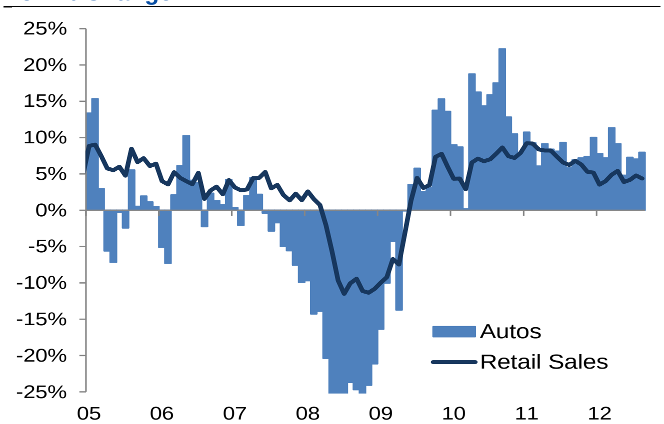
US Weekly Flash

Highlights

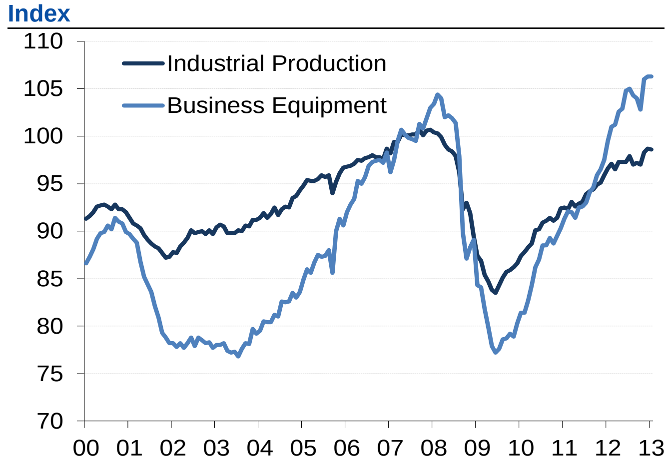
- **Although depressed by the expiration of the payroll tax cut, retail sales rose 0.1%**
  - Coming out of a strong holiday-related spending surge in November and December, retail sales managed to grow a modest 0.1% in January although at a depressed rate due to the expiring payroll tax cut that took effect at the beginning of the year. However, on par with consensus figures, retail sales came out ahead but not necessarily due to stronger economic conditions emboldening consumer demand. Higher equity levels, rising home prices and continued improvement in the labor market invoked a little more optimism that translated somewhat into consumer demand for goods despite the hit to disposable personal income.
  - Excluding autos, retail sales rose 0.2% which means auto sales were less prolific than the past few reports, declining 0.1% after two months of strong growth. In terms of movers, computer parts and software saw a significant drop in sales, down 1.7% in January while miscellaneous store retailers fell 2.6% on weak office sales. The drivers for the month were general merchandise and jewelry stores which rose 1.1% and 5%, respectively, while a majority of the other retail components shifted less than a percent on a more muted basis. Gasoline sales also rose 0.25% after two consecutive months of deep decline, mostly reflecting January's rise in oil prices. Overall, this month's figure suggests the consumer was less affected by the payroll tax increase than expected although it did mute some components of the sector.
- **Industrial Production declined 0.1% despite the surge in utilities**
  - After two months of moderately strong growth, industrial production fell by 0.1% in January as manufacturing eased on a broad basis. Although the decline was led by an unwelcome decline in the production of vehicles, the general decline in production is less worrying than it seems. The past two months of stronger growth coupled with the general upward trend in the index since the fall of 2012 was interrupted by the political and financial struggles that continue to haunt businesses and consumers. Consumer goods production declined by 0.2% on weaker demand for durable goods, assumedly due to the expiring payroll tax cut that prompted larger purchases before the tax took effect on January 1st. Automotive production took a sharper dip, almost 4.0%, after growing at an accelerating pace throughout the fourth quarter as demand grew for competitive domestic options over imports.
  - However, on the non-durable side, utilities grew at a markedly strong pace on increasing energy production in the form of electricity and natural gas, up 3.5% after a strong decline in the month before. The capacity utilization figure, revised up for December, raised the bar for January's figure, coming in at 79.1% compared to December's revised 79.3%. While the decline was minimal and with headwinds still visible, we still expect February to show some better figures as regional reports such as the Empire State Manufacturing survey rose at an extraordinary rate, hinting at stronger production growth.

Graph 1
Retail and Auto Sales
YoY % Change



Source: US Census Bureau & BBVA Research

Graph 2
Industrial Production
Index



Source: Conference Board & BBVA Research

Week Ahead

Housing Starts & Building Permits (January, Wednesday 8:30 ET)

Forecast: 930K, 900K	Consensus: 922K, 920K	Previous: 954K, 903K

Housing starts are expected to decline slightly from December but remain overall robust in YoY terms. Demand for new homes fell in December, evidenced by the drop in those sold, with supply still tight. The main crux might have been the consumer side, and the payroll tax cut expiring in January could have an impact on plans for home buying in the coming months. Prices are still rising and the inventory remains low which sets up construction companies for sustained growth throughout the resuscitation of the U.S. economy. The coming months are showing signs of improvement as the equity markets continue to grow and employment opportunities are becoming more frequent, giving the consumer some much needed confidence which in turn results in a higher demand for homes.

Consumer Price Index, Ex Food & Energy (January, Thursday 8:30 ET)

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

Headline inflation for January is expected to increase at a moderate pace as agricultural and energy prices tick upward after a relatively quiet end of the year figure. Consumer prices were subdued throughout the past few months, declining 0.3% in November and holding unchanged in December. For January, we expect that energy prices will be a main driver, showing some upward pressure during the month as crude prices rose considerably according to the WTI and Brent figures. Agricultural prices have also increased: crops showed the larger increase in prices over livestock, mostly due to harvest and some lingering drought effects. Additionally, housing prices and rising rents will continue to push shelter prices higher while medical and transportation services are unlikely to put as much pressure as the aforementioned factors. Overall, we expect a stronger headline figure for January due to rising energy prices while the core figure should accelerate only slightly from the end of 2012.

Existing Home Sales (January, Thursday 10:00 ET)

Forecast: 4.96M, 0.0%	Consensus: 4.90M, -0.8%	Previous: 4.94M, -1.0%

Existing home sales are expected to remain mostly unchanged in January to continue the slow-moving trend we have seen in recent months. Even as more homes come onto the market and the uncertainty that plagued the December decline has mostly dissipated, consumers have not been as aggressive about home buying plans. Inventory remains low and the shadow inventory of homes is still being dumped, albeit at a slow rate, into the market, limiting opportunities for potential homebuyers of existing properties. With home prices on the rise, we can expect home buyers to continue to demand the more affordable existing homes at an accelerated pace given the seemingly sustainable market recovery. However, given that incomes have fallen due to the expiration of the payroll tax cut, the headwind from a decline in perceived wealth might deter some from purchasing a home to start off 2013. Therefore, we expect that existing home sales will be mostly flat in January as headwinds in the form of declining incomes have the chance to put downward pressure on sales along with the lacking inventory to support high demand.

Philadelphia Fed Survey (February, Thursday 10:00 ET)

Forecast: 2.0	Consensus: 1.0	Previous: -5.8

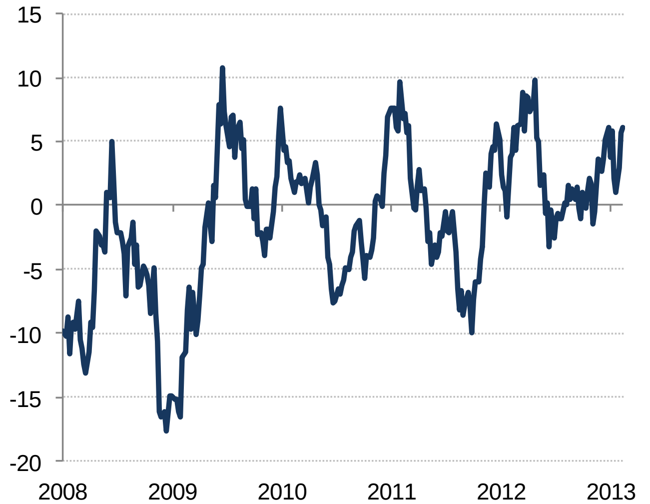
Continuing the bounce between positive and negative territory, we expect the Philadelphia area to resurge again into positive figures as evidence suggests manufacturing is on the mend for February. Industrial production for January showed some slight weakness, but the broad-based decline points to a general weakness rather than any specific ailments within the sector, suggesting a hint of growth for February. Also fueling confidence is the Empire State Manufacturing Survey which shot up an incredible 17.8 points since January, its largest increase since December 2010. Overall, it seems there is a pervasive surge of production and manufacturing set for February as demand from abroad rises. Therefore, we expect the Philadelphia Fed index to rise as new orders in February push it back into positive territory

Market Impact:

With Monday off for Presidents' Day, next week seems a little less full than the last two. However, some key indicators will help shed light on the housing market recovery coupled with inflationary pressures that the Fed continues to keep a watchful eye on. Indicators like housing starts and existing home sales will help round out January data and pinpoint where some of the weakness lay in the months skimpy sales. Consumer and producer inflationary figures will also show whether policy action need be taken to curtail a rise in prices. Barring any political releases as the sequester nears, only 2 weeks away, we expect next week to be unruffling for the markets and allow investors to absorb corporate earnings and the M&A activity.

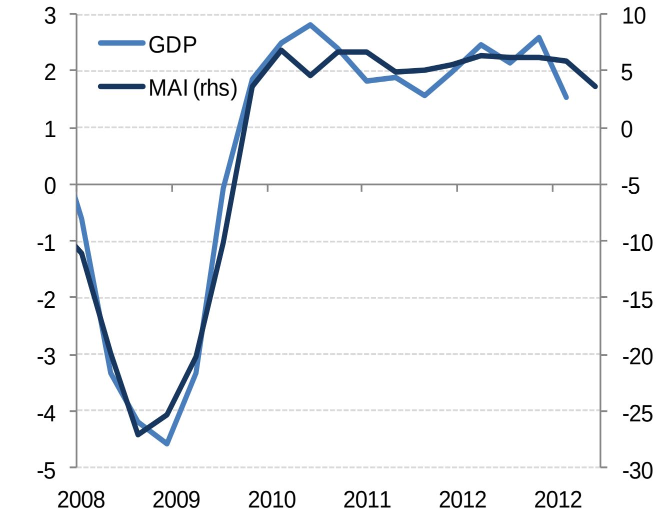
Economic Trends

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



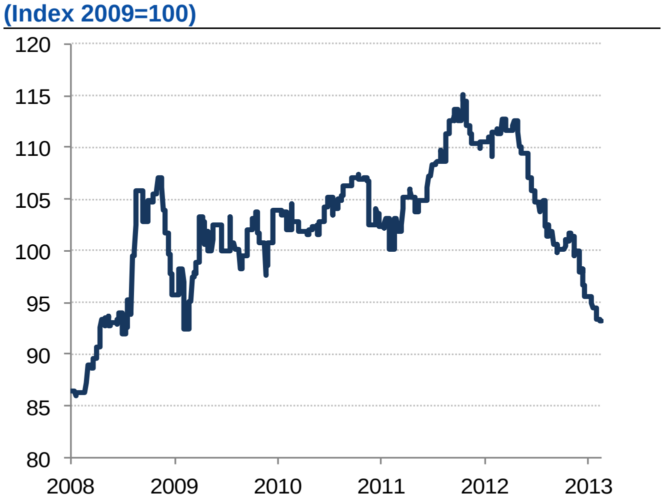
Source: BBVA Research

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



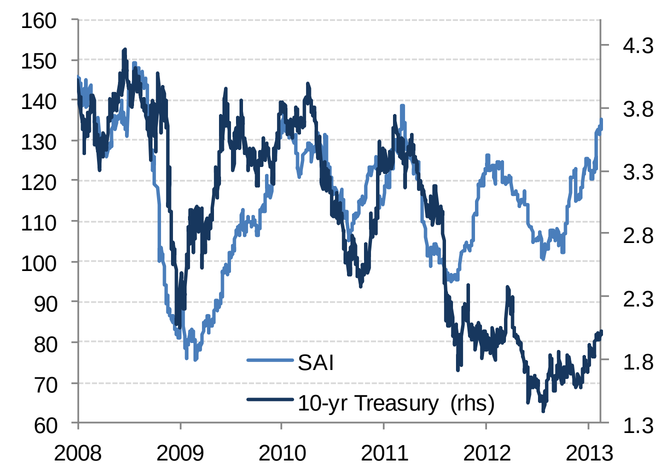
Source: BBVA Research & BEA

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



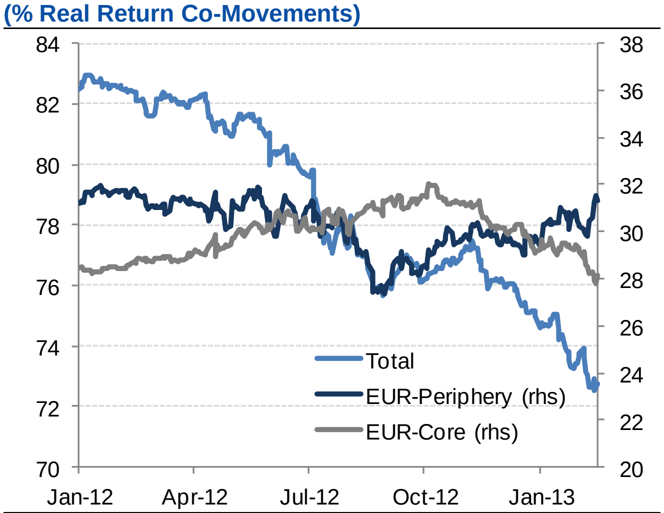
Source: BBVA Research

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



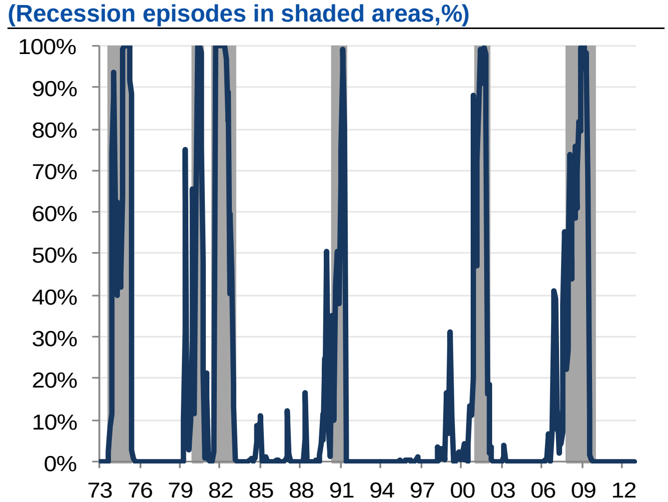
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

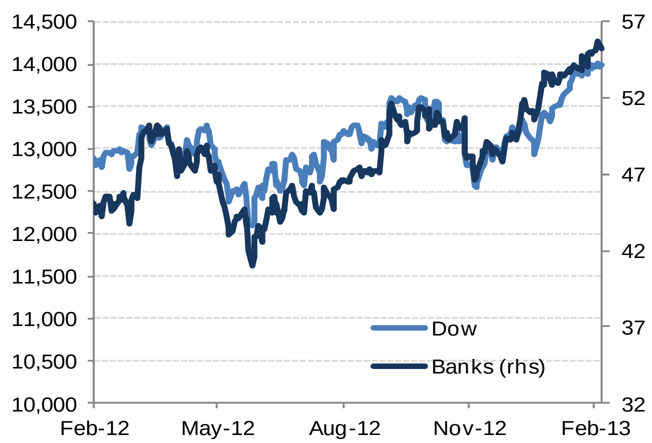
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

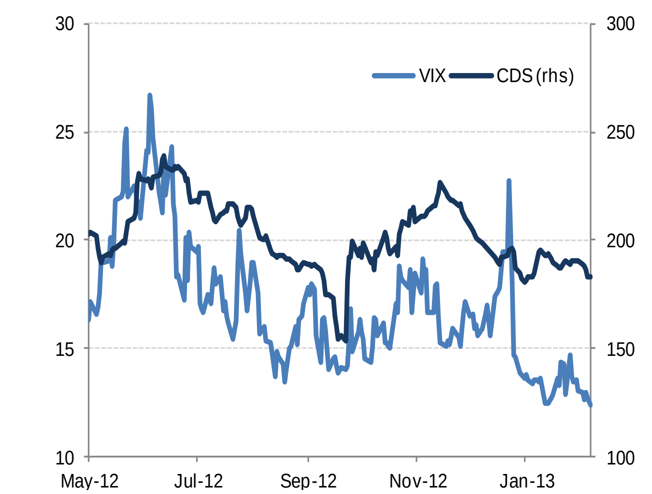
Financial Markets

Graph 9
Stocks
(Index, KBW)



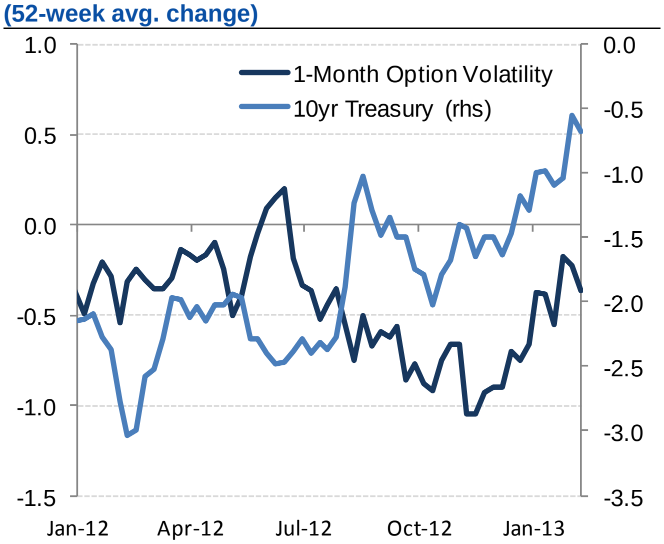
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



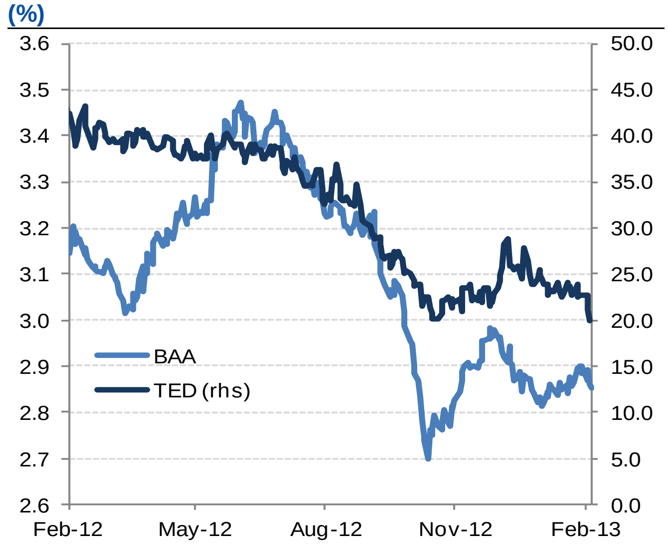
Source: Bloomberg & BBVA Research

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



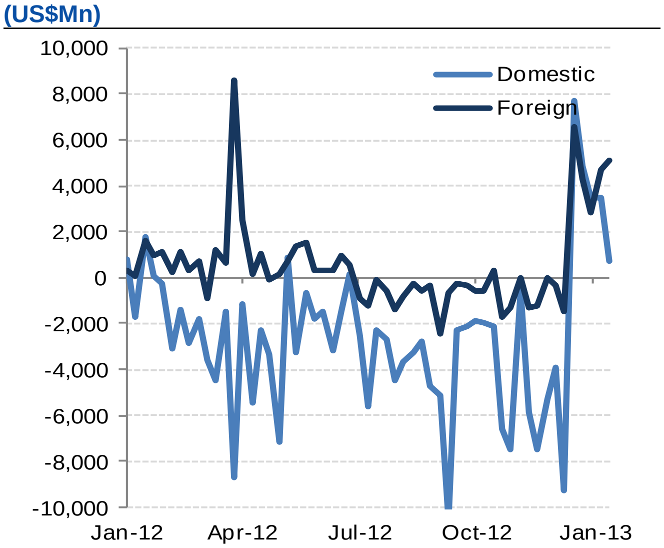
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



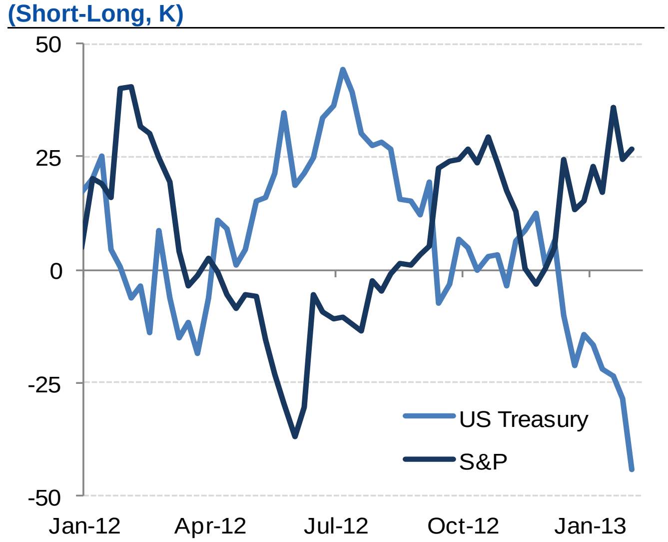
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

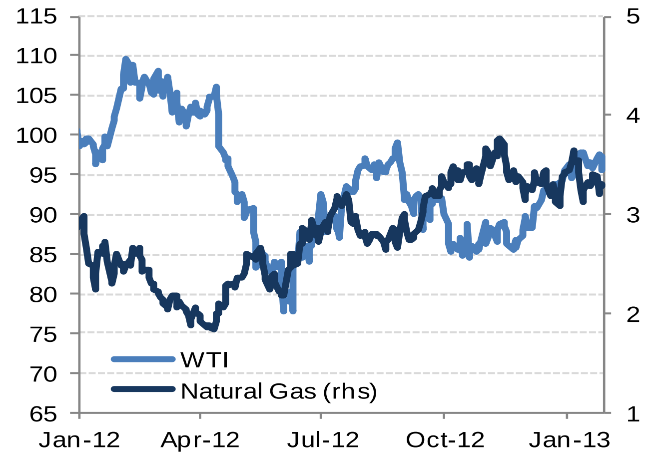
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

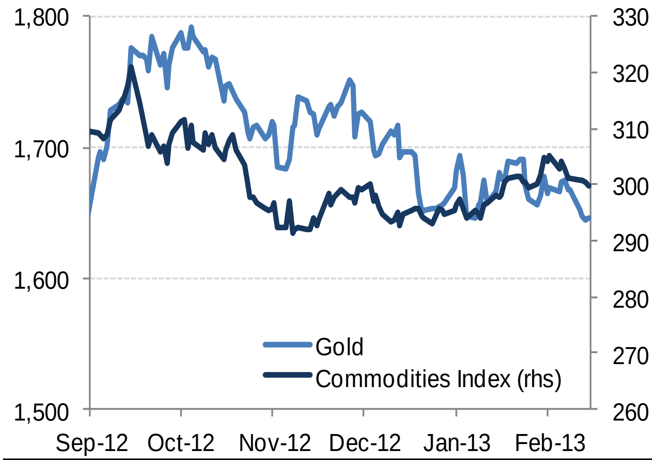
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



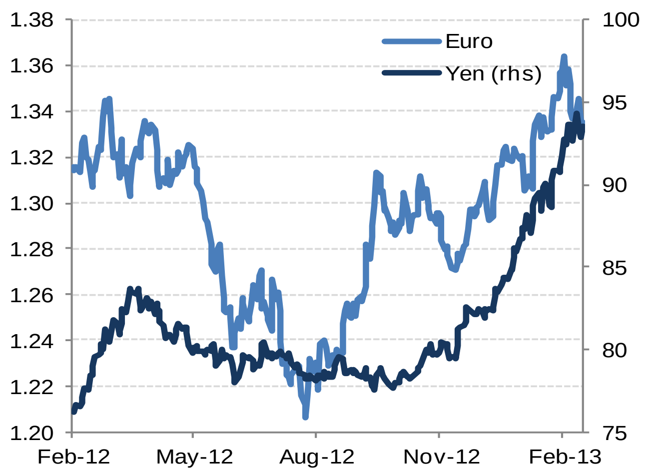
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



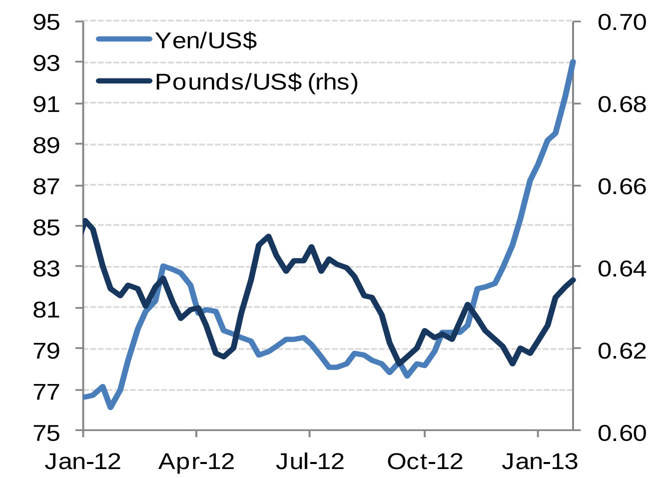
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



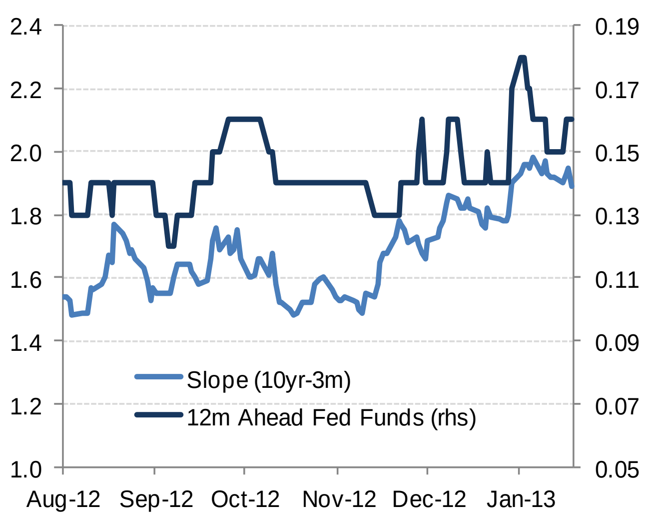
Source: Bloomberg & BBVA Research

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



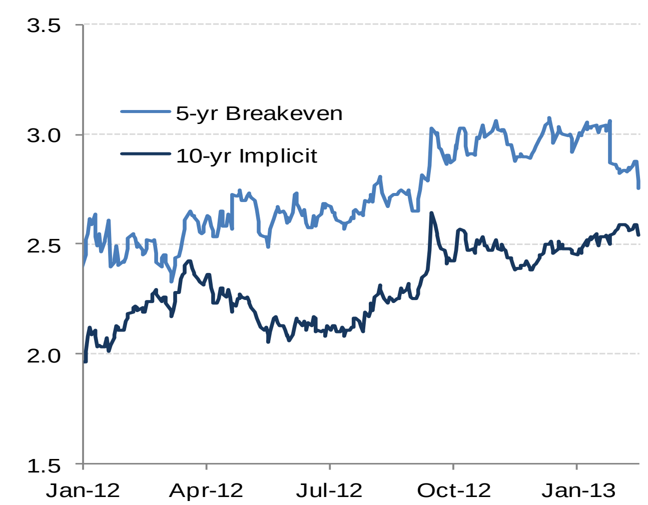
Source: Haver Analytics & BBVA Research

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	14.46	14.10
New Auto (36-months)	2.44	2.46	2.69	3.89
Heloc Loan 30K	5.38	5.39	5.38	5.53
5/1 ARM *	2.64	2.63	2.67	2.82
15-year Fixed Mortgage *	2.77	2.77	2.66	3.16
30-year Fixed Mortgage *	3.53	3.53	3.38	3.87
Money Market	0.50	0.50	0.51	0.47
2-year CD	0.73	0.75	0.79	0.75

*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	0.14	0.09
3M Libor	0.29	0.29	0.45	0.49
6M Libor	0.46	0.47	0.65	0.75
12M Libor	0.76	0.77	0.98	1.07
2yr Sw ap	0.42	0.41	0.40	0.58
5yr Sw ap	1.03	0.98	0.90	1.14
10Yr Sw ap	2.10	2.03	1.90	2.08
30yr Sw ap	3.05	2.99	2.84	2.82
30day CP	0.15	0.13	0.16	0.38
60day CP	0.17	0.16	0.18	0.47
90day CP	0.17	0.18	0.19	0.52

Source: Bloomberg & BBVA Research

Quote of the Week

Federal reserve Board Vice Chair Janet L. Yellen
AFL-CIO
February 11, 2013

"*I see the evidence as consistent with the view that the increase in unemployment since the onset of the Great Recession has been largely cyclical and not structural.*"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Feb	Housing Market Index	FEB	48	48	47
20-Feb	Housing Starts	JAN	930K	922K	954K
20-Feb	Housing Starts (MoM)	JAN	-2.5%	-3.4%	12.1%
20-Feb	Building Permits	JAN	900K	920K	903K
20-Feb	Building Permits (MoM)	JAN	-0.3%	1.2%	0.3%
20-Feb	Producer Price Index (MoM)	JAN	0.3%	0.4%	-0.2%
20-Feb	PPI Ex Food & Energy (MoM)	JAN	0.2%	0.2%	0.1%
21-Feb	Consumer Price Index (MoM)	JAN	0.2%	0.1%	0.0%
21-Feb	CPI Ex Food & Energy (MoM)	JAN	0.2%	0.2%	0.1%
21-Feb	Initial Jobless Claims	16-Feb	350K	356K	341K
21-Feb	Continued Claims	10-Feb	3150K	3147K	3114K
21-Feb	Exisiting Home Sales	JAN	4.96M	4.90M	4.94M
21-Feb	Existing Home Sales (MoM)	JAN	0.0.%	-0.8%	-1.0%
21-Feb	Philly Fed Survey	FEB	2.0	1.0	-5.8

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**	7.5	6.8	6.3
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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