Preview: Nonfarm Payrolls due Friday 5th May 2023 at 13:30 BST / 08:30 EDT

SUMMARY: Headline NFP is expected to rise by 180k in April, cooling from the prior 236k while the unemployment rate is seen ticking up slightly to 3.6% from 3.5%. The wages will be eyed to gauge inflationary pressures, and M/M wages are expected to maintain a pace of 0.3% while the Y/Y is seen rising 4.2%, the same pace in March. Labour market proxies have been mixed: initial jobless claims rose in the week that coincides with the BLS survey period, while continued claims moved lower; the ADP added jobs well above expectations, but wages were cool; ISM Manufacturing employment gauge returned to expansionary territory, and the Services employment remained in expansionary territory, but it did slow from March. The jobs report will be used to gauge the Fed's next move, whether that be a pause, or lead to some "additional policy firming", but it is worth stressing there is plenty of data between now and the June 14th FOMC, while the expected and actual tightening of credit conditions will also be key, particularly after First Republic (FRC) saga and more recently, PacWest (PACW) exploring options.

EXPECTATIONS: Headline NFP is expected to show 180k jobs were added in April, down from March's 236k, while analyst forecasts range from 94k-265k. This compares to the 3-,6-, and 12-month averages of 345k, 315k, and 345k, respectively. 180k would mark a cooling in the growth of the labour market to levels more consistent with pre-COVID trends, coming down from extremely hot levels. The unemployment rate is seen rising to 3.6% from 3.5%, with forecasts ranging between 3.4-3.7%, but still well below the FOMC's median view of 4.5% by year-end and at 4.6% by the end of 2024.

WAGES: The M/M average hourly earnings metric is expected to rise 0.3%, maintaining the prior pace, while the Y/Y pace is also seen painting at 4.2%. Analyst forecasts range between 0.2-0.5% for M/M and 4.0-4.3% Y/Y. Officials had previously harked on the need for wage pressures to cool in their fight against inflation, although note Powell highlighted at the May FOMC that wages are not the primary driver of inflation in perhaps an indication that the Fed is trying to distance its policy from the wage data as it looks to pause. Regardless, note that the latest beige book commentary saw that wages had shown some moderation but still remained elevated. Meanwhile, the ADP employment report saw growth of wages for job stayers ease to 6.7% from 6.9%, while the job changers wage growth eased to 13.2% from 14.2%, the slowest pace of growth since November 2021.

PROXIES: For the week that coincides with the BLS survey period, initial jobless claims rose to 245k from 240k, despite expectations for an unchanged print while continued claims fell to 1.858mln from 1.861mln, a surprise fall against the consensus rise to 1.878mln. The ISM Manufacturing employment gauge was strong, returning to the expansionary territory after two months of contraction. The Services ISM employment component still expanded in April, but at a slower pace in April. The latest ADP, although not always an accurate gauge for the BLS report, was hotter than expected on jobs, adding 296k jobs in April, above the 148k expectation and accelerating from the prior revised 142k. The ADP report led Goldman Sachs (GS) to increase their headline NFP forecast by 25k to 250k. However, others, such as Capital Economics, maintain their forecast of 180k based on the upward trend in initial jobless claims and downward trend in job openings.

POLICY IMPLICATION: The FOMC hiked by 25bps as expected and opened the door to a pause, although Fed Chair Powell was reluctant to say they have come to a pase, but admitted they are very close to the end and stressed a meeting-by-meeting approach on how much policy firming is needed in the future, taking a data-dependent stance. Therefore data from now on until June will be eyed to see if the Fed needs to enact a final hike, or at least some "policy firming", but markets are very much pricing in the end of the hiking cycle. If the wages data comes in hot, as well as a hot headline NFP, analysts at Soc Gen note "it would support the Fed's caution not to rule out further future hikes, even if it emerges in time that the cycle has peaked". However, given the next meeting is not until June 14th, there will be plenty of data to digest, including two CPI and PPI reports, one PCE release, and another jobs report after the April one. Meanwhile, the expected and actual tightening of credit conditions will be key, and the post-Fed downside in regional banks, particularly PacWest (PACW) after reports it is exploring strategic options, only increases the expected tightening of credit conditions. The senior loan officer survey will be critical on May 8th.

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