

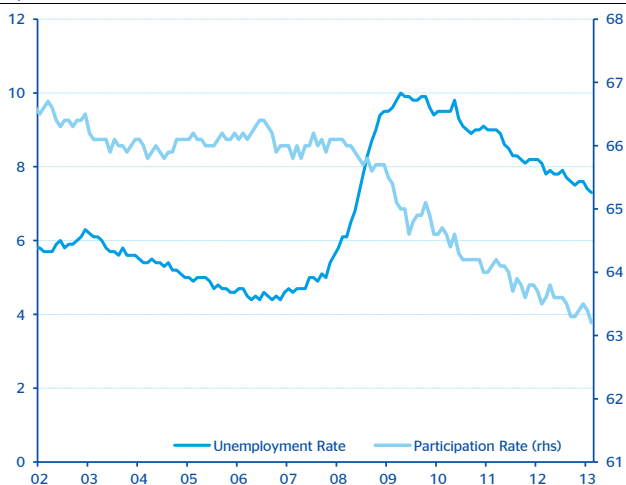
US Weekly Flash

Highlights

- **Unemployment Rate Drops, but Job Growth Comes in Weaker than Expected**

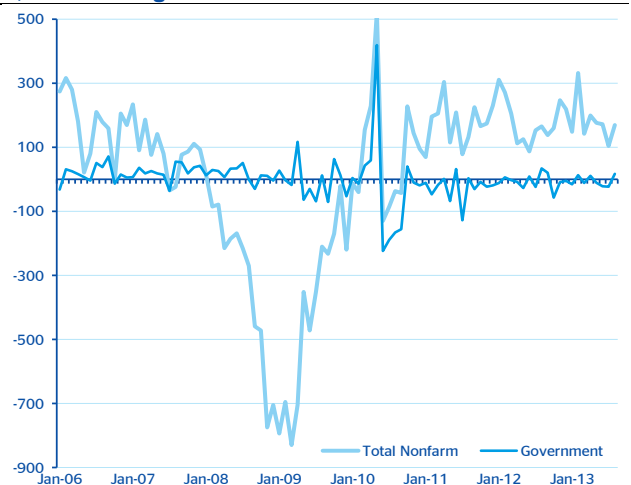
- August marked the third month of a consecutive decline in the unemployment rate. At the same time the improvement of the labor market was modest with only 169K payrolls added in August. Despite the overly positive market expectations, there was also a disappointing downward revision to July nonfarm payrolls (162K to 104K). Both private and public sectors had positive contributions to the increase in payrolls with 152K and 17K respectively.
- The unemployment rate dropped to 7.3% from 7.6% in June. However, the decline was once again coupled with a decline in the participation rate to 63.2% from 63.5% in June. The current participation rate is at its lowest point in exactly 35 years (August 1978) and this trend underscores the structural changes occurring within the labor market ([see our related brief on the labor market](#)). Furthermore, the 58.6% employment-to-population ratio remains essentially unchanged since July 2012.
- In other August employment news, the average workweek rose to 34.5 hours and average hourly earnings rose 2.2% over August 2012.

Graph 1
Unemployment and Participation Rates
SA, %



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Change in Nonfarm Employment
SA, MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Consumer Credit (August, Tuesday 10:00 ET)

Forecast: \$13.00Bn	Consensus: \$12.65Bn	Previous: \$13.81Bn
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We expect consumer credit to rise for July in line with the current trend that has persisted for the past quarters. Rising by \$13.8bn in June, the July figure may be bolstered by growing demand for vehicles which tends to translate into growth for non-revolving credit. Revolving credit may stand to gain somewhat as the retail sector gains momentum on the back of school shopping and end of summer purchases. The revolving credit figure declined in June but we expect that to reverse as the aforementioned tailwinds help to drive some growth in the component. Non-revolving credit, the stronger of the two sub-components, should continue to drive most of the growth in consumer credit as student loans fail to decelerate. This has become worrisome for those paying attention as student debt augments despite the fact that a growing level of borrowers are having trouble dealing with the large loans and a difficult labor market.

Initial Jobless Claims, Continued Claims (July, Tuesday 8:30 ET)

Forecast: 330K, 2945K	Consensus: 330K, -	Previous: 323K, 2951K
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Despite the less optimistic payroll data that emerged in August, we continue to expect initial jobless claims to decline as the 4MMA shifts below recession lows. This consistent weekly decline that has instilled some optimism in the job market is being driven by a mixture of a more resilient service industry and certain sectors that are beginning to hire at a more sustainable rate. Construction continues to be a strong driver of hiring coupled with the professional services component which has helped to curtail the augmented number of layoffs that the banking industry had at the beginning of the year. In addition, the better than expected export market and 1H13 manufacturing sector have begun to translate into better job growth and fewer jobless claims as the economy gains more stable footing.

Retail Sales, Ex Auto & Gas (July, Wednesday 8:30 ET)

Forecast: 0.6%, 0.2%	Consensus: 0.4%, 0.3%	Previous: 0.2%, 0.5%
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Headline retail sales for August are expected to emerge slightly stronger compared to July as the consumer boosts consumption amidst back to school spending and vehicles. At the headline level, auto sales are expected to provide a significant boost to overall retail sales according to August's total vehicle sales figure reported by the largest manufacturers. The rise from 15.7M to 16.1M is expected to add a considerable boost to primarily due to the fact that the figure declined last month. Average gas prices across the U.S. have fallen slightly which may offset the nominal rise in the headline retail sales figure but we expect its impact to be minimal. Shifting to core retail sales, we expect growth from July to continue to drive retail sales higher in August as back to school shopping and stronger overall merchandise sales. According to the Goldman Sachs chain store indicator for August, there will be minimal growth at the core level as weekly sales remain below 1% WoW.

Consumer Sentiment (September, Friday 9:55 ET)

Forecast: 80.1	Consensus: 82.4	Previous: 82.1
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We expect consumer sentiment to convey a deterioration in market sentiment as possible military action in the Middle East is coupled with the upcoming fiscal debates. Although not specifically tied to markets, the possible outcome of military action in Syria may upset consumers who remain weary after a decade of military action in the area. Adding to the set of plausible headwinds for September area, the two debates that will ensue over sequestration and the debt ceiling have already proven to be detrimental to the market both in terms of results and uncertainty. Given the current employment situation, which emerged far lower than anticipated for June-August, there remain headwinds for employment that will undoubtedly translate into market sentiment. We therefore expect the first consumer sentiment figure for September to emerge far weaker than the 82.1 in August given the lack of tailwinds entering into September.

Market Impact

The employment data for August has created a downturn with regard to the overall optimism that pervaded markets coming into the report. Not only were data lower than we expected for August but June and July were revised downward heavily. Next week has two indicators that may help drive optimism back into the market, especially retail sales. As logic dictates, we spend what we make and the current trend has been to spend moderately as wages have remained weak over the past few quarters. However, with August auto volume picking up above the 16M level, we expect headline sales to reach stronger levels and help drive some potential growth in 3Q13. However this will do little to offset the reaction news that will come with the Federal Reserve meeting later in the month or the impending debates over the debt ceiling and sequester.

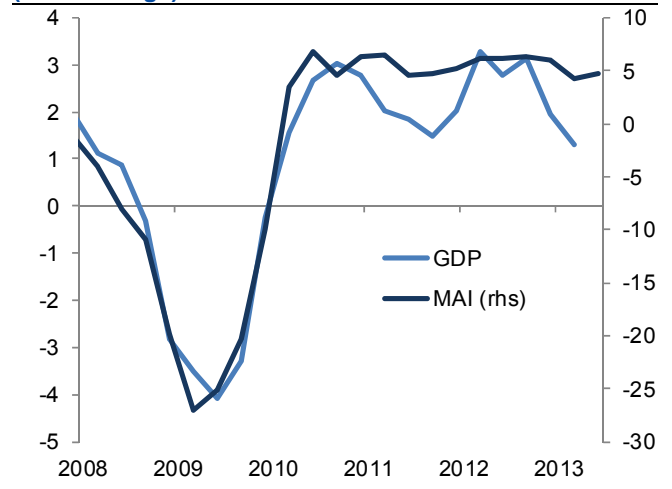
Economic Trends

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



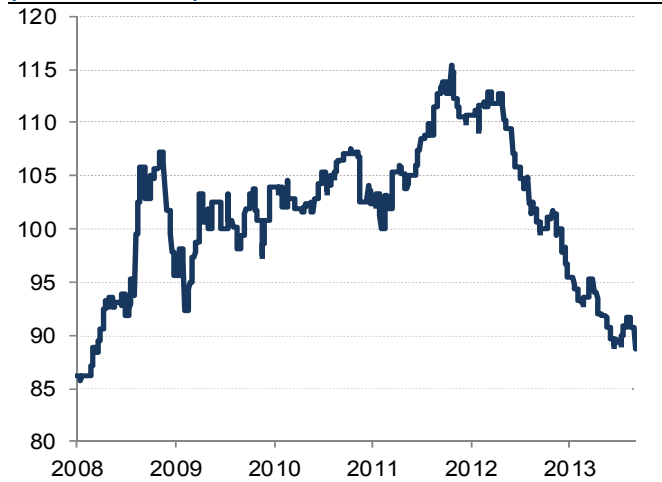
Source: BBVA Research

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



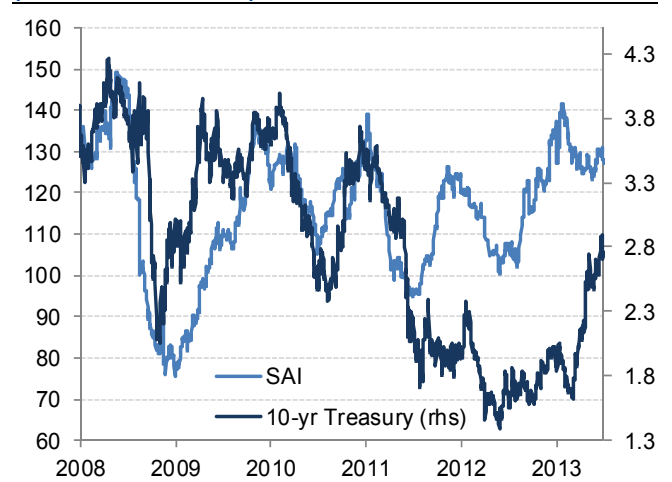
Source: BBVA Research & BEA

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



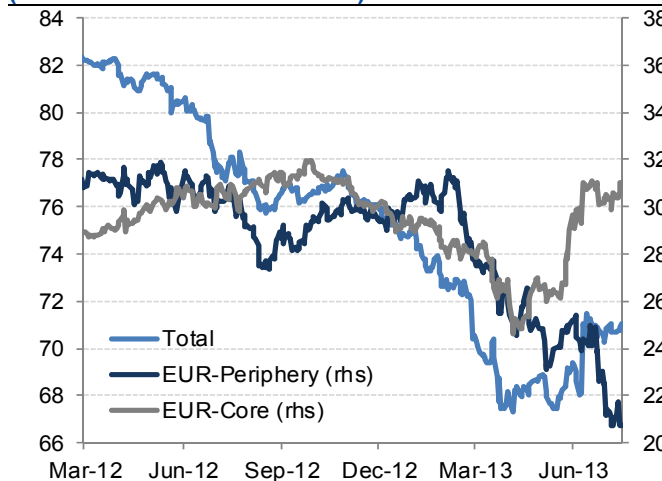
Source: BBVA Research

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



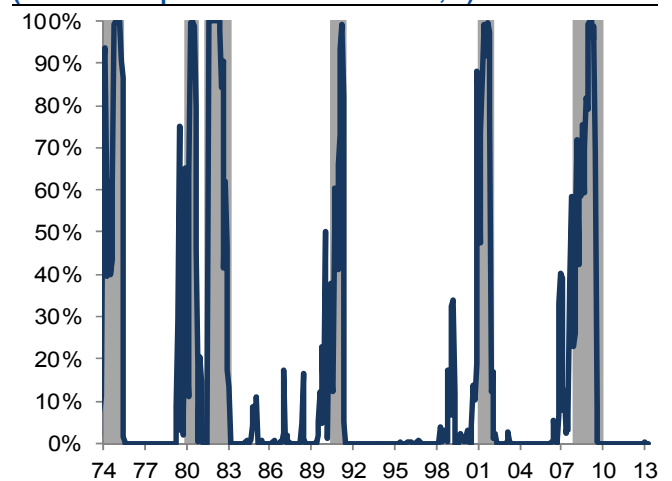
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

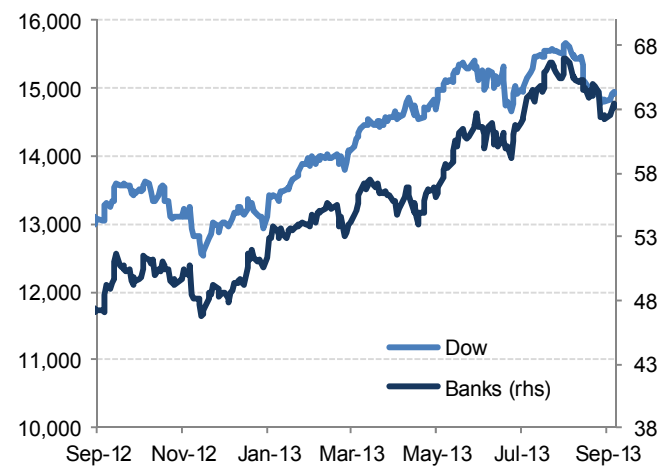
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

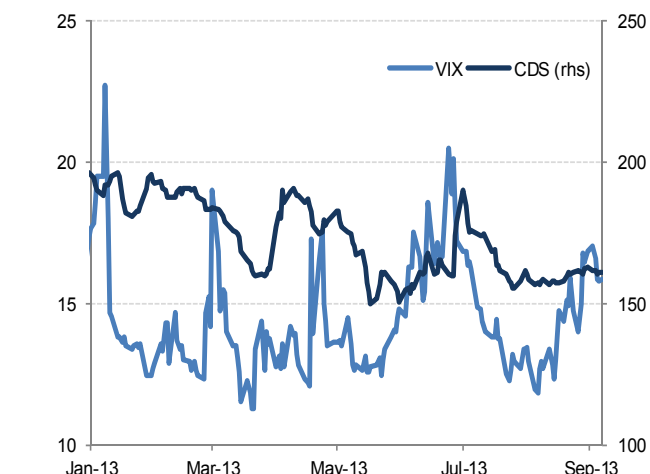
Financial Markets

Graph 9
Stocks
(Index, KBW)



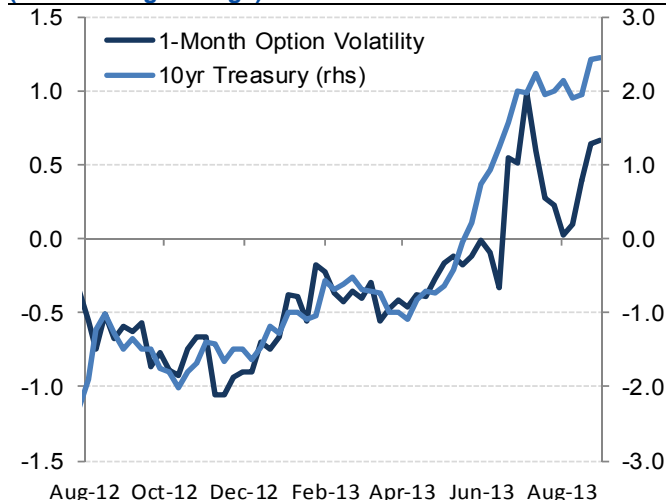
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



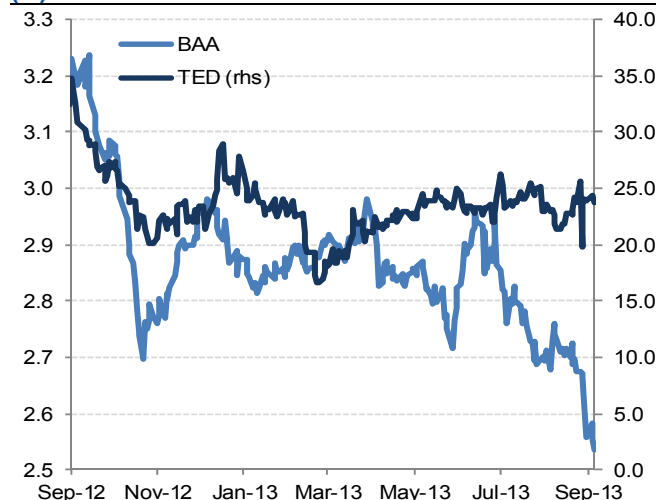
Source: Bloomberg & BBVA Research

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



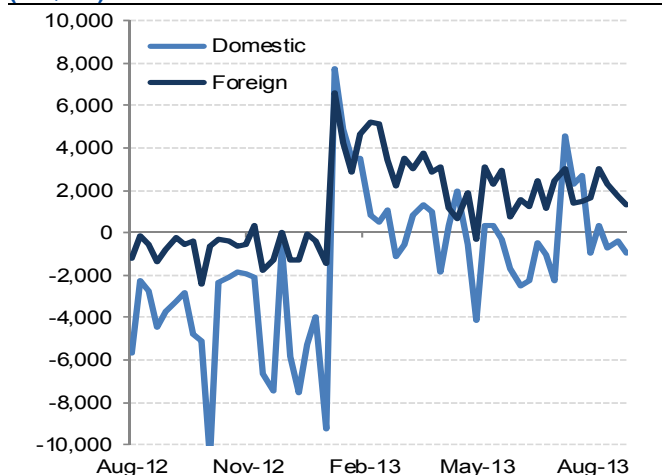
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



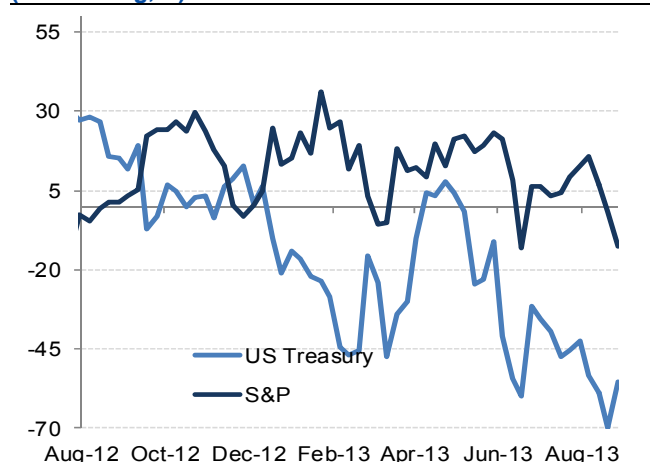
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

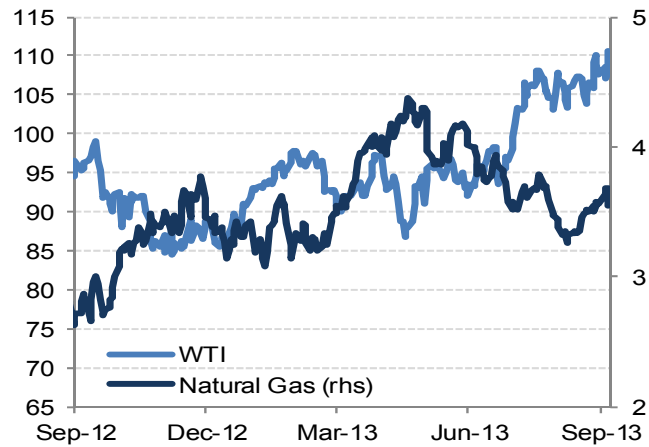
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

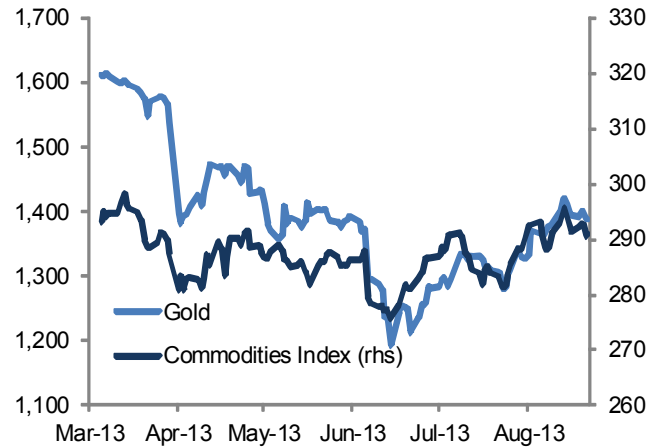
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



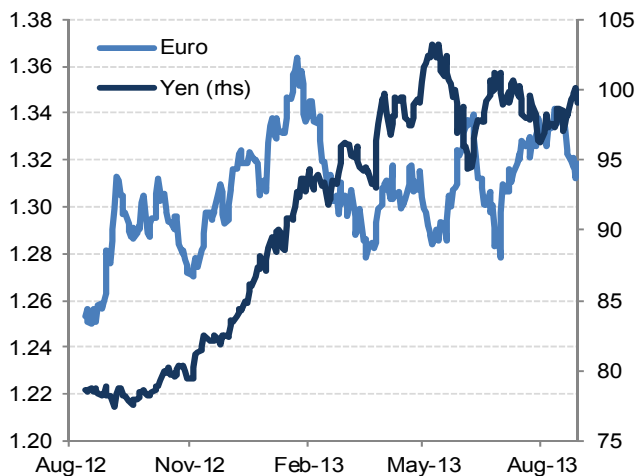
Source: Bloomberg & BBVA Research

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



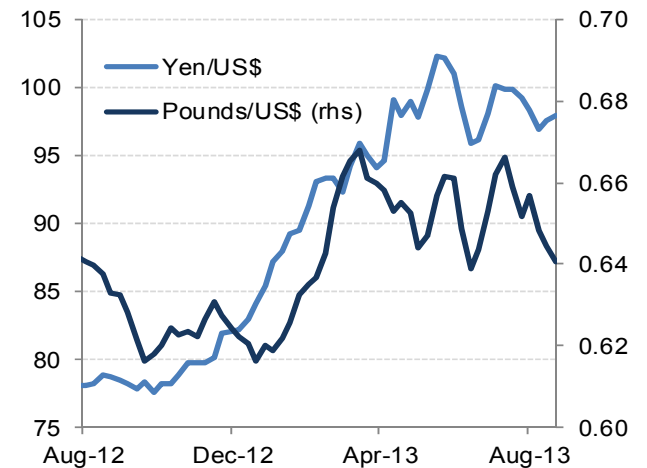
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



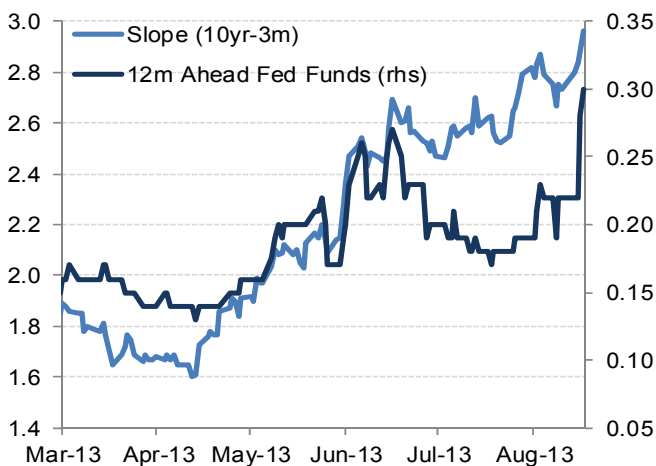
Source: Bloomberg & BBVA Research

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



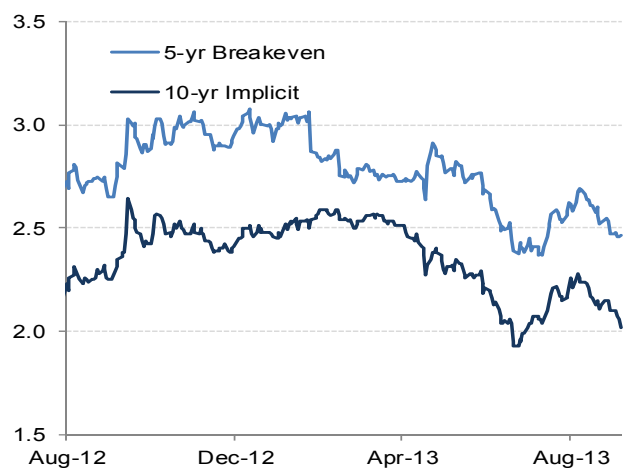
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.16	14.16	14.16	14.10
New Auto (36-months)	2.43	2.39	2.37	3.14
Heloc Loan 30K	5.38	5.33	5.30	5.48
5/1 ARM*	3.28	3.24	3.19	2.90
15-year Fixed Mortgage*	3.59	3.54	3.43	3.23
30-year Fixed Mortgage*	4.57	4.51	4.40	3.99
Money Market	0.44	0.44	0.44	0.52
2-year CD	0.76	0.76	0.73	0.86

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

Table 1
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.08	0.07	0.08	0.15
3M Libor	0.26	0.26	0.26	0.41
6M Libor	0.39	0.39	0.39	0.70
12M Libor	0.68	0.67	0.66	1.02
2yr Sw ap	0.62	0.57	0.47	0.43
5yr Sw ap	1.92	1.81	1.53	0.85
10Yr Sw ap	3.12	2.98	2.75	1.78
30yr Sw ap	3.90	3.72	3.62	2.60
30day CP	0.12	0.12	0.12	0.57
60day CP	0.15	0.13	0.14	0.69
90day CP	0.18	0.16	0.16	0.67

Source: Bloomberg & BBVA Research

Quote of the Week

Speaker of the House John Boehner
Speech in Congress
27 August 2013

"Before there is any long-term debt limit increase, a budget should be passed that cuts spending"

Economic Calendar

Date	Event	Period	Forecast	Survey	Prior
11-Sep	Initial Jobless Claims	JUL	330K	330K	323K
13-Sep	PPI MoM	AUG	0.2%	0.2%	0.0%
13-Sep	Retail Sales	AUG	0.6%	0.4%	0.2%
13-Sep	Consumer Sentiment	SEP p	80.1	82	82.1

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.2	1.8	2.3	2.5
CPI (YoY %)	3.1	2.1	1.6	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	7.6	7.0	6.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.28	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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