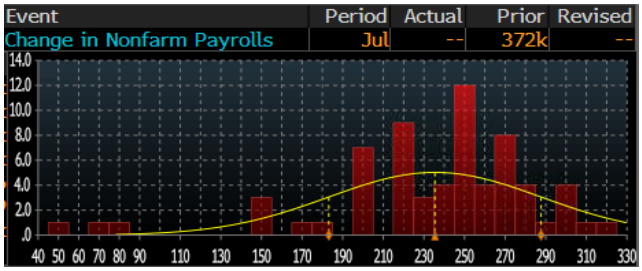
MNI PREVIEW: July Nonfarm Payrolls Seen At +250k

By Chris Harrison

Executive Summary

- Consensus sees nonfarm payrolls growth moderating to 250k in a resumption of a downward trend after four remarkably steady months as the gap on pre-pandemic employment levels is almost completely shut.
- Particular focus is likely on the strength of jobs growth plus any differences between establishment and household surveys, with FOMC speakers putting weight on labour market strength as evidence against the economy already being in recession.
- Whilst there is generally not seen to be a wage-price spiral, there should also be continued focus on labour market tightness, especially after a surprise stalling in supply in June.
- Particularly large swings in markets in the run in to this release create sizeable two-sided risk. Fed Funds futures are currently torn between a 50bp or 75bp hike at the Sept FOMC with a second payrolls report, two CPI reports and the Jackson Hole symposium still to come before then.

Nonfarm payrolls are seen rising 250k in July per the Bloomberg survey median. The average of 235k is skewed lower by a handful of very soft prints (but all still positive) whilst the primary dealer median is 260k ranging from 150-320k. Some analysts see the risk of negative revisions to the prior two months to better reflect the softness in GDP growth over 1H22, reducing some of the productivity decline, whilst Scotia also watch the household survey for signs of smaller businesses taking a larger hit.



Potential revisions aside, this would see a resumption of the moderation in payrolls growth after four remarkably steady months between 368k-398k compared to nearer 600k prior to that, but it would still be easily stronger than the 163k averaged through 2019. Analysts surveyed below draw upon jobless claims rising in the reference week, ISM manufacturing and service employment components in contraction and moderation in other big data indicators. The slowdown could be from softer labour demand (likely only limited as openings are easing but there is still a historically elevated 1.8 job openings for every unemployed) or a lack of labour supply (more likely judging by comments in ISM services on continued impediments from a restricted labour pool). It's worth watching where the contributions come from by sector, with interest rate sensitive sectors surprisingly resilient in June but unlikely to come as a surprise if they slowed more heavily in July after home sales continue to slide. More weight would perhaps be given to softer jobs growth in discretionary spending-heavy sectors such as leisure and hospitality (which still lag pre-pandemic employment levels) in a sign of cooling domestic demand after soft underlying components to Q2 GDP. Attention then quickly turns to the usual other components of the report with consensus for little change from June, opening grounds for a surprise.

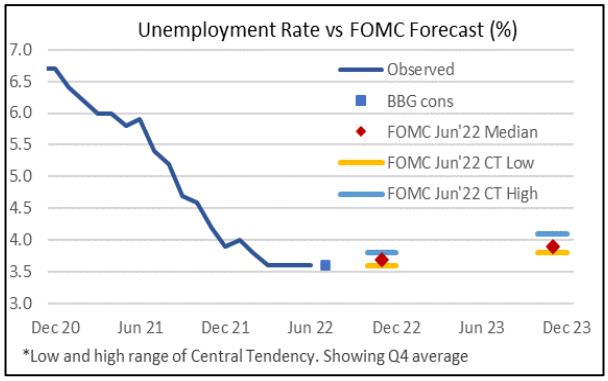
What Else Is Expected?

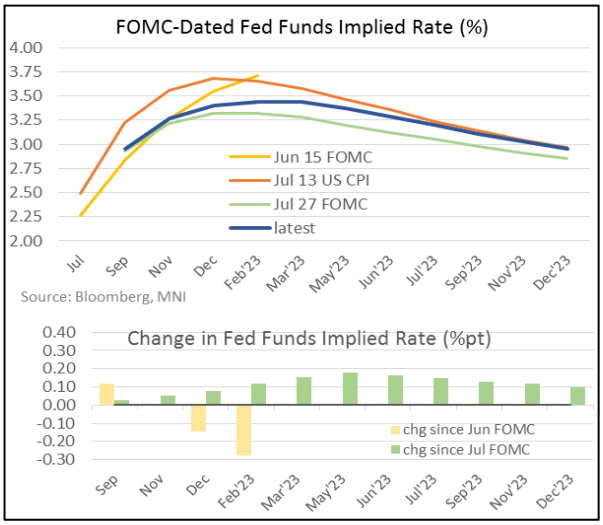
Variable	Consensus	Comments
AHE	Steady at +0.3% M/M	Seen keeping to the +0.3% M/M pace it slowed to in June having averaged 0.40% M/M in the prior three months, pushing the year-ago down two tenths to 4.9% Y/Y. Wide consensus for this monthly rate but Morgan Stanley sees upside with risk from an upward calendar bias. Also watch the non-supervisory measure to see if it continued to come in stronger after closer to 0.5% M/M of late.
U/E rate	Unch at 3.6%	A widely expected result, it would mark the fifth month at this level as it settles just a tenth above the historical low of 3.5% and would remain consistent with the FOMC's June forecast for 3.7% in end'22 (revised up from 3.5%).
Participation rate	Unch at 62.2% with upside risk	Bloomberg consensus has participation unchanged at 62.2% but it's likely a close call with a few analysts reviewed below see chance of a resumption in the rise in participation. It comes after the recovery in labour supply stalled in June, with the participation rate surprisingly falling two tenths to a joint low for the year in a move even more surprisingly led by prime-age cohorts.
Weekly hours	Unch at 34.5	This would be the third month at this level as hours worked continue to slowly settle back at more typical levels having spiked higher in the pandemic.

We once again head towards the payrolls release after huge swings in markets as growth concerns are weighed against seemingly coordinated Fedspeak pushing back against market pricing of cuts through 2023, driving a huge range of almost 40bps for 2Y Tsy yields through Tue-Wed.

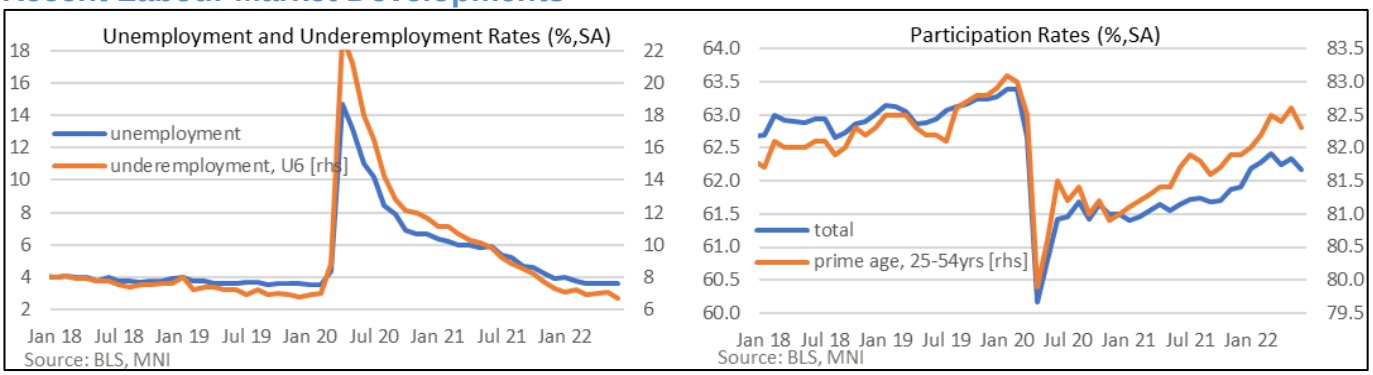
The market is torn between a 50bp and 75bp hike at the Sept FOMC, with 63bp current priced, after loose forward guidance from Powell last week with two payrolls reports, two CPI reports and Jackson Hole all coming between the July and Sept FOMC decisions. In the short time since that July FOMC, Sep pricing has ranged from 55-65bp on Wed after the ISM services beat and continued hawkish Fedspeak.

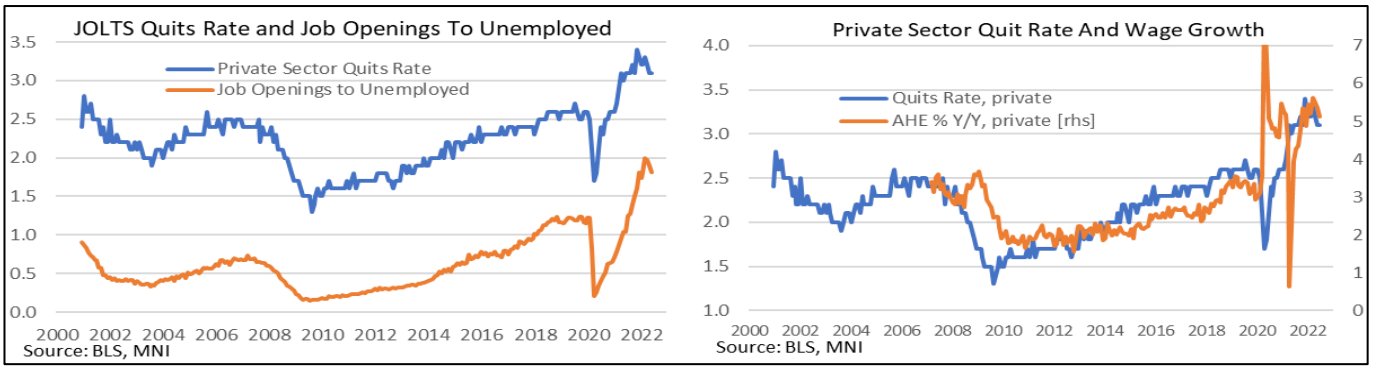
Large two-sided swings are clearly possible for meetings further out after the recent re-pricing of larger hikes. Fed Funds futures are seen peaking at 3.44% in Mar'23 but have ranged from 3.2% to 3.52% since last week's FOMC (and are off a high of 3.72% after US CPI last month). Latest Fedspeak has seen continued talk in excess of the lower recent market terminal rates whilst pushing back on cuts, covering a range of members from a typically hawkish Bullard to Daly, Evans and Kashkari. Surprising labour market tightness or signs of strong jobs demand could see this ratchet up higher, driving a further flattening in already historically inverted 2s10s (lowest since 2000), potential re-inversion in the 3M to 10Y spread and also provide a further boost for the dollar. Alternatively, a dovish surprise could see a sharp unwinding of the most recent re-pricing of hike expectations along with a steepening of Treasury curves and downward pressure on the USD.





Recent Labour Market Developments





Full details from MNI's Employment Insight covering last month's payrolls report here: https://marketnews.com/mni-us-employment-insight-recession-fears-take-a-backseat

Sell-Side Views

Sell-side views from largest to smallest NFP figure.

MS: Average Hourly Earnings Supported By Upward Calendar Bias

- Morgan Stanley see nonfarm payrolls rising 300k in July (private 290k) as payrolls growth continues to decelerate as economic activity slows but remains strong.
- More broadly, they see nonfarm payrolls growth slowing from the average monthly 457k in 1H22 to 220k in 2H22 and 108k in 2023.
- Data since the last payroll report points to labor market slack beginning to ease from extremely tight levels, with JOLTS showing a decline in openings to unemployed, suggesting that excess labor demand continues to ease from its very high levels.
- Further, the Conference Board labor market differential of jobs plentiful vs hard to get fell 2.1pts to 37.8%, the 4-week average of unemployment insurance claims increased 19k between reference weeks (possibly biased by by seasonal adjustments) and ISM manufacturing employment remains in contraction territory.
- AHE seen re-accelerating to 0.4% M/M supported by an upward calendar bias, lowering the year-ago rate a tenth to 5.0% Y/Y whilst average workweek holds steady at 34.5.
- U/E rate seen steady at 3.6% as the participation rate increased a tenth to 62.3%.

Scotia: Gauging Different Trends In Payrolls And Household Employment Measures

- Scotiabank see nonfarm payrolls rising 290k in July, which if anywhere in the right ballpark will be taken as a further sign of near-term resilience but offers nothing on where the economy is headed since jobs are a contemporaneous indicator and the unemployment rate is typically a lagging indicator.
- The drivers of the call are pretty shaky though: much like the June report, most advance indicators aren't looking so hot yet nonfarm surprised higher.
- Initial jobless claims have once again increased between reference periods, and even if that is partly a seasonal distortion as some believe, the deterioration is buttressed by other advance job readings with small business hiring sentiment gauges weakening, job vacancies slightly declining with some of those still up possibly zombie postings and consumers indicating that jobs are less plentiful to a few months ago.
- Differences in payrolls and household surveys: the household survey may be offering a better gauge of the labour market than nonfarm but its confidence interval is multiples of that of payrolls so treat it carefully. Still, when there is as large a departure in trend employment between these two measures as we've been seeing of late it becomes harder to look through each month.
- Payrolls counts jobs, versus the household survey that counts employed bodies. When more workers are pursuing the so-called 'great resignation' in search of higher wages, nonfarm can overcount as changing jobs during the nonfarm reference period can result in being counted twice versus once in the household survey. This could be a reason to doubt payroll numbers with the quit rate still elevated but peaking.
- Adding to this concern is that small business is getting hit harder than big businesses with formal payrolls. The household survey captures small businesses without payrolls but nonfarm does not.

TD: High Frequency Indicators Suggest Still Above-Trend Job Growth

- TD see nonfarm payrolls rising 300k, continuing to advance firmly but at a more moderate pace after four consecutive job gains at just below 400k in March-June.
- High-frequency data, including Homebase, still point to above-trend job creation.
- U/E rate seen staying at 3.6% for a fifth straight month, whilst AHE is steady at 0.3% M/M, pushing the year-ago rate down to two tenths to 4.9% Y/Y.

Barclays: Moderate Slowing In Jobs Growth As Employment Lags Spending Data

- Barclays see nonfarm payrolls growth of 275k in July, expecting a slowing in jobs growth to be fairly moderate whilst anticipating some early signs of easing tightness in labor markets, reflecting the historical tendency of employment to lag from developments in spending data.
- As in prior months, this should continue to generate income that helps to offset erosion in purchasing power from high inflation, with average hourly earnings moving up 0.3% M/M for a fourth consecutive month, and the workweek holding steady at 34.5hrs.
- U/E rate seen holding at 3.6% with the participation rate ticking back up to its 2022 average of 62.3%.

NWM: Looking For An Erosion Of Net Hiring Growth Rather Than A Sharp Slowdown

- NatWest see nonfarm payrolls rising 270k in July (private 255k) with both anecdotal and survey evidence pointing to an erosion at the margin in net hiring growth rather than a sharp slowdown in a signal that the economy is muddling through rather than already tumbling into recession.
- They expect a relatively solid contribution as has been the case in previous months, and given the steady pace of payrolls wouldn't be surprised to see a downward revision to the previous two months.
- AHE could have re-accelerated a tenth to 0.4% M/M whilst average hours worked may have held at 34.5 for a third straight month.
- U/E rate seen at another 3.6% print after creeping slightly lower from 3.62% to 3.60% in June. While the jobless rate has been pretty consistent in recent months, the labor force and household employment readings have been gyrating from month to month, posting steep declines in June after surges in May. Thus, a rebound in July appears likely but, given the see-saw pattern, we would not be particularly encouraged by a large advance in household employment.

Unicredit: Reduced But Still Strong Hiring

- Nonfarm payrolls seen rising 230k in July. Weekly initial jobless claims have continued to rise, while business surveys point to reduced, but still strong, hiring.
- U/E rate will probably hold at 3.6% as both household employment and the participation rate likely rebounded in July after household employment slid -350k in March.
- AHE likely rose by another 0.3% M/M in July, taking the year-on-year rate down to 4.9%.

GS: Seasonal Headwinds To Weigh On Payrolls Growth, Less So Household Employment

- Goldman see nonfarm payrolls rising 225k in July (mom sa), a slowdown from the +372k pace in June.
- Assuming a seasonal headwind of circa 250k - July seasonal factors have evolved significantly more restrictive—even more so than in June—and the seasonal adjustment software may be overfitting to the reopening-related job strength in the summers of 2020 and 2021.
- Further, while Big Data indicators were mixed in the month, jobless claims have risen, consistent with a drag from tighter financial conditions and modestly higher retail and technology layoffs.
- On the positive side, expecting a boost from education seasonality, reflecting fewer-than-normal janitors and support staff leaving for the summer (we assume +75k mom sa, public and private).
- U/E rate seen unchanged at 3.6%, reflecting flat-to-up labor force participation and a rebound in household employment, the latter of which does not exhibit the same negative residual seasonality we expect in nonfarm payrolls.
- AHE seen +0.3% M/M with the year-ago rate down two tenths to 4.9%. The arrival of the youth labor force may have eased some of the upward pressure on wages, but expect a boost from positive calendar effects.

SocGen: High Bar To A Third 75bp Hike In Sept

- SocGen see nonfarm payrolls rising 225k in July with continued strong gains within the leisure and entertainment industries, mostly from travel and lodging and entertainment as restaurant gains moderate after very strong gains for the past year.
- Healthcare is also posting solid gains again but on the softer side we expect weaker gains for manufacturing and retail as the economic environment for those sectors slows.
- U/E rate seen holding at 3.6% as participation slowly climbs, whilst AHE is seen unchanged at 0.3% M/M.
- Fed Chair Powell has kept an open door for very large rate hikes. However, the bar seems high following two straight hikes of 75bp. We expect a 50bp hike in September. Inflation continues to put pressure on the Fed to hike rates but employment should be a key influence on size and timing. Employment needs to slow substantially from the current pace for the Fed to stop hiking rates and potentially cut them. We do not see that on the near-term horizon.

ING: Lack Of Supply To Hold Back Payrolls Growth

- ING see nonfarm payrolls rising 220k as a lack of supply holds back growth - there are still two vacancies for every one unemployed American, and small businesses are crying out for staff.
- With unemployment remaining at just 3.6%, wages still growing at around 5% year-on-year, and inflation just shy of 10%, the Fed will continue hiking for now.
- Before the 21 September FOMC meeting there are two US job reports, two inflation prints and the Jackson Hole annual symposium. It isn't surprising that the Fed chose to be vague in its forward guidance after hiking rates by 75bp on Wednesday.

Wells Fargo: Not Yet In Recession

- Wells Fargo see nonfarm payrolls rising 215k in July after the robust 372k in June with some tentative signs beneath the surface that the labor market is cooling.
- Wage growth is slowing, initial jobless claims have ticked higher throughout July and job openings appear to have peaked. With employment levels finally catching up with demand, we look for hiring to slow steadily over the second half of the year.
- As we look to 2023, we think an outright decline in employment will commence in late Q1/early Q2 as the economy slips into a mild recession, but for now, the best argument for why the economy is not yet in recession is the strength of the labor market.
- Both AHE growth and U/E rate seen unchanged at 0.3% M/M and 3.6% respectively.

CBA: Labour Market Lagging And To Remain Tight For At Least Several More Months

- CBA see nonfarm payrolls rising 200k as jobless claims suggest the pace of gains in payrolls is easing. The labour market is a lagging indicator and we expect the labour market to remain tight for several more month at least.
- U/E rate seen edging a tenth lower to 3.5% whilst AHE re-accelerates a tenth to 0.4% M/M.

JPM: Job Growth Slowing After Unsustainable Plunge In Productivity In 1H22

- JPMorgan see nonfarm payrolls rising 200k (all from private) as jobs growth needs to slow after an unsustainable plunge in productivity growth in the first half of the year when nonfarm employment increased by about 450k per month despite a contraction in real GDP.
- There are signs that the labor market is weakening, with jobless claims filings moving up and some survey measures of employment moving down, but on the whole we think the recent signals point to continued strength/health in the labor market despite some recent moderation.
- AHE seen rising 0.3% M/M again which sees the year-ago rate cool two tenths to 4.9% Y/Y with no change in the average workweek at 34.5 hours.
- U/E rate seen unchanged at 3.6% with a good chance household employment is strong as it bounces back from a -353k in June but also with participation increase a tenth to 62.3% and the employment-population ratio rising two tenths to 60.1%.

CIBC: Recent Strength In Payrolls Growth Could Have Been Overstated

- CIBC see nonfarm payrolls rising 180k as the outperformance in the labor market relative to GDP growth suggests the recent gains in payrolls may be overstated.
- That would also remain consistent with jobless claims rising into the reference week in both NSA and SA terms plus the underperformance in the household survey.
- The jobs gained in July could reflect further growth in the leisure and hospitality sector in particular, which more than accounts for the 524K deficit in payrolls relative to pre-pandemic levels, against a slowdown in interest-sensitive and goods-producing sectors that have seen demand wane.
- U/E rate seen unchanged at 3.6% whilst AHE likely continued at a 0.3% M/M pace.
- A cooling in hiring is a precursor for the Fed to slow the pace of rate hikes, and if sustained in August, that could portend a 50bps hike at the September FOMC.

Policy Team Insights

MNI BRIEF: Fed Jobs Model Sees Notably Slower Hiring In July

By Jean Yung *(Published Aug 3)*

(MNI) - U.S. employment may have notched a "very modest" increase in July, according to a St. Louis Fed analysis of real-time data from employee scheduling software provider Homebase, bank economist Max Dvorkin told MNI.

The St. Louis Fed's Coincident Employment Index "shows a very modest increase, a notable difference with the strong upward trajectory since the beginning of the year," Dvorkin said. It is predicting a positive employment gain of 377,000, not seasonally adjusted, but an increase of only 20,000 seasonally adjusted for the month. The figures correspond to the BLS's household survey.

"This suggests that the cooling down of the labor market is showing up in the Homebase data," Dvorkin said.

Markets are expecting Friday's jobs report to show U.S. payroll gains slowing to 250,000 from 372,000 a month earlier, based on the BLS establishment survey. The establishment and household surveys have diverged in some months but show a similar aggregate trend over the first half of the year, an increase of 2.7 million jobs and 2.1 million employed people, respectively.

(https://research.stlouisfed.org/publications/review/2021/08/16/assessing-labor-market-conditions-using-high-frequency-data)

MNI INTERVIEW: Services Less Confident In Growth In Fall - ISM

By Evan Ryser *(Published Aug 3)*

(MNI) Washington - The U.S. service sector should continue to see moderate growth through the end of the year but there are signs there could be a weaker-than-anticipated slowdown that could come this fall, Institute for Supply Management services chair Anthony Nieves told MNI Wednesday.

"The comments show how these companies are feeling and thinking and they are feeling the economy is weakening," he said. "But I would point to the index itself because that is empirical information measuring change month over month."

The ISM services survey increased 1.4ppts to 56.7, increasing more than anticipated in July to a three-month high on firmer business activity and orders. A reading below 50 suggests a contraction.

"We'll stay above that 50 baseline," the ISM services chief said. "We might see sideways movement through the end of the year. I don't think we will see huge spikes up or down and the PMI will stay around where we are right now."

But Nieves conceded growth could still slip by more than anticipated in the next few months. "I think the fall will be the pivotal mark."

"Thinking how the month of September and October looks will be when we start seeing the build up as we get into the holiday season on the retail side," he said. "September's numbers that come out in October is going to tell us how we're going to finish out the year."

"The biggest fear right now is recession," Nieves said, noting continuity of supply as the second biggest headwind for the industry, and adding that those recession fears still could cause future demand to sour even though it is not showing up now in his report. The July ISM report showed new orders increasing 4.3ppts to 59.9.

--PRICE DROP

Some firms polled in the survey improved their outlooks as the price index reading fell below 80 for the first time since September 2021, falling 7.8ppts to 72.3. July's drop was the steepest fall since May 2017. The survey showed 54% of service firms reporting higher prices, down from 75% in April, while over 6% registered lower prices.

"Prices have peaked," said Nieves in an interview with MNI.

The ISM services chair also remained confident in the labor market despite the employment subindex printing below 50, which suggests a contraction. The June report showed employment dropping 2.3ppt to 47.3

Nieves pointed to continued strong labor demand and commented on recent layoffs in the tech industry. "We know that certain companies and industries have had these layoffs but others still can’t get enough workers."

Still, Nieves noted the labor market as a key indicator that can serve as an early sign in the path of the industry. "How employment goes is how this sector goes."