

Economic Analysis

# Weekly Focus: FOMC and the End to 1Q Data

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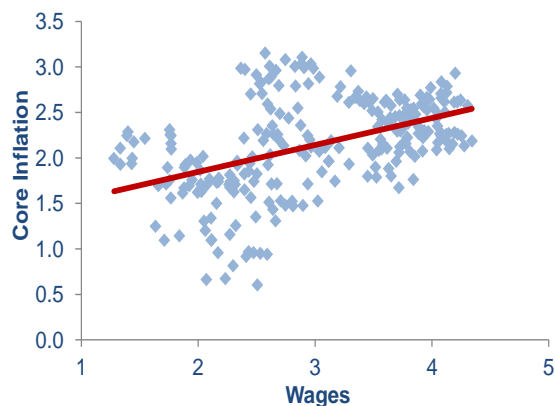
## April FOMC Statement Expected to Set the Stage for a September Rate Hike

Once again, all eyes are on **FOMC announcement (Wednesday)**, though April's meeting is not expected to throw many surprises our way. The March statement already alluded to no rate hike announcement in April, and we may get another clarification that a rate increase is "unlikely" in June, especially when we consider that participants will have to decide whether one weak month of job growth is just an outlier or the start to a slower trend. While we do not foresee a slowdown in employment growth, the latest data since the March meeting have significantly reduced the probability of a June rate hike. Furthermore, inflation (and in particular, wage growth) remains low. On the bright side, core CPI inflation has accelerated for three consecutive months, which is good news for the Fed as they search for confidence that inflation will slowly move towards their target in the medium run. Given that the Fed will be monitoring any and all measures of inflation to ensure complete confidence in their outlook, we expect that they will wait for a few more months of data before making any major decisions. Therefore, we continue to expect the first rate hike in September, once they have received both inflation and employment data through August, with a very gradual pace of rate increases thereafter.

## Consumer Data Likely to Offset Weak First Estimate for 1Q15 GDP Growth

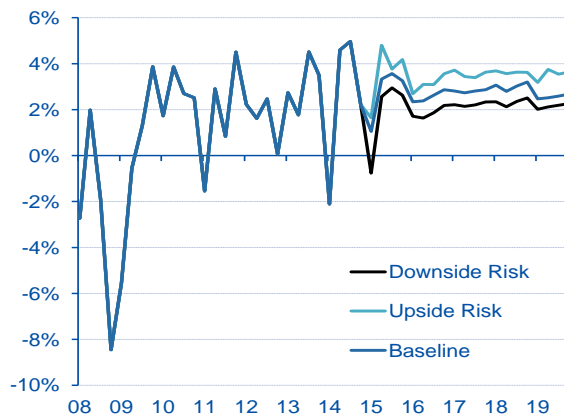
There are many other important releases on the economic calendar this week aside from the FOMC announcement. At this point we are all prepared for a weak **1Q15 GDP report (Wednesday)**, but the question is whether or not we will see as significant a contraction as we did in the first quarter of 2014. The severity of the report should not have too much of an impact on our outlook for the year or even the Fed's future plans, as long as the subsequent data continue to hint at improvements moving into 2Q15. **Consumer confidence (Tuesday) and sentiment (Friday)** have been moving in the right direction and should continue to do so as gas prices remain favorable. **Personal income and outlays (Thursday)** are also expected to improve, although wage growth remains slower than consumer confidence figures would suggest. We expect that there is some pent up demand leftover from a weak first quarter, so we could see a big boost to consumption in the coming months.

Graph 1  
Wages and Inflation (YoY % Change)



Source: BLS & BBVA Research

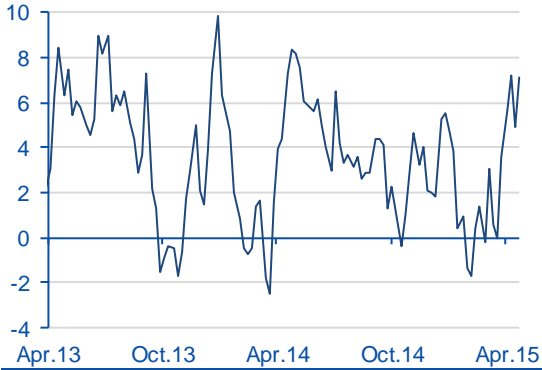
Graph 2  
Real GDP Growth (QoQ SAAR % Change)



Source: FRB & BBVA Research

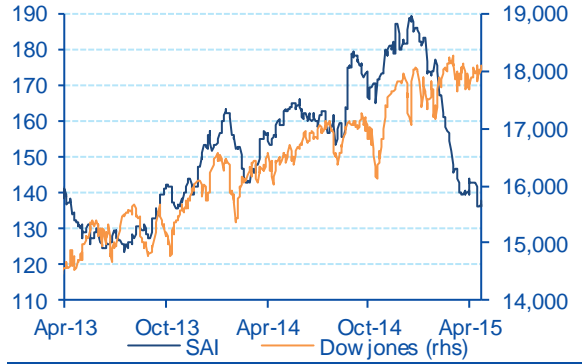
**Economic Trends**

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



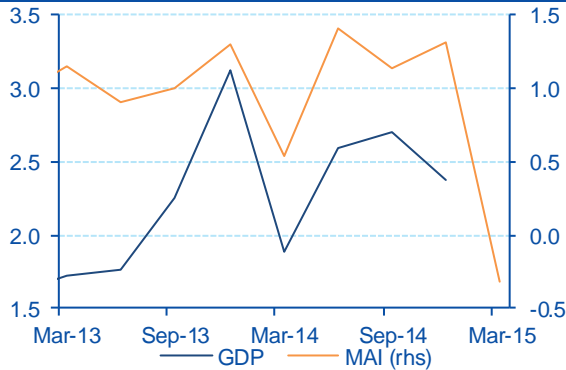
Source: BBVA Research

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



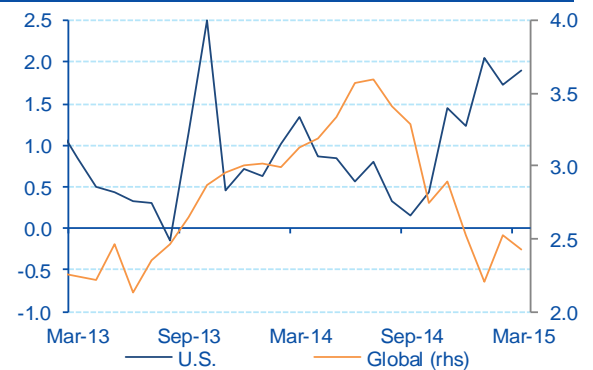
Source: Bloomberg & BBVA Research

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



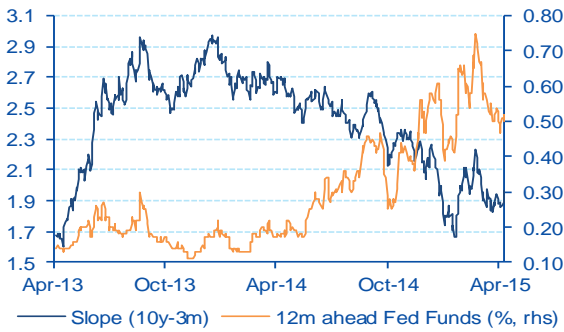
Source: BBVA Research & BEA

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



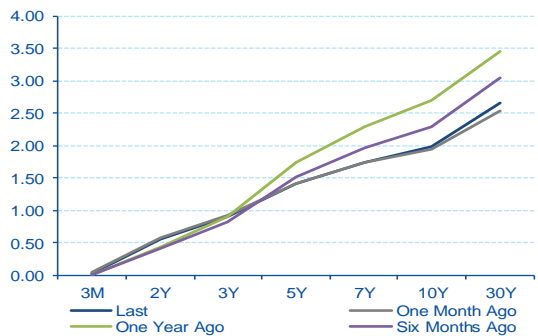
Source: BBVA Research

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
27-Apr	Dallas Fed Manufacturing Outlook Level Of General Business Activity	APR	-9.50	-12.00	-17.40
28-Apr	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	FEB	0.63	0.70	0.87
28-Apr	S&P/Case-Shiller Composite-20 City Home Price Index YoY	FEB	4.63	4.70	4.56
28-Apr	Conference Board Consumer Confidence SA 1985=100	APR	102.00	102.50	101.30
29-Apr	GDP US Chained 2009 Dollars QoQ SAAR	1Q A	0.70	1.00	2.20
29-Apr	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	1Q A	1.50	1.75	4.40
29-Apr	US GDP Price Index QoQ SAAR	1Q A	0.40	0.50	0.10
29-Apr	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q A	0.90	1.00	1.10
29-Apr	US Pending Home Sales Index MoM SA	MAR	0.30	1.00	3.09
29-Apr	Federal Funds Target Rate - Upper Bound	APR 29	0.25	0.25	0.25
30-Apr	US Initial Jobless Claims SA	APR 25	289.00	290.00	295.00
30-Apr	US Continuing Jobless Claims SA	APR 18	2310.00	2300.00	2325.00
30-Apr	US Personal Income MoM SA	MAR	0.20	0.20	0.40
30-Apr	US Personal Consumption Expenditures Nominal Dollars MoM SA	MAR	0.40	0.50	0.10
30-Apr	Bureau of Labor Statistics Employment Cost Civilian Workers QoQ SA	1Q	0.40	0.60	0.60
30-Apr	MNI Chicago Business Barometer (sa)	APR	47.90	50.00	46.30
1-May	US Auto Sales Total Annualized SA	APR	17.00	16.90	17.05
1-May	University of Michigan Consumer Sentiment Index	APR F	95.30	96.00	95.90
1-May	ISM Manufacturing PMI SA	APR	52.10	52.00	51.50
1-May	Census Bureau US Construction Spending MoM SA	MAR	0.40	0.45	-0.10

## 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	-0.1	0.2	1.6	0.6	1.9	2.2
CPI Core (YoY %)	1.8	1.7	1.7	1.6	1.7	1.6	1.7	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	1.90	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 %)	5.92	5.06	5.10	5.94	7.40	6.30	5.70	4.38

## Fun Fact

An economist recently estimated that the 1.89 billion acres of land that make up the continental United States are worth \$22.98 trillion. California is worth the most (\$3.9 trillion), while Vermont is worth the least (\$44 billion). (New York Times, 22 April 2015)

## Recent Publications

[Trade Promotion Authority \(TPA\): Vital for Trade](#) (April 21, 2015)

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

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

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