

Economic Analysis

# Unemployment Rate Drops to 5.9% in September

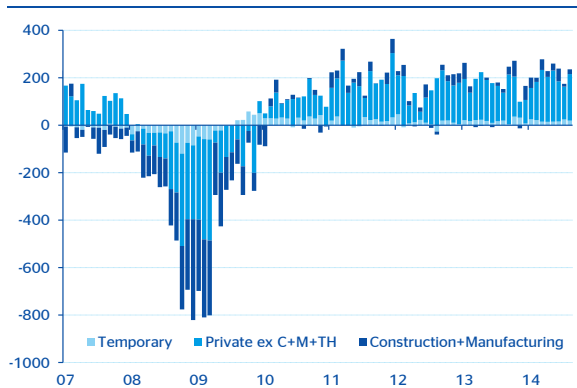
Kim Fraser Chase

The unemployment rate continues to surprise us all, falling at a faster-than-expected rate and dropping below 6.0% in September for the first time since July 2008. As has been the case throughout most of the recovery thus far, this rapid decline in unemployment was influenced by a simultaneous decline in the participation rate to 62.7%. We have been factoring into our forecasts a more gradual increase in labor force participation as the employment outlook improves, but unfortunately these projections have not yet materialized. Looking forward, we do expect to see further declines in the unemployment rate, with the annual average hitting near 6.2% in 2014 and closer to 5.8% in 2015. When it comes to employment growth, September's report showed a strong pickup from August. Nonfarm payrolls increased 248K following an upwardly revised 180K gain in August. If job growth continues to hover near the 250K mark, this should enhance the upcoming declines in the unemployment rate. For 2014, we expect annual nonfarm payroll growth to reach 1.8% and then accelerate to 2.0% in 2015.

## Consumer Activity Rallying as Both Income and Spending Increase in August

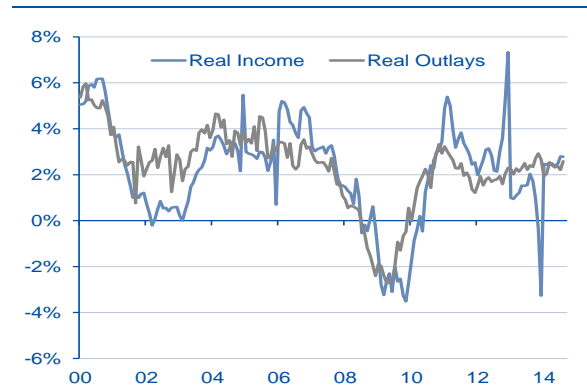
Personal income and outlays increased at a healthy pace in August, up 0.3% and 0.5%, respectively. On the income side, wages and salaries increased at the fastest monthly rate since March, helping to boost consumer attitudes for the month. Disposable personal income increased 0.3%, slightly slower than the pace seen throughout the first half of the year but still an encouraging sign for personal consumption in the coming months. Consumers seemed to have dipped into their savings more in August than they had during the past four months, with personal savings down 3.5%. It seems that personal income growth has given consumers the confidence they need to increase spending with the hopes that they will be able to allocate back to their savings in the coming months. As such, outlays increased 0.5% in August after remaining flat in July. This certainly boosts GDP growth expectations for 3Q14, yet we don't expect that consumption growth will exceed the pace seen in 2Q14's strong pickup. Overall, conditions appear to be improving for the consumer but we expect that income growth will remain relatively subdued throughout the next year at least as we come closer to determining the true degree of excess slack in the labor market.

Graph 1  
**Private Nonfarm Payrolls (Monthly Change in K)**



Source: BLS & BBVA Research

Graph 2  
**Real Personal Income and Outlays (YoY % Change)**



Source: BEA & BBVA Research

## Week Ahead

### JOLTS Job Openings (August, Tuesday 10:00 ET)

Forecast: 4660K

Consensus: --

Previous: 4673K

Job openings are expected to decrease slightly in August but continue to hover near recovery highs as the labor market continues to slowly gain traction. Between March and June of this year, the number of total vacancies jumped significantly, finally returning to levels not seen since before the crisis. However, this trend moderated in July and is expected to remain mostly flat in August as structural and cyclical issues continue to haunt the labor market. According to the JOLTS report, hiring has not yet caught up to the rise in job openings, furthering some structural unemployment concerns. Furthermore, it is unlikely that job openings would significantly surpass the pre-recession peak given the vulnerable state of the recovery and ongoing uncertainty keeping down business confidence.

### Consumer Credit (August, Tuesday 15:00 ET)

Forecast: \$21.0B

Consensus: \$21.0B

Previous: \$26.0B

Consumer credit is expected to increase in August but at a slightly slower pace compared to July. The revolving credit component was a key factor in July's extremely strong growth as consumers became more willing to take on additional credit card debt. We expect that this trend will continue in August as consumers look to fund their end-of-summer and back-to-school shopping sprees. At the same time, nonrevolving credit growth will remain robust as additional student loan debt kicks in to start the new school year. Ultimately, we expect to see monthly total consumer credit growth hold in the double-digits for at least the next few months.

### Jobless Claims (Week of October 4<sup>th</sup>, Thursday 8:30 ET)

Forecast: 291K

Consensus: 297K

Previous: 287K

Jobless claims have improved throughout the past few weeks, with initial claims dropping below to 281K in mid-September and setting the bar for a sub-300K average for the month. For the first week in October, we expect that initial claims will continue to hover slightly below the 300K barrier with no special or seasonal factors at play. Although this improvement hints at ongoing strength in the monthly employment reports, we take into account the fact that the two data series do not always move hand in hand. Looking ahead, we do not expect that initial jobless claims will fall much further given that they are already so close to historically-low levels.

### Wholesale Inventories (August, Thursday 10:00 ET)

Forecast: 0.4%

Consensus: 0.3%

Previous: 0.1%

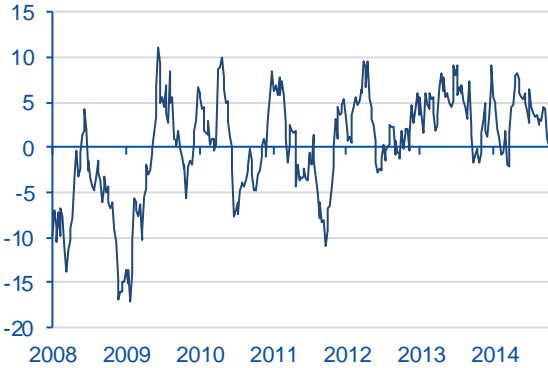
Wholesale inventory growth was slower than expected in July, increasing only 0.1% for the month. In August, we expect that wholesalers will make up for lost time, building stock at a faster pace as a strong consumer spending season gets underway. The latest strength in wholesale inventory growth has come from the durable goods side of production, but we do expect that the three-month losing streak in nondurables will reverse in the coming months. Either way, we expect that wholesale inventory management will remain relatively steady yet conservative until consumer demand shows signs of a more confident recovery.

### Market Impact

Markets will appreciate a relatively quiet week for economic news as the reaction to Friday's employment report carries on. Not much on the calendar warrants significant market attention given that most of the data releases reflect activity from August and have little impact on growth expectations for 3Q14.

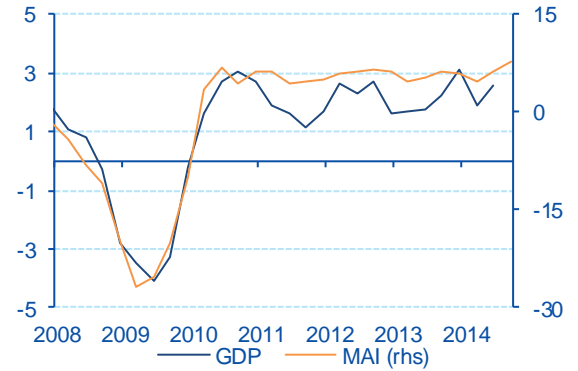
## Economic Trends

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



Source: BBVA Research

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



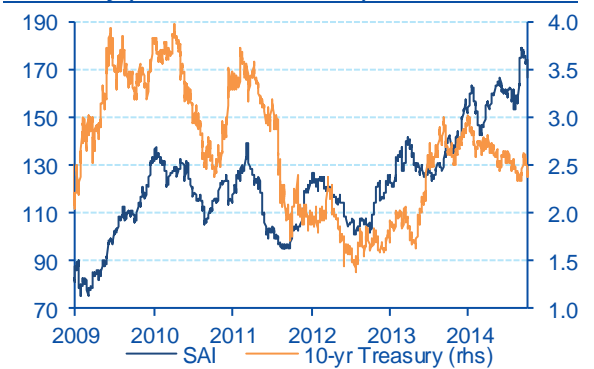
Source: BBVA Research & BEA

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



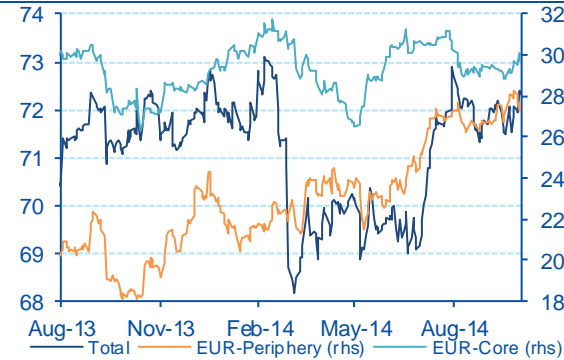
Source: BBVA Research

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



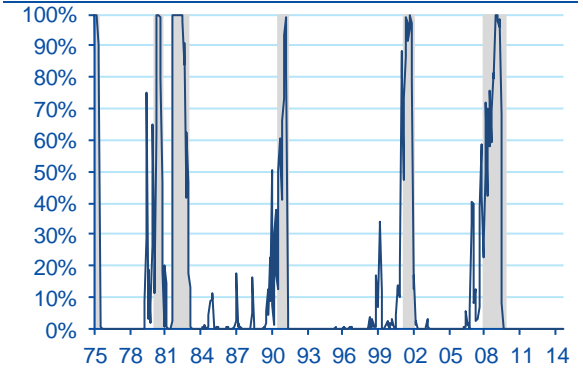
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

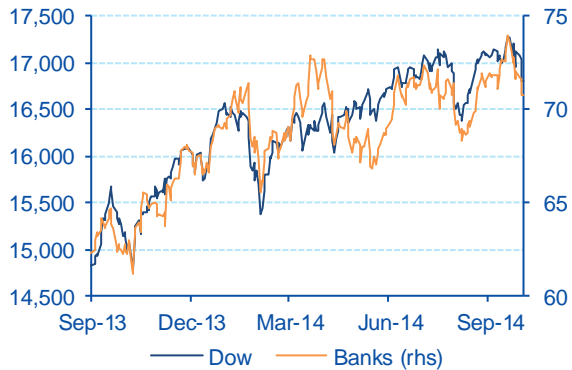
Graph 8  
**BBVA US Recession Probability Model (Recession episodes in shaded areas, %)**



Source: BBVA Research

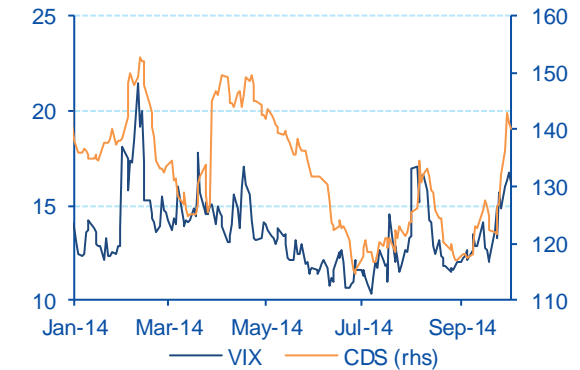
**Financial Markets**

**Graph 9**  
**Stocks**  
**(Index, KBW)**



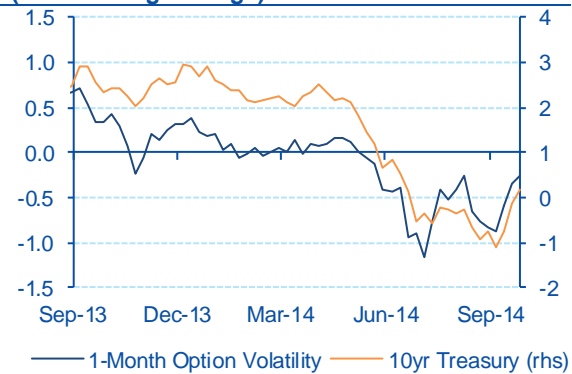
Source: Bloomberg & BBVA Research

**Graph 10**  
**Volatility & High-Volatility CDS**  
**(Indices)**



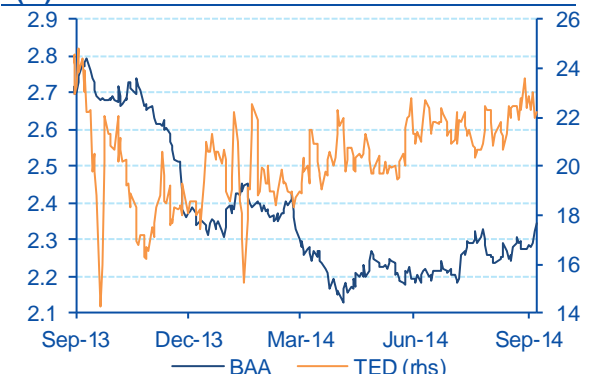
Source: Bloomberg & BBVA Research

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



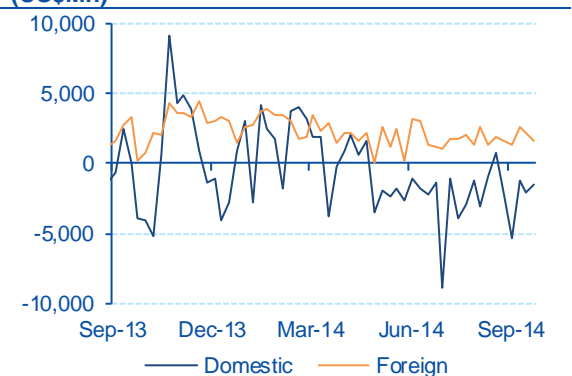
Source: Haver Analytics & BBVA Research

**Graph 12**  
**TED & BAA Spreads**  
**(%)**



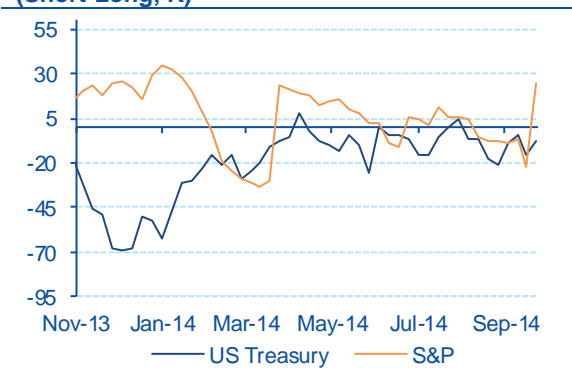
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

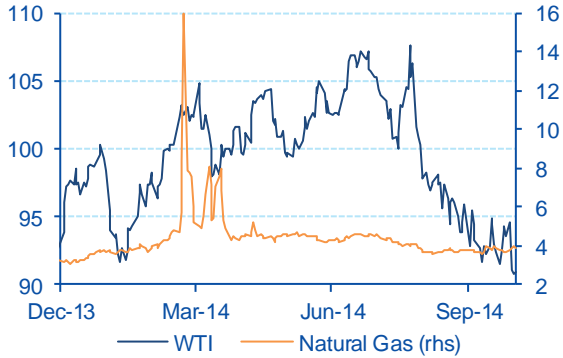
**Graph 14**  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

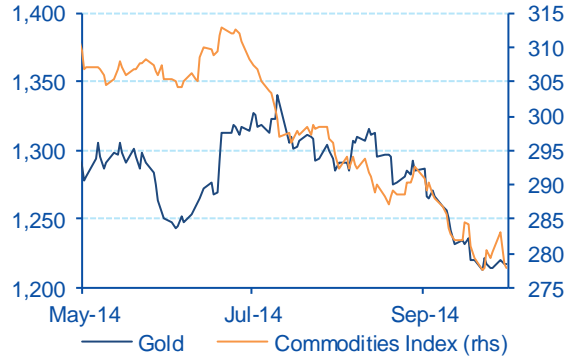
**Financial Markets**

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



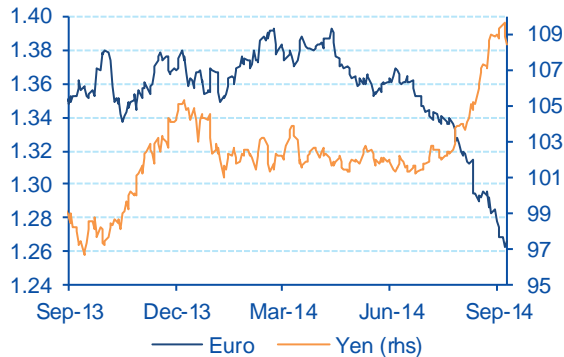
Source: Bloomberg & BBVA Research

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



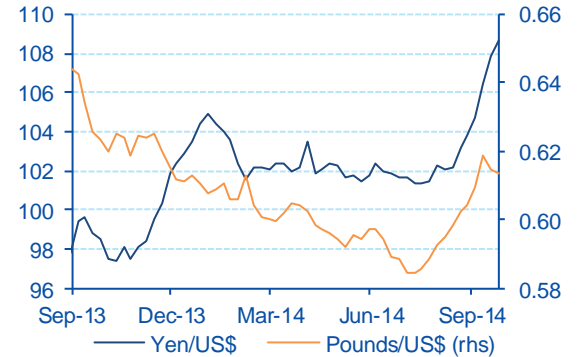
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



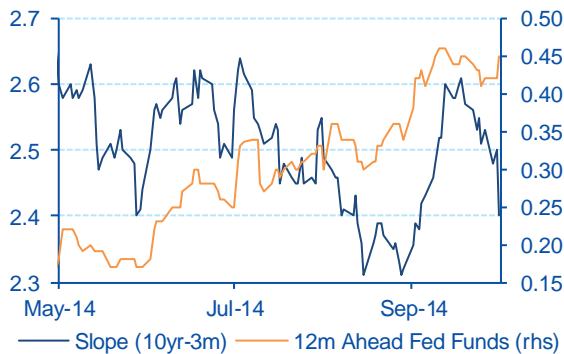
Source: Bloomberg & BBVA Research

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



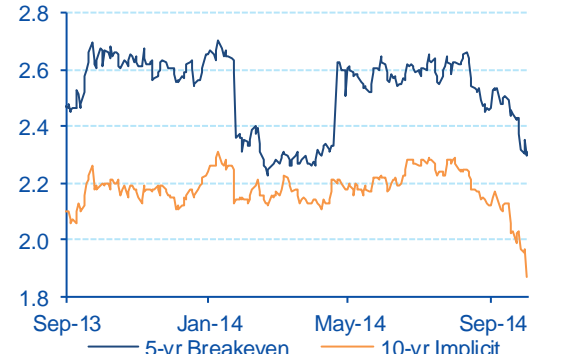
Source: Haver Analytics & BBVA Research

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)	2.94	2.93	2.93	2.49
Heloc Loan 30K	4.81	4.82	4.80	5.20
5/1 ARM *	3.06	3.08	2.97	2.90
15-year Fixed Mortgage *	3.36	3.36	3.24	3.23
30-year Fixed Mortgage *	4.19	4.20	4.10	3.99
Money Market	0.42	0.42	0.39	0.41
2-year CD	0.89	0.89	0.83	0.80

\*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	0.24
6M Libor	0.32	0.33	0.32	0.37
12M Libor	0.58	0.58	0.55	0.62
2yr Sw ap	0.80	0.78	0.75	0.47
5yr Sw ap	1.88	1.91	1.84	1.56
10Yr Sw ap	2.59	2.64	2.57	2.78
30yr Sw ap	3.15	3.20	3.17	3.66
30day CP	0.11	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.14

Source: Bloomberg & BBVA Research

## Quote of the Week

President Barack Obama

President Obama Speaks on the Economy

2 October 2014

*"If cooperation and compromise are no longer valued, but vilified; then I will keep doing everything I can on my own if it will make a difference for working Americans... Until Congress chooses to step up and help all of them, I will keep fighting for this."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Oct	US Job Openings By Industry Total SA	AUG	4660.00	--	4673.00
7-Oct	Federal Reserve Consumer Credit Total Net Change SA	AUG	21.00	21.00	26.01
9-Oct	US Initial Jobless Claims SA	4-Oct	291.00	297.00	287.00
9-Oct	US Continuing Jobless Claims SA	27-Sep	2415.00	2425.00	2398.00
9-Oct	Merchant Wholesalers Inventories Total Monthly % Change	AUG	0.40	0.30	0.10
10-Oct	US Import Price Index by End Use All MoM NSA	SEP	-0.20	-0.55	-0.90

## Forecasts (Note: Revisions Pending)

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	<b>2.0</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	3.1	2.1	1.5	<b>1.9</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
CPI Core (YoY %)	1.7	2.1	1.8	<b>2.0</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>
Unemployment Rate (%)	8.9	8.1	7.4	<b>6.3</b>	<b>5.9</b>	<b>5.8</b>	<b>5.5</b>
Fed Target Rate (eop, %)	0.25	0.25	0.25	<b>0.25</b>	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	<b>3.00</b>	<b>3.50</b>	<b>3.75</b>	<b>4.00</b>
US Dollar/ Euro (eop)	1.31	1.31	1.37	<b>1.25</b>	<b>1.22</b>	<b>1.25</b>	<b>1.28</b>

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