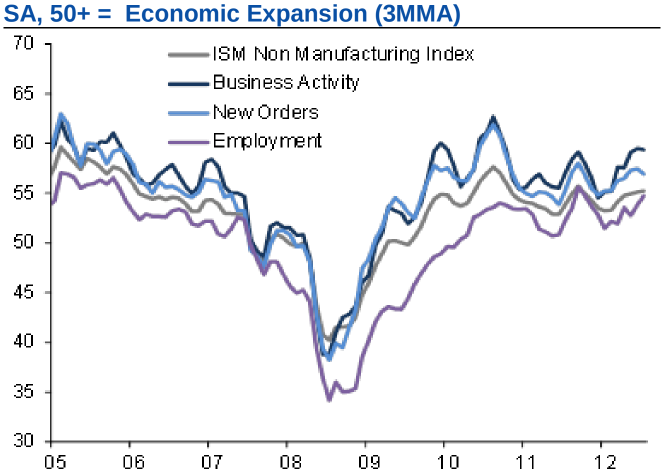
US Weekly Flash

Highlights

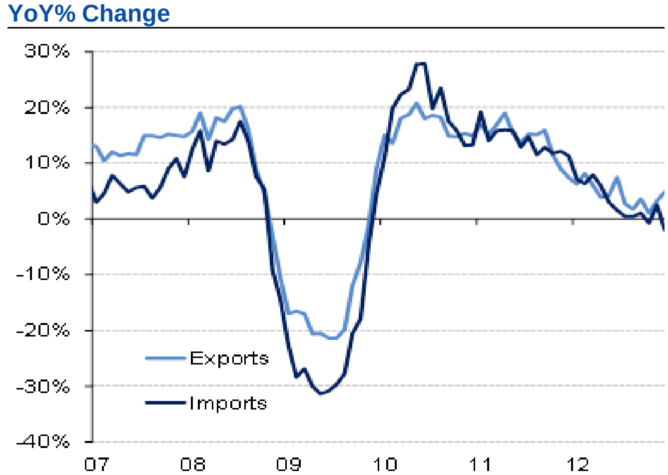
- **ISM Non-Manufacturing slows slightly but signs of growth are still abound**
  - The ISM Non-Manufacturing Index declined in January, easing to 55.2 from 55.7 in December. Making up a large portion of the market, the non-manufacturing sector remained relatively steadfast and continued to show signs of growth. While almost all of the categories remained above the growth level of 50, business activity and new orders did drop as some parts of the sector struggled to take off at the start of 2013, at 56.4 and 54.5 respectively. Understandably, the deceleration in new orders might still have something to do with the upcoming fiscal battle in Washington and the anticlimactic start to the new year, but with levels still 4 points above contraction, there is little doubt that the services sector is showing signs of expansion
  - Other notable areas were employment and export orders. Employment is an area of interest because the non-manufacturing sector makes up a sizeable portion of the nation's workforce and its sentiment on employment determines part of how the employment situation appears. For the January figure, employment rose by a strong 2.2 points to 57.5 which is the highest level it has reached since well before the recession. This should equate to stronger employment throughout the service sector and translate into a better employment situation for 1Q13. Coupled with positive employment figures was the export orders index which surged above its previous contractionary level to 55.5, a 6-point increase.
- **International trade balance shrinks to -$38.5B, the lowest since early 2010**
  - The U.S. international trade deficit shrank noticeably in December as oil imports dropped dramatically and global economies showed signs of improvement. Shrinking from $48.6B in November to $38.5B in December, the trade deficit reached its lowest level since January of 2010, showing a mixture of growing exports and a sharp decline in imports. Exports increased 2.1% following a 1.0% boost in November, led mostly by an increase in infrastructure-related industrial supplies going to South America and Asia. Additionally, the civilian aircraft sector saw in increase in exports from companies like Boeing due to the influx of orders for the new 787 airliner and the like.
  - The other half of the coin was imports, which fell sharply by 2.68%, the largest decline since 2009, on much lower fuel imports. The U.S. imported $4.7B less of petroleum based products in December compared to the previous month, though mostly due to the lower price effect. In this sense, we can expect that the nominal value will increase in January given the rebound in oil prices. Additionally, tech imports that were in abundance in November, primarily due to iPhone demand, were reversed in December demand shrank a few weeks after the phone's release.

Graph 1
ISM Non Mfg Index, New Orders, & Employment
SA, 50+ = Economic Expansion (3MMA)



Source: US Census Bureau & BBVA Research

Graph 2
U.S. Export and Imports
YoY% Change



Source: Conference Board & BBVA Research

Week Ahead

Retail Sales, Less Autos (January, Wednesday 8:30 ET)

Forecast: -0.1%, -0.2%	Consensus: 0.1%, 0.1%	Previous: 0.5%, 0.3%

Retail sales for January are expected to decline slightly after a spending increase in December at the end of the holiday shopping season. In anticipation of the payroll tax increase that began in January, most consumers chose to spend in December and most likely to withheld major purchases in January after seeing a hit to their paychecks. This can be seen in the weekly ICSC Goldman Sachs retail sales figure which declined every week in January by more than 1.5% a week, with the largest decline of 4.2% coming the week after the New Year. Vehicle sales also edged downward as consumers weighed the option of a new or used vehicle after the payroll tax increase. Both WTI and crude prices rose in January which will contribute to a boost in the nominal headline figure. However, we do expect that these price pressures will be muted after accounting for a slowing in core sales after the holiday season.

Business Inventories (December, Wednesday 10:00 ET)

Forecast: 0.4%	Consensus: 0.3%	Previous: 0.3%

Business inventories are expected to show an increase in December as manufacturers and production began to pick up steam to keep up with growing demand from the private sector. With retail sales up in December by 0.5%, it stands to reason that the stockpile of goods throughout the month would have increased to keep pace with demand for the holiday shopping season. Coupled with the equally large expansion in durable goods sales for December, inventories likely increased as production rose to match the intense sales from retail. Although retail activity seems to be slowing slightly in the first quarter thus far, the purchases and pent up demand that was unleashed as consumers found out the payroll tax would expire in 2013 prompted a large influx of purchases in anticipation of a hit on disposable income in the new year. However, we did see a minor decline in wholesale inventories for the month, which will drag slightly on the total figure. Still, it is likely that inventories rose in order to capture the evoked consumer demand that emerged at the end of the year.

Empire State Manufacturing Survey (February, Friday 8:30 ET)

Forecast: -2.0	Consensus: -2.0	Previous: -7.78

The Empire State Manufacturing Survey is expected to show a more positive trend and hopefully in line to reverse the negative trend that has been plaguing the indicator since August. While the situation has deteriorated for the area's industrial sector as new orders and shipments fall, February is shaping up to be a little more of a productive month for the industrial sector as more demand is being put on producers for housing and automotive parts along with growing foreign demand. We expect the new orders figure to increase as the NY Fed area realizes a larger demand for its goods and a continuation of its increase in employment from November. Inventories for January showed some decline and we expect this to continue to show growing production in the area. With a growing demand, both domestic and foreign, we expect the region to boost production and see an increase in industrial supply for February and the coming months, barring any political barriers.

Industrial Production, Capacity Utilization (January, Friday 9:15 ET)

Forecast: 0.2%, 79.0%	Consensus: 0.2%, 78.9%	Previous: 0.3%, 78.8%

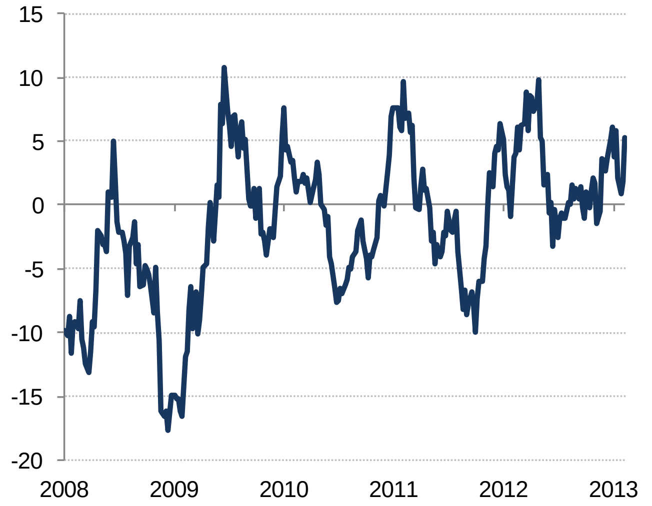
Rising in December to a level last seen in 2008, industrial production should continue to grow but at a subdued pace due to headwinds and an overall mixed month for manufacturing and production. The national ISM Manufacturing report for January was up a considerable amount when factoring in the political stresses of the past few months, showing quite a bit of optimism for industrial production. Production and new orders grew in the January report which signals a hopeful increase in both output and capacity utilization, as firms opt to increase production to meet the consumers demand. Another positive sign in the ISM was the increase in vehicle production in January that will further add to production. The Chicago ISM figure is also quite telling of the possible increase in production: surprisingly, it rose 8.5 points to 60.9 which is a very large spike considering production was relatively quiet toward the end of the year. However, various other regional Federal Reserve manufacturing surveys were quite negative for the month. Still, we expect that industrial production will continue its increase despite some political headwinds, following in the ISM's upward trend as the year begins.

Market Impact:

Next week carries with it some interesting indicators that should help map out how 1Q13 will pan out. Retail sales will be the first point of interest, and with the payroll tax expiration, it is unlikely that consumer activity will rise significantly given the fall in disposable income. Jobless claims will hopefully show whether any swing from holiday hires will have finally passed over, and now that firms are less hesitant about the fiscal situation, hiring can once again resume. Manufacturing data will also show how the sector is faring in the Northeast but the more telling indicator will come later on Friday. Industrial production is vastly important for the week as it gives a pulse into the industrial sector and whether it can carry the gains from last quarter over into 2013. Overall an interesting week and keep an ear open to Washington as the House and White House talk about the upcoming sequester.

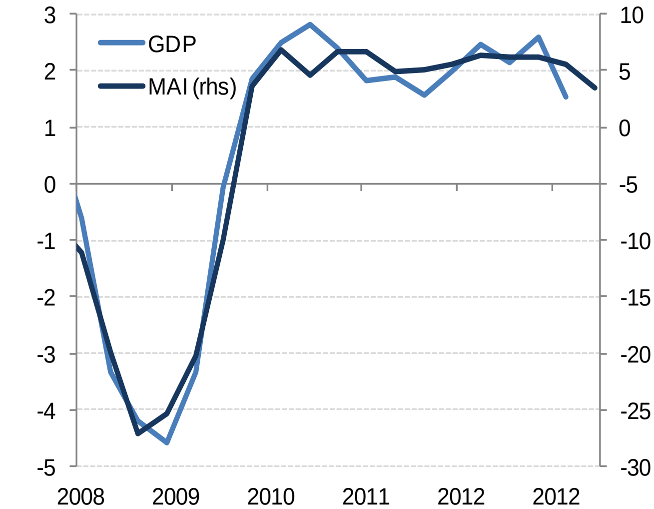
Economic Trends

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



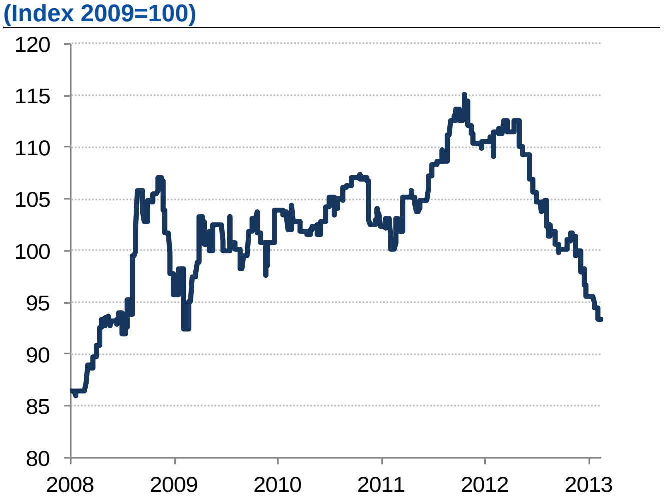
Source: BBVA Research

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



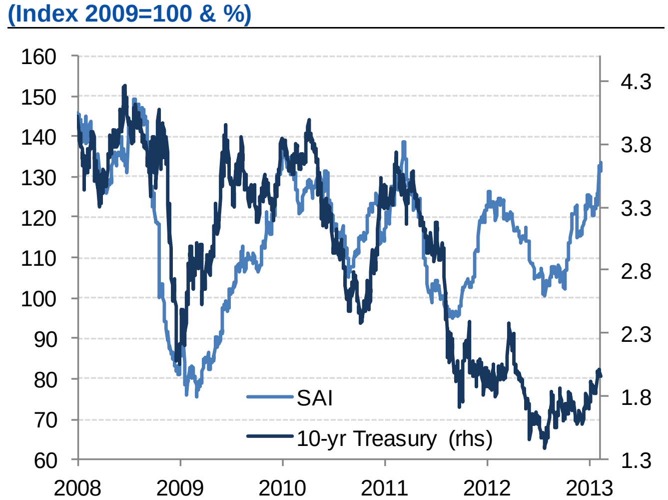
Source: BBVA Research & BEA

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



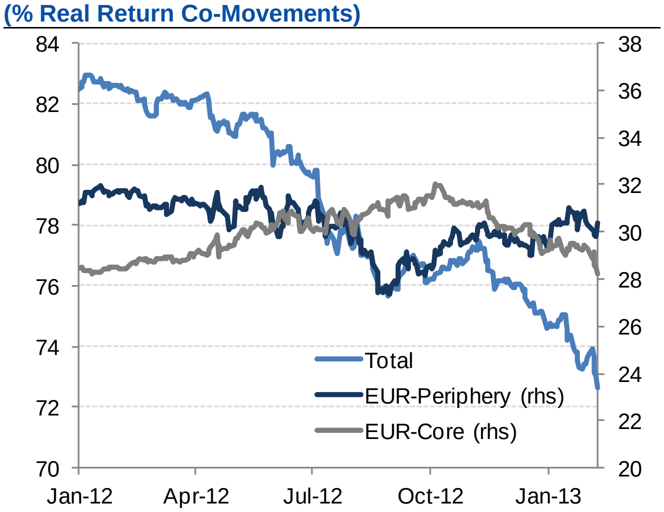
Source: BBVA Research

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



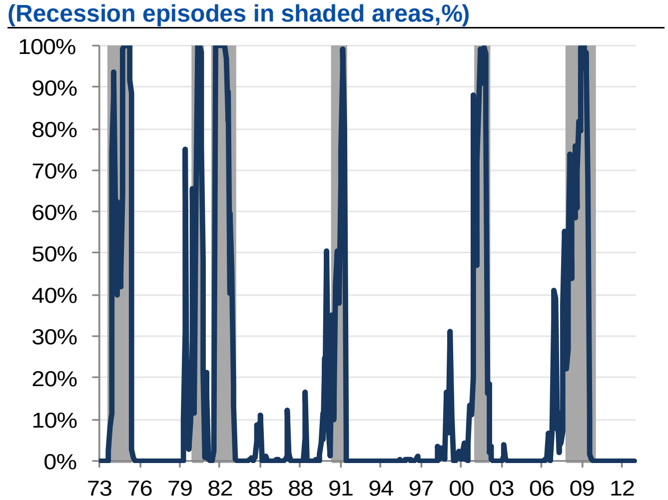
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

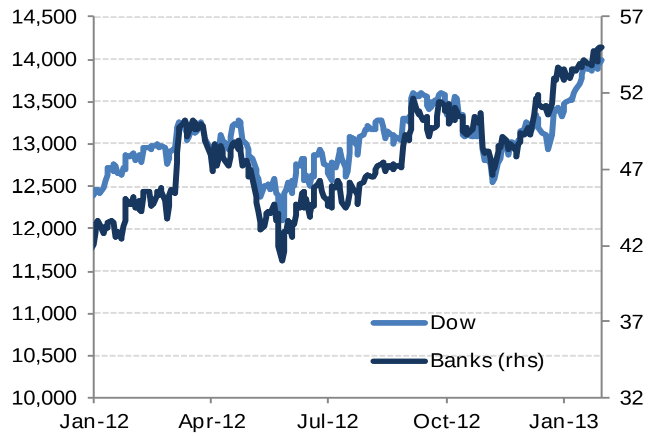
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

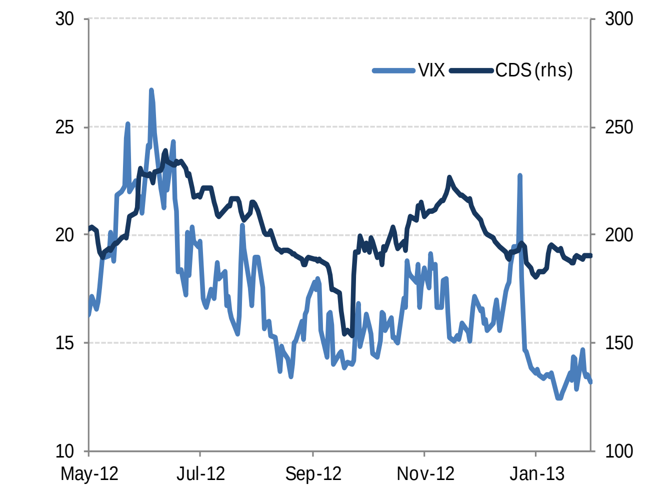
Financial Markets

Graph 9
Stocks
(Index, KBW)



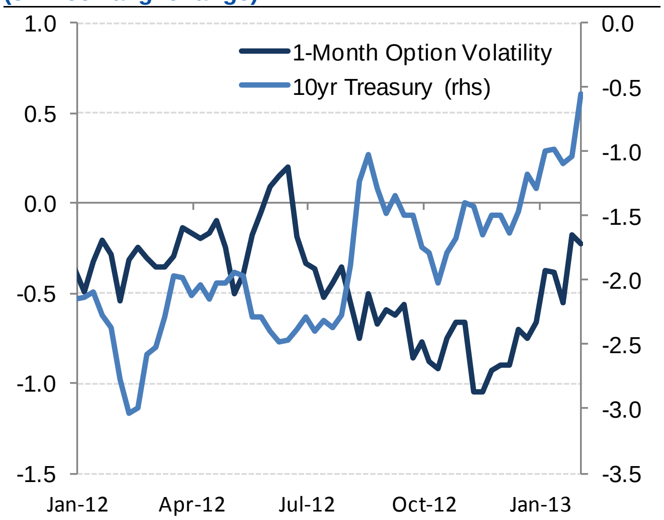
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



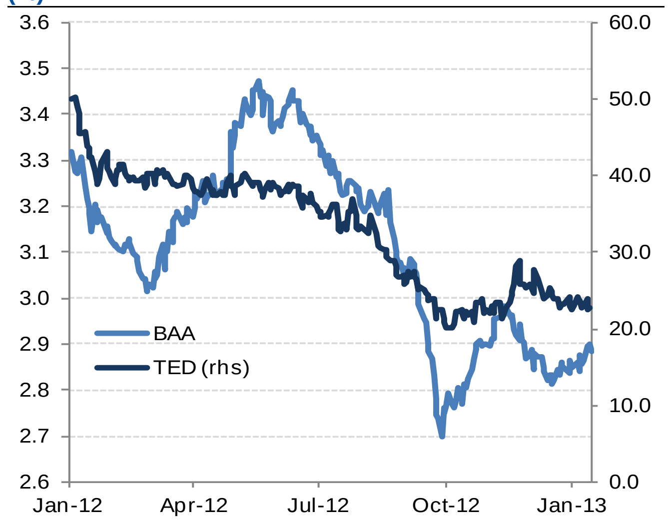
Source: Bloomberg & BBVA Research

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



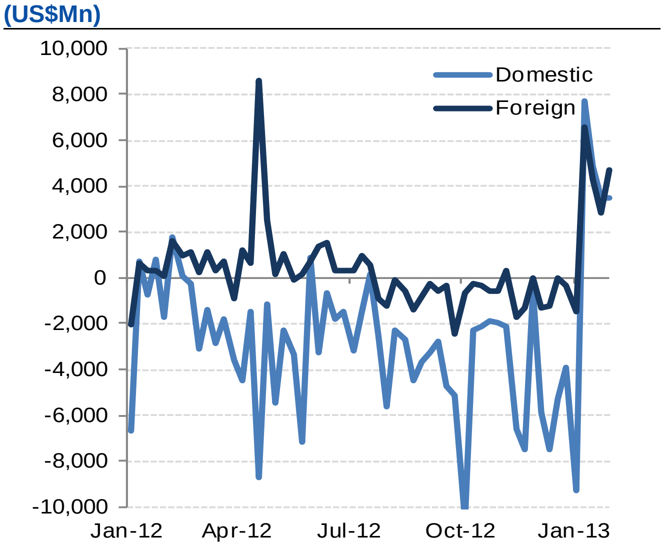
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



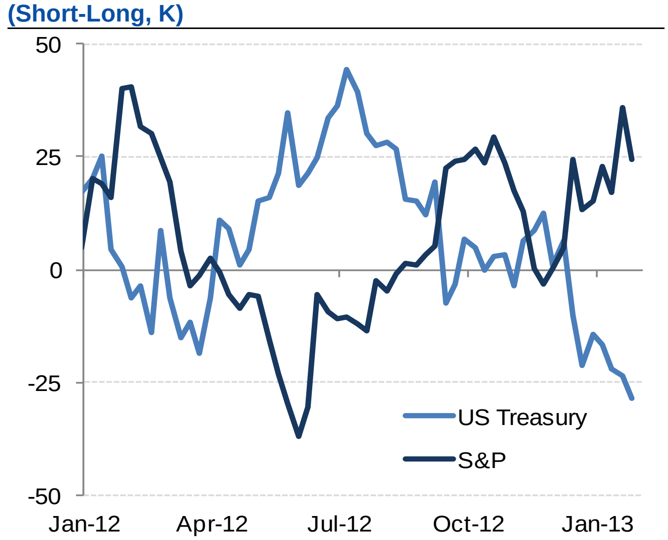
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

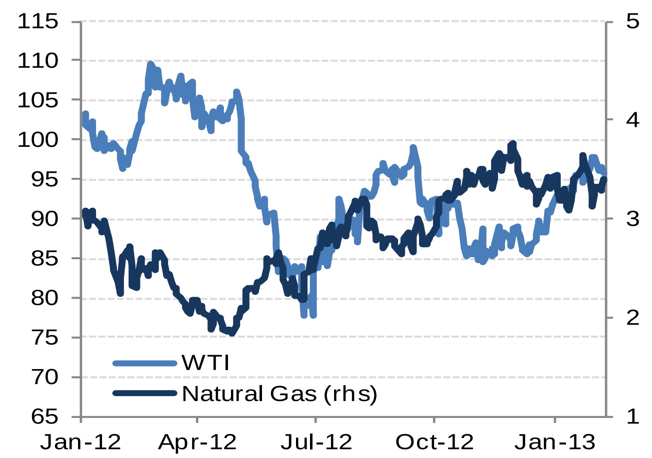
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

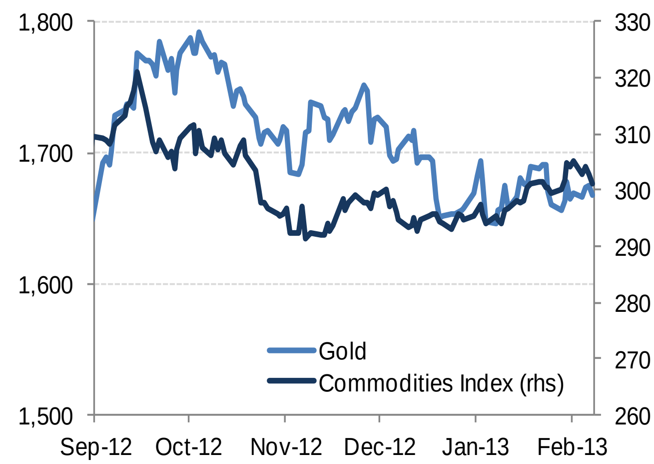
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



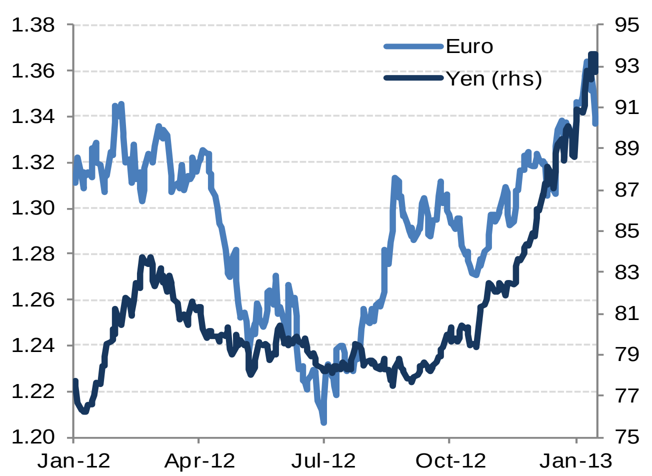
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



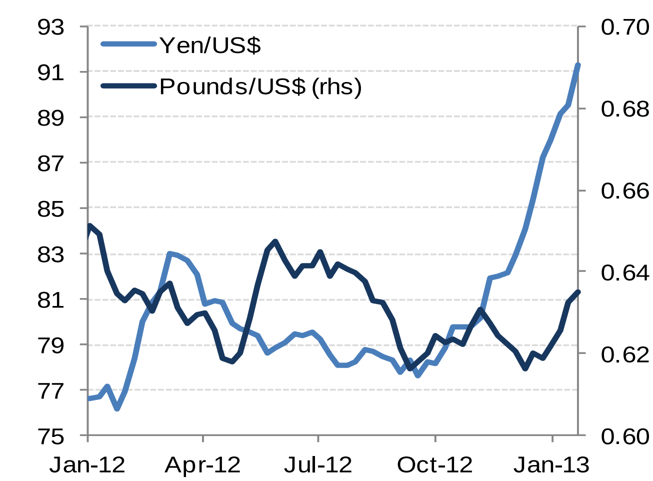
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



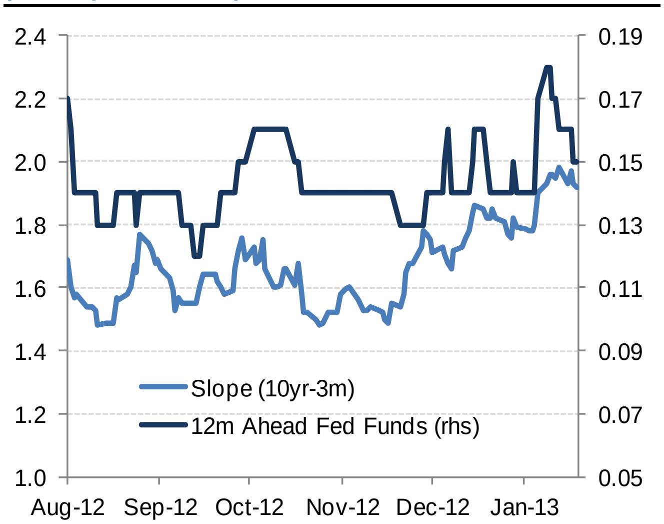
Source: Bloomberg & BBVA Research

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



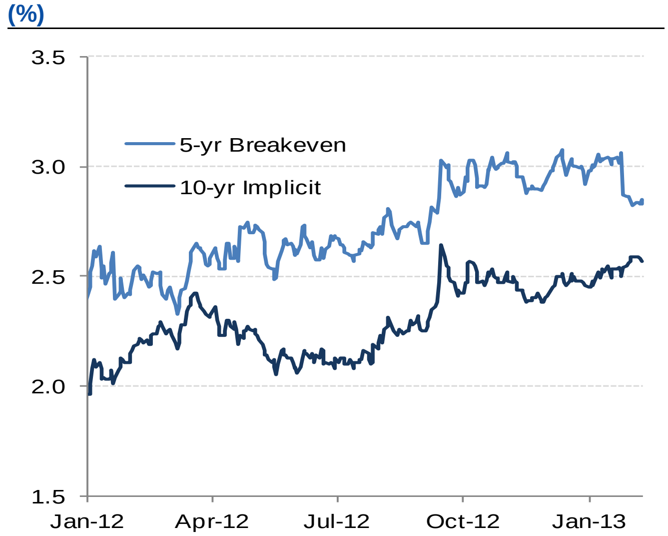
Source: Haver Analytics & BBVA Research

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)	14.46	14.46	13.98	14.10
New Auto (36-months)	2.46	2.47	2.74	3.51
Heloc Loan 30K	5.39	5.38	5.41	5.53
5/1 ARM*	2.63	2.70	2.67	2.83
15-year Fixed Mortgage *	2.77	2.81	2.66	3.16
30-year Fixed Mortgage *	3.53	3.53	3.40	3.87
Money Market	0.50	0.50	0.53	0.47
2-year CD	0.75	0.77	0.82	0.74

*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	0.13	0.14	0.14	0.12
3M Libor	0.29	0.30	0.45	0.51
6M Libor	0.47	0.47	0.65	0.76
12M Libor	0.77	0.79	0.98	1.07
2yr Sw ap	0.41	0.42	0.38	0.55
5yr Sw ap	0.98	1.04	0.90	1.11
10Yr Sw ap	2.03	2.10	1.90	2.07
30yr Sw ap	2.98	3.05	2.86	2.81
30day CP	0.13	0.16	0.18	0.46
60day CP	0.16	0.18	0.19	0.51
90day CP	0.18	0.20	0.19	0.50

Source: Bloomberg & BBVA Research

Quote of the Week

CNBC Interview
Chicago Federal Reserve Bank President Charles Evans
7 February 2013

"*I'm looking for 2.5% growth this year. That's against 1% drag under the current law for fiscal policy, if we have more of a drag this year, that's more of a headwind that might mean that we have to do a little bit more. But I think we've got the appropriate policies in place to respond flexibly to what we're facing.*"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Feb	Retail Sales	JAN	-0.1%	0.1%	0.5%
13-Feb	Retail Sales Less Auto	JAN	-0.2%	0.1%	0.3%
13-Feb	Import Prices	JAN	0.4%	0.8%	-0.1%
13-Feb	Business Inventories	DEC	0.4%	0.3%	0.3%
14-Feb	Jobless Claims	10-Feb	355K	360K	366K
14-Feb	Continued Claims	3-Feb	3215K	3205K	3224K
15-Feb	Empire State Mfg Survey	FEB	-2	-2	-7.78
15-Feb	Industrial Production	JAN	0.2%	0.2%	0.3%
15-Feb	Capacity Utilization	JAN	79.0%	78.9%	78.8%
15-Feb	Consumer Sentiment	FEB P	74.3	74.8	73.8

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	**1.8**	**2.2**	1.8	2.3	2.5
CPI (YoY %)	**3.1**	**2.1**	2.1	2.2	2.3
CPI Core (YoY %)	**1.7**	**2.1**	1.9	2.0	2.1
Unemployment Rate (%)	**8.9**	**8.1**	7.8	7.2	6.7
Fed Target Rate (eop, %)	**0.25**	**0.25**	0.25	0.25	0.50
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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