

Economic Analysis

Weekly Focus: FOMC Minutes

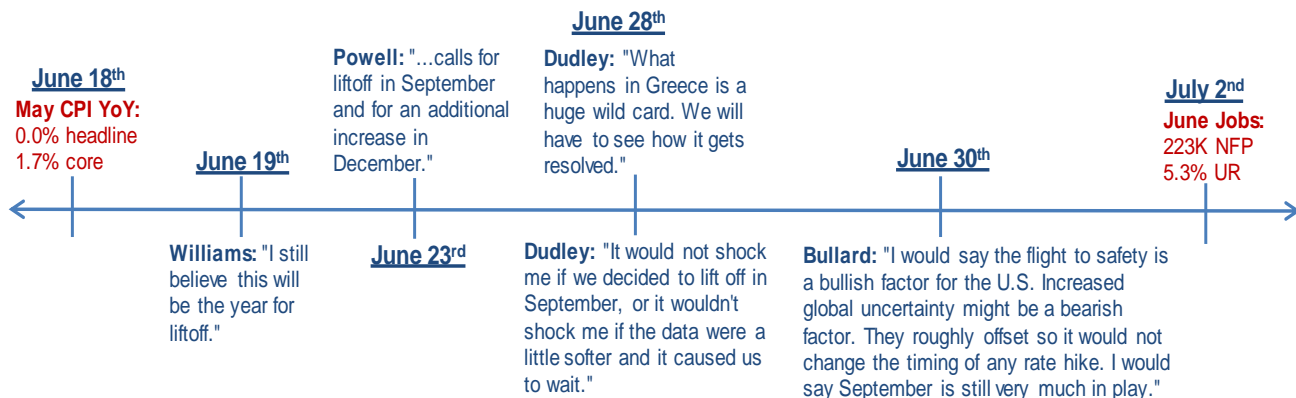
Kim Chase

Fed Speak and Minutes Unlikely to Clarify Timing of First Rate Hike

Not much these days can stand up to the hullabaloo surrounding FOMC events, especially since all other economic news eventually leads us straight back to the Fed. The June statement left us all hanging, and unfortunately we do not expect the meeting minutes to clarify the Committee’s thinking when it comes to liftoff timing. If anything, the detailed commentary from the meeting will only increase uncertainty and raise even more questions about when the first rate hike will occur and what the FOMC is really looking for when it comes to incoming economic data. So far, the Fed has adjusted as expected to the slow start to 2015 and the disappointing second quarter rebound that has followed. Projections have been revised down, reflecting the FOMC’s realism when it comes to the true underlying strength of the economy. In addition, the dovish members of the FOMC (i.e., the majority) continue to highlight the need for “further improvement”, in the labor market and beyond. Global pressures are another factor to consider, and we are likely to see some mention of these concerns in June’s meeting minutes as well as in future meetings.

Fed speak since the June meeting has emphasized the usual data-dependency language, though it appears that members are even less confident than they were six months ago on how the rest of 2015 is going to play out. Greece is just the latest in a string of economic news that has the potential to delay the Fed’s rate hike. However, at this point most FOMC members are in agreement that whatever happens with Greece will not be enough to force a delay, at least on its own. As long as U.S. economic data continue to evolve in line with FOMC projections, we should still see the first rate hike by the end of this year. The most certain conclusion to take away from all of this is that the FOMC is taking a day-to-day approach on interpreting incoming economic data as well as balancing domestic and global concerns.

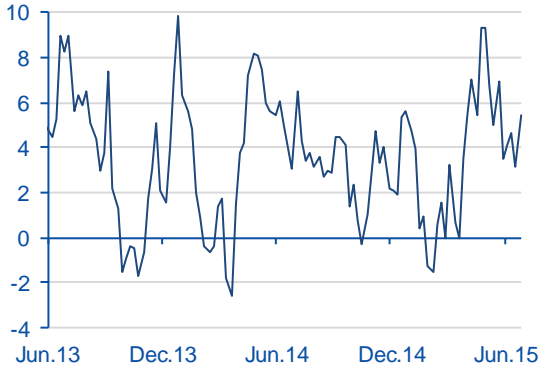
Graph 1
FOMC Commentary Since June 17th Meeting



Source: FRB & BBVA Research

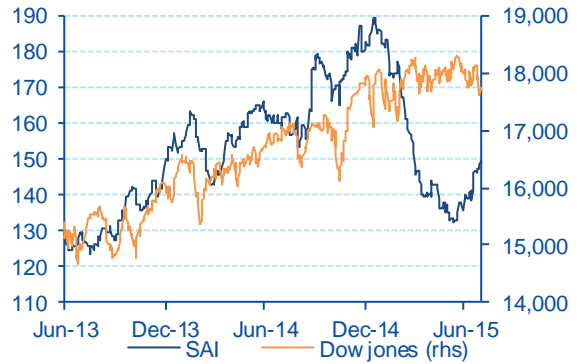
Economic Trends

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



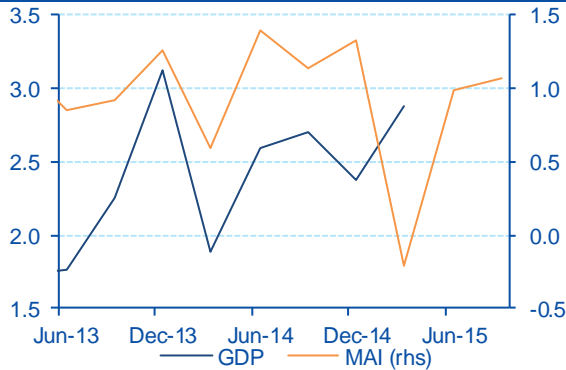
Source: BBVA Research

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



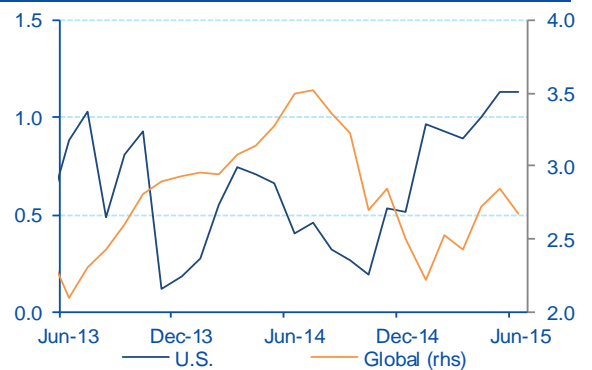
Source: Bloomberg & BBVA Research

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



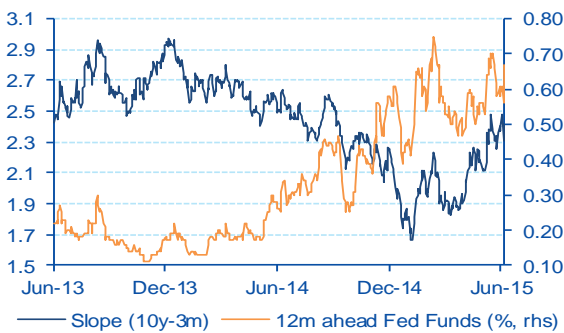
Source: BBVA Research & BEA

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



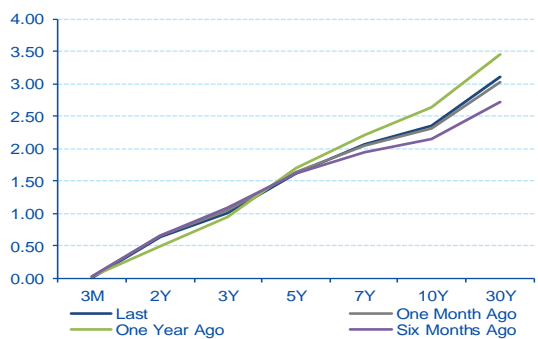
Source: BBVA Research

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
6-Jul	ISM Non-Manufacturing NMI NSA	JUN	56.30	56.40	55.70
7-Jul	US Trade Balance of Goods and Services SA	MAY	-42.10	-42.75	-40.88
7-Jul	US Job Openings By Industry Total SA	MAY	5395.00	5300.00	5376.00
8-Jul	Federal Reserve Consumer Credit Total Net Change SA	MAY	17.90	18.50	20.54
9-Jul	US Initial Jobless Claims SA		267.00	270.00	281.00
9-Jul	US Continuing Jobless Claims SA		2210.00	2236.00	2264.00
10-Jul	Merchant Wholesalers Inventories Total Monthly % Change	MAY	0.30	0.30	0.40

Economic Outlook

	2014				2015			
	4Q	1Q	2Q	3Q	2014	2015	2016	2017
Real GDP (% SAAR)	2.2	-0.2	3.5	5.8	2.4	2.9	2.8	2.8
CPI (YoY %)	1.2	-0.1	0.0	0.7	1.6	0.5	1.9	2.2
CPI Core (YoY %)	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.9
Unemployment Rate (%)	5.7	5.6	5.4	5.2	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	2.21	2.04	2.36	2.46	2.21	2.59	2.80	3.79
US Dollar/ Euro (eop)	1.23	1.08	1.12	1.02	1.23	1.01	1.12	1.24
Core Logic Home Prices (YoY %)	5.07	5.00	6.14	6.05	7.48	6.26	4.40	2.45

Fun Fact

With only 4,400 words, the U.S. Constitution is the oldest and shortest written constitution of any major government in the world. India's Constitution is the longest, with 117,369 words in the English version.

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[Greek Uncertainty and Risks to the U.S.](#) (July 1, 2015)

[ATUS 2014: Work More, Sleep More, Relax More](#) (June 30, 2015)

[Timeline: Congress Passes Fast-Track and TAA](#) (June 25, 2015)

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