

Economic Analysis

Weekly Focus: FOMC Minutes & Housing

Kim Chase / Filip Blazheski

FOMC Minutes Serve as Another Attempt to Boost Optimism for June Rate Hike

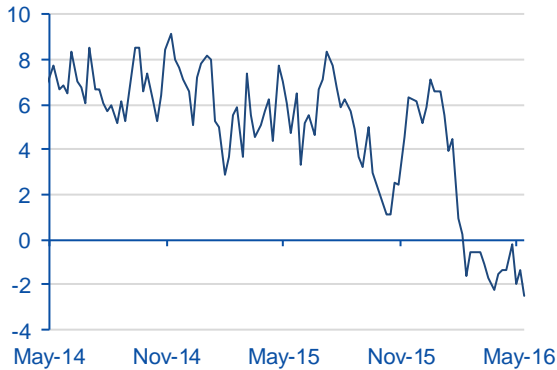
April's FOMC meeting minutes (Wednesday) may be lagged but they have the potential to shift expectations on another rate increase in the near future. While June remains a "live meeting", the FOMC has not yet given us a strong signal that they are ready to raise rates again next month. The fact that April's statement was deceptively hawkish (removing the word "risk" from the entire announcement) could ignite some public optimism if the minutes more clearly convey the positive focus on the economy. Many are concerned that the latest sub-200K employment report may damper any plans for June, but in reality, job growth remains healthy and very much on track with the Fed's outlook for lower unemployment. Along with the positive movement in inflation, U.S. economic conditions alone should warrant a continuation of the Fed's gradual normalization process. Esther George (FRB Kansas City) – the notoriously hawkish voting member of the FOMC – recently noted that "I support a gradual adjustment of short-term interest rates toward a more normal level, but I view the current level as too low for today's economic conditions." However, lingering uncertainty from the global economy and low market expectations may have the power to force another delay (as was the case back in September 2015). Even still, some of the more dovish voting members have come out in support of a rate hike in the near future, including Eric Rosengren (FRB Boston) who argued that "the market remains too pessimistic about the fundamental strength of the U.S. economy, and the likelihood of removing monetary accommodation is higher than is currently priced into financial markets based on current data." Yellen and her colleagues have emphasized the importance of the overall path of interest rates rather than just each individual move, but the longer they wait to hike again, the more weight they are putting on the 25 basis point moves and making each nearly as important and anxiety-fueled as the first hike back in December.

Housing Starts and Existing Home Sales Expected to Rise in April

April's housing starts (Tuesday) are expected to break above 1.15M units SAAR, after they disappointed somewhat in March, when they stood at 1.09M. Builder confidence in April remained solid, especially due to a significant gain in prospective buyers' traffic compared to the same time last year. The 1.15-1.2M level of housing starts is in line with the current rate of household formation, which contributes to a balanced, although still somewhat tight market, especially in the lower price ranges. **Existing home sales for April (Friday)** are expected to come close to 5.39M SAAR, which would be 4.9% higher YoY. The gain will be supported by the still favorable interest rate environment and a solid gain in the pending home sales index in March. The inventory of both new and existing homes for sale increased in the previous months, which should help sales in April and onwards.

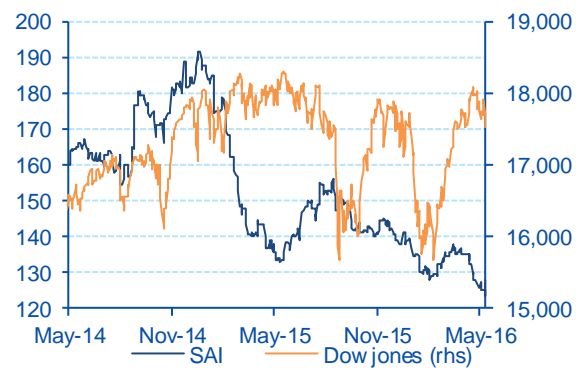
Economic Trends

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



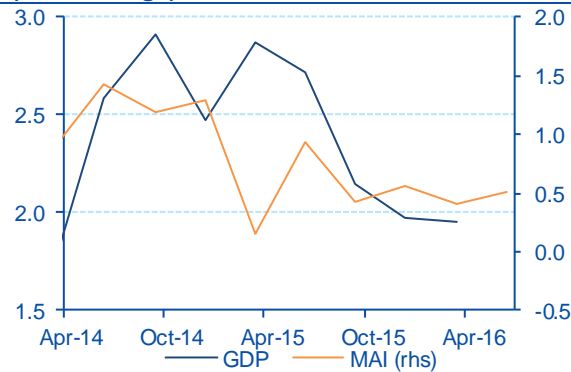
Source: BBVA Research

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



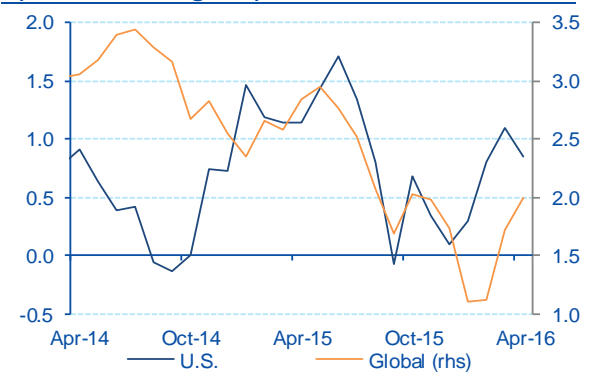
Source: Bloomberg & BBVA Research

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



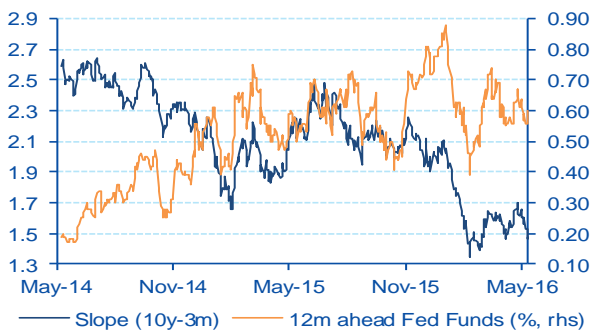
Source: BBVA Research & BEA

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



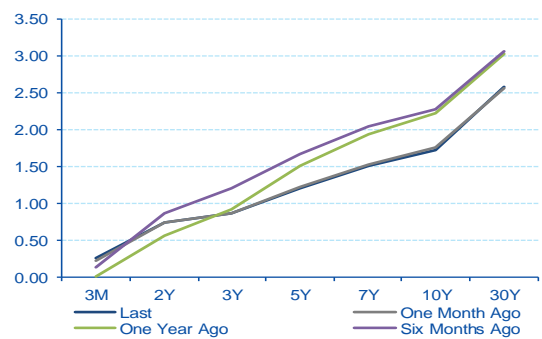
Source: BBVA Research

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
16-May	US Empire State Manufacturing Survey General Business Conditions SA	MAY	10.50	6.50	9.56
16-May	National Association of Home Builders Market Index SA	MAY	59.00	59.00	58.00
17-May	US New Privately Owned Housing Units Started by Structure Total SAAR	APR	1168.00	1125.00	1089.00
17-May	Private Housing Units Started by Structure Total Monthly % Change SA	APR	7.25	3.31	-8.80
17-May	Private Housing Authorized by Bldg Permits by Type Total SAAR	APR	1155.00	1131.50	1076.00
17-May	Private Total Housing Authorized by Building Permits MoM SA	APR	7.34	5.16	-8.60
17-May	US CPI Urban Consumers MoM SA	APR	0.20	0.30	0.10
17-May	US CPI Urban Consumers Less Food & Energy MoM SA	APR	0.20	0.20	0.10
17-May	US Industrial Production MOM SA	APR	-0.20	0.30	-0.59
17-May	US Capacity Utilization % of Total Capacity SA	APR	74.60	75.00	74.83
17-May	US Industrial Production Industry Groups Manufacturing MoM SA	APR	-0.10	0.30	-0.30
19-May	US Initial Jobless Claims SA	MAY 14	270.00	275.00	294.00
19-May	US Continuing Jobless Claims SA	MAY 7	2150.00	2165.00	2161.00
19-May	Chicago Fed National Activity Index	APR	-0.20	-0.20	-0.44
19-May	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	MAY	2.10	3.25	-1.60
19-May	Conference Board US Leading Index MoM	APR	0.30	0.40	0.20
20-May	US Existing Homes Sales SAAR	APR	5.39	5.39	5.33
20-May	US Existing Homes Sales MoM SA	APR	1.13	1.08	5.13

Economic Outlook

	2015	2016			2014	2015	2016	2017
	4Q	1Q	2Q	3Q				
Real GDP (% SAAR)	1.4	0.5	3.4	3.8	2.4	2.4	2.5	2.4
CPI (YoY %)	0.5	1.1	1.1	1.5	1.6	0.1	1.3	2.0
CPI Core (YoY %)	2.0	2.2	2.1	2.1	1.7	1.8	2.1	2.1
Unemployment Rate (%)	5.0	4.9	4.9	4.8	6.2	5.3	4.8	4.6
Fed Target Rate (eop, %)	0.50	0.50	0.75	0.75	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.24	1.89	1.95	2.10	2.21	2.24	2.27	2.79
US Dollar/ Euro (eop)	1.09	1.11	1.12	1.11	1.23	1.09	1.12	1.16
Core Logic Home Prices (YoY %)	5.36	5.34	4.78	4.44	7.69	5.06	4.70	4.26

Fun Fact

President Obama is delivering his 23rd commencement speech this weekend at Rutgers University, which will put him on pace to have delivered three speeches a year throughout his time in office. George H.W. Bush gave the most speeches a year—24 in just four years. Overall, presidents have delivered more commencement speeches at historically black colleges and universities than at Ivy League schools. (FiveThirtyEight, May 2016)

Recent Publications

[Retail Sales Increase Across the Board in April](#) (May 13, 2016)

[Consumer Credit Breaks Records in March](#) (May 6, 2016)

[Job Growth Slows but Wages Intensify in April](#) (May 6, 2016)

[Productivity Declines for Second Straight Quarter](#) (May 4, 2016)

[Debt Sustainability: Time to Splurge or Time to Save?](#) (May 4, 2016)

[Senior Loan Officer Survey, April 2016](#) (May 4, 2016)

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