

# U.S. Economic Outlook

## Monthly Update

October 9, 2014

# Meeting Details

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

**Date: Thursday, October 9, 2014**

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

**Meeting Number / Access Code: 711 193 745**

**Meeting Password: bbva1234**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=me51336d1ba0e043a2b41f555c8f5b9ce>

**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:**

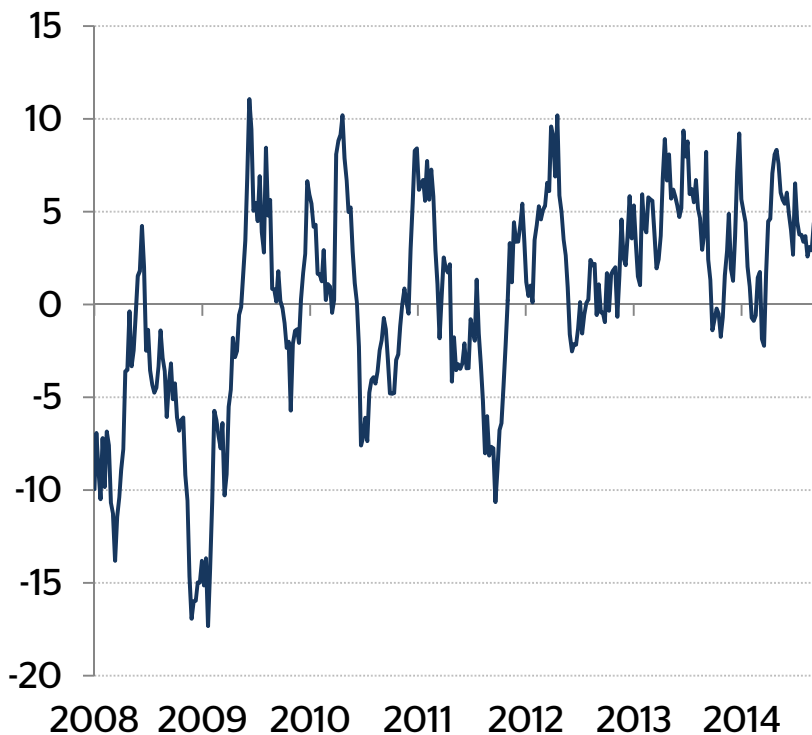
<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=187370482&tollFree=1>

# Economic Activity

Our economic activity models indicate that recent data is consistent with our baseline scenario of 2.0% growth for 2014

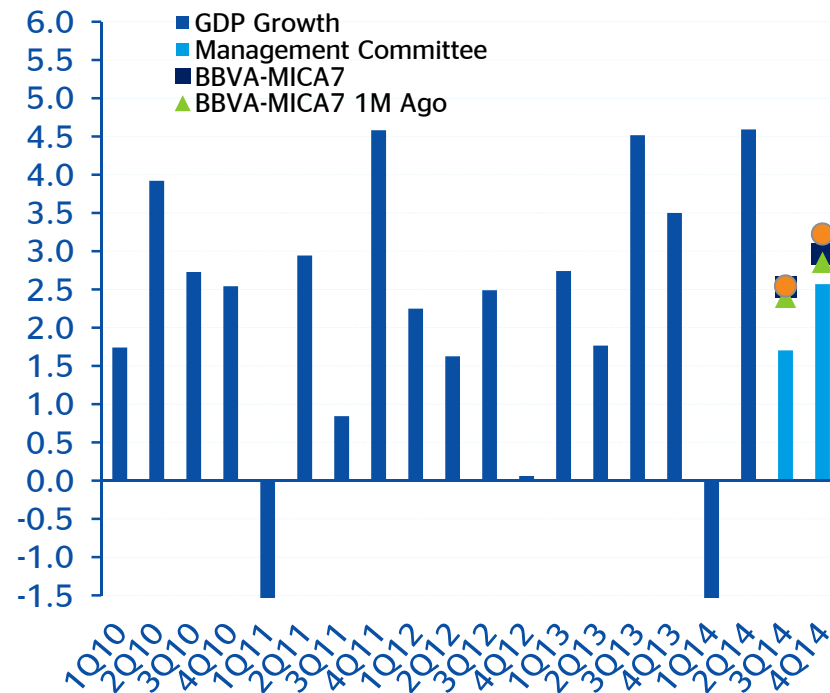
**BBVA US Weekly Index**

3m % change



**Real GDP Growth**

QoQ SAAR, %



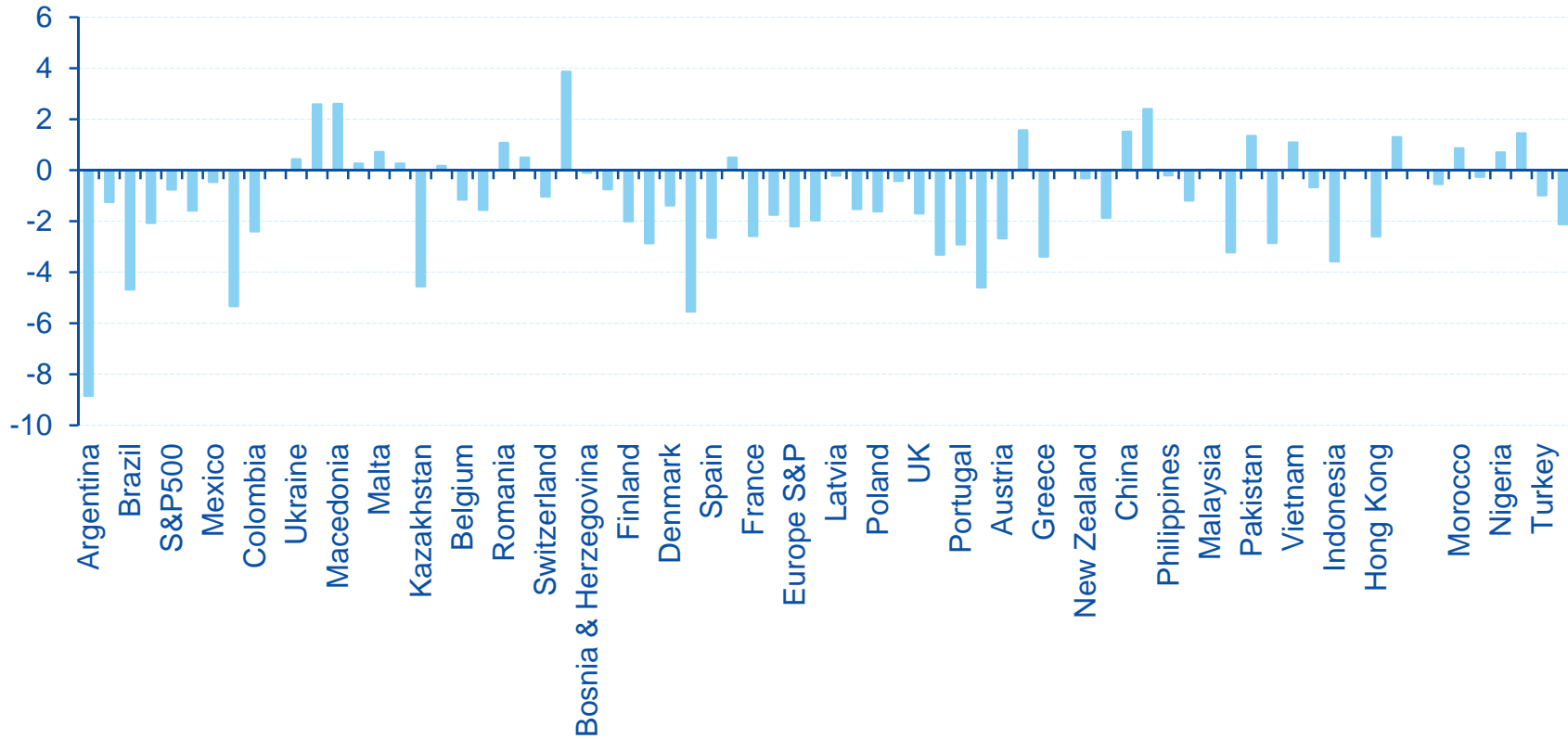
Source: BBVA Research & Haver Analytics

# Financial Markets

## Growing list of global concerns

### Stock Price Index

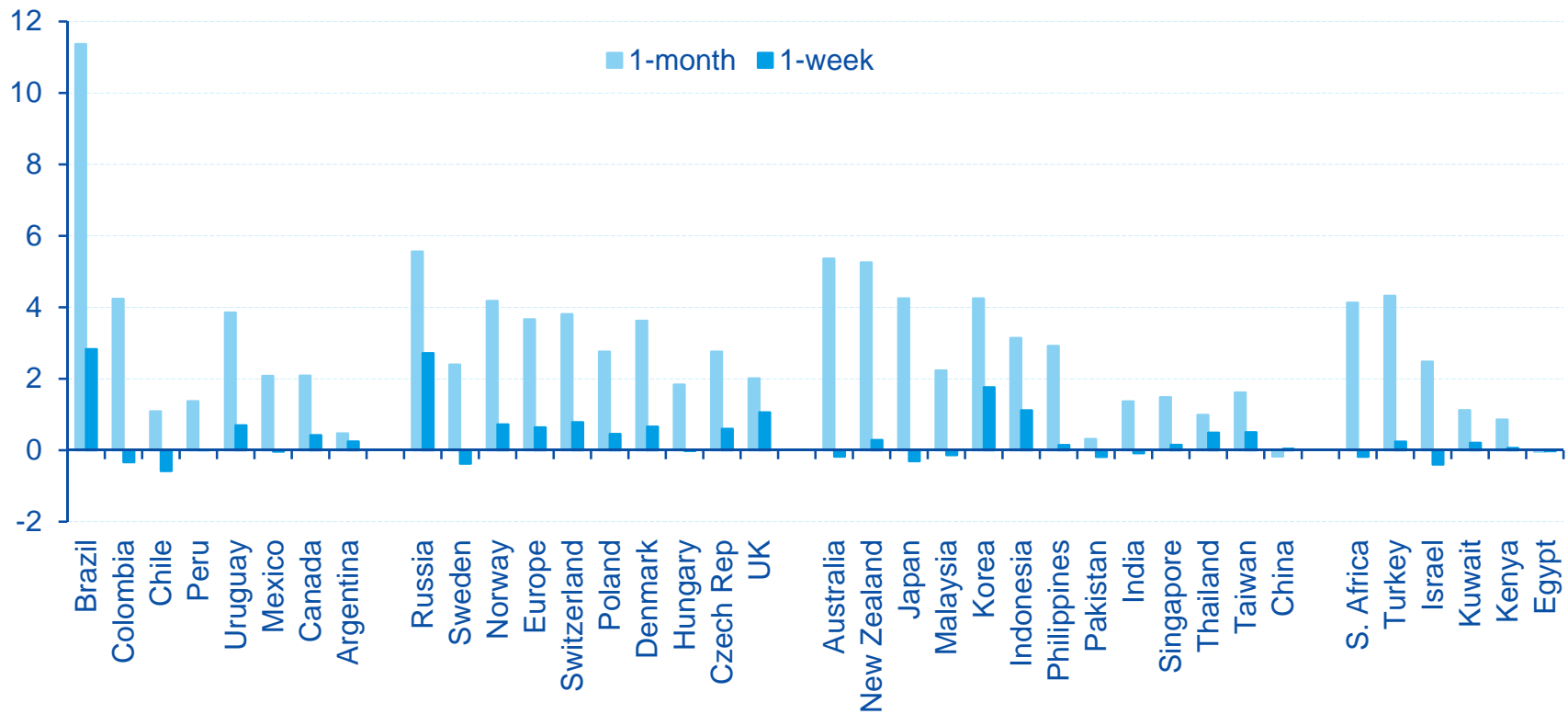
Local currency, one week % change



# Financial Markets

## Investors seeking refuge in U.S. dollar-denominated assets

Local currency vs. USD, % change

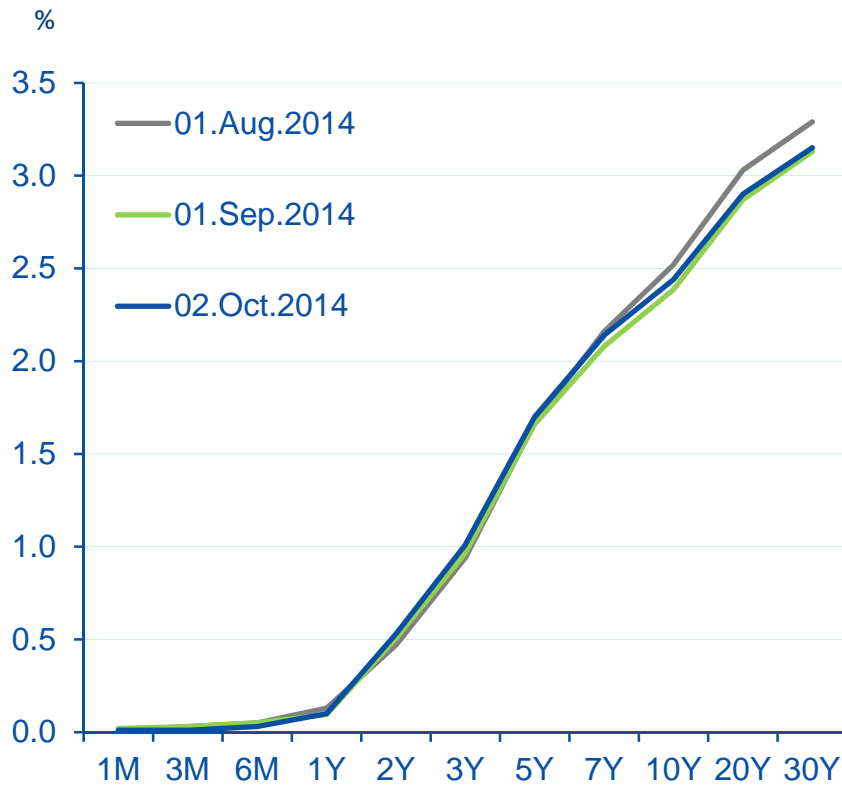




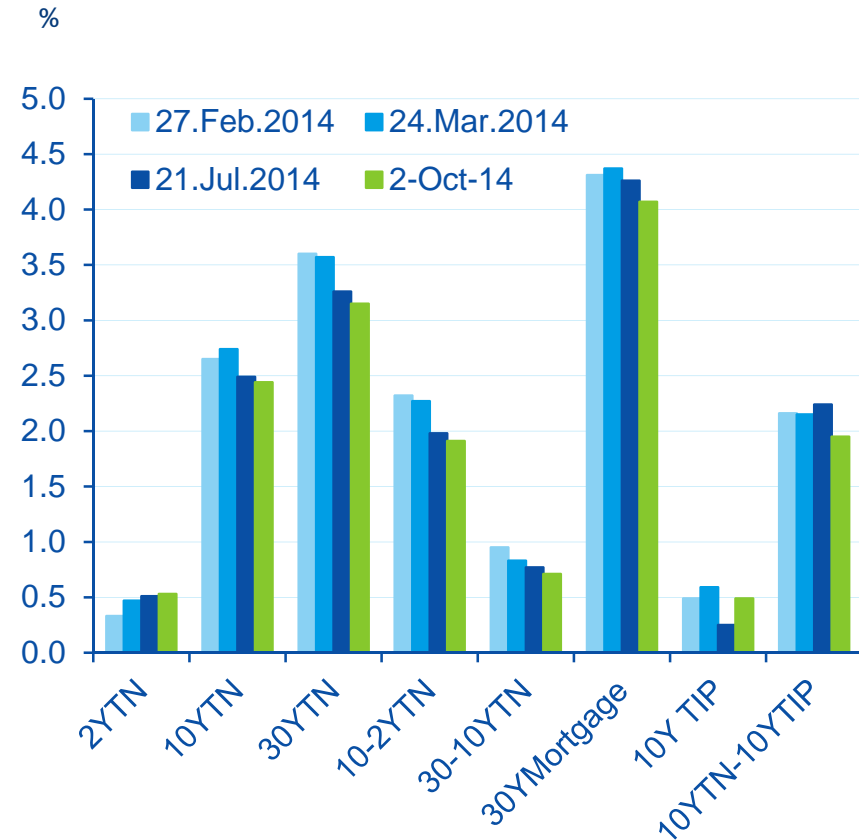
# Financial Markets

## Long-term yields back near 2.5%

**Yield Curve**



**Interest Rates**



Source: BBVA Research & Haver Analytics

# Monetary Policy

## FOMC Meeting: September 16 - 17, 2014

Fed

- QE3 purchases reduced to \$15bn, planning to end the program at the October meeting
- Forward guidance remained unchanged communicating no shifts in FOMC stance on the timing of the first federal funds rate increase
- 14 of 17 members retained 2015 as the most likely year for FOMC policy firming. The projections on the appropriate path of the federal funds rate indicated slightly steeper trajectory in 2016 and 2017
- FOMC formalized and released "Policy Normalization Principles and Plans"

Fed will communicate a target range for the FFR with IOER as a primary tool to guide rates, supplemented by ON RPP

## What do we expect?

- Timing of the rate hike and the path of policy rate remains data dependent
- Policy firming projections suggests convergence amongst hawkish and dovish views to a more centrist position
- Reinvestments policy to end after the zero-bound lift off, with tapering like data-dependent approach
- No sales of MBS anticipated as part of the normalization process: "timing and pace of any sales would be communicated to the public in advance"

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

Mid - 2015

Maintaining the 3Q15 baseline with a light bias towards an earlier rate hike

Timeline  
Exit  
Strategy



# Fed Communication

**Growth:** “economic activity is expanding at a moderate pace”

**Labor market:** “unemployment rate is little changed and a range of labor market indicators suggests that there remains significant underutilization of labor resources”

**Inflation:** “Inflation has been running below the Committee's longer-run objective. Longer-term inflation expectations have remained stable.”

**Tapering:** “end its current program of asset purchases at its next meeting”

**Rate increases:** “appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends”

**Monetary tools:** “move the federal funds rate into the target range set by the FOMC primarily by adjusting the interest rate it pays on excess reserve balances... use an overnight reverse repurchase agreement facility and other supplementary tools as needed to help control the federal funds rate”

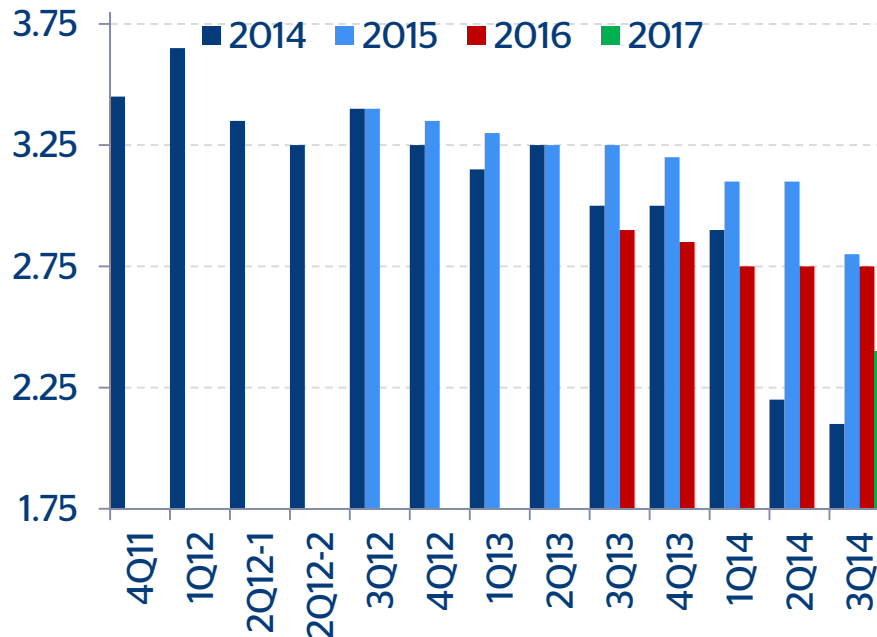


# FOMC Projections

Revisions to FOMC projections: lower GDP & UR and higher inflation

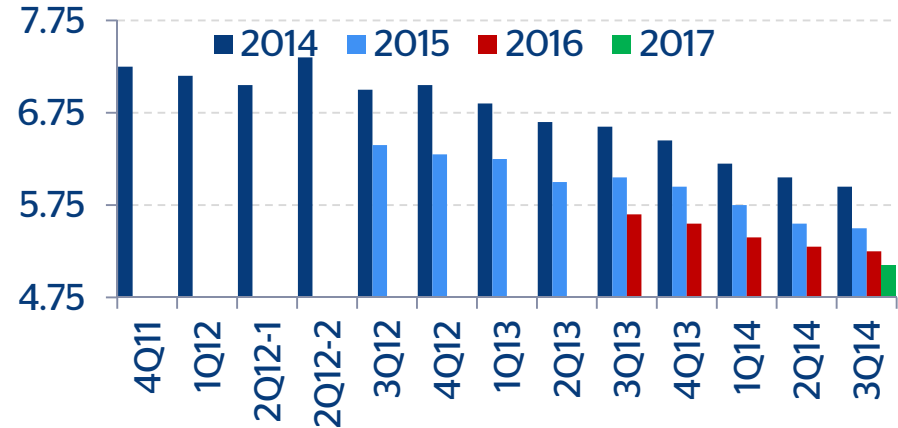
**Real GDP**

%, 4Q/4Q



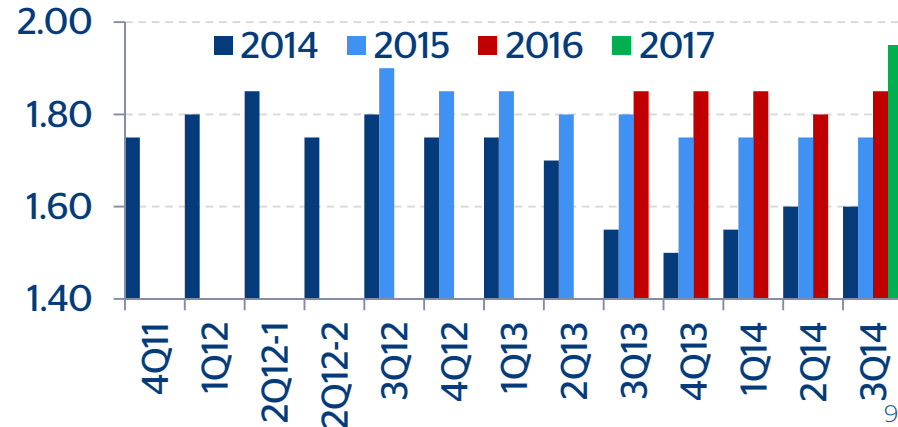
**Unemployment Rate**

%, 4Q



**PCE inflation**

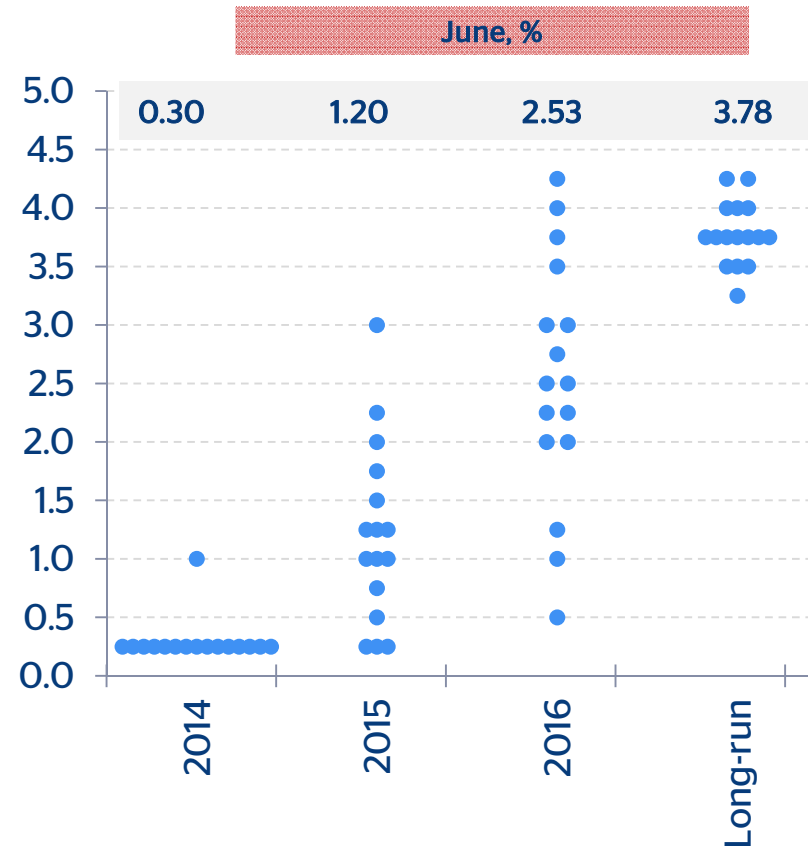
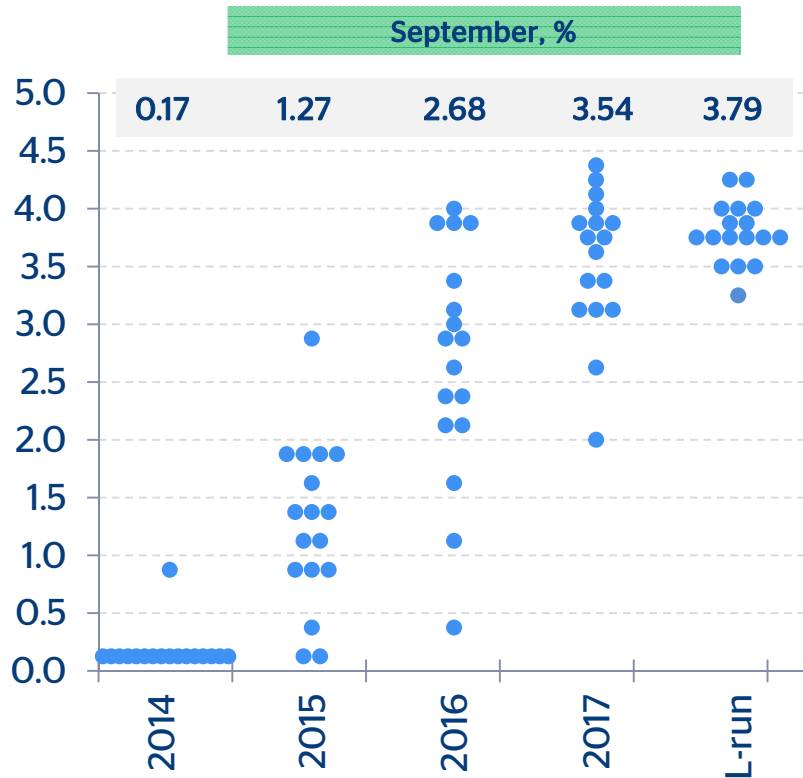
%, 4Q/4Q



# FOMC Projections

FOMC outlook reflects ample discrepancies.  
 Timing of first rate increase remains data dependent

FOMC Appropriate pace of policy firming: Target fed funds rate Year-end

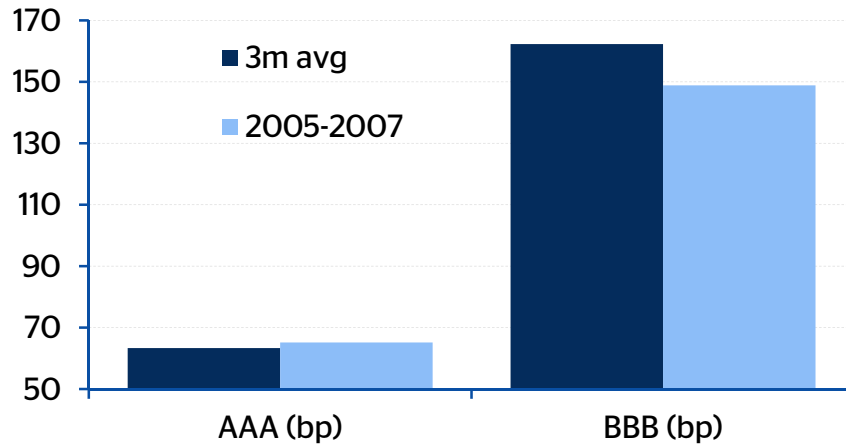


Average in shaded area  
 Source: BBVA Research & Fed

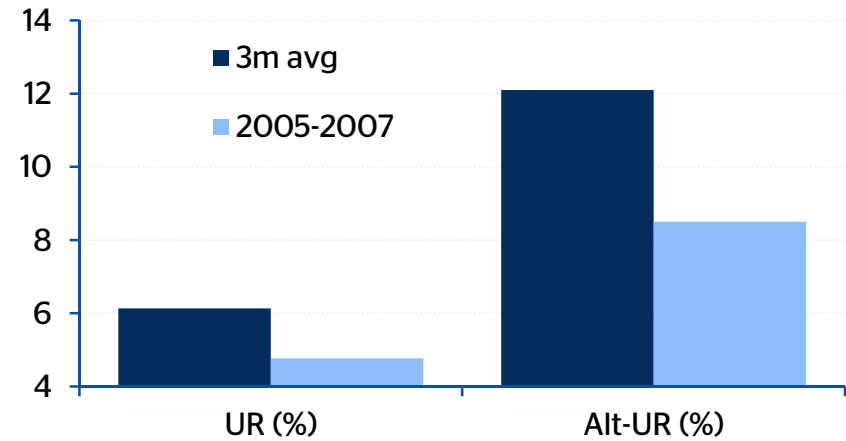


# Fed Dashboard

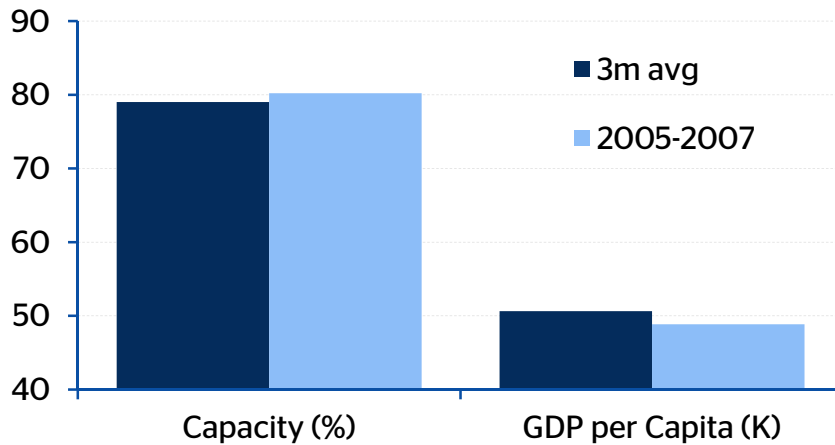
### Corporate Spreads



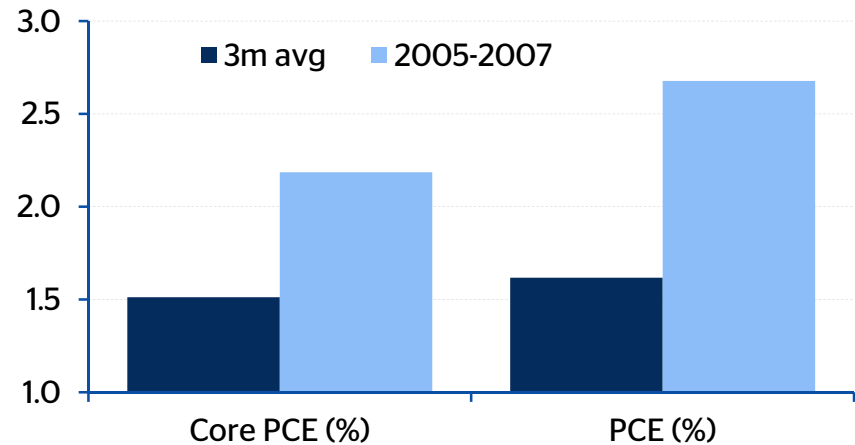
### Unemployment Rate



### Capacity/GDP per capita



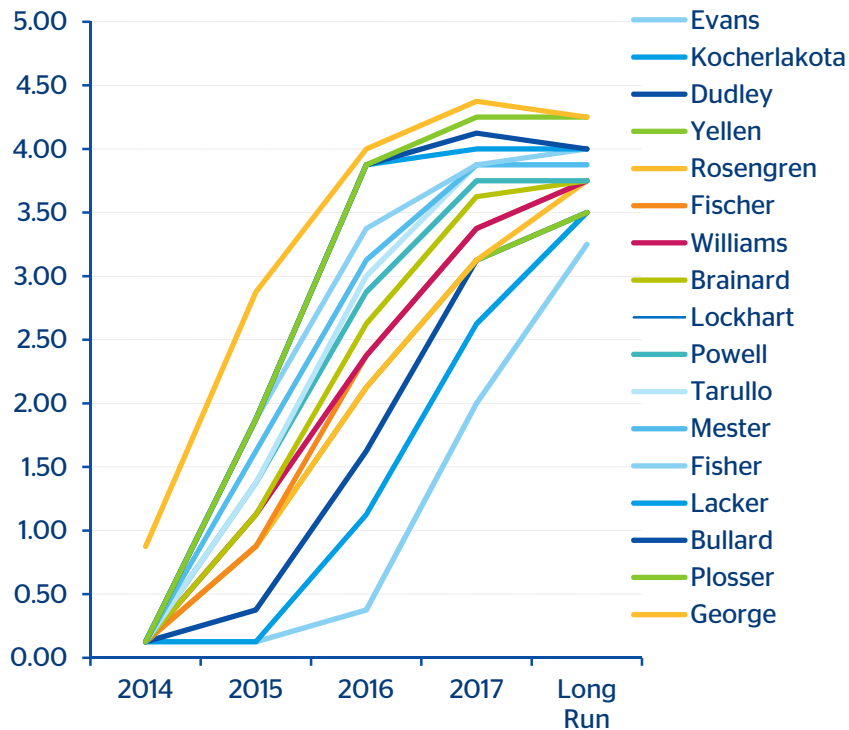
### Inflation



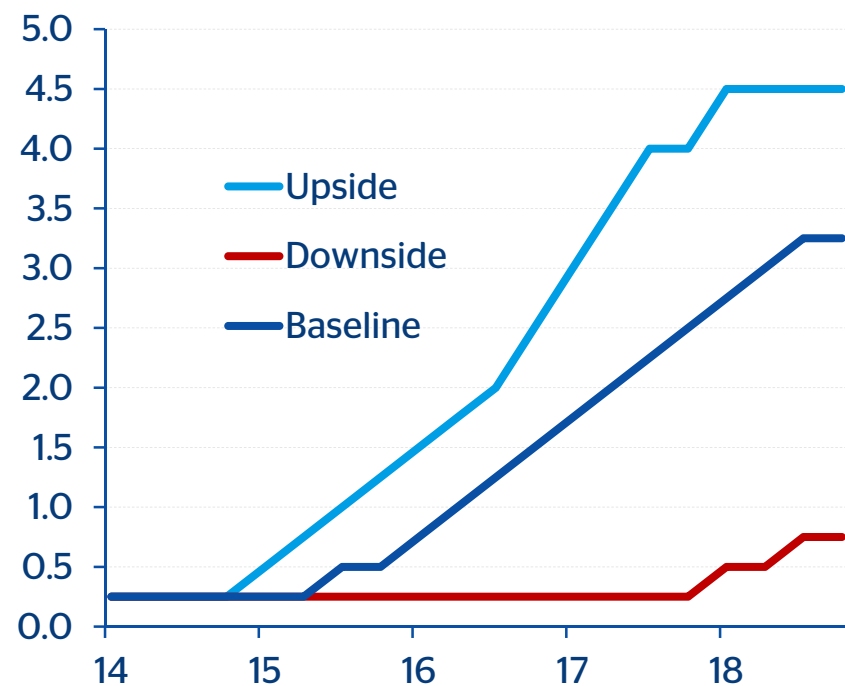
# Federal Funds Rate

**Our baseline scenario remains unchanged;  
bias toward an earlier rate hike**

**FOMC Appropriate pace of policy firming**  
Internal estimate based on speeches & communication



**BBVA Research Federal Funds Forecasts**  
%



Source: BBVA Research & Fed

# Baseline Forecasts

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	2011	2012	2013	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Real GDP (% SAAR)	2.7	1.8	4.5	3.5	-2.1	4.6	1.6	2.3	2.2	<b>2.0</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>
Real GDP (Contribution, pp)													
PCE	2.5	1.2	1.4	2.5	0.8	1.8	1.6	1.3	1.6	<b>1.4</b>	<b>1.0</b>	<b>1.3</b>	<b>1.3</b>
Gross Investment	1.1	1.0	2.5	0.6	-1.1	2.9	0.7	1.3	0.8	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>
Non Residential	0.2	0.2	0.7	1.2	0.2	1.2	0.9	0.8	0.4	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>
Residential	0.2	0.5	0.3	-0.3	-0.2	0.3	0.0	0.3	0.3	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Exports	-0.1	0.8	0.7	1.3	-1.3	1.4	0.9	0.4	0.4	<b>0.5</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>
Imports	0.0	-1.4	-0.1	-0.2	-0.4	-1.8	-0.9	-0.4	-0.2	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>
Government	-0.8	0.0	0.0	-0.7	-0.2	0.3	-0.7	-0.3	-0.4	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Unemployment Rate (% average)	7.7	7.5	7.2	7.0	6.7	6.2	8.9	8.1	7.4	<b>6.3</b>	<b>5.9</b>	<b>5.8</b>	<b>5.5</b>
Average Monthly Nonfarm Payroll (K)	206	201	172	198	190	267	174	186	194	<b>208</b>	<b>210</b>	<b>231</b>	<b>250</b>
CPI (YoY %)	1.7	1.4	1.5	1.2	1.4	2.1	3.1	2.1	1.5	<b>1.9</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Core CPI (YoY %)	1.9	1.7	1.7	1.7	1.6	1.9	1.7	2.1	1.8	<b>1.9</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Fiscal Balance (% GDP)	-	-	-	-	-	-	-8.7	-6.8	-4.1	<b>-3.1</b>	<b>-2.7</b>	<b>-3.1</b>	<b>-2.8</b>
Current Account (bop, % GDP)	-2.6	-2.6	-2.4	-2.0	-2.6	-	-3.0	-2.8	-2.4	<b>-2.6</b>	<b>-2.5</b>	<b>-2.3</b>	<b>-1.9</b>
Fed Target Rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	<b>0.25</b>	<b>0.50</b>	<b>1.50</b>	<b>2.50</b>
Core Logic National HPI (YoY %)	10.01	11.20	11.51	11.67	11.43	8.24	-3.92	3.89	11.11	<b>11.27</b>	<b>10.92</b>	<b>8.16</b>	<b>7.22</b>
10-Yr Treasury (% Yield, eop)	1.96	2.30	2.81	2.90	2.72	2.60	1.98	1.72	2.90	<b>3.00</b>	<b>3.50</b>	<b>3.75</b>	<b>4.00</b>
U.S. Dollar / Euro (eop)	1.30	1.32	1.34	1.37	1.38	1.36	1.32	1.31	1.37	<b>1.25</b>	<b>1.22</b>	<b>1.25</b>	<b>1.28</b>
Brent Oil Prices (dpb, average)	112.6	102.7	110.3	109.3	108.2	109.7	111.3	111.7	108.7	<b>109.9</b>	<b>118.6</b>	<b>122.1</b>	<b>127.6</b>

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