

Economic Analysis

# Weekly Focus: FOMC Minutes and Inflation

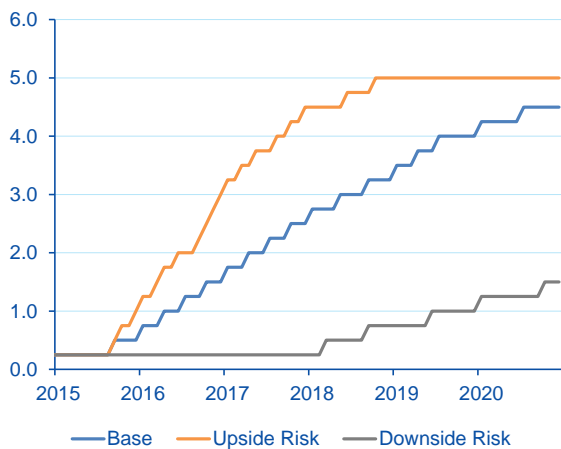
Kim Chase

## Countdown to September is on, but Will Inflation Hold Up?

The release of July’s FOMC meeting minutes is the last significant piece of Fed communication before we hit the September meeting. We expect that the details will reveal more specific opinions from FOMC members regarding the readiness of the group to finally raise rates. Although the Jackson Hole Symposium is scheduled for the end of August, Yellen has made it clear that she will not be in attendance, so it is unlikely that any major market-shifting news will come from the event. However, the topic of the conference is “Inflation Dynamics and Monetary Policy”, which is extremely relevant to the impending federal funds rate hike. Inflation has picked up, albeit slowly, and inflation expectations have remained mostly stable, yet prices remain far from the Fed’s target. The lack of significant inflationary pressures makes it difficult for the FOMC to justify a rate hike while maintaining their data-dependent strategy, despite the fact that they perceive increasing risks to delaying liftoff.

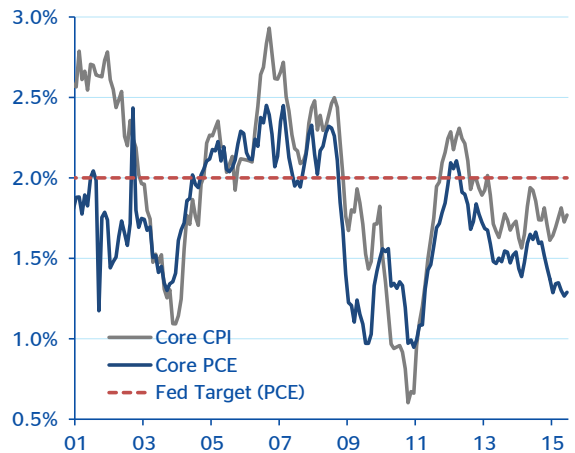
Only two more CPI reports will be released before the September meeting, and many FOMC doves seem ready to delay the rate hike at the first sign of weakness. Monthly declines in inflation for July and August could signal a delayed liftoff, most likely to December. If import prices are any signal, we could see another negative month for CPI inflation. However, producer prices managed to eke out a minor increase for the month (both headline and core), suggesting that CPI will do the same. Despite the latest reversal in oil prices back near \$50/barrel and the ongoing decline in commodity prices, we expect CPI to remain steady throughout the summer months. Under the assumption that YoY inflation rates do not decline, we maintain our expectations for the first rate hike in September.

Graph 1  
**Federal Funds Rate, BBVA Research USA Projections (%)**



Source: BBVA Research

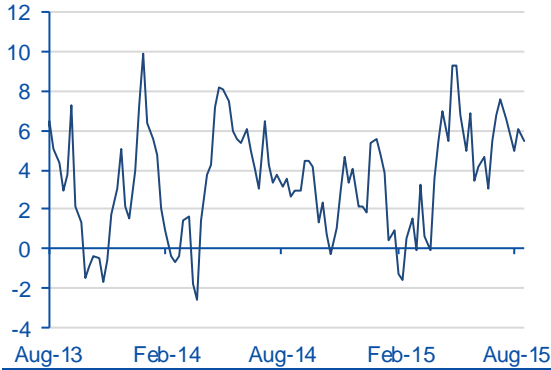
Graph 2  
**Core CPI and PCE Inflation (YoY % Change)**



Source: BLS, BEA, & BBVA Research

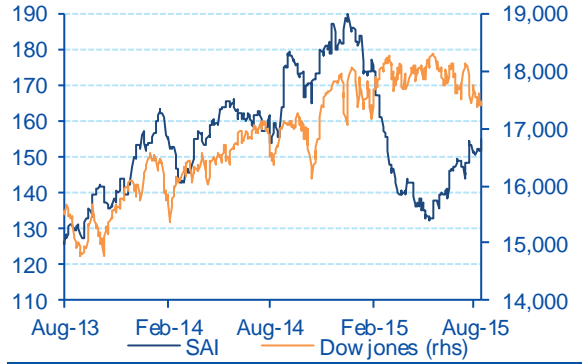
**Economic Trends**

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



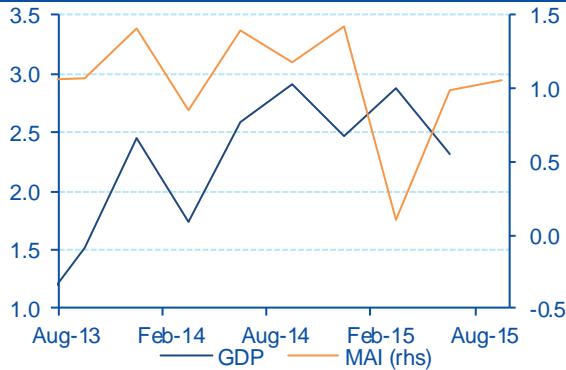
Source: BBVA Research

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



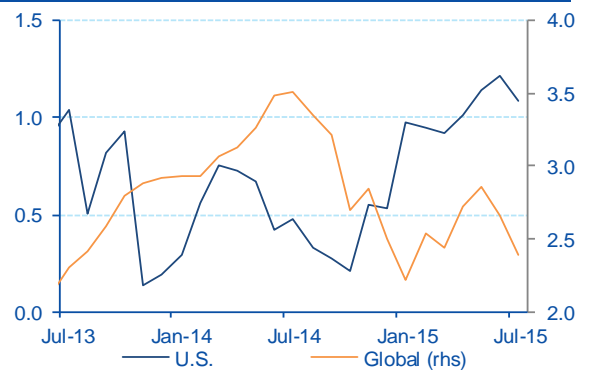
Source: Bloomberg & BBVA Research

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



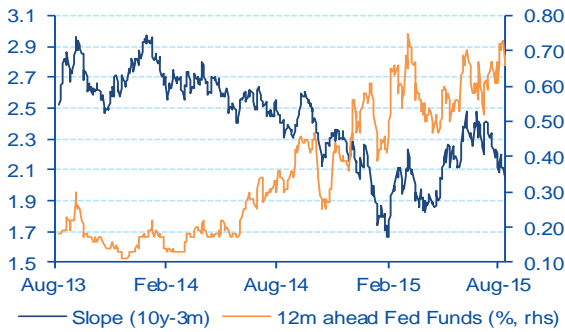
Source: BBVA Research & BEA

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



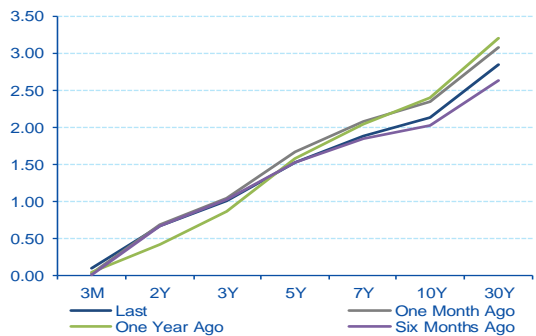
Source: BBVA Research

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
17-Aug	US Empire State Manufacturing Survey General Business Conditions SA	AUG	4.40	4.50	3.86
17-Aug	National Association of Home Builders Market Index SA	AUG	60.00	61.00	60.00
18-Aug	US New Privately Owned Housing Units Started by Structure Total SAAR	JUL	1191.00	1180.00	1174.00
18-Aug	Private Housing Units Started by Structure Total Monthly % Change SA	JUL	1.45	0.51	9.80
18-Aug	Private Housing Authorized by Bldg Permits by Type Total SAAR	JUL	1289.00	1230.00	1337.00
18-Aug	Private Total Housing Authorized by Building Permits MoM SA	JUL	-3.59	-8.00	7.00
19-Aug	US CPI Urban Consumers MoM SA	JUL	0.10	0.20	0.30
19-Aug	US CPI Urban Consumers Less Food & Energy MoM SA	JUL	0.20	0.20	0.20
20-Aug	US Initial Jobless Claims SA	AUG 15	268.00	272.00	274.00
20-Aug	US Continuing Jobless Claims SA	AUG 8	2250.00	2265.00	2273.00
20-Aug	US Existing Homes Sales SAAR	JUL	5.45	5.42	5.49
20-Aug	US Existing Homes Sales MoM SA	JUL	-0.82	-1.28	3.20
20-Aug	Conference Board US Leading Index MoM	JUL	0.30	0.20	0.60
20-Aug	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	AUG	6.80	7.00	5.70

## Economic Outlook

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	2.3	<b>4.0</b>	<b>2.9</b>	2.4	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	-0.1	0.0	<b>0.6</b>	<b>1.4</b>	1.6	<b>0.5</b>	<b>1.8</b>	<b>2.1</b>
CPI Core (YoY %)	1.7	1.8	<b>1.7</b>	<b>1.8</b>	1.7	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>
Unemployment Rate (%)	5.6	5.4	<b>5.2</b>	<b>5.1</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.50</b>	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	2.04	2.36	<b>2.43</b>	<b>2.53</b>	2.21	<b>2.53</b>	<b>2.72</b>	<b>3.64</b>
US Dollar/ Euro (eop)	1.08	1.12	<b>1.05</b>	<b>1.07</b>	1.23	<b>1.07</b>	<b>1.13</b>	<b>1.20</b>
Core Logic Home Prices (YoY %)	4.96	5.80	<b>6.05</b>	<b>5.85</b>	7.55	<b>5.76</b>	<b>4.40</b>	<b>2.45</b>

## Fun Fact

According to a new report from the Census on automobile commuting, approximately 86% of workers drove to work in 2013, down slightly from 87% in 2006. The share of workers commuting via public transportation increased from 4.8% in 2006 to 5.2% in 2013. (U.S. Census Bureau, 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)

**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.