US Desk Strategy | Global Markets Americas

Labor Update

August 2026 NFP Preview

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A member of MUFG, a global financial group

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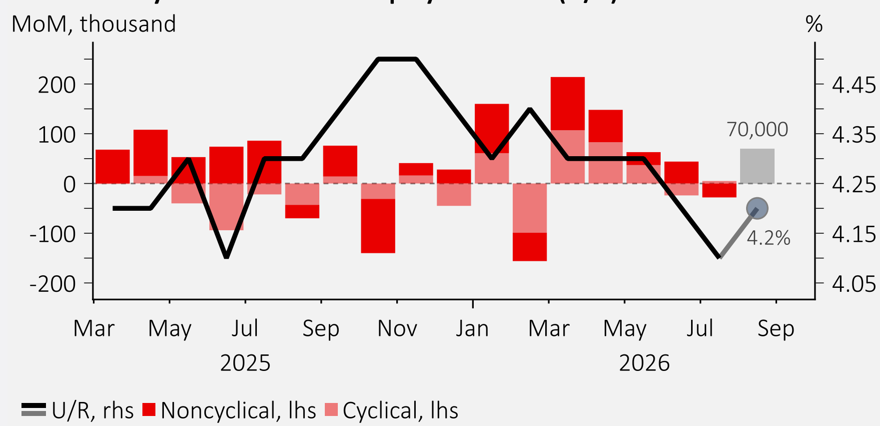
Preview | August NFP – Absent a big surprise, markets will likely look past it

Data Preview & Forecast

- MUFG forecasts August 2026 nonfarm payrolls (NFP) to grow by **70k**, slightly above the median of 55k from Bloomberg contributors, and above the 3-month average growth of 20k.
- The unemployment rate (U/R) is expected to uptick to **4.2%** in August, slightly above the 4.1% median estimate from Bloomberg contributors. A slight improvement in labor force participation of prime-age (25-54) and younger (16-24) workers supports an uptick in the U/R, while maintaining a relatively constant, and low rate of job losses (consistent with low unemployment claims).
- Breakeven jobs growth across most industry groups, combined with a modest rebound in leisure & hospitality, without the negative thrust from local government jobs (i.e., teachers), supports a slightly higher than consensus figure.

Nonfarm Payroll Growth & Unemployment Rate (U/R)

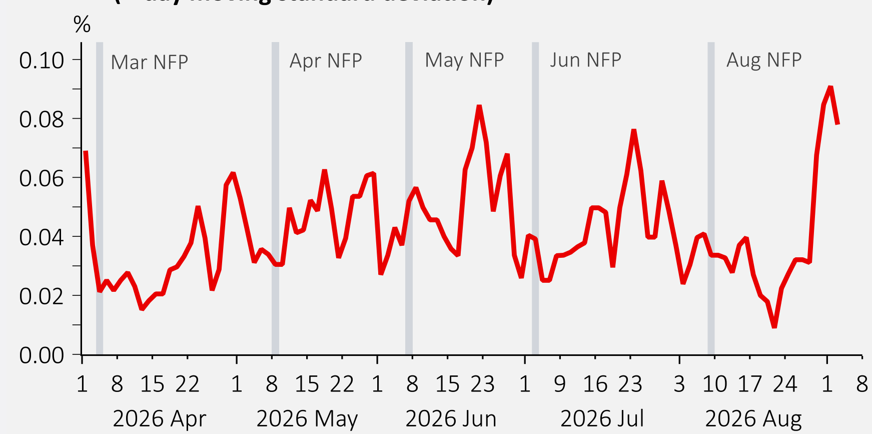


Source: BLS and MUFG US Macro Strategy

Market Thoughts

- <u>*Base-case risk*</u>: Consensus NFP forecasts drift around perceptions of monthly breakeven with a wide confidence band. Our forecast captures much of that same signal. To dispel the current "stable" labor market narrative (~50-80k), a significant downside NFP surprise combined with an increase in the U/R is likely needed to induce a meaningful rally. Otherwise, expected a muted reaction from current levels.
- <u>*Downside risk*</u>*:* If there is a bias in our view it's to a weaker NFP (making it the third in a row) along with a rise in the U/R to 4.2% (from LFPR potentially reversing). That would temper Sep hiking odds and steepen the curve via 2s, but with 4.25% serving as resistance (with CPI next).
- <u>*Upside risk*</u>*:* Following the Jackson Hole sell-off, the jobs report likely needs to beat expectations by a significant margin or have another drop in the U/R to see a sell-off beyond the 4.4% level on 2s.

2Y Yield (7-day moving standard deviation)



Source: U.S. Treasury and MUFG US Macro Strategy

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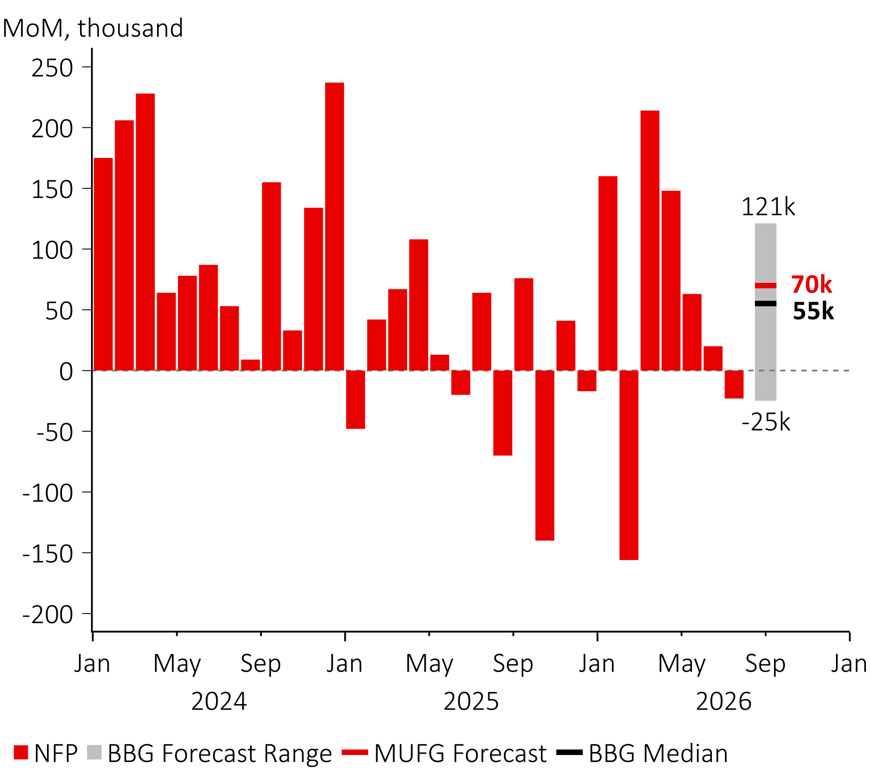
Preview | Labor market expected to add 70k jobs in August

MUFG forecasts 70k jobs added in August, compared to the Bloomberg consensus of 55k

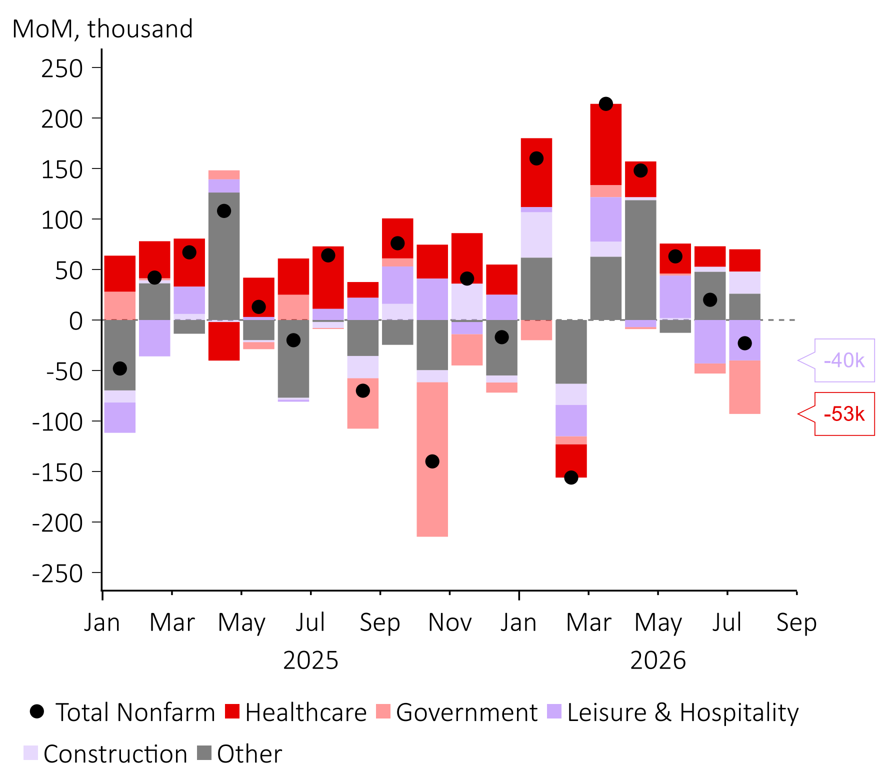
- Employment has declined in leisure & hospitality for two consecutive months, largely in food services. Since 2024, monthly jobs growth in the industry has looked weaker in the summer months, only to pick up later in the year. Given the substantial weakness in June and July of this year, along with low unemployment claims and spending growth in food services, there is a reasonable expectation of a rebound in August.
- Breakeven jobs growth across most industry groups, combined with a modest rebound in leisure & hospitality, without the negative thrust from local government jobs (i.e., teachers), supports a slightly higher than consensus figure.

MUFG August 2026 Nonfarm Payrolls (NFP) Forecast



Source: BLS and MUFG US Macro Strategy

Nonfarm Payroll (NFP) Growth by Industry



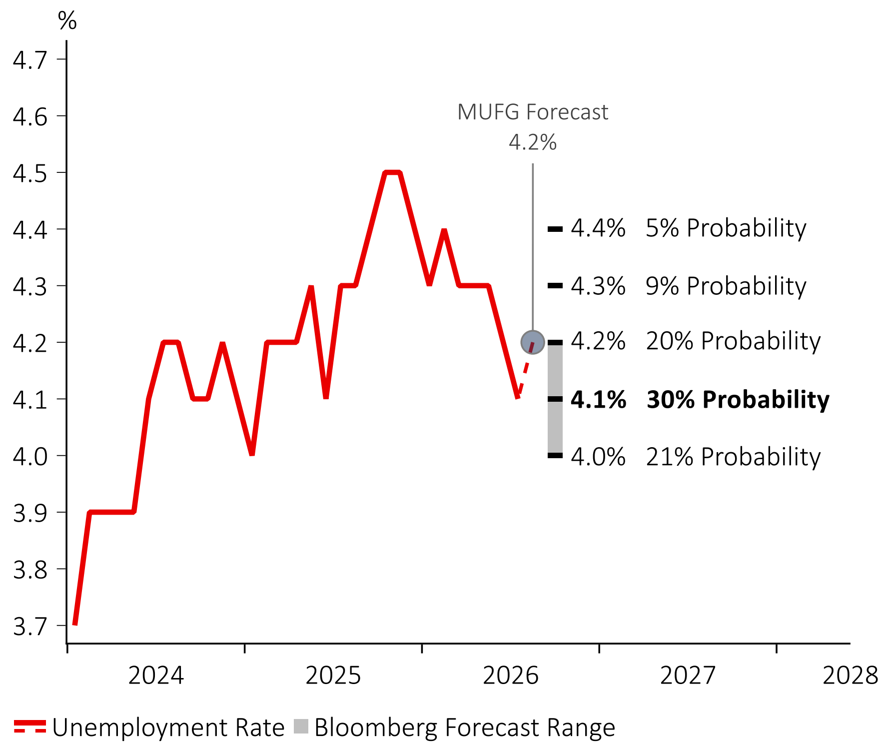
Source: BLS and MUFG US Macro Strategy

Preview | Unemployment rate forecasted to rise slightly to 4.2% in August

MUFG forecasts the unemployment rate (U/R) rising slightly to 4.2% in August, above the Bloomberg consensus of 4.1%.

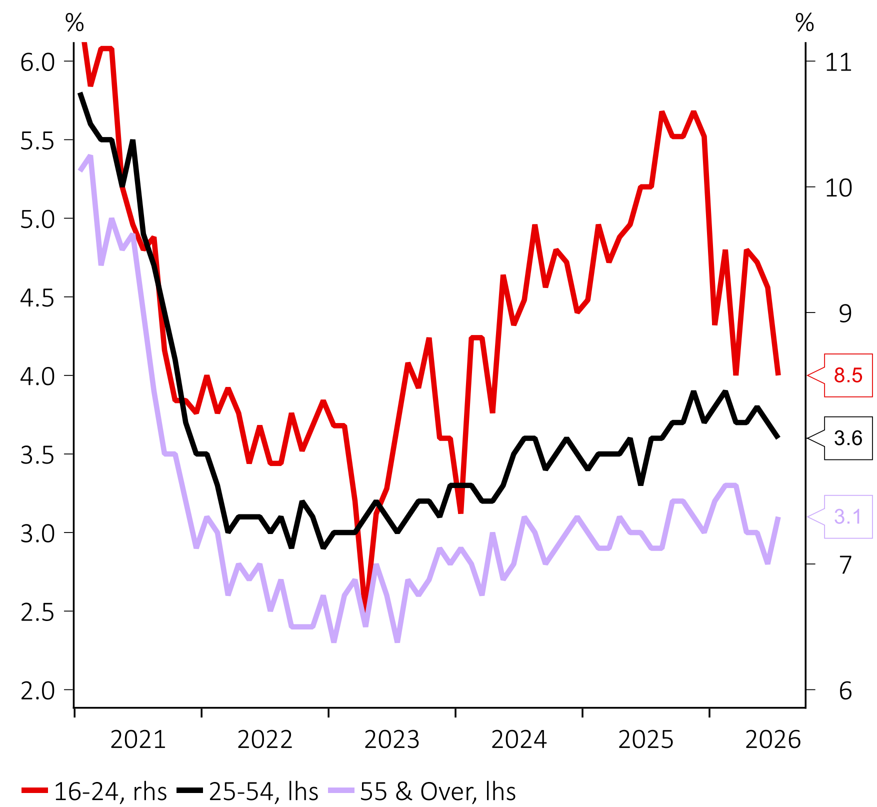
- The Chicago Fed Nowcast implies the greatest likelihood of the U/R remaining at 4.1%, with an equal probability of it rising to 4.2% or falling to 4.0%.
- A slight improvement in labor force participation of prime-age (25-54) and younger (16-24) workers supports an uptick in the U/R, while maintaining a relatively constant, and low rate of job losses (consistent with low unemployment claims).

MUFG August 2026 Unemployment Rate Forecast & Probabilities



Note: Implied probabilites are sourced from the Chicago Fed, shaded area shows Bloomberg forecast range and bolded value represents Bloomberg median value
Source: BLS, Bloomberg, Chicago Fed and MUFG US Macro Strategy

Unemployment Level by Age Group



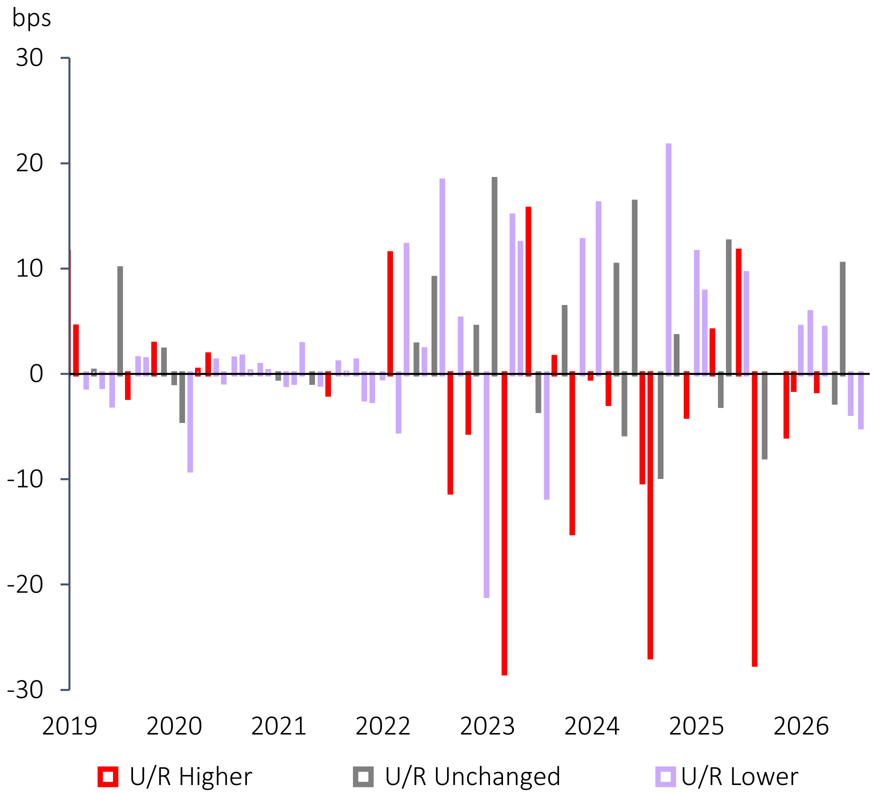
Source: BLS and MUFG US Macro Strategy

Markets | Difficult to get a sizeable rally in rates with the August jobs report

Unless there is a major surprise (in either direction) markets will look past NFP and focus on CPI, the last major data point before the Sep FOMC

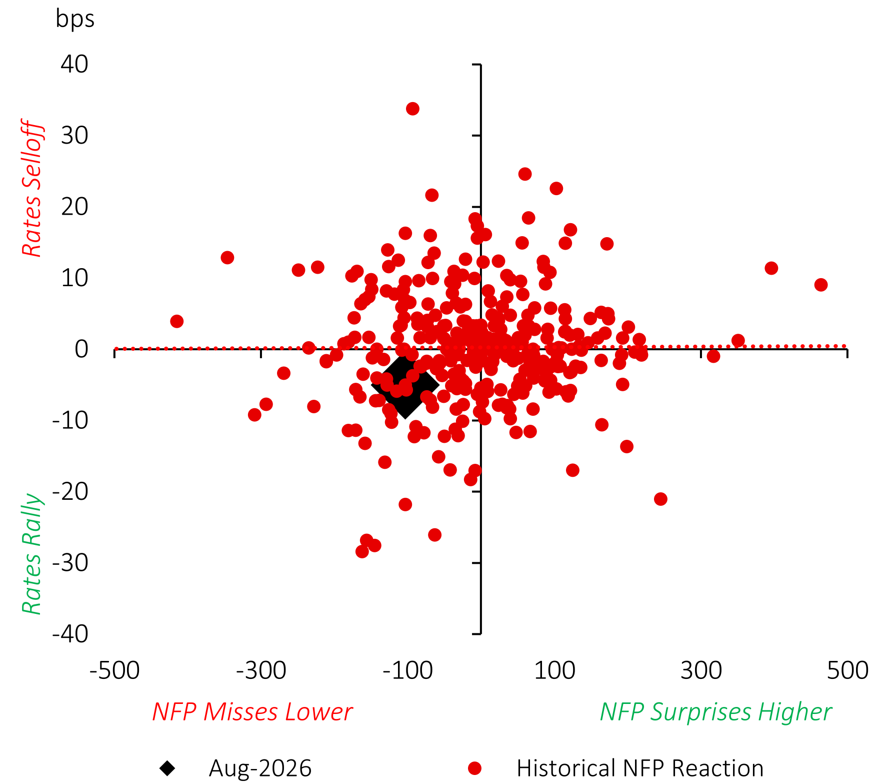
- The rates market has become even more oversold after Jackson Hole, with the 7-day moving standard deviation and other technical signals stretched (including RSIs and Bollinger Bands). In past sessions, the market has been grinding back, but still in a weakened state, with what feels like an asymmetrical (to higher rates) profile if the data beats expectations.
- It would take a meaningful weak number, potentially another negative print, to pull down hiking expectations enough to take a hike off the table.

2Y Yield Change on NFP Days By Unemployment Rate Change



Source: Bloomberg and MUFG US Macro Strategy

2Yr Yield Change vs NFP Misses/Surprises Since 1998



Source: Bloomberg and MUFG US Macro Strategy

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