

Economic Analysis

# Weekly Focus: GDP and Housing

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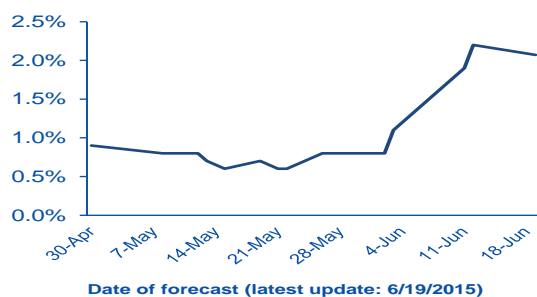
## Minor 1Q15 GDP Contraction Will Set the Pace for Growth Expectations in 2015

The final estimate for **1Q15 real GDP growth (Wednesday)** is expected to show a slightly smaller contraction compared to the preliminary figure. Data since the BEA report last month suggest an upward revision to a few components of GDP, including personal consumption expenditures, net exports, and residential investment. Although we are well past the point of wondering how the economy fared in the first quarter, a significant revision to GDP could have an impact on annual forecasts for 2015, especially with data already pointing to a slower-than-expected rebound in the second quarter. Our Nowcast model, which incorporates important leading indicators on economic growth ([see brief](#)), points to a rate just above 2.0% QoQ SAAR for 2Q15. While this is a relatively healthy rate, it is nowhere near the +3.0% pace that we had been hoping for a few months ago. Furthermore, the underlying trends are not necessarily reflective of a strong and steady recovery. Economic activity was slow to start the quarter in April and has only partially bounced back since then. Personal consumption expenditures were flat in April but are expected to post a healthier gain for May with the release of both **Personal Income and Outlays (Thursday)** for the month. In any case, our projections assume a stronger pickup in the second half of 2015 in order to reach 2.9% growth for the year.

## New & Existing Home Sales Vulnerable to Rising Rates & Declining Affordability

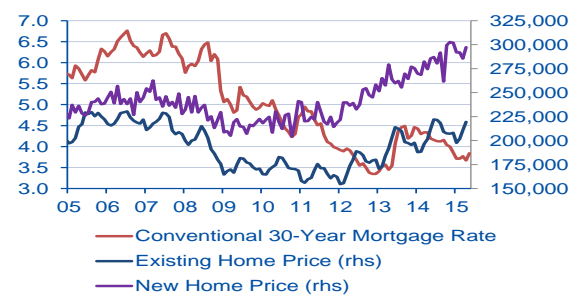
Residential investment has been a key weakness in GDP growth since the crisis. Both new and existing home sales are on the rise, but it is hard to look past the extremely slow and volatile pace in order to see whether there has been genuine improvement. New home sales are up more than 20% on a YoY basis but have barely recovered 25% towards the pre-recession peak. Existing home sales have fared slightly better but are still nowhere near the historically high levels seen in 2005. In May, we expect that the two series will move in opposite directions – a gain for **existing home sales (Monday)** and a small decline for **new home sales (Tuesday)** – but in general we should continue to see both move slowly along an upward trend. Short-term demand may increase in the next few months as potential homebuyers look to lock in a mortgage before rates move up any faster. Housing affordability is still relatively high but remains vulnerable to sharp rises in both home prices and mortgage rates. The hope is that the transition period to higher rates will be gradual enough so that the housing market can continue to recover without too many more hiccups along the way.

Graph 1  
2Q15 U.S. Real GDP Nowcast, BBVA Research



Source: BBVA Research

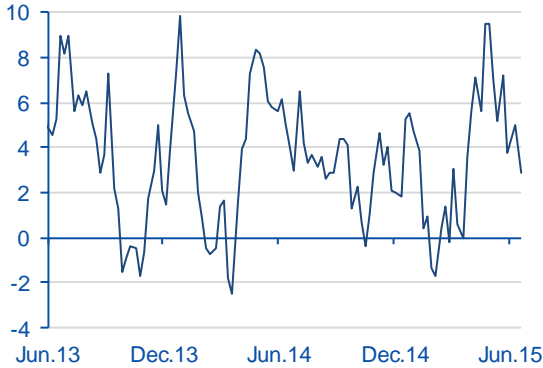
Graph 2  
Median Home Prices & Mortgage Rate



Source: BLS, BEA, & BBVA Research

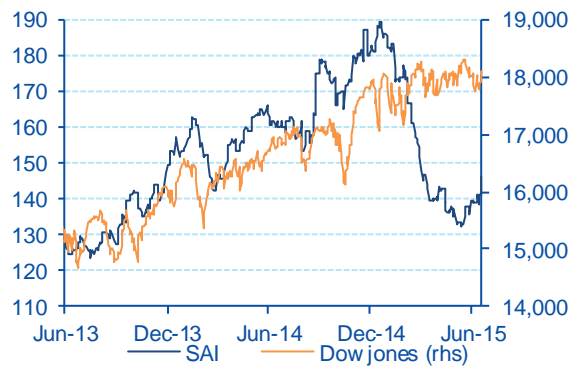
**Economic Trends**

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



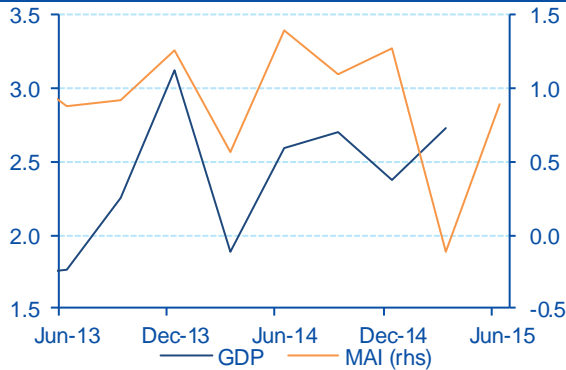
Source: BBVA Research

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



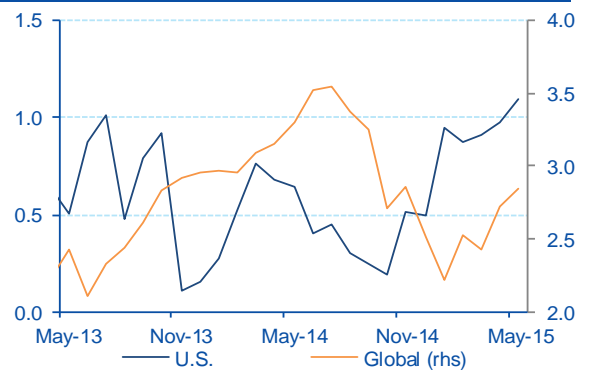
Source: Bloomberg & BBVA Research

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



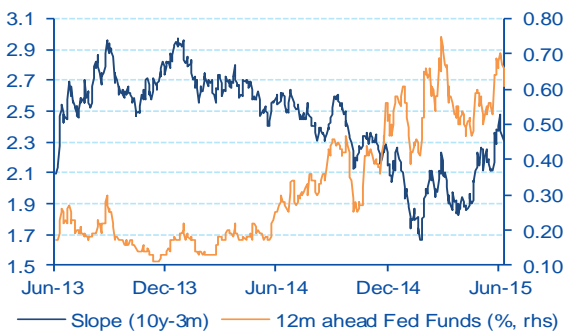
Source: BBVA Research & BEA

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



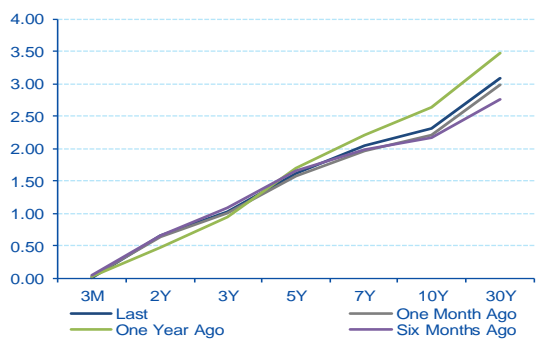
Source: BBVA Research

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
22-Jun	Chicago Fed National Activity Index	MAY	-0.07	0.16	-0.15
22-Jun	US Existing Homes Sales SAAR	MAY	5.15	5.28	5.04
22-Jun	US Existing Homes Sales MoM SA	MAY	2.18	4.76	-3.26
23-Jun	US Durable Goods New Orders Industries MoM SA	MAY	1.70	-0.70	-1.00
23-Jun	US Durable Goods New Orders Total ex Transportation MoM SA	MAY	1.10	0.50	-0.20
23-Jun	US New One Family Houses Sold Annual Total SAAR	MAY	505.00	525.00	517.00
23-Jun	US New One Family Houses Sold Annual Total MoM SA	MAY	-2.32	1.55	6.80
24-Jun	GDP US Chained 2009 Dollars QoQ SAAR	1Q T	-0.20	-0.20	-0.70
24-Jun	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	1Q T	1.90	1.90	1.80
24-Jun	US GDP Price Index QoQ SAAR	1Q T	-0.10	-0.10	-0.10
24-Jun	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q T	0.10	0.80	0.80
25-Jun	US Initial Jobless Claims SA	JUN 20	271.00	272.50	267.00
25-Jun	US Continuing Jobless Claims SA	JUN 13	2215.00	2220.00	2222.00
25-Jun	US Personal Income MoM SA	MAY	0.20	0.45	0.40
25-Jun	US Personal Consumption Expenditures Nominal Dollars MoM SA	MAY	0.40	0.70	0.00
26-Jun	University of Michigan Consumer Sentiment Index	JUN F	94.00	94.60	94.60

## 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 %)	5.07	5.00	<b>6.14</b>	<b>6.05</b>	7.48	<b>6.26</b>	<b>4.40</b>	<b>2.45</b>

## Fun Fact

The number of millionaires in India rose 26% last year to 198,000. While the annual change was significant, the number seems small in comparison to the U.S.'s 4.4 million millionaires. (The Associated Press, June 17<sup>th</sup> 2015)

## Recent Publications

[Headline CPI Up in May, but Core Prices Subdued](#) (June 18, 2015)

[June FOMC Statement: Time to Focus on the Future Rate Trajectory Rather than the First Hike](#) (June 17, 2015)

[Industrial Production Continues to Disappoint in May](#) (June 15, 2015)

[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)

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