August employment preview: a mixed bag

- **After a period of strength in the spring, the July jobs report came in much weaker than expected, highlighted by an outright decline in NFP along with notable downward revisions to prior months. In August, we look for some bounce back compared to last month, though we anticipate that the report could be somewhat of a mixed bag overall.**

- **We expect NFP to rebound, projecting an increase of +65k following the decline of -23k in July. This would represent a clear improvement from last month, though it would still be below levels seen in the spring.**

- **That said, we do see a couple of factors that could pose downside risks this month including: (1) seasonality, as August frequently surprises to the downside and (2) anecdotal reports of school budget cuts that could weigh on state & local government education, which typically is the main driver of NSA NFP gains on the month.**

- **Despite an expected rebound in NFP, we look for the unemployment rate to edge back up to 4.2% from 4.1%. Here, the recent decline has been largely down to a dip in participation, and we think some payback is possible in August, providing upward pressure on the unemployment rate. Still, this would remain below the 4.5% level reached in November, which we currently see as the peak of the cycle.**

- **We also look for average hourly earnings to rise 0.3% MoM, up from 0.1% MoM in July, though this would still see the YoY rate ticking down to 3.1% from 3.2%. This would be the lowest level since 2021, reinforcing the Fed's view that the labour market is not a major source of inflation pressure at the moment.**

- **At the Fed, most FOMC members see the labour market as relatively stable, and a report in line with expectations would not change this view, leaving focus squarely on the inflation side of the mandate. Thus, while a major downside surprise could trim the odds of a September hike, barring anything hugely unexpected we continue to see the August inflation data, with CPI released a week from Friday on 11 September, as the more consequential report ahead of the September FOMC meeting.**

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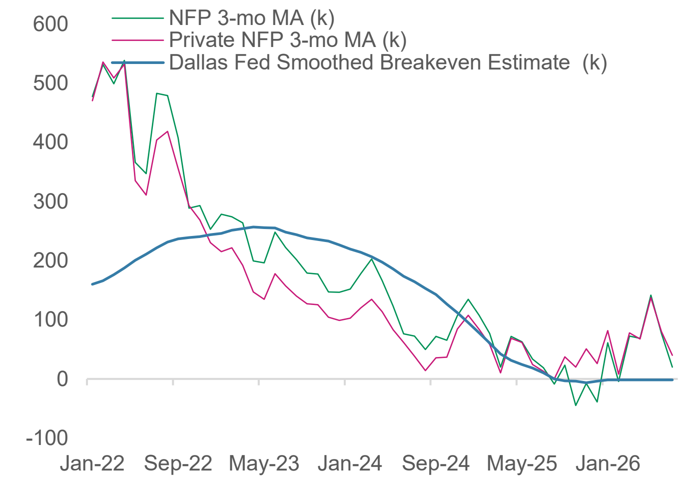
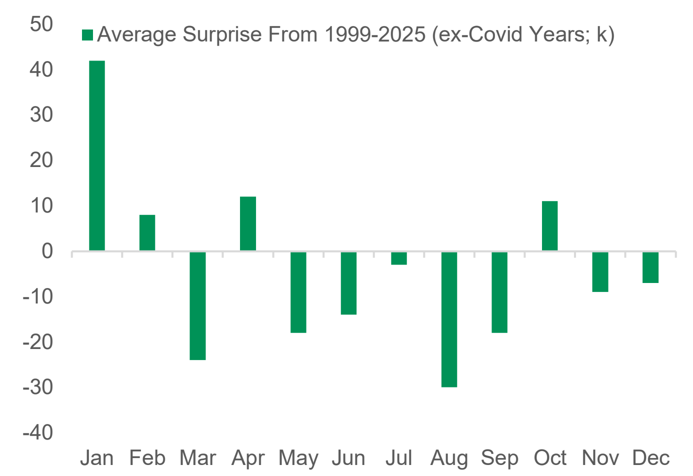
Fig 1. NFP softer in recent months



Source: Bloomberg, Crédit Agricole CIB

Fig 2. August frequently surprised to the downside



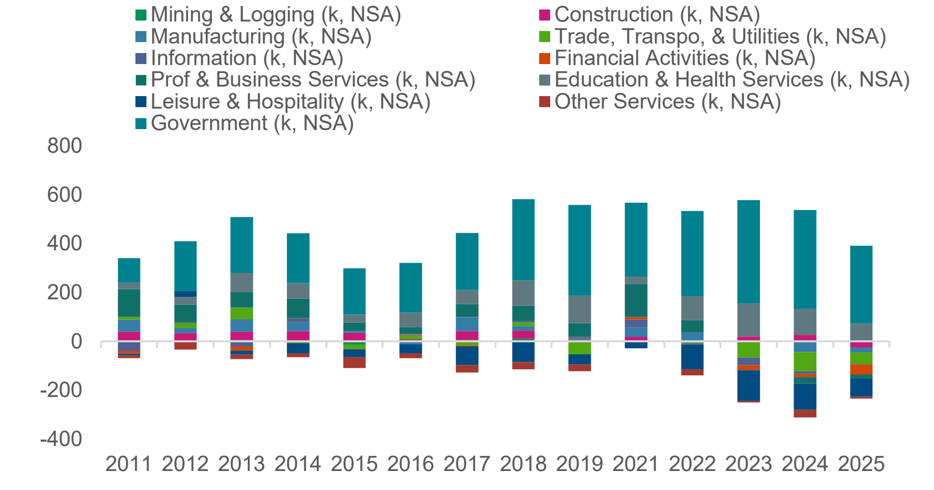
Source: Bloomberg, Crédit Agricole CIB

After a period of strength in the spring, the July jobs report came in much weaker than expected, highlighted by an outright decline in NFP along with notable downward revisions to prior months. In August, we look for some bounce back compared to last month, though we anticipate that the report could be somewhat of a mixed bag overall.

Specifically, we expect NFP to rebound by +65k in August, which would represent a clear improvement from the -23k decline last month, though it would still be well below the March and April average of +181k. Our forecast is a bit above the BBG consensus of +55k, with the range of forecasts submitted to BBG spanning -25k to +121k. The whisper number on BBG is currently just below the economist consensus at +51k.

If our forecast is on track, the three-month moving average would be little-changed at +21k in August from +20k last month (see Figure 1). Still, a number in this range is not as bad as it looks at first glance when considered in the context of a sharp drop in the breakeven rate due to shifts in immigration policy. In fact, we think the breakeven pace has fallen from more than +200k per month late in the Biden presidency to below +50k currently, and the Dallas Fed even estimates a value of just below 0k (see Figure 2). Thus, the three-month moving average may still be above breakeven, or at least in its general neighbourhood, even if it has slowed from the spring.

Fig 3. August NSA payrolls: led by government education



Source: Bloomberg, Crédit Agricole CIB; note: we have omitted 2020 as the recovery from Covid lockdowns skews the data

August employment data has been a bit of a mixed bag but mostly points towards a resumption of job gains. For example, the ADP jobs report showed another month of job gains, even if these were modestly below expectations at +38k, while the Conference Board's labour differential bounced back to its highest level since April, and the ISM manufacturing employment index remained in expansion, even if it ticked lower.

We also think that last month's weakness may have been influenced by temporary trends in leisure & hospitality around the World Cup. For example, this sector shed -40k jobs in July, which may have had to do with temporary workers hired for the busy World Cup season being let go. Taking this together with the data highlighted above, our forecast centres on some improvement in NFP.

That said, even if we have not altered our preliminary forecast, we do see a couple of factors that could pose downside risks this month, including:

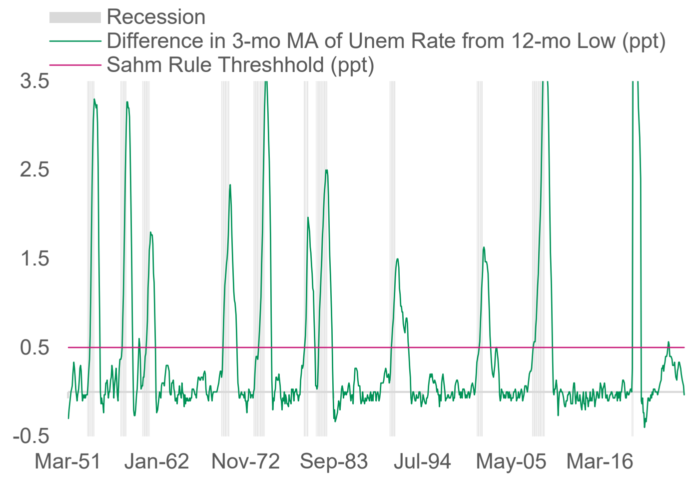
- **Seasonality, as August frequently surprises to the downside.** In fact, according to an analysis on Bloomberg, August NFP surprised to the downside around 70% of the time between 1999-2025 (excluding the pandemic-skewed years of 2020 and 2021), with an average downside surprise of -30k (see Figure 2).
- **Anecdotal reports of school budget cuts that could weigh on state & local government education.** This is typically the main driver of NSA NFP

gains on the month (see Figure 3), as hiring resumes after the summer break, so any vulnerability here could play a role in August (and to an even greater degree in September as well, but we will address that next month).

Despite an expected rebound in NFP, we look for the unemployment rate to edge back up to 4.2% from 4.1%, even as last month's 4.09% unrounded number was not particularly close to rounding in either direction. That said, we would highlight that the recent decline in the unemployment rate, which has helped put the Sahm rule recession threshold further in the rear-view mirror (see Figure 4), has been heavily influenced by a dip in participation (see Figure 5).

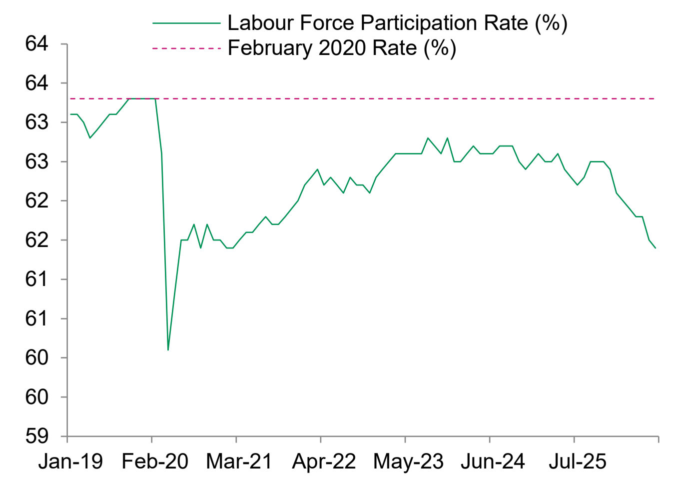
We think this decline in participation may have gone a bit too far over the past couple of months and would not be surprised by some payback in August, providing upward pressure on the unemployment rate. Still, even if the unemployment rate returns to 4.2%, this would remain below the 4.5% level reached in November, which we currently see as the peak of the cycle.

Fig 4. Sahm rule threshold not close to being triggered



Source: Bloomberg, Crédit Agricole CIB

Fig 5. Though decline partly down to falling participation



Source: Bloomberg, Crédit Agricole CIB

Looking ahead, we continue to look for the unemployment rate to hover in the low-4% range for the remainder of the year and into 2027. We expect that restrictive immigration policies will remain in place in the coming years, keeping the breakeven low and continuing to limit upward pressure. This dynamic likely played a role in the unemployment rate only moving gradually higher late last year before showing signs of stabilisation more recently.

Elsewhere, we look for average hourly earnings to rise by 0.3% MoM in August, up from 0.1% MoM in July, though this would still see the YoY rate ticking down to 3.1% from 3.2%. This would be the lowest level since 2021, reinforcing the Fed's view that the labour market is not a major source of inflationary pressure at the moment.

Overall, we will once again reiterate that we continue to see the labour market as being in a low-hire, low-fire environment where demand and supply have cooled in tandem. This has kept the labour market close to balance, with the vacancy-to-unemployment ratio holding near 1x in recent months, though the low-hire dynamics do create some downside risks.

While concerns about rising downside risks to the labour market drove the three cuts the Fed delivered in late 2025, recent speakers have made clear that concerns have abated. One month of softer data in July has not changed this view, leaving the Fed's focus squarely on the inflation side of the mandate.

Thus, while a major downside surprise could trim the odds of a September hike, barring anything hugely unexpected we continue to see the August inflation data, with CPI released a week from Friday on 11 September, as the more consequential report ahead of the September FOMC meeting. Here, the onus may be on the report to show another relatively soft month of core to keep the Fed on the sidelines.

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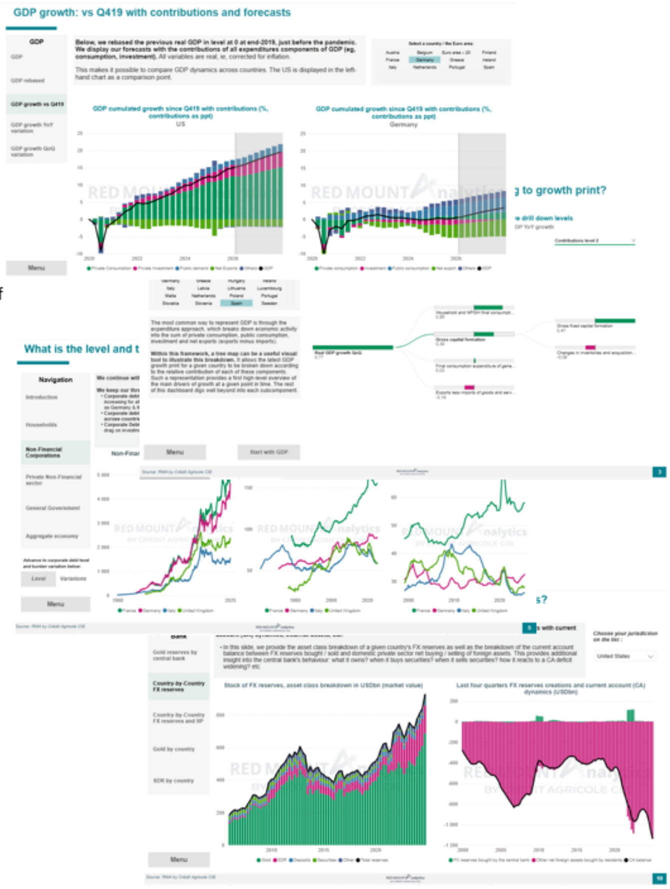

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