

CAPITAL MARKETS RESEARCH

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Daily Capital Strategy



With U.S. Independence Day falling on the first Friday of the month, nonfarm payrolls got pushed back a day, being released this morning (Thursday) instead of tomorrow before the U.S. markets close this afternoon at 1pm ET until Monday. While Canadian markets will be open today and tomorrow, there are no major data releases until next week.

The ECB is widely expected to hike the overnight rate by 25 bps this morning to 4.25% to help put a lid on rising inflation. However, another side effect will also likely be upward movement in the Euro. The policy announcement will be released at 7:45 am ET with a press conference following at 8:30 am ET.

UNITED STATES

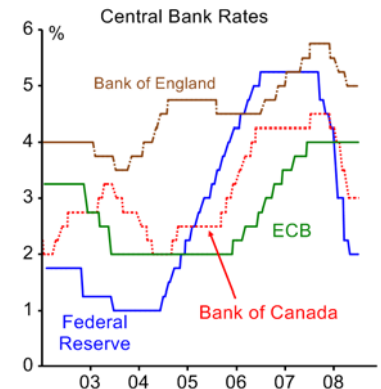
Nonfarm Payrolls & Initial and Continuing Claims (8:30 am ET): There is huge data risk around estimates for June's nonfarm payrolls report. We're looking for a loss of 70,000 jobs. The range of estimates is all over the map within consensus with a median reading of 60,000 jobs lost that is bracketed by a 110,000 spread between the best case reading (-20,000) and the worst case (-130,000) with significant dispersion around all estimates.

The tone of virtually every indicator that one can piece together to call the overall jobs figure points to an ugly report. In recent weeks, initial jobless claims have been at their most elevated trend level since the credit crisis began to unfold last summer. The employment component to the ISM manufacturing survey released two days ago pointed to the worst job market conditions at manufacturers in the credit crisis to date. Regional surveys have been bleak, Challenger job cuts continue to mount and layoff announcements have been piling up.

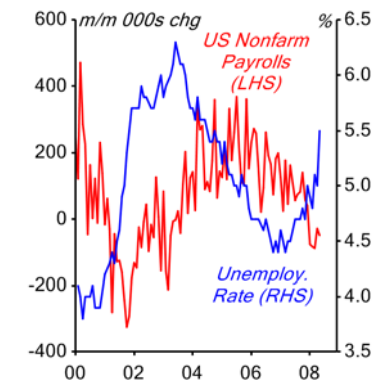
This time around, the focus is unlikely to be upon the overall unemployment rate. Its surge to 5.5% in May was sparked by early summer teenage labour force entry that overwhelmed historical seasonal adjustment factors. A repeat is unlikely in June, and the unemployment rate is likely to moderate to the 5.4% mark. However, we think the worst still lies ahead of us as the unemployment rate rises to the 6% mark into next year and perhaps further yet given that the unemployment rate typically peaks well after the worst conditions for the economy have transpired – and we don't even think we've hit that point yet.

Wage data will be worth a close look in this morning's numbers, as the hourly wage rate is likely to continue decelerating from the year-over-year growth peak of 4.3% in late 2006 to the current running rate of 3.4%. Decelerating wage gains and accumulating job losses are out of sync with market fears that cost-push inflation via wage demands keyed off of rising food and energy prices may be in the cards.

ISM Non-Manufacturing Composite (10:00 am ET): The U.S. services sector will likely remain in expansionary territory in June, propped up by the weak U.S. dollar and temporary tax rebate cheques. As a result, we are looking for a stronger than consensus print of 52.1 and a slight move up from the previous month.



Source: Global Insight



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