

# U.S. Economic Outlook

## Monthly Update

January 16, 2015

# Meeting Details

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

**Date: Friday, January 16, 2015**

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

**Meeting Number / Access Code: 718 042 819**

**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**

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

# Overview

## GDP

Strongest growth in 9 years

- Potential for a significant boost from lower energy prices
- More evidence of a solid and sustainable expansion
- However, the healing process is not complete; cyclical and structural weaknesses remain

## Inflation

Underlying concerns

- Significant downward pressures from lower oil prices
- Modest wage growth amidst lower inflation expectations
- CPI inflation to normalize around 2.0% by 2016

## Fed

Contained anxiety

- Fed dilemma: stronger growth/lower unemployment vs. lower inflation/weaker global prospects
- Lift off date remains unchanged
- Faster pace of normalization (still slower than median)

## Interest Rates

Low yields for a prolonged period

- Flatter yield curve slope - flight to safety, falling inflation expectations, carry trade, etc.
- Long-term rates below historical average for a prolonged period - 10YTN below 3.0% by end of 2015

## Risks

Tilted toward global threats

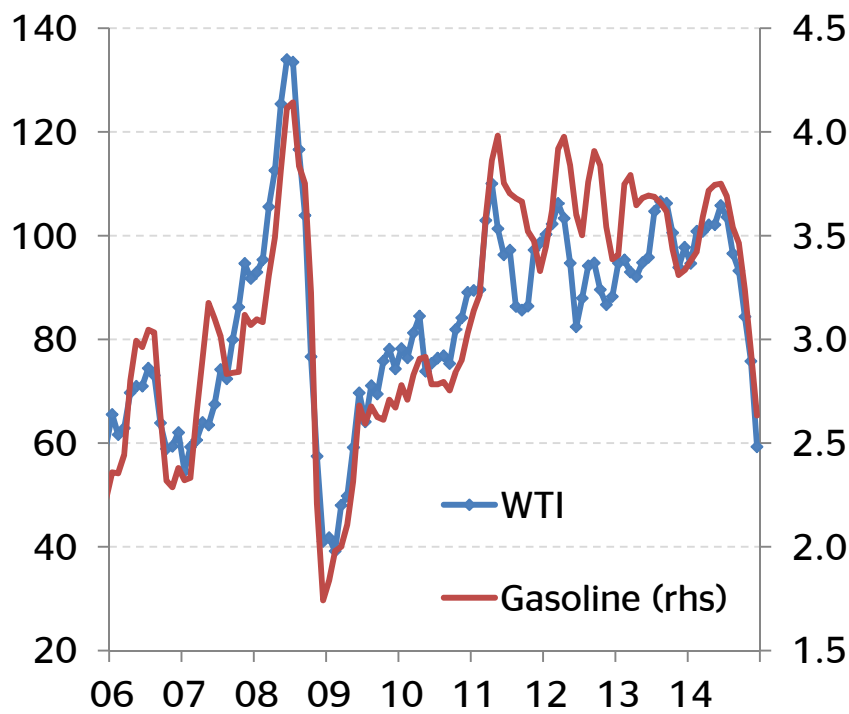
- Domestic: steep disinflation, financial overheating, Fed exit strategy, political brinkmanship, regional shocks (Texas)
- Global: Slowdown in EM, deflation/recession Europe, financial volatility, geopolitical threats, etc.

# Oil Prices

## Falling oil prices imply stronger GDP growth and lower inflation for 2015

Oil and Gasoline Prices

\$/bbl & \$gal

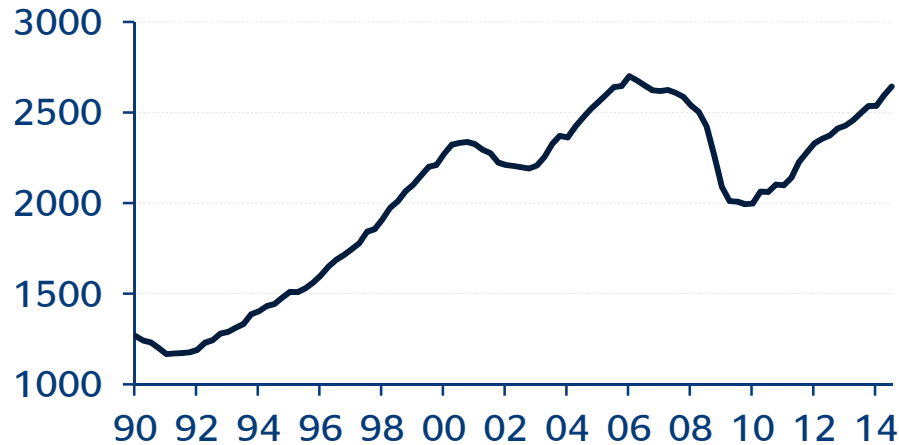


- Boost to consumption even after accounting for higher imports and debt payoffs
- Greater willingness to purchase goods and services delayed during the recovery
- Net gains from rebalancing among regions, industries, and consumers
  - The drop in energy prices generates business opportunities in energy intensive states
  - Industries with a high percentage of energy inputs will benefit the most
  - Rebalancing favors occupations that have lagged in the recovery

# Have we turned the corner?

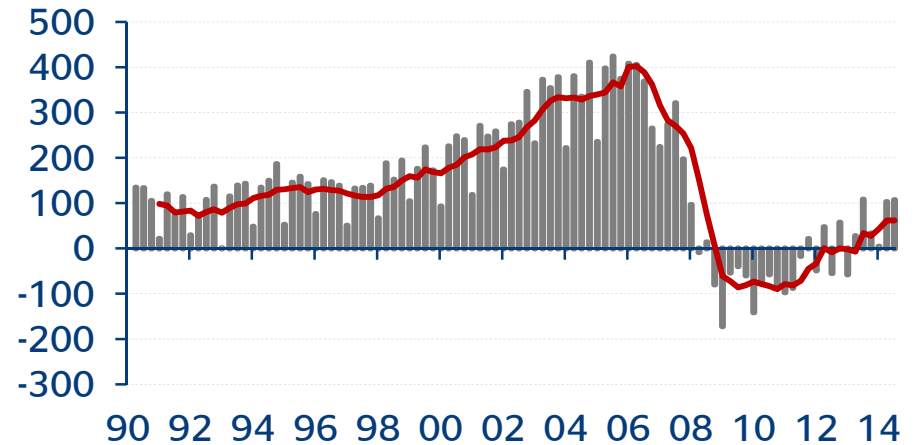
Real Private Investment

US\$bn



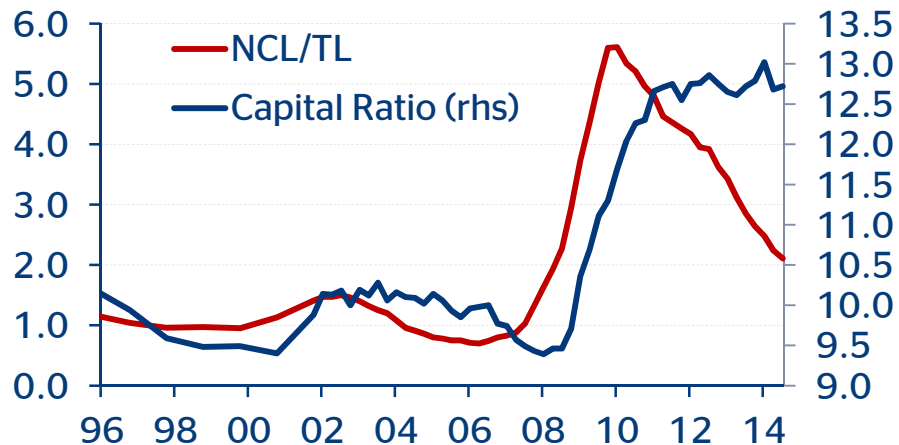
Households total liabilities

US\$bn, Quarterly change and 4Qma



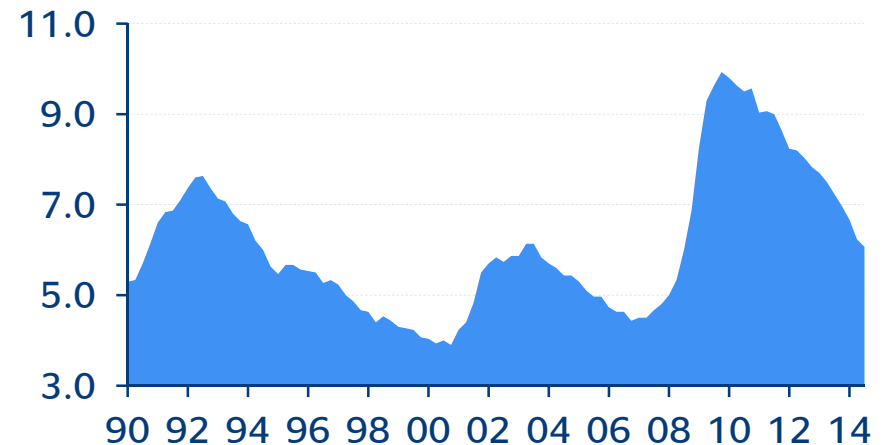
Noncurrent loans/loans and K ratio

%



Unemployment Rate

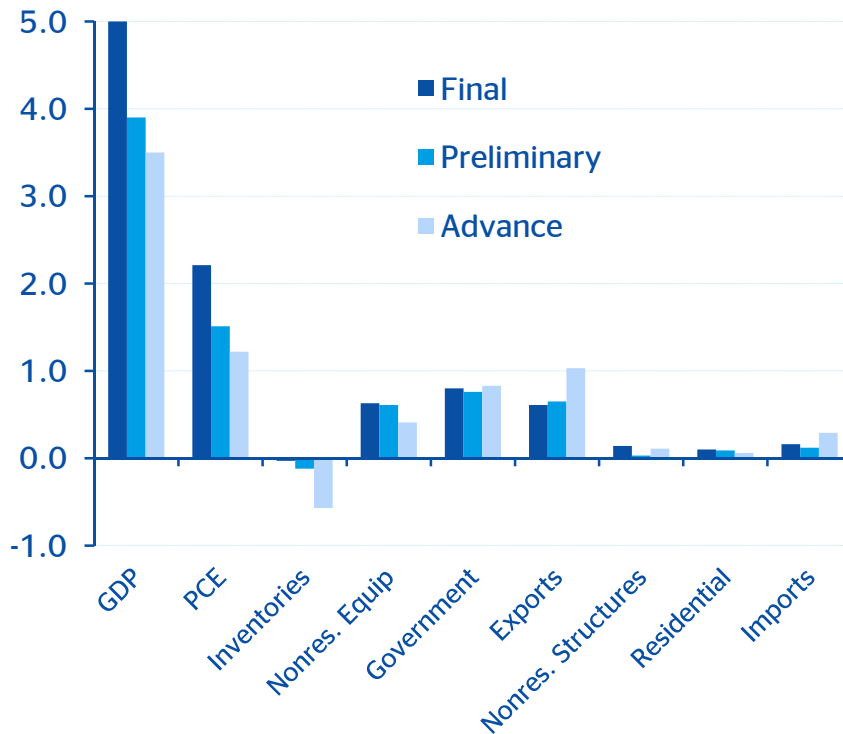
%



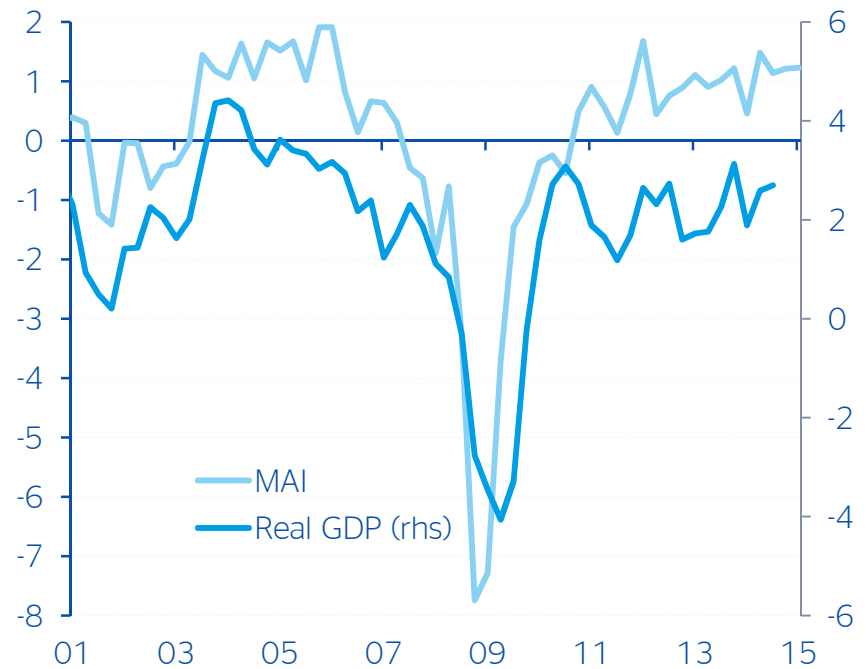
# GDP Growth

Stronger-than-expected 3Q growth lifts annual average for 2014 closer to 2.4%

Contributions to Real GDP Growth  
3Q14, SAAR Percentage Points



BBVA Research USA MAI and Real GDP  
4Q % Change

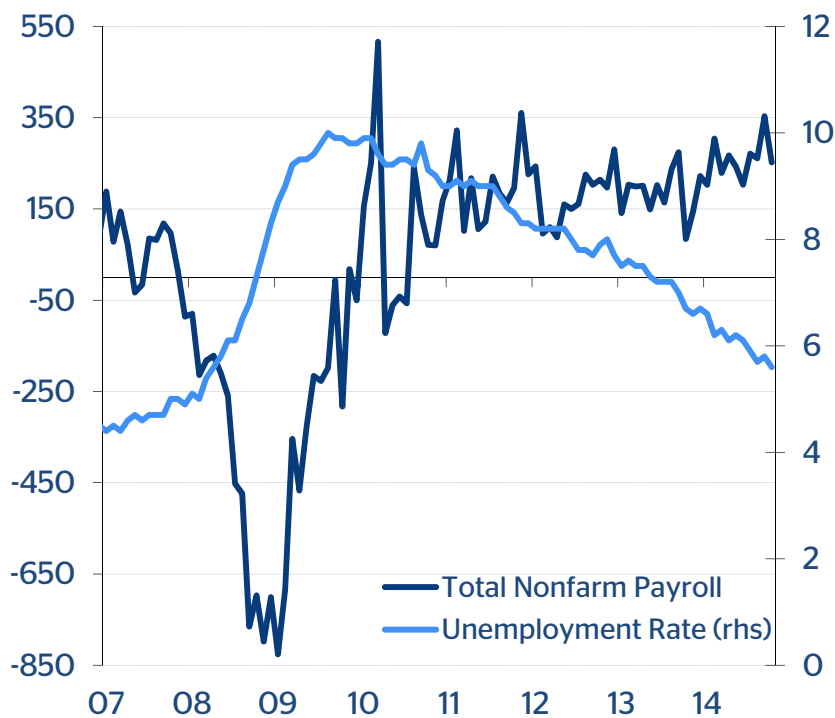


Source: BBVA Research & BEA

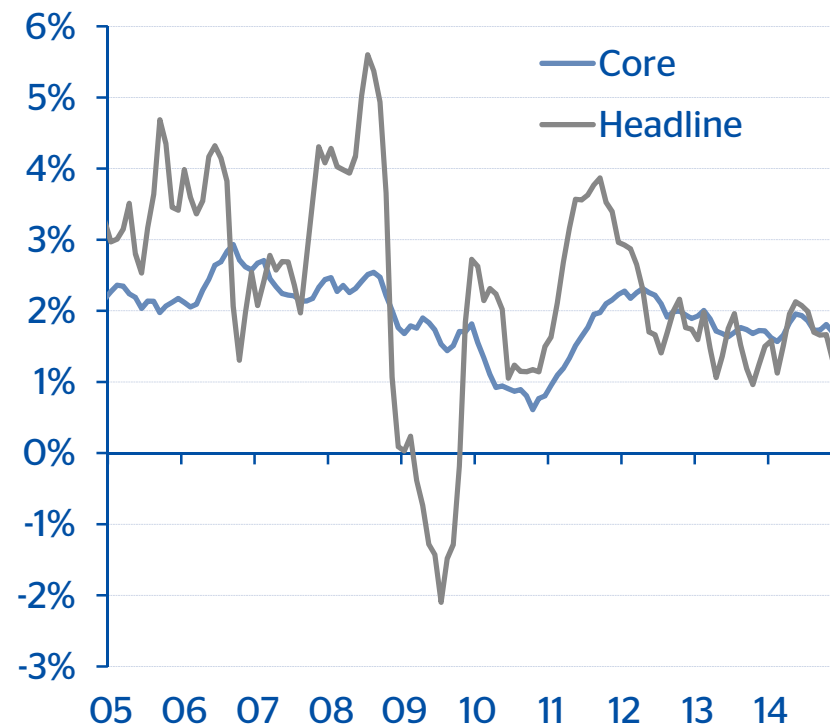
# Employment and Inflation

Key factors to watch, but moving in opposite directions

**Nonfarm Payroll Growth & Unemployment Rate**  
Change in K & %



**Headline and Core CPI Inflation**  
YoY % Change

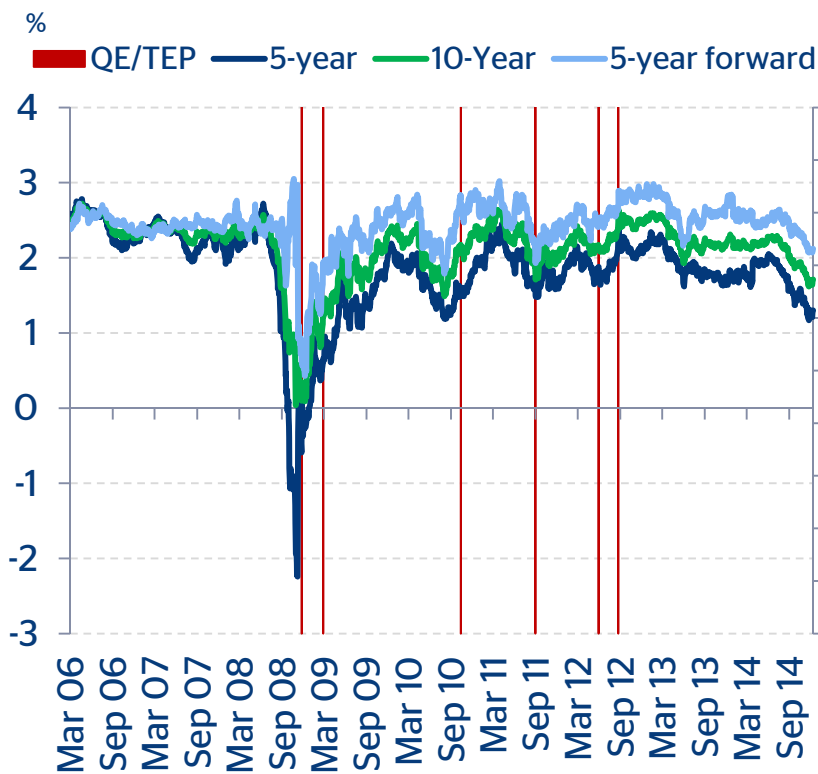


Source: BBVA Research & BLS

# Monetary Policy

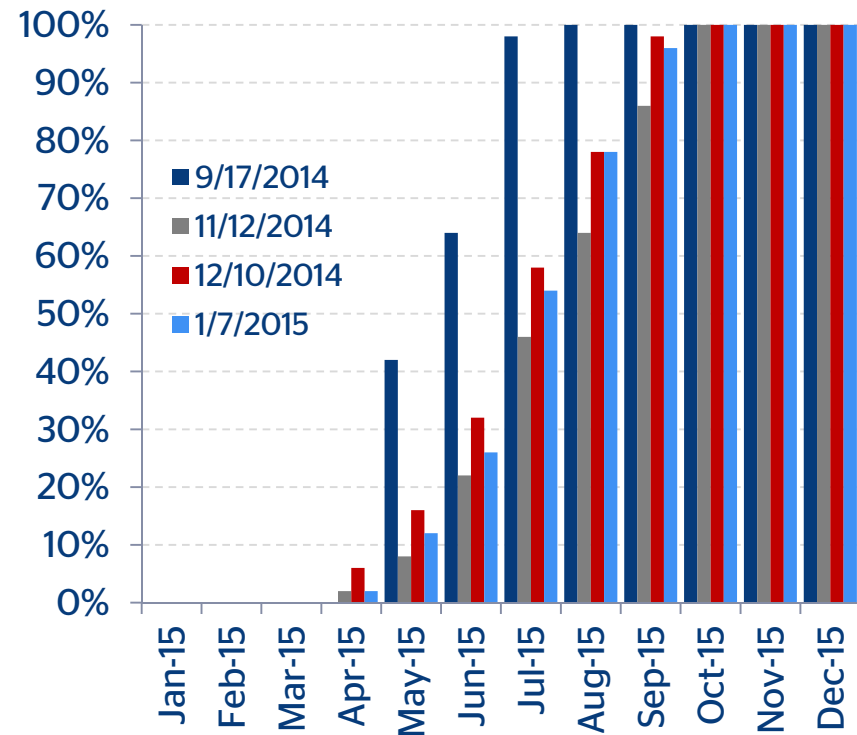
## Fed dilemma: Stronger growth and lower unemployment amidst downward price pressures

Inflation Expectations



Probability of a 25bp FFR Increase

% as Implied by Fed funds futures



Source: BBVA Research & Fed



# Baseline Scenario

A balancing act: upward revision to 2015 growth alongside downward shift in inflation expectations

	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	2012	2013	2014	2015	2016	2017	2018
Real GDP (% SAAR)	4.5	3.5	-2.1	4.6	5.0	<b>1.7</b>	2.3	2.2	<b>2.4</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>
Real GDP (Contribution, pp)													
PCE	1.4	2.5	0.8	1.8	2.2	<b>1.1</b>	1.3	1.6	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>
Gross Investment	2.5	0.6	-1.1	2.9	1.2	<b>0.1</b>	1.3	0.8	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>
Non Residential	0.7	1.2	0.2	1.2	1.1	<b>0.6</b>	0.8	0.4	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
Residential	0.3	-0.3	-0.2	0.3	0.1	<b>0.1</b>	0.3	0.3	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Exports	0.7	1.3	-1.3	1.4	0.6	<b>0.3</b>	0.4	0.4	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>
Imports	-0.1	-0.2	-0.4	-1.8	0.2	<b>0.4</b>	-0.4	-0.2	<b>0.4</b>	<b>0.2</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.3</b>
Government	0.0	-0.7	-0.2	0.3	0.8	<b>0.0</b>	-0.3	-0.4	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>
Unemployment Rate (% average)	7.2	7.0	6.6	6.2	6.1	5.7	8.1	7.4	6.2	<b>5.3</b>	<b>4.8</b>	<b>4.6</b>	<b>4.5</b>
Average Monthly Nonfarm Payroll (K)	172	198	190	267	239	289	186	194	246	<b>231</b>	<b>233</b>	<b>252</b>	<b>258</b>
CPI (YoY %)	1.5	1.2	1.4	2.1	1.8	<b>1.5</b>	2.1	1.5	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>
Core CPI (YoY %)	1.7	1.7	1.6	1.9	1.8	<b>1.7</b>	2.1	1.8	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Fiscal Balance (% GDP)	-	-	-	-	-	-	-6.8	-4.1	<b>-3.1</b>	<b>-2.7</b>	<b>-3.0</b>	<b>-2.8</b>	<b>-2.8</b>
Current Account (bop, % GDP)	-2.4	-2.0	-2.6	-	-	-	-2.8	-2.4	<b>-2.6</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.5</b>	<b>-2.3</b>
Fed Target Rate (% eop)	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>	<b>3.25</b>
Core Logic National HPI (YoY %)	11.50	11.71	11.27	7.98	5.73	<b>5.56</b>	3.90	11.09	<b>7.60</b>	<b>6.19</b>	<b>4.96</b>	<b>4.07</b>	<b>3.52</b>
10-Yr Treasury (% Yield, eop)	2.81	2.90	2.72	2.60	2.53	2.21	1.72	2.90	2.21	<b>3.12</b>	<b>3.67</b>	<b>3.90</b>	<b>3.98</b>
U.S. Dollar / Euro (eop)	1.34	1.37	1.38	1.36	1.29	1.23	1.31	1.37	1.23	<b>1.20</b>	<b>1.24</b>	<b>1.28</b>	<b>1.32</b>
Brent Oil Prices (dpb, average)	110.3	109.3	108.2	109.7	102.0	76.3	111.7	108.7	99.0	<b>60.0</b>	<b>90.8</b>	<b>99.5</b>	<b>100.5</b>

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