

Economic Analysis

Retail Sales Rebound in October as Consumers Take Note of Falling Gas Prices

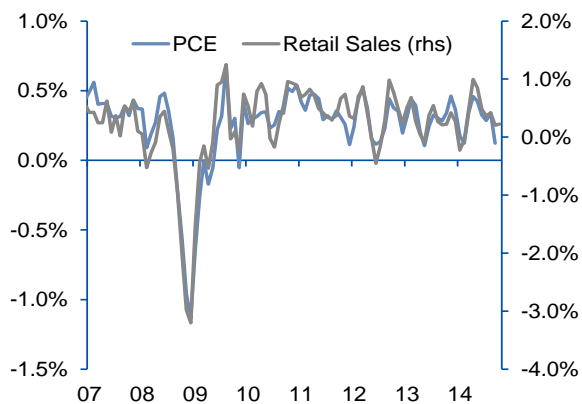
Kim Fraser Chase

Consumers in October certainly saw a boost in purchasing power from the ongoing decline in oil prices, especially for the start of the holiday shopping season. As expected, nominal retail sales rebounded from September's decline, up 0.3% in October despite the 1.5% drop in sales at gasoline stations. This is the fifth consecutive month of declines for nominal gasoline sales, dragged down of course by falling crude oil prices. Most other major components of the report were positive, with the ex-auto figure up 0.3% for the month. Excluding both autos and gas, retail sales increased 0.6%. This suggests another strong contribution from personal consumption for real GDP growth in 4Q14. Consumption has been the most consistent contributor to growth throughout the recovery thus far, and we expect that this will continue as ongoing improvement in the labor market and low inflation support increased personal spending. Thus, we expect to see ongoing gains in retail sales to finish out the year.

JOLTS Data Point to Increased Hiring and Quits in September

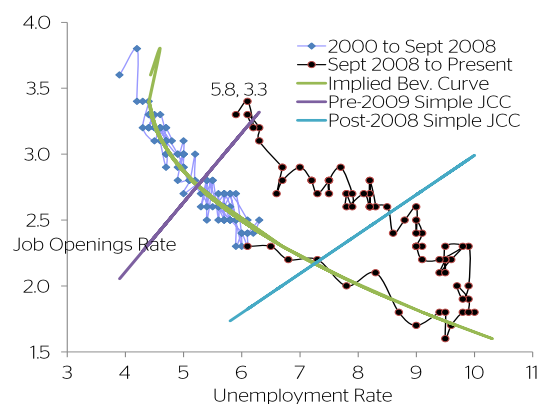
Job openings took a downward turn in September, down 2.4% to 4735K after a significant 5.4% boost in August. The good news is that job openings remain higher than the pre-crisis peak, and hiring is making a stronger comeback. The number of hires increased 6.0% to 5026K, the strongest monthly gain since May 2010 and reaching the highest level of the recovery period thus far. Separations were the standout in this report, with quits up a massive 9.7% for the month and the rate (as a percent of total employment) up to 2.0%. This is yet another encouraging sign for the labor market, which has seen ongoing improvements in both job growth and unemployment levels throughout most of the year. The fact that there were more quits in September indicates that confidence in the job market is growing and workers are more comfortable with the idea of finding other employment opportunities. There is a clear upward bias to our employment forecasts for the coming year, yet we remain cautious of ongoing structural unemployment concerns.

Graph 1
Retail Sales and Personal Consumption (3mma %)



Source: BEA, Census, & BBVA Research

Graph 2
National Beveridge Curve



Source: BLS & BBVA Research

Week Ahead

Industrial Production (October, Monday 9:15 ET)

Forecast: 0.2%

Consensus: 0.2%

Previous: 1.0%

Industrial production is expected to increase again in October but at a much slower rate compared to the previous month. Output in September jumped significantly due to a major spike in utilities and mining, enough to recover from August's surprising decline. Manufacturing output in September also rebounded and is expected to continue expanding at a similar pace in October as producers meet goods demand for the holiday shopping season. Although we have seen some mixed data throughout October, the signs point to at least a modest positive gain for total industrial production for the month.

Housing Starts and Building Permits (October, Wednesday 8:30 ET)

Forecast: 1045K, 1050K

Consensus: 1025K, 1035K

Previous: 1017K, 1031K

Housing starts and permits both increased in September, but not quite enough to recoup the losses from August, and levels remain lower than what we saw back in June. For October, we expect that both components will push for another modest monthly gain as the housing sector chugs along making gradual improvements. New home construction has certainly been a weak point throughout the past year, with existing homes more affordable and therefore in higher demand among potential homebuyers. As such, we do not put too much upward bias on our forecasts for new home starts, at least for the short-term.

Consumer Price Index, Core (October, Thursday 8:30 ET)

Forecast: 0.0%, 0.1%

Consensus: -0.1%, 0.1%

Previous: 0.1%, 0.1%

Consumer prices are expected to remain mostly unchanged in October as downward pressures from energy battle increasing inflation from food and some core components. Energy prices are the biggest factor to watch, as crude oil prices have declined for four consecutive months, with October's drop the largest since June 2012. Natural gas prices also declined in October after making up some ground in September. At the headline level, we expect this to offset food prices, which have increased at a faster pace throughout the past three months. Other price pressures stemming from consumer goods in the core inflation index are not expected to have a major impact on the CPI for October.

Existing Home Sales (October, Thursday 10:00 ET)

Forecast: 5195K

Consensus: 5150K

Previous: 5170K

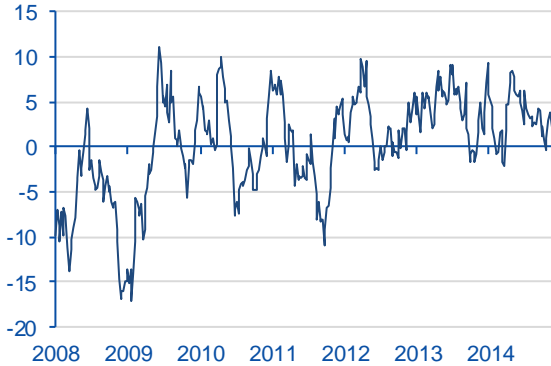
Existing home sales are expected to increase in October while maintaining the ongoing gradual growth trend seen throughout the past year. As is the case with other housing data, existing home sales made a comeback in September following a minor decline in August. Sales have reached the highest level since October of last year, when the market was turning downward for the first time since mid-2010. We expect that it will take another six months or so to surpass the peak of the recovery period thus far, but in the meantime, existing home sales will remain one of the brighter spots in the recovering housing market.

Market Impact

Markets this week will have plenty of economic data to filter through, although particular focus will be on Wednesday's FOMC meeting minutes. Inflation will also be an important report, mostly as it relates back to the FOMC, but also among worries that falling oil prices could hurt the slow-moving global economy. Industrial production and housing data could also warrant some modest market reaction.

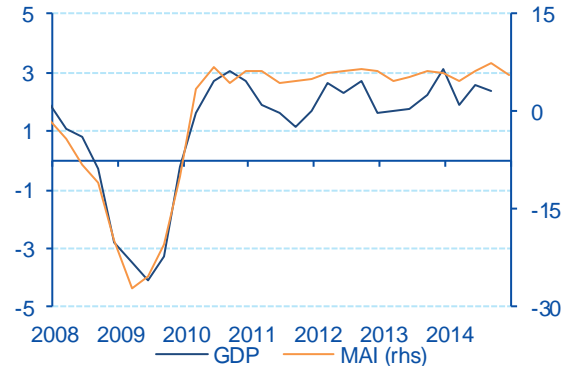
Economic Trends

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



Source: BBVA Research

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



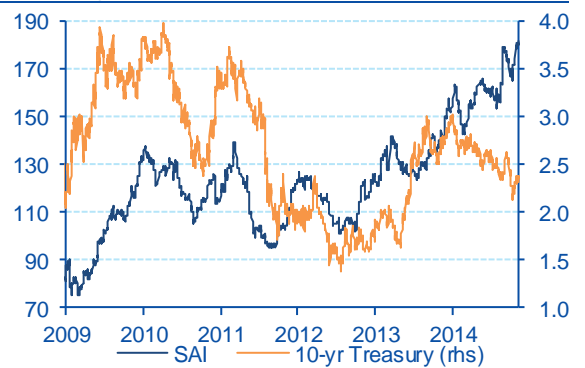
Source: BBVA Research & BEA

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



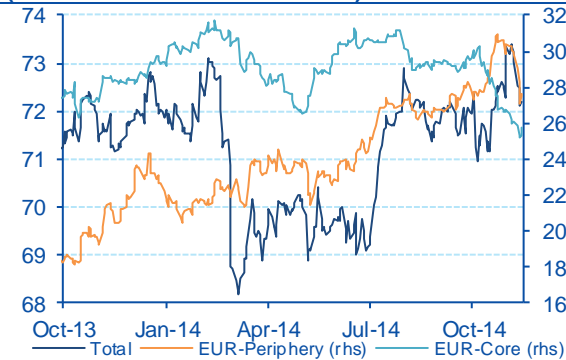
Source: BBVA Research

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



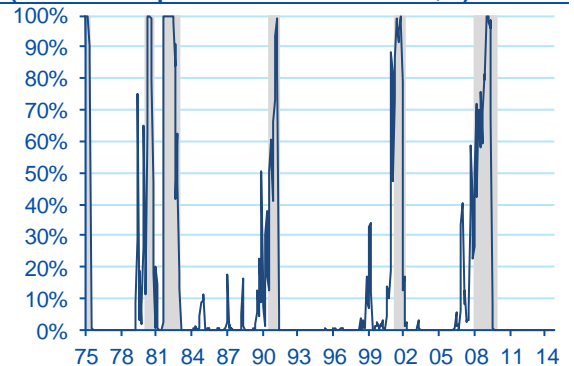
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

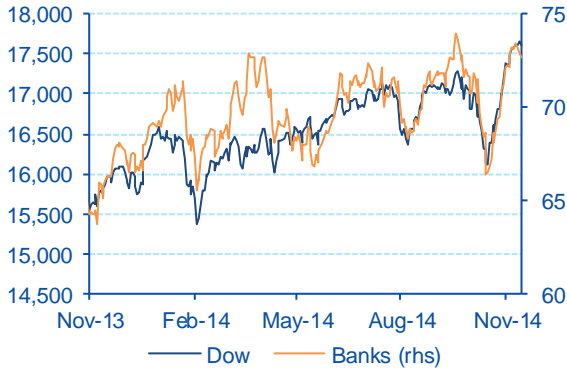
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

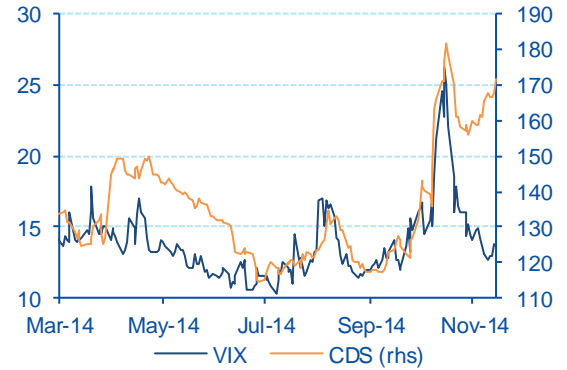
Financial Markets

Graph 9
Stocks
(Index, KBW)



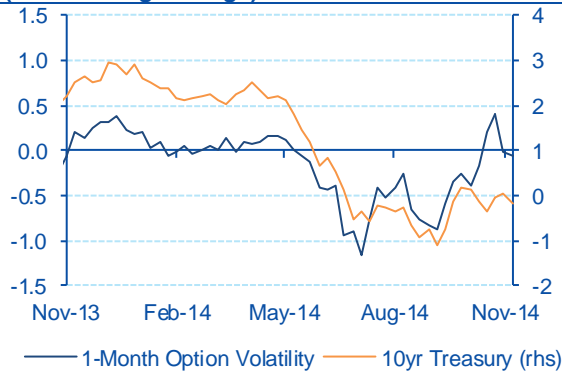
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



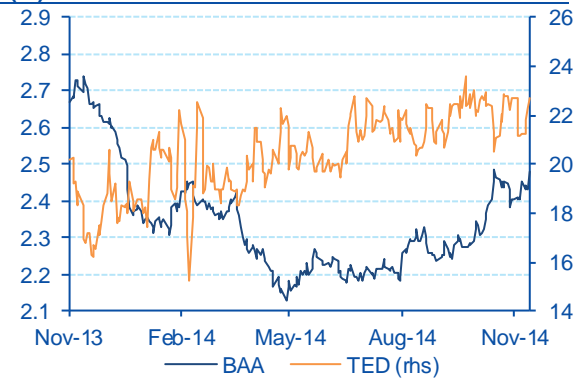
Source: Bloomberg & BBVA Research

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



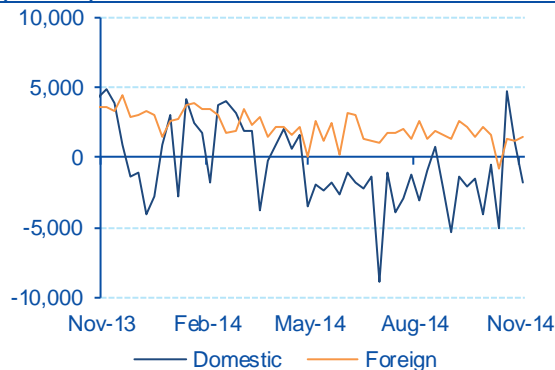
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



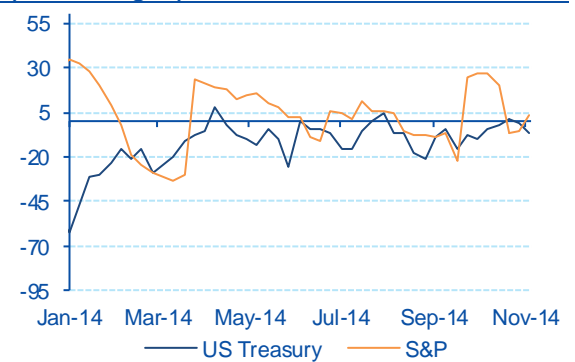
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

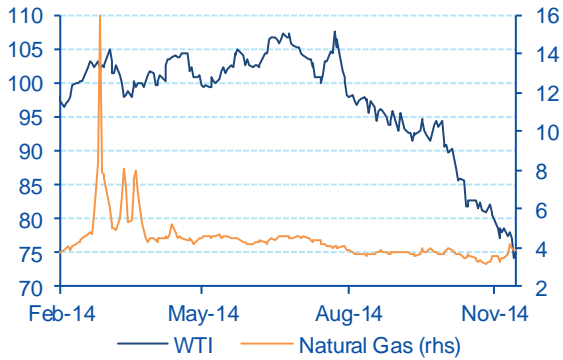
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

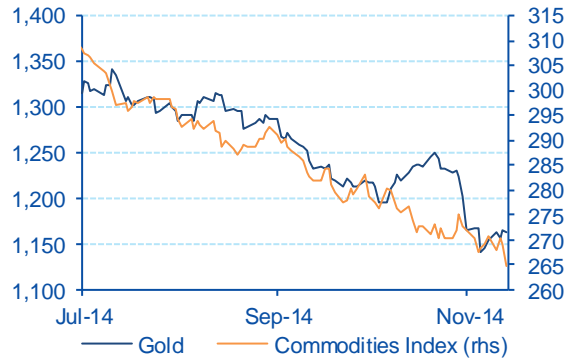
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



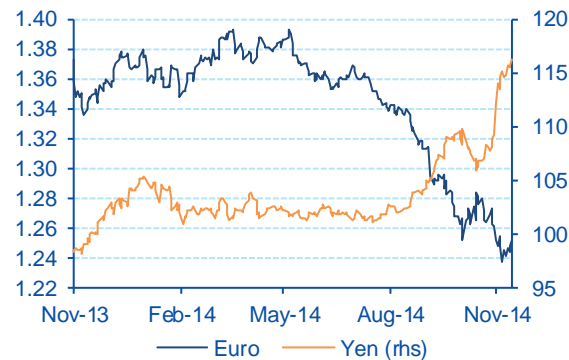
Source: Bloomberg & BBVA Research

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



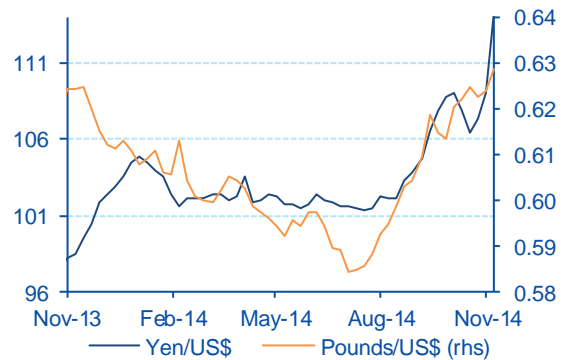
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



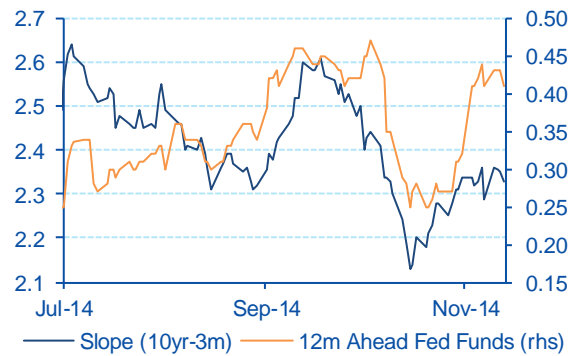
Source: Bloomberg & BBVA Research

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



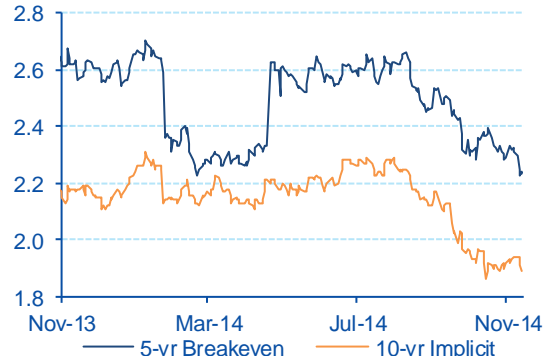
Source: Haver Analytics & BBVA Research

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)	2.96	2.97	2.94	2.66
Heloc Loan 30K	4.74	4.87	4.83	5.23
5/1 ARM *	3.02	2.97	2.92	2.90
15-year Fixed Mortgage *	3.20	3.21	3.18	3.23
30-year Fixed Mortgage *	4.01	4.02	3.97	3.99
Money Market	0.43	0.42	0.42	0.42
2-year CD	0.87	0.87	0.89	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	0.10	0.09	0.09
3M Libor	0.23	0.23	0.23	0.24
6M Libor	0.33	0.33	0.32	0.35
12M Libor	0.57	0.56	0.55	0.58
2yr Sw ap	0.73	0.72	0.64	0.40
5yr Sw ap	1.74	1.73	1.61	1.45
10Yr Sw ap	2.44	2.44	2.35	2.76
30yr Sw ap	3.02	3.00	2.96	3.69
30day CP	0.10	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.15	0.13	0.13	0.12

Source: Bloomberg & BBVA Research

Quote of the Week

William C. Dudley, President and CEO of the Federal Reserve Bank of New York
U.S. Monetary Policy and its Global Implications
13 November 2014

“Given the still high level of long-term unemployment, there could be a significant benefit to allowing the economy to run ‘slightly hot’ for a while in order to get these people employed again.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Nov	US Empire State Manufacturing Survey General Business Conditions SA	NOV	10.50	12.00	6.17
17-Nov	US Industrial Production MoM 2007=100 SA	OCT	0.20	0.20	1.01
17-Nov	US Capacity Utilization % of Total Capacity SA	OCT	79.30	79.30	79.30
17-Nov	US Industrial Production Industry Groups Manufacturing MoM SA	OCT	0.20	0.25	0.50
18-Nov	US PPI Final Demand MoM SA	OCT	-0.10	-0.10	-0.10
18-Nov	US PPI Final Demand Less Foods and Energy MoM SA	OCT	0.10	0.10	0.00
18-Nov	National Association of Home Builders Market Index SA	NOV	55.00	55.00	54.00
19-Nov	US New Privately Owned Housing Units Started by Structure Total SAAR	OCT	1045.00	1025.00	1017.00
19-Nov	Private Housing Authorized by Bldg Permits by Type Total SAAR	OCT	1050.00	1035.00	1031.00
20-Nov	US Initial Jobless Claims SA	NOV 15	283.00	282.00	290.00
20-Nov	US Continuing Jobless Claims SA	NOV 8	2370.00	2385.00	2392.00
20-Nov	US CPI Urban Consumers MoM SA	OCT	0.00	-0.10	0.09
20-Nov	US CPI Urban Consumers Less Food & Energy MoM SA	OCT	0.10	0.10	0.14
20-Nov	US Existing Homes Sales SAAR	OCT	5.20	5.15	5.17
20-Nov	US Existing Homes Sales MoM SA	OCT	0.87	-0.39	2.38
20-Nov	Conference Board US Leading Index MoM	OCT	0.50	0.60	0.80
20-Nov	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	NOV	17.30	18.50	20.70

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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