

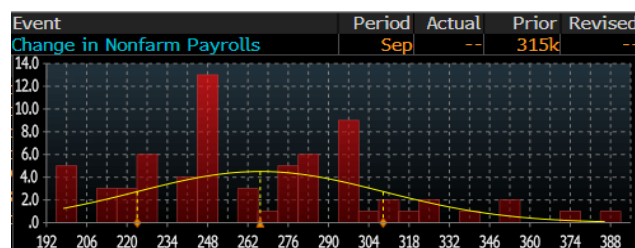
MNI PREVIEW: Aug Nonfarm Payrolls Seen At +260k

By Chris Harrison

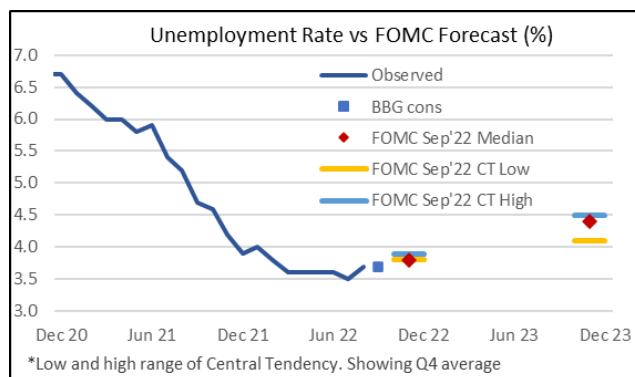
Executive Summary

- Consensus sees NFP growth moderating to 260k in Sept after the 315k from August's 'goldilocks' report.
- Indications of tightness from AHE and the u/e rate combined with recovery in participation will help shape the market reaction after the u/e rate ticked up two tenths and wage growth cooled moderately in Aug.
- Analyst expectations imply a reasonable chance of small beats for the u/e rate and wage growth, at least at a first glance on rounding, potentially paving way for an initial overreaction to small surprises.
- That said, recent market moves open significant two-sided risk to larger surprises in the report, even with CPI and other important data releases still to come before the Nov 2 FOMC decision.

Nonfarm payrolls are seen rising 260k in August per the Bloomberg survey median after the 315k in August's 'goldilocks' report that on its own left the debate open on between a 50bp or 75bp hike for the Sep FOMC before a strong CPI print secured the case for 75bp. Estimates range from 199k-389k but are closely packed between 250k-300k, as evidenced in our sample of analysts below. The primary dealer median currently sits at 280k although some are missing from the Bloomberg survey.



This would see 3- and 6-month averages only ease slightly to 360-370k as the moderation in employment growth remains steady, still running at double the 164k averaged through 2019. Continued reasonable strength in payrolls growth is supported by initial jobless claims trending lower again, a bounce in the Conference Board labor market differential and the ISM services employment index at its highest since March [all charted below].



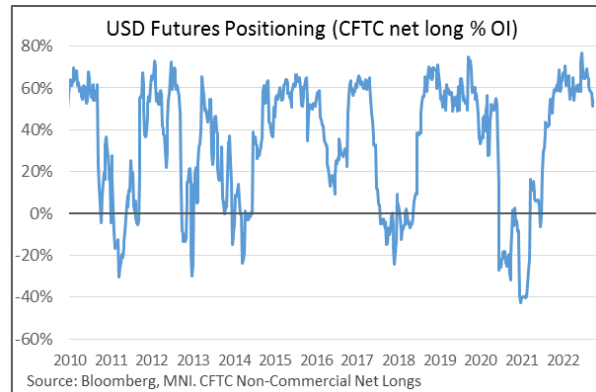
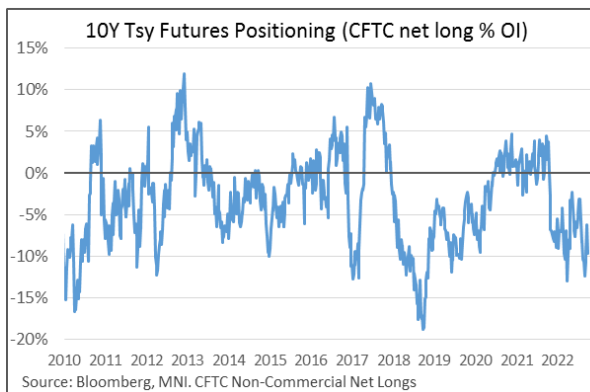
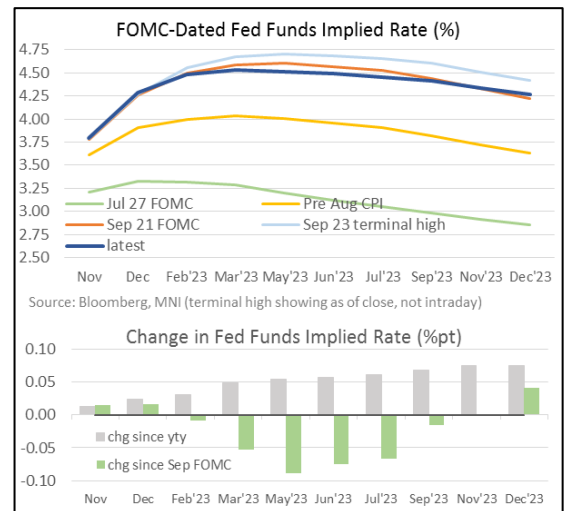
Moderately softer indicators come from ADP employment growth at circa 200k despite an uptick and pronounced cooling in JOLTS job openings back in August, whilst the most extreme is the St Louis Fed's model based on Homebase data pointing to a significant decline in employment in the separate household survey [see MNI Brief at bottom of note], potentially adding risk of the unemployment rate surprising higher with only 5 of 69 analysts looking for an increase.

What Else Is Expected?

Variable	Consensus	Comments
AHE	Unch at 0.3% but close call with 0.4%	August's 0.31% M/M was the slowest since Feb. Chance of what appears an upward surprise with 30 of 59 analysts looking for 0.3% M/M and 25 looking for 0.4% M/M. Goldman look for 0.35% M/M, "reflecting neutral calendar effects but a possible boost from autumn recruitment efforts". Consensus sees the annual rate down 0.2pts to 5.0% Y/Y, further off the most recent peak of 5.6% in March.
U/E rate	Unch at 3.7%, close call with 3.6%	The u/e rate surprisingly increased 0.2pts to 3.65% off record lows in Aug. 35 analysts see 3.7%, 29 see 3.6% and only 5 see 3.8%. The FOMC's Sep forecast was revised up to 3.8% for end'22 (from 3.7%) and 4.4% for end'23 (3.9%).
Participation rate	Unch at 62.4	A large part of the potential pullback in u/e rate comes from last month's surge in labour supply seen as unlikely to be replicated, having pushed the participation rate up three tenths from year-to-date lows to highs.
Weekly hours	Unch at 34.5	Seen unchanged at recent lows for the post-pandemic recovery as it also closes the gap on pre-pandemic levels.

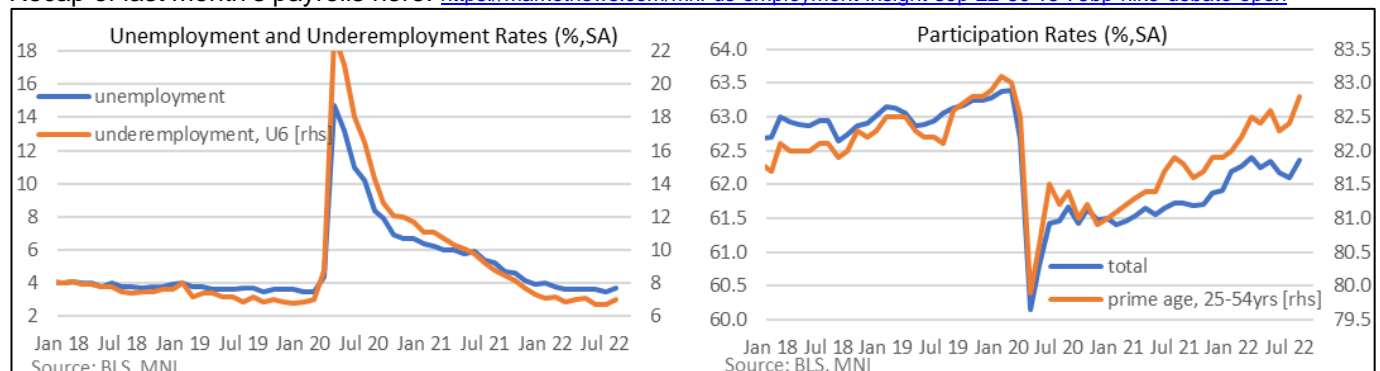
Market Set-Up Leaves Sizeable Two-Way Risk

- There is still plenty of data before the Nov 2 FOMC, including CPI for Sep (Oct 13), core PCE (Oct 28), U.Mich (Oct 28) and ISM mfg surveys for Oct (Nov 1), but recent market swings leave scope for significant moves in either direction on a miss or beat.
- Fed Funds implied hikes have firmed this week, steadily for the remaining two meetings for 2022 but a more roundabout journey for 2023 rates with terminal and especially 2H23 rates, dipping on brief entertainment of a pivot in Fed policy before reversing. It leaves 71.5bps priced for the Nov 2 FOMC and a cumulative 120bp to 4.28% in Dec, before a terminal 4.53% in Mar'23 and only slowly cutting to 4.26% in Dec'23, something Fed officials continue to push back on.
- That Dec'23 rate is up from Tuesday's low of 4.01% but is also below a cycle high of 4.57% in days following the Sep 21 FOMC, giving a wide range to potential market reaction in the event of a surprise in either direction.
- The same is true for longer term yields with 10Y Treasuries at 3.81%, in the middle of wide ranges after the brief clearance of 4% last week and Tuesday's low of 3.56%, with TY net shorts off recent near-cycle lows.
- In FX space, DXY has retreated 2.5% from Sep 28 highs but remains 17% higher in the year-to-date.

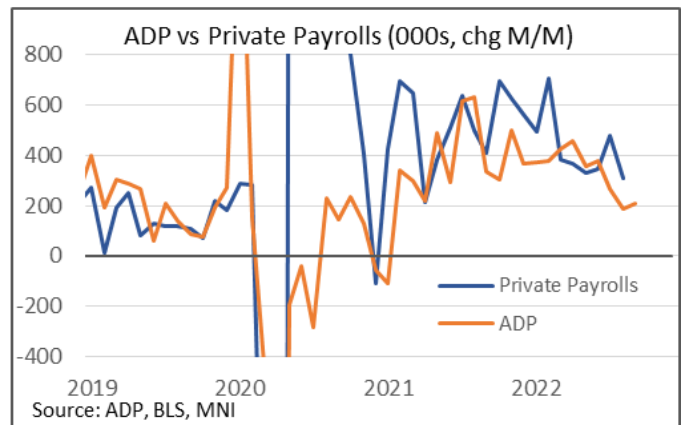
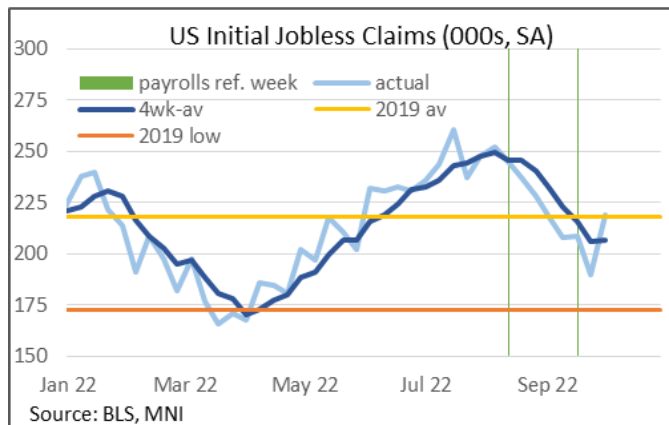
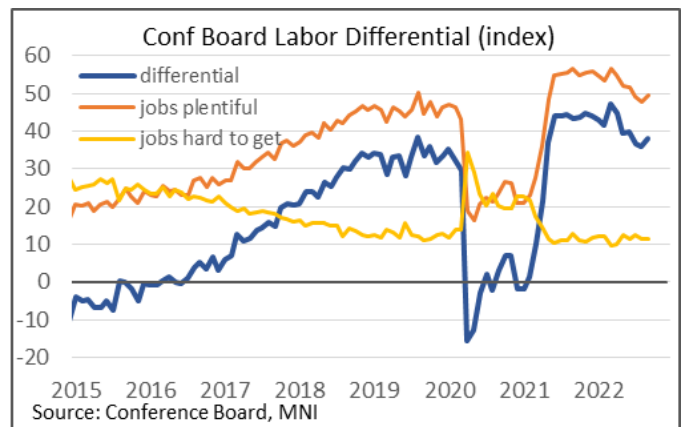
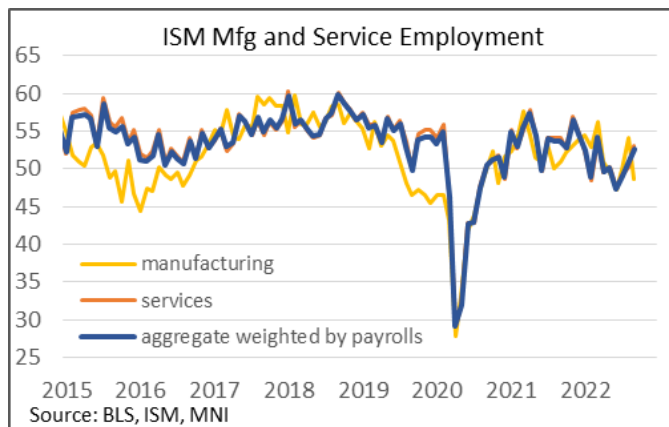
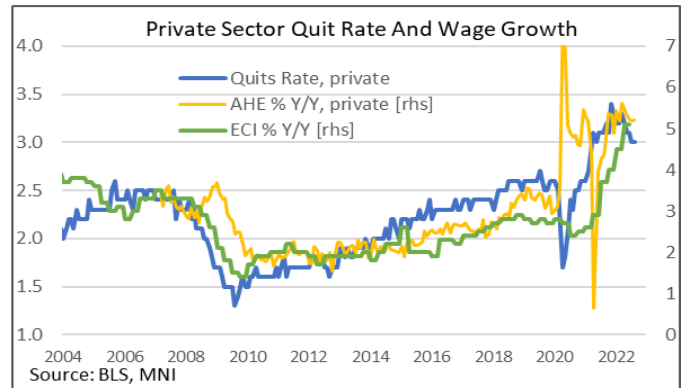
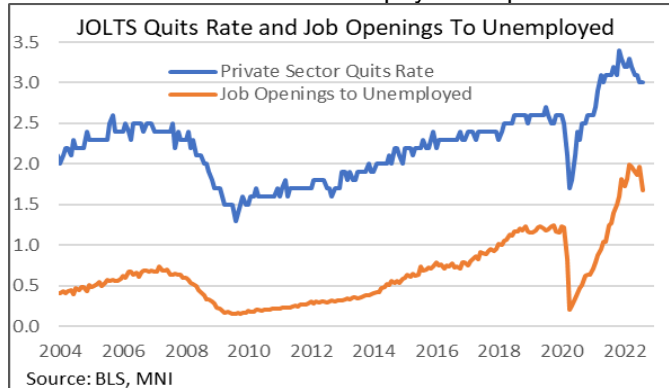


Recent Labour Market Developments

Recap of last month's payrolls here: <https://marketnews.com/mni-us-employment-insight-sep-22-50-vs-75bp-hike-debate-open>



Labour indicators since the last payrolls report:



Sell-Side Views

Eleven sell-side previews from largest to smallest NFP figure.

JPM: Stronger Than Consensus For Jobs & U/E Rate, In Line With AHE

- JPM forecast a 300k increase in NFP (cons 260k) with the u/e rate dipping a tenth to 3.6% (cons 3.7%) as another jump in the participation rate is unlikely.
- They expect trend job growth to slow significantly at some point given the drop in productivity in 1H22, significant recent tightening in financial conditions, and expectations for softening in the economy ahead

but recent indicators point to continued strength for now, perhaps most notably very favorable jobless claims filings.

- AHE seen per consensus at +0.3% M/M whilst the average work week holds at 34.5 hours.

NWM: No Sign Of Major Shift Softer In September

- NatWest look for a 300k increase in NFP, entirely coming from the private sector. We look for payrolls to decelerate in coming reports, but at this point other labor-related indicators give us no reason to expect a major shift in the September jobs report.
- Initial claims have trended back down in recent weeks after a steady rise in the spring/early summer, the NFIB survey had a small rise in hiring intentions in August and the latest Conference Board's net % saying "jobs plentiful" vs "jobs hard to get" increased in September.
- They look for the u/e rate to hold at 3.7% on a rounding basis after August's 3.65% whilst AHE may have increased 0.4% M/M from August's 0.3, although would still see a tenth downward tick to 5.1% Y/Y.

Commerzbank: No Sign Of Noticeable Slower Economic Momentum

- Commerzbank look for a 280k increase in NFP as High-frequency data on initial jobless claims, restaurant bookings, airline passengers and mortgage applications do not suggest a noticeable slower economic momentum in September, despite the financial market turmoil and global signs of weakness.
- It's still significantly more than the 70k new jobs needed each month in the longer term to integrate person entering the labor market.
- The u/e rate is likely to remain at an extremely low 3.7%.

Lloyds: Modestly Stronger Than Expected Across All Major Variables

- Lloyds forecast a 280k increase after last month's goldilocks report, with the u/e rate ticking down to 3.6% after the 0.2pt increase in August on higher labour participation.
- AHE seen a tenth stronger than consensus at 0.4% M/M.

SocGen: Above Consensus AHE Growth After Softer August Was 'Noise'

- SocGen forecast a 280k increase in NFP, with many job openings to fill in healthcare, the leisure sector and education.
- The total working-age population is growing at a 150-175k pace - over time, job gains above this population pace should drive down the unemployment rate further even if they don't line up from month-to-month.
- They see the u/e rate dipping a tenth to 3.6% after the 0.2p increase in August as more than 700k rejoined the workforce, unlikely to be repeated. If there are no returnees, the u/e rate could drop even more.
- They see AHE wage growth rising 0.5% M/M, with the shortfall of 0.3% in August seen as noise rather than the beginning of a new trend.

DB: Relatively Sturdy Payrolls, Marginal Beats For U/E Rate, AHE Growth

- Deutsche see payrolls remaining "relatively sturdy", rising +275k for both overall and private jobs.
- Unemployment rate to fall 0.1pp to 3.6% whilst hours worked steady at 34.5.
- They see marginal upside risk with AHE accelerating a tenth to 0.4% M/M, pushing wage growth down a tenth to 5.1% Y/Y, with their payroll proxy for nominal income about 0.6pp to 8.8% Y/Y.

Unicredit: Employment Strength To Prevent An Increase In U/E Rate

- Unicredit forecast a 250k increase in NFP with signs of softening in the labor market with job openings and quits below recent highs (written prior to the sharper decline in August openings).
- Employment gains were likely strong enough to prevent the u/e rate rising above 3.7% even if there was a slight further rise in participation after August's jump.
- AHE likely rose another 0.3% M/M amid a still-tight-but-softening labor market.

CIBC: Close To The Consensus Case

- CIBC forecast a modestly below consensus 240k increase in NFP as early indications suggest hiring continued at a brisk pace, with an improvement in initial claims and the Conference Board's labor differential measure.
- They see the u/e rate unchanged at 3.7% with a further increase in participation as there is still some room for gains in the prime-age group.
- AHE also in line, holding at 0.3% M/M.

SEB: Private Sector To Lead Payrolls Growth, Above Consensus AHE

- SEB forecast a 230k increase in NFP with a stronger 268k increase in the private sector, still above the pre-pandemic trend of 180k for overall NFP.
- The labour market remains very tight according to measures of shortages and prior JOLTS data (written before latest dip in openings) with the renewed downward trend in initial claims during the past few months suggesting companies are holding on to their workers to avoid the risk of not being able to rehire.
- They see the u/e rate unchanged at 3.7% whilst AHE a tenth stronger than consensus at 0.4% M/M.
- The bigger picture is that overall participation has been flat since the spring. We are cautious to predict new sharp increases and believe that rising supply will not be enough to move the labour market into a better balance; demand needs to decline too. Risks for wages remain on the upside in this environment.

GS: Below Consensus With Mixed Big Data Indicators

- Goldman forecast a 200k (cons 260k) increase in NFP in September, from August's 315k "reflecting the loss of the summer youth labor force".
- Big Data indicators were mixed in the month, but jobless claims remain low and the level of labor demand also remains elevated despite declining meaningfully this year".
- They see the u/e rate unchanged at 3.7%, "reflecting flat-to-up labor force participation and a rise in household employment".
- AHE seen at 0.35% M/M from 0.31% in August, "reflecting neutral calendar effects but a possible boost from autumn recruitment efforts".

ING: Below Consensus But Still Expect A Fourth 75bp Hike

- ING see a 200k increase in NFP, the u/e rate staying at just 3.7% and wage growth staying elevated.
- They see this as remaining consistent with a fourth consecutive 75bp hike on Nov 2 with inflation sticky and the near-term growth story looking ok.

Policy Team Insights

MNI BRIEF: Fed Model Sees Substantial Decline In Sept Hiring

By Jean Yung (*Published Oct 5*)

(MNI) - U.S. employment may have declined substantially in September, according to a St. Louis Fed analysis of real-time data from employee scheduling software provider Homebase, economist Max Dvorkin told MNI.

The St. Louis Fed's Coincident Employment Index is showing a downward trend in the past few weeks, "which suggests a substantial decline in employment," Dvorkin said. Negative seasonality factors further drag down the -732,000 unadjusted figure to -913,000, a "very substantial" drop in employment for September. The figures correspond to the BLS's household survey.

He cautioned however that the Homebase sample has a high concentration of small firms in retail and leisure and hospitality and that composition bias may skew the forecast too negative. Real-time data from UKG, a different payroll and time-scheduling company, shows declines in these sectors and in small firms this month, but not so much in others, he said.

Markets are expecting Friday's jobs report to show U.S. payroll gains slowing to 250,000 from 315,000 a month earlier, based on the BLS establishment survey. The Fed is keen to see signs that the overheated labor market is starting to cool off, but has signaled it would only reduce the pace of interest rate increases if inflation slows.

