

Economic Analysis

Weekly Focus: GDP and PCE Inflation

Kim Chase

Stronger-than-Expected Business Inventories Will Lessen Drag on 3Q GDP

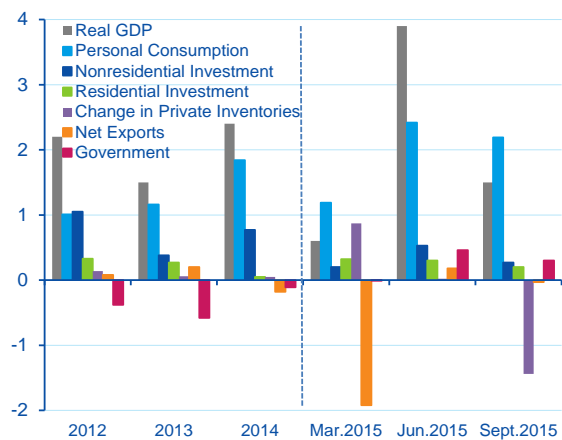
The **second estimate for 3Q15 real GDP growth (Tuesday)** is expected to show a slight upward revision from the initial figure of 1.5% QoQ SAAR. Economic releases following the advanced BEA report suggest some better-than-expected trends, with upward revisions to construction spending and exports. Business inventories, which have been particularly weak moving into the third quarter, came in stronger-than-expected for September and were revised upward for August. Thus, we expect the drag from the change in private inventories to be much less significant in the upcoming GDP report. Most other components should remain positive in regards to the percentage point contributions to growth for the quarter. Personal consumption expenditures, which are by far the strongest and most consistent contributors to GDP, will continue to drive growth as we move into 4Q15. With the limited data we have thus far, our estimates suggest a pace between 2.5% and 3.0% for the fourth quarter, bringing us to 2.5% growth for 2015 – an annual pace that is likely to continue in 2016 as well.

Focus on Inflation in the Last PCE Report Before December's FOMC Meeting

Inflation is going to be the key takeaway from **October's personal income and outlays report (Wednesday)** as it is the last PCE price data to be released prior to the Fed's December meeting. Although there will be another CPI inflation report, the Fed tends to lean more toward the PCE price index as its preferred indicator because it is more comprehensive and has flexible weights that can change as consumers shift from some goods and services to others. However, it is released later than CPI every month and therefore does not always get the attention it deserves. Trends between the two indices are almost identical, except for the fact that CPI on average tends to run roughly 0.5 percentage points higher, though the gap has been growing throughout the past year. The latest data on core inflation have indicated a gradual YoY rise (for both indicators), and we expect that this will continue in the coming months. Still, we do not expect that the core PCE price index will reach the Fed's 2% target for at least another few years.

Graph 1

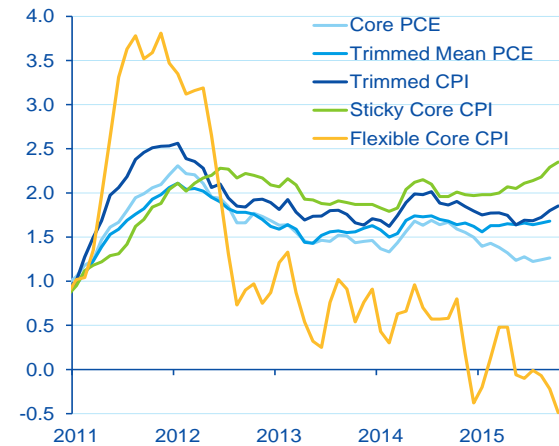
Contributions to Real GDP Growth (SAAR Percentage Points)



Source: BEA & BBVA Research

Graph 2

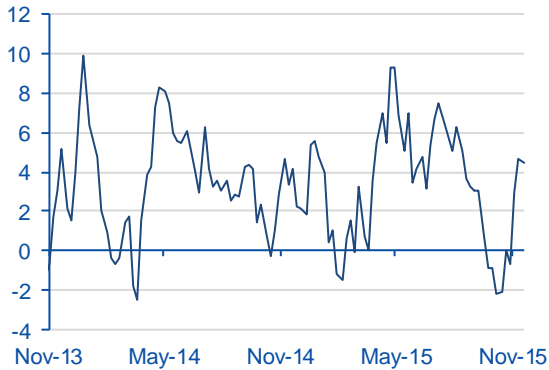
Alternative Measures of Inflation (YoY % Change)



Source: BLS, BEA, & BBVA Research

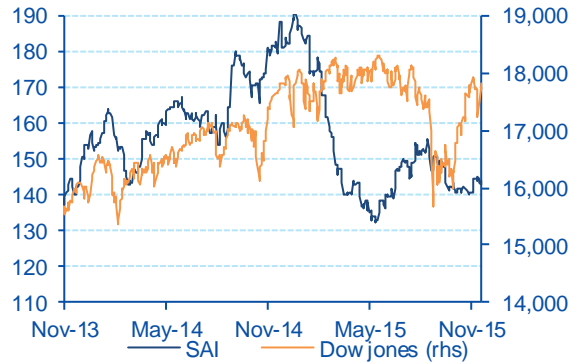
Economic Trends

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



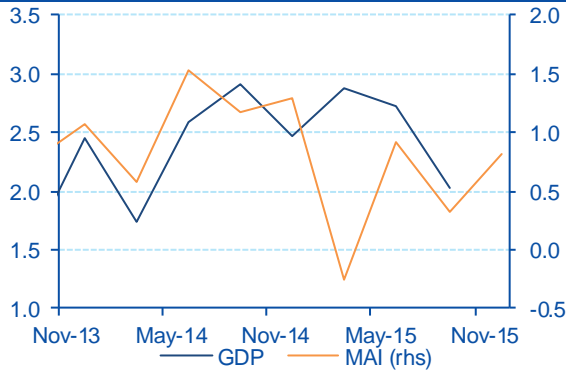
Source: BBVA Research

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



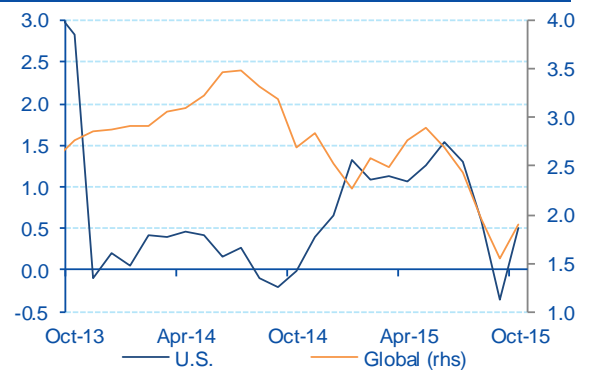
Source: Bloomberg & BBVA Research

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



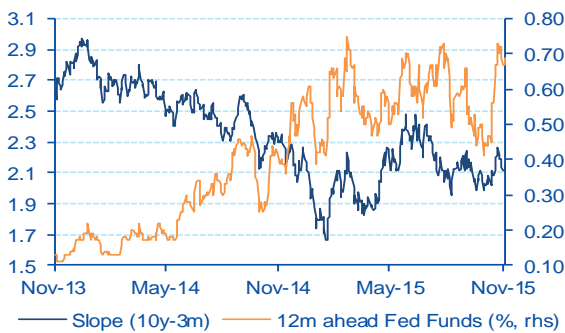
Source: BBVA Research & BEA

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



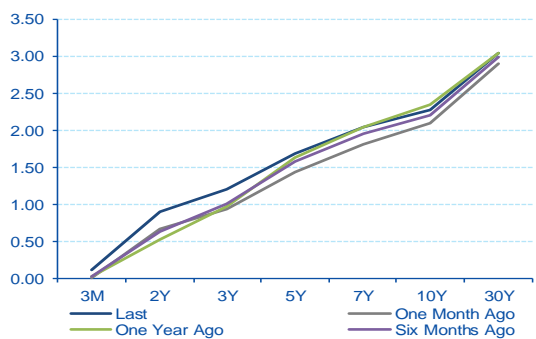
Source: BBVA Research

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
23-Nov	Chicago Fed National Activity Index	OCT	-0.10	0.08	-0.37
23-Nov	US Existing Homes Sales SAAR	OCT	5.48	5.40	5.55
23-Nov	US Existing Homes Sales MoM SA	OCT	-1.35	-2.70	4.72
24-Nov	GDP US Chained 2009 Dollars QoQ SAAR	3Q S	1.70	2.10	1.50
24-Nov	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	3Q S	3.20	3.20	3.20
24-Nov	US GDP Price Index QoQ SAAR	3Q S	1.30	1.20	1.20
24-Nov	US GDP Personal Consumption Core Price Index QoQ % SAAR	3Q S	1.40	1.30	1.30
24-Nov	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	SEP	0.10	0.30	0.11
24-Nov	S&P/Case-Shiller Composite-20 City Home Price Index YoY	SEP	5.32	5.15	5.09
24-Nov	Conference Board Consumer Confidence SA 1985=100	NOV	99.10	99.35	97.60
25-Nov	US Initial Jobless Claims SA	NOV 21	270.00	270.50	271.00
25-Nov	US Continuing Jobless Claims SA	NOV 14	2167.00	2140.00	2175.00
25-Nov	US Durable Goods New Orders Industries MoM SA	OCT P	-0.50	1.60	-1.20
25-Nov	US Durable Goods New Orders Total ex Transportation MoM SA	OCT P	-0.30	0.30	-0.30
25-Nov	US Personal Income MoM SA	OCT	0.30	0.40	0.10
25-Nov	US Personal Consumption Expenditures Nominal Dollars MoM SA	OCT	0.30	0.30	0.10
25-Nov	University of Michigan Consumer Sentiment Index	NOV F	94.00	93.00	93.10
25-Nov	US New One Family Houses Sold Annual Total SAAR	OCT	505.00	500.00	468.00
25-Nov	US New One Family Houses Sold Annual Total MoM SA	OCT	7.91	6.84	-11.50

Economic Outlook

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	1.5	3.1	1.9	2.4	2.5	2.5	2.4
CPI (YoY %)	0.0	0.1	0.9	2.2	1.6	0.2	1.8	1.9
CPI Core (YoY %)	1.8	1.8	1.9	1.9	1.7	1.8	1.8	1.9
Unemployment Rate (%)	5.4	5.2	5.0	5.0	6.2	5.3	4.9	4.6
Fed Target Rate (eop, %)	0.25	0.25	0.50	0.50	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.36	2.17	2.33	2.43	2.21	2.33	2.51	3.21
US Dollar/ Euro (eop)	1.12	1.12	1.07	1.08	1.23	1.07	1.13	1.16
Core Logic Home Prices (YoY %)	5.14	5.62	7.51	7.70	7.67	5.80	4.66	2.45

Fun Fact

In 2014, 100% of turkeys imported to the U.S. came from Canada, valuing nearly \$24 million. Sweet potatoes, another traditional Thanksgiving treat, are imported primarily from the Dominican Republic (48.8%), with total imports of the potato valuing \$13.6 million in 2014. (U.S. Census Bureau, November 2015)

Recent Publications

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[The Labor Market: Now and Then](#) (November 18, 2015)

[FOMC Minutes: Despite Hawkish Language, Dovish Views Still Prevalent](#) (November 18, 2015)

[October Industrial Production Disappoints](#) (November 17, 2015)

[Broad-Based Increase in October Headline CPI](#) (November 17, 2015)

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