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Coffee Break

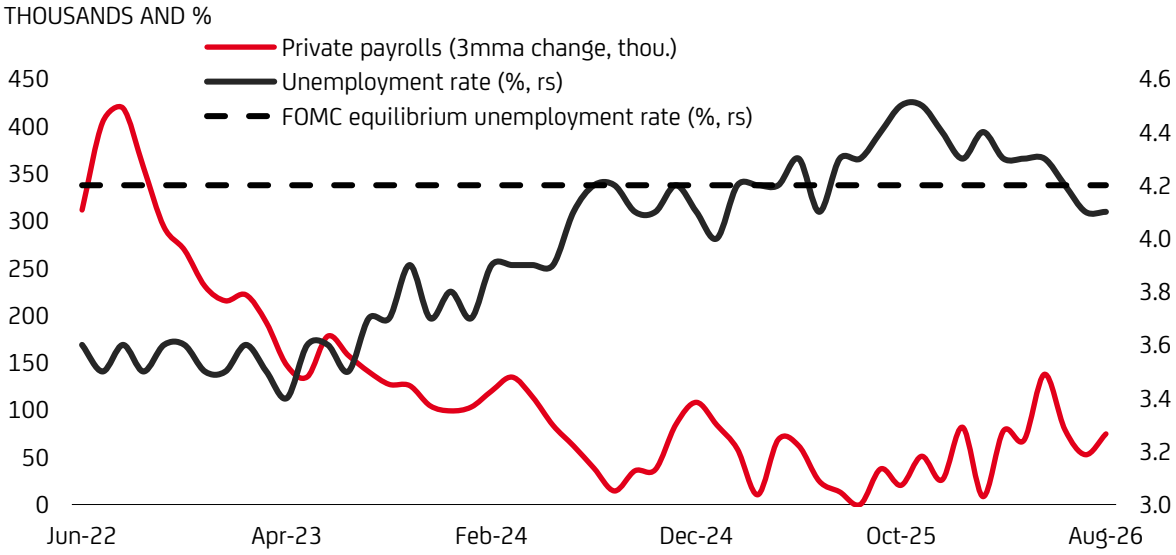
Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

US labour market: not too hot, not too cold

2 October 2026

The US labour market is in a good spot, with both demand and supply factors pointing to a continuation of the "low hire, low fire" environment. Wage disinflation amid high productivity growth is unlikely to provide reassurance to the Fed about a timely return of inflation to target.

US LABOUR MARKET IN EQUILIBRIUM



Source: BLS, The Investment Institute by UniCredit

THE CONTEXT

Today's US labour-market report will be closely scrutinised by financial markets. Following a large upside surprise in August non-farm payrolls (NFP) and better-than-expected PMIs, retail sales and durable good reports, investors have started to flirt with the idea that the US economy may be moving beyond simple resilience to higher energy prices and geopolitical uncertainty, and into a phase of outright growth acceleration. This is not our baseline scenario, and we expect employment growth to have slowed meaningfully in September, to about 60k payrolls. We suspect that the August jump in employment partly reflected temporary factors, including an outsized increase in government payrolls, which is unlikely to have been repeated last month, and probably some issues related to seasonal adjustment. A significant upside surprise today could reinforce the re-acceleration narrative at a time when the tracking estimate of US GDP growth for 3Q26 is drifting higher and looking strong.



THE DATA

Assessing the underlying strength of the US labour market poses challenges, considering the high volatility of employment data over recent months as well as frequent, and large, revisions to earlier data. Our chart shows a smoothed series for growth in private payrolls and the unemployment rate compared to the FOMC's estimated long-run rate of 4.2%. The picture that emerges is one of broad equilibrium.

Payrolls growth in the private sector has only averaged about 50k over the last two years, marking a meaningful deceleration from the hiring spree that characterised the early phases of the post-pandemic reopening of the economy. At the same time, however, the unemployment rate has stabilised at just above 4% amid declining labour-force participation.

Survey-based and other labour-market indicators generally point to a mixed picture for new hiring and no evidence of accelerated firing – if anything, initial jobless claims are trending down and are at multi-year lows.

In this environment, nominal wages are on a slowing trajectory, with average hourly earnings rising at an annual pace of just above 3%. This is a far cry lower from 2022, when post-pandemic frictions pushed wage growth well above 5%.



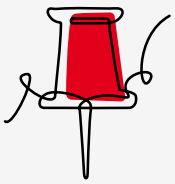
OUR VIEW

The US labour market is in a good spot, not too hot and not too cold. The reduced pace of new hiring reflects a combination of factors both on the demand and the supply side.

On the demand side, a slower pace of employment growth seems to mainly reflect normalisation following the post-pandemic hiring spree. The role of AI is not clear cut, but it might be contributing to the weakness in new hiring through two channels. The first one is more direct and is at play in information services and, probably, the financial sector. The former has been shedding jobs since 2023, while the latter has started to witness a decline in payrolls this year. The second, indirect channel is at work when massive investments in AI make firms cautious about their hiring plans. While this effect might be materialising in a broader range of sectors, it should be weighed against the boost to hiring in industries that participate in the buildup of the AI infrastructure. The overall effect of AI on labour demand is not clear at this stage, but we would not be surprised it if were somewhat negative. On the supply side, tighter immigration policies and adverse demographic trends are contributing to the low hiring intensity of GDP growth, which is probably here to stay.

In this context, wage growth has remained on a moderating trend for some time. Combined with strong productivity growth, nominal wage gains in the 3-3.5% area indicate a limited risk of second-round effects from the energy shock and appear broadly consistent with inflation returning towards target over time. However, policymakers are cautious about treating wages as a leading indicator of inflation, as recently argued by Fed Chair Kevin Warsh at Jackson Hole. In Warsh's view, moderating wage growth should therefore be interpreted mainly as evidence that post-pandemic labour-market overheating has faded rather than as a reliable signal about future disinflation. The jury is still out on this one. But given the troublesome stickiness of core services inflation (excluding housing) in recent years and the increased frequency of negative supply-side shocks hitting the global economy, the Fed is right on erring on the side of caution.

OTHER THINGS TO NOTE



Eurozone inflation likely accelerated in September

We forecast a strong acceleration in eurozone headline inflation for September, to 3.8% yoy from 3.2%. Most of the acceleration is likely to have been driven by energy prices. Core inflation probably rose as well, to 2.6% yoy from 2.4%.

French government unveils the 2027 budget bill

Yesterday, Prime Minister Sébastien Lecornu presented the 2027 budget bill to the Council of Ministers, confirming the government's intention to reduce the fiscal deficit to 5.0% of GDP in 2027 from an estimated 5.4% in 2026. Speaking before the National Assembly, Amélie de Montchalin, former Minister for Public Accounts and current President of the High Council of Public Finances (HCFP), questioned the method used by the government to calculate the structural fiscal effort underpinning the budget. Her remarks support our earlier view (see our *Short View* – France: Lecornu sets the stage for autumn budget showdown) that the widely publicised EUR 54bn adjustment overstates the underlying consolidation effort. The latter is likely to be EUR 28bn, or around 0.8-0.9% of GDP, implying an improvement in the structural balance of roughly 0.5% of GDP – "a minimum" in light of the substantial consolidation required to put the country's public finances on a more sustainable footing (T. Bucco).

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
11:00	EZ	Core inflation (% yoy)	Sep	2.6	2.5	2.4
11:00	EZ	Consumer price index (% yoy)	Sep	3.8	3.5	3.2
14:30	US	Average hourly earnings (% mom)	Sep	0.3	0.3	0.3
14:30	US	Unemployment rate (%)	Sep	4.1	4.1	4.1
14:30	US	Nonfarm payrolls (change in thousands mom)	Sep	60	100	162

Source: Bloomberg, The Investment Institute by UniCredit

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