

Economic Analysis

Another Positive Surprise for Job Growth in June

Kim Fraser Chase

The past few employment reports have been welcomed with open arms, and June's data is no exception. Nonfarm payrolls increased a surprising 288K for the month following upward revisions to both April (282K to 304K) and May (217K to 224K). Looking at the household survey, employment jumped a whopping 407K after rising 145K in May. The data have been somewhat inconsistent with payrolls in recent months, particularly in April when household employment fell 73K as a significant number of employed and unemployed dropped out of the labor force completely. On the bright side, the participation rate has remained stable at 62.8% throughout the past three months, therefore giving a more genuine look to the 6.1% unemployment rate in June. Our expectations have been for an increase in labor force participation as job availability improves; however, the latest trends suggest that this scenario is becoming less plausible and will not put as much upward pressure on the unemployment rate as we originally projected. As such, our forecast for the average unemployment rate in 2014 is now much closer to 6.0% compared to the 6.5% forecast reported at the beginning of this year. Despite the fact that other economic data have not been as robust as we would have hoped for 2Q14 thus far, improving labor market conditions are certainly supportive of our stronger growth outlook for the remainder of 2014.

International Trade Gap Narrows on Stronger Export Growth in May

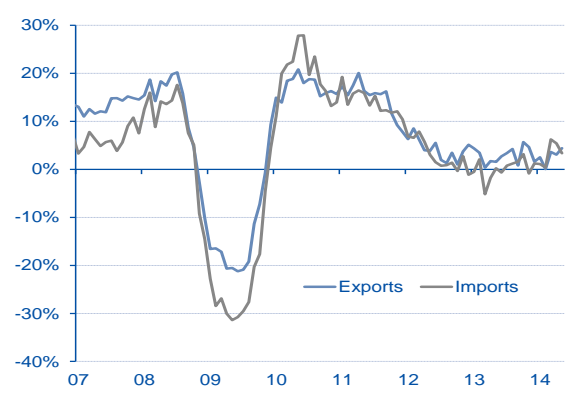
The international trade balance improved in May to -\$44.4B following a discouraging report in April that ignited worries of another bout of slow GDP growth in 2Q14. Fortunately, export growth rebounded mid-quarter, up 1.0% after falling 0.1% during the month prior. While this gain isn't overly impressive, it certainly brings a sigh of relief when considering the potential impact of slow global demand on U.S. growth in the coming months. In regards to domestic demand, import growth declined a modest 0.3% following back-to-back gains in March and April. However, we remain optimistic that domestic consumers are becoming more confident, with the outlook for jobs and income growth improving gradually. Overall, we expect that net exports will have a more positive contribution toward GDP growth throughout the rest of the year as export demand gains momentum.

Graph 1
Unemployment and Participation Rates
%



Source: BLS & BBVA Research

Graph 2
U.S. Export and Import Growth
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Week Ahead

JOLTS Job Openings (May, Tuesday 10:00 ET)

Forecast: 4395K

Consensus: --

Previous: 4455K

Job openings are expected to retreat slightly in May following a very positive JOLTS report in the prior month. Labor market conditions have certainly shown signs of improvement throughout 2014 thus far, yet there is still a growing gap between JOLTS job openings and actual hiring. We expect that this trend will continue in the coming months as businesses struggle to find qualified candidates and remain hesitant to truly expand their workforce. As job openings approach the pre-crisis peak, we expect that hiring will follow suit, albeit at a lagging pace.

Consumer Credit (May, Tuesday 10:00 ET)

Forecast: \$16.30B

Consensus: \$18.05B

Previous: \$26.85B

Total outstanding consumer credit skyrocketed in April with a larger-than-expected push from the revolving side. Credit card usage was up significantly for the month, driving a recovery-high \$8.8B increase in revolving credit. Consumption has held up relatively well despite a weak start to 2014, so we expect that revolving credit will remain positive at least for the summer months. On the other hand, there are no signs pointing to a slowdown in nonrevolving credit growth given that student loans continue to comprise a large share of the component.

Jobless Claims (Week of July 5th, Thursday 8:30 ET)

Forecast: 310K

Consensus: 313K

Previous: 315K

Jobless claims for the first week of July are expected to hover near the 300K border for the seventh consecutive week but may be slightly skewed due to the July 4th holiday. Claims have not fallen too far below 300K in recent history, so it is safe to say that current levels are in line with a stronger recovery. Despite the usual volatility in the data, week-to-week changes have been much less drastic and support a healthier employment situation moving forward. Initial claims have finally fallen back to comfortable pre-crisis levels, yet the relationship with actual employment growth is becoming less clear. As such, we expect that initial jobless claims will remain low but may warrant less attention as a leading indicator for future employment reports.

Wholesale Inventories (May, Thursday 10:00 ET)

Forecast: 0.3%

Consensus: 0.6%

Previous: 1.1%

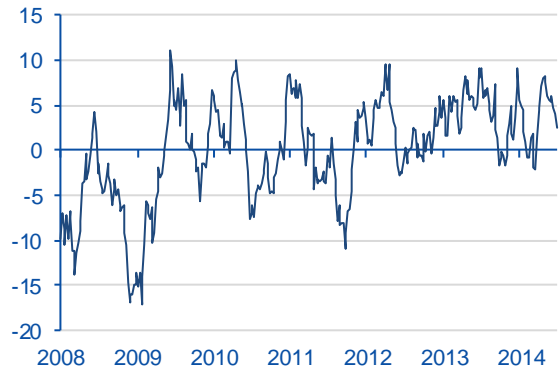
Inventory growth has been on an accelerating trend throughout the past few months, particularly for wholesalers where levels have sufficiently surpassed the pre-recession peak. The component has been the largest contributor to total business inventories in 2014 but is likely to slow down in the near future as wholesalers attempt to balance out stockpiles with always-changing consumer demand. In May, we expect that wholesale inventories will increase again but at a slower pace than that seen in both March and April.

Market Impact

Markets this week should be mostly calm following the long holiday weekend and a healthy employment report for June. Not much on the economic calendar warrants significant market attention except for the FOMC meeting minutes. Further details from the Fed on the end to tapering and the future normalization strategy could cause some reaction, although we do not expect to see any shocking plans revealed.

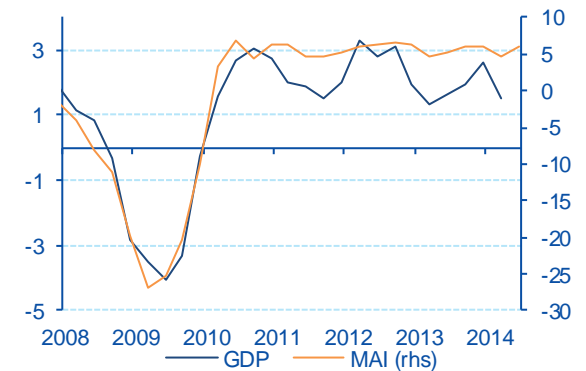
Economic Trends

Graph 3
BBVA US Weekly Activity Index (3 month % change)



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP (4Q % change)



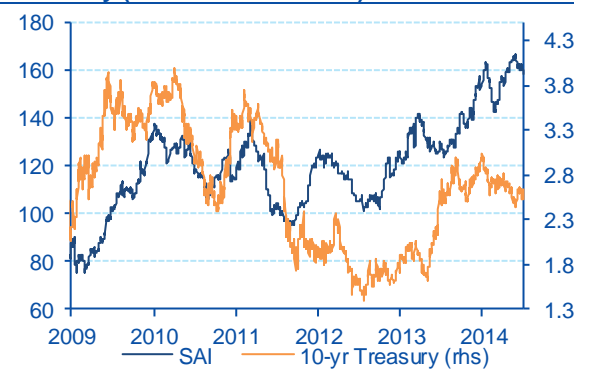
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index (Index 2009=100)



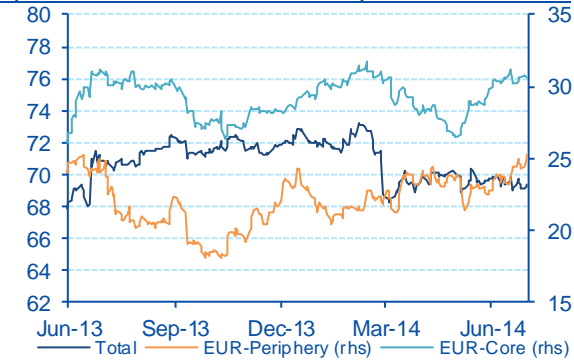
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



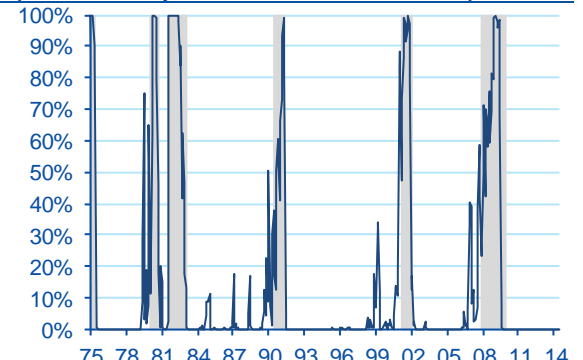
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US (% Real Return Co-Movements)



Source: BBVA Research

Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

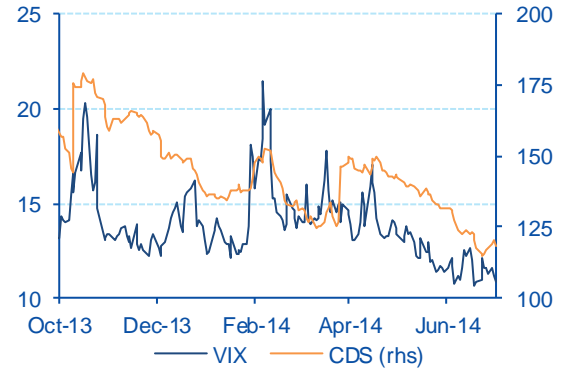
Financial Markets

Graph 9
Stocks (Index, KBW)



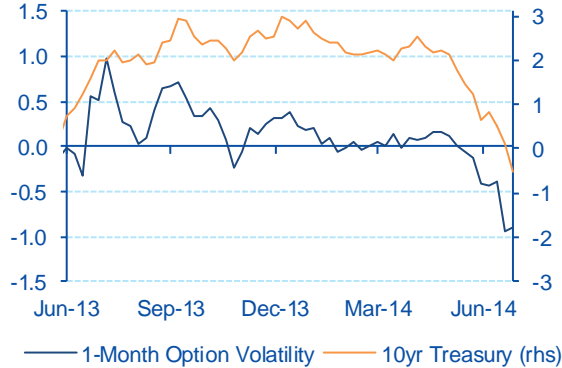
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



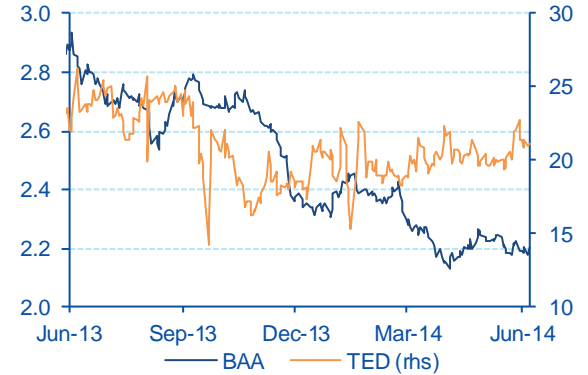
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury (52-week avg. change)



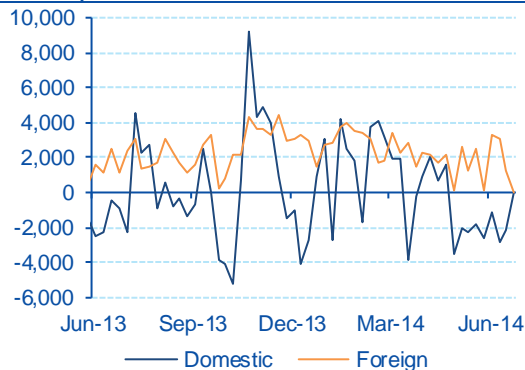
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



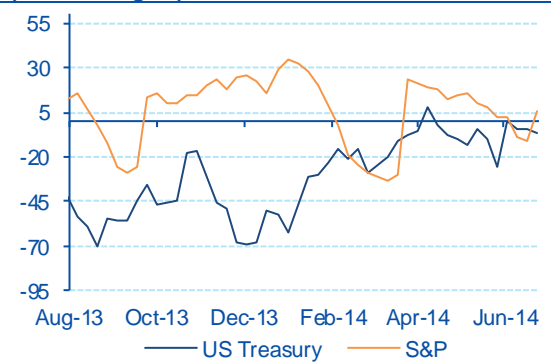
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows (US\$Mn)



Source: Haver Analytics & BBVA Research

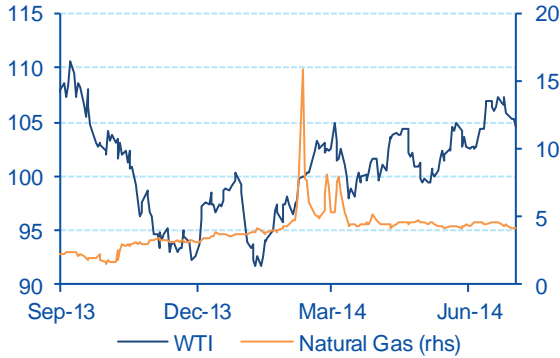
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Haver Analytics & BBVA Research

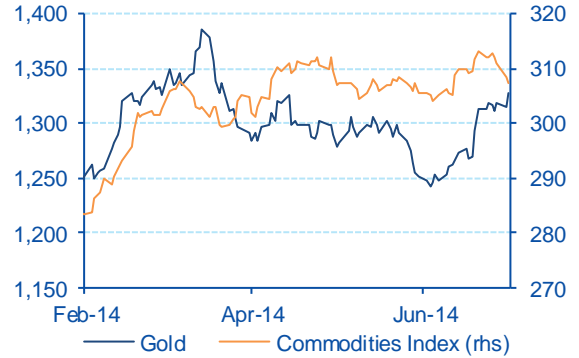
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



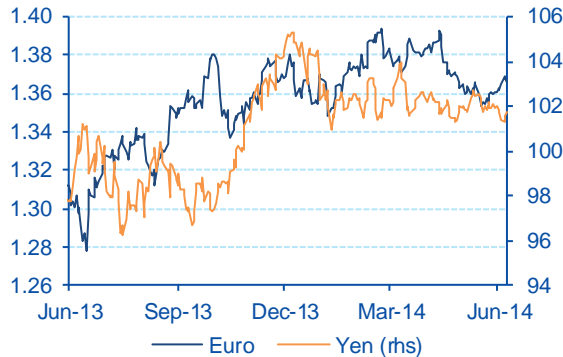
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



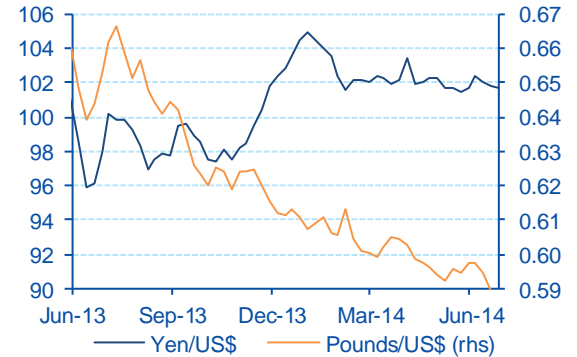
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



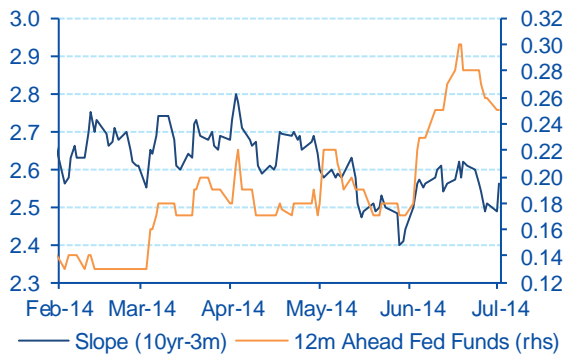
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



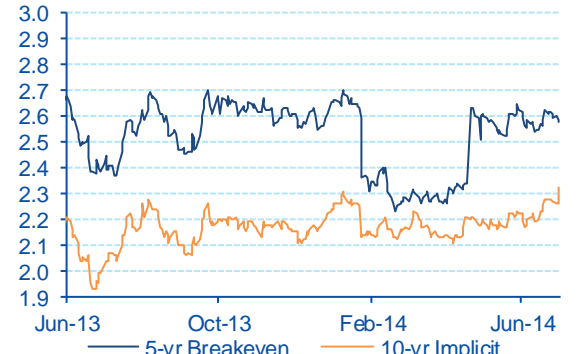
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.86	14.86	14.82	14.10
New Auto (36-months)	2.90	2.89	2.81	2.46
Heloc Loan 30K	5.00	5.00	5.07	5.34
5/1 ARM *	2.98	2.98	2.93	2.90
15-year Fixed Mortgage *	3.22	3.22	3.23	3.23
30-year Fixed Mortgage *	4.14	4.14	4.14	3.99
Money Market	0.40	0.43	0.38	0.45
2-year CD	0.82	0.81	0.80	0.73

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.10	0.10	0.08	0.07
3M Libor	0.23	0.23	0.23	0.27
6M Libor	0.33	0.32	0.32	0.41
12M Libor	0.55	0.55	0.55	0.69
2yr Sw ap	0.59	0.61	0.51	0.52
5yr Sw ap	1.71	1.77	1.62	1.56
10Yr Sw ap	2.64	2.70	2.59	2.69
30yr Sw ap	3.34	3.39	3.31	3.44
30day CP	0.10	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Janet Yellen, Federal Reserve Chair

Monetary Policy and Financial Stability, International Monetary Fund, Washington, D.C.

2 July 2014

"I do not presently see a need for monetary policy to deviate from a primary focus on attaining price stability and maximum employment, in order to address financial stability concerns. That said, I do see pockets of increased risk-taking across the financial system, and an acceleration or broadening of these concerns could necessitate a more robust macroprudential approach."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
8-Jul	NFIB Small Business Optimism Index	JUN	97.00	-	96.60
8-Jul	US Job Openings By Industry Total SA	MAY	4395.00	-	4455.00
8-Jul	Federal Reserve Consumer Credit Total Net Change SA	MAY	16.30	18.05	26.85
10-Jul	US Initial Jobless Claims SA		310.00	313.00	312.00
10-Jul	US Continuing Jobless Claims SA		2560.00	2560.00	2571.00

Forecasts (NOTE: revisions pending)

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.5	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.8	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	1.9	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.6	5.9	5.6	5.2
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.41	3.80	4.10	4.34
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.35	1.32	1.37	1.36

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