PREVIEW: US Nonfarm Payrolls (June 2021) will be released at 13:30BST/08:30EDT on July 2nd

SUMMARY: Labour market gauges going into Nonfarm Payrolls have been predominantly strong in June, but not all; ADP's report was strong, but some desks had been hoping for an even greater rise, while Challenger layoffs was an exceedingly solid print at the lowest figure since June 2000 with the report crediting record job openings and high job seeker confidence. Consumer Confidence continues to facilitate the potentially impressive NFP print, as it rose to the highest post-pandemic level, while the difference between jobs "plentiful" and jobs "hard to get" rose too. However, the jobless claims figure was poor and surprisingly rose, which may weigh, but the total number on unemployment benefits fell below 15mln for the first time since April '20. Moreover, business surveys, such as the ISM Manufacturing survey, painted a reasonably poorer picture with the headline figure falling alongside the employment sub-component dipping into contractionary territory, where panellists noted it remains difficult to fill vacant positions. Some of the former factors point to improving conditions and growing confidence amid the re-opening picture. However, slack still remains in the economy illustrated by the participation and unemployment rate still way off pre-COVID levels and record job openings. On this, and whilst the Fed continues to state unemployment has a long way to go, it is not unanimous. For instance, Quarles does not think we need to see labour force participation return to pre-COVID levels due to baby boomer retirements, although several members have said they are looking to return to the pre-COVID employment landscape. Therefore, a decent print here is only likely to amplify the hawkish calls at the Fed amid progress on "substantial further progress", sustaining expectations for a tapering announcement into year-end.

EXPECTATIONS: Non-farm Payrolls (exp. 700k, prev. 559k); Private Payrolls (exp. 600k, prev. 492k); Manufacturing Payrolls (exp. 28k, prev. 23k); Government Payrolls (prev. 67k); Unemployment Rate (exp. 5.7%, prev. 5.8%); Participation Rate (prev. 61.6%); U6 Underemployment (prev. 10.2%); EPOP (prev. 58.0%, vs 61.1% in Feb 2020); Average Earnings M/M (exp. 0.4%, prev. 0.5%); Average Earnings Y/Y (exp. 3.7%, prev. 2.0%); Average Workweek Hours (exp. 34.9hrs, prev. 34.9hrs).

ADP PAYROLLS: Ahead of Friday's jobs report, the ADP's gauge of payrolls showed 692k jobs being added to the US economy in June, above the forecasted 600k, but below May's figure which was revised lower to 886k from 978k. Pantheon Macroeconomics hoped for a greater increase, based on the Homebase employment data, suggesting the signal for Friday's NFP release is unclear. Pantheon highlights the ADP's measure was short of the official payroll data for most of the pandemic, but it suddenly overshot in April and May, adding that the change was likely due to ADP's model overstating the strength of macroeconomic variables (retail sales and jobless claims) while ignoring the labour supply shortfall. As such, payrolls growth has not kept pace with demand due to the participation rate remaining lower. Looking ahead, PM writes, "if the new pattern continues for June, Friday's print will only be about 200K, but that would be wildly at odds with the clear message from the Homebase data suggesting that increasing labour supply allowed payrolls growth to jump to about 1mln", an expectation Pantheon is sticking with, but believes the breadth of Friday's plausible outcomes is exceedingly broad.

JOBLESS CLAIMS: The initial jobless claims data released for the period that usually coincides with the BLS Employment Situation report showed a surprise rise to 412k from 375k, against the expected fall to 359k. Continued Claims followed suit and also surprised on the upside, rising to 3.518mln from 3.517mln (revised up from 3.499mln), against the expected fall to 3.43mln. The rise in initial claims marked the first increase in more than a month, although the gains were primarily seen in California, Pennsylvania, and Kentucky. The good news from the report was that the total number of people on unemployment benefits fell below 15mln for the first time since April 2020. However, looking at the headline prints, it does not bode so well for the June BLS data.

BUSINESS SURVEYS: The ISM Manufacturing PMI fell to 60.6 (prev. 61.2), below the expected 61.0. The survey gave a fairly negative insight into the labour market, highlighted by the Employment sub-component falling to 49.9 from 50.9, into contractionary territory after six straight months of expansion, with panellists continuing to note significant difficulties in attracting and retaining labour at their companies' and suppliers' facilities. Alongside this, panellists reported difficulties in filling open positions, continuing to limit manufacturing-growth potential. Looking at services, heading into this month's payrolls the ISM Services data has yet to be released, and as such the IHS Markit Services May PMI data can be used as a proxy. The Markit data stated there was a further sharp rise in employment which can be derived down to the greater business requirements. However, despite that, the rate of job creation reduced as firms reported difficulties filling vacancies as they could not find suitable candidates. Nonetheless, jobs creation still remained sharp and outpaced the long-run series average.

CHALLENGER LAYOFFS: Challenger reported that job cut announcements fell from 24,586 in May to 20,746 in June, the lowest monthly total since June 2000, and -88% Y/Y. Challenger stated that so far this year, employers announced plans to cut 212,661 jobs, the lowest January-June total since 1995, and down 87% from the 1,585,047 jobs eliminated through the same period last year. The report noted they are seeing a rubber band snap back, and companies are holding on tight to their workers during a time of record job openings and very high job seeker confidence. Also, they have not seen job cuts this low since the Dot-Com boom. However, Challenger adds, the majority of cuts were attributed to Restructuring (10,876), while 2,950 were from plant and store closings. Nonetheless, a low challenger layoffs reading bodes well for a strong NFP print.

SLACK: Fed officials are looking past the headline unemployment rate to try and gauge the levels of slack that remain; accordingly, the U6 Underemployment metric, Participation Rate, as well as the Employment-to-Population ratio have gained in importance. Last month, U6 was 10.2% (vs 7.0% in February 2020), Participation at 61.6% (vs 63.3% in February 2020), and the Employment-Population Ratio at 58.0% (vs 61.1% in February 2020), all three indicating there is still a long way to go, and recovering the lost ground is not going to happen in the immediate short-term. Moreover, Fed officials continue to state that unemployment has a long way to go, although it is not unanimous, as Quarles noted he does not think we need to see labour force participation return to pre-COVID levels due to baby boomer retirements.

Consumer Confidence rose to the highest figure since February last year which indicates confidence has recuperated a large part of the COVID hit. Moreover, the view of the labour market has also drastically improved, as the “jobs hard to get” index fell to just below the pre-COVID level. Further signalling the positive outlook, the difference between jobs "plentiful" and jobs "hard to get" rose. Nonetheless, the future remains highly uncertain, as the level of people expecting business conditions to worsen has stopped falling. As such, the positive consumer confidence may filter through into a solid NFP figure.