

Economic Analysis

# Unemployment Rate Hits 5.8% in October

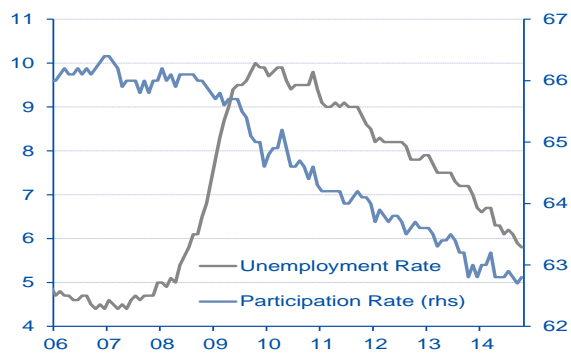
Kim Fraser Chase

Labor market conditions continue to improve gradually, with nonfarm payrolls up 214K in October. This reflects a slight deceleration from September's 256K (revised up from 248K) but the ninth consecutive month of +200K payrolls. As expected, August's report was revised up again, to 203K from 180K in the previous report and only 142K in the initial estimate released back in early September. The unemployment rate declined to 5.8% alongside a simultaneous gain in the participation rate – the first such occurrence since June and confirming the strength of ongoing employment growth. The employment-to-population ratio also increased to 59.2% after remaining flat at 59.0% for four consecutive months. According to the CPS labor force status flows, the number of unemployed individuals finding employment increased 1.6% in both September and October, while the number of unemployed dropping out of the labor force declined during that same period. This is certainly a positive sign, yet it is still difficult to estimate how much slack there is in the labor market. Furthermore, structural unemployment remains a concern, as both long-term unemployment and the number of discouraged workers remain elevated. Overall, our baseline scenario remains mostly unchanged: for 2014, we expect that the unemployment rate will average 6.2% while payroll growth reaches 1.8% for the year (up from 1.7% YoY growth in 2012 and 2013).

## Trade Gap Widens in September as Weak Global Demand Weighs on Exports

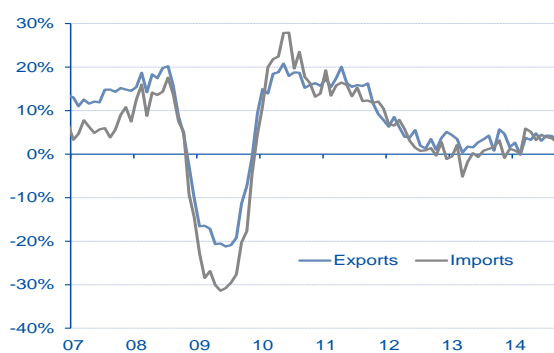
The international trade balance deteriorated in September to -\$43.0B from a seven-month best reading of -\$40.0B in August. Growing concerns over a slowing global economy did not appear to have a negative impact on the U.S. trade balance in July or August, but September's data is much more reflective of these issues. Exports declined 1.5% for the first time since February, while imports remained mostly unchanged. The petroleum trade gap widened slightly due to a 12.5% drop in exports for the month. Despite the fact that the advance GDP estimate for 3Q14 noted a significant contribution from net exports, we expect that this figure will be revised down with September's data. In real terms, exports declined 1.8% (the largest drop since December 2013) while imports increased for the third consecutive month. Weak global demand and the appreciating U.S. dollar will continue to weigh on international trade, at least through the end of this year.

Graph 1  
Unemployment and Participation Rates (%)



Source: BLS & BBVA Research

Graph 2  
U.S. Exports and Imports (YoY % Change)



Source: Census & BBVA Research

## Week Ahead

### JOLTS Job Openings (September, Thursday 10:00 ET)

Forecast: 4810K

Consensus: 4775K

Previous: 4835K

The JOLTS report has been mostly positive throughout 2014 thus far, with job openings increasing in six of the past seven months. In level terms, openings have finally surpassed the pre-recession peak, although hiring remains weak. For September, we expect to see a small downward adjustment in job openings following August's spike, though not enough to warrant concern over ongoing improvements in the labor market. The hiring component of the report will be more of a focus this month, with the hopes that numbers will catch up to the progress seen in job openings.

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

Forecast: 0.1%, 0.1%

Consensus: 0.2%, 0.4%

Previous: -0.3%, -0.1%

Retail sales had an extremely poor showing in September, when both the headline and core figures dropped for the first time in eight months. For October, we expect to see a modest rebound in the data but mostly as an adjustment rather than a genuine improvement in underlying consumer demand. Various weekly retail and chain store sales surveys suggest a relatively flat month for the ex-auto ex-gas report. Furthermore, falling gas prices continue to weigh on nominal sales at gasoline stations. Even with a boost in consumers' purchasing power, we don't expect to see an overwhelmingly positive retail sales report for the month.

### Consumer Sentiment (November, Friday 9:55 ET)

Forecast: 87.2

Consensus: 87.5

Previous: 86.9

Consumer sentiment is expected to increase in November for the fourth consecutive month. Low gas prices have boosted consumers' purchasing power, leaving them with more money in their pockets to spend elsewhere as we head into the holiday shopping season. Despite this influence from falling prices, consumers' views on current economic conditions have been the weak spot for the past few months as expectations have been gaining steam. For November, we could see the current conditions component finally turn positive again now that hiring and income prospects are on steady ground.

### Business Inventories (September, Friday 10:00 ET)

Forecast: 0.3%

Consensus: 0.3%

Previous: 0.2%

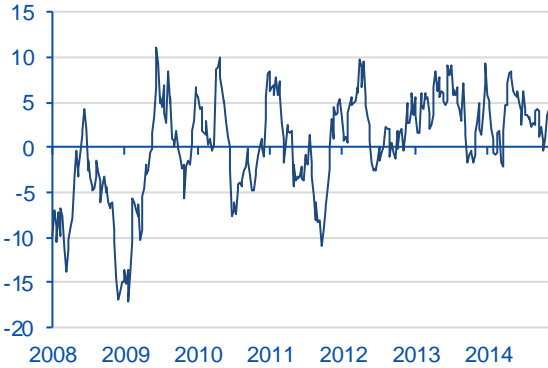
Business inventories are expected to accelerate slightly in September as manufacturers, retailers, and wholesalers prepare for the upcoming holiday shopping season. Inventory growth slowed in August due to a large pullback from retailers, though we expect that this will reverse in September. Data for manufacturing inventories has already been released for September, pointing to a pickup in total inventory growth for the month. Merchant wholesaler inventories spiked in August but should show more moderate growth in September, in line with what was already reported for the manufacturing side.

### Market Impact

Another positive employment report come and gone, yet markets remain on edge as the global economy remains vulnerable. For U.S. data, not much on the economic calendar should move financial markets this week, although a poor showing for consumer spending and confidence during the start of the holiday shopping season could be a sign of more negative news for the end of the year.

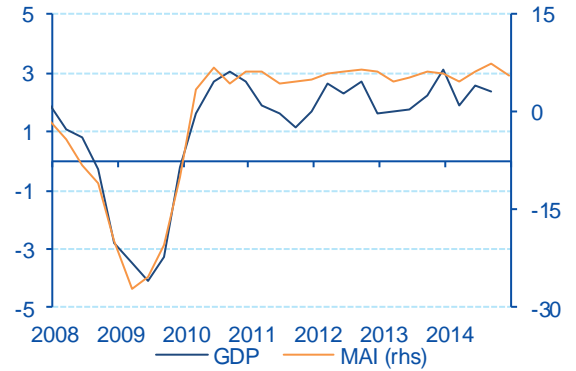
**Economic Trends**

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



Source: BBVA Research

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



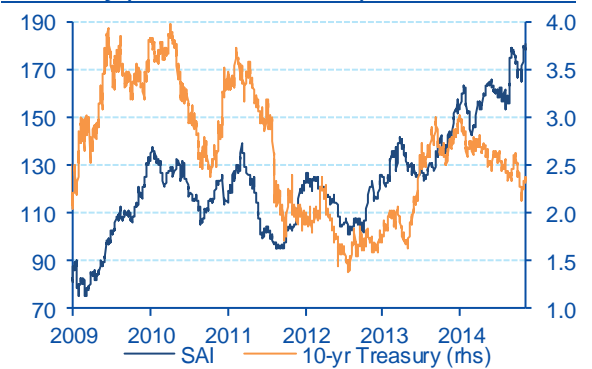
Source: BBVA Research & BEA

**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 & %)**



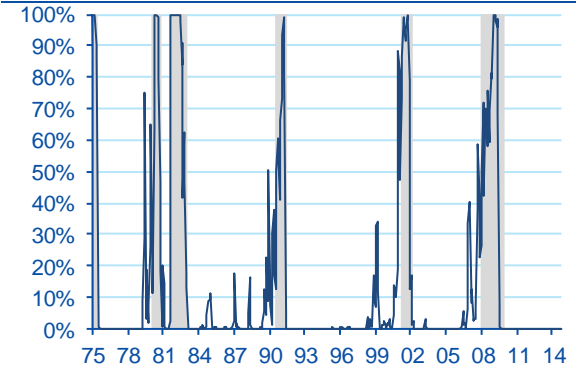
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

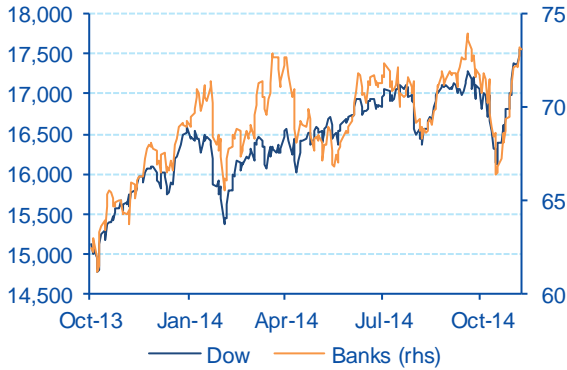
**Graph 8**  
**BBVA US Recession Probability Model**  
**(Recession episodes in shaded areas, %)**



Source: BBVA Research

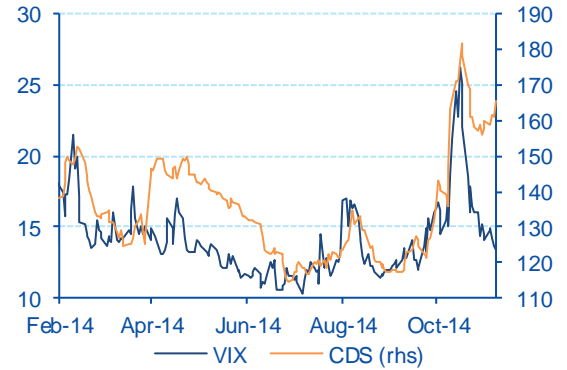
**Financial Markets**

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



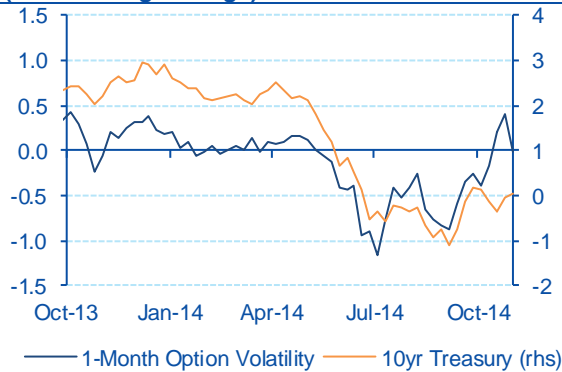
Source: Bloomberg & BBVA Research

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



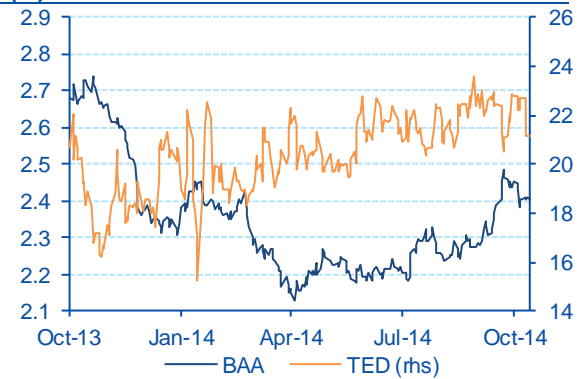
Source: Bloomberg & BBVA Research

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



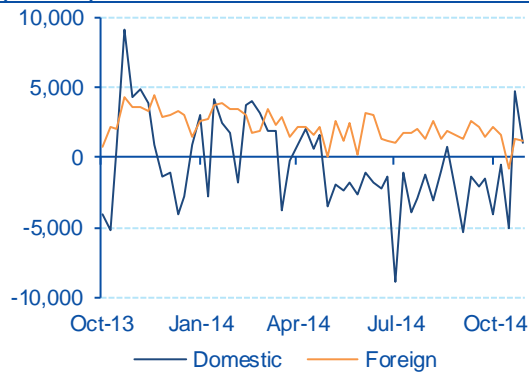
Source: Haver Analytics & BBVA Research

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



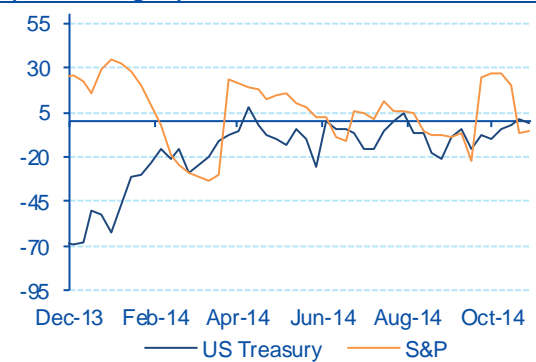
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

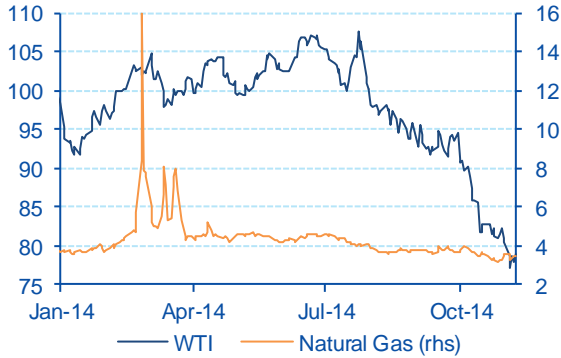
**Graph 14**  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

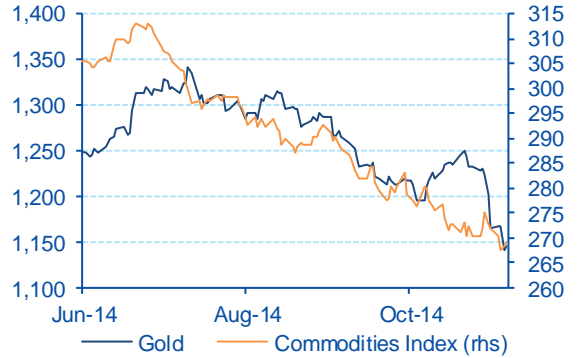
**Financial Markets**

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



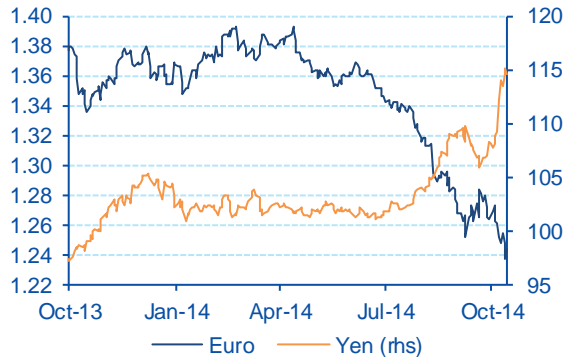
Source: Bloomberg & BBVA Research

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



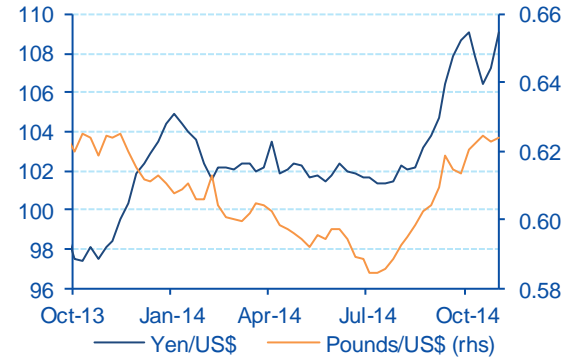
Source: Haver Analytics & BBVA Research

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



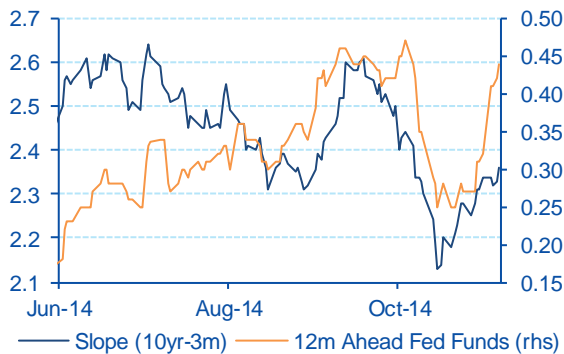
Source: Bloomberg & BBVA Research

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



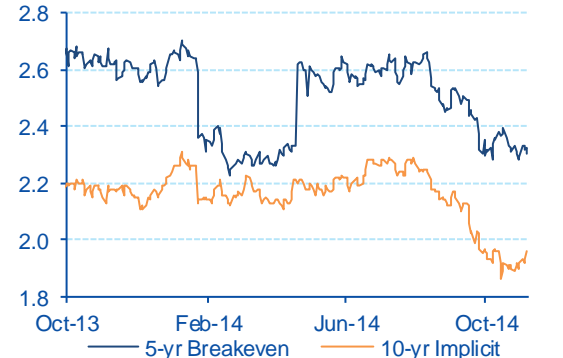
Source: Haver Analytics & BBVA Research

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)	2.97	2.96	2.94	2.63
Heloc Loan 30K	4.87	4.86	4.81	5.23
5/1 ARM *	2.97	2.94	3.05	2.90
15-year Fixed Mortgage *	3.21	3.13	3.30	3.23
30-year Fixed Mortgage *	4.02	3.98	4.12	3.99
Money Market	0.43	0.42	0.42	0.42
2-year CD	0.87	0.90	0.90	0.83

\*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	0.23	0.23	0.24
6M Libor	0.33	0.32	0.32	0.35
12M Libor	0.56	0.54	0.55	0.59
2yr Sw ap	0.72	0.71	0.69	0.44
5yr Sw ap	1.74	1.76	1.71	1.57
10Yr Sw ap	2.45	2.48	2.42	2.89
30yr Sw ap	3.02	3.06	3.00	3.81
30day CP	0.10	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.14	0.13	0.13	0.12

Source: Bloomberg & BBVA Research

## Quote of the Week

James Bullard, President of the Federal Reserve Bank of St. Louis  
 Fed's Bullard Upbeat on Economy, Sees No Need for New Stimulus  
 4 November 2014

*"We've got better performance than the other economies around the world and we've got some tailwinds coming that might feed into that. Europe looks like it's only going to grow at a very modest pace over the next couple of years...China, maybe, is a bit slower than it has been over the last decade or so. You know, Japan's trying to reinvigorate growth there. So I think the U.S. does look like the island of prosperity here and hopefully we can keep that up."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
11-Nov	NFIB Small Business Optimism Index	OCT	95.10	95.55	95.30
12-Nov	Merchant Wholesalers Inventories Total Monthly % Change	SEP	0.30	0.20	0.70
13-Nov	US Initial Jobless Claims SA	NOV 8	281.00	280.00	278.00
13-Nov	US Continuing Jobless Claims SA	NOV 1	2355.00	2340.00	2348.00
13-Nov	US Job Openings By Industry Total SA	SEP	4810.00	4775.00	4835.00
14-Nov	Adjusted Retail & Food Services Sales SA Total Monthly % Change	OCT	0.10	0.20	-0.30
14-Nov	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	OCT	0.10	0.40	-0.10
14-Nov	US Import Price Index by End Use All MoM NSA	OCT	-0.30	-1.55	-0.50
14-Nov	University of Michigan Survey of Consumer Confidence Sentiment	NOV P	87.20	87.50	86.90
14-Nov	US Manufacturing & Trade Inventories Total MoM SA	SEP	0.30	0.30	0.20

## 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	1.9	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.2	5.8	5.5	5.0
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	2.65	3.36	3.75	3.98
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.23	1.20	1.24	1.26

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