

Economic Analysis

Weekly Focus: Housing & the 2016 Candidates

Kim Fraser Chase

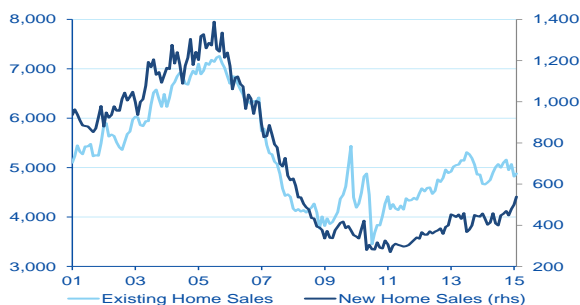
Housing Activity for March Expected to Shed Some Winter Weight

Housing data for March is hitting us all at once, with **existing (Wednesday)** and **new home sales (Thursday)** on the calendar for this week. Now that the winter months are behind us, we expect to see at least a modest rebound in activity to lead us into a stronger second quarter. However, demand has been soft throughout the past year even though affordability has been climbing, and sales have barely recovered from crisis lows. More surprising is that potential homebuyers haven't jumped at the chance to buy a home while mortgage rates are so low, before the Federal Reserve makes moves to increase short-term rates. A large part of this is due to tight credit conditions and increased regulations for lenders, but there is still an aspect of uncertainty among consumers to take on such significant debt when so many still have open wounds from the recession or are buried under student loan debt. The good news is that mortgage rates should remain relatively low even after the Fed's first rate hike, and the slow deceleration in home price growth should help to spur additional demand.

2016 Presidential Campaign Underway as the Fed Keeps it Political Distance

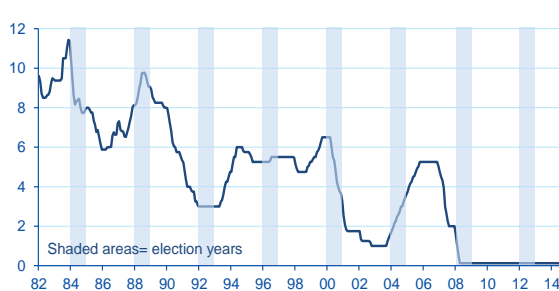
We're still a year and a half away from the 2016 presidential election, yet the race is already heating up. Several candidates have already stepped forward, with the Republican pool outnumbering the Democrats thus far. Ted Cruz, Rand Paul, and Marco Rubio are in the running for the Republicans, while Hillary Clinton is the sole Democrat. There are potentially another ten or so Republicans who have hinted at announcing their candidacy, compared to just a few on the Democratic side. The past few years have shown an increasing divide between the two parties, and we expect that this race will heat up pretty quickly. While there may not be a favorite yet, we could see a frontrunner emerge relatively soon, particularly given the increased use of online and social media marketing. A recent survey by Reuters found that digital advertising for candidates could reach \$1 billion, a 256% increase compared to online political ad spending in 2012. With so much focus on this, not much will be able to distract from the intensifying presidential race – except for the federal funds rate hike. There has been talk that the Fed will be less willing to increase rates during the election year, but history has shown that they mostly uphold their independence from the political environment. Since 1984, the Fed raised rates during three of the eight election years, and they increased rates in the four consecutive election years up to 1980. Therefore, a heated presidential campaign does not change our outlook for the pace of interest rates hikes in 2016.

Graph 1
New and Existing Home Sales (SAAR Thousands)



Source: NAR, Census, & BBVA Research

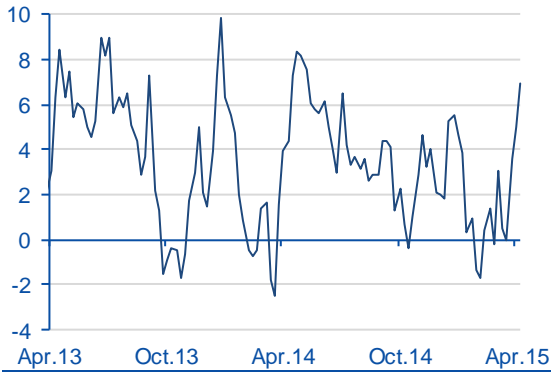
Graph 2
Presidential Election Years & the FFR (%)



Source: FRB & BBVA Research

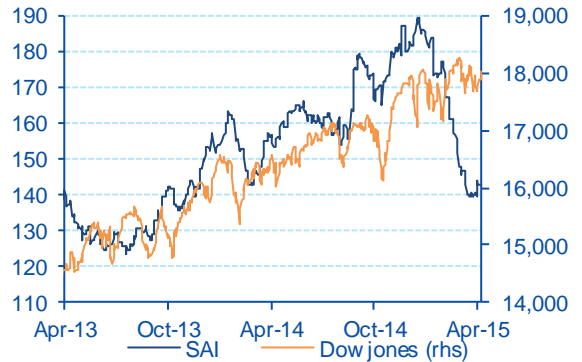
Economic Trends

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



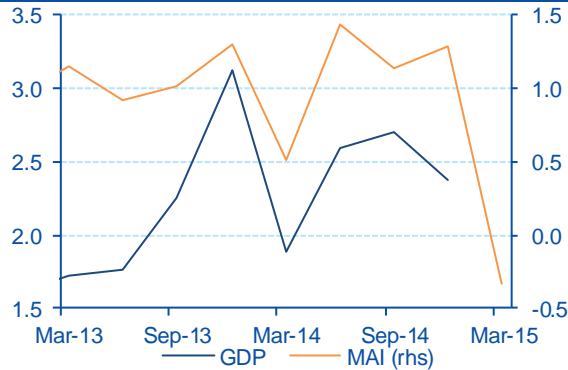
Source: BBVA Research

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



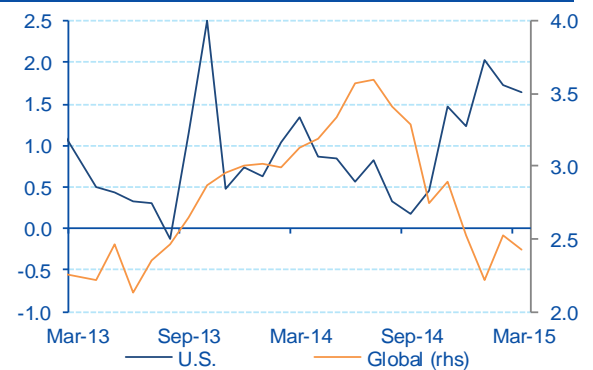
Source: Bloomberg & BBVA Research

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



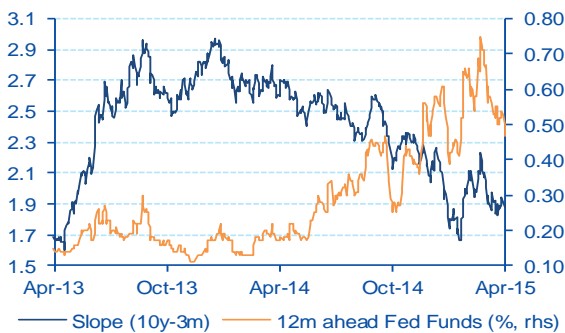
Source: BBVA Research & BEA

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



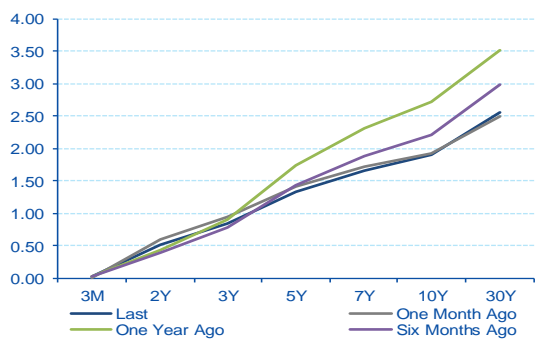
Source: BBVA Research

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
20-Apr	Chicago Fed National Activity Index	MAR	0.15	--	-0.11
22-Apr	Existing Home Sales Thousands	MAR	4915.00	5040.00	4880.00
22-Apr	Existing Home Sales MoM % Change	MAR	0.72	3.30	1.24
23-Apr	US Initial Jobless Claims SA	18-Apr	281.00	--	294.00
23-Apr	US Continuing Jobless Claims SA	11-Apr	2310.00	--	2268.00
23-Apr	New Home Sales Thousands	MAR	525.00	510.00	539.00
23-Apr	New Home Sales MoM % Change	MAR	-2.60	-5.40	7.80
24-Apr	Durable Goods Orders MoM % Change	MAR	0.90	0.80	-1.42
24-Apr	Durable Goods Orders Ex Transportation MoM % Change	MAR	0.40	0.70	-0.60

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	2.40	3.00	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

The number of Americans 65 or older could reach 108 million in 2050. That's like adding three more Floridas, inhabited entirely by seniors. (The Atlantic, October 2014)

Recent Publications

[March CPI Moves in Support of Fed Liftoff in 3Q15](#) (April 17, 2015)

[Three Drivers of the U.S. Demographic Makeover](#) (April 16, 2015)

[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)

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.