02 October 2026

Unexpected employment slowdown supports Fed pause in October

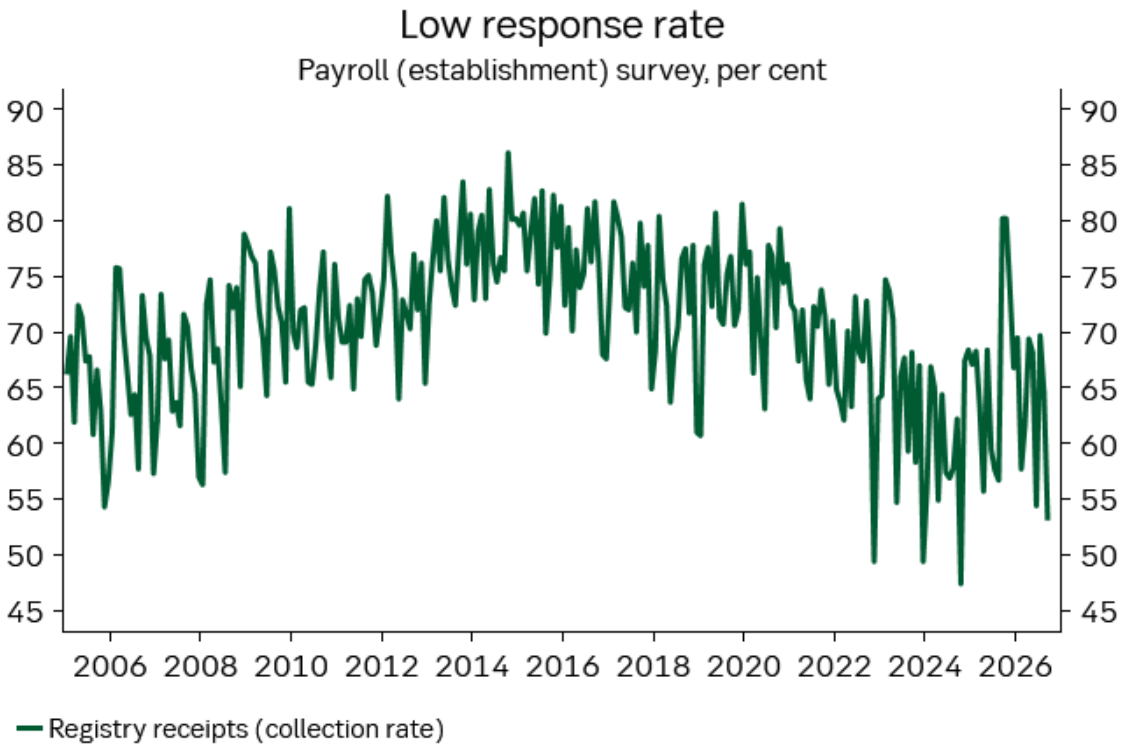
Payroll employment (NFP) growth slowed to only 29k in September, well below all estimates ahead of the data, and with new large downward revisions to previous months. The unemployment rate increased, reflecting a reversal in the participation rate, and earnings growth slowed. Employment data is notoriously unreliable, but the modest performance according to the new data adds further support to some Fed members' calls for an October pause.

Key points

- Nonfarm payrolls grew by 29k (estimated 90k, previous 133k, revised from 162k)
- Downward revisions of 60k over the past two months
- Unemployment rate increased to 4.2% (estimated unchanged at 4.1%)
- Labour force participation rate increased to 61.8% (estimated unchanged at 61.6%)
- Hourly earnings slowed to 0.1%, 3.0% y/y (estimated unchanged at 0.3%, 3.1%)
- Slower employment growth goes against recent signs of accelerating activity but not necessarily a sign of weakness
- Support for a Fed pause in October

Volatile data but not sending the same strong signals as before

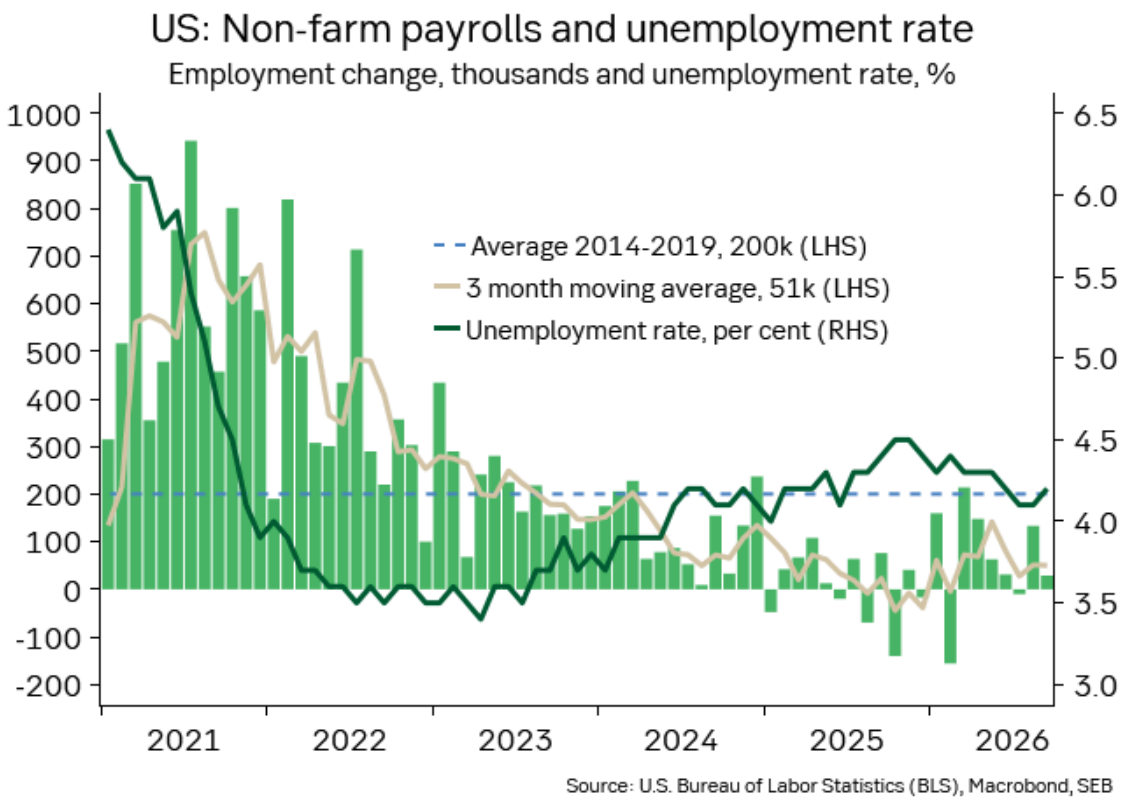
US labour market reports is one of the data with most market impact, and one of the hardest to predict, given a large monthly volatility and often substantial revisions. One should therefore be careful to draw conclusions from single months. An unusually low response rate in September is another reason for caution this time. Still, the large downward surprise in September means that we are again back in the "low-hire, low-fire" description of the labour market, with sluggish employment growth but also very low layoffs.



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

No reason for the Fed to worry about labour market weakness

The Fed has for some time described the labour market as stable and enabling it to focus on the too high inflation. Stricter immigration policies/deportations and an aging population means that the break-even employment growth needed for a stable labour market is lower than before. Thus, the slowdown in job creation in September should not necessarily be seen as a sign of weakness by the Fed. Fed staff in an analysis earlier this year concluded that even months with negative employment changes could become the new normal in this situation. The current 3-month average employment growth of around 50k should be in line with estimates for the new break-even of 30 to 60k per month. The small increase in the unemployment rate should also not be a sign of concern given the volatility in this data and a mostly downward trend this year.

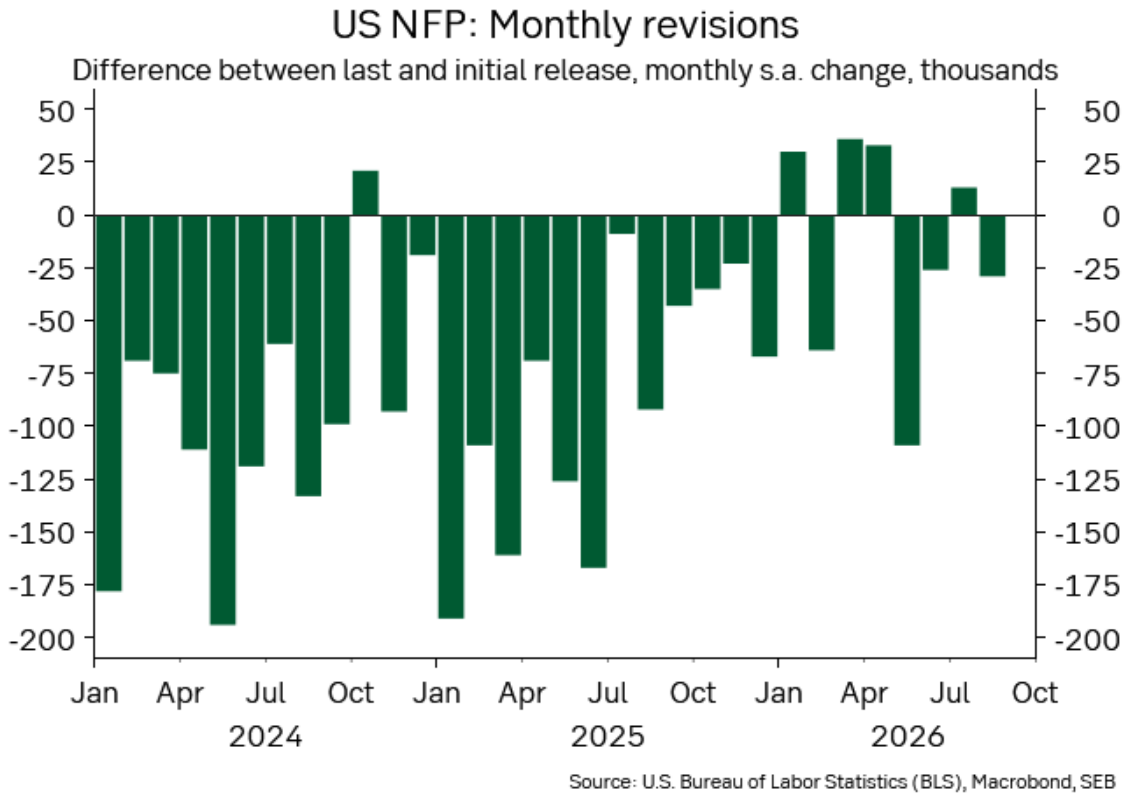


Support for an October Fed pause

Still, we believe the data should support the views among some influential members of the Fed, vice Chair John Williams and vice Chair Philip Jefferson, that the Fed could take time to evaluate the September hike. The fast employment growth seen in August added to the picture of continued resilient and perhaps even accelerating US growth and has by many in the Fed been seen as a sign that policy is not restrictive enough to bring inflation back to target. That conclusion is less obvious given the slowdown and downward revisions in the September report.

September employment below all estimates, back to mostly downward revisions

The overall increase in non-farm payrolls at 29k was below the low range in the consensus estimates (35k to 180k) and well below the median estimate (90k). Downward revisions were 60k and we are again back in the pattern with mostly downward revisions.

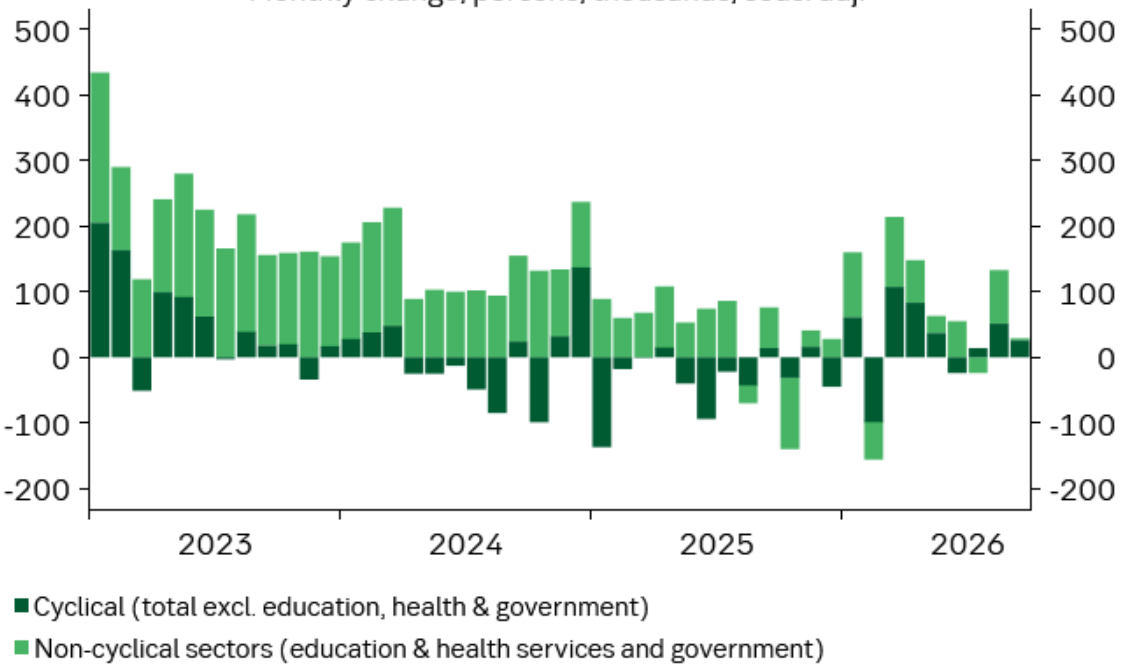


Non-cyclical employment not the same driver now

Government jobs declined by 17k, after a temporary uptick in September. Private health care and social assistance continue to add jobs but at a slower pace than before (September +23k). Taken together, employment in non-cyclical sectors, which have at times been the key driver for the labour market, was little changed in September (+3k). Employment within cyclical sectors is showing a weakening trend too. Ongoing job losses within especially information (-10k) and financial activities (-7k) could be a sign that AI is affecting some sectors of the economy. The renewed decline in temporary health services (-11k) is a generally weak sign, since this is presumably the category of workers where firms would begin when needing to cut down its work force. Employment within leisure and entertainment has been volatile during summer, perhaps partly reflecting effects of the World Cup, and slowed again in September (+10k).

US: Cyclical and non-cyclical employment change

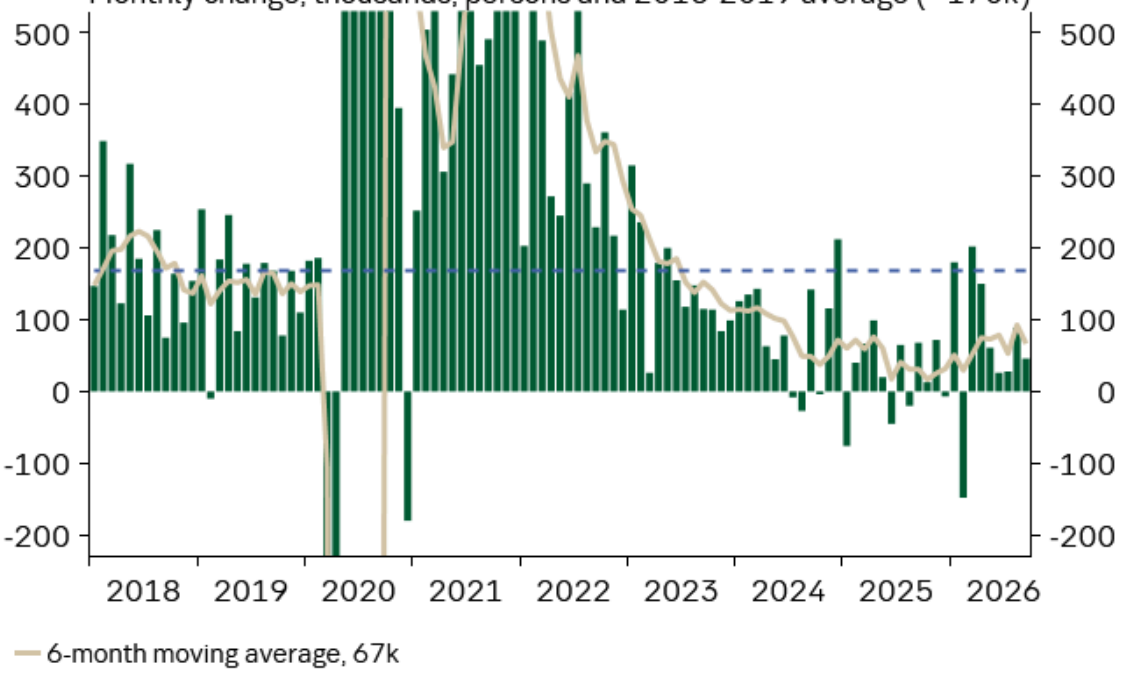
Monthly change, persons, thousands, seas. adj.



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

US: Private payroll employment

Monthly change, thousands, persons and 2016-2019 average (~170k)



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

Higher unemployment rate should alleviate any concerns of overheating

The unemployment rate edged higher again, from 4.1% to 4.2%. This reflects a further recovery in the participation rate, which is normally a sign of strength for the labour market, though this time it follows a steady downward trend during this year. 4.2% is still well in line with the Fed's view of a stable labour market and a single month's change should not affect their views much. Still, the upturn should help alleviate any concerns that an increased demand for workers could eventually force companies to pay more to attract workers.



Low earnings growth means that the labour market is not currently an inflation risk

Earnings growth slowed (0.2% m/m, 3.0% y/y, down from 0.3%/3.1%). Given productivity growth of 2% y/y or more, this should not be a threat to the inflation target. Hourly earnings data in the employment report is not adjusted for changes in the mix of workers and can also be affected by calendar effects depending on the dates in the survey week. We view wages according to the quarterly Employment Cost Index, ECI, as a more reliable measure, but the message from both sources is the same, that the labour market is not a source of inflation at present.



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

Dovish market reactions

The market reacted by further lowering the probability of an October rate hike to around 20% (5 bp) but continues to fully price a December hike (25 bp accumulated). The market is now pricing a total of three additional rate hikes in 2026 and 2027, after the September increase. We have predicted one more rate increase by the Fed in December, and a return to rate cuts again in late 2027 and see no reason to change these views because of this data.



Source: Macrobond, SEB

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