

Economic Analysis

# Another Surprising Upward Revision to Real GDP

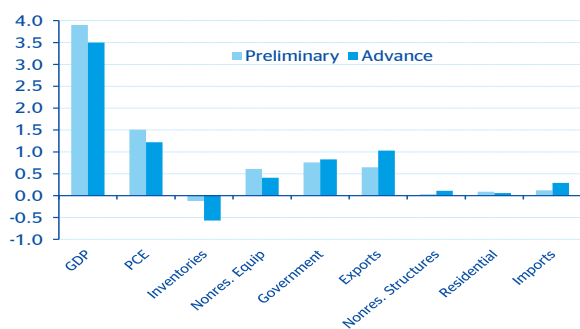
Kim Fraser Chase

The preliminary report for 3Q14 real GDP growth was a welcome surprise, hinting at more positive underlying details compared to the advance release. Growth was revised up from 3.5% to 3.9% QoQ SAAR, slightly less than the 4.6% pace seen in the second quarter. The primary drivers behind this upward revision were personal consumption expenditures (up from 1.8% to 2.2%) and nonresidential fixed investment (up from 5.5% to 7.1%). Also, the contribution from the change in private inventories was much less negative than originally reported (-0.12 percentage points versus -0.57pp). This is all good news, pointing toward stronger underlying fundamentals of business and consumer demand rather than a mere one-time boost from defense spending (unchanged from the advance estimate of 16.0% QoQ SAAR). On the downside, export growth was revised down from 7.8% to 4.9%, hinting at a gloomier picture for global demand than previously thought. This revised figure puts additional upward bias on our growth forecast for 2014. Assuming this data hold for the final report, we may see growth as high as 2.2% for the year. However, growth in the fourth quarter is not expected to come close to the pace seen in 2Q and 3Q. Although domestic demand is expected to hold strong during the holiday shopping season, global demand remains weak. As such, we expect to see more of a drag from net exports to close out the year. Furthermore, we don't expect to see another big push from government consumption. Our expectation for real GDP growth in 2015 remains unchanged at 2.5%.

## Personal Income and Outlays Show Modest Gain for October

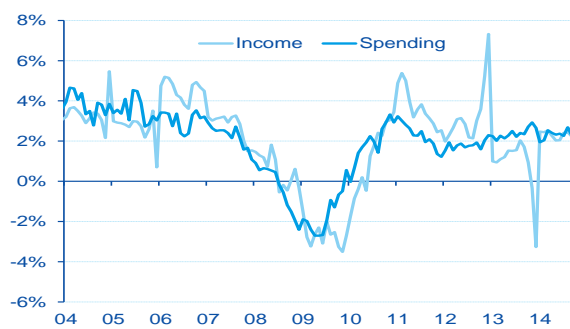
Personal income and outlays both increased a modest 0.2% in October, beating the pace seen in the previous month but coming in slightly below consensus expectations. Not surprisingly, personal savings declined in October as consumers looked to get an early start on holiday shopping. Although income growth has been relatively steady throughout the past few months, the gradual gains have not been enough to support a significant boost in personal spending. On a YoY basis, income growth has accelerated to the highest point since December 2012 but remains low compared to the pre-recession average. Personal spending growth has decelerated throughout the past few months, though we do expect to see an uptick as we finish out the year. Real personal consumption expenditures should continue to be a strong driver of GDP growth in the coming quarters, but the lack of upward pressure on wages will limit any major jump in contributions from spending.

Graph 1  
Contributions to Real GDP Growth (SAAR pp)



Source: BEA & BBVA Research

Graph 2  
Real Personal Income & Outlays (YoY % Change)



Source: BEA & BBVA Research

## Week Ahead

### ISM Manufacturing Index (November, Monday 10:00 ET)

Forecast: 59.80

Consensus: 58.15

Previous: 59.00

The ISM Manufacturing Index is expected to increase slightly in November following a significant rebound in October. New orders were the key driver in October, with the sub-index up almost 10% to approach a recovery high. This should help boost the production component in November, which has been mostly unchanged throughout the past three months. With low prices giving a boost to consumers' purchasing power at this time of year, we expect that demand will hold strong and give another lift to the ISM Index.

### Nonfarm Payrolls and Unemployment Rate (November, Friday 8:30 ET)

Forecast: 220K, 5.9%

Consensus: 227K, 5.8%

Previous: 214K, 5.8%

Employment growth is expected to hold above the 200K mark for the tenth consecutive month as positive economic news continue to boost the labor market. We often see a spike in temporary help during this time of year, mostly stemming from the retail sector. However, this is not sustainable hiring and thus we could see an adjustment at the start of next year. When it comes to the unemployment rate, we may see a slight uptick alongside another gain in the participation rate. However, we do not expect that the rate will jump back above 6.0% unless we see a major inflow of new/reentrants to the labor force.

### International Trade Balance (October, Friday 8:30 ET)

Forecast: -\$43.3B

Consensus: -\$41.0B

Previous: -\$43.0B

The international trade balance worsened significantly in September as exports took a sharp turn downward. Global demand remains weak on account of slow growth expectations and an appreciating U.S. dollar. As such, we do not expect to see a major rebound in export growth for October. Domestically, we are likely to see an increase in demand for imported goods. Therefore, the trade gap is expected to widen again in October and may continue to do so until we see a reversal in demand from abroad.

### Consumer Credit (October, Friday 15:00 ET)

Forecast: \$16.50B

Consensus: \$16.25B

Previous: \$15.92B

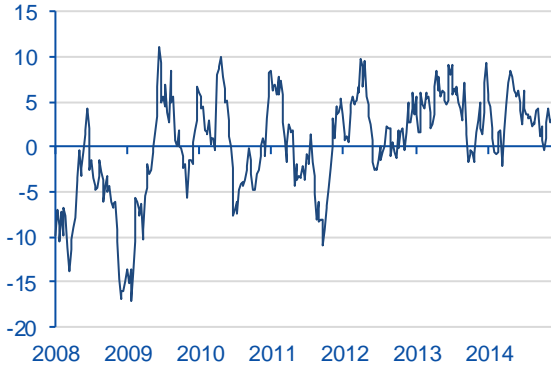
Consumer credit is expected to continue growing in October as the holiday shopping season heats up. Total outstanding credit has remained strong throughout the past year, though mostly due to increasing student loan debt on the nonrevolving side. Revolving credit has been relatively weak, but we do expect that the figure will hold in positive territory for the fourth quarter. Consumers are much more willing to take on additional debt this time of year, particularly when buying big ticket items and taking advantage of holiday promotions. Therefore, we should see another steady gain for consumer credit in October.

### Market Impact

Markets should come in fresh and rested this week after a long-holiday weekend. Of course, most of the focus will be on Friday's employment report. The international trade report will also be important for markets to get an idea of the strength (or lack thereof) of domestic and global demand. Finally, any news on consumer spending will certainly warrant some market attention throughout 4Q14.

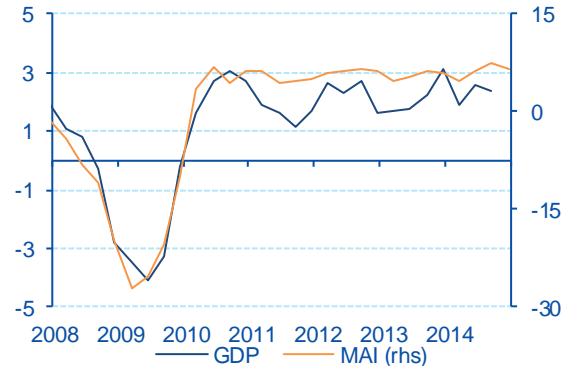
**Economic Trends**

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



Source: BBVA Research

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



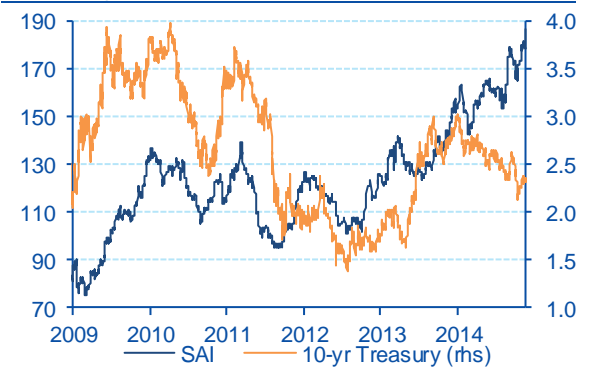
Source: BBVA Research & BEA

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



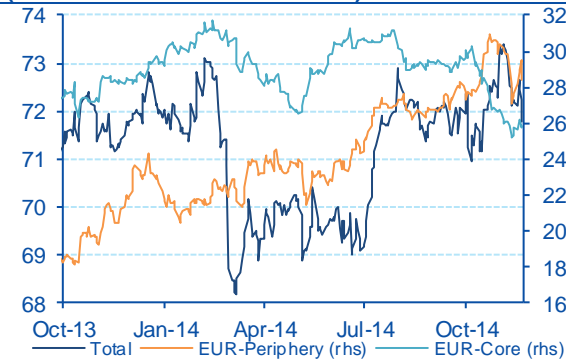
Source: BBVA Research

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



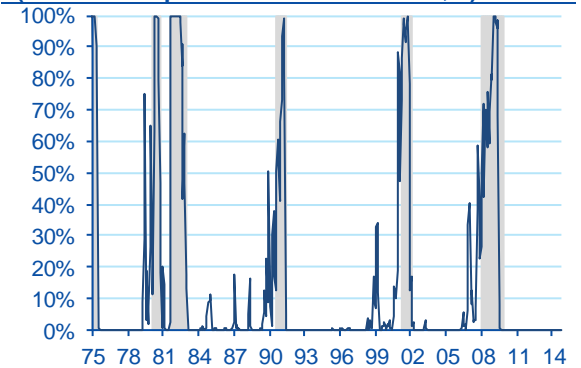
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

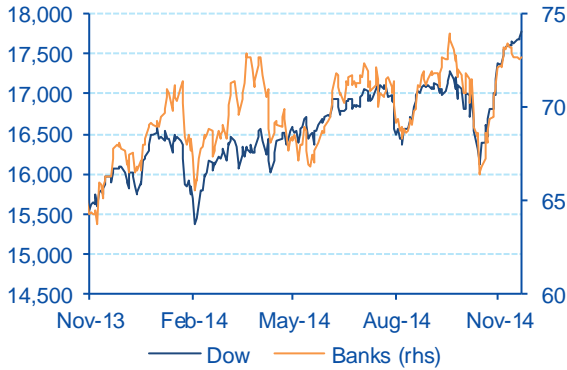
**Graph 8**  
**BBVA US Recession Probability Model**  
**(Recession episodes in shaded areas,%)**



Source: BBVA Research

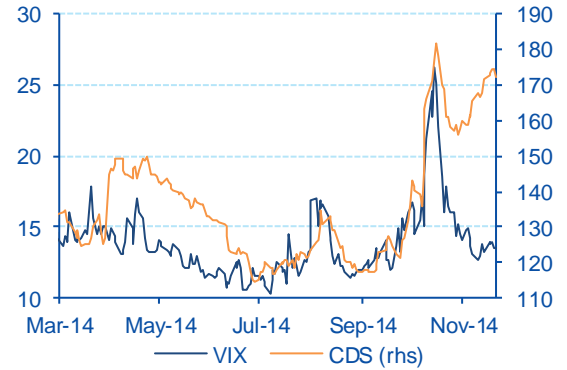
**Financial Markets**

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



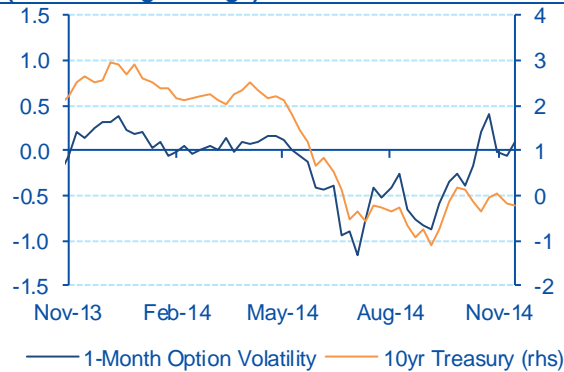
Source: Bloomberg & BBVA Research

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



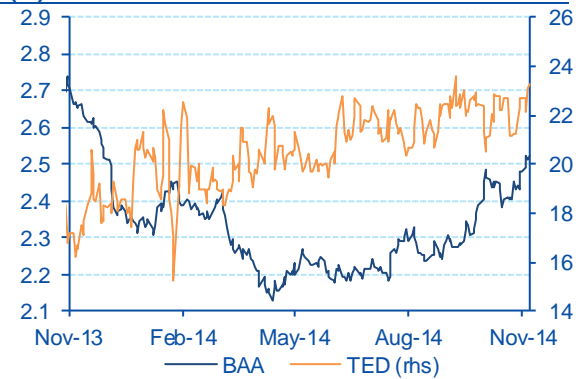
Source: Bloomberg & BBVA Research

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



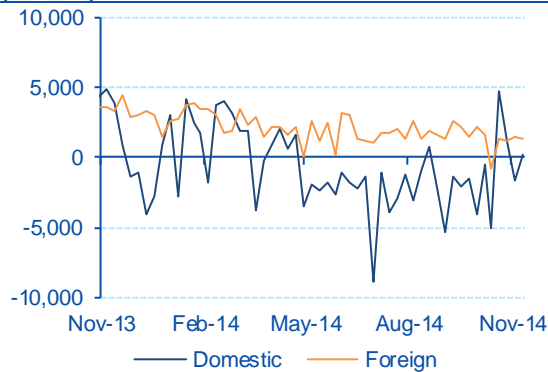
Source: Haver Analytics & BBVA Research

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



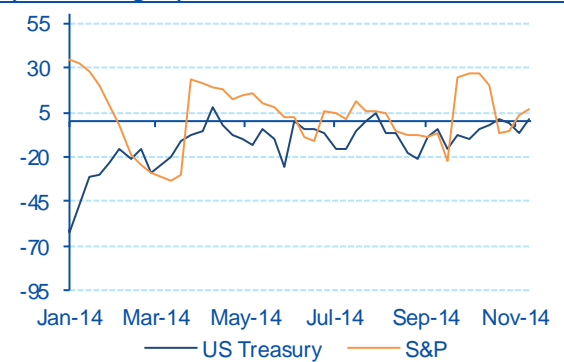
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

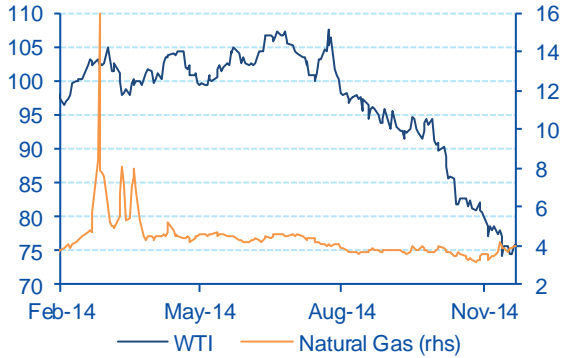
**Graph 14**  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

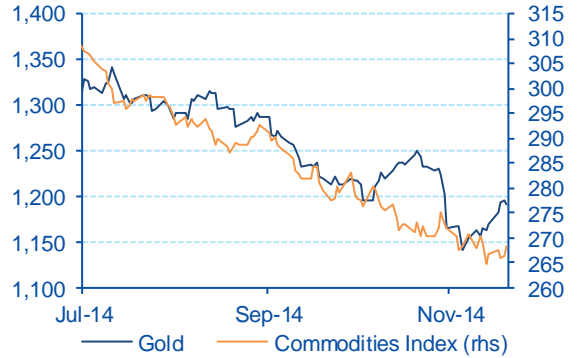
**Financial Markets**

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



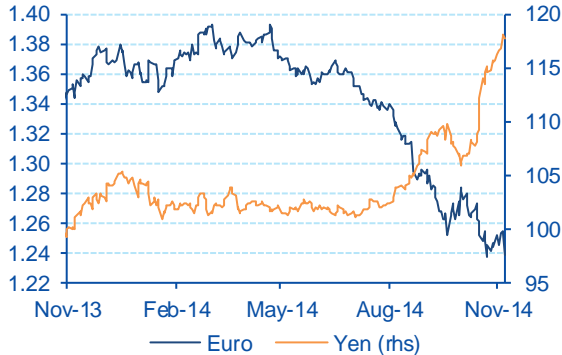
Source: Bloomberg & BBVA Research

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



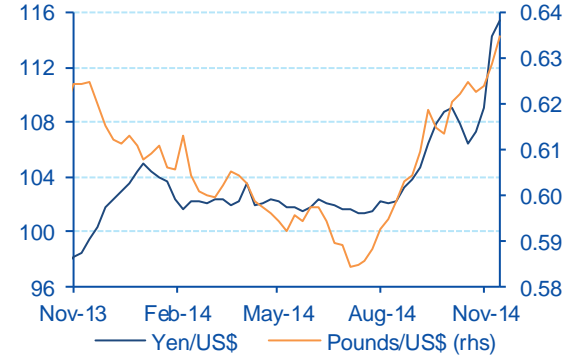
Source: Haver Analytics & BBVA Research

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



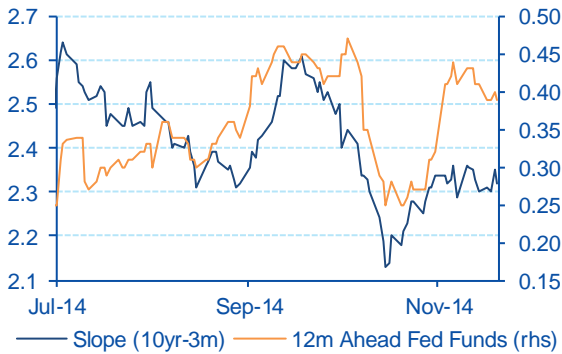
Source: Bloomberg & BBVA Research

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



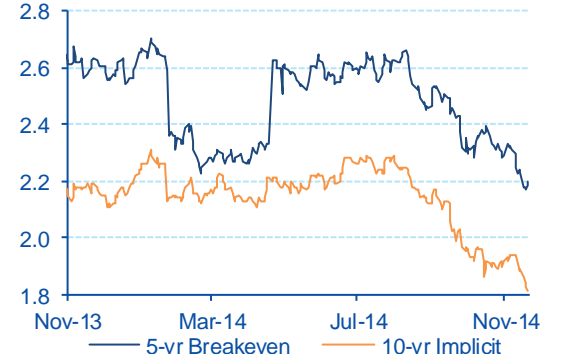
Source: Haver Analytics & BBVA Research

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	2.96	2.94	2.68
Heloc Loan 30K	4.82	4.74	4.84	5.18
5/1 ARM *	3.01	3.02	2.91	2.90
15-year Fixed Mortgage *	3.17	3.20	3.08	3.23
30-year Fixed Mortgage *	3.99	4.01	3.92	3.99
Money Market	0.43	0.43	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	0.10	0.09	0.09	0.09
3M Libor	0.23	0.23	0.23	0.24
6M Libor	0.33	0.33	0.32	0.34
12M Libor	0.56	0.57	0.55	0.58
2yr Sw ap	0.72	0.73	0.64	0.38
5yr Sw ap	1.74	1.74	1.67	1.43
10Yr Sw ap	2.44	2.45	2.41	2.78
30yr Sw ap	2.99	3.02	3.03	3.72
30day CP	0.11	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

President Barack Obama

Remarks by the President in Address to the Nation on Immigration

20 November 2014

*“And to those members of Congress who question my authority to make our immigration system work better, or question the wisdom of me acting where Congress has failed, I have one answer: Pass a bill.”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
1-Dec	ISM Manufacturing PMI SA	NOV	59.80	58.15	59.00
2-Dec	NEW YORK PURCHASING MANAGER Current Business Conditions SA	NOV	55.00	-	54.80
2-Dec	Census Bureau US Construction Spending MoM SA	OCT	0.20	0.50	-0.40
3-Dec	ADP National Employment Report SA Private Nonfarm Level Change	NOV	225.00	226.00	229.60
3-Dec	US Output Per Hour Nonfarm Business Sector QoQ SA	3Q F	1.90	1.80	2.00
3-Dec	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	3Q F	0.30	0.50	0.30
3-Dec	ISM Non-Manufacturing NMI NSA	NOV	57.90	57.70	57.10
4-Dec	US Initial Jobless Claims SA	29-Nov	287.00	288.00	291.00
4-Dec	US Continuing Jobless Claims SA	22-Nov	2330.00	2350.00	2330.00
5-Dec	US Trade Balance of Goods and Services SA	OCT	-43.30	-41.00	-43.03
5-Dec	US Employees on Nonfarm Payrolls Total MoM Net Change SA	NOV	220.00	227.50	214.00
5-Dec	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	NOV	217.00	219.00	209.00
5-Dec	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	NOV	10.00	14.00	15.00
5-Dec	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	NOV	0.20	0.20	0.10
5-Dec	US Average Weekly Hours All Employees Total Private SA	NOV	34.50	34.60	34.60
5-Dec	US Manufacturers New Orders Total MoM SA	OCT	0.20	-0.10	-0.60
5-Dec	Federal Reserve Consumer Credit Total Net Change SA	OCT	16.50	16.25	15.92

## Forecasts

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

### DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.