

Economic Analysis

# Weekly Focus: CPI & Existing Home Sales

Kim Chase

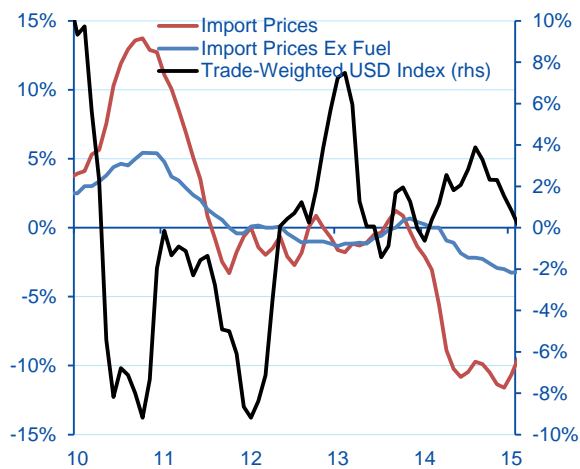
## Falling Oil Prices Pave a Rough Road Ahead for Headline Inflation

Headline inflation just cannot catch a break, with crude oil prices retreating again in December and hitting lows not seen in over a decade. **December's CPI report (Wednesday)** is expected to reflect these downward trends, with modest food inflation not enough to offset such dramatic declines in energy. Core inflation has been relatively steady throughout the past few months, but there is the risk that further declines at the headline level will eventually pass-through to the core index. Furthermore, the strong USD continues to put downward pressure on inflation, with import prices in decline for the sixth consecutive month, down 1.2% in December. Import prices excluding fuel have not increased on a monthly basis since July 2014. This suggests that there has been little improvement in downward inflationary pressures, and the likelihood of core inflation reaching the Fed's target this year is very small.

## Rebound in Mortgage Applications Suggests Jump in Existing Home Sales

**Existing home sales for December (Friday)** are expected to rebound modestly from November's massive 10.5% decline. Despite the fact that this was the largest monthly drop since July 2010, the underlying trends in the existing home market suggest that this was more of a one-off event rather than the beginning of more serious residential issues. Mortgage purchase applications were unusually low in October and early November in large part due to the new "Know Before You Owe" rule, which has in effect made mortgage processing times longer. On the bright side, mortgage purchase applications picked up again throughout December and January thus far, so we are confident that existing home sales will pick back up again. While the monthly data remains volatile, other details such as home prices and existing supply do not indicate major problems in the market.

Graph 1  
**Import Prices and USD Strength (YoY % Change)**



Source: BLS, FRB, & BBVA Research

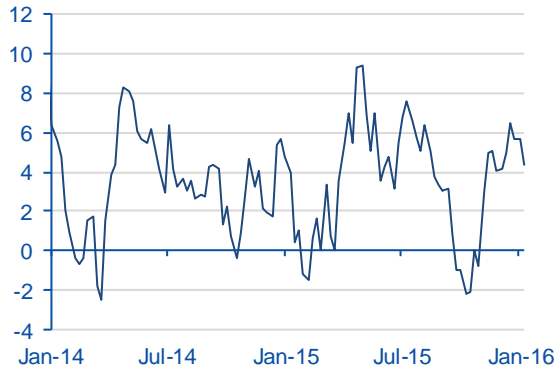
Graph 2  
**Mortgage Purchase Applications (4-Week Average, Index 1990=100)**



Source: MBA & BBVA Research

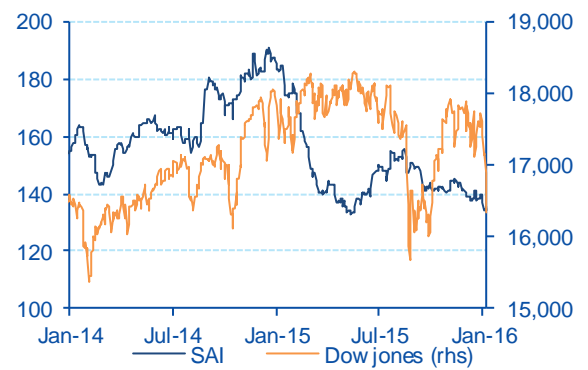
**Economic Trends**

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



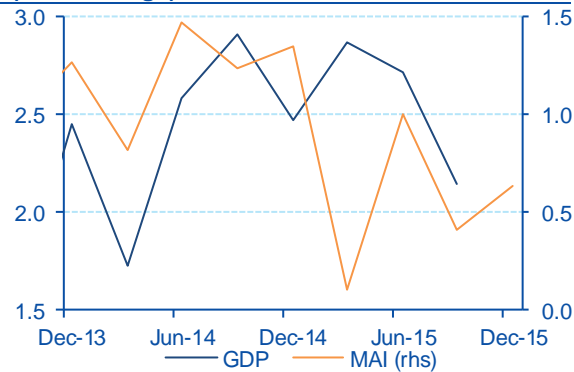
Source: BBVA Research

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



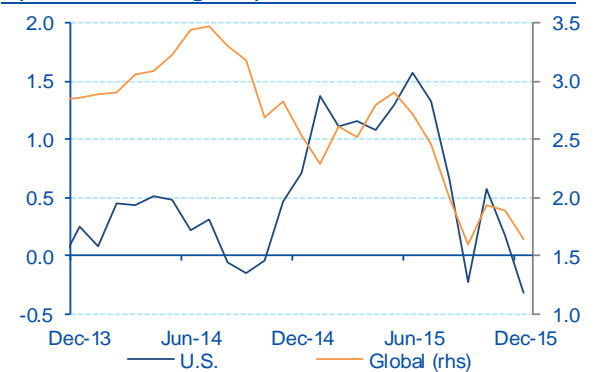
Source: Bloomberg & BBVA Research

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



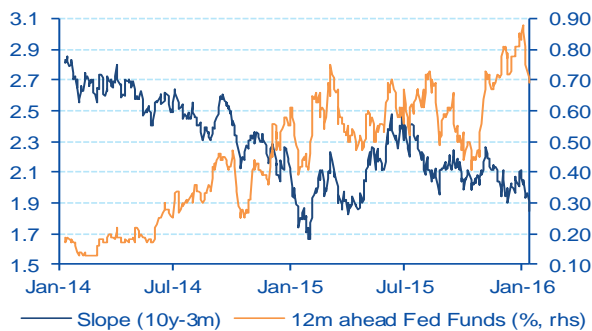
Source: BBVA Research & BEA

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



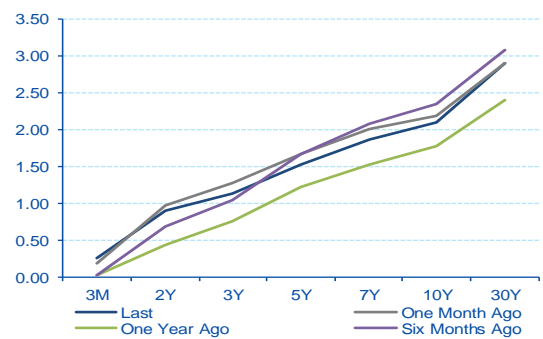
Source: BBVA Research

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-Jan	National Association of Home Builders Market Index SA	JAN	62.00	61.00	61.00
20-Jan	US CPI Urban Consumers MoM SA	DEC	-0.30	0.00	0.00
20-Jan	US CPI Urban Consumers Less Food & Energy MoM SA	DEC	0.10	0.20	0.20
20-Jan	US New Privately Owned Housing Units Started by Structure Total SAAR	DEC	1197.00	1197.50	1173.00
20-Jan	Private Housing Units Started by Structure Total Monthly % Change SA	DEC	2.05	2.09	10.50
20-Jan	Private Housing Authorized by Bldg Permits by Type Total SAAR	DEC	1250.00	1200.00	1282.00
20-Jan	Private Total Housing Authorized by Building Permits MoM SA	DEC	-2.50	-6.40	10.40
21-Jan	US Initial Jobless Claims SA	16-Jan	278.00	275.00	284.00
21-Jan	US Continuing Jobless Claims SA	9-Jan	2235.00	2210.00	2263.00
21-Jan	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	JAN	-8.10	-2.00	-10.20
22-Jan	Chicago Fed National Activity Index	DEC	-0.20	-	-0.30
22-Jan	US Existing Homes Sales SAAR	DEC	4.82	5.15	4.76
22-Jan	US Existing Homes Sales MoM SA	DEC	1.26	8.09	-10.53
22-Jan	Conference Board US Leading Index MoM	DEC	0.10	-0.05	0.40

## Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	1.5	<b>2.6</b>	<b>2.2</b>	2.4	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>
CPI (YoY %)	0.0	0.1	<b>0.9</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	5.0	<b>5.0</b>	6.2	5.3	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	0.50	<b>0.50</b>	0.25	0.50	<b>1.00</b>	<b>2.00</b>
10Yr Treasury (eop, % Yield)	2.36	2.17	2.24	<b>2.27</b>	2.21	2.24	<b>2.43</b>	<b>3.09</b>
US Dollar/ Euro (eop)	1.12	1.12	1.09	<b>1.05</b>	1.23	1.09	<b>1.12</b>	<b>1.16</b>
Core Logic Home Prices (YoY %)	4.95	4.98	<b>6.19</b>	<b>5.82</b>	7.67	<b>5.22</b>	<b>5.16</b>	<b>2.45</b>

## Fun Fact

If one person had won the \$1.6 billion Powerball jackpot, he/she could have purchased a small Dunkin Donuts coffee for everyone in the country plus over 105 million boxes of a dozen donuts (before taxes). (Hartford Courant, 15 January 2016)

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