

Economic Analysis

Weekly Focus: Inflation and Manufacturing

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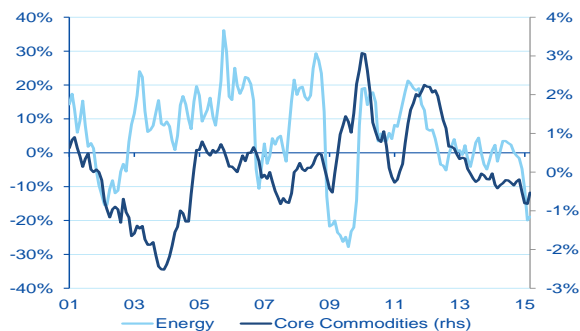
March's CPI Unlikely to Boost FOMC Views on Inflation Outlook

Markets and FOMC members alike are on the edge of their seats waiting for signs that inflation is on the rise, yet the **CPI report for March (Friday)** is unlikely to have such an effect. March's FOMC statement noted that a rate hike would come when the Committee is "reasonably confident that inflation will move back to its 2 percent objective over the medium term." Although the meeting minutes alluded to "no simple criteria" being set, FOMC participants felt that "the normalization process could be initiated prior to seeing increases in core price inflation or wage inflation." This is consistent with our theory that the updated reference to inflation in the forward guidance allows for the flexibility to increase rates so long as core inflation does not decline from its current pace. Currently, core CPI inflation sits at 1.7% (core PCE inflation is 1.4%), and given that we have seen limited pass-through thus far, the figure for March is not expected to show signs of deterioration. Headline CPI is a different story and is expected to hold near negative YoY territory for the third consecutive month. Although, the Fed is mostly focused on core inflation, further downward pressure on energy prices would not settle well with them. Other factors that may influence a more confident inflation outlook include further improvement in the labor market and a slowdown in the USD appreciation. Additional Fed speak throughout the week may help to clarify the implications of the latest data points realized since the meeting discussion in March.

Bad Weather Not the Only Factor Weighing on Manufacturing Activity

Manufacturing activity has come under intense scrutiny in the past few months as bad weather, port closures, and a strong dollar wreak havoc on the sector. The major question is whether or not the slowdown can be attributed to transitory factors or if more serious economic issues are at play. U.S. exports of goods have declined throughout the past four months, and the lack of new orders does not bode well for manufacturing output in the near future. Upcoming indicators for the sector may help clarify some of these concerns, with **March's industrial production report (Wednesday)** and the **Empire State (Wednesday)** and **Philadelphia Fed Surveys (Thursday)** for April all expected to show at least some modest improvement as we transition out of 1Q15. The manufacturing component of the industrial production index has declined for three consecutive months but is expected to shift back upwards in March for the first time since November.

Graph 1
Energy & Core Commodity Prices (YoY & Change)



Source: BLS & BBVA Research

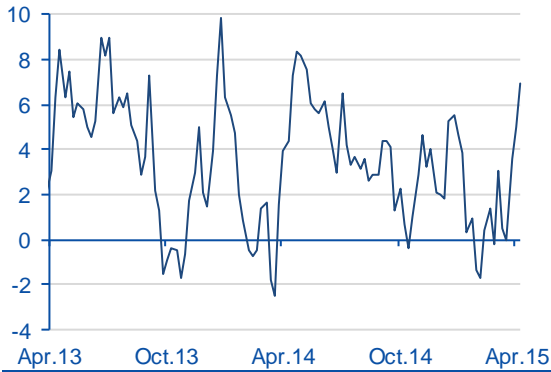
Graph 2
Manufacturing & Exports (YoY % Change)



Source: FRB, Census, & BBVA Research

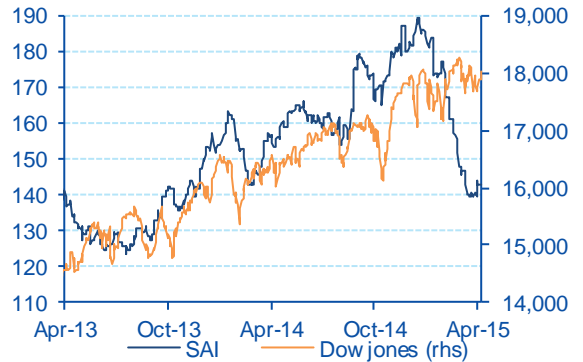
Economic Trends

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



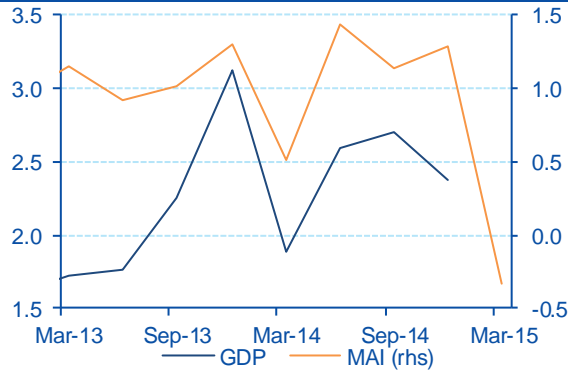
Source: BBVA Research

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



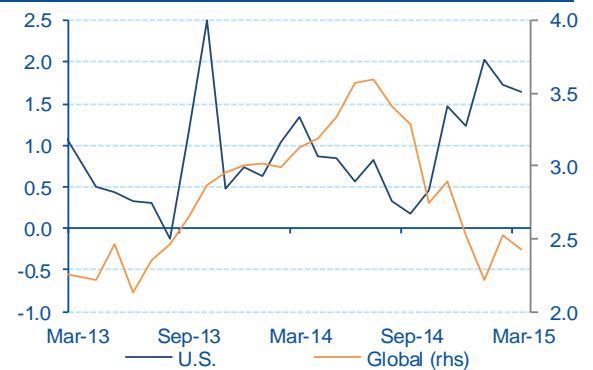
Source: Bloomberg & BBVA Research

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



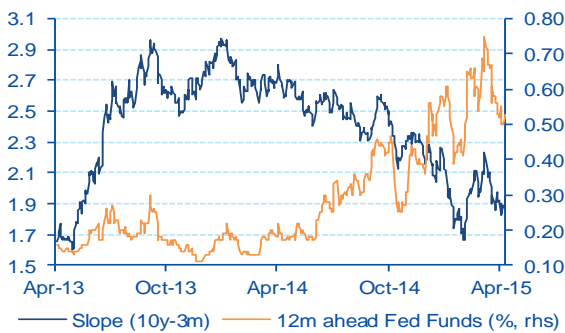
Source: BBVA Research & BEA

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



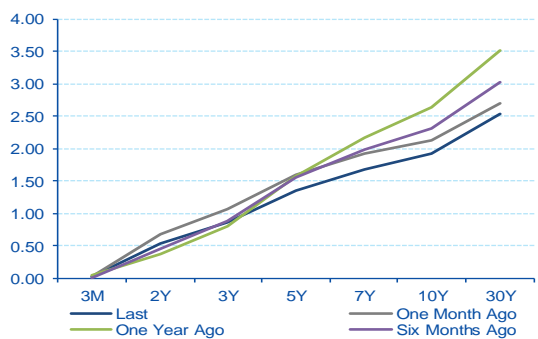
Source: BBVA Research

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
14-Apr	Adjusted Retail & Food Services Sales SA Total Monthly % Change	MAR	0.40	1.00	-0.60
14-Apr	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	MAR	0.30	0.50	-0.20
14-Apr	US PPI Final Demand MoM SA	MAR	-0.10	0.20	-0.50
14-Apr	US PPI Final Demand Less Foods and Energy MoM SA	MAR	0.00	0.10	-0.50
14-Apr	NFIB Small Business Optimism Index	MAR	97.50	98.20	98.00
14-Apr	US Manufacturing & Trade Inventories Total MoM SA	FEB	0.30	0.20	0.00
15-Apr	US Empire State Manufacturing Survey General Business Conditions SA	APR	7.30	7.30	6.90
15-Apr	US Industrial Production MoM 2007=100 SA	MAR	0.30	-0.30	0.07
15-Apr	US Capacity Utilization % of Total Capacity SA	MAR	79.00	78.60	78.95
15-Apr	US Industrial Production Industry Groups Manufacturing MoM SA	MAR	0.10	0.10	-0.20
15-Apr	National Association of Home Builders Market Index SA	APR	54.00	55.00	53.00
16-Apr	US Initial Jobless Claims SA	APR 11	275.00	280.00	281.00
16-Apr	US Continuing Jobless Claims SA	APR 4	2325.00	2320.00	2304.00
16-Apr	US New Privately Owned Housing Units Started by Structure Total SAAR	MAR	975.00	1040.00	897.00
16-Apr	Private Housing Units Started by Structure Total Monthly % Change SA	MAR	8.70	15.94	-17.00
16-Apr	Private Housing Authorized by Bldg Permits by Type Total SAAR	MAR	1120.00	1085.00	1102.00
16-Apr	Private Total Housing Authorized by Building Permits MoM SA	MAR	1.63	-1.54	4.00
16-Apr	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	APR	7.20	6.25	5.00
17-Apr	US CPI Urban Consumers MoM SA	MAR	0.00	0.20	0.22
17-Apr	US CPI Urban Consumers Less Food & Energy MoM SA	MAR	0.10	0.20	0.16
17-Apr	University of Michigan Consumer Sentiment Index	APR P	94.00	94.00	93.00
17-Apr	Conference Board US Leading Index MoM	MAR	0.30	0.30	0.20

Economic Outlook

	2014		2015		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	5.0	2.2	1.1	3.3	2.4	2.9	2.8	2.8
CPI (YoY %)	1.8	1.2	0.0	0.2	1.6	0.6	1.9	2.2
CPI Core (YoY %)	1.8	1.7	1.6	1.6	1.7	1.6	1.8	1.9
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	2.04	2.25	2.21	2.60	3.11	3.54
US Dollar/ Euro (eop)	1.29	1.23	1.08	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

NASA's chief scientist declared this week that there will be "strong indications" of alien life within a decade and "definite evidence" of it within 20 to 30 years. More than 50 potential planets that appear to be in habitable zones have already been found.

Recent Publications

[FOMC Meeting Minutes: Meeting-by-Meeting Approach to Normalization Officially Underway](#) (April 8, 2015)

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

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

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

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