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Economy

The Institute Employment Report: January 2026

05 February 2026

Key takeaways

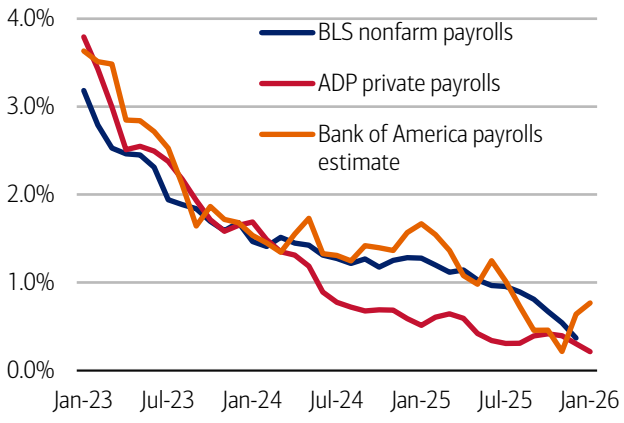
- An estimate of payrolls based on Bank of America internal data shows a further improvement in year-over-year (YoY) growth in January, to 0.8% YoY. At the same time the growth in the number of households receiving unemployment benefits dipped slightly in January, to 9% YoY. Overall, the impression is of a stabilizing, and possibly re-accelerating, labor market.
- According to Bank of America internal deposit data, there remains a large gap between the after-tax wage and salary growth of higher- and lower- income households. In January, higher-income households' after-tax wage and salary growth was 3.7% YoY, while for lower income households it was 0.9% YoY.
- Middle-income households' wage growth, in our view, deserves close attention. These households' after-tax wage growth was 1.6% YoY in January 2026, tracking below the average of 2.0% YoY seen over the second half of 2025. This relative softness may unwind, but if it persists it may lead to downside risks to consumer spending once the expected lift from tax refunds is over.

As the year began, payroll growth strengthened

The recovery in payrolls growth appears to have continued into the new year, according to Bank of America internal data. At the same time, the rise in unemployment payments seen in our data has leveled off and is showing signs of declining. Taken together, we think this paints an encouraging picture at the start of 2026.

We use Bank of America internal deposit data to estimate a payrolls series by looking at how the number of customer accounts receiving a paycheck is changing (see methodology). This data can be fairly noisy, partly due to seasonal variation. However, looking at a three-month moving average, Exhibit 1 suggests that the year-over-year (YoY) growth in our measure rose to 0.8% YoY in January 2026, up from the 0.6% YoY we saw in December 2025.

Exhibit 1: An estimate of payrolls from Bank of America internal data suggests jobs growth is rebounding
Payroll estimates from Bank of America internal data (three-month moving average, % YoY), the Bureau of Labor Statistics (BLS) and Automatic Data Processing (ADP) (monthly, YoY)



Source: Bank of America internal data, Haver Analytics
Note: BLS and ADP data are seasonally adjusted, Bank of America data is not seasonally adjusted.

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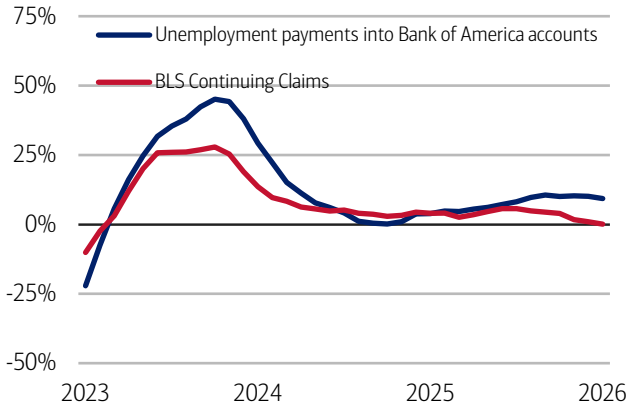
Exhibit 2: Unemployment payments into Bank of America customer accounts rose around 9% YoY in January, compared to 10% in December
Number of households receiving unemployment payments (three-month moving average, YoY%, not seasonally adjusted (NSA)) and Continuing claims (three-month moving average, YoY%, seasonally adjusted (SA))



Source: Bank of America internal data, Bloomberg
Note: January continuing claims YoY data is average for weeks through January 16, 2026.

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Comparing our data with the Bureau of Labor Statistics' (BLS) December payrolls estimate suggests, in our view, the potential for some reacceleration in the BLS data. Note the January estimate of BLS payrolls has been delayed from February 6th due to the partial government shutdown.

Bank of America internal data on unemployment payments into customer accounts adds to the impression of a stabilizing – possibly re-accelerating – labor market. Exhibit 2 shows that growth in unemployment payments into Bank of America customer accounts dipped slightly to 9% YoY in January – the first reading below 10% YoY since July 2025.

Middle-income households' wage growth remains softer

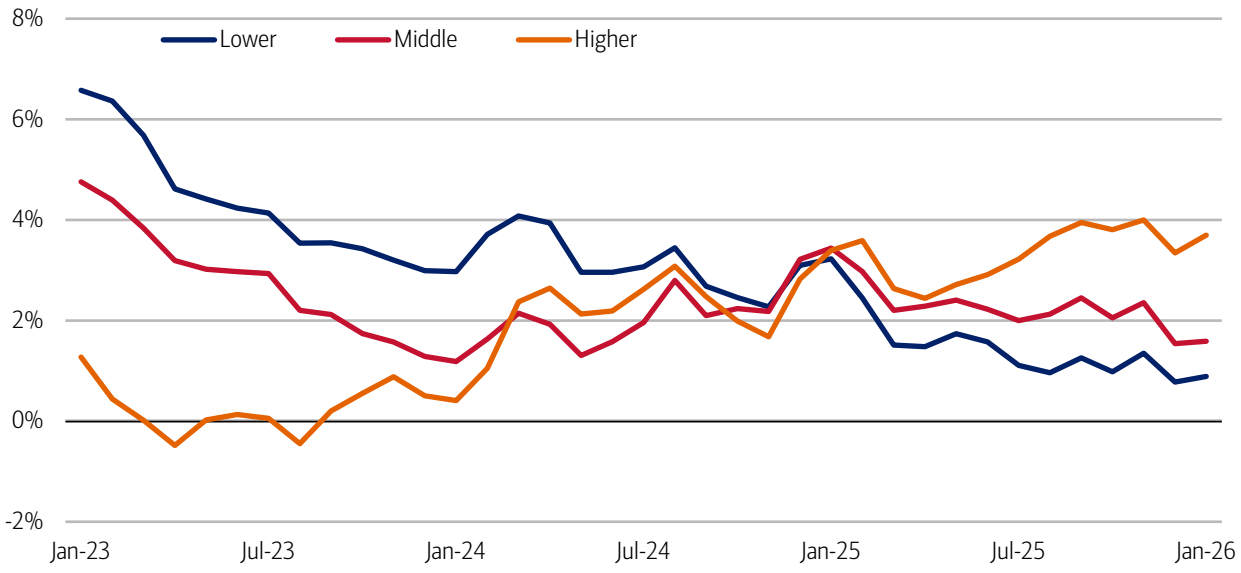
The pronounced gap between lower- and higher-income households' after-tax wage growth has continued into the new year, but it is perhaps middle-income households where most attention should be focused.

Bank of America deposit data indicates lower-income households' after-tax wage and salary growth was 0.9% YoY in January 2026, compared to higher-income households' 3.7% YoY (Exhibit 3). In our view, while the gap between higher- and lower-income after-tax wage growth is persistent, it is not showing obvious signs of increasing: over the second half of 2025, the average gap between higher- and lower-income households' wage growth was 2.6 percentage points (pp), and in January 2026 it stood close to this, at 2.8 pp.

On the other hand, after-tax wage growth for middle-income households was 1.6% YoY in January, a small improvement from the 1.5% YoY seen in December. As discussed in our December Employment Report, some of this weakness, in our view, may prove temporary. But we think this continues to deserve close attention: while higher- and lower-income households' after-tax wage growth in January were both within 0.1 pp of their average over the second half of 2025, middle-income households' after-tax wage growth was 0.4 pp *below* its second half 2025 average. Any sustained slowdown in middle-income wage growth may have downside implications for consumer spending once the expected short-run boost from tax refunds is over.

Exhibit 3: In January, after-tax wage growth was 0.9% YoY for lower-income households, 1.6% YoY for middle-income households, and 3.7% YoY for higher-income households

After-tax wage and salary growth by household income terciles, based on Bank of America aggregated consumer deposit data (3-month moving average, YoY%, SA)



Source: Bank of America internal data

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash, and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under $5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate (if discussed) can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.

2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.

3. Overall total card spending includes small business card spending while per household card spending does not.

4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).

5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Whenever median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

Bank of America aggregated credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

We consider a measure of services necessity spending that includes but is not limited to childcare, rent, insurance, public transportation, and tax payments. Discretionary services includes but is not limited to charitable donations, leisure travel, entertainment, and professional/consumer services. Holiday spending is defined as items in which spending in the November-December period is usually at least 20% of total annual spending on the category.

For analysis looking at higher value transactions (including durables), we consider a value per transaction threshold estimated with reference to the top 30% of transactions by value in 2024. The share of higher value transactions is then the number of transactions above this threshold as a percentage of total transactions over time.

Lower, middle and higher household income cuts in Bank of America credit and debit card spending per household, and consumer deposit account data are based on quantitative estimates of each households' income. These quantitative estimates are bucketed according to terciles, with a third of households placed in each tercile periodically. The lowest tercile represents 'lower income', the middle tercile represents 'middle income' and the highest tercile 'higher income'. The income thresholds between these terciles will move over time, reflecting any number of factors that impact income, including general wage inflation,

changes in social security payments and individual households' income. The income and tercile in which a household is categorised are periodically re-assessed.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalists: pre-1946

Any reference to card spending per household on gasoline includes all purchases at gasoline stations and might include purchases of non-gas items.

Estimate of payrolls growth from Bank of America internal data is based on the change in customer accounts receiving a paycheck in the month. An adjustment is made for the difference between overall population growth and customer account growth.

Additional information about the methodology used to aggregate the data is available upon request.

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Sources

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