Economics Focus

16:20 CET
02 October 2026

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Less urgency to hike after September jobs report, though underlying details not as bad

- **The September jobs report looks optically weak from a quick glance at the main metrics, with each of NFP, the unemployment rate and average hourly earnings coming in worse than expected. However, we see the underlying details as more of a mixed bag that does not change much about our broader assessment of the labour market, where hiring remains low, but firing does as well, with the market close to balance. When looking through the month-to-month noise, the labour market still seems in decent shape, with downside risks having diminished compared to late last year.**

- **In detail, headline NFP rose by +29k, substantially below consensus of +90k, with two-month revisions totalling -60k. While a clear slowdown compared to August, this was enough to keep the three-month moving average at +51k, a fairly low level historically but one that is likely near or just above breakeven in the current low-immigration environment.**

- **The unemployment rate also edged up to 4.2% from 4.1%, partially retracing the decline seen in June and July. That said, this is still a low level historically, and the uptick was driven by a rebound in participation rather than actual hiring weakness, as household survey employment actually rose by more than +400k.**

- **Average hourly earnings rose only 0.1% MoM to take the YoY pace down to 3.0% from 3.1%. This has clearly softened over the past year, returning to the pre-Covid range, and this month's print should reinforce the Fed's view that the labour market is not a major source of inflationary pressure at the moment.**

- **For the Fed, at the margin the softer tone of the September jobs data could lessen the urgency to hike again in October, consistent with recent comments from FOMC members such as John Williams and Philip Jefferson, and we maintain our view for now that the Fed will stay on hold in October followed by another hike in December. That said, we continue to believe that inflation data will play a much larger role than employment data in the Fed's near-term decision-making process, and the September CPI and PPI data released on 14 October and 15 October, respectively, will be the major hurdle to clear before the October FOMC meeting rolls around.**

- **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.**



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RED MOUNT Analytics
BY CRÉDIT AGRICOLE CIB

The September jobs report looks optically weak from a quick glance at the main metrics, with each of NFP, the unemployment rate and average hourly earnings coming in worse than expected. However, we see the underlying details as more of a mixed bag that does not change much about our broader assessment of the labour market, where hiring remains low, but firing does as well, with a drop in the breakeven helping keep the market close to balance. When looking through the month-to-month noise, the labour market still seems in decent shape, with downside risks having diminished compared to late last year.

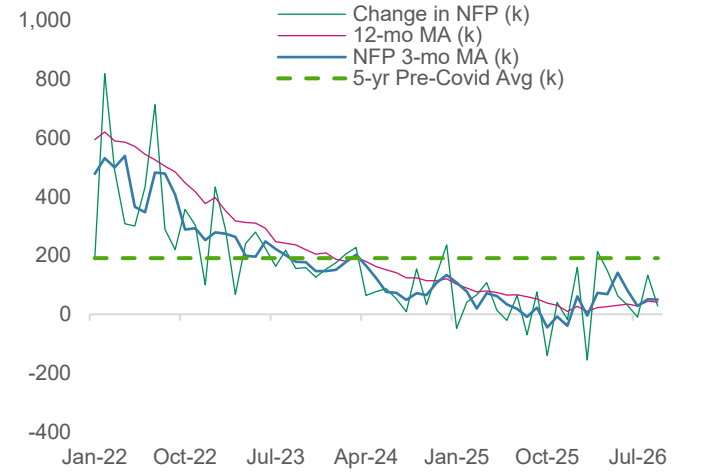
In detail, headline NFP rose by +29k, substantially below consensus of +90k and a clear slowdown compared to August. This August number was revised down to +133k, a still-strong print though less so than originally reported (+162k),

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with total two-month revisions of -60k also taking an already soft July into negative territory at -10k.

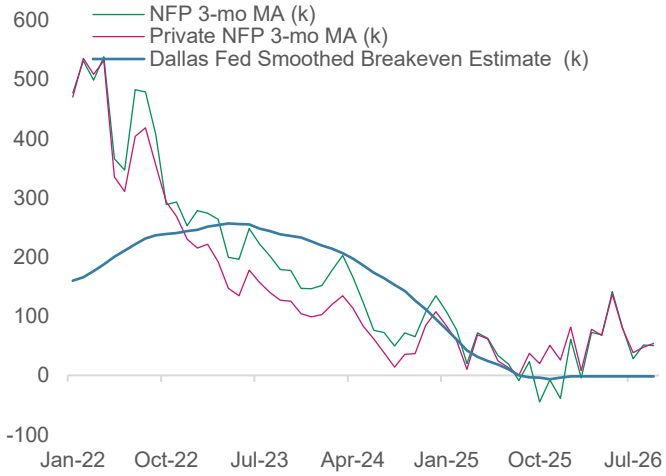
Taking into account the September data along with prior revisions, the three-month moving average held steady at +51k (see Figure 1). This is well below where it was in the spring, when a peak of +142k was reached in May, but given the current environment in which the breakeven has dropped sharply, this level is likely still above breakeven despite the downside surprise this month (see Figure 2).

Fig 1. NFP noisy in recent months



Source: Bloomberg, Crédit Agricole CIB

Fig 2. Though likely still above breakeven despite a softer September

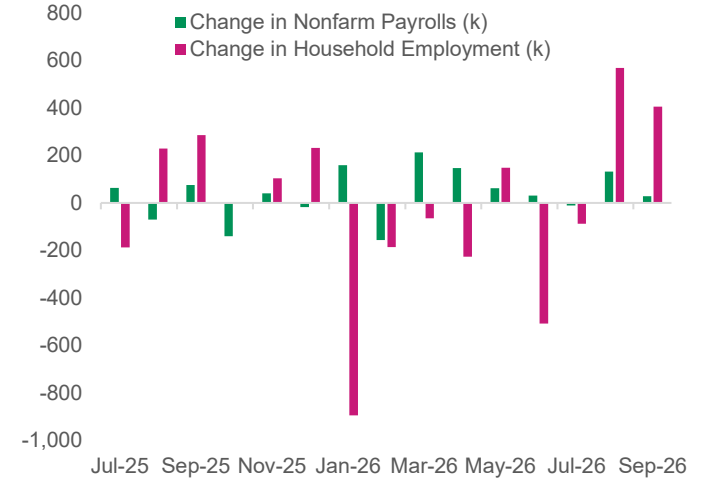


Source: Bloomberg, Crédit Agricole CIB

On a sectoral basis, private payroll growth also took a step down compared to August, though it was a bit better than overall NFP gains at +46k, as government NFP fell by -17k led by a -13k decline in local government. Within private payrolls, goods-producing payrolls were fairly solid, if slower than August, as these rose by +18k in September following a +34k last month, led by construction (+11k) and manufacturing (+9k).

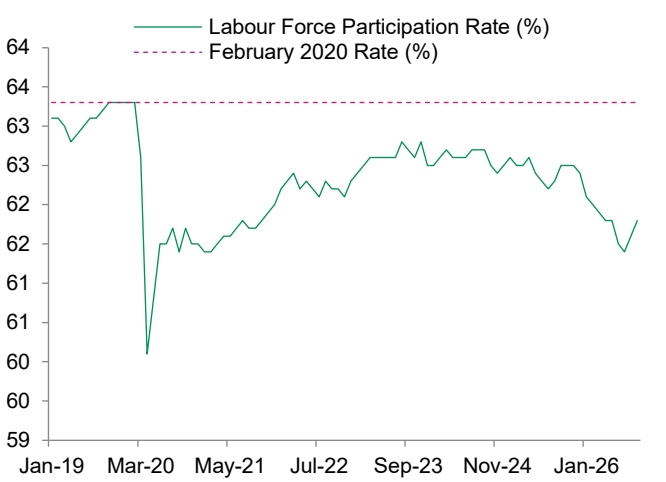
Private service-providing payrolls slowed to a relatively soft +28k following +55k last month. The advance was led by private education & health services (+20k), trade, transportation & utilities (+18k) and leisure & hospitality (+10k), with a smaller contribution from other services (+6k). These were partially offset by job losses in information (-10k), professional & business services (-9k) and financial activities (-7k).

Fig 3. Household survey stronger than NFP in September



Source: Bloomberg, Crédit Agricole CIB

Fig 4. With recovery in participation driving the unemployment rate higher



Source: Bloomberg, Crédit Agricole CIB

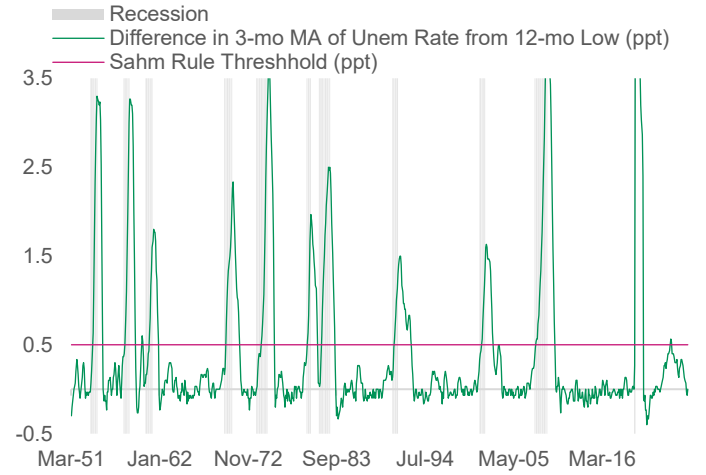
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Outside of NFP, the unemployment rate also edged up to 4.2% from 4.1%, partially retracing the decline seen in June and July. This was in line with our expectations but did represent an upside surprise compared to consensus looking for an unchanged print, even if the level remains a low one historically.

That said, we would highlight that the uptick was driven by a rebound in participation rather than any weakness in hiring. In fact, employment in the household survey was notably stronger than NFP, jumping +406k on the month (see Figure 3). This was simply outweighed by a +485k bump in the size of the labour force as participation rose to 61.8% from 61.6% (see Figure 4). Regarding participation, while demographic forces may drive a slow grind lower over time, the magnitude of the drop earlier this year had seemed exaggerated, so we are not overly surprised by some payback over the last couple of months.

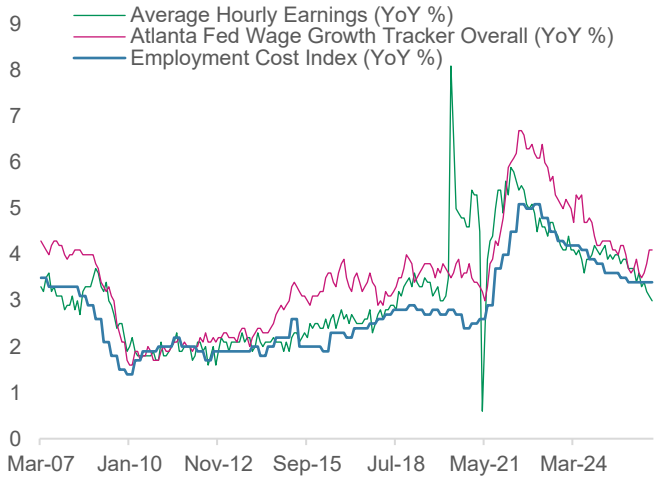
Overall, the unemployment rate has been largely rangebound in the low-4% range throughout 2026, despite the swings in participation, moving the Sahm rule recession threshold farther away (see Figure 5). We expect this stabilisation to carry forward, with the unemployment rate hovering in a similar range into 2027, and do not think the small uptick this month signals any real level of concern.

Fig 5. Sahm rule threshold nowhere near being breached



Source: Bloomberg, Crédit Agricole CIB

Fig 6. Wage growth slows further



Source: Bloomberg, Crédit Agricole CIB

Turning to wages, average hourly earnings rose only 0.1% MoM, slowing from 0.3% MoM in August, to take the YoY pace down to 3.0% from 3.1%. This YoY rate has clearly slowed over the past year and now sits at the lowest level since May 2021, which should only reinforce the Fed's view that the labour market is not a major source of inflationary pressure at the moment.

For the Fed, at the margin the softer tone of the September jobs data could lessen the urgency to hike again in October, consistent with recent comments from FOMC members such as John Williams and Philip Jefferson, and we maintain our view for now that the Fed will stay on hold in October followed by another hike in December. Market pricing has moved in this direction, now implying just under 20% odds of an October hike after having been around 70% at the beginning of the week.

That said, we continue to believe that inflation data will play a much larger role than employment data in the Fed's near-term decision-making process, and the September CPI and PPI data released on 14 October and 15 October, respectively, will be the major hurdle to clear before the October FOMC meeting rolls around.

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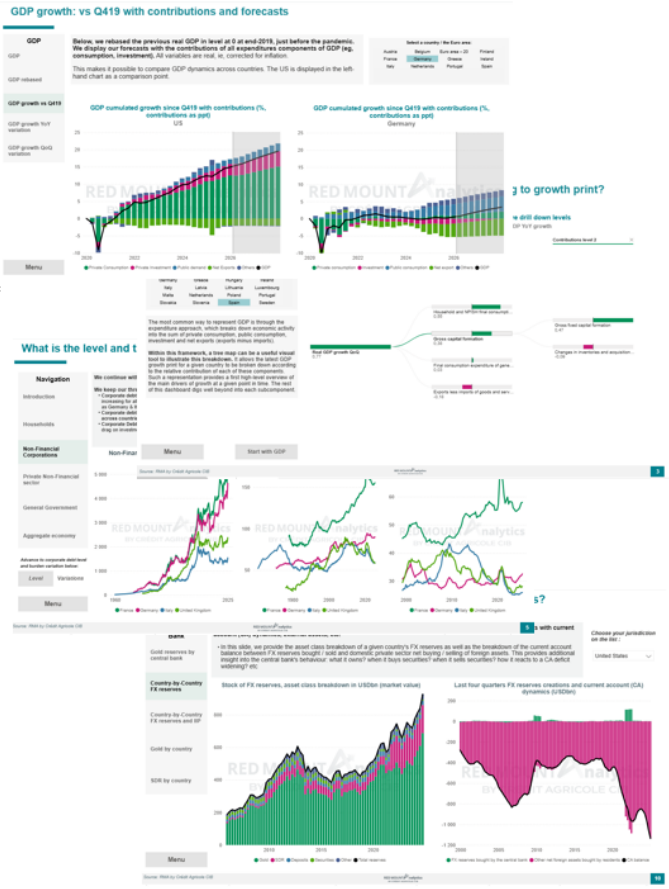
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