

Economic Update

August Employment Report: Job Gains and Revisions Surprisingly Positive

Morningstar Investment Management LLC

September 2026

Dominic Pappalardo

Chief Multi-Asset Strategist
Morningstar Wealth

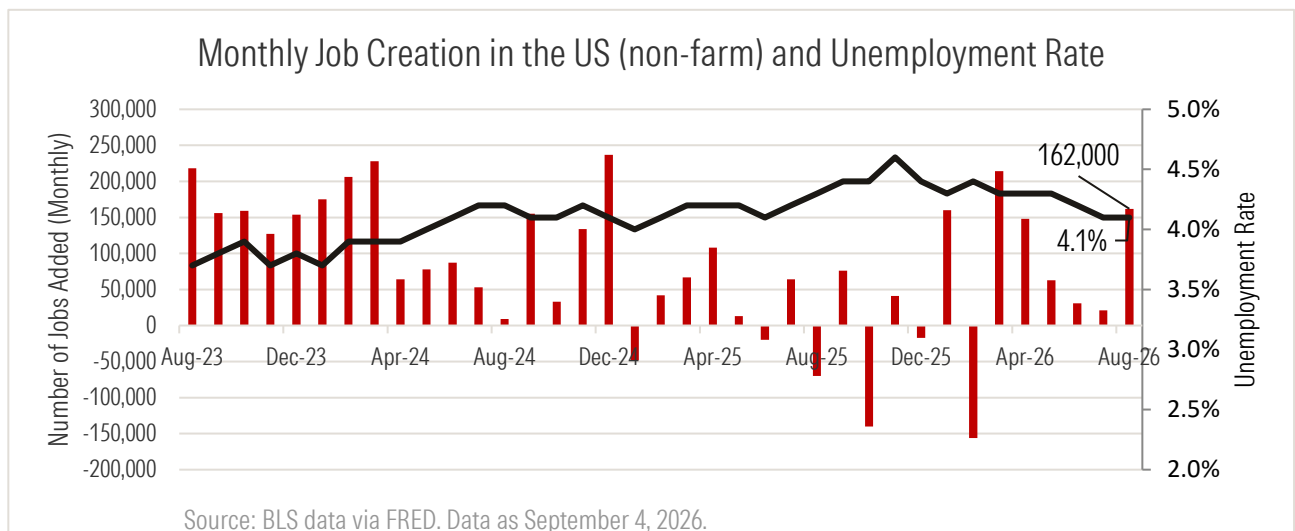
For General Public Use

Key Takeaways

- Today's release of the August employment report showed nonfarm payrolls rose by 162,000, well above the expected 53,000 additions. Revisions to the last two months' data were also positive, with June's total revised up by 11,000 up to 31,000 and July's total revised higher by 44,000 to 21,000.
- The unemployment rate held steady at 4.1%, while wages rose 3.1% annually, slightly higher than expectations of 3.0% year-over-year growth.
- Labor market participation reversed course and moved higher to 61.6%, driven by 683,000 new participants.

Summary

Today's employment report showed that 162,000 jobs were added in August, outperforming expectations, as the Dow Jones forecast had predicted an increase of only 53,000. The unemployment rate held steady at 4.1%, which is 0.2% lower than a year ago. Importantly, the labor force increased by 683,000, bringing the participation rate up to 61.6% and reversing a several-month trend of declines that had pushed the rate to historically low levels. The increase in participation is what kept the unemployment rate from declining despite the job additions. Wages increased as expected for the month, with average hourly earnings rising 0.3% and bringing the annual rate to 3.1%, slightly ahead of the expected 3.0% growth rate.



In addition to the upside surprise in August, the positive tone extended to the previous two months, totals which were revised higher by a combined 55,000. June's total was revised higher by 44,000 up to a gain of 21,000 and July's total rose by 11,000, to 31,000. These revisions raise the three-month average increase to a relatively healthy 71,300 new jobs per month.

Market Reaction

The initial market reaction to August's labor report was a bit counterintuitive on the surface, as stock futures moved lower on the announcement. Typically, a strong labor market is generally good for the economy. However, traders are speculating that the positive data may prompt the Fed to raise rates soon, which is generally negative for stocks.

Per the Morningstar Style Box, as of 8:45 a.m. CDT, most segments of the market are down, with small caps lower across the board, as they tend to be sensitive to interest rates.



Interest rates are moving higher, as expected, given the sentiment that the Fed may have no choice but to raise rates. The move up is not large, but is consistent across the yield curve. The 2-year Treasury yield is up 0.04% to 4.37%, while longer-term rates are up by 0.01% to 0.03%. The 10-year Treasury yield is up to 4.77%.

Breaking Down the Headline Number

Employment gains were widespread across a variety of sectors in August. Restaurant and bars led the way, with 59,000 jobs added. Government education added 42,000 jobs, while manufacturing added 16,000. Healthcare, which has been the main driver of job growth for the past year or more, added only 13,000 jobs. The fact that the headline number was so strong despite such a small contribution from healthcare is somewhat surprising. A possible impact of AI reducing headcount may have presented itself in information-related industries which reported a loss of 23,000 jobs, pushing the monthly average for the sector down to -8,000.

Labor force participation rebounded strongly in August, as 683,000 workers joined the labor force. The increase in this measure kept the unemployment rate from dropping despite the surprising number of job additions. Concerns over the declining participation rate had been growing as it reached historic lows. Ignoring the COVID-related lows of March 2021, participation was at the lowest level since 1976 in July.

Encouragingly, the Bureau of Labor Statistics' measure of part-time workers who want full-time employment decreased markedly, falling by 414,000. The decline suggests that many part-time workers were able to transition to full-time employment. Discouraged workers, or those that stopped actively seeking employment, held steady at 441,000. These two measures now make up 7.7% of the workforce, down from last month's reading of 7.9%, which is a positive sign for employment seekers.

Looking Ahead

CME Fed Funds futures reacted to today's report by now showing a higher probability of rate hikes this year. There is now an 87% chance of a hike priced in by year-end, up slightly from the 83% seen yesterday. The chance of multiple hikes rose as well, as there is now a 46% chance of more than one hike by year-end, compared to the 41% seen yesterday and 39% one month ago.

Next week's release of August CPI data will provide important additional insight into future Fed activity. If that inflation readout shows higher or even persistent levels of inflation, pressure on the Fed to hike rates will increase. Conversely, a drop in inflation rates may be the only thing that can keep the Fed from hiking rates this year. Forecasts are calling for Headline inflation to rise at a 3.4% annual rate and Core inflation to rise at 2.5%.

For Additional Information

+1 (800) 886-1749

wealth.us@morningstar.com

mp.morningstar.com

About Morningstar Investment Management

Your investment goals matter to us. Our mission is to empower investor success by building investment portfolios selected by your financial advisor. Our world-class investment strategies draw on our core capabilities in research, asset allocation, investment selection and portfolio construction. Our investment professionals are located around the world, which provides both a global point of view and local market expertise.

Based on a proprietary valuation-driven asset-allocation process, our strategies offer investors a range of multi-asset, risk- and outcome-based strategies designed to help meet a variety of goals. Also, our separately managed accounts offer concentrated portfolios of our portfolio managers' best ideas. We put more than 40 years of investment experience to work in every portfolio we manage to offer you a better investing experience, because your journey matters.

For General Educational Use Only

Opinions expressed are as of the current date; such opinions are subject to change without notice. Morningstar Investment Management shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses or opinions or their use. This commentary is for general educational and informational purposes only. The information, data, analyses, and opinions presented herein are designed to provide general information about investing, to inform investors about developments in the broader financial ecosystem, and/or to help investors interpret market and regulatory shifts. This material is not an offer of our investment advisory services or an offer to buy or sell a security. Please note that references to specific securities or other investment options within this piece should not be considered an offer (as defined by the Securities and Exchange Act) to purchase or sell that specific investment. Performance data shown represents past performance. Past performance does not guarantee future results.

All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Morningstar Investment Management does not guarantee that the results of their advice, recommendations or objectives of a strategy will be achieved. This commentary contains certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason. Past performance does not guarantee future results.

Advisory services are offered by Morningstar Investment Management LLC, a registered investment adviser and subsidiary of Morningstar, Inc.

Investing in international securities involve additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may increase these risks. Emerging markets are countries with relatively young stock and bond markets. Typically, emerging-markets investments have the potential for losses and gains larger than those of developed-market investments. A debt security refers to money borrowed that must be repaid that has a fixed amount, a maturity date(s), and usually a specific rate of interest. Some debt securities are discounted in the original purchase price. Examples of debt securities are treasury bills, bonds and commercial paper. The borrower pays interest for the use of the money and pays the principal amount on a specified date. The indexes noted are unmanaged and cannot be directly invested in. Individual index performance is provided as a reference only. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, Morningstar Investment Management cannot guarantee its accuracy, completeness or reliability. Morningstar Manager Research or Morningstar's Manager Research team refers to various wholly owned subsidiaries of Morningstar, Inc. including but not limited to Morningstar Research Services LLC (USA), Morningstar UK Limited and Morningstar Australasia Pty Limited that produce investment analysis and opinions on mutual funds, exchange-traded funds and collective investment schemes.