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PREVIEW: US nonfarm payrolls (Feb'23) to be released on Friday March 10th at 13:30GMT/08:30EST

Traders will frame the February jobs data in the context of the FOMC's March 22nd meeting. Chair Powell this week has guided expectations towards a 50bps rate rise at that meeting, and suggested that the FOMC is likely to revise its view of the terminal rate higher. Accordingly, the bar for further hawkish repricing is higher than the bar for any dovish tweaking to that pricing (the former being likely in the event of an upside surprise, and the latter in the event of a downside surprise). The reaction will likely be largely premised on the headline and then the wage components. It is also worth noting that expectations for that March meeting will be refined by the CPI data for the month, which is due on March 14th.

EXPECTATIONS: The consensus looks for 203k nonfarm payrolls to be added to the US economy in February (forecast range: 100-325k), with the pace cooling from the 517k added in January. If the consensus is realised, it would be lower than the pace of the 3-, 6- and 12-month averages, at 356k, 349k and 414k respectively. The unemployment rate is expected to be unchanged at 3.4% (range: 3.3-3.5%); the Fed projects that the jobless rate will peak at 4.6% in 2023, although the central bank will update its economic projections at the March 21-22nd confab.

WAGES: Average hourly earnings are expected to rise by 0.3% M/M (range: 0.2-0.5%), matching the rate seen in January; the annual measure is likely to rise to 4.8% Y/Y (range: 4.4-5.0%) from 4.4%. Credit Suisse says that due to an "easy base effect," the annual average hourly earnings measure should increase (it sees 4.7% Y/Y), but adds that "underlying wage growth appears to be moderating across a range of measures and lead indicators, but the current pace of growth is still uncomfortably high for the Fed." Average workweek hours are expected to fall to 34.6hrs from 34.7hrs.

A WORD ABOUT JANUARY STRENGTH: Analysts have suggested that there were several reasons why the January number overstated the underlying strength in the labour market, and this may not be repeated in February. JPMorgan cites three factors: 1) the numbers were buoyed by the ending of industrial actions, which added a one-time 36k, and likely supported the numbers relative to regular seasonal patterns; 2) warmer weather conditions may have helped, and while a similar dynamic may be seen in the February data, they were not deviating as much compared to January; 3) seasonal factors were highly supportive in January, and may be less so in February; JPM explains that the economy needs to add a significant amount of jobs before seasonal adjustment to get the seasonally adjusted data to move higher.

FEBRUARY LABOUR MARKET PROXIES: The oft derided ADP series of payrolls printed 242k in February, topping expectations of 200k; the payroll services company noted that hiring was "robust", which was good for the economy and workers, although pay growth was still quite elevated, adding that "the modest slowdown in pay increases, on its own, is unlikely to drive down inflation rapidly in the near-term." Initial jobless claims for the week that coincides with the establishment survey window were little changed vs the January survey window, at the low level of 192k; continuing claims saw a small tick-up over the comparable windows to 1.672mln from 1.662mln. In February, the ISM's manufacturing employment sub-index fell 1.5 points to 49.1, back beneath the 50 mark, while the services employment sub-index rose by a chunky 4 points to 54.0. Within the Conference Board's gauge of confidence in February, consumers' appraisal of the labour market was more favourable, with 52.0% saying jobs were "plentiful", up from 48.1%, while 10.5% said jobs were "hard to get," down from 11.1% – that meant that the so-called labour market 'differential' rebounded towards the top-end of its recent range.

REVISIONS: In addition to the February headline and wage metrics, there will be focus on revisions to prior data. JPMorgan points out that "historically, the last five times (July 2021, August 2021, November 2021, March 2022, August 2022) when NFP printed higher than its 3-month averages, we have seen a downward revision four out five times," and they have also noted that revisions are more possible when the data deviated from the 'norm'. "A revision along with a lighter than expected NFP will be viewed as favourable by the market as it softens the recent narrative around another round of inflation," JPM says.

POLICY IMPLICATIONS: Following solid economic data for the month of January, Fed Chair Powell this week guided markets towards expecting a 50bps rate rise at the March 21-22nd FOMC, and suggested that the Fed's forecast of the terminal rate (currently 5.1% vs market expectations of around 5.6%) could be revised up when the Staff Economic Projections are updated at the confab. SGH Macro said that this makes a 50bps rate rise the new baseline, and puts a 6% terminal rate into play. Accordingly, others have said that Powell's remarks raise the bar for any further hawkish repricing from the jobs data, were it to surprise to the upside, and on the other side, markets could react more dovishly if

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the data comes in on the soft side, which could help support risk assets. It is also worth noting that traders will be refining their expectations of the March Fed meeting in the context of not only the NFP report, but the February CPI data, which is released on March 14th.

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