

U.S. Economic Outlook

Monthly Update

March 28, 2016

Conference Call Details

U.S. Economic Outlook: Chugging Along into 2Q16

BBVA Research USA would like to invite you to our U.S. Economic Outlook conference call on Monday, March 28th, at 10am CT. During the call, we will present our monthly update to the economic scenario followed by a brief Q&A period. Presentation materials will be distributed prior to the call.

The U.S. economy is chugging along at a steady (albeit gradual) pace, yet we continue to see day-to-day volatility in financial markets and in other economic news. We have seen a rebound in the stock market as well as in commodity and oil prices, but will this last? We expect that the economy will maintain momentum into 2Q16 - at least enough to encourage a Fed rate increase in June.

Please join us for an informative discussion with Kim Chase



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Monday, March 28, 2016

10:00 am | CDT (GMT -06:00) | 30 min

[Join WebEx Meeting](#)

Meeting Number: 712 904 403

Meeting Password: bbva1234

Join by phone

+1-877-768-4036 US Toll Free

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Access code: 712 904 403

WebEx Link

<https://bbvacompass.webex.com/bbvacompass/j.php?MTID=m31f7c689290b8851841ca2da02800c51>

Global Call-in Numbers

<https://bbvacompass.webex.com/bbvacompass>

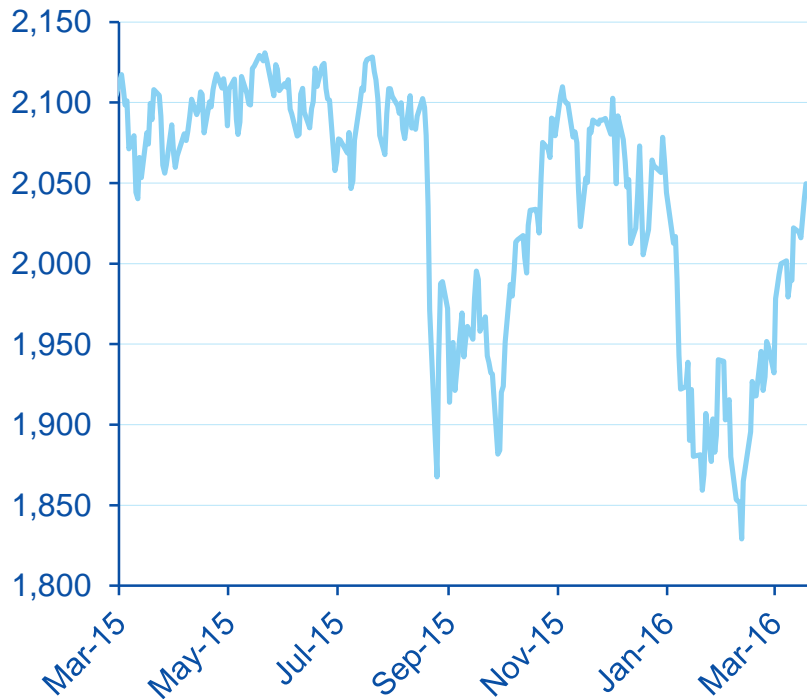


Financial Markets

Rebound in U.S. market performance

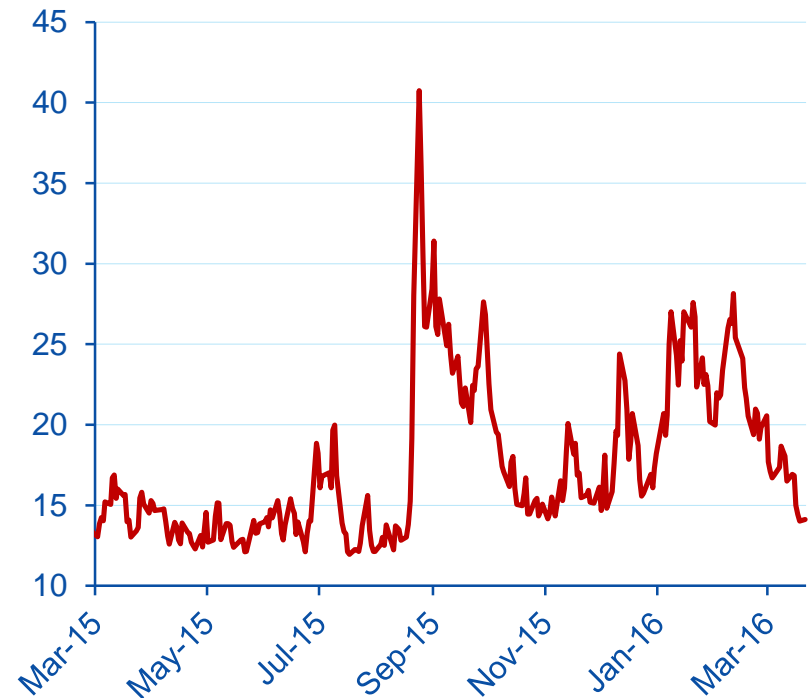
Equity Prices

S&P 500



Volatility

Index



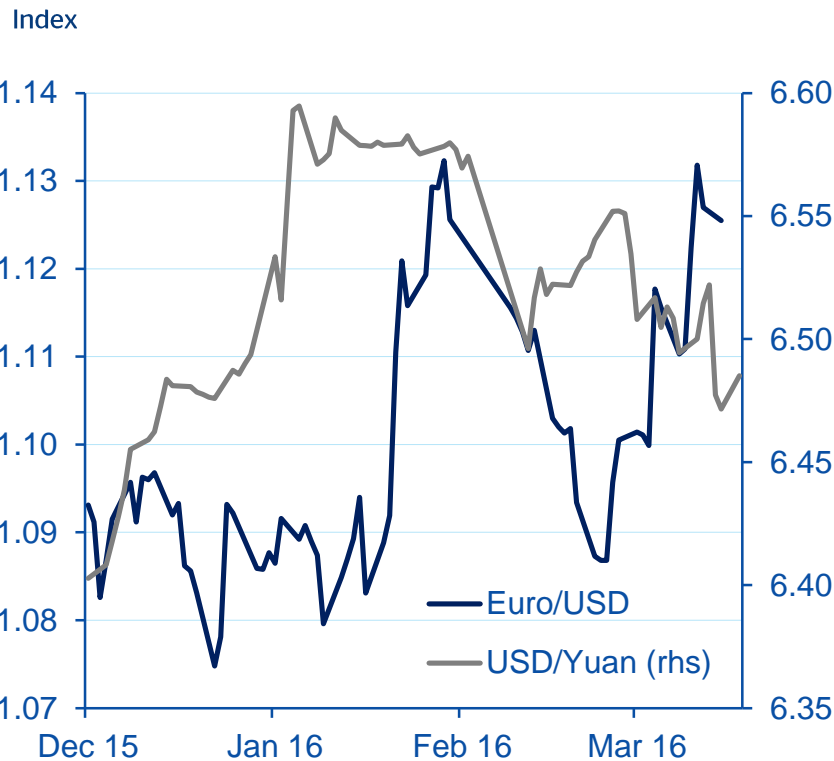
Financial Markets

Global markets dragging behind the U.S.

Global Equity Prices



USD vs Euro and Chinese Yuan

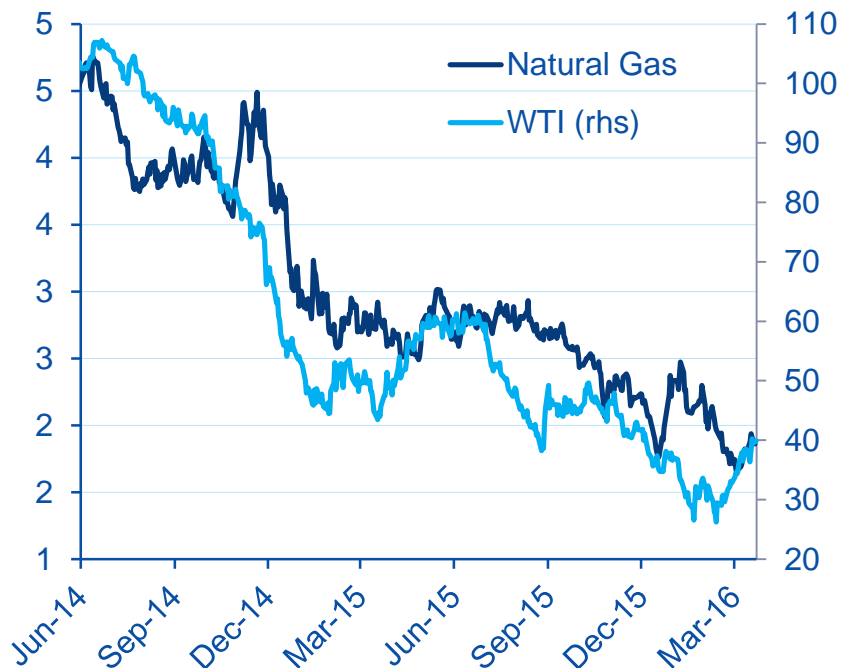


Financial Markets

Slow rebound in commodities, but will it last?

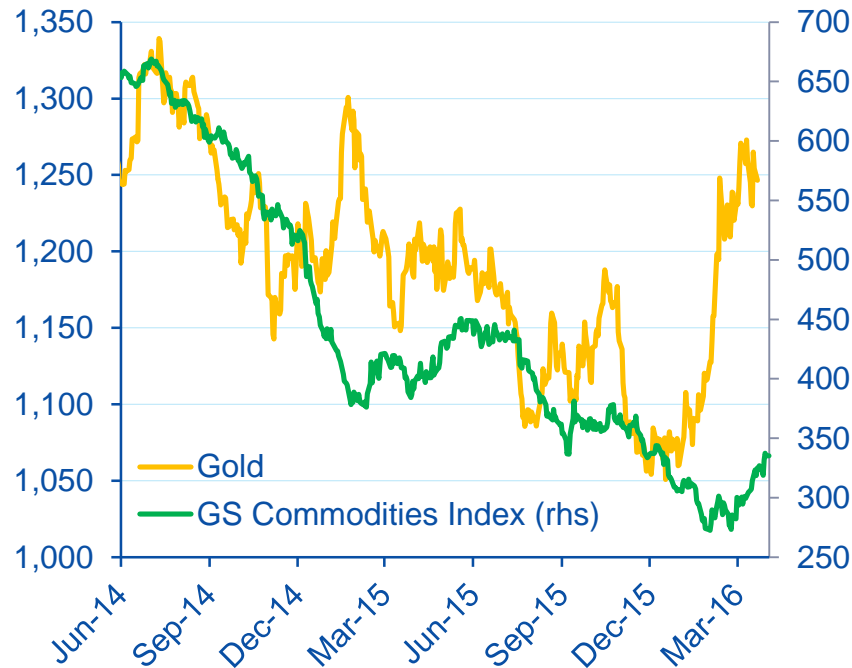
WTI and Natural Gas

Dpb and DpMMBtu



Gold and Commodities

USD and Index

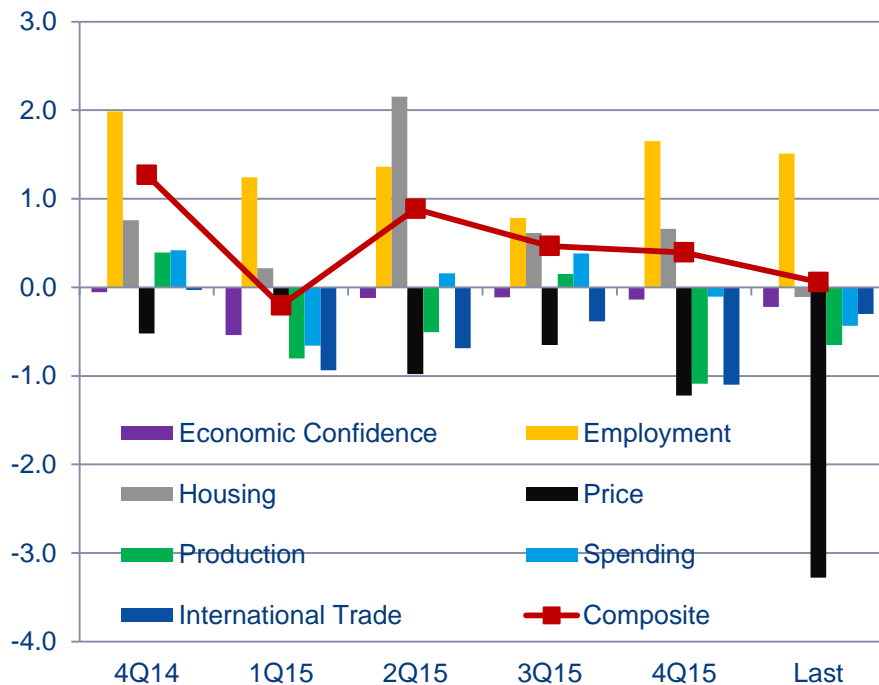


Economic Activity

Global risks still dominant but spillover to U.S. contained

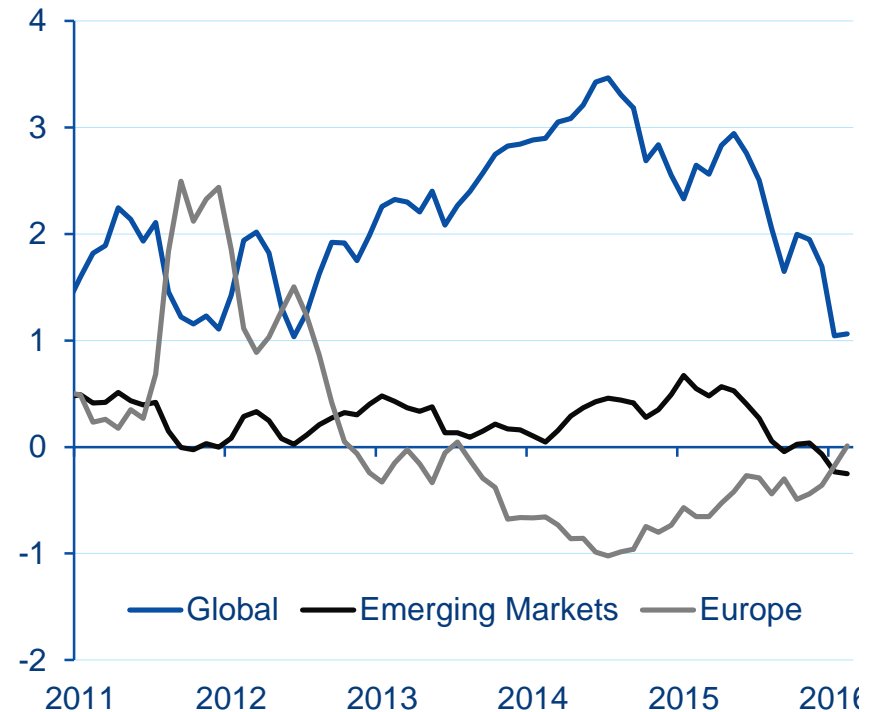
BBVA USA Monthly Activity Index

> 0 = above trend growth



BBVA USA Risk Index

> 0 = increasing risk

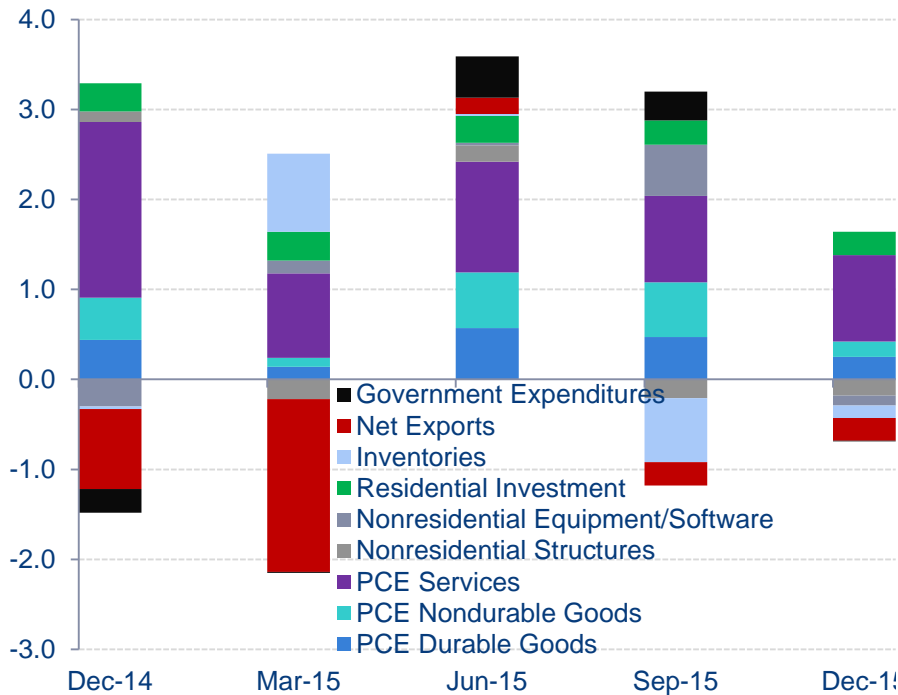


Economic Activity

Domestic consumption still leading growth, but savings rate remains elevated

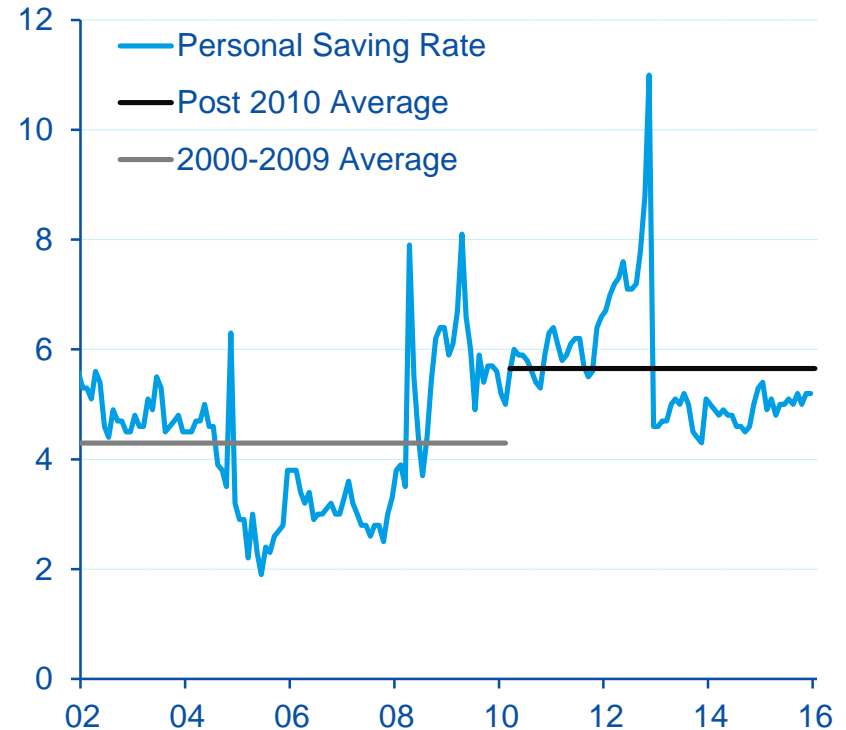
Contributions to Real GDP Growth

SAAR Percentage Points



Personal Savings Rate

% of Disposable Personal Income

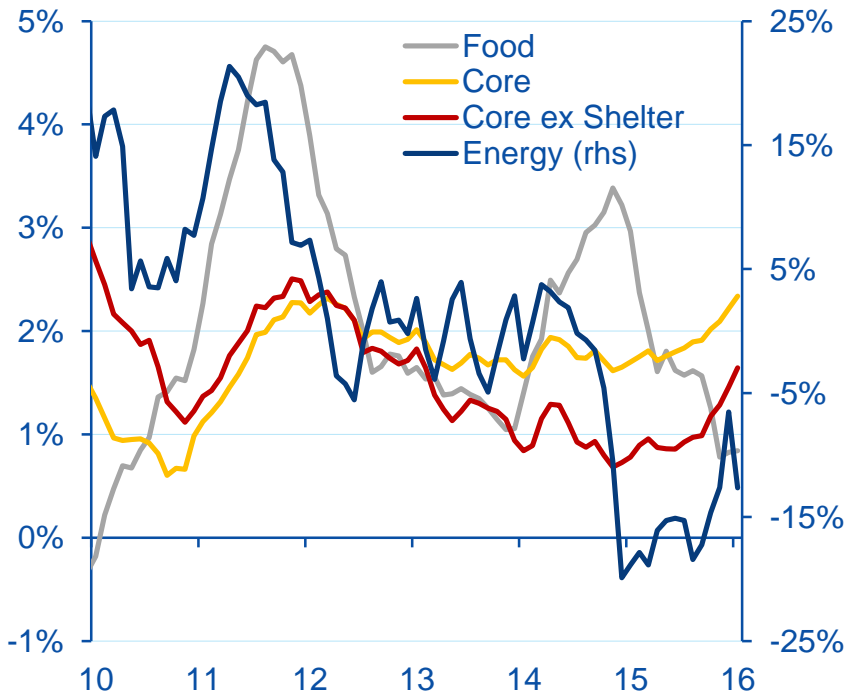


Inflation

Energy prices still weighing on headline inflation, but downward pressures are slowly fading

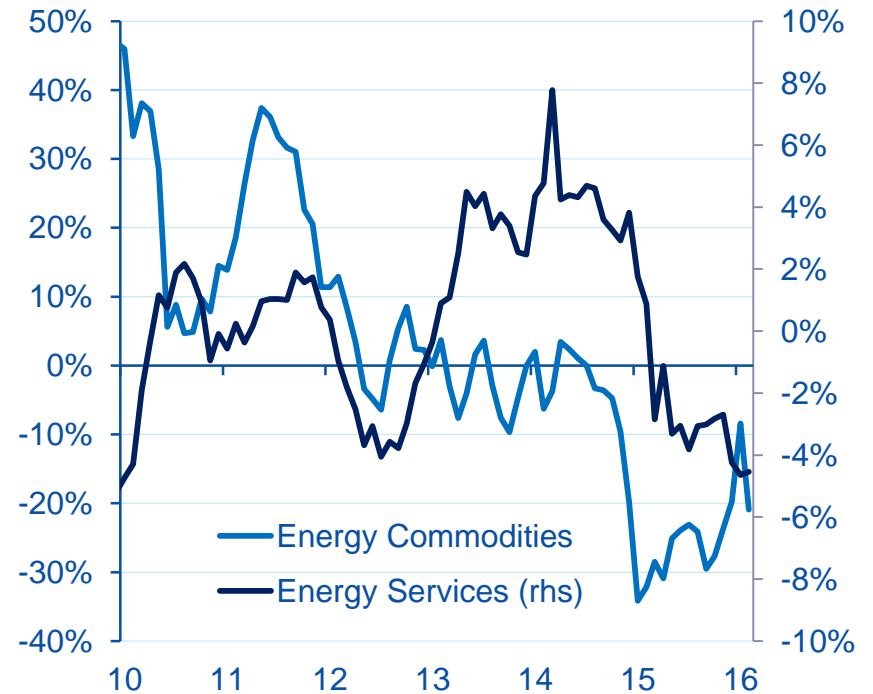
Headline and Core CPI

YoY % Change



Energy Services and Commodities

YoY % Change

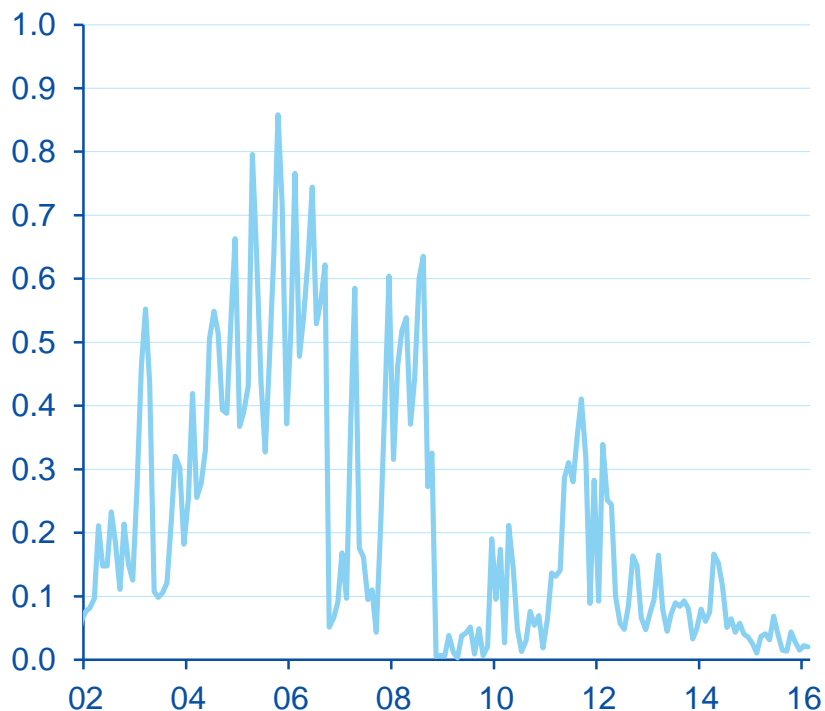


Inflation

Core inflation has ticked up to start 2016 but is still expected to remain below the Fed's target through 2017

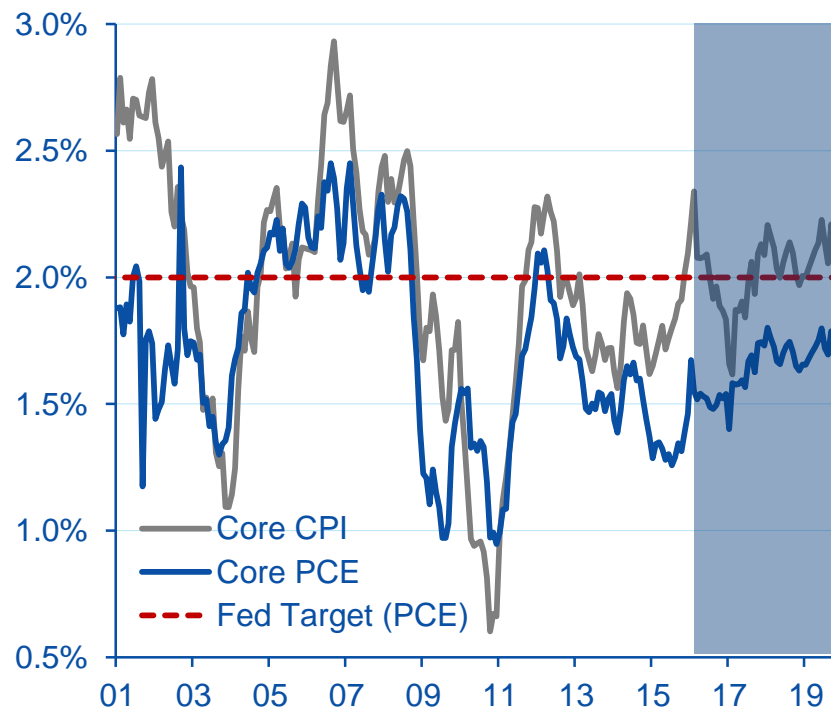
St. Louis Fed Price Pressures Measure

Probability of PCE Inflation > 2.5% in 12 months, %



Core CPI and PCE Inflation

YoY % Change



Monetary Policy

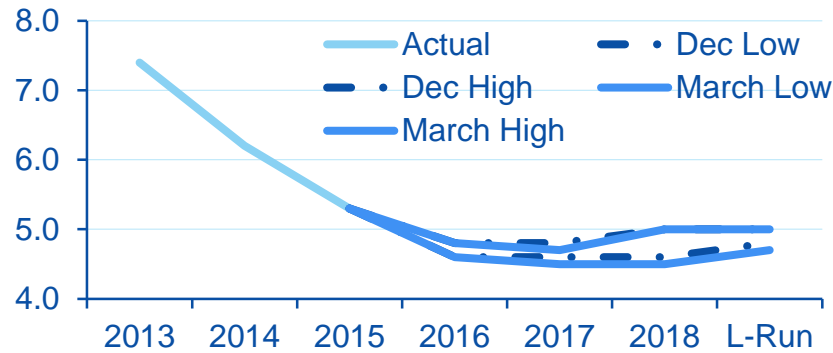
FOMC revises down policy projections to just two hikes in 2016

	March FOMC Statement	What do we expect?	Projections Dec 16/ Dec 17
Fed	<ul style="list-style-type: none"> As expected, rates were left unchanged and the Fed revised down their policy path expectations – from four to two hikes in 2016 “Global economic and financial developments continue to pose risks” but FOMC could not come to a consensus of whether or not risks were balanced or to the downside Increased focus on inflation, which the Fed will continue to monitor closely as the “stability of longer-run inflation expectations cannot be taken for granted” All meetings are “live” but June and December most appropriate for rate increases Yellen clarified in her press conference that the Fed is not actively discussing or considering the use of negative interest rates at this time 	<ul style="list-style-type: none"> Monetary policy actions remain data-dependent and not on a “preset course” (meeting-by-meeting approach) FOMC will take time to assess impact of higher rates before additional increases Global economic and financial developments and the strong USD could slow the pace of future rate increases Reinvestments policy to end after the ZLB lift-off “looks sustainable” Balance sheet normalization plans not yet finalized Further discussion on normalization tools (ON RRP, IOER) and timing 	<p>Two hikes in 2016 (downward bias)</p> <p>Four hikes in 2017</p> <p>Fed funds rate:</p> <p>Dec 16: 1.00</p> <p>Dec 17: 2.00</p>
Timeline Exit Strategy	<p>← June 2016 2nd FFR Increase December 2016 3rd FFR Increase 2017 End of reinvestment policy →</p>		

Monetary Policy

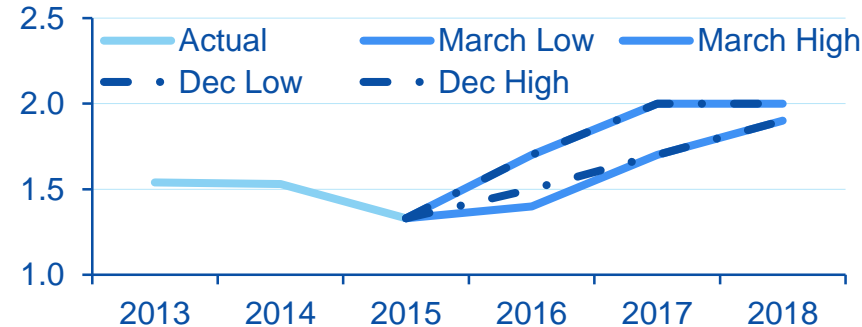
Unemployment Rate, 4Q %

Central Tendency



Core PCE Inflation, 4Q % Change

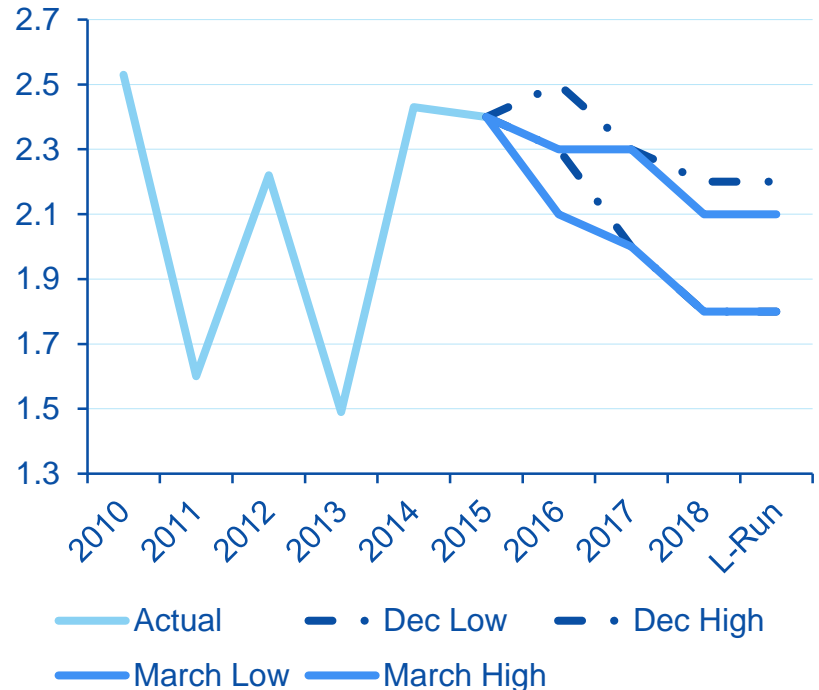
Central Tendency



Another downward revision to the FOMC's outlook

Change in Real GDP, 4Q % Change

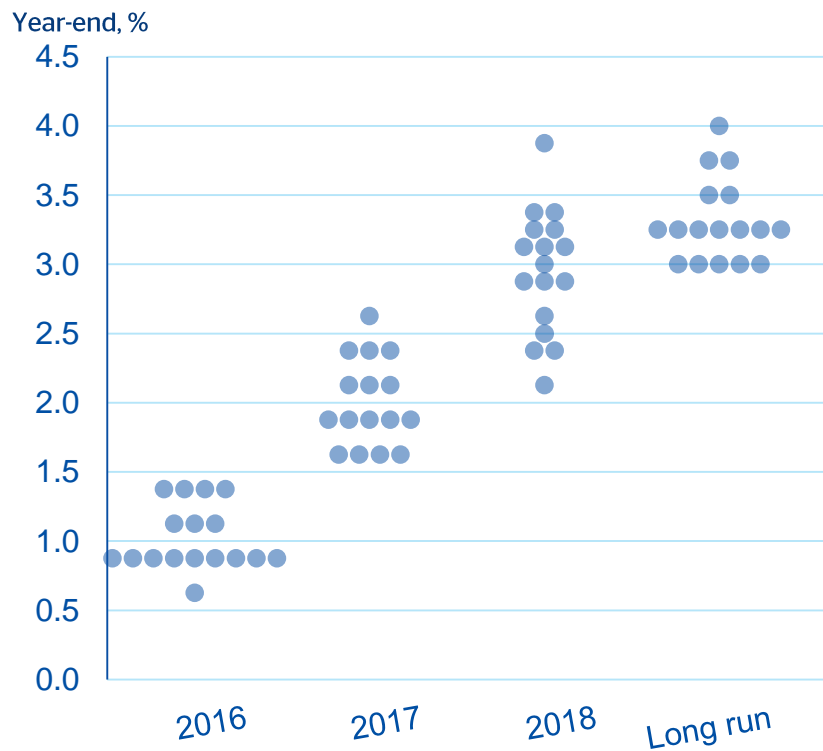
Central Tendency



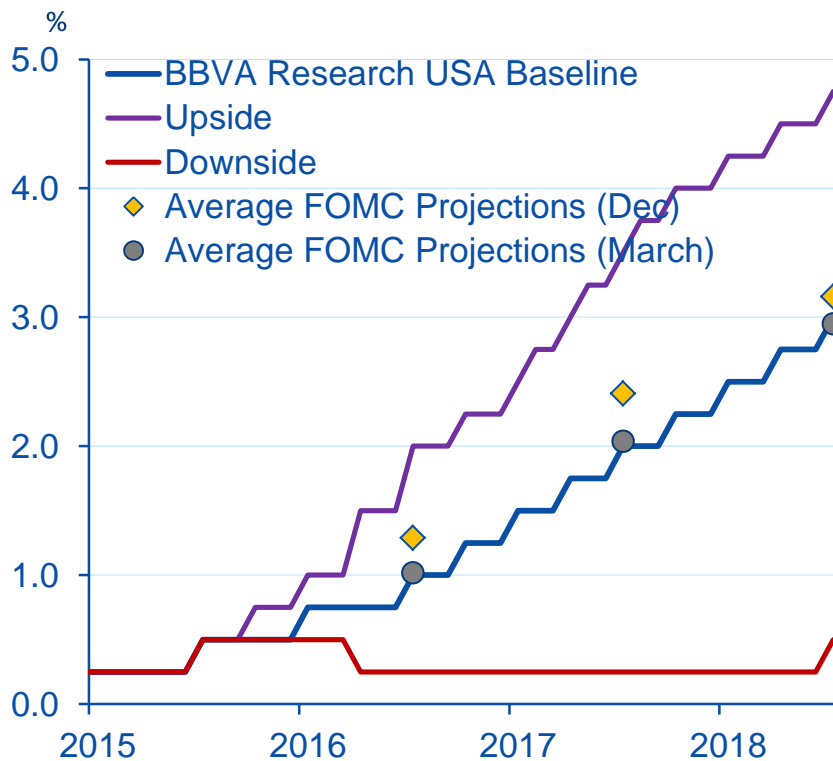
Monetary Policy

Downward shift in FOMC policy path projections, now in line with our baseline

Target Federal Funds Rate Forecast, March



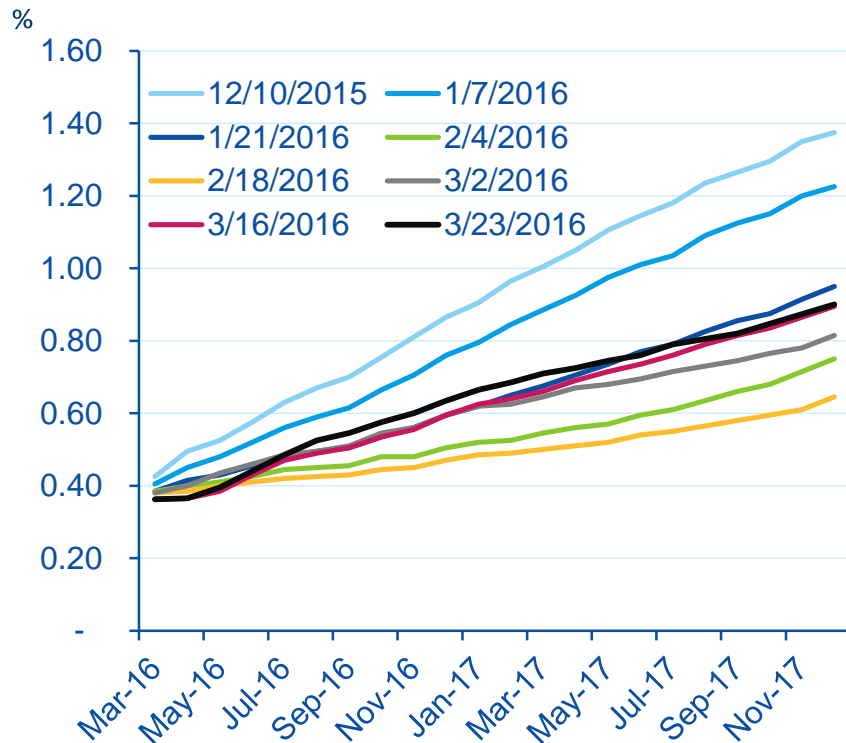
Federal Funds Rate Projections



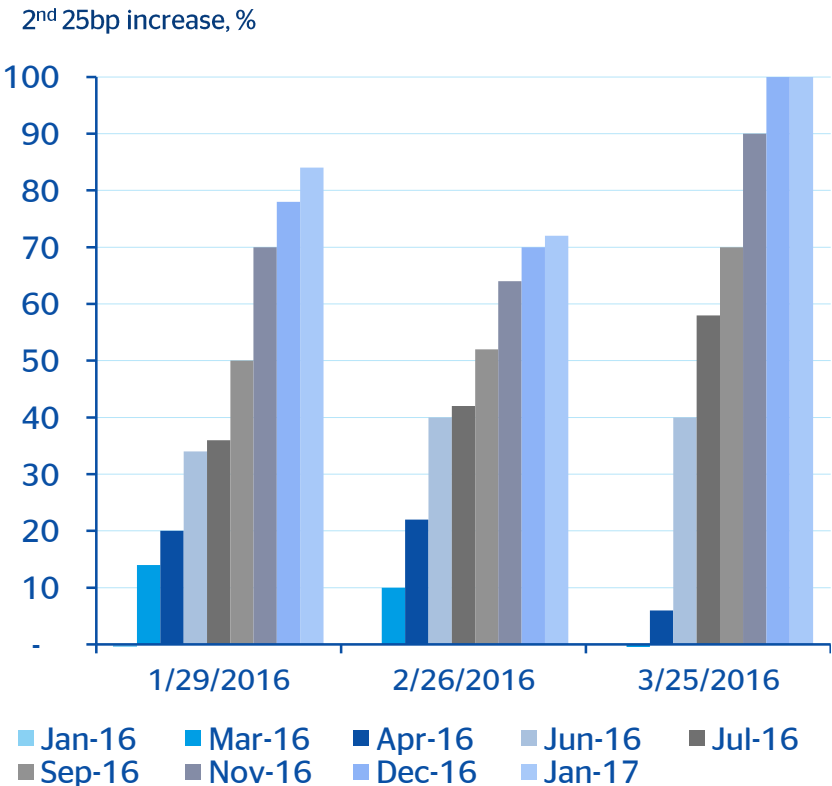
Monetary Policy

Markets are now expecting one rate increase in 2016

Federal Funds Rate Futures



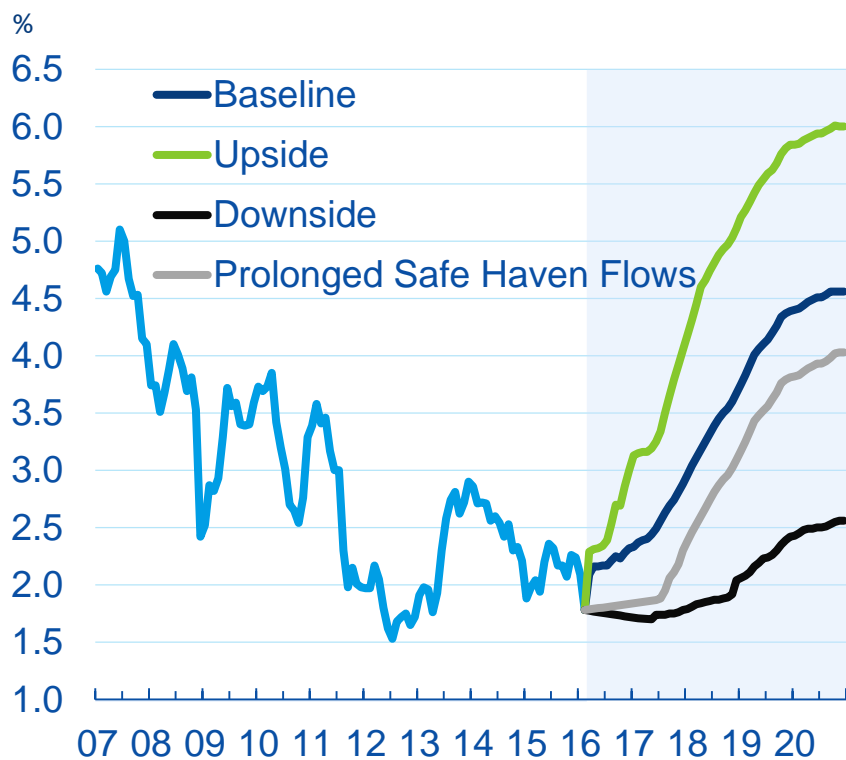
Fed Funds Futures Implied Probabilities



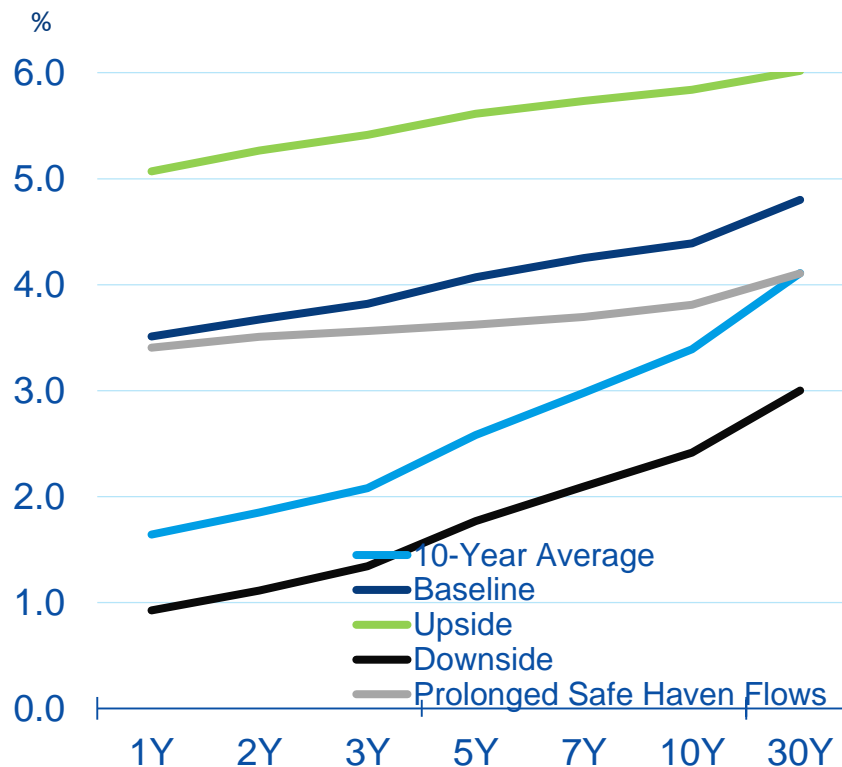
Treasury Yields

Downward bias to mid- to long-term baseline due to prolonged flight to safety

10-Year U.S. Treasury Yield



U.S. Treasury Yield Curve



Baseline Scenario

No changes

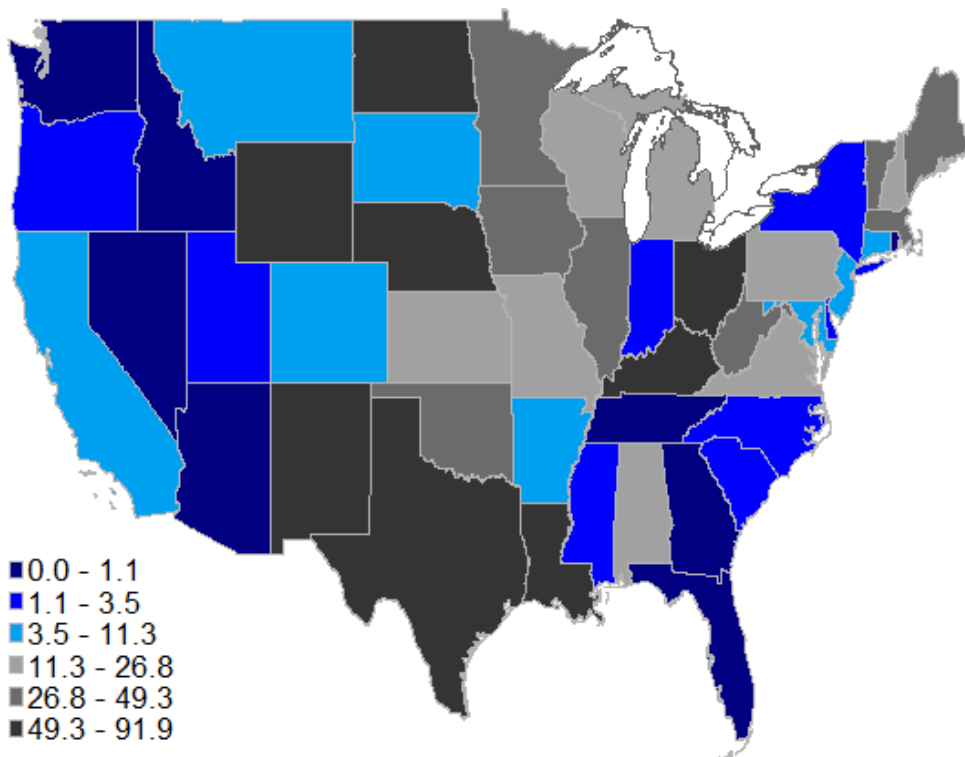
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP (% SAAR)	1.6	2.2	1.5	2.4	2.4	2.5	2.4	2.3	2.3	2.3
Unemployment Rate (% , average)	8.9	8.1	7.4	6.2	5.3	4.8	4.6	4.5	4.5	4.5
Average Monthly Nonfarm Payroll (K)	174	179	193	251	229	204	244	265	283	281
CPI (YoY %)	3.1	2.1	1.5	1.6	0.1	1.3	2.0	2.0	2.1	2.2
Core CPI (YoY %)	1.7	2.1	1.8	1.7	1.8	2.0	1.9	2.1	2.1	2.2
Fed Target Rate (% , eop)	0.25	0.25	0.25	0.25	0.50	1.00	2.00	3.00	3.50	3.50
Core Logic National HPI (YoY %)	-3.64	3.84	10.91	7.70	4.98	4.79	4.22	3.34	2.40	2.53
Housing Starts (SAAR Thousands)	612	784	928	1,001	1,107	1,218	1,370	1,506	1,620	1,640
Industrial Production (YoY %)	3.03	2.86	1.93	3.72	1.31	-0.37	1.85	1.82	1.63	1.67
Auto Sales (annualized, average)	12.73	14.44	15.53	16.43	17.33	17.86	17.98	17.35	17.02	17.00
10-Yr Treasury (% Yield, eop)	1.98	1.72	2.90	2.21	2.24	2.32	2.88	3.67	4.39	4.56
U.S. Dollar / Euro (eop)	1.32	1.31	1.37	1.23	1.09	1.10	1.16	1.20	1.20	1.20
Brent Oil Prices (dpb, eop)	107.87	109.49	110.76	62.34	38.01	39.69	50.20	60.01	59.60	59.60

Regional Recession Risks

9 states, including TX, have greater than 50% probability of recession as of 1Q16

State-level Recession Probability

Probability of being in recession within 12-months, percent



- Average U.S. probability of recession close to historical average (23%)
- NM currently has the highest probability of recession (92%)
- Texas: 90%
- Other oil producing states such as ND & LA are either in recession or likely to enter recession in 1H16
- To the upside, the transfer from oil producer to consumers is benefitting major states
 - CA (9%)
 - NY(3.5%)

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