Unexpectedly Solid Employment Report Increases Odds of a September Hike

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U.S. companies added +162k jobs last month, nearly triple the median forecast, while revisions to the June/July count added another +55k. The highest nonfarm payroll forecast in the most recent Bloomberg survey was +125k, as all 76 economists fell well short of the actual reading. This unexpected rebound boosted the three-month average to a respectable +71k. A month ago (before revisions) the average had been a tepid +20k.

August job gains were widespread, with notable increases in closely-watched sectors. In particular, construction companies added +18k workers following a +22k gain in July, while manufacturing companies added +16k, the most since 2023.

The leisure and hospitality sector rebounded sharply in August (+62k) following two consecutive months of rare negative growth. Local government education, reflecting the new school year, added +42k. Health care hiring was uncharacteristically light in August, up just +13k.

Information technology was one of few sectors performing poorly last month, shedding -23k positions.

In the separate household survey, the unemployment rate held steady at 4.1% as the number of employed workers rose by +569k while an additional +115k Americans began seeking work. This combined to boost the civilian labor force by +683k. Although the August headline number was unchanged, the underlying data indicated dramatic improvement from the previous report, which was mainly the result of fewer active jobseekers.

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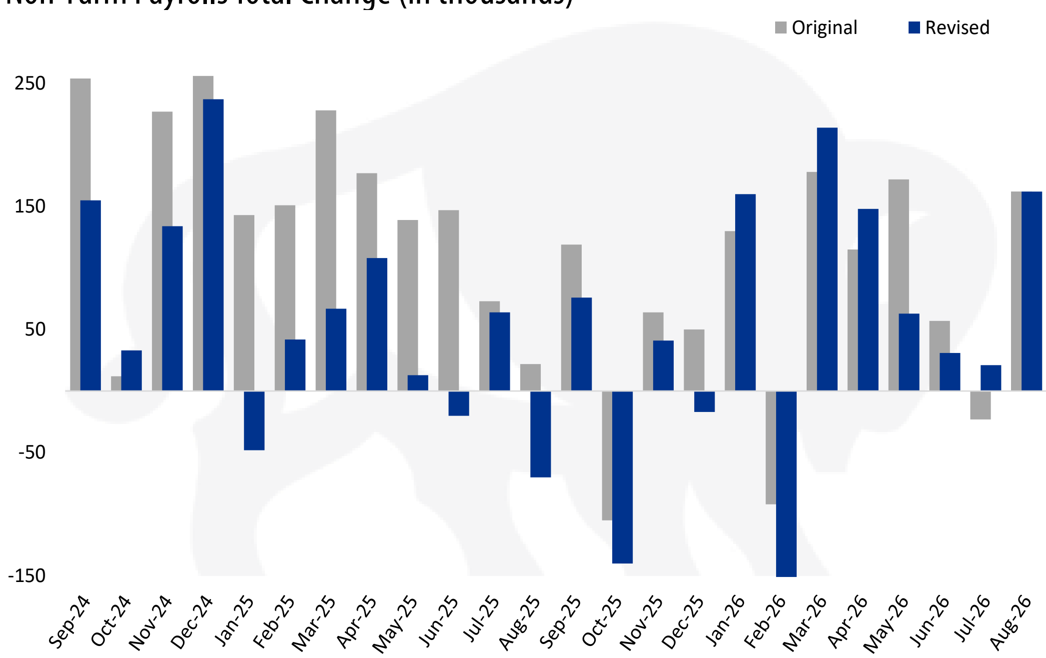
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The broader U6 underemployment rate, which includes temporary workers preferring fulltime, as well as those who would like a job, but had not looked for work in past month, fell to 7.7%, *matching an 18-month low.*

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Several early headlines described this morning's report as a "blockbuster." Although that might be a stretch, it was indeed a solid report. From the Fed's perspective, apparent improvement in the labor market should bolster the case for a rate increase in 2026. However, the August CPI and PPI reports, scheduled for release next week, will determine the liveliness of the September FOMC meeting. The futures market is now indicating a 61% probability of a 25 bp increase in the overnight funds target later this month, up from 51%.

Market Indications as of 9:38 A.M. Central Time

DOW	Down -271 to 53,415 (HIGH: 54,349)
NASDAQ	Down -45 to 26,539 (HIGH: 27,094)
S&P 500	Down -20 to 7,727 (HIGH: 7,799)
1-Yr T-bill	current yield 4.13%; opening yield 4.09%
2-Yr T-note	current yield 4.37%; opening yield 4.34%
3-Yr T-note	current yield 4.44%; opening yield 4.41%
5-Yr T-note	current yield 4.54%; opening yield 4.51%
10-Yr T-note	current yield 4.77%; opening yield 4.76%
30-Yr T-bond	current yield 5.23%; opening yield 5.24%