Non-Farm Payroll (NFP)

Release date: Usually the first Friday of the new month following the month in review
Release time: At 09:30 US Eastern Time
Issued by: The United States Bureau of Labor Statistics

The Non-Farm Payrolls (NFP) gives the number of people employed during the previous month in non-farm-related jobs. Job creation is the foremost indicator of consumer spending, which accounts for the majority of economic activity. This is the most important event according to many traders and has a major impact in the market. In general, a higher-than-expected reading can be considered positive (bullish) for the USD, while a lower-than-expected reading can be considered negative (bearish).

The NFP is part of the Employment Situation Summary Report (Labour Report or often misnamed NFP). The Report, published by the United States Bureau of Labor Statistics, the statistical section of the Department of Labor of the United States of America, is a multiple report where in particular there are 3 major data: Non-Farm Payrolls (NFP), Unemployment Rate and Average Hourly
So, the Report, identifies the number of jobs that have been added or lost in the States in the private profit and indicates the percentage of employable people, but also unemployed in the United States, giving the idea of the spending availability for the workers.

Excluding the agricultural, non-profit organizations, private households, and government agencies the numbers provide a better picture of the economic health in USA and their potential impact on the consumer spending.

The Report is issued monthly, usually on the first Friday of the new month. The release time is 09:30 US Eastern Time. The data is released on the website of the United States Bureau of Labor Statistics and also on independent news feeds by Bloomberg and Reuters Thomas.

The Labour Report has one of the highest market impacts of all press releases of the economic news calendar for several reasons. The US employment situation has a very direct impact on the performance of the global economy as the USA is the largest consumer of raw materials and finished products imported from various countries such as China, Japan, the EU. It affects so many other economic indicators such as production, consumer confidence and spending, retail sales, GDP, inflation, trade balance, etc.

US employment is strongly correlated with the country's household consumer spending. Depending on the number of jobs created each month, the level of consumption varies. If jobs are created overnight, the market will anticipate an increase in US household consumption, which will translate into an increase in GDP, giving a better picture of the economy.

The NFP has directly a wide range of affectation, shifting prices in the equity and commodity markets, as well as the forex market and indirectly helping the Fed to determine its monetary policy in relation to inflation.

Data forecasts are collected before publication. To construct the NFP forecast, the forecasts of economists with particular knowledge of the labor market are averaged. The data in the Economic Calendar is: Current NFP blank of course, Forecast of next NFP and Previous NFP from previous release. If the data forecasts were perfect, market movements would be normal but often the forecasts deviate from the values released.

Consequently, in the case of a publication, there are 3 likely scenarios:

1) The data in the report agrees with previously published forecasts. In this case it is likely that the market will not react particularly to economic news and will simply continue with the current trend

2) The data in the report is lower than expected. This is considered a negative sign regarding the US economy and will tend to put pressure on the country's currency as this result reflects a slowdown in the economy and employment

3) The data in the report is higher than expected. This is considered a favorable sign for the US economy, and therefore for the dollar.

If the results differ from market estimates and expectations, there will be volatility in the markets.

It is important to keep in mind that:

a) The difference between the result and market forecasts is often more important than the result itself. The difference between these 2 values can help traders anticipate the size of the move after the release

b) The market may have already anticipated the outcome of the release, which will result in a lack of reaction to the release.

c) if the data were to rise too quickly, it could be interpreted as a precursor to higher inflation, which is not good for the economy by spooking the market and causing stocks to fall as investors anticipate a potential rise in interest rates.

If at least two components of the Report work in agreement, the response produced will be massive. If the Non-Farm Employment Change is lower than expected and the Unemployment rate is higher than expected, this is an agreement result and is seen as USD negative, since the Unemployment rate is likely to increase when you add lower number of jobs. Similarly, when more jobs than expected are added, it means more people are being taken out of the job market, and when the unemployment rate reflects this, then this is seen as USD positive.

Even if the most traded is EURUSD, the preferred trade currency pair is the USDJPY, because the United States is Japan's largest trading partner, and the largest consumer of goods made in Japan's export-oriented economy.

The Labour Report has effect in all the USD pairs, so also in the commodities as they are quoted in dollars. American Indexes and American Stocks are affected because the economy health is their most important component as well.