

Economic Analysis

Winter Weather Freezes Retail Sales in February

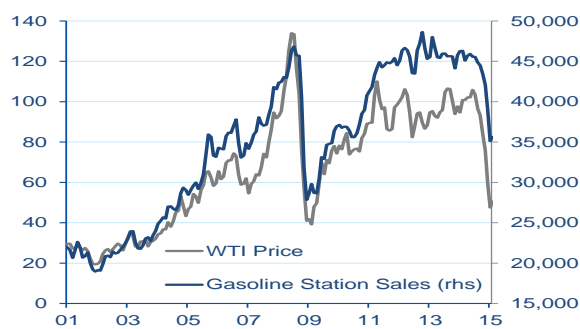
Kim Fraser Chase

Against general consensus, retail sales fell 0.6%, declining for the third month in a row for the first time since 2012. The cold weather that hit the East Coast, particularly New England, played a key role in discouraging consumers from visiting malls and auto showrooms. The fact that receipts fell in 9 out of 13 categories further confirms the part the weather played in the slowdown of economic activity, especially auto sales which declined the most since January 2014. As oil prices appeared to stabilize in February after their previous plunge, gas station receipts were once again on the rise, up 1.5%-- the first increase seen since May 2014. Despite higher employment numbers, persistently slow wage increases could be motivating consumers to pay down debt and save. The drop in retail sales should not be cause for pessimism though, as retail sales tend to be volatile from month to month, and the last year has displayed very mixed results. The stubborn decline in retail sales is expected to ease off in March as spring begins and consumers return to their shopping malls and dealerships. We do not intend to revise down our GDP forecast for the quarterly solely based on this disappointing report as our forecast already accounted for a weather-related impact. While real retail sales declined in both January and February, real personal consumption expenditures were stronger-than-expected to start 1Q15. There seems to be a growing divergence between the two series, with PCE having more of an influence over the GDP figure.

Strong Start to JOLTS in 2015 as Openings Reach Highest Level in 14 Years

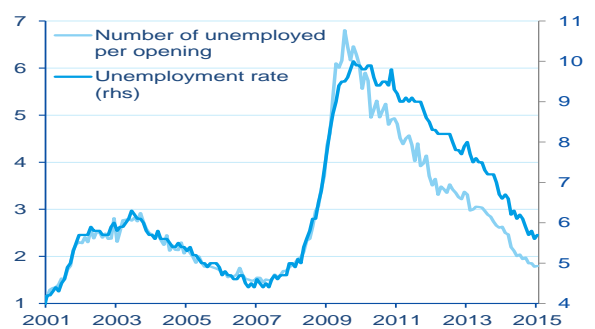
The Job Openings and Labor Turnover Survey (JOLTS) for March 2015 provided hope of an improving economy. Although lower than expected, job openings stood at 4998K, rising 2.4% from the previous month's revised report. This represents the highest level since January 2001 when the series first began, with the most openings available in sectors such as professional and business services, healthcare, and food services. However, the mining and logging industries saw openings decline due to expectations for a prolonged period of low oil prices. The rise in job openings is another indicator reinforcing labor market strength, along with the falling unemployment rate, which is at its lowest level in seven years. However, the fact that hiring is still lagging behind suggests that companies are struggling to find qualified people to fill their open positions; this was corroborated by today's NFIB Small Business Economics Trends Report, which reported that 29% of small businesses have at least one job opening that they can't fill.

Graph 1
Gasoline Sales & WTI Prices (\$Mn & Dpb)



Source: Census & BBVA Research

Graph 2
Unemployed Per Opening & UR (%)



Source: BLS & BBVA Research

Week Ahead

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

Forecast: 8.10

Consensus: 8.0

Previous: 7.8

The Empire State Manufacturing Survey is expected to increase slightly in March as activity in the region picks up from weather-related slowdowns in February. The index dropped into negative territory in December but has remained positive in 2015 thus far as the negative influences from unfilled orders, delivery time, inventories, and the average employee workweek have subsided. Shipments reached a five-month high in February but will likely slowdown in March given the latest deceleration in new orders. On the bright side, the strong hiring trend for the region's manufacturing sector is expected to continue as businesses prepare for 2Q15 demand.

Industrial Production (February, Monday 9:15 ET)

Forecast: 0.1%

Consensus: 0.2%

Previous: 0.2%

Industrial production has been on a volatile streak throughout the past few months as oil prices and seasonal impacts factor in to manufacturing, mining, and utilities output. In February, we expect that monthly industrial production growth will remain slow as weak mining activity continues to offset the manufacturing and utilities components. The total industrial production index recovered slightly in January from December's 0.3% decline, but business shutdowns due to extreme winter weather throughout February suggest minimal output for the month. Utilities output is likely to remain strong and will help offset slowdowns in the other sectors.

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

Forecast: 1071K, 1080K

Consensus: 1048K, 1065K

Previous: 1065K, 1060K

Housing starts are expected to bounce back in February following a slow start to 2015, although seasonal issues are likely to limit the month's recovery. Building permits, which are a leading indicator for new home construction, declined back in November and were unchanged in the following two months (according to data revisions). Both starts and permits have barely recovered 25% from the depths of the crisis, marking a long way to go until reaching the 2006 peak. While we do expect the gradual upward trend to continue, it is unlikely that housing starts will accelerate above the current pace throughout the coming year.

FOMC Announcement (March, Wednesday 14:00 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

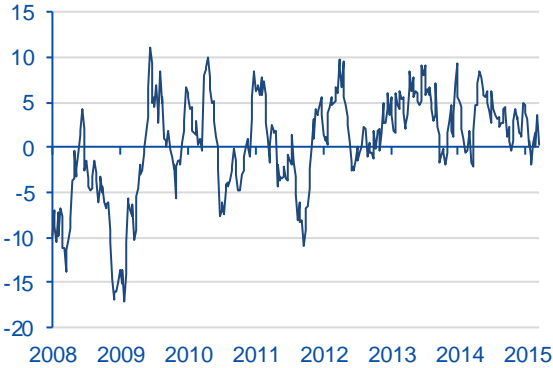
March's FOMC announcement brings us one step closer to the long-awaited increase in the federal funds rate. While we do not expect the first rate hike to happen until mid-2015, the meeting will provide yet another stepping stone for the FOMC to prepare for that eventual change in monetary policy. In particular, we could see a change to the forward guidance, as both the January meeting minutes and Yellen's testimony hinted at eliminating the "patient" language sooner rather than later. The FOMC forecasts released after the meeting will hopefully help clarify the committee's outlook on when they expect inflation to move back towards their target.

Market Impact

This week's economic calendar is centered around the FOMC Announcement on Wednesday. With February's employment report behind us and the labor market moving full steam ahead through 1H15, the FOMC discussions are getting more intense and will warrant increasing market reaction as the rate hike approaches. Other indicators on the calendar are extra details to sway markets one way or the other on how the data might ultimately influence the Fed's plans.

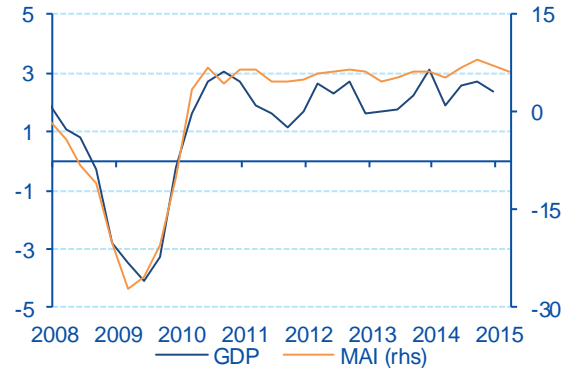
Economic Trends

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



Source: BBVA Research

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



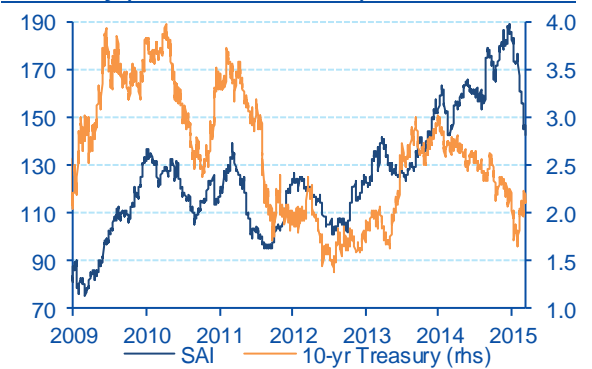
Source: BBVA Research & BEA

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



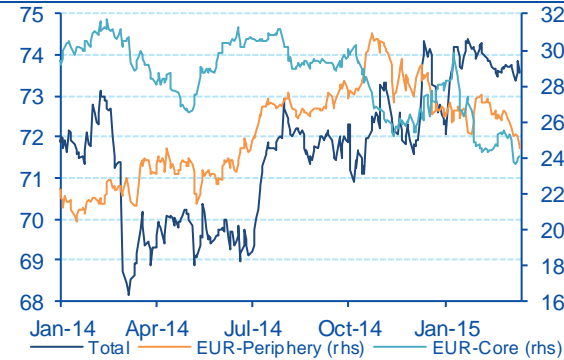
Source: BBVA Research

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



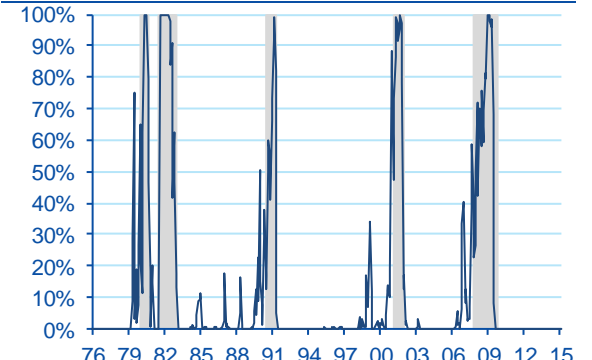
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

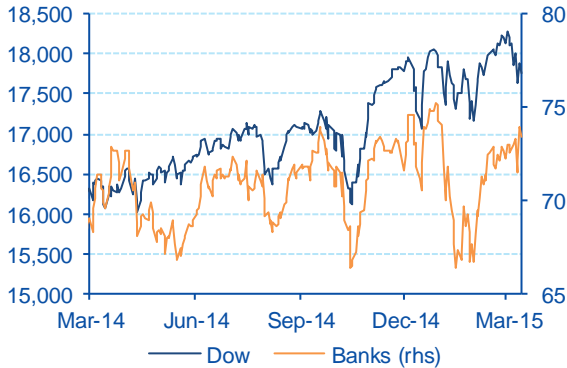
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

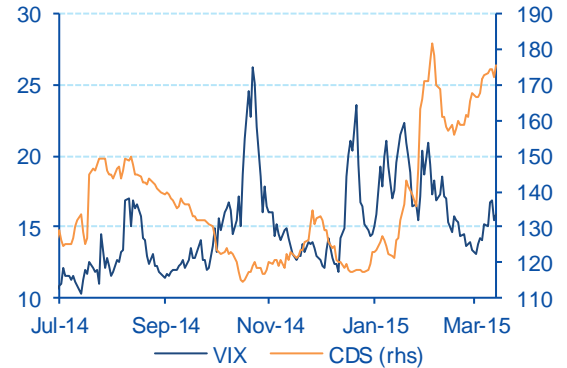
Financial Markets

Graph 9
Stocks
(Index, KBW)



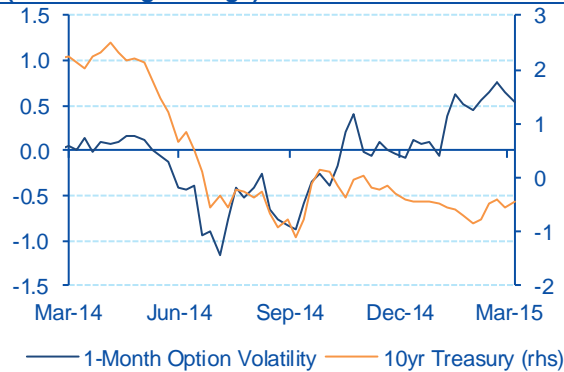
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



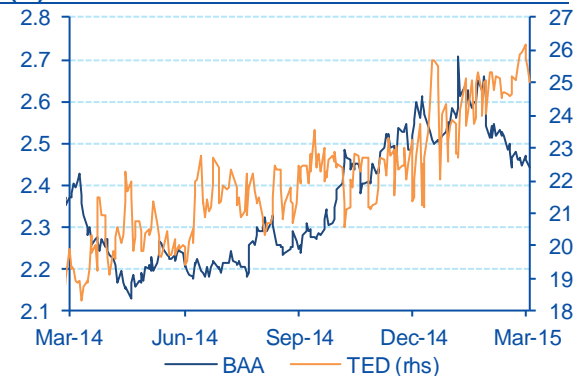
Source: Bloomberg & BBVA Research

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



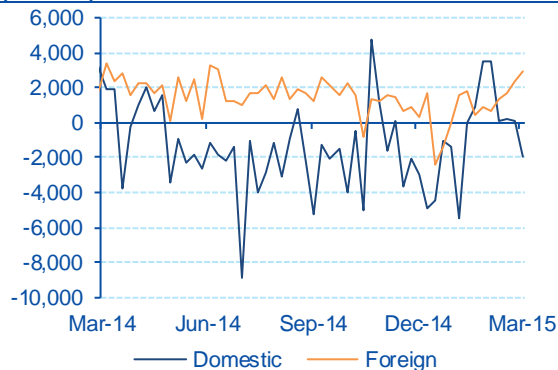
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



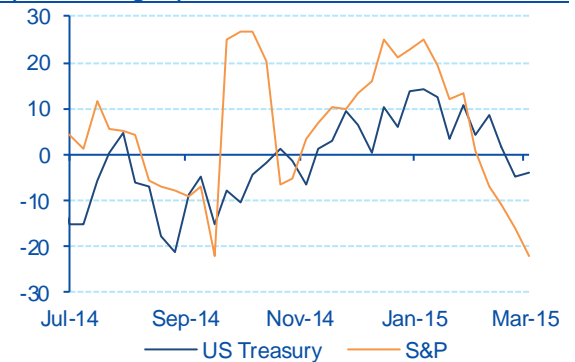
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

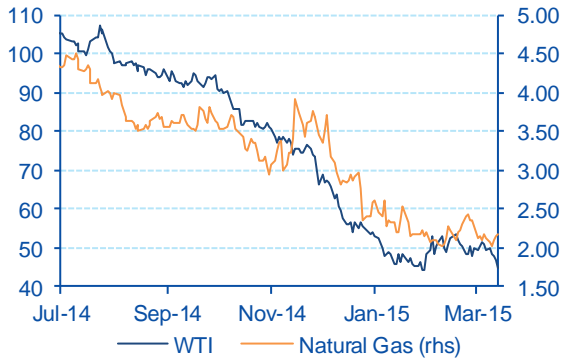
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

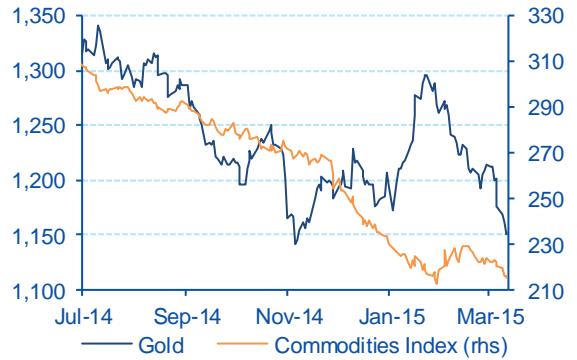
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



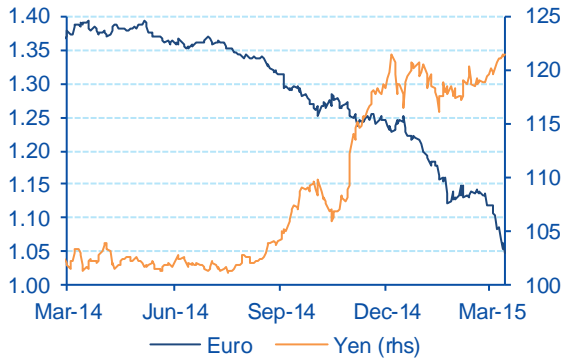
Source: Bloomberg & BBVA Research

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



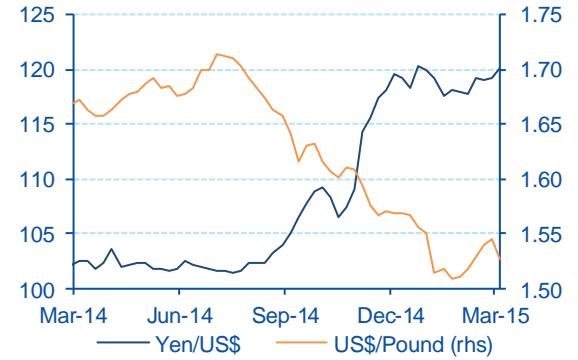
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



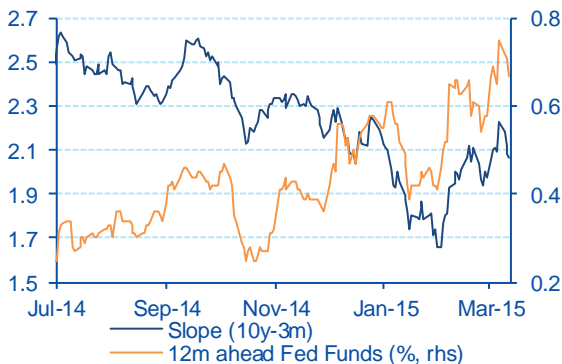
Source: Bloomberg & BBVA Research

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



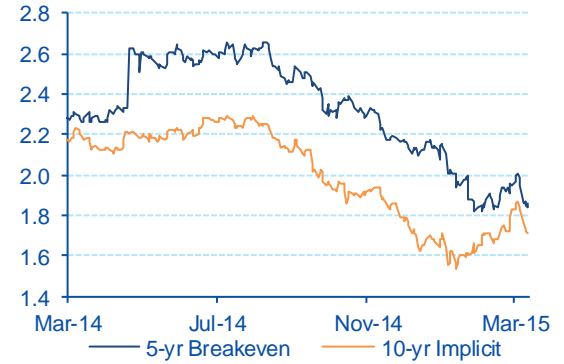
Source: Haver Analytics & BBVA Research

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	2.77	2.68	2.49
Heloc Loan 30K	4.85	4.85	4.92	5.42
5/1 ARM *	3.01	2.96	2.97	2.90
15-year Fixed Mortgage *	3.10	3.03	2.99	3.23
30-year Fixed Mortgage *	3.86	3.75	3.69	3.99
Money Market	0.42	0.41	0.42	0.40
2-year CD	0.83	0.83	0.84	0.77

*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	0.12	0.08
3M Libor	0.27	0.26	0.23	0.23
6M Libor	0.40	0.40	0.32	0.33
12M Libor	0.71	0.69	0.55	0.56
2yr Sw ap	0.93	0.98	0.90	0.48
5yr Sw ap	1.75	1.85	1.70	1.64
10Yr Sw ap	2.23	2.36	2.18	2.79
30yr Sw ap	2.57	2.72	2.55	3.59
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

Richard W. Fisher, President of the Federal Reserve Bank of Dallas

Janet Yellen is No Mae West

9 March 2015

“In a recent speech to the Economic Club of New York, I quoted Mae West: ‘I generally avoid temptation,’ she said, ‘unless I can’t resist it.’ I think I am safe in saying that Janet Yellen is no Mae West. I leave the Fed with the high expectation that she will ably lead the FOMC down the path of normalizing monetary policy and resist any temptation to delay for too long that path-changing task.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Apr	US Empire State Manufacturing Survey General Business Conditions SA	MAR	8.10	8.00	7.78
15-Apr	US Industrial Production MoM2007=100 SA	FEB	0.10	0.20	0.15
15-Apr	US Capacity Utilization % of Total Capacity SA	FEB	79.40	79.50	79.40
15-Apr	US Industrial Production Industry Groups Manufacturing MoM SA	FEB	-0.20	0.00	0.20
15-Apr	National Association of Home Builders Market Index SA	MAR	56.00	56.00	55.00
17-Mar	US New Privately Owned Housing Units Started by Structure Total SAAR	FEB	1071.00	1048.00	1065.00
17-Mar	Private Housing Units Started by Structure Total Monthly % Change SA	FEB	0.56	-1.60	-2.00
17-Mar	Private Housing Authorized by Bldg Permits by Type Total SAAR	FEB	1080.00	1065.00	1060.00
17-Mar	Private Total Housing Authorized by Building Permits MoM SA	FEB	1.89	0.47	0.00
18-Mar	Federal Funds Target Rate - Upper Bound	MAR 18	0.25	0.25	0.25
19-Mar	US Initial Jobless Claims SA	MAR 14	299.00	294.50	289.00
19-Mar	US Continuing Jobless Claims SA	MAR 7	2410.00	2400.00	2418.00
19-Mar	Conference Board US Leading Index MoM	FEB	0.20	0.20	0.20
19-Mar	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	MAR	5.90	7.35	5.20

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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