

Economic Analysis

Weekly Focus: FOMC Minutes & the Fiscal Budget

Kim Fraser Chase

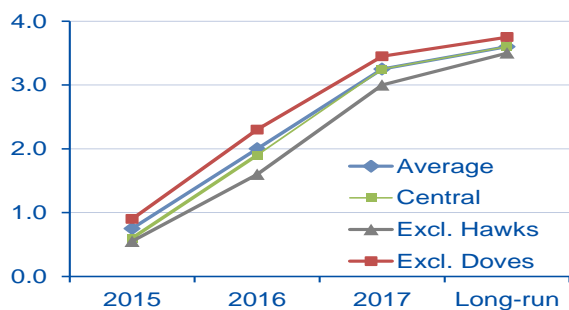
FOMC Minutes Likely to Reveal Diverging Views among Members

Markets are looking toward the **FOMC meeting minutes (Wednesday)** with the hope that there will be some clarity on the meaning of the Fed’s change in forward guidance. Removing “patient” from the statement may have been a bit confusing with the added clarification that no action was expected in April, so it will be helpful to get a clearer picture of how this changes the Committee’s timeline. Furthermore, we expect the meeting minutes to reveal the dovish and hawkish range of opinions within the FOMC and whether or not these views are diverging or converging toward a majority plan. The latest Fed speeches highlight the ongoing diversity within the group. As James Bullard (St. Louis Fed President) stated, “It will look like the committee is more dovish, but it’s not clear that the committee is actually more dovish.” A few members argued for a June increase, but the data dependent strategy runs deep. March’s weak employment report will most likely limit the June votes at the next FOMC meeting at the end of April. Yellen and Fischer have both emphasized the timing issue, trying to get markets away from comparing to past actions and the idea that an increase will only occur at a meeting associated with a press conference. Vice Chair Stanley Fischer suggested that “whether it’s going to be June or September, or some later date, or some date in between, will depend on the data.” As further clarification, Yellen noted that “reflecting such data dependence, as well as some historically unusual policy considerations...the average pace of tightening observed during previous recoveries could well provide a highly misleading guide to the actual course of monetary policy over the next few years.”

Budget Negotiations Expected to Intensify as Parties Search for Compromise

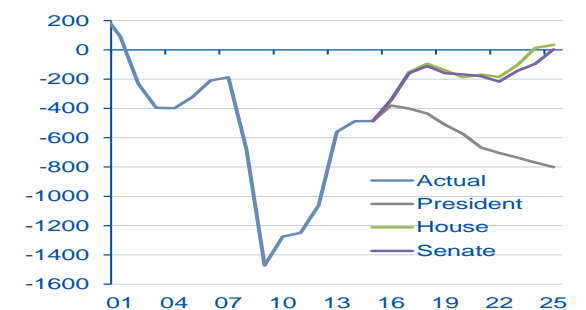
The House and Senate have each proposed and passed their respective budget outlines for the 2016 fiscal year, but now it’s time for the heated negotiations to begin. The Senate’s budget was reasonably bipartisan, while the House budget passed without any support from the Democrats. Compared to prior years, the two proposals are more similar, looking to balance the budget in ten years or less and sticking to the automatic sequestration cuts outlined established by the Budget Control Act of 2011. The goal is for reconciliation by mid-April, but recent history has taught us that last-minute deals are inevitable when it comes to Congress. In the coming weeks, we expect negotiations to intensify as policymakers strive for common ground between the Republican-led proposals and the President’s own budget plan.

Graph 1
Appropriate Timing of Policy Firming (Mar-15)



Source: FRB & BBVA Research

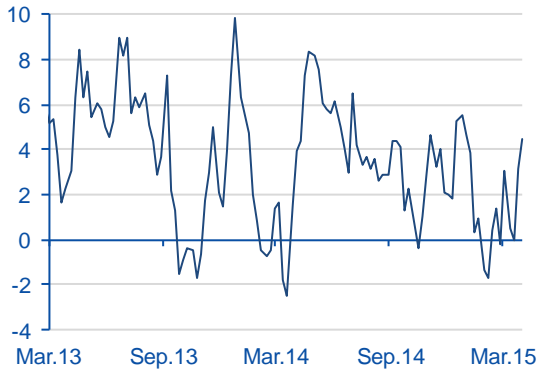
Graph 2
Projected Fiscal Balance (\$Bn)



Source: CBO & BBVA Research

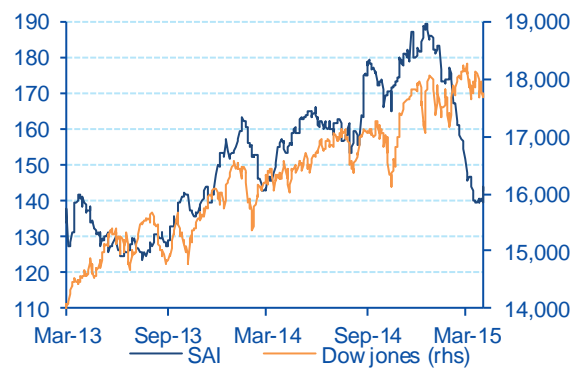
Economic Trends

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



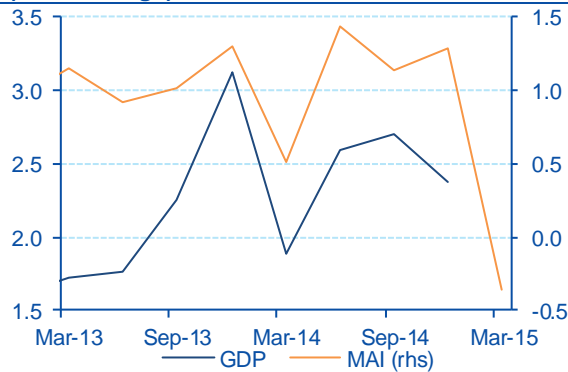
Source: BBVA Research

Graph 4
BBVA USA Surprise Activity Index & Dow Jones (Index 2009=100 & eop)



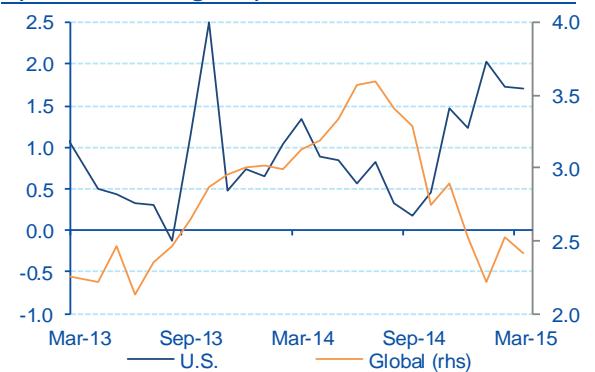
Source: Bloomberg & BBVA Research

Graph 5
BBVA USA Monthly Activity Index & Real GDP (4Q % change)



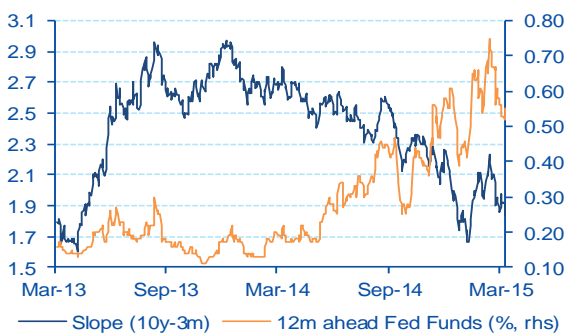
Source: BBVA Research & BEA

Graph 6
BBVA USA Risk Index (> 0 = increasing risk)



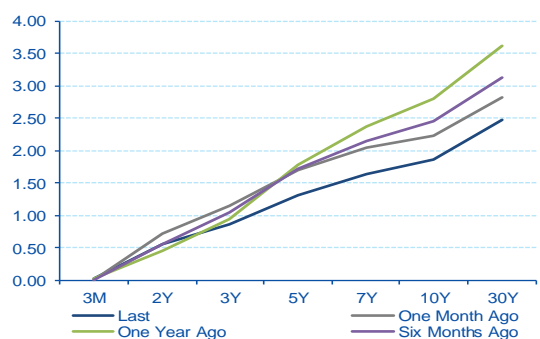
Source: BBVA Research

Graph 7
Fed Futures & Yield Curve Slope (% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 8
U.S. Treasury Yield Curve (% p.a.)



Source: Haver Analytics & BBVA Research

Week Ahead Economic Calendar

Date	Event	Period	BBVA	Consensus	Previous
6-Apr	ISM Non-Manufacturing NMI NSA	MAR	57.30	56.50	56.90
7-Apr	US Job Openings By Industry Total SA	FEB	5010.00	5003.00	4998.00
7-Apr	Federal Reserve Consumer Credit Total Net Change SA	FEB	12.90	12.65	11.56
9-Apr	US Initial Jobless Claims SA	APR 4	281.00	283.00	268.00
9-Apr	US Continuing Jobless Claims SA	MAR 28	2390.00	2345.00	2325.00
9-Apr	Merchant Wholesalers Inventories Total Monthly % Change	FEB	0.20	0.20	0.20
10-Apr	US Import Price Index by End Use All MoM NSA	MAR	0.20	-0.40	0.40

Economic Outlook

	2014		2015		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	5.0	2.2	1.4	2.9	2.4	2.9	2.8	2.8
CPI (YoY %)	1.8	1.2	0.2	0.3	1.6	0.6	2.0	2.2
CPI Core (YoY %)	1.8	1.7	1.5	1.2	1.7	1.4	2.0	2.2
Unemployment Rate (%)	6.1	5.7	5.6	5.4	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	2.53	2.21	2.05	2.25	2.21	2.60	3.11	3.54
US Dollar/ Euro (eop)	1.29	1.23	1.07	1.00	1.23	1.02	1.12	1.24
Core Logic Home Prices (YoY %)	5.88	5.05	4.20	5.94	7.40	6.10	5.70	4.38

Fun Fact

Demographic data have shown that the population is shifting toward warmer climates. In 2014, the population of The Villages, FL (a retirement community) rose more quickly than that of any other U.S. census area, climbing 5.4%, compared with 0.7% for the nation as a whole. (New York Times, March 2015)

Recent Publications

[Job Growth and Slack Indicators Weaken in March](#) (April 3, 2015)

[The U.S. Trade Balance: Then and Now](#) (April 2, 2015)

[Strong Pickup in March Vehicle Sales](#) (April 1, 2015)

[Are Low Long-Term Rates Here to Stay?](#) (March 30, 2015)

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.