

US Weekly Flash

Highlights

• Big Revisions Lead Surprises in October Employment Report

- Nonfarm payroll growth was much stronger than expected for October, increasing 204K following upward revisions to the previous two months. September's gain was revised up from 148K to 163K while payroll growth in August was adjusted for the second time to a whopping 238K (first revision increased from 169K to 193K). Surprisingly, the government shutdown had very little impact on total employment growth for the month, despite warning signs from higher initial jobless claims and increased layoffs that the report would be disappointing.
- Although job growth accelerated, the unemployment rate jumped back up to 7.3% in October. It would be reasonable to assume that this was due to a mere increase in the labor force; however, looking at the household survey, it is surprising to see that the participation rate actually declined significantly to 62.8% from 63.2% in September. Therefore, the unemployment rate increase reflects a pure jump in the number of unemployed individuals, which is a less optimistic story than the headline payroll growth would suggest. The underlying details here complicate matters when it comes to the Fed's eventual decision to taper, though we maintain our expectations for a possible December or January announcement depending on the genuine strength of upcoming economic data.

• 3Q13 Real GDP Surprises to the Upside at 2.8% QoQ SAAR

- The delayed 3Q13 GDP report finally saw the light of day after the prolonged government shutdown set back analysis at the BEA. Following a 2.5% gain in 2Q13, real GDP growth in 3Q13 increased 2.8% on a QoQ seasonally-adjusted annualized basis. Most of this gain was due to continued strength in domestic investment, with residential holding steady just above 14% growth and nonresidential structures only slightly slower than 2Q13 at 12.3%. However, personal consumption growth decelerated to 1.5% from 1.8% in the second quarter. Government spending increased a mere 0.2% SAAR for the first time since 3Q12, though we expect this to decline again in 4Q13 as a result of the shutdown.
- Overall, the advance GDP report came in only slightly higher than our expectations for 2.3% growth and is therefore still in line with our 2013 forecast for 1.6%. With the government shutdown delaying many significant economic reports for 3Q13, it is possible that this advance report was less complete than usual, so we won't hold our breath for minimal changes in the second and third releases. Furthermore, expectations for 4Q13 are not as strong given the government shutdown and the related uncertainty in business and consumer confidence.

Graph 1

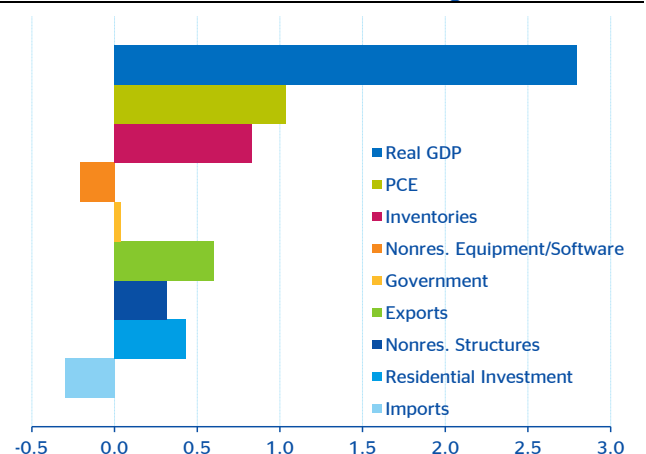
Nonfarm Payroll Employment
MoM Change in K, 6-month avg



Source: BLS & BBVA Research

Graph 2

Contributions to Real GDP Growth
3Q13 Advance Estimate, SAAR Percentage Points



Source: BEA & BBVA Research

Week Ahead

International Trade (September, Thursday 8:30 ET)

Forecast: -\$38.0B

Consensus: -\$39.0B

Previous: -\$38.8B

The international trade balance was mostly unchanged in August as both export and import growth held flat for the month. Recent data for September hint at only minor improvements in both external and internal demand conditions. The global economy is very slowly gaining momentum, and various economic indicators suggest that new export orders have continued to increase throughout the past few months. On the domestic side, business and consumer demand remains hesitant, but we expect that conditions in September will be relatively healthy leading up to the government shutdown. October, on the other hand, will likely show signs of weakness in the trade report. Overall, we expect that both export and import growth will improve in September to close out the quarter on a positive note. The trade deficit in 3Q13 is on track to reach the lowest average level of the recovery period thus far.

Jobless Claims (November, Thursday 8:30 ET)

Forecast: 325K

Consensus: 330K

Previous: 336K

Many different factors have been skewing the jobless claims data in recent weeks, though none seem more significant than the government shutdown in October. Monthly initial jobless claims averages had been trending downward since June, hitting a recovery low of 308K in September. However, once the government shutdown went into effect on October 1st, weekly claims skyrocketed to 373K and have remained elevated ever since. Surprisingly, the employment report for October did not clearly reflect this jump in initial claims for the month, so we could see some revisions in upcoming job reports. Moving forward, the latest claims data noted a drop to 336K for the first week of November, and it looks like we are slowly approaching the lower levels seen a few months ago.

Empire State Manufacturing Survey (November, Friday 8:30 ET)

Forecast: 4.3

Consensus: 5.0

Previous: 1.52

Manufacturing activity has been moving forward at a gradual pace, yet the regional Federal Reserve Surveys seem to be more optimistic compared to national industrial production reports. In particular, the production component of the Empire State Survey has held at double-digits throughout the past few months, while growth in new orders has accelerated. For November, we expect that this trend will continue. Global demand has been strengthening slowly, encouraging export-related manufacturing production, and the upcoming holiday shopping season definitely helps demand conditions on the domestic front. Given that this is one of the first manufacturing indicators released for November, we expect that it will set the tone for growth in the sector to continue at a steady pace.

Industrial Production (October, Friday 9:15 ET)

Forecast: 0.3%

Consensus: 0.2%

Previous: 0.6%

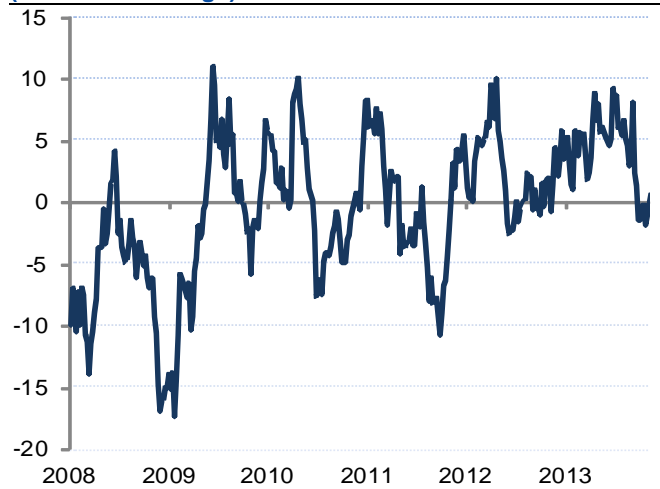
Industrial production has been on the rise throughout the past few months and we expect this trend to continue into 4Q13. However, the underlying details of the latest industrial production reports have been mixed, with manufacturing output decelerating and utilities output on the rise as the changing weather shifts consumer demand. Still, there is no reason to be overly pessimistic. Despite the government shutdown in October, many manufacturing and business indicators have noted continued gains in production for the month. Most importantly, the production component of the ISM Manufacturing Index has held near recovery highs throughout the past four months, and accelerating new orders suggest that this trend should continue in the short-term. While October was certainly not an encouraging month when accounting for the spillover from the shutdown, we do expect that industrial production will continue to increase, though at a slightly slower pace compared to September.

Market Impact

The dust from the government shutdown is finally settling, and we are almost completely back on track with our regularly scheduled economic calendar. This holiday shortened work week could be a relief for markets as they reflect on the positive surprises in headline GDP and employment growth for the second half of 2013. International trade and industrial production data may warrant the most reaction if the figures come in lower than expected, but in general we should see a relatively calm market for the week.

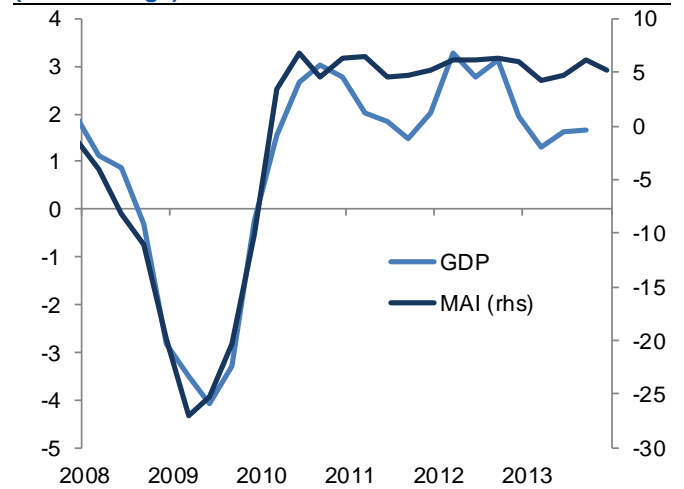
Economic Trends

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



Source: BBVA Research

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



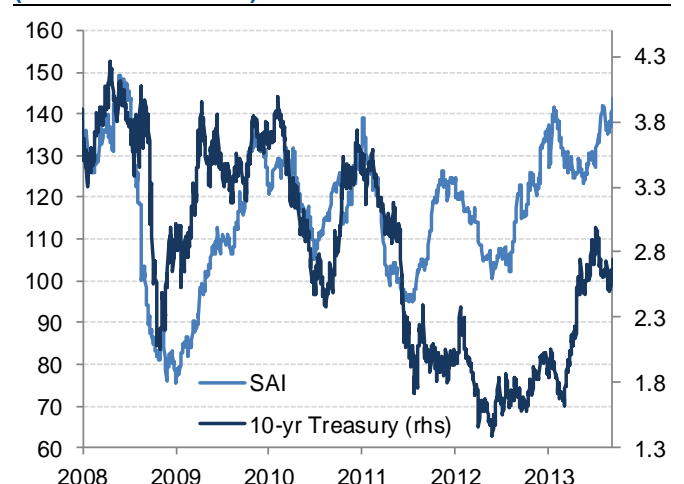
Source: BBVA Research & BEA

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



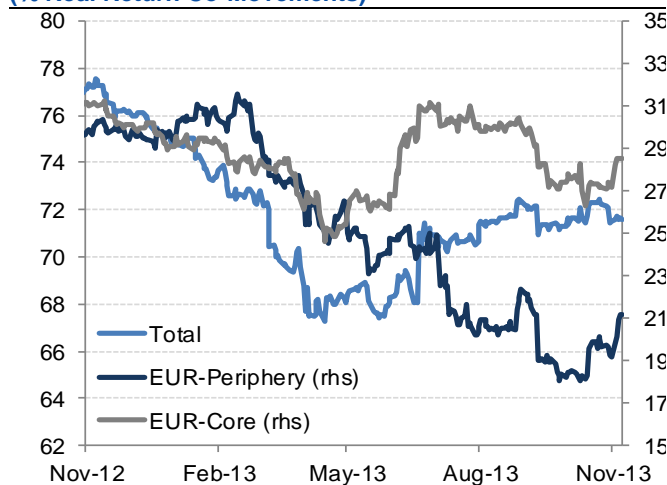
Source: BBVA Research

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



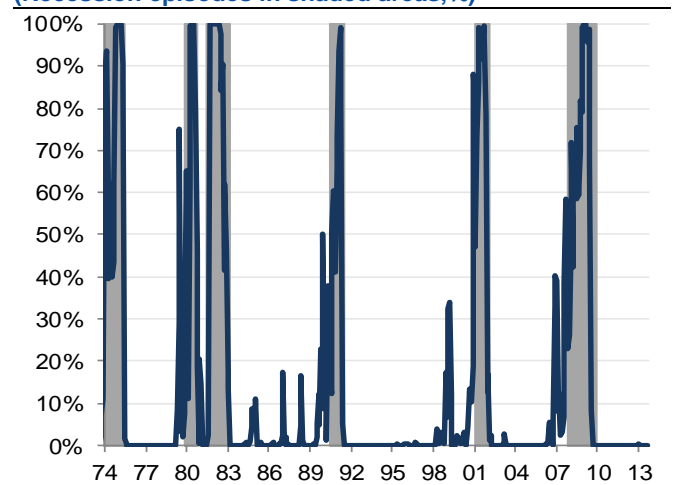
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

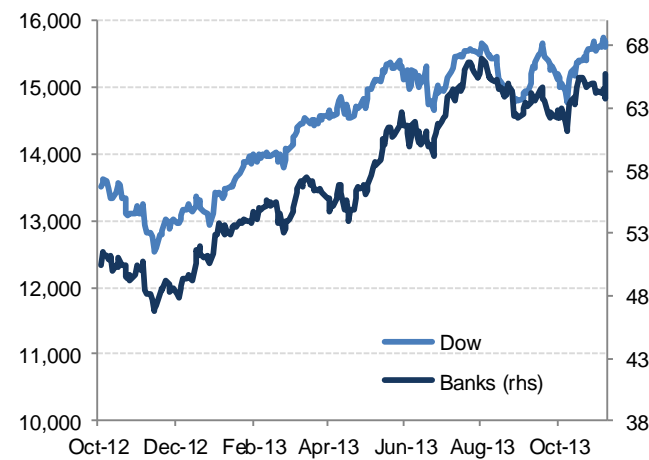
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

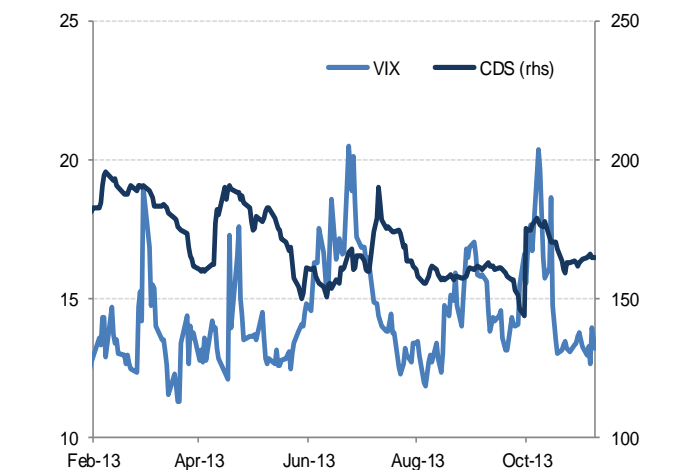
Financial Markets

Graph 9
Stocks
(Index, KBW)



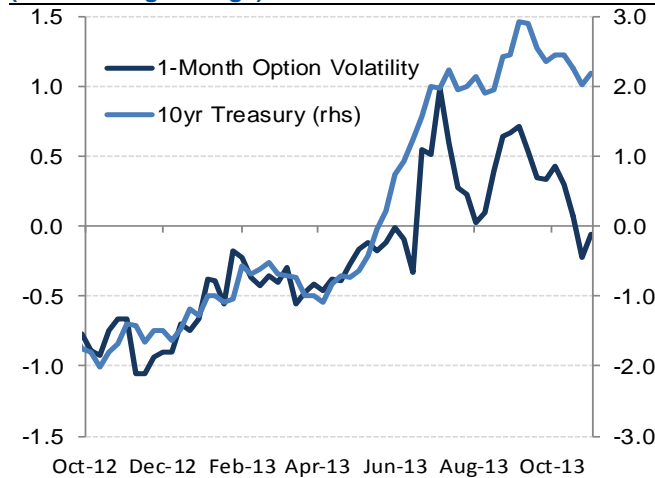
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



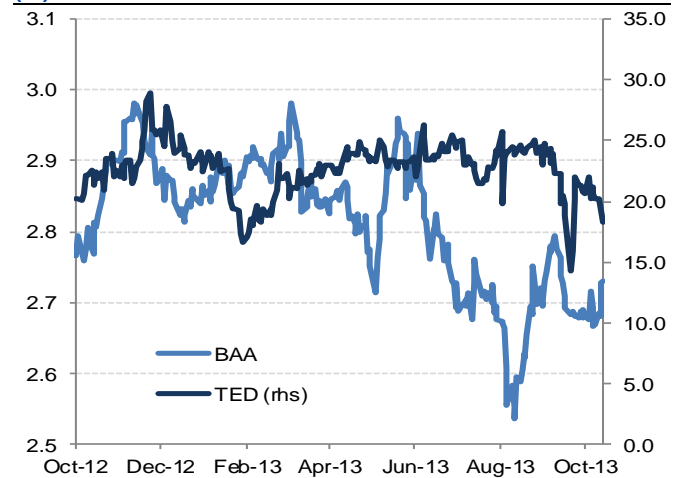
Source: Bloomberg & BBVA Research

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



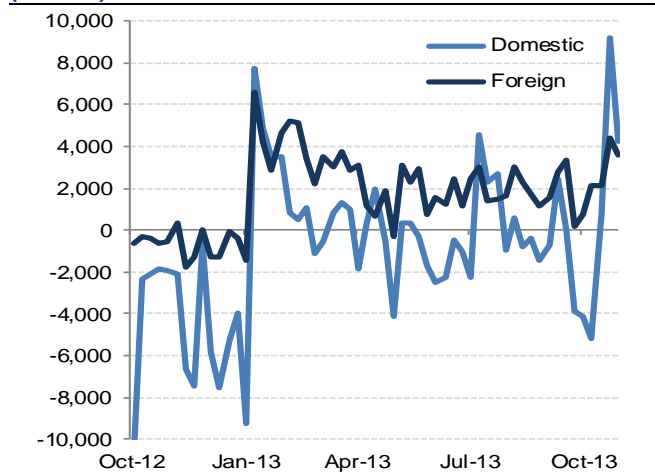
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



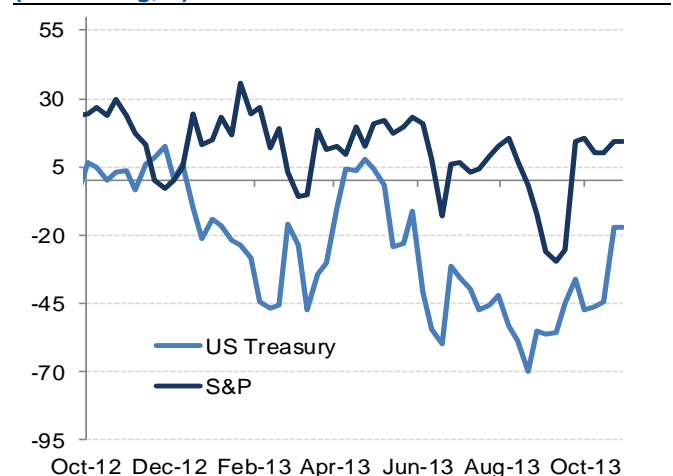
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

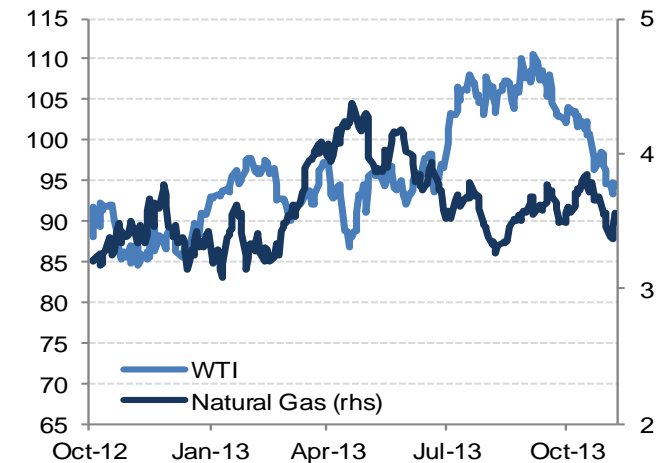
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

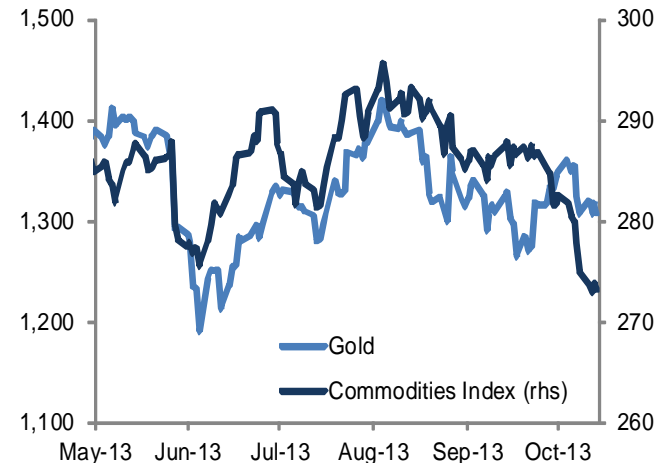
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



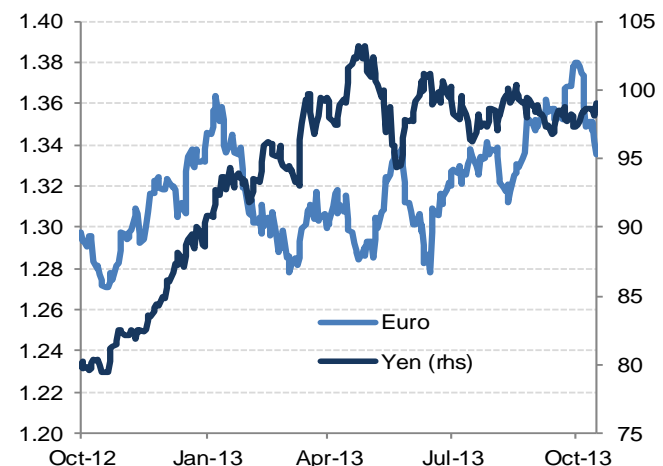
Source: Bloomberg & BBVA Research

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



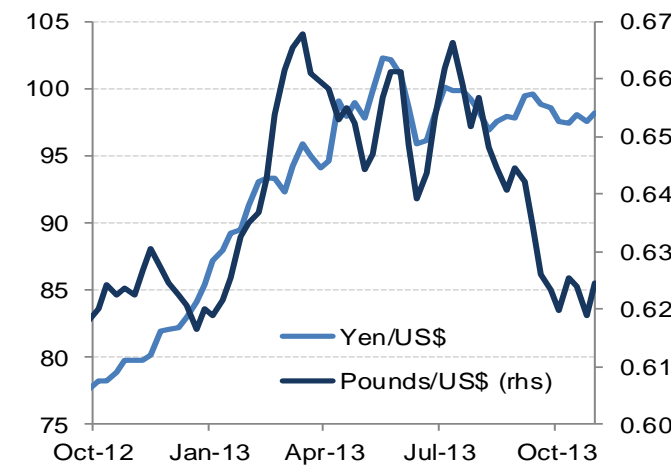
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



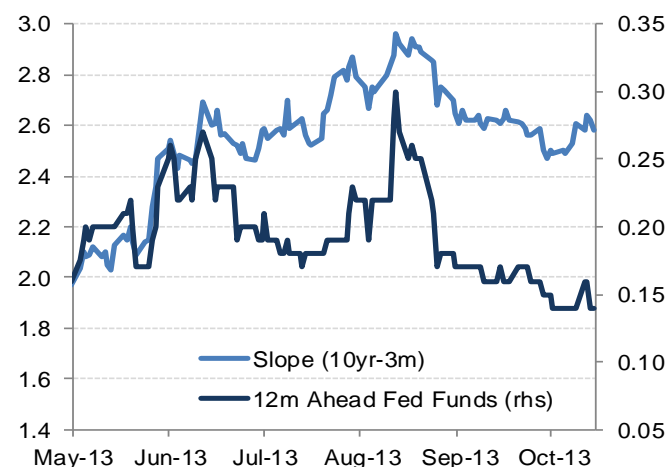
Source: Bloomberg & BBVA Research

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



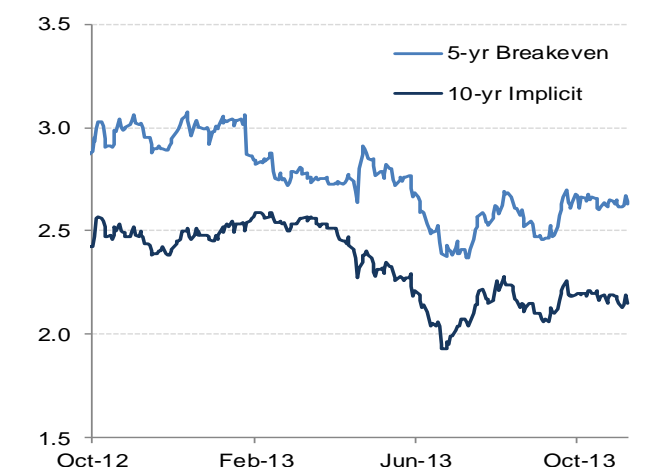
Source: Haver Analytics & BBVA Research

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	Week ago	4-Weeks 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)	2.63	2.64	2.51	3.07
Heloc Loan 30K	5.22	5.26	5.28	5.41
5/1 ARM*	2.96	2.96	3.05	2.90
15-year Fixed Mortgage*	3.27	3.20	3.31	3.23
30-year Fixed Mortgage*	4.16	4.10	4.23	3.99
Money Market	0.42	0.42	0.41	0.50
2-year CD	0.83	0.81	0.80	0.86

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

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.08	0.08	0.10	0.16
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.35	0.36	0.36	0.53
12M Libor	0.59	0.60	0.63	0.86
2yr Swap	0.43	0.43	0.48	0.37
5yr Swap	1.54	1.51	1.57	0.74
10Yr Swap	2.87	2.77	2.82	1.63
30yr Swap	3.79	3.67	3.71	2.49
30day CP	0.10	0.11	0.10	0.22
60day CP	0.12	0.11	0.12	0.21
90day CP	0.12	0.13	0.16	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Apologizing, Obama Yields to Criticism of Health Law
7 November 2013

"I think we, in good faith, have been trying to take on a health care system that has been broken for a very long time. And what we've been trying to do is to change it in the least disruptive way possible. But obviously, we didn't do a good enough job in terms of how we crafted the law. And, you know, that's something that I regret. That's something that we're going to do everything we can to get fixed."

Economic Calendar

Event	Period	Forecast	Survey	Previous
Chicago Fed National Activity Index	SEPT	0.05	0.15	0.14
International Trade Balance	SEPT	-\$38.0B	-\$39.0B	-\$38.8B
Initial Jobless Claims	9-Nov	325K	330K	336K
Continuing Claims	2-Nov	2850K	2875K	2868K
Nonfarm Productivity	3Q P	2.00%	2.00%	2.30%
Unit Labor Costs	3Q P	1.10%	0.40%	0.00%
Import Prices (MoM)	OCT	-0.10%	-0.40%	0.20%
Empire State Manufacturing Survey	NOV	4.30	5.00	1.52
Industrial Production (MoM)	OCT	0.30%	0.20%	0.60%
Capacity Utilization	OCT	78.3%	78.3%	78.3%
Wholesale Inventories (MoM)	SEPT	0.30%	0.40%	0.50%

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.6	2.3	2.5	2.8
CPI (YoY %)	3.1	2.1	1.7	2.2	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3
Unemployment Rate (%)	8.9	8.1	7.5	7.0	6.4	5.9
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.37	3.64	4.05
US Dollar/ Euro (eop)	1.31	1.31	1.30	1.30	1.38	1.36

Note: Bold numbers reflect actual data

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