PREVIEW: US Nonfarm Payrolls (September 2022) will be released on October 7th at 08:30EDT/13:30BST

The headline rate of payrolls growth is expected to resume cooling in September, with the consensus looking for 250k payroll additions (vs 315k in August); the jobless rate is seen unchanged at 3.7%, and there will also be focus on the participation rate after a welcome rise in August. Wage growth is expected to continue, although the annual rate is expected to cool a touch. Traders will be framing the data in the context of Fed policy; there are building hopes that the central bank might relent on some of its hawkishness if its policy tightening gives rise to financial stability concerns as it moves policy further into restrictive territory – these concerns could be exacerbated by soft economic data, as seen this week after the release of the Manufacturing ISM and JOLTs data, which fuelled bets that the Fed would not be as aggressive with rate hikes ahead.

PAYROLL GROWTH: Analysts expect 250k nonfarm payrolls to be added to the US economy in September, with the pace of jobs growth seen easing from 315k in August; this would represent a resumption of recent trends where payroll growth has begun to cool (3-month average 378k, 6-month average 381k, 12-month average 487k). Jobless claims data that coincides with the reference period for the establishment survey in August and September augurs well for the headline: initial jobless claims eased to 209k vs the 245k level heading into the August jobs data, while continuing claims declined to 1.347mln vs 1.412mln into the previous jobs report. Meanwhile, while the ADP's employment data bodes well for the official payrolls data (ADP printed 208k in September, a little above the expected 200k, and improving from the previous 185k), there is a great deal of scepticism about the payroll processor's modelling, particularly given that its new methodology did not capture the trend of the August data in its inaugural release. Business surveys were mixed; the Manufactur-ing ISM report gave a sobering look at the labour market, where the Employment sub-index fell into contraction territory at 48.7, 5.5 points lower than the level recorded in August; the Services ISM however, saw the Employment sub-index rise to 53.0 from a previous 50.2, suggesting employment in the services sector continues to expand, while employment in the manufacturing sector is declin-ing.

UNEMPLOYMENT: The unemployment rate is likely to have remained unchanged at 3.7%; ana-lysts will also be watching the participation rate, which encouragingly rose by 0.3ppts in August to 62.4%. Additionally, there will also be focus on the U6 measure of underemployment after that picked-up to 7.0% in August from 6.7% in July. In terms of signposts about how these data will im-pact monetary policy, JPMorgan's analysts point to the so-called non-accelerating inflation rate of unemployment (NAIRU), a level which puts neither upward nor downward pressure on inflation. JPM explains that when unemployment is above NAIRU, inflation tends to go down, and vice versa. The CBO estimates NAIRU is currently around 4.4%, but the median estimate of FOMC participants is at 4%. JPM itself argues that the actual level might have moved higher after the pandemic: "the rela-tion between unemployment and job openings is also consistent with a higher natural rate," it writes, "massive sectoral reallocation over the past three years is a likely culprit for this increase." The Fed's most recent economic projections envisage the jobless rate rising to 4.4%, where it is ex-pected to stay into next year.

WAGES: Average hourly earnings are seen rising 0.3% M/M, matching the rate seen in August, but with the annual measure expected to ease a little to 5.1% Y/Y from 5.2%. The Conference Board's gauge of consumer confidence in September revealed that consumers were more optimistic about the short-term prospects for the labour market, although they were mixed about their short-term financial prospects. On this front, Fed officials have been closely monitoring the JOLTs data series, which offers a proxy on the tightness of labour market conditions (the tighter the labour market, the more wage growth economists expect ahead). In that regard, the latest JOLTs data may be wel-comed by Fed officials, given that it showed labour market tightness eased significantly in the month, which might suggest that wage growth is to cool further in the months ahead. (NOTE: the latest JOLTs report was for August, not September).

POLICY IMPLICATIONS: Analysts will be framing the data in the context of the Fed's mission to tackle surging consumer prices. BMO's analysts argue that "as the market can now see the end of the rate hike cycle, market volatility around employment releases will increase," adding that "the Fed has been very effective in communicating the fact that the strong underlying labour statistics have allowed it to be more aggressive in fighting inflation than they might have otherwise been; at some point this will turn, and as a result not only will the official BLS data be pivotal." Accordingly, BMO argues that as the real economy enters the next stage of the cycle, the market will be on guard for any signs of undue stress in the labour market, given the ramifications it could have on the speed of Fed policy. Indeed, this week, soft ISM and JOLTs data both resulted in a re-pricing of Fed hike tra-jectory expectations (traders reason that soft data may compel the Fed to relent on some of its hawkishness, while any particularly strong economic data will embolden the Fed to continue to act aggressively with normalising policy).

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