

Economic Analysis

# Weekly Focus: Retail Sales and Manufacturing

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## Retail Sales Data Catching up to More Positive Personal Spending Reports

Consumer spending continues to be an important factor to watch as we move past a weak first quarter. Retail sales declined for three consecutive months during the winter (in both real and nominal terms) and finally jumped back up slightly in March. **April's retail sales report (Wednesday)** is expected to show a similar increase as we let loose some of the pent-up demand stemming from the winter hibernation. When it comes to GDP growth, the contribution from consumer spending remains strong, and it has been interesting to see the differing patterns between the retail sales data from the Census and the BEA's personal consumption expenditures (PCE). In real terms, monthly PCE did not decline at all throughout the past few months but instead stalled just briefly in February. This led to a relatively healthy 1.31 percentage point contribution to growth in 1Q15 – much stronger than what the retail sales data would have suggested. Although the retail sales reports tend to warrant more market attention because they lead the PCE releases on the economic calendar, the growing inconsistencies between the two series hint at the need to reevaluate the true underlying implications of each consumption indicator. Furthermore, this suggests that the non-retail component of the PCE report is becoming more relevant than it may have been in the past, relative to its retail counterpart.

## Manufacturing Sector Desperately Looking to Recover from a Weak 1Q15

A few important indicators on the economic calendar this week will help clarify the current state of the manufacturing sector. **Industrial production for April (Friday)** is the biggest report to watch given its disappointing performance as of late – the index has declined in three of the four previous months, with manufacturing down in January and February. The rapid appreciation of the USD has trickled through to manufacturing activity as export-oriented production is hit by slowing global demand. **The Empire State Manufacturing Survey (Friday)** confirmed this weakness in April, noting declining new orders throughout the past few months. While we do expect to see modest improvement throughout the coming months, the sector remains extremely vulnerable to external factors. Domestic growth will need to rely more heavily on manufacturing in 2015 in order to offset the sharp declines in oil and gas production and investment.

Graph 1  
Real Retail Sales and PCE (QoQ SAAR % Change)



Source: BEA, FRB St Louis, & BBVA Research

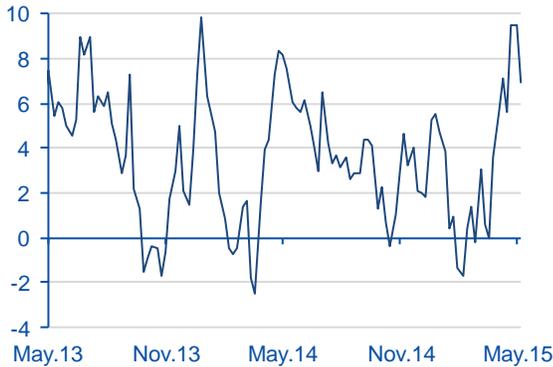
Graph 2  
Industrial Production & Goods GDP (SAAR \$Bn)



Source: BEA, FRB, & BBVA Research

**Economic Trends**

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



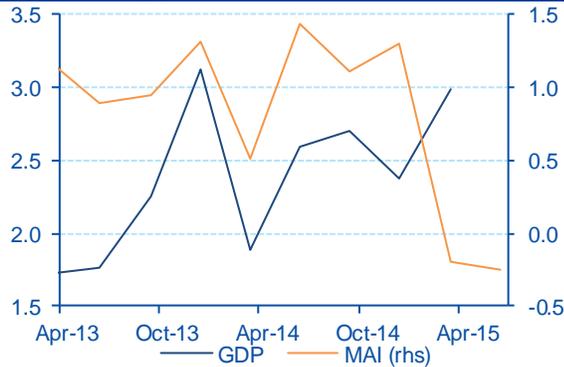
Source: BBVA Research

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



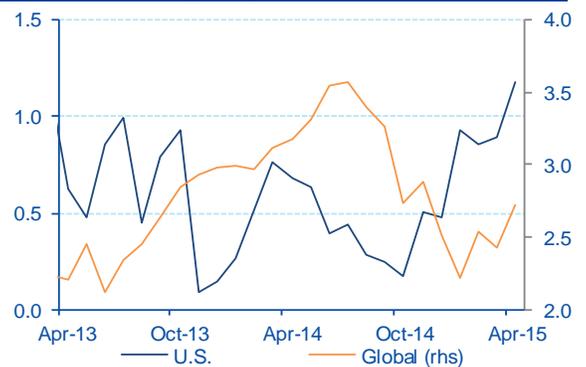
Source: Bloomberg & BBVA Research

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
12-May	NFIB Small Business Optimism Index	APR	95.50	96.00	95.20
12-May	US Job Openings By Industry Total SA	MAR	5045.00	5140.00	5133.00
13-May	Adjusted Retail & Food Services Sales SA Total Monthly % Change	APR	0.40	0.20	0.90
13-May	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	APR	0.50	0.60	0.50
13-May	US Import Price Index by End Use All MoM NSA	APR	0.20	0.30	-0.30
13-May	US Manufacturing & Trade Inventories Total MoM SA	MAR	0.20	0.20	0.30
14-May	US Initial Jobless Claims SA	MAY 9	275.00	273.00	265.00
14-May	US Continuing Jobless Claims SA	MAY 2	2275.00	2233.00	2228.00
14-May	US PPI Final Demand MoM SA	APR	0.20	0.10	0.20
14-May	US PPI Final Demand Less Foods and Energy MoM SA	APR	0.10	0.10	0.20
15-May	US Empire State Manufacturing Survey General Business Conditions SA	MAY	2.50	4.75	-1.19
15-May	US Industrial Production MoM2007=100 SA	APR	0.20	0.00	-0.64
15-May	US Capacity Utilization % of Total Capacity SA	APR	78.60	78.30	78.37
15-May	US Industrial Production Industry Groups Manufacturing MoM SA	APR	0.10	0.20	0.10
15-May	University of Michigan Consumer Sentiment Index	MAY P	96.10	96.00	95.90

## Economic Outlook

	2014	2015			2014	2015	2016	2017
	4Q	1Q	2Q	3Q				
Real GDP (% SAAR)	2.2	0.2	<b>3.6</b>	<b>5.0</b>	2.4	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
CPI (YoY %)	1.2	-0.1	<b>0.2</b>	<b>0.7</b>	1.6	<b>0.6</b>	<b>1.9</b>	<b>2.2</b>
CPI Core (YoY %)	1.7	1.7	<b>1.6</b>	<b>1.7</b>	1.7	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>
Unemployment Rate (%)	5.7	5.6	<b>5.4</b>	<b>5.2</b>	6.2	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>
Fed Target Rate (eop, %)	0.25	0.25	<b>0.25</b>	<b>0.50</b>	0.25	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
10Yr Treasury (eop, % Yield)	2.21	2.04	<b>1.90</b>	<b>2.32</b>	2.21	<b>2.40</b>	<b>3.00</b>	<b>3.54</b>
US Dollar/ Euro (eop)	1.23	1.08	<b>1.00</b>	<b>1.00</b>	1.23	<b>1.02</b>	<b>1.12</b>	<b>1.24</b>
Core Logic Home Prices (YoY %)	4.99	5.23	<b>5.64</b>	<b>5.30</b>	7.45	<b>5.29</b>	<b>4.85</b>	<b>4.38</b>

## Fun Fact

The United States consumes twice as much tequila as the country where tequila originated (Mexico). On Cinco de Mayo last year, margaritas accounted for 47% of cocktails sold. (The Daily Meal, April 30<sup>th</sup> 2015)

## Recent Publications

[Employment Situation Back on Track in April](#) (May 8, 2015)

[FOMC Review of Economic Activity Hints at Rate Hike After June](#) (April 29, 2015)

[Weak 1Q GDP Continues for 7<sup>th</sup> Straight Year](#) (April 29, 2015)

[State Monthly Activity Indexes: Upswing Expected After Transitory Weakness in 1Q15](#) (April 24, 2015)

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