

Economic Analysis

Real GDP Growth Revised Down to 2.2% in 4Q14

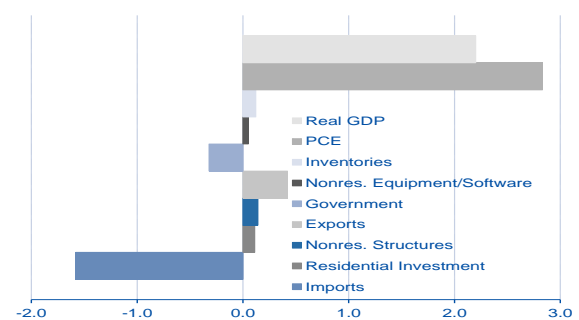
Kim Fraser Chase

Real GDP growth in 4Q14 was revised down to 2.2% QoQ SAAR in the preliminary report, mostly due to an adjustment in private inventory investment. Gross private fixed investment was revised down from the initial estimate of 7.4% to 5.1%, the slowest pace since 1Q14, yet nonresidential fixed investment was revised up from 1.9% to 4.8%. The downward adjustment to total inventory investment amounted to nearly \$25bn between the first and second estimates. Personal and government consumption expenditures were mostly unchanged, while import and export growth were revised up slightly. On an annual basis, growth for 2014 held steady at 2.4%. Looking ahead to 2015, our outlook remains mostly optimistic. We have revised up our forecast from 2.5% to 2.9% for the year, mostly due to a potential boost to consumption from lower oil prices. However, we expect to see somewhat of weather-related impact on first quarter data to be released in the coming weeks. Severe winter storms throughout late January and most of February halted activity for days at a time, and as we saw during the first quarter of 2014, this can have a significant impact on GDP. While we do not expect to see a contraction as in 1Q14, we are likely to see growth below 2.0% for the quarter. Once we move into 2Q15, we should start to see growth near 3.0% for the following quarters.

Headline CPI Down for Third Consecutive Month

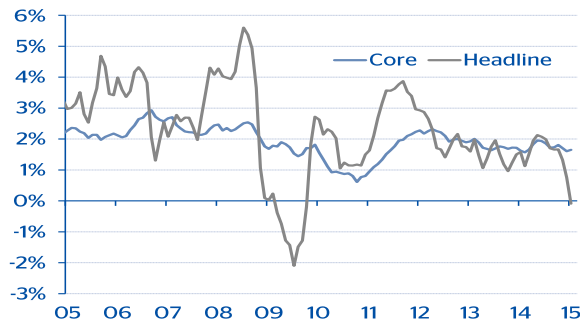
As expected, energy prices declined for the seventh consecutive month in January, reflecting a significant 18.7% drop in the gasoline index. In an unusual twist for the CPI report, prices for food at home fell 0.2% for the first time since May 2013, mostly stemming from dairy and related products as well as fruits and vegetables. Overall, headline CPI declined 0.7%, marking the largest monthly drop since December 2008. Excluding food and energy, prices increased 0.2% following a 0.1% increase in December. We have already seen a measurable increase in energy prices throughout February thus far, with Brent crude oil prices up nearly 25% since January 30th. WTI prices have increased a more modest 6% since the end of last month. Natural gas prices have also ticked up more than 11% throughout the past few weeks. January's YoY inflation rate was much lower than expected, at -0.2% compared to 12 months ago, so we would need to see a significant pickup in 2H15 in order to achieve an annual average near 1.5%. Core inflation is falling right in line with our expectations at 1.6% YoY in January, setting up nicely for an annual average near 1.9% for 2015.

Graph 1
Contributions to Real GDP (4Q Preliminary, pp)



Source: BEA & BBVA Research

Graph 2
Headline & Core CPI (YoY % Change)



Source: BLS & BBVA Research

Week Ahead

Personal Income and Outlays (January, Monday 8:30 ET)

Forecast: 0.2, -0.3%

Consensus: 0.4%, -0.1%

Previous: 0.3%, -0.3%

Personal income and outlays in January are both expected to show a repeat of December's performance: a modest increase for the former and a decline for the latter. Income growth has been moving along at a steady but gradual pace throughout the past year, and the boost in average hourly earnings for January suggests a similar increase for personal income. At the same time, we have seen ongoing strength in personal consumption as a contributor to overall economic growth. However, falling prices dragged down nominal spending in December and are likely to do the same in January.

Nonfarm Payrolls and Unemployment Rate (February, Friday 8:30 ET)

Forecast: 225K, 5.6%

Consensus: 235K, 5.6%

Previous: 257K, 5.7%

Nonfarm payrolls have surpassed all expectations throughout the past year, increasing at an average of 275K per month since March. We expect this +200K trend to continue in February, though at a slightly slower pace. Leading indicators for the month suggest a minor setback due to extreme winter weather, particularly impacting the manufacturing and construction sectors. The strong build for nonfarm payrolls suggests a drop in the unemployment rate back to 5.6% under the assumption that labor force participation will decline rather than increase for a second consecutive month.

International Trade (January, Friday 8:30 ET)

Forecast: -\$44.0B

Consensus: -\$41.6B

Previous: -\$46.6B

The international trade deficit is expected to improve slightly in January following a surprising deterioration in December. Falling oil prices had a significant impact on December's trade balance, with petroleum imports up and exports down, and we expect to see a similar report for January. Nominal imports are not expected to increase as much as in December, but will at least outpace export growth due to steady domestic demand. Exports are likely to decline for the third consecutive month as the USD appreciation weighs on global demand.

Consumer Credit (January, Friday 15:00 ET)

Forecast: \$12.3B

Consensus: \$15.0B

Previous: \$14.8B

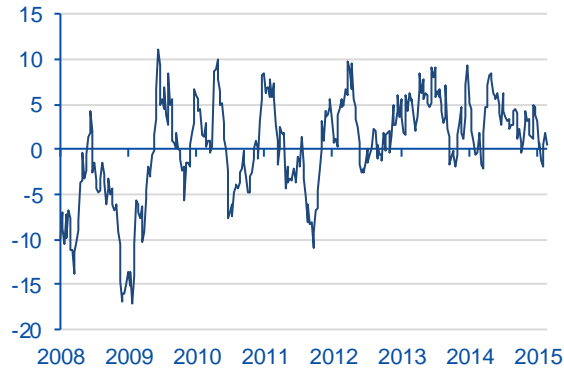
Consumer credit is expected to increase in January at a similar pace as in the previous few months. Nonrevolving credit growth continues to drive the overall figure, although it decelerated significantly in December to the slowest pace since February 2012. We could see another slow month for nonrevolving credit in January given that demand for auto loans has been subdued. On the revolving side, December's jump is unlikely to repeat in January, considering that many consumers may have been willing to take on additional debt only temporarily to help fuel holiday spending.

Market Impact

This week's economic calendar will start and end with a bang, hopefully giving markets a better view of consumer activity in 1Q15. Personal spending may disappoint but should rebound in the coming months as the price impact softens. Employment will likely be a home run for markets, closing out the week on a strong note.

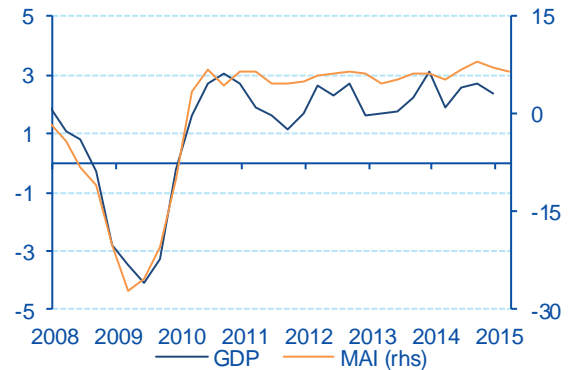
Economic Trends

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



Source: BBVA Research

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



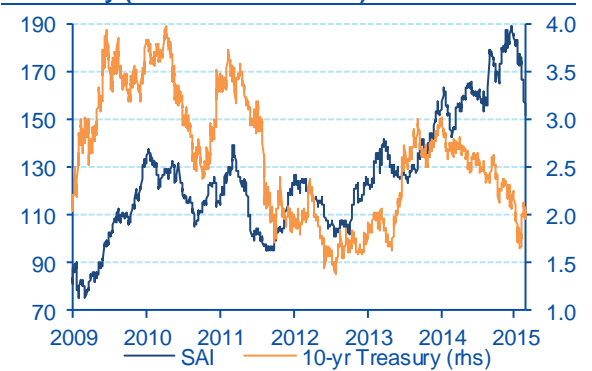
Source: BBVA Research & BEA

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



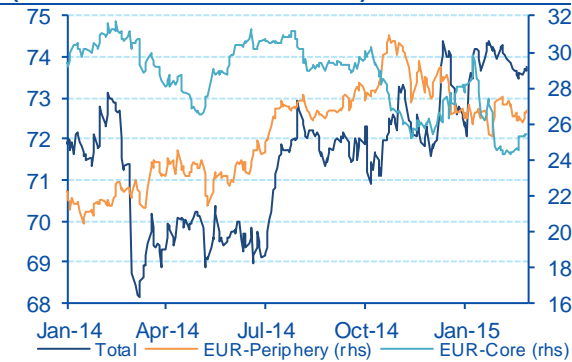
Source: BBVA Research

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



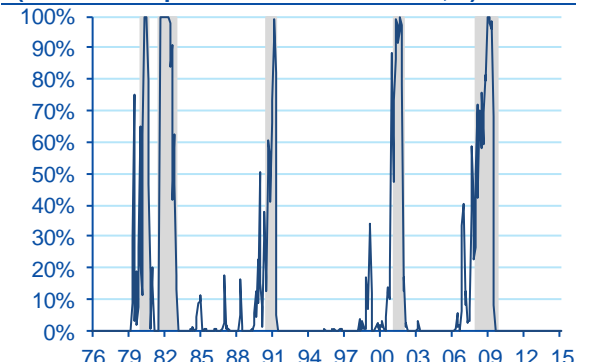
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

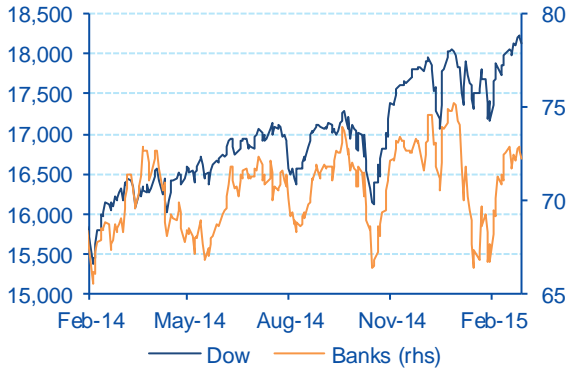
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

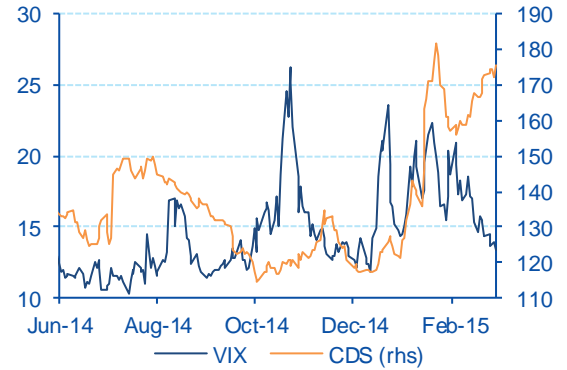
Financial Markets

Graph 9
Stocks
(Index, KBW)



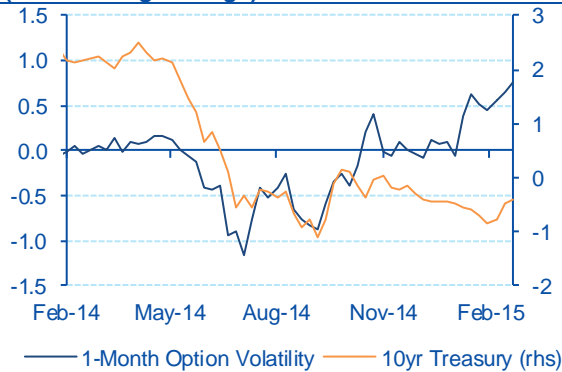
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



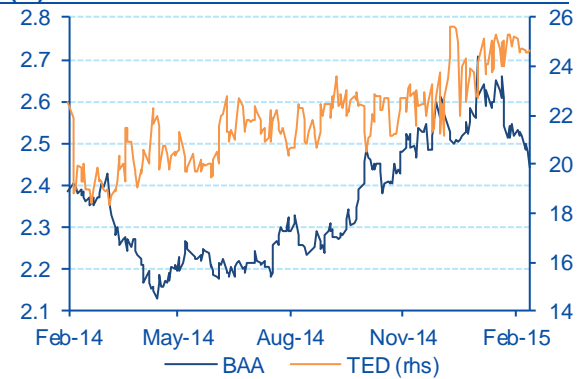
Source: Bloomberg & BBVA Research

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



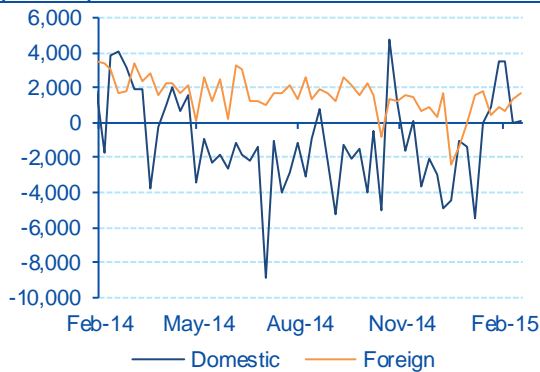
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



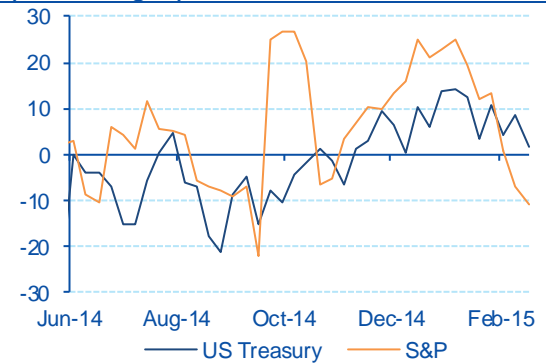
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

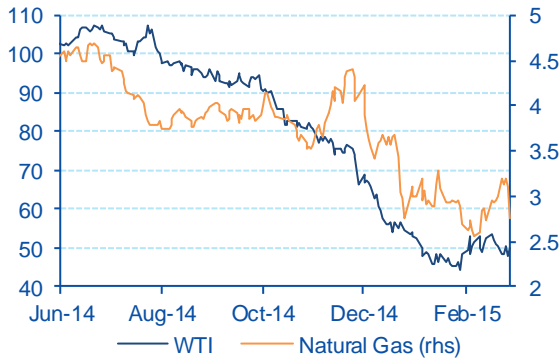
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

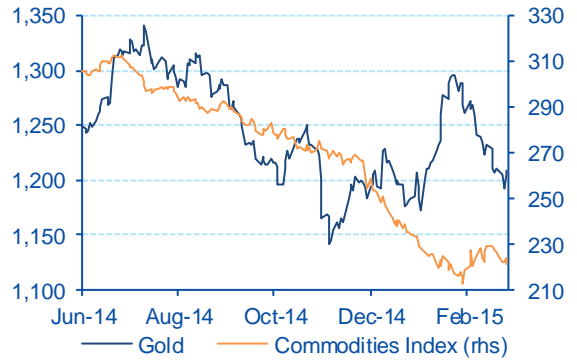
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



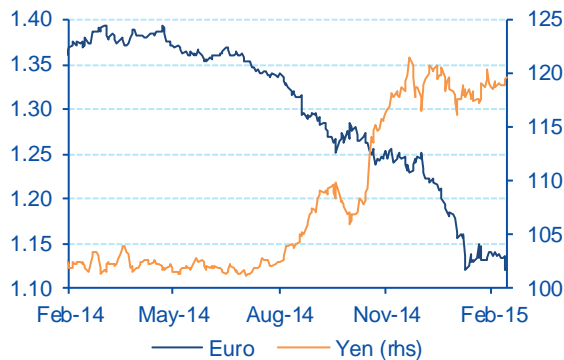
Source: Bloomberg & BBVA Research

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



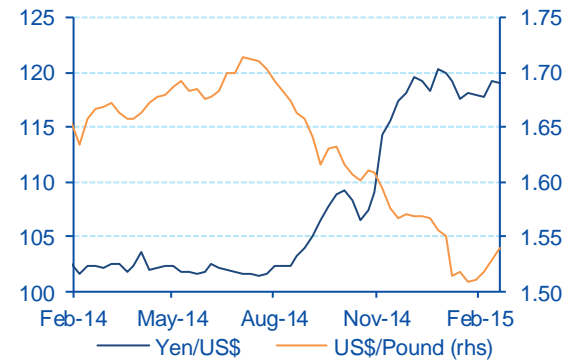
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



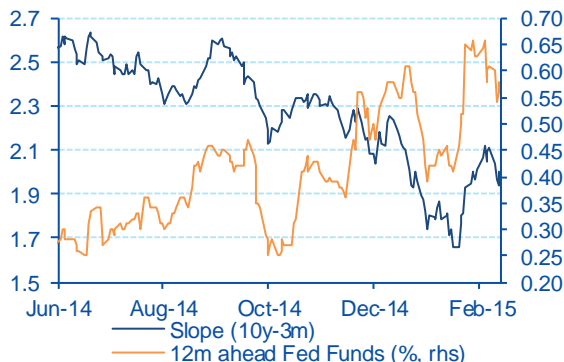
Source: Bloomberg & BBVA Research

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



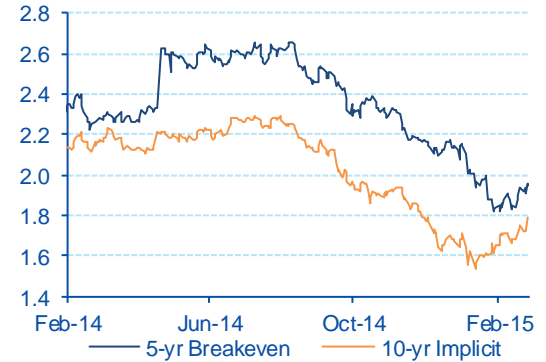
Source: Haver Analytics & BBVA Research

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)	14.96	14.96	14.96	14.10
New Auto (36-months)	2.66	2.67	2.67	2.46
Heloc Loan 30K	4.83	4.82	4.94	5.45
5/1 ARM *	2.99	2.97	2.86	2.90
15-year Fixed Mortgage *	3.07	3.05	2.98	3.23
30-year Fixed Mortgage *	3.80	3.76	3.66	3.99
Money Market	0.42	0.42	0.42	0.41
2-year CD	0.84	0.86	0.84	0.80

*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	0.11	0.12	0.06	0.07
3M Libor	0.26	0.26	0.23	0.24
6M Libor	0.38	0.39	0.32	0.33
12M Libor	0.67	0.68	0.55	0.55
2yr Sw ap	0.88	0.92	0.69	0.47
5yr Sw ap	1.65	1.75	1.33	1.64
10Yr Sw ap	2.12	2.24	1.79	2.81
30yr Sw ap	2.49	2.61	2.15	3.63
30day CP	0.11	0.12	0.11	0.12
60day CP	0.13	0.11	0.11	0.15
90day CP	0.15	0.13	0.13	0.13

Source: Bloomberg & BBVA Research

Quote of the Week

William C. Dudley, President and CEO of the Federal Reserve Bank of New York
Remarks at the 2015 U.S. Monetary Policy Forum
27 February 2015

"I believe that the risks of lifting the federal funds rate off of the zero lower bound a bit early are higher than the risks of lifting off a bit late. This argues for a more inertial approach to policy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-Mar	US Personal Income MoM SA	JAN	0.20	0.40	0.30
2-Mar	US Personal Consumption Expenditures Nominal Dollars MoM SA	JAN	-0.30	-0.10	-0.30
2-Mar	ISM Manufacturing PMI SA	FEB	54.00	53.00	53.50
2-Mar	Census Bureau US Construction Spending MoM SA	JAN	-0.20	0.30	0.40
3-Mar	NEW YORK PURCHASING MANAGER Current Business Conditions SA	FEB	43.00	0.00	44.50
3-Mar	US Auto Sales Total Annualized SA	FEB	16.70	16.70	16.56
4-Mar	ADP National Employment Report SA Private Nonfarm Level Change	FEB	220.00	218.00	213.30
4-Mar	ISM Non-Manufacturing NMI NSA	FEB	57.00	56.50	56.70
5-Mar	US Initial Jobless Claims SA	FEB 28	290.00	295.00	313.00
5-Mar	US Continuing Jobless Claims SA	FEB 21	2405.00	2395.00	2401.00
5-Mar	US Output Per Hour Nonfarm Business Sector QoQ SA	4Q F	-1.50	-2.40	-1.80
5-Mar	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	4Q F	2.80	3.30	2.70
5-Mar	US Manufacturers New Orders Total MoM SA	JAN	1.50	0.15	-3.40
6-Mar	US Trade Balance of Goods and Services SA	JAN	-44.00	-41.60	-46.56
6-Mar	US Employees on Nonfarm Payrolls Total MoM Net Change SA	FEB	225.00	235.00	257.00
6-Mar	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	FEB	220.00	227.50	267.00
6-Mar	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	FEB	10.00	10.00	22.00
6-Mar	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	FEB	0.10	0.20	0.50
6-Mar	US Average Weekly Hours All Employees Total Private SA	FEB	34.60	34.60	34.60
6-Mar	U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted	JAN	5.60	5.60	5.70
6-Mar	Federal Reserve Consumer Credit Total Net Change SA	JAN	12.30	15.00	14.76

Forecasts

	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (% SAAR)	1.8	2.8	1.9	2.4	2.9	2.8	2.8	2.9
CPI (YoY %)	3.1	2.1	1.5	1.6	1.5	2.1	2.2	2.3
CPI Core (YoY %)	1.7	2.1	1.8	1.8	1.9	2.1	2.2	2.3
Unemployment Rate (%)	8.9	8.1	7.4	6.1	5.3	4.9	4.6	4.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50	3.25
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	2.21	2.60	3.11	3.54	3.90
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.23	1.15	1.20	1.28	1.32

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