US Weekly Flash

Highlights

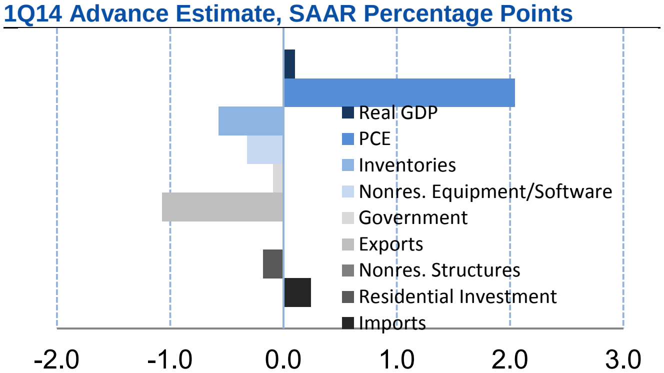
Advance GDP Estimate Confirms Deceleration in 1Q14

- The BEA's advance estimate of 1Q14 real GDP confirmed our expectations that economic growth decelerated from 4Q13. According to the report, GDP nearly stalled, expanding at a rate of only 0.1% SAAR over the first quarter of the year. The drop was led by a significant dip in gross private domestic investment, which fell 6.1% SAAR, the biggest drop since 1Q11, and reflected declines in both the residential and nonresidential components. Another negative driver was net exports, as export growth dropped 7.6% SAAR, the biggest decline since the recession, which is a concern with regards to international demand for U.S. goods. On a brighter note, consumer spending was up 3.0%, just about on pace with the 4Q13 rate (3.3%); however, spending on goods plunged to its lowest level since 2Q11.
- Overall, the slower-than-expected GDP estimate is slightly discouraging, but there is no need to worry about an impending slowdown. Business activity and consumption data have been starkly stronger in March, so it is likely that growth will be revised upward once all the data are accounted for in the quarter. Furthermore, according to the BEA, the change in estimate between the advance report and final has averaged 0.6 percentage points historically. For this reason, we cannot make a definitive judgment regarding the health of the economy on the advance estimate, and we expect that when the data is complete, GDP growth for 1Q14 will be revised upward. As such, we maintain our expectations for 2.5% growth in 2014.

Nonfarm Payroll Additions Surge in April

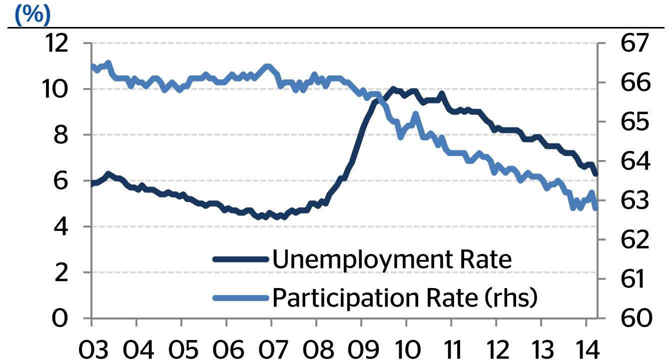
- The report released by the Bureau of Labor Statistics on Friday showed that the U.S. economy added 288K jobs in April, the biggest monthly gain for nonfarm payrolls since January 2012. Furthermore, revisions for February and March indicated that job growth was higher than preliminary estimates, as February's estimate was revised up from 197K to 222K and March's figure was changed from 197K to 203K. Another standout of the report was the unemployment rate, which fell to 6.3% from 6.7% in March. However, the labor force participation rate dropped significantly from 63.2% to 62.8%, negating the gains seen thus far in 2014, as the number of civilians in the labor force dropped 806K. In effect, the low unemployment rate is partially misleading, and as workers currently not in the labor force seek employment, the unemployment rate should rise.
- Overall, the jobs data for April combined with the significant upward revisions to initial estimates for the two previous months are positive signs for the economy. On the heels of a lower-than-expected 1Q14 GDP estimate, the robust improvement in the labor market assures us that business activity is indeed accelerating, which perhaps will be reflected in the 2Q14 GDP figure. Although the unemployment rate alone may be somewhat misleading, nonfarm payroll additions show that the labor market is unquestionably gaining strength. Looking ahead, as the job outlook improves, discouraged workers should re-enter the labor force and place upward pressure on the unemployment rate. Thus, despite the steep drop in the unemployment rate for the month, we expect it should still hover above 6.0% heading into early 2015.

Graph 1
Contributions to Real GDP Growth
1Q14 Advance Estimate, SAAR Percentage Points



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Unemployment and Participation Rates
(%)



Source: Conference Board & BBVA Research

Week Ahead

ISM Non-Manufacturing Index (April, Monday 10:00 ET)

Forecast: 53.8	Consensus: 54.0	Previous: 53.1

The ISM non-manufacturing index is expected to show expansion in services activity for April. With the employment report for the month pointing to a surge in hiring, we can expect this component to help push the services index upward. General consensus among survey respondents in the last survey regarding business activity were positive, and Federal Reserve data also indicate that business activity is picking up. Furthermore, respondents felt that consumer spending was rising after a slow start to the year, so the release of pent-up demand should be felt in the coming months. Thus, we predict the index to rise for April and continue trending upward through 2Q14.

International Trade Balance (March, Tuesday 8:30 ET)

Forecast: $-40.80B	Consensus: $-40.15B	Previous: $-42.30B

The international trade balance has widened for three consecutive months, but now that economic data has shown considerable improvements from the beginning of the year, we look for the gap to shrink in March. The latest deficit increases were likely attributed to the global slowdown, as exports declined significantly in December and February. Imports, however, have increased throughout the past few months despite the fact that economic data mostly decelerated at the beginning of the year. For March, Federal Reserve surveys and ISM data have shown rejuvenation in the business sector, so we expect this to boost export activity for the month. Looking at the bigger picture, the largest threat to the trade balance continues to be further slowdown abroad. Overall, we expect that the trade balance will close out 1Q14 on a positive note and make way for further improvements as 2Q14 gets underway, thus providing upward pressure on GDP growth in future quarters.

Consumer Credit (March, Wednesday 15:00 ET)

Forecast: $16.20B	Consensus: $16.10B	Previous: $16.49B

We look for consumer credit to slightly pull back in March following a surge in the month prior. Personal income has risen by 0.4%, 0.4%, and 0.5% MoM through the first three months of the year, and higher income growth should also support additional credit card spending. Consumption expenditures were strong for 1Q14, and we expect the momentum to carry over into the second quarter, which should fuel revolving credit. On the other hand, we expect the non-revolving component to continue trending upward, led by student loans. Looking ahead to the rest of 2014, consumers will likely become more comfortable with economic conditions, and thus will be more confident in taking on new debt.

JOLTS Job Openings (March, Friday 10:00 ET)

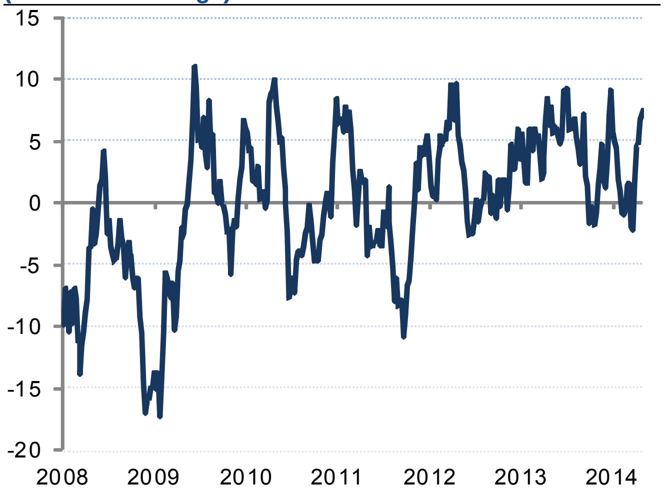
Forecast: 4150K	Consensus: --	Previous: 4173K

After an exceptionally strong surge in February, we expect job openings to hold mostly steady in March. The strong gains in the previous report saw about two-thirds of the jobs added by the professional and business services sector, as the total number of job openings reached its highest level in over six years. However, hiring growth has not kept up with job openings and is up only 0.8% on a YoY basis. Thus, it is likely the case that employers are not finding the most qualified workers to fill their vacancies, hinting at underlying structural unemployment issues in the economy. Though we do not expect to see a major increase in openings for March, we should continue to see a gradual upward trend in the labor market through this year as the economy continues to expand.

Market Impact

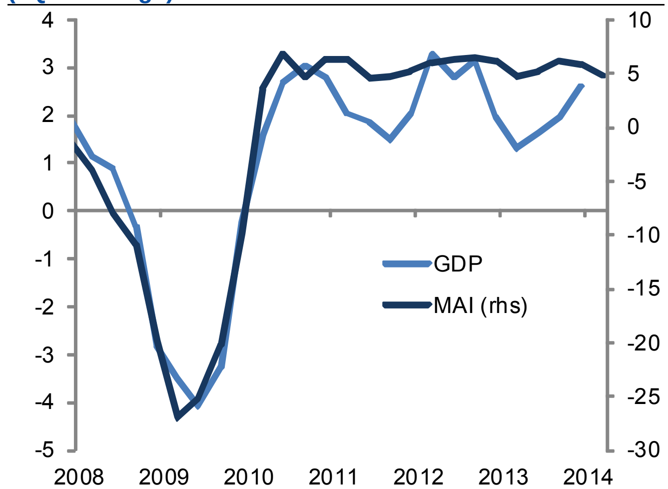
Following the release of 1Q14 GDP and the April jobs report, markets will not be faced with any significant economic indicators. Investors will continue to pay attention to company earnings to gauge business activity and will keep the situation in Ukraine in their peripherals.

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



Source: BBVA Research

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

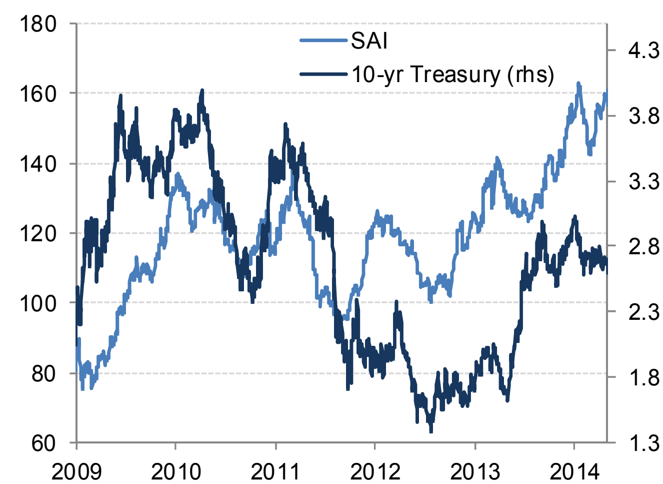


Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index (Index 2009=100)

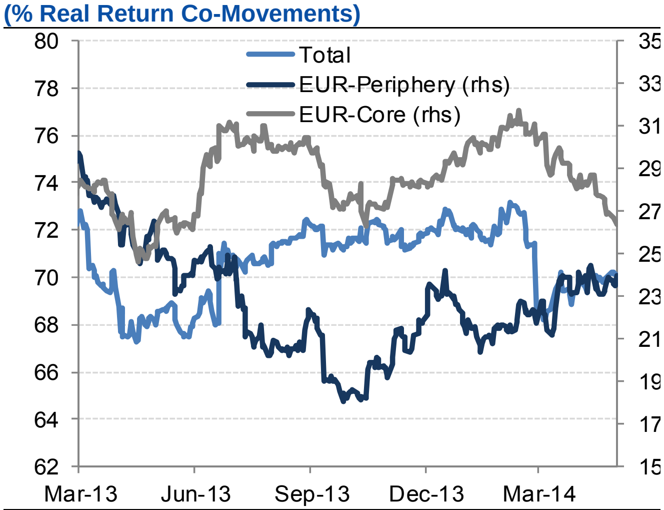
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



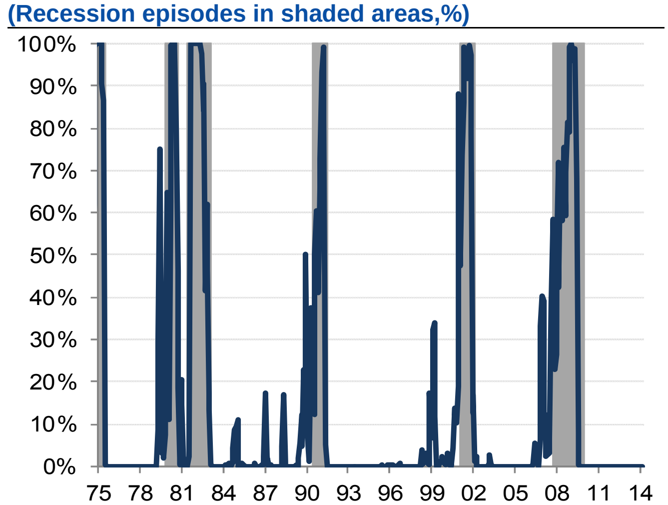
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US (% Real Return Co-Movements)



Source: BBVA Research

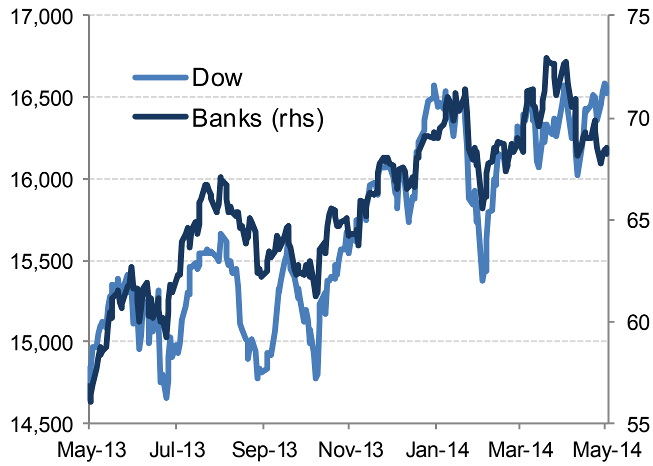
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

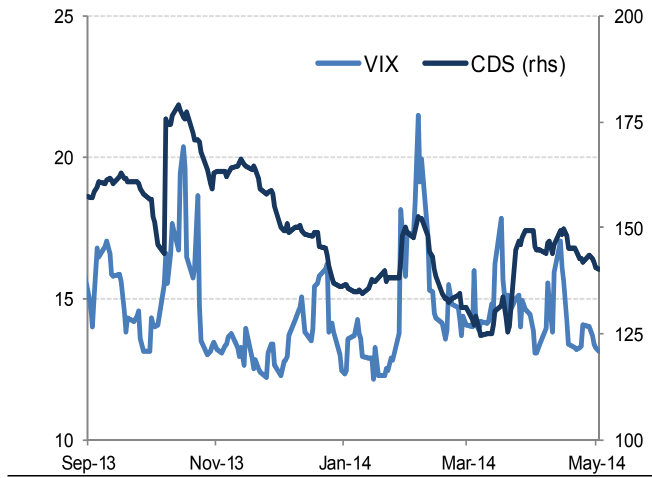
Financial Markets

Graph 9
Stocks
(Index, KBW)



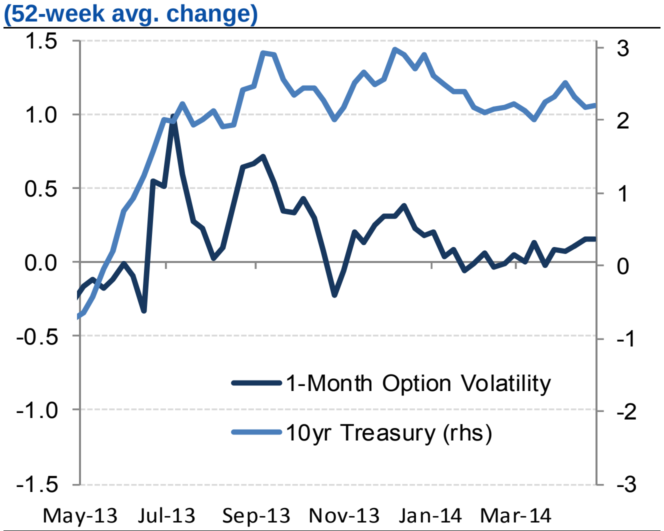
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



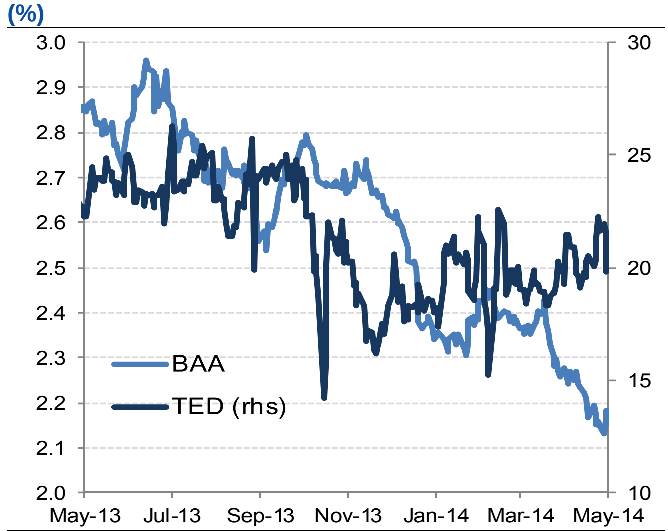
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury
(52-week avg. change)



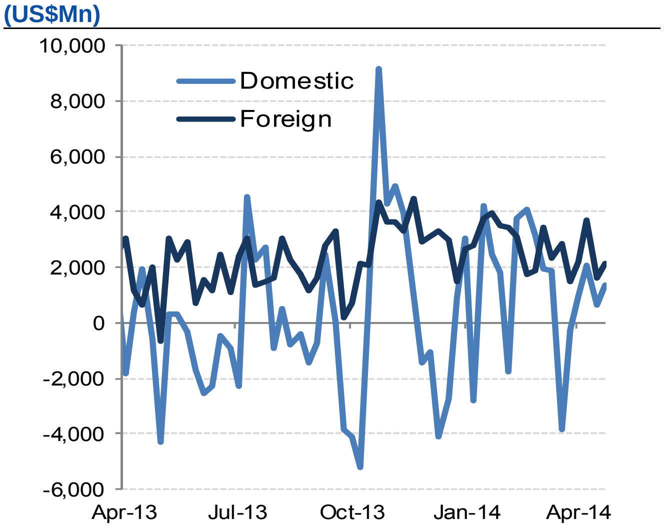
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



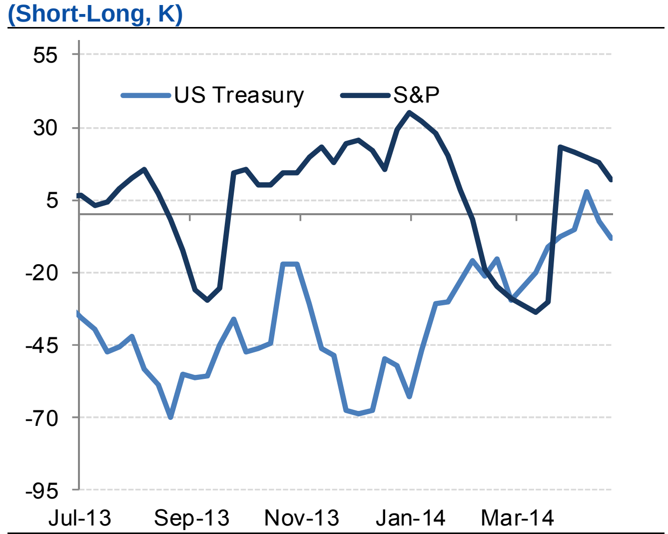
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows
(US$Mn)



Source: Haver Analytics & BBVA Research

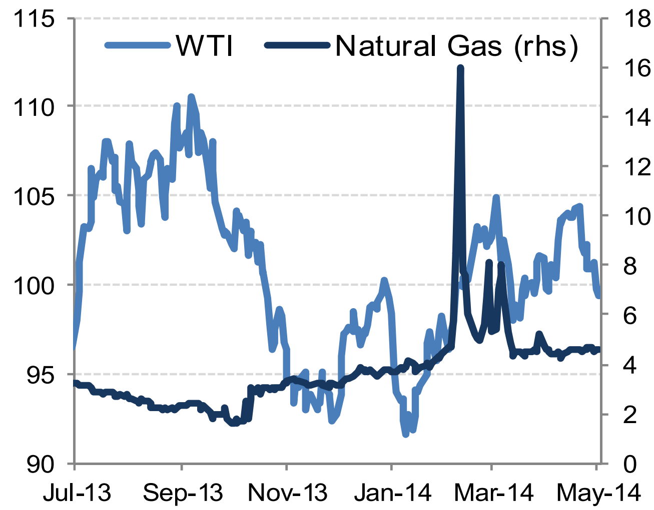
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

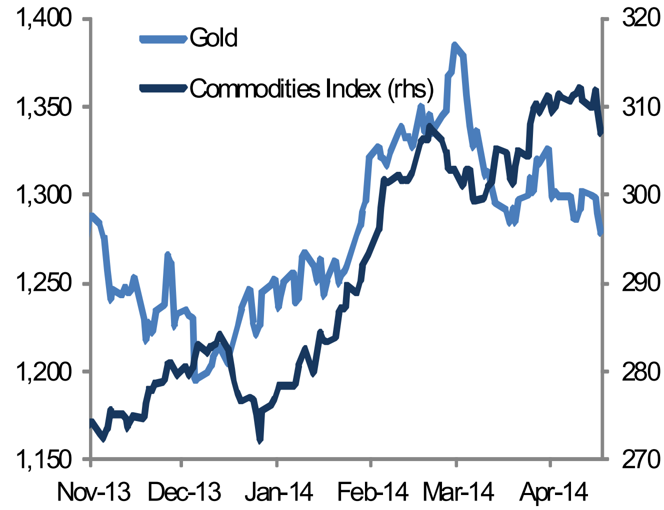
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



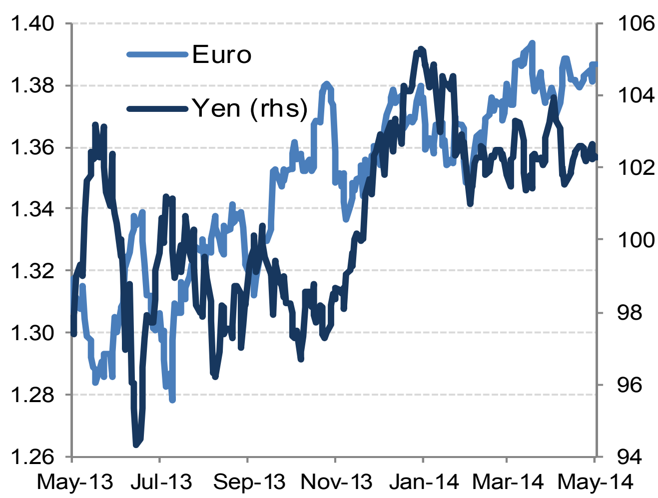
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



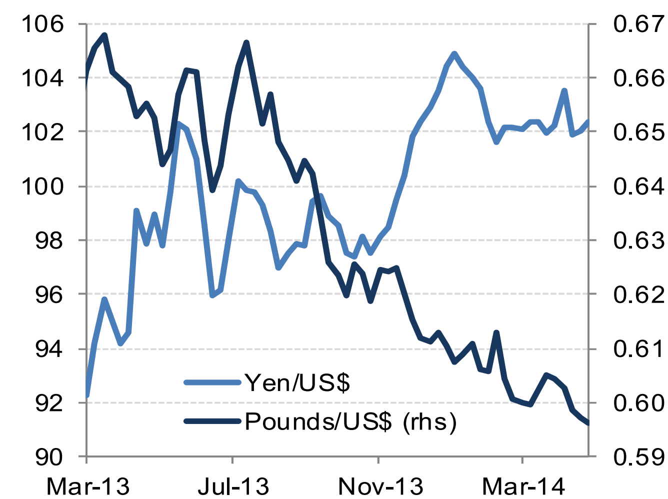
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



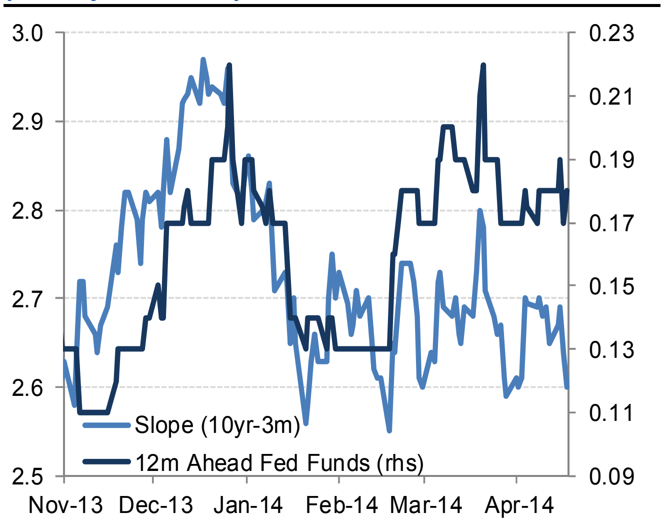
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US$)



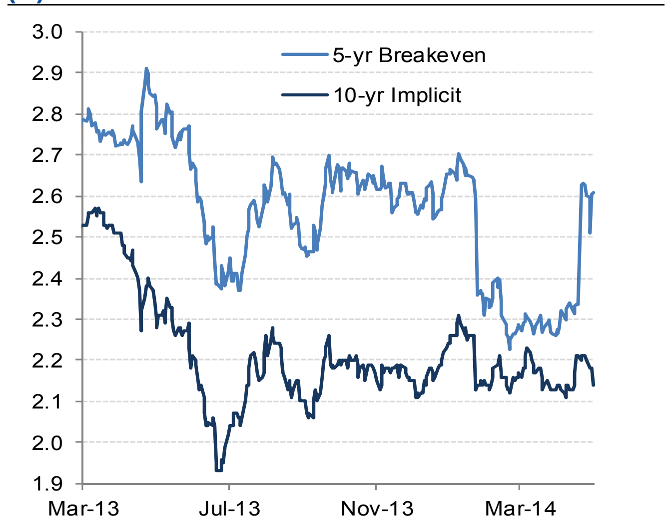
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.82	14.82	14.72	14.10
New Auto (36-months)	2.57	2.56	2.51	2.30
Heloc Loan 30K	5.13	5.16	5.24	5.22
5/1 ARM *	3.05	3.03	3.12	2.90
15-year Fixed Mortgage *	3.38	3.39	3.47	3.23
30-year Fixed Mortgage *	4.29	4.33	4.41	3.99
Money Market	0.40	0.41	0.41	0.47
2-year CD	0.79	0.79	0.78	0.65

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.09	0.09	0.08	0.14
3M Libor	0.22	0.23	0.23	0.28
6M Libor	0.32	0.32	0.33	0.43
12M Libor	0.55	0.55	0.56	0.70
2yr Swap	0.56	0.54	0.54	0.36
5yr Swap	1.76	1.80	1.79	0.91
10Yr Swap	2.70	2.77	2.83	1.96
30yr Swap	3.36	3.44	3.57	2.93
30day CP	0.12	0.12	0.11	0.13
60day CP	0.11	0.11	0.11	0.15
90day CP	0.11	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Janet Yellen, Chair of the Federal Reserve
Independent Community Bankers of America 2014 Washington Policy Summit
1 May 2014

"Because of their important role, I am pleased that the condition of many community banks has been improving. Although there is still considerable revenue pressure from low margins, earnings for most community banks have rebounded since the financial crisis. Asset quality and capital ratios continue to improve, and the number of problem banks continues to decline. Notably, after several years of reduced lending following the recession, we are starting to see slow but steady loan growth at community banks. While this expansion in lending must be prudent, on balance I consider this growth an encouraging sign of an improving economy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-May	ISM Non-Manufacturing NMI NSA	APR	53.8	54.0	53.1
6-May	US Trade Balance Balance Of Payments SA	MAR	-40.80	-40.15	-42.30
7-May	Federal Reserve Consumer Credit Total Net Change SA	MAR	16.20	16.10	16.49
8-May	US Initial Jobless Claims SA	MAY 3	335	325	344
8-May	US Continuing Jobless Claims SA	APR 26	2750	2755	2771
9-May	US Job Openings By Industry Total SA	MAR	4150	--	4173
9-May	Merchant Wholesalers Inventories Total Monthly % Change	MAR	0.4	0.5	0.5

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.9	**2.5**	**2.5**	**2.8**
CPI (YoY %)	3.1	2.1	1.5	**2.3**	**2.4**	**2.4**
CPI Core (YoY %)	1.7	2.1	1.8	**2.3**	**2.4**	**2.3**
Unemployment Rate (%)	8.9	8.1	7.4	**6.7**	**6.2**	**5.7**
Fed Target Rate (eop, %)	0.25	0.25	0.25	**0.25**	**0.50**	**1.50**
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	**3.41**	**3.80**	**4.10**
US Dollar/ Euro (eop)	1.31	1.31	1.37	**1.35**	**1.32**	**1.37**

Note: Non-bold numbers reflect actual data. Forecast revisions pending.

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