

Economic Outlook

U.S. Monthly Update

November 19, 2013

Meeting Details

Topic: U.S. Monthly Economic Outlook

Date: Tuesday, November 19, 2013

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

Meeting Number / Access Code: 715 032 990

Meeting Password: bbva

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Baseline Scenario

GDP

Waiting for Superman

- Growth above 2.0% in 2H13 vs. 1.8% in 1H13 (SAAR)
- Near end of deleverage; Net worth/income highest since '08
- Slowdown in Capex and drag from public spending
- Downward revision to 2013 GDP growth to 1.6%

Inflation

Disturbingly Low

- Subdued inflation. Transitory or persistent factors?
- Stable inflation expectations and wage costs
- No inflationary pressures on the horizon

Fed

Last Man Standing

- Tapering in Dec/1Q14 depending on data and fiscal policy
- Doubts on strength of the recovery creeping into outlook
- Fed fund scenario unchanged; rate hike not earlier than 2015

Interest Rates

Digesting High Volatility

- Term premium and real rate behind May-Sept adjustment
- Fed trying to support orderly correction/contain negative impact
- Yield curve steepening. Normalization at 3.8%-4.0%

Risks

Domestic Leaning

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


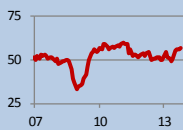
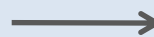
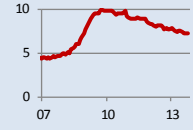

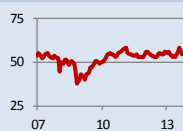



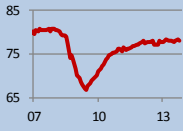
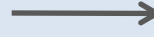
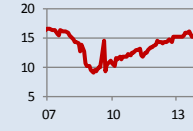

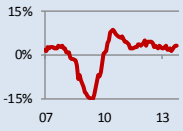

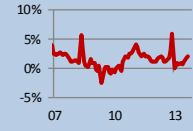

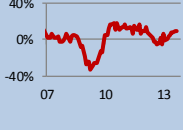
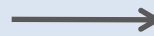
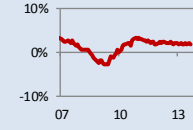
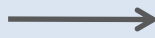
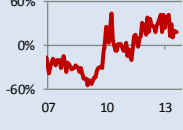

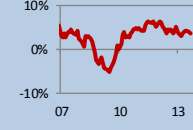

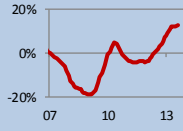

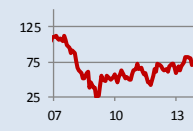
Baseline Scenario

Downward revision to 2013 GDP growth

	2011	2012	2013	2014	2015	2016	2017
GDP new	1.8	2.8	1.6	2.3	2.5	2.8	2.8
old	1.8	2.2	1.8	2.3	2.5	2.8	2.8
CPI new	3.1	2.1	1.7	2.2	2.4	2.4	2.6
old	3.1	2.1	1.6	2.3	2.4	2.4	2.4
Core new	1.7	2.1	1.8	2.0	2.1	2.3	2.6
old	1.7	2.1	1.9	2.0	2.1	2.3	2.4
Fed new	0.25	0.25	0.25	0.25	0.50	1.50	2.50
[eop] old	0.25	0.25	0.25	0.25	0.50	1.50	2.50

* Old as presented in 3Q13 MC Quarterly Revision

Economic Activity

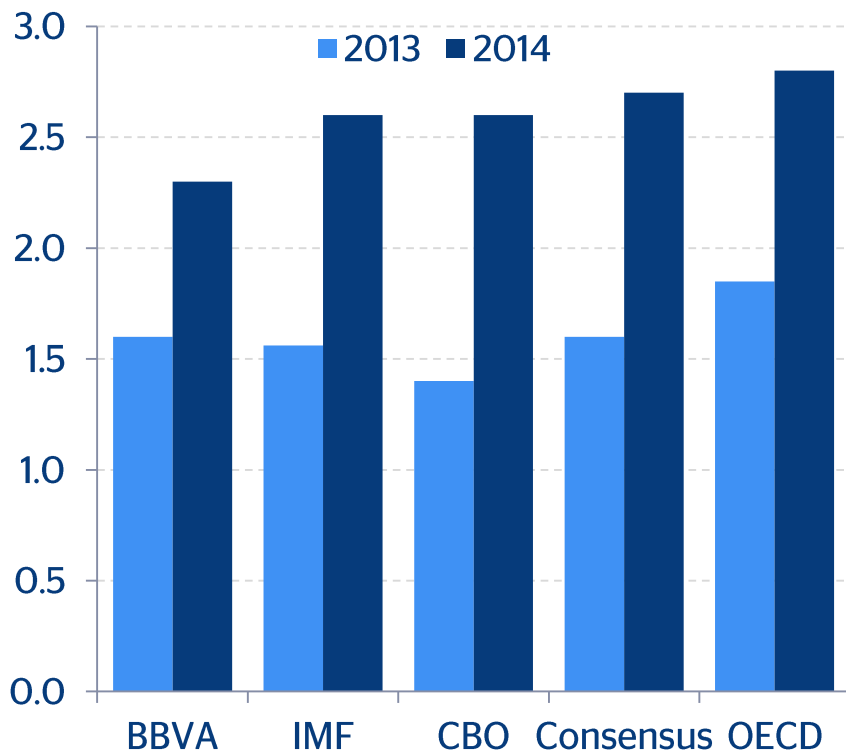
Indicator	Assessment		Indicator	Assessment	
ISM Manufacturing			Unemployment Rate (%)		
ISM Non-Manufacturing			Nonfarm Payrolls (MoM Change in K)		
Capacity Utilization			Auto Sales (Millions)		
Industrial Production (YoY % Change)			Real Disposable Income (YoY % Change)		
Capital Goods New Orders (YoY % 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		

Baseline Scenario

A more conservative outlook on growth than consensus; no significant differences across other key variables

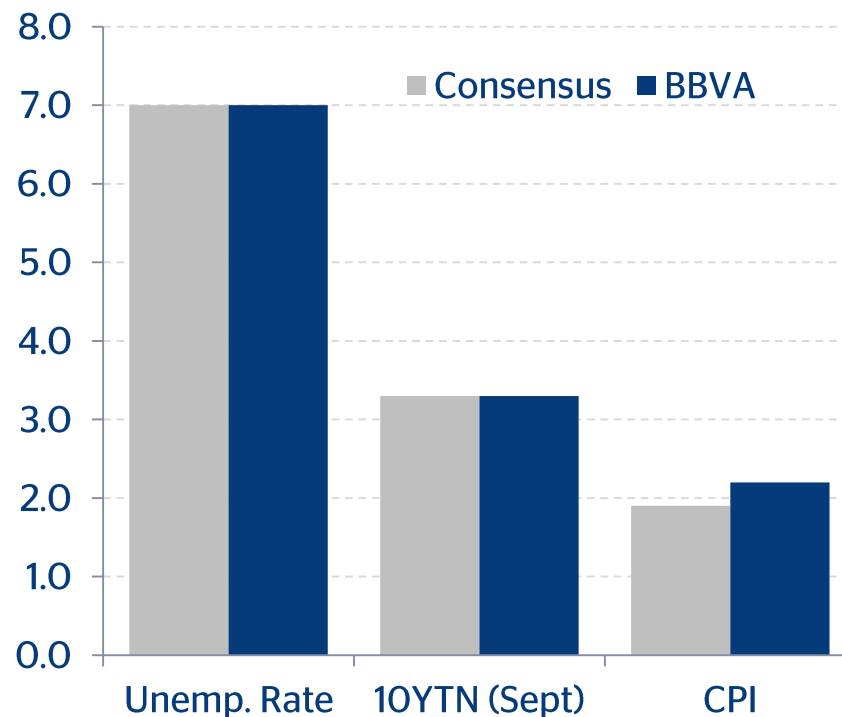
Real GDP Growth Forecasts

%



2014 Economic Forecasts

%

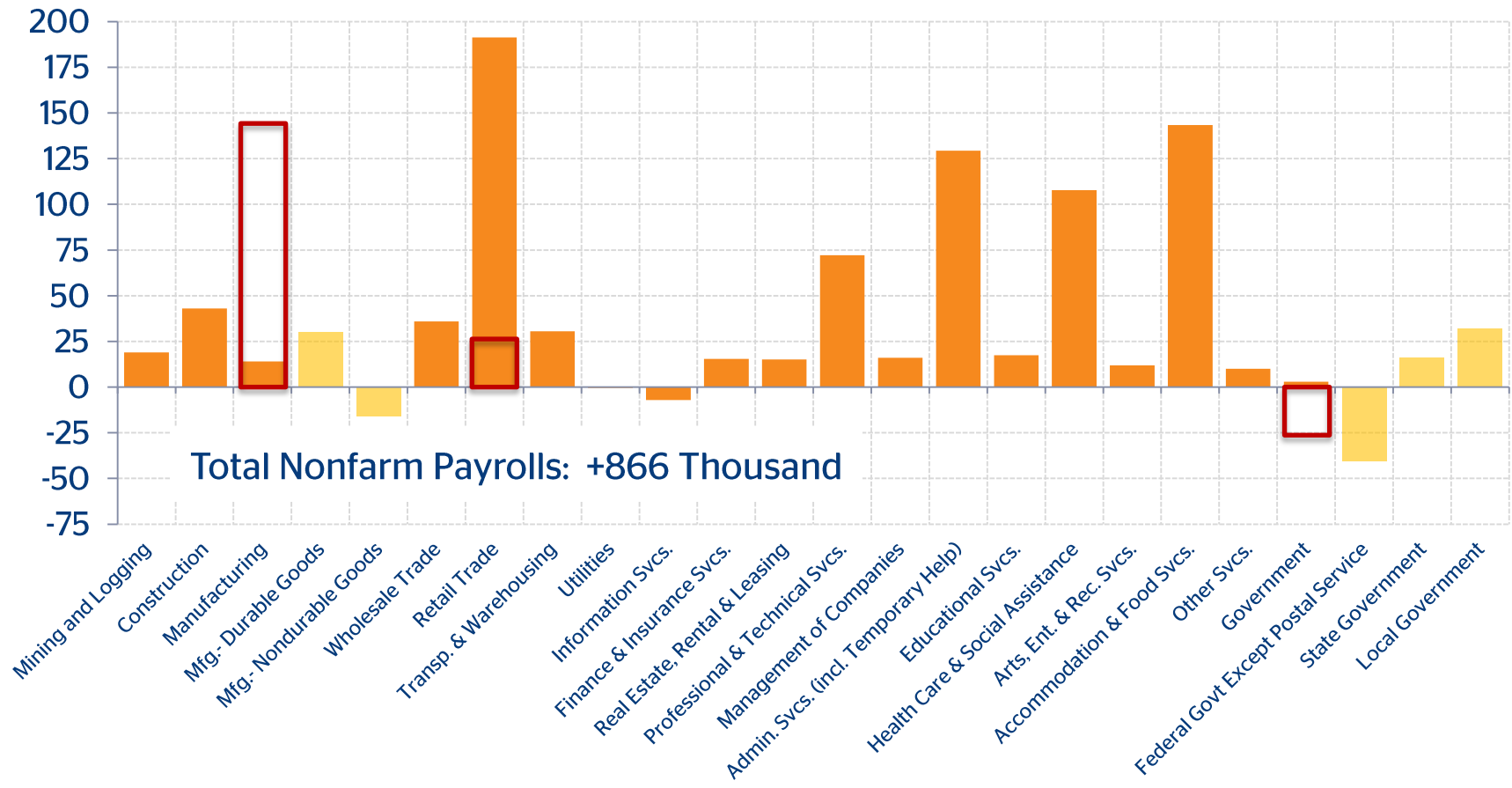


Labor Market

Many sectors are experiencing employment growth, although the composition is much different than in 2012

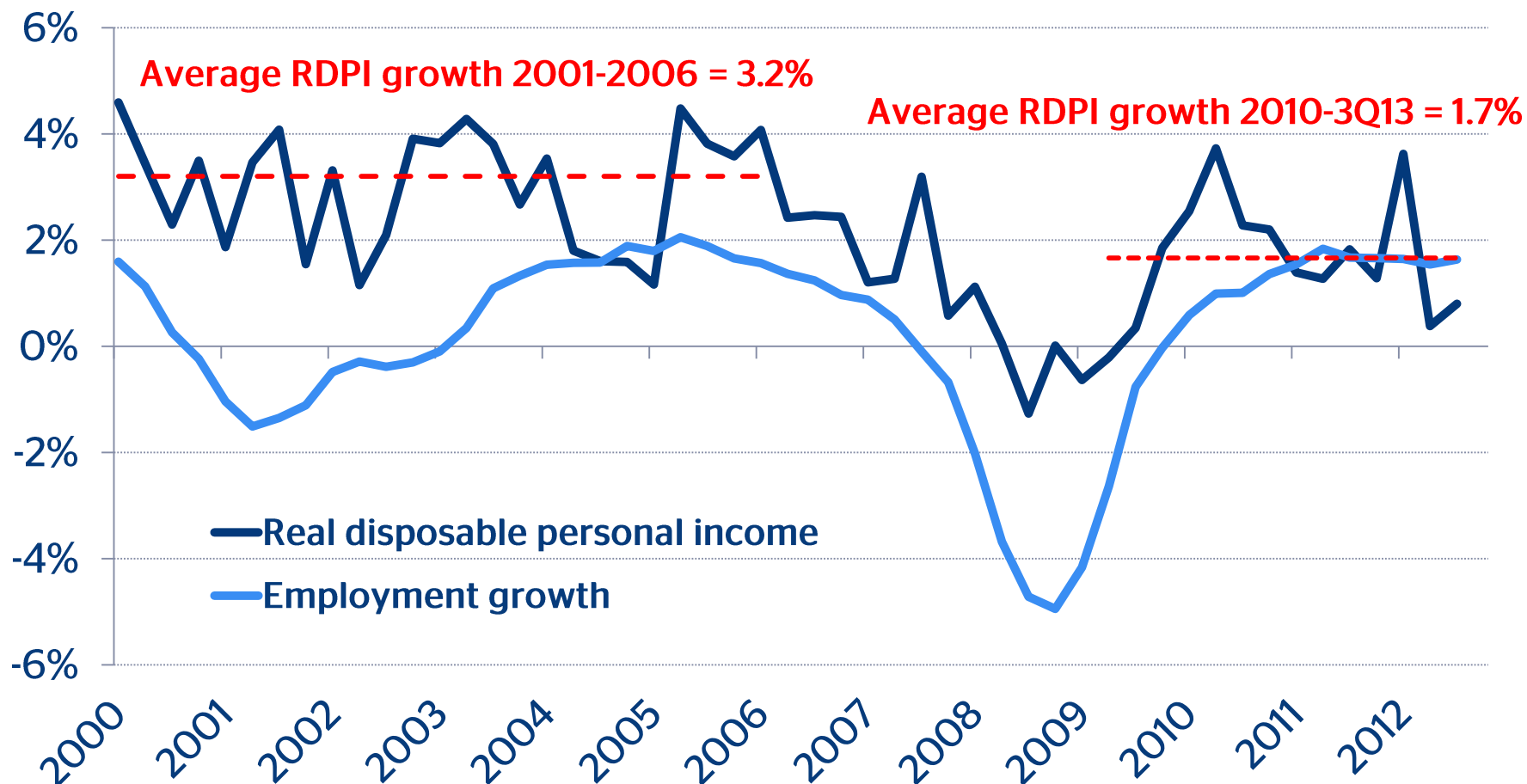
Employment Growth by Industry, 2013 YTD

Accumulated Change of Seasonally Adjusted Data, Thousands



Consumers

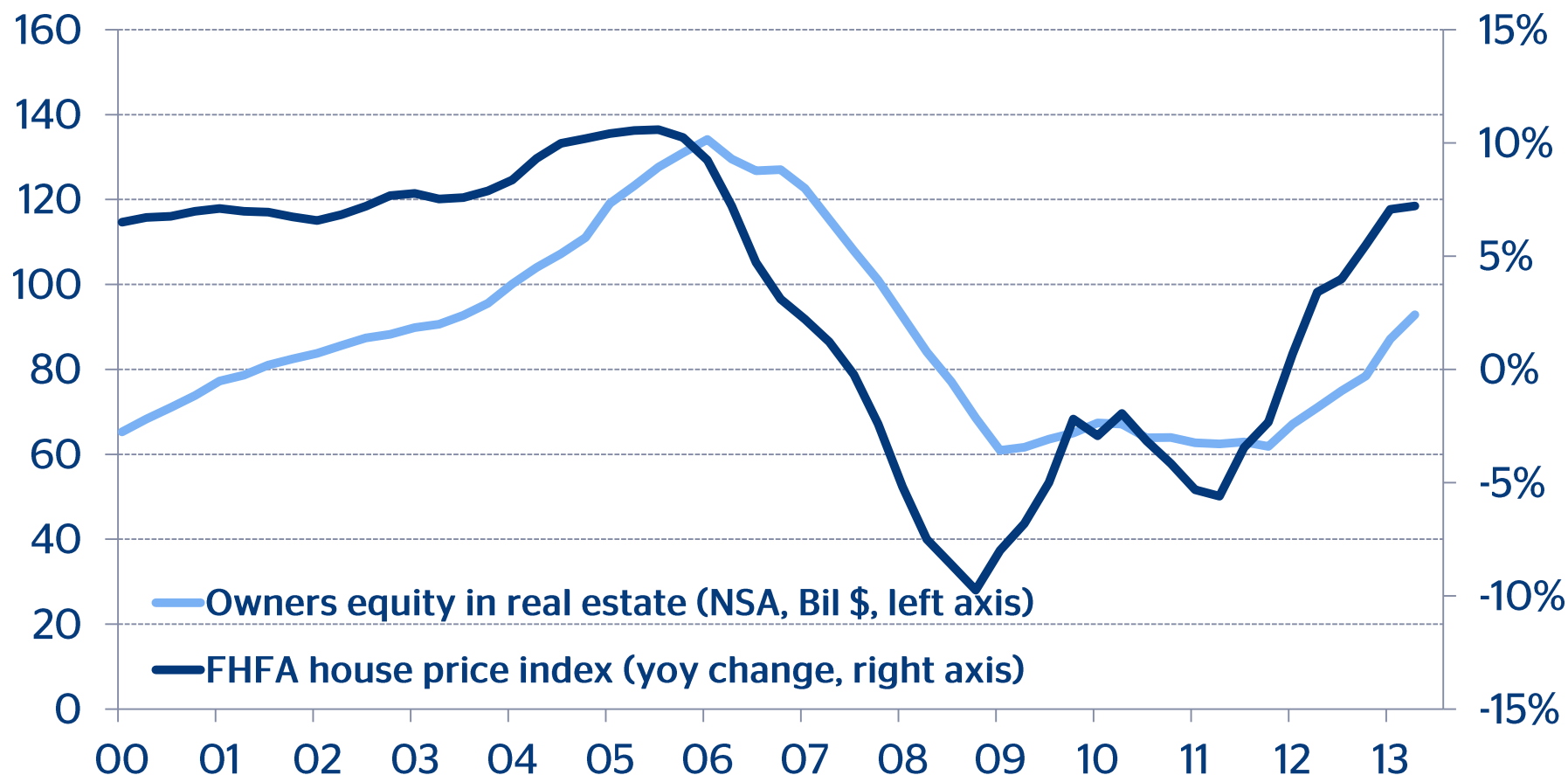
Employment and Real Disposable Personal Income Growth (YoY % change)



Source: BBVA Research and Haver Analytics

Household Equity

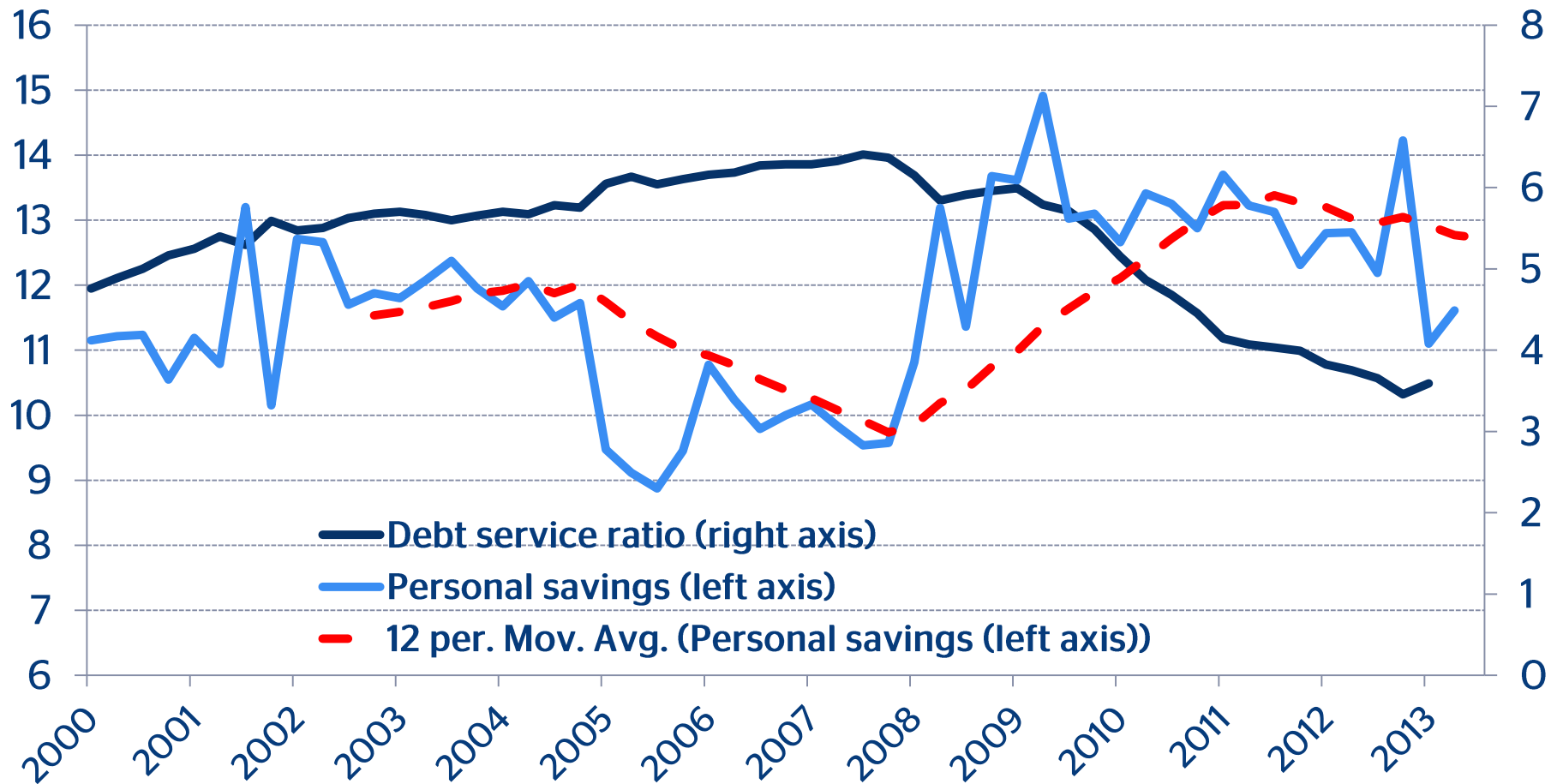
Household Equity and Home Prices



Source: Haver Analytics

Savings and Deleverage

Debt-to-income Ratio and Savings Rate



Source: Haver Analytics

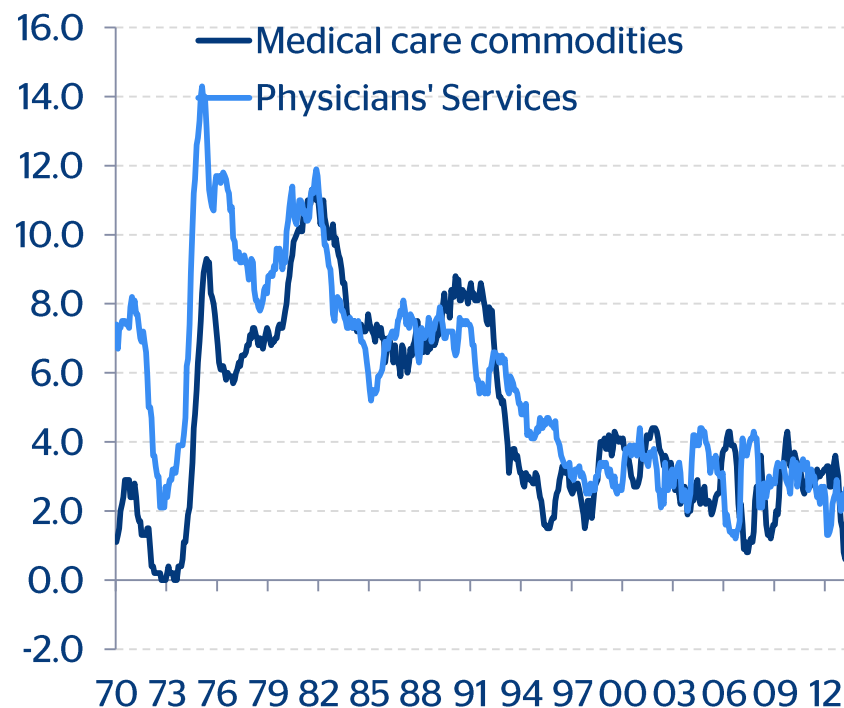
Inflation

CPI	Last	Last-Average	Min	Max
All Items	1.5	-0.9	-2.1	6.3
Food	1.4	-1.3	-0.7	6.8
Food at home	1.0	-1.6	-2.9	8.3
Food away from home	2.0	-0.7	1.1	5.0
Commodities	-2.2	-10.3	-40.5	54.3
Energy servcies	3.2	0.5	-11.3	21.9
Core	1.8	-0.4	0.6	5.6
Core commodities	0.0	-0.4	-2.6	4.5
Apparel	1.8	2.1	-4.0	6.3
New vehicles	1.1	0.7	-3.2	4.9
Used autos	-1.0	-1.6	-11.8	17.0
Medical care	0.0	-2.8	-0.1	8.8
Alcoholic beverages	2.0	-0.3	0.7	11.6
Tobacco	3.2	-4.6	-8.1	39.6
Core services	2.4	-0.5	0.7	6.5
Shelter	2.4	-0.3	-0.7	6.2
Rent	3.0	0.0	-0.1	4.7
OER	2.2	-0.4	-0.3	6.2
Medical care	3.1	-1.0	2.6	9.9
Physicians	1.5	-1.6	1.2	7.6
Hospitals	5.7	-0.6	3.4	10.1
Transportation	2.5	-0.2	0.5	8.2

Low inflation not just due to transitory factors

Health care inflation, Selected Items

12m % change



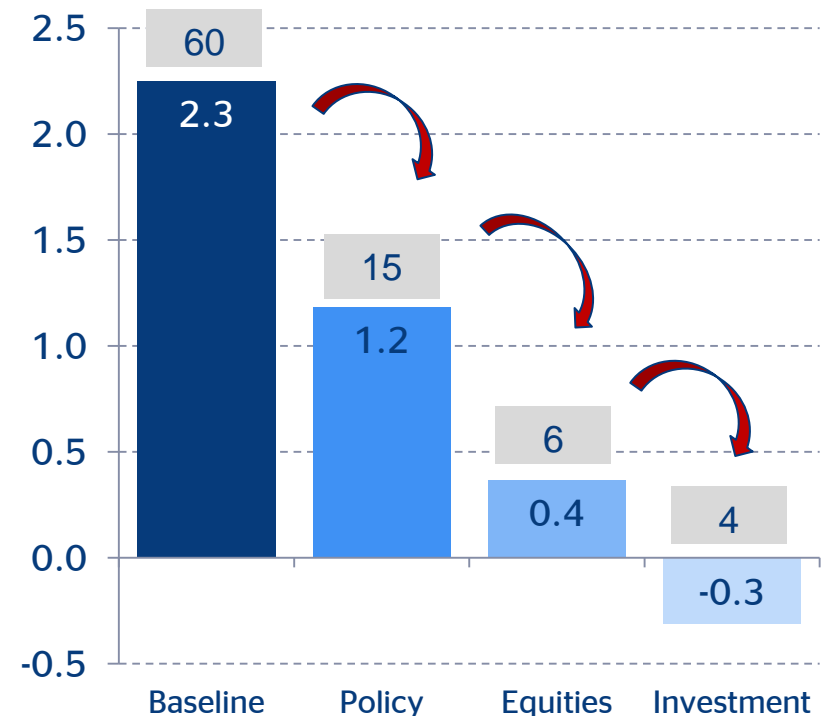
Fiscal Policy

Once again, a temporary fix: raise the debt ceiling through February 7 and fund the government through January 15

- Net impact 16 days shutdown: -0.2% to 4Q13 GDP QoQ SAAR growth
- Senate: 81 to 18; House: 285 to 144
- Formal budget conference in an attempt to reach a longer-term deal by Dec 13
- New deadline around mid-late March
- President may want to push forward pending priorities (i.e. immigration)
- Upside risk: replace sequester cuts with entitlement reforms
- Limited damage from policy uncertainty; however, it is not over

Risks to 2014 GDP Growth

% change and probability



Upside scenario 15% probability

Fed Chair

Yellen to Succeed Bernanke

- ❖ Removes uncertainty of Fed leadership transition
- ❖ Assures continuity of the current monetary policy course
- ❖ Strengths credibility of Fed forward guidance

Yellen: A hawk in dove's clothing?

Inflation

"A wise and humane policy is occasionally to let inflation rise even when inflation is running above target."

"When the time has come, am I going to support raising interest rates? You bet. I don't want to see inflation pick up."

Unemployment

"Policy makers should be compelled to take action given the serious costs of long-term unemployment when overall unemployment is already high,"

FFR

Fed funds can stay near zero for some time after the 6.5% unemployment threshold is reached

Tapering

Should be closely tied to the performance of the labor market

Policy Guidance

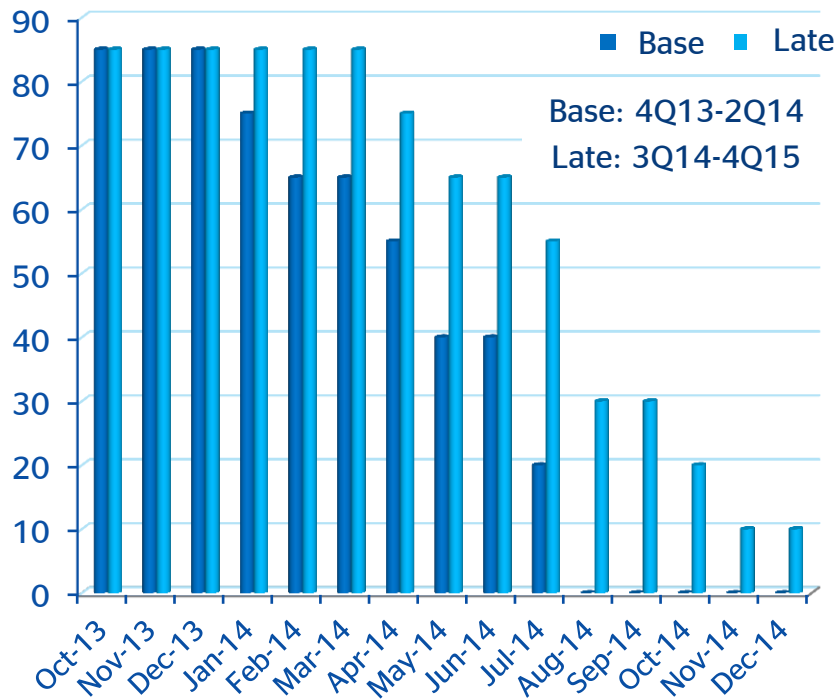
Push guidance even further by backing a controversial idea to tie interest rates to certain economic thresholds.

Monetary Policy

Fiscal uncertainty and limited economic releases clouds Fed's exit strategy

LSAP Scale-Down Path

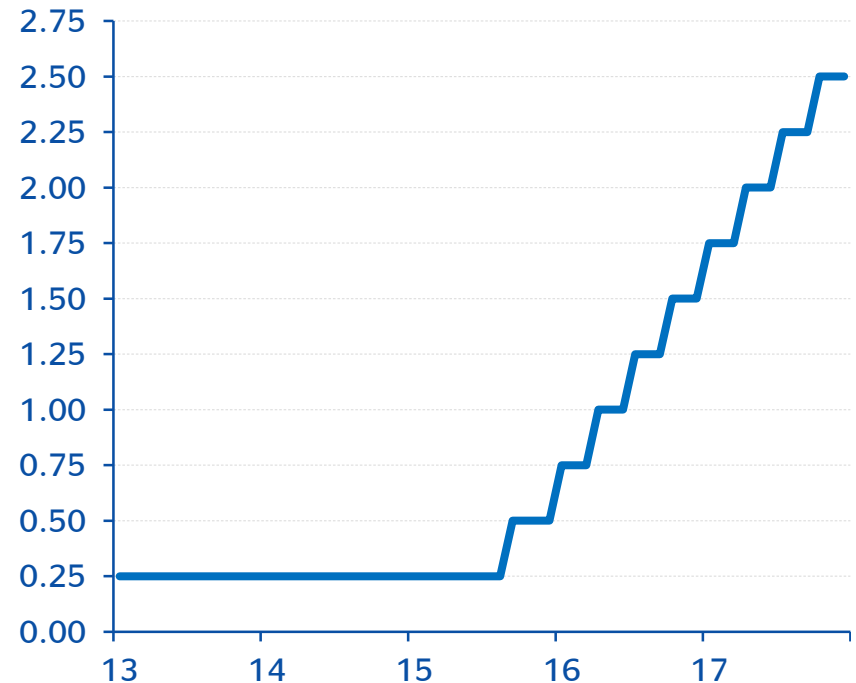
US\$ bn, monthly average



Preliminary expected paths for LSAP. Reversal Scenario not shown in graph

Federal Funds Rate, Baseline

%



Downside Risk

Risks to growth more relevant for the short-term

	2011	2012	2013	2014	2015	2016	2017
GDP new	1.8	2.8	1.4	1.2	1.4	2.2	2.4
old	1.8	2.2	1.1	1.2	1.5	2.2	2.3
CPI new	3.1	2.1	1.2	0.3	0.9	1.7	2.2
old	3.1	2.1	0.7	0.0	0.8	1.4	2.0
Core new	1.7	2.1	1.6	0.6	1.1	1.8	2.2
old	1.7	2.1	1.2	0.5	1.1	1.5	1.9
Fed new	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

* Old as presented in 3Q13 MC Quarterly Revision

Upside Risk

Accounting for potential positive surprises

	2011	2012	2013	2014	2015	2016	2017
GDP new	1.8	2.8	1.9	2.8	3.2	3.4	3.4
old	1.8	2.2	2.0	2.7	3.2	3.4	3.4
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old	3.1	2.1	1.8	2.6	2.8	2.8	2.7
Core new	1.7	2.1	2.1	2.3	2.5	2.6	2.7
old	1.7	2.1	2.1	2.3	2.5	2.6	2.7
Fed new	0.25	0.25	0.25	0.75	1.75	2.75	3.75
[eop] old	0.25	0.25	0.25	0.75	1.75	2.75	3.75

* Old as presented in 3Q13 MC Quarterly Revision

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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