

Economic Analysis

Weekly Focus: FOMC Meeting and 3Q15 GDP

Kim Chase

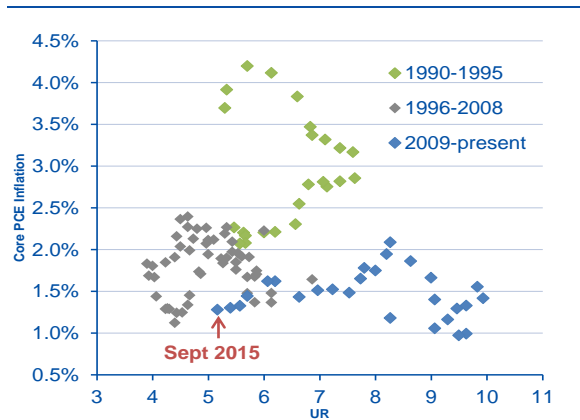
No Rate Hike Announcement Expected at FOMC Meeting

The chances of a rate hike announcement at **October's FOMC meeting (Wednesday)** are slim to none. First and foremost, economic data have proven to be weaker-than-expected since the September meeting and even the latest employment reports have disappointed to the downside. The Fed will not be able to justify its data-dependent strategy if they increase rates based off the data released throughout the past month. However, it will be interesting to see additional commentary of how various FOMC members are responding to this prolonged period of inflation and a falling unemployment rate as we are in a unique economic environment compared to the pre-crisis period. Secondly, this FOMC meeting is not associated with any chair press conference or release of updated economic projections. Announcing the first hike at such a time would cause unwanted reaction in financial markets – something the FOMC desperately wants to avoid. December remains the Fed's target for liftoff, but delays to 1Q16 are highly possible, and the meeting-by-meeting approach will continue into next year.

Consumption (and Not Much Else) Will Drive 3Q15 Real GDP Growth

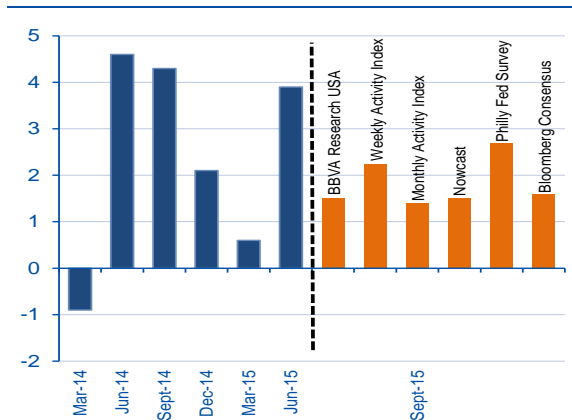
Expectations for the **advance estimate of 3Q15 real GDP growth (Thursday)** are for a much lower figure than the second quarter's 3.9% pace. Throughout the past few months, the U.S. economy has been hit hard by weakness abroad, with many export-oriented industries reporting a significant drop in production. In particular, manufacturing output has fallen back to levels last seen at the end of 2014, erasing much of the progress that occurred in 2Q15. Housing activity has been steady, but momentum has not increased enough to warrant a large boost to GDP growth for the quarter. Private consumption remains the key driver of growth and will be the standout of the upcoming report. Overall, our in-house models point to a modest 1.5%-2.0% pace for 3Q, and we expect that the economy will accelerate slightly thereafter. We maintain our 2015 forecast of 2.5%, but threats of a more pronounced global slowdown are materializing. Thus, we expect U.S. growth to stabilize around 2.5% in the mid- to long-term as weaker underlying fundamentals lay the groundwork for a "new normal" economic cycle that no longer seems destined for above 3.0% growth anytime soon.

Graph 1
Unemployment Rate & Core PCE Inflation
(%, YoY % Change)



Source: BLS, BEA, & BBVA Research

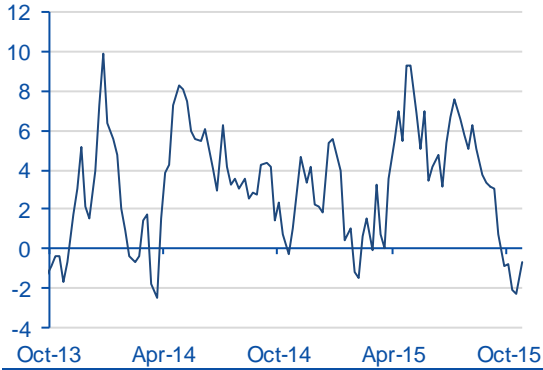
Graph 2
Real GDP Growth
(QoQ SAAR % Change)



Source: BEA & BBVA Research

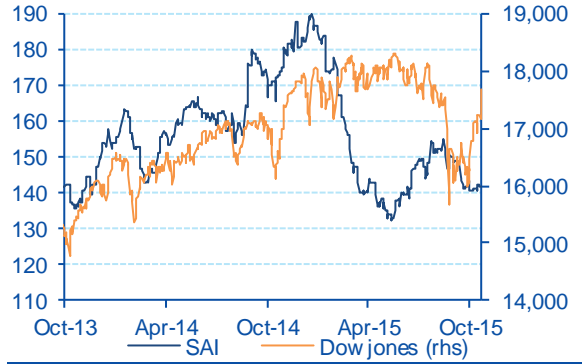
Economic Trends

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



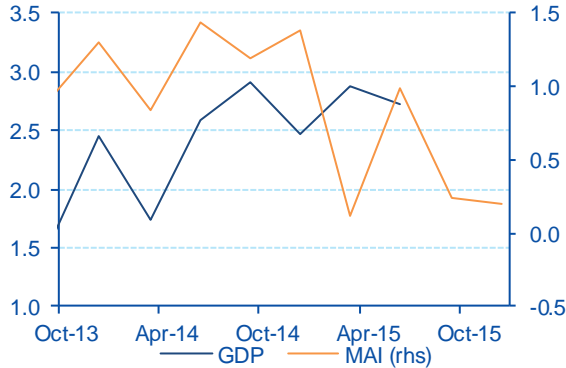
Source: BBVA Research

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



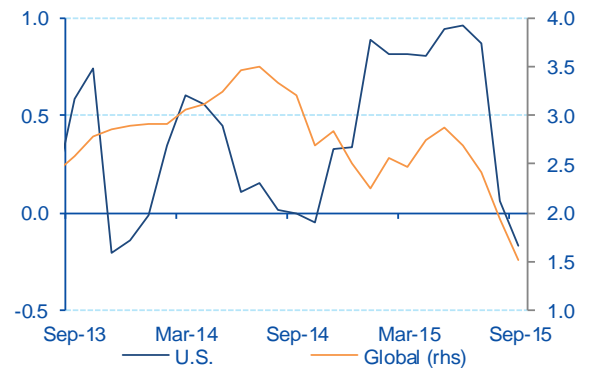
Source: Bloomberg & BBVA Research

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



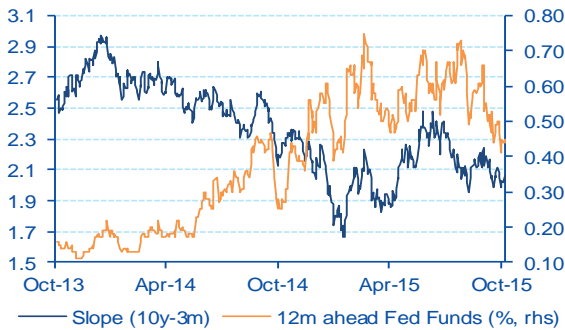
Source: BBVA Research & BEA

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



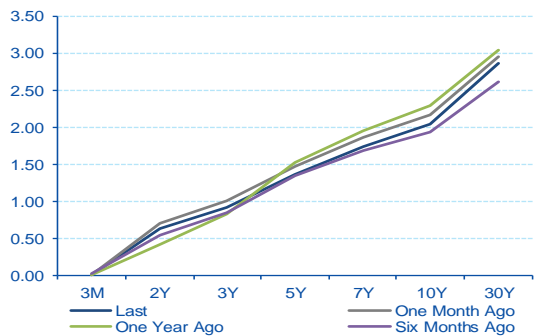
Source: BBVA Research

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
26-Oct	US New One Family Houses Sold Annual Total SAAR	SEP	540.00	550.00	552.00
26-Oct	US New One Family Houses Sold Annual Total MoM SA	SEP	-2.17	-0.36	5.70
26-Oct	Dallas Fed Manufacturing Outlook Level Of General Business Activity	OCT	-10.00	-6.50	-9.50
27-Oct	US Durable Goods New Orders Industries MoM SA	SEP	1.10	-1.25	-2.30
27-Oct	US Durable Goods New Orders Total ex Transportation MoM SA	SEP	0.60	0.00	-0.20
27-Oct	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	AUG	-0.16	0.10	-0.20
27-Oct	S&P/Case-Shiller Composite-20 City Home Price Index YoY	AUG	4.84	5.10	4.96
27-Oct	Conference Board Consumer Confidence SA 1985=100	OCT	102.20	102.80	103.04
28-Oct	Federal Funds Target Rate - Upper Bound	OCT 28	0.25	0.25	0.25
29-Oct	US Initial Jobless Claims SA	OCT 24	257.00	263.00	259.00
29-Oct	US Continuing Jobless Claims SA	OCT 17	2185.00	2160.00	2170.00
29-Oct	GDP US Chained 2009 Dollars QoQ SAAR	3Q A	1.50	1.55	3.90
29-Oct	GDP US Personal Consumption Chained 2009 Dls % Change from Previous Period SAAR	3Q A	2.10	3.30	3.60
29-Oct	US GDP Price Index QoQ SAAR	3Q A	1.00	1.40	2.10
29-Oct	US GDP Personal Consumption Core Price Index QoQ % SAAR	3Q A	1.80	1.40	1.90
29-Oct	US Pending Home Sales Index MoM SA	SEP	0.60	1.00	-1.35
30-Oct	US Personal Income MoM SA	SEP	0.20	0.20	0.30
30-Oct	US Personal Consumption Expenditures Nominal Dollars MoM SA	SEP	0.20	0.20	0.40
30-Oct	Bureau of Labor Statistics Employment Cost Civilian Workers QoQ SA	3Q	0.40	0.60	0.20
30-Oct	MNI Chicago Business Barometer (sa)	OCT	49.70	49.50	48.70
30-Oct	University of Michigan Consumer Sentiment Index	OCT F	91.30	92.50	92.10

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	0.9	1.6	0.2	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.8	1.9	1.7	1.8	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	2.17	2.33	2.21	2.33	2.51	3.21
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

Self-employed individuals make up about 10% of total employment in the U.S. Another 20% of all employees are hired by the self-employed. Top industries for self-employment include agriculture, forestry and fishing (81%) and construction (68%). (Pew Research Center, October 2015)

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[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)

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