



**BBVA**

RESEARCH

# U.S. Economic Outlook

## Monthly Update

December 18, 2014



# Meeting Details

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

**Date: Thursday, December 18, 2014**

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

**Meeting Number / Access Code: 715 572 237**

**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>

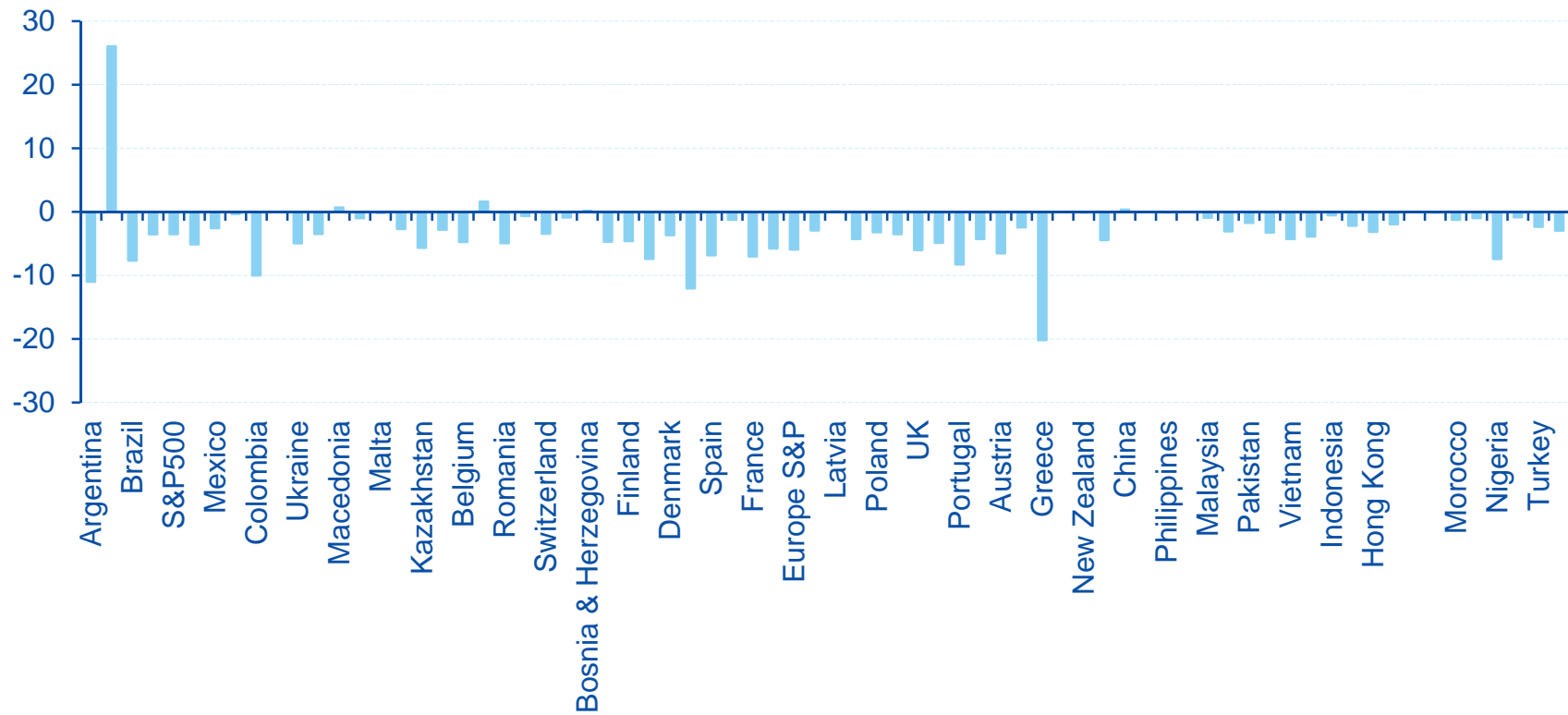


# Financial Markets

## Global concerns continue...

### Stock Price Index

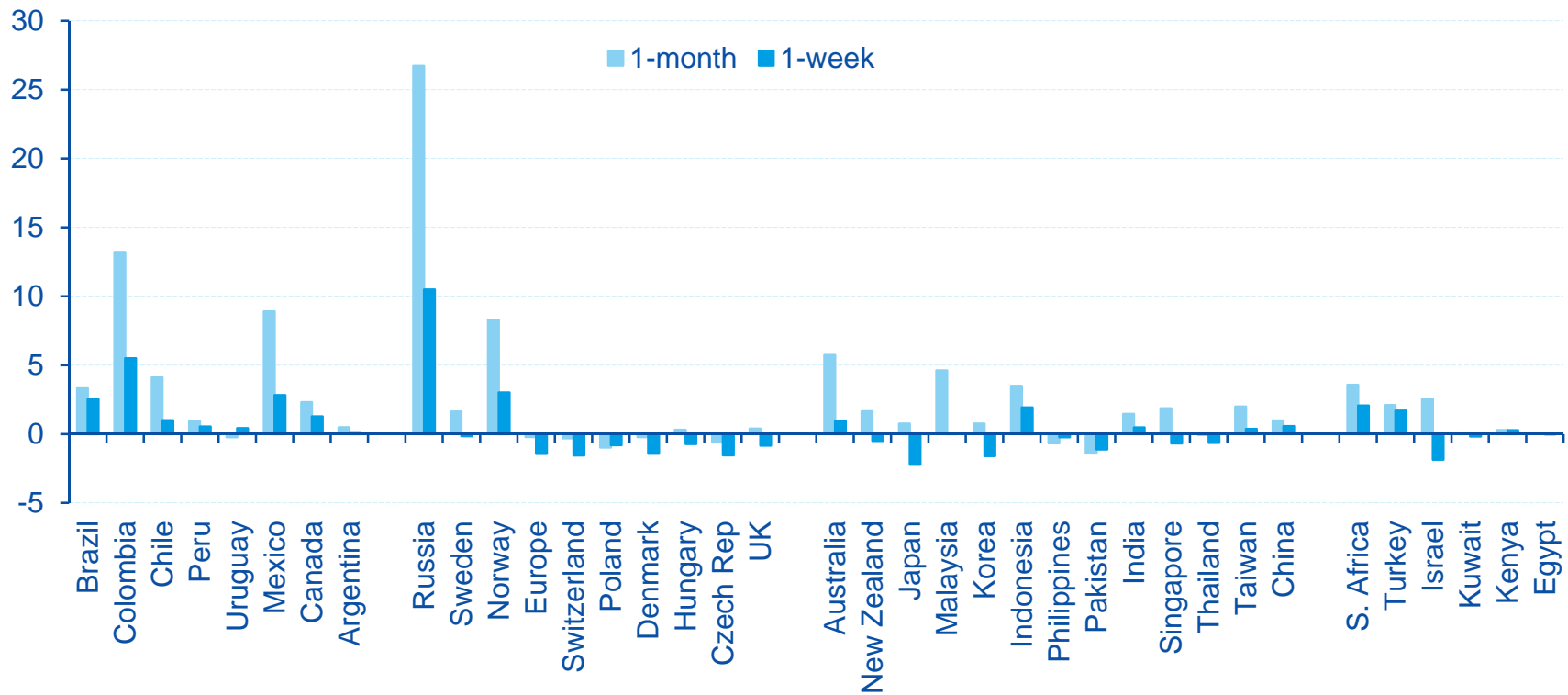
Local currency, one week % change



# Financial Markets

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

Local currency vs. USD, % change



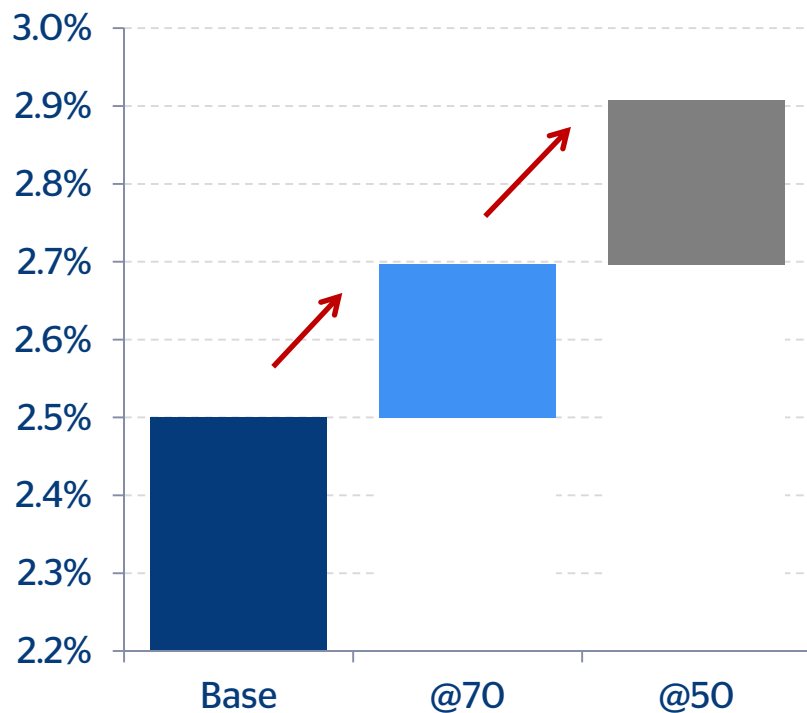


# Economic Activity

All else equal -U.S. dollar, policy uncertainty, Europe, China, geopolitics- oil price simulations suggest higher growth and lower inflation in 2015

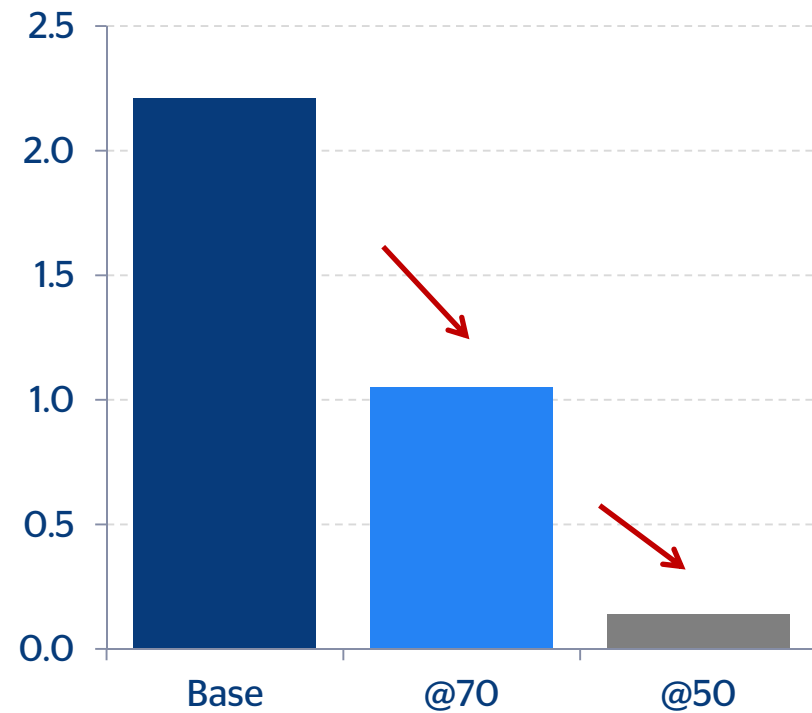
### 2015 real GDP growth

% change



### 2015 CPI

% change

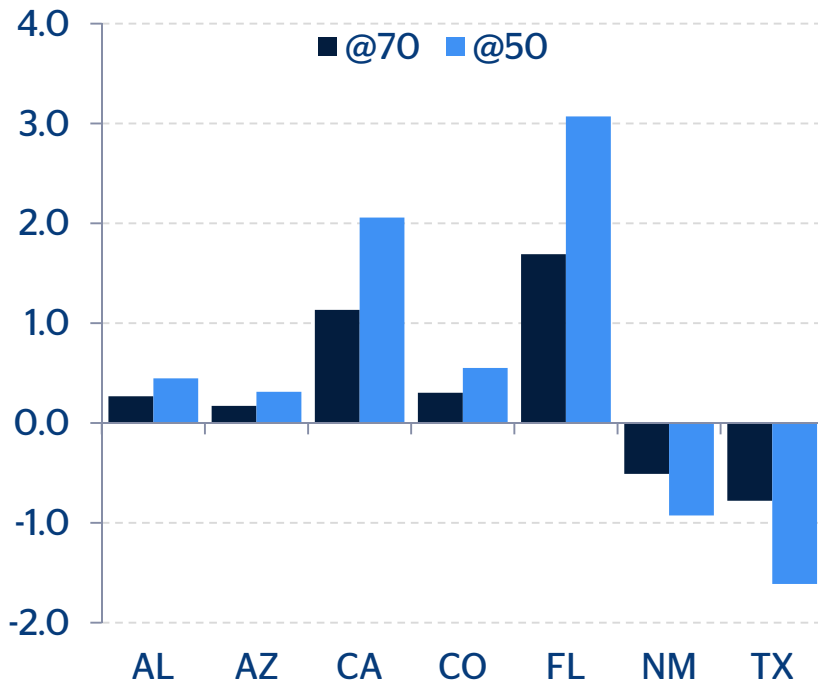


# Economic Activity

Although most states in our footprint would benefit from lower oil prices, Texas growth would slow

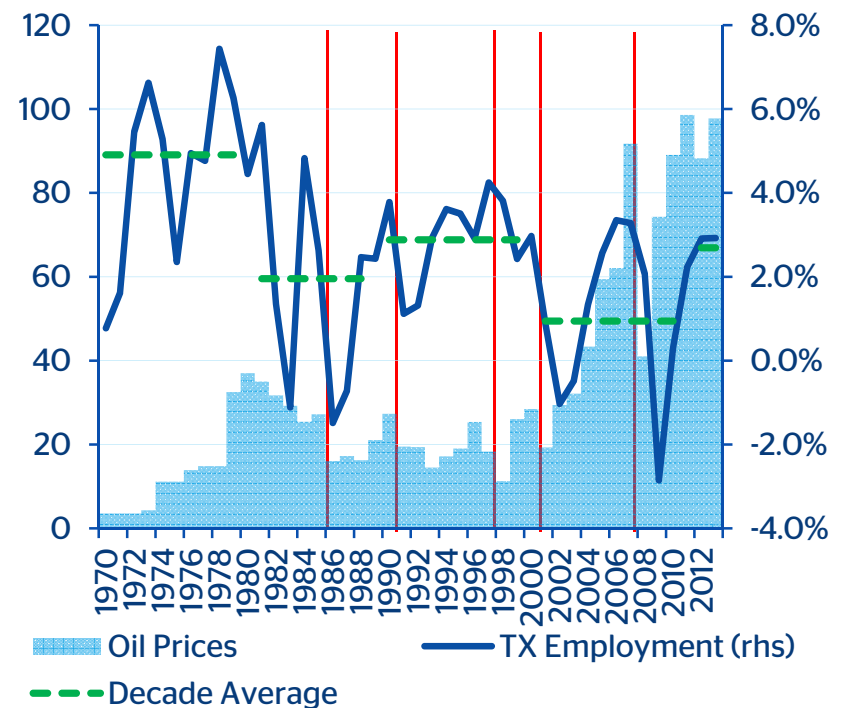
Real GDP Oil Price Shock 2015-2016

% annual difference from baseline



Texas employment and oil prices

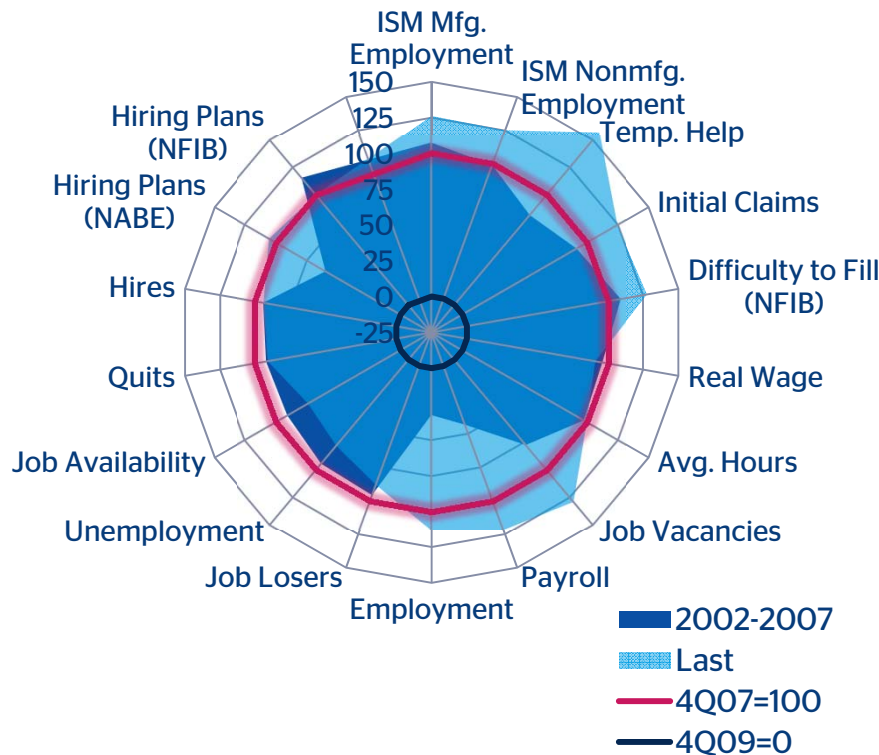
% change and \$/bbl



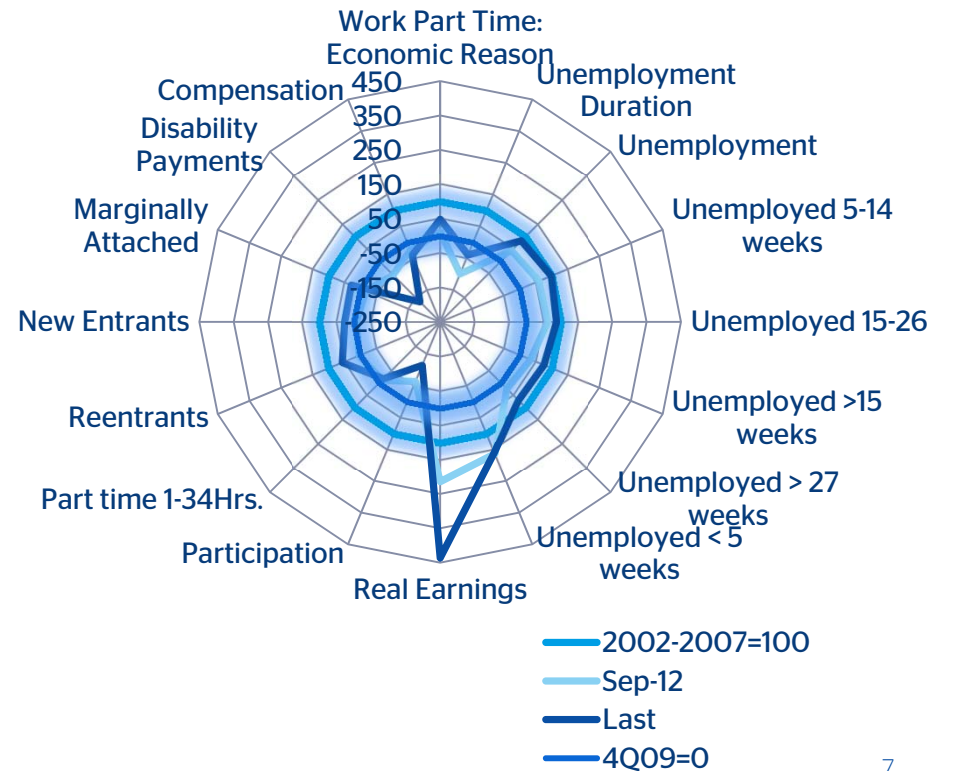
# Labor Markets

Headwinds to the labor market are steadily abating. However, long-term unemployment remains elevated.

**Labor outlook**  
4Q07=100



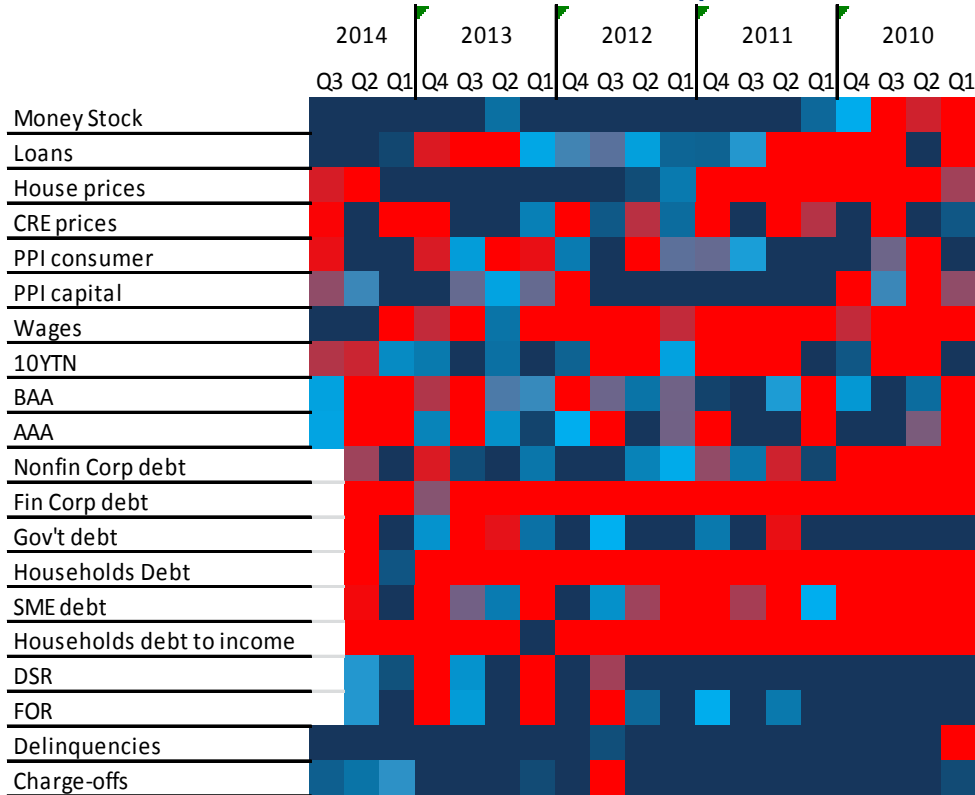
**Labor utilization**  
2002-2007=100



# Inflation

## Risks to inflation remain balanced

BBVA Research U.S. Inflation Heat Map

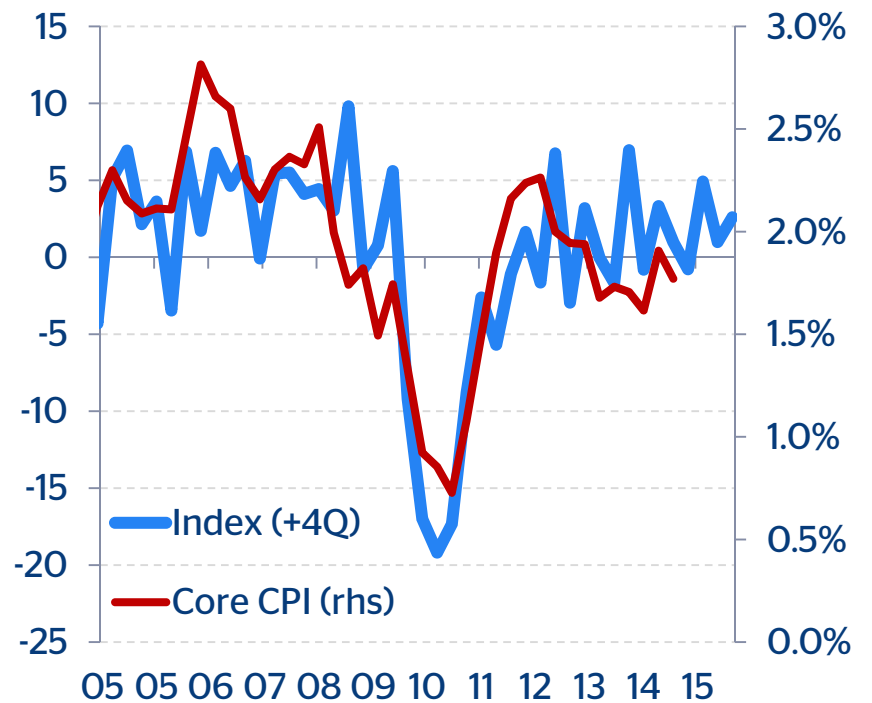


Inflation

Deflation

BBVA Research U.S. Inflation Risk Index

Higher risk<0; Lower risk>0



Source: BBVA Research & Haver

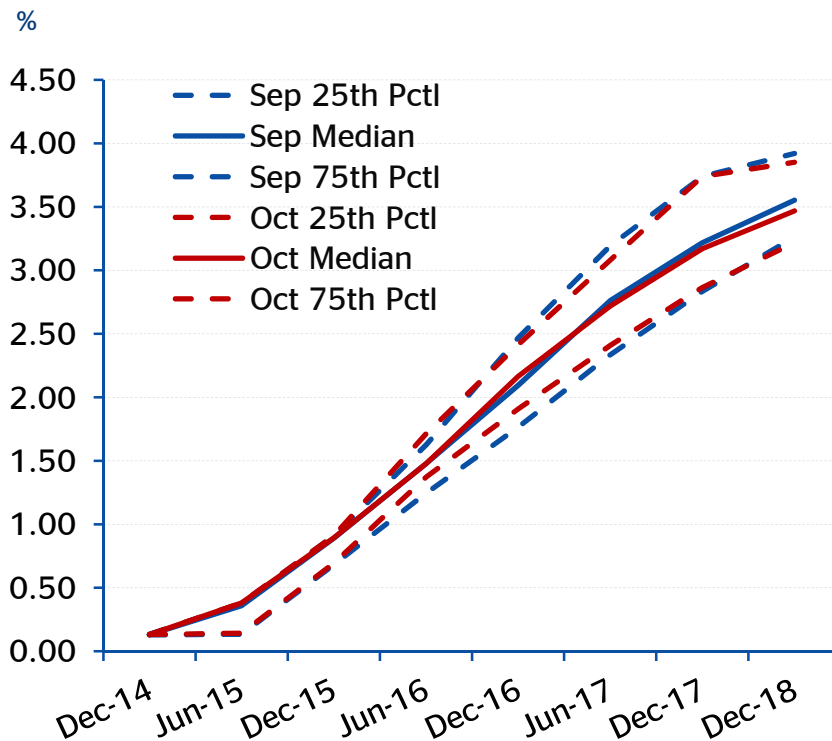




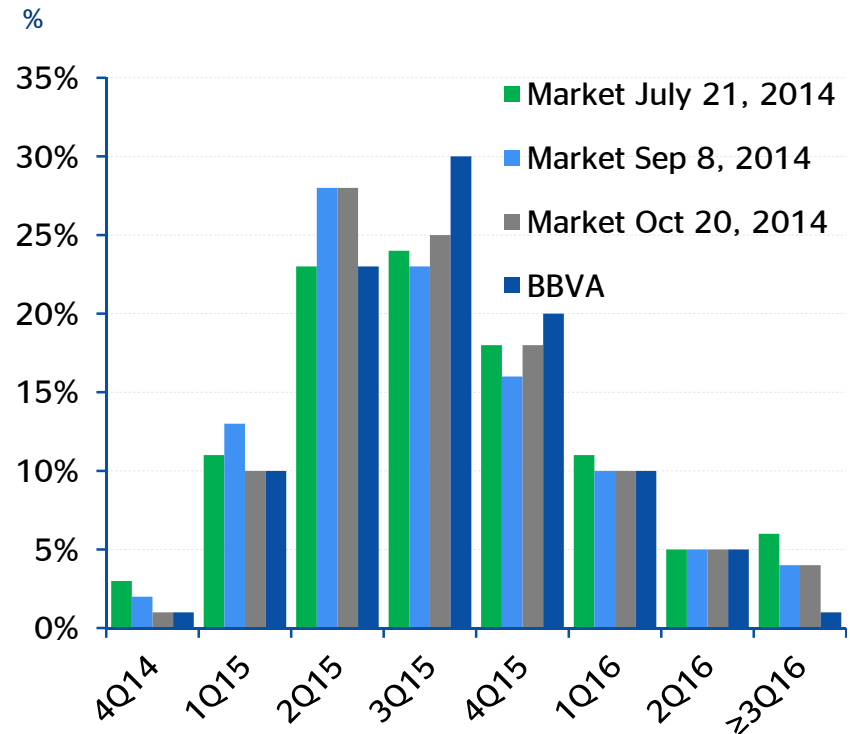
# Fed expectations

Survey expectations still attach a higher probability that the Fed will start raising rates in 2Q15, at a pace of around 25bp per quarter

Fed funds survey expectations



Fed funds probability of first rate increase



# Baseline Forecasts

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	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	3.9	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	1.5	1.6	1.3	1.6	<b>1.4</b>	<b>1.5</b>	<b>1.8</b>	<b>1.8</b>
Gross Investment	1.1	1.0	2.5	0.6	-1.1	2.9	0.9	0.7	1.3	0.8	<b>0.8</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>
Non Residential	0.2	0.2	0.7	1.2	0.2	1.2	0.9	0.9	0.8	0.4	<b>0.7</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>
Residential	0.2	0.5	0.3	-0.3	-0.2	0.3	0.1	0.0	0.3	0.3	<b>0.0</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>
Exports	-0.1	0.8	0.7	1.3	-1.3	1.4	0.7	0.9	0.4	0.4	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>
Imports	0.0	-1.4	-0.1	-0.2	-0.4	-1.8	0.1	-0.9	-0.4	-0.2	<b>0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
Government	-0.8	0.0	0.0	-0.7	-0.2	0.3	0.8	-0.7	-0.3	-0.4	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>
Unemployment Rate (% average)	7.7	7.5	7.2	7.0	6.7	6.2	6.1	8.9	8.1	7.4	<b>6.2</b>	<b>5.7</b>	<b>5.4</b>	<b>5.0</b>
Average Monthly Nonfarm Payroll (K)	206	201	172	198	190	267	239	174	186	194	<b>234</b>	<b>222</b>	<b>232</b>	<b>251</b>
CPI (YoY %)	1.7	1.4	1.5	1.2	1.4	2.1	1.8	3.1	2.1	1.5	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>2.4</b>
Core CPI (YoY %)	1.9	1.7	1.7	1.7	1.6	1.9	1.8	1.7	2.1	1.8	<b>1.8</b>	<b>2.0</b>	<b>2.2</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>-2.7</b>	<b>-2.4</b>	<b>-2.0</b>
Fed Target Rate (% eop)	0.25	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 %)	9.96	11.16	11.50	11.70	11.33	8.05	5.83	-3.87	3.90	11.09	<b>8.41</b>	<b>6.99</b>	<b>5.12</b>	<b>4.67</b>
10-Yr Treasury (% Yield, eop)	1.96	2.30	2.81	2.90	2.72	2.60	2.53	1.98	1.72	2.90	<b>2.30</b>	<b>3.12</b>	<b>3.67</b>	<b>3.90</b>
U.S. Dollar / Euro (eop)	1.30	1.32	1.34	1.37	1.38	1.36	1.29	1.32	1.31	1.37	<b>1.23</b>	<b>1.20</b>	<b>1.24</b>	<b>1.28</b>
Brent Oil Prices (dpb, average)	112.6	102.7	110.3	109.3	108.2	109.7	102.0	111.3	111.7	108.7	<b>100.3</b>	<b>88.8</b>	<b>97.6</b>	<b>101.2</b>



**BBVA**

RESEARCH

# U.S. Economic Outlook

## Monthly Update

December 18, 2014