PREVIEW: US Nonfarm Payrolls (May 2022) due June 3rd at 13:30BST/08:30EDT

Headline measures of payroll additions are expected to continue moderating in May. The jobless rate likely fell back to pre-pandemic levels, while the participation rate may inch upwards, which would be an encouraging development. However, the focus will be on wages to see how employment compensation is faring amid surging consumer prices; the expectation is that the annual rates of pay growth eased, but the monthly rate may pick-up relative to April's data. The May jobs data will only have a limited impact on near-term Fed policy, given that the central bank is widely expected to lift rates by 50bps in both June and July, but any signs of moderation in wages may support the argument that the Fed could slow the increments of rate rises in September.

HEADLINE: The consensus expects 325k nonfarm payrolls to be added to the US economy in May (vs April's 428k), as the pace cools relative to recent trend rates (three-month average 523k, six- and 12-month averages both at 552k). Initial jobless claims for the week that coincides with the BLS' survey window for the jobs data showed a pickup to 218k from 185k going into the April report, although continuing claims for the week eased to 1.346mln from 1.403mln. Pantheon Macroeconomics said the trend in claims is probably rising slowly, but still remains at very low levels historically, and a long way from signalling any sort of distress in the labour market.

UNEMPLOYMENT: The unemployment rate is expected to fall by one-tenth of a percentage point to 3.5% in May, a level not seen since before the pandemic in February 2020. It would be even more encouraging if the participation rate also rose from the prior 62.2% in combination with the unemployment rate falling, as some economists expect, as workers continue to return. If the jobless rate fell to the level that the consensus expects, it will be where the FOMC had projected it would fall to by the end of this year, while the central bank also sees unemployment remaining at these levels through 2023 too. That is consistent with its thesis that the labour market is virtually at maximum employment. Accordingly, it is not the headline payrolls number or the jobless rate that is likely to influence Fed policy in the near-term, but wage measures given the central bank's concerns about runaway inflation and the potential for second round effects. Currently, the market expects the Fed to raise rates by 50bps at both the June and July meetings; what happens after that point in September (does the Fed continue with aggressive larger hikes, move to lower increments of around 25bps, or even pause) is assumed to be a function of how the incoming data on price pressures evolves.

WAGES: The street is modelling average earnings to increase by 0.4% M/M, which would represent a quicker pace than the +0.3% in April, but in line with the average pace seen over the last year; the annual rate of average hourly earnings, however, is seen easing from 5.5% Y/Y to 5.2%. With core PCE prices – the Fed's preferred gauge of inflation – running at 4.9% Y/Y in April, wages would (quantitatively at the headline level, at least) offset the diminished purchasing power as a result of persistent inflation (NOTE: headline PCE is running at a rate of 6.3% Y/Y, above the level of annual average hourly earnings). Given that the May jobs data will only have a limited impact on influencing near-term monetary policy, the debate may refocus onto whether employment compensation gains have peaked, much like the debate with regards to headline inflation, which has been coming off annual peaks recently. Capital Economics says that the combination of cooling labour demand and a gradual recovery in labour supply suggests that wage growth is close to a peak, with the survey evidence pointing to a stabilisation in labour shortages, and says that surveys of compensation plans – like the NFIB's Compensation Plans Index as well as the average hourly earnings – point to a slight decline in pay growth. Even so, a monthly rate of wage growth similar to April would still be well above levels consistent with the Fed's 2% inflation target, it says.