

**ON DECK FOR FRIDAY, MAY 7**

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05-07	08:30	Employment (000s m/m)	Apr	-150.0	-150.0	303.1
CA	05-07	08:30	Unemployment Rate (%)	Apr	7.8	8.0	7.5
US	05-07	08:30	Average Hourly Earnings (m/m)	Apr	0.3	0.0	-0.1
US	05-07	08:30	Average Hourly Earnings (y/y)	Apr	-0.1	-0.4	4.2
US	05-07	08:30	Average Weekly Hours	Apr	--	34.9	34.9
US	05-07	08:30	Nonfarm Employment Report (000s m/m)	Apr	1,300	1,000	916
US	05-07	08:30	Unemployment Rate (%)	Apr	5.7	5.8	6.0
US	05-07	09:00	Fed's Barkin Takes Part in Virtual Discussion				
US	05-07	15:00	Consumer Credit (US\$ bn m/m)	Mar	--	20.0	27.6
US	05-07		Household Employment Report (000s m/m)	Apr	--	--	609.0

**KEY POINTS:**

- Mild risk-on sentiment ahead of US payrolls
- US job growth could accelerate today...
- ...as easing restrictions drove improvement across all advance readings
- Canadian jobs will likely dip in April and May...
- ...until easing restrictions combine with vaccines to drive a durable jobs recovery
- ECB talk of June tapering

**INTERNATIONAL**

There is mild risk-on sentiment so far. US payrolls are all that matter to global markets and Canada's jobs report will be followed in the local market. Chart 1 shows the movements in COVID-19 restrictions in the two countries that is basically the rationale behind why an acceleration of US job growth and a loss of Canadian jobs is likely to occur. Other overnight releases were relatively trivial and mostly a round-up of European industrial and export figures that are irrelevant on a day with payrolls. The one exception was a remark by an ECB Governing Council Member (Kazaks) that they could reduce the pace of PEPP EGB buying at the June meeting. Lagarde is speaking now but so far is not broaching the topic.

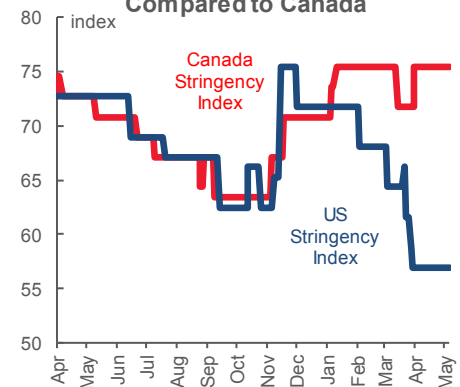
- US equity futures are up ¼% along with slightly firmer gains in Toronto and European equities are up as much as 1¼% in Germany.
- Sovereigns are little changed outside of cheapening in EGBs.
- The USD is flat and oil is a smidge weaker.

**UNITED STATES**

US payrolls are coming at 8:30amET in case that's a surprise to anyone! Consensus is now 1 million even. I'm still at 1.3 million. The prior gain was 916k, barring revisions. The range for today runs from 700k to 2.1 million. The whisper number is 1.1 million and keeps drifting higher by the day so it's about the same as the median across economists. The trimmed-in sample goes from roughly

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**Chart 1**
**US Restrictions Rapidly Receding Compared to Canada**


Sources: Scotiabank Economics, University of Oxford.

750k to 1.3 million with a standard deviation of 204k. Recall that the 90% confidence interval on nonfarm payrolls is +/-110k.

My rationale is this: There should be a material improvement in the pace of hiring over the last month based on the suite of advance indicators as restrictions eased across the US economy. I'm more confident in direction of the pace of change than in the magnitude. Restrictions measured by the stringency index are still material but at their least restrictive since last about mid-March last year. Mobility readings have picked up. Initial claims fell by more between reference periods this time than any other period since last August when payrolls went up by about 1.6 million (chart 2). ADP climbed at its fastest pace since last August. ISM-services-employment climbed to its highest since September 2018 (yes 2018). See chart 3. US consumer confidence signals on job availability soared (chart 4). Basically, everything showed an acceleration of hiring in April.

Ignore wage growth that will go from 4% y/y to zip or below as it's a base effect and compositional issue that is not meaningful. Re-entry of lower wage workers in April over March will likely drive a weak month-over-month reading while the year-over-year reading gets rebased to April of last year after dollops of lower wage workers were disproportionately impacted by job loss and perversely drove the wage figure higher back then. Wages won't matter until we're into a material tightening of job markets.

What would be the biggest surprise to pricing? Since markets think the Fed is on hold for ages anyway, a surprise that recoups 25%+ of the cumulative employment shortfall in one swoop might cause foreheads to sweat over at the Eccles Building and add to taper pricing. That's possible in my view especially with possible revisions that have been positive in 6 of the past 7 months.

## CANADA

Psst....Canada's jobs report arrives at 8:30amET too! Of course global markets couldn't care less, but we'll see if local markets do.

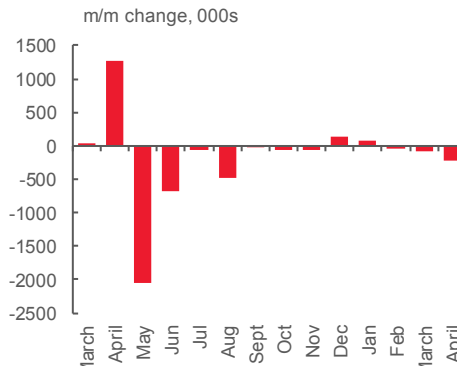
The rational here is the flipside of the US. Canada tightened restrictions after the March reference week and much of the country is going to be maintaining tightened restrictions at least through May. I'm guessing they ease ahead of the June reference week (including the 15<sup>th</sup> day of each month) and by that point we'll get a durable jobs recovery driven by reopening and vaccines.

Consensus is -150k. I submitted -150k before knowing consensus. The prior was +303.1k. The range is from -380k to +75k. There is no whisper number for Canada, but maybe Bloomberg should start one just for giggles! There is no useful way of trimming-in the highly dispersed sample; it looks like what you get from lining up a shotgun to hit a mosquito at a couple hundred yards. That's demonstrated by the standard deviation that is 'uuuge at 122k. That means Canada's sample coefficient of variation is about four times what it is for US payrolls which statistically says it all. The 95% confidence interval on the monthly job change is +/-58k over the full sample history.

The main reason jobs rebounded the prior month was because restrictions eased right before the reference week that includes the 15<sup>th</sup> of each month. There was also a seasonal distortion to education employment because of the delayed Spring break. Almost

Chart 2

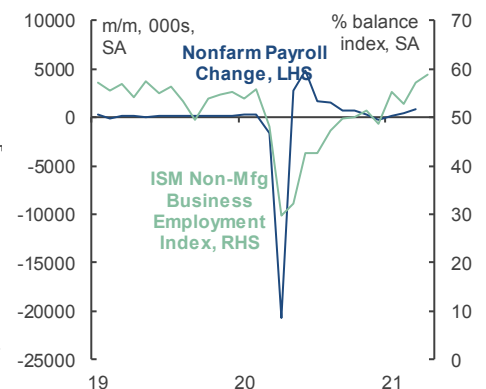
### Change in US Initial Jobless Claims Between Non-Farm Reference Periods



Note: Reference week defined as containing the 12th of each month.  
Sources: Scotiabank Economics, US BLS.

Chart 3

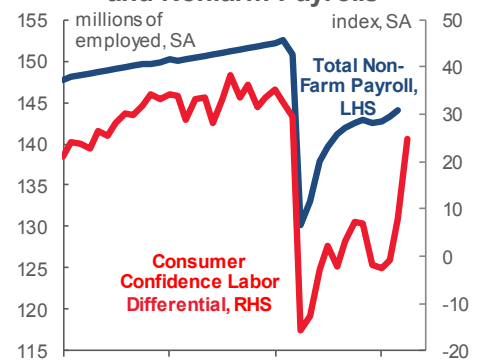
### Nonfarm Payrolls Vs. ISM Non-Manufacturing Employment



Sources: Scotiabank Economics, ISM, BLS.

Chart 4

### US Job Availability and Nonfarm Payrolls



Sources: Scotiabank Economics, US Conference Board, US BLS.

right after that easing the third wave got out of hand and governments tightened up to the same level of restrictions as previously. Because the Spring break aligned with the reference week, we could see a notable drop in education sector employment. Unlike the US, the suite of advance indicators is rather poor in Canada. ADP is useless. StatsCan's payrolls report is too lagged to matter. Ivey's employment subindex for April unfortunately arrives after the jobs report this morning but it had previously soared (chart 5)

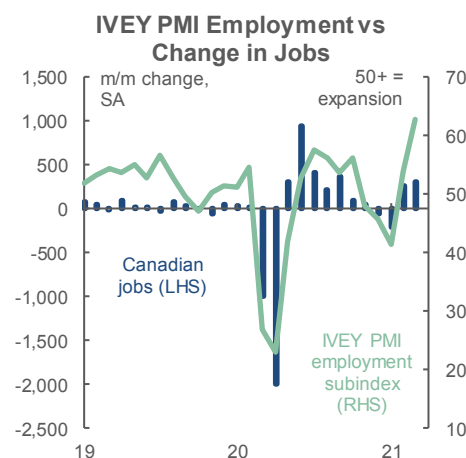
Ignore wage growth from this report because of distortions and because it's not the measure the BoC watches versus its convoluted 'wage common' composite of four measures.

An upside risk would be if sectors participating in resource and supply chain rebounds drive enough of a lift to offset much or possibly all of the effect of tightened restrictions in service sectors. I doubt we'll get early evidence of Census hiring that is more likely in the May figures, but watch public administration.

The additional downside risk is focused upon seasonal employment that would ordinarily begin to pick up around April–May. I mean come on, what more socially distanced activity is there than golf and you've gotta take that away too? Funny, but I thought all the folks with guaranteed jobs who keep saying shut the economy down until the cows come home at least played golf!

In Canada's case I would skew tail risks to weaker rather than stronger than my guesstimate. The biggest surprise to pricing would be a positive print. Anything under -200k or so shouldn't fuss and we might lose jobs again in May, but then reopening should lift jobs thereafter as cases recede and vaccines pick up. This is a transitory setback and my baseline assumption is that job growth steadily resumes from June onward toward recouping lost jobs by later this year ahead of the Fed.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

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			
	0.15	0.16	0.16	0.80	0.81	0.85	1.57	1.57	1.63	2.24	2.24	2.30	Canada - BoC	0.25	
	0.31	0.31	0.30	0.92	0.91	0.93	1.52	1.51	1.54	2.08	2.07	2.08	US - Fed	0.25	
	-0.69	-0.69	-0.68	-0.59	-0.60	-0.58	-0.22	-0.23	-0.20	0.35	0.34	0.36	England - BoE	0.10	
	-0.13	-0.12	-0.12	-0.09	-0.09	-0.08	0.09	0.09	0.10	0.66	0.66	0.66			
	0.03	0.04	0.08	0.33	0.33	0.39	0.79	0.79	0.84	1.32	1.32	1.34			
	Spreads vs. U.S. (bps):														
	15	15	14	11	11	8	-6	-6	-8	-17	-18	-22	Euro zone - ECB	0.00	
	-84	-85	-84	-139	-140	-142	-179	-180	-183	-190	-190	-194	Japan - BoJ	-0.10	
-28	-28	-28	-89	-90	-93	-149	-148	-153	-159	-159	-164				
-12	-12	-8	-47	-47	-46	-78	-78	-79	-92	-93	-96				
Equities	Level						% change:						Mexico - Banxico	4.00	
S&P/TSX Dow 30 S&P 500 Nasdaq DAX FTSE Nikkei Hang Seng CAC	Last	Change				1 Day	1-wk	1-mo	1-yr					Australia - RBA	0.10
	19291	-19.8				-0.1	1.0	0.8	30.0					New Zealand - RBNZ	0.25
	34549	318.2				0.9	1.4	3.3	44.7					Next Meeting Date	
	4202	34.0				0.8	-0.2	3.0	45.8					Canada - BoC	Jun 09, 2021
	13633	50.4				0.4	-3.2	-0.4	51.8					US - Fed	Jun 16, 2021
	15396	199.0				1.3	1.7	1.4	43.1					England - BoE	Jun 24, 2021
	7130	54.0				0.8	2.4	3.6	20.1					Euro zone - ECB	Jun 10, 2021
	29358	26.5				0.1	0.8	-1.3	49.2					Japan - BoJ	Jun 18, 2021
	28611	-26.8				-0.1	-0.4	-0.2	19.3					Mexico - Banxico	May 13, 2021
	6376	18.8				0.3	1.7	4.0	41.6					Australia - RBA	Jun 01, 2021
Commodities	Level						% change:						New Zealand - RBNZ	May 25, 2021	
WTI Crude Natural Gas Gold Silver CRB Index	64.75	0.04				0.1	1.8	8.3	174.9						
	2.95	0.02				0.7	0.6	17.0	55.6						
	1820.27	5.05				0.3	2.9	4.8	6.1						
	26.73	0.43				1.6	1.7	6.7	77.3						
	205.25	1.12				0.5	2.3	10.2	67.4						
Currencies	Level						% change:								
USDCAD EURUSD USDJPY AUDUSD GBPUSD USDCHF	1.2176	0.0027				0.2	-0.9	-3.4	-12.9						
	1.2073	0.0008				0.1	0.4	1.7	11.4						
	109.18	0.0900				0.1	-0.1	-0.6	2.7						
	0.7775	-0.0007				-0.1	0.8	2.1	19.7						
	1.3911	0.0022				0.2	0.6	1.3	12.5						
0.9089	0.0016				0.2	-0.5	-2.3	-6.6							

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