# US Weekly Flash

## Highlights

- **Core inflation remains soft as headline prices are unchanged**
  - The consumer price index remained unchanged in December after falling 0.3% in November. In terms of headline movers, food prices continued to increase, rising by 0.2% as the effects of the drought put upward pressures on grain and meat prices. For the third straight month, energy prices declined on falling gasoline prices. The sector's 1.2% decline was led by a 2.3% fall in gasoline prices after their precipitous 7.4% fall in November. On a year-over-year (YoY) basis, overall energy prices have remained relatively less volatile, and are up slightly after dropping midyear from May through August. In contrast, food prices continued their decelerating trend, up only 1.8% on the year, where growth is down from the 4.4% rate registered at the beginning of the year.
  - Core prices exhibited modest growth, up 0.1% MoM. This pace was the same during November and is consistent with core inflation throughout much of the year. Commodities were not the driver this month, falling 0.2% as most components declined except for a 0.5% increase in tobacco prices. Medical care commodities and used car prices both fell more than 0.4% while apparel declined slightly by 0.1%. Service prices such as shelter, medical care and transportation drove the uptick in core prices, rising 0.1%, 0.3% and 0.5%, respectively. Airfare prices contributed to an increase in transportation prices while rising prices for vehicle insurance and hospital services pushed prices in their respective sectors upward. Inflationary pressures continue to be minimal and support the Federal Reserve's decision to maintain low target rates for a prolonged period. As me move forward into the new year, we expect core prices to remain soft and energy prices to continue to exert subdued pressure on the headline figure
- **Industrial production up in December as equipment demand grows**
  - Despite fears that a breakdown of fiscal negotiations was going to hamper production and investment, industrial production ended the year on a positive note as it continued to grow, although at a slower pace. Up 2.3% year-over-year, industrial production continued its monthly expansion since October. The index achieved its post-recession high of 98.1 – only 2.6% off its high during late 2007. This outturn comes after the market expected a much slower rate of growth due to fiscal uncertainty. Manufacturing output rose solidly at 0.9%, boosted by strong increases in motor vehicles and parts, computer and electronic products and chemical products. Demand for autos has remained high among both businesses and consumers: thus, rising sales are requiring manufacturers to ramp up their output. A driver of the growth in computer and electronic production for December was business IT-related capital, which rose 2.0% after falling since September.
  - Despite higher-than-expected growth in manufacturing, a fall in utilities' output dragged down the total industrial production index's growth rate. The electric and gas utilities industry production dropped dramatically by 4.8%; electric power generation fell nearly 4% and natural gas distribution plunged 11.3% for the month. Capacity utilization rose 0.1 percentage points after November's upward revision, and reflects an overall positive sign that manufacturing output will continue to grow. We expect moderate growth ahead as we move into 2013, although risks from ongoing fiscal negotiations add to market uncertainty. International headwinds, however, appear to softening as global growth is resuming
- **Retail sales show modest growth, expanding by 0.5% over November**
  - Retail sales for December grew more than expected on higher vehicle sales and moderate expansion from other retailers. Although auto surveys suggested December would be a sedentary month for auto sales, this month's retail figure shows quite an expansion from the motor vehicle sector, up 1.6%. Other industries that fared well include furniture, health and personal care, and clothing which rose 0.4%, 1.4%, and 1%, respectively. In line with the seasonal trend some of the expansion can be tied to holiday shopping, evidenced by the surge in online sales that rose 3.4%. Gasoline store sales continued their decline as gas prices fell further in December, causing a 1.7% decline in sales after a 4.5% decline in November. Excluding autos, retail sales grew 0.3% and we expect the report in January to continue to show growth as the housing market prompts retail purchases and fiscal uncertainty fades.

# Week Ahead

## Existing Home Sales (December, Tuesday 10:00 ET)

| Forecast: 5.08M | Consensus: 5.10M | Previous: 5.04M |
|---|---|---|

Existing home sales are expected to rise only slightly in December as economic conditions beget frailty with the fiscal cliff situation still impeding clarity for 2013. Still, we expect to see positive growth for the third consecutive month after seeing a 5.9% raise in November, though the pace is likely to decelerate as low supply limits available sales. With existing homes typically cheaper, home buyers who are entering or reentering the market are opting for the existing homes that are established and have been on the market long enough to see their prices decline. However, with consumers' income reduced by the payroll tax cut expiration in 2013, a portion of potential buyers may have edged off the market in December while waiting for the fiscal situation to be resolved. Therefore, we expect sales to increase in December at a much slower rate due to the political atmosphere but rebound in 2013 as the housing market continues to grow.

## Initial Jobless Claims (Week Ending Jan-19, Thursday 8:30 ET)

| Forecast: 340K | Consensus: 358K | Previous: 335K |
|---|---|---|

Over the past few weeks, initial jobless claims data have been rather volatile as the effects from Hurricane Sandy continue to distort the longer term 4-week average and weekly figures are sporadically affected by economically exogenous circumstances. For the week ending on January 12th, the figures were dramatically lower due to some seasonal adjustments for the beginning of the year. However, as the exogenous effects begin to exert less influence on the jobless report, the predictive credibility of the report should resume. While this might take until the end of the month or even into February, we expect to see a continuance of the overall descending trend. However, for the week ending on the 19th, we expect claims to rise slightly as a readjustment from the prior week's augmented fall takes place. The figure for continued claims is expected to fall, less affected by the seasonal adjustments.

## Leading Indicators (December, Thursday 10:00 ET)

| Forecast: 0.3% | Consensus: 0.3% | Previous: -0.2% |
|---|---|---|

The leading indicator index is expected to increase in December as recent data shows an uptick in the components that make up the index. Driving the index up from its 0.2% decline in November, the ISM survey showed an increase in activity leading to an above 50 reading signaling an entrance into the expansionary territory for manufacturing. In addition to the ISM reading, construction of homes showed a massive increase in December as fiscal woes made very little impression on the 12% increase in new home starts. As for other facets of the leading indicator index, equity prices rose in December and average weekly jobless claims came down from November which should help push the overall index higher.

## New Home Sales (December, Friday 10:00 ET)

| Forecast: 383K | Consensus: 385K | Previous: 377K |
|---|---|---|

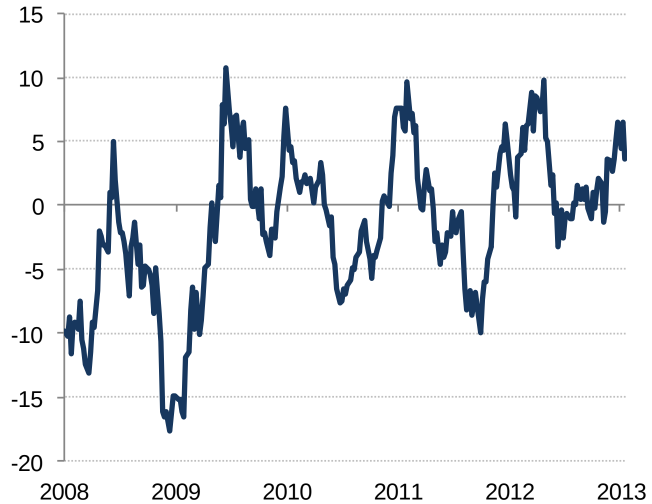
Similar to the outlook for existing sales, new home sales are expected to grow at a slower pace in December. With housing supply still low and home buyer demand escalating, housing starts have been frantically trying to keep pace with demand, up 36.9% YoY in December. Consumers are reentering the housing market and have been buying existing homes quickly as prices remain relatively low compared to the demand for homes and low rate of supply. However, first time home buyers might also be considering new homes, evidenced by the jump in housing starts and growth in new home sales in 2012 already. As new home sales dropped in October then rebounded in November, it seems likely due to the lagging economic environment towards the end of the year that December will be a relatively slow month as buyers await fiscal clarity.

## Market Impact:

In terms of economic indicators, next week's focus will be primarily on the debt talks scheduled for Tuesday. Housing data will gauge sales in both existing and new homes which will relay information concerning both homebuyer demand and likely growth in home prices. Jobless claims data will also be under the watchful eye of the market after dropping dramatically the week before due to seasonal adjustments. The leading indicator figure should provide a small pulse into the overall economic state although it only takes a broad snapshot of certain industries. As the President gears up for inauguration and then the debt talks, the market will have a fair share of housing market data to mull over but little else, resulting in, hopefully, a calmer week.

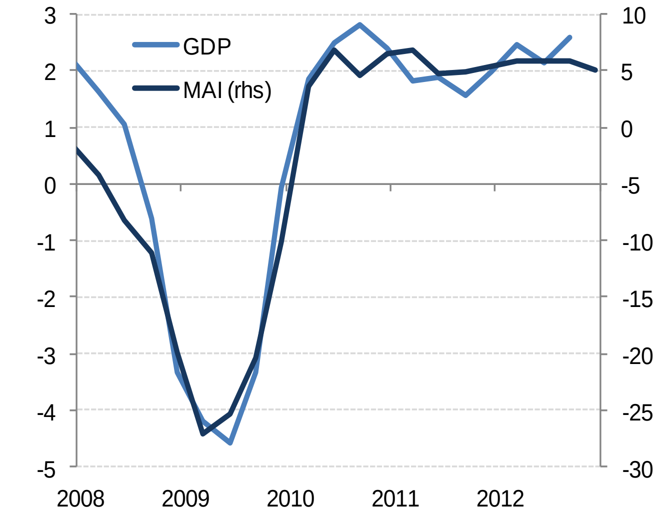
# Economic Trends

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



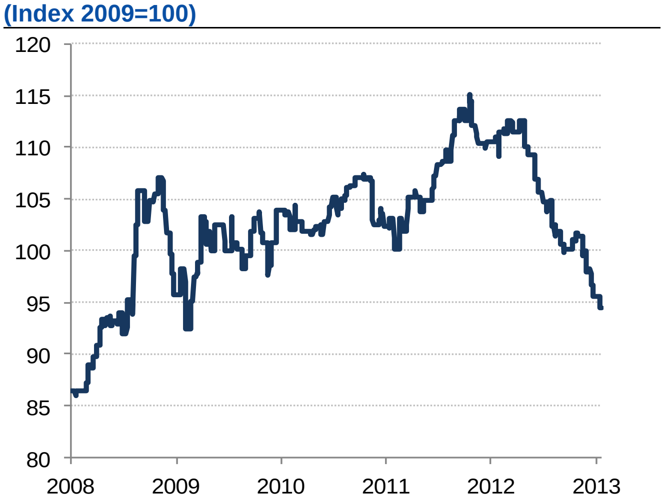

Source: BBVA Research

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



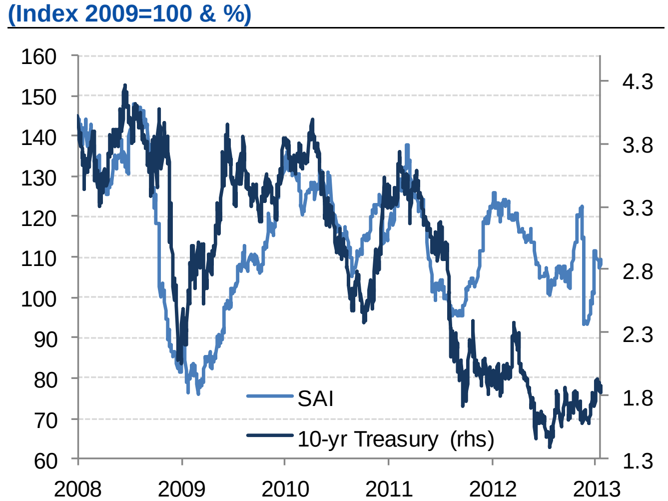

Source: BBVA Research & BEA

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



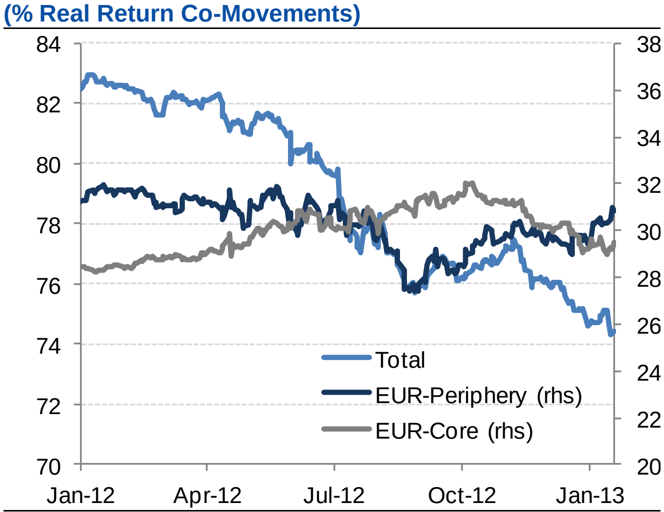

Source: BBVA Research

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



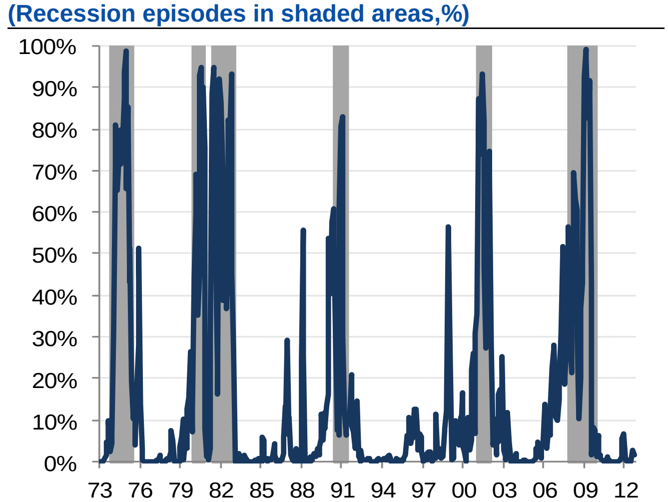

Source: Bloomberg & BBVA Research

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




Source: BBVA Research

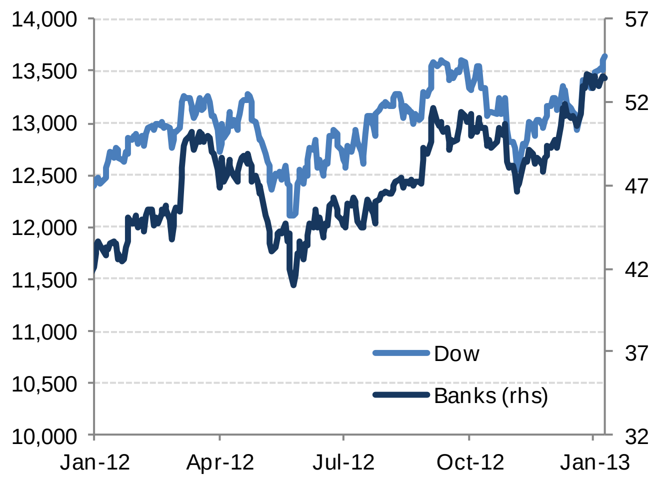
Graph 8
**BBVA US Recession Probability Model**
**(Recession episodes in shaded areas,%)**




Source: BBVA Research

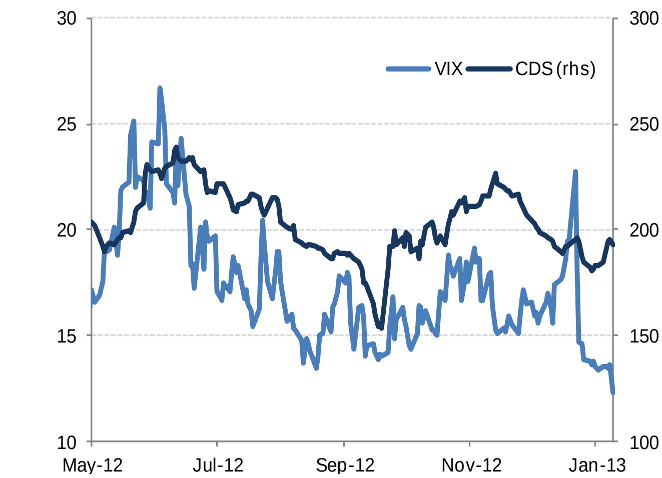
# Financial Markets

Graph 9
**Stocks**
**(Index, KBW)**



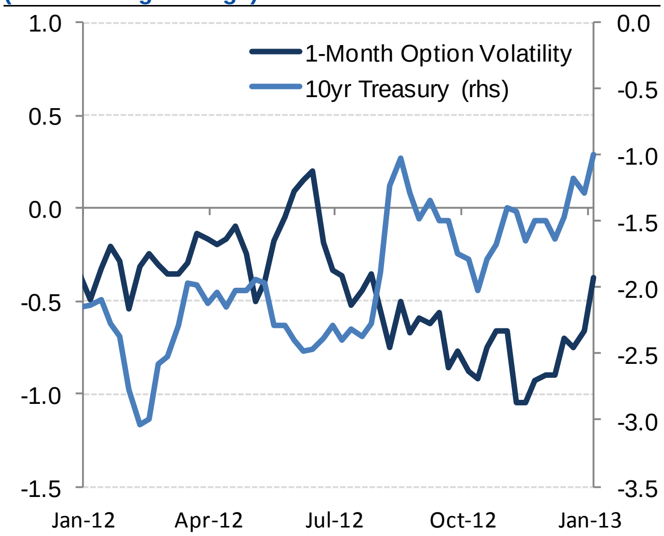

Source: Bloomberg & BBVA Research

Graph 10
**Volatility & High-Volatility CDS**
**(Indices)**



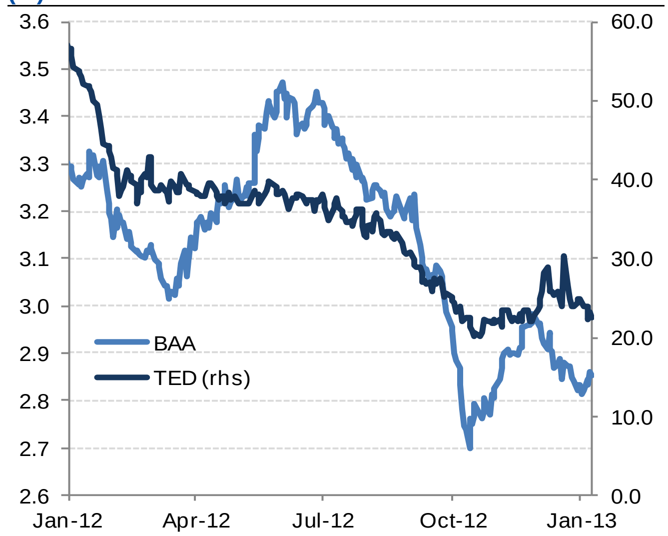

Source: Bloomberg & BBVA Research

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



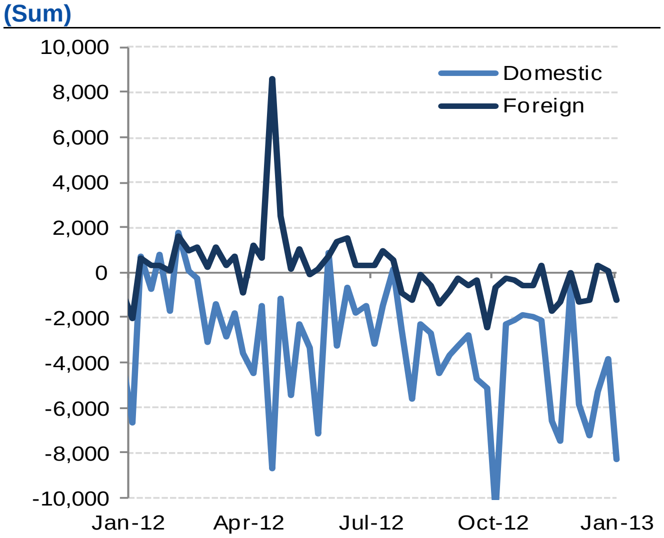

Source: Haver Analytics & BBVA Research

Graph 12
**TED & BAA Spreads**
**(%)**



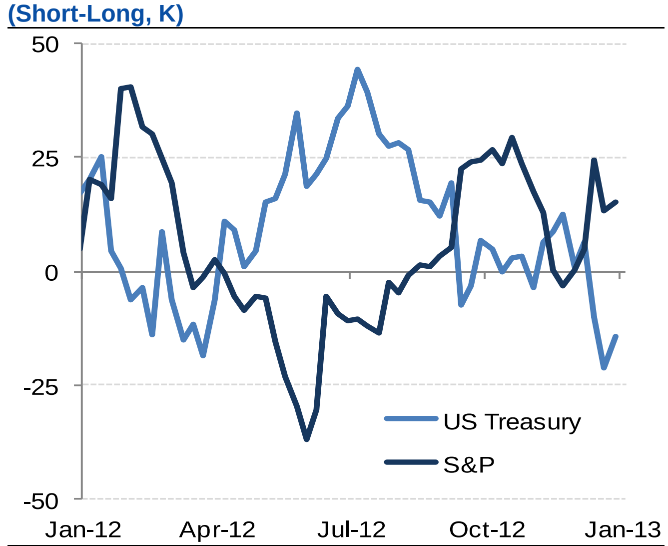

Source: Bloomberg & BBVA Research

Graph 13
**Long-Term Mutual Fund Flows**
**(Sum)**




Source: Haver Analytics & BBVA Research

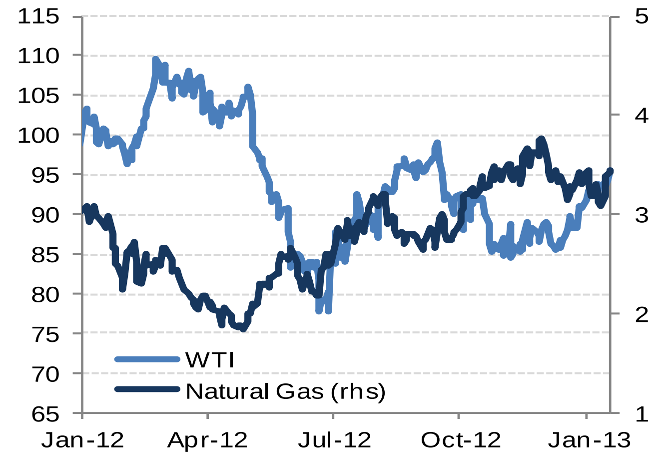
Graph 14
**Total Reportable Short & Long Positions**
**(Short-Long, K)**




Source: Haver Analytics & BBVA Research

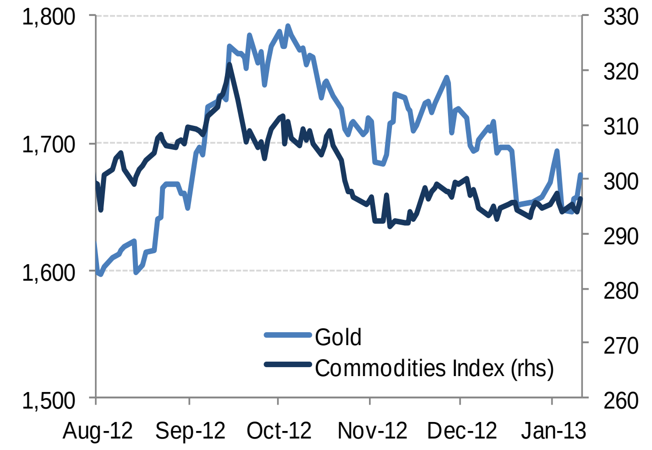
# Financial Markets

Graph 15
**Commodities**
**(Dab & DpMMBtu)**



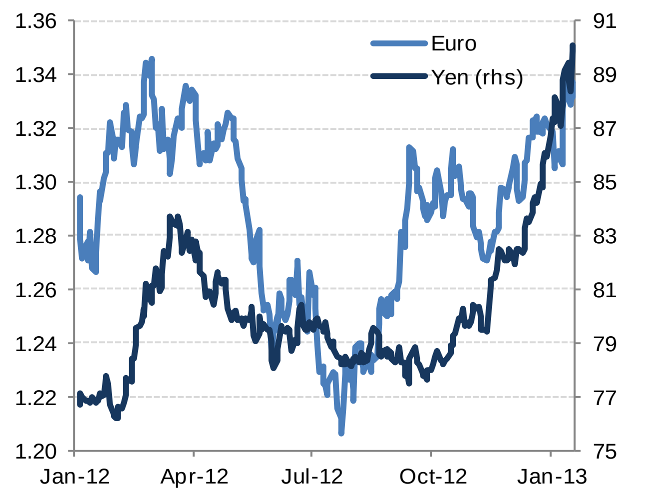

Source: Bloomberg & BBVA Research

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



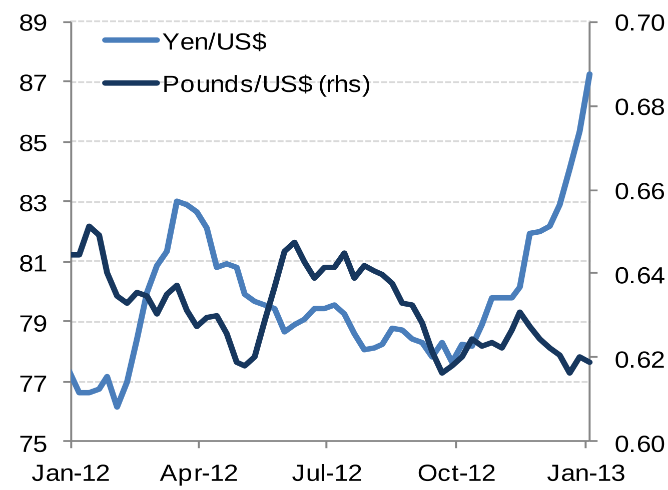

Source: Haver Analytics & BBVA Research

Graph 17
**Currencies**
**(Dpe & Ypd)**



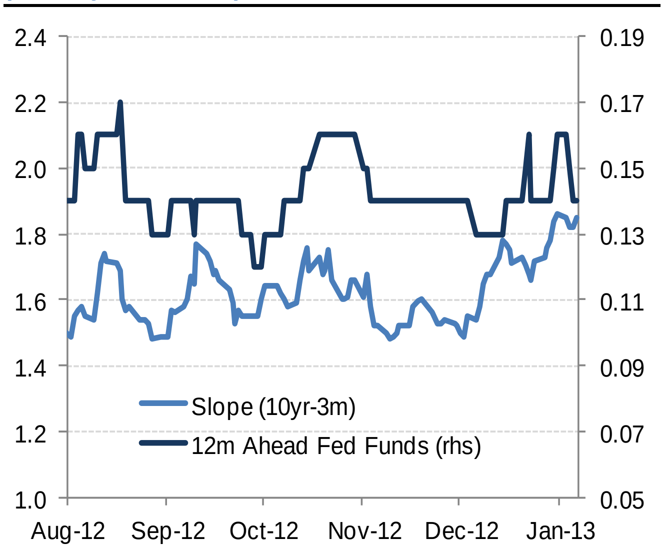

Source: Bloomberg & BBVA Research

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



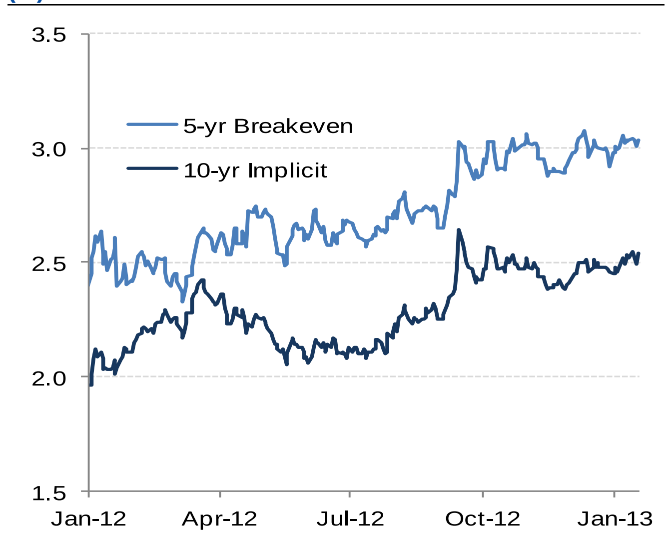

Source: Haver Analytics & BBVA Research

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) | 14.46 | 13.98 | 13.98 | 13.94 |
| New Auto (36-months) | 2.69 | 2.74 | 2.76 | 3.90 |
| Heloc Loan 30K | 5.38 | 5.41 | 5.44 | 5.55 |
| 5/1 ARM * | 2.67 | 2.67 | 2.71 | 2.82 |
| 15-year Fixed Mortgage * | 2.66 | 2.66 | 2.65 | 3.17 |
| 30-year Fixed Mortgage * | 3.38 | 3.40 | 3.37 | 3.88 |
| Money Market | 0.51 | 0.53 | 0.51 | 0.51 |
| 2-year CD | 0.79 | 0.82 | 0.83 | 0.78 |

*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 | 0.14 | 0.17 | 0.09 |
| 3M Libor | 0.30 | 0.31 | 0.31 | 0.56 |
| 6M Libor | 0.48 | 0.50 | 0.51 | 0.79 |
| 12M Libor | 0.81 | 0.82 | 0.84 | 1.11 |
| 2yr Sw ap | 0.40 | 0.38 | 0.41 | 0.60 |
| 5yr Sw ap | 0.90 | 0.90 | 0.88 | 1.20 |
| 10Yr Sw ap | 1.89 | 1.90 | 1.82 | 2.15 |
| 30yr Sw ap | 2.84 | 2.86 | 2.75 | 2.82 |
| 7day CP | 0.14 | 0.16 | 0.17 | 0.81 |
| 30day CP | 0.16 | 0.19 | 0.17 | 0.48 |
| 60day CP | 0.18 | 0.18 | 0.18 | 0.44 |
| 90day CP | 0.19 | 0.22 | 0.19 | 0.50 |

Source: Bloomberg & BBVA Research

# Quote of the Week

Treasury Secretary Timothy Geithner
Treasury Report to the White House
17 January 2013

*"Our current fiscal challenges are not, of course, the only economic obstacle facing the United States. While the economy has expanded and businesses are investing and hiring, our efforts must continue to strengthen growth long into the future. This will require economic policies that protect middle class families, promote retirement security, and reduce the deficit in a balanced fashion in order to preserve room for the investments that spur economic growth."*

# Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|---|---|---|---|---|---|
| 22-Jan | Existing Home Sales | DEC | 5.08M | 5.10M | 5.04M |
| 22-Jan | Exisitng Home Sales (MoM) | DEC | 0.8% | 1.2% | 5.9% |
| 23-Jan | FHFA House Price Index | NOV | 0.5% | 0.7% | 0.5% |
| 24-Jan | Jobless Claims | 19-Jan | 340K | 358K | 335K |
| 24-Jan | Continued Claims | 13-Jan | 3200K | 3200K | 3214K |
| 24-Jan | Leading Indicators | DEC | 0.3% | 0.4% | -0.2% |
| 25-Jan | New Home Sales | DEC | 383K | 385K | 377K |
| 25-Jan | New Home Sales (MoM) | DEC | 1.6% | 2.1% | 4.4% |

# 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** | 7.8 | 7.2 | 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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