

PREVIEW: August Nonfarm Payrolls due September 5th at 13:30BST/08:30EDT

SUMMARY: Headline NFP is expected to show 75k jobs added in August, little changed from the 73k pace in July, but attention will also be on potential revisions, given the sharp downward revisions seen in July. The unemployment rate is expected to rise to 4.3% from 4.2%, but still below the year-end Fed median projection of 4.5%. Earnings are seen at 0.3% M/M and 3.7% Y/Y. The report will help shape Fed rate cut expectations through year-end, with September largely already priced following the weak July jobs report and signal from Fed Chair Powell at Jackson Hole. Fed Governor Waller (dovish dissenter) has continued to call for lower rates, noting that data will dictate the pace of rate cuts after the first reduction, so this report will also influence expectations further out on the curve. CPI, PPI and the prelim benchmark revisions are also due next week before the September FOMC meeting, which will also be key to shaping Fed rate cut expectations while the Fed looks to distinguish the distances from both inflation and labour market goals. Overall, labour market proxies have been soft: Initial and Continued Claims for the NFP reference window rose, the ISM Manufacturing and Services Employment Indices were little changed but remained in contractionary territory. The ADP gauge of private payrolls rose by 54k, down from the prior 106k, while Challenger Layoffs accelerated to 86k from 62k. The July JOLTS report was also weak. Note, Powell said at the July Press Conference, the main number you have to look at now is the unemployment rate, as the breakeven rate has come down due to drops in both labour supply and demand, which Powell said is suggestive of downside risk. Expectations of the breakeven number, based on recent Fed commentary, range from 30-80k.

JULY REPORT: The July report was soft, particularly when digesting the weak two-month net revisions, to see the May report add just 19k, June 14k, and July 73k - this resulted in two-month net revisions of -258k, a much weaker labour market scenario than initially thought. However, despite the weak payroll figures, the unemployment rate rose in line with expectations to 4.2%, below the year-end Fed median projection of 4.5%. Many have suggested that the fall in the NFP numbers is primarily due to US President Trump's immigration policies. Therefore, labour supply has fallen, but so has labour demand, resulting in a decline in the breakeven jobs market number. Fed Chair Powell, before the July NFP report, said that the drop in the breakeven rate is suggestive of downside risk, so the number to watch is the unemployment rate. Note, expectations of the breakeven number range between 30-80k, according to recent commentary from Fed officials. Kashkari indicated it could be 75k jobs per month, Musalem suggested between 30-80k jobs, and Bostic suggested it is between 50-75k.

EXPECTATIONS: The consensus expects 75k nonfarm payrolls to be added to the US economy in August (prev. 73k), with forecasts ranging between 0 and +144k. The unemployment rate is seen rising to 4.3% from 4.2%, with expectations ranging between 4.1-4.4% vs. the Fed's end-2025 projection of 4.5%. Average earnings are seen rising +0.3% M/M, matching the July figure, with the Y/Y expected to ease to 3.7% from 3.9%. Average workweek hours are expected to be unchanged at 34.3hrs.

LABOUR MARKET INDICATORS: The Weekly Initial Jobless Claims for the week that coincides with the NFP survey window (the 12th), saw claims in August rise to 234k from the prior month's reference week of 217k, while continued claims rose to 1.954mln from 1.936mln. The ADP report and Challenger Layoffs, while Layoffs accelerated to 86k in August from 62k. The ISM PMI reports saw the manufacturing employment index little changed M/M at 43.8 (prev. 43.4), while the Services employment index was also little changed at 46.5 (prev. 46.4), albeit in contractionary territory. The latest Conference Board Consumer Confidence report saw consumers' views of the labour market cool further. 29.7% of consumers said jobs were plentiful (prev. 29.9%), with 20% stating jobs were hard to get (prev. 18.9%). The July JOLTS report was soft, and kept labour market concerns alive with the economy showing a drop in labour demand, but Oxford Economics highlighted it is less worrisome than it would be otherwise since labour supply is also shrinking, largely due to the plunge in immigration.

FED IMPLICATIONS: In terms of the implications for Fed policy, many desks now expect a 25bps Fed rate cut in September following Chair Powell's warning at Jackson Hole on rising labour market risks. Powell highlighted downside employment risks, including potential layoffs and higher unemployment, signalling an easing bias. Barclays brought forward its previously expected December cut to September, while Goldman Sachs and JPMorgan reaffirmed expectations of a September cut, aligning with market sentiment. BofA and Morgan Stanley remain cautious, citing ongoing inflation pressures and economic rebound, but note that further labour market softening could prompt easing. The change in tone from Fed Chair Powell followed the woeful July jobs report. The upcoming report will be used to further shape Fed rate cut expectations to see how far away the Fed is from its goals on the labour market, particularly when compared to the distance from the Fed's inflation goals. Note, the Fed goes into the blackout period on Saturday, so Friday is the final chance Fed officials have to speak ahead of the meeting. With September largely already priced, a hot print may derail expectations somewhat, while another weak report will only further cement a rate cut at the upcoming confab. Dovish dissenter, Governor Waller, reiterated calls for rate cuts, but said the pace of rate cuts after the first reduction will be dictated by the data, so this will also be key for rate cut expectations further out the curve. More data is due next week, including US PPI, CPI and the BLS preliminary benchmark NFP revisions.

PRELIM BENCHMARK REVISIONS: The BLS will release the preliminary 2025 benchmark revisions to the establishment survey at 10:00EDT/15:00BST on September 9th, 2025. The final revisions will follow in February 2026, alongside the January employment situation report. Each year, establishment survey estimates are benchmarked to comprehensive counts of employment from the Quarterly Census of Employment and Wages (QCEW) for the month of March, derived from state unemployment insurance (UI) tax records that nearly all employers are required to file. Bank of America notes that the preliminary estimate is based on QCEW data covering April 2024–March 2025. Importantly, the September release will provide only the implied revision to the March 2025 level of payrolls, with no historical data yet updated. The desk expects a downward revision of 500k to 1mln, implying that payrolls as of March 2025 may have been overstated by 40k–85k per month on average over the April 2024–March 2025 period. BofA also highlights that revisions for April–December 2025, which matter most for the Fed, will only be available with the final benchmark in February 2026. For context, the March 2024 nonfarm employment level was ultimately revised down by –598k in the final

benchmark, compared with a preliminary estimate of –818k.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com