PREVIEW: US Nonfarm Payrolls (Feb 2022) released at 13:30GMT/08:30EST on March 4th

SUMMARY: Consensus expects +400k nonfarm payrolls, and for the unemployment rate to decline to 3.9%. Indicators of labour market activity have been constructive in February. ADP's gauge of payrolls surprised to the upside (although analysts have been dismissing the predictive significance of the data), initial jobless claims and continuing claims data both eased in the survey week vs January levels. Survey data continues to allude to tight labour market conditions, which will support wage gains; the Fed's Beige book said firms were increasing compensation to attract workers, especially in low-wage positions, but with only mixed success. Traders will use the February jobs data to inform the debate on how the Fed will normalise monetary policy: money markets had priced a 50bps increment rate hike at the Fed's March meeting, and had pencilled in seven rate hikes this year, but following the Russian invasion of Ukraine, markets have coalesced around a 25bps incremental move, and see around five hikes in 2022. However, with the Biden administration making inflation its 'top priority', many suggest the Fed will have to stay in inflation fighting mode; accordingly, the central bank will be data dependent about future policy moves, including the increment of rate rises.

POLICY DEBATE: Traders will use the data to inform the debate on how the Fed will continue to normalise monetary policy in the months ahead. Up until recently, money markets were pricing in seven 25bps rate rises from the Fed in 2022, and had expected the central bank to lift rates by a 50bps increment at the March 16th meeting. However, the Russian invasion of Ukraine has put central bankers in a more cautious mood; now, money markets are pricing around five Fed rate rises this year, and see a 25bps incremental hike in March. Chair Powell – and some other Fed Governors – have retained the option of using a 50bps move; Powell said that if the Committee were to hike rates by 25bps for three consecutive meetings and it transpired that was not enough, it could raise rates more quickly. Additionally, there is also a degree of political pressure to keep the Fed in inflation fighting mode; President Biden in his State of the Union address emphasised that tackling inflation was his 'top priority'. This comes as some argue that the inflation dynamics have significantly soured consumers' view of the economy: a recent poll found that more than half of respondents believed the US was in a recession or depression, despite GDP growing 5.7% in 2021 and the economy adding more than 6mln jobs.

HEADLINE: The consensus looks for +400k nonfarm payrolls in February (range: 200-730k, prev. 467k); the unemployment rate is seen falling by one-tenth to 3.9%. The ADP's gauge of payrolls surprised to the upside in February (475k vs exp. 388k), while the prior month's data saw a significant upward revision (from -301k to +509k). The ADP data has drawn criticism from many market analysts, however, which back fits the official payrolls data; the official January BLS data saw an upside surprise which analysts said underpinned January's revision higher. "It makes no sense to care about this number or react to it," Pantheon Macroeconomics said, "it is statistically insignificant as an indicator of the official payroll numbers when compared to the Homebase numbers and mean-reversion," and Pantheon added that "the revisions can be huge, rendering the initial estimates meaningless." Meanwhile, initial jobless claims data for the week that coincides with the traditional BLS survey week fell to 249k vs 290k for the January data reference week, while continuing claims data declined to 1.576mln from 1.651mln.

BEIGE BOOK: The Fed's latest Beige Book notes that employment increased at a modest to moderate pace. Widespread strong demand for workers remained hampered by equally widespread reports of worker scarcity, though some Districts reported scattered signs of improving labour supply. Many firms had difficulty maintaining their staffing levels due to high turnover, exacerbated by COVID-19 disruptions in January, though workers and firms recovered more quickly than during previous waves. Firms continued to increase compensation and introduce workplace flexibility to attract workers—especially in historically low-wage positions—though with only mixed success. Respondents also said that they expect the tight labour market and consequent strong wage growth to continue, though a few Districts reported signs of wage growth moderating.

BUSINESS SURVEYS: The employment index within the ISM manufacturing survey registered 52.9, 1.6 points lower than January; the services ISM is released after this note goes to publication. Markit's gauge of manufacturing activity noted that although the sector had rebounded after Omicron, output remained heavily constrained both by ongoing raw material supply bottlenecks and labour shortages; the data-compiler said that the decline in virus case numbers should help to alleviate labour shortages into the spring. And Markit's services PMI saw private sector employment expand further in February, taking the current sequence of job creation to 20 months; Markit said the increase was the strongest since last May.

WAGES: With the labour market at maximum employment, Fed officials emphasise that data will determine policy moves, with an importance on inflation-related metrics. That makes the wage metrics in the jobs report as important – if not more important – than the headline. The consensus looks for the rate of average hourly earnings to ease to 0.5% M/M (prev. +0.7%), though the annual measure is still seen ticking up to +5.8% Y/Y (prev. 5.7%). The JOLTs quits rate data has remained at around 3.0% for quite a few months, which analysts consider a healthy sign for the labour market, and likely to support wage growth ahead. That said, the Conference Board's consumer confidence data suggests some caution: the February release saw consumers become slightly less optimistic about the short-term labour market outlook, with those expecting more jobs to be available in the months ahead easing a little. Consumers were also less positive about their short-term financial prospects, with the number of consumers expecting incomes to increase falling a little. On wages, it is also worth keeping an eye on the participation rate – Chair Powell said the decline in labour force participation was contributing to wage inflation; this rate has been picking up in recent months though, and rose to 62.2% in January from 61.9% in December, off the pandemic low of 60.2%, though still shy of the 63.4% rate seen in February 2020.