

# U.S. Macroeconomic Pulse

January 2020

# Economic Outlook

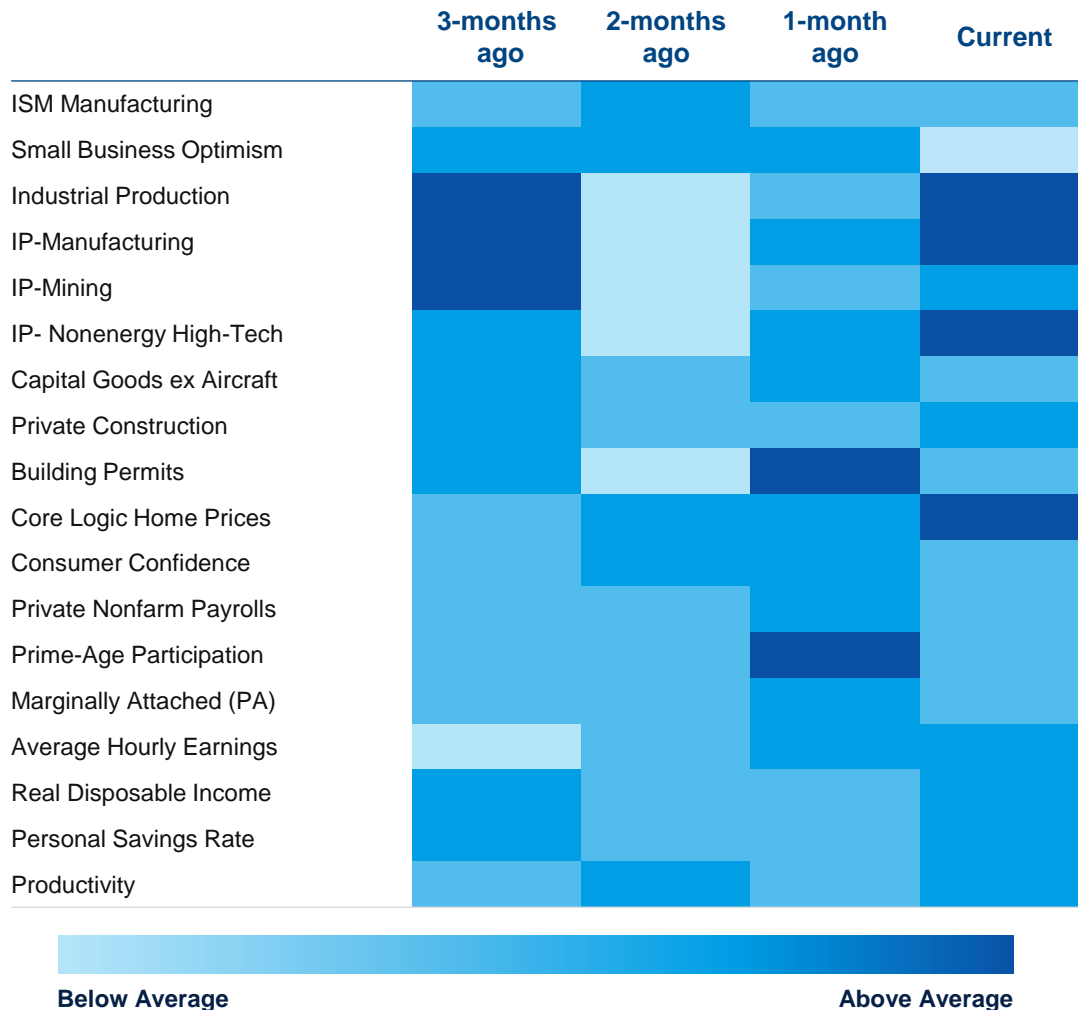
- Baseline assumes growth of 1.8% in 2020, potential upside emerging
- Model-based recession projections suggest probability around 30% over the next 24-months
- Moderate job growth and steady unemployment for foreseeable future
- Inflation close to 2%, downside risks fading
- Fed likely to pause indefinitely as committee evaluates the impact of increased accommodation and monitors risks
- Yield curve steepening with improvement in term premium due to Fed fine-tuning and rising inflation expectations
- Oil price outlook underpinned by weak demand growth in a well-supplied market

## Macro Fundamentals

- Our estimates suggest GDP growth was 1.5% in 4Q19 (SAAR) and 2.3% in 2019
- Recent indicators suggest a potential rebound in industrial output; however, pressures in the aircraft industry could intensify
- Solid labor market conditions, real income growth, low borrowing costs and high consumer confidence continue supporting private consumption
- Momentum continues to build in the residential sector, supported by lower mortgage rates
- Probability of recession at its lowest level since 2018
- Baseline assumes average growth of 1.8% in 2020

# Economic activity

## REAL-TIME ECONOMIC MOMENTUM HEAT MAP

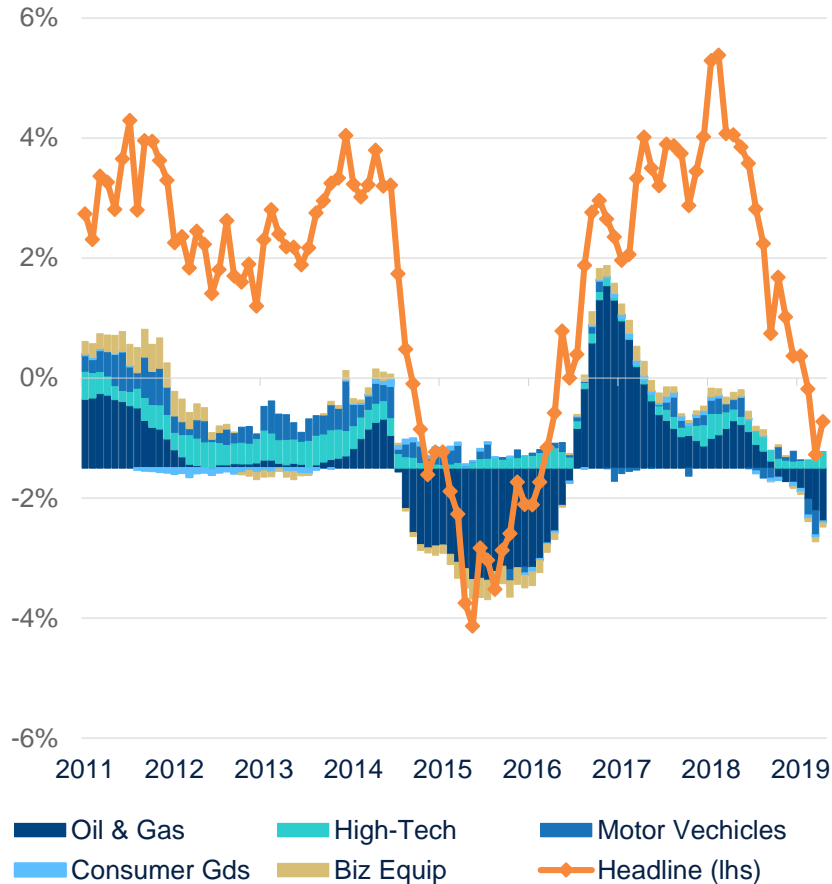


Source BBVA Research

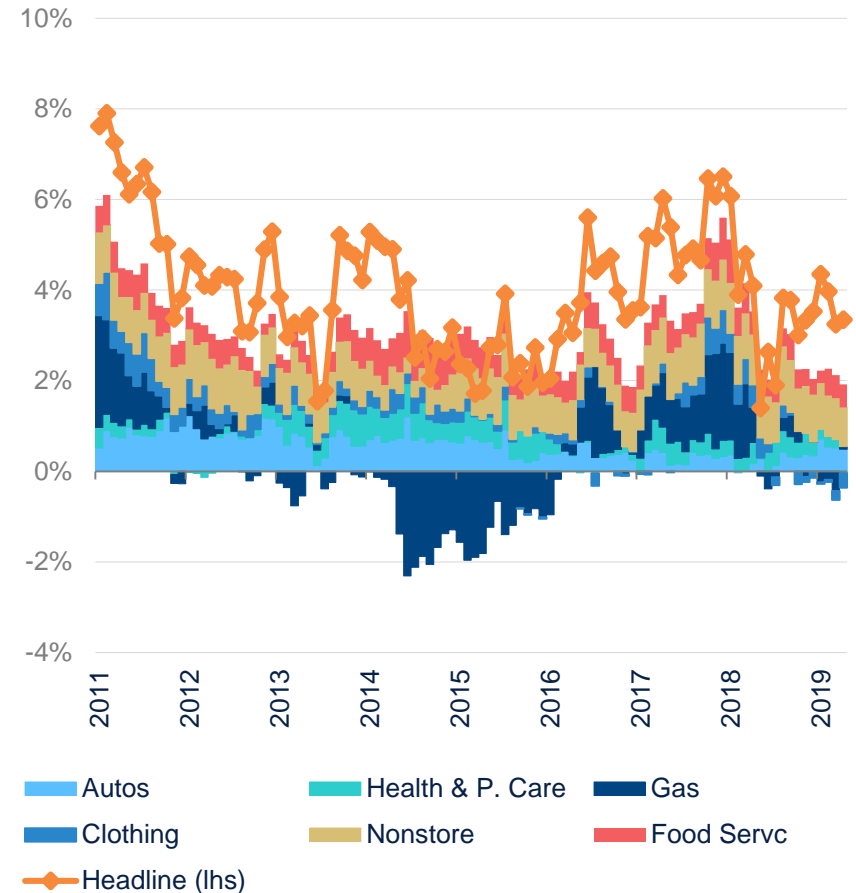
- Trade and policy uncertainty trending downward after turbulent 2019, but coronavirus (2019-nCoV) poses risks to global growth in 1H20
- Incoming data suggesting possible turning point in industrial sector and a rebound in 1H20
- Confidence remains weak in business sector (C-suite and small business) but consumer confidence remains high
- Momentum continues to build in residential sector
- Productivity growth slowing, but remains near expansion highs

# Economic trends: Trade détente and easing late-cycle fears lifting industrial output

## INDUSTRIAL PRODUCTION (YEAR-OVER-YEAR %)



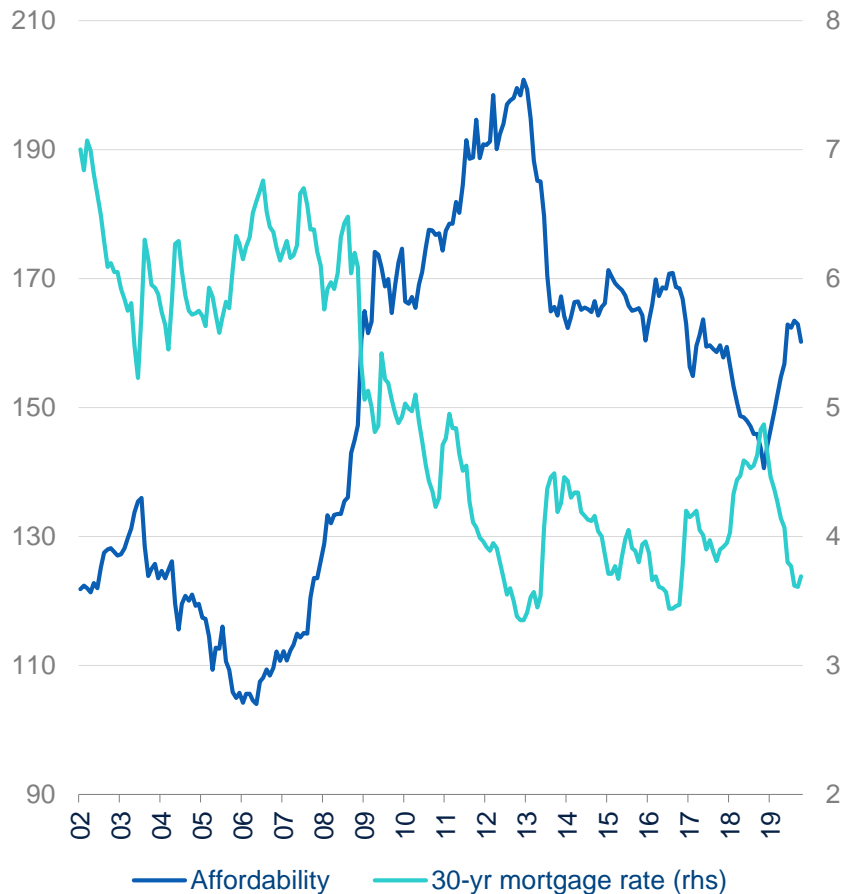
## RETAIL SALES (YEAR-OVER-YEAR %)



# Economic trends: Favorable rate environment stimulating housing market activity

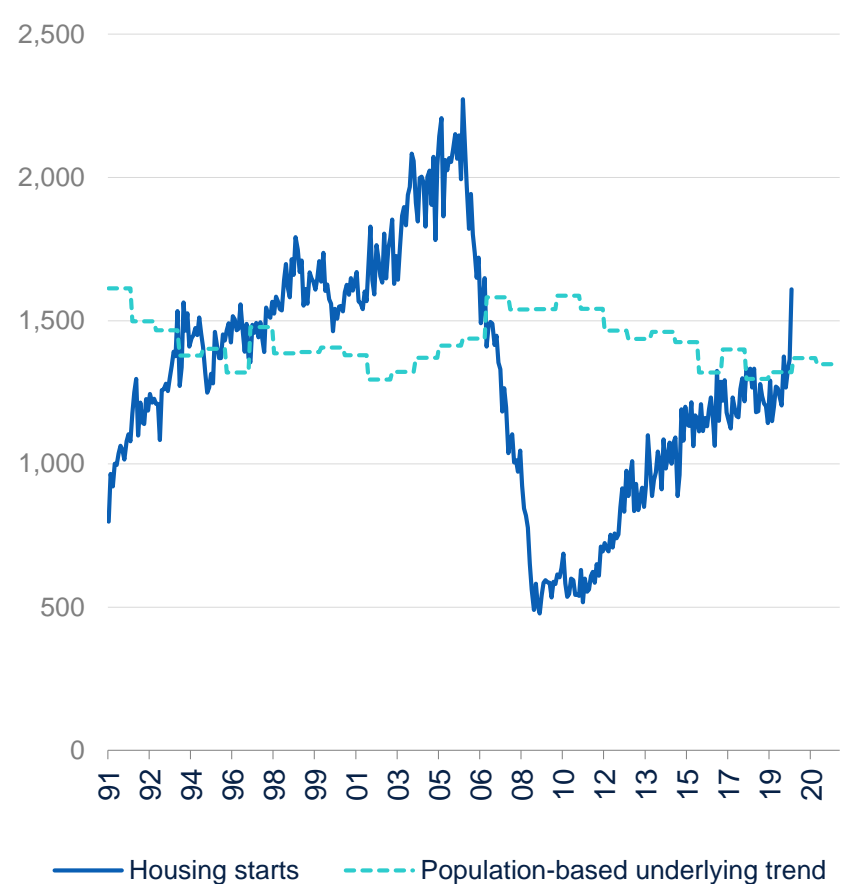
## HOUSING AFFORDABILITY INDEX AND 30YR FIXED MORTGAGE RATES

(INDEX SA, MEDIAN INCOME = QUALIFYING INCOME & %)



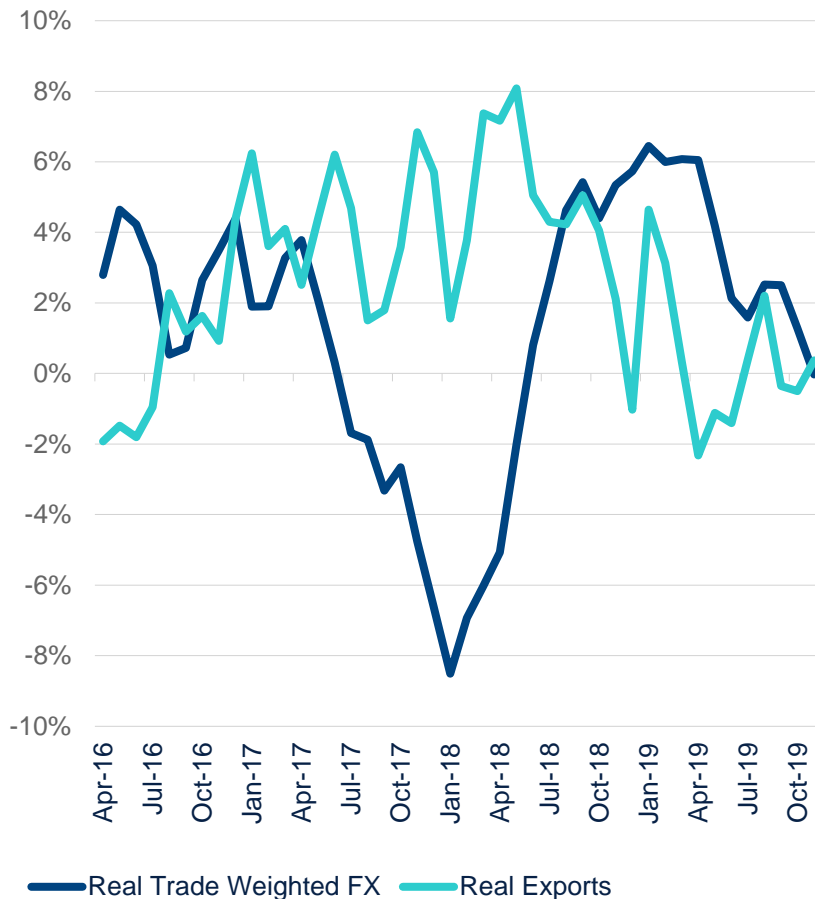
## HOUSING STARTS AND POPULATION-BASED TREND ESTIMATE

(MILLION)

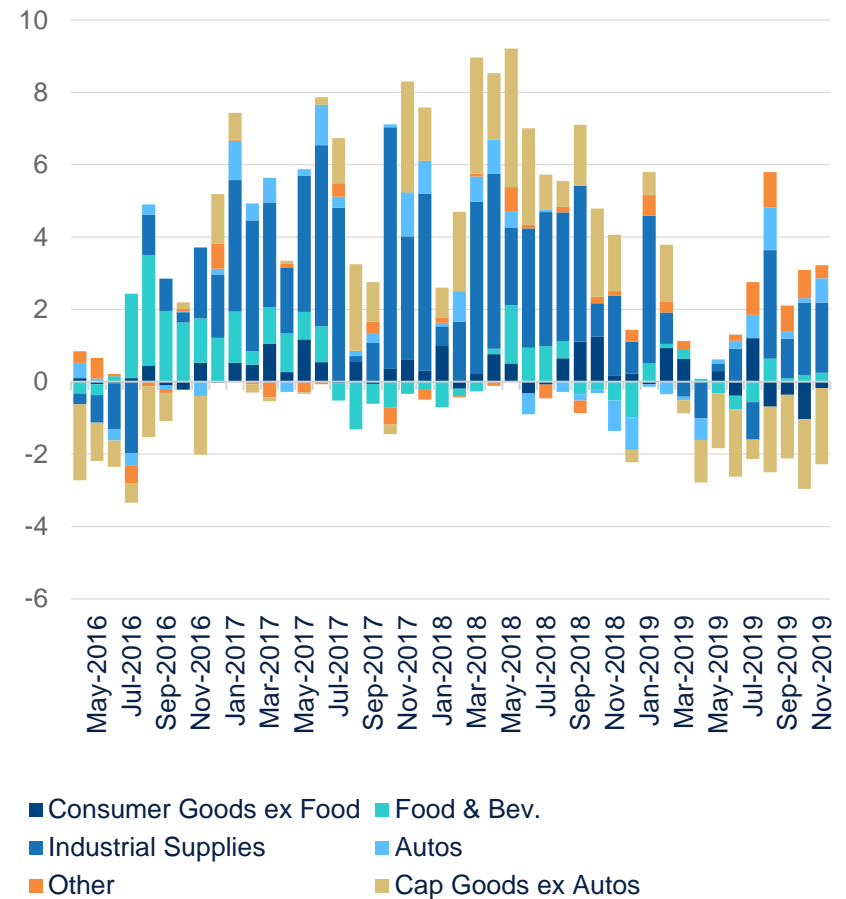


# Economic trends: Weak global growth continues to weigh on trade, but easing FX pressures should help lift exports

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



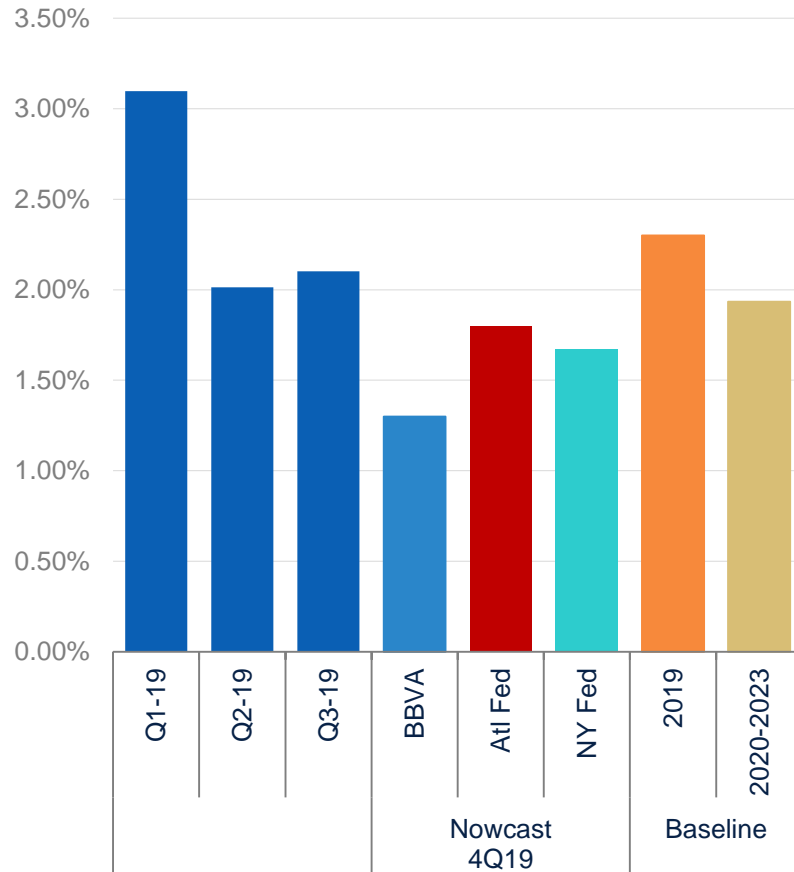
## REAL EXPORTS (CONTRIBUTION TO YEAR-OVER-YEAR %)



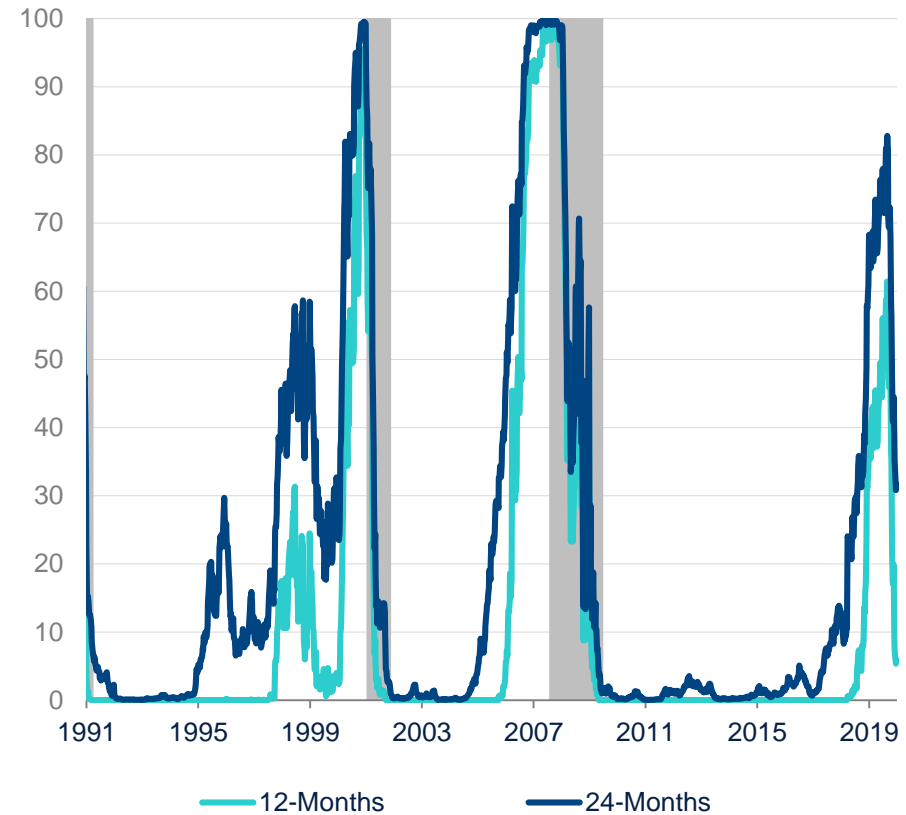
Source: BBVA Research, FRB & Census

# Economic trends: Recession risk over next 24 months below 50% for 10 weeks in a row

## REAL GDP (QOQ SAAR, %)



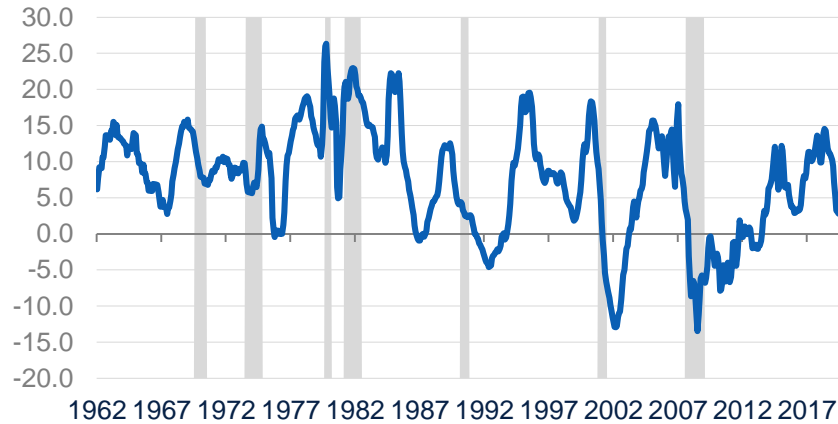
## PROBABILITY OF RECESSION (%)



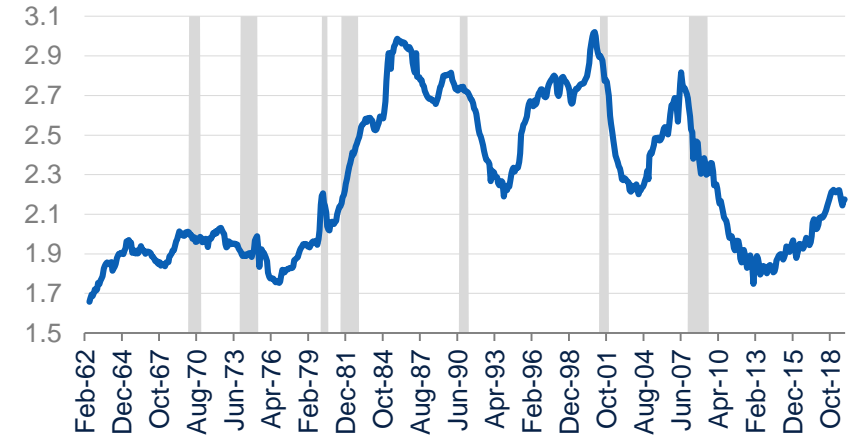


# Consumer credit cycle: Fed mid-cycle adjustment benefiting consumer interest burdens

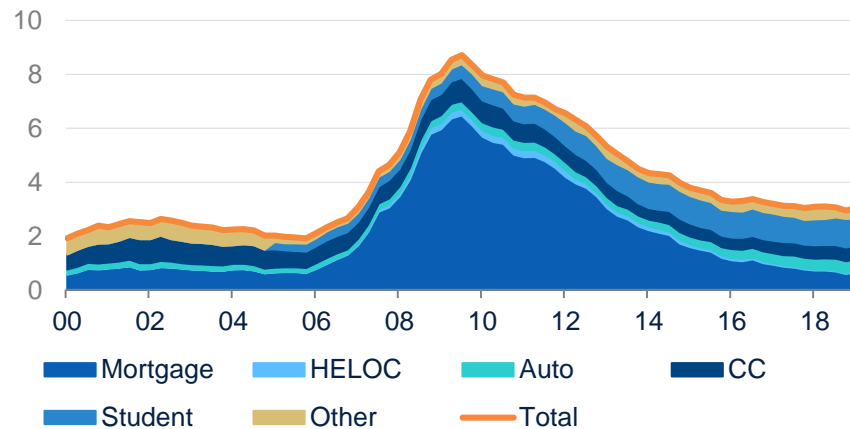
## PERSONAL INTEREST EXPENSE (YEAR-OVER-YEAR %)



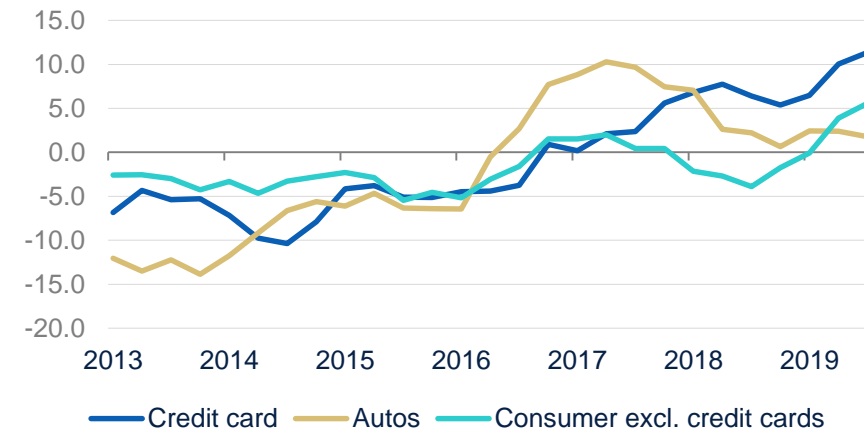
## PERSONAL INTEREST EXPENSE TO DISP. INCOME (RATIO, %)



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



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

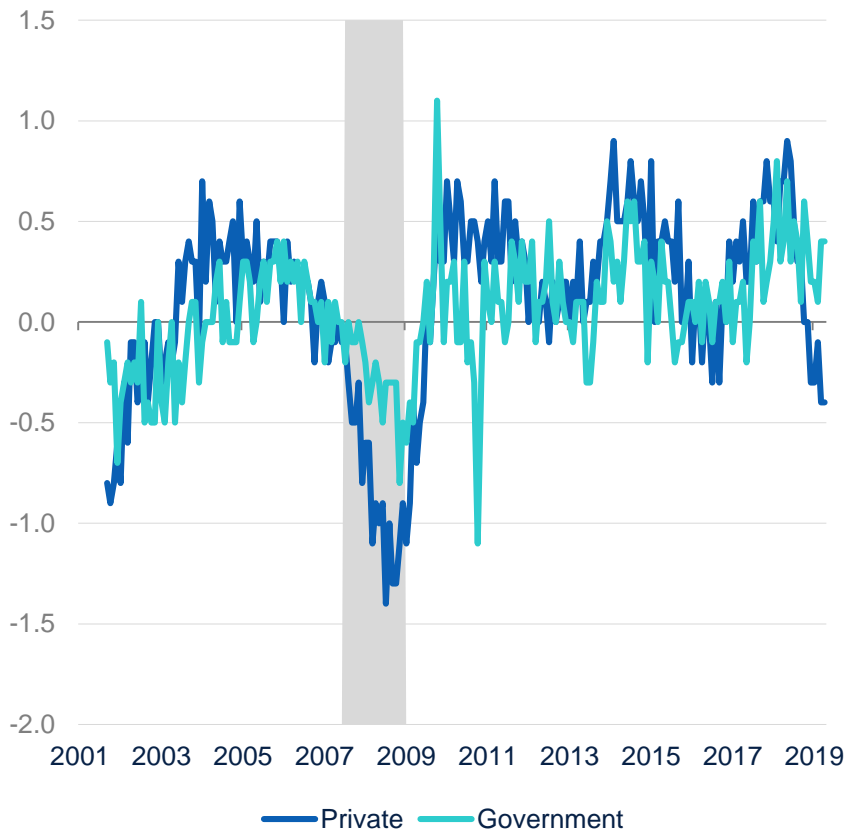


## Labor Market

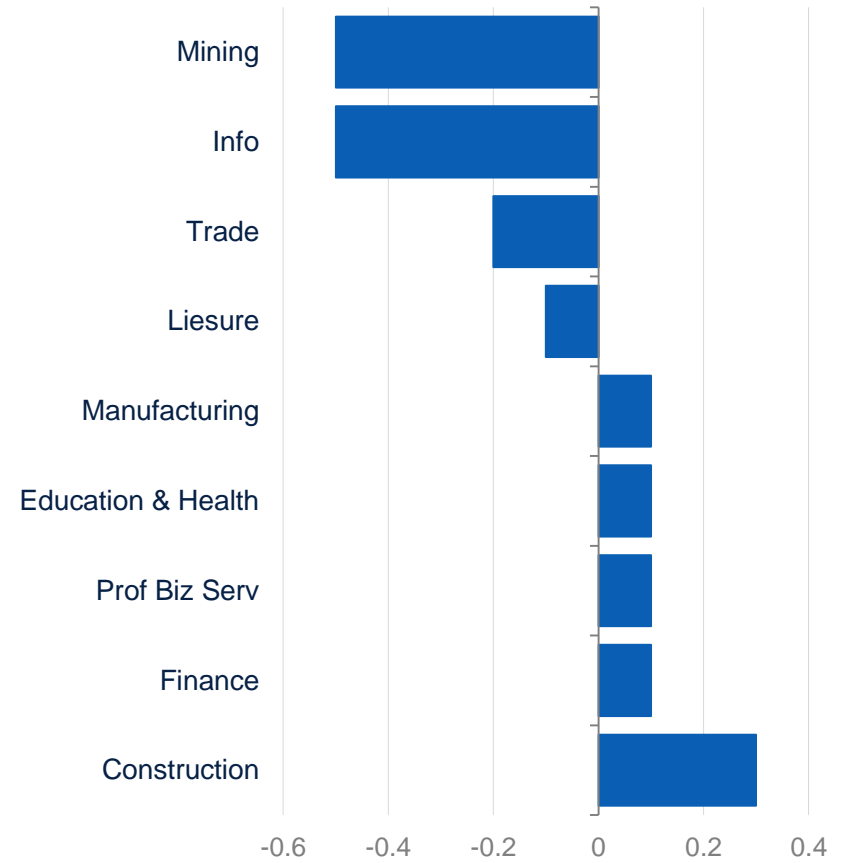
- In December, nonfarm payroll increased by 145K jobs
- Job growth was strong in retail (41K), healthcare (28K) and leisure & hospitality (40K) and little changed in professional and technical services, construction and manufacturing.
- Pressures on productivity (real output per worker) in the oil & gas sector and low commodity prices are contributing to a slowdown in the mining sector, which shed 8K jobs over-the-month.
- The unemployment rate was unchanged at 3.5% while the number of long-term unemployed remained at 1.2M
- Rate of marginally attached workers and those individuals working part-time for economic reasons (U-6) declined to an all-time low of 6.7%
- Baseline assumes modest decline in UR going forward. Average monthly job growth to slow to 151K in 2020 and 135K in 2021

# Labor market: Private sector openings and quits show weakness spreading beyond industrial sectors

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

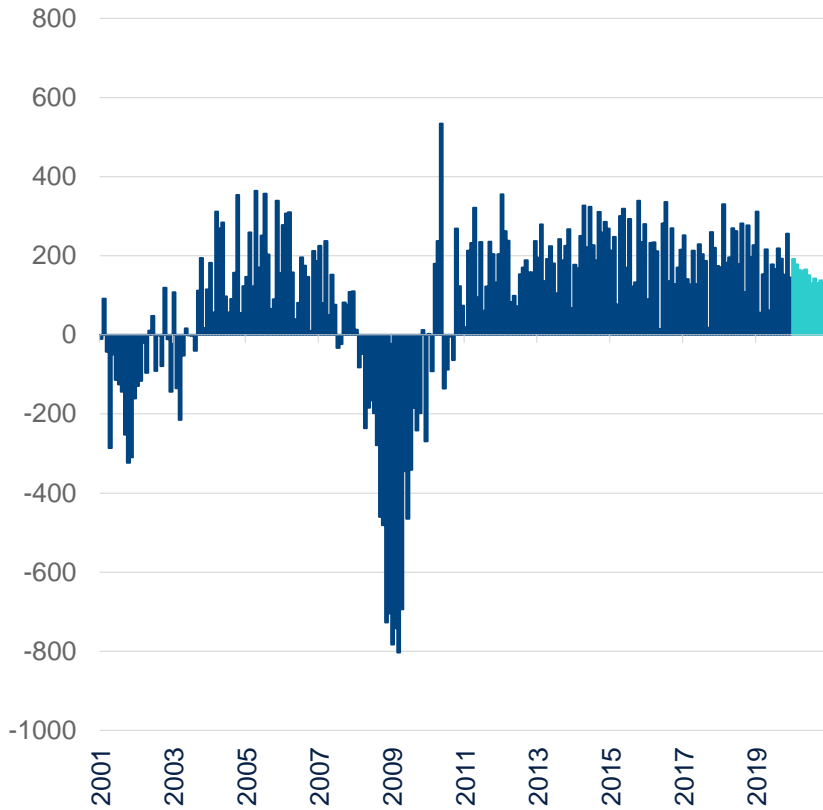


**QUITS RATE**  
(CHANGE SINCE MARCH 2019, PP)



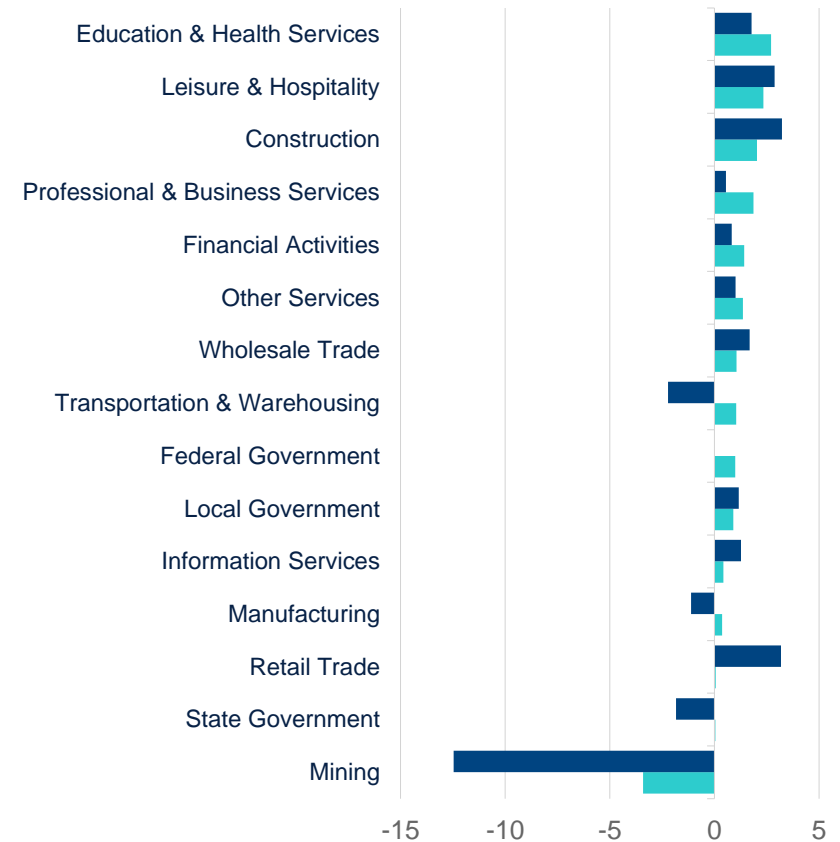
# Labor market: Job growth converging with long-term trend of around 100-125K jobs per month

## NONFARM PAYROLLS (MONTHLY CHANGE, K)



■ Actual ■ Forecast

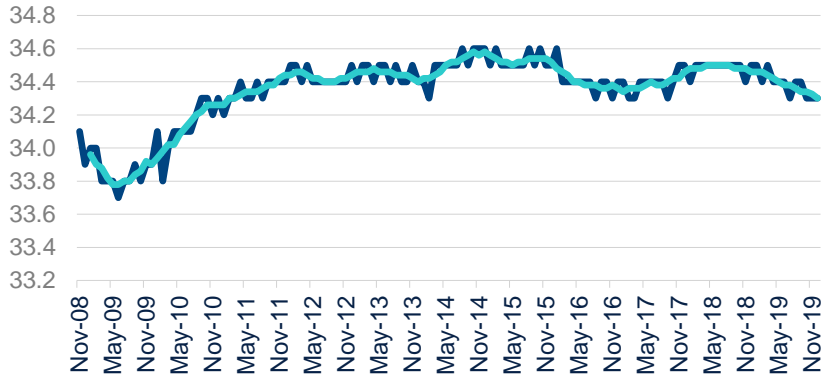
## INDUSTRY EMPLOYMENT (ANNUALIZED % CHANGE)



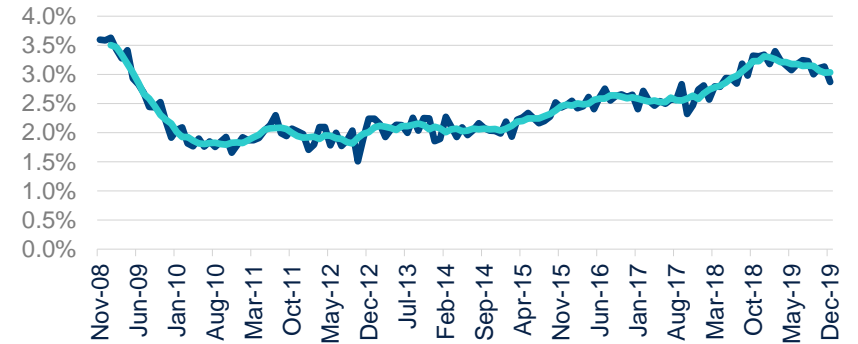
■ Monthly ■ Year-over-year

# Labor market: Prime-age participation blowing past pre-crisis average as labor market tightens

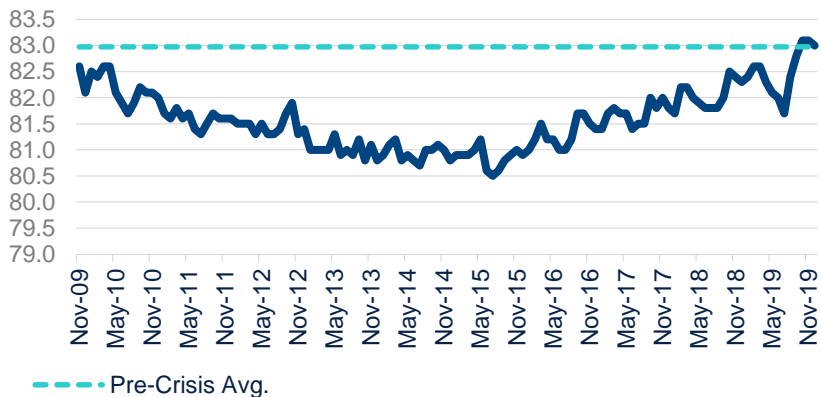
## AVERAGE WEEKLY HOURS (NUMBER & 5MCMA)



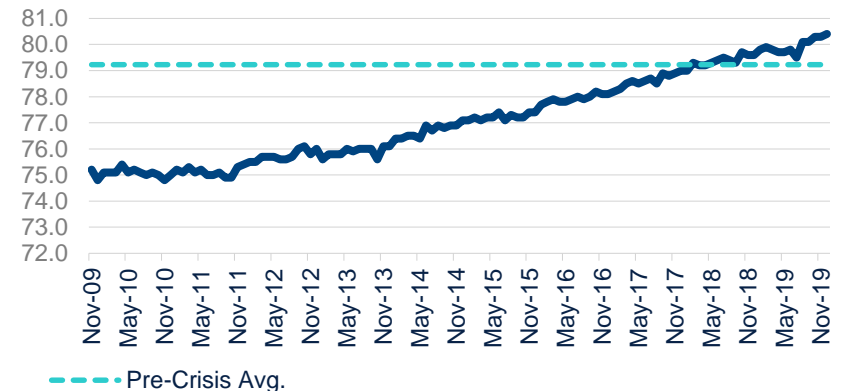
## AVERAGE HOURLY EARNINGS (YOY% & 5MCMA)



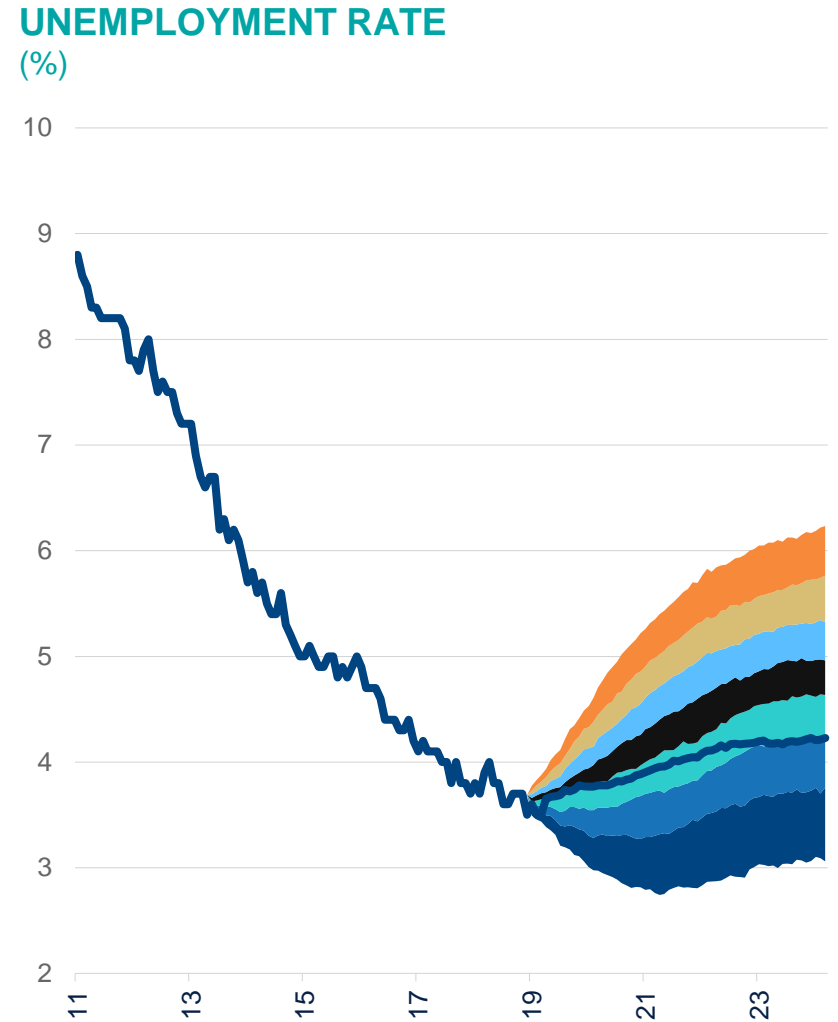
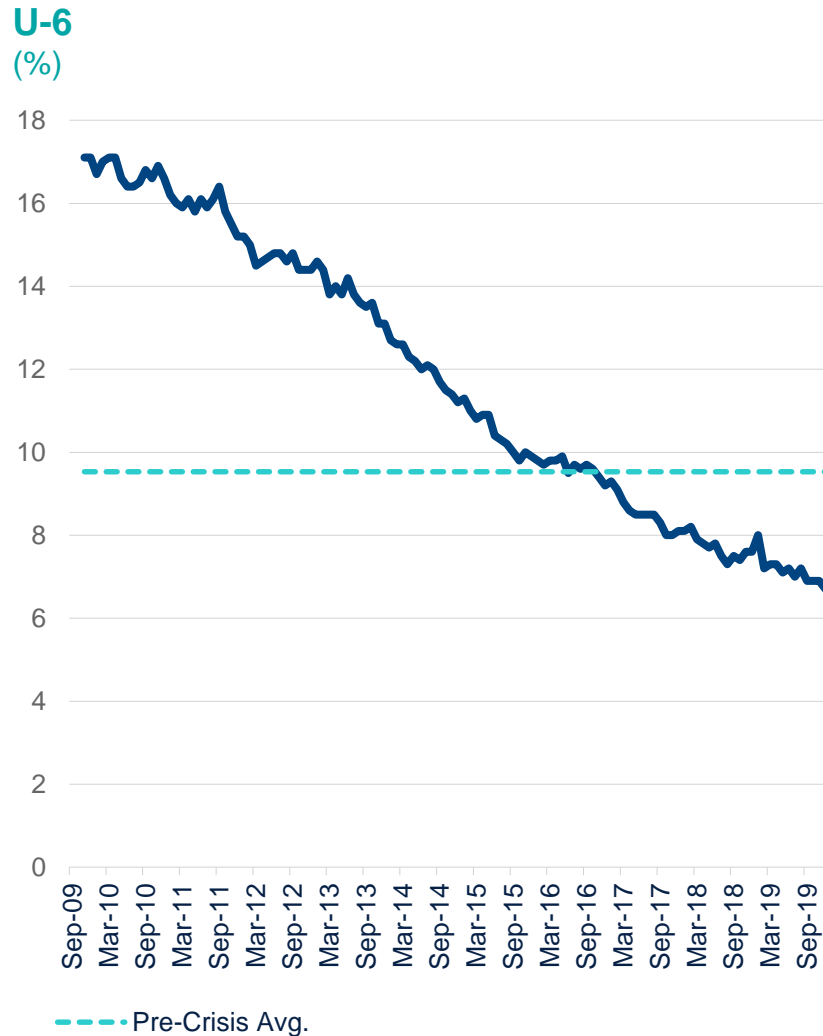
## PRIME AGE LABOR FORCE PARTICIPATION (%)



## PRIME AGE EMPLOYMENT-TO-POPULATION (%)



# Labor market: Unemployment rate continues to trend near 50-year lows

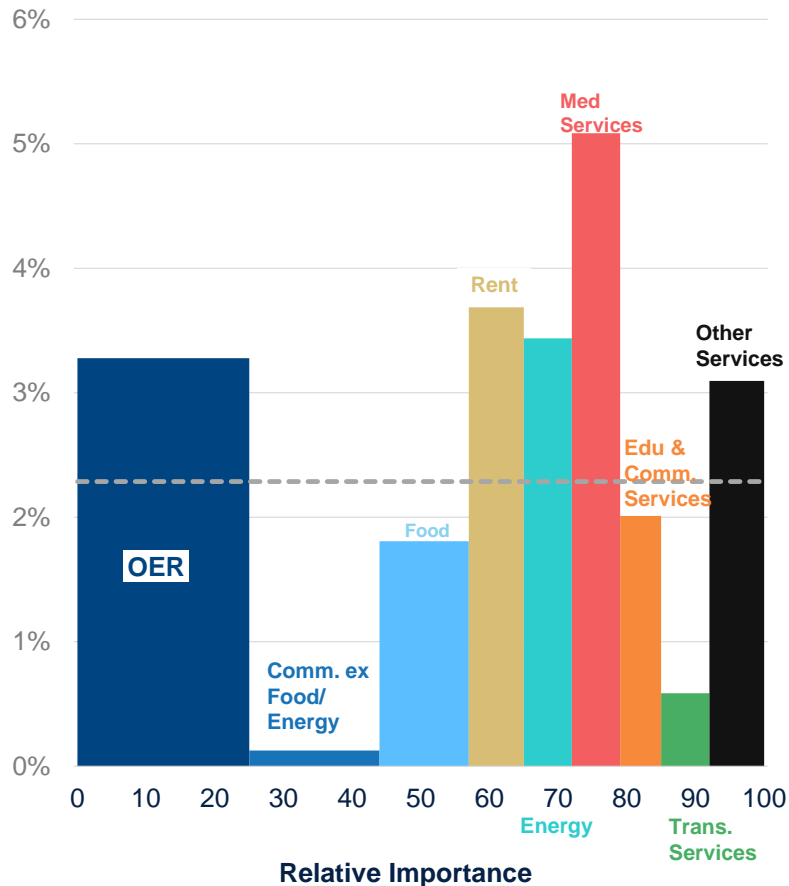


# Inflation

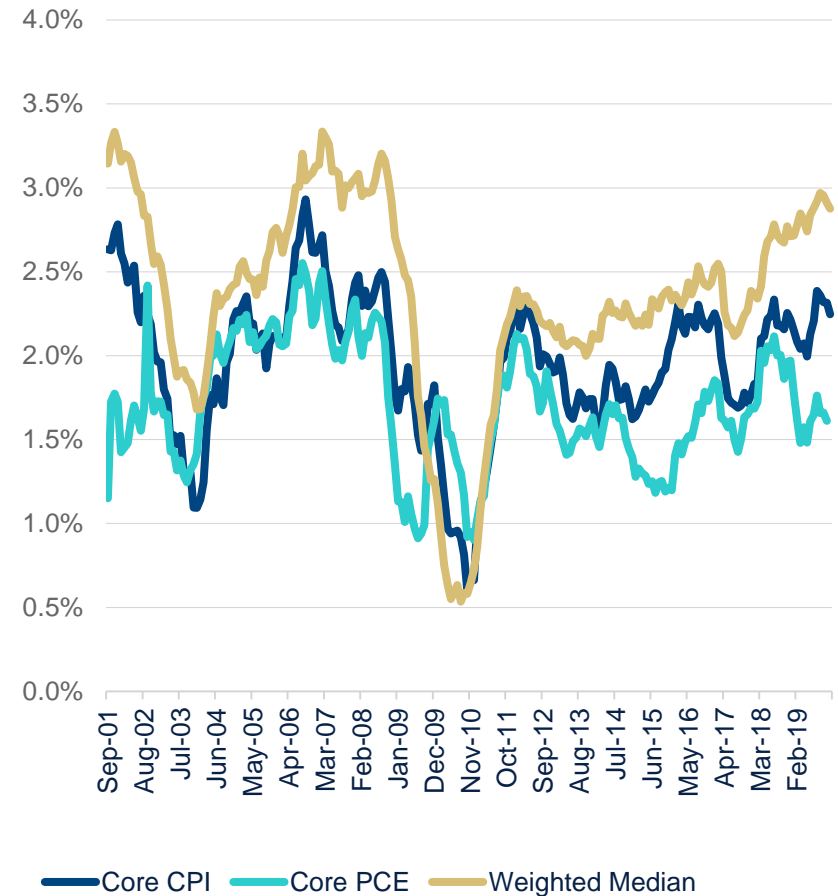
- In December, headline CPI rose 0.2%, a touch lower than expected but at a rate that remains consistent with moderate and stable inflation
- Over the last 12 months headline inflation increased 2.3%, after increasing 2.1% in November
- Largest contributions were from gasoline, shelter and medical care while prices for used vehicles and airline fares continued to decline, and increases in new vehicle prices were muted
- Inflation expectations at their highest level in 5 months
- Downside risks to inflation continue to abate
- Baseline assumes average headline CPI will be 2.0% in 2020 and 2.2% in 2021

# Inflation: Inflationary forces aligned to upside with turnaround in commodity prices

## CONSUMER PRICE INFLATION (12M CHANGE)



## CORE INFLATION MEASURES (12M CHANGE, %)

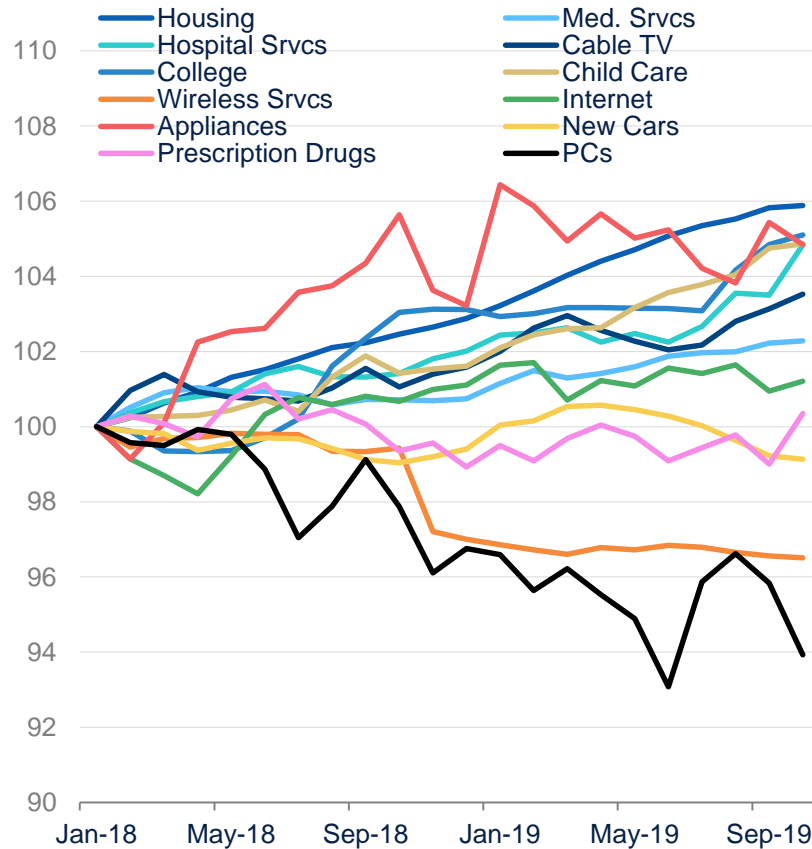


Source: BBVA Research, BLS & BEA

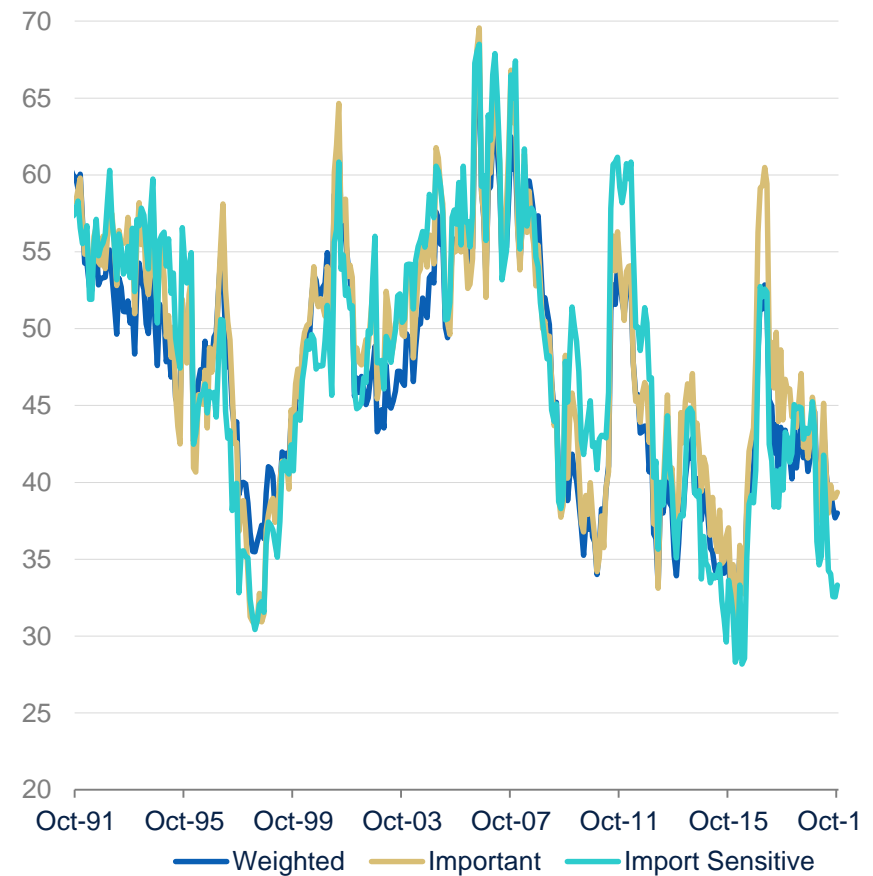


# Inflation: Cyclical and structural headwinds easing

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



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



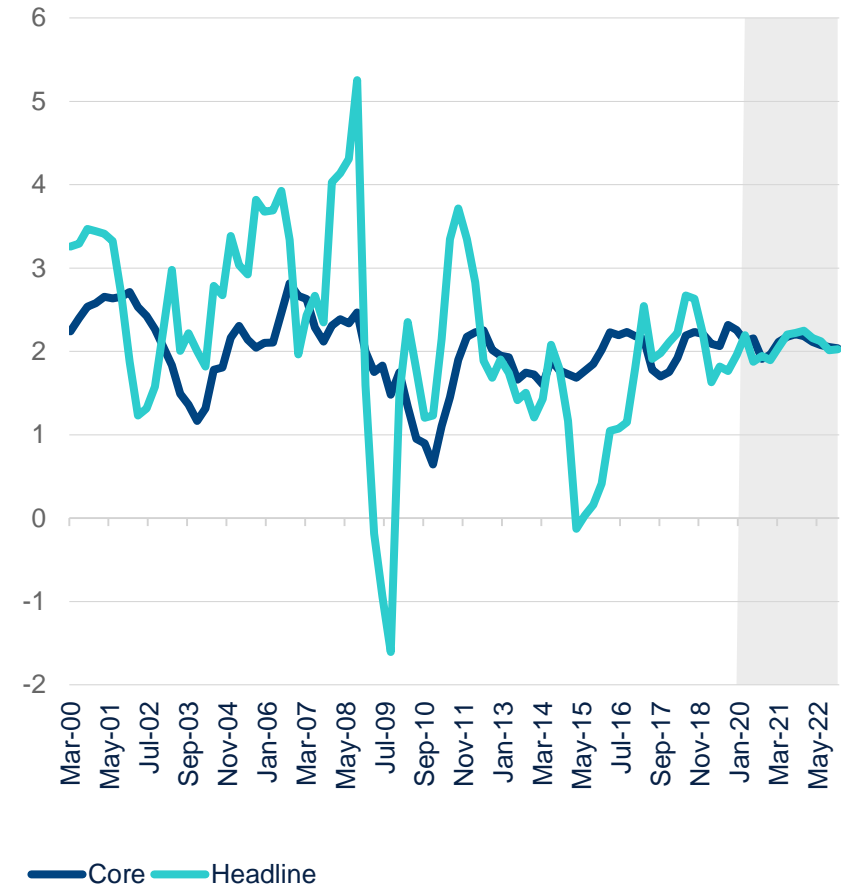
Source: BBVA Research, BLS & BEA

# Inflation: Inflation converging with baseline of 2% in 2020, slight overshoot in 2021

## INFLATION EXPECTATIONS (%)



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



Source: BBVA Research & Haver Analytics

## Monetary Policy: Federal Reserve

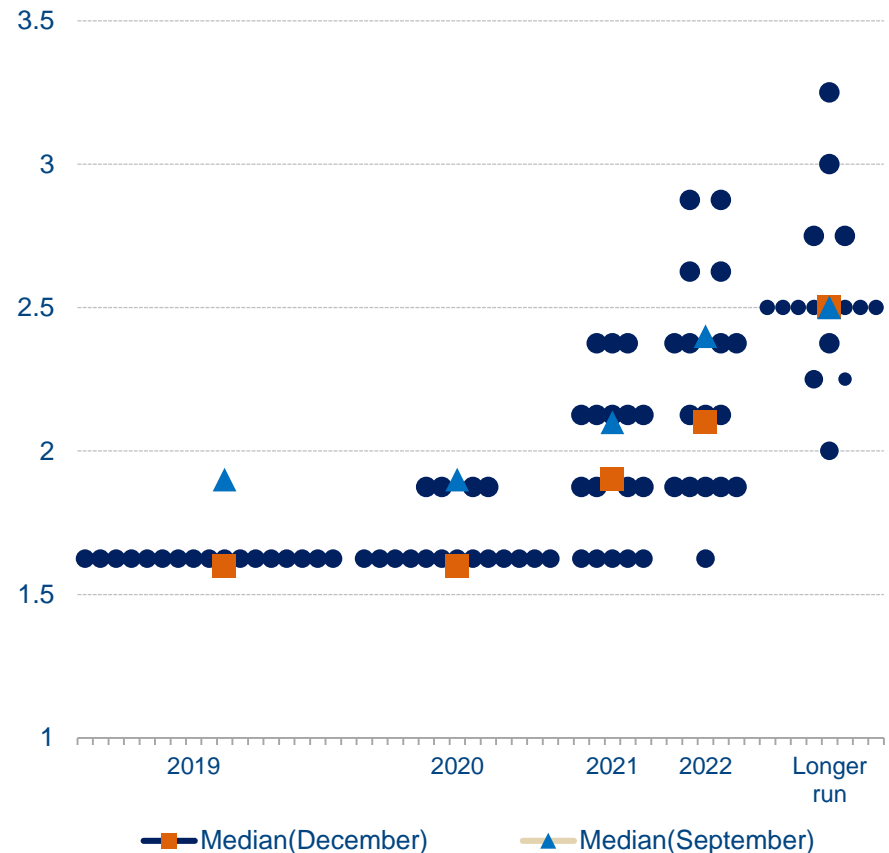
- As expected the Fed left rates unchanged at 1.5-1.75% in December
- Committee sees sustained expansion of economic activity, strong labor markets, and inflation near 2% objective as most likely outcomes
- Pause allows time to assess full effects of policy decisions and communications over the course of this year
- “Material” change in the outlook needed to warrant adjustment in stance of monetary policy
- Market expectations aligning with less aggressive Fed easing cycle, but still see one more cut in this “mid-cycle” regime
- 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

# Fed: Convergence with long-run projections and more balanced risk environment supports Fed's pause

## FOMC SUMMARY OF ECONOMIC PROJECTIONS (%)

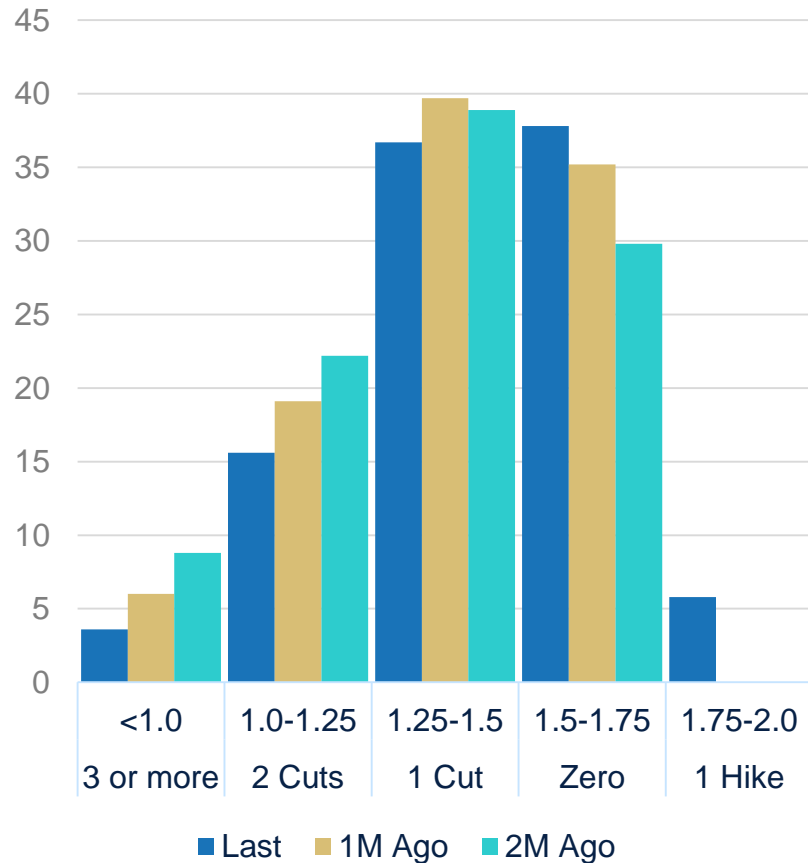
FOMC Median Estimates	2019	2020	2021	2022	Long-run
<b>Change in real GDP</b>	2.2	2.0	1.9	1.8	1.9
September projection	2.2	2.0	1.9	1.8	1.9
<b>Unemployment rate</b>	3.6	3.5	3.6	3.7	4.1
September projection	3.7	3.7	3.8	3.9	4.2
<b>PCE inflation</b>	1.5	1.9	2.0	2.0	2.0
September projection	1.5	1.9	2.0	2.0	2.0
<b>Core PCE inflation</b>	1.6	1.9	2.0	2.0	
September projection	1.8	1.9	2.0	2.0	
<b>Federal funds rate</b>	1.6	1.6	1.9	2.1	2.5
September projection	1.9	1.9	2.1	2.4	2.5

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

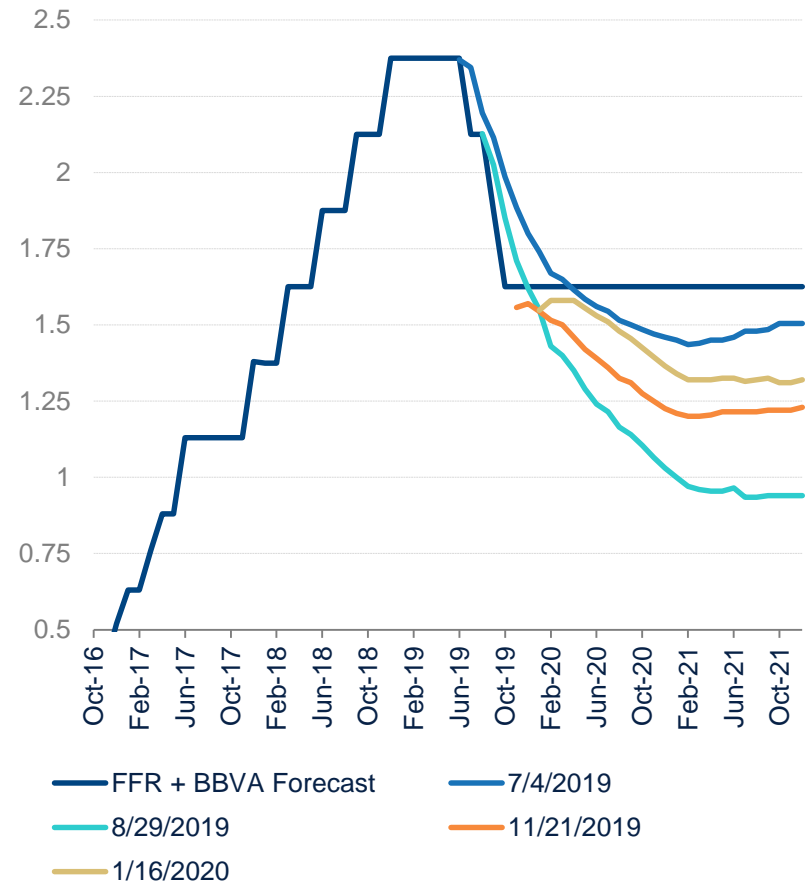


# Monetary policy: Markets discounting one 25bp rate cut before year-end 2021

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

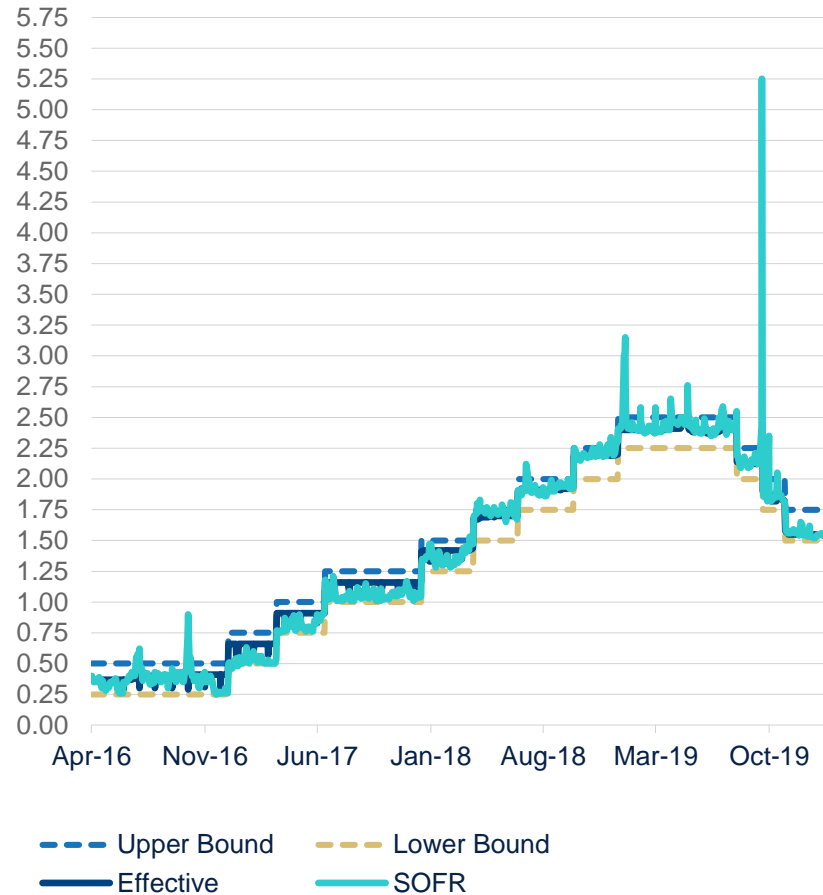


**FED FUNDS FUTURES & BBVA BASELINE**  
(%)

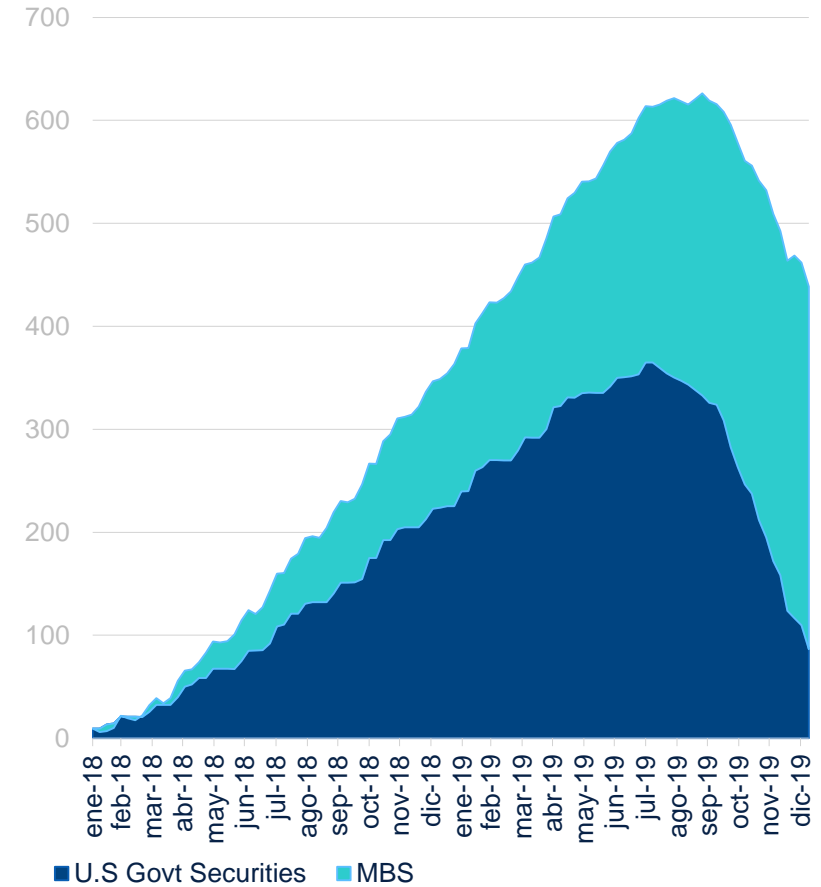


# Monetary policy: After surge in repo rates, unwinding of quantitative tightening accelerating

## FED FUNDS & REPO RATES (%)

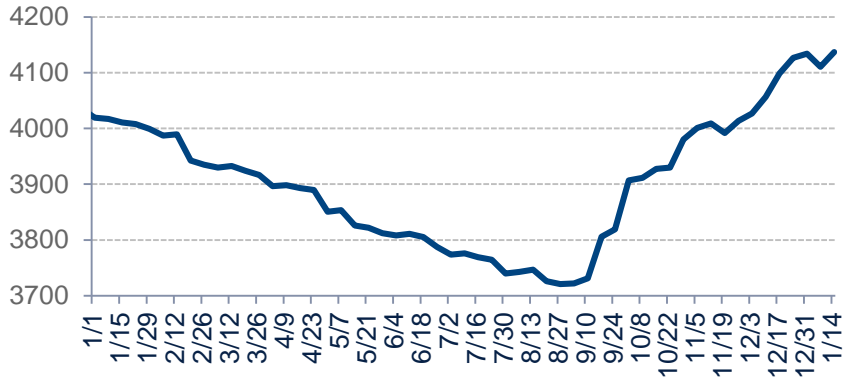


## BALANCE SHEET ATTRITION (US\$BN, CUMULATIVE)

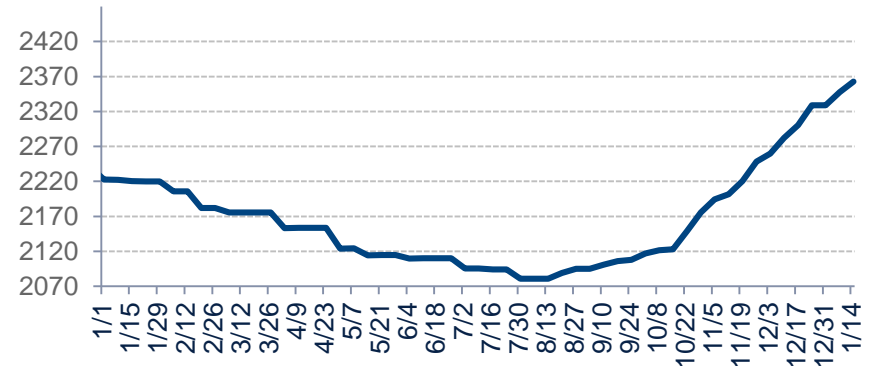


# Monetary policy: Around \$275bn in outright Treasury purchases since mid-September

**TOTAL ASSETS**  
(US\$BN)



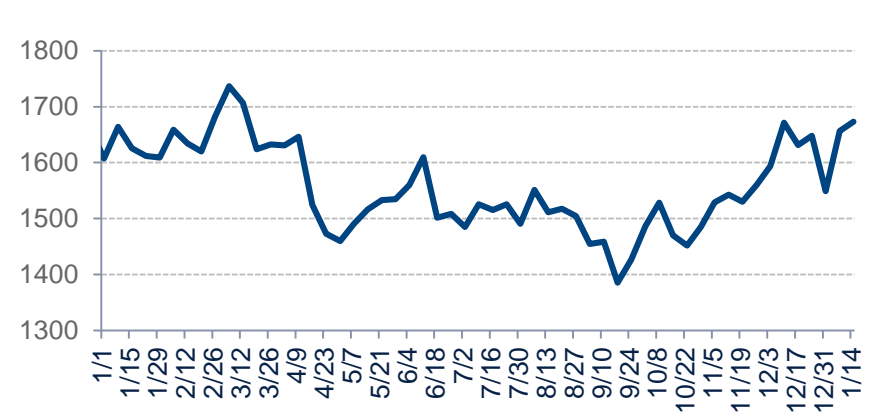
**TREASURIES HELD OUTRIGHT**  
(US\$BN)



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



**RESERVE BALANCES**  
(US\$BN)



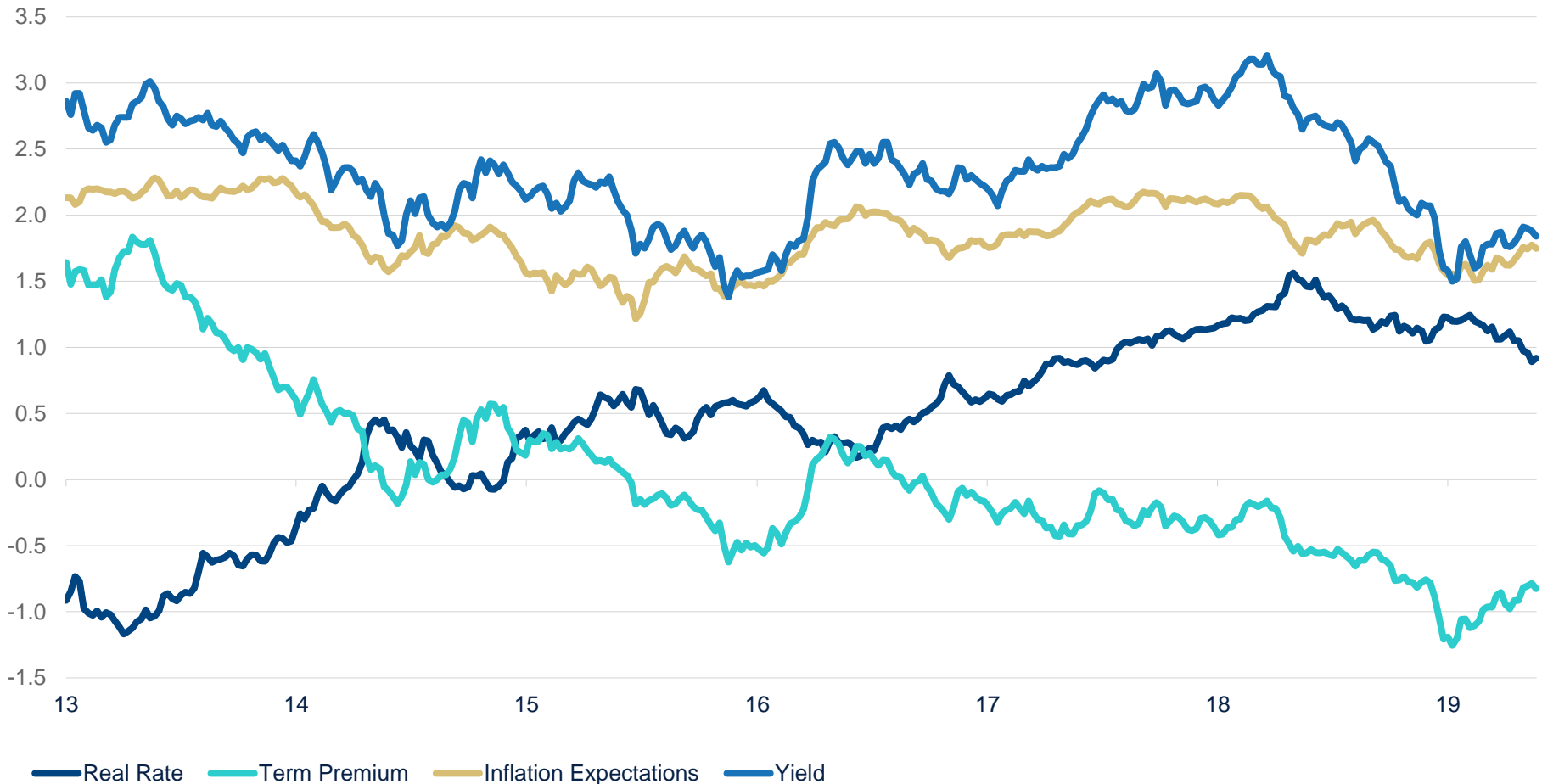
# Interest Rates

- 10-yr Treasury yields steady around 1.8%, 2-yr Treasury largely unchanged over the month at 1.5%
- Term premium off historic lows, but remains negative given increased targeted asset purchases, global risk aversion and subdued near-term growth prospects
- Uptick in inflation expectations explain significant portion of the recent rise in long-term yields
- Short-term rates remain aligned with benchmarks
- Fed's "mid-cycle" adjustment promoting steepening of yield curve
- Modest upside risks to 10-yr Treasury yields 2020



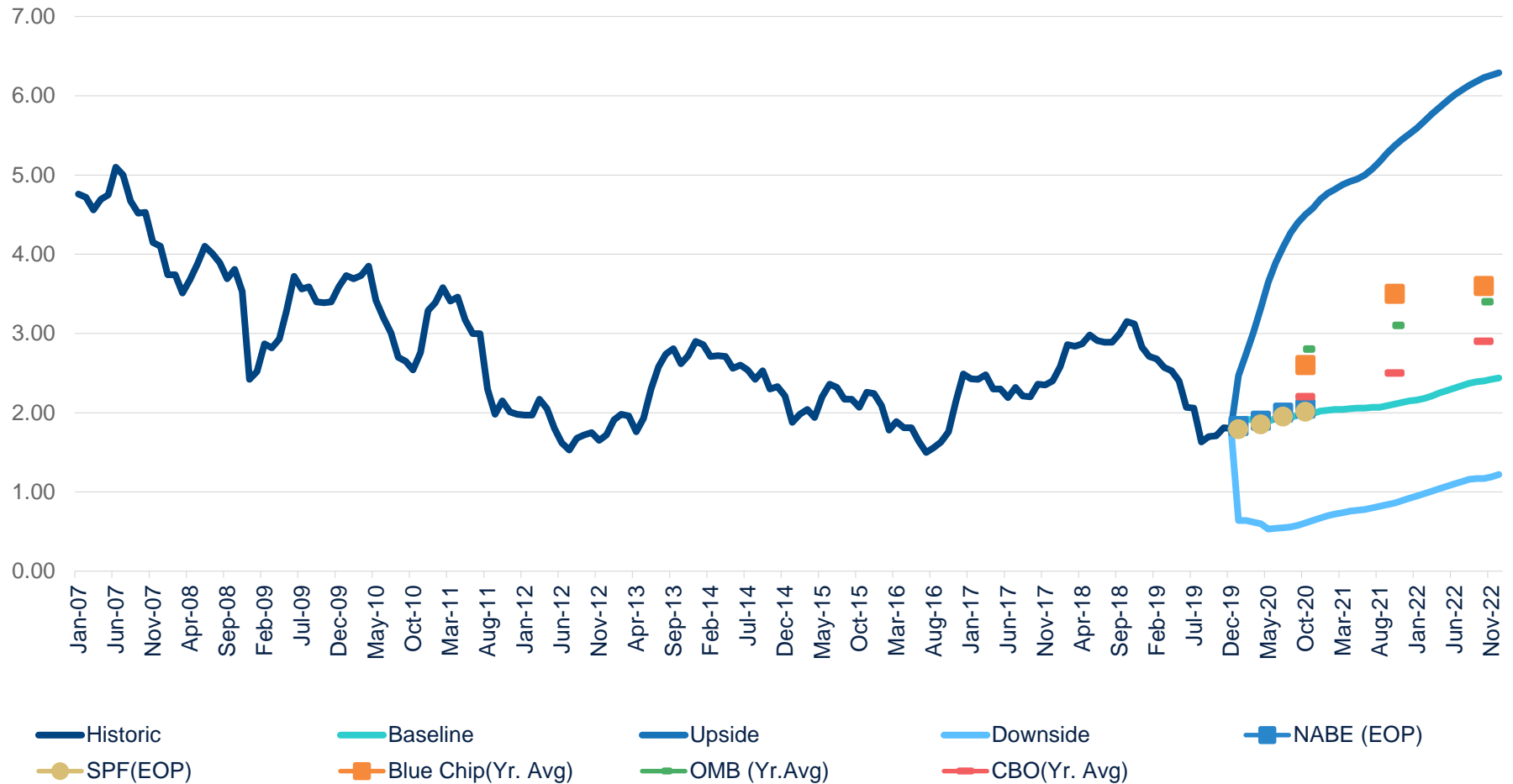
# Interest rates: Rising inflation expectations pushes up 10-year yields, term premium momentum slowing

## 10-YEAR TREASURY YIELD DECOMPOSITION (%)



# Interest rates: Risks to 10-year modestly tilted to the upside with reduction in trade uncertainty and firmer inflation outlook

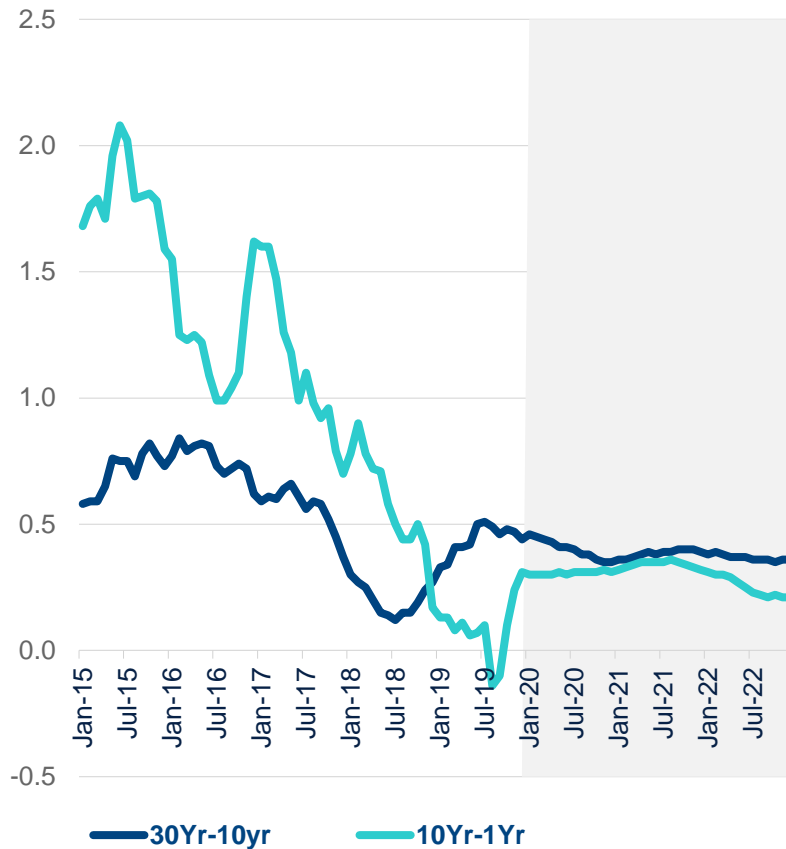
## 10-YEAR TREASURY YIELD (%)



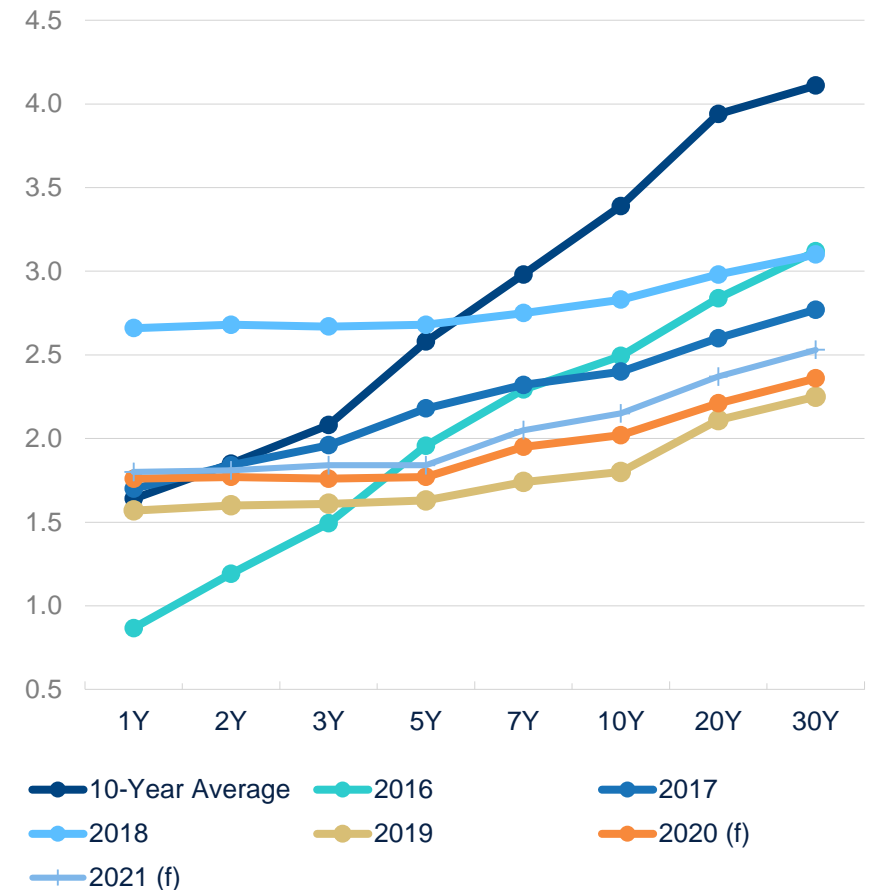
Source: BBVA Research, ACM & Haver Analytics

# Interest rates: Modest steepening as a result of reduction in short-term rates and rising inflation expectations

**YIELD CURVE SLOPE (BP)**



**YIELD CURVE (% EOP)**



# Oil Prices Outlook

- Market fundamentals still imply prices hovering around \$60/b
- OPEC+ increased its production cut by 500,000 b/d. This, together with voluntary contributions would lead to a total reduction of more than 2.1 million b/d
- Non-OPEC production will expand further in 2020 led by the U.S.
- Crude oil demand growth is expected to remain sluggish in 2020, but somewhat higher than in 2019
- Protectionism and geopolitics in the Middle East remain the main source of volatility
- Long-term equilibrium prices around current levels
- Elevated uncertainty around long-term equilibrium: CAPEX, protectionism, transportation infrastructure, alternative energy sources, EM convergence, EVs, climate change, efficiency and technology

# Tensions in the Middle East had a temporary impact on crude prices as not a single drop was disrupted

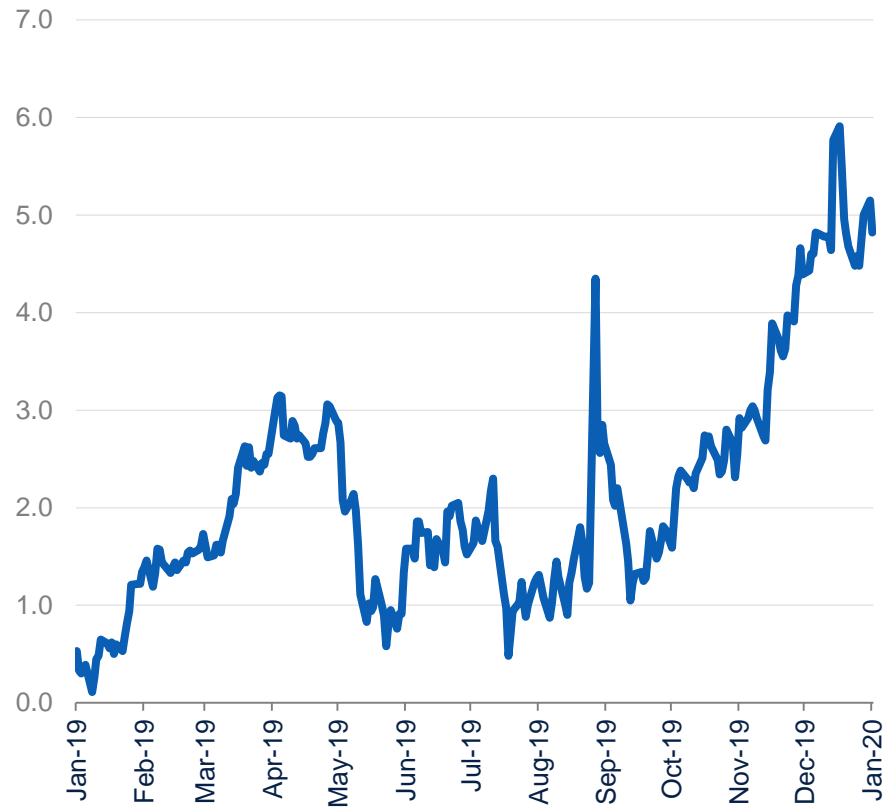
## CRUDE OIL PRICES 2019-2020 (\$ PER BARREL)



# Short-term risks are still tilted to the upside

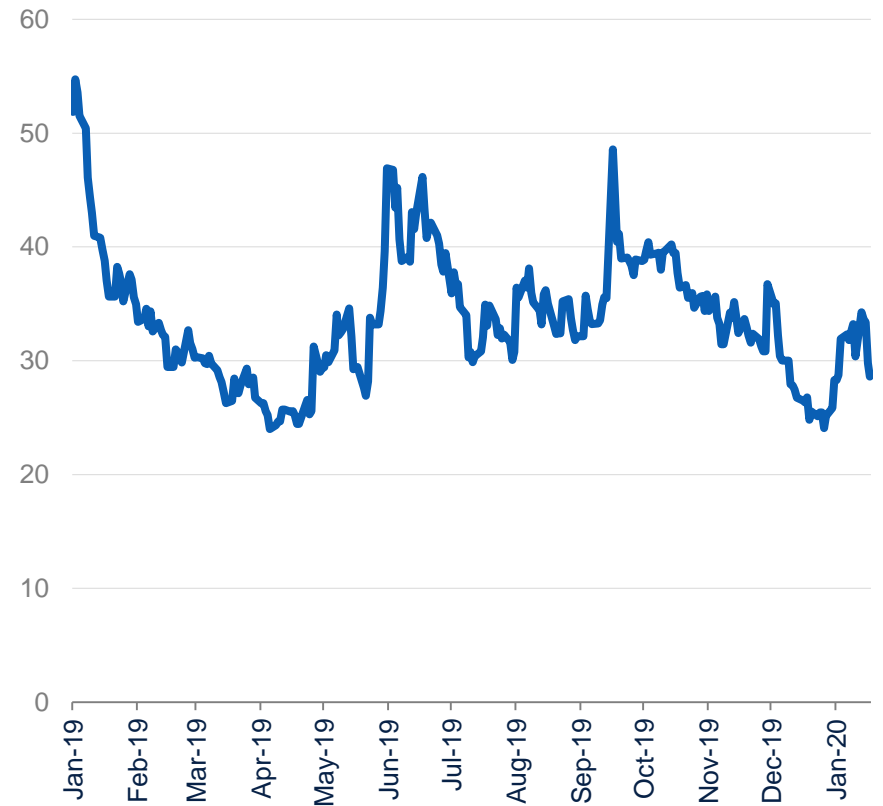
## BRENT FUTURES TIME SPREADS

(MARCH – DECEMBER 2020, \$ PER BARREL)



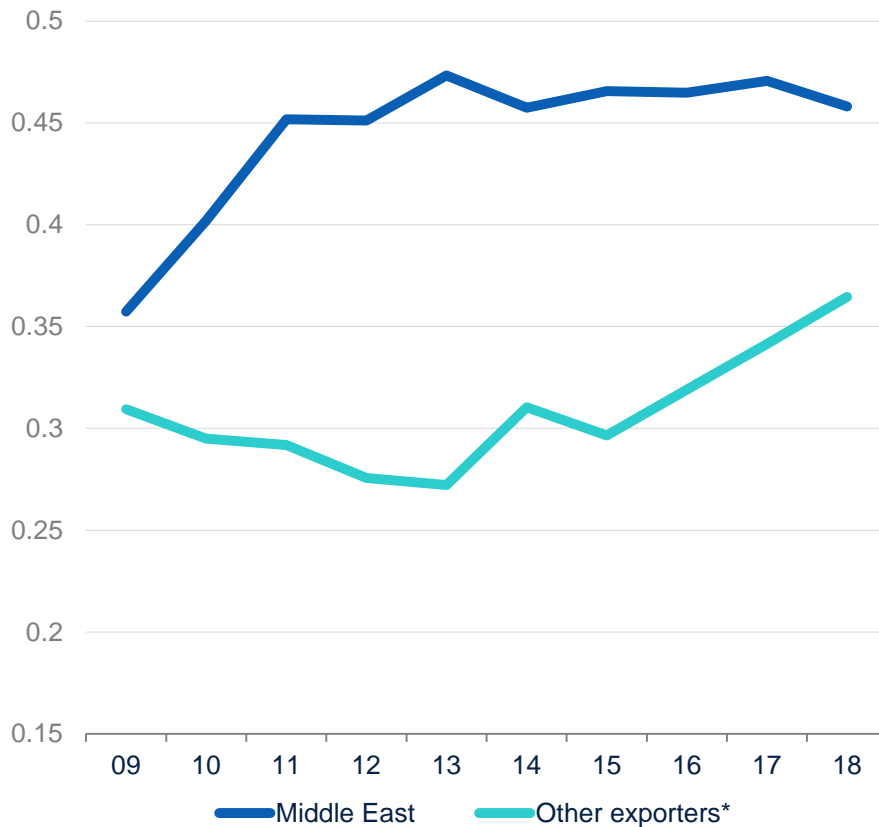
## CRUDE OIL VOLATILITY

(INDEX)

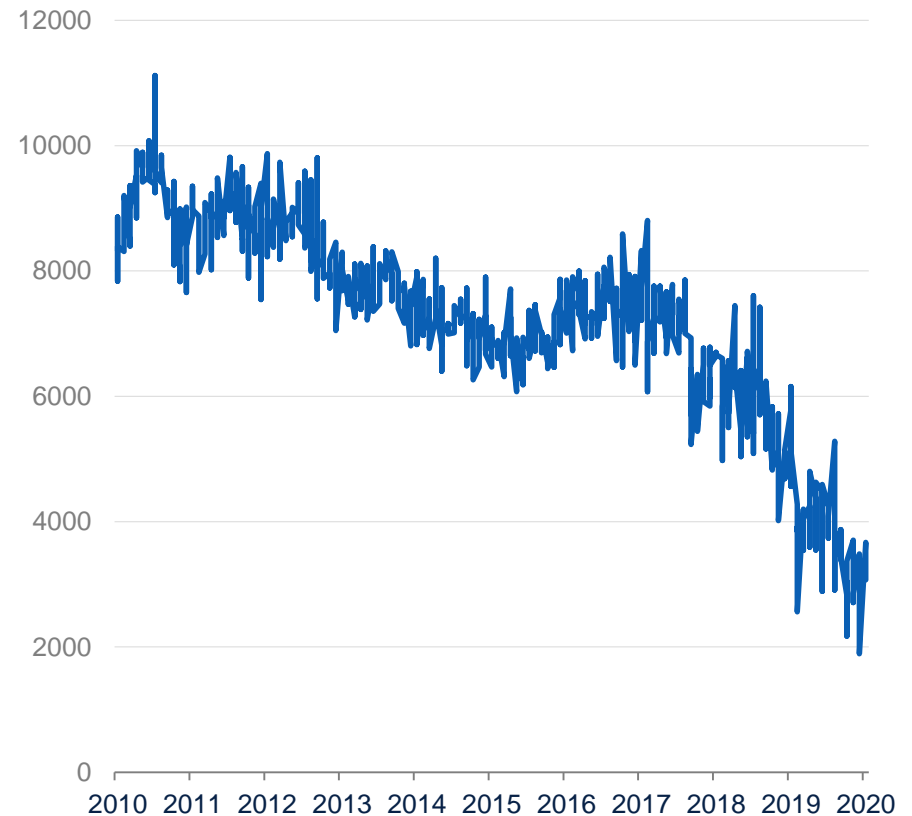


# In the long-run, the impact of future tensions in the Middle East will be limited by its declining relative importance

## GLOBAL CRUDE OIL EXPORTS (SHARE OF TOTAL)

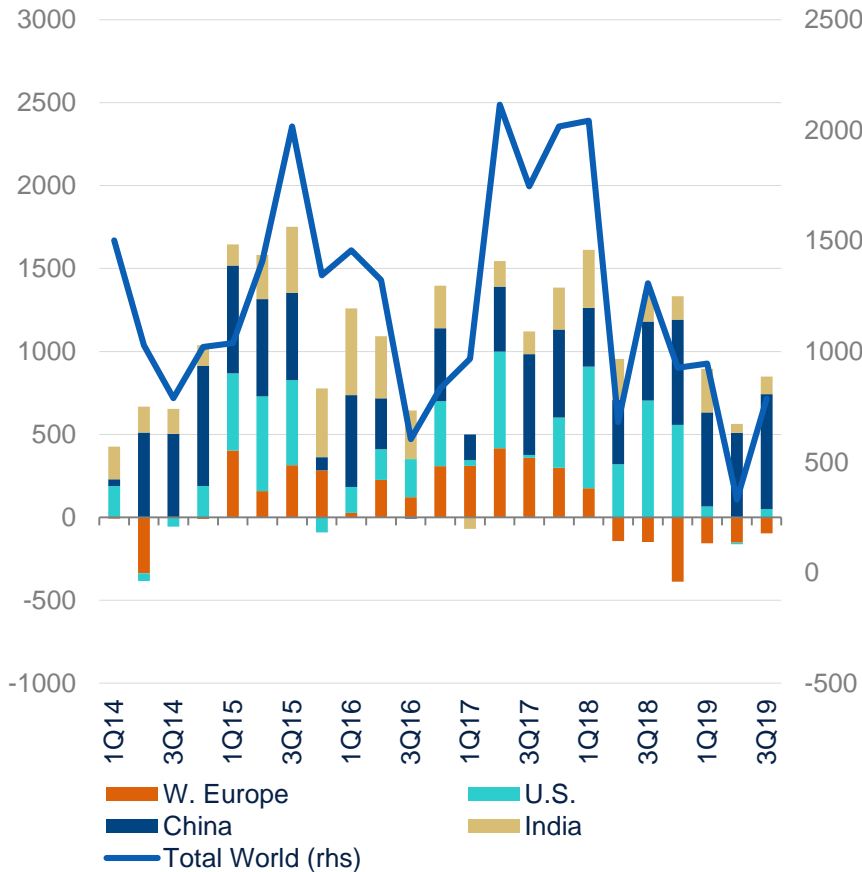


## U.S. CRUDE OIL NET IMPORTS (THOUSAND BARRELS PER DAY)

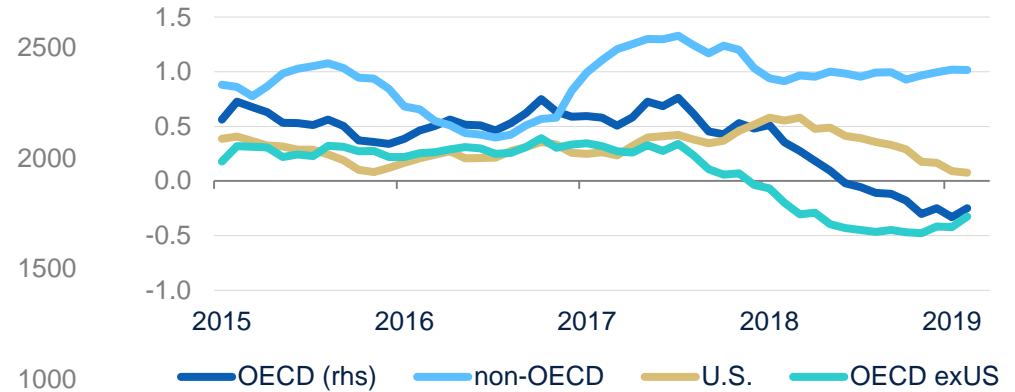


# Crude oil demand growth is expected to remain sluggish in 2020

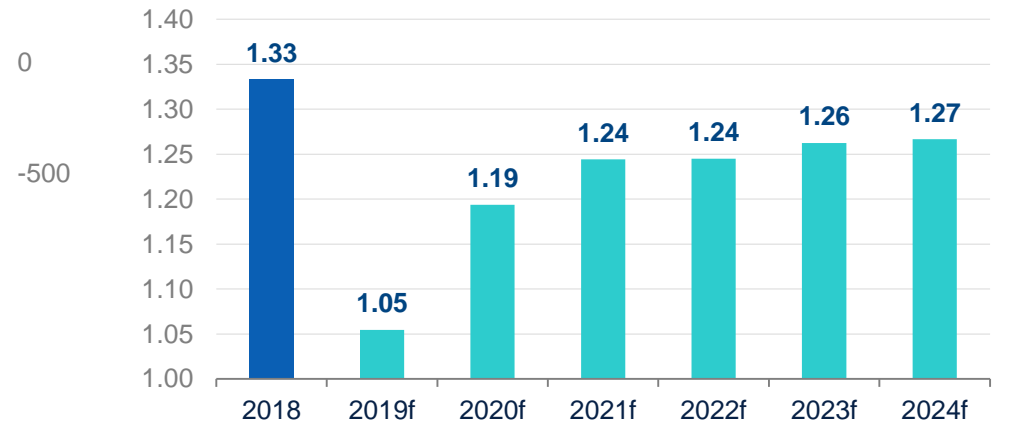
**OIL PRODUCT DEMAND: TOTAL WORLD**  
(THOUSAND BARRELS PER DAY, YOY CHANGE)



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



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

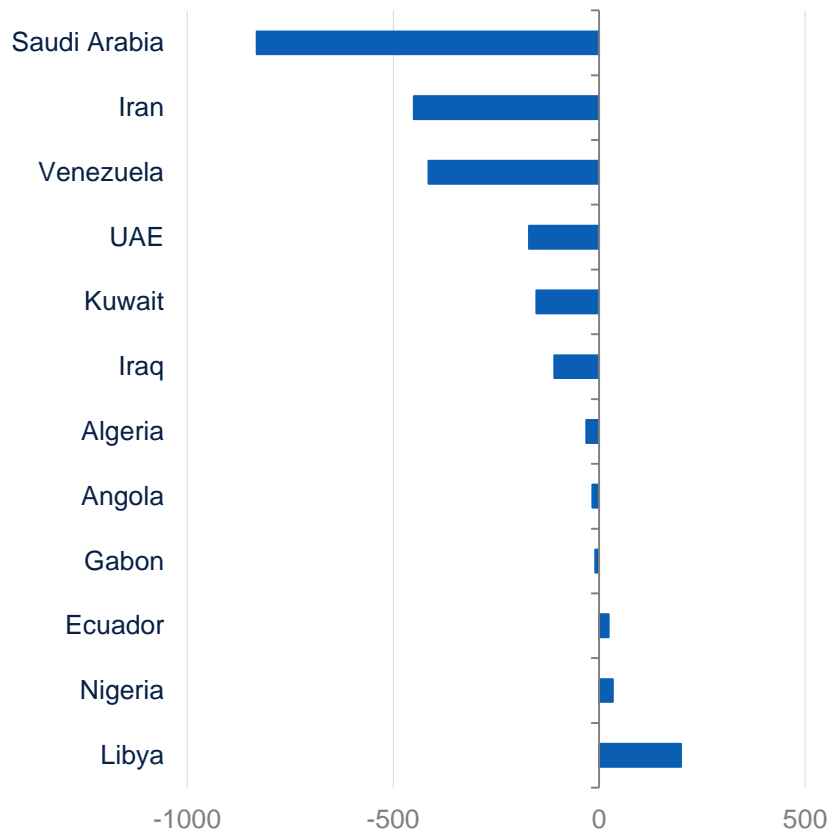


Source BBVA Research with data from Haver Analytics, Bloomberg and WEO

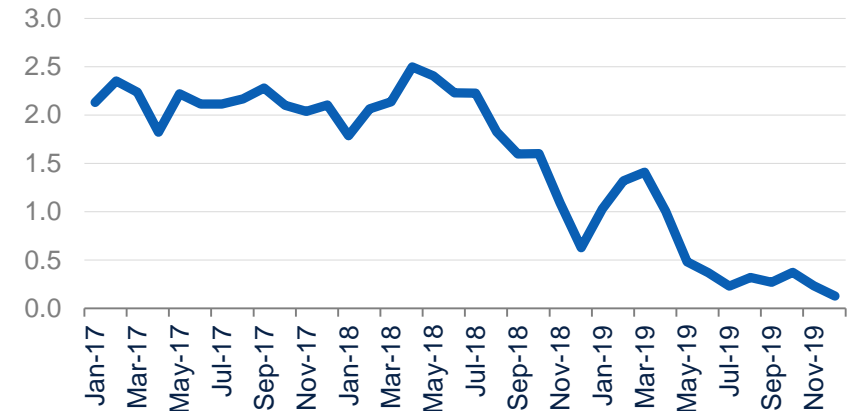


# OPEC+ extended its production cuts. Full compliance is needed to counteract the effect of rising inventories in 1H20

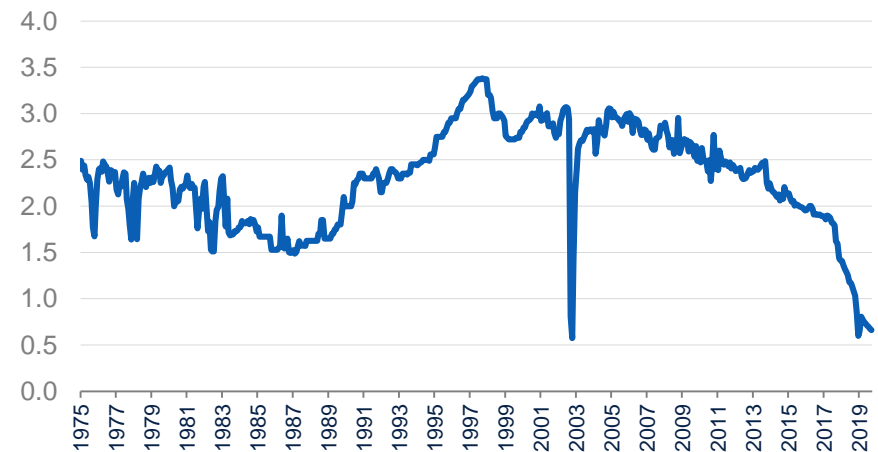
**OPEC CRUDE OIL PRODUCTION**  
(CHANGE BETWEEN DEC-2018 AND DECEMBER - 2019, THOUSAND BARRELS PER DAY)



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



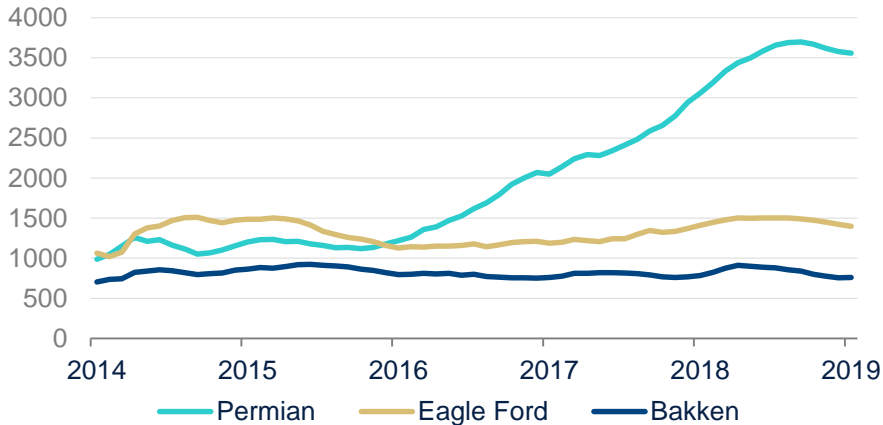
**VENEZUELA: CRUDE OIL PRODUCTION**  
(MILLION BARRELS PER DAY)



Source: BBVA Research, Haver Analytics, and Bloomberg

# U.S. production growth will remain robust in 2020 (~1.1 million b/d); however, it may stabilize going forward

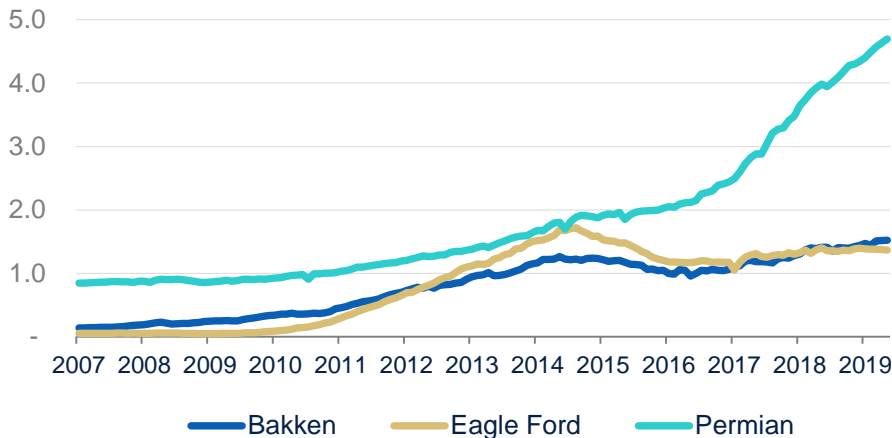
### U.S. DRILLED BUT UNCOMPLETED WELLS (NUMBER)



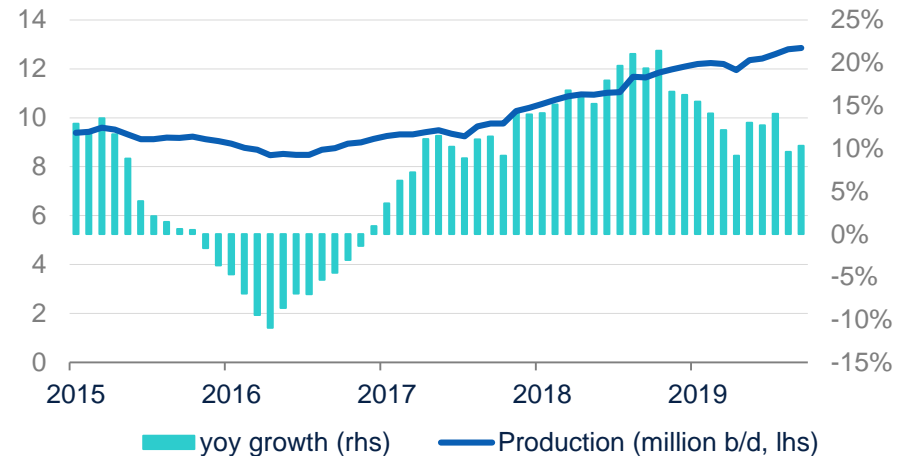
### U.S. ACTIVE RIG COUNT (UNITS)



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



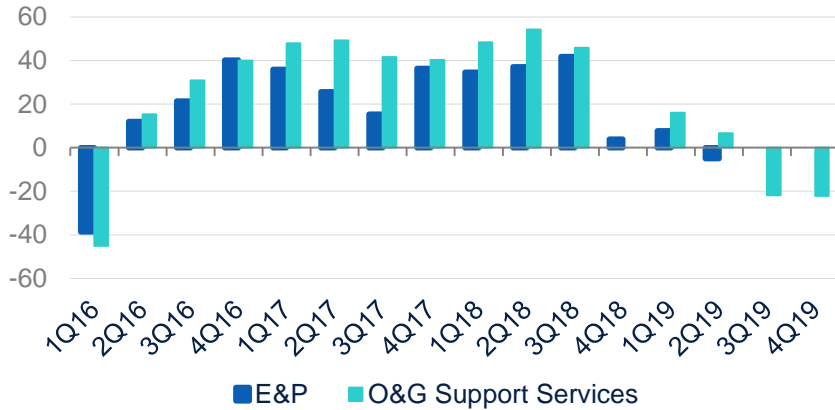
### U.S. CRUDE OIL FIELD PRODUCTION



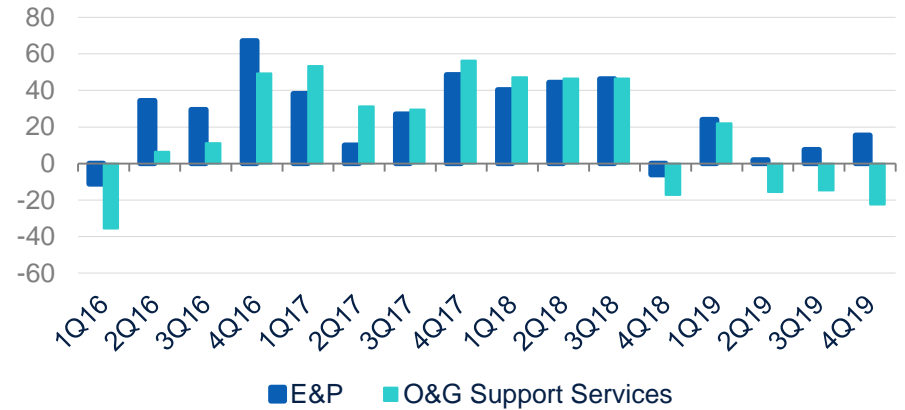
Source: BBVA Research and Haver Analytics

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

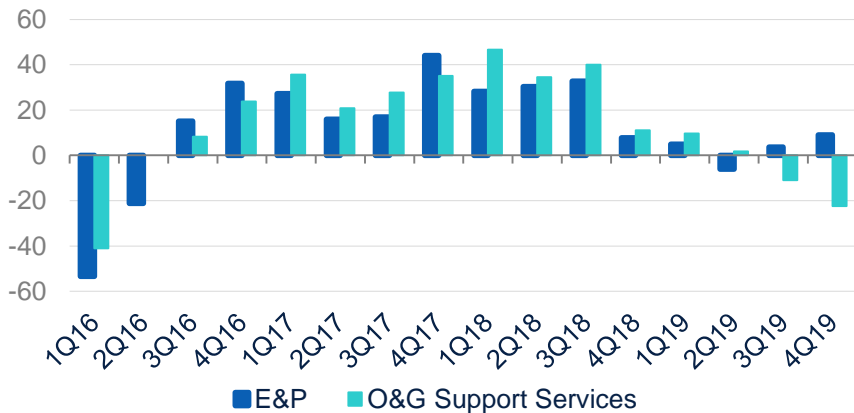
## LEVEL OF BUSINESS ACTIVITY INDEX



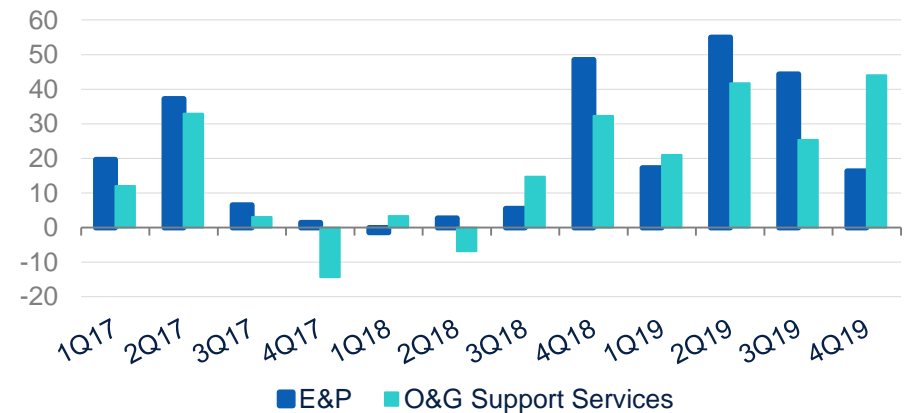
## COMPANY OUTLOOK INDEX



## CAPITAL EXPENDITURES INDEX



## UNCERTAINTY INDEX



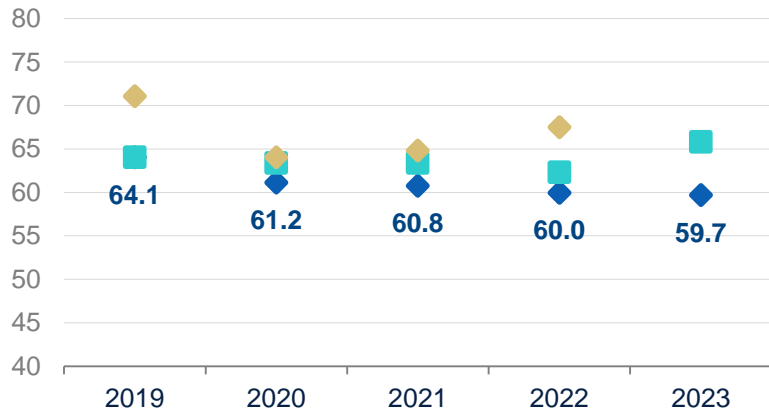
\*Current Index = % Reporting Increase - % Reporting Decrease

Source: Dallas Fed Energy Survey , 4Q19

# Slight revision in the short-term due to OPEC+ additional cuts; our main assumptions remain unchanged

## BRENT PRICES FORECAST (\$ PER BARREL)

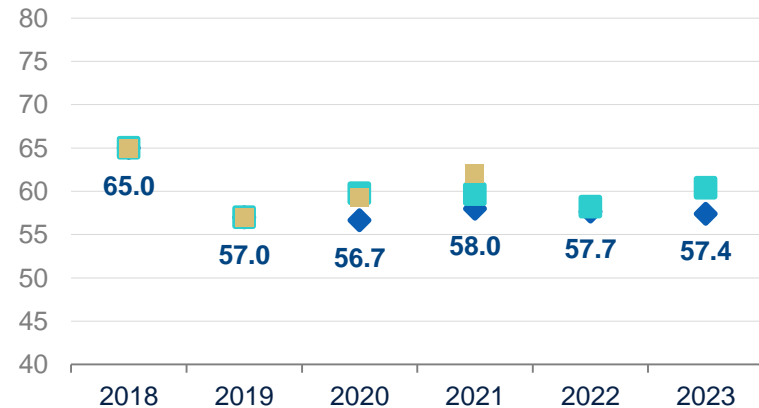
	BBVA Research (baseline)	Bloomberg Survey (Jan 21)	EIA STEO (Jan 14)
2017	54.2	54.2	54.2
2018	71.1	71.1	71.1
2019	64.1	64.1	64.1
<b>2020</b>	<b>61.2</b>	<b>63.4</b>	<b>64.8</b>
<b>2021</b>	<b>60.8</b>	<b>63.4</b>	<b>67.5</b>
<b>2022</b>	<b>60.0</b>	<b>62.3</b>	
<b>2023</b>	<b>59.7</b>	<b>65.8</b>	



◆ BBVA Research ■ Bloomberg Survey (Jan 21) ◆ EIA STEO (Jan 14)

## WTI PRICES FORECAST (\$ PER BARREL)

	BBVA Research (baseline)	Bloomberg Survey (Jan 21)	EIA STEO (Jan 14)
2017	50.9	50.9	50.9
2018	65.0	65.0	65.0
2019	57.0	57.0	57.0
<b>2020</b>	<b>56.7</b>	<b>59.8</b>	<b>59.3</b>
<b>2021</b>	<b>58.0</b>	<b>59.7</b>	<b>62.0</b>
<b>2022</b>	<b>57.7</b>	<b>58.2</b>	
<b>2023</b>	<b>57.4</b>	<b>60.4</b>	



◆ BBVA Research ■ Bloomberg Survey (Jan 21) ■ EIA STEO (Jan 14)

# Macroeconomic Outlook

	2011	2012	2013	2014	2015	2016	2017	2018	2019 (e)	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	2.0	2.0
Real GDP (Contribution, pp)												
PCE	1.3	1.0	1.0	2.0	2.5	1.9	1.8	2.1	1.8	1.5	1.4	1.4
Gross Investment	0.9	1.6	1.1	1.0	0.9	-0.2	0.8	0.9	0.4	0.4	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	0.2	0.5	0.6
Imports	-0.9	-0.5	-0.3	-0.8	-0.9	-0.4	-0.8	-0.8	-0.3	-0.3	-0.6	-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	3.9	4.0
Avg. Monthly Nonfarm Payroll (K)	173	181	192	251	227	193	179	223	181	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	-4.8	-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	5.8	3.4	3.3	3.2	3.4
10-Yr Treasury (% Yield, eop)	1.98	1.72	2.90	2.21	2.24	2.49	2.40	2.83	1.86	2.02	2.15	2.44
West Texas Intermediate Oil Prices (dpb, average)	94.9	94.1	97.9	93.3	48.7	43.2	50.9	65.0	56.7	56.7	58.0	57.7

Source: BBVA Research

\*Forecasts subject to change

# Economic Scenarios

Macro Scenarios									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>GDP</b>	2.9	1.6	2.4	2.9	2.3	1.8	2.0	2.0	1.9
<b>Upside</b>						3.4	2.9	2.7	2.7
<b>Downside</b>						-0.7	1.1	1.5	1.7
<b>UR</b>	5.3	4.9	4.4	3.9	3.7	3.7	3.9	4.0	4.2
<b>Upside</b>						3.1	2.9	3.0	3.0
<b>Downside</b>						5.4	6.6	5.7	5.0
<b>CPI</b>	0.1	1.3	2.1	2.4	1.8	2.0	2.2	2.1	2.1
<b>Upside</b>						3.4	3.7	3.8	3.8
<b>Downside</b>						0.3	1.1	1.3	1.5
<b>Fed [eop]</b>	0.50	0.75	1.50	2.50	1.75	1.75	1.75	2.25	2.25
<b>Upside</b>						4.00	5.50	6.00	6.50
<b>Downside</b>						0.25	0.25	0.25	0.25
<b>10-Yr [eop]</b>	2.24	2.49	2.4	2.83	1.86	2.02	2.15	2.44	2.60
<b>Upside</b>						4.69	5.52	6.29	6.16
<b>Downside</b>						0.88	1.38	1.41	1.55

# Disclaimer

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# U.S. Macroeconomic Pulse

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