Preview: US Nonfarm Payrolls due Friday 1st September 2023 at 13:30 BST / 08:30 EDT

SUMMARY: Headline NFP is expected to cool once again with job growth for August seen at 170k, down from July's 187k rise, although expectations vary between 40k and 230k. The unemployment rate is seen at 3.5%, while M/M wages are seen easing to 0.3% with Y/Y wages seen at 4.4% again. Labour market proxies for August saw the Initial Jobless Claims data (for the week that coincides with the BLS survey) fall from the August high of 250k. However, analysts are cognizant of the impact of not only Yellow Corp's bankruptcy on the NFP report, given Yellow had in excess of 30k employees, but also the impact of ongoing strikes. The latest JOLTS data, albeit for July, added to signs of a cooling labour market while the quits rate also fell. The ADP report was cooler than expected and was consistent with the pace of job creation before the pandemic. The CB Consumer Confidence respondents saw a deterioration in job market appraisal, with the percentage of those finding jobs plentiful declining M/M, and those finding jobs hard to get increasing. With markets torn between expecting another Fed hike, or deeming that rates are already at terminal, as well as a range of views on the FOMC, the NFP data will be key in gauging expectations for future policy decisions. Markets largely expect the Fed to keep rates unchanged in September, but November is seen as a coin toss for leaving rates unchanged or hiking by 25bps, where a dovish release could see pricing tilt more decisively towards the peak has passed, but a hot report may factor in one further tightening move with more confidence. With September largely seen as unchanged, barring any drastic releases, it is likely participants will focus more on November with the Fed in a patient stance, before then looking to the timing of rate cuts in 2024 - currently nearly fully priced for a 25bp cut in May after the JOLTS report and soft 2nd estimate of GDP.

EXPECTATIONS: Headline NFP is expected to cool once again with job growth for August seen at 170k, down from July's 187k rise, although expectations vary between 40k and 230k. Meanwhile, private payrolls are seen at 150k, down from the prior 172k, and manufacturing is seen unchanged following July's 2k decline. The unemployment rate is forecast to be unchanged at 3.5% after July's surprise decline from 3.6%, although some expect a reversal to the 3.6% figure that would still be beneath the year-end median Fed projection of 4.1%, albeit we are set to get another set of projections in September. For wages, average earnings are seen easing to 0.3% from 0.4% in July, with forecasts ranging from 0.2-0.4%. On a yearly basis, earnings are seen rising 4.4%, unchanged from July, while analysts' forecasts are evenly split either side at 4.3-4.5%.

ADP: The ADP National Employment was cooler than expected at 177k (exp. 195k), down from the prior month's even hotter 371k print after a revision from 324k. Of course, the correlation between ADP and NFP is not great (last month's NFP was dovish whereas ADP was hawkish). Nonetheless, the report highlights information on wages where the change in annual pay for Job-Stayers rose 5.9% (prev. 6.2%), while Job-Changer's pay growth eased to 9.5% from 10.2%. ADP's Richardson noted that "This month's numbers are consistent with the pace of job creation before the pandemic," and "After two years of exceptional gains tied to the recovery, we're moving toward more sustainable growth in pay and employment as the economic effects of the pandemic recede."

CLAIMS: Initial jobless claims for the week that coincides with the relevant BLS survey period, slowed to 239k from 250k previously, in line with analyst expectations, while continued claims for the coinciding week came in at 1.702mln (prev. 1.711mln, exp. 1.708mln). Since then, the initial claims data has trended downward, but it is worth highlighting that on July 30th, Yellow Corporation, which hired c. 30k employees, ceased operations and filed for Chapter 11 on August 6th. It is hard to know for sure, but the spike to 250k before the coinciding release, may have been due to the bankruptcy of Yellow Corp, and it could have implications for this month's NFP. Analysts at Oxford Economics expect the bankruptcy of Yellow, as well as the Actors union strike to have a negative impact on payrolls, OxEco also notes the BLS strike reports showed nearly 18k workers were newly on strike in August.

JOLTS: The latest JOLTS data, albeit for July, was very dovish with Job Openings falling beneath all analyst expectations to 8.8mln from 9.6mln, and showing signs that labour demand is cooling, while the quits rate also fell, to 2.3% from 2.4%. Oxford Economics highlights the fall in the quits rate is key given wages tend to be correlated, but with a six-month lag. Therefore, a falling quits rate may help ease wage pressures to a level that is more consistent with the Fed's 2% inflation target, perhaps not immediately, but it may help with keeping wages down in the future. Meanwhile, BMO noted that the quits rate is at a level consistent with pre-pandemic levels.

CONSUMER CONFIDENCE: The August CB Consumer Confidence report saw consumers' appraisal of the labour market deteriorate, where 40% noted jobs were plentiful (vs prev. 43.7%), while 14% said jobs were hard to get (prev. 11.3%). Meanwhile, the expectations for six months ahead also disappointed, reflecting less confidence about future business conditions, job availability and incomes. The consumers' assessment of the short-term labour market was also less favourable, where 18.0% anticipate fewer jobs to be available, up from 15.6% in July.

POLICY IMPLICATIONS: With markets torn between expecting another Fed hike, or deeming that rates are already at terminal, as well as a range of views on the FOMC, the NFP data will be key in gauging expectations for future policy decisions. Markets largely expect the Fed to keep rates unchanged in September, but for November see it as a coin toss for leaving rates unchanged or hiking by 25bps. A dovish release could see pricing tilt more decisively towards the peak has passed, but a hot report may factor in one further tightening move with more confidence. However, with September largely seen as unchanged, barring any drastic releases, it is likely participants will focus more on November with the Fed in a patient stance. SGH Macro's Tim Duy noted he read Powell's "proceed carefully" message, as "not September". However, this report will only tell part of the story with the CPI report due September 13th, and there will still be more data to digest between now and the November meeting. Aside from the precise terminal level, the debate is starting to switch to how long should the Fed keep rates at terminal for, with markets currently pricing in the first rate cut by mid-2024. In fact, after the data this week (JOLTS & GDP) money markets now nearly fully price in the first rate cut by May 2024. A cooler NFP release could see this become fully priced, but the Fed will likely not admit when they are going to cut rates, other than "some time in 2024", so the updated Summary of Economic Projections will be key in determining Fed expectations. The Fed minutes and recent commentary have all confirmed that a slowdown in the labour market is likely to help inflation return to target. The JOLTS data (for July) saw a strong dovish reaction, emphasising just how sensitive the market is to labour market reports, and WSJ's Timiraos admitted that the Fed will be pleased with that latest JOLTS report. If the slowdown does not continue, it is likely the Fed will have to hike rates again, but Chair Powell did acknowledge that risks are becoming more balanced, while other Fed officials (Harker, Bostic) have expressed they believe the Fed has done enough on rates already, though Powell did stress they are prepared to hike again if necessary - it all depends on the data.