

US Labour Market Monitor

Short-term stability but with structural challenges

The US labour market indicators stabilised in Q4 2025, but underlying challenges persist, reflecting the 'low-hiring, low-firing' dynamics that defined much of last year. In January, nonfarm payrolls (NFP) exceeded expectations, rising by 130k, above expectations of 70k. While January's report was undeniably strong, the structural slowdown in US employment growth remains striking, particularly considering the significant negative benchmark revisions. Benchmark adjustments and technical changes resulted in total negative NFP revisions of -1.03m for 2024-2025, underscoring the sharp slowdown in job creation. Monthly NFP growth averaged just +15k in 2025, a stark decline from +122k in 2024 and +210k in 2023.

Education and health care accounted for the majority of job gains in January, and the sector was the most important driver of employment growth also in 2025, contributing 709k positions.

High-frequency data suggests a stabilisation in jobs growth, but the December JOLTS report highlights that labour market conditions remain soft. Job openings fell to 6.5m, the lowest level since September 2024 and well below the expected 7.2m. The job openings-to-unemployed ratio dropped to 0.87, its weakest since March 2021. Historically this has predicted slower wage growth with a lag of about six months, as workers bargaining power weakens (Chart 2). These trends, weak job openings, slower wage growth, and subdued hiring, strengthen the case for further rate cuts later this year, even if immediate cuts are less urgent.

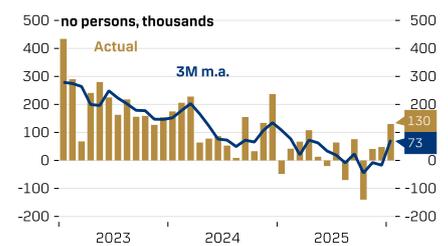
The Challenger report came in weak, even when considering the usual layoffs of seasonal workers. Layoff announcements totalled 108.4k, which was the highest number of January layoffs since 2009. Similarly, hiring announcements were subdued, reaching just 5.3k.

The unemployment rate ticked lower to 4.3% in January from 4.4%, alongside a higher participation rate, offering a glimmer of resilience despite slower overall job creation. Productivity data from Q3 highlighted accelerating productivity growth, which reached 4.9% q/q annualised, and which is already helping to ease labour cost pressures. Labour's share of income fell to an all-time low, while unit labour cost growth slowed significantly to just 1.3% y/y (Chart 3).

Given the strong historical correlation between unit labour costs and inflation, this trend suggests that higher productivity could provide further relief to inflationary pressures, despite nominal wage growth still hovering at 3.8% y/y. In other words, businesses are achieving more output with fewer workers.

While structural challenges and weak hiring persist, the labour market has avoided a sharp downturn, reducing the urgency for immediate rate cuts. The stabilisation, coupled with easing inflationary pressures driven by stronger productivity, supports a cautious approach from the Fed. We expect rate cuts in June and September, followed by a steady hold at 3.00%-3.25% for the remainder of 2026 and 2027.

Chart 1: Jobs growth improved in January following a weak 2025



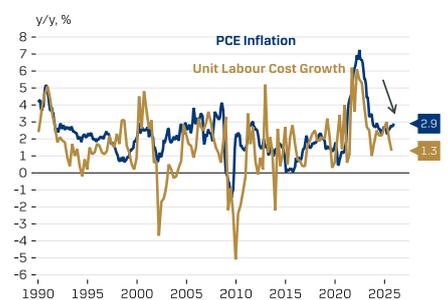
Sources: Macrobond, U. S. BLS, Danske Bank

Chart 2: Cooling labour market predicts average wage growth slowing in 2026



Sources: Macrobond, U. S. BLS, Danske Bank

Chart 3: Productivity eases cost pressures



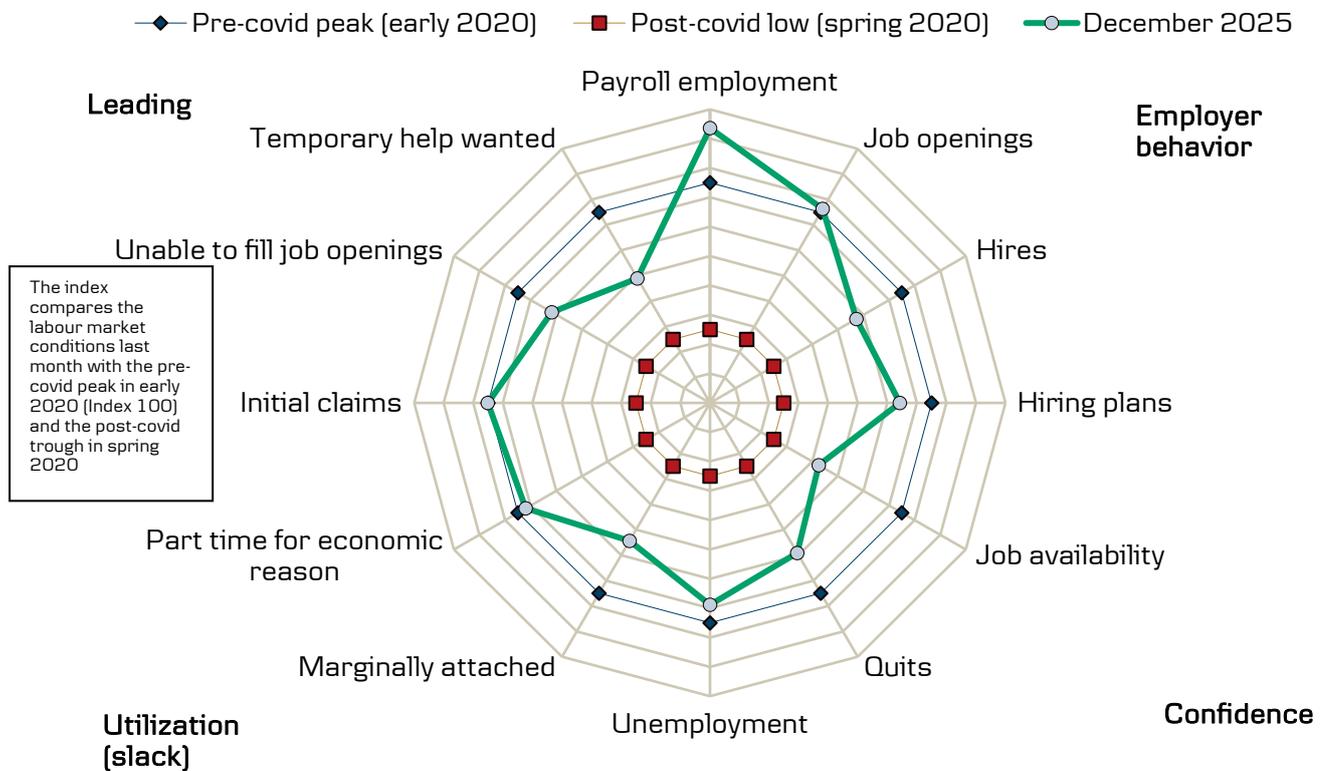
Sources: Macrobond, U. S. BLS, Danske Bank

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US labour market in one chart

The cooling of the labour market is the most visible in slowing pace of hiring and job availability



Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in the pre-covid peak in early 2020 (index=100) and post-covid trough in spring (index = 0). Counter-cyclical figures (jobless claims, marginally attached and working part time for economic reasons) are inverted; thus, the higher index (the further from the middle) the better (tighter) is the state of the labour market.

For JOLTS data we have used the average of the past two observations as the newest figures
 Source: U. S. Bureau of Labor Statistics (BLS) (JOLTS), Atlanta Fed, Macrobond, Danske Bank

ISM employment vs nonfarm

ISM employment indices point towards a slight uptick in nonfarm payrolls growth



Source: Macrobond, ISM, BLS, Danske Bank

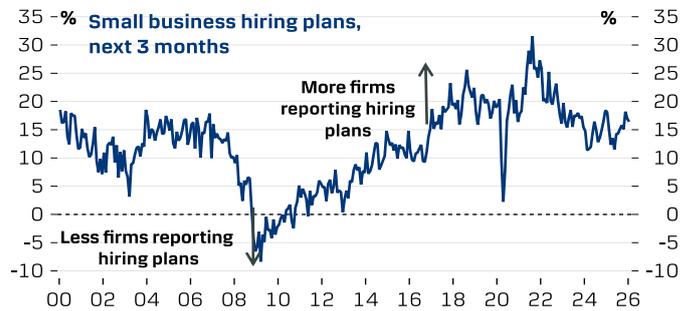
Labour demand

Job openings ticked even lower



Source: Macrobond, US Department of Labor, BLS, Danske Bank

Hiring plans below pre-covid levels



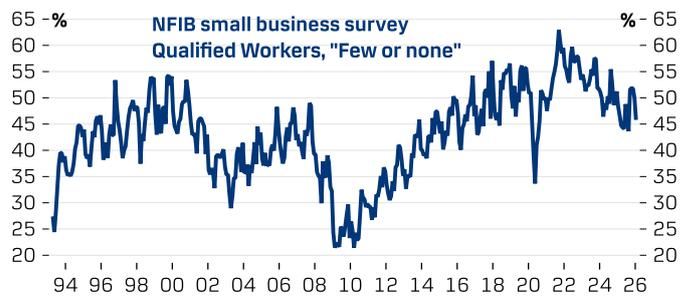
Source: Macrobond, NFIB, Danske Bank

Americans less confident in their job prospects



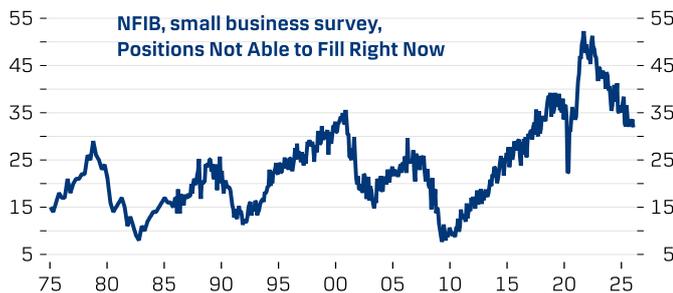
Source: Macrobond, US Department of Labor, BLS, Danske Bank

Labour shortages reflected by qualified workers have eased



Source: Macrobond, NFIB, Danske Bank

Labour shortages have eased clearly



Source: Macrobond, NFIB, Danske Bank

Among sectors, Leisure and hospitality remains the hardest hit by the labour shortages



Sources: BLS, Macrobond, Danske Bank

Unemployment rate ticks slightly lower



Source: Macrobond, BLS, Danske Bank

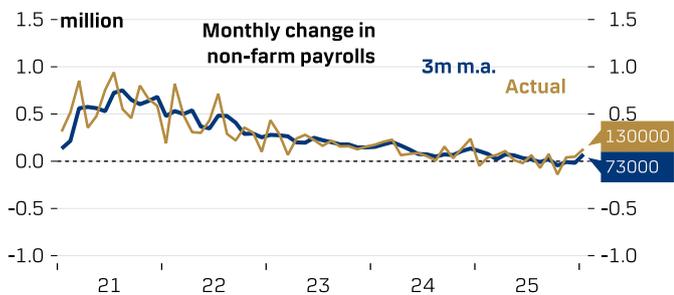
Job openings and hires decrease slightly



Source: Macrobond, BLS, Danske Bank

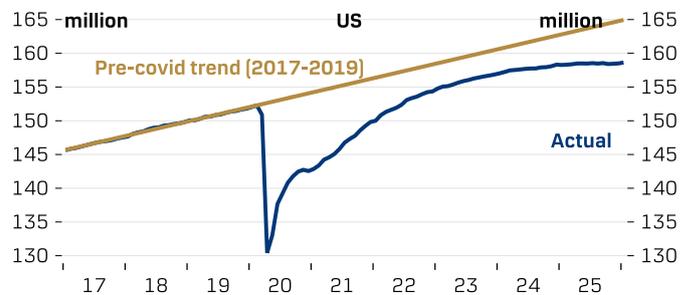
Employment measures

Employment growth slowing



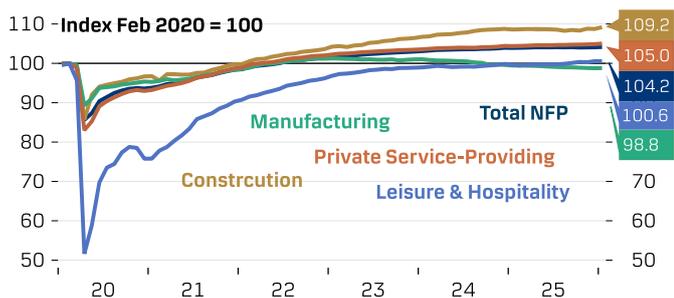
Source: Macrobond, BLS, Danske Bank

Employment above pre-covid level, but still below trend



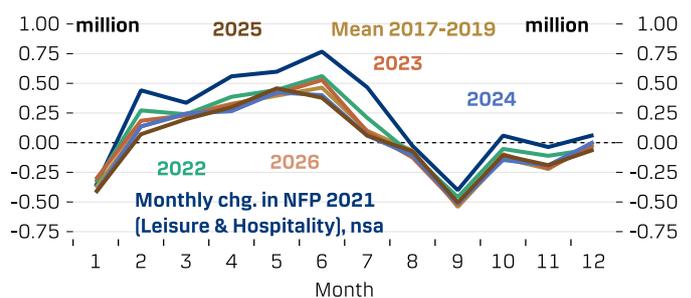
Source: Macrobond, ADP, Danske Bank

“Leisure & Hospitality” sector at the February 2020 employment level



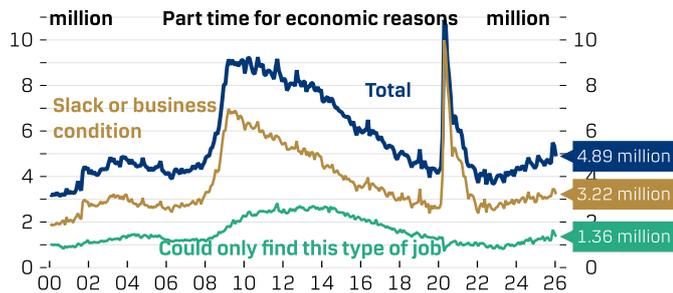
Source: Macrobond, BLS, Danske Bank

Overview of the monthly change in NFP in leisure & hospitality



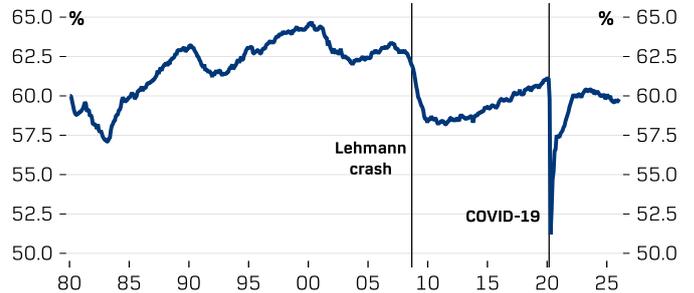
Source: Macrobond, BLS, Danske Bank

A slight downtick in people working part-time for economic reasons



Source: Macrobond, BLS, Danske Bank

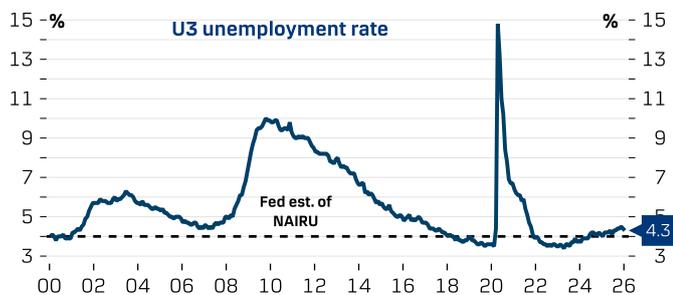
Employment to population ratio still below previous levels



Source: Macrobond, BLS, Danske Bank

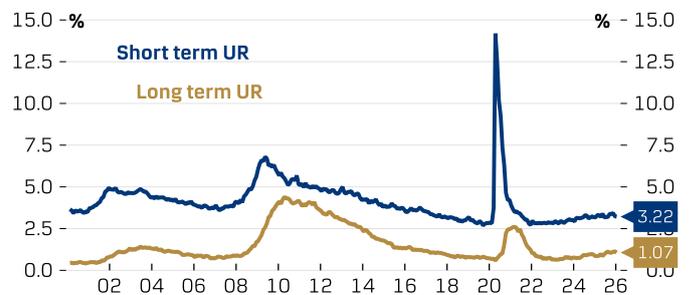
Unemployment measures

Unemployment rate hovering around full employment estimate



Source: Macrobond, FOMC, BLS, Danske Bank

Long-term unemployment sees uptick



Source: Macrobond, BLS, Danske Bank

Long-term unemployment rate close to the historical average



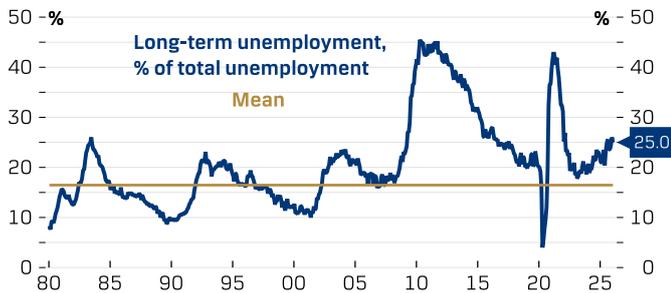
Source: Macrobond, BLS, Danske Bank

Short-term unemployment rate below the historical average



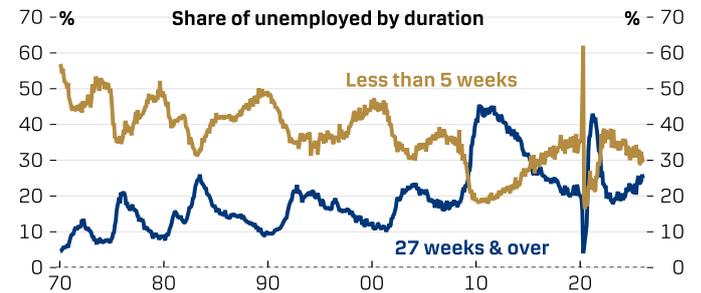
Source: Macrobond, BLS, Danske Bank

Long-term unemployment in % of total unemployment is trending higher



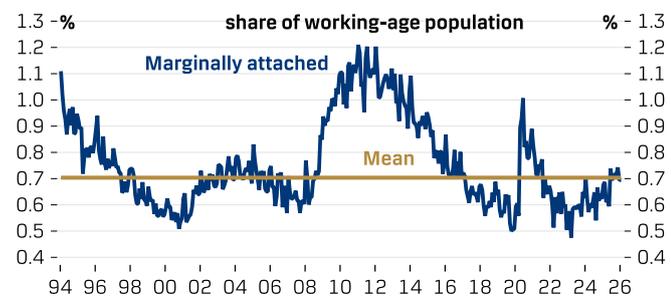
Source: Macrobond, BLS, Danske Bank

Long-term unemployment nearing short-term unemployment



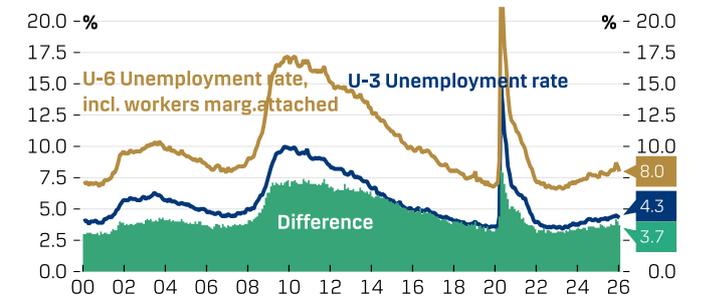
Source: Macrobond, BLS, Danske Bank

Marginally attached workers slightly below average in January



Source: Macrobond, BLS, Danske Bank

Unemployment ticked slightly lower in January



Source: Macrobond, BLS, Danske Bank

Permanent layoffs remain low



Source: Macrobond, BLS, Danske Bank

Labour market flows



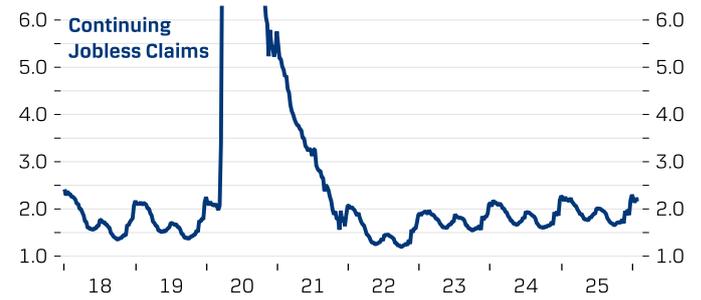
Source: Macrobond, BLS, Danske Bank

Initial jobless claims have hardly even risen from the lows



Source: Macrobond, Department of Labor, Danske Bank

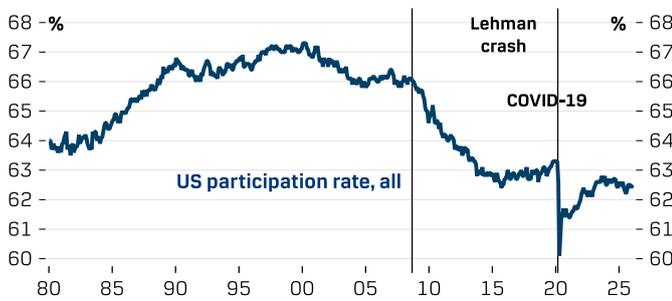
Total continuing claims increase slightly at start of 2026



Source: Macrobond, Department of Labor, Danske Bank

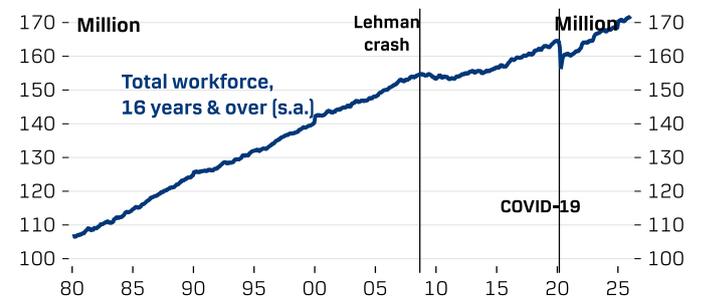
Participation

Participation rate increases slightly



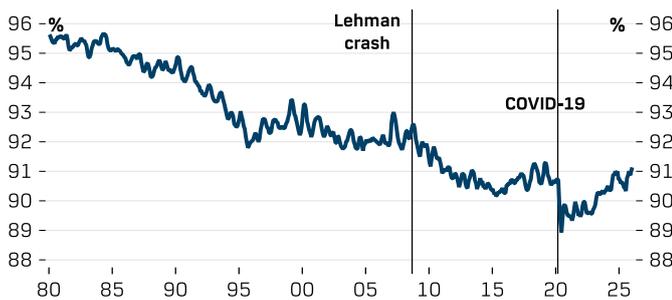
Source: Macrobond, BLS, Danske Bank

Labour force recovering



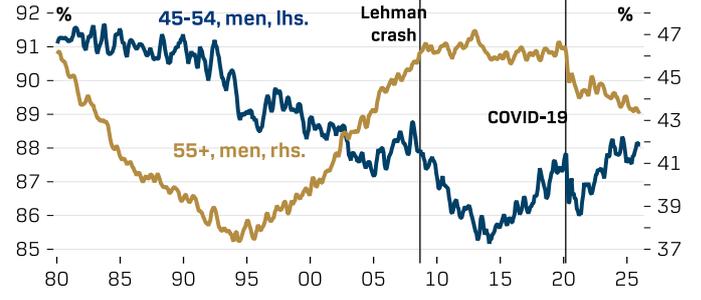
Source: Macrobond, BLS, Danske Bank

Participation rate, 35-44, men



Source: Macrobond, BLS, Danske Bank

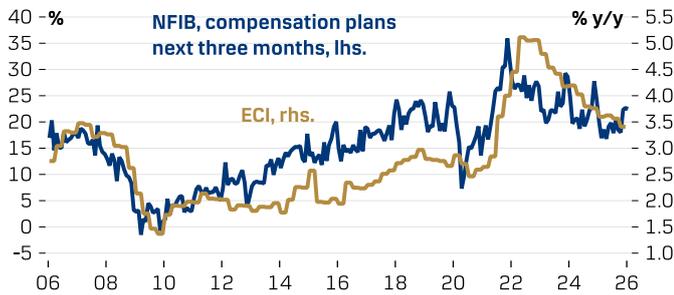
Early retirements have likely contributed to labour shortages



Source: Macrobond, BLS, Danske Bank

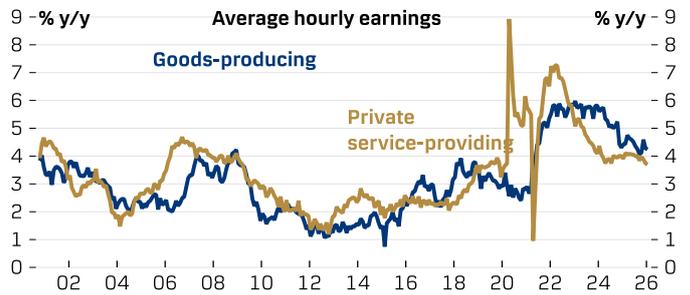
Wage growth and inflation

Employment cost growth trending lower



Source: Macrobond, NFIB, Danske Bank

Clear signs of easing labour shortages in service-sector



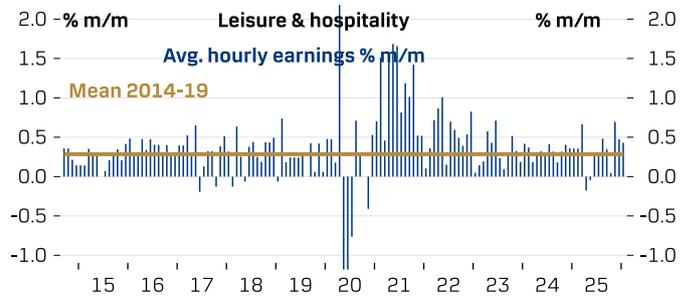
Source: Macrobond, BLS, Danske Bank

Downtick in wage pressure



Source: BLS, Danske Bank

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board, Danske Bank

Unit labour cost growth ticking lower



Source: Macrobond, BLS, Census, BEA, Danske Bank

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