

Decent January for US jobs, but the sector concentration is a huge concern

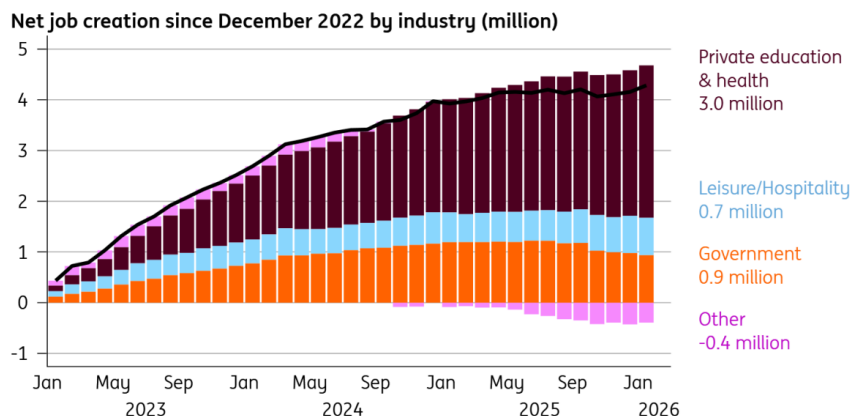
The US added more jobs than expected in January, but sizeable downward revisions reveal that – outside of leisure & hospitality, private healthcare, and government – the economy has actually been consistently losing jobs. This suggests the risks remain tilted toward the Fed cutting rates more than the two reductions currently in our forecast



While some sectors, like private healthcare, continue to add jobs, the wider labour market is showing signs of strain

Firm January, but awful 2025

The details of the January jobs report are firm, with payrolls rising by 130k versus the 65k consensus, while there were only 17k of downward revisions to the past two months. The unemployment rate dipped again to 4.3% from 4.4% while wages were hotter than expected at 0.4%MoM (consensus 0.3%). But that is far from the whole story.



Source: Macrobond

The benchmark revisions aren't good. Provisionally, they were estimated to be -911k or down 76k per month, while Fed Chair Powell thought they would be 60,000 in the final report or 720k. They were actually down 862k. However, the key point is that this wipes out all the job gains in sectors that aren't government, leisure & hospitality and private education and healthcare services over the past three years. That means the likes of retail, construction, manufacturing, technology, financial services, and business services are failing to generate employment. This will only increase the political pressure on the Fed to cut rates further.

Moreover, even within today's decent-looking report, private education & healthcare services continue to dominate, contributing 137k of the 130k jobs given government lost 42k. Construction was pretty good, though, rising by 33k.

This report in itself will not be enough to convince the market of an early Fed cut. It will be the same set of voters that chose to adopt a more upbeat assessment on the labour market's prospects in January, and Chair Powell already stated in December that the Fed was of the view that the BLS was overestimating employment growth substantially. So while the headlines from the revisions look grim, this is unlikely to tip the central bank into cutting before March, especially if headline and core inflation come in at 0.3% on Friday as the market expects.

Jobs outlook skews the risks towards more than two Fed rate cuts

The problem is that the Challenger report on hiring intentions and weak JOLTS job openings point to a sharp drop-off in job vacancies, which suggests little prospect of a turnaround in hiring more broadly anytime soon. The rapid swing from excess demand – in 2022 there were 2 job vacancies for every unemployed American – to oversupply, where there are now fewer than 0.9 jobs for every unemployed American, also means that wage growth is cooling quickly. Tuesday's employment cost index showed private sector wages slowing to 3.3% at the end of 2025, and given the plunge in the quits rate – a signal of turnover in the jobs market – we wouldn't be surprised to see it average less than 3% in 2026.

This will do nothing to relieve the pressure on household finances and means consumer sentiment stays subdued. However, given that the US is largely a service sector economy and labour costs typically are the biggest cost input, this will help to ease inflation pressures over the medium term.

As such, the room for Fed rate cuts looks set to grow, reinforcing our position that the risk to our Fed call of two 25bp cuts this year is skewed towards it being more aggressive in its actions.

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