

PREVIEW: US Nonfarm Payrolls (Aug) released on September 6th at 13:30BST/08:30EDT

SUMMARY: The headline is expected to come in at 160k, rising from the prior, but below recent averages, with the unemployment rate forecasted to tick back lower, after unexpectedly rising last time out. Nonetheless, the data set is of paramount importance for the FOMC meeting on September 16th, where the Central Bank's attention has shifted towards the employment side of its mandate, and this report will largely guide the magnitude of the rate cut at that confab. At Jackson Hole Chair Powell said "the time has come for policy to adjust", with emphasis on the labour market, especially after the July jobs report, adding "we do not seek or welcome further labour market cooling." As such, WSJ's Timiraos noted that a report as weak as July could result in an upsized cut. Currently, money markets are fully pricing in a 25bps rate cut, but have assigned a probability of around a 45% of a 50bps reduction.

EXPECTATIONS: The consensus expects 160k nonfarm payrolls will be added to the US economy in August, (prev. 114k; vs. 3mth average 170k, 6mth avg. of 194k, and 12mth avg. of 209k), with the lower end of the forecast range at 100k, and the upper bound at 246k. The unemployment rate is expected to tick lower to 4.2% from 4.3% (range: 4.1-4.4%); labour force participation was at 62.7% in July. For reference, FOMC forecasts made in June saw the jobless rate at 4.0% this year, rising to 4.2% in 2025. On the wages front, average earnings both M/M and Y/Y are expected to tick higher, to 0.3% M/M (prev. 0.2%) and 3.7% Y/Y (prev. 3.6%), respectively.

LABOUR MARKET PROXIES: Weekly initial jobless claims, coinciding with the BLS' August payrolls report, marginally rose to 232k from 228k, above the expected 230k, with the four-week average more-or-less unchanged at 236k (prev. 236.75k). Within the ISM Manufacturing report for August, the employment sub-index rebounded to 46.0 from 43.4, which Oxford Economics write likely reflected a drop back in temporary layoffs following summer auto sector retooling in July. ADP national employment for August printed beneath all analyst expectations, coming in at 99k (exp. 145k), while the prior reading was revised lower to 111k. Some analysts provided the usual caveats about how the ADP data does not necessarily provide a reliable signal for how the official BLS data will come in.

FED RHETORIC: The Fed's attention has now turned towards the employment part of its dual mandate, away from inflation. Highlighting this, Chair Powell at Jackson Hole continued to indicate that a September rate cut is coming, with just the magnitude of the move to be decided. On the labour market, Powell said the Fed does "not seek or welcome further labour market cooling," which once again shows the importance of the US jobs report, and will seemingly dictate the size of the move by the Fed; as WSJ's Timiraos noted, a report as weak as July might lead to a larger than 25bps rate cut. Note, in wake of the metrics Fed's Williams is speaking at 08:45EDT/13:45BST at a Council on Foreign Relations Event, while Waller is scheduled for 11:00EDT/16:00BST, speaking on the economic outlook.

FED IMPLICATIONS: Capital Economics said the soft July data sparked fears that the Fed could kick off its rate cutting cycle with a larger 50bps rate reduction, but there is reason to treat that data with caution given the spike in the number of people forced to work part-time or unable to work at all due to the weather, suggesting that Hurricane Beryl did in fact have a significant impact. CapEco reckons the weather conditions subtracted around 30k from the July headline, which should be reversed August. More broadly, however, CapEco notes that despite some signs of stabilisation, hiring activity has generally weakened, with the ISM and S&P Global indices at pandemic lows and weak service sector data. "Arguably the bigger shock in the July was the 0.2ppts rise in the unemployment rate, which triggered the Sahm rule," but suggests that temporary disruptions, mainly in the auto sector, were to blame," adding that "if most of these temporarily laid-off workers returned to their jobs in August as we expect, the unemployment rate would drop back to 4.2% or possibly even 4.1%." Other analysts have suggested that the August jobs data will be influential in determining how the Fed kicks-off its rate cutting cycle. Currently, money markets are fully discounting a 25bps rate cut, but have assigned a probability around 45% of an upsized 50bps reduction.

JPM DESK SCENARIOS:

- More than 300k: SPX gains 0.25% to 0.5%.
- 200k - 300k: SPX gains 1% to 1.5%.
- 150k - 200k: SPX gains 0.75% to 1.25%.
- Less than 50k: SPX falls 1.25% to 2%.
- SPX options price a +/-1.4% move on the day.

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