Preview: US Nonfarm Payrolls due Friday October 4th at 13:30BST/08:30EDT

SUMMARY: The consensus expects that 140k nonfarm payrolls will have been added to the US economy in September, a similar pace to August's 142k. However, analyst forecasts range from 70-220k. The unemployment rate is seen unchanged at 4.2%, beneath the Fed's year-end median projection of 4.4%. Wages are expected to grow 0.3% M/M, cooling from August's 0.4% rate, while the annual measure is seen unchanged at 3.8% Y/Y. Labour market proxies released in the month have been mixed: weekly jobless claims data that coincides with the BLS survey week saw initial claims fall, while continued claims rose. Challenger layoffs eased slightly M/M, while ADP's measure of private payrolls was above expectations. The ISM manufacturing employment component slipped further into contractionary territory, while the services employment entered contractionary territory for the first time since June. The lagging August JOLTS data was above expectations. The September jobs data will help to shape expectations of Fed easing through the end of this year; Chair Powell this week signalled a further 50bps of rate reductions via two 25bps rate cuts in November and December. This guidance and the hot ADP print has seen money market pricing tilt back towards a 25bps move in November, currently pricing a 64% probability of a 25bp cut in November. Nonetheless, if the data were to show a significant weakening (Fed's Bostic said a sub 100k print would warrant closer questioning), expectations for another 50bps move may become reinvigorated. That said, before the Fed's meeting, there is still another jobs report due, which will give policymakers more data to assess in their deliberations.

EXPECTATIONS: The data is expected to show 140k nonfarm payrolls were added in September (prev. 142k in August; vs 3mth average of 116k, 6mth of 164k, and 12mth of 197k); forecasts among analysts are varied however, ranging from 70k-220k. The unemployment rate is expected to remain unchanged at 4.2% (forecast range: 4.1-4.3%; note, the FOMC's recent economic projections have pencilled in the jobless rate rising to 4.4% by the end of this year). Attention will also be on wage metrics, for signs of any inflationary pressures; average hourly earnings are expected to rise +0.3% M/M in September (range: 0.2-0.4%), easing from the prior 0.4%, and the annual rate is seen unchanged at +3.8% Y/Y (range: 3.7-3.9%). Elsewhere, private payrolls are seen rising by 125k from the prior 118k, manufacturing payrolls are expected to show a decline of 5k (prev. -24k).

RECENT DATA: Ahead of the September BLS payrolls report, other labour market proxies have been mixed. Initial jobless claims were below expectations, continuing claims rose, the ADP's gauge of payrolls topped expectations, Challenger layoffs eased from the prior month, while the ISM Manufacturing employment sub-index slipped further into contractionary territory, and the services employment fell into contractionary territory. Meanwhile, August's JOLTS data (the most recent) came in above expectations. Weekly Jobless Claims data that coincides with the usual BLS survey week, saw initial claims fall to 222k from 231k, however Pantheon Macroeconomics suggested the fall was likely due to a defective seasonal adjustment, rather than a sudden improvement in labour market conditions; continuing claims for the reference week rose to 1.834mln from 1.821mln. The latest ADP data was hotter than all analyst forecasts, rising by 143k (exp. 120k; the most optimistic forecast was for 140k), accelerating from the prior (revised up) 103k. The Manufacturing ISM Employment component slipped further into contractionary territory, falling to 43.9 from 46.0, with the report highlighting that "the July, August and September readings are among the five lowest recorded since the index registered 43.7 percent in July 2020, early in the economic recovery". The ISM Services PMI employment data fell to 48.1 from 50.2, falling into contractionary territory for the first time since June. Meanwhile, although it is data for August, the JOLTS data was hotter than expected, with job openings rising to 8.04mln from 7.711mln, despite expectations for a decline to 7.66mln; within the report, the quits rate fell to 1.9% from 2.0%, a level that Oxford Economics say is consistent with wage growth at or slowing to a pace consistent with the Fed's 2% inflation target.

FED IMPLICATIONS: At the September FOMC, the Fed adjusted its language to acknowledge that risks to the mandate are now "roughly balanced" (prev. it said they continued to move into better balance), while also noting that job gains have "slowed" (prev. it described them as having "moderated"). It also added that the Committee is strongly committed to supporting maximum employment. Therefore, it is clear that the recent softness in the labour market is a concern for the Fed, and its September 50bps rate cut was to ensure policymakers get ahead of the curve, and act before the labour market falters. Fed Chair Powell this week explicitly signalled that, providing the economy evolves as expected, the Fed would ease by a further 50bps through year-end, with a 25bps cut in November, and a 25bps cut in December – pushing back against expectations for another 50bps reduction. This data will help shape easing expectations given the importance of the labour market to the Fed in the current climate. Fed's Bostic stated that if employment growth slows much below 100k jobs, it would warrant closer questioning of what is happening. If the data were to come in sub 100k, it would likely reignite bets for a 50bps rate cut, with money market pricing leaning more towards 25bps after Powell's commentary, and the hot ADP print on Wednesday.

JPMORGAN TRADING SCENARIOS:

- **200k+: would see the SPX flat to +50bps.** "This first tail-risk scenario would point to an economic reboot from a soft patch this summer," JPM says, adding that "this type of print would trigger a material re-pricing of bond yields higher, and that spike in bond volatility would likely spill over to Equity markets." It says that this would, over time, be a positive, since higher NFP points to an even higher GDP growth trajectory, which is also positive for earnings. "This would, however, result in uncertainty over Fed policy; this type of print could see some investors thinking the Fed skips a cut in November."
- **Between 160-200k: would see the SPX rise 1.0-1.5%** . JPM says this is its 'Goldilocks' scenario, since it would point to higher growth without an inflationary impulse. "While bond yields would move higher, this type of outcome is aligned with a medium-term view that the combination of Fed easing, and lower energy prices will produce a tailwind to the economy that is likely to keep GDP growth above trend," and would push the market towards a 25bps reduction in November, and uncertainty around 2025.
- **Between 140-160k: SPX could gain 0.75-1.25%** . JPM says that this consensus range would fall into the 'Goldilocks' zone, where the economy continues to grow at a pace that supports earnings expectations without an inflation reboot. "That said, this type of print is not enough to remove all concerns over recession eventually materialising."
- **Between 110-140k: SPX would fall 0.5-1.5%** . A lower monthly print could see a return of growth concerns, and the potential resurfacing of the 'Fed is behind the curve' narrative, JPM says. In this scenario, the bank says bond yields would move lower, and Defensives would outperform within equities space.
- **Below 110k: SPX would fall 1.25-2.00%** . JPM says this sort of a reading would be problematic for bulls, since it could put the economic outlook towards one of a recession beginning in Q4. "Typically, we see NFP print negatively just before a recession begins, so the closer to zero the worse the outcome," the bank writes, adding that "here we would likely see an unwind of bullish cyclicals/value trades and for credit to outperform equities on the move lower."

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