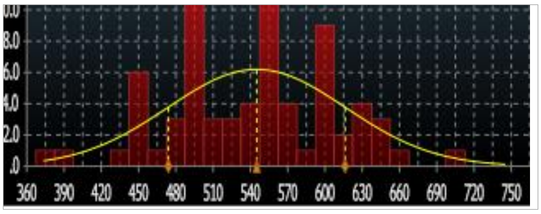
MNI PREVIEW: Nov Nonfarm Payrolls Seen +550K

By Tim Cooper and Chris Harrison

November nonfarm payrolls are expected to have risen by 550k, vs 531k in October, per both the MNI Dealer Median and Bloomberg survey median (the Bloomberg "Whisper" survey is 559k).



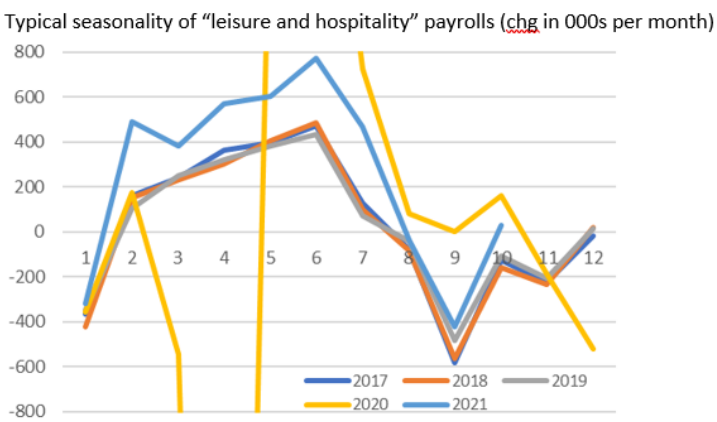
- The MNI dealer range is 450k-800k; BBG survey range is 375k-800k.BBG avg is 545k with standard deviation of 71k (so roughly speaking, a figure below 400k or above 680k would be considered a noteworthy surprise – **see chart of distribution at right**).
- The unemployment rate is seen falling 0.1pp to 4.5%, with average hourly earnings +0.4% M/M (unch), and the participation rate picking up 0.1pp to 61.7%.
- The main market focus on this month's payrolls report is whether job gains are sufficient to keep the Fed on track to decide at the December FOMC meeting to quicken the pace of its asset purchase taper.
- **The biggest chance for a big market reaction would be on a large downside miss along with insufficient upward revisions to prior months to compensate.** With Fed Chair Powell's comments this week implying the default position is for the FOMC to accelerate the taper this month, likely only a really weak nonfarm print (<250k) would seriously put those plans into question.
- **A strong figure would have to be exceptionally high to move the needle on market pricing for earlier/sharper Fed tightening** (>800k), especially given positioning and recent market action (see section below), and would probably be scrutinized for underlying metrics.
- There's potential for a strong figure to have a second-order "dovish" outcome – if it comes alongside a big increase in labor market participation, which would help alleviate supply-side inflation / wage concerns.

Positioning Looks For Hawkish Outcomes

- While short-term positioning may have been shaken out by the bout of volatility seen after Thanksgiving, the most recent CFTC data showed markets holding the largest net short in 10y Treasury futures since February 2020 at near 8% of open interest.
- Similar market bias is seen through the belly of the curve and mirrors the solid USD net long, which holds close to the highest levels since H2 2019. This positioning suggests a market that's primed for a hawkish policy outlook from the Fed through an acceleration of the tapering process, or the beginning of rate lift-off in 2022.
- Smile curves tracking option volatility across both currency pairs have moderated away from USD calls over the past few week or so, reflecting the uncertainty over the Fed's policy outlook in the face of the new omicron risk. This suggests markets have room to improve further in the USD's favour in the case of a pro-inflationary NFP release.

MNI Analysis: Hospitality Jobs Key

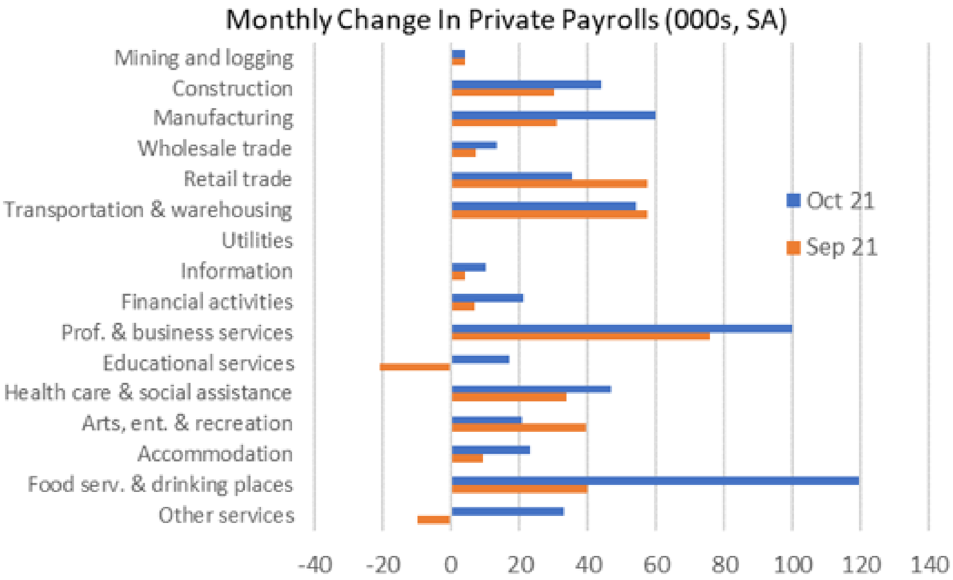
November payrolls likely saw a significant boost from leisure and hospitality.



Source: BLS, MNI

- In a typical year, November would see circa 200k jobs lost in these sectors on a non-seasonally adjusted basis (see chart).
- However, with relative strength expected to be seen again as the sectors continued to recover from the Delta wave, this could see a sizeable increase on a seasonally adjusted basis (as in Oct).
- Within the category, the largest seasonal drop tends to be in arts & recreation but also features in both accommodation and food services & drinking places.

- Unemployment rates and underemployment rates will be looked at closely in conjunction with participation rates as a broad barometer for labour market tightness.
- **Prime age participation** is particularly of interest to see whether child care constraints are still preventing people returning to the workforce.



Source: BLS, MNI

Sell-Side Views

Sell-side expectations sorted by largest to smallest NFP figure (ranging from +650k to +450k).

TD: Above Consensus On Strong Surveys, U/E Rate To Fall Two Tenths
- TD is at the upper end of the surveyed range, with an acceleration to +650k.
- A “strong trend continues to be signaled by surveys and claims” and the latest Homebase data where a decline was “more than accounted for by seasonality”.
- They see the unemployment rate down two tenths to 4.4% plus a more widely expected 0.4% M/M rise in hourly earnings.

Deutsche: Fed To Focus On Prime Age Participation
- Deutsche see payrolls up +600k (cons 548k), but a much higher private jobs number (+650k vs +525k expected) due to their expectation that state and local education jobs "may once again be impacted by the seasonal factor".
- Hiring gains to be led by leisure/hospitality, retail, and administrative/waste services, and "would also not be surprised to see couriers and messengers outperform given still-elevated online sales.
- They're in line for avg hourly earnings (+0.4% M/M) and average weekly hours (34.7), but see a slightly bigger dip in the unemployment rate (-0.2pp to 4.4%, vs 4.5%). This is driven by a just under 0.1pp increase in the participation rate, for which more broadly "Covid remains the biggest driver ".
- "Most important for Fed officials will be progress on prime age labor force participation (ages 25-54)", which is likely to remain short of pre-Covid highs "until the pandemic is under control to an extent that allows potential workers to predictably forecast caregiving needs".

Goldman: Mixed Story Across Sectors But With A General Rebound In Participation
- GS see total NFPs up +550k in Nov. This is a similar pace to Oct as it’s “the second full month of hiring following the expiration of federal enhanced unemployment benefits, and with labor demand remaining strong”.

- They see mixed industry-specific drivers. There could be a second-derivative improvement in education as janitors and support staff return belatedly although labor supply constraints could have weighed on pre-holiday retail hiring.
- They estimate a one tenth decrease in the unemployment rate to 4.5%, per consensus, and a likely rebound in the participation rate. Participation is “driven by expiring benefits, improving public health, and the easing of childcare constraints”.
- Finally, they see a 0.5% M/M rise in average hourly earnings (consensus 0.4%) which pushes the Y/Y rate up to 5.1% “reflecting continued wage pressures but negative calendar effects”.

JPMorgan: Very Close To Consensus, Backed By ADP

- JPM see +550k payrolls growth and +530k private sector job gains in Nov.
- They note that the ADP report "is not always a reliable predictor of the BLS data" but that this week's figure "does suggest that expectations for Friday are pretty reasonable."

SocGen: Big Drop In Unemp Rate, Discounts Impact Of Unemp Benefit Expiration On Participation

- SocGen see the unemployment rate falling 0.3ppts to 4.3% in Nov, standing out vs a 4.5% consensus.
- They see this "on the basis of strong job gains" (albeit their 500k payrolls estimate is below-consensus), with service sector employment performing well ("particularly in entertainment and travel").
- The main risk to their outlook is that more people will return to the workforce following the expiration of unemployment benefits, but SocGen does not see that as the key factor in low participation rates.

Wrightson ICAP: Stronger Payrolls Could = Weaker Inflation

- Wrightson ICAP's 500k estimate is a little lower than consensus for November nonfarm payrolls, with their assumption being that "growth will be constrained mainly by the availability of workers rather than by a lack of employer demand."
- They note that a stronger-than-expected outturn could be counter-intuitively dovish for near-term inflation pressures as it "could very well indicate an easing of supply constraints".
- From an FOMC policy perspective, though Friday's figure could influence December's policy decision for some participants, Wrightson ICAP think "exactly how the payroll numbers should translate into a policy recommendation is very much a judgment call at present."
- They see a 0.2pp decline in the unemployment rate to 4.4% (reflecting a "pessimistic" 0.1pp increase in the participation rate to 61.7%) - "at some point, labor-force re-engagement should push that series higher, but we don’t expect any progress this month."
- They see average hourly earnings as being "the one series" in the report "with unambiguous policy implications" - and are in line with expectations with +0.4% M/M. The overall growth in AHE "is pretty clearly a sign of an overheated job market plagued by worker shortages."

RBC: Watch Leisure & Hospitality For Seasonal Distortion

- RBC are below consensus with total up +475k (cons. 546k) and private up +425k (cons. 525k).
- They look to leisure and hospitality as a continued major source of uncertainty. The sector tends to shed jobs in Nov on a not seasonally adjusted basis, but they expect a smaller than usual decline this time around, driving a solid seasonally adjusted gain.
- They caution on the uncertainty behind these figures: “if you told us the number was going to be +/- 100k better than our forecast, it would be hard to argue forcibly against it given all of the “static” coming out of that sector”.
- They see the unemployment rate improving from 4.6% to 4.5% against this backdrop.

Citi: Below Consensus, But U/E Rate Drops Quickly On Stagnant Participation

- Citi see total NFPs up 450k in Nov, "consistent with the recent trend and with two-sided risks".
- They see "roughly unchanged participation in November and a solid 0.4%MoM increase in average hourly earnings", pushing the annual rate of AHE up to 5% Y/Y.
- If labor shortages become more persistent over the next six months it could limit hiring more broadly, although this wouldn't be dovish if softer hiring is accompanied by a stagnant participation rate.
- Expecting a largely unchanged participation rate over the coming months, Citi see "a quick drop in the unemployment rate over the next ~6 months to a level consistent with the Fed's goal of maximum employment."

Scotiabank: Below Consensus As Oct Boost From Easing Of Delta Variant Effects Fades

- Scotiabank looks for +450k on a pullback from categories seeing a boost from the easing Delta variant effects in Oct. It's "too early for a small rise in cases that began in the November reference week to impact hiring".
- Initial jobless claims fell modestly between NFP reference periods and then more significantly to 199k for the week ending Nov 19th. "That might be a positive signal, but it's more likely a distorted reading given the shifting timing of Thanksgiving from year to year and challenges with seasonal adjustments".
- They expect a small dip in the unemployment rate but a modestly milder average hourly earnings figure at an implied 0.3% M/M.