

CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Friday, February 3

North America

Country	Date	Time	Event	Period	Actual	BNS	Consensus	Latest
CA	02/03	07:00	Unemployment Rate (%)	JAN	7.6	7.5	7.5	7.5
CA	02/03	07:00	Net Change in Employment (000s)	JAN	2.3	25.0	22.0	21.7

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	02/03	08:30	Avg Hourly Earning (MoM)	JAN	0.2	0.2	0.2
US	02/03	08:30	Avg Weekly Hours	JAN	34.4	34.4	34.4
US	02/03	08:30	Change in Nonfarm Payrolls (000s)	JAN	160	140.0	200.0
US	02/03	08:30	Chg in Household Survey Empl (000s)	JAN	--	--	176.0
US	02/03	10:00	ISM Non-Manf. Composite	JAN	--	53.2	53.0
US	02/03	10:00	Factory Orders (MoM)	DEC	1.6	1.5	1.8

KEY POINTS:

- Markets await U.S. non-farm data
- Cdn employment disappoints but details are better
- Nonfarm payrolls could surprise to the upside
- US services industry should expand further in January
- US factory orders could be weighed down by non-durables
- Service PMIs strong in Europe...
- ...and muddle through in China.

CANADA—CANADIAN EMPLOYMENT DISSAPOINTS ON HEADLINE BUT DETAILS SUGGEST A SLIGHTLY STRONGER PICTURE

m/m change in Canadian jobs, January:

Actual: +2.3k

Consensus: +22k

Scotia: 25k

Prior: 21.7k (revised from 17.5)

* While Canadian employment disappointed consensus expectations in January, registering a gain of 2.3k versus expectations for a gain of 22.0k, the details within the report are better than the headline print would suggest. Indeed, both public and private sector jobs rose by almost 20k each in January with a 37k drop in self-employment providing a strong downward pull on the overall payrolls numbers. In addition, amongst the industries, large declines in construction, finance & insurance, and professional provided strong offsets to the gains witnessed in almost all of the other industries.

* Hours worked also came in flat which is an improvement over the decline witnessed in January.

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BoC Events

BoC Overnight Lending Rate

Current Rate: 1.0%

Next Move: March 8 @ 1.0%

Bias: Neutral

Fed Events

Fed Funds Target Rate

Current Rate: 0-0.25%

Next Move: March 13 @ 0-0.25%

Bias: Dovish

Key International Events

BoJ

Current Rate: 0.10%

Next Move: Feb. 13 @ 0.10%

Bias: Dovish

BoE

Current Rate: 0.50%

Next Move: Feb. 09 @ 0.50%

Bias: Dovish

ECB

Current Rate: 1.00%

Next Move: Feb. 09 @ 1.00%

Bias: Neutral



- * There were some weak aspects to this report, however, as wages continued to moderate to 2.2% y/y, much below the November and December results of 2.6% and 2.4%, respectively.
- * The unemployment rate ticked higher once again to 7.6% as the labour force grew by a further 23.7k, outpacing job gains.
- * Part time employment increased by 5.9k while full time employment fell by 3.6k.
- * While the goods producing part of the economy added 9.3k jobs, the services producing sector caused the net drag. The economy lost 44k professional jobs and 23k finance and insurance sector jobs with gains in educational services (+22.8k) and information services (+18.8k) only partially offsetting the weakness. The goods producing side of the economy remains quite robust, with almost every sector registering gains led by manufacturing (+10.1), with the notable exception of construction (-13.7k).
- * The regional data showed some interesting divergences. Saskatchewan (+1.8k) and Alberta (+1.9k) continued to add jobs while Ontario lost 7.5k. Quebec showed the strongest gains in employment (+9.5k), but these come after three highly negative months. The unemployment rates in Saskatchewan fell from 5.2% to 5.0% and Alberta remained at 4.9%. Ontario's unemployment rate increased from 7.7% to 8.1% and Quebec's fell from 8.7% to 8.4%
- * Every January, Statistics Canada revises the seasonally adjusted data back three years and today's report is no exception with revisions starting in January 2009.

UNITED STATES

US employment (8:30am ET) is expected to increase by a further 140k in January, slightly below the 200k registered in December but in line with the 3-month moving average. We would argue that the risk is tilted to a better than expected result and Scotia forecasts a gain of 180k in nonfarm payrolls this morning. Steadily improving initial jobless claims are one reason for our view. Initial jobless claims registered the lowest print since the first half of 2008 during the second week of January (which lines up with the survey period for the January nonfarm payrolls report). Better than expected weather could be another factor, lifting weather-dependent sectors such as construction.

We will also be watching the unemployment rate very closely, especially given the continuing discussion within the FOMC as to how to balance its dual mandate of price stability and maximum employment. Fed Chairman Bernanke touched upon this delicate balance in the question and answer period following his budget speech before the House of Representatives yesterday, arguing that the Fed will not tolerate higher inflation, begging further questions as to whether the Fed is focused more upon inflation than employment despite the dual mandate. Recall that the overall nonfarm payrolls employment number and the unemployment rate come from two different reports—the former from the household survey and the latter from the establishment survey – which sometimes leads to some confusion if the two reports diverge slightly. Consensus is looking for a stabilization of the unemployment rate at 8.5% although we would argue that there is an upside risk to this print as well given how much improvement we have seen in continuing claims over the past four months (Scotia's call is 8.4%). On a more technical note, the establishment survey will undergo three revisions this morning: annual benchmark revisions, a shift from the 2007 NAICS basis to the 2012 NAICS, and a recalculation of historical data for annual averages for hours and earnings data prior to April 2010. No major shifts to the data are expected from these revisions.

While nonfarm payrolls will likely steal the show this morning, we will also obtain an update on the **ISM non-manufacturing composite** (10am ET) which measures the services sector within the US economy. Consensus expectations are looking for a slight gain in January which would suggest we may be finally witnessing some positive momentum after this indicator declined steadily from February to September 2011 and then leveled off. Watch the manufacturing and non-manufacturing composite ISM index as that will provide a more holistic view on the US economy, bringing both ISM reports together.

Scotia is expecting that **December factory orders** increased by 1.5% (vs. 1.8% in November). The initial December report for durable goods orders came in strong at +3% m/m, implying that there is a possibility for upside surprise here. However, there are two caveats here. One, durable goods orders only make up 45% of total factory orders and nondurable goods, which make up 55% of the report, have declined over the past two months, potentially offsetting some of this gain. Secondly, there is still a risk that durable goods will be revised down from the initial report.

INTERNATIONAL

Markets are fairly flat heading into today's open, with global equities biased towards the upside and U.S. equity futures indicating a slightly positive open. Currencies are also fairly neutral, with commodity currencies selling off slightly and the Euro

slightly bid. The Canadian dollar broke back below parity with the USD in CAD terms following the Canada labor situation report. Obviously all eyes are on the U.S. in anticipation of non-farm payrolls and the establishment survey.

It was a busy night for non-manufacturing PMI surveys with **European services PMIs registering strong gains in January**. Revisions pushed the services PMI survey further into positive territory for France (52.3 vs. an initial print of 51.7) while Germany witnessed a downward revision from 54.5 to 53.7. Italy's services PMI came in below expectations (44.8 vs. 45.4). The net is that the Euro-Zone January services PMI remained in expansionary territory, registering a read of 50.4 (revised downwards from 50.5). Considering that **Euro-Zone retail sales contracted in December for the second consecutive month** (-0.4% in December), these PMI surveys at least provide hope that a type of recovery started in the new year.

For the second month in a row, the **UK CIPS Services PMI survey surprised significantly on the upside**, jumping by a further 2 points to 56.0 – a 10 month high. A reading this high has typically been associated with GDP growth of 0.6% q/q. Scotia's Alan Clarke notes that this seriously puts the cat amongst the pigeons ahead of next week's Bank of England decision. In light of the much stronger than expected CIPS surveys, coupled with increasingly robust survey indicators on the continent, there is a genuine risk that the MPC actually sits on its hands and does not increase its asset purchases any further at next week's meeting.

China Federation of Logistics Non-Manufacturing PMI fell in January from the prior month, moving from a robust reading of 56.0, implying strong growth, to a reading of 52.9, implying more muted expansion. A private sector non-manufacturing PMI was released overnight as well, coming in at 52.5, unchanged from December.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.22	0.22	0.21	0.71	0.71	0.75	1.82	1.82	1.89	3.01	3.00	3.06
CANADA	0.98	0.99	0.99	1.28	1.29	1.31	1.94	1.94	1.98	2.55	2.55	2.60
GERMANY	0.20	0.21	0.19	0.81	0.81	0.81	1.84	1.85	1.86	2.48	2.49	2.54
JAPAN	0.14	0.13	0.13	0.33	0.33	0.33	0.95	0.96	0.97	1.89	1.89	1.93
U.K.	0.38	0.38	0.38	1.06	1.06	1.03	2.10	2.09	2.07	3.16	3.14	3.12
	Foreign - U.S. Spreads (bps):											
CANADA	76	77	78	57	58	56	11	12	9	-47	-45	-46
GERMANY	-2	-2	-2	10	10	6	2	3	-3	-54	-51	-52
JAPAN	-8	-9	-8	-38	-38	-42	-88	-87	-92	-112	-111	-113
U.K.	16	16	17	35	35	28	27	27	18	15	14	6

Equities			% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	12553.48	35.82	0.3	0.7	2.8	-9.3
Dow 30	12705.41	-11.05	-0.1	-0.2	2.5	5.3
S&P 500	1325.54	1.45	0.1	0.5	3.8	1.4
Nasdaq	2859.68	11.41	0.4	1.9	8.0	3.8
DAX	6675.99	20.36	0.3	2.5	8.3	-7.2
FTSE	5827.80	31.73	0.5	1.6	2.2	-2.6
Nikkei	8831.93	-44.89	-0.5	-0.1	4.5	-15.3
Hang Seng	20756.98	17.53	0.1	1.2	10.0	-13.2
CAC	3390.05	13.39	0.4	2.1	4.5	-16.0
Commodities			% change:			
WTI Crude	96.50	0.14	0.1	-3.1	-6.3	6.6
Natural Gas	2.47	-0.08	-3.1	-7.6	-17.3	-43.0
Gold	1751.00	11.00	0.6	1.4	14.4	31.0
Silver	33.93	0.26	0.8	1.3	17.9	19.9
CRB Index	310.90	-0.63	-0.2	-2.1	-0.8	-8.8
Currencies			% change:			
USDCAD	1.0019	0.0026	0.3	0.0	-0.8	1.1
EURUSD	1.3163	0.0019	0.1	-0.4	0.9	-3.5
USDJPY	76.27	0.0500	0.1	-0.6	-0.6	-6.6
AUDUSD	1.0697	-0.0015	-0.1	0.4	3.1	5.4
GBPUSD	1.5832	0.0026	0.2	0.7	1.2	-1.9
USDCHF	0.9152	-0.0016	-0.2	0.3	-1.8	-3.2

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotia Capital cannot guarantee its accuracy.