

ON DECK FOR FRIDAY, JULY 9

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	07-09	08:30	Employment (000s m/m)	Jun	175	175.0	-68.0
CA	07-09	08:30	Unemployment Rate (%)	Jun	7.8	7.8	8.2
US	07-09	10:00	Wholesale Inventories (m/m)	May F	--	--	1.1

KEY POINTS:

- Markets are ending the week with steeper curves
- Easing restrictions expected to boost Canadian jobs
- Canada's tighter job market and weaker productivity may be driving greater wage-price effects than in the US
- China follow through on pledge to cut required reserves...
- ...curiously after strong financing figures...
- ...and stable but low core inflation
- The UK's rebound disappointed
- Fed's MPR to be a sideshow before Powell's testimony

We may be ending the week with a bit of a reversal of recent moves in bonds. The US 10 year yield is up 4–5bps to 1.34% with Canada's curve performing similar ahead of jobs data while gilts are steepening only slightly less but EGBs are outperforming. The dollar has been slightly depreciating since China's RRR announcement a little earlier. Stocks are gaining with European cash markets up by about ¾% to 1¾% and N.A. futures up by ¼% – ½% or so except for the flat Nasdaq.

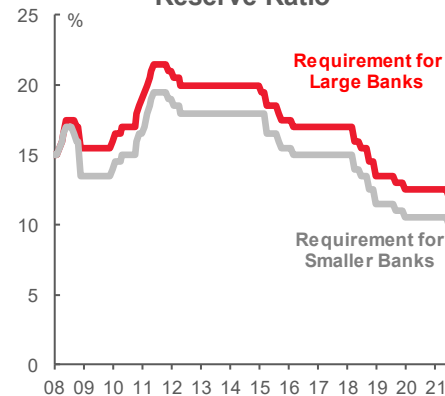
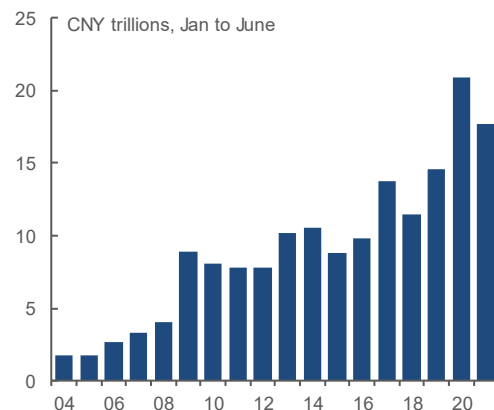
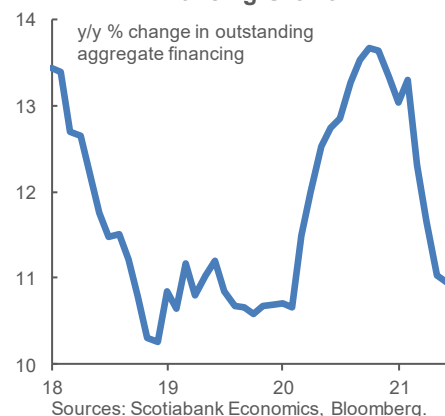
Somewhat curiously after China's financing figures beat expectations and following a flat core inflation reading, the PBOC cut the required reserve ratios for most banks (excluding those that have implemented a deposit reserve ratio of 5%) by 50bps (chart 1). The move will be effective next Thursday. The statement flagged motivations including rising costs at some firms and supporting the economy.

China's headline inflation ebbed a touch more than expected in June (+1.1% y/y from 1.3%, consensus 1.2%) but core inflation remained unchanged at 0.9%. Aggregate "social" financing was up 3.67 trillion yuan in June (2.89T consensus) for the strongest gain since the usual burst in January of each year. Yuan denominated loans were up 2.12T yuan (consensus 1.85T). Chart 2 shows that aggregate financing flows so far this year are the second strongest on record, but because they were so strong last year, the growth rate in outstandings has been sharply ebbing this year (chart 3). Chart 4 shows that local currency loan flows are at a record high and so growth in outstandings is relatively stable (chart 5).

The UK economy rebounded by less than consensus expected across several readings but neither gilts nor sterling really cared. GDP grew by 0.8% m/m in May (consensus 1.5%) with a downward revision to 2% (from 2.3%). Industrial output was up 0.8% m/m (consensus 1.4%) but with a minor upward revision (-1% instead of -1.3%). The services index expanded by 0.9% (consensus 1.6%) and also carried downward revisions (2.8% instead of 3.4%). Finally, construction output unexpectedly shrank (-0.8% m/m, consensus +1%) with part of that explained by an upward revision (-0.7% m/m instead of -2%).

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Chart 1
China's Required Deposit Reserve Ratio

Chart 2
China's Year-to-Date Aggregate Financing

Chart 3 **China's Waning Total Financing Growth**


The Fed releases its semi-annual monetary policy report today (11amET), but risk is usually focused upon Chair Powell's subsequent testimony (next Thursday).

CANADA

Canada updates job market figures for June this morning (8:30amET). It coincidentally turns out that the guesstimate I submitted a week ago Monday matches the later median consensus figure at 175k but the band of estimates is rather wide. The range cuts from +40k to +285k with a high standard deviation of 77k. LFS has a 95% CI of +/-

58k around the survey sample estimate and so a band of nearly 120k conveys the massive and humbling role played by statistical noise in analogous fashion to the US household survey. The point, however, is that there should be a meaningful gain today.

The main driver will be reopening effects as provincial stringency indices fell sharply between the May and June survey reference weeks ([here](#)). Most of that easing over that period occurred outside of Ontario that is joining a little later on and so I would expect the composition of gains to reflect that fact. During the June reference week, Quebec's restrictions fell back to the lowest since last September before the start of the second wave.

Also note that the Ivey PMI registered a further improvement in the employment subindex to the highest not only of the pandemic but in the 21 year history of the survey since 2000 (chart 6). Most of this LFS report will likely be about callback effects as outright job seeking probably picked up later if data on google searches are any indication. Hiring plans across small businesses also continue to pick up.

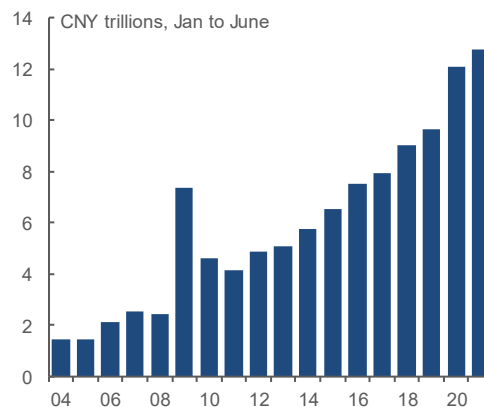
In a bigger picture sense, Canada has less labour slack than the US and because rising labour costs are outstripping productivity growth the result is that labour market developments are more inflationary in Canada than in the US to date during the pandemic. The BoC is remiss not to be publicly speaking about this issue. Across the pond, we heard BoE Governor Bailey speaking about weak UK productivity this morning and yet in Canada the BoC is silent on the topic.

As evidence, consider the following:

- The participation rate is 3 percentage points higher in Canada than in the US but some of that is a measurement distortion of likely ~1ppt.
- Half the difference in the official unemployment rates is a measurement issue and StatsCan's conversion of the UR to US measurement concepts cuts down the real difference to Canada just being ~1.2 ppt over the US (likely less today?). See chart 7.
- Canada has a NAIRU (basically full employment equilibrium UR) that is estimated by the OECD to be 2.2 ppts higher than the US. Basically Canada has a less flexible workforce with more structural unemployment than the US.
- Net out the adjusted UR and the NAIRU differences and Canada is closer to full employment than the US (chart 8).
- The US is blowing Canada away on labour productivity growth last year and this. It was the same coming out of the GFC (hence one reason Carney hiked ahead of the Fed in 2010...). Chart 9.

Chart 4

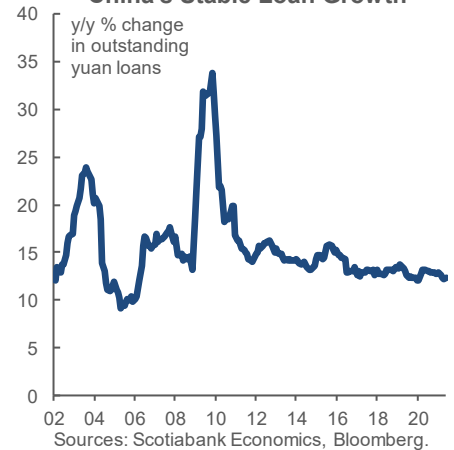
China's Year-to-Date New Yuan Loans



Sources: Scotiabank Economics, Bloomberg.

Chart 5

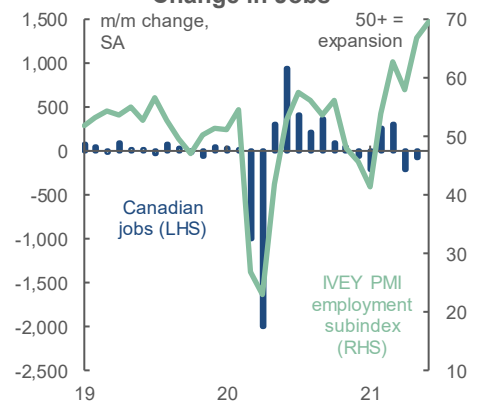
China's Stable Loan Growth



Sources: Scotiabank Economics, Bloomberg.

Chart 6

IVEY PMI Employment vs Change in Jobs



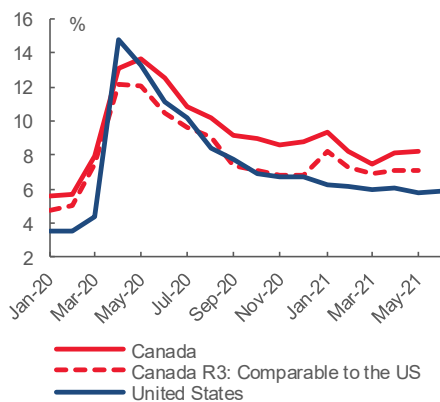
Sources: Scotiabank Economics, Bloomberg.

- Yet wage growth is sticky with the BoC's nominal wage common measure ~3.4% y/y in Q1 and most other measures higher. That's not base effect driven as the artificial surge in wage growth was in Q2 last year and it was temporary. Chart 10.
- As a consequence of the last two points, unit labour costs in common currency terms have risen faster in Canada than in the US. ie: productivity-adjusted labour costs are more inflationary in Canada. Chart 11.

Markets should be paying attention to these dynamics as the feedback effect on inflation is among the factors expected to force the BoC's hand toward hiking ahead of the Fed unless even more on the FOMC continue to pull forward their own hike guidance into next year from 2023. A fully inclusive job market recovery would be a wonderful thing but we must also talk about productivity when linking job market developments to the BoC's inflation mandate.

Chart 7

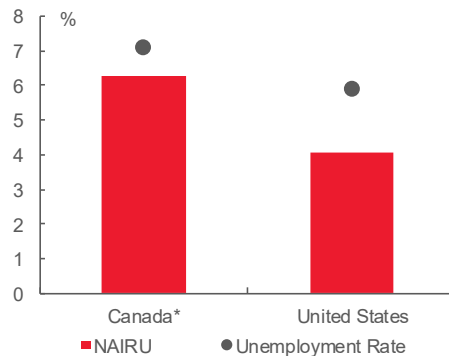
About Half of the Canada-US UR Difference is a Measurement Issue



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

Canada Has Less Labour Slack Than the US

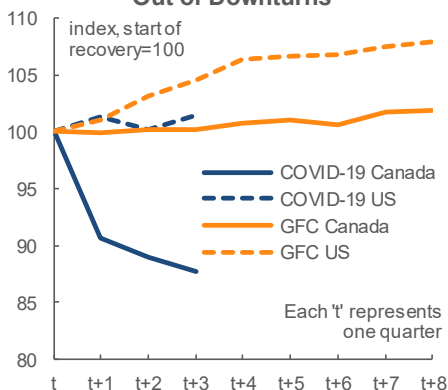


*Canadian unemployment rate is adjusted to be comparable to the US.

Sources: Scotiabank Economics, OECD, Statistics Canada, BLS.

Chart 9

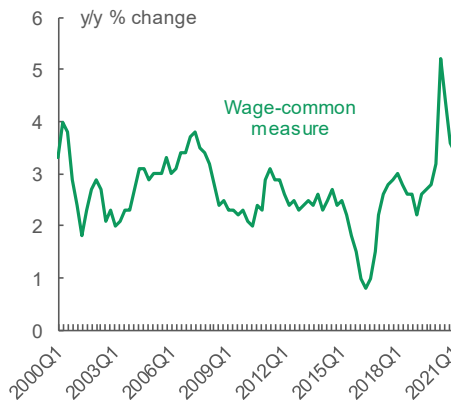
Canadian Productivity Lags US Out of Downturns



Sources: Scotiabank Economics, Statistics Canada, Bureau of Labour Statistics.

Chart 10

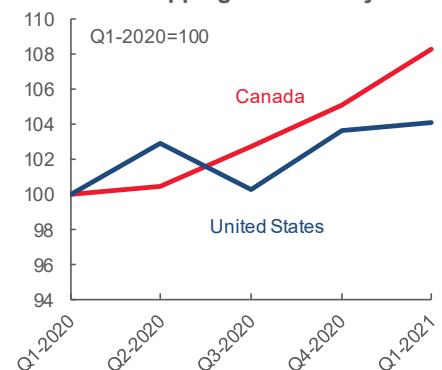
Canadian Wage Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 11

Canada's Labour Costs Are Outstripping Productivity



Sources: Scotiabank Economics, Statistics Canada, BLS.

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		
	0.20	0.20	0.23	0.77	0.74	0.86	1.34	1.29	1.43	1.98	1.93	2.04	Canada - BoC	0.25
	0.50	0.48	0.45	0.94	0.90	0.97	1.31	1.26	1.37	1.79	1.74	1.83	US - Fed	0.25
	-0.68	-0.68	-0.67	-0.60	-0.60	-0.61	-0.30	-0.31	-0.24	0.19	0.18	0.27		
	-0.11	-0.11	-0.11	-0.11	-0.12	-0.11	0.03	0.03	0.05	0.68	0.66	0.67	England - BoE	0.10
	0.08	0.09	0.06	0.29	0.26	0.32	0.65	0.61	0.70	1.16	1.13	1.23		
	Spreads vs. U.S. (bps):													
	29	29	21	16	15	11	-3	-3	-5	-19	-18	-21	Euro zone - ECB	0.00
	-88	-88	-91	-137	-135	-146	-164	-160	-166	-178	-175	-177	Japan - BoJ	-0.10
-32	-31	-35	-89	-86	-96	-131	-127	-138	-130	-127	-137			
-13	-11	-18	-48	-48	-54	-69	-68	-72	-81	-80	-82			
Equities	Level						% change:						Mexico - Banxico	4.25
	Last			Change			1 Day	1-wk	1-mo	1-yr			Australia - RBA	0.10
S&P/TSX	20061			-229.4			-1.1	-0.8	0.3	28.9			New Zealand - RBNZ	0.25
Dow 30	34422			-259.9			-0.7	-0.2	-0.1	33.9			Next Meeting Date	
S&P 500	4321			-37.3			-0.9	0.5	2.4	37.1			Canada - BoC	Jul 14, 2021
Nasdaq	14560			-105.3			-0.7	0.4	4.7	38.0			US - Fed	Jul 28, 2021
DAX	15555			133.9			0.9	-0.6	-0.2	24.5			England - BoE	Aug 05, 2021
FTSE	7078			47.3			0.7	-0.6	-0.0	17.0			Euro zone - ECB	Jul 22, 2021
Nikkei	27940			-177.6			-0.6	-2.9	-3.5	25.3			Japan - BoJ	Jul 16, 2021
Hang Seng	27345			191.4			0.7	-3.4	-5.2	6.3			Mexico - Banxico	Aug 12, 2021
CAC	6505			108.5			1.7	-0.7	-0.9	32.2			Australia - RBA	Aug 03, 2021
Commodities	Level						% change:						New Zealand - RBNZ	Jul 13, 2021
WTI Crude	73.84			0.90			1.2	-1.8	5.5	86.4				
Natural Gas	3.70			0.01			0.3	1.1	18.2	108.0				
Gold	1801.21			-1.63			-0.1	0.8	-4.6	-0.1				
Silver	26.11			-0.28			-1.1	-0.6	-5.8	41.2				
CRB Index	209.55			0.35			0.2	-1.8	-0.8	49.2				
Currencies	Level						% change:							
USDCAD	1.2511			-0.0023			-0.2	1.5	3.3	-7.9				
EURUSD	1.1862			0.0017			0.1	-0.0	-2.6	5.1				
USDJPY	109.92			0.2000			0.2	-1.0	0.3	2.5				
AUDUSD	0.7468			0.0039			0.5	-0.8	-3.4	7.2				
GBPUSD	1.3823			0.0037			0.3	-0.0	-2.1	9.7				
USDCHF	0.9146			-0.0008			-0.1	-0.7	2.1	-2.7				

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