

Economic Analysis

Weekly Focus: FOMC Minutes and Trade Balance

Kim Chase

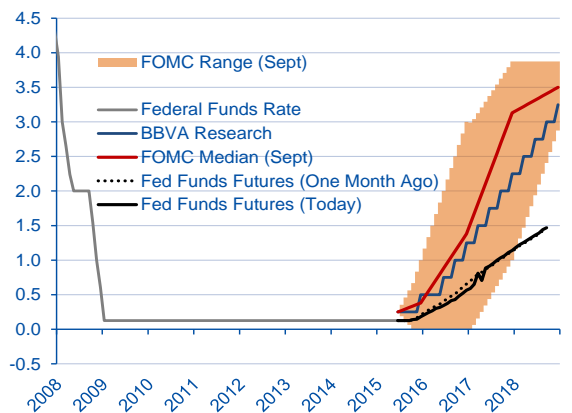
FOMC Minutes to Provide Details on Reasoning Behind Delayed Liftoff

The Federal Reserve is still dominating economic news, keeping the federal funds rate near zero and leaving us all wondering again when to expect the first hike. Despite the commentary from Yellen during her post-meeting press conference and some additional Fed speak throughout the past few weeks, we still don't really know what pushed the Fed to delay the first rate increase since June 2006. Was it China? Low inflation? The **minutes from September's FOMC meeting (Thursday)** are expected to reveal some of the details of the "to raise or not to raise" debate among Committee members. We expect that a variety of excuses were discussed during the meeting, including the weak global economy, persistently low inflation, the strong USD, and existing slack in the labor market. The FOMC continues to emphasize the latter, and September's weak jobs report certainly confirms their concerns. Some FOMC participants were probably ready to raise rates at the September meeting, but they were willing to wait a few more months under the assumption that the majority would be ready for liftoff by the end of this year. It will be interesting to see any commentary regarding the risks to delaying the first rate hike, as we are approaching more dangerous territory when it comes to this prolonged period at the zero lower bound.

Impact from USD on U.S. Exports & Manufacturing Expected to Continue

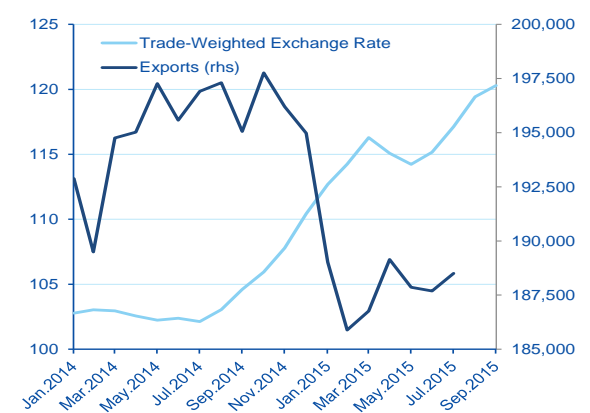
International trade and the competitiveness of U.S. exports may have also factored in to the Fed's decision to delay the first rate hike. The USD has strengthened considerably throughout the past year – up nearly 18% since July 2014 – and rising rates in the U.S. would further contribute to this appreciation. We have already seen an impact on domestic manufacturing and export-oriented production, with exports of U.S. goods consistently in negative YoY growth territory throughout 2015. Incoming signs of weakness in China and the rest of the global economy, on top of increasing interest rates in the near future, will put further downward pressure on demand for exported goods. **August's international trade report (Tuesday)** is expected to show a slight deterioration, with exports in decline and imports bouncing back from July's losses.

Graph 1
Federal Funds Rate Futures and Projections (%)



Source: FRB & BBVA Research

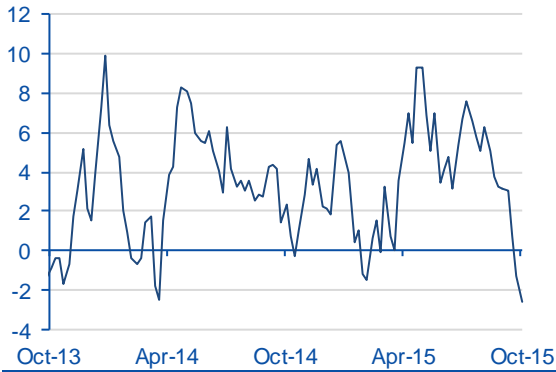
Graph 2
Trade-Weighted USD Index and Exports (Jan-97=100 and SA, \$Mn)



Source: Census, FRB, & BBVA Research

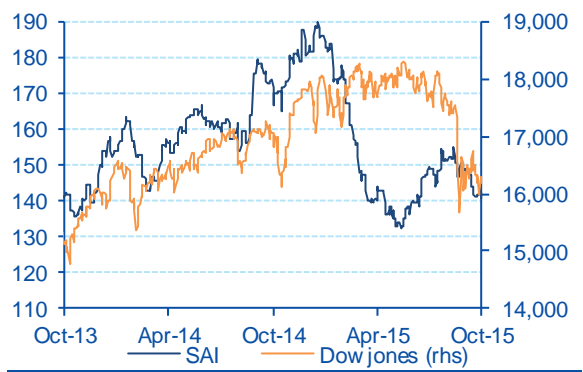
Economic Trends

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



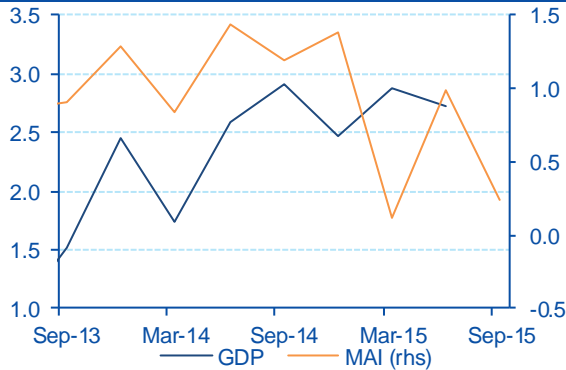
Source: BBVA Research

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



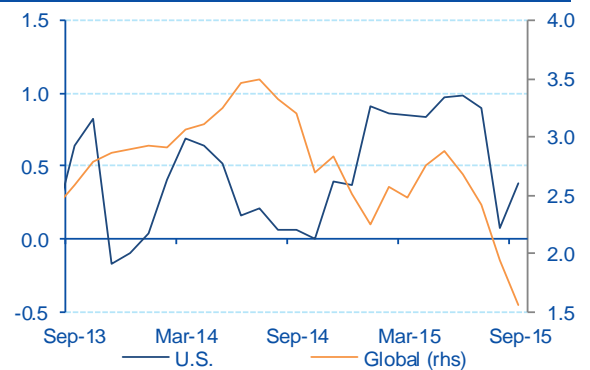
Source: Bloomberg & BBVA Research

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



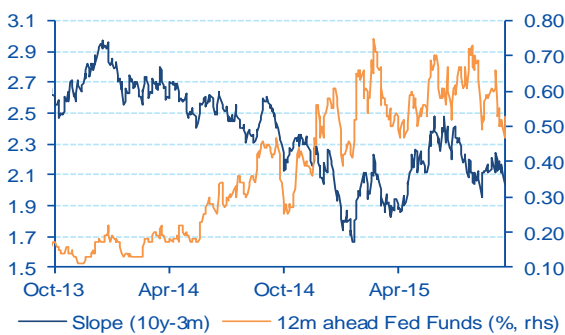
Source: BBVA Research & BEA

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



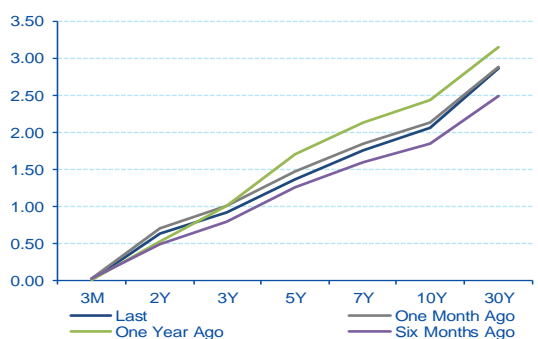
Source: BBVA Research

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
5-Oct	ISM Non-Manufacturing NMI NSA	SEP	59.50	57.70	59.00
6-Oct	US Trade Balance of Goods and Services SA	AUG	-43.00	-44.00	-41.86
7-Oct	Federal Reserve Consumer Credit Total Net Change SA	AUG	17.50	19.00	19.10
8-Oct	US Initial Jobless Claims SA	OCT 3	270.00	273.00	277.00
8-Oct	US Continuing Jobless Claims SA	SEP 26	2205.00	2200.00	2191.00
9-Oct	US Import Price Index by End Use All MoM NSA	SEP	-0.50	-0.50	-1.80
9-Oct	Merchant Wholesalers Inventories Total Monthly % Change	AUG	0.30	0.00	-0.10

Economic Outlook

	2015				2014	2015	2016	2017
	1Q	2Q	3Q	4Q				
Real GDP (% SAAR)	0.6	3.9	2.1	3.0	2.4	2.5	2.8	2.8
CPI (YoY %)	-0.1	0.0	0.2	1.0	1.6	0.3	1.8	2.1
CPI Core (YoY %)	1.7	1.8	1.8	1.7	1.7	1.7	1.8	2.0
Unemployment Rate (%)	5.6	5.4	5.2	5.1	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50	0.25	0.50	1.25	2.25
10Yr Treasury (eop, % Yield)	2.04	2.36	2.19	2.33	2.21	2.33	2.74	3.50
US Dollar/ Euro (eop)	1.08	1.12	1.12	1.09	1.23	1.09	1.16	1.20
Core Logic Home Prices (YoY %)	4.96	5.80	6.05	5.85	7.55	5.67	4.40	2.45

Fun Fact

According to a recent survey by Truity, ENTJs (people with a preference for extroversion, intuition, thinking, and judging) managed the largest number of employees (6) while ISFPs (people with a preference for introversion, sensing, feeling, and perceiving) managed the least (2). (World Economic Forum)

Recent Publications

[Labor Market Conditions Weaken in September](#) (October 2, 2015)

[Productivity Deceleration: Evidence from State-Level Data of the U.S.](#) (October 1, 2015)

[Congress Narrowly Averts Another Shutdown](#) (September 30, 2015)

[Consumers Made More and Spent More in August](#) (September 28, 2015)

[U.S. Oil and Gas Industry Chartbook](#) (September 25, 2015)

[Final Estimate for Real GDP Growth Hits 3.9%](#) (September 25, 2015)

[FOMC Statement: Dovish Views Dominate as FOMC Holds Back on Rate Hike](#) (September 17, 2015)

[August Headline CPI Falls as Gas Prices Tumble](#) (September 16, 2015)

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