

# Economic Outlook

## US Monthly Update

April 5, 2013

# Meeting Details

**Topic: US Monthly Economic Outlook**

**Date: Friday, April 5, 2013**

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

**Meeting Number / Access Code: 712 374 930**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=197898617&UID=1482062197&PW=NOWUxMjl3Njdh&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>

# Economic Activity

Data	Last	3m ago	6m ago	12 m ago
ISM	51.3	50.2	51.6	53.3
ISM nonmanufacturing	56.0	54.8	54.3	56.1
Capacity utilization	78.3	77.8	77.2	77.9
Industrial production (yoy % chg)	2.5	3.2	2.8	4.9
Capital goods new orders (yoy % chg)	-1.7	1.7	-4.3	11.9
Unemployment rate (%)	7.7	7.8	8.1	8.3
Nonfarm payroll (Thou)	236	247	165	271
Auto sales (Million)	15.3	15.5	14.5	14.4
Real disposable income (yoy % chg)	0.9	2.8	1.6	0.1
Real personal spending (yoy % chg)	2.0	1.9	1.9	1.9
Retail sales ex autos & gas (yoy % chg)	4.0	3.8	3.6	5.8
Consumer confidence (Index)	59.7	66.7	68.4	69.5
Housing starts (yoy % chg)	27.7	18.8	29.1	38.6
Home prices (CS/SP, yoy % chg)	8.1	4.2	1.2	-4.0

- Solid production and investment trends

- Consumption resilient after tax hikes

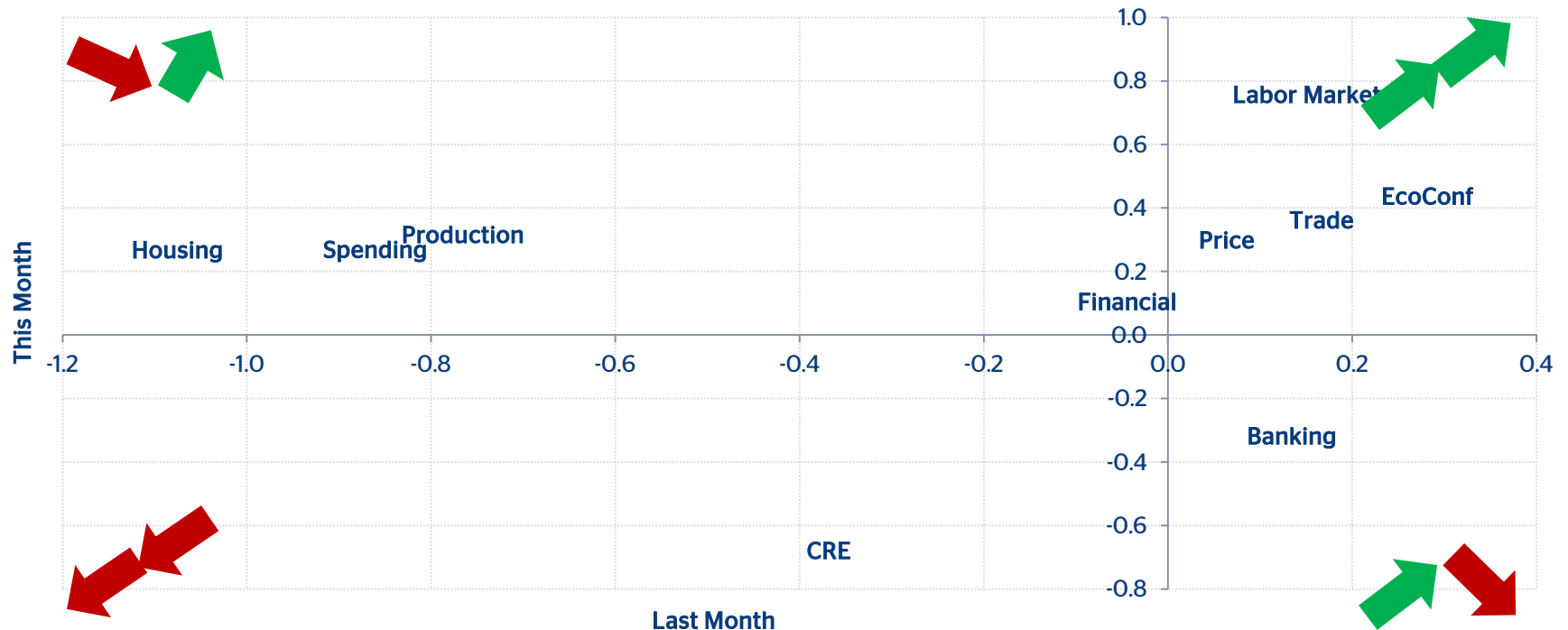
- Housing starts reaching highest level in five years

# Economic Activity

Activity in most sectors is reversing upward after a weak end to 2012, but is it sustainable?

## BBVA Monthly Activity Index Trends

MoM Change

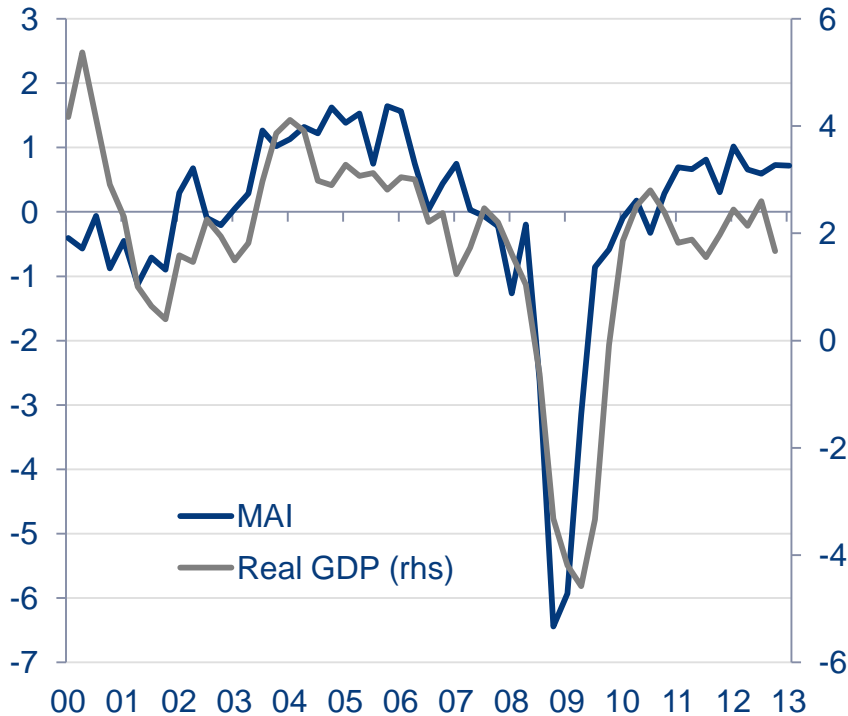


Source: BBVA Research

# Economic Activity

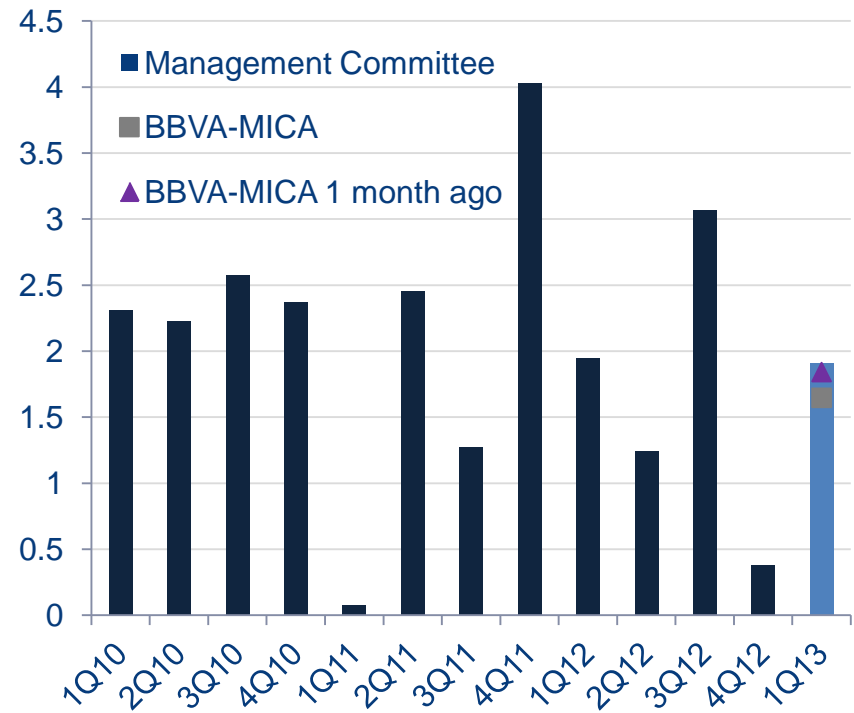
Recent indicators suggest only modest growth in 1Q13 growth, with fiscal pressures weighing more on 1H13 activity

Real GDP & Monthly Activity Index  
4Q % Change



Source: BBVA Research

BBVA-MICA GDP Forecast  
QoQ SAAR % change



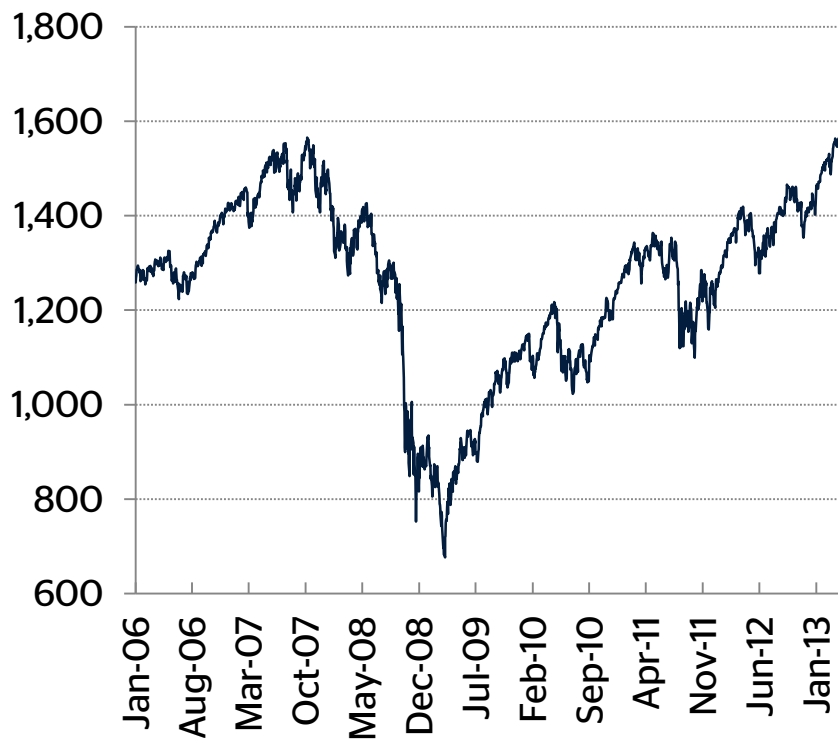
Source: BBVA Research

# Financial Markets

Positive investor sentiment driving up equity indexes to new all-time highs

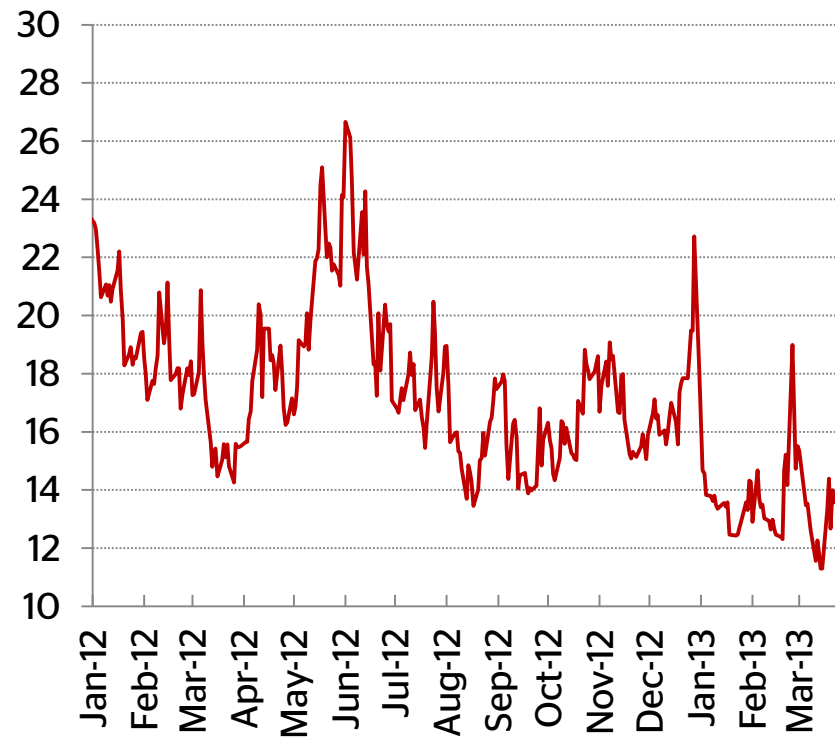
Equity Prices

S&P 500



Volatility

VIX

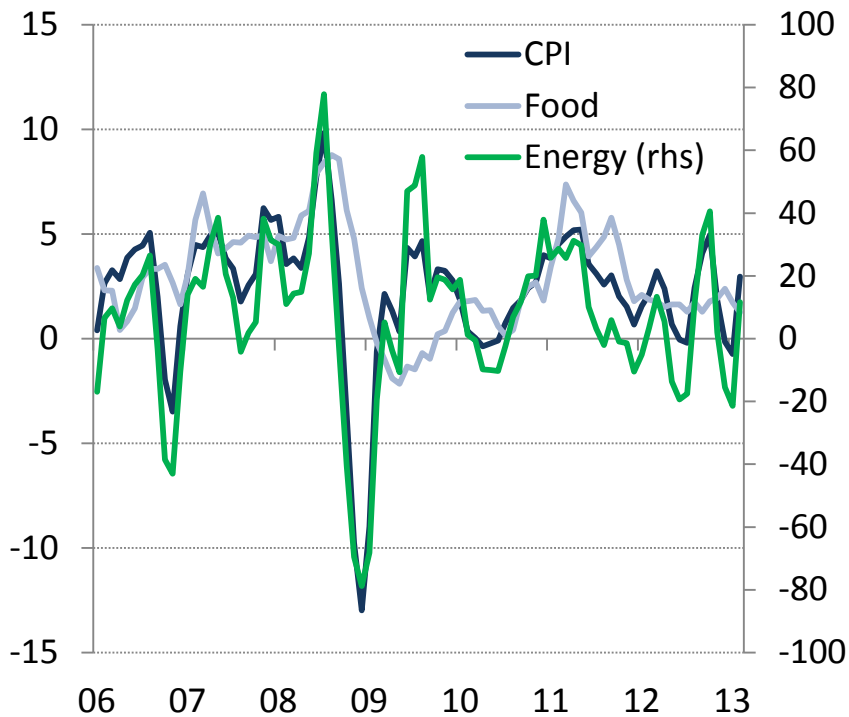


Source: BBVA Research / Haver

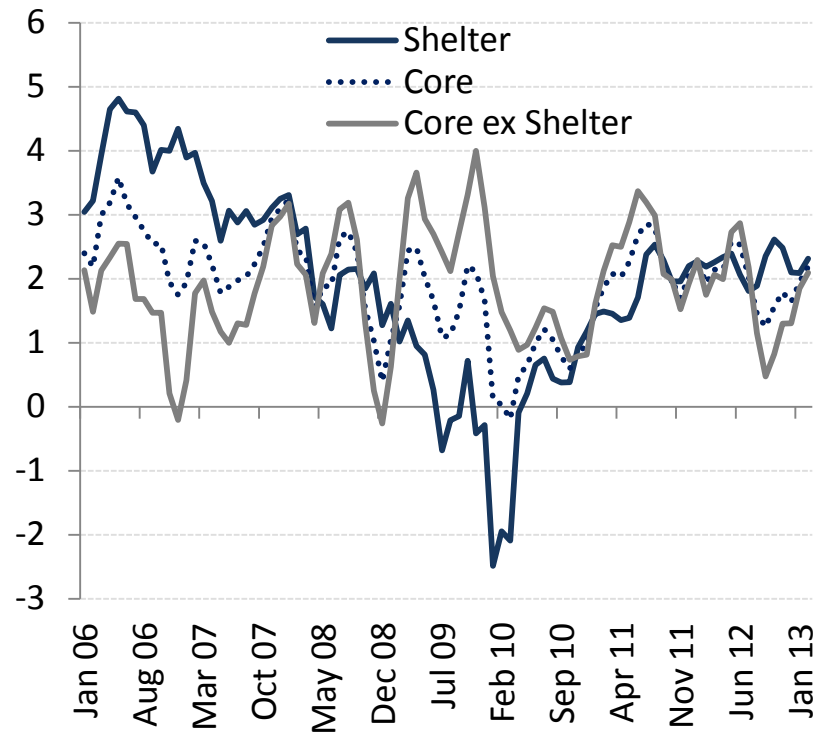
# Inflation

## Core prices slightly edging up but still at low levels

CPI  
3m% change



Core CPI  
3m% change

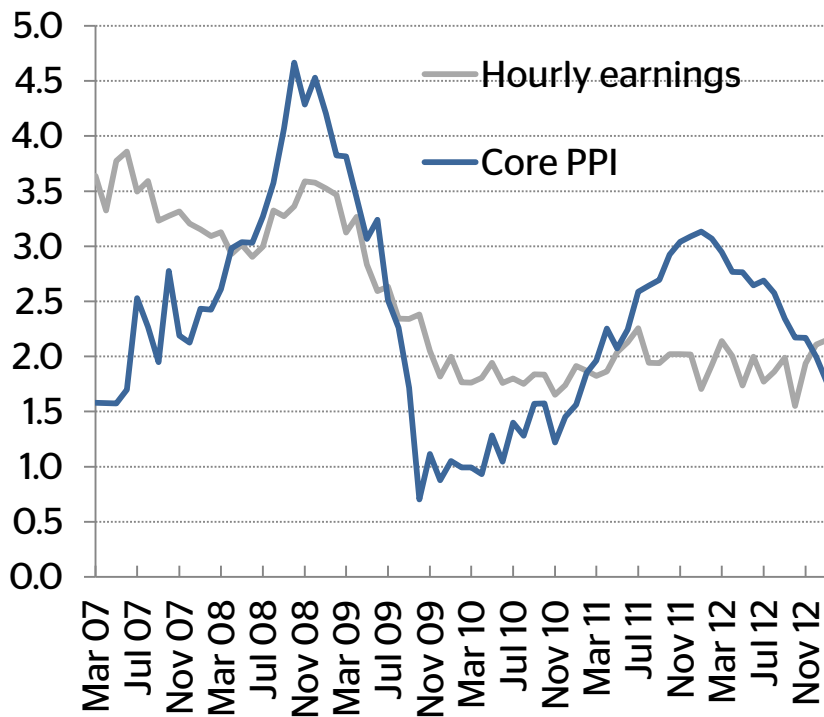


# Inflation

## No price pressures on the pipeline and stable inflation expectations

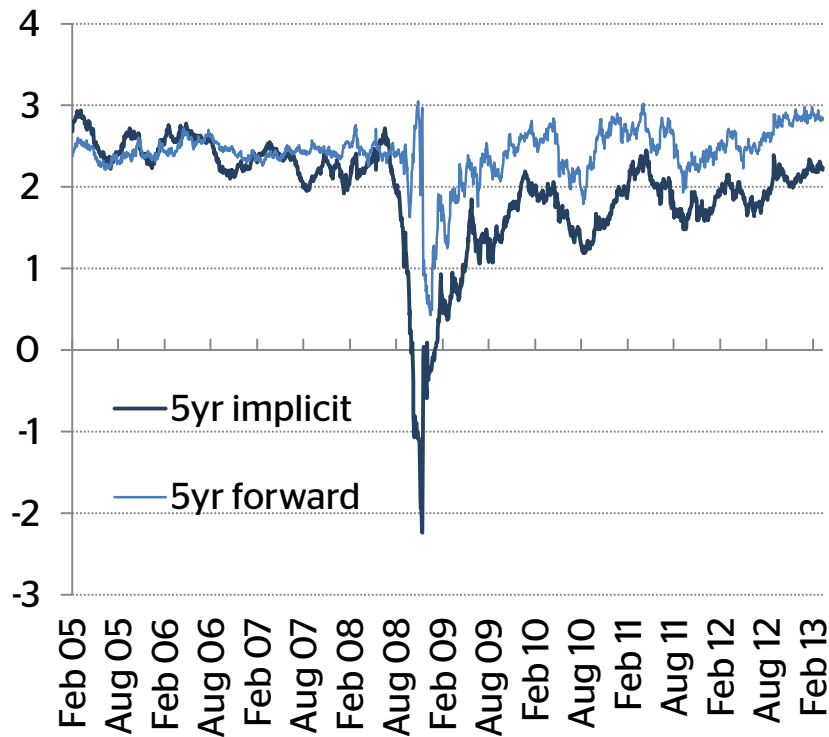
Producer prices and Wage Costs

12m % change



Inflation Expectations

%



Source: BBVA Research / Haver

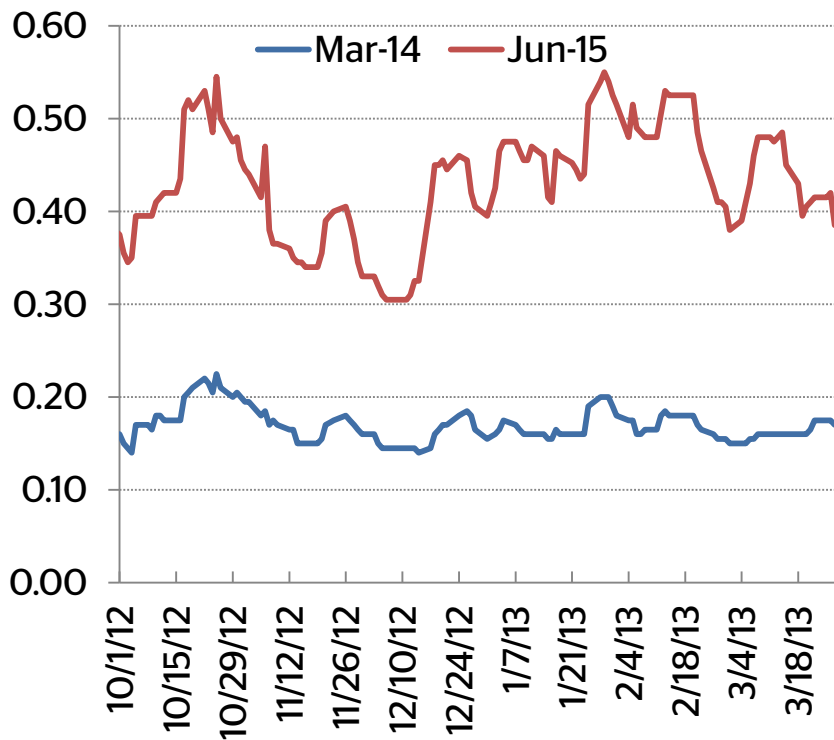


# Monetary Policy

## FOMC Statement; March 20, 2013

### Fed Funds Futures

%



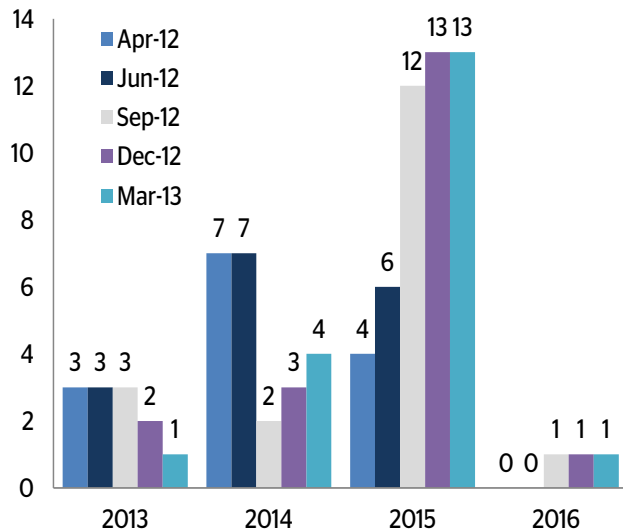
### A somewhat better outlook

- Improved economic conditions;
- Low inflation and stable inflation expectations
- Housing sector has strengthened further
- Fiscal policy has become somewhat more restrictive

### But not enough to diverse course

- Fragility still elevated to take chances (fiscal uncertainty, Europe, etc.)
- Net benefits of QE3 still positive
- Intense debate
- KC President voted against as in the previous meeting

# Monetary Policy



- The FOMC expects growth to pick-up in 2013 albeit at a slower pace than forecasted in December
- The committee also revised down their 2014 forecast for unemployment rate
- On timing, there was only one vote that shifted, from 2013 to 2014, and thus consensus remains that policy firming will occur in 2015
- The committee forecasts showed a shift toward continued low rates in 2014, and suggested that the first rate hikes will not occur until 2015

### March 2013 FOMC Projections

	2013	2014	2015	Long-term
<b>GDP, 4Q yoy % change</b>				
Low	2.3	2.9	2.9	2.3
High	2.8	3.4	3.7	2.5
<b>Unemployment rate, 4Q %</b>				
Low	7.3	6.7	6.0	5.2
High	7.5	7.0	6.5	6.0
<b>Core PCE, 4Q yoy % change</b>				
Low	1.3	1.5	1.7	2.0
High	1.7	2.0	2.0	2.0

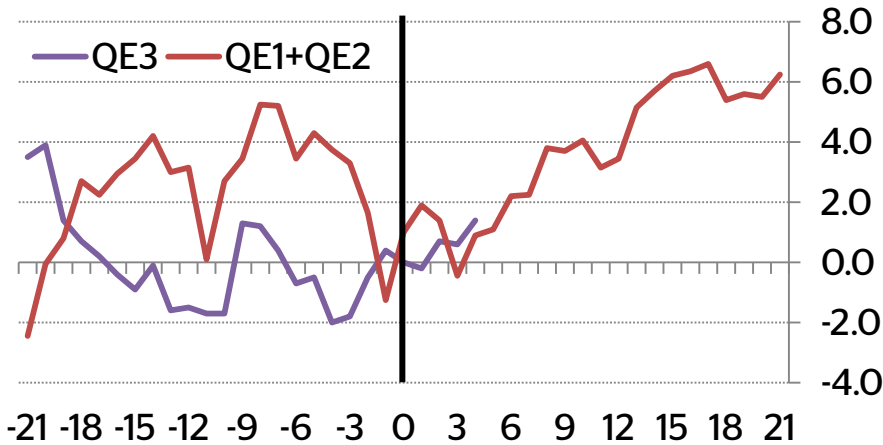
### Dec 2012 FOMC Projections

	2013	2014	2015	Long-term
<b>GDP, 4Q yoy % change</b>				
Low	2.3	3.0	3.0	2.3
High	3.0	3.5	3.7	2.5
<b>Unemployment rate, 4Q %</b>				
Low	7.4	6.8	6.0	5.2
High	7.7	7.3	6.6	6.0
<b>Core PCE, 4Q yoy % change</b>				
Low	1.6	1.6	1.8	---
High	1.9	2.0	2.0	---

# Monetary Policy

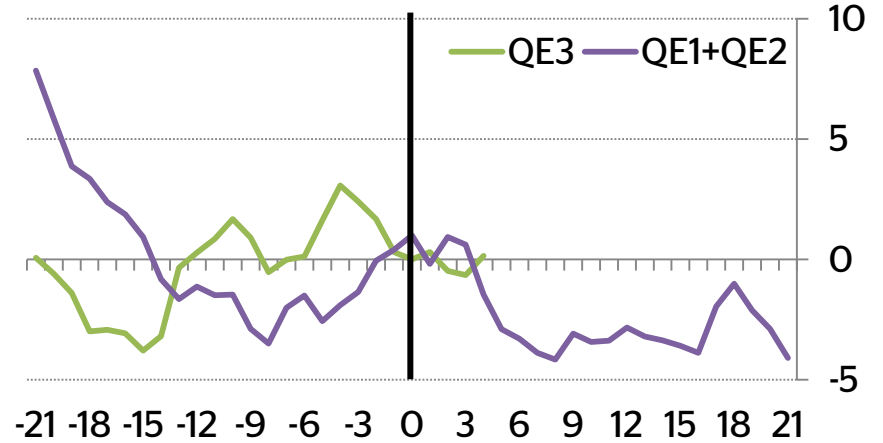
## ISM

Average QE1+QE2 vs QE3, 0=start



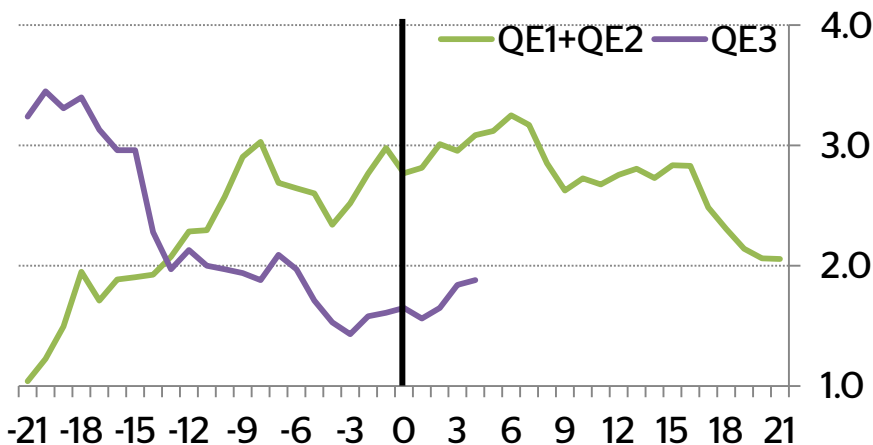
## US Dollar

Average QE1+QE2 vs QE3, 0=start



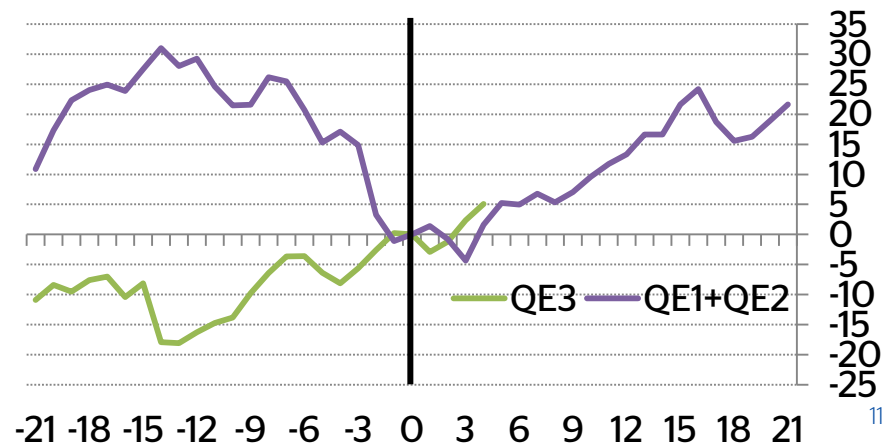
## Yield Curve Slope

Average QE1+QE2 vs QE3, 0=start



## S&P 500

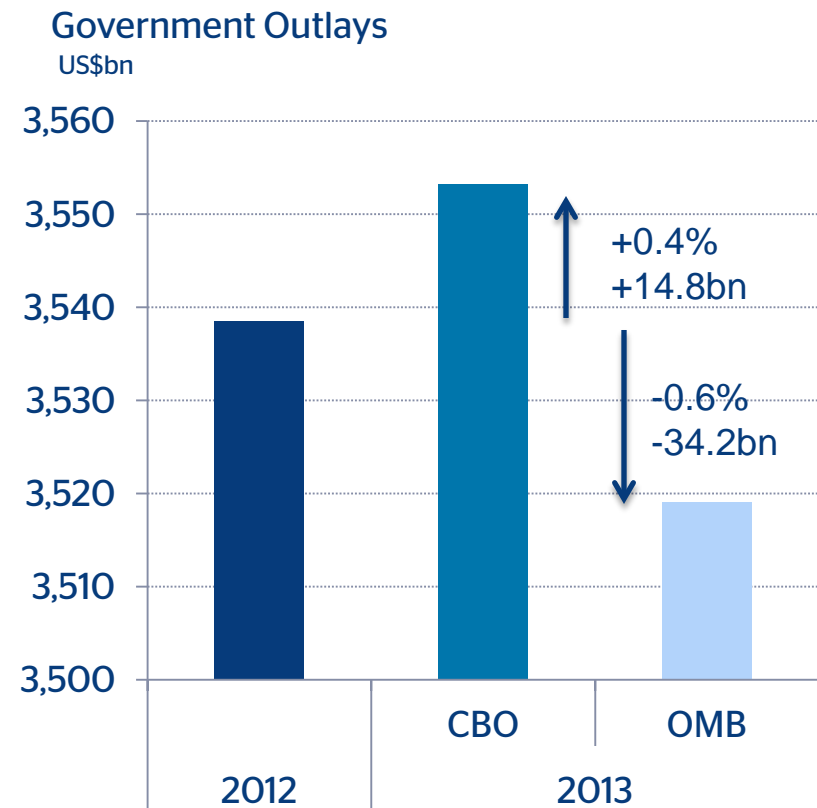
Average QE1+QE2 vs QE3, 0=start



# Consolidated and Further Continuing Appropriations Act, 2013

- Avoids government shutdown by funding operations until Sep-30
- Leaves \$85bn of cuts

Outlays, OMB	Before	Sequester	After
Discretionary	1,196	-68	1,127
Subject to caps	1,043	-59	984
Excluded	153	-9	144
Mandatory	2,409	-17	2,392
<b>Total</b>	<b>3,605</b>	<b>-85</b>	<b>3,519</b>



# Meeting Feedback

We would appreciate any feedback you have for us.

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

**Thank you for participating!**

# Economic Outlook

## US Monthly Update

April 5, 2013