

Economic Analysis

Autos Drive Strong Retail Sales in November

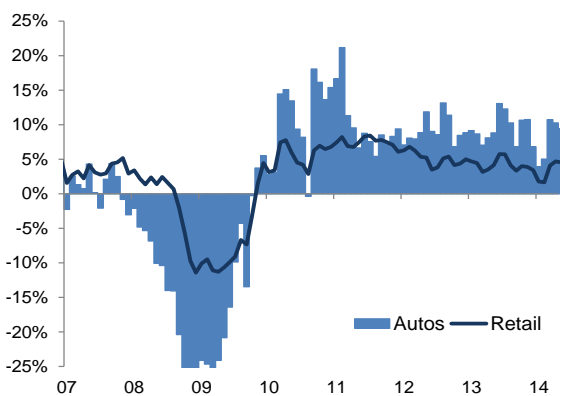
Kim Fraser Chase

Retail sales increased a healthy 0.7% in November following October's upwardly revised 0.5%, confirming expectations for a consumer-friendly holiday shopping season. Auto demand has been getting a big boost from falling gasoline prices, with sales up 0.8% in October and 1.7% in November. Excluding autos, retail sales increased 0.5%. Not surprisingly, the major drag came from sales at gasoline stations, down 0.8% in November for the sixth consecutive month. Retail sales excluding both autos and gas increased 0.65%. Total retail sales are up more than 5.0% compared to this time last year, and we expect that spending will remain strong throughout the coming months. Personal consumption expenditures account for nearly 70% of GDP, so the latest data bode well for growth in 4Q14 and beyond, particularly if gas prices remain low and favorable for consumers. Even with some lingering uncertainties stemming from slow global growth and monetary policy actions, we expect that consumption will remain strong enough to push domestic growth higher in 2015.

October's JOLTS Data Confirm Strengthening Labor Market

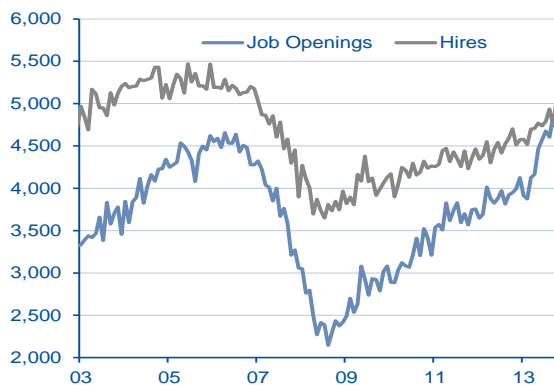
The Job Openings and Labor Turnover Survey (JOLTS) for October showed some improvement over the prior month, noting an increase in job openings but minor declines in hiring and the number of quits. Openings increased 3.2%, almost fully recouping the losses from September, with a significant 21.4% boost coming from construction. Hiring, on the other hand, declined 0.4% as professional and business services took the biggest hit for the month. The drop in quits for October followed a significant jump in September, one that hinted at a more confident workforce. Still, the quits rate (as percent of total employment) remains near a recovery high and suggests improving expectations regarding job availability and income prospects. While we continue to see signs of structural unemployment (falling participation rate, elevated long-term unemployment, part-time vs full-time hiring, etc), it is hard to deny the ongoing improvements in the labor market, particularly with the unemployment rate down to 5.8% and employment back to pre-recession levels. Consumers should transition into 2015 with more positive attitudes, fueled not only by increasing employment opportunities but also the ongoing bout of low gas prices that is making up for any lack of wage growth.

Graph 1
Retail and Auto Sales (YoY % Change)



Source: Census & BBVA Research

Graph 2
JOLTS: Job Openings and Hires (SA, Thousands)



Source: BLS & BBVA Research

Week Ahead

Empire State Manufacturing Survey (December, Monday 8:30 ET)

Forecast: 13.50

Consensus: 12.00

Previous: 10.16

The Empire State Manufacturing Survey is expected to accelerate in December, reflecting a pickup in demand and production to end the year. In October, the index dropped into single digits for the first time since March, mostly due to a surprising decline in new orders, but rebounded sufficiently in November. In particular, the spike in new orders for November suggests another healthy month for production in December. We may also see an increase in the employment components for the month given the increased demand for the end of the year.

Industrial Production (November, Monday 9:15 ET)

Forecast: 0.4%

Consensus: 0.7%

Previous: -0.1%

The industrial production index is expected to increase in November following a minor drop in the previous month. Mining and utilities were the major drags in October, though most of this is due to the influence of falling oil prices on the nominal figure. As such, we expect that these components will remain subdued as long as oil prices hold at low levels. On the bright side, manufacturing activity should continue along at a steady pace. Various surveys, particularly the regional Federal Reserve manufacturing reports, have already hinted at a big boost in new orders and production for November.

Housing Starts and Building Permits (November, Tuesday 8:30 ET)

Forecast: 1025K, 1070K

Consensus: 1040K, 1060K

Previous: 1009K, 1092K

Housing starts and building permits are both expected to increase in November, continuing the gradual improvement seen throughout the past few months. Although housing starts declined in October, the details reveal more of a modest adjustment from September's big spike rather than a concerning slowdown in activity. Building permits, which are a leading indicator for new home starts, have increased throughout the past two months and suggest a lagging gain for housing construction in the near future.

Consumer Price Index, Core (November, Wednesday 8:30 ET)

Forecast: -0.1%, 0.1%

Consensus: -0.1%, 0.1%

Previous: 0.0%, 0.2%

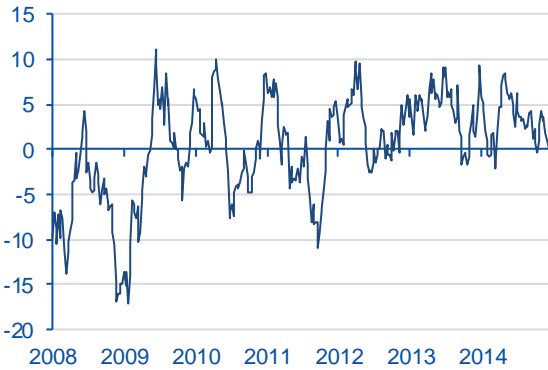
Falling oil prices have been the highlight of recent inflation reports, weighing on the headline figure throughout the past four months. We expect that this trend will continue again in November, with crude oil prices down another 10% or so since October. However, we haven't really seen a major pass through to core prices, with the usual drivers (shelter and medical care) still putting upward pressure on the index. Deflationary concerns are minimal, and the impact from low gas prices is expected to have a positive impact on consumption. Overall, our inflation outlook remains mostly unchanged, with expectations for lower-than-average price growth throughout the coming year.

Market Impact

This last full week of 2014 will certainly warrant some market attention. Markets will be anxiously awaiting Wednesday's data, both the CPI release and the FOMC statement. A change to the Fed's forward guidance may send markets into a frenzy if misunderstood. Otherwise, markets won't have much else to worry about on the economic calendar as we head into the short holiday weeks.

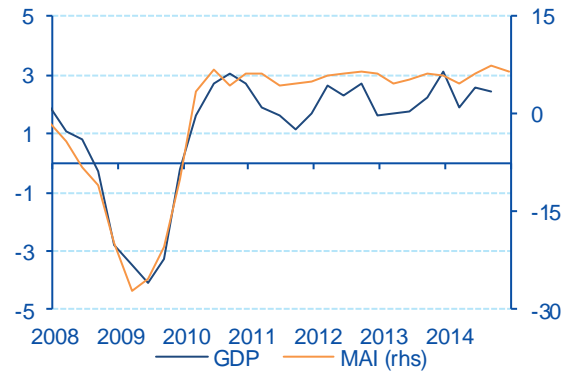
Economic Trends

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



Source: BBVA Research

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



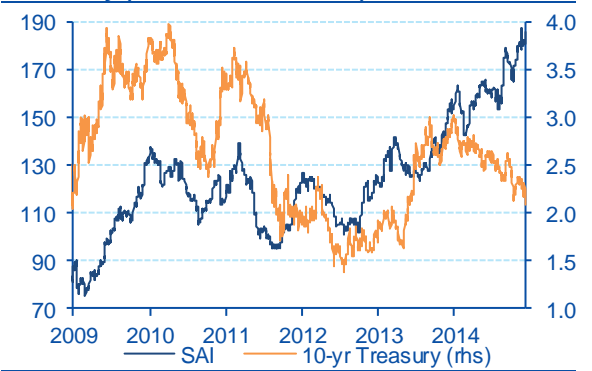
Source: BBVA Research & BEA

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



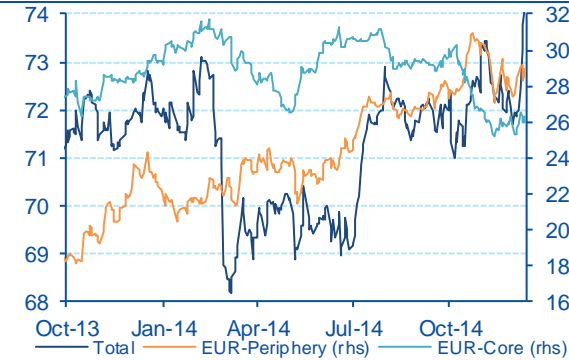
Source: BBVA Research

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



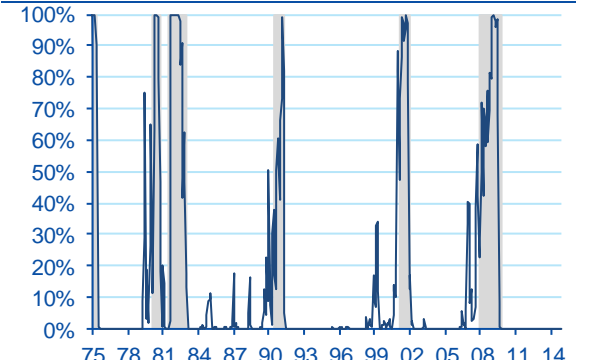
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

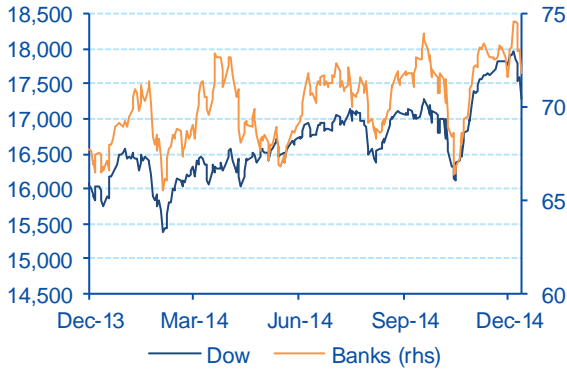
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

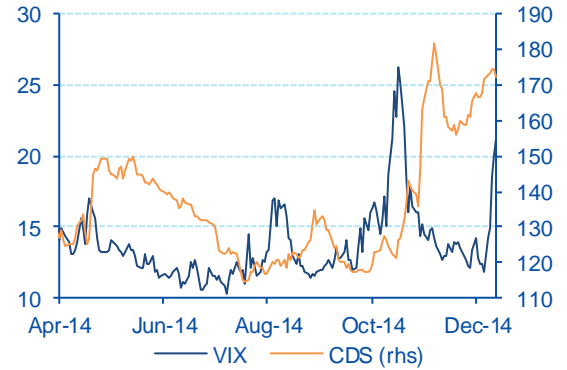
Financial Markets

Graph 9
Stocks (Index, KBW)



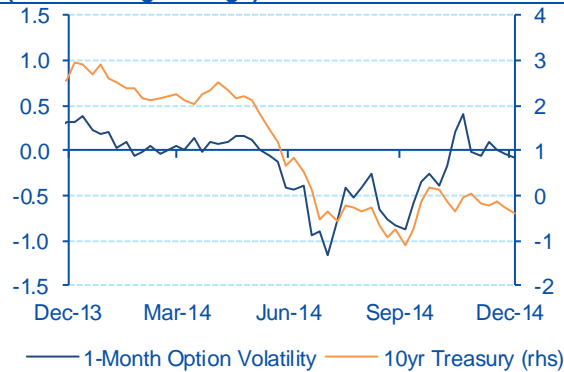
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



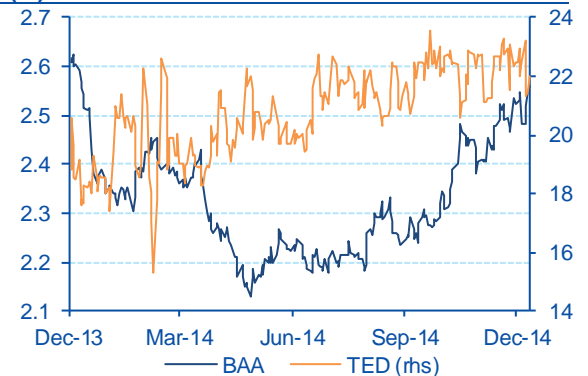
Source: Bloomberg & BBVA Research

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



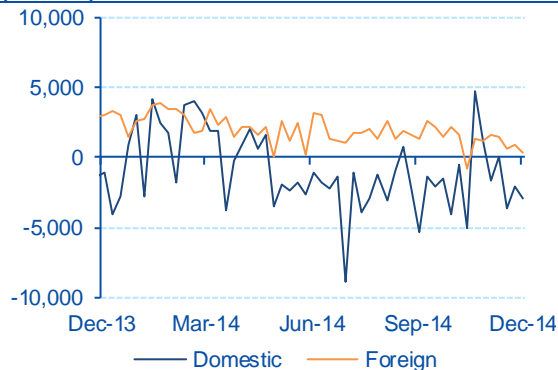
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



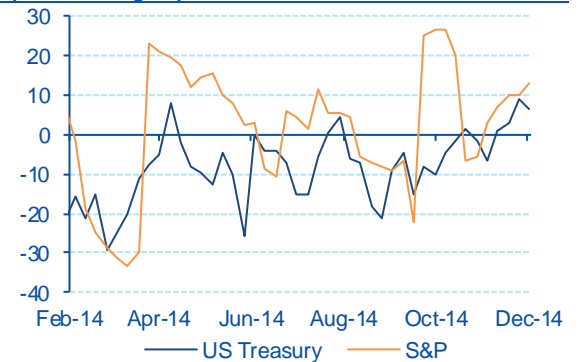
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

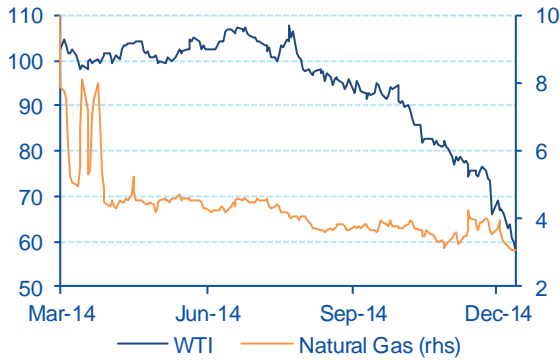
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Haver Analytics & BBVA Research

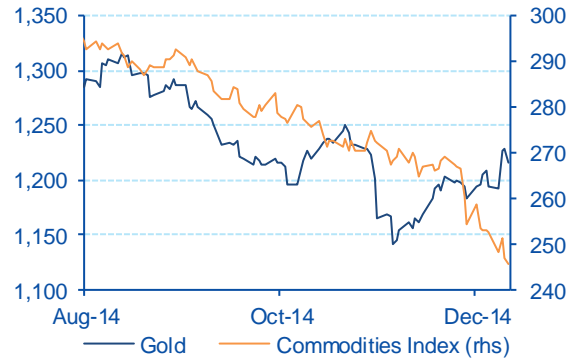
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



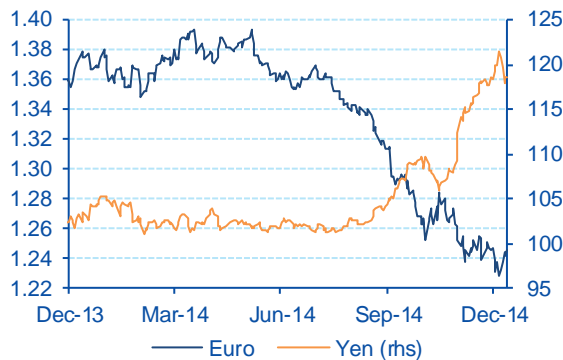
Source: Bloomberg & BBVA Research

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



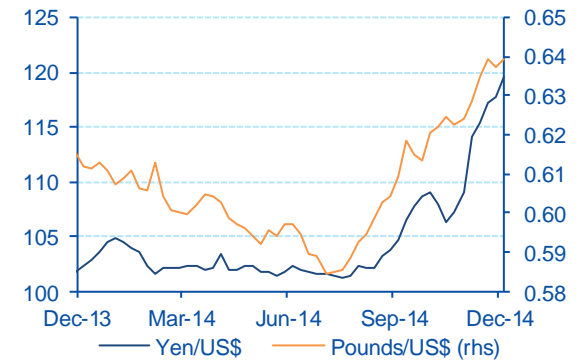
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



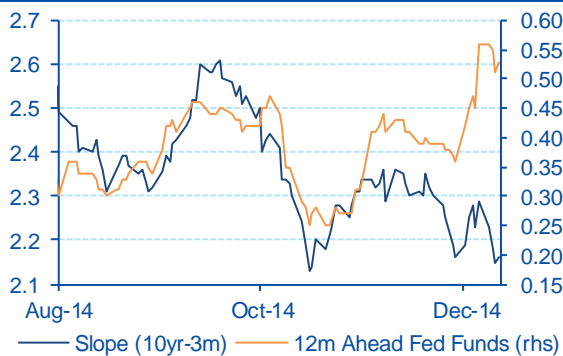
Source: Bloomberg & BBVA Research

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



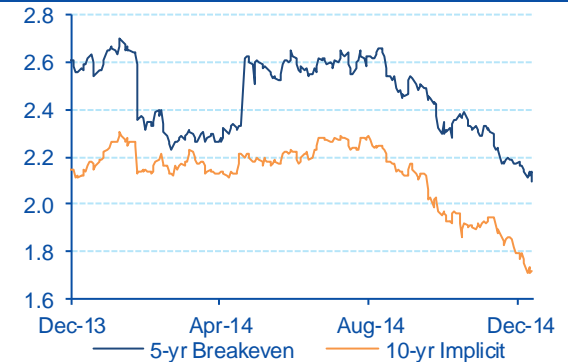
Source: Haver Analytics & BBVA Research

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)	2.84	2.90	2.96	2.67
Heloc Loan 30K	4.91	4.89	4.74	5.30
5/1 ARM *	2.98	2.94	3.02	2.90
15-year Fixed Mortgage *	3.20	3.10	3.20	3.23
30-year Fixed Mortgage *	3.93	3.89	4.01	3.99
Money Market	0.43	0.43	0.43	0.42
2-year CD	0.86	0.87	0.87	0.81

*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	0.12	0.09	0.08
3M Libor	0.24	0.23	0.23	0.24
6M Libor	0.34	0.33	0.32	0.35
12M Libor	0.60	0.57	0.55	0.58
2yr Sw ap	0.78	0.86	0.73	0.40
5yr Sw ap	1.66	1.82	1.74	1.57
10Yr Sw ap	2.21	2.42	2.45	2.89
30yr Sw ap	2.70	2.93	3.02	3.78
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	0.13

Source: Bloomberg & BBVA Research

Quote of the Week

Dennis Lockhart, President of the Federal Reserve Bank of Atlanta
Fed's Lockhart Still Favors Mid-2015 for First Fed Rate Increase
8 December 2014

"Inflation is the one key element that doesn't seem to be consistent with what we are seeing in terms of growth and for that matter what we are seeing in the labor market...if I'm going to stay true to data dependency, I'd have to consider at that time the options, and therefore I don't think liftoff can be taken under those circumstances as carved in Stone."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Dec	US Empire State Manufacturing Survey General Business Conditions SA	DEC	13.50	12.00	10.16
15-Dec	US Industrial Production MoM2007=100 SA	NOV	0.40	0.70	-0.11
15-Dec	US Capacity Utilization % of Total Capacity SA	NOV	79.20	79.35	78.90
15-Dec	US Industrial Production Industry Groups Manufacturing MoM SA	NOV	0.20	0.70	0.20
15-Dec	National Association of Home Builders Market Index SA	DEC	58.00	59.00	58.00
16-Dec	US New Privately Owned Housing Units Started by Structure Total SAAR	NOV	1025.00	1040.00	1009.00
16-Dec	Private Housing Authorized by Bldg Permits by Type Total SAAR	NOV	1070.00	1060.00	1092.00
17-Dec	US CPI Urban Consumers MoM SA	NOV	-0.10	-0.10	0.00
17-Dec	US CPI Urban Consumers Less Food & Energy MoM SA	NOV	0.10	0.10	0.20
17-Dec	Federal Funds Target Rate - Upper Bound	DEC 17	0.25	0.25	0.25
18-Dec	US Initial Jobless Claims SA	DEC 13	295.00	295.00	294.00
18-Dec	US Continuing Jobless Claims SA	DEC 6	2510.00	2444.00	2514.00
18-Dec	Conference Board US Leading Index MoM	NOV	0.50	0.55	0.90
18-Dec	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	DEC	25.70	26.50	40.80

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	1.8	2.0	2.1	2.4
CPI Core (YoY %)	1.7	2.1	1.8	1.8	2.0	2.2	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	2.30	3.12	3.67	3.90
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.23	1.20	1.24	1.28

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