

U.S. Economic Outlook

1Q21

January 2021

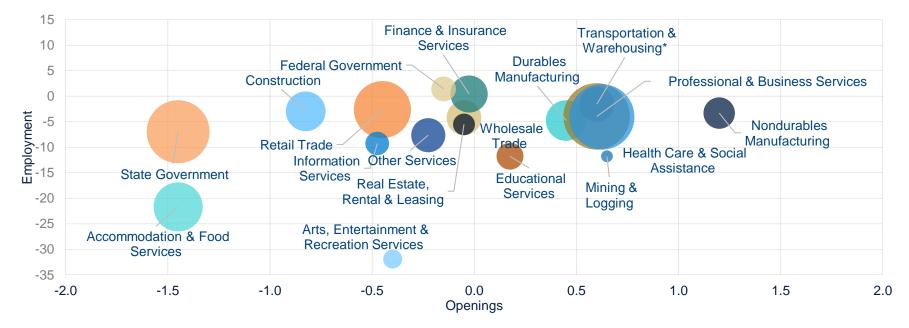
Creating Opportunities

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

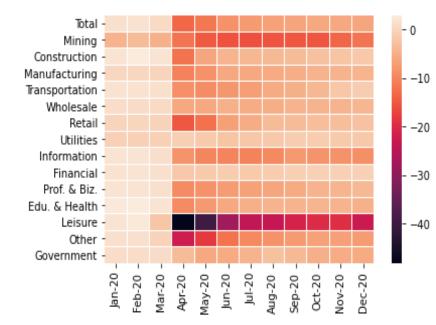
EMPLOYMENT RELATIVE TO PRE-PANDEMIC & JOB OPENINGS RELATIVE TO SUMMER REOPENING PEAK* (%)



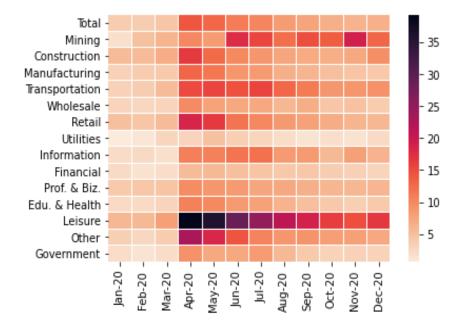
*Weights=Share of Employment. Source: BBVA Research, BLS & Haver Analytics.

Mining and Leisure & Hospitality struggle harder to recover

NONFARM PAYROLL (YOY % CHANGE)

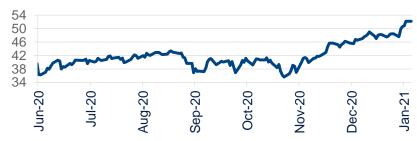


UNEMPLOYMENT RATE (%)

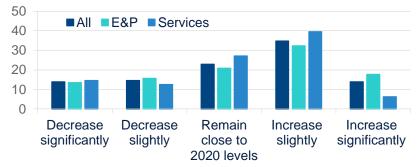


Higher oil prices supporting O&G industry

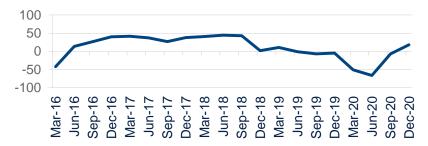
WTI (\$ PER BARREL)



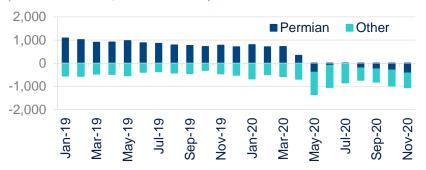
WHAT ARE YOUR EXPECTATIONS FOR YOUR FIRM'S CAPITAL SPENDING IN 2021 VS. 2020? (% REPORTING)



DALLAS FED ENERGY SURVEY'S ACTIVITY INDEX

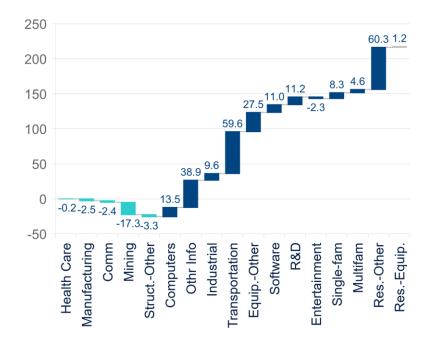


U.S. SHALE PRODUCTION (THOUSAND B/D, YOY CHANGE)

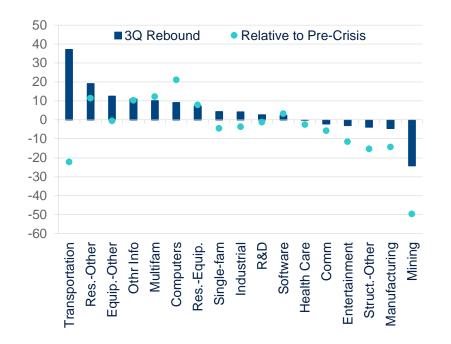


Heterogeneous investment recovery

REAL FIXED INVESTENT (US\$BN, CHANGE IN 3Q20)



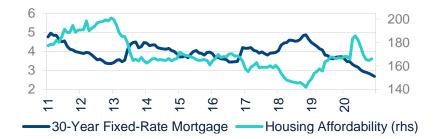
REAL FIXED INVESTENT (%)



Residential real estate supported by low interest rates and limited supply



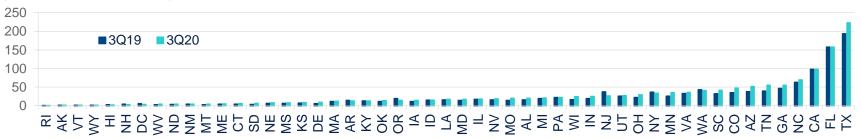
INTEREST RATES AND AFFORDABILITY (% AND INDEX)



NEW RESIDENTIAL HOUSING STARTS (THOUSAND UNITS, SAAR)

SUPPLY AND PRICES

(UNITS, SA AND %YOY)



Pandemic exacerbating underlying CRE trends



RETAIL (%YOY AND %)

APARTMENTS

(%YOY AND %)



OFFICES (%YOY AND %)

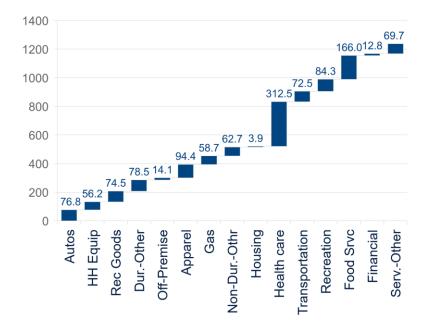


INDUSTRIAL, WAREHOUSES (%YOY AND %)

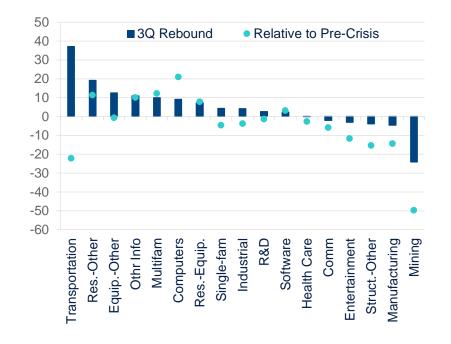


Consumption losing steam as pandemic delays recovery in services

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



REAL PERSONAL CONSUMPTION EXPENDITURES (%)

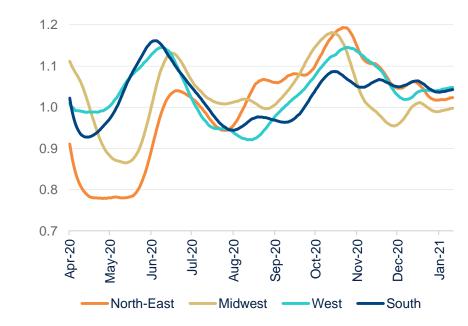


COVID cases and infection rates surge after holiday season

ACTIVE CASES PER 100,000 INDIVIDUALS



REGIONAL R_t (ESTIMATED ADDITIONAL INFECTIONS PER INFECTED PERSON)



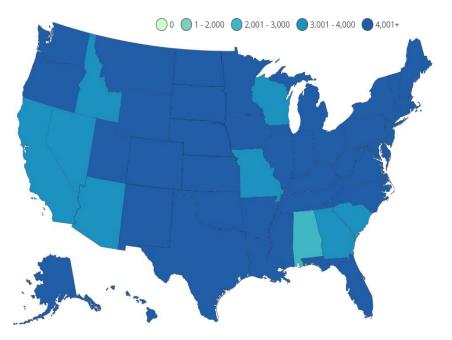
Source: BBVA Research, The COVID Tracking Project & Johns Hopkins University.

Slower-than-expected vaccine rollout and supply shortages

VACCINE DISTRIBUTION AND ADMINISTRATION (MILLIONS)

40 35 30 25 20 15 10 Ð 5 ■ Administered ■ Pending 2nd Dose 1st Dose

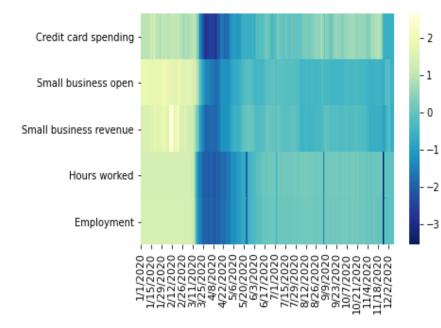
TOTAL DOSES PER 100,000 PEOPLE



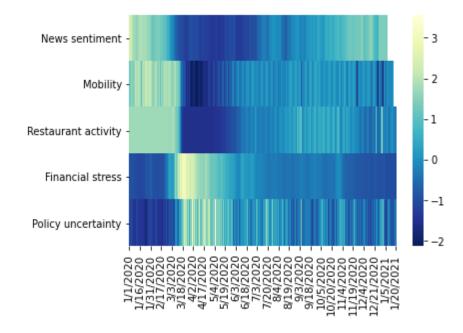
As reported on Jan 21, 2021 Source: BBVA Research & CDC.

Increasing contagion a risk to sentiment and activity

HIGH FREQUENCY INDICATORS (STANDARDIZED)



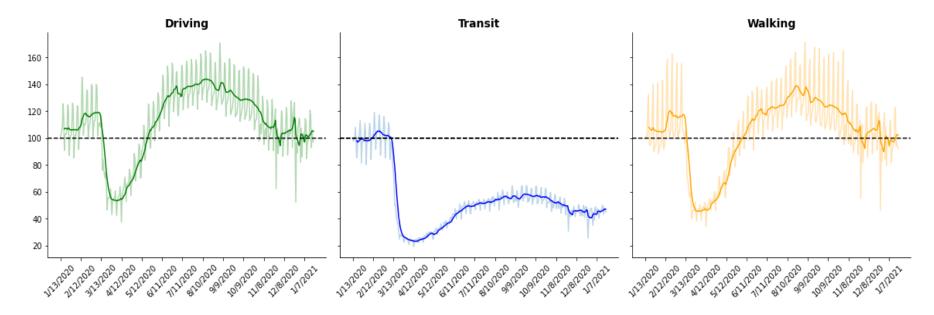
HIGH FREQUENCY INDICATORS (STANDARDIZED)



Transit still acutely impacted by risk perception and preferences

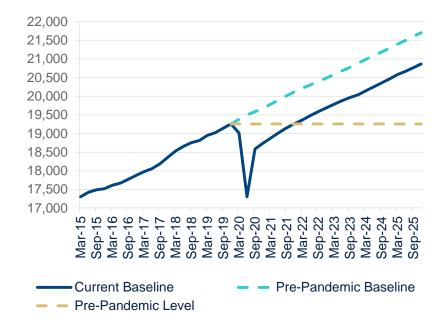
APPLE MOBILITY TRENDS

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

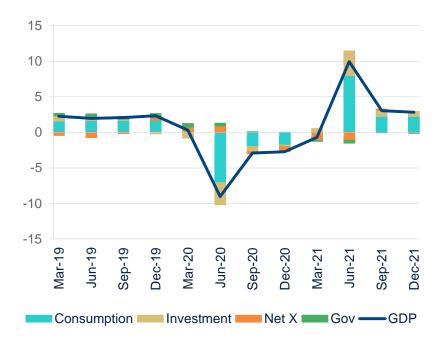


Structural headwinds point to long and uneven recovery process

REAL GDP (US\$BN, 2012)



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

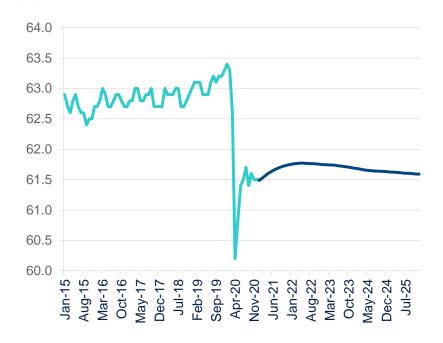


Source: BBVA Research.

Need for additional stimulus with weaker labor market prospects

16 14 12 10 8 6 4 2 0 Mar-16 Aug-15 Sep-19 Nov-20 Aug-22 Mar-23 Jan-15 Oct-16 Jul-18 Apr-20 Dec-17 Feb-19 Jan-22 Oct-23 May-24 Dec-24 Jul-25 May-17 Jun-21

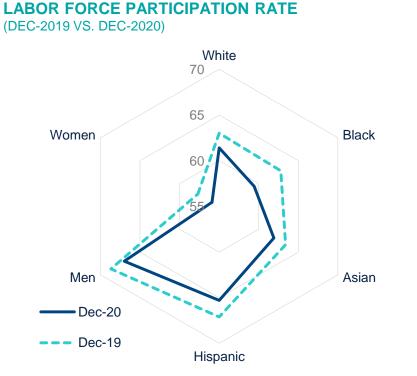
LABOR FORCE PARTICIPATION (%)



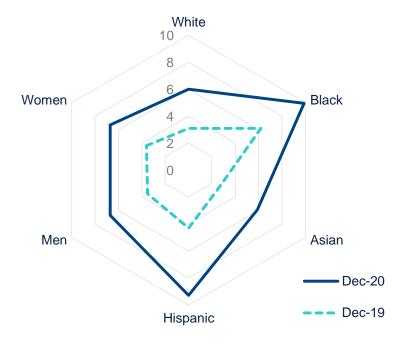
UNEMPLOYMENT RATE

(%)

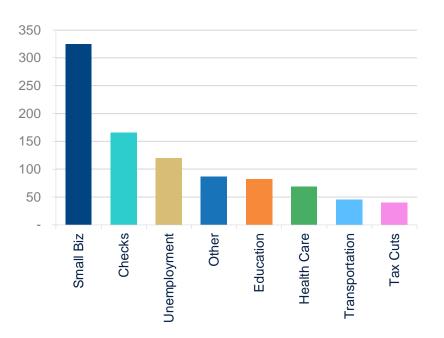
Risks of widening inequality from long-term pandemic scarring



UNEMPLOYMENT RATE (DEC-2019 VS. DEC-2020)

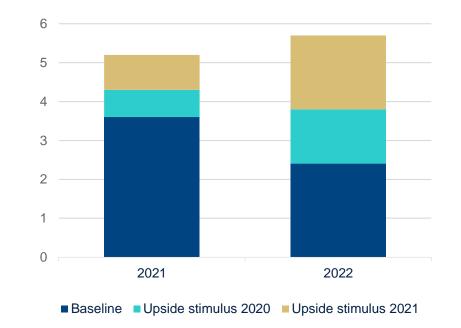


Fiscal stimulus creates a strong upside bias to the growth outlook



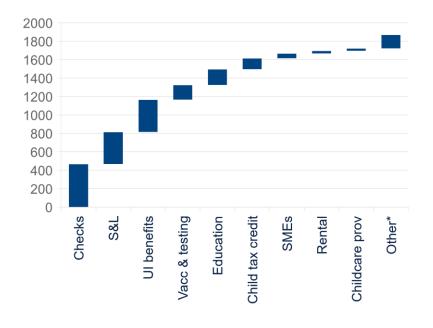
YEAR-END 2020 COVID RELIEF PACKAGE (US\$BN)

REAL GDP GROWTH: FISCAL STIMULUS IMPACT (%)



Biden proposes a new fiscal stimulus package

BIDEN'S AMERICAN RESCUE PLAN (US\$BN)

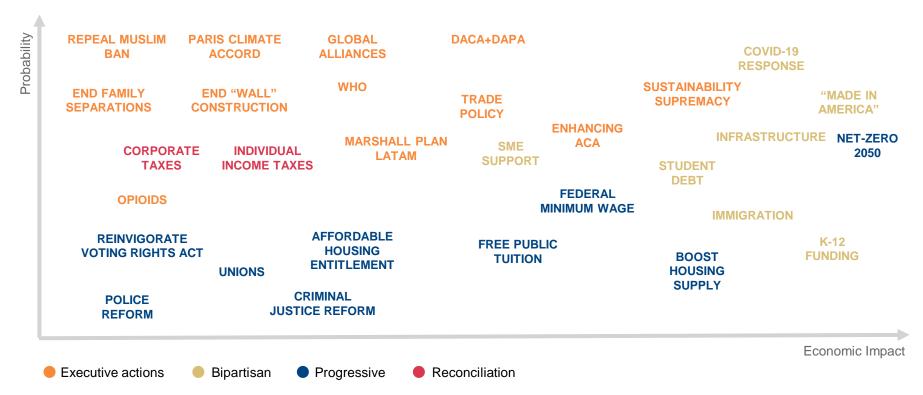


* PSFL, homelessness, low-income support, health coverage, Cybersecurity, childcare assistance. Source: BBVA Research, TF, PF, Biden and WSJ.

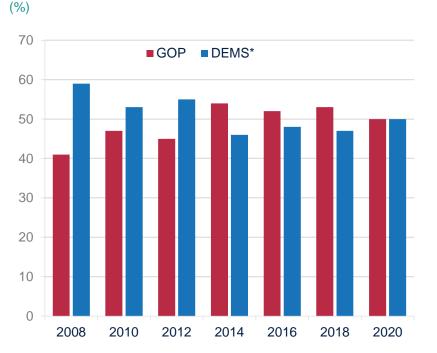
BIDEN'S AMERICAN RESCUE PLAN

- 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

Biden's agenda: maximizing impact requires cooperation

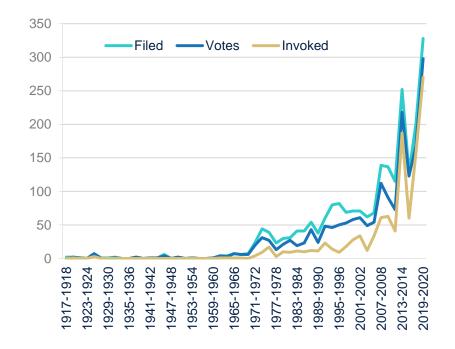


Democrats may opt out for "nuclear option" to bypass filibuster



SENATE SEATS BY PARTY AFTER ELECTION

SENATE ACTIONS ON CLOTURE MOTIONS

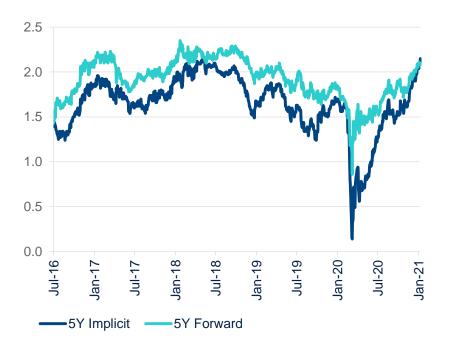


* Includes Independents.

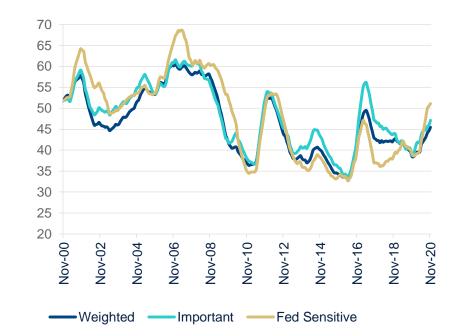
Source: BBVA Research and US Senate.

Inflation measures rise with recovery and stimulus prospects

INFLATION EXPECTATIONS (%)



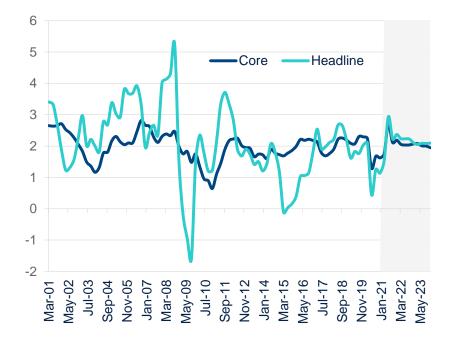
HIGH INFLATION REGIME DIFFUSION INDEX (+/- 50 RISK OF HIGH OR LOW INFLATION REGIME)



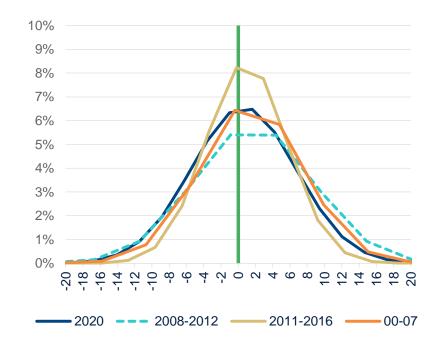
Source: BBVA Research & Haver Analytics.

Inflation overshoot to give way to more modest price increases

CONSUMER PRICE INDEX (YEAR-OVER-YEAR %)

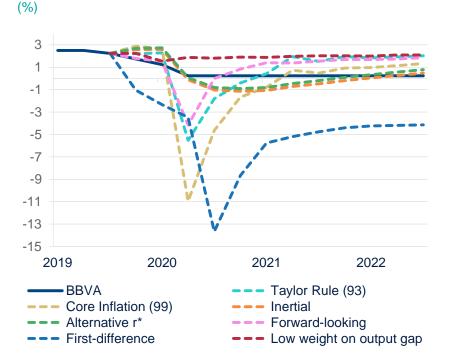


PCE PRICE DISTRIBUTION (PROBABILITY DENSITY, YEAR-OVER-YEAR)



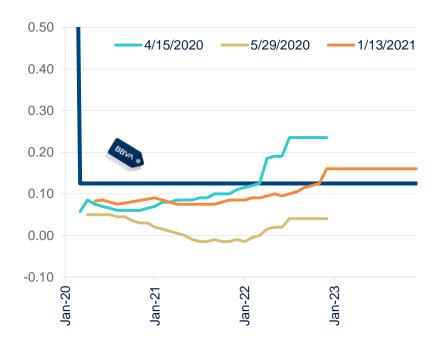
Source: BBVA Research & Haver Analytics.

Markets adjusting to Fed's updated strategy and forward guidance



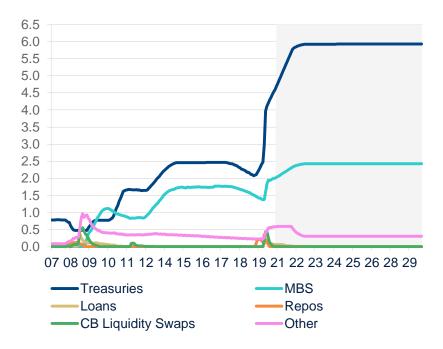
TAYLOR-RULE IMPLIED FEDERAL FUNDS RATES

FED FUNDS FUTURES (%)

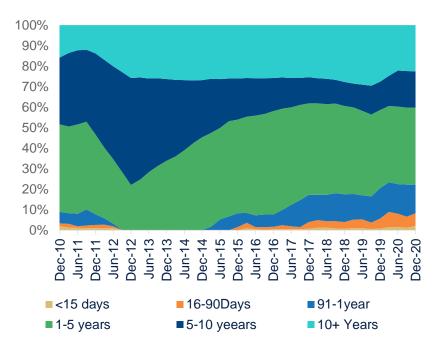


Fed's reaction function to incorporate balance sheet

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 (%)

Inflation Expectations

3.5 3.0 2.5 2.0 1.5 1.0 0.5 0.0 -0.5 -1.0 -1.5 2015 2016 2017 2018 2019 2020 2021 Real Rate Term Premium

-Yield

Fundamentals still suggest lower-for-longer will persist

(%) 5.0 4.5 Historic Baseline NABE (EOP) SPF(EOP) Bloomberg 4.0 3.5 3.0 2.5 2.0 1.5 1.0 0.5 0.0 May-08 Sep-08 Jan-08 May-09 Sep-15 May-16 Sep-18 May-19 Sep-19 May-20 Jan-09 Sep-09 Jan-10 May-10 Sep-10 Sep-12 Jan-13 Sep-13 May-14 May-15 Jan-16 Sep-16 May-18 Jan-19 Jan-20 Sep-20 Sep-22 Jan-12 May-12 Jan-14 Sep-14 Jan-15 Jan-18 Jan-21 May-22 May-21 Sep-21 Jan-22 Jan-1 Sep-1 Jan-1 May-1 May-1 May-1 Sep-1

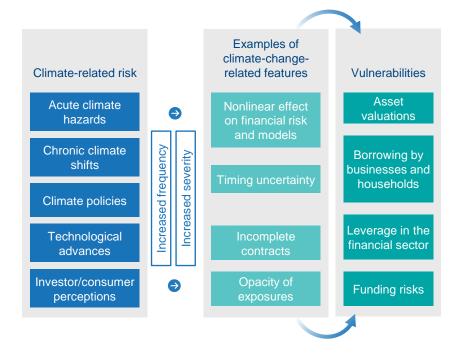
10-YEAR YIELDS

Downside risks reflecting both short- and long-term uncertainties

POTENTIAL SHOCKS OVER NEXT 12-18 MONTHS (%)

Political uncertainty Corporate & SME stress/defaults **COVID** Resurgence Insufficient fiscal stimulus Stretched asset valuations U.S.-China tensions USD collapse/currency war Inflation surprises CRE defaults/CMBS stress a about Bank asset quality/bank profitability Monetary policy space/efficacy Geopolitical risks Sharp rise in real interest rates Brexit Cyber attacks LIBOR transition 0% 20% 40% 60% 80%

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 (dpb, average)	50.9	64.8	57.0	39.3	51.5	56.0	57.4



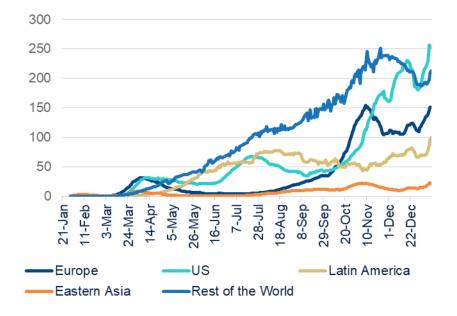
Global Economic Outlook 1Q21

Creating Opportunities

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, Cdombia, 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

20 16.0 DOSES, MILLIONS 13.5 15 CUMULATIVE 10 4.4 5 3.1 1.3 0.9 1.0 0.7 0.6 07 0.2 0.5 0.1 0.1 0. 0.1 0. 0.1 0.2 0.0 0 Netherla Switzert... China Lithuania Finland Croatia Belgium Bahrain Denmant Argentina Poland Canada RUSSIR Istael HOLMER Greece AUSTIN Ireland HUNDARY France Spain Germany Hally UAE S Metico TUHEN st 40 35.3 PER 100 PEOPLE 30 21.8 20 8.5 7.5 10 5.0 3.1 1.8 2.2 1.9 2.1 1.3 1.3 1.6 1.6 1.8 1.0 1.0 1.4 0.7 1.3 0.6 1.1 1.1 1.1 1.0 0.4 0.6 0 Switzert... Nethenla Croatia Bahrain UAF Metico Argenting Belgium Finland HORNEY Greece China AUSTIR Poland RUSSIR Canada Denmart S 151201 France HUNDARY Germany Lithuania Spain Heland Hall TUHEN 3t

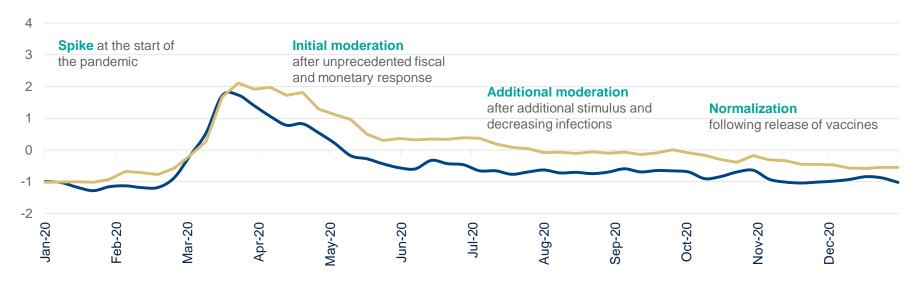
Last update Jan 21, 2021 Source: BBVA Research & Government Sources.

COVID-19 VACCINATION

Financial tensions have converged to pre-crisis levels

FINANCIAL TENSIONS

(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



Financial Tensions Index: Developed Countries — Financial Tensions Index: Emerging Countries

Economic growth expected to bounce back in 2H21 onwards

	US	Eurozone	China 🔛	World
2019	2.2	1.3	6.1	2.9
2020	-3.6	-7.3	2.2	-2.6
2021	3.6	4.1	7.5	5.3
2022	2.4	4.4	5.5	4.1
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