

Economic Analysis

# Nonfarm Payrolls Jump 321K in November

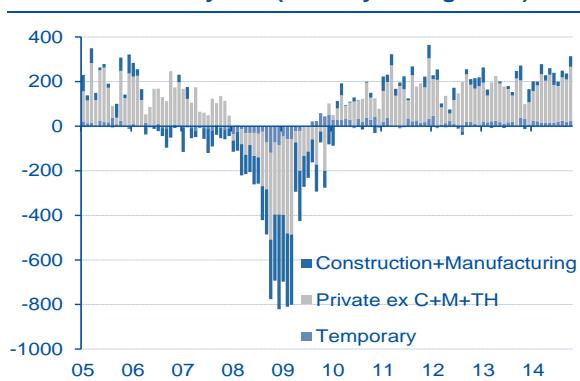
Kim Fraser Chase

Employment growth was a jaw-dropper in November, up an astounding 321K following a revised 243K gain in October. This marks the strongest monthly job growth seen since January 2012 and comes on the back of the most robust 10-month string of nonfarm payroll data. This surprising payroll growth was not quite enough to bring down unemployment, but even still, the unemployment rate remained unchanged at a recovery low of 5.8%. November's compelling employment report is just another piece of the puzzle that confirms our upward bias to the 2014 outlook. The data point to another robust quarter in 4Q14 following stronger-than-expected gains in both 2Q and 3Q. We do not expect that 4Q GDP will outpace that seen in the prior two quarters; however, it is likely that we will see healthy growth near 2.5% QoQ SAAR to close out the year. The ongoing strength in consumption could push the 4Q figure even higher depending on how much consumers adjust to the boost in purchasing power from falling gas prices. This would bring us to an annual average of 2.2-2.3% for 2014, in line with the pace seen in the past two years. Furthermore, if these trends continue and prices remain favorable for increased consumption, we may also see a positive impact on 2015 growth. As such, our views for 2015 are slightly biased to the upside, although our forecast remains at 2.5% for the year.

## International Trade Balance Holds Steady in October with Rebound in Exports

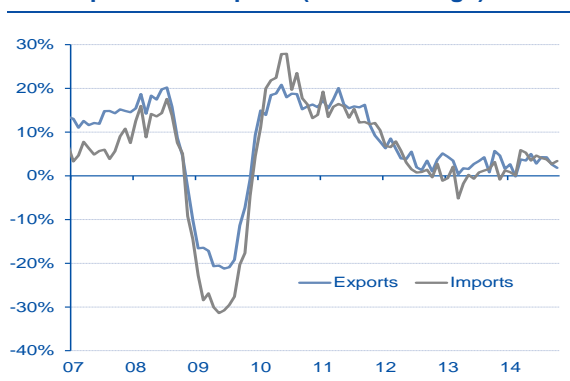
Despite expectations for a slowdown in trade to start the fourth quarter, the international trade balance was mostly unchanged in October at -\$43.4B following a slightly revised -\$43.6B in September. The data were more encouraging than expected, with exports rebounding 1.2% after falling 1.8% in the previous month. Domestic demand was also stronger, highlighted by a 0.9% increase in imports to mark the strongest monthly gain since April. Not surprisingly, the nominal petroleum balance widened from -\$14.0B to -\$15.2B, with exports down 11.1% for the second consecutive double-digit monthly decline. The value of petroleum imports also declined for the third straight month as falling crude oil prices continue to put downward pressure on the nominal figure. In real terms, petroleum imports increased 3.5% in October. While this does suggest stronger demand from the consumer, it does not bode well for the GDP report for 4Q. We expect to see a much lower contribution from net exports compared to 3Q14, but this should be mostly offset by stronger personal consumption.

Graph 1  
Private Sector Payrolls (Monthly Change in K)



Source: BLS & BBVA Research

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



Source: Census Bureau & BBVA Research

## Week Ahead

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

Forecast: 4820K

Consensus: 4770K

Previous: 4735K

Job openings have been somewhat volatile throughout the past few months, bouncing up and down but still hovering slightly above the pre-crisis peak. In October, we expect that openings will increase back closer to August's levels after dropping nearly 2.5% in September. Professional and business services as well as education and health services have been driving the latest gains in total job openings, yet we are still waiting for the boost from construction and manufacturing. Considering the ongoing gains in nonfarm payrolls, we expect that gradual increases in job openings will continue and that the total number of hires in the JOLTS reports will eventually catch up to speed.

### Retail Sales, Ex Auto and Gas (November, Thursday 8:30 ET)

Forecast: 0.4%, 0.5%

Consensus: 0.4%, 0.4%

Previous: 0.3%, 0.6%

Retail sales are expected to increase in November at a similar pace as in October. Seasonal promotions and holiday shopping sprees will certainly boost total retail sales for the month, yet falling prices may weigh on the nominal figures. In particular, the rapid decline in gas prices will likely be reflected in headline sales, but the ex-auto ex-gas should appear stronger. Weekly retail sales surveys confirm this idea, with most data pointing to healthy sales due to a boost in consumers' purchasing power, especially towards the end of the month. Compared to last year, we expect that retail sales will remain nearly 4% higher on average throughout 4Q14.

### Business Inventories (October, Thursday 10:00 ET)

Forecast: 0.5%

Consensus: 0.2%

Previous: 0.3%

Inventory growth is expected to accelerate in October as manufacturers, wholesalers, and retailers build up stock for the holiday shopping season. In August and September, growth was at its slowest pace since the summer of 2013, and this was reflected as a negative contribution to GDP in the 3Q14 report. Businesses have done a good job maintaining a steady inventory-to-sales ratio, and with expectations for a pickup in sales, we should see a corresponding increase in inventories throughout the fourth quarter, particularly from the retail side.

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

Forecast: 89.0

Consensus: 89.6

Previous: 88.8

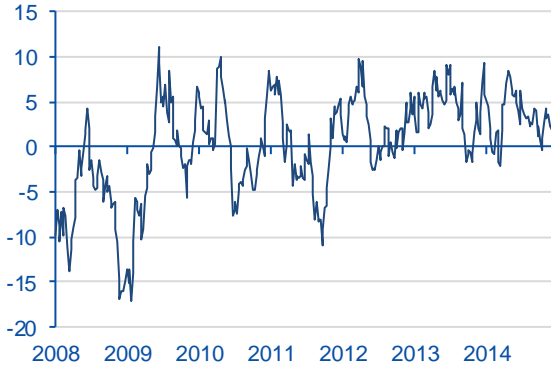
Consumer sentiment has been on the rise for four consecutive months, mostly due to increasing expectations. For December's first report, we expect that consumer sentiment will be heavily influenced by views on current economic conditions, particularly with the boost in purchasing power stemming from falling gas prices. Other consumer confidence indicators have not been as strong as the sentiment index, although the main focus of these surveys is slightly different. The consumer sentiment index focuses more heavily on personal finances specifically and therefore may be more reflective of the latest gains in purchasing power.

### Market Impact

Markets are beginning to quiet down as the year draws to a close. The highlight of the economic calendar this week will be retail sales, with the hopes that the data point to a strong holiday shopping season. Other economic releases are more lagged and therefore warrant less of a reaction from markets. Of course, the ongoing declines in oil prices will continue to be watched heavily throughout the coming weeks.

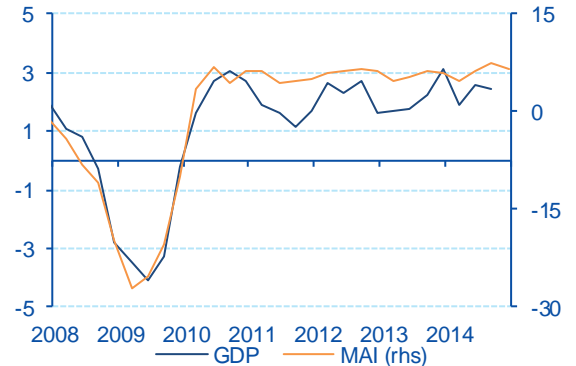
### Economic Trends

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



Source: BBVA Research

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



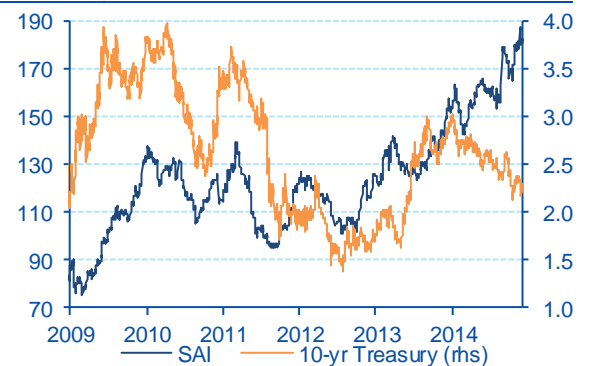
Source: BBVA Research & BEA

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



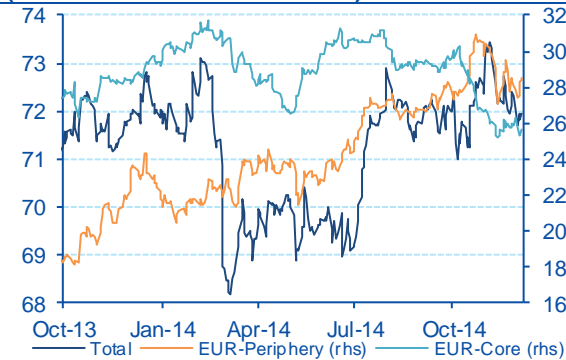
Source: BBVA Research

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



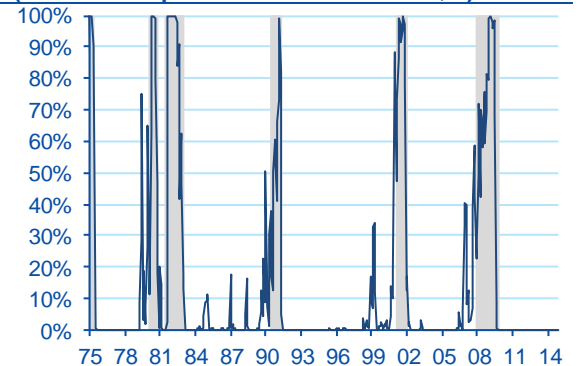
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

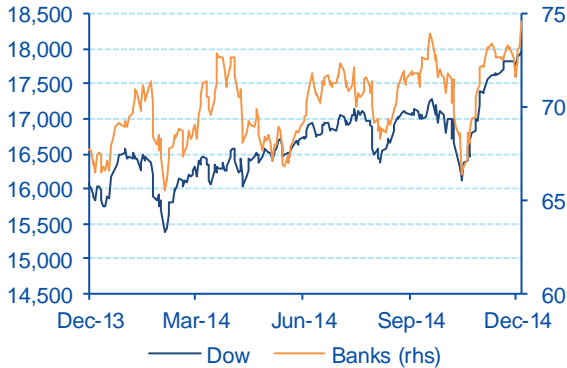
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas,%)



Source: BBVA Research

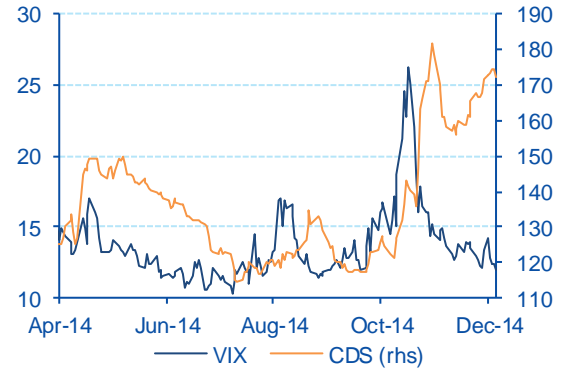
**Financial Markets**

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



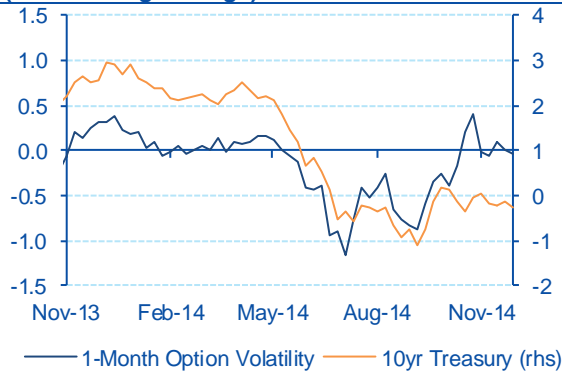
Source: Bloomberg & BBVA Research

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



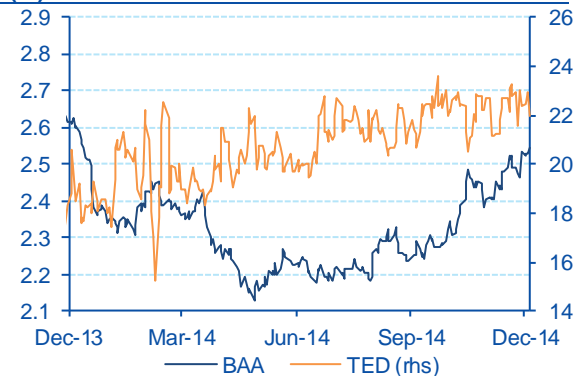
Source: Bloomberg & BBVA Research

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



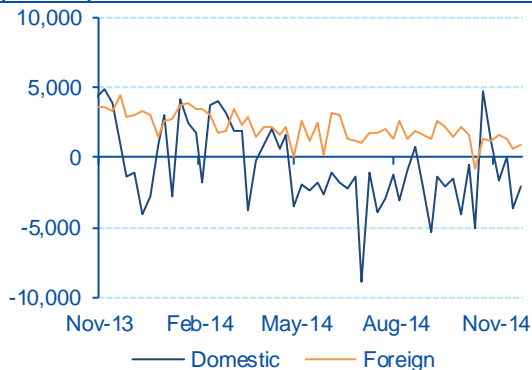
Source: Haver Analytics & BBVA Research

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



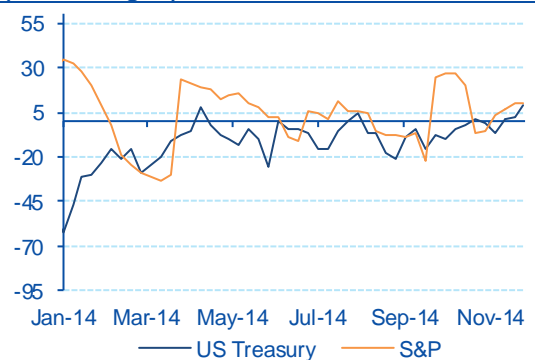
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

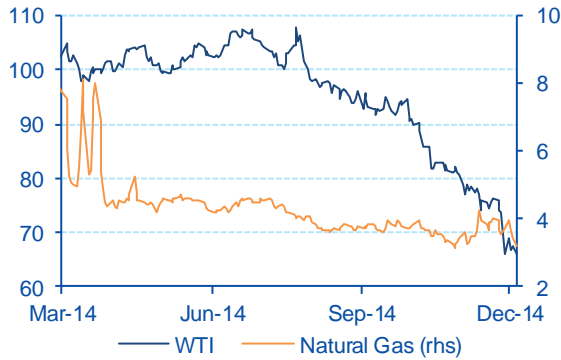
**Graph 14**  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

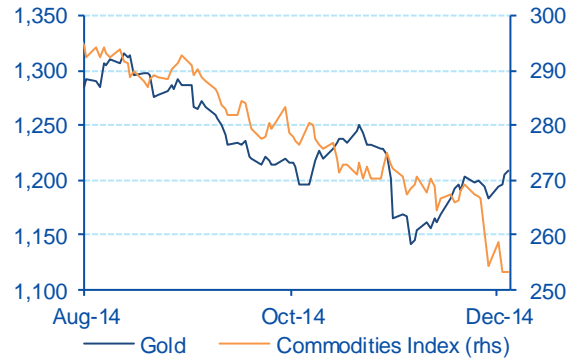
**Financial Markets**

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



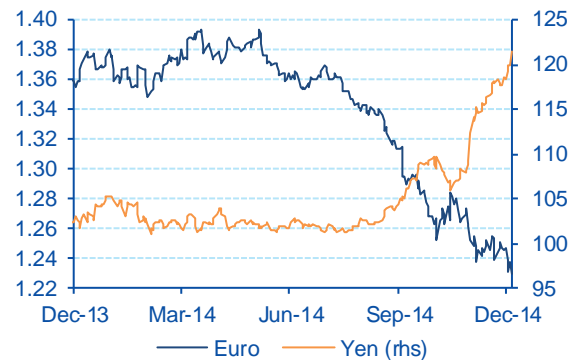
Source: Bloomberg & BBVA Research

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



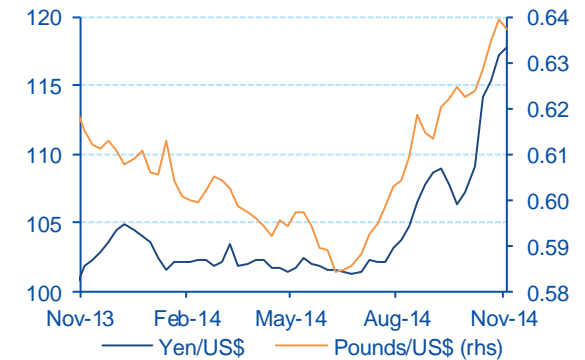
Source: Haver Analytics & BBVA Research

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



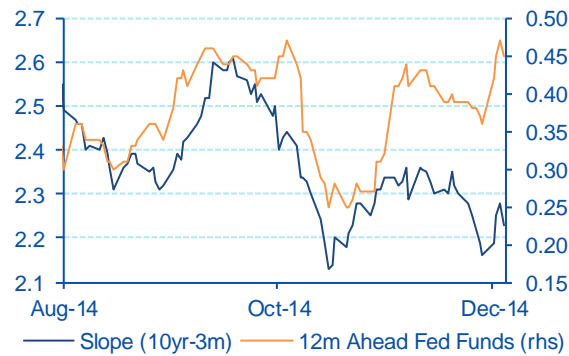
Source: Bloomberg & BBVA Research

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



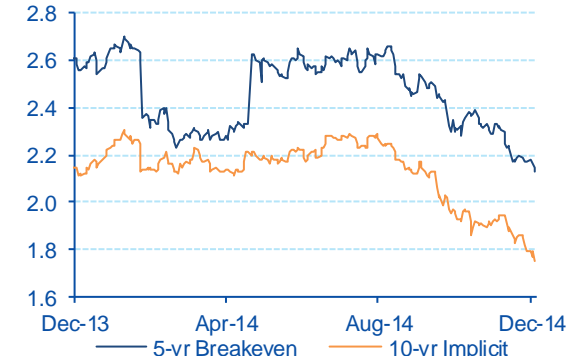
Source: Haver Analytics & BBVA Research

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)	2.90	2.92	2.97	2.67
Heloc Loan 30K	4.89	4.87	4.87	5.28
5/1 ARM *	2.94	3.01	2.97	2.90
15-year Fixed Mortgage *	3.10	3.17	3.21	3.23
30-year Fixed Mortgage *	3.89	3.97	4.02	3.99
Money Market	0.43	0.43	0.42	0.42
2-year CD	0.87	0.88	0.87	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	0.12	0.10	0.09	0.09
3M Libor	0.24	0.24	0.23	0.24
6M Libor	0.33	0.33	0.32	0.34
12M Libor	0.58	0.56	0.55	0.57
2yr Sw ap	0.85	0.69	0.72	0.39
5yr Sw ap	1.81	1.62	1.73	1.54
10Yr Sw ap	2.42	2.30	2.44	2.87
30yr Sw ap	2.93	2.88	3.00	3.75
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  
The 2015 Economic Outlook and the Implications for Monetary Policy  
1 December 2014

*“While raising interest rates is often portrayed as a difficult task for central bankers, in fact, given the events since the onset of the financial crisis, it would be a development to be truly excited about...That would be very good news, even if it were to cause a bump or two in financial markets.”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
9-Dec	NFIB Small Business Optimism Index	NOV	96.50	96.50	96.10
9-Dec	Merchant Wholesalers Inventories Total Monthly % Change	OCT	0.40	0.20	0.30
9-Dec	US Job Openings By Industry Total SA	OCT	4820.00	4770.00	4735.00
11-Dec	US Initial Jobless Claims SA	DEC 6	295.00	296.00	297.00
11-Dec	US Continuing Jobless Claims SA	NOV 29	2350.00	2348.50	2362.00
11-Dec	Adjusted Retail & Food Services Sales SA Total Monthly % Change	NOV	0.40	0.40	0.30
11-Dec	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	NOV	0.50	0.40	0.60
11-Dec	US Import Price Index by End Use All MoMNSA	NOV	-0.70	-1.90	-1.30
11-Dec	US Manufacturing & Trade Inventories Total MoM SA	OCT	0.50	0.20	0.30
12-Dec	US PPI Final Demand MoM SA	NOV	0.10	-0.10	0.20
12-Dec	US PPI Final Demand Less Foods and Energy MoM SA	NOV	0.20	0.10	0.40
12-Dec	University of Michigan Consumer Sentiment Index	DEC P	89.00	89.60	88.80

## 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	1.28

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