

Economic Analysis

# Weekly Focus: Retail Sales & Industrial Production

Amanda Augustine

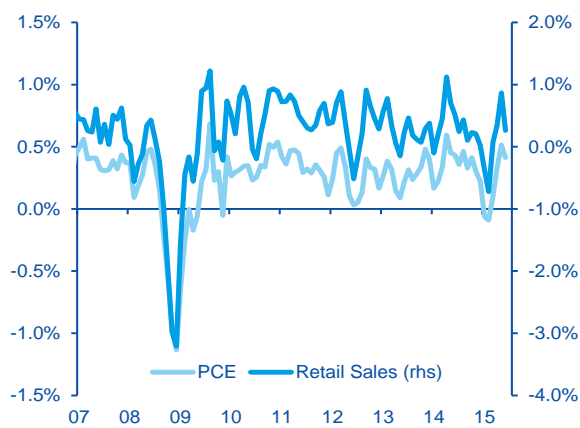
## With Income Gains and Low Oil Prices, Retail Sales Expected to Rise

Following a disappointing decline in June, we expect that **July's retail sales report (Thursday)** will indicate a strong start to 3Q15 with a broad-based increase in retail sales. The exception could lie in gasoline sales; as crude oil prices were on a steadily downward trend in July, gas station receipts likely suffered as a result. However, last week's motor vehicle sales report for July could indicate a rebound in the auto component of the retail sales report. Last week's employment situation report was also promising, with a 0.2% increase in average hourly wages. Stronger gains in income should boost consumer spending as we head into 3Q15. As consumption has recently hovered at low levels, producers have struggled to put a check on inventory growth in response to less demand. We expect to see lower inventory levels in this week's **wholesale trade (Tuesday)** and **business inventories (Thursday)** releases.

## Industrial Production Up Despite Weakness in Manufacturing and Mining

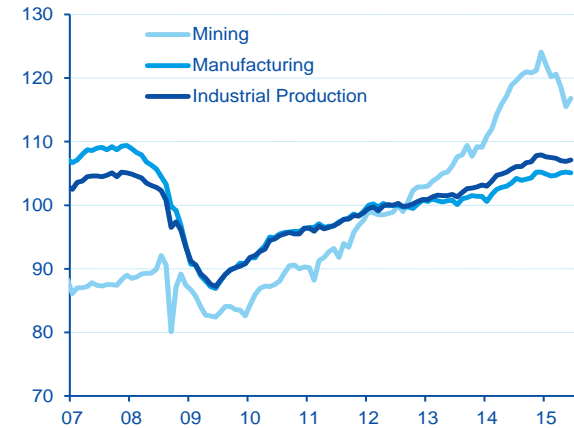
We expect that **July's industrial production reading (Friday)** should be positive for the second month in a row, after five months of consecutive negative readings earlier in the year. Manufacturing should show a slight recovery, but will continue to experience the negative effects of the continued strength of the dollar and weak global demand. The ISM manufacturing index for July indicated slow activity in the sector, but the new orders index was at its highest level since 2014, supporting our expectations for a better outcome in July. Last month's reading for mining represented the largest MoM increase for the sector since December 2014, largely due to an increase in crude oil extraction in June. On a YoY basis however, industrial production in mining experienced its largest decline since 2010, as coal production tumbled for the third consecutive month. For July, the EIA reported a slowdown in domestic crude oil production, but this could be somewhat offset by the rebound in coal production during that month. We expect that mining will decline, but at a slower pace than earlier this year. Capacity utilization has not shown great volatility this year and is expected to stay relatively consistent.

Graph 1  
**Retail Sales and Consumption**  
(SAAR, \$, 3-month avg. %change)



Source: Census Bureau, Haver Analytics & BBVA Research

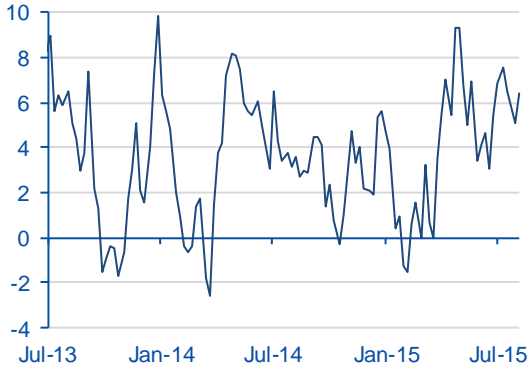
Graph 2  
**Industrial Production and Selected Components**  
(SA, 2012=100)



Source: FRB & BBVA Research

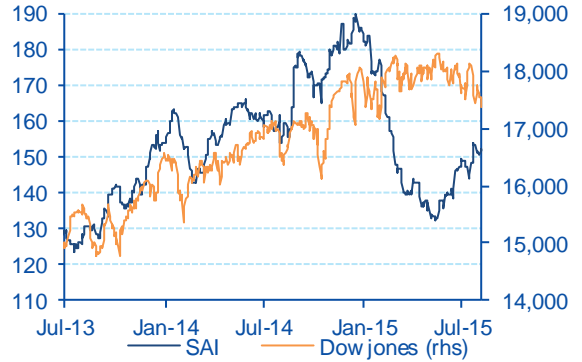
**Economic Trends**

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



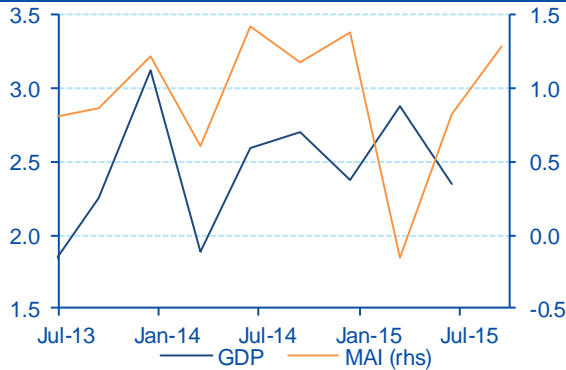
Source: BBVA Research

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



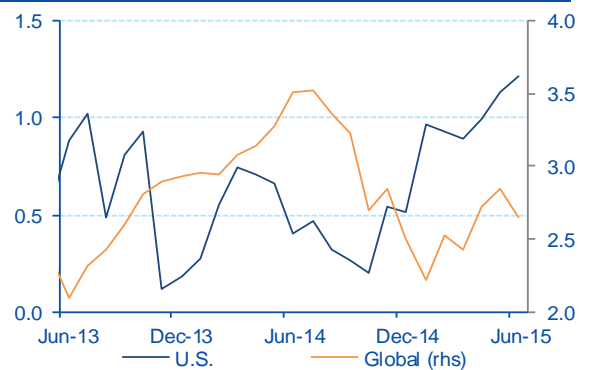
Source: Bloomberg & BBVA Research

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



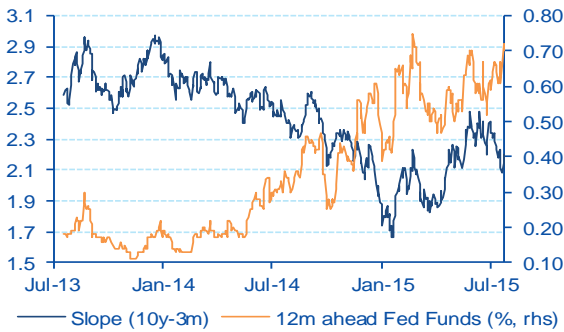
Source: BBVA Research & BEA

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



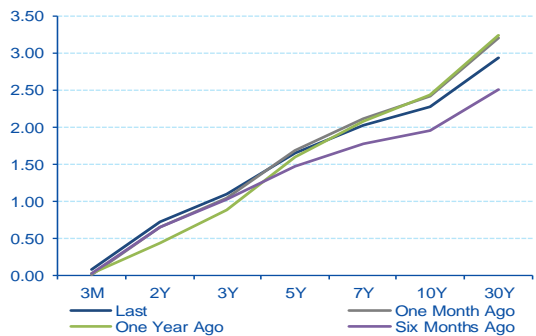
Source: BBVA Research

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
11-Aug	NFIB Small Business Optimism Index	JUL	96.00	95.10	94.10
11-Aug	US Output Per Hour Nonfarm Business Sector QoQ SA	2Q P	1.40	1.60	-3.10
11-Aug	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	2Q P	2.11	0.00	6.70
11-Aug	Merchant Wholesalers Inventories Total Monthly % Change	JUN	0.33	0.40	0.80
12-Aug	US Job Openings By Industry Total SA	JUN	5379.00	5290.00	5363.00
13-Aug	US Initial Jobless Claims SA	AUG 8	276.20	270.00	270.00
13-Aug	US Continuing Jobless Claims SA	AUG 1	2249.00	2245.00	2255.00
13-Aug	Adjusted Retail & Food Services Sales SA Total Monthly % Change	JUL	0.47	0.60	-0.30
13-Aug	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	JUL	0.28	0.40	-0.20
13-Aug	US Import Price Index by End Use All MoM NSA	JUL	-1.00	-1.20	-0.10
13-Aug	US Manufacturing & Trade Inventories Total MoM SA	JUN	0.20	0.30	0.30
14-Aug	US PPI Final Demand MoM SA	JUL	0.06	0.10	0.40
14-Aug	US PPI Final Demand Less Foods and Energy MoM SA	JUL	0.10	0.10	0.30
14-Aug	US Industrial Production MOM SA	JUL	0.30	0.30	0.23
14-Aug	US Capacity Utilization % of Total Capacity SA	JUL	78.03	78.00	77.82
14-Aug	US Industrial Production Industry Groups Manufacturing MoM SA	JUL	0.20	0.40	-0.10
14-Aug	University of Michigan Consumer Sentiment Index	AUG P	93.76	93.60	93.10

## Economic Outlook (revisions pending)

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	2.3	3.6	3.3	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.6	1.4	1.6	0.5	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.7	1.8	1.7	1.7	1.8	2.0
Unemployment Rate (%)	5.6	5.4	5.2	5.1	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	2.04	2.36	2.43	2.53	2.21	2.53	2.72	3.64
US Dollar/ Euro (eop)	1.08	1.12	1.05	1.07	1.23	1.07	1.13	1.20
Core Logic Home Prices (YoY %)	5.00	6.14	6.05	5.85	7.48	5.76	4.40	2.45

## Fun Fact

The 10 candidates that appeared in the first GOP presidential debate for the 2016 elections also happened to be the top 10 candidates searched for on Google in the last week. (Google Trends, August 2015)

## Recent Publications

[Employment Data Holds Steady, Wages on the Rise](#) (August 7, 2015)

[Changing the Climate Game](#) (August 6, 2015)

[Houston, We Have a Debt Problem](#) (August 4, 2015)

[State Monthly Activity Indexes: Acceleration Expected in 2H15](#) (July 30, 2015)

[Values-Based Investing Gains Mass Appeal](#) (July 30, 2015)

[2Q15 Real GDP Hits 2.3% as BEA Revisions Attempt to Tackle 1Q Weakness](#) (July 30, 2015)

[FOMC Statement: July 28-29<sup>th</sup>](#) (July 29, 2015)

[China's Uncertainty and Risks to the U.S.](#) (July 28, 2015)

[Technology, Opportunity, & Access: Understanding Financial Inclusion in the U.S.](#) (July 28, 2015)

[Auto Industry Chartbook](#) (July 24, 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.