

# BEHIND THE HEADLINES

with Ronald Temple, Chief Market Strategist

13 February 2026

## The Headlines

- United States: US nonfarm payrolls grew twice as much as expected in December, with the unemployment rate slipping to 4.3%. Retail sales were weaker than expected with prior months' results revised downward. Headline US Consumer Price Index (CPI) inflation was slightly below expectations while core CPI inflation was in line with consensus.
- China: CPI and Producer Price Index (PPI) inflation remained at undesirably low levels.
- Japan: The Liberal Democratic Party (LDP) won a landslide victory in the lower house of the Diet.
- United Kingdom: Q4-25 GDP grew slightly less than expected.
- Next week, US Q4-25 GDP and December Personal Consumption Expenditure (PCE) inflation will be reported. Japan will report Q4-25 GDP and January inflation. The United Kingdom will report Q4-25 GDP and January CPI and retail sales.

### The Week Behind

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	Nonfarm Payroll Change	11 February	December	m-o-m	65,000	130,000	50,000
	Unemployment Rate	11 February	December	Level	4.4%	4.3%	4.4%
	Average Hourly Earnings	11 February	December	y-o-y	3.7%	3.7%	3.7%
	Retail Sales (Control Group)	10 February	December	m-o-m	0.4%	-0.1%	0.2%
China	Headline CPI	10 February	January	y-o-y	0.4%	0.2%	0.8%
	PPI	10 February	January	y-o-y	-1.5%	-1.4%	-1.9%
United Kingdom	GDP	12 February	Q4-25	q-o-q	0.2%	0.1%	0.1%
	GDP	12 February	Q4-25	y-o-y	1.2%	1.0%	1.2%

### The Week Ahead

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	PCE Inflation	20 February	December	y-o-y	2.8%		2.8%
	Core PCE Inflation	20 February	December	y-o-y	2.9%		2.8%
	GDP	20 February	Q4-25	q-o-q annualized	2.8%		4.4%
Japan	GDP	15 February	Q4-25	q-o-q annualized	1.6%		-2.3%
	Headline CPI	19 February	January	y-o-y	1.5%		2.1%
	CPI ex-Fresh Food and Energy	19 February	January	y-o-y	2.7%		2.9%
United Kingdom	CPI	18 February	January	y-o-y	3.0%		3.4%
	Core CPI	18 February	January	y-o-y	3.1%		3.2%
	Services CPI	18 February	January	y-o-y	4.3%		4.5%
	Retail Sales ex-Auto Fuel	20 February	January	y-o-y	3.6%		3.1%

# The Week Behind

## 1. US job creation in January beat expectations, but 2025 results were revised materially lower.

The outlook: Recent labor market data suggest that conditions are weak but stable. Only a few months ago, it appeared that unemployment could rise meaningfully beyond the 4.5% peak seen in November. In January, unemployment slipped back to 4.3%, a level consistent with a “full employment” economy.

Looking forward, I expect ongoing weakness in labor demand, but I also expect growth in labor supply to slow further. In late January, the U.S. Census Bureau reported that US population growth between 1 July 2024 and 1 July 2025 slowed to 1.8 million people from 3.2 million during the prior 12-month period. The cause of the deceleration was a decline in net international migration to 1.3 million from 2.7 million. I expect this decline to continue in 2026 given the sharp increase in arrests within the United States aimed at deportation alongside a significant decline in gross migrant inflows. Given the much lower working population growth that will result from lower immigration, I expect the break-even rate for unemployment to stabilize at or below 50,000 jobs per month with unemployment likely to remain range bound between 4.25% and 4.75%.

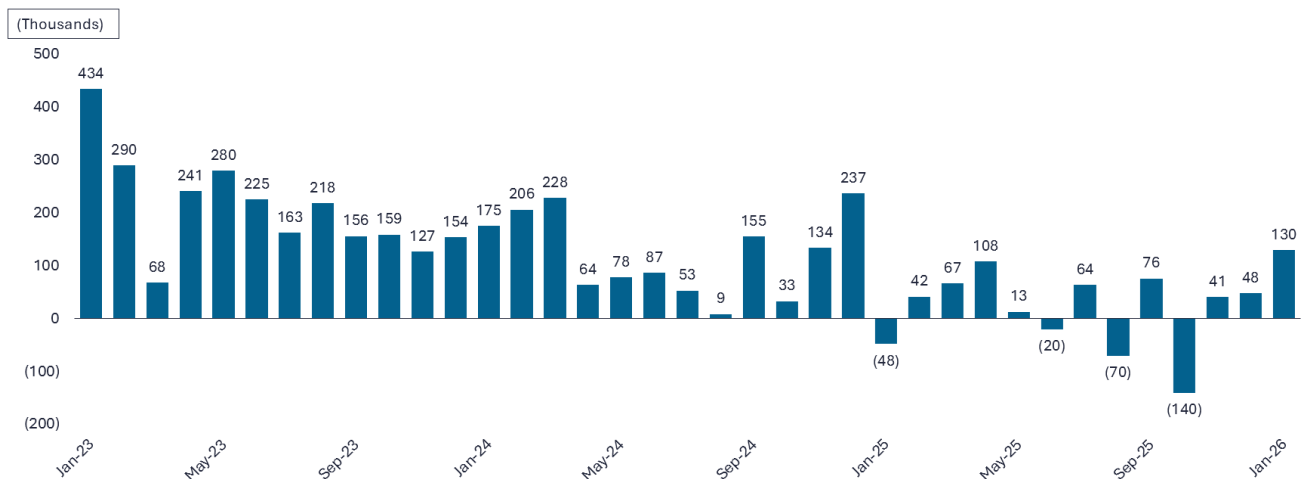
The details: US nonfarm payroll growth of 130,000 in January was double expectations, while the prior two months’ results were reduced by only 17,000.

This month’s data also reflected the annual revision process that incorporates more comprehensive data principally from the Quarterly Census of Employment and Wages, which counts jobs covered by the Unemployment Insurance tax system. The estimate for total employment in March 2025 was lowered by 898,000. Total nonfarm payroll growth for 2025 was revised to 181,000 jobs from 584,000.

Taken together, the January data combined with the revisions mean payroll growth since January 2025 has averaged only 24,000 jobs per month versus 122,000 jobs per month in 2024.

### US Nonfarm Payroll Growth Has Slowed to 24,000 per Month since January 2025

Average Monthly Change in Nonfarm Payrolls



The unemployment rate fell to 4.28% in January from 4.38% in December and the peak of 4.54% in November. The underemployment rate, which captures the degree to which people are working part-time when they desire full-time work, also improved to 8.0% in January from 8.4% in December, reaffirming the positive signals from other metrics in the report.

Average hourly earnings growth was stable at 3.7% year-on-year (y-o-y) in January versus December, while the month-on-month (m-o-m) increase was a bit higher than expected at 0.4% versus the downwardly revised 0.1% in December.

**2. US headline CPI inflation fell slightly short of expectations while core inflation met expectations.**

The outlook: I continue to expect inflation to accelerate through H1-26 on the back of latent tariff effects. The most likely offset to tariff-driven inflation is shelter inflation given the recent deceleration in rent increases evidenced in the Zillow Observed Rent Index.

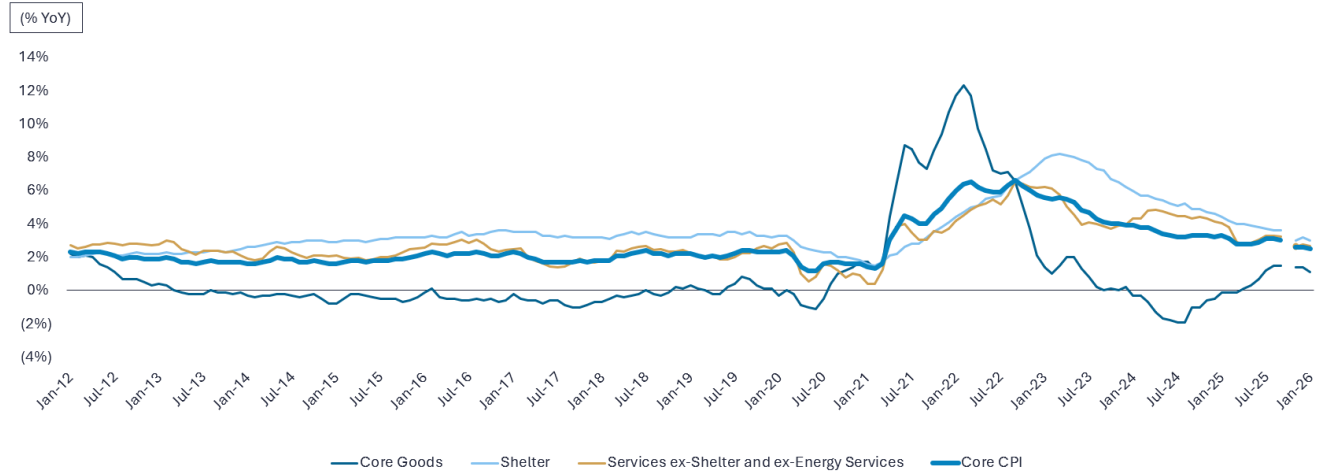
The details: The January CPI report added weight to the arguments of some observers that inflation for services other than inflation might be accelerating with services ex-shelter contributing ~20 basis points (bps) of the ~30 bps of inflation in the month. As usual, there was a range of moving parts with used car prices detracting 6.4 bps from core CPI while higher airline fares added 7.4 bps.

<b>January 2026 Core CPI Details</b>	Weight in Core CPI	Contribution/ Detraction (bps)
<b>Key Categories:</b>		
Shelter (owners' equivalent rent, rent of primary residence, other accommodation)	44.6%	9.8
Services ex-Shelter	31.4%	19.6
Core goods	24.0%	1.0
Total Core CPI (from sum of key categories)		30.4
All Items Ex-Food and Energy (reported)		29.4
<b>Contributors:</b>		
Owners' equivalent rent of a primary residence	32.8%	7.1
Rent of Primary Residence	9.8%	2.4
Airline fares	1.1%	7.4
Other personal services	2.0%	3.1
Education and communication services	6.3%	2.5
Medical care services	8.7%	2.8
<b>Detractors:</b>		
Used cars and trucks	3.5%	(6.4)
Motor vehicle insurance	3.4%	(1.5)
Source: Lazard, Bureau of Labor Statistics As of January 2026		

Shelter inflation continued to drag core inflation lower perhaps reflecting distortions from the government shutdown that began in October which then affected data collection and shelter inflation assumptions.

US Core CPI Inflation Is Likely to Peak in H1-26

US Consumer Price Index Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics  
 Note: As of January 2026. Data for October 2025 were not reported due to lapse in US federal government funding and resulting shutdown. Core goods represent ~24% of core CPI, shelter represents ~44%, and services ex-shelter and ex-energy services represent ~32%.

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3. US retail sales fell short of expectations.

The outlook: Retail sales skew toward high income households in the United States. As such, if GDP growth and the AI investment boom are sustained, high-end households are likely to continue spending more. However, with the K-shaped economy likely to persist, I also expect low- to middle-income households to be more challenged. This week’s data suggested 2025 ended on a softer note than expected with previous months’ data revised lower and December missing expectations.

The details: Building material sales were strong in December while furniture and home furnishing store and electronics and appliance store sales were weak. The prior two months’ sales estimates were revised downward by 0.4% at the same time December sales fell short of expectations.

US December Retail Sales

	Consensus	Actual	Prior Month	Revised
Retail Sales m-o-m	0.4%	0.0%	0.6%	
Retail Sales ex-Auto m-o-m	0.4%	0.0%	0.5%	0.4%
Retail Sales ex-Auto and Gas m-o-m	0.4%	0.0%	0.4%	0.3%
Retail Sales Control Group	0.4%	-0.1%	0.4%	0.2%

Source: Bloomberg, U.S. Census Bureau

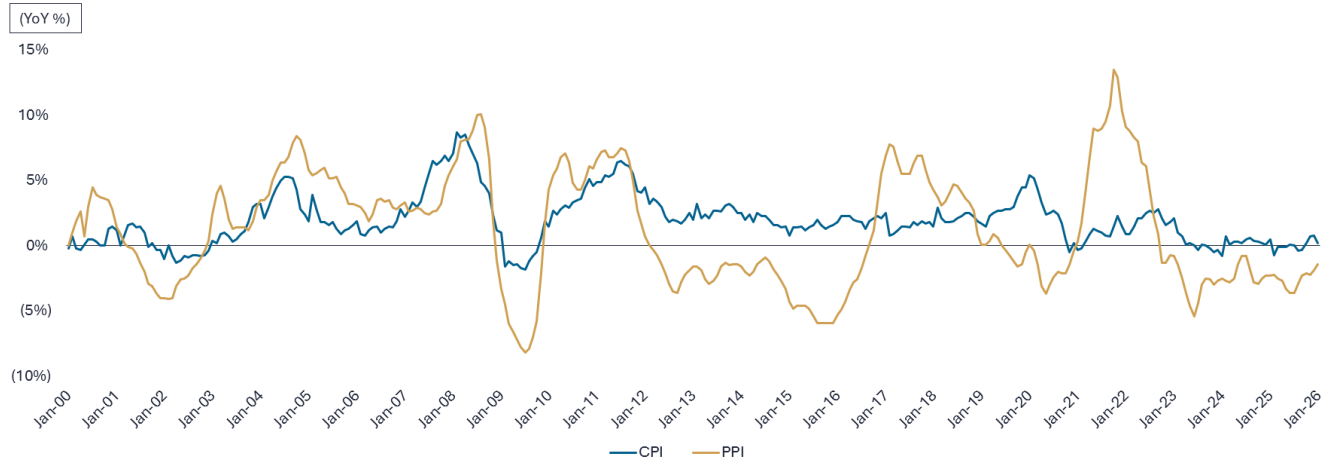
4. Chinese CPI and PPI remained weak.

The outlook: Given the enduring weakness of domestic Chinese demand, I expect deflationary pressures to remain a key challenge for the economy. Data released this week indicate that home prices in China continue to decline, with new home prices down 0.37% m-o-m and previously occupied home prices down 0.54%. With consumer confidence near all-time lows, largely due to lower home prices, I expect domestic consumption to remain weak. That means China will continue to be dependent on exports to solve for its excess production.

The details: China reported a y-o-y CPI inflation rate of 0.2% in January, but excluding gold jewelry, CPI was -0.2% y-o-y. China’s PPI was slightly less negative than expected at -1.4% y-o-y versus the consensus -1.5% and December’s -1.9% figure.

China’s Inflation Is Undesirably Low with PPI Deflation for 40 Months and CPI ≤ 1% for 36 Months

China CPI and PPI



LAZARD Source: Bloomberg, National Bureau of Statistics  
Note: As of January 2026

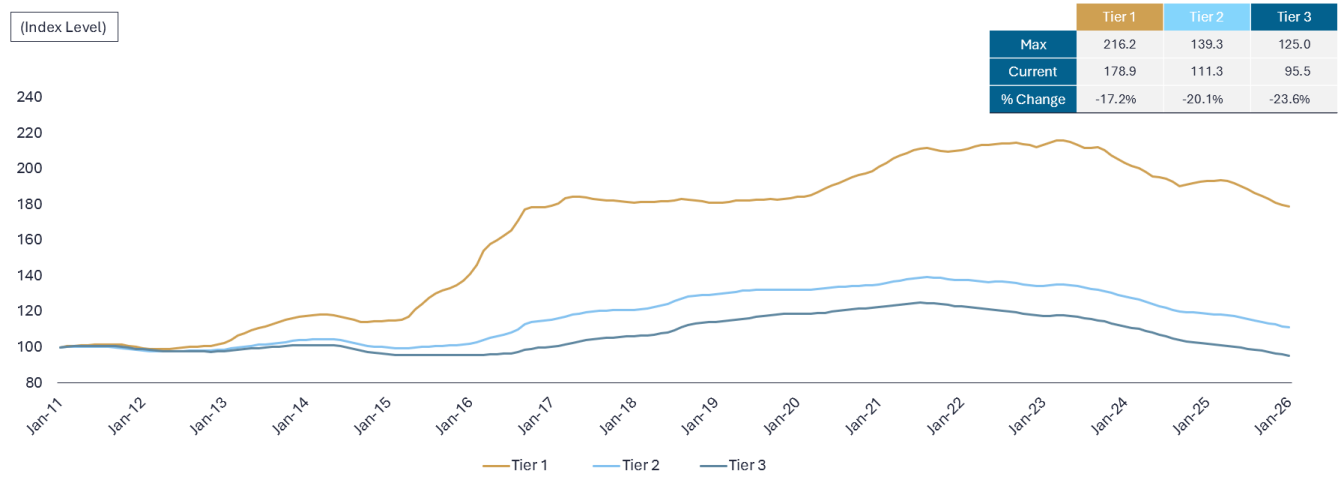
**5. Home prices in China continued to fall.**

The outlook: Absent a major government intervention to absorb excess homes available for sale, house prices are likely to continue declining in China. With the median household having ~60% of its assets in residential real estate, the Chinese housing crisis is likely to continue to depress domestic consumption and raise savings rates, perpetuating Chinese economic imbalances.

The details: Prices for previously occupied homes declined 0.54% in January. The decline was less severe than December’s 0.70% fall but represents yet another month of wealth destruction for Chinese households where the home ownership rate exceeds 90%.

China Property Prices Remain Weak, Dampening Confidence

70-City Price Index of Existing Residential Buildings



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Source: Chinese National Bureau of Statistics, Haver Analytics  
 Note: As of January 2026

**6. Prime Minister Sanae Takaichi’s LDP won a commanding majority in the lower house of the Diet.**

The outlook: With a veto-proof majority in the lower house of the Diet, Takaichi is likely to cut consumption taxes to ease the affordability crisis that has faced Japanese households that had become unfamiliar with inflation. From 1997 to 2021, consumer prices in Japan rose one percentage point cumulatively versus the 13-percentage point increase since 2021. I expect Takaichi to pursue other reforms that could be positive for growth and corporate profitability and to pursue a more muscular foreign policy that will better align with US objectives but could lead to increased friction with China.

The details: Japan’s LDP won 316 of the 465 (68%) seats in the lower house of the Diet in the snap election on 8 February. The coalition of the LDP and Japan Innovation Party (JIP) now control 76% of the seats. Even without its coalition partner, the LDP has enough votes to override any veto by the upper house of the Diet.

**7. UK Q4-25 GDP fell slightly short of expectations.**

The outlook: The quarterly growth of GDP was disappointing at only 0.1%. In fact, Q1-25 GDP growth of 0.7% accounted for more of the year’s expansion than the other three quarters combined. I expect inflation to decelerate meaningfully in 2026 which should allow the Bank of England to ease rates more than the market expects which should then accelerate growth. That said, results thus far have been far from inspirational.

The details: Private consumption remained weak. Business investment slipped on a sequential quarter basis but rose on a y-o-y basis. Government spending was slightly below expectations.

## BEHIND THE HEADLINES

### UK Q4-25 GDP

	Consensus	Actual	Prior Reading	Revised
GDP Seasonally Adjusted q-o-q	0.2%	0.1%	0.1%	
GDP y-o-y	1.2%	1.0%	1.3%	1.2%
Private Consumption q-o-q	0.2%	0.2%	0.3%	0.4%
Government Spending q-o-q	0.5%	0.4%	0.4%	0.3%
Total Business Investment q-o-q	-0.5%	-2.7%	1.5%	1.6%
Total Business Investment y-o-y	*	2.0%	2.7%	2.5%

Source: Bloomberg, UK Office for National Statistics

\* No consensus estimate available on Bloomberg.

## The Week Ahead

### 1. US PCE inflation is expected to grind higher from November's levels.

The outlook: Most inputs into the PCE inflation report have been released which limits the likelihood of any surprises. Core PCE inflation is expected to nudge higher to 2.9% y-o-y in December from 2.8% in November. I expect additional upward pressure on inflation through H1-26 due to latent effects of tariffs.

#### US December PCE Inflation

	Consensus	Prior Reading
Headline m-o-m	0.3%	0.2%
Headline y-o-y	2.8%	2.8%
Core m-o-m	0.3%	0.2%
Core y-o-y	2.9%	2.8%

Source: Bloomberg, Bureau of Economic Analysis

### 2. Japan's Q4-25 GDP is expected to have grown by 0.4% quarter-on-quarter (q-o-q).

The outlook: Japan's Q3-25 GDP was weak on the back of a decline in residential investment and soft exports. The Q4-25 report is expected to benefit from stronger capital expenditures and a small contribution from net exports. Private consumption is expected to remain weak.

#### Japan Preliminary Q4-25 GDP

	Consensus	Prior Reading
GDP Seasonally Adjusted q-o-q	0.4%	-0.6%
GDP Annualized Seasonally Adjusted q-o-q	1.6%	-2.3%
GDP Private Consumption q-o-q	0.1%	0.2%
GDP Business Spending q-o-q	0.6%	-0.2%
Inventory Contribution % GDP	-0.1%	-0.1%
Net Exports Contribution % GDP	0.1%	-0.2%

Source: Bloomberg, Economic and Social Research Institute of Japan

### 3. Japan will report January CPI inflation.

The outlook: January inflation is likely to decelerate meaningfully on the back of lower food and beverage price increases and decelerating inflation for household durable goods, clothes, and

hotels. Headline and core inflation (in Japan core includes energy) will likely decrease due to a decline in gasoline prices.

**Japan January CPI**

	Consensus	Prior Reading
Headline y-o-y	1.5%	2.1%
CPI y-o-y ex-fresh food (core)	2.0%	2.4%
CPI y-o-y ex-fresh food and energy (core-core)	2.7%	2.9%

Source: Bloomberg, Japan Ministry of Internal Affairs and Communications

**4. UK inflation is expected to have subsided in January.**

The outlook: I expect UK inflation to subside meaningfully in 2026. Services inflation is likely to slow on the back of falling airfares and hotel rates. Core goods inflation is likely to soften. Food price inflation is likely to remain at undesirably high levels.

**UK January CPI**

	Consensus	Prior Reading
Headline m-o-m	-0.5%	0.4%
Headline y-o-y	3.0%	3.4%
Core y-o-y	3.1%	3.2%
Services y-o-y	4.3%	4.5%

Source: Bloomberg, UK Office for National Statistics

**5. UK retail sales are expected to strengthen modestly.**

The outlook: Private sector metrics suggest a rebound in retail sales in January after a modest gain in December.

**UK January Retail Sales**

	Consensus	Prior Month
Retail Sales including Auto Fuel m-o-m	0.2%	0.4%
Retail Sales including Auto Fuel y-o-y	2.8%	2.5%
Retail Sales excluding Auto Fuel m-o-m	0.4%	0.3%
Retail Sales excluding Auto Fuel y-o-y	3.6%	3.1%

Source: Bloomberg, UK Office for National Statistics

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