

U.S. Economic Outlook

Monthly Update

April 10, 2014



Meeting Details

Topic: U.S. Monthly Economic Outlook

Date: Thursday, April 10, 2014

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

Meeting Number / Access Code: 711 550 659

Meeting Password: bbva

To join the online meeting:

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=mb6441ae45d1c17b02f733437cb78407c>

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>

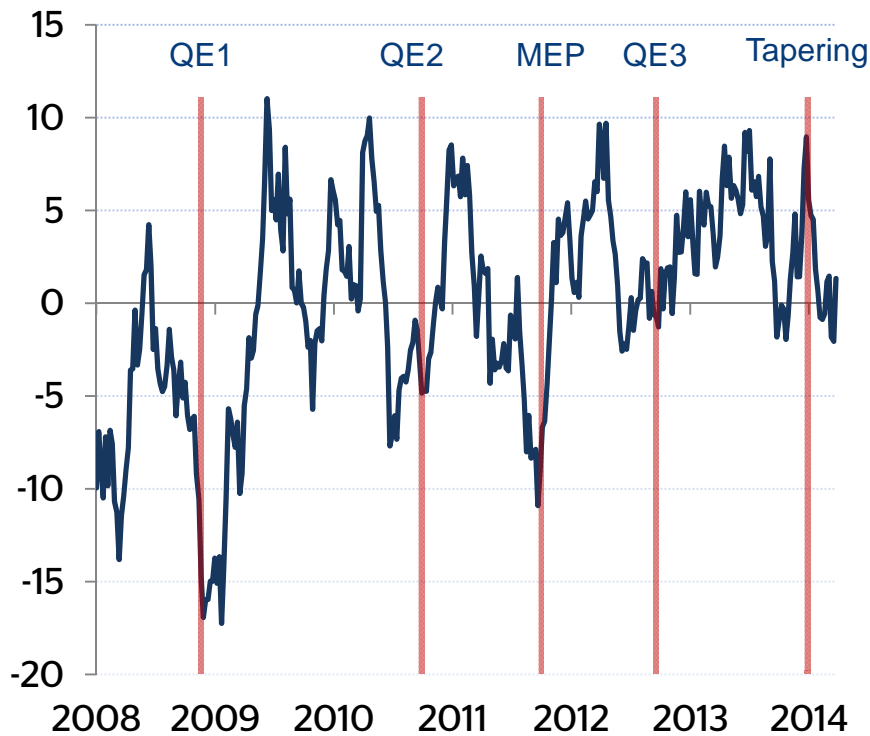


Economic Activity

Softer pace of growth after a strong 2H13 and the polar vortex

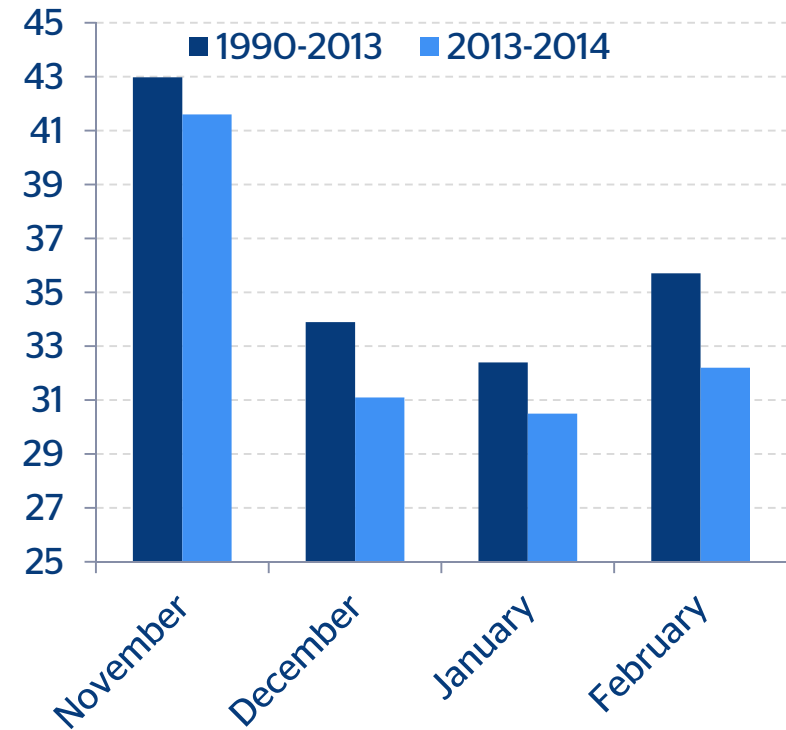
BBVA US Weekly Activity Index

3mma % change



National Average Temperature

Degrees F, average 48 contiguous states



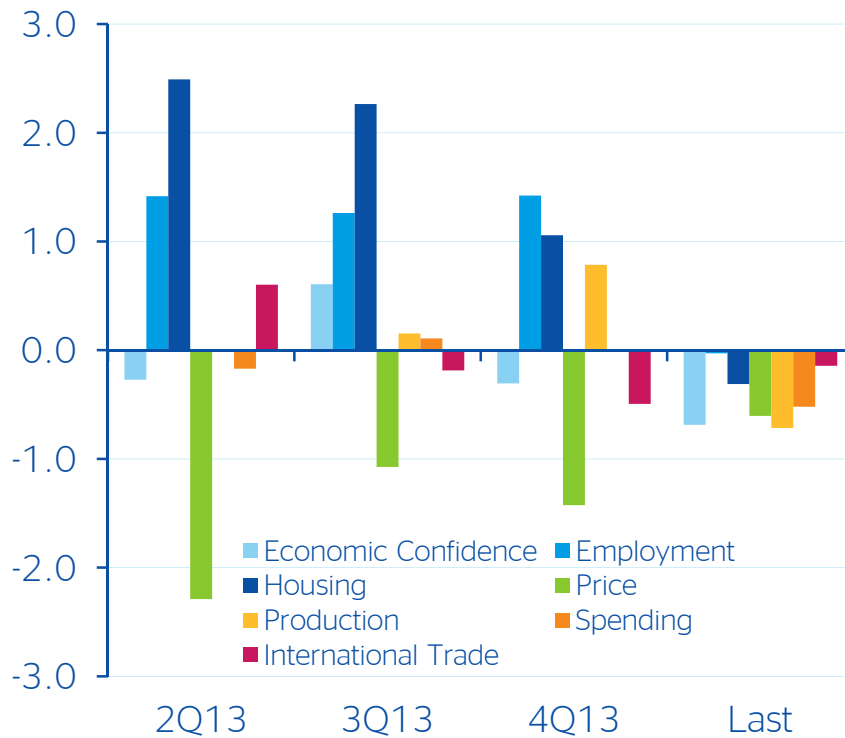


Economic Activity

Our short-term models suggest stronger growth after 1Q14

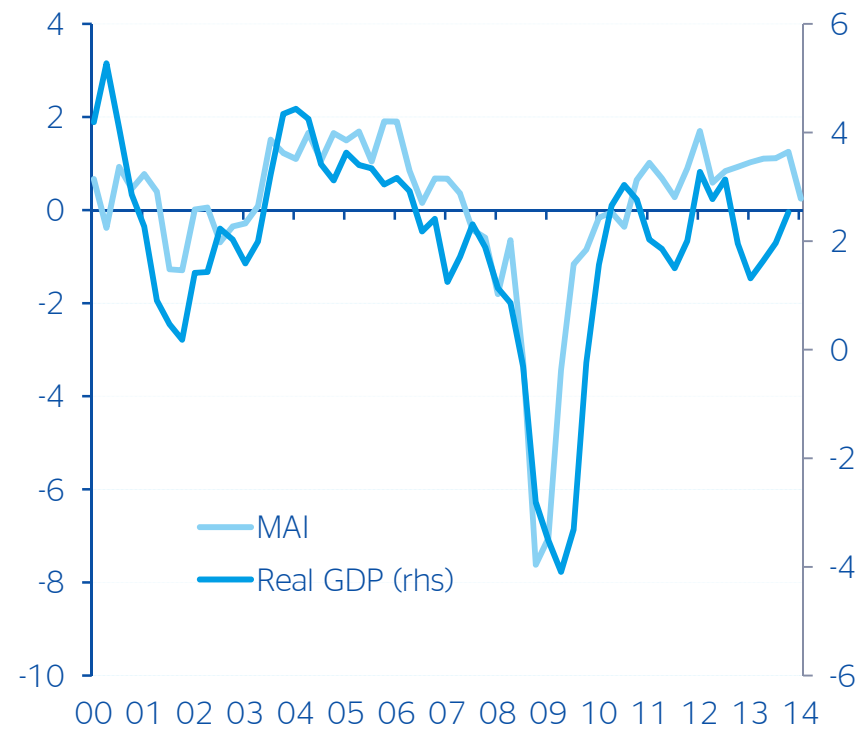
BBVA U.S. Monthly Activity Index

Index Average



Real GDP Growth and MAI

4Q % change

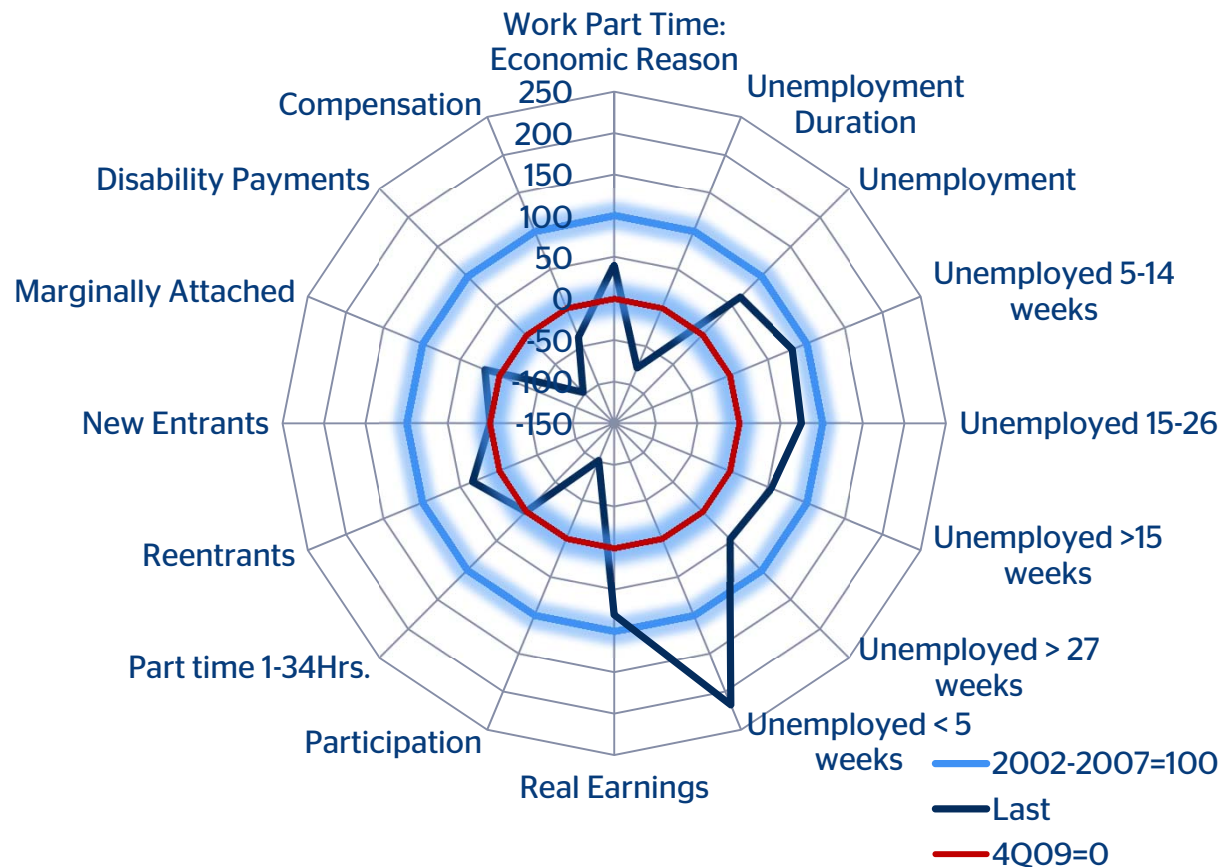




Labor Market

Labor Market Conditions

Above 0 = more stress



What is the Fed seeing?

Positive signs on flows but still weak indicators on long-term unemployment

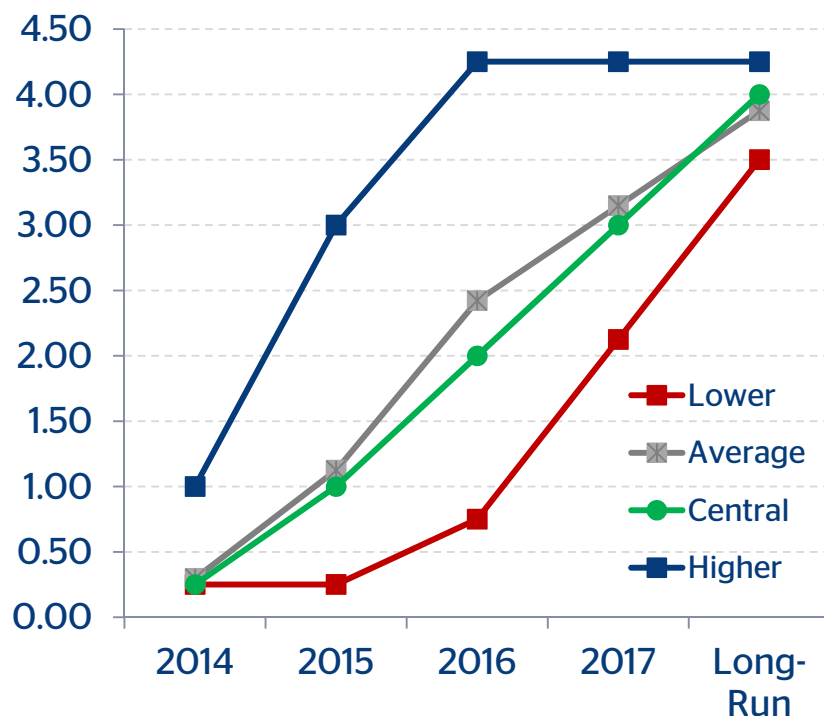
These signals could intensify the debate between hawks and doves

Monetary Policy

Fed seeks to realign expectations and an orderly normalization

FOMC Fed Funds Projection Ranges

%, end of year



FOMC Statement, March 18-19, 2014

Reaffirmed strategy to keep interest rates low:

- “A highly accommodative stance of monetary policy remains appropriate”
- “Appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends”
- “Even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.”

Monetary Policy

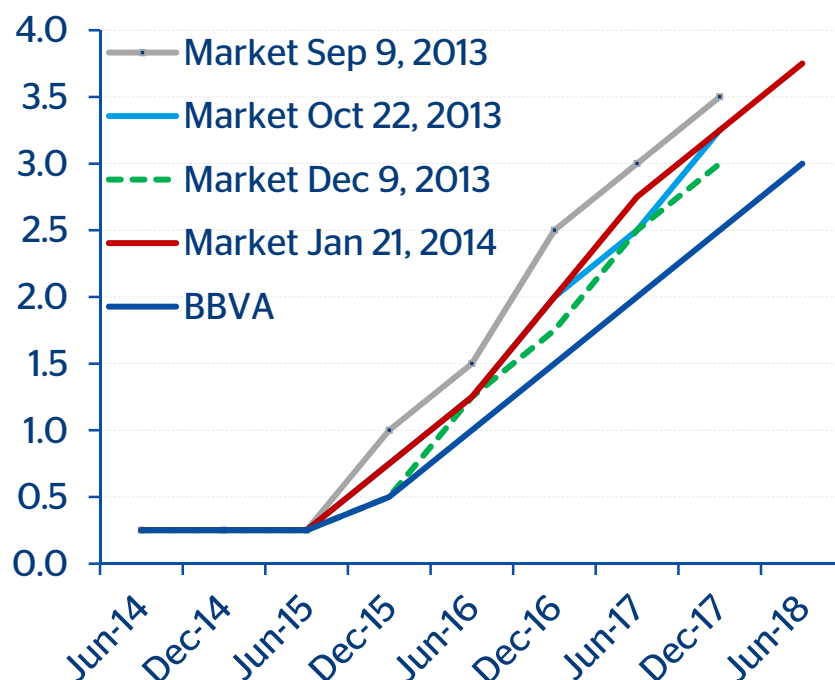
	Latest	What do we expect?	Policy pause until
Fed	<p>FOMC Statement: March 19, 2014</p> <ul style="list-style-type: none"> 6.5% unemployment rate threshold is discarded. Forward guidance is revised to qualitative statement: “the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation.” QE3 wind-down on track, LSAP with another \$10bn cut to \$55bn LSAP FOMC majority continue to expect first rate hike in 2015 	<ul style="list-style-type: none"> Measured steps of \$10bn reduction of QE3 Yellen’s press conference hints that timing of first rate hike might be sooner than market expectations 	<p><u>September 2015</u></p> <p>Maintaining the baseline but with lower likelihood as the probability of early rate hike increased</p>
Expected Timeline for Exit Strategy	<p>←————— ————— ————— —————→</p> <p><u>4Q14</u> <u>3Q15</u> <u>1H16</u></p> <p>Expected End QE3 First FFR Hike Policy Normalization</p> <p>Balance sheet: let securities mature/sales</p>		

Interest Rates

Markets adjusted to an earlier rate hike; however, policy is data dependent on labor markets, inflation and financial stability

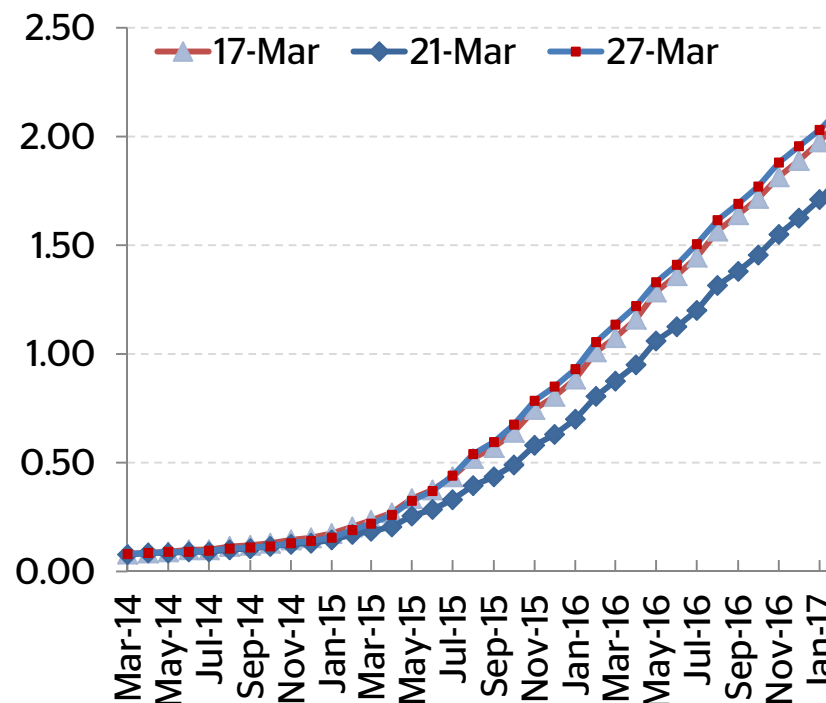
Survey Expectations Fed Funds

%, FRBNY, Market Dealers



Implicit Fed Funds Expectations

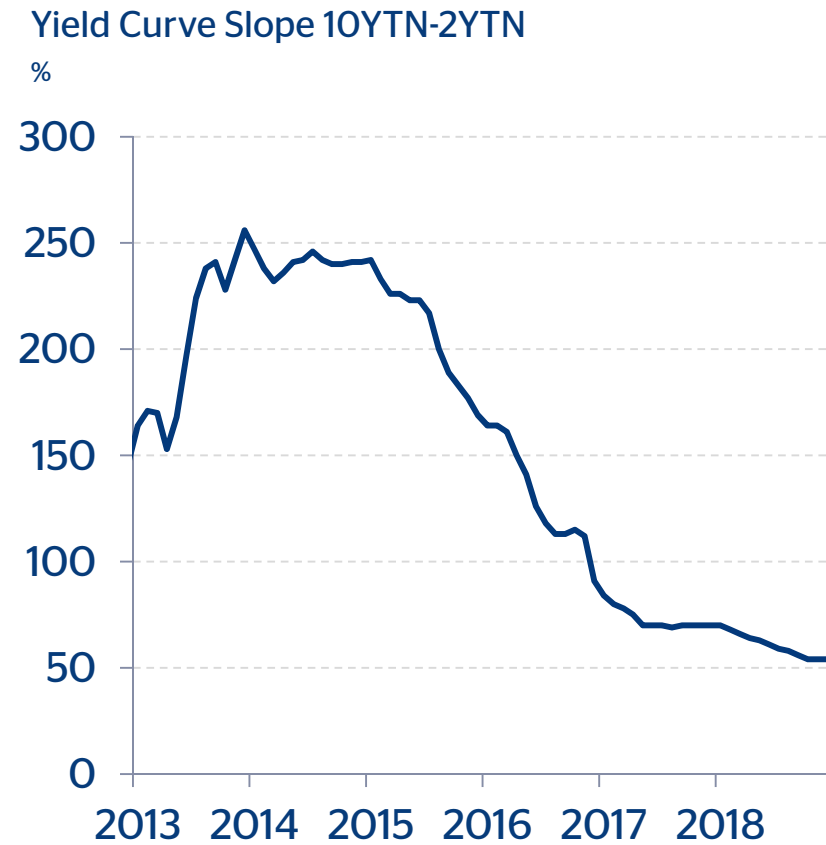
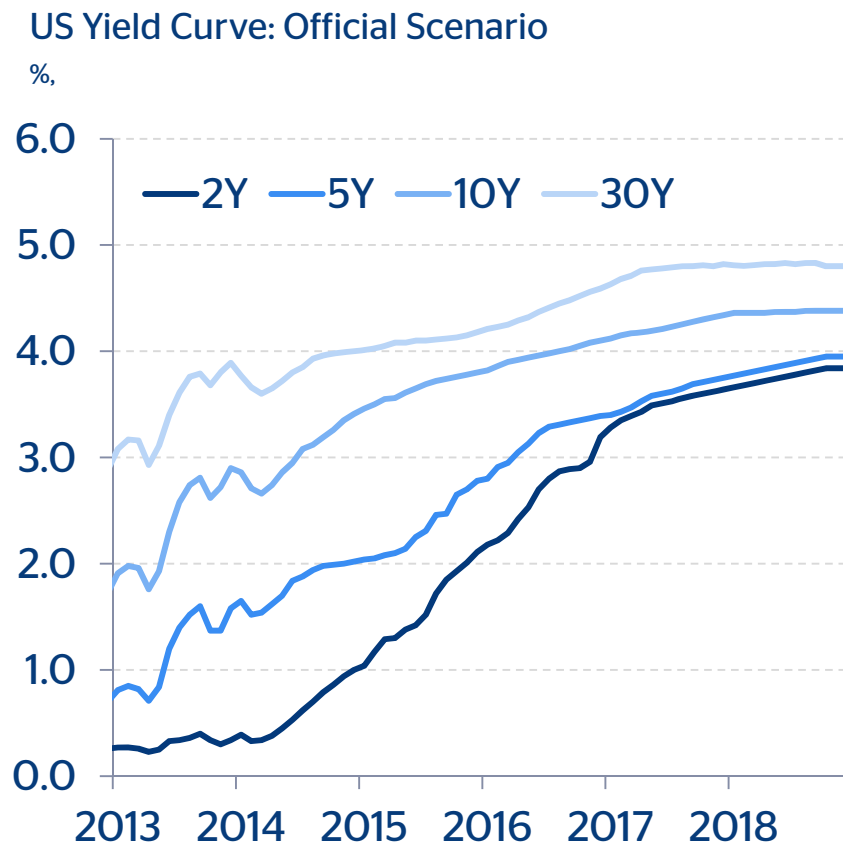
30-day futures, %





Yield Curve

We maintain our baseline scenario unchanged



Source: BBVA Research

Baseline Forecasts*

	1Q13	2Q13	3Q13	4Q13	1Q14	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.1	2.5	4.1	2.6	1.6	1.8	2.8	1.9	2.5	2.5	2.8	2.8
Real GDP (Contribution, pp)												
PCE	1.5	1.2	1.4	2.2	0.8	1.7	1.5	1.4	1.3	1.2	1.3	1.2
Gross Investment	0.7	1.4	2.6	0.4	0.2	0.7	1.4	0.8	0.9	0.9	1.0	1.1
Non Residential	-0.6	0.6	0.6	0.7	0.6	0.8	0.9	0.3	0.7	0.9	0.9	0.9
Residential	0.3	0.4	0.3	-0.3	0.2	0.0	0.3	0.3	0.2	0.3	0.3	0.3
Exports	-0.2	1.0	0.5	1.2	0.7	0.9	0.5	0.4	0.8	1.0	0.8	0.8
Imports	-0.1	-1.1	-0.4	-0.2	0.6	-0.8	-0.4	-0.2	0.5	0.5	0.3	0.4
Government	-0.8	-0.1	0.1	-1.0	0.0	-0.7	-0.2	-0.4	-0.2	0.0	0.0	0.0
Unemployment Rate (% average)	7.7	7.5	7.2	7.0	6.7	8.9	8.1	7.4	6.7	6.2	5.7	5.2
Average Monthly Nonfarm Payroll (K)	206	201	172	198	178	174	186	194	196	226	245	273
CPI (YoY %)	1.7	1.4	1.5	1.2	1.4	3.1	2.1	1.5	2.3	2.4	2.4	2.5
Core CPI (YoY %)	1.9	1.7	1.7	1.7	1.7	1.7	2.1	1.8	2.0	2.3	2.4	2.5
Fiscal Balance (% GDP)	-	-	-	-	-	-8.7	-6.8	-4.2	-3.1	-2.7	-2.9	-3.0
Current Account (bop, % GDP)	-2.5	-2.3	-2.3	-	-	-3.0	-2.7	-2.3	-2.6	-2.2	-2.0	-1.4
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	2.50
S&P Case-Shiller Index (YoY %)	9.93	9.96	11.15	11.30	9.68	-4.35	2.85	10.60	8.78	6.20	4.62	3.78
10-Yr Treasury (% Yield, eop)	1.96	2.30	2.81	2.90	2.72	1.98	1.72	2.90	3.41	3.80	4.10	4.34
U.S. Dollar / Euro (eop)	1.30	1.32	1.34	1.37	1.38	1.32	1.31	1.37	1.35	1.32	1.37	1.36
Brent Oil Prices (dpb, average)	112.6	102.7	110.3	109.3	108.2	111.3	111.7	108.7	112.5	117.2	120.2	124.2

*Note: Forecast revisions pending

U.S. Economic Outlook

Monthly Update

April 10, 2014