

Economic Analysis

Job Growth Strong as Nonfarm Payrolls Jump to 295K, Unemployment Drops to 5.5%

Kim Fraser Chase / Amanda Augustine

Employment growth continued its +200K run in February for the twelfth consecutive month. Nonfarm payrolls increased a massive 295K following a revised 239K in January. Expectations pointed to healthy growth for the month but nowhere near the actual figure, with adjustments expected to come from beginning-of-the-year volatility and weather-related disruptions. Not surprisingly, the ongoing strength in employment growth helped push down the unemployment rate to 5.5% in February, with an added push from a minor decline in the participation rate to 62.8%. Long-term unemployment declined in February, with only the number of those unemployed for less than 5 weeks on the rise. Despite some obvious imperfections remaining in the labor market, we are optimistic about where we are headed in 2015. Improvement in the labor market throughout the past year has been a welcome surprise, with payroll growth accelerating to 1.9% YoY in 2014, the fastest pace since 2000. For 2015, we expect that growth will accelerate above 2.0%, with the unemployment rate likely to reach the 5.0% mark by the end of the year. This ongoing strength in the labor market has made it harder and harder for the Fed to hold off on the first interest rate hike, especially when we consider that they were still holding on to the 6.5% target rate at this time last year. However, we expect that low inflation will continue to offset lower unemployment, and we maintain our expectations for the first rate hike in mid-2015.

U.S. Trade Deficit Narrows as Both Exports and Imports Decline

The U.S. trade deficit declined in January to -\$41.8B, meeting expectations and rebounding after December's jump to -\$45.6B. This represents a decrease in the goods deficit and an increase in the services surplus. Lower global demand weighed down exports for the third consecutive month as the dollar grew stronger and made American goods less affordable abroad. Service exports declined in January for the first time since September, emphasizing the ongoing weakness among our major trading partners. Imports also decreased, mostly due to lower oil prices but also potentially due to a shipping disruption on the West Coast resulting from a labor dispute. Real exports and imports also declined for the month. Despite the current narrowing of the trade gap, the deficit is expected to widen as 2015 progresses, as imports rise thanks to stable U.S. growth and exports decline as a result of weaker demand overseas.

Greater Income Leads to Higher Savings Rate vs. Consumption to Start 2015

Personal income increased 0.3% in January 2015 after a similar rise in December. At the same time, personal consumption expenditures (PCE) decreased 0.2%, a smaller decrease than seen in December (-0.3%). Low inflation had a definite impact on both the increase in personal income and the decrease in personal expenditures. On inflation, the PCE price index increased 0.2% YoY, the weakest reading since October 2009. Lower inflation levels triggered by falling energy prices helped to boost real wages. Real disposable personal income (DPI) increased 0.9% in January, the largest increase seen since December 2012. Also at its highest level since December 2012 was the personal saving rate at 5.5%. Consumers opted to save rather than spend their greater disposable income as a result of lower gas prices and rising wages, but the savings rate can be expected to decline once gas prices are closer to their previous levels. Overall, our expectations remain optimistic for strong consumer-driven growth throughout 2015.

Week Ahead

JOLTS Job Openings (January, Tuesday 10:00 ET)

Forecast: 5078K

Consensus: 5028K

Previous: 5028K

Reflecting the strength of January's jobs report, job openings from the JOLTS release are expected to increase for the month, albeit at a slower pace than in the previous month. Other labor market indicators also confirm this trend, including the Fed's labor market conditions index which fell to 4.9 in January from 7.3 in December, signaling slower improvement in the jobs market, but improvement nonetheless. The unemployment rate ticked up in January as more people entered the workforce, possibly signaling an increase in the quit rate. This reflects that more people have the confidence that they will find another job after leaving their previous employer.

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

Forecast: 0.2%, 0.4%

Consensus: 0.4%, 0.3%

Previous: -0.8%, 0.2%

Retail sales are expected to pick up in February after consecutive drops in December and January due in large part to lower receipts at gas stations. As oil prices begin a slow reversal after their rapid decline since June, nominal retail sales will be alleviated as well. Unit auto sales were down for the third consecutive month, somewhat surprising given the President's Day holiday that marks the beginning of prime selling season. Harsh winter weather could have a mitigating effect on sales, however, as much of the country was slammed with extreme conditions throughout the month. Although consumer savings exceeded spending in January, we can expect that nominal spending will overtake savings as inflation ticks back up again.

Business Inventories (January, Thursday 10:00 ET)

Forecast: 0.1%

Consensus: 0.1%

Previous: 0.1%

Business inventories are expected to increase at a modest pace in January. The durable goods report for the month suggests the same patterns as in December, with manufacturing inventories decelerating to 0.4% monthly growth and the inventories to shipments ratio rising to 1.36. Nevertheless, last month's great mismatch between inventories and sales (due to the large decrease in sales) should not be the case this time around with the projected increase in retail sales. Therefore, we can expect to see a moderate increase in business inventories to start off 2015.

Consumer Sentiment (March, Friday 10:00 ET)

Forecast: 95.3

Consensus: 95.5

Previous: 95.4

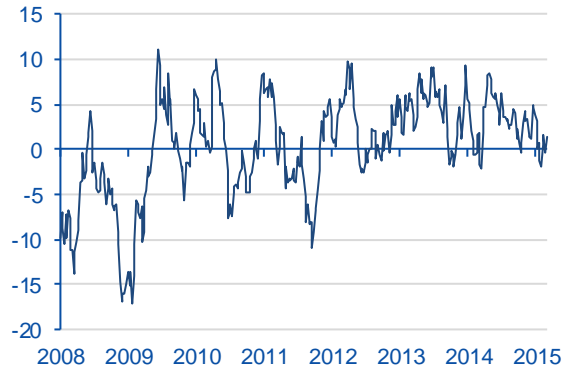
Despite January's large gain in consumer sentiment to an 11-year high, March's reading is expected to stay closer to that of the previous month. This offers proof that consumers viewed lower gas prices as transitory, and expected gas prices to rise in the near future. The reported decline in consumer spending also reflects this lower consumer sentiment. The trend for the Consumer Sentiment Index has been slowly improving since the recession, while displaying some volatility. Even with the month-to-month decline, March's forecasted reading is still at a significantly higher level than the 80.0 reported in March 2014.

Market Impact

This week's economic calendar doesn't pack as much of a punch as the last but will nevertheless impact market activity. Retail sales should encourage a positive market reaction, if sales do indeed pick up again after declining for two months in a row. Rebounding oil prices are the lead driver behind most of the above indicators, and markets are currently trading at near record levels—a trend which is expected to continue as oil prices stabilize.

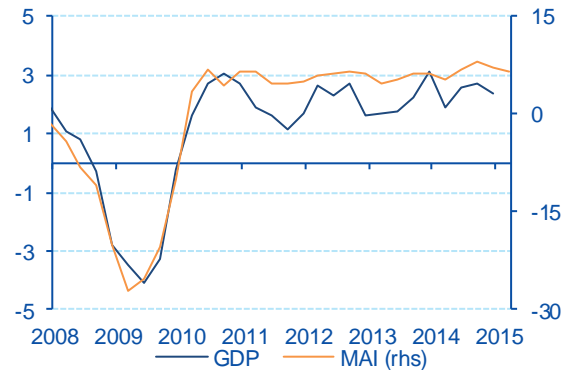
Economic Trends

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



Source: BBVA Research

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



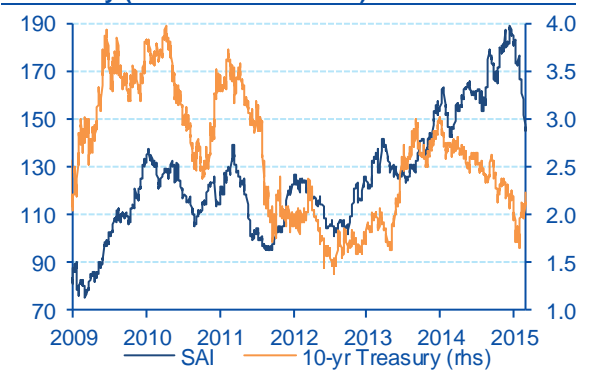
Source: BBVA Research & BEA

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



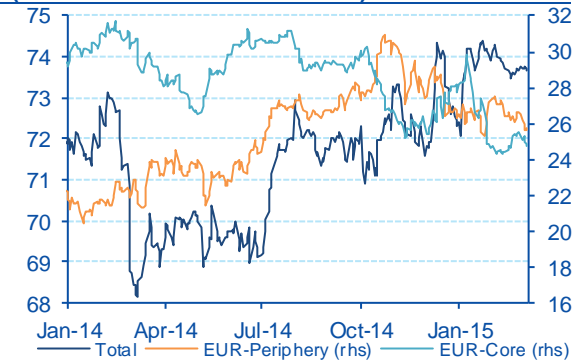
Source: BBVA Research

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



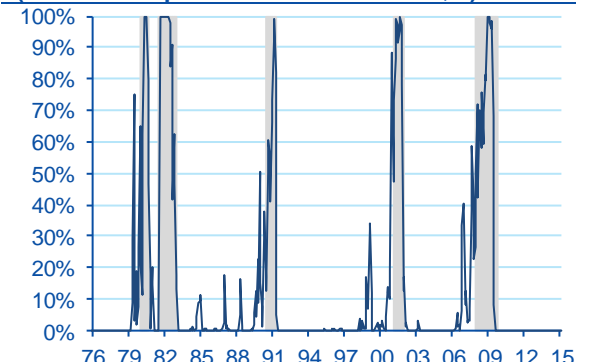
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

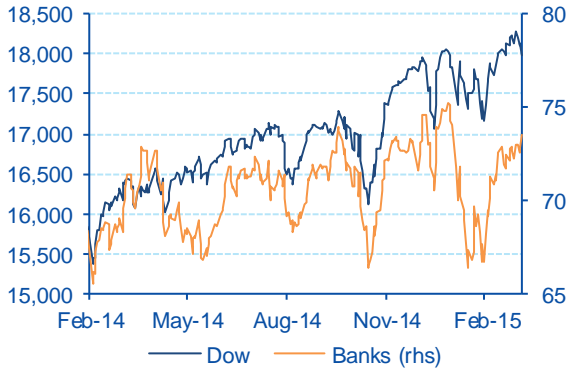
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

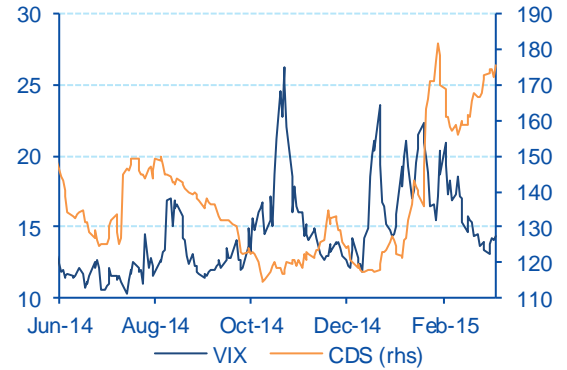
Financial Markets

Graph 9
Stocks
(Index, KBW)



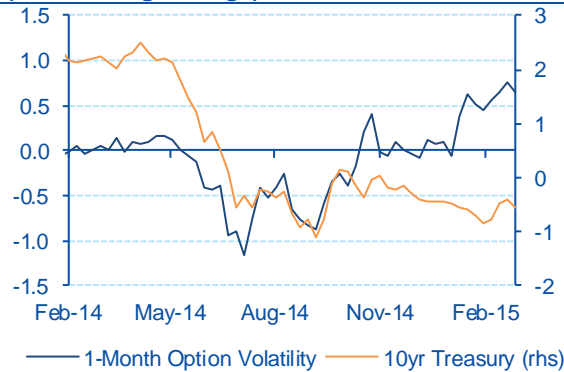
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



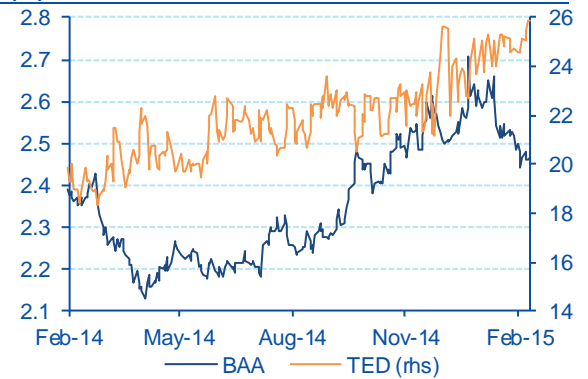
Source: Bloomberg & BBVA Research

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



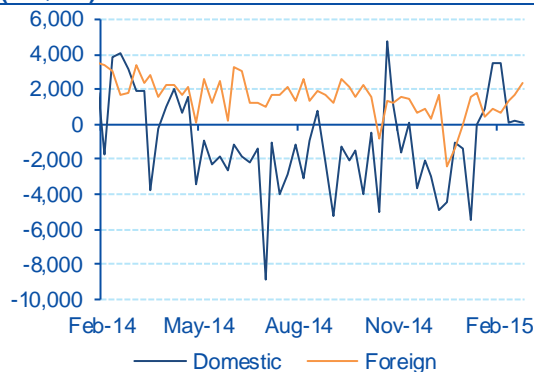
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



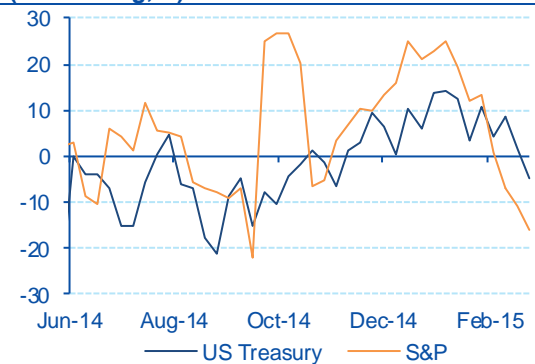
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

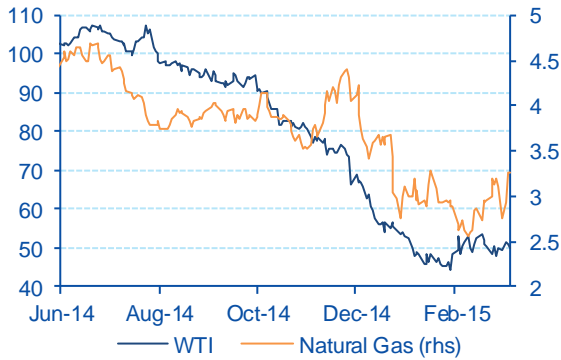
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

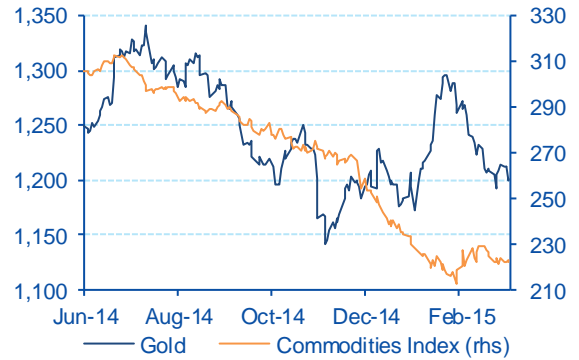
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



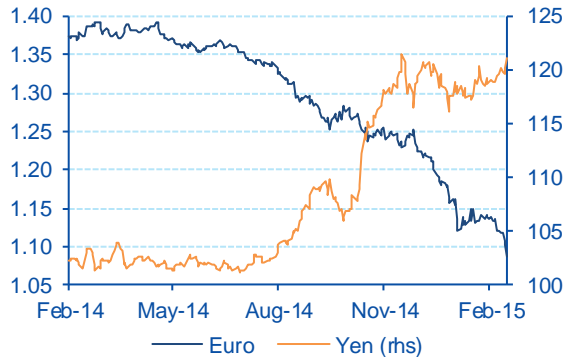
Source: Bloomberg & BBVA Research

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



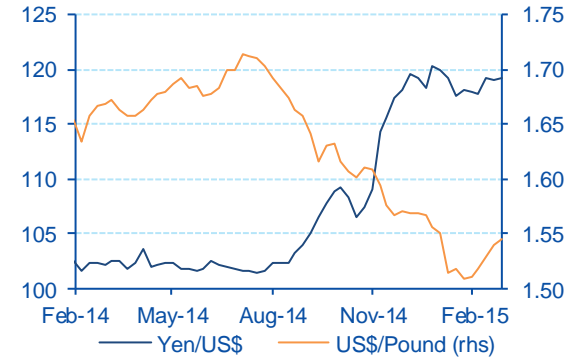
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



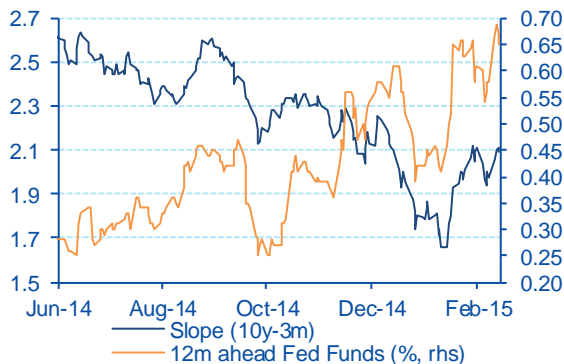
Source: Bloomberg & BBVA Research

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



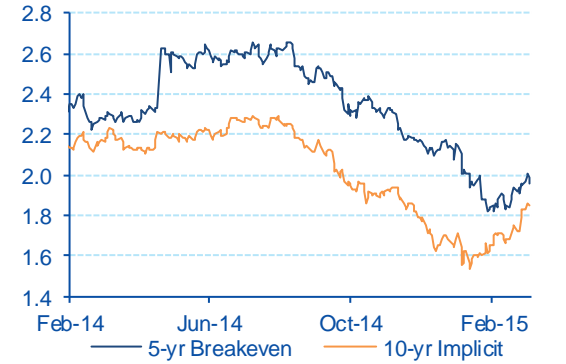
Source: Haver Analytics & BBVA Research

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)	14.96	14.96	14.96	14.10
New Auto (36-months)	2.77	2.66	2.67	2.46
Heloc Loan 30K	4.85	4.83	4.94	5.34
5/1 ARM *	2.96	2.99	2.82	2.90
15-year Fixed Mortgage *	3.03	3.07	2.92	3.23
30-year Fixed Mortgage *	3.75	3.80	3.59	3.99
Money Market	0.37	0.42	0.42	0.43
2-year CD	0.84	0.84	0.84	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	0.11	0.11	0.11	0.08
3M Libor	0.26	0.26	0.23	0.23
6M Libor	0.40	0.38	0.32	0.33
12M Libor	0.69	0.67	0.55	0.56
2yr Sw ap	0.97	0.88	0.90	0.51
5yr Sw ap	1.84	1.65	1.65	1.71
10Yr Sw ap	2.36	2.12	2.10	2.87
30yr Sw ap	2.73	2.48	2.44	3.67
30day CP	0.12	0.12	0.11	0.12
60day CP	0.13	0.11	0.11	0.15
90day CP	0.15	0.13	0.13	0.13

Source: Bloomberg & BBVA Research

Quote of the Week

Daniel K. Tarullo, Federal Reserve Governor

Federal Reserve Releases Results of Supervisory Bank Stress tests

5 March 2015

“Higher capital levels at large banks increase the resiliency of our financial system. Our supervisory stress tests are designed to ensure that these banks have enough capital that they could continue to lend to American businesses and households even in a severe economic downturn.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Mar	NFIB Small Business Optimism Index	FEB	98.75	99.00	97.90
10-Mar	US Job Openings By Industry Total SA	JAN	5078.00	5028.00	5028.00
10-Mar	Merchant Wholesalers Inventories Total Monthly % Change	JAN	-0.10	-0.05	0.10
12-Mar	US Initial Jobless Claims SA	MAR 7	325.00	306.00	320.00
12-Mar	US Continuing Jobless Claims SA	FEB 28	2421.00	2395.00	2421.00
12-Mar	Adjusted Retail & Food Services Sales SA Total Monthly % Change	FEB	0.20	0.40	-0.80
12-Mar	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	FEB	0.40	0.25	0.20
12-Mar	US Import Price Index by End Use All MoM NSA	FEB	0.10	0.20	-2.80
12-Mar	US Manufacturing & Trade Inventories Total MoM SA	JAN	0.10	0.10	0.10
13-Mar	US PPI Final Demand MoM SA	FEB	0.10	0.30	-0.80
13-Mar	US PPI Final Demand Less Foods and Energy MoM SA	FEB	0.20	0.10	-0.10
13-Mar	University of Michigan Consumer Sentiment Index	MAR P	95.30	95.50	95.40

Forecasts

	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (% SAAR)	1.8	2.8	1.9	2.4	2.9	2.8	2.8	2.9
CPI (YoY %)	3.1	2.1	1.5	1.6	1.5	2.1	2.2	2.3
CPI Core (YoY %)	1.7	2.1	1.8	1.8	1.9	2.1	2.2	2.3
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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