

Take higher US ADP jobs data with a pinch of salt

The above-consensus ADP jobs growth estimate doesn't necessarily mean a high payrolls number on Friday



Source: iStockphoto

237k ADP's estimate of August's job growth

Better than expected

On the face of it, Wednesday's very strong estimate of job growth from ADP raises the possibility of yet another decent payrolls reading on Friday.

But it's worth taking this estimate with a slight pinch of salt. While the figure is influenced by ADP's up-to-date payroll analytics, the model also heavily relies on lagged values of the official jobs data and to a certain degree, other economic indicators. This means ADP's estimate isn't always that accurate when it comes to predicting Friday's closely-watched payrolls number.

More generally though, consistently high jobs growth is a double-edged sword for the Fed. While more rapid job gains are no bad thing, it does suggest that there is more slack in the economy than previously thought. Logic says that as the economy closes in on full employment, job gains should slow. The Fed is well aware of this, and we, therefore, doubt that anything other than a string of disastrous figures would knock the rate-setting committee off course.

Inflation is the bigger concern for policymakers

We are expecting weak wage growth on Friday, which won't help the Fed's case for higher rates. We are still optimistic that both core inflation and wages will improve sufficiently to give the Fed confidence to hike again in December. But with the recovery in both metrics likely to be steady, it could be a while before markets come around to this way of thinking.

[Read our full payrolls preview here](#)

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