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BBVA Research

U.S. Recession Risk Monitor

Fourth Quarter 2018

Creating Opportunities

Highlights

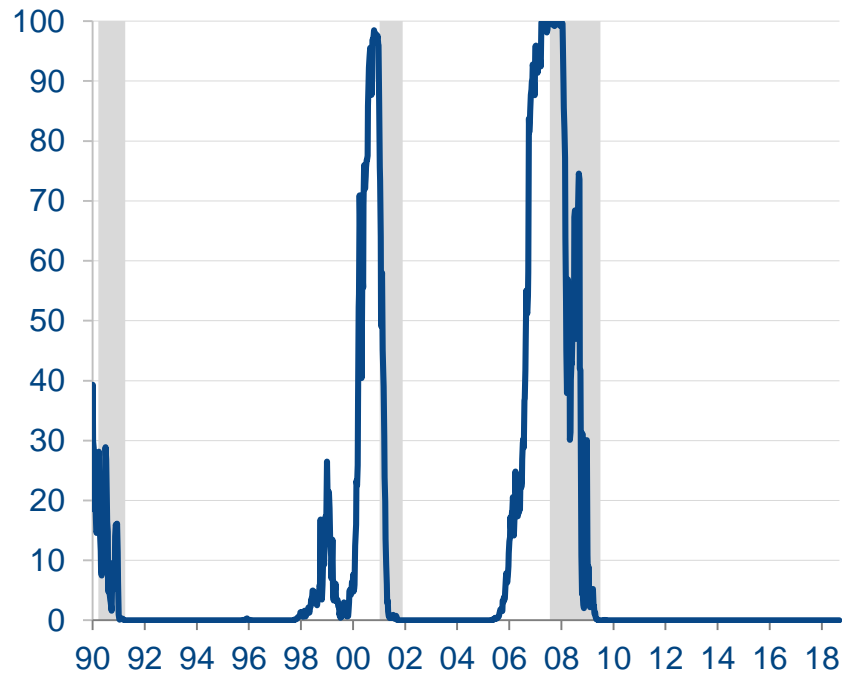
- The probability of an economic recession within the next 12 months remains low
- Alternative models show increasing likelihood but also indicate relatively low probability
- Overall financial conditions remain accommodative. However, a sharp correction in equities and corporate spreads is possible
- Economic fundamentals for households and financial institutions remain solid
- Downside risks for nonfinancial businesses and real estate continue edging up amid high leverage ratios and rising interest rates
- Increasing uncertainty from turbulent global financial markets

Recession Probability

Our models indicate recession probability is low

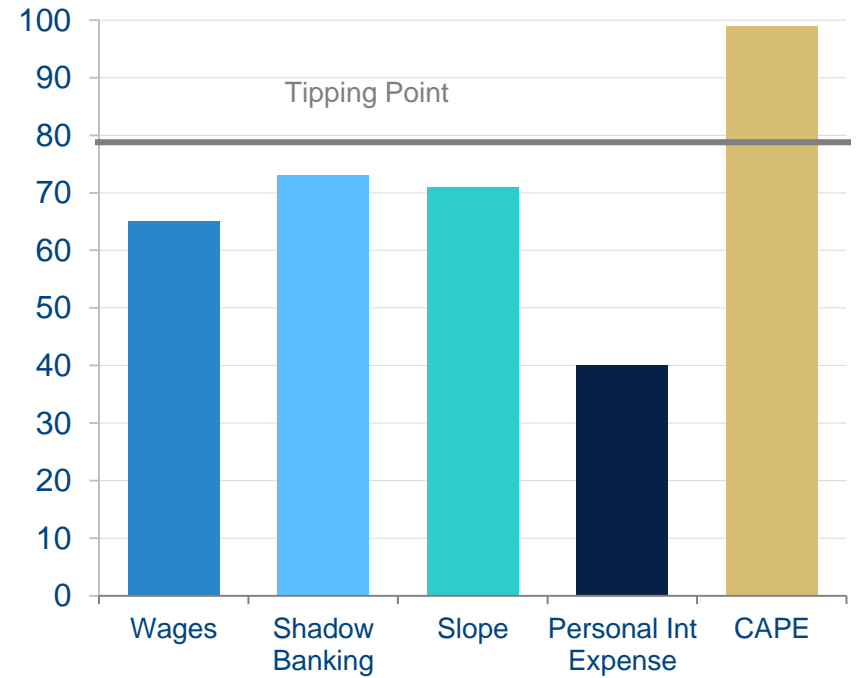
BBVA Recession Probability

%, 12-months ahead



Explanatory Factors

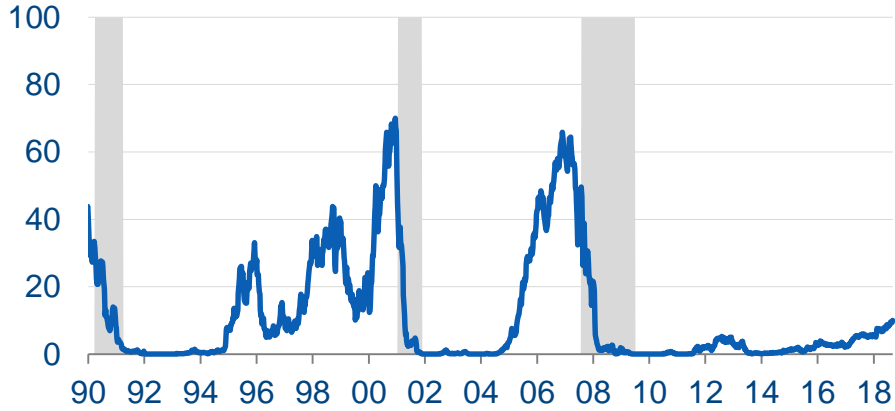
Percentile Rank



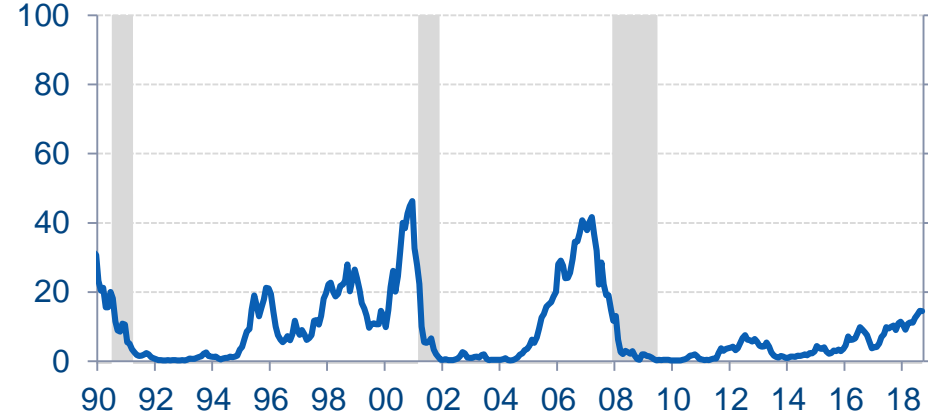
Source: BBVA Research and Haver

Recession Probability

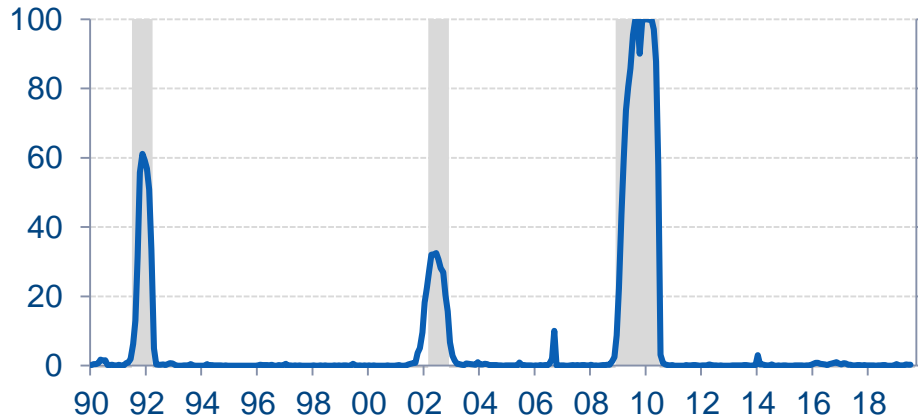
BBVA Treasury Spread Term-Premium Adj.
%, 12-months ahead



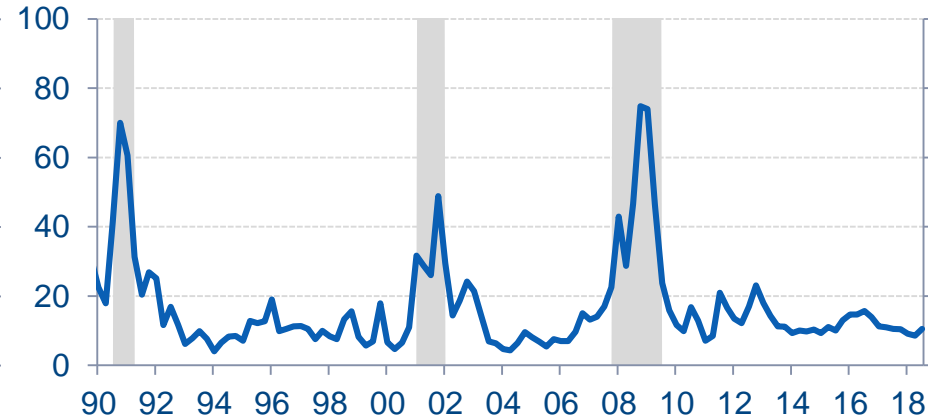
Treasury Spread
%, 12-months ahead, NY Fed



Dynamic-Factor Markov-Switching Model
%, 12-months ahead, StL Fed



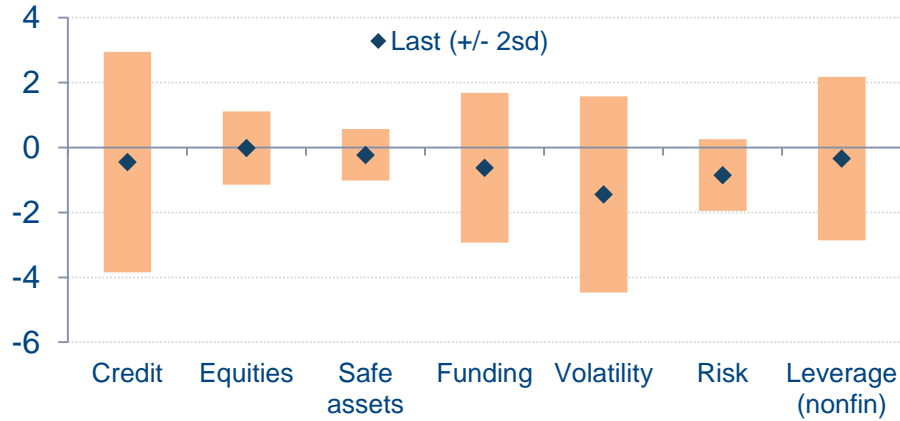
Survey of Professional Forecasters
%, Decline in real GDP next quarter, Philly Fed



Financial Markets

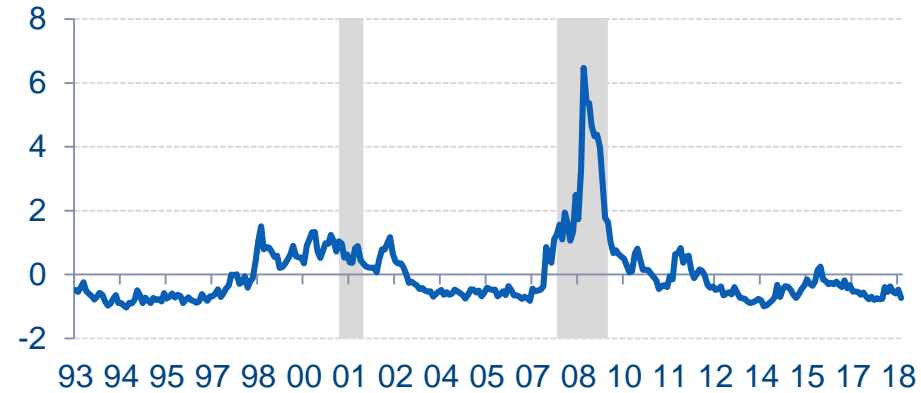
Financial Stress Indicators

>0 = tighter than average



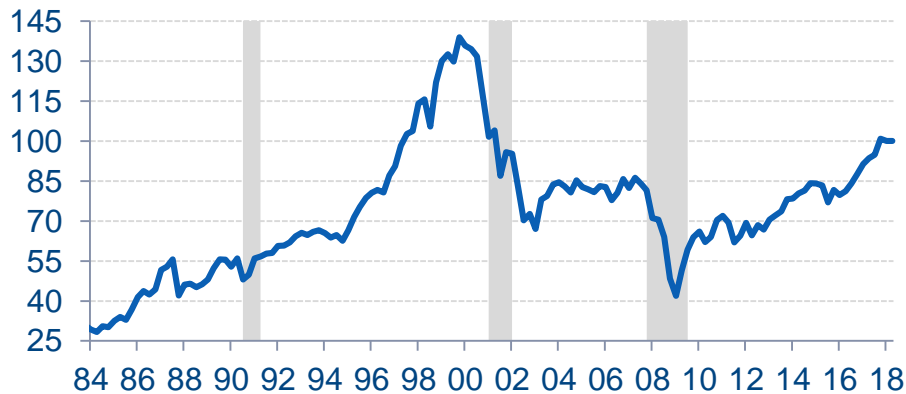
Financial Stress Index

Above 0 = above average stress



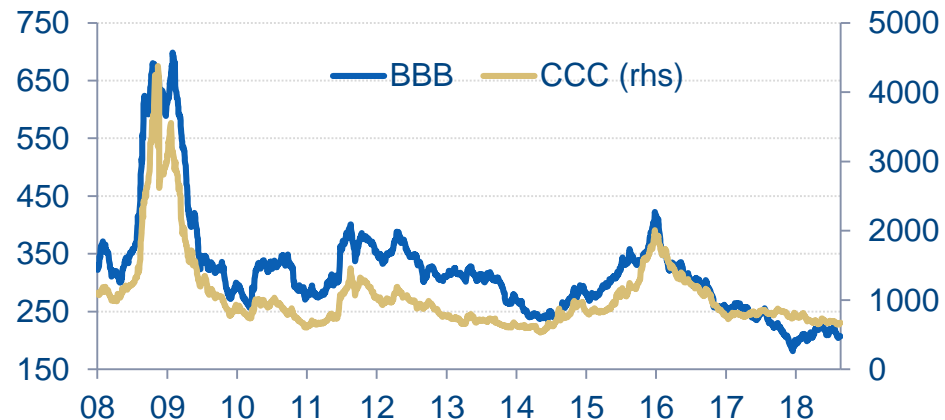
Cyclically Adjusted Price Earnings Ratio

1Q18=100, S&P 500



Corporate Spreads

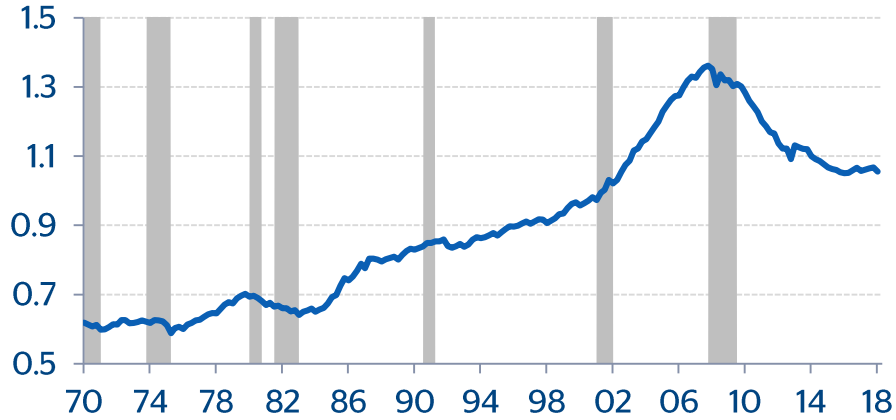
Basis points



Households

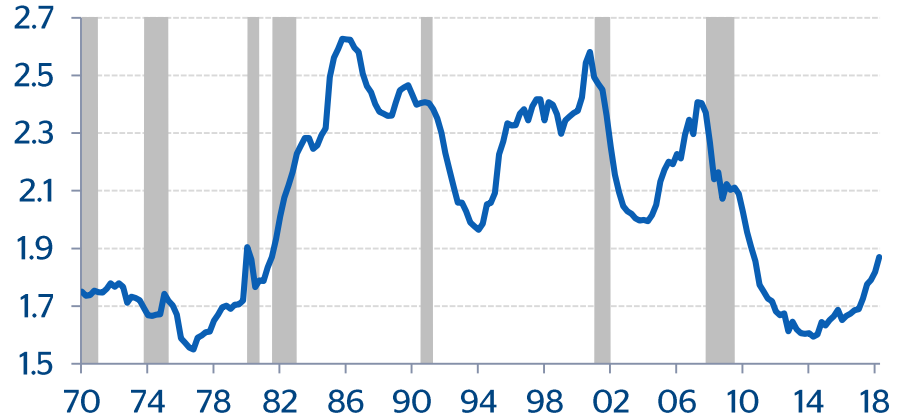
Liabilities/Disposable Income

Ratio



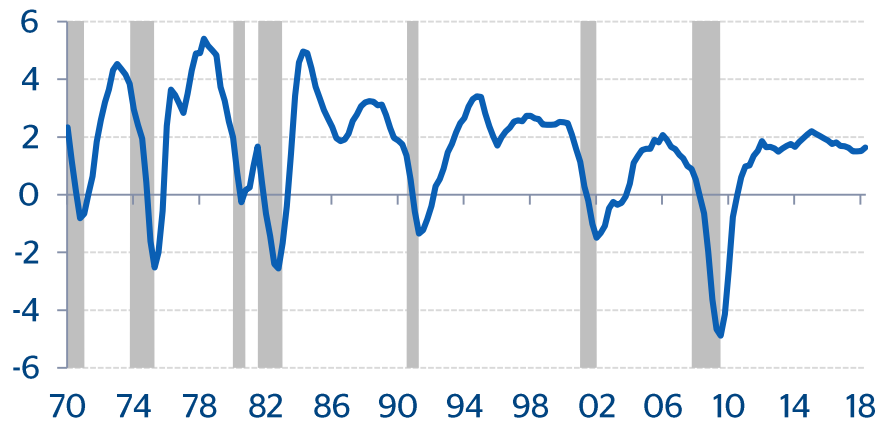
Interest Payments/Personal Income

%



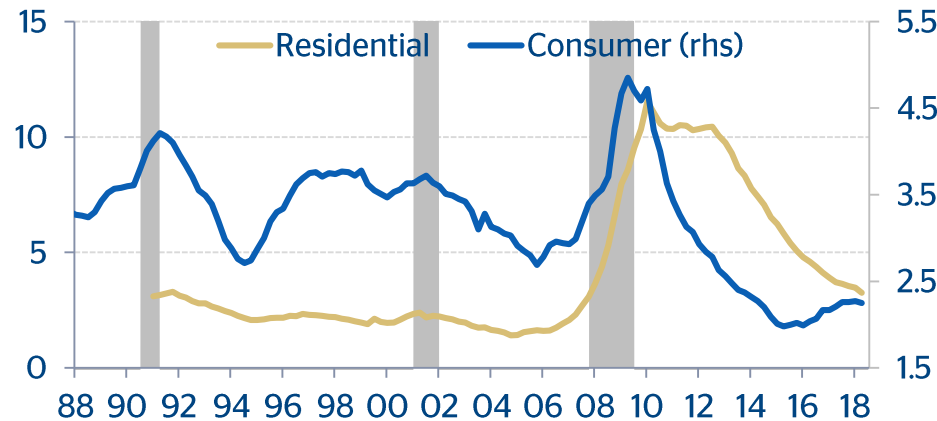
Nonfarm Payroll

YoY % Change



Delinquency Rate

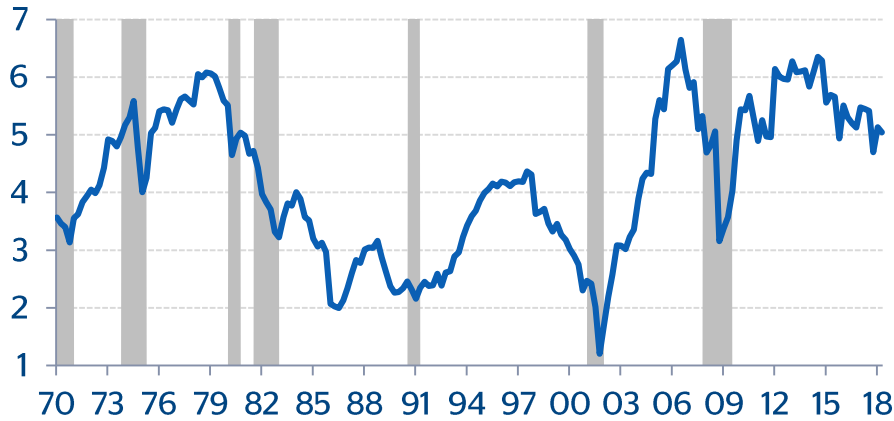
%



Businesses

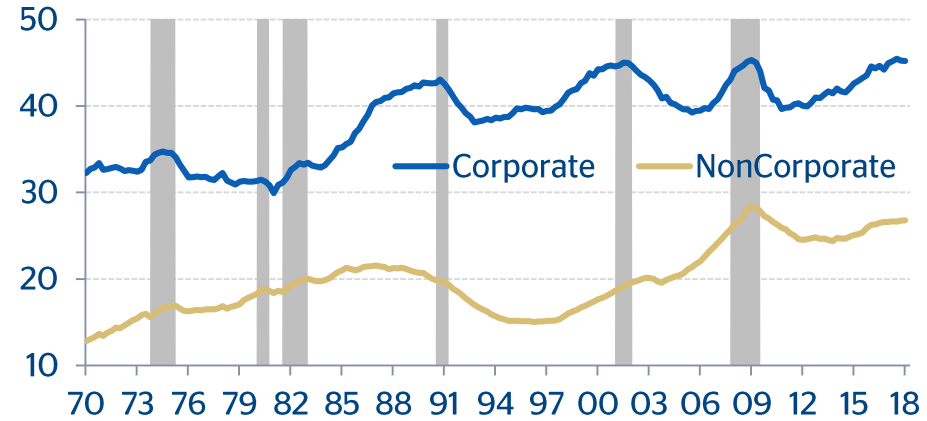
Nonfinancial Corporate Profits

% of GDP



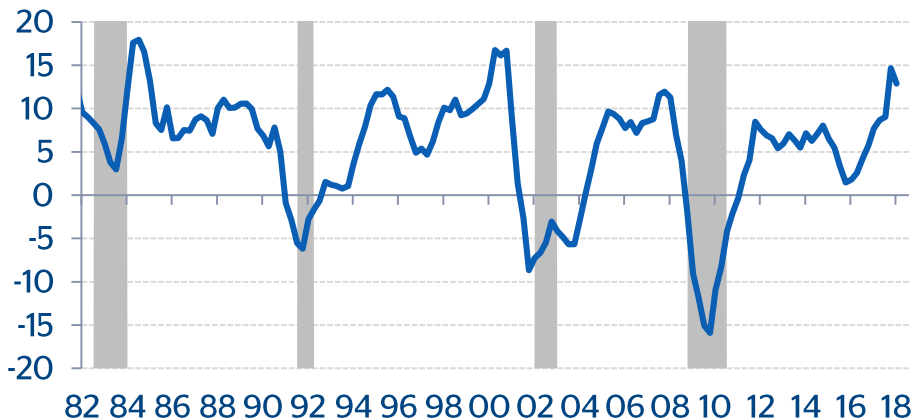
Nonfinancial Business Debt

% of GDP



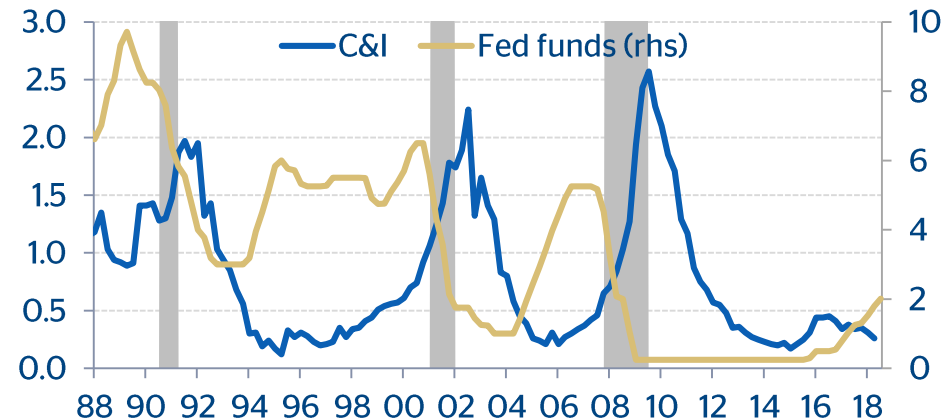
Nonfinancial Corporate Short-term Liabilities

YoY % Change



C&I Loan Charge-Off Rate & Fed Funds

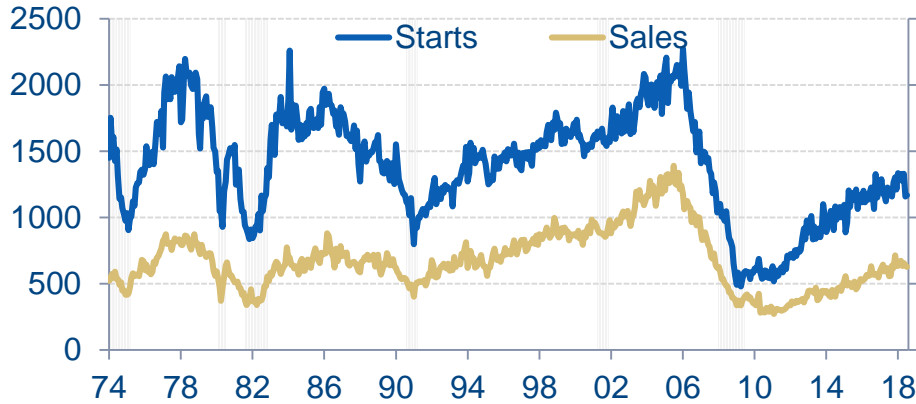
%



Real Estate

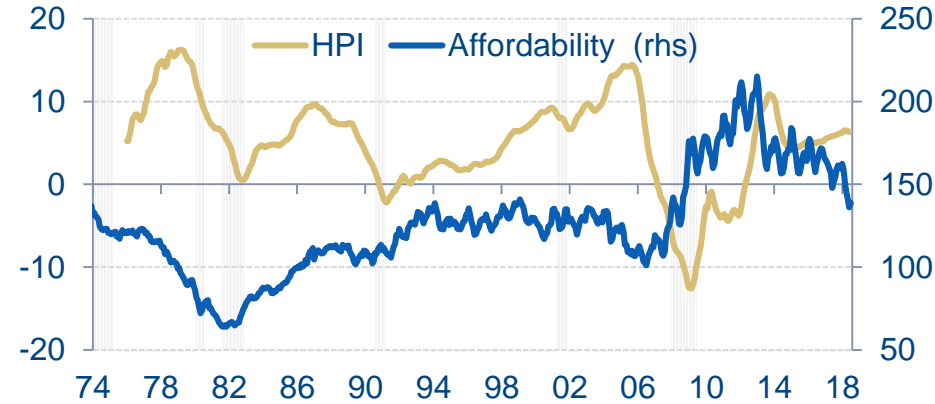
Housing Starts and New Home Sales

Thousand units, annualized



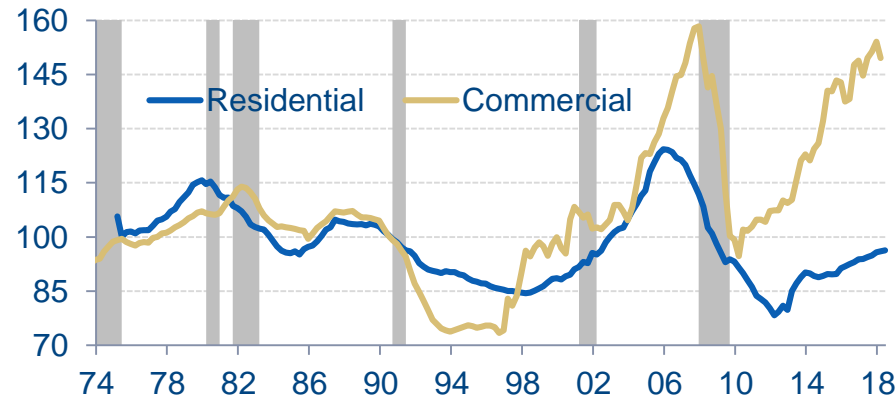
Housing Affordability and Prices

Index and YoY % Change



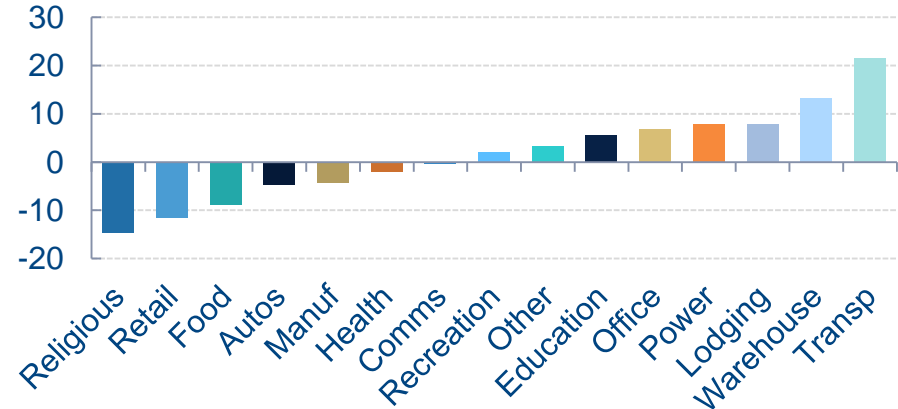
BBVA Real Estate Prices Misalignment

1990=100



Nonresidential Construction

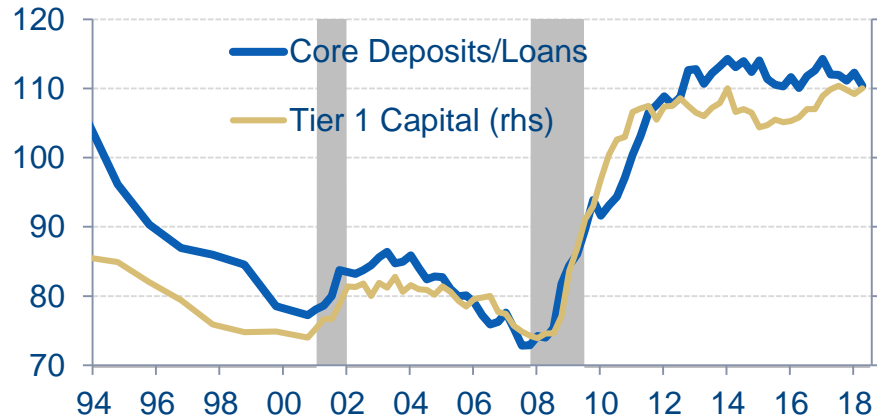
YoY % Change



Financial Institutions

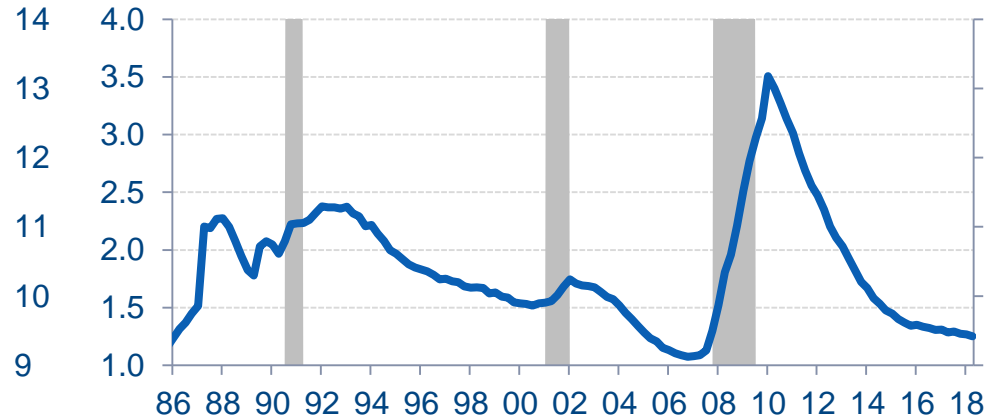
Deposits and Capital Ratios

% of loans and assets, commercial banks



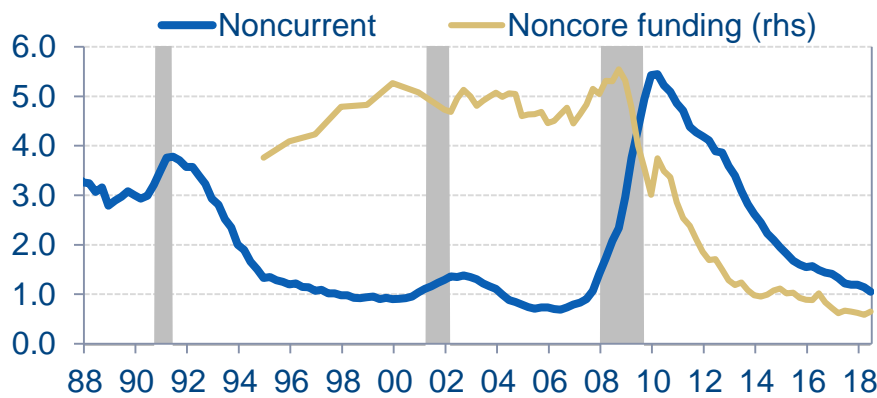
Loan Reserves

% of total loans, all FDIC institutions



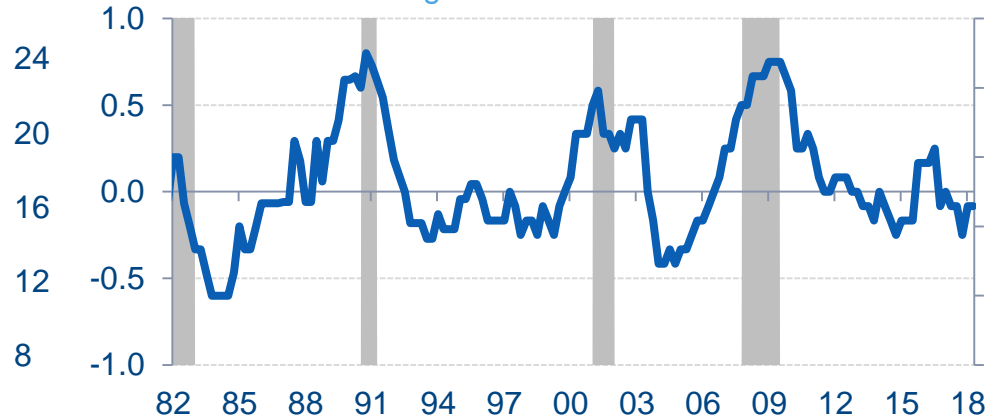
Noncurrent Loans and Funding

% of loans and liabilities, commercial banks



BBVA Credit Cycle Risk Index

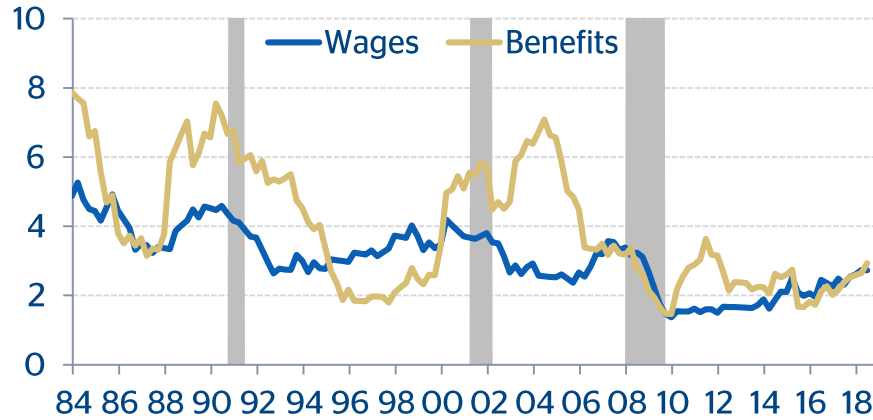
Above 0 = above average risk



Prices

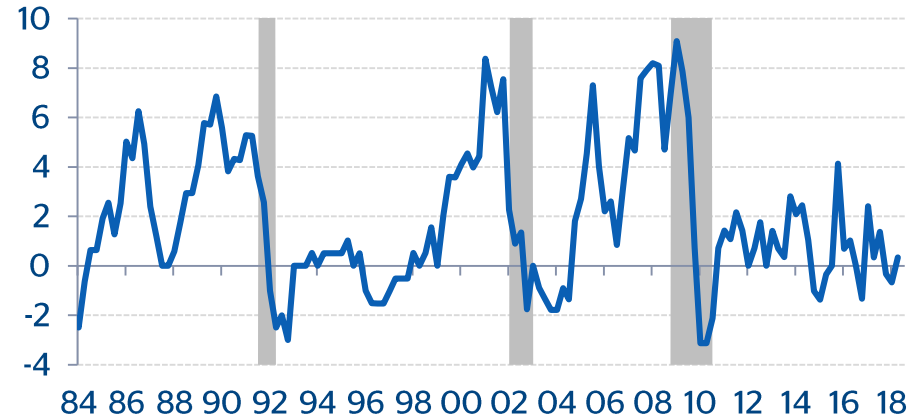
Labor Costs

YoY % Change, ECI



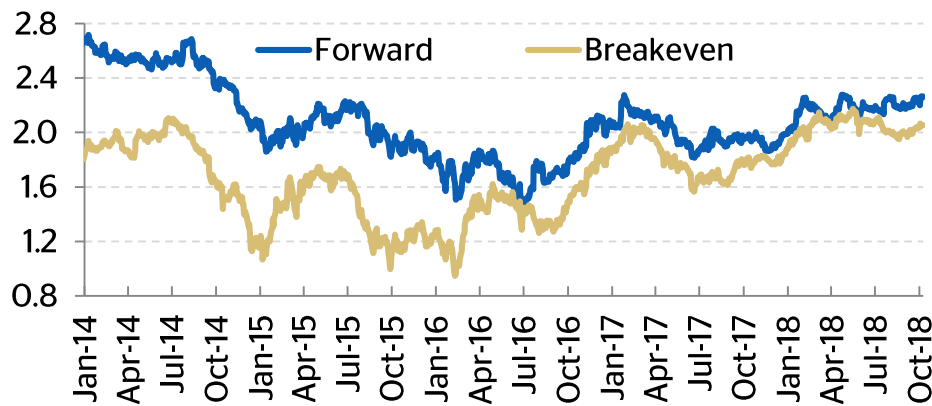
Nonlabor Costs per Unit of Real GDP

YoY % Change



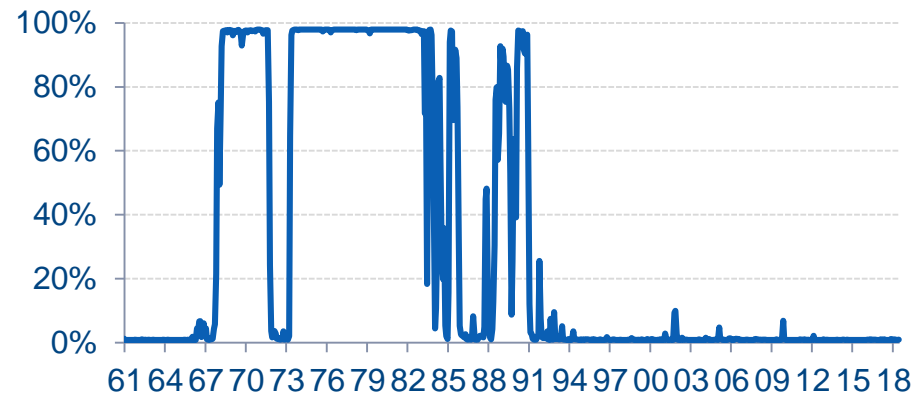
Market Inflation Expectations

%



BBVA Inflation Regime Probability

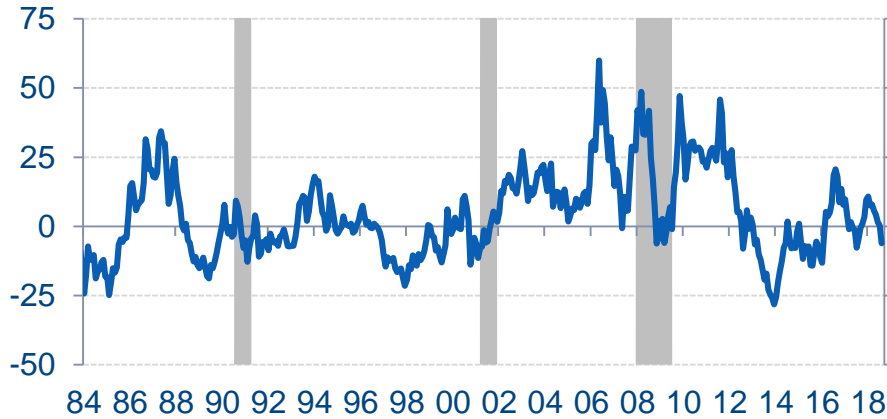
Regime change low to high



Global Conditions

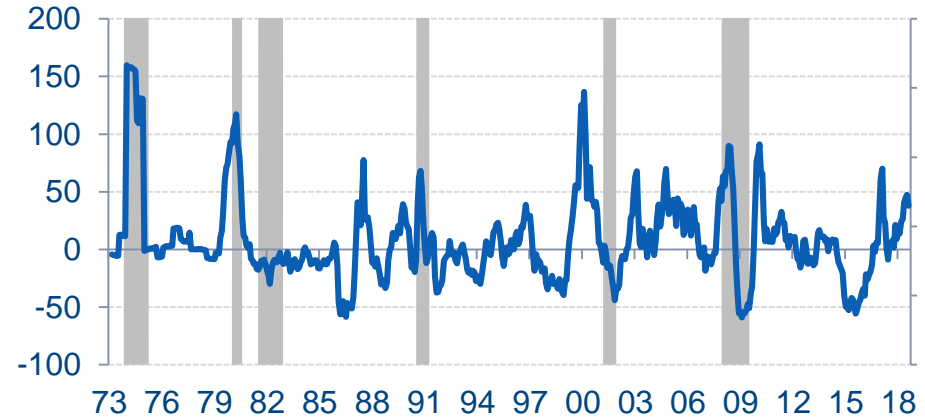
Gold Prices

YoY % Change



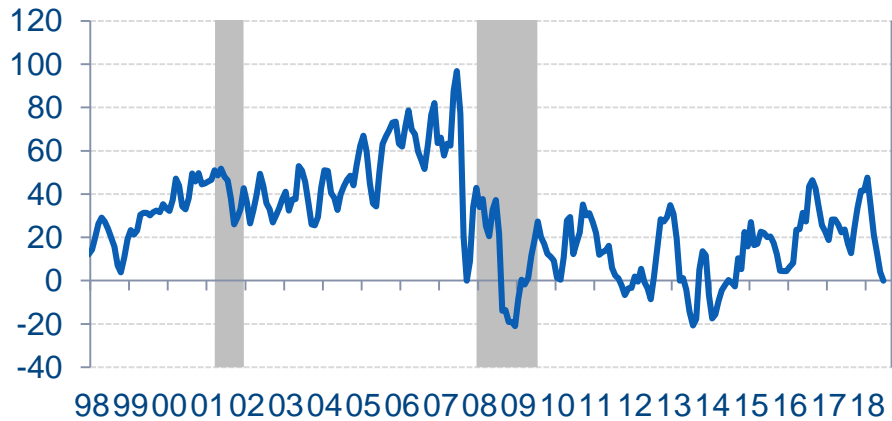
Real Oil Prices

YoY % Change



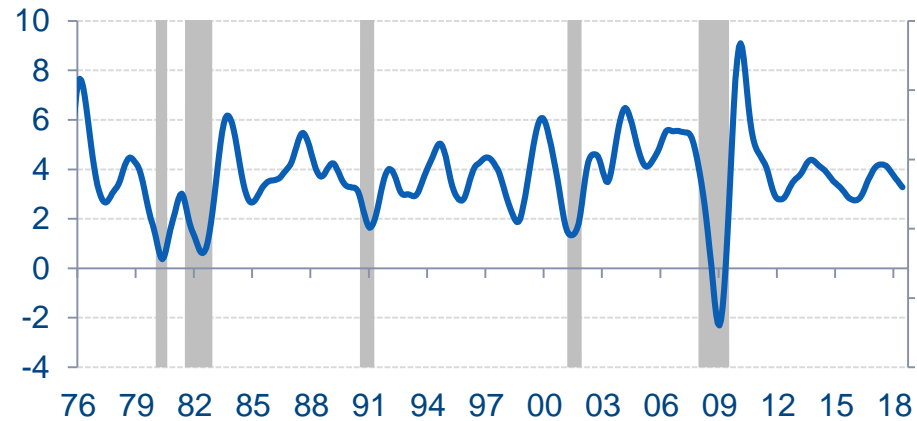
Net Foreign Purchases of U.S. Securities

US\$bn, 3mma, excluding OFIs and Int'l organizations



Global Activity Leading Indicator

YoY % Change



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