

U.S. Economic Outlook

Monthly Update

September 11, 2015

Conference Call Details

U.S. Economic Outlook: All Eyes on the Fed

BBVA Research USA would like to invite you to our U.S. Economic Outlook conference call on Friday, September 11th, at 10am Central Time. During the call, we will present our monthly update to the economic scenario followed by a brief Q&A period.

This month's focus is on the Fed's pending interest rate hike. How will the Fed interpret economic developments in the next few days? Will the latest improvement in labor market data be enough to push them to a September rate hike?

Please join us for an informative discussion with Kim Chase



Kim Chase
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Friday, September 11, 2015
10:00 am | CDT (GMT -05:00) | 30 min

Join WebEx Meeting

Meeting Number: 719 835 959
Meeting Password: bbva1234

Join by phone

+1-877-768-4036 US Toll Free
+1-972-932-2100 US Toll
Access code: 719 835 959

WebEx Link

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=m87a8e1f60bb774b7fdc70ebf6d634fdc>

Global Call-in Numbers

<https://bbvacompass.webex.com/bbvacompass>

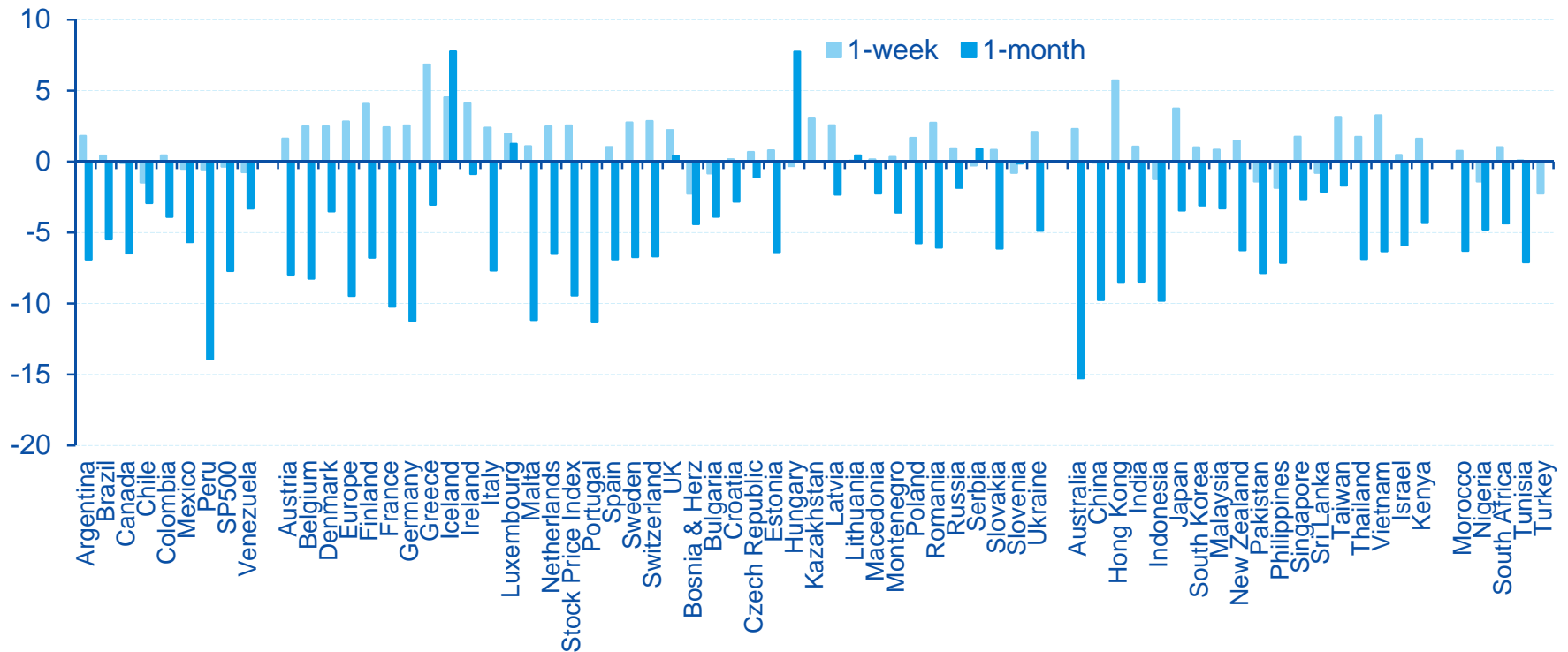


Global Financial Markets

China's equity troubles leave no market untouched

Global Equities

1 week and 1 month % change



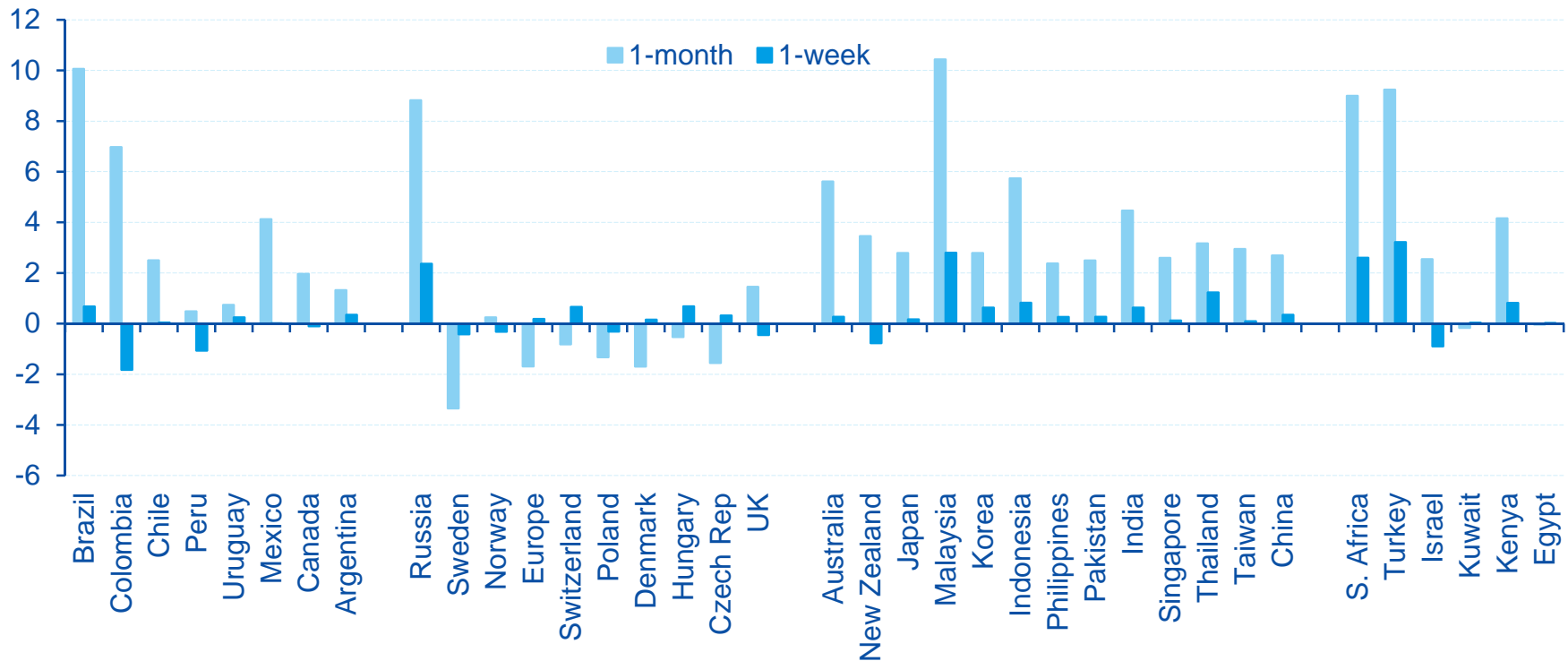
Source: BBVA Research & Haver Analytics

Global Financial Markets

USD appreciation still widespread across emerging markets

Local Currency vs USD

1 week and 1 month % change



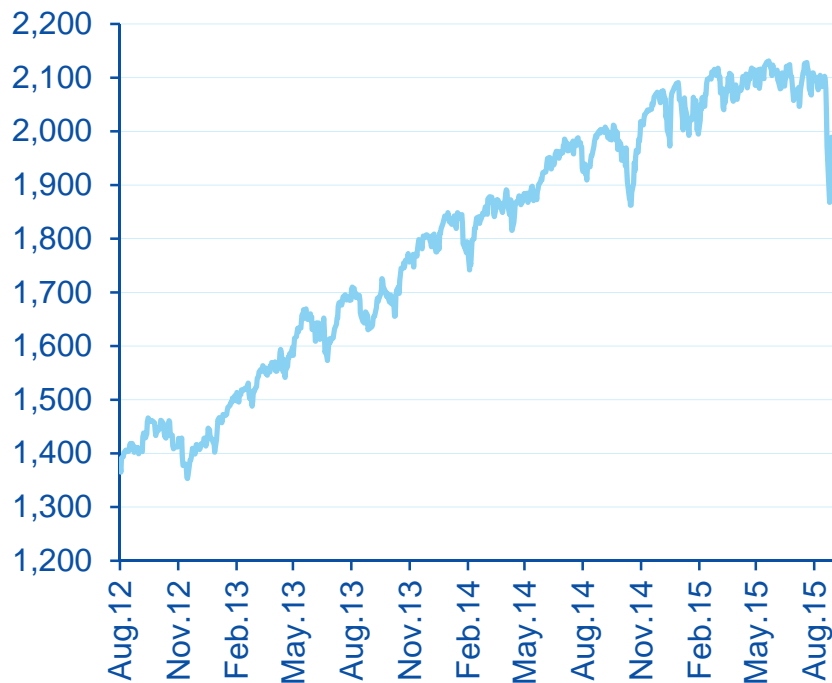
Source: BBVA Research & Haver Analytics

U.S. Financial Markets

Domestic adjustment to global markets

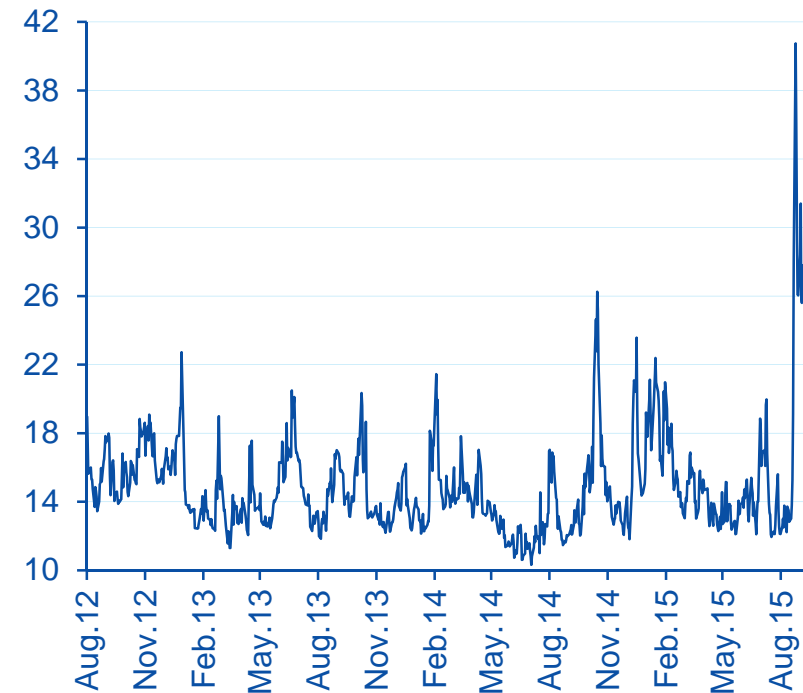
Equity Prices

S&P 500



Volatility

Index



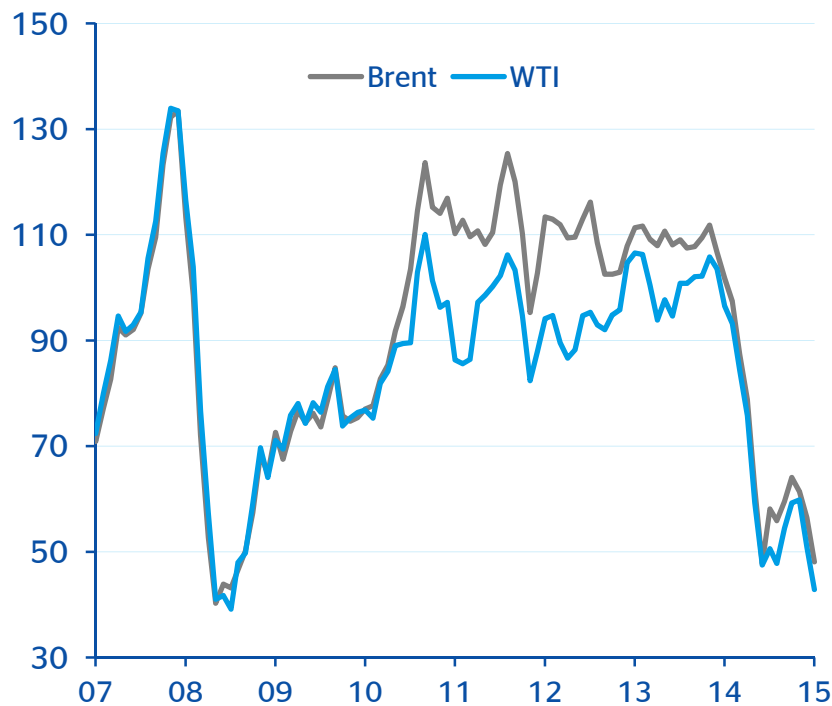
Source: BBVA Research & Haver

Financial Markets

Gas prices falling as summer demand fades

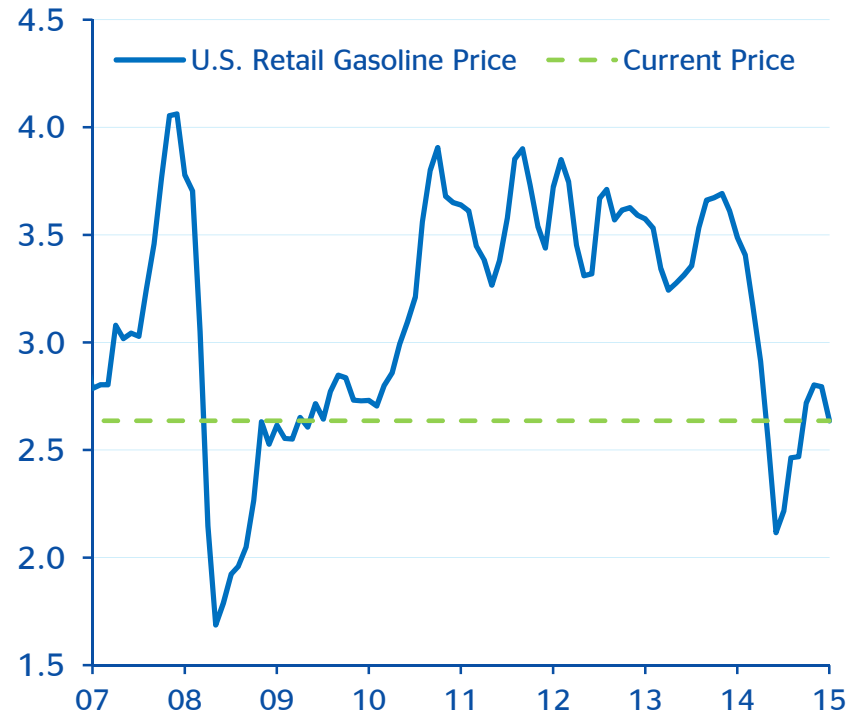
Crude Oil Prices

\$/Barrel



U.S. Retail Gasoline Price

\$/Gallon



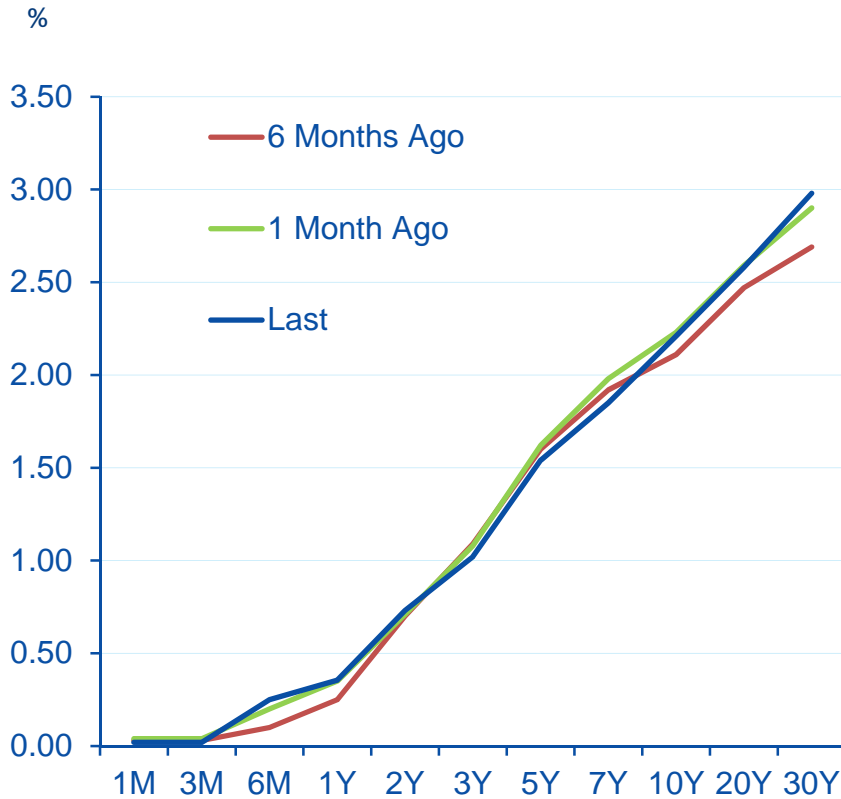
Source: BBVA Research & Haver



Financial Markets

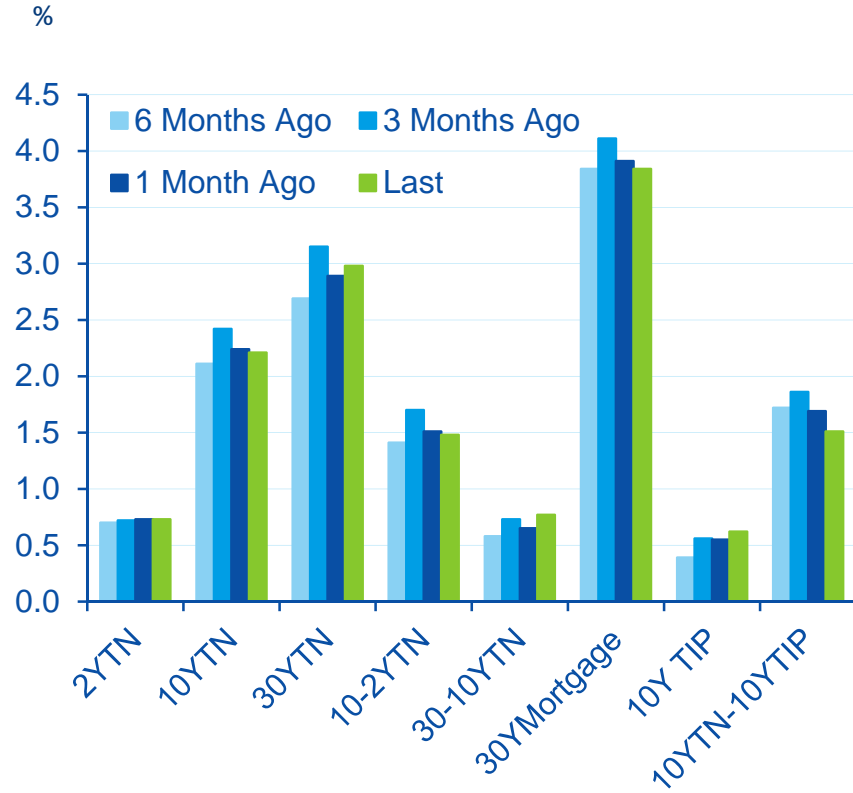
Stronger pressures on the front-end of the yield curve

Yield Curve



Source: BBVA Research & Haver

Interest Rates



Economic Activity

Economic data remain volatile month-to-month

Indicator	Assessment		Indicator	Assessment	
ISM Manufacturing	→		Unemployment Rate (%)	↗	
ISM Non-Manufacturing	→		Nonfarm Payrolls (MoM Change in K)	→	
Capacity Utilization	→		Auto Sales (Millions)	↗	
Industrial Production (YoY % Change)	→		Real Disposable Income (YoY % Change)	→	
Capital Goods New Orders (YoY % Change)	↘		Real Personal Spending (YoY % Change)	→	
Housing Starts (YoY % Change)	→		Retail Sales Ex Auto & Gas (YoY % Change)	→	
Home Prices: S&P Case-Shiller (YoY % Change)	→		Consumer Confidence Index	↗	

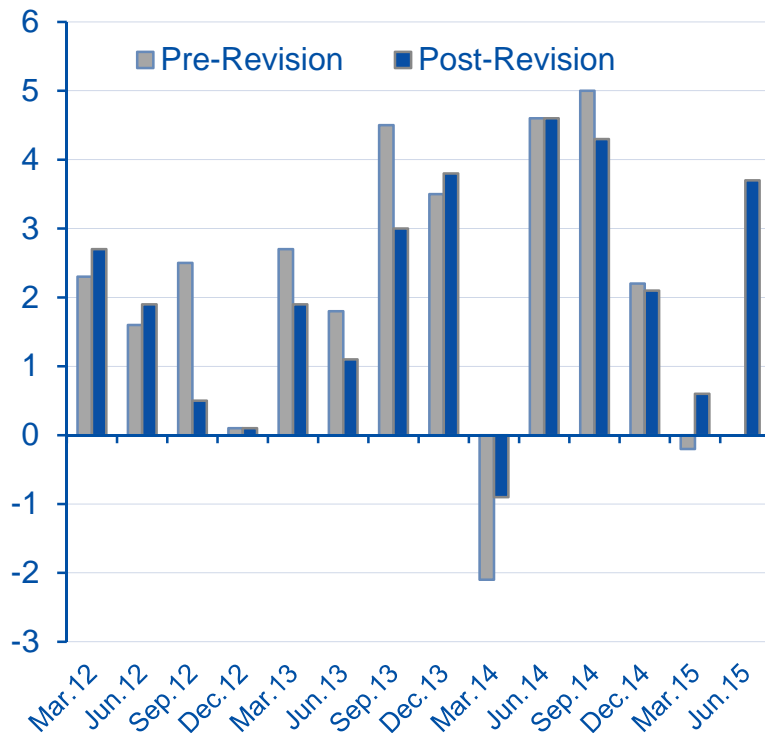
Source: BBVA Research & Haver

GDP Growth

Boost to 1H15 growth from 2Q revision

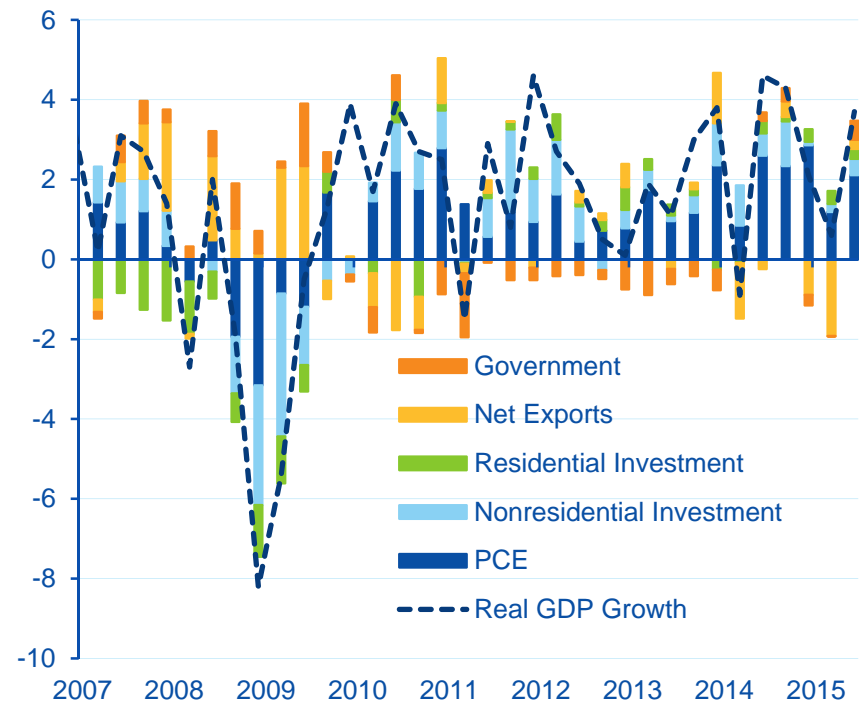
Real GDP Growth, Pre vs Post Revisions

QoQ SAAR % Change



Real GDP Growth & Contributions

QoQ SAAR % Change & SAAR Percentage Points

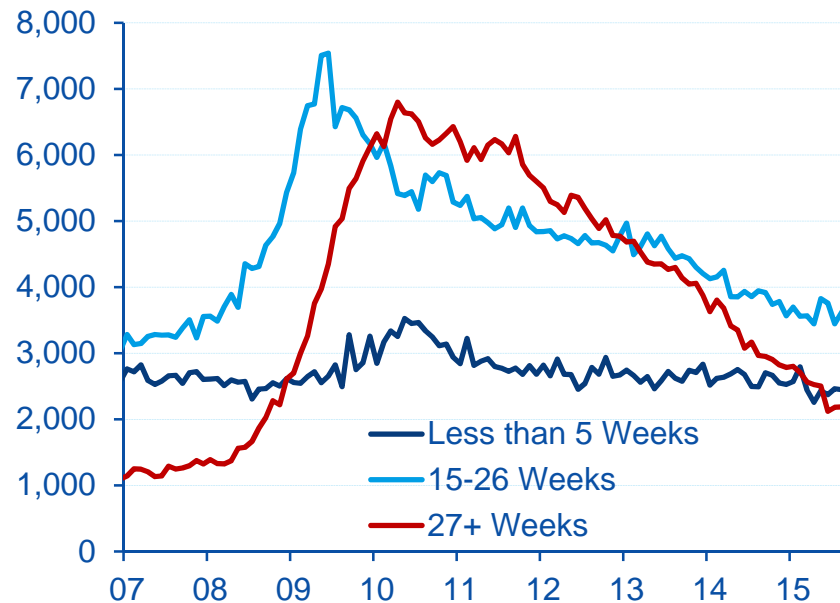


Source: BBVA Research & BEA

Labor Market

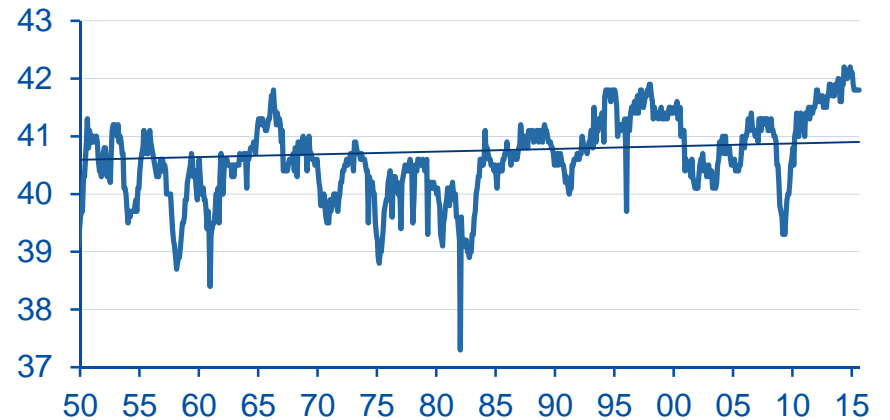
Despite recent volatility, improving labor market conditions should remain Fed's main focus for liftoff

Duration of Unemployment
SA, Thousands



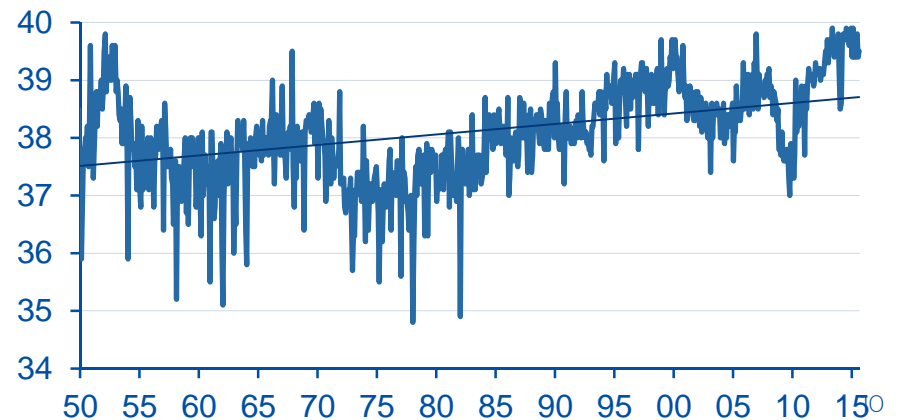
Manufacturing Working Hours

Weekly Hours vs Historical Trend



Construction Working Hours

Weekly Hours vs Historical Trend

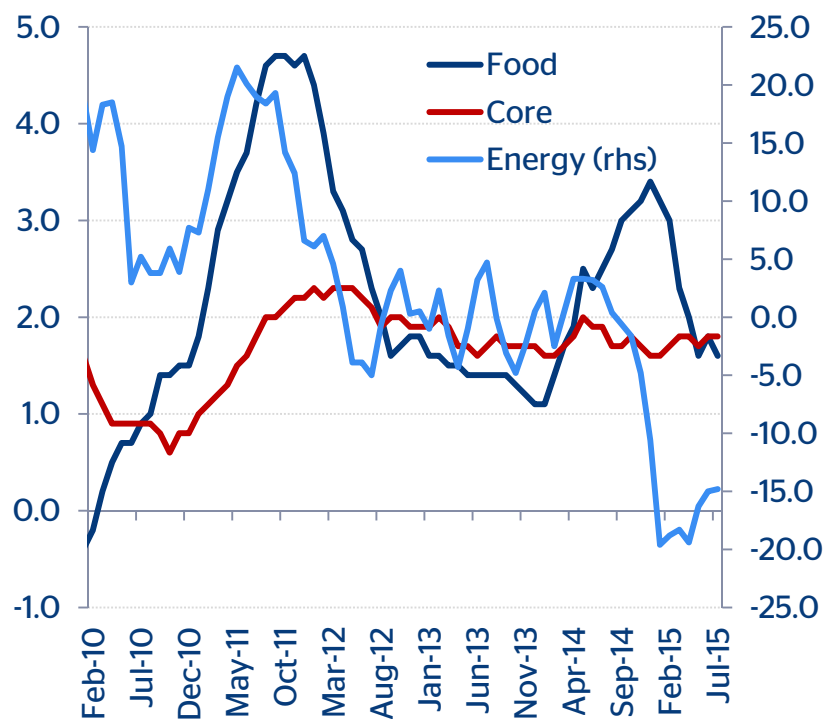


Inflation

Ongoing downward price pressures from energy and USD

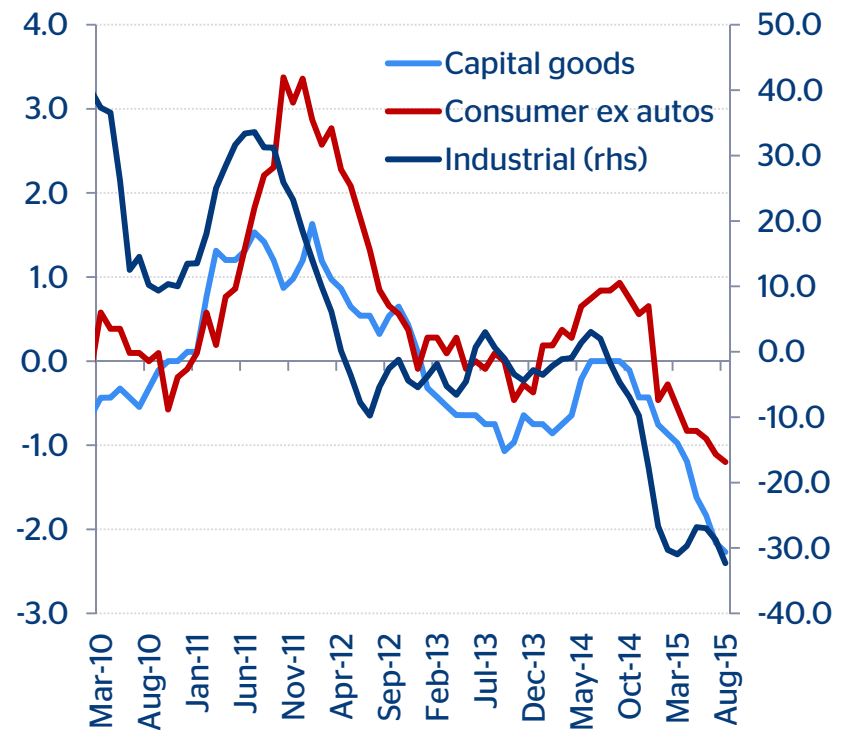
CPI

YoY % Change



Import Prices

YoY % Change

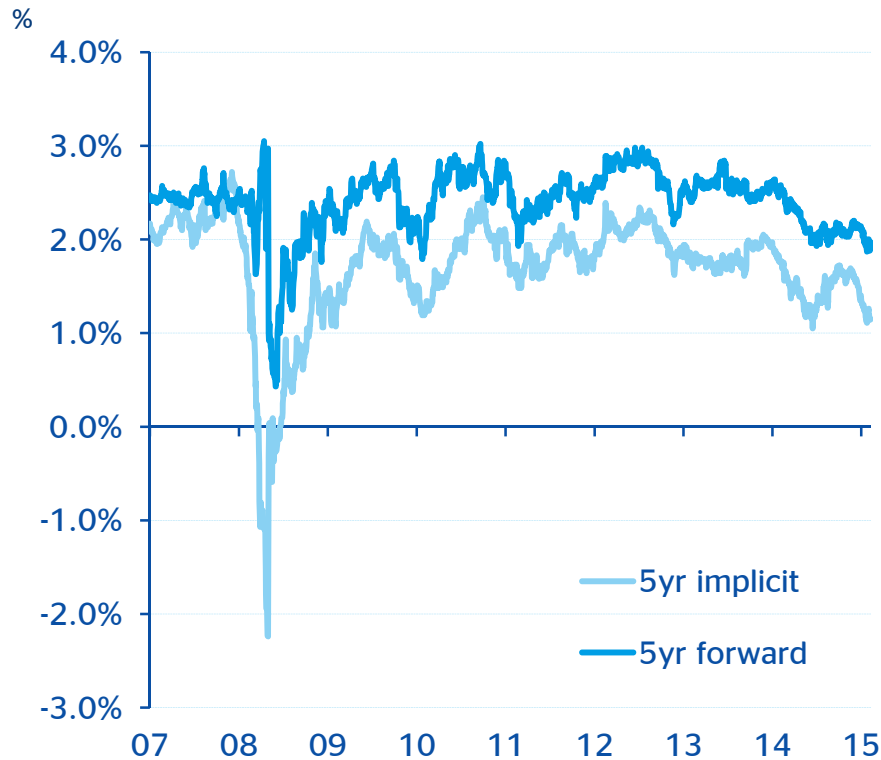


Source: BBVA Research & Haver Analytics

Inflation

Core inflation still below Fed's target, but moving slowly upward

Market Inflation Expectations



Core Inflation Forecasts



Source: BBVA Research & Haver Analytics

Monetary Policy

September rate hike still in the cards

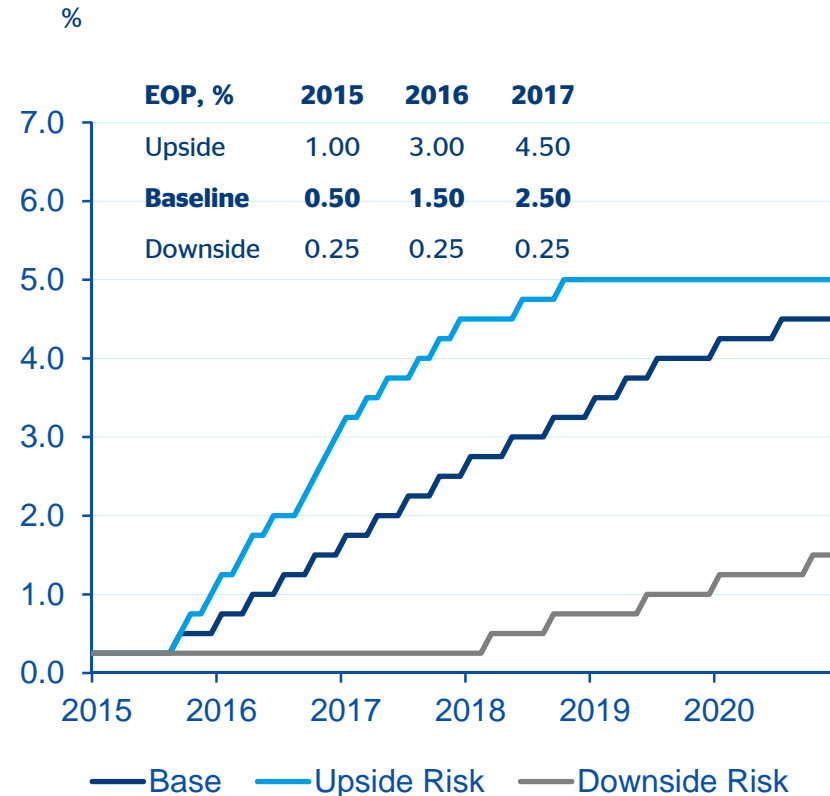
Fedspeak

“I expect the normalization of monetary policy to begin sometime this year.. Currently, developments such as the appreciation of the dollar, the devaluation of the Chinese currency, and the further decline of oil prices are complicating factors in predicting the pace of growth... I’m going to stick with later this year. We have three more meetings... from my perspective September remains a live possibility.” **Lockhart (Atlanta, 8/24)**

“At this moment, the decision to begin the normalization process at the September meeting seems less compelling to me than it did several weeks ago. But normalization could become more compelling by the time of the meeting as we get additional information” **Dudley (NY, 8/26)**

"This week's events complicate the picture but I think it's too soon to say it fundamentally changes that picture, so in my own view, the normalization process needs to begin and the economy is performing in a way that I think it's prepared to take that." **George (KC, 8/27)**

Federal Funds Rate Forecasts

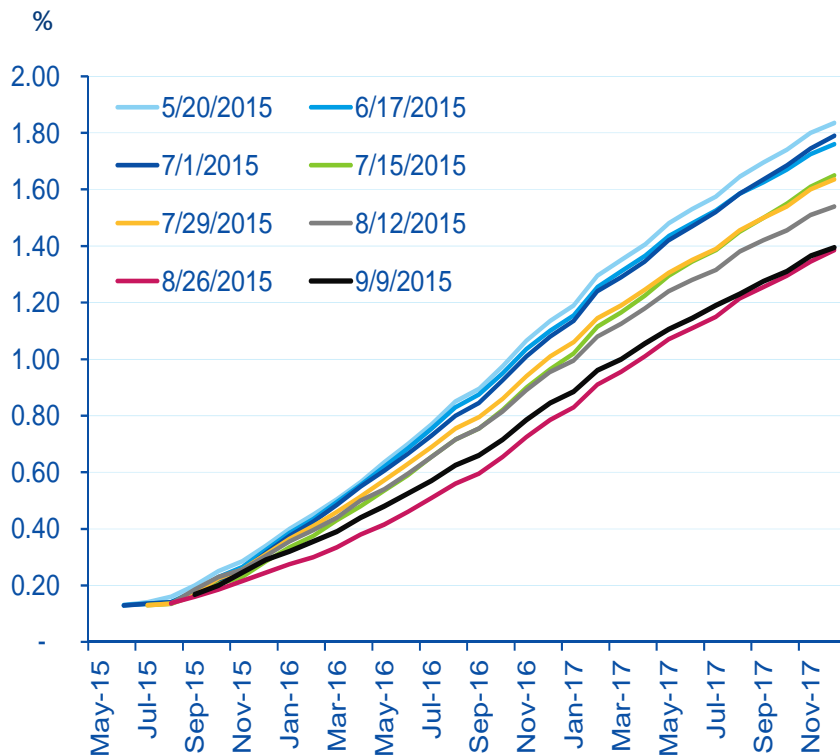




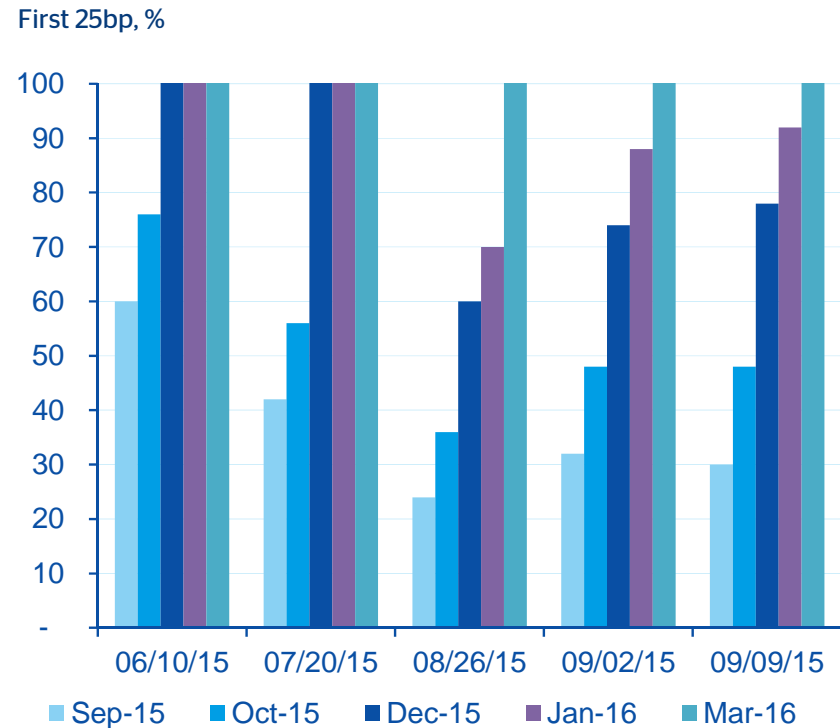
Monetary Policy

However, market jitters could force the Fed to delay action

Fed Funds Futures



Fed Funds Futures Implied Probability



Baseline Scenario

No change to baseline projections, but downward bias on short-term inflation forecast

	2013	2014	2015	2016	2017	2018	2019	2020
GDP new	2.2	2.4	2.5	2.8	2.8	2.9	2.8	2.9
old	2.2	2.4	2.9	2.8	2.8	2.9	2.7	--
CPI new	1.5	1.6	0.5	1.8	2.1	2.2	2.2	2.2
old	1.5	1.6	0.6	1.9	2.2	2.2	2.2	--
Core new	1.8	1.7	1.7	1.8	2.0	2.1	2.2	2.2
old	1.8	1.7	1.6	1.8	1.9	2.1	2.2	--
Fed new	0.25	0.25	0.50	1.50	2.50	3.25	4.00	4.50
[eop] old	0.25	0.25	0.50	1.50	2.50	3.25	4.00	--
10YTN new	2.90	2.21	2.53	2.72	3.64	4.17	4.69	5.28
[eop] old	2.90	2.21	2.40	3.00	3.54	3.90	4.29	--

* Old as presented in 2Q15 MC Quarterly Revision

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