

Economic Analysis

# Weekly Focus: A Glimpse into 2016

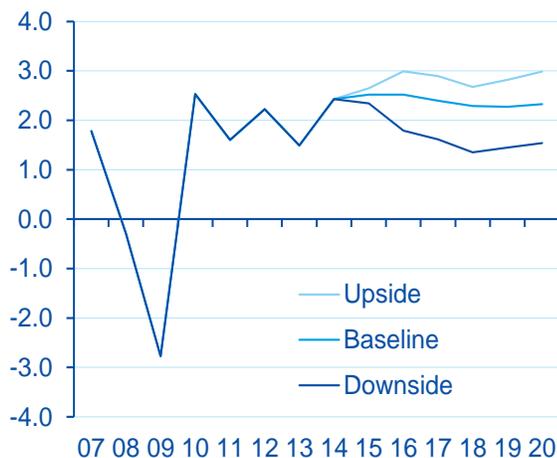
Kim Chase

## Strong Domestic Consumption Rolling into the New Year

It's a quiet week on the economic calendar and therefore a good time to look ahead to life in 2016. Despite some risks to growth, domestic consumption continues to shine, putting the focus on the consumer sector to drive activity into next year. While private consumption remains the key supporter of domestic growth, private nonresidential fixed investment is expected to remain relatively subdued throughout the next year. The pace of growth is likely to hold slightly lower than in previous expansionary periods given the structural damage from the crisis as well as lingering uncertainty in the global economy. Businesses remain hesitant to significantly expand their workforce and ramp up production due to a variety of unknowns, including the speed at which interest rates will rise and the full extent of weak global demand. Furthermore, the prolonged period of low oil prices limits the upside for investment in the energy sector. Lower investment in oil and gas structures will continue to be a burden and could drag down GDP growth by another 10 basis points between 4Q15 and 1Q16, on top of the 45% decline already seen since 4Q14.

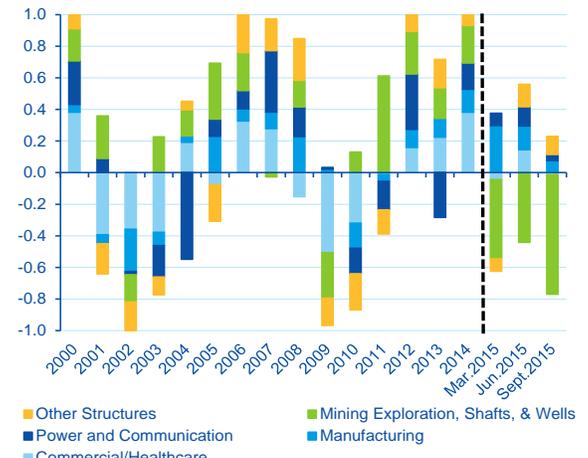
The global slowdown appears to be having a more prolonged impact on domestic activity, particularly when it comes to export-oriented industries, and this will likely heighten internal risks if the spillover intensifies. Thus, domestic risks are heavily intertwined with weakness from abroad and include steep disinflation, rapid USD appreciation, financial overheating, and further delays in the Fed's policy normalization plan. At the same time, upside risks to the U.S. economy would come from stronger-than-expected domestic consumption and investment despite any spillover from the weak global economy. A stronger pickup in inflation would encourage the Fed to increase rates at a faster pace, translating to a more optimistic outlook for the U.S. economy.

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



Source: BEA & BBVA Research

Graph 2  
**Real Private Investment in Structures**  
(Contributions to QoQ SAAR GDP Growth, pp)



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)**



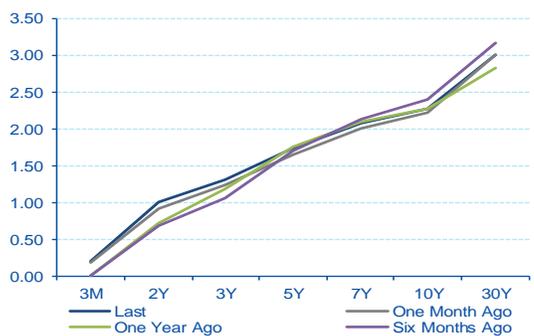
Source: BBVA Research

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
28-Dec	Dallas Fed Manufacturing Outlook Level Of General Business Activity	DEC	-6.10	-7.00	-4.90
29-Dec	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	OCT	1.42	0.55	0.61
29-Dec	S&P/Case-Shiller Composite-20 City Home Price Index YoY	OCT	6.27	5.60	5.45
29-Dec	Conference Board Consumer Confidence SA 1985=100	DEC	93.50	93.80	90.40
30-Dec	US Pending Home Sales Index MoMSA	NOV	0.50	0.60	0.19
31-Dec	US Initial Jobless Claims SA	26-Dec	268.00	270.00	267.00
31-Dec	US Continuing Jobless Claims SA	19-Dec	2201.00	2200.00	2195.00
31-Dec	MNI Chicago Business Barometer (sa)	DEC	49.50	50.25	48.70

## Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	2.0	<b>2.6</b>	<b>1.9</b>	2.4	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>
CPI (YoY %)	0.0	0.1	<b>0.7</b>	<b>2.2</b>	1.6	<b>0.2</b>	<b>1.8</b>	<b>1.9</b>
CPI Core (YoY %)	1.8	1.8	<b>1.9</b>	<b>1.9</b>	1.7	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>
Unemployment Rate (%)	5.4	5.2	<b>5.0</b>	<b>5.0</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.50</b>	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.00</b>	<b>2.00</b>
10Yr Treasury (eop, % Yield)	2.36	2.17	<b>2.33</b>	<b>2.43</b>	2.21	<b>2.33</b>	<b>2.51</b>	<b>3.21</b>
US Dollar/ Euro (eop)	1.12	1.12	<b>1.10</b>	<b>1.05</b>	1.23	<b>1.10</b>	<b>1.12</b>	<b>1.16</b>
Core Logic Home Prices (YoY %)	4.99	5.24	<b>6.59</b>	<b>5.82</b>	7.66	<b>5.39</b>	<b>4.99</b>	<b>2.45</b>

## Fun Fact

Americans spent about \$1.16bn on Christmas trees in 2013, up from \$1.01bn in 2012. (Statista, December 2015)

## Recent Publications

[Existing Home Sales Fall in November, but Other Parameters Still Strong](#) (December 23, 2015)

[Inventories and Exports Weigh on 3Q15 Growth](#) (December 22, 2015)

[Rising Rates Lift Bank Profitability](#) (December 21, 2015)

[Paris COP21: The Clean Economy is Possible](#) (December 21, 2015)

[2016 Presidential Election Chartbook](#) (December 21, 2015)

[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 15-16<sup>th</sup> 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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