mni

All Signal, No Noise

MARKET ANALYSIS

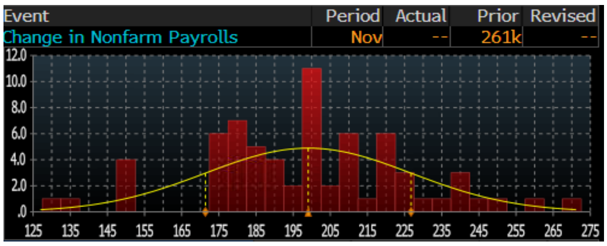
MNI PREVIEW: Watching Implications For Feb FOMC

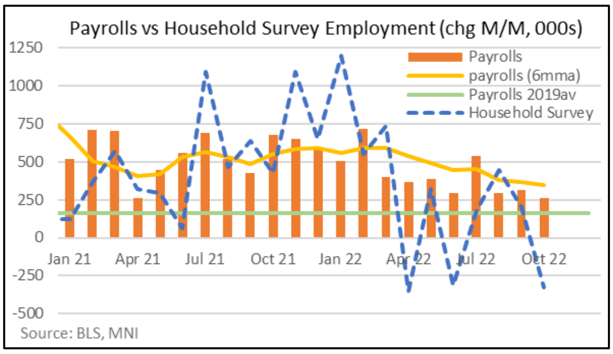
By Chris Harrison

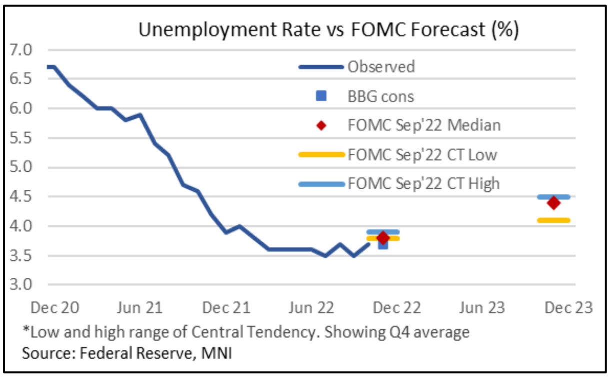
Executive Summary

- Consensus is very similar to what it pencilled in for last month's report, before payrolls came in stronger but the u/e rate increased more than expected as participation fell.
- As it is, payrolls growth is seen continuing to moderate but well above a more sustainable 100k with the u/e rate holding at a low 3.7% (slight survey skew lower) and AHE easing to 0.3% M/M (slight skew higher).
- The indicators of slack from the usual combination of unemployment and participation rates plus AHE growth will guide the market reaction.
- The outcome is most likely to affect expectations for the Feb 1 FOMC decision. 50bp is currently seen largely locked in for December (52bp priced), with an additional 35bp priced for the Feb meeting. The recent renewed Fed concentration on the labour market could see this swing either way.

The Bloomberg median sees nonfarm payrolls rising 200k in November after a stronger than expected 261k in Oct. Estimates range from 130k-270k, somewhat closely packed between 175-220k. The primary dealer median sits at 202.5k.







Payrolls growth trending lower isn't surprising, with the u/e rate near historical lows, participation struggling to return to pre-pandemic levels and aggregate pandemic job losses fully recovered to only leave catching up any demographic changes. **However, the rate of moderation is too slow for the Fed tackling inflation:** a consensus reading would leave the 3-month average at 260k and 6-month at 315k, well above the 165k averaged in 2019's historically tight labour market. **As Powell noted yesterday, that remains far in excess of the ~100k per month that is needed to accommodate population growth over time.**

Landing early in the month, there are fewer than usual indicators for the survey entries to lean on. Initial claims have recently climbed but most of the move came after this month's payrolls reference period and remain below levels reached last summer, whilst the Conference Board's labour market differential has tentatively ticked up after October's sharp decline, holding at 2019 average levels [charts below].

Since most of survey entries were made, ADP employment came in softer than expected with +127k (cons +200k) although predictive powers with private NFPs is still unknown after the recent methodological change, whilst JOLTS openings fell by less than expected in October as it continues to point to only a gentle cooling in labour demand along with a broadly sideways move in the latest quits rate. Powell once again put emphasis on JOLTS data in latest remarks, noting that the broadly as expected move in openings is "good news" rather than increasing any further but still very high [charts below]. That being said, the two estimates seen after yesterday's ADP/JOLTS sit either side of consensus, with Morgan Stanley looking for 180k and Wrightson ICAP unrevised at 225k.

Stronger than expected payrolls was one side of last month's mixed report, with the separate household survey weaker as the u/e rate increased by more than expected to 3.7%. **Consensus sees the unemployment rate unchanged in Nov, partly as household employment bounces back after a particularly sharp decline in October** [chart above]. This would keep it slightly below the FOMC's median forecast of 3.8% for 4Q22 before the projected rise to 4.4% in 4Q23 as of the September forecasts.

What Else Is Expected?

Variable	Consensus	Comments
AHE	0.3 (-0.1pt)	AHE growth has been trending softer in recent months even if last month saw a small beat at 0.37% M/M vs 0.3 expected. Consensus once again expects 0.3%, back at the pace seen in Aug and Sept. GS and notably UBS see downside risk from calendar effects (analyst section below) although primary dealer analysts are skewed slightly more towards upside risks.
U/E rate	3.7% (--)	Survey geared slightly more towards risk of a lower than higher print, with that 3.6% being what was expected last month and very close to historical lows.
Participation rate	62.3 (+0.1pt)	The surprise 0.1pt drop in the participation rate to 62.2% was one of the more hawkish aspects of last month's report as it was led by a 0.2pt drop in the prime age participation. A consensus reading would continue to see the post-pandemic recovery in participation as largely stalling. [Powell noted the population-adjusted rate is 1.5pts below 2020 levels]
Weekly hours	34.5 (--)	Seen unchanged at recent lows for the post-pandemic recovery as it also closes the gap on pre-pandemic levels.

Watching Implications For February FOMC Meeting

- Markets have lately shown significant sensitivity to even marginal signs of softer data or less hawkish Fed rhetoric, most recently Chair Powell's remarks (Nov 30) and prior to that the minutes for the Nov 2 FOMC showing that only "various" participants viewed a higher terminal than in the September forecast.
- However, yesterday's peak to trough rally pushing 2Y yields more than 20bps lower, creates scope for a still sizeable sell-off in the event of a stronger report, which analyst surveys are skewed towards at the margin, especially coming after growing headlines of layoffs and yesterday's ADP miss.
- A hawkish report would lend more weight to views such as Bullard, who sees a policy rate needing to be a minimum 5-5.25% (terminal currently fractionally under 5%), whilst the growing data dependency could see a more abrupt end to the hiking cycle beyond a likely 50bp hike in December in the event of a miss.
- That is at least until the next CPI report, landing on day 1 of 2 for the FOMC meeting on Dec 13-14.
- In all cases, we suspect that this will be played out by expectations for the Feb 1 FOMC decision. 50bp is currently seen largely locked in for December (52bp priced) with an additional 35bp priced for the Feb meeting. Renewed Fed concentration on the labour market could see this swing either way.

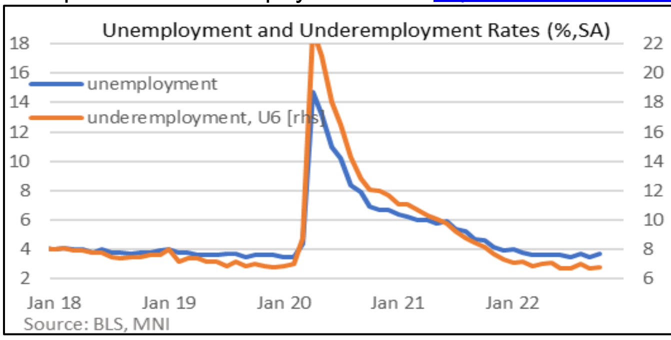
Primary Dealer Skewed Slightly To Hawkish Surprise

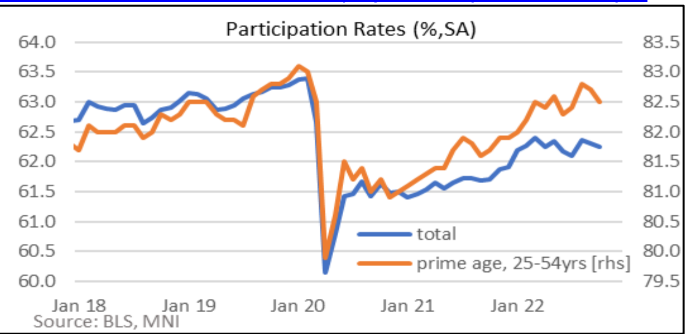
	Payrolls	U/E	AHE
J.P.Morgan	150	3.6	0.3
Barclays	175	3.8	0.3
Goldman Sachs	175	3.7	0.3
Morgan Stanley	180	3.8	0.3
Nomura	180	3.7	0.4
Jefferies	185	3.6	0.4
BMO	200	3.8	0.4
Deutsche Bank	200	3.6	0.3
UBS	200	3.6	0.2
Scotiabank	205	3.6	0.3
Wells Fargo	205	3.7	0.3
BNP Paribas	210	3.7	0.3
HSBC	210	3.7	0.3
Mizuho	210	3.7	0.3
Citi	225	3.6	0.3
CS	225	3.7	0.3
Amherst Pierpont	240	3.6	0.3
TD Securities	240	3.7	0.3
Societe Generale	270	3.6	0.4

(Where entered in BBG survey or seen by MNI)
Red denotes tighter than consensus, blue looser

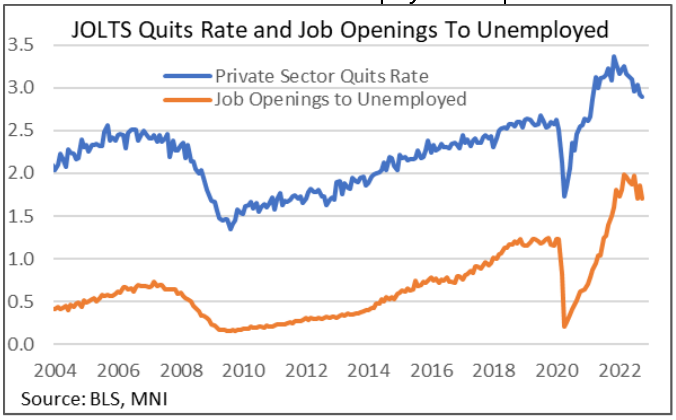
Recent Labour Market Developments

Recap of last month's payrolls here: https://roar-assets-auto.rbl.ms/documents/20078/USEmploymentReportNov2022.pdf

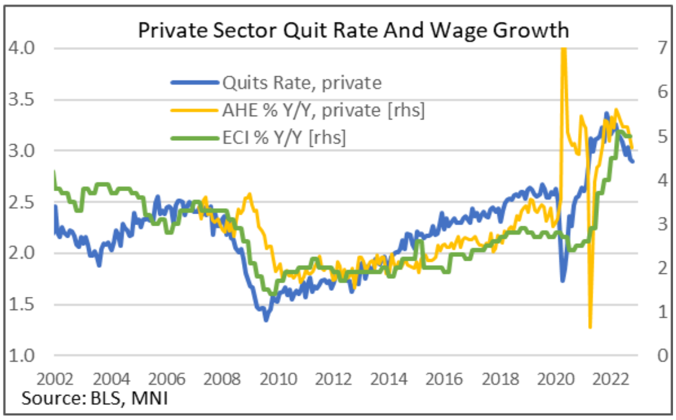




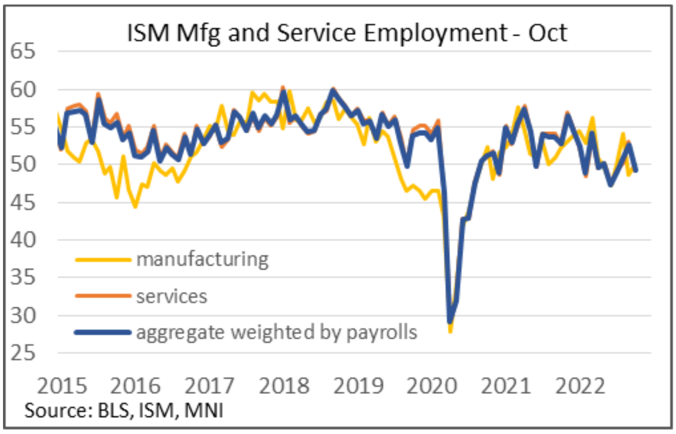
Labour indicators since the last payrolls report:



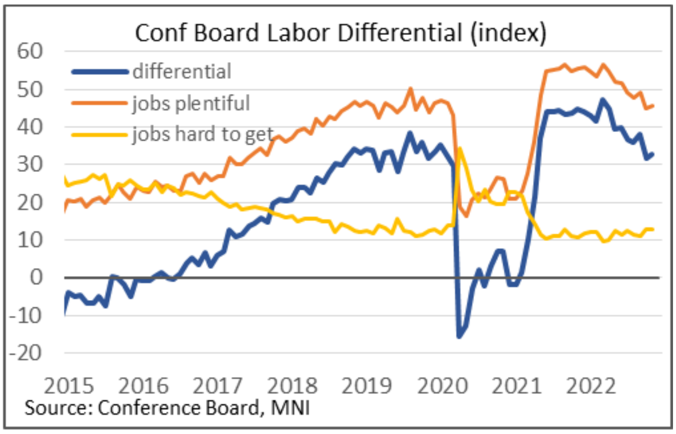
Source: BLS, MNI



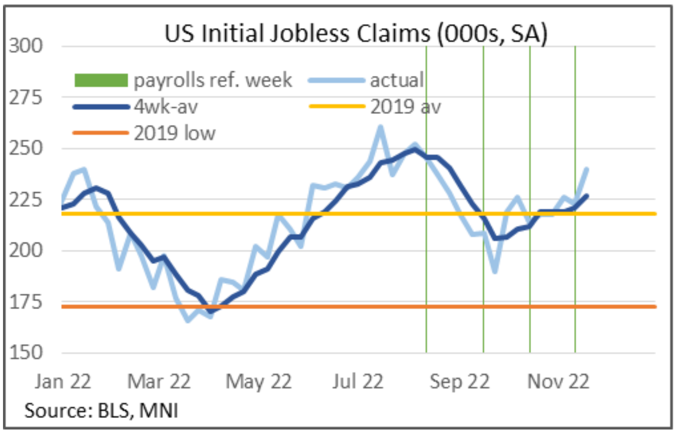
Source: BLS, MNI



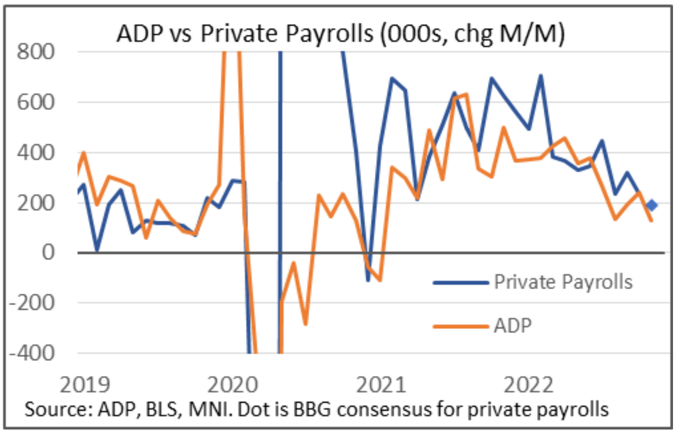
Source: BLS, ISM, MNI



Source: Conference Board, MNI



Source: BLS, MNI



Source: ADP, BLS, MNI. Dot is BBG consensus for private payrolls

Sell-Side Views

Ranked from largest to smallest NFP figure.

SocGen: Looking For A Strong 270k With AHE Holding At 0.4%

- SocGen look for payrolls growth of 270k in Nov. They see any non-farm payroll gain above 150k as strong.
- Healthcare and leisure remain industries with strong hiring trends. We expect general retail, manufacturing and construction – where earlier gains were strong – to moderate.
- That is seen consistent with the u/e rate dipping a tenth to 3.6% and AHE growth holding at 0.4% M/M.

Citi: Expecting Beats In Both Payrolls And U/E Rate

- Citi look for payrolls growth of 225k, reflecting slowing but still-solid job growth as elevated job openings keep payroll growth strong even with increasing anecdotes of layoffs. This would also be consistent with low and stable initial jobless claims, with both monthly payroll growth and initial claims settling around pre-pandemic levels in recent months.
- More favorable seasonal factors could also keep payroll growth strong into Dec-Jan as employers could be hesitant to lay off seasonal employees following many months of labor scarcity challenges. Eventually, we would expect to see signs of slowing job growth, but our base case only see consistent monthly job losses occurring by around mid-2023.
- AHE seen at 0.3% M/M but with continued upside risks. AHE have slowed in recent months compared to other, more carefully constructed wage measures, possibly reflecting some lower wage jobs returning.
- They see the u/e rate dipped a tenth to 3.6% as household employment bounces back 250k with the participation rate unchanged.

Wrightson ICAP: This Week's Jobs-Related Indicators Have Not Changed Our Outlook Greatly

- The various jobs-related indicators that have come out so far this week have been mixed and have not changed our outlook greatly, looking for a 225k increase in payrolls.
- The one proviso was ADP: not necessarily inconsistent with our payroll forecast but does suggest that the risk of a major surprise is tilted more to the low side of consensus than to the high side.
- The unemployment rate may actually fall 0.1pts to 3.6%. The underlying trend in the series will finally start to tilt up in the months to come, but the 0.2pt rise in Oct may have been exaggerated by noise.
- AHE may slip modestly below trend this month, looking for 0.2% M/M, the smallest increase since Feb in payback from October and the above-trend 0.4% was due in part to technical distortions.

CBA: Strong Labour Demand To Keep The U/E Rate Very Low

- CBA look for payrolls growth of 220k as jobless claims have started to trend higher but remain very low.
- Strong labour demand will keep the u/e rate very low (down a tenth to 3.6%) and AHE strong (+0.4% M/M).

Scotia: Eyeing Payroll Growth of 205k But Particular Uncertainty

- Scotia see payroll growth of 205k but no-one should have much confidence in their estimates this month with the report coming as early as possible in the month with few other indicators already known plus the usual factor of the 90% confidence interval being +/- 120k
- Layoff announcements for both tech and non-tech alike may impact payrolls, picking up between a rough proxy for nonfarm reference periods. It may dampen the jobs tally somewhat, but probably not by enough to carry the day relative to other drivers like hiring appetite.
- The rise in initial jobless claims has been material but fairly modest. This could also involve lags between layoffs and filing claims for unemployment benefits.

Wells Fargo: Watching AHE For An Important Piece Of The Inflation Puzzle

- Wells Fargo see payrolls growth of 205k, with u/e rate unchanged at 3.7% and AHE growth of 0.3% M/M.
- They expect further moderation in subsequent months. Layoffs, according to initial jobless claims and the JOLTS report, remain low, but discharges are only half the net hiring equation.
- Demand for additional workers appears to be slipping. Job openings, hiring plans, PMI employment sub-components and consumers' views of the labor market have all deteriorated since the spring.
- Beyond the headline, the AHE data also will be crucial for the Fed. It will take more than normalizing supply chains to return inflation to 2%, and slower wage growth is another important piece of the puzzle.

Deutsche: Caution Reading Too Much Into Household Employment Figures

- DB see payrolls growth of 200k in Nov (private also 200k) noting potential influence in upcoming ADP and JOLTS data.
- They see this as consistent with the u/e rate lowering a tenth to 3.6% and AHE growth ticking down to 0.3% M/M while hours worked held steady at 34.5. The upshot is that their payroll proxy for nominal compensation growth would slow by about 50bps to 7.5% Y/Y.
- They caution reading too much into the monthly change in household employment. Recall that last month household employment fell by 328k, eliciting some concerns about a possible inflection in the labor market.
- Though the household survey has historically been a better indicator of turning points in the labor market, mainly because it captures the self-employed and multiple job holders, the monthly changes in employment

are highly volatile. Both surveys have been pointing to a slowing pace of job growth, but one that is still double the growth rates prior to the pandemic.

UBS: AHE Growth Of 0.2% M/M On Calendar Effect

- UBS see payrolls growth of 200k in Nov (private 185k). Most incoming indicators suggest further slowing in job gains from the torrid pace seen thus far this year.
- Looking at hiring announcements for the holidays among retailers and shipping companies, initial claims for unemployment insurance running above the 2018-2019 average, and rising continuing claims, the labor market is starting to look a lot more 'normal' or pre-Covid too.
- Weather was unseasonably warm in Nov, potentially supporting sectors like construction (10k boost).
- AHE seen slowing to 0.23% M/M partly due to the calendar set-up, with the earliest possible timing of the survey reference period. Absent revision, the Y/Y would move down from 4.7% to 4.6% in Nov, 1 pp below the 5.6% peak in March – a historically rapid slowing in the absence of a recession.
- U/E rate seen dipping a tenth to 3.6% as their models expect some unwind of the Oct moves in employment and unemployment, with the participation rate also increasing a tenth to 62.3%.

Unicredit: Upside Risk To Unemployment Rate

- Unicredit see payrolls growth at 200k in Nov. Job openings, quits and hiring intentions are down from their peaks, and initial jobless claims are rising, but only gradually.
- The unemployment rate probably remained unchanged at 3.7%, with risks skewed to the upside as household employment has recently come in weaker than payroll employment.
- AHE growth likely rose 0.3% M/M in Nov amid a still very tight labor market.

CIBC: Still Health Payrolls Growth Before Marked Deterioration In 2023

- CIBC see payroll growth at a still-healthy 180k, with the u/e rate unchanged at 3.7% and AHE easing a tenth to 0.3% M/M.
- The strength of the consumer could have supported employment in industries including leisure, restaurants, and retail trade, while the easing of supply chain issues could have prevented a drop in mfg.
- With the prime-age participation rate close to its pre-pandemic level, there is little room for continued, strong hiring without faster wage inflation, and the Fed will remain on track for a 50bp hike in Dec.
- With the impact of past rate hikes still materializing, the labor market is set to deteriorate markedly in 2023, likely seeing the Fed pause at a ceiling of 5.0% on the fed funds range in early 2023.

MS: Eyeing Payrolls Of 180k After ADP, JOLTS

- Morgan Stanley expect payrolls growth of 180k in Nov (private 161k), led by gains in professional & business services, healthcare and leisure & hospitality. They see this as part of the continued moderation trend, eyeing an average 71k increase in 2023.
- Within the JOLTS data, there was no change in the job separation rate, indicating that companies are more hesitant to layoff workers given recent experience with labor shortages and high turnover costs, but new hires and job openings are declining, if off of high levels.
- At the same time, jobless claims are slowly rising but remain low, i.e. still signaling a tight labor market, whilst the ADP report also showed signs of a significant deceleration from 239k to 127k.
- U/E rate seen rising a tenth to 3.8% with a 0.1pt increase in the participation rate to 62.34%. Gains in participation and the slowing in job growth are seen pushing the u/e rate higher for the foreseeable future.
- AHE expected to rise 0.3% M/M, with the year-ago rate easing a tenth to 4.6% Y/Y.

Barclays: Higher Unemployment Rate With Modest Rebound In Participation

- Barclays see payrolls growth of 175k in Nov with a somewhat faster deceleration in private payrolls to 150k. It would put payrolls on pace to attain the average about 180k that we expect in Q4 as a whole, with the Fed's tightening in financial conditions gaining increased traction on labor demand.
- They expect little to no change in wage pressures, with AHE rising 0.3% M/M (4.6% Y/Y), similar to the average pace since late 2021, and the workweek to dip a tenth to 34.4hours on a higher part-time share.
- The u/e rate is expected to edge up 0.1pp to 3.8%, with the labor force participation rate poised for a modest rebound following declines in the prior two months.

GS: Layoff Activity Remains Muted, AHE Lower On Negative Calendar Effects

- GS see payrolls growth of 175k in Nov (private 150k), reflecting continued declines in online job postings as well as weakness in Big Data employment indicators.
- Nonetheless, we believe layoff activity remains muted and that the recent increase in jobless claims mostly reflects seasonal distortions. We also expect another large rise in healthcare payrolls (+75k sa), reflecting rising hospital utilization and record-high job openings in the sector.
- U/E rate seen unchanged at 3.7%, reflecting a rise in household employment offset by slightly higher labor force participation (we assume +0.05pp to 62.3%).
- AHE seen up 0.30% M/M, reflecting negative calendar effects (we assume a drag of 5bps).

JPMorgan: Below Consensus Payrolls But U/E Rate Seen Beating

- JPM see payroll growth of 150k in Nov (private 155k), expecting the moderation to continue as have seen a variety of different labour market indicators soften in recent months
- There also have been a variety of news reports related to layoffs in recent weeks, and while layoffs have not increased in a big way according to the main related indicators that we track yet, we think news of layoffs is suggestive of a cooling labor market.
- AHE seen rising 0.3% M/M and 4.6% Y/Y as labour market conditions remain fairly tight, along with the work week holding steady at 34.5 hours and aggregate hours up 0.1% M/M.
- They see the u/e rate falling a tenth to 3.6% as household employment bounces, with participation and employment-population rates unchanged.

Policy Team Insights

MNI BRIEF: US Wage Pressures Likely To Be Longer Lasting

By Jean Yung *(Published Nov 29)*

(MNI) - The U.S. is likely to see continued strong wage pressures even if an economic slowdown raises unemployment over the next year, barring a recovery in labor force participation closer to pre-Covid levels, Yale University professor and visiting scholar at the Federal Reserve Bank of Philadelphia Giuseppe Moscarini told MNI.

Labor flow trends show the fraction of workers who move from job to job every month is falling, while the job-finding rate for the unemployed remains elevated, according to Moscarini. That indicates a shrinking supply of labor from those looking to switch jobs -- and continued upward pressure on labor costs and inflation, he said in an interview.

Perversely, high labor demand also suppresses labor supply, because people feel they can wait to rejoin without missing the boat, he said. At 62.2%, workforce participation is still a full percentage point below its pre-pandemic level, enough to raise the unemployment rate by a third if all the missing workers joined at once.

"Bottom line, I expect no moderation in wage growth in the short run. Real wages lost a lot of ground," Moscarini said. "Once the non-participants rejoin, pulled by higher wages or pushed by low stock returns, we could see an effect."

SHRINKING SLACK

Wage growth is predicted much more accurately by labor market flows, not stocks like the unemployment rate, Moscarini said.

Coming out of the pandemic in 2021, as employees reflected on their priorities, quit their jobs or changed sectors, both the job-finding and job-switching rates rose, indicating a high degree of mismatch in the workforce. Wage pressure was contained as workers moved to better-fitting jobs.

Job openings are still abundant this year, but the job-switching rate has fallen as workers became happy to remain where they are. A number of current vacancies are likely replacement hiring as people quit, and those are less likely to be suppressed by weak demand, Moscarini noted. (See: MNI INTERVIEW: Fed Can Cool Economy With Modest Job Losses)

With labor supply shrinking, wage growth took off. The employment cost index, a measure of wages and benefits, hit its fastest annual pace in decades in the second quarter of 2022, and cooled just slightly in the third quarter.

"Presumably in 2021 there was a lot of post-pandemic mismatch. In 2022, this reallocation had happened and we started digging into shrinking slack," Moscarini said.

STEEPER PHILLIPS CURVE

Moscarini's research also constructs a wage Phillips curve relating measures of labor market flows -- rather than unemployment -- to wage inflation and finds the flows data outperforms the unemployment rate as a source of wage pressure.

"Labor market theory in macroeconomics has been about flows for at least 40 years. Empirical support for this view is enormous. Media and, partially, the Fed are stuck in the 1970s," he said. "The unemployment rate is only a part of the picture, and the less interesting one."