

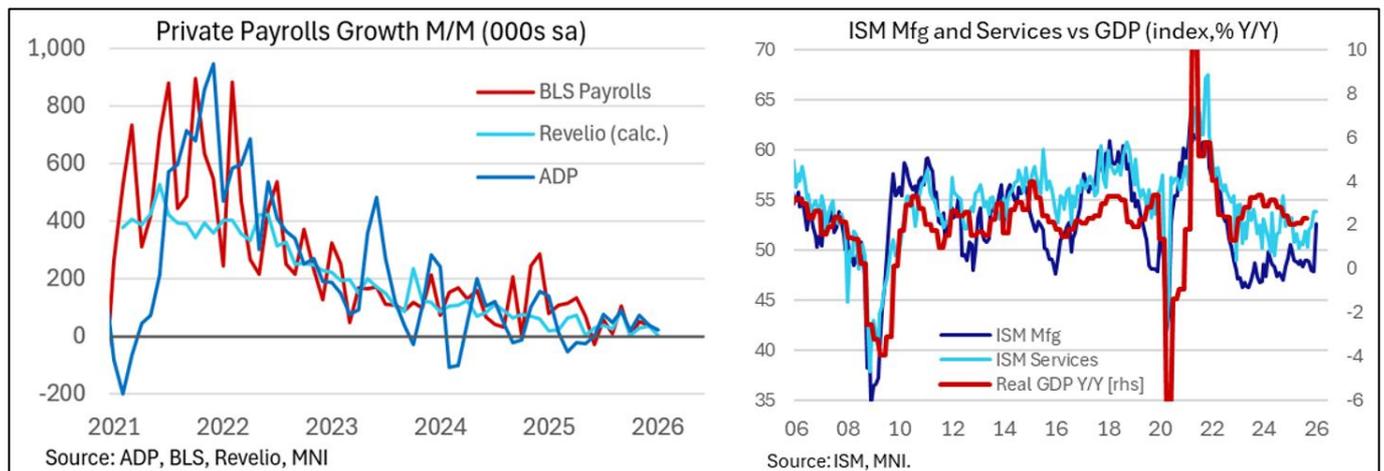
MNI U.S. Macro Weekly

MNI View: Soft Labor Surprises Precede Payrolls

February 6, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- January’s Employment Report may have been pushed back to Feb 10 due to the brief federal government shutdown, but in the meantime there was plenty of labor market data to chew on this week.
- Most of it was weaker than expected, including ADP payrolls and Revelio Labs payrolls, Challenger job cuts and hiring announcements, JOLTS job openings, and the latest weekly initial jobless claims.
- There are mitigating explanations (JOLTS doesn’t line up with private sector estimates so may bounce in January; jobless claims look impacted by severe weather), but overall theme of a lower hiring and lower firing (with the exception of the Challenger data) labor market easily remains intact.
- That remains in divergence with the continued solidity in the latest activity data, with ISM Manufacturing soaring (highest since Aug 2022) and Services putting in another solid print (joint-15 month high).
- The flawed UMichigan survey suggested that consumer sentiment has bottomed, while the latest credit indicators appeared to show slight acceleration. Latest retail sales metrics are solid if somewhat mixed.
- Rate markets largely tracked the bifurcation in data. Strong ISMs saw Fed easing potential fade early in the week, but there was a reversal in a more dovish direction by week-end alongside the soft labor data and tech-led equity weakness exacerbating negative risk sentiment.
- Fed Funds futures at one point implied 63bp of cuts to end-2026. That has since pulled back closer to 55bp with some stabilization in risk assets and a subsequent boost from U.Mich consumer sentiment firming.
- FOMC speakers were mostly patient on the next move, including increasingly cautious-sounding Board members Cook and Jefferson, with non-voter Daly one of the few flying the dovish flag.
- In general there’s a sense that the economy is resilient with downside labor market risks in relative check, with more evidence required that inflation is converging to 2% before declaring victory on inflation.
- We’ll all be watching the two major releases next week with January reports for nonfarm payrolls (Wed) and CPI (Fri), with Retail Sales on Tuesday also bearing watching (but it’s only for December).
- Monthly payrolls growth is currently expected at 70k in January for a slight acceleration from the 50k in December. The market likely currently views that to be on the high side considering a swathe of soft labor indicators this past week. The unemployment rate will again be a key component in shaping reaction to the report, with consensus currently looking for 4.4% after the 4.38% in December.
- As for CPI inflation, January is always an important month as it begins to capture start-of-year price resets - historically about 20% net price increases for the year come in January and another 20% in February. Consensus currently stands at 0.3% M/M for both headline and core CPI in the early days for the Bloomberg survey.



Labor: Downward Surprises Across The Board Ahead Of Delayed Payrolls Report

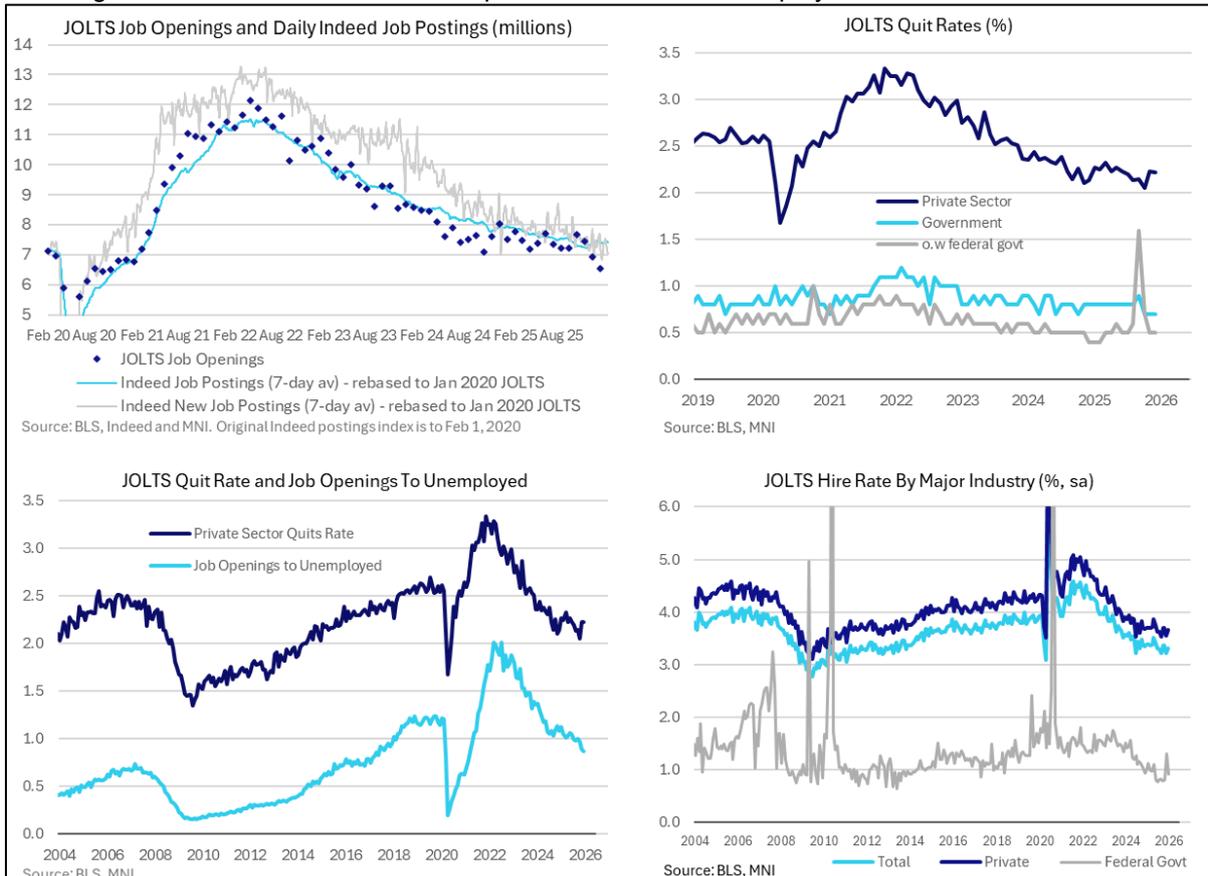
Far Lower Than Expected JOLTS Job Openings In December

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.

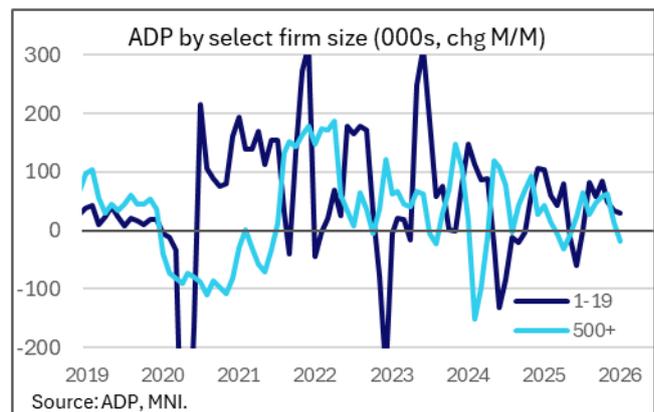
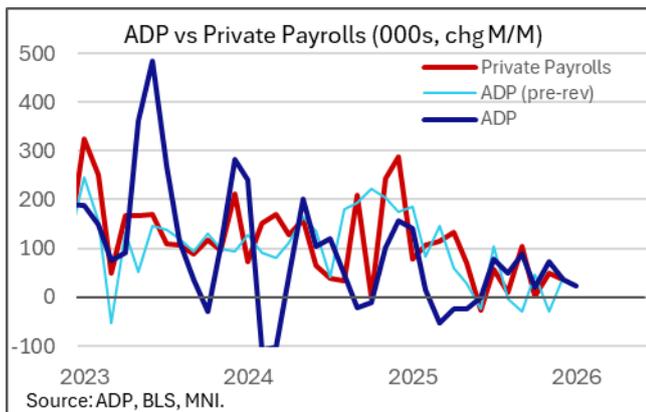
- The **quits rate** came in at 2.01% in Dec after an upward revised 2.00% (initial 1.98) in Nov, confirming an improvement to 2.0 for its highest since June having hit 1.86% in October (lowest since May 2020).
- It's a relative improvement though, with quit rates still depressed compared to pre-pandemic 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.

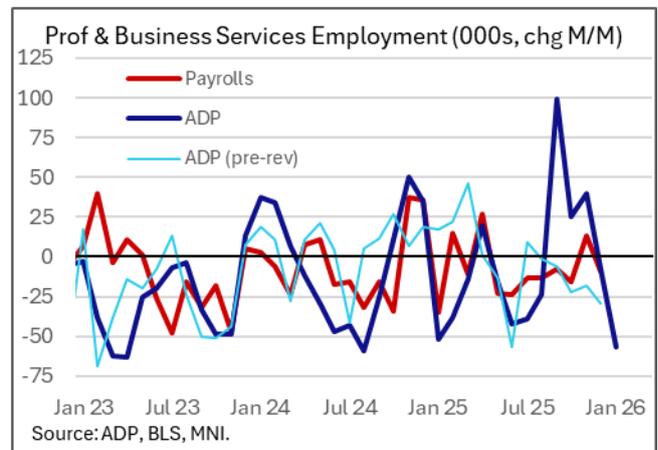
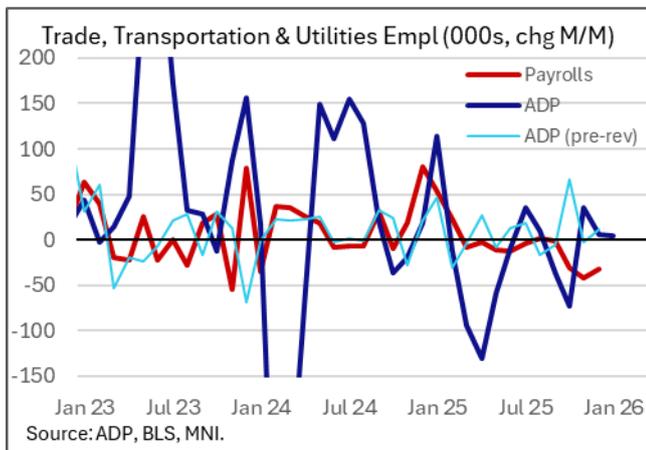
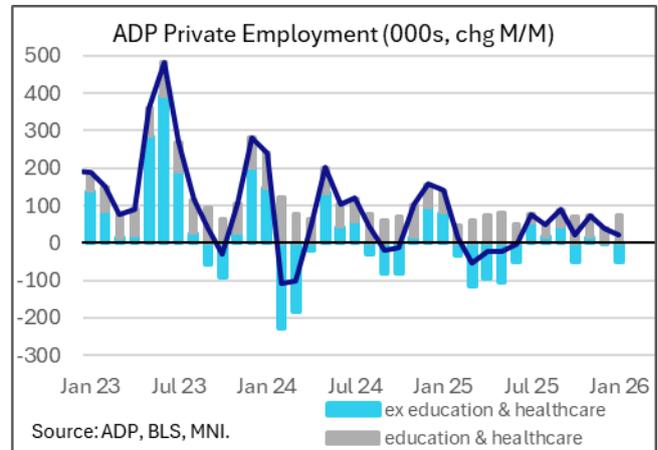
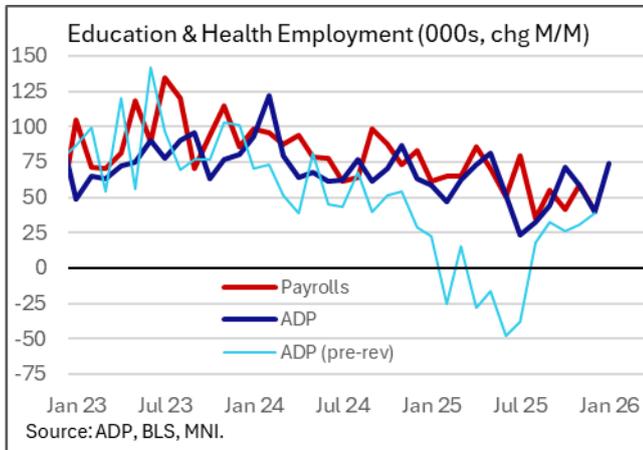


ADP Revisions See Healthcare As A Major Driver, Echoing Payrolls (2/2)

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.

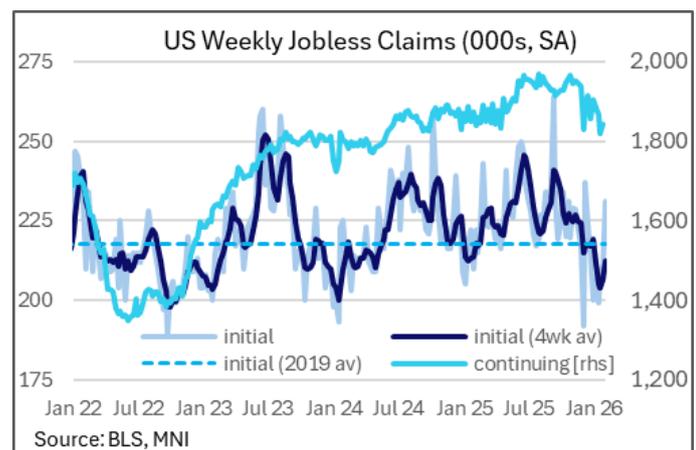
- This reliance on healthcare has received plenty of attention, including Governor Bowman on Jan 30 (link: <https://www.federalreserve.gov/newsevents/speech/bowman20260130a.htm>): "Despite some tentative signs of the unemployment rate leveling off, it seems too early to say that the labor market has 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."



Initial Claims Jump On Possible Bad Weather Effects, Solid Overall

Initial jobless claims were much higher than expected in the latest week of data yet continuing claims were on the low side, in an overall weaker-toned report than the strong ones we've seen for the prior 4 weeks. That said, the severe winter storms seen in late January were likely a factor.

- Initial claims jumped in the last week of January to 231k from 209k prior, much higher than the 212k expected for the highest since the week of Dec 6. This seasonally-adjusted figure came on a 20k rise in non-seasonally adjusted claims. Standout state-level increases included Illinois (+2.2k), Missouri (+2.6k), New Jersey (+2.2k) New York (+3.4k), and Pennsylvania (+5.3k).
- While the absolute level of claims in these states (and overall) remained low, the jump in the last week of January was more than usually seen in prior years. One very plausible explanation is the extreme winter weather across much of the country in the last weeks of the month.

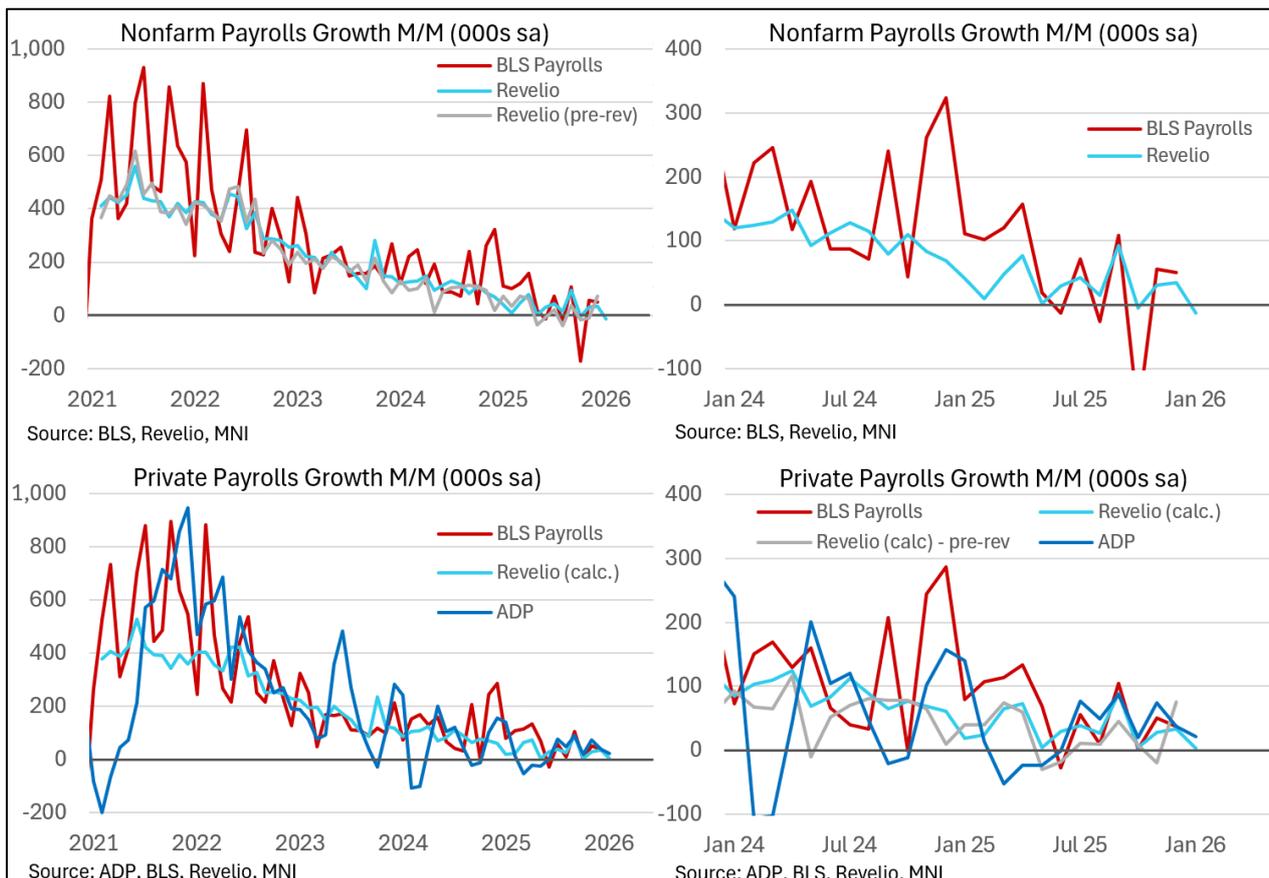


- It may be that the low Dec-early Jan claims were an anomaly, but the current level remains on the low end vs prior years, with the 4-week average up from 206k to 212k, highest in 4 weeks.
- Continuing claims in contrast saw a lower-than-anticipated rise with lower revisions: to 1,844k (1,850k expected), from 1,819k (rev from 1,827k) in the Jan 24 week. The prior week was the anomaly with the lowest continuing claims since May 2024; aside from that, the latest week's reading is the lowest in 8 weeks. Zooming out, this series remains below 2025 levels.

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.

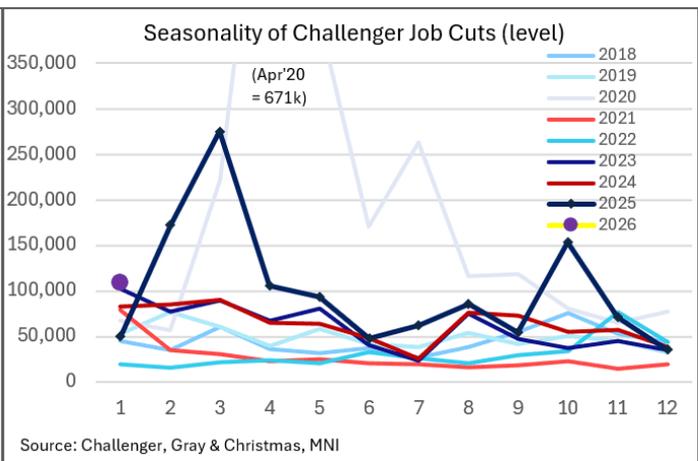
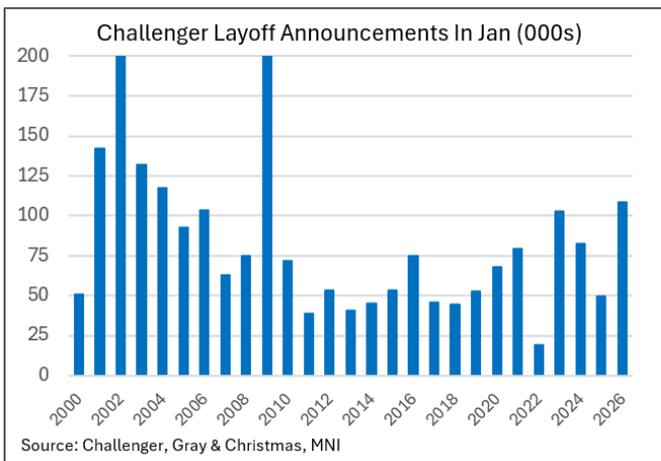
- The details don't alter the very poor headline takeaway. Private sector payrolls rose 3k, a new series low, after prior was revised down from 75k (highest in a year) to 33k (highest in 3 months).
- And even the limited rise in January was driven by education and health services payrolls jumping 42k, 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.



Consumer: Mixed January Indicators

CARTS Implies Weaker Core Retail Sales In January, Momentum Still Solid

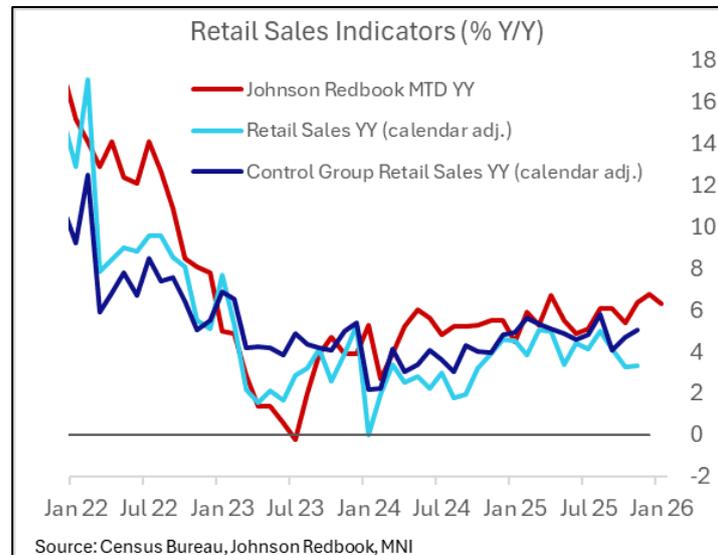
The Chicago Fed Advance Retail Trade Summary (CARTS)'s preliminary estimate for January ex-auto retail sales growth is 0.1% M/M (on both a nominal and inflation-adjusted basis), which if borne out in the Census Bureau's official report would be the slowest since September, following on from 0.5%+ in the prior 2 months including CARTS's December estimate.

- We still haven't received Census's shutdown-delayed December report (that's out on Tuesday Feb 10), with January's still not yet on the schedule.
- In the meantime, this is a slightly more cautionary January estimate than the Redbook series which signaled continued robust growth through January.
- Even so, CARTS points to a pickup in control group (largely made up of ex-autos sales) sales momentum, with the implied 3M/3M ex-autos annualized figure appearing to rise to 4.5% in January from 4.2% in December (and the recent trough of 3.9% in November).
- Note that CARTS's final estimate for January will be Monday Feb 16 (slightly delayed due to the CPI report postponement).

Redbook Retail Sales Remain Robust Through Stormy January

Retail sales rose 6.3% Y/Y in January per the Johnson Redbook index, with sales in the final week of the month up 6.7% Y/Y. While the latter was a bit of a slowdown from the 7.1% increase prior, this largely represents a pullback from weather-related purchases (as we had suggested last week would likely be the case). It's also a slowdown from a 36-month best 6.8% in December but nevertheless the index is consistent with very robust retail activity continuing into 2026, including Johnson Redbook's 6.3% Y/Y growth projection for February.

- From the anecdotal portion of the report: "Adverse weather, including freezing temperatures and snowstorms, disrupted traffic on roads and in parking lots, leading to business interruptions and reduced shopping activity. As a result, stores saw lower foot traffic. In February, retailers will introduce new spring merchandise and launch promotions for food, Super Bowl-related products, and Valentine's Day."
- We get preliminary Chicago CARTS retail sales estimates for January on Friday Feb 6; the "official" Census Bureau report continues to lag following the Oct-Nov government shutdown, as we only get December data on Feb 10 (and there is still no release date for January's report).



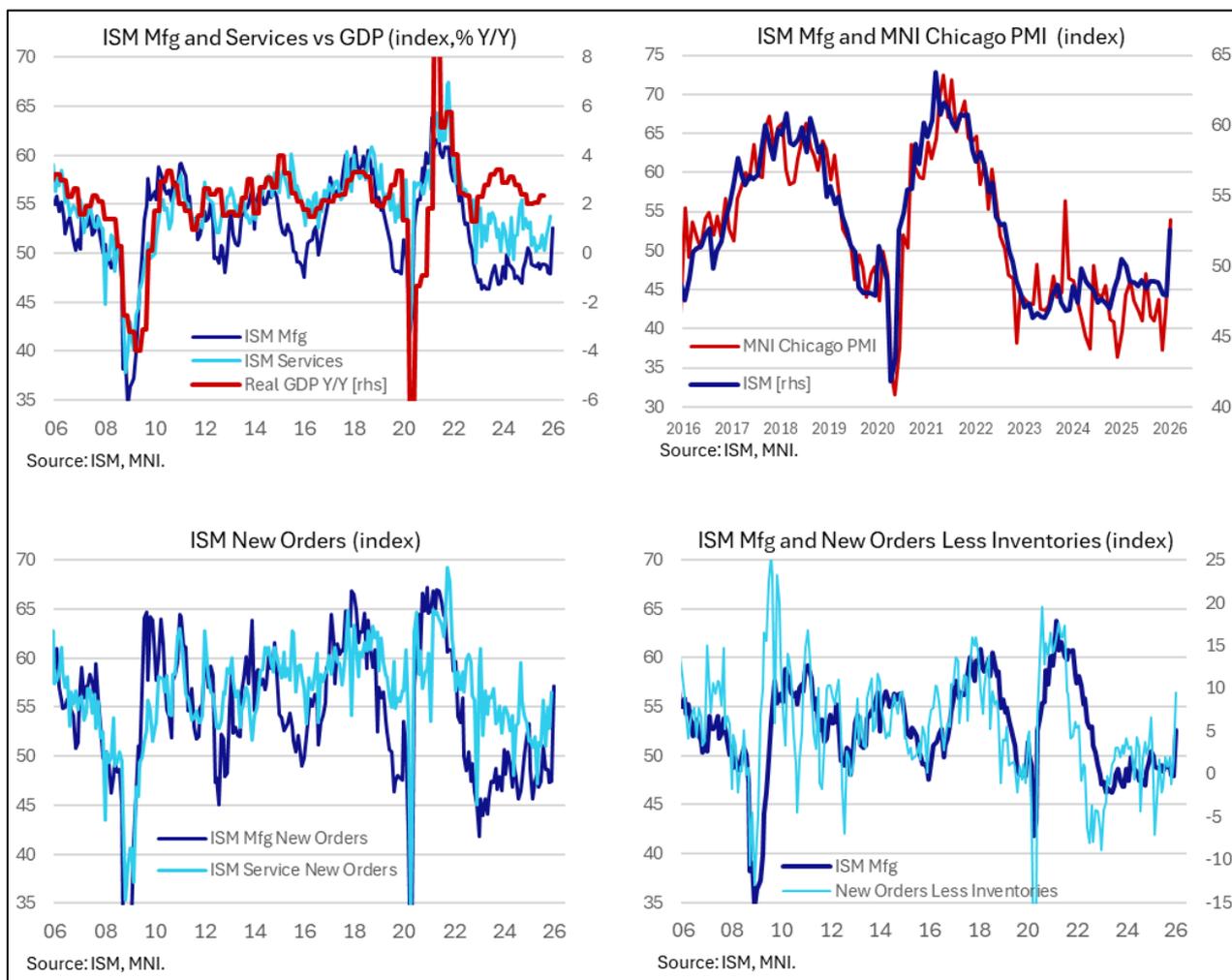
Business Sentiment: Manufacturing Sees Strong Improvement, Solid Services

ISM Manufacturing Follows MNI Chicago PMI With A Sharp Increase

The ISM manufacturing report was far stronger than expected in January as it jumped 4.7pts to 52.6 for its highest since Aug 2022, significantly above even the highest analyst estimate of 51.0. New orders and production both surged to their highest since early 2022 - unlike the final PMI survey released shortly beforehand, it doesn't look linked to an inventory build. The report chimes with a particularly strong MNI Chicago PMI released last week with added support from most of the regional Fed manufacturing surveys also improving in January.

- ISM mfg: 52.4 (cons 48.5, range 47.9-51.0) in Jan after 47.9 in Dec - highest since Aug 2022
- New orders: 57.1 in Jan after 47.7 in Dec - highest since Feb 2022
- Production: 55.9 in Jan after 50.7 - highest since Feb 2022
- Inventories: 47.6 in Jan after 45.7 - highest since Nov 2025
- Prices paid: 59.0 (cons 59.3, 7 responses) in Jan after 58.5 - highest since Sep 2025
- Employment: 48.1 (cons 46.0, 3 responses) in Jan after 44.9 - highest since Jan 2025
- The marked increase in the overall index follows a particularly strong 11.3pt jump in the MNI Chicago PMI to 54.0 (highest since Nov 2023 although it has recently been a more volatile series than ISM) as well as the average of the five regional Fed manufacturing surveys at the highest since Jan 2025.

- Released shortly beforehand, the final S&P Global US mfg PMI also saw a sizeable upward revision in January to 52.4 (flash 51.9) after 51.8 in Dec for its highest since October.
- In the last 333 months in which there's been a Bloomberg analyst survey, this is the 3rd-largest beat vs the high estimate (Oct 2009 2.6 points, Feb 2007 2.1 points, Dec 2020/Sep 2011/Jan 1999 all 1.7 points...and this was 1.6 points).
- Looking ahead, the new orders less inventories metric had in recent months been pointing to some improvement with a return to positive figures (0.8 av in Q4), but the latest 9.5 in January is particularly impressive at its highest since Aug 2021.
- On the cost side, prices paid nudged a little higher after two months at 58.5 in Nov-Dec and 58.0 in Oct. As such, it doesn't change the recent narrative and compares with an average of 63.4 in 2025, 53.6 in 2024, a peak of 92 in mid-2021 and a pre-pandemic average in the 49s.

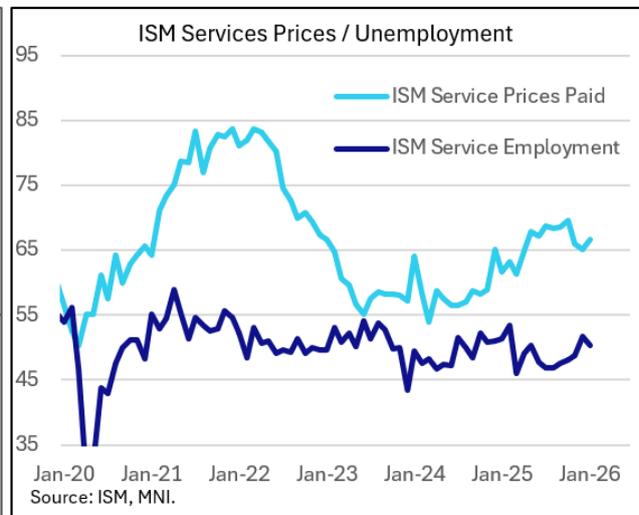
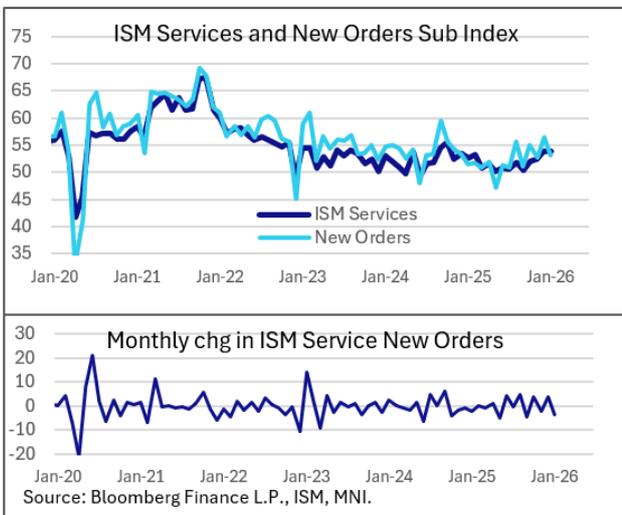


ISM Services Opens 2026 On Firm Ground, But So Do Price Pressures

January's ISM Services report was solid overall, with some mixed dynamics beneath the surface including continued persistence in price pressures. Overall it shouldn't change perceptions of activity in the services sector, which entered 2026 on solid footing and appears to be maintaining that momentum.

- The headline PMI came in at 53.8 for a joint-15 month high. This was a steady reading vs December's 53.8, revised down from 54.4 as part of the annual seasonal adjustment revisions; it's unclear whether the consensus for a drop to 53.5 considered this revision.
- As expected, New Orders couldn't sustain December's torrid pace, falling 3.4 points to 53.1. But that is still above the average seen over the last year and bodes well for future activity.

- Similarly, Employment stumbled a little, falling to 50.3 from December's 10-month high 51.7, though that makes 2 consecutive months above 50 following 6 consecutive contractions. A cautionary note here is that just 5 industries reported better employment on net (one of which is the relatively non-cyclical Health Care & Social Assistance), with 8 reporting declines.
- New export orders disappointed at 45.0 (down 9.2 points) which marked the lowest since March 2023, after December's 15-month high. And Imports returned to contraction after one month in expansion (48.2, down 2.1 points). These categories are a little unusual in that around 40% of respondents do not participate in imports/exports or don't measure them separately from overall orders, though clearly there remains trade-related strain in the industry.
- Prices Paid rose 1.5 points to 66.6 for a 3-month high with 17 industries reporting higher prices (and non reporting declines), suggesting that inflationary pressures in the sector persist. We also saw an uptick in this category in the ISM Manufacturing report, which lends a cautionary tone to the week's data.
- On the unambiguously positive side, we took note of the jump in Business Activity, by 2.2 points to a 15-month high 57.4.
- Elsewhere, Inventories fell below 50 after 2 months of expansion, at 45.1 (down 9.1 points), with Inventory Sentiment in "too high" territory for the 33rd consecutive month. Supplier Deliveries picked up 2.4 points to 54.2, a 14th month indicating slower deliveries and thus boosting the overall PMI per the ISM's methodology.



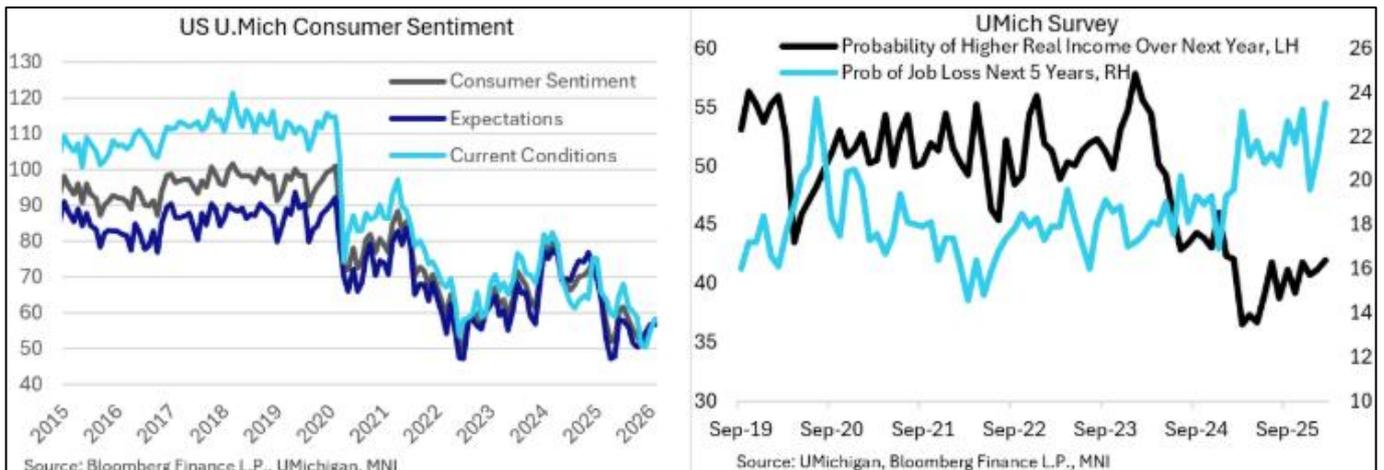
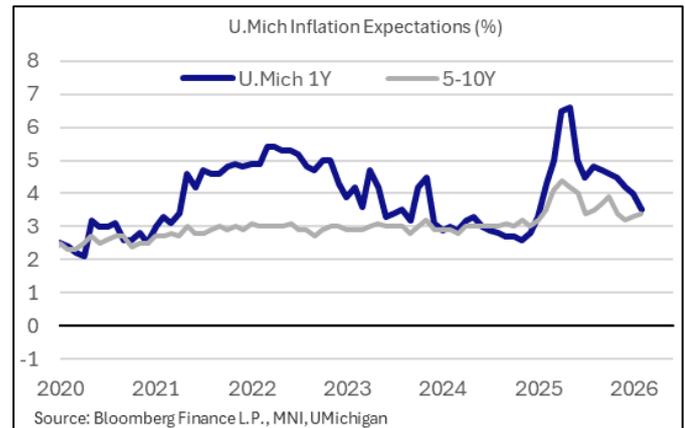
Consumer Sentiment: U.Mich Survey Firms After Weaker Signs Seen In Prior Conference Board Survey

UMichigan Sentiment, Inflation Expectations Steadying Out

UMichigan consumer sentiment beat consensus in the preliminary February survey, alongside a pullback in near-term inflation expectations.

- The headline Sentiment index rose to a 6-month high 57.3 from 56.4 (55.0 consensus), with Current Conditions continuing to edge up from its multi-decade lows late last year, to 58.3 compared to the pullback to 53.7 expected (55.4 prior). Expectations however dipped to 56.6 from 57.0 although that wasn't as bad as the 55.1 consensus.
- These readings remain weak on a historical basis but at least also look to have stabilized after the largely tariff-induced shock in 2025.

- The latest improvement looks linked to the drop in near-term inflation concerns, with 1Y inflation seen at 3.5% (below the 4.0% prior/consensus), the lowest since January 2025. Longer-run 5-10Y expectations ticked up for a 2nd consecutive month however, to 3.4% (3.3% prior/consensus), and it appears to have converged with the short-term gauge for the first time since late 2024.
- We took note of the dip in the expectation of higher unemployment to the lowest since July 2025, with real income expectations picking up (apparently on the dip in expected inflation); however the expected probability of one's own job loss rose to the highest since July 2020.
- We don't take much stock in the survey as a whole, in part due to the partisan political breakdown which skews the headline results but we did find it interesting that sentiment soared for Democrats (46.7 after 41.0, for the best in a year), whereas sentiment for independents and Republicans dipped.
- The survey text notes "K-shaped" economic dynamics throughout, pointing out "Sentiment surged for consumers with the largest stock portfolios, while it stagnated and remained at dismal levels for consumers without stock holdings" and concluding with "Robust aggregate spending is consistent both with strength stemming from the disproportionate share of spending generated by wealthier consumers who are more confident, as well as the fact that less-confident, lower-wealth consumers may be exercising much more care over their spending amid pressures from high prices and weakening income prospects."



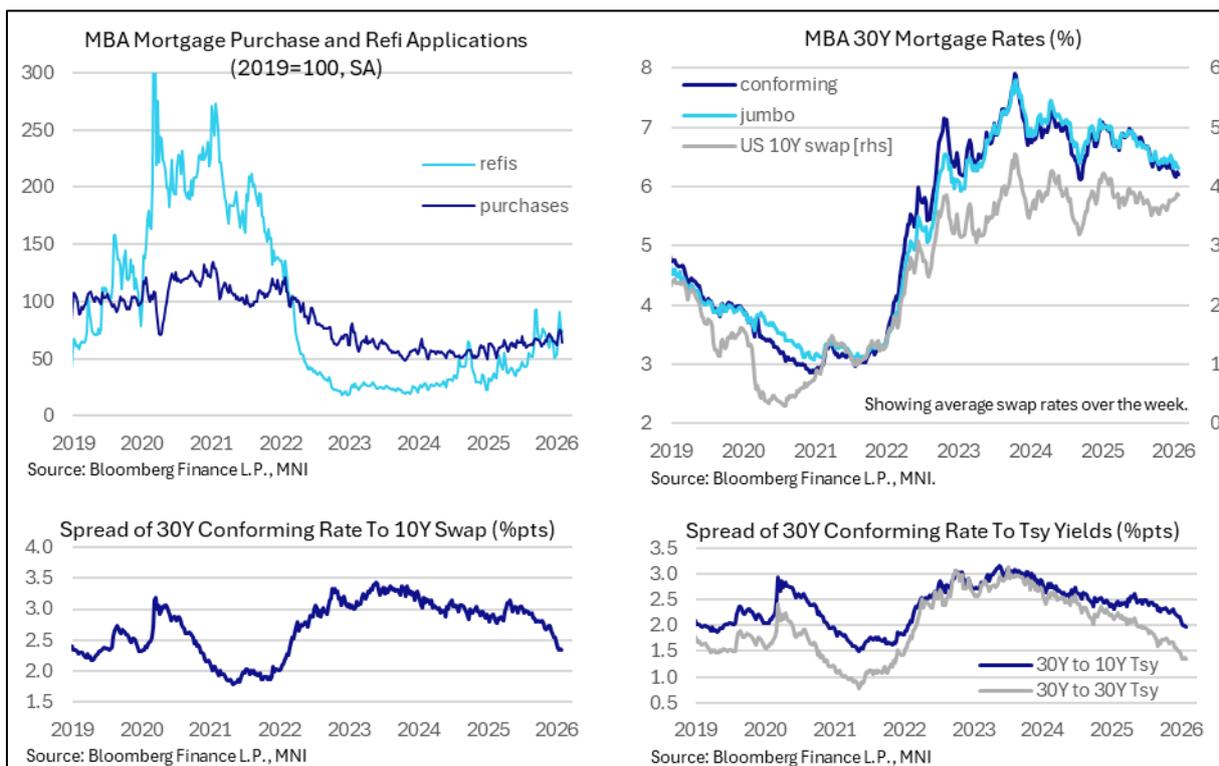
Housing: Not So Fast On Mortgage Activity Green Shoots

New Purchase Mortgage Applications Fell Sharply Last Week

Any hopes of higher new purchase mortgage activity as a sign that home sales could be set to pick up was dashed in latest mortgage application data, as new purchase applications saw one of the largest weekly declines in the past ten years.

- Composite mortgage applications fell -8.9% (sa) last week, extending the -8.5% decline in the previous week as they continued to reverse strong increases seen earlier in January to highs since Apr 2022.
- Having last week written on housing activity green shoots implied by a trend increase in new purchase applications, this sharply reversed with a -14.4% drop (largest decline since one week in Mar 2020 and before that 2015) in a reminder of how volatile the data can be.
- Refis meanwhile fell -4.7% after -15.7% following a 69% two-week increase before that.
- Levels relative to 2019 averages: composite at 69%, new purchases at 64% and refis at 73%.

- The 30Y conforming rate fell 3bps to 6.21% to chip away at an 8bp increase in the week prior. The 6.16% in the week to Jan 16 was its lowest since Sep 2024 and before that Sep 2022.
- Mortgage swap spreads reversed about half of the previous week's widening and are back close to multi-year lows. The 30Y rate to the average 10Y swap rate over the week was 235bp vs a recent low of 233bp (compares with a peak of 315bp in May in post-tariff disruption, an average 285bp in 1Q25 and 302bp in 2024).
- Compared to August when US Tsy Sec Bessent talked on wanting to see flat or lower mortgage spreads, this swap rate spread has narrowed nearly 60bp or 43bps to 198bps for the 10Y Treasury yield equivalent.
- Narrowing has been supported by Fannie Mae and Freddie Mac increasing their retained portfolios ahead of a potential IPO, with MBS spreads then tumbling early in January after Trump ordered \$200bn in MBS purchases.

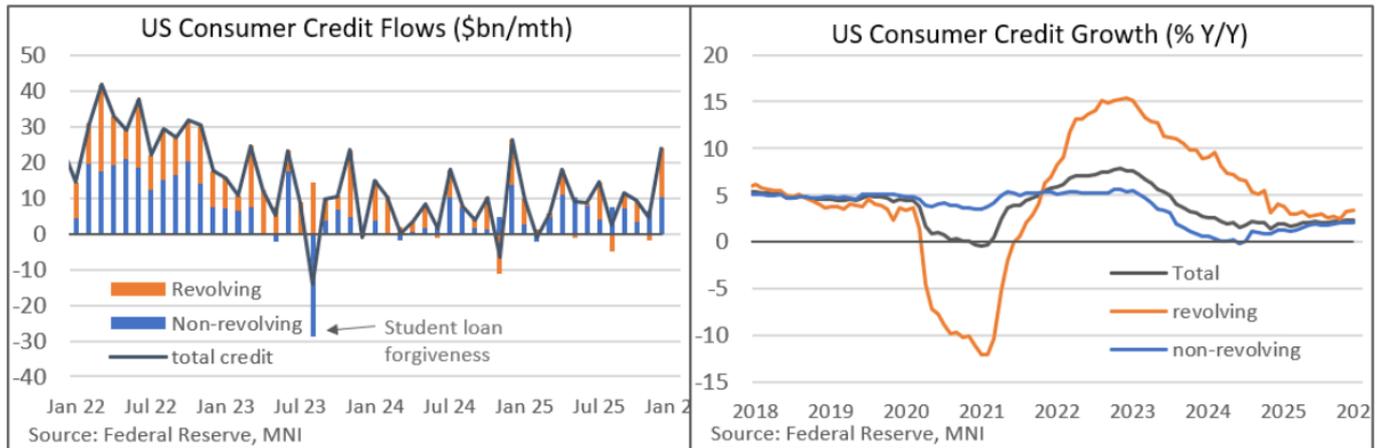


Credit: Modest Gains For Loan Demand, Largely Neutral Lending Standards

Consumer Credit Jumps To End 2025, Overall Impulse Remains Subdued

Consumer credit jumped in December, with total consumer credit owned and securitized up \$24.0B (\$8.0B expected, \$4.7B prior) in the highest reading for 12 months. The flow was split fairly evenly by recent standards, with revolving credit up \$13.8B (\$-1.7B prior) and nonrevolving \$10.2B (\$6.4B prior).

- (Revolving makes up 25% of overall consumer credit, largely made up of credit cards; nonrevolving credit is basically made up of student and auto loans.)
- That's a solid end to 2025 for credit growth, particularly for revolving/credit card activity, so bears watching though overall it hasn't been a major driver of consumption.
- We saw some of the strongest credit card demand since 2022 in Q4 2025 per the Fed's latest SLOOS survey, with lending standards loosening slightly (and demand for auto loans dropped considerably, potentially boding ill for non-revolving growth).
- Y/Y total consumer credit growth posted 2.4%, led by revolving (3.4%; non-revolving has been steady at 2% for several months). With the economy growing by well above these levels in nominal terms, this still means that consumers are deleveraging, with total credit as a % of GDP set to post continued 12+ year lows, albeit largely led by non-revolving as opposed to revolving.

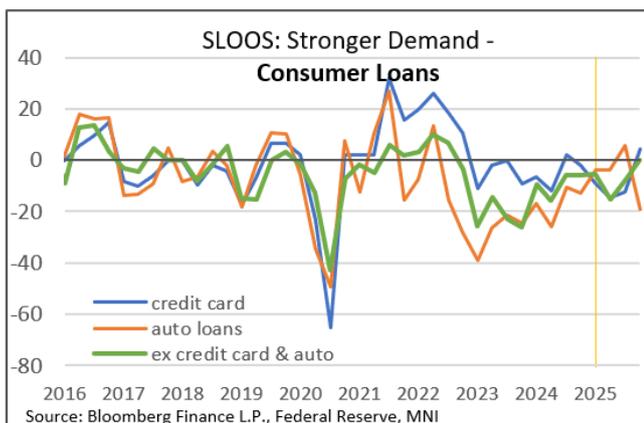
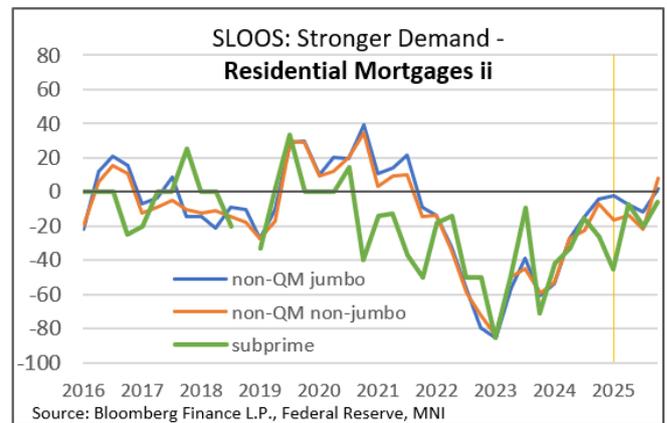
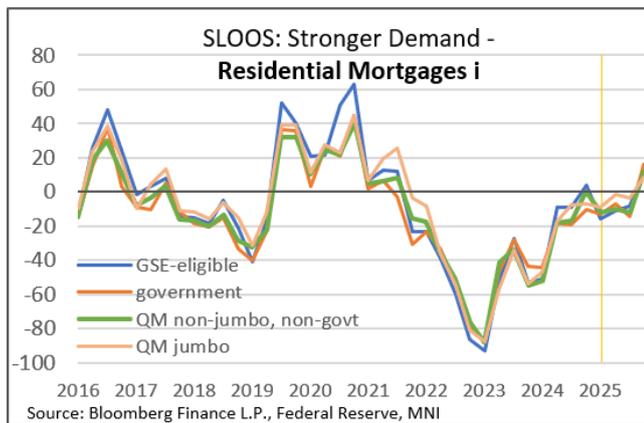
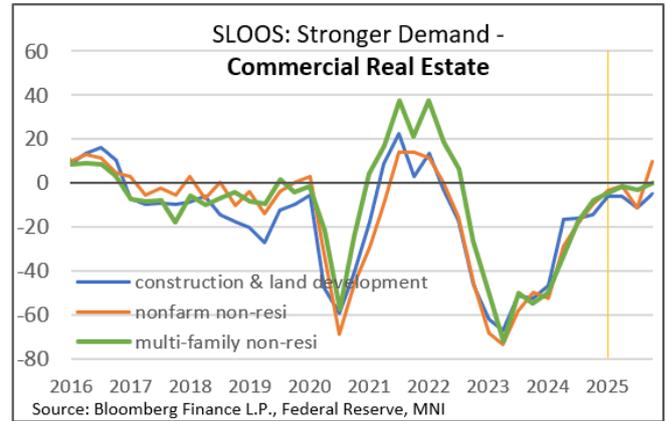
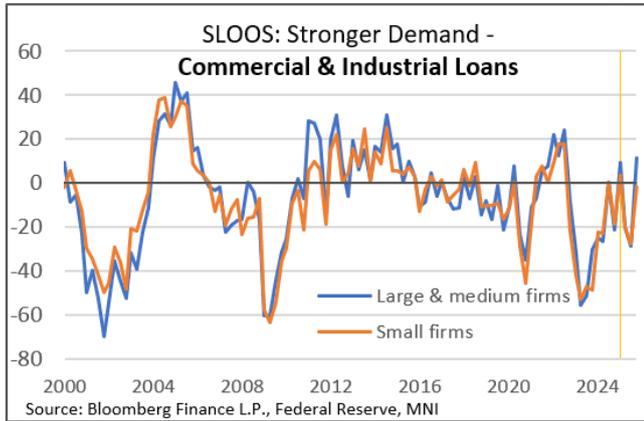


Loan Demand Seeing Modest Gains, Mostly Notable In Real Estate (1/2)

The Federal Reserve's January 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices showed only limited changes in lending standards and client demand in Q4 2025. There's not much in the report that was available to the FOMC at last week's meeting that would have changed any minds about the outlook, though if anything the modest improvements on the demand side probably suggested stable enough conditions to warrant postponing rate cuts until later in the year.

- That being said, overall demand for residential and commercial real estate lending appears to have edged up to the strongest levels in 3 or so years following firmly negative readings, while commercial/industrial loan demand has picked up slightly as well. For consumers there has been a divergence with ex-auto loan demand picking up but auto loans seeing a downturn in demand.
- In terms of business lending, the SLOOS report notes "banks reported stronger demand for C&I loans to large and middle-market firms" but "basically unchanged demand for C&I loans to small firms". There was "on net ... stronger demand for commercial real estate (CRE) loans". We especially note the strongest nonfarm non-residential commercial real estate demand since 2021.
- On the household loan demand side, the SLOOS report highlighted "weaker demand across most categories of residential real estate (RRE) loans" " while demand weakened for auto and other consumer loans but remained basically unchanged for credit card loans."

Stronger Loan Demand

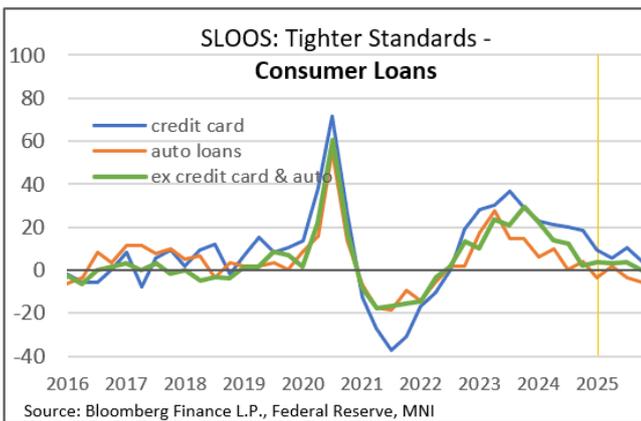
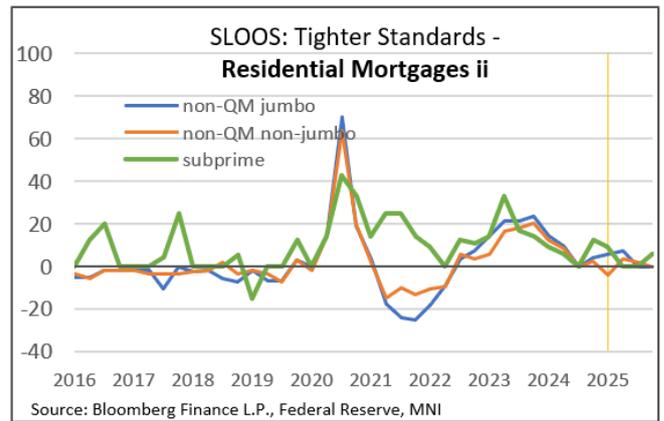
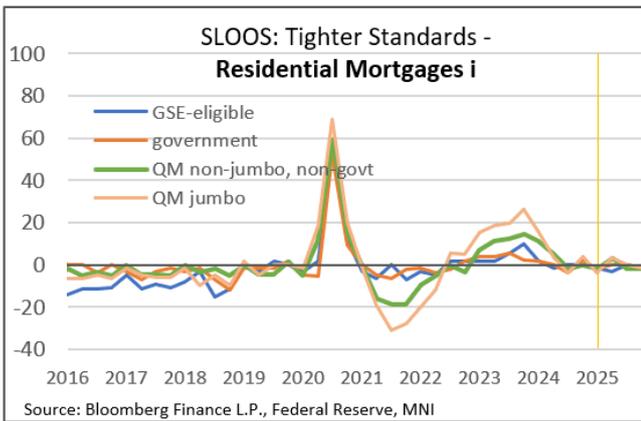
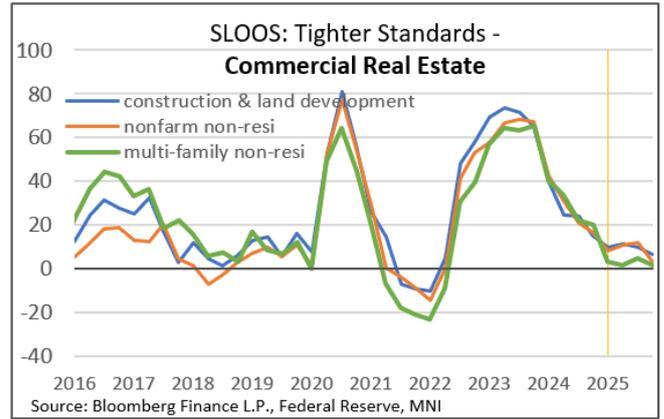
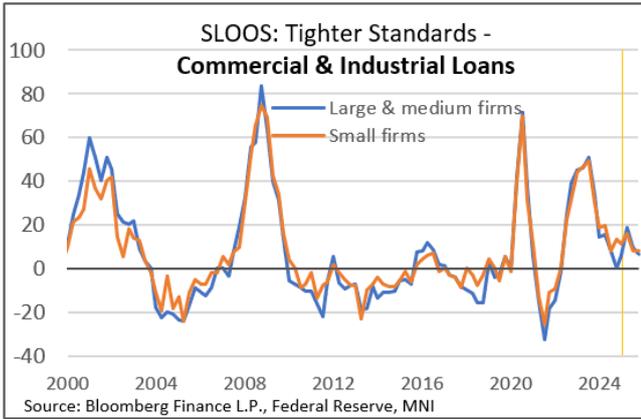


Lending Standards Largely Steady At Neutral Level (2/2)

And generally speaking, lending standards have largely been steady across most categories of loans and could probably be characterized as neutral, albeit they have lately been heading toward looser conditions for households and for some categories of business lending. This is not indicative of a loose credit environment however.

- For households, in Q4 there were "basically unchanged lending standards... across most categories of residential real estate (RRE) loans" while "standards reportedly eased for auto loans and remained basically unchanged for credit card and other consumer loans".
- For businesses, "survey respondents reported, on balance, tighter lending standards for commercial and industrial (C&I) loans to firms of all sizes" as well as "generally unchanged standards" for commercial real estate (CRE) loans.

Tightening Standards



Fedspeak

- VC Jefferson: Policy well-positioned, cautiously optimistic on outlook
- Gov Cook: Risks Tilted Toward Higher Inflation
- SF's Daly: Economic environment feels "precarious" for households
- Richmond's Barkin: Last mile in bringing inflation to target

Gov Jefferson: Policy Well-Positioned, Cautiously Optimistic On Outlook (Feb 6)

Fed Vice Chair Jefferson, whose views we assume are closely aligned with those of Chair Powell and other core FOMC members, suggests [in a speech Friday](#) that he's satisfied with the current stance of policy and isn't in much of a rush to cut again given an improving economic outlook. We'd still guess he's in the camp of leaning toward one or two 25bp cuts by year-end, though prior to this speech we'd thought he had been more solidly in the 2 cut camp.

- He says (no surprise) that he supported the 175bp in cuts so far, including the last three 25bp easings late last year: "These rate cuts were responses to downside risks to employment amid somewhat reduced upside risks to inflation. Collectively, these adjustments put our policy rate broadly in the range of estimates of the neutral rate while maintaining a balanced approach to promoting our dual-mandate objectives. Our policy stance should help stabilize the labor market while allowing inflation to resume its decline toward our 2 percent target. We always follow a prudent, meeting-by-meeting approach. The current policy stance is well positioned to address the risks to both sides of our dual mandate. I believe that the extent and timing of additional adjustments to our policy rate should be based on the incoming data, the evolving outlook, and the balance of risks."
- On the labor market front, he doesn't anticipate further deterioration "while I look forward to reviewing January's jobs report, I see the overall labor market as roughly in balance, with a low-hiring, low-firing environment prevailing...In this less dynamic labor market, the downside risks to employment remain, but my baseline is for the unemployment rate to hold approximately steady throughout this year."
- He says his outlook for growth has improved: "I have revised up my growth forecast modestly in recent weeks, informed by signs of the economy's continued resilience. Now, I expect the economy to grow at a rate similar to last year's estimated rate of 2.2 percent".
- And he echoes Powell's latest press conference in seeing a convergence to target after tariff impacts on goods have passed through: "we have seen a decline in services price inflation, mostly due to easing price pressures in housing services. But this decline has been offset by an increase in core goods price inflation. Certainly, some upside risks remain, but I expect the disinflationary process to resume this year once increased tariffs pass through more fully to prices."
- His speech addresses the hot topic, particularly among Committee doves, of productivity gains potentially bringing inflation down and allowing for further Fed easing. He sounds cautious. While "projected strong productivity growth may be a source of further help in bringing inflation down to our 2 percent target", "Should we expect the pickup in productivity to affect inflation? As in the pandemic experience, the answer likely depends on how the balance between supply and demand is affected over time". He notes that "All other things being equal, persistent increases in productivity growth are likely to result in an increase in the neutral rate, at least temporarily. With faster productivity gains, consumers may anticipate higher future income growth and choose to spend more now, reducing their saving rate. At the same time, increased productivity gains also imply a rise in the marginal productivity of capital and thus higher investment demand."

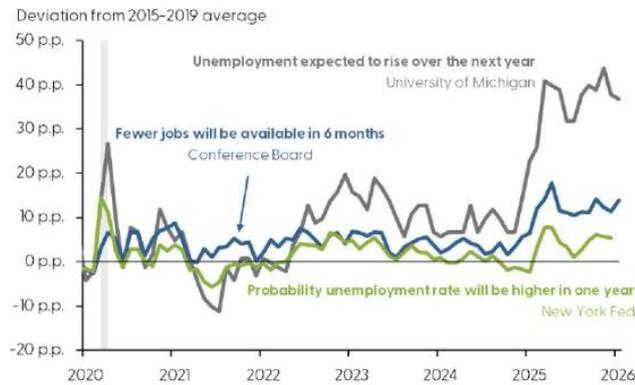
SF's Daly: Economic Environment Feels "Precarious" For Households (Feb 6)

In a [brief LinkedIn post](#) out Friday, SF Fed Pres Daly (2027 FOMC voter) interestingly places emphasis on consumer surveys including UMichigan's as suggesting that consumers' perceptions of a weak economy should be

taken into account alongside the relatively positive aggregate macro data. She is one of the bigger doves on the Committee. She writes:

- "Is the economic outlook good or bad? If you talk to businesses, they're cautiously optimistic. Growth is good, consumer spending remains solid, jobs are easy to fill, and productivity gains are helping control costs. Talking to workers, they're not so sure. You can see this in the latest sentiment surveys, which show that Americans are expecting fewer jobs to be available and the unemployment rate to rise.
- In many ways, this disconnect makes sense. We've been in a relatively low-hiring, low-firing environment for some time. That may persist, but workers are aware that things could change quickly, leaving them in a no-hiring, more-firing labor market. With inflation printing above the FOMC's 2 percent goal, this rightly feels precarious.
- What does this mean for policy? We must watch both sides of our mandate. Americans deserve both price stability and full employment, and we can't take either for granted."

Households remain worried about the labor market



Note: The University of Michigan and Conference Board surveys report shares of respondents. The NY Fed survey reports the mean of respondents' probabilities.

Source: SF Fed via Mary Daly on LinkedIn

SF's Daly Eyes "One Or Two More" Cuts To Counteract Labor Weakness: Reuters (Feb 6)

[Reuters](#) on Friday published SF Fed President Daly (2027 FOMC voter)'s first interview since the January meeting, in which she "said she thinks one or two more interest rate cuts may be needed to counteract weakness in the labor market, where workers are "walking a knife's edge" with higher prices eating into their wages and scarce opportunities for new jobs. "I think we have to keep an open mind, a very open mind" on rates, Daly told Reuters in an interview".

- Two cuts for 2026 is about where we expected Daly to have been in the December Dot Plot, though in general we think some of these names will have drifted to the higher side since that set of quarterly projections.
- In the interview she says she supported the January hold "but frankly, I thought you could make a case for going ahead and taking a little more off". She's "a little more worried about the labor market than I am about inflation", but her threshold to reduce rates is that "you have to be pretty confident, like really confident, that the effects of the tariffs will roll off ... that inflation is really on a downward trajectory."

Gov Cook: Risks Tilted Toward Higher Inflation (Feb 4)

Gov Cook's speech Wednesday ([link](#)) sounded more hawkish on the rate outlook than her previously dovish leanings, while broadly hewing to the centrist view on the FOMC that further easing may be appropriate. Overall she sounds wary of declaring victory over inflation and won't lean toward further cuts unless she sees further evidence that it's returning to target. It's another sign the FOMC is minded to keep rates on hold for several months.

- "At this time, I see risks as tilted toward higher inflation. As a result, I supported the FOMC's decision to hold the policy rate steady at our meeting last week. As I described, there is an argument for being optimistic about the path of inflation, but, until I see stronger evidence that inflation is moving sustainably back down to target, that is where my focus will be, in the absence of unexpected changes in the labor market.... I remain optimistic that inflation will soon return to a path toward our target, that the labor market is stabilizing, and that sustainable growth lies ahead. My optimism is tempered with caution. This is why I will remain vigilant in studying a wide range of incoming information so that I can pursue the best policy to

achieve our dual-mandate goals. My future policy decisions will be guided by incoming data, my economic outlook, and the evolving balance of risks."

- "Broadly, I see the U.S. economy as continuing to be resilient, with recent data indicating that growth in the second half of 2025 was even stronger than previously forecast. Inflation appears to have stalled stubbornly above our 2 percent goal, while at the same time the labor market appears to have stabilized in recent months. While the overall condition of the economy is solid, I am carefully watching sentiment, delinquencies, and other indicators that show a worsening outlook for low- and moderate-income households."
- She sees inflation (and expectations) as under wraps, with core goods prices moderating after tariff passthroughs are complete, but "much uncertainty remains. The future direction of tariff policy is unclear. And, even when tariff levels are settled, uncertainty remains with respect to how long it will take for that price rise to be complete and whether it will take hold in inflation expectations."
- While "Risks to the labor market persist", "the labor market is roughly in balance, but I am highly attentive to developments, knowing it can shift quickly."
- And on productivity which some doves point to as a reason to expect inflation to come down, unlocking rate cuts, Cook sounds like her FOMC colleague Jefferson in sounding somewhat skeptical ("I am concerned that there is a dynamic inconsistency problem such that there could be a mismatch between the arrival of costs related to AI investment and the arrival of benefits, including higher productivity that is noninflationary.")
- Also like Jefferson, "For all of 2025, I estimate the economy grew a bit better than 2 percent, and I see a similar rate of growth being maintained this year."
- She devotes a long passage to consumer sentiment readings: "I think about this two-speed or K-shaped economy when I attempt to take signal from various sentiment readings...the reasons for low sentiment are real and are deeply concerning. But they do not, in my view, reveal a signal about increased slack that we can tackle with our typical demand-side monetary policy. In fact, for the part of households' concerns related to the pain of inflation, the best thing we can do in our roles is to ensure that inflation returns to and stays at target." Some of the more dovish members, including SF Fed's Daly, appear to take consumer sentiment readings more seriously. But there appears to be a broader consensus to take such readings with a grain of salt, as it's been poorly correlated with aggregate "real" consumer activity data.

Richmond's Barkin: Last Mile In Bringing Inflation To Target (Feb 3)

Richmond Fed Pres Barkin (a FOMC voter in 2027) is as usual very noncommittal on his rate outlook in a speech Tuesday ([link](#)). Here's the concluding paragraph which reinforces MNI's view that Barkin is a little more hawkish than the overall FOMC median participant, but unlike some outright hawks remains relatively open-minded to rate cuts should the data make a compelling case:

- "We raised rates three years ago to bring inflation under control. As the inflation rate has fallen, we have been bringing rates back down toward neutral levels, reducing the fed funds rate 175 basis points over the last year and a half. I think of these cuts as having taken out some insurance to support the labor market as we work to complete the last mile to bring inflation back to target. So far, so good. But we know things change, and as they do, we remain ready to respond as appropriate."
- Note that he sees rates as having been brought down "toward" neutral levels and not necessarily at/below neutral, so there's some wiggle room here for supporting further easing.
- On the whole he continues to sound pretty cautious on making further cuts, noting the "remarkably resilient" economy "enabled by strong underlying dynamics", and "while we've made a lot of progress on inflation, it still remains above our target".
- And his business contacts continue to suggest that labor market layoffs aren't a major problem. That said, "low hiring hasn't been translating into rising unemployment because the growth in labor supply has shrunk at about the same pace as labor demand. But slow job growth is not a comfortable place to be."
- And on policy patience in navigating an uncertain backdrop amid worsened data visibility related to the federal government shutdown: "as we move into 2026, it feels like the fog is starting to lift...we can better see the road ahead, but to echo all of our family road trips: Are we there yet? Not quite. We have some distance to travel before we get home."

STIR: Labor Data Fire A Warning Shot After Manufacturing Optimism

- The strong ISM manufacturing survey for January kickstarted the week, building on last week's encouraging mfg signs including a sharp rise in the MNI Chicago PMI.
- However, any manufacturing enthusiasm was overshadowed by Thursday's collection of four labor indicators all coming in softer than expected / with outright weak numbers: Challenger, weekly jobless claims, Revelio labor statistics and then the JOLTS report.
- With tech-led equity weakness and a slide in crypto exacerbating negative risk sentiment, Fed Funds futures at one point implied 63bp of cuts to end-2026. That has since pulled back closer to 55bp with some stabilization in risk assets and a subsequent boost from U.Mich consumer sentiment firming.
- It leaves modest net changes on the week, with 2bp more cuts over 2026.
- A next cut is close to being fully priced for June vs July earlier in the week.



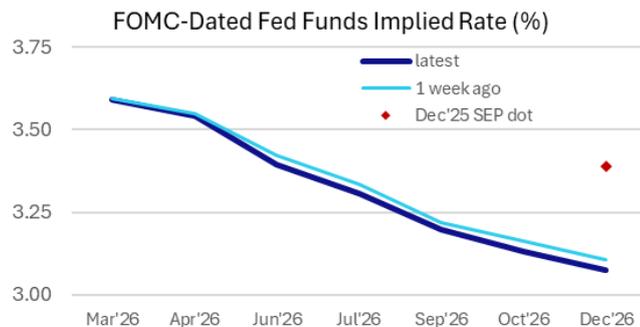
Fed Funds futures implied rate for Dec26 FOMC. Source: Bloomberg Finance L.P. Times in GMT

FOMC-dated Fed Funds futures implied rates

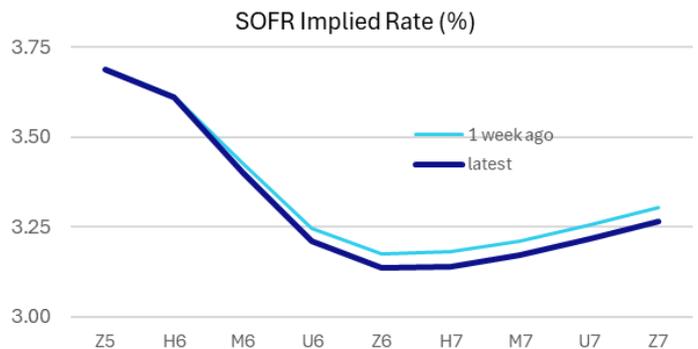
Meeting	Latest			pre Challenger (Feb 5)			chg in rate bp	pre ISM Services (Feb 4)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	3.64			3.64				3.64			
Mar'26	3.59	-4.9	-4.9	3.61	-3	-2.7	-2.2	3.61	-3	-3	-2.2
Apr'26	3.54	-4.8	-9.7	3.57	-4	-6.8	-2.9	3.58	-4	-6	-3.5
Jun'26	3.40	-14.8	-24.5	3.46	-11	-18.0	-6.5	3.47	-11	-17	-7.8
Jul'26	3.31	-8.8	-33.3	3.38	-8	-26.2	-7.1	3.40	-7	-24	-9.1
Sep'26	3.20	-11.0	-44.3	3.26	-12	-38.1	-6.2	3.29	-11	-35	-9.0
Oct'26	3.13	-6.5	-50.8	3.20	-6	-44.3	-6.5	3.23	-6	-41	-9.5
Dec'26	3.08	-5.7	-56.5	3.14	-6	-49.9	-6.6	3.17	-5	-47	-9.7

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

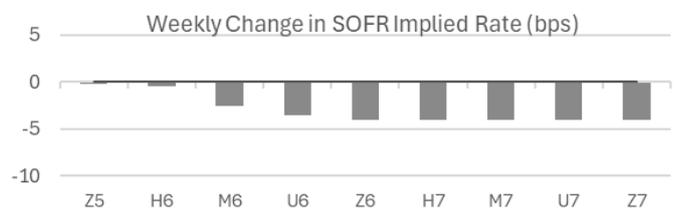
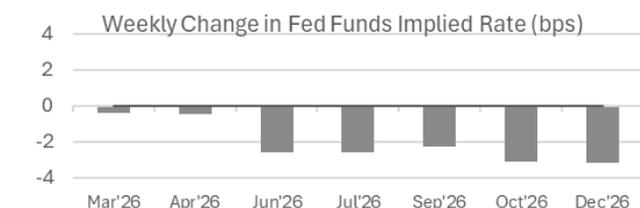
Weekly changes:



Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.



The US Macro Week Ahead: Nonfarm Payrolls, CPI and Retail Sales

This week coming sees two major releases owing to a small delay from the brief partial government shutdown, with January reports for nonfarm payrolls (Wed) and CPI (Fri) whilst not wishing to downplay Retail Sales (Tue) either.

Monthly payrolls growth is currently expected at 70k in January for a slight acceleration from the 50k in December and 56k in November. The market likely currently views that to be on the high side considering a swathe of soft labor indicators this past week. Still, if accurate, it would see another month that implies roughly zero payrolls growth when extrapolating expected downward revisions. We'll finally see these annual benchmark revisions to the level of employment back in March 2025 with this release, with the preliminary estimate of -911k but -700-800k more likely in our view. A 700k reduction would be close to the 60k per month touted by Fed Chair Powell.

The unemployment rate will again be a key component in shaping reaction to the report, with consensus currently looking for 4.4% after the 4.38% in December pulled back from the surprisingly high but shutdown-distorted 4.54% in November after 4.44% in Sep and 4.32% in Aug. The Chicago Fed's nowcast looks for 4.36% whilst alternative metrics have been mixed, with consumers clearly feeling pressures as the Conference Board's labor market differential weakened to fresh recent lows but jobless claims data have offered particularly favorable comparisons with prior payrolls reference periods (but lifting more recently in what continues to look like some residual seasonality). Some have cautioned that continuing claims are pushing lower as long-term recipients roll out of eligibility for regular state 26-week programs although JPMorgan analysis suggests this isn't the sole factor.

As for CPI inflation, January is always an important month as it begins to capture start-of-year price resets - historically about 20% net price increases for the year come in January and another 20% in February. Consensus currently stands at 0.3% M/M for both headline and core CPI in the early days for the Bloomberg survey. It's possible that the seasonal adjustment look-back and coming after the pandemic period, when prices saw more uniform increases across the year, could drive some residual seasonality with strength in seasonally adjusted price increases early in the year.

December's CPI report was softer than expected in most respects, with relatively limited "payback" from the unusually soft (and heavily distorted) October/November report. Stronger-than-expected food prices and energy readings kept headline (0.31% M/M) from "missing" more vs MNI's unrounded consensus (0.37% M/M) than did core which came in at 0.24% M/M (0.35% unrounded consensus). Headline Y/Y inflation printed its lowest since June and core CPI Y/Y inflation at joint lows since early 2021. There was relatively little change in Y/Ys for core goods and services compared to last month's surprisingly low November print, though food inflation firmed.

Date	ET	Impact	Event
09 Feb	1100	**	NY Fed Survey of Consumer Expectations
09 Feb	1330		Fed Governor Christopher Waller
09 Feb	1430		Fed Governor Stephen Miran
09 Feb	1515		Atlanta Fed's Raphael Bostic
09 Feb	1700		Fed Governor Stephen Miran
10 Feb	0600	**	NFIB Small Business Optimism Index
10 Feb	0830	***	Employment Cost Index
10 Feb	0830	**	Import/Export Price Index
10 Feb	0830	***	Retail Sales
10 Feb	0855	**	Redbook Retail Sales Index
10 Feb	1000	*	Business Inventories
10 Feb	1200		Cleveland Fed's Beth Hammack
10 Feb	1300		Dallas Fed's Lorie Logan
11 Feb	0700	**	MBA Weekly Applications Index
11 Feb	0830	***	Employment Report
11 Feb	1015		Fed Vice Chair Michelle Bowman
11 Feb	1400	**	Treasury Budget
11 Feb	1600		Cleveland Fed's Beth Hammack
12 Feb	0830	***	Jobless Claims
12 Feb	1000	***	NAR existing home sales
12 Feb	1900		Fed's Lorie Logan, Stephen Miran
13 Feb	0830	***	CPI