

# Economic Outlook

## US Monthly Update

August 10, 2012

# Meeting Details

**Topic: US Monthly Economic Outlook**

**Date: Friday, August 10, 2012**

**Time: 10:00 am, Central Standard Time (Chicago, GMT-06:00)**

**Meeting Number / Access Code: 719 099 031**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=181289027&UID=494946087&PW=NNjNjMmQ2NmYz&RT=MiM3>

**To join the audio conference only:**

**Call-in toll-free number (US/Canada): 1-866-469-3239**

**Call-in toll number (US/Canada): 1-650-429-3300**

**Global call-in numbers:**

<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=181289027&tollFree=1>

# Baseline Scenario

## New vs. Previous\*

	2011	2012	2013	2014	2015	2016
GDP <b>new</b>	1.7	2.1	1.8	2.3	2.5	2.7
old	1.7	2.3	2.2	2.5	2.6	2.8
CPI <b>new</b>	3.2	2.0	1.9	2.3	2.5	2.6
old	3.2	2.5	2.2	2.4	2.5	2.6
Core <b>new</b>	1.7	2.1	1.8	1.9	2.1	2.3
old	1.7	1.9	1.8	1.9	2.0	2.3
Fed <b>new</b>	0.25	0.25	0.25	0.50	1.5	2.5
[eop] old	0.25	0.25	0.25	0.50	1.5	2.5

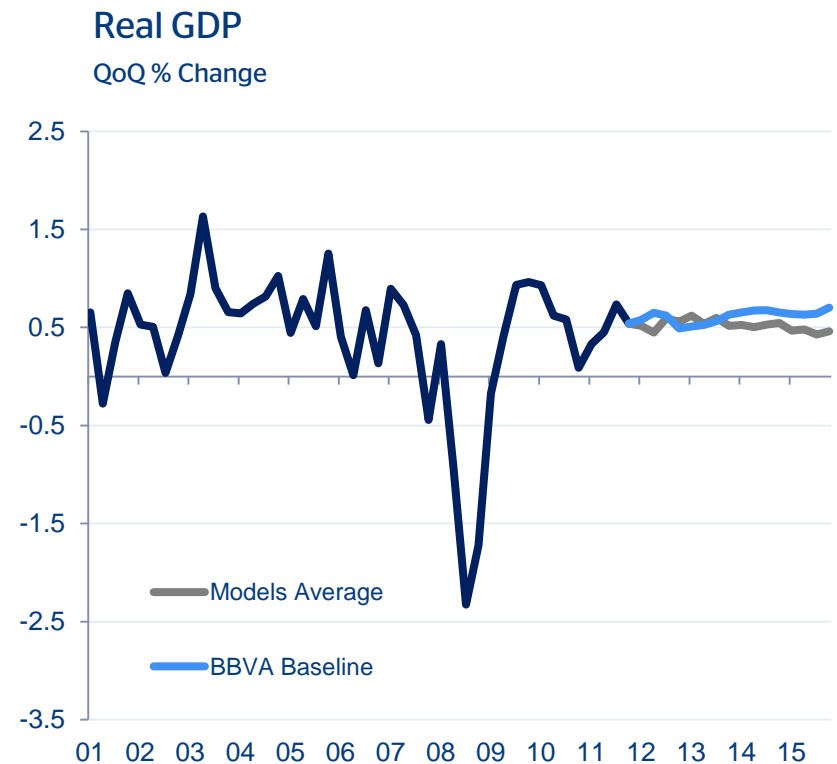
**Slower growth without inflationary pressures.  
Low interest rates for several years**

# GDP

When taking into account recent weak indicators, our models confirm more moderate growth for the rest of the year and in 2013 with downside risks

## BBVA US Monthly Activity Index Trends

BBVA Index	Current	3 Months Ago	6 Months Ago	12 Months Ago
Monthly Activity Index*	0.22	0.33	0.41	0.43
Housing	2.61	2.07	-0.08	0.50
CRE	-0.52	0.26	1.41	-0.66
Employment	-0.57	-0.93	0.42	0.43
Economic Confidence	-0.31	-0.28	0.16	-0.29
Financial	-0.28	-0.19	0.27	-0.13
Spending	-0.45	0.21	0.47	0.02
Production	-0.47	-0.41	-0.12	-0.81
Prices	-1.21	-0.74	-1.23	-0.75
Trade	0.01	-0.89	-0.57	1.03
Banking	-0.72	-0.70	-1.39	-3.52

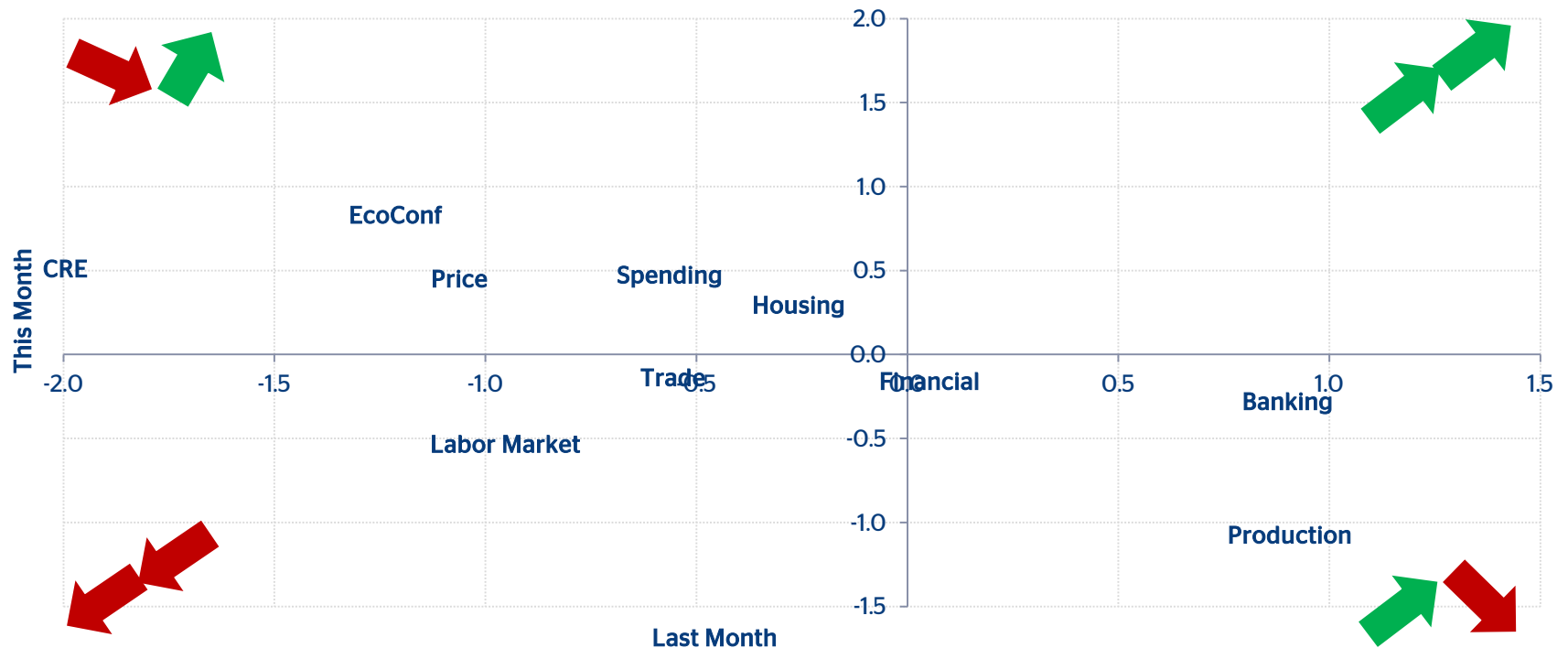


# Economic Activity

Production indicators have begun to show deteriorating activity, particularly with slowing new orders components suggesting future weakness

## BBVA Monthly Activity Index Trends

MoM Change



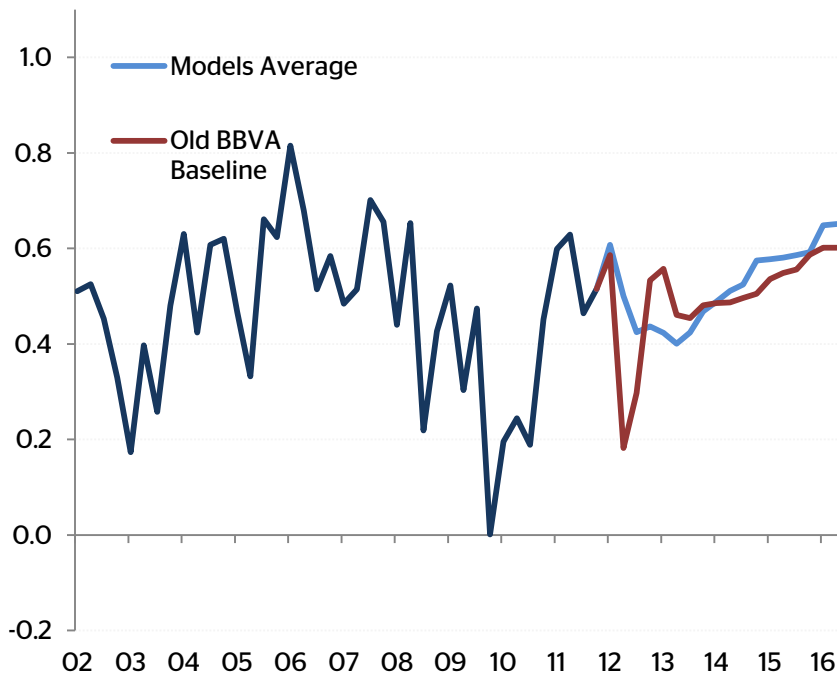
Source: BBVA Research

# Inflation Trends

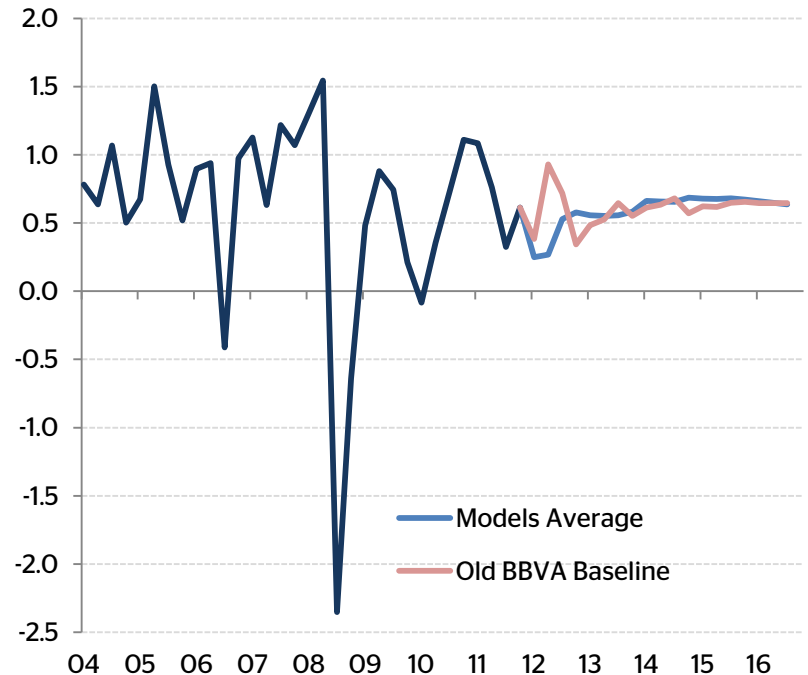
Significant declines in commodity prices urged us to lower our headline inflation forecast. However, recent increases in food prices could limit further declines.

Core prices remain relatively stable.

Core CPI  
QoQ % change



Headline CPI  
QoQ % change



# Federal Reserve

## QE3 debate carries on among FOMC members, probability of further action increases throughout 2H12

### FOMC Meeting July 31-August 1, 2012: Statement

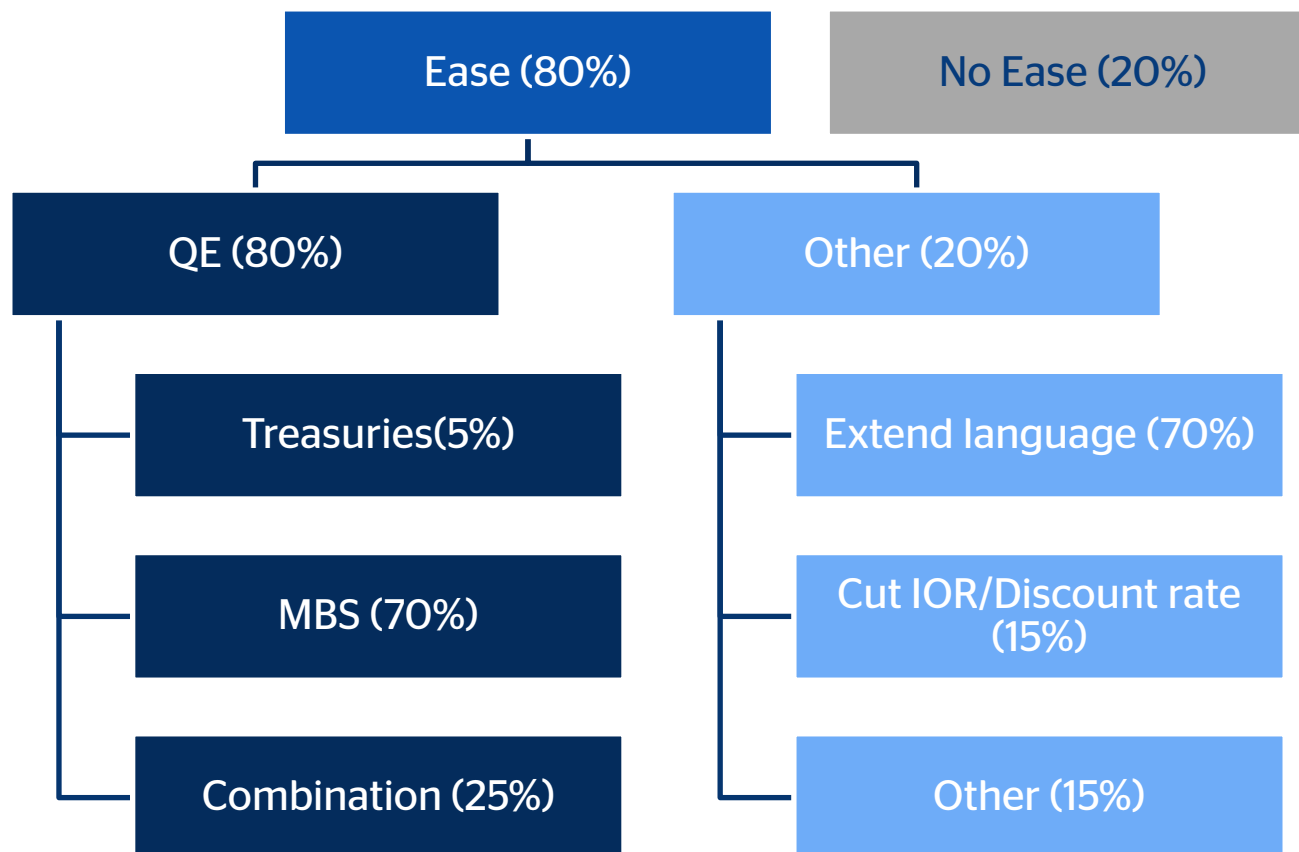
- ❖ Fed's economic has deteriorated outlook given the weak 2Q12 GDP growth rate, elevated unemployment rate, low payroll estimates, slowing manufacturing activity, and deteriorating conditions in global economies
- ❖ Lack of policy action highlight the intense debate within the FOMC, and more time is needed for a majority agreement
- ❖ "Economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014"
- ❖ The Fed assures that it is ready to act if additional measures are needed

### Increasing probability of QE3, and other options?

- ❖ The Fed is also waiting for Congress to address the looming fiscal cliff, and we foresee that QE3 will become more and more attractive as time passes by without any fiscal progress.
- ❖ We expect that the Fed will take action in September or the following meeting if economic conditions deteriorate further, with the most likely scenario additional quantitative easing.
- ❖ Other options on the table are less likely at this point, such as a change in the Fed's monetary policy guidance or a reduction in the interest rate on reserves.

# Federal Reserve

Another round of QE before year-end is still on the playbook.  
Key issues: timing, method and size





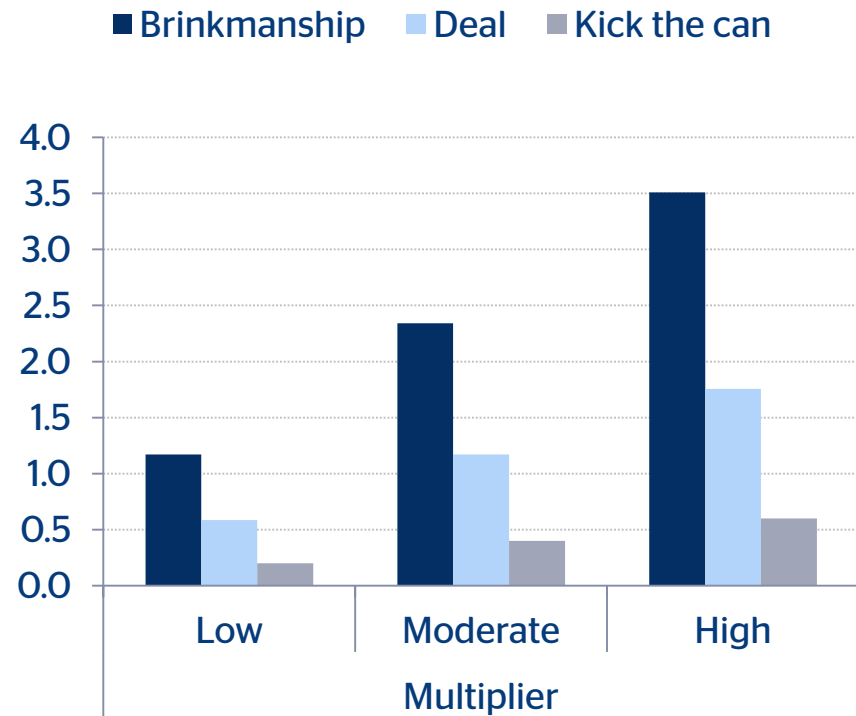
# Fiscal Cliff

Our baseline scenario assumes modest fiscal austerity

Fiscal Cliff (FY13)	US \$bn
Expiration of income and estate tax provisions	221
Payroll tax cut	95
Affordable Care Act	18
Other expiring provisions	65
Budget Control Act	65
Unemployment benefits extension	26
Reduction in Medicare's payment rates	11
Other	105
<b>Total</b>	<b>607</b>
<b>% of GDP</b>	<b>3.9</b>

Decline in GDP growth from fiscal cliff

%, 2013



Source: CBO & BBVA Research

Source: BBVA & CBO; FY 2013

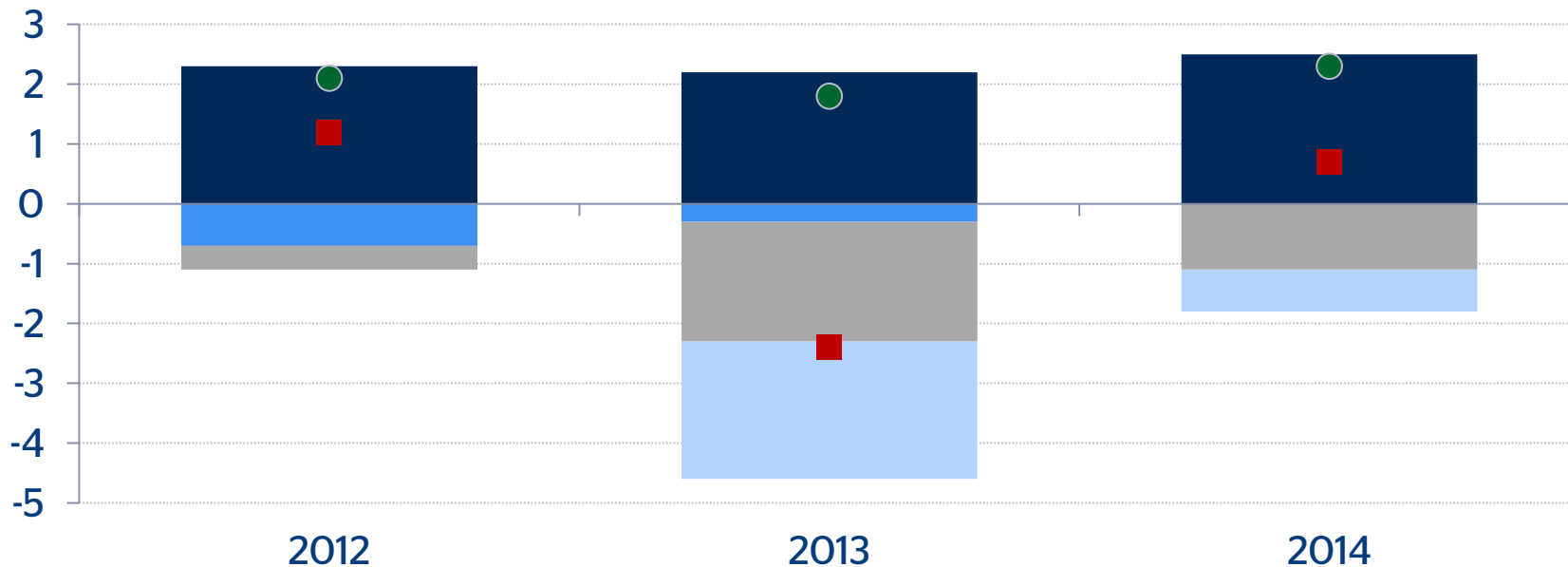
# Risks

If policy uncertainty, the fiscal adjustment, and the European crisis intensify, the economy will slide into recession

## Real GDP growth

%

■ Baseline April   ■ Weaker data   ■ European Risk   ■ Fiscal Cliff Risk   ■ Risk   ● New Baseline



# Risk Scenario

## New vs. Previous\*

	2011	2012	2013	2014	2015	2016
<b>GDP</b> <small>new</small>	1.7	1.2	-2.4	0.7	1.9	2.6
<small>old</small>	1.7	0.8	-1.9	1.2	2.2	2.7
<b>CPI</b> <small>new</small>	3.2	1.7	-1.2	0.8	1.9	2.2
<small>old</small>	3.2	1.3	-1.2	1.5	1.9	2.3
<b>Core</b> <small>new</small>	1.7	2.0	0.8	1.2	1.8	2.3
<small>old</small>	1.7	1.7	0.7	1.3	1.6	2.1
<b>Fed</b> <small>new</small>	0.25	0.25	0.25	0.25	0.25	0.75
[eop] <small>old</small>	0.25	0.25	0.25	0.25	0.25	0.75

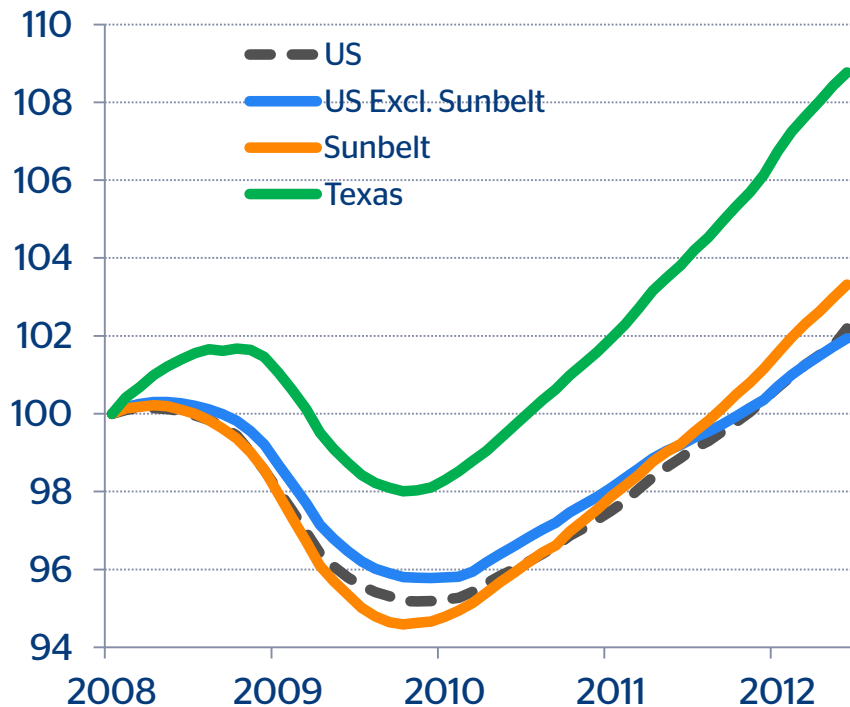
## Economic recession along with deflationary pressures

# Sunbelt Region Outlook

The Sunbelt will continue to outperform, and Texas leads the recovery

## Sunbelt Monthly Activity Index

(Cumulative Change Jan. 1998=100)



## GDP Baseline Scenario

(YoY % change)

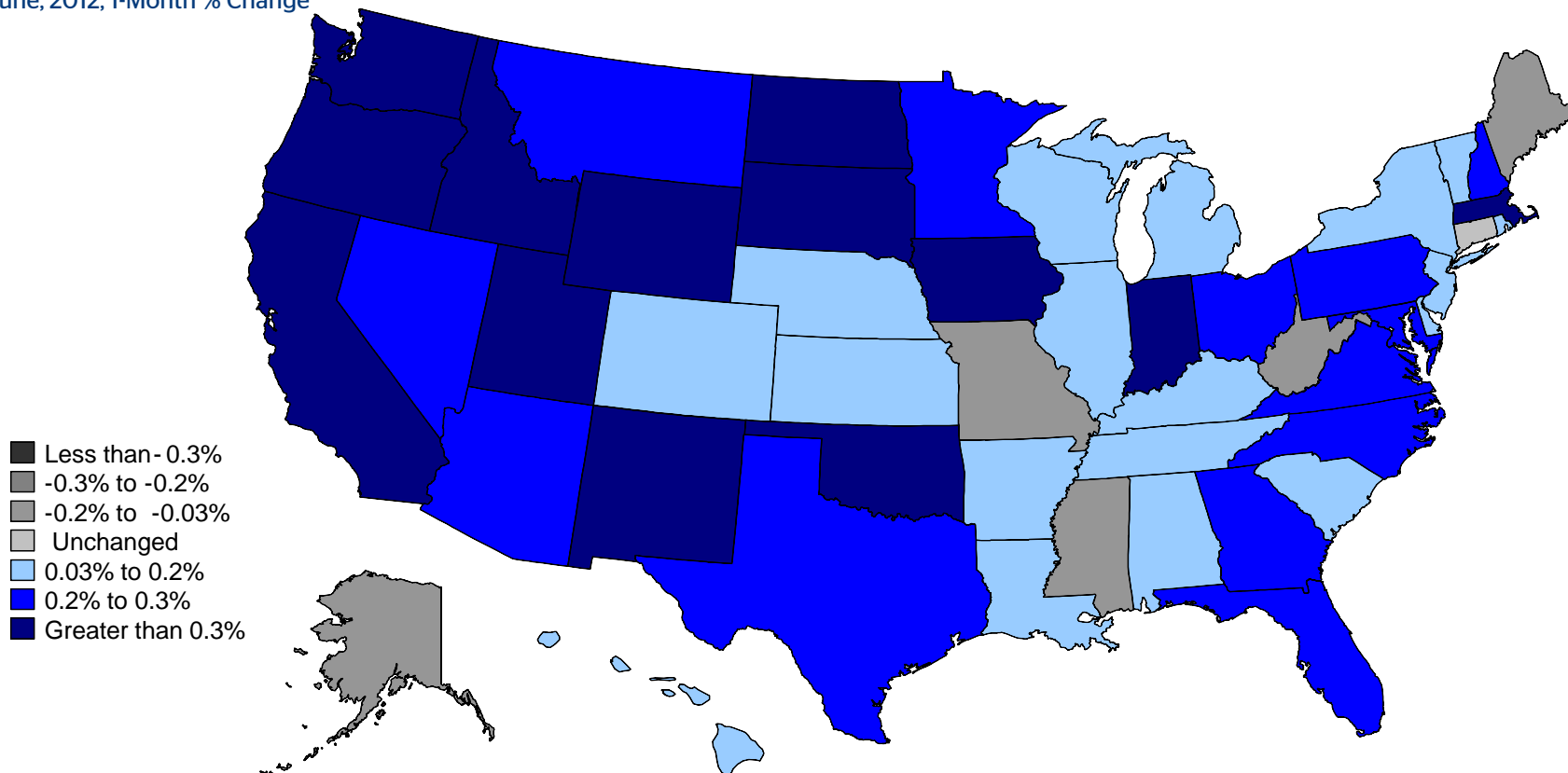
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Alabama</u>	<u>2.0</u>	<u>1.4</u>	<u>1.7</u>	<u>1.8</u>
<u>Arizona</u>	<u>0.7</u>	<u>1.8</u>	<u>2.2</u>	<u>2.3</u>
<u>California</u>	<u>1.8</u>	<u>1.9</u>	<u>2.5</u>	<u>2.3</u>
<u>Colorado</u>	<u>1.4</u>	<u>1.7</u>	<u>2.0</u>	<u>2.1</u>
<u>Florida</u>	<u>1.4</u>	<u>1.8</u>	<u>2.4</u>	<u>2.3</u>
<u>New Mexico</u>	<u>1.7</u>	<u>1.3</u>	<u>2.4</u>	<u>2.3</u>
<u>Texas</u>	<u>2.7</u>	<u>2.8</u>	<u>3.1</u>	<u>2.7</u>
<u>Sunbelt</u>	<u>1.9</u>	<u>2.1</u>	<u>2.6</u>	<u>2.4</u>
<u>US</u>	<u>2.9</u>	<u>1.7</u>	<u>2.3</u>	<u>2.2</u>

# State Monthly Activity Indexes (SMAI)

Activity in the West and Sunbelt regions was above average in June, whereas other areas in the East experienced a slowdown from May

## State Activity Map

June, 2012, 1-Month % Change



# Meeting Feedback

We would appreciate any feedback you have for us.

<http://www.surveymonkey.com/s/6D3S7NV>

**Thank you for participating!**

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