

Economic Analysis

# Strong Upward Revisions Lift Payrolls for 2014

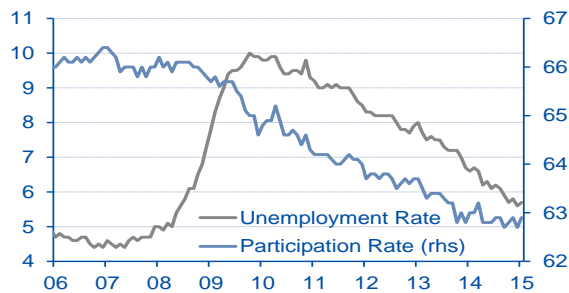
Kim Fraser Chase

January's employment report reflected stronger-than-expected job growth for the month alongside significant upward revisions for much of 2014. Nonfarm payrolls increased 257K in January, with private payrolls up 267K and government jobs down 10K. The annual revisions were a standout in the report, particularly for 2014 which saw a net change of 1.6 million jobs for the year. November and December were revised upwards to 423K and 329K, respectively, for a combined adjustment of 413K. The household survey for January noted a minor increase in the unemployment rate from 5.6% to 5.7% for the month. The participation rate rose to 62.9%, bouncing back from December's drop. With 2014 officially under our belt, we can focus on the progress to come in 2015. Our revised baseline scenario assumes near 2.1% employment growth (up from 1.9% in 2014) and an average unemployment rate of 5.3% for the year. Although the participation rate did increase in January, we do not expect this trend to strengthen throughout the year. Furthermore, with monthly payroll growth above 200K, we could see the unemployment rate drop below the 5.0% threshold by the end of 2015 or early 2016. When it comes to the Fed, we do not expect that January's report will significantly change their outlook for the first rate hike given that inflation still remains far below their target range.

## Personal Income Gains but Consumption Declines to Close out 2014

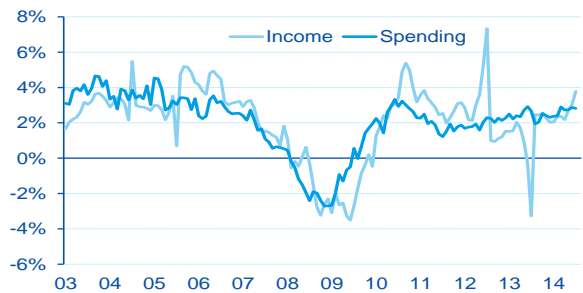
Personal income and outlays moved in opposite directions in December for the first time since January. Surprisingly, income was the standout in the report, up 0.3% (0.5% in real terms) despite a weak showing from average hourly earnings for the month. Consumption, on the other hand, declined 0.3% in December following a 0.5% boost in November. This was in line with most other consumer spending data for the month but still hits hard when considering that December is usually a strong finish on the back of holiday demand. Real spending dropped 0.1%, so low inflation was not the only factor involved in the disappointing report. The past few years have seen a shift in holiday sales and promotions to begin as early as October, encouraging consumers to spend more up front and leave only the last minute items for December. Looking to 2015, we expect that low gas prices will continue to lift consumption throughout the year, at least in real terms. Consumer confidence has been strong, so it is likely that people will gradually loosen their purse strings and spend that extra cash on other goods and services. With global tensions running high and investment still staggering, we expect that the consumer sector will lead economic growth in 2015.

Graph 1  
**Unemployment and Participation Rates (%)**



Source: BLS & BBVA Research

Graph 2  
**Real PCE and Income (YoY % Change)**



Source: BEA & BBVA Research

## Week Ahead

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

Forecast: 5035K

Consensus: 4948K

Previous: 4972K

Job openings are expected to increase in December for the third consecutive month, closing out 2014 near record high levels. Employment growth has been extremely strong throughout the past year, and we expect that businesses will continue to expand their workforce alongside growing demand in the U.S. Looking at the JOLTS reports in 2014, we have seen openings jump above the pre-crisis peak, measuring double-digit YoY growth rates since April. Although hiring still lags behind 2007 levels, the more consistent rise in job openings should boost hiring throughout the coming year.

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

Forecast: -0.3%, -0.1%

Consensus: -0.5%, 0.4%

Previous: -0.9%, -0.3%

Retail sales disappointed to the downside in December, with the decline due to not only the nominal impact of falling gas prices but a setback in demand as well. Holiday spending was more spread out within the fourth quarter, so we didn't see the usual push coming at the end of the year. Furthermore, the big drop in vehicle sales was a huge reason behind the overall decline, and we will likely see this repeat again in January. Unfortunately, the latest data do not bode well for nominal retail sales in January, with weekly reports noting slow demand relative to twelve months ago. Also, we expect that sales at gasoline stations will decline for the eighth consecutive month given that crude oil prices have fallen another 20% since December.

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

Forecast: 0.2%

Consensus: 0.2%

Previous: 0.2%

Business inventories are expected to increase at a modest pace in December in anticipation of the New Year. Inventory management has remained a key issue for businesses throughout the recovery period, with demand fluctuating more frequently on both the domestic and global scales. Merchant wholesale inventory growth has been the strongest throughout the past year, helping to offset volatility in retail and manufacturing. December's durable goods report suggests that manufacturing inventories declined for the month, and the outlook for retail is not overly encouraging. Therefore, we are likely to see only a moderate gain in total business inventories for the end of 2014.

### Consumer Sentiment (February, Friday 10:00 ET)

Forecast: 98.7

Consensus: 98.2

Previous: 98.1

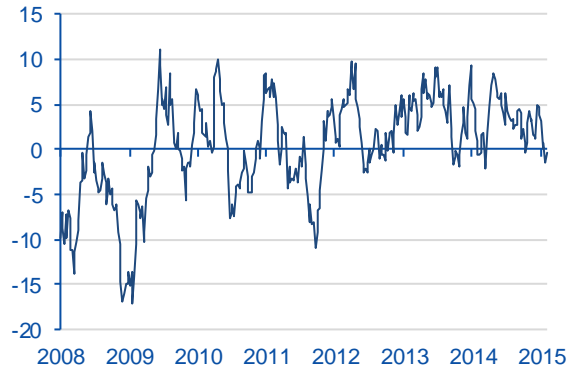
Consumer sentiment has been the shining star of the economic calendar throughout the past few months. Falling oil prices are the leading driver behind these gains, boosting consumers' purchasing power and lifting spirits for the months ahead. Both the expectations and current conditions components of the sentiment index have improved significantly since 3Q14, and we expect that these trends will continue well into 2015, even with income growth not expected to make much progress throughout the year.

### Market Impact

This week's economic calendar is lighter than the last, but the individual data points may be more meaningful to markets. In particular, the retail sales report for January could warrant a negative market reaction if the data suggest a second consecutive monthly decline for consumption. The FOMC minutes are another week away but markets are hyper-focused on any news that might sway Fed opinions one way or the other.

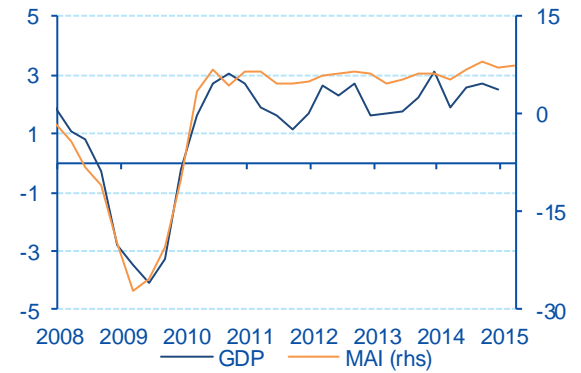
## Economic Trends

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



Source: BBVA Research

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



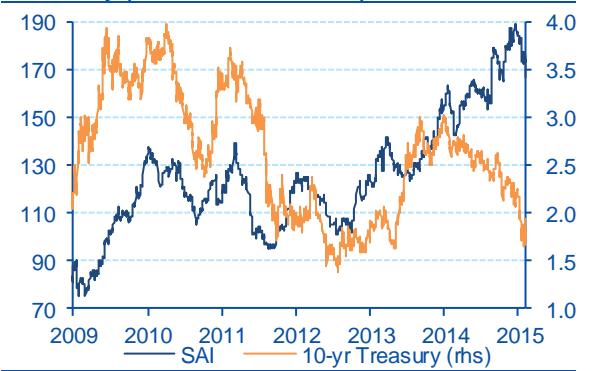
Source: BBVA Research & BEA

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



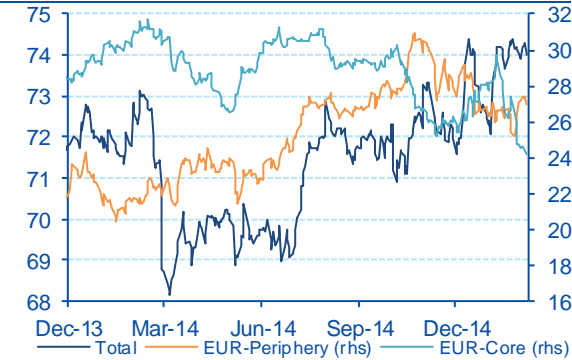
Source: BBVA Research

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



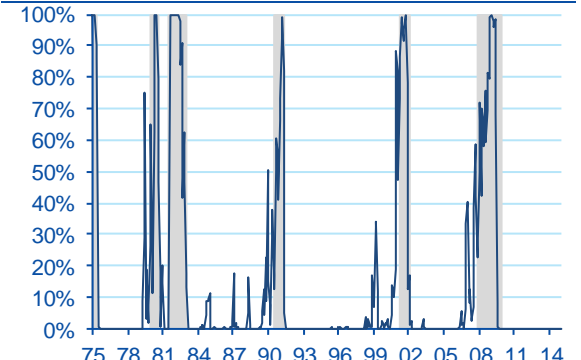
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

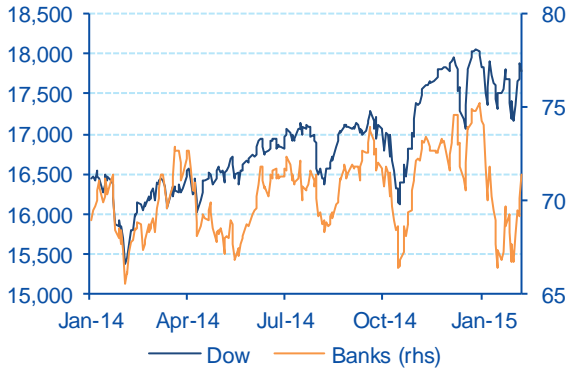
Graph 8  
**BBVA US Recession Probability Model (Recession episodes in shaded areas, %)**



Source: BBVA Research

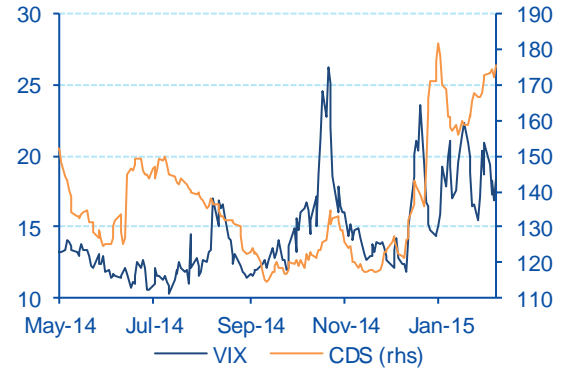
**Financial Markets**

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



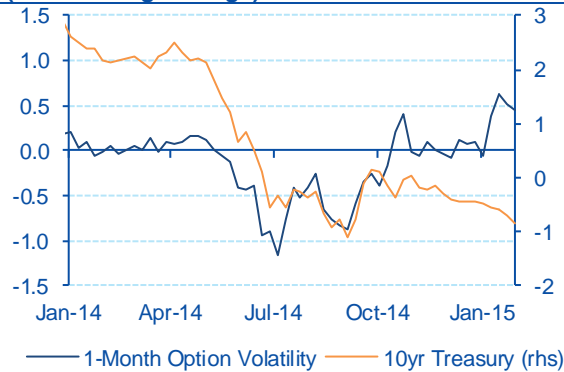
Source: Bloomberg & BBVA Research

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



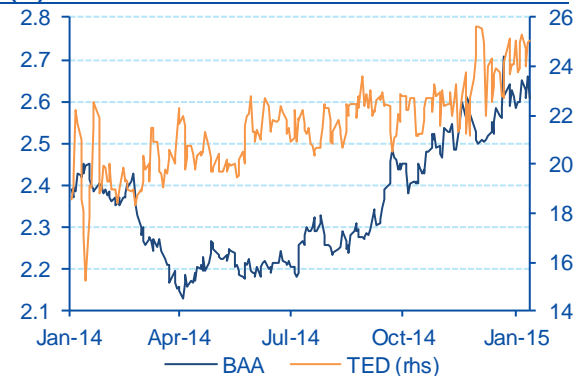
Source: Bloomberg & BBVA Research

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



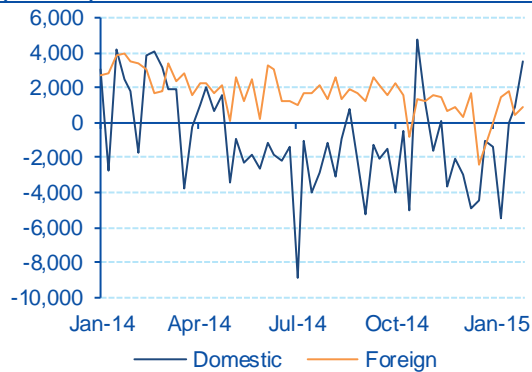
Source: Haver Analytics & BBVA Research

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



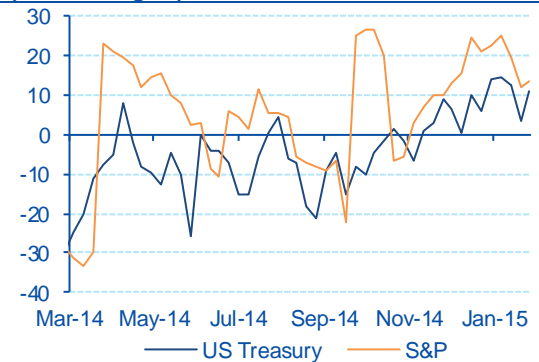
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

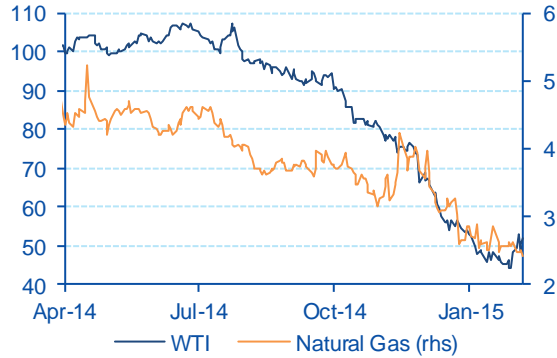
Graph 14  
**Total Reportable Short & Long Positions  
(Short-Long, K)**



Source: Haver Analytics & BBVA Research

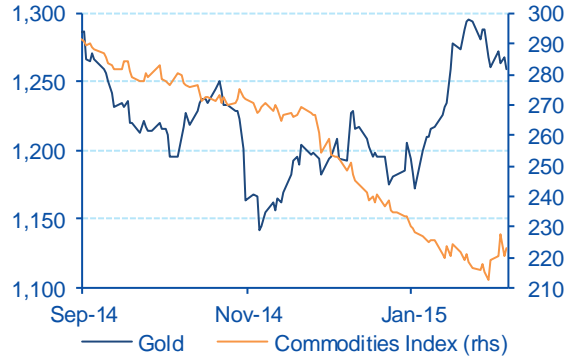
**Financial Markets**

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



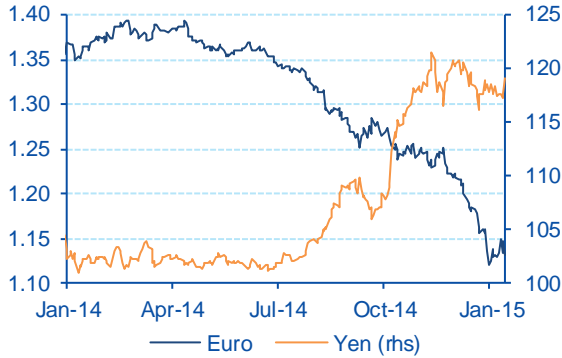
Source: Bloomberg & BBVA Research

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



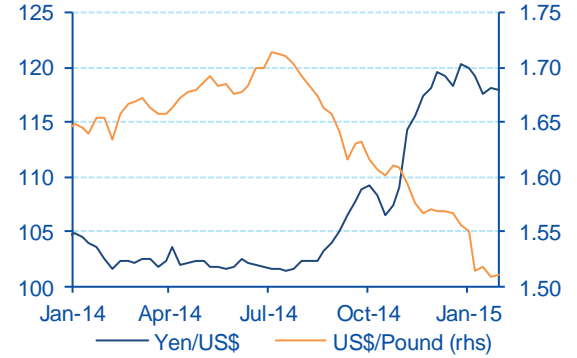
Source: Haver Analytics & BBVA Research

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



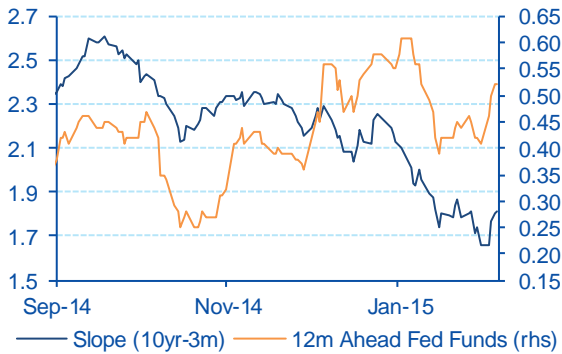
Source: Bloomberg & BBVA Research

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



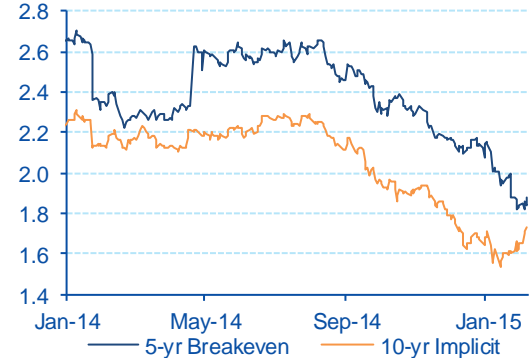
Source: Haver Analytics & BBVA Research

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)	14.96	14.96	14.86	14.10
New Auto (36-months)	2.67	2.67	2.61	2.57
Heloc Loan 30K	4.94	4.94	4.95	5.37
5/1 ARM *	2.82	2.86	2.98	2.90
15-year Fixed Mortgage *	2.92	2.98	3.05	3.23
30-year Fixed Mortgage *	3.59	3.66	3.73	3.99
Money Market	0.42	0.42	0.42	0.41
2-year CD	0.84	0.84	0.85	0.80

\*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	0.12	0.07
3M Libor	0.26	0.25	0.23	0.24
6M Libor	0.36	0.36	0.32	0.33
12M Libor	0.63	0.62	0.55	0.55
2yr Sw ap	0.90	0.69	0.79	0.45
5yr Sw ap	1.64	1.33	1.57	1.64
10Yr Sw ap	2.08	1.79	2.07	2.85
30yr Sw ap	2.42	2.15	2.47	3.68
30day CP	0.12	0.12	0.11	0.12
60day CP	0.13	0.11	0.11	0.15
90day CP	0.16	0.13	0.13	0.12

Source: Bloomberg & BBVA Research

## Quote of the Week

Loretta Mester, President and CEO of the Federal Reserve Bank of Cleveland  
The Outlook for the Economy and Bank Regulation  
4 February 2015

*“Indeed, if incoming economic information supports my forecast, I would be comfortable with liftoff in the first half of this year, but as the FOMC has emphasized, policy isn’t on a pre-set path.”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Feb	NFIB Small Business Optimism Index	JAN	101.00	101.10	100.40
10-Feb	US Job Openings By Industry Total SA	DEC	5035.00	4947.50	4972.00
10-Feb	Merchant Wholesalers Inventories Total Monthly % Change	DEC	0.40	0.20	0.80
12-Feb	US Initial Jobless Claims SA	FEB 7	285.00	287.50	278.00
12-Feb	US Continuing Jobless Claims SA	JAN 31	2405.00	2405.00	2400.00
12-Feb	Adjusted Retail & Food Services Sales SA Total Monthly % Change	JAN	-0.30	-0.50	-0.90
12-Feb	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	JAN	-0.10	0.40	-0.30
12-Feb	US Manufacturing & Trade Inventories Total MoM SA	DEC	0.20	0.20	0.20
13-Feb	US Import Price Index by End Use All MoM NSA	JAN	-1.90	-3.30	-2.50
13-Feb	University of Michigan Consumer Sentiment Index	FEB P	98.70	98.20	98.10

## Forecasts

	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (% SAAR)	1.8	2.8	1.9	2.4	2.5	2.8	2.8	2.9
CPI (YoY %)	3.1	2.1	1.5	1.6	2.0	2.3	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	1.8	2.1	2.3	2.4	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.1	5.3	4.9	4.6	4.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50	3.25
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	2.21	2.60	3.11	3.54	3.90
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.23	1.15	1.20	1.28	1.32

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