

# Economic Outlook

## U.S. Monthly Update

September 16, 2013

# Meeting Details

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

**Date: Monday, September 16, 2013**

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

**Meeting Number / Access Code: 714 187 990**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=245375902&UID=1615687867&PW=NZGQOMmVIMjI1&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>

# 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
- Research shows that long-term rates would be near 4.0% in the absence of Fed intervention

## 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

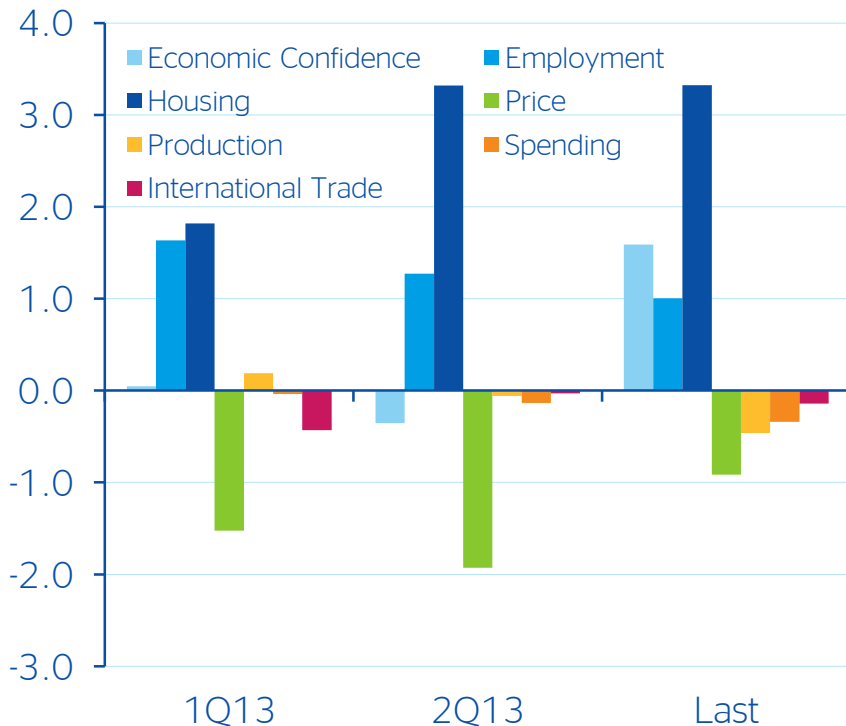
# Economic Activity

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		

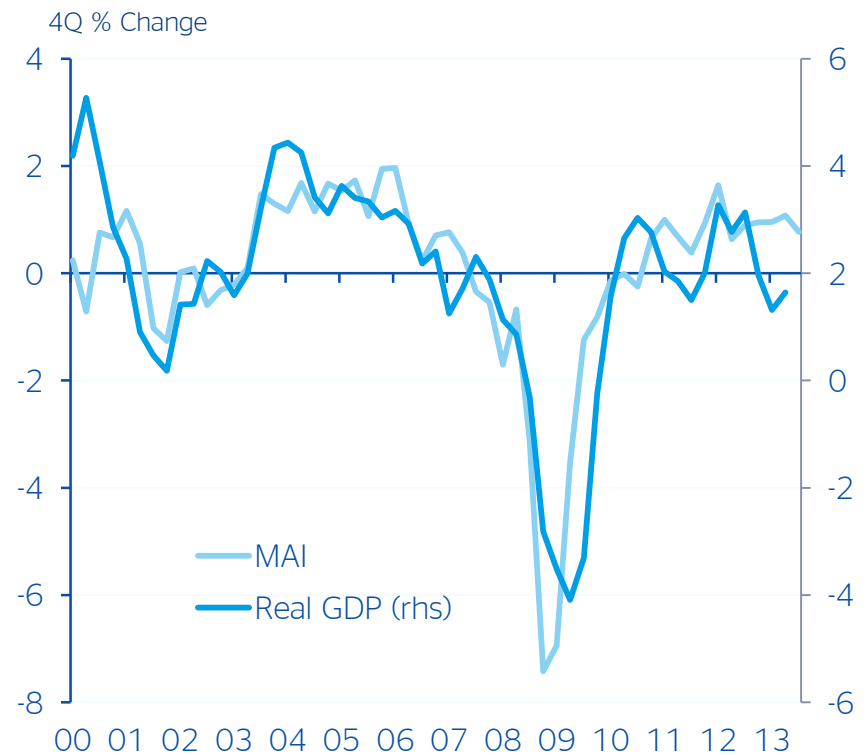
# Economic Activity

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

BBVA U.S. Monthly Activity Index

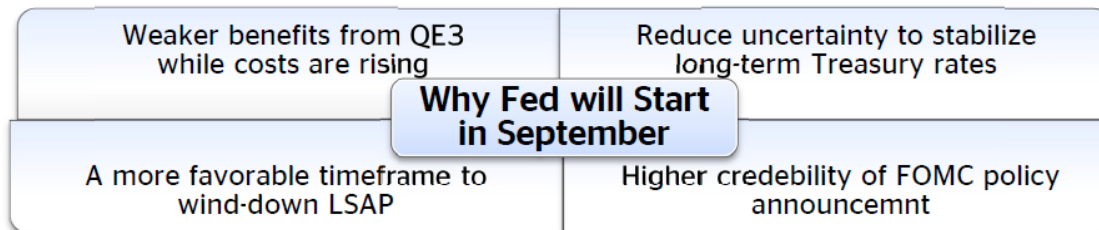


BBVA U.S. MAI & Real GDP Growth



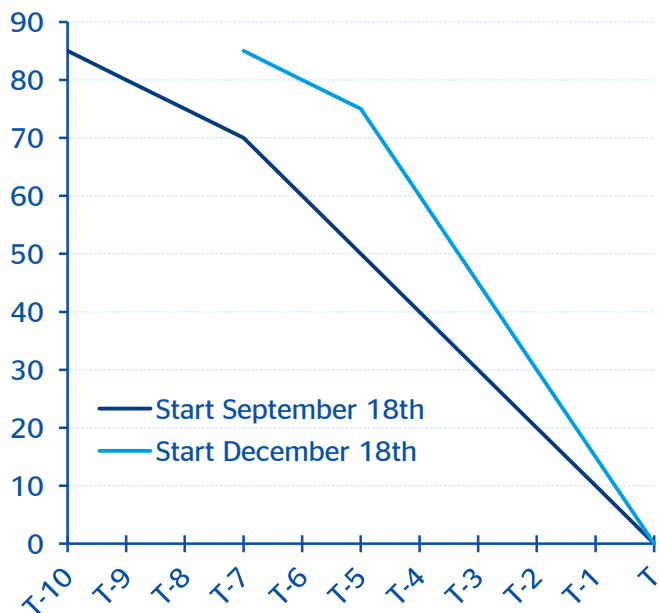
# Monetary Policy

## Will the September FOMC Statement Announce Tapering?



### Implied Pace for LSAP Taper

\$Bn, T=Jul2014



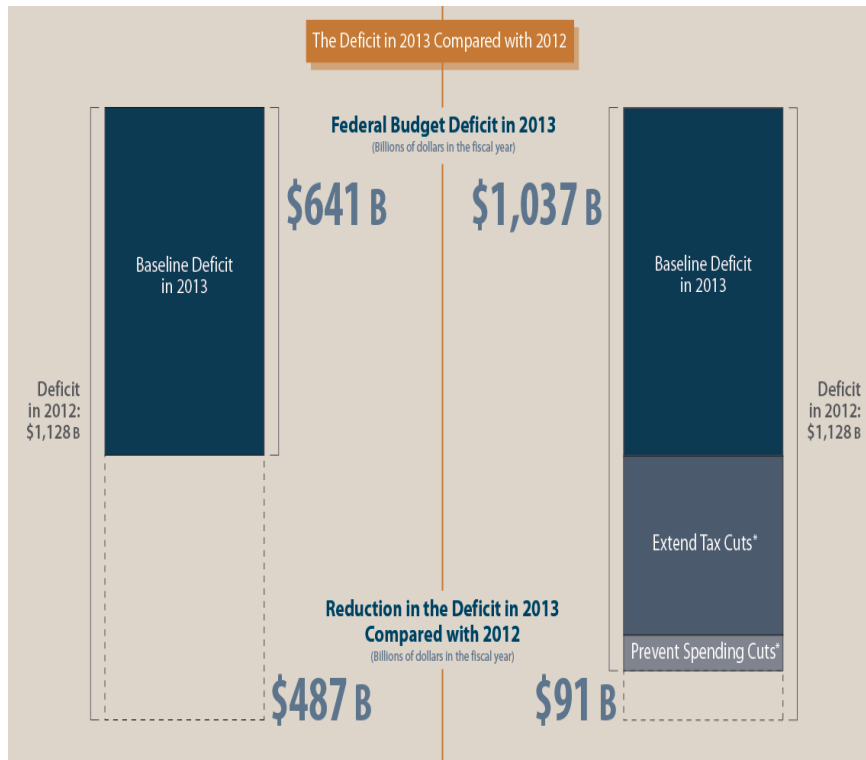
### 2013 FOMC Voting Members and Terms

<b>Chairman</b>	<b>Ben S. Bernanke</b>	<b>Term as Chairman ends January 31, 2014</b>
<b>Vice Chair</b>	Janet L. Yellen	Term as Vice Chair ends October 4, 2014
<b>Governor</b>	<b>Elizabeth A. Duke</b>	<b>Resigned effective August 31, 2013</b>
<b>Governor</b>	Daniel K. Tarullo	Term ends January 31, 2022
<b>Governor</b>	<b>Sarah Bloom Raskin</b>	<b>Nominaed for U.S. Treasury Deputy</b>
<b>Governor</b>	Jeremy C. Stein	Term ends January 31, 2018.
<b>Governor</b>	<b>Jerome H. Powell</b>	<b>Term ends January 31, 2014</b>
<b>New York</b>	William C. Dudley	Permanent seat
<b>Chicago</b>	<b>Charles L. Evans</b>	<b>Rotation change to Philadelphia</b>
<b>Boston</b>	<b>Eric S. Rosengren</b>	<b>Rotation change to Cleveland</b>
<b>St. Louis</b>	<b>James Bullard</b>	<b>Rotation change to Dallas</b>
<b>Kansas City</b>	<b>Esther L. George</b>	<b>Rotation change to Minneapolis</b>

# Fiscal Policy

## Debt ceiling limit and budget negotiations linger as September 30<sup>th</sup> deadline approaches

CBO Budget Comparison 2013 Sequester  
With Sequester (left), Without Sequester (right)



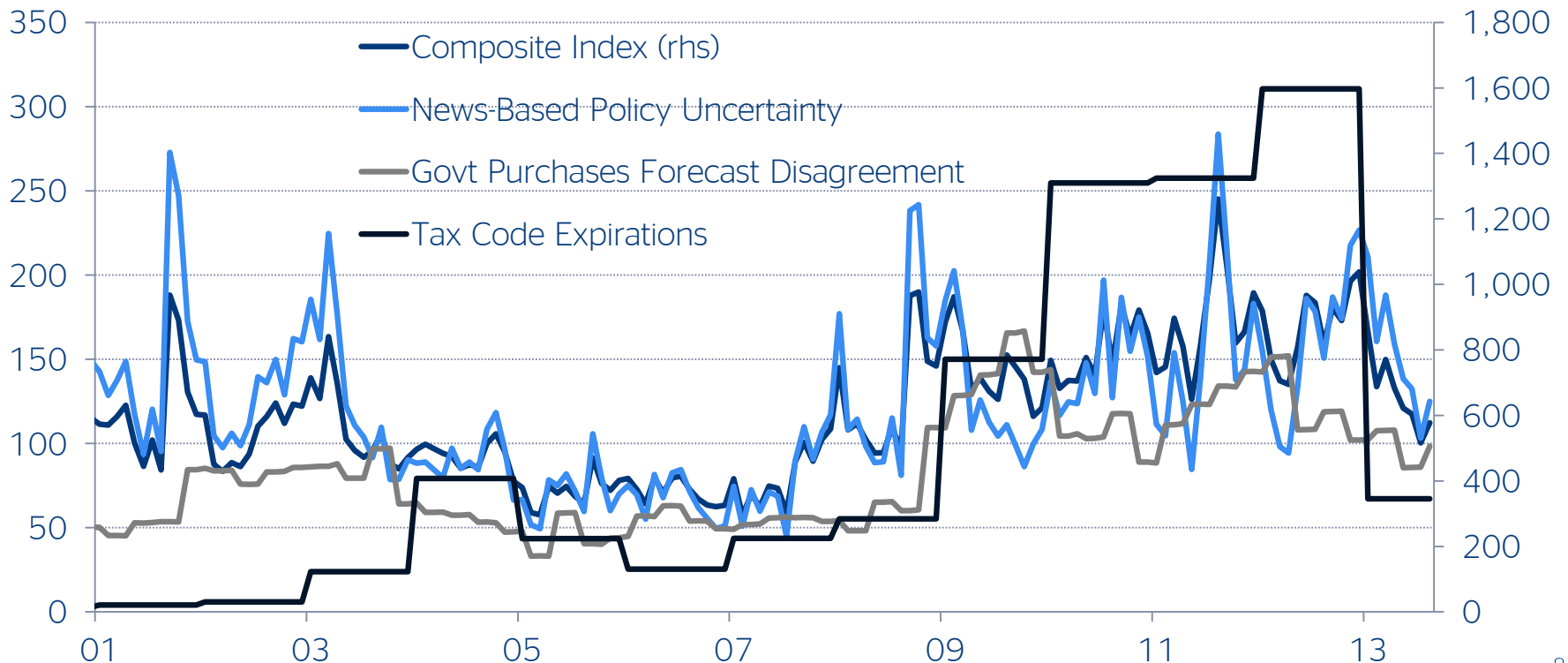
- ❖ Debt ceiling limit will be reached Oct 11<sup>th</sup>, with threat of possible shutdown resembling that of late 2012
- ❖ Sequester deficit reduction in 2013 bolstered by income tax increase & reimbursement payments from Fannie & Freddie
- ❖ FY14 sequester will cut \$30.3bn more than FY13 for an estimated annual total of \$109.3bn

# Fiscal Policy

Policy uncertainty not nearly as high as past instances, though we could see a repeat of late 2012 if unresolved

Economic Policy Uncertainty Index

1985-09=100





# 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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