

Economic Analysis

Weekly Focus: 4Q15 GDP and Consumer Activity

Kim Chase

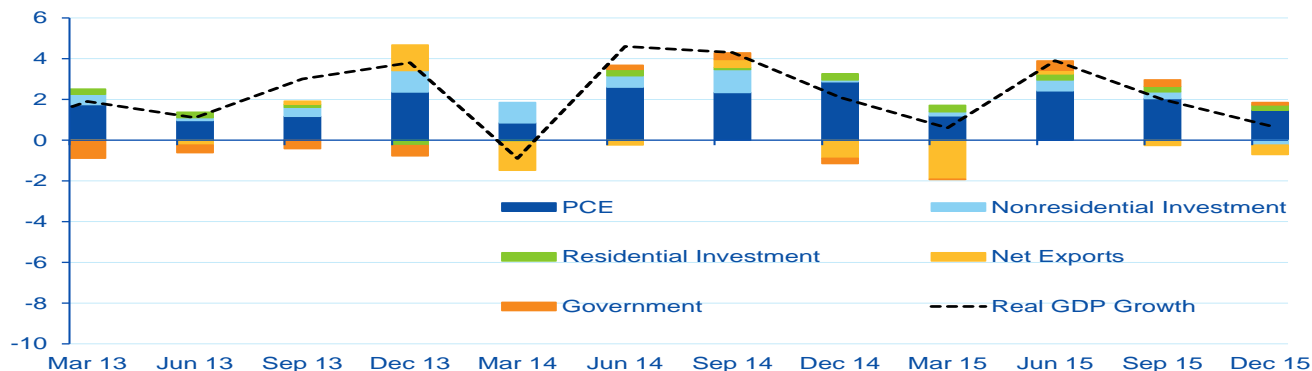
Downward Revision Expected for 4Q15 GDP Growth

The BEA's **second estimate for 4Q15 real GDP growth (Friday)** is expected to show a slight downward revision from the initial 0.7% QoQ SAAR figure. This first report was already a disappointment, so another shift downward will certainly add to the negative reports already dominating the news. Recent data have indicated a downward revision for multiple GDP-related variables for November, including construction spending and factory orders. Not surprisingly, the trade deficit widened in December, reflecting a decline in exports but growing imports – at least a positive sign for domestic demand. Personal consumption expenditures were actually revised up for November but were mostly unchanged in December, an unusual trend for the typical holiday shopping season. **January's personal income and outlays report (Friday)** is expected to show improvement over the unimpressive end to 2015. While we continue to expect domestic consumption to lead growth in the next few years, the more prolonged issues stemming from a strong USD and lagging investment in the energy sector will remain risk factors to monitor. Lately, talk of an impending recession has intensified, with many pointing to weakness in industrial production and manufacturing as a sign of negative growth on the horizon. However, conditions can turn around quickly, and although we expect another relatively weak GDP report for 1Q16, the economy should start to gain momentum again as we move into 2Q16.

Consumer Confidence Falling Below January's Levels

The lack of robust personal spending in 4Q15 suggests that consumers are not quite comfortable with the state of the economy right now. Despite the fact that oil prices remain near 12-year lows, the personal savings rate has reached a recovery high. This implies some hesitance among consumers to fully loosen those purse strings, even in a favorable environment of low inflation. In recent months, confidence indicators have bounced down from near pre-crisis peaks as both expectations and views on current conditions have deteriorated. **Consumer confidence (Tuesday)** and **consumer sentiment (Friday)** are both expected to remain below January's levels.

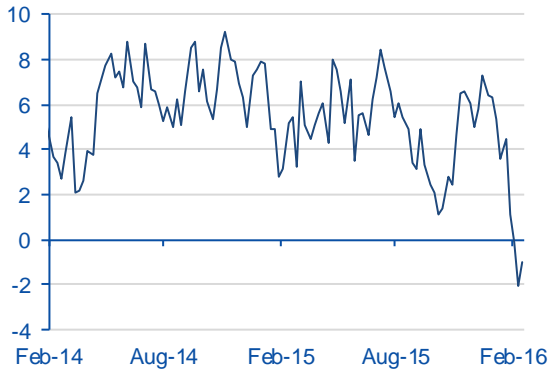
Graph 1
Real GDP Growth & Contributions (QoQ SAAR % Change & Percentage Points)



Source: BEA & BBVA Research

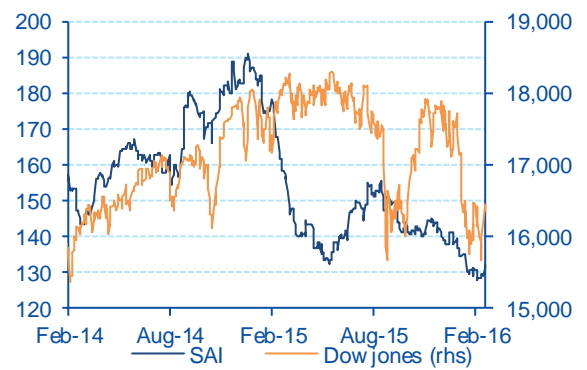
Economic Trends

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



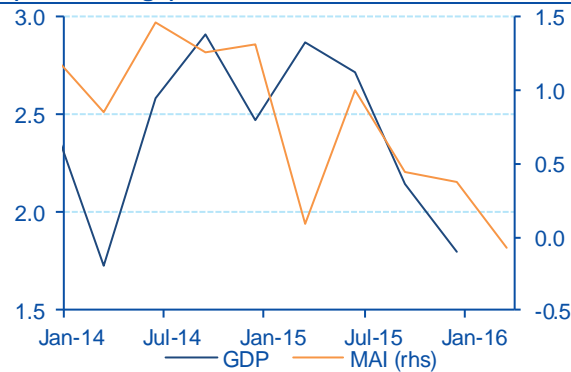
Source: BBVA Research

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



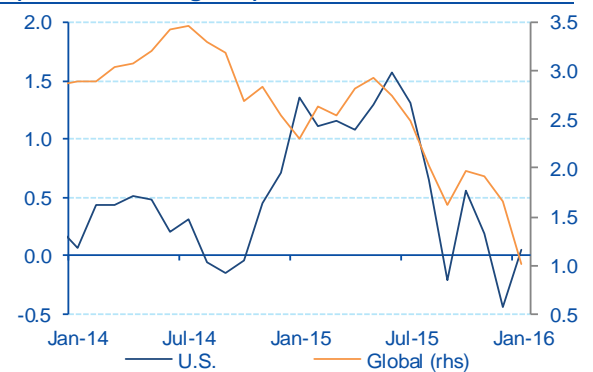
Source: Bloomberg & BBVA Research

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



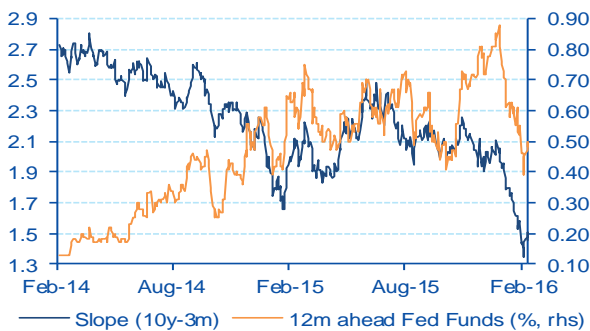
Source: BBVA Research & BEA

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



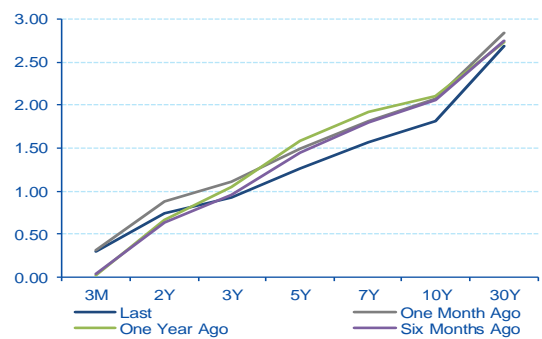
Source: BBVA Research

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
22-Feb	Chicago Fed National Activity Index	JAN	-0.05	-0.10	-0.22
23-Feb	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	DEC	0.80	0.95	0.94
23-Feb	S&P/Case-Shiller Composite-20 City Home Price Index YoY	DEC	5.81	5.80	5.83
23-Feb	Conference Board Consumer Confidence SA 1985=100	FEB	97.30	97.30	98.10
23-Feb	US Existing Homes Sales SAAR	JAN	5.50	5.33	5.46
23-Feb	US Existing Homes Sales MoM SA	JAN	0.64	-2.47	14.71
24-Feb	US New One Family Houses Sold Annual Total SAAR	JAN	521.00	520.00	544.00
24-Feb	US New One Family Houses Sold Annual Total MoM SA	JAN	-4.23	-4.41	10.80
25-Feb	US Initial Jobless Claims SA	FEB 20	267.00	270.00	262.00
25-Feb	US Continuing Jobless Claims SA	FEB 13	2261.00	2253.00	2273.00
25-Feb	US Durable Goods New Orders Industries MoM SA	JAN P	1.30	2.50	-5.00
25-Feb	US Durable Goods New Orders Total ex Transportation MoM SA	JAN P	0.70	0.25	-1.00
26-Feb	GDP US Chained 2009 Dollars QoQ SAAR	4Q S	0.50	0.40	0.70
26-Feb	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	4Q S	2.15	2.20	2.20
26-Feb	US GDP Price Index QoQ SAAR	4Q S	0.70	0.80	0.80
26-Feb	US GDP Personal Consumption Core Price Index QoQ % SAAR	4Q S	1.20	1.20	1.20
26-Feb	University of Michigan Consumer Sentiment Index	FEB F	91.10	91.00	90.70
26-Feb	US Personal Income MoM SA	JAN	0.40	0.40	0.30
26-Feb	US Personal Consumption Expenditures Nominal Dollars MoM SA	JAN	0.20	0.30	0.00

Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	0.7	1.5	3.0	2.4	2.4	2.5	2.4
CPI (YoY %)	0.1	0.5	1.1	1.1	1.6	0.1	1.3	2.0
CPI Core (YoY %)	1.8	2.0	2.1	2.1	1.7	1.8	2.0	2.0
Unemployment Rate (%)	5.2	5.0	5.0	4.9	6.2	5.3	4.8	4.6
Fed Target Rate (eop, %)	0.25	0.50	0.50	0.75	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.17	2.24	2.09	2.17	2.21	2.24	2.32	2.88
US Dollar/ Euro (eop)	1.12	1.09	1.05	1.06	1.23	1.09	1.11	1.16
Core Logic Home Prices (YoY %)	4.86	5.51	5.86	5.86	7.69	4.99	5.37	2.45

Fun Fact

An academic study concluded that Scalia was the funniest Supreme Court judge after ranking the number of times the court reporter used the notation "laughter" after a justice's remarks. Scalia won by a landslide with 77 "laughter" notations. (Wall Street Journal, February 2016)

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