

Economic Analysis

Job Growth Decelerates Significantly in August

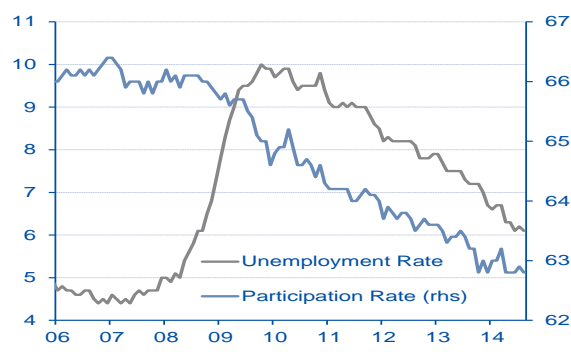
Kim Fraser Chase

The August employment report surprised to the downside, with nonfarm payrolls up a disappointing 142K for the month. This marked an extreme slowdown from the first half of 2014, where payroll growth remained above 200K, and it is the slowest monthly job growth since December. Private payrolls increased only 134K, with government sector hiring up 8K for the month. The underlying details were somewhat discouraging, particularly the lack of manufacturing jobs added, but we did see a 20K increase in construction payrolls. Despite this deceleration in employment growth, the unemployment rate dropped back down to 6.1% in August. It appears that we are back to the usual trend of artificial declines in the unemployment rate, influenced by a shrinking labor force rather than actual hiring activity. In August, the participation rate declined to 62.8% as the number of those not in the labor force increased 268K. Although this report is discouraging after such a strong 1H14, we are taking the data with a grain of salt as we wait for revisions to be released next month. The data do not impact our baseline scenario for the labor market, and we maintain our expectations for 1.8% annual growth in employment, with the unemployment average hitting 6.3% for the year. Similarly, August's report does not change our expectations for the Fed's monetary policy timeline. This deceleration in job growth is not enough to force a slowdown in the tapering process, and if anything, the data gives more power to the FOMC doves in holding off the first federal funds rate hike until the middle of next year.

International Trade Balance Improves as U.S. Exports Gain Momentum

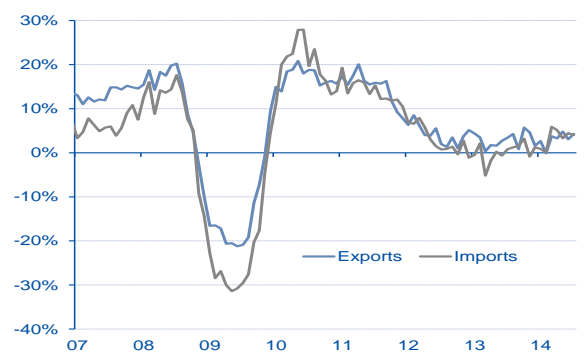
The international trade gap narrowed to -\$40.5B in July from a revised -\$40.8B in June, finally getting back to the encouraging levels seen in late 2013. As expected, July's trade balance reflected a gain in exports, up 0.9% after remaining flat in June. Most of this growth stemmed from exported goods (1.3%) rather than services (0.1%) as petroleum exports continue to play a significant role. Imports also increased in July, up 0.7% following two consecutive months of decline. The two sides combined suggest that both domestic and global demand are improving, but the recovery remains vulnerable to upcoming changes in monetary policy as well as ongoing geopolitical threats. Thus, throughout the rest of this year, we do not expect to see an overwhelmingly strong contribution from trade to GDP growth.

Graph 1
Unemployment and Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Export and Import Growth (YoY % Change)



Source: U.S. Census Bureau & BBVA Research

Week Ahead

Consumer Credit (July, Monday 15:00 ET)

Forecast: \$18.10B

Consensus: \$17.00B

Previous: \$17.26B

Consumer credit will continue its upward trend throughout the foreseeable future as economic confidence improves. Revolving credit has certainly turned a corner in the past few months as consumers have become more willing to spend with their credit cards, though much of this could be the result of increased summer promotions and therefore might turn down again in the coming months. While revolving credit remains volatile, nonrevolving credit will remain consistently strong on the back of outstanding student debt and increasing demand for auto loans. Thus, we expect to see monthly gains in outstanding consumer credit, at least throughout the rest of the summer.

Retail Sales, Ex Auto and Gas (August, Friday 8:30 ET)

Forecast: 0.3%, 0.2%

Consensus: 0.5%, 0.4%

Previous: 0.0%, 0.1%

Retail sales are expected to accelerate in August following a relatively weak showing in the prior month. Consumption was surprisingly discouraging in July given the usual summer spending patterns as well as the strong reports we have seen regarding unit auto sales throughout the past few months. In August, we expect that rising auto sales will finally put some upward pressure on the headline figure, although this will likely be at least partially offset by declining gas prices. Excluding auto and gasoline sales, retail sales should see a boost from end-of-summer and back-to-school promotions. Still, we expect to see only a modest gain for the month.

Consumer Sentiment (September, Friday 9:55 ET)

Forecast: 82.9

Consensus: 83.5

Previous: 82.5

Consumer sentiment has gradually been improving throughout 2014 but remains far from pre-recession highs. Lingering factors appear to be holding back consumers from a full recovery in confidence. The labor market outlook has certainly improved but not enough to convince consumers that we are completely out of troubled waters. When it comes to the consumer sentiment index, views on current conditions have been outweighing the expectations component. We expect this trend to continue in September, particularly considering that gas prices remain low and therefore favorable to consumer attitudes in the short-term.

Business Inventories (July, Friday 10:00 ET)

Forecast: 0.4%

Consensus: 0.5%

Previous: 0.4%

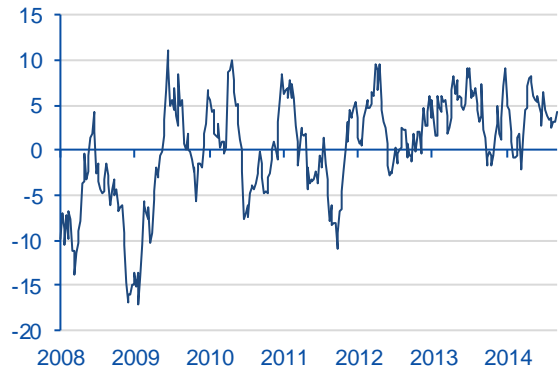
Business inventories are expected to increase again in July at about the average pace seen throughout the first half of 2014. Inventory growth spiked back in April but has decelerated in subsequent months as wholesalers, manufacturers, and retailers waited for demand to gain some momentum. Now that we have hit the summer months, businesses should return to building stock in order to keep up with growing demand in a strengthening economy.

Market Impact

This week should be another quiet one in terms of economic data releases, but markets may be on edge following the disappointing employment report for August. With the Fed's next meeting just another week away, markets will be squeezing every last bit of information out of the economic calendar in hopes of determining when the first rate hike will occur.

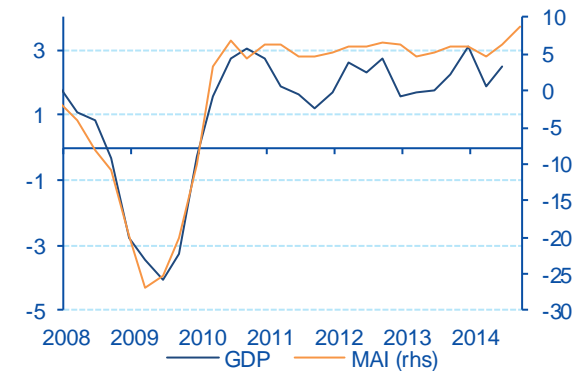
Economic Trends

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



Source: BBVA Research

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



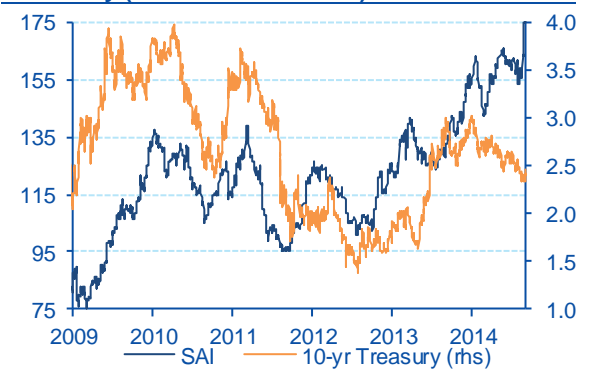
Source: BBVA Research & BEA

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



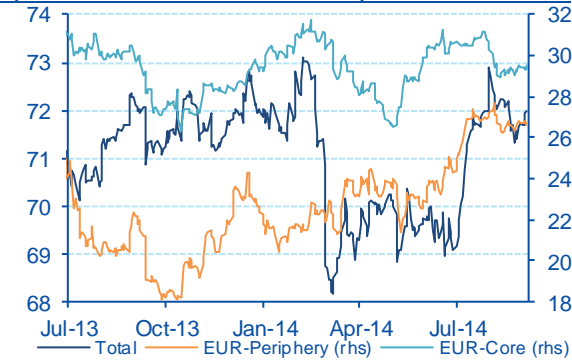
Source: BBVA Research

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



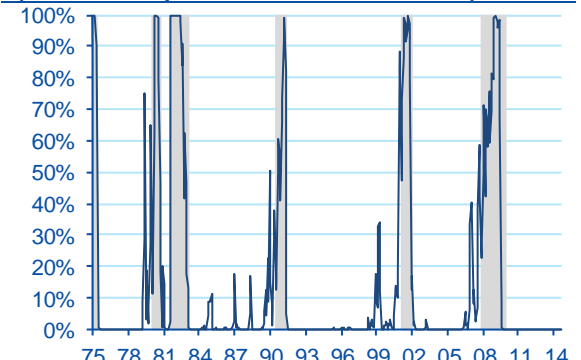
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

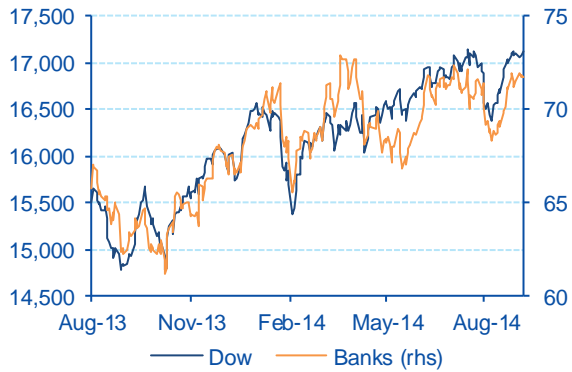
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

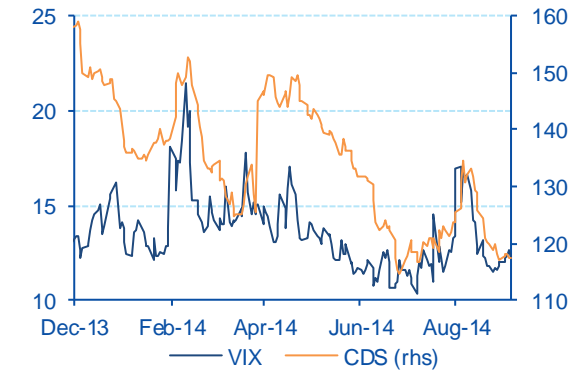
Financial Markets

Graph 9
Stocks
(Index, KBW)



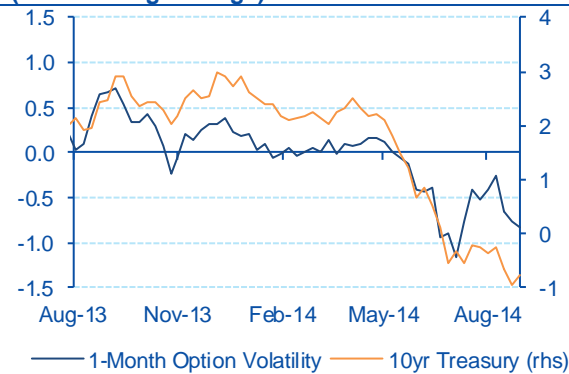
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



Source: Bloomberg & BBVA Research

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



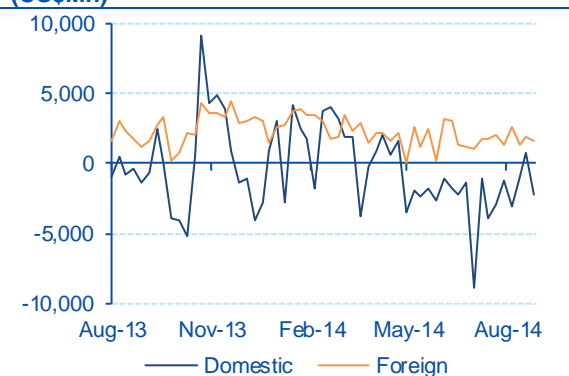
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



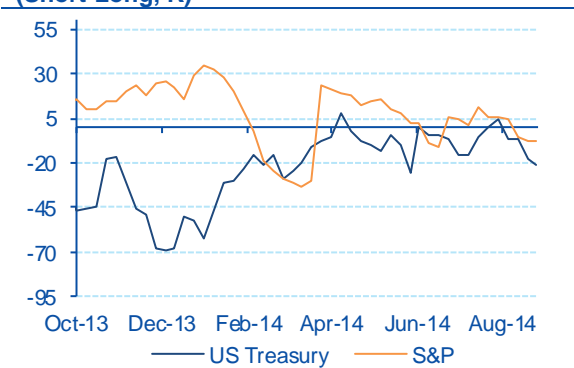
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

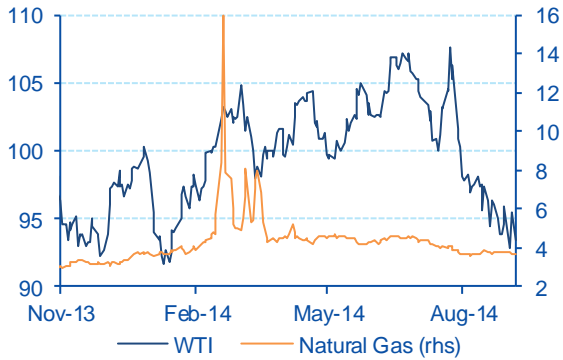
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

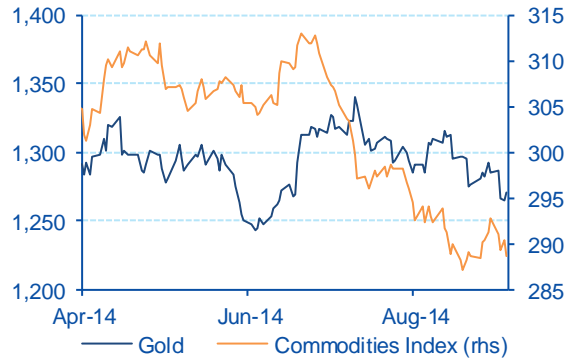
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



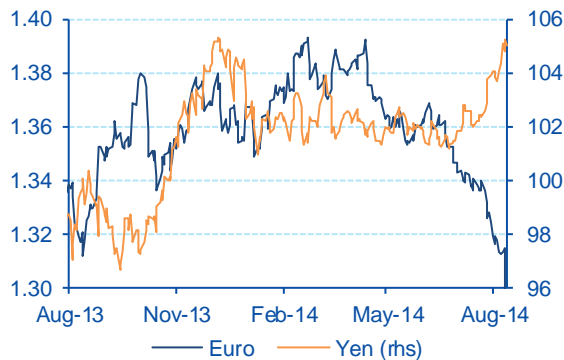
Source: Bloomberg & BBVA Research

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



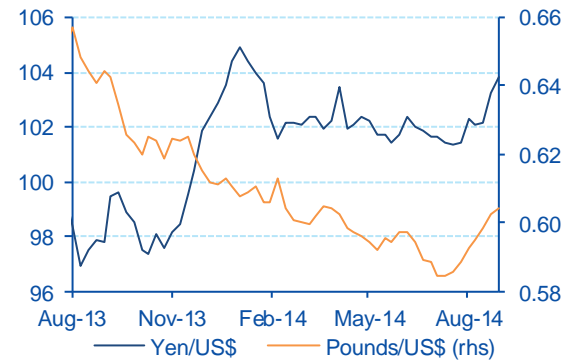
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



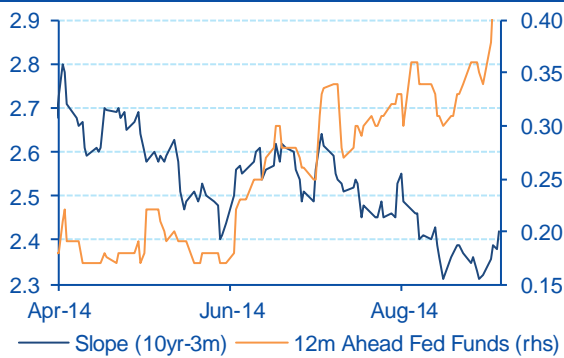
Source: Bloomberg & BBVA Research

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	14.86	14.10
New Auto (36-months)	2.93	2.93	2.90	2.43
Heloc Loan 30K	4.80	4.97	4.94	5.35
5/1 ARM *	2.97	2.97	2.98	2.90
15-year Fixed Mortgage *	3.24	3.25	3.27	3.23
30-year Fixed Mortgage *	4.10	4.10	4.14	3.99
Money Market	0.39	0.39	0.39	0.44
2-year CD	0.83	0.85	0.80	0.78

*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	0.09	0.09	0.09	0.08
3M Libor	0.23	0.24	0.23	0.26
6M Libor	0.33	0.33	0.32	0.39
12M Libor	0.56	0.56	0.55	0.67
2yr Sw ap	0.72	0.71	0.68	0.62
5yr Sw ap	1.82	1.78	1.79	1.92
10Yr Sw ap	2.58	2.50	2.58	3.13
30yr Sw ap	3.20	3.07	3.20	3.90
30day CP	0.14	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.18

Source: Bloomberg & BBVA Research

Quote of the Week

Richard Fisher, President of the Federal Reserve Bank of Dallas
Fed's Fisher Says Gradual Rate Rises Won't 'Brake' U.S. Economy
3 September 2014

"My personal opinion is that the calendar has been moved forward, at least in my mind - how far forward, I couldn't tell you right now."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
8-Sep	Federal Reserve Consumer Credit Total Net Change SA	JUL	18.10	17.00	17.26
9-Sep	NFIB Small Business Optimism Index	AUG	95.50	96.00	95.70
9-Sep	US Job Openings By Industry Total SA	JUL	4625.00	4710.50	4671.00
10-Sep	Merchant Wholesalers Inventories Total Monthly % Change	JUL	0.40	0.50	0.30
11-Sep	US Initial Jobless Claims SA	SEP 6	305.00	300.00	302.00
11-Sep	US Continuing Jobless Claims SA	AUG 30	2490.00	2500.00	2464.00
12-Sep	Adjusted Retail & Food Services Sales SA Total Monthly % Change	AUG	0.30	0.55	0.00
12-Sep	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	AUG	0.20	0.40	0.10
12-Sep	US Import Price Index by End Use All MoMNSA	AUG	-0.10	-1.00	-0.20
12-Sep	University of Michigan Survey of Consumer Confidence Sentiment	SEPP	82.90	83.50	82.50
12-Sep	US Manufacturing & Trade Inventories Total MoMSA	JUL	0.40	0.45	0.40

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.0	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.9	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.3	5.9	5.8	5.5
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	3.00	3.50	3.75	4.00
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.31	1.29	1.36	1.36

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