PREVIEW: US Nonfarm Payrolls (August 2022) due September 2nd at 13:30BST/08:30EDT

The rate of payrolls growth is expected to resume cooling in August, following a blowout month in July. The jobless rate is expected to hold steady, and there will be focus on the rate of participation after a decline last month. Average hourly earnings metrics will be a key focus to help gauge how surging consumer prices are translating into second-round effects; some gauges suggest that the rate of pay rises is now exceeding the Fed's preferred measures or inflation. The Fed is yet to show signs that it is relenting in its fight against inflation, and is expected to keep tightening policy to put a lid on prices, even if that means stunting economic growth. Markets currently expect a 75bps rate hike at the September 21st FOMC, but officials have been suggesting that the CPI data due on September 13th could provide a more influential steer.

HEADLINE TO RESUME COOLING: After a blowout jobs report in July, where almost all measures surprised to the upside, analysts are expecting the cooling in payroll growth to resume in August, with the consensus view looking for 300k nonfarm payrolls to be added; this would be lower than the prior 528k, the 3-month average of 437k, the 6-month average of 465k, and the 12-month average of 512k. This week, the White House said it was expecting the rate of payroll additions to "cool off a bit" into a "more stable and steady" growth rate as the economy "transitions". Fed officials have also been talking about how some cooling of the labour market would be welcomed, as alluded to in its recent meeting minutes. The ADP's new gauge of its National Employment also alludes to this theme, and reported that 132k private payrolls were added to the economy in August, against expectations for 288k (July's reading was stated as 270k), although analysts have still expressed some scepticism around the data series.

UNEMPLOYMENT RATE SEEN STEADY: The jobless rate is expected to remain at the post-pandemic low of 3.5% (which was also the level of unemployment seen in February 2020, before the impact of the pandemic began hitting the labour market). The decline in the participation rate in July may have contributed to the fall in unemployment (this was perhaps the only 'blip' in last months' data), but other gauges of the labour market (the July JOLTs figures, for instance) continue to allude to extremely tight conditions. NOTE: the Fed's June forecasts (which will be updated at the September 21st FOMC) projected that the jobless rate will tick up to 3.7% by the end of this year, rising to 3.9% in 2023, before again rising to 4.1% in 2024, above the Fed's longer-run estimate of 4.0%.

POLICY IMPLICATIONS: Money markets are currently suggesting that there is a greater chance that the FOMC will raise interest rates by 75bps at the September 21st meeting rather than a smaller 50bps increment. The Fed has said that its policy on rate changes is data-dependent. This will be the final jobs report before the September confab, but there is still the US CPI report, due September 13th, that could influence officials' view; indeed, Fed's Mester, who votes on policy this year, said she'd be basing her decision on the inflation data, not the jobs report. That could mean that any market reaction to the data would be subject to revision based on the incoming CPI metrics. That said, the average hourly earnings measures will still provide some insight on how inflation dynamics are feeding through into second-round effects.

WAGE INFLATION: The wages metrics will be looked at by traders to gauge how surging (and broadening) consumer prices are translating into second-round effects; the consensus looks for average hourly earnings of +0.4% M/M in August, easing from the +0.5% pace in July, but the annual rate is still expected to climb by one-tenth of a percentage point to 5.3% Y/Y, while average workweek hours are seen unchanged at 34.6hrs. The ADP's revamped National Employment Report said that the median change in annual pay was running at a rate of +7.6% Y/Y for job-stayers, and +16.1% Y/Y for those who had switched jobs – those rates are higher than the current level of average hourly earnings in July, as well as both the rate of headline and core PCE prices, the Fed's preferred gauges of inflation (which were respectively 6.3% Y/Y and 4.6% Y/Y in the latest data for July). Fed officials have been emphasising that the fight against inflation is not complete, refusing to overread into some nascent signs that the surge in consumer prices is peaking; many believe that the central bank will be comfortable in firing another large rate rise, particularly if other growth dynamics continue to hold up in Q3.

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