

U.S. Economic Outlook

4Q20

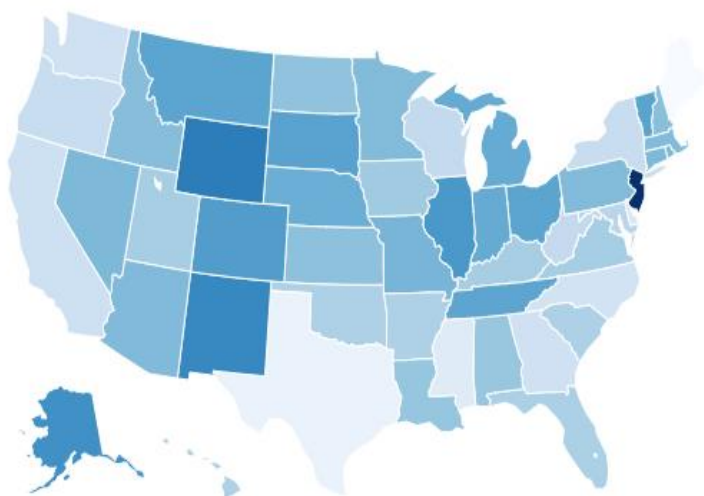
October 2020

Economic Outlook

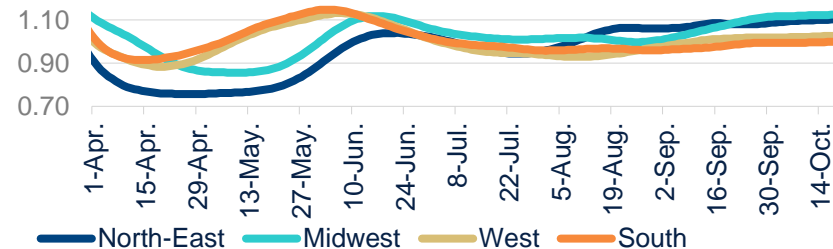
- Pandemic and election could add noise to short-term outlook, but medium-term prospects improving.
- Baseline assumes GDP growth of -4.6% in 2020 and 3.8% in 2021.
- Pace of decline in unemployment to slow as persistent headwinds increase.
- Deflation risks giving way to potential for upside in the medium-term.
- Fed to keep rates at ELB through 2024 and prepare to fine-tune balance sheet strategy.
- Long-term yields lower for longer to prevail.
- Residential real estate supported by tight market conditions.
- Structural and post-pandemic trends underpin commercial real estate fundamentals.
- Banking outlook shaped by solid balance sheets and credit quality.
- Heterogeneous labor market conditions across states amid improving growth prospects.

Covid-19: Hotspot emerging in the Midwest

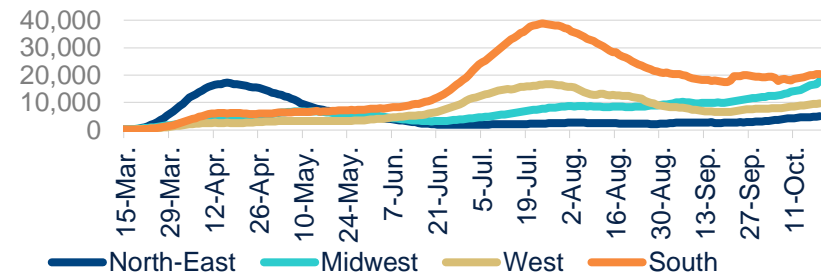
CURRENT R_t
(AVERAGE NEW CONTAGIONS PER PERSON)



R_t BY REGION

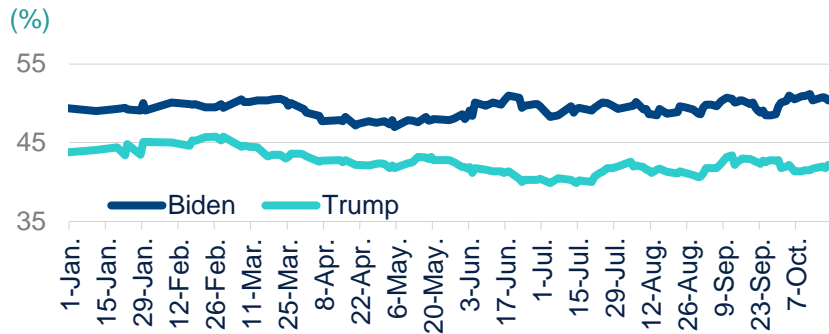


AVERAGE DAILY NEW CASES
(2-WEEK MA)



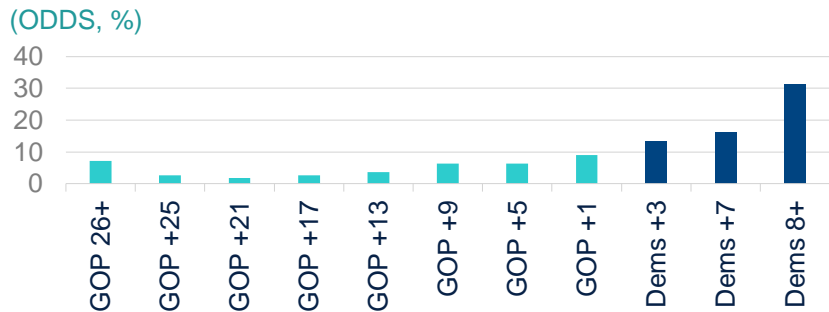
Election: Democrats leading the race to the White House and Congress

TRUMP VS. BIDEN POLLING

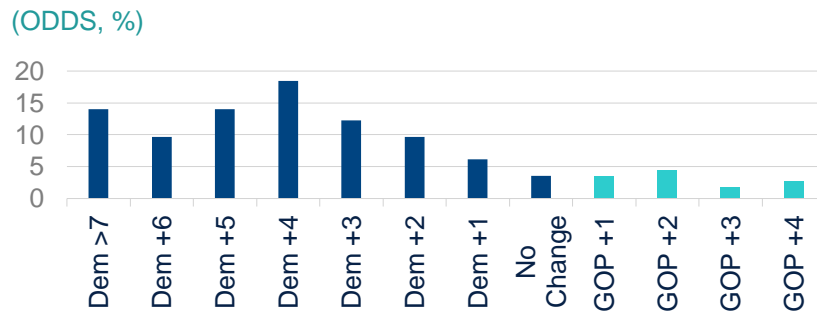


- Biden has an 8pp advantage in the polls.
- Democrats poised to take 8+ seats in the House.
- Odds suggest Democrats could gain control of the Senate.

CHANGE IN TOTAL HOUSE SEATS HELD



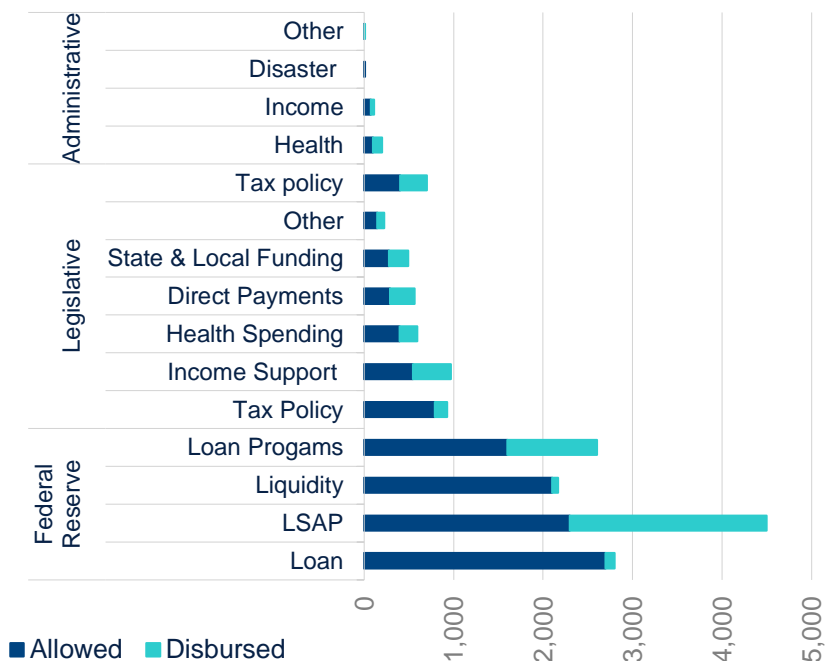
CHANGE IN TOTAL SENATE SEATS HELD



Covid-19 Response: Significant fiscal and monetary policy intervention offset economic fallout from pandemic, but stimulus measures fading

COVID-19 POLICY RESPONSE

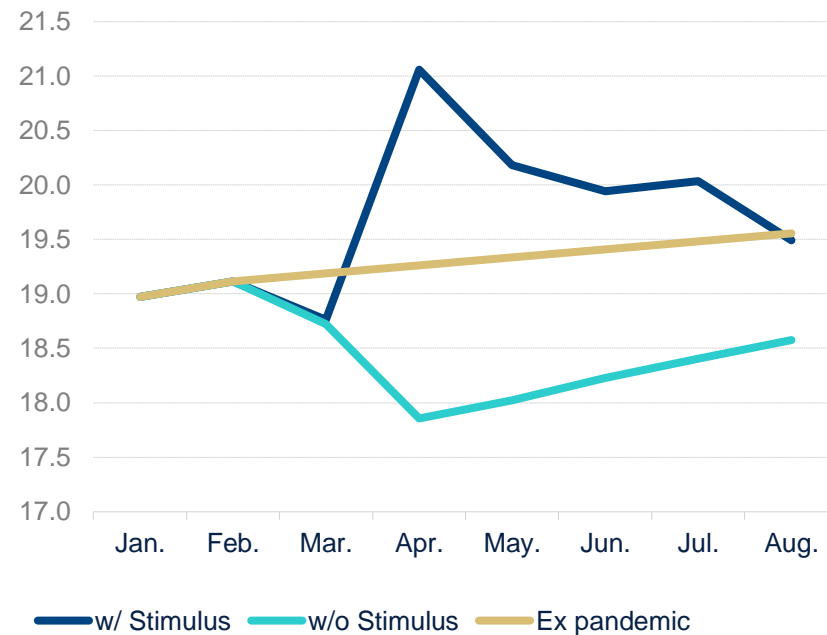
(USTN\$)



Source: BBVA Research, CRFB & BEA.

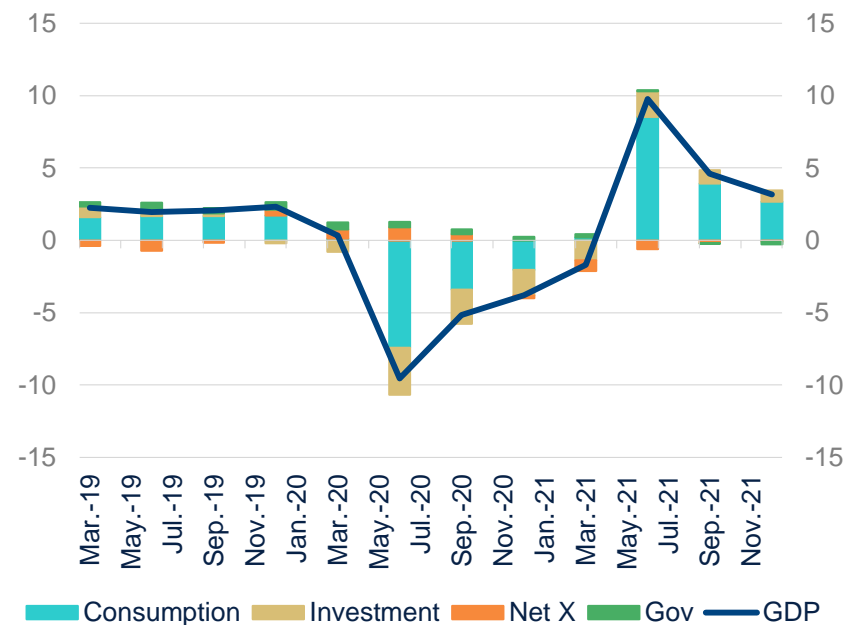
2020 PERSONAL INCOME

(SAAR TN\$)

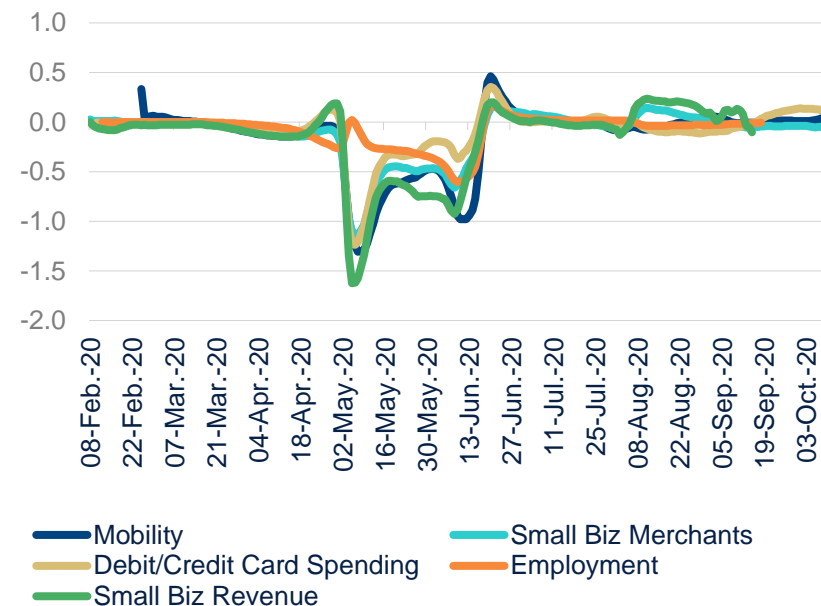


Growth: Pandemic's impact on activity is declining, but recovery remains tenuous on account of growing cyclical headwinds and waning stimulus

CONTRIBUTION TO REAL GDP GROWTH (YEAR-OVER-YEAR, PP)



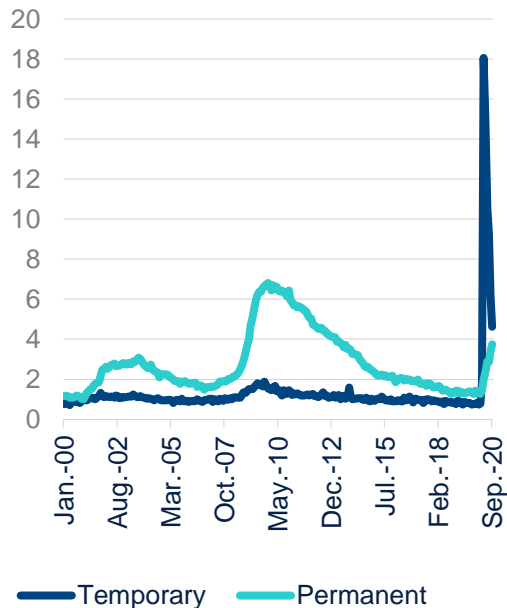
30-DAY ROLLING REGRESSION OF NEW COVID-19 CASES AND HIGH FREQUENCY INDICATORS (%)



Labor Market: Workers adjusting to new pandemic reality with rise in permanent unemployment

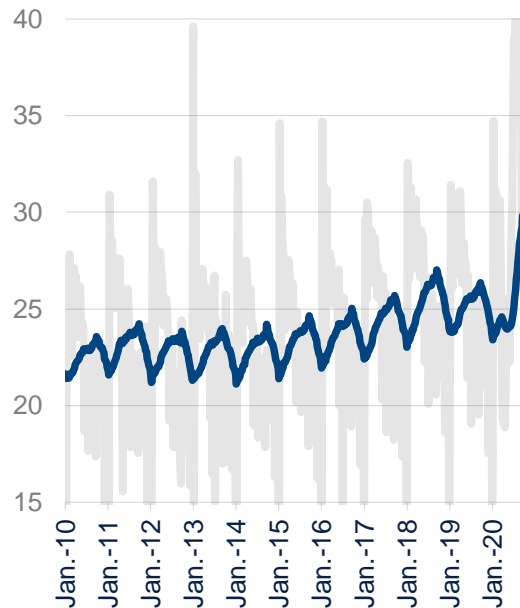
PERMANENT & TEMPORARY UNEMPLOYMENT

(M)



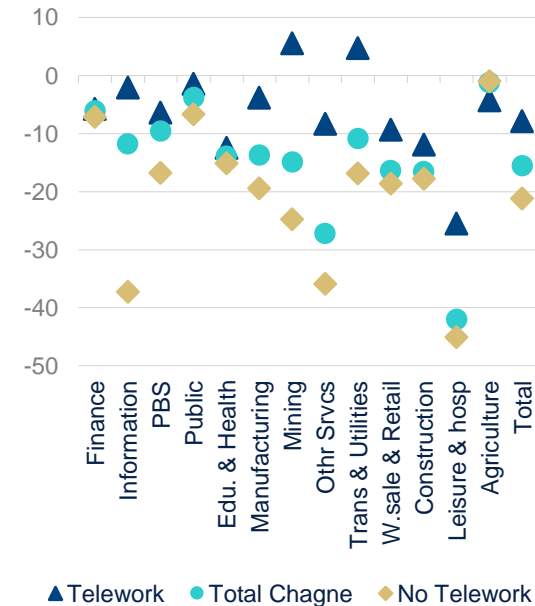
HIGH PROPENSITY BUSINESS FORMATION

(8-month moving average, K)



EMPLOYMENT & TELEWORK CAPABILITIES

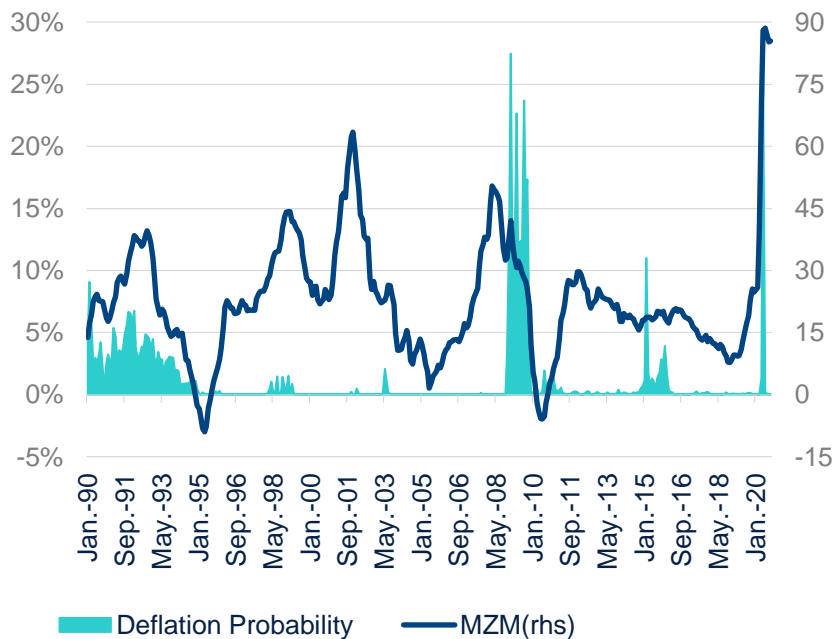
(% CHANGE FEB-APR)



Inflation: Rising core prices and massive fiscal stimulus have all but eliminated the risk of deflation

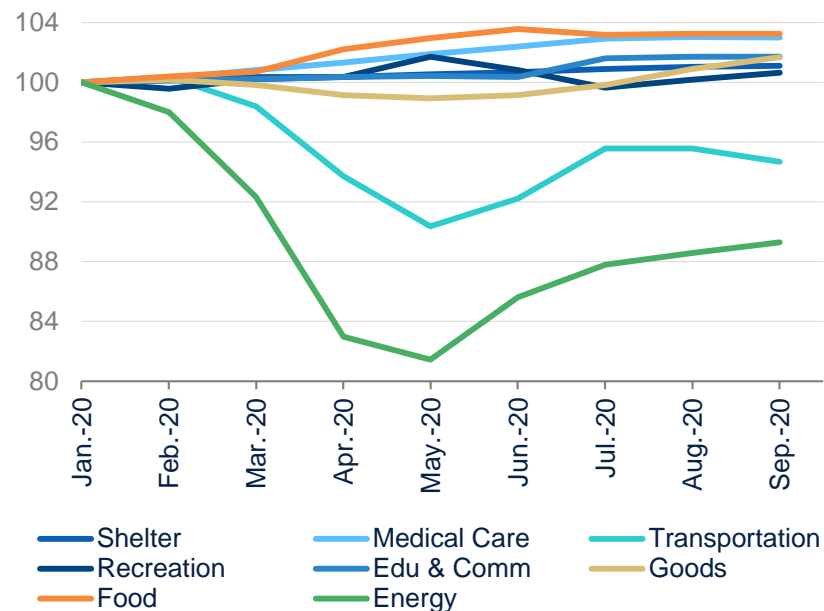
MONEY SUPPLY & DEFLATION PROBABILITY

(YEAR-OVER-YEAR %, %)



CONSUMER PRICE INDEX

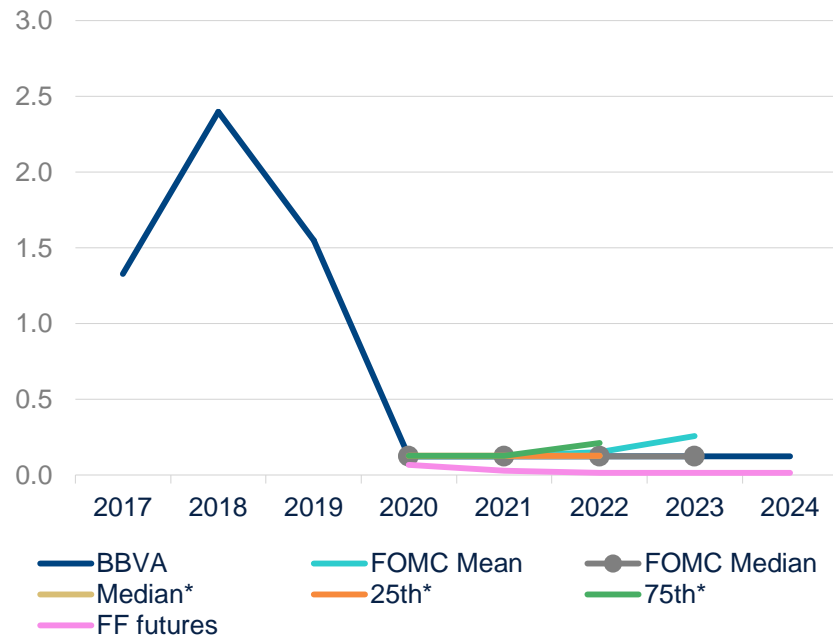
(JAN-2020=100)



Monetary Policy: Despite some improvement in Fed sentiment, shift in goals and strategy implies low rates for foreseeable future

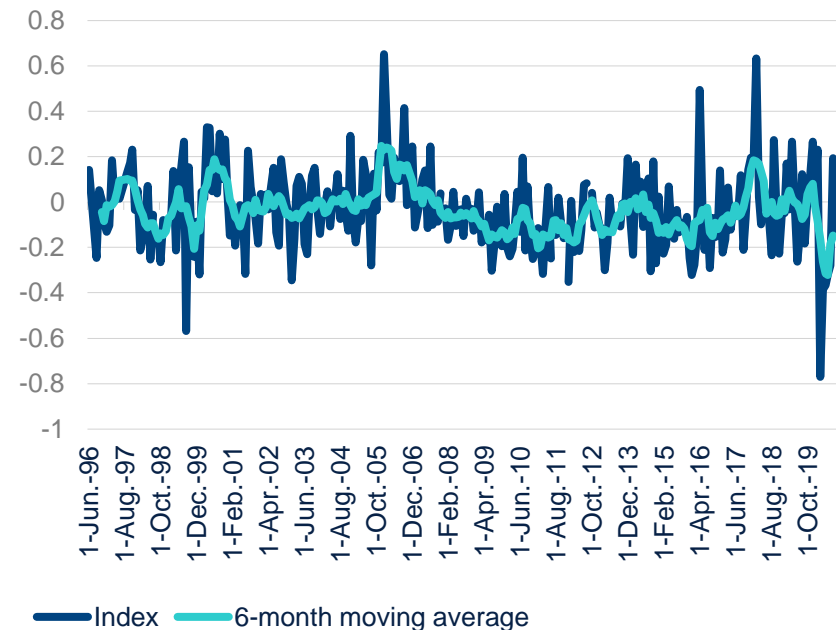
FED FUNDS RATES

(%, MID-POINT & EFFECTIVE (FUTURES))



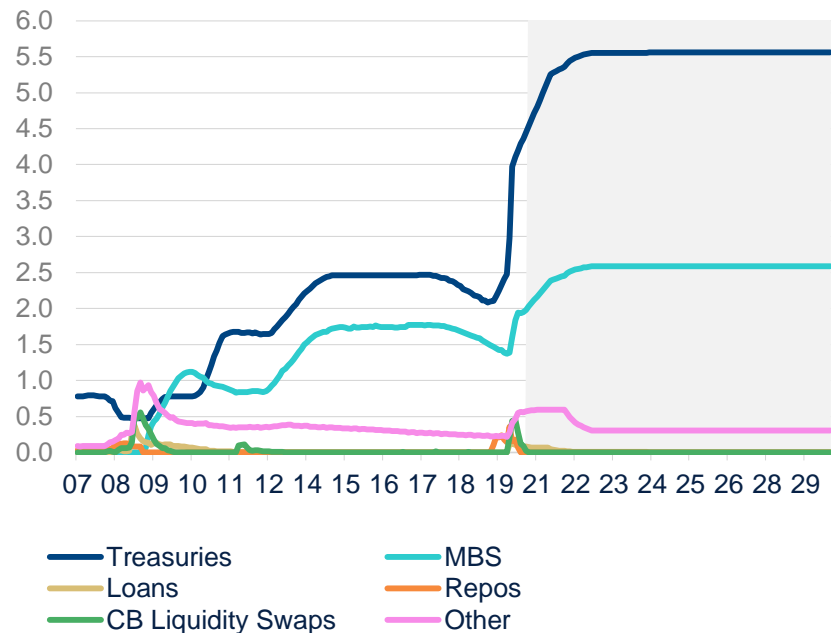
BBVA FED SENTIMENT INDEX

(INDEX -1=MOST DOVISH, 1=MOST HAWKISH)

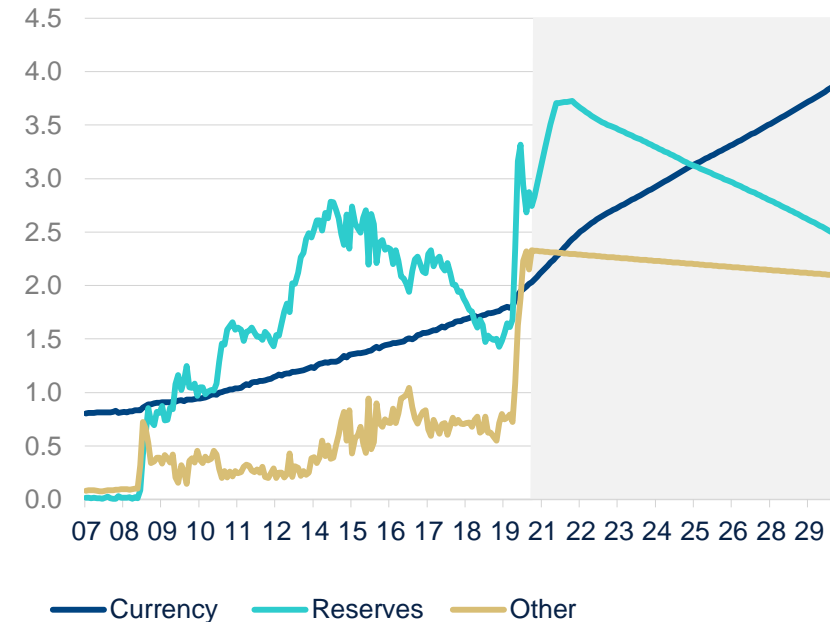


Monetary Policy: Fed continues to fine-tune its balance sheet plans as policy shifts from stabilization to accommodation

FED: FACTORS SUPPLYING RESERVES (ASSETS) (USTN\$)



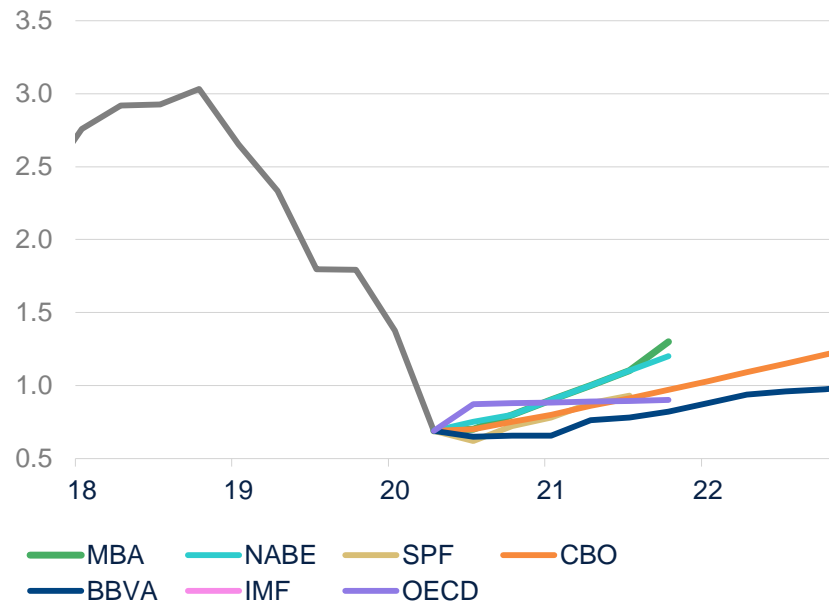
FED: FACTORS ABSORBING RESERVES (LIABILITIES) (USTN\$)



Interest Rates: Continued Fed asset purchases and subdued inflation expectations to keep long-term yields lower for longer

10YTN YIELD FORECASTS

(%)

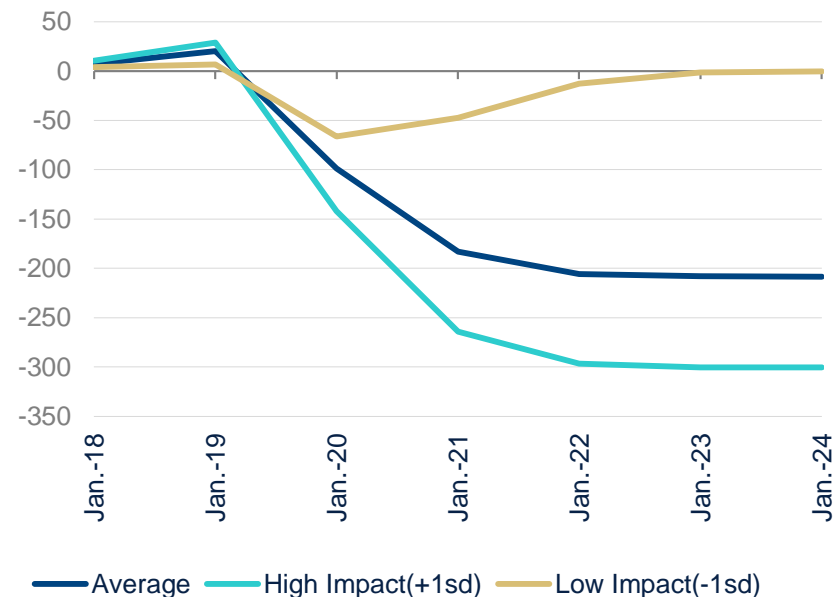


* Based on meta-analysis of impact from QE programs after the Global Financial Crisis and BBVA's baseline scenario for Fed Treasury purchases

Source: BBVA Research, FRB & BEA.

IMPACT OF FED ASSET PURCHASES ON TERM PREMIUM*

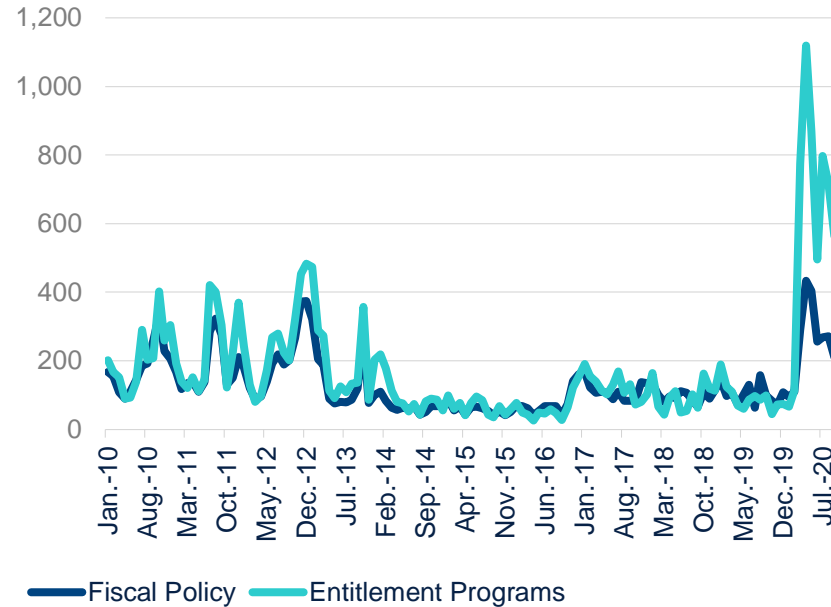
(BP, CUMULATIVE)



Fiscal Policy: Uncertainty remains high over the prospects for additional fiscal stimulus; debt levels continue to test all-time highs

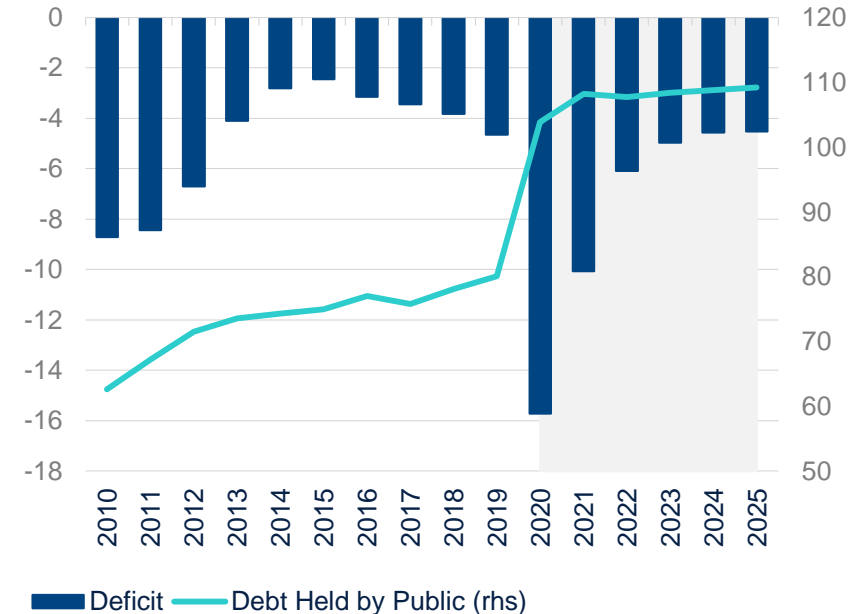
POLICY UNCERTAINTY (OCT-1985=100)

(OCT-1985=100)



FEDERAL BUDGET DEFICIT AND DEBT (% OF GDP, FY AND CY)

(% OF GDP, FY AND CY)

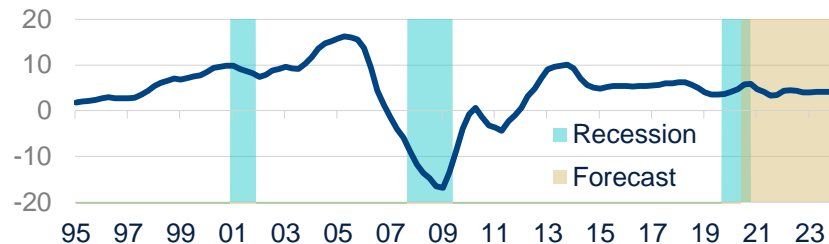


* Based on meta-analysis of impact from QE programs after the Global Financial Crisis.
Source: BBVA Research, FRB & BEA.

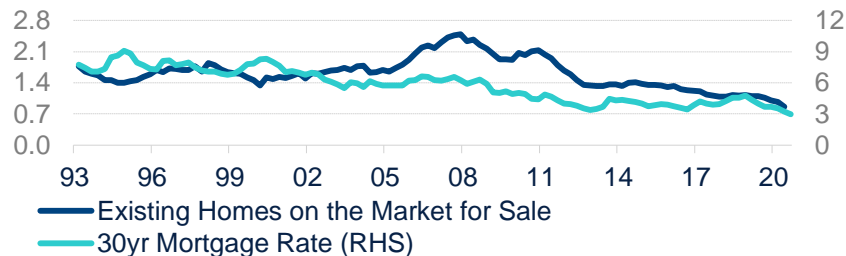
Residential Real Estate: High affordability and tight market conditions

HOME PRICES

(% YOY)



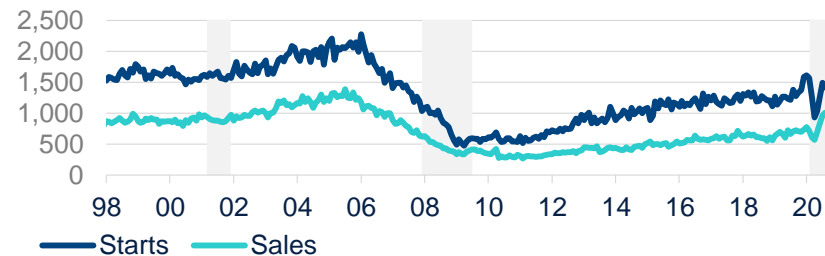
EXISTING HOMES FOR SALE RELATIVE TO HOUSING STOCK AND MORTGAGE RATES (%)



- Market underpinned by historically low supply of existing homes for sale and favorable mortgage rates.
- Low supply and solid demand will support home prices.
- Ripe conditions for a quick recovery in new construction.

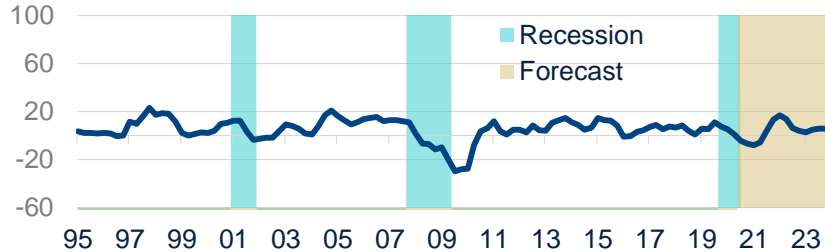
HOUSING STARTS AND NEW HOME SALES

(THOUSAND UNITS, ANNUALIZED)

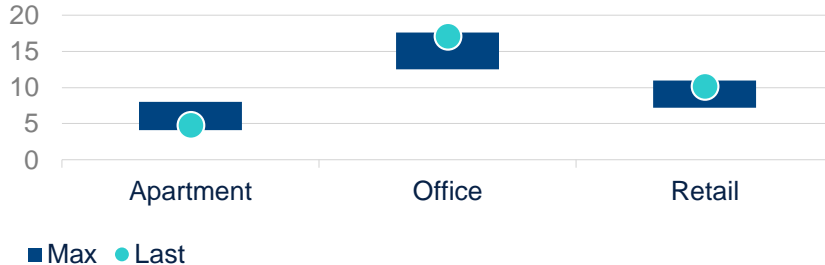


Commercial Real Estate: Low interest rates meet structural trends

CRE PRICE INDEX (YOY % CHANGE)

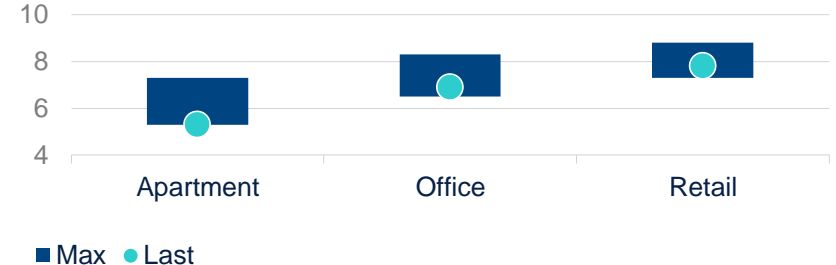


VACANCY RATES (%)



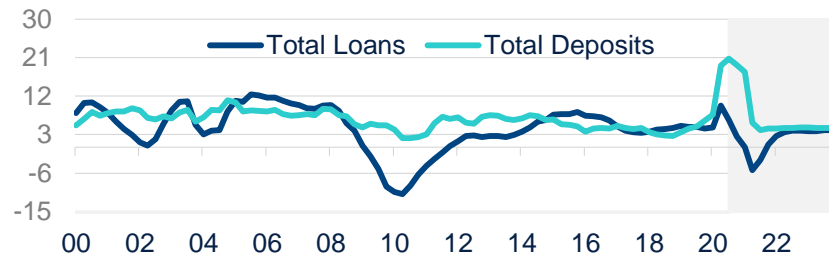
- Offices and retail impacted by lower demand.
- Multifamily remains resilient.
- CRE prices expected to fall.
- High vacancies will limit construction.
- Repurposing in line with post-pandemic trends.

CAP RATES (%)

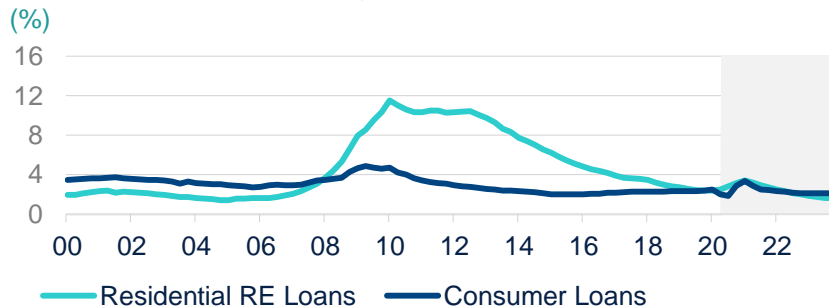


Banking: Outlook shaped by solid balance sheets and credit quality

LOANS AND DEPOSITS, COMMERCIAL BANKS, BREAK ADJUSTED (% YOY)



DELINQUENCY RATES, HOUSEHOLD BORROWING

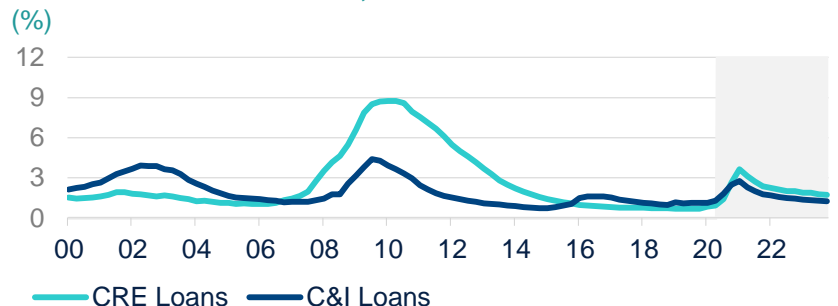


- Massive expansion in deposits from fiscal and monetary stimulus.

- Policy support limiting deterioration in credit quality.

- Loan growth expected to benefit from improving economic conditions despite a one-off decline in loan balances due to PPP loan forgiveness.

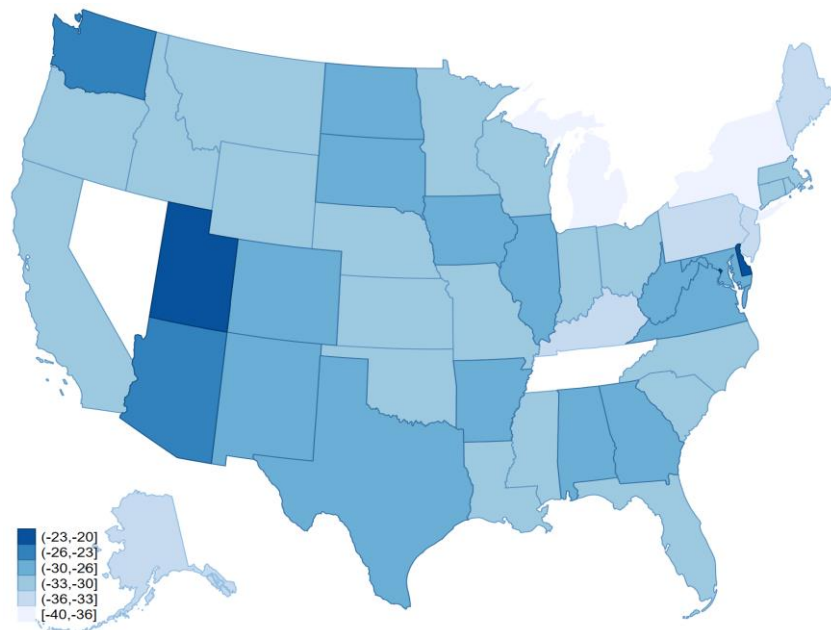
DELINQUENCY RATES, BUSINESS BORROWING



Regional: Historic contraction in 2Q20 GDP, but magnitude varied depending on health response and industry exposure

REAL GDP GROWTH RATES (2Q20)

(%)



REAL GDP GROWTH RATES

Best performing

State	2Q20
Delaware	-21.9
Utah	-22.4
Arizona	-25.3
Washington	-25.5
Virginia	-27.0
North Dakota	-27.6
Maryland	-27.7
Georgia	-27.7
Arkansas	-27.9
Colorado	-28.1
Iowa	-28.2
New Mexico	-28.3
South Dakota	-28.8
Texas	-29.0
Alabama	-29.6
West Virginia	-29.6
Illinois	-29.7
Florida	-30.1
Kansas	-30.3
North Carolina	-30.5

BBVA footprint

State	2Q20
Arizona	-25.3
Colorado	-28.1
New Mexico	-28.3
Texas	-29.0
Alabama	-29.6
Florida	-30.1
California	-31.5

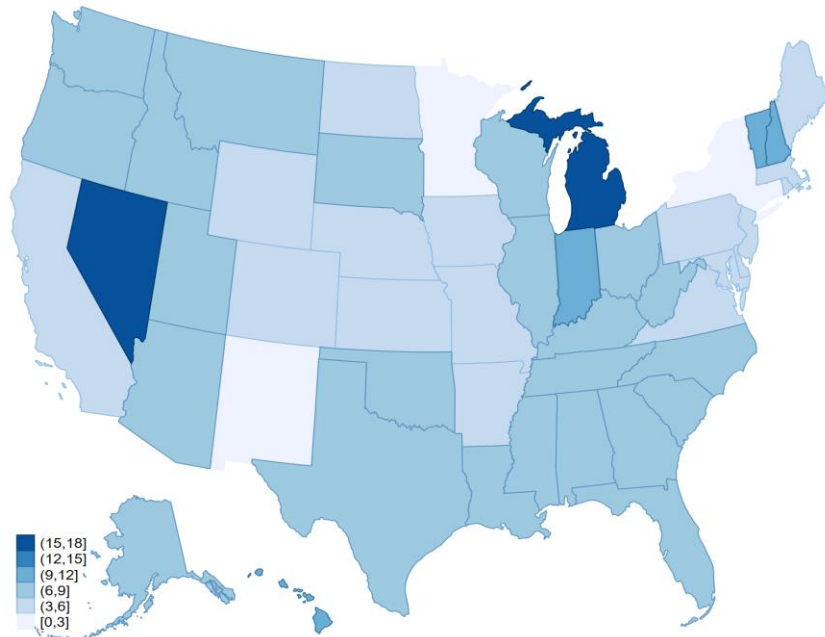
United States -31.4

BBVA Average -28.8

Regional: Majority of states see strong recovery in labor market conditions

CHANGE OF UNEMPLOYMENT RATES (APRIL-AUGUST 2020)

(%)



Source: BLS, Haver, and BBVA Research.

UNEMPLOYMENT RATE

Most Improved

State	Apr.	Aug.	Chg.
Nevada	30.1	13.2	16.9
Michigan	24.0	8.7	15.3
Vermont	16.5	4.8	11.7
Hawaii	23.8	12.5	11.3
Indiana	17.5	6.4	11.1
New Hampshire	17.1	6.5	10.6
Kentucky	16.6	7.6	9.0
Oklahoma	14.7	5.7	9.0
Ohio	17.6	8.9	8.7
Mississippi	16.3	7.9	8.4
Alabama	13.8	5.6	8.2
Washington	16.3	8.5	7.8
Idaho	11.8	4.2	7.6
Louisiana	15.1	7.6	7.5
Arizona	13.4	5.9	7.5
Wisconsin	13.6	6.2	7.4
Oregon	14.9	7.7	7.2
Georgia	12.6	5.6	7.0
Tennessee	15.5	8.5	7.0
West Virginia	15.9	8.9	7.0

BBVA footprint

State	Apr.	Aug.	Chg.
Alabama	13.8	5.6	8.2
Arizona	13.4	5.9	7.5
Texas	13.5	6.8	6.7
Florida	13.8	7.4	6.4
Colorado	12.2	6.7	5.5
California	16.4	11.4	5.0
New Mexico	11.9	11.3	0.6

United States	14.7	8.4	6.3	BBVA Avg.	13.6	7.9	5.7
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State GDP Forecast

State	2019	2020(f)	2021(f)	State	2019	2020(f)	2021(f)	State	2019	2020(f)	2021(f)
ALABAMA	1.4	-3.7	3.0	LOUISIANA	2.1	-6.3	3.4	OHIO	1.5	-5.3	2.6
ALASKA	0.6	-5.4	5.0	MAINE	2.6	-5.4	2.4	OKLAHOMA	2.4	-6.8	1.9
ARIZONA	3.1	-2.3	3.8	MARYLAND	1.4	-3.1	3.8	OREGON	2.8	-3.9	3.0
ARKANSAS	0.6	-3.5	3.2	MASSACHUSETTS	2.4	-4.8	3.0	PENNSYLVANIA	2.4	-5.6	2.6
CALIFORNIA	3.4	-4.6	2.3	MICHIGAN	0.8	-7.3	1.4	RHODE ISLAND	1.0	-5.7	2.2
COLORADO	3.9	-2.5	3.7	MINNESOTA	1.1	-5.0	2.9	SOUTH CAROLINA	2.8	-5.4	3.1
CONNECTICUT	0.9	-5.2	3.0	MISSISSIPPI	0.6	-4.6	2.1	SOUTH DAKOTA	0.6	-2.7	4.4
DELAWARE	1.8	-4.6	3.4	MISSOURI	1.0	-4.9	2.9	TENNESSEE	1.6	-6.8	3.4
FLORIDA	2.8	-3.9	3.6	MONTANA	2.8	-3.8	2.8	TEXAS	2.9	-3.8	4.8
GEORGIA	1.6	-3.4	4.0	NEBRASKA	2.0	-3.2	3.1	UTAH	3.8	-1.2	5.1
HAWAII	0.3	-8.8	1.2	NEVADA	2.7	-7.0	2.6	VERMONT	0.8	-7.1	2.4
IDAHO	3.4	-2.8	4.5	NEW HAMPSHIRE	1.4	-6.2	2.8	VIRGINIA	2.2	-3.0	4.0
ILLINOIS	0.5	-5.1	2.6	NEW JERSEY	1.4	-5.5	2.0	WASHINGTON	4.6	-1.8	3.9
INDIANA	1.6	-5.0	2.5	NEW MEXICO	5.2	-3.9	2.1	WEST VIRGINIA	0.7	-6.2	2.8
IOWA	0.4	-3.5	4.3	NEW YORK	1.6	-6.7	2.2	WISCONSIN	1.4	-5.9	3.3
KANSAS	1.2	-4.1	2.5	NORTH CAROLINA	1.9	-3.6	3.8	WYOMING	1.3	-6.8	1.9
KENTUCKY	1.8	-5.5	1.9	NORTH DAKOTA	0.9	-3.9	1.4				

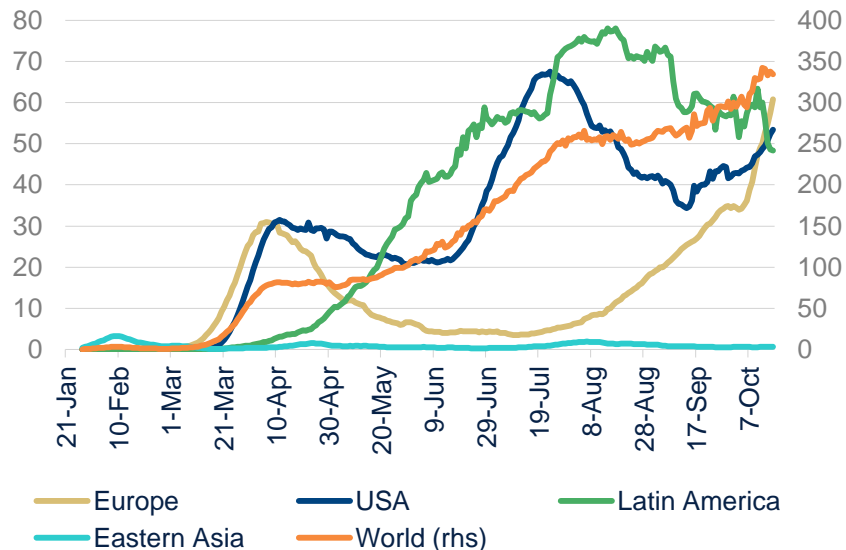
U.S. Economic Forecast

	2018	2019	2020 (f)	2021 (f)	2022 (f)	2023 (f)
Real GDP (% SAAR)	3.0	2.2	-4.6	3.8	2.4	2.0
Real GDP (Contribution, pp)						
PCE	1.9	1.7	-3.2	3.7	1.8	1.4
Gross Investment	1.1	0.3	-2.0	0.5	0.9	0.8
Non Residential	1.0	0.4	-1.1	0.1	0.9	0.7
Residential	0.0	-0.1	-0.1	-0.1	0.0	0.0
Exports	0.4	0.0	-2.0	0.2	0.4	0.4
Imports	-0.7	-0.2	2.4	-0.6	-0.5	-0.7
Government	0.3	0.4	0.4	0.0	-0.2	0.0
Unemployment Rate (% average)	3.9	3.7	8.3	6.2	5.3	4.8
Avg. Monthly Nonfarm Payroll (K)	193	177.8	-728	358	151	118
CPI (YoY %)	2.4	1.8	1.3	2.6	2.3	2.0
Core CPI (YoY %)	2.1	2.2	1.8	2.1	1.9	1.9
Fiscal Balance (% GDP, FY)	-3.8	-4.6	-15.7	-10.1	-6.1	-5.0
Current Account (bop, % GDP)	-2.2	-2.2	-2.9	-2.5	-2.5	-2.6
Fed Target Rate (% eop)	2.50	1.8	0.25	0.25	0.25	0.25
Core Logic National HPI (YoY %)	5.7	3.7	5.1	3.9	4.3	4.1
10-Yr Treasury (% Yield, eop)	2.83	1.9	0.6	0.8	1.0	1.2
WTI (dpb, average)	65.0	57.0	38.4	47.0	54.2	57.4

Global Economic Outlook 4Q20

The pandemic resurges in Europe, continues spreading in America and remains under control in Eastern Asia

DAILY CASES OF COVID-19 (*)
(THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)



- World covid-19 cases have started to pick up again in September.
- **Europe:** increasing number of contagions, but the fatality rate remains relatively controlled.
- **US:** infections are increasing again since September.
- **Latam:** stable or decreasing infections, but growing in Argentina.
- **China and other Asian countries:** relatively under control.
- At least ten **vaccines** are in the last phase of clinical evaluation, reinforcing the expectations of reigning in the coronavirus.

(*) Europe: Germany, Spain, France, Italy, Portugal, United Kingdom and Turkey.

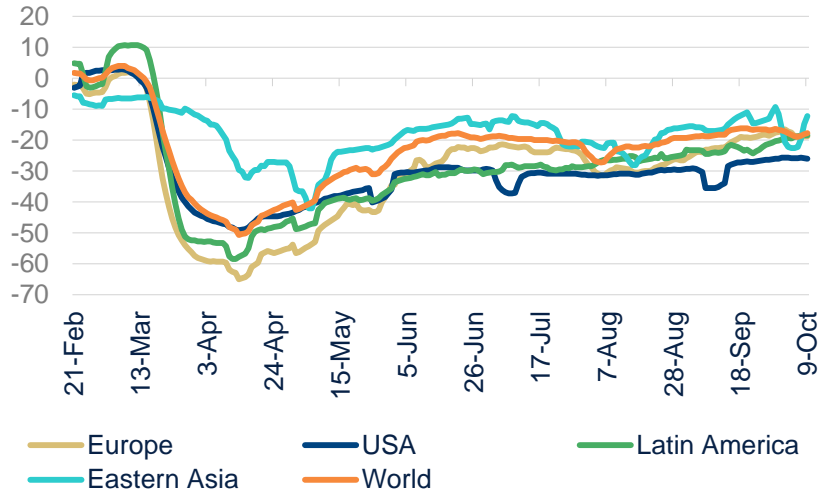
Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Eastern Asia: China, South Korea, Japan and Singapore

Source: BBVA Research based on data from the John Hopkins University

New confinement measures are less restrictive and more targeted than before

WORKPLACE MOBILITY INDICATOR (*) (HIGHER VALUES INDICATE HIGHER MOBILITY)



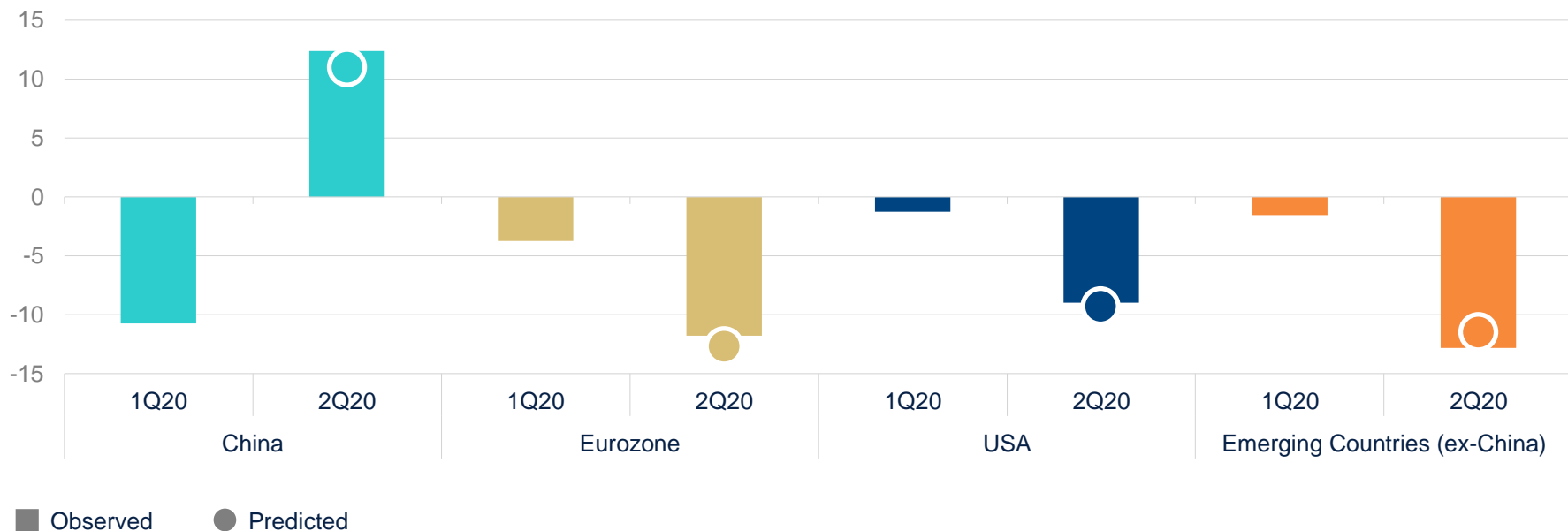
(*) Seven-days moving average. Reference period: January 3 to February 6. Europe: Germany, Spain, France, Italy, Portugal, United Kingdom and Turkey. Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. Eastern Asia: China, South Korea, Japan and Singapore. Source: BBVA Research based on the Google Mobility Reports.

- Mobility is greater now than in the first months of the pandemic:
 - preference for selective and less restrictive lockdowns.
 - severe lockdowns have large economic and social costs.
- But mobility remains below “normal” levels:
 - official restrictions in many countries (increasing in Europe).
 - changing habits as a result of inertia or fear of contagion.
- Mobility will hardly go back to normal levels without a vaccine.

GDP has plummeted in the first half of the year, broadly in line with expectations

GDP GROWTH (*)

(QoQ %)



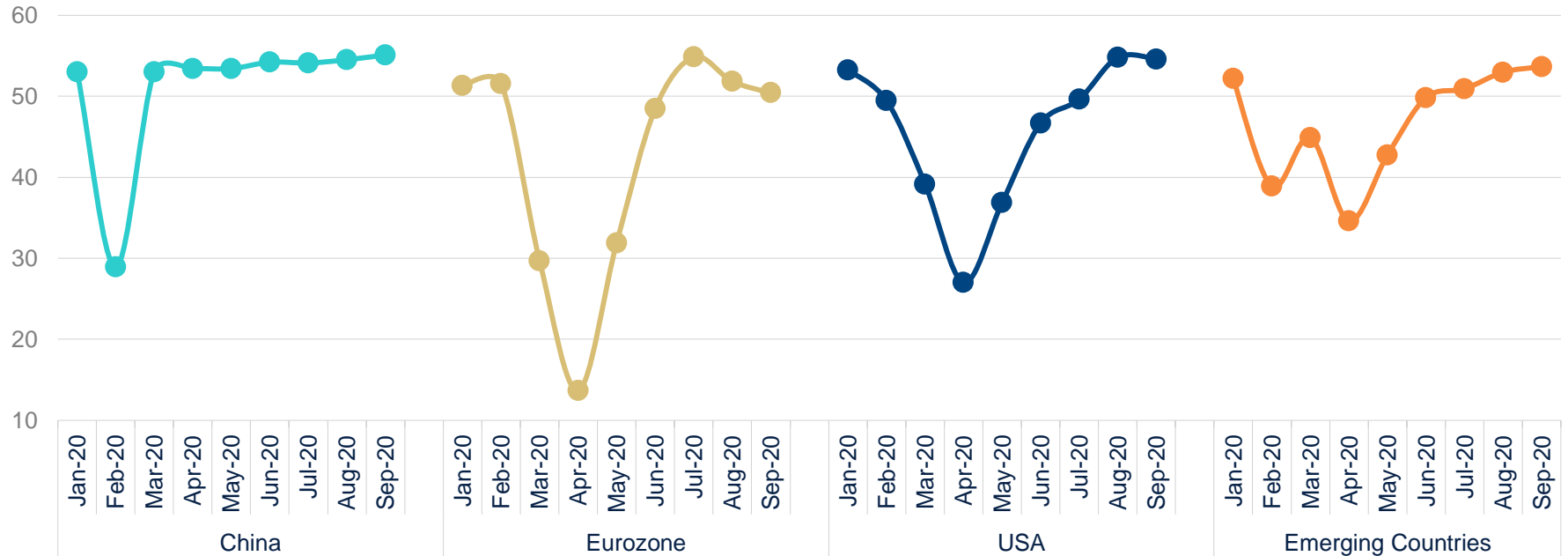
Emerging Countries: average of Argentina, Brazil, India, Indonesia, Mexico, Russia and Turkey.

Source: BBVA Research based on Haver data.

Faster-than-expected recovery since April, with increasing signs of moderation in the last few months

PMI INDICATORS

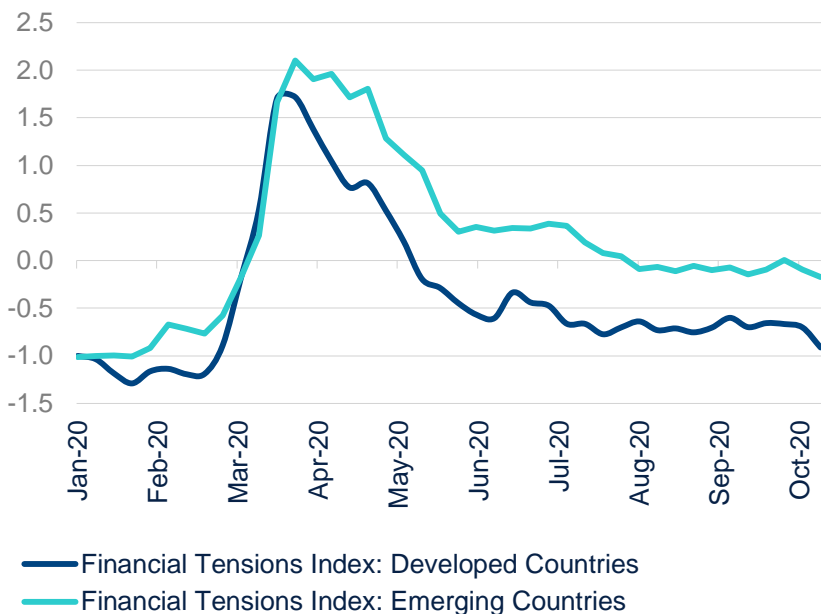
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Financial tensions remain broadly stable, but they have not disappeared, particularly in emerging countries

FINANCIAL TENSIONS

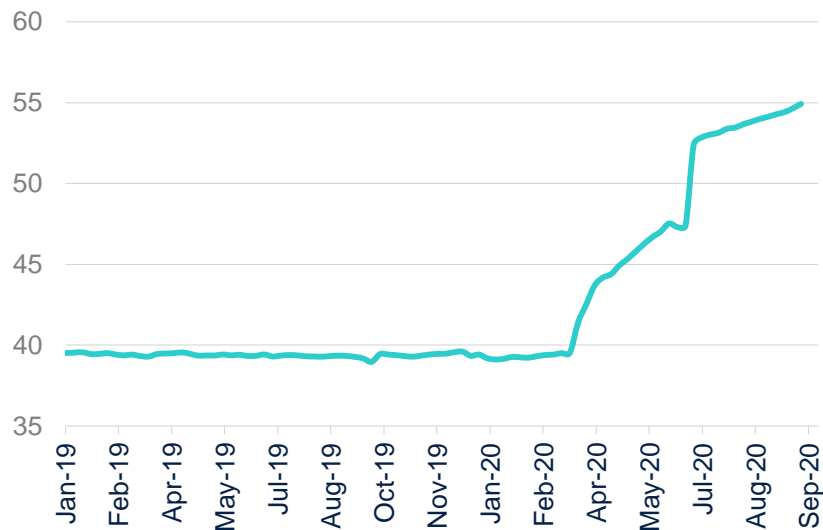
(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



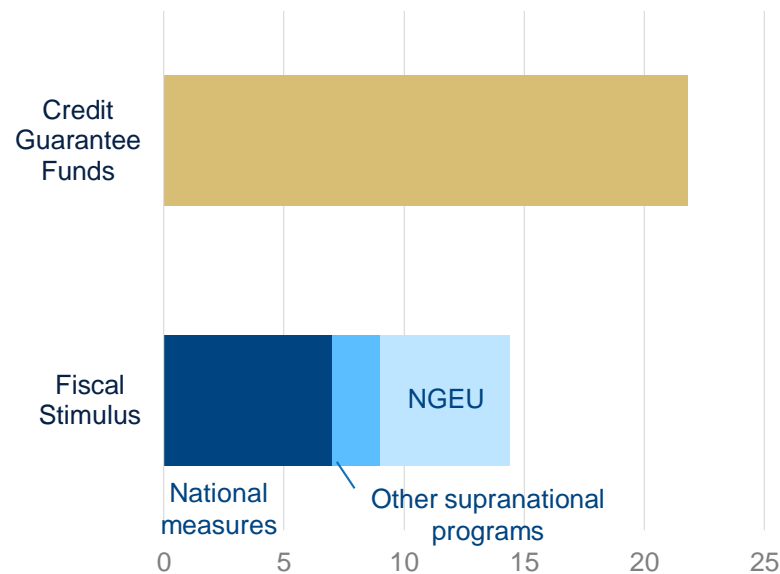
- Relative stability in financial markets in recent months.
- Economic stimulus and activity recovery are being supportive.
- The epidemiological context and geopolitical tensions still fuel risk aversion.
- Growing differentiation between markets and countries.

The ECB exhibits concerns on low inflation; NGEU funds provide an essential economic support

ECB BALANCE SHEET (% OF GDP)



FISCAL STIMULUS AND CREDIT PROGRAMS (*) (% OF GDP)



(*) Fiscal stimulus: expenditure increases and tax cuts, excluding resources used in credit programs. In the case of the Eurozone, national level measures represent the average stimulus launched in Germany, France, Italy and Spain while supranational measures include the EIB measures and the SURE. Credit Programs: in the case of US it includes the Fed credit facilities. For the Eurozone it represents the average of Credit Guarantee Funds in Germany, France, Italy and Spain.

Source: BBVA Research, Fed, ECB based on local data

The activity recovery will only consolidate once effective vaccines or treatments spread

FORECAST ASSUMPTIONS

COVID-19



Gradual improvement following the approval and the distribution of a vaccine in 1H21 in main economies, in 2H21 in the rest.

Economic Policy



Stimulus will be maintained, at least, until recovery consolidates.

Financial Markets



Gradual reduction of volatility and risk aversion throughout 2021.



World

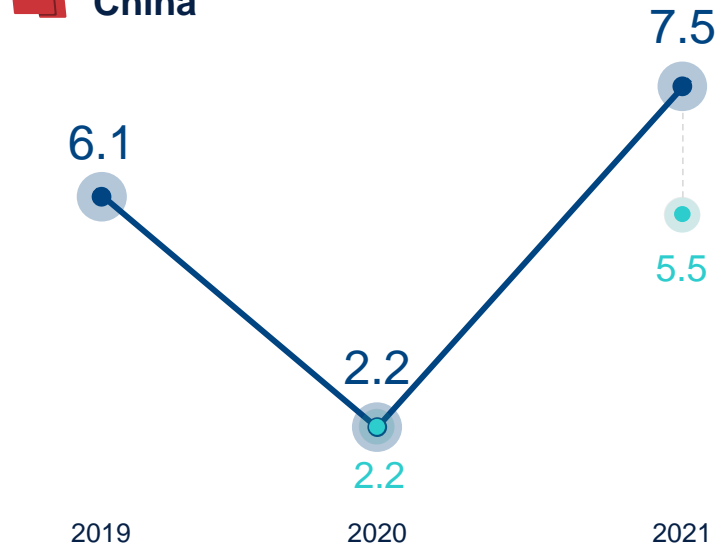


China: 2021 GDP forecast revised upwards on recent data and the control of the pandemic

GDP: ANNUAL GROWTH

(%)

 China



● Actual ● Previous

Source: BBVA Research.

- Incoming data show **solid growth recovery**.
- **Better-than-expected growth momentum** and base effects behind the upward revision of 2021 GDP forecast.
- **Gap between (stronger) supply and (weaker) demand** is shrinking, but deflation is still a source of concern.
- As recovery consolidates, **no further policy stimulus** are anticipated and a stronger FX is expected.
- Rising but manageable external **risks**, that include the tensions with the US.

Eurozone: increasing infections will slow the recovery in the short term, but the NGEU will support growth from mid-2021 onwards

GDP: ANNUAL GROWTH

(%)

Eurozone



● Actual ● Previous

Source: BBVA Research.

- Stronger-than-expected recovery up to 3Q20, but it will lose steam over the next months on renewed concerns on the covid.
- NGEU to weigh positively on growth (around +1.0 pp per year) from mid-2021 until 2023.
- GDP will recover pre-crisis levels in 2022.
- Inflation to move upwards moving forward, but to remain well-below ECB's targets.
- ECB to keep rates unchanged at least until 2023; further accommodation through the PEPP is expected (additional 500bn) as a backstop.
- A more appreciated euro mainly due to the positive impact of the NGEU approval.

U.S. Economic Outlook

4Q20

October 2020