

U.S. Macroeconomic Pulse

December 2019

Economic Outlook

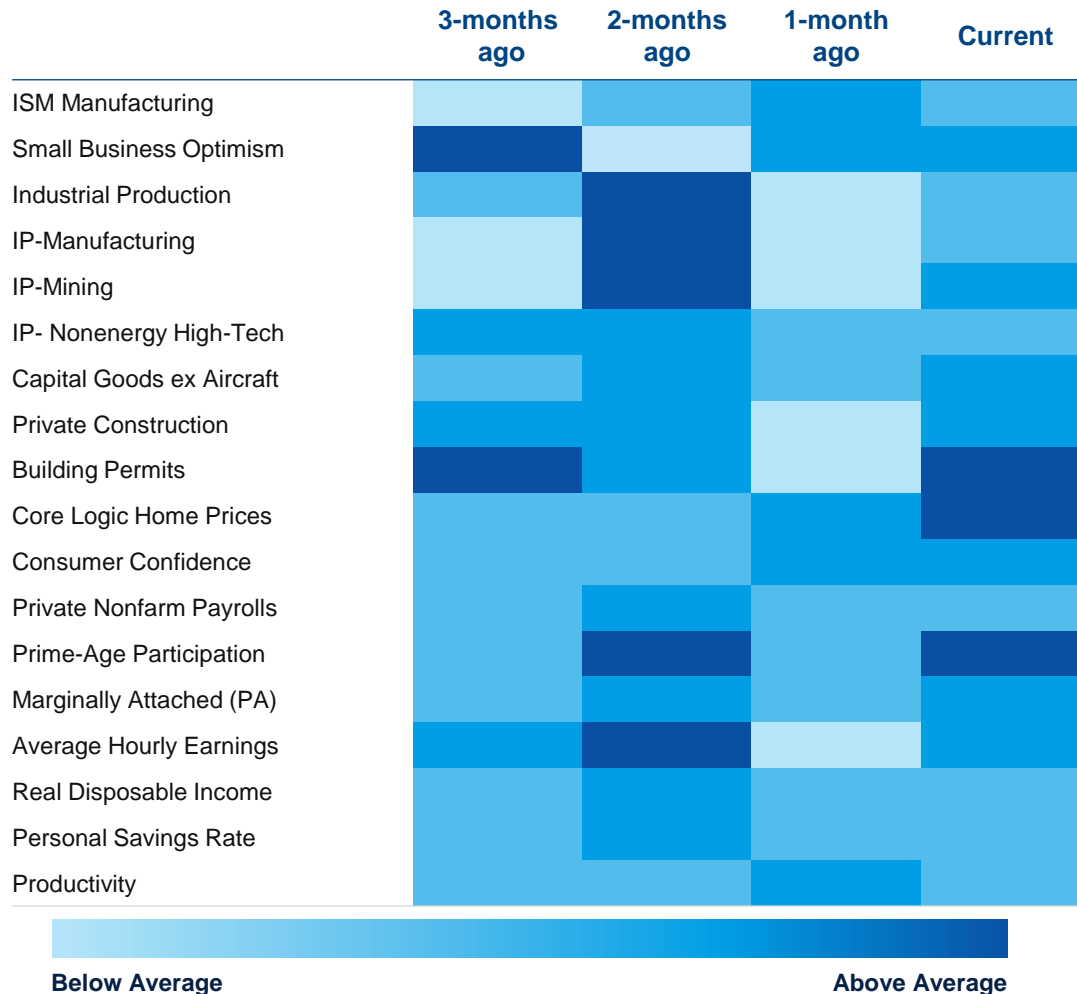
- Baseline assumes growth of 2.3% in 2019 and 1.8% in 2020
- Model-based recession projections suggest probability around 50% over the next 24-months
- Moderate job growth and steady unemployment for foreseeable future
- Inflation close to 2%, but downside risks remain
- Fed likely to pause indefinitely as committee evaluates the impact of increased accommodation and monitors risks
- Yield curve steepening with improvement in term premium and Fed fine-tuning
- Oil price outlook underpinned by weak demand growth in a well-supplied market

Macro Fundamentals

- At 2.1% QoQa in 3Q19, GDP growth remains consistent with a scenario of growth moderation rather than recession
- Consumption, public expenditures and investment in intellectual contributed 2.0, 0.3 and 0.2PP to growth, respectively
- Elevated domestic policy uncertainty and tepid global growth weighed on nonresidential investment in structures and equipment
- Incoming data suggests growth will be close to 1.5% QoQa in 4Q19: baseline assumes growth of 2.3% in 2019 and 1.8% in 2020
- Boost from federal spending at risk if Congress fails to finalize appropriations for FY2020

Economic activity

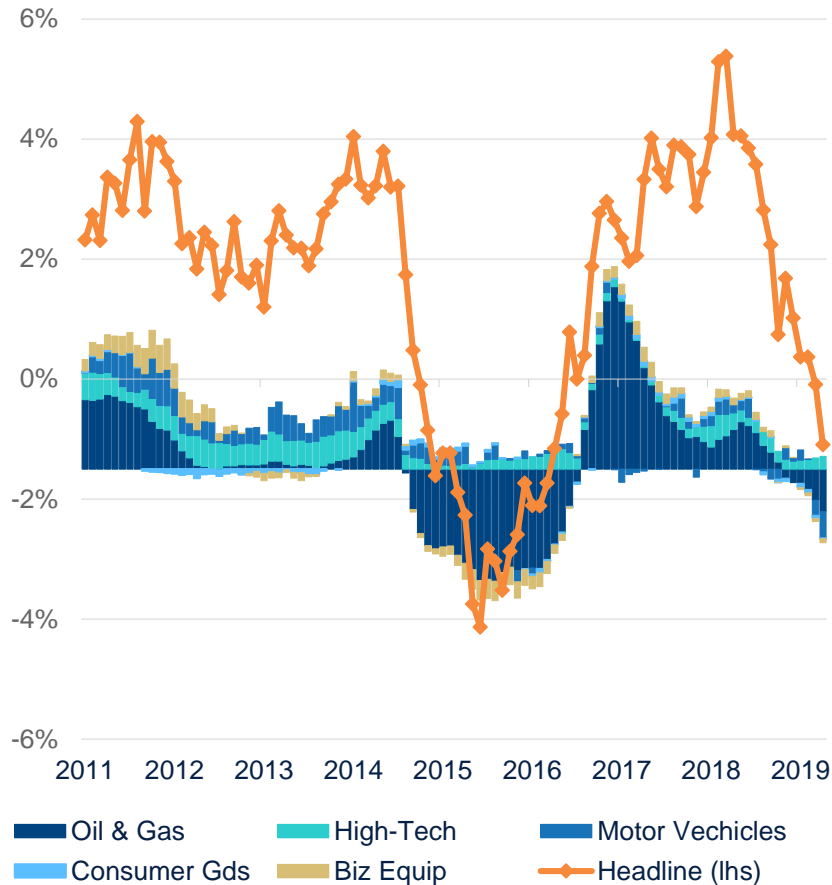
REAL-TIME ECONOMIC MOMENTUM HEAT MAP



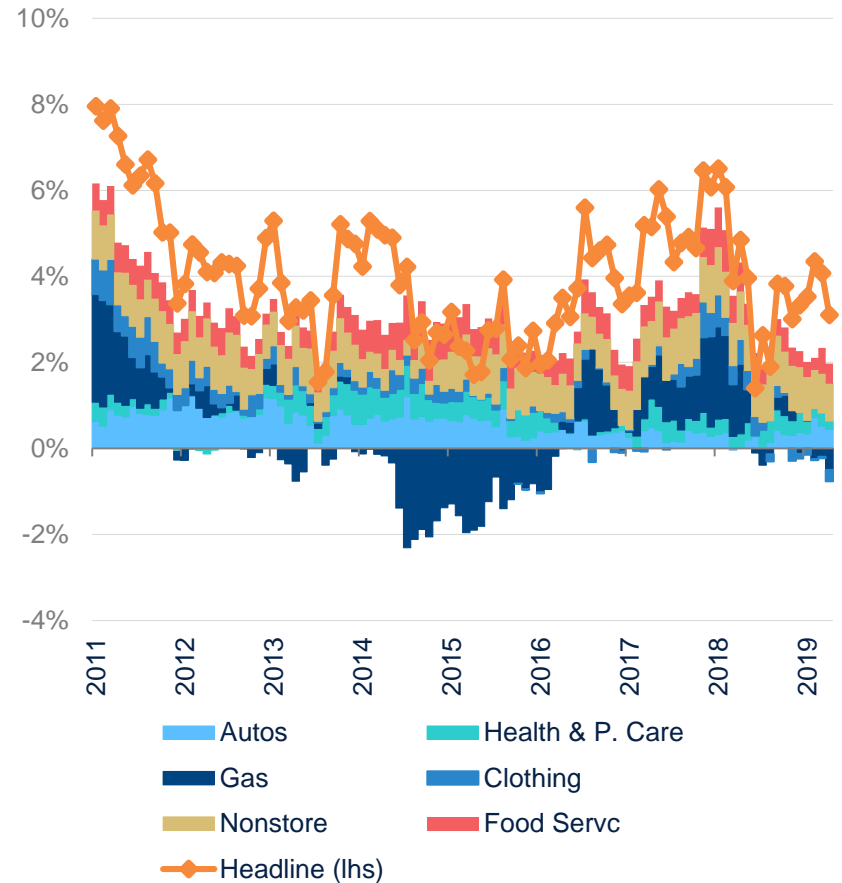
- Thawing trade tensions yet to translate into momentum in industrial and manufacturing sectors
- Across-the-board decline in confidence indicators (C-suite, consumer and small business)
- Lower interest rates and pent-up demand boosting residential activity; prices buoyant
- Prime age participation remains strong despite cyclical headwinds
- Lower interest burdens and late cycle fears helping to sustain upward trend in personal savings

Economic trends: Weaker confidence indicators could presage further weakening in production and sales in 4Q19

INDUSTRIAL PRODUCTION (YEAR-OVER-YEAR %)

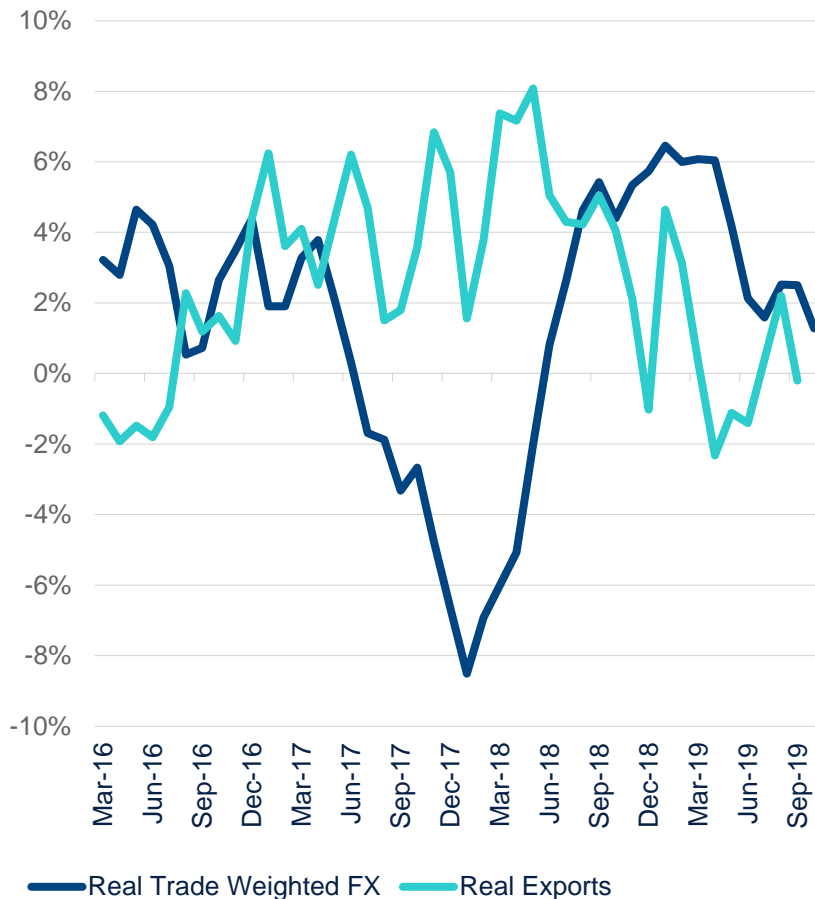


RETAIL SALES (YEAR-OVER-YEAR %)

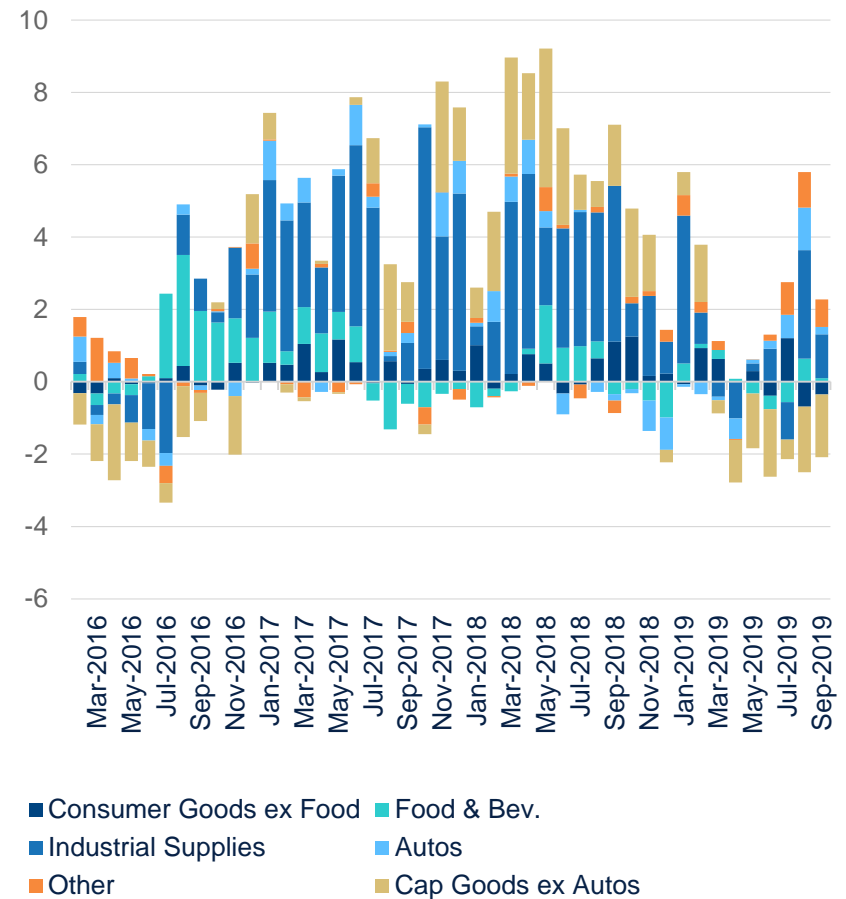


Economic trends: Tepid global demand and uncertainty continues to weigh on exports

REAL EXCHANGE RATE AND EXPORTS (YEAR-OVER-YEAR %)



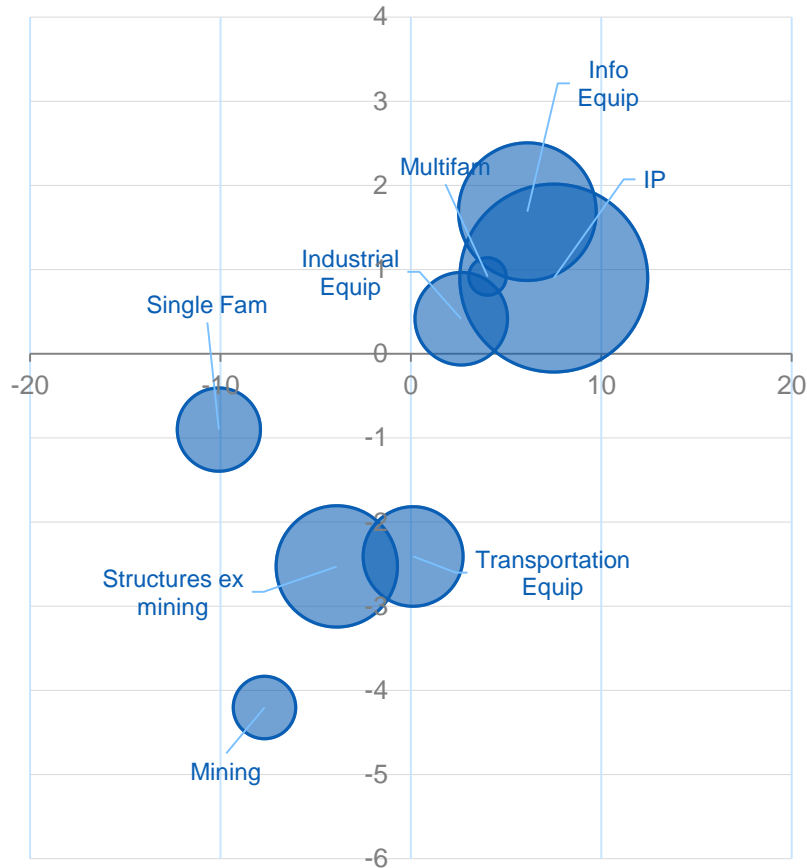
REAL EXPORTS (CONTRIBUTION TO YEAR-OVER-YEAR %)



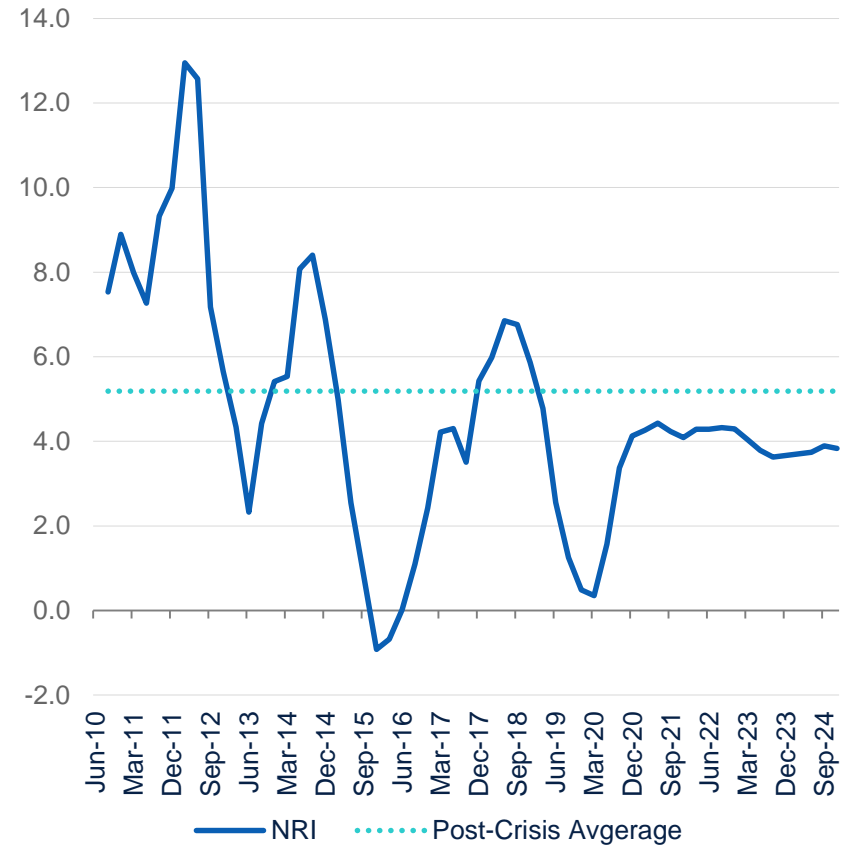
Source: BBVA Research, FRB & Census

Economic trends: Investment outlook tilted to downside, but risks abating

REAL PRIVATE FIXED INVESTMENT (YOY & QOQ %)

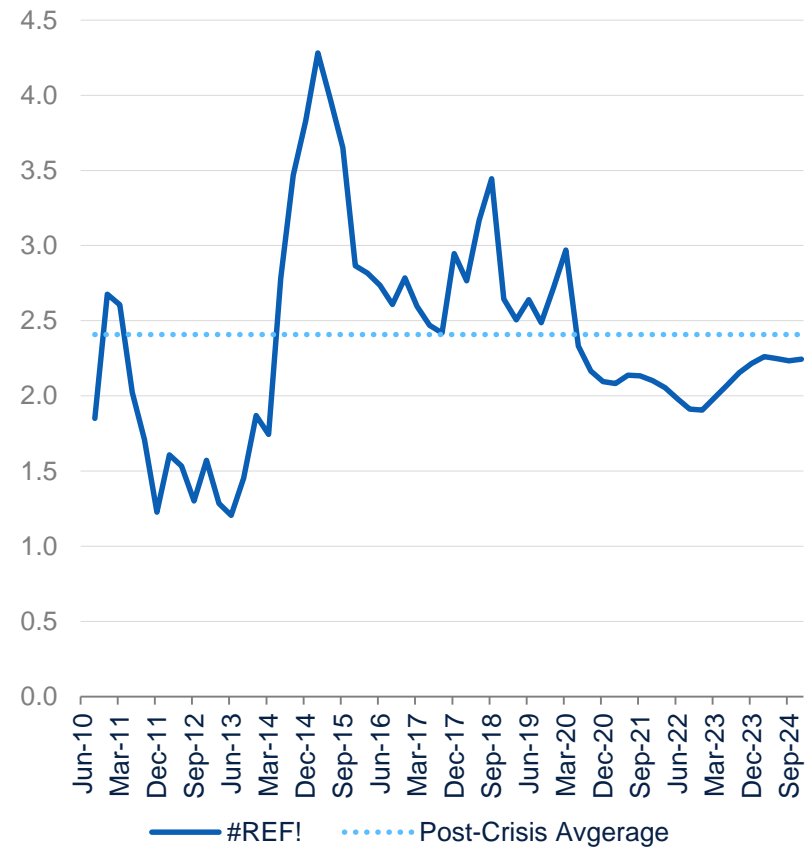
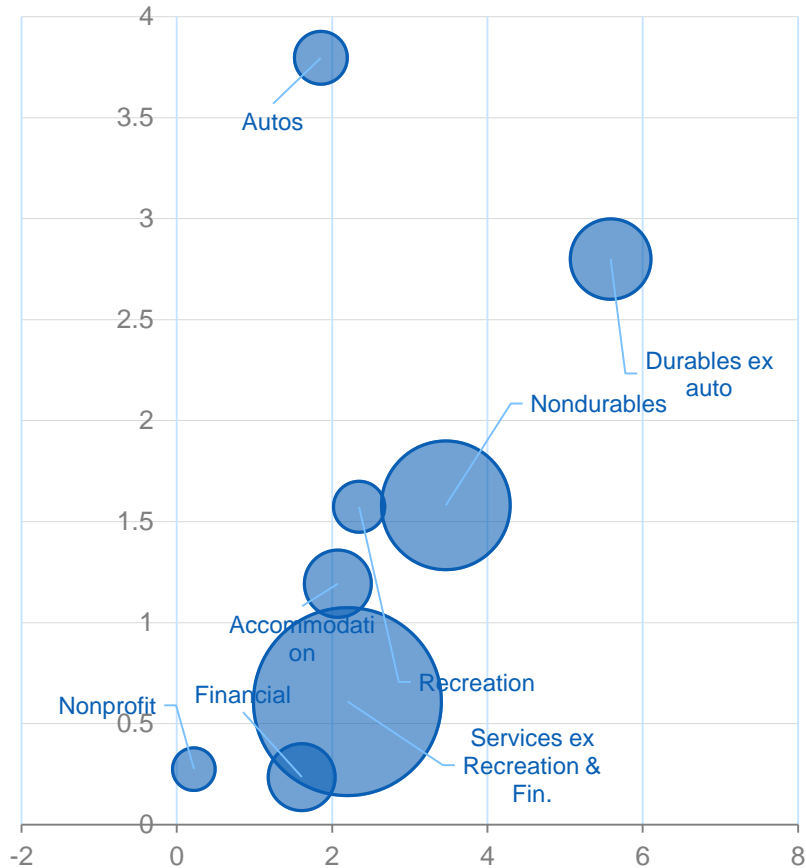


REAL NONRESIDENTIAL PRIVATE INVESTMENT (BN 2012\$, YOY %)



Economic trends: Modest slowdown in consumption

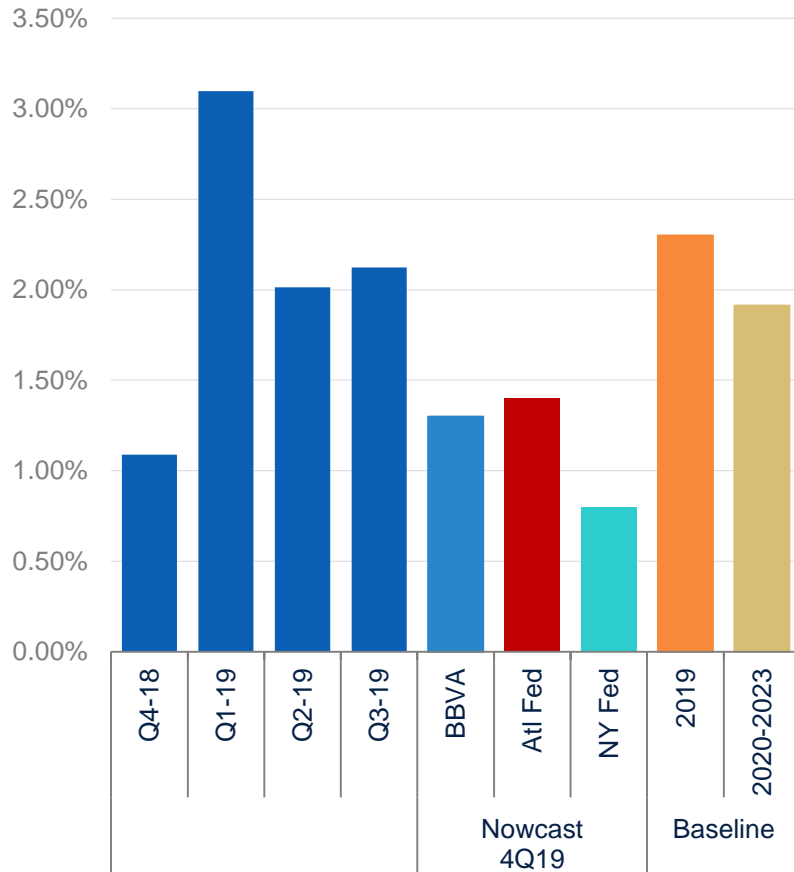
REAL PERSONAL CONSUMPTION EXPENDITURES (YOY & QOQ %) **REAL PERSONAL CONSUMPTION EXPENDITURES (BN 2012\$, YOY %)**



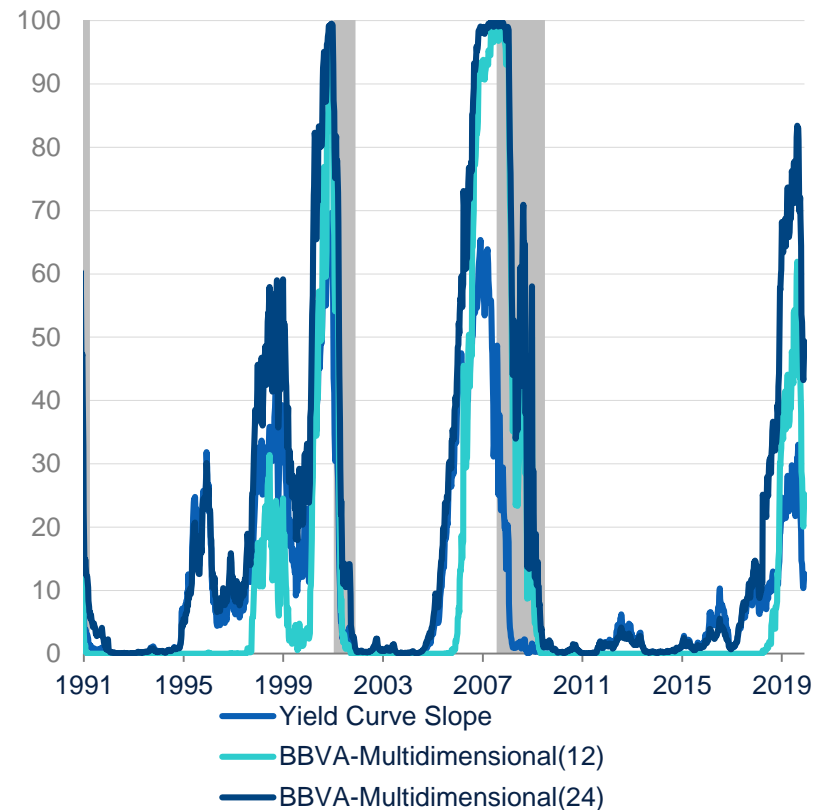
Source: BBVA Research, FRB & Census

Economic trends: Recession risk over next 24 months below 50% for 5 consecutive weeks

REAL GDP
(QOQ SAAR, %)

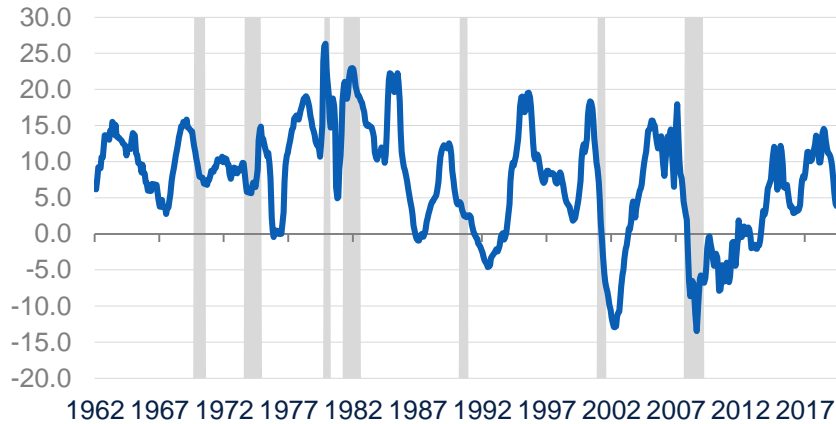


PROBABILITY OF RECESSION
(%)

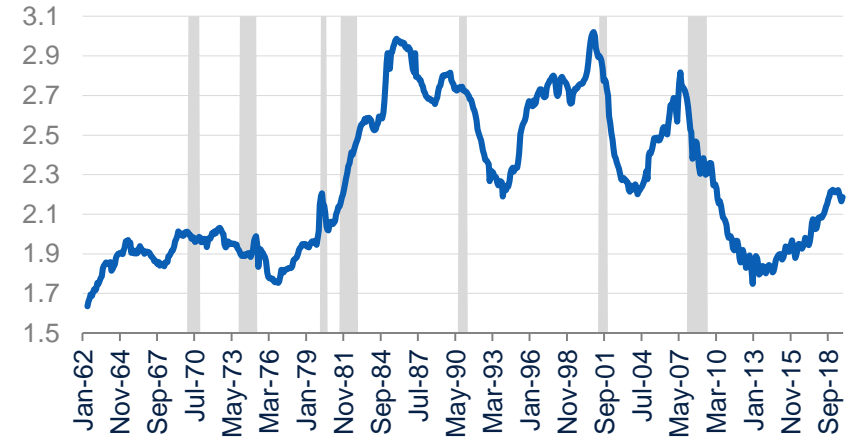


Consumer credit cycle: Strong consumer balance sheets and favorable financial conditions to support consumer credit

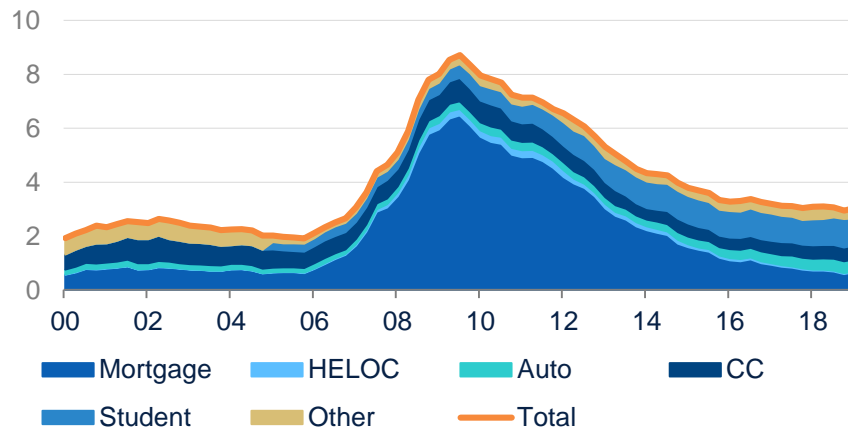
PERSONAL INTEREST EXPENSE
(YEAR-OVER-YEAR %)



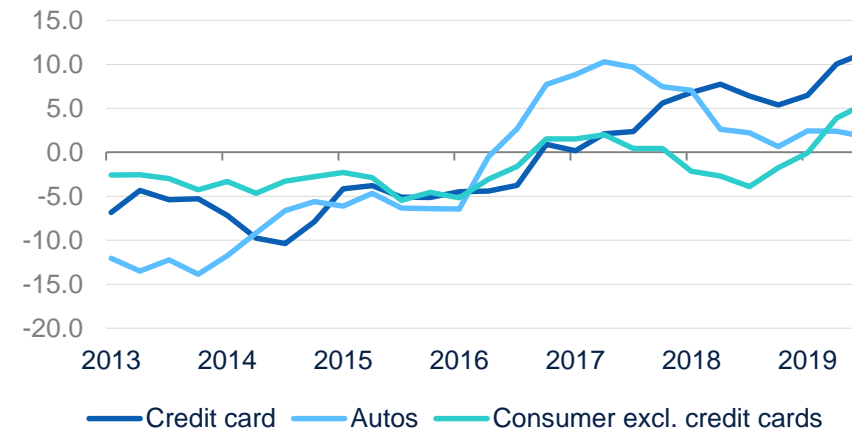
PERSONAL INTEREST EXPENSE TO DISP. INCOME (RATIO, %)



CONSUMER SERIOUSLY DELINQUENT RATES
(90-DAY, CONTRIBUTION, %)



SENIOR LOAN OFFICERS LENDING STANDARDS (+ TIGHTENING / - LOOSENING)

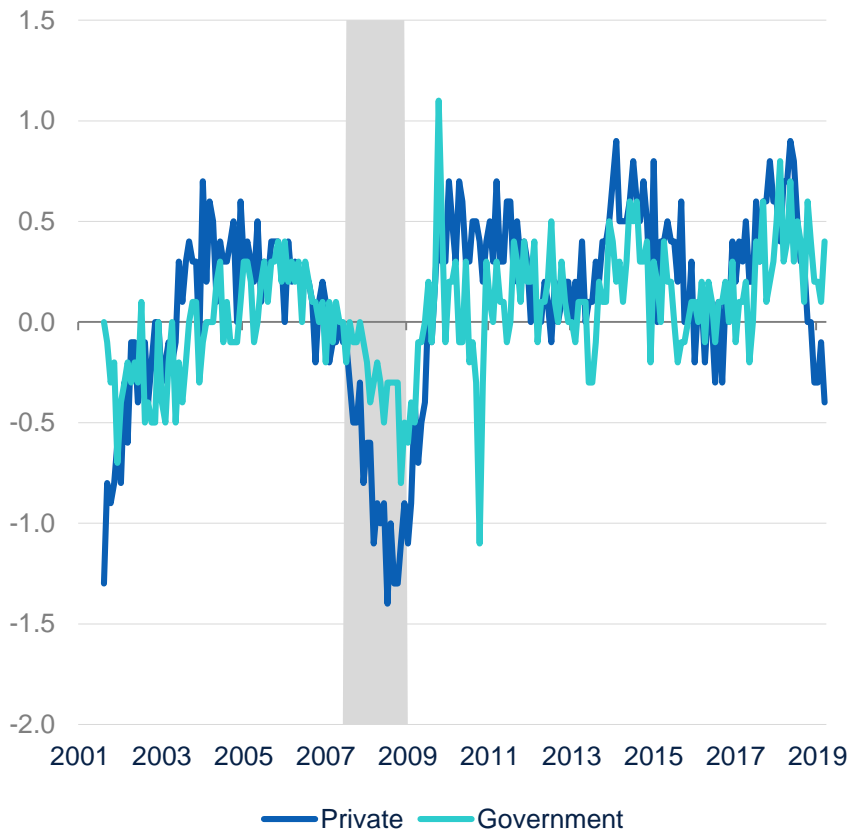


Labor Market

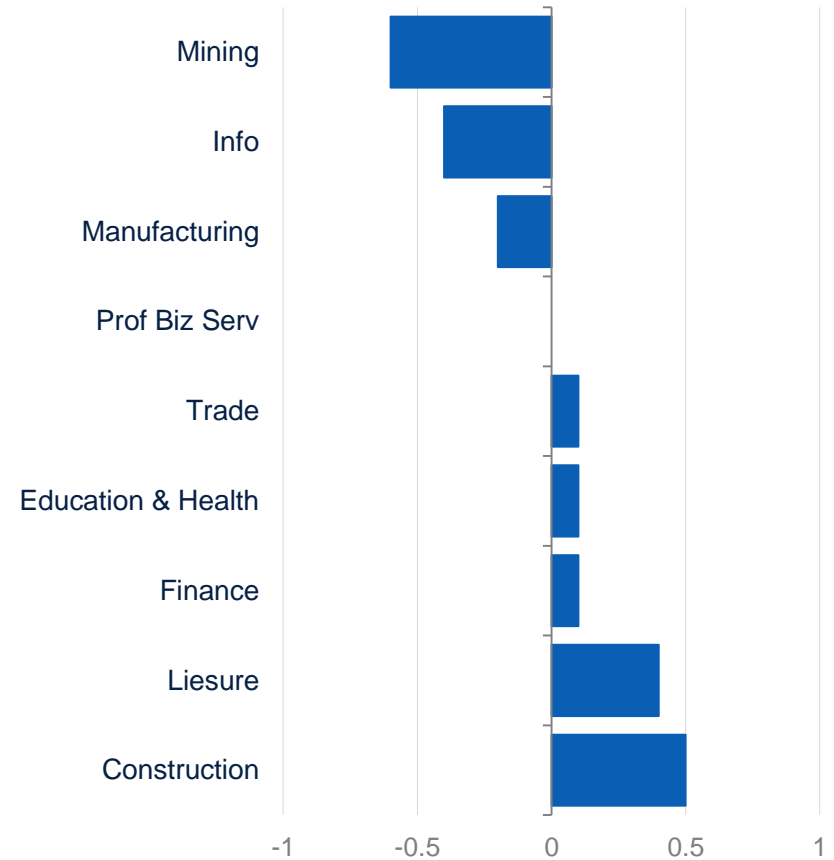
- In November, the labor market added 266,000 jobs
- Solid gains in healthcare (45K), leisure and hospitality (45K), professional and technical services (31K), transportation and warehousing (16K), and financial activities (13K)
- Manufacturing employment increased by 54K in November, but 80% of the increase is explained by workers returning from the GM strike
- The unemployment rate (UR) edged down to 3.5%
- After stripping out statistical effect from workers returning from GM strike, underlying labor market trends aligned with our view of moderation rather than a breakout growth
- Baseline assumes modest decline in UR going forward. Average monthly job growth to slow to 151K in 2020 and 135K in 2021

Labor market: Job openings continue to decline, as quits rates slow in handful of industries

JOB OPENINGS RATE
(YEAR-OVER-YEAR, PP)

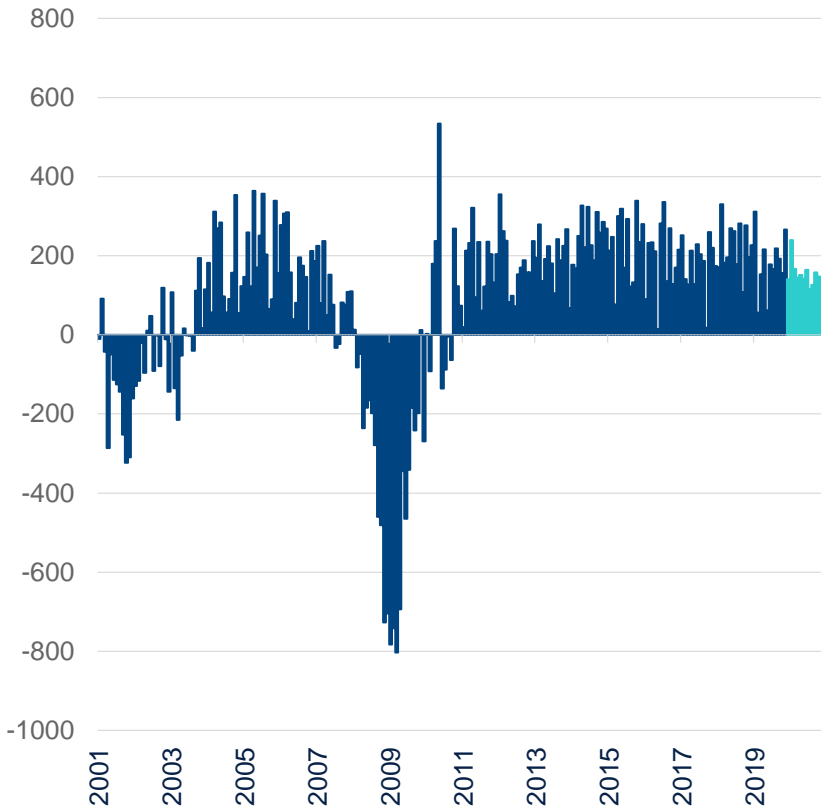


QUITS RATE
(CHANGE SINCE MARCH 2019, PP)



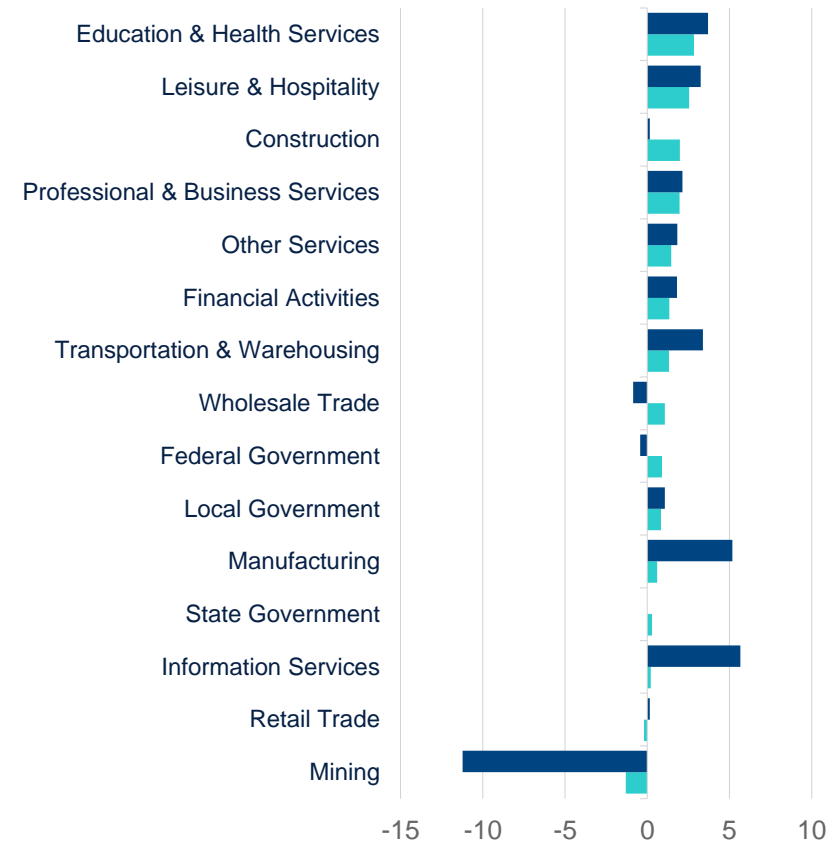
Labor market: End of GM strike and reduced volatility from Census hiring presage moderate stable job growth

NONFARM PAYROLLS (MONTHLY CHANGE, K)



■ Actual ■ Forecast

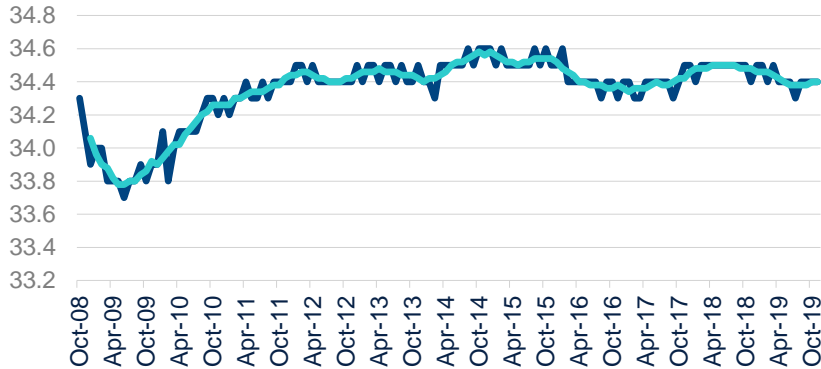
INDUSTRY EMPLOYMENT (ANNUALIZED % CHANGE)



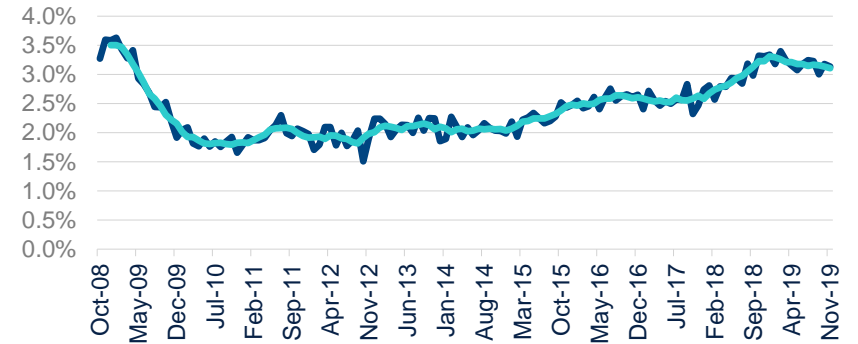
■ Monthly ■ Year-over-year

Labor market: Modest deceleration in average hourly earnings

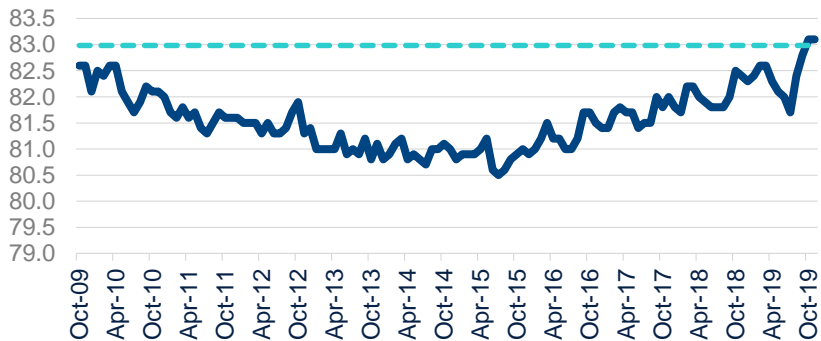
AVERAGE WEEKLY HOURS (NUMBER & 5MCMA)



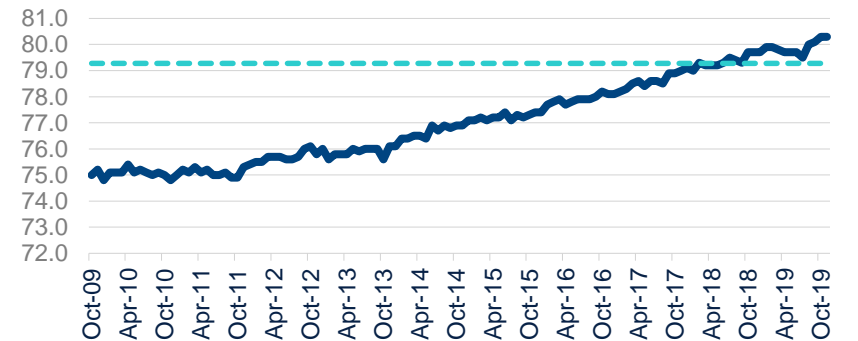
AVERAGE HOURLY EARNINGS (YOY% & 5MCMA)



PRIME AGE LABOR FORCE PARTICIPATION (%)



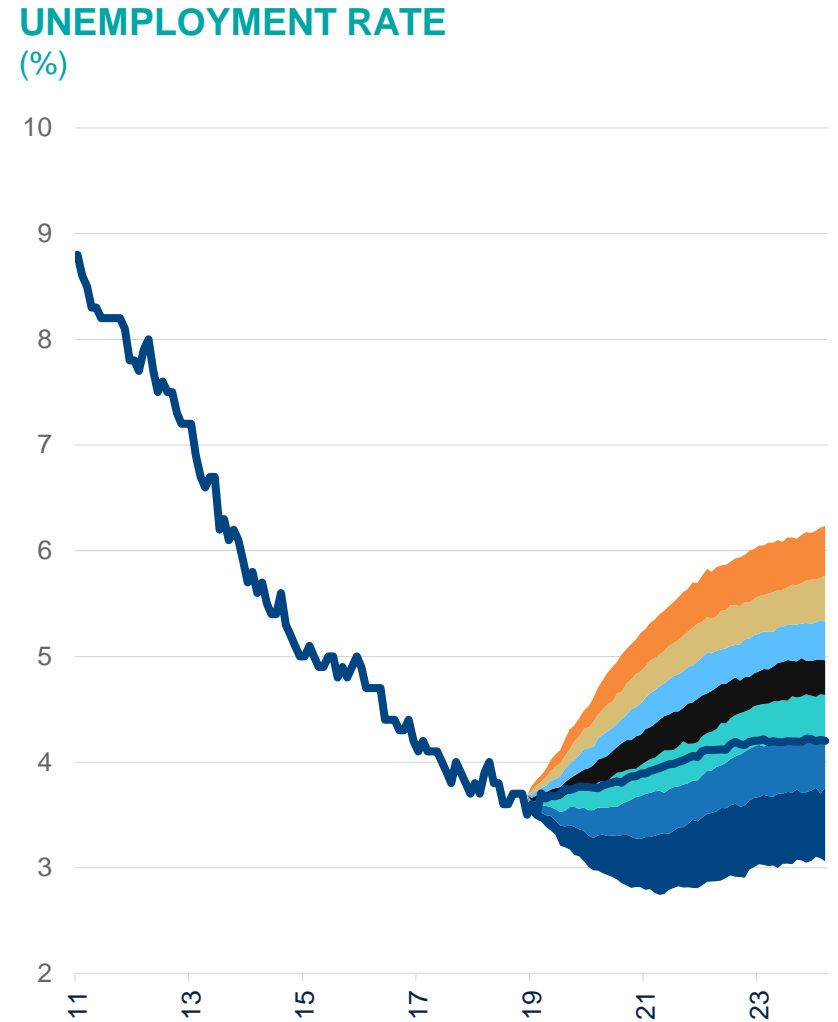
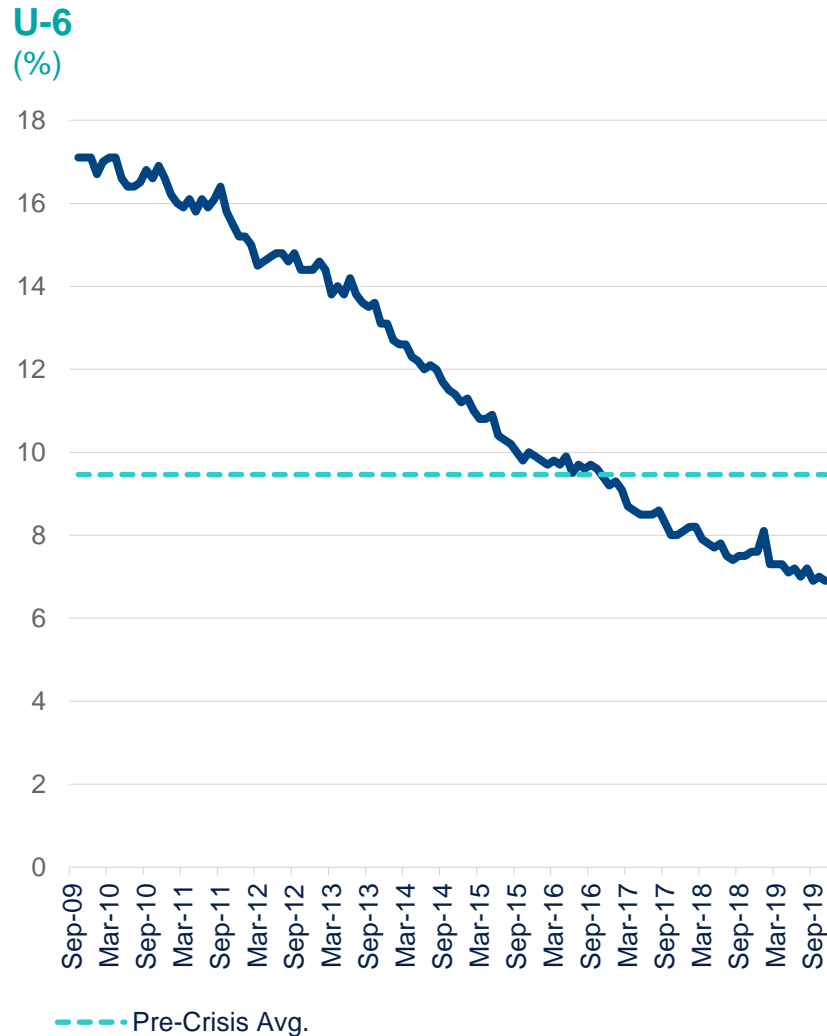
PRIME AGE EMPLOYMENT-TO-POPULATION (%)



--- Pre-Crisis Avg.

--- Pre-Crisis Avg.

Labor market: Broader measures of utilization (U-6) show continued improvement

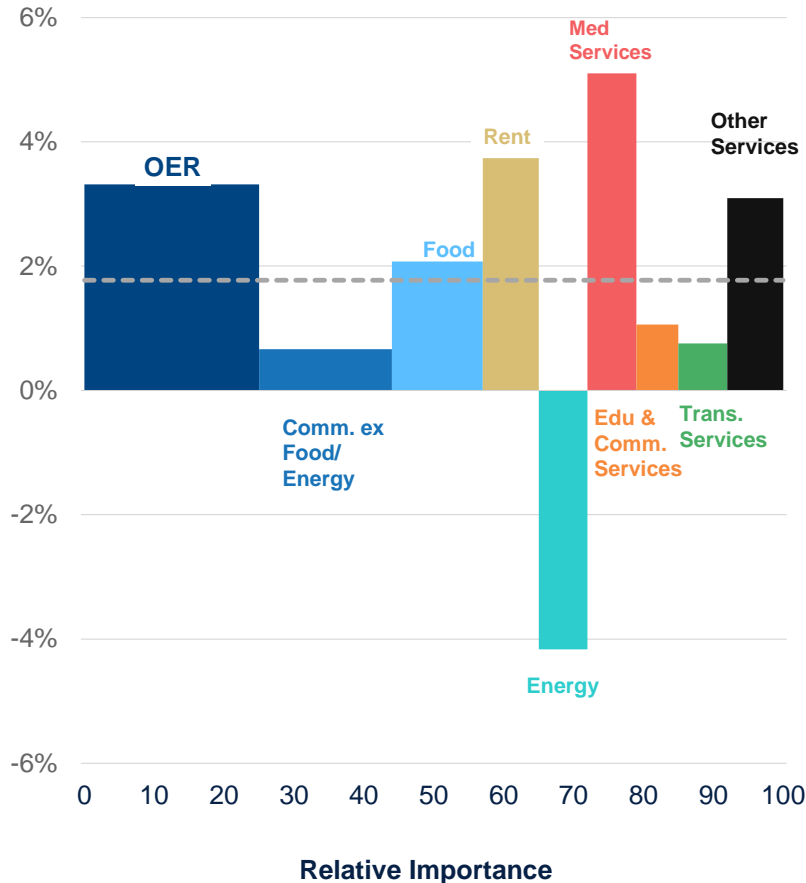


Inflation

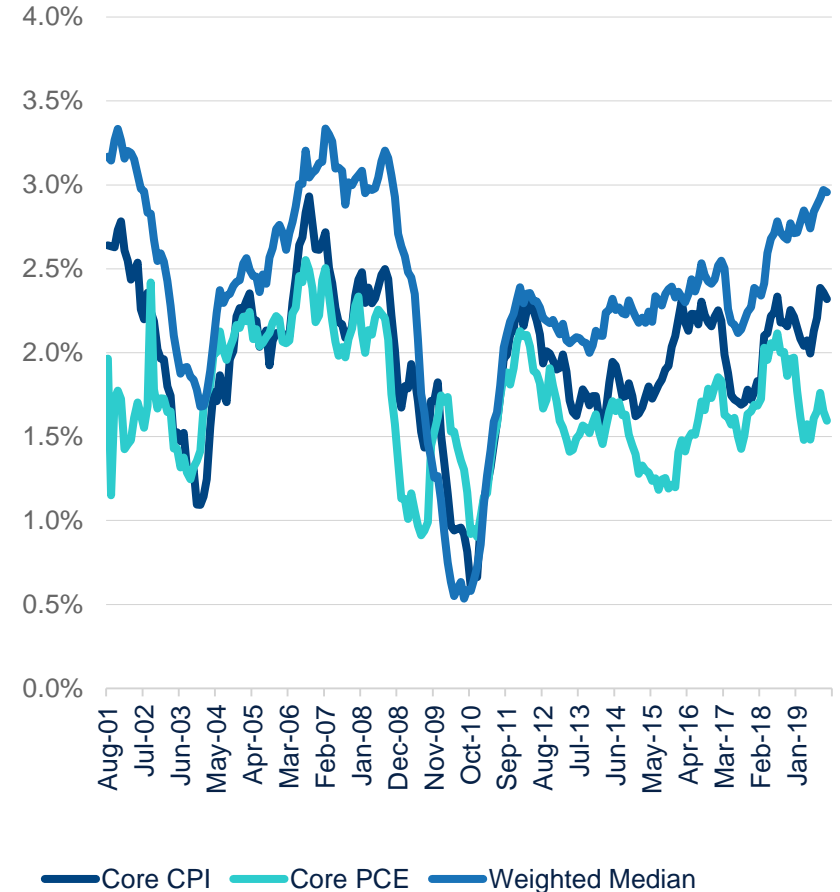
- Headline CPI rose 0.4% in October, after being unchanged in September
- On a year-over-year basis, headline CPI increased 1.8% while core CPI rose 2.3%
- Energy (2.7%), medical care(0.9%), recreation (0.7%) and used cars and trucks (0.5%) contributed positively to October's increase
- While positive, shelter prices experienced smallest increase since October 2013
- Downside risks to inflation continue to abate, but market-based inflation expectations remain subdued
- Baseline assumes average headline CPI will be 1.8% in 2019, before rebounding to 2.0% in 2020

Inflation: Core pressures eased, but energy prices rebounded

CONSUMER PRICE INFLATION (12M CHANGE)



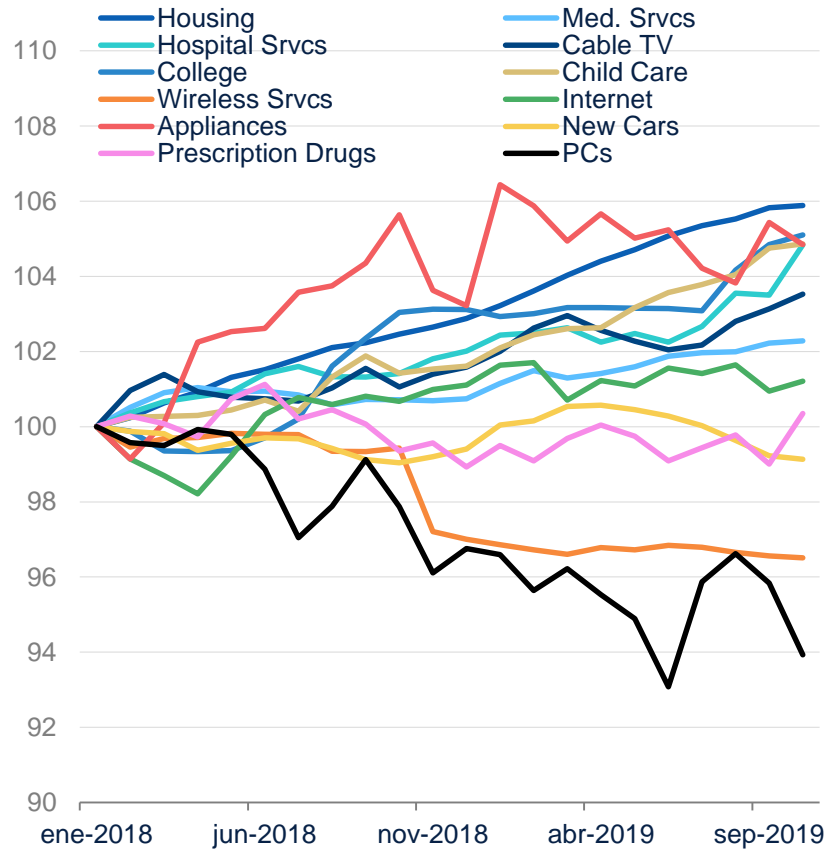
CORE INFLATION MEASURES (12M CHANGE, %)



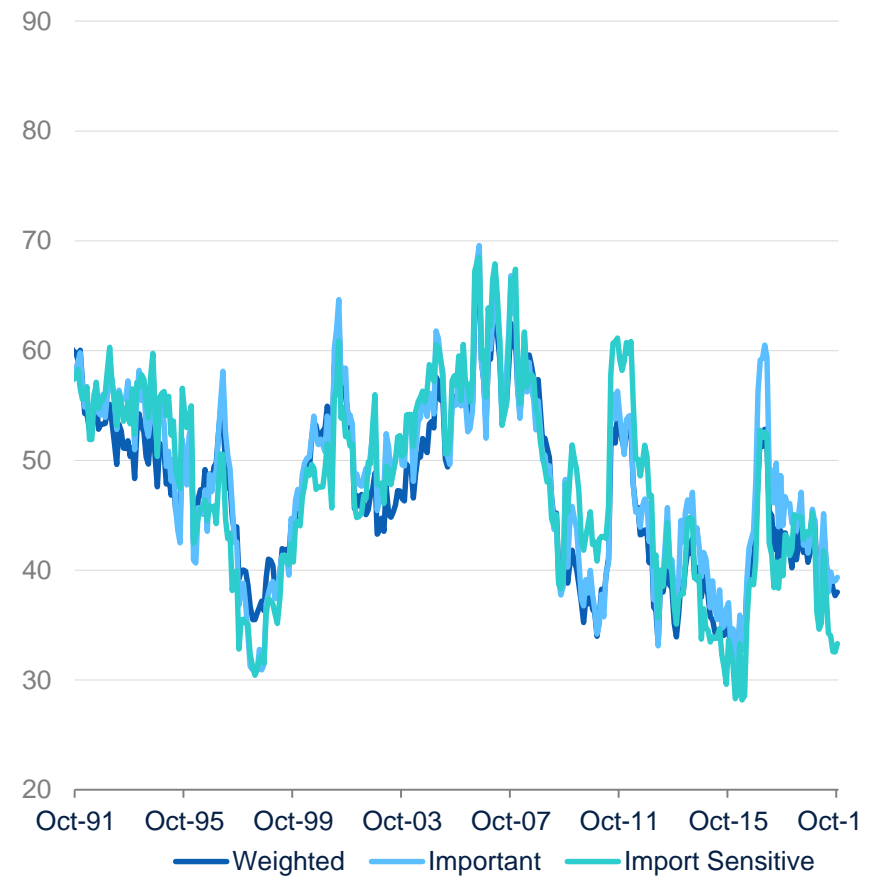
Source: BBVA Research, BLS & BEA

Inflation: Component diffusion indexes suggests risks to inflation remain tilted to downside

PERSONAL CONSUMPTION EXPENDITURES (INDEX, JAN-2018=100)

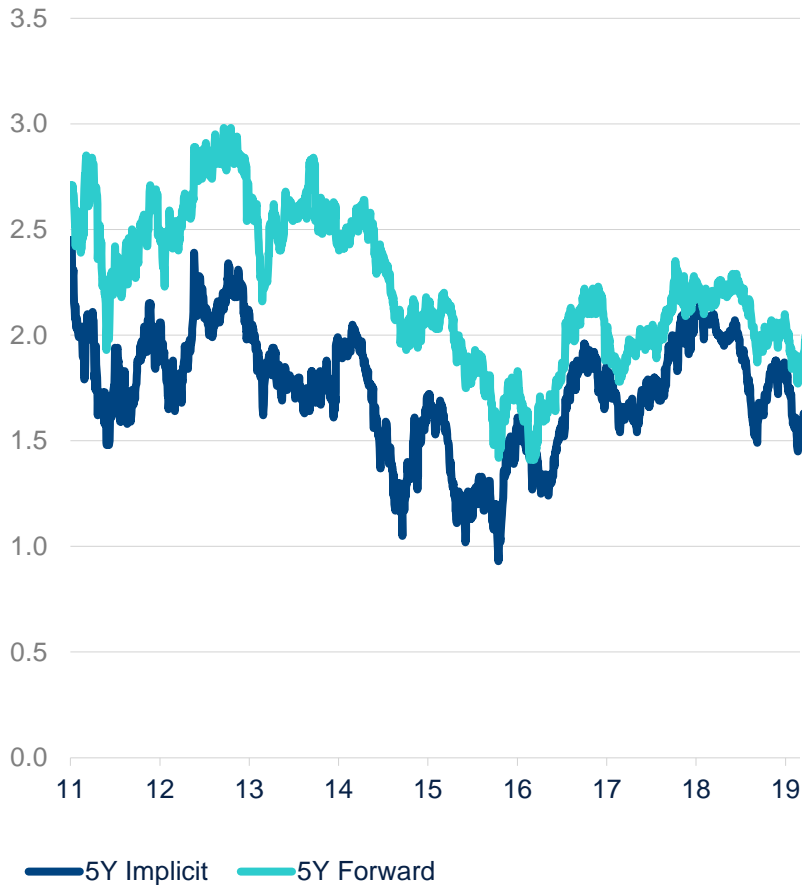


HIGH INFLATION REGIME DIFFUSION INDEX +/- 50 RISK OF HIGH OR LOW INFLATION REGIME

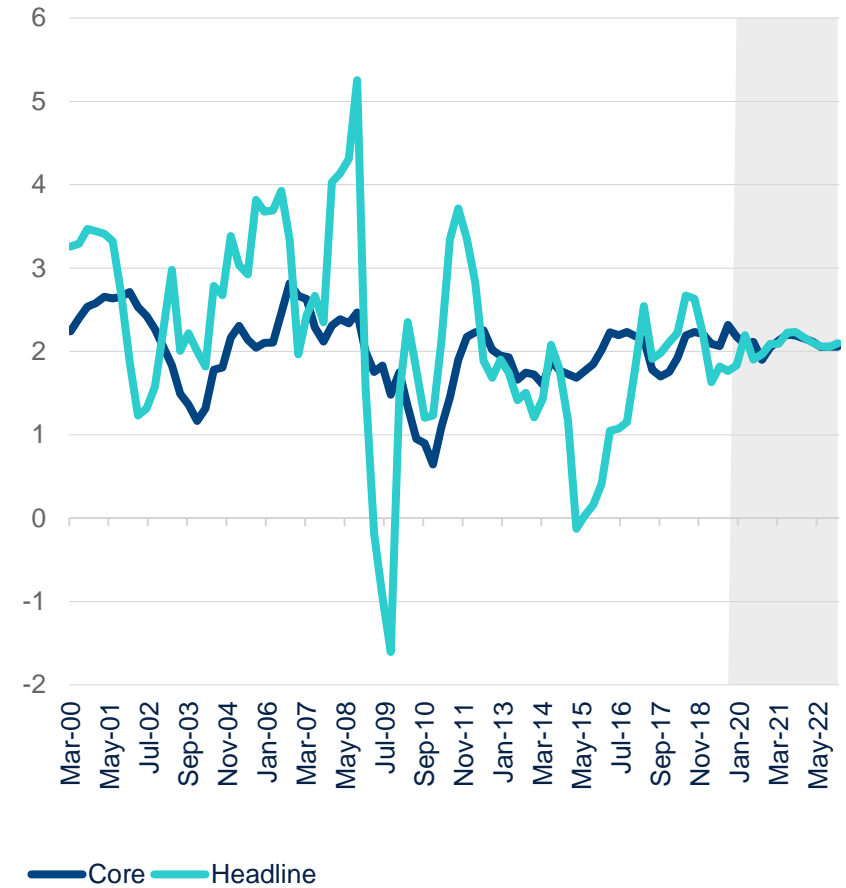


Inflation: Inflation converging with baseline of 2% in 2020

INFLATION EXPECTATIONS (%)



HEADLINE & CORE CPI (YEAR-OVER-YEAR %)



Monetary Policy: Federal Reserve

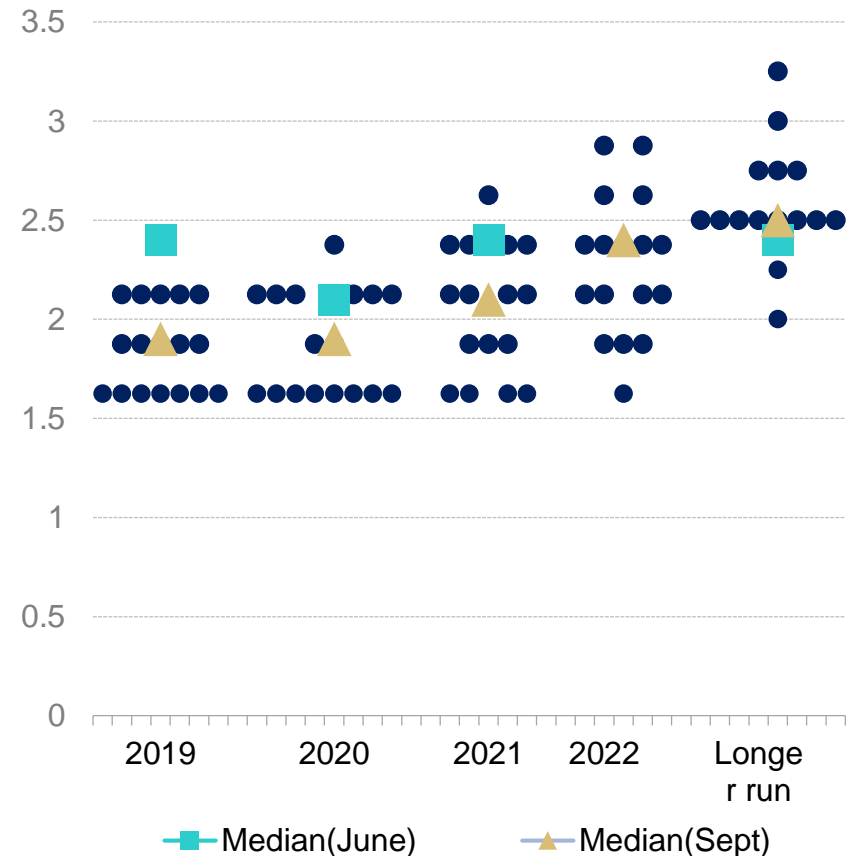
- After October's cut, we expect Fed to leave rates unchanged at 1.5-1.75% at upcoming meeting
- Language such as stance “likely to remain appropriate” unless there is a need for a “material reassessment of our outlook” suggests moderate-to-high probability pause could last beyond 2020
- Sustained pause consistent with 90s mid-cycle adjustments and recent communication from the FOMC
- Market expectations aligning with less aggressive Fed easing cycle
- On balance sheet, Fed signaling openness to other policy options to address Repo markets: adjustments to liquidity and capital requirements, regulatory guidance, standing repo facility and reserve replenishment
- Baseline assumes no changes to interest rates in 2020

Fed: Consensus around indefinite pause to be reflected in future FOMC dot plots

FOMC SUMMARY OF ECONOMIC PROJECTIONS (%)

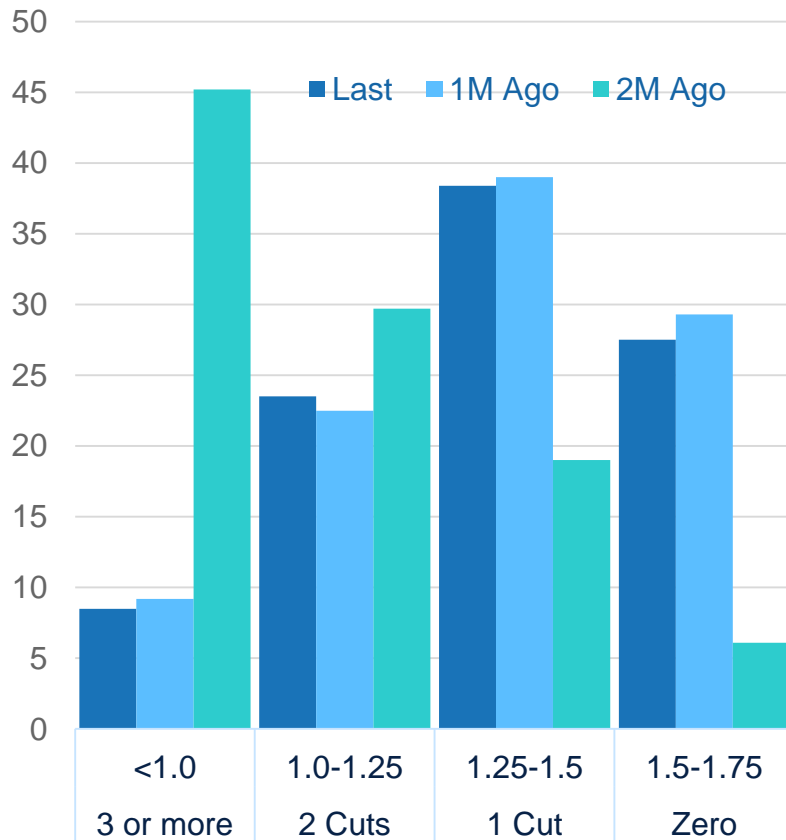
FOMC Median Estimates	2019	2020	2021	2022	Long-run
Change in real GDP	2.2	2.0	1.9	1.8	1.9
June projection	2.1	2.0	1.8		1.9
Unemployment rate	3.7	3.7	3.8	3.9	4.2
June projection	3.6	3.7	3.8		4.2
PCE inflation	1.5	1.9	2.0	2.0	2.0
June projection	1.5	1.9	2.0		2.0
Core PCE inflation	1.8	1.9	2.0	2.0	
June projection	1.8	1.9	2.0		
Federal funds rate	1.9	1.9	2.1	2.4	2.5
June projection	2.4	2.1	2.4		2.5

FOMC PROJECTIONS OF FED FUNDS (YEAR-END %, MID-POINT)

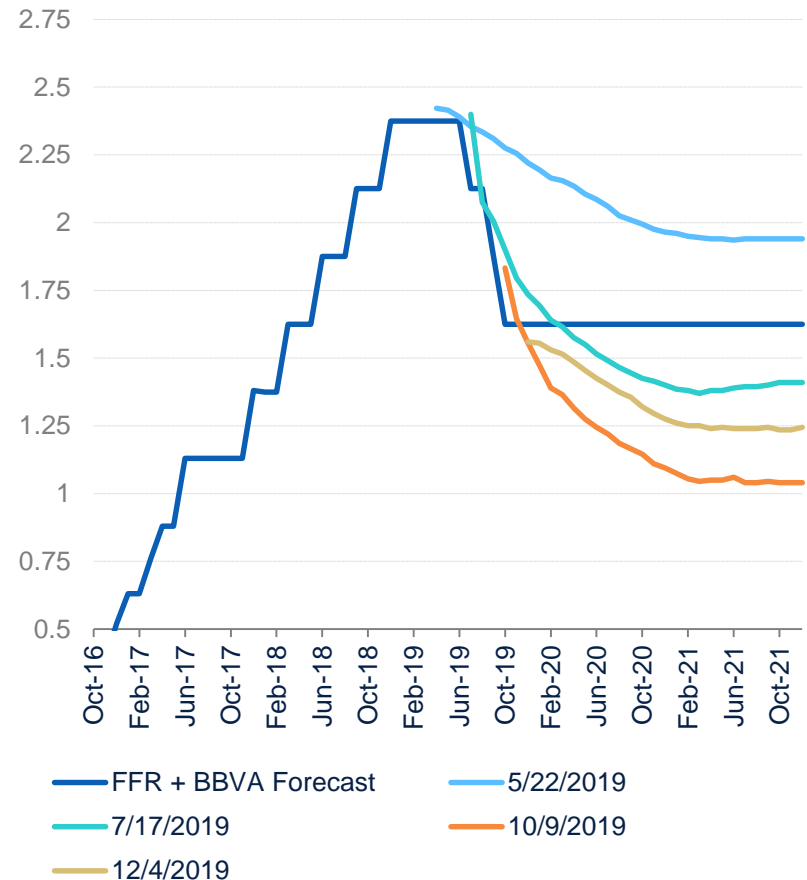


Monetary policy: Markets discounting one 25bp rate cut before year-end 2021

FED FUNDS IMPLIED PROBABILITY (NUMBER OF RATE CUTS THROUGH 2020, %)



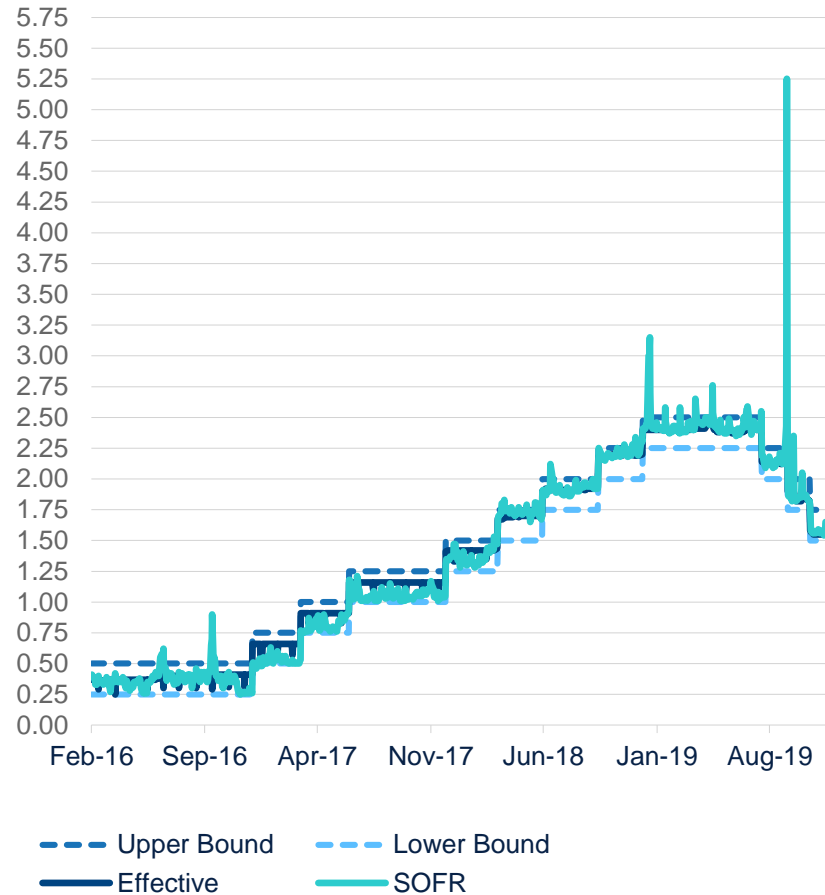
FED FUNDS FUTURES & BBVA BASELINE (%)



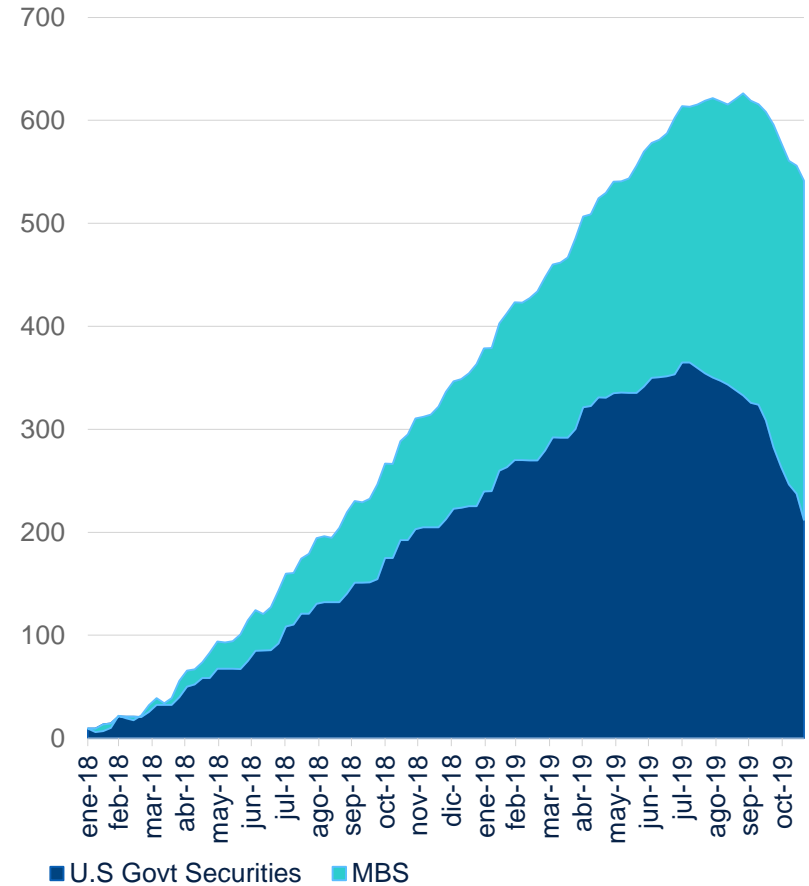
Source: BBVA Research & Bloomberg

Monetary policy: After surge in repo rates, unwinding of quantitative tightening accelerating

FED FUNDS & REPO RATES (%)

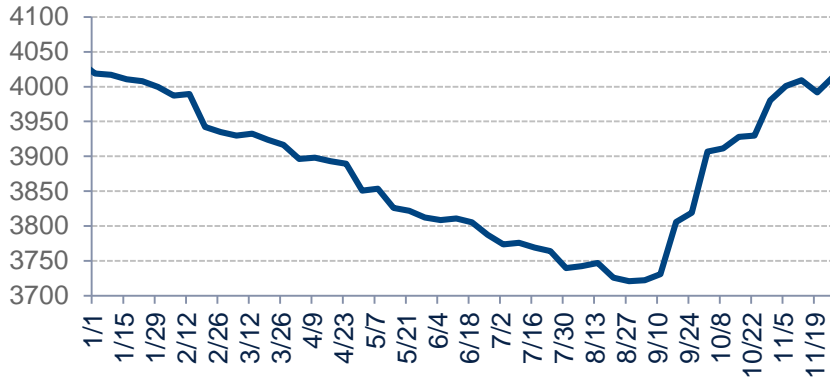


BALANCE SHEET ATTRITION (US\$BN, CUMULATIVE)

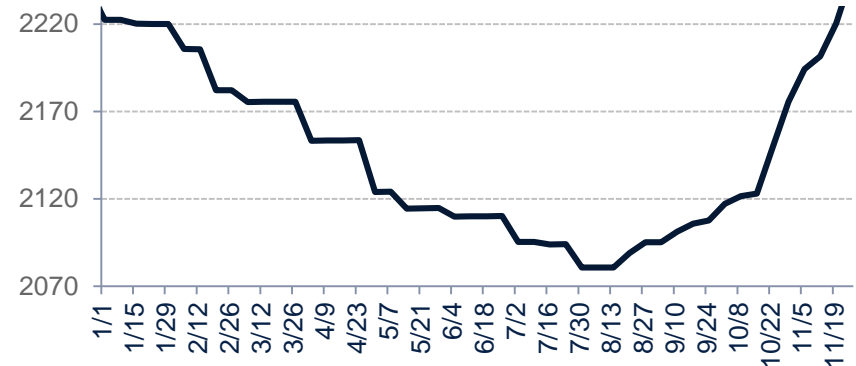


Monetary policy: Around \$150bn in outright Treasury purchases since mid-September

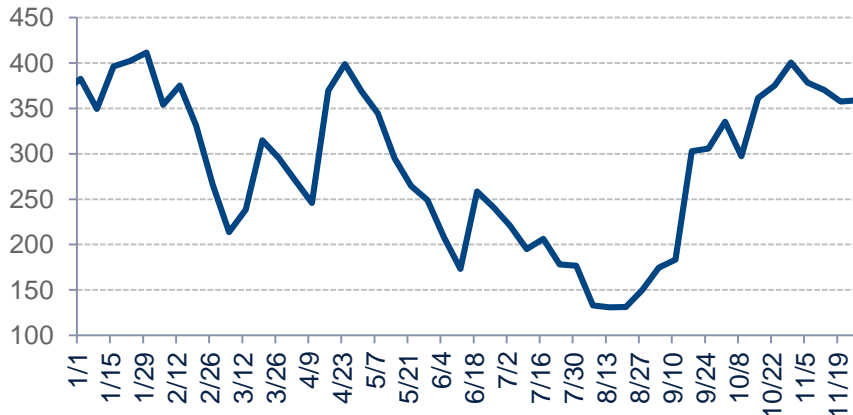
TOTAL ASSETS
(US\$BN)



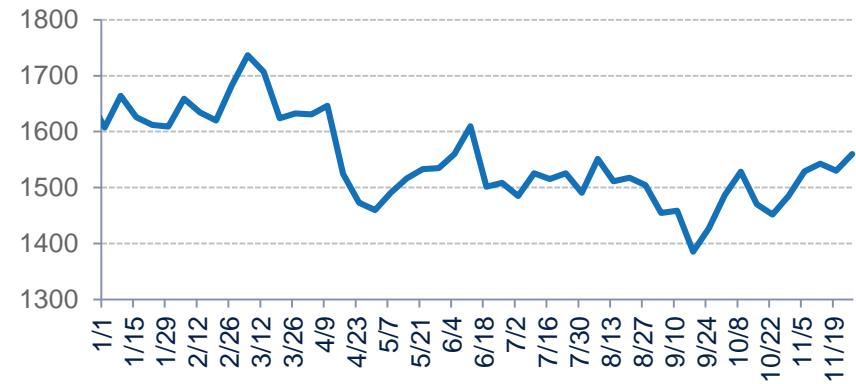
TREASURIES HELD OUTRIGHT
(US\$BN)



U.S. TREASURY GENERAL ACCOUNT
(US\$BN)



RESERVE BALANCES
(US\$BN)

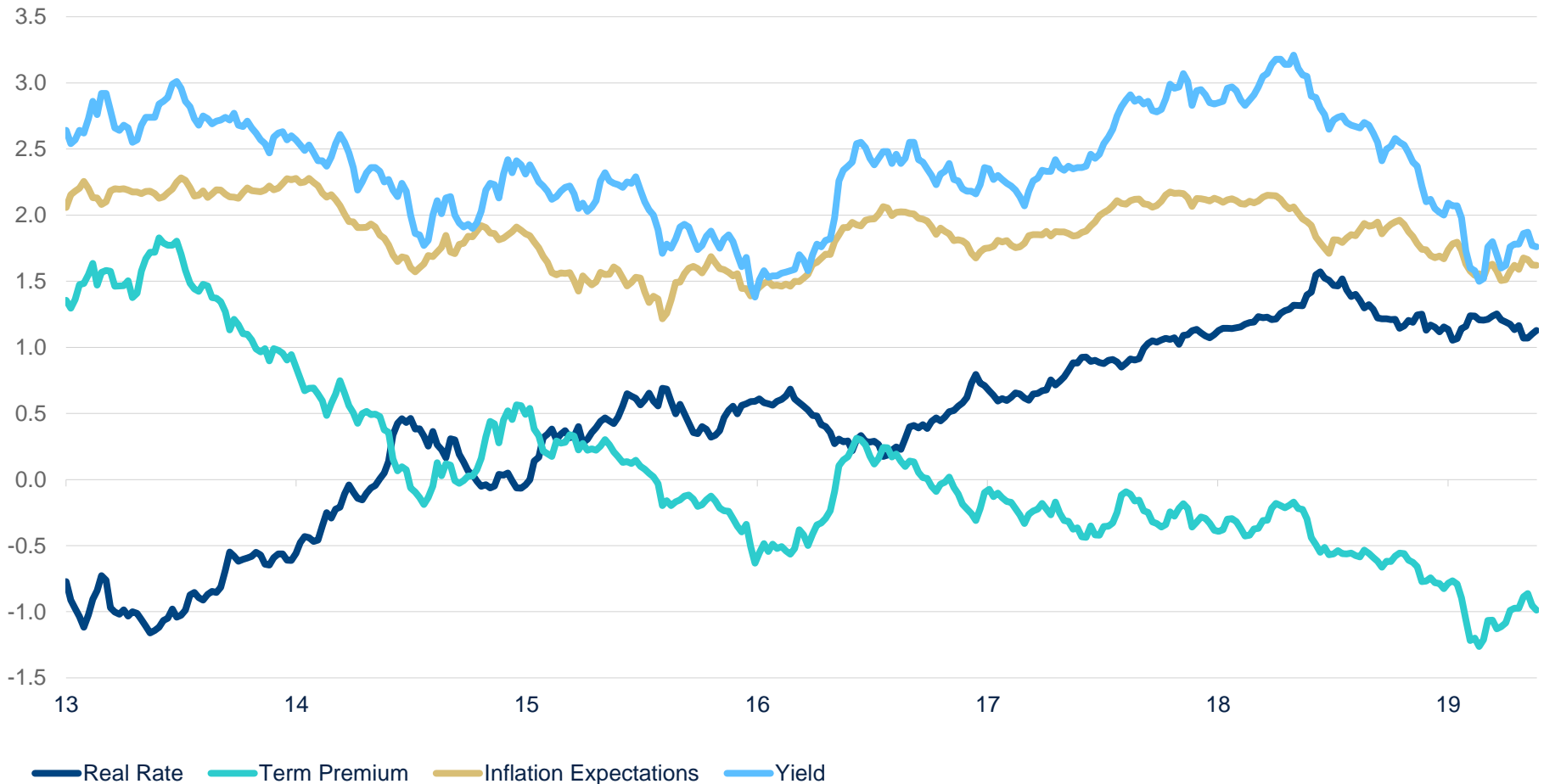


Interest Rates

- 10-yr Treasury yields steady around 1.8%, 2-yr Treasury largely unchanged over the month at 1.5%
- Uncertainties around long-term yields remain high given slipshod tariff implementation, ongoing trade negotiations and geopolitical uncertainty
- Term premium off historic lows, but remains negative given increased targeted asset purchases, global risk aversion and downtrodden near-term growth prospects
- Short-term rates realigned with benchmarks
- Fed's mid-cycle adjustment leading to upward trend in yield curve slope
- Modest upside risks to 10-yr Treasury yields in 2019-2020

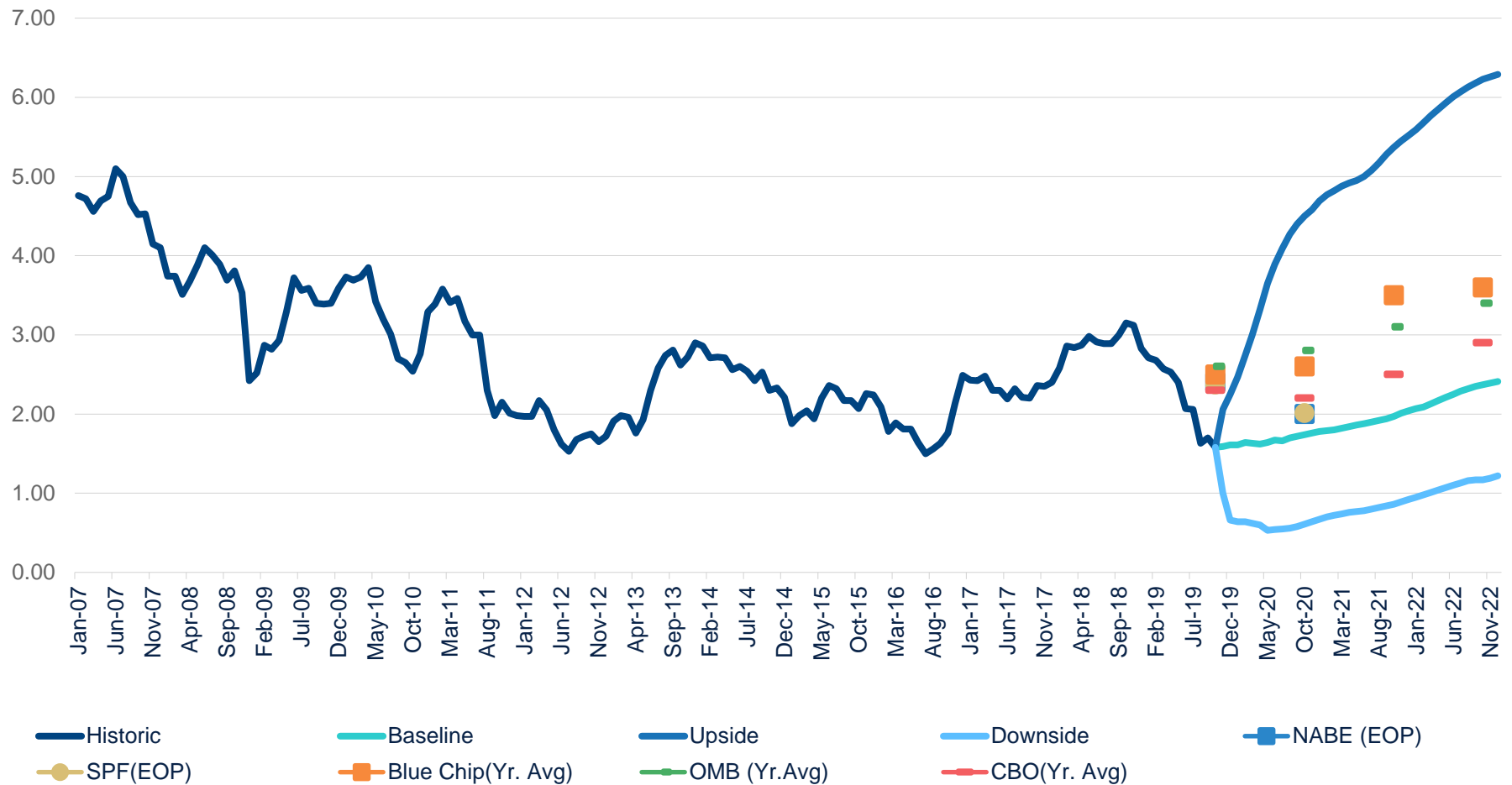
Interest rates: Stable inflation expectations and less negative term premium push 10-year yields up

10-YEAR TREASURY YIELD DECOMPOSITION (%)



Interest rates: Risks to 10-year modestly tilted to the upside, despite high-levels of uncertainty

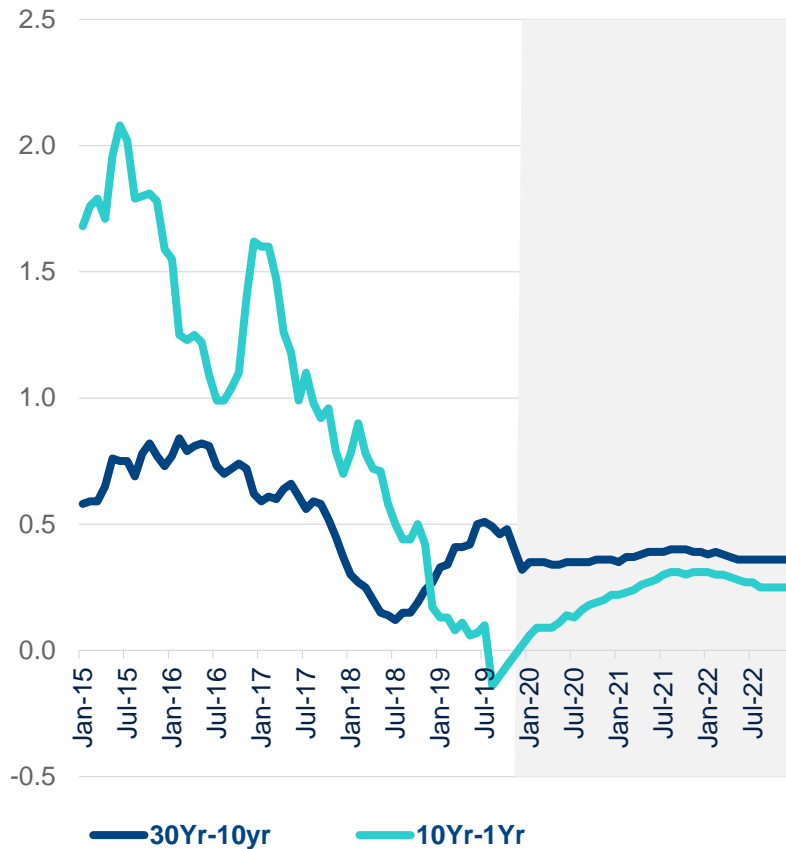
10-YEAR TREASURY YIELD (%)



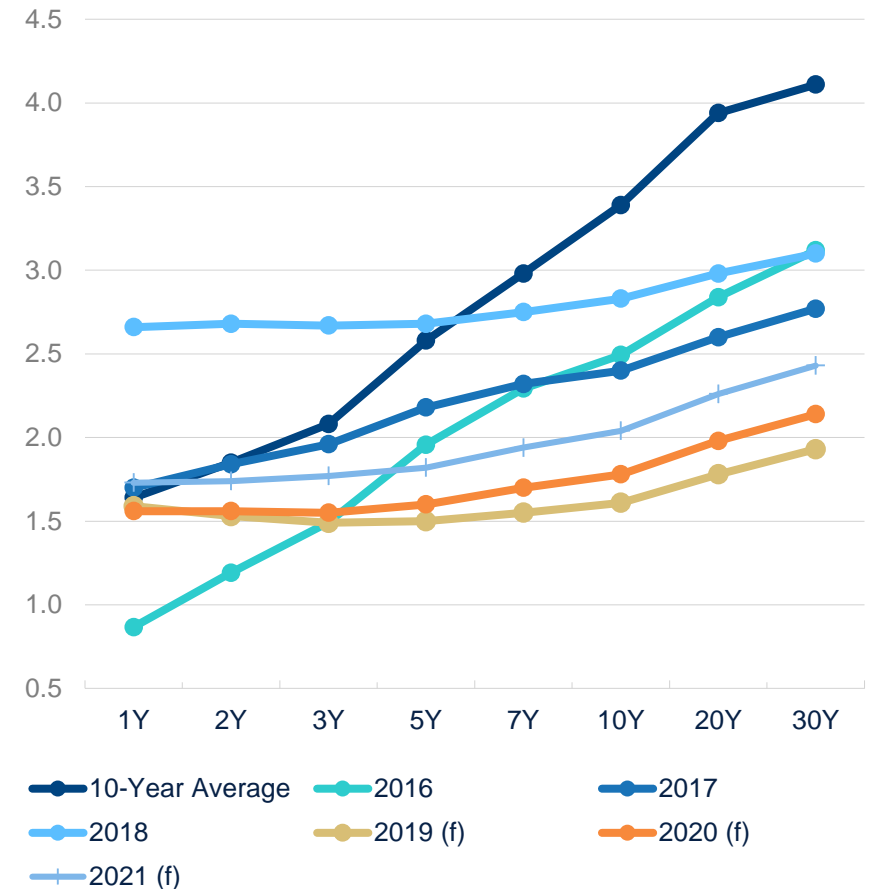
Source: BBVA Research, ACM & Haver Analytics

Interest rates: Further steepening of yield curve likely

YIELD CURVE SLOPE (BP)



YIELD CURVE (% EOP)

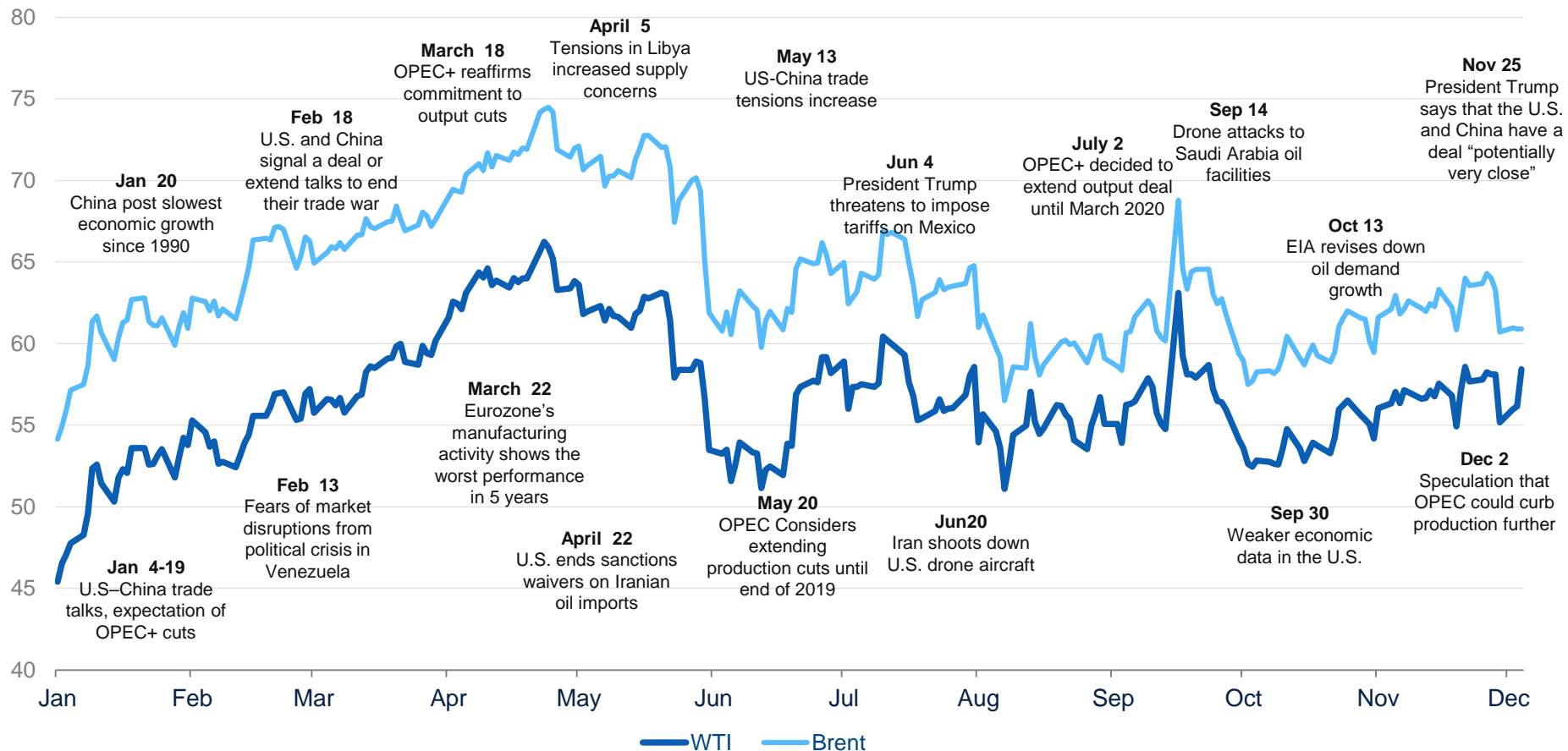


Oil Prices Outlook

- 2019 oil prices were in line with our baseline scenario
- OPEC is discussing whether to extend its production quota or not
- U.S oil production will expand further, albeit at a slower pace
- Our prospects for oil prices in 2020 assume weak demand growth in an over-supplied market
- Currently, tensions in the Middle East and protectionism are the main sources of uncertainty
- Long-term equilibrium prices around \$60/b
- Elevated uncertainty around long-term equilibrium: CAPEX, protectionism, transportation infrastructure, alternative energy sources, EM convergence, EVs, climate change, efficiency and technology

Brent prices are likely to close the year between \$60/b and \$65/b

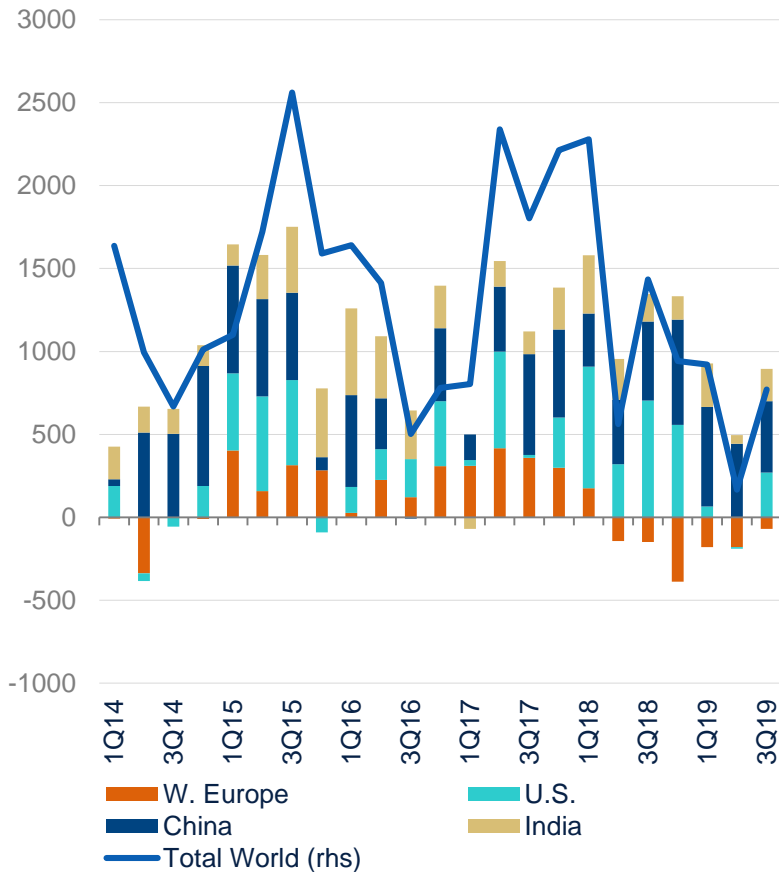
CRUDE OIL PRICES 2019 (\$ PER BARREL)



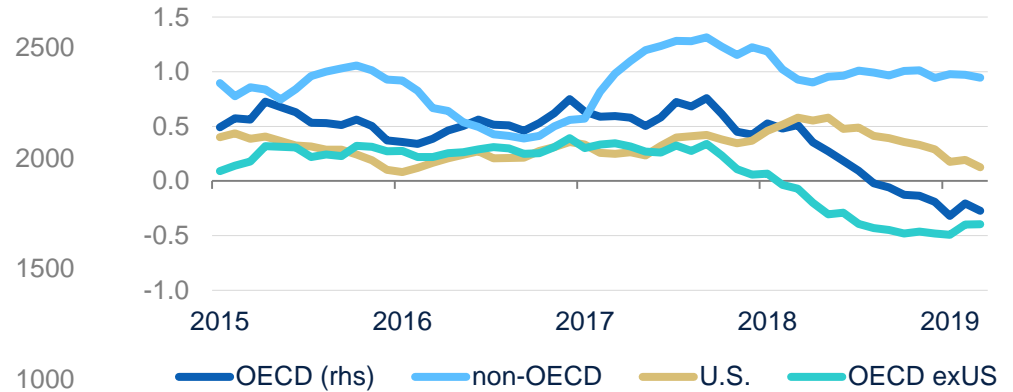
Source BBVA Research with data from Haver Analytics

Demand is the weakest in the OECD

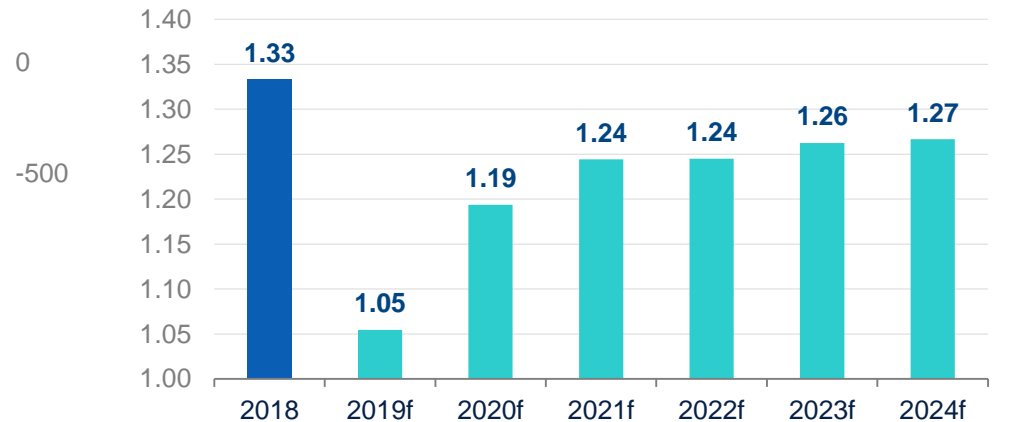
OIL PRODUCT DEMAND: TOTAL WORLD
(THOUSAND BARRELS PER DAY, YOY CHANGE)



OIL PRODUCT DEMAND
(MILLION BARRELS PER DAY, YOY CHANGE)



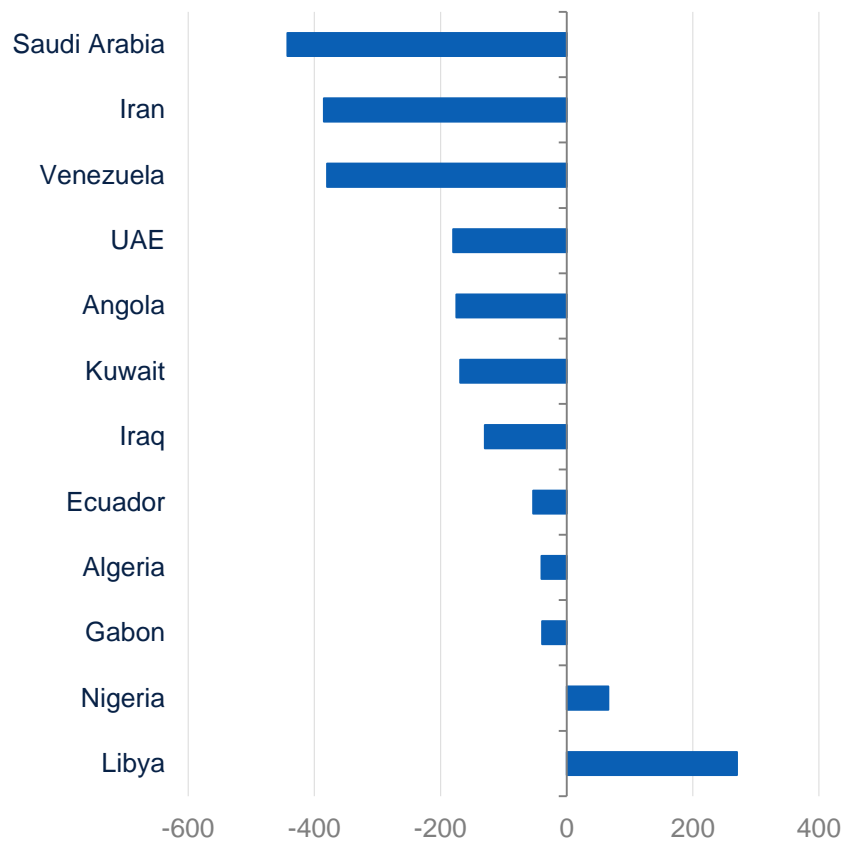
OIL PRODUCT DEMAND
(MILLION BARRELS PER DAY, YOY CHANGE)



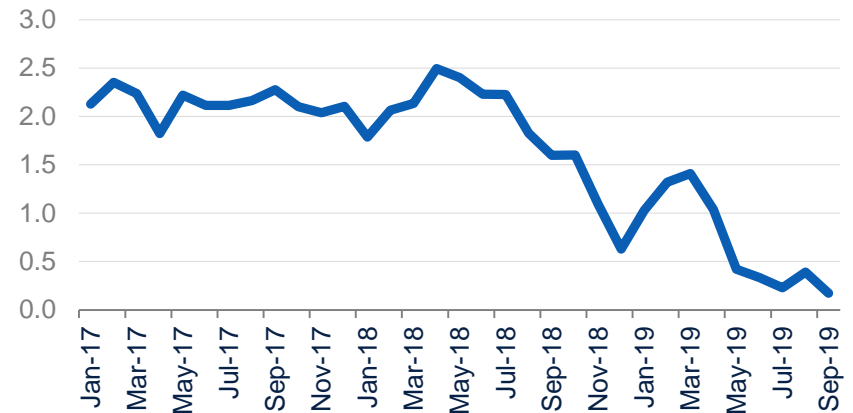
Source BBVA Research with data from Haver Analytics, Bloomberg and WEO

OPEC: compliance with output quotas and sanctions to Iran and Venezuela limit supply

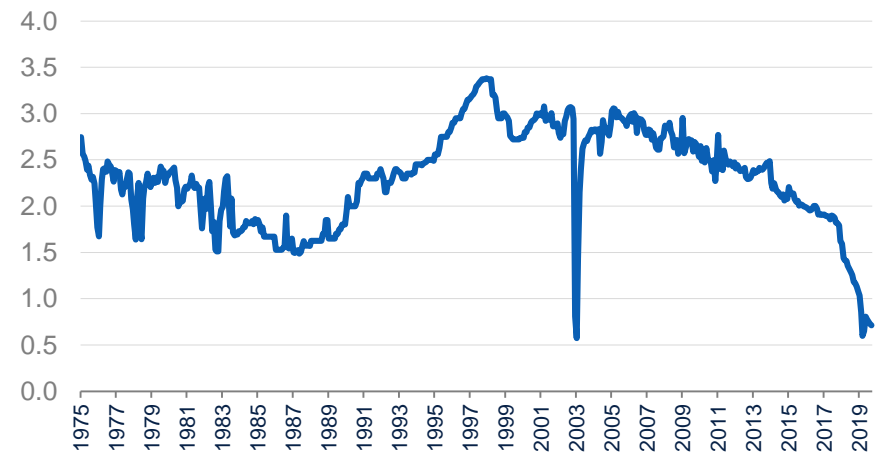
OPEC CRUDE OIL PRODUCTION
(CHANGE BETWEEN DEC-2018 AND OCTOBER -2019, THOUSAND BARRELS PER DAY)



IRAN: EXPORTS OF CRUDE OIL
(MILLION BARRELS PER DAY)



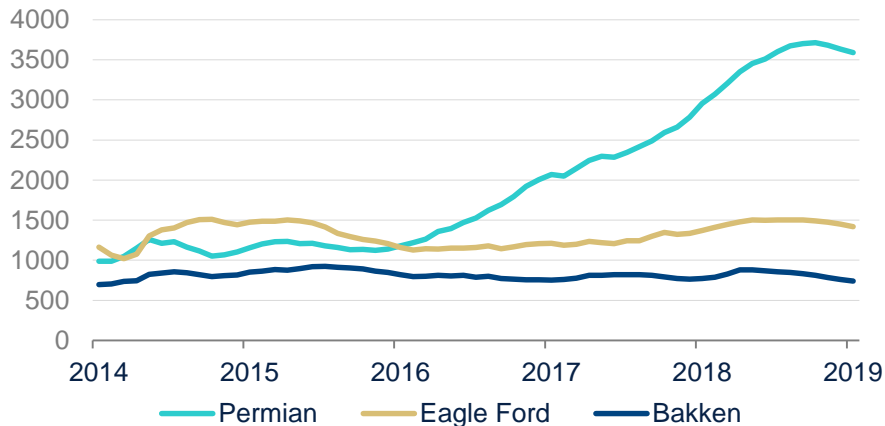
VENEZUELA: CRUDE OIL PRODUCTION
(MILLION BARRELS PER DAY)



Source: BBVA Research, Haver Analytics, and Bloomberg

U.S.: Incoming data suggests golden age of shale not over... yet

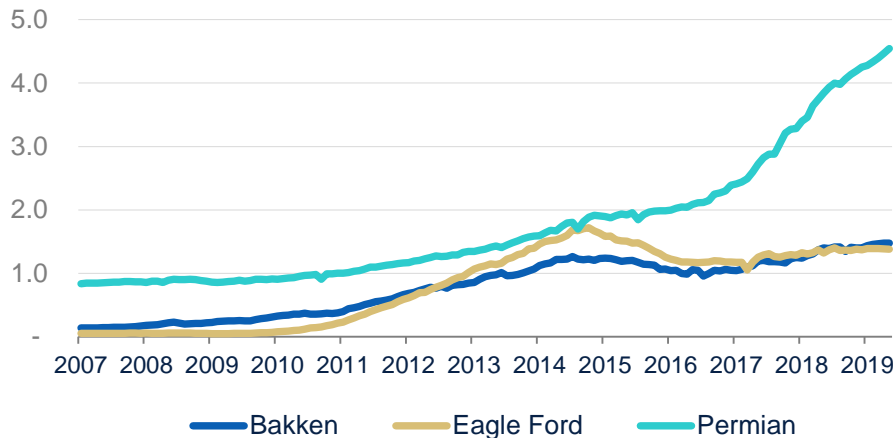
U.S. DRILLED BUT UNCOMPLETED WELLS (NUMBER)



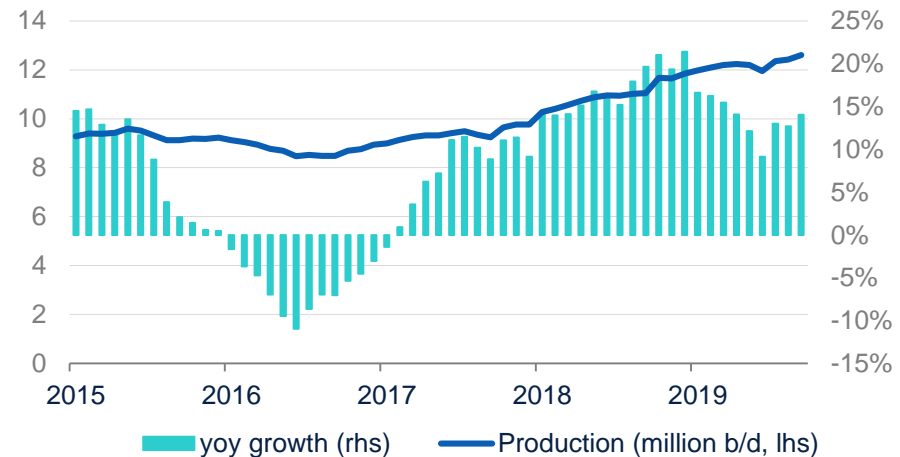
U.S. ACTIVE RIG COUNT (UNITS)



U.S. OIL PRODUCTION BY REGION (MILLION BARRELS PER DAY)



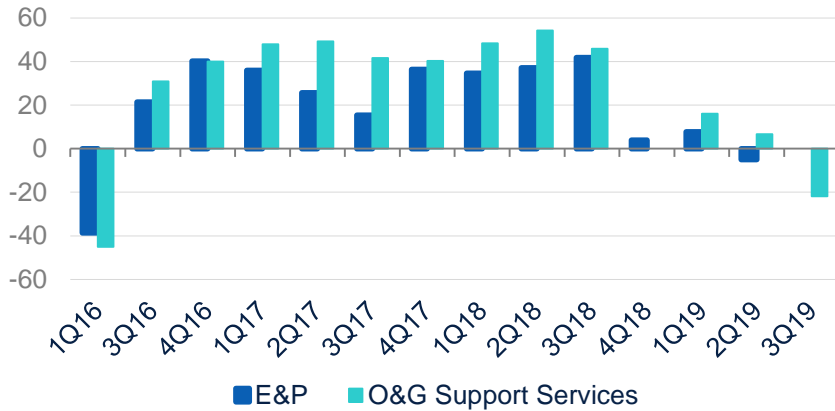
U.S. CRUDE OIL FIELD PRODUCTION



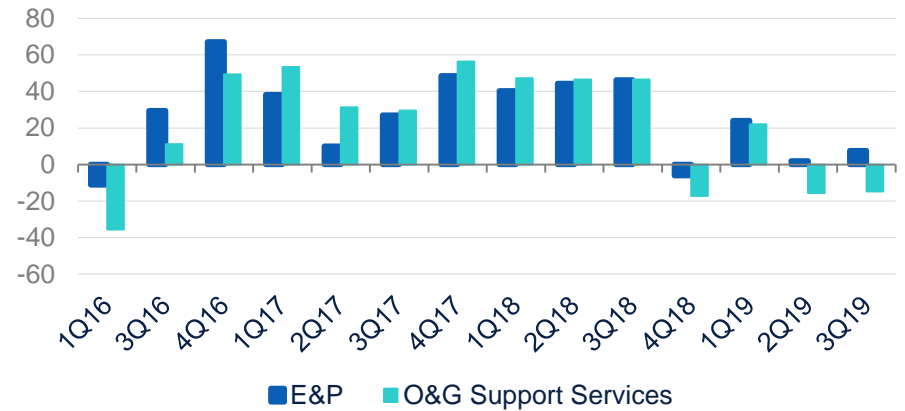
Source: BBVA Research and Haver Analytics

U.S.: Businesses activity seems to be cooling down

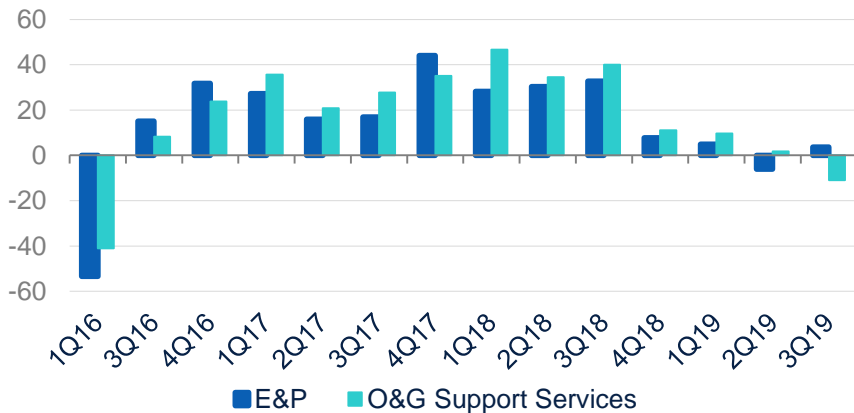
LEVEL OF BUSINESS ACTIVITY INDEX



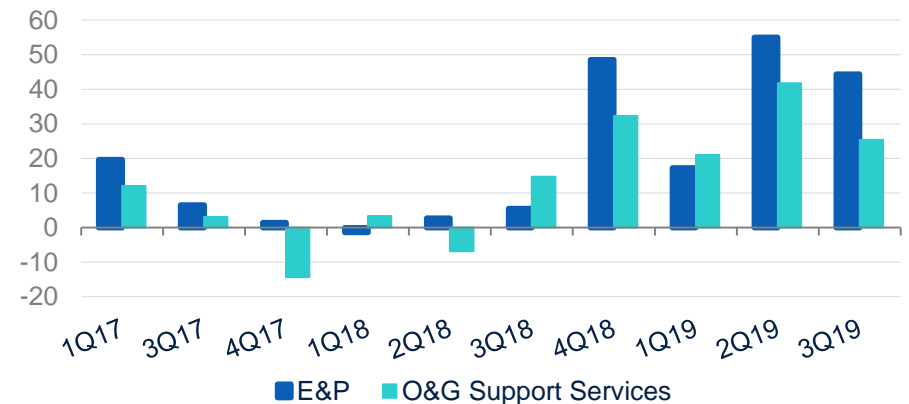
COMPANY OUTLOOK INDEX



CAPITAL EXPENDITURES INDEX



UNCERTAINTY INDEX



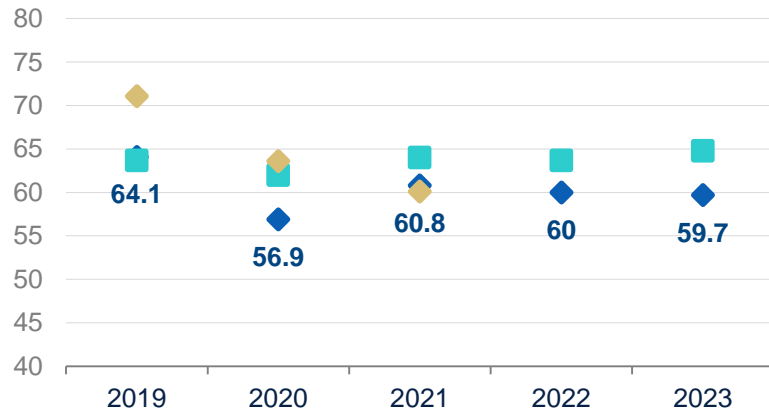
*Current Index = % Reporting Increase - % Reporting Decrease

Source: Dallas Fed Energy Survey , 3Q19

Weak demand growth in a over-supplied market remain the main drivers of our baseline scenario

BRENT PRICES FORECAST (\$ PER BARREL)

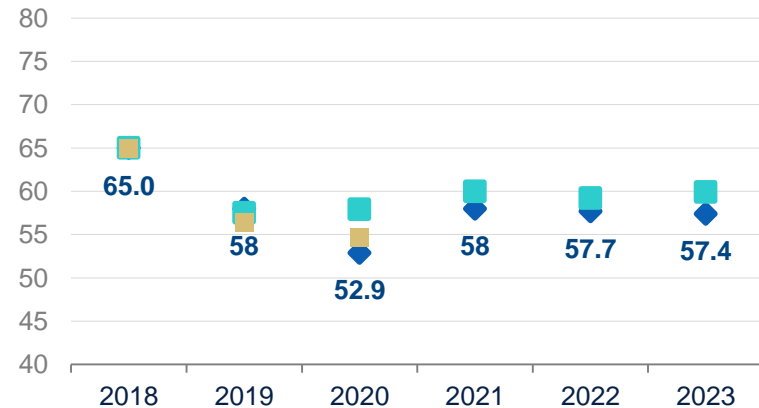
	BBVA Research (baseline)	Bloomberg Survey (Nov 29)	EIA STEO (Nov 13)
2017	54.2	54.2	54.2
2018	71.1	71.1	71.1
2019	64.1	63.7	63.6
2020	56.9	62.0	60.1
2021	60.8	64.0	
2022	60.0	63.7	
2023	59.7	64.8	



◆ BBVA Research ■ Bloomberg Survey (Nov 29) ◆ EIA STEO (Nov 13)

WTI PRICES FORECAST (\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Nov 29)	EIA STEO (Nov 13)
2017	50.9	50.9	50.9
2018	65.0	65.0	65.0
2019	58.0	57.5	56.4
2020	52.9	57.9	54.6
2021	58.0	60.0	
2022	57.7	59.2	
2023	57.4	59.9	



◆ BBVA Research ■ Bloomberg Survey (Nov 29) ■ EIA STEO (Nov 13)

Macroeconomic Outlook

	2011	2012	2013	2014	2015	2016	2017	2018	2019 (f)	2020 (f)	2021 (f)	2022 (f)
Real GDP (% SAAR)	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	1.8	1.9	1.9
Real GDP (Contribution, pp)												
PCE	1.3	1.0	1.0	2.0	2.5	1.9	1.8	2.1	1.8	1.7	1.5	1.4
Gross Investment	0.9	1.6	1.1	1.0	0.9	-0.2	0.8	0.9	0.4	0.3	0.7	0.7
Non Residential	1.0	1.2	0.5	1.0	0.3	0.1	0.6	0.9	0.3	0.3	0.6	0.6
Residential	0.0	0.3	0.3	0.1	0.3	0.2	0.1	0.0	-0.1	0.1	0.0	0.0
Exports	0.9	0.5	0.5	0.6	0.1	0.0	0.5	0.4	0.0	0.1	0.4	0.5
Imports	-0.9	-0.5	-0.3	-0.8	-0.9	-0.4	-0.8	-0.8	-0.3	-0.4	-0.7	-0.7
Government	-0.7	-0.4	-0.5	-0.2	0.3	0.3	0.1	0.3	0.4	0.2	0.1	0.0
Unemployment Rate (% average)	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.7	3.8	4.0
Avg. Monthly Nonfarm Payroll (K)	173	181	192	251	227	193	179	223	163	151	135	113
CPI (YoY %)	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	2.0	2.2	2.1
Core CPI (YoY %)	1.7	2.1	1.8	1.8	1.8	2.2	1.8	2.1	2.2	2.0	2.2	2.1
Fiscal Balance (% GDP, FY)	-8.4	-6.8	-4.1	-2.8	-2.4	-3.2	-3.4	-3.8	-4.6	-4.6	-4.5	-4.9
Current Account (bop, % GDP)	-2.9	-2.6	-2.1	-2.1	-2.2	-2.3	-2.3	-2.4	-2.5	-2.7	-2.7	-2.8
Fed Target Rate (% eop)	0.25	0.25	0.25	0.25	0.50	0.75	1.50	2.50	1.75	1.75	1.75	2.25
Core Logic National HPI (YoY %)	-2.9	4.0	9.7	6.7	5.3	5.4	5.9	5.7	3.5	3.1	3.1	3.2
10-Yr Treasury (% Yield, eop)	1.98	1.72	2.90	2.21	2.24	2.49	2.40	2.83	1.61	1.78	2.04	2.41
West Texas Intermediate Oil Prices (dpb, average)	94.9	94.1	97.9	93.3	48.7	43.2	50.9	65.0	57.0	52.9	58.0	57.7

Source: BBVA Research

*Forecasts subject to change

Economic Scenarios

Macro Scenarios										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GDP	2.9	1.6	2.4	2.9	2.3	1.8	1.9	1.9	1.9	1.9
Upside					3.1	3.4	2.9	2.7	2.7	2.7
Downside					1.9	-0.7	1.1	1.5	1.7	1.8
UR	5.3	4.9	4.4	3.9	3.7	3.7	3.8	4.0	4.2	4.2
Upside					3.6	3.1	2.9	3.0	3.0	3.0
Downside					3.8	5.4	6.6	5.7	5.0	4.4
CPI	0.1	1.3	2.1	2.4	1.8	2.0	2.2	2.1	2.1	2.1
Upside					1.9	3.4	3.7	3.8	3.8	3.8
Downside					1.6	0.3	1.1	1.3	1.5	1.6
Fed [eop]	0.50	0.75	1.50	2.50	1.75	1.75	1.75	2.25	2.25	2.25
Upside					2.00	4.00	5.50	6.00	6.50	6.50
Downside					1.00	0.25	0.25	0.25	0.25	0.25
10-Yr [eop]	2.24	2.49	2.4	2.83	1.61	1.78	2.04	2.41	2.57	2.68
Upside					2.25	4.69	5.52	6.29	6.16	6.10
Downside					1.17	0.88	1.38	1.41	1.55	1.45

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