

Economic Analysis

Weekly Focus: GDP and Housing

Kim Chase

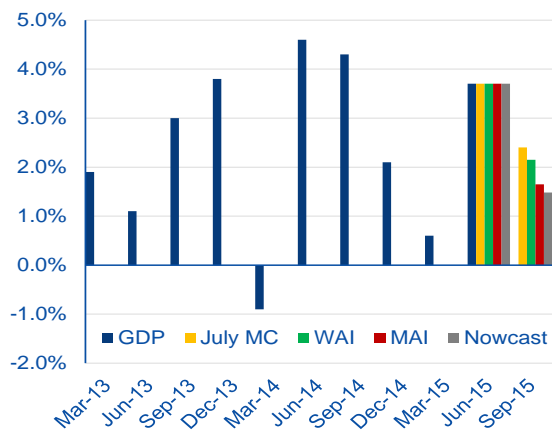
Strong 2Q15 GDP Growth Leads us Into More Moderate Trends in 3Q

The **final estimate for 2Q15 real GDP growth (Friday)** is expected to show only a minor revision compared to the prior 3.7% figure released last month. Incoming data since the last report hint at upward revisions from major contributors to GDP, including personal consumption expenditures and construction spending (i.e. residential investment). However, downward revisions to net exports and inventory growth in June may offset any positive bias from the consumer and residential components. Given these opposing forces, we do not expect to see significant movement one way or another from this final 2Q15 GDP report. At this point, we are well into the third quarter and need to focus our attention on the economic data to come. Activity thus far points to moderate GDP growth for 3Q15 at a slightly slower pace than in 2Q (assuming the 2Q figure does not change much). Consumption will continue to drive the economy throughout the second half of 2015, helping us close out the year near 2.5% annual growth.

New Home Sales Expected to Overshadow Existing Market in August

Housing activity has been relatively strong in 2015 thus far, posting healthy contributions to GDP in both the first and second quarters. Residential investment, tracked on a monthly basis via construction spending and housing starts, hints at increased supply in the coming months and a positive impact on the sales side. **Existing home sales (Monday)** have dominated the market and have been on a steady upward trend throughout the past few months. However, weakness in pending home sales (the leading indicator for existing sales), suggests a brief downturn for August. The opposite is expected for **new home sales (Thursday)** given the ongoing gains in confidence as reported by the Homebuilder Housing Market Index, which is now at its highest level of the recovery. Overall, our outlook for housing activity remains optimistic, though we do expect lingering structural effects from the crisis to contribute to the gradual pace of residential growth in the coming year.

Graph 1
Real GDP Growth Forecasts
(QoQ SAAR % Change)



Source: BEA & BBVA Research

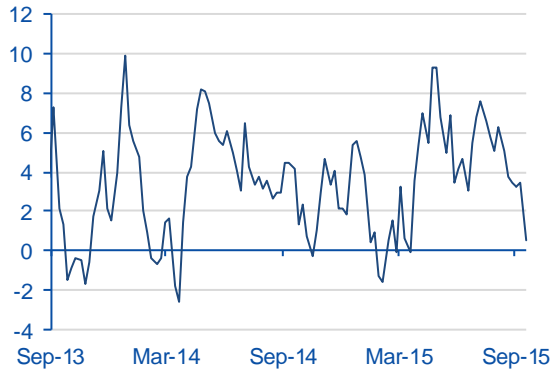
Graph 2
New and Existing Home Sales
(YoY % Change)



Source: Census, NAR, & BBVA Research

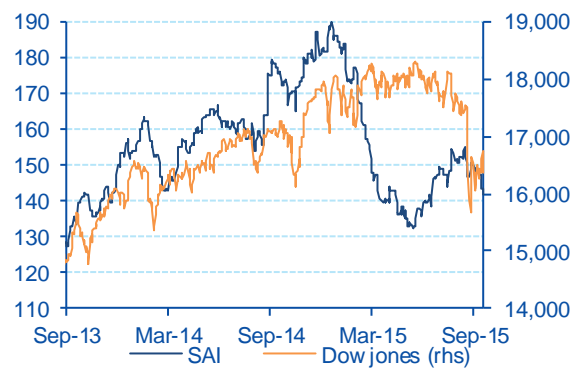
Economic Trends

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



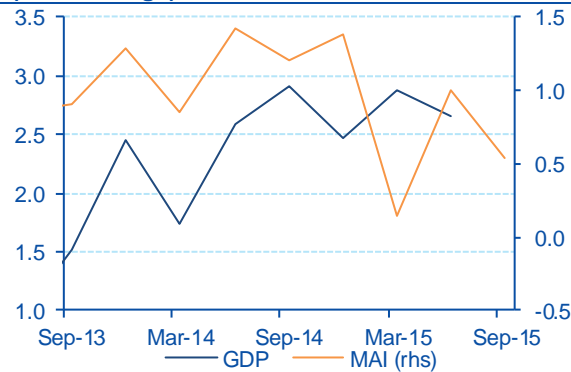
Source: BBVA Research

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



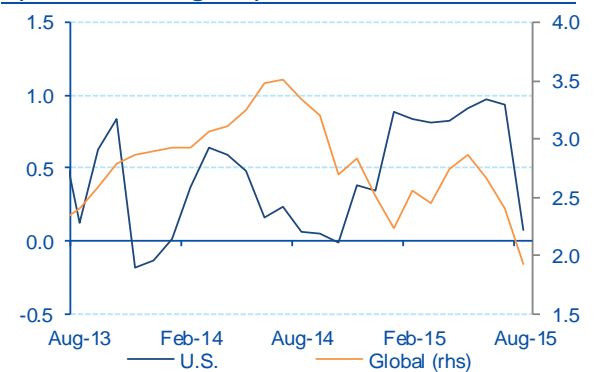
Source: Bloomberg & BBVA Research

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



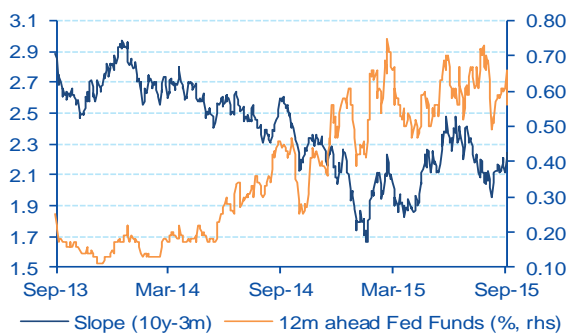
Source: BBVA Research & BEA

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



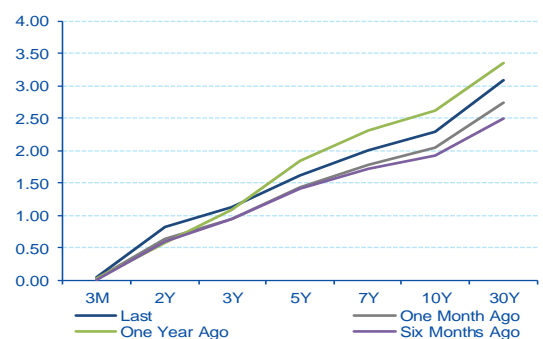
Source: BBVA Research

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 |
|--------|--|--------|---------|-----------|----------|
| 21-Sep | US Existing Homes Sales SAAR | AUG | 5.58 | 5.50 | 5.59 |
| 21-Sep | US Existing Homes Sales MoM SA | AUG | -0.27 | -1.61 | 2.01 |
| 24-Sep | US Initial Jobless Claims SA | SEP 19 | 269.00 | 274.00 | 264.00 |
| 24-Sep | US Continuing Jobless Claims SA | SEP 12 | 2248.00 | 2237.00 | 2237.00 |
| 24-Sep | Chicago Fed National Activity Index | AUG | 0.30 | 0.24 | 0.34 |
| 24-Sep | US Durable Goods New Orders Industries MoM SA | AUG | 1.50 | -2.30 | 2.20 |
| 24-Sep | US Durable Goods New Orders Total ex Transportation MoM SA | AUG | 1.00 | 0.10 | 0.40 |
| 24-Sep | US New One Family Houses Sold Annual Total SAAR | AUG | 518.00 | 515.00 | 507.00 |
| 24-Sep | US New One Family Houses Sold Annual Total MoM SA | AUG | 2.17 | 1.58 | 5.40 |
| 25-Sep | GDP US Chained 2009 Dollars QoQ SAAR | 2Q T | 3.80 | 3.70 | 3.70 |
| 25-Sep | GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR | 2Q T | 3.10 | 3.20 | 3.10 |
| 25-Sep | US GDP Price Index QoQ SAAR | 2Q T | 2.00 | 2.10 | 2.10 |
| 25-Sep | US GDP Personal Consumption Core Price Index QoQ % SAAR | 2Q T | 1.80 | 1.80 | 1.80 |
| 25-Sep | University of Michigan Consumer Sentiment Index | SEP F | 88.00 | 86.50 | 85.70 |

Economic Outlook

| | 2015 | | | | 2014 | 2015 | 2016 | 2017 |
|--------------------------------|------|------|-------------|-------------|------|-------------|-------------|-------------|
| | 1Q | 2Q | 3Q | 4Q | | | | |
| Real GDP (% SAAR) | 0.6 | 3.7 | 2.4 | 3.0 | 2.4 | 2.5 | 2.8 | 2.8 |
| CPI (YoY %) | -0.1 | 0.0 | 0.2 | 1.0 | 1.6 | 0.3 | 2.3 | 2.4 |
| CPI Core (YoY %) | 1.7 | 1.8 | 1.8 | 1.7 | 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 | 0.25 | 0.50 | 0.25 | 0.50 | 1.25 | 2.25 |
| 10Yr Treasury (eop, % Yield) | 2.04 | 2.36 | 2.33 | 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 %) | 4.96 | 5.80 | 6.05 | 5.85 | 7.55 | 5.76 | 4.40 | 2.45 |

Fun Fact

The GOP debate on September 16th was the longest presidential debate ever and the most-watched program in CNN history, with 23.1 million viewers. (CNN)

Recent Publications

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