# Blockbuster August jobs report still leaves Fed decision down to inflation data

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- **The jobs report continues to exhibit a good deal of volatility from month-to-month, with a poor report in July followed by a much-improved August. In fact, this month saw a much stronger-than-expected report, despite past struggles for NFP in the month of August.**
- **Here, not only did NFP surprise substantially to the upside at +162k, but prior months saw upward revisions including July being taken into positive territory from the outright decline initially reported. Additionally, the unemployment rate held steady at a low level of 4.1%, despite a bounce back in participation.**
- **One slight exception was average hourly earnings, where an admittedly firmer monthly print of 0.3% MoM still resulted in the YoY pace ticking down to 3.1% from 3.2%. This is the lowest level since May of 2021 and would strengthen the Fed's view that the labour market is not a major source of inflationary pressure at the moment.**
- **Overall, however, the August report could assuage concerns about a re-emergence of downside risks that the weak report last month raised as a possibility, instead reinforcing the Fed's view that the labour market has stabilised after a softer patch last autumn.**
- **That said, we do not think it necessarily changes all that much for the Fed's September decision, with next week's inflation data likely to be more consequential. This comes down to our long-held view that the reaction function with regards to the employment side of the mandate will be an asymmetric one, with weaker jobs data able to drive the Fed towards cutting rates, but stronger jobs data simply shifting the focus to the inflation side of the mandate.**
- **Here, while inflation is still too high, improved data over the last couple of months keeps another hold on the table as a possibility in September if core inflation once again comes in relatively benign in August, which remains our current base case for now. This view is in line with comments from Governor Christopher Waller yesterday, though admittedly nothing is set in stone, and we acknowledge that a stronger inflation report next week could tip the balance towards a hike.**
- **For more information on the labour market, we have recently released our US Labour Market Monitor and NFP Explorer at Red Mount Analytics, which covers everything you need to know about the jobs report, from a 360-degree overview on the data release to a deep-dive into the weeds of the report to our in-house indicators.**

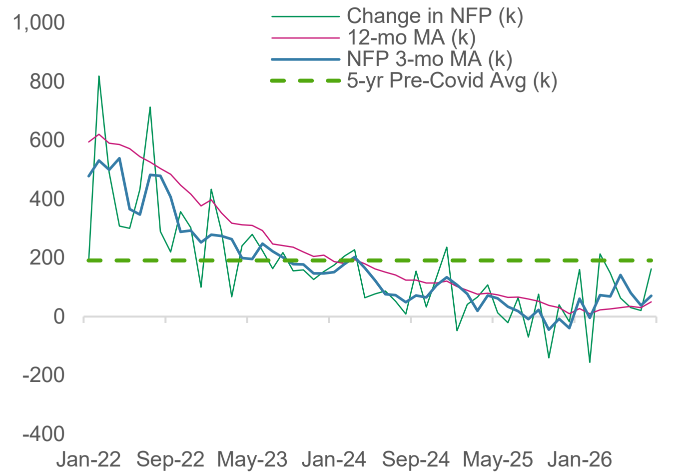
**The jobs report continues to exhibit a good deal of volatility from month-to-month, with a poor report in July followed by a much-improved August.** In fact, this month saw a much stronger-than-expected report, despite the past struggles for NFP in the month of August that we had highlighted in our preview, with that month showing an average downside surprise of around -30k between 1999-2025, excluding the Covid years.

**This year, however, not only did NFP surprise substantially to the upside in jumping +162k vs consensus of +55k, but prior months saw upward revisions totalling +55k.** These took July's result into positive territory at +21k after the initial release saw an outright decline of -23k.

**Taking into account the August data along with prior revisions, the three-month moving average bumped back up to +71k compared to +38k in July (see Figure 1).** This is still below where it was in the spring (when a 2026 peak of

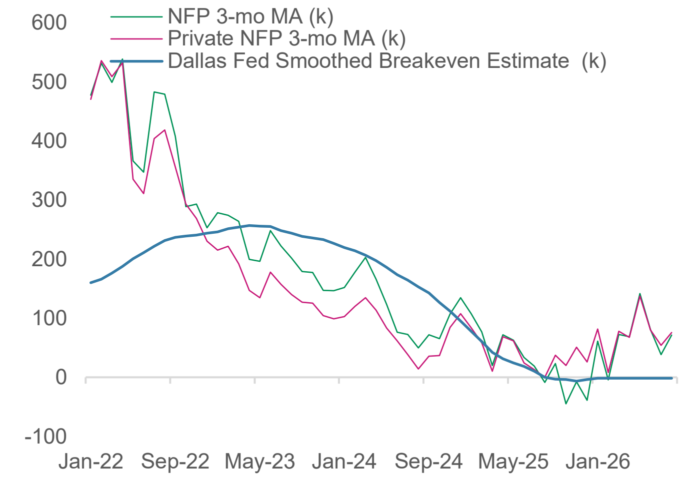
+142k was reached in May) but given the current environment in which the breakeven rate has dropped sharply, this level is likely still above breakeven (see Figure 2).

**Fig 1. NFP bounces back**




*Source: Bloomberg, Crédit Agricole CIB*

**Fig 2. And remains above breakeven**

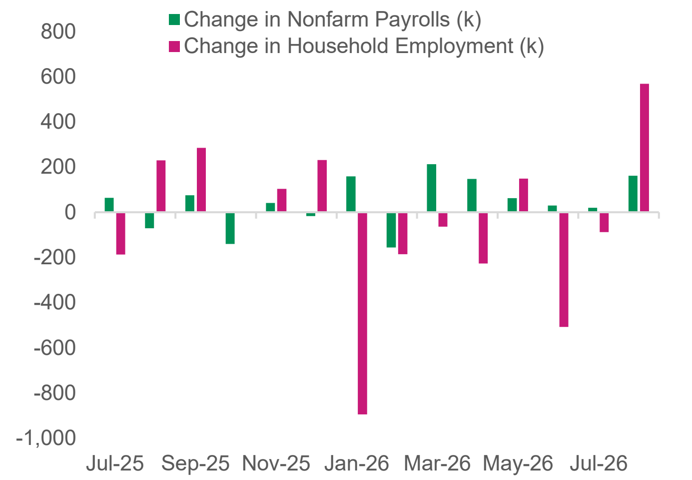



*Source: Bloomberg, Crédit Agricole CIB*

**On a sectoral basis, private payrolls were solid but a bit softer than the headline in rising +127k, as government NFP bounced back by rising +35k after declining by -50k in July, with the swings here heavily influenced by local government education.** Within private payrolls, goods-producing payrolls were solid as these rose by +41k in August following a +29k increase in July, led by construction (+22k) and manufacturing (+16k). Private service-providing payrolls also accelerated from last month, rising +86k following +42k last month.

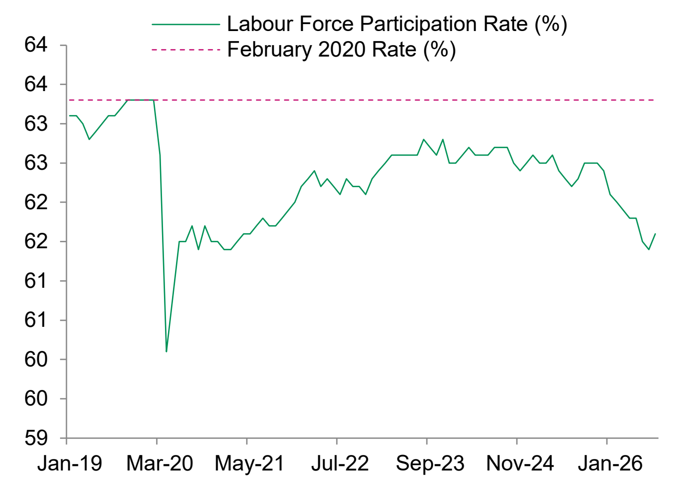
That said, the advance in services was not uniform as it was led by leisure & hospitality (+62k), which may have represented payback from a softer July (possibly due to temporary World Cup help falling off the payroll count) and private education & health services (+29k). Other categories either showed modest gains, such as trade, transportation & utilities (+16k), professional & business services (+10k), and other services (+3k), or outright declines, such as information (-23k) and financial activities (-11k).

**Fig 3. Household survey even stronger in August**




*Source: Bloomberg, Crédit Agricole CIB*

**Fig 4. Including a bounce in participation**




*Source: Bloomberg, Crédit Agricole CIB*

**The household survey was also very strong on the month, with the unemployment rate coming in unchanged at 4.1% to match its lowest level in just over a year.** Encouragingly, the unemployment rate held steady despite an increase in participation to 61.6% from 61.4% (see Figure 4), which would put upward pressure on the unemployment rate, all things equal.

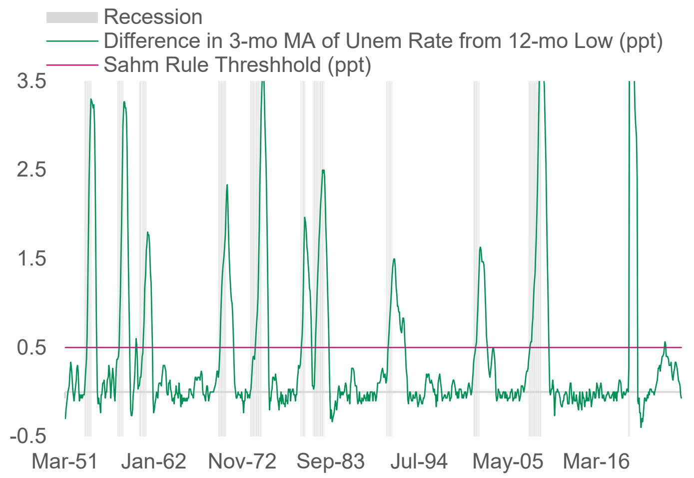
**However, the increase in participation was largely offset by strong employment gains in the household survey, an exception to the recent trend in which household survey employment had been softer than NFP (see Figure 3).** Specifically, the labour force expanded by +683k, but with household survey employment jumping +569k, the number of unemployed rose by +115k, enough to take the unrounded unemployment rate up to 4.14% from 4.09%, but not quite enough to round up to our forecast of 4.2%.

**Overall, the unemployment rate has been largely rangebound in the low-4% range throughout 2026, despite the swings in participation, moving the Sahm rule recession threshold farther away (see Figure 5).** We expect this stabilisation to carry forward, with the unemployment rate hovering in a similar range into 2027.

**The one slight exception to the strength elsewhere was average hourly earnings, where an admittedly firmer monthly print of 0.3% MoM compared to 0.2% MoM in July still resulted in the YoY pace ticking down to 3.1% from 3.2% (see Figure 6).** This is the lowest level since May of 2021 and would strengthen the Fed's view that the labour market is not a major source of inflationary pressure at the moment.

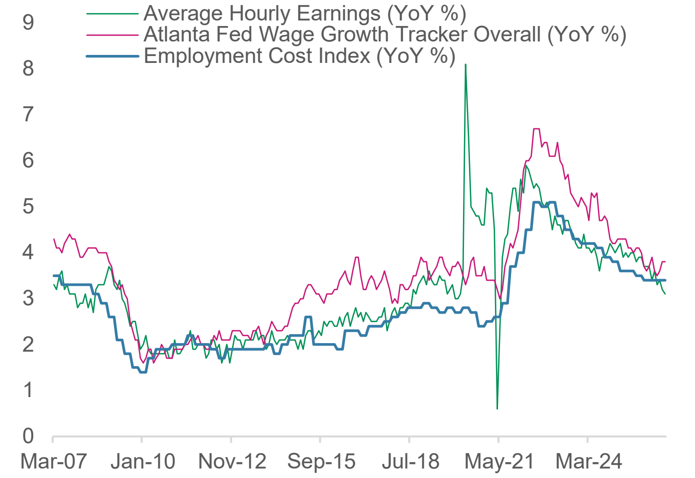


**Fig 5. Sahm rule threshold nowhere near being breached**




*Source: Bloomberg, Crédit Agricole CIB*

**Fig 6. Though wage growth slows further**




*Source: Bloomberg, Crédit Agricole CIB*

**Overall, the August report could assuage concerns about a re-emergence of downside risks that the weak report last month raised as a possibility, instead reinforcing the Fed's view that the labour market has stabilised after a softer patch last autumn.**

**That said, we do not think it necessarily changes all that much for the Fed's September decision, with next week's inflation data likely to be more consequential.** This comes down to our long-held view that the reaction function with regards to the employment side of the mandate will be an asymmetric one, with weaker jobs data able to drive the Fed towards cutting rates, but stronger jobs data simply shifting the focus to the inflation side of the mandate.

One exception where stronger jobs data on its own could drive the Fed to hike would be if it were clearly pointing to the labour market as a source of inflationary pressures. However, that is not the case right now given the dynamics seen in average hourly earnings, which as noted above suggest limited inflationary pressures coming from the labour market.

**Looking to the inflation data, while inflation is still too high, improved data over the past couple of months keeps another hold on the table as a possibility in September if core inflation once again comes in relatively benign in August, which remains our current base case for now.** This view is in line with comments from Governor Christopher Waller yesterday, though admittedly nothing is set in stone, and we acknowledge that a stronger inflation report next week could tip the balance towards a hike.

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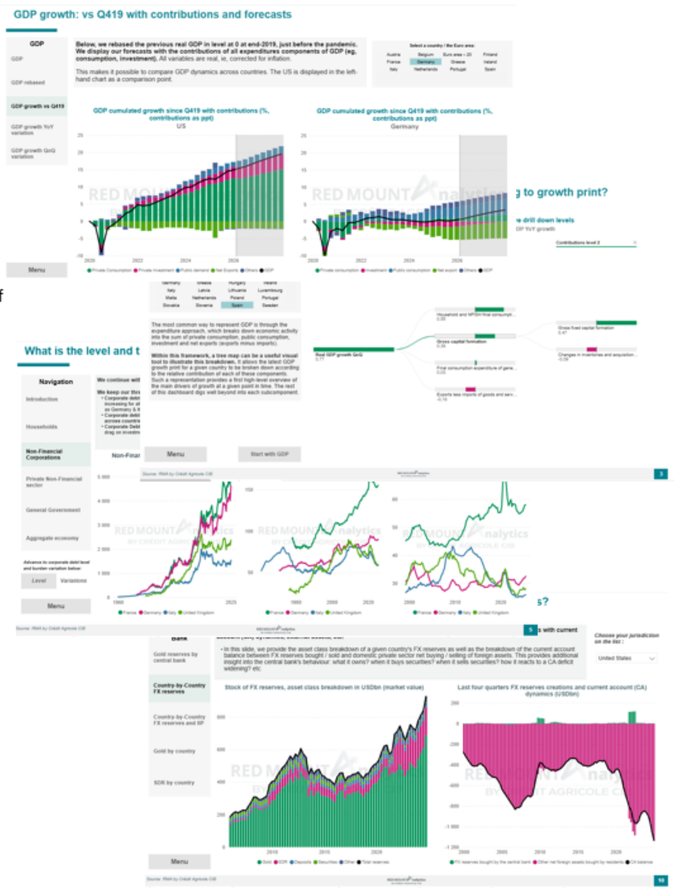


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