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United States Economic Outlook

1ST QUARTER 2017 | U.S. UNIT

01
Administration's agenda has the potential to boost U.S. economy, but high degree of uncertainty remains

02
For the time being, the Fed's appetite for higher growth and inflation may be limited. However, normalization path to remain gradual

03
Mix of policies and timing could produce distinct group of winners and losers at the state level

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Closing date: February 17, 2017

1. Editorial

The economic outlook for 2017 and beyond rests on two key factors: whether the new administration's ambitious pro-business agenda aimed at boosting investment and employment spurs consumption and investment and whether the administration can uphold the institutions that have given the U.S. economy a comparative advantage.

However, broader macroeconomic conditions could put a wet blanket on the policy agenda. For instance, estimates on the impact of fiscal stimulus, specifically tax cuts, when the Fed is in, or is expected to enter a tightening cycle, are substantially lower. In fact, some estimates point to an impact that is 20% lower in the first year and a half and 60% thereafter. An economy near full employment, a business cycle that is in the home stretch and the unavoidable overhang from the federal debt will produce headwinds to any fiscal stimulus.

In addition, while deregulation and a business-friendly environment are conducive to better economic performance, trade protectionism and other policy actions that limit the functioning of a market economy will negatively impact growth and could produce permanent damage to the foundations of the U.S. market-based economy.

Therefore, we believe that where the administration has the greatest potential is on supply-side reforms that boost productivity and labor force participation. These have the potential to lift the economy out of its low-growth cycle, by making the business sector more dynamic and workers more skilled and engaged. More importantly, without consistent gains in productivity, the U.S. will not be able to increase well-being and opportunities for future generations, which could lead to a more polarized political climate and economy. A less dynamic society and labor market could also promote a widening inequality gap.

The ebbs and flows of the U.S. political cycle have been the paragon of democracy for two centuries. The peaceful transition of power has engendered stability and certainty, allowed citizens and residents to make decisions without fear of reprisal and enabled companies to invest with a high degree of certainty. A strong legal system and rule-of-law, along with low uncertainty, form the foundation of a successful pro-market, rules-based economy. These pillars, to varying degrees, have endured past presidents.

With this in mind, we advise against a rush to judgment, a daily exegesis of the president's Twitter account and an overreaction to daily market returns. Time is needed to determine if the administration's agenda will be implemented at the scale, speed and efficiency that are being promoted by the White House and Congress and if the private sector will buy into these reforms. Ultimately, the new administration should be judged on whether it created the conditions for the U.S. economy to remain prosperous for all future generations.

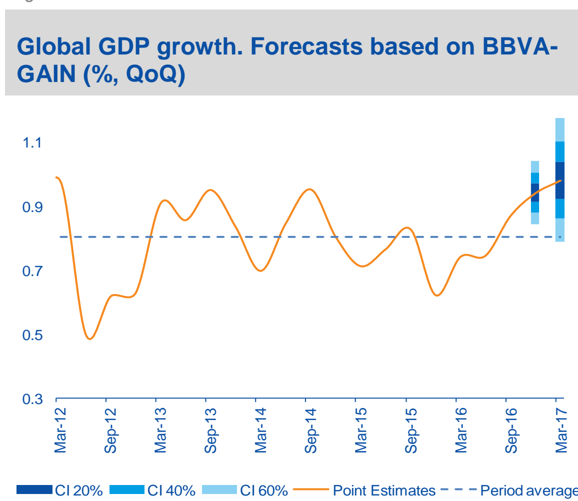
2. Global context: more growth, greater uncertainty and long-term risks

Global GDP growth accelerated in the last quarter of 2016 by 0.9% QoQ, suggesting slightly higher rates in the first quarter of this year, in contrast with the rates below 0.8% during most of last year. There is a notable increase in confidence in all areas, and the indicators for the industrial sector are growing alongside a budding improvement in world trade.

The performance of the advanced countries has lagged, with the US recovering in the second half of the year (after a very weak first half) and Europe producing growth rates of just over 1.5% YoY, above its potential. China has also advanced more than expected, thanks to the monetary and fiscal stimulus packages implemented during the past year, which have in part carried along other Asian countries. In Latin-American countries, recent trends are more varied. All in all, the global economy would grew 3% in 2016, below the 3.3% of 2015.

Figure 2.1

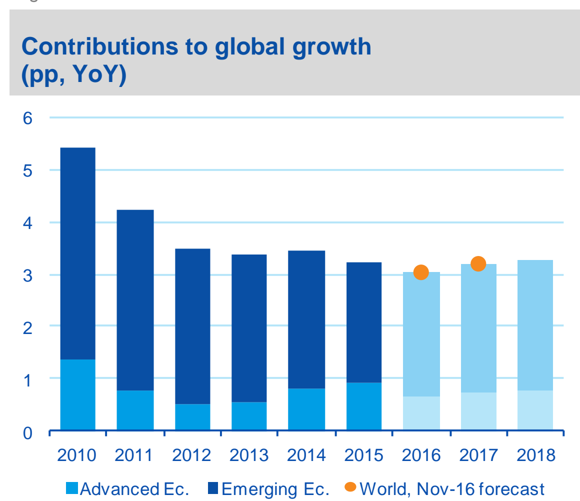
Global GDP growth. Forecasts based on BBVA-GAIN (%, QoQ)



Source: BBVA Research

Figure 2.2

Contributions to global growth (pp, YoY)



Source: BBVA Research & FMI

Despite this acceleration, the outlook for 2017 and 2018 is plagued with uncertainty. This is principally related to the economic policy of the new US administration, the shape of which remains largely to be seen. Measures for fiscal stimulus and deregulation in various sectors have been proposed, to a positive reception following the elections. Since Trump's victory, 10-year interest rates have risen by 63 base points to 2.50%, with a global knock-on effect – both in Europe and emerging markets. The value of equity indices has increased globally (+6.6% in the US, +8.5% in Europe), and the dollar is up by about 2% against major currencies and the euro. Conversely, emerging markets were negatively affected by the US election result, recording capital outflows and experiencing downward pressure on their currencies, particularly Mexico.

That said, the announcement of protectionist measures (withdrawal from the TPP trade agreement in Asia, considerable doubt about the TTIP with Europe and requests for renegotiating NAFTA, with forewarnings of

potential increases in tariffs), could seriously harm international trade in the medium and long term and impinge on confidence in the near future, particularly outside the US.

The magnitude and form of the fiscal impulse remains to be defined, and it is unclear to what extent it may stimulate activity or generate greater inflation, given that the US economy may be close to reaching its potential growth. For this reason, from the start of the year, markets have been showing moderate optimism and their dynamics have corrected slightly. Markets remain more cautious as they try to assess the negative impact of protectionist measures in the medium and long term.

The rebound in inflation pressures the monetary policy

The magnitude of inflationary pressures is another unknown opening up at a global level. The costs of raw materials have rebounded in recent months, somewhat more than predicted, following the OPEC agreement and the improvement in activity. The price of Brent crude oil was around 56 USD/barrel at the start of 2017, whereas we had been hoping to see a somewhat slower transition to its level of long-term balance (60 USD/barrel, which we expect will be reached by the end of 2018). This is coupled with how the underlying effects of energy prices are driving annual inflation at rates closer to the inflation targets of the central banks, which has raised expectations for long-term inflation discounted by the markets. Tying this in with the scale of the accumulated balances in recent years through quantitative growth programs and the outlook for fiscal stimulus packages, means that the deflation risks have been replaced by inflationary pressures, raising questions about how monetary policy may respond.

The Federal Reserve is taking a cautious approach and continues to point towards a relatively gradual normalization of rates (although recently they have slightly upwardly revised their interest rate expectations in 2017, with three increases of 0.25% in 2017, up to 1.50%). In its latest communications it has acknowledged a slight improvement in the outlook for growth and inflation while maintaining a balanced assessment of risks. Our forecast is for two interest rate increases to take place this year, with two more in 2018.

At the end of 2016, the ECB approved an extension of QE until December 2017, while reducing monthly asset purchases from 80bn to 60bn euros from March onward, underlining that we are not looking at a gradual withdrawal from the programme. Even so, the pressures to bring forward the normalisation of monetary policy have already begun with an increase in prices in Germany, and may well intensify in the coming months when inflation in the Eurozone approaches 2% owing to the effects of energy prices. As part of our forecasting, we expect the ECB will begin the process of withdrawal from QE in early 2018 and decide on the first interest rate increase at the end of that year.

All in all, our growth projections for 2017 have undergone no substantial revision, although they are subject to a higher degree of uncertainty than normal. The base effect of increased growth at the end of 2016 and its inertial effect, together with the fiscal stimulus packages expected in the US, encourage us to both moderately and upwardly revise the forecasts for the US and Europe, and slightly more for China, while the forecasts for Latin-American countries are being revised downward, principally due to idiosyncratic factors.

Outlook is not risk-free, specially protectionism

The risks are largely downward and are governed by the mentioned uncertainty linked with protectionism in the US, a less friendly attitude towards immigration and the danger that the fiscal stimulus policies will not have any impact on growth and will increase inflation, or that the

deregulation announced in various sectors will not be properly managed. In addition, there is the potential reaction of other countries or regions to these protectionist impulses. An anticipated increase in inflation may lead to a toughening of monetary policy from the major central banks, with global consequences. In the long term, the risks of the accumulation of imbalances in China, together with the lack of structural reforms and the restructuring of public companies, may have an impact on capital flows and currency and lead to sudden slow-down in growth. Europe is subject to substantial political risks, in a year that is packed with election dates, and where certain increasingly powerful parties propose going back on structural reforms or on measures to quit the euro zone or the European Union. And, generally speaking, geopolitical risks continue to run high.

China: slower deceleration than expected owing to fiscal stimulus

The growth in the fourth quarter was 6.8% YoY, which closed out 2016 at 6.7% on average, slightly above what was expected. Various activity indicators, including industrial production and retail sales, improved in December and suggest better times at the start of this year. For 2017 on the whole, we expect growth of 6% (revised two tenths upward from our previous forecast), and around 5.2% for 2018, given the vulnerabilities which the economy is faced with and an economic policy geared more towards ensuring financial stability rather than maintaining growth. Our predictions for inflation remain unchanged at 2.7% in 2017 and 3.0% in 2018.

Eurozone: resistance to numerous shocks

Growth in 2016 closed at 1.7%, slightly higher than what was expected, after a positive last quarter (0.5% QoQ) which shows the recovery of industrial activity and, to a lesser degree, exports. Confidence indicator figures remain quite high, despite the political surprises experienced in recent months (Brexit and the referendum on Italian constitutional reform). For 2017 and 2018 similar rates of growth are expected (1.6% in both years), above potential growth, supported by very relaxed monetary conditions, a devalued euro and non-restrictive fiscal policies. The factors geared against stability are oil prices (slightly higher than expected) and the political risks affecting many countries in the region. Inflation should in theory remain below the target of 2% over both years, although it will reach a peak at the start of this year, close to this value owing to base effects and energy price increases, before subsequently marginally reverting. The key, in this sense, will be to observe how underlying inflation develops, being currently stable below 1%, and which should approach rates above 1.5% at the end of the forecast period.

Emerging economies: the management of weaknesses will have a decisive impact due to domestic and external factors

In Turkey, inflationary pressures have increased due to the depreciation of the Lira, which may trigger a harsher monetary policy in 2017 in a context of lower than expected growth, around 2.5% in 2016 and 2017, before recovering some traction in 2018. In Mexico, the economy moderated its growth by just over 2% in 2016 and this could drop further to 1% in 2017 owing to the uncertainty relating to trade measures which the US may adopt, along with a hardening of monetary policy to anchor inflation forecasts. For 2018, it is estimated that the growth in GDP will once gain increase by around 2%. For Latin America as a while, the GDP may have contracted by more than 2% in 2016, although it ought to recover and increase slightly by around 1% in 2017, thanks to a greater contribution of the external sector, the end of the downturn in Brazil, private investment in Argentina and plans for public investment in countries such as Colombia.

3. U.S. Economic Outlook

Disentangling Economic optimism and uncertainty

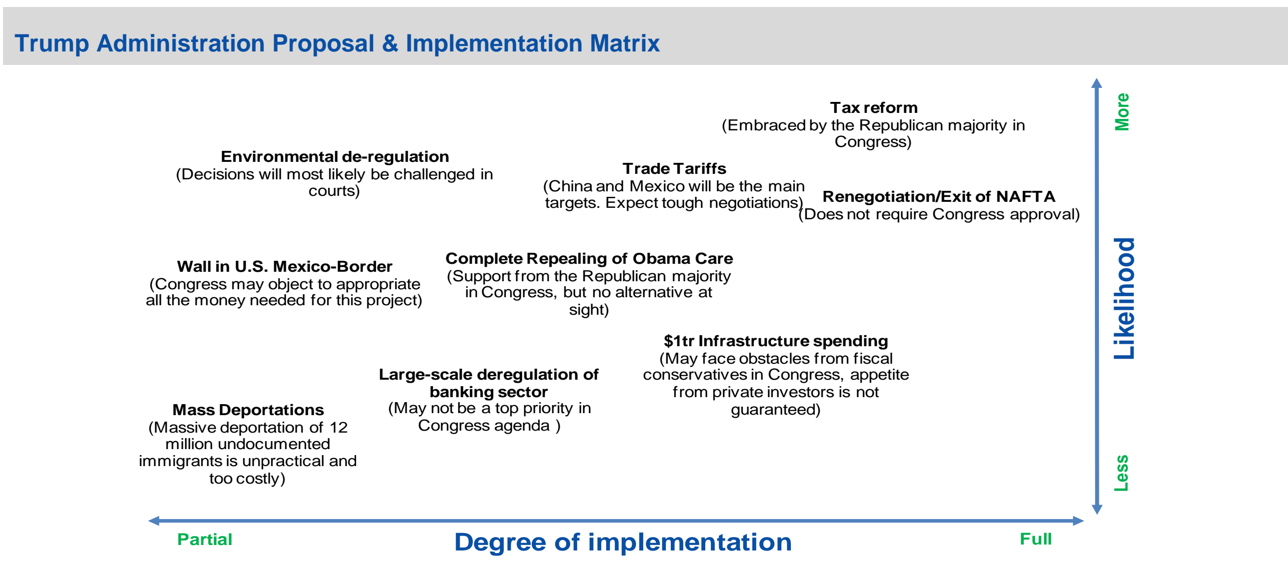
After the reset following the presidential election, we have revised our economic outlook to the upside. This assumes that the new administration will be able to generate enough positive effects from fiscal stimulus, deregulation and infrastructure spending to offset the negative impact from protectionism and isolationism. As a result, we expect higher real GDP growth, inflation and interest rates, along with a stronger dollar, relative to our previous baseline. Nonetheless, the risks remain high given the uncertainties on the effectiveness of the fiscal stimulus and the degree of protectionism.

Taking the campaign promises at face value, if the economic agenda focuses on corporate tax reform, cutting individual income tax rates, boosting infrastructure spending and easing the regulatory burden on businesses, the growth rate of the economy would be stronger than in the past few years. However, there are negative risks from a protectionist foreign trade strategy. Furthermore, there has been no major softening of rhetoric with respect to immigration and unwinding the Affordable Care Act (ACA), which if done haphazardly, could add headwinds to any pro-growth economic agenda.

U.S. economy could be stronger with administration's policies

Figure 3.1

Trump Administration Proposal & Implementation Matrix



Source: BBVA Research

Although the GOP would prefer to pass permanent comprehensive tax reform, they are short of the 60 votes in the Senate necessary to avoid filibuster and thus will likely focus on a less ambitious agenda. There is a chance that the GOP could convince enough Democrats to vote for changes to the corporate tax code given the broad

consensus that reform is needed. However, it seems that reconciliation, which only requires a simple majority in the Senate, is the most likely option. There are many drawbacks to using reconciliation, but the most pressing is the fact that the process can only be used once per fiscal year. Currently, the GOP-controlled congress is focusing on repealing the ACA through reconciliation; if this includes any adjustments to the taxes or revenues associated with the act, the first chance for tax reform would be fiscal year 2018.

On top of the legislative uncertainty, there has been little agreement within the party and the White House on the size, mix, strategy and magnitude of the fiscal stimulus. Under an optimistic scenario, the fiscal stimulus would increase consumption, investment and employment in the short-run without generating significant inflationary pressures, boosting potential output by making the economy more efficient over the long-run. In a less upbeat scenario, the fiscal stimulus would generate inflationary pressures and increase interest rates, the deficit and the debt without altering the path of long-term growth.

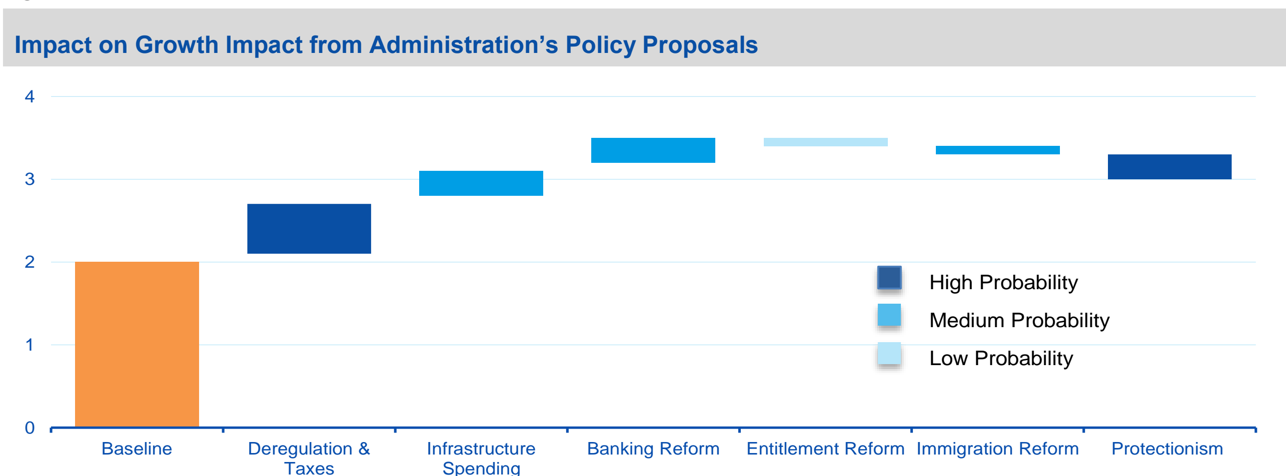
Size, mix, strategy and magnitude of fiscal stimulus key

While there is empirical evidence that infrastructure spending can have a high positive effect on economic growth, it is not clear how much appetite there is from the private sector, how it will be paid for or how long it will take to implement these projects. Lastly, although deregulation always has strong appeal as a tool to boost business activity and improve market efficiency, the effectiveness of the policies and the extent of the strategies are unclear.

To a large degree, the impact of fiscal stimulus depends on two key issues: the effectiveness of the measures and the cyclical position of the economy. For example, tax cuts benefiting high income earners with a low propensity to spend or tax cuts that increase savings because of higher expected taxes will have a lower impact on growth. Meanwhile, if the amount of slack remaining in the economy is small, the fiscal stimulus will translate into higher inflation and interest rates, which will also limit growth and investment.

Figure 3.2

Impact on Growth Impact from Administration's Policy Proposals



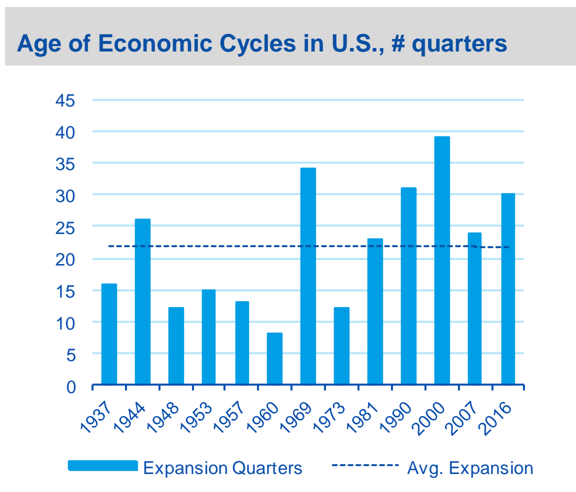
Source: BBVA Research

These concerns should not be taken lightly. First, the economy has been in expansion for over seven years, and labor market indicators suggest that the economy is at or near full employment. Therefore, fiscal expansion with modest slack remaining could increase inflation and inflation expectations, resulting in no real wage gains and

higher interest rates. Second, current policy proposals, which imply lower fiscal revenues and little to no reductions in government spending, would be largely pro-cyclical and could result in higher deficits. Given the already high ratios of public debt to GDP, increased concerns on fiscal sustainability could also lift interest rates and reduce business confidence. Third, even if there is some success from the new policies in generating greater real growth, higher interest rate differentials could result in a stronger demand for U.S. dollars. This in turn would strengthen the value of the currency, reduce the level of exports and weaken profits, employment and investment.

Figure 3.3

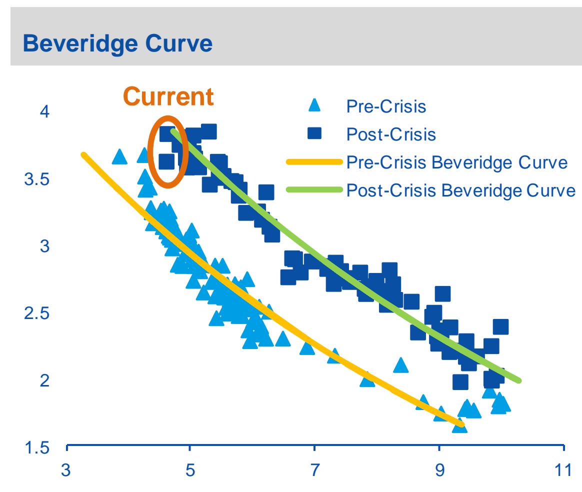
Age of Economic Cycles in U.S., # quarters



Source: BBVA Research & BEA

Figure 3.4

Beveridge Curve



Source: BBVA Research & BLS

Although there are some indications that slack remains in the labor market, rising wage pressures and tighter labor market conditions suggest that significant labor underutilization is narrowing. Moreover, if the labor market continues to add jobs at a pace of 175K-200K and the amount of job growth needed to absorb new entrants is ~100K, then the additional 750K-1.2M individuals still looking for work could be employed by 1Q18. Reaching this level would be consistent with historically low unemployment.

Nevertheless, there are major components of this scenario that carry a great deal of uncertainty as to when and how they will be implemented. In what follows, we present our economic scenarios for the administration's first four years, our expectations for fiscal policy and trade, the winners and losers at an industry level and perspectives on the regulatory environment for the financial sector.

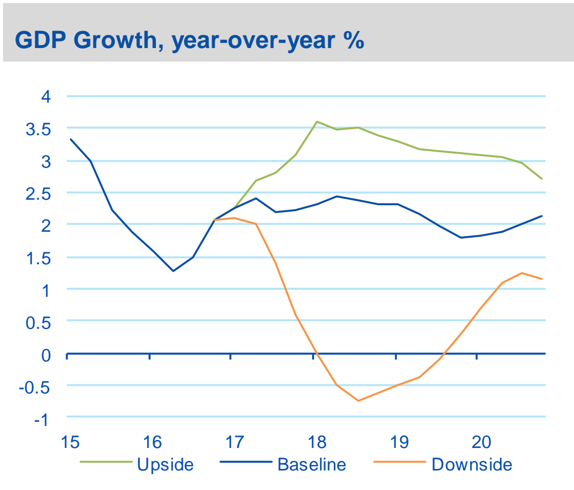
U.S. macroeconomic scenarios

We believe that there are three scenarios with a nontrivial likelihood of occurring. In the base case, we assume that Trump is successful in boosting business expectations, encouraging greater labor market participation through higher effective wages and incentives to work, lowering regulations for the mining and banking sectors and encouraging infrastructure investments albeit at a lesser magnitude than current proposals. All things being equal, the base case also assumes that the administration faces headwinds from tighter monetary policy, a stronger dollar and an aging business cycle. In the upside scenario, the impact from tighter monetary policy is minimal and the relative value of the dollar stabilizes, which in combination with a significant expansionary fiscal agenda, pushes growth and inflation above current long-run equilibrium levels. In regards to downside, we

assume that protectionist, isolationist and xenophobic tendencies dominate the administration's platform, eroding business and consumer confidence, while fiscal policy is ineffective at stimulating the economy, leading to widening deficits and growing debt.

Figure 3.5

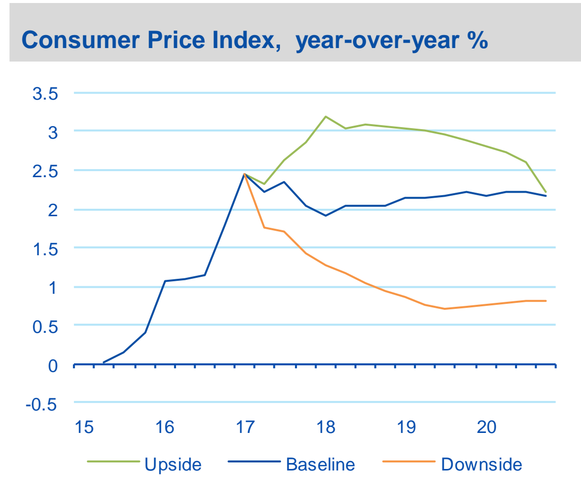
GDP Growth, year-over-year %



Source: BBVA Research

Figure 3.6

Consumer Price Index, year-over-year %



Source: BBVA Research

Baseline: Given the position of the U.S. in the current economic cycle, the fact that monetary policy is becoming less accommodative and the bias of current tax proposals towards high income earners with very limited marginal propensity to consume, we assume only moderate improvements to the growth outlook. In addition, expectations of higher deficits (and hence future tax increases) boost savings and offset other tailwinds to private investment.

In terms of the specifics, we expect public investment in infrastructure to be $250bn-$750bn over ten years. With the economy near capacity and rates rising, the overall impact is substantially less than in a period where economic conditions are more austere. However, deregulation contributes positively to growth in this scenario, although the scope currently discussed by the administration is not achieved and thus the impact is localized in sectors such as defense, energy and manufacturing, leading to only moderate gains in efficiency. Although the rhetoric may be significant, procedural frictions and legal challenges limit sweeping immigration reform and deportations to levels consistent with the Obama administration (2-3M).

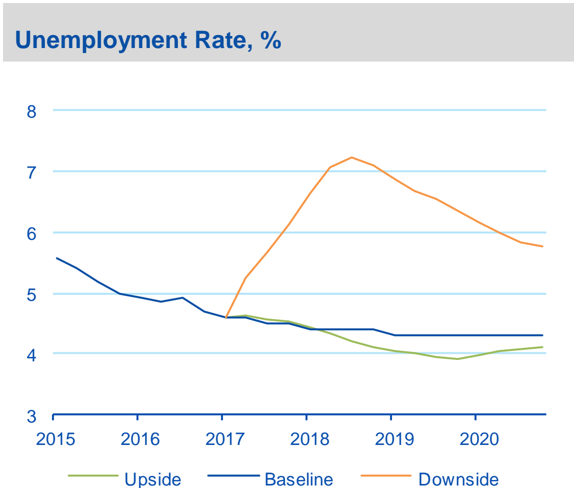
These policies should be sufficient to maintain the current trends in the labor market, as our forecasts assume that job growth continues to trend at a pace consistent with the 2H16, of around 175K. While below previous cycles, this rate is in line with a tightening of the labor market and slower growth in the labor force, which is assumed to trend to a pace of around 100K per month. These labor market dynamics imply an UR of 4.4% by year-end 2018.

U.S. economy to grow 2.3% in 2017, up from 1.6% in 2016

In terms of growth, higher business confidence and moderate fiscal stimulus boost real GDP growth to 2.3% in 2017 and 2.4% in 2018. Tight labor market conditions and pressures from rising commodity and house prices push inflation above 2% in this scenario.

Figure 3.7

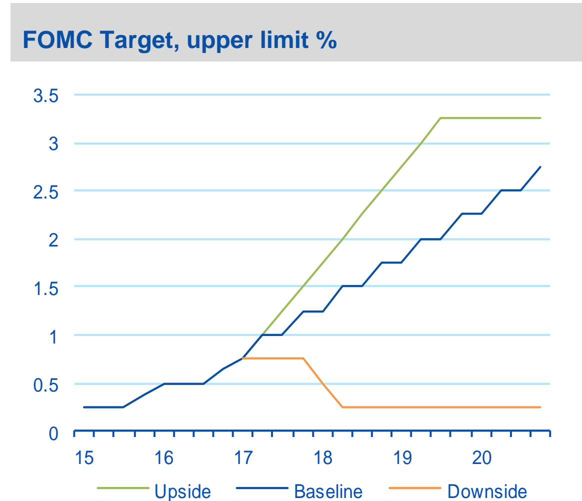
Unemployment Rate, %



Source: BBVA Research

Figure 3.8

FOMC Target, upper limit %



Source: BBVA Research

Upside: Given the pro-growth tilt of the administration, there is the potential that lower policy uncertainty boosts business confidence and reignites private investment, increasing productivity and potential output. In this case, we believe growth is higher in the medium-run. A focus on impactful fiscal stimulus, major deregulation and entitlement reform and a departure from the campaign rhetoric on protectionism and immigration lead to average growth in excess of 3%, which would be the highest in two decades. Leverage also plays a role in this scenario, as regulations for the financial sector are relaxed at a time when capital positions are strong and the desire to lend to profitable segments is high.

Further, efforts to bring back workers that left the labor force in the post-crisis period are successful due to stronger incentives to work from higher wages and greater labor demand. This pushes the UR to 3.9% in 2019, which is consistent with the lows of the 1990s. Given that flows into the labor force are structural in nature, we don’t expect to see runaway inflation in the short-run as a result of UR trending well below levels consistent with higher inflation. Nevertheless, the limited slack in the labor market, stronger demand and rising inflation expectations push inflation above 3%.

Downside: In this scenario, the economic policies implemented by the administration have a protectionist slant, while the effects from the fiscal stimulus and deregulation are very low given a complicated global environment and aging business cycle. Tax cuts have minor effects on consumption, while spending plans are marred by inefficiencies and wasteful spending, and infrastructure spending is minimal due to lack of participation of the private sector.

In addition, regulation is unsuccessful with a bias towards the least productive sectors, while protectionism and isolationism manifest themselves in the most damaging way, with mass deportations and tit-for-tat tariffs between China and Mexico. Global risk aversion, a cascade of protectionism and loss of confidence underlie a major slowdown in global trade and growth.

In downside scenario U.S. enters recession in 2H17

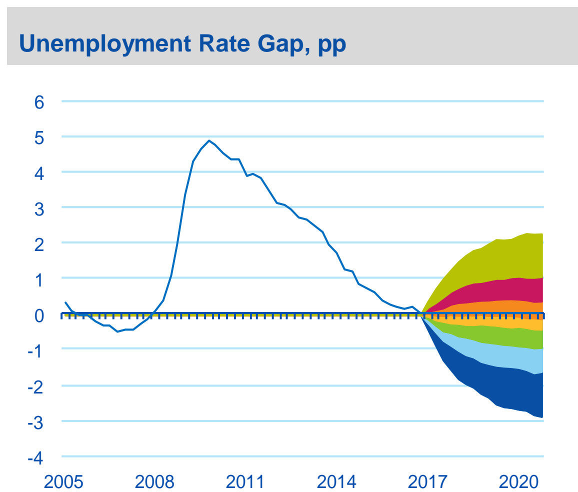
With this mind, the U.S. enters a recessionary environment in late 2017 and 2018. Disinflationary conditions prevail as demand-side pressures offset the impact of higher tariffs and a contraction in the labor force. Against this background, a "U-turn" in financial markets should be expected, as the combination of a weaker economic outlook and disinflationary pressures would exert renewed downward pressure on the U.S. yield curve and equity markets. In this scenario, the UR rises to 7.2%, and inflation dips below 1% through 2020. The adverse conditions result in average annual growth for the first four years of the Trump administration of 0.5%.

Current agenda to test FOMC's patience

In an environment that will likely be categorized by the Fed as having balanced risks and elevated uncertainty, the Federal Reserve will remain cautious until they observe any real risks to their inflation outlook or any major undershooting of the UR target. Thus, we expect the FOMC to continue to normalize monetary policy at a pace of two 25bp rate increases a year. Obviously, the Fed may increase rates at a faster pace if inflation pressures build, the labor market tightens faster than anticipated or the committee is convinced that the equilibrium real interest rate is well above zero percent.

Figure 3.9

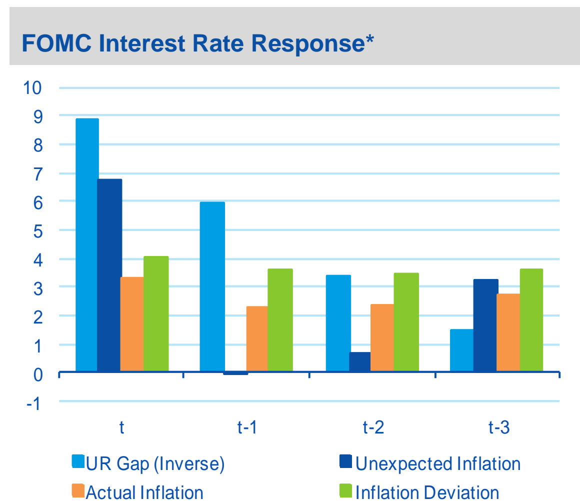
Unemployment Rate Gap, pp



Source: BBVA Research, CBO & BLS

Figure 3.10

FOMC Interest Rate Response*



Source: BBVA Research, CBO, BLS & Haver Analytics
*Orthogonalized IRF

Conversely, the Fed may also decide to postpone or delay future rate increases if downside risks intensify or if they perceive that their own strategy could be detrimental to their mandate. For example, major disruptions in the global economy or clear evidence that the equilibrium real interest rate is not moving up would lead to a slower-paced or delayed policy normalization. In addition, it is important to highlight that, despite fundamentals pointing to a clear course of action, there is a major source of uncertainty for the Fed with respect to the appointments of the three vacant governors' seats and the possibility of a new FOMC chair in 2018. These appointments could tilt the hawk/dove balance dramatically.

However, any future changes to the target rate will depend on the estimates of the equilibrium level of the real interest rate. For now, the consensus view is that such level is close to zero, and thus, a policy of raising interest rates has to be implemented gradually to avoid the risk of tightening policy too much too fast.

Fed long-term interest rate level reaches 3.25% in optimistic case

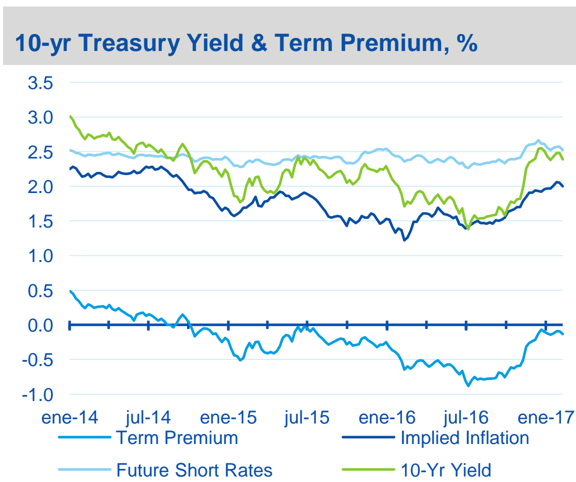
In the upside scenario, which is characterized by an increase in potential, there is likely be some upward pressure on equilibrium real interest rates. This, and our expectations for a pickup in inflation, underlie a faster tightening cycle to a higher long-term level of 3.25%. In the downside scenario with disinflationary pressures, lower potential GDP and weak demand, the Fed lowers rates back to the zero lower bound. Additional accommodation in the form of unconventional monetary policy intervention such as quantitative easing, forward guidance and possibly negative nominal interest rates could be implemented given how low equilibrium interest rates are and the proximity to the zero lower bound.

Yield curve: onward and upward

In spite of the uncertainties, our outlook for the yield curve remains firmly tilted to the upside. To a large degree, this reflects that downside risks to inflation have diminished significantly. Coupled with the fact that risk appetite is increasing and inflation expectations are likely to move up, we expect the yield curve to steepen.

Figure 3.11

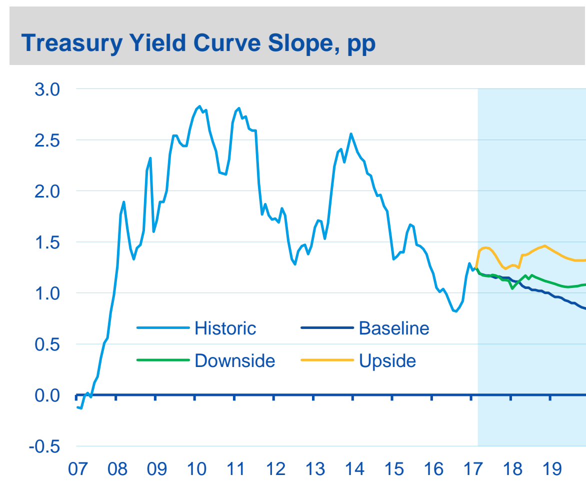
10-yr Treasury Yield & Term Premium, %



Source: BBVA Research, Bloomberg, FRB & FRBNY

Figure 3.12

Treasury Yield Curve Slope, pp



Source: BBVA Research

The baseline yield scenario maintains a moderate rate increase in the short-to-mid-term and higher long-term rates in line with U.S. macroeconomic assumptions on growth, inflation and policy rate path, accounting for changes in the Fed funds rate trajectory. The ongoing slow correction in inflation expectations and term premium towards historic averages are not considered to be transitory and imply higher treasury yields in the absence of market disruptions and outside shocks.

While we do not rule out periods of massive selloffs, we believe that these are likely to be transitory bursts of confidence. In other words, yields will exhibit high volatility with a moderate upward trend. If inflation is higher

than expected and the Fed pursues a more aggressive policy, the increase in yields will be higher. However, yields could also remain relatively low if growth and inflation remain at current levels and the Fed delays future rate increases or if there are negative market surprises. In sum, our baseline scenario expects long-term yields to edge up, albeit at a slower pace than short-term rates, which implies a steepening pace much slower than in other expansion cycles.

The downside scenario also incorporates the return to risk-off sentiment due to possible global disruptions (hard Brexit, unfavorable election outcomes, etc.). In the upside scenario, domestic market attributes, such as a faster rise in inflation expectations and term premium, are considered.

Free trade or fair trade?

As a great admirer of Ronald Reagan, Trump borrows heavily from the conservative icon's trade policies. Despite being a cheerleader of the "free market," Reagan's vision on international trade was not unambiguous: he stressed that "fair trade" was as important as "free trade." Early indications are that Trump will stay true to his campaign promises, suggesting that a 45% tariff on Chinese imports and a 35% tariff on Mexican imports are probable. As goods and services from China and Mexico account for 30% of total U.S. imports, our estimate suggests that core inflation will go up by 1.8pp under incomplete import prices pass-through. When implemented, all things being equal, we expect the tariffs alone could reduce real output by 1.3pp in the first year.

An alternative to select tariffs is the GOP (Brady-Ryan) proposal for corporate reform which is underpinned by a cash flow-based border-adjustment tax (BAT) plan. The basis for this tax is not protectionist, as it is assumed that, while the design is similar to an implicit tariff, the border-adjustment should not distort trade flows given that the tax is symmetric with respect to imports and exports and that the import tax is fully compensated by appreciation in the exchange rate. In other words, importers will be no worse off because a 20% tax on imports would be offset by a 20% decrease in the cost of imported goods. The nature of foreign exchange markets and the likelihood that other countries could try to offset or mitigate these effects suggest that the theoretical underpinnings may not be borne out. In fact, William Dudley, the President of the New York Fed, alluded to the possibility of many "unintended consequences."

How the exchange rate responds is highly uncertain. Trump has complained that the strong dollar is "killing us." However, Trump's efforts to bring more foreign investment to the U.S. will add pressure on the appreciation of the dollar. In our estimation, a sudden 10% appreciation of USD can lower the net exports to GDP ratio by 1% in three years. That is, we may expect a higher current account deficit if Trump successfully attracts more foreign investment. On the other hand, the strength of the USD is also correlated to the current account deficit, and thus, if the current account trajectory is perceived by markets to be unsustainable, the exchange rate would depreciate. Notwithstanding any major policy interventions, it appears that any explicit exchange rate policy is unlikely, as focusing too narrowly on the trade deficit could bring unintended consequences to the economy.

A sudden 10% appreciation of USD can lower net exports by 1%

Fiscal: To stimulate or not to stimulate

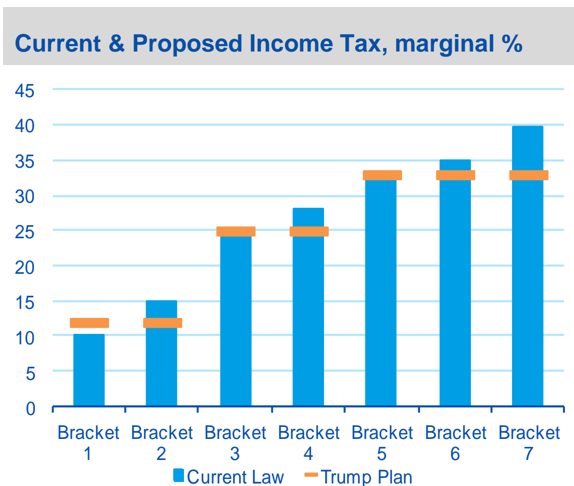
Trump's promise of fiscal stimulus has included both tax cuts and infrastructure spending. On tax, his current proposals are similar to the GOP's plan (Ryan-Brady) presented in mid-2016, which seeks to broaden the tax base and lower the marginal rates by collapsing the number of brackets in exchange for the elimination of a majority of the current deductions. On corporate taxes, Trump seeks to lower the average rate of corporate taxes to 15%, whereas the GOP has promoted a 20% rate that will be assessed on a cash flow basis and include a border-adjustment. Since the election, the topic of infrastructure investment has received little attention from the Trump administration, but if implemented, it will likely be a combination of tax credits and public-private partnerships (PPPs) so that the impact is budget-neutral.

The economic impact of fiscal stimulus has a twofold effect on short-term and long-term growth — a direct positive effect on investment and consumption and an indirect negative effect through rising public debt. This leads to a wide range of outcomes. Multiplier estimates range from 0.4 to 3.6 for the first year, 0.2 to 2.3 for the second year and smaller in later years. It is not obvious whether tax policy can have a permanent effect on economic choices in the long-run, as Trump's tax policy adds around 2.5% annually to the national debt to GDP ratio, which, in expectation of higher future taxes, would reduce the incentives to work, save and invest and increase the proportion of savings devoted to debt repayment which would crowd-out private investment.

> Multipliers from Trump stimulus could be 0.4-3.6 in first year

Figure 3.13

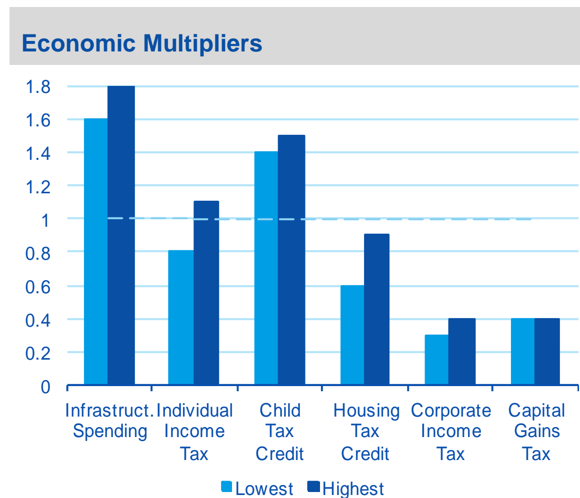
Current & Proposed Income Tax, marginal %



Source: BBVA Research & TPC

Figure 3.14

Economic Multipliers



Source: BBVA Research & CBO

Economic impact of tax cuts: U.S. tax reform is long overdue according to many economists, since the tax code is complex and contains many loopholes. While any tax reduction will reduce total government revenue, all things equal, tax cuts can be partially self-financed through an increase in the taxable base and growth. Estimates of the effect of increasing the taxable base suggest that the lost tax revenue effect can be lessened by 25-50% within a stable monetary policy environment. Simulations of different simplified tax policies have shown that the long-run effects on aggregate growth are consistently positive, while in the short-term, there will be

groups that have to bear the burden. The positive economic impact is much lower when income tax reforms incorporate adjustments or transitional relief mechanisms to minimize the adverse distributional effects.

The short-term cuts to the individual income tax, in combination with changes to deductions and additional child care, should serve to boost GDP growth. The rise in households' take-home pay should result in additional consumption expenditures and greater economic activity. However, this economic impact would be weak, as most tax reductions would accrue to high income households, whose expenditures, relative to lower income ones, are less sensitive to the increase in income. The estimated multiplier ranges are wide, and the effect is highest in the first year, with an average short-term annual impact between 0.8% and 2.6%.

Moreover, Trump's plan would have a lasting positive effect on potential output growth by increasing the labor force participation rate. The tax reform would attract back into the labor market those individuals who have chosen to leave the labor force but are sensitive to changes in after-tax wages. It has been shown that, for both men and women who are not in the labor force and who are not the sole earners in the family, employment decisions are sensitive to an increase in income and child care reimbursement incentives. However, child care expense incentives will not affect low income families who would struggle to pay upfront and be reimbursed later.

In terms of corporate tax reform, the U.S. effective corporate tax rate is 35% — the highest among the developed nations. Many foreign countries have already undergone a cut in corporate taxes driven by the globalization of capital mobility. This has led to competition among countries to attract capital and has put downward pressure on corporate income tax rates. Nevertheless, the European Commission and the OECD have considered such a "race to the bottom" competition in corporate taxes to be harmful, with the potential to restrain government activity due to loss of revenue.

In the short-run, a decrease in the corporate tax rate can impact not only business at large but also households, altering the incentives to save and invest. Trump's plan would initially increase investment and boost GDP growth above its potential level. However, the plan will also substantially increase the budget deficit, yielding tighter monetary policy and higher interest rates, which would eventually crowd-out investment and decrease GDP growth to its potential level. On average, the annual multiplier for a 1% decrease in the corporate tax rate is much lower — 0.3% to 0.4% — compared to the multiplier for individual income tax cuts.

Major challenge to corporate tax reform will be gap between realized and statutory gains

One major challenge to corporate tax reform is the gap between the realized gains in the corporate sector and the statutory reductions. For instance, some estimates for the current effective corporate tax rate are as low as 23%, so a cut to 20% might not offer enough of an incentive to alter a firm's decision making. Similarly, the incentives for firms that receive a significant portion of their income from abroad may be less attractive given that supporting a repatriation tax of between 5-10% and a higher effective tax rate would reduce profitability. In the end, while there is broad agreement that corporate tax reform is needed, it seems there is a growing divide between the White House, Congress and within the private sector on what is the optimal policy.

However, if Trump's plan to reduce corporate income tax incentivizes multinational corporations to retain profits domestically and invest, reduces complexity and discourages firms from exploiting tax loopholes, there could be considerable long-term benefits. Overall, the reduction in the corporate tax rate will enable the economy to

compete for profitable projects that generate higher welfare and more social benefits and are more mobile. Nevertheless, the overall success of the corporate tax reform also depends on related complementary factors, such as unobstructed capital flows and political stability.

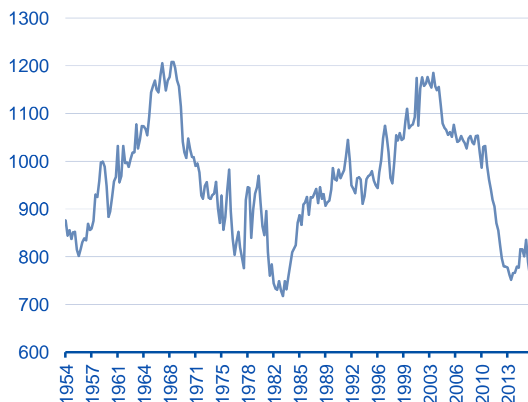
Economic impact of infrastructure spending: There is wide belief that rebuilding U.S. infrastructure is vital for long-term growth and that the highest economic returns come from infrastructure investment. While evidence suggests that there is a large infrastructure gap, it is unclear how large the infrastructure deficit is, what the level of appetite from the private sector is, what the financing sources behind these projects will be and if the investment will be directed towards high value-added projects. In addition, the magnitude of the impact will depend on the slack in the economy and monetary policy.

In fact, the fiscal multiplier of each new one billion dollars of across-the-board infrastructure spending focusing on transportation and utilities investments can be as high as 1.6 and can create up to 1,200 jobs. The long-run macroeconomic effect of infrastructure spending depends on whether there is a plan to continue these expenditures for an extended period. For example, extending the period of spending to include an additional quarter of a trillion dollars yields a 0.3% acceleration in productivity and thus higher potential GDP growth rates and lower NAIRU.

The impact on economic activity is positive if financing does not decrease take-home pay including transfer payments (food stamps, unemployment insurance) and aid to states. However, raising revenue through higher taxes on businesses or any other means will shrink the short-term economic impact. The overall impact of infrastructure spending would also be lower if the economy is operating near full capacity and slack in the labor market is low. In this case, infrastructure investment could put upward pressure on wages and inflation, generally prompting a faster pace of monetary policy tightening, which increases borrowing costs and reduces private investment.

Figure 3.15

Per Capita Public Investment in Structures, $Constant



Source: BBVA Research, BEA & Haver Analytics

Figure 3.16

Private Investment in Structures, % of GDP

Source: BBVA Research, BEA & Haver Analytics

It is even harder to measure the net economic impact of Trump's intent to carry out PPPs and to partially finance infrastructure spending by means of tax breaks to private investors who want to finance the projects. Since

developers will seek projects that can generate revenue, the projects that get executed would be new construction (for example, toll roads and toll bridges) rather than those involving repairs to existing infrastructure, which have been illustrated to carry a higher spending multiplier.

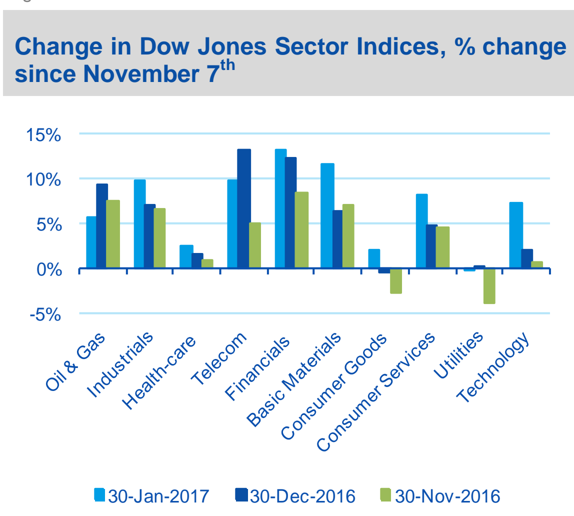
Additionally, the domestic and international evidence of the benefits and efficiency of PPPs is mixed. The major criticism to PPPs arises from the fact that infrastructure projects are complex and interdependent; thus, poor contract designs and optimistic revenue assumptions can carry sizable fiscal costs. There have been 36 privately financed road projects started in the U.S. over the last 25 years, of which 14 have been completed, one has required a public buyout, three have declared bankruptcy and the remaining 18 are still in the construction stage. As a result, any impact from nontraditional public infrastructure will take time.

Industries: Who holds the winning hand?

In terms of the winners, construction-related industries such as building materials, machinery, primary metals, architecture, engineering and related services stand to benefit from increased infrastructure spending. Deregulation in the energy sector and the opening of federal lands and waters could boost investments in oil and gas exploration. The new administration is also supportive of mega-pipelines and drilling projects that were rejected by the Obama administration. The coal industry will be relieved from stricter regulations on CO2 emissions; however, it will still struggle to compete with natural gas. Likewise, export-oriented policies could have a positive impact on sectors that are net exporters such as civilian aircraft, petroleum products, testing instruments, plastic materials and some basic commodities like soybeans, corn, wheat, natural gas and aluminum. Meanwhile, greater emphasis on law and order and national defense would benefit security equipment, criminal justice and other defense-related sectors.

Figure 3.17

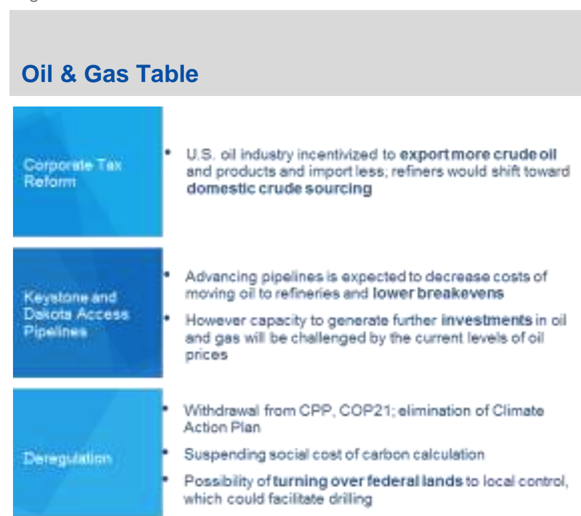
Change in Dow Jones Sector Indices, % change since November 7th



Source: BBVA Research, Dow Jones & Bloomberg

Figure 3.18

Oil & Gas Table



Source: BBVA Research

In contrast, the potential elimination of the Clean Power Plan and the fiscal incentives that supported wind and solar will put a break on the expansion of renewable energy projects in the country, creating downside risks for

alternative energy sectors. In addition, the repeal of the Affordable Care Act would increase the number of uninsured, reducing the demand for healthcare and increasing the risk pool. This could affect profitability for some healthcare providers. However, big healthcare conglomerates, pharmaceuticals, medical equipment companies and insurance companies that face limited competition may be able to absorb these pressures.

Meanwhile, protectionist trade policies could disrupt global value chains in industries like autos, computers, pharmaceuticals, apparel, telecommunications and household appliances. These policies will also impact sectors heavily dependent on imported inputs like crude oil, steel and agricultural products. Likewise, more stringent immigration policies that lead to the massive deportation of undocumented workers could disrupt agriculture, retail trade, restaurants, construction and home services.

4. Banking Outlook

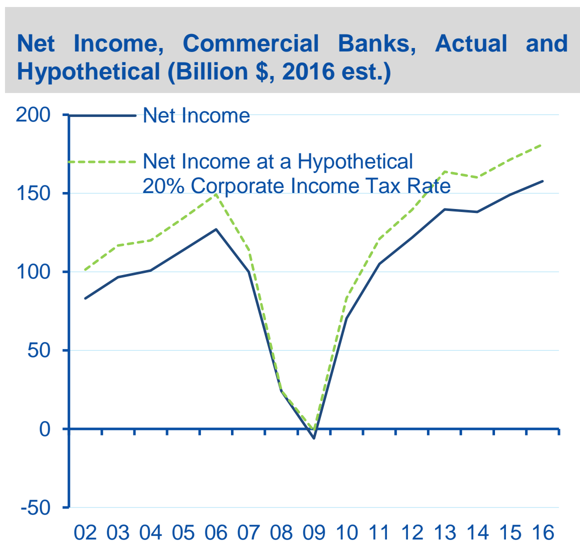
Banking on Trumponomics

For banking, the outlook is tilted to the upside. First, it is unlikely that there will be newer or tougher regulations in the pipeline. Second, there are soft indicators that the new administration will take a more lenient stance when it comes to rulemaking, regulations and enforcement. However, undoing banking regulation is not a priority for Congress or the White House. Third, the industry stands to benefit significantly from any lower corporate tax rates, as effective corporate tax rates for banks are generally higher than for other large corporations. In fact, a move to a 20% corporate tax rate could boost bank's net income by $25.9 billion in 2018.

> A 20% corporate tax rate could boost bank's net income by $25.9B in 2018

Figure 4.1

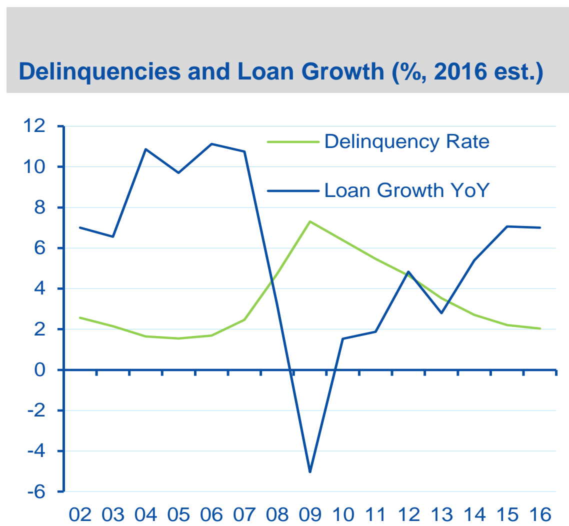
Net Income, Commercial Banks, Actual and Hypothetical (Billion $, 2016 est.)



Source: BBVA Research Calculations and FDIC

Figure 4.2

Delinquencies and Loan Growth (%, 2016 est.)



Source: BBVA Research, FDIC & Federal Reserve

In terms of retail banking, we expect consumer loans to increase at an average rate of 6.1% in 2017, compared to an estimated 6.5% in 2016, reflecting strong job growth and higher real incomes, but also tightening of lending standards, especially for auto loans. Although consumer optimism has increased after the election, the increase is unlikely to lead to significantly higher consumption or leverage. Despite strong consumer fundamentals, residential real estate loans are expected to slow to an average rate of 2.1% in 2017, compared to an estimated 3.7% in 2016, primarily due to lower refinancing rates. In the upside scenario that assumes large individual income tax reductions, supply-side reforms and deregulation both loan categories are likely to increase at a faster rate. That being said, in the downside risk scenario, increased protectionism, xenophobia, risk aversion, a

slowing economy and rising unemployment could pare loan growth and increase credit risks, leading to a rise in delinquencies.

On the commercial side, commercial and industrial loans are expected to grow at a similar pace to 2016 at around at 7.9%. Stronger growth in the energy sector and greater risk appetite could lead to even higher loan growth. For commercial real estate loans (including multifamily loans), headwinds from tighter lending standards will slow the pace of loan growth to 7.5%, which is lower than in the last two years (8.1% in 2015 and estimated 9.3% in 2016). Under the upside scenario, both loan categories are likely to increase at a faster rate as deregulation and stronger macroeconomic conditions support greater investment and leverage. Like consumer and mortgage portfolios, most of the effects from any deterioration in economic conditions and credit quality will likely be felt after 2017.

Ultimately, the outlook for banking will depend on the pace of real GDP growth, inflation, and interest rates. If demand for credit grows faster, the yield curve steepens and regulation eases, banks' profitability could improve at a faster pace. In an adverse scenario of prolonged low economic growth and low interest rates, loan demand will remain constrained while delinquency rates rise. This would produce weaker profits.

5. Regional Outlook

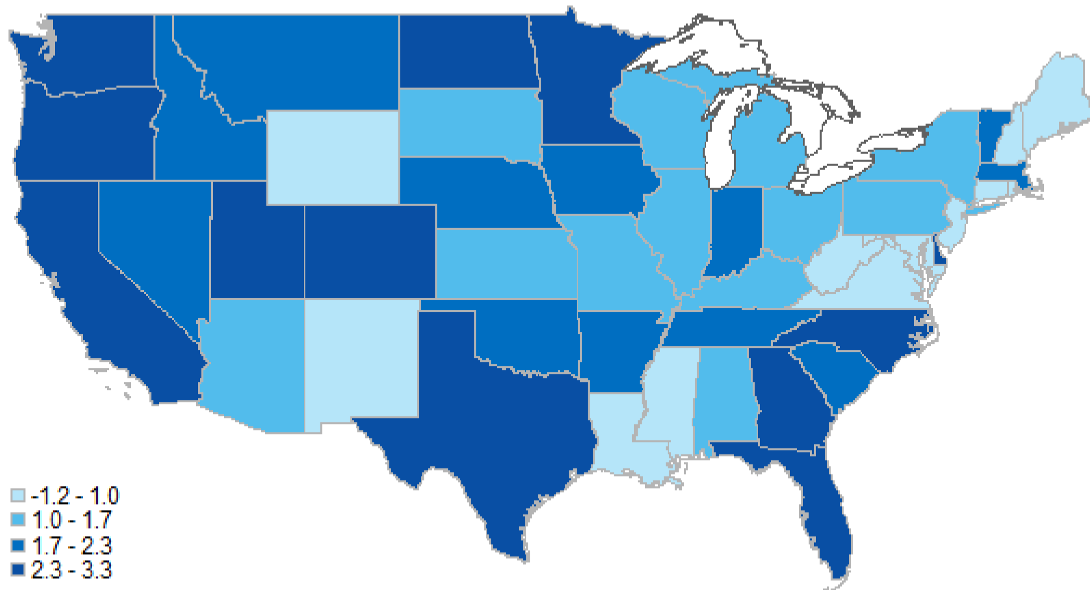
Incoming administration has potential to disrupt state growth balance

The outlook for the U.S. regional economies will to a large degree be determined by three key factors: the depth and duration of the current commodity cycle, the severity of pressures on foreign exchange rates and the extent to which weak global demand persists. The combination of the strong dollar and weak global trade produce inauspicious conditions for states with major links to the global economy while reduced capital expenditures in the mining sector will hit commodity intensive states. At the same time, lower energy prices and the strong dollar will continue to support growth in consumer based economies with high-skilled labor forces like California, Florida, Georgia and Washington.

With labor markets in a majority of states approaching conditions not seen since prior to the crisis and with headwinds abating, there is a chance that 2017 could be a departure from the commodity and consumer-industrial rebalancing of 2015-2016 and be a year of convergence. However, the probability and speed of the convergence will be influenced by the incoming administration's policies and its success at managing the legislative process. With this in mind, we also highlight both the upside and downside risk profiles of the 50 states.

Figure 5.1

2017-2018 Average State Real GDP Growth Projections, %



Source: BBVA Research

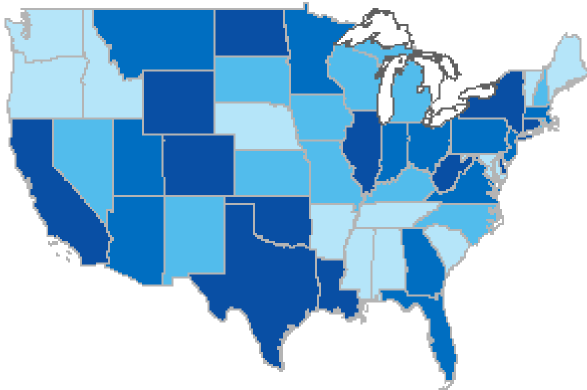
For most states, current economic conditions are the strongest in decades. However, with the change in administrations and the shift to a more conservative agenda, there is the potential for a reshuffling amongst states in terms of the winners and losers. In addition, there is a chance that the incoming administration's agenda produces countervailing winds with policies like tax cuts and deregulation supporting higher growth while policies geared towards protectionism and deportations detract from growth.

In terms of the business sector, conditions are firmly tilted to the upside given the current strength of the economy and the fact that there is a high probability that corporations will excel under the new administration. States that have large infrastructure deficits, heavy military presences and strong ties to the financial and oil sectors will see a boost to growth in the short-run. For commodity-rich states, the key challenges are securing stable and affordable sources of financing, convincing skilled workers to return to the industry and effectively managing a transition from projects with short life-cycles to more complex developments that require more time and resources. These states include Wyoming, Alaska, North Dakota and Colorado — all of which have large mining sectors and potential for higher investment and employment in the transportation and construction sectors.

Meanwhile, the states where defense spending represents a larger share of overall economic activity are likely to benefit the most from the new administration's plan of "peace through strength," which is aimed at rebuilding the military, include Virginia, Hawaii, Alaska and Alabama. A strategy focused on developing new missile defense capabilities, along with defensive and offensive cyber capabilities, would also benefit California, Washington, Texas, Missouri, Ohio and New York, among others.

Figure 5.2

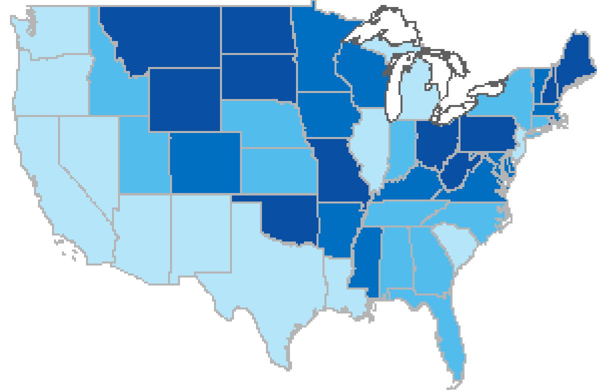
Exposure to Positive Growth Factors*



Source: BBVA Research
*Ranking based on exposure to winning industries and boost to disposable income from federal tax savings; darker shading indicates greater upside

Figure 5.3

Exposure to Negative Growth Factors*



Source: BBVA Research
*Ranking based on export exposure to China and Mexico and dependency on immigrant labor; darker shading indicates lower downside

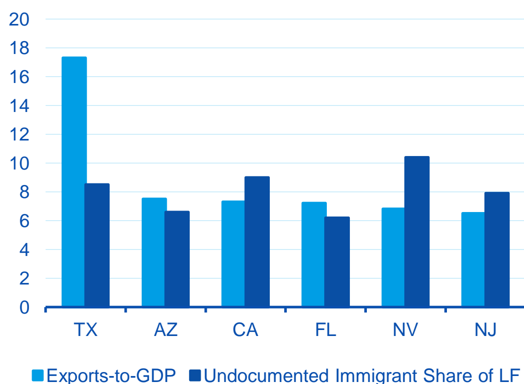
In addition, areas such as Delaware, Connecticut and New York, which have high concentrations of financial activities, should see a positive impact from the administration's policies aimed at generating a new leverage and investment cycle.

Tax cuts could boost annual disposable income by 0.4-0.5%

From the fiscal side, the impact at the state level could be significant, particularly for states with large per capita income and a large portion of income coming from wages. For example, in states with high tax burdens and high incomes, such as Connecticut, Massachusetts, New York and California, the tax cuts could boost annual disposable income by 0.4-0.5% or $400-$500 per worker, assuming a 3.5% reduction in the weighted-average marginal rate. Even in a more moderate scenario, the reduction in taxes would boost disposable income by $190 per year. To put this into perspective, the tax cuts could resemble the gains experienced from the 120 cent drop per gallon in gasoline prices during 2014-2016, which resulted in about a $600 annual boost to personal income. Ultimately, the magnitude of economic impact will depend largely on consumers' propensity to consume in that state, as the windfall gains from low energy prices were in large part diverted to savings rather than consumption. If the tax cuts are perceived as more permanent, the impact on consumption could be much larger.

Figure 5.4

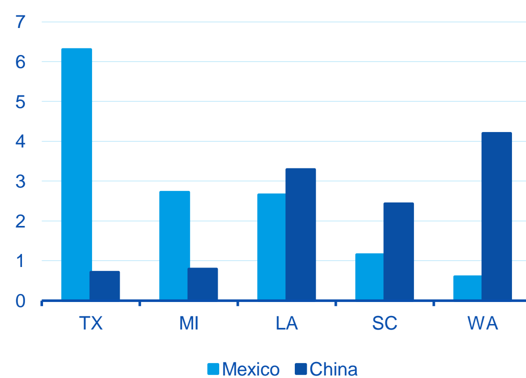
Immigrant Contribution to Labor Force and Export Dependency, % & share



Source: BBVA Research & Pew Research

Figure 5.5

Exports to Mexico & China, % of GDP



Source: BBVA Research & BEA

In terms of downside risks, the most problematic are mass deportations, along with increased protectionism and distortionary trade policy. Any large scale mass deportations would have immediate impact on labor supply, which could lead to shortages, wage pressures, hoarding and/or strong capital outflows. For states like California, Texas and Nevada, which have undocumented immigrant populations that make up around 10% of the labor force, the effects will be nontrivial. In terms of the direct impact, a large scale deportation in these states would lower the level of GDP by around 0.2pp. The direct impact may be seen as small in relative terms, given that undocumented occupations are lower-skilled and are generally substitutes for capital. However, acute or prolonged labor shortages could lead to substantial increases in food prices and services, particularly if incentives to work have to be sufficiently large enough to attract native workers, if it takes time to substitute away from labor to more capital intensive or automated production or if imports are needed to reduce shortages. In addition, an uptick in precautionary savings from fear of deportation could have significant second and third round effects.

Large scale deportation would lower the level of GDP by around 0.2pp

On exports, there is a similar risk that tariffs, border-adjustments or trade wars produce inflationary pressures, or in the worst case, lead to a reduction in trade flows for major exporting states. In an extreme scenario, states such as South Carolina, Kentucky and Michigan, for which exports make up approximately 15% of GDP, could see a large contraction in economic activity. This will obviously depend on the size, direction and industries impacted by the shock.

In a scenario skewed towards isolated or targeted protectionism directed at Mexico and China, the most acute impacts will occur in Louisiana, Texas and Washington, which export 5% to7% of their GDP to these countries combined. Nonetheless, given the lack of details on the new administration’s trade policy, it is still unclear what the magnitude of the impact will be. However, as the saying goes, everything is bigger in Texas, even the potential negative impact of protectionism and deportations.

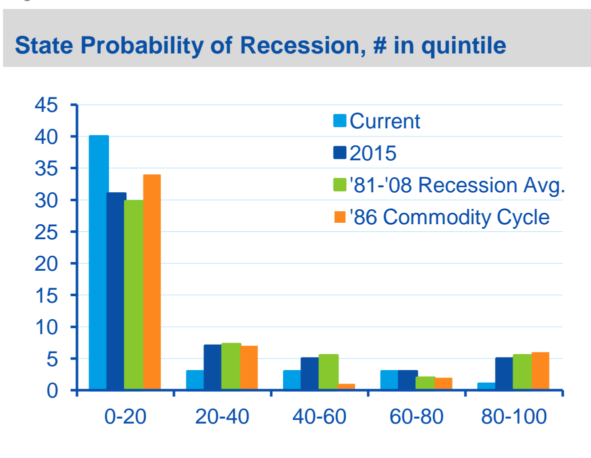
Fundamentals and rebalancing predominant factors in outlook

Given that there is a significant amount of uncertainty still tied to the magnitude, mixture, effectiveness and scope of the administration’s economic policies, we believe that secular and structural trends within each state will be the most important factors for growth over the medium-run given that legislation and implementation can take years.

Despite the recessionary conditions building in some major industrial areas, the bulk of the headwinds have diminished. In fact, for states with large exposures to the oil and gas and mining sectors, such as North Dakota, Wyoming, Alaska, Oklahoma and Louisiana, it appears that the worst of the commodity cycle is behind them. As of the 4Q16, these states had lost 60K jobs in the mining sector. However, the quick turnaround in commodity prices appears to have moderated the spillovers into other sectors.

Figure 5.6

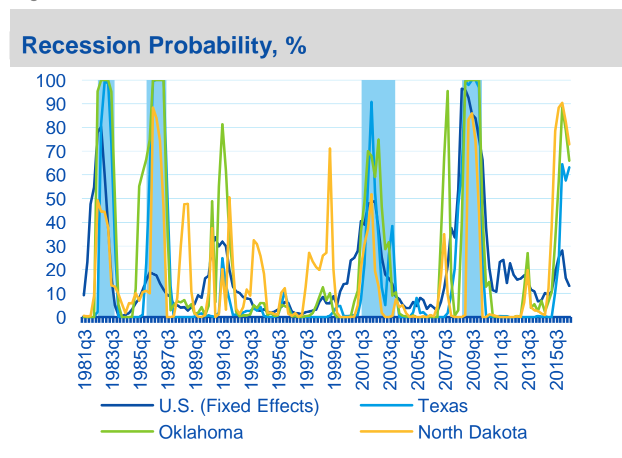
State Probability of Recession, # in quintile



Source: BBVA Research

Figure 5.7

Recession Probability, %



Source: BBVA Research

From a growth perspective, however, these states entered recession around the 1Q16 and remain in recession today, as anticipated. Although there is a risk that oil prices could fall below the current range of 50-60 $/bbl, stronger global growth and commitments from OPEC to pare production should keep prices close to their current levels. With this in mind, our baseline scenario is for these states, excluding Alaska and Wyoming, to grow positively in 2017, and for Alaska and Wyoming to return to positive growth in 2018.

For Texas, the story was nuanced. While its mining sector lost nearly 100K jobs since the end of 2014 and manufacturing employment shrank by 55K jobs due to reduced trade flows and direct impact from lower investment in the mining sector, overall job creation in Texas was positive. Albeit half the rate of growth prior to the oil slump, employment grew by 1.6% in Texas (in line with the U.S. average of 1.7%) while the unemployment rate remained effectively unchanged from the end of 2015.

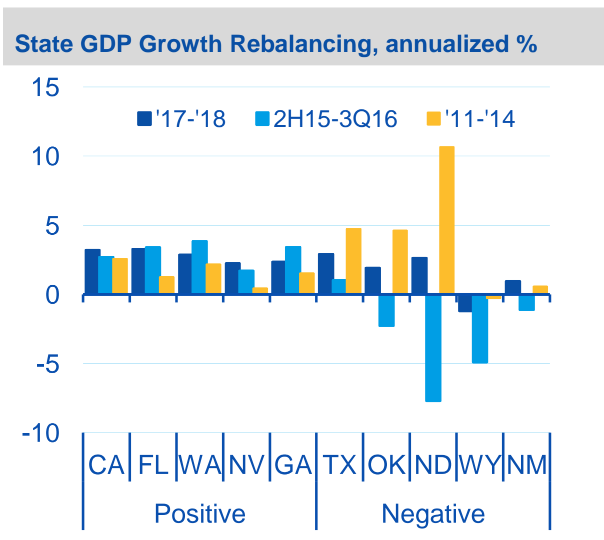
Industry and geographic diversity, along with the comparative advantage of major drilling basins, buoyed Texas's economy in the current slump and should support a bounce out of the current economic malaise in 2017. For instance, active rig counts — while still well below previous peaks — have trended up in the Permian basin and Eagle Ford, whereas in other major drilling areas, such as North Dakota, activity has stagnated. Historically, investment and drilling activity works at a 6 to 9 month lag with respect to prices, suggesting that the bulk of the benefits from the price gains will be realized in 2017. In addition, the non-oil-related major metro areas in Texas that left the commodity cycle unscathed should continue to grow at a pace well above the U.S. average, supporting consumption and investment outside of the energy sector. These factors support our baseline for 2.2% state-level growth in 2017 and 3.6% growth in 2018.

Texas growth will be 2.2% in 2017

Favorable demand-side conditions in regions and states on the winning side of domestic rebalancing will be reinforced by strengthening fundamentals. Consumers in these states are benefiting from stronger balance sheets, higher home prices and strengthening labor markets — trends that will continue in 2017. In fact, we expect growth to be above the U.S. average for states on the West Coast, such as California, Colorado, Washington, Colorado and Utah, and for the Southeastern U.S., in states such as Florida and Georgia.

Figure 5.8

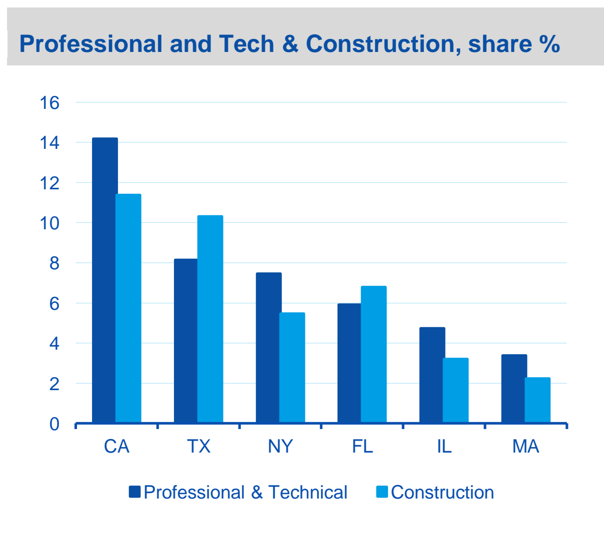
State GDP Growth Rebalancing, annualized %



Source: BBVA Research & BEA

Figure 5.9

Professional and Tech & Construction, share %



Source: BBVA Research & BLS

In the short-run, all of these areas are poised to benefit from higher domestic tourism and construction activity as these states are home to nearly one-third of all leisure and hospitality and construction jobs in the country. However, concentrations of highly technical sectors, such as computer system design, private R&D, architecture, engineering and specialized design, will support ongoing gains in productivity, which will lead to higher potential

growth levels and improved living standards. In fact, in these states, there are nearly thirty percent more individuals employed in a technical industry than in construction. California, for example, hosts one-fifth of all individuals working in privately funded R&D. The tilt towards technology related industries will be enormously beneficial, and as a result, we expect average growth over the next four years in California, Washington, Colorado and Utah to be 2.9%, 2.8%, 2.8% and 3.0%, respectively. For Florida and Georgia, our baseline is for growth to be 2.9 and 2.2%, respectively.

For parts of the country that rely on manufacturing and industrial activity, the prospects of lower oil and commodity prices should have implied higher growth and activity. However, lower oil prices, less accommodative monetary policy with respect to other major central banks and weak growth abroad led to significant appreciation in the dollar. These frictions and the impact of a general slowdown in trade in 2016 limited the upside from lower input costs. In fact, traditional manufacturing states, such as Michigan, Ohio and Wisconsin, saw growth moderate over the 2H15 and 1H16 as pressures on manufacturing peaked. Other areas, such as Alabama, Arkansas and Mississippi, were able to weather pressures on the manufacturing sector due to strong domestic demand for autos and other consumer durables. That being said, the pace was slower than the U.S. average.

Going forward, with confidence growing for consumers and corporations, our baseline scenario is for Alabama to grow 1.4% in 2017 and 1.5% in 2018. Similarly, Ohio and Michigan will grow at a pace slightly below the U.S. average at 1.7% and 1.3%, respectively.

Finally, although we don't expect residential construction to be a major driver of growth in 2017, some states will continue to benefit more from a faster expansion in this sector. These include Michigan, Minnesota, Georgia, Kentucky, Utah, Arkansas, Tennessee, Arizona and Florida. As a result, the regional outlook, barring any unforeseen shock to confidence or trust, should be underpinned by widespread prosperity.

6. Tables

Table 6.1

U.S. Macro Forecasts

	2011	2012	2013	2014	2015	2016	2017(f)	2018(f)	2019(f)	2020(f)
Real GDP Growth (%)	1.6	2.2	1.7	2.4	2.6	1.6	2.3	2.4	2.1	2.0
Real GDP (Contribution, pp)										
PCE	1.6	1.0	1.0	2.0	2.2	1.8	1.8	1.5	1.4	1.5
Gross Investment	0.7	1.5	1.0	0.7	0.8	-0.3	0.5	1.0	0.9	0.7
Non Residential	0.9	1.1	0.4	0.8	0.3	-0.1	0.5	0.8	0.7	0.5
Residential	0.0	0.3	0.3	0.1	0.4	0.2	0.2	0.2	0.2	0.2
Exports	0.9	0.5	0.5	0.6	0.0	0.0	0.2	0.3	0.3	0.3
Imports	-0.9	-0.4	-0.2	-0.7	-0.7	-0.2	-0.4	-0.4	-0.5	-0.6
Government	-0.7	-0.4	-0.6	-0.2	0.3	0.2	0.1	0.1	0.1	0.0
Unemployment Rate (%, average)	8.9	8.1	7.4	6.2	5.3	4.9	4.5	4.4	4.3	4.3
Average Monthly Nonfarm Payroll (K)	132	186	184	213	241	207	180	174	181	201
CPI (%)	3.1	2.1	1.5	1.6	0.1	1.3	2.3	2.0	2.2	2.2
Core CPI (%)	1.7	2.1	1.8	1.7	1.8	2.2	1.8	2.0	2.2	2.3
Fiscal Balance (% GDP)	-8.4	-6.7	-4.1	-2.8	-2.4	-3.2	-2.9	-2.4	-2.8	-3.1
Current Account (bop, % GDP)	-3.0	-2.8	-2.2	-2.8	-2.4	-2.8	-3.0	-3.1	-3.1	-3.2
Fed Target Rate (%, eop)	0.3	0.3	0.3	0.3	0.4	0.6	1.3	1.8	2.3	2.8
Core Logic National HPI (%)	-2.9	4.0	9.8	6.9	5.4	5.6	6.7	6.0	6.1	5.2
10-Yr Treasury Yield (%, eop)	2.0	1.7	2.9	2.2	2.2	2.5	2.7	3.0	3.3	3.4
Brent Oil Prices (dpb, average)	111.3	111.7	108.7	99.0	52.9	45.2	57.0	58.7	59.6	59.6

(f): forecast
Source: BBVA Research

Table 6.2

U.S. State Real GDP Growth, %

	2013	2014	2015	2016 (e)	2017 (f)	2018 (f)
Alaska	-4.5	-3.3	-0.6	-3.3	-0.6	-2.6
Alabama	0.8	0.1	0.9	0.1	0.9	1.4
Arkansas	2.8	1.4	0.5	1.4	0.5	2.3
Arizona	0.5	1.5	1.4	1.5	1.4	1.5
California	2.5	3.8	3.8	3.8	3.8	2.5
Colorado	3.2	4.6	3.2	4.6	3.2	1.7
Connecticut	-1.5	-0.4	0.7	-0.4	0.7	1.1
Delaware	-1.7	4.8	2.7	4.8	2.7	1.4
Florida	1.9	2.9	4.0	2.9	4.0	3.1
Georgia	1.1	2.5	2.6	2.5	2.6	4.0
Hawaii	1.1	0.3	2.3	0.3	2.3	2.1
Iowa	0.8	2.6	1.3	2.6	1.3	-1.4
Idaho	3.1	1.8	2.7	1.8	2.7	2.5
Illinois	-0.2	1.1	1.8	1.1	1.8	1.4
Indiana	2.4	2.1	1.4	2.1	1.4	1.5
Kansas	0.2	1.3	0.8	1.3	0.8	0.5
Kentucky	1.0	0.6	1.4	0.6	1.4	-0.3
Louisiana	-2.8	1.4	1.0	1.4	1.0	-1.3
Massachusetts	-0.4	1.2	3.8	1.2	3.8	1.4
Maryland	0.0	1.0	2.0	1.0	2.0	0.1
Maine	-0.8	1.7	1.1	1.7	1.1	0.1
Michigan	1.6	1.9	1.6	1.9	1.6	1.7
Minnesota	2.2	2.4	1.9	2.4	1.9	-1.7
Missouri	1.9	0.2	1.7	0.2	1.7	1.2
Mississippi	-0.2	-0.9	0.5	-0.9	0.5	2.2
Montana	0.7	1.4	2.0	1.4	2.0	0.8
North Carolina	1.5	1.9	2.0	1.9	2.0	2.1
North Dakota	2.5	6.7	-2.6	6.7	-2.6	-7.3
Nebraska	2.5	3.0	0.9	3.0	0.9	1.5
New Hampshire	0.5	1.8	1.4	1.8	1.4	2.7
New Jersey	1.5	0.2	2.0	0.2	2.0	1.3
New Mexico	-0.6	2.5	1.7	2.5	1.7	-1.3
Nevada	0.6	2.1	1.6	2.1	1.6	1.6
New York	0.1	0.8	0.9	0.8	0.9	1.4
Ohio	1.1	2.6	1.8	2.6	1.8	0.7
Oklahoma	3.9	3.9	2.2	3.9	2.2	-2.6
Oregon	-1.5	1.3	4.9	1.3	4.9	4.1
Pennsylvania	1.9	1.8	2.8	1.8	2.8	-0.6
Rhode Island	0.5	1.0	1.4	1.0	1.4	0.0
South Carolina	1.9	2.8	2.5	2.8	2.5	2.4
South Dakota	1.3	0.7	2.6	0.7	2.6	-1.4
Tennessee	1.6	1.7	2.7	1.7	2.7	2.0
Texas	4.8	4.8	4.8	4.8	4.8	-0.3
Utah	2.5	3.1	3.4	3.1	3.4	3.3
Virginia	0.1	0.2	2.0	0.2	2.0	0.6
Vermont	-0.5	0.2	0.4	0.2	0.4	2.0
Washington	2.2	2.8	3.0	2.8	3.0	4.7
Wisconsin	0.7	2.2	1.1	2.2	1.1	1.1
West Virginia	0.6	1.0	1.4	1.0	1.4	-2.2
Wyoming	1.0	1.7	-0.1	1.7	-0.1	-6.6

(f): forecast
Source: BBVA Research

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