

# Economic Outlook

## US Monthly Update

October 11, 2012

# Meeting Details

**Topic: US Monthly Economic Outlook**

**Date: Thursday, October 11, 2012**

**Time: 10:00 am, Central Standard Time (Chicago, GMT-06:00)**

**Meeting Number / Access Code: 710 325 251**

**Meeting Password: bbva**

**To join the online meeting:**

<https://bbvacompass.webex.com/bbvacompass/j.php?ED=185371222&UID=494946087&PW=NZmYyYzQ5ZmUz&RT=MiM3>

**To join the audio conference only:**

**Call-in toll-free number (US/Canada): 1-866-469-3239**

**Call-in toll number (US/Canada): 1-650-429-3300**

**Global call-in numbers:**

<https://bbvacompass.webex.com/bbvacompass/globalcallin.php?serviceType=MC&ED=181289027&tollFree=1>

# Bottom Line

## Economic Activity

- Weak recovery, not yet self-sustaining
- Stable inflation with limited pressures

## Monetary Policy

- Fed implements QE3 and stands ready to act further if needed

## Financial Markets

- Improved risk perception drives investors toward riskier assets

## Interest Rates

- Upward movement at the back end steepens the yield curve

## Risks

- Tilted to the downside: deleverage, fiscal cliff, Euro crisis, EMs & geopolitical

# Federal Reserve

Frustration with the recovery and concerns on its sustainability drive the FOMC to change the policy guidance and implement QE3

## FOMC Statement Sept 12-13

- “The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook.”
- Vote: 11 to 1

## Actions

- Purchase \$40bn of MBS per month and continue reinvesting principal payments from existing portfolio
- Equivalent to \$85bn per month until end of year
- Additional purchases and actions if conditions do not improve in a context of price stability (Conditionality?)
- Changed policy guidance until 2015 (2014 previously)

# Federal Reserve

FOMC produces a more positive outlook, reflecting the implicit implications of further easing

## FOMC Projections

Number of participants

### Sept 2012 FOMC Projections

	2012	2013	2014	2015	Long-term
<b>GDP, 4Q yoy % change</b>					
Low	1.7	2.5	3.0	3.0	2.3
High	2.0	3.0	3.8	3.8	2.5
<b>Unemployment rate, 4Q %</b>					
Low	8.0	7.6	6.7	6.0	5.2
High	8.2	7.9	7.3	6.8	6.0
<b>Core PCE, 4Q yoy % change</b>					
Low	1.7	1.7	1.8	1.9	---
High	1.9	2.0	2.0	2.0	---

### June 2012 FOMC Projections

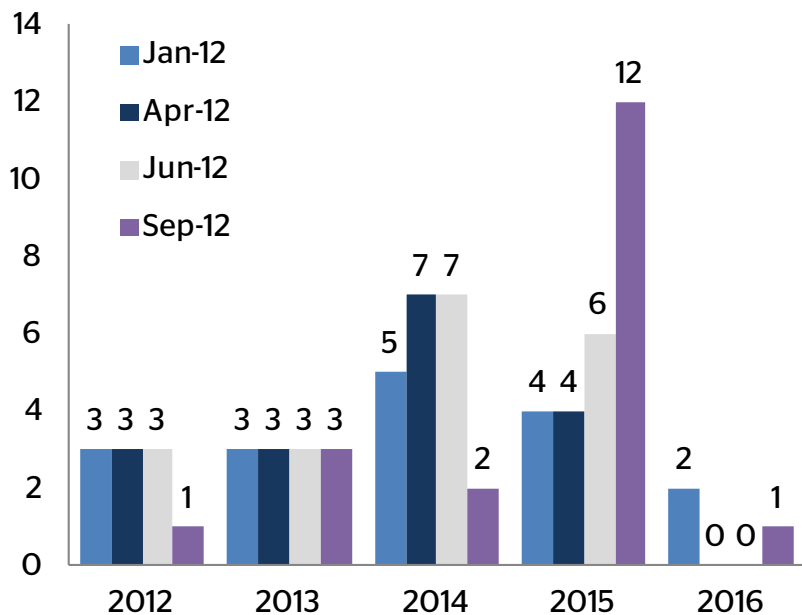
	2012	2013	2014	2015	Long-term
<b>GDP, 4Q yoy % change</b>					
Low	1.9	2.2	3.0	n/a	2.3
High	2.4	2.8	3.5		2.5
<b>Unemployment rate, 4Q %</b>					
Low	8.0	7.5	7.0	n/a	5.2
High	8.2	8.0	7.7		6.0
<b>Core PCE, 4Q yoy % change</b>					
Low	1.7	1.6	1.6	n/a	---
High	2.0	2.0	2.0		---

# Policy Expectations

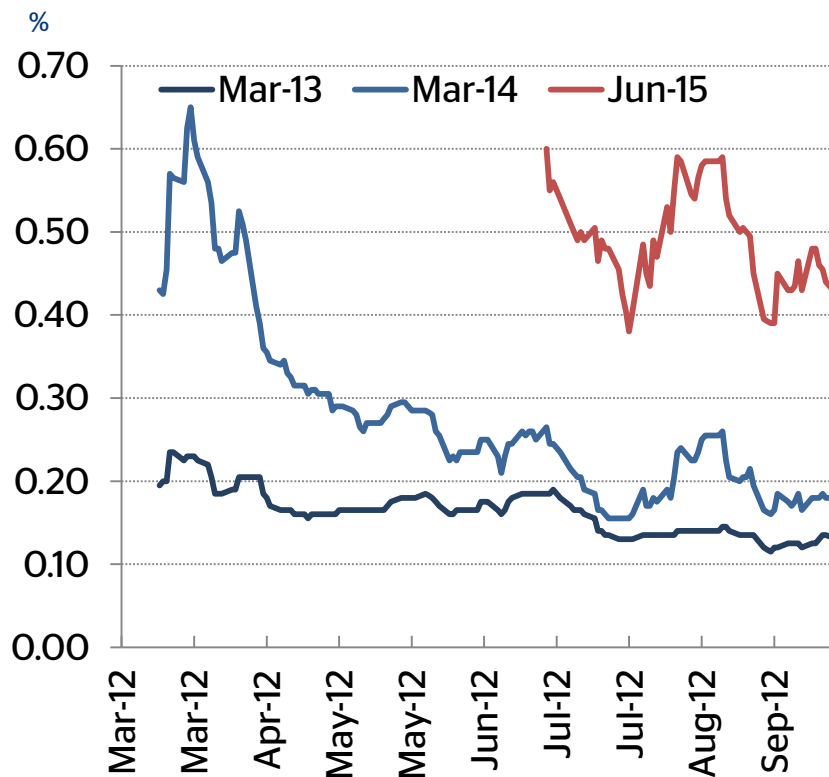
Changes to the policy guidance produce a moderate impact; expectations already discounted rate hikes until 2014-2015

## Appropriate Timing of Policy Firming

Number of FOMC voting members



## Fed Funds Futures

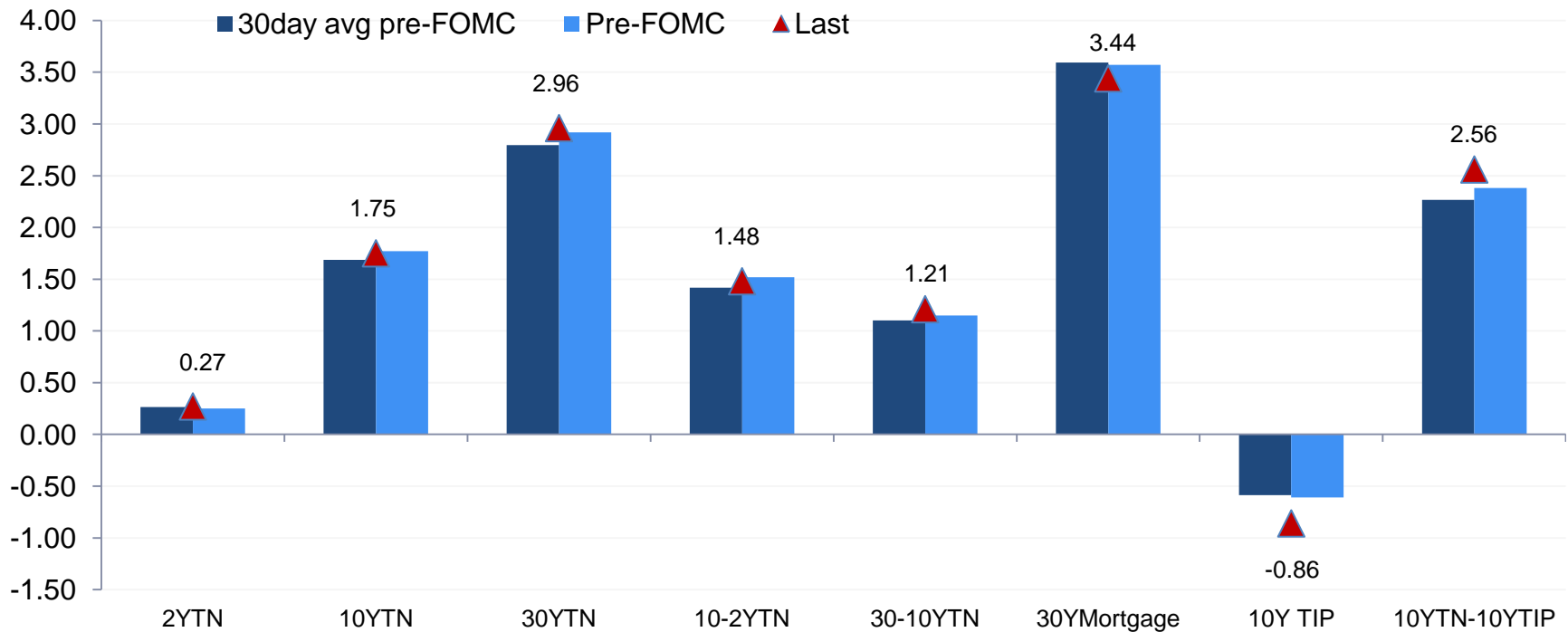


# QE3 Impact

QE3 pushes long-term yields and inflation expectations higher, while lowering short-term yields and mortgage rates

## Selected Interest Rates

Latest rates shown in box

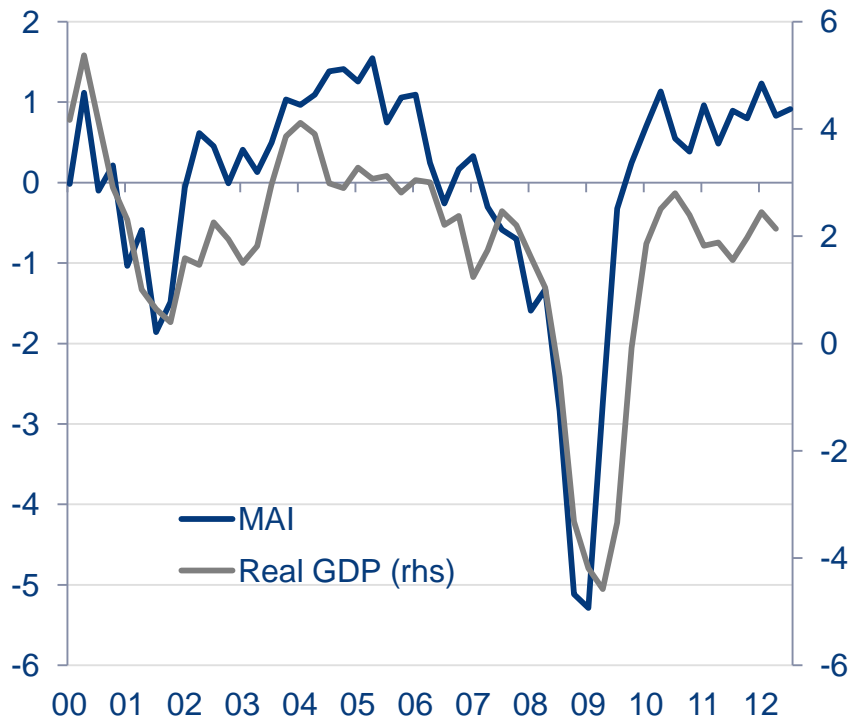


# Economic Activity

Short-term indicators point to slow but steady growth for the upcoming quarters

Real GDP & Monthly Activity Index

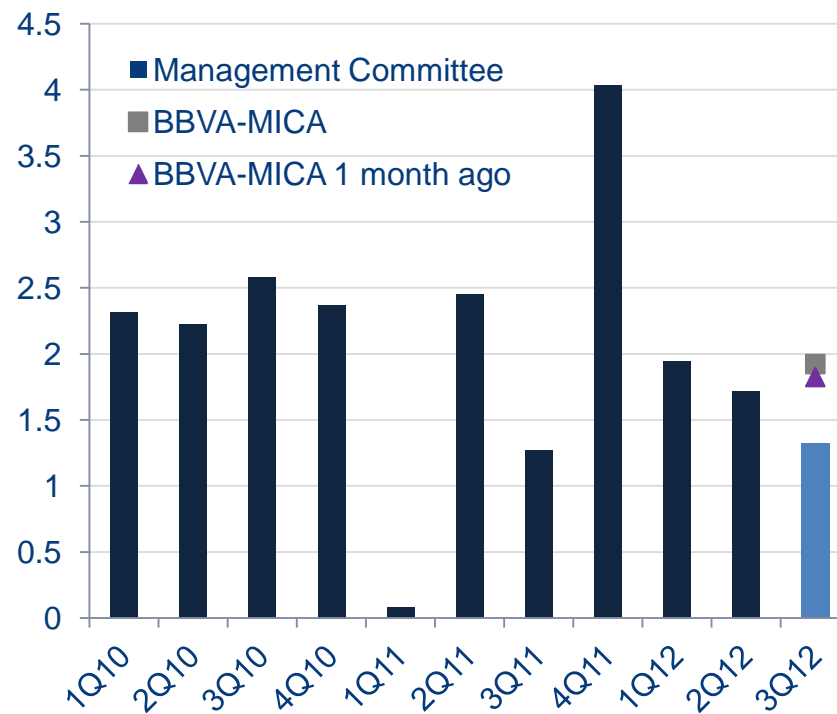
4Q % Change



Source: BBVA Research

BBVA-MICA GDP Forecast

QoQ SAAR % change



Source: BBVA Research

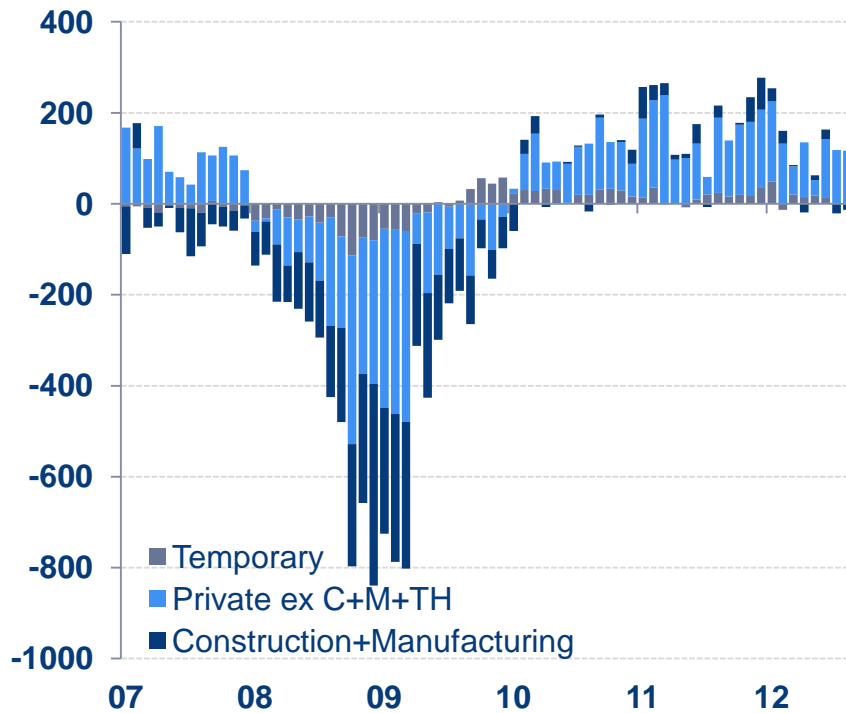


# Labor Markets

Measures of unemployment show slight improvements, yet we expect only modest job growth in coming months

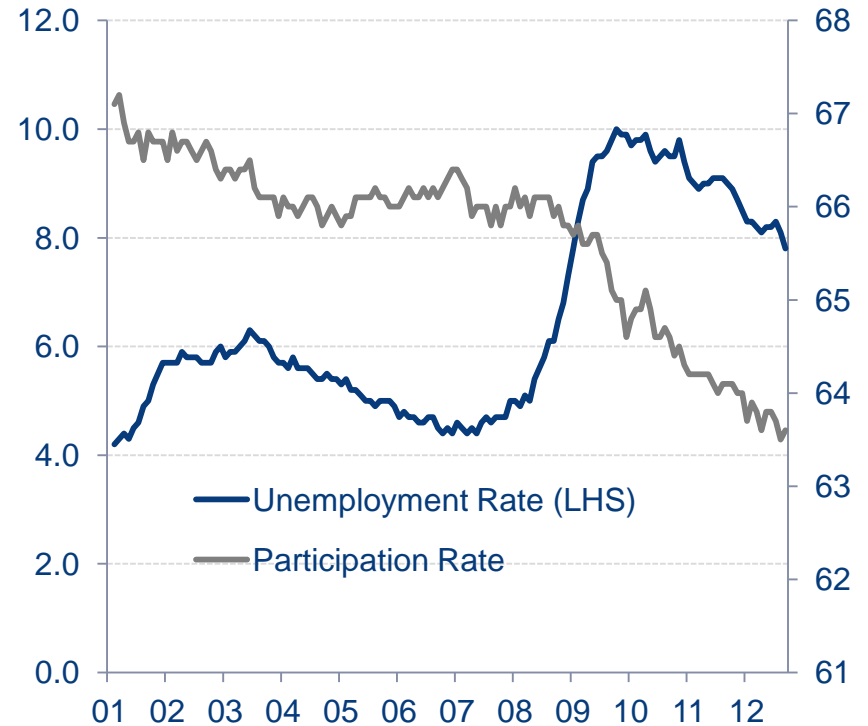
Private Nonfarm Payrolls

Monthly change, K



Unemployment and Participation Rates

%



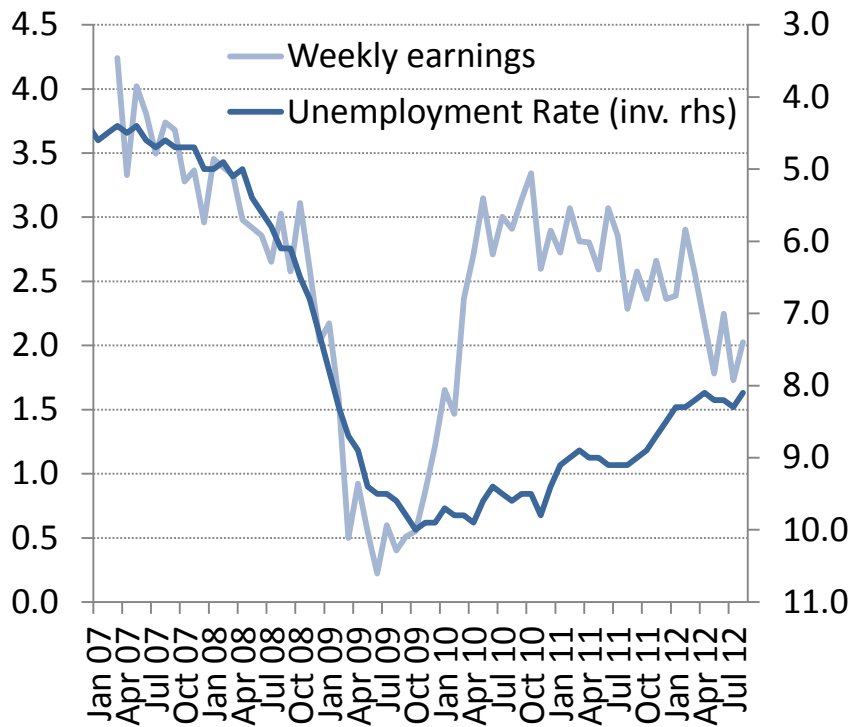
Source: Haver & BBVA Research

# Inflation

Even under a non-sterilized QE3, elevated slack and stable inflation expectations keep inflationary risks contained

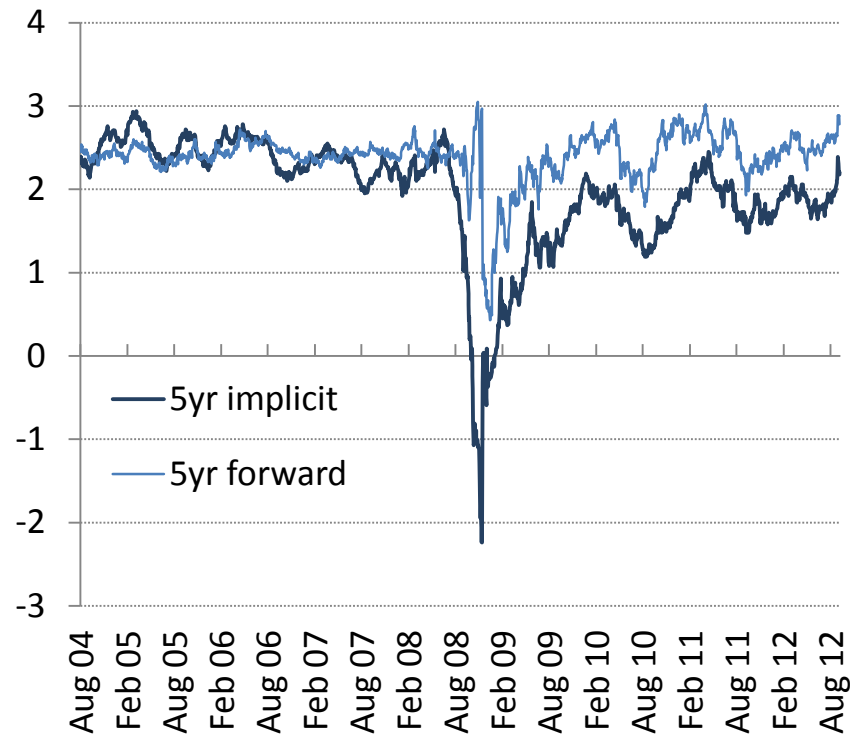
Labor costs

YoY % change and %



Inflation Expectations

%



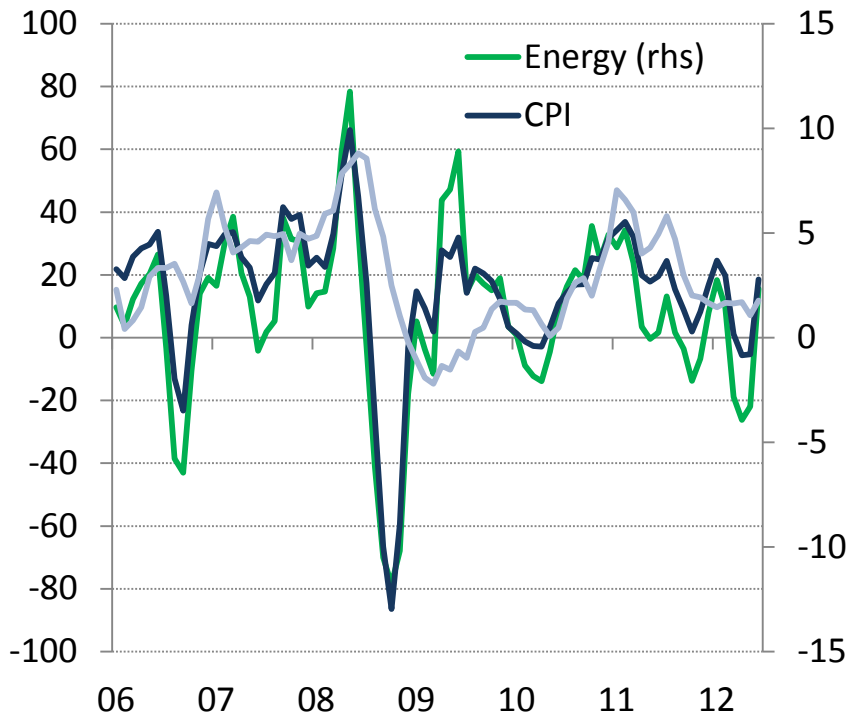
Source: BBVA Research / Haver

# Inflation

In any case, the Fed can accept a little higher inflation

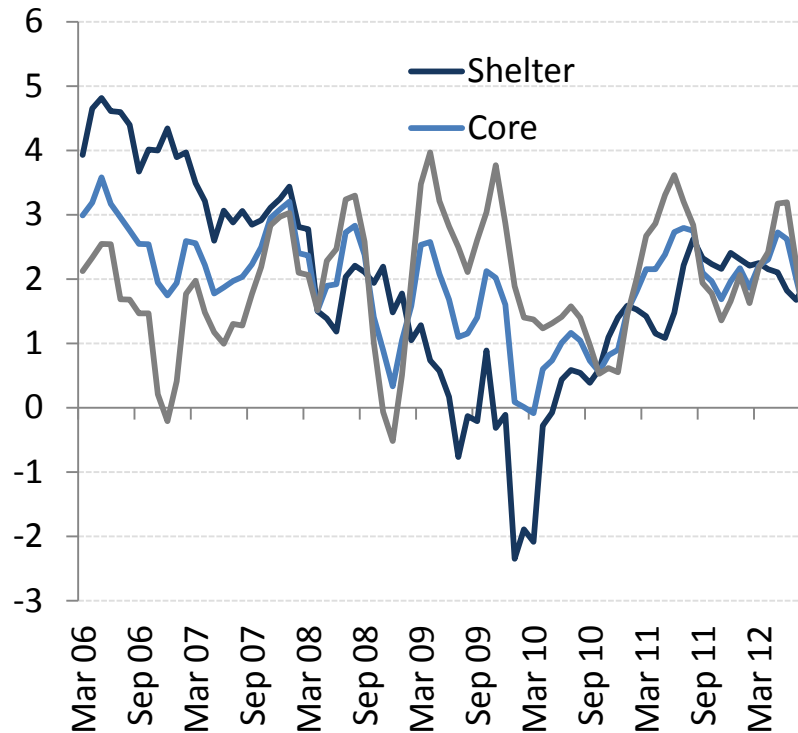
CPI Prices

3m % change, annualized



Core Prices

3m % change, annualized

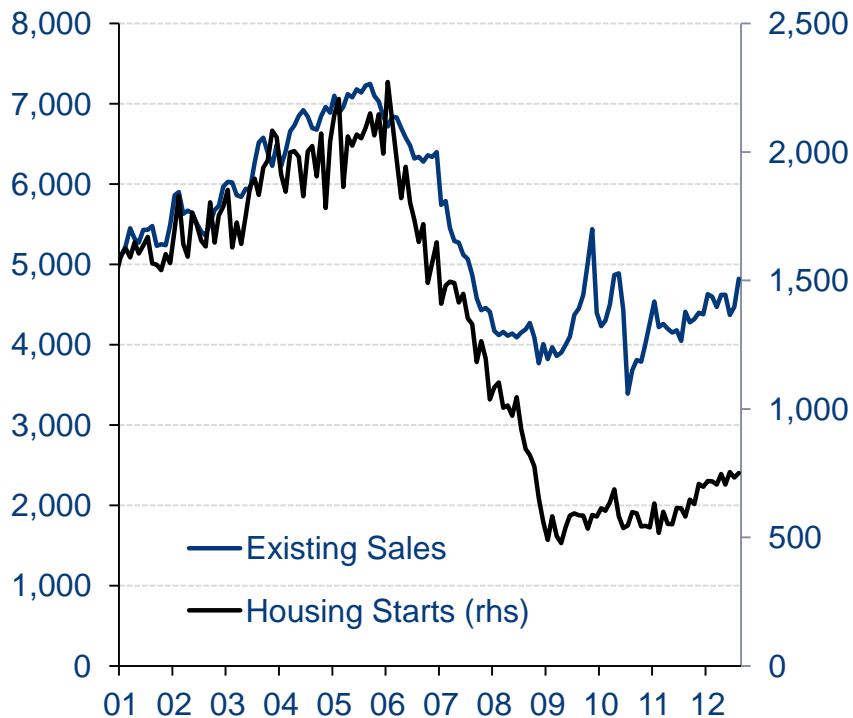


# Housing

## Housing activity continues to improve, albeit not enough to boost the recovery process

Home Sales and Starts

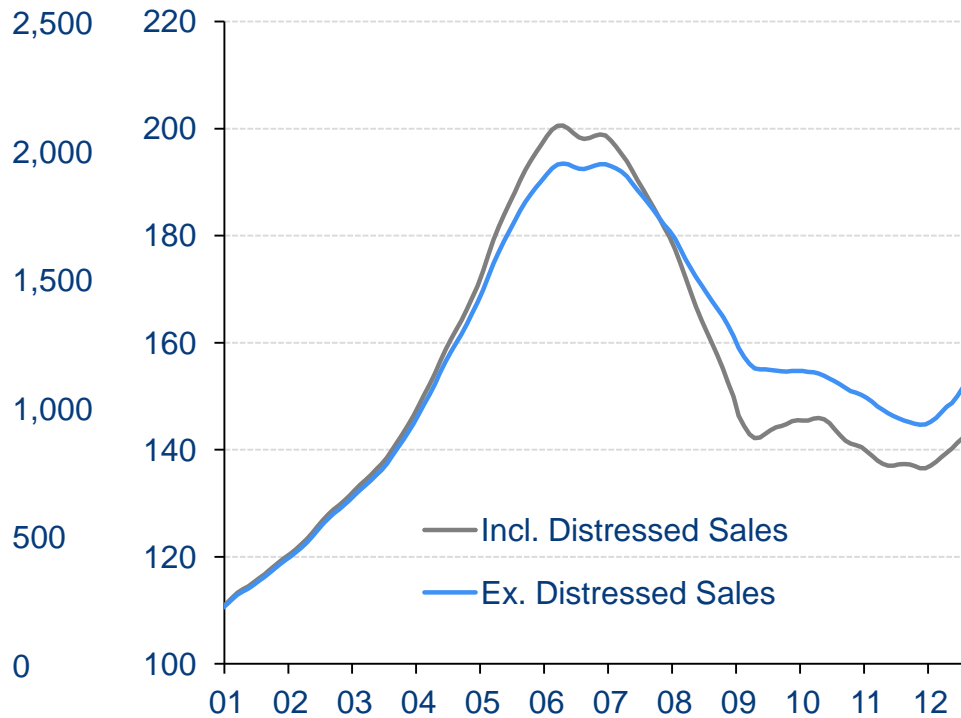
Thousands



Source: Haver & BBVA Research

Home prices

Index 2000=100



Source: BBVA Research, CoreLogic, Haver

# Baseline Scenario

**Slow growth without inflationary pressures**

**Low interest rates for several years**

	2011	2012	2013	2014
GDP %	1.7	2.1	1.8	2.3
CPI %	3.2	2.0	1.9	2.3
Core %	1.7	2.1	1.8	1.9
Fed %, eop	0.25	0.25	0.25	0.25
10YTN %, eop	1.89	2.10	2.60	2.95
Euro epd, eop	1.30	1.23	1.31	1.31

# Meeting Feedback

We would appreciate any feedback you have for us.

<http://www.surveymonkey.com/s/6D3S7NV>

**Thank you for participating!**

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