PREVIEW: US nonfarm payrolls (Oct) due to be released on Nov. 4th at 12:30GMT/08:30EDT

The rate of payrolls growth is expected to moderate in October, while the jobless rate is expected to rise a little. There will be attention on the wages measures; any downside could give the Fed cover to downshift the pace of rate hikes in December. A weak headline could also see calls for the Fed to slow its normalisation become louder, as the central bank aggressively tightens policy into restrictive territory to cap inflation, particularly as politicians have an eye on the US midterm elections next week.

PAYROLLS: The consensus expects 200k nonfarm payrolls to be added to the US Economy in October, moderating from the 263k rise seen in September. If the consensus expectation is realised, it would be beneath the three-, six- and 12-month averages (at 372k, 360k, 474k respectively). The unemployment rate is seen nudging up by one-tenth of a percentage point, taking it to 3.6%; there will be focus on the participation rate to see whether the rise is a function of returning workers (participation previously fell one-tenth to 32.3%, which helped bring the jobless rate down by two-tenths to 3.5%). The Fed's September economic projections forecast the unemployment rate would rise to 3.8% by the end of this year, before picking up to 4.4% next year, though the updated projections still see the longer-run unemployment rate at 4.0%.

LABOUR MARKET PROXIES: Claims data for the week that coincides with the BLS' reference period in its establishment survey saw initial jobless claims were ultimately little changed at 212,250k vs 215,750k in the reference week for the September jobs report. Similarly, continuing claims climbed a little between both of those windows, from 1.381mn to 1.388mln. In its flash purchasing managers data series for October, S&P Global said employment was broadly unchanged in the month, though the seasonally adjusted Employment Index was below the neutral 50.0 level for the first time since June 2020, driven by a fall in service sector staffing numbers, while manufacturers registered a slower pace of job creation. The ISM survey is also consistent with that view of a neutral labour market in October, with its manufacturing employment index rising from 48.7 to the neutral 50.0 level (note: the services ISM has not been released at the time this preview is being published). Meanwhile, ADP's new gauge of national employment – which analysts continue to remain critical of given that it does not forecast the official data with any deal of success – was strong, seeing 239k payrolls added, topping expectations of 195k.

WAGES: Average hourly earnings are seen rising by 0.3% M/M in October, matching the pace from the September report; the annual measure is expected to ease to 4.7% Y/Y from 5.0% – that will be encouraging Fed officials who are lifting rates to combat inflation, particularly since some analysts say that base effects will support the annual measure in October. As a point of reference, the ADP's data for October said pay growth eased again in October, and the momentum of gains for job changers was ebbing (for these workers, annual pay growth edged down for the third straight month, to 15.2% Y/Y from 15.7% in September); for job stayers, pay gains registered 7.7% in October, in line with recent months. That would be welcome news at Fed HQ, particularly after the recent quarterly Employment Cost Index data, which suggests that pay growth was still accelerating in Q3 by some measures. Meanwhile, average workweek hours are seen unchanged at 34.5hrs.

POLICY IMPLICATIONS: Recent reports indicate that the Fed may downshift to a slower pace of rate hikes from December onwards. However, for that to happen, officials have previously indicated that they would want to see meaningful progress in bringing inflation down. Accordingly, the wages data could be influential for the December debate (the market is currently shooting for 75bps in November, and then 50bps in December). This week, the latest JOLTs data (for September) showed a rise against expectations it would decline, and while that didn't do much to change the narrative for the November FOMC meeting, expectations of where the eventual terminal rate will be moved hawkishly (the market now sees above 5.0% in May 2023, vs just above 4.8% a week earlier). On the other side of the coin, if the headline begins to show stress (for instance, if it were to come in towards the bottom, or below the 50-300k forecast range), it could reignite concerns regarding the economic slowdown, at a time when the Fed is tightening policy aggressively, which could lead to more calls for the Fed to slow the rate it is normalising policy, particularly from the political community given the US midterm elections next week. (Note: this preview is being published before the November FOMC meeting).

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