The Macro Outlook: Labor Market Risks vs. Resilient Activity

The key events for the w/c 12 January 2026: US CPI, PPI, retail sales, and Fed speeches

Last week's data continued to reflect the core tension in the US economy: a "low-dynamism" labor market persisting alongside resilient top-line economic activity. While the fall in the unemployment rate in Dec reversed the notable increase in Nov, the data still suggests a labor market stuck in a low-hiring/low-firing gear and, for now, keeping labor market risks elevated for the Fed. Amid these vulnerabilities, measures of activity through Q4 have so far remained resilient, albeit with pockets of weakness persisting in housing and manufacturing.

The Labor Market: A State of Low Dynamism

Importantly, the low firing environment remained intact in Dec. The unemployment rate declined to 4.4%, fully reversing the concerning spike to 4.6% in Nov. At the same time, the employment-to-population ratio increased back up to 59.7% (rebounding from the YTD low of 59.6%). This stability was also echoed in a similar fall in the unemployment rate within the core working age group (25-54yrs), where the unemployment rate fell back to 3.65% while the employment-to-population ratio returned to a YTD high of 80.7%. Secondary data also supported the low-firing theme. Layoffs in the JOLTS report fell back down at the end of Nov, initial jobless claims remain low while tracking seasonal shifts, and private-sector job cut announcements also eased at the end of the year.

At the same time, the low hiring reality remained entrenched. US non-farm payroll growth slowed to 50k in Dec, compounded by net revisions of -75k for the prior two months. While some of these revisions could be tied to non-cyclical declines in government payrolls, the broader trend was undeniable: annual payroll growth has more than halved over the last year, falling from +1.3% in Dec 2024 to +0.4% in Dec 2025. The slowdown was broad-based across service-providing jobs, government, and goods-producing payrolls. The JOLTS survey also showed the hiring and job opening rates falling to an equal YTD low at the end of Nov.

Implications for the Fed. Thoughts on the underlying causes of this labor market stagnation were captured in the recent Fed minutes:

> *"Participants generally viewed the low dynamism in the labor market as reflecting both lower labor demand amid economic uncertainty... and decreased labor supply associated with lower immigration, the aging population, or reduced participation."*
> *Source:* FOMC Minutes 9-10 Dec 2025

Late last year, the Fed explicitly prioritized stabilizing the labor market risks with a series of three (3) risk management rate cuts. With the unemployment rate falling in Dec, markets have pushed expectations for the next rate cut out to Jun 2026. However, the FOMC is likely to remain cautious about the risks to the labor market.

Growth and Activity Indicators Show Some Resilience

In stark contrast to the stagnant labor market, headline growth remains surprisingly resilient.

- The productivity bridge: The Q3 productivity and unit labor costs report was notable for the substantial increase in productivity of +4.9%, which was well above the annual trend. While this is a volatile measure quarter to quarter, the report highlighted how output growth remained strong at +5.4%, despite stagnant job growth. The report also noted that unit profits increased by +6.6% while real compensation for workers decreased by -0.2%. However, this highlights the headwinds for ongoing spending and growth if productivity gains don't eventually translate into real wage growth.
- Mixed PMI signals: The Dec PMIs showed diverging paths. The S&P surveys showed some slowing of momentum going into year-end yet both manufacturing and services activity continued to expand at a moderate pace. However, the ISM surveys painted a stark contrast between the manufacturing sector losing steam amid a more negative business backdrop, while services' momentum continued to strengthen into year-end.
- GDP tracking for Q4: The Atlanta Fed GDPNow tracker ended the week at a +5.1% growth run-rate so far for Q4. While impressive, the notable increase last week was mostly the result of distortions from net export data. Underlying this growth, consumer spending remained steady, while slower housing starts in Nov were a drag on growth.

The central question for the 2026 outlook is whether this "resilient activity" will eventually pull hiring back up, or if the lack of labor market dynamism will eventually begin to feed on itself, creating a broader drag on the US economy.

Australian Inflation Pulse and the RBA

The Aus monthly CPI series showed all three inflation measures remaining above the top of the target 2-3% band; however, headline inflation moved lower to +3.4% this month (from +3.8% in Oct). There was some relief with the monthly trajectories shifting lower, but the question for the RBA will be whether this is a durable change in trend, given the higher monthly rates since Jul 25. The RBA will continue to place more weight on the Q4 quarterly CPI report due out in several weeks. Markets maintained pricing for a hold in the cash rate in the near-term (source: ASX Rate Tracker at 9 Jan 26).

Outlook for the week ahead: US CPI, PPI, retail sales, and Fed speeches

It will be another full week of US data catch-up and the last week of Fed speeches leading up to the FOMC meeting on 27-28 Jan.

US data will add to the inflation picture for Dec, but note that data is likely to remain noisy given the timing challenges related to the restart of data collection. Retail sales for Nov will add the important consumer spending element to growth tracking so far in Q4.

Outside of the data, the US Supreme Court may release its ruling this week (14 Jan) on President Trump's use of 'emergency powers' to impose tariffs. We are also awaiting the announcement of the new Fed Chair nominee.

Key factors & events to watch this week:

US inflation data: CPI for Dec, PPI for Nov, and catch-up of import and export price indexes.

US inflation data continues to catch up after the end of the government shutdown - especially for PPI data this week. The CPI for Dec may contrast with the notably softer Nov reading, which may have been subject to distortions from the restart of data collection.

- US headline CPI Dec is expected to increase by +0.3% over the month. The annual headline rate is expected to stay unchanged at +2.7%.
- Core CPI is expected to increase by +0.3% in Dec, while the annual rate is expected to increase to +2.7% in Dec, from +2.6% in Nov.
- The PPI data for Oct and Nov will be released this week, together with the import and export price indexes.

US Q4 growth inputs: retail sales and existing home sales.

- US retail sales are expected to increase by +0.4% in Nov, up from 0% in Oct. The control group retail sales figure will be in focus as it feeds into the GDP calculation – and this measure was strong in the prior month, up +0.8%.
- US existing home sales are expected to remain subdued in Dec, but still rising to 4.2m (annualized), up from 4.13m in Nov.

Fed speeches: This is the final week of speeches before the blackout period commences next week, ahead of the first FOMC meeting of the year on 27-28 Jan.

- Two important speeches this week will be on Fri 16 Jan. Fed Vice Chair Jefferson and Vice Chair (Supervision) Bowman will both speak on the economic outlook. This is usually an important topic for any policy signalling ahead of the next FOMC meeting.
- Fed Chair Powell released a firm video statement late on Sunday in response to the Trump administration serving grand jury subpoenas to the Fed last week. There are many implications of this escalation in action by the Trump administration targeted at the Fed – among them, this legal friction may delay or alter the succession timeline. There may be some headline risk around that this week.

US Treasury Issuance; 12 – 16 January 2026

This week, the US Treasury will auction and settle approx $586bn in ST Bills, Notes, and Bonds, raising approx. $11bn in new money. Approx $43bn in ST Bills & TIPS will mature on the Fed balance sheet and will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
12-16 Jan	08-Jan	13-Jan	4 week Bill	80			Actual 3.550%	3.590%
	08-Jan	13-Jan	8 week Bill	80			Actual 3.540%	3.580%
	07-Jan	13-Jan	17 week Bill	69			Actual 3.510%	3.540%
				229	245	-16		
	12-Jan	15-Jan	13 week Bill	86			Announced	3.540%
	12-Jan	15-Jan	26 week Bill	77			Announced	3.475%
	13-Jan	15-Jan	6-week Bill	75			Announced	3.560%
				238	234	4		
	12-Jan	15-Jan	3yr Note	58			Announced	3.614%
	12-Jan	15-Jan	10yr Note	39			Announced	4.175%
	13-Jan	15-Jan	30yr Bond	22			Announced	4.773%
				119	95.6	23		
			Total - securities settling this week	586	575	11		
			Net New Cash Raised Qtr to Date	***1291***	***1315***	***-24***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***823***		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		13-Jan	ST Bills	0.7				
		15-Jan	ST Bills	7.8				
		15-Jan	TIPS	34.7				
				43.2				
			Reserve Management Purchase Operations	**$B**				
		tbc	ST Bills					

Reserve Management Purchase (RMP) Operations

Operations commenced on 12 Dec 2025. See announcement here. See operation details and announcements here and here.

SOMA Reinvestment – Jan 2026

The program of Quantitative Tightening (QT), or balance sheet roll-off, has ended as of 1 December. See note here. All principal payments from the Fed's holdings of Treasury securities will be rolled over, and all principal payments from the Fed's holdings of agency securities will be reinvested into Treasury bills through secondary market purchases.

Summary of Total Coupons & Bills to Reinvest - Jan 2026		
		Reinvest $ Bn
15-Jan	TIPS (incl Comp)	34.7
31-Jan	Notes & Bonds	15.9
	Bills	61.9
	Total	**112.6**

US Treasury Financing Q4 2025 and Est Q1 2026

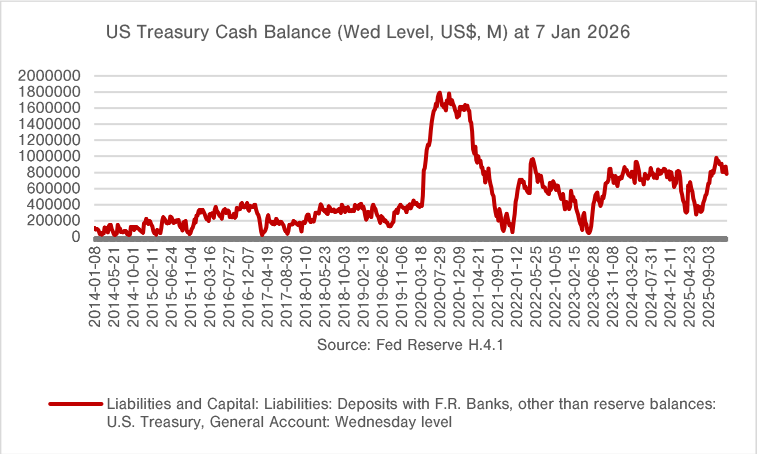
The latest quarterly US Treasury borrowing estimates were released on 3 and 5 Nov 2025. The US Treasury communication noted that it "has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes." The latest update of the US Treasury borrowing requirements for Q4 and Q1 2026 (estimate) can be found on the US Treasury website here.

Updated Q4 estimates: Treasury expects to borrow $569 billion in privately held net marketable debt (only -$21bn lower than initially estimated), assuming an end-of-December cash balance of $850 billion.

During the January–March 2026 quarter, the US Treasury expects to borrow $578 billion in privately-held net marketable debt, assuming an end-of-March cash balance of $850 billion.

US Treasury Cash Levels (TGA)

As of Wed 7 Jan 2026, the level of the TGA decreased to $783bn (-$89bn compared to the week prior). The TGA balance is now approx. $163bn *higher* than the same week a year ago.



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CALENDAR W/C 12 January 2026

MONDAY 12 JANUARY (US Eastern Time, unless stated otherwise)

US	CB Employment Trends Index (Dec), Fed speeches: Williams, Bostic
Australia	NAB Business Conditions & Confidence (Dec)

TUESDAY 13 JANUARY

UK	Labour Market Survey (3mths Nov)
US	CPI (Dec), New Home Sales (Sep & Oct), Fed speeches: Musalem, Barkin
China	Trade Balance, Exports, and Imports (Dec) - tbc

WEDNESDAY 14 JANUARY

US	MBA Mortgage Applications wk ending 10 Jan, PPI (Oct & Nov), Retail Sales (Nov), Existing Home Sales (Dec), Fed speeches: Paulson, Miran, Bostic, Kashkari, Williams
China	Fixed Asset Investment, Industrial Production, and Retail Sales (Dec) - tbc

THURSDAY 15 JANUARY

UK	Monthly GDP (Nov), Industrial Production (Nov)
Europe	Eurozone Industrial Production (Nov)
US	Initial Jobless Claims – wk ending 10 Jan, Import and Export Price Indexes (Oct & Nov), NY Empire State Manufacturing Index (Jan), Philadelphia Fed Manufacturing Survey (Jan), Fed speeches: Bostic, Barr, Schmid
China	GDP Q4 - tbc

FRIDAY 16 JANUARY

US	Industrial Production (Dec), NAHB Housing Market Index (Jan) Fed speeches: Vice Chair Jefferson (economic outlook), and Vice Chair (Supervision) Bowman (economic outlook).