

Economic Analysis

Weekly Focus: FOMC Meeting & 4Q15 GDP

Kim Chase

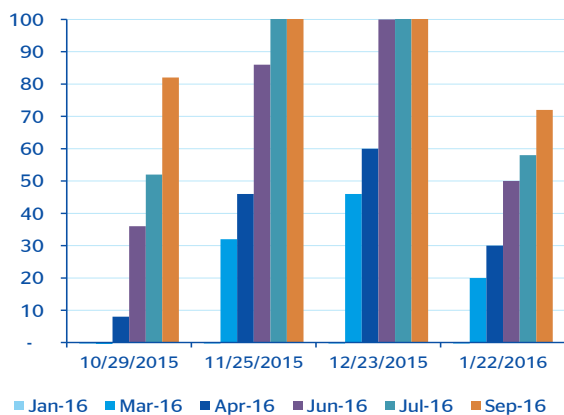
FOMC Won't Increase Rates Again in January and May Downplay Next Move

The chances of another rate increase announcement at the **January FOMC meeting (Wednesday)** are slim to none, with the dust still settling from December's liftoff. We are just over a month past the first rate hike so there has been little opportunity to assess the impact in the real economy. Data releases in the coming months will be more telling, though from what we have seen so far, upcoming reports are unlikely to be overwhelmingly positive. The problem is that the latest FOMC projections from December suggest four rate increases in 2016, meaning we may see one in March if the Fed sticks to this plan. However, our expectations are for only two increases this year, considering the time needed to assess the impact from each rate move as well as the slow and uncertain start to 2016. Market expectations have also declined sharply in the past month. Renewed volatility in global financial markets has the potential to spook FOMC members again (as was the case in September), and we may see some of this come up in meeting discussions. Unfortunately, we won't have revised FOMC projections until March, so it will be important to monitor closely the meeting discussions as well as additional Fed speak. For now, the FOMC will really need to work on their communication in order to maintain a smooth policy normalization strategy.

4Q15 Real GDP Growth Expected to Drop Below 3Q's 2.0% Pace

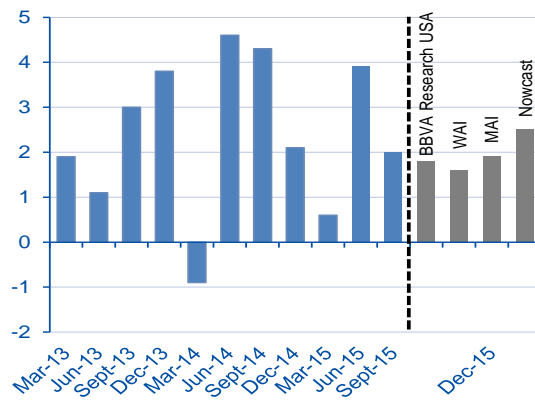
The first estimate for **4Q15 real GDP growth (Friday)** is expected to reflect the ongoing bout of underwhelming economic news. Most data for the quarter have not shown much improvement from 3Q15, so we expect the release to show a slightly slower pace below 2.0% QoQ SAAR. Real personal consumption expenditures did not start the quarter off on the right foot, though there was a significant rebound in November. Leading indicators for December's consumption are not all that exciting but should at least help offset the ongoing weakness from other components such as net exports and business inventories, both of which continue to disappoint. Regardless, we expect to close out 2015 near 2.5% annual growth.

Graph 1
Federal Funds Rate Futures Implied Probability (Second 25bp increase, %)



Source: Bloomberg & BBVA Research

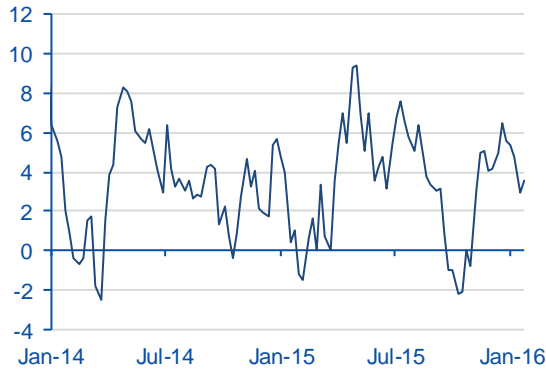
Graph 2
Real GDP Growth (QoQ SAAR % Change)



Source: BEA & BBVA Research

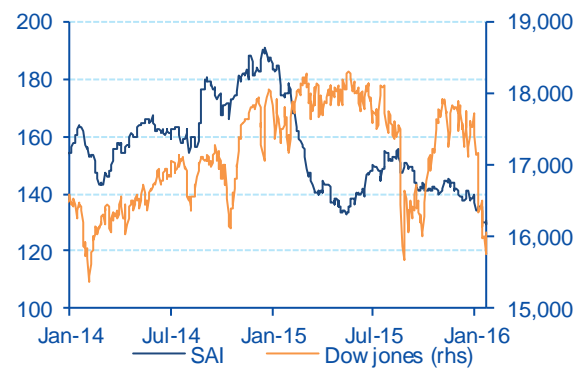
Economic Trends

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



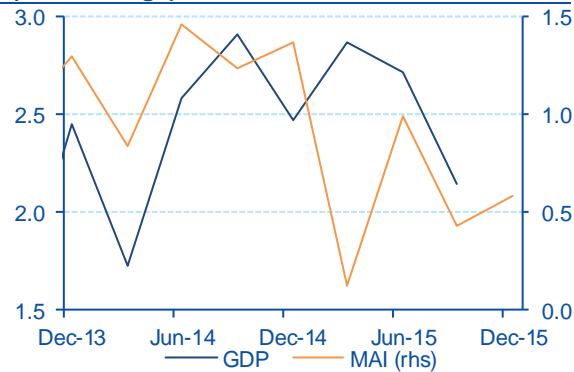
Source: BBVA Research

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



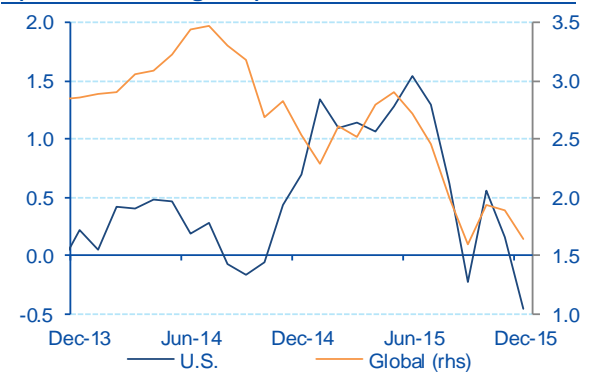
Source: Bloomberg & BBVA Research

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



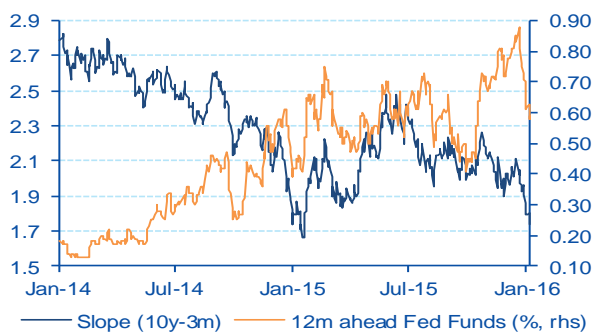
Source: BBVA Research & BEA

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



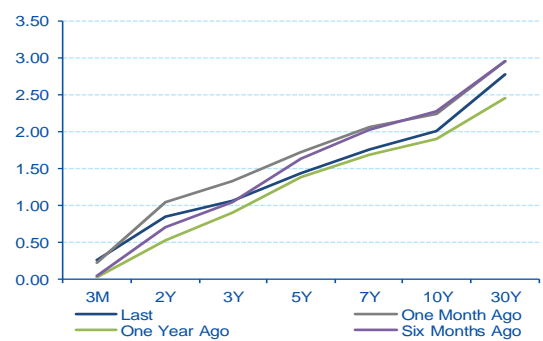
Source: BBVA Research

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
25-Jan	Dallas Fed Manufacturing Outlook Level Of General Business Activity	JAN	-11.50	-15.00	-20.10
26-Jan	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	NOV	1.10	0.80	0.84
26-Jan	S&P/Case-Shiller Composite-20 City Home Price Index YoY	NOV	5.98	5.67	5.54
26-Jan	Conference Board Consumer Confidence SA 1985=100	JAN	95.70	96.50	96.50
27-Jan	US New One Family Houses Sold Annual Total SAAR	DEC	505.00	500.00	490.00
27-Jan	US New One Family Houses Sold Annual Total MoM SA	DEC	3.06	2.04	4.30
27-Jan	Federal Funds Target Rate - Upper Bound	JAN 27	0.50	0.50	0.50
28-Jan	US Initial Jobless Claims SA	JAN 23	287.00	281.00	293.00
28-Jan	US Continuing Jobless Claims SA	JAN 16	2227.00	0.00	2208.00
28-Jan	US Durable Goods New Orders Industries MoM SA	DEC P	-0.70	-0.50	0.00
28-Jan	US Durable Goods New Orders Total ex Transportation MoM SA	DEC P	-0.50	0.00	0.00
28-Jan	US Pending Home Sales Index MoM SA	DEC	0.20	1.00	-0.93
29-Jan	GDP US Chained 2009 Dollars QoQ SAAR	4Q A	1.70	0.80	2.00
29-Jan	GDP US Personal Consumption Chained 2009 Dirs % Change from Previous Period SAAR	4Q A	2.50	2.00	3.00
29-Jan	US GDP Price Index QoQ SAAR	4Q A	1.00	0.75	1.30
29-Jan	US GDP Personal Consumption Core Price Index QoQ % SAAR	4Q A	1.40	1.30	1.40
29-Jan	Bureau of Labor Statistics Employment Cost Civilian Workers QoQ SA	4Q	0.40	0.60	0.60
29-Jan	MNI Chicago Business Barometer (sa)	JAN	44.30	45.50	42.90
29-Jan	University of Michigan Consumer Sentiment Index	JAN F	93.10	93.00	93.30

Economic Outlook (revisions pending)

	2015			2016	2014	2015	2016	2017
	2Q	3Q	4Q	1Q				
Real GDP (% SAAR)	3.9	1.5	1.8	2.2	2.4	2.5	2.5	2.4
CPI (YoY %)	0.0	0.1	0.4	2.2	1.6	0.2	1.8	1.9
CPI Core (YoY %)	1.8	1.8	2.0	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	2.24	2.27	2.21	2.24	2.43	3.09
US Dollar/ Euro (eop)	1.12	1.12	1.09	1.05	1.23	1.09	1.12	1.16
Core Logic Home Prices (YoY %)	4.95	4.98	6.19	5.82	7.67	5.22	5.16	2.45

Fun Fact

The winter storm hitting the mid-Atlantic this weekend is called Jonas. Upcoming names for this year's blizzards include Mars, Quo and Yolo. (The Weather Channel, 22 January 2016)

Recent Publications

[Energy and Food Prices Drag Down Headline CPI](#) (January 20, 2016)

[Obama's Call for Social and Political Unity in Final SOTU](#) (January 13, 2016)

[Resilient 4Q Job Growth Despite Subdued Wages](#) (January 8, 2016)

[FOMC Minutes: Liftoff a "Close Call" for some Members as Inflation Uncertainty Lingers](#) (January 6, 2016)

[Existing Home Sales Fall in November, but Other Parameters Still Strong](#) (December 23, 2015)

[Inventories and Exports Weigh on 3Q15 Growth](#) (December 22, 2015)

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