

Economic Analysis

Weekly Focus: CPI and Retail Sales

Kim Chase

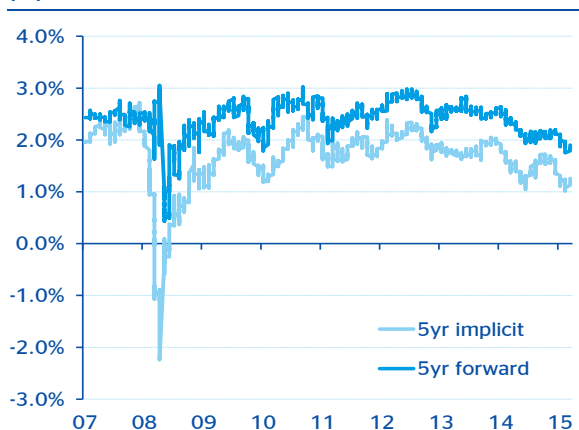
No Major Pickup in Inflation Expected in 4Q15, Holding Back Fed’s Liftoff Plans

Downward pressures on inflation will not let up, and expectations for **September’s CPI report (Thursday)** are for minor to no change in prices. Falling commodity prices and the strong USD continue to weigh on inflation, particularly at the headline level, and core prices remain far from the Fed’s target. Despite a modest increase in oil prices in September, we do not expect that headline CPI will increase much, and core inflation will only see a small gain staying in trend with the previous few months. A big pickup in inflation does not look to be in the cards for the fourth quarter, weighing on the Fed’s desires to increase the federal funds rate by the end of the year. While most members of the FOMC agree that these downward pressures on inflation are only transitory, recent declines in inflation expectations were notable. The Fed will continue to monitor such movements, though according to September’s FOMC meeting minutes, “participants continued to anticipate that longer-run inflation expectations would remain well anchored.” Regardless, it is unlikely that inflation will increase enough in the coming months to justify a rate hike in the Fed’s eyes.

September’s Retail Sales to Show Another Positive Month for Consumers

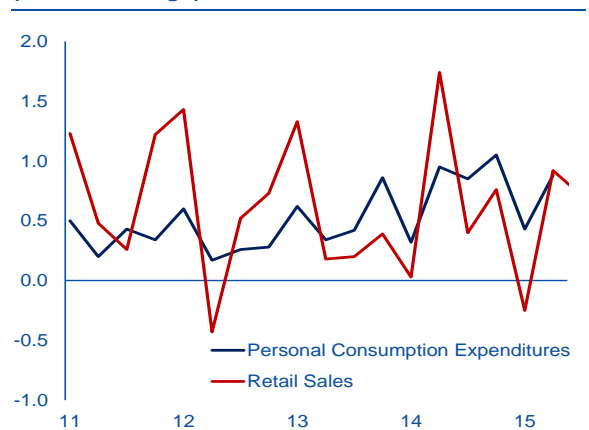
Consumption has remained the key driver of economic growth in the U.S., holding at a healthy pace despite the fact that consumers are seeing very little increase in wages. **September’s retail sales (Wednesday)** are expected to show continued strength in the consumer sector, this month driven by another jump in auto sales. Trends in retail sales do not always go hand-in-hand with personal consumption expenditures (PCE) as a contributor to GDP growth, yet we can usually get a pretty good idea of how things will play out with PCE later in the month. In real terms, both retail sales and PCE have benefited from an environment of favorably low prices on goods and services, with many retailers encouraging spending via sales and increased discounts. This trend will surely continue throughout the fourth quarter as we approach the holiday shopping season and as consumers become more willing to loosen their purse strings at least for the time being.

Graph 1
Inflation Expectations (%)



Source: FRB & BBVA Research

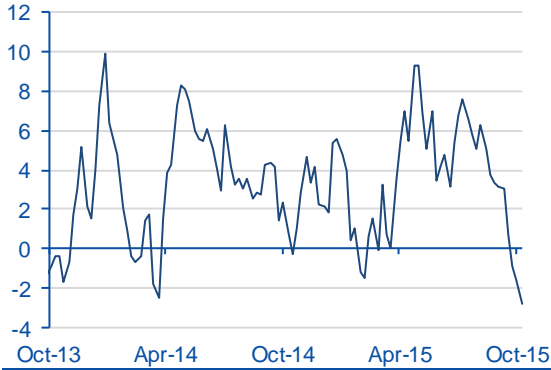
Graph 2
Real Personal Consumption and Retail Sales (QoQ % Change)



Source: Census, BEA, & BBVA Research

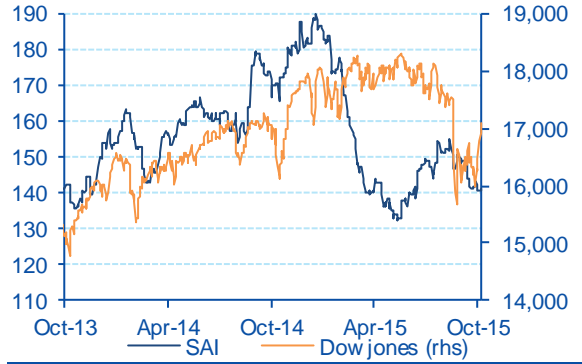
Economic Trends

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



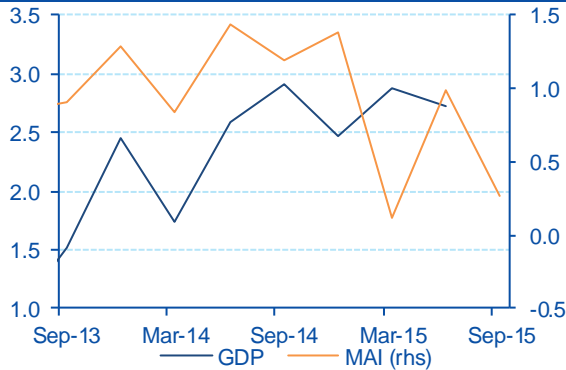
Source: BBVA Research

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



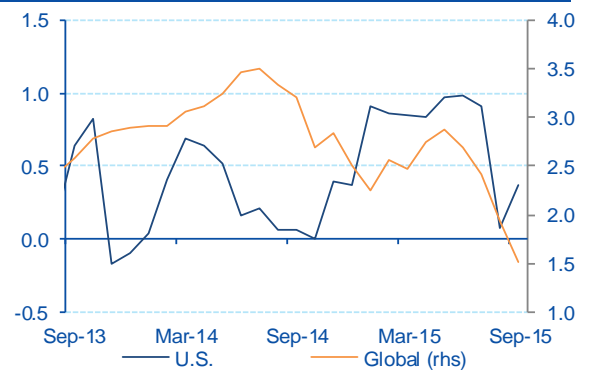
Source: Bloomberg & BBVA Research

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



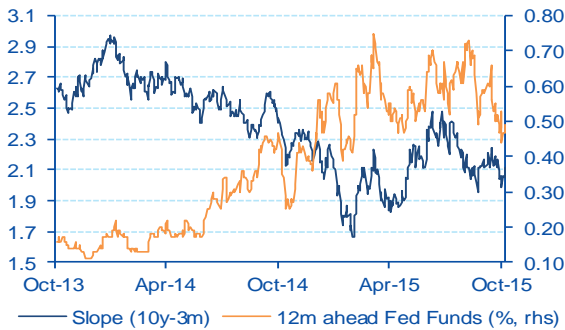
Source: BBVA Research & BEA

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



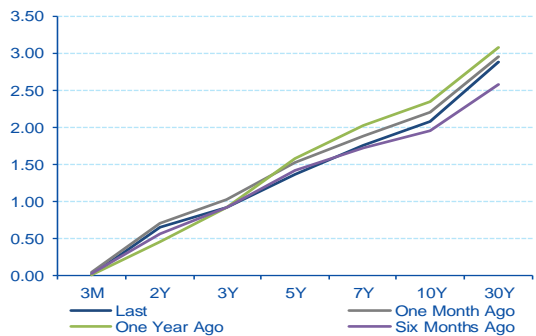
Source: BBVA Research

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
13-Oct	NFIB Small Business Optimism Index	SEP	95.10	95.00	95.90
14-Oct	Adjusted Retail & Food Services Sales SA Total Monthly % Change	SEP	0.40	0.10	0.20
14-Oct	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	SEP	0.30	0.30	0.30
14-Oct	US PPI Final Demand MoM SA	SEP	0.10	-0.20	0.00
14-Oct	US PPI Final Demand Less Foods and Energy MoM SA	SEP	0.20	0.10	0.30
14-Oct	US Manufacturing & Trade Inventories Total MoM SA	AUG	0.30	0.10	0.10
15-Oct	US Initial Jobless Claims SA	OCT 8	261.00	269.50	263.00
15-Oct	US Continuing Jobless Claims SA	OCT 1	2200.00	2194.00	2204.00
15-Oct	US Empire State Manufacturing Survey General Business Conditions SA	OCT	-9.70	-7.75	-14.67
15-Oct	US CPI Urban Consumers MoM SA	SEP	0.10	-0.20	-0.10
15-Oct	US CPI Urban Consumers Less Food & Energy MoM SA	SEP	0.20	0.10	0.10
15-Oct	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	OCT	3.10	-1.00	-6.00
16-Oct	US Industrial Production MOM SA	SEP	0.20	-0.30	-0.38
16-Oct	US Capacity Utilization % of Total Capacity SA	SEP	77.80	77.30	77.62
16-Oct	US Industrial Production Industry Groups Manufacturing MoM SA	SEP	0.10	-0.20	-0.50
16-Oct	University of Michigan Consumer Sentiment Index	OCT P	88.50	89.00	87.20
16-Oct	US Job Openings By Industry Total SA	AUG	5688.00	5550.00	5753.00

Economic Outlook (revisions pending)

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.9	2.1	3.0	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.2	1.0	1.6	0.3	1.8	2.1
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	2.19	2.33	2.21	2.33	2.74	3.50
US Dollar/ Euro (eop)	1.08	1.12	1.12	1.09	1.23	1.09	1.16	1.20
Core Logic Home Prices (YoY %)	4.96	5.80	6.05	5.85	7.55	5.67	4.40	2.45

Fun Fact

Public employees in only 23 states have a paid holiday on Columbus Day. (Pew Research)

Recent Publications

[FOMC Minutes: Divided Views in FOMC, Members Moving Farther from Liftoff Consensus](#) (October 8, 2015)

[Labor Market Conditions Weaken in September](#) (October 2, 2015)

[Productivity Deceleration: Evidence from State-Level Data of the U.S.](#) (October 1, 2015)

[Congress Narrowly Averts Another Shutdown](#) (September 30, 2015)

[Consumers Made More and Spent More in August](#) (September 28, 2015)

[U.S. Oil and Gas Industry Chartbook](#) (September 25, 2015)

[Final Estimate for Real GDP Growth Hits 3.9%](#) (September 25, 2015)

[FOMC Statement: Dovish Views Dominate as FOMC Holds Back on Rate Hike](#) (September 17, 2015)

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