

ON DECK FOR FRIDAY, DECEMBER 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12-03	08:30	Employment (000s m/m)	Nov	0.0	37.5	31.2
CA	12-03	08:30	Productivity (q/q a.r.)	3Q	--	-0.6	0.6
CA	12-03	08:30	Unemployment Rate (%)	Nov	6.8	6.6	6.7
US	12-03	08:30	Average Hourly Earnings (m/m)	Nov	0.3	0.4	0.4
US	12-03	08:30	Average Hourly Earnings (y/y)	Nov	4.9	5.0	4.9
US	12-03	08:30	Average Weekly Hours	Nov	--	34.7	34.7
US	12-03	08:30	Nonfarm Employment Report (000s m/m)	Nov	450	550	531
US	12-03	08:30	Unemployment Rate (%)	Nov	4.4	4.5	4.6
US	12-03	09:15	Fed's Bullard speaks at Missouri Bankers' Association				
US	12-03	10:00	Factory Orders (m/m)	Oct	0.0	0.5	0.2
US	12-03	10:00	ISM Non-Manufacturing Composite	Nov	66.8	65.0	66.7
US	12-03		Household Employment Report (000s m/m)	Nov	--	--	359.0

KEY POINTS:

- Markets await payrolls
- China will cut the RRR "at proper time"
- Expectations for US nonfarm payrolls
- Expectations for Canadian jobs
- Wages are on the rise in both the US and Canada

Markets are in a somewhat cautious mood ahead of the single most impactful global macroeconomic release each month. In fact, anything not named Omicron or nonfarm payrolls really won't matter today. I'm not even sure Canadian jobs will matter to the local market either except for perhaps short-lived effects, unless it's a big outlier. Fed Chair Bullard is the only scheduled FOMC official to speak post-nonfarm and he votes starting in January.

Outside of that, the only material development is that China is finally waking up to downside risks to its economy. Premier Li said on state TV this morning that China will cut the required reserve ratio applied to banks "at proper time." Ok, how about now? Such a cryptically worded reference is difficult to evaluate in terms of timing but feeds the longstanding expectation toward policy easing even if at just a glacial speed. This comment slightly helped the market mood.

UNITED STATES

Here is an outline of expectations for today's nonfarm payrolls report (8:30amET) and see the Global Week Ahead for more. The bottom line is that there is even higher than usual uncertainty around the estimate as a caution against any strong positioning tendencies.

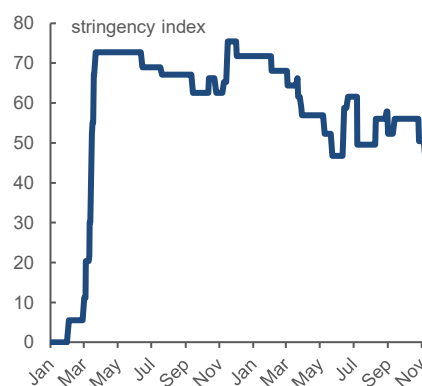
That is not well reflected in a very tight range of consensus estimates which itself probably means that no one else has enough confidence to bolt in either direction.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1

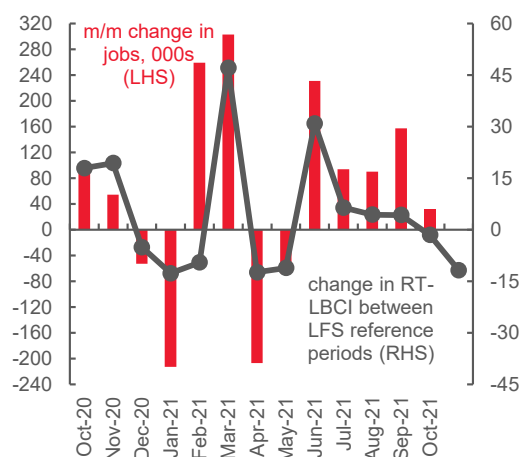
US Restrictions Eased Into November Reference Week



Sources: Scotiabank Economics, University of Oxford.

Chart 2

Canadian Employment



Sources: Scotiabank Economics, Statistics Canada.

- Scotia: 450k
- Consensus median: 546k, similar to the mean, so no clear skewness in the distribution.
- Std dev: 72k
- 90% CI: +/- 110k
- Consensus range: 375k–800k, mostly 450k–650k
- Whisper: 525k

Aside from one or two random outliers, everyone else within the sample of 70 estimates lies within the realm of statistical noise around the median estimate given the 90% confidence interval around nonfarm payroll changes.

There is particularly strong reason not to bolt from the pack this time around which makes this round more about the clean-up in terms of potential implications. That low confidence is because of a paucity of advance indicators that are of much/any use to inform the call.

For instance, I have found that the Census Bureau's Household Pulse survey can be useful with its bi-weekly estimates of changes in labour force entry and exit for various specific reasons they present as options to survey respondents. The magnitudes of adjustment in this survey don't align well with changes in payrolls, but the broad directions and momentum do line-up. Unfortunately, they are redesigning the survey now and that has interrupted its availability for several weeks, leaving us flying blind into this payrolls report.

As for other advance indicators, they don't tell us much at all. About all we have to go by is that measures of restrictions and mobility loosely point toward another solid gain (chart 1). Beyond that:

- ADP was up 534k but is very often a poor guide to the private part of nonfarm payrolls.
- Initial claims fell between reference periods, but not by a whole lot and reduced claimants don't necessarily say much at all about changes in payrolls—even if claims weren't potentially distorted by program changes, seasonality issues etc!
- ISM-mfrg-employment was up, but manufacturing employment is a rounding error in payrolls.
- We don't get ISM-services-employment until 10amET and hence after payrolls today tomorrow so that won't help.
- The Conference Board's consumer confidence measure of jobs plentiful moved up 3.2 points to 58 and a new all-time high, but that says nothing about the speed with which openings may have been filled last month.
- We won't get the NFIB small biz gauge for jobs 'hard to fill' until next week.
- Challenger jobs cuts are a useless reading unless there is a massive sudden shock.
- Days lost to strikes picked up somewhat in October especially due to striking John Deere workers that then settled, but it's small we don't have November yet and that's mostly an impact on hours worked instead of jobs anyway.

Also watch wages with another significant month-over-month gain expected to keep the year-over-year gain around 5%.

As for implications to the Fed and markets, it would take a massive downside to knock the FOMC off the likely move the week after next toward accelerating tapering and bringing the median hike dot into 2022 with at least one hike, quite possibly more. The accelerated taper is more conditioned around inflation than one month's jobs print. My view is that fed funds futures are too lightly pricing fed rate hikes in 2022.

CANADA

If you think there is random noise around the main US jobs report (payrolls) then just wait for Canada's main jobs report (8:30amET) which is the household survey (LFS)! Household surveys are always noisier than payroll measures. Canada releases its payroll survey ages later and months behind when no one cares.

- Scotia: 0k
- Consensus median: 37.5k, similar to the mean, so no clear skewness in the distribution.
- Std dev: 22k
- 95% CI: +/- 58k
- Consensus range: 0–85k, mostly 0k–60k
- Whisper: n/a

First off, no one is outside of the 95% confidence interval.

I have spoken to downside risk to the median estimate—and my own—based upon a few observations but have a little less confidence in that view given this week's developments. The GDP accounts from earlier this week might suggest more balanced risk than I thought last Friday when estimates were submitted.

By way of drivers, indices of real-time local business conditions that we weight and aggregate up to a national proxy tend to be reasonably well correlated with turns in job growth. This measure suggests we could get a drop in jobs today (chart 2). It usually works, but not infallibly so.

Further, at some point this pony's gonna get tired and head back to the barn, but timing that is difficult. Canada has gained 600k jobs since June which for our US audience would be equivalent to nearly 6 million US jobs which is just under double the reality for US payrolls and more than double the reality for the US household survey. Why? For one thing, Canada's differently timed reopening effects are one explanation after stricter restrictions over March–May. In plain English, the spurt of reopening effects on jobs may be getting tired. Secondly, Canada's quicker employment recovery than in the US has been at the expense of labour productivity which is typical of the relative country comparison coming out of downturns (chart 3).

We also know that restrictions remain tighter on balance in Canada than the US and measures like stringency indices by province backed up since the summer in areas like western Canada and the east coast (charts 4, 5).

The new information this week is that Q3 GDP looked considerably better than had been tracked in advance and October's preliminary growth estimate maintained that track. The Q2 contraction was revised to be worse, but on net, while jobs are still slightly overshooting the connection to GDP growth, they are doing so to a lesser extent than before the net revisions and new estimates. Chart 6 shows the connection via Okun's "law".

That's it. Welcome to Canada. The rest of the advance job readings they have in the US either don't exist in Canada or are too lagging to be useful. The Ivey PMI's employment

Chart 3

Canadian Labour Productivity Lags US Out of Downturns

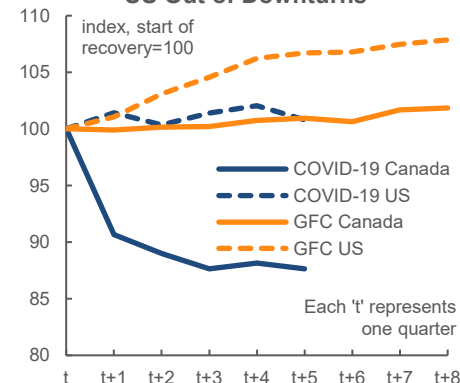


Chart 4

Canadian Restrictions Still Elevated Compared to US

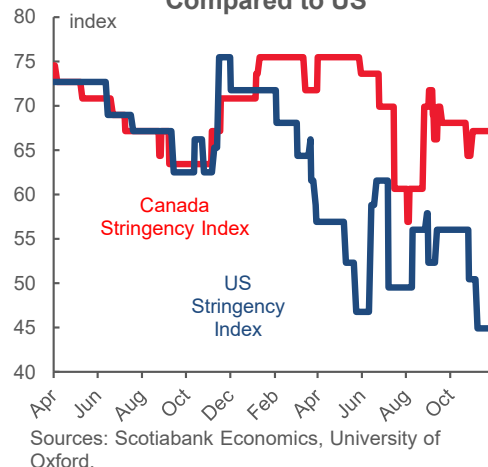


Chart 5

COVID-19 Stringency Index by Province

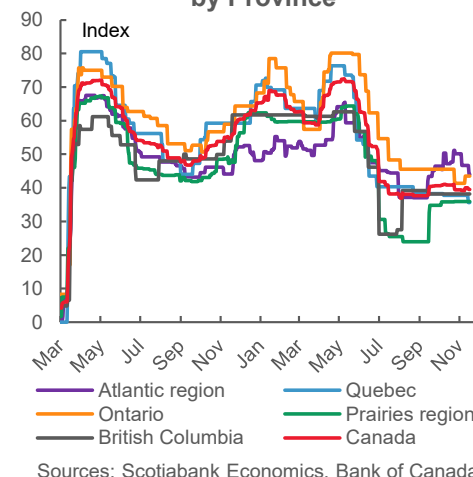
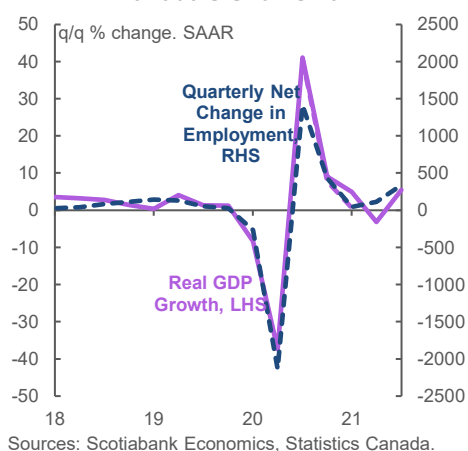


Chart 6

Canada's Okun's Law



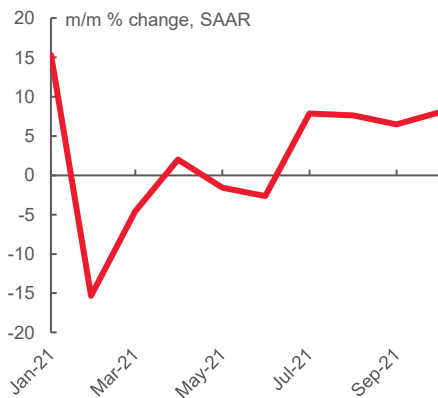
reading doesn't arrive until next week. There is no services PMI in Canada. A small business hiring intentions measure pulled back a touch in November but isn't a very useful gauge.

Last, wages in the Canadian report will further inform the debate over pressures. I'm still of the view that nascent evidence of accelerating wage pressures should be treated carefully but not ignored in this report. It's the freshest wage measure going compared to the hodge podge of other readings that goes into the Bank of Canada's preferred wage common measure and that all lag. LFS average hourly wages of permanent employees used to be the BoC's preferred measure of wage growth and it has been sharply rising in m/m SA annualized terms for a while now (chart 7). Time will test durability.

We also know that unit labour costs (productivity adjusted employment costs) have been rising at an accelerated clip in Canada dating back to before the pandemic (chart 8). Q3 figures will be updated at 8:30amET and are likely to post another significant increase. The US has seen a more recent acceleration in unit labour costs during the pandemic (chart 9).

Chart 7

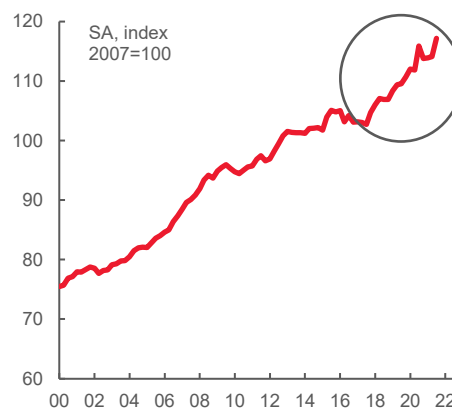
Canadian Hourly Wages



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

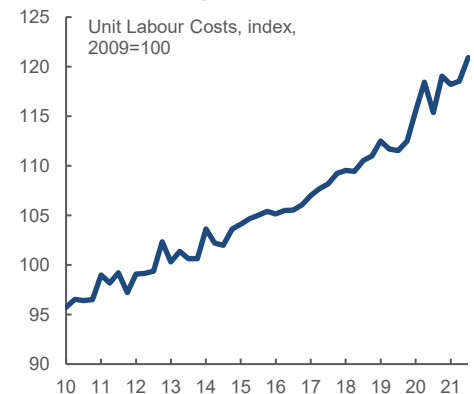
Canada: Unit Labour Costs



Sources: Scotiabank Economics, Bloomberg.

Chart 9

US Wage Inflation Has Accelerated During the Pandemic



Sources: Scotiabank Economics, Bloomberg.

Fixed Income	Government Yield Curves (%):												Central Banks				
U.S. 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	0.25			
	0.62	0.62	0.50	1.20	1.21	1.16	1.43	1.45	1.48	1.75	1.76	1.82					
	0.97	0.94	1.05	1.37	1.33	1.56	1.51	1.49	1.76	1.81	1.81	2.06					
	-0.73	-0.74	-0.76	-0.62	-0.63	-0.64	-0.37	-0.37	-0.34	-0.08	-0.07	0.02					
CANADA GERMANY JAPAN U.K.	-0.11	-0.11	-0.13	-0.10	-0.09	-0.08	0.05	0.06	0.07	0.67	0.68	0.68	US - Fed	0.25			
	0.52	0.54	0.47	0.63	0.66	0.62	0.79	0.81	0.83	0.90	0.90	0.93					
	Spreads vs. U.S. (bps):														England - BoE	0.10	
	35	32	55	17	13	40	8	5	28	7	5	24					
	-135	-135	-126	-182	-183	-180	-180	-182	-181	-182	-183	-180					
-73	-72	-63	-130	-130	-124	-138	-138	-140	-108	-109	-115						
Equities	-11	-7	-3	-57	-55	-54	-64	-64	-65	-85	-86	-90	Japan - BoJ	-0.10			
	Level						% change:								Mexico - Banxico	5.00	
	Last	Change			1 Day	1-wk	1-mo	1-yr									
	S&P/TSX	20762	297.4			1.5	-3.9	-2.4	19.3								
	Dow 30	34640	617.8			1.8	-3.3	-4.2	15.6	Australia - RBA	0.10						
S&P 500	4577	64.1			1.4	-2.6	-1.8	24.8									
Nasdaq	15381	127.3			0.8	-2.9	-2.7	24.3									
DAX	15281	17.9			0.1	0.2	-4.3	15.3									
FTSE	7146	16.5			0.2	1.4	-1.4	10.1	New Zealand - RBNZ	0.75							
Nikkei	28030	276.2			1.0	-2.5	-5.1	4.6									
Hang Seng	23767	-22.2			-0.1	-1.3	-5.0	-11.1									
CAC	6795	-0.6			-0.0	0.8	-2.2	21.9									
Commodities	Level						% change:						Next Meeting Date				
WTI Crude	68.08			1.58			2.4		-0.1		-15.8		49.2	Canada - BoC	Dec 08, 2021		
Natural Gas	4.21			0.16			3.9		-22.7		-25.7		68.0				
Gold	1771.89			3.15			0.2		-1.7		0.1		-3.8				
Silver	22.40			-0.47			-2.0		-5.5		-6.2		-6.6				
CRB Index	219.55			1.15			0.5		-7.9		-6.9		37.8	US - Fed	Dec 15, 2021		
Currencies	Level						% change:						England - BoE			Dec 16, 2021	
USDCAD	1.2828			0.0018			0.1		0.3		3.5						-0.3
EURUSD	1.1308			0.0007			0.1		-0.1		-2.6						-6.9
USDJPY	113.32			0.2100			0.2		-0.1		-0.6			9.1	Euro zone - ECB		Dec 16, 2021
AUDUSD	0.7061			-0.0033			-0.5		-0.9		-5.2		-5.1				
GBPUSD	1.3270			-0.0035			-0.3		-0.5		-3.0		-1.3				
USDCHF	0.9197			-0.0006			-0.1		-0.4		0.9		3.2				
															Japan - BoJ	Dec 17, 2021	
															Mexico - Banxico	Dec 16, 2021	
															Australia - RBA	Dec 06, 2021	
															New Zealand - RBNZ	Feb 22, 2022	

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.