PREVIEW: US Nonfarm Payrolls will be released on February 7th at 13:30GMT/08:30EST

SUMMARY: After some choppy readings in recent months, the pace of payroll additions is expected to ease towards its recent averages, with the consensus pencilling in 170k in January. While delayed hurricane-related improvements are expected, the California wildfires, colder weather conditions, as well as industrial action could subtract from the headline. Labour market proxies have generally been encouraging, with initial jobless claims that coincide with the BLS survey window little changed, continuing claims eased, the ADP's gauge of private payrolls surprised to the upside (though had more mixed showings for their corresponding wage metrics). Surveys were mixed, the ISM manufacturing employment gauge rose back into expansion after seven months in contraction, the services ISM rose and remained in expansionary territory for a fourth straight month, while the Conference Board's gauge of consumer confidence became more pessimistic of the labour market. Meanwhile, JOLTS data (for December), one of the Fed's preferred labour market gauges, eased in the month, and the sub-indices point towards a slowing of hiring ahead, helping to decelerate wage growth. There is additional uncertainty in January, with the BLS set to publish annual benchmark revisions (these were released in a very delayed fashion in August, and the BLS has apparently reviewed its procedures to ensure this does not happen again).

EXPECTATIONS: The US economy is expected to add 170k nonfarm payrolls in January (vs 256k in December; and vs the three-month average of 170k/per month, six-month average of 165k, and 12-month average of 186k), with the unemployment rate seen unchanged at 4.1%. Average hourly earnings are expected to rise by +0.3% M/M, matching the prior, though the annual rate is seen easing to 3.8% Y/Y from 3.9% previously. Morgan Stanley notes that the underlying trends signals a strong payrolls report, noting that some delayed post-hurricane improvement could be seen this month; however, offsetting that improvement, Morgan Stanley predicts that the California wildfires could subtract up to 40k from the headline, while colder weather conditions could subtract up to 30k, while industrial action could take away another 5k jobs.

ANNUAL BENCHMARK REVISIONS: Capital Economics notes that the January jobs data is subject to more uncertainty given the BLS will incorporate into the data both the annual benchmark revision to the payroll figures, as well as the annual adjustments to the population control used in the household survey. CapEco explains that the revision to past payroll figures is based on a universal count of unemployment insurance records taken from the Quarterly Census of Employment and Wages which is more accurate than the normal monthly survey, and covers around one-third of all employees. It says that the revision should correct for any deficiencies in the normal monthly survey, such as the failure to accurately pick up the birth and death of firms or any other distortions within the sample. "The preliminary estimate issued by the BLS last August (but not yet incorporated into the data) suggested that the level of non-farm payrolls in the year to March 2024 will be revised down by a cumulative 818,000," it writes, "this implies that monthly non-farm payroll gains from April 2023 to March 2024 averaged around 174k per month, rather than the 242k that the current data show." The consultancy adds that the QECW data suggests a sharper slowdown in employment growth in Q2 2024 than currently believed too. As a side note, it is worth noting that in August, the BLS' release of the benchmark revision changes was inexplicably delayed, with the data hitting on social media before newswires; the BLS said "the integrity of our data releases is BLS' top priority and we are closely reviewing our procedures to ensure this does not happen in the future," suggesting that the data could on this occasion hit in a timely manner on the BLS website.

LABOUR MARKET PROXIES: In the week that coincides with the BLS survey window for the jobs data, initial jobless claims rose a touch to 223k from 220k heading into the December jobs data, while continuing claims eased to 1.858mln from 1.897mln. The ADP's gauge of national employment, while lacking significant predictive power for the official jobs data, topped expectations, printing 183k against an expected 150k (and above the analyst consensus forecast range); ADP's chief economist noted a strong start to 2025 for the labour market, but it masked a dichotomy where consumer-facing industries drove hiring, while job growth was weaker in business services and production. Within the monthly ADP jobs data, the median change in annual pay for job-stayers rose to 4.7% Y/Y (from 4.6% prior), while for job-changers it eased to 6.8% Y/Y from 7.1%. Elsewhere, analysts also noted that, within the JOLTS data for December, the Quits Rate was unchanged at 2.0%, and is consistent with a slower pace of hiring, suggesting that wage growth will decelerate ahead.

SURVEYS: In the ISM manufacturing PMI data, the employment sub-index rose by 4.9, taking it to 50.3 - back into expansion after seven months in contraction; the report noted that employment was stable, as final head-count adjustments were made, in many cases among the white-collar workforces; "respondents' companies are continuing to reduce headcounts through layoffs, attrition and hiring freezes," ISM said, "this action is supported in January by the approximately 1-to-1 ratio of hiring versus staff-reduction comments, compared to a 1-to-2 ratio the previous month, meaning less workforce reduction activity is occurring as we enter 2025." Meanwhile, for the services ISM, the employment sub-component rose to 52.3 from 51.3, remaining in expansionary territory for the fourth straight month; responses included “human resources department working aggressively to fill open positions” and “belt tightening due to slowing consumer demand,” ISM said. From the consumer perspective, the Conference Board's gauge of consumer confidence noted that views of current labour market conditions fell for the first time since September; consumers' appraisal of the labour market plunged, with 33.0% of consumers stating that jobs were "plentiful" (down from 37.1% in December), while 16.8% of consumers said jobs were "hard to get" (up from 14.9% previously). Ahead, consumers' assessments of the labour market outlook remained pessimistic, with 19.4% of consumers expecting more jobs to be available (down vs the 19.8% in December), and 20.3% anticipated fewer jobs (unchanged vs December). On wages, consumers' view of their income prospects were less optimistic in January too; 18.3% of consumers expected incomes to increase (down from 19.0% in December), and 11.9% expected incomes to decrease (vs 12.1% in December).

JOLTS/FED POLICY: The December JOLTS data, (note: these are for December, and the release lags the official BLS nonfarm payrolls data, which is for January) saw job openings ease to 7.6mln from 8.16mln (analysts had expected 8mln), with the quits rate unchanged at 2.0%, and the vacancy rate falling to 4.5% from 4.9%. The JOLTS data, despite being lagged in their nature, are seen as one of the Fed's preferred gauges on the labour market. Oxford Economics said the data was consistent with the Fed's view that the labour market is healthy enough to tolerate a more cautious approach to lowering rates, especially given the uncertainty surrounding tariff policy. In December, the unemployment rate fell to 4.1% from 4.2%; the FOMC's December SEP forecast the jobless rate will rise to 4.3% in 2025, where it is expected to stay over its forecast horizon. Last week, Fed Chair Powell, speaking after the FOMC policy announcement, stated that labour market conditions remain solid, and were broadly balanced, reiterating that it was not a source of inflation pressures, adding that job creation was at a level that would hold the unemployment rate steady, despite the rate of job creation easing. This is a line that has been echoed by other Fed officials lately, with policymakers seemingly more focussed on the uncertainties surrounding US trade policy, and their implications for inflation (note: officials have not committed either way yet).