

US Weekly Flash

Highlights

- **Unemployment remains at 7.8% while nonfarm payrolls climb 155K in December**

- December's figures show a slight rise to 7.8% following an accumulated 0.4% drop throughout the past six months. This significant decline in unemployment since the summer has most often been paired with a simultaneous decline in the labor force participation rate. However, the participation rate held steady in December at 63.6%. In reference to the duration of unemployment, short term unemployment seems to be rising, primarily due to the aforementioned, self-inflicted, fiscal cliff and the exogenous natural disaster. Delving further into the unemployment data, the industries that suffered the worse were mining, construction, manufacturing, and information, with each of their unemployment rates rising at least 0.5% and information increasing by 1.2%. It is interesting to note that the private sector, primarily where these jobs are found, posted payroll gains of 168K, far above economists' estimates and higher than its November figure.
- As for the year itself, 2012 has been one of the strongest since the rescission and its legacy shows signs of continuing into 2013, bar some sort of political botchery. Since the beginning of the year, the unemployment rate has fallen 0.5% which equates to a gain of 1.697 million people employed since January. Although the participation rate has been of some concern throughout 2012, hung as a poster child for statistical mistrust in the unemployment rate, the truth is that the participation rate measure has fallen only one tenth of a percent, all the while the labor force has grown by 1.1 million since January.

- **Manufacturing rebounds in December as the ISM jumps to 50.7**

- Just a few tenths above economists' estimates, the ISM manufacturing index for December crossed into expansionary territory to 50.7 on a more optimistic outlook and an increase in key subcategories. The new orders index remained unchanged at 50.3 in December, indicating slower demand than in September and October but still increasing nonetheless. Production remained healthy above the 50-mark for the third consecutive month but may continue to decelerate in the coming months if we do not see a larger jump back up in new orders. Furthermore, inventories continued to contract but at a quicker pace in December, a signal that products are being scooped up and that future production will need to increase in order to replace inventories. To further bolster the positive sentiment, the employment index saw significant gains as hiring, despite the aforementioned fiscal uncertainty, rose to 52.7 from an extremely weak 48.4 in November
- December's results are cause for some optimism although, with the knowledge that the fiscal cliff calamity has been only partially abated, it stands to reason that uncertainty still looms with further action required in February from lawmakers. However, despite the politics, the ISM report did show expansion in key areas: employment, production, exports and imports.

Graph 1
ISM Manufacturing Index, New Orders, & Employment
SA, 50+ = Economic Expansion



Source: Institute of Supply Management & BBVA Research

Graph 2
Unemployment and Participation Rates
SA, %



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Consumer Credit (November, Tuesday 15:00 ET)

Forecast: \$13.2B

Consensus: \$10.5B

Previous: \$14.2B

Total outstanding consumer credit continues to increase at a strong pace, though overall trends suggest that it is driven most fervently by student loans accounted for in the nonrevolving component. Nonrevolving credit increased \$10.7B in October, while revolving credit rose only \$3.4B. Excluding government-issued credit (i.e. student loans), nonrevolving credit has remained mostly flat throughout the past few years. Therefore, the data is somewhat deceiving because while positive, it is driven mostly by student loans rather than consumer activity which is what drives consumption. On the other hand, moving into the holiday shopping months will likely keep upward pressure on revolving figures, providing a stronger outlook on consumer activity towards the end of 2012. In addition, a significant jump in auto sales (and thus, auto loans) for November suggests further gains in overall consumer credit.

JOLTS Job Openings (November, Thursday 10:00 ET)

Forecast: 3720K

Consensus: --

Previous: 3675K

In line with the stronger than anticipated trend in employment throughout the last two months, we expect the JOLTS report to relay similar news of fewer separations and an increase in hires in November. As the unemployment rate has fallen 0.6% since the beginning of the year, despite lethargic growth in the U.S., the JOLTS report has shown signs of similar strength with job openings trending upwards and a recent decline in the level of total separations in the form of layoffs. The most recent JOLTS report for October showed much of the same strengths: job openings saw a very strong increase as did hires, while total separations saw a small increase. With the employment situation for November seemingly positive, it is likely the largest draw on figures would be the effect of Hurricane Sandy on separations and hiring, although mixed data thus far clouds the storm's overall impact on the labor market.

Wholesale Inventories (November, Thursday 10:00 ET)

Forecast: -0.1%

Consensus: 0.3%

Previous: 0.6%

Wholesale inventories are expected to remain subdued as the sector weighs both the effects of Hurricane Sandy and the rebound in auto sales that dragged down October's figures. Inventory growth decelerated slightly as auto sales took a dive in October along with some preliminary effects from the storm. November will likely show more of an impact to wholesalers, suggesting downward pressure on growth as most of the Northeast was shutdown in the early part of the month. Inventory indicators for the NY, Philadelphia and Kansas City Federal Reserve manufacturing surveys all showed deep declines for November, a sign that Sandy's impact was felt throughout the industry. However, the strong reversal in auto sales in November should partially offset the storm's calamitous impact on wholesalers as dealers clamber to get rid of dated models during the end of the year.

International Trade (November, Friday 8:30 ET)

Forecast: -\$41.0B

Consensus: -\$41.2B

Previous: -\$42.2B

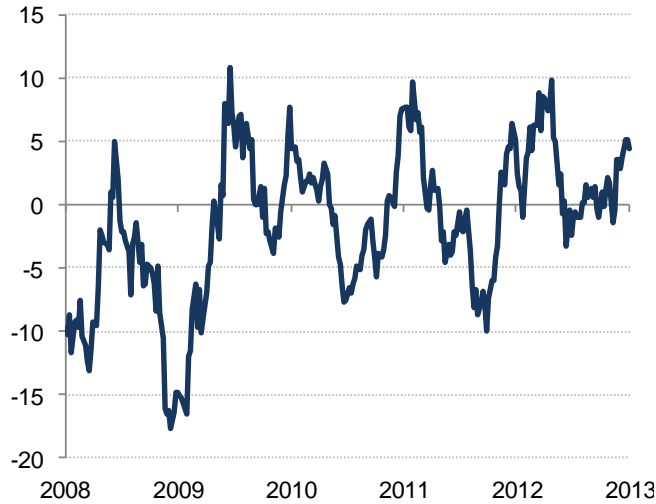
The trade balance for the U.S has seen a positive trend throughout the second half of 2012, falling from -\$49.6B in April to a low of -\$40.3B in September. In October, the trade deficit increased again but only slightly to -\$42.2B and is showing significant improvements from this time last year. In terms of exports, while they did decline in October by a harsh 3.6%, they have posted gains throughout 2012 and continue to chug along despite leading trade partners like Europe and China experiencing weaker economic growth. Imports also declined in October but for the first time in three years. For November, a sharp drop in crude oil prices should help put downward pressure on the nominal petroleum trade balance. The national ISM manufacturing survey suggests that both exports and imports continued to decline in November, though the services index noted a large jump in imports for the month. Still, given the usual reversal in export growth, we expect that external demand will outweigh any increase in imports, although the improvement in the trade balance will likely be minimal.

Market Impact:

Market attention will likely remain tightly glued to the extended fiscal negotiations for the first part of 2013. In the meantime, markets sensitivity to economic data will persist. After employment came back mostly positive for December, with the 155K jobs added for nonfarm payrolls, this week is far quieter and with fewer key indicators. The JOLTS report will shed some light on the employment situation for November later in the week but the more important topic for the week will be the trade balance. International trade comes out Friday and again the scale of the global slowdown will be quantified based on the U.S's imports and exports, possibly signaling an impact on 4Q12 GDP growth and warranting some negative reaction from the markets.

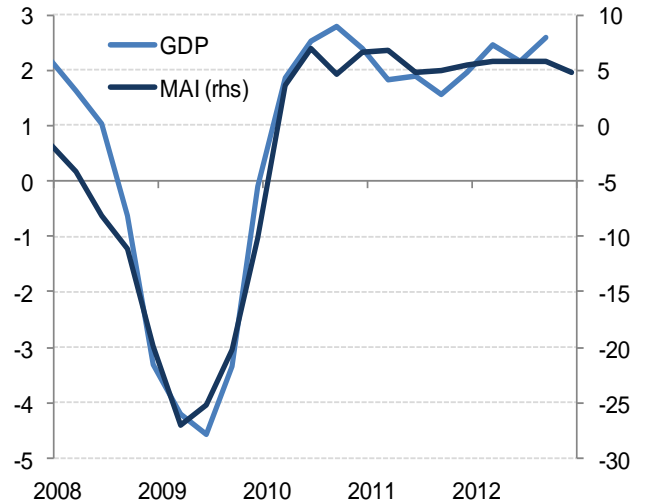
Economic Trends

Graph 3
BBVA US Weekly Activity Index
 (3 month % change)



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP
 (4Q % change)



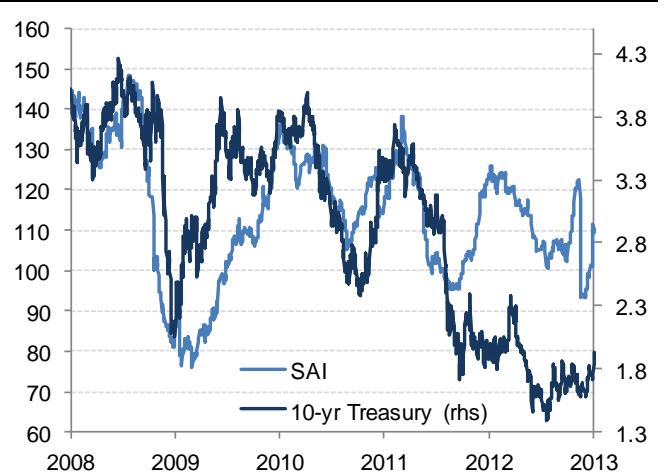
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index
 (Index 2009=100)



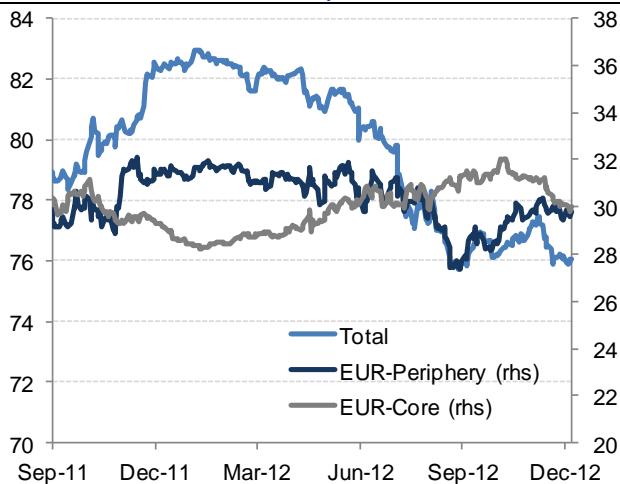
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury
 (Index 2009=100 & %)



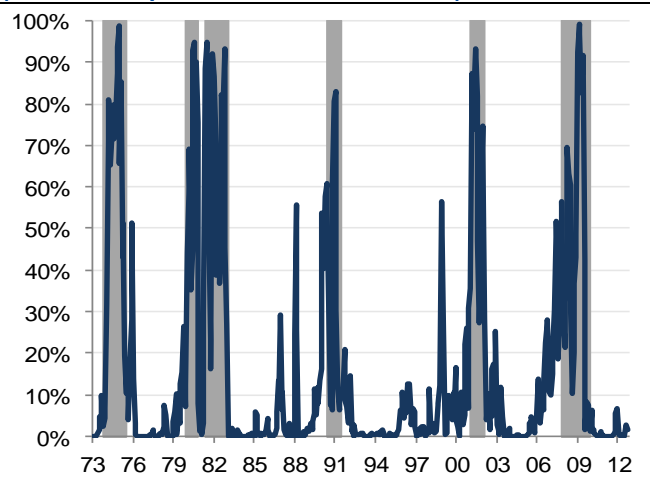
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US
 (% Real Return Co-Movements)



Source: BBVA Research

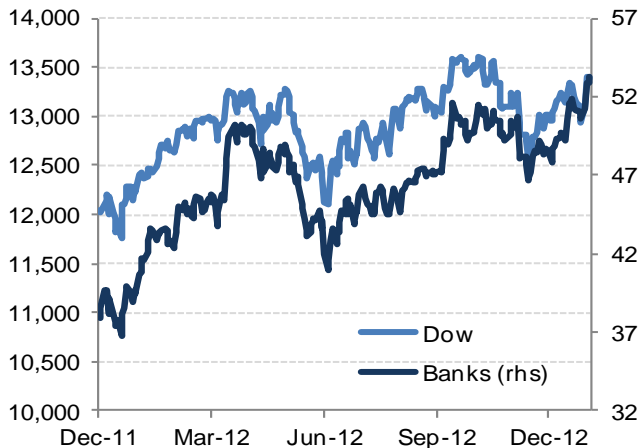
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

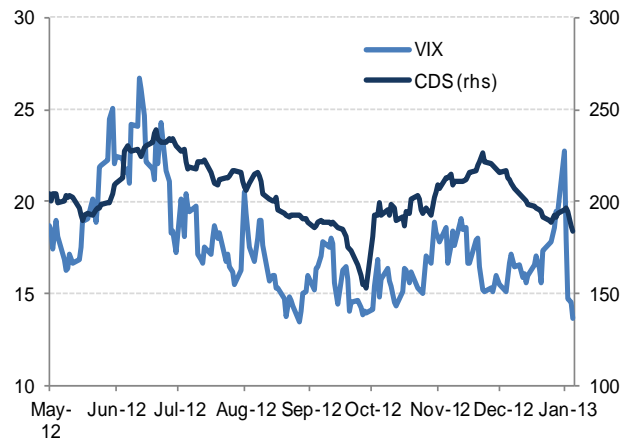
Financial Markets

Graph 9
Stocks
(Index, KBW)



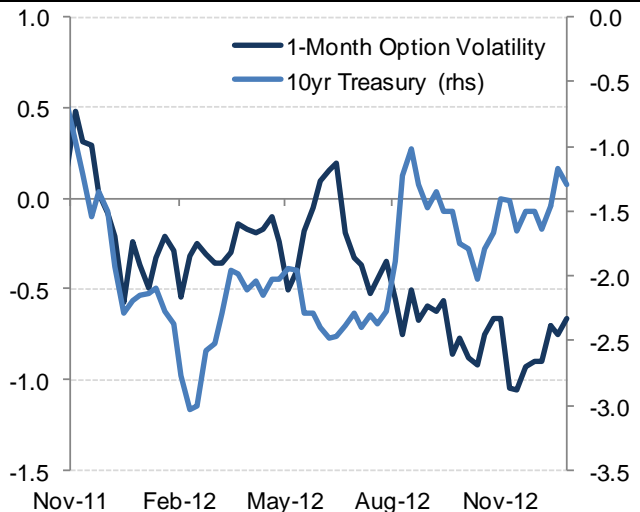
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



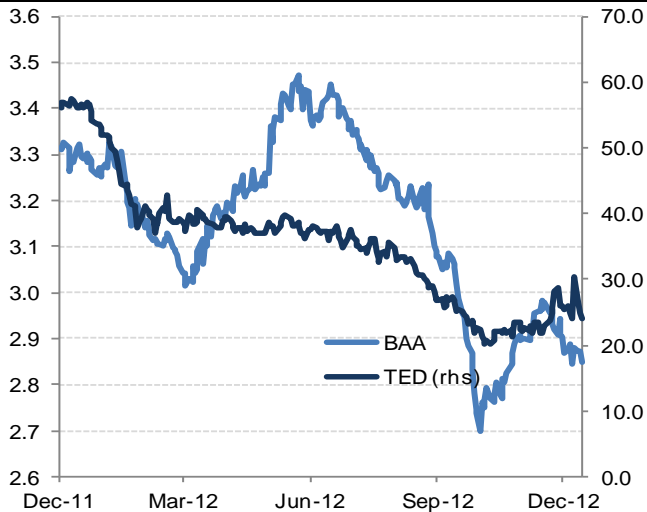
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury
(52-week avg. change)



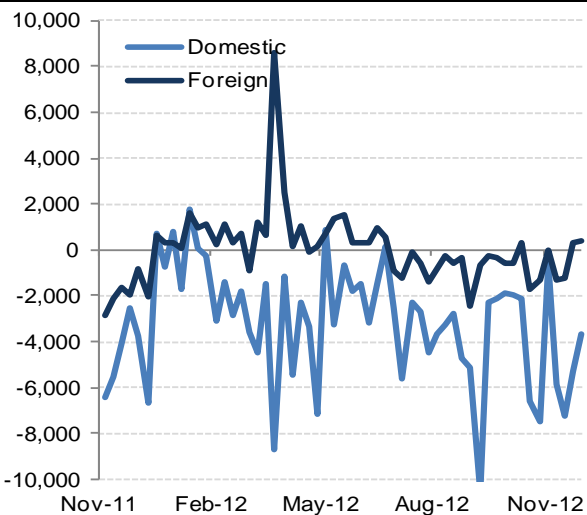
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



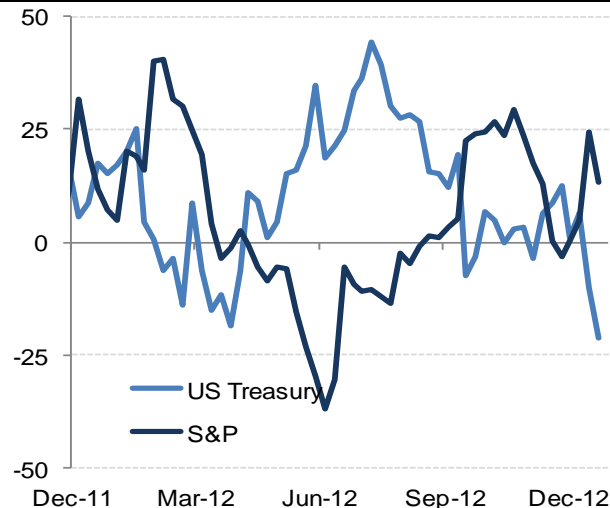
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows
(US\$Mn)



Source: Haver Analytics & BBVA Research

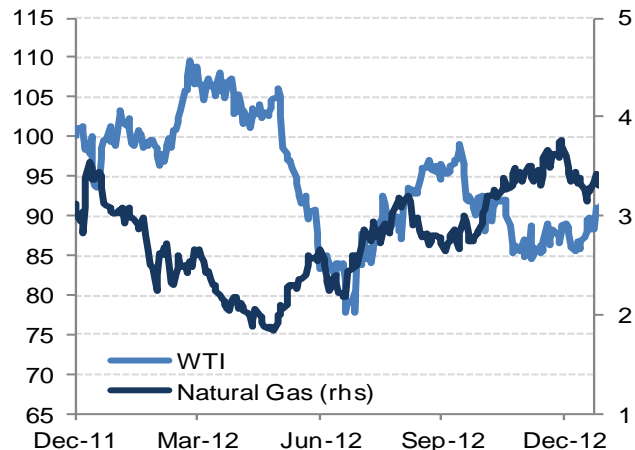
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

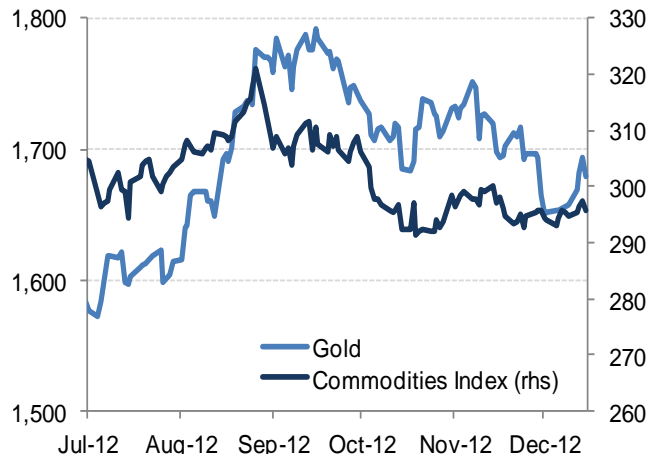
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



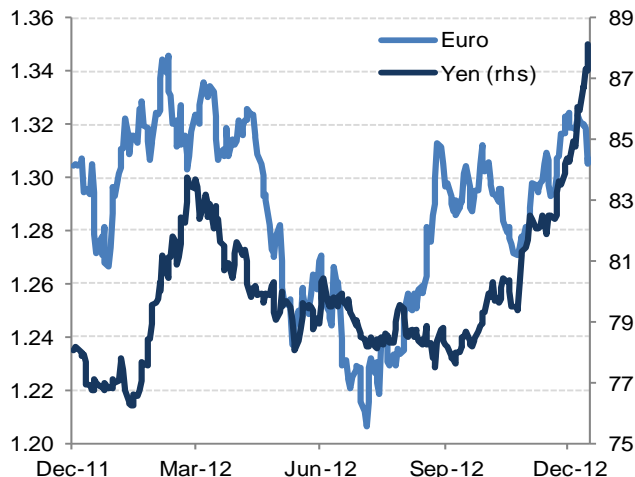
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
 (US\$ & Index)



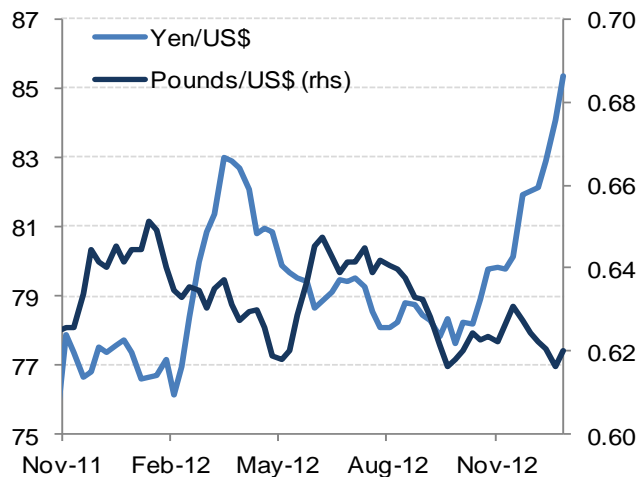
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



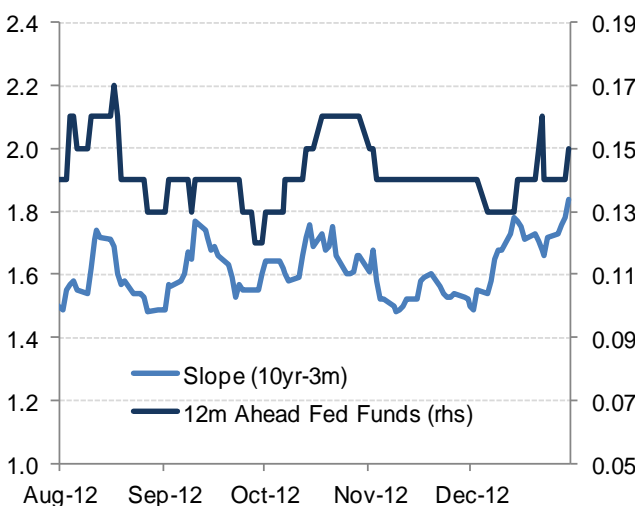
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
 (Yen & Pound / US\$)



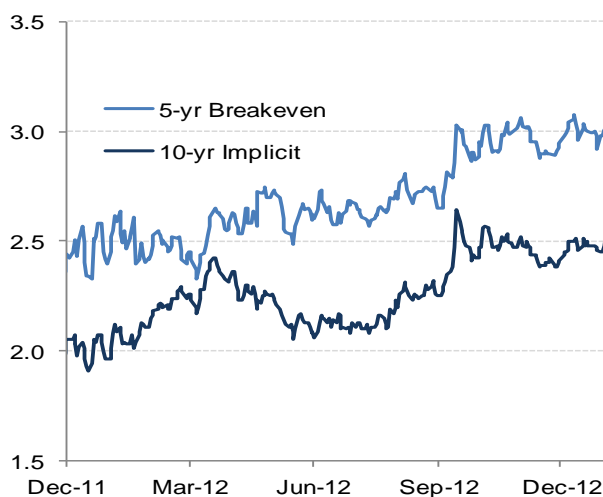
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
 (% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
 (%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.98	13.98	13.98	13.94
New Auto (36-months)	2.76	2.76	2.78	3.77
Heloc Loan 30K	5.43	5.45	5.40	5.56
5/1 ARM*	2.71	2.70	2.69	2.86
15-year Fixed Mortgage*	2.64	2.65	2.67	3.23
30-year Fixed Mortgage*	3.34	3.35	3.34	3.91
Money Market	0.51	0.51	0.52	0.52
2-year CD	0.83	0.83	0.88	0.94

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.17	0.17	0.16	0.07
3M Libor	0.31	0.31	0.31	0.58
6M Libor	0.50	0.51	0.53	0.81
12M Libor	0.84	0.84	0.86	1.13
2yr Sw ap	0.40	0.39	0.36	0.68
5yr Sw ap	0.94	0.83	0.75	1.21
10Yr Sw ap	1.96	1.76	1.68	2.10
30yr Sw ap	2.91	2.70	2.59	2.71
7day CP	0.22	0.32	0.14	0.77
30day CP	0.17	0.25	0.19	0.43
60day CP	0.20	0.15	0.20	0.45
90day CP	0.20	0.20	0.22	0.56

Source: Bloomberg & BBVA Research

Quote of the Week

Federal Open Market Committee Minutes, Released 3 January 2013
FOMC Meeting
11-12 December 2012

"A few members expressed the view that ongoing asset purchases would likely be warranted until about the end of 2013...several others thought that it would probably be appropriate to slow or stop purchases well before the end of 2013, citing concerns about financial stability or the size of the balance sheet."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
8-Jan	Consumer Credit	NOV	\$13.2B	\$10.5B	\$14.2B
10-Jan	Initial Jobless Claims	5-Jan	362K	365K	372K
10-Jan	Continued Claims	30-Dec	3200K	3235K	3245K
10-Jan	JOLTS Job Openings	NOV	3720K	--	3675K
10-Jan	Wholesale Inventories	NOV	-0.1%	0.3%	0.6%
11-Jan	International Trade	NOV	-\$41.0B	-\$41.2B	-\$42.2B
11-Jan	Import Price Index (MoM)	DEC	0.1%	0.1%	-0.9%

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.1	1.8	2.3	2.5
CPI (YoY %)	3.1	2.0	2.1	2.4	2.5
CPI Core (YoY %)	1.7	2.1	1.9	2.0	2.1
Unemployment Rate (%)	8.9	8.1	8.0	7.6	7.0
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.75
10Yr Treasury (eop, % Yield)	1.98	1.72	2.35	2.80	3.37
US Dollar/ Euro (eop)	1.32	1.31	1.32	1.32	1.36

Note: Bold numbers reflect actual data

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