Crash Course To Become an NFP Expert

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FXSTREET

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Crash Course To Become an NFP Expert

Have you ever read news updates mentioning rising unemployment or falling payrolls yet you don't have a clue what these mean for the Forex market? Well, today is your lucky day because **the FXStreet team has been working on a research material to make you an expert in trading the NFP report**.

Considered the backbone of the U.S. economy, the NFP has an history of rocking global markets, specially the FX market via the U.S. Dollar. Other signs of economic growth are often viewed with a little suspicion by market participants if employment figures are not at a healthy level.

Since the headline number for NFP tends to move all financial markets, as a trader **it is important that you prepare for various scenarios**, by developing models to predict the likely headline number and to trade the outcome.

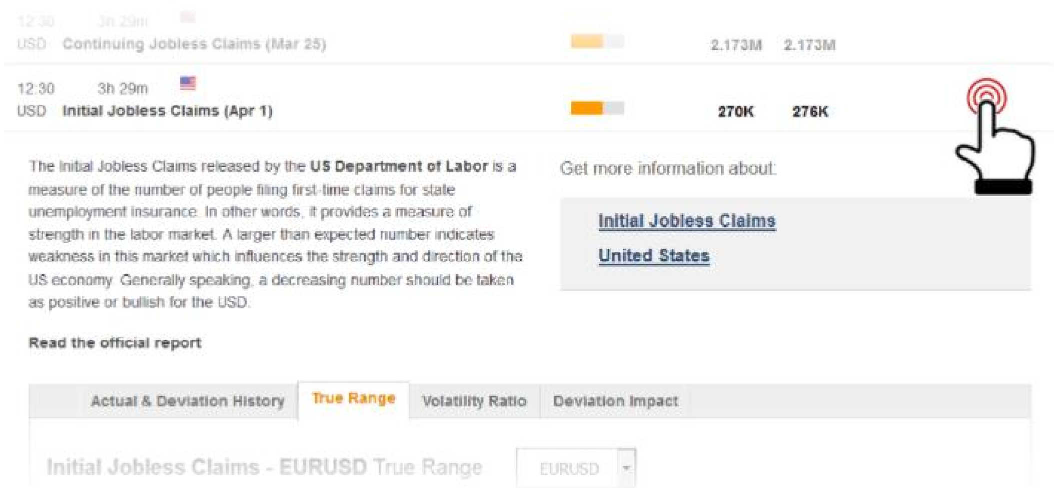
To accomplish that, **you should start with a solid understanding of employment conditions in the U.S**. **The more knowledge you have, the more confident you will feel trading the NFP**. Making your own predictions, you don't need to accept the market estimates as written in stone anymore. Besides, they are often well off the mark.

Ready to make a leap and become an NFP expert?

What to do BEFORE the NFP release?

The modeling on related macro-economical data will enable you to elaborate a fundamental analysis to estimate the next NFP release. All the reports we are going to describe take different approaches to determine whether labor-market conditions are improving or deteriorating. At the end of the section you will be geared with a checklist to do your own NFP Prognosis.

Most of this data is available on FXStreet's Economic Calendar. Make sure you are familiar with it. Each of the Calendar rows is clickable and this is where the data is to be found. Besides you have a link to the official report below, which in some cases will be needed.



Non-Farm Payrolls

What it is:

NFP stands for Non-Farm Payrolls, which is actually part of the Employment Situation report, released by the US Department of Labor, which also includes the Labor Force Participation Rate, the Unemployment Rate, Average Hourly Earnings and Average Workweek Hours, among many other statistics. The NFP component seems to get the most attention because **it measures the actual number of paid employees (full and part time)** in the business and government establishments.

Why is it important?

The report **provides a fresh insight into the health of the U.S. economy in general**, and the labor-market conditions in particular. If the labor market is growing, that means more people are making money, and the more spending there will be. More spending results in a higher Gross Domestic Product which is the broadest measure of the economy. **Employment figures can also have an impact on interest rates**, as higher employment will lead to higher interest rates because of central bank policies aimed at balancing inflation with growth. And as you probably know, interest rates are a significant factor for Forex traders.

How to read it?

To be accurate, the Non-Farm Payrolls (NFP) number is the total number of employees in all sectors, farming industries excluded, while the RELEASED figure is the monthly changes to this figure. One should therefore use the expression “changes to the NFP number” more than “the NFP number”. **It measures the number of jobs created or lost in the U.S. economy over the prior month**. For instance -200k means 200k jobs were lost in all non-agricultural business. **A look at the history of NFP releases is a good starting point to get a feel for the jobs situation.** Try to detect the long-term trend in the NFP figures, if it is rising of falling. (The chart below, taken in June 2017, shows a weakening trend made of lower highs). Look also at the ranges: were recent reports close to historic highs or lows?

Are expectations for the next release far from the last figures or are they too modest? In both cases we might have room for surprises, which we will deal with in the second part of this study.

Where to find it?

On **FXStreet’s calendar**, you can find the report showing its data series on a chart. It is released usually on the first Friday of each month, at 8:30 EST.

Revisions

The number is subject to revision for two months, and those reviews also tend to trigger volatility in the Forex board as we will explain further below.

Challenger Job Cuts

What it is:

This report, released monthly by Challenger, Grey & Christmas, **provides information on the number of announced corporate layoffs by industry and region.**

Why is it important?

Because the CGC reflects companies' future plans, its release tends to be more forward-looking than most economic reports. The data is based on previous corporate announcements but it aggregates upcoming layoffs and hirings. Layoff announcements shouldn't be utilized as a sole leading indicator of the NFP, but because of its forward-looking quality, **it provides useful hints on where the job market is headed.**

How to read it?

As an NFP expert, **you take the numbers and look for a consistent pattern together with the rest of leading indicators**. For example, a large and unexpected jump in layoffs, i.e. a high reading, is a bad omen for the job situation and hence for future NFP releases. This is specially true if it happens in a context of economic weakness as expressed in a weak employment component of the ISM manufacturing.
Use this number to discount after you've estimated your headline number. For example, if your model suggests 300K jobs at NFP, but the average Challenger Report is 50K job cuts, then reduce your estimation to 250K.

Where to find it?

You can find the report and its historical charts on **FXStreet's calendar**. It is usually published the first week after the end of the reference month and it is expressed in number of persons (thousands).

Revisions

There have been very few revisions to previously released data. One of these was in May 2017, which was higher at 51,692 than the 36,602 figure in April and the highest since April of 2016. 20,000 of those job cuts were supposedly announced by Ford Motor Company but later this number was reduced to 1,400. Ford had reached out and informed CGC that the 20,000 number was incorrectly reported several weeks before.
As an expert, **you might check the original source for the details of the data**.

Initial Jobless Claims and Continuing Jobless Claims

What they are:

The Initial Jobless Claims released by the U.S. Department of Labor is a **measure of the number of people filing first-time claims for state unemployment insurance**. Continuing Jobless Claims on the other hand, measures the number of individuals who are unemployed and are currently receiving unemployment benefits.

Why are they important?

Experts seek out clues in the Initial Jobless Claims report because of its weekly frequency, and because it reflects what is going on in the job sector. Moreover, it is viewed as a **good coincident indicator** based on actual reports from state agencies around the U.S. When looking at the Continuing Jobless Claims numbers– the weekly claims for unemployment insurance– is important to know that not everyone who is jobless is entitled to unemployment benefits.

How to read them?

If the number of people filing for unemployment benefits increases on a sustained basis or is relatively high, it means a large number of people are losing their jobs and applying for unemployment compensation. In such a case, investors and traders will infer that the economy is ailing and the next NFP release may come out weak. Alternatively, a decline in the Initial Jobless Claims is indicative of a healthy economy and future NFP releases should reflect a more positive mood.

With the Continuing Jobless Claims, a rise in this number has negative implications for the NFP, since it will affect consumer spending which in turn discourages economic growth. Generally speaking, **a high reading is seen as negative for the labor market while a low reading is seen as positive.**

They are generally analyzed as a four-week moving average (MA), in order to smooth week-to-week variance. As you see in the below scenario, they can diverge from each other, not making a strong case for the next NFP release.

THURSDAY, JUN 15						
14:30	✔	USD	Initial Jobless Claims (Jun 9)	237K	242K	245K
14:30	✔	USD	Continuing Jobless Claims (Jun 2)	1.935M	1.923M	1.929M

Where to find them?

On **FXStreet's calendar**, you can find both reports each showing their data series on charts.

Revisions

Minor revisions can be made to the previous month data.

ISM Non-Manufacturing PMI and ISM Manufacturing PMI

What are they:

Released by the Institute for Supply Management (ISM) the first business day after the reporting month, **these indicators show business conditions in the U.S. non-manufacturing and manufacturing sectors**.

Why are they important?

To compute these business activity indices, survey respondents are asked if they are experiencing higher or lower activity (or no change) for each of the 10 components of the indices, including employment. **This component tells whether employment is experiencing an increase or decrease and its rate of change.** Some analysts suggest that the Manufacturing ISM has a closer relationship with payrolls, as jobs in this sector can be easier to measure. In contrast, it can be hard to measure jobs in the services sector due to the temporary nature of some of these jobs, remote working etc. But you should consider the employment component of Non-Manufacturing more important than the Manufacturing, simply because services sectors amount to 70% of US employees.

How to read them?

This information provides a window on business plans and on what the monthly NFP number might reveal when it comes out for the reported month. Make sure you **read the employment summary in the official reports to infer about the labor market conditions**.

Expressed in percentage terms, a higher reading means the majority of respondents' comments indicate optimism about business conditions and the overall economy, a case for a strong NFP.

Employment

ISM®'s Employment Index registered 53.5 percent in May, an increase of 1.5 percentage points when compared to the April reading of 52 percent, indicating growth in employment in May for the eighth consecutive month. Employment levels have been expanding since October 2016, and the search for qualified workers (as mentioned by multiple respondents) has become more difficult. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) data on manufacturing employment.

Of the 18 manufacturing industries, the 11 reporting employment growth in May — listed in order — are: Furniture & Related Products; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Computer & Electronic Products; Food, Beverage & Tobacco Products; Machinery; Paper Products; Primary Metals; Petroleum & Coal Products; and Plastics & Rubber Products. The five industries reporting a decrease in employment in May are: Textile Mills; Apparel, Leather & Allied Products; Fabricated Metal Products; Chemical Products; and Transportation Equipment.

Employment	% Higher	% Same	% Lower	Net	Index
May 2017	23	65	12	+11	53.5
Apr 2017	24	63	13	+11	52.0
Mar 2017	27	62	11	+16	58.9
Feb 2017	21	66	13	+8	54.2

- "Difficult to find qualified labor for factory positions." (Food, Beverage & Tobacco Products)

Where to find them?

On **FXStreet's calendar**, click on each report's row, and below the description of the report click on "Read the official report". It takes you to the original report on the **ISM website**. Once there, scroll down for the employment data and commentaries further below.

MANUFACTURING AT A GLANCE
May 2017

Index	Series Index May	Series Index Apr	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	54.9	54.8	+0.1	Growing	Faster	9
New Orders	59.5	57.5	+2.0	Growing	Faster	9
Production	57.1	58.6	-1.5	Growing	Slower	9
Employment	53.5	52.0	+1.5	Growing	Faster	8
Supplier Deliveries	53.1	55.1	-2.0	Slowing	Slower	13
Inventories	51.5	51.0	+0.5	Growing	Faster	2
Customers' Inventories	49.5	45.5	+4.0	Too Low	Slower	8
Prices	60.5	68.5	-8.0	Increasing	Slower	15
Backlog of Orders	55.0	57.0	-2.0	Growing	Slower	4
New Export Orders	57.5	59.5	-2.0	Growing	Slower	15
Imports	53.5	55.5	-2.0	Growing	Slower	4
OVERALL ECONOMY				Growing	Faster	96
Manufacturing Sector				Growing	Faster	9

Manufacturing ISM® *Report On Business®* data is seasonally adjusted for the New Orders, Production, Employment and Supplier Deliveries Indexes.

Revisions

There are no revisions, but there are yearly reassessments of seasonal adjustment factors.

University of Michigan Consumer Confidence Index

What it is:

Released by the University of Michigan in association with Reuters, **this index is based on a survey of personal consumer confidence in economic activity**. It queries 500 adults.

Why is it important?

Many experts mention this survey more frequently that the Conference Board's Consumer Confidence Index (explained below) for an early clue on the NFP. Its popularity among analysts is partially because **the data includes interviews conducted up to a day or two before the official release making is a good real-time measure of consumer mood,** but foremost because it gauges consumer attitudes on financial and income situations.

How to read it?

Consumer exuberance can translate into greater spending and faster economic growth. Therefore, a positive correlation is expected to the NFP numbers. As such, a high reading anticipates a strong NFP, if aligned with all the other indicators.

But as with other sentiment tools, **this one seems to be a better gauge when identifying the first signs of an exhausted economy than the beginning of a recovery after a depressed cycle**. Behavioral finance studies explain this in terms of people being usually more sensitive to losing money than happy about gaining it. So **make sure to contextualize the report in the overall business cycle.**

The above chart shows the Actual data for the past two years and the Consensus line lagging behind almost all the time. For your purposes, hover with the mouse on the "Actual" blue square and extract the information you need: the trend and the most recent release.

Where to find it?

The index figures are published twice a month consisting of a preliminary release mid-month and a final report at month's end. Most details are reserved for subscribers. As for viewing historical charts, **FXStreet's calendar** offers all you need.

Revisions

The revisions are part of the release structure: the preliminary numbers, out mid-month, are revised two weeks later. In FXStreet's Economic Calendar each numbers series has it's own historical chart.

FRIDAY, MAY 12						
16:00	✔	USD	Michigan Consumer Sentiment Index (May) PRELIMINAR	97.7	97.0	97.0
FRIDAY, MAY 26						
16:00	✔	USD	Michigan Consumer Sentiment Index (May)	97.1	97.5	97.7

Conference Board Consumer Confidence Index

What it is:

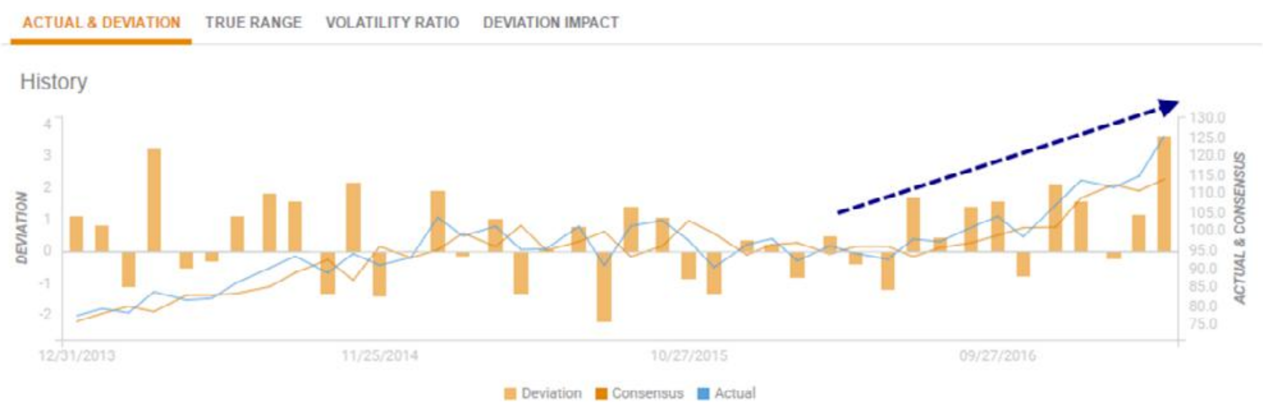
The U.S. Consumer Confidence Index (CCI) **measures the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.** It queries 5,000 adults.

Why is it important?

The Conference Board questionnaires place more emphasis on household reaction to labor-market conditions than other surveys. But analysts also know that the labor market is slow in reacting to economic changes. In any case, you should add it to your NFP-checklist.

How to read it?

A high level of consumer confidence stimulates economic expansion while a low level can lead to economic downturn. The correlation is straight forward: an uptrend is the index is good for NFP prospects while a descending trend (or bad data for that matter) is a bearish omen for the next NFP.
Be advised: since the Conference Board queries an entire new group of people every month, the index shows more erratic behavior than the University of Michigan's which polls many of the same individuals every month. In any case, trends may develop which makes up for a stronger case.
As with all the indicators where Actual data is contrasted with the Consensus data, FXStreet's calendar calculates a deviation. Watch the below chart how the uptrend in the Confidence index was carried up by several positive surprises (positive deviations):



Where to find it?

The Conference Board is a subscription-based service, and unfortunately the data does not appear on FXStreet's Economic Calendar anymore. But News pieces are published after the report which can be sought after under the **News section** of the website using the search topic **"ConsumerConfidence"**.

Revisions

Minor revisions can occur.

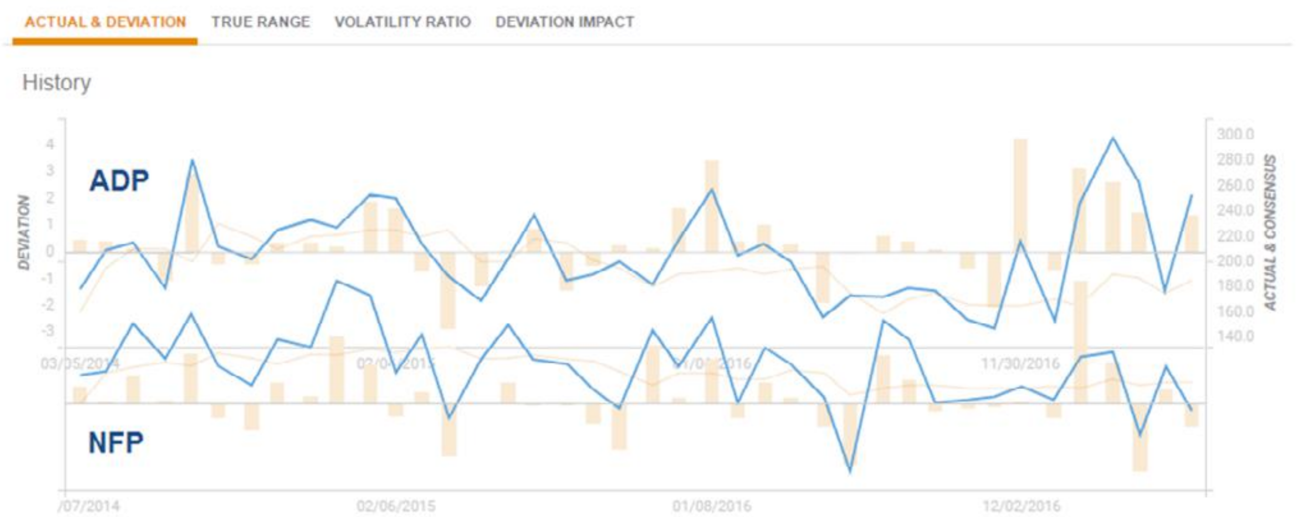
ADP Employment Report

What it is:

Automatic Data Processing Inc., a leading provider of payroll-related services in the U.S., in association with Macroeconomic Advisers LLC, releases a **monthly employment estimate based on a sampling of real payroll data collected from around the country**.

Why is it important?

Investors often consider the ADP report as **the harbinger of the BLS release** on payroll jobs because of the **existent correlation between the two**. The overlaying of both series below should speak for itself. But generally - on individual months - the discrepancy can be substantial.
Another reason FX traders follow this report is the same as with the Employment Situation report: a persistent vigorous growth in employment figures increases inflationary pressures and with it the likelihood that the Federal reserve will raise interest rates.



How to read it?

A strong report indicates a lot of hiring in the private sector. If more people are working, household income rises and that fosters more consumer spending. Much of the focus FX traders put in this report rests on what impact the estimates will have on U.S. interest rates. A job growth of less than 100,000 a month suggests a weakening economy.

Where to find it?

Published monthly, two days before the Bureau of Labor Statistics puts out the NFP, the data can be seen on **FXStreet's Economic Calendar**. Past months' data, consensus and actual releases, are shown.

Revisions

There can be minor revisions for the prior month.

Job Opening and Labor Turnover (JOLTS)

What it is:

The report publishes total number of new hires and layoffs in the month, as well as how many job openings remained in that period. It gives a snapshot of the need for employees in different parts of the economy.

Why is it important?

The JOLTS provides a fuller picture of the churning that occurs in the workforce. By now you already know that the NFP is the month-to-month **change** in the number of people on corporate and government payrolls, which is simply the **net difference** between the number of jobs created and the number of jobs eliminated. But that figure doesn't inform about the actual gross figure of positions filled and eliminated in the labor market. Traders therefore look for this report to get information about the total **number of hires, job openings, and level of quits**.
It t is supposedly one of the jobs reports Fed Chair Janet Yellen pays most attention to.

How to read it?

The **Job Openings** represent the number of jobs available on the last day of each month, made of positions that firms are actively recruiting from outside the company. **Firms are highly sensitive to a weaker demand for goods and services** and manifest that by pulling back on job postings well in advance of an economic recession. An increase in Job Openings is therefore seen as positive for the next NFP release and vice versa.
Hires refers to the total number of positions filled in the same month. The pace of hiring is what traders and analysts look at. A slowing pace is seen as negative and vice versa.
A third piece of data is shown, **Separations**, which includes quits, layoffs and discharges, and other separations. There can be a lot of noise in this series and messages can also become contradictory. To better understand this component, we recommend to visit the original report which usually offers more information on the definition level as well as to corroborate the data with other economic indicators with the help of FXStreet's dedicated Contributors.

Where to find it?

Published monthly, about five to six weeks after the reference month by the Bureau of labor Statistics, the Job Openings component can be seen on FXStreet's Economic Calendar. Past months' data, consensus and actual releases, are shown. A link to the original report is provided.

Revisions

With each release, minor revisions are made to the previous month.

There could be other indicators used as leading such as **home sales, construction spending, and auto sales, which can provide hints if people are being hired**. But we will leave this in your hands to explore further.

At this stage you already have your checklist of NFP-leading indicators. First **you have to ask if they are unanimous in their outcomes**, that is, if the majority of indicators point to a stronger or a weaker NFP reading.

Second, **you want to know how many of them line up with NFP expectations, the so-called "Consensus" numbers**. If expectations do not differ too much from your own estimation, perhaps there is less chance the "Actual" figure will surprise the market and consequently trigger any big USD move.

Third, **make an assessment if prices are showing the expectations being already discounted**. In such a case you could witness a so called "buy-the-rumor-sell-the-news" effect.

Now that you have spotted for consistent patterns among the several leading indicators, you are prepared to take trades before the release.

The next block will be about trading the reactions to the Actual release.

PART B

What to do AFTER the NFP release?

Now that you know whether the risk of the next NFP release is to the down- or upside, specially if leading indicators are consistent with a weaker or stronger NFP, **you need another checklist to interpret the Actual data and some of the sub-components of the Employment Situation report.**

How to judge the total number of sub-component releases up against each other is the critical part in terms of trading the outcome and when doing so, there are several additional considerations to take into account.

One is that during certain times, the changes to the NFP figures are more important than any of the other releases. This is especially the case during periods of high unemployment and the NFP releases is then - by far - the most important release. A big surprise element in this release will therefore have a substantial U.S. Dollar impact.

When unemployment is low - and as low as it is today (having in mind that 4% unemployment in the U.S. is by most economists seen to be close to no unemployment at all) - the NFP releases have less influence. Attention is then moving towards Average Hourly Earnings (and possibly Average Hourly Week), as this number is important to inflation and therefore an interest rate sensitive number (Vollalokken).

Other considerations have to do with market conditions which we will explain further below.

To start with, here 's your "after-the-event" checklist:

Deviation between Actual and Consensus

The first figure that comes to anyone's mind during release time is the changes to the NFP number and the first reaction in the market (over the first seconds) is always a consequence of the surprise element in this figure - the surprise element being the Actual number versus Consensus estimate.

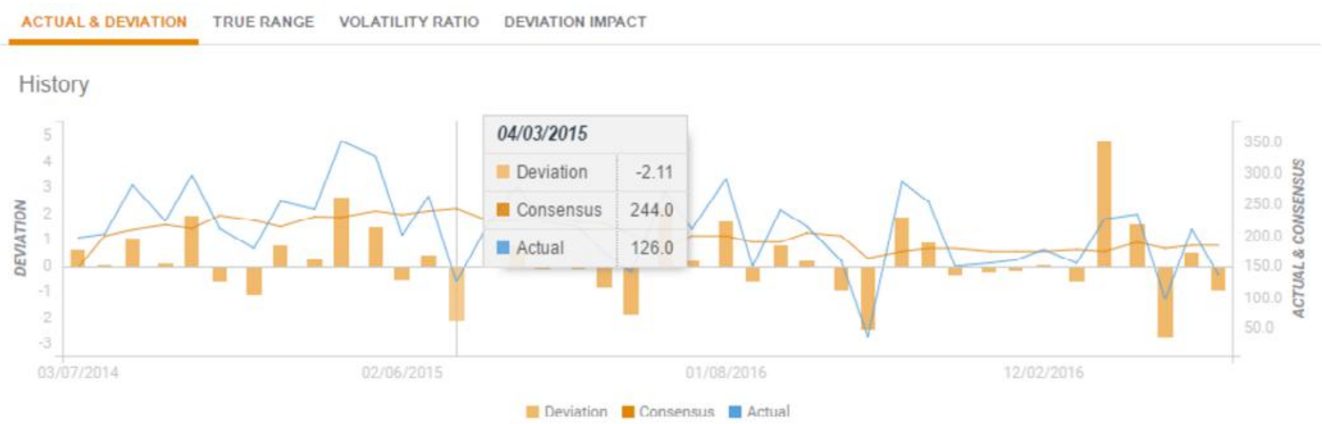
A NFP release which is stronger than the consensus estimate indicates that the labor market is stronger than the markets expected, and the U.S. Dollar often rises as a result. Alternatively, if the Actual report veers below the Consensus expectation, the U.S. Dollar often depreciates against other currencies. In any case, **you should look for shocks or surprises between both numbers**. However, **this rule is not absolute,** and we need to **keep in mind the previous release** (one month earlier). Be aware that significant improvements are expected when the previous release has been very weak, and vise versa.

The initial reaction can be extended, muted or even corrected, which is a consequence of the few seconds it takes for traders to absorb what the other figures are telling - and whether they are supporting or contradicting what the NFP release said.

It takes a few seconds to absorb and digest the overall impact from the NFP release, revisions of earlier NFP releases, the unemployment rate, the participation rate and average hourly earnings (possibly also average working hours) - and it is first then that you get impact, which is a better indication to what the overall impact will be over the 30-90 minutes to come.

What would be considered a surprise?

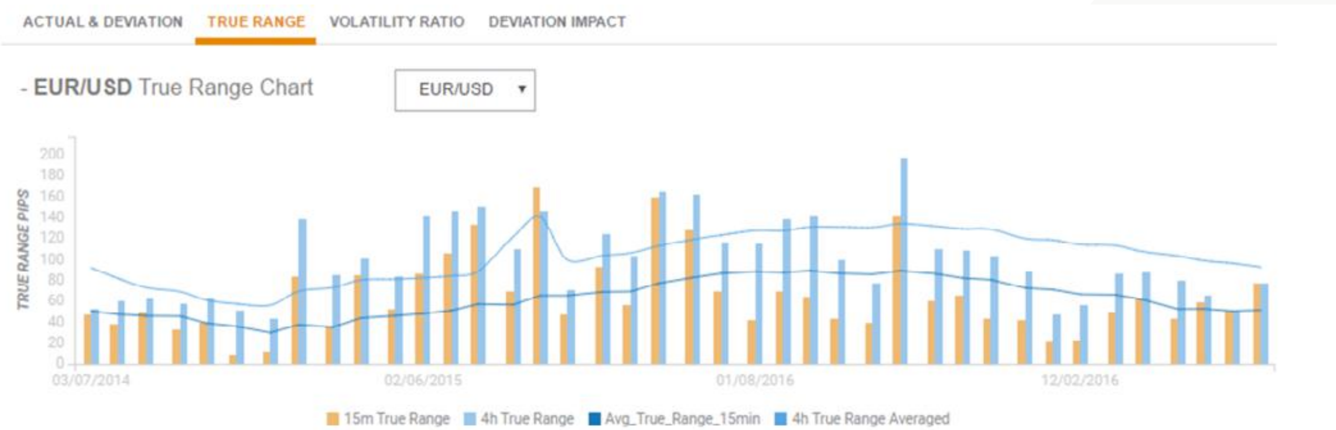
FXStreet has come up with an handy tool to give you an objective answer to that question. The deviation (variance) information is published at the same time the data is released (as this is being written, summer 2017, it is not pushed through though, you have to refresh the calendar). This proprietary indicator shows the ratio between the difference of consensus and actual numbers, and the standard deviation of this difference for the previous 5 events. Should several consecutive "surprises" occur, each new one will show a lower deviation number: **the market will be already used to surprises and have them discounted in the prices. Typically a number above +3 (or below -3) would be considered a market moving deviation.**



Besides of the deviation calculation, we publish tons of material dedicated to the NFP release which will help you gauge what would be considered a surprise. An NFP-editorial page is to be found under the Economic Calendar section.

In case of a deviation, will it be sufficient to move the USD?

This is a more tricky question that we have tried to answer with another market-impact study. Switch the tab by clicking on "True Range" and the chart will show how much each release moved each of the 5 pairs available. The True Range chart shows the volatility of a currency pair in terms of pip variation 15 minutes and 4 hours after the data release**. The amount of pips is indicative of the potential the release has to move the markets again in the future.**



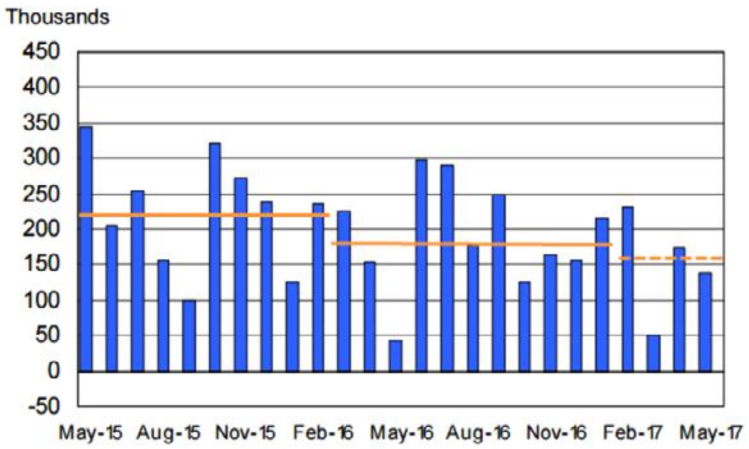
The declining average of the True Range shows that the NFP report, while still being one of the most important economic indicators, has been losing force as a market moving event.

Averaging the numbers

In addition to the surprise element, one also has to pay attention to the actual NFP number and especially whether the number is above what is generally seen as the number that causes US employment to increase.

In order to count for random fluctuation in the data, averaging over 3 to 4 months, or calculating the year's average as a benchmark level, might be the good procedure. Our economic calendar goes back a couple years in the data, but **you have to do the averaging yourself**. In order to look further back, we encourage you to click on the original report (you can do this from within the calendar itself) and check the BLS website for longer history data. An above average headline release may indicate an increased velocity in the current uptrend or perhaps a potential change in trend in a down trend.

This number is somewhere in the range of 150-200K. What it means is that there are so many people leaving the US labour market (for various reasons) every month that **you need the NFP release to be somewhere in the range of 150-200K to actually add to US employment**. In many ways, a positive NFP number is not necessarily expressing a healthy employment situation in the US, unless it exceeds the number of people that for various reasons are leaving the labor market.



The orange lines are the yearly averages we have drawn on the original chart. You can see this step wise decline in the NFP data.

Since NFP's 1st release in February 1939, the overall job averages generally tend to run in increments of 50,000 ranges from month to month and decade to decade. This 50,000 range is vital to understand the overall 50,000 month to month ranges as it remains fairly consistent for the 78 year period.

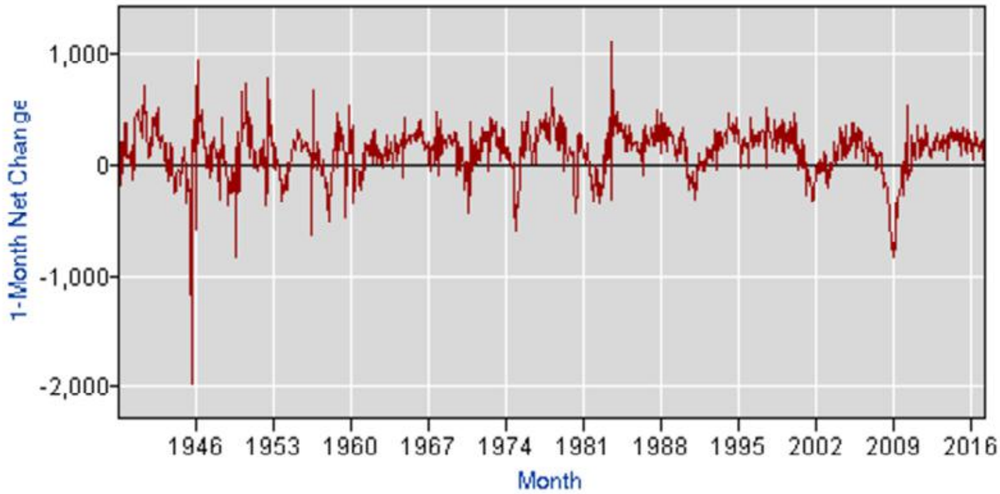
In the last 3 years or 36 months, for instance, 18 months (half of the period) had 50,000 job ranges and 23 months had less than 100,000.

In uncertain times such as the 2008 - 2009 crash period, the NFP went out of the 50,000 range. The 2001 terrorist attacks also went out of the 50,000 range. The Paris Accords, Louvre Accords and Smithsonian Agreements in the 1980's as well as the early 1981 recession saw the 50,000 range out of kilter.

But generally, 50,000 seems to be the perfect average to assess NFP's and to trade the outcome. Note that Continuing Claims also has a 50,000 range which puts this release as the most important to assess a higher or lower NFP for Friday.

Employment, Hours, and Earnings from the Current Employment Statistics survey (National)

1-Month Net Change
Series Id: CES0000000001
Seasonally Adjusted
Series Title: All employees, thousands, total nonfarm, seasonally adjusted
Super Sector: Total nonfarm
Industry: Total nonfarm
NAICS Code: -
Data Type: ALL EMPLOYEES, THOUSANDS



You can run the numbers on the BLS site. First you go to www.bls.gov/ces/ and on the top right corner "Change in Total Non Farm Payroll Employment". Click the chart and in the From Box insert 1939 and click the blue "Go" button. The 78-year chart will appear and the full data.

To Trade NFP's take the forecast then add and subtract 50,000. If the release is higher than 50,000 then the release is out of range and EUR/USD drops below its normal range. If, on the other hand, NFP is below 50,000 then it's out of range and the EUR/USD goes higher to break its ranges. Within 50,000 then all currency pairs just range in small increments.

Trading the actual release against the expectations, is one choice, but you can also trade against the previous figure. When the NFP comes out higher than the estimate and also higher that the previous NFP number, the Dollar will likely move higher, and vice versa.

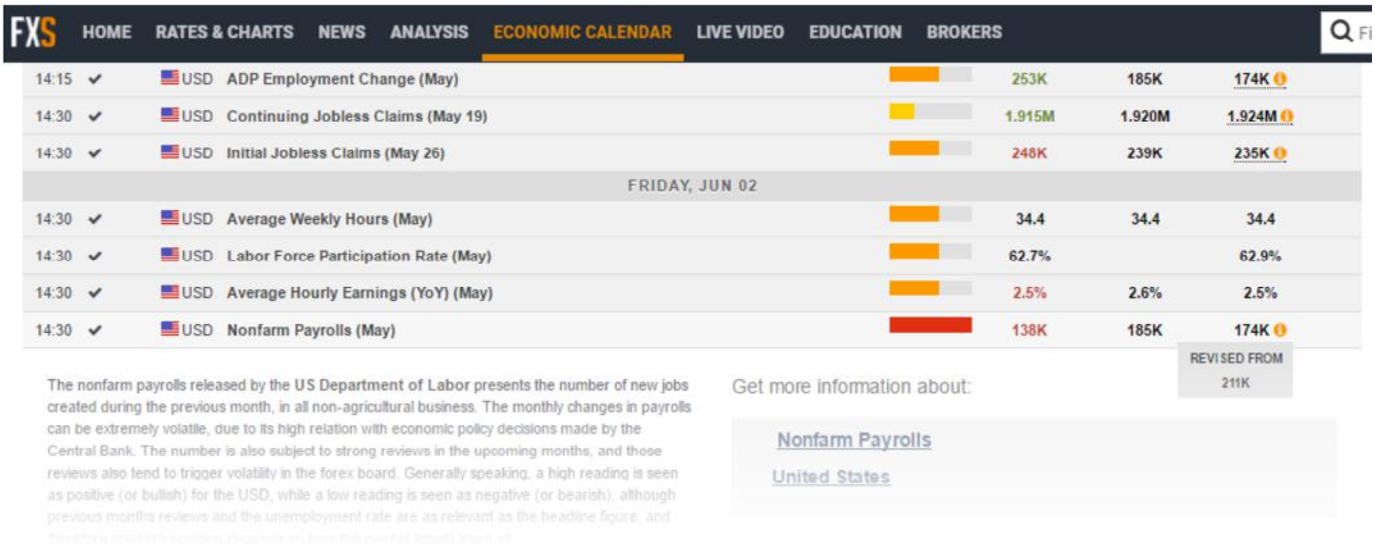
If the NFP shows a higher gain in the actual reading compared to the previous reading, but fell short of the expectations, the Dollar could still rise based on the improved labor numbers, despite falling short of the estimate.

Revisions of the NFP change

Pay close attention the revised number because it can also be considered a trigger of market movement. It is common to see 30% revisions. The market often trades that new information instead of the actual number specially if the current month did not deviate from the consensus data.

What to do when successive revisions happen?

Well, it's worth taking them into account when calculating the number of jobs created in a larger period of time. This can make a difference when calculating the average (as we suggested before), or calculating a total sum based on the previously reported numbers without the revisions.
The revised numbers are marked with a special icon on FXStreet's calendar at the moment the data is published.



14:15	✔	USD	ADP Employment Change (May)	253K	185K	174K
14:30	✔	USD	Continuing Jobless Claims (May 19)	1.915M	1.920M	1.924M
14:30	✔	USD	Initial Jobless Claims (May 26)	248K	239K	235K
			FRIDAY, JUN 02			
14:30	✔	USD	Average Weekly Hours (May)	34.4	34.4	34.4
14:30	✔	USD	Labor Force Participation Rate (May)	62.7%		62.9%
14:30	✔	USD	Average Hourly Earnings (YoY) (May)	2.5%	2.6%	2.5%
14:30	✔	USD	Nonfarm Payrolls (May)	138K	185K	174K

REVISED FROM 211K

The nonfarm payrolls released by the US Department of Labor presents the number of new jobs created during the previous month, in all non-agricultural business. The monthly changes in payrolls can be extremely volatile, due to its high relation with economic policy decisions made by the Central Bank. The number is also subject to strong reviews in the upcoming months, and those reviews also tend to trigger volatility in the forex board. Generally speaking, a high reading is seen as positive (or bullish) for the USD, while a low reading is seen as negative (or bearish), although previous months reviews and the unemployment rate are as relevant as the headline figure, and

Get more information about:

Nonfarm Payrolls
United States

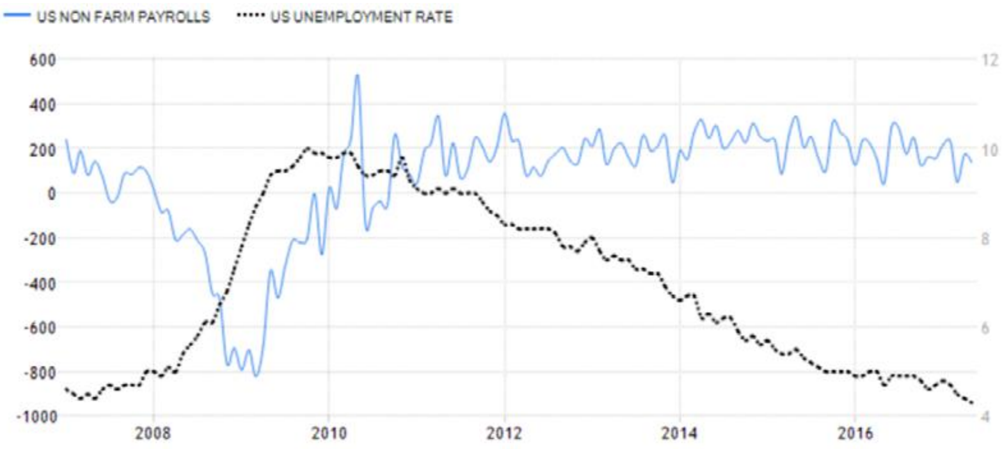
Unemployment Rate

You will find the unemployment numbers often mentioned by analysts. **Its forward looking merit resides in its ability to act as an early sign of economic downturn**: as soon as executives detect signs of a softening in business activity, they respond fast with layoffs, sometimes months before the economy begins to sink. But there are some caveats with this number.

The Employment Situation report is divided in two main parts: the "Household Survey", which produces the unemployment rate, and the "Establishment Survey" (also called "Payroll Survey") which **generates the payroll numbers shown on most economic calendars**. As the name suggests, the establishment survey **is based on employer reporting**. The **household survey**, on the other hand, is a phone survey conducted by the BLS. It measures **unemployment and many other factors**. Let's say, if you work one hour, even selling trinkets on eBay, you are employed for the purpose of this survey and for the calculation of the unemployment rate.. The same is true if you work three part-time jobs, 12 hours each, the BLS considers you a full-time employee. If you don't have a job and have failed to look for one in the prior month, you are not considered unemployed, rather, you are considered to have dropped out of the labor force. You need an actual interview or to have sent out a resume to count as "looking for a job". Besides, in the payroll survey, three part-time jobs count as three jobs. These distortions artificially lower the unemployment rate, artificially boost full-time employment, and artificially increase the payroll jobs report every month because of the potential for double-counting jobs in the payroll survey.

To get a more realistic picture of what the unemployment rate is, you have to count all the people who want a job but gave up, all the people with part-time jobs that want a full-time job, all the people who dropped off the unemployment rolls because their unemployment benefits ran out, etc.
The **BLS calculates this number.** You can find it in the last row labeled U-6 and is often referred to as the underemployment rate. It is usually much higher than the more commonly quoted U-3 unemployment rate. In fact, both numbers would be higher still, were it not for millions dropping out of the labor force over the past few years. Some of those are absent because they have retired. The rest are due to forced retirement, discouraged workers, and young people moving back home because they cannot find a job.

Non-farm payrolls have been growing consistently in a range of 100k-300k in the past few years, with lower unemployment rate.



Labor Force Participation Rate

The participation rate, also released by the BLS, **is the percentage of the total number of people of labor-force age that are in the labor force** (either working or looking for a job).

A decline in Labor Participation is seen as negative because it means less people are looking for a job. When the Unemployment Rate (U= unemployed / LaborForce) drops because of a reduction in Labor Force, is not a good economic signal either. The good signal is when the unemployment rate drops and Labor Force Participation rises.

The Unemployment Rate may also tick lower driven by a retreat in the Labor Force Participation rate. In other words, **the decline in unemployment can be caused by fewer U.S. citizens looking for work rather than a big gain in U.S. citizens with jobs.** So a drop in unemployment can partly be attributed to a decline in the Labor Force Participation Rate. In a recessionary environment, for instance, a sudden drop in the Participation Rate is critically assessed because workers may get discouraged after trying to secure employment for a long time, and they may decide to drop out of the workforce. This would make the Participation Rate fall, as these people are then classified as not actively seeking employment.

The data can be seen on **FXStreet's Economic Calendar**. Past months' data, consensus and actual releases, are shown as a separate report from changes in Nonfarm Payrolls.

Source: Tradingeconomics.com

Average Hourly Earnings (MoM)

We have been showing you there are some nuggets of information in the official NFP release which can provide useful insights for the whole set of labor-market-related data. Average Hourly Earning, also released by the U.S. Department of Labor, **is a significant indicator of labor cost inflation and of the tightness of labor markets.** Included in the NFP report, **it estimates the average (weekly) earnings of all non-farm employees**. The data in the report typically accounts for about 80% of all U.S. employees, whose labor produces the GDP (Gross Domestic Product) of the U.S.

If worker incomes rise, it bodes well for future spending, since wages and salaries from employment make up the main source of household income. **The Federal Reserve Board pays close attention to this data when setting interest rates, because of its strong correlation to inflation**. People won't spend if they don't make enough to do so. Poor wages are a drag on inflation, strong wages are the opposite a sign that inflation may start to growth. For this reason, wages within the report have been gaining more weight month after month.

The data can be seen on **FXStreet's Economic Calendar**. Past months' data, consensus and actual releases, are shown as a separate report from the NFP.

There can be revisions to the data which often go back two months.

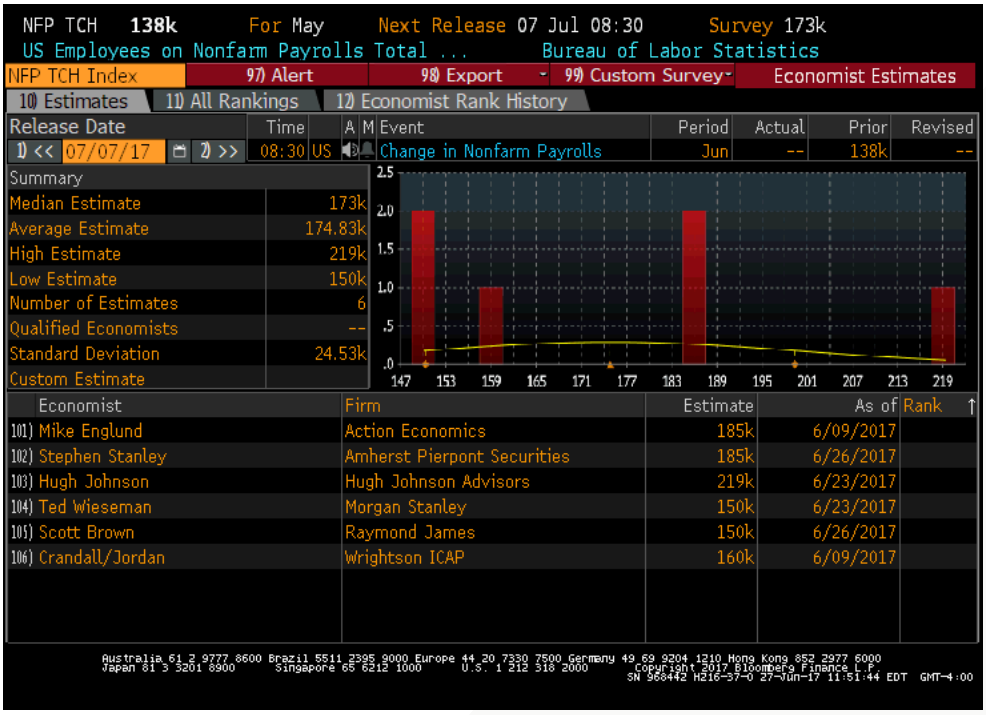
Average Weekly Hours

The Average Weekly Hours **is a compilation of the average number of hours worked per week** (including overtime) by all employees of private business concerns (except those in the agricultural sector). Overtime hours are an excellent indicators of future employment trends. When overtime increases are sustained for several months, companies will be pressured to hire new employees. Therefore **this report can be seen as a precursor of new permanent hiring, or an early indication that employers are preparing to boost their payrolls, although in the later stages of economic expansion, it may be seen as a sign that employers are finding it hard to get qualified applicants for open positions**.

The reason this indicator is **used as a basis for analyzing other employment statistics** is the fact that in the US, unlike in many other countries, the workweek is not fixed. Employees can work any amount of hours per week (including overtime). It's also worth knowing that unpaid absenteeism, labor turnover, part-time work, and stoppages cause average weekly hours to be lower than scheduled hours of work for an establishment.

Number of Participants and Dispersion Figures

This data is of minor importance and few analysts do mention them. In order to calculate the Consensus numbers for the NFP (or many other reports for that matter), analysts are surveyed about their forecasts for that particular release. I**t is only accessible with an access to a Reuters or Bloomberg terminal.** A lot of dispersion means poll participants have no clear estimates based on their models and– similar to FXStreet's FXPoll released each Friday, the higher the number of participants the better.



Difficulties to trade the NFP release

One thing you will need to know when preparing to trade the Employment Situation report is the difficulties there are to trade the NFP release through broker platforms. We constantly hear about **prices not being accessible** (flashing yellow prices more than green and red) for seconds after the release. This is simply due to the lack of interest liquidity providers have to supply broker platforms with prices during the heated seconds after the release. **Liquidity providers give priority to their own volume clients** and could not care less about retail traders over these critical seconds.

Retail traders are therefore often left with a gap move from the release price before they can enter a trade. Stop losses being executed away from the level set is also something to be aware of.

Instead of trying to hit prices over the first seconds and experience the difficulties in obtaining tradeable prices, one way could be to cover your interest in the form of pre-set orders. There is an additional risk element of doing so but it is also a higher probability of having executions done.

The **divergence between "target" spreads listed by brokers and the actual spreads** applied during a high volatility event as the Non-Farm Payroll can be substantial. During these minutes spreads first fall apart and recover slowly afterwards as market calms down. Usually spreads get wider right before the economic event, they sky-rocket right after the announcement and then they consolidate after a couple of minutes at a slightly higher level.
How particular brokers handle economic events is something you should verify. Even if you get a competitive quote from your broker it doesn't mean you will get a competitive fill price. Slippage due to low liquidity and/or latency is frequent especially around such events.

Most forex brokers now use Non-Dealing Desk and ECN business models. They are not market makers. This means you receive the retail market price for your trades. **During high volatility situations the market is either very thin or has a glut of orders that needs to be processed**. In either case, the BID/ASK spread can widen, sometimes as dramatically as 25 pips. It is not your broker's fault... that is the market price at that moment. If you had placed your stop 20 pips away, you would have been stopped out of an otherwise potentially profitable trade.

The battle for positioning heading into the figure can cause skewed trading conditions even in the days leading up to the release. Participants looking to establish positions pre-release **can cause unexpected directional flows** in a currency pair. For example, if markets are expecting a strong number we could see people trying to sell EUR/USD ahead of the release expecting USD to strengthen against EUR causing EUR/USD to go lower. The volume of this positioning is key. If we see large institutional players positioning then this tends to have a bigger effect on the currency pair than if we are seeing smaller speculative players positioning. The actual size of the positioning itself is also important, if Institutional players are positioning with reduced size it will have less of an impact than if we see them positioning with greater size.

For all these reasons (whipsaws, wide spreads and slippage), **it is not advisable to use an options style trading strategy** by placing market orders above and below the current price just before the release of the Employment Situation report. It is generally done with a One-Cancels-Other (OCO) so that if one order is triggered, then your position is entered into the market and the other order is canceled. The goal of this strategy is to get into the trade immediately after the news and in the direction of the initial move of the market. But the mentioned potential dangers make this strategy a risky proposition.

PART C

One Case Study: 7th July 2017

With the knowledge gained in Part A of this eBook, you should be able to construct your own NFP-checklist, interpret other analysts' forecasts and form an opinion about them.
Your homework should look more or less like what we did for the previous NFP release on the 7th July:

Pre-release checklist:

Pre-release checklist: 7th July 2017

Previous Non-Farm Payrolls	Negative	Payrolls growth has slowed this year, averaging 121K over the last three months which is negative. However, this slowdown may be indicative of a tightening labor market, with less suitable skilled workers to fill jobs.
Challenger Job Cuts:	Positive	Employers announced plans to cut payrolls by 31,105 jobs in June, the lowest monthly total of the year.
Initial Jobless Claims and Continuing Jobless Claims	Negative	248K (vs. the 243K expected). The four-week moving average dips to 242 from 244 but still a 4 month increase.
Continuing Jobless Claims	Negative	The number of Americans filing for jobless aid rose 2K to 244K in the week ended June 23, which is negative.
ISM Non-Manufacturing PMI	Neutral	Index registered 55.8 percent, which reflects a decrease of 2 percentage points when compared to the May reading of 57.8 percent but higher than Apr and Mar. The two industries reporting a reduction in employment in June are: Educational Services; and Other Services.
ISM Manufacturing PMI	Positive	The employment component for May printed at 57.2, higher than the previous month at 53.5 and 52, a positive development.
University of Michigan Consumer Confidence Index	Negative	95.1 slightly better that 94.5 expected but within a downward trend from yearly highs in January, scoring negative as a leading indicator.
Conference Board Consumer Confidence Index	Positive	The index had decreased in May, but increased moderately in June standing now at 118.9, up from 117.6 in May, a positive development.
ADP Employment Report	Negative	158K vs the 185K expected, the first negative deviation in 5 months and lowest number since January.

Key takeaways from our dedicated Contributors BEFORE the release:

> *US jobs report for June will probably turn out somewhat better than the previous three reports. We expect employment rose 180,000 with the unemployment rate unchanged at 4.3% in June. Average hourly earnings are expected to rise 0.3% m/m, implying an annual growth rate of 2.6% y/y (up from 2.5%). While most labour market indicators are now stronger than during the recent upturn,* **the slack indicators still suggest there is some slack left in the labour market.** *With the rate hike in June, the Fed sent a clear signal to us that it is not as data dependent as it claims to be, and is biased towards a normalisation of rates. The reason is Fed Chair Yellen's faith in the Phillips curve. The problem is second-round effects have hit wage growth.* ***When employees expect inflation to remain low, they can live with low wage nominal wage, as real wage growth may still be solid.***

Danske Bank

> *US economy is expected to have added 179K jobs in June compared to 138K jobs in May. The US is close to full employment, so we should expect the monthly payrolls figure drop. Thus,* **a weaker-than-expected number is not bad news unless the figure prints well below 100.00.** *On the other hand,* **a super strong number would mean there is still considerable slack in the labor market**, *thus Fed needs to go slow with policy normalization. That would be bearish for the US dollar.*

Omkar Godbole

> *The Fed policy tightening stance now appears to rely almost solely on the labor market; if this were to lose momentum, the recent Fed hawkishness might be walked back. [...] The Preliminary University of Michigan Consumer Sentiment survey released on 16 June showed confidence slipping in June to a low since November last year.* **The weekly Bloomberg consumer comfort index also slipped last week to a low since February**. *Overall consumer sentiment remains at a high level. However,* **we may be on the cusp of some correction in sentiment surveys**.*[...] With many other economic indicators suggesting growth may be stalling, the onus will be even more on the labor data to sustain the Fed's policy tightening regime. Payrolls growth has slowed this year, averaging 121K over the last three months to May. However, this slowdown may be indicative of a tightening labor market, with less suitable skilled workers to fill jobs.*

Greg Gibbs

There were "several" FOMC members concerned that low inflation would persist and that the historical relationship between "resource utilization" and inflation [Phillip's curve] "appeared to be weaker than in previous decades." And "some participants" emphasized downside risks, particularly in light of the recent low readings on inflation along with measures of inflation compensation and some survey measures of inflation expectations that were still low." Countering these views, "a couple of participants expressed concern that ***a substantial undershooting of the longer-run normal rate of unemployment could pose an appreciable upside risk to inflation*** *or give rise to macroeconomic or financial imbalances that eventually could lead to a significant economic downturn.*

Greg Gibbs

The FOMC will concentrate on the wages and work-week data as signals of coming inflation. The market will get excited over a headline number likely to be revised next month. ***Last month's data will likely be revised (probably higher) following a considerably weaker than average/expectation release****. Analyst expectation for the data has been replaced by the moving average of the last six months data as the actual is so unpredictable.[...] For the record market expectation is for 178k new jobs to have been added. Personally, I am looking at a number closer to 200k as the pickup in activity continues.*

Alan Hill

The 138,000 jobs added to the economy in May came sharply below the expected 185,000. Wage growth also disappointed with average earnings rising 2.5% annually. If the jobs report managed to surprise to the upside this time, the USD will likely find a near-term bottom. However, ***the headline figure won't be enough even if it came above 180,000****.* **Wage growth is what's needed** *to narrow the disparities between the Fed's dot plot and the markets own dot plot.*

Hussein Al Sayed

Employment data out of the US next week will be pivotal for the direction of the USD if there is significant improvement in wage growth*. The US has posted solid job gains, but the quality of those positions is being questioned, in order to make a dent in the market perception the inflation signals have to be strong to further validate the current rate hike path of the central bank.*

Alfonso Esparza

...data released on Thursday showed ***that the number of Americans filing for jobless aid rose*** *2K to 244K in the week ended June 23, whereas analysts anticipated a fall to 241K.*

Dukascopy Bank Team

Yellen and other economists have an abiding faith in the Phillips Curve—the trade-off between employment and inflation. The Phillips Curve has been refuted hundreds of times over the past forty years and yet its seeming inherent logic persists. What are the conditions under which full employment fails to result in wage increases that drive inflation? There must be some set of conditions under which this is true. You don't have to buy into the pictures of downtrodden labor under the thumb of cruel capitalist masters to observe that ***full employment does NOT always result in wage increases. And even when you do get wage increases, you don't always get inflation****.[...] Bottom line, the absence of household spending in Japan and thus the absence of inflation remains a mystery that the Phillips Curve cannot resolve.*

Barbara Rockefeller

Looking ahead, the US nonfarm payrolls data will be coming out later today. Expectations are for a headline jobs print of 175k, while the ***average earnings are expected to rise 0.3% on the month. The US unemployment rate is expected to remain steady at 4.3%.***

John Benjamin

We expect the payrolls to be solid *(at least meeting the consensus estimate of 178 000 net additional jobs) despite yesterday's disappointing ADP report.* ***The average hourly earnings are expected to rise 0.3% M/M and 2.6% Y/Y****. A* ***gradual rise in wages could ease markets' doubts on the Fed normalisation process****. Such a scenario would give the US currency renewed interest rate support. Especially short-term interest rate differentials should re-widen than, which is USD supportive. If so, USD/JPY could rise further.*

KBC Market research Desk

We believe that the ***risks for the payrolls are on the upside of expectations*** *as the three previous months looked to be unusually low.. The unemployment rate could stabilised or even tick up after a (too fast?) decline in past months. The AHE wages are expected to be up 0.3% M/M. We have no strong take on the wages, but a disappointment might colour the market reaction.*

KBC Market research Desk

The headline Non-farm Payrolls are expected to recover to +179,000 (up from +138,000) whilst attention will also be paid to prior month revisions. *The average hourly earnings will also be keenly watched with the recent inflation drop in the US potentially a reason for the Fed to pullback on tightening too quickly.* ***Average hourly earnings are expected to be +0.3% for the month which would improve the year on year number to +2.7%.*** *Unemployment is expected to be 4.3% again, whilst the decline in the* **U6 Underemployment number (last month 8.4%) will be of interest as the US closes in on levels considered to be full employment.** *This in conjunction with the participation rate will also be important, with the participation rate 62.7% last month.*

Richard Perry

Overall, while there were ***no abnormally large downside surprises in pre-NFP employment indicators for June,*** *there was a general leaning towards the soft side when it came to June's job numbers. This could potentially manifest as a continuation of weaker-than-expected employment data this Friday. With consensus expectations of around 175,000 jobs added in June, our target range is 160,000-175,000. This jobs report will be of critical importance in its potential impact on the near-term trajectory of Fed rate hikes. As such,* **any outcome significantly lower than forecast should further dampen Fed expectations and potentially lead to an extended pullback for the dollar**. *A result in the higher end of the target range or above could boost Fed rate hike expectations and help support a potential dollar relief rally and recovery after the recent period of sustained dollar weakness.*

James Chen

Yet Janet Yellen's positive outlook and the softness of last month's report are the only reasons why tomorrow's jobs number could be strong. Service sector activity accelerated in the month of June, but the employment component dropped to 55.8 from 57.8, reflecting slower job growth. ADP also reported its smallest payroll increase since October. 4-week average jobless claims ticked up from last month as continuing claims rose to its highest level since mid April. Consumer confidence is mixed, leaving ***Challenger's 19.3% reduction in layoffs as the only piece of data supporting stronger payroll growth*** *since manufacturing jobs are a separate line item in the non-farm payrolls report. Considering that the U.S. dollar is held up primarily by the Fed's hawkishness,* ***investors may not tolerate another month of weak job growth and could send the greenback sharply lower*** *if NFPs miss. However if non-farm payrolls rises by 175K or more AND average hourly earnings increase 0.3% or greater, Yellen will be vindicated and USD/JPY will hit 114 and beyond.*

Kathy Lien

After-the-event checklist:

Post-release checklist (7th July 2017)

Actual, Consensus and Deviation	Positive	222K (vs. 179K expected), +0.8 deviation
Revisions	Positive	Previous month revised up to 152K from 138k
Unemployment Rate	Positive	4.4% (vs. 4.3% expected). This may also be considered a positive development with more Americans joining the Labor Force.
Labor Force Participation Rate	Neutral	Pick up to 62.8% (previous was 62.7%)
Average Hourly Earnings	Negative	0.2% (vs. 0.3% expected) revised down to 0.2% from 0.3%

Key takeaways from our dedicated Contributors AFTER the release:

> *And again Non Farm Payrolls Range is 50,000, established in 1939 when the release began. Certain months maybe 49,000 or even 51,000 but 50,000 is solid. NFP inside the 50,000 interval then prices range. Outside then bottoms and tops break. Today's number is 179,000 so range is 129,000 to 229,000.* ***Range trades mean long bottoms and sell tops comfortably.*** *Sadly, amongst all the analyst, nobody will enter the required data to forecast NFP correctly.*

Brian Twomey

> *...strong headline was clearly offset by poor wages. The world's largest economy* ***created 222,000 new jobs, largely surpassing expectations of 179K, while previous' month reading was revised up to 152K from an initial estimate of 138K.*** *Nevertheless the unemployment rate ticked up to 4.4%, with the participation rate up to 62.8%, while wages were once again a big miss, barely advancing 0.2% in the month, below expectations of 0.3%, and up yearly basis by 2.5%, also missing market's forecast of 2.6%.*

Valeria Bednarik

> *America doesn't have a worker shortage; it has work shortage. The* ***unemployment rate is at 15-year low, but only 55% of American adults 18 to 64 have full-time jobs...*** *According to demographer Nicholas Eberstadt, the labor participation rate for men 25 to 54 is lower now than it was at the end of the Great Depression.*

Raymond Merriman

Though, the official Labour Department's report showed that the country's private sector added 222K jobs last month, surpassing market expectations for a modest increase of around 175K in June. Meanwhile, ***May's figure was revised up to 152K from 138K registered previously.*** *The US non-farm payrolls increase, the second largest within this year, was supported by strong gains in government, healthcare, restaurants as well as business and professional services sectors, the Labour Department revealed. Notwithstanding job growth acceleration, the unemployment rate was slightly higher, at 4.4%, suggesting that more people were left without job.*

In addition, ***the report showed that average hourly earnings rose modestly,*** *jumping 0.2% over the month of June, with 2.5% yearly increase in wages. Analysts believed that weak productivity was curbing wages, while some of them were optimistic over the tightening labour, expecting it to spur wage growth at a faster pace.*

Dukascopy Bank Team

[...] some of the sell-off in the yellow metal may also be down to the spectre of ***low inflation in the west, especially wage growth,*** *which could ultimately limit how far central banks can hike rates. This exemplifies the fears that could keep gold bears up at night: a surge in volatility or a talking down of rate increases from CB's like the Fed, Yellen testifies to Congress this week, could see a dramatic turnaround in the gold price.*

Kathleen Brooks

The US economy added 222'000 non-farm jobs in June versus 178'000 expected. The May figure has been revised up from 138'000 to 152'000. On the flip side, the **unemployment rate increased to 4.4% from 4.3%, while the average hourly earnings improved less than expected**. *The better-than-expected NFP figure sent the US 10-year yields near 2.40% for the first time in two months, yet failed to give a further boost to the US dollar.*

Ipek Ozkardeskaya

The strong jobs number appears to have convinced many players that the US economic recovery is back on track and perfectly capable of weathering continued monetary tightening from the Federal Reserve. This is despite yet ***more evidence (through tepid wage growth) that inflation is still heading further away*** *from the Fed's 2% target.*

David Morrison

Friday's US Employment Situation report has done little to change the market's view that a third 2017 hike will be seen. The ***dollar continues to make ground after the strong headline Non-farm Payrolls and a pick up in the participation rate*** *point towards stronger labour market. However the stubbornly low earnings growth remains a concern for pulling inflation sustainably towards the Fed's mandated 2% target. The dollar has strengthened in the wake of the payrolls, and as yet retains this strength.*

Richard Perry

The establishment survey showed nonfarm payrolls expanding a consensus-beating 222K in June. Adding to the good news were upward revisions to prior months that increased payrolls by 47K. The private sector added 187K jobs with gains in both the goods (+25K) and services (+162K) segments. Goods sector employment rose in construction (+16K) and mining (+8K) and stayed roughly flat in manufacturing (+1K). Private services sector employment was up in financial activities, professional services, leisure & hospitality, and education & health services. Meanwhile government added 35K positions. Average hourly earnings rose 0.2% in June, or 2.5% on a year-on-year basis (up one tick compared with May's print). In addition, the private sector employment diffusion index climbed to 59.6 (from 54.8 the prior month), indicating that **job gains in June were distributed more evenly across sectors***.*

The other employment report, the household survey, showed employment increasing 245K in June after posting a -233K print in May. Full-time jobs were up a robust 355K on the month for a cumulative gain of 1.7 million so far in 2017. The increase in jobs during the month was offset by a one tick increase in the participation rate to 62.8%, causing the unemployment rate to add one tenth of a percentage point at 4.4%. Overall, **the job reports support our view of above potential growth in the coming months** *and hint in the direction of another hike by the Fed in September.*

National bank of Canada Eco. & Start. Team

The inflation component of the jobs report was softer*, with a 0.2 percent gain in wages on a monthly basis but the central bank has agreed to move ahead without much inflationary pressure.*

Alfonso Esparza

We got a stronger bounce in employment than I expected. Nonetheless, ***there is a clear weakening pattern pattern from year to year****. More significantly, weak wage growth has not keep up with inflation, despite the BLS purporting otherwise.*

Mike "Mish" Shedlock's

The U.S. economy added 222 thousand jobs in June and job creations in April and May were revised higher. Nonetheless, unemployment ticked slightly higher to 4.4% in June from 4.3% May, but this may also be considered a positive development with more Americans joining the Labor force.
The initial reaction of the greenback and Treasury yields after the release was kind of mixed. In fact, there was a tug of war between bulls and bears suggesting that some market participants were not entirely convinced in the overall report. This is due to lack of significant wage growth which has been disappointing for many months now.
Fed Chair Janet Yellen is a big believer of the Phillips Curve which suggests that inflation has an inverse relation with unemployment. However, without wage growth and inflationary pressures it is hard to convince markets that interest rates will increase at the pace suggested by monetary policy makers. Given that the U.S. economy is at full employment levels one questions why wage growth is not accelerating? Probably there isn't a one simple explanation to this question, but it could be due to the weak bargaining power of employers, globalization which allows U.S. companies to shift production where cost is cheaper, shrinking productivity, a decline of union power, and the list goes no. Though the problem is clearly structural here and if investors remain skeptical that wages will rise soon any rise in the dollar will be limited.

Hussein Al Sayed

*At first glance, Friday's non-farm payrolls data for June far surpassed expectations at 222,000 jobs added against prior expectations of around 175,000. Additionally, May's disappointing 138,000 figure was made slightly less disappointing by Friday's upward revision to 152,000. Overall, however, the jobs report was mixed, as average hourly earnings came in lower than expected at +0.2% against a +0.3% forecast, and May's +0.2% was revised down to +0.1%. These **weaker wage growth numbers should exacerbate concerns that inflation may continue to lag.** In addition, another less-positive aspect of the report was the unemployment rate, which ticked up to 4.4% against both the prior forecast and last month's reading of 4.3%.*
*The implications of this report are mixed. The fact that the headline NFP number surpassed expectations by a considerable margin provides confidence that the **US employment landscape remains strong** and average job gains over the past several months are indeed gaining ground. This supports further Fed tightening. Low inflation, however, still poses a challenge for the Fed.*

James Chen

Perhaps the most encouraging elements of this report, after the headline NFP number, was **the pick up in the labour force participation rate** *(up to 62.8% from 62.7%), and the increase in weekly average hours worked, which rose to 34.5 hours from 34.4. While a month's worth of data does not make a trend, an increase in working hours and a rise in the labour force participation rate, if it continues, would suggest a fundamental improve in the US labour market, which would be a positive development for the US economy.*

Kathleen Brooks

The unemployment rate rose to 4.4% from 4.3%, as labour force growth exceeded employment growth. The increase comes after the unemployment rate has fallen from 4.8% in January so given its volatile nature, it is not a big concern. **The Fed's favorite slack indicators, the so-called underemployment rate (U6 unemployment, a broader unemployment measure) rose to 8.6% from 8.4%.**

Danske Research Team

As always, we like to ***look at the quality of the jobs created, not just the absolute quantity.*** *On this front, the outlook is more mixed. For the "glass half full" camp, the average hours worked bumped up from 34.4 to 34.5, signaling a growth in full-time employment. However, and this is a big "but", average hourly earnings remain stuck in the mud. Earnings rose only 0.2% month over month (and that's rounded up from .15%, or $0.04/hr), below expectations of a 0.3% rise. On an annualized basis, wages rose 2.5% vs. 2.6% eyed.*

Matt Weller

Market Reaction:

Like the NFP data release itself, **the immediate market reaction was also mixed.** *The first knee-jerk reaction to the headline beat was a spike up for the US dollar. Then a whipsaw reversal occurred as the less positive aspects of the data were digested. Finally, the dollar regained its footing and surged once again. As is typically the case, gold took the opposite route. The precious metal first spiked down, then reversed higher, and finally continued to fall as the dollar rose.* ***US equity markets took the headline beat and ran with it****, rising in pre-market and continuing to surge after the open to pare losses from Thursday. USD/JPY reached up to hit key resistance around the 114.00 level as the dollar rose while yen demand faded.*

James Chen

The dollar index is back above 96.0, and US Treasury yields are also higher. *We mentioned in our pre-NFP analysis that USD/JPY and GBP/USD are the dollar pairs most sensitive to the NFP report, while the euro and stocks have no correlation of note. Our analysis has played out today, with the JPY and GBP the weakest performers vs. the USD in the G10, falling 0.8% and 0.7% respectively. USD/JPY has had a strong positive reaction to this report, rising to its highest level since May and is heading towards 115.00 key resistance, while GBP/USD backed away from recent highs.*

Kahtleen Brooks

[...] today's NFP report is a "Goldilocks" reading for stocks: ***the strong job growth is indicative of a healthy economy,*** *while the lack of wage pressure means there's no urgency for the Fed to tighten policy further. Sure enough, US stock futures have surged into positive territory.*

In the FX market, the dollar initially dipped but has rallied back to trade flat-to-slightly-higher against many of its major rivals as of writing.

Matt Weller

Now you know how to make your own NFP predictions, and compare them to the market estimates. You have also learned to read the Employment Situation report on a deep level, capturing its many nuances. Repeat this exercise every month, and you will become a true NFP specialist!

Real-time coverage on FXStreet:
Access updated news and charts on our NFP page

- https://www.fxstreet.com//macroeconomics/economic-indicator/nfp

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