



Preview: US Nonfarm Payrolls due Friday 2nd June 2023 at 13:30 BST / 08:30 EDT

SUMMARY: The headline NFP is expected to cool in May to 190k from 253k, although analyst forecasts range between 100-293k. The unemployment rate is seen rising to 3.5% from 3.4%, while the wage metrics are seen easing to 0.3% from 0.5% M/M but maintaining April's 4.4% Y/Y pace. Labour market proxies for May ahead of the NFP saw a hot ADP employment number, but the wage components in that survey showed further signs of cooling. The jobless claims data that coincides with the BLS survey week were lower than expected, for both initial and continued counts. Meanwhile, the S&P Global PMI report noted manufacturing growth remained solid in May, while services employment rose at a quicker pace. The Challenger Layoffs came in above expectations. Albeit for April, the latest JOLTS data came in well above expectations. The report will be used to gauge the Fed's reaction function, where data in the run-up to the release (hot PCE and hot JOLTS) saw money markets price in a near 70% probability of a 25bp hike in June, but since then Fed voters have been calling for a "skip", albeit with the caveat that this could change depending on the data. We are also due a CPI and PPI report on the 13th and 14th of June, respectively, which will also be key for the Fed.

EXPECTATIONS: The headline NFP is seen cooling to 190k from the prior 253k with analyst forecasts ranging between 100k and 293k, however, it is worth noting that over the last year, the initial release has exceeded the median projection on each occasion. The unemployment rate is seen rising to 3.5% from 3.4% last month, but estimates range from 3.4% to 4.0% at the highest and compare to the current Fed projection of 4.5% at the end of 2023, albeit this will be updated in June. There are no expectations for the measures of slack, but the Labour Force Participation rate in April was unchanged at 62.6%, while Underemployment fell to 6.6% from 6.7%. Meanwhile, private payrolls are seen cooling to 165k from 230k, and manufacturing payrolls are seen slowing to 6k from 11k.

WAGES: The wage components will be viewed in the context of implications for inflation, although it is worth noting a San Francisco Fed paper suggested the pass-through of higher wages to inflation is very small, while Barkin (non-voter) said he is hearing less about the risk from wage increases. Nonetheless, the data will still be key, particularly after Governor Waller said he will be watching wage information particularly when deciding what to do in June. The May Beige Book, as in the April report, found that wages grew modestly. Meanwhile, the latest ADP report showed more signs of wage growth cooling for both job stayers and job changers. The Average Earnings M/M are seen cooling to 0.3% from 0.5%, with forecasts between 0.1% and 0.6% (excluding the 3.0% anomaly). The Y/Y metric is seen at 4.4%, unchanged from the prior month, with forecasts ranging between 4.2 to 4.5%.

PROXIES: The Initial Claims data, for the week that coincides with the BLS survey period, came in beneath expectations and fell to 242k from 262k previously, completely paring the large rise in the prior month. The Continued Claims data dipped to 1.794mln (prev. 1.799mln), shy of the expected 1.8mln. The ISM reports are not available at the time of writing, but the S&P Global May surveys saw a weak manufacturing release and a strong services read, although on employment specifically, it did note manufacturing employment growth remained solid in May, while service employment rose at a quicker pace. In the regional surveys, Philly Fed employment was weak, re-approaching a post-COVID low, while the NY Fed manufacturing survey saw employment remain in contractionary territory, but at a slower decline than the prior month. The latest Challenger Layoffs data accelerated in May to 80k from 67k, while the latest ADP report was strong, coming in at 278k, above the 170k expectation, but down slightly from the prior 291k. Albeit for April, the JOLTS data was hot coming in above expectations at 10.103mln from 9.745mln, unwinding some of the easing made through Q1.

POLICY IMPLICATIONS: Money market pricing has been very volatile as of late where the latest hot April PCE and JOLTS report led to a near 70% probability for a 25bp hike in June. However, that swiftly reversed when both Fed voters, Vice Chair Nominee Jefferson and Harker, called for a "skip" at the June FOMC, allowing them time to assess the data, policy lags and credit tightening before determining how much more policy-firming is needed. Harker had suggested data between now and then could change his view however, so the NFP report will be eyed for gauging the Fed's reaction function. A hot print and hot wages could sway the Fed to hike 25bps, but there is still CPI and PPI data due ahead of the FOMC. To summarise some of the voter commentary leading into the meeting, Governor Bowman stated additional rate hikes are likely, albeit did not say when. Waller said he is in favour of a skip or a hike, depending on the data. Goolsbee has leant dovish, while Kashkari has said it is a close call and Logan has said data does not justify a pause in June.



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