Preview: US Nonfarm Payrolls due Friday 2nd February 2024 at 13:30 GMT / 08:30 EST

SUMMARY: Headline NFP is expected to grow by 180k in January, easing from December's 216k, while the unemployment rate is forecast to tick up to 3.8% from 3.7%. Earnings are seen rising 0.3% M/M in January, easing from the 0.4% pace in December, with Y/Y seen rising 4.1%, in fitting with December's pace. The labour market proxies have been leaning soft with a miss in ADP and a rise in Challenger layoffs. The initial jobless claims data for the week that coincides with the usual BLS survey window saw a notable decline, although it was likely weather-related with more recent initial claims figures rising, whereas the continued claims data rose. However, the December JOLTS data rose above expectations while the quits rate was unchanged. Analysts highlight the unchanged quits rate signals slower wage gains, which was also evident in the softer US Employment Cost Index report for Q4. Note, the BLS will also be releasing annual revisions to the establishment survey, but it will not provide revisions to the household survey despite adopting a new methodology for the January figures, thus, the January household survey data will not be directly comparable with data for December 2023 or earlier periods. Regarding Fed implications, Fed Chair Powell stated the base case is not for a March rate cut but he did add that if the labour market saw an unexpected weakening, the Fed would be prepared to cut sooner. A dire report which takes the Fed off their base case would likely help put a March rate cut in play, providing the disinflation process continues, but there is still plenty of data due between now and March, including another NFP and PCE report, as well as two CPI reports.

EXPECTATIONS: Headline jobs added are expected to grow by 180k in January, down from the 216k gain in December although analyst forecasts are wide, ranging between 120-290k. Private payrolls are expected to rise by 155k, down from the 164k added in the prior month. Manufacturing payrolls are expected to add 5k jobs vs 6k in December. The unemployment rate is expected to tick up to 3.8% from 3.7%, with analysts forecasting between 3.7-3.9%. Note, in December the labour force participation saw a notable decline to 62.5% from 62.8%. On wages, monthly earnings are seen rising 0.3%, easing from the prior 0.4%. The Y/Y earnings are expected to rise by 4.1%, maintaining the pace in January, although forecasts range between 4.0 and 4.2%.

LABOUR MARKET PROXIES: The January ADP report, although not the best gauge for NFP, saw 107k jobs added in January, beneath the 145k forecast and prior 158k. However, Pantheon Macroeconomics highlight that the ADP measure has been close to the official estimate in the past three months. Meanwhile, within the ADP report, the wage metrics for job stayers eased to 5.2% from 5.4%, while for job changers it eased to 7.2% from 8.0%. The January Challenger Layoffs report saw a notable increase to 82k from 35k in December. The Initial Claims data for the week that coincides with the usual NFP survey window saw a notable decline to 189k from 203k, albeit the drop was likely related to the freezing weather in the US. The 4wk initial claims average over January rose to 208k from 203k in the prior week, but it does incorporate the steep weather-related drop, leaving it unchanged from the end of December 4wk average. The Continued Claims data for the NFP survey week, however, rose to 1.828mln from 1.806mln. The JOLTS data, albeit for December, was hotter than expected, rising to 9.026mln from 8.925mln (revised up from 8.79mln) although the quits rate was unchanged at 2.2%. Pantheon Macroeconomics writes the rebound in JOLTS does not matter as the data is volatile and subject to large revisions, however, the quits rate is more important as it signals slower wage gains. The Q4 Employment Costs Index eased to 0.9% from 1.1%, beneath the 1.0% forecast, also indicative of slowing wages. Employment wages within the report eased to 0.9% from 1.2%, while employment benefits eased to 0.7% from 0.9%.

ANNUAL REVISIONS: The report will see the incorporation of the 2023 revisions. Within the establishment survey, the BLS tells us that "nonfarm payroll employment, hours, and earnings data from the establishment survey will be revised to reflect the annual benchmark process and updated seasonal adjustment factors. Not seasonally adjusted data beginning with April 2022 and seasonally adjusted data beginning with January 2019 are subject to revision". Meanwhile, for the household survey, new population controls will be used in the estimation process which reflect the annual update of population estimates by the US Census Bureau. However, the BLS highlights, "In accordance with usual practice, historical data will not be revised to incorporate the new controls. Consequently, household survey data for January 2024 will not be directly comparable with data for December 2023 or earlier periods". Note, the US unemployment rate is derived from the household survey.

FED IMPLICATIONS: The FOMC on Wednesday saw rates left unchanged and removed its tightening bias in the statement as expected, it also played down the prospects of near-term rate cuts with Powell explicitly saying a March cut is not likely. Money markets have pared back their implied probability of a rate cut for the March meeting to c. 35% from the 50%+ pricing pre-FOMC. The upcoming NFP report will help shape those expectations, where a surprise downside report for the labour market would support the case for a March cut but it is seen as increasingly unlikely. Barclays and

Goldman Sachs have both pushed back their March rate cut calls since the FOMC to May, while BofA pushed back their rate cut call to June from March. Nonetheless, Fed Chair Powell said many times in his post-FOMC Presser/Q&A that the labour market remains strong, but he did warn of earlier rate cuts than expected if that were to change, "If we saw an unexpected weakening [in the labour market] that would certainly weigh on cutting sooner", how sooner remains to be seen, but March would still appear a possibility, providing the data supported it. When questioned on a March cut, Powell said, "I don't think that's...what we would call the base case", but he also didn't rule out the possibility. Powell pointed to the December SEPs - which saw three rate cuts in 2024 - "as good evidence of where people are", whilst saying that the "base case" assumes that "we have a strong labor market, we have inflation coming down, that's what people are writing their SEP around". So, if the base case assumes continued disinflation progress and a strong labour market leading to three rate cuts this year - with March being too early for the first cut in that scenario - a weak labour market report that takes the Fed off that base case could be the key to putting March back in play for the Fed and a deeper cutting cycle than the Dec SEPs median forecast of three 25bp cuts, assuming disinflation continues as expected.

DATES AHEAD: The next FOMC is on March 19-20th. The January & February CPI reports are due on February 13th and March 12th, respectively, as well as the February jobs report due March 8th and the January PCE due February 29th. All will be key in determining the timing of the Fed's first rate cut and extrapolating the depth of cuts over the year, with the market still priced for nearly six 25bps cuts across the year.