

# Economic Outlook

## U.S. Monthly Update

May 9, 2013

# Meeting Details

**Topic: U.S. Monthly Economic Outlook**

**Date: Thursday, May 9, 2013**

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

**Meeting Number / Access Code: 715 998 150**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=200841237&UID=1507680032&PW=NmZl4NmI4NmUy&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>

# 2Q13 Economic Outlook

## GDP

Recovery becoming more sustainable

- A rebound in 1Q13 growth but likely to slowdown: Sequester, labor markets, private investment, etc.
- Resilient consumption despite tax hikes
- Ongoing housing recovery
- Strength in asset prices

## Inflation

Contained pressures

- Core prices up slightly but still well within the Fed's target
- Inflation expectations remain stable

## Fed

Sticking to the plan

- Continue asset purchases until labor market outlook improves significantly
- Expectations blurred by rising debate on the efficacy and costs of QE3

## Interest Rates

Low yields for a prolonged period

- Fed reinforcing communication strategy to contain pressures and achieve an orderly adjustment
- Moderate yield curve steepening

## Risks

Lower probability

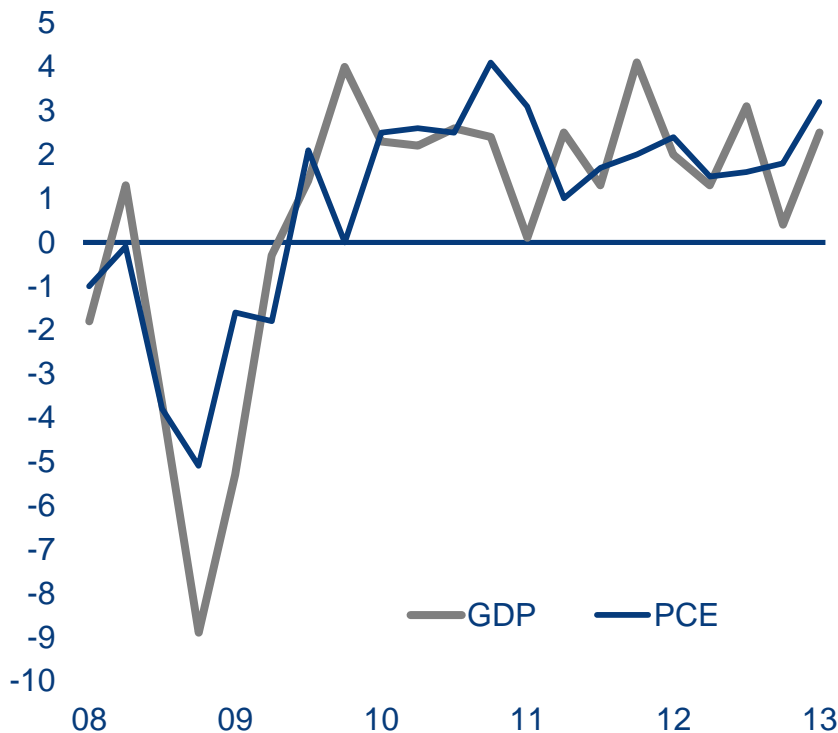
- Domestic: fiscal concerns still relevant, QE3 costs and elevated inflation, labor market weakness
- Global: deeper European crisis, sharp change in commodity/energy prices, geopolitical threats

# 1Q13 GDP

Early strength in consumption helped bolster the 1Q13 advance figure despite a significant drag from government

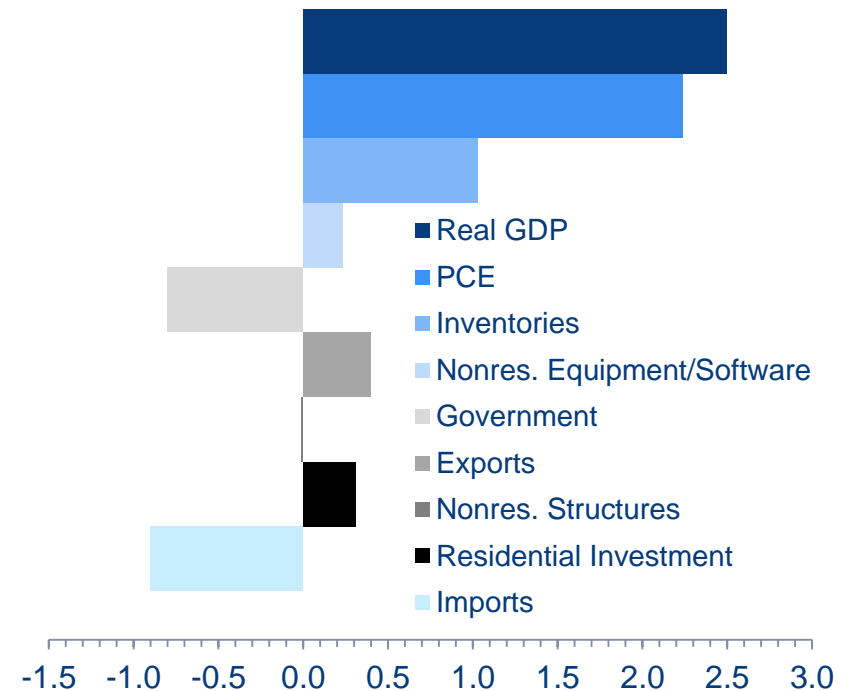
## Real GDP and PCE Growth

SAAR QoQ % change



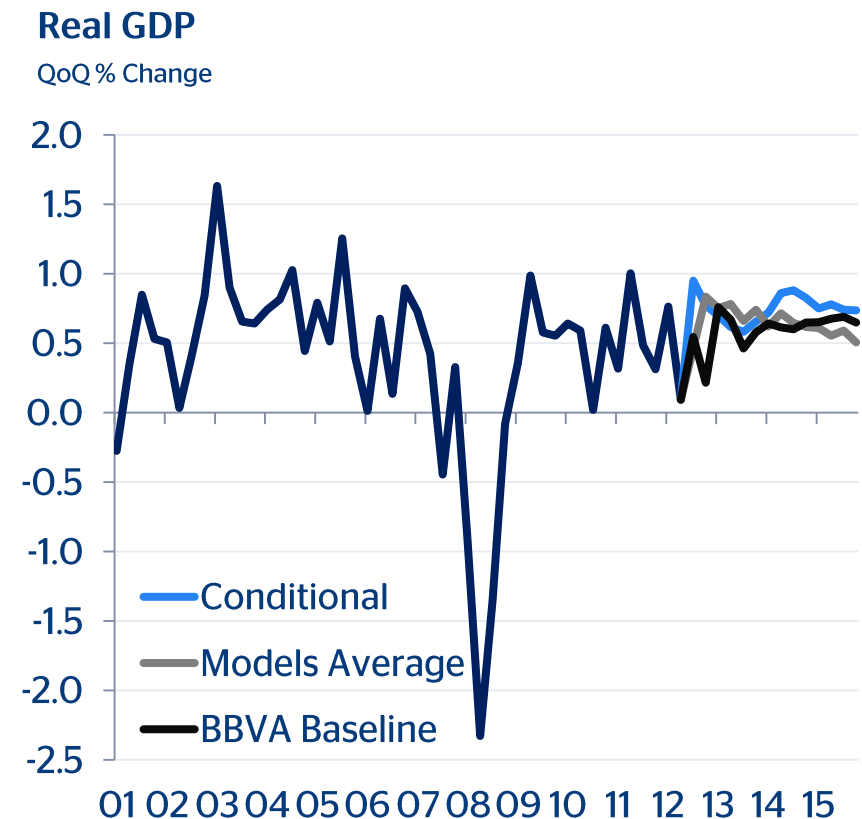
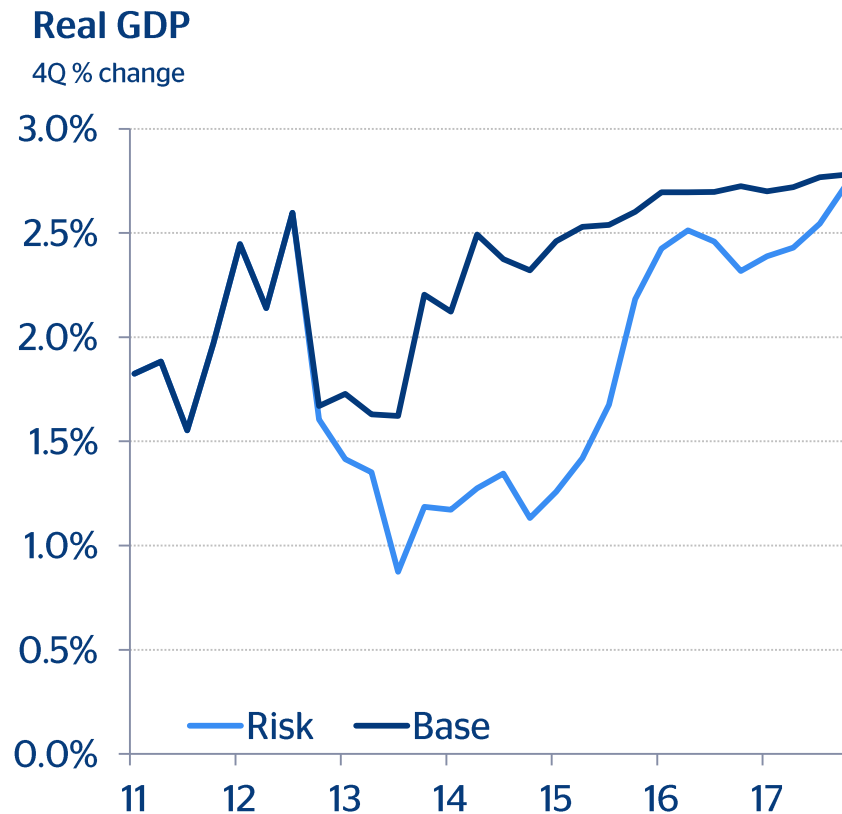
## Contributions to Real GDP Growth

1Q13 Advance, SAAR Percentage Points



# GDP

Fiscal pressures from the sequester have subsided some, relieving short-term risks to growth. Still, we don't expect much acceleration in 2013-2015

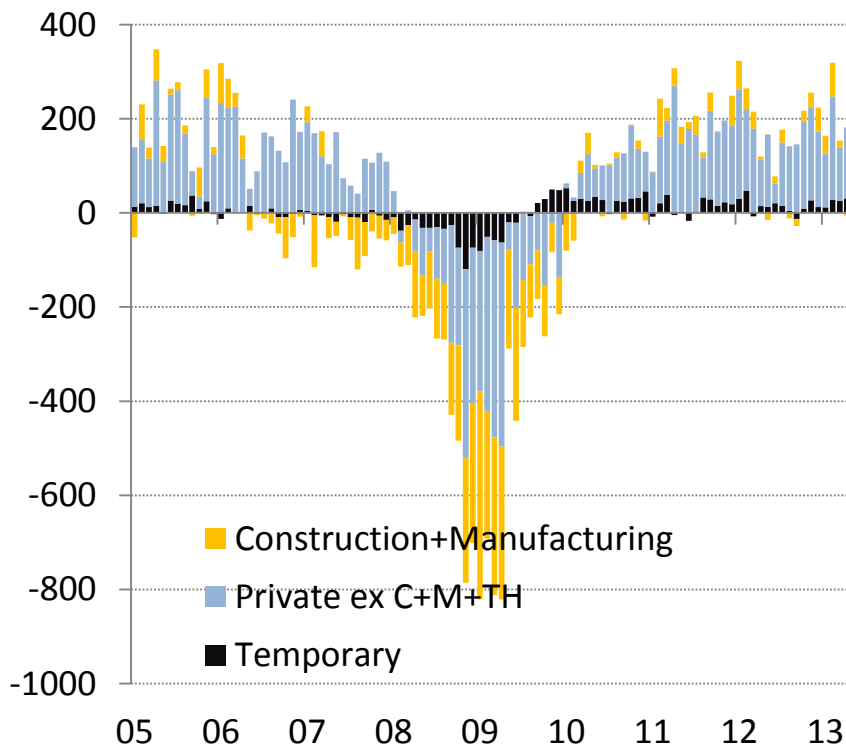


# Labor Market

Nonfarm payroll data was better-than-expected in April, and the unemployment rate continues to decline.

## Nonfarm Payrolls

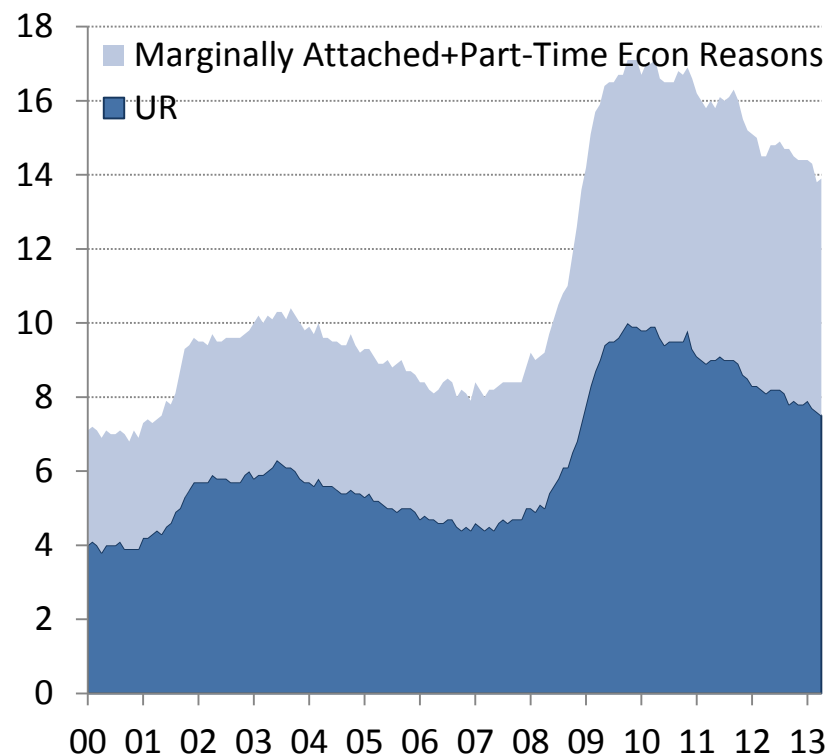
Monthly Change, K



Source: BBVA Research & BLS

## Unemployment Rate

%

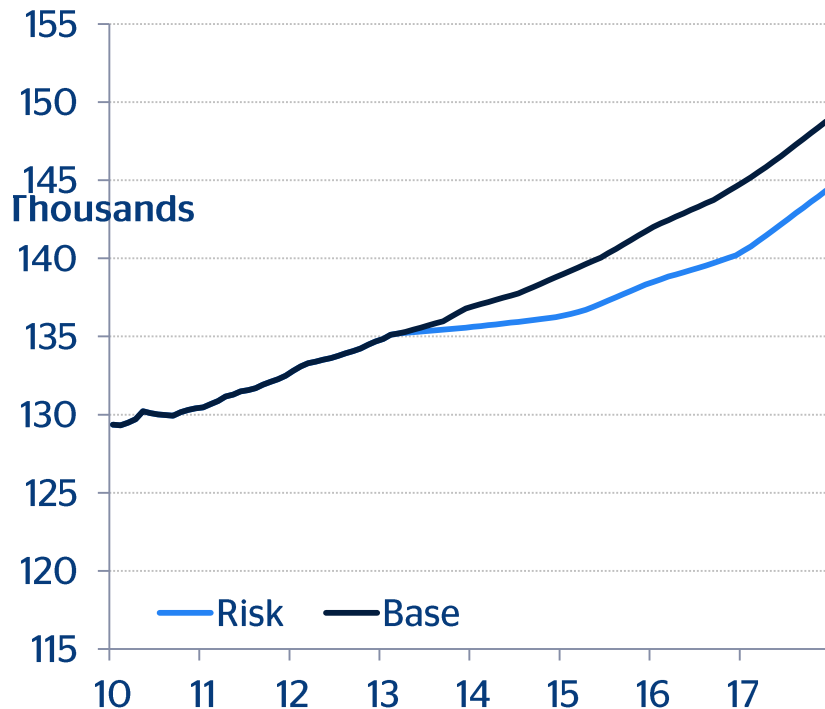


# Labor Market

Job growth on its own is not enough to cause genuine drops in unemployment. However, declines in labor force participation put downward pressure on the unemployment rate.

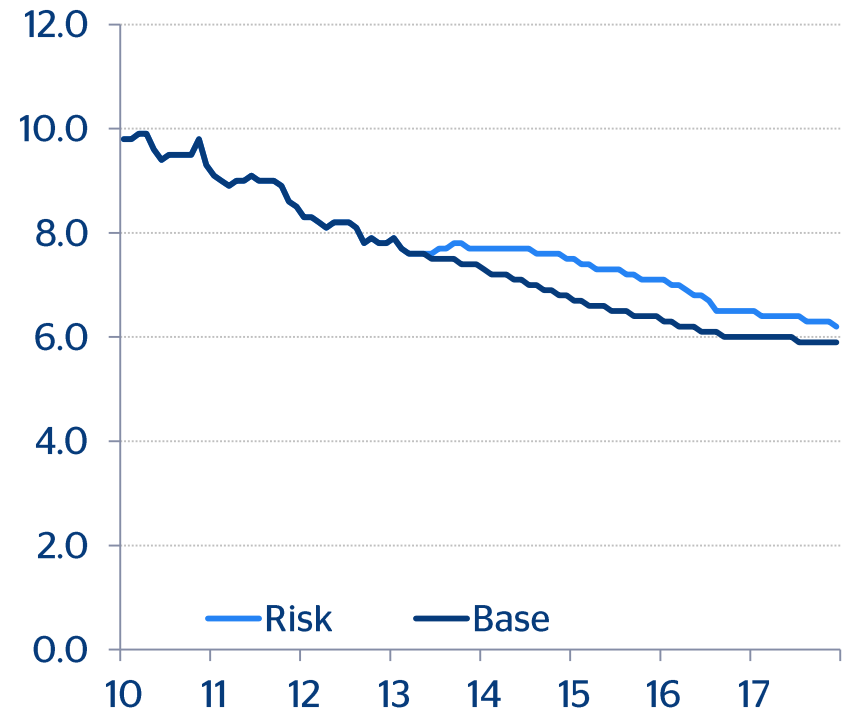
## Nonfarm Payrolls

Thousands



## Unemployment Rate

%

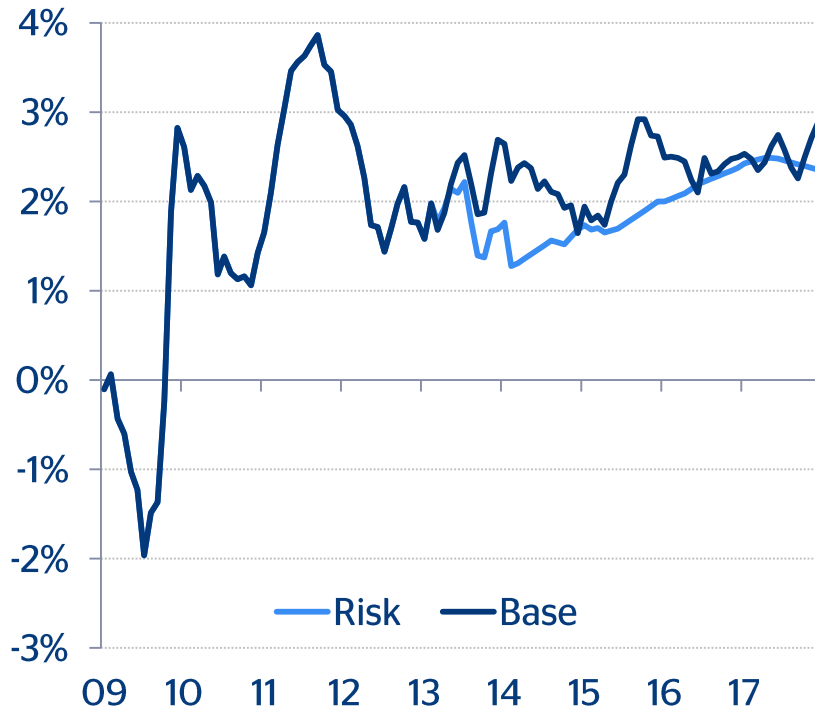


# CPI

Inflationary expectations remain stable given slow growth environment and significant slack. Core prices slightly edging up but still at low levels.

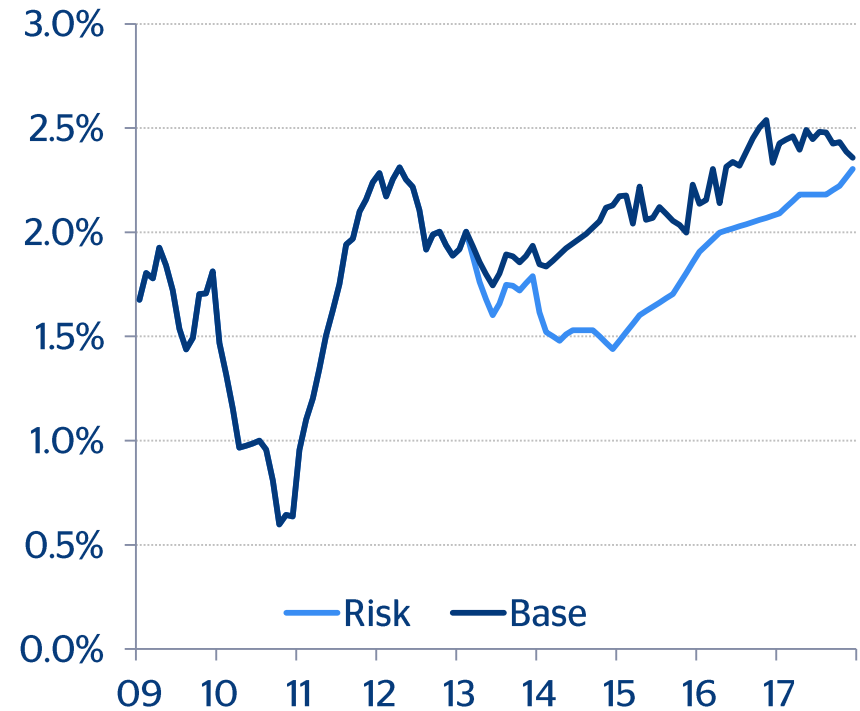
## Headline CPI

12-month % change



## Core CPI

12-month % change



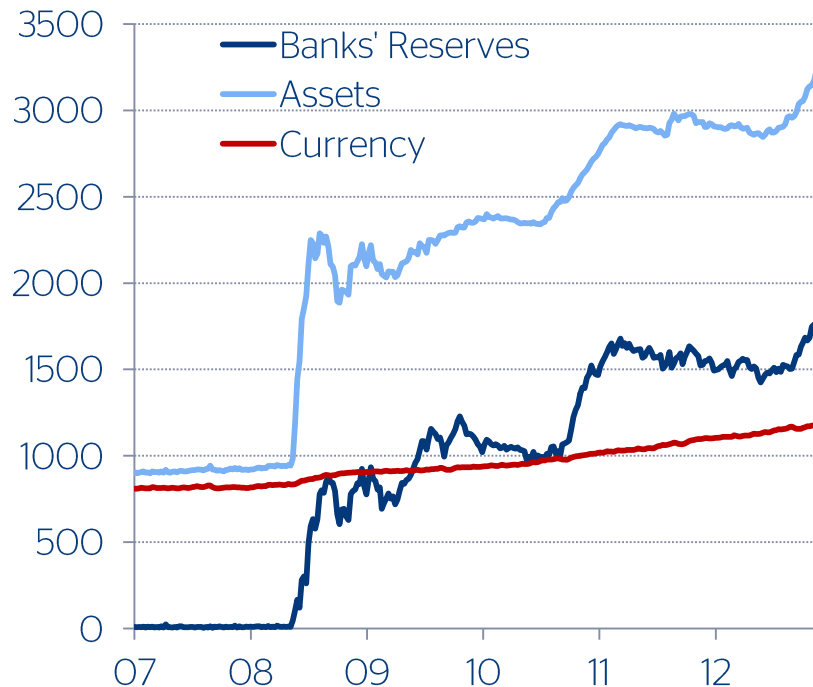


# Monetary Policy

Fed will first taper QE3 before ending the program in late 2013 or early 2014

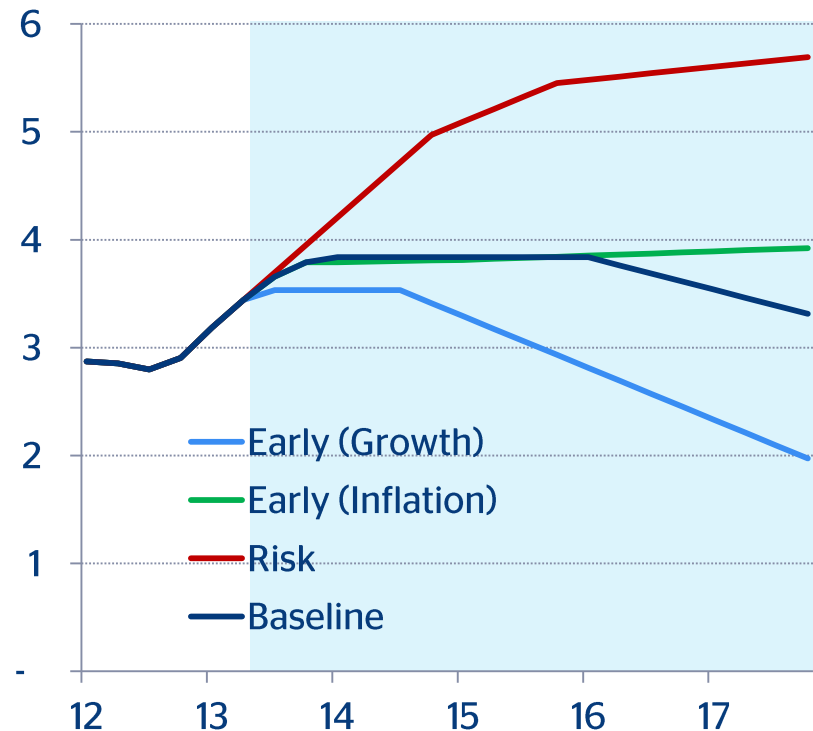
## Federal Reserve Balance Sheet

US\$tn



## Federal Reserve Assets

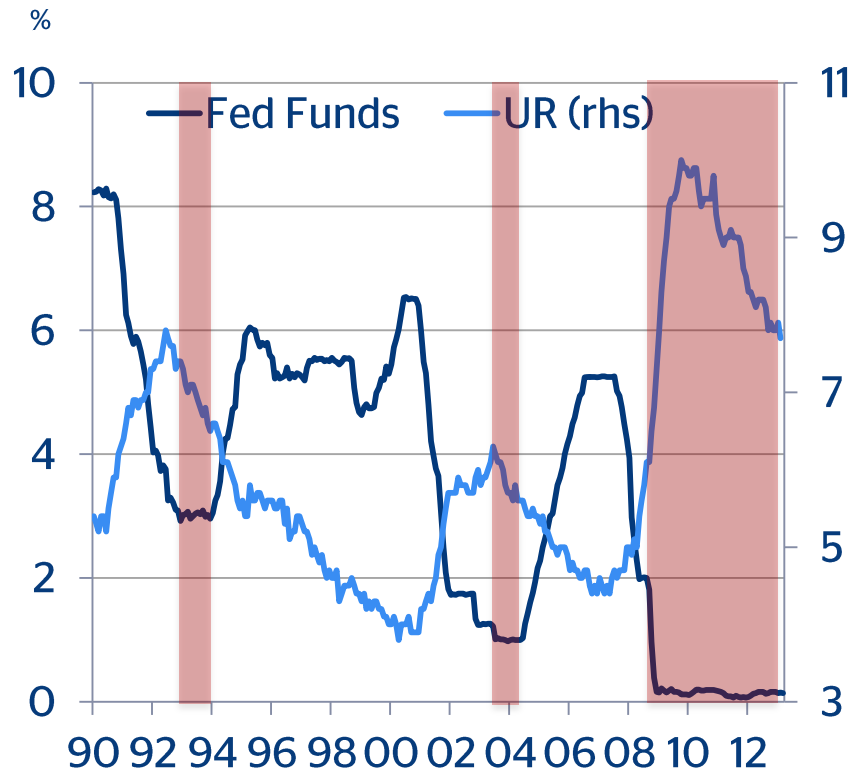
US\$tn



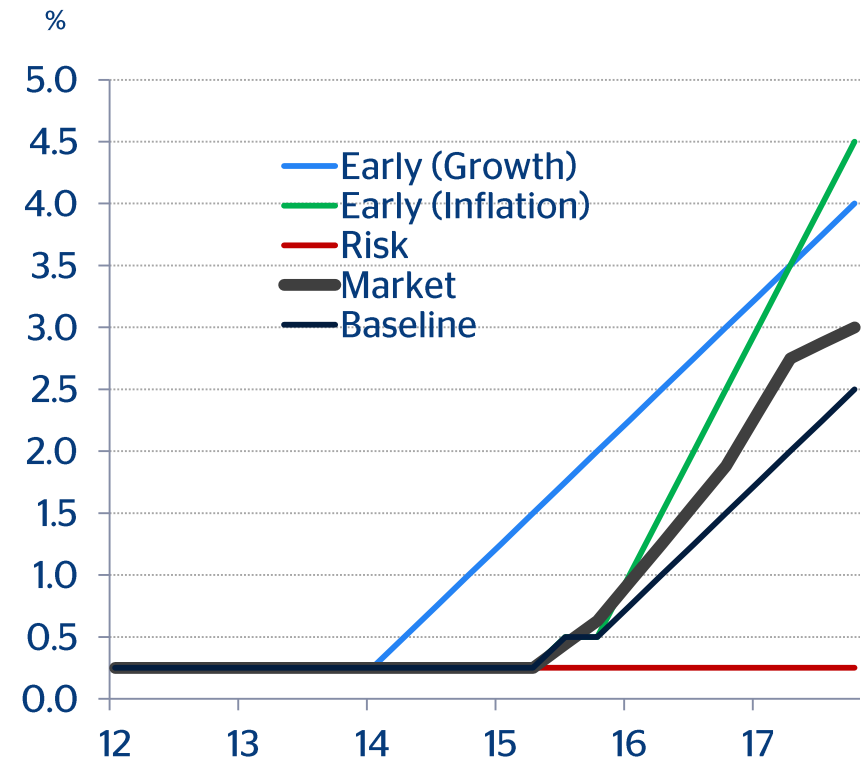
# Monetary Policy

Fed funds will remain near-zero until after the unemployment rate hits 6.5%, assuming that inflation is also under control.

## Fed Funds & Unemployment Rate



## Fed Funds Scenarios



## Base

## Our 2Q13 scenarios remains unchanged New vs. Previous

	2011	2012	2013	2014	2015	2016	2017
GDP <b>new</b>	1.8	2.2	1.8	2.3	2.5	2.7	2.7
old	1.8	2.2	1.8	2.3	2.5	2.7	2.6
CPI <b>new</b>	3.1	2.1	2.1	2.2	2.3	2.4	2.5
old	3.1	2.1	2.1	2.2	2.3	2.4	2.5
Core <b>new</b>	1.7	2.1	1.9	2.0	2.1	2.3	2.4
old	1.7	2.1	1.9	2.0	2.1	2.3	2.4
Fed <b>new</b>	0.25	0.25	0.25	0.25	0.50	1.5	2.5
[eop] old	0.25	0.25	0.25	0.25	0.50	1.5	2.5

# Risks: Balancing Domestic and Global

## Domestic

Intense labor market weakness, sharp decline in GDP growth

**Fiscal policy:**  
not out of the woods yet

Government shutdown avoided but budget negotiations will resume again as fiscal year-end approaches

Debt ceiling debate still on the back burner

Backlash of regulatory changes

**Monetary policy:**  
pushing the limit?

Costs of QE3 may start to outweigh the benefits, difficult to reverse accommodation

Elevated inflation concerns, but still significant economic slack and low inflation

## Global

Sharp change in commodity/energy prices, geopolitical threats

Deeper European economic crisis (reform fatigue)

Severe financial stress in Europe (downgrade, financial collapse, etc)

# Risk

Our risk scenario has moderated significantly: Milder European crisis,  
less policy uncertainty, lower probability of tail-risk events  
New vs. Previous

	2011	2012	2013	2014	2015	2016	2017
GDP <b>new</b>	1.8	2.2	1.2	1.2	1.6	2.4	2.5
old	1.8	2.2	-0.5	0.8	1.7	2.2	2.4
CPI <b>new</b>	3.1	2.1	1.8	1.5	1.8	2.2	2.4
old	3.1	2.1	-0.4	0.4	1.6	2.0	2.1
Core <b>new</b>	1.7	2.1	1.8	1.5	1.7	2.0	2.2
old	1.7	2.1	1.1	1.2	1.6	1.9	2.0
Fed <b>new</b>	0.25	0.25	0.25	0.25	0.25	0.25	0.25
[eop] old	0.25	0.25	0.25	0.25	0.25	0.25	0.25

# Meeting Feedback

We would appreciate any feedback you have for us.

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

Thank you for participating!

# Economic Outlook

## U.S Monthly Update

May 9, 2013