

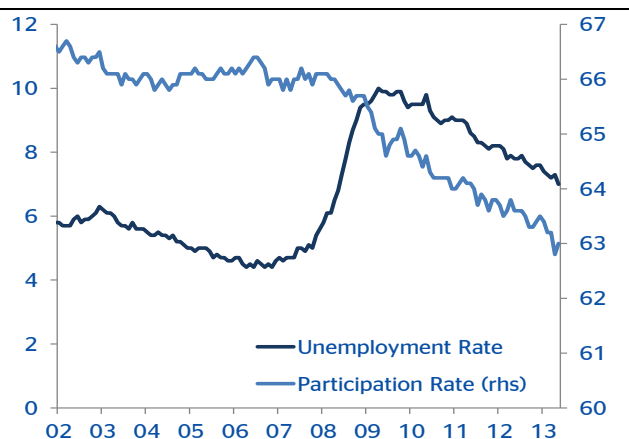
# US Weekly Flash

## Highlights

- Unemployment Rate Drops to 7.0%, Spurs Implications for the Next FOMC Meeting**
  - Nonfarm payrolls increased 203K on the back of a 196K gain in private payrolls and a 7K increase on the government side. This puts us at the third time in only four months that payrolls have been at or above 200K. Positive surprises were seen in manufacturing (+27K) and construction (+17K), where hiring in both sectors reflects stronger activity in the real economy. The biggest news came from the household survey, with the unemployment rate dropping from 7.3% to 7.0%. After a big drop in the labor force in October, the participation rate actually increased in November to 63.0% -- still lower than the rate in September, but a positive signal nonetheless. According to the CPS labor force status flows, this movement did not reflect a shift to employment but rather a nearly 5.0% increase from those not in the labor force to unemployed. Still, this is an encouraging sign that individuals are more optimistic about job availability and are starting to look for employment once again.
  - This report could have huge implications for monetary policy in the near future. Back in the summer, Bernanke noted that the end of QE3 would occur sometime in mid-2014, when the unemployment rate was around 7.0%. While the FOMC has tried to move away from that guideline, it is still in the back of all our minds. Now that we've hit that mark, everyone will be looking to the FOMC meeting on December 18th for some sense of direction. The probability of a tapering announcement before year-end has certainly increased, yet the threat of another fiscal debacle still lingers and could push the decision to 1Q14.
- GDP Growth Revised to 3.6% as Inventories Surge, but Consumption and Exports Slower**
  - Third quarter real GDP growth was revised up from the first estimate of 2.8% QoQ SAAR to a surprising 3.6%, the highest rate since early 2012. Export growth was revised down (from 4.5% to 3.7%) and import growth shifted upward (from 1.9% to 2.7%) as a result of the worse-than-expected trade data in September. Personal consumption and residential investment, two important drivers of the recovery, were also revised down in the second estimate. The kicker in this GDP report was inventory growth – the contribution to GDP from the change in private inventories actually doubled, from 0.83 to 1.68 SAAR percentage points.
  - Given this somewhat misleading report, the story for 4Q13 is still very much up in the air. So far, consumer activity for the fourth quarter has not been overly impressive, and it is unlikely that businesses will continue producing without a significant pickup in demand. We will likely see a positive shift in exports for 4Q13, but this will certainly not be a driver of growth for the quarter as global demand remains soft. Overall, our expectations are for a slower 4Q13 in line with our forecast for 1.6% growth in 2013.

Graph 1

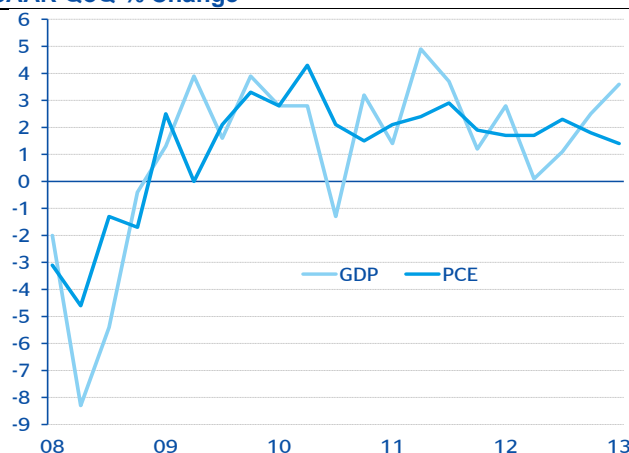
**Unemployment and Participation Rates**  
%



Source: BLS &amp; BBVA Research

Graph 2

**U.S. Real GDP and Personal Consumption Expenditures**  
SAAR QoQ % Change



Source: BEA &amp; BBVA Research

## Week Ahead

### JOLTS Job Openings (October, Tuesday 10:00 ET)

Forecast: 3875K

Consensus: --

Previous: 3913K

The JOLTS report has shown only minor improvements throughout the past few months, though job openings have been on the rise and hirings have been up since June. Still, recent upward revisions to nonfarm payrolls suggest a much more encouraging labor market. Despite the government shutdown in October, we saw a relatively healthy increase in payrolls that may also be reflected in the JOLTS data as a gain in hiring. However, according to the household survey, the number of unemployed individuals actually increased in October for the first time in four months, and this may translate to a more pessimistic reading for job openings. Overall, we do not expect the JOLTS data in October to stray much from the general tone that has been set over the past year – modest improvement but still far from pre-recession peaks.

### Jobless Claims (Week of December 7<sup>th</sup>, Thursday 8:30 ET)

Forecast: 305K

Consensus: 318K

Previous: 298K

Initial jobless claims declined at the end of November for the seventh time in the past eight weeks, dropping to the lowest level of the recovery period. However, reports suggest that the late Thanksgiving holiday may have skewed the data at month-end. Regardless, we have seen a positive trend downward since the government-shutdown related spike in October, and claims data are suggestive of an improving labor market. While we have not seen exact consistency between claims and payroll growth, we can at least say that we may be moving in the right direction. The holidays may impact the data for the next month, but in general, we do not expect much volatility in initial jobless claims throughout the coming weeks.

### Retail Sales, Ex Autos (November, Thursday 8:30 ET)

Forecast: 0.2%, 0.1%

Consensus: 0.6%, 0.2%

Previous: 0.4%, 0.2%

Headline retail sales are expected to increase again in November after rebounding in October from a flat reading in the previous month. Consumer confidence has not completely bounced back from the dip related to the government shutdown, but low prices for goods and services are widespread and are therefore helping to boost consumers' purchasing power at a vulnerable time. While November is usually a strong month when it comes to holiday shopping, we don't expect to see a significant gain in sales. Black Friday hit during the last weekend of the month, and various weekly retail sales surveys do not tell a consistent story from week to week. Unit auto sales for November reached the highest SAAR level of the recovery period, but much of this was likely due to dealer discounts that would not necessarily help the nominal retail sales figure. Therefore, we expect to see only modest upward movement in retail sales for November.

### Business Inventories (October, Thursday 10:00 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: 0.6%

Business inventories have been on the rise since July after stalling throughout the first half of 2013. In fact, the latest GDP report suggests that inventory growth was the key factor driving economic activity in 3Q13. However, we do not expect this trend to continue into 4Q13. Personal consumption has not held up its end of the bargain when it comes to economic growth, and therefore businesses will have to adjust accordingly. Lean inventory management will resurface as companies wait for demand to rebound. For October, we expect that total business inventory growth will decelerate significantly and remain muted at least throughout the fourth quarter.

### Market Impact

Reactions to the latest employment and GDP reports will likely carry over into this week, which doesn't have much to speak of when it comes to the economic calendar. Retail sales will likely be the most important data on the docket, but markets may show some anxiety if the Black Friday results are mediocre. Aside from that, market volatility may hold off until the following week, when we'll see the FOMC statement and Bernanke's second-to-last Chairman press conference of his reign at the Federal Reserve.

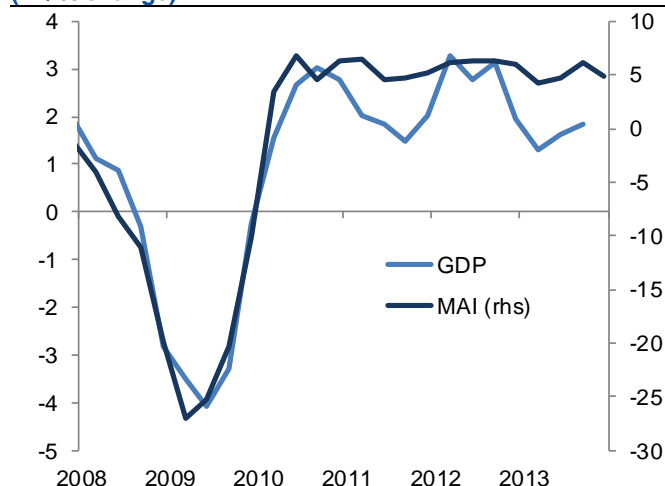
# Economic Trends

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



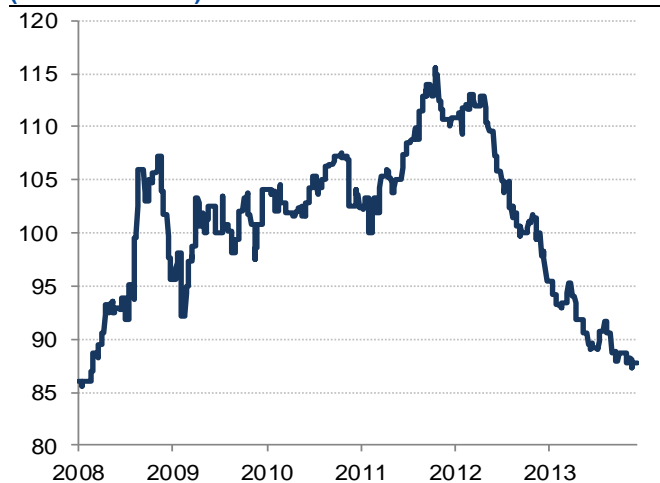
Source: BBVA Research

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



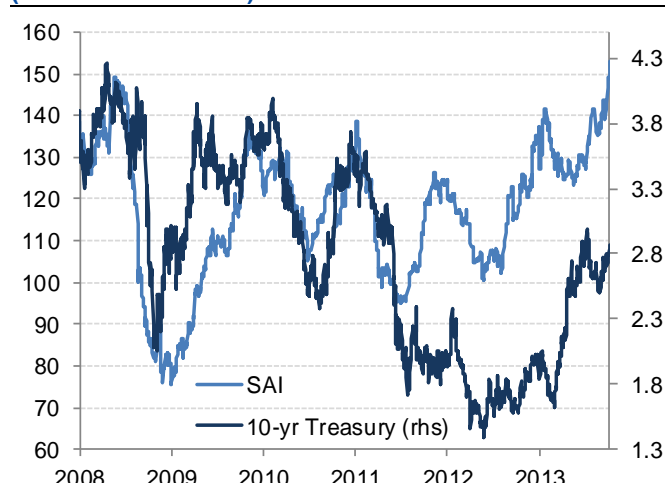
Source: BBVA Research & BEA

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



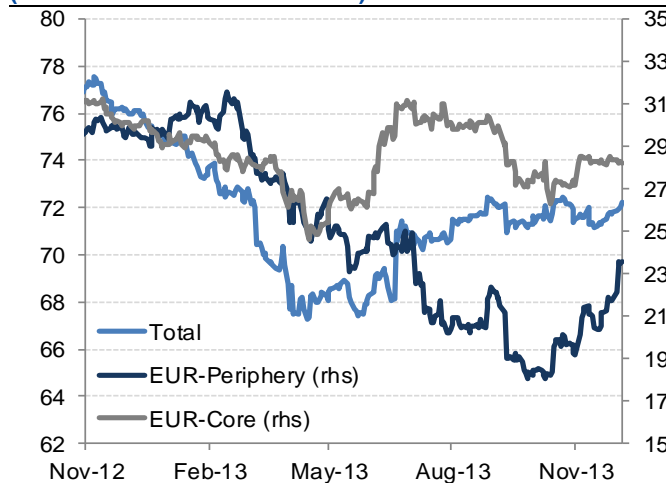
Source: BBVA Research

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



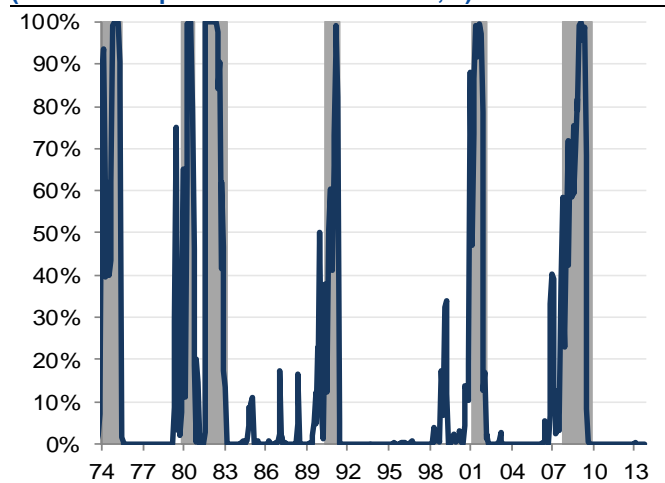
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

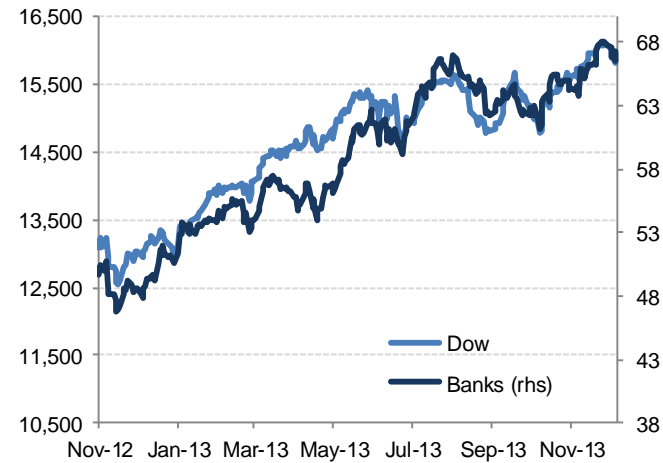
Graph 8  
**BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)**



Source: BBVA Research

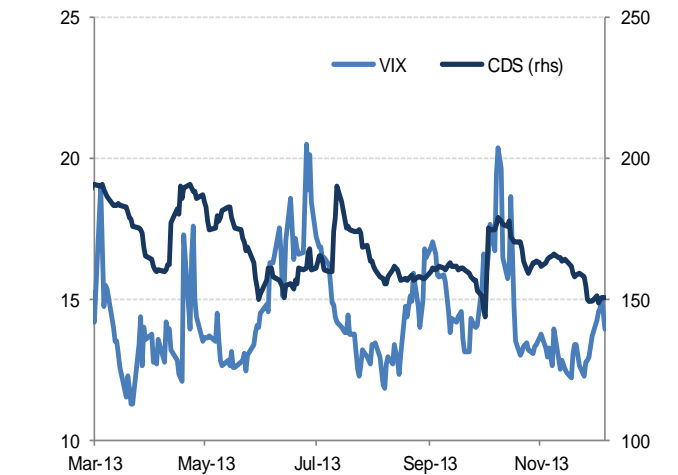
# Financial Markets

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



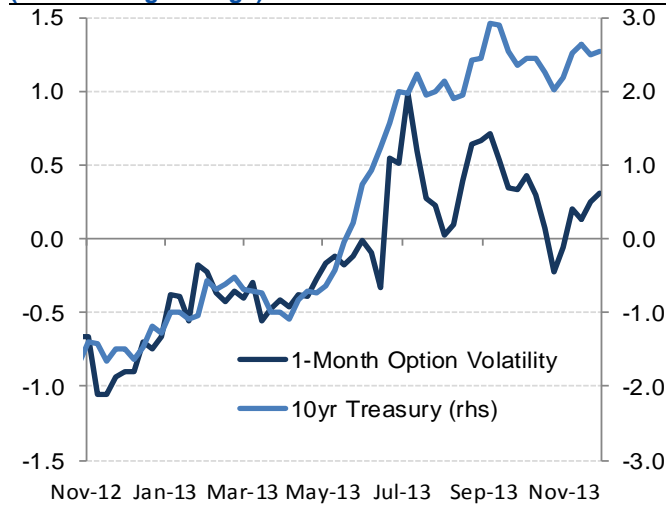
Source: Bloomberg & BBVA Research

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



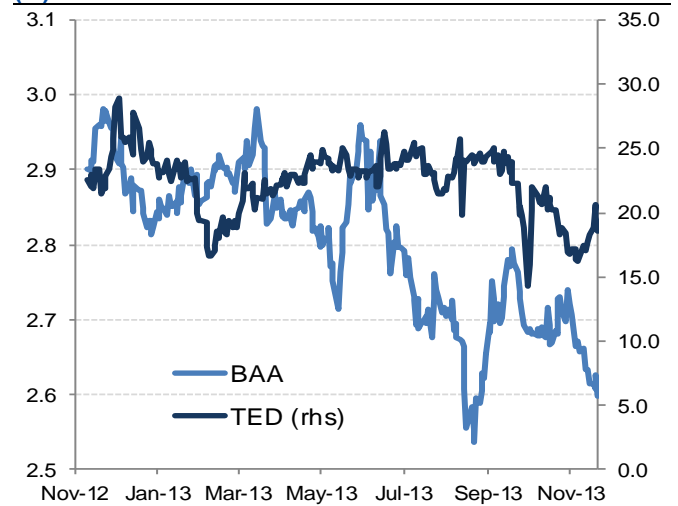
Source: Bloomberg & BBVA Research

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



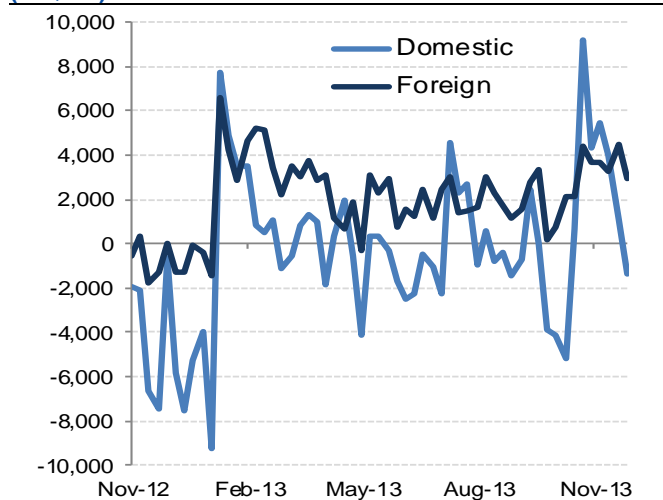
Source: Haver Analytics & BBVA Research

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



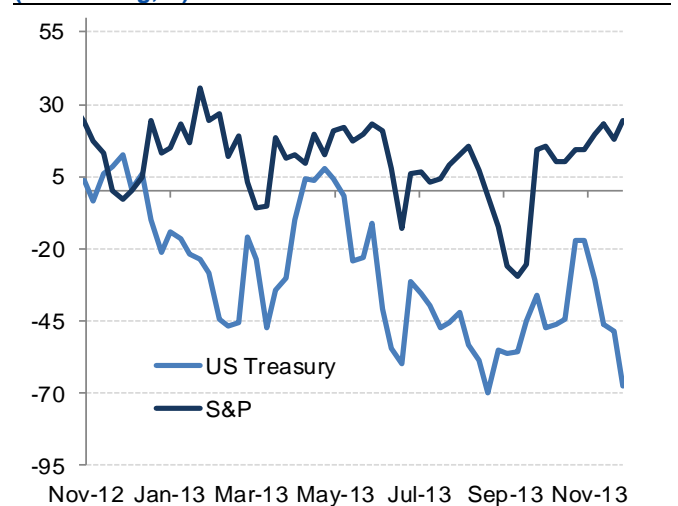
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

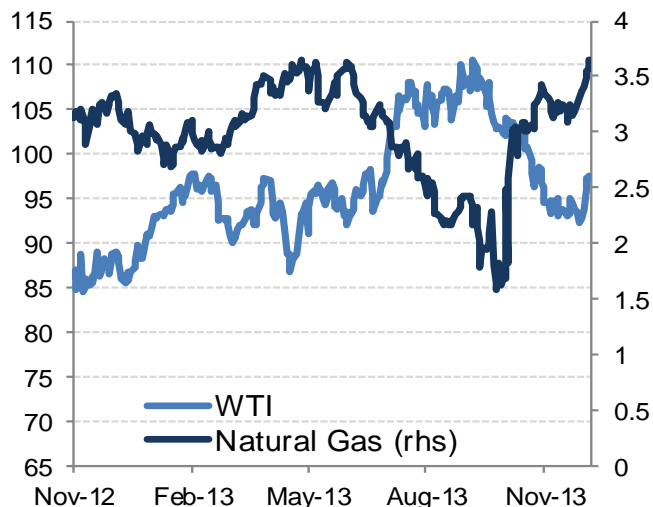
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

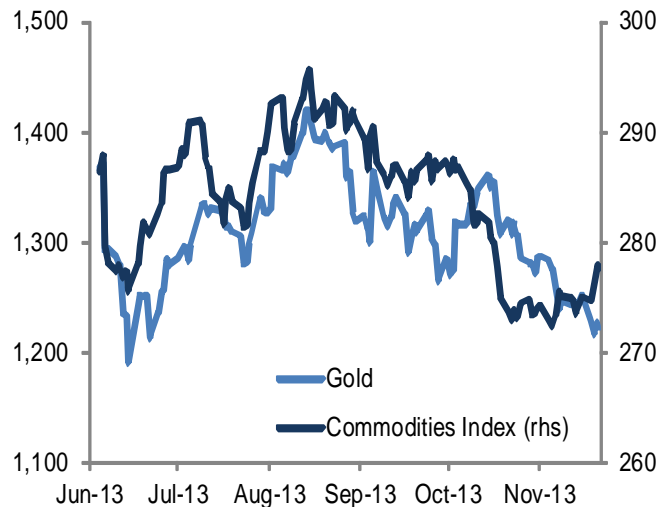
# Financial Markets

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



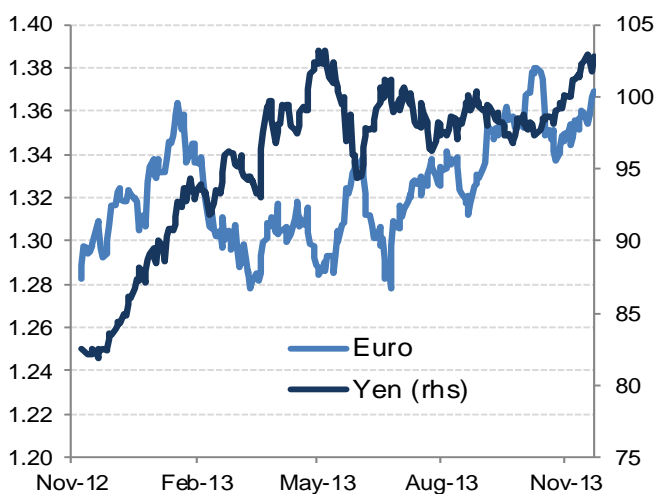
Source: Bloomberg & BBVA Research

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



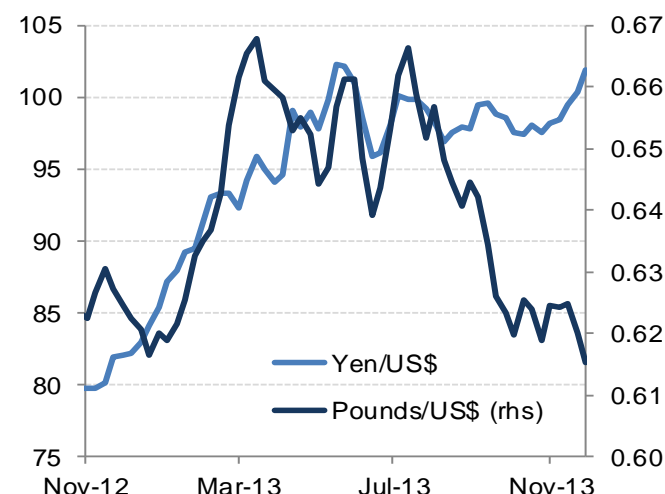
Source: Haver Analytics & BBVA Research

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



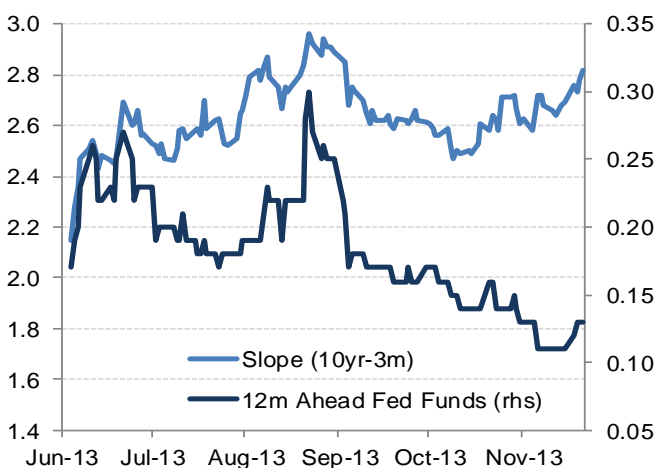
Source: Bloomberg & BBVA Research

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



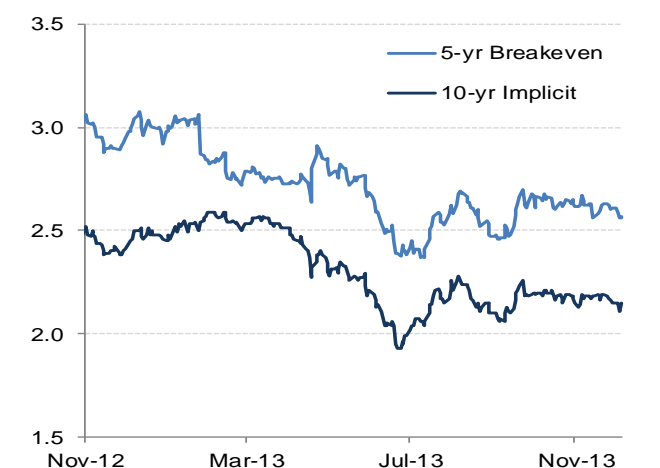
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.16	14.10
New Auto (36-months)	2.67	2.67	2.63	2.78
Heloc Loan 30K	5.28	5.20	5.22	5.40
5/1 ARM*	2.99	2.94	2.96	2.90
15-year Fixed Mortgage *	3.47	3.30	3.27	3.23
30-year Fixed Mortgage *	4.46	4.29	4.16	3.99
Money Market	0.42	0.42	0.42	0.52
2-year CD	0.83	0.83	0.83	0.88

\*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	0.09	0.07	0.08	0.16
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.34	0.34	0.35	0.52
12M Libor	0.58	0.58	0.59	0.86
2yr Sw ap	0.39	0.38	0.43	0.36
5yr Sw ap	1.57	1.47	1.54	0.73
10Yr Sw ap	2.93	2.82	2.87	1.64
30yr Sw ap	3.82	3.75	3.80	2.55
30day CP	0.11	0.10	0.10	0.18
60day CP	0.11	0.11	0.12	0.19
90day CP	0.13	0.13	0.12	0.21

Source: Bloomberg & BBVA Research

## Quote of the Week

Dennis Lockhart, President of the Federal Reserve Bank of Atlanta  
Fed's Lockhart Says It Is Time to Think About Tapering  
5 December 2013

*"As I think through the various factors to take into account--the data evidence, the outlook, the balance of risks--I am pretty confident in the sustainability of the economy's progress. I didn't have such confidence in the fall of 2012, when the current program of asset purchases began."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Dec	JOLTS Job Openings	OCT	3875K	--	3913K
10-Dec	Wholesale Inventories (MoM)	OCT	0.10%	0.30%	0.40%
12-Dec	Retail Sales (MoM)	NOV	0.20%	0.60%	0.40%
12-Dec	Retail Sales, Ex Autos (MoM)	NOV	0.10%	0.20%	0.20%
12-Dec	Initial Jobless Claims	7-Dec	305K	318K	298K
12-Dec	Continuing Claims	30-Nov	2750K	2764K	2744K
12-Dec	Import Price Index (MoM)	NOV	-0.30%	-0.80%	-0.70%
12-Dec	Business Inventories (MoM)	OCT	0.20%	0.30%	0.60%
13-Dec	Producer Price Index (MoM)	NOV	-0.10%	0.00%	-0.20%
13-Dec	Producer Price Index, Core (MoM)	NOV	0.10%	0.10%	0.20%

## 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	2.75	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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