

Economic Watch

US

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Economic Analysis

US

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Monthly US Outlook: December Recent Data Confusing, Not Clarifying, Economic Mindset

- Upward bias to our forecasts after upside surprises to GDP, employment
- The probability for QE3 tapering has increased, but still not a done deal
- Fiscal resolution by year-end could boost our outlook for 2014 growth

Economic data have been anything but straightforward in recent months, with headline figures not quite reflecting the true meaning of the underlying details. Take 3Q13 GDP and employment growth, for starters. The second estimate for 3Q13 real GDP growth was revised up from the first estimate of 2.8% QoQ SAAR to a surprising 3.6%, the highest rate since early 2012. Our expectations were quite different for the headline figure, but aside from underestimating inventory growth the details were in line with our projections: slower growth in key drivers of the recovery including net exports, personal consumption expenditures, and residential investment. The story for 4Q13 is very much up in the air. So far, economic data for the quarter suggest solid performance in industrial activity, but consumption remains sluggish. Furthermore, personal income does not appear to be carrying the same momentum that was set in the previous few months. The impact from the government shutdown in October should be minimal and has been reflected in very few economic indicators (consumer confidence being the main factor). Therefore, with expectations for a moderate slowdown in 4Q13, we maintain our forecast for 1.6% annual growth in 2013, though with some upside bias if the 3Q13 GDP revision holds.

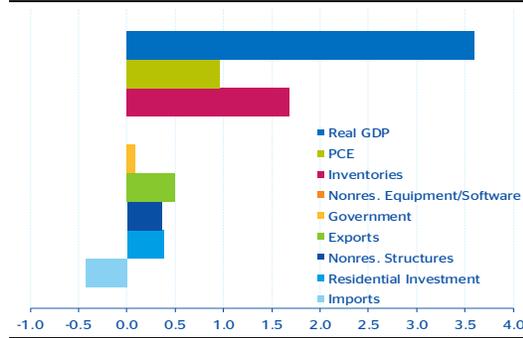
At the same time, the employment report for November noted +200K job gains for the third time in four months, while the unemployment rate dropped to 7.0%. Our baseline expectations did not account for such a drastic monthly decline, assuming a rate above 7.0% until 3Q14. While we will likely revise down our forecast to adjust for the actual data, we continue to expect that people will re-enter the labor force as the outlook for job availability improves, which will ultimately put upward pressure on the unemployment rate if we did not see a significant acceleration in payroll growth.

The most important question on everyone's mind: what will the Fed do, and when? FOMC statements and Fed speak continue to highlight the data-dependency structure of monetary policy action, and we have actually seen improvements in economic news throughout the past few months. The latest employment report has certainly increased the probability of a tapering announcement in December; however, the threat of another fiscal debacle in January still lingers and could push the decision to 1Q14.

Looking ahead to next year, the risks to growth have seemingly diminished. In the immediate future, most focus rests in the hands of Congress, where a compromise on the budget deal could stave off another shutdown come January and give the Fed the confidence boost they have been waiting for to move forward with tapering. Reduced policy uncertainty would spur economic activity on a global scale, just as long as the Fed avoids a disorderly exit from QE3 that could potentially drive markets into a frenzy. Ultimately, we continue to expect 2.3% annual growth in 2014, pending near-term action from Congress and the Fed.

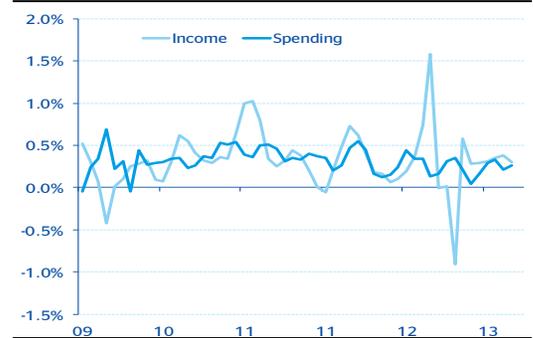
Economic Indicators

Graph 1
Contributions to Real GDP Growth
(3Q13 Preliminary, SAAR Percentage Points)



Source: BEA and BBVA Research

Graph 2
Personal Income and Expenditures
(3MMA, MoM % Change)



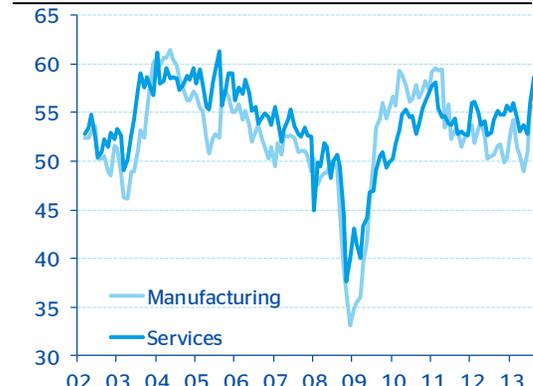
Source: BEA and BBVA Research

Graph 3
Consumer Confidence
(SA, Index 1985=100)



Source: Conference Board and BBVA Research

Graph 4
ISM Indices
(SA, 50+ = Expansion)



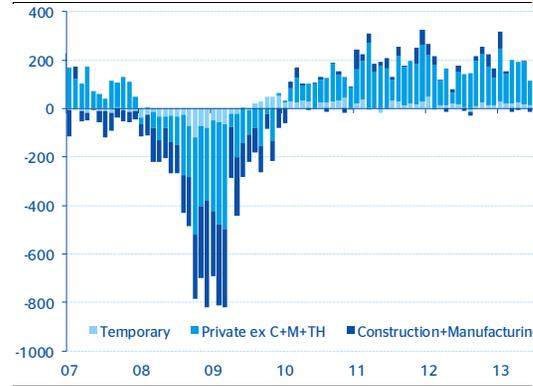
Source: ISM and BBVA Research

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau and BBVA Research

Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: BLS and BBVA Research

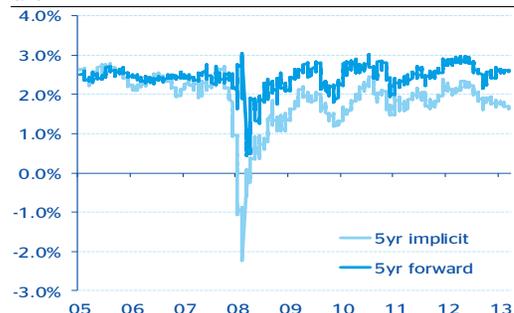
Economic Indicators

Graph 7
Consumer Price Index
(NSA, YoY % Change, 1982-84=100)



Source: BLS and BBVA Research

Graph 8
Inflation Expectations
(%)



Source: Federal Reserve Board and BBVA Research

Graph 9
New and Existing Home Sales
(Thousands)



Source: US Census Bureau, NAR, and BBVA Research

Graph 10
12-Month Implied Fed Funds Rate & 10-Yr Treasury
(% Yield)



Source: Federal Reserve Board and BBVA Research

Table 1
Forecasts (BOLD=FORECASTS)

	3Q12	4Q12	1Q13	2Q13	3Q13	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	2.8	0.1	1.1	2.5	3.6	1.8	2.8	1.6	2.3	2.5	2.8
Real GDP (Contribution, pp)											
PCE	1.2	1.1	1.5	1.2	1.0	1.7	1.5	1.2	1.1	1.2	1.2
Gross Investment	1.0	-0.4	0.7	1.4	2.5	0.7	1.4	0.7	1.0	0.9	1.1
Non Residential	0.0	1.1	-0.6	0.6	0.4	0.8	0.9	0.3	0.6	0.8	0.9
Residential	0.4	0.5	0.3	0.4	0.4	0.0	0.3	0.4	0.3	0.3	0.3
Exports	0.1	0.2	-0.2	1.0	0.5	0.9	0.5	0.3	0.7	0.9	0.8
Imports	-0.1	0.5	-0.1	-1.1	-0.4	-0.8	-0.4	0.2	0.5	0.5	0.3
Government	0.7	-1.3	-0.8	-0.1	0.1	-0.7	-0.2	-0.4	0.0	0.0	0.0
Unemployment Rate (% average)	8.0	7.8	7.7	7.6	7.3	8.9	8.1	7.4	7.0	6.4	5.9
Average Monthly Nonfarm Payroll (K)	152	209	207	182	167	175	183	186	201	226	243
CPI (YoY %)	1.7	1.9	1.7	1.4	1.6	3.1	2.1	1.7	2.2	2.4	2.4
Core CPI (YoY %)	2.0	1.9	1.9	1.7	1.7	1.7	2.1	1.8	2.0	2.1	2.3
Fiscal Balance (% GDP)	-	-	-	-	-	-8.0	-6.5	-4.0	-3.4	-2.2	-2.4
Current Account (bop, % GDP)	-2.6	-2.5	-2.5	-	-	-3.0	-2.7	-2.7	-3.1	-2.9	-2.7
Fed Target Rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.50
S&P Case-Shiller Index (YoY %)	3.63	7.30	9.94	-	-	-4.34	2.81	11.96	9.25	6.86	5.78
10-Yr Treasury (% Yield, eop)	1.72	1.72	1.96	2.30	2.81	1.98	1.72	2.75	3.35	3.64	4.03
U.S. Dollar / Euro (eop)	1.29	1.31	1.30	1.32	1.34	1.32	1.31	1.30	1.30	1.38	1.36
Brent Oil Prices (dpb, average)	109.7	110.3	112.6	102.7	110.3	111.3	111.7	108.5	112.9	117.2	120.2

Source: BBVA Research

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