

# Economic Outlook

## US Monthly Update

March 8, 2013

# Meeting Details

**Topic: US Monthly Economic Outlook**

**Date: Friday, March 8, 2013**

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

**Meeting Number / Access Code: 712 185 245**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=195399097&UID=1460687097&PW=NZjVkZGVjOTkx&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=187370482&tollFree=1>

# Bottom Line

- Improvement in economic and political conditions
  - Domestic data
  - Fiscal policy
  - Europe
- Risk-on trading driving up asset prices and yields
- However, high bias on backward-looking data. Uncertainty ahead.
  - Sequester, continuing resolution, debt ceiling
  - Europe
  - Geopolitical risks
- Fed remains worried on the sustainability
  - Ending QE3: When and how?
  - Orderly correction in long-term interest rates

# Economic Activity

Data	Last	3m ago	6m ago	12 m ago
ISM	54.2	49.9	50.7	51.9
ISM nonmanufacturing	56.0	54.8	54.3	56.1
Capacity utilization	79.1	78.1	79.2	78.7
Industrial production (yoy % chg)	2.1	2.1	4.3	4.5
Capital goods new orders (yoy % chg)	5.1	-6.9	-7.8	7.2
Unemployment rate (%)	7.9	7.9	8.2	8.3
Nonfarm payroll (Thou)	157	160	153	311
Auto sales (Million)	15.3	15.5	14.5	14.4
Real disposable income (yoy % chg)	0.6	1.3	1.5	-0.2
Real personal spending (yoy % chg)	2.0	1.5	1.9	1.8
Retail sales ex autos & gas (yoy % chg)	4.0	2.9	4.3	6.1
Consumer confidence (Index)	69.6	71.5	61.3	71.6
Housing starts (yoy % chg)	23.6	41.1	18.6	13.9
Home prices (CS/SP, yoy % chg)	6.8	2.9	0.6	-4.1

- **Stable production activity**

- **Volatile income data but positive surprises in spending**

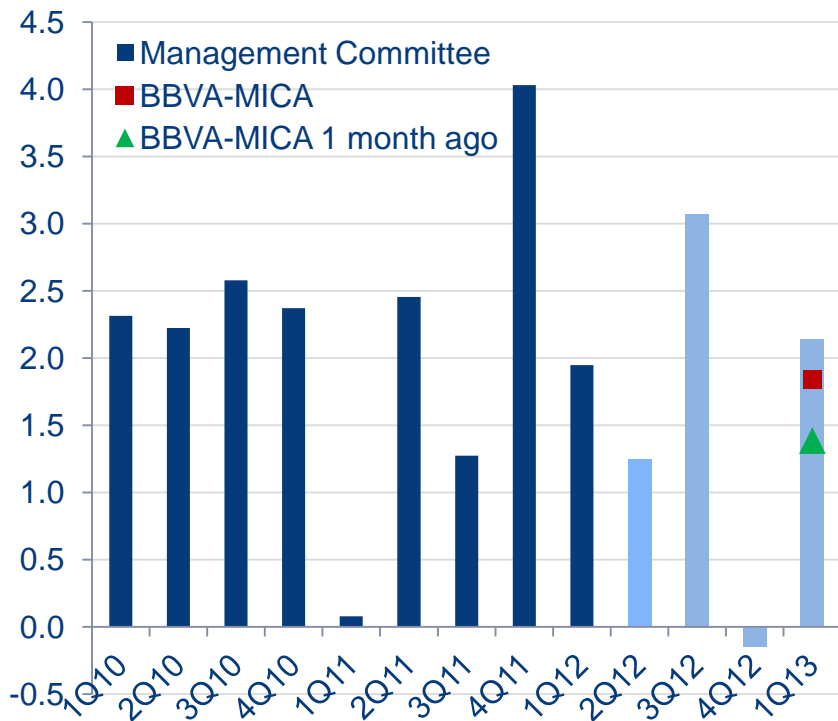
- **Housing recovery gaining speed**

# Economic Activity

The improvement in economic indicators shifts upward our bias and narrows the gap to our 1Q13 GDP growth rate forecasts

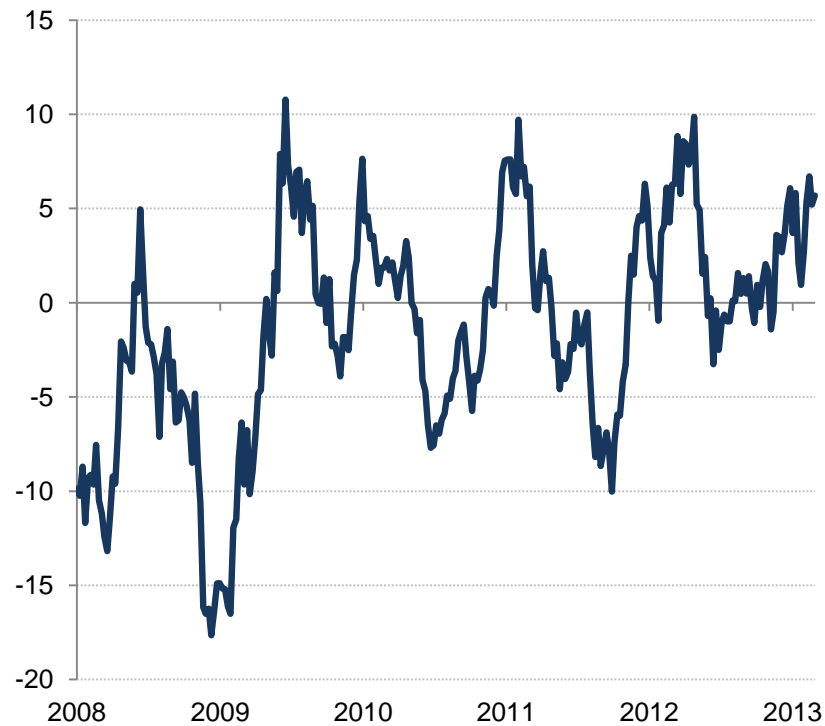
Real GDP Growth

QoQ % change, SAAR



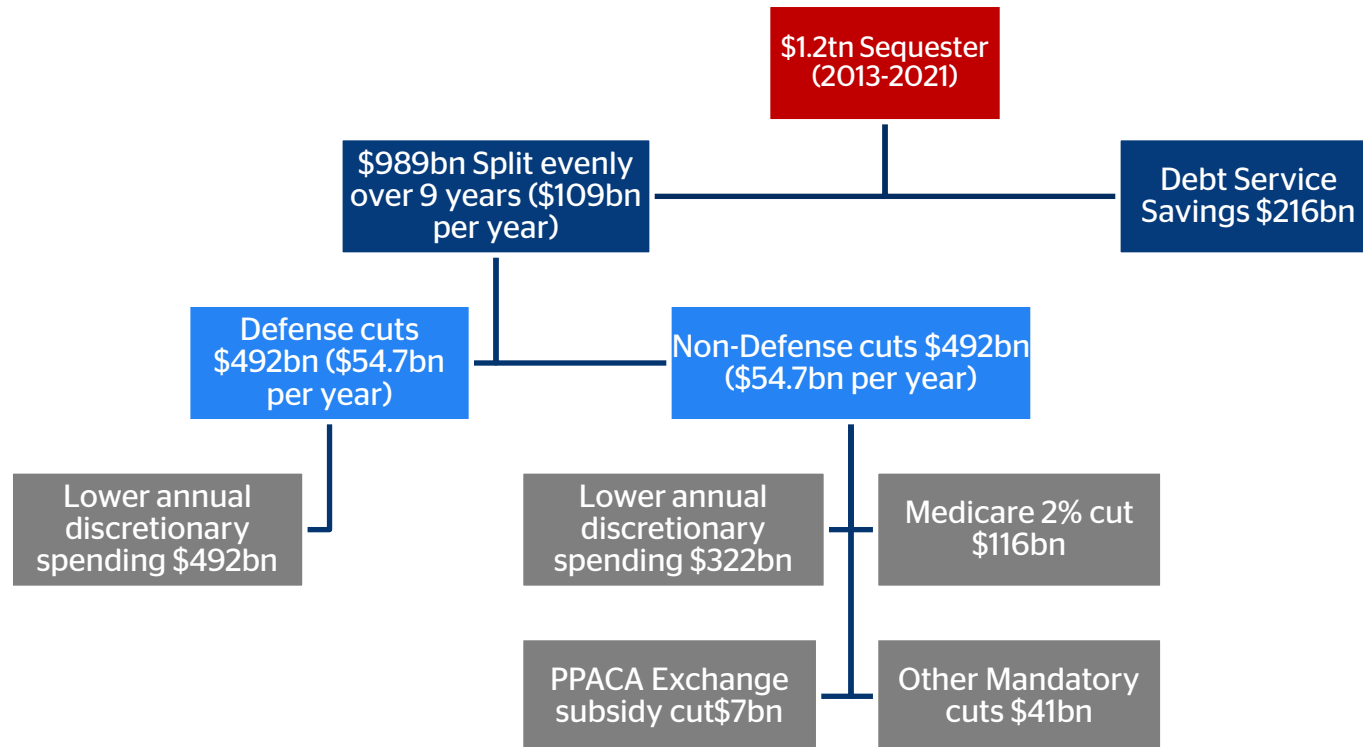
BBVA US Weekly Activity Index

3m% change



# BCA: Automatic Cuts “Sequestration”

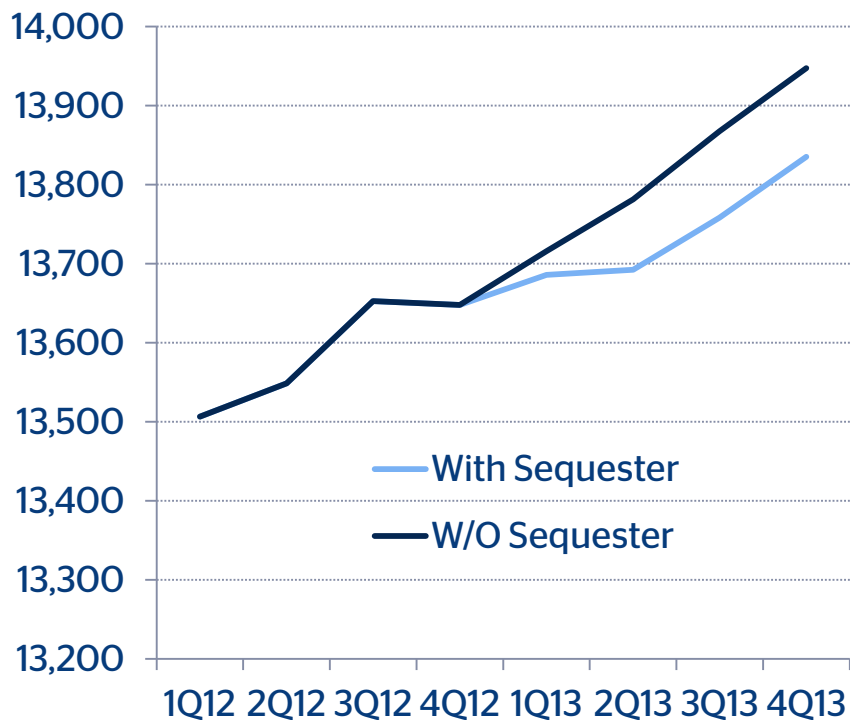
- Automatic spending reduction of \$1.2tn “sequestration”
  - In FY2013: 10% defense, 2% Medicare, and 7.8% other mandatory and non-defense discretionary
  - Any cuts to discretionary spending through the automatic reduction would be in addition to those cuts resulting from the discretionary spending caps



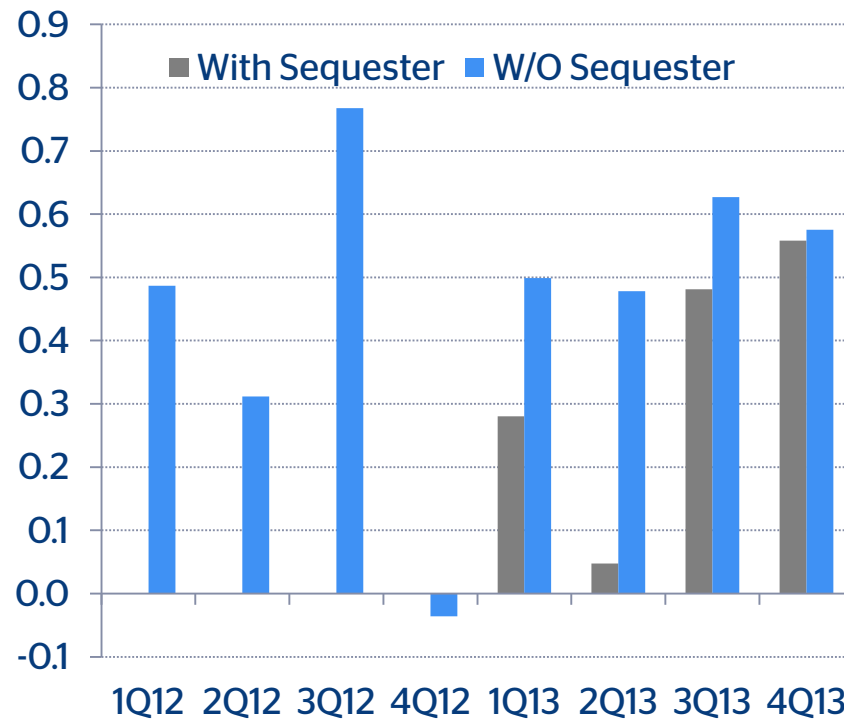
# The Sequester

The full sequester would reduce 2013 GDP growth by 0.5%-0.8%

Real GDP  
US\$tn



Real GDP  
QoQ % change

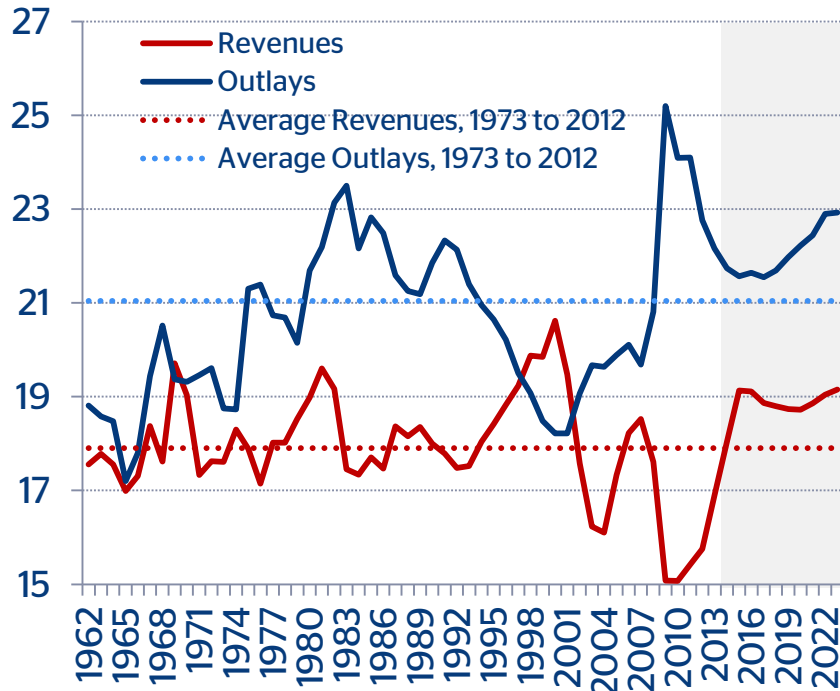


# Fiscal Stability

Tax increases and economic growth will help to boost revenues. However, it won't be enough to avoid larger future deficits

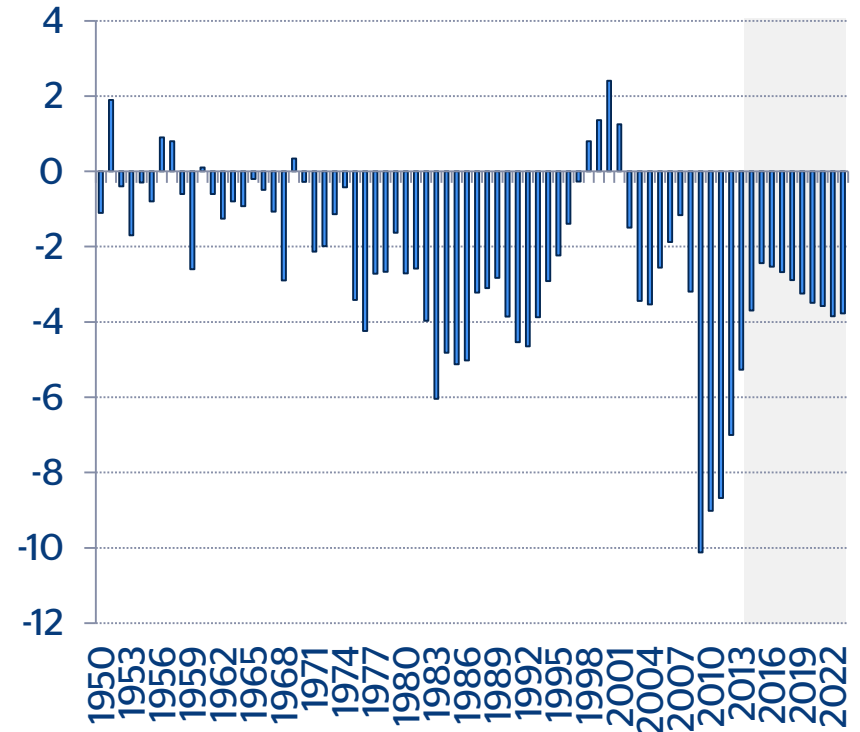
Government Spending

% of GDP



Federal Debt

% of GDP, held by the public



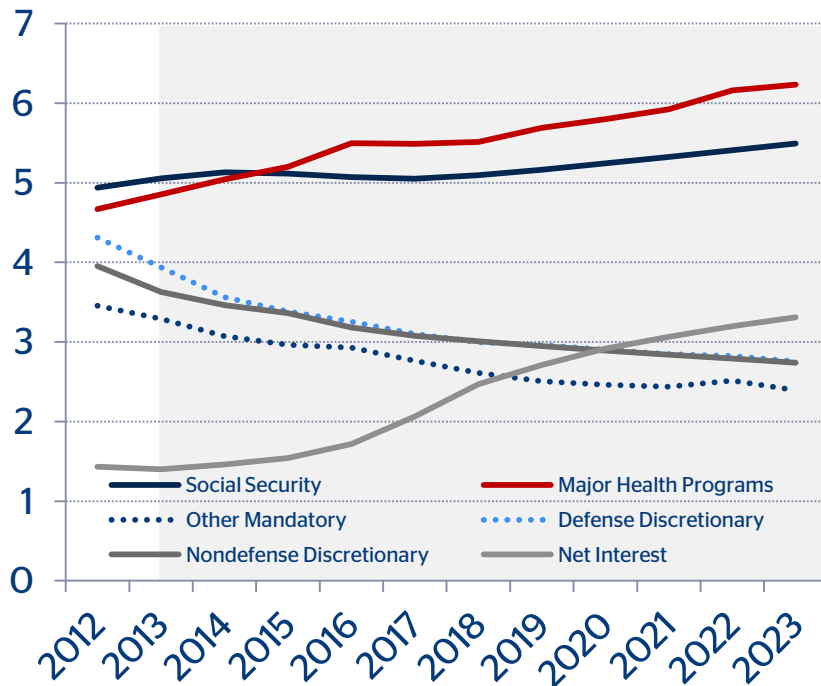


# The Sequester

Moreover, spending on social security, health programs and interest payments will grow from 48% of total outlays in 2012 to 66% in 2013

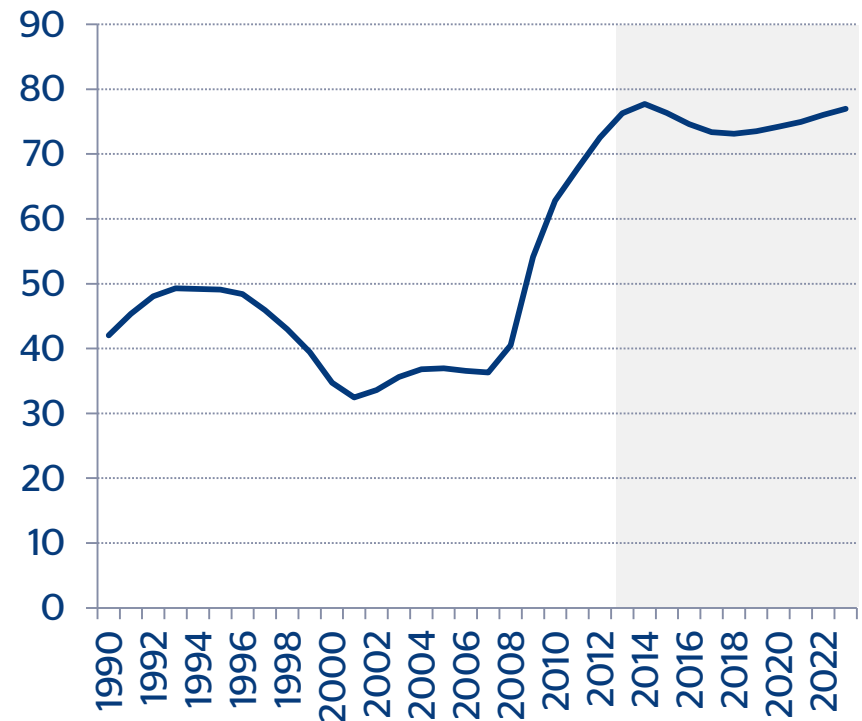
Government Spending

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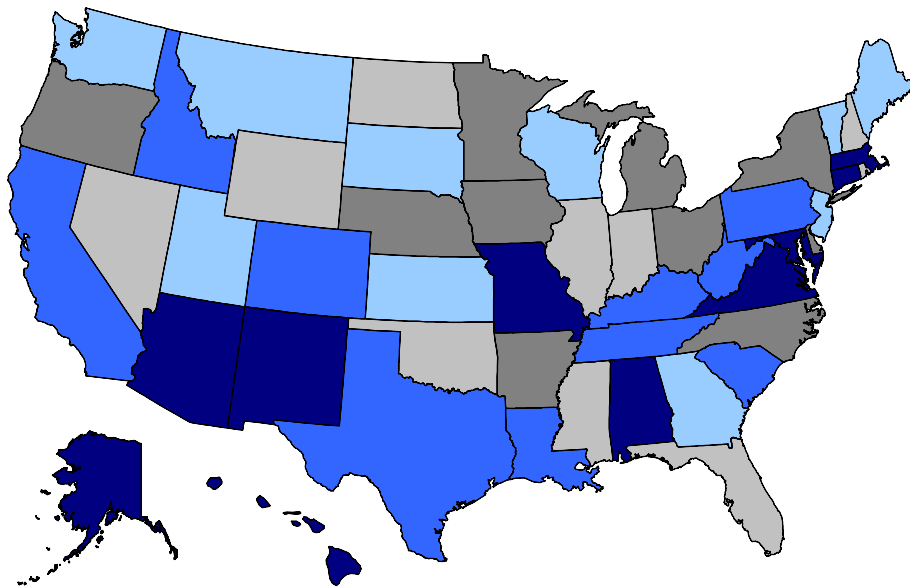


# The Sequester

Regional risks: automatic spending cuts could have larger effects across the Sunbelt

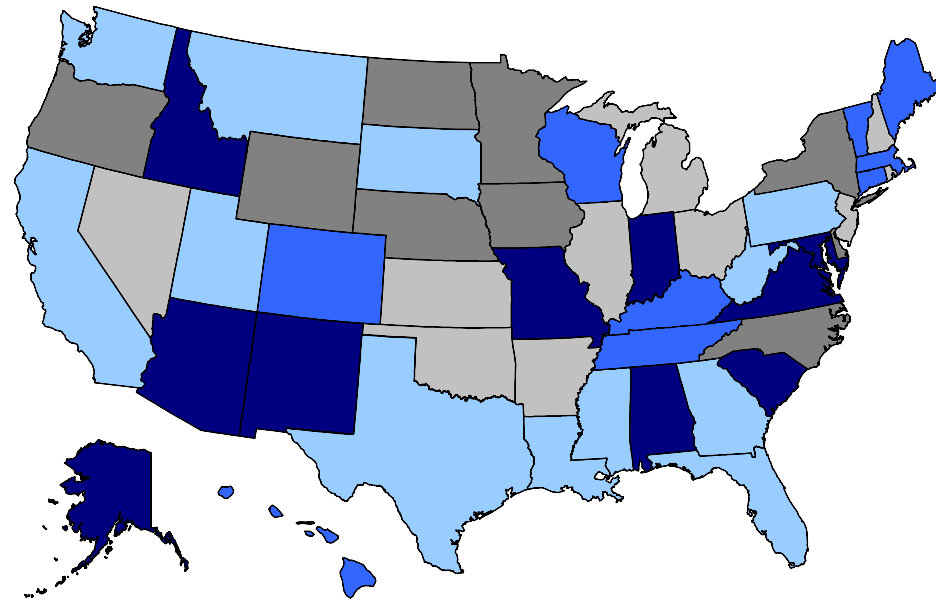
**Employment losses as % of State Total**

Impact from sequestration



**GDP Impact as % of State GDP**

Impact from sequestration



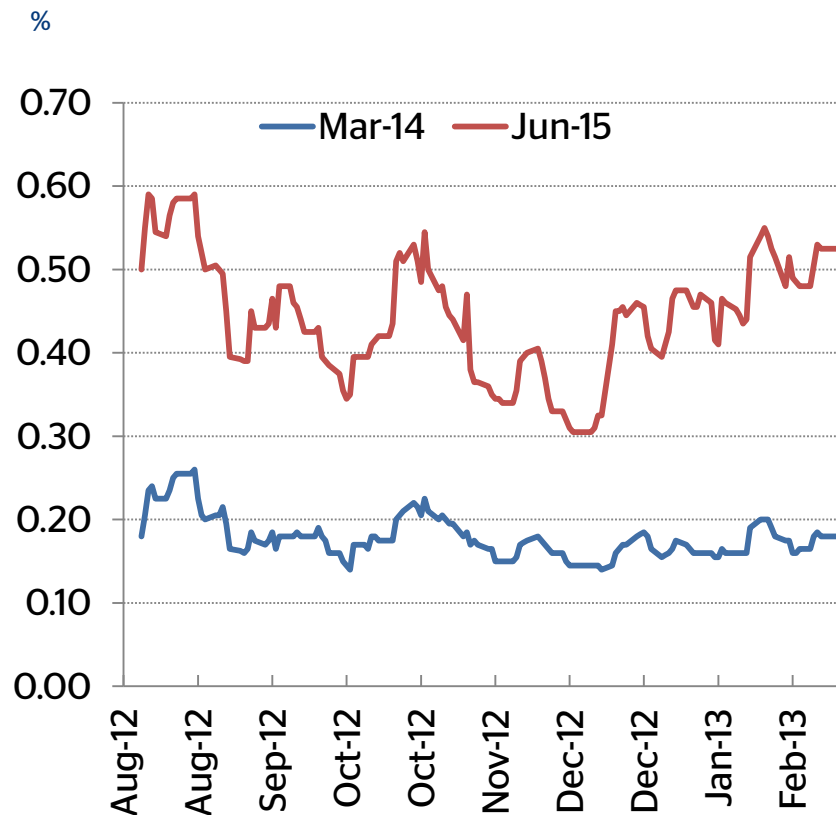
Higher ← → Lower



# Monetary Policy

The latest FOMC Minutes confirm an intense debate on how and when to end additional asset purchases

## Fed Funds Futures



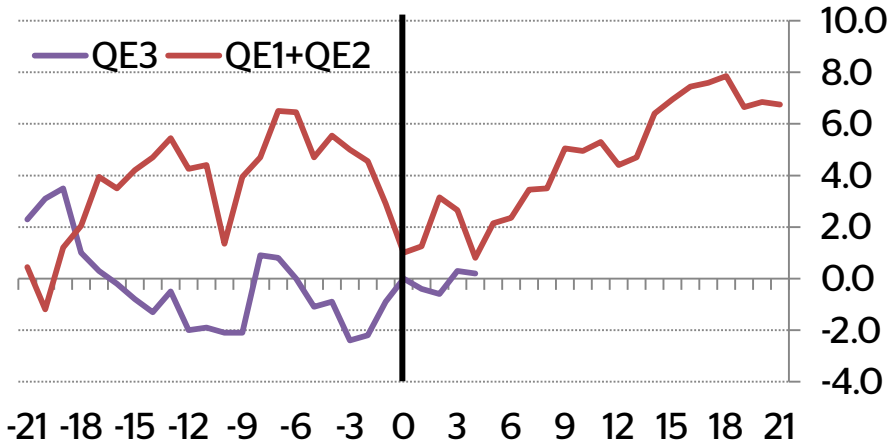
Source: BBVA Research / Haver

- Most participants commented that the Committee's asset purchases had been effective in easing financial conditions and helping stimulate economic activity
- However, many participants also expressed some concerns about potential costs and risks arising from further asset purchases.
- ... the staff was asked for additional analysis ahead of future meetings to support the Committee's ongoing assessment of the asset purchase program.
- Several others argued that the potential costs of reducing or ending asset purchases too soon were also significant, or that asset purchases should continue until a substantial improvement in the labor market outlook had occurred

# Monetary Policy

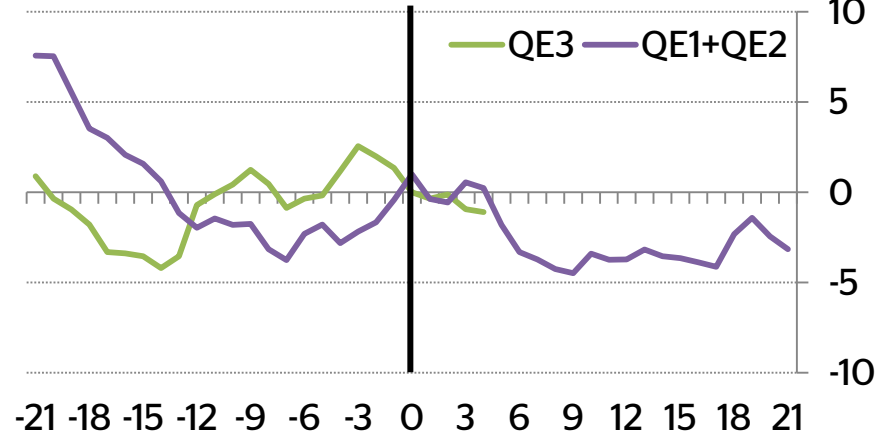
## ISM

Average QE1+QE2 vs QE3, 0=start



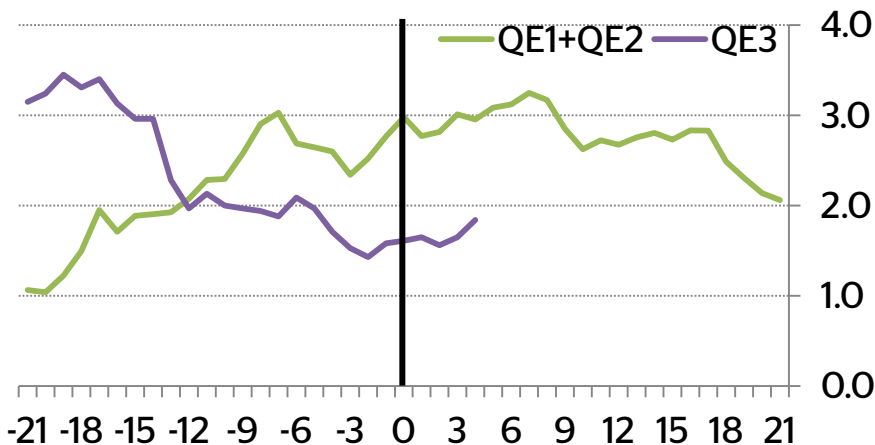
## US Dollar

Average QE1+QE2 vs QE3, 0=start



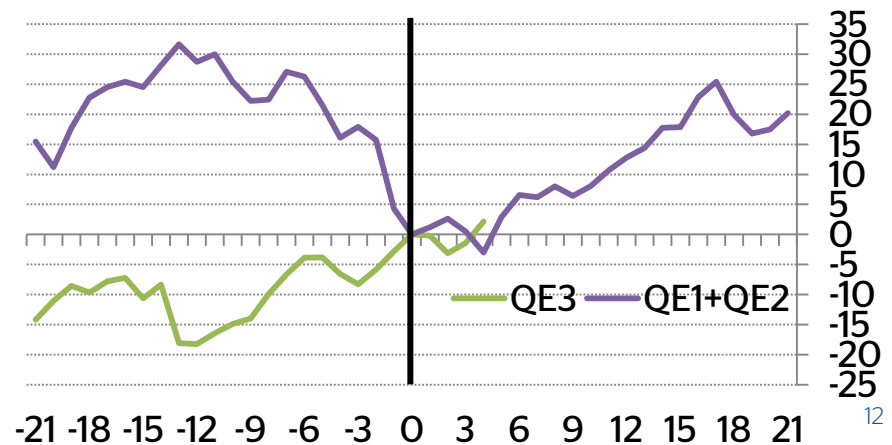
## Yield Curve Slope

Average QE1+QE2 vs QE3, 0=start



## S&P 500

Average QE1+QE2 vs QE3, 0=start

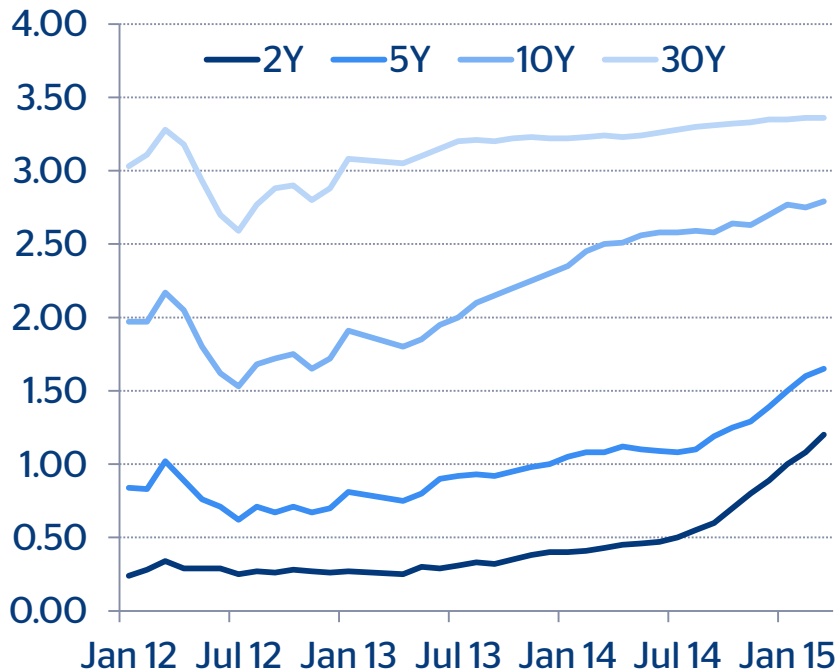


# Interest Rate Forecasts

Official Scenario: An upward trend accelerating in 2H13

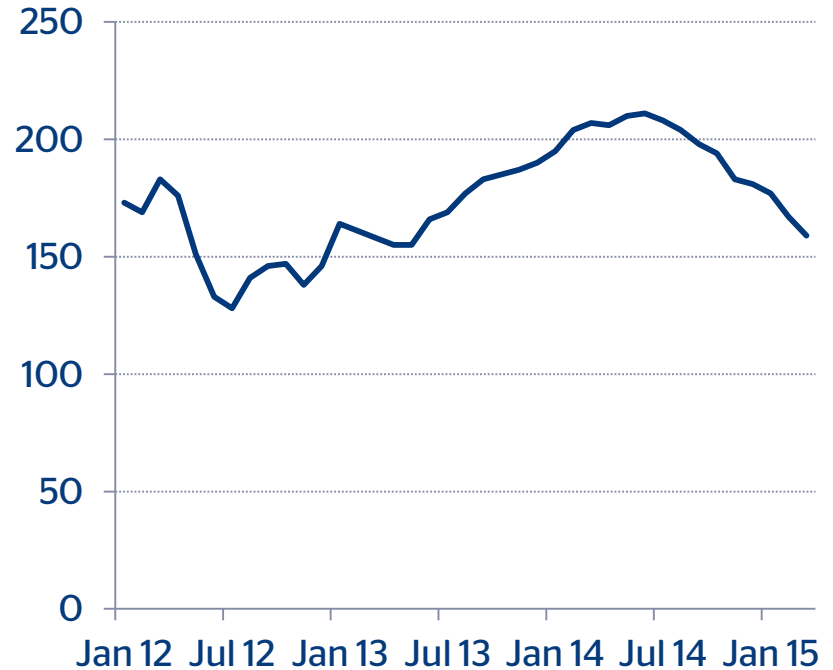
Treasury Yield Curve

US\$tn



Slope

%



# 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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