

PREVIEW: US Nonfarm Payrolls due 9th January at 13:30GMT/08:30EST

SUMMARY: Headline nonfarm payrolls are expected to be relatively in line with the prior report, with the consensus looking for 57k nonfarm payrolls to be added to the economy vs the 64k in November. The unemployment rate is expected to fall by one-tenth to 4.5%. The Fed in December cut rates due to the slowing labour market, and the December jobs data will help to shape expectations regarding the January and March FOMC meetings; currently, money markets are pricing an unchanged outcome in January (with around 80% probability), and there is around 48% chance rates will have been cut by a further 25bps by March. Labour market proxies in December have generally printed similar figures to the November period; weekly initial jobless claims were little changed across the two survey windows; continuing claims eased but there might be some distorting factors; ADP printed a positive figure vs the negative reading in November, and was a little short of expectations; the Conference Board's gauge of consumer confidence signalled a softer labour market vs November. JPMorgan's strategists suggest that the data would be received positively by stocks if the headline came in between 0-105k, but could see some downside outside of that range.

EXPECTATIONS: Consensus forecasts call for 57k nonfarm payrolls to be added to the US economy in December, down from 64k previously, with the unemployment rate seen edging lower to 4.5% from 4.6% (for reference, the three-month average stands at 22k, six-month at 17k, and 12-month at 78k). The FOMC projects the jobless rate to end this year at 4.4%, before falling to 4.2% in 2027; last year, some Fed officials cited a payrolls breakeven rate of between 0k and 50k. Analysts at JPMorgan expect the December jobs report to be in line with, or slightly stronger than, recent readings. They argue that concerns over a late-summer or third-quarter economic soft patch have proved unfounded, with GDP growth remaining robust on resilient consumer demand. However, hiring has lagged the acceleration in spending, making the expansion unusual by historical standards. The NFIB Small Business Survey, which typically leads nonfarm payrolls by one to two months, has trended higher since the summer. While this may not be fully reflected in December's data, JPMorgan says it points to faster hiring momentum in the coming months.

FED POLICY: The Fed cut rates by 25bps in December to 3.50-3.75%, with most participants seeing policy moving towards a more neutral stance to balance rising employment risks and easing inflation risks. Chair Powell said layoffs and hiring remain low, but labour demand has clearly softened, adding that the labour market is less dynamic and downside risks have increased. Powell said the rate cut was motivated by a gradual cooling in the labour market and suggested payrolls may be running at around -20k per month after accounting for data distortions. The December jobs report will be key in shaping expectations for Fed policy at its January meeting, following softer-than-expected CPI data and resilient growth figures, which many analysts see as supporting a pause. The latest FOMC minutes showed a finely balanced decision. Most participants backed a rate cut due to rising downside risks to employment, while some preferred no change, and one favoured a larger move. Nine members voted for a 25bps cut, one for a 50bps reduction (Miran), and two for unchanged policy (Goolsbee and Schmid). Most judged further cuts would be likely if inflation declines, but several favoured holding rates steady to assess lagged effects. Inflation was seen as remaining above 2%, with tariff-related pressures noted and risks tilted to the upside. Participants said labour markets were softening, growth was moderate, and balance-sheet management was focused on maintaining ample reserves. Analysts said the minutes underline a clear split within the Fed and reinforce a cautious outlook. While most remain open to further easing, confidence is conditional on clearer disinflation, particularly amid concerns that additional cuts could undermine commitment to the 2% target. Barclays said the minutes point to a likely pause in January as policymakers assess the impact of recent cuts, while JPMorgan said stronger hiring could help align employment growth with robust demand but may also add inflationary pressure, complicating the policy outlook.

US GOVERNMENT SHUTDOWN: The December jobs data is expected to be easier to interpret after the October and November releases. October showed a headline decline of 105k, largely driven by a one-off drop of 162k in federal worker payrolls, while November posted a gain of 64k alongside a more modest 6k fall in federal employment. Analysts also expect the impact of November's government shutdown on the data to be limited.

ADP EMPLOYMENT: ADP's national employment report showed private payrolls rose by 41k in December, slightly below expectations for 47k. The median annual pay increase for job stayers was unchanged at 4.4% Y/Y, while pay growth for job changers rose to 6.6% from 6.3%. ADP said small businesses recovered from November job losses with positive end-of-year hiring, even as large employers pulled back.

INITIAL JOBLESS CLAIMS: In the week that typically coincides with the survey window, initial jobless claims stood at 224k, little changed from 222k in the comparable November period. Continuing claims were 1.913m, easing from 1.944m in November. Pantheon Macroeconomics says that while continuing claims appear to signal a firmer labour market, the strength is partly distorted by temporary factors, notably elevated claims in late 2024 due to Hurricane Helene, with affected states such as North Carolina now showing much lower levels. Beyond claims, Pantheon says broader labour market slack is emerging. New graduates struggling to secure initial jobs and former federal workers who accepted voluntary buyouts are contributing to unemployment but are ineligible for benefits. In addition, longer-term unemployment has accounted for more than one-third of the rise in joblessness over the past year, yet is largely absent from continuing claims as eligibility typically expires after 26 weeks. Pantheon points to forward-looking indicators, including WARN notices and Challenger layoff announcements, which suggest an increase in job cuts and claims early in 2026. Overall, it says these dynamics imply the unemployment rate is still edging higher, reinforcing expectations that the Fed may be forced to ease policy again in March.

CONSUMER CONFIDENCE: The Conference Board's December consumer confidence survey signalled a softer labour market compared with November. Fewer respondents said jobs were plentiful, at 26.7% versus 28.2% prior, while more said jobs were hard to get, at 20.8% versus 20.1%. Expectations weakened, with fewer anticipating more jobs at 16.5%, unchanged, and more expecting fewer jobs at 27.4% versus 26.8%. Income prospects were mixed, with a larger share expecting increases at 18.4%

versus 17.6%, but a sharper rise in those expecting declines, at 14.7% versus 12.5%. The Present Situation Index fell as net views on current business and employment conditions turned negative for the first time since September 2024.

MARKET REACTION SCENARIOS (VIA JPMORGAN SALES & TRADING DESK):

Earlier this week, JPMorgan analysts said options expiring on 9 January imply a move of about 1.2% in the S&P 500 from the 2 January close. The bank outlined potential equity market reactions to the jobs data:

- Headline above 105k: the S&P 500 seen falling 0.50–1.00%
- Headline between 75k and 100k: the index seen rising 0.25–1.00%
- Headline between 35k and 75k: the index seen up 0.25–0.75%
- Headline between 0k and 35k: the index seen moving between -0.25% and +0.5%
- Headline below zero: the index seen down 0.5–1.25%.

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