

U.S. Economic Outlook

Monthly Update

December 18, 2015

Conference Call Details

U.S. Economic Outlook: What's in Store for 2016?

BBVA Research USA would like to invite you to our U.S. Economic Outlook conference call on Friday, December 18th, at 10am CT. During the call, we will present our monthly update to the economic scenario followed by a brief Q&A period. Presentation materials will be distributed prior to the call.

The U.S. economy has hit a few bumps in the road, and we're taking a look at how this "new normal" environment will play out next year. Despite subdued growth expectations and global uncertainties, there is potential for positive confidence shocks to the economy. However, all eyes remain focused on what the Fed's monetary policy strategy will look like in 2016.

Please join us for an informative discussion with Kim Chase



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Friday, December 18, 2015

10:00 am | CDT (GMT -06:00) | 30 min

[Join WebEx Meeting](#)

Meeting Number: 711 804 024

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Global Call-in Numbers

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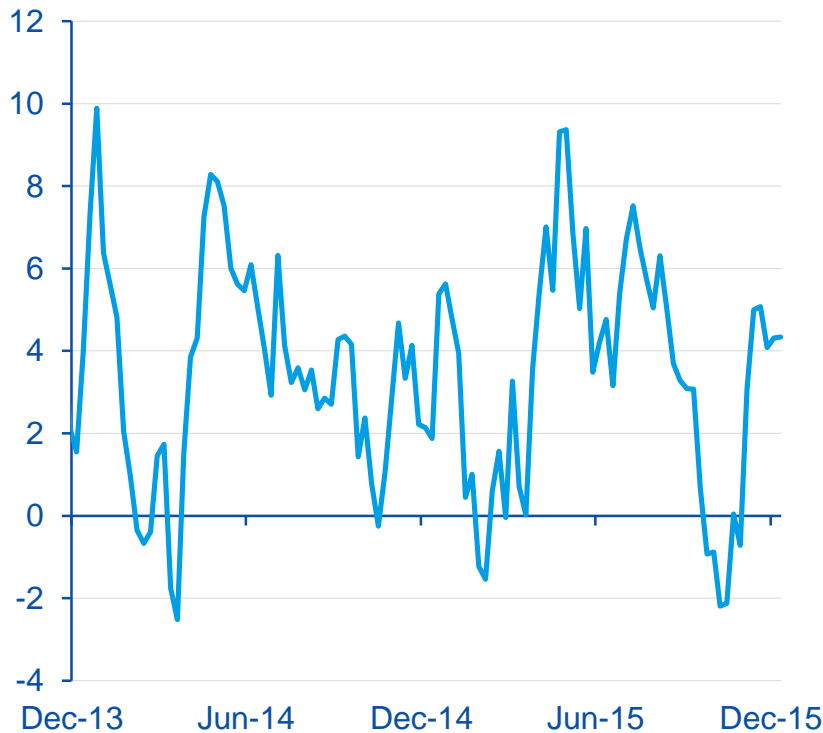


GDP

Leading indicators pointing to only modest improvement in 4Q pace following upward 3Q revision

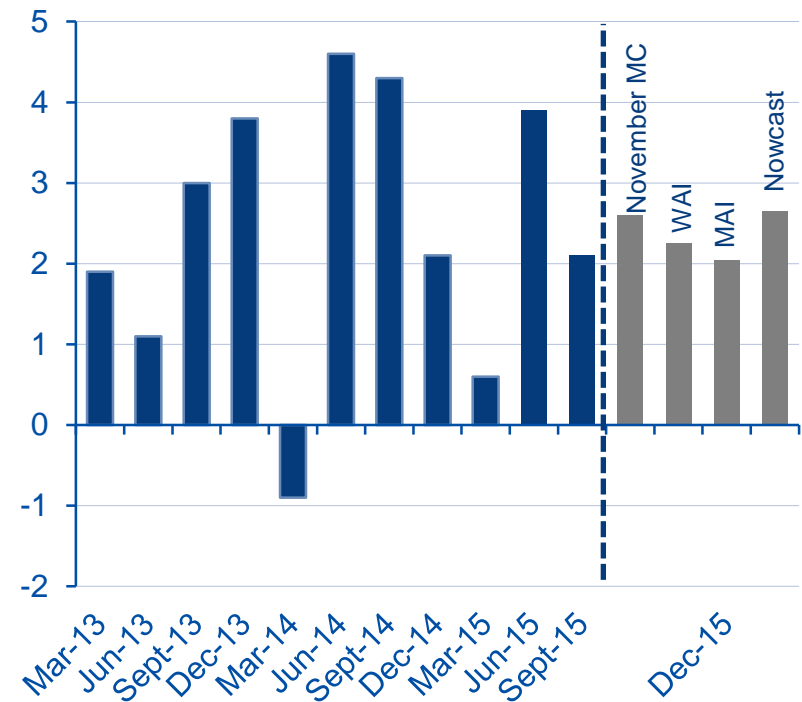
BBVA Research USA Weekly Activity Index

3 month % Change



Real GDP Growth

QoQ SAAR % Change



Inflation

Core services inflation offsetting commodities

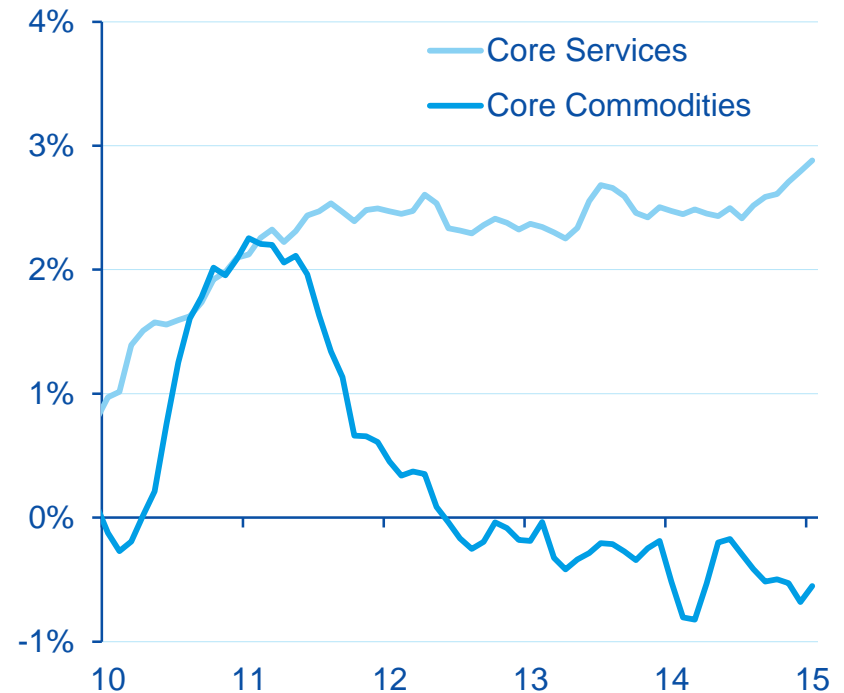
CPI Components

November 2015

CPI	MoM	YoY
Total	0.03%	0.44%
Food	-0.11%	1.27%
Energy	-1.26%	-14.80%
Core	0.18%	2.02%
Core Commodities	-0.16%	-0.55%
Apparel	-0.32%	-1.52%
Medical Care Commodities	0.29%	2.49%
Core Services	0.28%	2.88%
Shelter	0.24%	3.18%
Medical Care Services	0.38%	3.08%
Core Ex Shelter	0.14%	1.18%

Core CPI Inflation

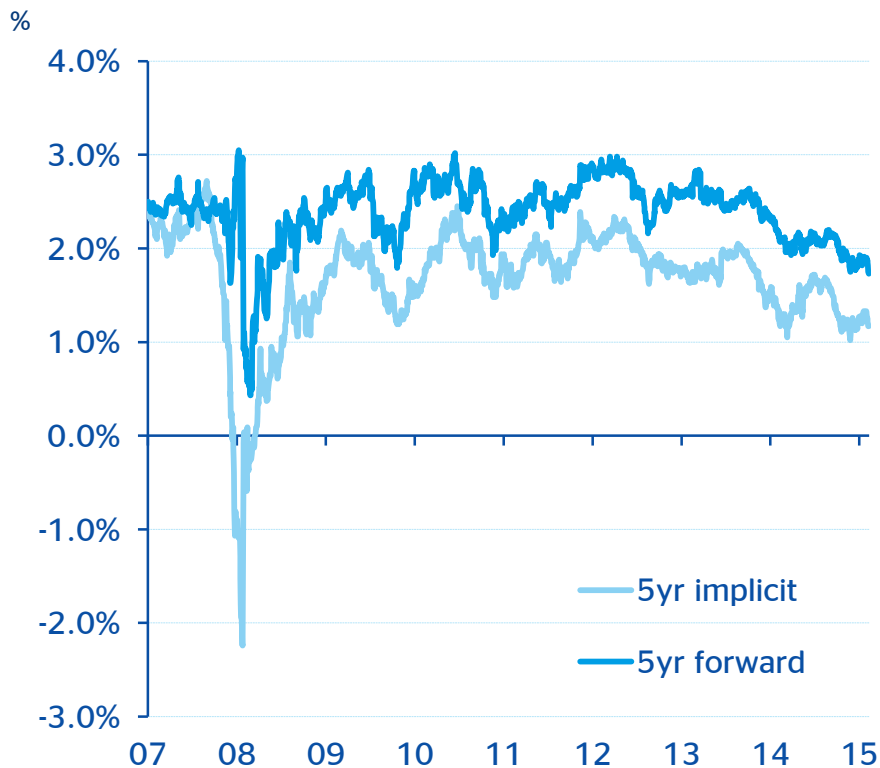
YoY % Change



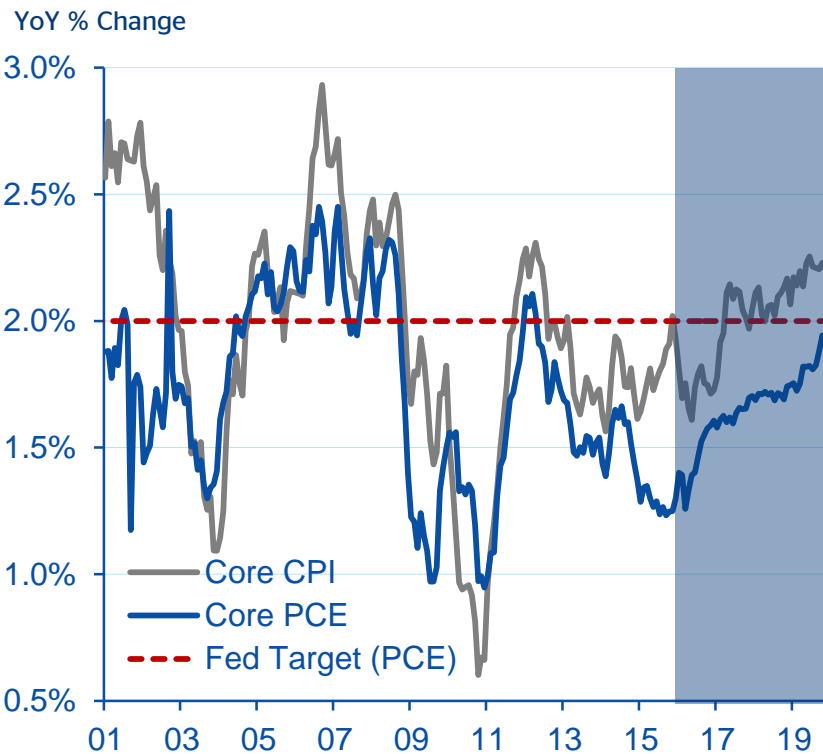
Inflation

However, core PCE inflation is expected to hold below the Fed's 2% target throughout 2016

Market Inflation Expectations



Core CPI and PCE

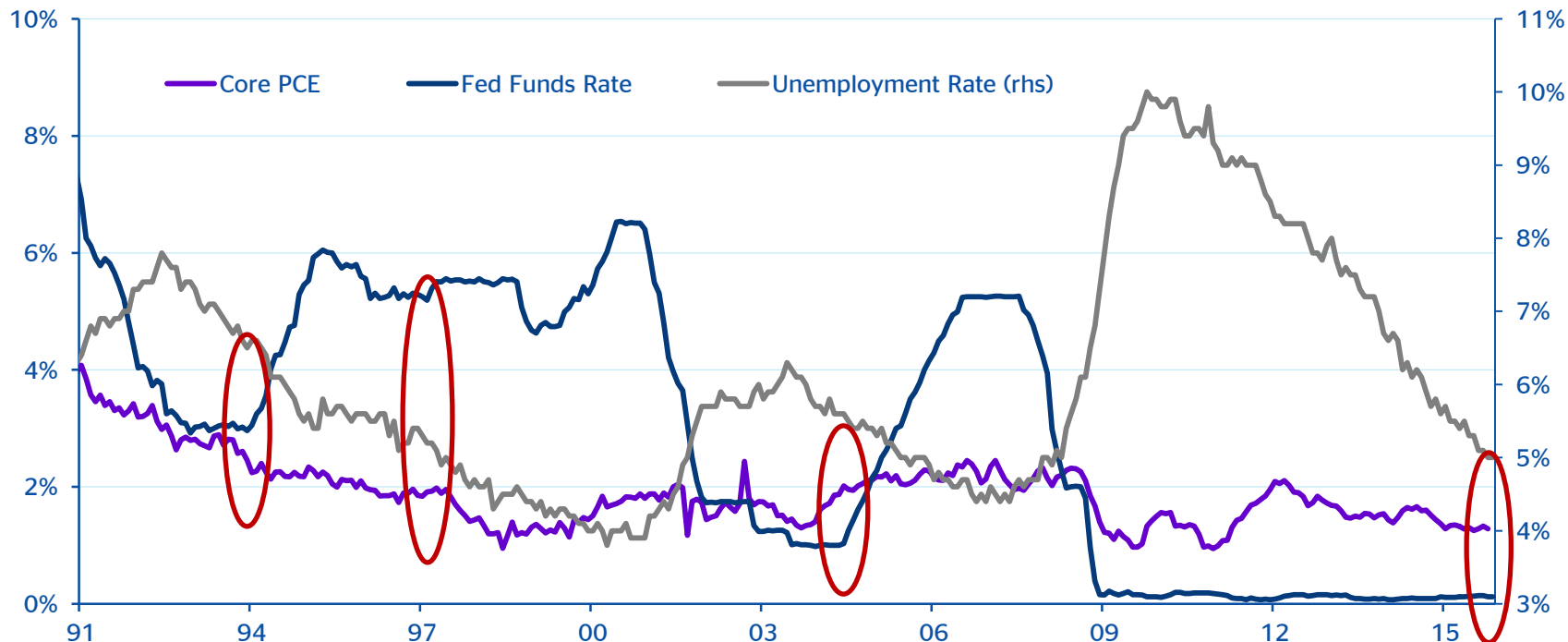


Monetary Policy

FOMC announces first rate hike since 2006

Unemployment, Inflation, and Fed Funds Rate

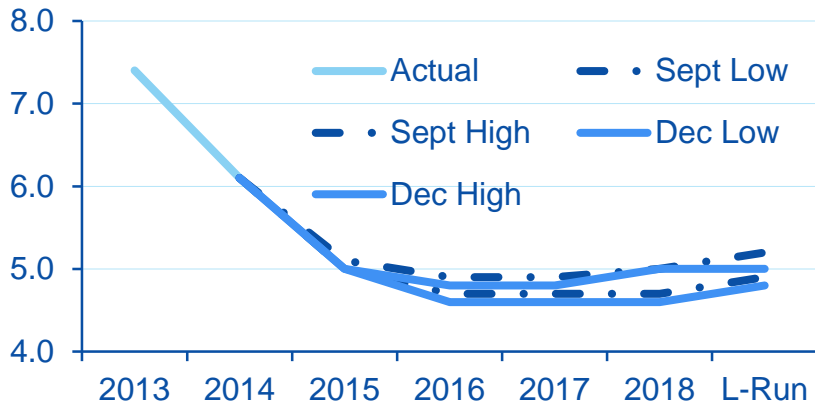
%, YoY % Change, %



Monetary Policy

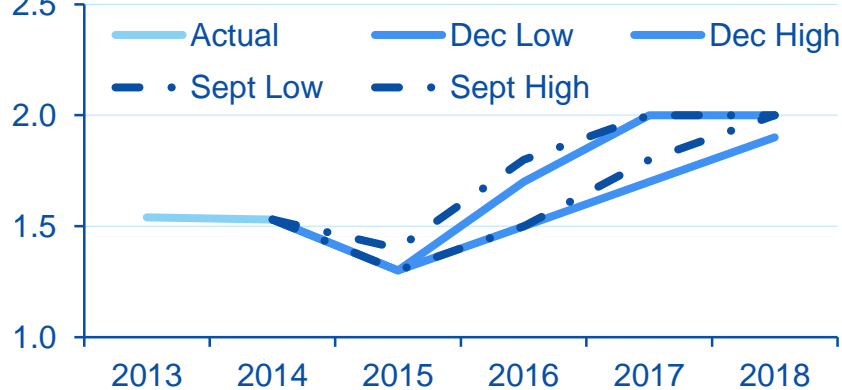
Unemployment Rate, 4Q %

Central Tendency



Core PCE Inflation, 4Q % Change

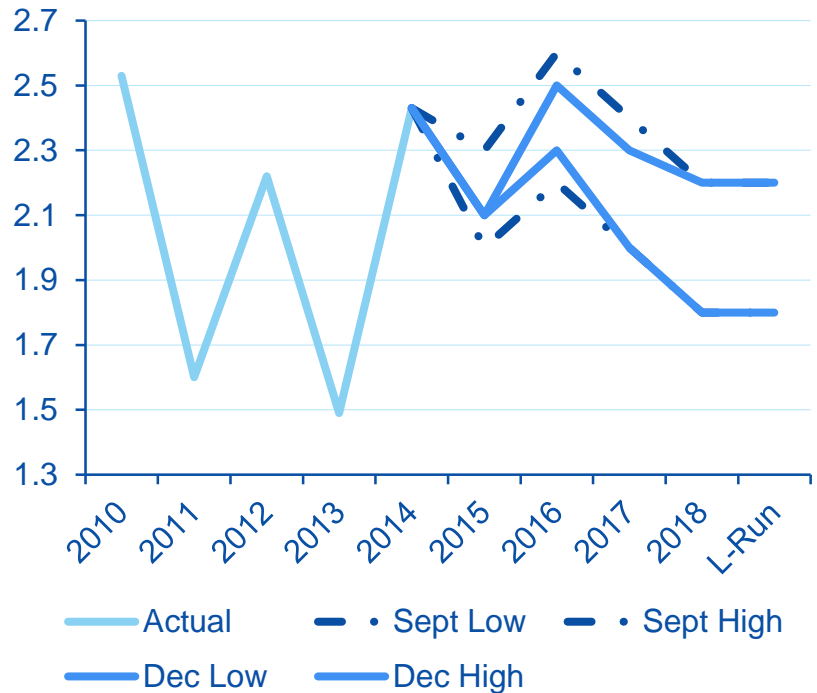
Central Tendency



Minor revisions to FOMC outlook

Change in Real GDP, 4Q % Change

Central Tendency

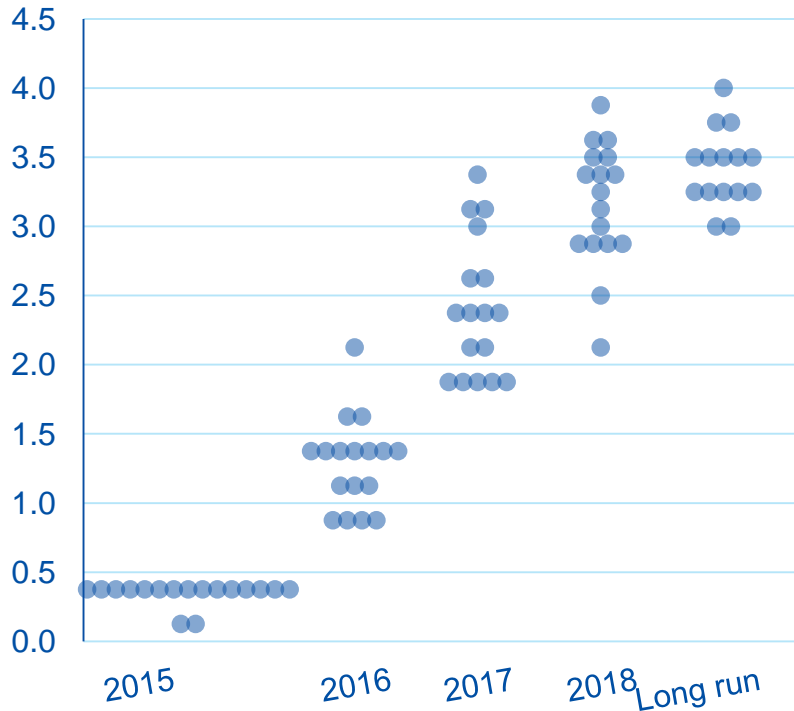


Monetary Policy

Dovish undertone confirms our expectation of a cautious and gradual approach

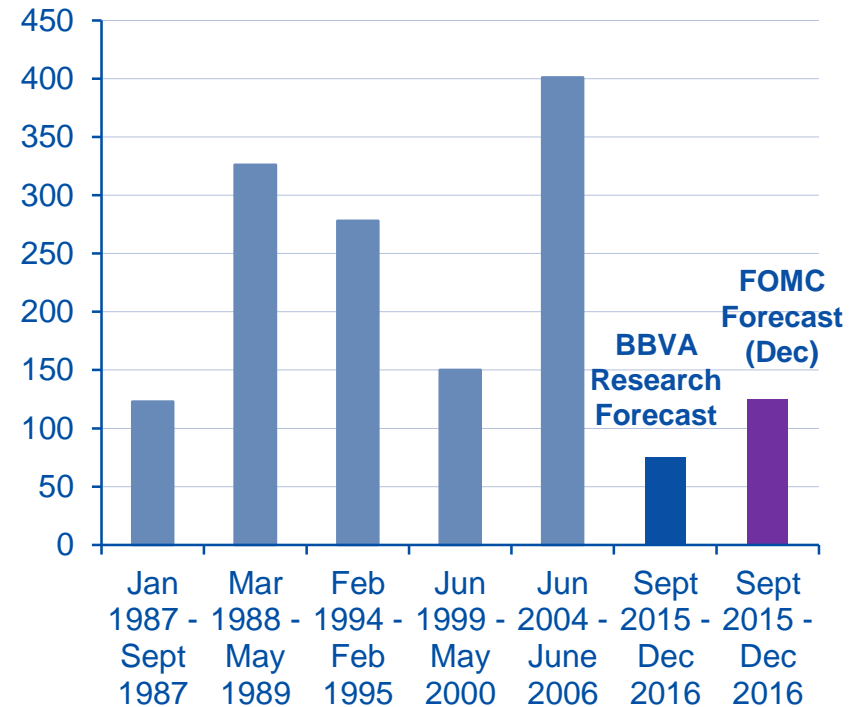
Target Fed Funds Rate, December

Year-end, %



Average Change in Fed Funds Rate

Past Tightening Cycles, Basis Points

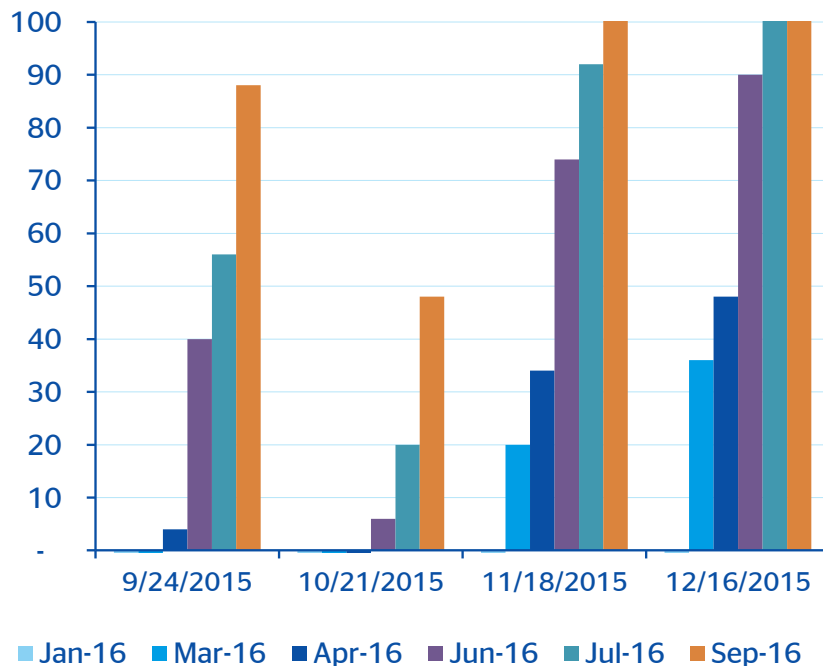


Monetary Policy

Second hike expected in 2Q16 as Fed waits to assess impact of liftoff

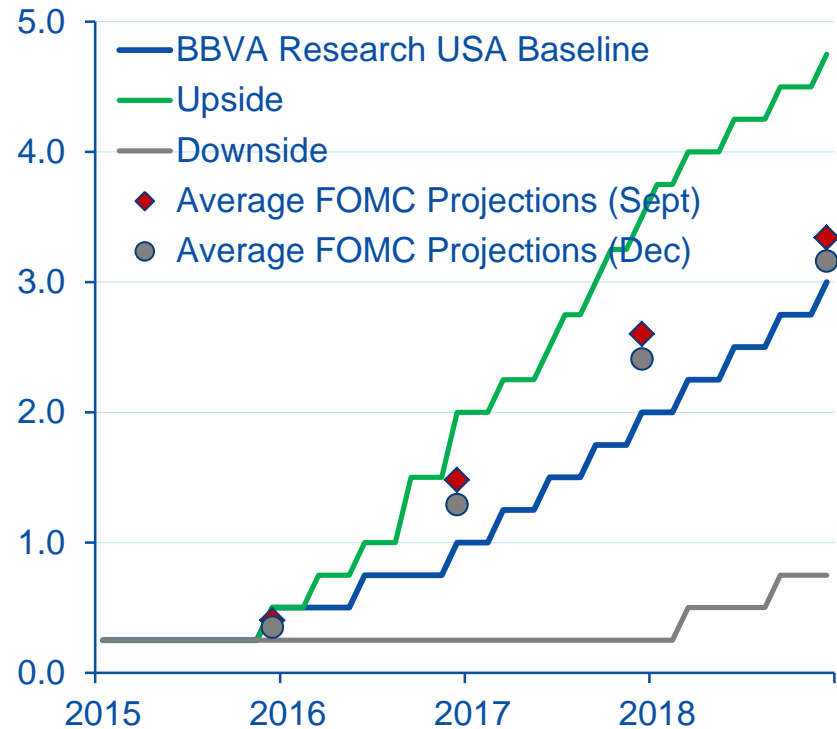
Federal Funds Futures Implied Probabilities

2nd Hike, %



Federal Funds Rate Forecasts

%

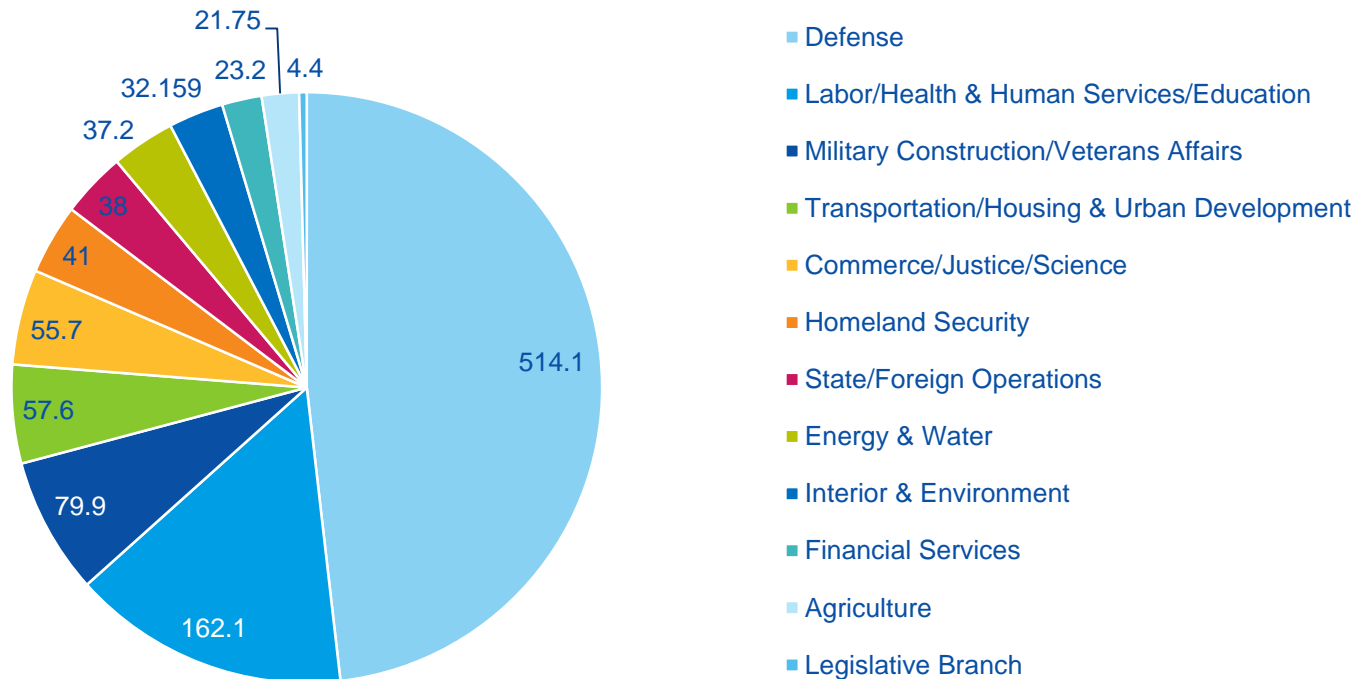


Fiscal Policy

House reaches compromise on \$1.1 trillion spending bill and \$622 billion in tax breaks

Discretionary Funding Levels of Appropriations Bills in Omnibus

\$Bn



Baseline Scenario

No change to baseline projections

	2013	2014	2015	2016	2017	2018	2019	2020
GDP new	1.5	2.4	2.5	2.5	2.4	2.3	2.3	2.3
old	2.2	2.4	2.5	2.8	2.8	2.9	2.8	2.9
CPI new	1.5	1.6	0.2	1.8	1.9	2.0	2.0	2.2
old	1.5	1.6	0.5	1.8	2.1	2.2	2.2	2.2
Core new	1.8	1.7	1.8	1.8	1.9	2.0	2.0	2.2
old	1.8	1.7	1.7	1.8	2.0	2.1	2.2	2.2
Fed new	0.25	0.25	0.50	1.00	2.00	3.00	3.50	3.50
[eop] old	0.25	0.25	0.50	1.50	2.50	3.25	4.00	4.50

* Old as presented in 3Q15 MC Quarterly Revision

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