

Weaker Job Growth Tempers October Rate Hike Expectations



Summary:

- US nonfarm payrolls rose just 29,000 in September, below consensus expectations, while the previous two months' gains were revised down by a combined 60,000.
- The unemployment rate increased slightly to 4.2%, while wage growth continued to soften.
- Odds of an October rate hike fell after the report's release, while an additional rate hike by year-end remains the base case.

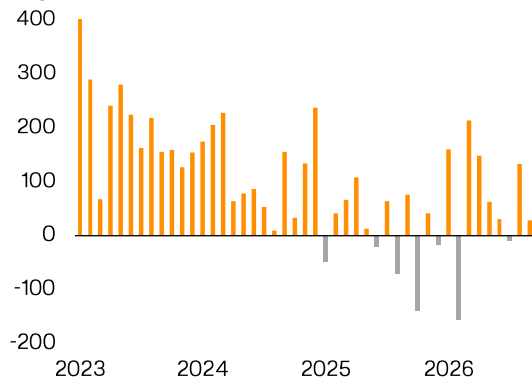
The September jobs report showed a labour market that continues to soften, with hiring slowing sharply after August's rebound. Nonfarm payrolls increased by just 29,000 jobs, falling well short of consensus expectations. Net revisions lowered July-August payrolls by a combined 60,000: July was revised down to a decline of 10,000 (from +21,000) and August was marked down to 133,000 (from +162,000). Sectoral gains were highly concentrated, led by healthcare (+17,000), construction (+11,000), and manufacturing (+9,000), while employment in government (-17,000), administrative & waste management (-15,300), information (-10,000) and financial activities (-7,000) declined. Notably, the employment level in financial activities is now 129,000 below its recent peak in May 2025. The underlying data point to an environment characterised not by surging layoffs but by a broad hiring slowdown across both the private and public sectors.

The headline unemployment rate edged up to 4.2% in September from 4.1% in August. The labour force participation rate rose 0.2 percentage points (ppts) to 61.8%, while the employment-population ratio was essentially unchanged at 59.2%. A deeper look at underlying labour data underscored a growing struggle for displaced workers, as long-term unemployment (those jobless for 27 weeks or more) stood at 1.9 million, accounting for 27.1% of total unemployed individuals. Overall, the figures pointed to a "low hire, low fire" environment.

Economic Indicators Analysis

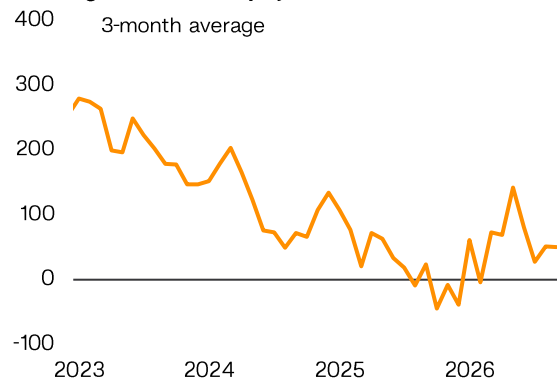
5 October 2026

Change in non-farm payrolls (thousands)



Source: CEIC

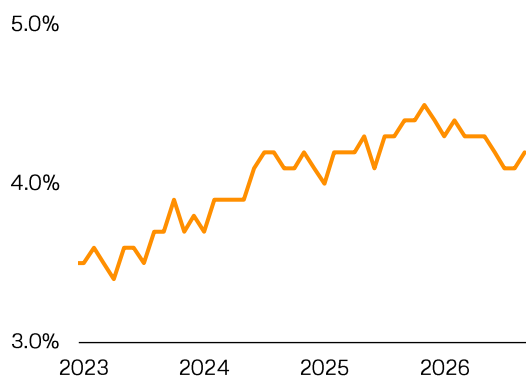
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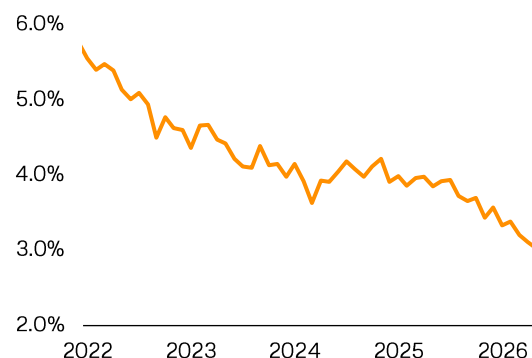
Wage growth continued to moderate. Average hourly earnings (AHEs) rose modestly by 0.1% MoM to USD 37.81 in September, after increasing 0.3% in August. On a year-on-year (YoY) basis, AHE growth slowed from 3.1% to 3.0%, the slowest pace since May 2021. With headline CPI inflation running at 3.4% YoY, real AHEs remained under pressure, eroding household purchasing power.

Unemployment rate



Source: CEIC

Growth in average hourly earnings (YoY)



Source: CEIC

September's softer-than-expected payrolls strengthened the case for the Fed to hold at its October meeting. The Fed raised rates in September for the first time since 2023, while the median dot plot implied one additional increase this year, keeping market expectations of further tightening elevated. Following the September jobs report, Treasury yields retreated from multi-decade highs and futures-implied odds of an October hold climbed over 80%. Nonetheless, markets continue to price in one further rate hike by year-end. With the Fed remaining data-dependent, upcoming inflation and labour market releases will remain critical in shaping the rate outlook.

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