PREVIEW: US jobs data (Friday May 3rd, 13:30BST/08:30EDT) is expected to see the rate of payrolls growth slow

The rate of payrolls growth is expected to slow in April, while wages are seen easing, and the unemployment rate is likely to be unchanged. Labour market proxies suggest a cooling in payrolls growth: weekly initial jobless claims were unchanged vs the comparable survey week in March, though continuing claims ticked up; manufacturing employment has been in contraction for seven straight months, according to the ISM, while S&P Global's PMI series notes weakness in services sector employment conditions. That said, the ADP's gauge of payrolls printed an upside surprise in April, though analysts remain sceptical about its predictive power for the official nonfarm payrolls report. It would take significant, unexpected weakness in the labour market to prompt Fed officials to become concerned, but a headline miss and cooling wage pressures could embolden rate cut bets, analysts say.

EXPECTATIONS: The consensus looks for 243k nonfarm payrolls to be added to the US economy in April (prev. 303k; vs 3mth average of 276k, 6mth average of 244k, and 12mth average of 244k). The unemployment rate is seen unchanged at 3.8% (prev. 3.8%). Average earnings are seen rising +0.3% M/M, matching the rate seen in March, though the annual rate is seen easing to 4.0% Y/Y from 4.1% prior.

DRIVERS: The slowdown in headline payrolls growth is expected to be driven by the fading of weather-related support, as well as a broader easing of labour demand, according to Capital Economics. It notes that Q1 was strong, with the three-month rolling rate of payrolls additions spiking to a 12-month high, but the acceleration is unlikely to be sustained. "Payrolls were probably boosted by the unseasonably mild winter weather, which continued into March," CapEco said, "the three sectors that we consider the most weather-sensitive, construction, retail trade, and accommodation & food services, accounted for half of the 64,000 acceleration in the overall three-month average gain, despite the hit to accommodation & food services employment in January from the severe storms."

LABOUR MARKET PROXIES: Unemployment claims were little changed; for the week that coincides with the BLS survey period, initial jobless claims printed 212k, unchanged vs the week that coincided with the March jobs data, while continuing claims printed 1.781mln, down from the 1.81mln heading into March report. The ADP's measure of national employment signalled that 192k jobs were added in April, above the expected 175.0k; the median change in annual pay for both job-stayers and job-changers declined (to 5.0% from 5.1%, and to 9.3% from 10.0%, respectively). ADP said that hiring was broad-based in the month, and only the information sector – telecommunications, media, and information technology – showed weakness. NOTE: Analysts remain sceptical that the data series is a useful predictor for the NFP report; Pantheon Macroeconomics, a long-time critic, said the ADP's model had a good run of predictions in late 2023, "but its performance this year has been woeful, under-predicting the first estimate of the official number by a wide margin." Pantheon's model, based on the Homebase jobs data suggests that private payrolls rose by only 120k in April, which the consultancy says is corroborated by the weakness of the employment/hiring components of the NFIB and S&P Global PMI surveys.

BUSINESS SURVEYS: The ISM Manufacturing Employment sub-index improved to 48.6 in April (up from 47.4), but remains sub-50, indicating employment is contracting in the sector (for the seventh straight month). ISM notes that many respondents are continuing to reduce headcounts through layoffs (which accounted for 50% of reduction activity, down from 76% in March), attrition and hiring freezes, while respondents indicated a slowing of staff-cutting efforts. The ISM Services report is due to be published after the release of the April jobs data, but the S&P Global PMI series suggests weakness in services employment. "Signs of demand weakness impacted hiring plans at companies in the US at the start of Q2, with a number of survey respondents indicating that they had held off on backfilling positions following the departure of staff," it said. "As a result, employment decreased for the first time since June 2020, with the overall reduction in workforce numbers centred on services, where employment decreased solidly and to the largest extent since mid-2020."

FED POLICY: A headline miss, along with cooling wages metrics, could bolster the probability that the Fed might cut rates this year. Currently, and post-FOMC, money markets are pricing in around 35bps of rate reductions this year (equating to one full rate cut being discounted, with around a 40% probability of a second; the Fed's March economic projections continued to pencil in three cuts, although hawkish rhetoric from officials since then has seen the prospects of rate cuts pare back). Fed Chair Powell this week said that the labour market remains relatively tight, but supply and demand conditions have come into better balance. He said that the strong job creation over the past year has been accompanied by an increase in the supply of workers (reflecting increases in participation among individuals aged 25-54, and a continued strong pace of immigration). The Fed Chair also noted that nominal wage growth has eased over the past year, while the jobs-to-workers gap has narrowed, although labour demand still exceeds the supply of available workers. Powell said that the Fed is prepared to respond to an unexpected weakening in the labour market, but notes that the unemployment rate is currently "low" and that "A couple tenths" of an increase in the unemployment rate doesn't count as an "unexpected weakening" that would justify cuts.