

U.S. Economic Outlook

1Q21

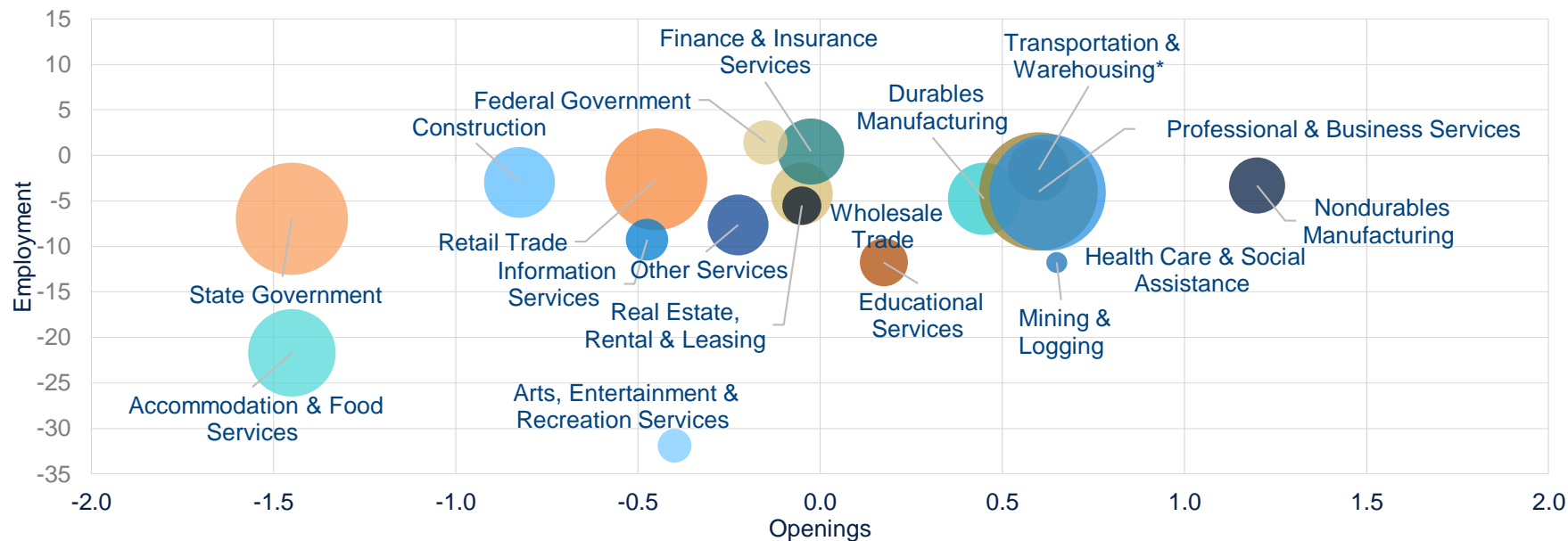
January 2021

Economic Outlook

- Economic recovery stalling after holiday surge in Covid-19 cases.
- Vaccine rollout falling short of expectations.
- High frequency indicators confirm need of further stimulus.
- Risks of widening inequality from long-term pandemic scarring.
- Additional fiscal stimulus would present upside to the economic outlook.
- Unified government improves chances for Biden's agenda.
- Inflation outlook tilting to upside.
- Interest rates to remain at ELB despite optimism.
- Structural trends point to continuation of lower-for-longer for long-term yields.
- Downside risks reflecting both short- and long-term uncertainties.

Disproportionate impact on the labor market

EMPLOYMENT RELATIVE TO PRE-PANDEMIC & JOB OPENINGS RELATIVE TO SUMMER REOPENING PEAK* (%)



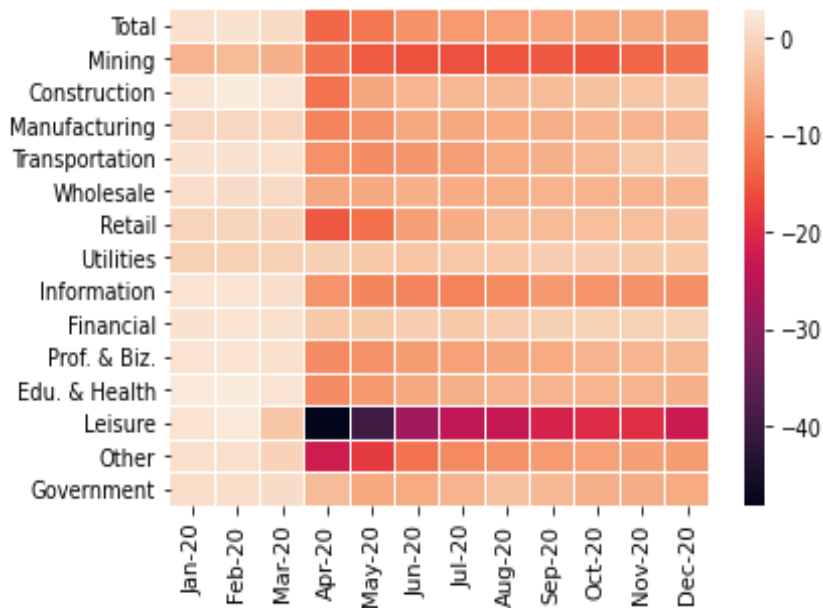
*Weights=Share of Employment.

Source: BBVA Research, BLS & Haver Analytics.

Mining and Leisure & Hospitality struggle harder to recover

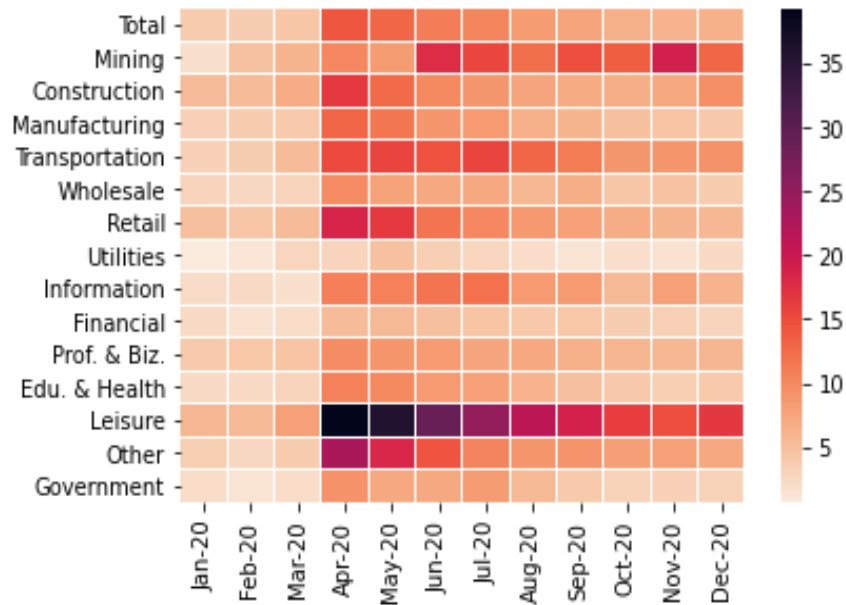
NONFARM PAYROLL

(YOY % CHANGE)



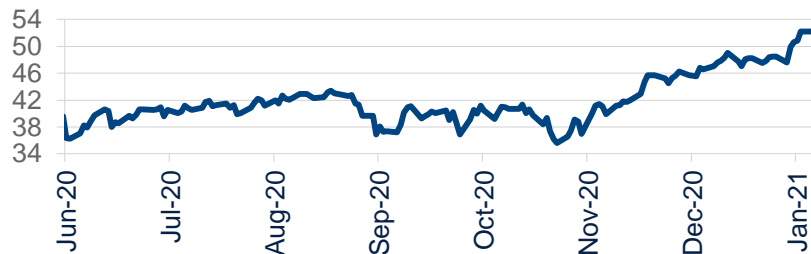
UNEMPLOYMENT RATE

(%)

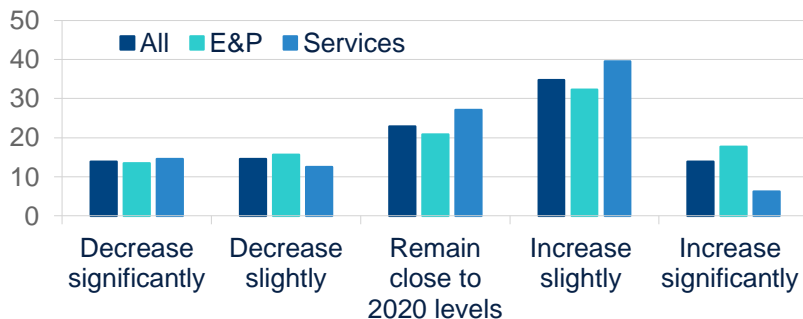


Higher oil prices supporting O&G industry

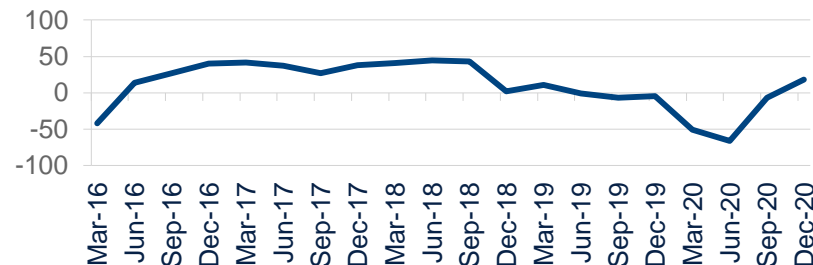
WTI (\$ PER BARREL)



WHAT ARE YOUR EXPECTATIONS FOR YOUR FIRM'S CAPITAL SPENDING IN 2021 VS. 2020? (% REPORTING)

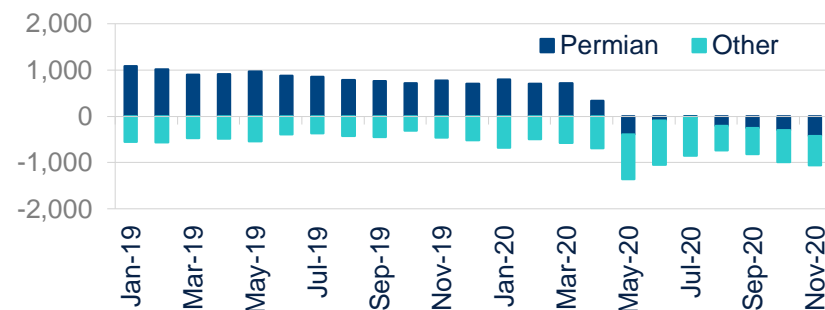


DALLAS FED ENERGY SURVEY'S ACTIVITY INDEX



U.S. SHALE PRODUCTION

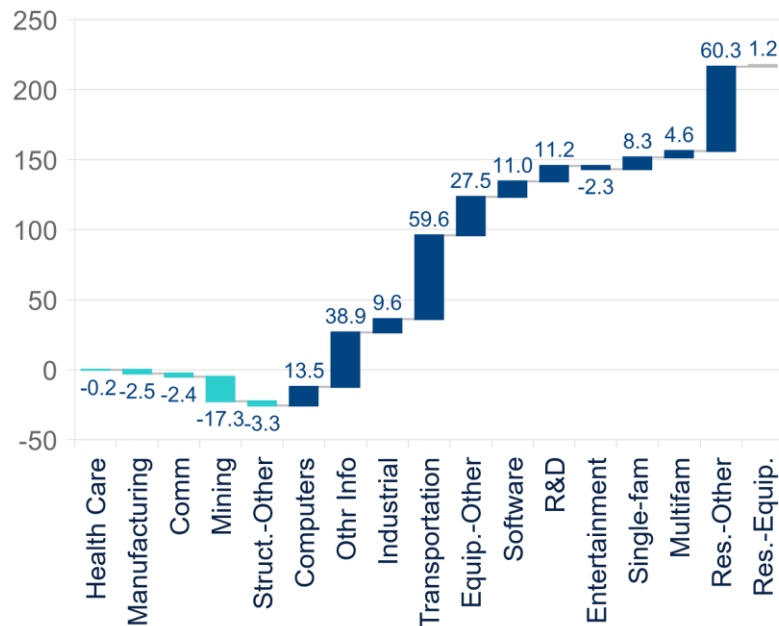
(THOUSAND B/D, YOY CHANGE)



Heterogeneous investment recovery

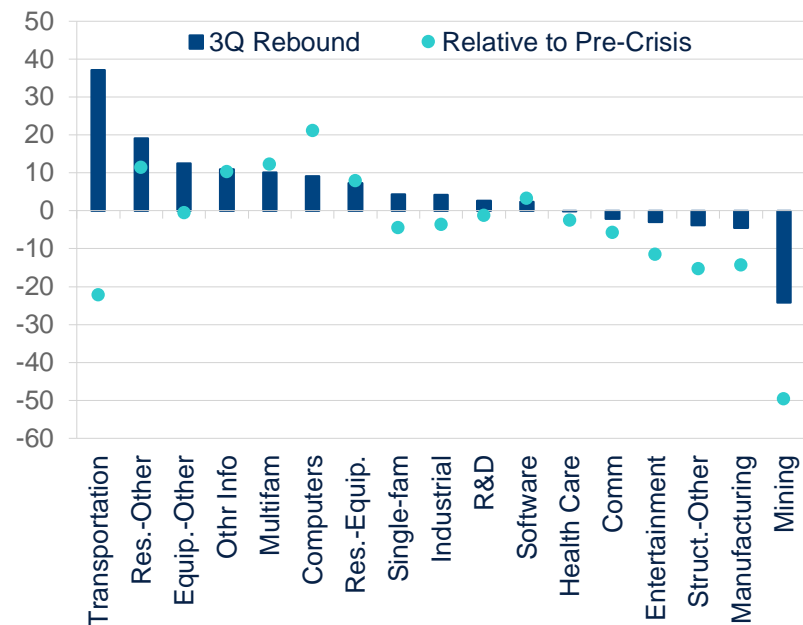
REAL FIXED INVESTMENT

(US\$BN, CHANGE IN 3Q20)



REAL FIXED INVESTMENT

(%)



Residential real estate supported by low interest rates and limited supply

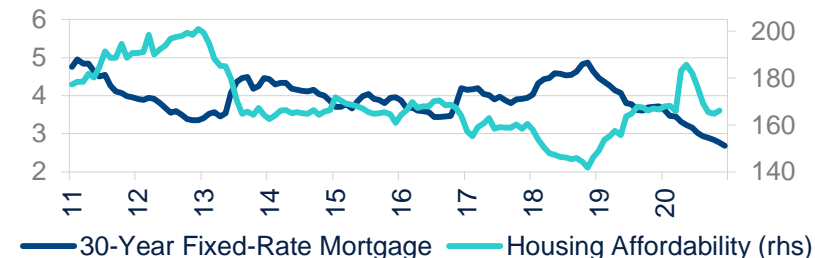
SUPPLY AND PRICES

(UNITS, SA AND %YOY)



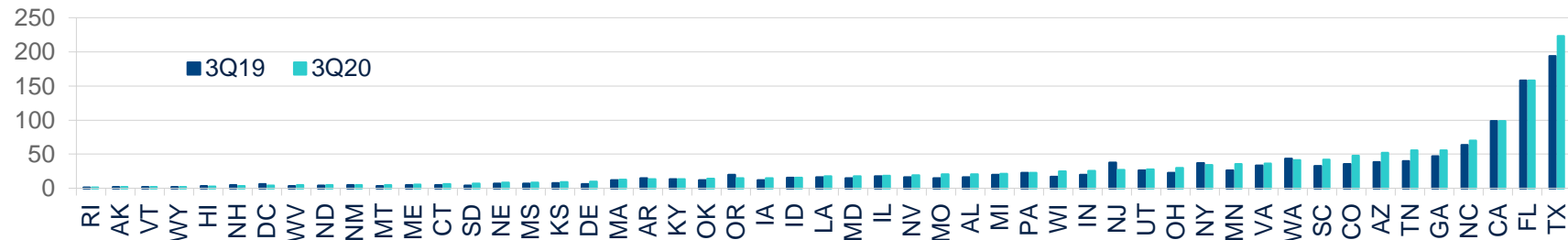
INTEREST RATES AND AFFORDABILITY

(% AND INDEX)



NEW RESIDENTIAL HOUSING STARTS

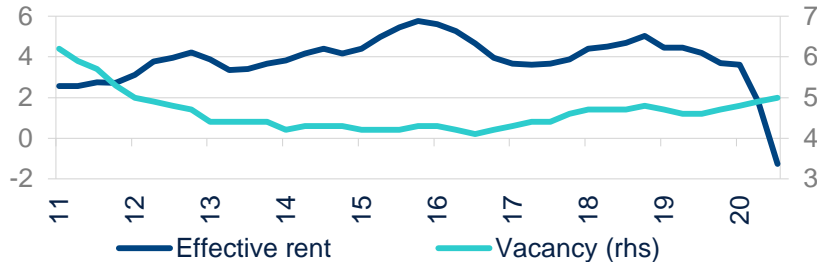
(THOUSAND UNITS, SAAR)



Pandemic exacerbating underlying CRE trends

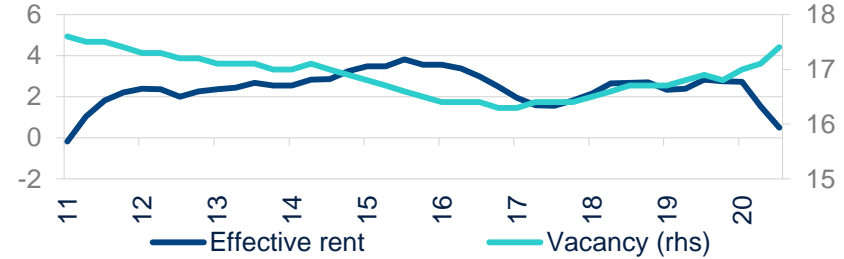
APARTMENTS

(%YOY AND %)



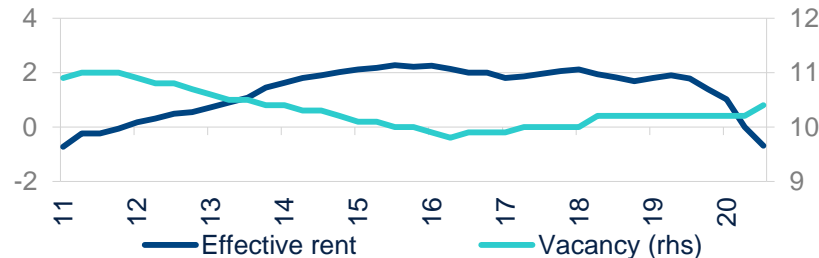
OFFICES

(%YOY AND %)



RETAIL

(%YOY AND %)



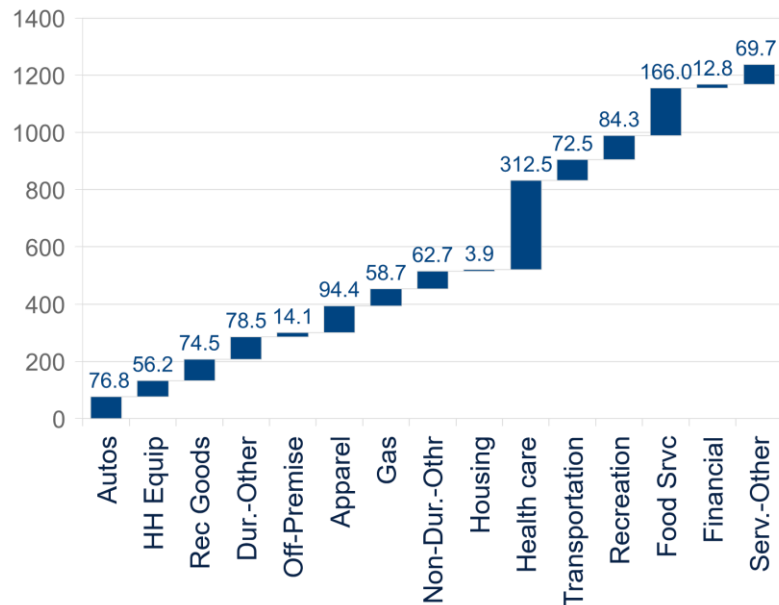
INDUSTRIAL, WAREHOUSES

(%YOY AND %)

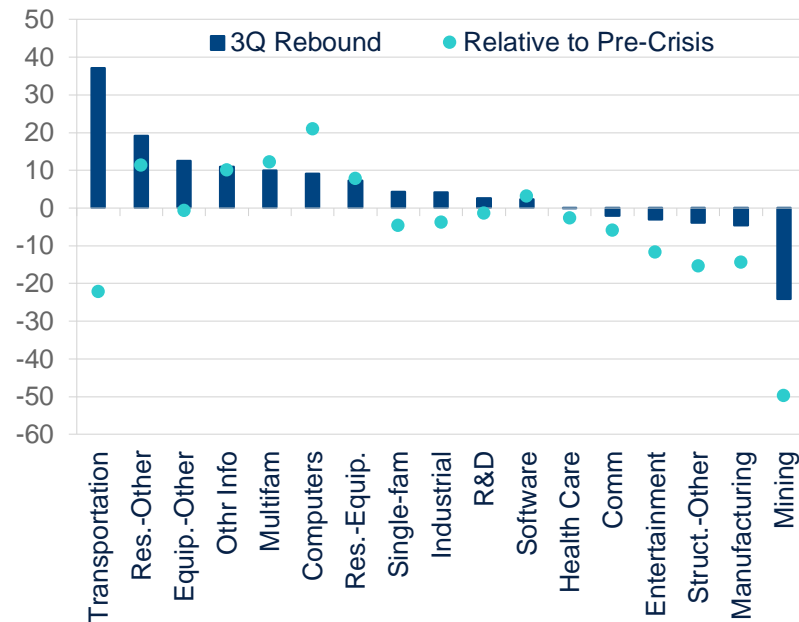


Consumption losing steam as pandemic delays recovery in services

REAL PERSONAL CONSUMPTION EXPENDITURES (US\$BN, CHANGE IN 3Q20)

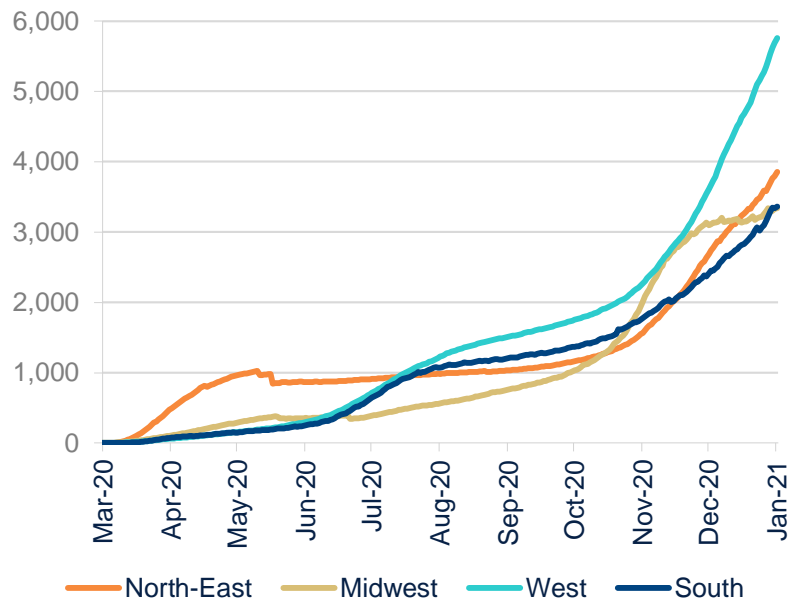


REAL PERSONAL CONSUMPTION EXPENDITURES (%)

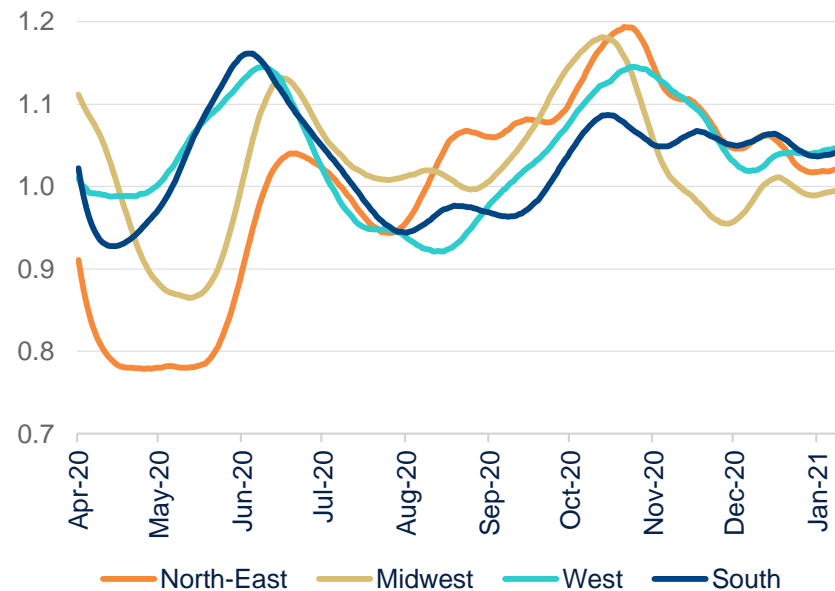


COVID cases and infection rates surge after holiday season

ACTIVE CASES PER 100,000 INDIVIDUALS

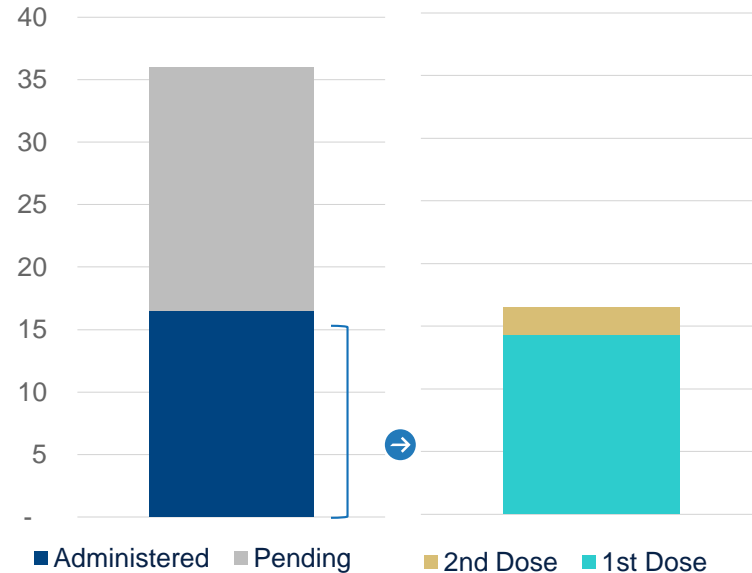


REGIONAL R_t (ESTIMATED ADDITIONAL INFECTIONS PER INFECTED PERSON)



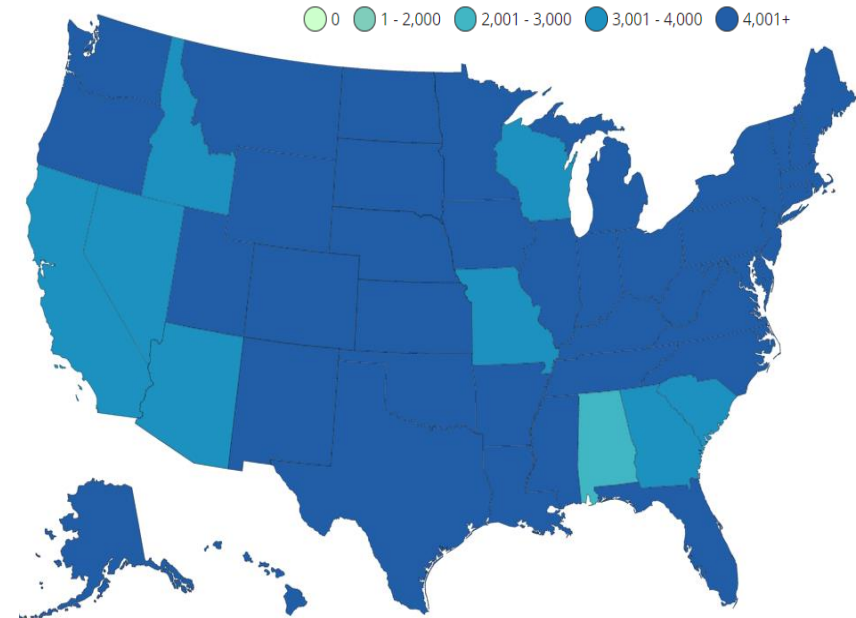
Slower-than-expected vaccine rollout and supply shortages

VACCINE DISTRIBUTION AND ADMINISTRATION (MILLIONS)



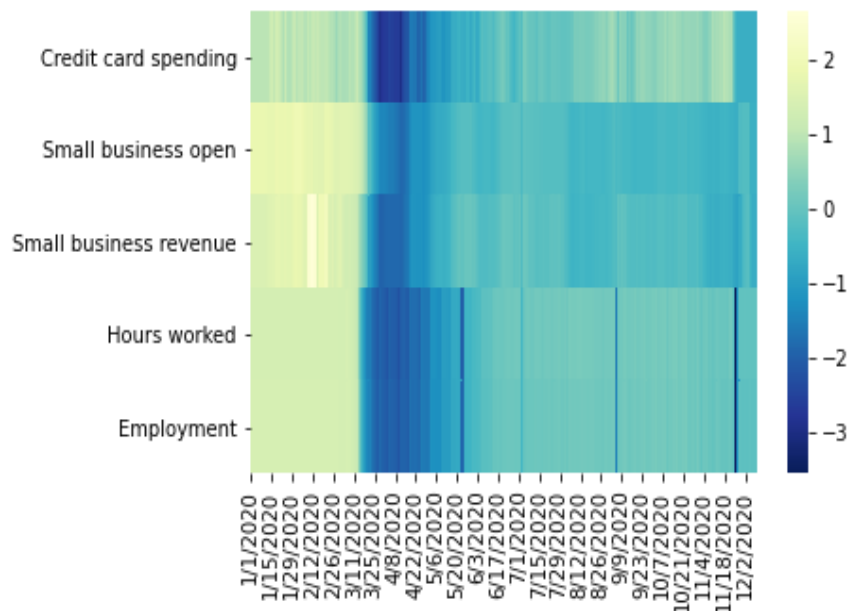
As reported on Jan 21, 2021
Source: BBVA Research & CDC.

TOTAL DOSES PER 100,000 PEOPLE

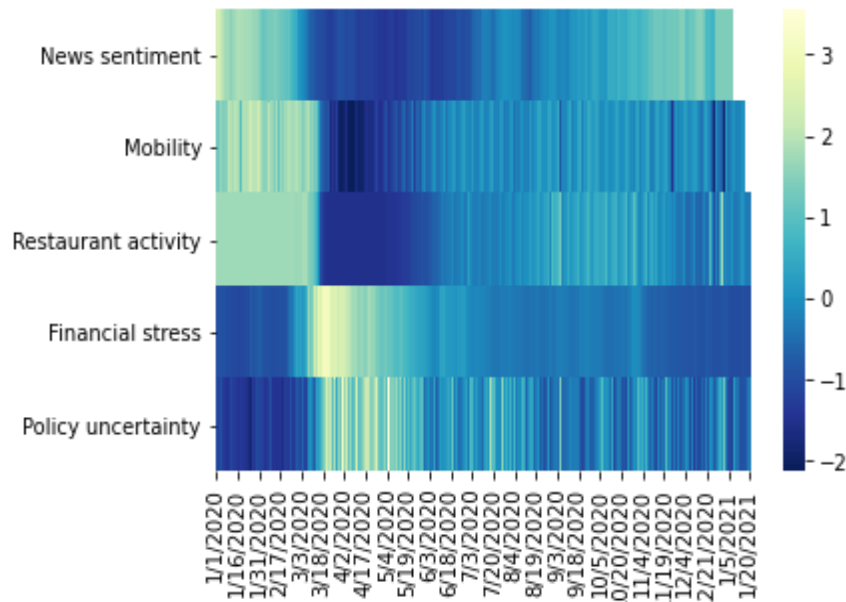


Increasing contagion a risk to sentiment and activity

HIGH FREQUENCY INDICATORS (STANDARDIZED)



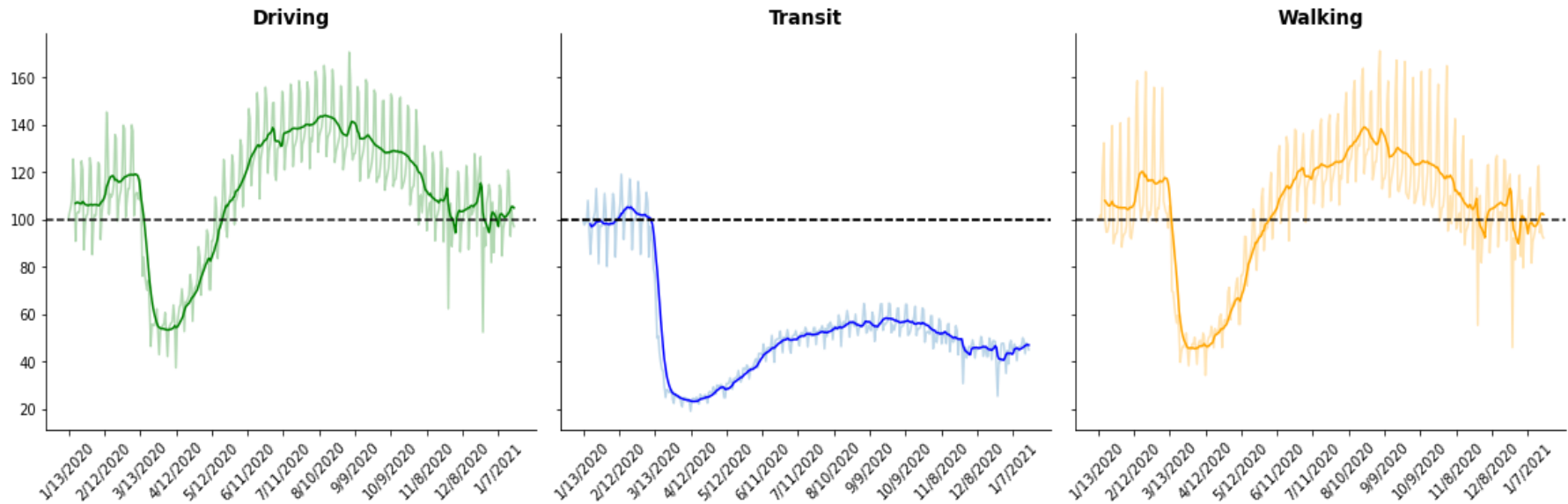
HIGH FREQUENCY INDICATORS (STANDARDIZED)



Transit still acutely impacted by risk perception and preferences

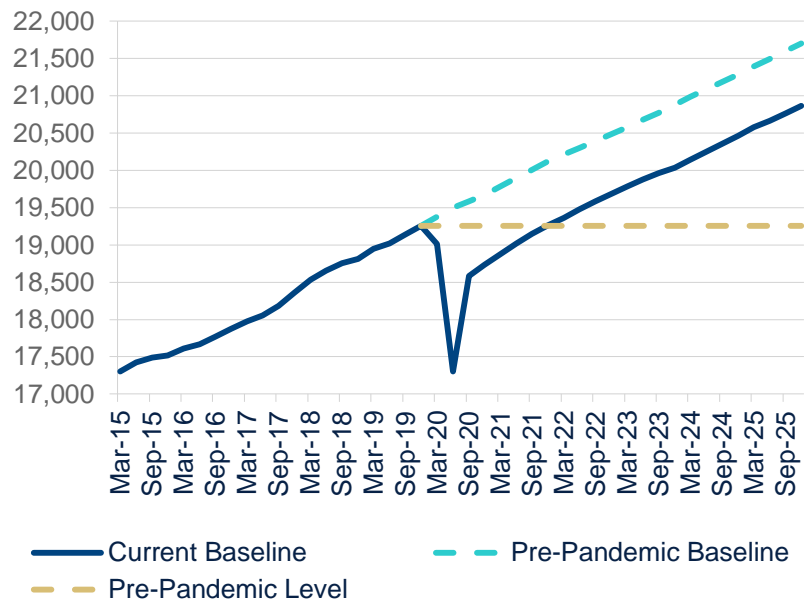
APPLE MOBILITY TRENDS

(1/13/2020 = 100, 7-DAY MOVING AVERAGE)

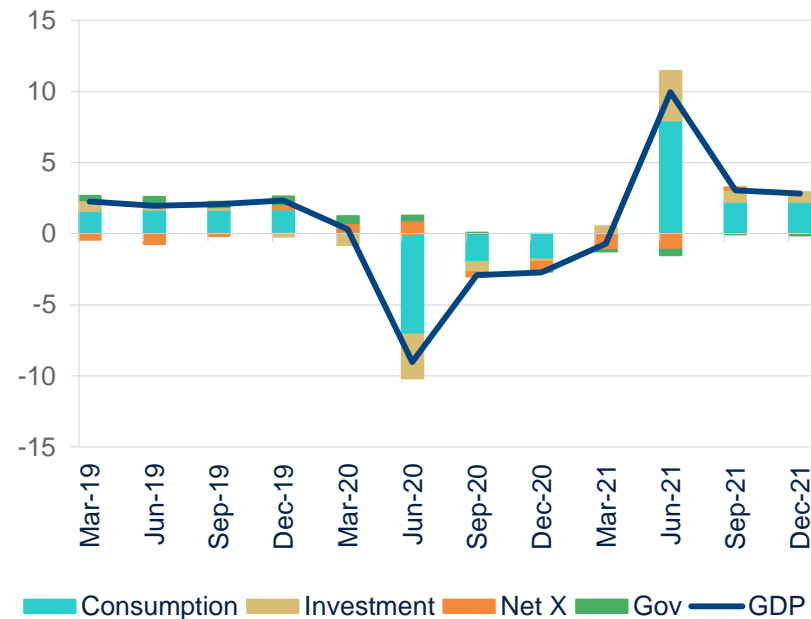


Structural headwinds point to long and uneven recovery process

REAL GDP
(US\$BN, 2012)



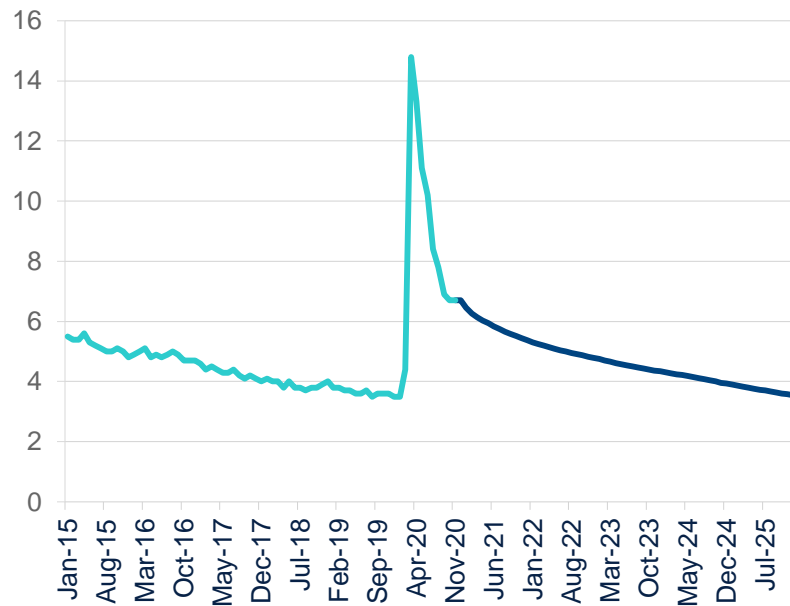
CONTRIBUTION TO REAL GDP GROWTH
(YEAR-OVER-YEAR, PP)



Need for additional stimulus with weaker labor market prospects

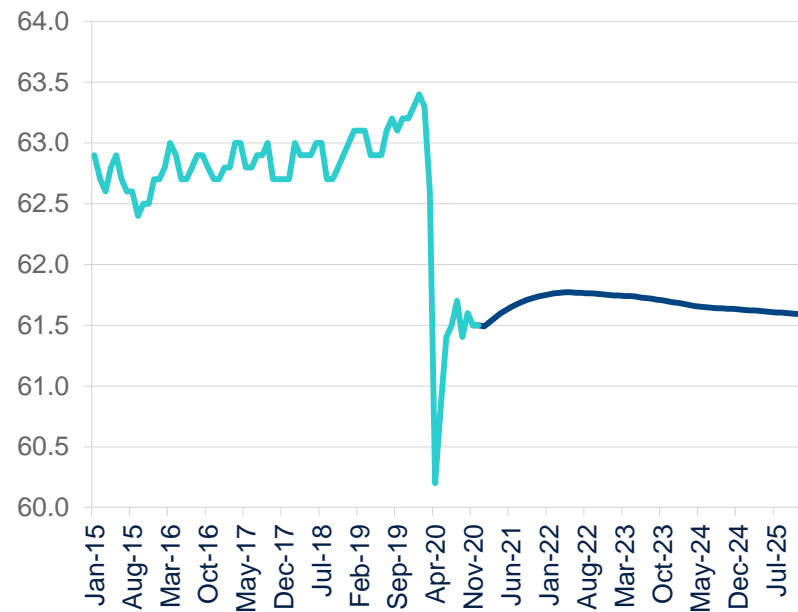
UNEMPLOYMENT RATE

(%)



LABOR FORCE PARTICIPATION

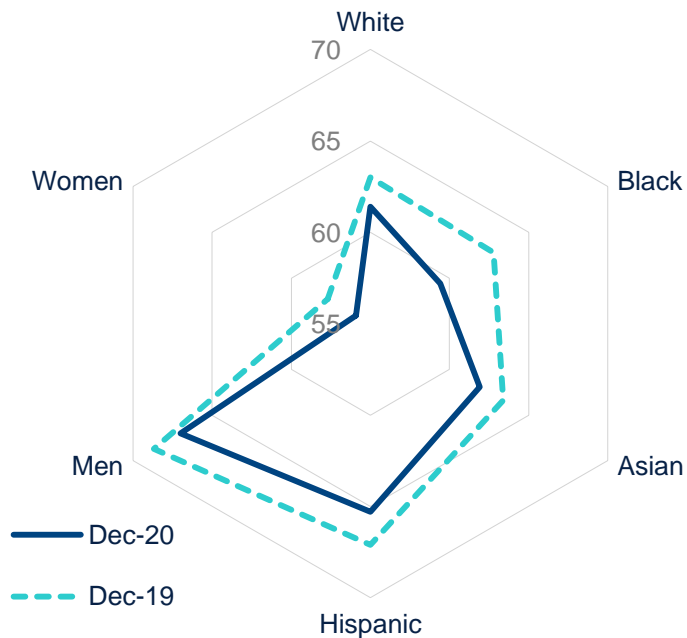
(%)



Risks of widening inequality from long-term pandemic scarring

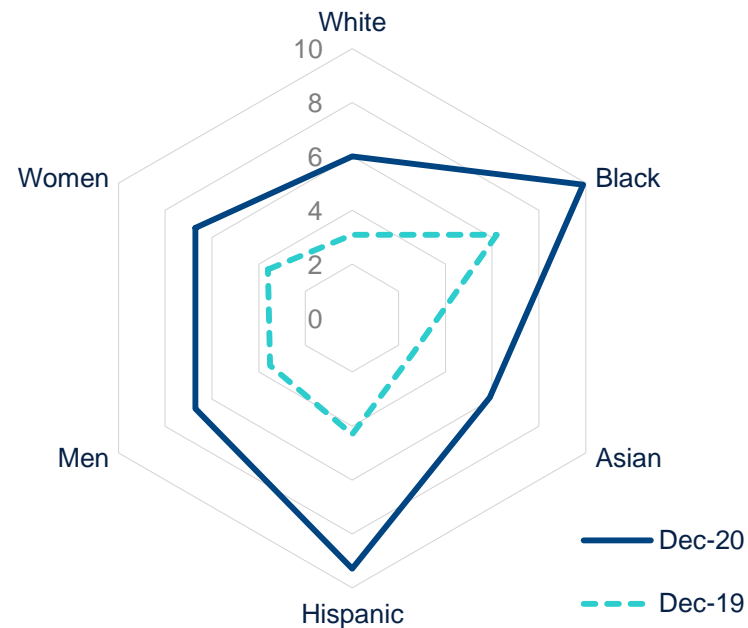
LABOR FORCE PARTICIPATION RATE

(DEC-2019 VS. DEC-2020)



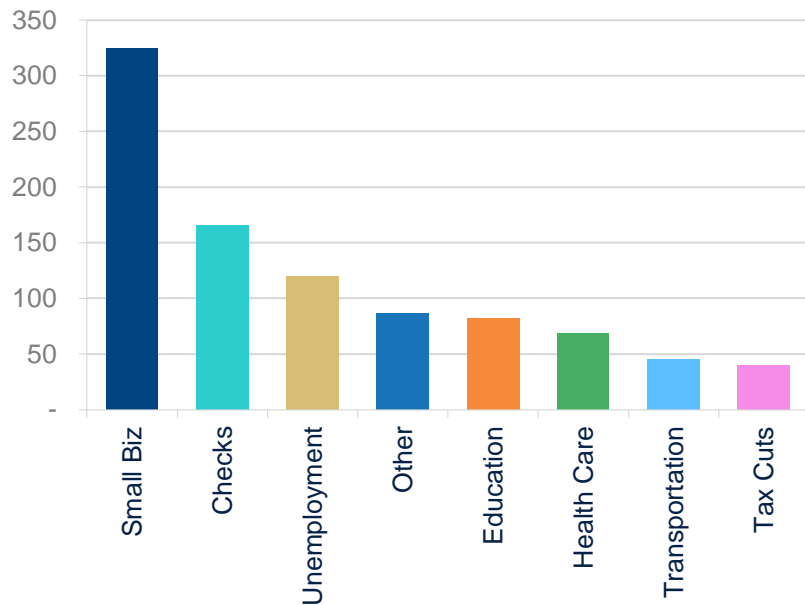
UNEMPLOYMENT RATE

(DEC-2019 VS. DEC-2020)

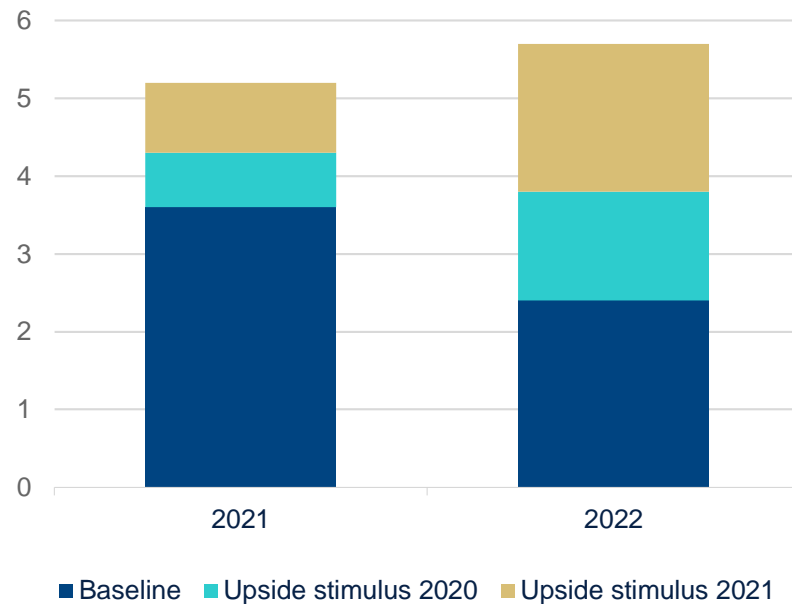


Fiscal stimulus creates a strong upside bias to the growth outlook

YEAR-END 2020 COVID RELIEF PACKAGE (US\$BN)



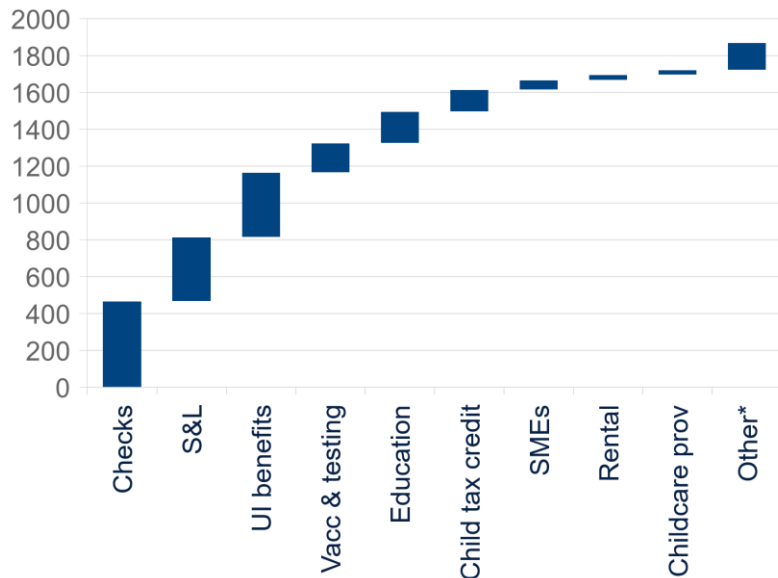
REAL GDP GROWTH: FISCAL STIMULUS IMPACT (%)



Biden proposes a new fiscal stimulus package

BIDEN'S AMERICAN RESCUE PLAN

(US\$BN)



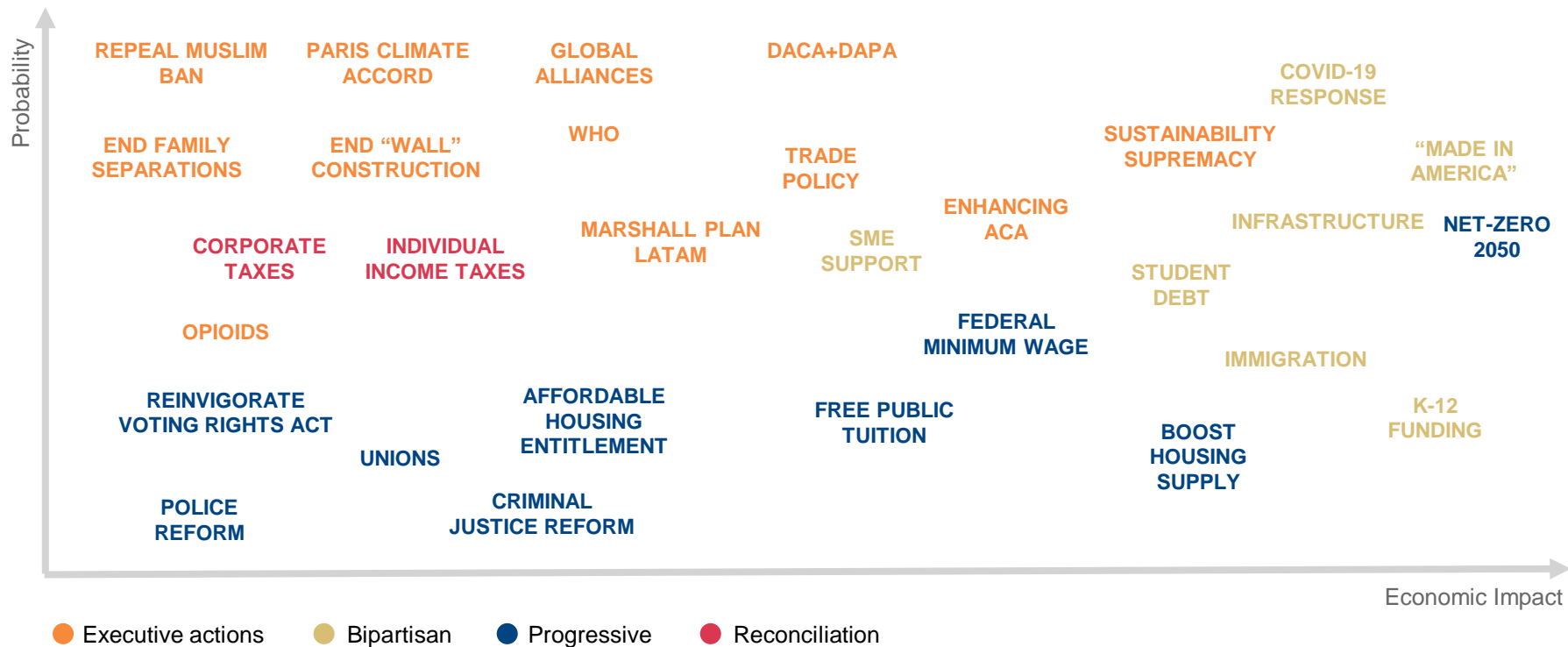
BIDEN'S AMERICAN RESCUE PLAN

- **Direct payments:** additional \$1,400 per person
- **Unemployment benefits:** additional \$400 per week
- **State & Local:** Flexible, Tribal & Transit
- **Covid-19:** Vaccination & Testing
- **Education:** K-12 & Higher Education
- **SMEs:** Grants & Loans
- **Federal minimum wage:** \$15/hr.
- **Taxes:** Expand Child, Earned Income and Dependent Care Tax Credits
- **Other:** Child Care, Paid Sick & Family Leave, Veterans & Mental Health, Substance Abuse, Homelessness, Low-Income Households Support and Cybersecurity

* PSFL, homelessness, low-income support, health coverage, Cybersecurity, childcare assistance.

Source: BBVA Research, TF, PF, Biden and WSJ.

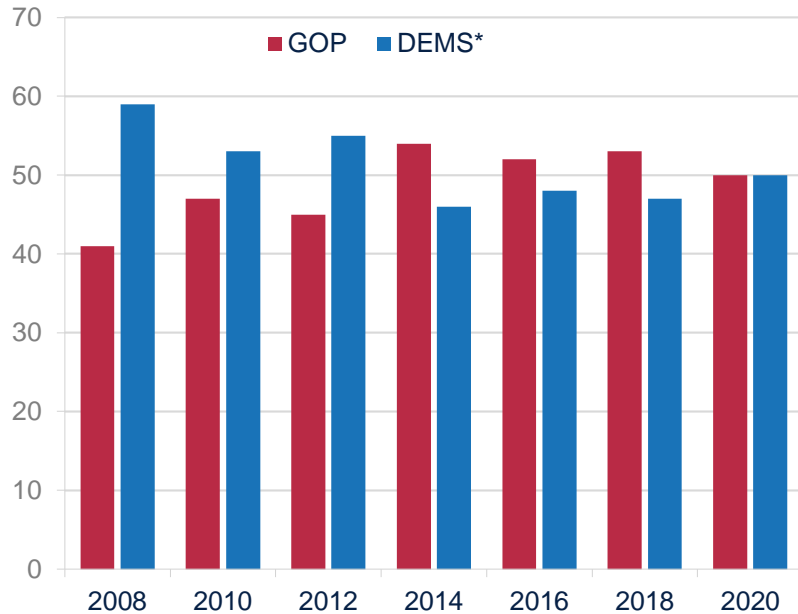
Biden's agenda: maximizing impact requires cooperation



Democrats may opt out for “nuclear option” to bypass filibuster

SENATE SEATS BY PARTY AFTER ELECTION

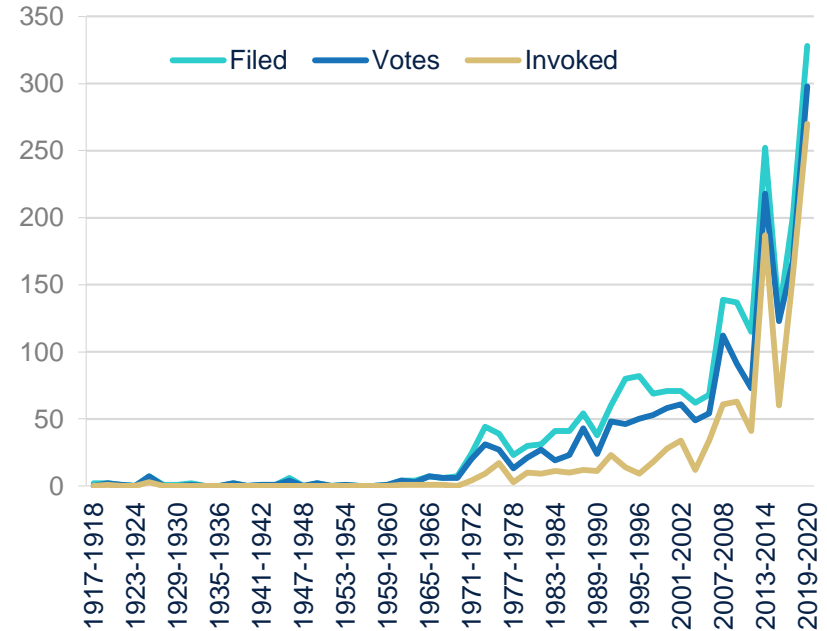
(%)



* Includes Independents.

Source: BBVA Research and US Senate.

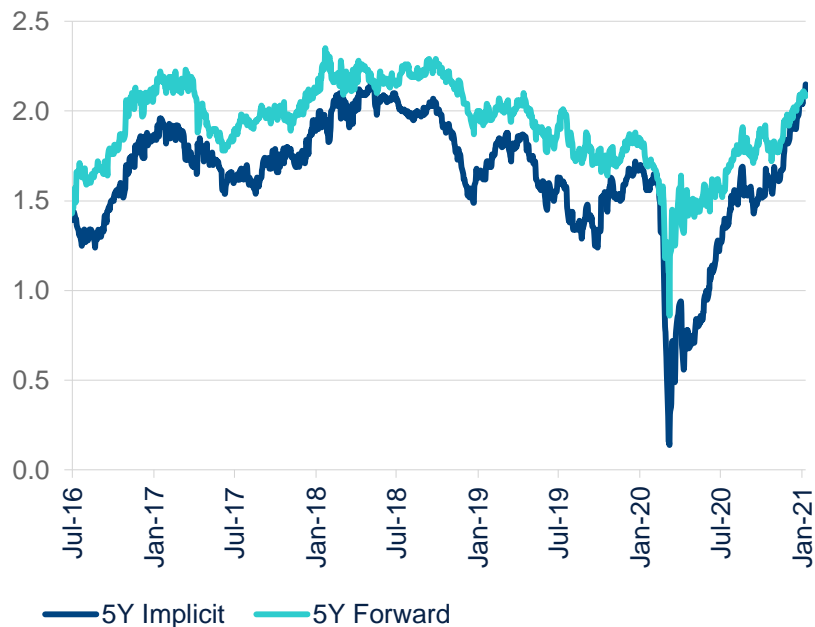
SENATE ACTIONS ON CLOTURE MOTIONS



Inflation measures rise with recovery and stimulus prospects

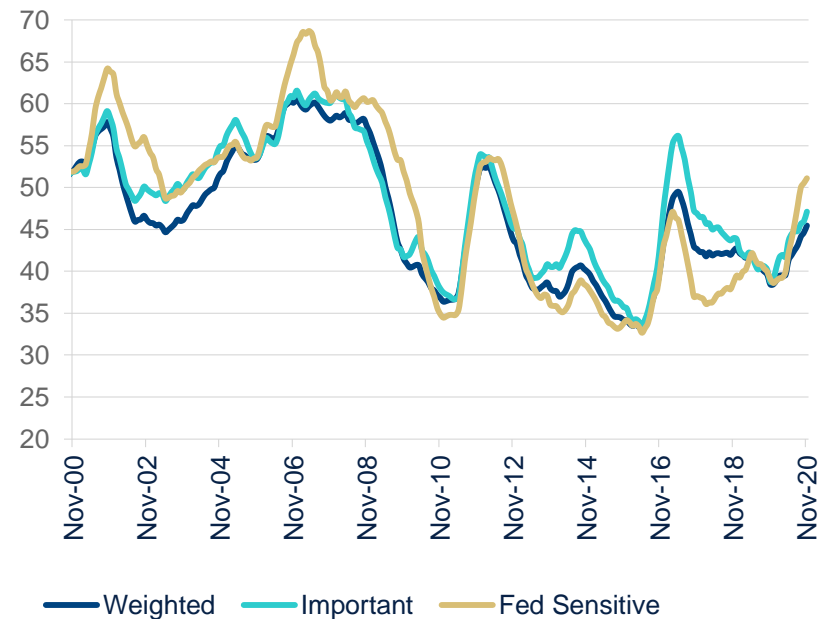
INFLATION EXPECTATIONS

(%)



HIGH INFLATION REGIME DIFFUSION INDEX

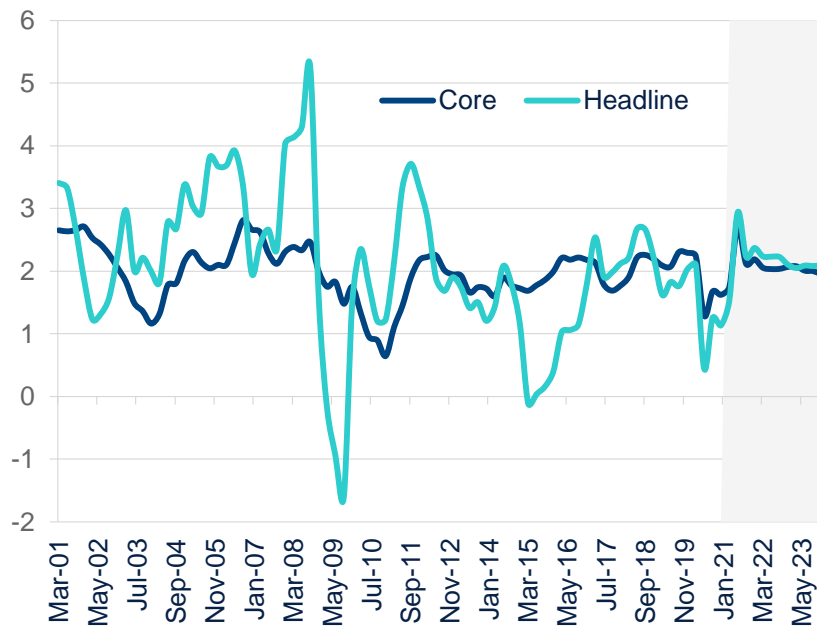
(+/- 50 RISK OF HIGH OR LOW INFLATION REGIME)



Inflation overshoot to give way to more modest price increases

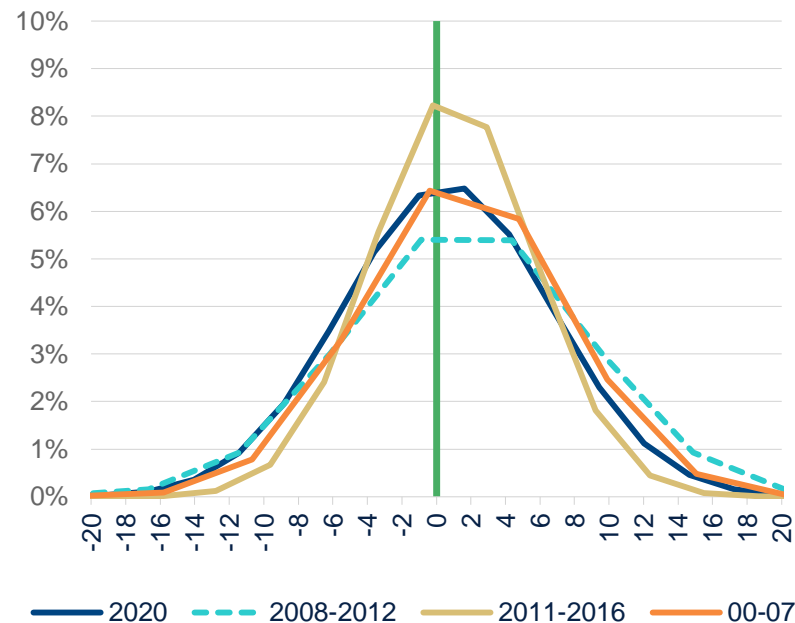
CONSUMER PRICE INDEX

(YEAR-OVER-YEAR %)



PCE PRICE DISTRIBUTION

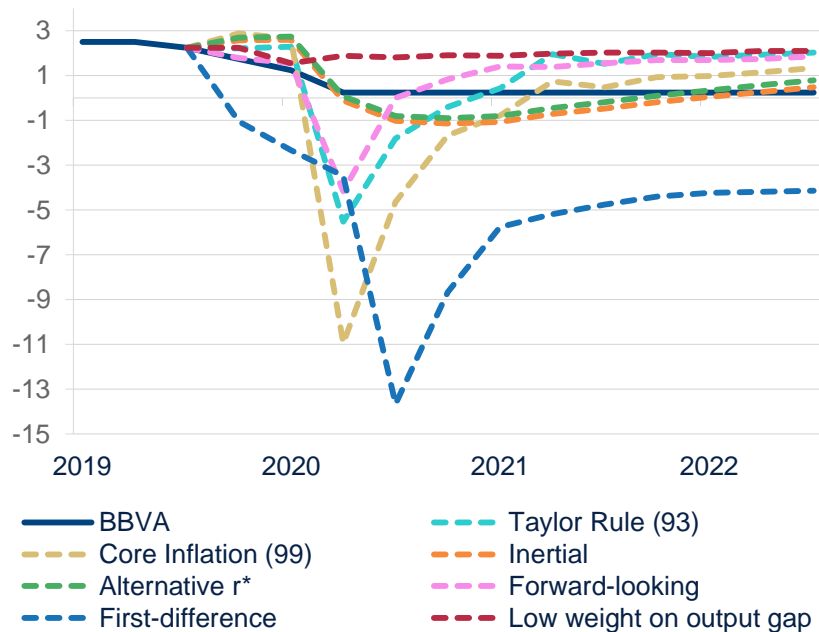
(PROBABILITY DENSITY, YEAR-OVER-YEAR)



Markets adjusting to Fed's updated strategy and forward guidance

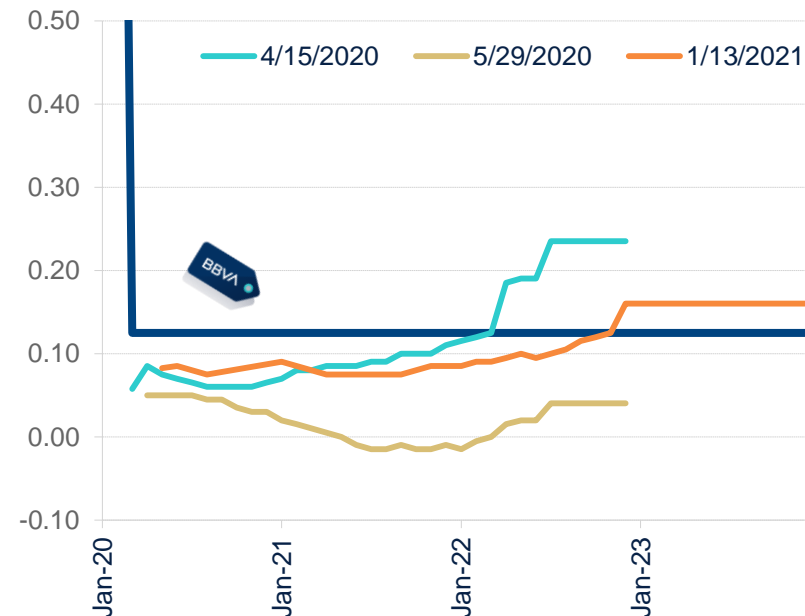
TAYLOR-RULE IMPLIED FEDERAL FUNDS RATES (%)

(%)



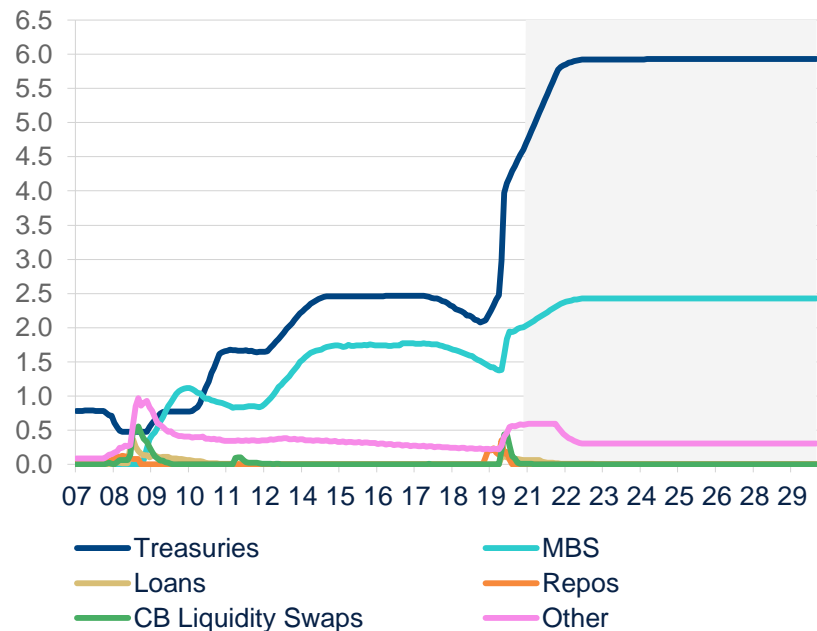
FED FUNDS FUTURES (%)

(%)

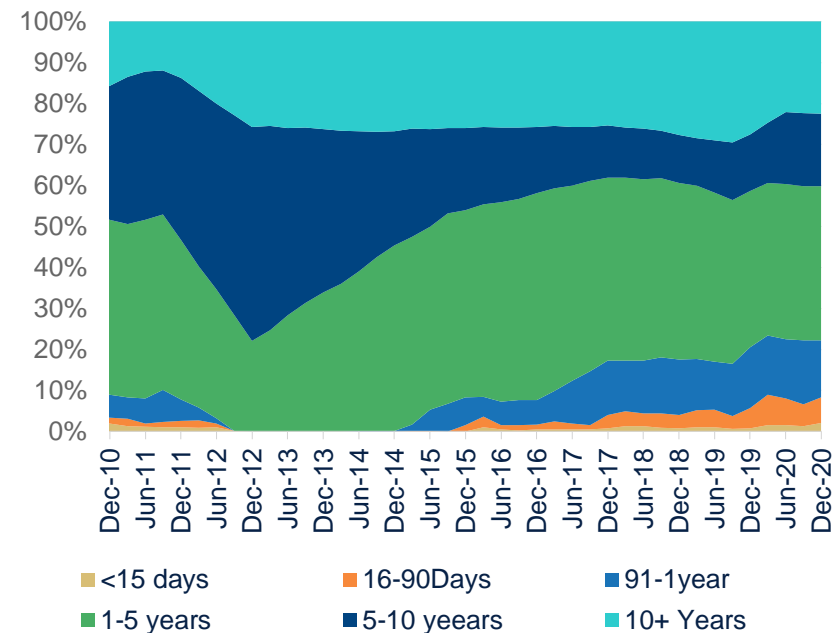


Fed's reaction function to incorporate balance sheet

FACTORS SUPPLYING RESERVE FUNDS (US\$TN)



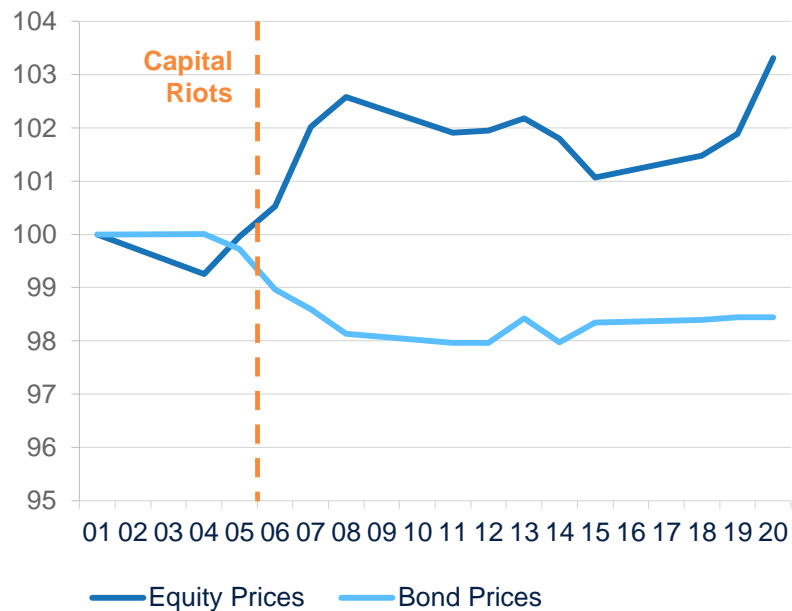
FEDERAL RESERVE TREASURY SECURITY HOLDINGS (%)



Political turmoil adds to upward pressures on long-term rates

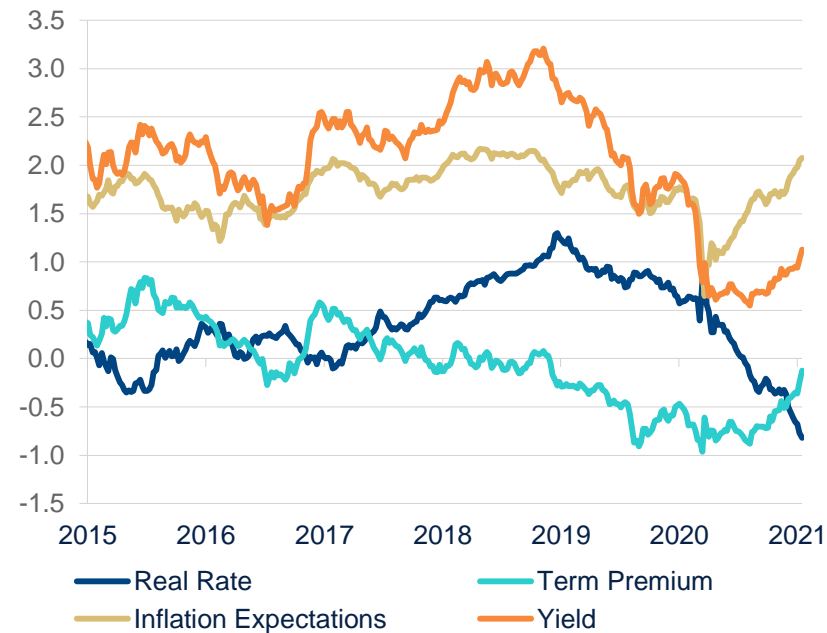
EQUITY PRICES & BOND PRICES

(JANUARY 01, 2021=100)



10-YR DECOMPOSITION

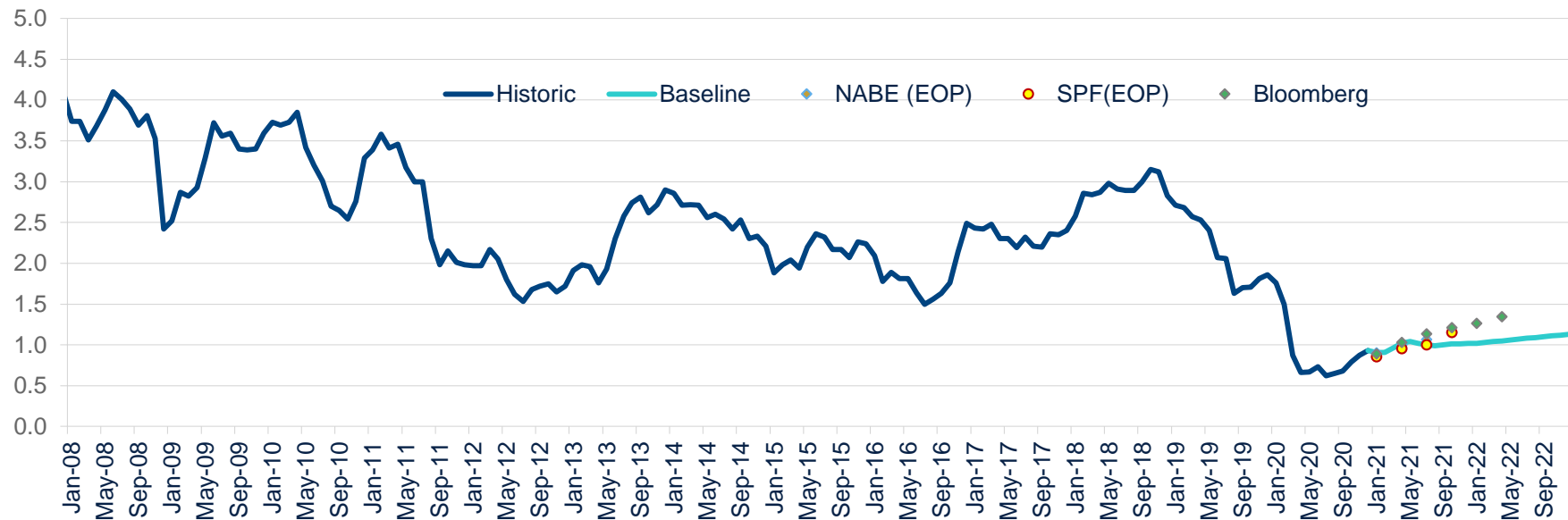
(%)



Fundamentals still suggest lower-for-longer will persist

10-YEAR YIELDS

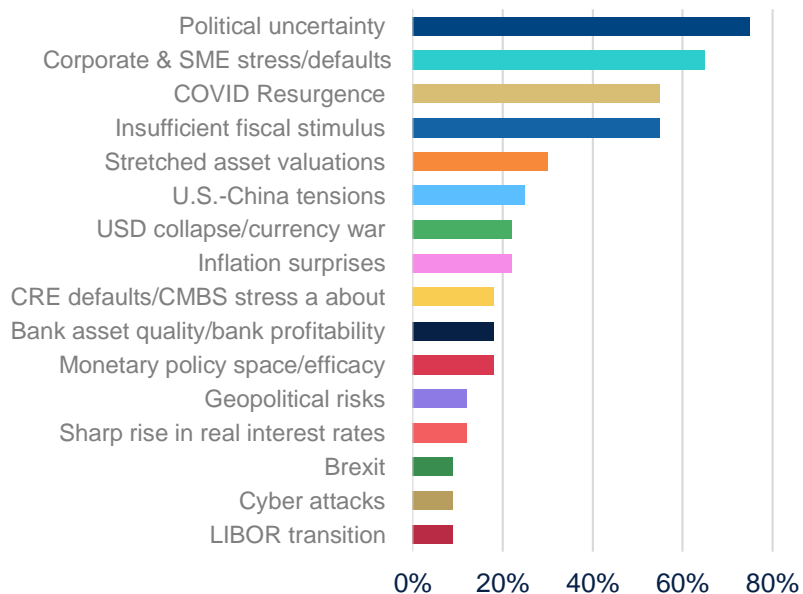
(%)



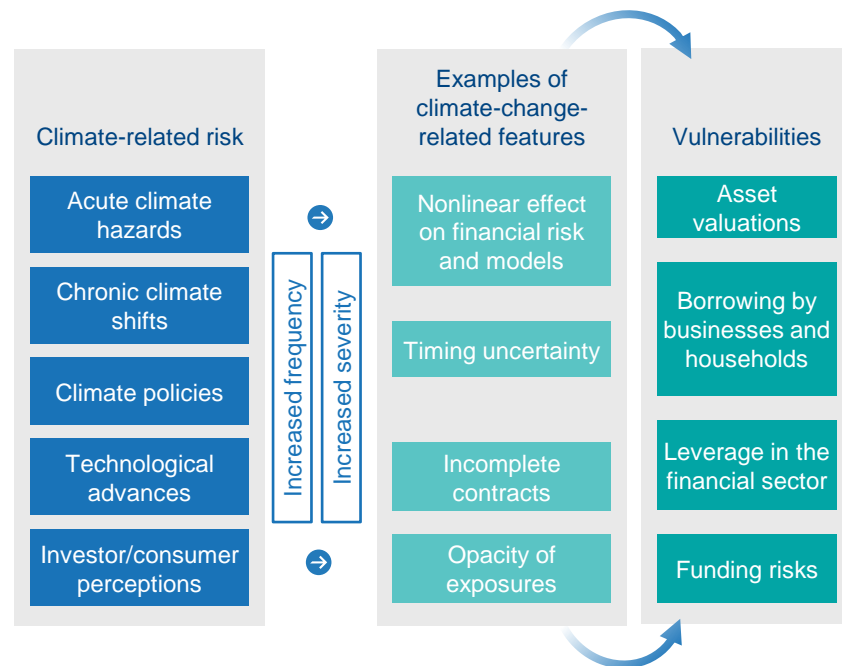
Downside risks reflecting both short- and long-term uncertainties

POTENTIAL SHOCKS OVER NEXT 12-18 MONTHS

(%)



POSSIBLE TRANSMISSION FROM CLIMATE-RELATED RISKS TO FINANCIAL SYSTEM



U.S. Macroeconomic Forecasts

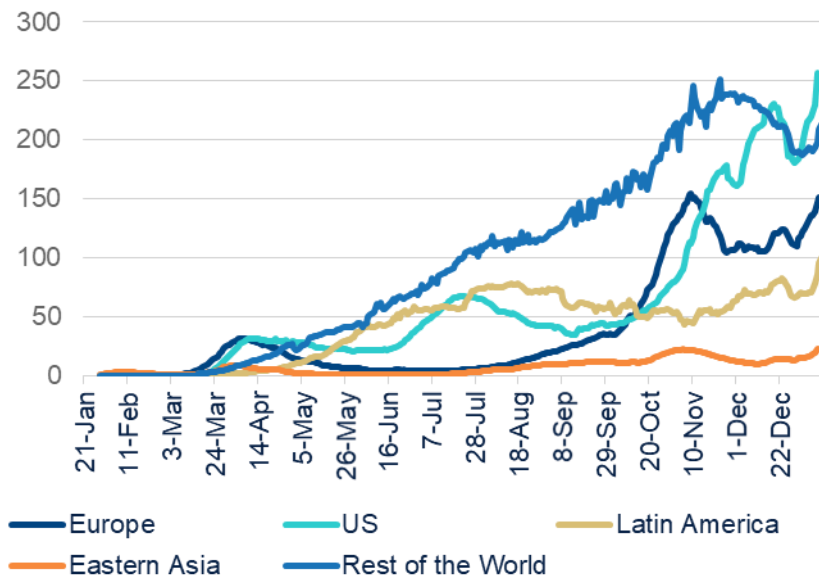
	2017	2018	2019	2020 (e)	2021 (f)	2022 (f)	2023 (f)
Real GDP (% SAAR)	2.3	3.0	2.2	-3.6	3.6	2.4	2.0
Real GDP (Contribution, pp)							
PCE	1.8	1.9	1.7	-2.7	3.0	1.8	1.4
Gross Investment	0.6	1.1	0.3	-1.2	1.3	0.7	0.7
Non Residential	0.5	1.0	0.4	-0.6	0.7	0.6	0.7
Residential	0.1	0.0	-0.1	0.1	0.2	0.1	0.1
Exports	0.5	0.4	0.0	-1.8	0.4	0.4	0.5
Imports	-0.8	-0.7	-0.2	2.0	-0.9	-0.5	-0.7
Government	0.2	0.3	0.4	0.2	-0.1	0.0	0.0
Unemployment Rate (% , average)	4.3	3.9	3.7	8.1	5.8	5.0	4.5
Avg. Monthly Nonfarm Payroll (K)	176	193	178	-781	280	151	118
CPI (YoY %)	2.1	2.4	1.8	1.3	2.3	2.2	2.1
Core CPI (YoY %)	1.8	2.1	2.2	1.7	2.2	2.1	2.0
Fiscal Balance (% GDP, FY)	-3.4	-3.8	-4.6	-14.9	-10.0	-6.1	-4.9
Current Account (bop, % GDP)	-1.9	-2.2	-2.2	-3.0	-2.8	-2.7	-2.8
Fed Target Rate (% , eop)	1.50	2.50	1.8	0.3	0.25	0.25	0.25
Core Logic National HPI (YoY %)	5.8	5.7	3.7	5.5	7.1	5.8	4.7
10-Yr Treasury (% Yield, eop)	2.40	2.83	1.9	0.9	1.02	1.13	1.27
West Texas Intermediate Oil Prices (dcb, average)	50.9	64.8	57.0	39.3	51.5	56.0	57.4

Global Economic Outlook 1Q21

Infections have surged around the world

DAILY CASES OF COVID-19 (*)

(THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)

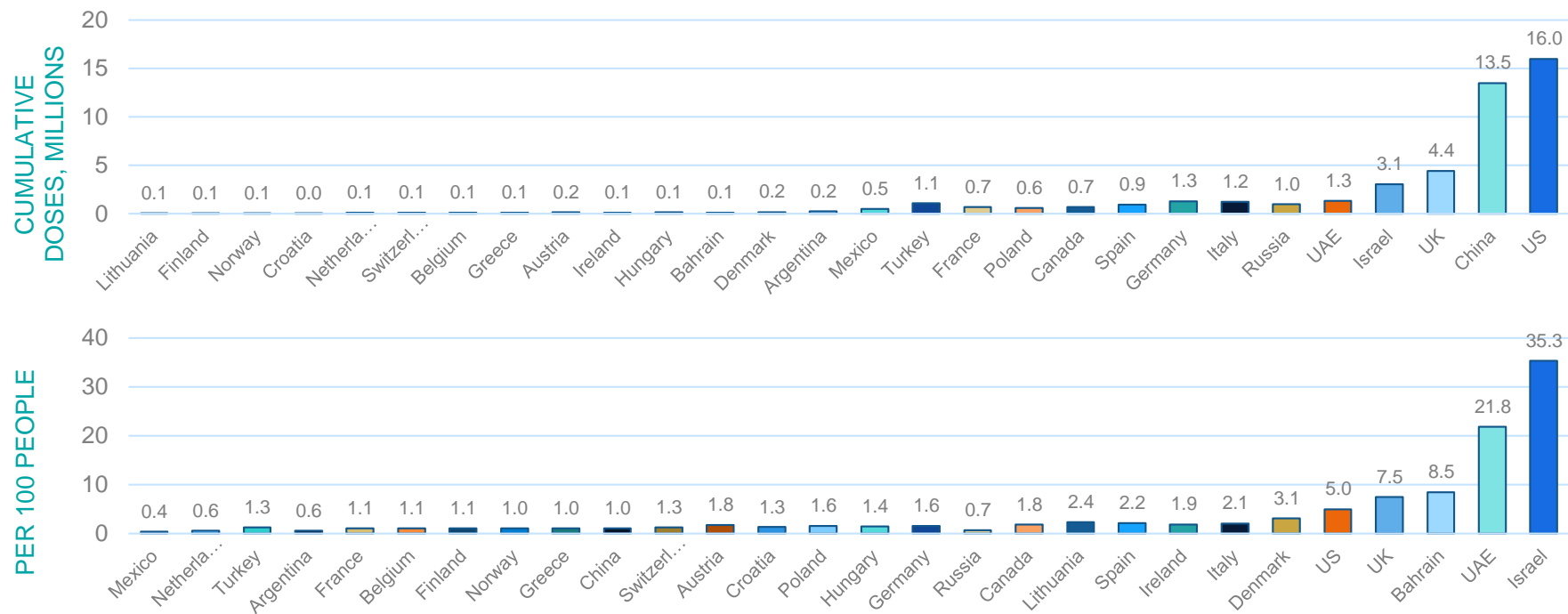


- In the **US**, **Europe** and **Latam** contagions have increased once again.
- **Eastern Asia** is experiencing outbreaks, but the situation remains under control.
- **Rising uncertainty** on the evolution of the pandemic due to **the new strains** of the virus.
- **Mobility** has decreased again, particularly in Europe, but less than in the first wave.

(*): 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 John Hopkins University.

Mixed success in securing vaccine supplies and rollout

COVID-19 VACCINATION



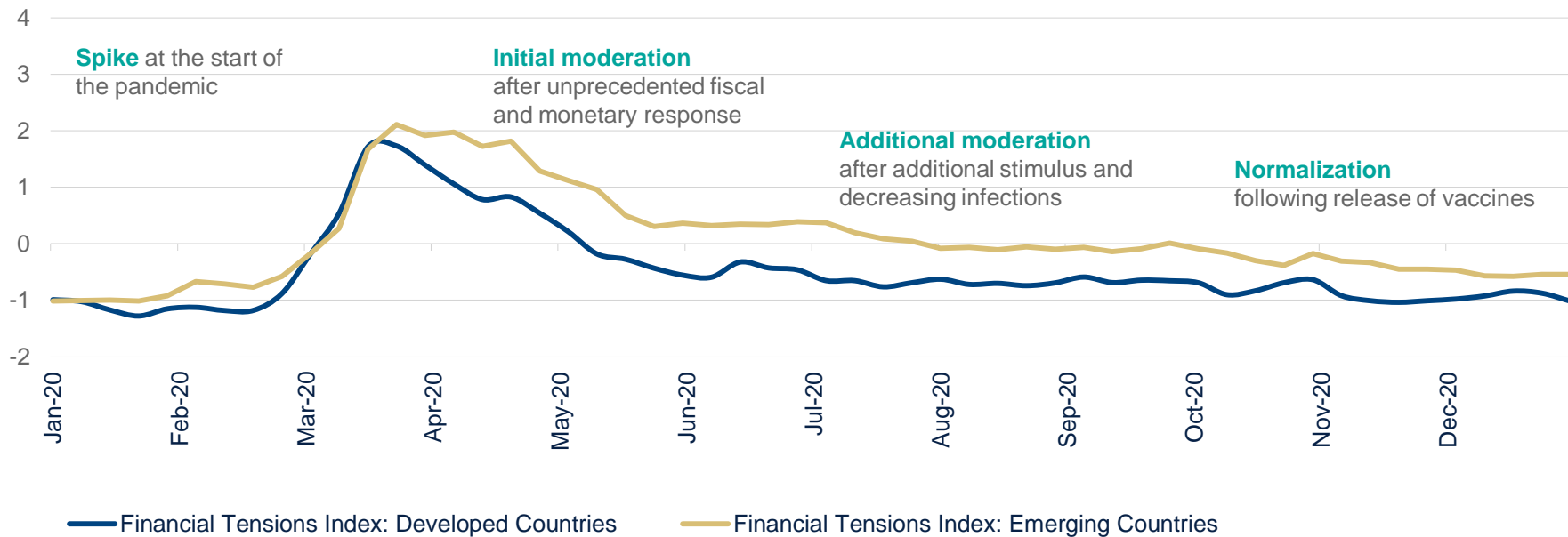
Last update Jan 21, 2021

Source: BBVA Research & Government Sources.

Financial tensions have converged to pre-crisis levels

FINANCIAL TENSIONS

(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



Economic growth expected to bounce back in 2H21 onwards

