PREVIEW: US Nonfarm Payrolls (January 2022)

Traders will use the January jobs report to assess whether the market's aggressive Fed bets are appropriate. Money markets currently expect the FOMC to fire the equivalent of four 25bps rate hikes in 2022 to curb upside pressures to inflation, with some risk of a fifth. The Fed is more focussed on the inflation part of its mandate and that implies that there may be greater attention on the average hourly earnings measures within the jobs report, particularly since participants generally agree that the US is effectively at maximum employment. The Omicron impact has tainted January's economic data readings, presenting downside risks to the NFP headline (expected 150k from 199k), and upside risks to wage metrics (+0.5% M/M expected with the annual rate seen rising to +5.2% Y/Y from 4.7%; average hours worked is seen unchanged at 34.7hrs). Meanwhile, seasonal adjustments may provide support for the headline. It may be difficult to interpret the underlying health of the labour market by using the January jobs data; the market reaction will be based on a combination of how the headline fares in the context of the wage pressures; a headline miss accompanied by further upside to wages would likely embolden hawkish Fed bets; conversely a more resilient headline combined with less upside in wages may have the opposite impact.

HEADLINE: The pace of payrolls additions has been easing, with the 3-month average currently 365k, the 6-month average at 508k, and the 12-month average at 537k, which many think is more a function of labour market tightness rather than a major downturn. The pace is likely to slow even further in January, with the consensus expecting to see 150k nonfarm payrolls added, and the unemployment rate expected to be unchanged at 3.9%. Many economic data prints for January have been negatively impacted by the Omicron wave, and that is likely to be reflected in the January jobs report too. White House economic advisor Deese has warned that Americans need to be prepared for January employment data that "could look a little strange". This theme was certainly reflected in the ADP gauge of private payrolls, which saw a reading of -301k in January against an expected +207k. ADP explained that the Omicron effect was to blame, with most of the job losses in the Leisure & Hospitality sectors after hefty gains in Q4; but ADP judged that the impact of Omicron was likely to be temporary.

OMICRON IMPACT: For the week that traditionally coincides with the BLS employment situation report survey, initial jobless claims jumped to 290k from 231k and continuing claims rose to 1.675mln from 1.624mln. Pantheon Macroeconomics said that this Omicron impact would not last long, however, given that cases have begun to fall back, but still noted that the near-term outlook remains uncertain. "The jump in claims is consistent with the message from the Homebase data for the week which suggests payrolls will be reported falling by about 300K, and that's after we allow for the usual upward revisions to the initial Homebase data."

SEASONAL ADJUSTMENTS: Analysts have pointed out that there could be some seasonal adjustments in January that could give support to the headline; Citi thinks the adjustment could add around 3mln jobs; "if fewer than usual layoffs occur in some industries this year, perhaps reflecting that the level of employment is already lower than desired given worker shortages, adjusted figures would show a large increase," the bank explains. There is even more uncertainty this month however, given that the January jobs data will also include revisions to the establishment survey; Citi therefore cautions about trying to over-interpret what the January jobs report is saying about the true health of the underlying labour market.

WAGES ARE KEY: Average hourly earnings are expected to rise +0.5% M/M in January (prev. +0.6%), and to 5.2% Y/Y (prev. 4.7%). With most FOMC participants agreeing that US labour market conditions are consistent with maximum employment, and with the recent upside in price pressures which has resulted in the FOMC pivoting in a hawkish direction, the nonfarm payroll headline will only be part of the story in January. Many analysts will be paying more attention to the average hourly earnings metrics for a gauge on how wages have responded to higher prices amid a tight labour market; the theory is that surging wages will likely lead to FOMC participants leaning towards the more aggressive end of monetary policy expectations (where the possibility of a 50bps incremental rate hike, and/or possible hikes at every meeting this year, and/or a potential acceleration of the balance sheet wind down), whereas slowing wage metrics may see some of the aggressive Fed bets pared back (currently, money markets are pricing the equivalent of four 25bps rate hikes this year, although pricing suggests there are risks for a fifth hike too).

UPSIDE RISKS TO WAGES: The Omicron impact is likely an upside risk to wages in January. Compositional issues imply that low-paid workers who do not receive sick pay will have dropped out of the wage calculations, as White House economic advisor Deese recently noted, and that would likely result in the average moving upwards for the sample; any downside to average workweek hours could exacerbate this effect (the consensus expects average workweek hours to be unchanged at 34.7hrs). Additionally, overtime pay could also be higher if healthier staff were paid to cover their sick colleagues.

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