

Economic Analysis

# Weekly Focus: GDP and the Fed Outlook

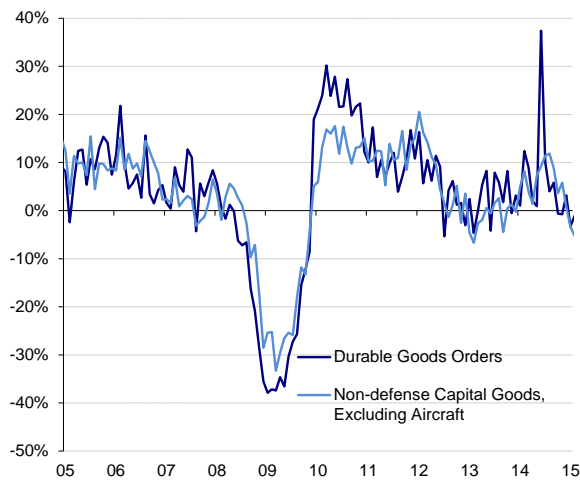
Amanda Augustine

## Weak Durable Goods and GDP Expectations Don't Dampen Fed Outlook

Although shortened due to the holiday, this week ends with a punch as the latest first quarter GDP estimate is released on Friday. Tuesday's durable goods report is heavily anticipated as well, as an indicator of any major revisions to GDP. Last month's durable goods report of a whopping 4.7% MoM gain was a relief after the unexpected decline of 3.47% MoM in the previous month. However, given that this significant gain was primarily due to strong demand for aircrafts and autos, the rise in durable goods excluding aircraft and transportation was relatively moderate. Considering the slowdown in business investment, we expect that durable goods will decline relative to their large jump last month. The strong dollar has made it difficult for U.S. businesses to sell their goods abroad, discouraging investment at home. Although rising, oil prices remain at relatively low levels, discouraging investment in the domestic energy sector.

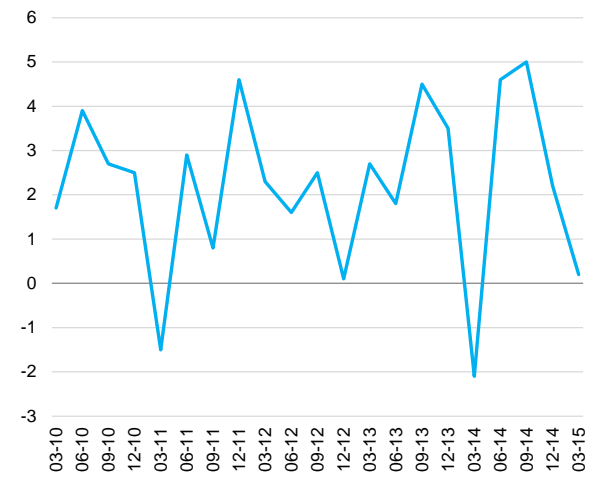
April's real GDP release disappointed with a paltry 0.2% QoQa increase in the first quarter, pointing to some weakness in economic recovery. This slow growth is an important consideration as the Fed decides on the appropriate timing for normalizing monetary policy. Although we expect a decline in this week's GDP revision, it does not change our outlook for 2015 or even for the Fed's future plans. In her most recent speech, Yellen acknowledged that recent economic data has been weak, especially the slowdowns in household spending, business investment, and industrial output, but that this weakness was caused by transitory factors. This is consistent with our belief that economic data will strengthen later in 2015. However, Yellen also indicated that headwinds "will likely take some time to fully abate" and that "the pace of normalization is likely to be gradual." Ultimately, her speech reaffirmed our expectations for a 2h15 rate hike and a cautious approach to policy normalization.

Graph 1  
**Durable Goods (SA, YoY% Change)**



Source: Census Bureau & BBVA Research

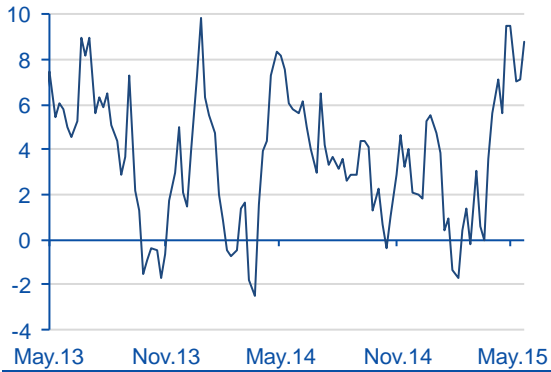
Graph 2  
**Real GDP Growth (QoQ SAAR, % Change)**



Source: BLS & BBVA Research

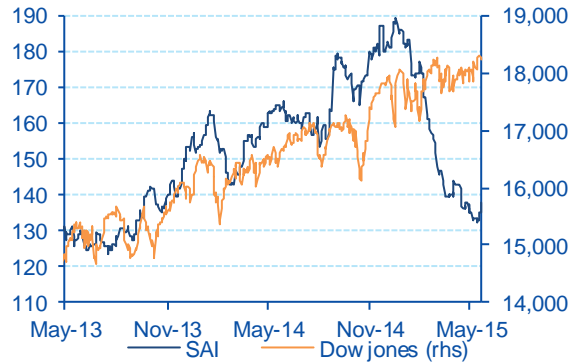
**Economic Trends**

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



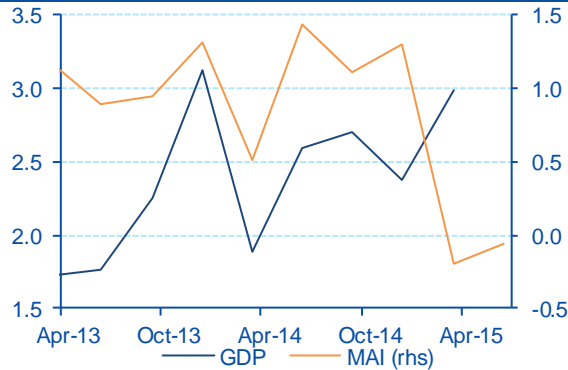
Source: BBVA Research

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



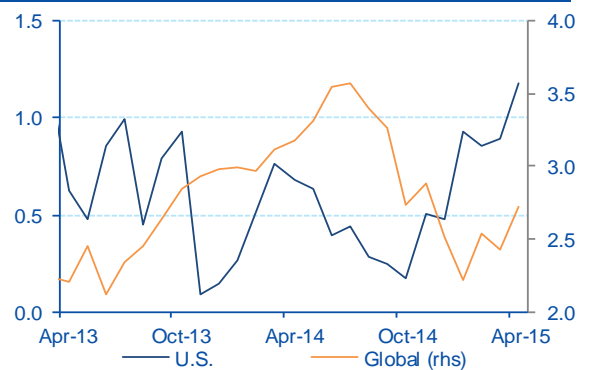
Source: Bloomberg & BBVA Research

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



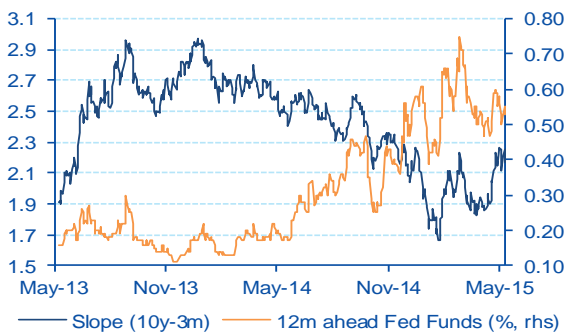
Source: BBVA Research & BEA

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



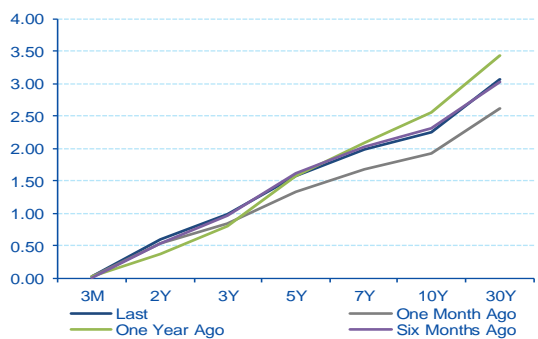
Source: BBVA Research

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
26-May	US Durable Goods New Orders Industries MoM SA	APR	-0.23	-0.50	4.70
26-May	US Durable Goods New Orders Total ex Transportation MoM SA	APR	0.29	0.40	0.30
26-May	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	MAR	0.85	-	0.93
26-May	S&P/Case-Shiller Composite-20 City Home Price Index YoY	MAR	4.47	4.50	5.03
26-May	Conference Board Consumer Confidence SA 1985=100	MAY	95.04	95.20	95.20
26-May	US New One Family Houses Sold Annual Total SAAR	APR	506.00	500.00	481.00
26-May	US New One Family Houses Sold Annual Total MoM SA	APR	3.86	3.95	-11.40
26-May	Dallas Fed Manufacturing Outlook Level Of General Business Activity	MAY	-12.75	-12.50	-16.00
28-May	US Initial Jobless Claims SA		274.00	270.00	264.00
28-May	US Continuing Jobless Claims SA		2265.00	2231.00	2229.00
28-May	US Pending Home Sales Index MoM SA	APR	1.02	1.00	1.12
29-May	GDP US Chained 2009 Dollars QoQ SAAR	1Q S	-0.82	-0.90	0.20
29-May	GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR	1Q S	1.94	-	1.90
29-May	US GDP Price Index QoQ SAAR	1Q S	-0.10	-0.10	-0.10
29-May	US GDP Personal Consumption Core Price Index QoQ % SAAR	1Q S	0.90	-	0.90
29-May	MNI Chicago Business Barometer (sa)	MAY	53.32	53.00	52.30
29-May	University of Michigan Consumer Sentiment Index	MAY F	94.30	90.05	88.60

## Economic Outlook

	2014				2015			
	4Q	1Q	2Q	3Q	2014	2015	2016	2017
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

More than 37.2 million Americans will travel at least 50 miles from home this Memorial Day weekend, the highest travel volume for the holiday in 10 years. -AAA

## Recent Publications

[April Core CPI Edges Closer to Fed Target](#) (May 22, 2015)

[Fintech: Changing the Way We Save and Invest](#) (May 21, 2015)

[The Dynamics of U.S. Crude Oil Production](#) (May 21, 2015)

[FOMC Minutes: April 28th-29th Meeting](#) (May 20, 2015)

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