

Economic Analysis

Weekly Focus: Employment and Trade

Kim Chase

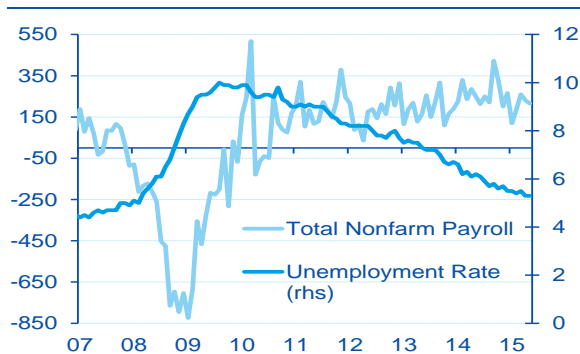
Nonfarm Payroll Growth Will Remain in Support of September Rate Hike

September's employment report (Friday) is the last we'll see before the FOMC heads into intense debate on whether a rate hike will be appropriate in a few short weeks. Despite the Fed's emphasis on employment and calls for "some further improvement" in the labor market (pointing to slow wage growth and low labor force participation, among other concerns), this report will not be the primary driver of a liftoff decision. Job growth is expected to continue along at its 200K+ per month pace, with unemployment hovering near the Fed's long-run rate. Although wage growth is not accelerating at a fast pace, it is at least moving slowly in the right direction. Overall inflation is more of an issue for the FOMC than employment, and even more so, the latest volatility in financial markets. The Fed may be much less inclined to introduce a rate hike if financial markets remain vulnerable to significant disruption, no matter how much improvement they see in both employment and inflation. The fact that markets have mostly recovered from the recent blip could be a good sign, as long as conditions remain stable until mid-September. Unless the payroll numbers disappoint to the downside (far below 200K), the report should help push the FOMC toward a rate hike at the September 16-17th meeting.

China, USD, and Oil Prices Impacting the U.S. Trade Balance

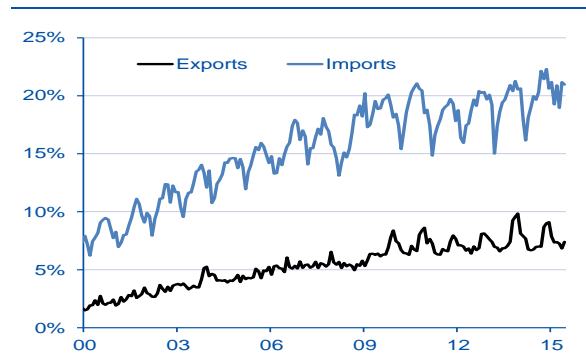
Another important item on the calendar this week is the **international trade balance (Thursday)**. Although trade data is lagged a few months, the report details are proving to be significant in this environment of falling oil prices and slow global growth. Furthermore, the appreciation of the USD is having a significant impact on trading patterns, and in turn, domestic industries such as manufacturing. Concerns over China are rising, and as our second largest trading partner, we may see some impact in our overall trade balance. U.S. exports to China (70% goods, 30% services) only make up about 7% of total goods and services exports, yet a rapid slowdown in Chinese demand would still hurt U.S. production and lead to a deterioration of the international trade balance. Imports from China, comprising nearly 17% of the total for the U.S., pose another risk to the trade gap if the USD continues to appreciate, making Chinese goods cheaper and hurting the competitiveness of domestic companies. Thus, we do not expect to see much improvement in the U.S. trade balance in the coming months.

Graph 1
Nonfarm Payrolls & Unemployment Rate
 (MoM Change in Thous & %)



Source: BLS & BBVA Research

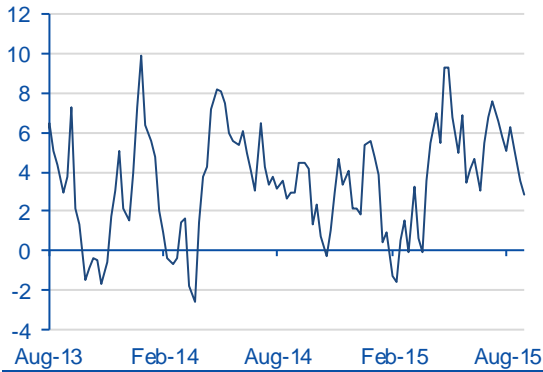
Graph 2
U.S. Exports/Imports with China
 (% of Total Exports/Imports)



Source: Census & BBVA Research

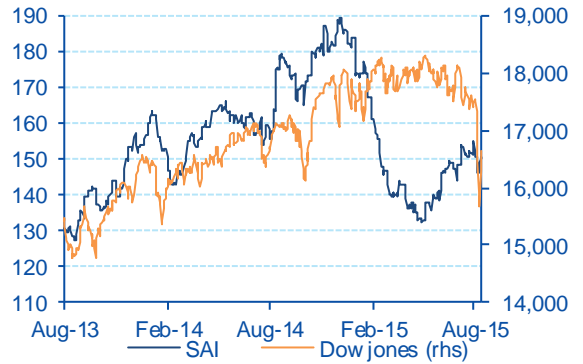
Economic Trends

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



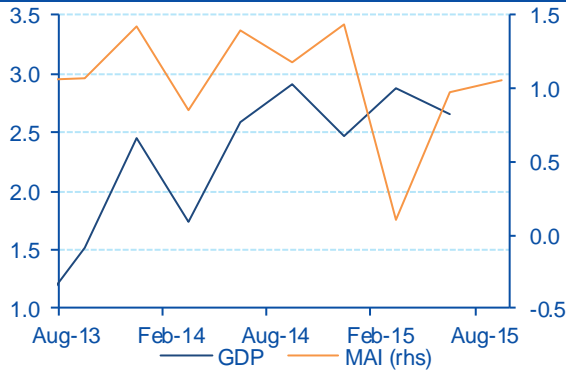
Source: BBVA Research

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



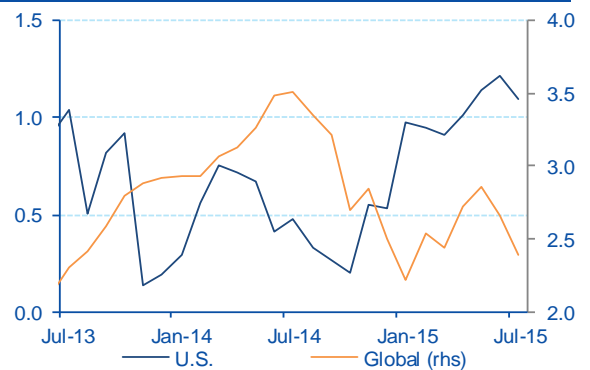
Source: Bloomberg & BBVA Research

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



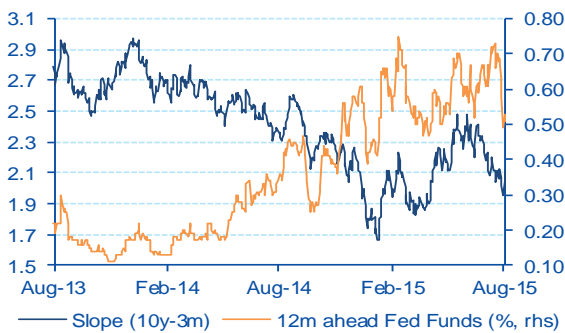
Source: BBVA Research & BEA

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



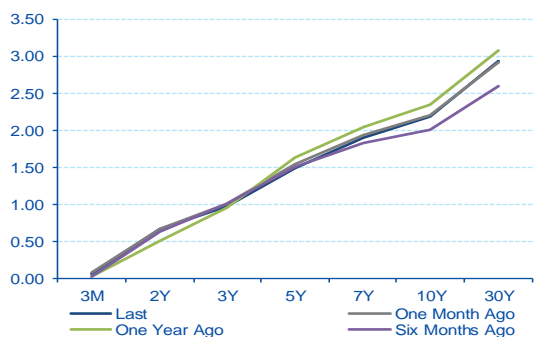
Source: BBVA Research

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
31-Aug	MNI Chicago Business Barometer (sa)	AUG	55.20	54.50	54.70
31-Aug	Dallas Fed Manufacturing Outlook Level Of General Business Activity	AUG	-5.50	-3.50	-4.60
1-Sep	US Auto Sales Total Annualized SA	AUG	17.61	17.30	17.46
1-Sep	ISM Manufacturing PMI SA	AUG	52.00	52.55	52.70
1-Sep	Census Bureau US Construction Spending MoM SA	JUL	0.50	0.60	0.10
2-Sep	ADP National Employment Report SA Private Nonfarm Level Change	AUG	197.00	200.00	185.40
2-Sep	US Output Per Hour Nonfarm Business Sector QoQ SA	2Q F	1.50	2.80	1.30
2-Sep	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	2Q F	0.60	-1.00	0.50
2-Sep	New York Purchasing Managers Current Business Conditions SA	AUG	68.00	-	68.80
2-Sep	US Manufacturers New Orders Total MoM SA	JUL	0.90	0.90	1.80
3-Sep	US Initial Jobless Claims SA	AUG 29	268.00	274.00	271.00
3-Sep	US Continuing Jobless Claims SA	AUG 22	2261.00	2250.00	2269.00
3-Sep	US Trade Balance of Goods and Services SA	JUL	-44.00	-43.00	-43.84
3-Sep	ISM Non-Manufacturing NMI NSA	AUG	59.70	58.40	60.30
4-Sep	US Employees on Nonfarm Payrolls Total MoM Net Change SA	AUG	207.00	220.00	215.00
4-Sep	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	AUG	202.00	206.00	210.00
4-Sep	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	AUG	3.00	5.00	15.00
4-Sep	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	AUG	0.20	0.20	0.20
4-Sep	US Average Weekly Hours All Employees Total Private SA	AUG	34.50	34.50	34.60
4-Sep	Unemployment Rate	AUG	5.30	5.20	5.30

Economic Outlook

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.7	2.4	3.0	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.3	1.2	1.6	0.3	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.8	1.8	1.7	1.8	1.8	2.0
Unemployment Rate (%)	5.6	5.4	5.2	5.1	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	2.04	2.36	2.43	2.53	2.21	2.53	2.72	3.64
US Dollar/ Euro (eop)	1.08	1.12	1.05	1.07	1.23	1.07	1.13	1.20
Core Logic Home Prices (YoY %)	4.96	5.80	6.05	5.85	7.55	5.76	4.40	2.45

Fun Fact

On Monday August 24th, 1 billion people logged onto Facebook. Although the site hit 1 billion users in October 2012, this was the first time 1 billion logged on in a single day. (Facebook, 24 August 2015)

Recent Publications

[Consumption Still in the Driver's Seat for GDP](#) (August 27, 2015)

[Housing Rises to New Heights in July](#) (August 25, 2015)

[U.S. Real GDP Growth Nowcast: 1.14% for 3Q15](#) (August 24, 2015)

[U.S. Oil & Gas Industry Chartbook](#) (August 24, 2015)

[U.S. Economic Outlook 3Q15](#) (August 20, 2015)

[FOMC Minutes: Committee in Preparation Talks for Impending First Rate Hike](#) (August 19, 2015)

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