newsquawk

PREVIEW: US June Nonfarm Payrolls will be released on July 7th at 13:30EDT/08:30BST

Labour market proxies were mixed in June: initial jobless claims spiked in the comparable survey week, with the four-week moving average higher heading into the June data; within S&P Global's flash PMI data, the employment sub-indices eased, though remain above the 50-mark, which separates expansion and contraction; the ISM manufacturing data saw employment fall into contraction, but the services gauge saw the employment index rise into expansion; ADP's gauge of payrolls growth spiked higher in the month, while Challenger Layoff numbers tumbled lower. Currently, markets are expecting the Fed to lift rates in July, and it is assumed that only a very significant miss along with weakness in other metrics will derail that plan; meanwhile some of the strong data released this week has seen expectations of the Fed terminal rate rise, to 5.45% in November 2023.

NONFARM PAYROLLS GROWTH EXPECTED TO SLOW:

- The rate of US nonfarm payrolls growth is expected to moderate in June to 225k from 339k in May (and vs 3-month average 283k, 6-month average of 302k, and 12-month average of 339k). The range of forecasts is between 110-288k.
- Some, however, note that the labour market has continued to remain resilient in the face of an expected slowdown, with the last downside surprise to the headline being observed in March 2022.
- Note that headline NFP has not come in beneath the consensus analyst estimate since March 2022.

PROXIES:

- **CLAIMS:** Jobless claims data for the period that syncs with the BLS' survey period for the jobs report showed initial claims spiking to 265k (highest since October 2021), with the four-week average at 256k going vs an average of 231k into the May data. Continuing claims, meanwhile, was averaging 1.76mln in the survey week vs 1.8mln into the May data.
- **ADP:** ADP June report saw 497k jobs added, well above the expected 228k and the prior 267k. The gains were led by consumer-facing services, with leisure and hospitality, trade and transportation, and education and health services the biggest contributors, while the higher earning potential jobs such as tech and finance showed declines, as did manufacturing.
- **JOB CUTS:** Challenger layoffs fell to 40.7k in June from 80.1k in May, a seven-month low, and now significantly beneath the peak of 103k in January with the pace of job cuts in tech losing momentum.
- **BUSINESS SURVEYS:** The ISM Manufacturing report's Employment Index fell into contraction in June, registering 48.1 from 51.4; the survey noted signs of more employment reduction actions in the near-term. Meanwhile, the ISM Services gauge saw the Employment Index return into expansions at 53.1 from 49.2 prior; comments from respondents included: "Unable to find qualified candidates for some open positions" and "finally able to fill some positions that have been open for some time."
- **CONSUMER SURVEYS:** Within the Conference Board's June consumer confidence data, the spread between jobs 'plentiful' and jobs 'not so plentiful' widened, indicating upbeat feelings about a labour market, while consumers' assessment about the short-term labour market also improved, with a greater number expecting more jobs to be available, and the number of consumers anticipating fewer jobs declined. But on the earnings front, consumers short-term income prospects worsened in the month, with fewer expecting incomes to increase in the short term, while the number of consumers expecting earnings to decrease ticked-up slightly.

UNEMPLOYMENT EXPECTED TO EASE:

- The unemployment rate is seen falling by 0.1ppts to 3.6% in June. Analysts note that the jobless rate is likely to decline due to the reversal of the fall in household employment seen in May, but a gradual increase is expected in the second half of the year. The Fed's most recent economic projections released last month showed officials expect the jobless rate to rise to 4.1% by the end of this year, and then to 4.5% next year.

- If the unemployment rate does slip, traders will look to the participation rate, which has been stable in recent months; the metric has remained at 62.6% for the last three jobs report; a higher reading indicates that more people are entering the labour market. Meanwhile, the U6 measure of underemployment – which measures the percentage of the US labour force that is unemployed, plus those who are underemployed, marginally attached to the workforce, and have given up looking for work – has been between 6.6-6.7% in the last three months.

EARNINGS:

- Average earnings are expected to rise 0.3% M/M, matching the pace seen in May, while the annual measure is likely to ease to a rate of 4.2% Y/Y (from 4.3% previously). Analysts say the decline is likely given the easing seen in the JOLTs quit rates in recent months; a higher quits rate is seen as a sign of consumer confidence in their earnings prospects. However, the quits rate picked up in June to 2.6% from 2.4%, which some analysts said could mean upside potential for the wages measures.
- After falling in May to the lowest since April 2020, average workweek hours are seen unchanged at 34.3hrs in June.

POLICYMAKER FOCUS:

- The FOMC’s June meeting minutes, released this week, said that “some” officials had pointed out that payroll gains had remained robust, but some other measures of employment — like those based on the BLS’ household survey, the Quarterly Census of Employment and Wages, and the Board staff’s measure of private employment using data from the payroll processing firm ADP — suggested that job growth may have been weaker than indicated by payroll employment.
- A couple of participants also drew attention to the subdued growth in hours worked.
- Analysts at Morgan Stanley said that a sub-100k headline could see the Fed pullback on its plan to hike in July. However, SGH Macro believes that the hike is all but done, stating that while a soft figure could trigger speculation of a pause/skip, “the Fed won’t be convinced by one number that the trend has changed.”