mni

All Signal, No Noise

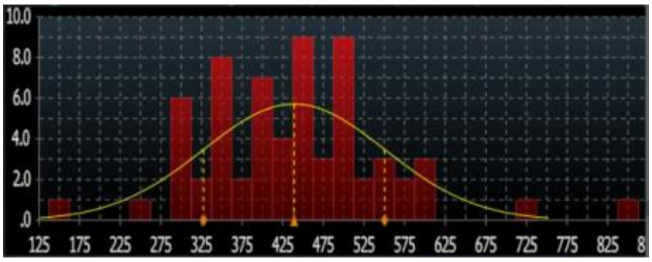
MARKET ANALYSIS

MNI PREVIEW: Dec Nonfarm Payrolls Seen +442K

By Chris Harrison

December nonfarm payrolls are expected to have risen by 442k, after just 210k in November, according to the Bloomberg survey median (the Bloomberg “Whisper” survey is 419k).

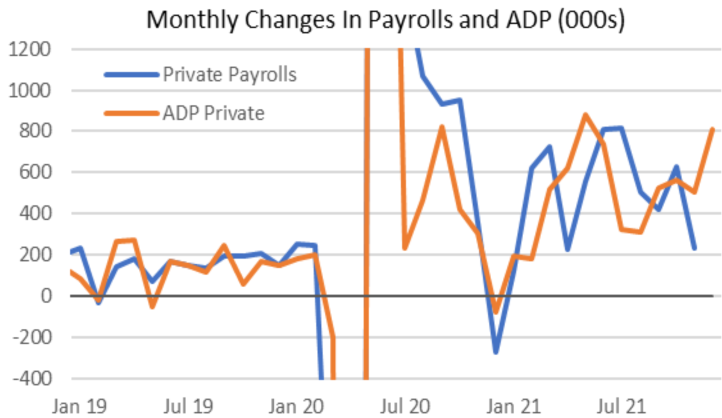
- The BBG survey range is wide at 150k-850k, with an average of 439k and standard deviation of 111k. Ordinarily that would imply a figure below 220k or above 660k would be considered a noteworthy surprise, but the timing of the holidays means that many estimates were given prior to the new year and subsequent stronger indicators. **See chart of distribution at right**.



- The unemployment rate is seen falling 0.1pp to 4.2% having dropped four tenths in Nov when household employment boomed (1.1mln), whilst the participation rate nudges up another tenth to 61.7%. Average hourly earnings are expected to firm a tenth to +0.4% M/M with hours unchanged.
- **With the market increasingly moving towards pricing in rate lift-off in March 2022, an upside surprise is unlikely to make a material difference.**
- There is currently 21.5bps of hikes priced at the Mar 2022 meeting with a cumulative 86bps by the end of the year after hawkish FOMC minutes revealed risks of rate hikes being “sooner or at a faster pace” (previously hinted in the dots) along with detailed discussion on the timing for balance sheet runoff.
- **The biggest chance for a significant market reaction would likely be on a large downside miss along with insufficient upward revisions to prior months to compensate.** This could see some reversal of the recent sell-off although this could be limited with an eye on Wednesday’s CPI release.
- **A strong figure would have to be exceptionally high to move the needle on market pricing for more aggressive Fed tightening** and would probably be scrutinized for underlying metrics.

MNI Analysis: Watch Participation, Seasonal Factors

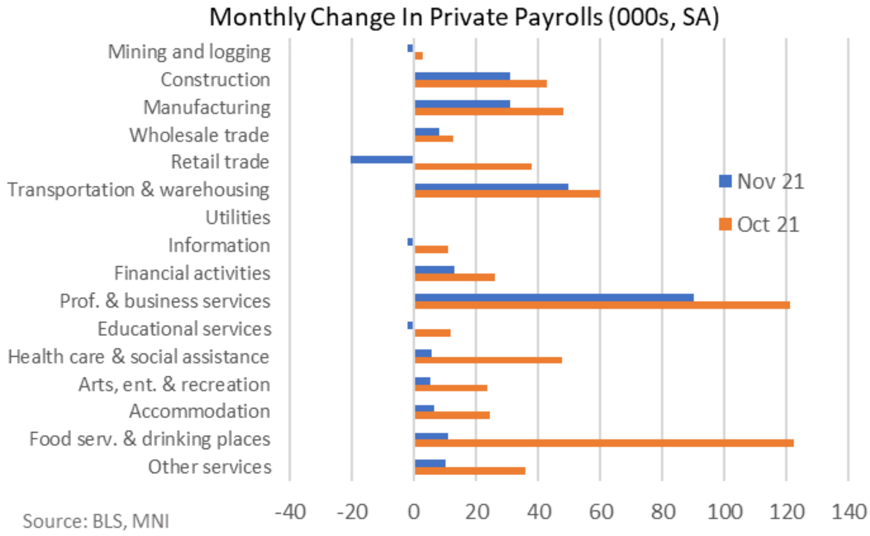
With many factors at play after last month’s mild payrolls being at odds with booming household employment, a large beat from ADP has added to uncertainty

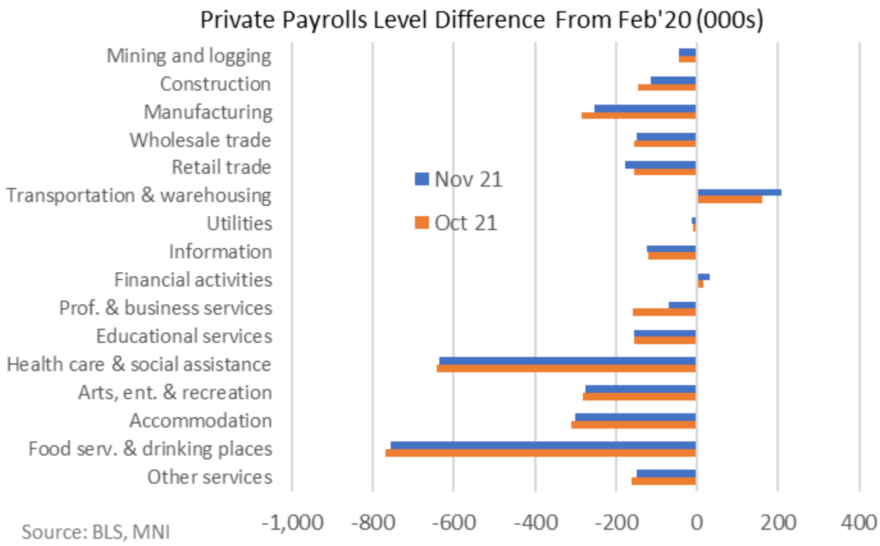


Source: ADP, BLS, MNI

- ADP private jobs increased +807k in Dec after +505k in Nov, with the strongest rise of the year in goods producing jobs whilst service-providing jobs increased 669k.
- Correlation with NFPs is known to be poor - **see chart at right** – yet Goldman appear to have revised up their NFP figure by +50k on the back of it (more below).
- Beyond ADP, seasonal factors will likely have a large impact once again. This includes education-linked roles and some further recovery in leisure & hospitality industries compared to their non-seasonally adjusted norms (the survey week came before the Omicron-related hit to the latter), plus a potential weather-related boost for construction jobs.
- More important for a structural sense will be what happens to both unemployment and underemployment rates in conjunction with participation rates as a broad barometer for labour market tightness.
- Prime age participation is particularly of interest yet again to see whether childcare constraints are still preventing people returning to the workforce.
- The FOMC minutes showed “most” participants judged that the economy could reach maximum employment “relatively soon if the recent pace of labor market improvement continued” and “several” “viewed labor market conditions as already largely consistent with maximum employment”.

- Further, “some” participants noted that it could be appropriate to raise the federal funds rate “before maximum employment had been fully achieved,” for example “if inflation pressures and inflation expectations were moving materially and persistently higher.”





Sell-Side Views

Sell-side expectations sorted by largest to smallest NFP figure (ranging from +260k to +500k).
NB: These notes all came prior to the large ADP beat.

TD: Omicron Too Late To Prevent Strong Payrolls Growth

- TD expects a gain of +500k, positing that the "late-December COVID surge likely came too late to prevent a pickup in US payrolls after the gain in November (210k) appeared to be held down by an overly aggressive seasonal factor."

Goldman: Various Seasonal Factors Still At Play, Omicron Too Late To Hit Dining

- Goldman see total payrolls growth of +450k in Dec [since revised to +500k post-ADP], with upward revisions to Nov fairly likely.

- They believe "the pre-Omicron payroll trend was much firmer than the 210k pace reported for November, perhaps as high as +600k" and not that "most of the virus-related slowdown in dining activity occurred after the December survey week".
- This is the third month of hiring following the expiration of federal enhanced unemployment benefits.
- They "look for a weather-related boost in the construction industry and a ~50k rebound in education employment (public and private)—the latter reflecting fewer janitors and support staff departing for the holidays".
- On the flipside, they see "another modest decline in retail jobs due to labor supply constraints" along with only a modest pickup in leisure-sector job growth.
- They see unemployment rate down a tenth to 4.1%, "reflecting a firm household employment gain and a stable or higher labor force participation rate", with another solid 0.4% M/M for average hourly earnings.

JPMorgan: Solid Payrolls Growth On Strong Indicators

- JPMorgan expects jobs gain off +450k for December and slightly lower unemployment rate of 4.1%.
- "While establishment survey job growth disappointed in November and there are signs that consumer spending was weak during the holiday season, there are several reasons we expect firming in job growth in December relative to November" citing "a boomy November increase in household survey employment and continued strength in our employment nowcasters."

RBC: Payrolls Growth To Be Driven By Retail Trade and Leisure/Hospitality Recovery

- RBC see overall payrolls growth of +385k and private of +375k in Dec, an acceleration from the prior month. The main change on last month is expected to be a pick-up in retail trade and leisure & hospitality.
- We expect the unemployment rate to hold at 4.2%.
- They note that if their "NFP call is roughly accurate, then the average monthly gain in 2021 would have been about 540k" […] an enormous monthly average, obviously made possible only by the staggering amount of job losses we experienced".
- They see a more reasonable pace for 2022 about half that pace, "getting back to the ballpark of where we were pre-pandemic".

Deutsche: Omicron Might Have Dampened Prime Age Participation

- DB expects jobs to climb by +375k (+300k private) "with the four-week moving average of initial jobless claims down about 70k from the survey week in November." [This has since been revised significantly higher to +600k post-ADP according to Bloomberg].
- "The Fed will want to see the unemployment rate (4.2% vs. 4.2%) continuing to fall, or at minimum remaining stable amidst a rising labor force participation rate. The rise of the omicron variant could put a damper on that though, given that covid is the major factor weighing on participation, particularly for prime age workers."

Morgan Stanley: Unemployment Unchanged On Slightly Higher Participation

- Morgan Stanley see total payrolls up +260k and private +265k in Dec.
- "This, in combination with a slight uptick in labor force participation from 61.8% to 61.9%, is expected to leave the unemployment rate unchanged at 4.2%."
- They also see average hourly earnings growth unchanged at +0.3%M/M, lowering the year-over-year rate from 4.8% to 4.1%, along with unchanged average weekly hours of 34.8.