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PREVIEW - US Nonfarm Payrolls to be released on April 5th at 13:30BST/08:30EDT

SUMMARY: The rate of payroll growth is expected to cool in March, below recent averages. Labour market proxies have been mixed in the month; ADP surprised to the upside, there was a small tick higher in initial jobless claims and continuing claims; business surveys registered improvement in employment conditions in March, although still ultimately remain in contraction; JOLTs data was inline with expectations, and show a still healthy labour market. It would take an unexpected deterioration in the labour market for the Fed to consider rate cuts sooner, Chair Powell recently said – that is not a scenario that he currently sees; on the other side, Powell also suggested that hotter than expected jobs growth was not necessarily something that could stoke inflation, given the growth in labour supply.

EXPECTATIONS: Analysts expect 200k nonfarm payrolls to be added to the US Economy in March vs 275k gains in February with, with the range of forecasts between 150-250k. If the consensus is correct, that would also imply a reading lower than recent averages (3-month average 265k, 6-month average 231k, 12-month average 229k). Many are cognizant of potential revisions to the prior months' data after a sizeable revisions lower in February. Average hourly earnings are expected to accelerate M/M to 0.3% in March from 0.1% previously (range: 0.2-0.4%), while the annual rate of average hourly earnings are seen easing to 4.1% Y/Y from 4.3% (range: 3.9-4.2%). The unemployment rate is expected to be unchanged at 3.9% (range: 3.7-3.9%); note, the Fed's median projection is for unemployment to end this year at 4.0%.

LABOUR MARKET PROXIES: The ADP National Employment report for March was hotter than expected with the prior revised up, while the median change in annual pay for Job Stayers was unchanged at 5.1%, but for Job Changers, it rose to 10% from 7.6%. The Initial Jobless Claims for the period that coincides with the NFP survey week was at 212k, up from 200k in the February survey window; continuing claims rose to 1.819mln from 1.805mln. The ISM manufacturing PMI data saw the employment component rise to 47.4 from 45.9, still indicating a slowdown in employment, but not as fast as seen in February; the ISM services PMI employment index was similar, rising to 48.5 from 48.0. The JOLTs data (note, that is February data, while we are due to get March payrolls data) JOLTS data for February were inline with expectations, while the quits rate was unchanged; the data was said to show a labour market which is still quite healthy, which some said would allow the Fed to take a patient approach to policy.

FED IMPLICATIONS: Fed Chair Powell has said that a drastic weakening in the labour market would be a reason for the Fed to potentially cut rates sooner, but he also noted that a strong labour market would not be a reason to hold off on rate cuts either. With the labour market holding up strong, it appears less likely that a labour crash is imminent therefore it is unlikely the Fed will act earlier than expected with analysts and markets largely looking for the first cut in June. Several Fed speakers since the March FOMC have raised concerns about the risks of acting too early, including Bostic, Daly, Mester, and Waller. Powell however has noted that risks are more balanced, and that the Fed is prepared to maintain rates at current levels for longer if needed, but also that reducing restraint too soon could result in a reversal of inflation progress. Fed's Mester explicitly ruled out a May rate cut, but refused to rule out a move in June, while the hawkish Bostic sees only one rate cut this year (in Q4). If the NFP data is notably weaker, it may see dovish expectations ramp, and vice versa for a hot print. However, analysts note that Powell stating that a strong labour market is not a reason to hold off on rate cuts may limit the impact on the hawkish side. Nonetheless, if strong employment is filtering through to higher inflation, then it is something that the Fed could delay rate cuts for, with many stressing they need to see more evidence before they are confident that inflation is returning to target, particularly so after the hot inflation reports seen in 2024 so far.

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