

## Economic Analysis

## Weekly Focus: Inflation and Retail Sales

Kim Chase

### Energy Prices Still Weighing on CPI Inflation but Expected to Ease in 2Q16

**March's consumer price index report (Thursday)** is expected to show an increase at both the headline and core levels as energy prices recover and pass-through remains limited. The drag from energy prices is still significant, having been in decline for three consecutive months and in negative YoY territory since July 2014. However, crude oil prices in March rebounded to near \$40/barrel before settling just below that level at the end of the month. Despite heightened uncertainty, we expect that oil prices will at least remain relatively stable around current levels over the next quarter, reducing the drag on headline inflation. Core CPI inflation has made significant strides throughout the past few months, hitting 2.3% YoY in February (the highest since April 2012). Core prices are likely to remain below the Fed's target throughout the next year, with our 12 month probability pointing to about a 70% chance that core CPI hovers between 1.5% and 2.0%. However, given the positive price movement seen in 1Q16 thus far, there is an increasing bias towards the upside and a faster rise toward the target by 2018.

### Retail Sales to Post Modest Gain in March After Soft Start to the Year

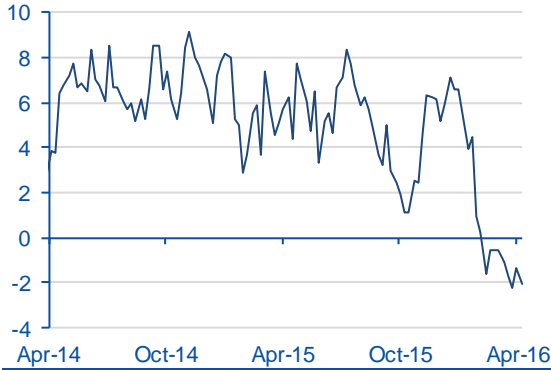
Consumption has been surprisingly weak to start the year, particularly when it comes to the retail sector, with total and ex-auto sales falling in both January and February. Low gas prices continue to weigh on the nominal sales figure, though we could see some relief in March due to the 11.6% gain in retail gasoline prices – the first since June 2015. However, with consumers still hesitant to completely loosen their purse strings, even slightly higher prices at the gas pump could limit spending elsewhere, particularly for big ticket items. Unit auto sales declined 5.5% in March, the largest monthly decline in nearly five years, despite the fact that labor market improvements continue to suggest better job and income prospects. Ultimately, we expect **March's retail sales report (Wednesday)** to show a modest rebound in consumer spending, but not quite enough to lift spirits on the 1Q16 GDP figure to come later this month.

### Non-energy and Manufacturing Output Leading Industrial Production Gains

The weight of low oil prices continues this week with the **industrial production report for March (Friday)**, which has been dragged down by weakness in the energy sector for most of the past 12 months. Mining and utilities output on a YoY basis have both fallen to historical lows due to ongoing downward pressures from low oil and commodity prices. Utilities production tends to be more volatile, however, and we could see some seasonal impacts come into play throughout the coming months as the weather warms and the need for air conditioning spikes. Manufacturing activity has been the shining star of the industrial production reports in 1Q16 thus far and is likely to see another monthly gain in March. Consequently, we expect to see upward pressure for non-energy output relative to the energy sector.

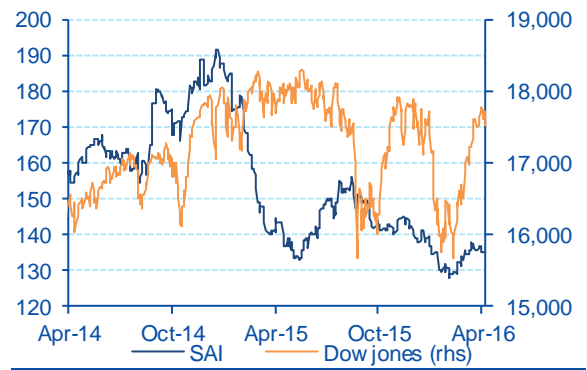
**Economic Trends**

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



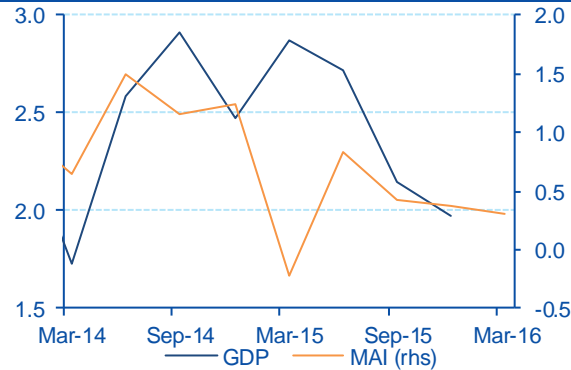
Source: BBVA Research

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



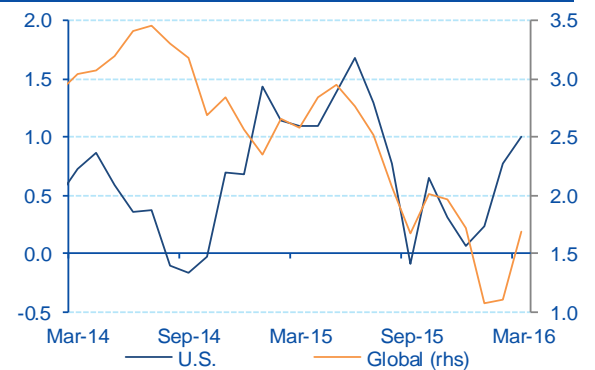
Source: Bloomberg & BBVA Research

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



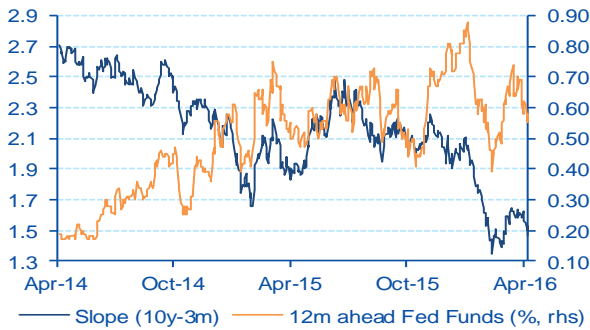
Source: BBVA Research & BEA

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



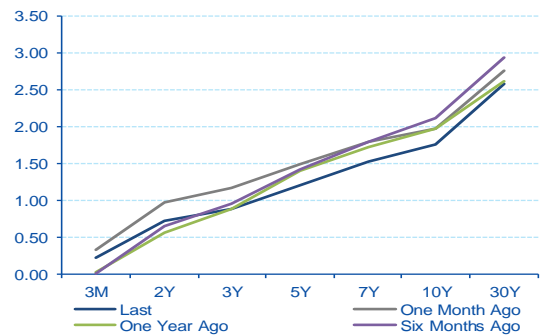
Source: BBVA Research

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
12-Apr	NFIB Small Business Optimism Index	MAR	93.30	93.60	92.90
12-Apr	US Import Price Index by End Use All MoMNSA	MAR	0.10	1.00	-0.30
13-Apr	US PPI Final Demand MoM SA	MAR	0.10	0.30	-0.20
13-Apr	US PPI Final Demand Less Foods and Energy MoM SA	MAR	0.20	0.10	0.00
13-Apr	Adjusted Retail & Food Services Sales SA Total Monthly % Change	MAR	0.20	0.10	-0.10
13-Apr	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	MAR	0.30	0.30	0.30
13-Apr	US Manufacturing & Trade Inventories Total MoM SA	FEB	0.10	0.00	0.10
14-Apr	US Initial Jobless Claims SA	APR 9	264.00	270.00	267.00
14-Apr	US Continuing Jobless Claims SA	APR 2	2180.00	2182.50	2191.00
14-Apr	US CPI Urban Consumers MoM SA	MAR	0.20	0.20	-0.20
14-Apr	US CPI Urban Consumers Less Food & Energy MoM SA	MAR	0.20	0.20	0.30
15-Apr	US Empire State Manufacturing Survey General Business Conditions SA	APR	2.30	2.00	0.62
15-Apr	US Industrial Production MOM SA	MAR	0.10	-0.10	-0.52
15-Apr	US Capacity Utilization % of Total Capacity SA	MAR	75.60	75.40	75.44
15-Apr	US Industrial Production Industry Groups Manufacturing MoM SA	MAR	0.20	0.10	0.10
15-Apr	University of Michigan Consumer Sentiment Index	APR P	91.90	92.00	91.00

## Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	1.4	1.5	3.4	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	2.3	2.1	1.7	1.8	2.1	2.1
Unemployment Rate (%)	5.2	5.0	4.9	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	1.89	1.95	2.21	2.24	2.27	2.79
US Dollar/ Euro (eop)	1.12	1.09	1.11	1.10	1.23	1.09	1.12	1.16
Core Logic Home Prices (YoY %)	5.05	5.31	5.52	4.81	7.70	5.01	4.78	4.22

## Fun Fact

John Kerry has just become the most travelled secretary of state in U.S. history, racking up 1.06 million miles throughout his time in office to surpass Condoleezza Rice's 1.059 million mile mark. (PBS, 6 April 2016)

## Recent Publications

[Revolving Consumer Credit Growth Hits Post-Crisis High in February](#) (April 7, 2016)

[FOMC Minutes: Hawks Fighting for Faster Action as Doves Maintain Cautious Approach](#) (April 6, 2016)

[Exports Rise in February for the First Time in 5 Months](#) (April 5, 2016)

[Factory Orders Decline 1.7% in February](#) (April 4, 2016)

[March's Hiring, Wages, and Participation Support Fed's Policy Outlook for 2016](#) (April 1, 2016)

[Business Investment: Stuck Between Uncertainty and Change](#) (March 31, 2016)

[Labor Market Continues to Add Jobs at a Steady Rate](#) (March 30, 2016)

[Back to the Future: 2016 Growth to Mirror 1986 Regional Decoupling](#) (March 29, 2016)

[Expectations Drive up Consumer Confidence](#) (March 29, 2016)

[Personal Income and Spending Rise in February](#) (March 28, 2016)

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