

ON DECK FOR FRIDAY, NOVEMBER 1

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	11/01	08:30	Average Hourly Earnings (m/m)	Oct	0.3	0.3	0.0
US	11/01	08:30	Average Hourly Earnings (y/y)	Oct	3.0	3.0	2.9
US	11/01	08:30	Average Weekly Hours	Oct	--	34.4	34.4
US	11/01	08:30	Nonfarm Employment Report (000s m/m)	Oct	100	93.0	136.0
US	11/01	08:30	Unemployment Rate (%)	Oct	3.6	3.6	3.5
US	11/01	10:00	Construction Spending (m/m)	Sep	0.2	0.2	0.1
US	11/01	10:00	ISM Manufacturing Index	Oct	48.8	49.0	47.8
US	11/01	09:00	Total Vehicle Sales (mn a.r.)	Oct	17.1	17.0	17.2
US	11/01	13:00	Fed's Clarida Speaks in New York				

KEY POINTS:

- Global asset classes are guarded ahead of US payrolls
- US nonfarm: A potential second take by markets...
- ...could attempt to look through strike effects...
- ...but that could prove to be rather difficult to do
- A possible US wage growth up-tick...
- ...should be unaffected by the strike
- ISM manufacturing: regionals point to improvement...
- ...but they undersample autos in a bad month to do so
- US construction spending may influence Q3 GDP revisions
- Fed-speak could be substantial...
- ...with the main focus on Clarida's US-Japan speech
- The pace of contraction in UK manufacturing ebbed...
- ...but that's likely to be temporary
- China's private manufacturing PMI was flat

INTERNATIONAL

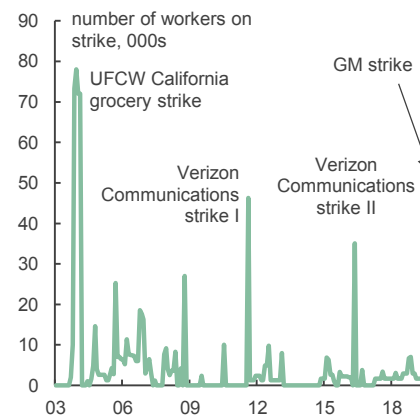
Nonfarm Friday could be a bit spicier than it is even on a normal day for somewhat random number generators. Global asset classes are fairly guarded on balance ahead of the reading. That's partly due to a) uncertainty over the headline number, and b) greater uncertainty over how to distinguish baseline momentum in job growth from strike distortions. The only other notable releases indicated a softer pace of contraction in UK manufacturing which is likely to prove temporary (see below), and an essentially unchanged private China manufacturing PMI.

- US equity futures are up by about ¼%. TSX futures are flat. European benchmarks are almost all up by ¼% (Italy a bit more). Asian equities were mixed as the Nikkei sold off by just over ¼%, while Seoul and HK were up ¾% and mainland China rallied by about 1%.
- Currency markets are guarded ahead of payrolls. The USD is little changed to the yen, euro, sterling, CAD and A\$.

CONTACTS

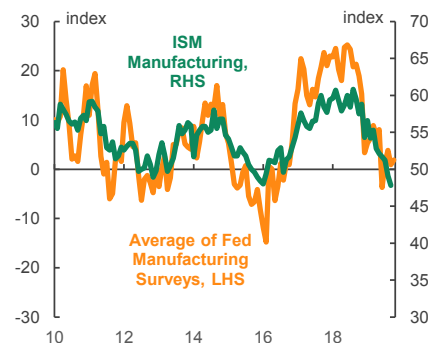
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US Workers on Strike During CES Survey Reference Period



Sources: Scotiabank Economics, BLS.

The Five Fed Surveys as a Predictor of ISM Manufacturing



Sources: Scotiabank Economics, Federal Reserve System, ISM.

- Treasuries are little changed and only slightly on the cheaper side. Gilts are cheaper by about 1bp across maturities. 10 year EGBs are mostly little changed as only Italy is cheaper by about 2bps. Japan's 10 year yield fell 4bps to -19bps as Asia caught up to yesterday's developments.
- Oil prices are slightly higher with little by way of catalysts.

The UK's manufacturing sector registered a small improvement in October as the monthly purchasing managers' index rose to 49.6 (48.3 prior). That's still slightly contractionary, but less so. The main driver was that new orders are falling at a slightly slower pace. I wouldn't read too much into that as it likely reflected apprehension ahead of what until recently was the October 31st deadline to leave the EU. Stockpiling inventories in advance of a potential disruption to trade may give way to renewed weakening in the order book next month as the risk of a hard Brexit has diminished and pushed out to January 31st.

The private version of China's manufacturing PMI was essentially flat at 51.7 (51.4 prior) after taking into consideration that it's a survey with a shipyard's width as a confidence interval. The fact this one didn't fall as the state manufacturing PMI slightly did the other day (49.3, 49.8 prior) is a small plus. Bear in mind, however, that the two PMIs differ in that the state PMI is relatively more skewed to SOEs whereas the private PMI is relatively more skewed toward smaller manufacturers in export-oriented coastal areas.

UNITED STATES

Heavy US-centric calendar risk in on tap. Top focal points will be nonfarm, US ISM and a potentially major speech by the Fed's #2, Richard Clarida, who delivers a speech that invites a US-Japan comparison.

The key with nonfarm payrolls will be to look through strike effects but you may not be able to do so with much accuracy.

There are huge cautions around this one because of uncertainty toward a) baseline job growth, b) the direct effects of the GM strike, c) the indirect effects, and d) whether seasonal adjustment (SA) factors magnify the strike effect.

In the monthly BLS Strike Report, a total of 47,700 workers were idled by strikes during the nonfarm reference period which is the pay period including the 12th of each month. That made for an infrequent outlier as mass strikes have occurred only a handful of times over the past couple of decades or so (see chart 1). Of the striking workers, GM accounted for the lion's share (46,000).

The methodology used by the Bureau of Labor Statistics (explained [here](#)) reduces payroll counts during the reference week by the amount of striking employees plus any indirect effects as other employers and industries are affected. Therefore, **knocking 47,700 workers off payrolls is a minimum effect, whereas the uncertainty surrounds multiplier effects that could add perhaps around half that effect on top.**

The last time we had to deal with this issue was when 35,100 Verizon workers were on strike during the May 2016 reference period and nonfarm was very weak (only +15k that month). Granted, May 2016 figures showcased widespread weakness across sectors and so there were many catalysts. Before that, the prior lumpy strike was again Verizon back in August 2011 and that one affected 45k workers and nonfarm landed at 122k that month.

Seasonal adjustments could magnify the problems. The May 2016 payroll hit from Verizon occurred in a normal up month for seasonally UNadjusted payrolls. The August 2011 Verizon strike was in what is normally a month with flat seasonal adjustments. October (ie: this time) is normally one of the stronger seasonal up-months for payrolls along with May. What this means is that SA factors tamp down seasonally unadjusted job gains in months like October and could make dips worse. By corollary, applying that seasonal tamp down factor to this October could translate into a larger downside to payrolls than the amount of striking workers itself (direct and indirect effects).

So overall the caution is that this could be one fine mess of a payroll report that makes it difficult to discern underlying momentum. Just for giggles, I've gone with 100k for headline payrolls but with downside risk since excluding the strike effect would imply a base rate of job growth likely well over 150k. It's feasible that we could get sticker shock on a first market pass and then a quick second look at the details for this one.

US wage growth is forecast to rise back to 3.0% y/y after it had decelerated to 2.9% in September. A shift in year-ago base effects would on its own prompt a deceleration to 2.7% y/y. Typical seasonal wage gains combined with an unusually soft prior month could be enough to boost wage growth by 0.3% m/m and 3.0% y/y. I don't think the weight on 47k striking workers' wages will be a material influence. Their impact upon the flow of job creation could be, but their impact upon the average wages of the entire workforce should be de minimis.

After payrolls, the focus then turns to ISM-manufacturing for October (10amET) and construction spending for September (10amET). ISM is expected to slightly improve on the back of improvement in several regional manufacturing reports like Richmond and Empire while the headline slippage for the Philly Fed metric masked better underlying details. See chart 2 for the connection between ISM and the regionals. Nevertheless, the issue is that the regional surveys under sample transportation (autos and air) and this might be a bad month to do so! The GM strike could add downside. On construction spending, a small rise is possible and any revisions will also be taken into account in starting the path toward the first Q3 GDP revision to the original 1.9% print.

Fed-speak could be a major influence. In particular, keep an eye on a speech by Vice Chair Clarida on "The US, Japan and the Global Economy" at 1pmET which invites obvious questions about how the Fed may discuss the inflation and slow growth parallels to Japan. Dallas Fed President Kaplan also speaks (9:30amET), followed by Vice Chair Quarles (1pmET), San Fran President Daly (1pmET) and NY Fed President Williams at 2:30pmET.

Fixed Income	Government Yield Curves (%):												Central Banks		
U.S. CANADA GERMANY JAPAN U.K. CANADA GERMANY JAPAN U.K.	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Canada - BoC	1.75	
	1.53	1.53	1.62	1.52	1.52	1.62	1.69	1.69	1.80	2.19	2.18	2.29			
	1.53	1.51	1.66	1.44	1.42	1.57	1.42	1.41	1.54	1.58	1.57	1.66	US - Fed	1.75	
	-0.66	-0.66	-0.65	-0.63	-0.63	-0.60	-0.40	-0.41	-0.36	0.12	0.11	0.17			
	-0.26	-0.23	-0.23	-0.30	-0.26	-0.26	-0.18	-0.13	-0.14	0.35	0.39	0.41	England - BoE	0.75	
	0.51	0.50	0.52	0.45	0.44	0.48	0.63	0.63	0.68	1.14	1.14	1.17			
	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00	
	0	-1	4	-9	-10	-5	-27	-28	-26	-60	-61	-62			
	-219	-219	-227	-215	-215	-222	-209	-210	-216	-206	-207	-212			Japan - BoJ
-179	-176	-185	-182	-178	-188	-187	-182	-193	-184	-179	-188				
-102	-102	-110	-108	-108	-114	-106	-106	-111	-105	-105	-112	Mexico - Banxico	7.75		
Equities	Level					% change:					Australia - RBA			0.75	
	Last	Change			1 Day	1-wk	1-mo	1-yr	New Zealand - RBNZ	1.00					
S&P/TSX	16483	-18.3			-0.1	0.7	0.2	8.8							
Dow 30	27046	-140.5			-0.5	0.9	1.8	6.6							
S&P 500	3038	-9.2			-0.3	0.9	3.3	10.8							
Nasdaq	8292	-11.6			-0.1	1.3	4.9	11.5							
DAX	12913	46.0			0.4	0.1	5.3	12.6							
FTSE	7269	20.2			0.3	-0.8	-1.2	2.2							
Nikkei	22851	-76.3			-0.3	0.2	4.4	5.4							
Hang Seng	27101	194.0			0.7	1.6	3.9	6.6							
CAC	5749	19.4			0.3	0.5	2.7	13.0							
Commodities	Level					% change:					Canada - BoC	Dec 04, 2019			
WTI Crude	54.40	0.22			0.4	-4.0	1.5	-14.6	England - BoE	Nov 07, 2019					
Natural Gas	2.58	-0.05			-2.0	12.2	13.1	-20.3							
Gold	1510.74	-2.19			-0.1	0.4	2.1	22.5					Euro zone - ECB	Dec 12, 2019	
Silver	18.06	0.10			0.6	3.0	4.6	25.9							
CRB Index	176.89	-1.42			-0.8	-0.5	1.6	-7.7							Japan - BoJ
Currencies	Level					% change:					Mexico - Banxico	Nov 14, 2019			
USDCAD	1.3166	0.0002			0.0	0.8	-0.4	0.6	Australia - RBA	Nov 04, 2019					
EURUSD	1.1153	0.0001			0.0	0.7	2.0	-2.2							
USDJPY	108.02	-0.0100			-0.0	-0.6	0.3	-4.2					New Zealand - RBNZ	Nov 12, 2019	
AUDUSD	0.6899	0.0005			0.1	1.1	2.9	-4.3							
GBPUSD	1.2953	0.0011			0.1	1.0	5.3	-0.5							
USDCHF	0.9866	0.0002			0.0	-0.8	-0.7	-1.5							

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.

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