

MI2 Chart Point: NFP - Once More Unto the Breach

5th August 2021

Comment

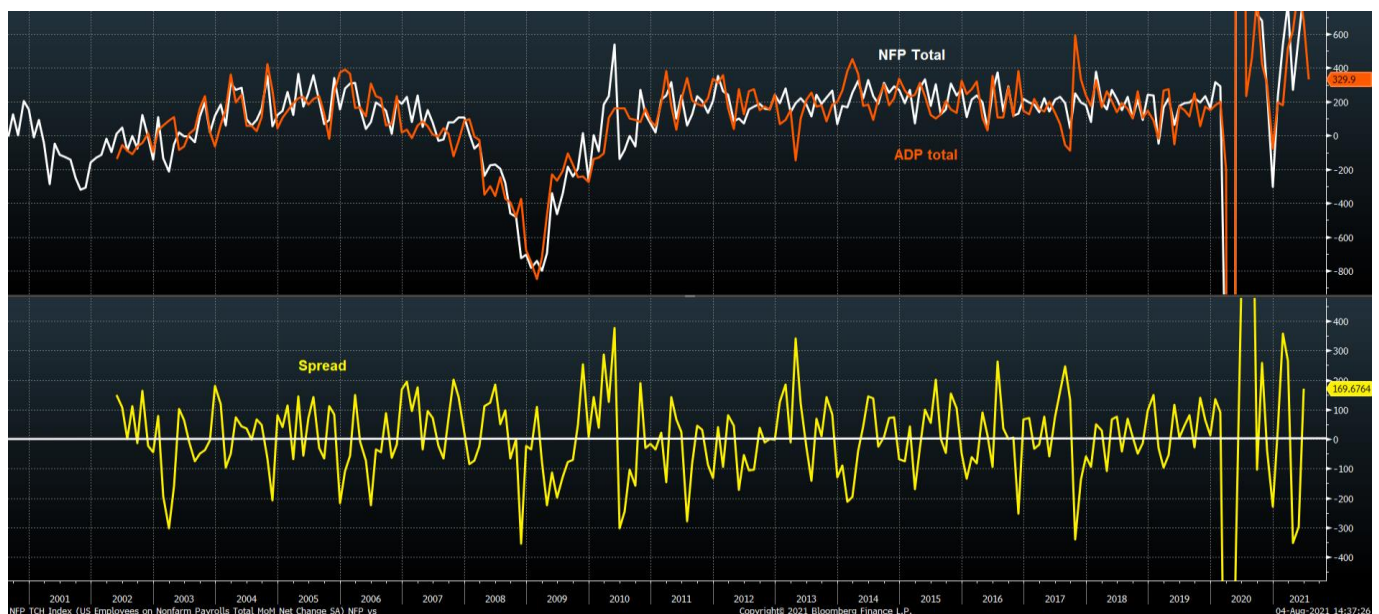
While forecasting NFP seems trivial compared to Henry V's assault on the battlements, there are times that it is a rather daunting prospect! Indeed, just last month, our work suggested that the number would disappoint, only to get blown away by a whopping print of 850k ("MI2 Chart Point: NFP – It Takes Two to Tango" 1st July)! However, in yet another example of Wall Street's love of straight-line extrapolation, this week's forecast is for 870k, with the whisper number above 900k, which ironically raises the odds they are wrong.

Don't get us wrong. The US economy is on fire! Yet, as we highlighted in yesterday's video, the Chairman of ISM Manufacturing didn't think we'd fix the labour market imbalances until October, and today, ADP essentially concurred.

"Bottlenecks in hiring continue to hold back stronger gains, particularly in light of new COVID-19 concerns tied to viral variants. These barriers should ebb in coming months, with stronger monthly gains ahead as a result."

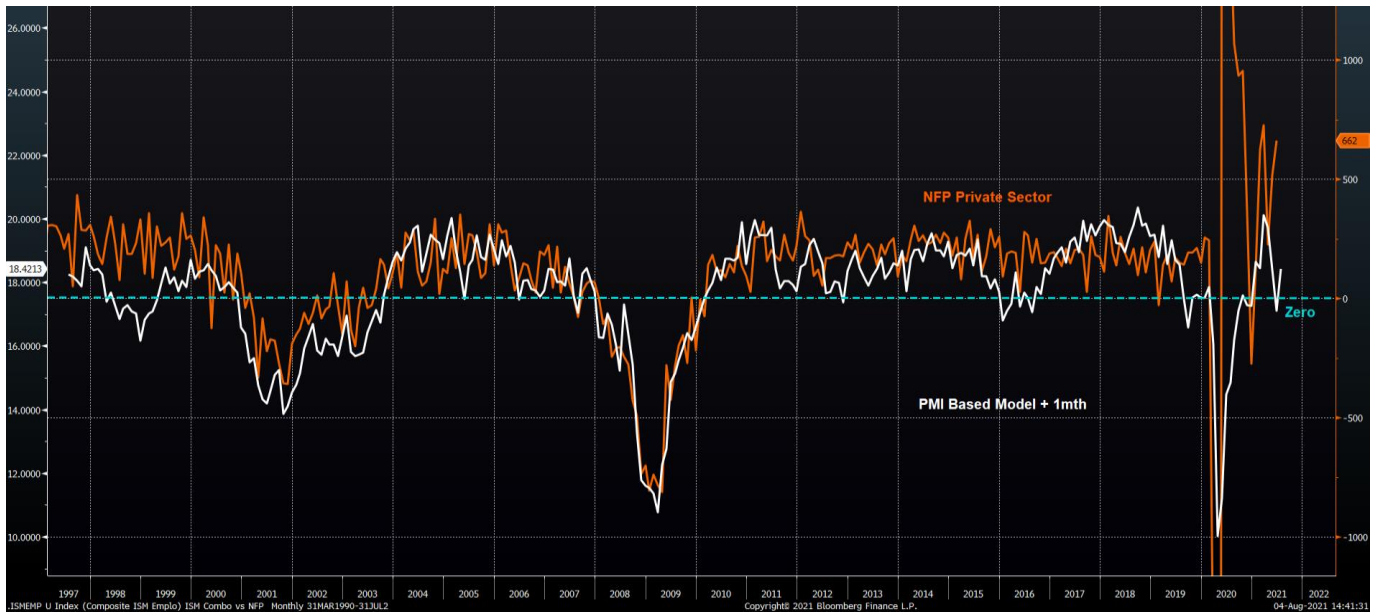
And therein lies the rub. We are definitely in the camp that expects, absent an equity crash, some rip-roaring NFP numbers in Q4. But for markets, that's a lifetime away. So, what should we expect this week?

Well, one observation is that while ADP can get it very wrong, in the last twenty years (outside the extremes of last spring, at the highs of Covid), the widest divergence between it and NFP has been 376k. This suggest that, after yesterday's 330k, even 700k would be a stretch!

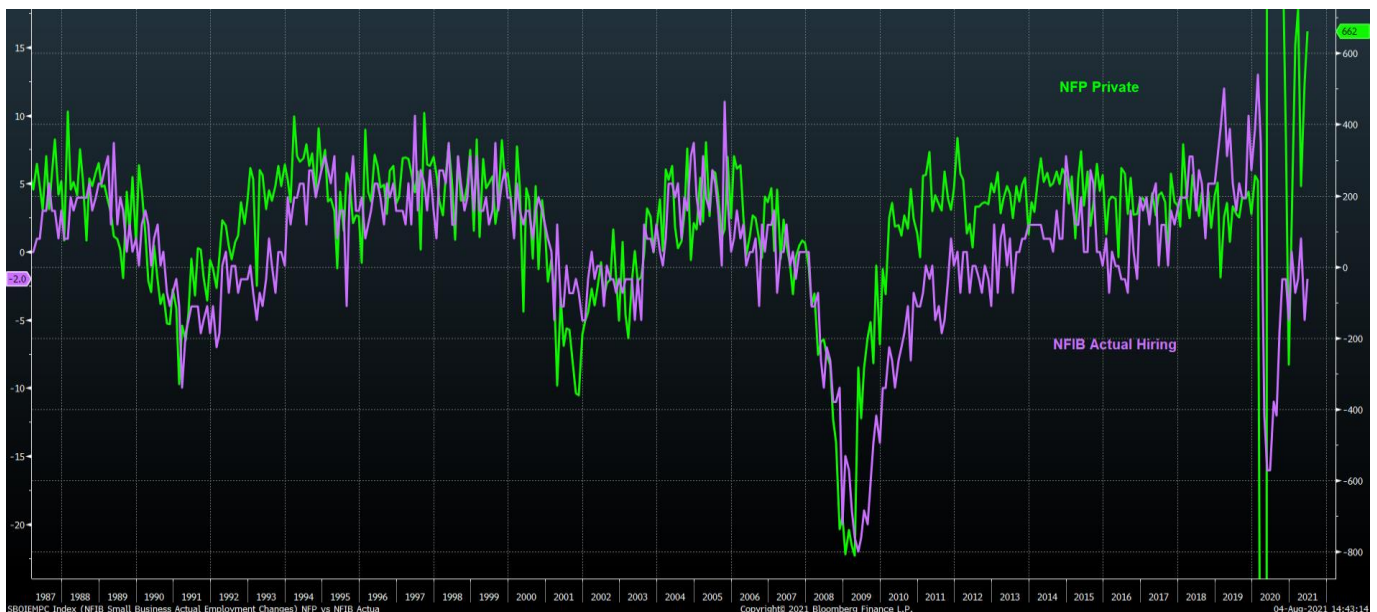


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What's more, a weak number is supported by the PMIs, which suggest 130k!



Meanwhile, believe it or not, actual hiring by small businesses suggests falling employment!



Don't get us wrong. Those last two outcomes appear far, far too extreme. But they highlight the demand/supply dichotomy that, for now, is impinging job growth. Will the BLS reflect that? That's the big question. However, this month, unless they come up with a newfound seasonal adjustment, they won't be able to add in 250k teachers, which was behind much of last month's surprise.

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For markets, we hope that any “transitory” weakness in employment will delay expectations for Fed hikes, teeing us up for better entry levels to trades that play on the strong economy in Q4.

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