

Economic Analysis

# Weekly Focus: FOMC Meeting & 1Q16 GDP

Kim Chase

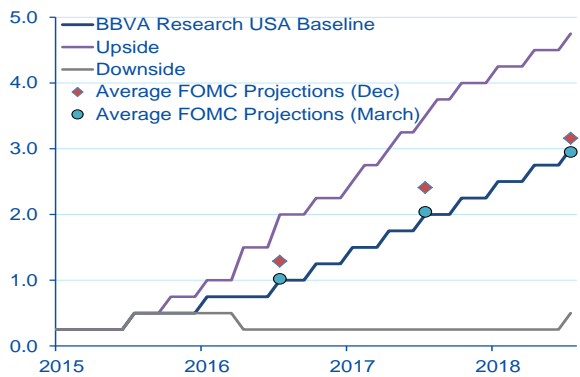
## No Rate Hike at April FOMC Meeting, but June Still in Play

**April's FOMC meeting (Wednesday)** is the central focus for the week even though we are not expecting another 25 basis point rate increase at this time. Since the March meeting, employment and inflation reports have pointed to continued improvement, and global financial volatility has declined. However, other economic indicators have surprised to the downside, and lingering uncertainties are playing right into the hands of the doves. Last month's meeting revealed that there are some hawkish members making a push to move things along, but there likely won't be enough support for a rate increase until at least June, if not later. Also, markets are not pricing in an April rate hike, so a surprise announcement could cause unwanted financial market disruption. As long as economic data continue to evolve in line with the Fed's expectations and we don't experience another global economic shock, the FOMC could be confident in raising rates by June. Still, the "asymmetry" argument – where the FOMC has less wiggle room to adjust if economic data prove to be weaker-than-expected but can move quicker on the upside – supports a more cautious strategy at this time.

## 1Q16 Advance GDP Estimate to Highlight Unusual Weakness in Consumption

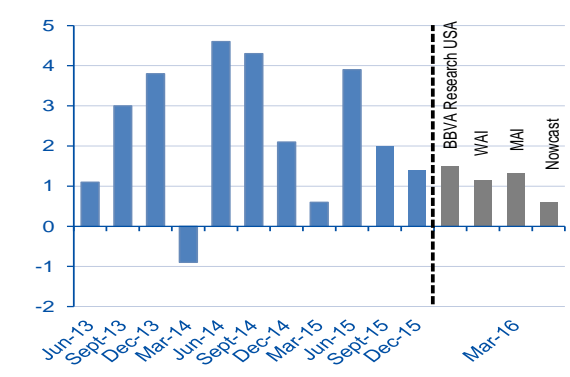
Data for the first quarter have already hinted at a gloomy GDP figure, setting a low bar for the **advance estimate (Thursday)**. Investment and net exports continue to weigh on growth, stemming from the current environment of low oil prices and a strong USD. Nonresidential investment is expected to decline for the second consecutive quarter as activity in the energy sector continued to dwindle at the start of the year. Inventory investment was also weak on the back of uncertain demand conditions. Global demand appeared to improve in mid-1Q16, with exports rising for the first time in five months. However, steady import growth and the widening of the trade balance suggest another quarterly drag from net exports. The good news is that the recent depreciation of the USD back toward 4Q15 levels should ease some downward pressure on 2Q growth. The biggest disappointment in 1Q data has been consumption, with substantial declines in real retail sales and weaker-than-expected personal consumption expenditures – a slower start than in 4Q15. **March's personal income and outlays report (Friday)** is expected to confirm the unusual weakness in domestic spending to close out 1Q16.

Graph 1  
Federal Funds Rate (%)



Source: FRB & BBVA Research

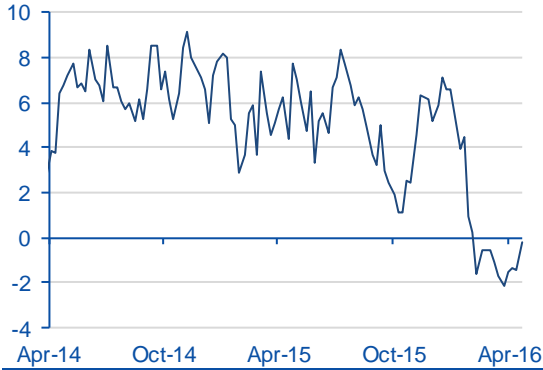
Graph 2  
Real GDP Growth (QoQ SAAR % Change)



Source: BEA & BBVA Research

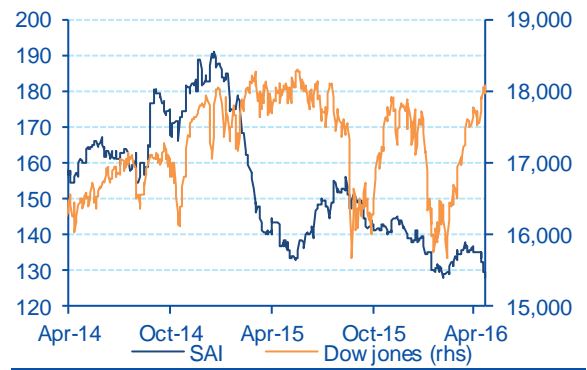
**Economic Trends**

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



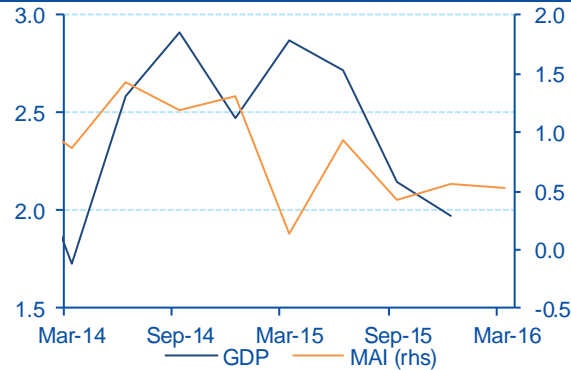
Source: BBVA Research

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



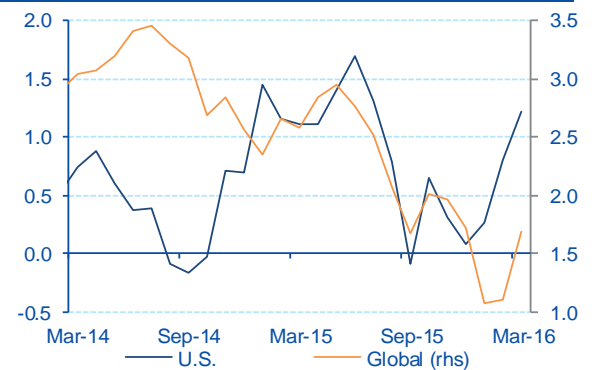
Source: Bloomberg & BBVA Research

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



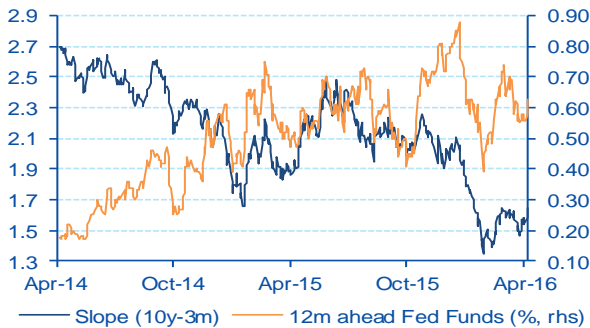
Source: BBVA Research & BEA

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



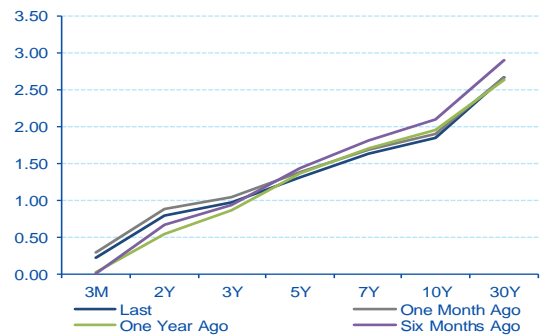
Source: BBVA Research

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
25-Apr	US New One Family Houses Sold Annual Total SAAR	MAR	521.00	520.00	512.00
25-Apr	US New One Family Houses Sold Annual Total MoM SA	MAR	1.76	1.56	2.00
25-Apr	Dallas Fed Manufacturing Outlook Level Of General Business Activity	APR	-11.10	-10.00	-13.60
26-Apr	US Durable Goods New Orders Industries MoM SA	MAR P	-0.60	1.90	-3.00
26-Apr	US Durable Goods New Orders Total ex Transportation MoM SA	MAR P	-0.40	0.50	-1.30
26-Apr	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	FEB	0.86	0.80	0.80
26-Apr	S&P/Case-Shiller Composite-20 City Home Price Index YoY	FEB	5.57	5.50	5.75
26-Apr	Conference Board Consumer Confidence SA 1985=100	APR	97.10	96.00	96.20
27-Apr	US Pending Home Sales Index MoM SA	MAR	-0.70	0.50	3.51
27-Apr	Federal Funds Target Rate - Upper Bound	APR 27	0.50	0.50	0.50
28-Apr	US Initial Jobless Claims SA	APR 23	259.00	260.00	247.00
28-Apr	US Continuing Jobless Claims SA	APR 16	2137.00	2145.00	2137.00
28-Apr	GDP US Chained 2009 Dollars QoQ SAAR	1Q A	0.90	0.60	1.40
28-Apr	GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR	1Q A	1.50	1.70	2.40
28-Apr	US GDP Price Index QoQ SAAR	1Q A	1.00	0.50	0.90
28-Apr	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q A	1.60	1.90	1.30
29-Apr	US Personal Income MoM SA	MAR	0.30	0.30	0.20
29-Apr	US Personal Consumption Expenditures Nominal Dollars MoM SA	MAR	0.20	0.20	0.10
29-Apr	Bureau of Labor Statistics Employment Cost Civilian Workers QoQ SA	1Q	0.50	0.60	0.60
29-Apr	MNI Chicago Business Barometer (sa)	APR	54.00	52.60	53.60
29-Apr	University of Michigan Consumer Sentiment Index	APR F	90.20	90.00	89.70

## Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	1.4	<b>0.9</b>	<b>3.4</b>	2.4	2.4	<b>2.5</b>	<b>2.4</b>
CPI (YoY %)	0.1	0.5	1.1	<b>1.1</b>	1.6	0.1	<b>1.3</b>	<b>2.0</b>
CPI Core (YoY %)	1.8	2.0	2.2	<b>2.1</b>	1.7	1.8	<b>2.1</b>	<b>2.1</b>
Unemployment Rate (%)	5.2	5.0	4.9	<b>4.9</b>	6.2	5.3	<b>4.8</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.50	0.50	<b>0.75</b>	0.25	0.50	<b>1.00</b>	<b>2.00</b>
10Yr Treasury (eop, % Yield)	2.17	2.24	1.89	<b>1.95</b>	2.21	2.24	<b>2.27</b>	<b>2.79</b>
US Dollar/ Euro (eop)	1.12	1.09	1.11	<b>1.10</b>	1.23	1.09	<b>1.12</b>	<b>1.16</b>
Core Logic Home Prices (YoY %)	5.05	5.31	<b>5.76</b>	<b>4.81</b>	7.70	5.01	<b>4.84</b>	<b>4.16</b>

## Fun Fact

With more than 1 billion participants worldwide, Earth Day is considered to be the largest secular civic event in the world. The first Earth Day in 1970 had 20 million participants. (History.com and Bustle, April 2016)

## Recent Publications

[Existing Home Sales Advance Healthily in March](#) (April 20, 2016)

[Housing Starts and Permits Tumble in March](#) (April 19, 2016)

[Doomed Deal in Doha](#) (April 18, 2016)

[Home Builder Confidence Remains Solid in April](#) (April 18, 2016)

[Mining and Utilities Weigh on Industrial Output in March](#) (April 15, 2016)

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