Economic Research Department

January 2026

Market Monitor – United States

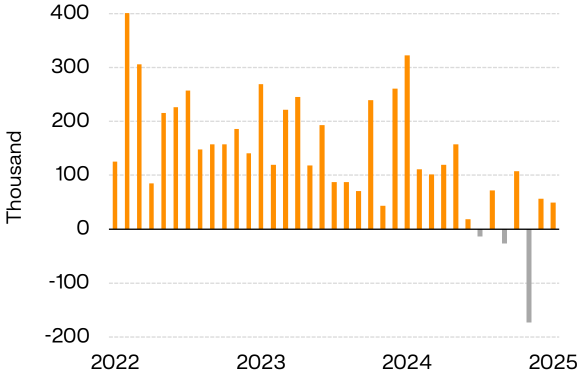
The US labour market cooled further despite strong Q3 growth

- US hiring slowed in December, with persistent downward revisions to prior months.
- The US economy experienced strong growth in Q3 2025.
- Business surveys signalled a sustained expansion albeit with sectoral unevenness.

The US labour market slowed in December

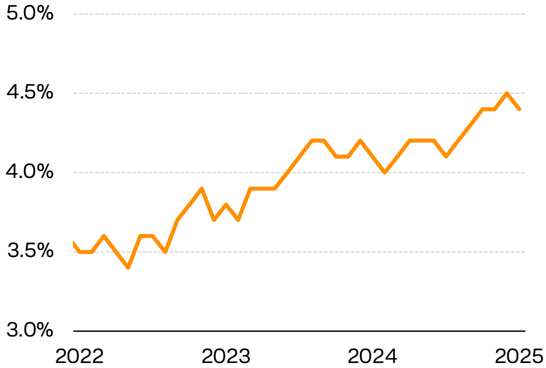
New hiring slowed amid broader softness. Non-farm payrolls increased by a modest 50,000 jobs, falling short of consensus estimates and following a downwardly revised gain of 56,000 in November. This brings the total nonfarm payroll gains for 2025 to just 584,000, a marked deceleration from over 2 million jobs added in 2024. However, comparisons between the two years should be interpreted with caution, given the persistent trend of negative revisions in recent data. Meanwhile, the unemployment rate edged down to 4.4% in December from a downwardly revised 4.5% in November. This decline was partially led by a dip in the labour force participation rate. On the wage front, average hourly earnings rose by 3.8% year-on-year (YoY) and 0.3% month-on-month (MoM) in December, compared to 3.6% and 0.2% in November, respectively. Furthermore, job demand eased, with job openings declining by 303,000 to a 14-month low of 7.15 million in November. Taken together, these readings underscored the narrative of a softening labour market.

Change in non-farm payrolls



Source: CEIC

Unemployment rate

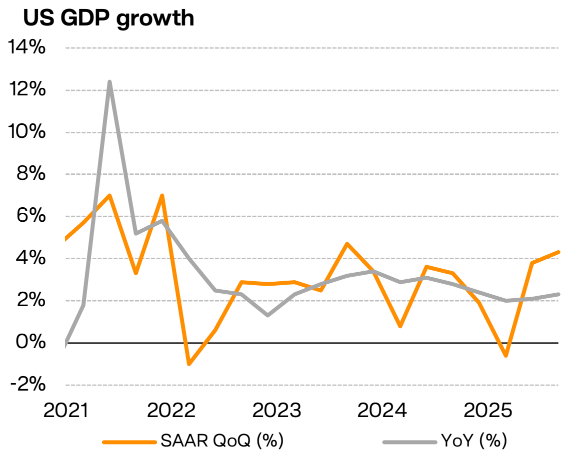


Source: CEIC

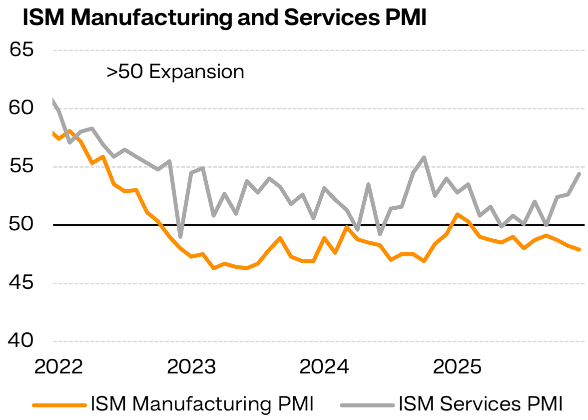
The US economy grew stronger than expected in the third quarter

The US economy displayed resilience in Q3. The US Bureau of Economic Analysis released the Q3 GDP report in late December, which was delayed due to the government shutdown. The report revealed that the US economy grew by a seasonally adjusted annual rate (SAAR) of 4.3% in Q3, faster than the solid 3.8% growth observed in Q2. On a YoY basis, the economy grew by 2.3% in Q3, up from 2.1% in Q2. Stronger growth was primarily underpinned by personal consumption expenditures, which grew by 3.5% SAAR in Q3 (Q2: 2.5%). Notably, spending on services such as healthcare, financial services, and recreation, demonstrated robust performance.

Furthermore, a softer decline in private investment, improving from -13.8% SAAR in Q2 to -0.3% in Q3, also provided tailwinds to headline growth. Although non-residential business investment slowed to 2.8% SAAR in Q3 (Q2: 7.3%), after a strong run of AI-related capex and solid corporate profits, inventory changes stabilised, with their drag on headline GDP growth narrowing from 3.44 percentage points (ppts) in Q2 to a mere 0.22 ppts in Q3. Meanwhile, government expenditures rebounded, from a 0.1% SAAR decline in Q2 to a 2.2% rise in Q3, while net exports acted as a modest drag. Looking ahead, financial conditions, the Trump administration's tax cuts, deregulation and corporate investment trends will be pivotal for sustaining growth in 2026.



Source: Bloomberg

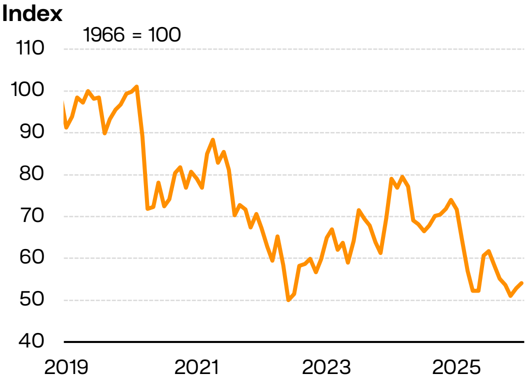


Source: Bloomberg, data as of 08/01/2026

Business surveys signalled a sustained expansion albeit with sectoral unevenness

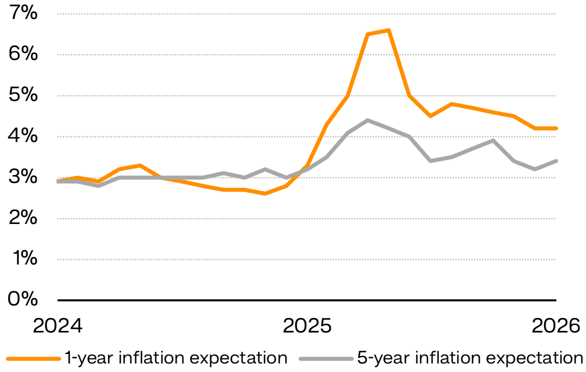
Business surveys showcased solid services-driven growth. The services sector continued to outperform the manufacturing, highlighting a bifurcation in the economy. The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) fell slightly to 47.9 in December, remaining in contractionary territory (below 50) for the tenth consecutive month due to continued softness in new orders and employment. Conversely, the S&P Global manufacturing PMI came in at 51.8. Despite being above the 50-expansion threshold, this marked a five-month low as new orders turned negative for the first time in a year. In the services sector, the ISM services PMI climbed to 54.4, its highest level in over a year, supported by stronger business activity and new orders. Meanwhile, the S&P Global services PMI eased to an eight-month low of 52.5 amid softer demand and a small decline in employment. On balance, the PMI readings suggested that economic momentum is likely to be sustained, though heavily reliant on the services sector.

University of Michigan Consumer Sentiment Index



Source: Bloomberg

University of Michigan Consumer Inflation Expectations



Source: Bloomberg

Consumer sentiment remained low. The preliminary University of Michigan (U-Mich) consumer sentiment index for January 2026 edged up to 54.0 from 52.9 in December 2025, reaching its highest level since September 2025. Despite the improvement, the index remains far lower the levels seen at the start of 2025 (Jan 2025: 71.0), reflecting entrenched concerns regarding the cost of living and a softening labour market. Additionally, the U-Mich 1-year inflation expectations held steady at 4.2% YoY, while 5-year inflation expectations rose to 3.4% from 3.2%.

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