

**Paulina Villanueva**paulina.villanueva@hrratings.comEconomic Analysis and Sovereign Debt
Senior Associate**Edgar González**edgar.gonzalez@hrratings.comEconomic Analysis and Sovereign Debt
Senior Associate**Ricardo Gallegos**ricardo.gallegos@hrratings.com

Deputy Chief Economic Analysis Officer

**Felix Boni**felix.boni@hrratings.comChief Credit and Economic Analysis
Officer

US labor market conditions remained weak in December, with job creation declining for the year while the unemployment rate has stabilized at higher levels

Total nonfarm payroll employment increased by 50,000 jobs in December, following a downwardly revised rise of 56,000 in November and falling short of the consensus projection of 73,000. Job creation in December was substantially below historical averages. Between 2022 and 2024, average job gains for the month stood at 239,300. On an annual basis, payroll employment rose by 584,000 jobs in 2025, equivalent to an average monthly gain of 49,000, sharply lower than the 2.0 million jobs added in 2024 (168,000 per month). The December data reveals a significant slowing in employment momentum over the last year, but real wage income is marginally improving, despite continuously high inflation (CPI at 2.7% by year-end 2025, compared to 2.9% at the end of 2024).

Given this outlook, our expectation is for the continuation of gradual cuts in interest rates. Under HR Ratings baseline scenario, the Fed policy rate is expected to decline to a midpoint of 3.13% by year-end, from 3.63% at the end of 2025, signaling continued easing of financial conditions. In addition to cyclical labor market signals, increased political noise around the Federal Reserve is shaping monetary policy expectations. Recent public conflicts between President Trump and Chair Powell have reignited debate over the Fed's future leadership, particularly because Powell's term as Chair is slated to expire in May 2026. However, from a monetary policy perspective, the data supports expectations that the Federal Reserve can continue with a gradual easing cycle. The significant slowdown in hiring momentum gives policymakers more confidence that restrictive policies are no longer needed to the same extent as in past years.

As shown in Figure 1, the unemployment rate stood at 4.4% in December (vs. 4.1% and 3.8% in 2024 and 2023), while the number of unemployed remained broadly unchanged at 7.5 million (vs. 7.8 million in November but at 6.9 million in December 2024). Labor force participation edged slightly lower to 62.4%, suggesting little change in the labor force. Meanwhile, the quarterly average weekly real wage has continued to increase albeit gradually, indicating that real labor income has remained resilient despite softer hiring conditions and persistently high inflation. In December, the annual change in quarterly real hourly earnings increased 0.93% vs. 1.34% in December 2024 while quarterly annual inflation remained basically unchanged (2.75% in December 2025 vs. 2.72% in December 2024).



Figure 1. Payroll, Employment and Hourly Wage Report

	Dec-22	Dec-23	Dec-24	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Total payrolls in the month (millions)	154.3	156.9	158.9	159.4	159.5	159.5	159.6	159.4	159.5	159.5
Net New Payrolls in month (thousands)	126.0	269.0	323.0	-13.0	72.0	-26.0	108.0	-173.0	56.0	50.0
Net New Payrolls 3mma (thousands)	274.3	198.7	209.3	54.7	26.0	11.0	51.3	-30.3	-3.0	-22.3
Annualized quarterly change in total payrolls	2.29%	1.36%	1.29%	0.71%	0.45%	0.23%	0.22%	0.08%	0.05%	-0.14%
Annual quarterly change in total payrolls	3.33%	1.65%	1.24%	1.04%	0.98%	0.94%	0.88%	0.79%	0.67%	0.53%
Labor force (millions)	165.0	167.4	168.5	170.4	170.4	170.8	171.3	171.4	171.5	171.5
Jobs (millions)	159.3	161.1	161.6	163.3	163.1	163.4	163.7	163.7	163.8	164.0
Unemployed (millions)	5.8	6.3	6.9	7.1	7.3	7.4	7.6	7.7	7.8	7.5
Labor force entrants (thousands)	575.0	-701.0	258.0	-112.0	32.0	338.0	511.0	140.0	140.0	-46.0
Monthly unemployment rate	3.5%	3.8%	4.1%	4.1%	4.3%	4.3%	4.4%	4.5%	4.5%	4.4%
Labor participation rate	62.3%	62.5%	62.5%	62.3%	62.2%	62.3%	62.5%	62.5%	62.5%	62.4%
Quarterly average real hourly earnings*	33.52	33.81	34.26	34.39	34.44	34.45	34.45	34.48	34.52	34.58
Annualized quarterly change*	0.71%	0.57%	1.32%	1.59%	1.72%	0.95%	0.73%	0.51%	0.86%	1.47%
Quarterly annual change*	-1.96%	0.87%	1.34%	1.31%	1.20%	1.01%	0.89%	0.80%	0.80%	0.93%
Quarterly average weekly real wage*	1,156	1,162	1,174	1,178	1,180	1,179	1,179	1,179	1,182	1,184
Annualized quarterly change*	0.32%	0.57%	1.71%	2.39%	1.72%	0.17%	0.34%	-0.27%	0.86%	1.47%
Quarterly annual change*	-2.71%	0.48%	1.04%	1.31%	1.20%	0.91%	0.89%	0.60%	0.71%	0.83%
Quarterly annualized inflation*	4.11%	2.79%	3.03%	1.65%	1.89%	2.73%	3.14%	3.45%	2.97%	2.45%
Quarterly annual inflation*	7.10%	3.24%	2.72%	2.46%	2.59%	2.78%	2.90%	2.95%	2.88%	2.75%

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

*Inflation based on Headline CPI. 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, December's payroll report reinforces the view that the U.S. labor market is cooling in an orderly manner rather than deteriorating abruptly. Slower employment growth, with payrolls increasing at a 0.4% annual rate in December 2025 vs 1.3% a year ago, along with consistent participation rates, suggests more balanced market conditions, which should help anchor inflation expectations and support further progress toward price stability.



HR Ratings de México, S.A. de C.V. ("HR Ratings"), is an credit rating agency authorized by the National Banking and Securities Commission(CNBV) and registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934 and certified as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA).

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to \$1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between \$5,000 and US\$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

Media Contact

daniela.menache@hrratings.com



@HRRATINGS



HR RATINGS



WWW.HRRATINGS.COM



HR RATINGS