PREVIEW: US Nonfarm Payrolls (Nov'22) to be released December 2nd at 13:30GMT/08:30EST

The rate of payroll additions is expected to cool once again, with analysts forecasting 200k nonfarm payrolls will be added in November (prev. 261k), while the unemployment rate is seen unchanged at 3.7%. Given that the Fed's policymaking is currently centred around managing inflation, traders will be closely watching the wages metrics; the expectation is for wage growth to continue cooling, and this will likely form a key part of how traders will react to the data, with any upside in the wages measures likely to result in a hawkish market reaction, while any miss relative to expectations will likely incite a dovish reaction.

EXPECTATIONS: The US economy is expected to have added 200k nonfarm payrolls in November, further cooling from recent trend rates (three-month average 289k, six-month average 347k, 12 month average 442k). The unemployment rate is expected to be unchanged at 3.7%; analysts will be closely watching the participation rate, which has inched lower in the last two reports, currently at 62.2%. Similarly, there will also be attention on the U6 measure of underemployment, which rose one-tenth of a percentage point to 6.8% in October. Analysts note that in the November data, seasonal adjustments may be a factor weighing on jobs growth, particularly the adjustments to holiday hiring; these however may be partly offset by seasonal adjustments in the construction sector.

PROXIES: As a proxy, weekly data for the survey week that coincides with the official November jobs report showed initial jobless claims picking up slightly to 223k from 214k going into the October jobs data; continuing claims also ticked up to 1.51mln vs 1.44mln in the comparable October period. Further, although the ADP's gauge of US national employment is difficult to use for comparison purposes, it showed a cooling rate of payroll additions, printing 127k from a previous 239k, and below the expected 200k.

WAGES: Rates of headline inflation have been easing as energy prices fall back, and wage growth has also been cooling. The pace of monthly average hourly earnings is also expected to ease, with analysts expecting growth of +0.3% M/M (prev. +0.4%), while the annual measure is seen falling a touch to 4.6% Y/Y from 4.7%. Average workweek hours are expected to be unchanged at 34.5hrs. The ADP's measure of wage growth – again, not perfectly comparable with the BLS data, given that the ADP factors in bonuses while the BLS data does not – corroborates the slowing wages argument, with its most recent report stating that wage gains for job changers easing to 15.1% from 15.2%, while wage gains for job stayers pared to 7.6% from 7.7%.

POLICY IMPLICATIONS: Various labour market proxies suggest that the Fed's policy tightening is helping to alleviate some of the tightness in the labour market, and also seems to be having an impact on slowing wage growth. The ADP's chief economist said that "turning points can be hard to capture in the labour market, but the data suggest that Federal Reserve tightening is having an impact on job creation and pay gains," with companies "no longer in hyper-replacement mode," while "fewer people are quitting and the post-pandemic recovery is stabilising." The question is whether the easing labour market will be enough to derail Fed tightening; analysts at Oxford economics do not think so: "Job growth likely continued to slow in November but the implications for the Fed are minor," it wrote, adding that "the moderating pace of job gains will be welcomed by the Fed but won't alter its plans to continue to raise interest rates." As this report is being published, money markets are discounting a 50bps rate hike at the FOMC's December 14th confab, with rates expected to peak out between 5.00-5.25% in the middle of 2023. With the Fed in data-dependent mode, and inflation front and centre of its policy decision making, traders have been using the playbook that any upside in price metrics (in the case of the jobs report, the wages measures) will see traders increase bets of a more hawkish Fed, while any downside in the wages numbers would likely result in a dovish reaction.