

## PREVIEW - US Nonfarm Payrolls due Thursday, 2nd July, at 13:30BST/08:30EDT

**NOTE:** The US jobs data will be released on Thursday, 2nd July, at 13:30BST/08:30EDT, rather than the typical Friday, on account of the US Independence Day market holiday on 3rd July.

**SUMMARY:** The US jobs data is expected to show 110k nonfarm payrolls being added to the US economy in June, slowing from May's 172k; the unemployment rate is seen unchanged at 4.3%. Average hourly earnings are expected to rise 0.3% M/M, matching the prior rate. Analysts note that May was flattered by local government hiring which is not expected to be repeated, however, the FIFA World Cup could add around 40k temporary jobs to June's headline. Labour market proxies point to some cooling in the month: weekly claims have edged higher, with analysts suggesting that the trend is consistent with payroll growth slowing below breakeven ahead; S&P Global's PMI data showed employment falling again, while the Conference Board data showed consumers' assessment of job availability weakening. For the Fed, the labour market still appears steady enough to keep officials focused on inflation rather than on employment risks, particularly after new Chair Kevin Warsh emphasised the 2% inflation target; a firm payrolls print and stable jobless rate would likely support another hold in July.

**EXPECTATIONS:** The consensus looks for 110k nonfarm payrolls to be added to the economy in June (vs 172k in May; vs three-month average of 188k, six-month average of 92k, and 12-month average of 42k). The May data saw an outsized lift from local government hiring, and analysts do not expect that to be repeated in June. With the FIFA World Cup running from 11th June through 19th July, Goldman Sachs has estimated that the sporting event, hosted in the US (and Canada and Mexico), will add 40k jobs to the headline figure, with effects likely to reverse in the proceeding months. The unemployment rate is seen unchanged at 4.3% in June; the Chicago Fed's real-time unemployment rate forecast is at 4.33%, reflecting a small increase in layoffs, and a small decrease in hiring. The FOMC's most recent economic projections in June forecast the jobless rate will remain at 4.3% this year and next, tilting down to 4.2% in 2028 and in the longer-run. Average hourly earnings are likely to rise by +0.3% M/M in June, matching the prior rate.

**DRIVING THE DATA:** Analysts at Barclays are below consensus on headline payrolls, and forecast 100k in June, slowing sharply from May's 172k and the firmer prints in March and April. The bank says that barring any revisions, that would still lift the Q2 three-month average to around 150k/month, well above Q1's 73k pace. The bank writes that forecast dispersion is unusually wide, noting that claims-based models point to robust gains, while approaches weighted toward alternative indicators and resilient ADP data suggest a milder turnout.

**LABOUR MARKET PROXIES:** Initial jobless claims for the week that coincides with the BLS survey window saw 227k initial jobless claims, up vs the 210k into the May jobs data. Continuing claims were at 1.821m from 1.785m. However, analysts say that the data in that week was likely distorted by Juneteenth, as seasonal factors have not yet fully adjusted for the holiday's effect. Looking through the noise, Pantheon Macroeconomics says initial and continuing claims have trended higher since early May, consistent with payroll growth slowing below the breakeven pace. ADP's gauge of national employment printed 98k in June (exp. 118k, prev. 122k); the pay metrics for job stayers was unchanged at 4.4% Y/Y, while for job changers, ticked up to 6.6% Y/Y (prev. 6.5%). ADP's chief economist said the hiring picture showed a dual supply-demand narrative, where the time to find a job was lengthening, and some sectors are facing labour constraints; the net effect is a slowdown in job creation. Revelio's public labour statistics for June printed 258.8k jobs (prev. 123.7k, rev. 110.8k); it said that the gain was driven by significant job gains in the Public Administration, Health Care and Social Assistance, and Professional and Business Services sectors.

**BUSINESS SURVEYS:** The June S&P Global flash PMI signalled softer labour market conditions, despite firmer output growth and points to cautious hiring and downside risk to payroll growth, analysts said. The survey compiler notes that employment fell for a second consecutive month, and for the third time in four months, as firms focused on cost reduction amid high input prices and concerns over the outlook. The weakness was concentrated in manufacturing, where headcounts were cut at the fastest rate since the early-2020 COVID lockdowns; ex the pandemic, factory job cuts were described as the sharpest since 2009. Services employment fell only modestly.

**CONSUMER CONFIDENCE:** The Conference Board's June consumer confidence data also pointed to some cooling in labour market perceptions, and suggests more of a softer current labour market backdrop, rather than any sharp deterioration in expectations. Consumers' assessment of the current labour market softened measurably, with the share saying jobs were 'hard to get' rising to 22.5 (from 19.8), the highest since January 2021. The labour market differential (jobs 'plentiful' minus jobs 'hard to get') fell 2.6 points to +2.4, indicating a weakening of current employment conditions. Meanwhile, forward-looking labour market expectations were little changed: fewer consumers expected more jobs to be available, but fewer also expected job losses.

**FED POLICY:** Speaking at his first post-meeting press conference as Fed Chair on 17th June, Kevin Warsh said officials judged the labour market as looking steady, if not improving somewhat, noting that "the jobs data has been moving in a good direction," with some committee members seeing trends as even more favourable than the headline figures suggest. The updated economic projections (which Warsh did not contribute to) trimmed the year-end unemployment view to 4.3% (from 4.4%). Analysts have recently characterised the labour market as resilient, but not inflationary, giving policymakers room to hold rates rather than ease further. Analysts also continue to note that the Fed's policy focus seems to be on the inflation side of its mandate. Warsh placed great emphasis on the 2% inflation target, and made it clear that taming inflation was a key focal point for his leadership amid the energy-driven price increases, caused by the Iran conflict, and the steady jobs market has allowed the central bank to prioritise the fight against inflation. Barclays writes that a payrolls print well above the breakeven pace (the St Louis Fed has estimated this to be around 15-18k/month), set against a jobless rate that is barely moving, keeps a familiar wedge between the household and

establishment surveys intact, adding that that combination looks consistent with another Fed hold in July, with policymakers continuing to weigh the case for tightening. Money markets currently price in 20bps of hikes by September, implying an 80% probability of a 25bps hike, while a 25bp hike is fully priced by October.

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