

# U.S. Economic Outlook

## Monthly Update

July 11, 2014

# Meeting Details

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

**Date: Friday, July 11, 2014**

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

**Meeting Number / Access Code: 714 525 921**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=m182e5132f7a7269db49577e2fb665fd3>

**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:**

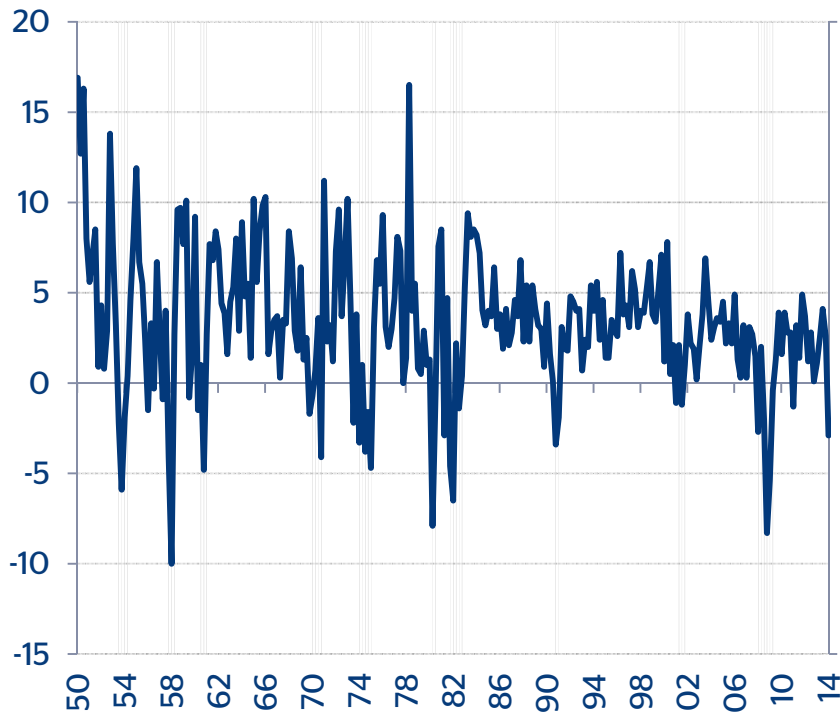
<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=187370482&tollFree=1>

# Economic Activity

## 1Q14 real GDP growth: A highly unusual performance

### Real GDP Growth

% , SAAR, shaded areas=recession



### Contributions to % change in real GDP, SAAR

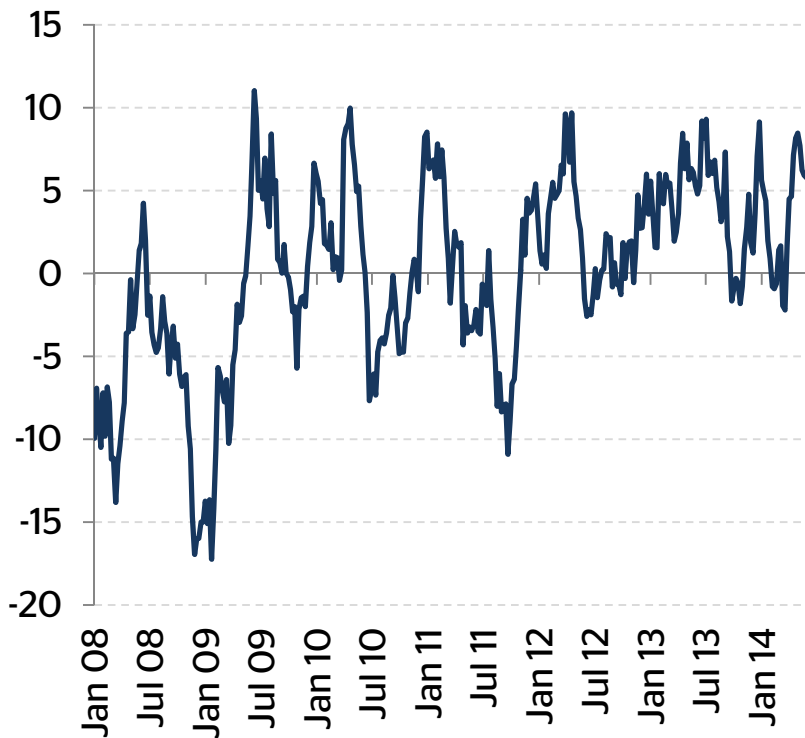
%	1Q14	Avg. 1Q13-4Q13
<b>GDP</b>	<b>-2.9</b>	<b>2.6</b>
<b>PCE</b>	<b>0.7</b>	<b>1.6</b>
Durables	0.0	0.4
Nondurables	-0.1	0.4
Services	0.7	0.8
<b>Investment</b>	<b>-2.0</b>	<b>1.3</b>
Structures	-0.2	0.0
Eq. & software	-0.2	0.2
Int. property	0.2	0.1
Residential	-0.1	0.2
Inventories	-1.7	0.7
<b>Net Exports</b>	<b>-1.5</b>	<b>0.2</b>
Exports	-1.3	0.7
Imports	-0.3	-0.5
<b>Federal gov't</b>	<b>0.1</b>	<b>-0.5</b>
<b>State &amp; local gov't</b>	<b>-0.2</b>	<b>0.0</b>

# Economic Activity

A strong rebound in 2Q14 GDP growth is likely

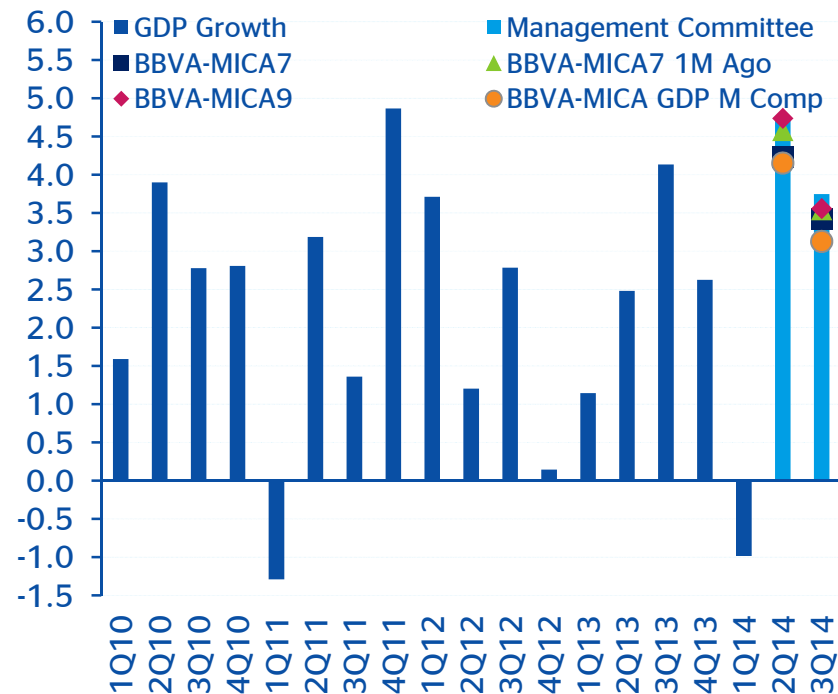
**BBVA US Weekly Activity Index**

3m % change



**Real GDP Growth & MICA**

QoQ % change

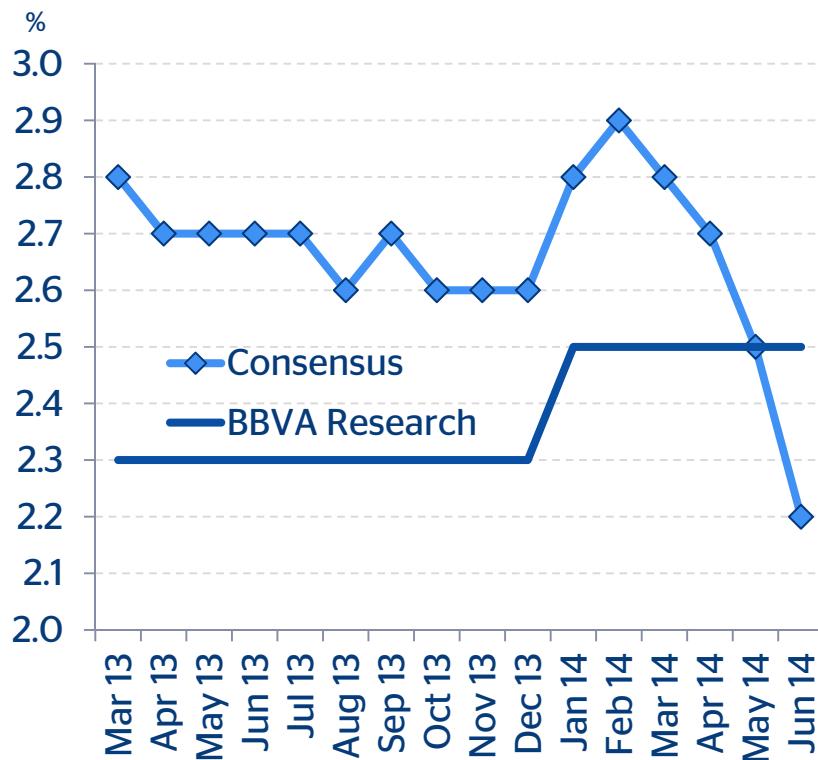


Source: BBVA Research

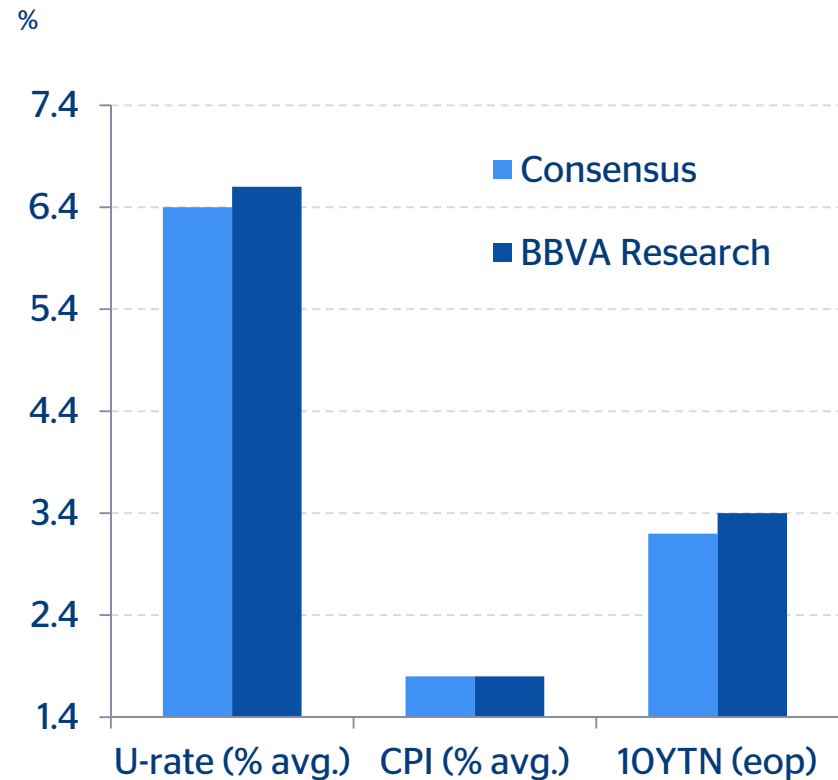
# Economic Activity

Although we expect a solid performance for the rest of the year, the annual average may be lower than currently expected

2014 Real GDP Growth Forecasts



2014 Forecasts, Selected Indicators



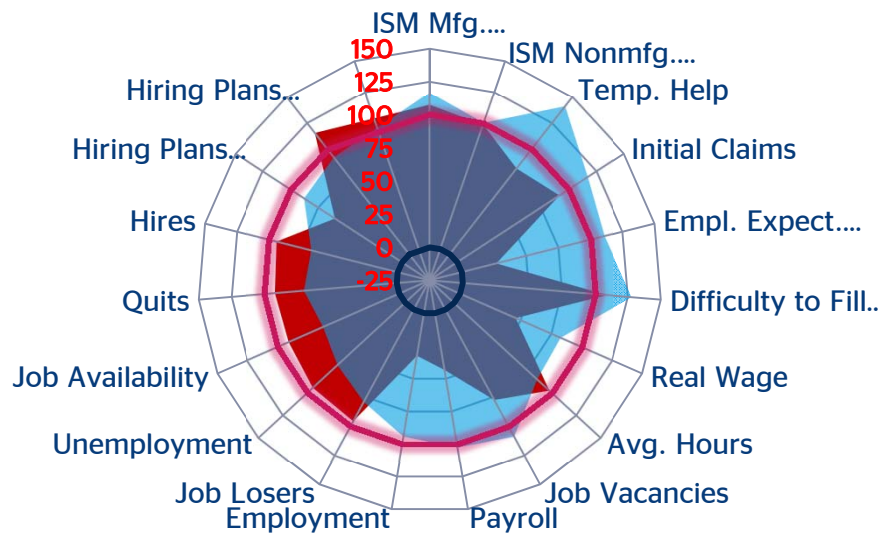
Source: BBVA Research & Consensus Forecasts

# Labor Markets

## Ongoing progress in labor market conditions

### Labor market conditions

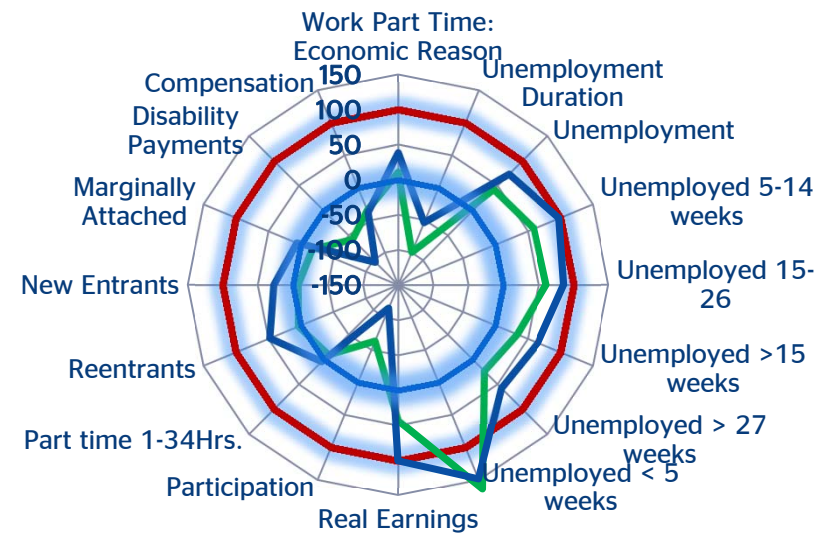
Index



2002-2007 Last 4Q07=100 4Q09=0

### Labor market conditions

Index



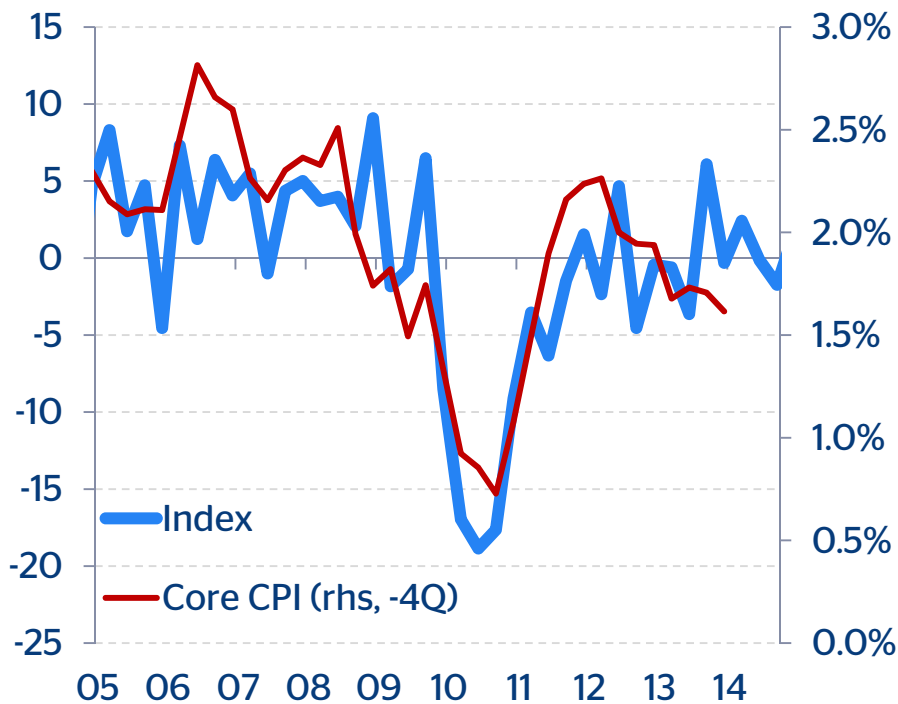
2002-2007=100 Sep-12 Last 4Q09=0

# Inflation

Our inflation risk index suggest a slight uptick in inflation in the next four quarters

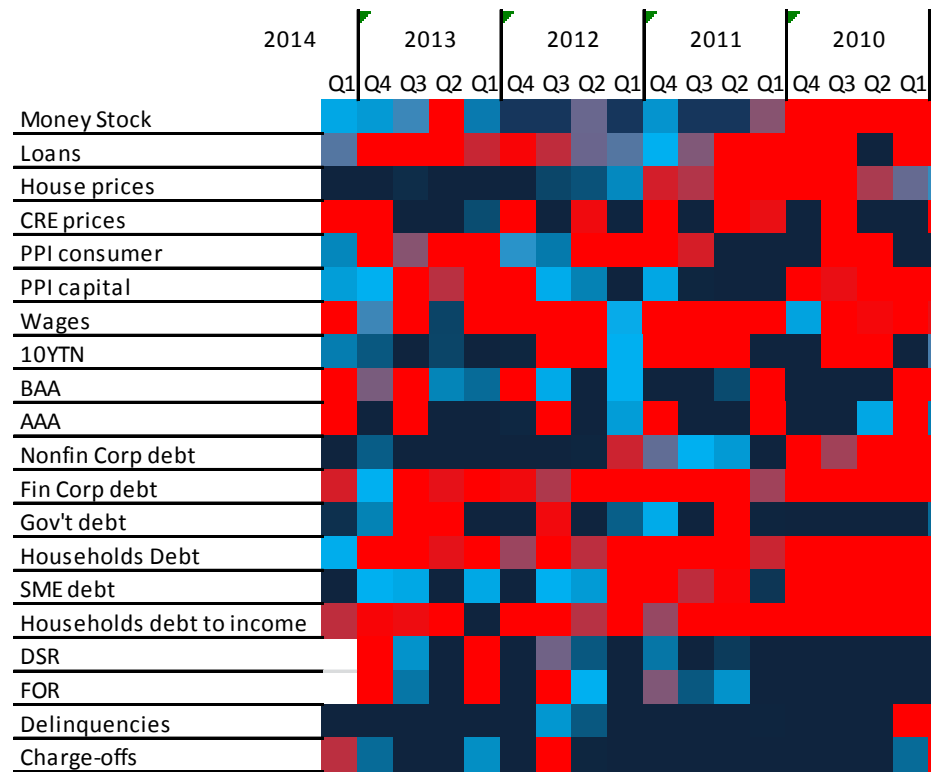
**BBVA Research US Inflation Risk Index & Core CPI**

Deflation risk < 0; Inflation risk > 0



Source: BBVA Research & Haver Analytics

**Inflation heat map**



Inflation  Deflation <sup>7</sup>

# Monetary Policy

## FOMC Statement: June 17-18, 2014

## What do we expect?

## 1<sup>st</sup> Rate increase

### Fed

- Slowdown in 1Q14 is seen as temporary: “growth in economic activity has rebounded in recent months.”
- Concerns on labor market conditions despite recent improvement: “The unemployment rate, though lower, remains elevated.”
- \$10bn reduction in asset purchases
- “... appropriate to maintain the **current target range** for the federal funds rate for a considerable time after the asset purchase program ends...”
- Differences of opinion on the mechanics of normalizing the stance and conduct of monetary policy: “will continue its discussions in upcoming meetings, with the expectation of providing additional details later this year.”

- Measured steps of \$10bn reduction of QE3
- Timing of the rate hike and the path of policy rate remains data dependent
- Debate driven by **long-term growth potential** and level of slack (labor market underutilization)
- FOMC in consensus building phase to clarify **exit strategy principles**
- Doves have the upper hand in the discretionary vs. rule-like policy debate

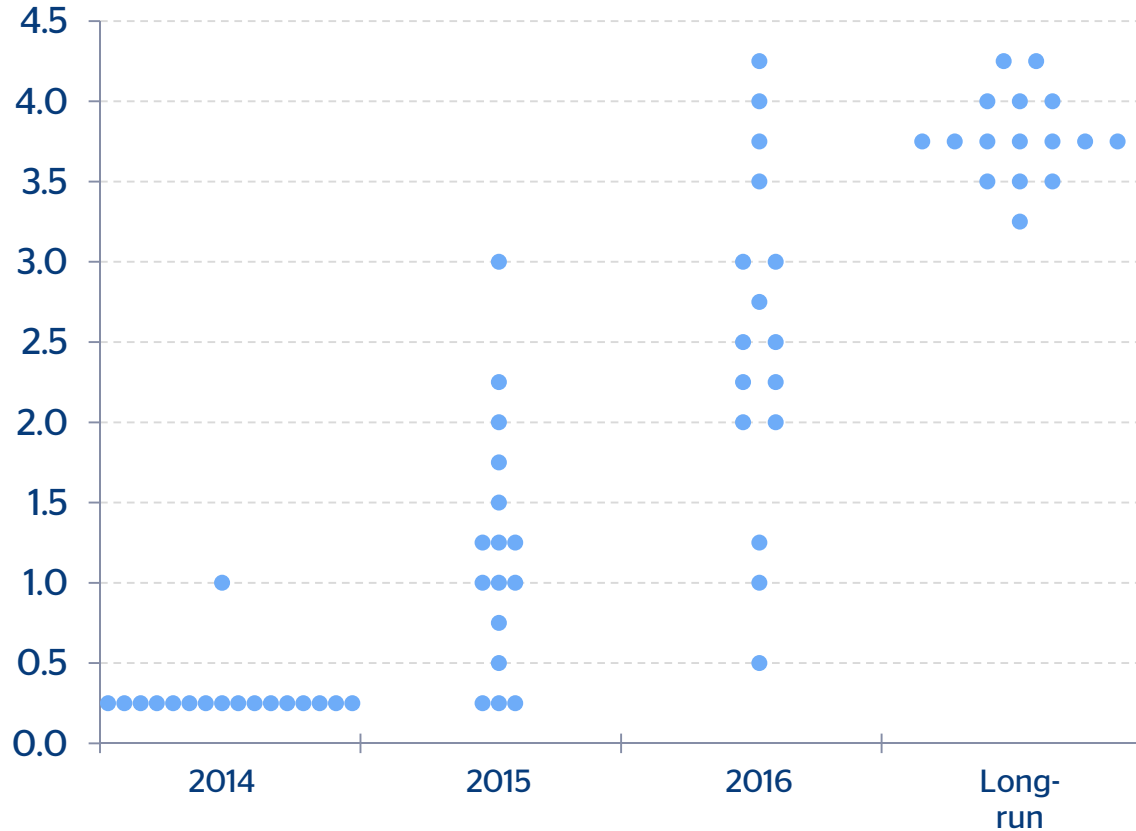
- **Mid – 2015**
- Maintaining the 3Q15 baseline with a light bias towards an earlier rate hike
- Under current baseline, **rate increases** will be **gradual**
- Risks: low rates for too long vs. fast rate increases too soon

### Timeline Exit Strategy





**FOMC Appropriate pace of policy firming: Target fed funds rate**  
Year-end, %, latest release



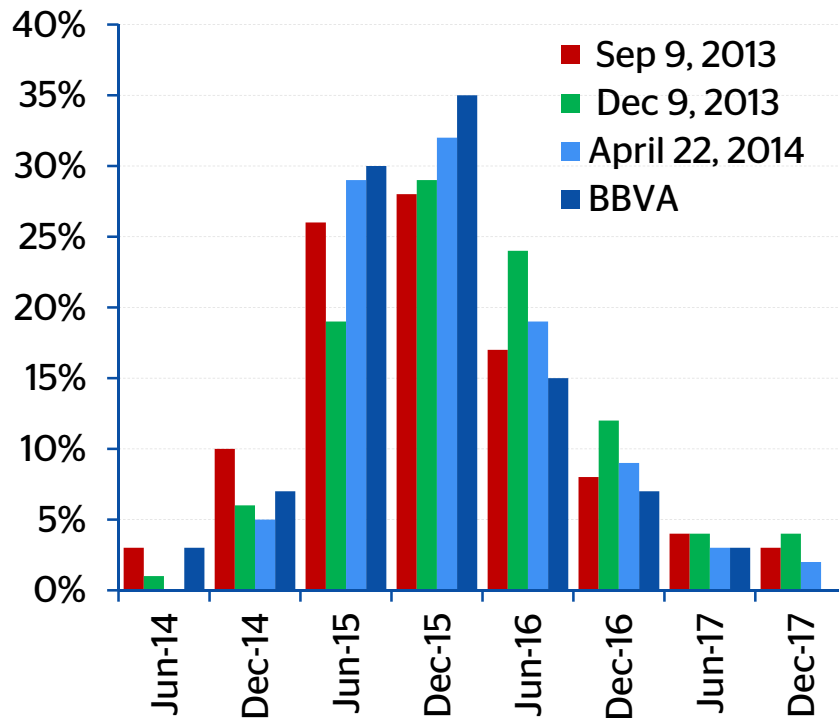
\* First time voters

# Federal Funds Rate

Survey expectations have adjusted slightly

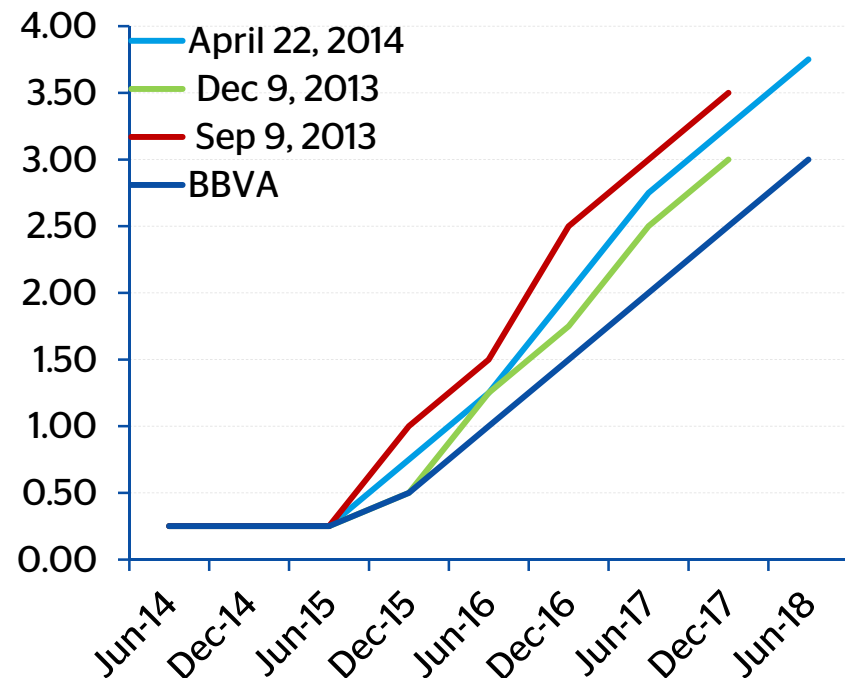
## Market Expectations First Rate Hike

End of period, probability



## Median Market Expectations Fed Funds

%



# Baseline Scenario

## 2014 real GDP growth on watch alert

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

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