

US February jobs preview: It's probably signal

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KEY MESSAGES

- We expect a steady 4.3% unemployment rate in the US February jobs report, while nonfarm payrolls rise a solid 65k.
- We see broadly balanced risks to the unemployment rate. However, the risks of a decline may be underappreciated, given new data will likely show even more constricted labor-supply growth.
- A sufficiently strong jobs print could lead the FOMC to pivot towards a symmetric policy bias – to signal that a hike or a cut are equally likely next moves – in its March statement.

This month's payrolls release will be especially important to the Fed for two reasons. First, the debate over the true situation in the labor market – a debate in which policymakers' views had become deeply entrenched – has come to a head, with acknowledgement among some [dovish policymakers](#) that the data has shown more resilience than they expected (see [US January jobs: Encouraging, positive news](#), dated 11 February). Second, with only two FOMC meetings remaining until the Fed Chair transition, discussions over the policy outlook in the FOMC statement seem to have taken on greater urgency, as policymakers seek to influence expectations for policy under new Fed Chair Warsh.

Another strong jobs print on top of January's could strongly influence these discussions. Such a print could more conclusively put to bed arguments that the labor market is "flashing red" and that a rapid accumulation of labor slack is just around the corner. That could cause policymakers to see risks to monetary policy as more balanced and that rate hikes to counter excessive economic reacceleration are a sufficiently plausible tail risk in the near term to merit a change in language to signal a symmetric policy bias. In making such a language change, policymakers would likely intend to underscore their commitment to a steady reaction function through the leadership cutover, and implicitly to push back on widespread expectations for an abrupt dovish shift and a reduction in the data dependence of policy.

We think that to make such a shift in the March meeting would require a similarly strong print to January: a declining unemployment rate, and enough momentum in job gains to show that the unemployment rate will likely decline further in coming months. Our base case, below, is for a print that falls slightly short of this.

Looking for consolidation of January's encouraging signs: Since the 2024 election, we have viewed the deceleration in job gains as primarily structural on account of diminishing labor supply. We do not neglect demand-side softening driven by trade uncertainty and previously restrictive Fed policy, but we see it as an adjustment to a new post-pandemic equilibrium. In fact, we believe the risk of a re-tightening in the job market may be underappreciated, with monetary and fiscal policy ex-tariffs in accommodative territory, financial conditions appearing supportive of growth, and optimism creeping into company surveys.

While our anticipated 65k gain in nonfarm payrolls may seem soft in relation to January's 130k print, that pace would still be strong enough to absorb new labor supply. Indeed, we expect the revisions to the household survey portion of the report to show that the population and the labor force have been, and will be, growing slower than previously estimated. This would reinforce our recent analysis that employment growth averaging in the 0–20k range may be all that is needed to keep the jobless rate steady in 2026 (see [US: Sharp immigration decline to weigh on population growth](#), dated 10 February).

We remain of the view that the unemployment rate is the indicator to watch when it comes to Fed policy, not the payroll numbers. Our base case is that the jobless rate averages around 4.3% this year, with a slight tilt lower to 4.2% in 2027. We think that keeps the Fed on the sidelines, with little need to lean against cyclical weakness with rate cuts.

This sort of uneasy balance in the job market – low job gains, but also low unemployment – is uncomfortable, but sustainable. We remain upbeat on the economy's prospects in 2026 (see [US: K-shaped capex nets to stronger near-term growth](#), dated 24 February).

Risks to the unemployment rate are bidirectional. Stimulative fiscal policy, stimulative monetary policy and stimulative financial conditions are now in place, and trade-policy uncertainty, which likely held back hiring in 2025, is now easing. These could set the stage for a cyclical pickup in 2026. Downside risk to the labor market, in our view, probably comes from further shedding of pandemic-era 'labor hoards' or the scaling of AI in the business sector (outside of the technology industry) earlier than we currently expect.

Fig. 1: Employment-report estimates

Summary table	Historical					Forecast
	2012-19 avg	Oct 25	Nov 25	Dec 25	Jan 26	Feb 26
Nonfarm payrolls (thous, m/m)	197	-140	41	48	130	65
Private payrolls	189	13	72	64	172	65
Goods-producing	29	-20	25	-12	36	-15
Private services-producing	168	33	47	76	136	70
Government	8	-153	-31	-16	-42	0
Unemployment rate (%)	5.5		4.5	4.4	4.3	4.3
Avg hourly earnings (%m/m)	0.2	0.4	0.4	0.1	0.4	0.3
Labor force participation rate (%)	63.0		62.5	62.4	62.5	62.5

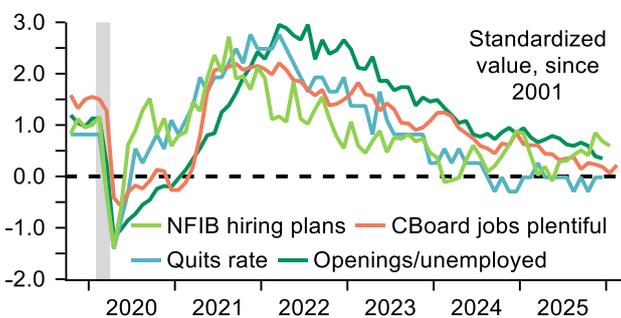
Notes: Payrolls figures are in month-over-month terms in thousands.

Sources: BLS, BNP Paribas

Our expectations for the jobs report:

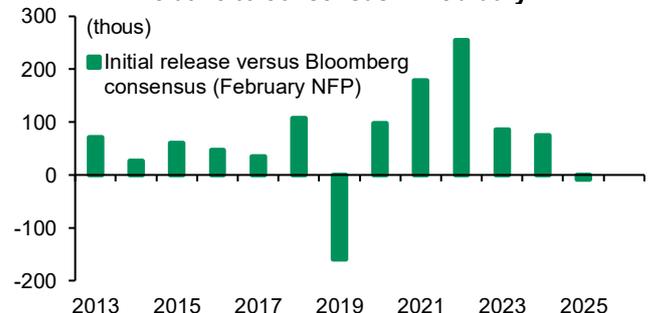
- **Payroll growth settles back:** We look for a 65k gain in nonfarm payrolls. The consensus expects 60k as of 26 February. We expect private payrolls to gain a matching 65k. Government payrolls are probably flat, in our view, as we believe the 34k drop in federal payrolls in December likely incorporated some remaining deferred resignations.
- **February tends to beat, but weather may drag:** Nonfarm payrolls have exceeded consensus estimates in February by nearly 40k over the last ten years (excluding 2021–22 when the surprises were even bigger, Figure 3). Leaning against that, the end of January and early February were abnormally cold, particularly in the Northeast, which may have weighed on payrolls. While we expect those effects to roughly offset each other, we see a high surprise quotient in this release.
- **Weaker construction, solid services:** The goods sector may shed jobs, as we think an unusually cold start to the month will mean a drop in construction payrolls, which may reverse much of January’s 33k gain. We see tentative green shoots in manufacturing, where the industry added jobs for the first time since November 2024. We expect gains in the services sector will once again mostly accrue to healthcare, where we see job growth slowing to 50k after an outsized 124k in the prior month.
- **Birth-death normalization:** The BLS’s revamped birth-death methodology created an extra boost to January payrolls, potentially adding an extra 70k to the reported 172k gain in private payrolls. Much of that was concentrated in private healthcare payrolls. We think the changes will normalize in February (Figure 5). The new process should reduce the likelihood of large annual revisions in the future, albeit at the expense of extra scrutiny from jobs-watchers.
- **Sturdy earnings growth:** We expect a 0.3% m/m rise in average hourly earnings and a steady 3.7% y/y pace. We doubt that the Fed is concerned about wage pressures at current levels, particularly with productivity running at a solid clip (Figure 6), but this could change if unemployment were to start declining.
- **Unemployment stable at 4.3% and risks balanced:** We expect a steady unemployment rate at 4.3% (consensus: 4.4%). We see risks as broadly balanced, and subject to greater-than-usual uncertainty on account of the population-control adjustment and revision to January data. Had the participation rate been unchanged last month, the jobless rate would have posted 4.1%, not 4.3%.

Fig. 2: Labor demand shows stabilization



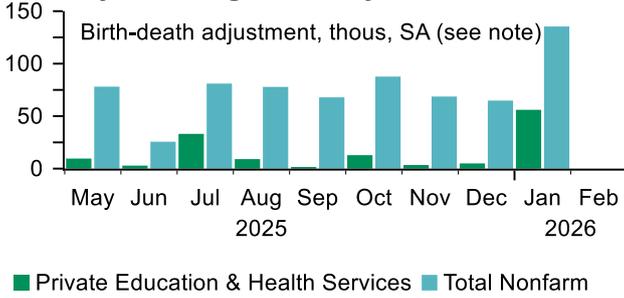
Sources: BLS, Conference Board, NFIB, Macrobond, BNP Paribas

Fig. 3: Payrolls have tended to surprise to the upside relative to consensus in February



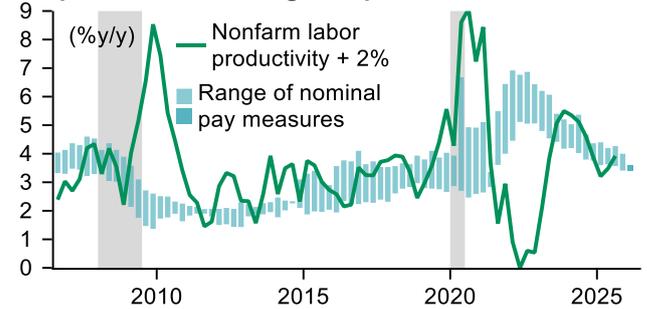
Sources: Bloomberg, BNP Paribas

Fig. 4: Birth-death adjustment added more jobs than usual in January; the changes are likely to normalize in February



Note: Seasonally adjusted using default settings in Macrobond. Numbers should be treated as illustrative, as the BLS (1) does not seasonally adjust the birth-death estimates, and (2) the SA estimates do not have a direct interpretation in isolation from the underlying NSA payrolls levels
Sources: BLS, Macrobond, BNP Paribas

Fig. 5: Pay growth is broadly consistent with productivity plus 2% inflation, a good spot for the Fed for now



Note: Pay measures include AHE, ECI, and Atlanta Fed wage tracker
Sources: Atlanta Fed, BLS, Macrobond, BNP Paribas

Household survey update to show even slower labor-supply growth: The Bureau of Labor Statistics (BLS) normally updates its population estimates with the release of January data, but this has been delayed by a month due to the federal shutdown in October–November. These estimates are used to generate underlying levels of the labor force, employment, and unemployment, among other series, via the ratios computed from the household survey responses.

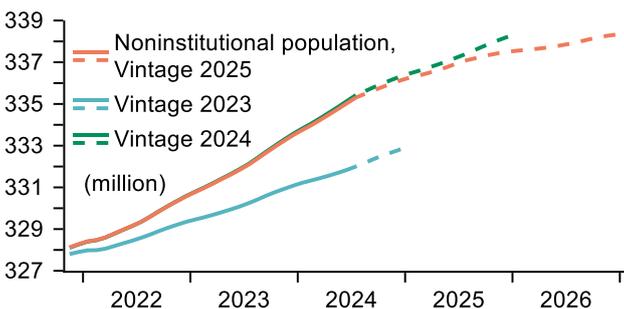
January household survey data will be revised, which creates a bit more uncertainty about the February results. That said, we expect the effects on major ratios (unemployment rate, participation rate, employment-to-population ratio) to be minimal, albeit with an elevated surprise potential.

In 2022–24, the BLS serially underestimated the size of the population amid high immigration flows. This resulted in a large upward adjustment in the population controls in January 2025 of nearly three million. However, updated data from the Census Bureau, which feeds into the BLS estimates, suggest that the BLS has been overestimating population growth since late-2024. This should mean a downward adjustment in this year’s iteration (Figure 7).

We estimate the population aged 16-and-over will be revised down by about 590k in the refreshed January data, that the labor force will be revised down by about 370k, with a similar cut to the level of household survey employment.

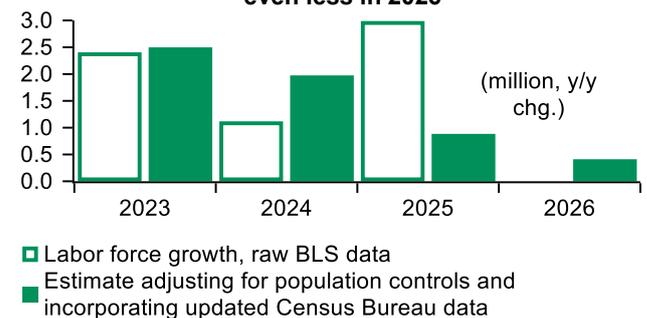
While the official BLS data will still show the labor force rising by three million in 2025 (the data is not revised), the true growth was likely much lower. Using an experimental BLS series that smooths for past population controls and immigration, and incorporating the latest vintage of Census Bureau data, we estimate the labor force grew by only 900k in 2025 and expect overall labor force growth of well less than 500k in 2026.

Fig. 6: Downward revision to population estimates will flow through to the household survey estimates



Sources: Census Bureau, Macrobond, BNP Paribas

Fig. 7: Labor force may have grown by less than 1mn in 2025, a third of what official data show, and is on pace for even less in 2026



Sources: BLS, Census Bureau, Macrobond, BNP Paribas

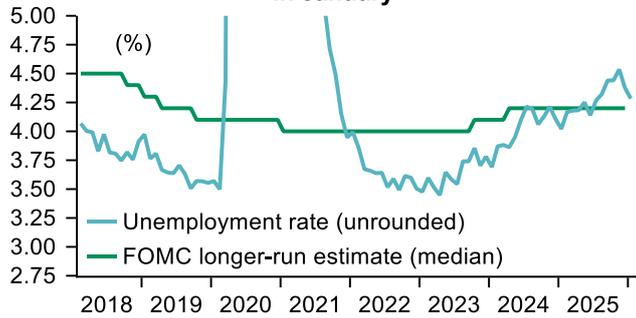
Fed risks may turn more balanced on a strong report: We continue to see the unemployment rate as the fulcrum variable for monetary policy.

Our view for a while has been that the downside line in the sand for the unemployment rate – the level at which the FOMC would fear an acceleration in wages and in non-shelter services inflation – is around 4%. This is not certain and there are arguments that the labor market slack is lower, and declining more, than the unemployment rate suggests. For example, the prime-age employment-to-population ratio is at a long-term high, suggesting that, were we to see an unexpected cyclical pickup, the stock of available, experienced labor slack might prove limited.

In addition to the policy bias shift discussed earlier, a strong report for February could coalesce the FOMC around a no-rate-cut baseline in 2026, down from the one-cut previously, via changes to the statement and the dot plot. We believe an above 100k payroll print, a decline in the unemployment rate by at least a tenth, and stable or better participation rate could suffice.

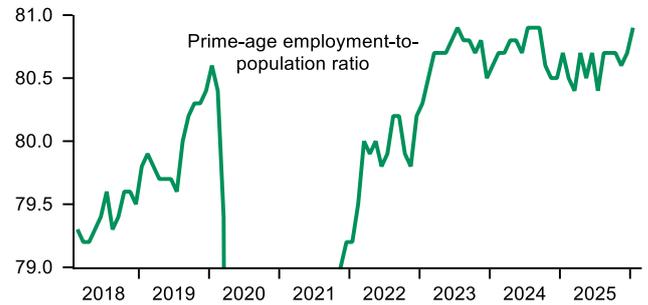
Increases towards the 4.5–4.7% range could start to reignite speculation about rate cuts, given what we view as still an asymmetric policy bias to support the job market and a high tolerance for a continued inflationary overshoot.

Fig. 8: Unemployment rate was down for a second month in January



Sources: BLS, Federal Reserve System, BNP Paribas

Fig. 9: Prime-age employment-to-population ratio is high



Sources: BLS, Macrobond, BNP Paribas

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Section A and B services include A. Investment services and activities: (1) Reception and transmission of orders in relation to one or more financial instruments; (2) Execution of orders on behalf of clients; (3) Dealing on own account; (4) Portfolio management; (5) Investment advice; (6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; (7) Placing of financial instruments without a firm commitment basis; (8) Operation of an MTF; and (9) Operation of an OTF. B. Ancillary services: (1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management and excluding maintaining securities accounts at the top tier level; (2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction; (3) Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings; (4) Foreign exchange services where these are connected to the provision of investment services; (5) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments; (6) Services related to underwriting; and (7) Investment services and activities as well as ancillary services of the type included under Section A or B of Annex 1 related to the underlying of the derivatives included under points (5), (6), (7) and (10) of Section C (detailing the MiFID II Financial Instruments) where these are connected to the provision of investment or ancillary services.

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BNPP understand the importance of protecting confidential information and maintain a "need to know" approach when dealing with any confidential information. Information barriers are a key arrangement we have in place in this regard. Such arrangements, along with embedded policies and procedures, provide that information held in the course of carrying on one part of its business to be withheld from and not to be used in the course of carrying on another part of its business. It is a way of managing conflicts of interest whereby the business of the bank is separated by physical and non-physical information barriers. The Control Room manages this information flow between different areas of the bank where confidential information including inside information and proprietary information is safeguarded. There is also a conflict clearance process before getting involved in a deal or transaction.

In addition, there is a mitigation measure to manage conflicts of interest for each transaction with controls put in place to restrict the information flow, involvement of personnel and handling of client relations between each transaction in such a way that the different interests are appropriately protected. Gifts and Entertainment policy is to monitor physical gifts, benefits and invitation to events that is in line with the firm policy and Anti-Bribery regulations. BNPP maintains several policies with respect to conflicts of interest including our Personal Account Dealing and Outside Business Interests policies which sit alongside our general Conflicts of Interest Policy, along with several policies that the firm has in place to prevent and avoid conflicts of interest.

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