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BBVA Research

U.S. Recession Risk Monitor

January 2019

Creating Opportunities

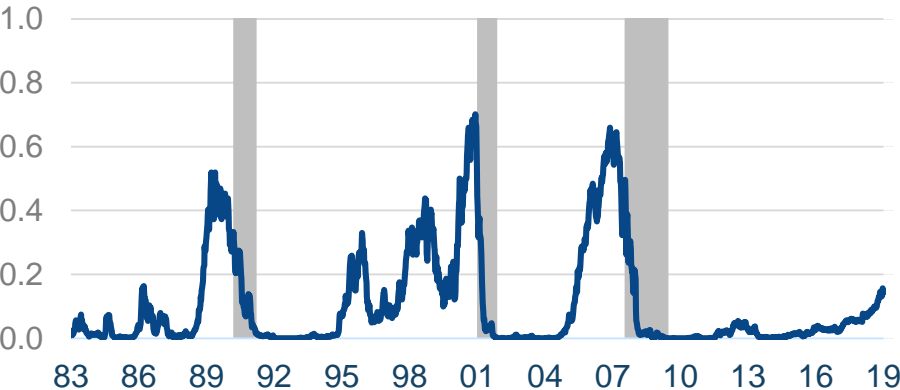
Highlights

- The probability of a recession steadies after sharp rise at the end of 2018
- Financial markets adjusts to dovish monetary policy shift and stable growth outlook
- Fiscal policy risk increasing with divided White House and Congress
- Pressures on corporate spreads ease, as perception of near-term downside risks decline
- Economic fundamentals for households and financial institutions remain solid
- Uptick in global financial market stress

BBVA U.S. Recession Probability

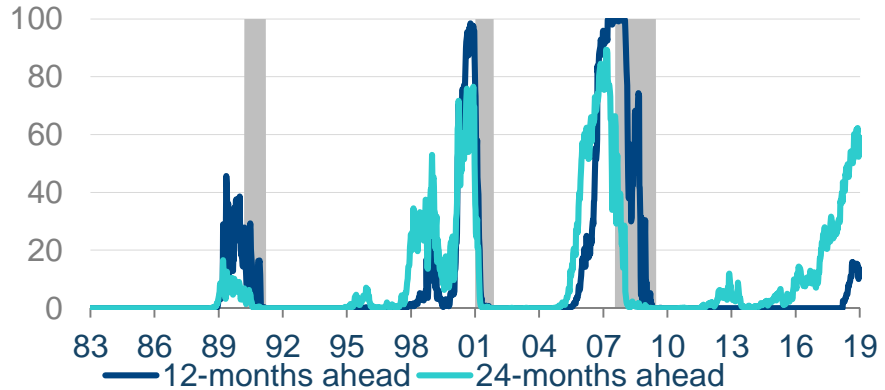
Treasury Spread Term-Premium Adjusted

%, 12m-ahead



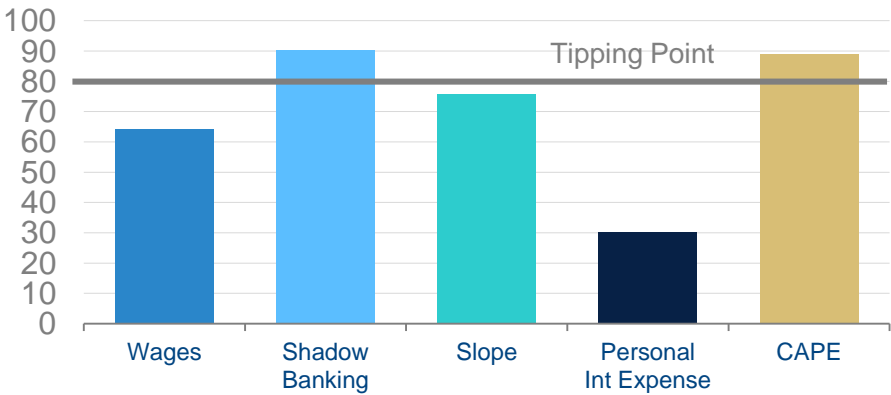
Recession Probability Factor

%, 12-months & 24-months ahead



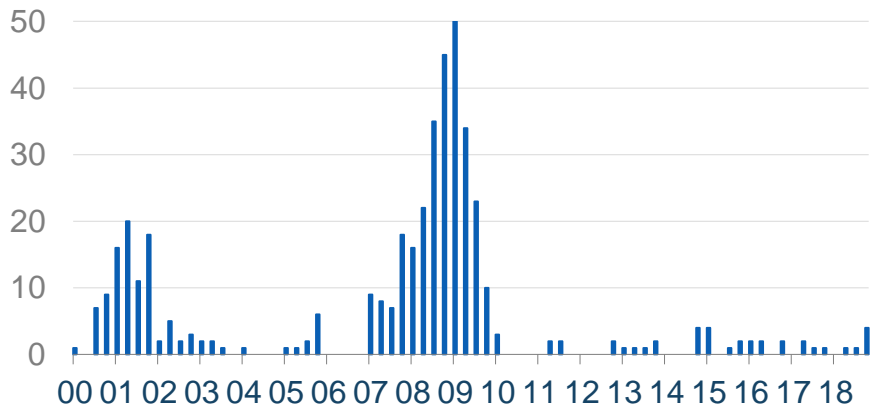
Risk Factors

Percentile Rank



Regional Conditions

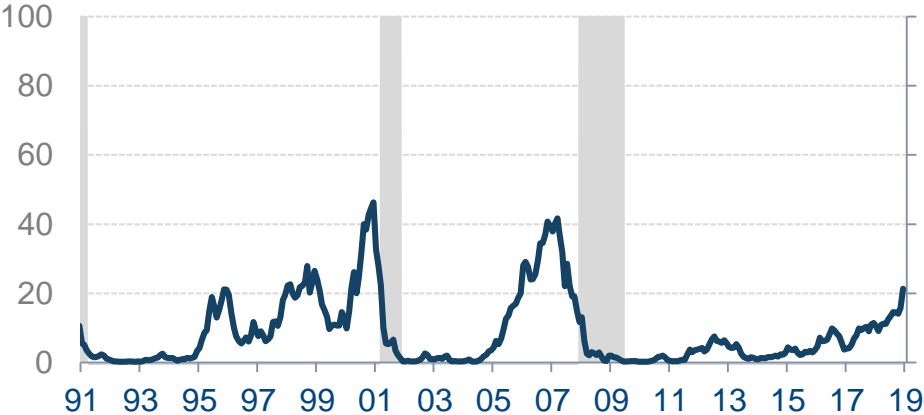
of States with greater than 50% probability



Recession Probability

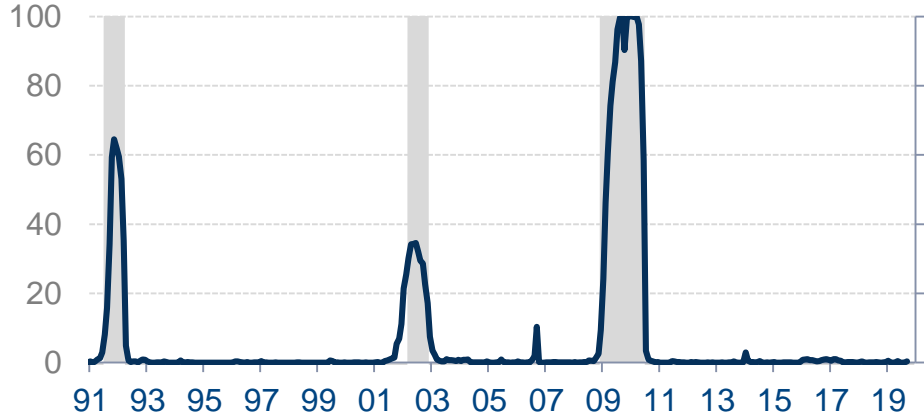
Treasury Spread Model

%, 12-months ahead



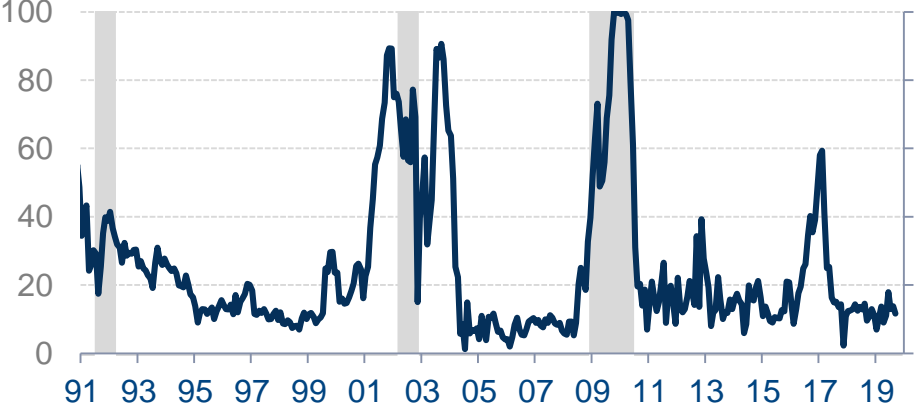
Dynamic-Factor Markov-Switching Model

%, 12-months ahead



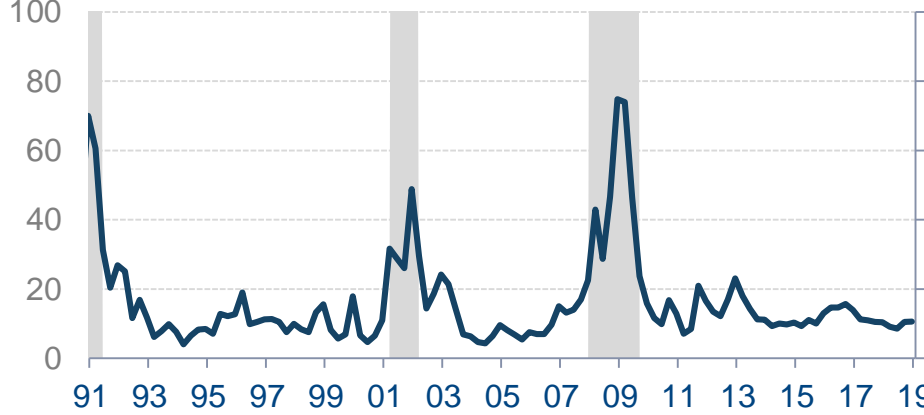
Credit Spread Model

%, 12-months ahead



Survey of Professional Forecasters

%, Decline in real GDP next quarter



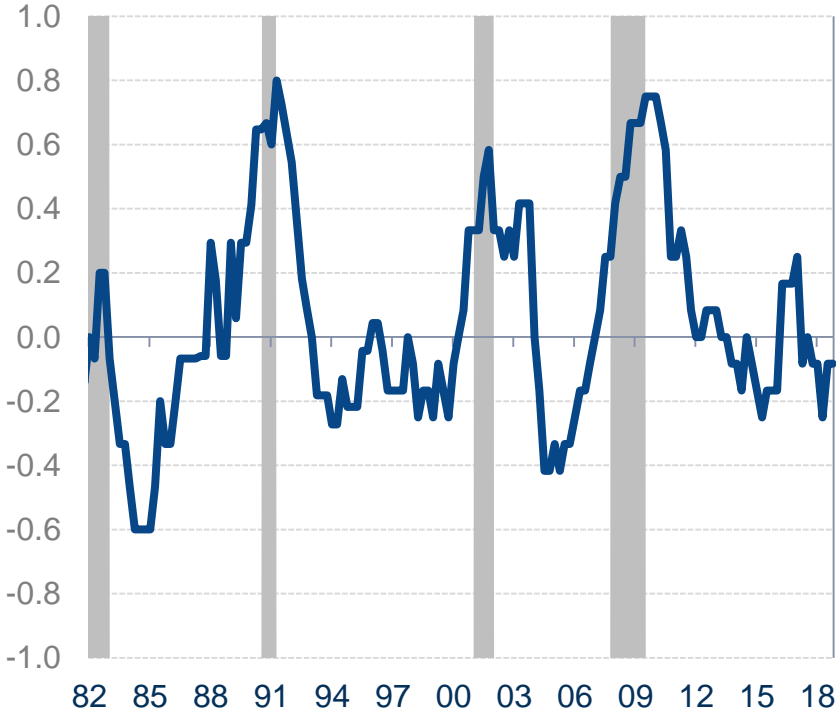
Source: BBVA Research, Federal Reserve Board, FRBNY, FRBSL, FRBP and Haver

Credit Cycle and Recession Timing Indexes

Risk of systemic crisis remains low.
No imminent risk of recession

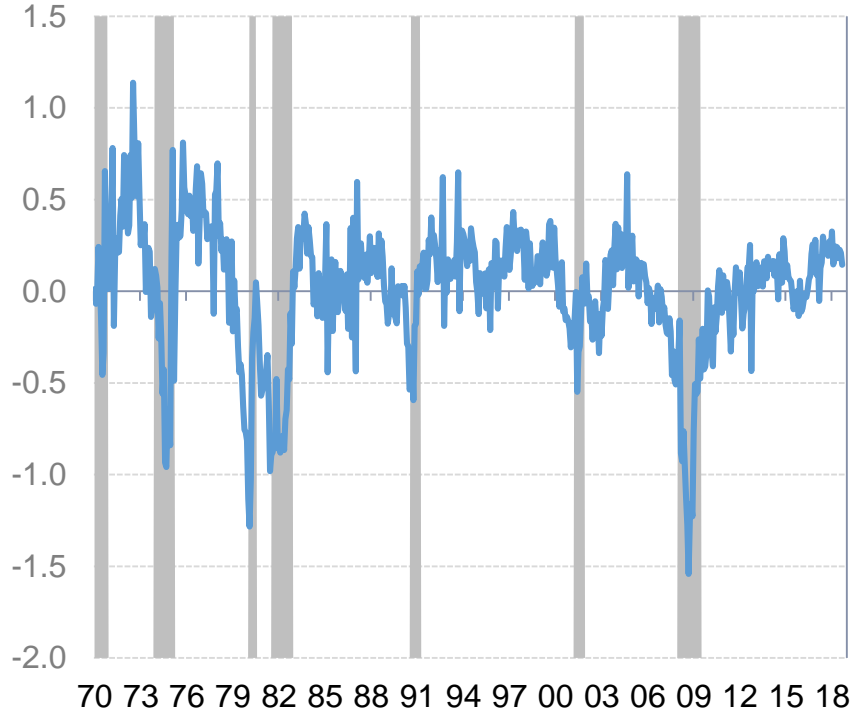
BBVA Credit Cycle Risk Index

Above 0 = above average risk



BBVA Recession Timing Index

Above 0 = longer lag to recession



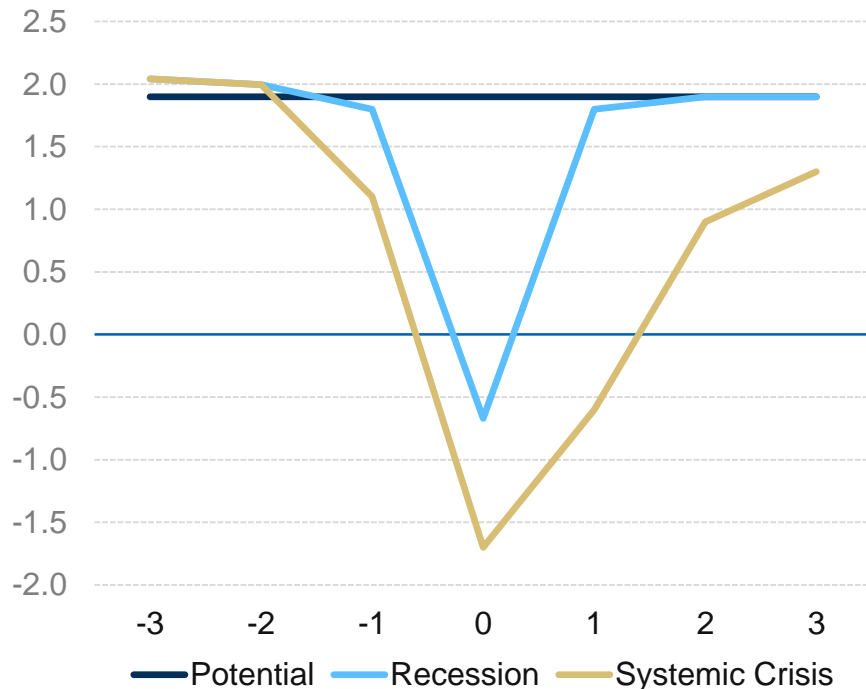
Source: BBVA Research and Haver

Scenarios

A painfully slow U-shape recovery is more likely under less effective monetary and fiscal response

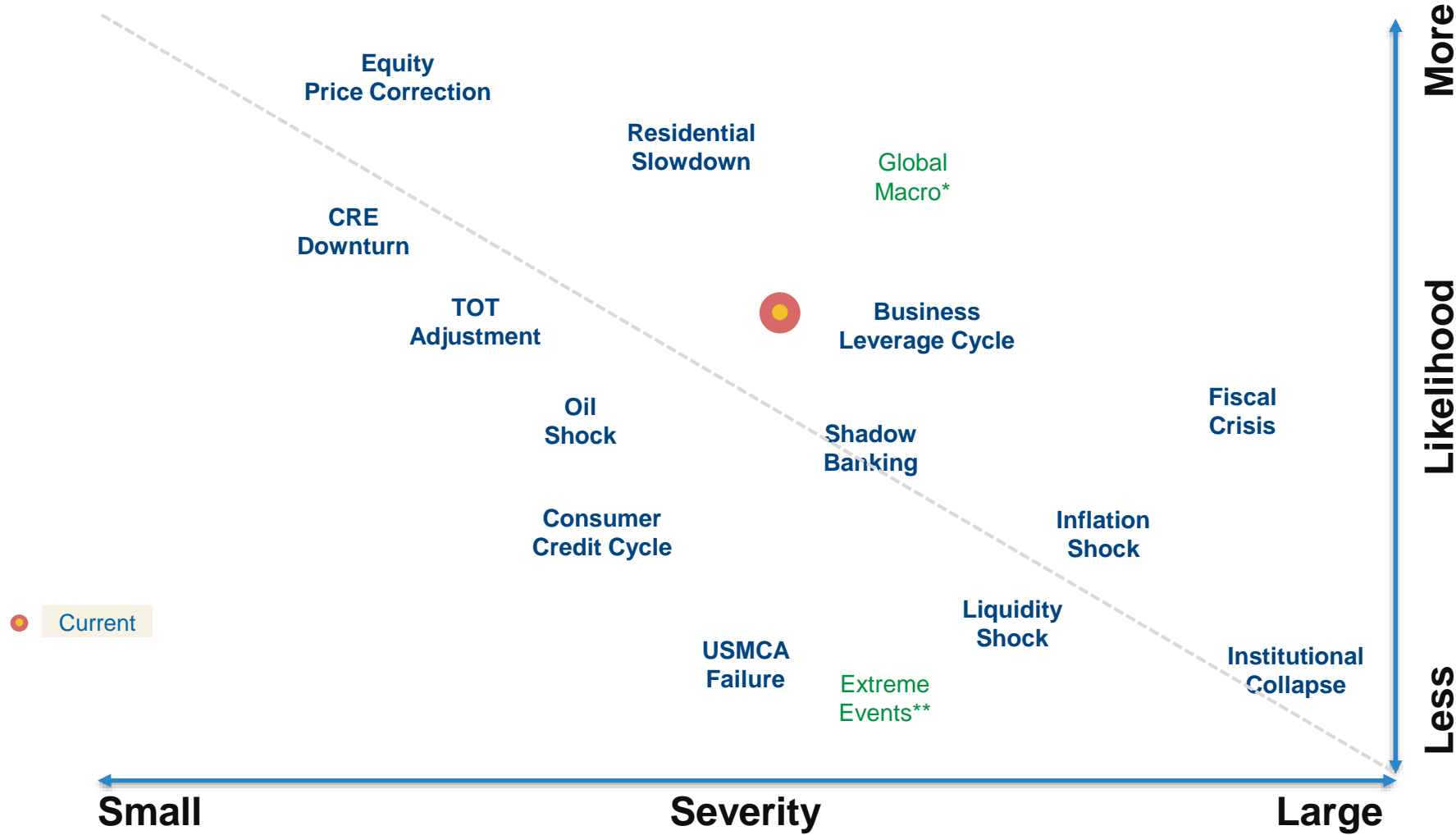
Recession Severity

Real GDP Growth; t=0 Year of Recession



Outcome	Probability 2019-2021	t	t+1
No recession	60%	2.1 (Baseline avg. 2019-21)	
Recession	40%	-0.7	1.8
<i>Systemic crisis</i>	4%	-1.7	-0.6

Risk Matrix



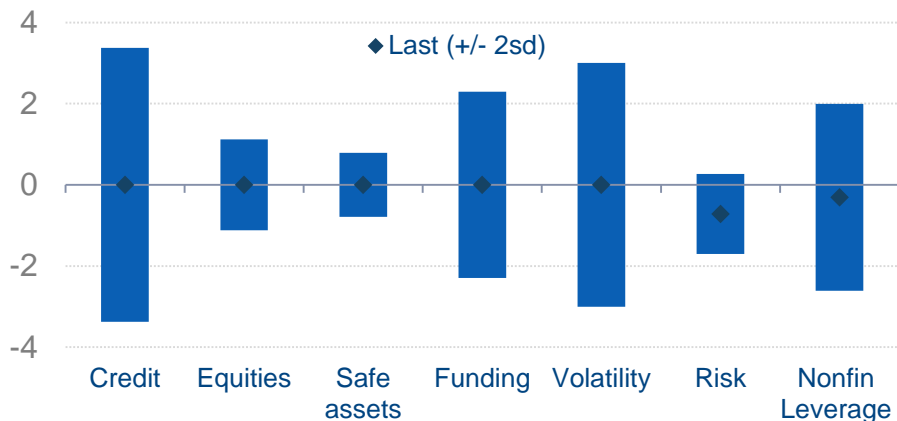
Source: BBVA Research; This assessment is not static and can change significantly depending on future developments

* Includes macroeconomic conditions in China, Euro Area, Brexit, Emerging Markets ** Includes non-economic factors: Climate, Cybersecurity, Pandemic, Terrorism, Migration, etc.

Financial Markets

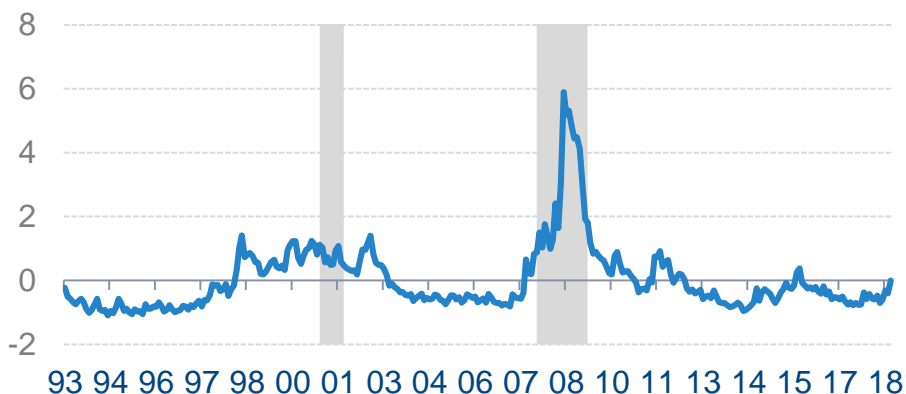
Financial Stress Indicators

>0 = tighter than average



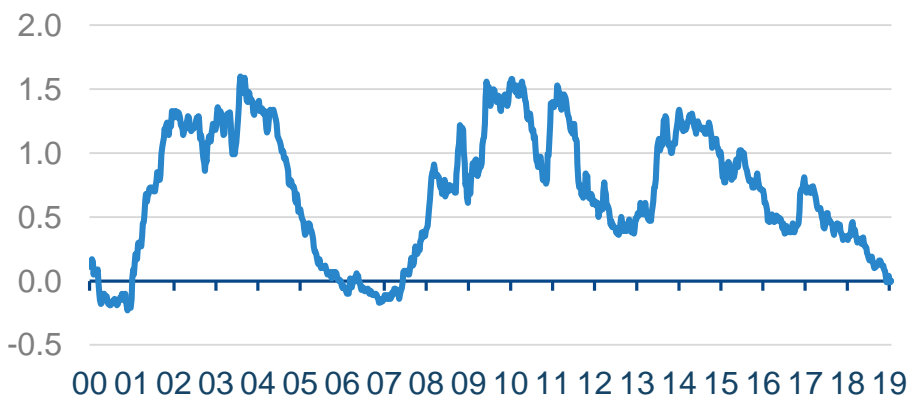
Financial Stress Index

Above 0 = above average stress



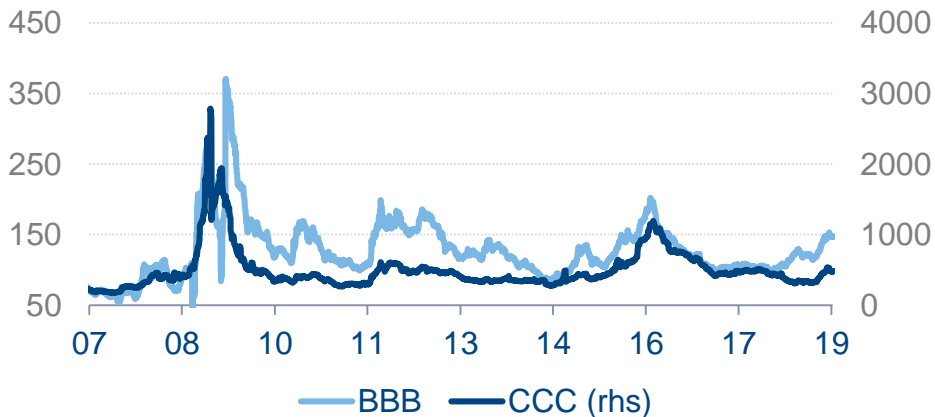
Treasury Yield Curve 5Y Minus 2Y

Basis points



Corporate Spreads

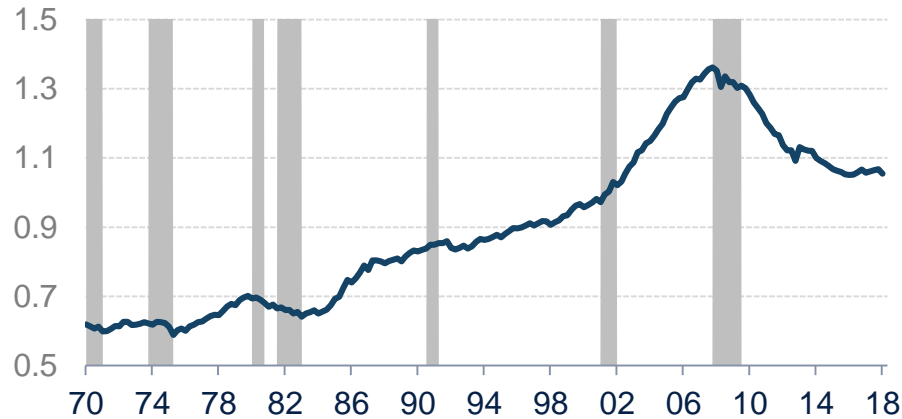
Basis points



Households

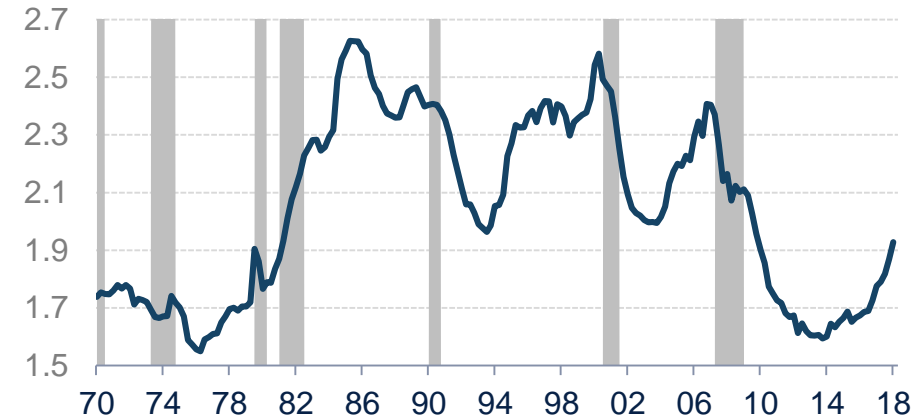
Liabilities/Disposable Income

Ratio



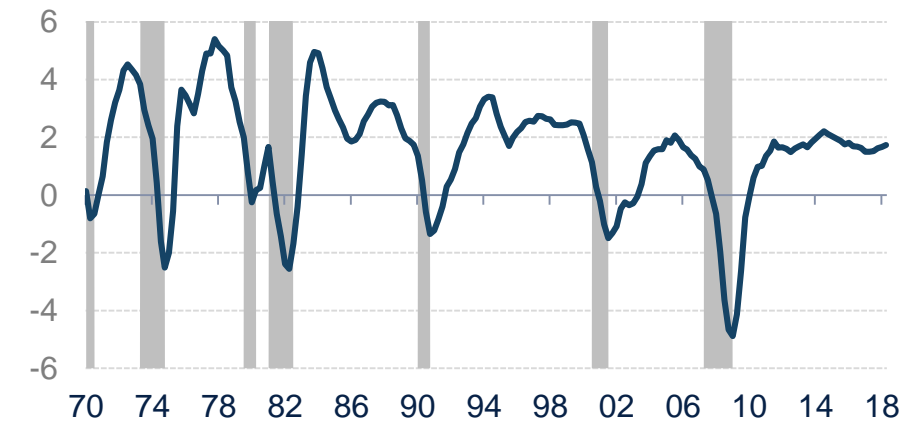
Interest Payments/Personal Income

%



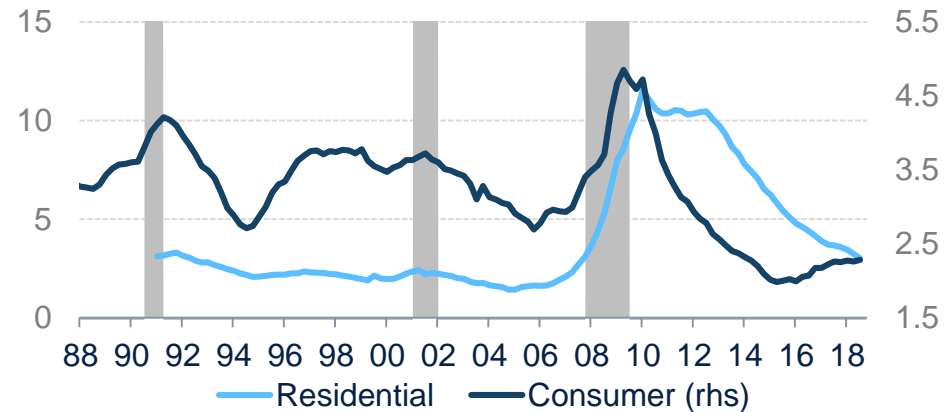
Nonfarm Payroll

YoY % Change



Delinquency Rate

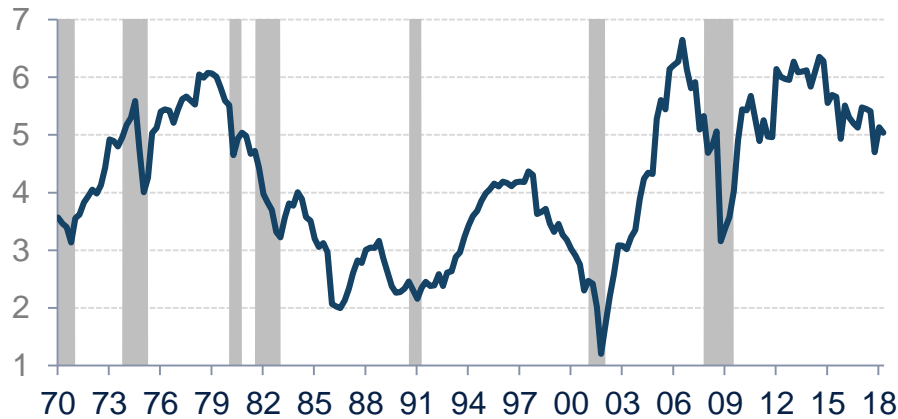
%



Businesses

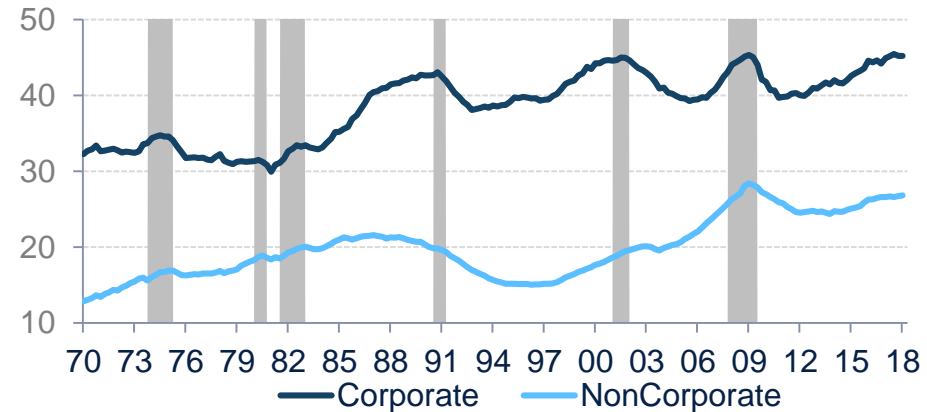
Nonfinancial Corporate Profits

% of GDP



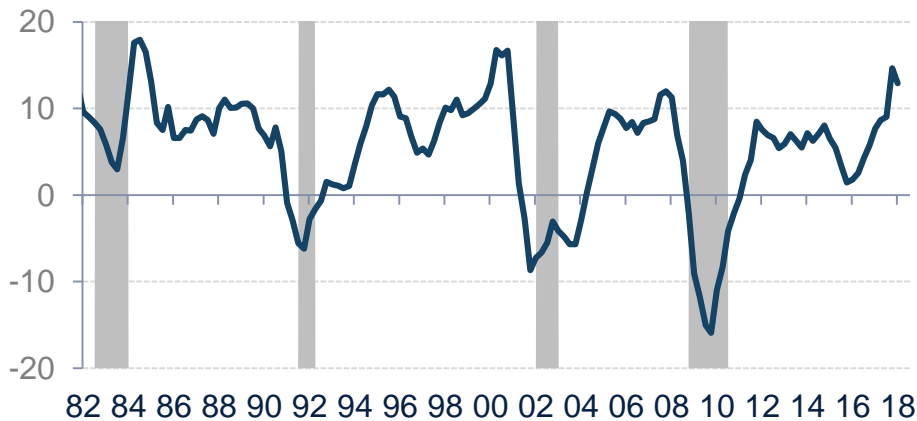
Nonfinancial Business Debt

% of GDP



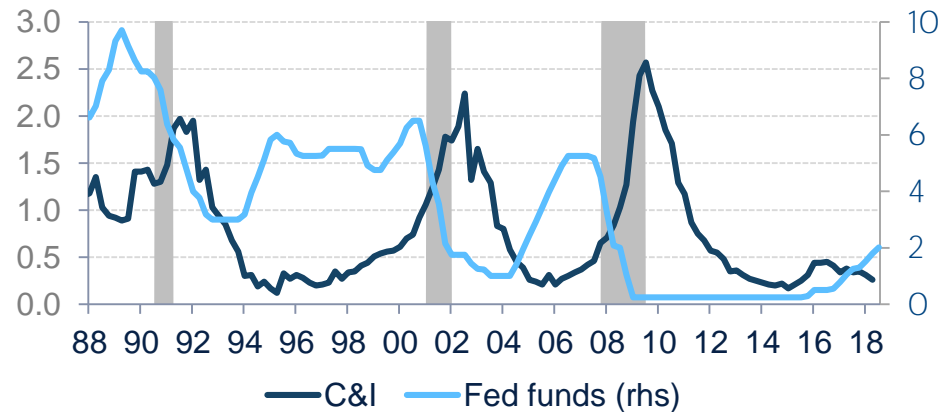
Nonfinancial Corporate Short-term Liabilities

YoY % Change



C&I Loan Charge-Off Rate & Fed Funds

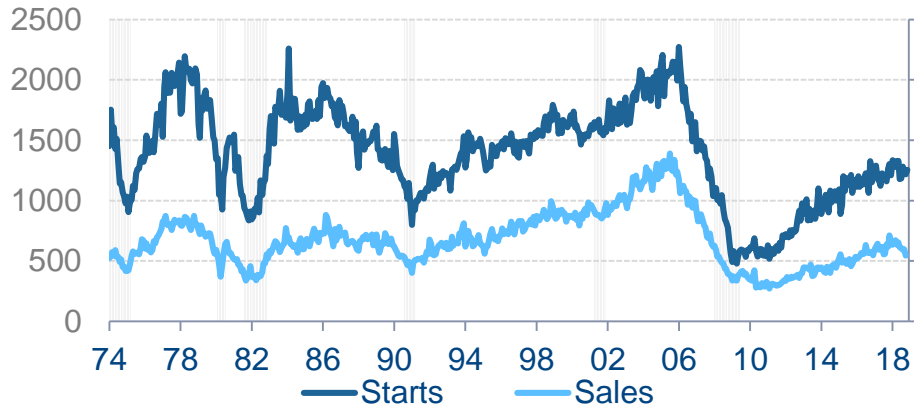
%



Real Estate

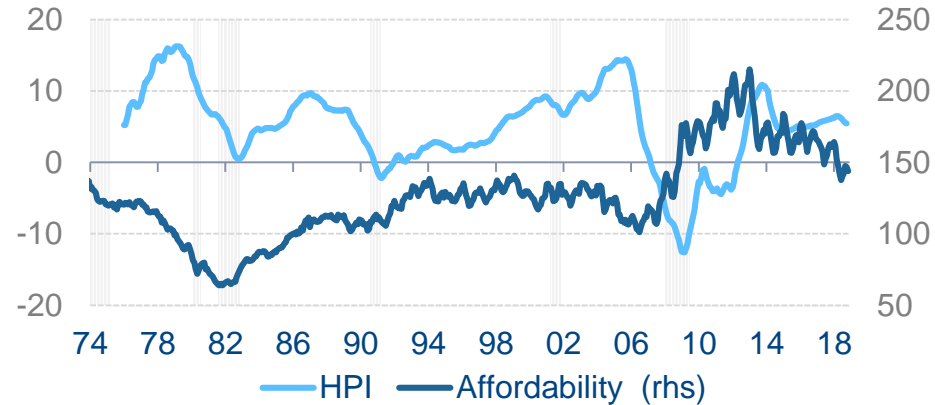
Housing Starts and New Home Sales

Thousand units, annualized



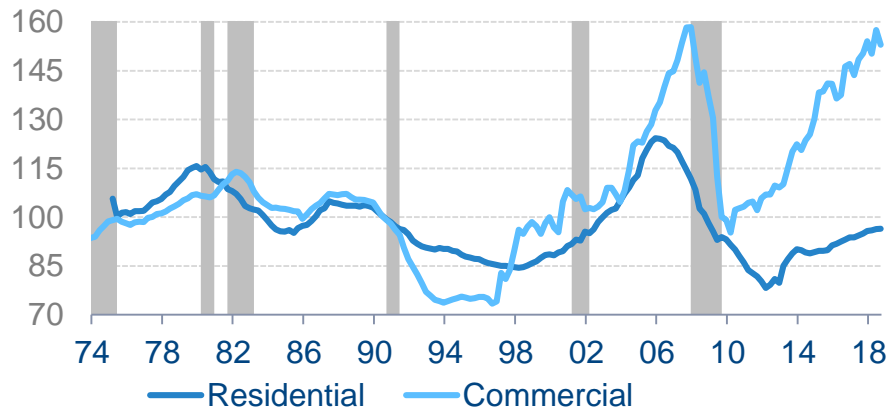
Housing Affordability and Prices

Index and YoY % Change



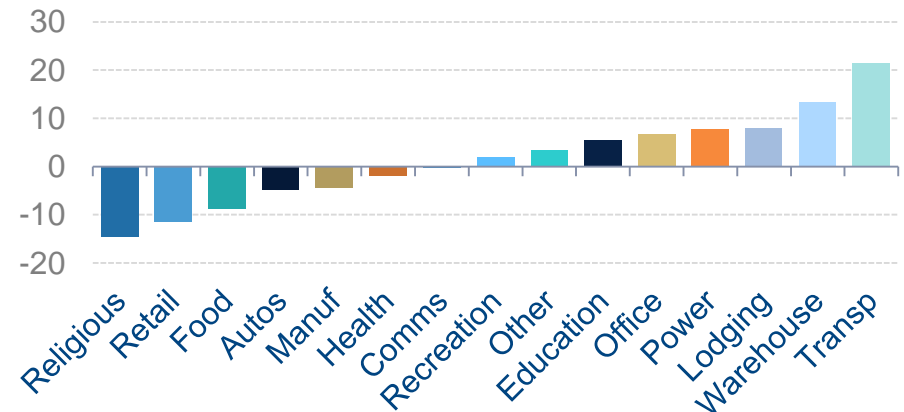
BBVA Real Estate Prices Misalignment

1990=100



Nonresidential Construction

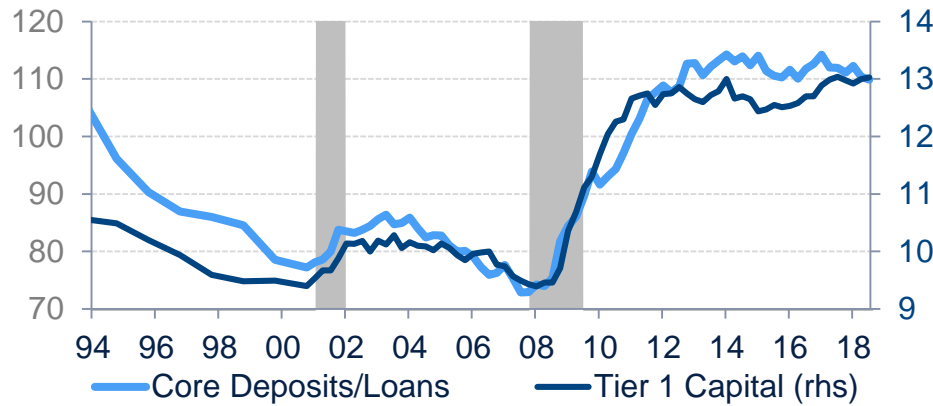
YoY % Change



Financial Sector

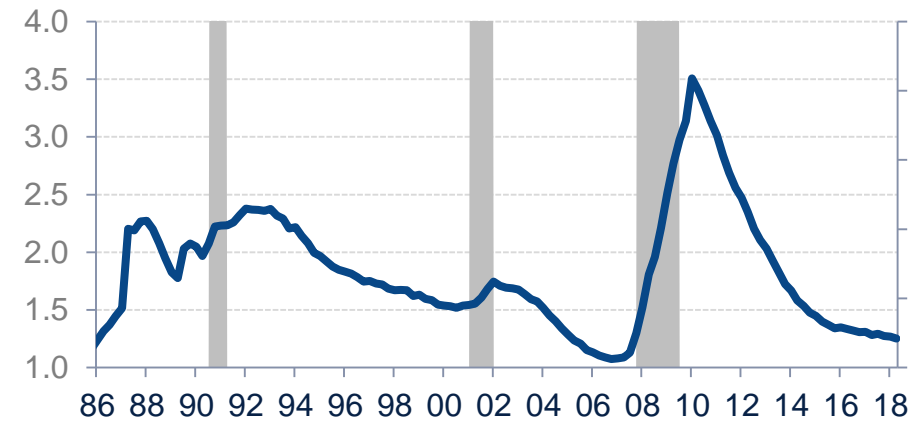
Deposits and Capital Ratios

% of loans and assets, commercial banks



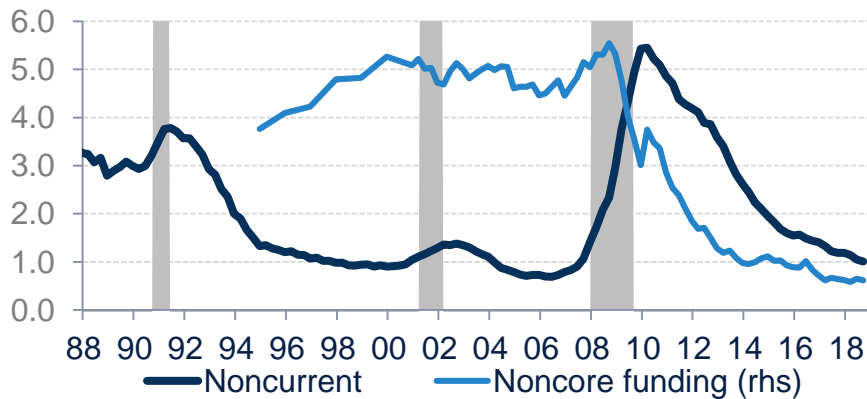
Loan Reserves

% of total loans, all FDIC institutions



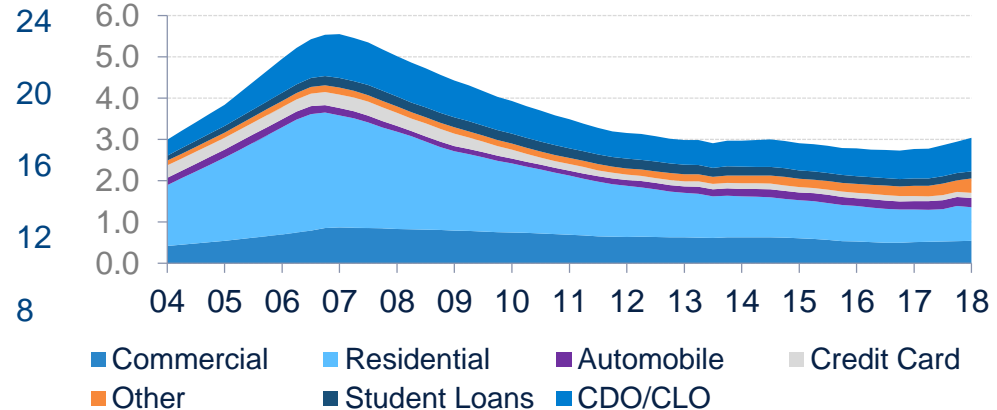
Noncurrent Loans and Funding

% of loans and liabilities, commercial banks



Securizations

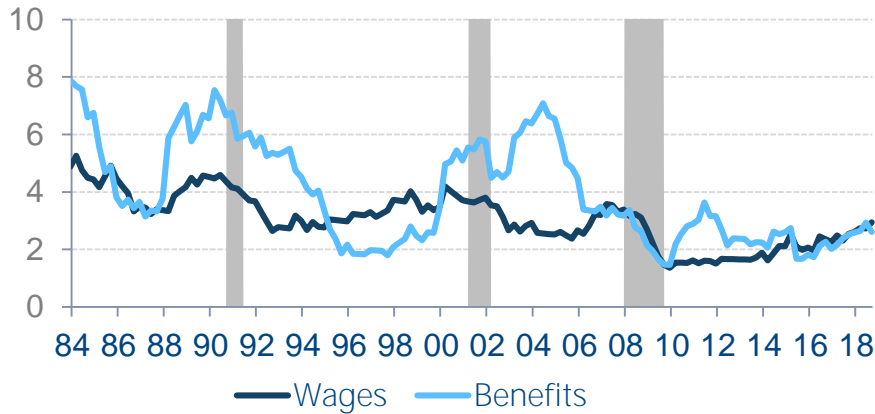
US\$tn



Prices

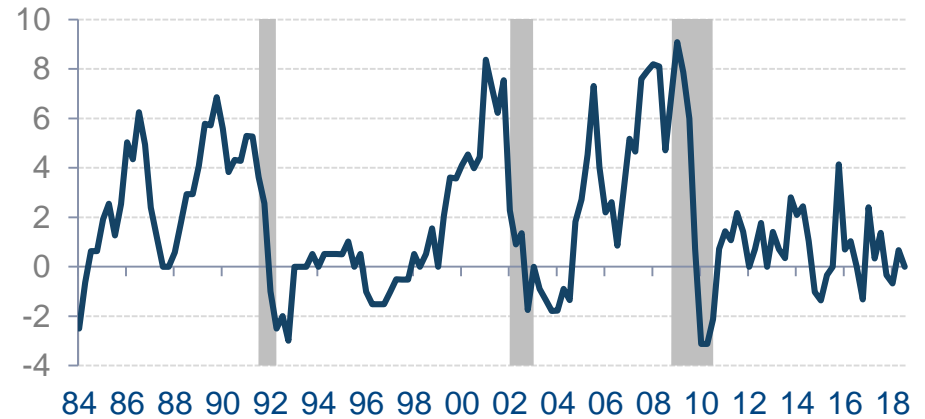
Labor Costs

YoY % Change, ECI



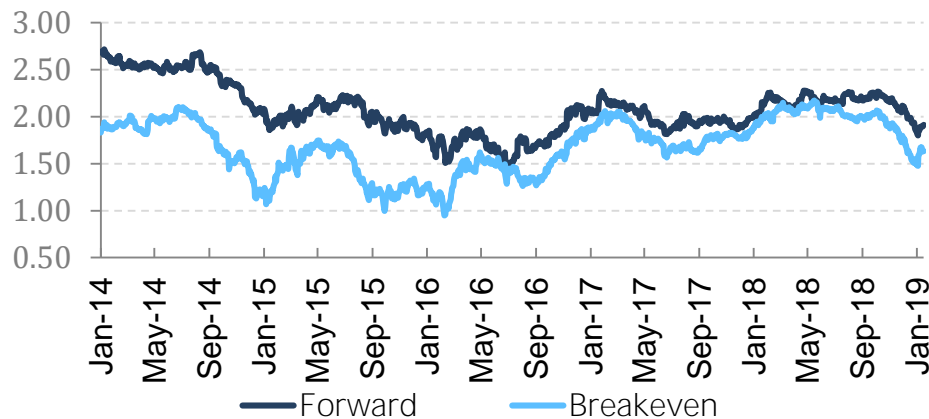
Nonlabor Costs per Unit of Real GDP

YoY % Change



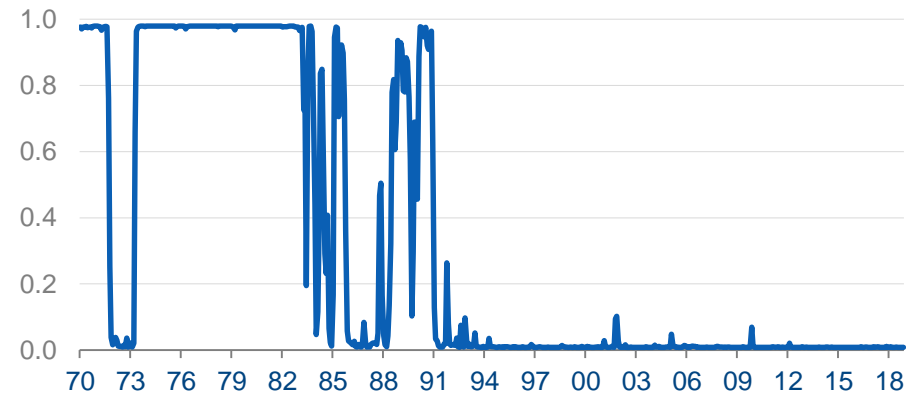
Market Inflation Expectations

%



BBVA Inflation Regime Probability

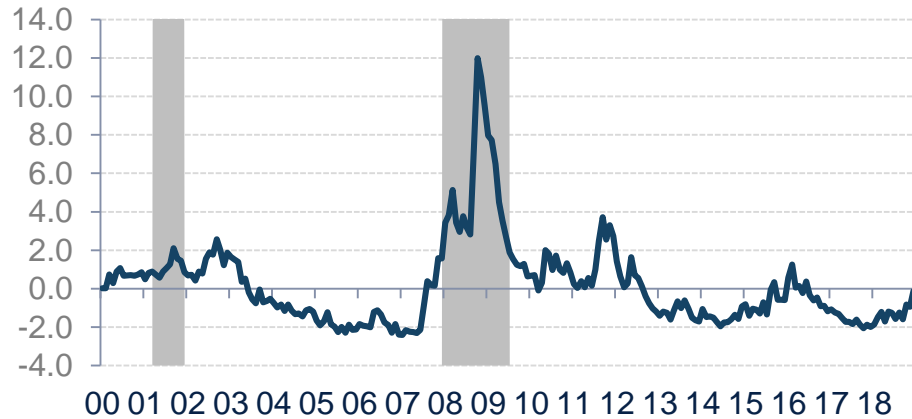
Regime change low to high



Global Conditions

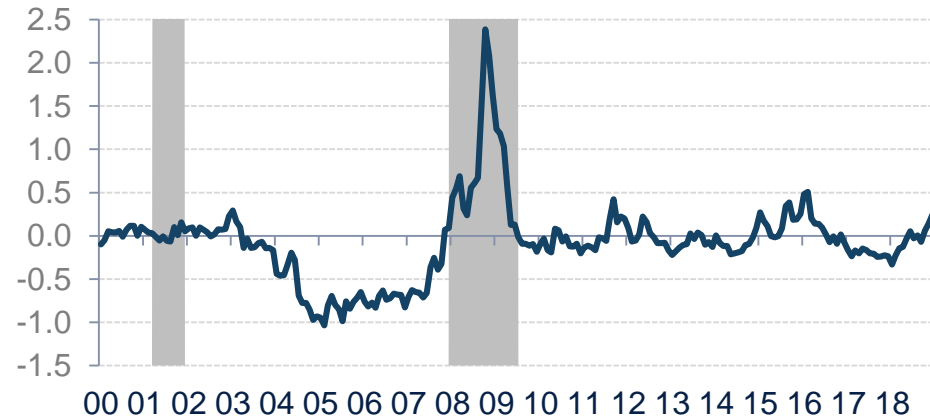
Advanced Economies Financial Stress

0=Average Stress Level



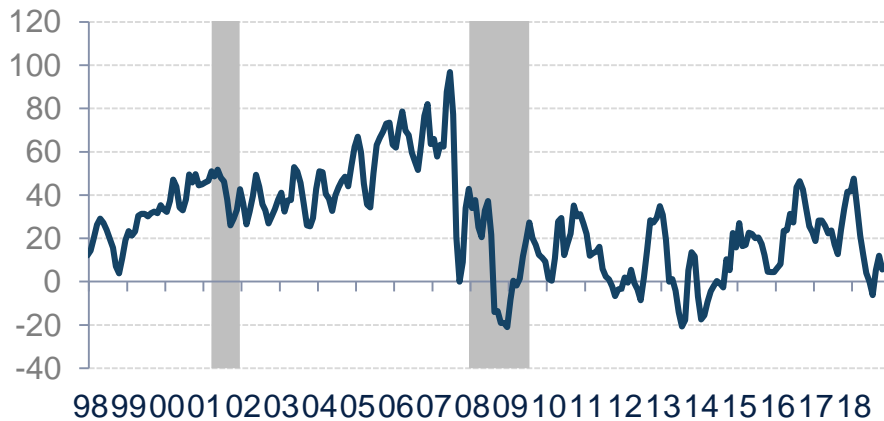
Emerging Markets Financial Stress

0=Average Stress Level



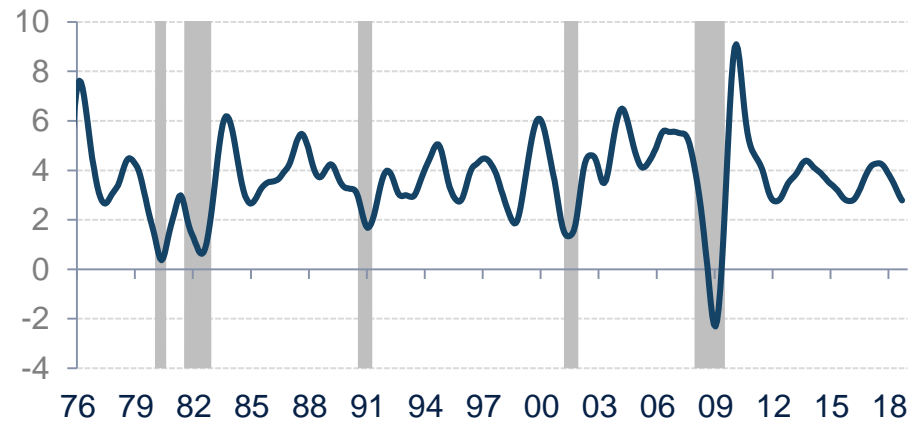
Net Foreign Purchases of U.S. Securities

US\$bn, 3mma, excluding OFIs and Int'l organizations



Global Activity Leading Indicator

YoY % Change



For more information

Recent economic briefs and presentations:

[All things come to an end, but is the U.S. headed for recession?](#)

[Corporate debt in the twilight of the credit cycle](#)

[Just what the doctor ordered: real-time recession forecasts](#)

[Recession risk monitor 4Q18](#)

[Recession risk monitor December 2018](#)

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