

Economic Analysis

Weekly Focus: FOMC Meeting Minutes & Trade

Kim Chase

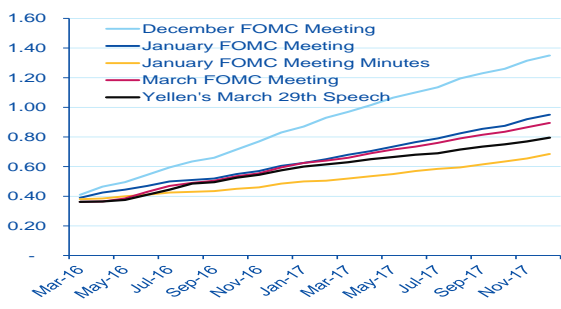
Mixed Messages from Yellen and FOMC Colleagues in Post-Meeting Rhetoric

There has been a lot of talk from FOMC members throughout the past few weeks, building off of March’s decision to leave rates unchanged and downgrade the expected path for the federal funds rate. Yellen’s press conference after the meeting and a few FOMC speeches since have leaned more hawkish, highlighting the positives in domestic economic data and emphasizing the fact that April remains a “live” meeting. Dennis Lockhart, President of the Atlanta Fed, argued that “there is sufficient momentum evidenced by the economic data to justify a further step at one of the coming meetings, possibly as early as the meeting scheduled for end of April.” James Bullard, President of the St. Louis Fed, added that “the relatively minor downgrades contained in the March SEP suggest that the next rate increase may not be far off,” and that if “You get another strong jobs report, it looks like labor markets are improving, you could probably make a case for moving in April.” The sentiment continued until Yellen’s most recent speech in which she downplayed the possibility of a rate increase at the next meeting, noting that it is “appropriate for the Committee to proceed cautiously in adjusting policy.” Charles Evans, Chicago Fed President, add that “the threshold for having confidence that inflation is sustainably moving up towards our 2 percent inflation target is pretty high” and therefore would “be surprised if we met that condition, myself, in April.” However, a lot can change in a few short weeks, and upcoming economic data releases could push the general consensus among the Committee one way or the other. **March’s FOMC meeting minutes (Wednesday)** will be yet another factor playing a role in setting market expectations for the timing of the next rate increase.

Weaker USD and Rising Oil Prices Will Help Lower Trade Deficit in February

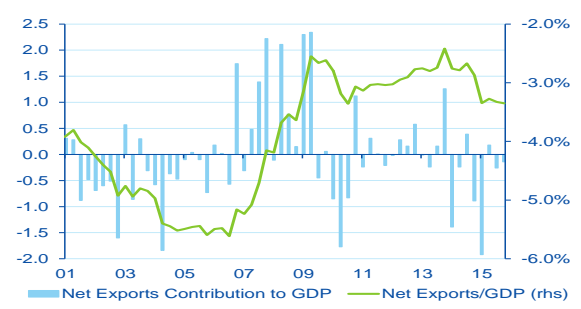
In other news, **February’s international trade balance (Tuesday)** is expected to show a slight improvement from the start of the year. Early readings on the goods-only balance suggest a surprising 1.6% monthly gain in exports (the first increase since September) and a 1.4% rise in imports. Clearly, the combination of a weaker dollar and the gradual gain in oil prices is easing downward pressures on net exports for the U.S. This is welcome news for the months ahead, signaling a softer drag on GDP growth than what we have seen throughout the past year. While we by no means expect a positive contribution from net exports anytime soon, we are at least heading in that direction over the medium term.

Graph 1
Federal Funds Rate Futures (%)



Source: Bloomberg & BBVA Research

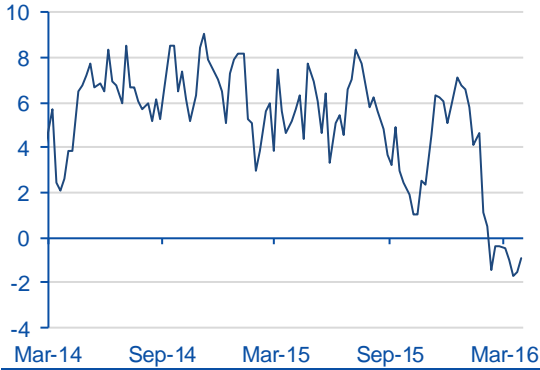
Graph 2
Net Exports Contribution to Real GDP (SAAR %pt)



Source: BEA & BBVA Research

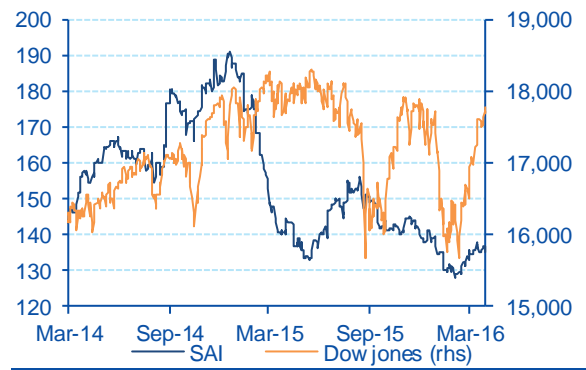
Economic Trends

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



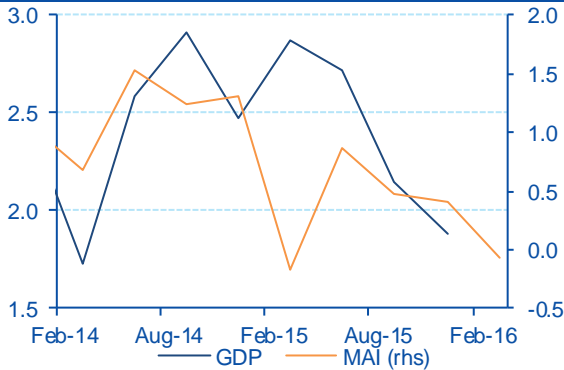
Source: BBVA Research

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



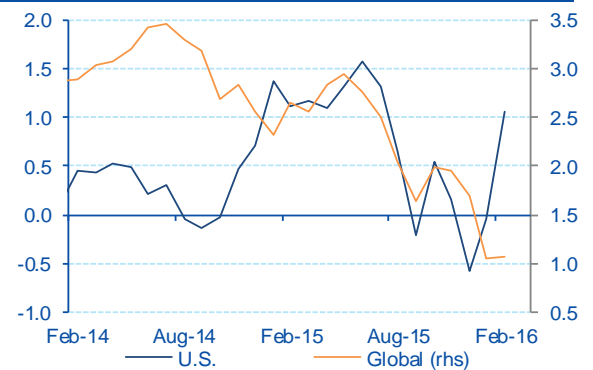
Source: Bloomberg & BBVA Research

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



Source: BBVA Research & BEA

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



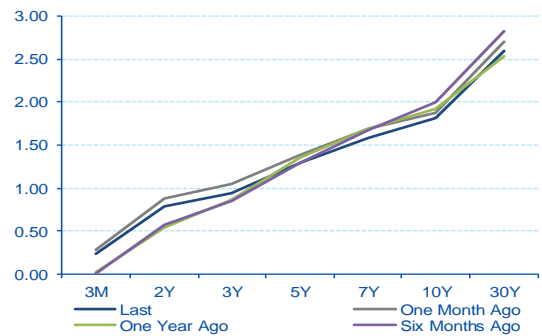
Source: BBVA Research

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
4-Apr	New York Purchasing Managers Current Business Conditions SA	MAR	54.10	54.05	53.60
4-Apr	US Manufacturers New Orders Total MoM SA	FEB	-1.70	-1.70	1.60
5-Apr	US Trade Balance of Goods and Services SA	FEB	-44.90	-46.20	-45.68
5-Apr	US Job Openings By Industry Total SA	FEB	5490.00	0.00	5541.00
5-Apr	ISM Non-Manufacturing NMI	MAR	54.10	54.10	53.40
7-Apr	US Initial Jobless Claims SA	APR 2	268.00	270.00	276.00
7-Apr	US Continuing Jobless Claims SA	MAR 26	2189.00	2170.00	2173.00
7-Apr	Federal Reserve Consumer Credit Total Net Change SA	FEB	13.30	15.00	10.54
8-Apr	Merchant Wholesalers Inventories Total Monthly % Change	FEB	0.10	-0.20	0.20

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	2.0
CPI Core (YoY %)	1.8	2.0	2.2	2.1	1.7	1.8	2.0	2.0
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	1.79	2.17	2.21	2.24	2.32	2.88
US Dollar/ Euro (eop)	1.12	1.09	1.14	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 2015, after winning the World Cup, the combined salaries of U.S. women's soccer players Carli Lloyd and Hope Solo were about 60% of the combined salaries of U.S. men's soccer players Clint Dempsey and Tim Howard. (FiveThirtyEight, March 2016)

Recent Publications

[March's Hiring, Wages, and Participation Support Fed's Policy Outlook for 2016](#) (April 1, 2016)

[Business Investment: Stuck Between Uncertainty and Change](#) (March 31, 2016)

[Labor Market Continues to Add Jobs at a Steady Rate](#) (March 30, 2016)

[Back to the Future: 2016 Growth to Mirror 1986 Regional Decoupling](#) (March 29, 2016)

[Expectations Drive up Consumer Confidence](#) (March 29, 2016)

[Personal Income and Spending Rise in February](#) (March 28, 2016)

[U.S. Monthly Economic Outlook](#) (March 28, 2016)

[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)

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.