

Economic Analysis

# Weekly Focus: Housing & GDP

Kim Chase / Filip Blazheski

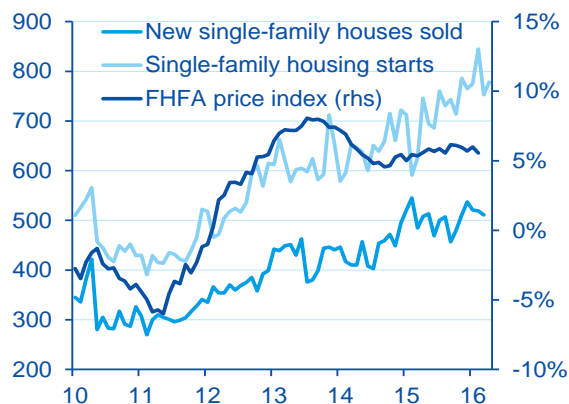
## Rising New Home Sales and Home Prices Add to Positive Housing Dynamics

**April's new single family home sales (Tuesday)** are expected to rise to around 524K units on a seasonally adjusted annualized basis, compared to 511K in March. New single family housing starts posted a solid gain in April, and builder's confidence remains positive, especially due to a significant gain in prospective buyers' traffic compared to the same time last year. The median number of months for sale has increased recently, which will help slow down home price appreciation. That said, most of the new construction has been occurring in the upper half of the housing price spectrum, therefore not alleviating the lack of more affordable housing, which acts as a roadblock for many younger buyers that would like to enter the housing market. **Home prices for March (Wednesday)**, measured by the FHFA index, are expected to show a solid MoM gain and a YoY gain of around 6%, supported by the favorable interest rate environment and still low supply of new homes, especially in the more affordable categories. The months' supply of existing homes in March stood at 4.5 and was lower than a year ago, when it stood at 4.6. This reflects an unbalanced market between buyers and sellers, as 6 months' supply is generally considered to represent a balance. We expect home prices to continue appreciating solidly in the rest of the year, but at a slightly slower pace than in the first quarter, as buyers start reacting to the price appreciation that has been outpacing wage growth for some time and as more units arrive on the market.

## Upward Revision Expected for 1Q16 Real GDP Growth

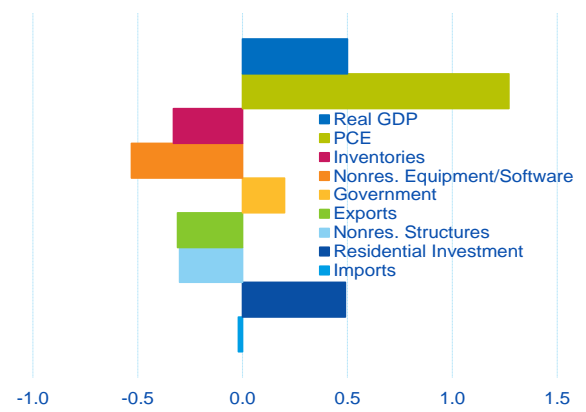
The **second estimate for 1Q16 real GDP growth (Friday)** should come as somewhat of a relief, offering up a slightly more optimistic view than the 0.5% figure that was initially reported. Data releases since the first estimate suggest better-than-expected performance in March for personal consumption, inventory growth, and net exports. Construction spending also came in strong to close out the first quarter and was revised upward significantly for February. Residential investment has been a steady contributor to growth throughout the past few years, averaging a 10% QoQ SAAR pace since late 2014. Ultimately, we continue to expect a healthy rebound in 2Q16 and in 2H16, keeping us on track to hold above 2.0% growth for the third consecutive year.

Graph 1  
New Home Sales, Starts, and Prices (K, YoY %)



Source: Census, FHFA, & BBVA Research

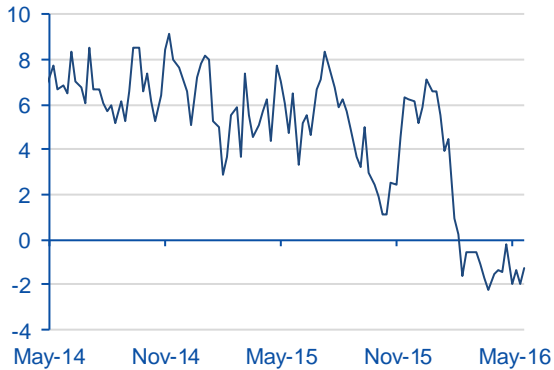
Graph 2  
1Q16 Real GDP Contributions (SAAR pp)



Source: BEA & BBVA Research

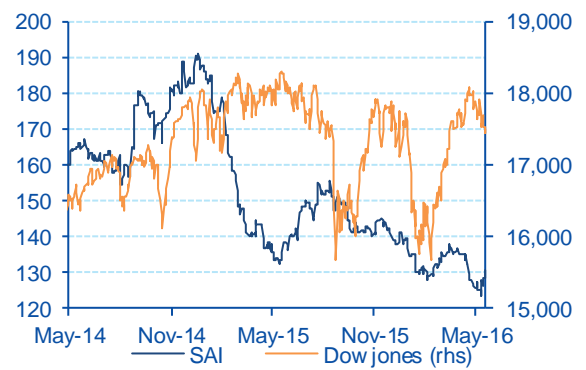
**Economic Trends**

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



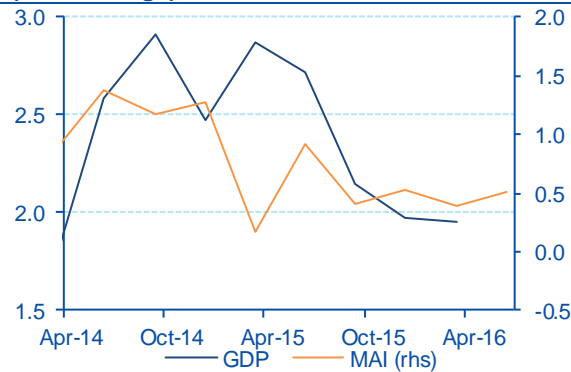
Source: BBVA Research

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



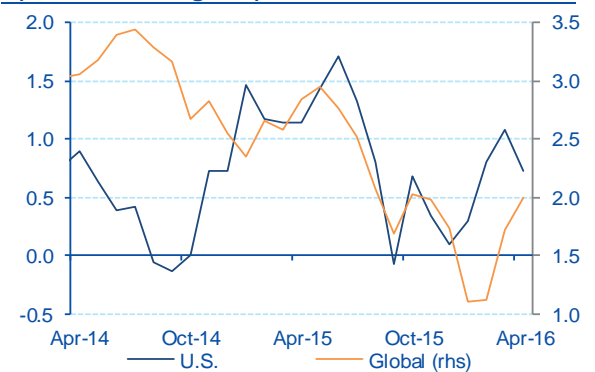
Source: Bloomberg & BBVA Research

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



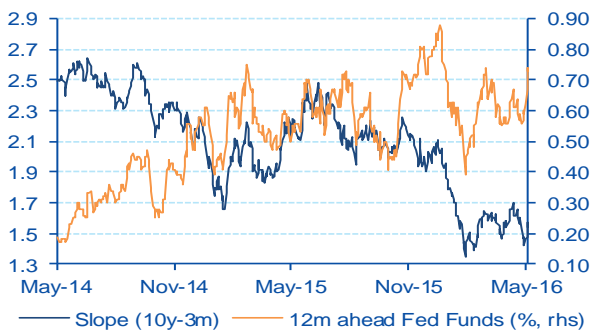
Source: BBVA Research & BEA

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



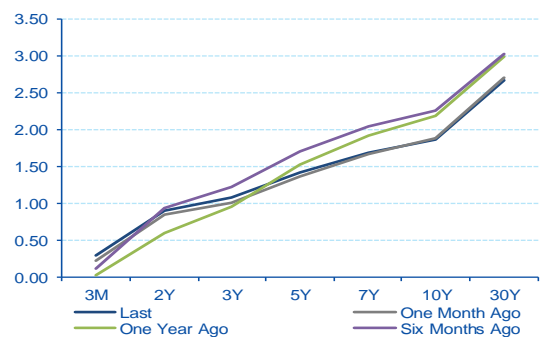
Source: BBVA Research

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
24-May	US New One Family Houses Sold Annual Total SAAR	APR	524.00	521.00	511.00
24-May	US New One Family Houses Sold Annual Total MoM SA	APR	2.54	1.96	-1.50
26-May	US Initial Jobless Claims SA	MAY 21	273.00	275.00	278.00
26-May	US Continuing Jobless Claims SA	MAY 14	2140.00	2142.00	2152.00
26-May	US Durable Goods New Orders Industries MoM SA	APR P	-0.50	0.40	1.30
26-May	US Durable Goods New Orders Total ex Transportation MoM SA	APR P	0.50	0.30	-0.20
26-May	US Pending Home Sales Index MoM SA	APR	0.30	0.70	1.38
27-May	GDP US Chained 2009 Dollars QoQ SAAR	1Q S	0.90	0.90	0.50
27-May	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	1Q S	2.00	2.05	1.90
27-May	US GDP Price Index QoQ SAAR	1Q S	0.70	0.70	0.70
27-May	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q S	2.10	2.10	2.10
27-May	University of Michigan Consumer Sentiment Index	MAY F	95.30	95.50	95.80

## Economic Outlook

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

## Fun Fact

U.S. cheese inventories have reached a 30-year high of 1.2 billion pounds. Production had soared after the weaker U.S. dollar led to higher exports, but after the recent strengthening of the dollar and the falling euro, the U.S. is faced with a cheese glut. At current levels, every American would need to eat three extra pounds of cheese this year in order to eat off the surplus. (Wall Street Journal, May 2016)

## Recent Publications

- [Existing Home Sales Continue Improving in April](#) (May 20, 2016)
- [FOMC Minutes Leave the Door Open for a June Rate Increase](#) (May 18, 2016)
- [Auto Industry Chartbook](#) (May 18, 2016)
- [Oil Price Outlook](#) (May 18, 2016)
- [Healthy Gains in Inflation Bode Well for Fed Action](#) (May 17, 2016)
- [Industrial Output Recovers in April](#) (May 17, 2016)
- [Housing Starts and Permits Recover Strongly in April](#) (May 17, 2016)
- [Retail Sales Increase Across the Board in April](#) (May 13, 2016)
- [Consumer Credit Breaks Records in March](#) (May 6, 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.