PREVIEW: US Nonfarm Payrolls due Friday October 6th 2023 at 13:30 BST / 08:30 EDT

SUMMARY: The headline NFP is expected to rise by 170k from August's 187k, with forecasts ranging between 90-256k. The unemployment rate is seen easing to 3.7% from 3.8%, but the consensus ranges from 3.4% to 3.9%. The wage data is seen rising 0.3% M/M from 0.2%, while the Y/Y print is expected to remain steady at 4.3%. Regarding Fed implications, the Median 2023 dot plot implies there is one more hike expected this year, but ultimately the data will be the deciding factor. The upcoming NFP release, and the September CPI and PCE reports are all due before the Fed's November meeting and will be taken in totality for whether the FOMC decides to lift the Federal Funds Rate, which would take it to the implied terminal level. However, markets are leaning towards an unchanged decision for November with just a 22% probability of a hike, nonetheless, a hot jobs report could see those odds increase and vice versa. Looking ahead to December, just 10bps of tightening is priced in currently, which implies a 40% probability of another 25bp hike by year-end, showing the market believes the Fed may be at terminal rate already.

EXPECTATIONS: Headline NFP is expected to rise by 170k in September, slowing from August's 187k pace, but forecasts vary between 90k and 256k across economists. The Unemployment rate is expected to tick down to 3.7% from 3.8%, with forecasts ranging between 3.4-3.9%. Wages are expected to rise 0.3% M/M (prev. 0.2%, range 0.1-0.4%), with the Y/Y rate seen maintaining the prior month's pace of 4.3%, with the range narrow between 4.2-4.4%. There are no expectations for the measures of slack in the labour market, but the labour force participation was previously 62.8% while U6 underemployment was at 7.1%. Meanwhile, Private Payrolls are seen rising 160k, slowing from the prior 179k and with manufacturing payrolls expected at 5k, slowing from the prior 16k.

FED IMPLICATIONS: The latest Fed dot plots implied one more rate hike is forecast this year, according to 12 dots from the FOMC, but markets are leaning back against that expectation with just 10bps more tightening priced in by year-end. If the Fed decides to hike again, the question is whether that happens in November or December, but they will likely let the data make this decision. A hotter than expected jobs report could see the Fed and market pricing lean towards a November hike, but a cool report would likely do the opposite. Nonetheless, the NFP report will only be part of the Fed calculus with CPI and PCE also due before the November meeting, while Powell's "proceed carefully" message, gives more weight to staying patient and reassessing in December when more data is available. With inflation on a clear downward path, there has been increased attention on the labour market, which has been remarkably resilient in the face of Fed rate hikes. The concern is that a hot labour market will make the Fed's job of returning inflation to target more difficult. Although many on the FOMC are suggesting the overall terminal level is not as important as how long the Fed stays at terminal for, this data is likely to have a greater impact on the terminal rate itself, given rate cuts are not expected until late 2024, with the dot implying rates at 5.1% by the end of next year. Therefore the NFP report, coupled with other key releases like CPI/PCE, will help the Fed determine whether rates are sufficiently restrictive. Powell himself acknowledged the last jobs report was a good example of what we want to see, which added 187k jobs, but the unemployment rate rose to 3.8%. The Fed median dot plot suggests it expects the unemployment rate to remain at 3.8% by year-end, before rising to 4.1% in 2024 and 2025, but Powell and Co have stressed these forecasts are not a plan and are subject to large uncertainties.

LABOUR DATA: The initial jobless claims data for the week that coincides with the usual BLS survey period fell to 201k from 221k, highlighting a lack of incremental progress in loosening the labour market, but with the lower amount of job gains seen in recent months, it does show that the slowing labour market is not being met with widespread layoffs - the Challenger data will be released on Thursday, one day before NFP. Note, continued claims that coincides with the survey period rose slightly to 1.67mln from 1.66mln. Meanwhile, the ADP data for September was cooler than expected at 89k, beneath all analyst forecasts - albeit the historical correlation to the BLS report is non-existent. Meanwhile, the wage metrics for job stayers slowed to 5.9% from 6.2%, and job changers slowed to 9% from 10.2%. Elsewhere, the September Manufacturing Employment component in the ISM survey saw a notable jump, returning to expansionary territory for the first time since the May report. Meanwhile, the ISM Services Employment sub-index eased to 53.4 from 54.7, remaining in expansionary territory, just at a slower rate than August.

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