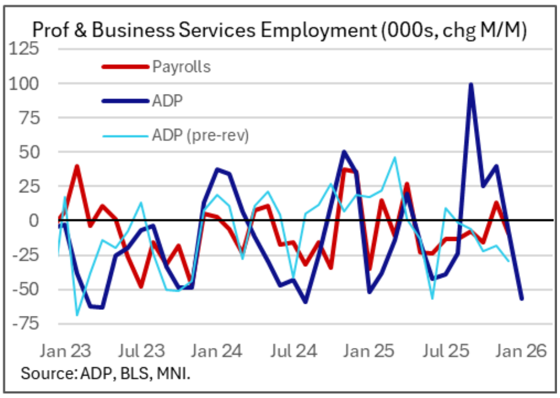
- Education & healthcare jobs increased a cumulative 642k over 2025 vs the 28k previously estimated.
- This net revision of +614k across 2025 was in stark contrast to most industries considering the cumulative revision of -216k. The next largest positive revision was other services at +39k whilst the 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."





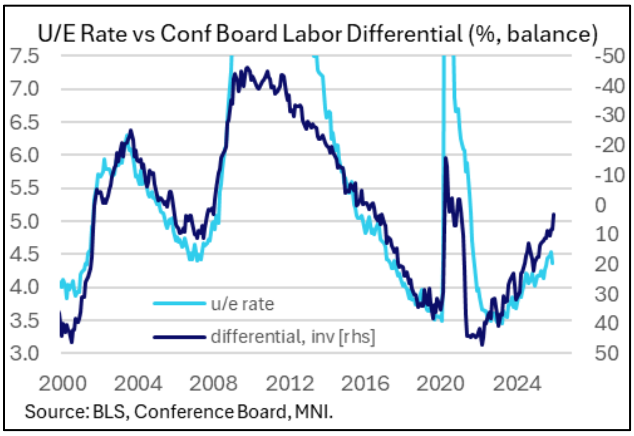




Consumers Increasingly Concerned On The Labor Market

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.

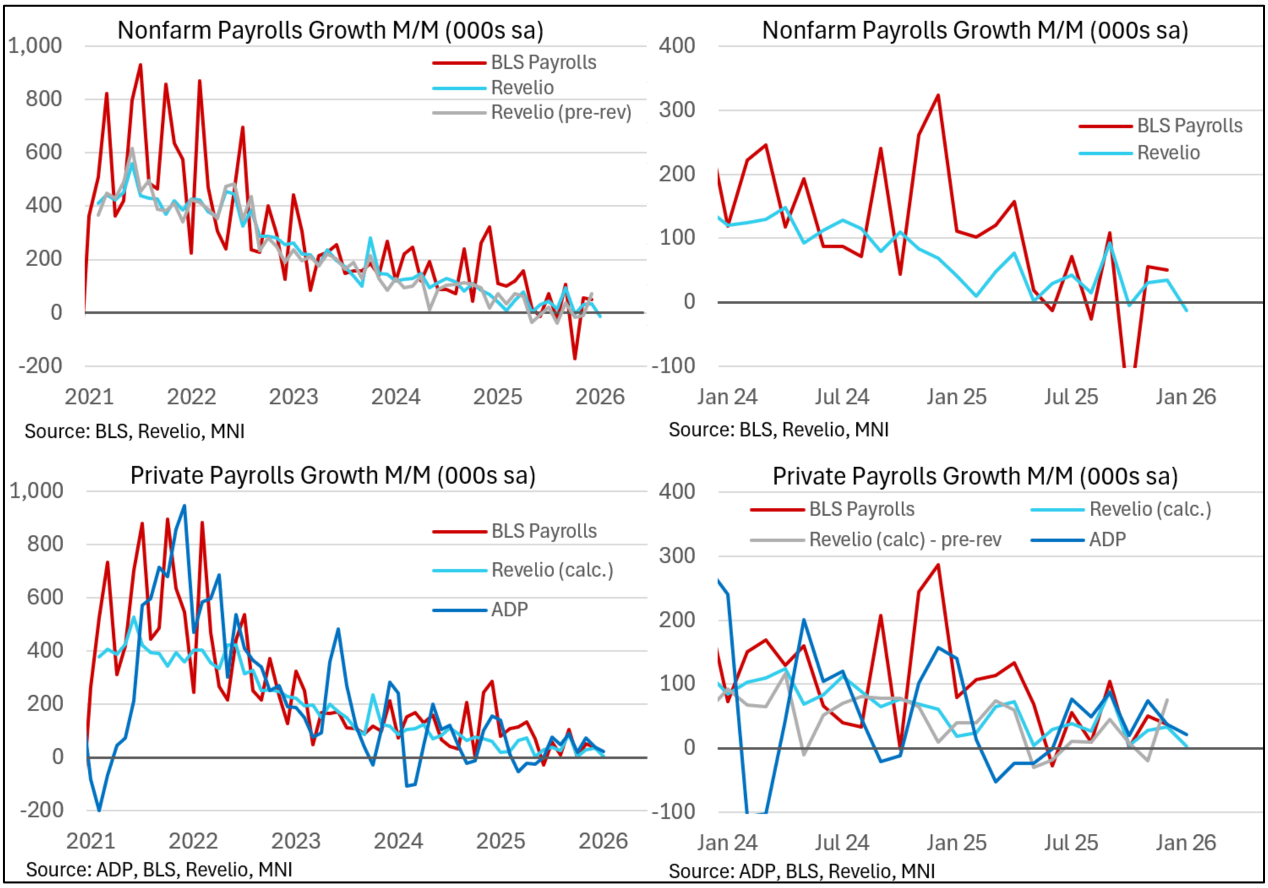
- The move was driven by jobs plentiful falling to 23.9 from 27.5 in Dec and 28.2 in Nov although jobs hard to get also saw a solid increase to 20.8 after 19.1 in Dec and 20.1 in Nov.
- A reminder here that these initial values are preliminary readings and prone to revisions with next month's update.
- 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."

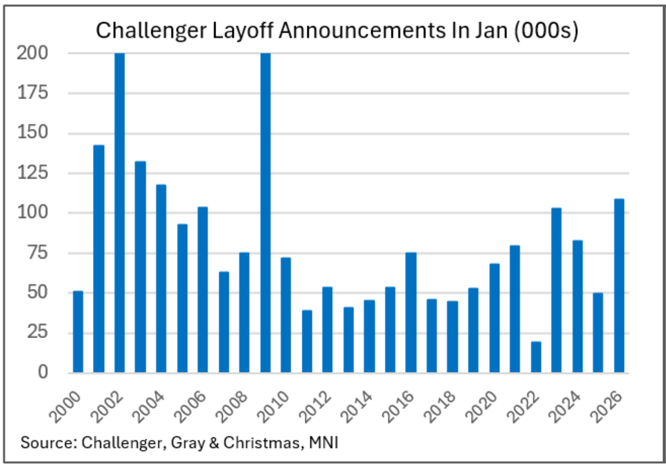


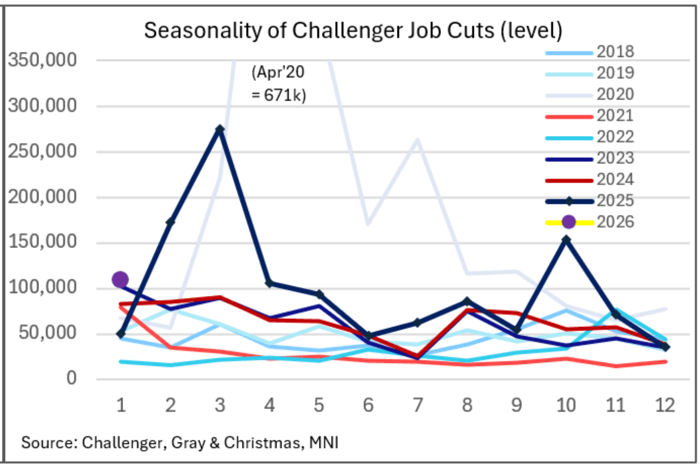
Challenger Points To Low Hiring And... High Firing To Open 2026

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.





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 Philadephia 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 then 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-Offls

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 instituation 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)