PREVIEW: US July Nonfarm Payrolls to be released 6th August at 13:30BST/08:30EDT

July's US jobs report will help to shape expectations of when the Fed will announce, and then start, the process of tapering its asset purchases. Accordingly, some analysts argue that 'good data is bad for the prospects of continued policy accommodation' may be the play book traders reach for, while others suggest that many of the key debates will not be resolved with the release of the July jobs report, and therefore the event may be subject to the usual post-data knee-jerk reactions, but ultimately do little to materially shift expectations just yet -- it may not be until December when a clear picture emerges on the progress that the labour market is making to meet the Fed's ‘'substantial" threshold. The consensus looks for 880k jobs to be added to the US economy in July, and if that is realised, it would still mean around 5.84mln fewer Americans employed vs pre-pandemic levels in February 2020. The unemployment rate is seen declining to 5.7% from 5.9%, but more useful colour will be provided by the participation rate (61.6% in June vs 63.2% pre-pandemic), the U6 measure of underemployment (last 9.8% vs 7.0% pre-pandemic), as well as the employment-population ratio (last 58% vs 61.1% pre-pandemic). Average hourly earnings are expected to rise 0.3% M/M taking the annual rate to 3.9% Y/Y, and these measures will be used by analysts to inform the debate on how persistent price pressures in the US are developing. The read from other labour market metrics calls for some caution: ADP's payrolls data disappointed to the downside, while weekly initial jobless and continuing claims data that usually coincide with the BLS survey window rose against expectations of a decline, perhaps relating to seasonal adjustment issues. The Conference Board's gauge of consumer confidence said consumer assessments of the labour market were flat on the month, though consumers were more mixed about the short-term outlook.

NOTE: This preview updates on an earlier version released on Monday 2nd August to include the latest ADP National Employment data

THE MACRO FOCUS: The key question for macro traders is when the Fed announces tapering of its asset purchases, the composition of tapering, how long the process will last, and the sequencing with eventual rate hikes. The FOMC's statement now acknowledges that the economy continues to make progress towards its goals, and language around the pandemic was constructively tweaked. Chair Powell himself seemed little troubled by delta variant fears, noting that further waves of the pandemic were having a smaller economic impact as we learn to live with the virus. The July FOMC was consistent with the expectation that the Fed will provide a taper signal at the upcoming Jackson Hole Economic Symposium (26-28th August), before an official announcement at either the September, November, or December FOMC meetings. This suggests that incoming data will likely dictate the pace of tapering, rather than the announcement itself; and given that Powell also said it was likely that the taper will conclude before the Committee begins lifting rates, these taper timeline expectations will subsequently shape lift-off expectations for the Federal Funds Rate target.

HISTORICAL CONTEXT: The Jackson Hole Economic Symposium is famed for being a platform where Fed officials signal upcoming policy shifts. But in 2013, there were no explicit taper hints; the outgoing Fed Chair Bernanke did not attend due to a "personal scheduling conflict," although many speculated that he wanted to avoid stepping on the toes of his successor, who had not been announced. (NOTE: Jerome Powell was handed a four-year term as Fed Chair in February 2018; no decision has yet been made on whether he will continue). The FOMC officially announced a taper in December 2013 and implementation began in January 2014, configured so that purchases of MBS and Treasuries were both scaled-back by USD 5bln/month; the programme was concluded in October 2014. Given that the pandemic is an unusual event, different from previous economic downturns, there are risks in extrapolating the 2013 normalisation parameters to what we are seeing today. Indeed, at least one Fed official has expressed a desire that the future taper of asset purchases not be placed on 'autopilot', in order to give the Fed more flexibility in these uncertain times. It is also worth noting that there is just one jobs report before Jackson Hole, and two ahead of the Fed's September meeting.

WAGES: Average hourly earnings are expected to rise by 0.3% M/M, and the annual rate is likely to be lifted to 3.9% Y/Y from 3.6%, marking the third straight rise in the Y/Y metric from the 0.3% Y/Y seen in April. The Fed continues to frame the post-pandemic upside in consumer prices as 'transitory'. Although there is building evidence that this surge in prices is likely temporary, and may already have peaked, this debate cannot be resolved until at least later this year, and perhaps into next. One element that has potential to derail the 'transitory' narrative is the extent to which higher prices result in workers' demands for higher compensation, and how this impacts consumption patterns. Historically, higher wages usually occur with a lag to price rises, and are also typically accompanied by collective bargaining power or labour scarcity; although the former has diminished across the US in recent business cycles, there is building evidence for the latter. The emergence of persistent wage upside could stoke inflationary pressures, which could compel the Fed into a quicker pace of policy normalisation down the line.

SLACK: The consensus looks for 880k nonfarm payrolls to be added to the US economy in July, with the pace picking up from the 850k added in June. From the period between March 2020 through June 2021, there were still around 6.76 mln fewer Americans in work vs pre-pandemic levels, judging by headline nonfarm payrolls growth (if the consensus is realised, this would fall to 5.84mln). The unemployment rate is seen falling to 5.7% in July from 5.9%, although this metric will be framed in the context of the participation rate (61.6% in the June report vs 63.2% pre-pandemic in February 2020) as well as the U6 measure of 'underemployment' (last 9.8% vs 7.0% pre-pandemic); additionally, some Fed officials are watching the employment-population ratio to judge the pace of slack erosion (last 58% vs 61.1% pre-pandemic). Enhanced USD 300/week unemployment benefits have already started to roll-off in some states, and the programme is set to expire in September; accordingly, a clearer picture of slack levels might not emerge until further jobs reports are published through the end of the year. More broadly, Chair Powell last week suggested that it would take 'a couple of years' for the US economy to reach maximum employment, and the Fed forecasts 3.5% unemployment by the end of 2023, although at least one member of the Committee has suggested full employment could be achieved in Summer 2022 (NOTE: The Fed's economic projections are next updated at the September meeting).

RECENT LABOUR MARKET METRICS: ADP National Employment Report for July disappointed to the downside, showing 330k additions to the US labour market against an expected +695k; ADP itself noted that the US labour market recovery continued to exhibit uneven progress, but that was progress nonetheless, adding that the July data represented a marked slowdown from the pace of jobs growth seen in Q2. Jobless claims data for the week that usually coincides with the BLS survey period saw initial claims jump to 419k against expectations of a decline to 350k, while continuing claims rose a little to 3.269mln from 3.262mln (against an expectation of a fall to 3.196mln). Analysts at Pantheon Macroeconomics explained that seasonal adjustment difficulties caused by shifts in the timing and extent of the automakers’ annual retooling shutdowns from year-to-year may have driven the disappointment, and the overall trend still appeared to be falling. Markit's flash composite PMI data for July said firms recorded a solid increase in employment, the level of outstanding business rose further in July as service providers struggled to keep up with incoming new business, and that Amid labour shortages and pressure on capacity, firms noted the lowest degree of optimism since February. The Conference Board's gauge of consumer confidence saw the differential between jobs 'hard-to-get' and jobs 'plentiful' widen to 44.4 from 43.5, although CB said consumers' assessment of the labour market was relatively flat, and consumers were mixed about the short-term labour market outlook.