

US Employment Report - January

United States



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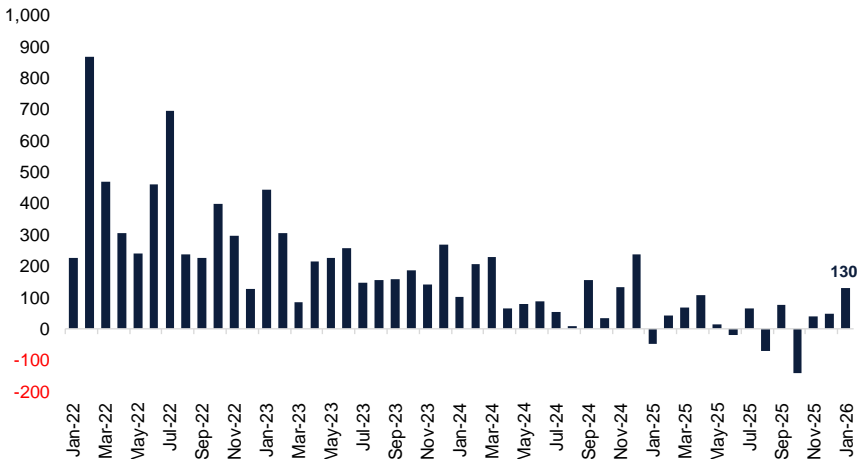
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Stronger than expected payrolls highlight US resilience, reducing the likelihood of near-term Fed cuts

The January employment report points to an uptick in labor market momentum, with total non-farm payrolls rising by 130,000 jobs, following a downwardly revised 48,000 increases in December. While the January gain was the strongest monthly increase since December 2024 (+237k), it should be viewed in context: job creation throughout 2025 was notably subdued (see Figure 1), averaging 15k per month after recent revisions, a sharp slowdown compared to the 116k monthly average recorded in 2024. In fact, total nonfarm employment increased by only 181,000 in 2025, significantly below the initially reported 584k. Excluding the pandemic year (2020) and the financial crisis (2008-2009), this marks the weakest annual job creation since 2003 (+124k). Meanwhile, the unemployment rate edged down to 4.3%. Wage growth remains positive but has stabilized, and labor force participation continues to move sideways.

Given the renewed momentum in payrolls and the stabilization in wage dynamics, we expect the Federal Reserve to remain cautious in signaling near-term rate cuts. While inflation has moderated relative to prior peaks, labor market conditions may be viewed as sufficiently stable to prevent an imminent easing cycle. The January report reinforces the view that the Committee will likely require clearer evidence of sustained disinflation and softer labor demand before adjusting the policy.

Figure 1. Net New Payrolls monthly (thousands)



Source: HR Ratings with seasonally adjusted data from the US BLS and FRED.



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At a sectoral level, job creation was concentrated on health care (+82k), social assistance (42k), and construction (33k), which was offset by declines in federal government (-34k) and financial activities (-22k). Broader labor market indicators, including long-term unemployment and part time employment, suggest that while labor demand remains solid, underlying softness has increased modestly compared to a year ago.

In Figure 2 below we can observe that the unemployment rate stood at 4.3% in January, essentially unchanged from December and modestly above its year-earlier level of 4.0%. The total number of unemployed individuals totaled 7.4 million, broadly unchanged from the prior month but up from 6.9 million a year earlier. For its part, the labor force participation rate was little changed in the month (62.5%) and has shown limited movement over the past year (62.6% in January 2025). However, year over year, the US labore force expanded by 1.2 million, roughly one-third of the increase recorded in the prior year (+3.4 million). Given the significant role of immigration flows in labor force expansion, changes in migration dynamics and work authorization policies may be contributing to the slower pace of labor supply growth.

Figure 2. Payroll, Employment and Hourly Wage Report

	Jan-23	Jan-24	Jan-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Total payrolls in the month (millions)	154.8	157.0	158.3	158.5	158.5	158.5	158.4	158.4	158.5	158.6
Net New Payrolls in month (thousands)	444.0	102.0	-48.0	64.0	-70.0	76.0	-140.0	41.0	48.0	130.0
Net New Payrolls 3mma (thousands)	289.0	170.7	107.7	19.0	-8.7	23.3	-44.7	-7.7	-17.0	73.0
Annualized quarterly change in total payrolls	2.29%	1.37%	0.89%	0.29%	0.11%	0.08%	-0.08%	-0.07%	-0.17%	0.12%
Annual quarterly change in total payrolls	3.19%	1.57%	0.86%	0.52%	0.48%	0.45%	0.38%	0.31%	0.21%	0.19%
Labor force (millions)	166.0	167.3	170.7	170.4	170.8	171.3	171.4	171.5	171.5	171.9
Jobs (millions)	160.2	161.1	163.8	163.1	163.4	163.7	163.7	163.8	164.0	164.5
Unemployed (millions)	5.7	6.2	6.9	7.3	7.4	7.6	7.7	7.8	7.5	7.4
Labor force entrants (thousands)	939.0	-131.0	2190.0	32.0	338.0	511.0	140.0	140.0	-46.0	387.0
Monthly unemployment rate	3.5%	3.7%	4.0%	4.3%	4.3%	4.4%	4.5%	4.5%	4.4%	4.3%
Labor participation rate	62.4%	62.5%	62.6%	62.2%	62.3%	62.5%	62.5%	62.5%	62.4%	62.5%
Quarterly average real hourly earnings*	33.54	33.86	34.25	34.48	34.49	34.49	34.52	34.58	34.62	34.65
Annualized quarterly change*	0.96%	1.63%	0.55%	1.60%	0.76%	0.68%	0.47%	1.08%	1.50%	1.56%
Quarterly annual change*	-1.67%	0.95%	1.15%	1.31%	1.12%	1.00%	0.93%	1.00%	1.08%	1.19%
Quarterly average weekly real wage*	1,157	1,163	1,172	1,179	1,179	1,180	1,181	1,184	1,185	1,188
Annualized quarterly change*	0.57%	1.24%	0.16%	1.21%	0.37%	0.29%	0.47%	1.48%	1.90%	2.35%
Quarterly annual change*	-2.24%	0.46%	0.85%	1.11%	0.92%	0.80%	0.74%	0.90%	0.98%	1.29%
Quarterly annualized inflation*	3.84%	2.39%	3.69%	1.89%	2.73%	3.14%	3.45%	2.97%	2.45%	2.16%
Quarterly annual inflation*	6.63%	3.19%	2.86%	2.59%	2.78%	2.90%	2.95%	2.88%	2.75%	2.57%

Source: HR Ratings with data from the US BLS & information retrieved from FRED, Federal Reserve Bank of St. Louis.

*Inflation based on Headline CPI. Data for January is an estimate. Measures the real quarterly wage compared to the same quarter of the previous year and to the immediately preceding quarter annualized. Refers to all employees in the private sector.

Overall, January's data reduced the urgency for near-term monetary easing but do not materially alter the broader picture of a cooling labor market relative to last year. The combination of moderate job gains, stable participation, and wage pressures supports a higher for longer stance in the near term. For the Fed, clearer evidence of sustained disinflation or a more pronounced softening in labor demand will likely be required before initiating rate cuts.



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