

Economic Analysis

# Weekly Focus: Jobs and Auto Sales

Kim Chase

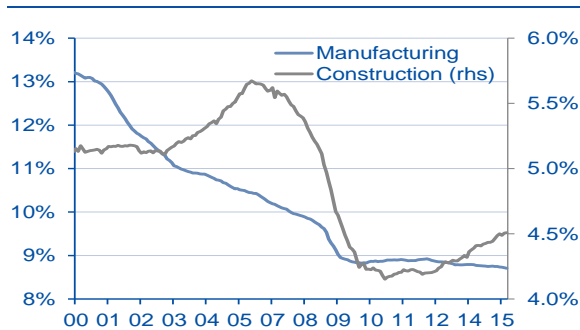
## Construction Sector Shows More Potential for Job Growth than Manufacturing

The holiday shortened July 4th week will push June’s employment report to Thursday, and markets should remain relatively calm given expectations of another healthy +200K payroll figure. Despite the fact that total nonfarm payrolls have far surpassed the pre-crisis peak and the unemployment rate has fallen near its estimated natural rate, the Fed has made it clear that they are still looking for “further improvement” in the labor market. The specific requirements needed to achieve this improvement are a little unclear, but it is apparent that wage growth and structural unemployment are on the Fed’s radar. The composition of nonfarm payroll growth has certainly changed over the years – not just because of the financial crisis but as a consequence of other shifts in the economy. For instance, the share of manufacturing to total payrolls has trended downward steadily as the U.S. economy slowly transitioned more focus to the services sector. At only 8.7% of total payroll growth (compared to near 30% in the 1950s), the manufacturing sector is not going to contribute significantly to improvements in the labor market. On the other hand, we should look to the construction sector for more job growth. Even though construction jobs only account for 4.5% of total payrolls, there is more potential for improvement as it follows the business cycle closely, reflecting true underlying progress in the economy.

## Consumers Looking to Purchase Vehicles Before Interest Rates Increase

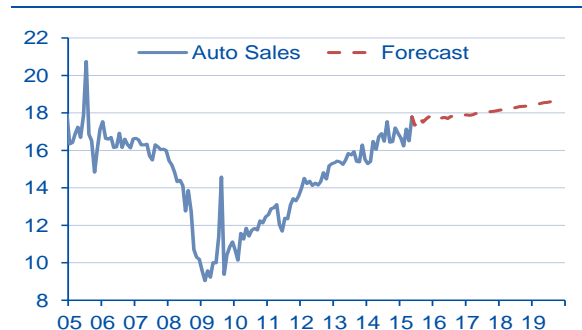
Total auto sales have been an important indicator of consumer health throughout the recovery, and even more so in the past year. Volatile sales in 2015 thus far have been a reminder that consumers remain hesitant to take the plunge on big purchases, even with other fundamentals suggesting a more favorable consumer environment. Low oil prices, solid job creation, and rebounding GDP growth point to stronger auto demand in the upcoming quarters. Auto financing is likely to pick up in anticipation of the Fed’s first interest rate hike, but after that we could see some moderation as consumers adjust to higher rates. At the same time, data suggest that consumers are keeping cars for longer, with the average age of vehicles up over 11 years compared to 9-10 years in the early 2000s. This is also reflected in consumer’s plans to buy a new vehicle in the next 6 months – in May, only 11.9% of consumers had these plans, much lower than the peak near 24% in 2000. Still, we do expect to see a gradual increase in total vehicle sales over the coming years.

Graph 1  
**Manufacturing and Construction Payrolls (% of total)**



Source: BLS & BBVA Research

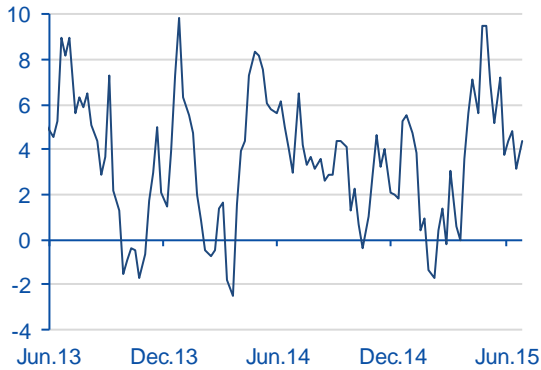
Graph 2  
**Total Auto Sales and BBVA Research Forecast (SAAR, Million Units)**



Source: Autodata & BBVA Research

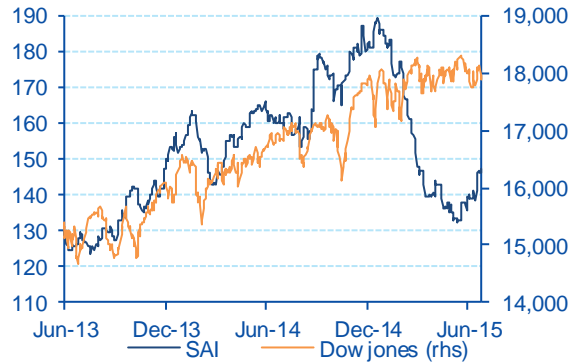
**Economic Trends**

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



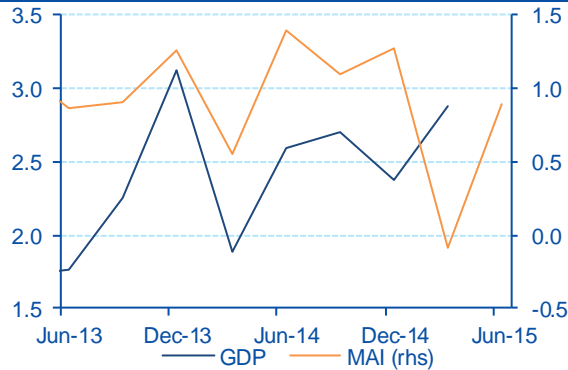
Source: BBVA Research

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



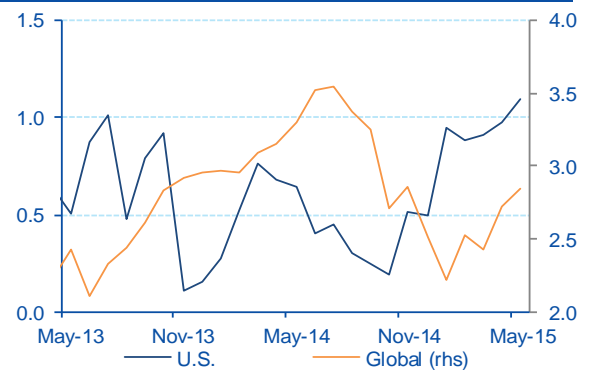
Source: Bloomberg & BBVA Research

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



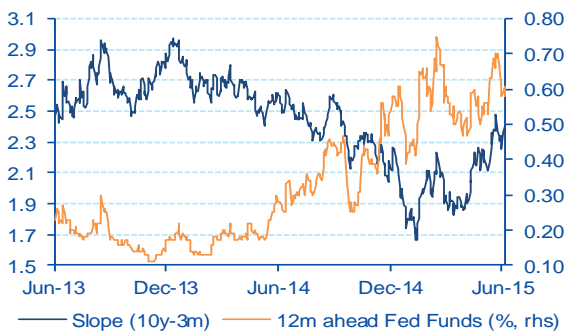
Source: BBVA Research & BEA

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



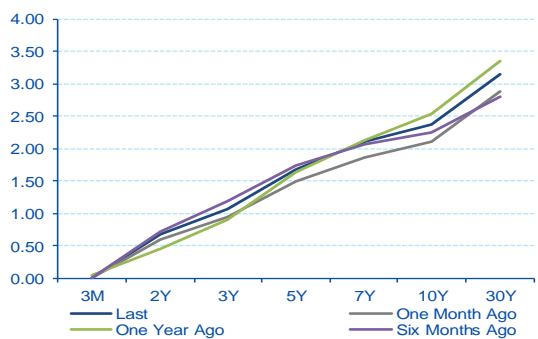
Source: BBVA Research

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
29-Jun	US Pending Home Sales Index MoM SA	MAY	0.20	1.40	3.40
29-Jun	Dallas Fed Manufacturing Outlook Level Of General Business Activity	JUN	-15.50	-15.50	-20.80
30-Jun	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	APR	0.80	0.90	0.95
30-Jun	S&P/Case-Shiller Composite-20 City Home Price Index YoY	APR	5.60	5.50	5.04
30-Jun	MNI Chicago Business Barometer (sa)	JUN	49.10	50.35	46.20
30-Jun	Conference Board Consumer Confidence SA 1985=100	JUN	97.70	97.00	95.40
1-Jul	US Auto Sales Total Annualized SA	JUN	17.40	17.20	17.71
1-Jul	ADP National Employment Report SA Private Nonfarm Level Change	JUN	230.00	215.00	201.00
1-Jul	ISM Manufacturing PMI SA	JUN	53.90	53.10	52.80
1-Jul	Census Bureau US Construction Spending MoM SA	MAY	-0.70	0.50	2.20
2-Jul	US Initial Jobless Claims SA	JUN 27	268.00	270.00	271.00
2-Jul	US Continuing Jobless Claims SA	JUN 20	2231.00	2245.00	2247.00
2-Jul	US Employees on Nonfarm Payrolls Total MoM Net Change SA	JUN	233.00	230.00	280.00
2-Jul	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	JUN	230.00	225.00	262.00
2-Jul	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	JUN	13.00	6.00	7.00
2-Jul	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	JUN	0.20	0.20	0.30
2-Jul	US Average Weekly Hours All Employees Total Private SA	JUN	34.50	34.50	34.50
2-Jul	Unemployment Rate	JUN	5.40	5.40	5.50
2-Jul	NEW YORK PURCHASING MANAGER Current Business Conditions SA	JUN	54.60	-	54.00
2-Jul	US Manufacturers New Orders Total MoM SA	MAY	-1.10	-0.50	-0.40

## Economic Outlook (Revisions Pending)

	2014		2015		2014	2015	2016	2017
	4Q	1Q	2Q	3Q				
Real GDP (% SAAR)	2.2	-0.2	<b>3.5</b>	<b>5.8</b>	2.4	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	1.2	-0.1	<b>0.0</b>	<b>0.7</b>	1.6	<b>0.5</b>	<b>1.9</b>	<b>2.2</b>
CPI Core (YoY %)	1.7	1.7	<b>1.7</b>	<b>1.7</b>	1.7	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>
Unemployment Rate (%)	5.7	5.6	<b>5.4</b>	<b>5.2</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.25</b>	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	2.21	2.04	<b>2.36</b>	<b>2.46</b>	2.21	<b>2.59</b>	<b>2.80</b>	<b>3.79</b>
US Dollar/ Euro (eop)	1.23	1.08	<b>1.08</b>	<b>0.99</b>	1.23	<b>1.01</b>	<b>1.12</b>	<b>1.24</b>
Core Logic Home Prices (YoY %)	5.07	5.00	<b>6.14</b>	<b>6.05</b>	7.48	<b>6.26</b>	<b>4.40</b>	<b>2.45</b>

## Fun Fact

As of June 26<sup>th</sup>, the U.S. is the 21<sup>st</sup> country in the world to legalize gay marriage. The first was the Netherlands in 2000. (Pew Research, June 26<sup>th</sup> 2015)

## Recent Publications

[Timeline: Congress Passes Fast-Track and TAA](#) (June 25, 2015)

[2014 State GDP Release: TX Comes in Strong](#) (June 24, 2015)

[Final 1Q15 GDP Subject to Change with Upcoming Annual Revisions from the BEA](#) (June 24, 2015)

[CBO: Downward Revisions in Long-Term Interest Rates](#) (June 19, 2015)

[Headline CPI Up in May, but Core Prices Subdued](#) (June 18, 2015)

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