

Economic Analysis

# Headline Retail Sales Dragged Down by Gas, but Ex-Auto Ex-Gas Figure More Encouraging

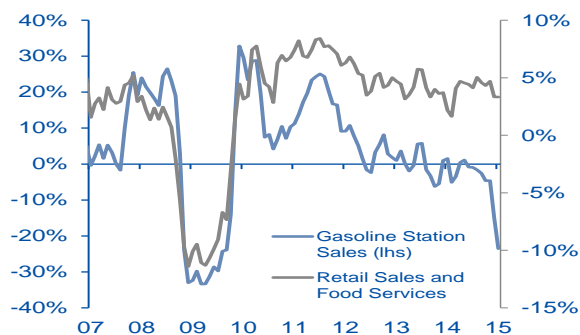
Kim Fraser Chase

January's retail sales disappointed to the downside, falling 0.8% for the month after a 0.9% drop in December. Auto sales fell more than 1.0% for the second straight month, weighing on the headline figure. Excluding autos, retail sales declined 0.9%, with sales at gasoline stations down 9.3% for the eighth consecutive month. This is not surprising given that oil prices continued to decline throughout January, though the latest stability in prices around \$50/bbl should help prevent such a strong decline in nominal sales for February. On the bright side, retail sales excluding autos and gasoline increased 0.2% in January following a flat reading in the previous month. Discretionary spending appears to be on the rise, with sales from miscellaneous retailers, food services and drinking places, and building materials leading the ex-auto ex-gas figure. Sales from pharmacies and drug stores also increased at the strongest pace since June, although this is in large part due to the impact of rising healthcare costs nationwide. Overall, we are hesitant to read too much into the recent declines in headline retail sales and instead remain optimistic that the underlying trends continue to suggest strong consumer confidence and demand moving into 2015.

## JOLTS: Job Openings in December Approach Historical Highs

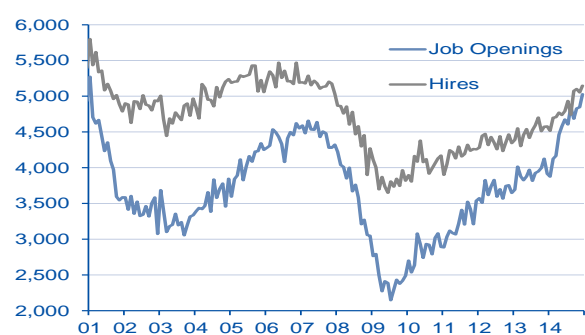
Data from the JOLTS report continue to support other leading news on the improving labor market. Job openings in December increased for the third consecutive month, up 3.7% to 5028K and marking a significant jump forward toward historical highs. For the year, job openings increased a massive 28.5% since 2013, the largest annual increase in the recorded history of the series. Hiring was also strong in December, up 1.9% following a minor decline in the previous month. At 5148K, hiring has almost fully recovered to its pre-crisis peak and YoY growth has accelerated to 7.6%, the fastest pace on record. Total separations, the most volatile component of the JOLTS report, also increased for December following a decline in November. This increase in separations was partially due to a 4.3% jump in layoffs and discharges for the month; however, we did also see a 2.1% increase in quits for the first time since September. Individuals are feeling more optimistic when it comes to job availability and income prospects, and we expect 2015 to continue to build on the strength seen in 2014.

Graph 1  
**Total Retail and Gasoline Sales (YoY % Change)**



Source: U.S. Census Bureau & BBVA Research

Graph 2  
**JOLTS Job Openings and Hires (SA, Thousands)**



Source: BLS & BBVA Research

## Week Ahead

### Empire State Manufacturing Survey (February, Tuesday 8:30 ET)

Forecast: 3.50

Consensus: 8.50

Previous: 9.95

The Empire State Manufacturing Survey is expected to decline in February but hold in positive territory to suggest at least modest growth for the sector. Extreme winter weather conditions have hindered economic activity in the region to start off 2015, yet the Empire State index noted an acceleration in manufacturing demand and production for January. This marked a significant rebound from December's sharp drop below zero, with new orders and shipments picking up slightly. Unfortunately, back-to-back snowstorms in the area have caused significant business closings and delays for the month thus far, and therefore we expect to see somewhat of a deceleration in manufacturing activity.

### Housing Starts and Building Permits (January, Wednesday 8:30 ET)

Forecast: 1065K, 1040K

Consensus: 1070K, 1066K

Previous: 1089K, 1058K

Housing starts and building permits are both expected to decline in January following relatively healthy gains to close out 2014. In December, both components recovered from a weak showing in the previous month despite the beginnings of harsh winter conditions throughout most of the country. January's weather was much worse, likely having a big impact on housing activity for the month. Furthermore, we have yet to see the impact from November's decline in building permits, which tends to lead housing starts by a few months. Given the seasonal issues this time of year, we expect that new home construction will not start the year off on strong footing but will gradually improve throughout the coming months.

### Industrial Production (January, Wednesday 9:15 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: -0.1%

Industrial production surprised to the downside in December but is expected to post a modest rebound to start off 2015. The minor decline at the end of 2014 followed a significant jump in the previous month on the back of strong manufacturing and utilities output, with the former showing increased volatility throughout the past few months. In January, we expect to see a recovery in utilities output leading total industrial production given that winter weather conditions likely weighed on manufacturing and mining activity for the month.

### Initial Jobless Claims (Week of February 14<sup>th</sup>, Thursday 8:30 ET)

Forecast: 290K

Consensus: 290K

Previous: 304K

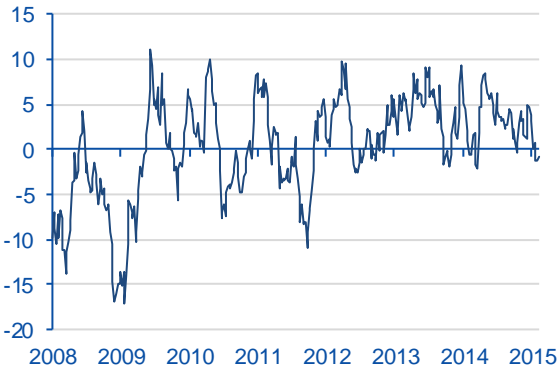
Initial jobless claims have been extremely volatile throughout the past month, bouncing as high as 317K and as low as 267K a few weeks later. Despite this volatility, claims have averaged around 290K throughout the past five months, holding near recovery low levels. For the second week in February, we expect that initial claims will again drop below 300K as the data adjust back to a more normal trend, keeping in line with the general improvements seen in the labor market.

### Market Impact

The FOMC minutes pack the biggest punch for markets this week as we all await more specific details on the timing of the first rate hike. Other economic news may be skewed slightly by seasonal issues and therefore may need to be taken with a grain of salt.

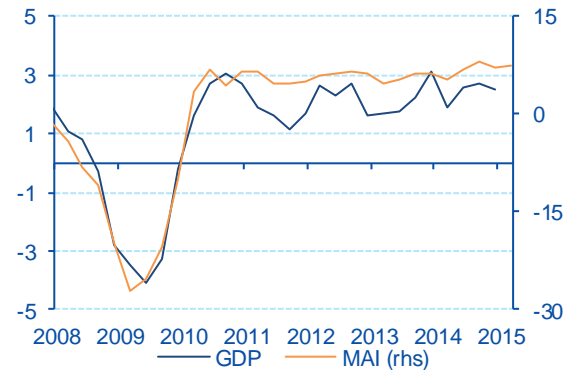
## Economic Trends

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



Source: BBVA Research

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



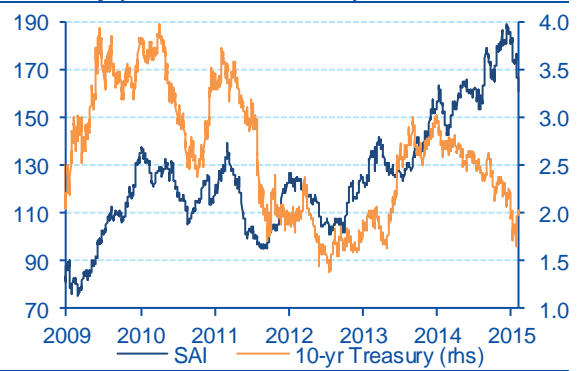
Source: BBVA Research & BEA

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



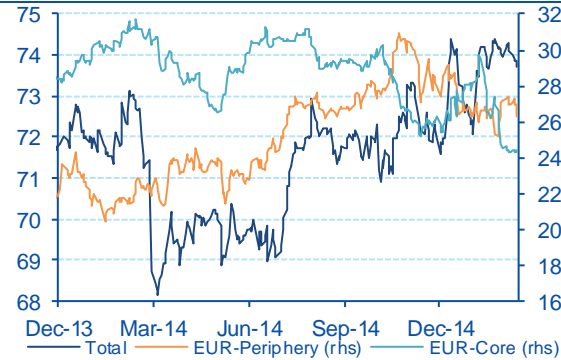
Source: BBVA Research

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



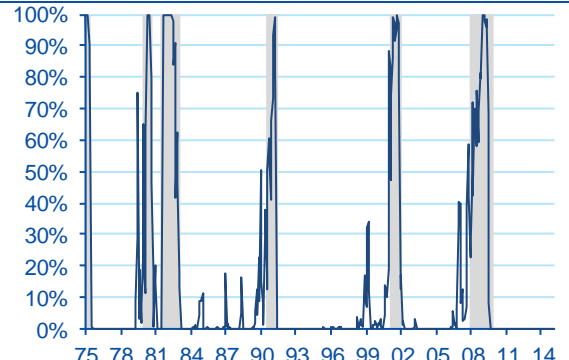
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

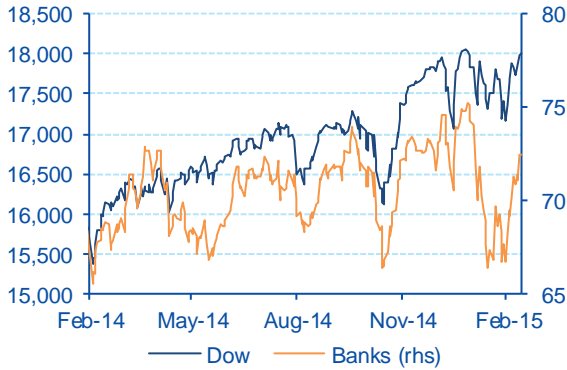
Graph 8  
**BBVA US Recession Probability Model (Recession episodes in shaded areas, %)**



Source: BBVA Research

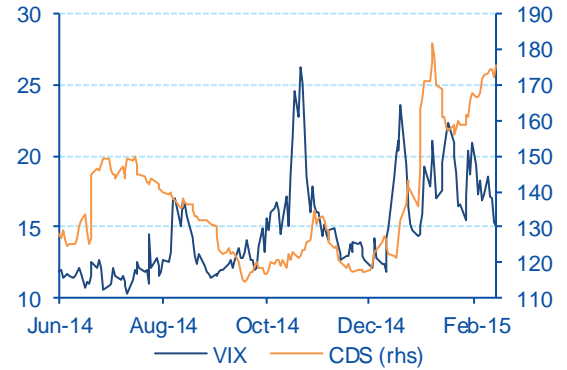
**Financial Markets**

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



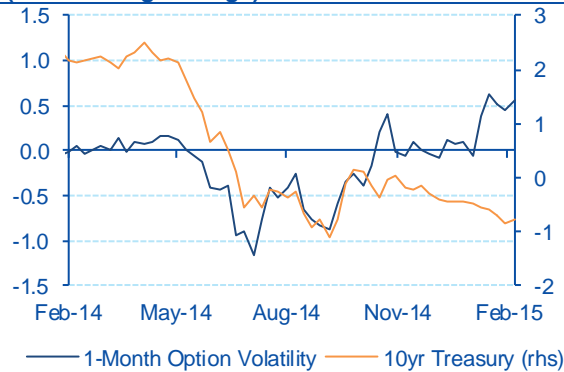
Source: Bloomberg & BBVA Research

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



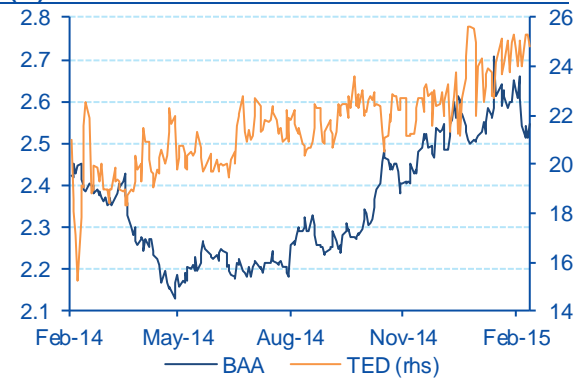
Source: Bloomberg & BBVA Research

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



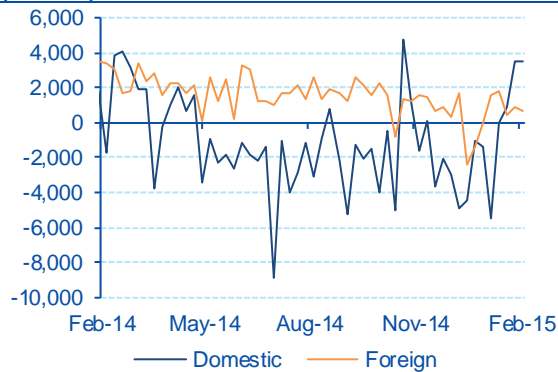
Source: Haver Analytics & BBVA Research

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



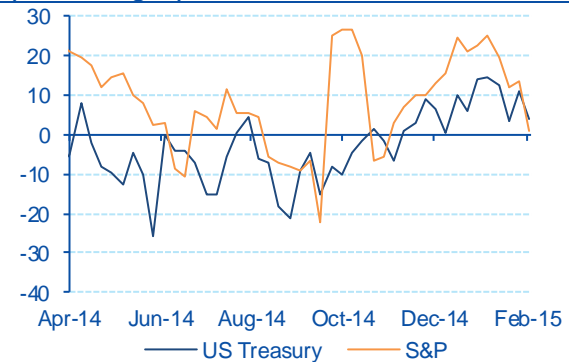
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

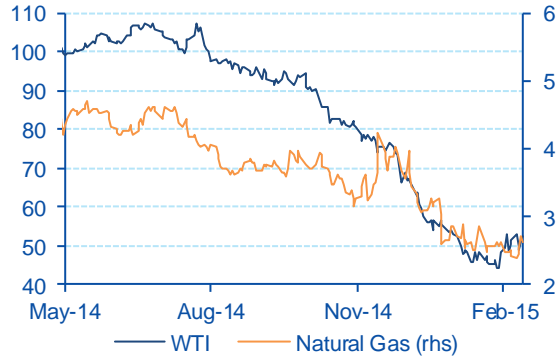
Graph 14  
**Total Reportable Short & Long Positions  
(Short-Long, K)**



Source: Haver Analytics & BBVA Research

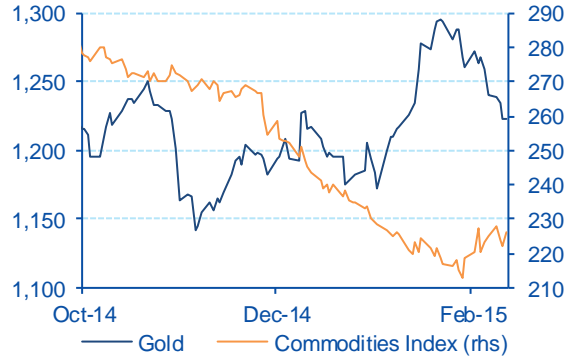
**Financial Markets**

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



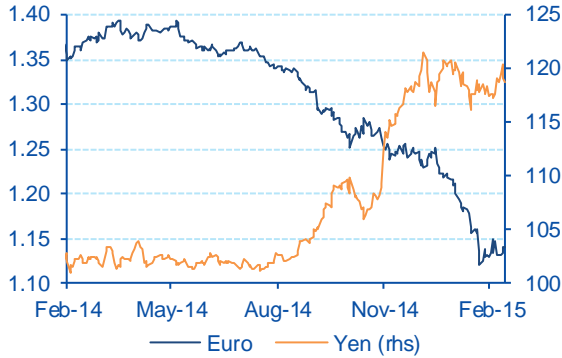
Source: Bloomberg & BBVA Research

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



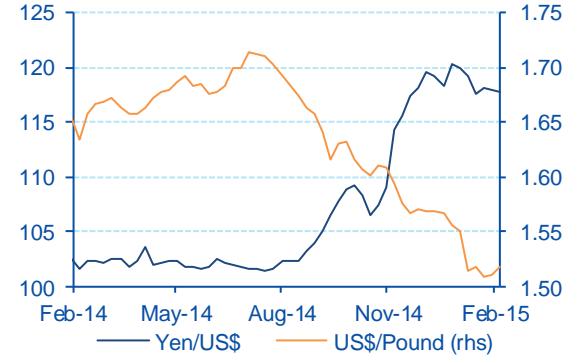
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



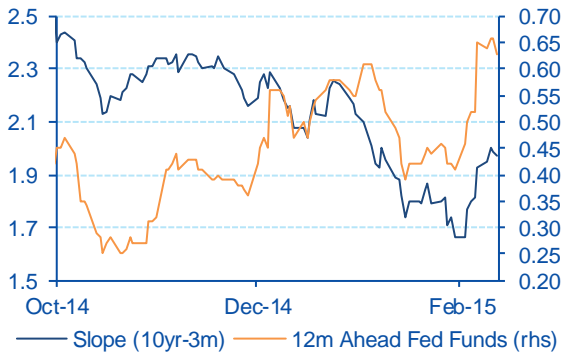
Source: Bloomberg & BBVA Research

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



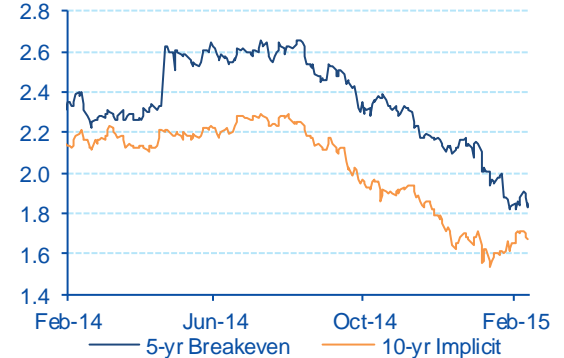
Source: Haver Analytics & BBVA Research

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 (%)**

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.96	14.96	14.86	14.10
New Auto (36-months)	2.68	2.67	2.63	2.57
Heloc Loan 30K	4.92	4.94	4.99	5.37
5/1 ARM *	2.97	2.82	2.90	2.90
15-year Fixed Mortgage *	2.99	2.92	2.98	3.23
30-year Fixed Mortgage *	3.69	3.59	3.66	3.99
Money Market	0.42	0.42	0.42	0.41
2-year CD	0.84	0.84	0.85	0.80

\*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	0.12	0.11	0.13	0.07
3M Libor	0.26	0.26	0.23	0.23
6M Libor	0.38	0.36	0.32	0.33
12M Libor	0.67	0.63	0.55	0.55
2yr Sw ap	0.90	0.90	0.72	0.43
5yr Sw ap	1.68	1.65	1.46	1.60
10Yr Sw ap	2.15	2.10	1.96	2.82
30yr Sw ap	2.53	2.44	2.38	3.67
30day CP	0.13	0.12	0.11	0.12
60day CP	0.13	0.11	0.11	0.15
90day CP	0.15	0.13	0.13	0.12

Source: Bloomberg & BBVA Research

## Quote of the Week

Richard Fisher, President of the Federal Reserve Bank of Dallas  
Dallas Fed's Richard Fisher: No Need for More QE, Don't Worry about Inflation  
9 February 2015

*"It's much too early to even think about another quantitative easing. As we've been saying for a long time, we've already fed the market too much Ritalin. And now [with the tapering] the market is correcting itself without our involvement."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Feb	US Empire State Manufacturing Survey General Business Conditions SA	FEB	3.50	8.50	9.95
17-Feb	National Association of Home Builders Market Index SA	FEB	56.00	58.00	57.00
18-Feb	US New Privately Owned Housing Units Started by Structure Total SAAR	JAN	1065.00	1070.00	1089.00
18-Feb	Private Housing Units Started by Structure Total Monthly % Change SA	JAN	-2.20	-1.74	4.40
18-Feb	Private Housing Authorized by Bldg Permits by Type Total SAAR	JAN	1040.00	1066.00	1058.00
18-Feb	Private Total Housing Authorized by Building Permits MoM SA	JAN	-1.70	0.76	0.60
18-Feb	US PPI Final Demand MoM SA	JAN	-0.10	-0.40	-0.20
18-Feb	US PPI Final Demand Less Foods and Energy MoM SA	JAN	0.10	0.10	0.30
18-Feb	US Industrial Production MoM 2007=100 SA	JAN	0.20	0.30	-0.11
18-Feb	US Capacity Utilization % of Total Capacity SA	JAN	79.80	79.90	79.70
18-Feb	US Industrial Production Industry Groups Manufacturing MoM SA	JAN	0.10	0.35	0.30
19-Feb	US Initial Jobless Claims SA	FEB 14	290.00	290.00	304.00
19-Feb	US Continuing Jobless Claims SA	FEB 7	2385.00	2330.00	2354.00
19-Feb	Conference Board US Leading Index MoM	JAN	0.40	0.30	0.50
19-Feb	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	FEB	1.70	9.00	6.30

## Forecasts

	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (% SAAR)	1.8	2.8	1.9	2.4	2.9	2.8	2.8	2.9
CPI (YoY %)	3.1	2.1	1.5	1.6	1.5	2.1	2.2	2.3
CPI Core (YoY %)	1.7	2.1	1.8	1.8	1.9	2.1	2.2	2.3
Unemployment Rate (%)	8.9	8.1	7.4	6.1	5.3	4.9	4.6	4.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50	3.25
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	2.21	2.60	3.11	3.54	3.90
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.23	1.15	1.20	1.28	1.32

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