

Economic Analysis

# Weekly Focus: Income, Spending, and Jobs

Kim Chase

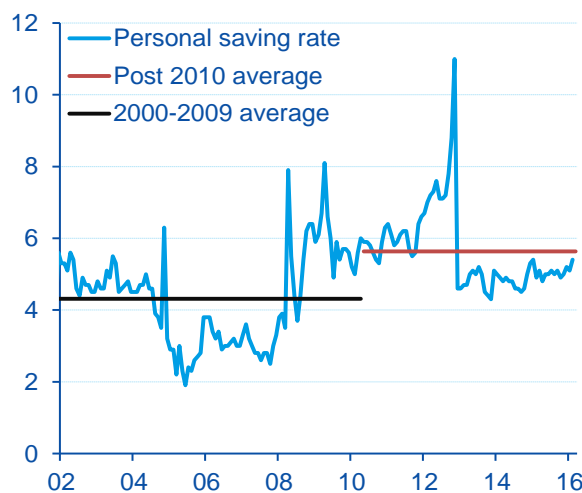
## Consumption Expected to Rebound in April Alongside Ongoing Income Gains

It's a busy week on the economic calendar as we come out of a long holiday weekend and head into the final month of the second quarter. First, we close out April's consumer data with the **personal income and outlays report (Tuesday)**, with both components expected to post healthy gains for the month. Income has been gradually rising throughout the past year, though still subdued given ongoing labor market improvements and the fact that we are almost back to full employment. The income gains we have seen did not translate into strong consumption in the first quarter – even with oil prices hitting 11-year lows in January – but instead led to an increase in savings. Personal spending is expected to rebound in April but it doesn't completely erase the caution among consumers seen earlier this year.

## Healthy Labor Market Trends Will Continue to Support Rate Hike in Near Future

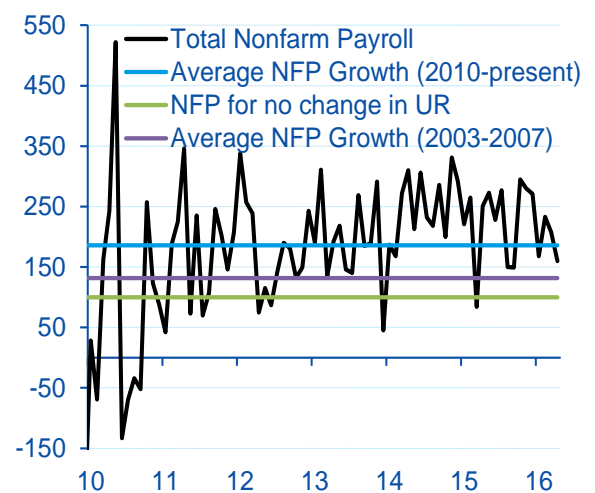
On the bright side, continued gains in employment should keep consumer spending on a healthy track throughout the coming months. Despite the sub 200K nonfarm payroll growth seen in April, the labor market is still the shining star of the economy. **May's employment report (Friday)** is expected to show a recovery in job growth back toward the 200K threshold. This would be enough to push the unemployment rate back down to 4.9% as long as the participation rate does not increase. However, an increase in participation would be another reflection of a healthy labor market and encouraging for Fed watchers waiting on pins and needles for signs of the next rate hike. Markets will be much more sensitive to incoming data given that we are only a few weeks away from the June FOMC meeting. The jobs report for May should continue to be supportive of a rate increase in the near future.

Graph 1  
**Personal Savings Rate (% of Disposable Income)**



Source: BEA & BBVA Research

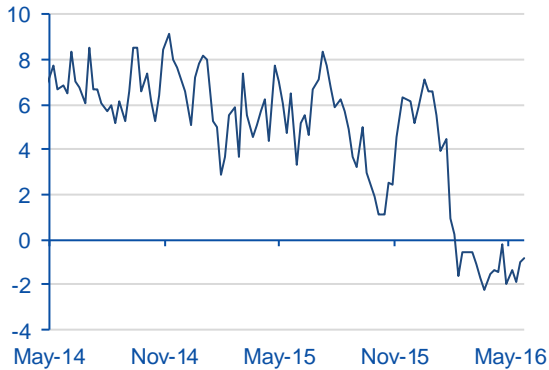
Graph 2  
**Nonfarm Payroll Growth (MoM Change in K)**



Source: BLS & BBVA Research

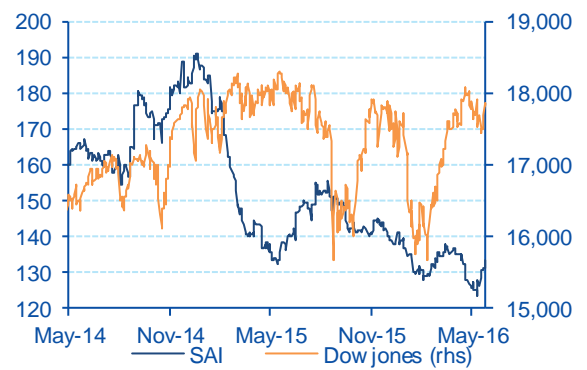
**Economic Trends**

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



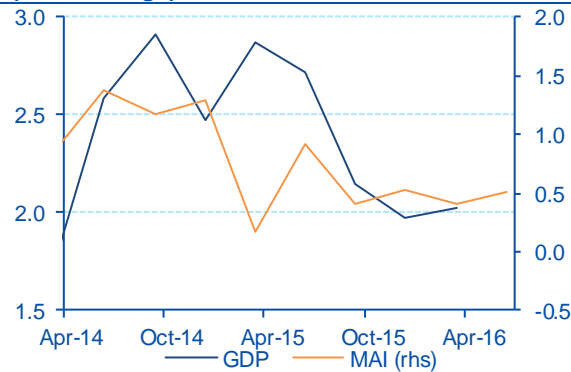
Source: BBVA Research

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



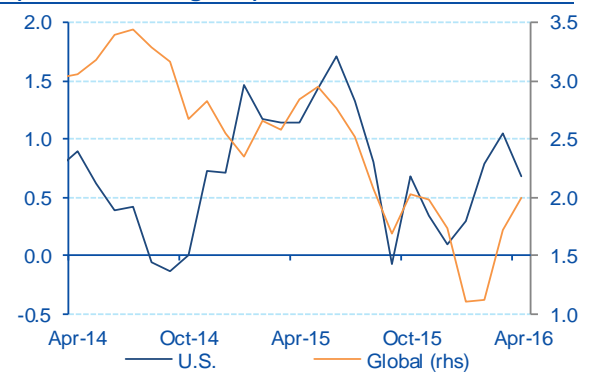
Source: Bloomberg & BBVA Research

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



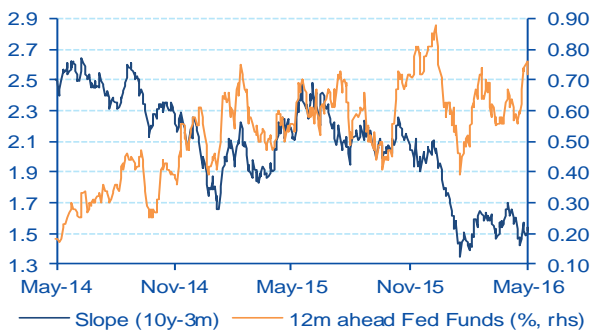
Source: BBVA Research & BEA

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



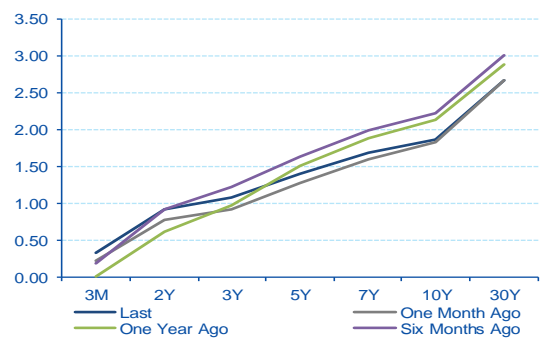
Source: BBVA Research

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
31-May	US Personal Income MoM SA	APR	0.30	0.40	0.40
31-May	US Personal Consumption Expenditures Nominal Dollars MoM SA	APR	0.60	0.70	0.10
31-May	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM% Change	MAR	0.73	0.70	0.66
31-May	S&P/Case-Shiller Composite-20 City Home Price Index YoY	MAR	5.04	5.06	5.38
31-May	MNI Chicago Business Barometer (sa)	MAY	51.10	50.80	50.40
31-May	Conference Board Consumer Confidence SA 1985=100	MAY	95.50	96.00	94.20
31-May	Dallas Fed Manufacturing Outlook Level Of General Business Activity	MAY	-4.50	-8.00	-13.90
1-Jun	US Auto Sales Total Annualized SAAR	MAY	17.60	17.30	17.32
1-Jun	Census Bureau US Construction Spending MoM SAAR	APR	0.90	0.50	0.30
1-Jun	ISM Manufacturing PMI SA	MAY	50.50	50.50	50.80
2-Jun	ADP National Employment Report SA Private Nonfarm Level Change	MAY	195.00	175.00	155.70
2-Jun	US Initial Jobless Claims SA	MAY 28	267.00	268.00	268.00
2-Jun	US Continuing Jobless Claims SA	MAY 21	2149.00	2150.00	2163.00
2-Jun	New York Purchasing Managers Current Business Conditions SA	MAY	57.30	-	57.00
3-Jun	US Trade Balance of Goods and Services SA	APR	-42.20	-41.90	-40.40
3-Jun	US Employees on Nonfarm Payrolls Total MoM Net Change SA	MAY	199.00	160.00	160.00
3-Jun	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	MAY	195.00	158.50	171.00
3-Jun	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	MAY	3.00	-5.00	4.00
3-Jun	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	MAY	0.20	0.20	0.30
3-Jun	US Average Weekly Hours All Employees Total Private SA	MAY	34.50	34.50	34.50
3-Jun	Unemployment Rate	MAY	4.90	4.95	5.00
3-Jun	US Manufacturers New Orders Total MoM SA	APR	2.10	0.95	1.50
3-Jun	ISM Non-Manufacturing NMI	MAY	55.10	55.30	55.70

## Economic Outlook

	2015	2016			2014	2015	2016	2017
	4Q	1Q	2Q	3Q				
Real GDP (% SAAR)	1.4	0.8	<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	6.00	<b>4.78</b>	<b>4.44</b>	7.69	5.06	<b>4.87</b>	<b>4.10</b>

## Fun Fact

More than 38 million Americans are expected to travel over the Memorial Day weekend, the most since 2005. About 89% of these travelers will be driving to their holiday destinations, taking advantage of the lowest Memorial Day gas prices in 11 years. (AAA, May 2016)

## Recent Publications

[1Q16 Real GDP Growth Revised up to 0.8% \(May 27, 2016\)](#)

[Durable Goods Orders in April Send Mixed Signals \(May 26, 2016\)](#)

[Strong Increase in New Home Sales in April \(May 24, 2016\)](#)

[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 \(May 18, 2016\)](#)

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