

# Economic Outlook

## U.S. Monthly Update

March 13, 2014

# Meeting Details

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

**Date: Thursday, March 13, 2014**

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

**Meeting Number / Access Code: 719 597 055**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=m57dac3c1ae08e101e9af9d4179ed9cb4>

**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:**

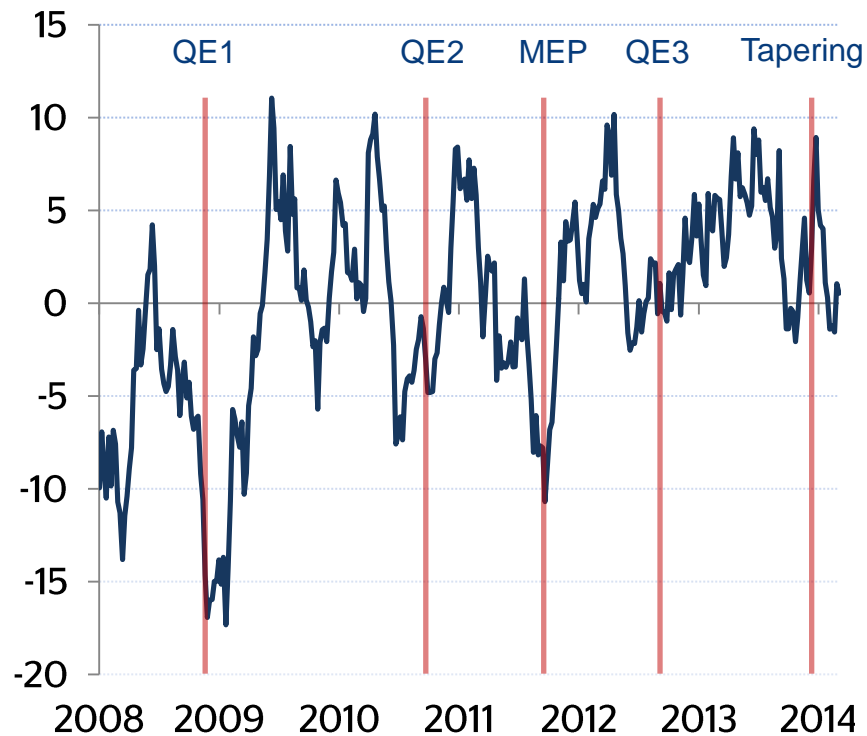
<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=187370482&tollFree=1>

# Economic Activity

Our high frequency indicators confirm softer growth in 1Q14

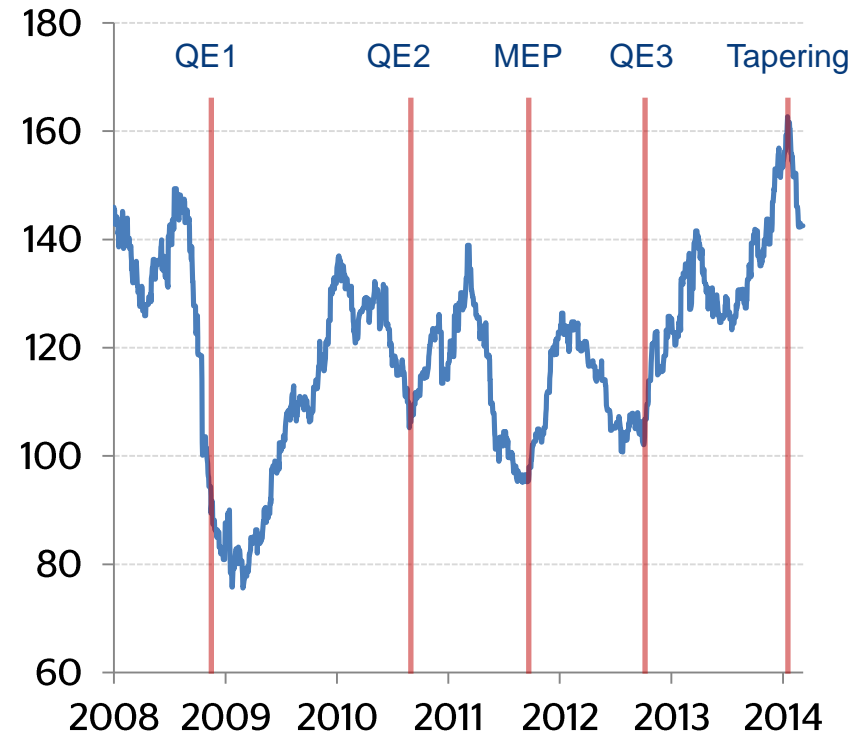
**BBVA US Weekly Activity Index**

3mma % change



**BBVA US Surprise Activity Index**

2009=100

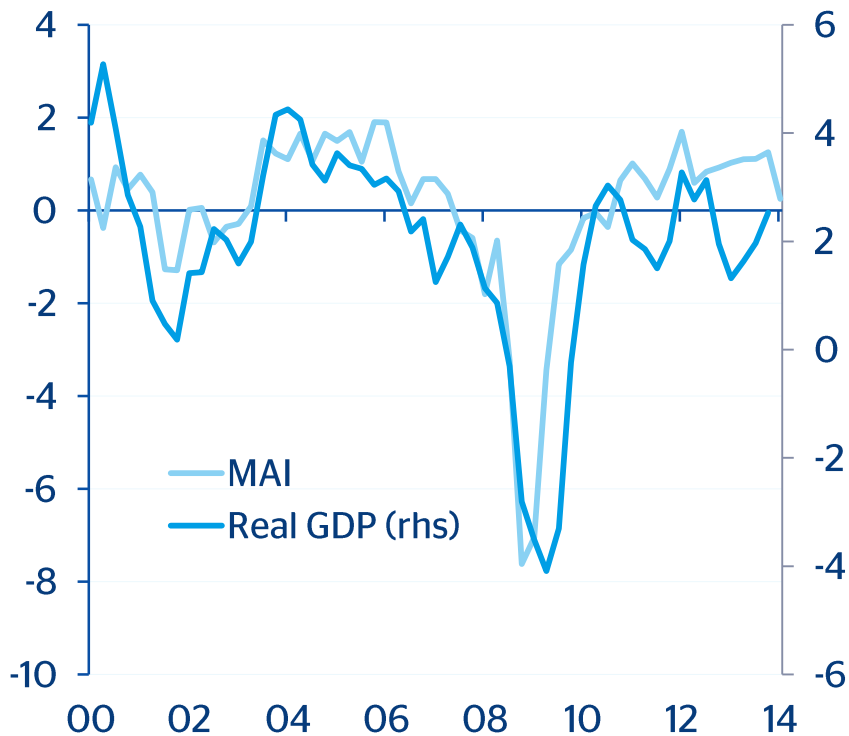


# Economic Activity

## We maintain our 2.5% GDP growth forecast for 2014

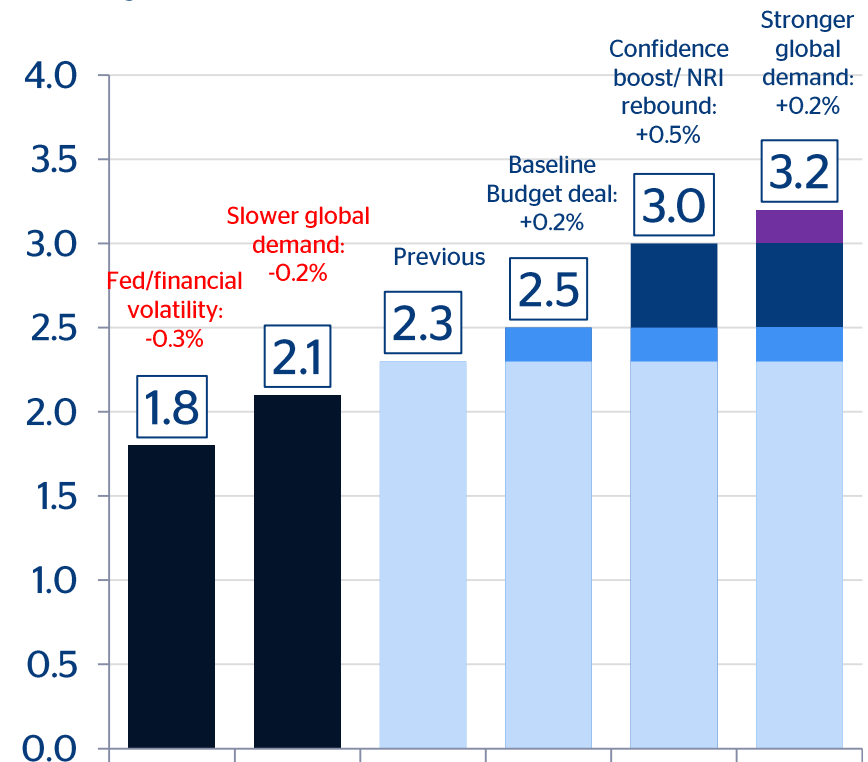
### BBVA USA Monthly Activity Index & Real GDP

4Q % change



### Real GDP Growth

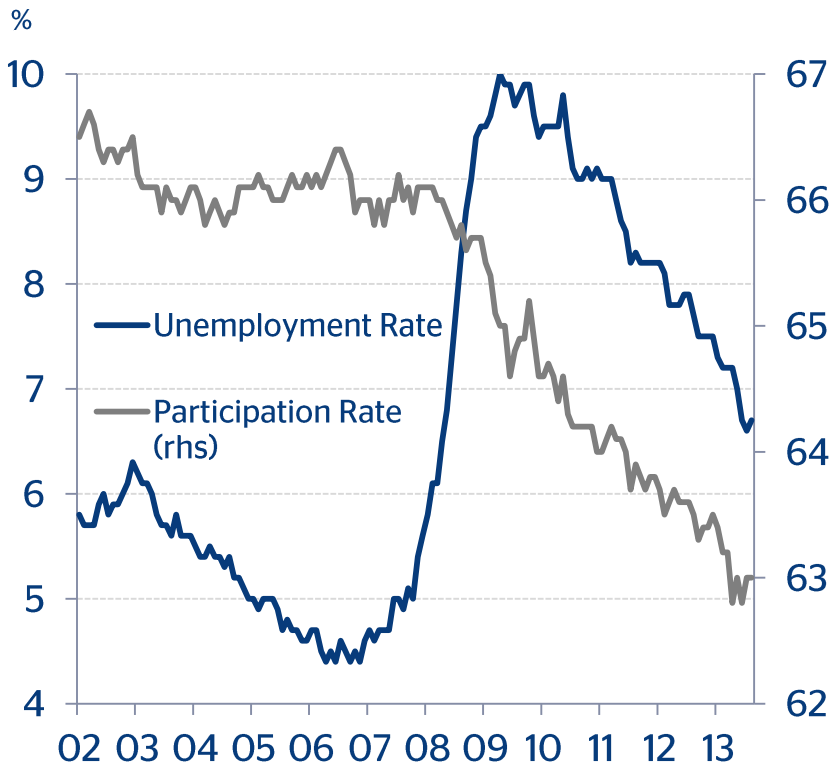
% change



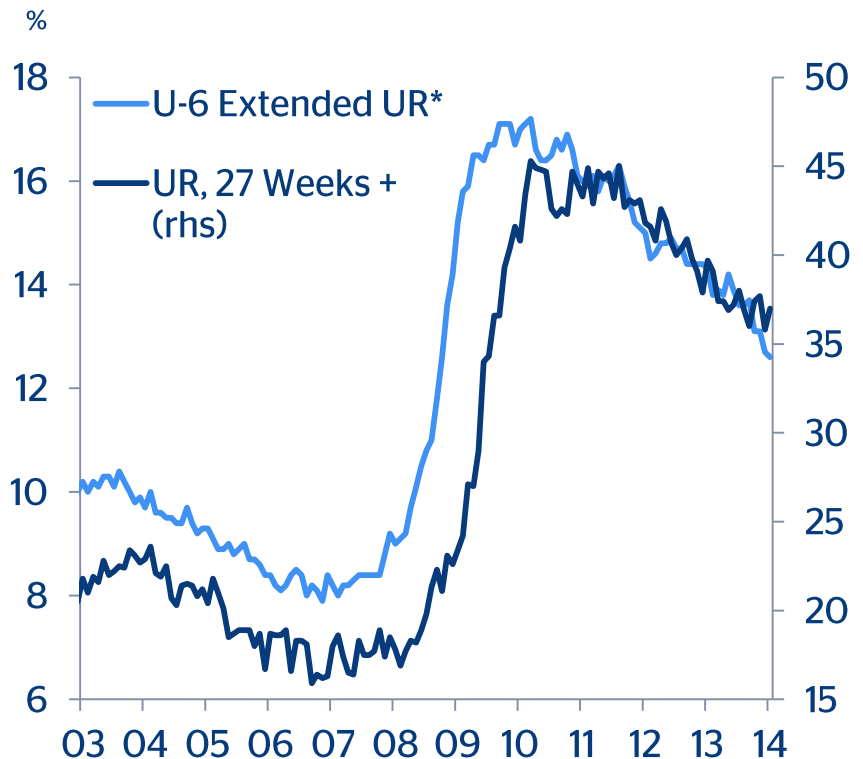
# Labor Markets

Participation continues to trend downward, emphasizing more structural issues in the labor market

Unemployment rate and participation rate



Other Measures of Unemployment Rates

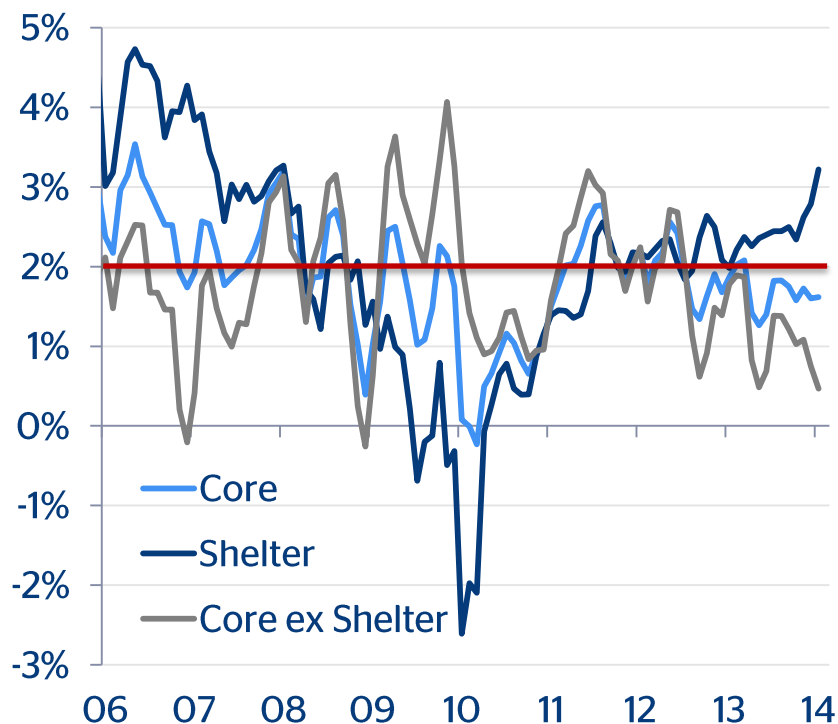


# Inflation

Even with upward pressures from shelter prices, core inflation remains below the Fed's 2.0% target

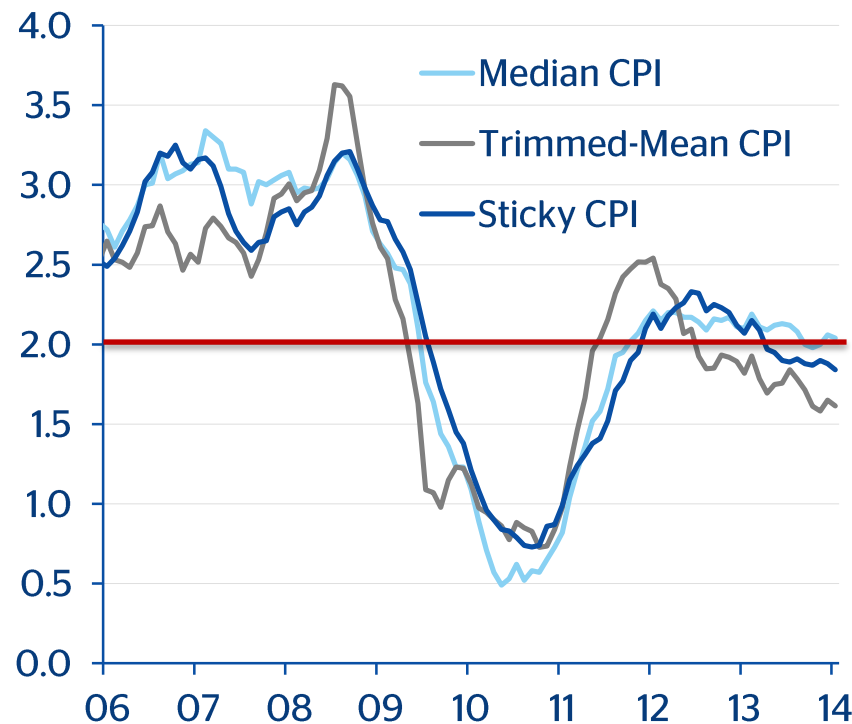
## Core CPI and Shelter Inflation

3-month % Change, Annualized



## Alternative Measures of CPI Inflation

YoY % Change

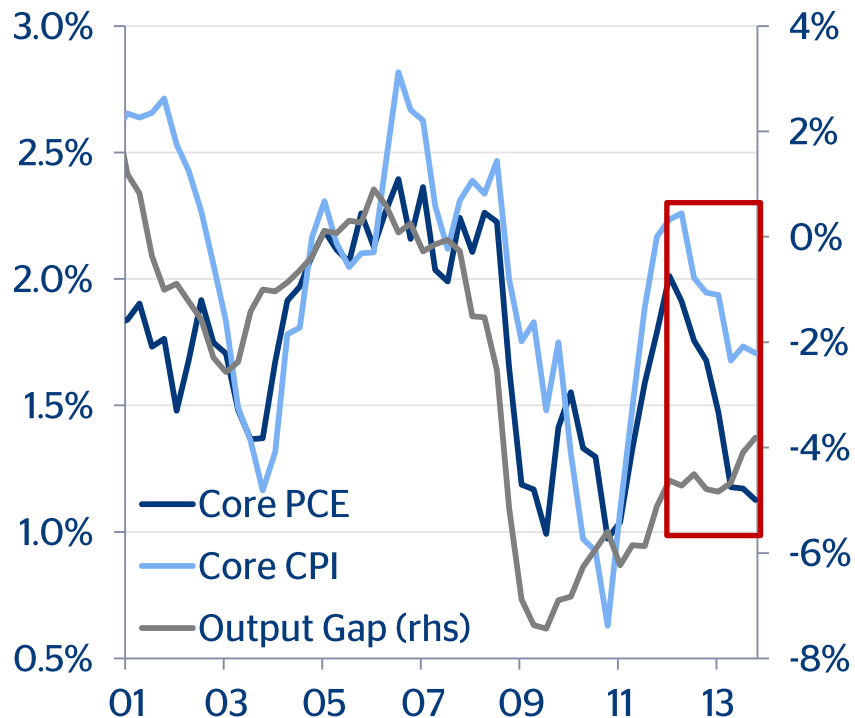


# Inflation

With a shrinking output gap, we would expect to see simultaneous increases in inflation, but this has not been the case recently

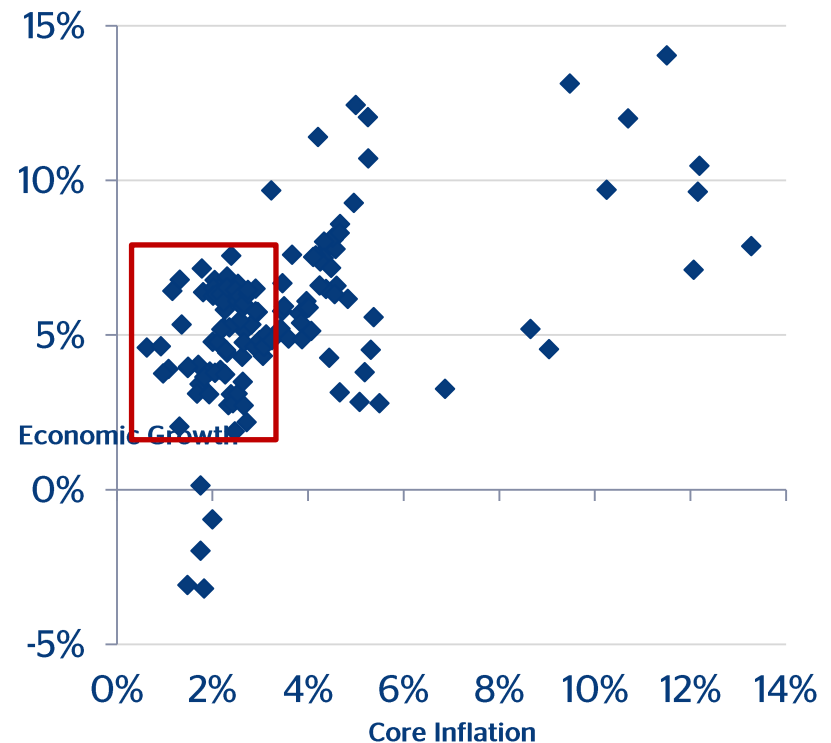
## Core Inflation and Output Gap

YoY % Change and %



## Core Inflation and GDP Growth

YoY % Change



# The Fed is expected to continue QE3 scale down in “measured steps”

	Latest	What do we expect?	Policy pause until
Fed	<p><b>Dudley (Voting Member), Mar 6 2014</b></p> <p>“There’s a high threshold for a change in the pace of tapering bond purchases... the outlook would have to change in a material way”</p> <p>“6.5% is already obsolete, most people already think that Fed will not raise the rates”</p>	<ul style="list-style-type: none"><li>▪ Measured steps of \$10bn reduction of LSAP</li><li>▪ Tapering remains data driven conditional on economic trends</li><li>▪ Slowly advance with one of the options on forward guidance:<ul style="list-style-type: none"><li>▪ Switch to qualitative vs. current quantitative approach</li><li>▪ Reference to the risks to financial stability and low inflation</li><li>▪ Reliance on the Summary of Economic Projections</li></ul></li></ul>	<b>September 2015</b>
	<p><b>Plosser (Voting Member), Mar 10 2014</b></p> <p>“I hope we can find a way to normalize the role of monetary policy to one that is less interventionist, less discretionary, and more systematic.”</p>		
Expected Timeline for Exit Strategy	<p>A horizontal timeline with arrows at both ends. It features three vertical tick marks. Below the first tick mark is the text '4Q14' and 'Expected End QE3'. Below the second tick mark is the text '3Q15' and 'First FFR Hike'. Below the third tick mark is the text '1H16' and 'Policy Normalization'. Under 'Policy Normalization', there is a sub-note: 'Balance sheet: let securities mature/sales'.</p>		



# 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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