mni

All Signal, No Noise

MARKET ANALYSIS

U.S. Employment Insight: Jan 2026

MNI View: U/E Rate Improves But Payrolls Soft

Jan 9, 2026 - By Chris Harrison and Tim Cooper

Quick Take: Lower U/E Rate Counters Tepid Jobs, Quality Concerns Linger

- Nonfarm payrolls growth was softer than expected in Dec at 50k (cons 70k) and with a larger downward surprise for private payrolls at 37k (cons 75k).
- The solid two-month downward revisions (-76k for NFP) were concentrated back in Oct (-68k) and driven by the private sector with -70k of which -51k was in Oct.
- Latest three-month trends: nonfarm -22k over three months and 15k over six months, private 29k over three months and 43k over six months.
- Private payrolls continued to see a large contribution from the cyclically insensitive health & social assistance sector: strip this out and private payrolls would have averaged -19k over the past three months, with only one of the past eight months seeing net job creation.
- Colder than usual early December weather likely weighed although we suspect the impact is modest.
- The household survey meanwhile showed several signs of improvement from November's, even if that largely just reversed some weakness seen on survey- and government-shutdown related distortions.
- The unemployment rate fell back to 4.375% in Dec after a downward revised 4.54% in Nov (initially 4.56% with rounded figures on screens exaggerating the move) and 4.49% in Oct (initial 4.50). Seasonal adjustment factors were updated in annual revisions covering the past five years.
- 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. Seven FOMC members had looked for 4.6-4.7% across Q4.
- Some notable findings with the household survey include the biggest drop in unemployment since Mar 2022 (-278k after increasing a cumulative 176k over Sep-Nov) and temporary layoffs falling 73k after a 158k two-month increase.
- Average hourly earnings meanwhile were on the solid side as they increased at 0.325% M/M, considering perceived skew to downside risks to consensus of 0.3% and an upward revision. However, growth of 3.8% Y/Y and 4.0% annualized in Q4 won't trouble the Fed from a unit labor cost angle with productivity still increasing rapidly.
- Data quality concerns are still elevated though, particularly with the household survey response rate barely increasing from November's record low.
- Jobs growth may have disappointed but the drop in the u/e rate saw near-term rate FOMC cut prospects trimmed further after hawkish shifts throughout the week on data and oil prices. It sees a cumulative 12.5bp of cuts priced for Apr vs 14.5bp pre NFP and 18.5bp prior to Wednesday's strong ISM services report. A next cut is still fully priced for June, only just at 25.5bp, the first meeting under a new Fed Chair.

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Payrolls Summary Statistics For December 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Nov	Oct	Net Surprise
Monthly growth (000s)							
NFP	50	70	-20	-76	-8	-68	-96
Private	37	75	-38	-70	-19	-51	-108

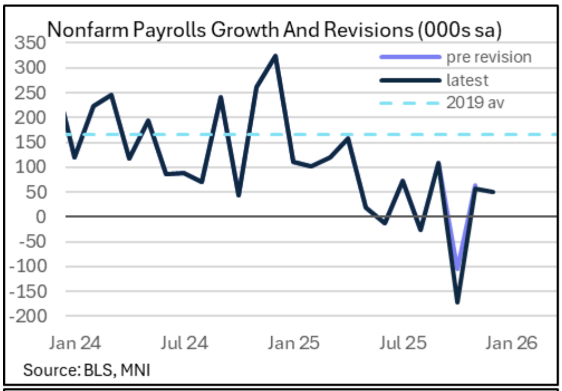
	Actual	Cons.	Prior mth	Cycle low		2019 av
U/E rate (%)	4.38	4.5	4.54	3.45	Apr'23	3.67

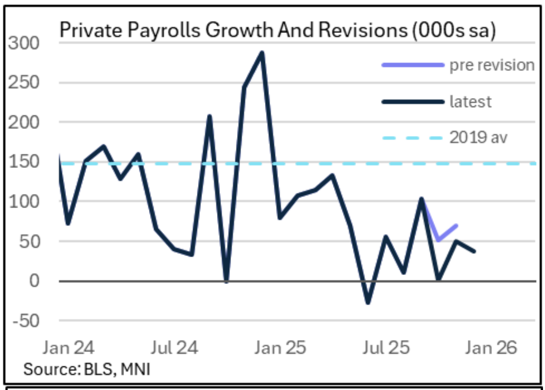
	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.33	0.3	3.76	3.6

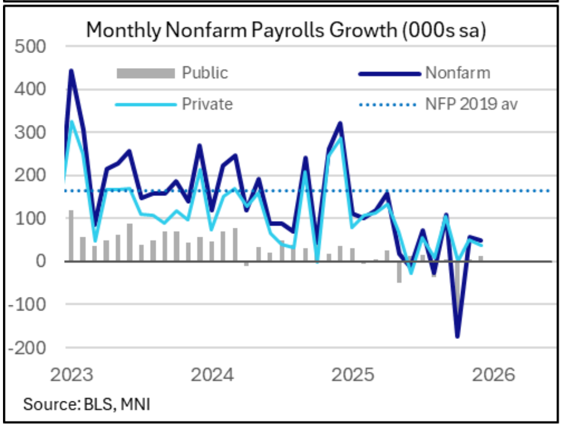
Source: Bloomberg Finance L.P., BLS, MNI

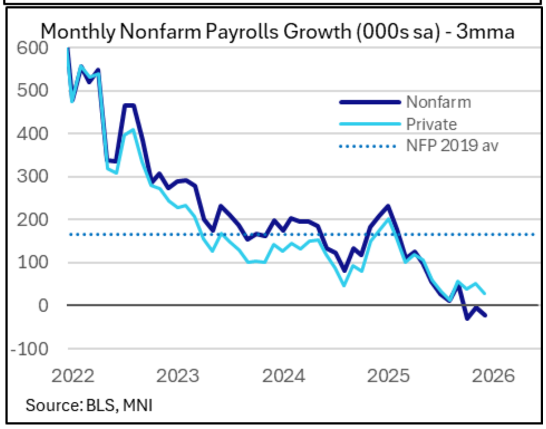
Private Payrolls See Larger Miss and Drive Negative Revisions

- Nonfarm payrolls growth was softer than expected in Dec at 50k (cons 70k) and with a larger downward surprise for private payrolls at 37k (cons 75k).
- The solid two-month downward revisions (-76k for NFP) were concentrated back in Oct (-68k). Large absolute revisions two-months back aren't too much of a surprise considering the extent of the 'catch-up' needed to be seen in response rates.
- The private sector saw similar two-month downward revisions with -70k, of which -51k came back in Oct.
- As such, it meant an even greater drag from the government back in Oct (-174k vs -157k first thought) on deferred resignations before two small monthly increases of 6k in Nov and 13k in Dec (implying little impact from the shutdown, as you'd expect).
- Latest three-month trends: nonfarm -22k over three months and 15k over six months, private 29k over three months and 43k over six months.
- This private sector three-month trend still marks a recovery from the 13k in the summer but it points to very tepid job creation, especially seeing as the latest three-month average includes an average 49k increase from health & social assistance (more on this below).







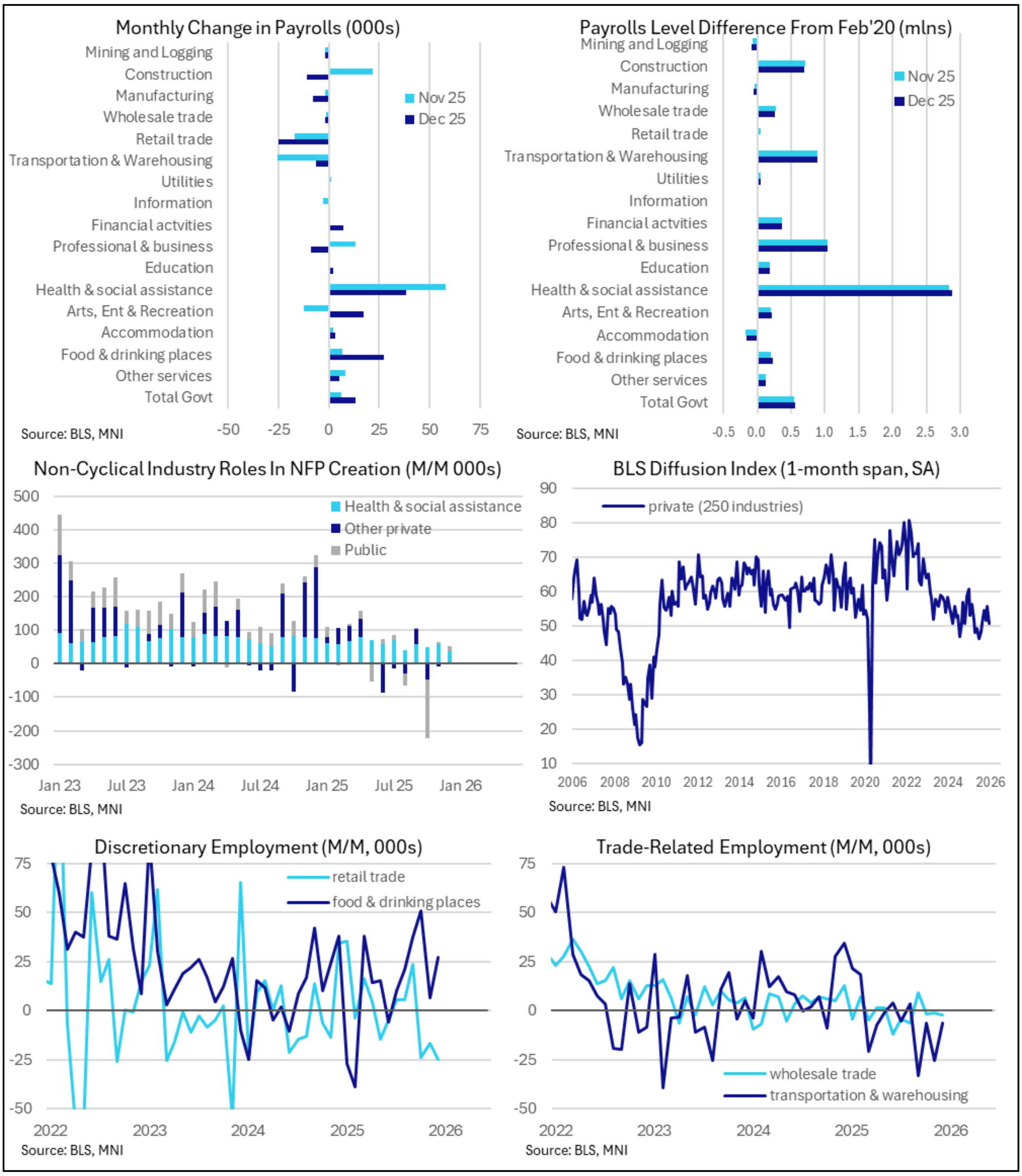


Private Payrolls Underwhelm, Another Negative Ex-Healthcare Print [1/2]

Private payrolls clearly disappointed in the December report with a tepid trend that remains extremely dependent on the cyclically insensitive health & social assistance category. Strip this out and private payrolls have only increased in one of the past eight months. The one-month diffusion index eased to its lowest since August.

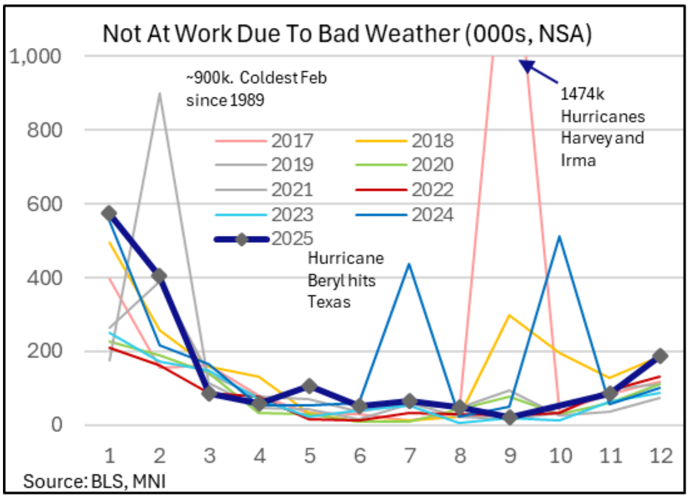
- Private payrolls only increased 37k (cons 75k) along with a two-month downward revision of -70k that left private jobs growth of 50k in Nov and just 1k in Oct.
- The cyclically insensitive health & social assistance category continues to be a major source of private jobs growth, adding an average 49k in the last three months vs the 29k for private payrolls.

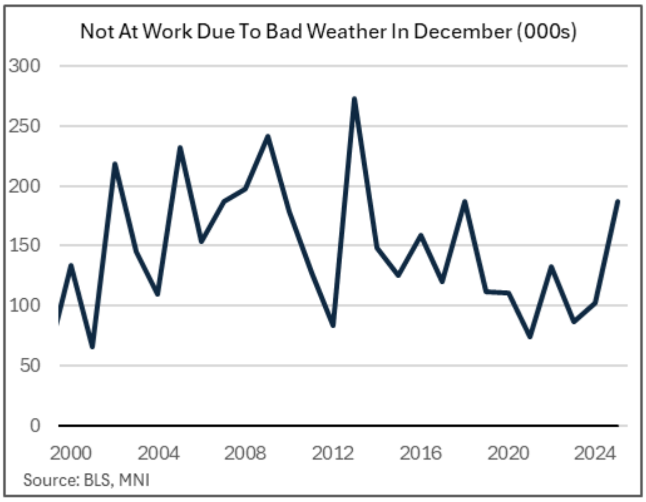
- Indeed, private payrolls ex health & social assistance slipped -2k in Dec after -8k and a particularly heavy -49k in Oct (revised from -13k before today's revisions). This category has seen monthly net job creation in just one of the past eight months since May, during which time it's lost a 147k jobs.
- Besides health & social assistance added 39k jobs in December, food & drinking places increased a solid 27k (after 7k in Nov and an unusually strong 51k in Oct) whilst arts, entertainment & recreation recovered with a 17k increase (after -12k in Nov and -19k in Oct).
- There were some notable declines elsewhere though, led by retail (-25k after -17k and -24k) and construction (correcting lower with -11k after 22k and -13k in Oct.
- Diffusion indices meanwhile offered the weakest take since August for the one-month index at 50.8, indicating that there was a net difference of less than 1% of the 250 private industries that increased on the month vs those that declined. It does at least hold above 50 compared to an average 48.0 through Apr-Jul after tariff announcements.
- The three-month diffusion index obviously captures the brief upward momentum seen in November and at 52.0% is its highest since April.

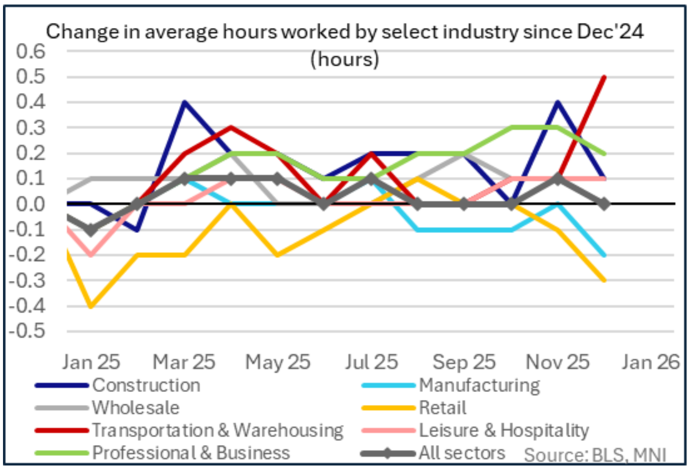


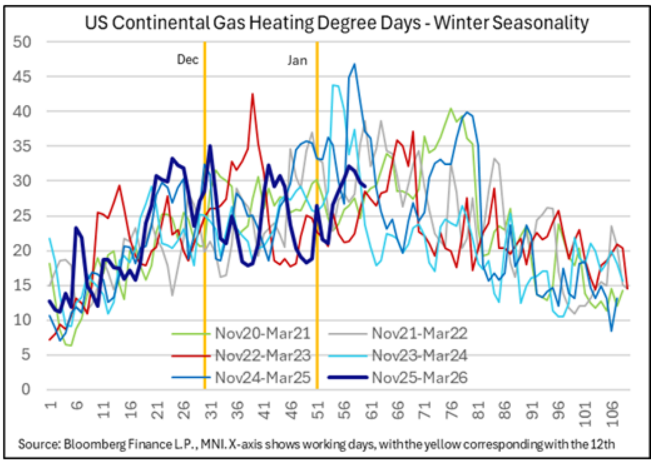
Cold Weather Likely Stifled Payrolls But Modest Impact At Best [2/2]

- There does look to have been a mildly negative impact from weather in December, although small by some month standards, as flagged in the preview following a colder than usual period ahead of and into early December.
- The household survey reported 187k were unable to work due to bad weather in the reference period, the highest for a December since 2018 vs an average 101k in the past five years. Putting this into perspective, January and February – key months for weather disruptions outside of less predictable hurricanes – have seen 353k and 370k averages for the past five years.
- A hint at a potential modest weather impact can be seen in average hours worked, where construction led the decline on the month as it fell -0.3hrs to 38.9 (although it follows a 0.4hr increase in Nov). Somewhat going against this, transportation and warehousing saw a strong 0.4hr increase to 38.7% (highest since mid-2021) whilst leisure & hospitality held steady at 25.6 hours for a third month.
- On the subject of changes in average hours worked, retail saw only a small decline on the month but its continued weakness chimes with outright jobs levels noted in part one.
- Looking ahead, temperatures tentatively look more favorable around the January reference period, with the bottom right chart including a forecast.





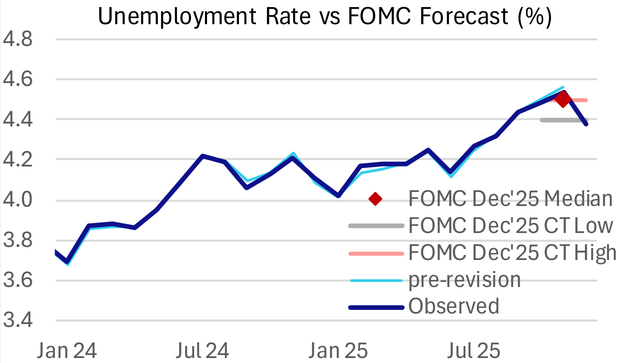




U/E Rate Surprises Lower, Mild Recent Downward Revisions In Annual Adjustment

- The u/e rate was lower than expected in Dec at 4.375%, as shown above. There was a wide range of views (4.3-4.7) but risks had generally seen with a skew higher.
- See the below table for the annual revisions for new seasonal factors which run back over 5 years and were generally very small over the course of 2025.
- November revised down marginally from 4.56% to 4.54%, I.e smaller than the 4.6 to 4.5 it first looks on screens.
- 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. Seven FOMC members had looked for 4.6-4.7% across Q4.

U/E Rate Annual Revisions



*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI

	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 interoplation

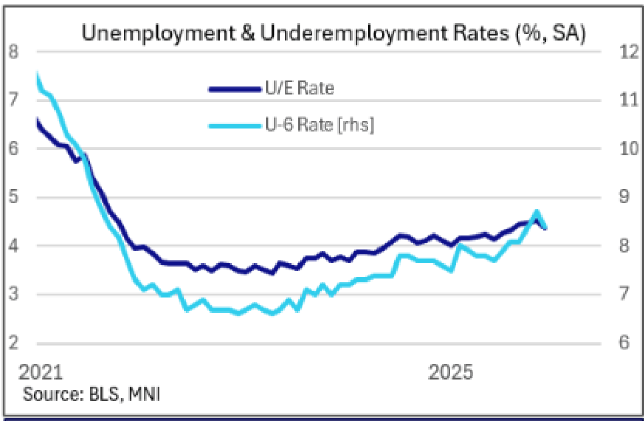
Source: Bloomberg Finance L.P., BLS, MNI

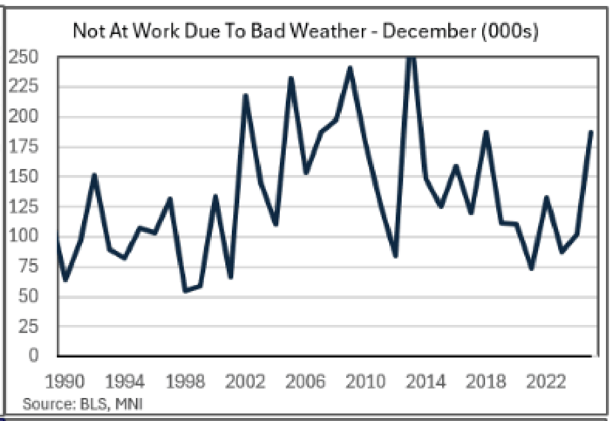
Household Survey Shows Less Labor Slack Than Previously Feared (1/2)

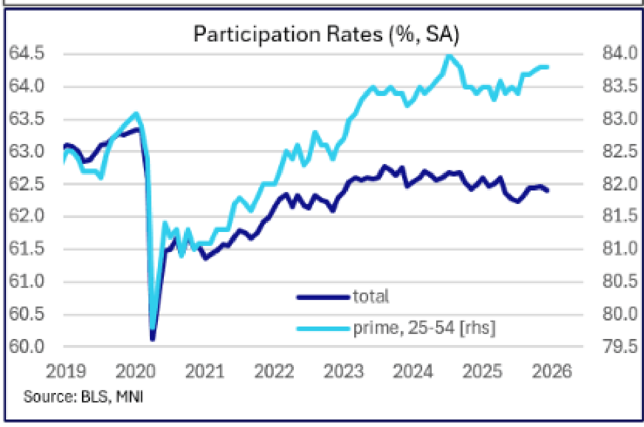
December's Household Survey showed several signs of improvement from November's, even if that largely just reversed some survey- and government-shutdown related distortions. As such it seems clear that November's Household Report overstated the degree of labor market slack, with December's data making it appear as though there has been less acute deterioration since September than previously feared.

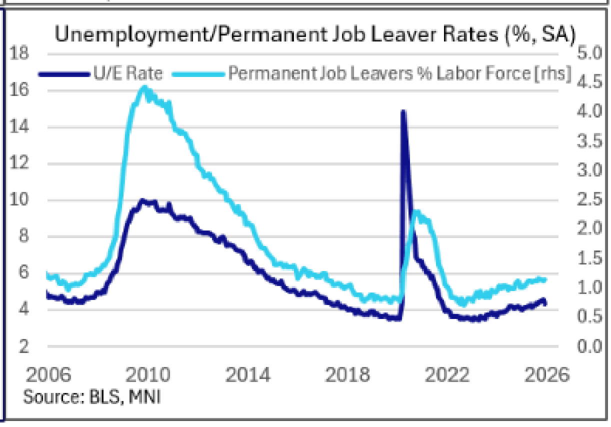
- The headline here is that the unemployment rate ticked lower, to 4.38% (4.5% rounded consensus) from 4.54% in November for the lowest since August. The Nov rate reflected a downward revision from 4.56%, taking into account annual seasonal factor revisions as previously noted. The number of employed rose 232k, and has been increasing since August (noting of course that October's survey was cancelled). Participation ticked a little lower, 0.06pp to a 4-month low 62.4%, with a 46k drop in the labor force, the first decline since June, though we would basically interpret these as unchanged and were not a major driver of the unemployment rate decrease.
- Instead, the composition of the drop in the unemployment rate suggests reversion from a very unusual October/November period. First off, the number of unemployed fell sharply (278k) in Dec - the biggest drop since March 2022 and the lowest absolute number since August. 73k of this was accounted for by a fall in workers on temporary layoff, which had risen sharply in November vs September due to what some had thought was federal employee survey respondents mistakenly characterizing themselves in that category.
- But an even bigger factor was the 260k fall in the unemployed made up of re-entrants, completely round-tripping the September-to-November 264k rise and the biggest drop since April 2020. This, too, looks to have been government related.

- Less of a factor: more new entrants (66k) and permanent job losers (33k; a slightly weaker note is that the permanent job losers' rate ticked up to 1.15% from 1.13%)). All that said the Nov rise in unemployment was revised down SA with October's survey nonexistent, which should be kept in mind when interpreting the changes.
- And even here, with 187k not at work due to bad weather, the highest for a December since 2018, one could argue that the household survey would have been even stronger if not for bad weather.





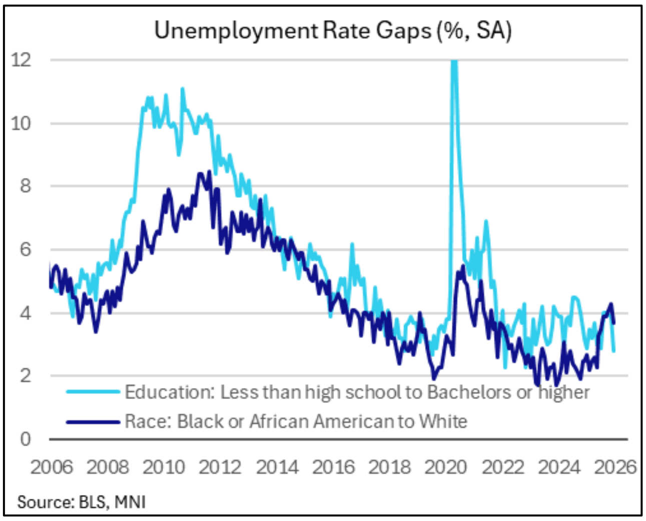


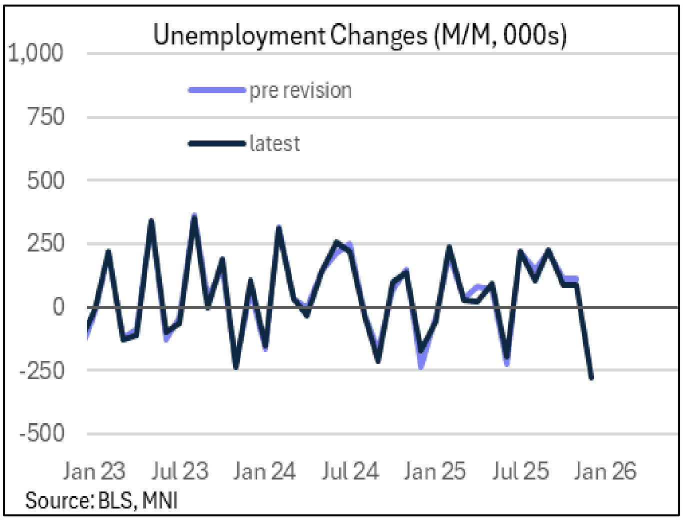


November's Underemployment, Demographic Deteriorations Fade (2/2)

Another standout here was the drop in the underemployment rate (U-6) to 8.4% from 8.7% prior, the rise in which had been seen as a major warning sign for labor market slack.

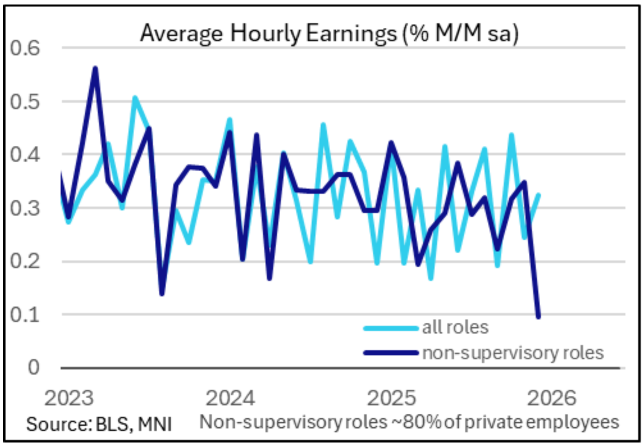
- That's still an elevated figure - also a post- 2021 high - and up from 8.0% in September, but at least here the deterioration was interrupted.
- Those employed part-time for economic reasons fell 146k however the absolute number remains extremely elevated at 5.3M (was 4.6M in September).
- Additionally several of the demographic-related deterioration reversed: black/African-American unemployment pulled back to 7.5% for the lowest since July after jumping to 8.2% in November, while the unemployment rate for those with less than a high school diploma fell to 5.6% from 6.8% prior.
- In a notable aggregate, Prime-age (25-54) unemployment fell to a 4-month low 3.65% (3.89% prior).

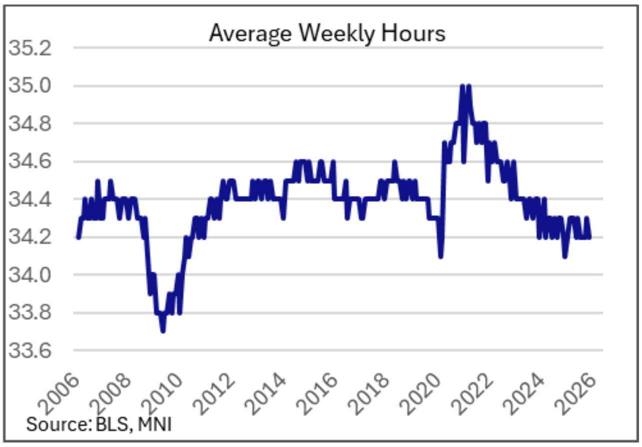


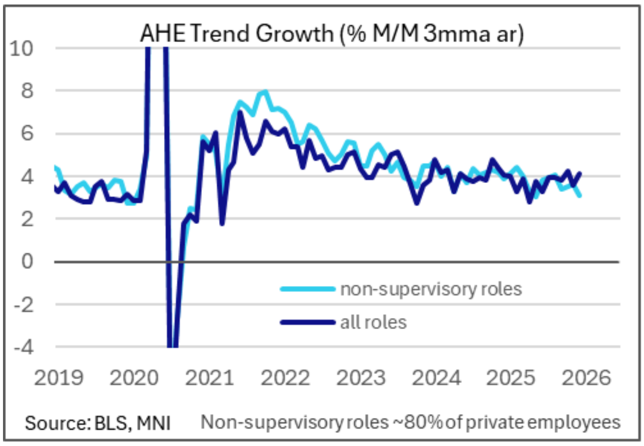


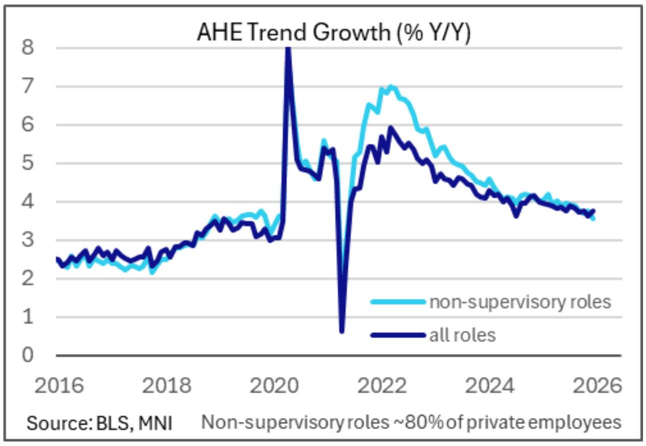
AHE Beat Clouded By Lower Hours, Doesn't Trouble Productivity Strength

- Back to the establishment survey, average hourly earnings were close to expectations in December at 0.325% M/M (cons 0.3) although we'd argue that it's a stronger outturn than it looks considering a clear skew of risks seen lower with a primary dealer analyst range of 0.1-0.3%.
- It followed an upward revised 0.24% M/M (initial 0.14%) in Nov and an unrevised 0.44% M/M in Oct.
- It saw the Y/Y accelerate to 3.76% (cons 3.6) from 3.62% in Nov, and with two stronger quarters with 4.0% annualized in Q4 after 3.9% in Q3.
- Of course, productivity growth has been strong in recent years, as most recently highlighted by yesterday's 4.9% annualized increase in preliminary Q3 data. The Fed will continue to not be worried about inflationary pressures stemming from the labor market.
- That's even more so with the non-supervisory category seeing a more tepid increase of 0.10% M/M after an unrevised 0.35% in Nov and a downward revised 0.31% (initial 0.41%) in Oct.
- It has recently seen a weaker trend at 3.55% Y/Y and 3.4% annualized in Q4.
- The AHE data should be seen in conjunction with the surprise decline in average hours worked, back to 34.2 (cons 34.3) after increasing to 34.3 in Nov for its highest since Jul. This will have mechanically boosted AHE for salaried employees.

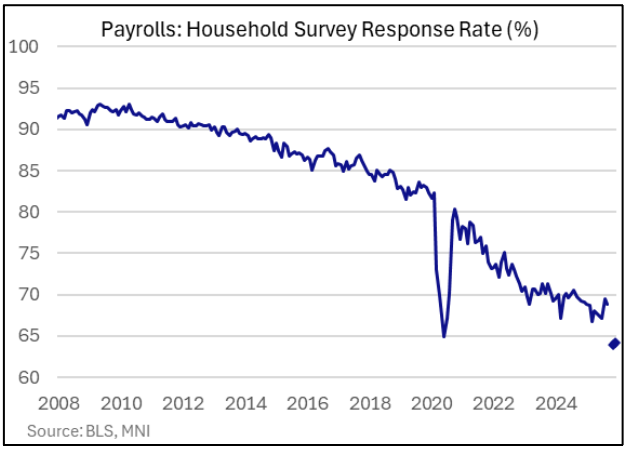








Payrolls Data Quality Sees Only Minor Improvement After Poor November

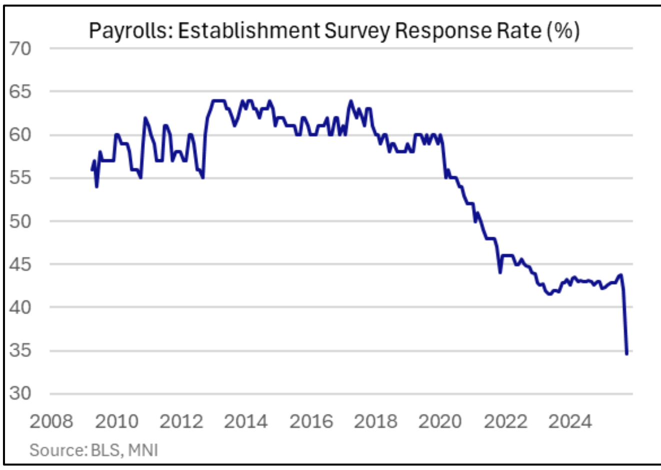


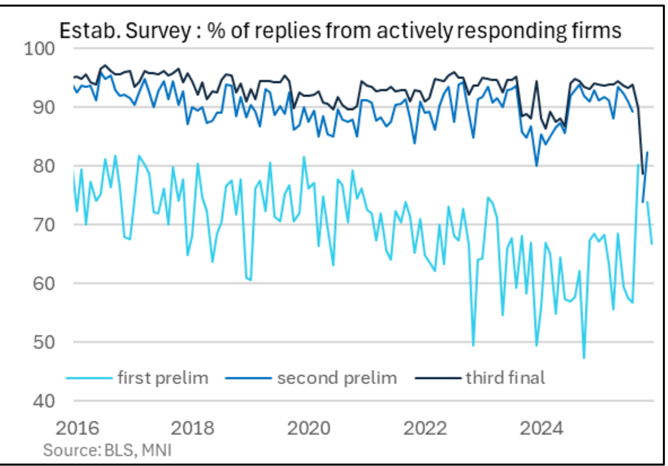
The BLS said its household survey in the payrolls report wasn't materially impacted by the government shutdown in December but the response rate remained close to a record low seen in last month's highly unusual November release. The very low response rates will add month-to-month noise to the data.

- The 64.2% in December after 64.0% compares with 68.9% in the September 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.





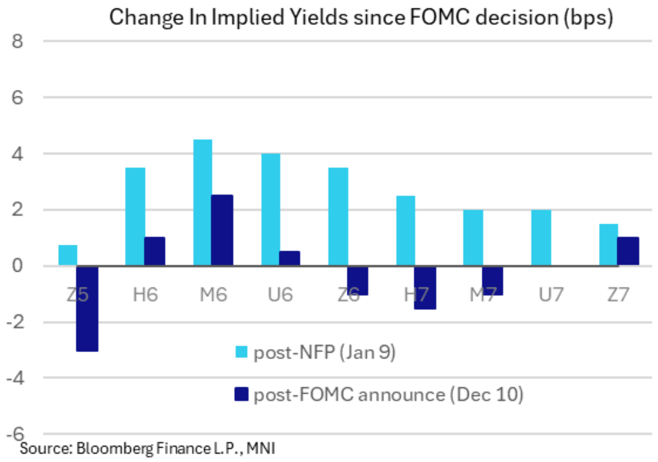
STIR: Modestly Hawkish Reaction, Only Just Fully Pricing Next Cut For June

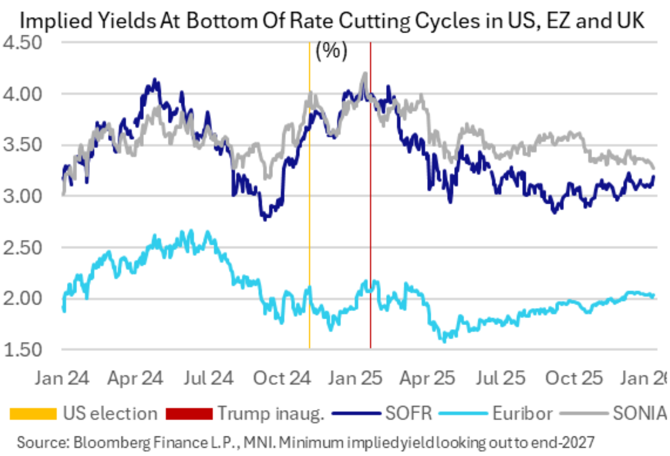
- Jobs growth may have disappointed in Friday's Employment Situation report but the drop in the unemployment rate saw near-term rate FOMC cut prospects trimmed further after hawkish shifts throughout the week on data and oil prices.
- The current market-implied path sees a cumulative 12.5bp of cuts priced for Apr vs 14.5bp pre NFP and 18.5bp prior to Wednesday's strong ISM services report.
- A next cut is still fully priced for June, only just at 25.5bp, the first meeting under a new Fed Chair.

FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Jan 9)			*chg in rate*	pre ISM serv/JOLTS (Jan 7)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	3.64			3.64				3.64			
Jan'26	3.63	-1.2	-1.2	3.61	-3	-2.8	*1.6*	3.60	-4	-4	*3.0*
Mar'26	3.57	-6.2	-7.4	3.54	-8	-10.3	*2.9*	3.51	-9	-13	*5.4*
Apr'26	3.52	-4.9	-12.3	3.49	-4	-14.7	*2.4*	3.46	-6	-18	*6.0*
Jun'26	3.39	-12.7	-25.0	3.36	-13	-28.1	*3.1*	3.31	-15	-33	*8.2*
Jul'26	3.31	-7.7	-32.7	3.28	-8	-36.0	*3.3*	3.23	-8	-41	*8.6*
Sep'26	3.23	-8.8	-41.5	3.20	-8	-44.4	*2.9*	3.13	-9	-51	*9.3*
Oct'26	3.17	-5.3	-46.8	3.15	-5	-49.2	*2.4*	3.08	-5	-56	*9.0*
Dec'26	3.13	-4.6	-51.4	3.10	-5	-54.2	*2.8*	3.03	-5	-61	*9.5*

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





Post-NFP Fedspeak

Richmond's Barkin: Unemployment Downtick A Welcome Development (Jan 9)

Richmond Fed President Barkin (2027 FOMC Voter) told reporters including MNI Friday that the December payrolls report was "encouraging", with the unemployment rate downtick to 4.4% in the month coming as a welcome development in a labor market environment characterized by modest and balanced supply and demand.

- "This fine balance between a modest job growth environment with a modest labor supply environment seems to be continuing and that was encouraging, Some of it is uncertainty, a lot of it is productivity. But it’s hard to find businesses outside of the AI ecosystem or health care that are talking about hiring, and that’s very consistent with what I saw today."
- Speaking on the intersection of today's jobs numbers and the strong recent productivity data shown in this week's report: "businesses are going to have to make a call as to whether they can sustain the productivity, and they're going to need to hire to meet demand. That’s the upside case. The downside is they're convinced that demand will falter, in which case you reduce jobs equivalently."

Analyst View Changes

Per Bloomberg, Barclays now sees cuts in June and December, vs March and June in their previous base case.

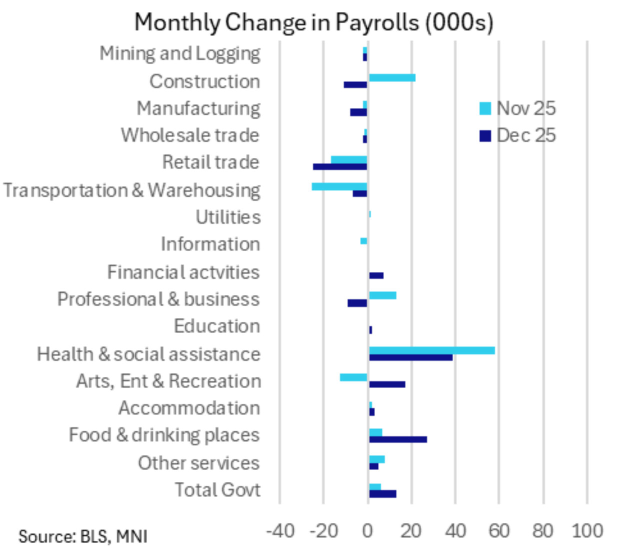
Reuters earlier reported that Citi now expect the Fed to cut 25bps in March, July and September vs January, March and September previously seen.

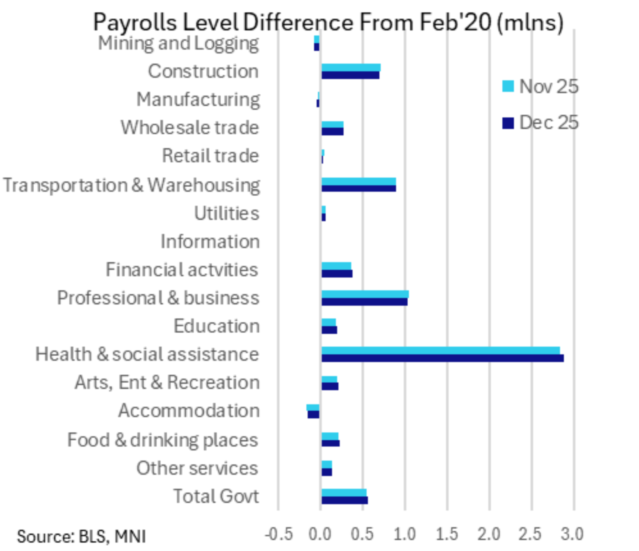
JPMorgan has eliminated a final rate cut in January from their baseline, now seeing rates steady at current levels through all of 2026. "The recent stabilization in the unemployment rate should finally bring some cohesion to the FOMC, and we now look for the Committee to be on hold at the meeting at the end of the month. After that we see the Fed holding the target range for the funds rate steady at 3.5-3.75% for the rest of the year; the proposition that rates are restrictive looks increasingly untenable given economic and financial developments."

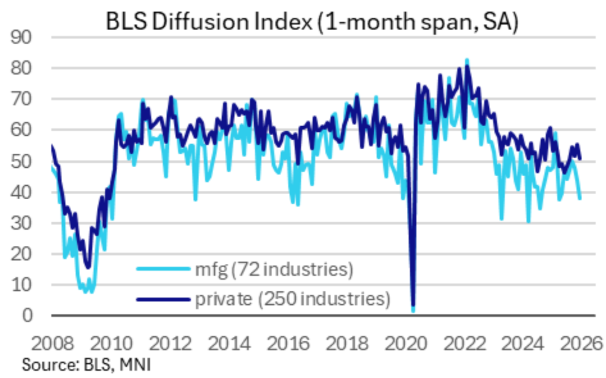
Morgan Stanley now look for 25bp cuts from the Fed in June & September vs cuts in January & April. They maintain their terminal call with a target range at 3-3.25%.

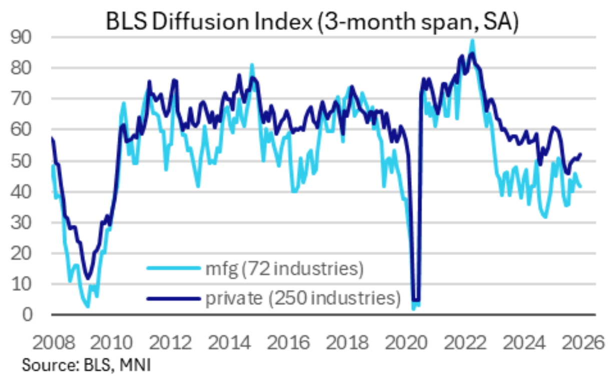
- “Given the improved economic momentum and the decline in the unemployment rate, we see less need for near-term cuts to stabilize the labor market.”
- Specifically: "Third quarter GDP surprised to the upside, with unexpected strength in consumer spending on services, among other items. Incoming data for the fourth quarter also point to relative strength, despite the federal government shutdown. In addition, the unemployment rate in December fell to 4.4% (4.375% to three decimals) and the November unemployment rate was revised lower to 4.5%."
- “Instead, we now think the Fed will cut rates as it becomes clear tariff pass-through is complete and inflation is decelerating toward the 2.0% target.”
- “We expect disinflation to begin in 2Q 26 with y/y rates of inflation slowing around mid-year. If so, the Fed can then further normalize its stance.”

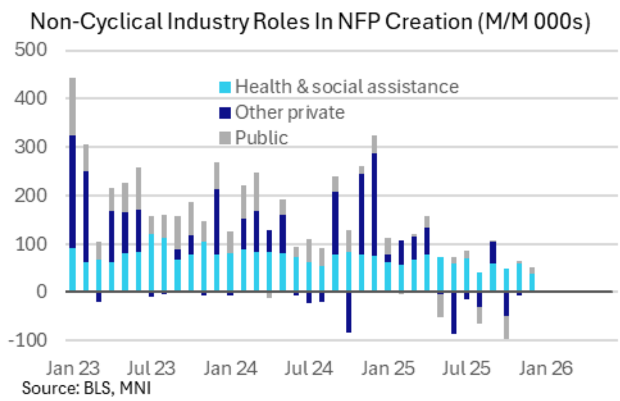
Payrolls Report Chart Pack

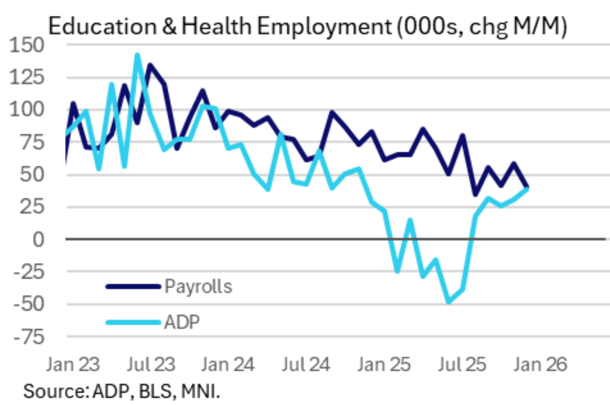


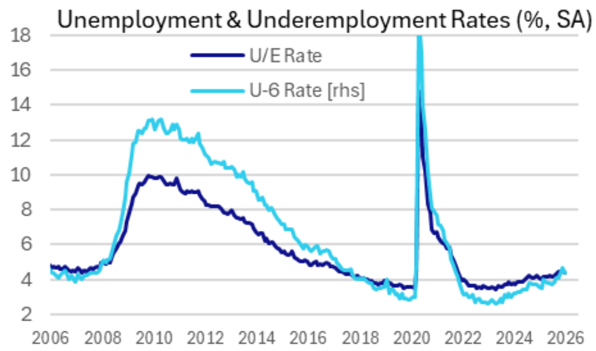




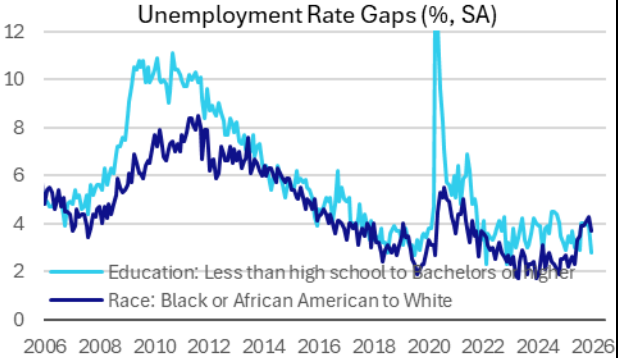




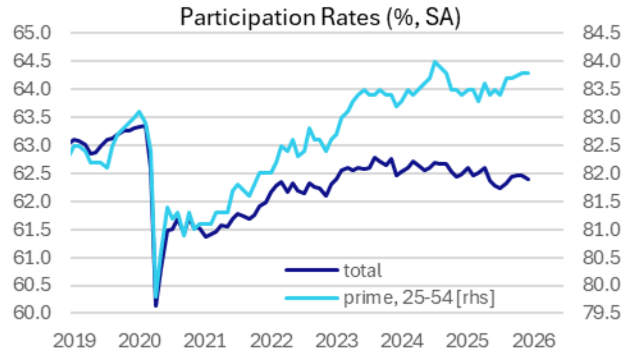




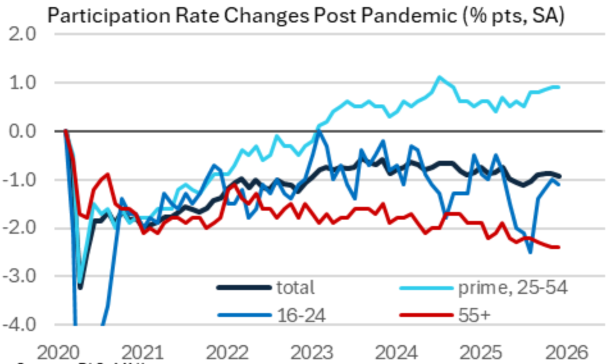
Source: BLS, MNI



Source: BLS, MNI

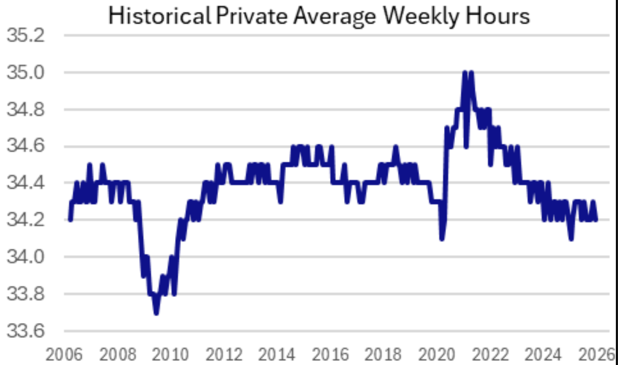


Source: BLS, MNI

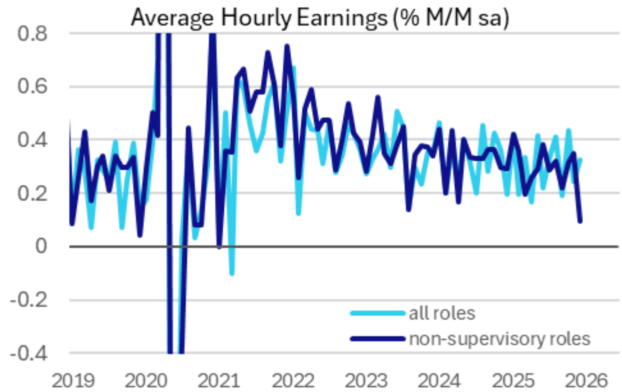


Source: BLS, MNI

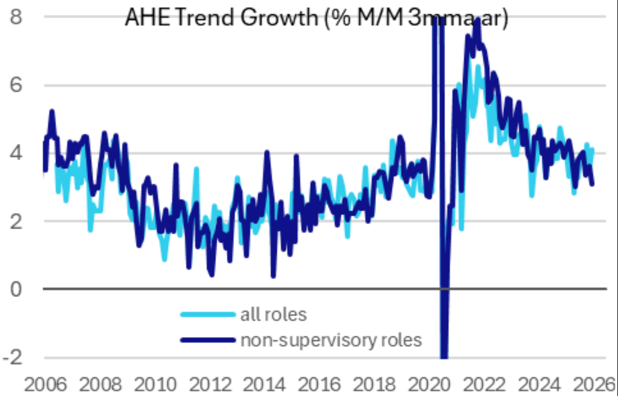
Source: BLS, MNI



Source: BLS, MNI



Source: BLS, MNI Non-supervisory roles ~80% of private employees



Source: BLS, MNI Non-supervisory roles ~80% of private employees

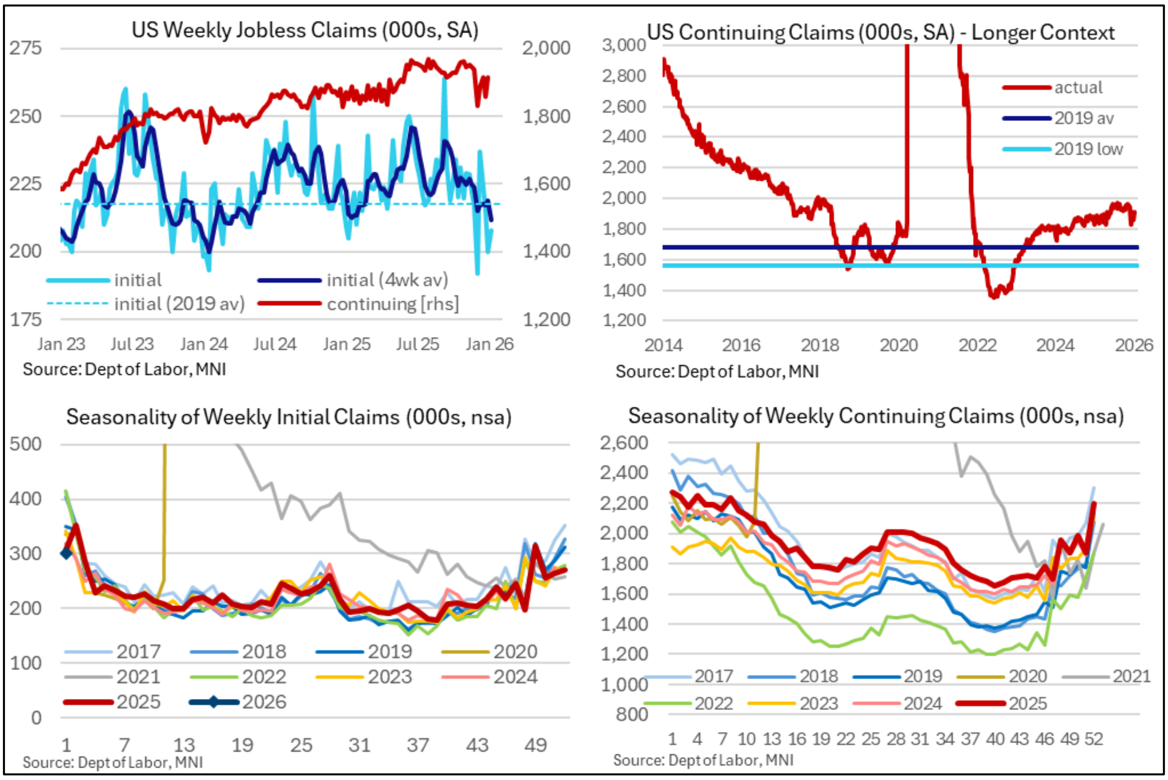
Other Labor Indicators Of Note

<u>Upside</u>

Initial Claims Remain Very Low But Crude Residual Seasonality Concerns

Initial claims were lower than already low expectations in the week spanning the new year. Whilst there should be some caution when assessing these data over the holidays (and potential residual seasonality more broadly), they still point to an encouraging current level for the four-week average. Continuing meanwhile ended 2025 holding their step back from cycle highs seen through Jun-Oct.

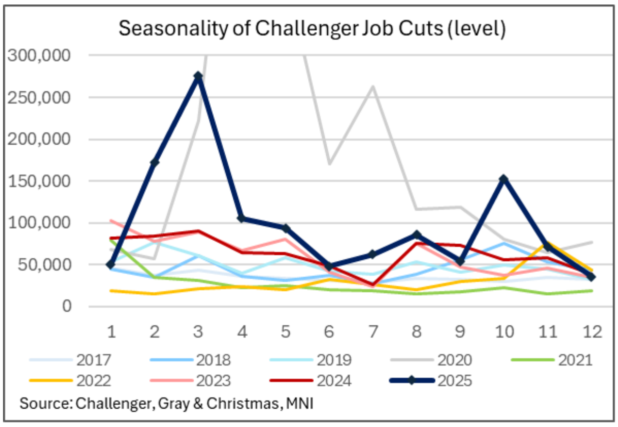
- Initial jobless claims were lower than expected at 208k (sa, cons 212k) in the week to Jan 3 after a still unusually low 200k in the prior week (initial 199k).
- The holidays period should always see weekly adjusted data treated with caution but it's nevertheless a second consecutive low print (as opposed to around the Thanksgiving holiday when claims swung from 217k to 192k and then 237k).
- It sees the four-week average drop 7k to just 212k for the lowest since Apr 2024, although with the top left chart below crudely showing signs of residual seasonality.
- We often compare to the 218k averaged in 2019 for a period of labor market tightness when there was a sub-4% unemployment rate (and that's without adjusting for the nearly 6% increase in the covered employment pool since end-2019).
- Of course, it's broadly accepted that the labor market is in a low fire, low hire state, with continuing claims running closer to (or recently a little below) the 2017 average of 1957k when the u/e rate averaged 4.36% (in a year when it started at 4.7% and ended at 4.1%).
- Continuing claims were a little higher than expected at 1914k (sa, cons 1900k) in the week to Dec 27 after another downward revised 1858k (initial 1866k).
- Whilst not impacted by this week's release, a reminder that continuing claims of 1914k around the December payrolls reference period compared favorably to the 1944k in Nov, 1957k in Oct, 1916k in Sep and 1944k in Aug.
- Eyeballing the below non-seasonally adjusted charts, initial claims are at the low end of the range for recent years whilst continuing claims meanwhile are still at the top end.

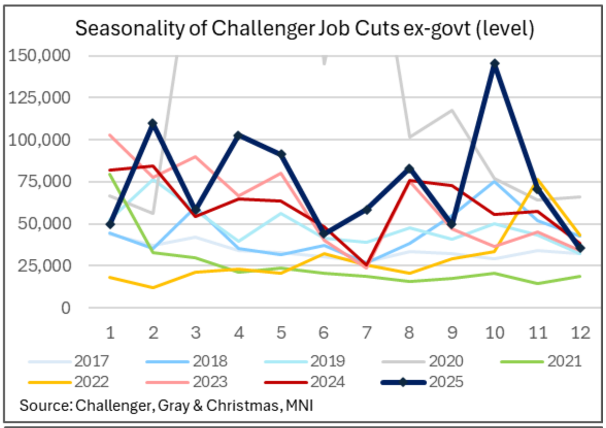


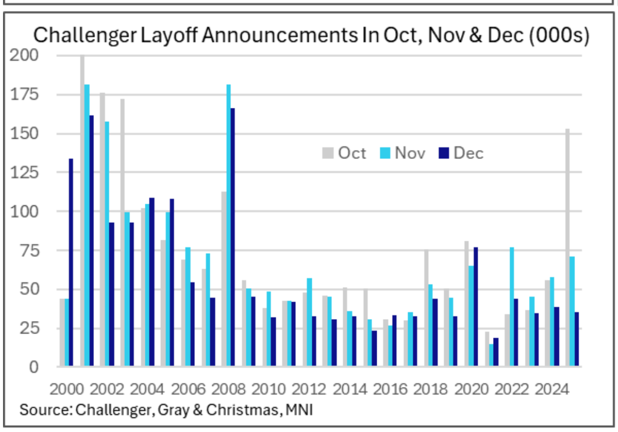
Challenger Job Cuts Trimmed In Dec, Confirms Firm Increase In 2025

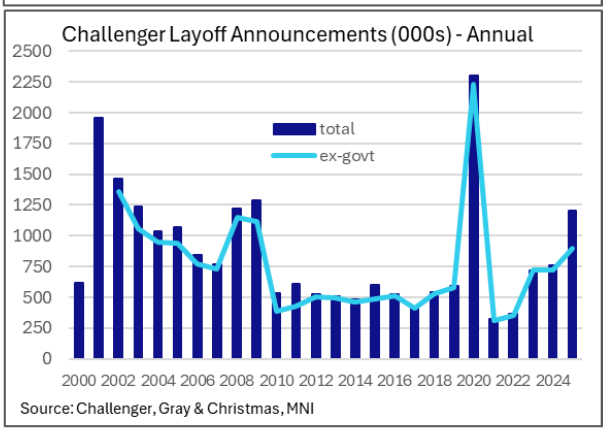
The Challenger jobs report saw a modest Y/Y decline in December as they moderated further after a particularly sharp increase in October. Private job cut announcements increased 24% to nearly 900k across 2025, confirming its highest since 2008 aside from 2020. Warehousing and retail have provided the largest annual increase for private industries whilst an impressive 12 of 30 industries saw lower job cut announcements than a year ago, led by aerospace/defense.

- An early release of a pdf for the Challenger jobs report in December shows job cut announcements at 35.6k for a -8% Y/Y decline from the 38.8k in Dec 2024.
- It follows the particularly sharp 175% Y/Y increase in Oct to a huge 153k (highest for an October since 2003) and a more measured 24% increase to 71k in Nov.
- Some mixed but not particularly large industry changes on a Y/Y basis in Dec: the largest decline came from food (3.6k vs 10k), health care (1.8k vs 4.3k), tech (0.9k vs 3.3k) and retail (1.0k vs 3.3k) whilst the largest increase came from services (5.7k vs 2.4k) and transportation (3.1k vs 1.0k). Services include companies that provide support to other businesses such as cleaning, staffing, and outsourcing firms.
- Away from monthly noise, the annual total showed a marked increase of 58% at 1.21mn vs 0.76mn in 2024. The government had an unusually large contribution this year, adding 217k in March alone on DOGE efforts and 308k for 2025 as a whole.
- Indeed, the private sector reported a more modest but still notable 24% increase to 898k after two years around the 720k mark. Exclude the 2020 pandemic and this is a fresh high since the 1.1mn in both 2008 and 2009 on this private basis.
- The largest contributors to this private annual increase were warehousing (95k vs 23k in 2024, +72k), retail (93k vs 42k, +51k), services (75k vs 44k,+30k), telecomms (38k vs 11k, +28k), non-profits (29k vs 6k, +23k) and tech (154k vs 134k, +20k).
- 12 of the 30 industries reported by Challenger saw annual declines meanwhile, led by aerospace/defense (4k vs 30k, -25k), autos (32k vs 48k, -16k) and entertainment/leisure (25k vs 35k, -11k).







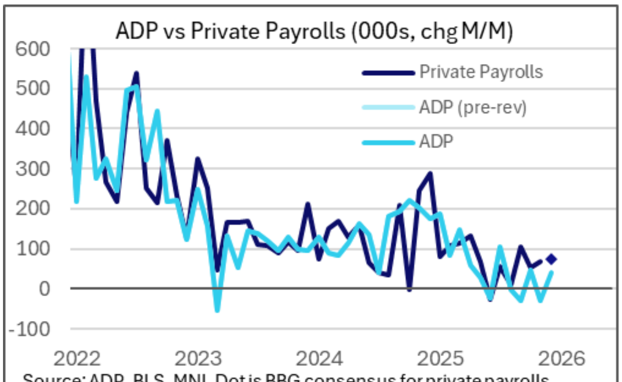


Mixed

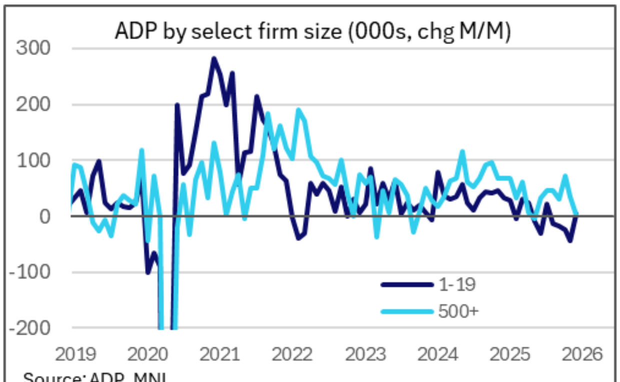
ADP Employment Increase A Touch Softer Than Tracking (Mixed as softer than expected but firmer than Nov)

ADP private employment modestly disappointed Bloomberg consensus in December but was close to weekly tracking when considering volatility within the data. It continues a trend of oscillating between modest declines and then increases in recent months, and has declined in three of the past six months. At 41k and a three-month average of 20k it confirms an alternative indicator that is softer than the 73k increase expected for BLS private payrolls on Friday, although it has undershot the latter for some time.

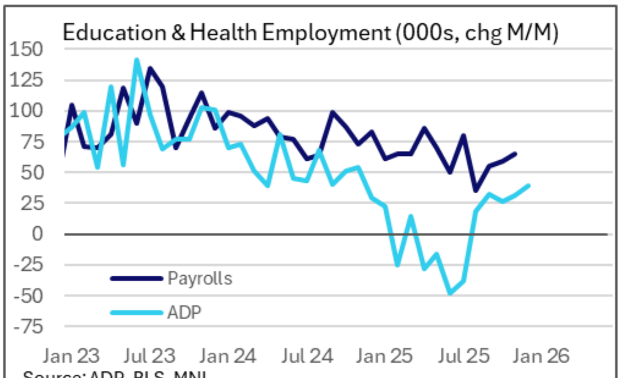
- ADP private employment increased 41k in December, a small miss on Bloomberg consensus of 50k and weekly tracking equivalent to 46k.
- That's close to being in line with weekly tracking when considering a realistic margin of error given how much these weekly figures can move. The monthly equivalent of the four weeks to Dec 6 of 46k followed a monthly 70k in the update up to Nov 29 and 15k up to Nov 22 (with this monthly update based on a reference period around the 12th of the month).
- Still, it confirms an alternative indicator that is softer than the 73k increase expected for private payrolls in Friday's BLS report. That said, it has undershot private payrolls growth for some time, with an average undershoot of 33k over the past six months including 98k in November.
- The 41k increase follows -29k in Nov (revised from -32k first reported) after 47k in Oct and -29k as it's oscillated between small declines and increases in recent months.
- Services drove the increase (+44k after -9k) as it continued to be supported by education & health (39k after 31k) along with a large increase in leisure & hospitality (24k after 14k). Professional & business services saw the largest monthly decline (-29k after -18k). Monthly correlation with equivalent BLS payrolls series is at best mixed for these sectors.
- Goods-producing industries meanwhile fell by 3k after -18k, with a third consecutive decline for manufacturing jobs (-5k after -18k in Nov).
- A recent theme of smallest firms suffering and largest firms driving jobs growth appeared to pause in December. Those with 1-19 employees saw headcount increase by 4k after four-month cumulative decline of -100k before that (including -44k in Nov) whilst those with 500+ employees saw headcount increase just 2k after a four-month increase of 186k (including 36k in Nov).



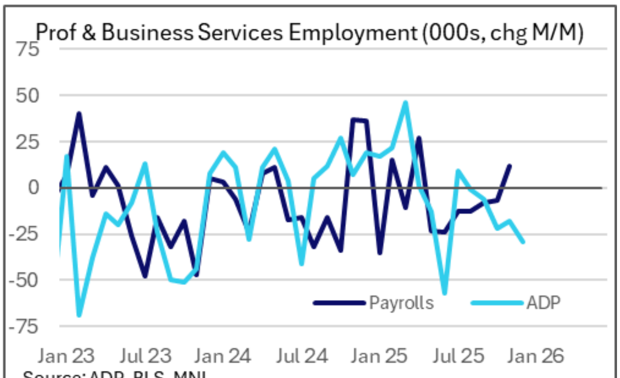
Source: ADP, BLS, MNI. Dot is BBG consensus for private payrolls



Source: ADP, MNI.



Source: ADP, BLS, MNI.

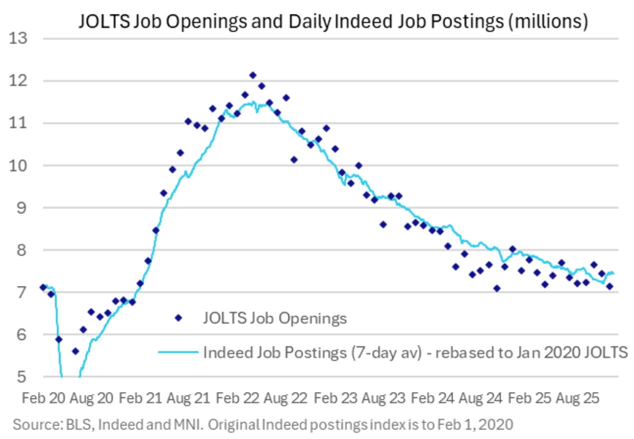


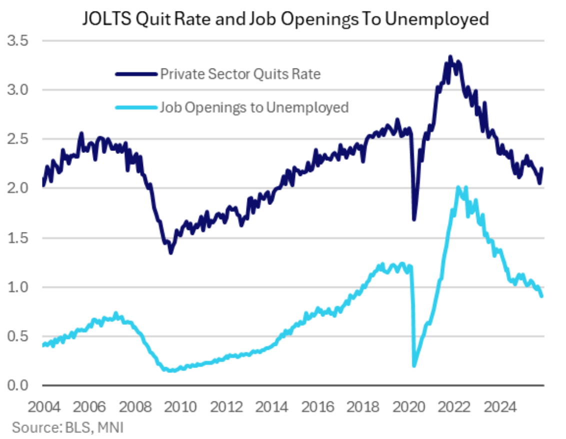
Source: ADP, BLS, MNI.

Job Openings Surprisingly Slide In A Particularly Mixed JOLTS Report

The November JOLTS report marked the opposite of last month's two-month update, with this time a large miss for job openings but higher quits and lower layoffs. That said, hires also offered a more pessimistic take although it was at least broadly similar to last month's previously estimated decline before latest revisions.

- Job openings ended November much lower than expected at 7146k (cons 7648k) after a downward revised 7449k in Oct (initial 7670k) and 7658k in Sep.
- It's the lowest level of openings since Sep 2024 and before that Dec 2020.
- The decline in the latest two months goes firmly against stabilization and a slight increase in Indeed job openings in daily data up until Dec 12.
- The ratio of JOLTS openings to unemployed fell to 0.91 in November from 0.97 in Oct (calculated with interpolated unemployment) and 1.01 in Sept.
- Having averaged 1.02 through Feb-Oct, it's now dropped to a fresh low since early 2021. Pre-pandemic, it last saw 0.9 readings in 2017.
- Powell back in September noted the ratio remained near 1 as a part of a number of other labor market indicators that remain broadly stable, but we assume greater sensitivity if this starts falling materially lower. For context, it averaged 1.2 in 2019 and 1.0 in 2017-18.

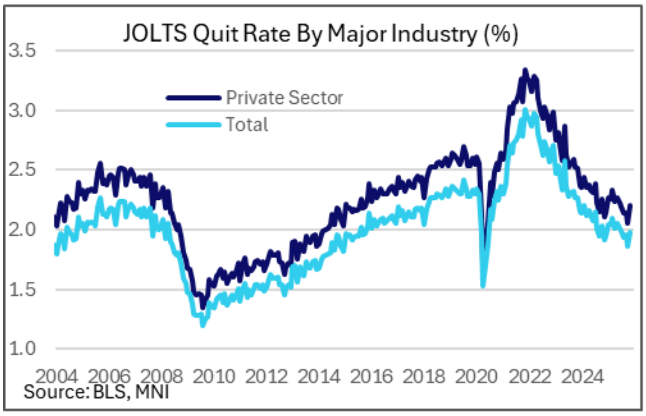


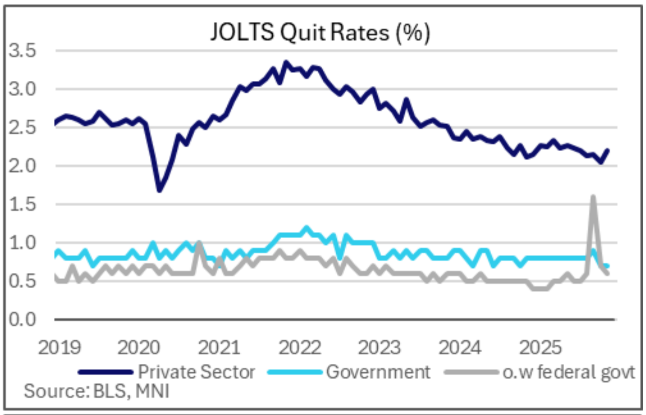


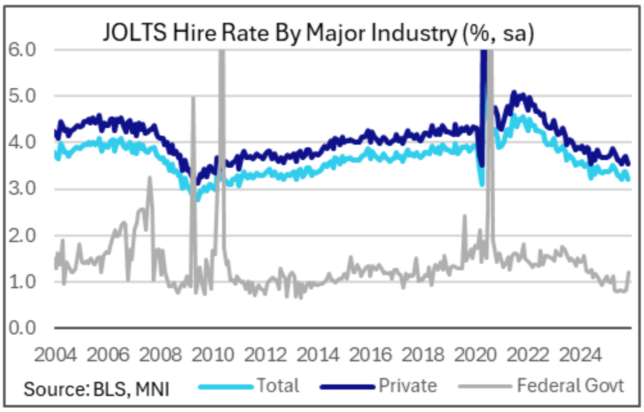
Quit Rate Improves And Layoffs Ease But Hire Rate Very Low

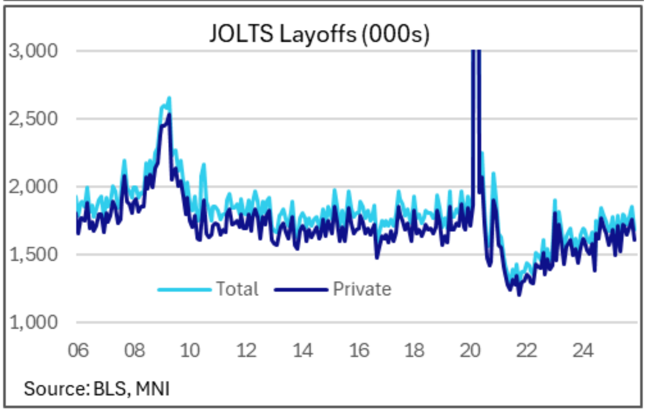
The JOLTS quit rate increased in November to a joint high since June, an encouraging development but still at a relatively low level, and layoffs surprised lower, but the hire rate is at one of its lowest levels in more than ten years.

- Quits recovered in November after a weak October, with the level rising to 3161k (cons 2995k, albeit just 4 responses) after an upward revised 2973k in Oct to nudge back above the 3128k in Sep.
- The quit rate increased to 1.98% after 1.86% in Oct (initially 1.84) and 1.96% in Sep, with 1.98% a joint high since June. Recent moves have been driven by private sectors with a quit rate at 2.20% after 2.06% in Oct (initially 2.03) and 2.15% in Sep.
- Government quit rates saw a second month at 0.7% having increased to 0.9% in Sep after sustained 0.8% readings before that. The push higher in Sep was driven by DOGE deferred resignations, with the federal govt quit rate jumping from 0.6% to 1.6% at the time after (it's currently back at 0.6%).
- Layoffs were also encouraging as they fell to 1687k (cons 1816k, just 3 responses) after the 1850k in Oct was its highest since Jan 2023. That sees layoffs back at the lowest since May.
- Hire rates look to have slipped notably in the latest vintage but it's only back close to where it was thought to be prior to today's revisions (with the combined Sep/Oct release coming on the first day of the Dec FOMC meeting). Specifically, the hire rate fell to 3.21% from 3.37% in Oct (initially 3.23) and 3.36% in Sep (unrevised).
- It's the lowest hire rate since Aug (also 3.21%), one month in the pandemic (3.09% in Apr 2020) and then back to 2012.
- Fed Chair Powell has 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.







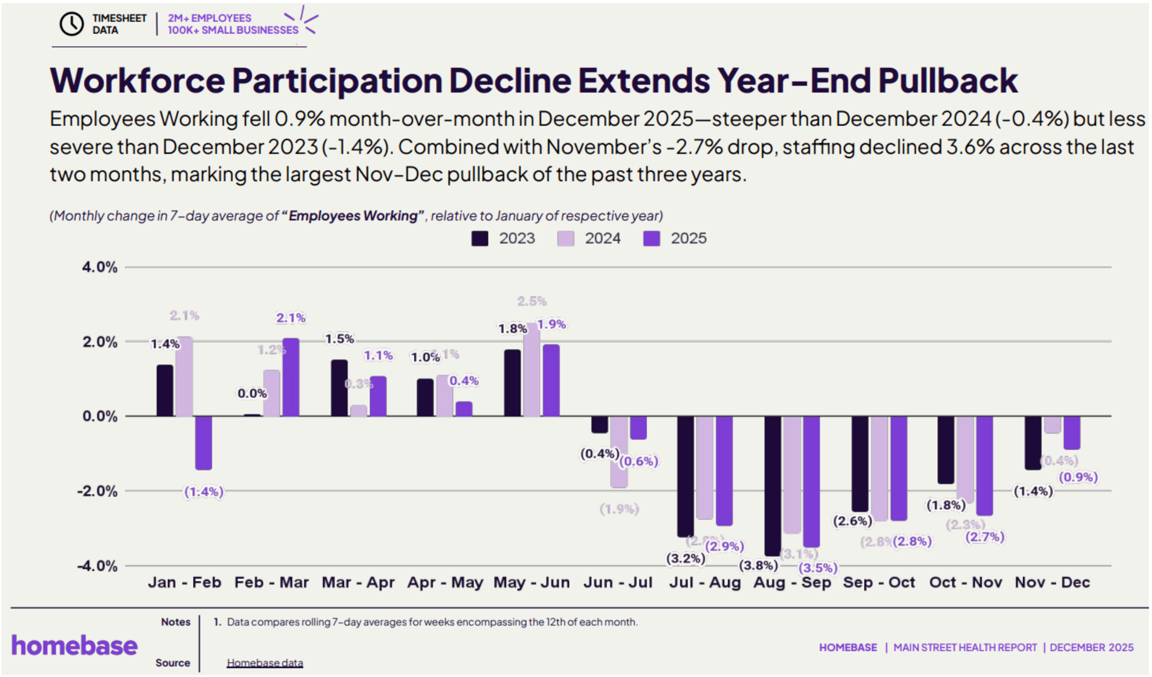


Downside

Homebase Labor Market Report Sees Extended Year-End Employment Drop

The Homebase labor market report for December (**link**) is downbeat, noting a decline in staffing the last couple of months and weak hiring, though arguably not as poor as November's report. This report focuses primarily on small businesses and since the data is available daily it is seen as a useful real-time tracker. Some excerpts from the report - underlying time series were not available (and note they do not seasonally-adjust their series):

- "Employees Working fell 0.9% month-over-month in December 2025—steeper than December 2024 (-0.4%) but less severe than December 2023 (-1.4%). Combined with November's -2.7% drop, staffing declined 3.6% across the last two months, marking the largest Nov–Dec pullback of the past three years." See chart.
- "Hiring fell 7.7% in December 2025, less severe than December 2024 (-11.7%) but weaker than 2023 (-2.9%). Relative to January, hiring remained stronger in 2025 (-5.5%) than 2024 (-9.9%), following front-loaded gains in August (+9.9%) and subsequent fall corrections."
- On wages: "Hourly wages increased 0.6% month-over-month in December 2025, exceeding December 2024's flat growth. Most industries posted comparable gains, though Health Care wages dipped slightly (-0.2%)."
- The St Louis Fed's employment tracker leans heavily on Homebase data, and they explain the dataset as follows: "The daily data from Homebase reflects changes in employment relative to January. In other words, changes in employment are indexed with January as the baseline. We applied an equivalent indexing technique to the CPS data with January as the baseline." Per homebase: "The dataset is based on Homebase data gathered from more than 100,000 businesses and 2 million hourly employees active in the US on our platform in December 2025. We are one of the largest and most trusted sources of real-time, quality data on employment growth across the small business landscape."
- Per the St Louis Fed, "The Homebase and [Current Population Survey] data have a strong correlation of 0.82, but the magnitude of the employment change is larger, on average, in the Homebase data."



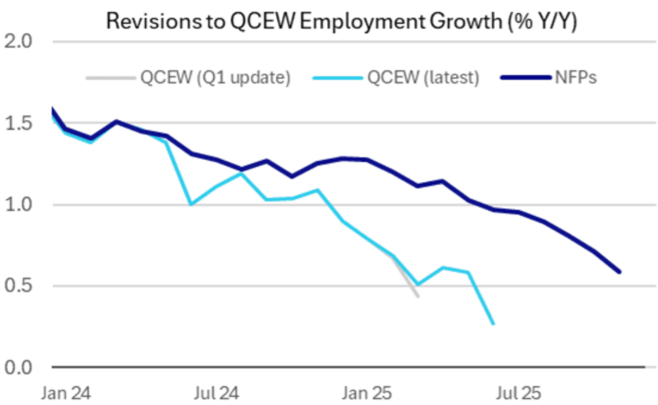
Source: Homebase

Broader Notes On The Labor Market

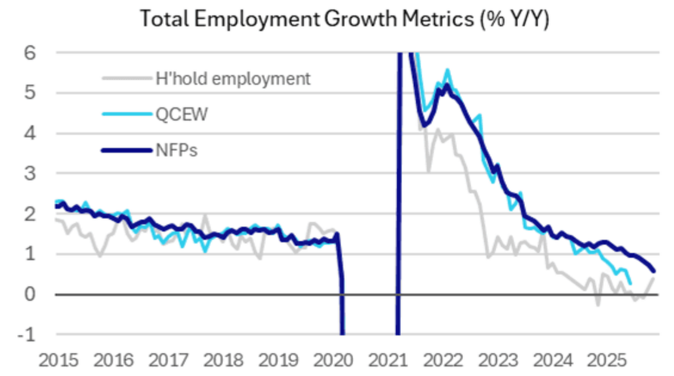
Downward NFP Revisions Look On Track For Powell's 60k/Month Estimate

The latest QCEW data for Q2, released at 1000ET, show what we think is confirmation that the benchmark revision for payrolls, due with the January payrolls report, will be less negative than the preliminary estimate pointed to (but still very large). Today's update shouldn't surprise the Fed or markets but we'll revert if we see otherwise.

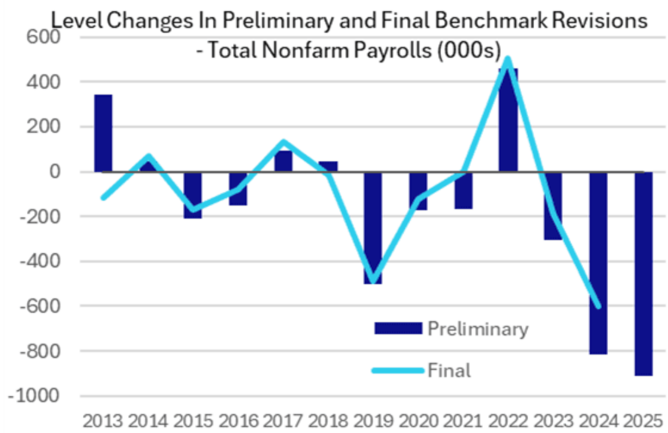
- There are two areas worth focusing on in today's Q2 update for QCEW (the far more comprehensive measure of employment than payrolls): revisions to Q1 and latest trends.
- Q1 revisions were positive, with total employment rising 779k in the twelve months to March 2025 (when nonfarm payrolls will be revised to in the Jan 2026 report) vs a 675k increase in the Q1 update.
- Latest nonfarm payrolls data show a 1790k increase over the same period, i.e. they overestimated jobs growth by 1011k vs 1115k with the Q1 QCEW vintage.
- The latter coincided with a preliminary benchmark revision estimate of -911k, which as noted at the time was highly likely to be revised lower come the actual benchmark revision, as is usually the case (see bottom chart).
- We therefore crudely assume - and will keep an eye out for other estimates - that the benchmark estimate is currently tracking more like -815k, or 68k/month vs 76k/month with the preliminary estimate, with a further narrowing in the gap next quarter.
- This shouldn't be a surprise, with these monthly adjustments walking closer to those by Powell last week at the FOMC press conference ("we think there's an overstatement […] by about 60k" per month) and Waller again earlier this week (50-60k overestimation, having estimated a 60k overshoot for some time).
- As for latest QCEW data for Q2, it continues to point to softer employment growth than implied by payrolls, up just 0.3% Y/Y in June vs 1.0% Y/Y for nonfarm payrolls at the time. Since then, payrolls growth has slowed to 0.6% Y/Y in November whilst the household survey equivalent was 0.4% Y/Y in November (crudely adjusting for the annual population control).



Source: BLS, MNI.



Source: BLS, MNI.
Household survey employment w/ MNI adjustment for population control



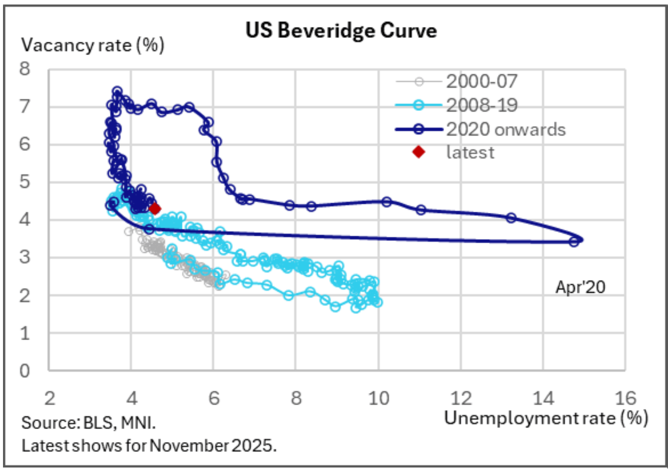
Source: BLS, MNI

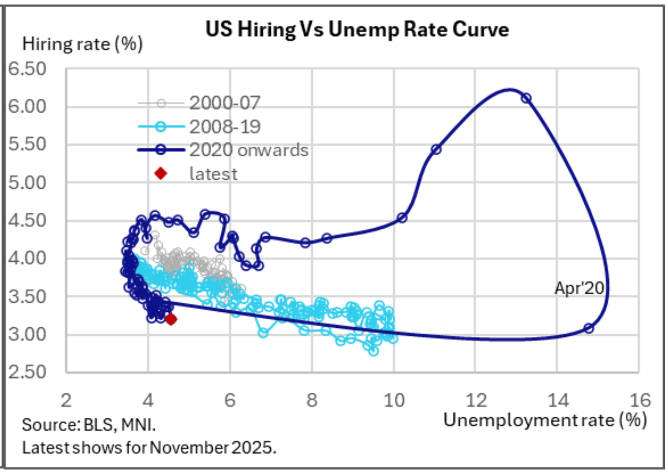
Shift In Hiring/Unemp Rate Curve Suggests Glacial Labor Market (Written ahead of the Dec NFP release)

The latest JOLTS report was further evidence of the labor market's current "low hiring, low firing" dynamics - continuing to highlight the recent unusual relationship between hiring and unemployment.

- The Beveridge Curve - which plots the inverse relationship between the vacancy rate against the unemployment rate - appears to be on a relatively normal trajectory, after seeing an almost vertical slope in the recovery from the pandemic. The recent dynamic here has been roughly consistent with the post-GFC, pre-pandemic relationship with the level of the unemployment rate. Continuing on this slope would suggest that a further decline in vacancies will go hand-in-hand with a steady rise in the unemployment rate in coming months. (Fed Chair Powell said in November that “You’re at a place where further declines in job openings might very well show up in unemployment. You’ve had this amazing time where you came straight down, but I just think you’re going to reach a point where unemployment starts to go up.”)
- But an ongoing puzzle is in the hiring rate's relationship to the unemployment rate. Hiring fell to a post-pandemic low in November, at a rate that in previous economic periods this century would have been substantially higher unemployment. To cite some extremes: hiring rates of this level post-GFC came alongside unemployment rates touching 10% (a true extreme: April 2020 unemployment neared 15% at a hiring rate (3.1%) close to the current hiring level). At The very least we would have expected an unemployment rate in November of 7-8% or higher, vs the 4.6% actual.
- It's not entirely clear what's going on here: some of this is driven by lower government hiring, with the rate dropping to 1.21% (lowest since the early 2010s, ex-pandemic) from 1.46% prior, though the private sector hiring rate was down sharply too (3.55% after 3.69%), not quite a multi-decade (ex-pandemic) low due to a 3.54% figure in August but still depressed.
- Some of it may be attributable to previous pandemic-related over hiring (with layoff data and business survey anecdotals alike suggesting that employers are hoping attrition rather than firing can reduce the workforce where necessary), and some by uncertainty including over the potential for AI to cheaply replace entry-level/low-skilled jobs.

- With openings continuing to easily eclipse hirings, there may be some sort of mismatch going on here too, with employers unable or unwilling to pay higher reservation wages and/or worker skills not meeting the required standard.
- Whatever the reason, the hiring/unemployment curve has settled into a similar near-vertical pattern as seen in the Beveridge Curve through much of the 2021-2023 period. If the recent relationship continues, it could mean that an even worse hiring environment does not necessarily mean a major jump is impending in unemployment, entrenching the "low hiring, low firing" environment.
- That being said, in both the cases of vacancies and hiring, there has been a steady deterioration that points to a continued loosening in the labor market. If the hiring/unemployment curve recalibrates to historical experiences, however, the rise in joblessness could accelerate.





MNI Policy Team Insights

MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026

By Pedro Nicolaci da Costa (Jan 5, 2026)

WASHINGTON - Federal Reserve Board Governor Stephen Miran told MNI on Monday the FOMC needs to cut interest rates substantially this year because underlying inflation is near target and a hesitancy to lower borrowing costs has already unduly damaged the labor market.

Recent weakness in the labor market, which saw the jobless rate increase to a four-year high of 4.6% in November, could have been prevented by more consistent monetary support from the central bank, Miran said in an interview.

"I would say the labor market has been on a trajectory of gradual weakening, in large part because of Federal Reserve policy," he said.

"And with the unemployment rate having crept higher and with various survey measures showing a job market that increasingly favors employers, it seems clear where the trajectory is and, given the inflation outlook, it seems inappropriate for us to try to maintain that trajectory and push it even farther."

CATCHING UP

Miran, who has dissented in favor of larger 50-basis point cuts at all three Fed meetings he's attended thus far, said he penciled in 150 basis points of rate cuts for this year in the December Summary of Economic Projections, up from 100 basis points in his September forecast.

“My previous dot was preconditioned upon the Fed pursuing the right policy, and as long as we keep policy at what I think of as materially too tight, we're reducing my growth expectations in the future,” he said. “That requires looser policy now to offset that.”

Other reasons for the downward revision were greater damage from the government shutdown and more dovish readings on employment and inflation than he had expected, Miran said. Futures traders are currently pricing in just over two quarter-point cuts for the year.

The way shelter and financial services costs are imputed in traditional inflation measures is significantly overstating price pressures in the economy, Miran said.

“Once you extract from both of these distortions, underlying inflation is running at around 2.3%, which is basically within noise of our target,” Miran said. Headline and core CPI in November rose at a 2.7% and 2.6% rate, respectively.

“Because average tenant rents appear finally to have caught up to new tenant rents, and because market rents have been running at a 1% rate for a couple of years, that gives me a lot of confidence that we're going to see CPI rents really start to decelerate in the near future.”

UNDERSHOOT RISK

Miran said inflation is making such swift progress that it actually has the potential to undershoot the Fed’s 2% target. His expectation for a large looming inflation drag from shelter means that even sticky goods prices would not derail his view.

“I actually don't need a decline in goods prices to hit my inflation forecast. My inflation forecast is driven entirely by things that are not core goods. And so I can tolerate higher inflation from goods for a sustained period of time, in large part because I have such aggressive shelter-inflation marked in my forecast,” he said.

“If I end up being right on housing and wrong on tariffs, and then goods inflation does come down as a result of tariffs, we're going to end up pretty substantially undershooting our target as a result of that,” said Miran. “That's a risk that I feel is really being underappreciated by people. We seem to be having a lot of people that are fighting the last war without sort of thinking about the fact that we have two-sided risk looking forward.”

STAYING PUT FOR NOW

Miran, who was appointed to the Board of Governors in September to serve out the remainder of a 14-year term set to end this month, and is currently on leave from his role as chair of President Donald Trump’s Council of Economic Advisers, indicated he intends to stay at the central bank at least until someone is appointed to replace him, possibly beyond.

“Until somebody else is confirmed into my seat, I will continue to sit in my seat. That means what happens depends on whether somebody is nominated for my seat, and then what the timeline for that person's confirmation is, if someone is nominated for my seat,” he said.

“Whether I'll remain on the Federal Reserve if somebody is confirmed into my current seat will depend on a variety of things, including how many seats are open, and whether the president nominates me for one of them, or wants to keep me in this seat. That's not up to me.”

MNI INTERVIEW: Fed In Easing Territory After Rate Cuts - Tracy

By Jean Yung (Dec 19, 2025)

WASHINGTON - U.S. monetary policy has crossed into accommodative territory after three straight rate cuts, further imperilling the Federal Reserve's price stability objective and inflation-fighting credentials, Joe Tracy, former executive vice president and senior adviser to the president at the Dallas Fed, told MNI.

In prioritizing the full employment side of its dual mandate, the central bank is also poised to deliver more cuts that the Trump administration has loudly called for, highlighting the difficulty of maintaining independence when tasked with both monetary and fiscal objectives, Tracy said.

"If Congress aligned the Fed's mandate with that of other major central banks, which is to focus solely on price stability, then there's no way with the Fed missing its inflation target for five years that they could move to accommodative monetary policy," he said.

"Unfortunately, when you ask the central bank to choose between its two mandates in a supply shock, there's pressure on the administration to encourage the Fed to choose the employment side," he said.

"Maybe the data are signaling a future slowdown, but right now there's really not slack in the labor market. So it's interesting that the Fed is focusing on a potential problem rather than an actual, persistent problem."

EASY POLICY

Policy is no longer restrictive after the December cut, based on estimates of r-star and financial conditions, Tracy said. The real neutral rate has risen to 1% to 2% on expectations of strong productivity growth. Assuming the natural rate of unemployment is 4.5%, Taylor rules suggest policy rates should be roughly a full point higher, he said.

The Chicago Fed's National Financial Conditions Index has also indicated looser-than-average conditions and is trending looser since late 2022.

"They were on the low end of where they should have been before the cuts. Now they're in accommodative territory," Tracy said.

With another round of stimulus from tax cuts hitting next year, ongoing tariffs and firms delaying price hikes on policy uncertainty, "we could very much be in a situation where inflation gets back to the low 3s over the course of the year," he said. "I don't think it's all behind us." (See: MNI: Fed Biased To Ease With Focus On Jobs - Ex-Officials)

INFLATION TAKES PRIORITY

The FOMC's latest projections have inflation hitting target in 2028. That long timeline puts the Fed's credibility at risk and makes it more challenging to return inflation to target, Tracy said.

"Inflation expectations aren't moving up now, but at some point people will say the Fed is not serious about 2%, otherwise they'd be acting on it. When they come to that view, expectations will rise."

As the central bank faces down fresh tests of its independence in 2026, Congress should legislate to allow the Fed to focus solely on its inflation mandate, as dealing with inflation first and foremost is better for the labor market in the long run, Tracy argued.

"If we look back at the major times when the Fed has been pressured by the administration, it’s reasonable to assume that would not have happened at all or to a lesser degree if the Fed were only responsible for inflation," he said.

"It would create cleaner lines of accountability and keeps the Fed out of anything that looks like fiscal policy."