EXPERT VIEW

US labour market: when the trend is positive

Analysis by Florent Wabont

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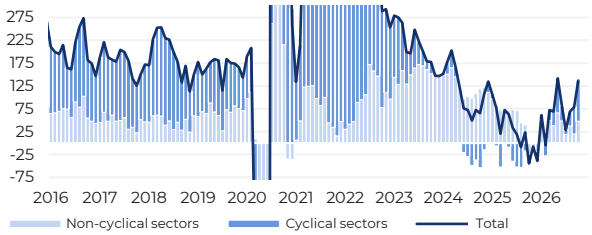


Florent Wabont

In October, 165,000 non-farm jobs were created in the United States, more than twice the consensus expectation. Following a relatively disappointing September, some may therefore be tempted to invoke one of the most popular expressions in economics and finance: "One month does not make a trend." Yet, the data accumulated over recent months do appear to point to a reacceleration in the labour market. This provides an opportunity to examine these figures and draw implications for the economic cycle, inflationary pressures and, ultimately, the future direction of US monetary policy.

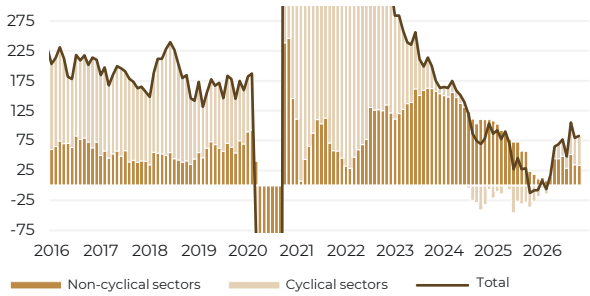
Following an initial estimate of 29,000 jobs created in September, versus 90,000 expected, and a downward revision of 60,000 jobs over the previous two months, the US labour market appeared to have lost momentum. October's report, showing 165,000 job creations compared with 70,000 expected, together with an upward revision of 84,000 for the previous two months, including September, subsequently changed this assessment. One month does not make a trend, nor do two. However, job creation averaged over rolling three- and six-month periods points to a clearer reacceleration in the US labour market (see Charts 1 and 2).

Chart 1: Non-farm job creation over rolling three months



Source: BLS.[1]

Chart 2: Non-farm job creation over rolling six months



Source: BLS.[1]

The US labour market contracted in the second half of 2025, notably amid uncertainty generated by the trade war, record tariff increases and the detrimental effects of the longest shutdown[2] in US history. The current rebound in job creation therefore follows this period and coincides with an easing of these factors, as well as with the Fed's[3] three rate cuts between September and December 2025, undertaken out of concern that the labour market could deteriorate further.

While interrupted by some fluctuations linked to weather events and strike action earlier in the year, the share of jobs created in sectors considered cyclical has risen sharply. This trend has also strengthened over recent months, despite a challenging geopolitical backdrop and higher energy prices. Unlike the 2022-2024 period, the split between cyclical and non-cyclical sectors is now more balanced. This improved composition nevertheless comes with a few caveats.

[1]Non-cyclical sectors comprise government, education and health-care jobs. The remainder is classified as cyclical sectors. Figures are shown in thousands of people and scales are deliberately truncated. Latest monthly data available.
[2]The US federal government experienced a 43-day government shutdown, from 1 October to 12 November 2025, marking the longest suspension of federal operations in US history to date.
[3]Federal Reserve of the United States.

Although favourable momentum is apparent in the manufacturing sector, it still primarily concerns sub-sectors involved in the development of artificial intelligence (AI) and data-centre construction. A clear reacceleration in the adjacent manufacturing sector remains more muted. Furthermore, certain occupations, particularly in IT, appear to have been negatively affected by the adoption of AI within companies. At this stage, it remains difficult to disentangle the respective impacts of AI, the "over-hiring" observed in the technology sector in 2021-22, and uncertainty generated by the trade war.

Moreover, the average level of job creation in recent months, compared with historically higher levels in the past, could lead one to qualify this trend. However, tighter US immigration policy since 2025 has contributed to slower growth in the labour force. As a result, fewer jobs now need to be created each month to absorb a lower increase in the number of new workers and keep the unemployment rate unchanged. Estimates of this new benchmark vary widely across studies, ranging from around -3,000 to 90,000, with a midpoint of around 50,000.

This broad-based reacceleration in job creation, combined with this new, albeit still uncertain, benchmark, ultimately leads us to characterise the current trend as robust and close to a situation consistent with mild overheating, potentially resulting in increased inflationary pressures.

WHAT ARE THE IMPLICATIONS FOR THE FED?

The US central bank has a dual mandate: to ensure price stability, through achieving a 2% inflation target, while promoting what is referred to as maximum employment.

In this respect, the unemployment rate, calculated using a survey different from that used for non-farm job creation, declined in October from 4.18% to 4.14%. It has hovered around similar levels for several months and stands slightly below estimates of the equilibrium unemployment rate, also suggesting a degree of mild overheating. Furthermore, a breakdown of the unemployment rate by explanatory factors shows that the proportion of people who "lost their jobs or completed temporary jobs" declined in 2026, while other categories remained broadly stable, including job leavers, people re-entering the labour force and new entrants.

These elements, combined with other private and public indicators and surveys, have almost all been pointing for several months towards a reacceleration in the labour market that is likely to continue.

However, a risk remains, visible through a historical theoretical relationship.

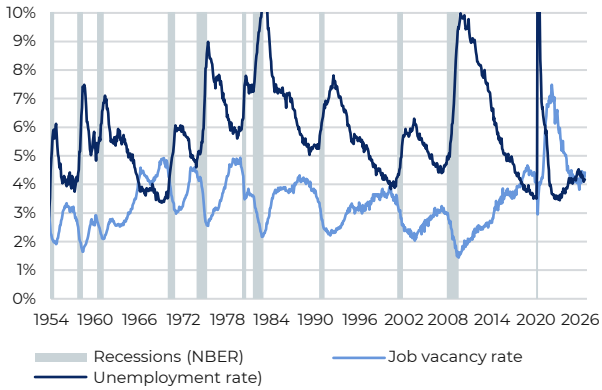
In 1944, British economist William Beveridge identified an inverse relationship between the job vacancy rate and the unemployment rate. Thus, the job vacancy rate rises when the economic situation is favourable, while the unemployment rate declines; the reverse occurs during recessions (see Chart 3).

Since the pandemic, this relationship has taken on a very different dimension. Due to the profound mismatch between labour supply and demand when economies reopened, the job vacancy rate reached record levels in 2022. It subsequently eased during the Fed's[4] monetary tightening phase, without triggering a marked rise in unemployment, as companies preferred to reduce hiring intentions rather than lay off staff on a large scale. Based on this observation, several researchers, including P. Benigno and G. Eggertsson, revisited this relationship. Their work was presented at the Jackson Hole symposium in 2024.

They introduced, in particular, the notion of a "tipping point", resulting from interactions between inflation, labour market tightness and unemployment.

At the time of writing, the unemployment rate stands slightly below these estimated thresholds. This means that any decline in demand could result in a sharper increase in unemployment as it approaches a tipping point. The situation is not alarming and does not currently support such a scenario, but the balance remains fragile.

Chart 3: An unstable equilibrium



Source: Data prior to 2000 are reconstructed using the work of Barnichon (2010), Petrosky-Nadeau & Zhang (2020), and Michaillat & Saez (2022), then official data from JOLTS (Job Openings and Labor Turnover Survey) and the BLS (Bureau of Labor Statistics). Recession periods are dated by the NBER (National Bureau of Economic Research). The job vacancy rate is calculated as the number of vacant positions divided by the sum of filled and vacant positions. An increase in this rate indicates stronger unmet demand for labour. Latest common monthly data available as of 12/11/2026.

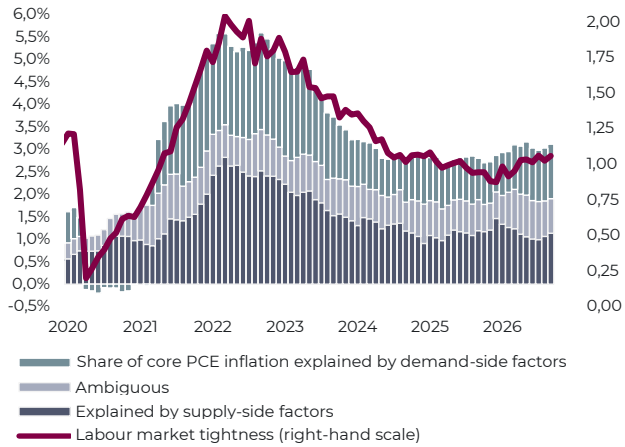
As the Fed has a dual mandate, the analysis would not be complete without discussing the inflation outlook. This week, the October Consumer Price Index (CPI) rose by 0.35% month-on-month, versus 0.2% expected by the consensus, and by 0.30%, versus 0.2% expected, excluding food and energy.

[4]Federal Reserve of the United States.

The suspension of its publication in October 2025 due to the shutdown does not allow the usual 12-month change to be calculated. Nevertheless, its pattern over one, three and six months at an annualised rate points to a reacceleration in inflation in October, particularly in services excluding housing. This statistic also provides an initial estimate of PCE[5] inflation, which is the Fed's[6] inflation target and is due to be released at the end of the month. On a year-on-year basis, it is expected to stand at around 3.8% in October, after 3.6% in September, and at around 3.3%-3.4% excluding food and energy, after 3.1%.

As we wrote in September, core inflation was already elevated in the United States before the war in Iran and has continued to strengthen since. Activity remains robust, supported in particular by household consumption and AI-related investment spending. Fourth-quarter GDP growth estimates currently range from around 2.7% to 3.3% at an annualised rate, after 3.4% in the third quarter. This is compounded by improving labour market metrics. Since 2020, and in line with the elements discussed above, inflation explained by demand-side factors has tended to track labour market tightness (see Chart 4). Both variables have risen again in recent months. The usual caution in interpreting a chart with two scales applies: correlation does not imply causation. However, in view of the research cited above and the relationship between economic growth, labour market tightness, wage growth and inflation, close attention should be paid to their joint development.

Chart 4: Mere coincidence?



Sources: BEA, BLS, JOLTS.[7]

Including figures due to be released at the end of October, inflation would have remained above the 2% target for 68 months. Given the persistence and strengthening of inflationary pressures, the Fed's policy rate increases should continue. The confirmed reacceleration in the labour market no longer provides a reason not to continue this process. Indeed, the scenario we have outlined since September still appears to us as the most likely: a return, by the end of the first quarter of 2027, to the policy rate level prevailing before the three cuts made in 2025, namely a policy rate of 4.5% at the upper end of the target range, compared with 4% today.

However, two questions now arise. First, at what pace? Christopher Waller[8] mentioned this week the possibility of a 50-basis-point increase at a future meeting. At this stage, this appears unlikely. An acceleration in the pace, with two consecutive 25-basis-point increases in December and January, is nevertheless possible. Second, will a further phase of more restrictive monetary policy, designed to slow demand after this initial recalibration phase, be necessary? While it is still too early to make this the central scenario, it cannot be completely ruled out and its probability has increased. In that case, bringing down inflationary pressures could lead to a higher unemployment rate, echoing the remarks made by Jerome Powell at the 2022 Jackson Hole Symposium.

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[5]The CPI (Consumer Price Index) and PCE (Personal Consumption Expenditures) indices differ in their methodologies and in the weights assigned to certain categories.
[6]Federal Reserve of the United States.
[7]Breakdown of core PCE inflation, excluding food and energy, based on the methodology developed by Adam Shapiro (San Francisco Fed). Supply- and demand-side contributions are estimated by comparing changes in prices and quantities consumed: when both move in the same direction, demand is considered to be the main driver; when they move in opposite directions, supply is. The "ambiguous" component captures changes that cannot be attributed to either of these factors. The labour market tightness indicator is calculated as the ratio of the job vacancy rate to the unemployment rate. The higher this ratio, the greater the demand for labour relative to available supply, indicating increased labour market tightness. Missing data due to the 2025 shutdown have been replaced with the closest available estimates. Latest monthly data available as of 12/11/2026.
[8]Christopher Waller has been a member of the Federal Reserve Board of Governors since 2020. As such, he holds a permanent voting seat on the Federal Open Market Committee.

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