ECONOMIC UPDATE

February 11, 2026

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January Employment Report: Labor Market On Firmer Footing In 2026?

- Nonfarm employment rose by 130,000 jobs in January; revised data show total nonfarm employment rose by 181,000 jobs in 2025
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.8 percent (up 4.8 percent year-on-year)
- The unemployment rate fell to 4.3 percent in January (4.283 percent, unrounded); the broader U6 measure fell to 8.0 percent

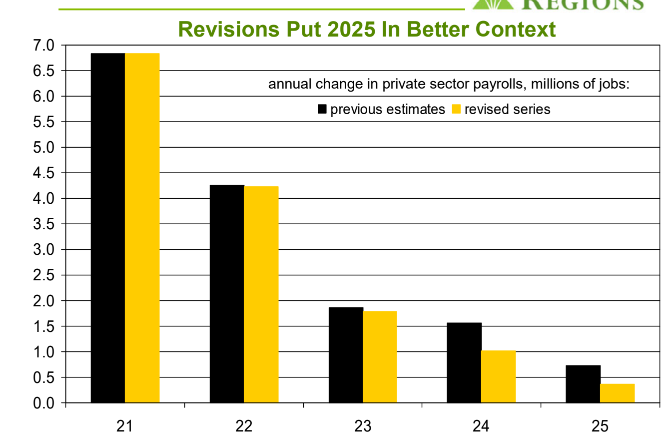
Total nonfarm payrolls rose by 130,000 jobs in January, topping what we (91,000 jobs) and the consensus (65,000 jobs) expected, with private sector payrolls up by 172,000 jobs and public sector payrolls down by 42,000 which mainly reflects further declines in federal government payrolls. Average hourly earnings rose by 0.4 percent in January, above the consensus forecast but shy of the 0.5 percent increase we anticipated. Still, with the increase in private sector payrolls and the average length of the workweek ticking up to 34.3 hours, aggregate private sector wage and salary earnings rose by 0.8 percent in January, matching our forecast and yielding a year-on-year increase of 4.8 percent. This continues a pattern we've stressed but which has often been overlooked, which is that growth in aggregate private sector labor earnings continues to easily run ahead of inflation as it has even since higher inflation took hold, which we think has been an underappreciated support for consumer spending. The unemployment rate fell to 4.3 percent in January, matching our below-consensus forecast, as an increase in household employment more than offset an increase in labor force participation. At the same time, the broader U6 rate, which also accounts for underemployment, fell back to 8.0 percent in January, a rapid comedown after the rate hit 8.7 percent in November, with a decline in the number of people working part-time due to economic reasons the primary factor in the declining U6 rate.

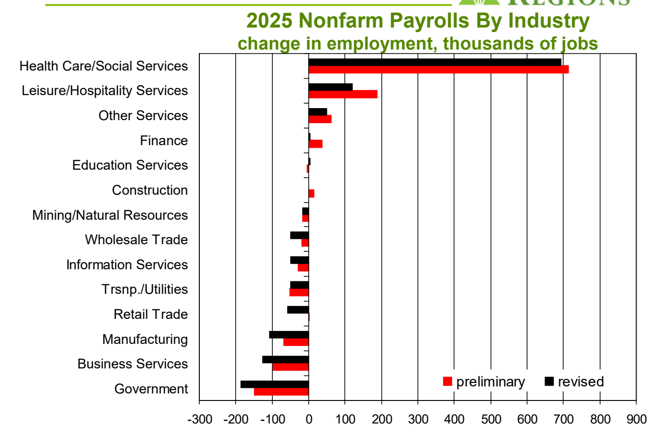
The January employment report incorporates the final results of the BLS's annual benchmark revisions to the recent historical data on nonfarm employment, hours, and earnings. This is the process in which BLS benchmarks its monthly establishment survey to the universe of payroll tax returns as of the prior March. Recall that in September the BLS announced their preliminary estimate, showing the level of nonfarm employment as of March 2025 would be reduced by 911,000 jobs. The final results show a reduction of 862,000 jobs, and while the magnitude was still a bit more than we expected the downward revision nonetheless affirms a point we consistently made over the course of last year, which was that the monthly estimates of job growth were overstating job growth. The revised data show the U.S economy added only 181,000 jobs in 2025, down from the preliminary estimate of 584,000 jobs. Keep in mind that there was a substantial reduction in public sector payrolls in 2025 reflecting cuts in the federal government workforce, but the revised data show a net gain of only 367,000 private sector jobs, compared to the preliminary estimate of a gain of 733,000 jobs.

Note that the benchmark revisions applied to the seasonally adjusted data going back to 2021. As our first chart below shows, the revisions yielded negligible changes to prior estimates of private sector job growth over the 2021-2023 period but show significant downward revisions to prior estimates of not only 2025 job gains but also 2024 job gains, with the prior estimate of private sector job growth for 2024 being knocked down by 538,000 jobs. This helps, at least for us, put 2025 job growth, or the lack thereof, in better context.

A frenzied pace of hiring saw private sector payrolls return to their pre-pandemic peak in April 2022, after which the pace of hiring slowed sharply, and it could be that firms taped the brakes too heavily and that this carried well into 2024, with private sector job growth now shown to be much weaker than previously reported. Though this point is largely overlooked as job losses in manufacturing and warehousing are pinned on changes in U.S. trade policy, job losses in these sectors actually began in 2022, as was also the case with information services. This isn't to say changes in trade policy didn't contribute to further job losses in 2025, but this has been a long-running pattern in these industries.

What we started to see, as affirmed with the revised data, over the final months of 2025 was the labor market stabilizing and the pace of hiring edging higher, which coincided with the pace of economic activity reaccelerating after hitting a decided lull in mid-2025. While January's increase in private sector payrolls is not likely a sustainable pace, it is reasonable to argue, as we have, that job growth should firm up this year if we are correct in expecting a faster pace of real GDP growth. That doesn't magically cure all of the labor market's ills, particularly given what we expect will be sharply slower labor supply growth thanks to an outflow of foreign born labor. It does, however, suggest those who had been writing the labor market's obituary were perhaps a bit premature.





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