

Economic Analysis

Weekly Focus: Productivity and Consumer Credit

Kim Chase

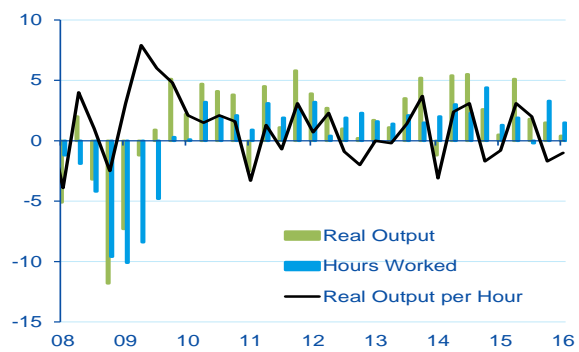
Minor Revisions Expected for 1Q16 Productivity on Account of Stronger Output

Productivity growth – measured as real output per hour – has been a subject of much scrutiny throughout the past few years, with many focusing on the fact that trends have slowed significantly since the financial crisis. It is true that the rate of productivity growth has dropped sharply from the 2000-2007 average of 2.7% to a post-crisis average of about 1.0%. Throughout the past few years, we have seen back-to-back drops in productivity in the fourth and first quarters. Productivity fell 1.7% on a QoQ SAAR basis in 4Q15, followed by another 1.0% drop in 1Q16. The **first quarter revision due out on Tuesday** is likely to show a slight improvement given the upward adjustment in 1Q16 real GDP growth, though remain in negative territory. Real output has been growing at a much slower rate than hours worked, ultimately holding back overall productivity. While quarterly productivity figures can be quite volatile like GDP (it might also exhibit residual seasonality), the trend in productivity remains weak. With both structural and cyclical factors in play, it is likely that productivity will remain low for the foreseeable future, fitting into this “new normal” economic environment of low growth over the next few years.

Consumer Credit and Confidence Still Point to Healthy Economic Activity

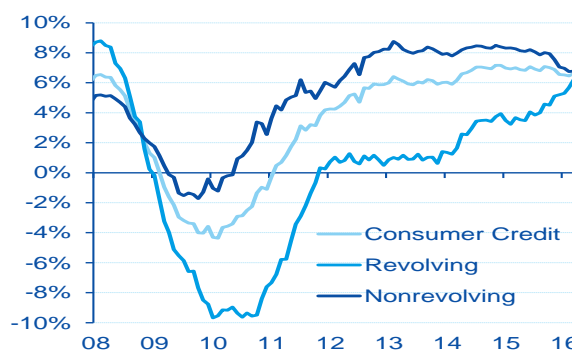
This week gives us another look at **consumer credit for April (Tuesday)**, lagged an extra month compared to other consumer data but a significant indicator nonetheless. March’s consumer credit growth broke records, increasing at the fastest pace since a structural break in the series back in late 2010. This reflected a QoQ annualized growth rate of 10%, the strongest since the second half of 2001. Nonrevolving credit, driven in large part by outstanding student loans, has been the primary contributor over the past few years. However, revolving credit growth (i.e. credit card use) has accelerated in recent months as improvements in the labor market and rising income prospects encourage consumers to take on more debt. In general, both revolving and nonrevolving loan growth are expected to remain solid, supported in large part by relatively low interest rates and healthy consumer confidence. A first look at **June’s consumer sentiment report (Friday)** may help offset the latest disappointing jobs report, where a strong reading would confirm that conditions are getting back on track for the summer months. Still, we remain wary of the heightened economic uncertainty on the horizon.

Graph 1
Productivity: Real Output and Hours Worked (SAAR QoQ % Change)



Source: BLS & BBVA Research

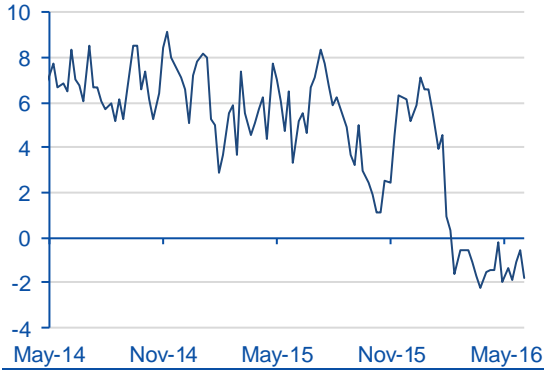
Graph 2
Consumer Credit Growth (YoY % Change)



Source: FRB & BBVA Research

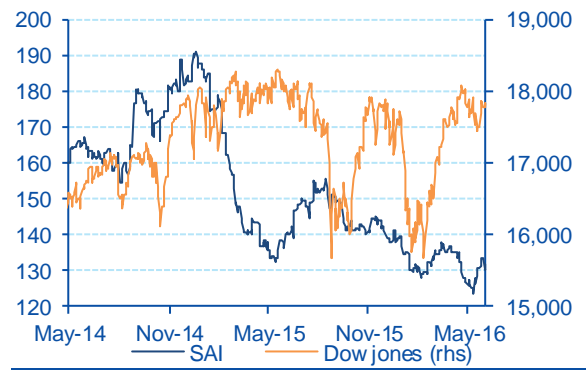
Economic Trends

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



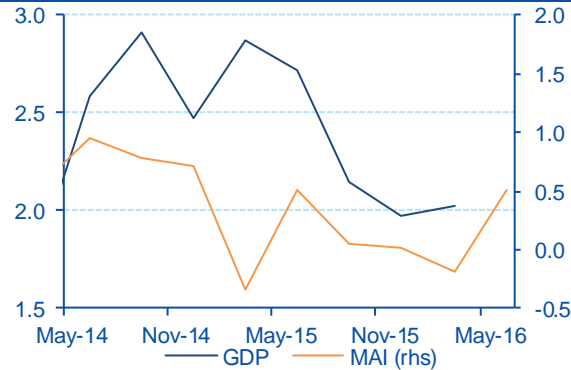
Source: BBVA Research

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



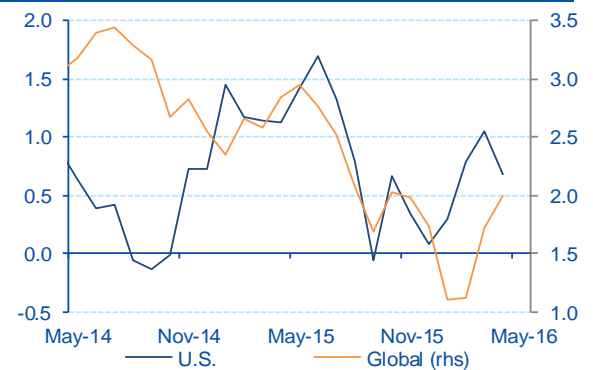
Source: Bloomberg & BBVA Research

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



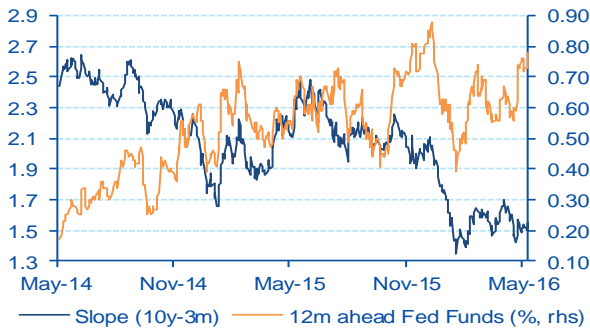
Source: BBVA Research & BEA

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



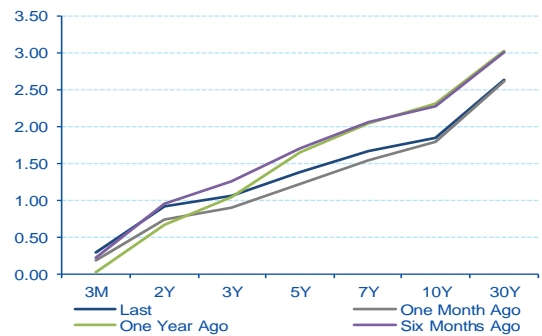
Source: BBVA Research

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
7-Jun	US Output Per Hour Nonfarm Business Sector QoQ SA	1Q F	-0.70	-0.60	-1.00
7-Jun	US Unit Labor Costs Nonfarm Business Sector QoQ % SAAR	1Q F	3.50	4.00	4.10
7-Jun	Federal Reserve Consumer Credit Total Net Change SA	APR	22.40	18.00	29.67
8-Jun	US Job Openings By Industry Total SA	APR	5725.00	5650.00	5757.00
9-Jun	US Initial Jobless Claims SA	JUN 4	265.00	270.00	267.00
9-Jun	US Continuing Jobless Claims SA	MAY 28	2165.00	2171.00	2172.00
9-Jun	Merchant Wholesalers Inventories Total Monthly % Change	APR	0.30	0.10	0.10
10-Jun	University of Michigan Consumer Sentiment Index	JUN P	95.30	94.00	94.70

Economic Outlook

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

Fun Fact

The Copa America kicks off on June 3rd in California and marks its 100-year anniversary, making it the oldest international soccer tournament in the world. The U.S. is the first host country outside of South America. (The New York Times, June 2016)

Recent Publications

[ISM Indices: Improvement in Manufacturing, Slower Growth in Non-Manufacturing](#) (June 3, 2016)

[Job Growth Slows and Participation Rate Falls in May](#) (June 3, 2016)

[State Monthly Activity Indexes: Domestic Rebalancing to Continue in 2Q16](#) (June 2, 2016)

[U.S. Economic Outlook 2Q16](#) (June 1, 2016)

[Consumer Spending Increases Strongly in April](#) (May 31, 2016)

[U.S. Interest Rates Chartbook](#) (May 27, 2016)

[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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