Preview: US Nonfarm Payrolls due Friday 7th April 2023 at 13:30 BST / 08:30 EDT

Note: The desk will be running a special service covering the event from 13:00BST/08:00EDT to 13:45BST/08:45EDT on the squawk and headline feed, although only some markets will be trading in thin liquidity amid holiday closures

The headline rate of payroll additions is expected to ease in March, providing further evidence that tightness in labour markets is alleviating, which will be welcomed at the Federal Reserve which wants to see a slower jobs market to help it with its efforts to bring down rampant inflation. Accordingly, traders will be focussed on the headline and wages metrics, which will give a handle on growth and inflation pressures respectively. Recently, data which has signalled a slowing growth impulse and lower inflation has been dovishly received by markets, which could support risk assets. It is, however, worth noting that given the jobs data will be released on a public holiday, only some markets are open, and accordingly, we may have to wait until markets have fully opened the following week to gauge the reaction.

EXPECTATIONS: The US economy is expected to add 240k nonfarm payrolls in March, slowing from the pace of 311k in February, with the range of consensus forecasts between 150-342k. Meanwhile, the 3-, 6-, and 12-month averages stand at 351k, 336k and 362k, respectively, therefore if the data comes in as expected, it would be below the recent rates. The unemployment rate is expected to remain unchanged at 3.6%, although forecasts range from 3.4-3.8%, suggesting the possibility of some movement. The most recent FOMC economic projections see the jobless rate rising to 4.5% by the end of this year, before ticking up to 4.6% in 2024.

WAGES: Analysts will be paying close attention to the average hourly earnings measures, in the context of inflation implications. Average earnings are seen rising by +0.3% M/M, up from the prior rate of 0.2%; while the annual rate is seen cooling to 4.3% Y/Y from 4.6%. Fed Chair Powell has recently noted that wage growth has shown signs of easing. This was seen in the ADP payrolls data, where the median change in annual pay cooled to 6.9% Y/Y for job-stayers (prev. 7.2%), and 14.2% Y/Y for job-changers (prev. 14.3%).

PROXIES: Although not always a reliable indicator for the BLS jobs data, the ADP measure of private payrolls was cooler than expected in March, with 145k jobs being added to the economy, beneath the 200k expectation, and down from the prior rate of 261k; it also noted that wage growth fell more quickly in March. Initial jobless claims data for the week that coincides with the survey period for the NFP fell marginally to 191k vs 192k for the week that corresponds with the February jobs data. Meanwhile, the continued claims data for the comparable establishment survey weeks rose to 1.689mln from 1.665mln. In terms of business surveys, the ISM Manufacturing data for March saw the employment sub-index dip further into contractionary territory, to 46.9 from 49.1, continuing the weak trend since September 2022. Meanwhile, the employment sub-index in the ISM Services report fell to 51.3 from 54.0, falling for the second straight month. Analysts have also been very focussed on the JOLTS measure of job openings; although the data is dated (this week saw February JOLTS released, and we are due to get the March NFP on Friday), officials have suggested that they monitor long-term trends. That JOLTS data saw a lower-than-expected 9.93mln (exp. was 10.40mln from 10.82 mln), which resulted in a dovish repricing of Fed expectations.

POLICY IMPLICATIONS: The Fed recently moderated its rates guidance, removing its reference to ‘ongoing’ rate hikes, but still sees some additional policy firming as appropriate. Chair Powell also made the case that the central bank would be deciding policy on incoming data, on a meeting-by-meeting basis, as well as the actual and expected effects of the credit tightening. Accordingly, traders will frame the jobs report in that context, helping to shape expectations for the May 3rd FOMC meeting – where money markets are pricing in a 55% probability of rates being unchanged, and a 45% probability of rates being raised by 25bps. A 25bp rate hike would take rates to 5.00-5.25%, in line with the Fed's median dot for the terminal. The data will also help shape expectations for the rest of the year – where 75bps of rate cuts are currently priced, at odds with the Fed’s guidance. It is worth noting that the Friday jobs data will not be the final piece of the puzzle, given that March CPI data is due April 12th, PPI data is due April 13th, and PCE is due on April 28th, giving the Fed further data to digest between now and the May confab.

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