

Preview: US NFP due Thursday 3rd July at 13:30 BST/08:30 EDT

Note, the US Nonfarm Payrolls report will be released on Thursday due to Independence Day on Friday.

SUMMARY: Headline NFP is expected to show 110k jobs added in June, down from 139k in May. The unemployment rate is expected to tick up to 4.3% from 4.2%, beneath the 2025 Fed median of 4.5%. Average Earnings are seen rising by +0.3% M/M, easing from the prior 0.4% pace, with the annual rate expected to remain at 3.9% Y/Y. The data will be used to help shape Fed easing expectations, with 66bps of easing priced by the end of the year, markets are fully pricing two 25bps rate cuts, with a 64% probability of a third. The latest Fed 2025 economic projections revealed that the median view continues to see two rate reductions in 2025. Recent Fed commentary has seen both Governors Waller and Bowman suggest a July rate cut may be appropriate if inflation pressures stay contained, but the majority continue to favour a wait-and-see approach. Fed's Bostic suggested that they will not have enough clarity by July to act, while Fed's Barkin has suggested the NFP breakeven for the labour market is between 80-100k. Accordingly, any headline reading below this range would likely bolster the case for rate cuts, but there is still uncertainty ahead with regard to inflation. Chair Powell expects to see meaningful tariff inflation effects in June, July, and August, but if this is not seen, that could lead to reducing rates sooner. Throughout June, other labour market metrics have been weakening; both initial and continuing jobless claims rose relative to the survey week in May, ISM manufacturing employment sub-component fell further into contractionary territory, ADP private employment data for the month was woeful, while the Conference Board reports that consumers' views of the labour market became more pessimistic. However, Challenger's data showed the rate of layoffs eased in June, while the May JOLTS report was strong. JPMorgan has highlighted an improvement in the PMI all-industry employment index, while Homebase data in June was similar to past June months.

EXPECTATIONS: The US economy is expected to add 110k jobs in June, down from the 139k in May, vs the 3-month average of 135k, 6-month average of 157k, and a 12-month average of 144k. Analyst expectations range between 50-160k at the time of writing. The unemployment rate is expected to tick up to 4.3% from 4.2%. JPMorgan also looks for a rise to 4.3% but highlights there is a risk of 4.4%. The latest Fed summary of economic projections saw the median projection lift to 4.5% from 4.4%. Private Payrolls are seen at 105k vs the prior 140k, with manufacturing payrolls seen at -5k vs the prior -8k. Average earnings are seen at 0.3% M/M in June, cooling from the prior 0.4% pace, with the annual rate of earnings growth seen unchanged at 3.9% Y/Y. Regarding slack, the U6 underemployment rate printed 7.8% in May, while the Labour Force Participation rate was at 62.4%. Note, Morgan Stanley expects the headline to show 140k jobs added in June, bolstered by a reacceleration in government hiring.

LABOUR MARKET PROXIES: Initial jobless claims, for the week that coincides with the NFP survey window printed 246k, up from the prior month's corresponding week of 226k. Continued claims meanwhile rose to 1.974mln from 1.907mln. The ISM Manufacturing PMI report saw the employment component fall further into contractionary territory to 45.0 from 46.8. The services PMI is not released until after the NFP report. The ADP National Employment print was weak, showing a decline of 33k vs the prior +29k, well below the +95k forecast. Challenger Layoffs fell to 48k from 93.8k. Regarding the consumer, the Conference Board's gauge of consumer confidence saw a notable decline in June, with the current assessment of the labour market cooling somewhat; 29.2% of consumers said jobs were "plentiful," down from 31.1% in May, while 18.1% of consumers said jobs were "hard to get," down slightly from 18.4%. The May JOLTS data were much stronger than expected, rising to 7.77mln from 7.4mln. Discussing leading indicators, JPM highlights that continuing claims are the indicator that has deteriorated the most between May and June, but others are more mixed. The desk also points out that the PMI all-industry employment index rose from 51.6 to 52.1, while average daily job openings from Indeed fell by only 0.5%, less than the prior three months. JPM also added that the Census BTOS employment index was largely unchanged from a year ago. The desk also highlights that the employment indexes in regional Fed surveys were slightly worse than in May, but better than in the prior couple of months. The layoff data from Homebase shows that the change in employment for June was in a similar range to past June months.

FED IMPLICATIONS: Fed's Barkin (2027 voter) has suggested the job market breakeven is now back to around 80-100k per month. A print cooler than this would likely bolster the case for rate cuts. However, Bostic (2027 voter) warned that by July, the Fed will not have enough clarity to justify a rate cut. The latest Summary of Economic Projections saw the 2025 median dot plot unchanged to signal two rate cuts in 2025, with money markets not pricing in the first cut until September. However, Fed Governors Waller and Bowman have both recently signalled a willingness to cut in July, particularly interesting from Bowman, who is usually a hawk on the Fed. The arguments Bowman offered were that she would be open to cutting rates as soon as July if inflation pressures stay contained, adding the Fed should put more weight on downside risks to job market going forward, adding "it is time to consider adjusting the policy rate", with trade policy only likely to have "minimal impacts" on inflation. Waller, meanwhile, said the Fed is in position to cut as early as July, noting the Fed has room to bring rates down and then they can see what happens with inflation, adding the process should start slowly to be sure there are no surprises, highlighting that so far the data has been fine. He also reiterated his view that tariffs will not be completely passed through, and a 10% tariff on all imports would not have much impact on overall inflation. Waller also warned that the Fed should not wait for the job market to crash in order to cut rates. Note, Fed Chair Powell refused to rule out a move in July, but primarily as he did not want to pre-commit just four weeks before the next meeting, and he continues to argue for a patient approach. Others on the FOMC also continue to toe the wait-and-see approach, continuing to leave Waller and Bowman on the sidelines as the dovish outliers, as opposed to a broad-based shift within the Committee. Money markets are currently fully pricing in the first rate cut by September, with 30bps of easing priced. However, for July, 6bps is currently priced, which implies a 24% probability of a 25bps rate cut at the meeting.

LABOUR MARKET COMMENTARY: At his post-FOMC press conference, Fed Chair Powell said the labour market remains solid, acknowledging only a "very, very slow continued cooling" that he does not view as troubling; Powell cited strong job creation and labour force participation as signs of continued resilience. This sentiment has been echoed by other officials, too. Policymakers also continue to offer their usual caveats, whereby if the labour market were to deteriorate sharply, the Fed would be prepared to step in with looser policy, but for now, officials do not see this in the current data. Instead, while Fed members have been noting

that they are attentive to both their inflation and labour market mandates, much of the focus appears to be around inflation dynamics, where the bulk of speakers making remarks in wake of the FOMC meeting suggest that there are some risks that tariff pressures could stoke prices higher. Fed's Collins (2025 voter), for instance, said there were risks that core PCE inflation could rise to above 3% Y/Y by year-end. Still, any decent jobs data will likely be pounced on by US President Trump as an argument why the Fed should be in an easing cycle already, ramping up his recent criticism; any downside surprise will also likely be jumped on by the President as an argument why the Fed should be cutting rates.

JPM SCENARIOS: JPMorgan's US Market Intelligence desk assigns a probability to potential NFP scenarios and the expected market reaction based on the headline NFP number. JPMorgan also highlight that in the scenario NFP prints between 85-105k, if the US signs agreements with its top 10 trading partners ahead of the data, this outcome likely does not matter as the market looks through this outcome. Meanwhile, in the scenario NFP posts below 85k, it notes that while lower effective tariff rates could eventually offset the impact, the risk to the economy is that the new tax/budget bill does not create enough of a fiscal thrust to pull the economy out of its downward move.

- **5% - Above 145k, SPX gains 1-1.5%:** This would trigger a re-thinking of the US growth trajectory.
- **25% - Between 125-145k, SPX gains 0.75-1.25%:** Would reflect a lower-than-expected impact from the trade war.
- **40% - Between 105-125k, SPX gains 0.50-1.0%:** Base case, NFP above 100k the stock market remains bid. A print toward the lower end of the range would be unlikely to create a material shift in sentiment.
- **25% - Between 85-105k, SPX loses 0.25-1.5%:** The first downside miss scenario, which is difficult to gauge the outcome given the proximity to trade deals.
- **5% - Below 85k, SPX loses 2-3%:** At best, the market would see a recession as likely and at worst, a stagflationary scenario.

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