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TRENDMACRO LIVE!

On December Jobs Report

Friday, January 9, 2026

Donald Luskin

The immigration disruption to labor seems to be over. The AI disruption is slowly beginning.

Today's Employment Situation Report with 50,000 net payrolls missed the consensus for 70,000. The dial-tone for payrolls assuming a hard-stop in immigration and no deportations is about 75,000.

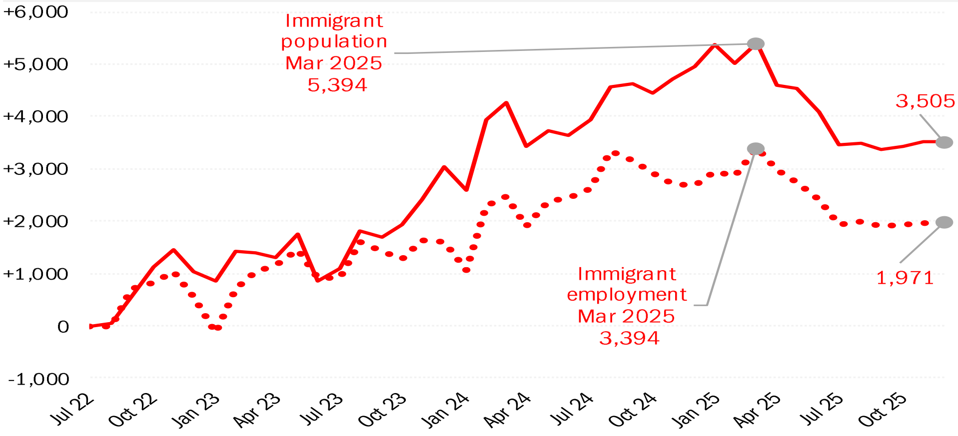
- October payrolls were revised down 68,000 and November by 8,000. By one way of thinking about it, December's mere 50,000 payrolls is all the more disappointing because the revisions can be interpreted as having lowered the bar.
- The bigger of the revisions, 68,000 to October, makes an already bad month worse. When first reported, October's contraction of 105,000 was more than entirely government workers, explained by the arrival of the drop-dead date for those packaged off by DOGE job cuts (see "On the October/November Jobs Report" December 16, 2025). Now, the 68,000 downward revision includes another 17,000 government workers – but also eliminates 51,000 of the 52,000 private sector payrolls previously thought to have been created in October.
- With this, we still have three months in 2025 in which payrolls contracted, none of them sequential – June, August and October. *September now stands as the highwater mark for payrolls at 159.6 million*.
- *Does this mean the onset of recession? We continue to think not*, instead interpreting this as a set of exogenous shocks to labor supply including both DOGE, which had its been effect in October, and the hard-stop in what had been history's second largest immigration wave. Some good news on this front is that immigrant population and employment has halted its headlong plunge of earlier this year, and has stabilized and slightly improved now over the last four months (please see the first chart on the following page).
- *And, of course, there is another exogenous shock: AI*. We think we're just beginning to see the leading edge of labor market disruptions due to it – indeed, in December's data, we saw another 3,900 computer programmer payrolls go away (please see the second chart on the following page). Remember, programmer employment peaked the very day ChatGTP was announced (see "Video: What you're not hearing about what it takes to keep the productivity supercycle going" December 29, 2025)

Update to strategic view

US MACRO, FEDERAL RESERVE: Payrolls grew 50,000, below the 70,000 consensus, and far below our model's estimate for 114,000. The "household survey" data was far more optimistic, driving the unemployment rate lower. Sharp revisions to October make an already bad month worse, but doesn't create a new month in 2025 in which payrolls contracted. Nevertheless, September stands as the highwater mark. Computer programmer payrolls contracted by 3,900, pointing to the leading edge of AI-driven labor disruptions. The sharp decline in immigrant population and employment has stopped now for four months, and is very slightly reversing itself. We continue to see that as the key labor market dynamic, and think its stabilization points to less volatile jobs reports in the future, built around a dial-tone of about 75,000 payrolls. The Fed gets nothing new from this report. Market-based expectations for the funds rate didn't change, and we are still calling for 2-7/8% at year-end.

[Strategy dashboard]

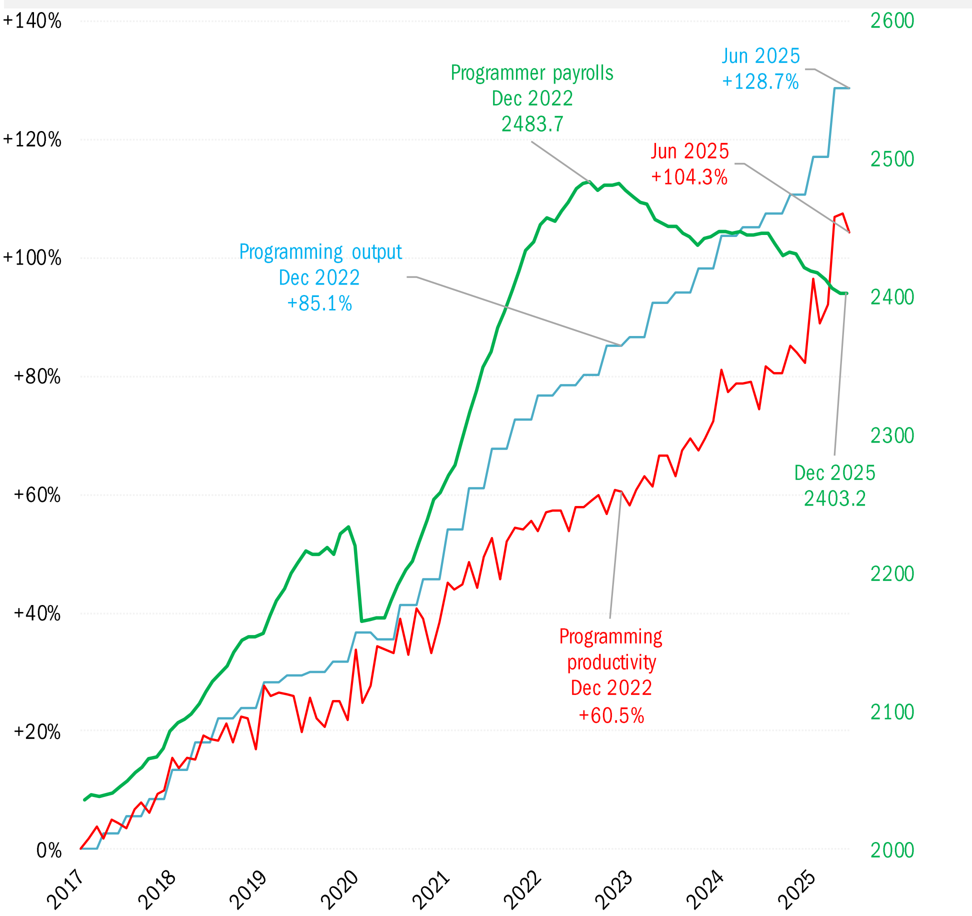
Cumulative immigrant population and employment growth after pandemic normal
(thousands, not seasonally adjusted, population-controls adjusted)



Source: [BLS Current Population Survey](), TrendMacro calculations

- We don't yet have output and productivity data for that jobs category beyond June, but the post-ChatGTP trend is clear. Reduced

Computer programmer payrolls (thousands, right scale)
vs cumulative output and productivity growth (left scale)



Source: BLS, BEA, TrendMacro calculations

AI podcast version

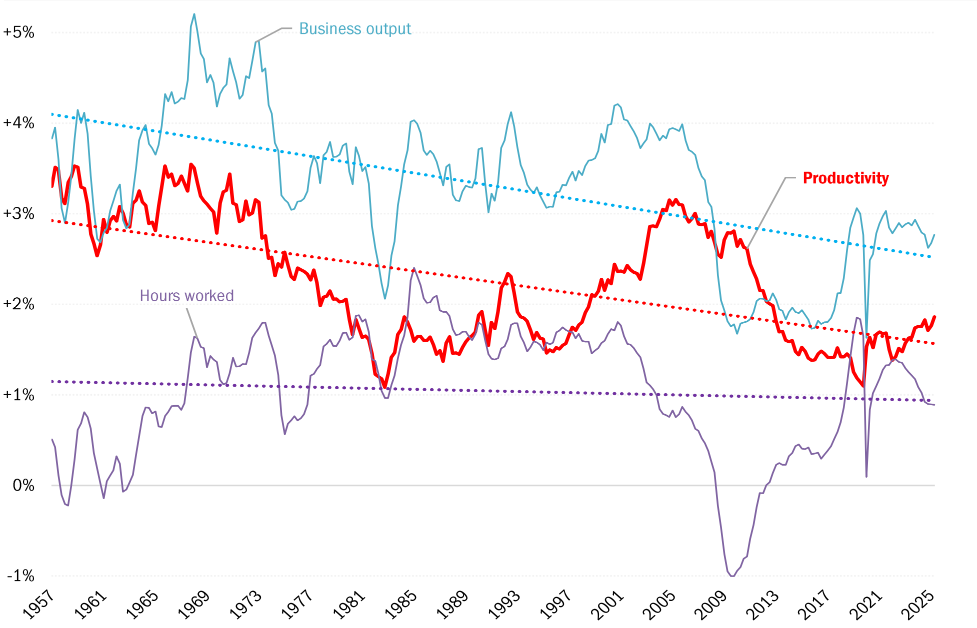
[Click here]() to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

numbers of programmers are producing more total output – by far – which implies a profound productivity revolution. In the short term, productivity revolutions cost jobs. In the long term, they create jobs.

- We continue to be confident that we are in the early innings of a productivity supercycle like the one that began in 1983 and lasted more than two decades. This week's productivity data for Q3-2025 was nothing short of a blockbuster – growing 4.9% at a seasonally adjusted annual rate. This takes our favorite metric – the 10-year compound annual growth rate of productivity – to new highs for this supercycle (please see the chart below).

10-year CAGR of output, hours and productivity, and linear trends



Source: BLS, TrendMacro calculations

How is the Fed going to see this? There's plenty in this jobs report to appeal to anyone's confirmation bias, hawkish or dovish – so who knows?

- The money-market curve hawked up ever so slightly when the report first dropped, probably because the unemployment rate fell slightly – to 4.38% from 4.54% (in the rounded terms that the public sees, however, that was enough to move the reported rate to 4.4% from 4.5%).
- The change in the unemployment rate was due to 232,000 new jobs in December's much more optimistic "household survey", and a reduction in unemployment of 278,000. The labor force contracted slightly at 46,000.
- In this substantial divergence between the "household survey" and the "payroll survey", we'll side with the former. Our model based on a panoply of contemporaneous labor market indicators estimated payrolls at 114,000 – a big miss with only 50,000 probably means the 50,000 is wrong.

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[About us]

- As of this writing, the curve is right back where it was before the data – a forecast of a funds rate target at 3.09%. ***We're still expecting 2-7/8%***, just based on the political opportunity to repopulate the chair and Board of Governors (see "Predictions for 2026 (And a Very Hot Take on Venezuela)" January 5, 2026).
- Doves looking for a "fake because" in the labor market to justify rate cuts can point to an increase in the number of involuntary part-time workers (that is, those who would prefer full time but can't get it); and an increase in the number of long-term unemployed (see "Data Insights: Jobs" January 9. 2026).
- For the Fed, the greatest "fake because" of all times is, of course, the spurious belief that wage gains cause inflation. In December average hourly earnings increased by 0.33%, a very average number that shouldn't give Phillips Curve true believers like Governor Christopher Waller any reason to recant his recent politically expedient dovishness.

Bottom line

Payrolls grew 50,000, below the 70,000 consensus, and far below our model's estimate for 114,000. The "household survey" data was far more optimistic, driving the unemployment rate lower. Sharp revisions to October make an already bad month worse, but doesn't create a new month in 2025 in which payrolls contracted. Nevertheless, September stands as the highwater mark. Computer programmer payrolls contracted by 3,900, pointing to the leading edge of AI-driven labor disruptions. The sharp decline in immigrant population and employment has stopped now for four months, and is very slightly reversing itself. We continue to see that as the key labor market dynamic, and think its stabilization points to less volatile jobs reports in the future, built around a dial-tone of about 75,000 payrolls. The Fed gets nothing new from this report. Market-based expectations for the funds rate didn't change, and we are still calling for 2-7/8% at year-end.