

# Economic Outlook

## U.S. Monthly Update

August 15, 2013

# Meeting Details

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

**Date: Thursday, August 15, 2013**

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

**Meeting Number / Access Code: 717 027 875**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=241957742&UID=494946087&PW=NYTAWNDJhNDE5&RT=MiM3>

**To join the audio conference only:**

**Call-in toll-free number (US/Canada): 1-877-768-4036**

**Call-in toll number (US/Canada): 1-972-932-2100**

**Global call-in numbers:**

<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=187370482&tollFree=1>

# Baseline Scenario

## GDP

More sustainable growth in 2H13

- Slower-than-expected growth in 1H13, but pickup in 2H13
- Near the end of the deleverage process
- Solid growth in personal spending/moderate business spending
- Improving labor market conditions; strong housing & wealth gains

## Inflation

Contained pressures

- Deflationary pressures subsiding
- Stable inflation expectations and wage costs
- Core pressures from services; healthcare, shelter & transportation

## Fed

Transparency & flexibility

- Exit timeline in line with our expectations
- Communication seeking orderly correction; data dependency
- 15 out of 19 members expect rate hike no earlier than 2015

## Interest Rates

Normalization process

- Global rebalancing/expectations swing drives volatility
- First correction is over; more to come
- Yield curve steepening. Normalization at 3.8%-4.0%

## Risks

A more symmetric probability

- Upside: stronger labor market recovery, structural reforms, energy revolution, productivity shock
- Downside: fiscal policy, QE3 costs, financial instability, labor market weakness, tight credit conditions
- Global: European/EM crisis, commodity prices, geopolitical threats

# Baseline Scenario

No major revisions

	2011	2012	2013	2014	2015	2016	2017
GDP <b>new</b>	1.8	2.8	1.8	2.3	2.5	2.8	2.8
old	1.8	2.2	1.8	2.3	2.5	2.7	2.7
CPI <b>new</b>	3.1	2.1	1.6	2.3	2.4	2.4	2.4
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

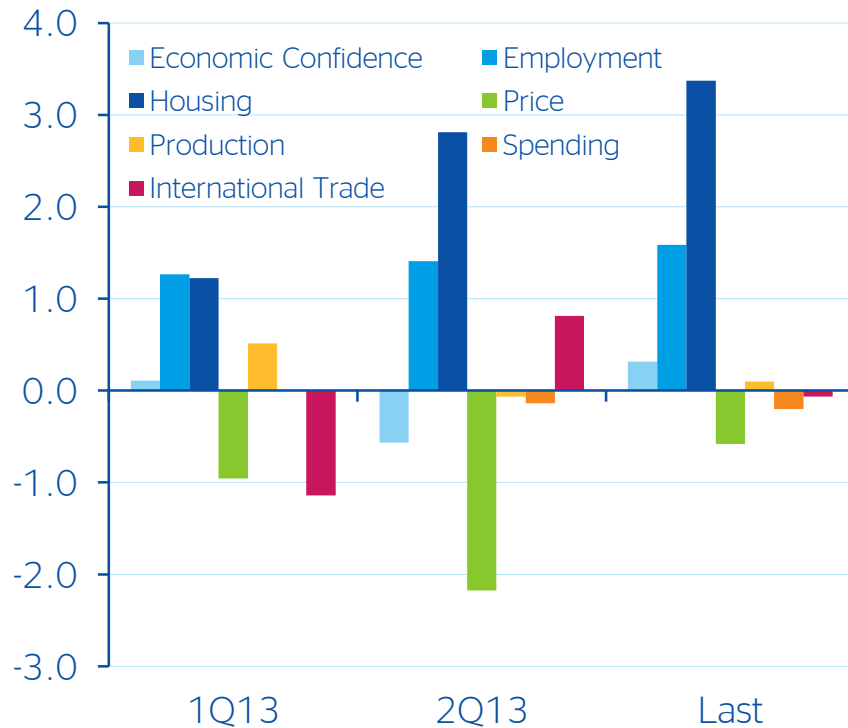
# Economic Activity

Indicator	Assessment		Indicator	Assessment	
ISM Manufacturing			Unemployment Rate (%)		
ISM Non-Manufacturing			Nonfarm Payrolls (MoM Change in K)		
Capacity Utilization			Auto Sales (Millions)		
Industrial Production (YoY % Change)			Real Disposable Income (YoY % Change)		
Capital Goods New Orders (YoY % Change)			Real Personal Spending (YoY % Change)		
Housing Starts (YoY % Change)			Retail Sales Ex Auto & Gas (YoY % Change)		
Home Prices: S&P Case-Shiller (YoY % Change)			Consumer Confidence Index		

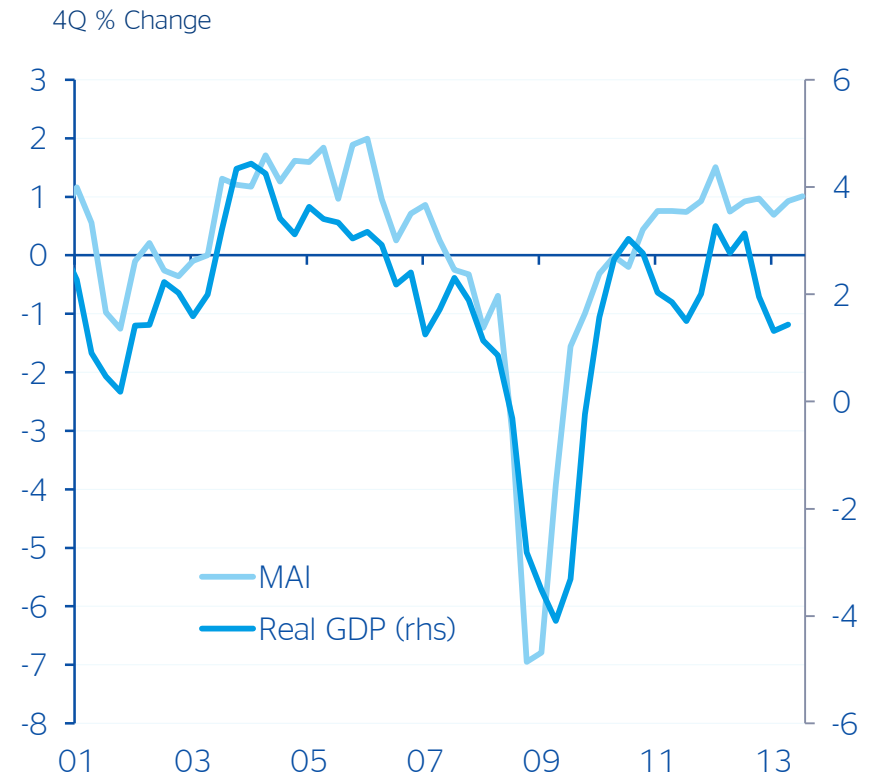
# Economic Activity

Economic indicators suggest an improvement at the start of 3Q13. Pending any fiscal disturbances, 2H13 should be stronger.

BBVA U.S. Monthly Activity Index



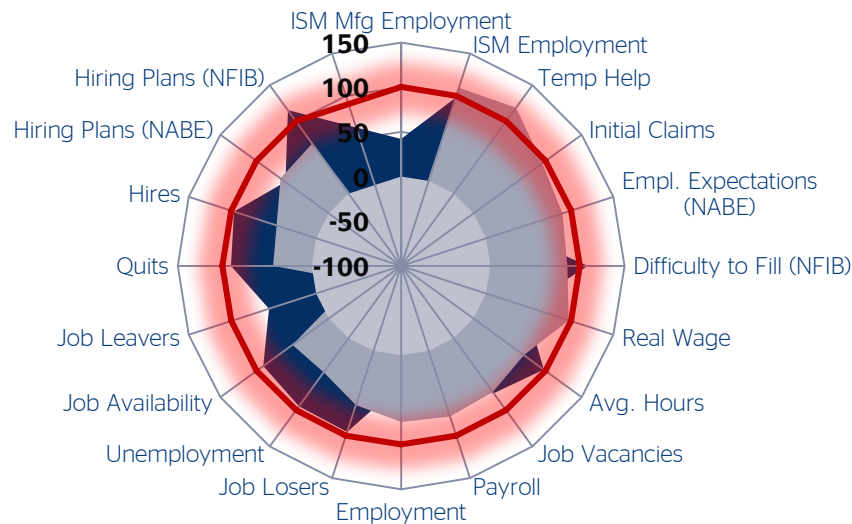
BBVA U.S. MAI & Real GDP Growth



# Labor Market

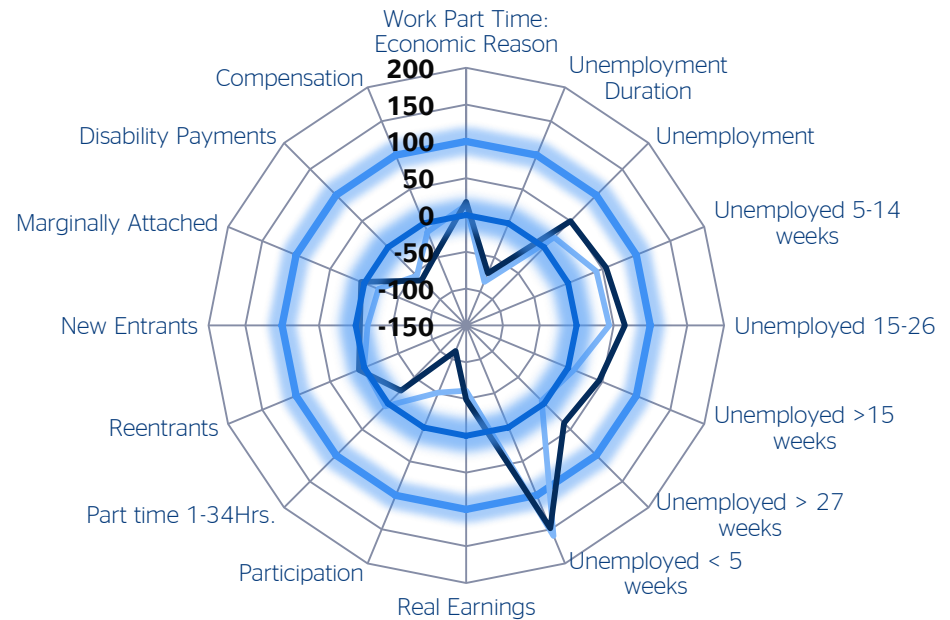
Steady job growth, although unemployment remains elevated and structural concerns are still relevant

Labor Market Outlook



■ 2002-2007   ■ Last   ■ 4Q09=0   ■ 4Q07=100

Labor Market Utilization



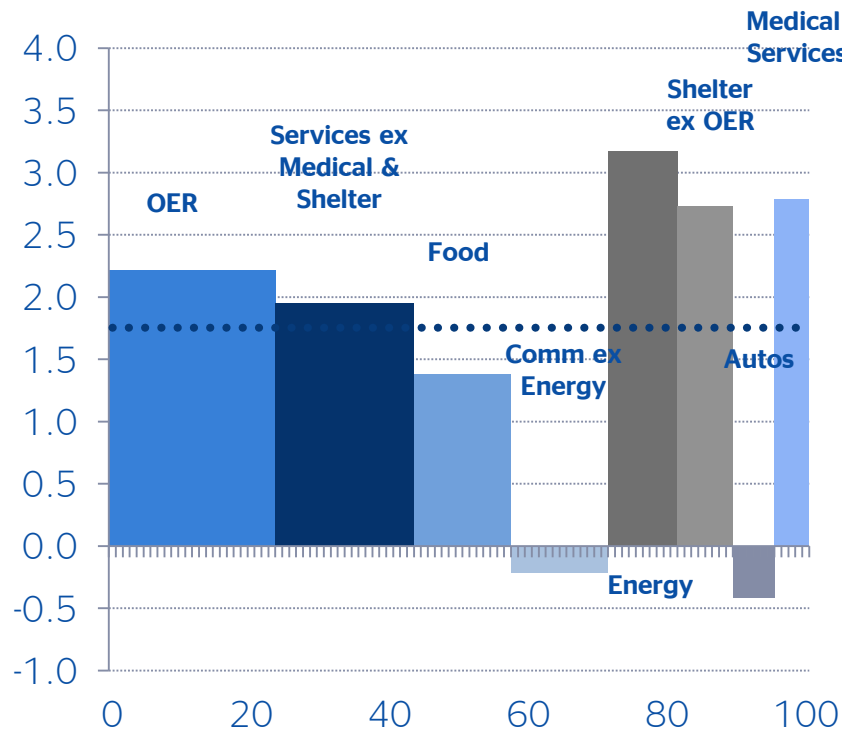
■ 2002-2007=100   ■ 1Q11   ■ Last   ■ 4Q09=0

# Inflation

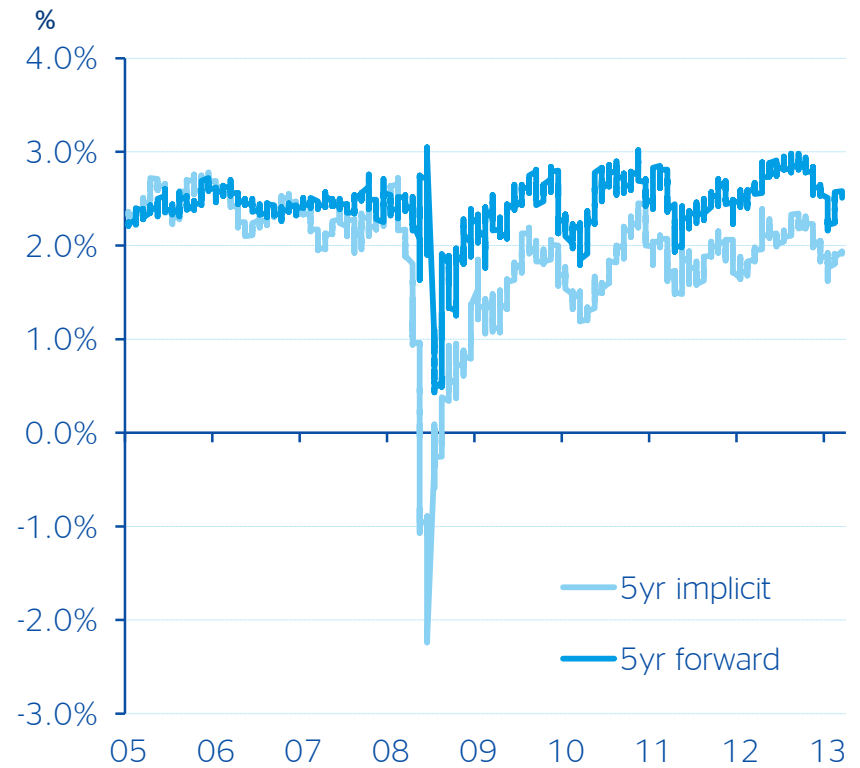
Downward price pressures from tradables.  
Services remain within the Fed's 2% target

Contributions to CPI

Relative Importance & 12m% change



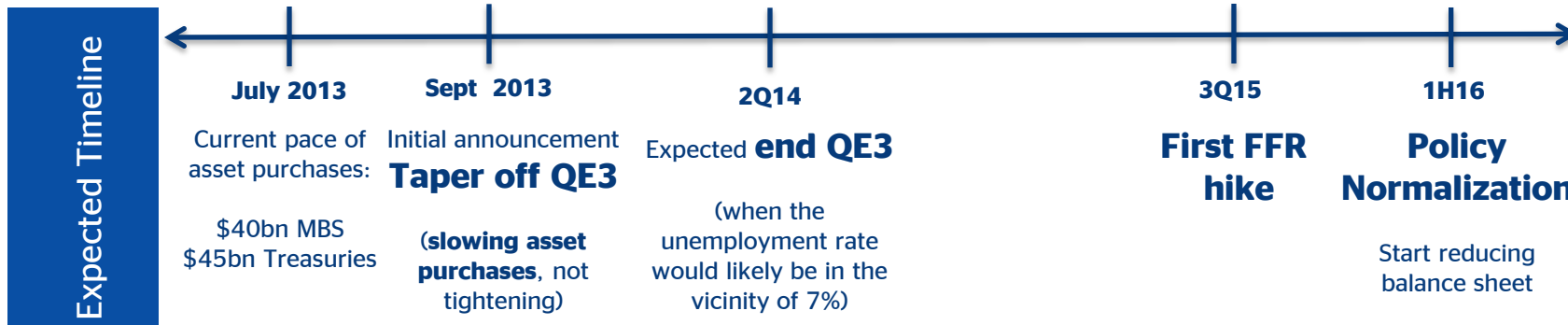
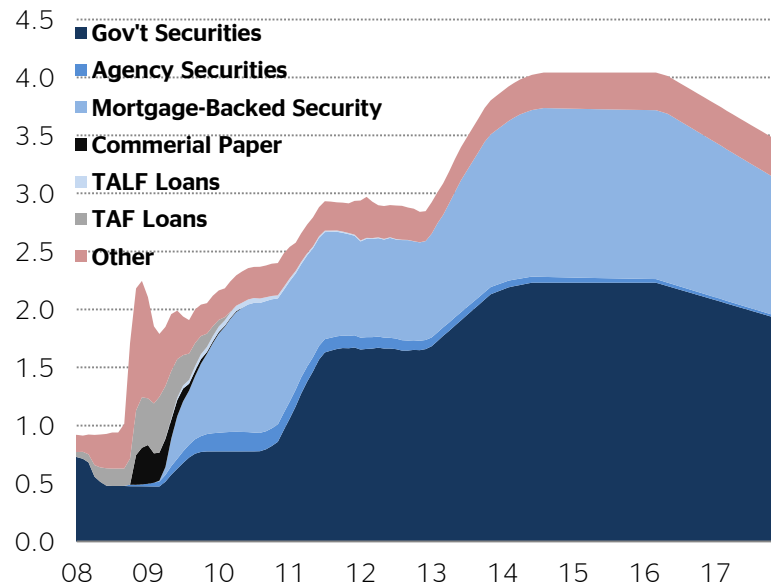
Inflation Expectations





# Expectations for QE3 Tapering

- ❖ Drop in QE purchases this year, ending in 2Q14
- ❖ Policy exit remains vastly data-driven: **definite path is dependent on the pace of the recovery and the inflation outlook**

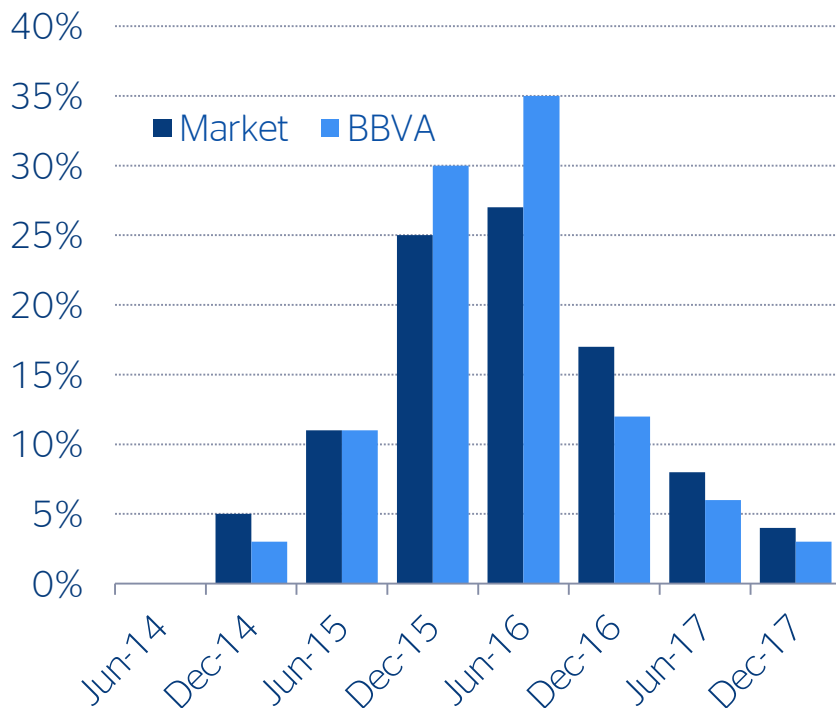


# Federal Funds Rate

Market expectations on Fed funds assume a similar timing for the first rate hike but a slightly faster pace

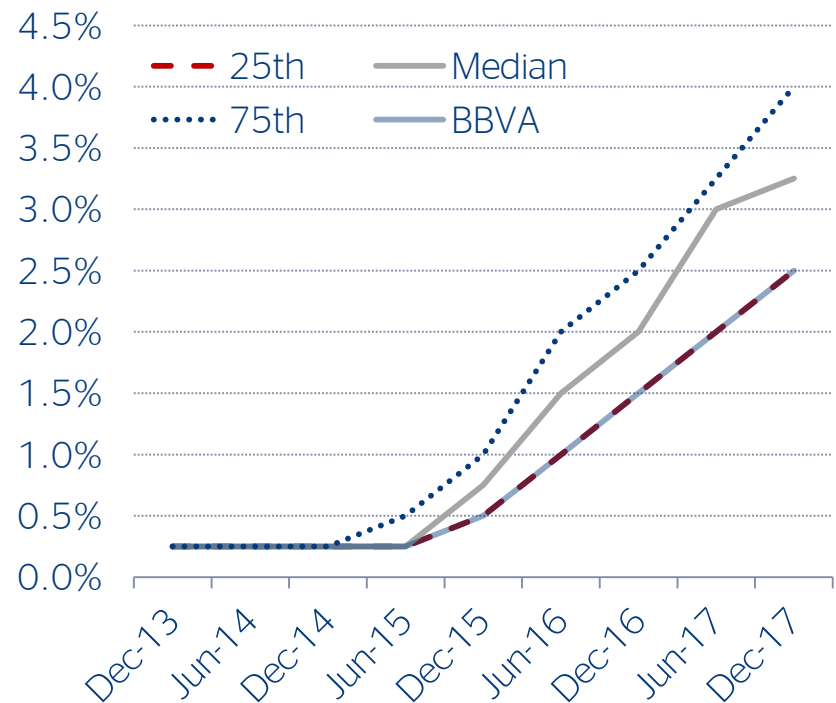
## First Rate Hike

End of period, probability



## Market Expectations Fed Funds

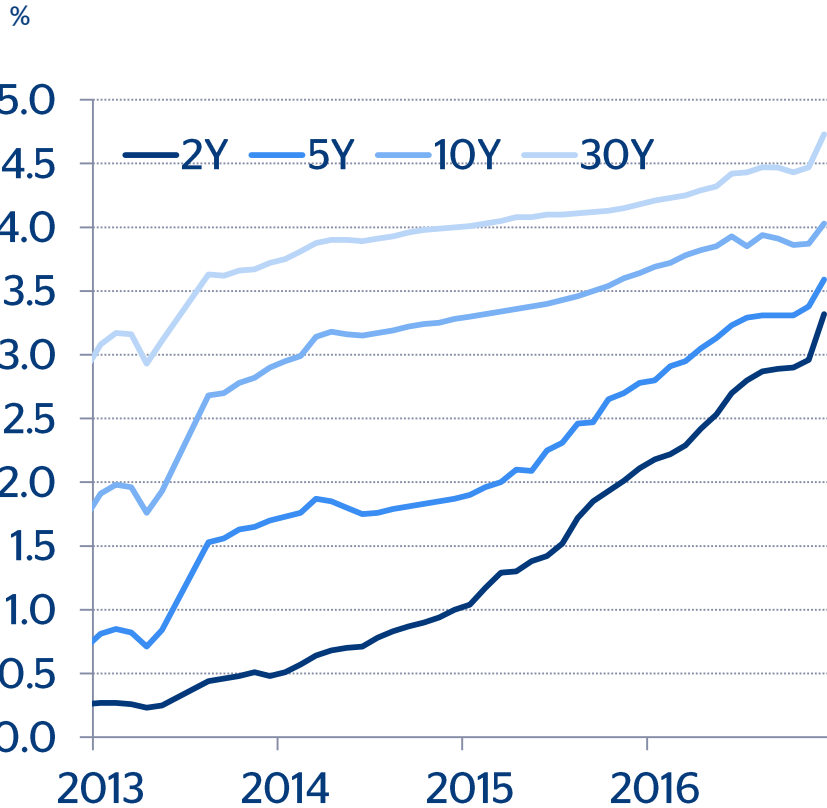
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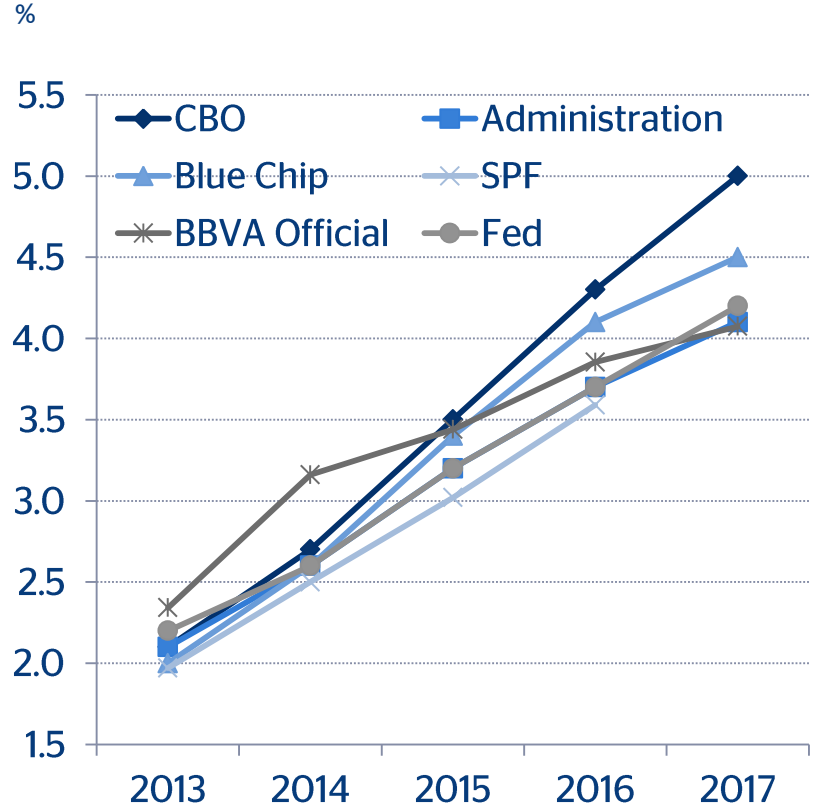
# Yield Curve

We continue to expect moderate increases

US Yield Curve: Official Scenario



10YTN Forecasts



Fed is unofficial as of March 2013

# U.S. Risks: A More Symmetric Distribution

**Upside**

**Downside**

Stronger labor market recovery

Structural reforms

Energy revolution

Productivity shock

**Domestic**

**Global**

Fiscal policy

QE3 costs

Financial instability

Labor market weakness

Tight credit conditions

European/EM crisis

Commodity prices

Geopolitical threats

# U.S. Downside Risk

Probability continues edging down, albeit slowly

	2011	2012	2013	2014	2015	2016	2017
GDP <b>new</b>	1.8	2.8	1.1	1.2	1.5	2.2	2.3
old	1.8	2.2	1.2	1.2	1.6	2.4	2.5
CPI <b>new</b>	3.1	2.1	0.7	0.0	0.8	1.4	2.0
old	3.1	2.1	1.8	1.5	1.8	2.2	2.4
Core <b>new</b>	1.7	2.1	1.2	0.5	1.1	1.5	1.9
old	1.7	2.1	1.8	1.5	1.7	2.0	2.2
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

# U.S. Upside Risk

Accounting for potential positive surprises

	2011	2012	2013	2014	2015	2016	2017
GDP <b>new</b>	1.8	2.8	2.0	2.7	3.2	3.4	3.4
CPI <b>new</b>	3.1	2.1	1.8	2.6	2.8	2.8	2.7
Core <b>new</b>	1.7	2.1	2.1	2.3	2.5	2.6	2.7
Fed <b>new</b>	0.25	0.25	0.25	0.75	1.75	2.75	3.75
[eop]							

# 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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