

Economic Analysis

# Weekly Focus: March's Employment Report

Kim Fraser Chase

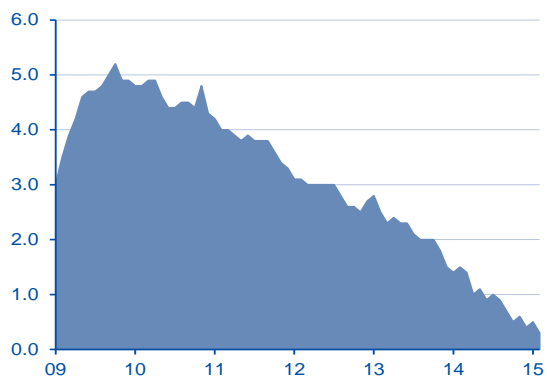
## Strong Job Growth Not Enough to Sway Fed's Timing on the First Rate Hike

The employment report has always been a key indicator to watch, though the latest improvements appear to have little influence over the Fed. Although the labor market has experienced significant improvement throughout the past year, it seems that the Fed is still downplaying this progress. Janet Yellen and many of her colleagues continue to emphasize their desire to see "further improvement in the labor market". The gap between the actual unemployment rate and the FOMC long-run forecast has dropped considerably, but this has not been enough to offset weakness in inflation. The FOMC revised their economic projections in the March meeting, bringing down the long-run unemployment rate forecast to 5.0%. Before this revision, the forecast had been set at 5.2% since April 2011. In **March's employment report (Friday)**, the unemployment rate is likely to remain steady at 5.5%, leaving the target gap near recovery lows. Similarly, nonfarm payroll growth is expected to stay above the 200K-per-month threshold for the thirteenth consecutive month. If this does not constitute significant progress in the Fed's eyes, then there must be other important indicators worth monitoring a bit more closely, such as wage growth, the number of discouraged and marginally attached workers, and those employed part-time for economic reasons. The U-6 unemployment rate still sits at 11.0%.

## Consumer Data Showing Light at the End of the 1Q15 Tunnel

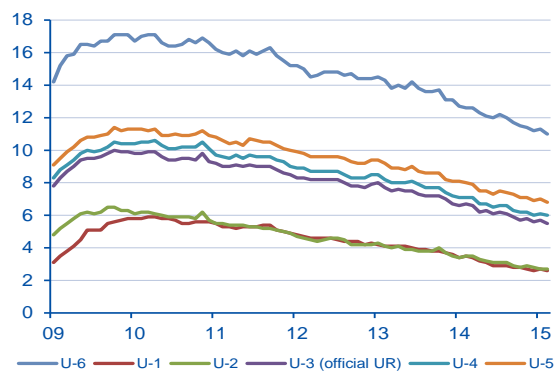
Other indicators on the economic calendar this week have the potential to make a big splash. **Personal income and outlays (Monday)** will be a significant factor to watch, particularly as reassurance that the consumption contribution to 1Q15 GDP will be less pessimistic than suggested by the latest retail sales data. However, consumers do not appear to be spending the money they save at the gas pump on big ticket purchases; **auto sales for March (Wednesday)** could show a fourth consecutive monthly decline for the sector that had previously been a strong underlying driver of consumer demand. Finally, there should be some focus on the **international trade balance (Thursday)**, particularly given the Fed's latest emphasis on weak exports and the global impact of a stronger USD.

Graph 1  
**FOMC Target Gap: Unemployment Rate (Actual UR – long run FOMC forecast, pp)**



Source: BLS, FRB, & BBVA Research

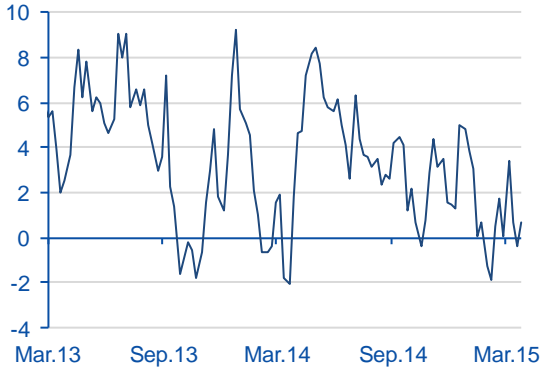
Graph 2  
**Alternative Measures of Labor Underutilization (SA, %)**



Source: BLS & BBVA Research

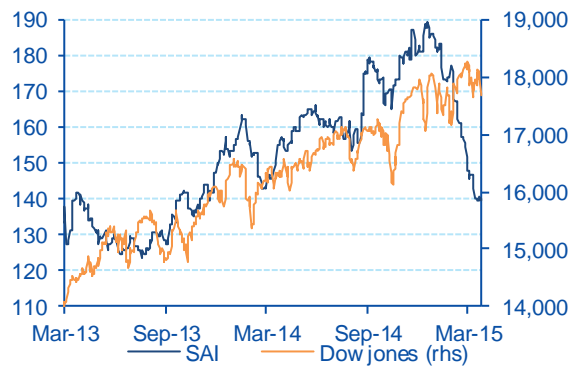
**Economic Trends**

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



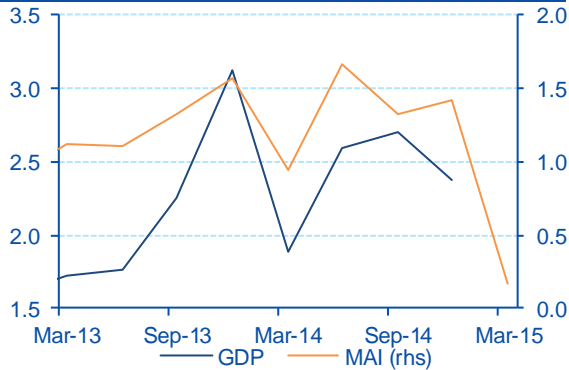
Source: BBVA Research

Graph 4  
**BBVA USA Surprise Activity Index & Dow Jones (Index 2009=100 & eop)**



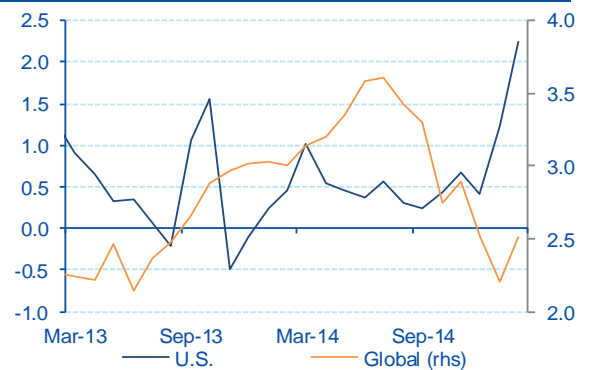
Source: Bloomberg & BBVA Research

Graph 5  
**BBVA USA Monthly Activity Index & Real GDP (4Q % change)**



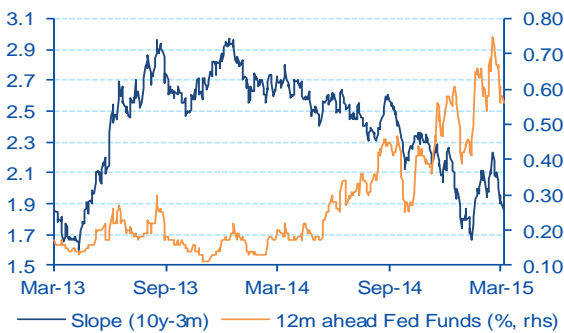
Source: BBVA Research & BEA

Graph 6  
**BBVA USA Risk Index (> 0 = increasing risk)**



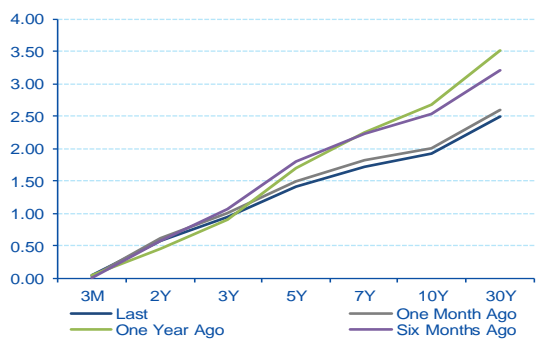
Source: BBVA Research

Graph 7  
**Fed Futures & Yield Curve Slope (% & 10year-3month)**



Source: Haver Analytics & BBVA Research

Graph 8  
**U.S. Treasury Yield Curve (% p.a.)**



Source: Haver Analytics & BBVA Research

## Week Ahead Economic Calendar

Date	Event	Period	BBVA	Consensus	Previous
30-Mar	US Personal Income MoM SA	FEB	0.20	0.30	0.30
30-Mar	US Personal Consumption Expenditures Nominal Dollars MoM SA	FEB	0.20	0.20	-0.20
30-Mar	US Pending Home Sales Index MoM SA	FEB	0.30	0.30	1.68
30-Mar	Dallas Fed Manufacturing Outlook Level Of General Business Activity	MAR	-5.10	-8.75	-11.20
31-Mar	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	JAN	0.50	0.60	0.87
31-Mar	S&P/Case-Shiller Composite-20 City Home Price Index YoY	JAN	4.30	4.60	4.46
31-Mar	MNI Chicago Business Barometer (sa)	MAR	49.00	51.80	45.80
31-Mar	Conference Board Consumer Confidence SA 1985=100	MAR	98.50	96.45	96.40
1-Apr	ADP National Employment Report SA Private Nonfarm Level Change	MAR	225.00	224.00	211.80
1-Apr	ISM Manufacturing PMI SA	MAR	53.30	52.50	52.90
1-Apr	Census Bureau US Construction Spending MoM SA	FEB	-0.50	-0.10	-1.10
1-Apr	US Auto Sales Total Annualized SA	MAR	16.30	16.90	16.16
2-Apr	US Initial Jobless Claims SA	MAR 28	285.00	285.00	282.00
2-Apr	US Continuing Jobless Claims SA	MAR 21	2410.00	2400.00	2416.00
2-Apr	US Trade Balance of Goods and Services SA	FEB	-42.00	-41.00	-41.75
2-Apr	NEW YORK PURCHASING MANAGER Current Business Conditions SA	MAR	62.50	0.00	63.10
2-Apr	US Manufacturers New Orders Total MoM SA	FEB	-0.70	-0.30	-0.20
3-Apr	US Employees on Nonfarm Payrolls Total MoM Net Change SA	MAR	230.00	250.00	295.00
3-Apr	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	MAR	225.00	240.00	288.00
3-Apr	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	MAR	5.00	10.00	8.00
3-Apr	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	MAR	0.20	0.20	0.10
3-Apr	US Average Weekly Hours All Employees Total Private SA	MAR	34.50	34.60	34.60
3-Apr	Unemployment Rate	MAR	5.50	5.50	5.50

## Economic Outlook

	2014		2015		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	5.0	2.2	<b>2.0</b>	<b>2.5</b>	2.4	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	1.8	1.2	<b>0.2</b>	<b>0.3</b>	1.6	<b>0.6</b>	<b>2.0</b>	<b>2.2</b>
CPI Core (YoY %)	1.8	1.7	<b>1.5</b>	<b>1.2</b>	1.7	<b>1.4</b>	<b>2.0</b>	<b>2.2</b>
Unemployment Rate (%)	6.1	5.7	<b>5.6</b>	<b>5.4</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.25</b>	<b>0.25</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	2.53	2.21	<b>1.90</b>	<b>2.25</b>	2.21	<b>2.60</b>	<b>3.11</b>	<b>3.54</b>
US Dollar/ Euro (eop)	1.29	1.23	<b>1.07</b>	<b>1.00</b>	1.23	<b>1.02</b>	<b>1.12</b>	<b>1.24</b>
Core Logic Home Prices (YoY %)	5.88	5.05	<b>4.20</b>	<b>5.94</b>	7.40	<b>6.10</b>	<b>5.70</b>	<b>4.38</b>

## Fun Fact

During March Madness, there is a 19% increase in pizza orders and a 9% increase in dessert orders by fans after their teams lose (WalletHub).

## Recent Publications

[Unrevised 4Q GDP Raises Questions on Trends in Private Investment](#) (March 27, 2015)

[Durable Goods Orders Drop as Businesses Cut Investment](#) (March 25, 2015)

[Headline CPI Rises in February, Pass-through to Core Remains Limited](#) (March 24, 2015)

[February Shows Sign of a Healing Housing Market](#) (March 24, 2015)

[State Monthly Activity Indexes: Majority of States Can Expect Pickup in 1Q15](#) (March 23, 2015)

[FOMC Statement: FOMC Drops "Patient", First Rate Hike Unlikely in April](#) (March 18, 2015)

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