US Economy

04 September 2026

Firm labour market signals strong economy, but CPI still key for September Fed

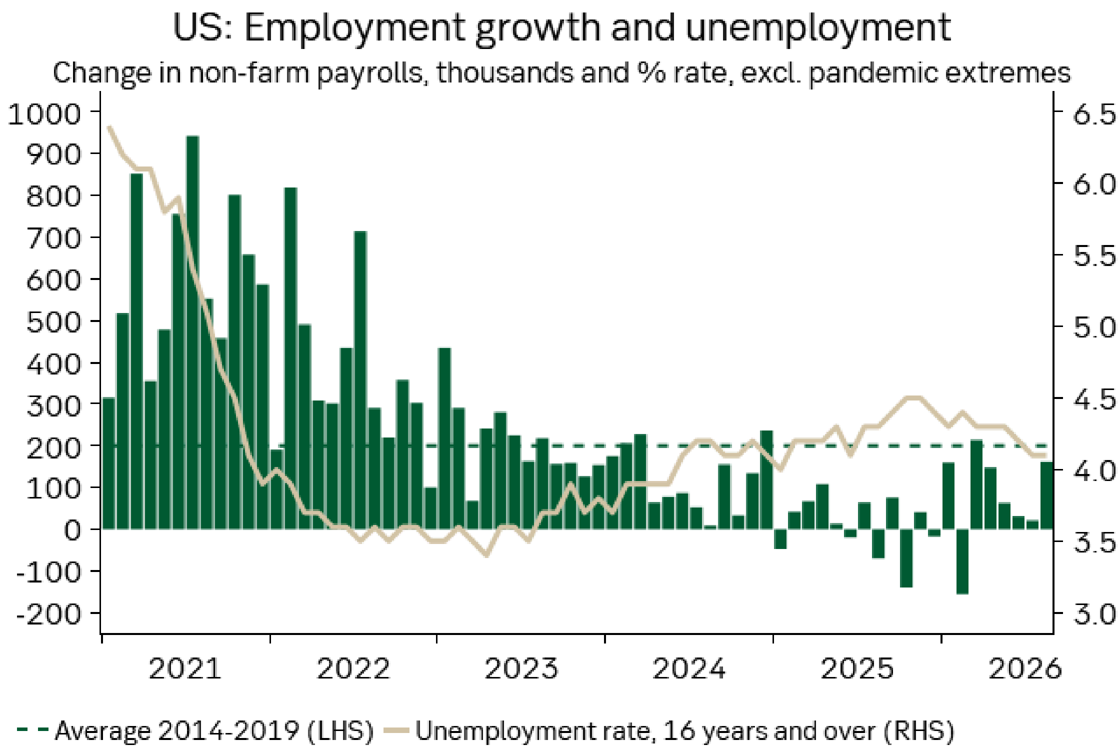
Payroll employment (NFP) recovered more than expected in August for a firm +162k increase (consensus +55k) and data for previous months were revised upwards. Parts of the upside surprise are likely to reflect problems with seasonal adjustments in the government sector during the summer, and a payback from earlier weakness. However, firm hiring also in cyclical sectors signals a continued robust US economy. We believe the August CPI (on 11 September) will decide the September Fed policy decision, not today's labour market data. However, solid employment growth supports the view that policy is not particularly restrictive.

Key points

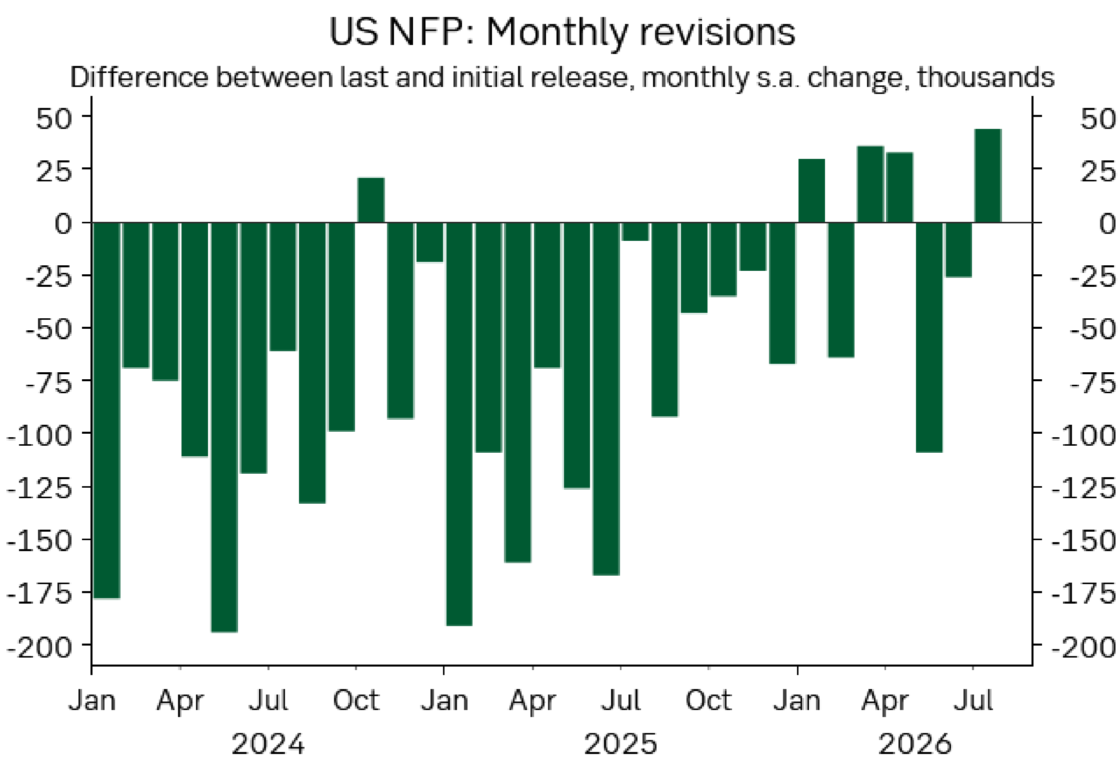
- Nonfarm payrolls surprised on the upside at +162k in August (consensus +55k, previous +21k).
- Private payrolls also beat expectations at +127k (consensus +50k, previous +71k)
- Two-month net revision is +55k
- The unemployment rate held steady at 4.1%
- Participation edged higher but has not reversed the previous declining trend
- Modest earnings growth, in line with the consensus
- Stronger hiring supports Warsh's optimistic view on the economy, but inflation data will be key for the 16 September Fed decision

Strong rebound from summer lull

August payroll growth surprised solidly on the upside for a solid 162k increase (consensus +55k, previous +21k, revised from -23k) while the unemployment rate was unchanged at 4.1%. Upward revisions for the two previous months (+55k) contributed to the stronger picture. Last year revisions were mostly on the downside; this year the picture has been more mixed and not showing the same clear trend.



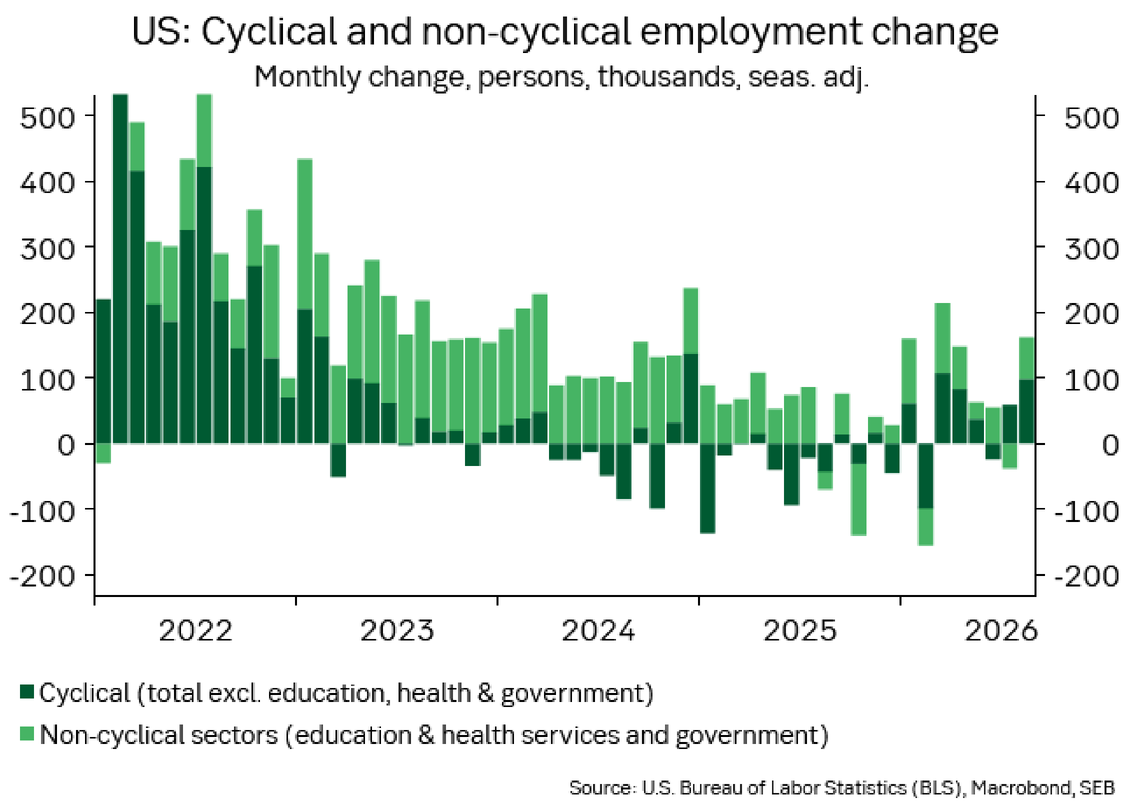
Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

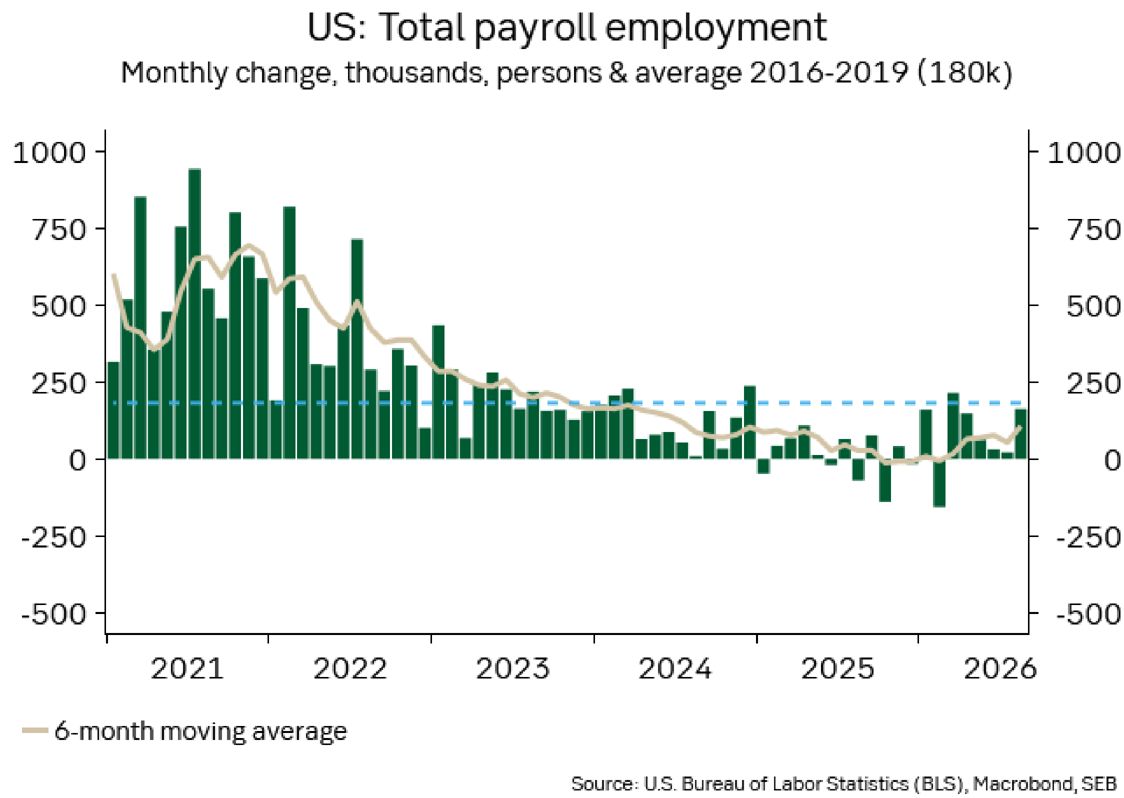
More broadly based employment growth

A rebound in government employment (+35k vs -50k in July), which we suspect mirrors seasonal adjustments during July, contributed to the upturn. Employment in private education, health care and social assistance continues to trend higher, but a slower pace than before (29k). However, contrary to earlier in the year, we are seeing firmer growth also within cyclical sectors, with faster employment growth in leisure and hospitality (+62k after two months of declines) and stronger job creation within goods producing sectors (+41k, whereof +16k in manufacturing). The latter is in line with the stronger signals we have seen this year for manufacturing activity. The key weak area is information, which has seen steady losses over the past year, possibly reflecting an impact of AI.



Less jobs needed for stable labour market

We believe one should focus on the broader trend, rather than individual months, especially for the summer. But also there, the data is showing a reasonably solid trend (6-month average 106k), especially considering that the break-even employment growth for a stable labour market is held back by immigration policies and an aging population.

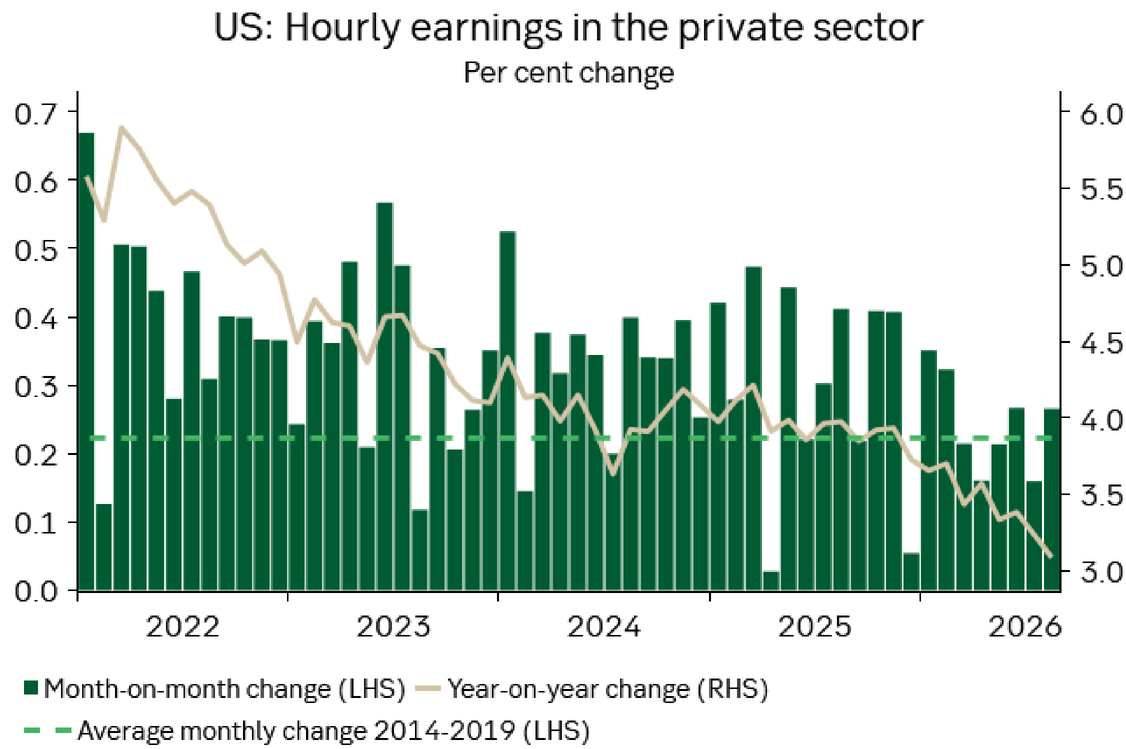


Steady and low unemployment rate

Given the uncertainty over the break-even employment growth, we believe that the Fed is now more focused on the unemployment rate. Unemployment declined during the first half, but mainly because of a drop in participation which is not a good signal for the labour market. In August, unemployment held steady at 4.1%, while participation edged higher, but not reversing the earlier downward trend.

Modest wage increases no inflation risk

Earnings increased by 0.3% m/m, 3.1% y/y, in line with consensus expectations. With faster productivity growth, the data continues to support the view of the Fed that the labour market is not an upside risk for inflation.



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

Market is pricing above 50% for a September hike again

Rate markets reacted hawkishly to the data and are again pricing more than 50% probability for a hike in September (15bp), almost 1 ½ hike by year-end and over two hikes by next summer. We see the reaction as reasonable, given uncertainty ahead of both next week's CPI inflation data and the inflation outlook for the rest of the year, a split Fed and hawkish statements from Chair Warsh.

The Fed is more focused on inflation now

Still, the Fed has downplayed recent weaker jobs data and described the labour market as in line with full employment (Chair Warsh) and in good shape (Governor Waller) despite the earlier reported job losses in July (which were now revised from -23k to +21k). As such, we do not think that the stronger-than-expected August will have much impact on the September decision; it is all about the August CPI. However, faster employment growth, and a slightly longer work-week (from 34.3 to 34.4) are signs of a continued robust US economy and support the view of among others Warsh, that current policy is not particularly restrictive.

Elisabet Kopelman
US Economist & Fed Watcher
elisabet.kopelman@seb.se
@EKopelman