

Economic Analysis

Weekly Focus: JOLTS and Retail Sales

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JOLTS Report to Confirm Stronger Labor Market, but Structural Issues Linger

This week's calendar will give us another look at the employment situation to follow up on Friday's strong report for May ([see brief](#)). The **JOLTS data for April (Tuesday)** are expected to show continued progress on the path towards increased openings and hiring, inspiring a boost to worker confidence regarding job availability. Job openings surpassed the pre-crisis peak in June 2014, but hiring has not fully recovered in line with the latest nonfarm payroll reports. When it comes to separations, the JOLTS data suggest that layoffs, while volatile on a monthly basis, have leveled off near pre-crisis lows. This is consistent with the ongoing downward trend in initial jobless claims, which on average have now dropped below 300K per month in eight of the last ten months. However, at this point it seems that **jobless claims (Thursday)** are losing relevance – what do they really tell us about the employment situation in a time when labor force participation holds near 40-year lows and long-term unemployment remains higher than during most recessions (other than 2008)? Sure, we have seen strong payroll growth and faster-than-expected declines in the unemployment rate, but there remain signs of structural issues in the labor market. Although lagged, we are putting more stock into the JOLTS reports than the jobless claims data to give us more clarity on the true strength of the labor market recovery.

Retail Sales Expected to Show Gradual Improvements in Consumer Demand

In other news, this week is expected to highlight a rebound in total **retail sales for May (Thursday)** following declines in four of the past five months. Auto sales for the month increased a drastic 7.8% and hint at least a modest boost for the retail sales figure, even though the unit sales and nominal figures do not always go hand in hand. Even core retail sales (excluding the more volatile auto and gasoline components) have not been as strong as we had expected, particularly with the boost to household finances coming from the drop in oil prices. The elevated personal savings rate throughout the past few months suggests that consumers are willing to keep a tight grip on their purse strings until they are confident that more consistent income growth is here to stay. At the same time, businesses are trying to balance inventory growth with this lack of steady consumer demand. The **wholesale inventory (Tuesday)** and **business inventory (Thursday)** reports for April will give us a better idea as to how producers are faring in this abnormal economic environment. We expect that inventory growth will remain stable but we will continue to see an elevated inventory-to-sales ratio compared to pre-crisis levels.

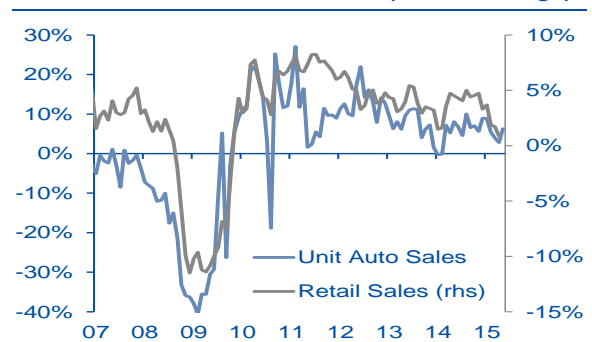
Graph 1
Fed's Economic Outlook

	Longer Run Unemployment Rate	3MMA Change in Nonfarm Payrolls	Number of Unemployed per Job Opening	PCE Core Inflation (YoY)	Average Hourly Earnings (YoY)
Goal	5.2% - 5.5%	200K	2.00	2.00%	+2.50%
QE3 Start (Sept-12)	7.8%	157K	3.38	1.66%	1.44%
Dec-13	6.7%	198K	2.64	1.34%	2.16%
QE3 End (Oct-14)	5.7%	228K	1.85	1.48%	2.27%
April/May 2015	5.4%	207K	1.72*	1.24%	2.04%

*last data available is Mar-15

Source: FRB, BLS, BEA, & BBVA Research

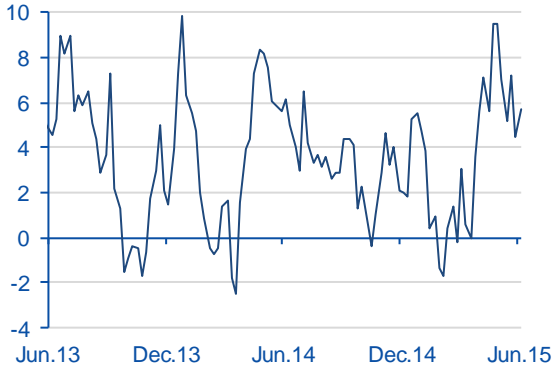
Graph 2
Retail Sales and Unit Auto Sales (YoY % Change)



Source: BLS & BBVA Research

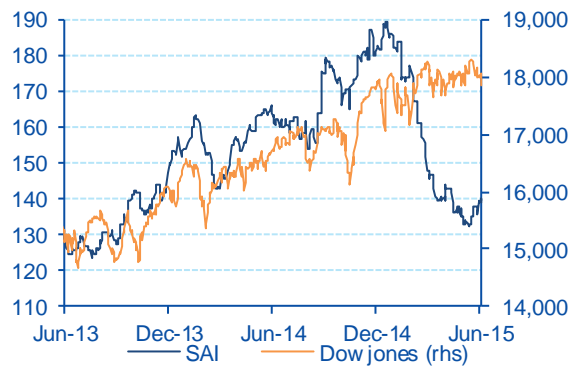
Economic Trends

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



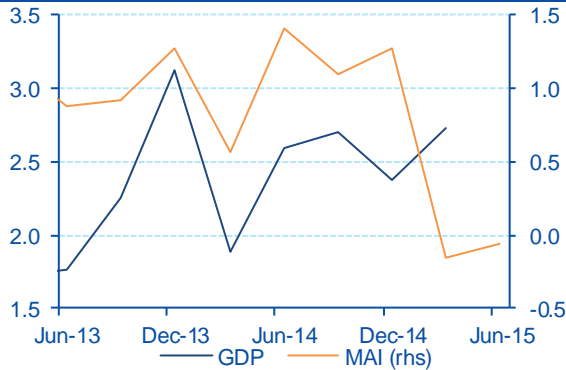
Source: BBVA Research

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



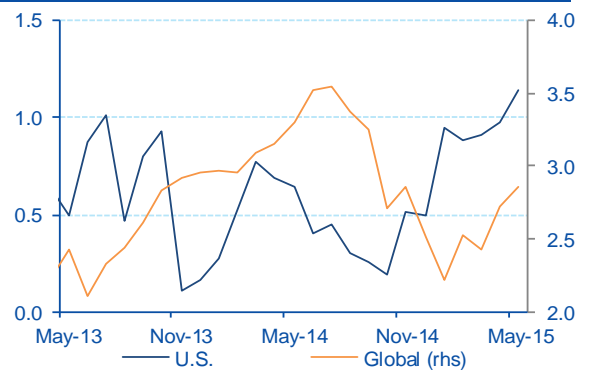
Source: Bloomberg & BBVA Research

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



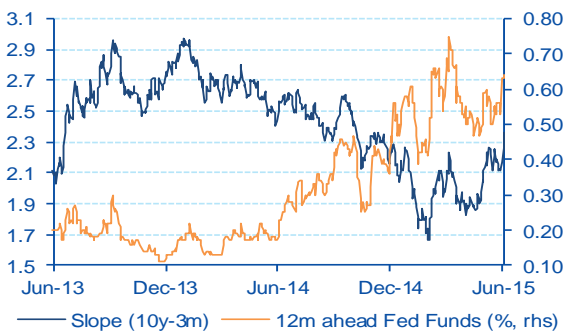
Source: BBVA Research & BEA

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



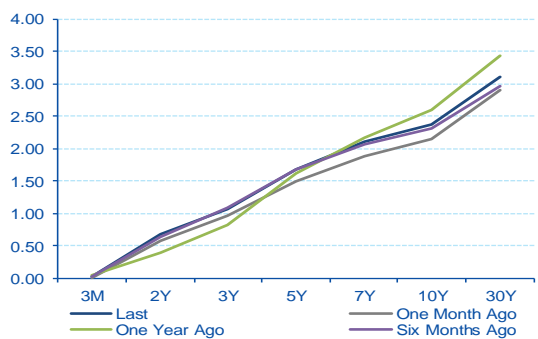
Source: BBVA Research

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
9-Jun	NFIB Small Business Optimism Index	MAY	97.00	97.20	96.90
9-Jun	US Job Openings By Industry Total SA	APR	5050.00	--	4994.00
9-Jun	Merchant Wholesalers Inventories Total Monthly % Change	APR	0.20	0.20	0.10
11-Jun	US Initial Jobless Claims SA	JUN 6	278.00	275.00	276.00
11-Jun	US Continuing Jobless Claims SA	MAY 30	2200.00	2180.00	2196.00
11-Jun	Adjusted Retail & Food Services Sales SA Total Monthly % Change	MAY	0.40	1.15	0.00
11-Jun	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	MAY	0.30	0.50	0.20
11-Jun	US Import Price Index by End Use All MoM NSA	MAY	0.10	0.85	-0.30
11-Jun	US Manufacturing & Trade Inventories Total MoM SA	APR	0.20	0.20	0.10
12-Jun	US PPI Final Demand MoM SA	MAY	0.10	0.40	-0.40
12-Jun	US PPI Final Demand Less Foods and Energy MoM SA	MAY	0.10	0.10	-0.20
12-Jun	University of Michigan Consumer Sentiment Index	JUN P	93.30	91.40	90.70

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	0.0	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 two stars of the NBA Finals, LeBron James (Cleveland Cavaliers) and Steph Curry (Golden State Warriors), were born 39 months apart at the same hospital in Akron, Ohio. (The Washington Post, May 28th 2015)

Recent Publications

[Strong Job Growth Won't Change Fed Liftoff Plans](#) (June 5, 2015)

[Productivity Plunged in 1Q15 While Labor Costs Rose](#) (June 4, 2015)

[1Q15 GDP Revision Hints at Minor Contraction](#) (May 29, 2015)

[U.S. Transitioning to an Environment that Rewards Productivity Over Growth](#) (May 29, 2015)

[Economic Impact of Historic Flooding in Houston](#) (May 29, 2015)

[The Speed of Federal Funds Rate Normalization](#) (May 22, 2015)

[Fintech: Changing the Way We Save and Invest](#) (May 21, 2015)

[The Dynamics of U.S. Crude Oil Production](#) (May 21, 2015)

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