

Economic Analysis

Weekly Focus: Jobs and Manufacturing

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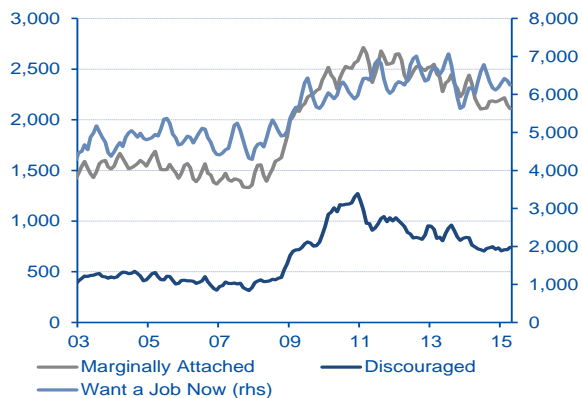
Strong Job Growth to Continue Despite Yellen's Cautionary Tales

It's no surprise that **May's employment report (Friday)** will be the primary focus this week because of the potential impact on the timing of the first rate hike. We expect that this report will support continued progress towards a stronger labor market, including payroll growth above 200K per month and gradual improvement in labor force participation. Despite the big fuss about the latest employment reports (March's weak showing and April's less-than-expected but still +200K figure), the Fed seems to have reached a comfortable position with the labor market. Although they are still leaving ambiguous room for "further improvement", it is unlikely that upcoming reports will significantly sway their decision. Yellen's latest comments suggest a rate hike by the end of the year because "delaying action to tighten monetary policy until employment and inflation are already back to our objectives would risk overheating the economy." She balanced this statement noting that "the labor market is approaching full strength. I say 'approaching' because in my judgment we are not there yet," emphasizing the significant number of discouraged and marginally attached workers. Subdued wage growth has also been a key concern, yet we have seen improvements in the past few months. The **personal income and outlays report for April (Monday)** will be an important indicator to watch for additional signs of wage growth.

ISM Manufacturing Foreshadowing Gradual Improvement in U.S. Exports

This week's economic calendar has a lot to offer aside from the highly anticipated employment report. The **international trade balance for April (Wednesday)**, while slightly lagged compared to other data, could have significant meaning for the Fed's outlook and the lingering impact of USD appreciation and a slowing global economy. In particular, it could shed some light on the weaknesses filtering through to the U.S. manufacturing sector. **May's ISM Manufacturing Index (Monday)** will help confirm whether or not global demand is picking up, albeit slowly. Although exports of manufactured goods remain in negative YoY territory, the leading ISM data suggest a gradual return to positive growth in the near future.

Graph 1
Personal Not in the Labor Force (NSA, Thousands)



Source: FRB & BBVA Research

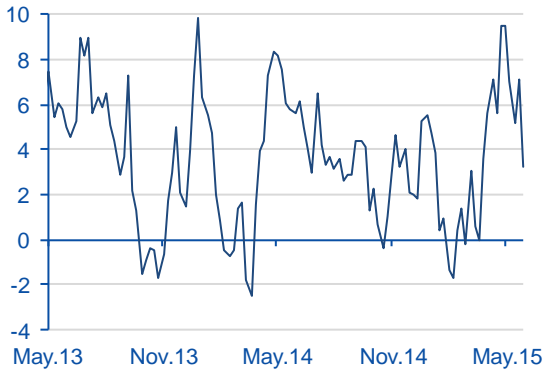
Graph 2
ISM Manufacturing and Exports (SA Index and YoY % Change)



Source: BLS & BBVA Research

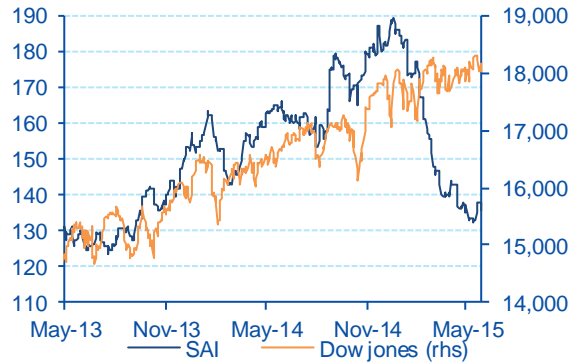
Economic Trends

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



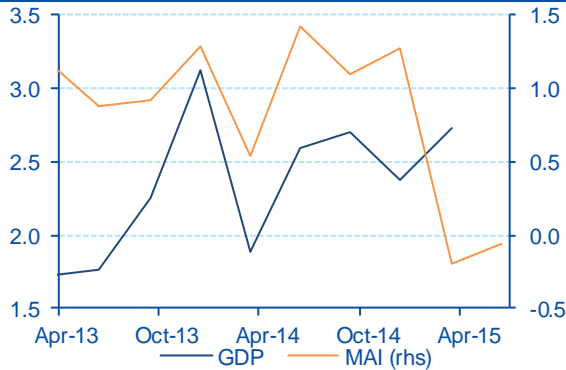
Source: BBVA Research

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



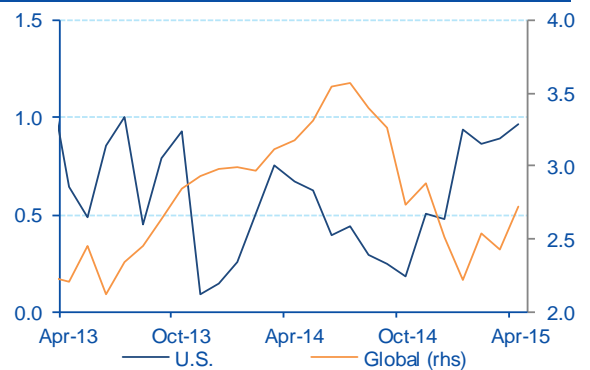
Source: Bloomberg & BBVA Research

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



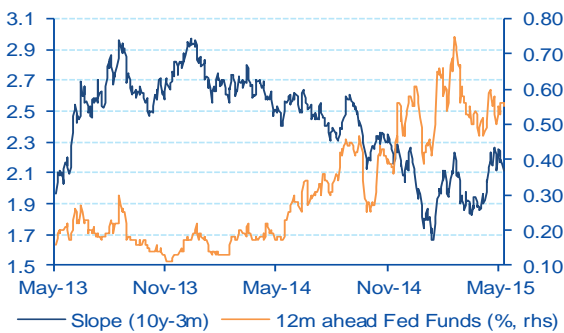
Source: BBVA Research & BEA

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



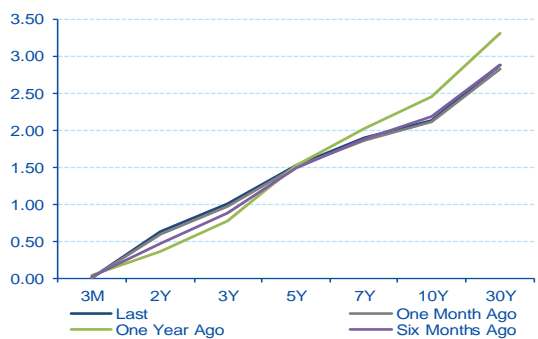
Source: BBVA Research

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
1-Jun	US Personal Income MoM SA	APR	0.20	0.30	0.00
1-Jun	US Personal Consumption Expenditures Nominal Dollars MoM SA	APR	0.30	0.20	0.40
1-Jun	ISM Manufacturing PMI SA	MAY	51.90	52.00	51.50
1-Jun	Census Bureau US Construction Spending MoM SA	APR	0.40	0.80	-0.60
2-Jun	US Auto Sales Total Annualized SA	MAY	16.95	17.00	16.46
2-Jun	NEW YORK PURCHASING MANAGER Current Business Conditions SA	MAY	59.00	0.00	58.10
2-Jun	US Manufacturers New Orders Total MoM SA	APR	-0.50	-0.10	2.10
3-Jun	ADP National Employment Report SA Private Nonfarm Level Change	MAY	215.00	200.00	169.00
3-Jun	US Trade Balance of Goods and Services SA	APR	-49.50	-44.00	-51.37
3-Jun	ISM Non-Manufacturing NMI NSA	MAY	58.10	57.00	57.80
4-Jun	US Initial Jobless Claims SA	MAY 30	285.00	278.00	282.00
4-Jun	US Continuing Jobless Claims SA	MAY 23	2215.00	2180.00	2222.00
4-Jun	US Output Per Hour Nonfarm Business Sector QoQ SA	1Q F	-2.30	-2.90	-1.90
4-Jun	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	1Q F	4.80	6.00	5.00
5-Jun	US Employees on Nonfarm Payrolls Total MoM Net Change SA	MAY	227.00	225.00	223.00
5-Jun	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	MAY	230.00	220.00	213.00
5-Jun	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	MAY	5.00	5.00	1.00
5-Jun	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	MAY	0.20	0.20	0.10
5-Jun	US Average Weekly Hours All Employees Total Private SA	MAY	34.50	34.50	34.50
5-Jun	Unemployment Rate	MAY	5.40	5.40	5.40
5-Jun	Federal Reserve Consumer Credit Total Net Change SA	APR	16.50	16.45	20.52

Economic Outlook

	2014	2015				2014	2015	2016	2017
	4Q	1Q	2Q	3Q					
Real GDP (% SAAR)	2.2	-0.7	3.9	5.9	2.4	2.9	2.8	2.8	
CPI (YoY %)	1.2	-0.1	0.1	0.7	1.6	0.5	1.9	2.2	
CPI Core (YoY %)	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.9	
Unemployment Rate (%)	5.7	5.6	5.4	5.2	6.2	5.3	4.9	4.6	
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50	0.25	0.50	1.50	2.50	
10Yr Treasury (eop, % Yield)	2.21	2.04	1.90	2.32	2.21	2.40	3.00	3.54	
US Dollar/ Euro (eop)	1.23	1.08	1.08	0.99	1.23	1.01	1.12	1.24	
Core Logic Home Prices (YoY %)	4.99	5.23	5.64	5.30	7.45	5.29	4.85	4.38	

Fun Fact

The upcoming NBA Finals between the Cleveland Cavaliers and the Golden State Warriors will mark the first time since the NBA's inaugural season in 1946-1947 (then known as the BAA) that two first-year coaches will face each other in the finals. (The Score, May 28th 2015)

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