

# US Weekly Flash

## Highlights

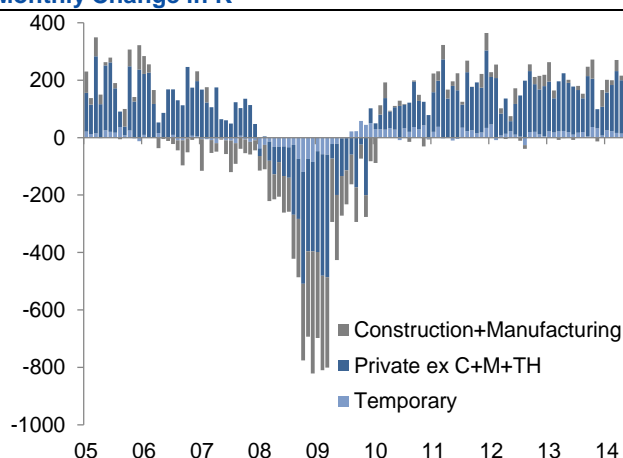
### • Employment Growth in Line with Expectations for May

- The BLS employment report released for May came with little surprise, falling in line with consensus expectations for the month. Nonfarm payrolls increased 217K following a revised 282K in April, mostly due to hiring in the private sector. The establishment survey also noted a 0.2% gain in average hourly earnings, which adds to the encouraging labor market outlook for the month even though annual earnings growth remains low. Data from the household survey were also positive, with both the unemployment and participation rates holding steady at 6.3% and 62.8%, respectively.
- Accounting for May's employment report, our forecasts for the year remain unchanged. We expect that payroll growth will continue at a gradual pace, reaching close to 1.7% YoY for 2014. This figure accounts for steady monthly gains in employment hovering close to the 200K mark. At the same time, it is unlikely that we will see such rapid declines in unemployment in the coming months, with the rate expected to remain mostly steady throughout the rest of the year. In fact, we continue to expect that future gains in labor force participation will put upward pressure on the unemployment rate. Therefore, we do not expect the unemployment rate to drop below 6.0% until 2015.

### • Trade Balance Widens in April as Export Growth Loses Momentum

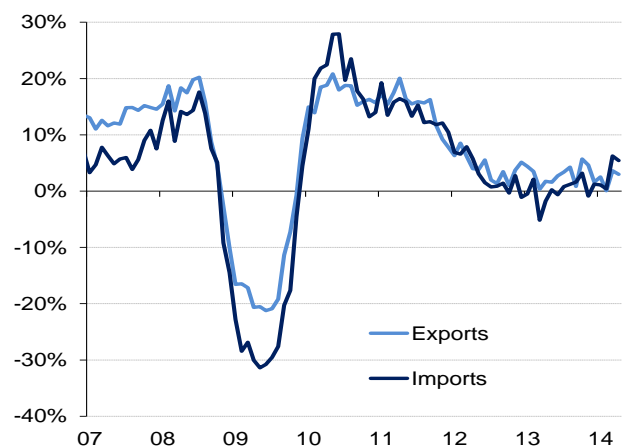
- Coming off of a weak first quarter, the international trade balance in April widened to -\$47.2bn following a revision of the March figure to -\$44.2bn. Expectations were for a much stronger report, though there were some underlying positives in the data. Although the worsening of the trade gap has negative implications for GDP growth, the uptick in domestic demand is certainly encouraging. Import growth increased 1.2% in April following a 3.1% jump in March, the biggest back-to-back monthly gains since late 2010/early 2011. If this continues, domestic businesses will be able to better manage demand expectations despite continued uncertainty on the global scale.
- Export growth, on the other hand, dipped into negative territory in April, down 0.2% for the month. In March, exports had rebounded nearly 3.0% following three consecutive months of decline, but it appears that global demand did not hold strong in April. Our baseline forecast assumes a stronger contribution from exports to GDP growth in the coming years, but the vulnerable state of the global economy puts downward pressure on our assumptions. In the short-term, we could continue to see some monthly volatility in export growth as global consumers slowly regain confidence.

Graph 1  
Private Nonfarm Payrolls  
Monthly Change in K



Source: BLS & BBVA Research

Graph 2  
U.S. Export and Import Growth  
YoY % Change



Source: U.S. Census Bureau & BBVA Research

## Week Ahead

### JOLTS Job Openings (April, Tuesday 10:00 ET)

Forecast: 4075K

Consensus: --

Previous: 4014K

The JOLTS report is expected to show some signs of improvement for April, although changes are often insignificant on a month-to-month basis. Despite being lagged an extra month compared to the BLS employment report, the JOLTS data do tell an important story when it comes to structural unemployment and the gap between job openings and actual hires. Given what we know about the employment situation in April, we expect to see an increase in job openings for the month, particularly following a decline in openings from the month prior. The data will also be useful in supporting future Fed actions, as Chair Yellen has emphasized her focus on these more telling labor market indicators.

### Initial Jobless Claims (Week of June 7<sup>th</sup>, Thursday 8:30 ET)

Forecast: 305K

Consensus: 315K

Previous: 312K

Initial jobless claims continue to hover near recovery lows, despite the usual seasonal related volatility that comes about particularly during holiday months. In May, claims briefly dropped below the 300K mark but jumped up quickly to average near 312K for the month, the lowest such average of the recovery period thus far. For June, we expect the weekly data to remain stable hovering at or slightly above 300K as labor market weaknesses continue to work themselves out. Although the claims data are not always directly correlated with the BLS employment report, the weekly figures certainly act as a leading indicator for the monthly job growth outlook.

### Retail Sales, Ex Auto and Gas (May, Thursday 8:30 ET)

Forecast: 0.5%, 0.3%

Consensus: 0.6%, 0.4%

Previous: 0.1%, -0.1%

Retail sales data were somewhat unimpressive moving into the second quarter, but we expect to see increased momentum in May. Weekly retail sales surveys for the month hint at accelerating activity, particularly in comparison to a weaker-than-expected April. Auto sales in May increased significantly and could influence total retail sales for the month, though there is not always a direct correlation between unit sales and the government's report. In addition, sales at gas stations should provide a big boost to the headline data, with rising gas prices helping to lift the nominal figure. Excluding autos and gas, we are likely to see a bigger push for core items such as apparel and general merchandise as consumers prepare for the summer.

### Business Inventories (April, Thursday 10:00 ET)

Forecast: 0.3%

Consensus: 0.4%

Previous: 0.4%

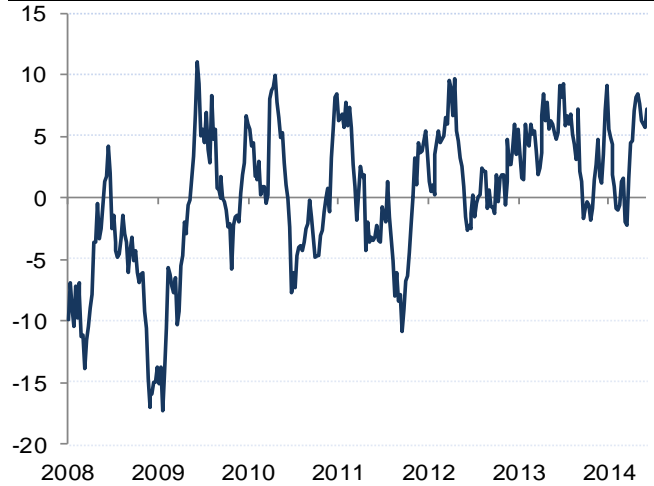
Inventories have been heavily watched in recent quarters, playing an important role in GDP growth throughout 2013 and 2014 thus far. Although the monthly rate of business inventory growth has remained mostly stable since 4Q13, the inventory-to-sales ratio has been a bit more volatile. Businesses appear to be struggling with consumer demand expectations, trying to stay prepared for a big rush but oftentimes missing the bill just slightly. Retailers have been a weak spot when it comes to total inventory management, but manufacturers and merchant wholesalers are holding strong. For April, we expect that inventory growth will decelerate slightly but remain positive, particularly as retailers stock up for summer sales demand.

### Market Impact

A light economic calendar this week should make for a quiet market, particularly leading up to the next FOMC statement in mid-June. The retail sales report will probably make the biggest splash if the data stray too far from consensus expectations. Producer prices could also create headlines in the market given the relevance for future Fed action, but regardless, reactions should be minimal.

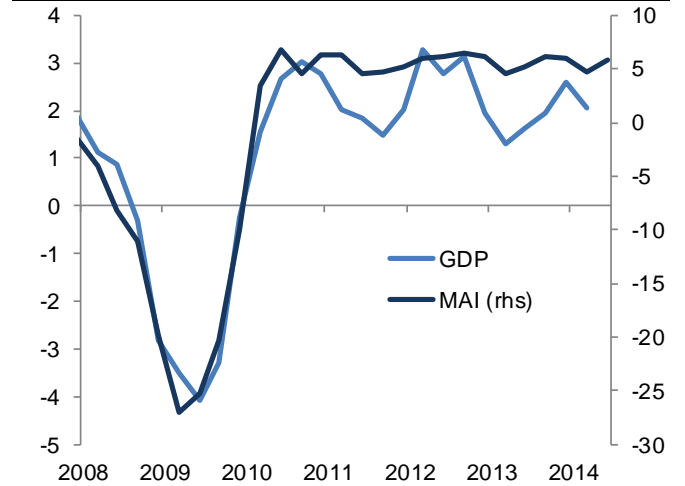
# Economic Trends

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



Source: BBVA Research

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



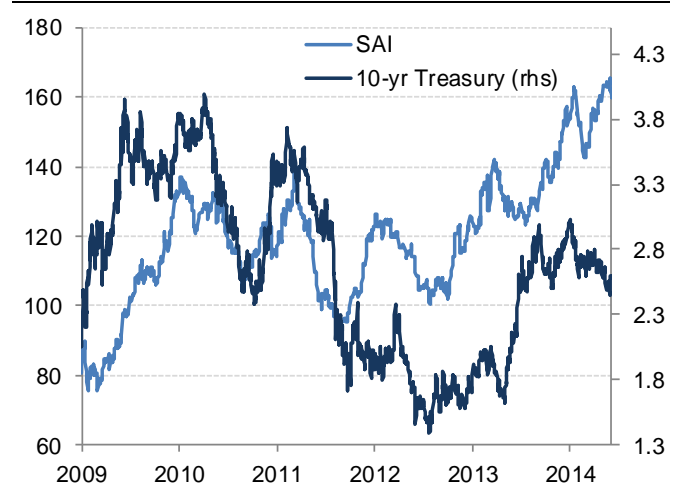
Source: BBVA Research & BEA

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



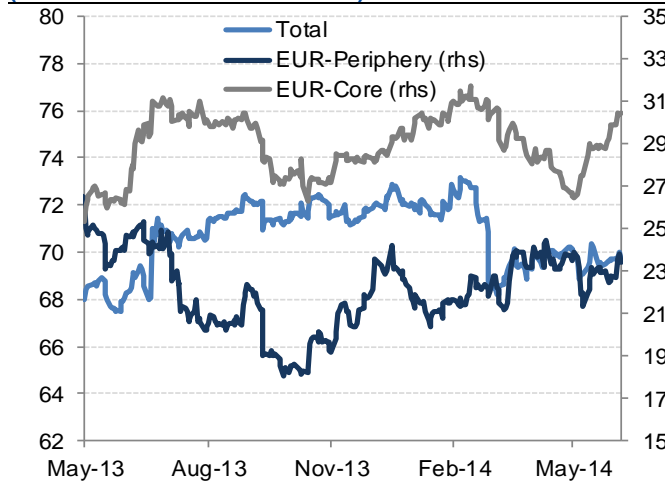
Source: BBVA Research

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



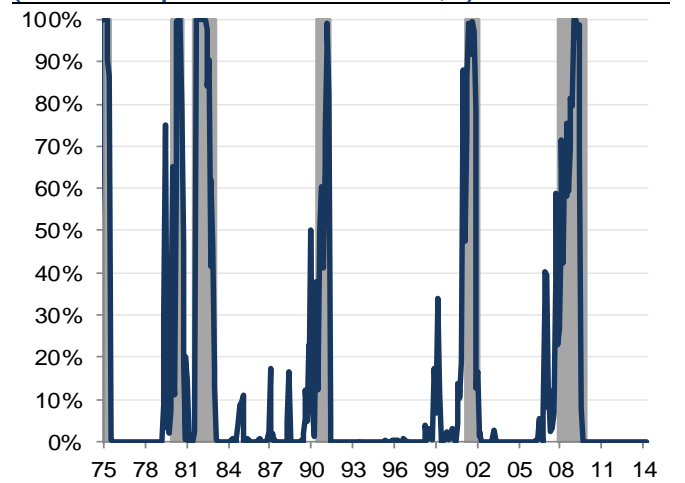
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

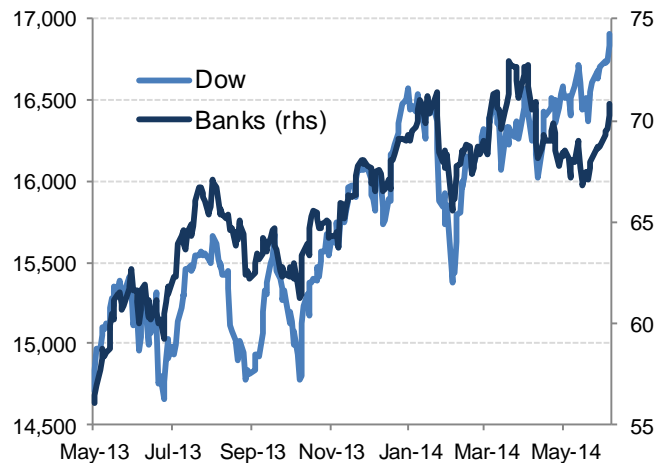
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

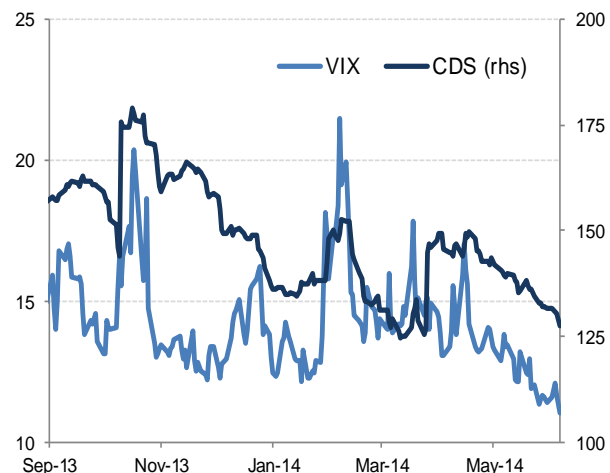
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



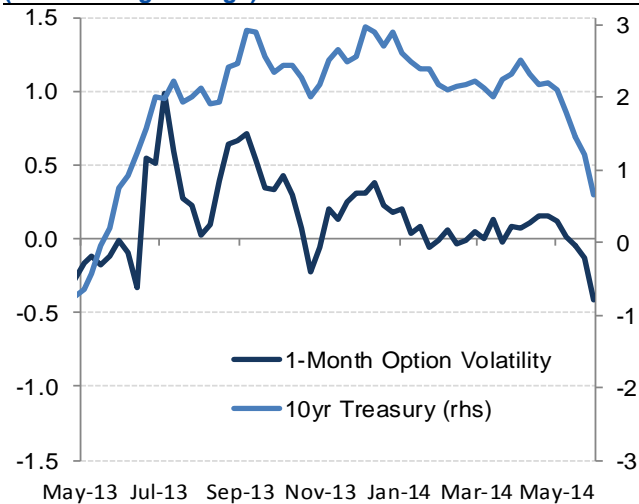
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



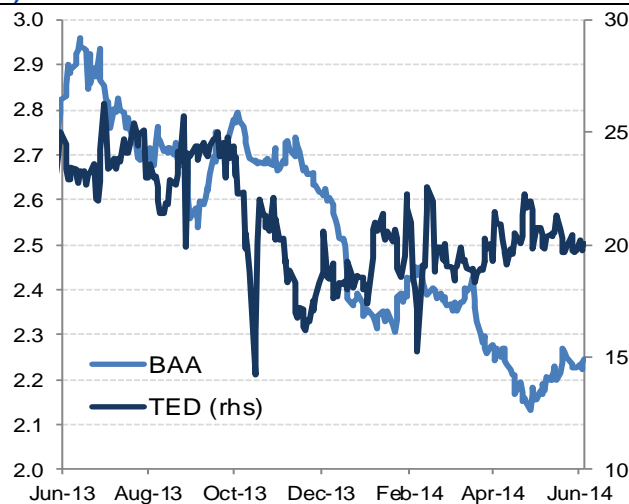
Source: Bloomberg & BBVA Research

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



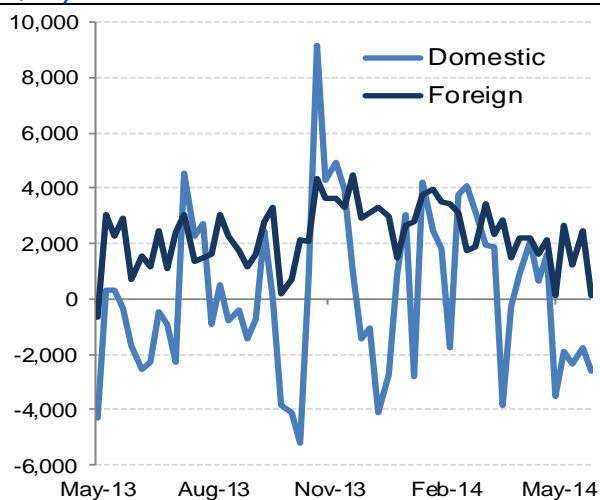
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



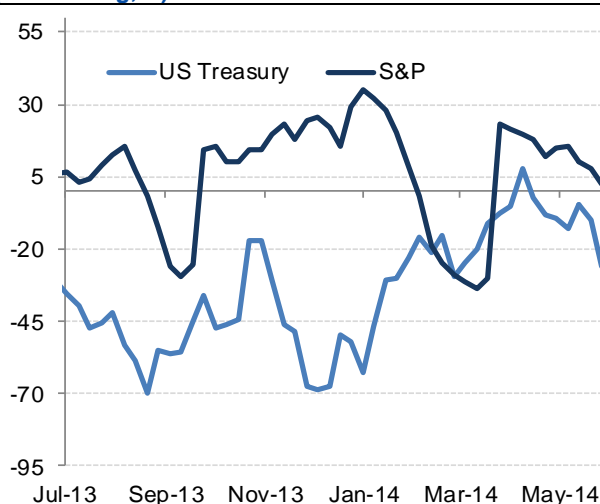
Source: Bloomberg & BBVA Research

Graph 13  
**Long-Term Mutual Fund Flows**  
**(US\$m)**



Source: Haver Analytics & BBVA Research

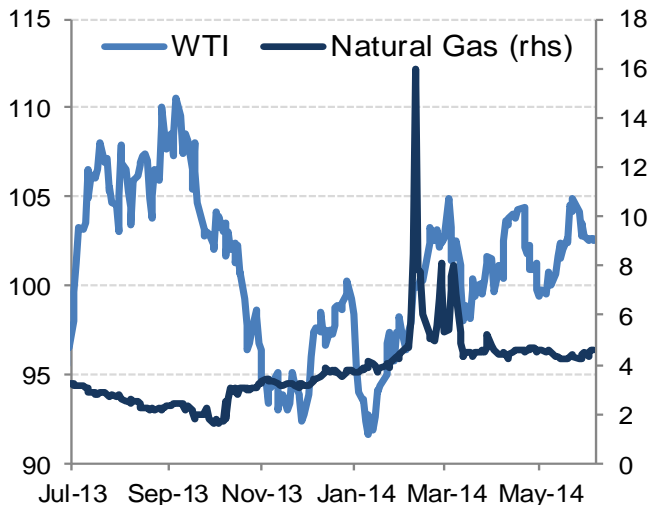
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

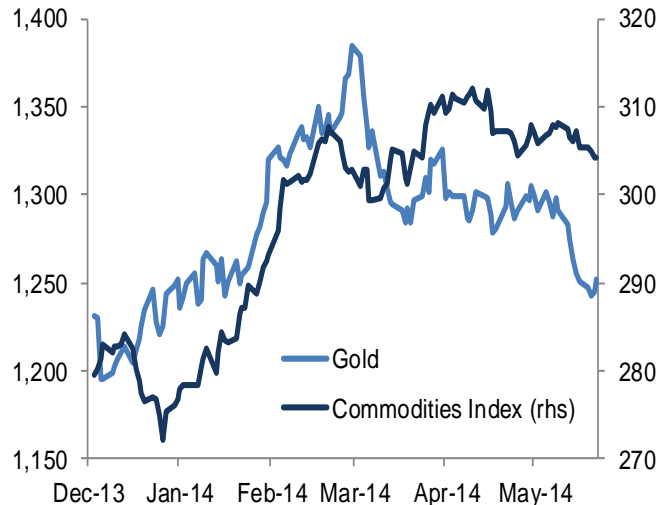
# Financial Markets

Graph 15  
Commodities  
(Dpb & DpMMBtu)



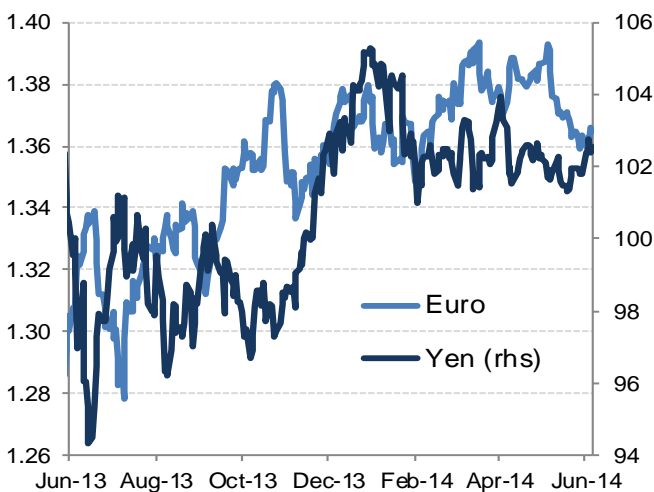
Source: Bloomberg & BBVA Research

Graph 16  
Gold & Commodities  
(US\$ & Index)



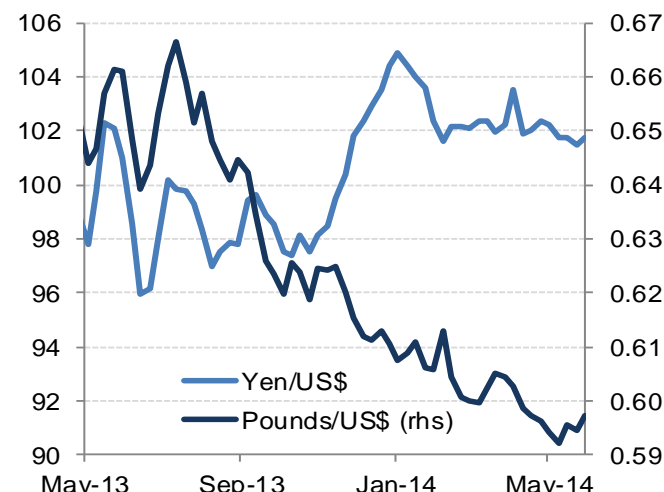
Source: Haver Analytics & BBVA Research

Graph 17  
Currencies  
(Dpe & Ypd)



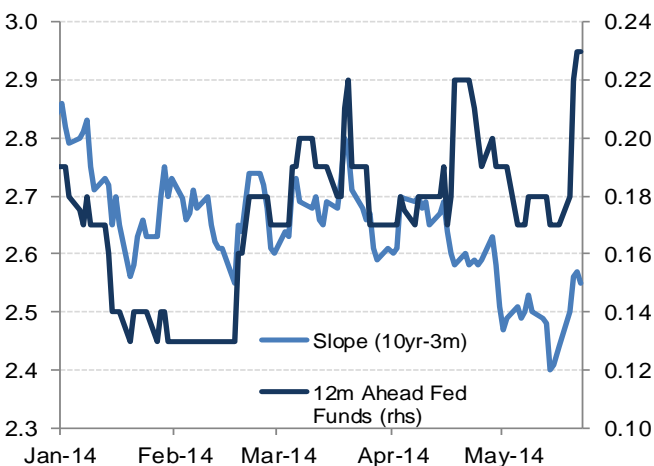
Source: Bloomberg & BBVA Research

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



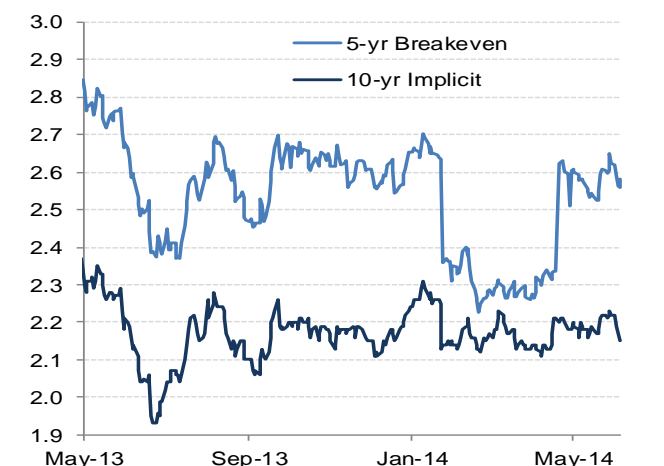
Source: Haver Analytics & BBVA Research

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 (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.82	14.82	14.82	14.10
New Auto (36-months)	2.81	2.80	2.58	2.47
Heloc Loan 30K	5.07	5.14	5.11	5.35
5/1 ARM*	2.93	2.96	3.05	2.90
15-year Fixed Mortgage*	3.23	3.21	3.32	3.23
30-year Fixed Mortgage*	4.14	4.12	4.21	3.99
Money Market	0.38	0.40	0.40	0.45
2-year CD	0.80	0.80	0.80	0.70

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

Table 1  
Key Interest Rates (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
1M Fed	0.09	0.08	0.08	0.09
3M Libor	0.23	0.23	0.23	0.27
6M Libor	0.32	0.32	0.32	0.41
12M Libor	0.53	0.54	0.55	0.68
2yr Swap	0.54	0.51	0.52	0.50
5yr Swap	1.73	1.62	1.72	1.32
10Yr Swap	2.71	2.59	2.71	2.38
30yr Swap	3.42	3.31	3.43	3.23
30day CP	0.12	0.12	0.11	0.12
60day CP	0.14	0.11	0.11	0.15
90day CP	0.14	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

## Quote of the Week

Esther George, President and CEO of the Federal Reserve Bank of Kansas City  
The Path to Normalization  
3 June 2014

*“As the outlook improves, this modest step would begin the normalization process and is in line with the 2011 principles. Unless there is a major change in the outlook, I see abiding by principles that the FOMC reaffirmed last year as important. Central banks should make efforts to follow through on their plans, otherwise they risk losing credibility.”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Jun	NFIB Small Business Optimism Index	MAY	96.5	--	95.2
10-Jun	US Job Openings By Industry Total SA	APR	4075	--	4014
10-Jun	Merchant Wholesalers Inventories Total Monthly % Change	APR	0.2	0.6	1.1
12-Jun	US Initial Jobless Claims SA	JUN 7	315	305	312
12-Jun	US Continuing Jobless Claims SA	MAY 31	2650	--	2603
12-Jun	Adjusted Retail & Food Services Sales SA Total Monthly % Change	MAY	0.5	0.6	0.1
12-Jun	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	MAY	0.3	0.4	-0.1
12-Jun	US Import Price Index by End Use All MoM NSA	MAY	0.3	0.2	-0.4
12-Jun	US Manufacturing & Trade Inventories Total MoM SA	APR	0.3	0.4	0.4
13-Jun	PPI Final Demand MoM	MAY	0.2	0.1	0.6
13-Jun	PPI Ex Food and Energy MoM	MAY	0.3	0.1	0.5
13-Jun	University of Michigan Survey of Consumer Confidence Sentiment	JUN P	82.7	83.0	81.9

## Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	3.1	2.1	1.5	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
CPI Core (YoY %)	1.7	2.1	1.8	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>
Unemployment Rate (%)	8.9	8.1	7.4	<b>6.6</b>	<b>5.9</b>	<b>5.6</b>	<b>5.2</b>
Fed Target Rate (eop, %)	0.25	0.25	0.25	<b>0.25</b>	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	<b>3.41</b>	<b>3.80</b>	<b>4.10</b>	<b>4.34</b>
US Dollar/ Euro (eop)	1.31	1.31	1.37	<b>1.35</b>	<b>1.32</b>	<b>1.37</b>	<b>1.36</b>

Note: Bold numbers reflect actual data





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