Bank of Nassau
SINCE 1982

Weekly Economic Flash

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"Unemployment is of vital importance, particularly to the unemployed."

Edward Heath

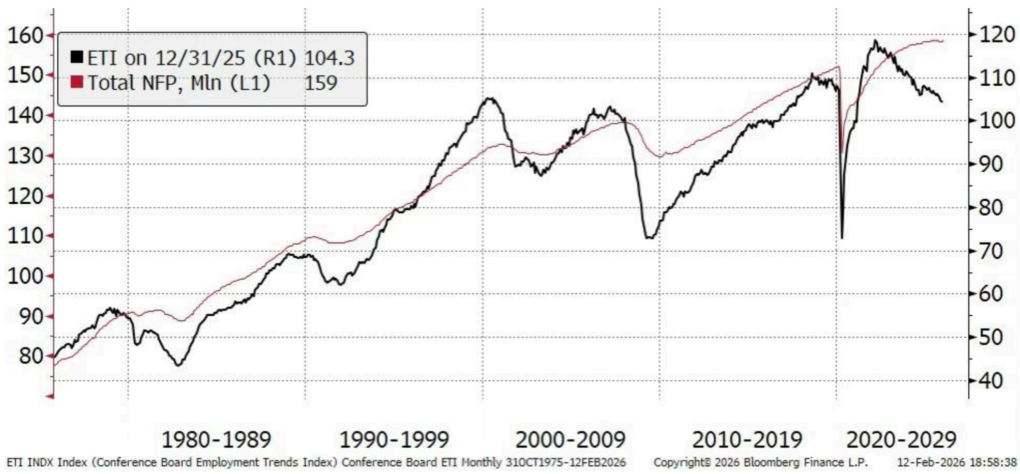
The Conference Board publishes its January Employment Trends Index (ETI) on Tuesday February 17. Typically, it is reported the Monday following each Friday monthly jobs report from the Bureau of Labor Statistics but that report was delayed until last Wednesday February 11.

From the Conference Board website: “The Employment Trends Index is a leading composite index for payroll employment. When the Index increases, employment is likely to grow as well, and vice versa. Turning points in the Index indicate that a change in the trend of job gains or losses is about to occur in the coming months.”

The ETI is a composite of eight labor market indicators: 1) the percentage of respondents who find jobs “hard to get” 2) weekly initial unemployment claims 3) the number of employees hired by temporary help industry 4) the ratio of involuntarily part-time to all part-time workers 5) real manufacturing and trade sales 6) industrial production 7) job openings and 8) the percentage of firms with positions not able to be filled.

In December, the ETI fell to 104.3. This was the third straight drop to the lowest since February 2021. Six of the eight components fell, with job openings seeing the only rise and positions not able to be filled remaining unchanged. Conference Board economist Michael Barnes noted that “The state of the US labor market was little changed at the end of 2025, as the low-hire, low-fire dynamic persisted, allowing most Americans to continue to work. Nonetheless, the ETI portends smaller payroll employment gains ahead.”

Conference Board ETI and Total NFP



As the graph shows, the significant and ongoing drop in the ETI from the cycle peak of 118.6 in March 2022 points to a significant drop in NFP in the coming months. This also confirms several other indicators that also suggest labor market weakness, such as the falling job openings rate in the monthly JOLTS data as well as the drop in the Conference Board's labor differential. Indeed, we took issue with the Fed's more upbeat take on the labor market when it noted after last month's decision to hold rates that "job gains have remained low, and the unemployment rate has shown some signs of stabilization." We believe the Fed is premature to sound the "all clear" on the labor market as most indicators point to continued weakness.

This continued weakness in the labor market is behind our call for more aggressive Fed rate cuts (75-100 bp) this year than what the market is currently pricing in (50 bp). A more dovish than expected Fed would be equity-positive and dollar-negative and would also lead to curve steepening in the US.