

# Economic Outlook

## U.S. Monthly Update

December 13, 2013

# Meeting Details

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

**Date: Friday, December 13, 2013**

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

**Meeting Number / Access Code: 718 783 587**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=256113557&UID=494946087&PW=NmzEwMWFkZTFj&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>

# Economic Activity

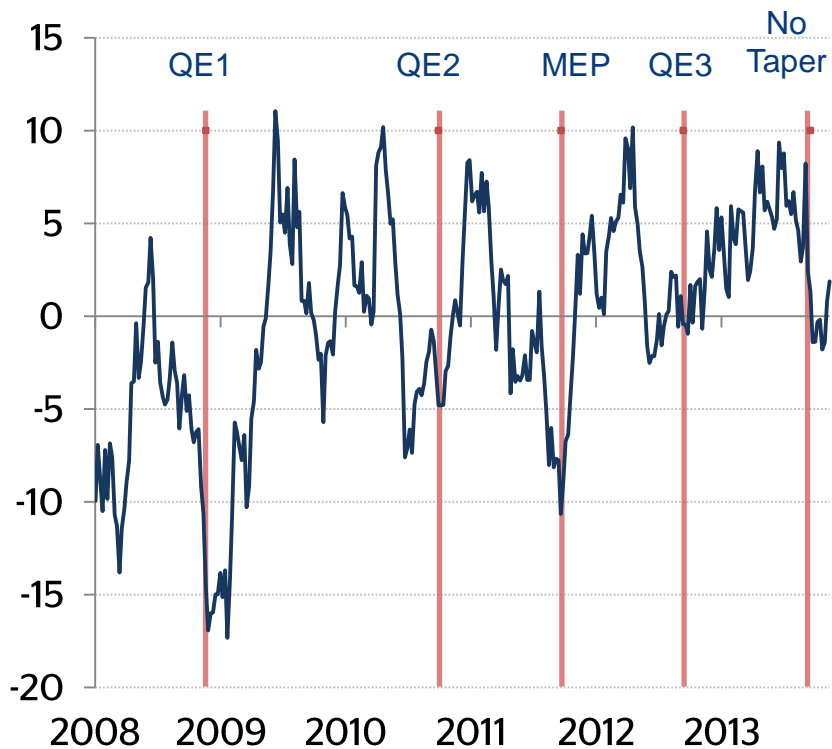
Indicator	Assessment		Indicator	Assessment	
ISM Manufacturing			Unemployment Rate (%)		
ISM Non-Manufacturing			Nonfarm Payrolls (MoM Change in K)		
Capacity Utilization			Auto Sales (Millions)		
Industrial Production (YoY % Change)			Real Disposable Income (YoY % Change)		
Capital Goods New Orders (YoY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

## High-frequency data confirms a moderate improvement

**BBVA US Weekly Activity Index**

3mma % change



**BBVA US Surprise Activity Index**

2009=100

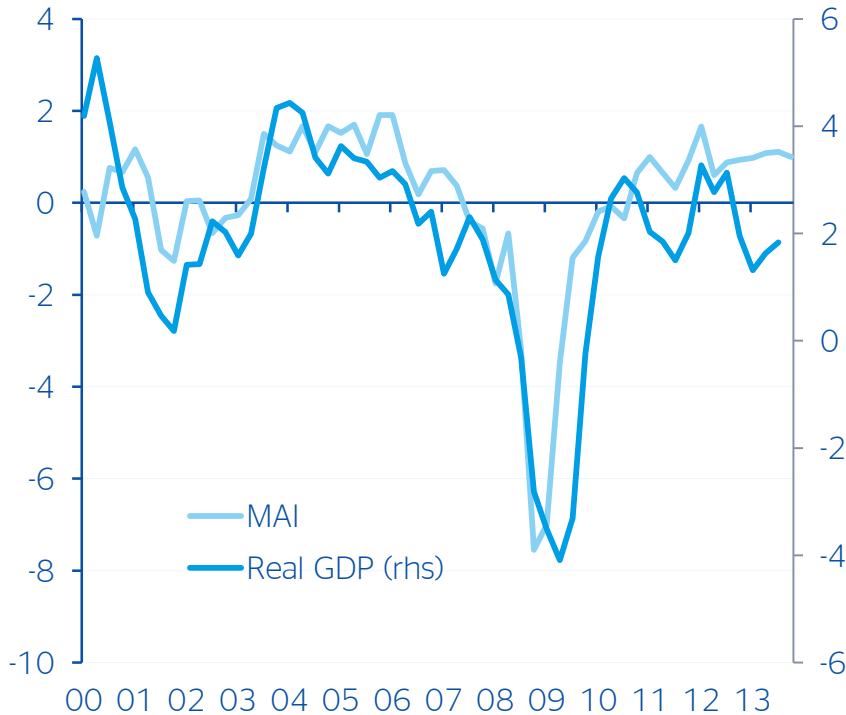


# Economic Activity

A modest slowdown from 3Q to 4Q;  
2H13 will average above 2.0%

Real GDP & Monthly Activity Index

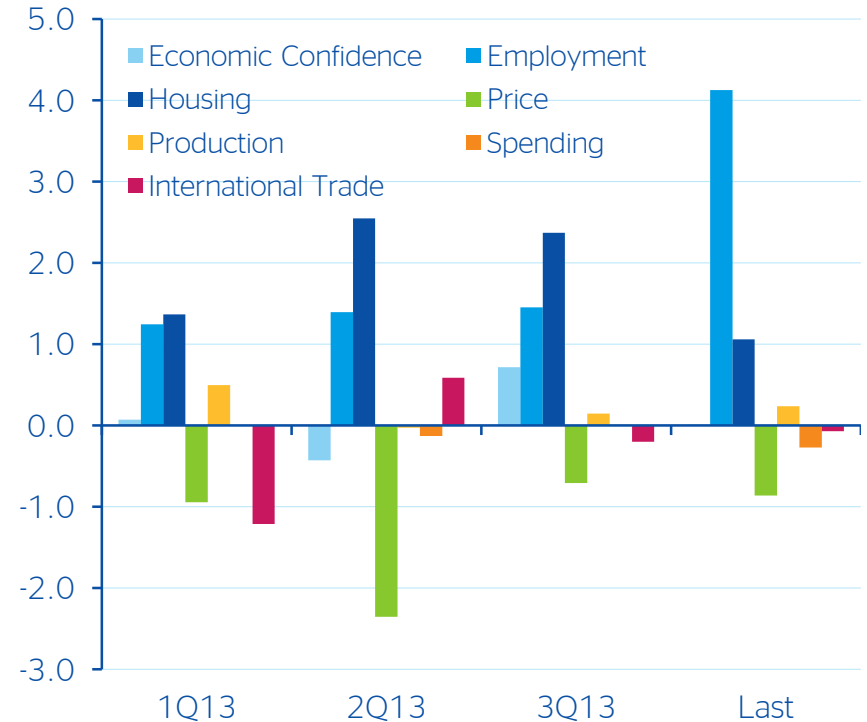
4Q % Change



Source: BBVA Research

BBVA Research MAI Components

Index



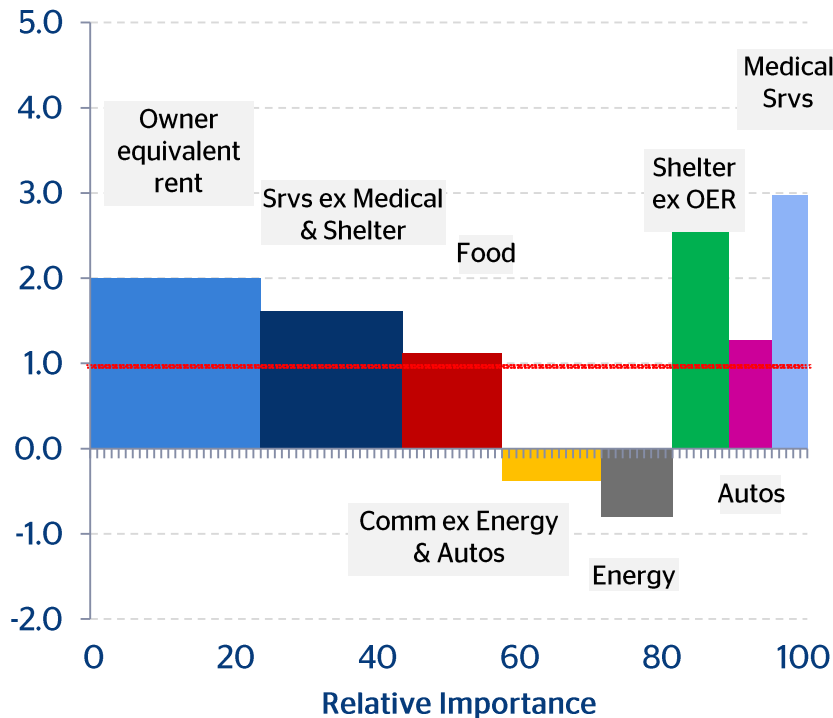
Source: BBVA Research

# Inflation

## Muted inflationary pressures and little upward movement in the CPI central tendency

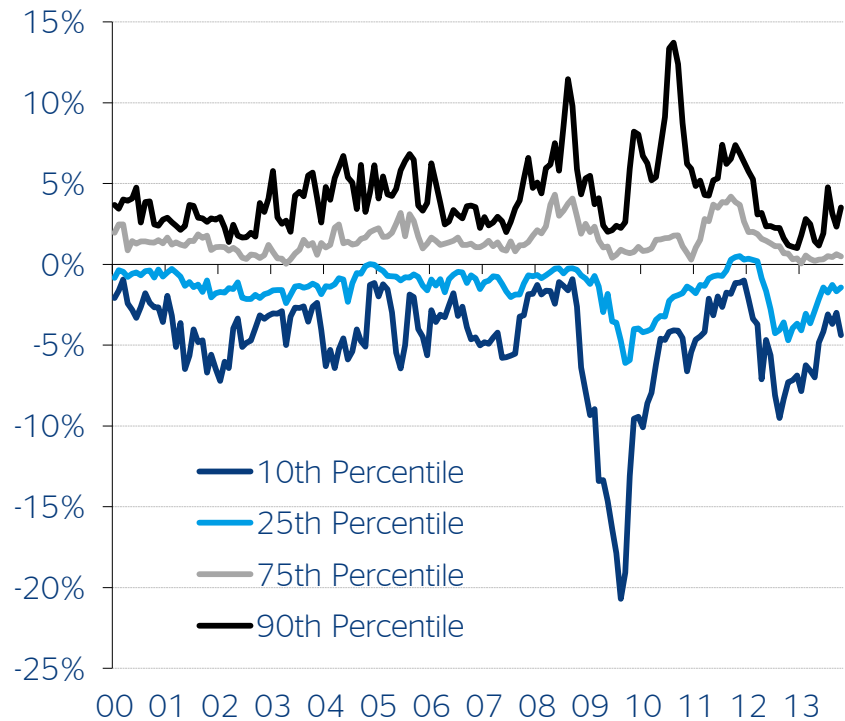
Contributions to CPI

Relative Importance & 12m% change



12M YoY% Relative Consumer Price Distribution

YoY% less year-ago YoY%



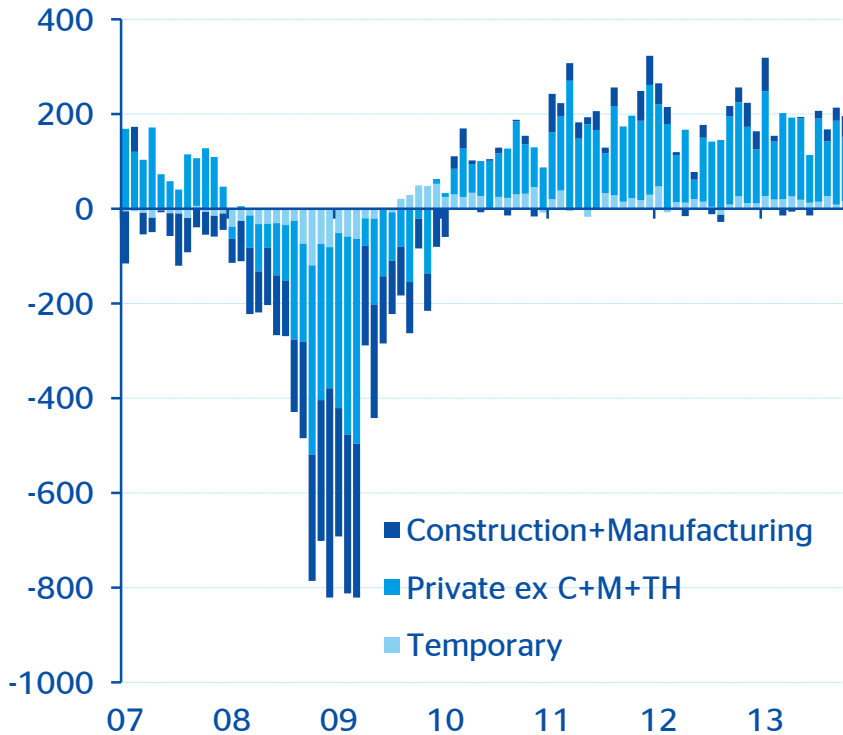
Source: BLS & BBVA Research

# Labor Markets

Positive labor market trends shifting forward probability for Fed tapering of QE3

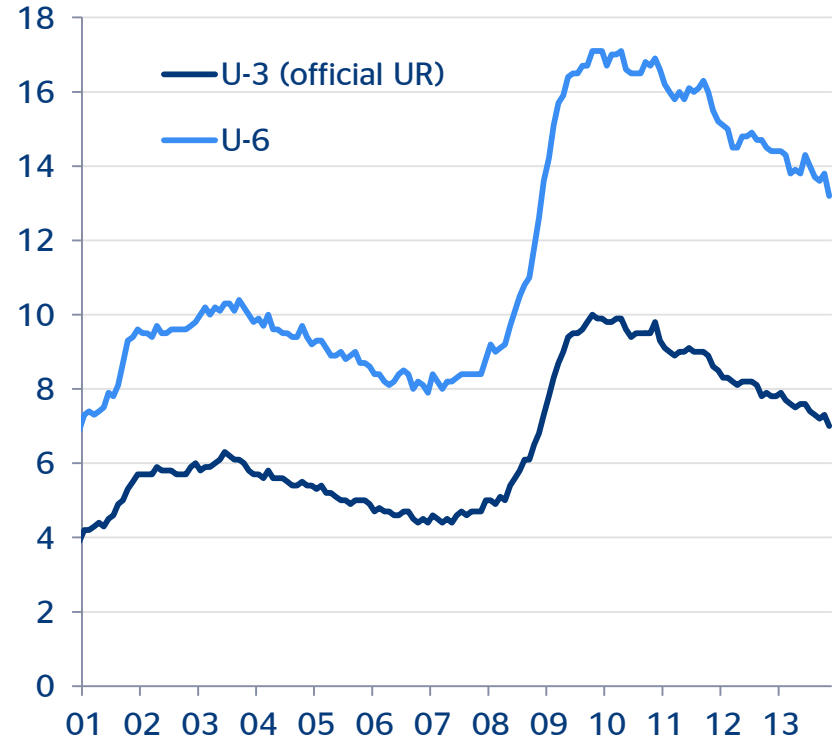
Private Nonfarm Payroll

Thousands per month



Unemployment Rate

%



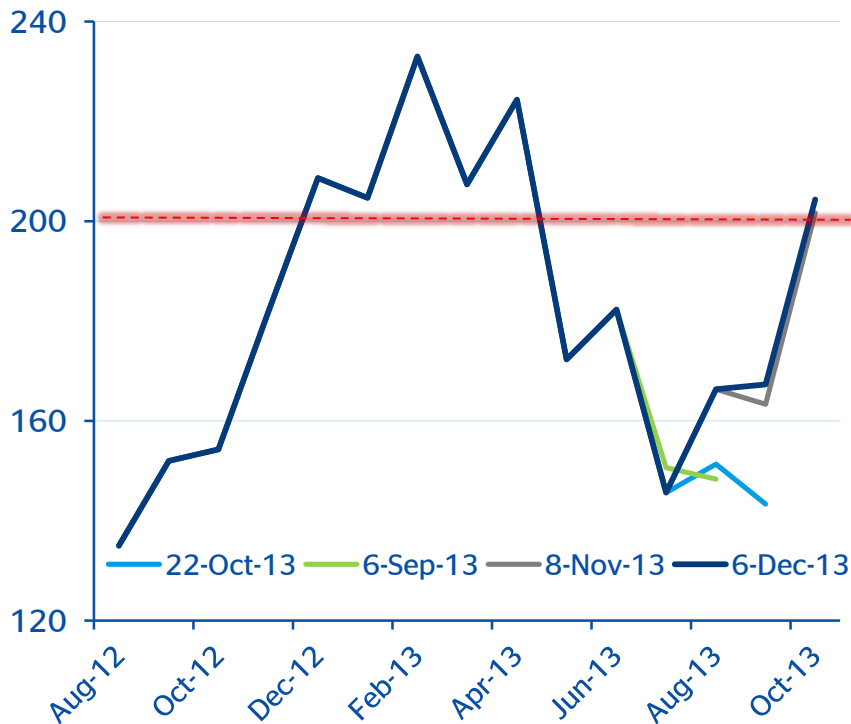
\* U-6 includes marginally attached, discouraged workers, and those employed part-time for economic reasons

# Monetary Policy

Desirable economic improvements: ~200K 3-month average increase in nonfarm payrolls and two unemployed per each job opening

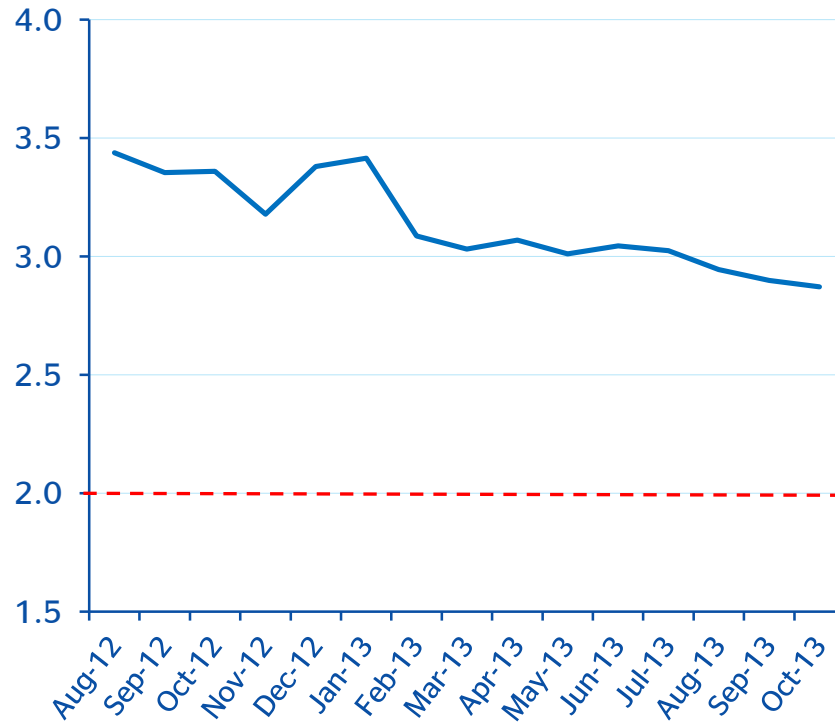
Nonfarm Payrolls M/M Change

3M MA



Number of Unemployed per Job Opening

Ratio



\* Implicit from FOMC communication

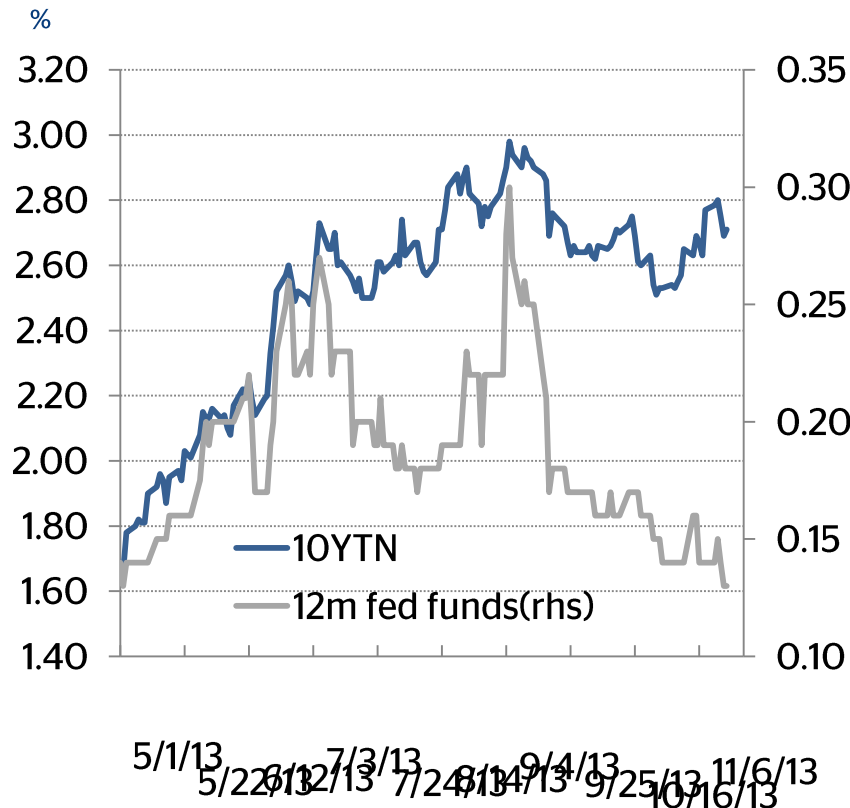
\* From Dudley's speech



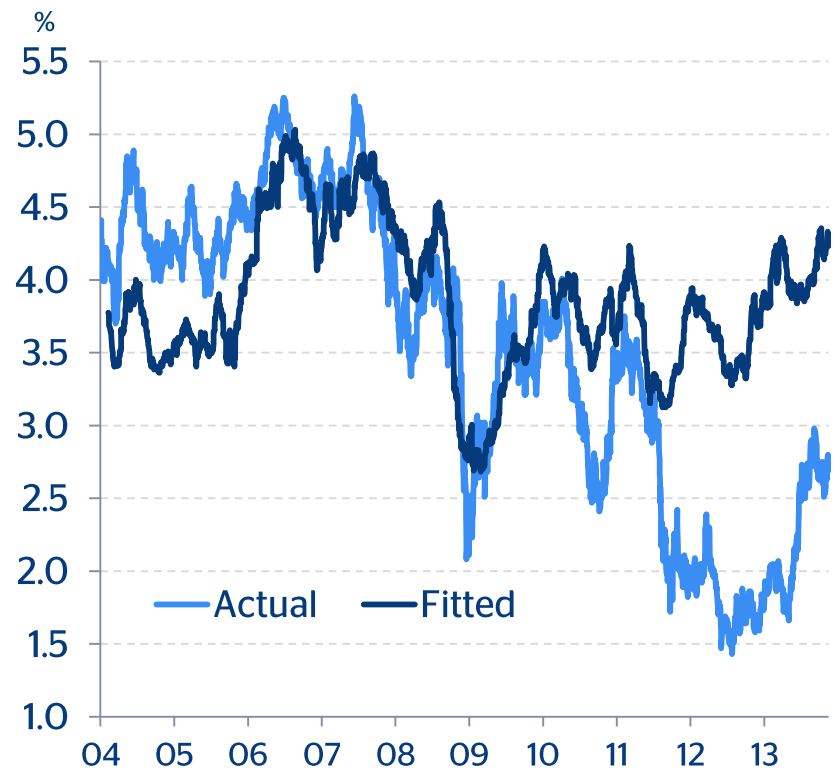
# Monetary Policy

Efforts to detach Fed rate hikes and tapering appear to have functioned

10YTN and 12-month Fed funds futures



10YTN Actual and Forecasts with & w/o QE



# Monetary Policy Going Forward

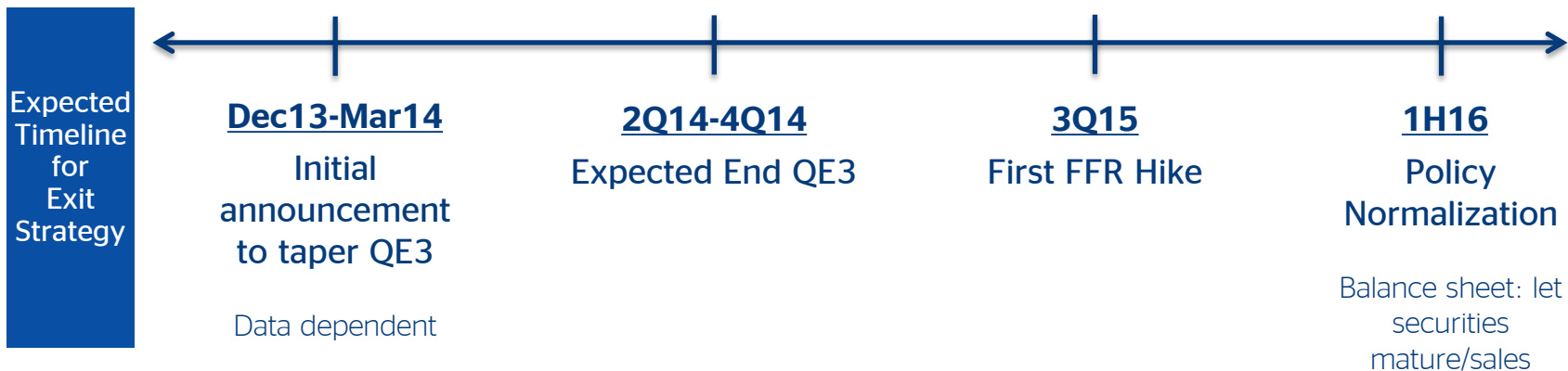
## What to Expect in December FOMC

### QE3 expectations unchanged:

- Fed decision to reduce LSAP remains vastly data-driven
- Higher probability to taper in December since employment report noted a +200K payroll increase and reduction in unemployment rate to 7.0%

### Forward Guidance

- No change in the thresholds is expected
- Likely enhancement with inflation floor (lower bound of 1.5%) further discussed/added

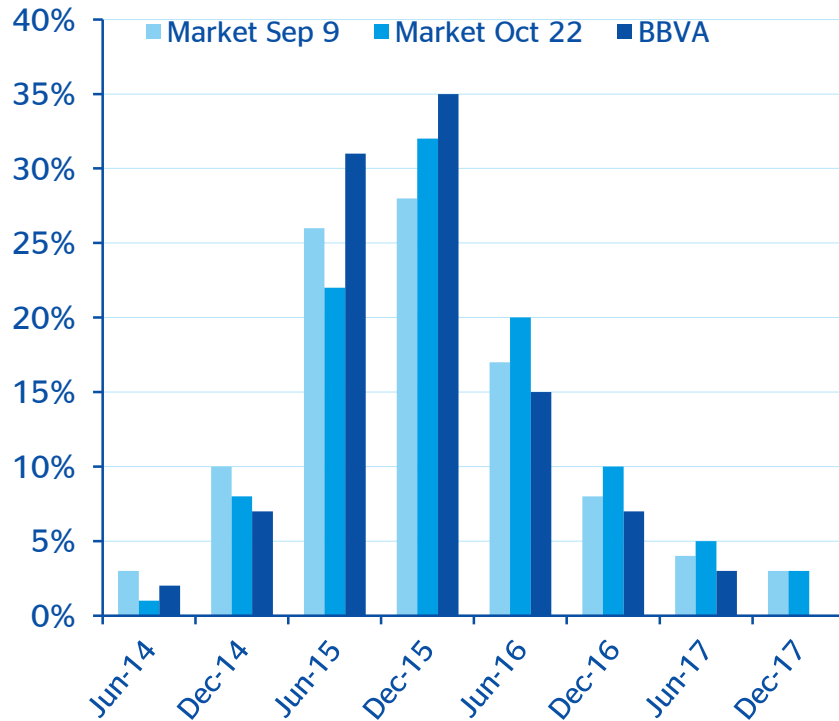


# Federal Funds Rate

Market expectations slowly adjusting to a more cautious Fed

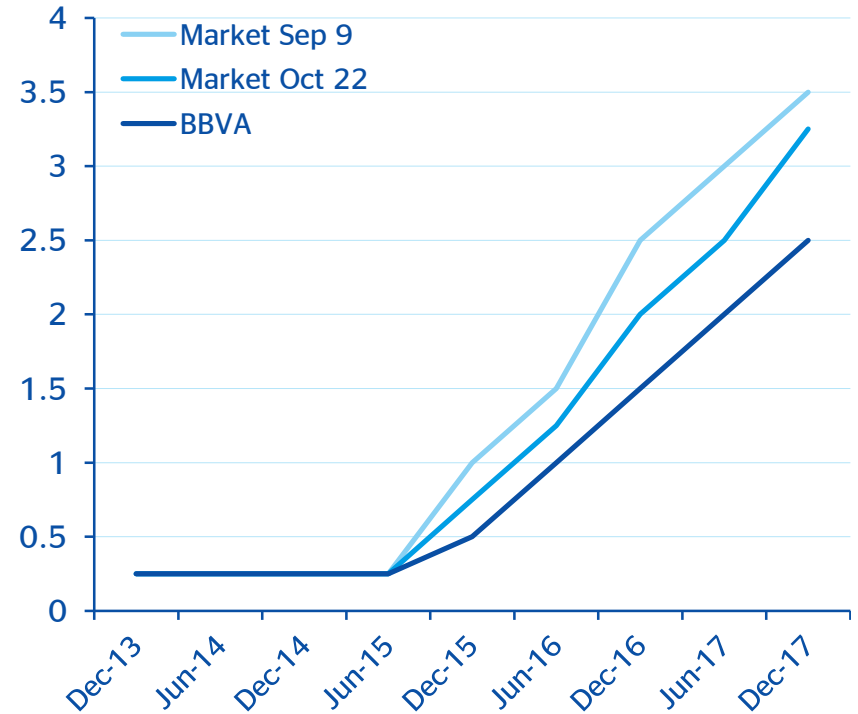
## First Rate Hike

End of period, probability



## Median Market Expectations Fed Funds

%



# FOMC Voting Members Bias

December Readiness to Scale Back QE3				January Readiness to Scale Back QE3			
			Timing				Timing
<i>Kansas City</i>	Esther L. George		Overdue	<i>Dallas</i>	Richard W. Fisher		Overdue
<i>St. Louis</i>	James Bullard		Inflation Pick-up	<i>Philadelphia</i>	Charles I. Plosser		Overdue
<i>Governor</i>	Jeremy C. Stein		Vote for in Sep	<i>Cleveland</i>	Sandra Pianalto		Overdue
<i>Chairman</i>	Ben S. Bernanke		Awayting more evidence	<i>Governor</i>	Jeremy C. Stein		Vote for in Sep
<i>Governor</i>	Jerome H. Powell		In agreement with majority	<i>Governor</i>	Jerome H. Powell		In agreement with majority
<i>Chicago</i>	Charles L. Evans		Next several months	<i>Chairman</i>	Janet L. Yellen		Not yet
<i>Vice Chair</i>	Janet L. Yellen		Not yet	<i>New York</i>	William C. Dudley		Not yet
<i>New York</i>	William C. Dudley		Not yet	<i>Minneapolis</i>	Narayana Kocherlakota		Not yet
<i>Boston</i>	Eric S. Rosengren		Not yet	<i>Governor</i>	Daniel K. Tarullo		Silent
<i>Governor</i>	Daniel K. Tarullo		Silent				

# Baseline Scenario

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

\* 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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