

US Weekly Flash

Highlights

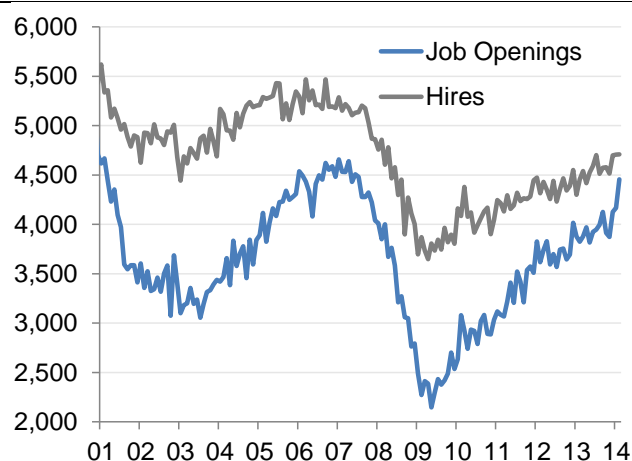
• JOLTS Report for April Notes Widening Gap Between Openings and Hires

- Job openings in April jumped significantly from March's level to 4455K, marking the largest monthly gain in more than a year and coming very close to the pre-recession peak of 4657K. Most sectors saw improvements, with the primary drivers being arts, entertainment, and recreation, professional and business services, and retail trade. Job openings in manufacturing increased a modest 3.0%, not quite enough to recover from declines earlier in the year. Unfortunately, construction remains the weak link, with job openings in the sector down nearly 19.0% as housing activity struggles to regain momentum.
- Hiring was a different story, holding steady in April but not nearly as encouraging as the job openings report. In level terms, hiring has barely recovered 50% from the depths of the recession, and the gap between openings and hires continues to widen. This supports the argument for increasing structural unemployment, mainly in the form of skill mismatch and the inability of businesses to find the appropriate candidates. When it comes to jobseeker confidence, conditions appear to be improving slowly, with the quits rate up slightly in April as employees feel more comfortable with their job flexibility.

• Retail Sales Rise Modestly in May Following Better-than-Expected Data for April

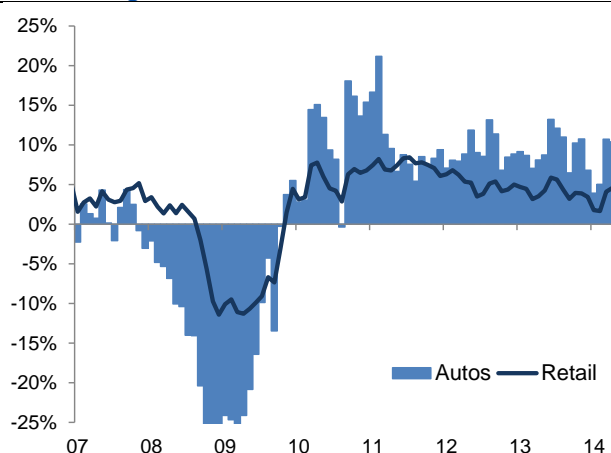
- Total retail sales were somewhat unimpressive in May, up 0.3% for the month compared to consensus expectations for a 0.6% gain. However, the more encouraging piece of the report was an upward revision to April's growth, from 0.1% to 0.5% for the headline figure. The primary drivers for both April and May were autos and building materials. Sales at gasoline stations increased 0.4% following a 0.9% jump in April, though much of this may have been a result of higher gas prices throughout the past few months.
- Excluding autos, retail sales increased a modest 0.1% in May, the slowest pace of monthly growth since January. Even more disappointing was the ex-auto and gas figure, holding flat in May after rising 0.3% in April. Thus far, data for 2Q14 appear to have improved from 1Q14, but not by much. Fortunately, consumer spending was one of the only positive pieces to the economic growth story in the first quarter, so it is fitting that this would carry over into the coming months. Overall, we are confident that consumer demand will gain strength throughout the rest of the year, holding steady as a primary contributor to growth in 2014.

Graph 1
Job Openings and Hires
SA, Thousands



Source: BLS & BBVA Research

Graph 2
Retail and Auto Sales
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Week Ahead

Empire State Manufacturing Survey (June, Monday 8:30 ET)

Forecast: 11.5	Consensus: 15.0	Previous: 19.0
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The Empire State Manufacturing Survey provides a first look at the sector's activity for the month, yet it is not always a good indication of demand and production on a national level. In May, the index jumped significantly to the highest level in nearly four years due to a big push from hiring, shipments, and new orders. For June, we expect that this momentum will continue, though at a slightly slower pace. Rising new orders points to an increase in shipments in the coming months, while inventories are expected to continue on an upward trend as demand expectations improve. On the hiring side, we don't expect to see such a big gain in the number of employees in June given that the component approached a recovery high in May. Overall, the index should support continued growth in the manufacturing sector at a healthy pace throughout the rest of the year.

Industrial Production (May, Monday 9:15 ET)

Forecast: 0.8%	Consensus: 0.5%	Previous: -0.6%
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Industrial production took a minor detour in April, falling at the fastest overall monthly pace since August 2012. However, we expect that this was just a small setback in an otherwise strong recovery from a weak 1Q14. In May, we should see industrial production rebound mostly due to upward pressure from the manufacturing component, which was only a marginal driver of the decline in April. Various manufacturing indicators suggest a clear pickup in the sector's activity for the month that should boost total output. In regards to other components of the index, mining activity has remained healthy throughout the past few months and is unlikely to shift downward anytime soon. Utilities fell sharply in April but should rebound in May, contributing to overall positive growth for the industrial production index.

Consumer Price Index, Core (May, Tuesday 8:30 ET)

Forecast: 0.2%, 0.2%	Consensus: 0.2%, 0.2%	Previous: 0.3%, 0.2%
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Inflation indicators are finally starting to show signs of life as transitory downward pressures fade. In April, the CPI increased at the fastest monthly pace in nearly a year, both at the headline and core levels. For May, energy prices have certainly picked up when it comes to crude oil, but natural gas prices have declined for three consecutive months. Food prices will likely provide some added pressure to the headline index, similar to the situation in April. At the core level, the usual drivers of shelter and medical care services will continue to provide moderate pressure, though not to an overwhelming extent. Annual inflation rates are finally starting to gain traction but are not likely to reach the Fed's target anytime soon.

Housing Starts and Building Permits (May, Tuesday 8:30 ET)

Forecast: 1010K, 1045K	Consensus: 1030K, 1060K	Previous: 1072K, 1059K
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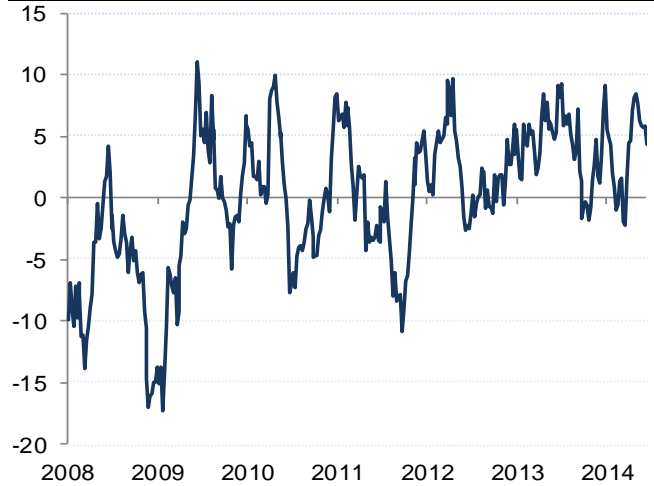
Housing starts and building permits are expected to decline slightly in May, mostly as a correction from April's significant gains. Both series spiked in April following a minor setback to start 2014, approaching recovery highs. Given the usual trends in the data, it is unlikely that either series will post another strong increase in May. However, the recent gains in building permits are a good indication of future housing construction throughout the coming months. In general, we expect that housing activity will play a bigger role in economic growth as the year progresses, moving away from a negative 1Q14.

Market Impact

Various items on the economic calendar could be market movers this week. Industrial production and other manufacturing surveys will be important to watch as relevant indicators for 2Q14 GDP growth. Consumer inflation for May will also be heavily watched given the lower-than-expected reports of slow import and producer price growth for the month. Most importantly, markets will be on high alert for signals coming from the FOMC meeting announcement and Chair press conference on Wednesday.

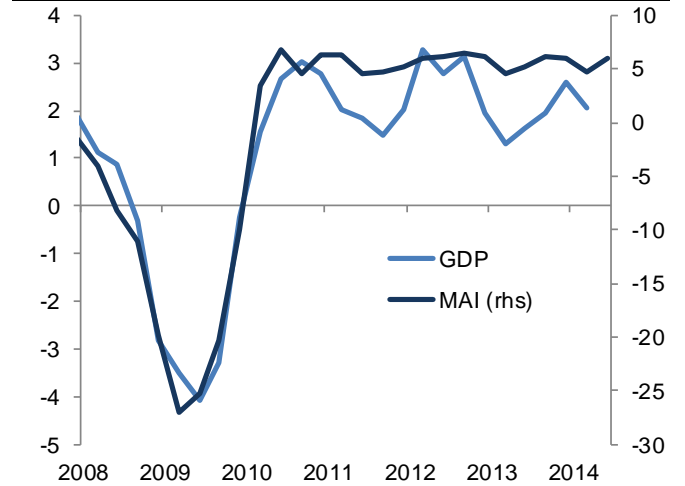
Economic Trends

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



Source: BBVA Research

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



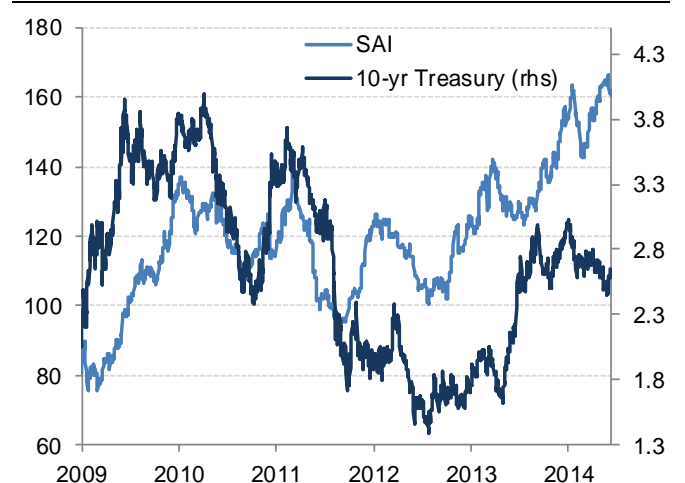
Source: BBVA Research & BEA

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



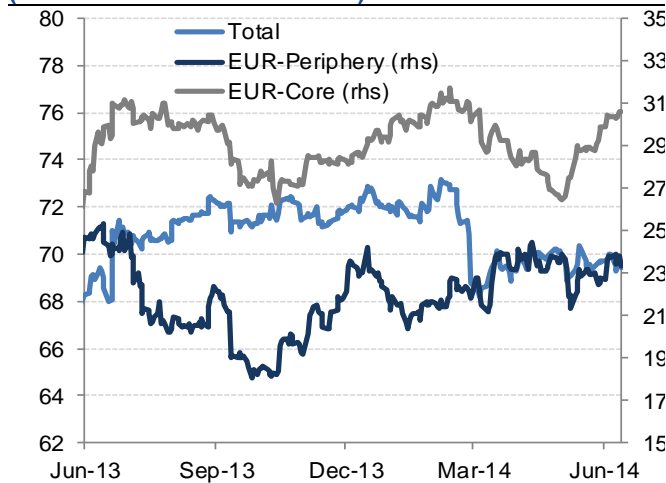
Source: BBVA Research

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



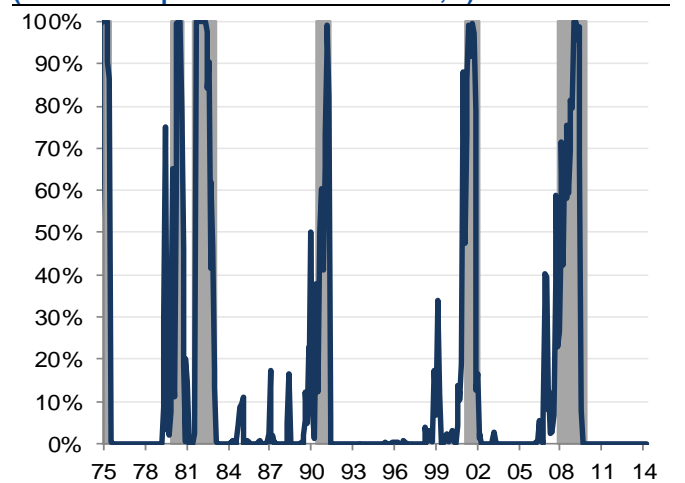
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

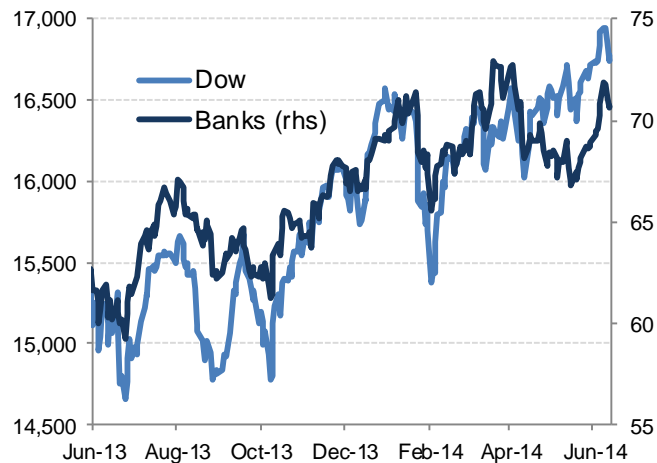
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

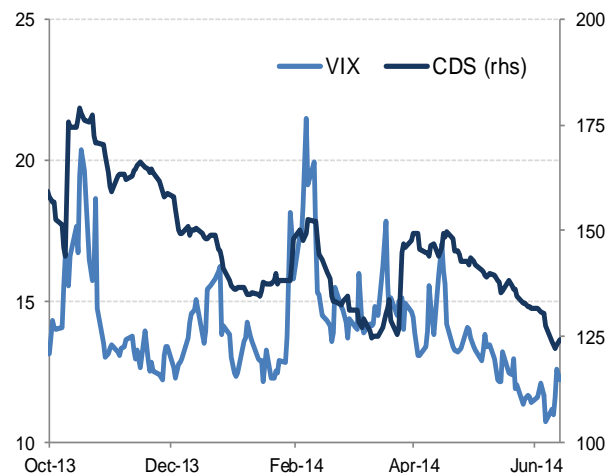
Financial Markets

Graph 9
Stocks
(Index, KBW)



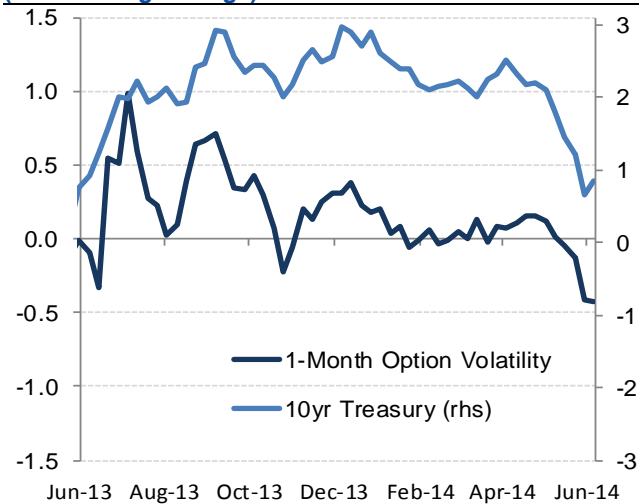
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



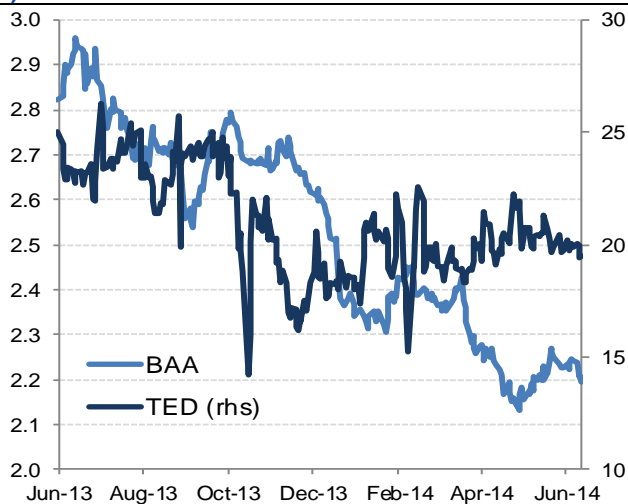
Source: Bloomberg & BBVA Research

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



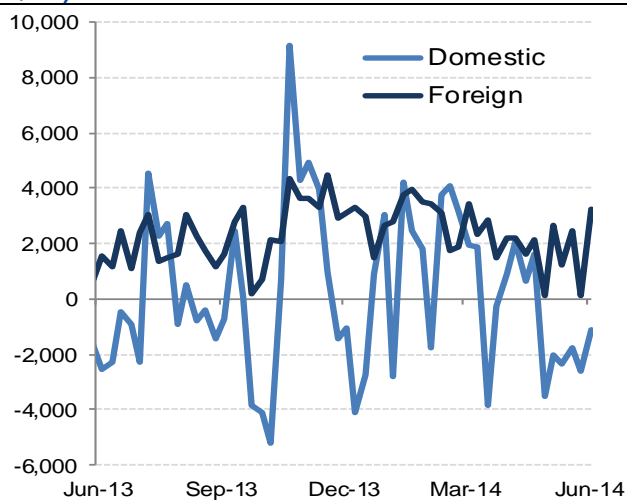
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



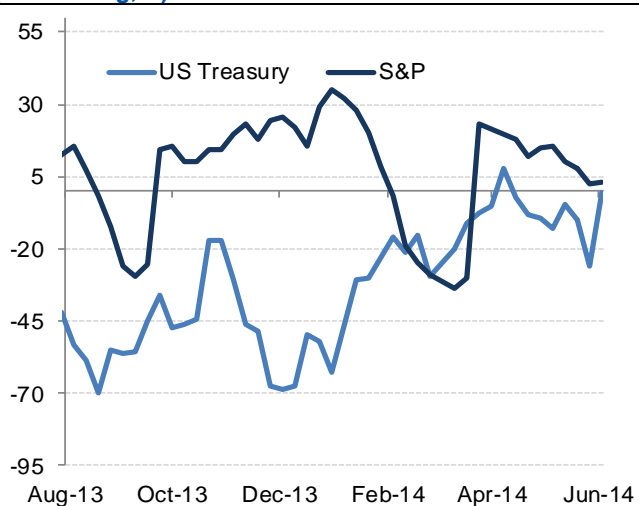
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

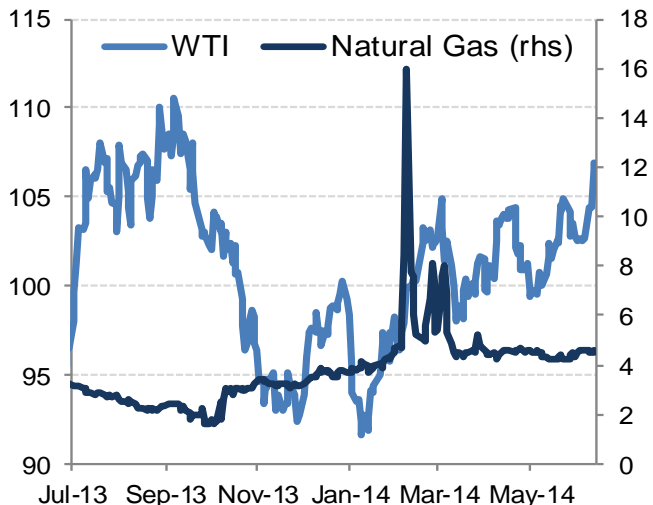
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

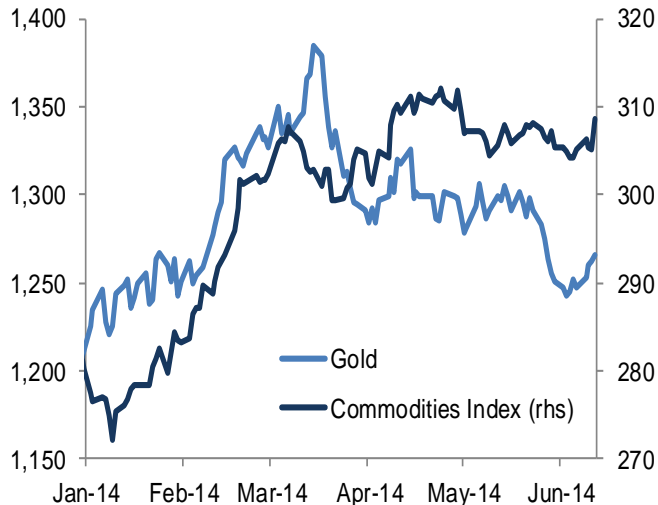
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



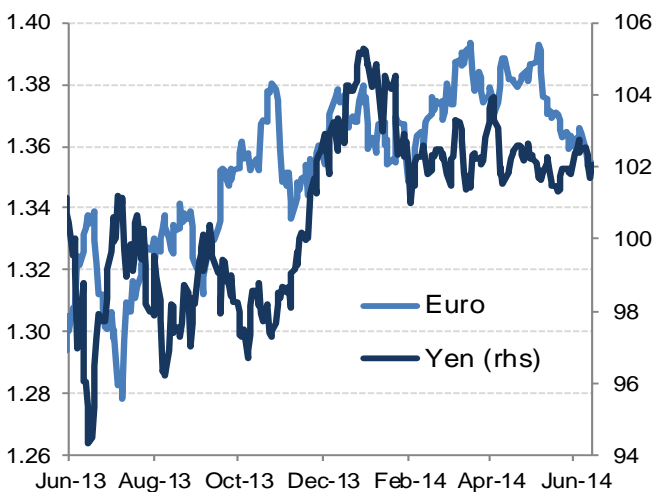
Source: Bloomberg & BBVA Research

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



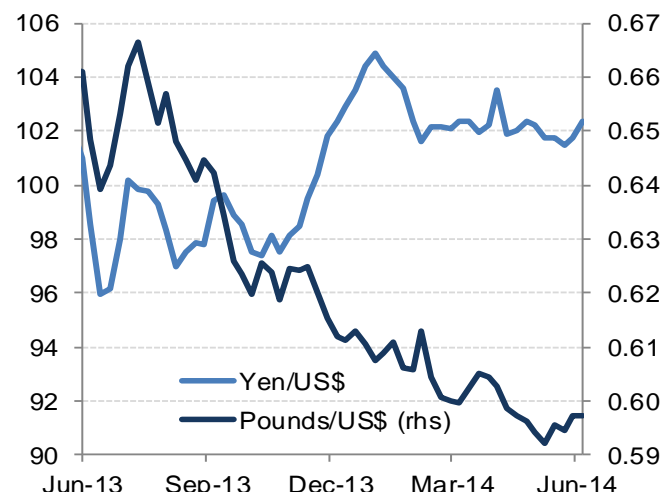
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



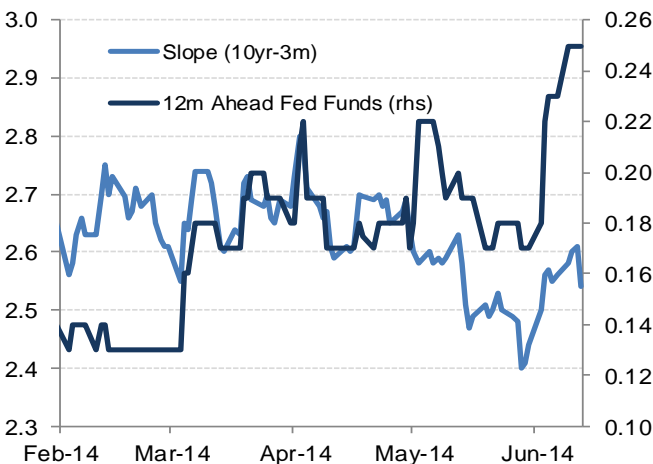
Source: Bloomberg & BBVA Research

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



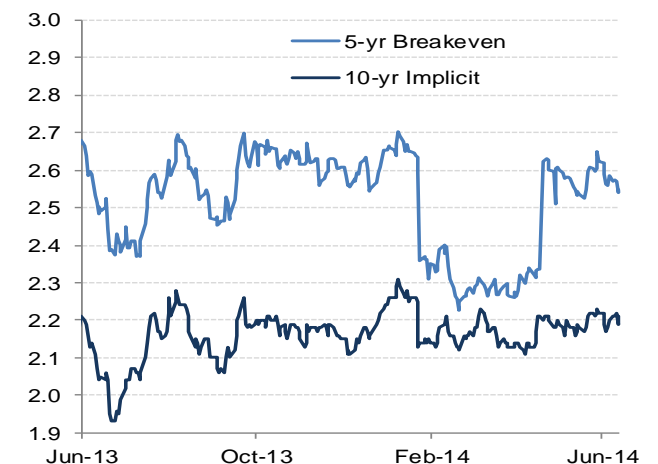
Source: Haver Analytics & BBVA Research

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)	2.85	2.81	2.58	2.40
Heloc Loan 30K	5.06	5.07	5.20	5.34
5/1 ARM*	3.05	2.93	3.01	2.90
15-year Fixed Mortgage*	3.31	3.23	3.29	3.23
30-year Fixed Mortgage*	4.20	4.14	4.20	3.99
Money Market	0.38	0.38	0.40	0.45
2-year CD	0.82	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	0.09	0.09	0.10
3M Libor	0.23	0.23	0.23	0.27
6M Libor	0.33	0.32	0.32	0.41
12M Libor	0.54	0.54	0.55	0.67
2yr Sw ap	0.60	0.54	0.51	0.42
5yr Sw ap	1.78	1.72	1.65	1.26
10Yr Sw ap	2.71	2.71	2.62	2.37
30yr Sw ap	3.38	3.42	3.32	3.24
30day CP	0.10	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama

Remarks by the President at Worcester Technical High School Commencement Ceremony

11 June 2014

"Together, you're an example of what's possible when we stop just talking about giving young people opportunity, when we don't just give lip service to helping you compete in the global economy and we actually start doing it."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
16-Jun	US Empire State Manufacturing Survey General Business Conditions SA	JUN	11.5	15.0	19.0
16-Jun	US Industrial Production MoM 2007=100 SA	MAY	0.8	0.5	-0.6
16-Jun	US Capacity Utilization % of Total Capacity SA	MAY	78.9	78.9	78.6
16-Jun	US Industrial Production Industry Groups Manufacturing MoM SA	MAY	0.4	0.6	-0.4
16-Jun	National Association of Home Builders Market Index SA	JUN	46	47	45
17-Jun	US CPI Urban Consumers MoM SA	MAY	0.2	0.2	0.3
17-Jun	US CPI Urban Consumers Less Food & Energy MoM SA	MAY	0.2	0.2	0.2
17-Jun	US CPI Urban Consumers YoY NSA	MAY	2.0	2.0	2.0
17-Jun	US CPI Urban Consumers Less Food & Energy YoY NSA	MAY	1.8	1.9	1.8
17-Jun	US New Privately Owned Housing Units Started by Structure Total SAAR	MAY	1010	1030	1072
17-Jun	Private Housing Authorized by Bldg Permits by Type Total SAAR	MAY	1045	1060	1059
18-Jun	Federal Funds Target Rate US	JUN 18	0.25	0.25	0.25
18-Jun	US FOMC Agency Mortgage Backed Security Purchases	JUN	15	15	20
18-Jun	US FOMC Treasury Purchase Program Pace Announced at FOMC Meeting	JUN	20	20	25
19-Jun	US Initial Jobless Claims SA	JUN 14	313	313	317
19-Jun	US Continuing Jobless Claims SA	JUN 7	2650	2600	2614
19-Jun	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	JUN	13.7	14.0	15.4
19-Jun	Conference Board US Leading Index MoM	MAY	0.3	0.6	0.4

Forecasts

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

Note: Bold numbers reflect actual data

Kim Fraser
Kim.Fraser@bbvacompass.com



| 2200 Post Oak Blvd, 21st Floor, Houston, Texas 77056 | Tel.: +1 713 831 7345 | www.bbva.com

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