Weekly Macro Outlook: Labor Market Preview

This Weekly Macro Outlook highlights the key economic data releases, central bank events & speeches, and macro themes shaping global markets for the week of August 3, 2026.

Key Focus This Week:

- *Central banks: Fed speeches (Cook – economic outlook)*
- *Major data: US labor market (Jul) & ISM PMI's, NZ labor market Q2, Canada labour market (Jul), S&P Global PMI's July*
- *Key themes: US Treasury Financing Update Q3 & Q4, Geopolitical tensions – Middle East*

Recap of Last Week

Key central bank meetings were in focus last week, as policymakers assessed whether persistent geopolitical uncertainty and energy price volatility are beginning to alter the balance of inflation and growth risks. The FOMC, BoE, and BoJ all kept policy settings unchanged. However, to varying degrees, the decisions highlighted continued uncertainty around the Middle East conflict, energy prices, and the potential for broader inflationary pressures, including from AI-related investment. These concerns were reflected in hawkish dissents across all three decisions, as well as continued upside risks to the inflation outlook. Meanwhile, renewed geopolitical tensions through the week highlighted the risk of further inflation pressures, even as the growth backdrop remained resilient through Q2.

US Inflation Moderates, Growth Remains Resilient

For the Fed, the key PCE inflation data for June was constructive, with both headline and core PCE inflation coming in slightly lower than expected. However, with global energy prices remaining volatile, progress may be short-lived.

Looking through recent higher energy prices, the resurgence in core PCE inflation has been a key concern for the Fed. Core PCE inflation has reaccelerated since Oct 2025, after progress on disinflation stalled around +2.8% during the prior eighteen months. In the latest June data, core PCE slowed marginally to +3.3% from +3.4% in May, with both core goods and core services inflation contributing to the slowdown.

At the same time, two additional measures of underlying inflation, the PCE trimmed mean and PCE median, have diverged from the core PCE trend. Both have maintained a disinflation trend and slowed to new lows in this cycle of +2.2% and +2.7%, respectively, in June. This suggests that much of the recent uptick in core PCE has been driven by outliers, rather than a broadening in inflation pressures.

While good news, overall inflation is still too high. This one month of more 'modest' falls in the inflation rate is too early to suggest a change in trend, especially amid more volatile energy prices.

US Q2 GDP growth came in lower than expected at +1.5% annualized, as net exports subtracted from headline growth. However, growth in the domestic economy (excluding the external sector & change in inventories) remained solid, increasing to +3.1% annualized in Q2 (from +2.2% in Q1), led by a rebound in personal consumption.

<u>FOMC: A New Chapter</u>

Against this backdrop, the specific FOMC question was whether these recent developments in growth and inflation had been sufficient to shift the Committee's assessment of the appropriate degree of policy restrictiveness. The answer was somewhat, but the meeting revealed a much larger framework story.

As expected, policy settings were unchanged as the broad economic backdrop was little changed from the previous meeting. Growth remained solid and the labor market stable, while inflation remained in the driver's seat of the dual mandate with firm rhetoric on achieving the 2% target from the new Fed Chair. However, the distribution of views continued its shift towards greater restraint required – not enough to change the majority decision at this stage. Three voting members (Beth M. Hammack, Neel Kashkari, and Lorie K. Logan) dissented in favor of a 25bps rate hike at this meeting – preferring to take modest action now, to mitigate the risk of requiring "sharper action" later. This voting split represents another step in the evolution of views over the course of recent meetings from the dovish bias of late last year. The decision to hold in June was unanimous.

The more consequential development was beyond the policy decision itself. There was a notable shift in the press conference statement from "what we are going to do" to "how we are going to think".

New Framework: "Asking the Right Questions"

Rather than signalling a near-term policy path, Chair Warsh used the press conference to outline the questions that will shape the Committee's assessment over coming meetings. The change in emphasis was clear. Rather than debating the latest inflation or employment data, the Committee's focus shifted to understanding how different shocks transmit through the economy, how inflation expectations evolve, and whether structural investment is changing the supply side of the economy.

Question one asks, has the past really passed? This assesses the psychology of 5-years of above-target inflation, that "a single month of modest price decreases" cannot cure.

Questions two and three are related and appear to explore the basis for differentiating among recent shocks – especially AI capex, which Chair Warsh characterized as:

More generally, capex is preparing the ground for future growth.

The second question introduces the idea of productive supply shocks into the debate:

These differ in their sources—do they also differ in their effects on output and employment?

Question three asks whether chip and AI-capex are part of a broader inflationary dynamic or simply attract disproportionate attention because they are under the "*bright streetlight.*" This question invites debate over whether these highly visible price increases are truly representative of a broader inflation dynamic.

The final question addresses whether the balance sheet is providing more accommodation than intended, suggesting that future adjustments in the policy mix, not just the policy rate, remain under consideration.

These questions appear to be addressing the tension between the immediate risk of sticky inflation psychology against the long-term supply benefits of the AI/technology boom. The Committee avoided relaying any conclusions at this stage.

Communication: Removal of Guidance

Chair Warsh continued to lean into the removal of guidance. He reiterated the importance for policymakers to "observe market reaction to developments, direct and unfiltered", to restore the integrity of market price signals. He also highlighted that "nominal and real yields are materially higher across the Treasury curve" between meetings, and that the reduction in guidance "may have been a factor", suggesting that markets were beginning to "play the ball". He made clear, however, that letting markets price risk does not replace central bank action:

> *I want to stress, of course, that decisions by this Committee matter a great deal. And where necessary and appropriate, we will not hesitate to act.*

Implications for the Fed Outlook

The Committee has begun redefining how it evaluates the economy, without yet revealing how these questions will shape policy decisions. The Minutes and Jackson Hole in August will provide the next opportunities to understand how this framework is developing. At this stage, markets are back to pricing a hike in September (source: CME FedWatch).

The BoE: HOLD

The BoE kept policy on hold as expected with a 6-3 majority. The MPC continued to "look through" direct energy shocks, with "little evidence of material second-round effects so far". Current settings balanced the need to guard against second-round effects, while managing trade-offs with weaker activity. Inflation risks remain tilted to the upside. Guidance captures two conditional paths: additional restraint if second-round risks emerge or a pivot if upside risks subside durably and underlying disinflation continues. Dissents cited tightening to manage risks around the conflict uncertainty, concern that second-round effects could be material after 5 years of above-target inflation.

The BoJ: HOLD

The BoJ stayed on hold as expected with an 8-1 majority decision. While the core inflation forecast was revised lower due to the effects of government subsidies, pressure from wages, energy, goods prices, spillover from global AI-related demand, and recent depreciation of the Yen is likely to accelerate core inflation "clearly above 2%" in the second half of 2026. Risks to economic activity remained balanced. With policy settings remaining accommodative, the BoJ maintained its tightening bias. One member dissented in favour of a 25bps hike, citing that "the situation had shifted to a new phase in which the Bank needs to adopt a nimble approach in response to upside risks to prices caused by demand shocks stemming from overseas developments and to changes in overseas financial conditions."

The Week Ahead: What We Are Watching

The focus in the week ahead is on labor market data for the US, NZ, and Canada, while PMI's round out the view of US and global activity for July.

The US non-farm payrolls and broader US labor market data will provide the most important policy input this week. The labor market was characterised by the Fed as stable, but still in a period of "low dynamism". The key policy question is whether labor market conditions continue to provide the Fed with sufficient policy latitude to remain focused on elevated inflation.

US Labor Market – July

- Non-farm payrolls are expected to increase by +88k, up from +57k in June. The direction of prior months' revisions will also be in focus.
- The unemployment rate is expected to be unchanged at 4.2% in July.
- We will also watch the employment to population ratio as well as the labor force participation rate, which fell to 61.5% in the prior month – the lowest since the pandemic recovery. These are some broader indicators of labor market tightness.
- Average weekly hours are expected to stay unchanged at 34.3hrs.
- Average weekly earnings are expected to increase by +0.3% over the month, and by +3.5% over the year, both unchanged from June.
- The JOLTS survey for the end of June is expected to show job openings fall to 7.42m from 7.59m in May.
- The Challenger Job Cut Announcements Survey for July will be released – job cut announcements eased to 45k in June.

US Growth Update

- The ISM manufacturing and services PMI's will be released this week – both are expected to remain at a moderate level of expansion at 54 and 54.2, respectively. The evolution of price pressures will be important in these reports.
- Factory Orders for June are expected to show 0% growth after falling by -1.3% in May.
- Non-farm productivity (prelim) for Q2 is expected to increase by +0.7% over the quarter, up from +0.3% in Q1.

NZ Labour Market Q2

- Employment growth is expected to have slowed slightly in Q2 to +0.1% over the quarter from +0.2% in Q1.
- The unemployment rate is expected to lift slightly to 5.4%, up from 5.3% in Q1.

Canada Labour Market – July

- Employment growth is expected to remain modest at +15k over the month, from +18k in June.
- The unemployment rate is expected to be unchanged at 6.5% in July.

S&P Global PMI's – July

- The full suite of global manufacturing and services PMIs for July will be released through the week.

US Treasury Issuance: 3 – 7 August 2026

This week, the US Treasury will auction and settle approx. $600bn in T-Bills, raising approx. $107bn in new money. Approx $40.6bn in T-Bills will mature on the Fed's balance sheet and be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B	Amount Maturing $B	New Money or (Paydown) $B	Actual	Prior Auction High Rate %
3-7 Aug	30-Jul	04-Aug	4 week bill	110			Actual 3.630%	3.730%
	30-Jul	04-Aug	8 week bill	100			Actual 3.675%	3.795%
	29-Jul	04-Aug	17-week Bill	72			Actual 3.875%	3.845%
				282	221	61		
	03-Aug	06-Aug	13 week bill	92			Announced	3.815%
	03-Aug	06-Aug	26 week bill	79			Announced	3.945%
	04-Aug	06-Aug	52 week bill	52			Announced	3.860%
	04-Aug	06-Aug	6-week bill	95			Announced	3.700%
				318	272	46		
			Total - securities settling this week	600	493	107		
			Net New Cash Raised Qtr to Date	***3401***	***2928***	***473***		
			Estimated Net Cash to be Raised Q3 ($ Bn)			671		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		04-Aug	T-Bills	15.4				
		06-Aug	T-Bills	25.2				
				40.6				

Reserve Management Purchase (RMP) Operations

Operations began on 12 Dec 2025. See announcement here. See operation details and announcements here and here.

SOMA Reinvestment – August 2026

The program of Quantitative Tightening (QT), or balance sheet roll-off, ended as of 1 December 2025. See note here. All principal payments from the Fed's holdings of Treasury securities will be rolled over, and all principal payments from the Fed's holdings of agency securities will be reinvested into Treasury bills through secondary market purchases.

Recommended US Treasury Financing: Est Q3 2026

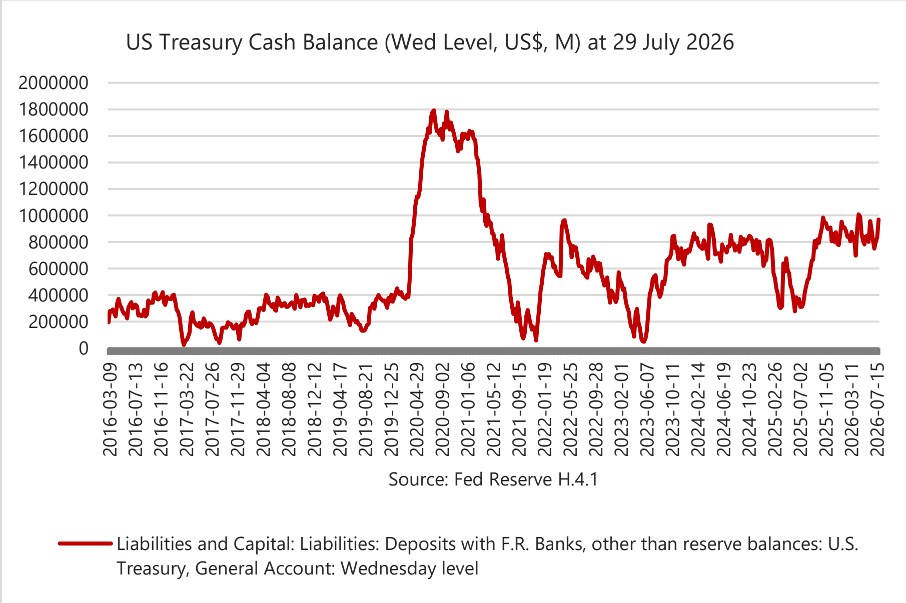
The next announcement of US Treasury borrowing requirements for Q3 (final) and Q4 2026 (estimate) will be made this week and can be found on the US Treasury website here.

Estimated Q3 2026 borrowing requirement: The US Treasury expects to borrow $671 billion in privately-held net marketable debt, assuming an end-of-September cash balance of $950 billion.

Updated Q2 estimates: Treasury expects to borrow $189 billion in privately held net marketable debt (+$79bn higher than initial estimates), assuming an end-of-Jun cash balance of $900 billion. As of Wednesday, 1 July, the level of the TGA was $807bn.

US Treasury Cash Levels (TGA)

As of Wed 29 July 2026, the level of the TGA increased further to $970bn (+$135bn compared to the week prior). The TGA balance is now approx. $551bn *higher* than the same week a year ago.



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CALENDAR W/C 3 August 2026

MONDAY 3 AUGUST (US Eastern Time, unless stated otherwise)	
US	**ISM Manufacturing PMI (Jul)**, S&P Manufacturing PMI – Final (Jul), Loan Officer Survey Q2

TUESDAY 4 AUGUST	
US	Trade Balance – Final (Jun), Factory Orders (Jun), JOLTS (Jun), Vehicle Sales (Jul)
NZ	Labor Market Survey Q2

WEDNESDAY 5 AUGUST	
US	MBA Mortgage Applications wk ending 1 Aug, ADP Non-Farm Payrolls (Jul), **ISM Non-Manufacturing PMI (Jul)**, S&P Services PMI – Final (Jul), Fed speeches: Cook (Economic Outlook)

THURSDAY 6 AUGUST	
Europe	Germany Factory Orders (Jun), Eurozone Retail Sales (Jun)
US	Initial Jobless Claims wk ending 1 Aug, Challenger Job Cut Announcements (Jul), Non-Farm Productivity Q2, Unit Labor Costs Q2

FRIDAY 7 AUGUST	
Europe	Germany Industrial Production (Jun)
US	**Non-Farm Payrolls & Labor Market Survey (Jul),** NY Fed Consumer Inflation Expectations (Jul), Consumer Credit Change (Jun), Fed Speeches: Barkin
Canada	Labour Market Survey (Jul)
China	(Weekend tbc) Trade Balance, Exports, & Imports (July), CPI & PPI (Jul)