Preview: US Nonfarm Payrolls due Friday November 3rd 2023 at 12:30 GMT / 08:30 EDT

SUMMARY: Headline NFP is expected to rise by 180k, easing from the prior 336k, with analyst forecasts ranging between 125-285k. The unemployment rate is seen maintaining a 3.8% pace, while M/M wages are expected to accelerate to 0.3% from 0.2%, with the Y/Y rate seen easing to 4.0% from 4.2%. With the market largely pricing in that the Fed is done with rate hikes, attention will shift further out the curve to help determine how long it needs to keep rates at a restrictive level for, while the Fed will be using it to help determine if rates are sufficiently restrictive or not. Although the market is largely pricing rates are already at peaks, Powell on Wednesday did keep the door open to more hikes if needed. Nonetheless, with the next SEPs due at the December meeting, this data will also help shape expectations for those. However, as always, this data release will only tell part of the story in terms of helping to gauging future Fed expectations, with plenty of other data due before now and the December FOMC.

EXPECTATIONS: The US labour market is expected to add 180k jobs in October, easing from the prior pace of 336k, albeit analyst forecasts range from 125k to 285k across 79 estimates via Reuters. The unemployment rate is seen maintaining a 3.8% pace, with forecasts between 3.6% and 3.9%. There will be a lot of attention on the wage metrics too, with M/M earnings expected to accelerate to 0.3% from 0.2%, and estimates varied between 0.1 and 0.4%, while the Y/Y pace is seen cooling to 4.0% growth from 4.2% in September, with the range between 3.8 and 4.2%.

FED IMPLICATIONS: At the November FOMC, Powell repeated the Fed will make decisions on the totality of data and balance of risks, while also stressing that the Fed has not made a decision yet for the December meeting. The upcoming data could help shape future expectations for the Fed, but many, and market pricing, expect it is now done with rate hikes. Powell echoed his proceed carefully line at the November press conference and noted the risks of doing too much and doing too little have become more balanced, adding they are very close to the end of the cycle. Therefore, the focus for markets is on how long will the Fed keep rates at restrictive levels before cutting, despite pushback from Powell on the notion of cuts any time soon. Meanwhile, the FOMC will likely use this data to help determine if rates are at a sufficiently restrictive level or not. This data is unlikely (barring any huge surprises) to have a big impact on market expectations for the December rate decision on its own, however it could help shape expectations for the Fed's December Summary of Economic Projections, particularly the "dot plots". The next FOMC is due on December 12/13th, and there is still plenty of data due before then, including the November NFP (Dec 8th), October and November CPI reports (Nov 14th, Dec 12th), and the October PCE (Nov 30th). Note, although the tone of the press conference was dovish, Powell did keep the option to hike again, dismissing the idea it would be difficult to resume hiking again after pausing, also warning that he is attentive to resilient economic data and demand for labour, and these could put any further progress on inflation at risk, thus warranting further rate hikes.

LABOUR MARKET PROXIES

IJC: The initial jobless claims data for the week that usually coincides with the BLS NFP survey period fell to 200k from 211k, beneath the 212k forecast, a relatively hot print, with jobless claims since the end of September gravitating around the 200k mark, showing that any signs of weakness in the labour market is not being met by layoffs. Meanwhile, the continued claims data for the coinciding week accelerated to 1.783mln from 1.727mln, perhaps showing that those out of a job are struggling to return to the labour force. The latest jobless claims data saw the 4-week average for October at 210k, up from the 208k last week and vs the 209k seen at the end of September.

ADP: The ADP national employment in October rose 113k from 89k but was short of the 150k consensus. Meanwhile, the median change in annual pay saw job-stayers and job-changers rise 5.7% (prev. 5.9%) and 8.4% (prev. 9.0%), respectively. Indicating slower wage growth for October. However, as always, it is not unfair to say this does not give the most accurate representation of the official BLS report.

LAYOFFS: The challenger layoffs eased further in October, at just 37k, down from the 48k seen in September, and showing further evidence that any labour market slowdown is not being met with widespread layoffs.

ISM: The manufacturing ISM employment index slipped back into contractionary territory in October after expanding in September, while the services ISM will not be released until after the NFP, but the current expectation for manufacturing payrolls is to contract by 10k, which would be in fitting with the ISM employment index.

JOLTS, ECI, ULC: Although it is for September, Job openings rose to 9.553mln and above expectations, which points to the stubborn tightness of the labour market. Meanwhile, the quits rate was unchanged at 2.3% for the third consecutive month, and Oxford Economics highlighted that the rate is a good leading indicator of wage pressures, suggesting wage growth will continue to moderate, but most measures of wage growth only show a gradual cooling. However, the employment cost index for Q3 saw a rise to 1.1% from 1.0%, above the 1.0% forecast, while the unit labour costs for Q3 declined by 0.8%, despite expectations for +0.7%, however the prior was revised up to 3.2% from 2.2% previously. It is worth stressing the ECI and UCL data was for Q3 (Jul-Sept), and the NFP release is for October.