

Economic Analysis

Weekly Focus: Housing and Jobless Claims

Kim Chase

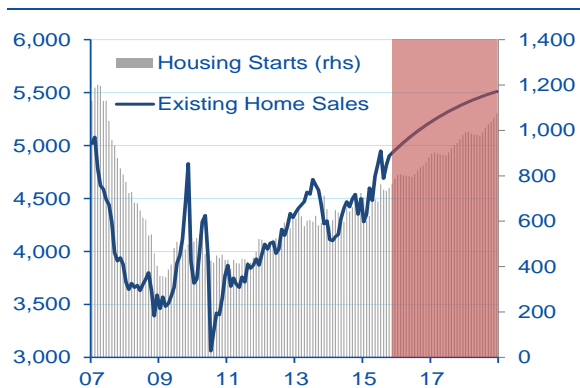
Existing Home Market Will Continue to Outperform New Construction

The third quarter thus far has not been overly favorable for the housing market, with construction and sales falling below expectations in July and August. For September, we expect to see a modest rebound but not enough to warrant a significant boost to GDP growth for the quarter. **Housing starts and building permits (Tuesday)** should tick upward for the month, continuing the very gradual movement away from crisis lows. The new home market has not seen a significant boost in demand throughout the recovery, and housing starts are rising at a faster pace than new home sales. On the other hand, **existing home sales (Thursday)** have shown more promise, especially when considering both supply and affordability. While we don't expect housing activity to reach pre-recession levels in the coming years, our outlook for the existing home market is relatively positive. In general though, we do expect the homeownership rate in the U.S. to continue falling toward historic lows.

Jobless Claims at Historical Lows Not Telling the Full Story on Employment

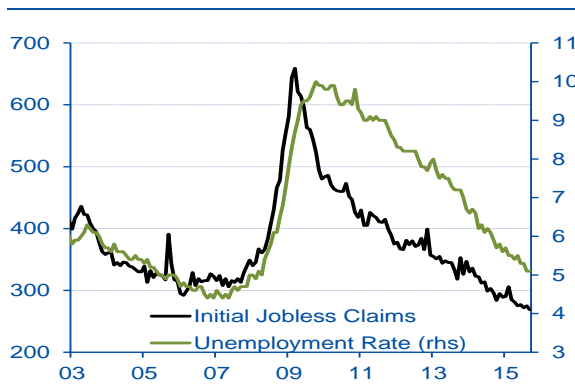
Weekly volatility has not clouded positive jobless claims data in recent months, at least at face value. Despite concerns of slowing job growth (as seen in nonfarm payroll reports for August and September), jobless claims data continue to suggest a healthy labor market. In early October, initial jobless claims fell to a 42-year low at only 255K, which in pre-crisis circumstances would imply that the economy is back at full employment with the unemployment rate near its natural level. However, we all know that this recovery has been different, and it is unclear how much the jobless claims data are telling us now that we have hit these multi-decade lows. The fact that jobless claims are still falling does not necessarily mean that strong hiring will continue, particularly if we consider the people who continue to drop out of the labor force once unemployment benefits expire. There are plenty of other variables to focus on that may better estimate how much slack is left in the labor market. According to September's FOMC meeting minutes, "eliminating slack along such broader dimensions might require a temporary decline in the unemployment rate below its longer-run normal level." This may also be true for jobless claims, which are on pace to reach even lower historical levels in the coming months.

Graph 1
Existing Home Sales & Housing Starts (SAAR Thousands)



Source: NAR, Census, & BBVA Research

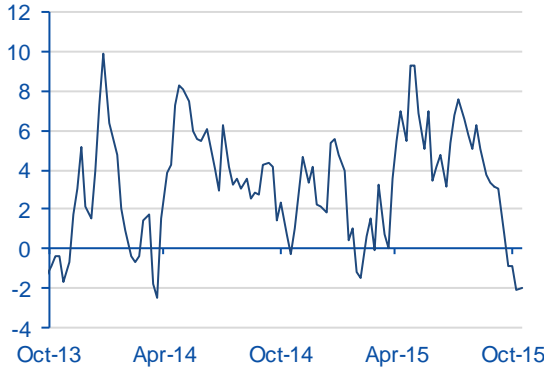
Graph 2
Initial Jobless Claims & Unemployment Rate (SA Thousands, %)



Source: Department of Labor, BLS, & BBVA Research

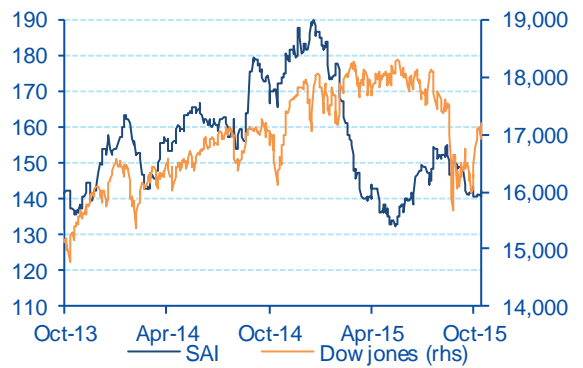
Economic Trends

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



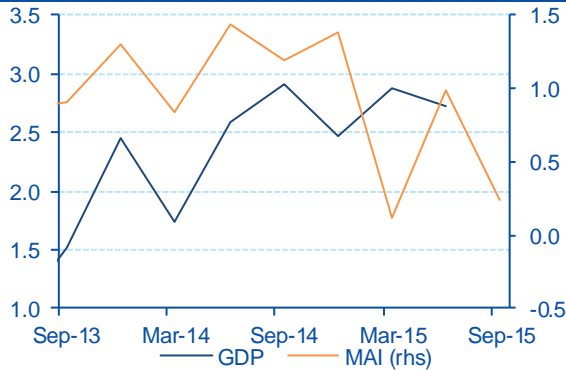
Source: BBVA Research

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



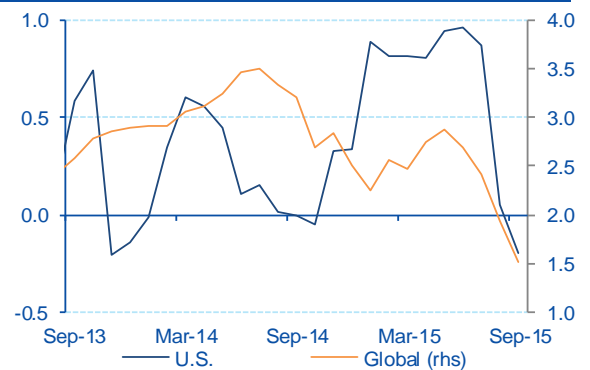
Source: Bloomberg & BBVA Research

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



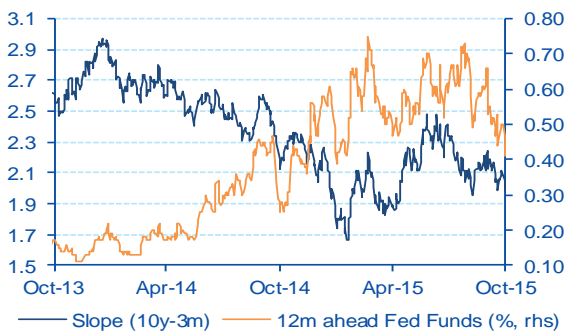
Source: BBVA Research & BEA

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



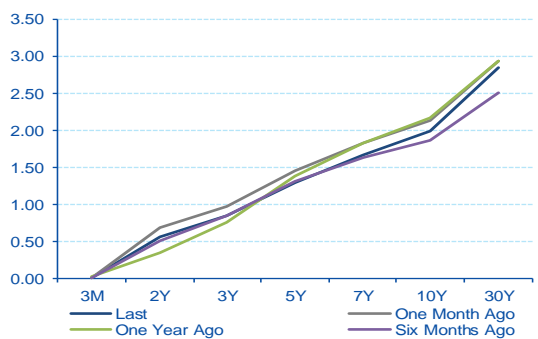
Source: BBVA Research

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
19-Oct	National Association of Home Builders Market Index SA	OCT	62.00	62.00	62.00
20-Oct	US New Privately Owned Housing Units Started by Structure Total SAAR	SEP	1175.00	1146.00	1126.00
20-Oct	Private Housing Units Started by Structure Total Monthly % Change SA	SEP	4.35	1.78	-3.00
20-Oct	Private Housing Authorized by Bldg Permits by Type Total SAAR	SEP	1190.00	1167.00	1170.00
20-Oct	Private Total Housing Authorized by Building Permits MoM SA	SEP	1.71	-0.26	3.50
22-Oct	US Initial Jobless Claims SA	OCT 17	259.00	265.00	255.00
22-Oct	US Continuing Jobless Claims SA	OCT 10	2210.00	2190.00	2158.00
22-Oct	Chicago Fed National Activity Index	SEP	-0.20	0.00	-0.41
22-Oct	US Existing Homes Sales SAAR	SEP	5.38	5.37	5.31
22-Oct	US Existing Homes Sales MoM SA	SEP	1.22	1.13	-4.84
22-Oct	Conference Board US Leading Index MoM	SEP	0.20	0.00	0.10

Economic Outlook (revisions pending)

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.9	1.5	2.7	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.1	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

A new study from the CDC estimates that the U.S. economy lost \$249 billion due to excess alcohol consumption in 2010 (up from \$224 billion in 2006), of which \$77 billion stemmed from impaired productivity and absenteeism. (Centers for Disease Control)

Recent Publications

[U.S. Economic Outlook: Sliding into the Fourth Quarter](#) (October 16, 2015)

[Second Straight Decline for Industrial Production](#) (October 16, 2015)

[Cheap Fuel Drags Down September Headline CPI](#) (October 15, 2015)

[Congress Debates Lifting Crude Export Ban](#) (October 14, 2015)

[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)

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.