PREVIEW: US Nonfarm Payrolls (Jan 2023) will be released on Friday February 3rd, at 13:30GMT/08:30EST

The pace of payroll additions is expected to cool again in January, and while the unemployment rate is likely to have risen a little, it still points to a tight labour market. Recent data has alluded to an easing in wage pressures, and this is likely to continue again in January, which will be received well by Fed officials. A continued decline here may give traders further confidence to price a path for rates more dovishly than the Fed's current projections, and conversely, any upside surprise in the wages metrics may lead to a hawkish repricing of forward rates. Meanwhile, annual payroll benchmark revisions are difficult to predict, but some think that it will result in downward revisions to many of the prints in the second part of 2022.

CONSENSUS EXPECTATIONS: The US economy is expected to add 185k nonfarm payrolls in January, with the pace cooling from the prior rate (223k) as well as recent averages (three-month average 247k, six-month average 307k, 12-month average 375k). As a comparison, the ADP's gauge of National Employment in January disappointed expectations, with 106k payrolls added, missing the 178k consensus forecast. The report said that January saw the impact of weather-related disruptions on employment. The unemployment rate is seen rising one-tenth of a percentage point to 3.6%. The Fed sees the jobless rate rising to 3.7% this year, before climbing to 4.6% next year, where it is expected to remain until 2025, when the central bank thinks it will edge back down.

TIGHT LABOUR MARKETS: Labour market proxies continue to allude to tight conditions; the weekly initial jobless claims data for the week that coincides with the establishment survey window declined vs the comparable week for the December data (192k vs 216k); continuing claims also declined (1.675mln vs 1.718mln). However, consumers themselves seem downbeat about the prospects for the labour market. The Conference Board's gauge of consumer confidence for January said consumers' assessment of present economic and labour market conditions improved at the start of the year, but expectations for the next six-months retreated, with consumers less upbeat about the short-term outlook for jobs, though their views for income prospects were more steady.

LABOUR DEMAND: While analysts generally see labour market conditions as tight, some are pointing to signs of softening: S&P Global's flash composite US PMI for January noted that jobs growth cooled in the month, with January seeing a far weaker increase in payroll numbers than evident throughout much of last year, which S&P said reflected a hesitancy to expand capacity in the face of uncertain trading conditions in the months ahead." Some analysts also point to declining average workweek hours, which have been edging down from 34.6hrs at the beginning of 2022 and is expected to be unchanged at 34.3hrs in January – suggesting that aggregate hours worked in the labour force has been falling.

COOLING WAGES: With monetary policymakers firmly fixated on reducing inflationary pressures, there will again be attention on average hourly earnings figures. The rate of average hourly earnings is seen rising 0.3% M/M, matching December's pace, although the annual measure is likely to fall to 4.3% from 4.6%, analysts predict. As a reference, the ADP's data revealed that the median change in annual pay for job-stayers was unchanged at 7.3% Y/Y, though the rate for job-changers rose 0.2ppts to 15.4%. And although it does not synchronise with this data release, the Employment Costs Index slowed for the third straight quarter in Q4, which will be a welcome sign for Fed officials who want to see wage growth cool; that said, employment costs themselves are still running at a rate of around 4.0% annualised; Wells Fargo said that while the ECI data further supports the argument for inflation moving back toward 2%, "labour cost growth remains too strong to be consistent with it staying there for the long-haul," and the bank thinks that "more slowing will be needed before the FOMC feels comfortable declaring victory on inflation."

PAYROLLS BENCHMARK REVISIONS: Elsewhere, it is worth noting that annual benchmark revisions are also due to be made to the data series. Capital Economics says this could result in a downward revision to many of the payrolls numbers we saw in the second half of 2022, as hinted at in the Quarterly Census of Employment and Wages (QCEW). Accordingly, its economists suggest interpreting January changes with care, even though the unemployment and participation rates are not likely to be majorly impacted. "The most recent QCEW data suggest that employment growth plummeted over the second quarter," adding that "that closely tracks the downshift evident in the household survey measure of employment, which aside from the resurgence in December, remained far weaker than the payrolls measure over the second half of last year." CapEco also notes that the recent quarterly Business Employment Dynamics survey shows a similar pattern.

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