

### ON DECK FOR FRIDAY, JANUARY 10

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/10	08:30	Employment (000s m/m)	Dec	0.0	25.0	-71.2
CA	01/10	08:30	Unemployment Rate (%)	Dec	--	5.8	5.9
US	01/10	08:30	Average Hourly Earnings (m/m)	Dec	0.2	0.3	0.2
US	01/10	08:30	Average Hourly Earnings (y/y)	Dec	3.0	3.1	3.1
US	01/10	08:30	Average Weekly Hours	Dec	--	34.4	34.4
US	01/10	08:30	Nonfarm Employment Report (000s m/m)	Dec	180	160.0	266.0
US	01/10	08:30	Unemployment Rate (%)	Dec	3.5	3.5	3.5
US	01/10	10:00	Wholesale Inventories (m/m)	Nov F	--	0.0	0.0

### KEY POINTS:

- Global markets guarded ahead of nonfarm payrolls
- US payroll growth slowed since Spring
- Canadian jobs: consensus may be too cozy...
- ...given typical noise and what historically happens after large drops
- A\$ jumps on retail sales

### INTERNATIONAL

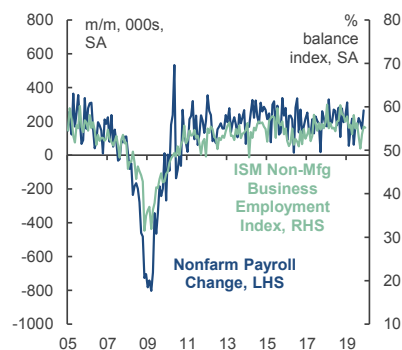
Jobs. Jobs. Jobs. Little else matters to end the week, with the modest exception being the lack of surprise surrounding Iran's rebuttal of claims it shot down the Ukrainian airliner carrying multiple nationalities but especially Canadians earlier this week and wherever developments take things from here. Global markets are exhibiting classic caution ahead of the nonfarm lottery. Barring convincing distortions like strikes, elections, the Census, natural disasters or unusual seasonal factors, jobs reports are often more about the clean-up and assessing the implications than about pounding one's fist on the table whilst claiming to have divine support for the call. The 90% confidence interval for a nonfarm payrolls estimate is +/-110,000 ([here](#)). The 90% CI for the US household survey's estimate of the monthly change in unemployment is +/- 300,000. The 90% confidence interval for Canada's jobs report is +/-46,000 and the 95% CI is +/-58k ([here](#)). Random noise is the dominant driver. That being the case, it's a segue into the discussion below about the lack of dispersion surrounding the Canadian jobs call.

- The A\$ is leading appreciating crosses on the back of a strong retail sales report (+0.9% m/m, consensus 0.4%, prior 0.1%). The Norwegian krone reversed earlier appreciation after underlying CPI printed below consensus at 1.8% y/y (consensus 2.0%, prior 2.0). The USD has resumed appreciation into the new year so far.
- Sovereign bonds are generally little changed across most major markets with the exception of further spread narrowing in Italy's curve relative to bunds. Italy's 10 year note is down another 5bps this morning.
- Oil prices are little changed with WTI and Brent up a dime or so. Gold is flat at US\$1551/oz.

### CONTACTS

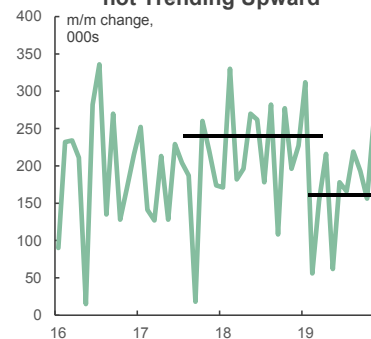
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### Nonfarm Payrolls Vs. ISM Non-Manufacturing Employment



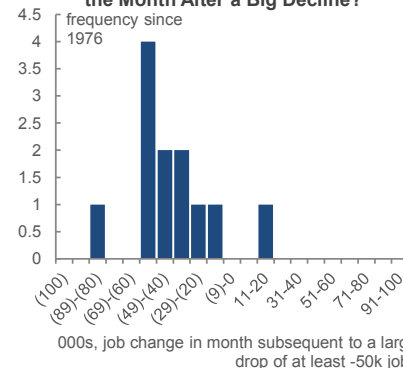
Sources: Scotiabank Economics, ISM, BLS.

### US Non-Farm Payrolls are not Trending Upward



Sources: Scotiabank Economics, BLS.

### What Happens to CDN Job Growth the Month After a Big Decline?



Sources: Scotiabank Economics, StatsCan.

- US equity futures are showing the most conviction of all asset classes with gains of ¼% to ½% being led by the Nasdaq. European cash markets are being led by a ¼% rise in the Dax, Madrid and Milan but London and Paris are flat with the Euro Stoxx 50 up only a smidge. Asian equities were generally higher and led by a 1% gain in Seoul but mainland China took a pass on the optimism.

## UNITED STATES

**Nonfarm payrolls will be released at 8:30amET along with wage growth and the household survey from which the unemployment rate is derived.** Consensus is parked at 160k for nonfarm and my guesstimate is 180k. Wage growth is estimated at 3.1% y/y but with a split consensus between 3.1% (17 of 33 within Bloomberg's consensus) and 3.0% (15 of 33 including Scotia). The difference in wage estimates lies in how seasonality, base effects and momentum arguments net out.

There has been no new information this past week that leads me to change nonfarm expectations. ISM-services employment and ADP payrolls are both constructive by way of nonfarm expectations, but they are very loose signals with a huge amount of statistical noise around the relationships. Chart 1 illustrates the ISM-employment and nonfarm point. As for ADP, it only matters as an advance indicator for private nonfarm payrolls when big outlier movements occur; otherwise, the typical tracking difference between initial estimates by the two reports is around +/-50k and sometimes much bigger in both directions. If ADP soars or really plummets, then the statistical odds attached to nonfarm not following such a movement are low.

Has nonfarm payroll growth truly accelerated? Yes and no. The last report for November was the strongest since January, but it was off of a depressed starting point that had been weighed down by the GM strike's effects on nonfarm (but not ADP given different methods) and by the Census hiring distortions. Smooth them out, and job growth appears to me to have slowed since about last Spring (chart 2) and so I don't get some of the chatter about how nonfarm has come ripping back, pending this morning's numbers.

## CANADA

**Canada's Labour Force Survey will be updated with the December readings (8:30amET).** The median call is 25k, the average call is 23.5k, and the spread runs from 0-43k with Scotia at the bottom. I put a marker there to make a point not because I have any great conviction over the winning numbers that will be drawn. Consensus is behaving like too much of a herd on this one and this is true for two reasons.

**One is the statistical noise aspect that was mentioned at the start of the note.** LFS job changes have a +/-46k 90% confidence interval and +/-58k 95% CI. LFS is a household survey like the US household survey and so there is more noise around both of them than there is in a payrolls report. **If a report is driven largely by noise, the distribution of estimates should reflect that versus all being in one tail marked by generally sizeable gains.**

For the second point, I'll largely repeat the messaging that was offered earlier in the week.

**After November's 71,200 job decline, consensus is going with the** simple 'what goes down sharply must spring back up sharply' narrative in arriving at guesses for December's outcome. There is no historical statistical support for such a view.

As chart 3 depicts, there have been 12 times since the inception of the modern day Labour Force Survey in 1976 when 50k or more jobs were lost in a single month and the next month was down 11 out of 12 times or 92% of the time. The one up month was in January 2018 with 14k jobs created. The eleven down months ranged between -18k and -81k. If it's January 2018 again then the smoothed trend is still negative and the risks are skewed toward a deepening negative trend.

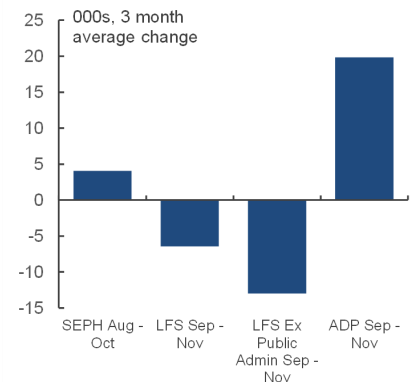
Historically there have been only three times when jobs fell by 70k or more and the next month was another job loss each time of between -31k and -53k with two in 2008 and one in 1982.

I'm playing the statistical odds on what gets revealed about the labour force when a sudden sharp shock arises. An upside is not impossible, but there is too much unanimity within consensus in favour of a big gain and there is nothing by way of historical odds or advance indicators to inform such a bias other than wishful thinking on a total lark. Some of that upside risk is being conveyed rather stridently in some of the commentary that followed the last jobs report given the historical evidence goes against upside risk.

A large sudden jobs shocker tends to reveal something about the economy's performance that shouldn't just be filtered out along with the tendency to filter out every other sign of weakness in the Canadian economy, perhaps especially given we're tracking basically no GDP growth in Q4. And no, that's not to be dismissed because of weather, strikes, Alien invasions or plagues of locusts. It's real and reflects financially strained households, bloated inventories at manufacturers and wholesalers, serious challenges to the country's exporters and immaterial government stimulus. It's a disservice to the debate to even hint at dismissing Q4 weakness, or, for that matter, the prolonged quarterly pattern of disappointing GDP and final domestic demand readings. Or take that retail sales volumes haven't budged an inch for about two years.

In any event, it's the trend that matters, and the three main surveys of Canadian jobs are mixed but so far generally indicate that trend job growth has recently slowed on average across the readings (chart 4).

### Canada's Slowing Job Creation



Sources: Scotiabank Economics, Statistics Canada, ADP.

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
	1.58	1.58	1.53	1.65	1.65	1.59	1.85	1.86	1.79	2.32	2.33	2.25		
	1.63	1.63	1.60	1.60	1.60	1.55	1.59	1.61	1.53	1.70	1.72	1.62	US - Fed	1.75
	-0.59	-0.60	-0.62	-0.50	-0.49	-0.55	-0.19	-0.18	-0.28	0.32	0.33	0.25		
	-0.14	-0.13	-0.13	-0.11	-0.11	-0.12	0.00	0.01	-0.01	0.44	0.44	0.43	England - BoE	0.75
	0.56	0.59	0.55	0.59	0.62	0.55	0.80	0.82	0.74	1.28	1.30	1.22		
	Spreads vs. U.S. (bps):												Euro zone - ECB	0.00
	5	5	8	-6	-5	-4	-26	-25	-26	-61	-61	-62		
	-217	-218	-215	-215	-214	-214	-204	-204	-207	-199	-200	-199		
-172	-171	-166	-176	-176	-171	-185	-185	-180	-187	-189	-182			
-102	-99	-97	-106	-104	-104	-105	-104	-105	-104	-103	-102	Japan - BoJ	-0.10	
Equities	Level					% change:					Mexico - Banxico		7.25	
	Last	Change				1 Day	1-wk	1-mo	1-yr	Australia - RBA		0.75		
S&P/TSX	17236	67.8				0.4	0.8	1.7	15.6	New Zealand - RBNZ			1.00	
Dow 30	28957	211.8				0.7	0.3	3.9	20.6					
S&P 500	3275	21.6				0.7	0.5	4.5	26.1					
Nasdaq	9203	74.2				0.8	1.2	6.8	31.7					
DAX	13528	32.6				0.2	2.3	3.5	23.9					
FTSE	7598	0.1				0.0	-0.3	5.3	9.4					
Nikkei	23851	110.7				0.5	0.8	1.9	18.3	Canada - BoC		Jan 22, 2020		
Hang Seng	28638	77.2				0.3	0.7	8.3	8.0	US - Fed		Jan 29, 2020		
CAC	6045	2.9				0.0	0.0	3.4	25.8	England - BoE		Jan 30, 2020		
Commodities	Level					% change:					Euro zone - ECB		Jan 23, 2020	
	59.67	0.11				0.2	-5.4	0.7	13.5	Japan - BoJ		Jan 21, 2020		
WTI Crude	2.17	0.01				0.4	2.1	-4.0	-26.8					
Natural Gas	1550.27	-2.05				-0.1	-0.1	5.9	20.5					
Gold	17.91	-0.51				-2.8	-0.1	7.8	14.7					
Silver	183.56	0.19				0.1	-1.1	0.8	2.8					
CRB Index	Currencies	Level					% change:					Mexico - Banxico		Feb 13, 2020
USDCAD	1.3069	0.0013				0.1	0.5	-1.2	-1.3	Australia - RBA		Feb 03, 2020		
EURUSD	1.1094	-0.0012				-0.1	-0.6	0.0	-3.5	New Zealand - RBNZ		Feb 11, 2020		
USDJPY	109.62	0.1000				0.1	1.4	0.8	1.1					
AUDUSD	0.6881	0.0023				0.3	-1.0	1.1	-4.2					
GBPUSD	1.3080	0.0013				0.1	-0.0	-0.6	2.6					
USDCHF	0.9752	0.0020				0.2	0.2	-0.9	-0.9					

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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