

Economic Analysis

Weekly Focus: Retail Sales & Industrial Production

Kim Chase

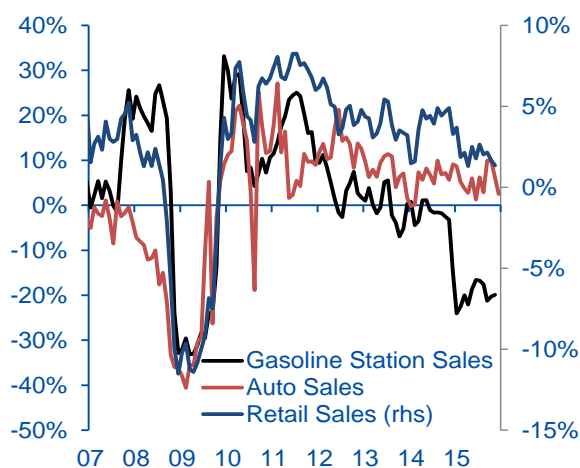
Holiday Spending to Offset Weak Auto Sales in December

The post-holiday calm means that the shopping sprees are over, but now it's time to sit back and see how much consumers actually spent. **Retail sales for December (Friday)** are expected to show a modest improvement over November as consumers rushed to buy last minute holiday gifts. This should be reflected in a relatively healthy gain for core retail sales (excluding auto and gas), though we may see a softer figure at the headline level. Auto sales declined in December for the second consecutive month, dropping to the lowest level since June. Furthermore, falling oil prices suggest a decline in nominal gas sales, continuing the five-month negative trend that began back in July. We expect to see continued pressure from lower oil prices in the coming year, though this should actually encourage consumers to spend more elsewhere, lifting real retail sales. Additionally, we expect that auto sales will rebound from late 2015's brief decline as the price environment remains favorable for consumers.

Manufacturing and Mining Will Continue to Weigh on Total Output in 2016

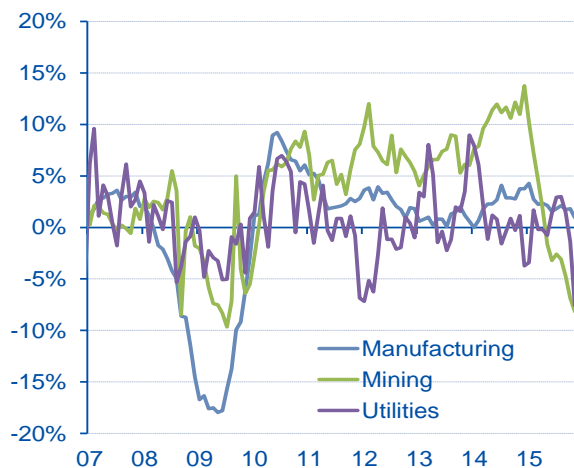
December's industrial production (Friday) is unlikely to close out the year on a strong note. The index has been on the decline since September, primarily due to prolonged weakness in the mining sector but also reflecting trouble in manufacturing and utilities as well. Swings in utilities output are very seasonal, so the latest data are not overly concerning. The slowdown in manufacturing, however, points to the growing impact from weak global demand and the strong USD, both of which are expected to continue in 2016. This will limit the potential for manufacturing to contribute positively to the industrial production index. At the same time, the renewed downward pressure on oil prices and our outlook for only a minor increase by the end of the year suggest that mining output will remain in negative territory, or close to it, for the coming months.

Graph 1
Retail, Gas, and Auto Sales (YoY % Change)



Source: Census, Autodata, & BBVA Research

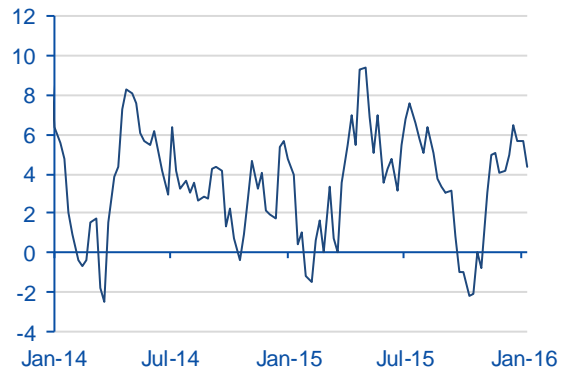
Graph 2
Industrial Production Components (YoY % Change)



Source: FRB & BBVA Research

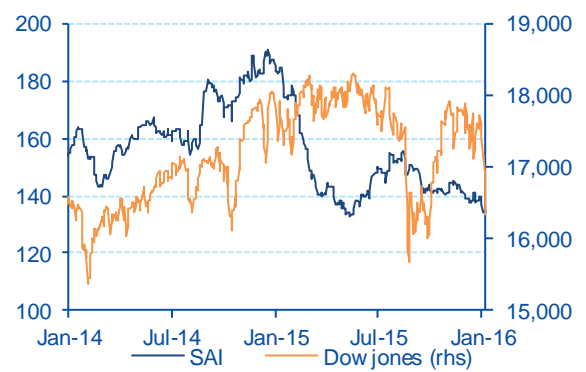
Economic Trends

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



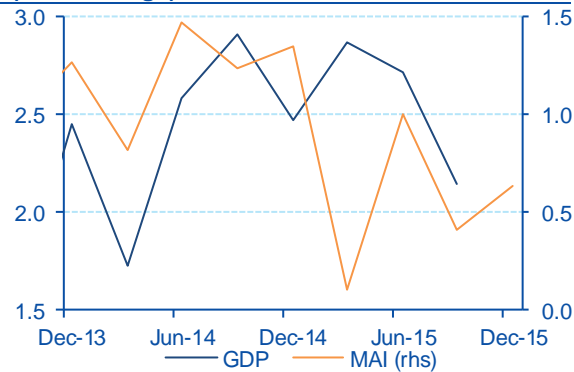
Source: BBVA Research

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



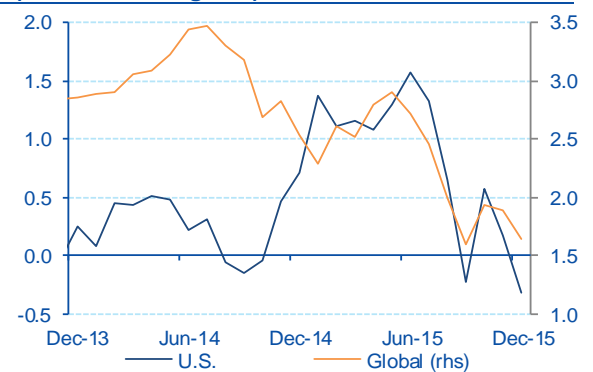
Source: Bloomberg & BBVA Research

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



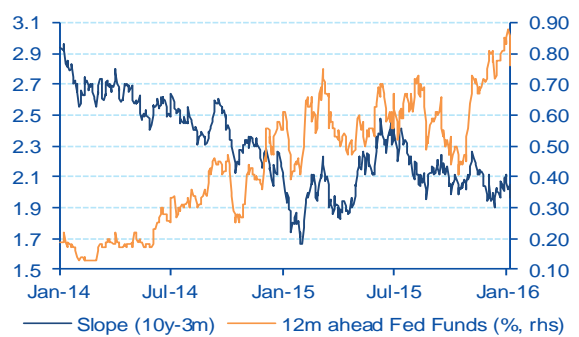
Source: BBVA Research & BEA

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



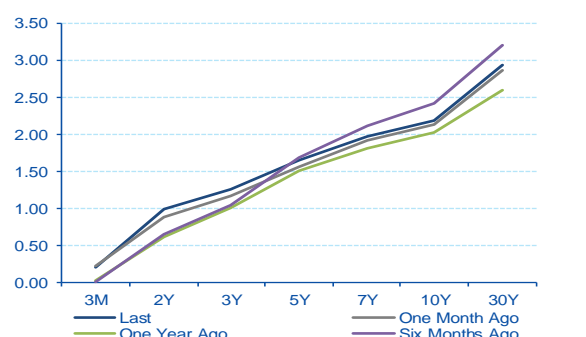
Source: BBVA Research

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
12-Jan	NFIB Small Business Optimism Index	DEC	94.90	95.00	94.80
12-Jan	US Job Openings By Industry Total SA	NOV	5450.00	5425.00	5383.00
14-Jan	US Initial Jobless Claims SA	JAN 9	270.00	275.00	277.00
14-Jan	US Continuing Jobless Claims SA	JAN 2	2209.00	2210.00	2230.00
14-Jan	US Import Price Index by End Use All MoMNSA	DEC	-0.70	-1.40	-0.40
15-Jan	US Empire State Manufacturing Survey General Business Conditions SA	JAN	-2.50	-4.00	-4.59
15-Jan	Adjusted Retail & Food Services Sales SA Total Monthly % Change	DEC	0.30	-0.10	0.20
15-Jan	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	DEC	0.50	0.30	0.50
15-Jan	US PPI Final Demand MoM SA	DEC	-0.10	-0.20	0.30
15-Jan	US PPI Final Demand Less Foods and Energy MoM SA	DEC	0.10	0.10	0.30
15-Jan	US Industrial Production MOM SA	DEC	-0.40	-0.20	-0.56
15-Jan	US Capacity Utilization % of Total Capacity SA	DEC	76.90	76.80	76.95
15-Jan	US Industrial Production Industry Groups Manufacturing MoM SA	DEC	-0.10	0.00	0.00
15-Jan	University of Michigan Consumer Sentiment Index	JAN P	93.00	92.80	92.60
15-Jan	US Manufacturing & Trade Inventories Total MoM SA	NOV	0.10	-0.10	0.00

Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	2.0	2.6	1.9	2.4	2.5	2.5	2.4
CPI (YoY %)	0.0	0.1	0.4	1.4	1.6	0.1	1.7	1.9
CPI Core (YoY %)	1.8	1.8	2.0	2.1	1.7	1.8	2.0	2.0
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	2.24	2.43	2.21	2.24	2.51	3.21
US Dollar/ Euro (eop)	1.12	1.12	1.09	1.05	1.23	1.09	1.12	1.16
Core Logic Home Prices (YoY %)	4.95	4.98	6.19	5.82	7.67	5.22	5.16	2.45

Fun Fact

K-pop is not just a musical genre but also a military tactic – in response to North Korea’s so-called hydrogen bomb test, South Korea used the music as propaganda, blasting it via loudspeaker across the border. (Bloomberg, 7 January 2016)

Recent Publications

- [Resilient 4Q Job Growth Despite Subdued Wages](#) (January 8, 2016)
- [FOMC Minutes: Liftoff a “Close Call” for some Members as Inflation Uncertainty Lingers](#) (January 6, 2016)
- [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)

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