

Economic Analysis

Weekly Focus: Jobs and the Fiscal Budget

Kim Chase / Amanda Augustine

September's Jobs Report will Force the Fed to Keep December Liftoff in Play

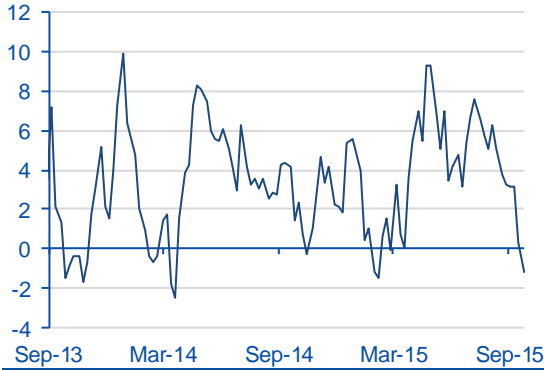
The labor market has seen its fair share of improvement throughout the past year, yet we're all still wondering why the Fed continues to use it as an excuse to delay the first rate hike. In Yellen's recent post-meeting press conference, she noted that "some cyclical weakness likely remains," pointing to the falling participation rate, elevated involuntary part-time employment, and slow wage growth. In her view, these factors suggest that "at least to some extent the standard unemployment rate understates the degree of slack in the labor market." This may be true, but it is hard to deny the improvement seen in steady job growth and an unemployment rate near the long-run goal. With only a few employment reports left this year, the pressure is on for the Fed to justify liftoff by December. **September's jobs report (Friday)** will likely show another positive month for the headline indicators, but it is the underlying details that may continue to be a concern for the Fed. In particular, the number of those working part-time for economic reasons has recovered only halfway from the worst of the crisis and remains well above the pre-recession norm. It is difficult to say whether this component will improve enough in the next few months to warrant a rate hike, but the hope is that the Fed will put more weight on the positives, especially if the unemployment rate drops below 5.0% by the end of the year.

Congress Needs Budget Deal by Thursday to Avoid Another Shutdown

An exciting week lies ahead as Congress faces pressure to pass a budget before the start of the new fiscal year on October 1st. Last Thursday, the Senate blocked a GOP-authored plan that would avoid a government shutdown due to the fact that it denied federal funds to Planned Parenthood. Falling short, with a vote of just 47 to 52, the plan was met with bipartisan opposition. In response, Senate Majority Leader McConnell (R-KY) began to set up votes for a clean stopgap spending bill, or continuing resolution (CR), that would leave Planned Parenthood funding in place, while keeping the government open until December 11th. In the House, Speaker Boehner (R-OH), who just announced his resignation as of October 30th, is expected to push through a similar bill, especially now that he faces less of a political threat to his position. A clean CR is necessary to avoid a shutdown, and passage seems likely as it offers a short-term solution that would give lawmakers more time to negotiate a longer-term spending measure. However, considering the lack of compromise seen lately—even within the same party—pushing the bill through will not be easy. The 2013 shutdown, lasting 16 days, took an estimated \$24 billion out of the economy as federal employees and contractors were furloughed, and consumers cut back spending due to concerns about the debt ceiling. If the government shuts down again, we can expect to see a similar impact on the economy depending on how long it takes for the government to reopen.

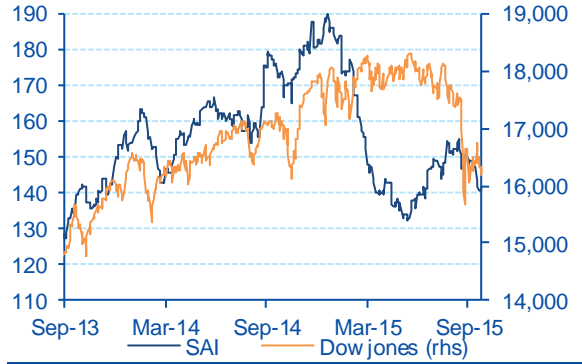
Economic Trends

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



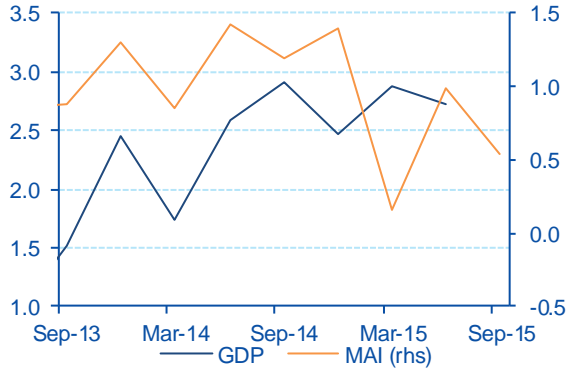
Source: BBVA Research

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



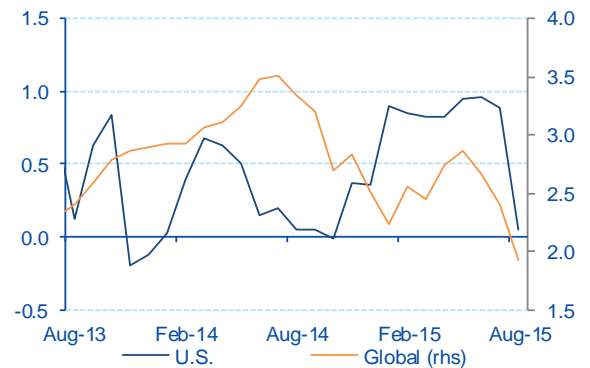
Source: Bloomberg & BBVA Research

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



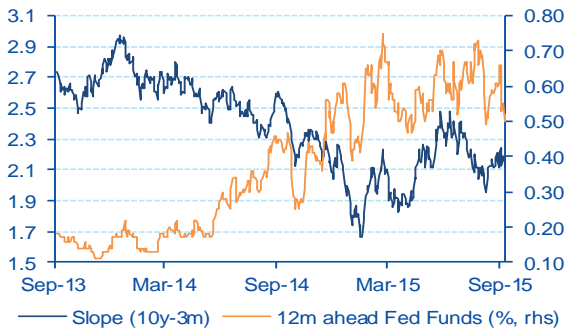
Source: BBVA Research & BEA

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



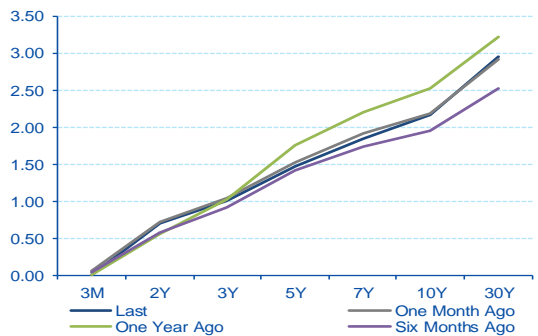
Source: BBVA Research

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
28-Sep	US Personal Income MoM SA	AUG	0.30	0.40	0.40
28-Sep	US Personal Consumption Expenditures Nominal Dollars MoM SA	AUG	0.30	0.30	0.30
28-Sep	US Pending Home Sales Index MoM SA	AUG	0.30	0.40	0.52
28-Sep	Dallas Fed Manufacturing Outlook Level Of General Business Activity	SEP	-14.10	-9.50	-15.80
29-Sep	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	JUL	-0.50	0.10	-0.12
29-Sep	S&P/Case-Shiller Composite-20 City Home Price Index YoY	JUL	4.82	5.20	4.97
29-Sep	Conference Board Consumer Confidence SA 1985=100	SEP	95.70	96.00	101.54
30-Sep	ADP National Employment Report SA Private Nonfarm Level Change	SEP	205.00	190.00	190.30
30-Sep	MNI Chicago Business Barometer (sa)	SEP	54.00	53.00	54.40
1-Oct	US Auto Sales Total Annualized SA	SEP	17.60	17.50	17.72
1-Oct	US Initial Jobless Claims SA	SEP 25	262.00	272.00	267.00
1-Oct	US Continuing Jobless Claims SA	SEP 18	2248.00	2213.00	2242.00
1-Oct	ISM Manufacturing PMI SA	SEP	50.70	50.50	51.10
1-Oct	Census Bureau US Construction Spending MoM SA	AUG	0.20	0.60	0.70
2-Oct	US Employees on Nonfarm Payrolls Total MoM Net Change SA	SEP	210.00	200.00	173.00
2-Oct	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	SEP	213.00	195.50	140.00
2-Oct	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	SEP	2.00	0.00	-17.00
2-Oct	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	SEP	0.20	0.20	0.30
2-Oct	US Average Weekly Hours All Employees Total Private SA	SEP	34.60	34.60	34.60
2-Oct	Unemployment Rate	SEP	5.10	5.10	5.10
2-Oct	New York Purchasing Managers Current Business Conditions SA	SEP	51.00	0.00	51.10
2-Oct	US Manufacturers New Orders Total MoM SA	AUG	-0.70	-1.20	0.40

Economic Outlook

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.9	2.1	3.0	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.2	1.0	1.6	0.3	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.8	1.7	1.7	1.7	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	0.25	0.50	0.25	0.50	1.25	2.25
10Yr Treasury (eop, % Yield)	2.04	2.36	2.19	2.33	2.21	2.33	2.74	3.50
US Dollar/ Euro (eop)	1.08	1.12	1.12	1.09	1.23	1.09	1.16	1.20
Core Logic Home Prices (YoY %)	4.96	5.80	6.05	5.85	7.55	5.67	4.40	2.45

Fun Fact

Beginning in 2016, residents from Louisiana, Minnesota, New Hampshire, New York, and American Samoa will no longer be able to use their driver's licenses as identification to board domestic flights. This is due to the fact that getting a license in each of these states does not require proof of citizenship or residency. (Department of Homeland Security)

Recent Publications

[U.S. Oil and Gas Industry Chartbook](#) (September 25, 2015)

[Final Estimate for Real GDP Growth Hits 3.9%](#) (September 25, 2015)

[FOMC Statement: Dovish Views Dominate as FOMC Holds Back on Rate Hike](#) (September 17, 2015)

[August Headline CPI Falls as Gas Prices Tumble](#) (September 16, 2015)

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