

# U.S. Economic Outlook

## Monthly Update

July 10, 2015

# Meeting Details

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

**Date: Friday, July 10, 2015**

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

**Meeting Number / Access Code: 717 530 123**

**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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**Global call-in numbers:**

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

# Discussion

## GDP

Offsetting weak growth in 1Q15

- Slow start to 2015 reveals weaknesses other than weather
- 2Q-4Q growth above 3.5% in order to reach 2.9% annual
- Weaker-than-expected activity hints at near 2.0% 2Q growth and possible downward revision to annual forecast

## 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

- Lift off date remains unchanged at September, with a gradual pace of rate hikes thereafter
- 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

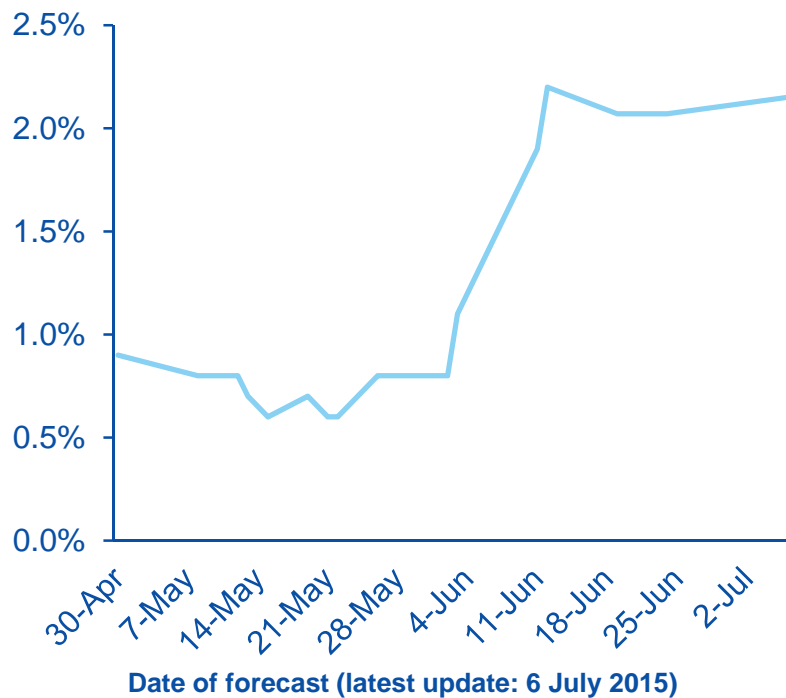
- Domestic: steep disinflation, financial overheating, Fed exit strategy, political brinkmanship, regional shocks (Texas)
- Global: Slowdown in EM, deflation/recession Europe and Greek concerns, financial volatility, geopolitical threats, etc.

# Economic Activity

Although growth is likely to pick up in 2Q15, our baseline scenario seems under pressure

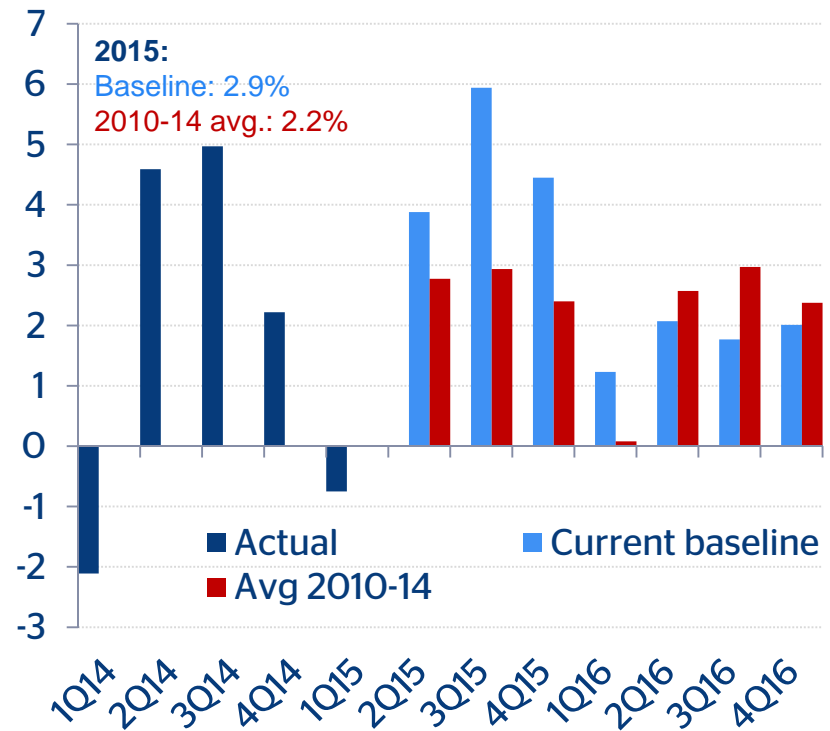
## 2Q15 U.S. Real GDP Growth Forecast

BBVA MIFUS, mixed data sampling forecasting model



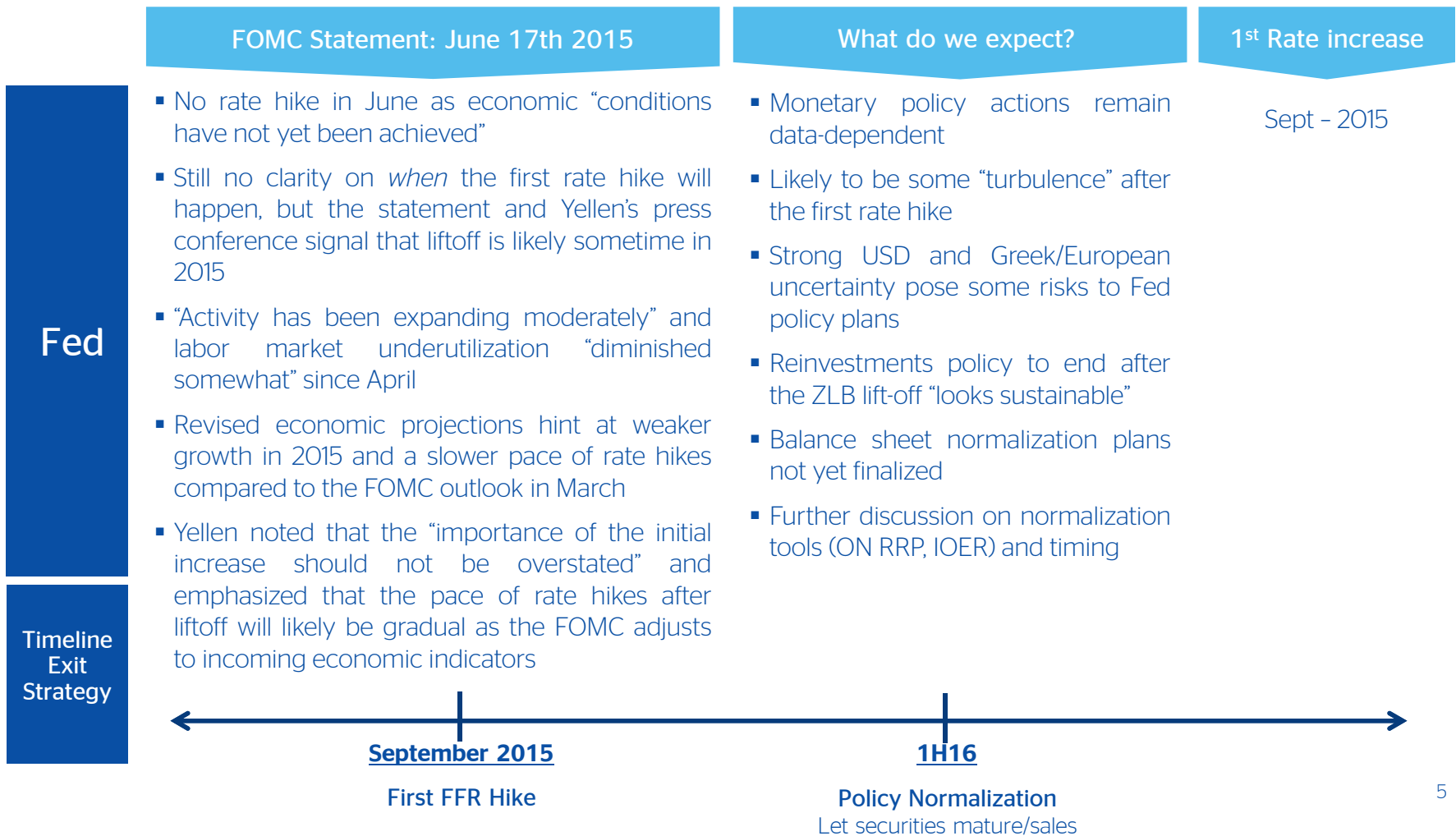
## Real GDP growth

QoQ SAAR, %



# Monetary Policy

## FOMC shifting focus to future rate trajectory not first hike



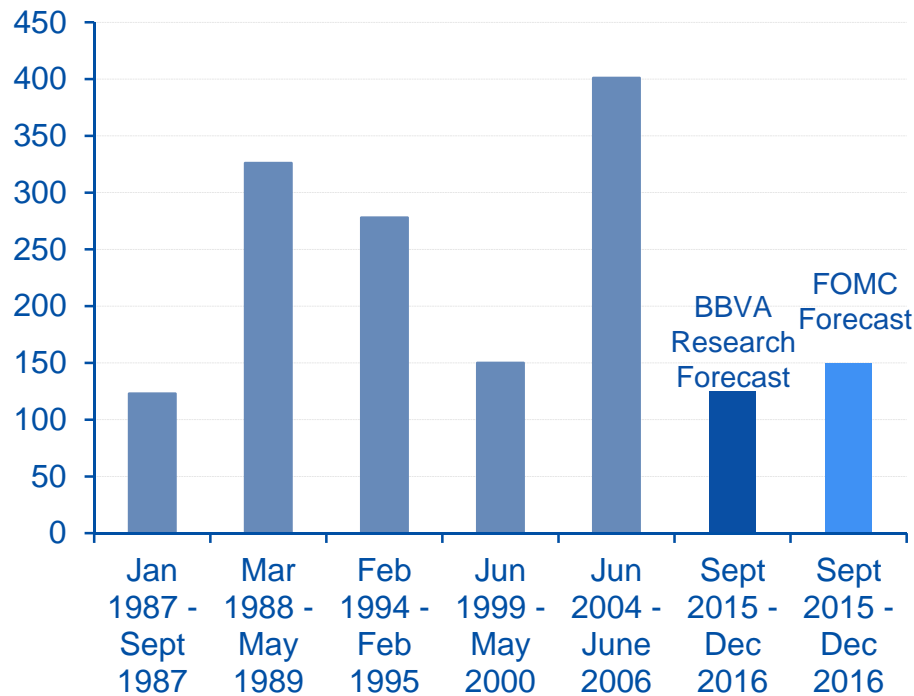


# Monetary Policy

## Fed trying to manage expectations: a gradual cycle with limited volatility

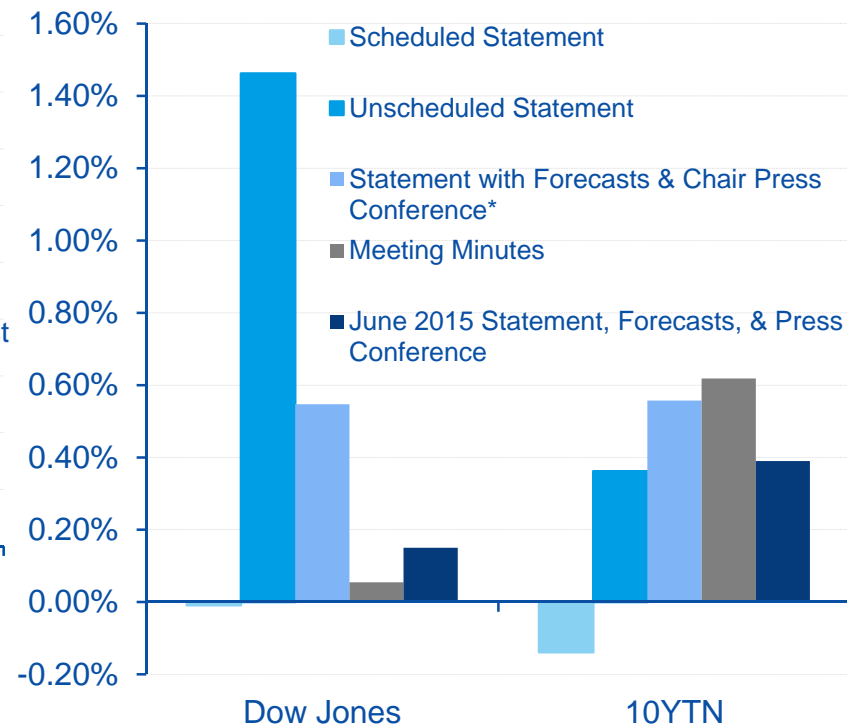
Fed rate cycles

Basis Points



Response to Fed Events 2010-Present

Average % Change Open-Close on Day of Event



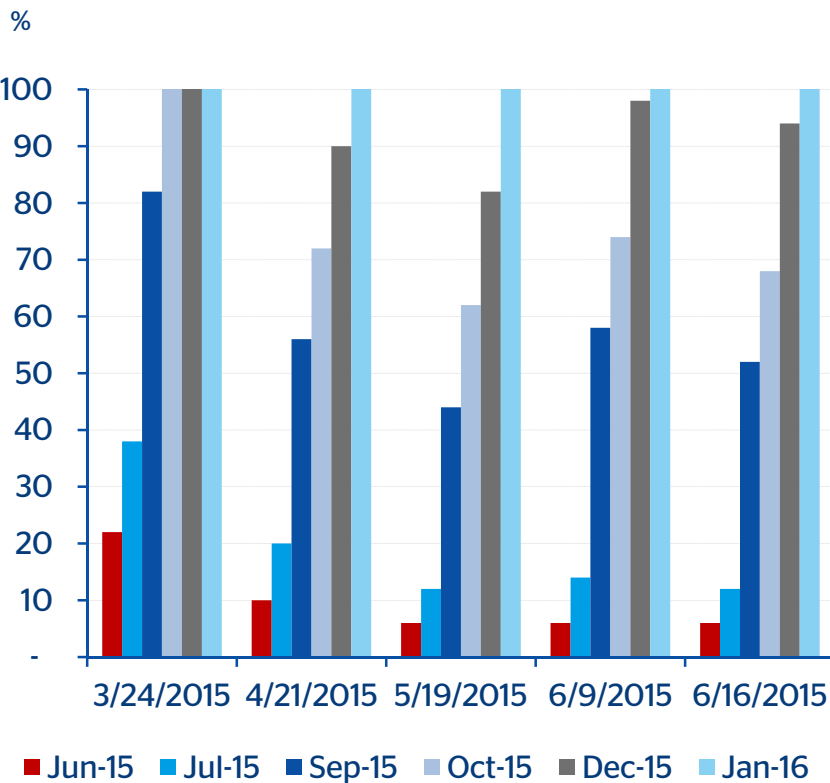
\*Press conferences began in April 2011, forecast releases began in January 2012



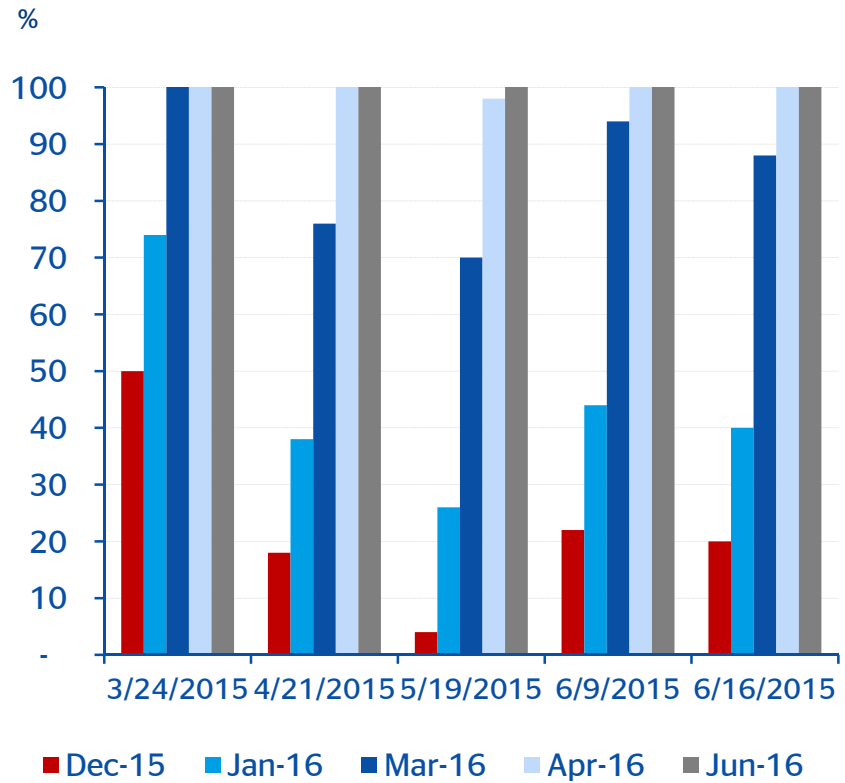
# Monetary Policy

## Markets discount one rate hike before year end and a second hike in 1Q16

### Probability First Rate Hike



### Probability Second Rate Hike

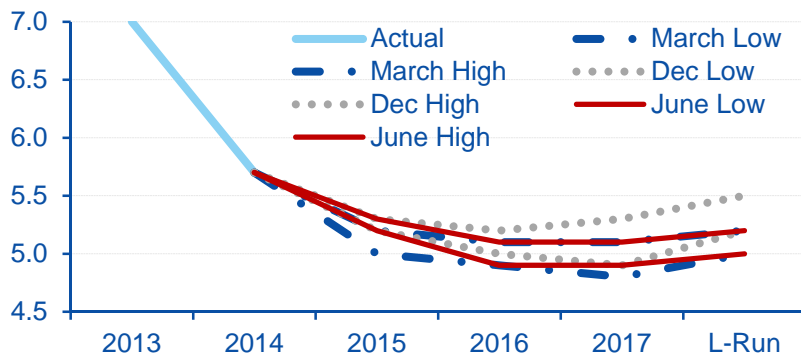


Source: BBVA Research & Bloomberg

# Monetary Policy

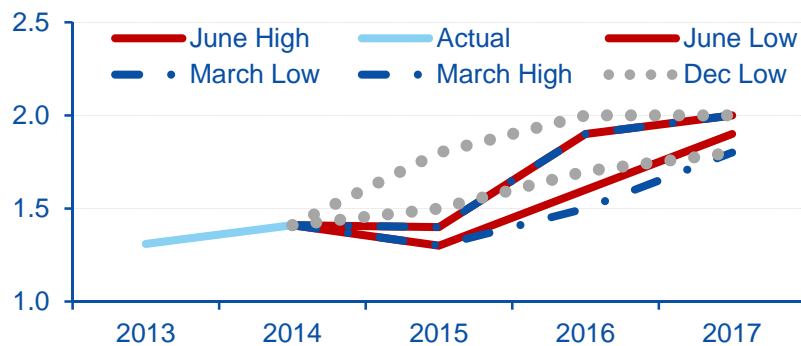
## Unemployment Rate, 4Q %

Central Tendency



## Core PCE Inflation, 4Q % Change

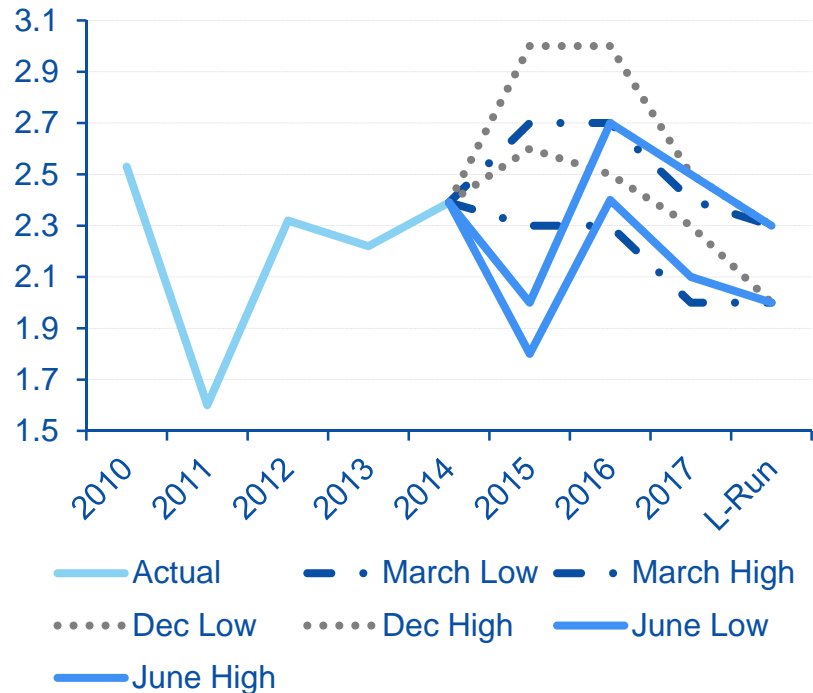
Central Tendency



## Another downward revision to FOMC growth outlook for 2015

### Change in Real GDP, 4Q % Change

Central Tendency







# U.S. and Greece

## High uncertainty in Greece but risks to the U.S. are low

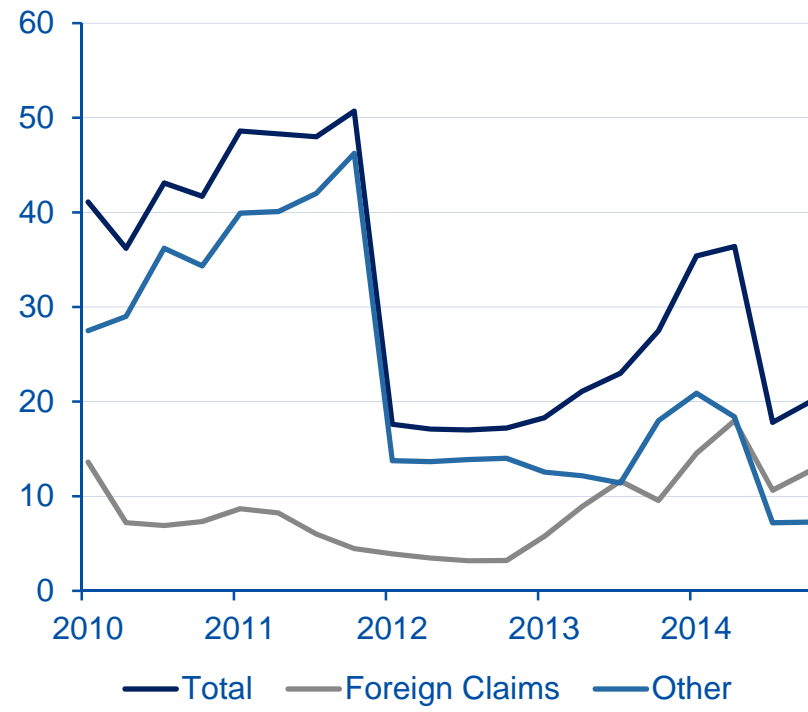
U.S. Direct Investment in Greece

\$Mn



Total Exposure of U.S. Banks to Greece

\$Bn eop



Source: BBVA Research & Haver Analytics

# Thank You!

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