

Economic Analysis

# Weekly Focus: Employment Situation & Trade

Kim Chase

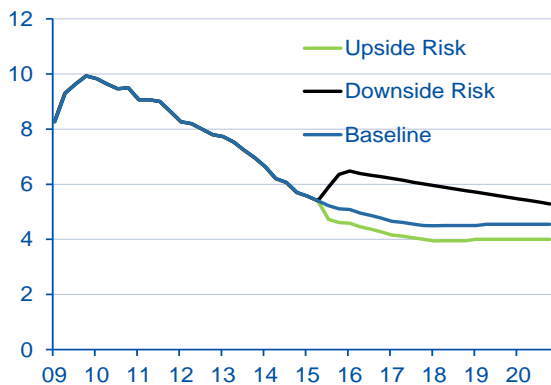
## July's Jobs Report Expected to Show "Some Further Improvement" for the Fed

The **employment report for July (Friday)** is just another piece of the puzzle needed to support a September rate hike. With the September FOMC meeting less than two months away, the Fed needs all the information it can get in order to uphold their commitment to data dependency. Labor market conditions have mostly recovered in line with the Fed's expectations, yet the July FOMC statement highlighted the need for "some further improvement" before the first rate hike occurs (see [FedWatch](#)). Nonfarm payroll growth has been robust and the unemployment rate has declined much faster than expected, but the Fed still sees room for improvement in a number of other areas. Wage growth is certainly a big issue, yet we don't expect that two months of data is going to be enough to significantly boost their outlook on wages. In fact, the employment cost index for 2Q15 increased a mere 0.2% since the first quarter, the slowest pace on record. **Personal income for June (Monday)** will likely confirm this subdued wage growth, adding more uncertainty to the Fed's decision. However, as long as labor market indicators do not completely veer off track, we expect that the Fed will be ready to increase rates come September.

## Import Growth to Offset Exports in June, and for the Remainder of 2015

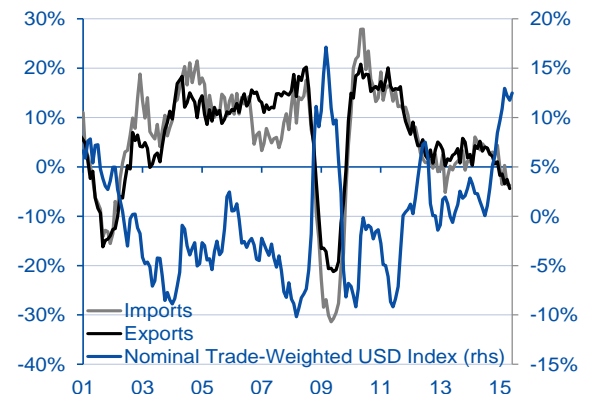
The **international trade balance (Wednesday)** has been relatively stable throughout 2Q15 thus far, despite lingering weakness in global demand and the continued appreciation of the USD. Surprisingly, imports have declined more than exports throughout the past few months. However, advance estimates from the Census for June suggest a decline in U.S. exports of goods but an increase in imports, supporting our expectation for a widening of the trade gap to close out the second quarter. Unfortunately, export growth is likely to be constrained by the vulnerable global economy throughout the rest of the year. However, with the stronger dollar and domestic demand on the rise, we should continue to see increasing imports in the coming months. This suggests continued deterioration of the trade balance, at least until demand from abroad picks back up again.

Graph 1  
**BBVA Research USA Unemployment Rate Forecasts (%)**



Source: BLS & BBVA Research

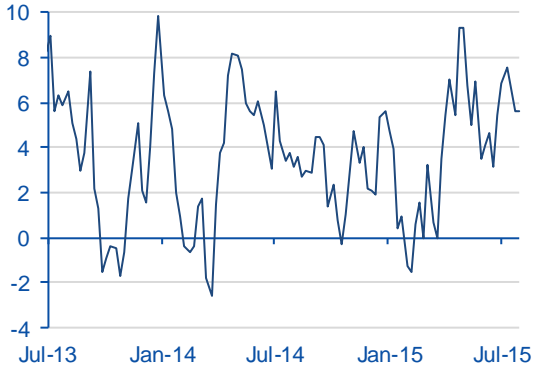
Graph 2  
**Imports, Exports, & USD Index (YoY % Change)**



Source: Census, FRB, & BBVA Research

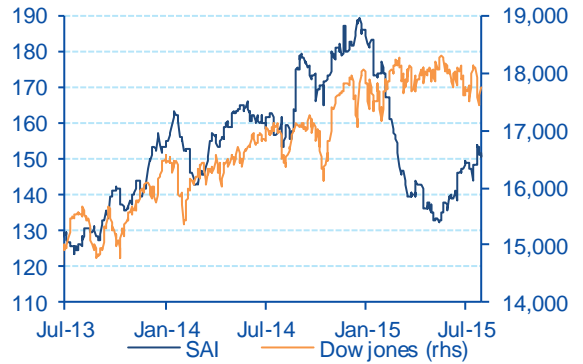
**Economic Trends**

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



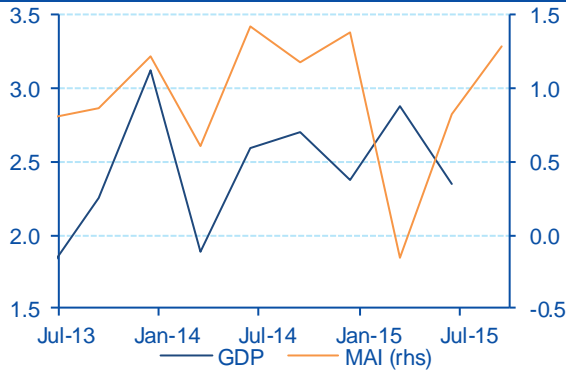
Source: BBVA Research

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



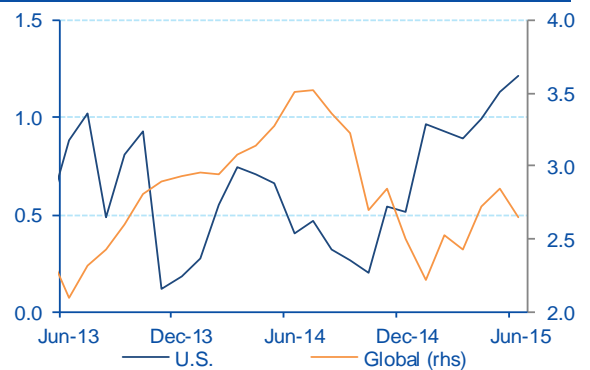
Source: Bloomberg & BBVA Research

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



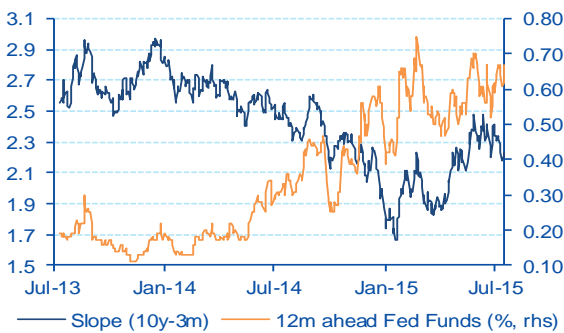
Source: BBVA Research & BEA

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



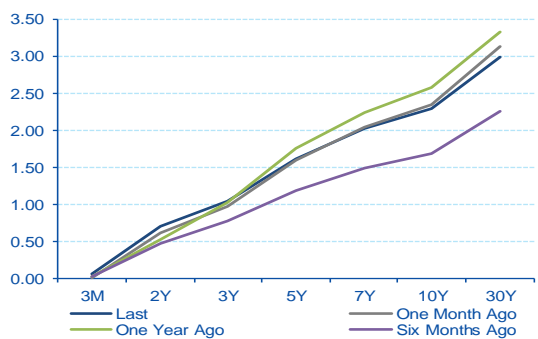
Source: BBVA Research

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
3-Aug	US Personal Income MoM SA	JUN	0.20	0.30	0.50
3-Aug	US Personal Consumption Expenditures Nominal Dollars MoM SA	JUN	0.30	0.20	0.90
3-Aug	ISM Manufacturing PMI SA	JUL	53.90	53.50	53.50
3-Aug	Census Bureau US Construction Spending MoM SA	JUN	0.50	0.60	0.80
4-Aug	New York Purchasing Managers Current Business Conditions SA	JUL	63.00	-	63.10
4-Aug	US Manufacturers New Orders Total MoM SA	JUN	1.90	1.70	-1.00
5-Aug	ADP National Employment Report SA Private Nonfarm Level Change	JUL	240.00	210.00	237.30
5-Aug	US Trade Balance of Goods and Services SA	JUN	-42.70	-42.55	-41.87
5-Aug	ISM Non-Manufacturing NMI NSA	JUL	56.60	56.20	56.00
6-Aug	US Initial Jobless Claims SA	AUG 1	271.00	273.00	267.00
6-Aug	US Continuing Jobless Claims SA	JUL 25	2255.00	2205.00	2262.00
7-Aug	US Employees on Nonfarm Payrolls Total MoM Net Change SA	JUL	235.00	225.00	223.00
7-Aug	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	JUL	225.00	213.50	223.00
7-Aug	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	JUL	5.00	5.00	4.00
7-Aug	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	JUL	0.20	0.20	0.00
7-Aug	US Average Weekly Hours All Employees Total Private SA	JUL	34.50	34.50	34.50
7-Aug	Unemployment Rate	JUL	5.30	5.30	5.30
7-Aug	Federal Reserve Consumer Credit Total Net Change SA	JUN	15.20	17.00	16.09

## Economic Outlook (revisions pending)

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	2.3	3.6	3.3	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.6	1.4	1.6	0.5	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.7	1.8	1.7	1.7	1.8	2.0
Unemployment Rate (%)	5.6	5.4	5.2	5.1	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	2.04	2.36	2.43	2.53	2.21	2.53	2.72	3.64
US Dollar/ Euro (eop)	1.08	1.12	1.05	1.07	1.23	1.07	1.13	1.20
Core Logic Home Prices (YoY %)	5.00	6.14	6.05	5.85	7.48	5.76	4.40	2.45

## Fun Fact

National Ice Cream Month (July) was officially established by President Ronald Reagan in 1984. According to the International Dairy Foods Association, about 10.3% of all milk produced in the U.S. is used to make ice cream. The states that consume the most ice cream are California, Indiana, Pennsylvania, Texas, and New York. (IDFA, July 2015)

## Recent Publications

[State Monthly Activity Indexes: Acceleration Expected in 2H15](#) (July 30, 2015)

[Values-Based Investing Gains Mass Appeal](#) (July 30, 2015)

[2Q15 Real GDP Hits 2.3% as BEA Revisions Attempt to Tackle 1Q Weakness](#) (July 30, 2015)

[FOMC Statement: July 28-29<sup>th</sup>](#) (July 29, 2015)

[China's Uncertainty and Risks to the U.S.](#) (July 28, 2015)

[Technology, Opportunity, & Access: Understanding Financial Inclusion in the U.S.](#) (July 28, 2015)

[U.S. Auto Industry Chartbook](#) (July 24, 2015)

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