

Economic Analysis

Weekly Focus: Personal Consumption & Wages

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Personal Spending Less Sensitive to Low Oil Prices as Savings Remains High

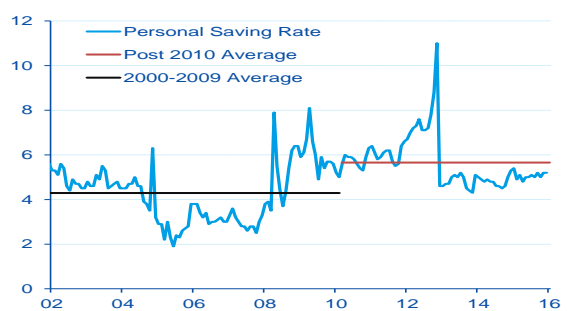
February's personal income and spending report (Monday) is expected to show another solid month of gains for both components, confirming that the consumer is the driving force of the domestic economy. Although retail sales data has been discouraging in the first few months of this year, personal consumption expenditures (the variable that comprises approximately 70% of GDP) have remained on a healthy trend, rising 0.5% in January (0.4% in real terms). In February, we expect to see a similar increase in consumption despite the fact that retail sales declined 0.15%. Still, there is some uncertainty lingering in the economy, as noted by the elevated personal savings rate and the hesitance among consumers to fully loosen their purse strings. On average, personal savings as a percent of disposable income has increased to 5.7% since 2010 from a pre-crisis trend of just 4.3%. This has been somewhat surprising in an environment of extremely low oil prices and suggests that consumption is much less sensitive to changes in prices than we originally expected. Still, personal spending remains on a healthy trend. As Dennis Lockhart (FRB Atlanta) noted in a recent speech, "Short of some big shock that turns consumer psychology on its head, I see no reason why consumer spending growth should not continue."

Wage Growth Expected to Rebound in March but Remain on a Gradual Trend

Subdued wage growth is also playing a role in post-recession consumer trends, with many still lacking the confidence that incomes will rise in the near future. Wages and salaries from the BEA's personal income report tend to be a bit more volatile on a month-to-month basis compared to average hourly earnings data from the payroll employment survey. Furthermore, there is a significant gap in the YoY growth rates between the two series. Still, the overarching message is that wage growth remains lower than where it would be otherwise in a world with the unemployment rate close to its natural level. This is due in large part to the significant pool of unemployed individuals (both in and out of the labor force) and the fact that businesses still don't feel much pressure to offer higher wages at this time – there are still people out there who are willing to do the job for less money. As such, we expect wages to continue growing at a gradual pace. **March's employment report (Friday)** is expected to show a rebound in average hourly earnings compared to February's 0.1% decline, supporting a healthier labor market in the months to come.

Graph 1

Personal Savings (% of DPI)



Source: BEA & BBVA Research

Graph 2

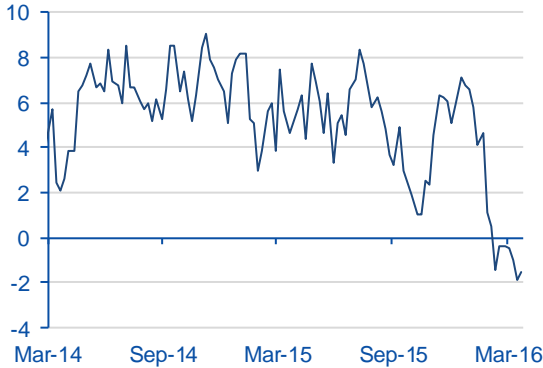
Wages & Earnings (YoY % Change)



Source: BEA, BLS, & BBVA Research

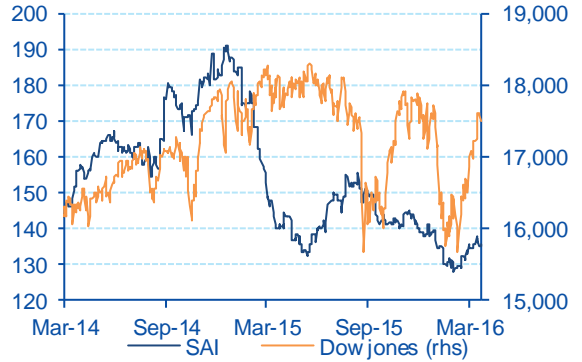
Economic Trends

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



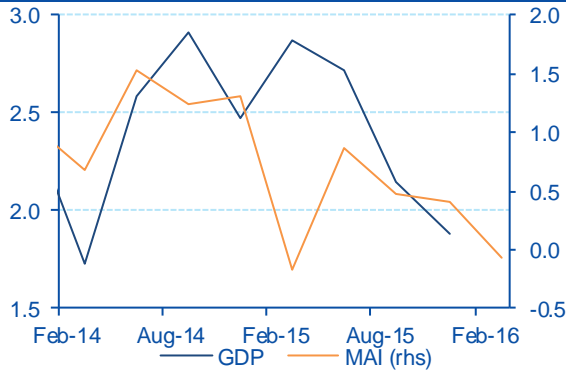
Source: BBVA Research

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



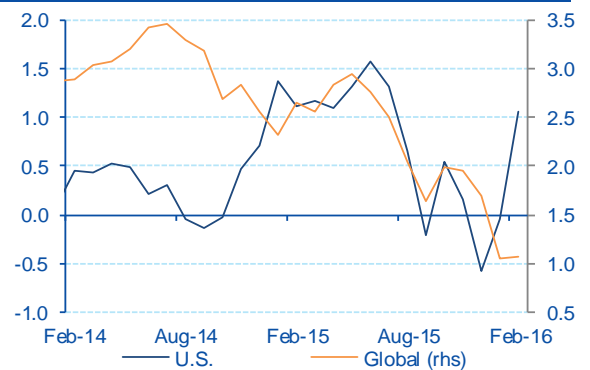
Source: Bloomberg & BBVA Research

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



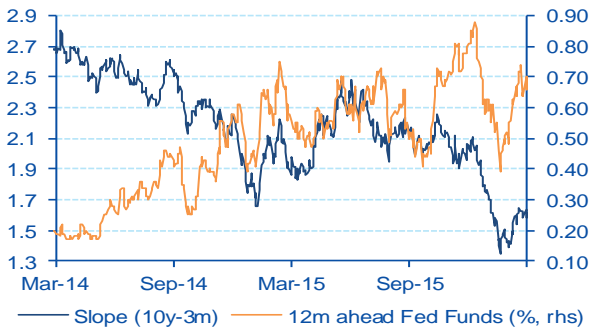
Source: BBVA Research & BEA

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



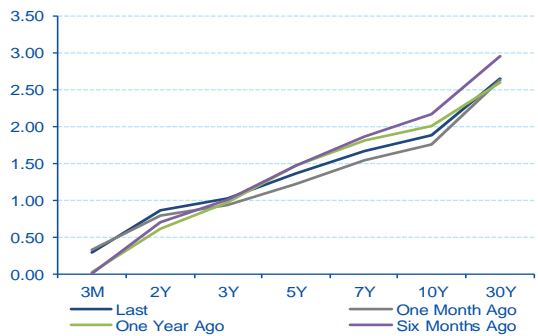
Source: BBVA Research

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-Mar	US Personal Income MoM SA	FEB	0.30	0.10	0.50
28-Mar	US Personal Consumption Expenditures Nominal Dollars MoM SA	FEB	0.30	0.10	0.50
28-Mar	US Pending Home Sales Index MoM SA	FEB	0.80	1.15	-2.48
28-Mar	Dallas Fed Manufacturing Outlook Level Of General Business Activity	MAR	-25.50	-26.50	-31.80
29-Mar	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	JAN	0.82	0.70	0.80
29-Mar	S&P/Case-Shiller Composite-20 City Home Price Index YoY	JAN	5.92	5.80	5.74
29-Mar	Conference Board Consumer Confidence SA 1985=100	MAR	93.40	94.00	92.20
30-Mar	ADP National Employment Report SA Private Nonfarm Level Change	MAR	207.00	194.00	213.80
31-Mar	US Initial Jobless Claims SA	MAR 26	260.00	265.00	265.00
31-Mar	US Continuing Jobless Claims SA	MAR 19	2205.00	2194.00	2179.00
31-Mar	MNI Chicago Business Barometer (sa)	MAR	49.80	50.50	47.60
1-Apr	US Auto Sales Total Annualized SAAR	MAR	17.80	17.50	17.43
1-Apr	US Employees on Nonfarm Payrolls Total MoM Net Change SA	MAR	211.00	205.00	242.00
1-Apr	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	MAR	208.00	190.00	230.00
1-Apr	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	MAR	4.00	-2.00	-16.00
1-Apr	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	MAR	0.20	0.20	-0.10
1-Apr	US Average Weekly Hours All Employees Total Private SA	MAR	34.40	34.50	34.40
1-Apr	Unemployment Rate	MAR	4.90	4.90	4.90
1-Apr	University of Michigan Consumer Sentiment Index	MAR F	91.00	90.50	90.00
1-Apr	Census Bureau US Construction Spending MoM SA	FEB	0.30	0.10	1.50
1-Apr	ISM Manufacturing PMI SA	MAR	50.30	50.80	49.50

Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	1.4	1.7	3.5	2.4	2.4	2.5	2.4
CPI (YoY %)	0.1	0.5	1.1	1.1	1.6	0.1	1.4	1.9
CPI Core (YoY %)	1.8	2.0	2.2	2.1	1.7	1.8	2.0	1.9
Unemployment Rate (%)	5.2	5.0	4.9	4.9	6.2	5.3	4.8	4.6
Fed Target Rate (eop, %)	0.25	0.50	0.50	0.75	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.17	2.24	2.09	2.17	2.21	2.24	2.32	2.88
US Dollar/ Euro (eop)	1.12	1.09	1.09	1.05	1.23	1.09	1.10	1.16
Core Logic Home Prices (YoY %)	5.01	5.31	5.53	4.84	7.70	4.98	4.79	4.22

Fun Fact

In 1953, it used to take 27 hours to make a single Peep; after automating the process, that time was cut to just six minutes per Peep. (Bustle.com, March 2016)

Recent Publications

- [4Q15 GDP Growth Revised Upward Again to 1.4%](#) (March 25, 2016)
- [Initial Claims Now at 55 Consecutive Weeks Below 300K](#) (March 24, 2016)
- [West Region Drives New Home Sales in February](#) (March 23, 2016)
- [Indications of a Moderation in Home Prices After Solid Gains in January](#) (March 22, 2016)
- [Existing Home Sales Disappoint in February](#) (March 21, 2016)
- [Consumers Lower Expectations for the Economy](#) (March 18, 2016)
- [JOLTS Report Portrays a Solid Labor Market](#) (March 17, 2016)
- [FOMC Statement: Committee Revises Down Expected Policy Path to Two Rate Hikes in 2016](#) (March 16, 2016)

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