US Weekly Flash

Highlights

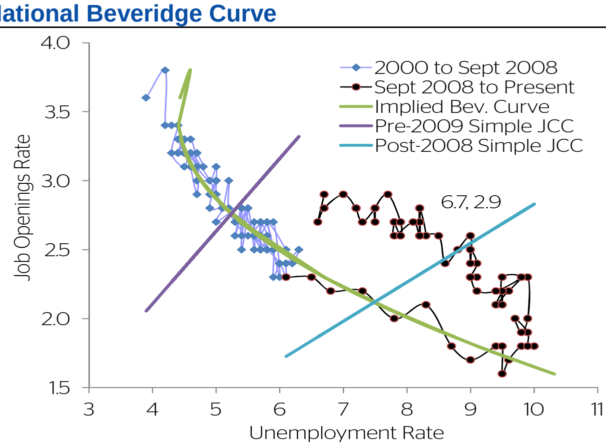
JOLTS: Openings and Hirings Recover in February from Winter Slowdown

- The Job Openings and Labor Turnover Survey (JOLTS) for February 2014 reported a strong increase in openings from January. Though job openings were revised downward from 3974K to 3874K in January, February's data were more than enough to recover from the winter slowdown. Openings increased 299K (7.7%), bringing the total up to 4.17M, the highest level since January 2008. Total hirings are up only 0.8% YoY, continuing a downward trend that began back in September; thus, the improvement appears to be stagnating. Total separations for February declined 24K, but a notable 84K drop came from layoffs and discharges, and thus were not voluntary. The discharge figure may signal that companies are again looking to cut costs and become leaner to remain competitive.
- While the hiring and job openings data continue to show gradual improvement, the separations statistic appears to be stagnant and remains far from pre-recession levels, so consumers do not have their full confidence restored quite yet. Keeping the bigger picture in mind, the data show improvement in the labor market, albeit at a modest pace. Looking ahead to 2014, we do not believe this trend will change and expect continued sluggish improvements in the overall labor market.

FOMC Minutes: Discussion Downplays Change in Fed Funds Expectations

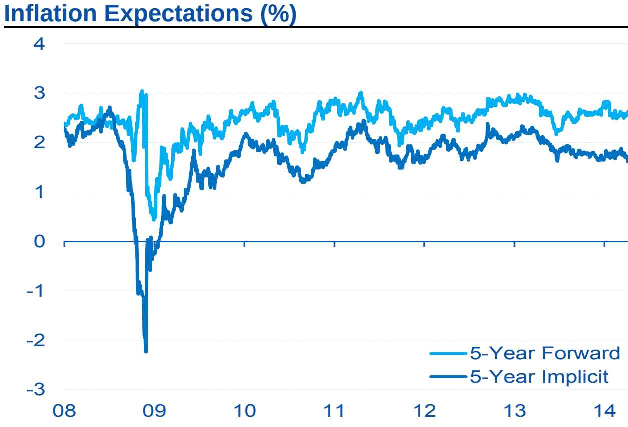
- The release of the minutes from the March FOMC meeting brought calm to the markets, projecting a more dovish stance on the timing and the path of the policy rate increase. This contrasted with the strong hawkish reaction in the equity and bond markets after March 19th statement, triggered by the uneasiness regarding forward guidance modifications, steeper FOMC projections on the timing and trajectory of a policy rate increase, and most importantly, Yellen's likely unintentional hawkish comment implying an earlier rate hike than market expectations. Conversely, unlike Yellen's press conference, the minutes did not reveal any discussion regarding a calendar date for policy firming. This confirms our expectation that the "six months" comment was merely a personal opinion and not something that was discussed seriously during the meeting. Most of the participants felt strongly about communicating that even after the first federal funds rate (FFR) increase, "economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."
- Overall, the FOMC meeting minutes confirmed our expectations for Fed policy in the coming years. The discussion revealed majority support for ongoing asset purchase reductions in "measured steps", consistent with our projections for an end to QE3 in 4Q14. The meeting minutes also downplayed the upward shift in fed funds expectations, confirming that the market reaction was premature. As such, we maintain our expectation for the first FFR increase in 3Q15, with bias towards an earlier rate hike.

Graph 1
National Beveridge Curve



Source: Bureau of Labor Statistics and BBVA Research

Graph 2
Inflation Expectations (%)



Source: FRB & BBVA Research

Week Ahead

Retail Sales, Ex Auto (March, Monday 8:30 ET)

Forecast: 0.5%, 0.3%	Consensus: 0.8%, 0.4%	Previous: 0.3%, 0.3%

After breaking a two-month downward trend in February, retail sales are expected to accelerate in March, driven primarily by a boost in automobile sales. Ford, Toyota and GM all reported increased sales for the last month of 1Q14, with the latest Autodata figures pointing to a 6.9% jump in unit sales in March. While the unit sales do not always translate directly into nominal retail sales, a big gain for truck sales should lift the auto component of the Census report. Even outside of automobiles, we project retail sales to continue trending upward. Average gasoline prices were up 18 cents in March from the prior, so this will likely be reflected by a boost in nominal gasoline station sales. Furthermore, the effects of the brutal winter on the economy are now gone, so the MoM retail sales figure should receive some upward seasonal bias.

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

Forecast: 0.0%, 0.1%	Consensus: 0.1%, 0.1%	Previous: 0.1%, 0.1%

Inflation has been running much lower than the Fed's target throughout the past few months, yet we do not expect that the consumer price index will divert from its current trend anytime soon. At the headline level, food inflation is expected to decelerate after a brief spike in February, while energy prices should remain low. Crude oil and natural gas prices declined in March, putting downward pressure on headline CPI. Excluding food and energy, we do not expect to see a significant push from other components, such as shelter or medical care. Monthly gains for core inflation have held below the 0.2% rate since January 2013, and the slowed growth of short-term inflation during the past several months has been pushed to the forefront of concerns for the Federal Reserve. For now, we expect annual CPI growth to remain subdued for both the headline and core figures, holding well-below the Fed's target 1H14.

Housing Starts & Building Permits (March, Wednesday 8:30 ET)

Forecast: 947K, 1055K	Consensus: 968K, 1000K	Previous: 907K, 1018K

After declining for three consecutive months, we expect housing starts to bounce back strong for March. The housing market was one of the sectors most negatively impacted by the severe winter weather, and we project at least a partial recovery from the accumulated three-month decline. Building permits, which are a leading indicator of starts, shifted upward in February for the first time since October. This points to future increases in housing starts in the coming months. Median sales prices have declined 11.7% from their June peak, and the 30-year mortgage rate is down 0.15 percentage points from September, holding steady around the 4.3% in February and March. These two factors imply increased housing affordability and should spur demand for new home construction, particularly as the supply of existing homes on the market remains tight. Furthermore, the pickup in consumer demand as the economy thaws out from the winter leads us to believe that the housing market will begin steadily trending upward through the rest of the year. As such, we expect to see an uptick in the number of building permits issued as building activity begins to expand.

Industrial Production (March, Wednesday 9:15 ET)

Forecast: 0.2%	Consensus: 0.5%	Previous: 0.6%

The industrial production index should see another monthly gain in March following strong activity in February. For this month, we believe the manufacturing component will be the primary driver of the index. Manufacturing activity accelerated slightly in March, led by the ISM index which was up from the January and February figures after a brief slowdown in December. On the other hand, the utilities component, which reached all-time highs in January and held steady in February, will likely experience a decline in March, now that the worst of the winter weather is gone and people have begun to turn off their heaters. Still, we believe the increase in manufacturing activity will outweigh the decline in utilities, so we project industrial production to be positive for March.

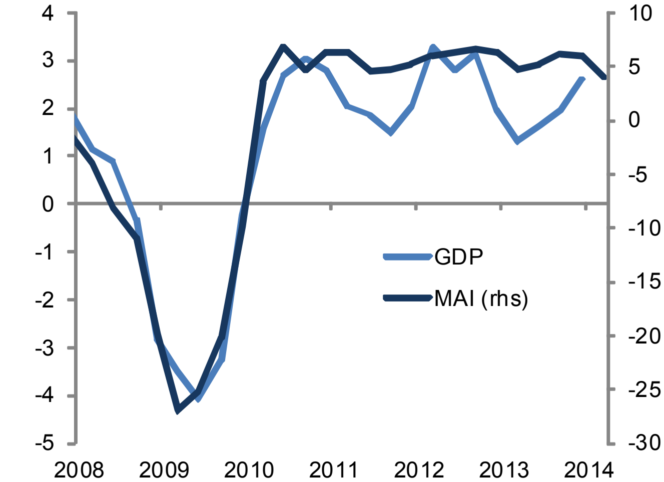
Market Impact

This week, markets will have more economic data to interpret as they continue to digest the FOMC meeting minutes from March. The retail sales figure will provide speculators with an idea of how consumer spending was in March and is the most likely indicator to have an impact on the markets. Inflation also continues to be a heavily watched indicator, particularly as it relates to the Fed. However, investors may shift their attention off of economic fundamentals for the moment. Instead, they will likely be paying close attention to company earnings as earnings releases for 1Q14 begin.

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

Source: BBVA Research

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

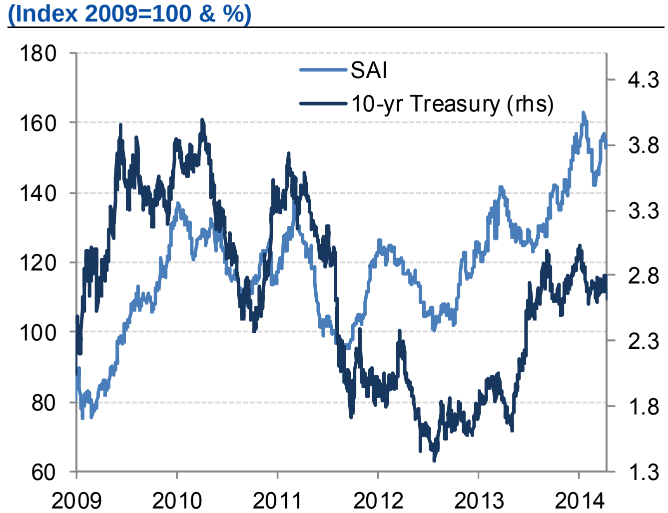


Source: BBVA Research & BEA

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

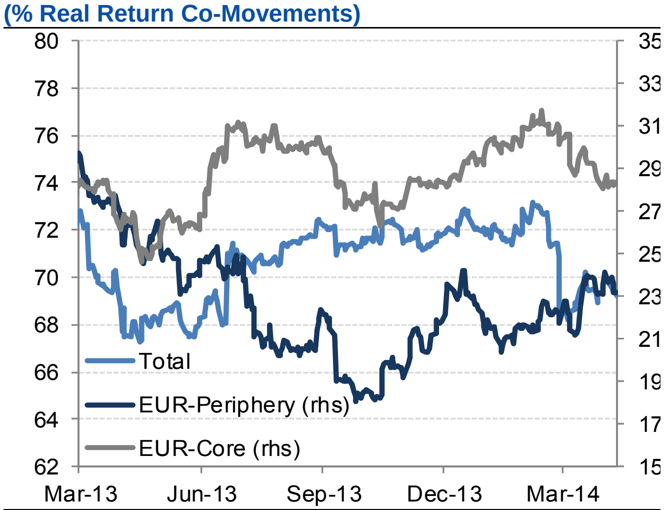
Source: BBVA Research

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



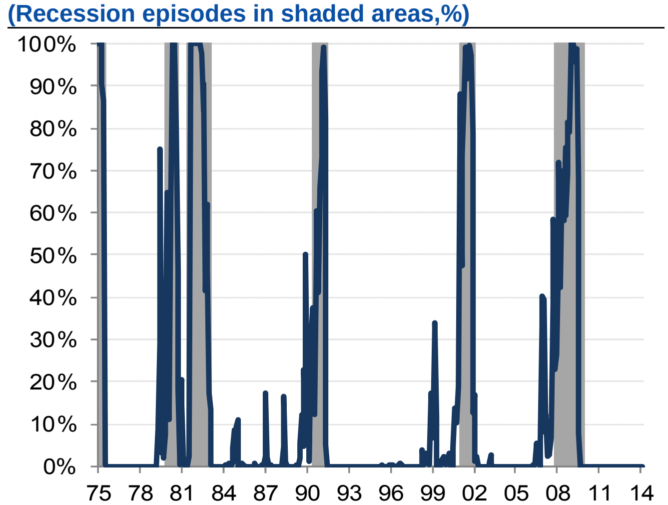
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

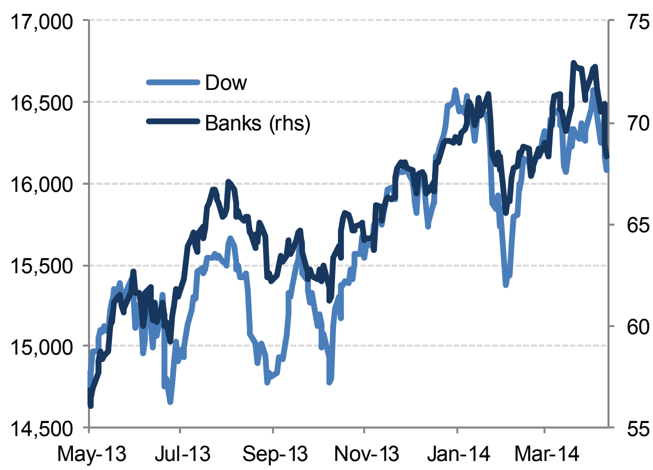
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

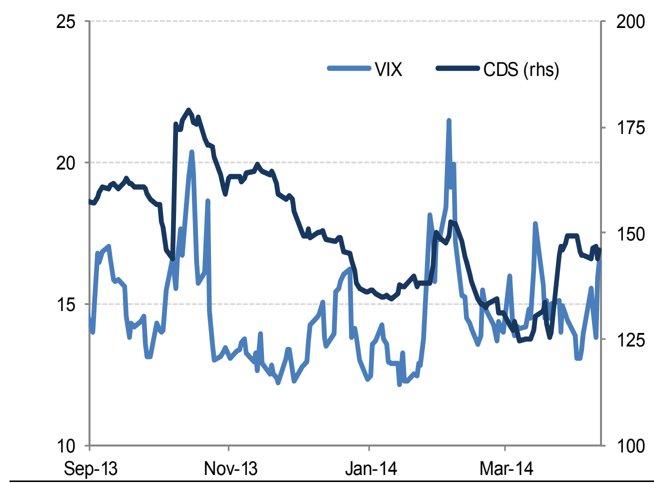
Financial Markets

Graph 9
Stocks
(Index, KBW)



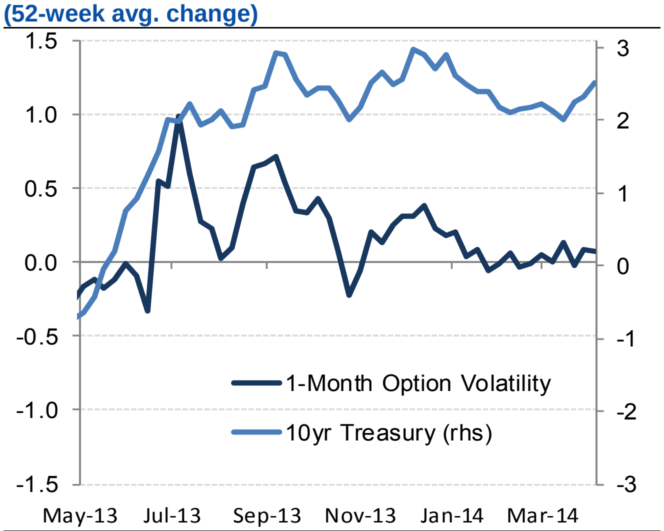
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



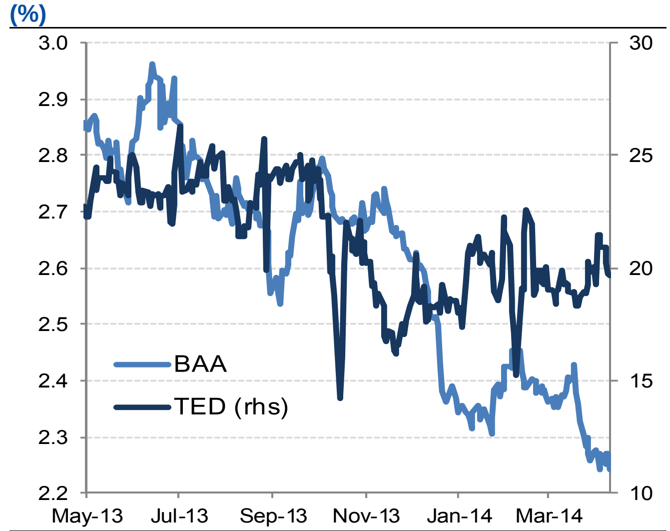
Source: Bloomberg & BBVA Research

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



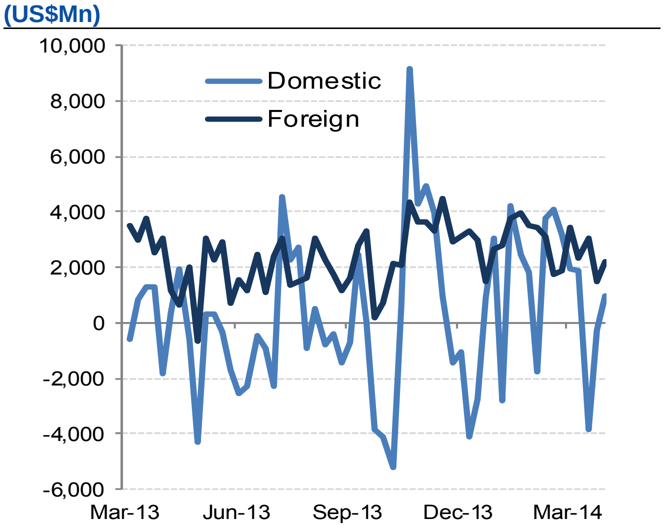
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



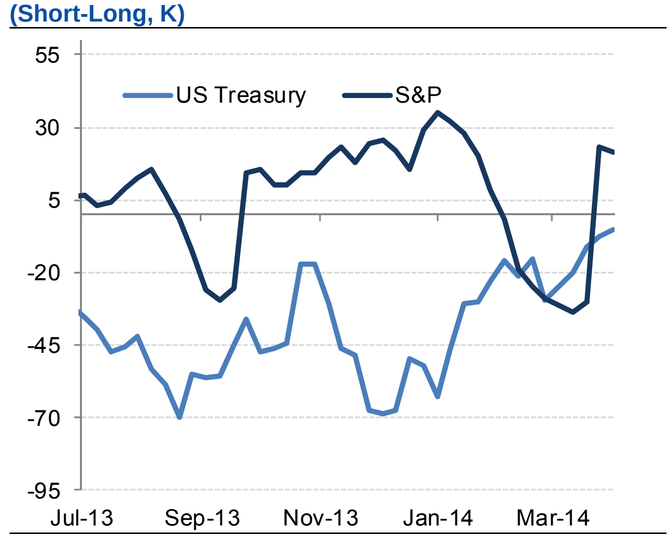
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

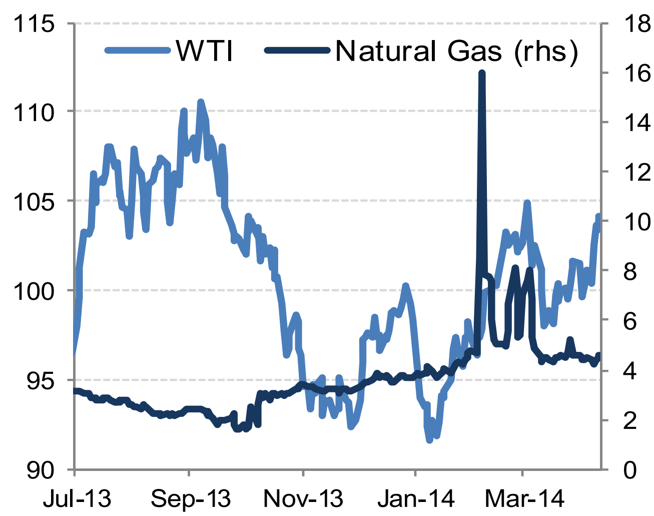
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

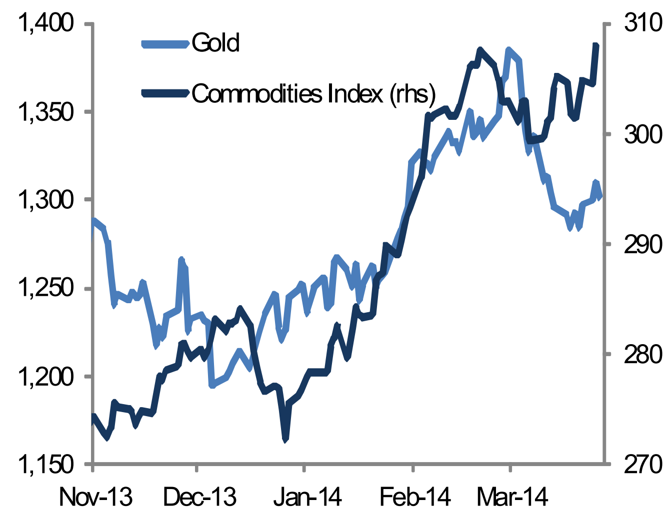
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



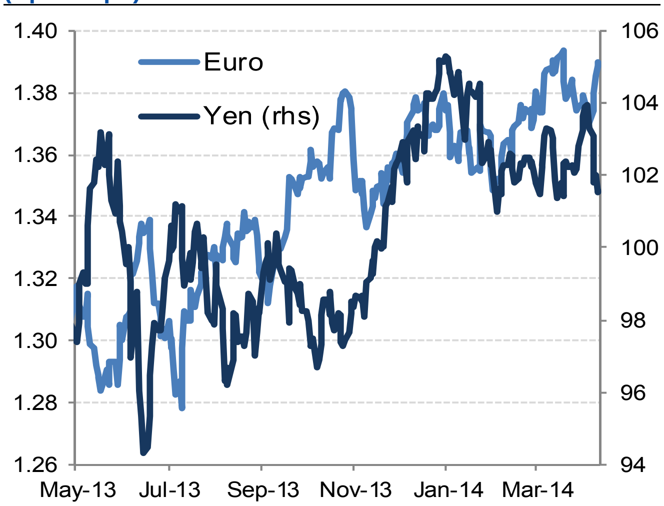
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



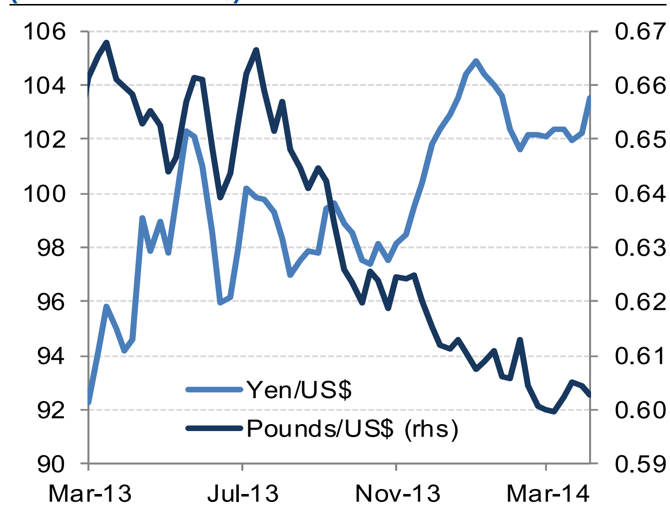
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



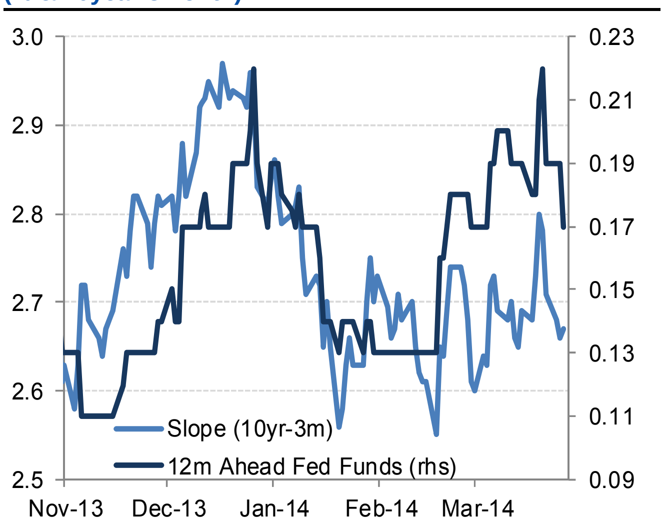
Source: Bloomberg & BBVA Research

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



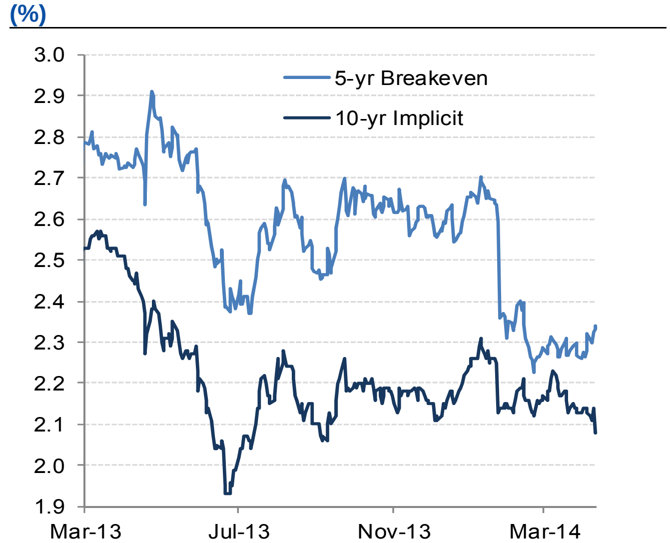
Source: Haver Analytics & BBVA Research

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)	14.82	14.72	14.23	14.10
New Auto (36-months)	2.55	2.51	2.47	2.56
Heloc Loan 30K	5.20	5.24	5.40	5.25
5/1 ARM *	3.09	3.12	3.09	2.90
15-year Fixed Mortgage *	3.38	3.47	3.38	3.23
30-year Fixed Mortgage *	4.34	4.41	4.37	3.99
Money Market	0.41	0.41	0.40	0.47
2-year CD	0.78	0.78	0.77	0.67

*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	0.08	0.15
3M Libor	0.23	0.23	0.23	0.28
6M Libor	0.32	0.33	0.33	0.44
12M Libor	0.55	0.56	0.56	0.72
2yr Swap	0.49	0.54	0.48	0.37
5yr Swap	1.68	1.79	1.63	0.87
10Yr Swap	2.74	2.83	2.77	1.90
30yr Swap	3.48	3.57	3.57	2.84
30day CP	0.10	0.12	0.11	0.14
60day CP	0.11	0.11	0.11	0.16
90day CP	0.12	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Daniel Tarullo, Board of Governors of the Federal Reserve
23^{rd} Annual Hyman P. Minsky Conference
9 April 2014

"As must be apparent, the challenges I have discussed are not susceptible to easy or rapid solution. It is equally apparent that monetary policy cannot be the only, or even the principal, tool in addressing these challenges. But that is not to say it is irrelevant. There is not as sharp a demarcation between cyclical and structural problems as is sometimes suggested. Monetary policies directed toward achieving the statutory dual mandate of maximum employment and price stability can help reduce underemployment associated with low aggregate demand."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
14-Apr	Retail Sales (MoM)	MAR	0.5%	0.8%	0.3%
14-Apr	Retail Sales Ex Auto (MoM)	MAR	0.3%	0.4%	0.3%
14-Apr	Business Inventories (MoM)	FEB	0.3%	0.5%	0.4%
15-Apr	CPI (MoM)	MAR	0.0%	0.1%	0.1%
15-Apr	CPI, Core (MoM)	MAR	0.1%	0.1%	0.1%
15-Apr	Empire State Manufacturing Survey	APR	7.80	8.00	5.61
15-Apr	Housing Market Index	APR	48	50	47
16-Apr	Housing Starts	MAR	947K	968K	907K
16-Apr	Building Permits	MAR	1055K	1000K	1018K
16-Apr	Industrial Production (MoM)	MAR	0.2%	0.5%	0.6%
17-Apr	Initial Jobless Claims	12-Apr	315K	315K	300K
17-Apr	Continuing Claims	5-Apr	2790K	2775K	2776K
17-Apr	Philadelphia Fed Survey	APR	9.5	10.0	9.0
18-Apr	Leading Indicators (MoM)	MAR	0.4%	--	0.5%

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	**3.41**	**3.80**	**4.10**
US Dollar/ Euro (eop)	1.31	1.31	1.37	**1.35**	**1.32**	**1.37**

Note: Non-bold numbers reflect actual data. Forecast revisions pending.

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