US Weekly Flash

Highlights

- **Consumer credit grows by $16.0B on more student loans and increased activity**
  - Once again consumer credit has increased far above estimates, up $16B in November as nonrevolving credit remains the massive majority. Rising $15.2B on a seasonally-adjusted basis, primarily from student loans, it far outpaced revolving credit which decelerated to a modest $0.8B gain. Within revolving credit, commercial bank issuance led the way as consumers became more willing to take on additional debt during the holiday shopping season.
  - We expect nonrevolving credit to continue its steep upward growth as student loans continue to fuel the surge. However, as we enter 2013, consumer activity could waver as the New Year's tax change hits disposable income and spending power. Revolving credit is expected to dwindle again after December's holiday surge.
- **JOLTS report for November highlights fiscal cliff impact**
  - The November Job Openings and Labor Turnover (JOLTS) report continued the quarter's pattern of unchanged or slightly better results for employment growth as openings, hires and separations remained stable near 3.7M, 4.3M and 4.1M, respectively. Due to the rising fiscal uncertainties lingering through the end of 2012, firms became increasingly worried about their financial situation come 2013 and many chose to postpone expenditures, including hiring. Job openings were less affected as firms kept most of their existing open positions available. The largest shift in openings was in trade, transportation and utilities which increased by 110K openings, mostly in retail sales which grew by 23.0% from October. Other sectors did show some expansion but not as pronounced: education openings rose by 24K and leisure and hospitality by 37K. One-third of sectors in the report noted a reduction in job openings.
  - Hires saw the more disappointing figures emerge in conjunction with the fiscal debacle in Washington. Of the 12 reported sectors, 7 reported a decline in hiring from October. This can mostly be explained by the aforementioned fiscal uncertainty that prompted companies to postpone hiring until financial clarity for 2013 emerged. Leisure saw a decline of 54K hiring's in November: trade and transportation, 38K and education, 23K. However, hiring's in construction rose by a strong 33K and professional services by 27K. Overall it was hiring that spoke the most to the market's uneasiness in terms of fiscal uncertainty, and December's report is expected to be no better due to what we now know was a last-minute verdict. Total separations remained unchanged as per the general report but construction and professional business saw prolific increases in the number of separations for November. Construction losses stemmed from layoffs and discharges of over 93K, the largest monthly increase since 2009. Professional services also lost 71K in separations, although the sector has been volatile since April.
- **International trade data surprise to the downside**
  - The US trade deficit widened sharply in November to -$48.7B from -$42.1B in October on account of a robust rise in imports. Exports, surprisingly not the key driver of the figure as they have been over the past few months, increased 1.0% but not enough to offset the 3.8% jump in imports. The mover within imports were consumer goods (including a big shipment of new iPhones) and auto purchases from abroad. It is important to note also the decline in both export and import prices – even accounting for this factor, the nominal value of both imports and exports increased for the month, which is a good sign for demand conditions.
  - Exports, although not in the limelight this month, did grow after falling sharply in October. Foreign purchases of US goods have been relatively low as the global slowdown has eaten away at demand while imports have shown some resilience but nonetheless risen. While imports rose dramatically this month, we expect December to show lower figures as consumers balance their shopping between domestic and foreign goods. However, we do not expect a full recovery in the trade balance to October's level.

Week Ahead

Retail Sales, Core (December, Tuesday 8:30ET)

Forecast: 0.1%, 0.2%	Consensus: 0.2%, 0.2%	Previous: 0.3%, 0.0%

Retail sales for December are expected to be weaker in comparison to last year's holiday season as indicators show less than enticing sales growth. The ICSC Goldman figures show a modest 0.6% rise for the week ending on the 29th and most large retailers reported similarly disappointing estimates: sales were slow at the beginning of the month but then rose as the month came to a close. Gasoline prices will have done little to boost the headline figure with WTI and crude prices remaining relatively stable throughout the month. Total vehicle sales were down slightly from the month prior but were still strong compared to the 12 months prior. The ex-auto figure could struggle to show pronounced growth as retail sales seem to be relatively dim throughout the holiday season even as early shoppers tried to snag the bargains in November, raising retail sales by 0.3%.

Consumer Price Index, Core (December, Wednesday 8:30 ET)

Forecast: 0.0%, 0.1%	Consensus: 0.0%, 0.2%	Previous: -0.3%, 0.1%

The headline figure for CPI in December is expected to be relatively unchanged after a -0.3% fall in November. Energy price pressures are mostly subdued, with natural gas costs falling nearly 6.0% for the month and crude oil prices increasing only slightly. Food inflation continues to rise, in part due to the recent drought in the U.S., but at a slower pace than previously expected. In regards to core CPI, shelter prices will continue to be one of the sole upward pressures due to the growing multifamily housing market and the demand for rental properties. In addition, the price of medical services should continue to rise, although most likely continuing its volatile trend. Vehicle prices will also do very little to affect CPI core figures along with little pressure from transportation services. Therefore, we expect a soft headline CPI reading for December and a slight uptick at the core level.

Industrial Production & Capacity Utilization (December, Wednesday 9:15 ET)

Forecast: 0.1%, 78.4%	Consensus: 0.3%, 78.5%	Previous: 1.1%, 78.4%

Industrial production is expected to grow at a crawling pace in December as companies likely scaled back production and investment amidst the rising fiscal uncertainty leading into 2013. In November, industrial production expanded by 1.1%, lead by strong durable consumer goods mostly related to auto sales and parts. However, December's figures for vehicle sales show minimal change from November, shelving auto sales as a significant boost for production. Still, the manufacturing portions of regional Federal Reserve and other national surveys from December showed some growth and better expectations. The ISM index crossed the threshold into expansionary territory and respondents showed optimism for 2013. However, the production component of the ISM fell in December, hinting at some deceleration. Therefore, we expect overall industrial production to grow at a slow pace in December after a strong month prior based mostly on manufacturing slowdowns due to demand and fiscal uncertainty.

Housing Starts, Building Permits (December, Thursday 8:30 ET)

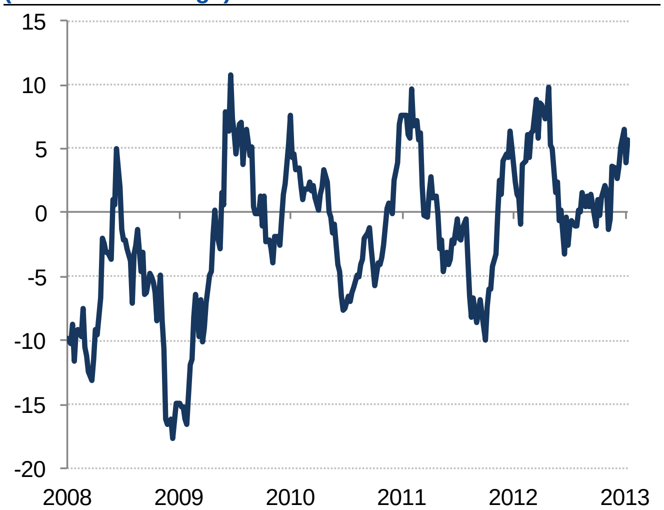
Forecast: 870K, 898K	Consensus: 890K, 905K	Previous: 861K, 900K

Housing starts have been somewhat of a volatile indicator as of late, though the data indicate a persistent upward trend since early 2011. We expect that this positive momentum will continue into 2013 as the constrained supply of new homes makes way for future construction demands. Falling close to 3.0% in November, housing starts should rebound and continue their upward momentum in December despite the economic concerns and fiscal uncertainty surrounding taxes and spending cuts scheduled for 2013. December has historically been a slower month in comparison to November, so it is likely that the increase in housing starts from the month prior may not fully offset the previous month's decline.

Market Impact:

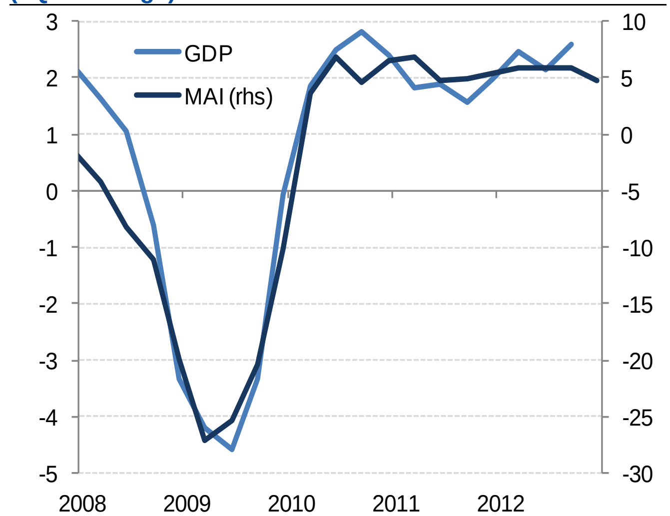
This week has quite a few important economic indicators to be aware of as the fourth quarter ends and we get our first glimpses of 2013 data. The most important figures helping markets asses 2012 and the possible slowdown from fiscal uncertainty will be retail sales, industrial production, and manufacturing data from Fed surveys. Inflationary data will also be important to look for as the Fed continues to monitor price stability. Overall, the week holds a lot of data to be mulled over by markets but the aforementioned ones should shed concluding light on 2012.

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



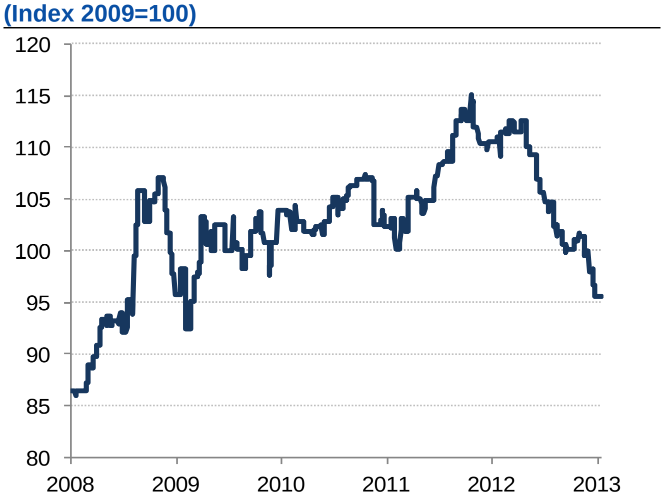
Source: BBVA Research

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



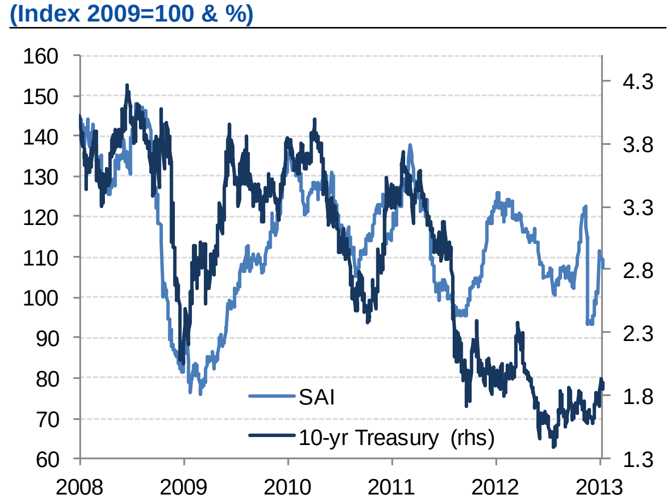
Source: BBVA Research & BEA

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



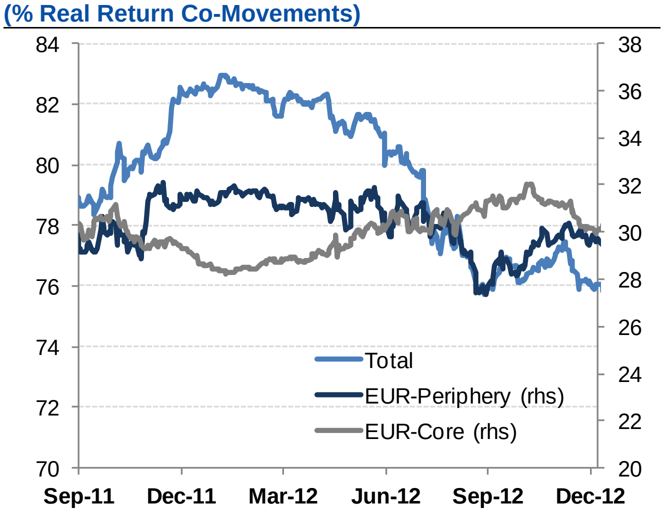
Source: BBVA Research

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



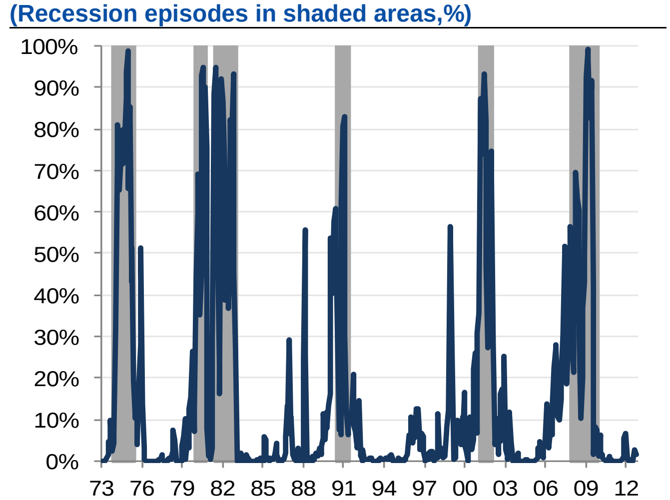
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

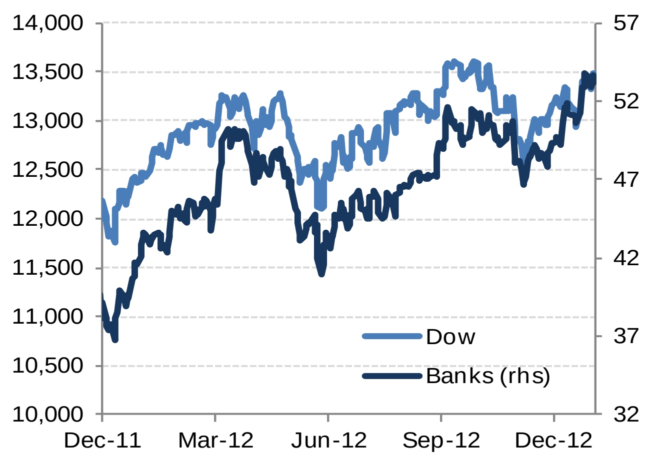
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

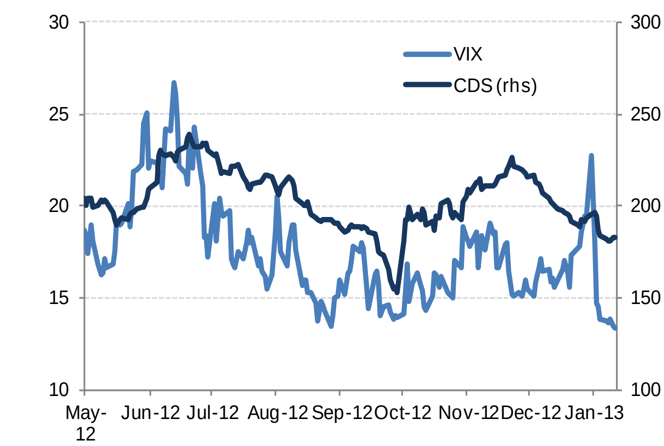
Financial Markets

Graph 9
Stocks
(Index, KBW)



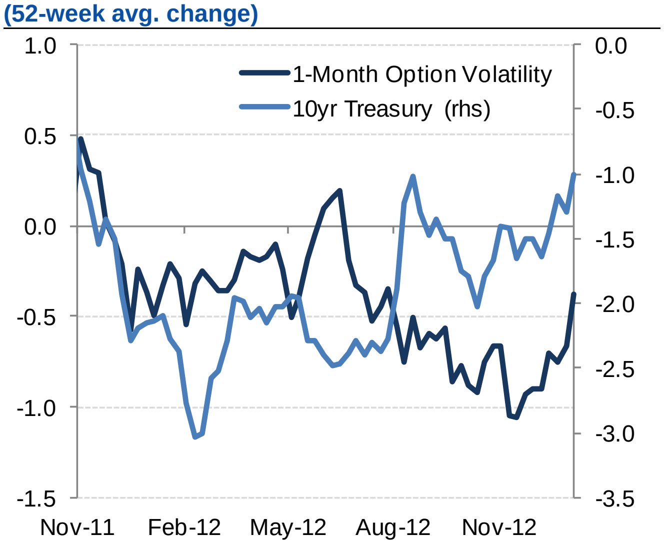
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



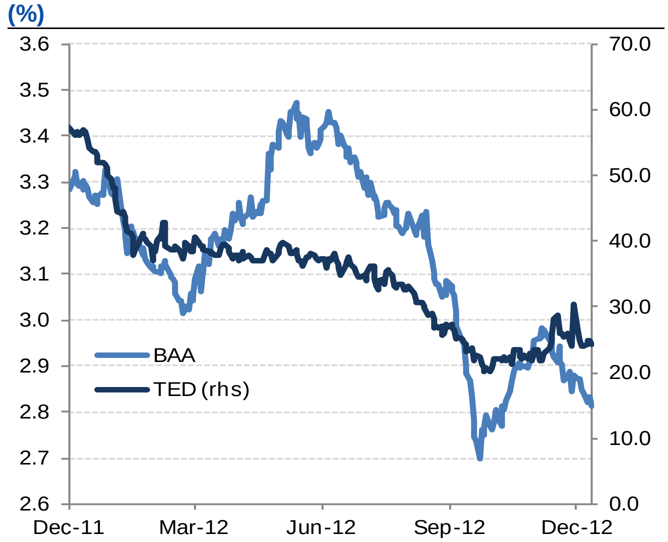
Source: Bloomberg & BBVA Research

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



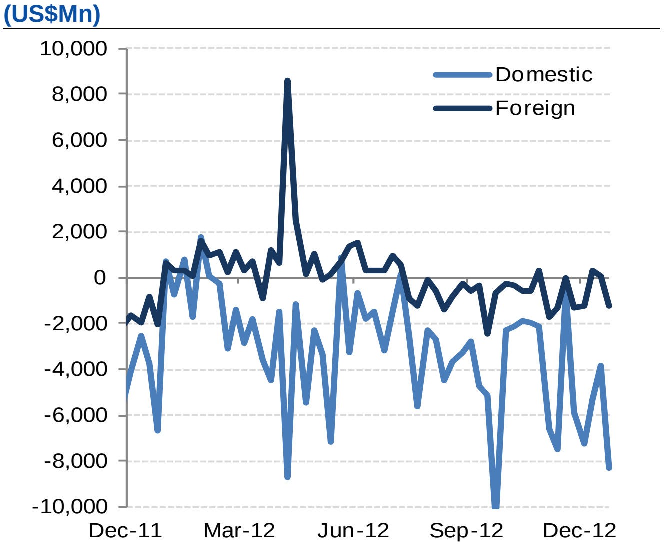
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



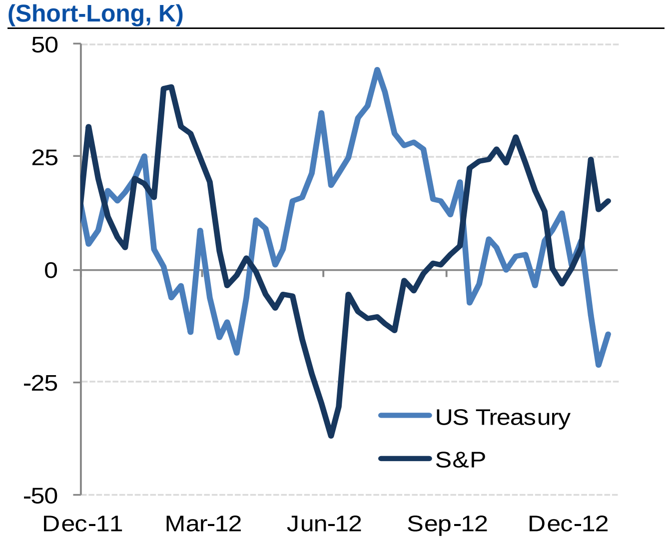
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

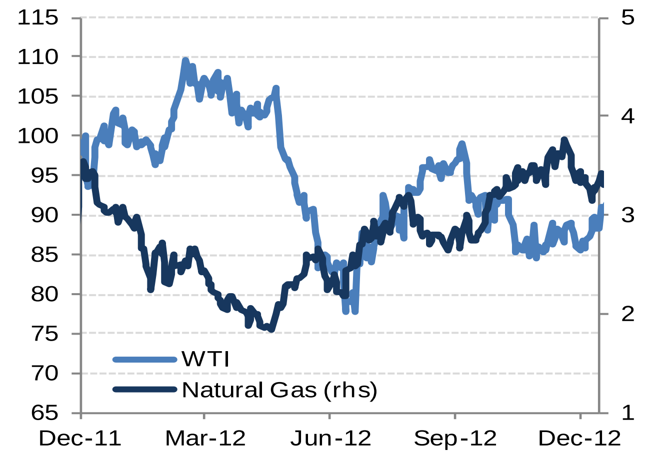
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

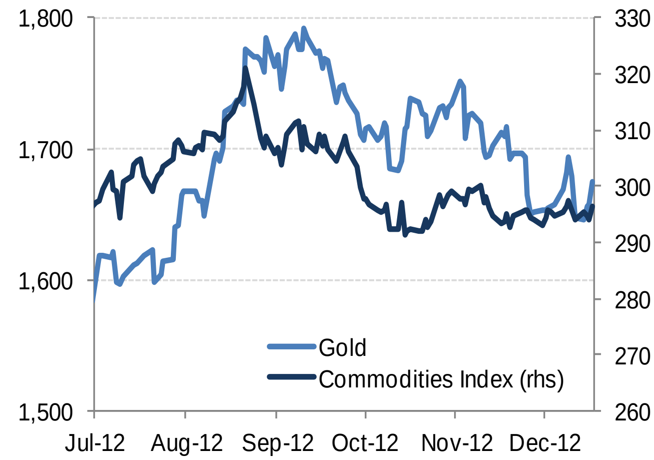
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



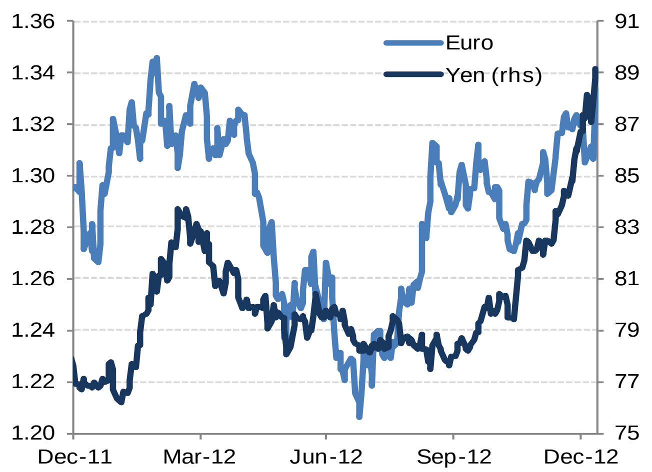
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



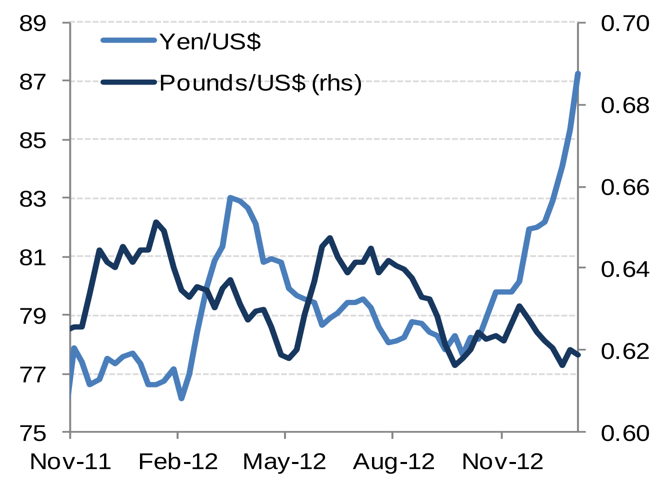
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



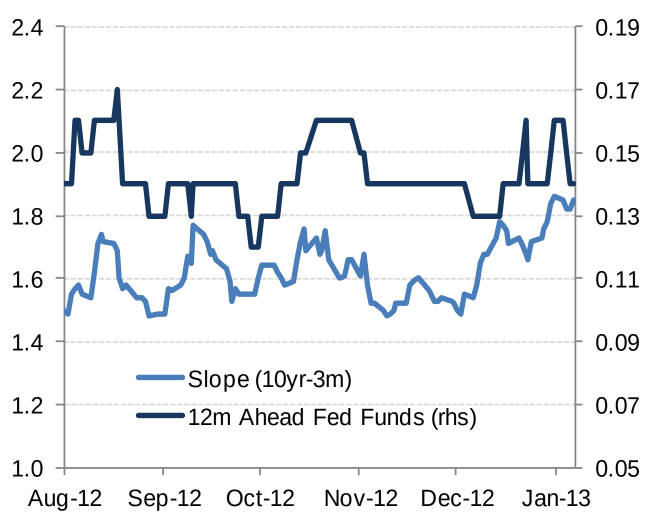
Source: Bloomberg & BBVA Research

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



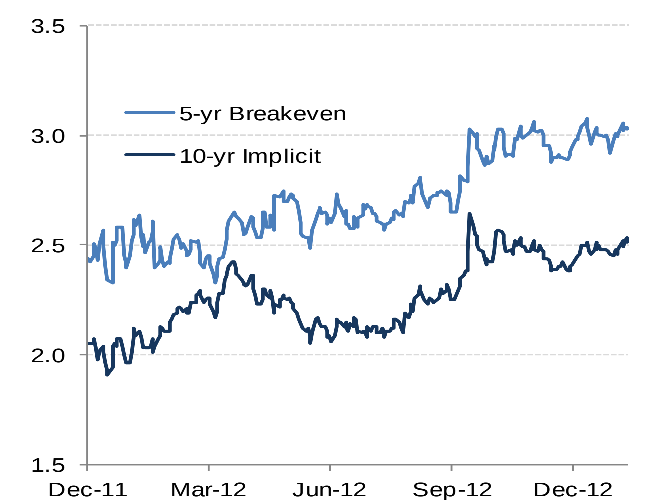
Source: Haver Analytics & BBVA Research

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)	2.74	2.76	2.77	3.93
Heloc Loan 30K	5.40	5.42	5.41	5.55
5/1 ARM *	2.67	2.71	2.70	2.82
15-year Fixed Mortgage *	2.66	2.64	2.66	3.16
30-year Fixed Mortgage *	3.40	3.34	3.32	3.89
Money Market	0.53	0.51	0.51	0.51
2-year CD	0.83	0.83	0.84	0.79

*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	0.14	0.16	0.17	0.09
3M Libor	0.30	0.31	0.31	0.57
6M Libor	0.50	0.50	0.51	0.80
12M Libor	0.82	0.84	0.85	1.12
2yr Sw ap	0.39	0.40	0.36	0.57
5yr Sw ap	0.90	0.92	0.82	1.12
10Yr Sw ap	1.90	1.94	1.75	2.01
30yr Sw ap	2.85	2.88	2.65	2.64
7day CP	0.16	0.22	0.14	0.85
30day CP	0.18	0.20	0.17	0.71
60day CP	0.19	0.17	0.17	0.54
90day CP	0.19	0.21	0.19	0.49

Source: Bloomberg & BBVA Research

Quote of the Week

Fed Official Warns About Slipping into Currency Wars
Charles Plosser, President of the Philadelphia Federal Reserve Bank
11 January 2013

"We do not want to get ourselves in a world where you have currency wars. Beggar-thy-neighbor policies…would not be healthy. So central banks and governments need to be cautious about allowing us to slip into a regime like that because that would not be healthy for world trade or for the economies involved."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Jan	Producer Price Index (MoM)	DEC	0.00%	-0.10%	-0.80%
15-Jan	PPI Ex Food & Energy (MoM)	DEC	0.10%	0.20%	0.10%
15-Jan	Advance Retail Sales	DEC	0.10%	0.20%	0.30%
15-Jan	Retail Sales Less Autos	DEC	0.20%	0.20%	0.00%
15-Jan	Empire State Manufacturing Survey	JAN	-1.90	0.00	-8.10
15-Jan	Business Inventories	NOV	0.4%	0.3%	0.4%
16-Jan	Consumer Price Index (MoM)	DEC	0.00%	0.00%	-0.30%
16-Jan	CPI Ex Food & Energy (MoM)	DEC	0.10%	0.20%	0.10%
16-Jan	Industrial Production	DEC	0.1%	0.3%	1.1%
16-Jan	Capacity Utilization	DEC	78.40%	78.50%	78.40%
16-Jan	Housing Market Index	JAN	48	48	47
17-Jan	Housing Starts	DEC	870K	890K	861K
17-Jan	Housing Starts (MoM)	DEC	1.05%	3.40%	-3.00%
17-Jan	Building Permits	DEC	898K	905K	900K
17-Jan	Building Permits (MoM)	DEC	-0.22%	0.50%	3.70%
17-Jan	Initial Jobless Claims	12-Jan	362K	365K	371K
17-Jan	Continuing Claims	5-Jan	3097K	3171K	3109K
17-Jan	Philadelphia Fed Survey	JAN	8.1	6.0	8.1
18-Jan	U. Michigan Consumer Sentiment	JAN	74.0	75.0	72.9

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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