

Economic Outlook

U.S. Monthly Update

February 20, 2014

Meeting Details

Topic: U.S. Monthly Economic Outlook

Date: Thursday, February 20, 2014

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

Meeting Number / Access Code: 718 465 738

Meeting Password: bbva

To join the online meeting:

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=m947db6b5d38531bc1cec760ca3dce55f>

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Baseline Scenario

GDP

More surprises ahead?

- As expected, upside risks materialize
- Less fiscal drag after budget deal
- Lower policy uncertainty could boost private investment and hiring
- GDP growth revised from 2.3% to 2.5% for 2014

Inflation

Cautious, but not worried

- Although low inflation has persisted for longer than expected, deflationary risks remain low
- Upside risks in check as economic slack continues

Fed

Policy firming vs. thresholds

- Pace of tapering data dependent
- FOMC debates best strategy for forward guidance
- Fed funds scenario unchanged; rate hike no earlier than 2015

Interest Rates

Trending upward

- Conditional forecasts suggest an orderly adjustment of long-term yields, reaching 4.0% in 2016-2017
- An early exit environment would imply a further 100bp adjustment

Risks

Tilted to the upside

- Upside: productivity shock, energy/high-tech, low policy drag
- Downside: debt ceiling, QE3 disorderly exit, financial instability, demographics
- Global: European/EM crisis, commodity prices, geopolitical

Baseline Scenario

Upward bias to 2014 growth

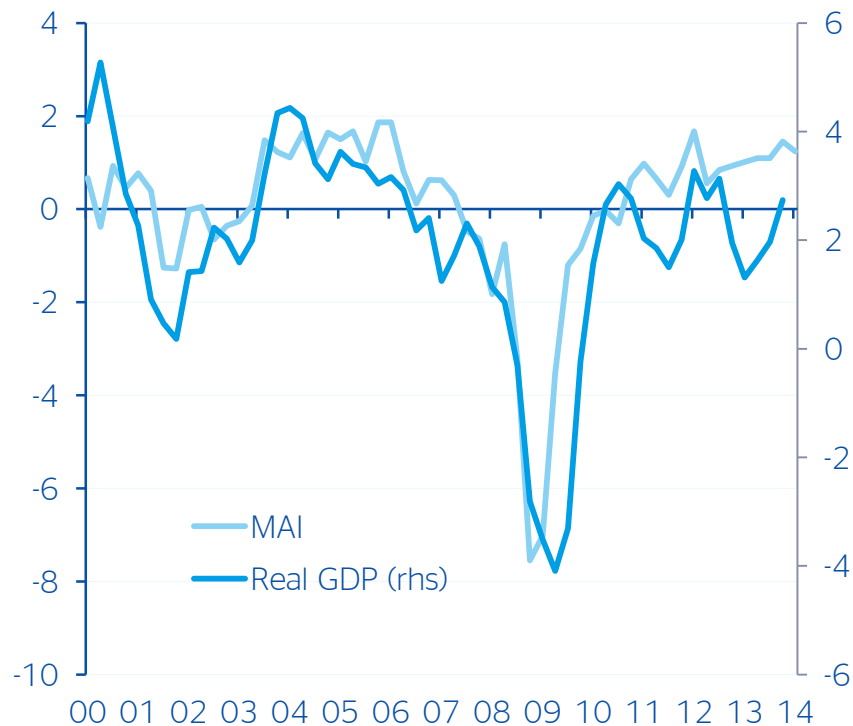
	2011	2012	2013	2014	2015	2016	2017	2018
GDP new	1.8	2.8	1.9	2.5	2.5	2.8	2.8	2.9
old	1.8	2.8	1.6	2.3	2.5	2.8	2.8	--
CPI new	3.1	2.1	1.5	2.3	2.4	2.4	2.5	2.5
old	3.1	2.1	1.7	2.2	2.4	2.4	2.6	--
Core new	1.7	2.1	1.8	2.0	2.3	2.4	2.5	2.5
old	1.7	2.1	1.8	2.0	2.1	2.3	2.6	--
Fed new	0.25	0.25	0.25	0.25	0.50	1.50	2.50	3.25
[eop] old	0.25	0.25	0.25	0.25	0.50	1.50	2.50	--

Overview

Short-term data suggest a slight slowdown in 1Q14, but overall growth for 2014 expected to outpace most of the recovery thus far

Real GDP & Monthly Activity Index

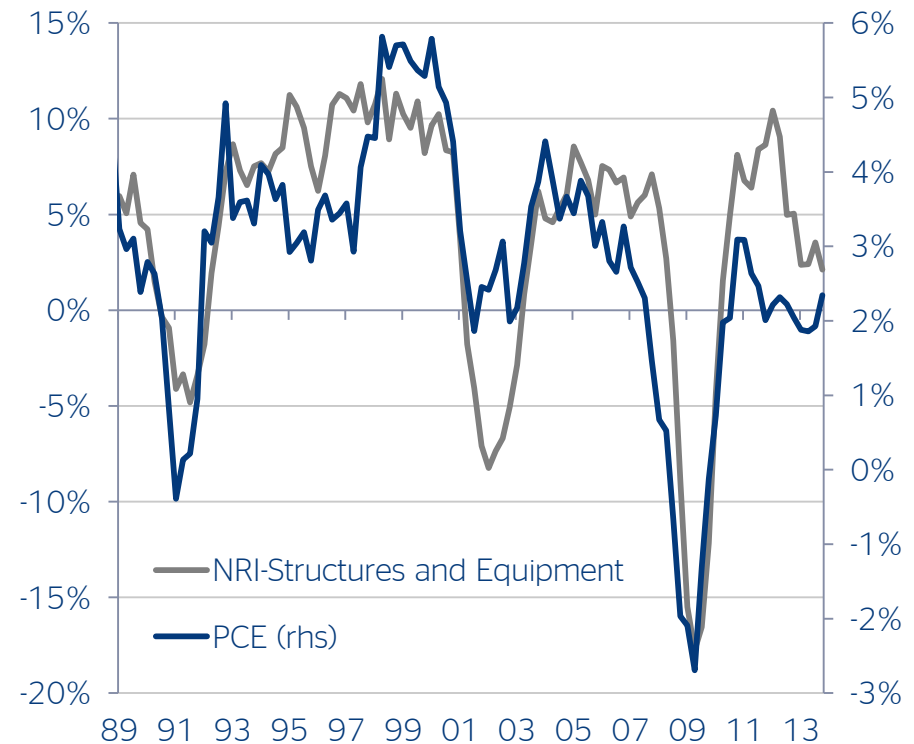
4Q % Change



Source: BEA & BBVA Research

PCE & Nonresidential Investment

YoY SAAR % Change

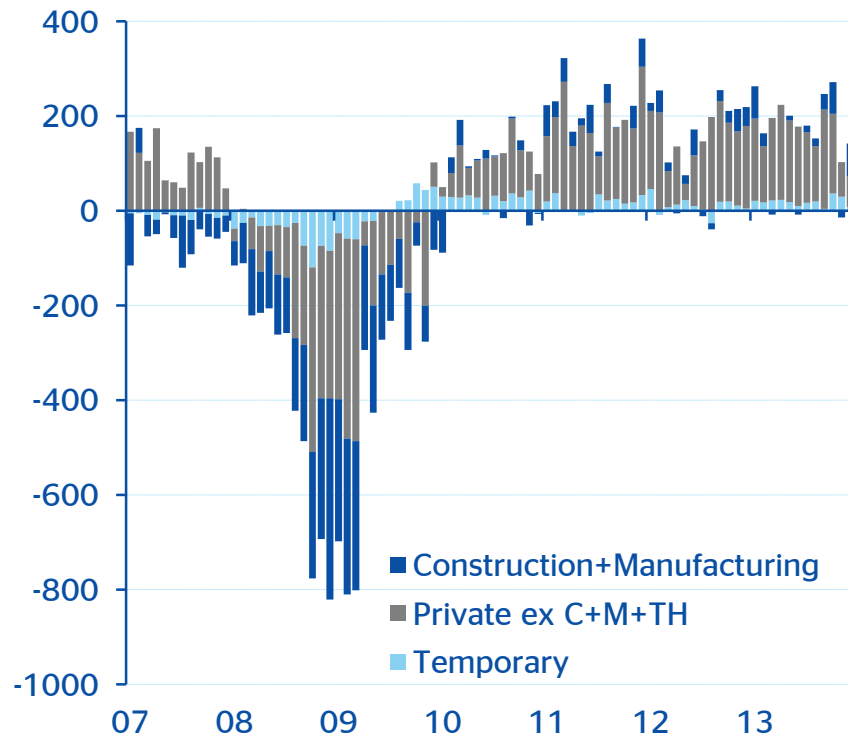


Labor Markets

Recent trends lack clarity in assessing the true strength of the labor market, even with a drop to 6.6% unemployment

Private Nonfarm Payrolls

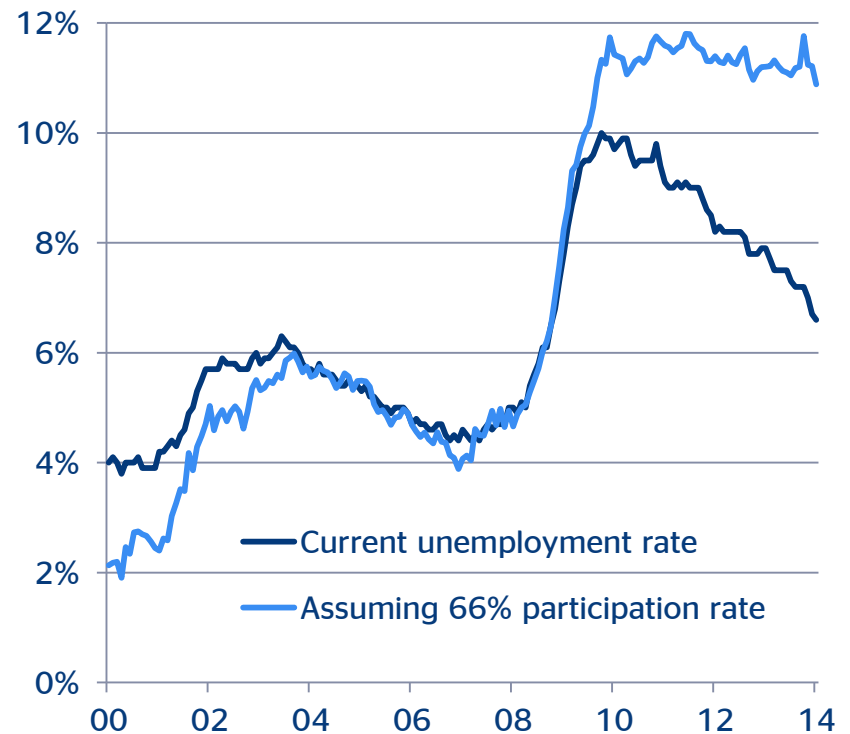
Thousands per month



Source: BLS & BBVA Research

Unemployment Rate

%

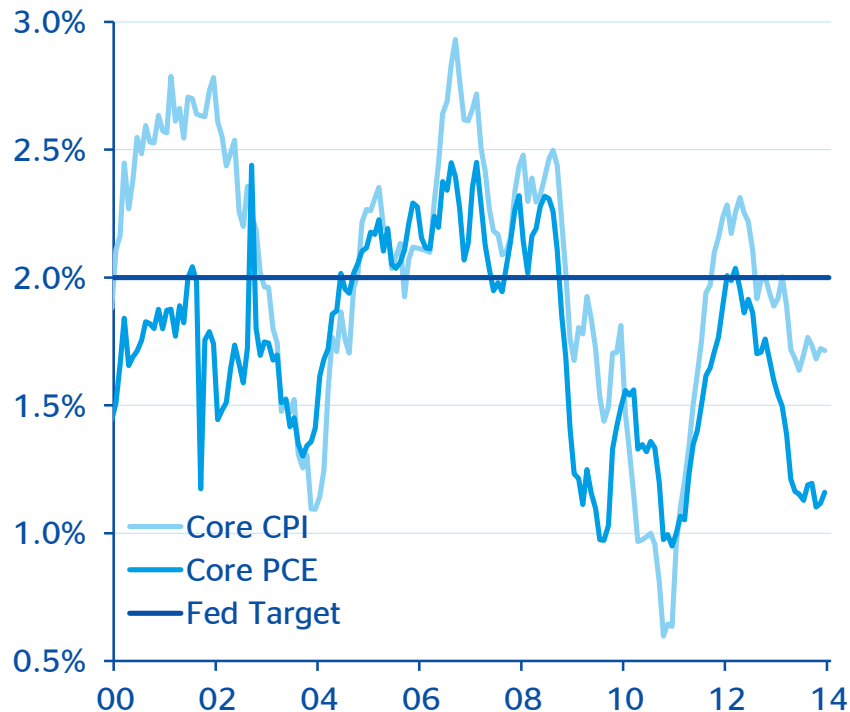


Inflation

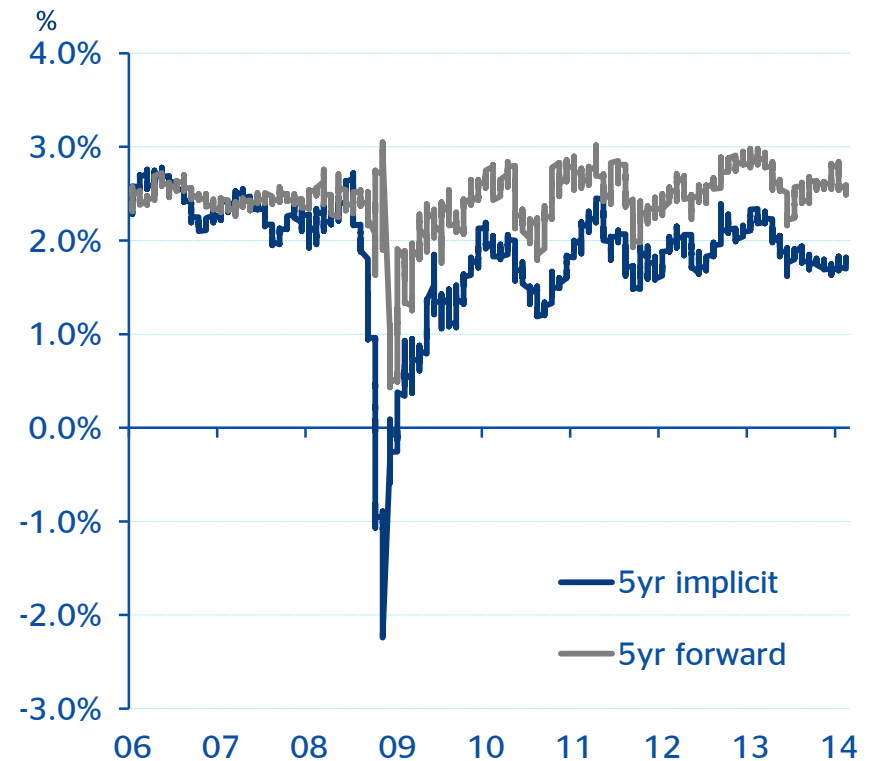
Persistently low inflation reflects elevated slack in the labor market and downward price pressures on imported goods

Core CPI and PCE

YoY % Change

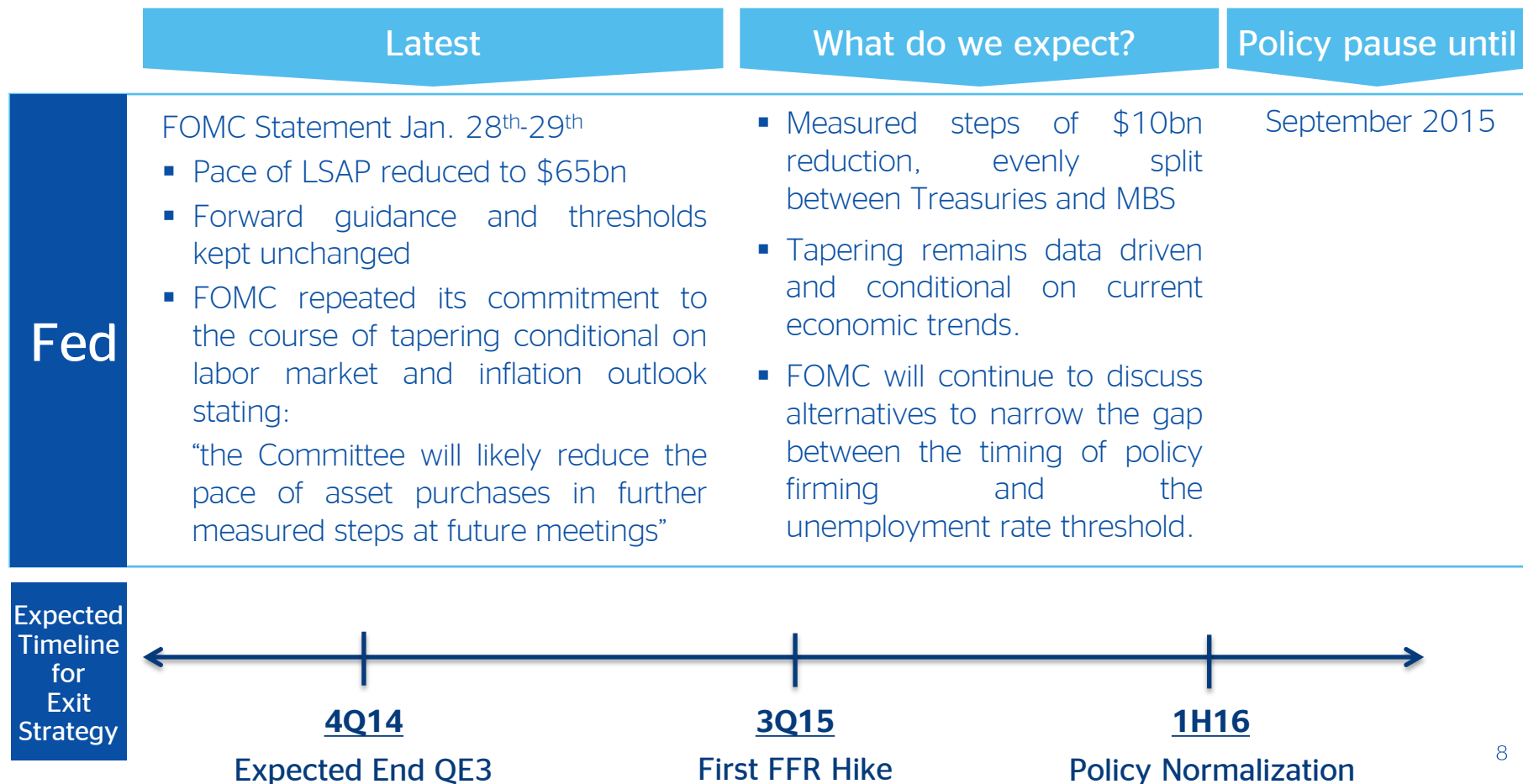


Inflation Expectations



Monetary Policy

The Fed continues to wind-down QE3 with the first unanimous vote since 2011

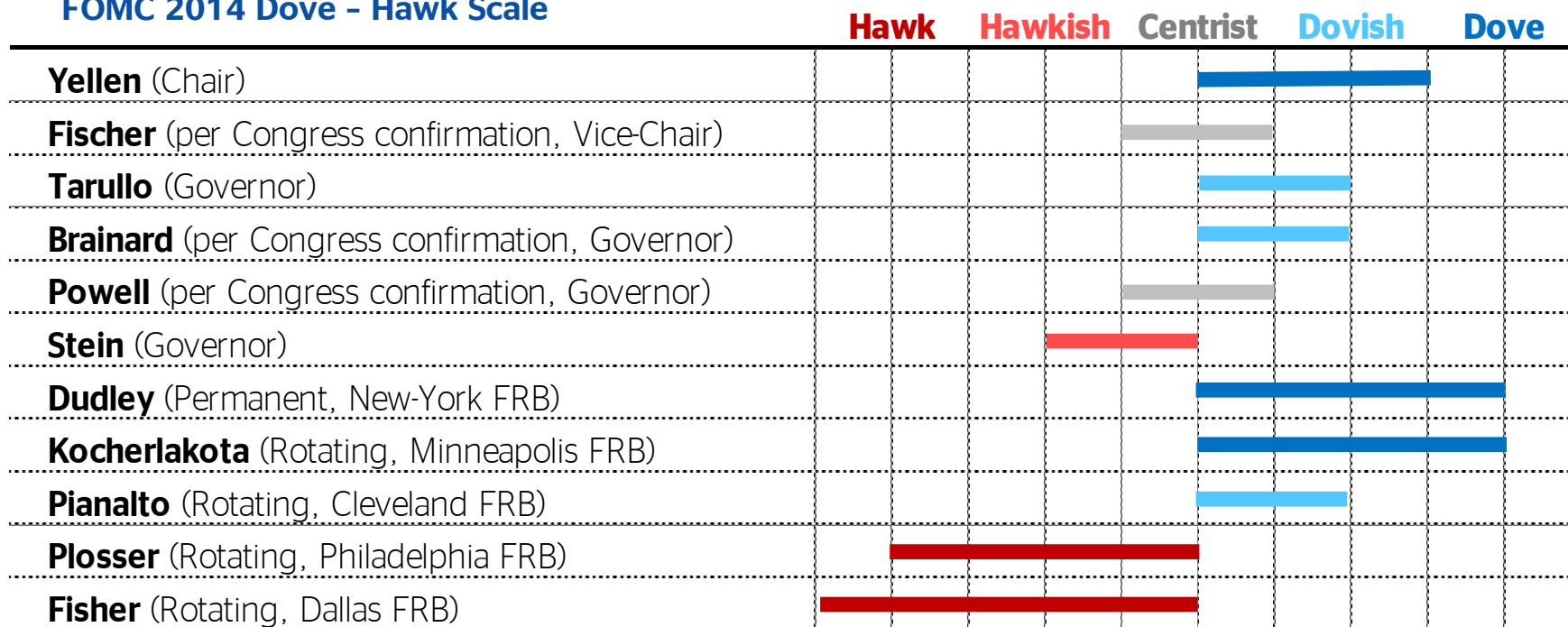


Monetary Policy

Shift to more centrist FOMC in 2014

- Rotating regional Bank Presidents were in place to cast their policy vote in January
- Yellen sworn in as Fed Chair on February 3rd, committed to staying the Fed's course
- Vice-chair nominee Fischer and two governor nominees Brainard and Powell await Congressional confirmation with one vacant governor seat still to fill

FOMC 2014 Dove - Hawk Scale

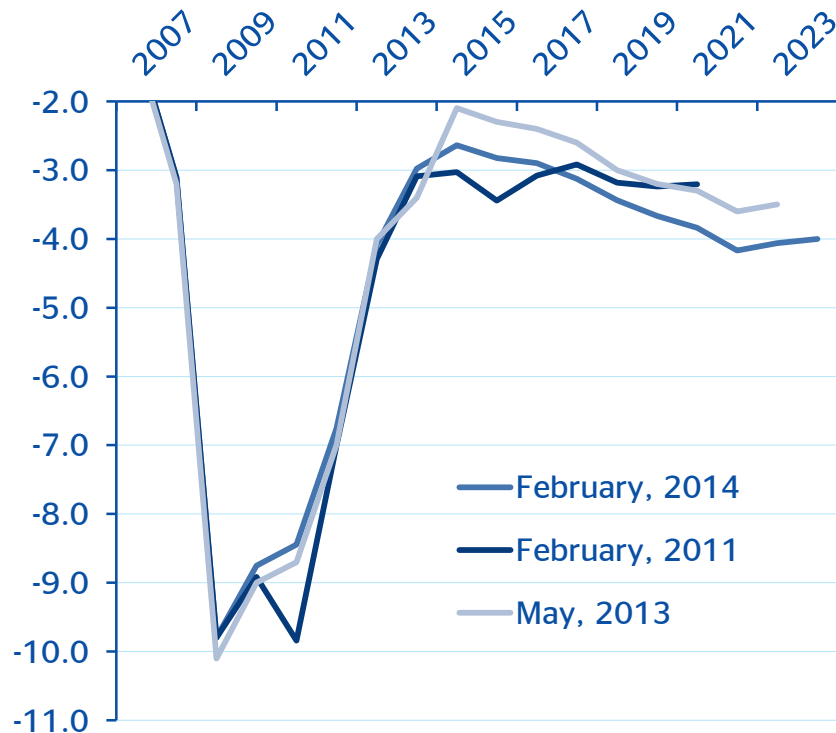


Fiscal Policy

Improved short-term budget outlook, but long-term uncertainty remains

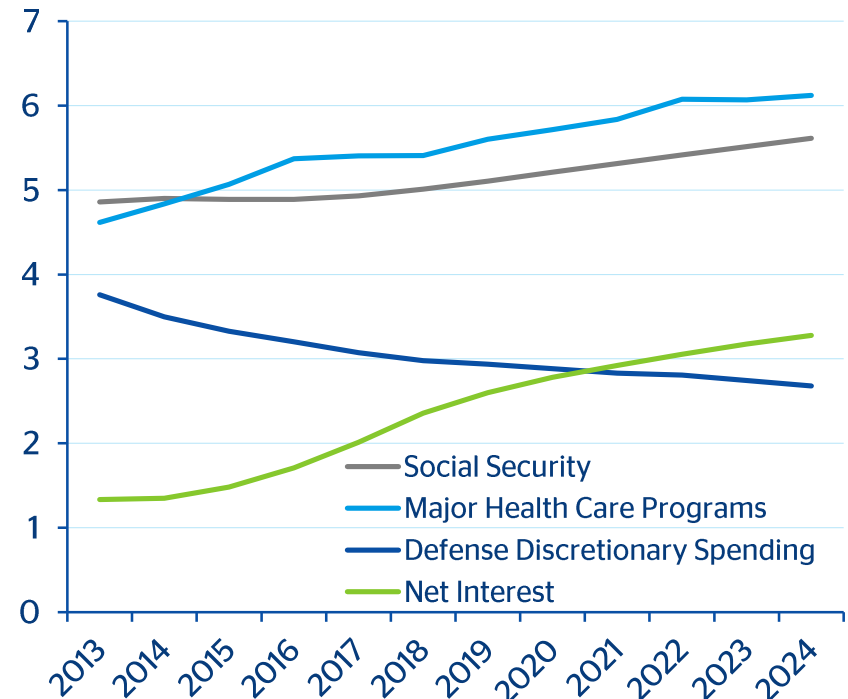
CBO Budget Balance Projections

% of GDP



Projected Government Spending

% of GDP



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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