

Preview: US Nonfarm Payrolls due Friday 6th March at 13:30GMT/08:30EST

SUMMARY: The February jobs report is expected to show 59k jobs added to the US economy in the month, down from 130k in January but slightly above the 50k breakeven estimate. Private payrolls are expected to rise by 65k versus the prior 172k. The unemployment rate is expected to remain unchanged at 4.3%, while wages are seen rising 0.3% M/M and 3.7% Y/Y. The data will be used to gauge Fed rate cut expectations, while some on the FOMC, including Waller, will use it to decide whether to vote for a rate cut or hold in March, although the Fed is expected to keep rates on hold barring any drastic change in the current situation or outlook. Recent proxies have been mixed: the ADP report was strong, while the ISM PMI employment sub-components showed improvement in both manufacturing and services, though manufacturing remained in contractionary territory. Initial jobless claims for the reference week were steady over comparable periods, while continuing claims rose slightly. The Conference Board reported a modest improvement in labour market perceptions. The Chicago Fed unemployment model expects the unemployment rate to remain at 4.3%. RevelioLabs reported 16.7k jobs lost in February versus 13.3k in January. Challenger layoffs fell notably.

EXPECTATIONS: Headline NFP is expected to show 59k jobs added in February, cooling from January's 130k increase. Analyst forecasts range between -9k and +125k. The Fed's current estimate of the breakeven rate is around 50k. Private payrolls are expected to rise by 65k from the prior 172k, with forecasts ranging between +25k and +110k. The unemployment rate is expected to remain at 4.3%, with the range of forecasts between 4.2-4.4%. Wages are expected to rise 0.3% M/M, easing from the prior 0.4%, with forecasts ranging between 0.1-0.4%. Average earnings growth Y/Y is seen at 3.7%, matching the prior rate, with forecasts between 3.5-3.7%.

PROXIES: The February ADP data showed jobs rising by 63k, beating expectations of 50k and up from the prior 11k, which was revised down from 22k. The 63k print is the highest since November 2025. In the ISM PMI reports, manufacturing employment edged up to 48.8 from 48.1, while 45% of respondents still said managing headcount rather than hiring was the norm at their companies. The services employment PMI rose to 51.8 from 50.3. Respondent comments included: "we are expecting activity to increase from 2026 to 2030, so we are hiring" and "ICE activity has caused some staff to not come into work." There is also growing focus on AI-related job cuts, following Block's decision to lay off 40% of its staff, around 4,000 people, raising concerns over how quickly companies may turn to AI instead of human employees. Some view this decision as premature, but it bears monitoring in the months and years ahead to see whether the pace of AI-driven replacement accelerates. The Chicago Fed's February labour market indicators are tracking unemployment at 4.27%, little changed from 4.28% into the January jobs report. Weekly initial jobless claims were steady over the comparable survey periods (208k versus 210k), while continuing claims rose slightly (1.833mln versus 1.819mln). The Conference Board reported a modest improvement in labour market perceptions, with the labour market differential increasing; some 28.0% of consumers said jobs were "plentiful", up from 25.8% in January. Meanwhile, 20.6% said jobs were "hard to get", up from 19.0%. RevelioLabs reported 16.7k jobs lost in February, while Challenger layoffs eased to 48k from 108k. January JOLTS data will not be released until 13th March.

FED: The Fed is currently on hold and views among FOMC participants remain mixed, with some officials objecting to further rate cuts while others would prefer the easing to continue. Overall, the outlook largely depends on incoming data and how far the Fed is from both sides of its mandate. The labour market has stabilised in recent months, while inflation remains above target, largely supporting the case for rates to remain at current levels. This report will be key in assessing whether January's labour market strength is sustained and whether the view that the labour market has stabilised still holds. Large downward revisions or a notably weak report would boost dovish rate expectations and strengthen the case among doves for cuts to resume sooner rather than later. Fed Governor Waller, a dovish dissenter, said he would support a cut in March if January's labour market strength is revised away or fades, though it may be appropriate to hold if downside labour market risks have diminished. Governor Miran, an uber dove, wants four 25bps cuts this year, sooner rather than later. New York Fed President Williams has said rate cuts will continue if inflation ebbs. Goolsbee (non-voter this year) is optimistic about more cuts this year but wants clear evidence inflation is returning to target first, specifically warning about persistently high core services inflation. The Fed's median dot plot pencils in one rate cut in 2026, taking the target range for the federal funds rate to 3.25-3.50% by year-end, though the Summary of Economic Projections will be updated at the next Fed decision on March 18th.

IRAN: Given recent developments in the Middle East, it is still too early to assess the impact on the US economy, though it could have implications for prices and, by extension, monetary policy. The Fed generally prefers to look through one-off energy-related price increases. However, if the war is prolonged and disruption persists in the Strait of Hormuz, there is a risk this could delay the resumption of rate cuts, which are currently expected in the summer. A sharp deterioration in the labour market would likely offset these concerns, but the situation keeps the Fed in a difficult position. The US has offered to assist shippers and tankers transiting the Strait by paying for insurance and providing US Navy escorts. This is a new announcement and its effectiveness remains to be seen, but if successful it could help shield the global economy by keeping supply chains and oil flows open. Market-based inflation expectations remain anchored. As of 4th March, the 5-year breakeven rate stood at 2.46%, up from 2.40% on 27th February, while the 10-year rate is at 2.29% versus 2.25% at the end of last-week.

