PERSPECTIVES Memo

Nonfarm Payrolls: Holding the line at Low-Hire, Low-Fire

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Key takeaways

- The US jobs report for December showed an increase of +50,000 new jobs, coming in below expectations of +55,000.
- The unemployment rate decreased to 4.4%, with the average hourly earnings slightly increasing from +0.1 to +0.3% for the month.
- While December's employment data gave sentiment a slight lift, it didn't signal a meaningful shift in momentum. Equity markets edged slightly higher, even as investors maintained a cautious, wait-and-see stance toward policy.

What happened?

Alongside the December jobs numbers, which came in below expectations, downward revisions were made to the previous two months of reported data, subtracting a total of -76,000 jobs from October and November reports. The unemployment rate decreased from 4.6% to 4.4% and the number of unemployed people decreased from 7.6 to 7.5 million. The labor force participation rate slightly decreased from 62.5% to 62.4% and continues to remain below pre-pandemic levels of 63.4%. Within the household survey, average hourly earnings came in at +0.3% MoM and +3.8% on a YoY basis. Average hours worked slightly decreased to 34.2 hours per week.

Payroll gains were concentrated in several key sectors last month, led by food services and drinking places (+27,000), healthcare (+21,000), and social assistance (+17,000). In contrast, retail trade experienced notable losses, shedding more than 25,000 jobs, largely driven by declines in warehouse clubs, supercenters, and other general merchandise retailers (-19,000). The Federal government posted a modest increase of +2,000 jobs in December — an improvement after many consecutive months of losses throughout 2025. However, federal employment remains 9.2% below its peak in January 2025.

The labor market weakened notably through year-end. The three-month average fell from +209,000 as of December 2024 to –30,000 in October 2025, –3,000 in November, and –22,000 in December, confirming a clear downshift in hiring momentum. Job growth in 2025 has been driven almost entirely by healthcare, while the Federal government saw the largest losses.

What does it mean for investors?

December's nonfarm payrolls report showed positive job gains with lower unemployment rate, suggesting no further deterioration in the labor markets. Growth was led by healthcare and other services, while retail and manufacturing saw pullbacks and government employment largely unchanged. Wage pressures moderated and unemployment edged down, reflecting a labor market that is adjusting rather than weakening sharply. Although prior-month revisions still point to softer momentum, the broader mix of indicators — including steadier job openings and gradual improvement in private-sector hiring — suggests a labor market that is stabilizing at a slower pace. Together, these trends support expectations that policymakers will proceed cautiously as they balance moderating demand with still-contained inflation pressures. Futures now imply a 95% chance that rates remain unchanged in January and a 69% chance they stay on hold in March, reflecting expectations for the Fed to slow the pace of easing as the new year begins.

The latest Job Openings and Labor Turnover Survey (JOLTS) reported a decrease from 7.45 million jobs in October to 7.15 million jobs in November (the December JOLTS report is due to be released on February 3rd). On the other hand, the ADP private payroll data reported an increase of +41,000 jobs in December 2025 with annual pay at +4.4% following a job loss of -29,000 in November. The labor market continues to send mixed signals. Payrolls show modest improvement, but the broader hiring trend has cooled over recent months. JOLTS openings have eased, while ADP points to a tentative rebound after earlier weakness. Overall, the data reflects a labor market that is slowing gradually but not deteriorating sharply, with softening demand rather than a sudden shift in conditions. The Fed will continue to monitor upcoming datapoints (the next key data point released will be the December CPI number on January 13th) before delivering its next rate decision.

At the time of writing, both the S&P 500 and NASDAQ were trading in positive territory, up +0.52% and +0.66% respectively. On the fixed income front, yields increased across the curve, with the 2-Year Treasury yield increasing to 3.51% and the 10-Year Treasury yield to 4.17%. Markets increasingly expect the Fed to keep rates unchanged in January, reinforcing a cautious policy stance. Our longer-term expectation remains for two additional rate cuts of 25bps each by the end of 2026.

Mixed labor data and a still-soft job market point to a January hold and a more gradual easing path from the Fed.

Glossary

The **consumer price index (CPI)** measures the price of a basket of products and services that is based on the typical consumption of a private household.

The **US Dollar Index (DXY)** is a weighted index based on the value of the US. dollar versus a basket of six other currencies.

The **Federal Reserve (Fed)** is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

JOLTS (the US Job Openings and Labour Turnover Survey) gives alternative perspectives on the state of the US labor market.

National Federation of Independent Business (NFIB) stands for the largest small business association in the US

The **National People's Congress (NPC)** is China's legislative assembly which holds annual sessions every spring.

Personal Consumption Expenditure (PCE) is a price index for goods and services, particularly relevant in the context of US GDP.

Producer price inflation (PPI) measures the change in prices received by producers (e.g. firms) for their output.

Purchasing manager indices (PMI) provide an indicator of the economic health of the manufacturing sector and are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The composite PMI includes both manufacturing and services sectors. They can be published by public sector or private agencies (e.g. Caixin, Nikkei).

The **S&P 500** Index includes 500 leading US companies capturing approximately 80% coverage of available US market capitalization.

Treasuries are bonds issued by the US government.

USD is the currency code for the US Dollar.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

Department of Government Efficiency (DOGE) is a federal initiative under the second Trump administration aimed at boosting efficiency, cutting wasteful spending and modernizing Information Technology.

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Historical performance

Performance	01.09.2021 - 01.09.2022	01.09.2022 - 01.09.2023	01.09.2023 - 01.09.2024	01.09.2024 - 01.09.2025	01.09.2025- 01.09.2026
S&P 500	22.3%	-16.8%	22.2%	24.4%	17.0%
NASDAQ	13.9%	-28.2%	40.9%	32.0%	21.3%
10-Year US Treasury	-3.0%	-12.3%	-0.6%	-1.2%	8.8%
2-Year US Treasury	-0.6%	-2.7%	3.3%	4.3%	5.0%
Gold	-3.4%	4.7%	8.1%	31.7%	66.6%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of January 9, 2026.

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