



BBVA

RESEARCH

U.S. Economic Outlook

Monthly Update

June 11, 2015

Meeting Details

Topic: U.S. Economic Outlook

Date: Thursday, June 11, 2015

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

Meeting Number / Access Code: 714 837 061

Meeting Password: bbva1234

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

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Discussion

GDP

Offsetting weak growth in 1Q15

- Slow start to 2015 reveals weaknesses other than weather
- 2Q-4Q growth at ~3.5% in order to reach 2.9% annual
- Domestic consumption offsetting slow global demand, pending further rapid USD appreciation

Inflation

Prolonged period of low inflation

- Oil prices have stabilized somewhat, holding at low levels
- Headline CPI inflation in negative YoY territory to start 2015
- Core inflation not likely to reach 2.0% target until 2017 or later

Fed

So close and yet so far

- Probability for June hike near zero, lift off date remains unchanged at September
- FOMC has brought down expectations for pace of normalization closer to BBVA projections

Interest Rates

Low yields for a prolonged period

- Flatter yield curve slope - flight to safety, falling inflation expectations, carry trade, etc.
- Yield curve could flatten significantly after first rate hike
- More moderate future increases in long-term rates

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.

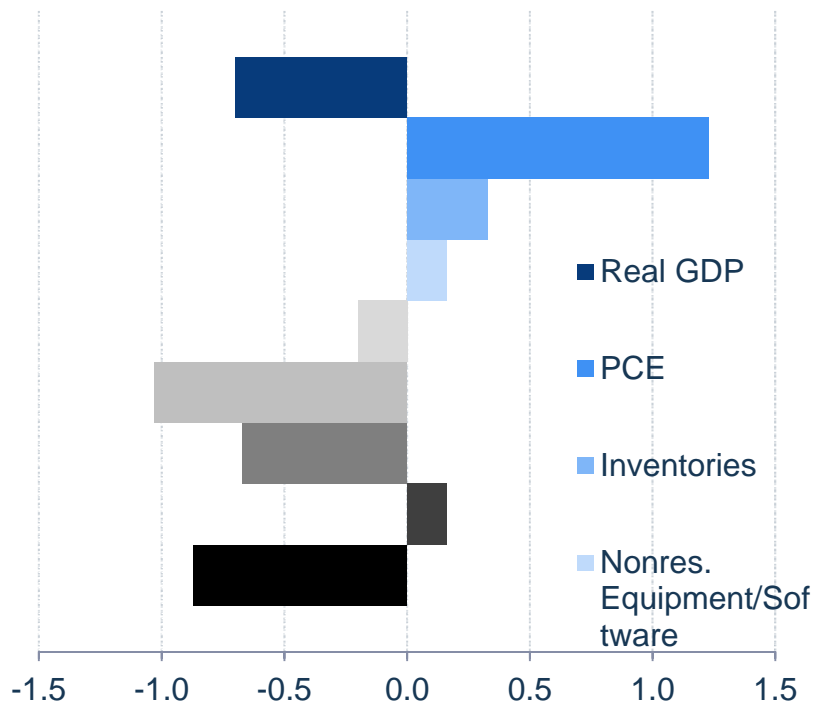


GDP 1Q15

Weak 1Q GDP growth since the crisis points to seasonal adjustment issues

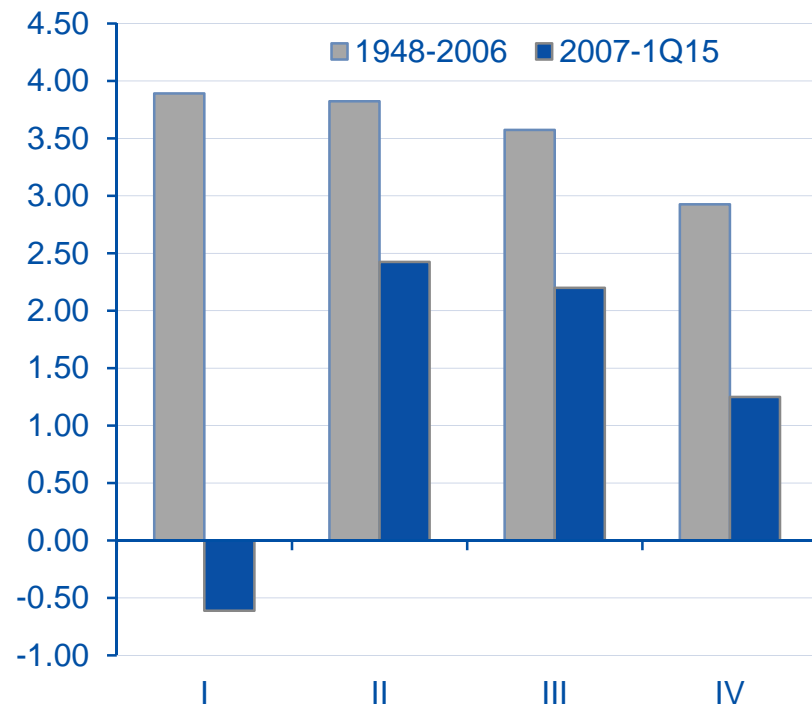
Contributions to Real GDP Growth

1Q15 Preliminary, SAAR Percentage Points



Real GDP Growth, Quarterly Averages

QoQ SAAR % Change



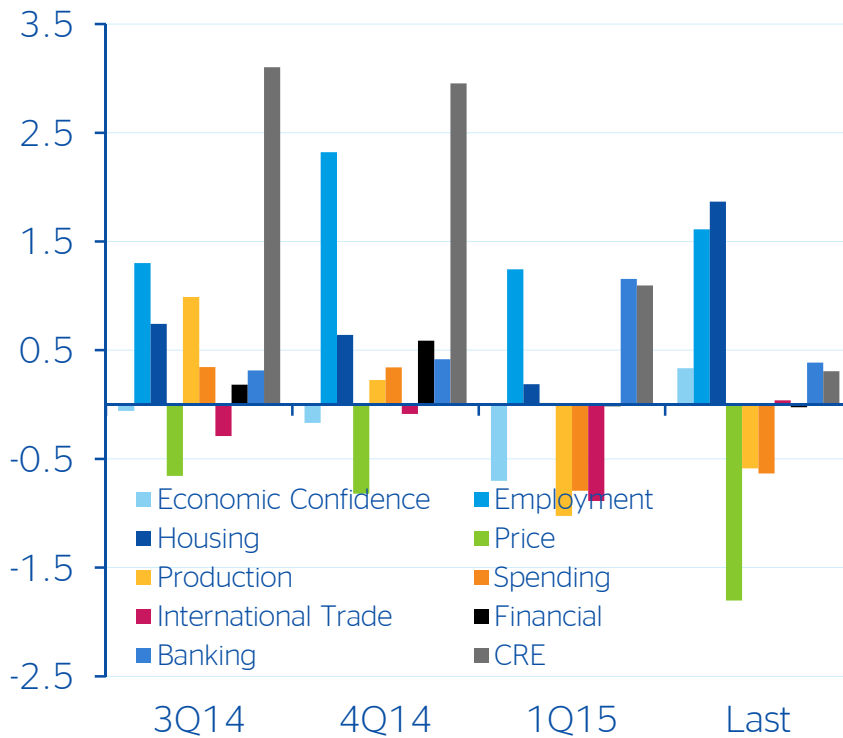
Source: BBVA Research & BEA

GDP 2Q15

Continued improvement in consumption and business activity expected to drive 2Q rebound

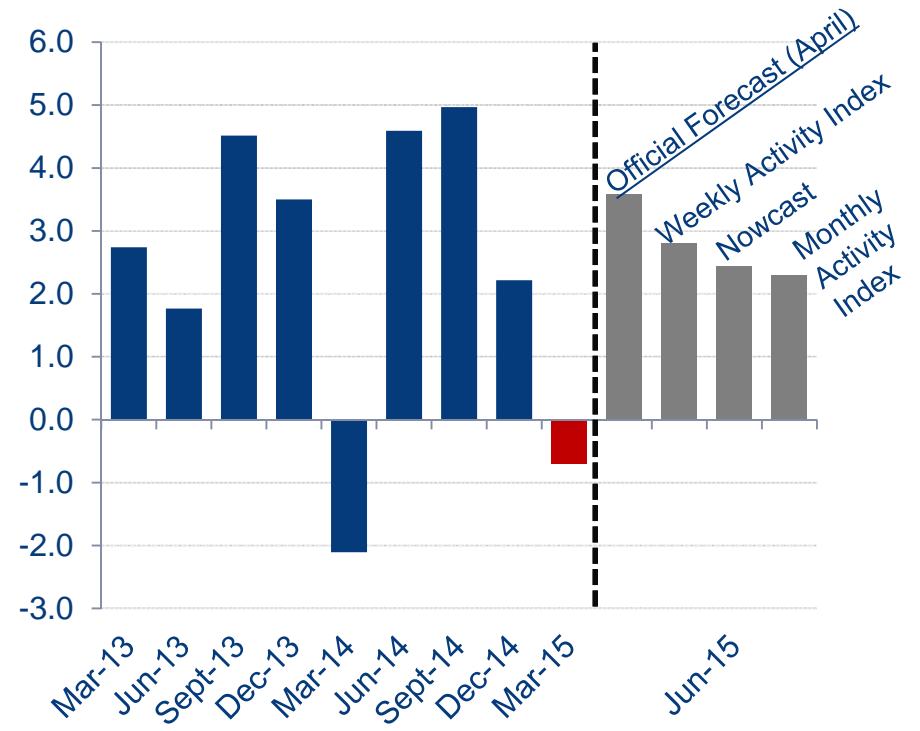
BBVA Research USA MAI Components

QoQ SAAR % Change



Real GDP Growth

QoQ SAAR % Change



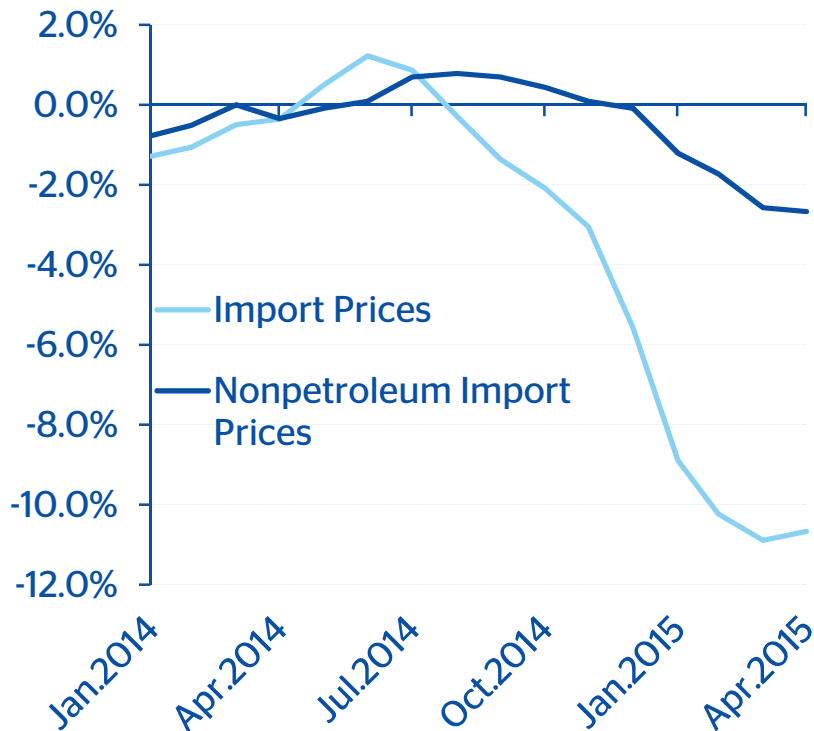
Source: BBVA Research & BEA

Inflation

New concerns over import price deflation; wage pressures begin to tick upward slowly

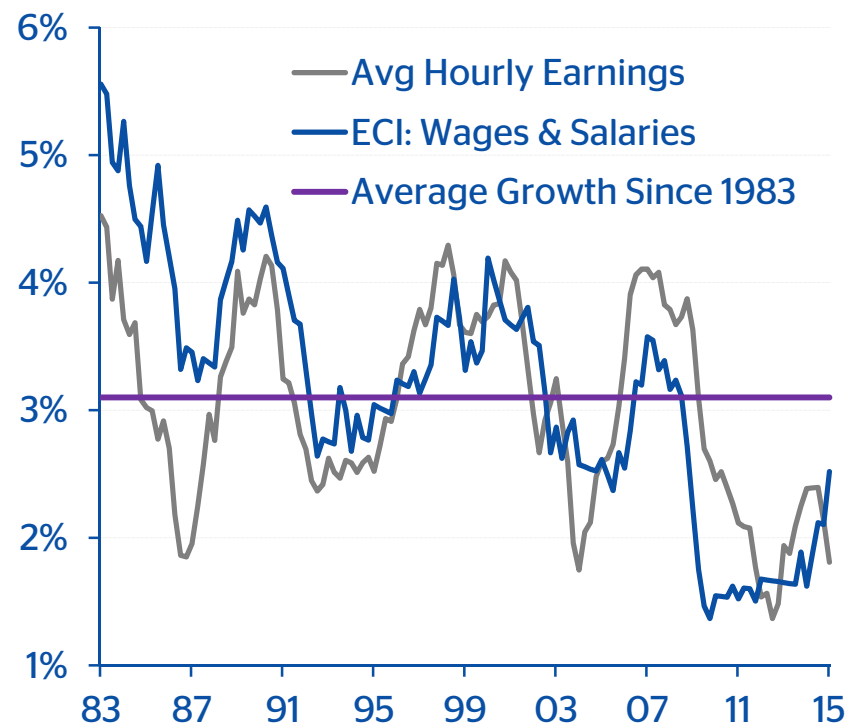
Import Prices

YoY % Change



Wage Growth

YoY % Change

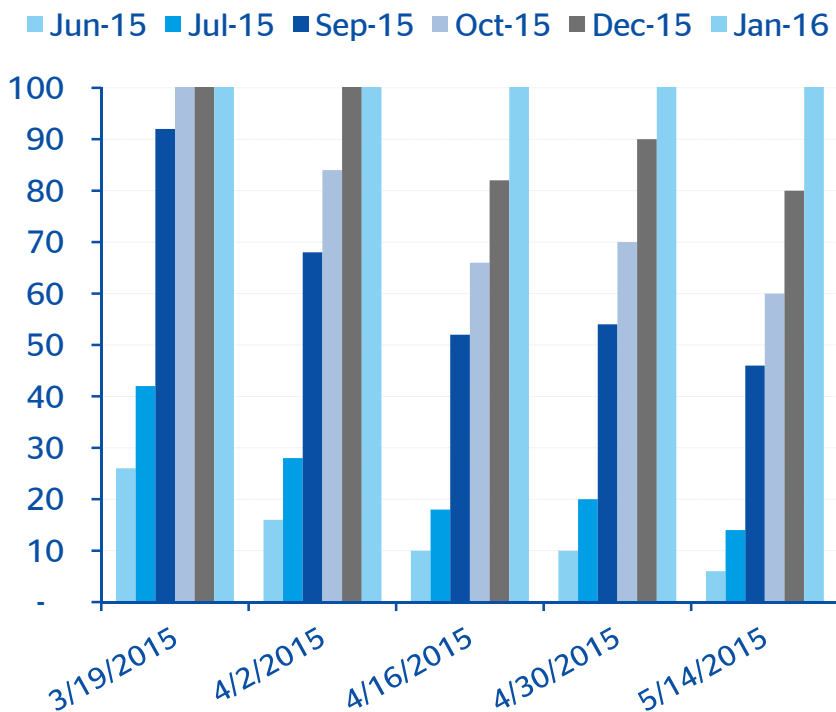


Source: BBVA Research & Haver

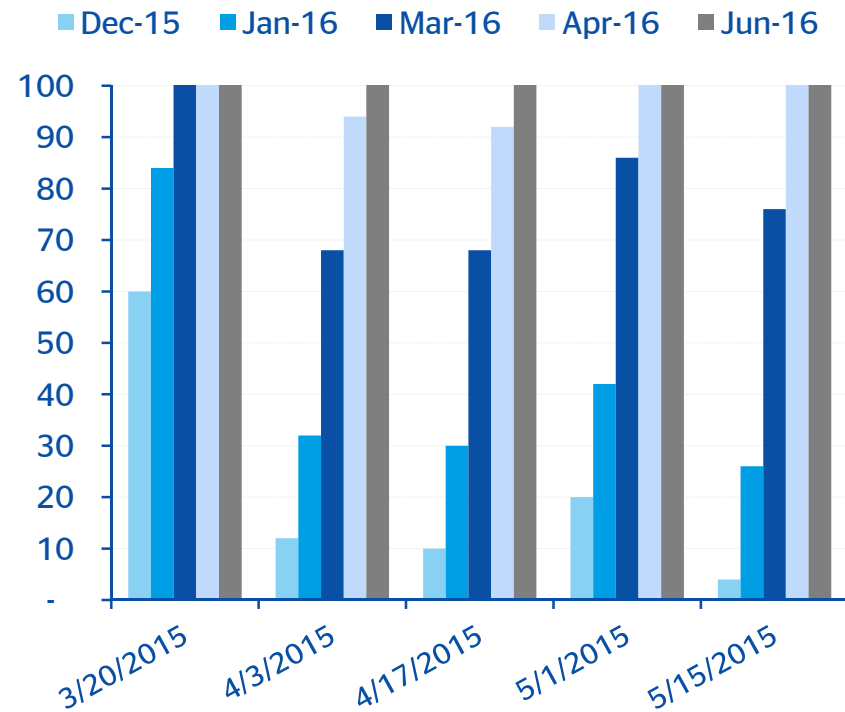
Monetary Policy

The probabilities of a rate hike in September and October declined, yet markets still anticipate a move before year-end

Fed funds implied probabilities, first 25bp
%



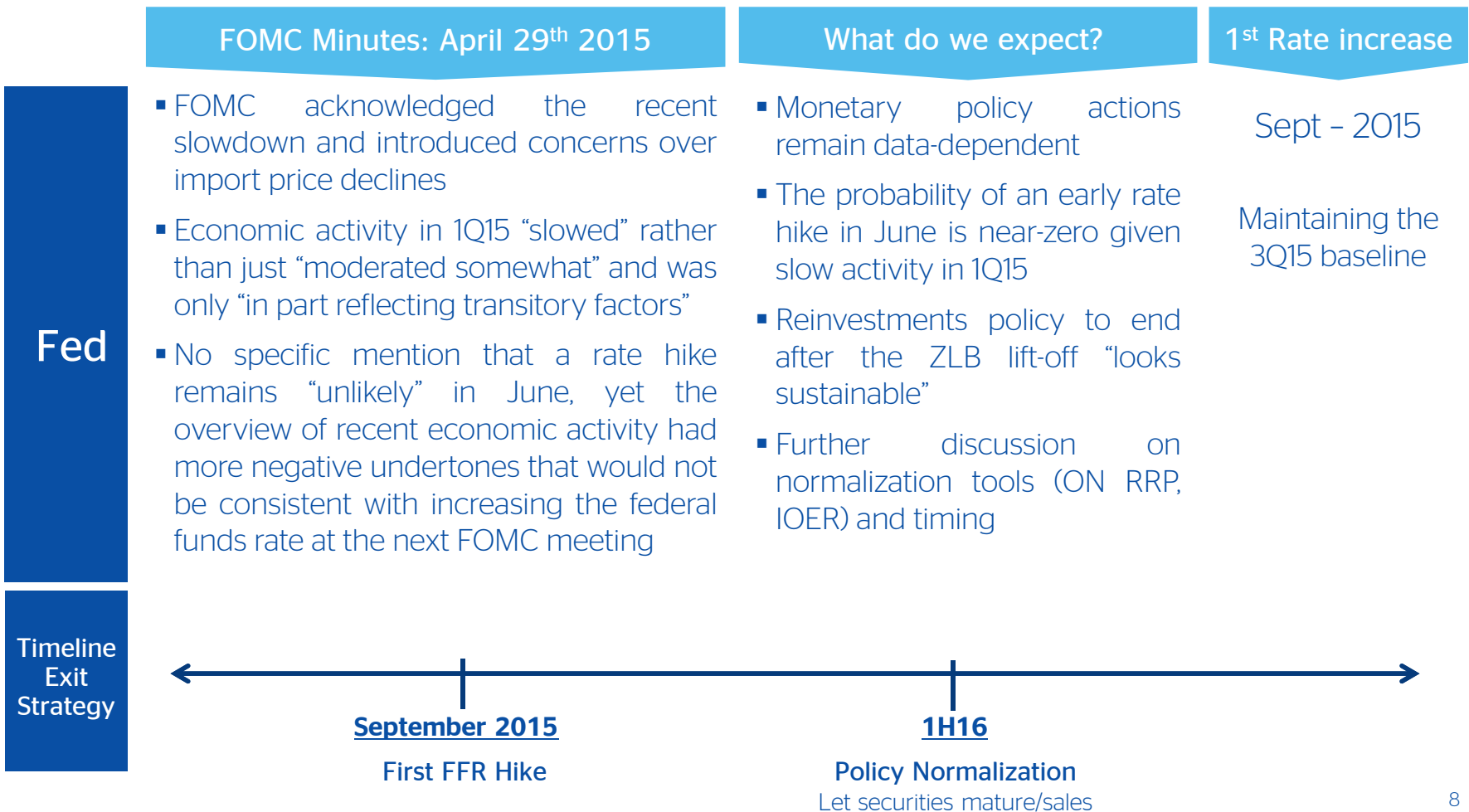
Fed funds implied probabilities, second 25bp
%



Source: BBVA Research & Haver

FOMC

April minutes show a Fed still worried on firming “too early”



Baseline Scenario

Ongoing downward pressures on inflation force a revision to our CPI forecasts

	2012	2013	2014	2015	2016	2017	2018	2019
GDP new	2.3	2.2	2.4	2.9	2.8	2.8	2.9	2.7
old	2.3	2.2	2.4	2.9	2.8	2.8	2.9	2.7
CPI new	2.1	1.5	1.6	0.6	1.9	2.2	2.2	2.2
old	2.1	1.5	1.7	1.5	2.1	2.2	2.3	2.3
Core new	2.1	1.8	1.7	1.6	1.8	1.9	2.1	2.2
old	2.1	1.8	1.8	1.9	2.1	2.2	2.3	2.4
Fed new	0.25	0.25	0.25	0.50	1.50	2.50	3.25	4.00
[eop] old	0.25	0.25	0.25	0.50	1.50	2.50	3.25	4.00

* Old as presented in 1Q15

Upside Risk

Limited upside risks when it comes to the timing of the first rate hike

	2012	2013	2014	2015	2016	2017	2018	2019
GDP new	2.3	2.2	2.4	3.4	3.4	3.5	3.6	3.5
old	2.3	2.2	2.5	3.6	3.4	3.4	3.5	3.5
CPI new	2.1	1.5	1.6	0.9	2.3	2.6	2.6	2.6
old	2.1	1.5	1.7	2.7	2.8	2.8	3.0	3.0
Core new	2.1	1.8	1.7	1.9	2.1	2.2	2.3	2.4
old	2.1	1.8	1.8	2.2	2.5	2.6	2.7	2.8
Fed new	0.25	0.25	0.25	0.75	2.00	4.00	4.50	5.00
[eop] old	0.25	0.25	0.25	1.50	3.50	4.50	5.00	5.00

* Old as presented in 1Q15

Downside Risk

Low inflation, stronger USD, and slow global demand add downward bias to our outlook

	2012	2013	2014	2015	2016	2017	2018	2019
GDP new	2.3	2.2	2.4	2.1	2.1	2.1	2.3	2.2
old	2.3	2.2	2.2	2.2	1.9	2.0	2.1	2.2
CPI new	2.1	1.5	1.6	-0.2	0.8	1.2	1.2	1.2
old	2.1	1.5	1.7	0.4	0.7	1.1	1.3	1.5
Core new	2.1	1.8	1.7	1.3	1.3	1.6	1.8	1.9
old	2.1	1.8	1.7	1.1	1.3	1.4	1.5	1.6
Fed new	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
[eop] old	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00

* Old as presented in 1Q15

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