U.S. Economic Comment

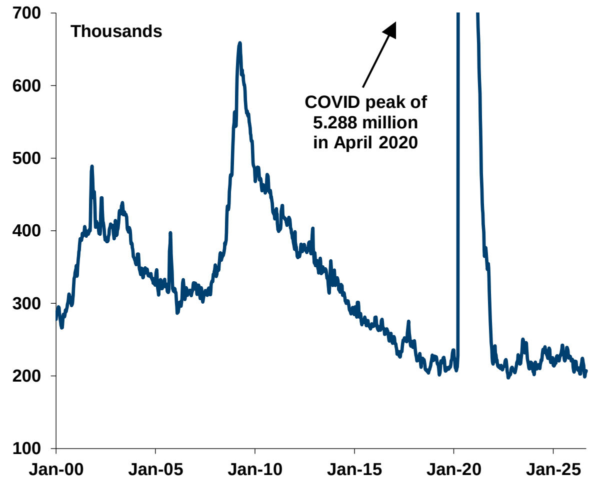
- August employment: payrolls above expectations; unemployment low; indicative of a fully employed economy
- A September rate hike: it comes down to next week's CPI

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Labor Market Update

In remarks made at last week's Jackson Hole Economic Policy Symposium, Fed Chairman Kevin Warsh offered a relatively rosy take on labor market conditions. He noted, for example that the unemployment rate of 4.1 percent (which essentially matched that in August) "remains low by historical standards and has not changed much for a couple of years." Moreover, he added, "Unemployment claims, on a four-week average—an empirically robust real-time indicator—are near their lowest level in decades" (chart, right). And, after arguing that hiring remained low on account of essentially sideways movement in labor supply (which we view as mostly resulting from the Trump administration's immigration curbs), he concluded, "I believe the labor markets are consistent with full employment."

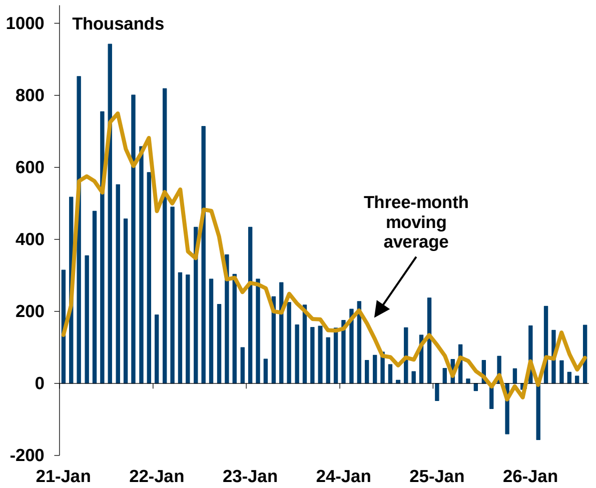
Initial Claims for Unemployment Insurance*



** Four-week moving average*
Source: U.S. Department of Labor via Haver Analytics

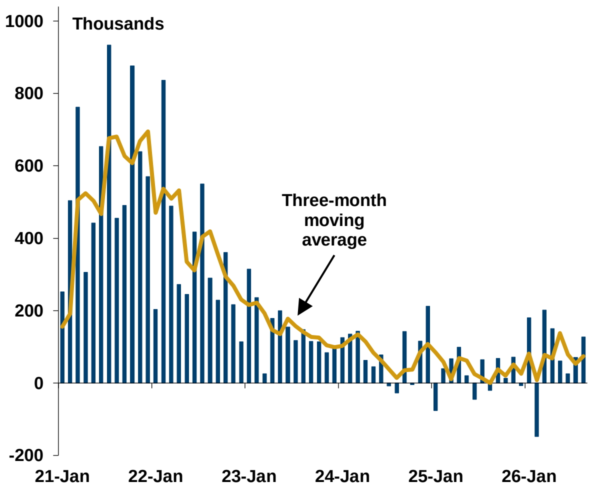
An opportunity to again retest that assessment came quickly with the release of today's Employment Situation report for August – and results were firmer than expected. Nonfarm payroll growth totaled 162,000 in the latest month (exceeding all estimates submitted to the Bloomberg survey; median expectation of +55,000), with the three-month moving average accelerating to +71,000 from +38,000 in July (chart, below left). Further, results in the previous two months were revised higher by a combined 55,000 (including erasing the previous negative print in July). Private-sector hiring, meanwhile, rose 127,000 (versus +50,000 expected) and the three-month average jumped to +75,000 from +53,000 previously (chart, below right). As such, after several months of sluggish hiring, job gains again hinted at firming.

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

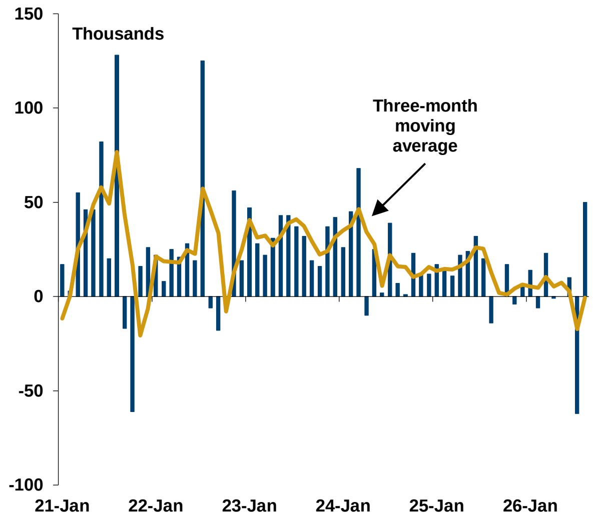
Change in Private-Sector Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

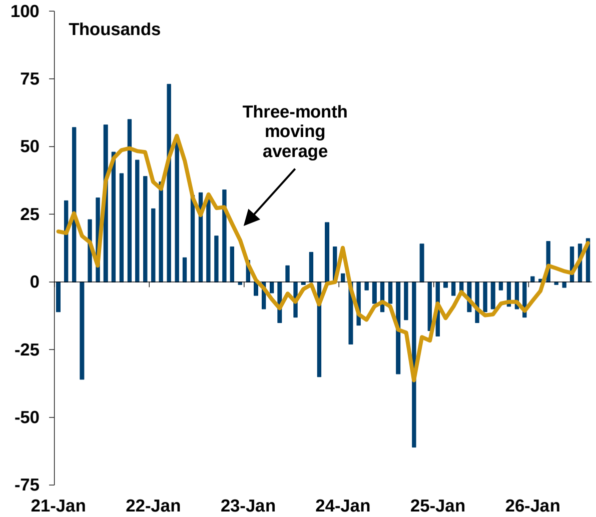
Turning briefly to performance by sector, recall that government hiring rose 35,000 after a drop of 50,000 in July. At the core of the swing was a drop of 62,000 in the local government sector tied to seasonal employment in education. That plunge – which may have reflected seasonal adjustment issues -- reversed for the most part in August (+50,000; chart, below left), contributing to the brisk gain overall. With that said, we were especially heartened by results in the private sector. The breadth of hiring broadened notably, with the one-month diffusion index rising to 55.6 (the highest since December 2024) from 52.8 previously. (Note, this metric measures the percent of industries with increasing employment plus one-half of the industries with unchanged employment.) Further parsing the results, construction hiring rose for the sixth consecutive month (+22,000 versus a trailing three-month average of +8,000 in the prior three months), with another cyclical sector, manufacturing, adding 16,000 positions (the third consecutive advance; chart, below, right). In addition, the leisure & hospitality area saw a surge of 62,000 jobs after back-to-back declines (-11,000 average in the prior three months) in a period when we speculated whether the World Cup would contribute to firm hiring. Some other areas were soft (e.g., employment in the information sector fell 23,000, possibly reflecting the impact of AI displacing workers), but the results in the aggregate were favorable.

Change in Local Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

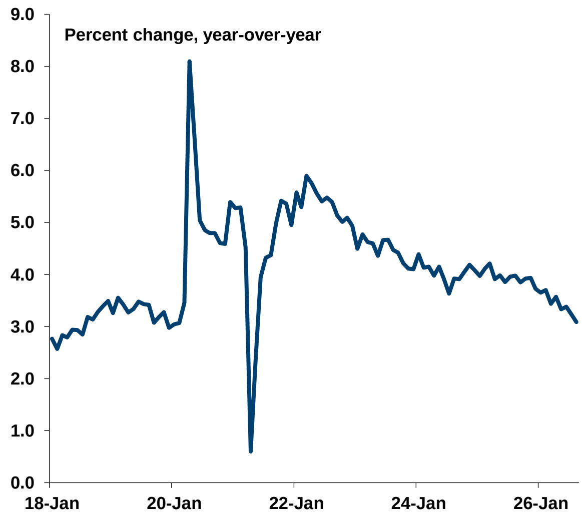
Change in Manufacturing Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Although hiring picked up and the average workweek rose (+0.1 hour to 34.4 hours, the longest since March 2024), wages suggested little evidence of emerging tightness in underlying conditions. Average hourly earnings rounded up to an increase of 0.3 percent in August (+0.266 percent), aligned with the trailing 12-month moving average after a modest increase in July (+0.160 percent). The move translated to a year-over-year advance of 3.1 percent, down from 3.2 percent in the prior month and readings in the vicinity of four percent last summer (chart, right). In essence, wage growth is now aligned with that prior to the pandemic – a pace we view as consistent with a return to two percent inflation over time.

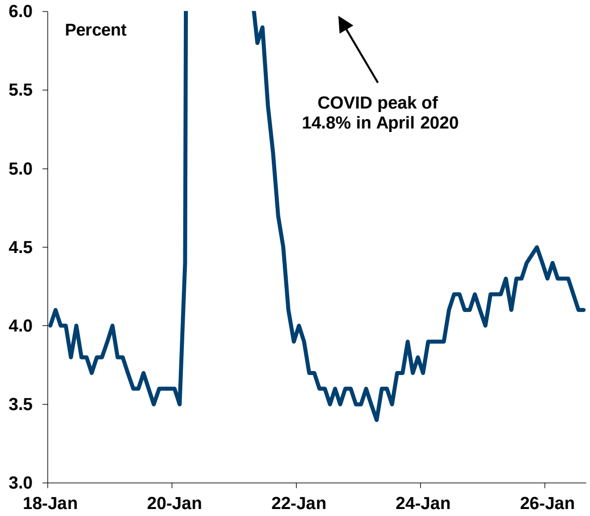
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

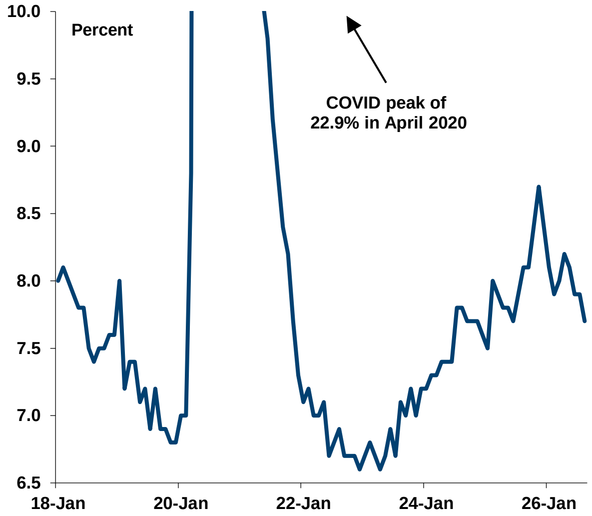
Data from the Household Survey ratified the strong results from the Establishment Survey. The unemployment rate (U3) rose marginally (4.141 percent in August versus 4.090 percent previously), as a surge of 683,000 in the labor force was only somewhat larger than a jump of 569,000 in employment. Additionally, the broad unemployment rate (U6) dipped 0.2 percentage point to 7.7 percent, the lowest reading since June 2025 (charts, next page). In the latest month those working part time for economic reasons (-414,000), marginally attached workers (-216,000) and discouraged workers (-92,000) all fell. Also encouraging, the labor force participation rate rose 0.2 percentage point to 61.6 percent, arresting the recent decline in the metric (although it remains below the 2026 high of 62.1 percent in January).

Unemployment Rate (U3)



Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Rate (U6)*



*The broad unemployment rate is the percentage of the labor force that is unemployed, marginally attached, underemployed, or discouraged.
Source: Bureau of Labor Statistics via Haver Analytics

A Rate Hike on September 16?

Following today’s firm employment report, Beth Hammack of the Cleveland Fed (and a dissenter at the July FOMC meeting in favor of a rate hike) reiterated her call for tighter monetary policy in two weeks, arguing that she doesn’t “see any restriction in policy” – a problematic stance when inflation has been above target for more than five years. Contrastingly, Fed Governor Chris Waller commented earlier this week, seemingly arguing in favor of a further wait-and-see approach. He noted that “nonmarket services prices accounted for approximately half of the increase in core prices” in the last PCE report, and that they are “an issue” for him because they are imputed rather than actual price changes. Further, he noted, “in contrast to the period of high inflation after the pandemic, wage growth, once one accounts for productivity growth, is broadly consistent with an expectation that inflation is continuing to come down to 2 percent” – an assessment that was again verified in today’s report (see the discussion of average hourly earnings above).

We’re inclined to side with the views of Governor Waller, although the implied probability of a rate hike increased today from the probability last Friday (although it has previously eased directly following his speech). The labor market may be strengthening, but underlying conditions are not generating wage pressure inconsistent with the FOMC’s inflation objective. Moreover, the past two readings on the PCE price index have been relatively friendly, despite the year-over-year changes in the headline and core coming in at 3.7 percent and 3.3 percent, respectively, in July. Given that today's employment report seemingly ratified Chairman Warsh's rather sanguine view of the labor market (while also lacking any evidence of underlying conditions potentially generating price pressure), we suspect that the outcome of the September FOMC meeting will be dependent on the results for the CPI next week. Should our forecast (or a softer result) be realized, officials will likely be given enough breathing space to keep the policy rate unchanged on September 16 as they wait to see if current supply-side shocks indeed prove transitory and fade over time. (See the Week Ahead section for our forecasts of the CPI and PPI for August).

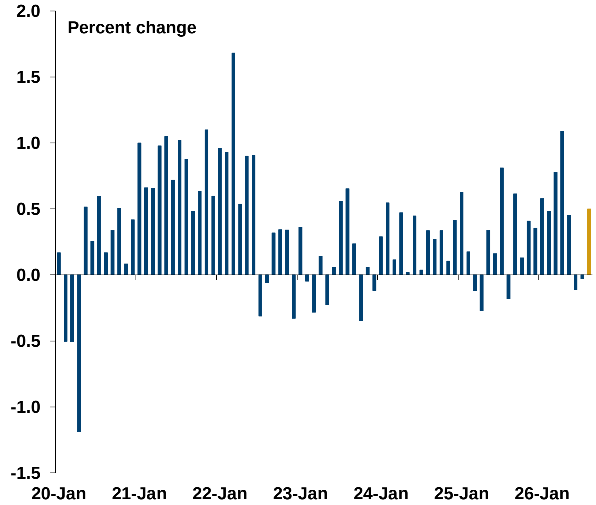
(For the entirety of the prepared remarks, please see: Waller, Christopher J. “The Economic Outlook and Some Comments on My Policy Communication,” Federal Reserve Board, September 3, 2026. https://www.federalreserve.gov/newsevents/speech/waller20260903a.htm)

The Week Ahead

PPI (August) (Thursday)
Forecast: +0.5% final demand, +0.3% ex. food & energy

Following sharp declines in recent months (6.5 and 3.1 percent, respectively, in June and July), available quotes suggest that the energy component of the PPI could pick up in August. Meanwhile, food prices at the producer level, which can be a bit choppy from month to month, have been muted over the past year, on balance (trailing 12-month average change of 0.0 percent) – a performance suggestive of a subdued underlying trend which could persist in the upcoming report. Concurrently, goods prices excluding food and energy have advanced 0.4 percent on average in the 12-month period ending July 2026 -- a tick faster than that of the broad services category. Over that same timeframe, the construction area has recorded an average monthly gain of 0.4 percent, though that number is inclusive of the +2.2 percent surge in July.

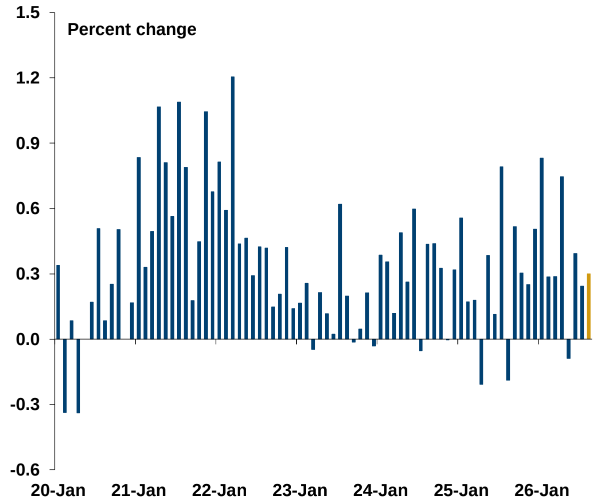
PPI: Final Demand*



** The gold bar is a forecast for August 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

PPI Ex. Food & Energy*



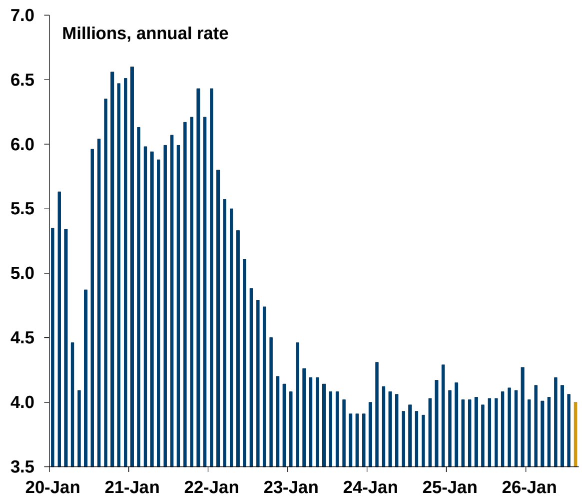
** The gold bar is a forecast for August 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Existing Home Sales (August) (Thursday)
Forecast: 4.00 million (-1.5%)

The recent performance in the index of pending home sales (a cumulative drop of 7.0 percent in the June/July period) is suggestive of a third consecutive decline in the pace of existing home sales in August (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by about one to two months). The anticipated downshift, if realized, would leave this measure in the low end of the longer-run range – reflective of ongoing affordability challenges constraining activity.

Existing Home Sales*



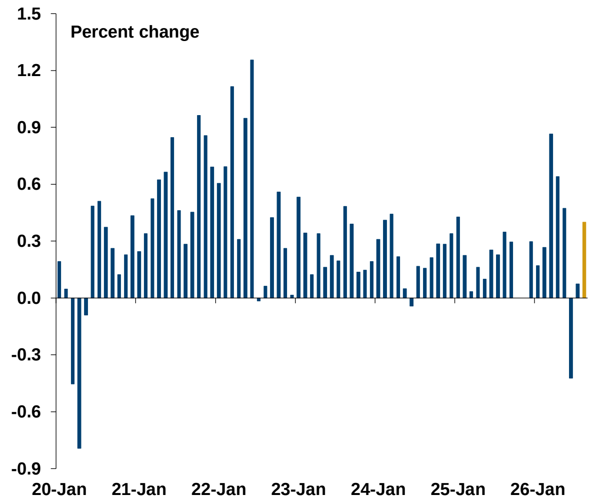
** The gold bar is a forecast for August 2026.*

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

CPI (August) (Friday)
Forecast: +0.4% headline, +0.2% core

Similar to the PPI, available quotes (e.g., gasoline) suggest that higher prices boosted the energy component of the CPI in August. Concurrently, food prices appear poised to post an increase in line with the average monthly gain of 0.2 percent in 2026 thus far. Regarding the core, while there exist some pockets of sustained pressure, goods prices have mostly moderated after a previous burst of pressure associated with the Trump administration's tariff regime (average shift rounding down to 0.0 percent in the January-to-July period; +0.8 percent year-over-year as of July). Core service inflation, meanwhile, has registered steady gains (+0.3 percent, on average, in the first seven months of the year; +3.0 percent year-over-year as of July).

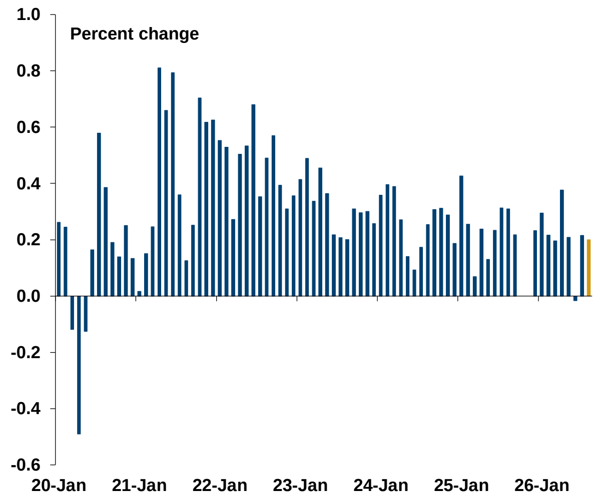
Headline CPI*



** The gold bar is a forecast for August 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Core CPI*



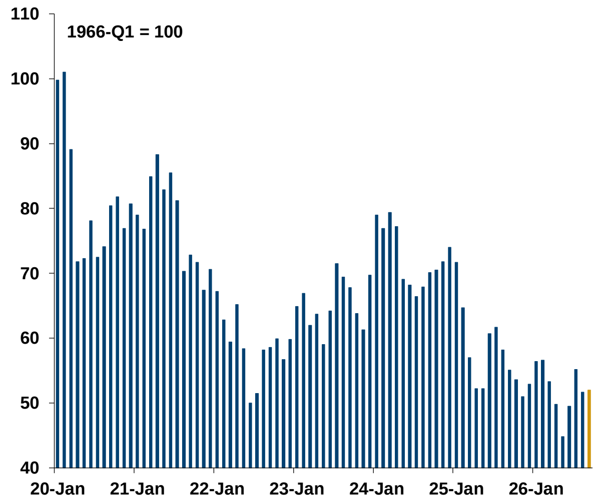
** The gold bar is a forecast for August 2026.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (September) (Friday)
Forecast: 52.0 (+0.3 pt. or +0.6%)

Sentiment likely remained little changed at a depressed level in September, with the projected shift, if realized, leaving the University of Michigan metric close to the bottom of the historical range. Persistent concerns with respect to the corrosive effects of inflation on budgets and spending have weighed heavy on the minds of consumers – especially among more vulnerable groups in the lower end of the income distribution. As such, considering the recent reescalation of militaristic tensions with Iran and the nascent trade war with Canada, updated readings on inflation expectations will warrant particular attention. Recall, the year-ahead metric dipped 0.2 percentage point to 4.0 percent in August, a reading below the post-war high of 4.8 percent but still elevated compared to early 2025. Concurrently, longer-term expectations came in at 3.3 percent for the third consecutive month.

Consumer Sentiment*



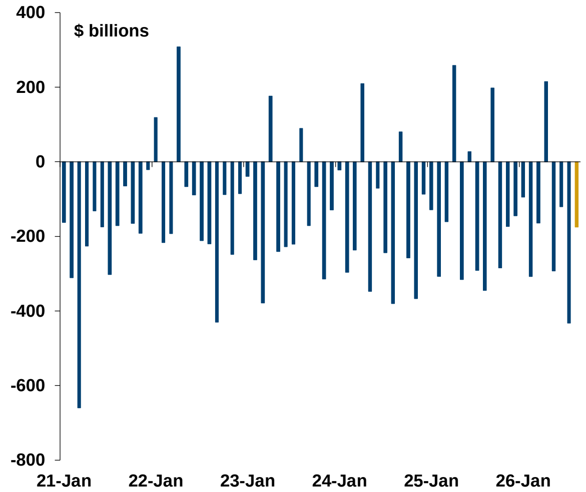
** The gold bar is a forecast for September 2026.*

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Federal Budget (August) (Friday)
Forecast: -$175 billion

Available data from the Daily Treasury Statement indicate that federal revenue growth was solid last month (up about 12 percent year-over-year by our estimate), though expenditures remained on a firm trajectory as well. If the projection is realized, the cumulative deficit in the first eleven months of FY2026 will total $1.974 trillion (versus -$1.973 trillion in the same period of FY2025).

Federal Budget Surplus/Deficit*



** The gold bar is a forecast for August 2026.*
Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

August/September 2026

Monday	Tuesday	Wednesday	Thursday	Friday
31	1	2	3	4
	ISM MFG. INDEX Index / Prices June 53.3 / 73.0 July 55.6 / 71.1 Aug 54.6 / 71.1 **CONSTRUCTION** May 0.0% June 0.0% July -0.5% **JOLTS DATA** Openings (000) / Quit Rate May 7,537 / 2.0% June 7,182 / 2.0% July 7,271 / 1.9% **VEHICLE SALES** June 16.7 million July 16.3 million Aug 16.8 million	**ADP EMPLOYMENT** Private Payrolls June 95,000 July 46,000 Aug 38,000 **FACTORY ORDERS** May -1.1% June -0.2% July 0.9% **BEIGE BOOK** **August 2026:** "Economic activity increased modestly since early July. Ten of the twelve Federal Reserve Districts reported growth in the slight to moderate range; two Districts reported no change."	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Aug 8 0.212 / 1.796 Aug 15 0.207 / 1.771 Aug 22 0.204 / 1.779 Aug 29 0.206 / N/A **TRADE BALANCE** May -$75.8 billion June -$71.2 billion July -$88.6 billion **PRODUCTIVITY & COSTS** Productivity / Unit Labor Costs 26-Q1 0.8% / 1.3% 26-Q2(p) 1.4% / 1.3% 26-Q2(r) 1.4% / 1.2% **ISM SERVICES INDEX** Index / Prices June 54.0 / 67.7 July 54.1 / 70.3 Aug 55.4 / 72.6	**EMPLOYMENT REPORT** Payrolls / Un. Rate June 31,000 / 4.2% July 21,000 / 4.1% Aug 162,000 / 4.1%
7	8	9	10	11
LABOR DAY	**NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)** June 97.4 July 99.8 Aug -- **CONSUMER CREDIT (3:00)** May -$1.1 billion June $14.2 billion July --		**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand / Ex. Food & Energy June -0.1% / 0.4% July 0.0% / 0.2% **Aug 0.5% / 0.3%** **EXISTING HOME SALES (10:00)** June 4.130 million July 4.060 million **Aug 4.000 million** **WHOLESALE TRADE (10:00)** Inventories / Sales May 0.3% / 3.5% June 0.3% / -3.0% **July 1.3% / 0.9%**	**CPI (8:30)** Total / Core June -0.4% / 0.0% July 0.1% / 0.2% **Aug 0.4% / 0.2%** **CONSUMER SENTIMENT (10:00)** July 55.2 Aug 51.7 **Sep 52.0** **FEDERAL BUDGET (2:00)** 2026 / 2025 June -$120.3B / $27.0B July -$432.3B / -$291.1B **Aug -$175.0B** / -$344.8B
14	15	16	17	18
	EMPIRE MFG **FOMC MEETING (FIRST DAY)**	**RETAIL SALES** **IMPORT/EXPORT PRICES** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **FOMC RATE DECISION** **TIC FLOWS**	**UNEMP. CLAIMS** **HOUSING STARTS** **PHILLY FED INDEX** **PENDING HOME SALES**	**IP & CAP-U** **LEADING INDICATORS**
21	22	23	24	25
CHICAGO FED NATIONAL ACTIVITY INDEX			**UNEMP. CLAIMS** **CURRENT ACCOUNT** **NEW HOME SALES**	**DURABLE GOODS ORDERS** **REVISED CONSUMER SENTIMENT**

(p) = preliminary, (r) = revised

Forecasts in bold.

Treasury Financing

August/September 2026

Monday	Tuesday	Wednesday	Thursday	Friday
31	1	2	3	4
AUCTION RESULTS: Rate Cover 13-week bills 3.770% 2.77 26-week bills 3.885% 2.63 **SETTLE:** $16 billion 20-year bonds $8 billion 30-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 6-week bills 3.735% 2.85 52-week bills 3.980% 3.61 **ANNOUNCE:** $72 billion 17-week bills for auction on Sep 2 $90 billion 4-week bills for auction on Sep 3 $85 billion 8-week bills for auction on Sep 3 **SETTLE:** $72 billion 17-week bills $100 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 3.855% 2.78	**AUCTION RESULTS:** Rate Cover 4-week bills 3.700% 2.97 8-week bills 3.750% 3.02 **ANNOUNCE:** $171 billion 13-,26-week bills for auction on Sep 8 $75 billion 6-week bills for auction on Sep 8 $58 billion 3-year notes for auction on Sep 8 $39 billion 10-year notes for auction on Sep 9 $22 billion 30-year bonds for auction on Sep 10	**SETTLE:** $171 billion 13-,26-week bills $85 billion 6-week bills $52 billion 52-week bills
7	8	9	10	11
LABOR DAY	**AUCTION:** $171 billion 13-,26-week bills $75 billion 6-week bills $58 billion 3-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on Sep 9 $90 billion* 4-week bills for auction on Sep 10 $85 billion* 8-week bills for auction on Sep 10 **SETTLE:** $72 billion 17-week bills $90 billion 4-week bills $85 billion 8-week bills	**AUCTION:** $72 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Sep 14 $75 billion* 6-week bills for auction on Sep 15 $13 billion* 20-year bonds for auction on Sep 15 $19 billion* 10-year TIPS for auction on Sep 17 **SETTLE:** $171 billion 13-,26-week bills $75 billion 6-week bills	
14	15	16	17	18
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $75 billion* 6-week bills $13 billion* 20-year bonds **ANNOUNCE:** $72 billion* 17-week bills for auction on Sep 16 $90 billion* 4-week bills for auction on Sep 17 $85 billion* 8-week bills for auction on Sep 17 **SETTLE:** $72 billion* 17-week bills $90 billion* 4-week bills $85 billion* 8-week bills $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $72 billion* 17-week bills	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills $19 billion* 10-year TIPS **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Sep 21 $75 billion* 6-week bills for auction on Sep 22 $69 billion* 2-year notes for auction on Sep 22 $70 billion* 5-year notes for auction on Sep 23 $44 billion* 7-year notes for auction on Sep 24 $28 billion* 2-year FRNs for auction on Sep 23 **SETTLE:** $171 billion* 13-,26-week bills $75 billion* 6-week bills	**SETTLE:** $13 billion* 20-year bonds
21	22	23	24	25
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $75 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on Sep 23 $90 billion* 4-week bills for auction on Sep 24 $85 billion* 8-week bills for auction on Sep 24 **SETTLE:** $72 billion* 17-week bills $90 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Sep 28 $75 billion* 6-week bills for auction on Sep 29 $52 billion* 52-week bills for auction on Sep 29 **SETTLE:** $171 billion* 13-,26-week bills $75 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs

**Estimate*