Preview: US Nonfarm Payrolls due Friday 5th January 2024 at 13:30GMT / 08:30EST

Summary: Headline Nonfarm Payrolls are expected to rise by 170k, easing from the prior 199k which was buoyed by the return of striking auto workers. However, analyst expectations are wide, varying between 80k and 225k. The unemployment rate is seen rising to 3.8% from 3.7%, with ranges between 3.6-3.9%. On earnings, the M/M is seen rising 0.3%, easing from the 0.4% prior, with expectations between 0.1 and 0.4% while the Y/Y is expected to ease to 3.9% from 4.0%, with analyst forecasts ranging between 3.8% and 4.2%. Labour market proxies saw jobless claims hot around 206k while the 4wk average for December was 208k vs the 220k average in November. The ISM Manufacturing employment print was above expectations but still in contractionary territory, but closer to neutral than what was seen in November. Challenger layoffs eased while the ADP report was hotter than expected on the headline, but the wages metrics had cooled. Meanwhile, the November JOLTS report showed a cooling labour market. The NFP data will be used by both Fed and market participants to gauge when it will be appropriate for the Fed to first cut rates, markets are currently leaning towards the first cut in March, but the Fed have been attempting to dial back these expectations.

Expectations: Headline Nonfarm Payrolls are expected to rise by 170k, easing from the prior 199k although analyst expectations are wide, varying between 80k and 225k. The unemployment rate is seen rising to 3.8% from 3.7%, with ranges between 3.6-3.9%. Note, Oxford Economics highlights there "is more uncertainty than usual around the forecast for the unemployment rate since the December data incorporate annual revisions to seasonal adjustment factors". On earnings, the M/M is seen rising 0.3%, easing from the 0.4% prior, with expectations between 0.1 and 0.4% while the Y /Y is expected to ease to 3.9% from 4.0%, with analyst forecasts raining between 3.8% and 4.2%. The private payrolls are expected to rise by 130k from 150k, with manufacturing payrolls seen rising by 5k, easing from the prior 28k. Government payrolls previously added 49k jobs. There are no expectations for the measures of slack, but in November the labour force participation rate rose to 62.8% from 62.7%, while the U6 underemployment fell to 7.0% from 7.2%.

Labour market proxies: The December ISM Manufacturing survey saw the employment component remain in contractionary territory at 48.1 but it did rise from the prior 45.8 and was above the 46.1 forecast; the services survey is due after the NFP report on Friday. The Initial Jobless Claims for the week coinciding with the usual BLS survey window rose to 206k from 203k, showing signs of a tight labour market while the Continued Claims fell to 1.867mln from 1.877 mln. However, given the data is over the holiday period it is worth noting it can be quite volatile and unreliable. In December, Challenger Layoffs eased to 34.8k from 45.5k and the report noted that layoffs have begun to level off and hiring has remained steady at the end of 2023. However, the report added "That said, labor costs are high. Employers are still extremely cautious and in cost-cutting mode heading into 2024, so the hiring process will likely slow for many job seekers and cuts will continue in Q1, though at a slower pace”. Meanwhile, the ADP National Employment report, although not typically a strong guide to NFP, beat on the headline at 164k (exp. 115k), accelerating from the prior 101k and towards the top end of the forecast range between 60-175k. Meanwhile, the wages components saw the median change in annual pay for job stayers ease to 5.4% from 5.6% while for job changers it eased to 8.0% from 8.3%, it also noted that "While wages didn't drive the recent bout of inflation, now that pay growth has retreated, any risk of a wage-price spiral has all but disappeared." Elsewhere, the JOLTS data for November showed signs of a cooling labour market with a fall in job openings, new hires and the quits rate. Oxford Economics also highlighted the 3m average of the ratio of job openings to unemployed workers fell to 1.41 from 1.44, a level that is still elevated, but the lowest since September 2021. The consultancy notes a ratio of 1.0 is more consistent with a balanced labour market.

Fed: After the dovish pivot from Fed Chair Powell in December, participants will be using the NFP data to help estimate when the first rate cut will occur. Money markets currently assign a c. 70% probability of the first cut in March but many Fed officials have been attempting to dial back these early expectations. The latest minutes noted that participants viewed the policy rate as likely at or near its peak but several observed that circumstances might warrant keeping the policy rate at current levels longer than they currently anticipate. Participants also noted the unusually elevated degree of uncertainty and it was possible that further increases in the target range may be appropriate. Meanwhile, a number of participants highlighted uncertainty around how long restrictive policy would need to be maintained, and they pointed to downside risks to the economy associated with an overly restrictive stance. There was little in the minutes to suggest when the First Fed rate cut would occur but markets (and the Fed) will be using this data, among others, to help shape their rate cut expectations. Morgan Stanley in December said the expectations for a Fed rate cut in March are overdone and only expect a cut in March if nonfarm payrolls fall below 50k for February and with core CPI below 0.2% M/M.

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