

Economic Analysis

Weekly Focus: Fiscal Budget and Employment

Kim Chase / Amanda Augustine

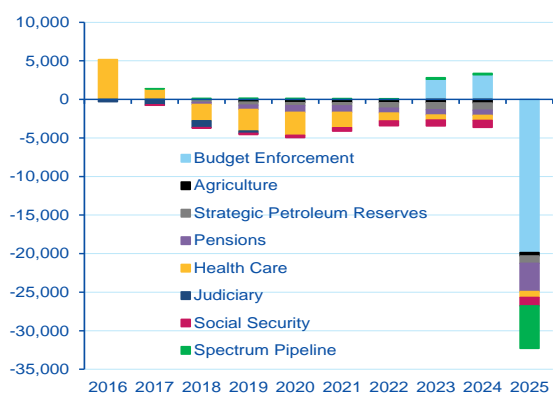
Two-Year Budget Reduces Some Fiscal Uncertainty, but Other Issues Remain

Congress has managed to accomplish two major goals in the past few days—passing a long-term budget and electing a new Speaker of the House. On Friday, the Senate approved the two-year bipartisan budget deal, which raises the debt ceiling through March 2017 and provides \$80bn in additional defense and domestic spending, offset by changes in Medicare and Social Security and the sale of government broadcast spectrum and crude oil reserves. Newly-elected House Speaker Paul Ryan’s (R-WI) first major task will be to implement the budget by passing a multi-agency spending bill in order to avoid another shutdown by December 11th. Also pending is the reauthorization of the Export-Import Bank which has been passed by the House, but awaits Senate approval, with Senate Majority Leader McConnell (R-KY) expressing interest in attaching it to a long-term highway funding bill. A three-week extension of the highway funding bill was passed but a long-term plan is still in the works, with the House passing their version two weeks ago and the Senate currently marking up another version. Regardless, this rare compromise by Congress in the urgency of passing a budget deal gives hope that similar haste will be taken in order to pass essential transportation and trade reform as soon as possible.

Payrolls Above 200K and Stronger Wage Growth will Support December Liftoff

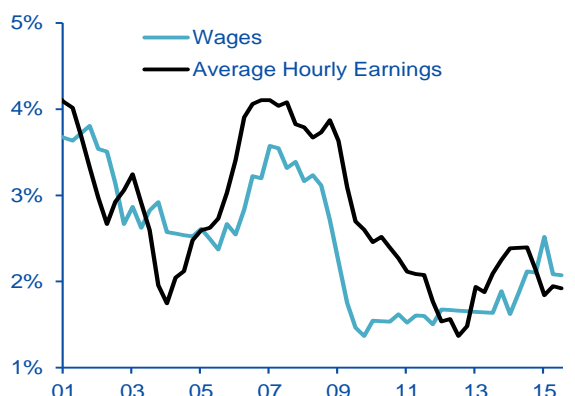
October’s employment report could be market moving, particularly following the relatively hawkish FOMC statement reemphasizing the possibility of a December rate hike. Slowing job growth in August and September pushed expectations for the first rate hike further into 2016, but a figure back near 200K would boost support for liftoff “sometime later this year”. This would also help push the unemployment rate to 5.0%, although it seems that this has become less of an influential factor for the Fed. More importantly, the FOMC wants to see at least some movement in wage growth in order to be confident that there is little slack left in the labor market. The employment cost index for 3Q15 jumped a healthy 0.6% from the previous quarter, though this does not always move hand-in-hand with data on average hourly earnings. We do expect to see a modest improvement in October’s employment report, but it will be a while before the data are strong enough to truly justify a rate hike.

Graph 1
Changes in Spending: Bipartisan Budget Act (\$Mn)



Source: CBO & BBVA Research

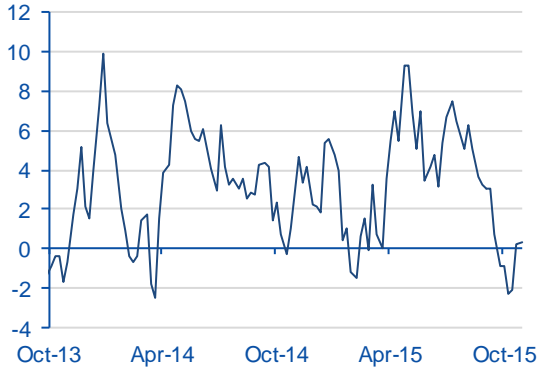
Graph 2
Employment Cost Index Wages & Average Hourly Earnings (YoY % Change)



Source: BLS & BBVA Research

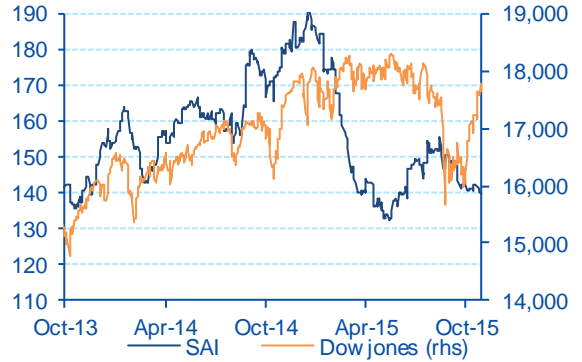
Economic Trends

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



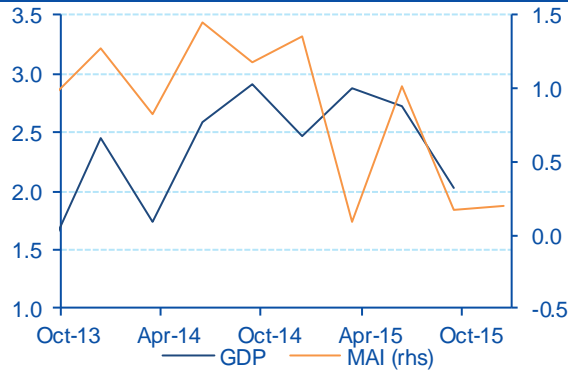
Source: BBVA Research

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



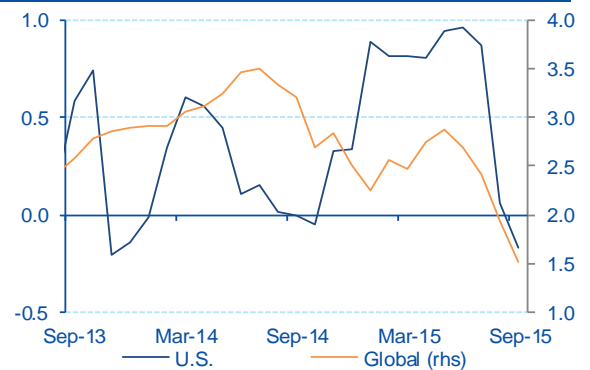
Source: Bloomberg & BBVA Research

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



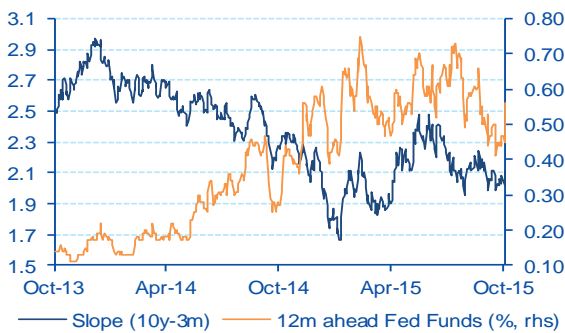
Source: BBVA Research & BEA

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



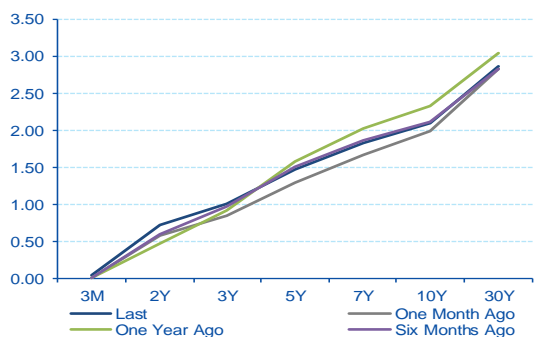
Source: BBVA Research

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
2-Nov	ISM Manufacturing PMI SA	OCT	50.00	50.00	50.20
2-Nov	Census Bureau US Construction Spending MoM SA	SEP	0.30	0.50	0.70
3-Nov	US Auto Sales Total Annualized SA	OCT	18.00	17.70	18.07
3-Nov	New York Purchasing Managers Current Business Conditions SA	OCT	45.30	46.00	44.50
3-Nov	US Manufacturers New Orders Total MoM SA	SEP	-1.10	-0.90	-1.70
4-Nov	ADP National Employment Report SA Private Nonfarm Level Change	OCT	205.00	180.00	199.50
4-Nov	US Trade Balance of Goods and Services SA	SEP	-49.00	-41.00	-48.33
4-Nov	ISM Non-Manufacturing NMI NSA	OCT	55.80	56.50	56.90
5-Nov	US Initial Jobless Claims SA	OCT 31	259.00	260.00	260.00
5-Nov	US Continuing Jobless Claims SA	OCT 24	2160.00	2140.00	2144.00
5-Nov	US Output Per Hour Nonfarm Business Sector QoQ SA	3Q P	0.90	-0.30	3.30
5-Nov	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	3Q P	0.50	2.30	-1.40
6-Nov	US Employees on Nonfarm Payrolls Total MoM Net Change SA	OCT	201.00	180.00	142.00
6-Nov	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	OCT	205.00	165.00	118.00
6-Nov	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	OCT	-3.00	-5.00	-9.00
6-Nov	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	OCT	0.10	0.20	0.00
6-Nov	US Average Weekly Hours All Employees Total Private SA	OCT	34.50	34.50	34.50
6-Nov	Unemployment Rate	OCT	5.00	5.05	5.10
6-Nov	Federal Reserve Consumer Credit Total Net Change SA	SEP	14.70	17.75	16.02

Economic Outlook (revisions pending)

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.9	1.5	2.7	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.1	0.9	1.6	0.2	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.8	1.9	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	0.25	0.50	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.04	2.36	2.17	2.33	2.21	2.33	2.51	3.21
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

Halloween is a big boost for the U.S. economy, with total spending expected to hit \$6.9bn this year. Average spending is about \$74/person, with 157 million Americans planning to celebrate. (Bloomberg, October 30th 2015)

Recent Publications

[3Q15 GDP Growth Slows to 1.5% as Expected](#) (October 29, 2015)

[FOMC Statement: Rate Remains Unchanged as FOMC Hopes for December Liftoff](#) (October 28, 2015)

[U.S. Real GDP Growth Nowcast: 1.49% for 3Q15](#) (October 26, 2015)

[CRE Going Strong, at Least for the Time Being](#) (October 26, 2015)

[U.S. Auto Industry Chartbook 3Q15](#) (October 26, 2015)

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.