

Economic Watch

US

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Economic Analysis

US
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Monthly US Outlook Uncertainties Weighing on Economic Activity in 1H12

- GDP growth in 2012 is expected to outpace that of 2011, however, activity in 1Q12 will likely be slower than in 4Q11
- Latest employment data have intensified labor market uncertainties
- The Fed continues to stress downside risks, including slower world growth and a depressed housing market, though rising inflation will be temporary

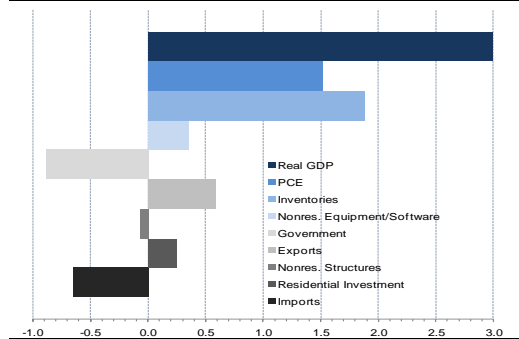
Economic data have continued to improve in recent weeks, yet activity appears to be slowing in some areas as we move into 2Q12. The final estimate for real GDP growth in 4Q11 was unchanged from the advance figure, remaining at 3.0% QoQ annualized on a seasonally-adjusted basis and confirming the previously reported 1.7% annual growth for 2011. At this rate, economic activity in the fourth quarter expanded at the fastest pace since 2Q10. For 2012, we expect that growth will accelerate slightly but remain below the 3.0% annual rate seen in 2010. Looking at the first quarter of 2012, some of the momentum from 4Q11 appears to have carried over, although we have seen activity slowing in some areas. In particular, improvements in the employment situation may be decelerating, with initial jobless claims data hovering near the 350K level all throughout March. As expected, this translated into lower nonfarm payroll growth for the month compared to the previous 200K+ gains, a signal that the recovery is not yet in full swing. The declining unemployment rate reflected yet another drop in labor force participation, a discouraging sign for potential economic growth. On the other hand, real personal consumption expenditures, which had shown signs of little to no growth in the previous months, increased 0.5% in February following upward revisions to data in both December and January. A similar PCE increase in March could push up our forecast for 1Q12 GDP, though we continue to expect that growth will be slower than 4Q11. Our monthly activity index, which we use to forecast short-term GDP, suggests that this better-than-expected increase in PCE could influence a 0.2pp increase in our QoQ annualized estimate.

Given "continuing headwinds" and the still-present risk that conditions may slow down as in 2011, the FOMC sees little need to change its accommodative stance at the present time. The recent increase in inflation will limit efforts to support the economy but unseasonably warm weather and the decline in natural gas prices may have limited the impact of high oil prices on headline inflation. Recent increase in oil prices forced us to slightly revise up our headline inflation forecast to 2.5% for 2012. However, we kept our core inflation forecast unchanged with some upside risk. The FOMC is steadfast in their assertion that they expect inflation to be around their mandate and that the recent increase in inflation is temporary. Looking ahead to the Fed's meeting in April, we do not expect that the latest inflation and employment data will cause any immediate policy actions. However, the data do intensify the current labor market debate, and the Fed may be more inclined to act if we see deterioration in upcoming reports. Our expectation for the first target rate hike in 4Q14 has not changed.

Despite improvements in various economic indicators, growth is not yet at a strong pace and continues to face downside risks. These downside risks include Europe's continuing sovereign debt issues, oil price shock, slowdown in emerging markets, further household deleveraging, and high levels of uncertainty. Furthermore, fiscal reform and the lack of a budget deal reached in Congress (resulting in potential drag in 2013) are becoming more of a concern as we approach the presidential election.

Economic Indicators

Graph 1
Contributions to Real GDP Growth
(4Q11 Final Estimate, SAAR Percentage Points)



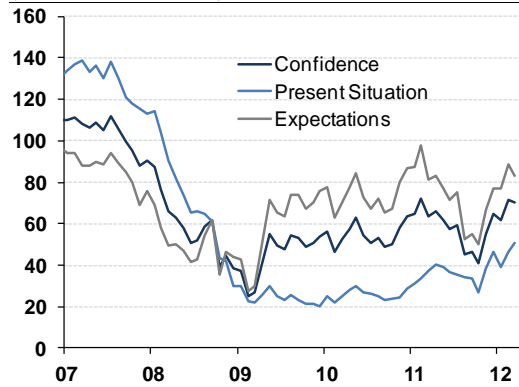
Source: BEA and BBVA Research

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



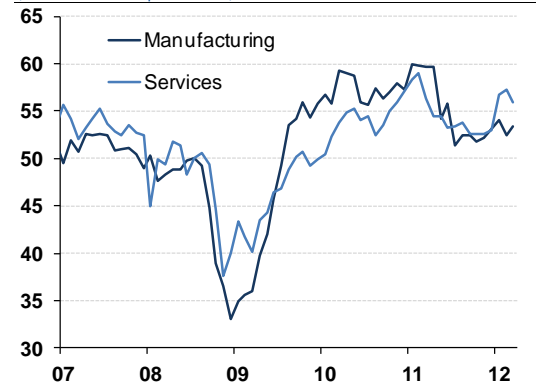
Source: BEA and BBVA Research

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



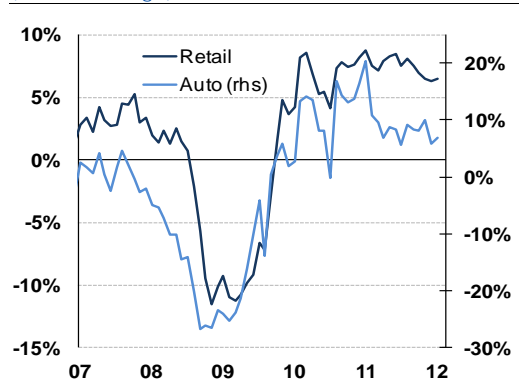
Source: Conference Board and BBVA Research

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



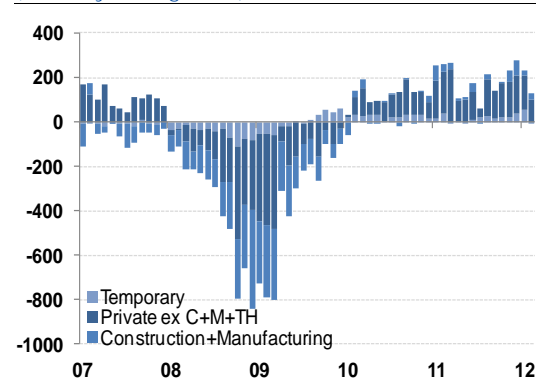
Source: ISM and BBVA Research

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau and BBVA Research

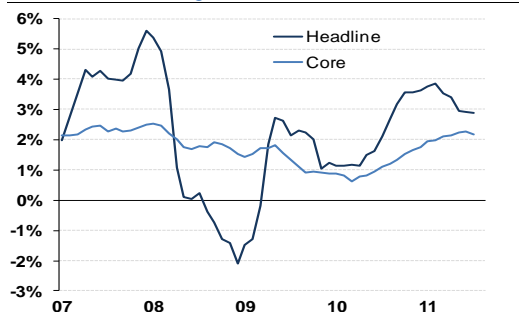
Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: BLS and BBVA Research

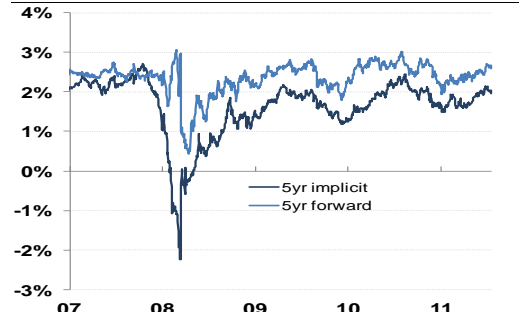
Economic Indicators

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



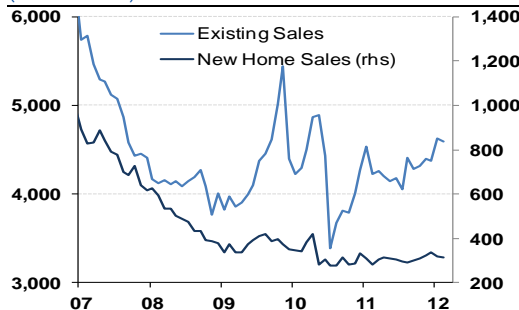
Source: BLS and BBVA Research

Graph 8
Inflation Expectations (%)



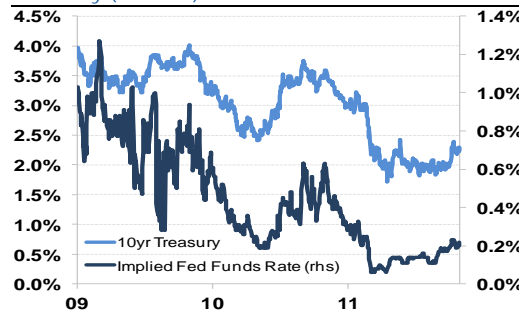
Source: Federal Reserve Board and BBVA Research

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)

	2Q11	3Q11	4Q11	2011	2012	2013
Real GDP (% SAAR)	1.3	1.8	3.0	1.7	2.3	2.2
Real GDP (Contribution, pp)						
PCE	0.7	1.7	2.1	1.5	1.6	1.5
Gross Investment	6.4	1.3	20.6	0.6	0.9	0.8
Non Residential	10.3	15.7	2.8	0.8	0.8	0.7
Residential	4.2	1.3	11.5	0.0	0.1	0.1
Exports	3.6	4.7	4.3	0.9	0.8	0.9
Imports	1.4	1.2	3.8	-0.8	-0.8	-1.1
Government	-0.9	-0.1	-4.4	-0.4	-0.1	0.1
Unemployment Rate (%)	9.0	9.1	8.7	9.0	8.3	7.9
Average Monthly Nonfarm Payroll (K)	130	128	164	153	187	204
CPI (YoY %)	3.4	3.8	3.3	3.2	2.5	2.2
Core CPI (YoY %)	1.5	1.9	2.2	1.7	1.9	1.8
Fiscal Balance (% GDP)	-	-	-	-8.7	-7.1	-4.6
Current Account (bop, % GDP)	-3.3	-2.8	-3.2	-3.3	-3.1	-3.2
Fed Target Rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25
S&P Case-Shiller Index	129.8	127.9	125.7	128.2	126.2	125.6
10-Yr Treasury (% Yield, eop)	3.0	2.0	2.0	2.0	2.5	2.7
U.S. Dollar / Euro (eop)	1.44	1.38	1.31	1.31	1.25	1.31
Oil Prices (dcb, average)	119.7	114.8	112.0	113.5	121.7	106.6

Source: BBVA Research

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