

U.S. Data Review

- Payrolls: solid (albeit highly concentrated) growth of 130,000 in January after tepid hiring in 2025
- Benchmark revisions: decidedly soft
- Average hourly earnings: monthly bounce, although year-over-year trend consistent with 2 percent inflation
- Unemployment rate: lower amid firm advances in both employment and the labor force

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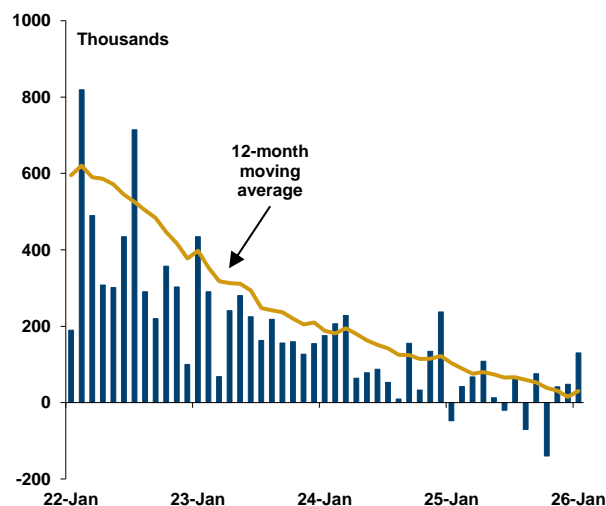
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The January 2026 Employment Data

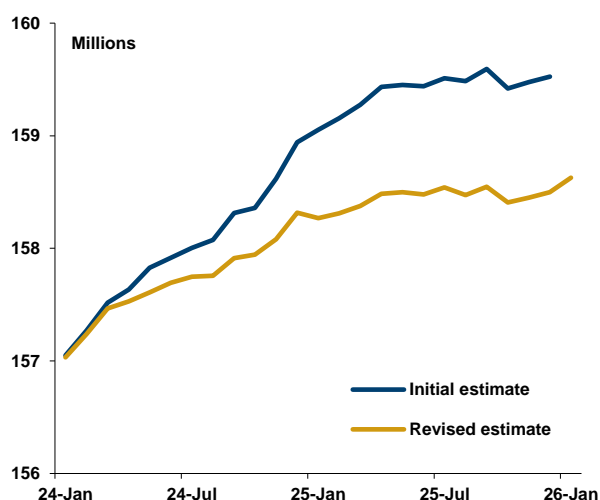
- Payroll growth of 130,000 in January 2026 far exceeded the Bloomberg median expectation of a gain of 65,000, although hiring in the latest month was concentrated in a few industries and possibly reflective of high side volatility. Additionally, results in the prior two months were revised lower by a combined 17,000. Furthermore, benchmark revisions to prior data indicate that already unimpressive job growth in 2025 was even less so than previously believed (revised average of +15,000 per month versus +49,000 pre-revision; charts, below).

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Nonfarm Payrolls

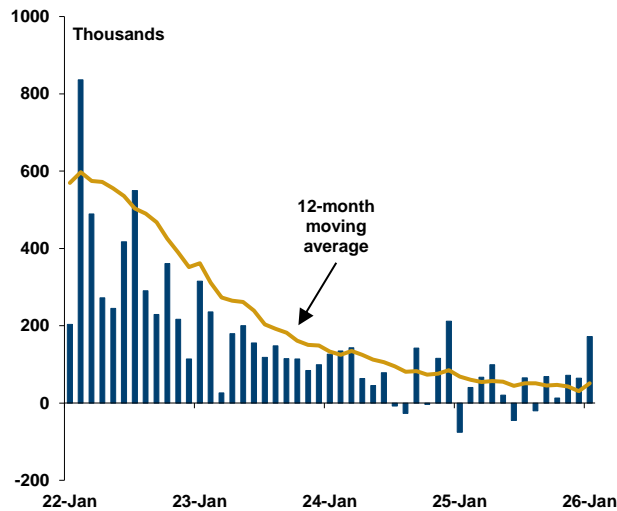


Source: Bureau of Labor Statistics via Haver Analytics

- With respect to the latest month, private-sector payroll growth of 172,000 (versus a trailing 12-month average of +31,000) was influenced significantly by gains in the healthcare and social assistance (+123,500), construction (+33,000), and professional and business services (+34,000) areas (chart on private-sector payrolls, next page, left). Turning first to the healthcare sector, which has been a key source of job gains in 2025, we note that this area is less sensitive to cyclical factors (i.e., the broader slowing in hiring in response to previously restrictive monetary policy) and more so tied to increased demand stemming from an aging population. Thus, ongoing solid job gains only appear reasonable on face. With that said, we emphasize that the latest observation is more than double the 12-month trailing average of 58,000 (chart, next page, right). Thus, a reversion to trend in February is anticipated. We also question the sustainability of readings in other aforementioned sectors. The gain in construction headcounts followed an essentially flat trend in 2025 and may reflect unseasonably friendly weather (the payroll survey occurs in the week containing the 12th of the month, and weather in the first half of the month was mild). And, while business services rose for the third consecutive month, firms had previously cut positions in nine of the first 10 months of 2025. Thus, given the narrow distribution of job gains, and potential statistical noise influencing sectors recording firm growth, we remain cautious in assessments of trend hiring.

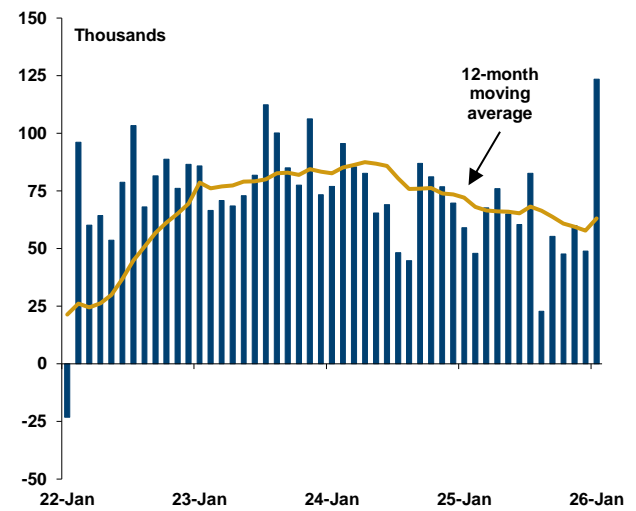
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Change in Private Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

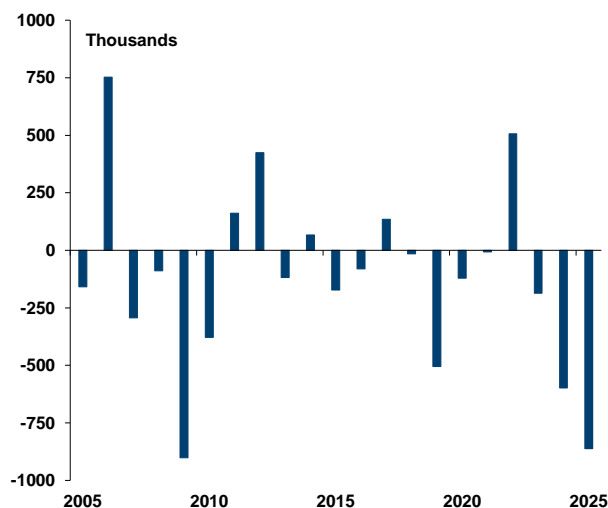
Change in Health Care & Social Assist. Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

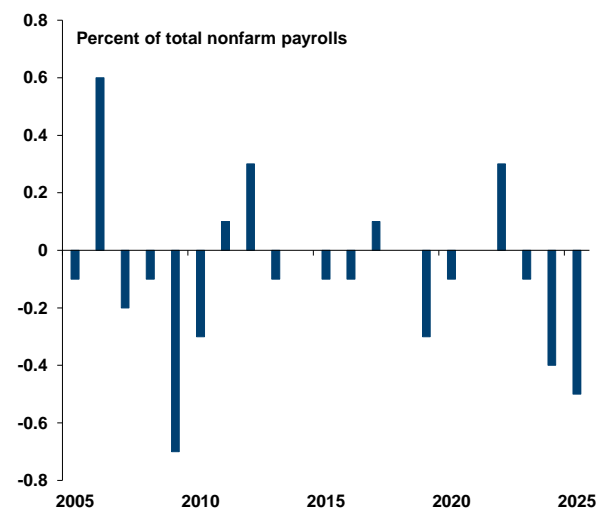
- Accompanying the January data, benchmark revisions incorporating that latest data from the Quarterly Census of Employment and Wages (QCEW) were released. The results indicated that total payroll employment in the 12 months ended March 2025 was 862,000 lower than first reported (-0.5 percent of payrolls; not seasonally adjusted). The results were a bit better than those published in the preliminary estimate in September 2025 (-911,000, or -0.6 percent of payrolls), but they are well outside of longer-term norms (charts, below). According to the Bureau of Labor Statistics, in the prior 10 years absolute benchmark revisions have averaged 0.2 percent, with a range of less than 0.05 percent to 0.4 percent. On a seasonally adjusted basis, total nonfarm employment was 898,000 lower than previously indicated (chart, prior page).

Benchmark Revisions to Payroll Data*



*Revisions to the 12-month period ending March, not seasonally adjusted
 Source: Bureau of Labor Statistics

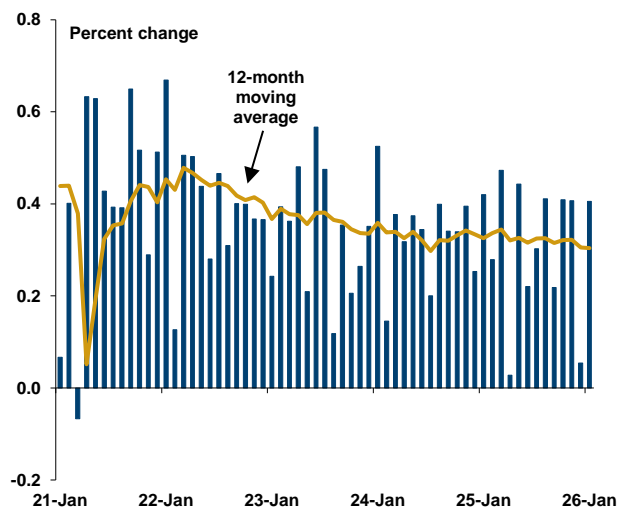
Benchmark Revisions to Payroll Data*



Source: Bureau of Labor Statistics

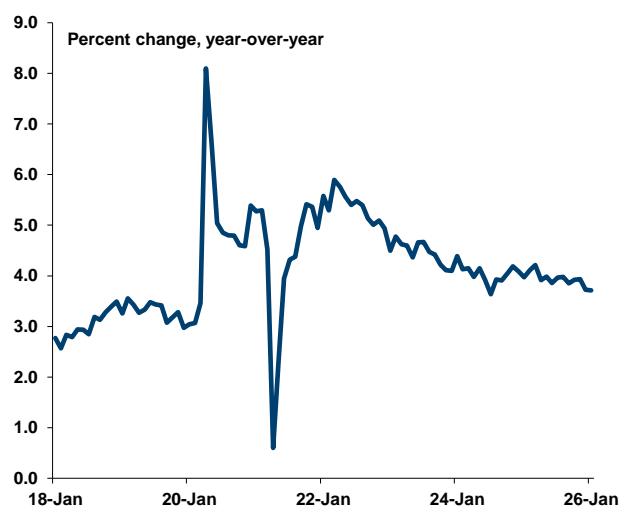
- Turning to other elements of the Employment Situation report, average hourly earnings jumped 0.4 percent in January. The above-trend reading (trailing 12-month average of +0.3 percent; chart, next page, left), however, followed a modest gain in the prior month and thus is not particularly concerning. Moreover, we view the latest year-over-year advance of 3.7 percent as consistent with the Federal Reserve's 2 percent inflation target – especially given recent indications of an acceleration in underlying trend productivity (chart, next page, right).

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

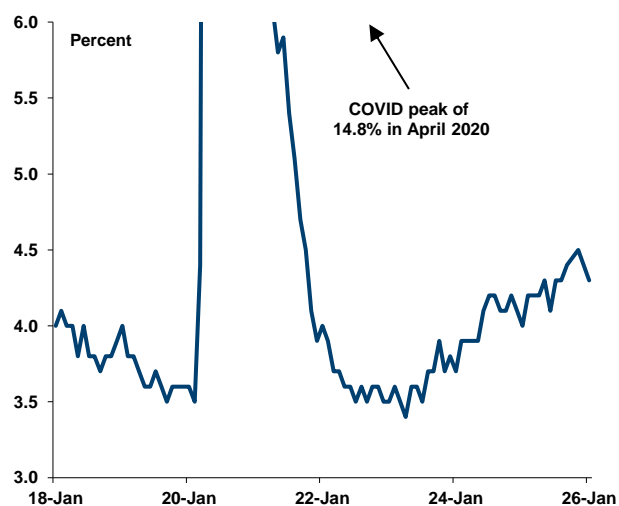
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

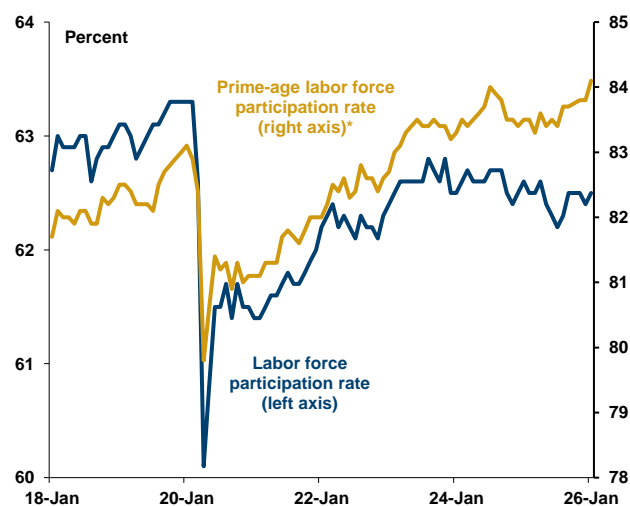
- Finally, among the most favorable elements of the report was a decline in the unemployment rate of 0.1 percentage point to 4.3 percent. The latest shift, which was the second consecutive easing following a recent high of 4.5 percent in November 2025, reflected a jump of 528,000 in employment measured by the household survey (one of two surveys included in the employment report; payroll data are derived from the establishment survey) outpaced an increase of 387,000 in the labor force. Moreover, the broad unemployment rate, which includes those working part time for economic reasons and those marginally attached to the labor force, fell to 8.0 percent from 8.4 percent. Additionally, with the gain in the labor force, the broad participation rate increase of 0.1 percentage point to 62.5 percent, and the prime-age rate increased by 0.3 percentage point to 84.1 percent – the highest of the current expansion (charts, below).

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



* Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.

Source: Bureau of Labor Statistics via Haver Analytics

- All told, we withhold judgment on payroll growth in early 2026 given large moves in a few areas and other bits of evidence suggesting that layoffs are picking up and many firms that are maintaining headcounts are reticent to hire. Even so, with the unemployment rate at 4.3 percent, we can no longer maintain our call for the FOMC to cut the target range for the federal funds rate at its March meeting. We still anticipate further easing this year, but we suspect that the first of two projected reductions of 25 basis points could occur in June (or possibly in H2), especially with inflation still well above target (which is projected to remain the case after the release of the January CPI on Friday).