

Economic Outlook

US Monthly Update

November 9, 2012

Meeting Details

Topic: US Monthly Economic Outlook

Date: Friday, November 9, 2012

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

Meeting Number / Access Code: 710 593 107

Meeting Password: bbva

To join the online meeting:

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=187370482&UID=494946087&PW=NmjY4MWQxNDNk&RT=MiM3>

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Baseline Scenario

We maintain our GDP growth expectations unchanged.
A slight upward revision to inflation and downward to
interest rates.

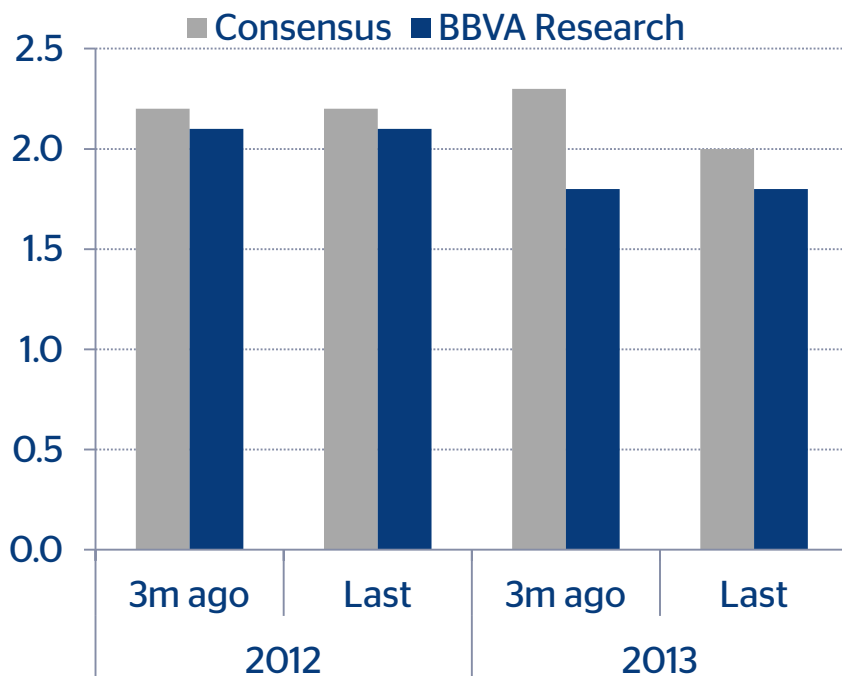
	2011	2012	2013	2014
GDP %	1.7	2.1	1.8	2.3
CPI %	3.2	2.0	2.1	2.4
Core %	1.7	2.1	1.9	2.0
Fed %, eop	0.25	0.25	0.25	0.25
10YTN %, eop	1.89	1.70	2.40	2.70
Euro epd, eop	1.30	1.25	1.31	1.31

Baseline Scenario

GDP growth should continue expanding at around 2%. European crisis, policy uncertainty and household deleverage impose a downward bias

Real GDP Growth Expectations

%



Baseline

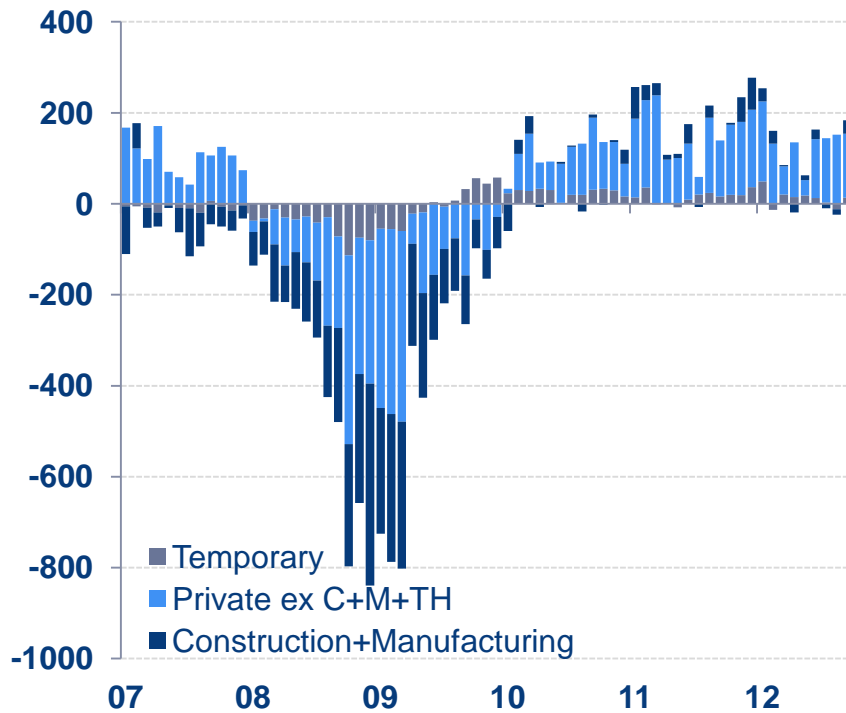
- We maintain our baseline GDP growth scenario unchanged
- Downside bias with elevated uncertainty
 - Europe and EM
 - Deleverage
 - Fiscal policy/regulation
 - Impact from QE
- Growth will continue at around 2%
- Upside risks under more political cooperation

Labor Markets

Measures of unemployment show slight improvements, yet we expect only modest job growth in coming months

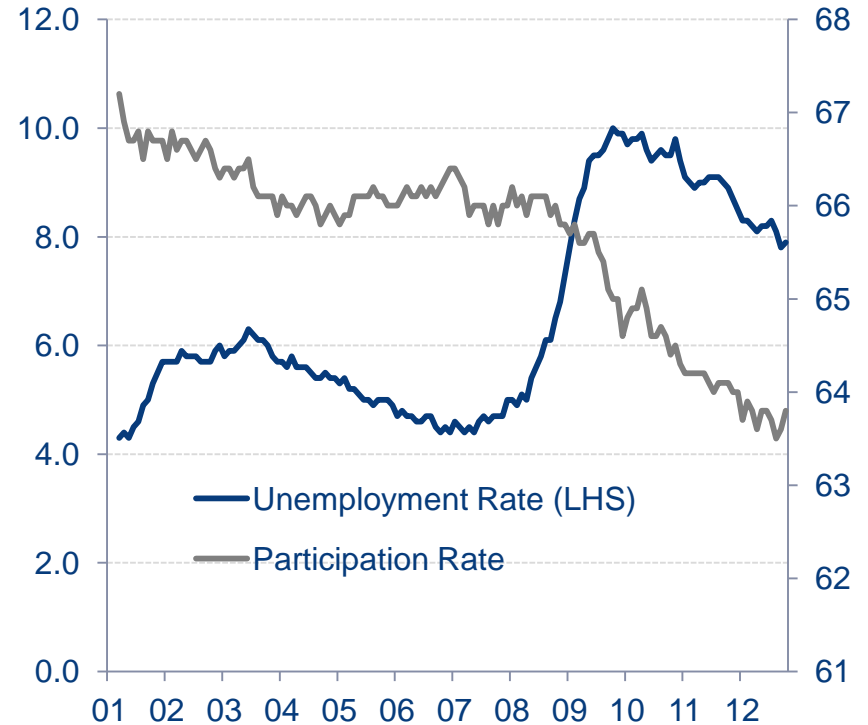
Private Nonfarm Payrolls

Monthly change, K



Unemployment and Participation Rates

%



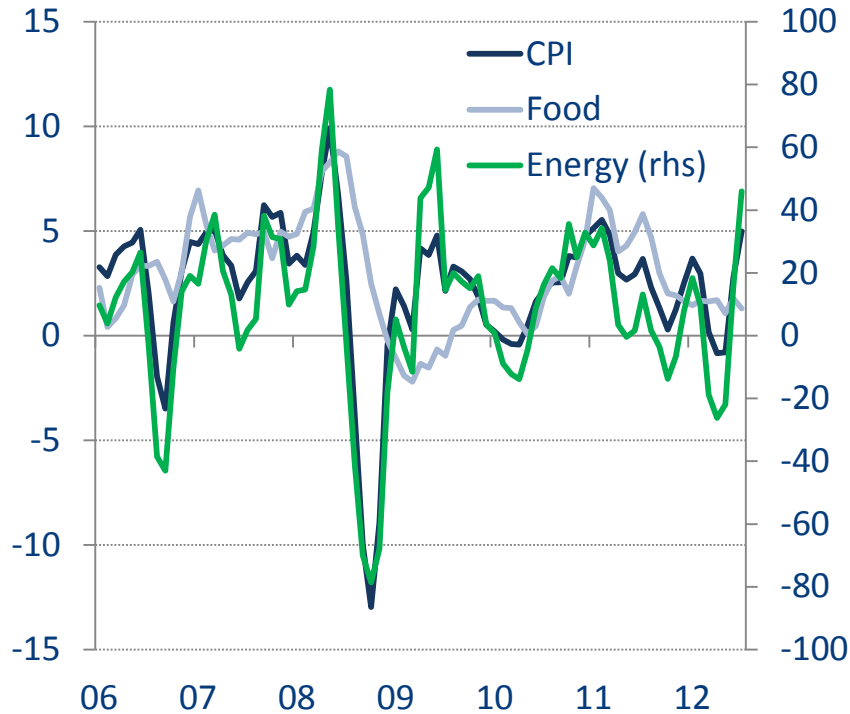
Source: Haver & BBVA Research

Inflation

Pressures on headline prices mitigated by easing core inflation

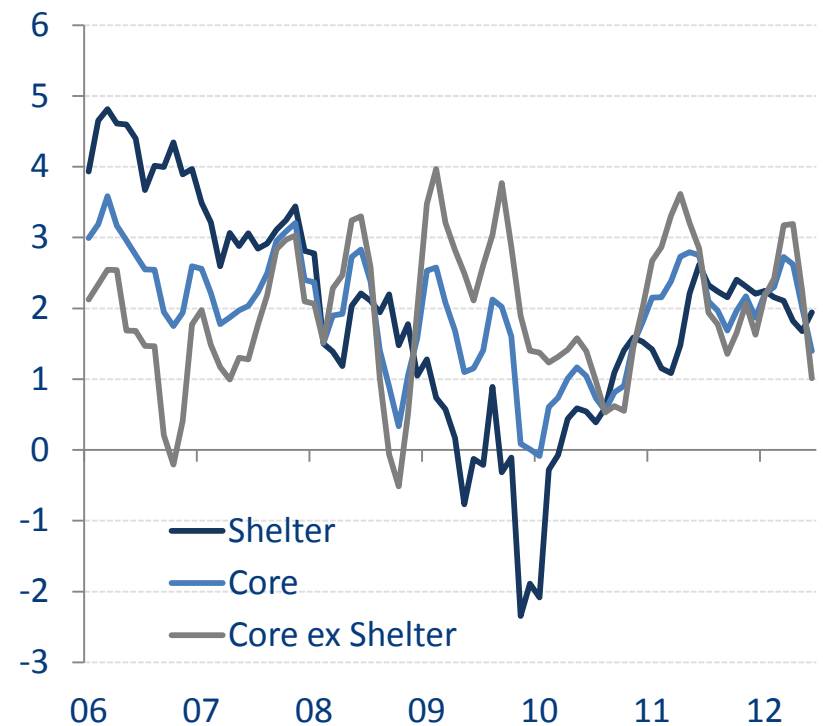
CPI Prices

3m % change, annualized



Core Prices

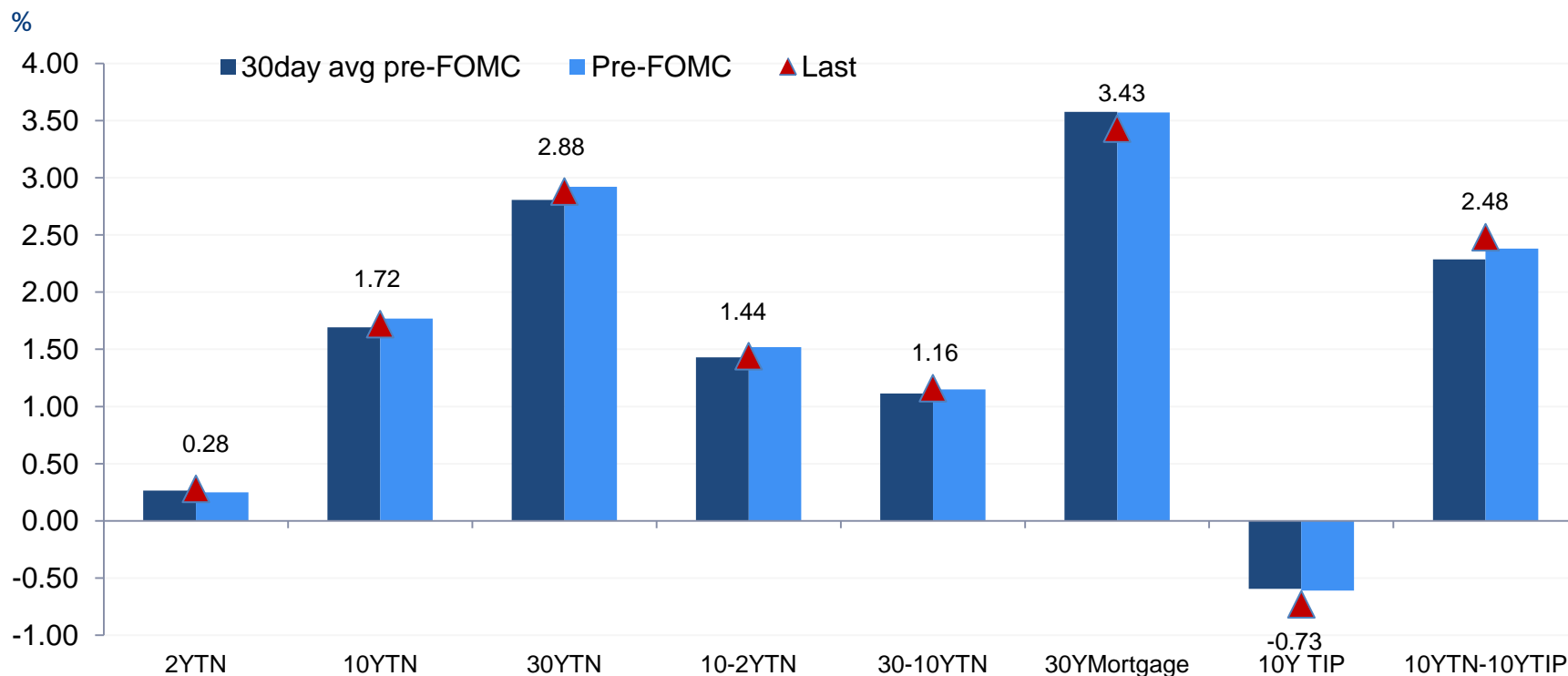
3m % change, annualized



QE3: Impact on interest rates

Lower mortgage rates and higher implicit inflation expectations; other effects are easing

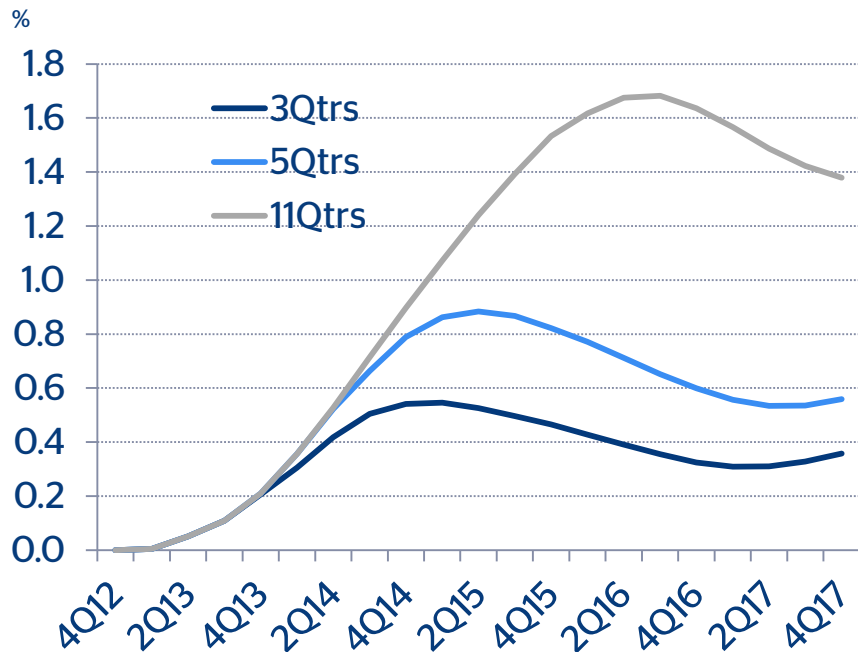
Selected Interest Rates



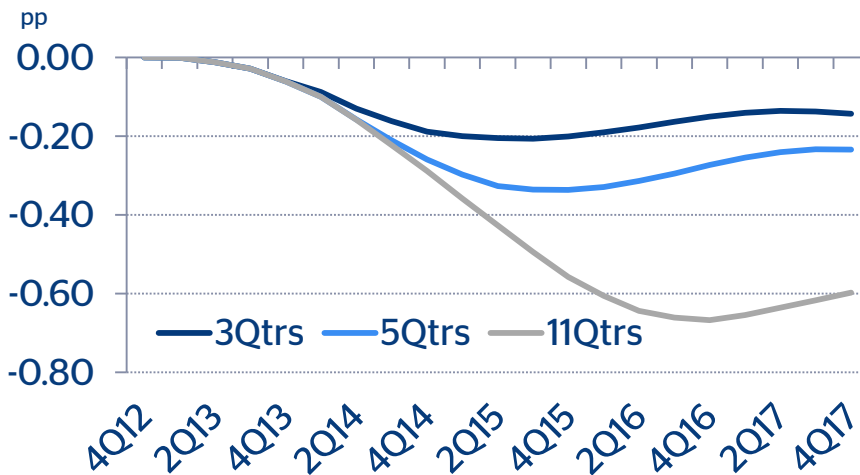
QE3: Macroeconomic effects

The main impact of QE3 is to reduce tail-risk. A significant effect depends on its size and duration, which are inversely dependent on the self-sustainability of the recovery

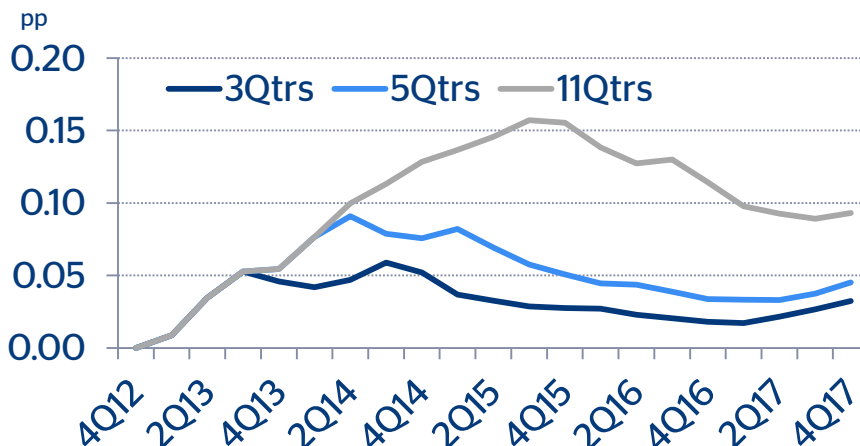
Impact of QE3 on Real GDP growth



Impact on the unemployment rate



Impact on 5yr forward inflation expectations



Fiscal Cliff

The magnitude of the fiscal cliff depends on the fiscal multipliers and the capacity to strike a deal by both parties

Impact of fiscal events on economic activity during 2013

US\$bn and % of GDP, calendar year

Policy	Budgetary Effect		Economic Effect (% of GDP)	Likelihood of taking effect L=low, M=Medium, H=High	Size of the Cliff (% of GDP)#
	US\$bn	(% GDP)			
Automatic cuts in the Budget Control Act 2011	89	0.6	0.7	M**	0.38
AMT Patch: indexing AMT to the inflation rate	150	0.9	0.6	H	0.35
End of temporary tax cuts	168	1.1	0.4	L*	0.20
Reduction in employee social insurance contributions	98	0.6	0.3	H	0.17
Extension of the maximum period of entitlement for unemployment benefit	26	0.2	0.1	M**	0.05
Routine extension of short-term tax relief	38	0.2	0.1	M**	0.04
New taxes relating to the reform of health insurance	31	0.2	0.1	H	0.04
Cuts in payment of doctors' fees by Medicare ("Doc Fix")	15	0.1	0.1	L	0.04
Total	614	3.9	2.2		1.3

Source: BBVA Research, CBO, CFRB, TPI

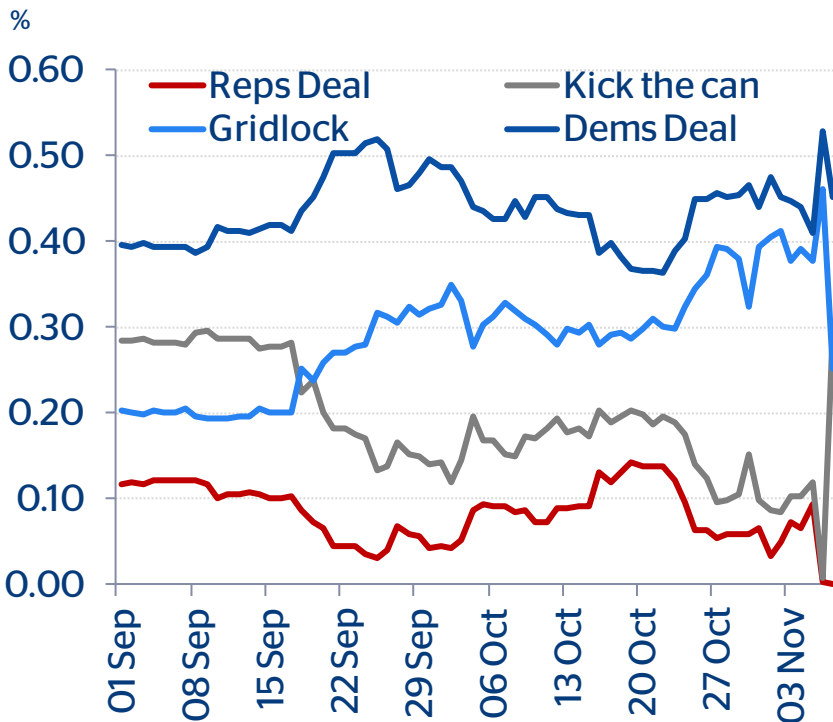
* Uncertainty related to high income earners; ** Extension of some line items but cuts in others;

Baseline scenario based on the fiscal multipliers and the expected outcome of the negotiation process: 50% push back timing, 35% Compromise, 15% Gridlock
Impact does not include second-round effects on economic activity; Subject to change without notice

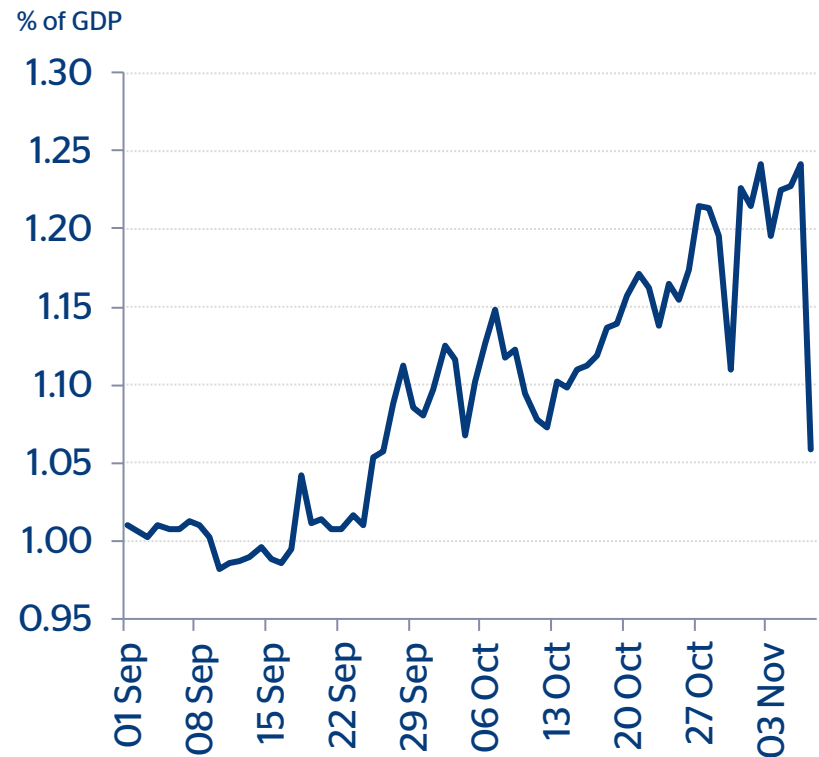
Fiscal Cliff

A Republican deal is out. The two most likely outcomes are a Democratic deal and kicking the can. Gridlock has a 25% probability. The expected value of the cliff has declined to around 1.05% of GDP.

Probability of Fiscal Deal Scenarios



Expected Value of Size of Fiscal Cliff



Source: BBVA Research

Derived probability based on BBVA Research assumptions and estimates on political negotiations and election outcomes, fiscal multipliers and the electronics futures markets

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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