

Economic Analysis

Weekly Focus: GDP & Personal Consumption

Kim Chase

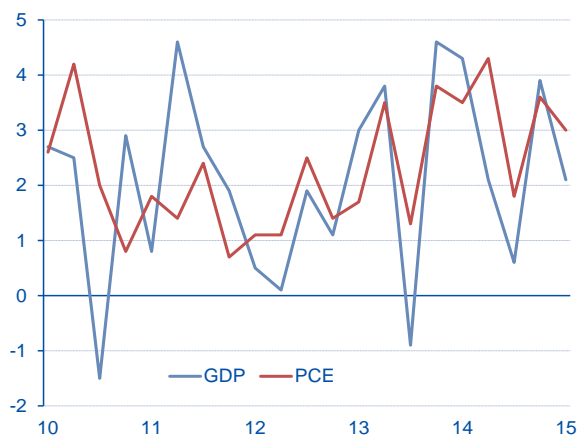
Business Inventories and Net Exports Weighing on Final 3Q GDP Growth

The **final estimate for 3Q15 real GDP growth (Tuesday)** is expected to show a slight downward revision from the 2.1% figure released last month. Lagged data releases throughout the past few weeks have shown minor adjustments to a few GDP components for September, including business inventories and net exports. Both of these are also expected to remain weak moving into the fourth quarter on the backs of soft global demand and the strong USD. However, domestic consumption should continue to offset such weakness, driving growth into 2016. Domestic uncertainty is falling now that the Fed's rate hike and Congress' budget agreement are behind us, leaving room for upside surprises in the coming year. Overall, we maintain our projections for 2.5% growth in both 2015 and 2016.

Keeping an Eye on Consumption and the Personal Savings Rate in 2016

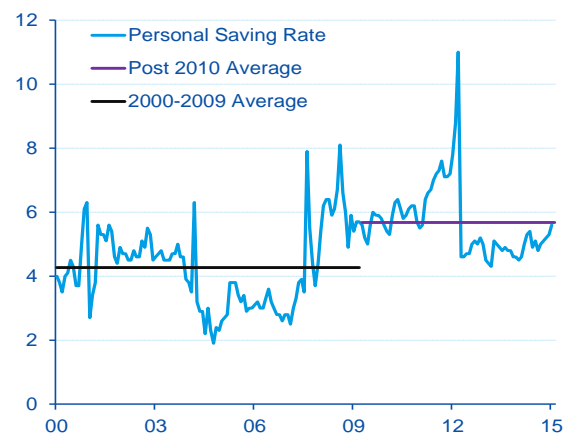
Personal income and outlays for November (Wednesday) are expected to post another strong showing as consumers take advantage of expected holiday bonuses and discounts. Domestic demand remains healthy, and despite some underwhelming retail sales data for the month, personal consumption expenditures will continue to be a key driver of growth in the New Year. Household deleveraging has hit the end of the road, and now consumers are ready to take on more debt to fuel their purchases. However, the personal savings rate remains elevated, suggesting that there is still some hesitation to really follow through on increased spending. Personal savings as a percent of disposable personal income hit 5.6% in October, the highest since December 2012 and much greater than the pre-crisis average of 4.3%. This will be a key trend to monitor in the coming year because if wages don't begin to pick up soon, consumers may not be willing to reduce their savings enough to keep up similar spending levels.

Graph 1
Real GDP & PCE Growth (QoQ SAAR % Change)



Source: BEA & BBVA Research

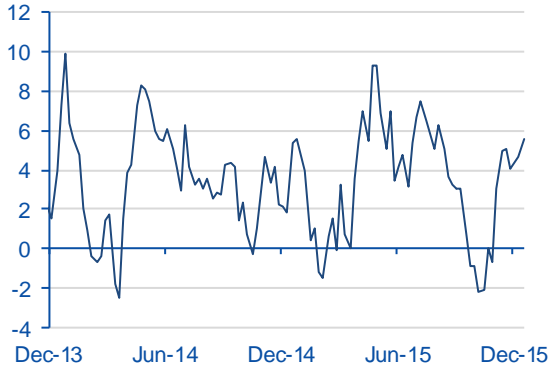
Graph 2
Personal Savings Rate (SAAR %)



Source: BEA & BBVA Research

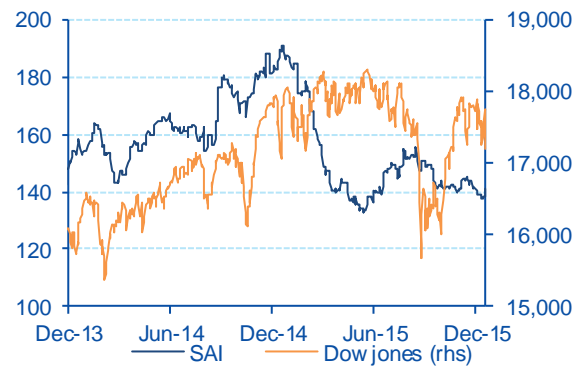
Economic Trends

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



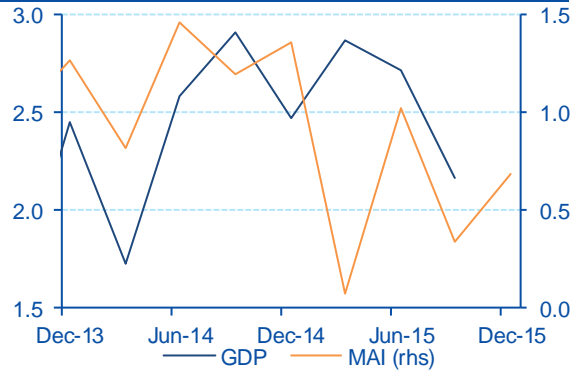
Source: BBVA Research

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



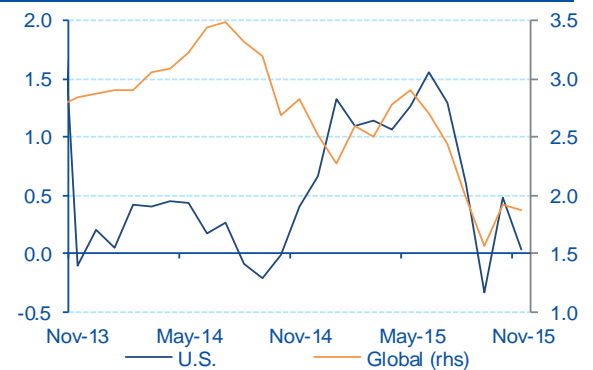
Source: Bloomberg & BBVA Research

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



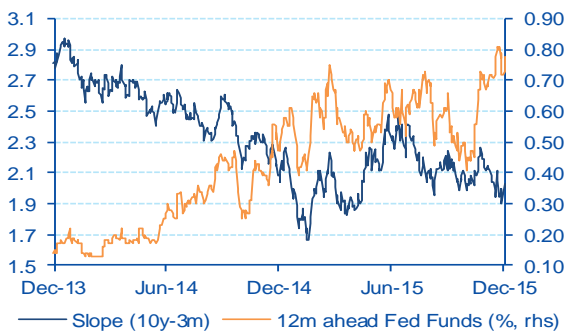
Source: BBVA Research & BEA

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



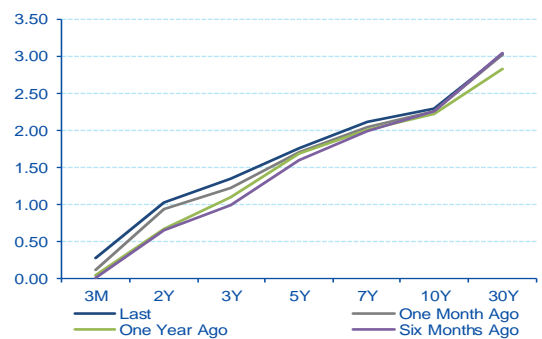
Source: BBVA Research

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
21-Dec	Chicago Fed National Activity Index	NOV	0.10	0.10	-0.04
22-Dec	GDP US Chained 2009 Dollars QoQ SAAR	3Q T	2.00	1.90	2.10
22-Dec	GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR	3Q T	3.00	2.90	3.00
22-Dec	US GDP Price Index QoQ SAAR	3Q T	1.30	1.30	1.30
22-Dec	US GDP Personal Consumption Core Price Index QoQ % SAAR	3Q T	1.30	1.30	1.30
22-Dec	US Existing Homes Sales SAAR	NOV	5.42	5.34	5.36
22-Dec	US Existing Homes Sales MoM SA	NOV	1.03	-0.41	-3.42
23-Dec	US Durable Goods New Orders Industries MoM SA	NOV P	1.10	-0.70	2.90
23-Dec	US Durable Goods New Orders Total ex Transportation MoM SA	NOV P	0.40	0.00	0.50
23-Dec	US Personal Income MoM SA	NOV	0.30	0.20	0.40
23-Dec	US Personal Consumption Expenditures Nominal Dollars MoM SA	NOV	0.40	0.30	0.10
23-Dec	University of Michigan Consumer Sentiment Index	DEC F	92.00	92.00	91.80
23-Dec	US New One Family Houses Sold Annual Total SAAR	NOV	510.00	505.00	495.00
23-Dec	US New One Family Houses Sold Annual Total MoM SA	NOV	3.03	2.02	10.70
24-Dec	US Initial Jobless Claims SA	DEC 19	273.00	270.00	271.00
24-Dec	US Continuing Jobless Claims SA	DEC 12	2213.00	2187.50	2238.00

Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	2.1	2.6	1.9	2.4	2.5	2.5	2.4
CPI (YoY %)	0.0	0.1	0.9	2.2	1.6	0.2	1.8	1.9
CPI Core (YoY %)	1.8	1.8	1.9	1.9	1.7	1.8	1.8	1.9
Unemployment Rate (%)	5.4	5.2	5.0	5.0	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.36	2.17	2.33	2.43	2.21	2.33	2.51	3.21
US Dollar/ Euro (eop)	1.12	1.12	1.10	1.05	1.23	1.10	1.12	1.16
Core Logic Home Prices (YoY %)	4.99	5.24	6.59	5.82	7.66	5.39	4.99	2.45

Fun Fact

There has been a Fed rate hike in the same year that five of seven Star Wars movies have been released. Also, six of seven Star Wars movies have been released in the month of May, with the only exception being the newest movie. (BBVA Research, December 2015)

Recent Publications

[Congress Wraps up Omnibus Bill Before Holidays](#) (December 17, 2015)

[The Force Awakens: Yellen and Fellow FOMC Jedis Announce Rate Hike](#) (December 16, 2015)

[Consumption Recovery Uneven Across States](#) (December 16, 2015)

[November's Core CPI lends Support to Liftoff](#) (December 15, 2015)

[FOMC Preview: December 15-16th Meeting](#) (December 11, 2015)

[November Retail Sales Reflect Holiday Spending](#) (December 11, 2015)

[Highway Bill Reaches the End of the Road](#) (December 4, 2015)

[Texas Economy Parries Oil Price Blow, Looking to Avoid Knockout from Abroad](#) (December 4, 2015)

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