

U.S. Recession Risk Monitor

August, 2019

Key Messages

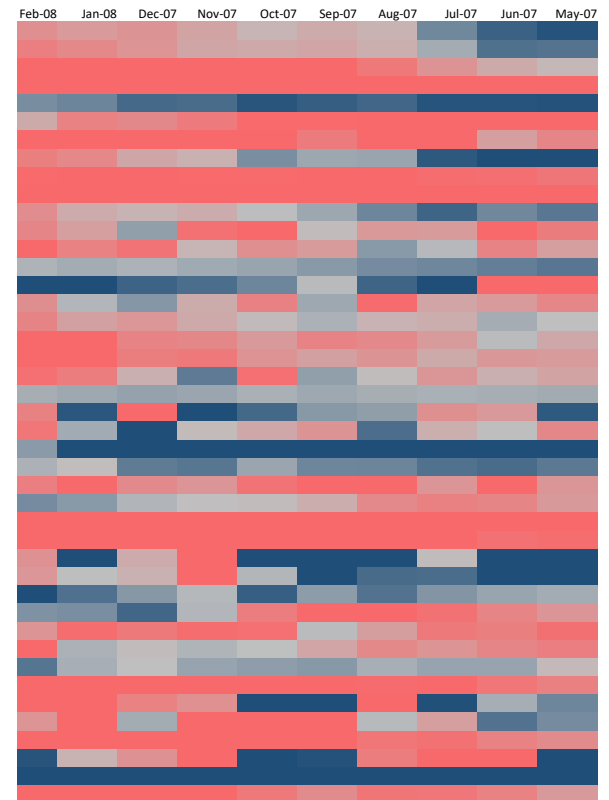
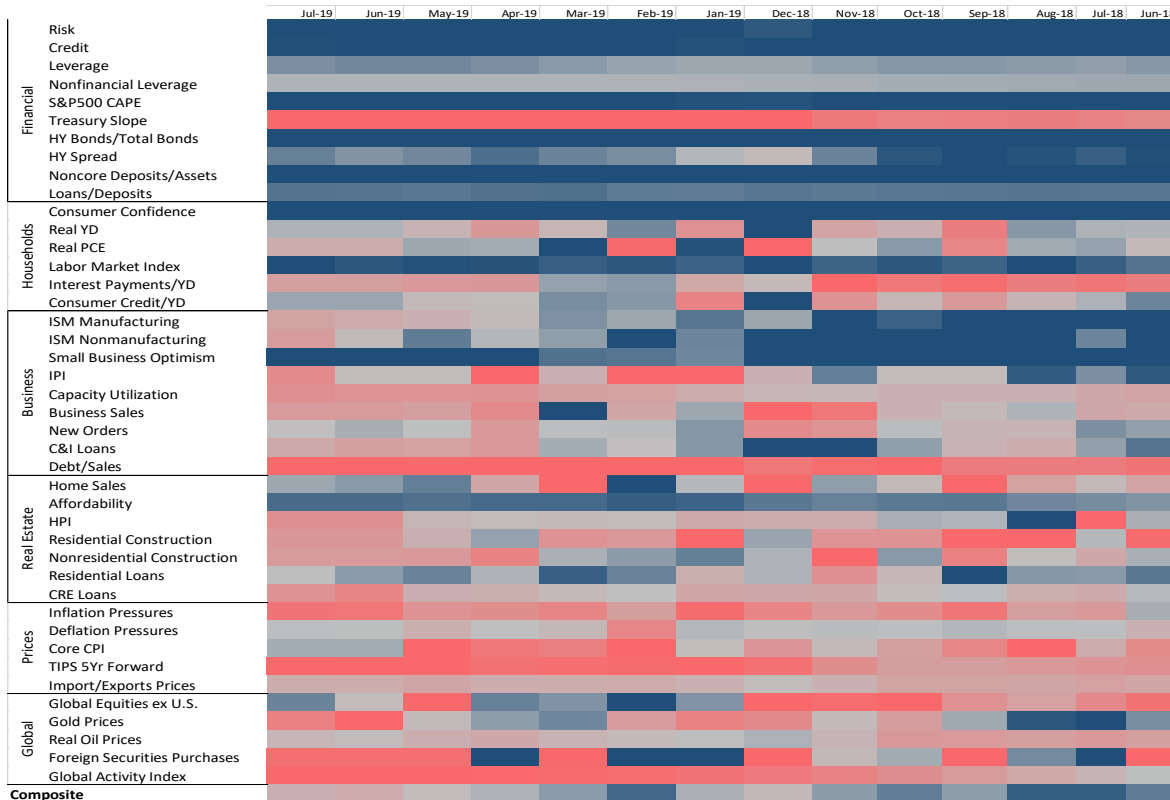
- Models suggest 70% probability of recession within 24 months
- Increased weakness in global growth
- Policy uncertainty whipsawing with trade tensions
- At times, key financial markets showing signs of panic-like conditions
- Fed under pressure to deliver more accommodation
- Economic fundamentals for households remain solid

Heat Map

Upside  Downside

Current

2007 Crisis

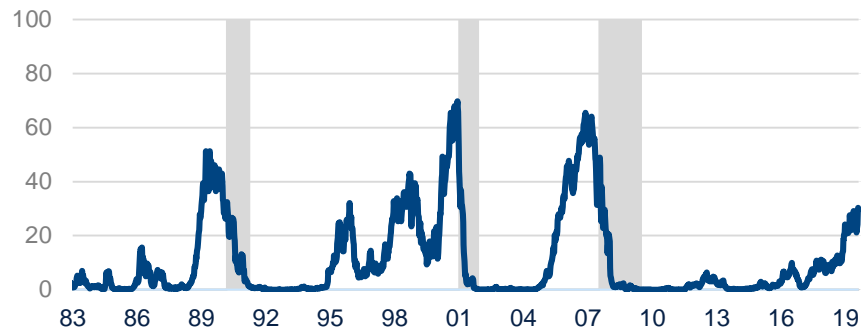


Source: BBVA Research and Haver

BBVA U.S. Recession Probability

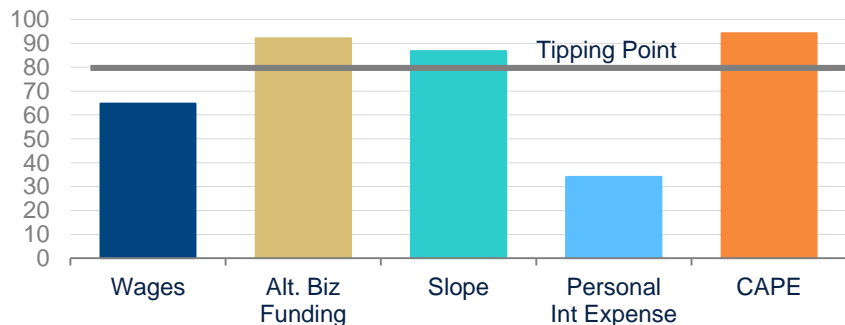
TREASURY SPREAD TERM-PREMIUM ADJUSTED

(%, 12M-AHEAD)



RISK FACTORS

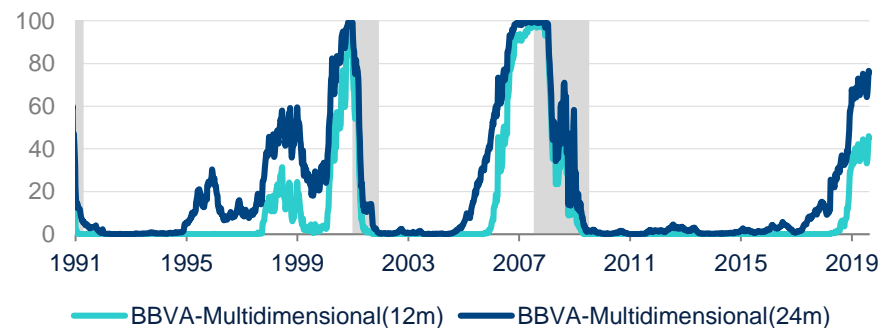
(PERCENTILE RANK)



Source: BBVA Research

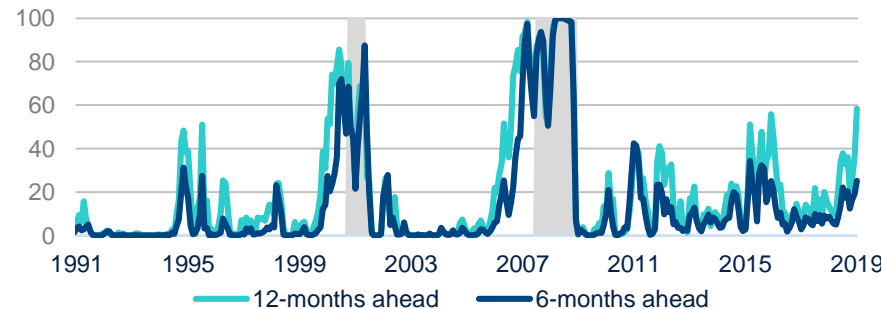
BBVA MULTIDIMENSIONAL RECESSION PROBABILITY

(%, 12-MONTHS & 24-MONTHS AHEAD)



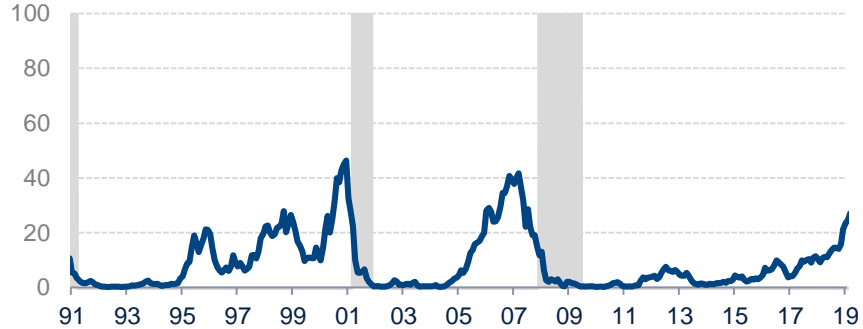
BBVA-TEC MODEL RECESSION PROBABILITY

(%, 12-MONTHS & 24-MONTHS AHEAD)

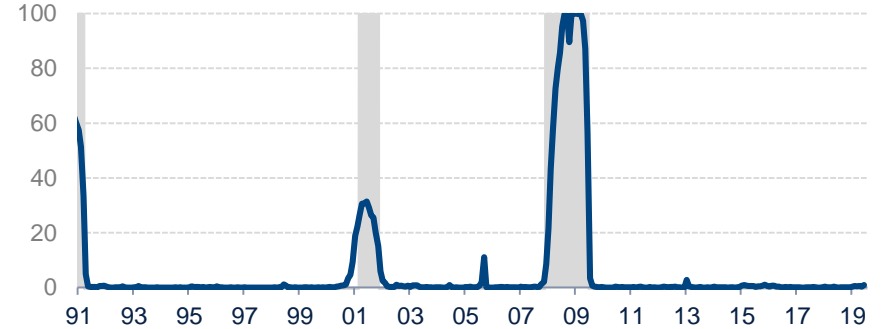


Recession Probability

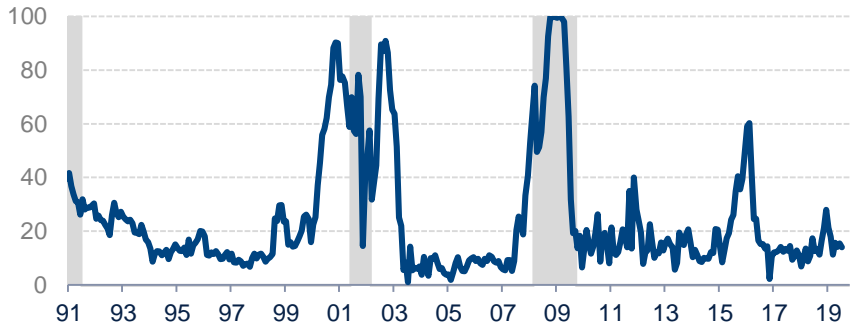
TREASURY SPREAD MODEL
(%, 12-MONTHS AHEAD)



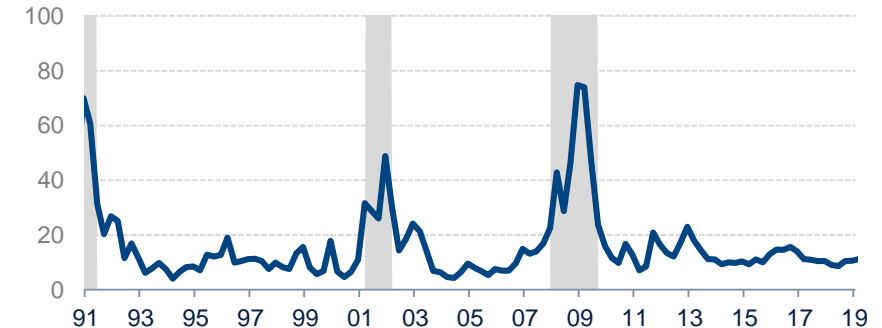
DYNAMIC-FACTOR MARKOV-SWITCHING MODEL
(%, 12-MONTHS AHEAD)



CREDIT SPREAD MODEL
(%, 12-MONTHS AHEAD)

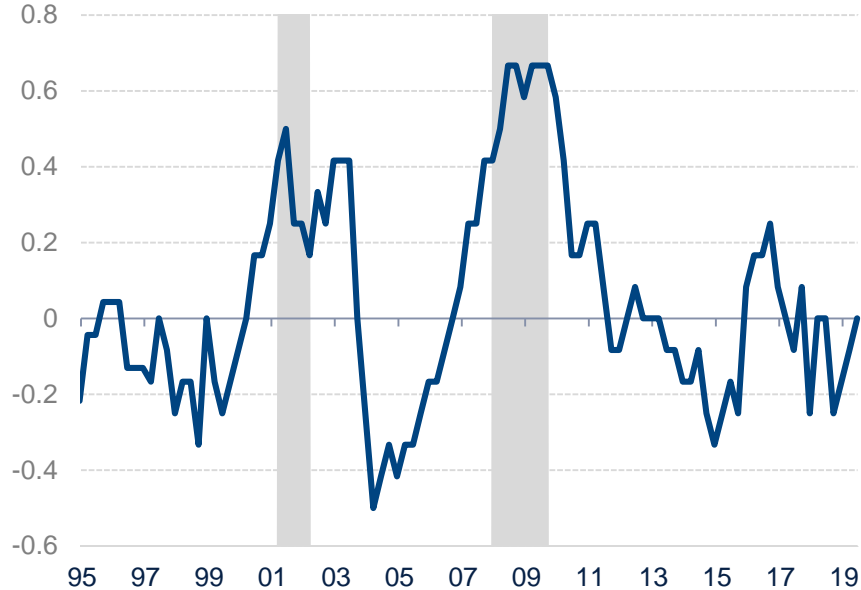


SURVEY OF PROFESSIONAL FORECASTERS
(%, DECLINE IN REAL GDP NEXT QUARTER)



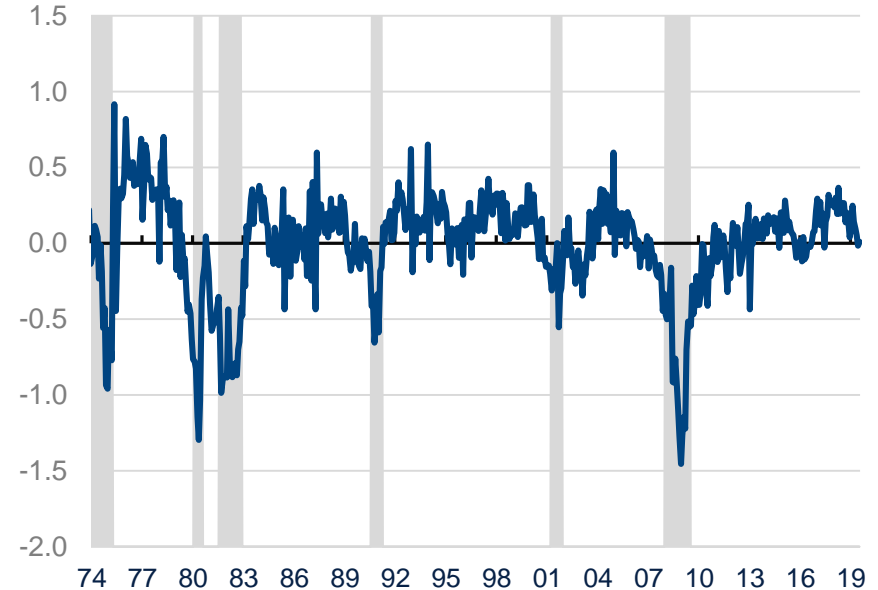
Credit Cycle and Recession Timing Indexes

BBVA CREDIT CYCLE RISK INDEX
(ABOVE 0 = ABOVE AVERAGE RISK)



Source: BBVA Research and Haver

TIMING OF NEXT RECESSION IS NARROWING
(ABOVE 0 = LONGER LAG TO RECESSION)



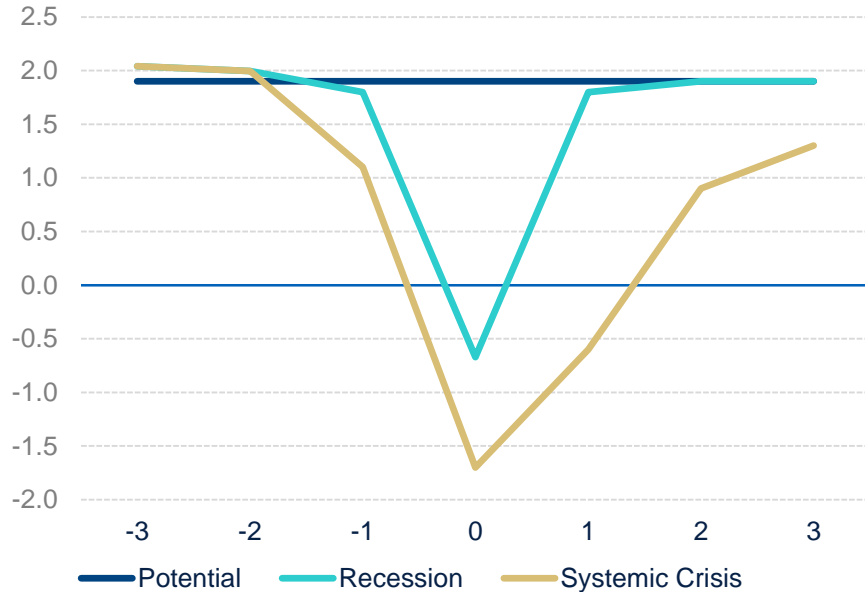
BBVA Recession Timing Index

Risk of systemic crisis contained but timing is narrowing

Scenarios

RECESSION SEVERITY

(REAL GDP GROWTH; T=0 YEAR OF RECESSION)

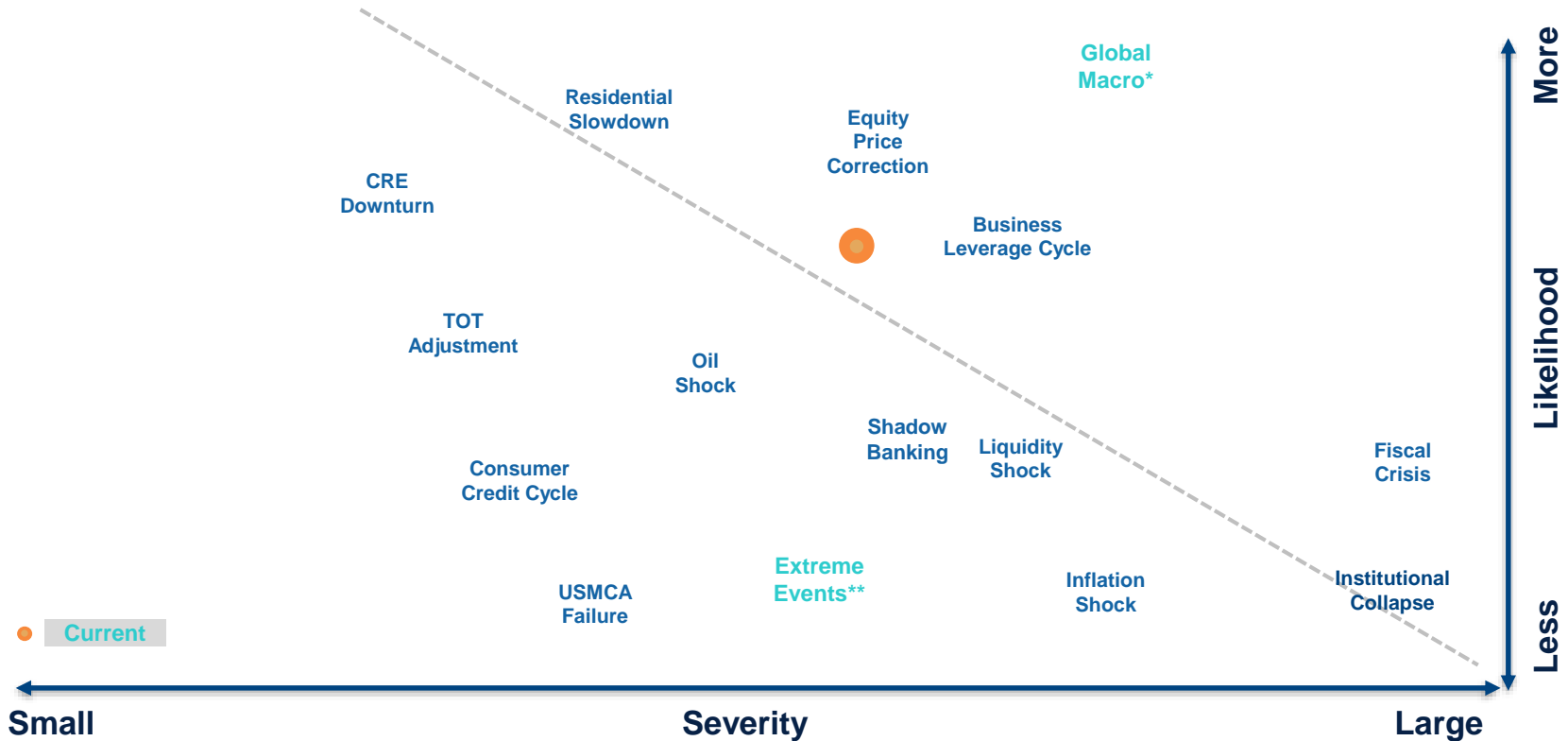


Source: BBVA Research

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

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

Risk Matrix



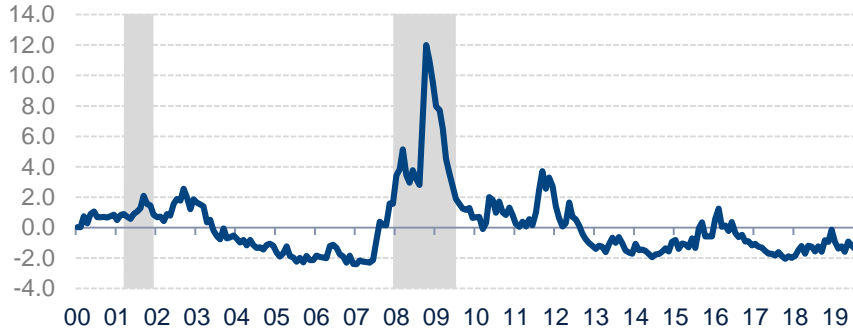
Source: BBVA Research; This assessment is not static and can change significantly depending on future developments

* Includes macroeconomic conditions in China, Euro Area, Brexit, Emerging Markets

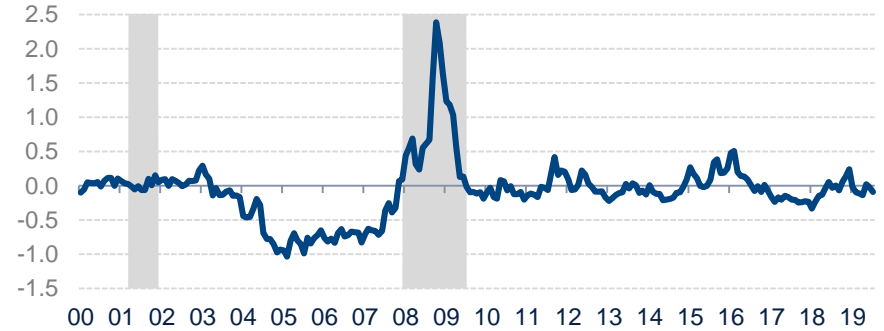
** Includes non-economic factors: Climate, Cybersecurity, Pandemic, Terrorism, Migration, etc.

Global Conditions

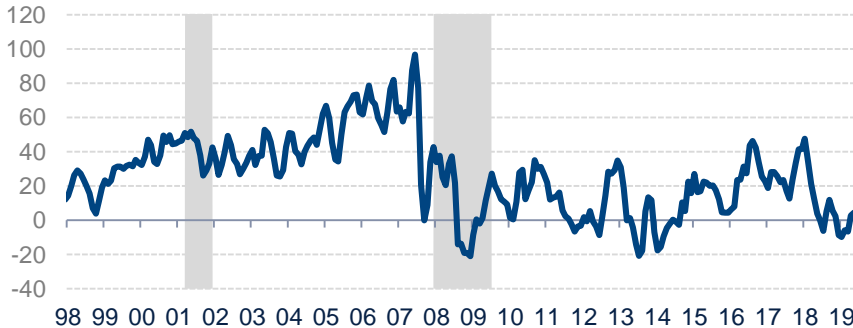
ADVANCED ECONOMIES FINANCIAL STRESS (0=AVERAGE STRESS LEVEL)



EMERGING MARKETS FINANCIAL STRESS (0=AVERAGE STRESS LEVEL)



NET FOREIGN PURCHASES OF U.S. SECURITIES (US\$BN, 3MMA, EXCLUDING OFIS AND INT'L ORGANIZATIONS)



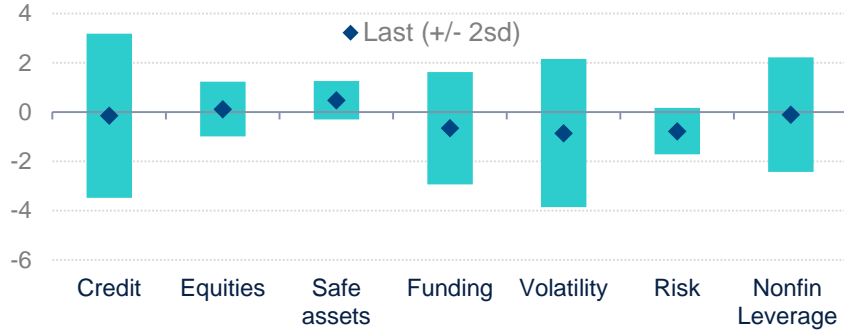
GLOBAL EXPORTS AND INDUSTRIAL PRODUCTION (YOY % CHANGE, EX. U.S.)



Financial Markets

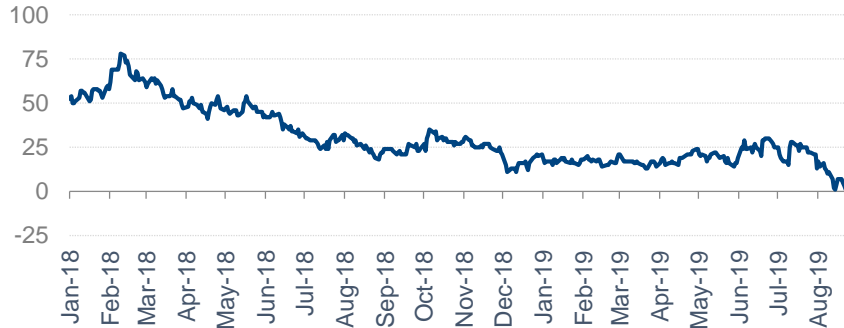
FINANCIAL STRESS INDICATORS

(>0 = TIGHTER THAN AVERAGE)



TREASURY YIELD CURVE 10Y MINUS 2Y

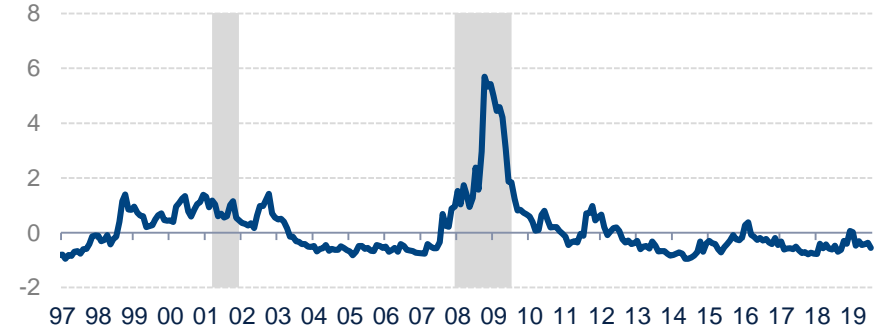
(BASIS POINTS)



Source: BBVA Research, OFR, KC Fed, R. Shiller, ICE and Haver

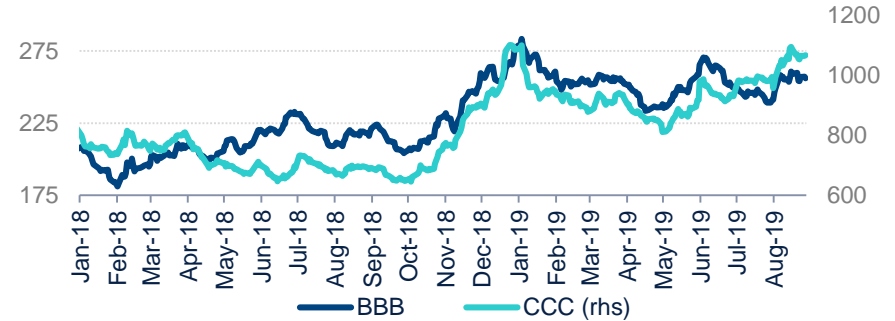
FINANCIAL STRESS INDEX

(ABOVE 0 = ABOVE AVERAGE STRESS)



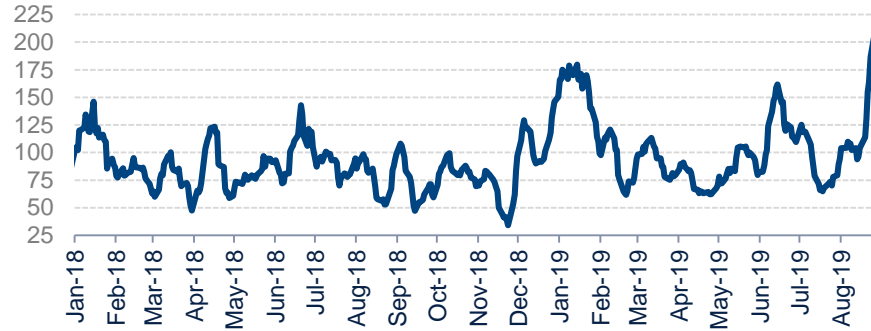
CORPORATE SPREADS

(BASIS POINTS)



Uncertainty

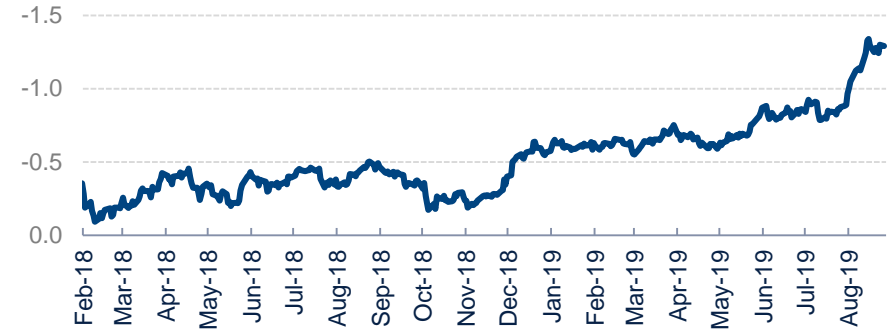
ECONOMIC POLICY UNCERTAINTY (INDEX, MEAN=100)



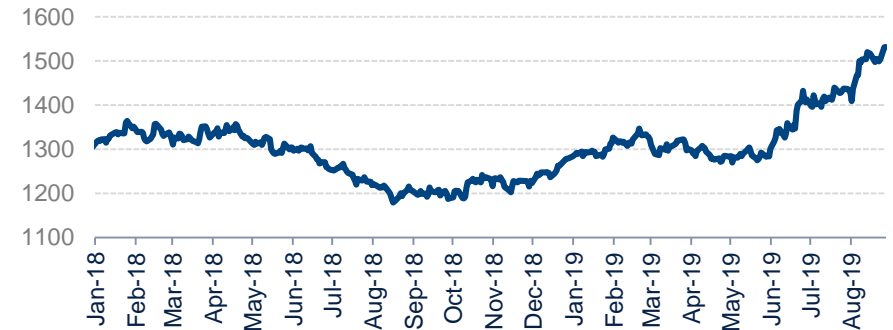
STOCK MARKET (VIX, INDEX)



TERM PREMIUM (10YTN, %, INVERTED)

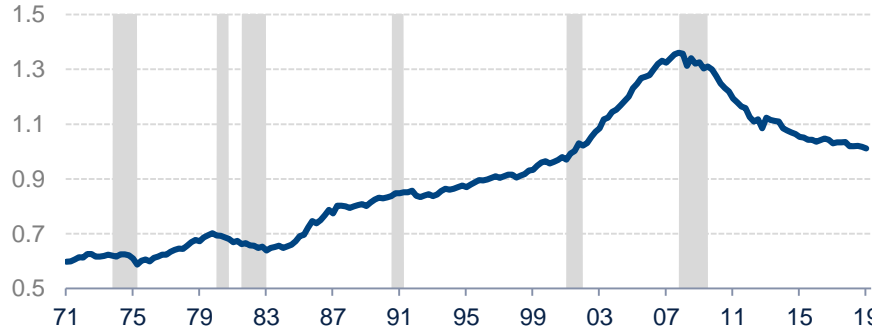


GOLD (\$/TROY OZ)

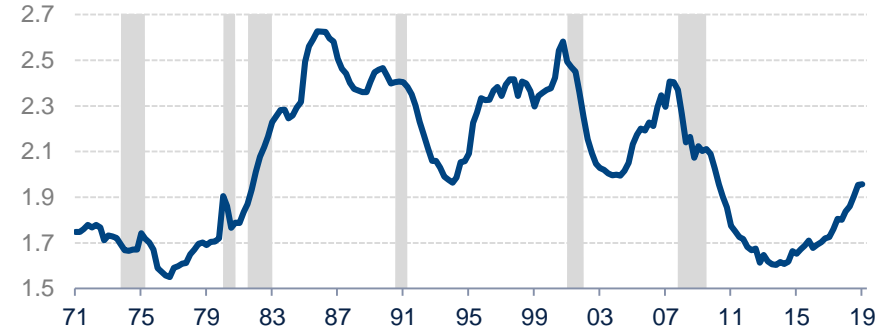


Households

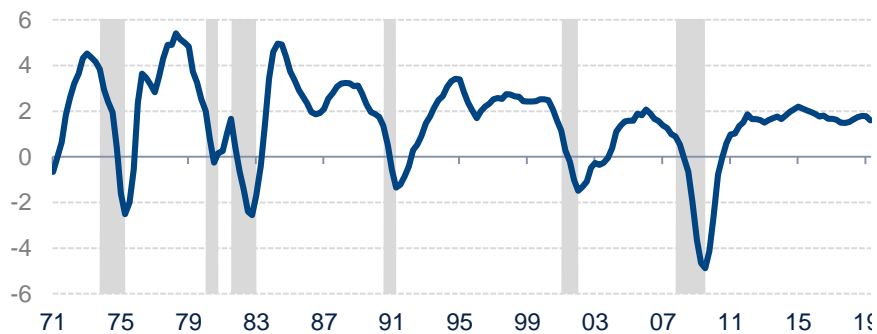
LIABILITIES/DISPOSABLE INCOME
(RATIO)



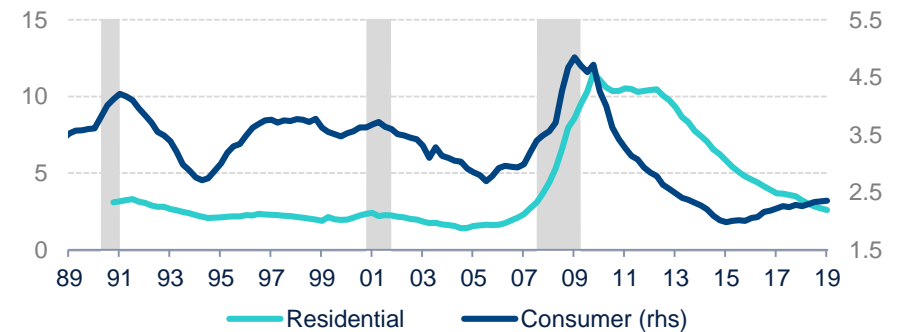
INTEREST PAYMENTS/PERSONAL INCOME
(%)



NONFARM PAYROLL
(YOY % CHANGE)

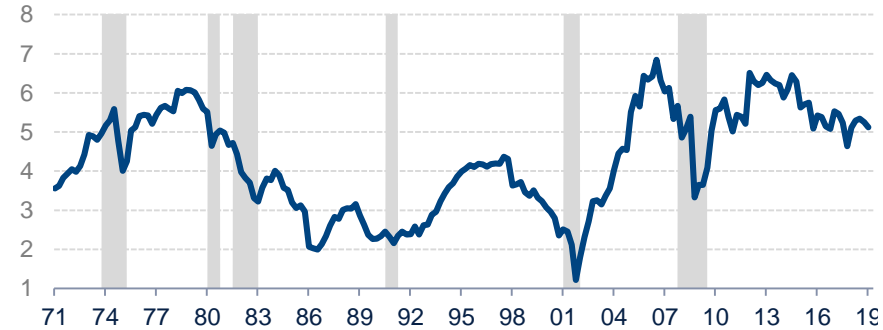


DELINQUENCY RATE
(%)

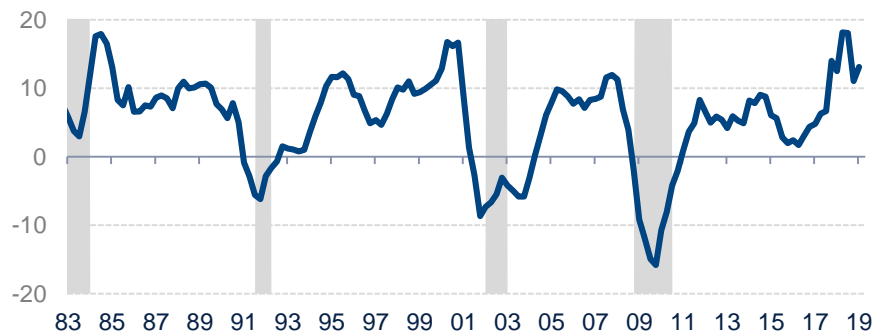


Businesses

NONFINANCIAL CORPORATE PROFITS (% OF GDP)

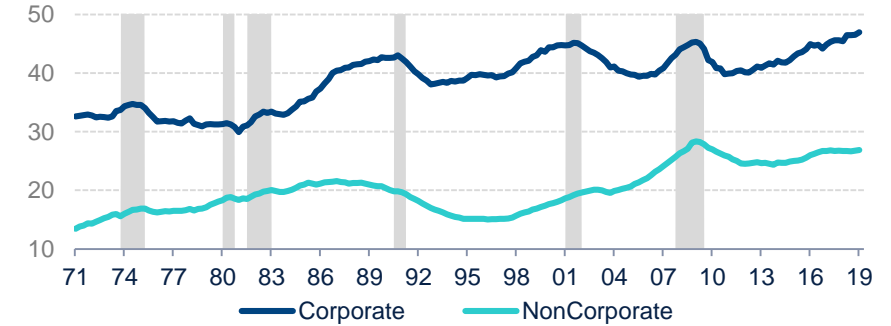


NONFINANCIAL CORPORATE SHORT-TERM LIABILITIES (YOY % CHANGE)

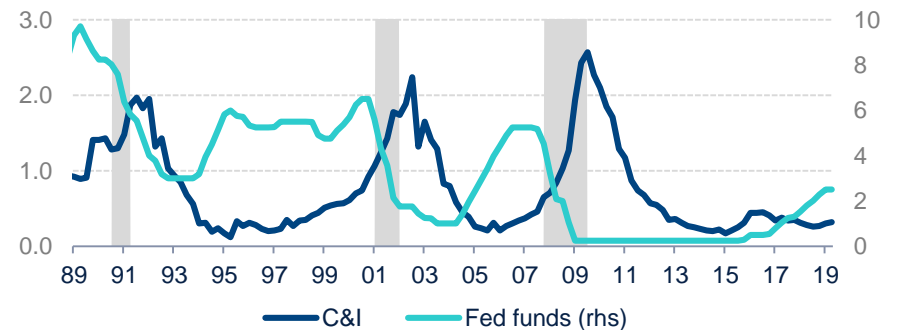


Source: BBVA Research, Federal Reserve, BEA and Haver

NONFINANCIAL BUSINESS DEBT (% OF GDP)

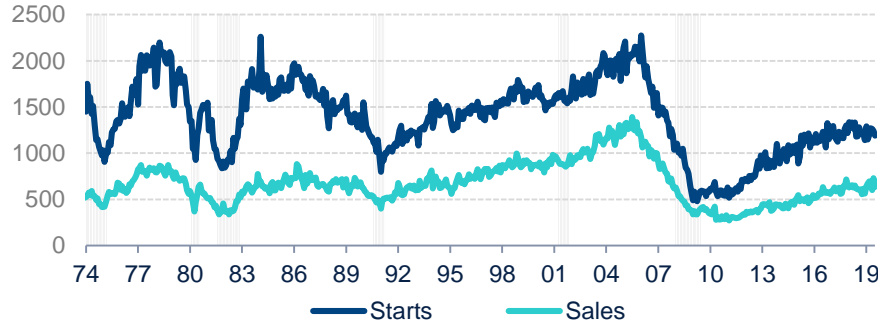


C&I LOAN CHARGE-OFF RATE & FED FUNDS (%)

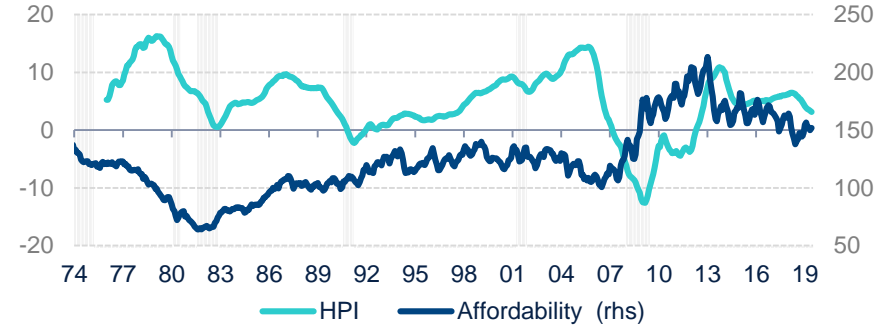


Real Estate

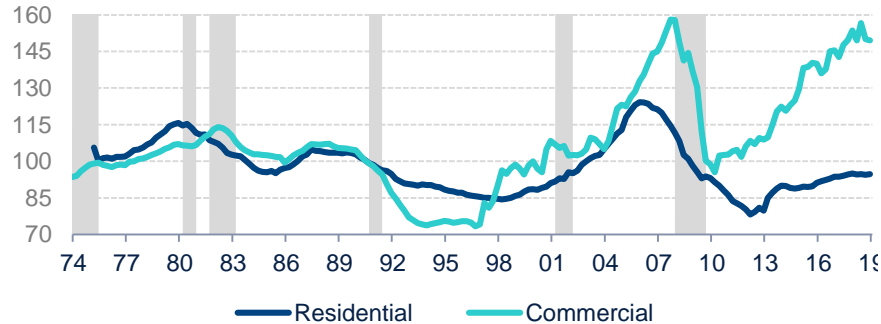
HOUSING STARTS AND NEW HOME SALES
(THOUSAND UNITS, ANNUALIZED)



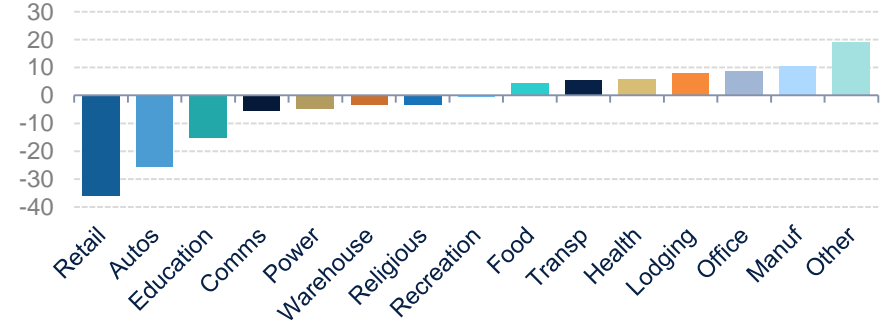
HOUSING AFFORDABILITY AND PRICES
(INDEX AND YOY % CHANGE)



BBVA REAL ESTATE PRICES MISALIGNMENT
(1990=100)



NONRESIDENTIAL CONSTRUCTION
(YOY % CHANGE)

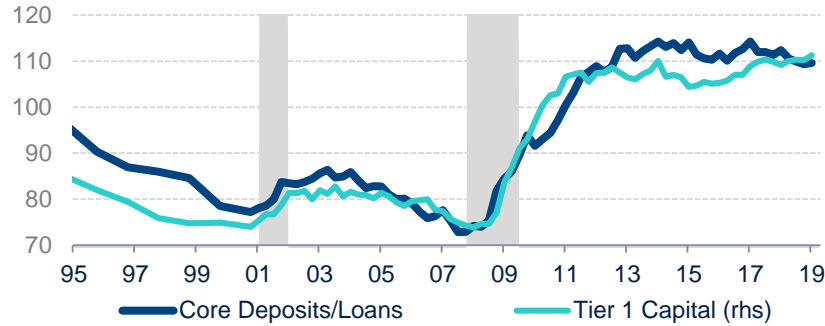


Source: BBVA Research, Federal Reserve, Census, BEA and Haver

Financial Sector

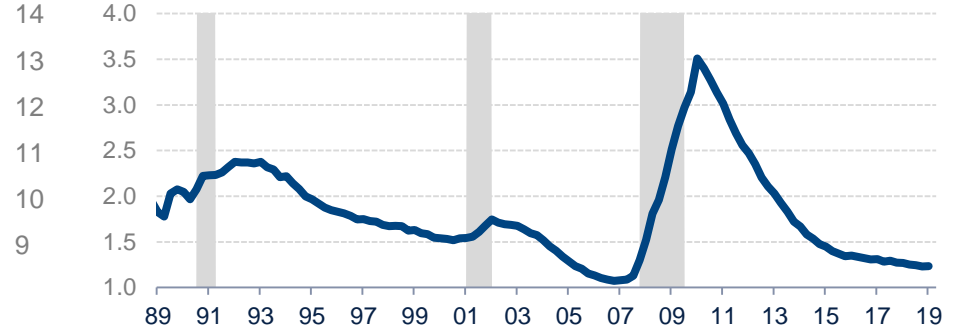
DEPOSITS AND CAPITAL RATIOS

(% OF LOANS AND ASSETS, COMMERCIAL BANKS)



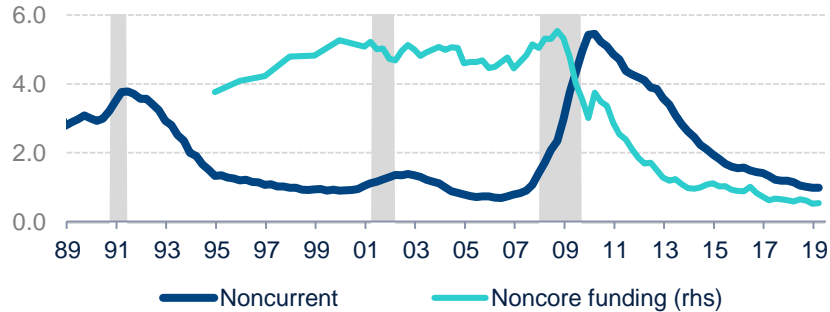
LOAN RESERVES

(% OF TOTAL LOANS, ALL FDIC INSTITUTIONS)



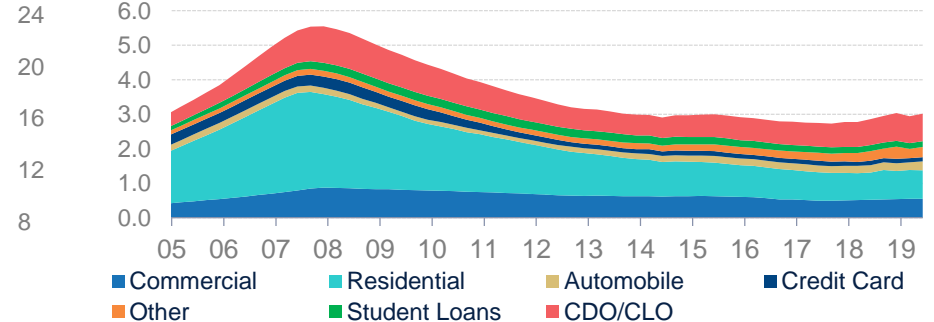
NONCURRENT LOANS AND FUNDING

(% OF LOANS AND LIABILITIES, COMMERCIAL BANKS)



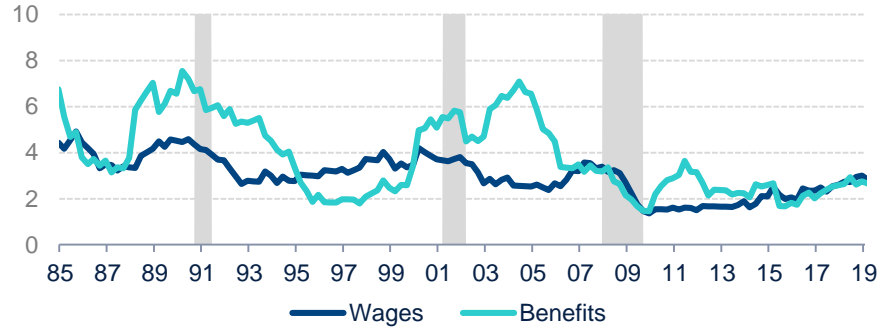
SECURITIZATIONS

(US\$TN)

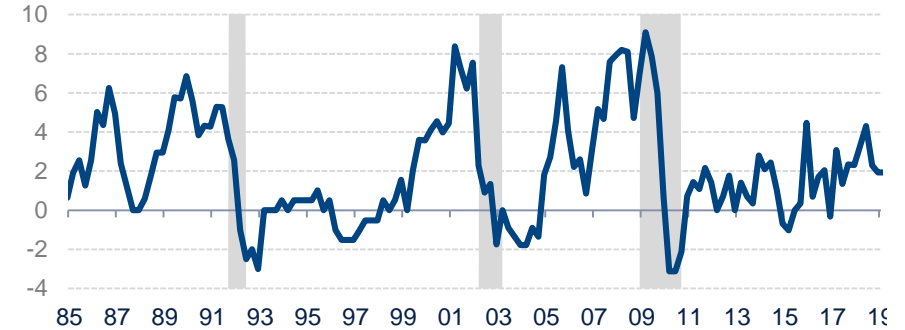


Prices

LABOR COSTS (YOY % CHANGE, ECI)



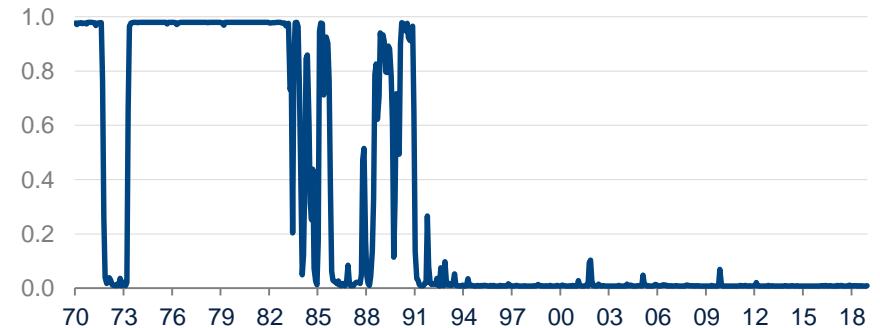
NONLABOR COSTS PER UNIT OF REAL GDP (YOY % CHANGE)



MARKET INFLATION EXPECTATIONS (%)



BBVA INFLATION REGIME PROBABILITY (REGIME CHANGE LOW TO HIGH)



For more information

[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 January 2019](#)

[Recession risk monitor March 2019](#)

[Recession risk monitor June 2019](#)

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