

Economic Analysis

# Weekly Focus: FOMC and Inflation

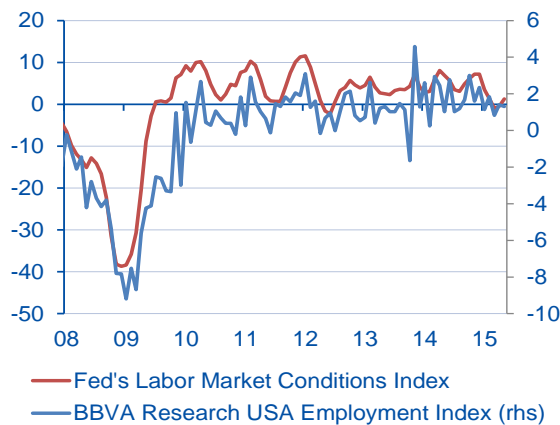
Kim Fraser Chase

## No FOMC Rate Hike in June as Members Await Additional Inflation Data

The **June FOMC meeting announcement (Wednesday)** has been on everyone’s radar throughout the past year, though now it’s shaping up to be less exciting than some had originally expected. Despite a few hawkish FOMC members hoping to win over their dovish counterparts, the Committee is unlikely to announce a rate hike at this meeting. In sticking with their data-dependent strategy, not enough has changed to support a stronger economy relative to a few months ago. In fact, we may see further downward revisions to the Fed’s Summary of Economic Projections to be released after the meeting, including GDP growth and the pace of federal funds rate increases in the coming quarters. Labor market improvement has held in line with the Fed’s expectations and would probably be enough to encourage a rate hike without considering any other factors. However, low inflation, the stronger dollar, and a slow global economy are bigger forces to overcome. Still, even the most dovish members are in agreement that a rate hike will be “appropriate” by the end of this year. In any case, we maintain our expectations for a September liftoff with the second rate hike likely to follow in 1Q16.

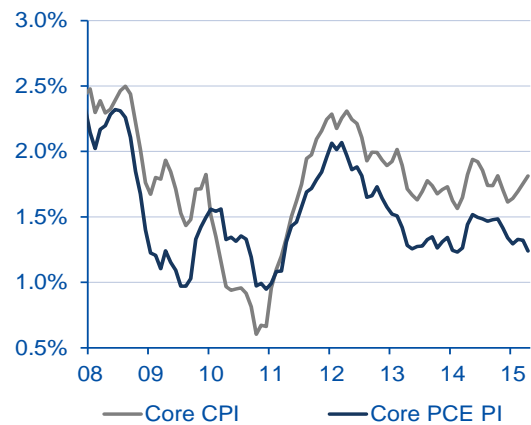
With inflation at the center of the FOMC’s focus, it will take a few more months of data to inspire a more confident outlook that prices are moving towards the target range. Unfortunately, the FOMC meeting comes just a day before **May’s CPI report (Thursday)**, so participants won’t have an exact view on how inflation has progressed since April. By the time the September meeting rolls around, FOMC members will have been able to absorb and discuss both inflation and employment data through August, and hopefully that data will fall in line with their outlook enough to support a rate hike at that point. Finally, it is important to remember that the Fed primarily follows the PCE price index, even though CPI is more of a market mover. Recently, core PCE inflation has been trending downward even as core CPI shifts upward, so this adds additional bias to the Fed’s plans.

Graph 1  
**Fed’s Labor Market Conditions Index and BBVA Research USA Employment Index**



Source: FRB & BBVA Research

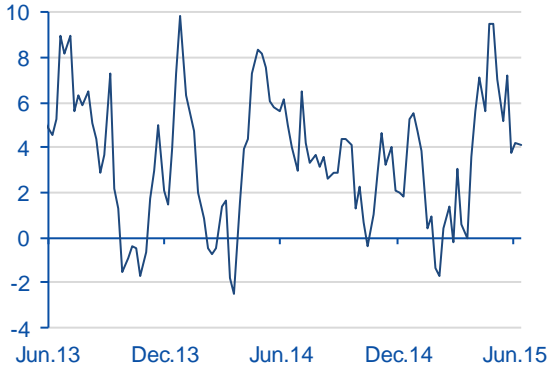
Graph 2  
**Core CPI and Core PCE PI (YoY % Change)**



Source: BLS, BEA, & BBVA Research

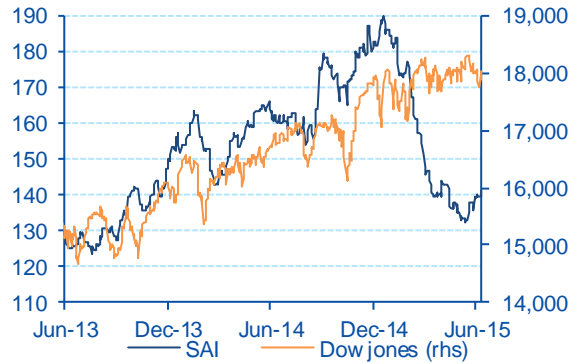
**Economic Trends**

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



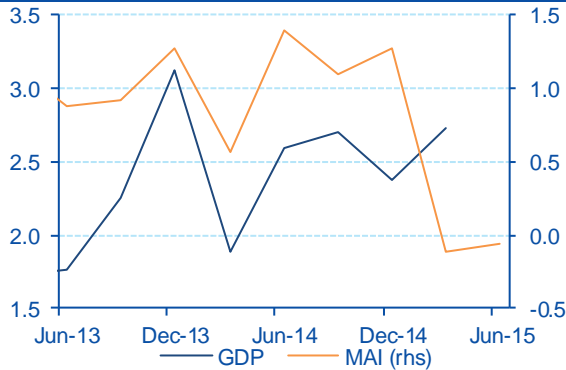
Source: BBVA Research

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



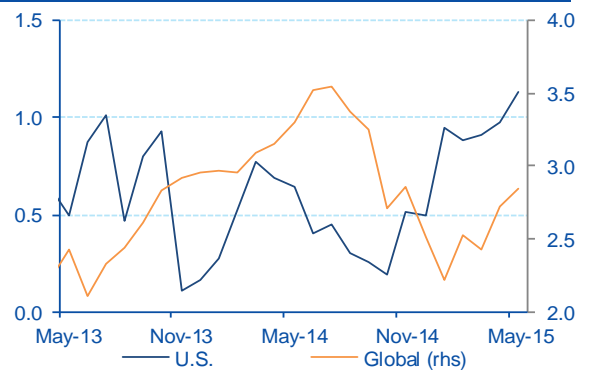
Source: Bloomberg & BBVA Research

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



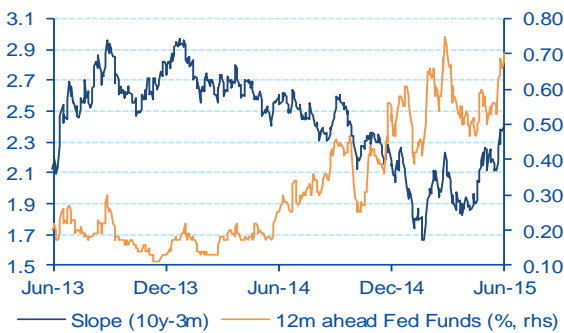
Source: BBVA Research & BEA

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



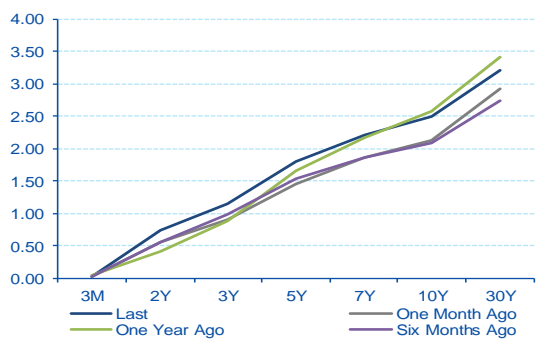
Source: BBVA Research

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
15-Jun	US Empire State Manufacturing Survey General Business Conditions SA	JUN	4.70	6.00	3.09
15-Jun	US Industrial Production MoM 2007=100 SA	MAY	0.40	0.20	-0.26
15-Jun	US Capacity Utilization % of Total Capacity SA	MAY	78.50	78.30	78.22
15-Jun	US Industrial Production Industry Groups Manufacturing MoM SA	MAY	0.20	0.30	0.00
15-Jun	National Association of Home Builders Market Index SA	JUN	55.00	56.00	54.00
16-Jun	US New Privately Owned Housing Units Started by Structure Total SAAR	MAY	1120.00	1100.00	1135.00
16-Jun	Private Housing Units Started by Structure Total Monthly % Change SA	MAY	-1.32	-3.08	20.20
16-Jun	Private Housing Authorized by Bldg Permits by Type Total SAAR	MAY	1130.00	1100.00	1140.00
16-Jun	Private Total Housing Authorized by Building Permits MoM SA	MAY	-0.88	-3.51	9.80
17-Jun	Federal Funds Target Rate - Upper Bound	JUN 17	0.25	0.25	0.25
18-Jun	US Initial Jobless Claims SA	JUN 13	277.00	276.00	279.00
18-Jun	US Continuing Jobless Claims SA	JUN 6	2225.00	2200.00	2265.00
18-Jun	US CPI Urban Consumers MoM SA	MAY	0.30	0.50	0.10
18-Jun	US CPI Urban Consumers Less Food & Energy MoM SA	MAY	0.20	0.20	0.26
18-Jun	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	JUN	8.10	8.00	6.70
18-Jun	Conference Board US Leading Index MoM	MAY	0.40	0.40	0.70

## Economic Outlook

	2014				2015			
	4Q	1Q	2Q	3Q	2014	2015	2016	2017
Real GDP (% SAAR)	2.2	-0.7	<b>3.9</b>	<b>5.9</b>	2.4	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	1.2	-0.1	<b>0.0</b>	<b>0.7</b>	1.6	<b>0.5</b>	<b>1.9</b>	<b>2.2</b>
CPI Core (YoY %)	1.7	1.7	<b>1.7</b>	<b>1.7</b>	1.7	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>
Unemployment Rate (%)	5.7	5.6	<b>5.4</b>	<b>5.2</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.25</b>	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	2.21	2.04	<b>1.90</b>	<b>2.32</b>	2.21	<b>2.40</b>	<b>3.00</b>	<b>3.54</b>
US Dollar/ Euro (eop)	1.23	1.08	<b>1.08</b>	<b>0.99</b>	1.23	<b>1.01</b>	<b>1.12</b>	<b>1.24</b>
Core Logic Home Prices (YoY %)	4.99	5.23	<b>5.64</b>	<b>5.30</b>	7.45	<b>5.29</b>	<b>4.85</b>	<b>4.38</b>

## Fun Fact

The largest crowd (one that included BBVA Research Economist Kim Chase) to take in a Women's World Cup match was the final game in 1999 at the Rose Bowl in Los Angeles, California, where USA beat China 5-4 on penalty kicks after a goalless draw.

## Recent Publications

[Another Strong Rebound in GDP for 2Q15? Maybe Not as Strong as in 2014](#) (June 12, 2015)

[Retail Sales Jump as Consumers Hit the Stores in May](#) (June 11, 2015)

[U.S. Oil and Gas Industry Chart book](#) (June 11, 2015)

[JOLTS: More Jobs to Fill but Fewer Hires in April](#) (June 9, 2015)

[Long-Term Rate Volatility is Within Historic Norms](#) (June 8, 2015)

[Strong Job Growth Won't Change Fed Liftoff Plans](#) (June 5, 2015)

[Productivity Plunged in 1Q15 While Labor Costs Rose](#) (June 4, 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.