

Economic Analysis

Weekly Focus: Employment and Auto Sales

Kim Chase

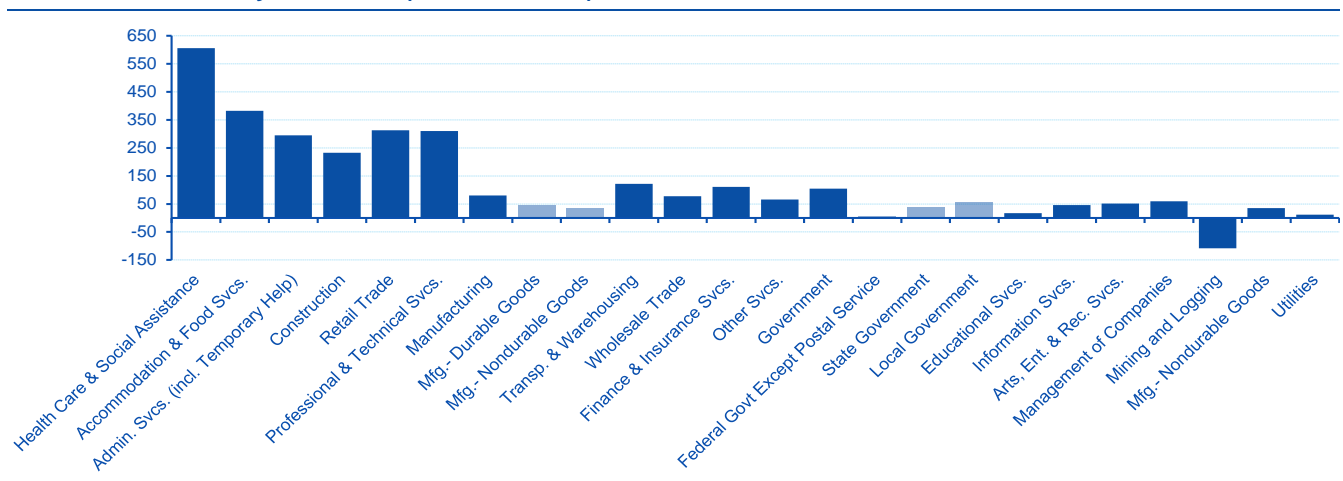
Final Jobs Report Before Expected Rate Hike at December FOMC

November's employment report (Friday) will be the last before the FOMC heads into their two-day meeting to decide whether the U.S. economy is ready for a rate hike. The rebound in October's job growth has helped reduce concerns of slowing improvement in the labor market, but the question is whether this was enough to convince the most dovish members that a rate increase is appropriate before the end of the year. Payrolls are expected to slow down to right around 200K in November, though this shouldn't have too much impact on the Fed's outlook unless the figure falls well-below that threshold. Despite some lingering structural challenges in the labor market, such as the low participation rate and subdued wage growth, the Fed will likely pick out the more optimistic elements in order to gain support for a December liftoff. For example, hiring in the manufacturing sector is finally expected to increase after declining in August and September and remaining flat in October. A turnaround in manufacturing jobs (as small as it may be) could signal the end of this period of weak activity due to slow global demand and low oil prices, as both are expected to have already hit bottom. Furthermore, if the Fed does decide to increase rates in December, we are likely to see a boost to economic confidence that may help fuel hiring even further in the coming year.

Autos Remain the Key Driver of Consumption Heading into 2016

Auto sales have been a leading component of the strong consumer sector throughout most of the past year. In October, light motor vehicle sales reached 18.24 million, the most since July 2005, and **November's auto sales (Tuesday)** are expected to hold near similarly robust levels. The ongoing upward trend has been boosted by cheap fuel, employment growth, and low interest rates, which make financial conditions all the more favorable for willing consumers. In addition, the average age of vehicles on the road has increased to nearly 11 years, which could imply a replacement surge in the short term. Regardless, we expect the auto sector to remain a key driver of consumption in the coming year.

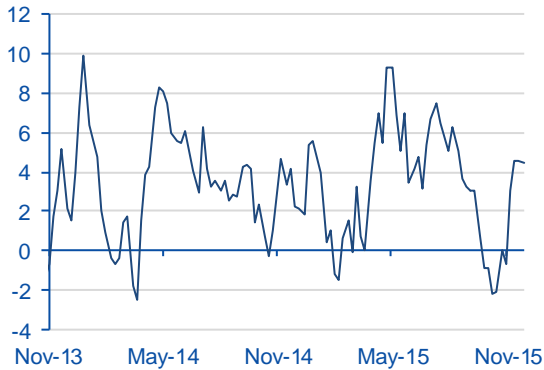
Graph 1
12-Month Nonfarm Payroll Growth (SA, Thousands)



Source: BLS & BBVA Research

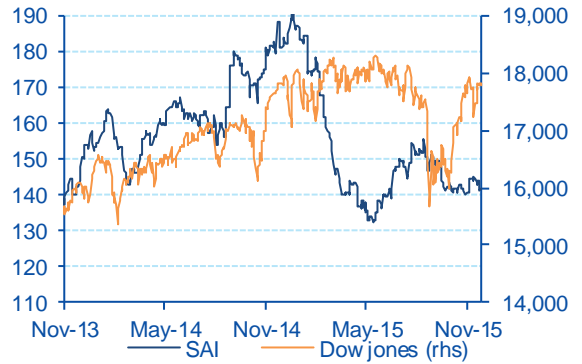
Economic Trends

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



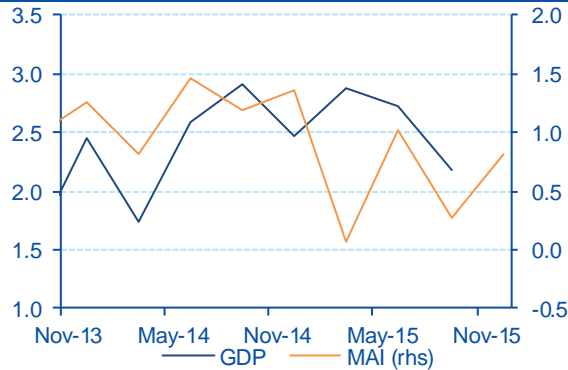
Source: BBVA Research

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



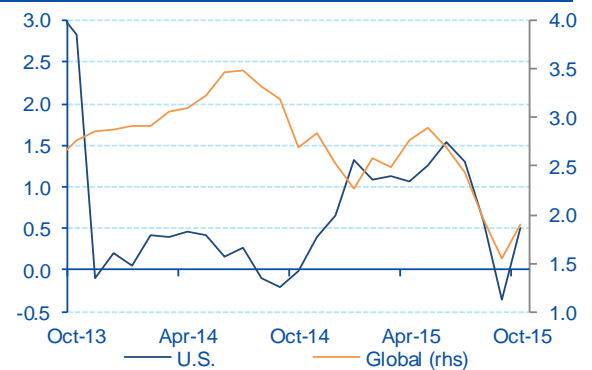
Source: Bloomberg & BBVA Research

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



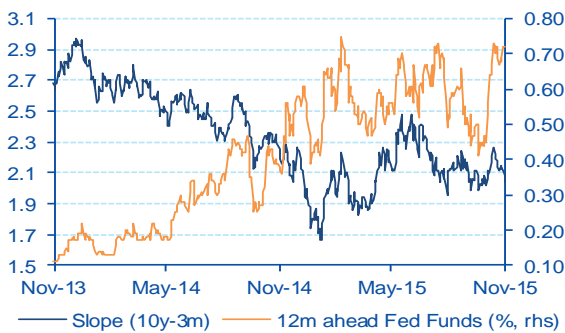
Source: BBVA Research & BEA

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



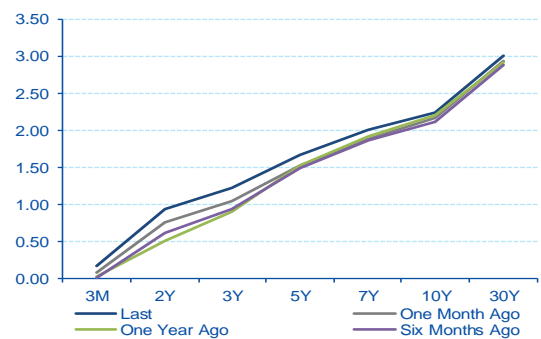
Source: BBVA Research

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
30-Nov	MNI Chicago Business Barometer (sa)	NOV	55.90	54.00	56.20
30-Nov	US Pending Home Sales Index MoM SA	OCT	0.70	1.00	-2.29
30-Nov	Dallas Fed Manufacturing Outlook Level Of General Business Activity	NOV	-10.10	-10.00	-12.70
1-Dec	ISM Manufacturing PMI SA	NOV	50.30	50.50	50.10
1-Dec	Census Bureau US Construction Spending MoM SA	OCT	0.40	0.50	0.60
2-Dec	ADP National Employment Report SA Private Nonfarm Level Change	NOV	195.00	190.00	181.90
2-Dec	US Output Per Hour Nonfarm Business Sector QoQ SA	3Q F	2.20	2.20	1.60
2-Dec	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	3Q F	1.70	1.00	1.40
2-Dec	New York Purchasing Managers Current Business Conditions SA	NOV	64.00	--	65.80
3-Dec	US Initial Jobless Claims SA	NOV 28	263.00	270.00	260.00
3-Dec	US Continuing Jobless Claims SA	NOV 21	2150.00	2185.00	2207.00
3-Dec	US Manufacturers New Orders Total MoM SA	OCT	0.90	1.30	-1.00
3-Dec	ISM Non-Manufacturing NMI NSA	NOV	58.70	58.00	59.10
4-Dec	US Trade Balance of Goods and Services SA	OCT	-43.30	-40.60	-40.81
4-Dec	US Employees on Nonfarm Payrolls Total MoM Net Change SA	NOV	215.00	200.00	271.00
4-Dec	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	NOV	210.00	190.00	268.00
4-Dec	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	NOV	2.00	0.00	0.00
4-Dec	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	NOV	0.20	0.20	0.40
4-Dec	US Average Weekly Hours All Employees Total Private SA	NOV	34.50	34.50	34.50
4-Dec	Unemployment Rate	NOV	5.00	5.00	5.00

Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	2.1	2.6	1.9	2.4	2.5	2.5	2.4
CPI (YoY %)	0.0	0.1	0.9	2.2	1.6	0.2	1.8	1.9
CPI Core (YoY %)	1.8	1.8	1.9	1.9	1.7	1.8	1.8	1.9
Unemployment Rate (%)	5.4	5.2	5.0	5.0	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.36	2.17	2.33	2.43	2.21	2.33	2.51	3.21
US Dollar/ Euro (eop)	1.12	1.12	1.07	1.08	1.23	1.07	1.13	1.16
Core Logic Home Prices (YoY %)	5.14	5.62	7.51	7.70	7.67	5.80	4.66	2.45

Fun Fact

This year, the average cost of Thanksgiving dinner for 10 people is estimated to be \$50.11, up \$0.70 from 2014, with the largest price increases coming from turkey, pumpkin pie mix, rolls, and stuffing. (American Farm Bureau Federation, November 2015)

Recent Publications

[U.S. Economic Outlook: 4Q15](#) (November 27, 2015)

[FDIC Quarterly Banking Profile 2015 Q3](#) (November 26, 2015)

[Digitization and Productivity: Where is the Growth?](#) (November 25, 2015)

[U.S. Real GDP Growth Nowcast: 2.66% for 4Q15](#) (November 25, 2015)

[3Q15 GDP Revised Upward from 1.5% to 2.1%](#) (November 24, 2015)

[Senior Loan Officer Survey 2015 Q4](#) (November 21, 2015)

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