Article | 9 January 2026

UNITED STATES

US job angst grows despite a dip in unemployment

Jobs growth has effectively ground to a halt and the jobs that are being added are concentrated in just three sectors. The bulk of the US economy is trimming employment, which points to further work for the Federal Reserve. Nonetheless, the dip in unemployment and a likely hot inflation print next week suggests no action before March

US nonfarm payrolls for December was lower than expected, suggesting the Federal Reserve will cut interest rates

50,000 **Jobs added in December**

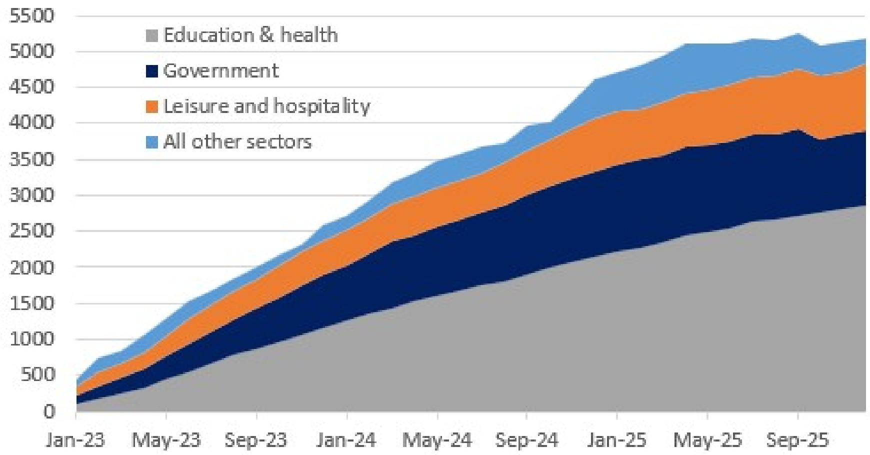
Lower than expected

Job creation has ground to a halt and may be negative

US non-farm payrolls for December came in at 50k versus the 70k expected and there were a net 76k of downward revisions to the past two months of data. Remember Fed Chair Powell has suggested that officials believe the Bureau of Labor Statistics is overestimating payrolls growth by around 60k per month, so this essentially suggests the jobs market is stagnant. Looking over the past six months, non-farm payrolls growth has averaged just 14,500, so adjusting for Chair Powell's assessment on the measurement error, this implies the US is losing more than 45,000 jobs per month.

There was better news from the household survey, which is used to calculate the unemployment rate. That dipped to 4.4% from a downwardly revised 4.5% (originally reported as 4.6% last month). Rounding out the numbers, wage growth came in at 0.3% month-on-month as expected.

Cumulative change in non-farm payrolls since December 2022 (000s)



Source: Macrobond, ING

The Fed has more work to do

Once again, the composition of the jobs created is concentrated in private education and healthcare services, with 41k of the 50k jobs added in December. Over the three-year period since January 2023, this sector has accounted for 55% of the 5.2m jobs added in the US economy, while government (+13k in December) has contributed 20% and leisure and hospitality (+47k in December) represented 18% of all the net jobs added. All other sectors – tech, construction, manufacturing, business services, financial services, retail, transport and logistics etc are responsible for only 7% of the job creation during that period. In December, this grouping actually lost 51k jobs and has only seen one up month out of the past eight! That should be very concerning for everyone and reinforces the message about the Fed needing to offer a bit more support for the economy.

The dip in the unemployment rate and the respectable wage growth story offers some mitigation, but the jobs market has undoubtedly cooled through 2025. With monetary policy still described as modestly restrictive, it justifies further gradual rate cuts. However, we anticipate that next week's CPI report could be a little hot, so there is little prospect of action ahead of the March FOMC meeting.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

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