

Does ISM-Services Point To Nonfarm Upside?

ISM non-manufacturing, index, September:

Actual: 61.6

Scotia: 58.0

Consensus: 58.0

Prior: 58.5 (unrevised)

- The US economy delivered another positive beat to make it three in a row in less than 24 hours on the back of this morning's ADP report and yesterday afternoon's 5% m/m SA rise in vehicle sales. ISM-services exceeded expectations with the headline gauge rising to the highest reading since August 1997. It gets better in terms of the underlying details. The key takeaway, however, is that there may be substantial upside risk to my estimate for +160k jobs in Friday's nonfarm payrolls report.
- The employment subcomponent soared to its highest EVER at 62.4 with records back to 1997. This may point to upside prospects for Friday's nonfarm payrolls report (consensus 181k, Scotia 160k). Note the chart below that demonstrates the correlations between the employment subindex to ISM-services and the monthly change in nonfarm. On its own, the trends are tighter than the spot months, but piece this together with the other labor readings we've gotten as input to a nonfarm call. For one, this comes on the heels of a smaller rise in the employment subindex (58.8) to the ISM-manufacturing report. For others, note the beat on this morning's ADP payrolls (+230k) and very low jobless claims that are at their lowest since 1973. The employment subcomponent to the Philly Fed metric climbed 3.3 points. My initial estimate of +160k may be too low.
- Is there a chance that the storm effects disrupted hiring activity? Probably not. For one, the worst effects of Flo' didn't hit until most hiring activity would have been captured in the nonfarm reference period which is the pay period that includes the 12th of each month. For another, people generally don't lose their jobs and fall off payrolls during extreme weather events, but hiring activity can certainly be disrupted if storms hit during or preceding reference periods. Recall the huge downside to nonfarm payrolls in September of last year when only 14k jobs were created. The first chart below shows changes in nonfarm payrolls around hurricanes and much worse than usual snow storms that are both indicated by grey vertical bars. Also note the second chart that shows what can happen to hours worked as getting to work can clearly be impeded.
- The new orders book accelerated to a reading of 61.6 (60.4 prior) which reverses the two-month deceleration and is the highest since June. Some of that came through new export orders (61.0, 60.5 prior) but more of it was due to the domestic order book.

CONTACTS

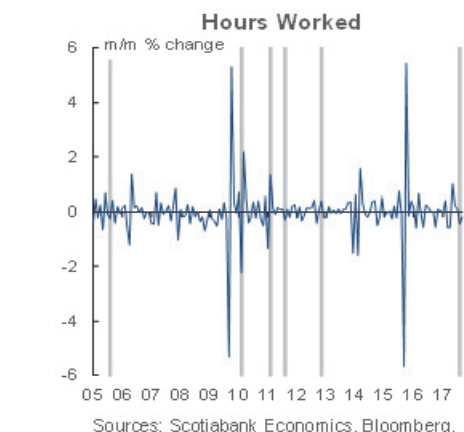
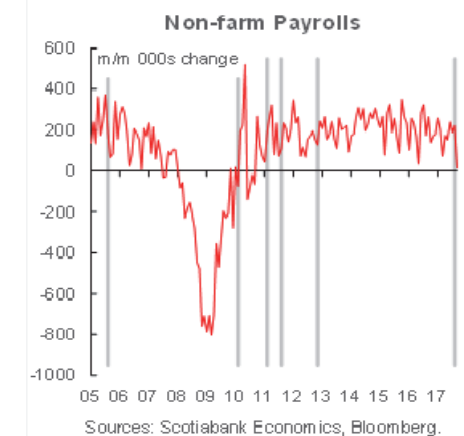
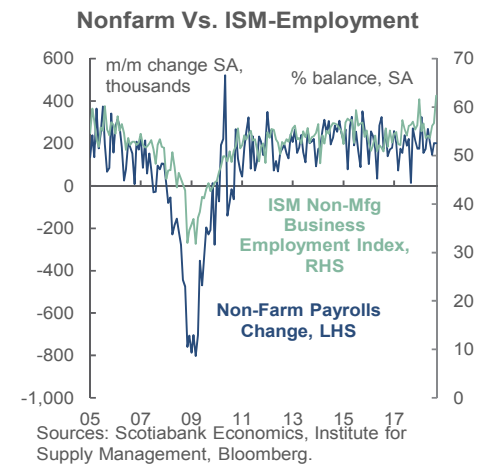
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics
derek.holt@scotiabank.com

Sam Fraser, Research Analyst

416.866.4212

Scotiabank Economics
sam.fraser@scotiabank.com



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, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., 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 authorised 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 authorised 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., and Scotia 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.