

Preview: US nonfarm payrolls are due on March 7th at 13:30GMT/08:30EST

SUMMARY: US nonfarm payrolls are expected to show a moderate increase in February, with the unemployment rate holding steady. Wage growth is anticipated to slow, and average workweek hours may rise slightly. Labour market proxies have been mixed in February, with weekly initial and continuing claims data relatively unchanged between the January and February survey window, while the ADP's gauge of national employment disappointed expectations, printing below the analyst forecast range. The ISM surveys were mixed, with manufacturing employment falling into contractionary territory, though the services gauge saw employment remain in expansion for a fifth straight month. Meanwhile, the Conference Board's gauge of consumer confidence showed increased pessimism about job availability. In terms of Fed policy, the Fed remains cautious about signalling any fresh policy tilt, particularly as incoming US economic data weakens; market expectations are now tilting towards three Fed rate cuts in 2025, having discounted two just last week.

EXPECTATIONS: The consensus looks for the US economy to add 160k nonfarm payrolls in February (vs prior 143k; current 3mth avg. 237k, 6mth avg. 178k, 12mth avg. 168k). The unemployment rate is seen unchanged at 4.0% (note: the FOMC's December projections envisaged the jobless rate rising to 4.3% this year). JPMorgan's analysts write that "the unusually cold weather likely held down January employment, and while weather remained quite cold in the second week of February there should be some recovery." The bank adds that net immigration began to be curtailed as soon as the Trump administration took office, and that should weigh on employment. Additionally, JPM notes that there have started to be job losses among government employees and contractors, though it does not think the effect will be that large yet for the February report. Other analysts have said that February might be trickier to predict than usual, given the volatile weather, but also due to a public holiday being close to the survey week. Elsewhere, JPM does not see a strong directional bias to the first revisions for January or the second revisions for December.

LABOUR MARKET PROXIES: For the week that corresponds to the survey window for the US jobs data, weekly initial jobless claims printed 220k, little changed vs the 223k added in the January survey week; continuing claims ticked up a little to 1.862m from 1.85m. The ADP's gauge of national employment, while lacking significant predictive power for the official jobs data, disappointed expectations, printing 77k against an expected 140k. The report noted that hiring slowed to the smallest level of gains since July, with trade and transportation, health care and education, and information technology showing job losses, and small business employment also fell. "Policy uncertainty and a slowdown in consumer spending might have led to layoffs or a slowdown in hiring last month," ADP said, "our data, combined with other recent indicators, suggests a hiring hesitancy among employers as they assess the economic climate ahead."

WAGES: Average hourly earnings are expected to climb by +0.3% M/M in February (prev. +0.5%), with the annual rate seen unchanged at 4.1% Y/Y. Average workweek hours are expected to rise to 34.2hrs in February from 34.1. The most recent JOLTS (Note: it is data for December) saw job openings fall to 7.6m from 8.156m in November, missing expectations for 8m. Pantheon Macroeconomics said that the data showed that monetary policy remains tight enough, and uncertainty over future government policy is elevated enough, to stifle businesses' expansion plans. Within the data, the ratio of job postings to unemployment fell to 1.1 in December (prev. 1.15), coming close to the 2015-to-19 average of 0.93. The Quits Rate was unchanged at 2.0% in December, which Pantheon says points to scope for annual growth in the ECI measure of private sector wages and salaries to slow to about 3% during 2025, from 3.6% in Q4. "Admittedly, the unwinding of a calendar effect looks set to support an above-trend +0.4% M/M increase in January average hourly earnings, but with labour demand still very muted and few people moving positions, the outlook remains for subdued wage growth in 2025 as a whole." Elsewhere, the ADP's employment report for the month showed the median change in annual pay for job-stayers remained at 4.7% Y/Y, while for job-changers it eased to 6.7% Y/Y from 6.8% Y/Y.

SURVEYS: The ISM manufacturing data for February saw the Employment sub-index fall 2.7 points to 47.6, back into contraction, as survey respondents continued to release workers; ISM said that more companies cited 'attriting down' as the best process, with destaffing not as urgent as it was in the H2 2024. In terms of recent trends, the ISM manufacturing Employment index has now been in contraction territory in 27 of the last 34 months. "Respondents are continuing to reduce head counts through layoffs, attrition and hiring freezes," and these actions are "supported by a second straight month with an approximate 1-to-1 ratio of hiring versus staff-reduction comments," adding that "panellists are continuing to release employees as the business environment becomes more unclear." The ISM services data, however, was more encouraging, with the Employment sub-index rising 1.6 points to 53.9, remaining in expansion for a fifth straight month; the report noted some comments from respondents, which stated that employment activity was a pre-planned increase in staff to accommodate higher revenue/fundraising. From the consumer side, the Conference Board's gauge of consumer confidence in February saw a less upbeat view of the labour market, with 33.4% stating jobs were plentiful (down from 33.9% in January), while 16.3% said jobs were hard to get (up from 14.5%). The report said consumer pessimism about the labour market grew, with the percentage expecting more jobs ahead falling to 18.4% (from 19.1%), while those expecting fewer jobs rose to 25.9% (from 21.0%); income prospects were slightly more optimistic, with 18.2% expecting income increases (from 18.1%), but 13.7% anticipated decreases (vs 12.3% prior).

FED POLICY: Speaking in February, Fed Chair Powell reiterated that the FOMC can ease policy if the labour market unexpectedly weakens, or inflation falls more quickly than expected. He also reiterated his view that the unemployment rate is low and steady, with labour market conditions "solid", and not a source of inflationary pressures. That said, Powell noted concerns that the labour market had diminished considerably since the middle of last year. And despite the cooling of some US economic metrics of late, the influential NY Fed President Williams this week said he sees a solid labour market, and growth was proceeding on a path consistent with its long-run potential. The street is becoming more concerned about the impact of the new US administration's international trade policies and how much it will hit growth; at the time of writing, the Atlanta Fed's GDPnow model is tracking growth of -2.8% in Q1. This has resulted in a dovish tilt to market-based expectations for the Fed's rate cut trajectory, and are now almost fully pricing

in three rate reductions in 2025 (vs two as we began the week). Accordingly, the February jobs report data may become more framed in the context of growth rather than inflation, where any miss on expectations could be seen as a harbinger of a more marked labour market slowdown.

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