Weekly Macro Outlook: Labor Market Resilience

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 31, 2026.

Key Focus This Week:

- *Central banks: RBNZ & BoC Monetary Policy Meetings, Fed Gov Waller - Econ Outlook speech*
- *Major data: US non-farm payrolls/labor market Aug, ISM PMIs, Aus GDP Q2, Euro area CPI prelim Aug*
- *Key themes: Middle East conflict developments*

Recap of Last Week

The US PCE inflation report for July was not likely to change the FOMC assessment of current inflation or risks. PCE inflation remained elevated, and neither headline nor underlying measures showed improvement in July. Upside risks persist, driven by firming core goods and core services ex shelter inflation, alongside elevated uncertainty over energy prices from the unresolved US-Middle East conflict. At the same time, US growth tracking continued to firm in the early Q3 growth data. Against this somewhat hawkish backdrop, Fed Chair Warsh's keynote speech at Jackson Hole signalled his view that incoming data did not show that the underlying inflation trend has "meaningfully improved".

US PCE Inflation for July – Stalled Progress

The PCE inflation report for July moderated the early conclusion of a "softer" inflation picture generated by the July CPI report. Importantly, this month's PCE inflation report is not likely to change the current assessment of inflation by the Fed and plays more into the concerns of the conditional middle of the Committee that, "if inflation doesn't decline, additional tightening will likely be necessary".

- <u>Headline inflation</u> remained unchanged at +3.7% in July (from +3.7% in June). This is despite a further fall in energy prices over the month. The trend broadly shows a lack of progress, given that the annual rate remains on par with the elevated average of the last five (5) months. A year ago, headline inflation was +2.6%.
- <u>Core PCE inflation</u> also remained unchanged at +3.3% in July (from +3.3% in June). This is arguably the more important measure for the Fed to determine changes in the underlying trend of inflation. The recent peak was in May at +3.46% - and there has been little improvement from that level. The average of core PCE inflation over the last five months is +3.35% - again, July core PCE is unchanged from that higher average.

Key Pockets of Inflation - Concerns Remain

The Fed has previously highlighted the pockets of inflation that have caused concerns for its outlook on inflation. The July PCE report shows these areas likely remain a problem.

- Core Goods Inflation: This area has been closely watched by the Fed from a number of fronts, including tariff pass-through and spillover from the AI investment boom. Core goods inflation increased to +2.3% in July, from +2.1% in June. A year ago, core goods inflation was +1%. More specific areas highlight the Fed's concern. Durable goods categories such as Video, audio, photographic, and information processing equipment and media have shown a significant acceleration in inflation, from -2.6% in November 2025 to +12.2% in July 2026. The monthly pace of inflation in this area has abated, but is still running at +1% over the month in July.
- Core Services Inflation: stickier, more persistent core services inflation has remained a concern for the Fed since the pandemic, as a guide to more domestically generated inflation pressures. Core services was also unchanged at +3.7% in July, from +3.7% in June. A year ago, core services inflation was +3.5%, which reflects little change or progress. The Fed also watches core services ex shelter ("super core") to gain a better understanding of the underlying trend in inflation. Annual super core was unchanged at +3.9% in July (from +3.9% in June) – remaining close to its near-term peak. This remains above core inflation and other measures of underlying inflation.

The Underlying Trend of Inflation - Mixed

While pockets of inflation are still a concern, and core inflation has remained steady and elevated, the question becomes: is inflation broadening? The annual PCE trimmed mean and median rates edged slightly higher this month, but the trend still looks broadly contained. The annual trimmed mean inflation rate lifted to +2.3% in July, while the median PCE inflation rate increased to +2.7% in July.

However, the underlying Dallas Fed trimmed mean data also shows that the recent improvement (a shift down in the proportion of expenditure above 3% inflation) in the distribution of component price increases has reversed since November 2025. In July, the majority of expenditure categories were again increasing at or above 3% inflation.

Overall, there was little improvement or evidence to change the Fed's inflation assessment in July. However, the August CPI report in several weeks will add another month of data to the assessment of inflation trends ahead of the next Fed meeting.

US Growth

While PCE inflation was unchanged in July, broader US growth conditions remain solid. Spending data for July in particular helped to lift the Atlanta Fed GDP nowcast to 4.6%, with a larger positive contribution from personal spending. This estimate is still based on limited data so far in Q3.

Fed Chair Warsh – Jackson Hole

Against this data backdrop, Fed Chair Warsh gave his first keynote speech at the Jackson Hole Symposium and spoke more to current granular policy mechanics than expected. There has been notable criticism of the new Fed Chair over his lack of communication so far, specifically on his view of the economy. This speech aimed to address some of those gaps, including his policy calculus, while reiterating his rationale for removing guidance and not providing a "reaction function" in its place. We learned several things from his speech.

Guiding Principles > Reaction Function: Chair Warsh laid out "guiding principles" for thinking about the conduct of monetary policy, in preference to the false precision that offering a "reaction function" infers. He outlined six principles in the speech. Most are fairly straightforward. This included one more specific principle: “money matters”. Paying attention to the money that comes from the banking and financial system (a credit impulse?) and the effects of this on financial conditions and prices. This may be something added to future deliberations.

Chair Warsh - Policy Calculus: For context, the Committee decision to stay on hold at the last meeting was based on taking time to assess new data, as well as developments in supply chains, capex, and geopolitics. There seemed to be a conditional middle of the Committee, that if inflation didn’t improve, then additional tightening would be necessary.

This update from the Fed Chair suggests that he may not be confident (or is less confident) that “inflation is moving towards its objective, clearly, or at sufficient speed”:

- Mandate: Chair Warsh focused on a clear prioritization of price stability in the mandate, to achieve the 2% inflation target, but with some specific wording: with inflation running at above the 2% target, the “Fed’s predominant focus right now **should be** on prices.” Chair Warsh characterizes the Labor market as “consistent with full employment”.
- Economic Assessment: While Chair Warsh describes the latest July CPI & PCE inflation data as “better than expected”, he notes that the data do not say that the underlying trend has “meaningfully improved”.
- Policy Stance: Financial conditions are not what he’d describe as “restrictive”.
- Guidance: Rather than providing guidance or a reaction function, Chair Warsh offered his personal standard: “we must be confident that underlying inflation is moving to our objective, clearly, and at sufficient speed”. His assessment of inflation and financial conditions provides the subtext that he is not yet confident underlying inflation is sustainably returning to 2%.

Market Reaction

Markets will continue to digest Warsh’s speech from Friday, but based on last week’s broad sweep of data (sticky inflation, resilient growth), market pricing has shifted back toward the probability of a hike at the September FOMC meeting (source: CME FedWatch).

The RBA Minutes and Aus CPI

The RBA Minutes outlined the decision to stay on hold at the last meeting, but highlighted that both a hike and a hold were debated. Ultimately, the Board decided to hold, noting that it had some time to assess whether policy settings were restrictive enough to bring inflation back to target within a reasonable timeframe. However, this wasn’t a pivot to “stay on hold”: the Minutes highlighted “that inflation was still too high and that the economy continued to operate with excess demand”. With inflation risks still skewed to the upside, the decision to hold for now was conditioned on further information before the next meeting.

The Aus monthly CPI series (the RBA still relies on the quarterly report for now) showed some moderation in headline inflation to +3.5% in July, from +3.7% in June, but was less than the expected improvement to +3.3%. The core/trimmed mean measure is of importance to the RBA, and in July showed no improvement, remaining at an elevated +3.6%. The monthly trend is also concerning and suggests that inflation pressure has continued to broaden. This has raised expectations of another hike by the RBA at the upcoming September meeting.

The Week Ahead: What We Are Watching

The key focus in the week ahead is on the broad US labor market update for August. Payroll growth is expected to rebound after recent prints disappointed to the downside, while the unemployment rate is expected to remain stable. With the Fed mandate skewed toward price stability, a continued, resilient labor market will provide officials with latitude to maintain its policy stance or tighten further.

Other US data this week will provide input into the growth run-rate for Q3.

Central banks: The BoC and RBNZ will meet this week. There will also be several US Fed speeches, including one by Fed Governor Waller on the Economic Outlook – an important topic signalling that he'll speak about his views on the economy and policy settings.

Global data will focus on the prelim Euro area CPI for August, Aus GDP for Q2, and the global suite of S&P PMIs for August.

US Labor Market Update - August

This week, data will provide a comprehensive update on the US labor market for August. The key question is whether the prevailing "low hire, low fire" equilibrium will continue to hold, or if labor demand begins to shift the trend.

- Non-farm payrolls are expected to increase by +58k in August, up from -23k in July.
- The unemployment rate is expected to be unchanged at 4.1%.
- Average weekly hours are expected to increase slightly to 34.4hrs/week from 34.3hrs/week in July.
- Average hourly earnings are also expected to rebound to +0.3% over the month in August, from +0.1% in July.
- JOLTS for July are expected to show job openings edging slightly lower to 7.33m in July, from 7.36m in June.
- The Challenger Job Cut Announcement Survey for August will provide another update on anecdotes from firms announcing both job cuts and hiring intentions.

US Growth Inputs

There will be a range of data this week, helping to provide a more comprehensive update to the Q3 growth run rate.

- ISM Manufacturing and Services PMIs for August are expected to be little changed at 55.2 and 56.8, respectively, with momentum remaining more moderate.
- The final estimate of the July US trade balance will provide the key external trade data for the GDP nowcast.
- The US Fed Beige Book will be released this week, which will also be used in the upcoming Fed meeting in several weeks.

Central Banks

- The BoC will meet this week and is expected to keep policy settings unchanged. While higher headline inflation remains a concern, the BoC core inflation measures have remained relatively stable. The trade and tariff impasse (USMCA) with the US will weigh on the BoC deliberations for the growth outlook.

- The RBNZ will meet this week, and is expected to lift its policy rate by 25bps.
- US Fed Speeches: there will be several key speeches on the economy and policy outlook by Fed Governor Waller (always a well-considered speech), and Fed Governor Barr.

Global Data

There will be several global data points of importance this week;

- Euro area prelim CPI for August is expected to show headline inflation increase to +3.3% in August, from +2.9% in July. The prelim core CPI is expected to be unchanged at +2.5% in August.
- Australia Q2 GDP is expected to increase by +0.3% over the quarter, unchanged from +0.3% in Q1.
- Canada's labour market report for August is expected to show some moderation in employment growth to 15k, from 75k in July. The unemployment rate is expected to remain unchanged at 6.4%.

The broad suite of global S&P PMIs will be released this week, providing an update on growth momentum, employment, and inflation through the middle of Q3.

US Treasury Issuance: 31 August – 4 September 2026

This week, the US Treasury will auction and settle approx. $777bn in T-Bills, Notes, Bonds, and TIPs, raising approx. $84bn in new money. Approx $67.5bn 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) $B	Actual
31 Aug - 4 Sep	27-Aug	01-Sep	4 week bill	100			Actual 3.650%
	27-Aug	01-Sep	8 week bill	90			Actual 3.670%
	26-Aug	01-Sep	17-week Bill	72			Actual 3.750%
				262	252.848	9.152	
	31-Aug	03-Sep	13 week bill	92			Announced
	31-Aug	03-Sep	26 week bill	79			Announced
	01-Sep	03-Sep	52 week bill	52			Announced
	01-Sep	03-Sep	6-Week Bill	85			Announced
				308	307.429	0.571	
	25-Aug	31-Aug	2yr Note	69			Actual 4.204%
	26-Aug	31-Aug	5yr Note	70			Actual 4.393%
	27-Aug	31-Aug	7yr Note	44			Actual 4.512%
	19-Aug	31-Aug	20-Year Bond	16			Actual 5.204%
	20-Aug	31-Aug	30yr TIPS (r)	8			Actual 2.973%
				207	132	75	
			Total - securities settling this week	777	693	84	
			QTR to date totals	**5,975**	**5,208**	**767**	
			Estimated Net Cash to be Raised Q3 ($ Bn)			*739*	
	Face value of US Federal Reserve SOMA securities maturing			**$B**			
	Maturing & reinvestment						
		01-Sep	T-Bills	22.3			
		03-Sep	T-Bills	18.6			
		31-Aug	Notes & Bonds	26.6			
				67.5			

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: Q3 2026

The latest update on US Treasury borrowing requirements for Q3 (final) and Q4 2026 (estimate) was released w/c 3 Aug and can be found on the US Treasury website here.

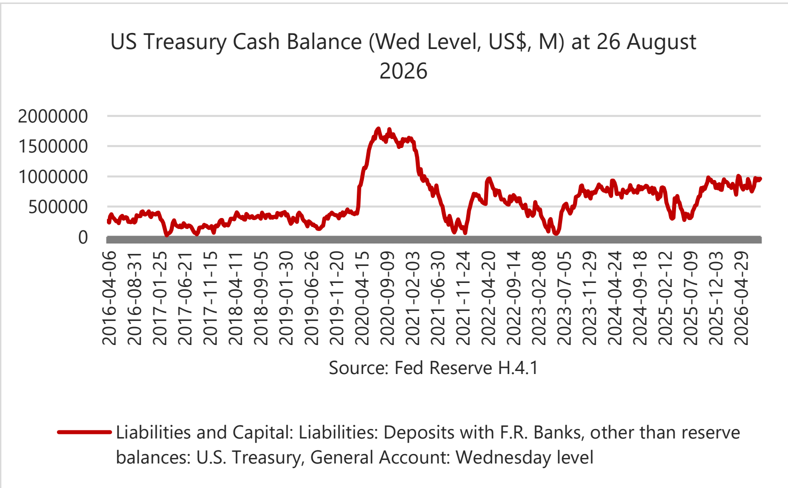
Updated Q3 2026 borrowing requirement: The US Treasury expects to borrow $739 billion in privately-held net marketable debt, assuming an end-of-September cash balance of $950 billion. The borrowing estimate for Q3 is $68 billion higher than announced in May 2026, primarily due to lower projected net cash flows, partially offset by the higher-than-assumed beginning-of-quarter cash balance.

Estimated Q4: Treasury expects to borrow $628 billion in privately-held net marketable debt, assuming an end-of-December cash balance of $850 billion.

Buybacks – A further change to the buyback schedule was announced on 19 August. The US Treasury announced it would increase the size of "liquidity support buyback operations" for longer-dated nominal coupon securities (the 10-year to 20-year sector and the 20-year to 30-year sector). The current maximum size of $2 billion per operation will be at least $4 billion per operation. This will come into effect on 9 September 2026.

US Treasury Cash Levels (TGA)

As of Wed 26 August 2026, the level of the TGA increased to $959bn (+$22bn compared to the week prior). The TGA balance is now approx. $363bn *higher* than the same week a year ago. (Source: US Fed)



CALENDAR W/C 31 August 2026

MONDAY 31 AUGUST (US Eastern Time, unless stated otherwise)	
Japan	Industrial Production – Prelim (Jul), Retail Sales (Jul)
Australia	Private Sector Credit (Jul)
China	NBS Manufacturing & Non-Manufacturing PMI (Aug)
US	Dallas Fed Manufacturing Index (Aug)

TUESDAY 1 SEPTEMBER	
Europe	**Euro area CPI - Prelim (Aug)**
US	**ISM Manufacturing PMI (Aug),** JOLTS (Jul), S&P Manufacturing PMI (Aug), Fed Speeches: Barr (Econ Outlook)
Australia	**GDP Q2**
NZ	**RBNZ Monetary Policy Decision**

WEDNESDAY 2 SEPTEMBER	
US	MBA Mortgage Applications wk ending 29 Aug, ADP Non-Farm Employment (Aug), Factory Orders (Jul), **Fed Beige Book**
Canada	**BoC Monetary Policy Meeting**

THURSDAY 3 SEPTEMBER	
US	Initial Jobless Claims wk ending 29 Aug, Challenger Job Cut Announcements (Aug), **ISM Services PMI (Aug),** S&P Services PMI (Aug), Trade Balance (Jul), Non-Farm Productivity & Unit Labor Costs - Final (Q2), **Fed speeches: Waller (Econ Outlook)**

FRIDAY 4 SEPTEMBER	
Europe	Germany Factory Orders (Jul), Eurozone Retail Sales (Jul)
US	**Non-Farm Payrolls & Labor Market Survey (Aug)**
Canada	Labour Market Survey (Aug)
	Monday 7 September – US Labor Day Holiday