US Weekly Flash

Highlights

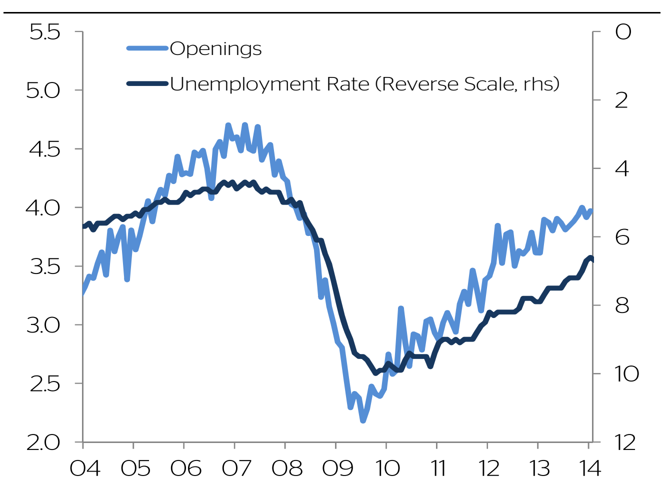
Job Openings, Hiring and Separations Show Little Change for January

- The Job Openings and Labor Turnover Survey (JOLTS) for January 2014 showed little change from December. Job openings rose 60K (1.5%) following a sharp decline in January; the biggest increase in jobs was seen in leisure and hospitality, which jumped from 524K in December to 633K in January, an increase of 21% MoM. Healthcare and services witnessed an 11.6% increase in January, further pointing to a long-term shift in jobs concentrated on assisting the growing percentage of elderly. Looking to hiring, there was little change in the overall figure from December, and while most sectors remained relatively stagnant, construction saw a 34K (13.5%) increase in hiring. Evidently, the extreme weather did not slow down hiring in the sector as was previously expected.
- Overall, the changes in January's JOLTS data do not show significant improvement from December, but the big picture trends are gradually becoming clearer. Although the post-recession relationship between the unemployment and job openings rates diverged from pre-crisis trends, the correlation appears to be gradually returning to the expected levels. Still, the present disconnect tells us that there is a structural employment issue, as companies are struggling to find qualified workers to fill vacant jobs. Looking forward, we project hirings and openings to pick up, albeit painfully slow, and although we believe the labor market situation will improve, we do not expect it to reach pre-recession levels this year.

Retail Sales Rise in February Behind Non-Store Component

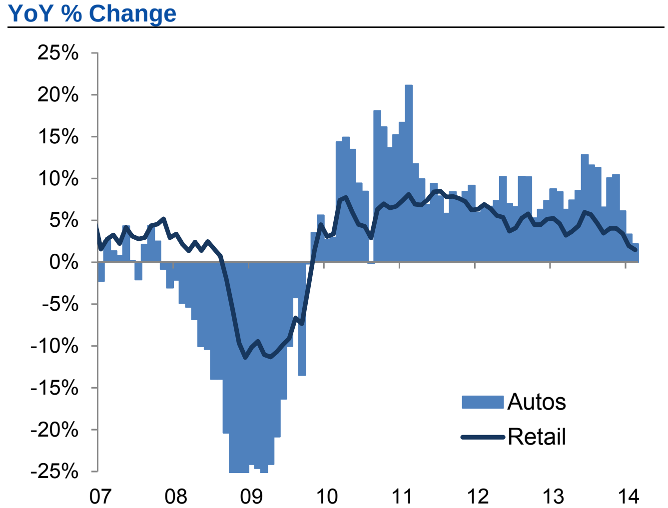
- Retail sales increased 0.3% MoM in February, the first rise since November, at both the headline and ex-auto levels. The increase was led by a large jump in nonstore retailers, which saw an impressive 1.3% MoM increase. Though it may seem that consumers made purchases online rather than traditional stores, the jump in non-retailers was attributed exclusively to fuel dealers, including those in heating oil and liquefied petroleum gas, as consumers continued to crank up their heaters; meanwhile, electronic shopping actually declined 1.7% MoM. Surprisingly, auto sales were up 0.3%, after dropping 2.3% in January. The jump in sales is likely attributed to a large discount in pickup truck sales in February, as GM announced its intent to significantly drop the prices of its trucks to boost demand.
- Looking at the bigger picture, retail sales consumption is now only up 1.5% YoY and has been steadily trending downward after reaching a peak of 6.0% last June. Although the MoM increase is positive, the downward trend in YoY should warrant a closer look, as retail sales provides us with a pulse on consumer spending. Although we do not think it is dangerously low, we would like to retail sales up near 3-4% YoY for us to be confident that consumption is increasing at a healthy rate.

Graph 1
Job Openings & Unemployment (Millions, %)



Source: ISM & BBVA Research

Graph 2
Retail and Auto Sales YoY % Change



Source: Conference Board & BBVA Research

Week Ahead

Industrial Production (February, Monday 9:15 ET)

Forecast: 0.3%	Consensus: 0.2%	Previous: -0.3%

After industrial production slid 0.3% MoM to start off the year, we project that output will regain the lost ground in February. Data from the month show that manufacturing activity accelerated in February, so we expect the sector to provide a strong tailwind to the headline industrial production figure. In January, utility output surged 4.1% MoM, and while we expect output to slightly decline in the utilities component for February, we expect mining and manufacturing output to outweigh the negative bias. Of course, seasonality has played some role in dampening economic activity over the last couple of months, especially with the extreme winter weather hitting most of the country. Even still, we expect output to once again trend upward as it has over the last year.

Consumer Price Index, Core (February, Tuesday 8:30 ET)

Forecast: 0.4%, 0.2%	Consensus: 0.1%, 0.1%	Previous: 0.1%, 0.1%

Now that worries of a slowing economy have simmered down, inflation has become the key economic indicator to watch as we move into 2014. Although the Fed recently reiterated their preference for the PCE index, the consumer price index still provides us with useful insight and is crucial to watch as it trends hand-in-hand with PCE. After a dip to a 1.0% YoY increase in October, inflation growth bounced back, and was up a healthier 1.6% YoY rate in January. CPI tends to run about a quarter to a half percentage point above the PCE figure, so inflation is still considerably below the CPI target rate at about 2.5%. Gasoline prices remained stable in February, but Henry Hub natural gas prices jumped up from $4.69 in January to $6.01 in February. This jump in natural gas prices will likely lead to higher electricity and utility prices on the headline CPI figure in February. We expect the core figure to bump up slightly, backed by a jump in shelter costs which have continued to trend upward.

Housing Starts and Building Permits (February, Tuesday 8:30 ET)

Forecast: 986K, 960K	Consensus: 915K, 963K	Previous: 880K, 937K

Housing starts are expected to rebound strongly in February, following the biggest MoM decline since February 2011. Of all the economic data, the housing starts report will likely have the largest direct impact on the market next week. After an abysmal report for January showed a steep drop-off in starts and the first YoY decline since August 2011, we project that starts for February will rebound strongly. Building permits, which are a leading indicator for housing starts, declined in January for the third consecutive month, which doesn't bode well for starts in February. The ongoing storyline has been that the freezing weather is negatively affecting economic data, but after other construction data remained strong despite the colder-than-expected season, we do not believe housing starts will be significantly affected. Mortgage rates have remained mostly unchanged since October so it seems unlikely that a significant number of consumers are basing their decision to build a house on interest rate movement. The housing starts index is volatile and difficult to forecast on a MoM basis, but after extreme dips, the index consistently bounces back; thus, we are looking for double digit MoM growth in housing starts.

Existing Home Sales (February, Thursday 10:00 ET)

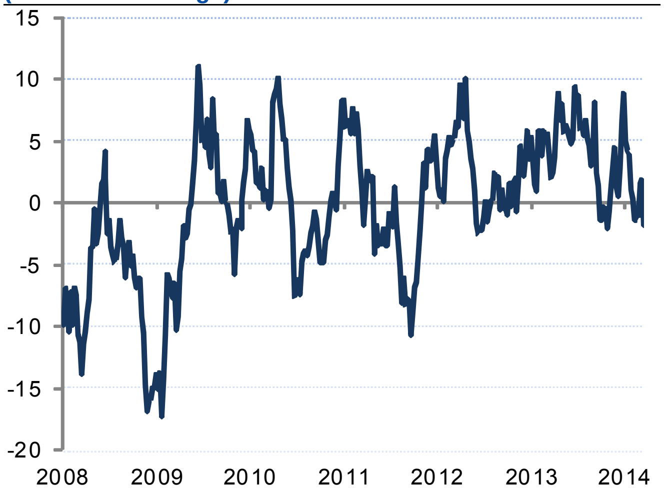
Forecast: 4.68M	Consensus: 4.64M	Previous: 4.62M

Existing home sales have been on a skid, declining for five of the last six months, most recently reaching the lowest levels since July 2012. The bump in mortgage rates in 2013 combined with an increase in median sales prices leads us to believe that the decline over the past few months had much more to do with market fundamentals rather than the ugly weather. In January, median sales prices dropped 4.5% MoM, and although they were still up 10.7% on a YoY basis, the decline should be more encouraging for consumers to make a home purchase. Furthermore, mortgage rates have now stabilized over the past couple of months, implying that overall affordability is steadily increasing. Although we do not expect a huge jump in existing home sales this month, we do expect to see at least a partial recovery from January's decline.

Market Impact

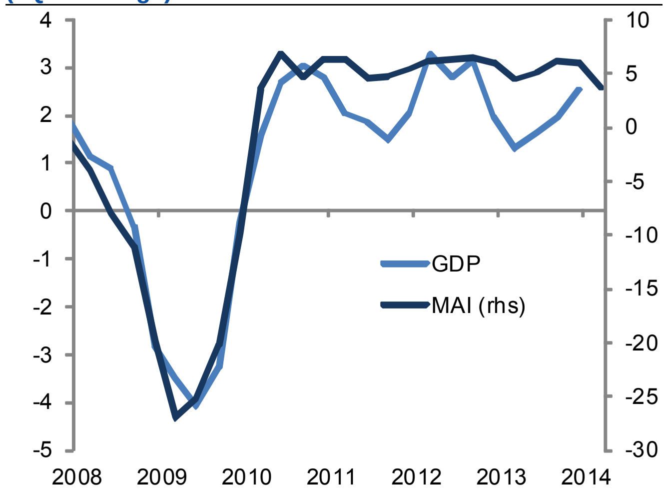
Over the past couple of weeks, markets have not reacted significantly to domestic economic data. Instead, attention has been turned overseas, particularly the escalating tensions in Ukraine. None of the economic indicators released this week should cause drastic market movement; however, investors will want to pay attention to the FOMC announcement on Wednesday, especially after the inflation data on Tuesday, to get a clue on the Fed's future monetary policy plans.

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



Source: BBVA Research

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

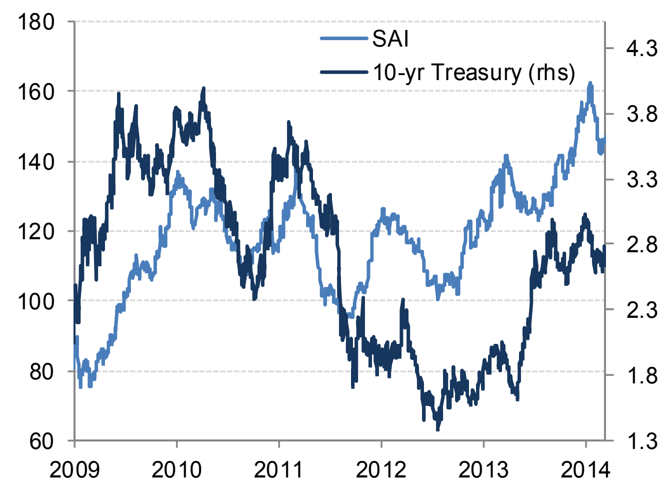


Source: BBVA Research & BEA

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

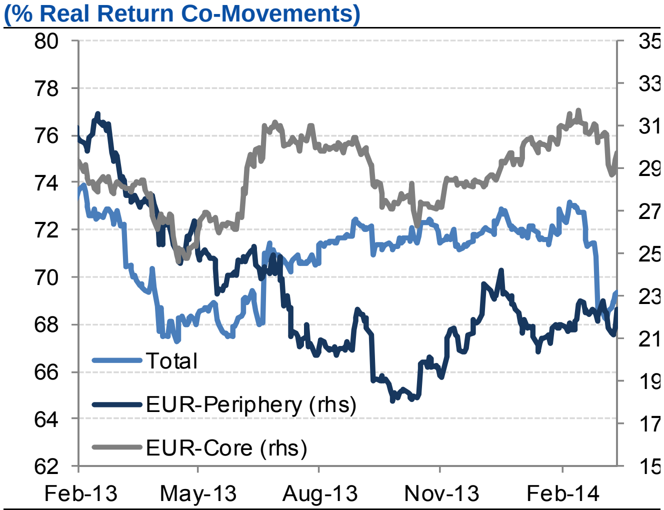
Source: BBVA Research

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



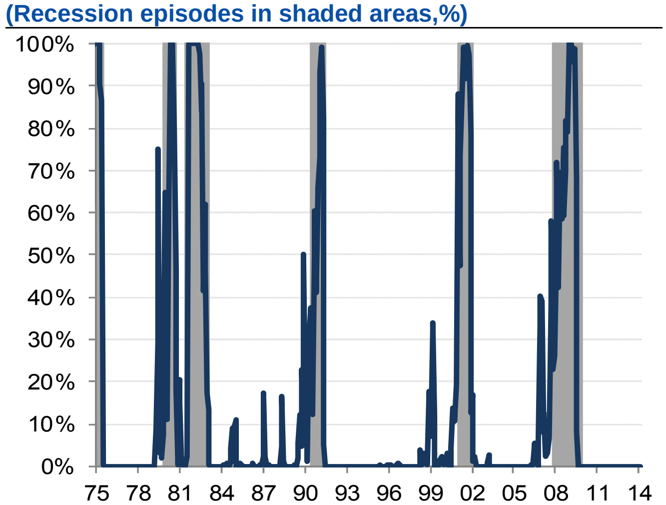
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

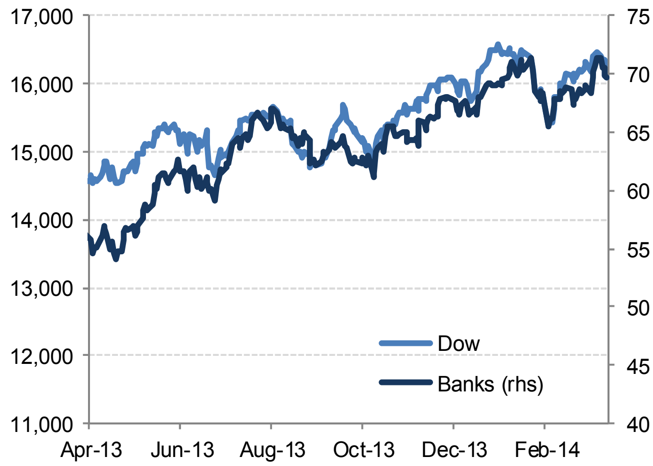
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

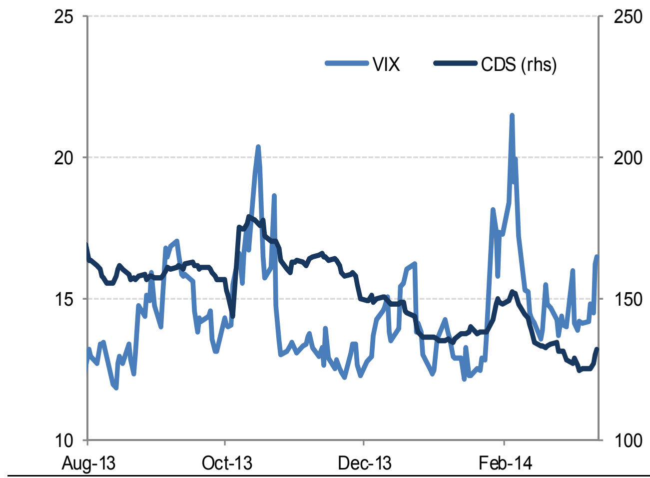
Financial Markets

Graph 9
Stocks
(Index, KBW)



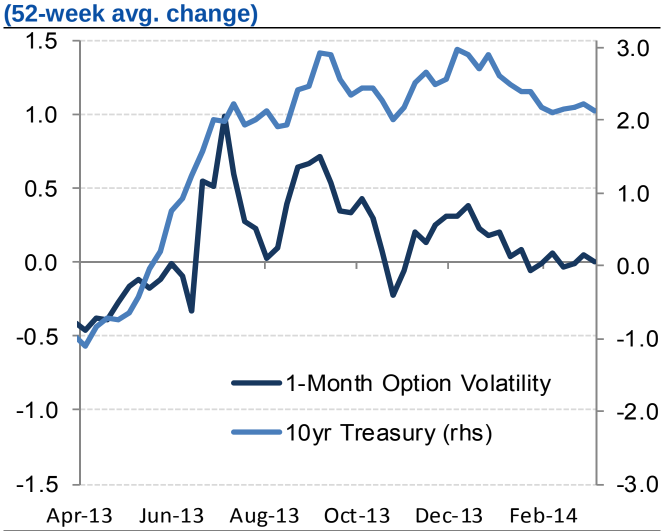
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



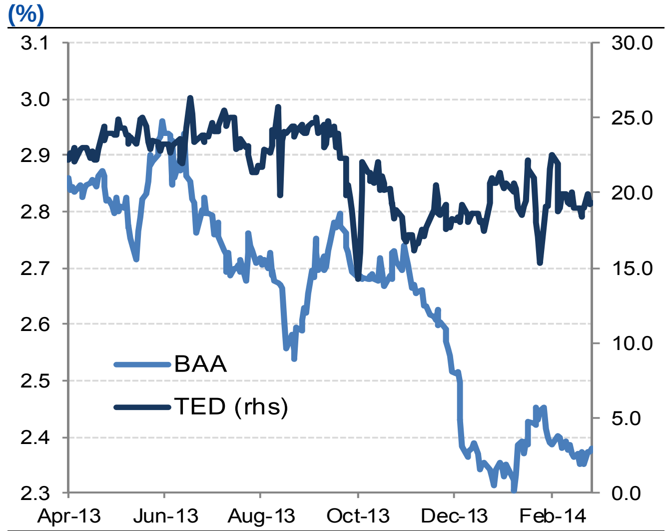
Source: Bloomberg & BBVA Research

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



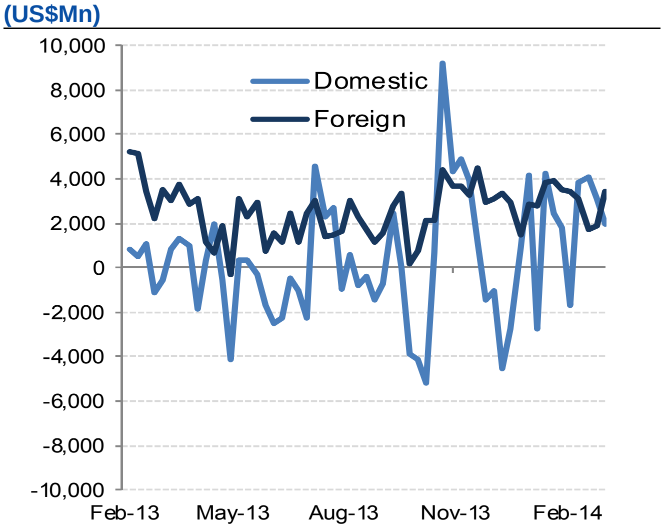
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



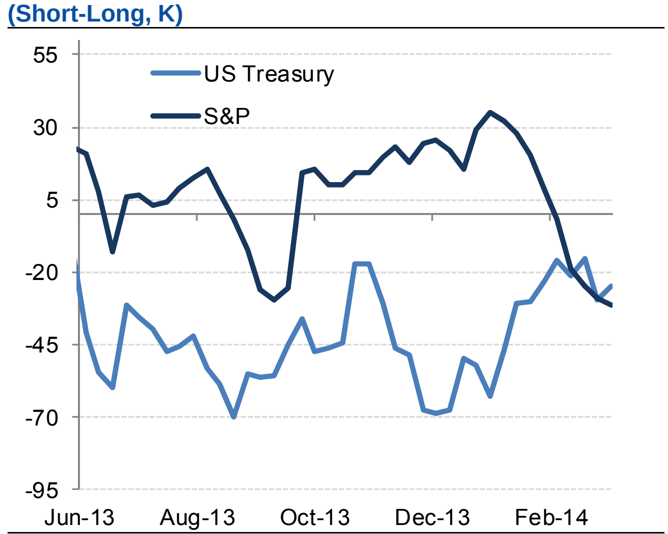
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

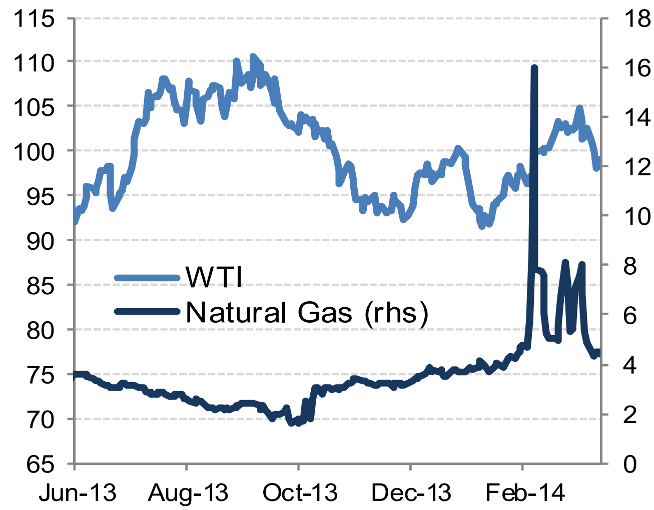
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

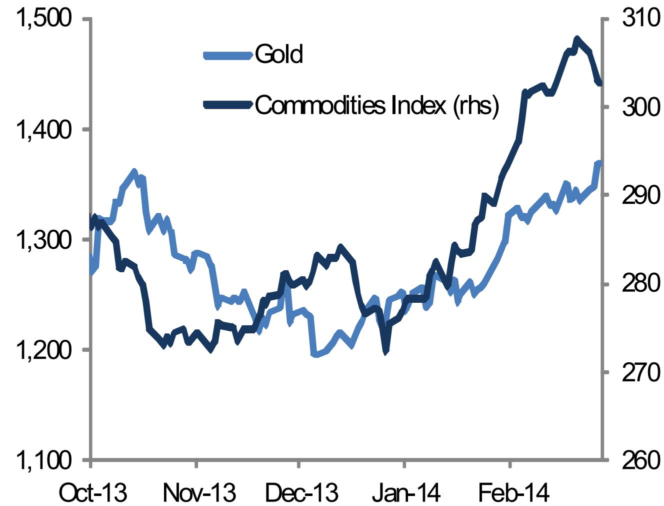
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



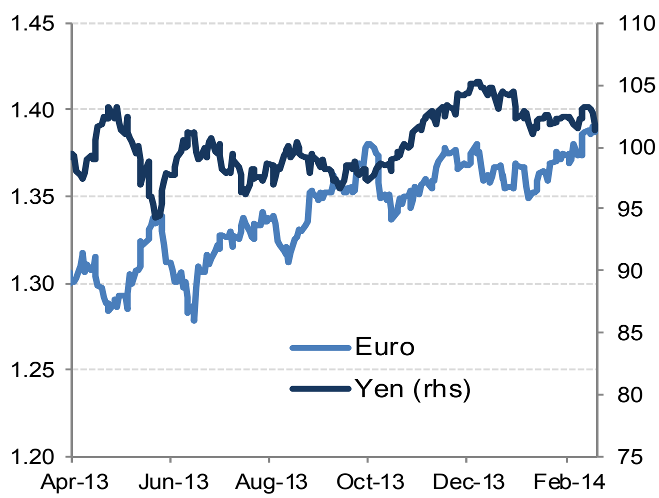
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



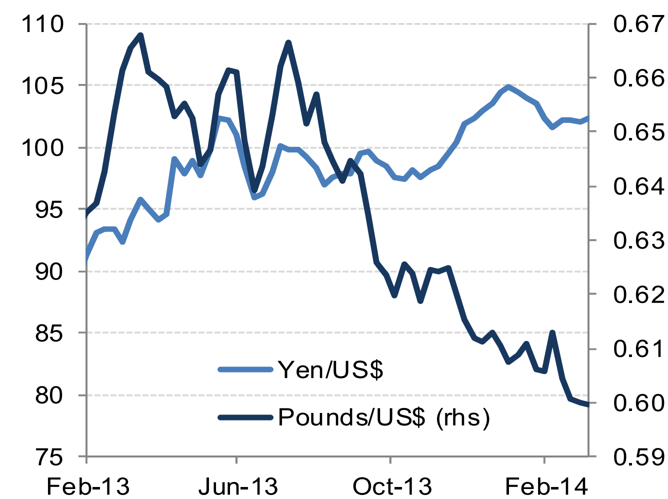
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



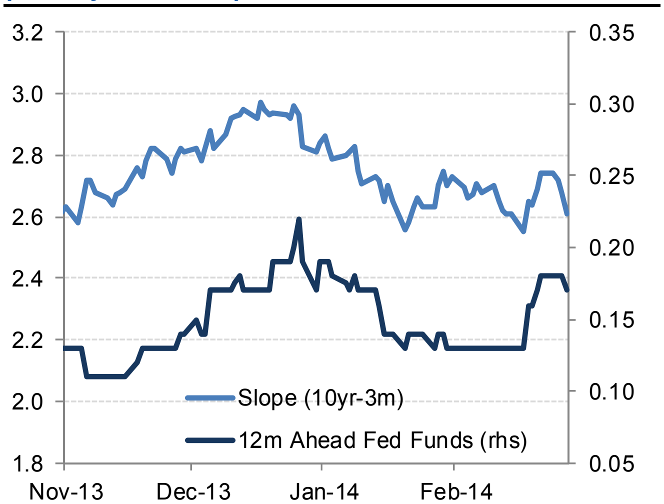
Source: Bloomberg & BBVA Research

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



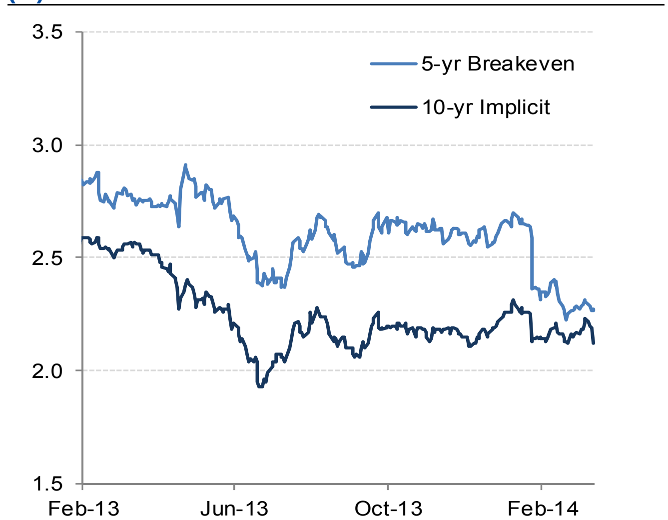
Source: Haver Analytics & BBVA Research

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	14.23	14.10
New Auto (36-months)	2.47	2.46	2.57	2.58
Heloc Loan 30K	5.40	5.34	5.37	5.24
5/1 ARM *	3.09	3.03	3.05	2.90
15-year Fixed Mortgage *	3.38	3.32	3.33	3.23
30-year Fixed Mortgage *	4.37	4.28	4.28	3.99
Money Market	0.40	0.43	0.41	0.48
2-year CD	0.77	0.80	0.80	0.70

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

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.08	0.08	0.06	0.16
3M Libor	0.23	0.24	0.24	0.28
6M Libor	0.33	0.33	0.33	0.45
12M Libor	0.56	0.55	0.55	0.74
2yr Sw ap	0.48	0.51	0.45	0.42
5yr Sw ap	1.61	1.73	1.64	0.96
10Yr Sw ap	2.74	2.89	2.85	2.02
30yr Sw ap	3.54	3.69	3.68	3.00
30day CP	0.10	0.12	0.11	0.13
60day CP	0.12	0.11	0.11	0.16
90day CP	0.15	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Evans, President and CEO of the Federal Reserve Bank of Chicago
Speech in Columbus, Georgia
13 March 2014

"So, my claim is that to be any good, monetary policy communications regarding policy actions must be consistent with the Fed expressing policy intentions clearly, so that the public can understand the Fed’s goals and its commitment to achieving these goals in a timely fashion. This should be a principle for all effective monetary policy strategies and communications: to state monetary policy intentions clearly."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Mar	Empire State Manufacturing	MAR	7.0	6.5	4.48
17-Mar	Industrial Production (MoM)	FEB	0.3%	0.2%	-0.3%
17-Mar	Capacity Utilization	FEB	78.5%	78.6%	78.5%
18-Mar	CPI (MoM)	FEB	0.4%	0.1%	0.1%
18-Mar	CPI, Core (MoM)	FEB	0.2%	0.1%	0.1%
18-Mar	Housing Starts	FEB	986K	915K	880K
18-Mar	Buiding Permits	FEB	960K	963K	937K
20-Mar	Initial Jobless Claims	15-Mar	320K	325K	315K
20-Mar	Continuing Claims	7-Mar	2865K	2880K	2855K
20-Mar	Existing Home Sales (MoM)	FEB	4.68M	4.64M	4.62M
20-Mar	Leading Indicators (MoM)	FEB	0.3%	0.2%	0.3%

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.9	**2.5**	**2.5**	**2.8**
CPI (YoY %)	3.1	2.1	1.5	**2.3**	**2.4**	**2.4**
CPI Core (YoY %)	1.7	2.1	1.8	**2.3**	**2.4**	**2.3**
Unemployment Rate (%)	8.9	8.1	7.4	**6.7**	**6.2**	**5.7**
Fed Target Rate (eop, %)	0.25	0.25	0.25	**0.25**	**0.50**	**1.50**
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	**3.50**	**3.80**	**4.10**
US Dollar/ Euro (eop)	1.31	1.31	1.37	**1.31**	**1.35**	**1.37**

Note: Bold numbers reflect actual data. Forecast revisions pending.

Michael Soni
Michael.Soni@bbvacompass.com

BBVA | RESEARCH | 2200 Post Oak Blvd, 21st Floor, Houston, Texas 77056 | Tel.: +1 713 831 7345 | www.bbvaresearch.com