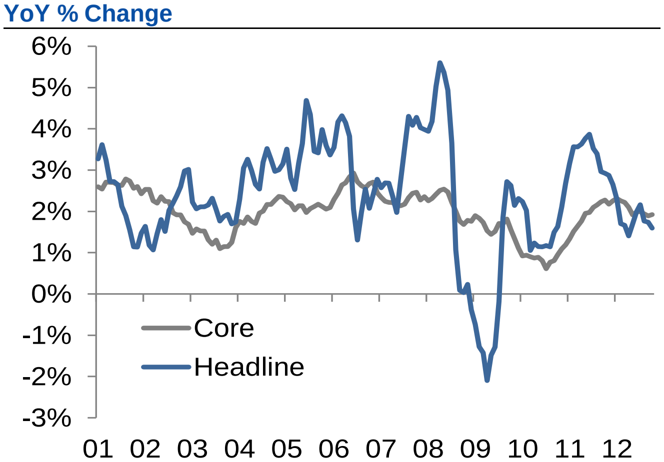
US Weekly Flash

Highlights

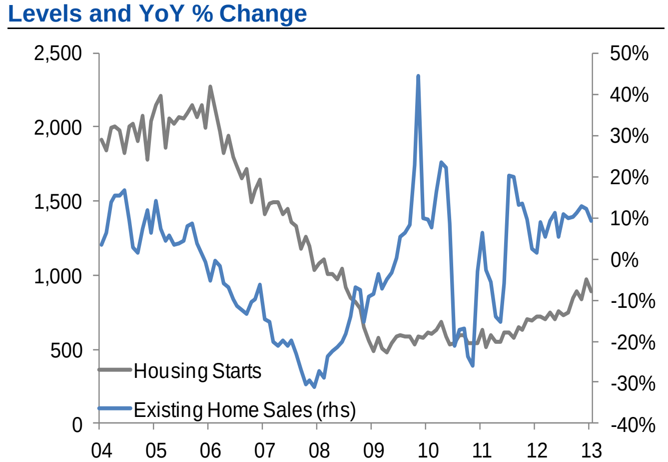
- **Headline inflation remains flat but core levels emerge stronger**
  - The headline consumer price index (CPI) emerged relatively flat as energy prices continued to fall, somewhat surprisingly given the month's jump in crude oil prices. Energy prices declined 1.7% in January after falling 0.8% in December and 3.43% in November, driven mostly by a sharp 3.0% decline in gasoline prices that conflicts with the 3.2% and 7.3% gains in Brent and WTI oil prices, respectively. Much of this difference can be attributed to the BLS' seasonal factor adjustments for 2013 which likely injected some artificial changes that did not fully reflect the month's actual changes in prices. Still, we expect the CPI drop in gas prices to be short-lived as prices at the pump in February have been rising quickly throughout the month and will surely put upward pressure on the energy component for the next report.
  - The more interesting figure was the core price level which rose 0.3% on strong shelter and apparel prices for January. Shelter costs, which account for a large portion of the core CPI figure, continued to rise, climbing by 0.2% for the month. The apparel category also increased at a faster pace, up 0.8% after a smaller 0.1% the month before. Although some of the movements this month have been affected by the BLS adjustments, CPI was mostly on par with our estimates and should continue to remain soft with energy prices continuing to put some modest pressure as shelter prices push upward. As inflation levels remain soft the Fed's policy continues to be viable and should remain accommodative for the time being.
- **Housing starts and existing home sales show some turbulence**
  - Although the housing market has been improving gradually, January data shows that the growth expected for the beginning of the year is coming in at a much slower pace than anticipated. Housing data for the start of 2013, including housing starts and existing home sales, show a slight decline in activity throughout the market coupled with a weaker figure for new homes sales expected for the upcoming release.
  - Looking back at the data already released, housing starts show the first signs of difficulty in terms of growth. The largest decline since early 2011, the 890K figure of units started was much lower than expected. This is due in part to the lack of area and credit available for housing starts as constructors scavenge viable new developments. Existing home sales also showed some weakness as December's figure was revised down and January showed only a 0.4% increase in sales over the prior month. The lack of supply plays in heavily for this figure at only 4.2 months from an earlier 4.8 months in November. While tight credit is not expected to help much in the way of easing this sales deceleration, narrow supply should continue to encourage construction demand.

Graph 1
Consumer Price Index
YoY % Change



Source: US Census Bureau & BBVA Research

Graph 2
Housing Starts and Existing Home Sales
Levels and YoY % Change



Source: Conference Board & BBVA Research

Week Ahead

New Home Sales (January, Tuesday 8:30 ET)

Forecast: 372M	Consensus: 380M	Previous: 369M

Although the housing market has shown continued signs of strength throughout 2012, the latest data seem to be suggesting that housing may be experiencing some slight turbulence as activity slows. Data for January for the housing market index and existing home sales both show a less optimistic picture than was painted when the year ended. The housing market index dropped slightly and a deeper look shows continued hesitation due to the weak job market and still-looming fiscal uncertainty. On the supply side itself, new home starts declined in January despite the revised December figure which was markedly higher. Overall, we expect a slight decline in new home sales for January that reflects some apprehension given general economic uncertainty coupled with a general lack of supply of new homes.

GDP Preliminary (4Q12, Thursday 8:30 ET)

Forecast: 0.7%	Consensus: 0.5%	Previous: -0.1%

The 4Q12 GDP preliminary estimate is expected to be revised up from the advanced figure as more economic indicators show slightly stronger activity despite the year-end fiscal issues. While the budget debate that took place at the end of the year was forecasted to depress sectors like production and manufacturing, recent industrial production data paints a rather antithetical picture: industrial production was revised a bit higher in December, holding above levels seen at the beginning of the quarter and at its highest since the beginning of the recession in 2008. Wholesale trade also showed growth throughout the fourth quarter, coupled with strong retail growth primarily due to holiday shopping and relatively strong auto sales. Inventory growth, on the other hand, remained weak and December's data will do little to influence an upward revision to 4Q12 GDP growth. The most significant factor is the surprising drop in the international trade deficit to close out the quarter on account of much stronger exports and lower imports as consumers looked inward for consumption. Overall, we expect the upward revision to be driven essentially by the better than expected indicators which were dampened far less than expected and actually proved resilient enough to show some growth at the end of the year.

Personal Income and Spending (January, Friday 10:00 ET)

Forecast: -2.1%, 0.1%	Consensus: -2.3%, 0.2%	Previous: 2.6%, 0.2%

Personal income is expected to decrease significantly in January following an unusual jump in December, mostly due to the expiring payroll tax cut that employees faced on their first paycheck of the year. As of January 1st, a 2% payroll tax increase went into effect across the pay scale that reduced consumers' income dramatically compared to the relatively modest month-to-month changes that we have experienced over the past months. On the plus side, average hourly earnings did increase 0.25% in January, reflecting a slight acceleration from December's gains. Although consumers are adapting to their lower post-tax incomes, we expect that spending will hold positive for the month. Retail sales, rather than declining in January, grew 0.14% even after the end of holiday shopping season and the expiring payroll tax cut. While personal income is expected to see a depressed monthly figure in January, spending has shown some resilience despite headwinds and may continue to rise, even if it at a modest pace.

ISM Manufacturing Index (February, Friday 10:00 ET)

Forecast: 52.1	Consensus: 52.5	Previous: 53.1

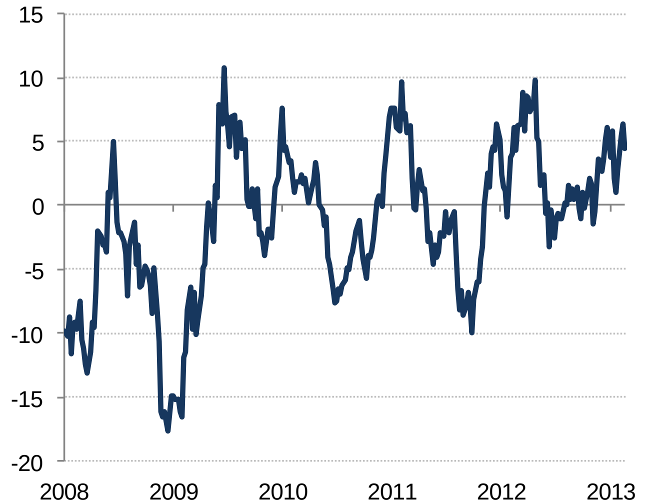
The ISM Manufacturing Index is likely to remain in expansionary territory but at a decelerated rate given the mixed signals from the regional Federal Reserve surveys and other indicators. The New York area manufacturing survey showed a significantly large jump in activity in February, up 10 points after a decline of 7.8 the month prior. However, this increase has been tempered by the Philadelphia survey, which declined by 12.5 points to continue its downward trend for the year. While these surveys show some mixed activity occurring in the Northeast, the PMI survey continued its growth but at a slightly decelerated level, falling to 55.2. Thus, we expect that the ISM will reflect this uncertainty in the manufacturing sector but will continue to hint at pockets of growing demand and production.

Market Impact:

This week is important for the first quarter as we see figures on housing and manufacturing activity along with personal income and spending. Additionally, 4Q12 preliminary estimates of GDP will help us asses how 2012 compares with the year prior and whether momentum will accelerate in 2013. However, the elephant in the room, and indeed the donkey, is the budget sequester which has a scheduled for March 1st. While the GDP figure is expected to rise but personal incomes fall, the blatant uncertainty about what is to take place in Washington is the more pressing issue for both businesses and consumers alike.

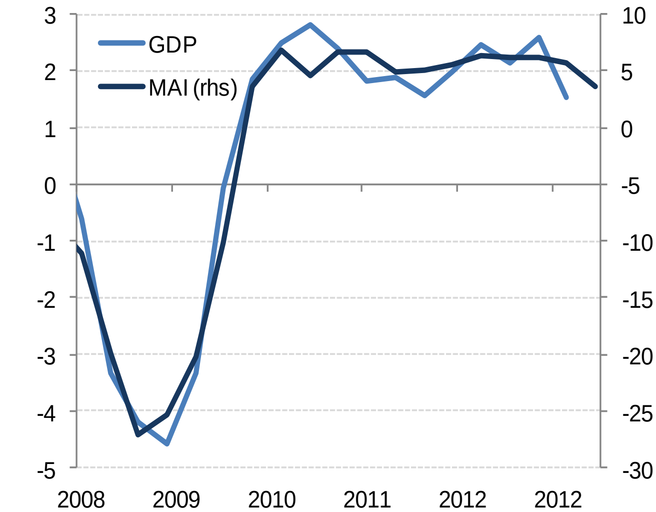
Economic Trends

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



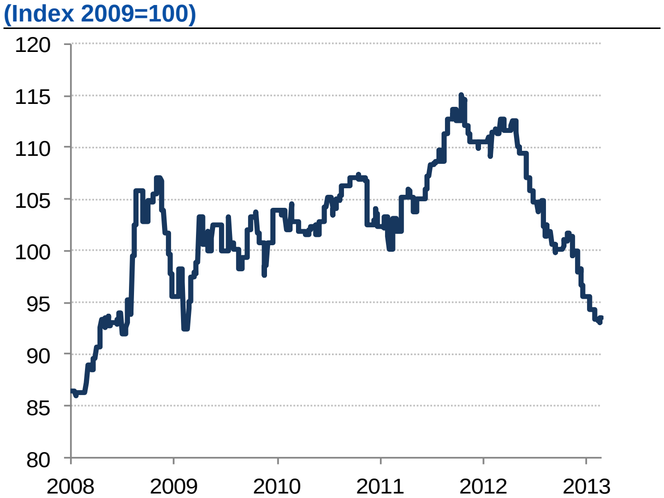
Source: BBVA Research

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



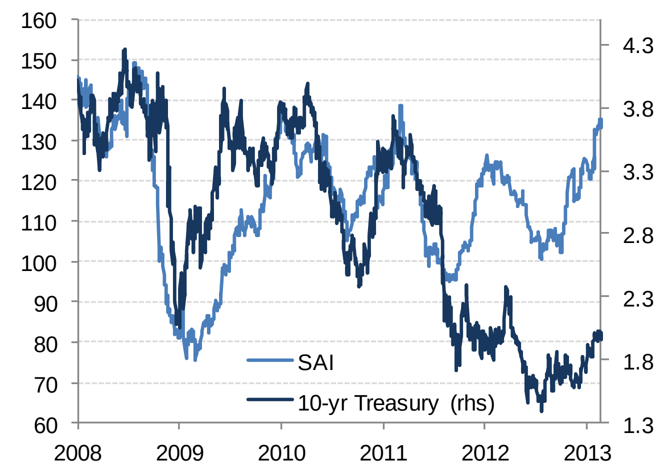
Source: BBVA Research & BEA

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



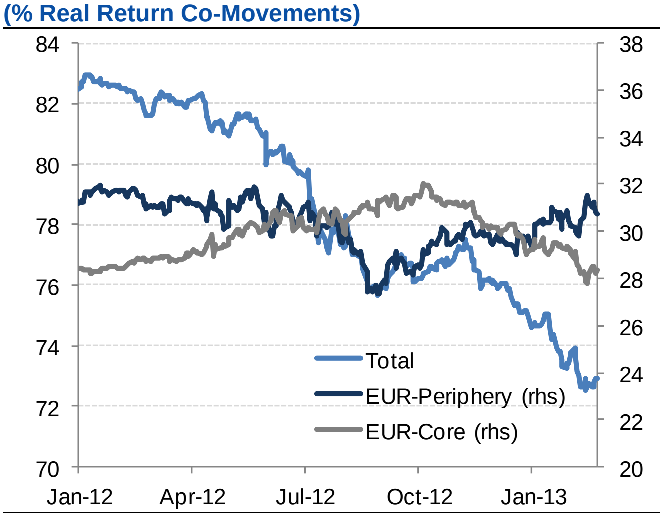
Source: BBVA Research

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



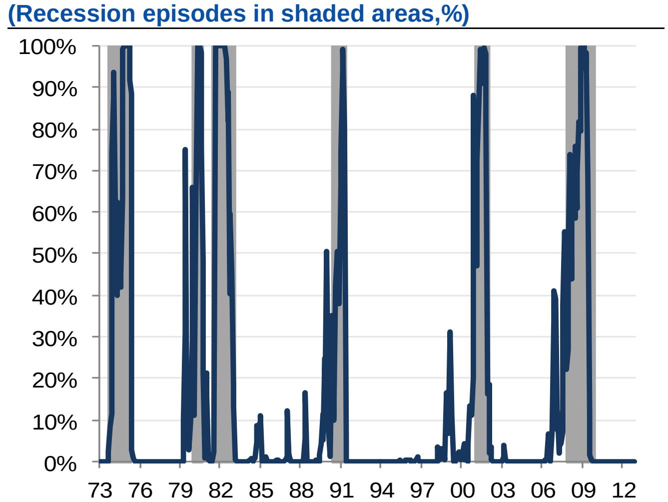
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

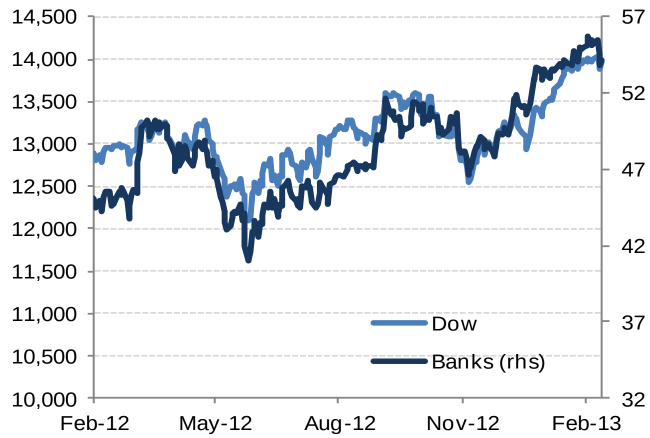
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

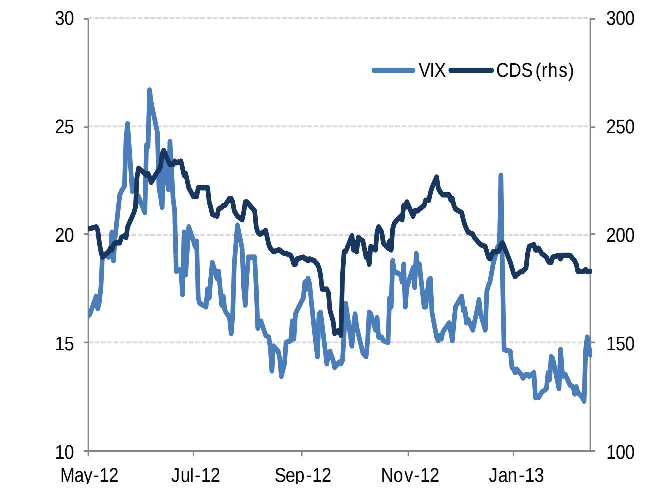
Financial Markets

Graph 9
Stocks
(Index, KBW)



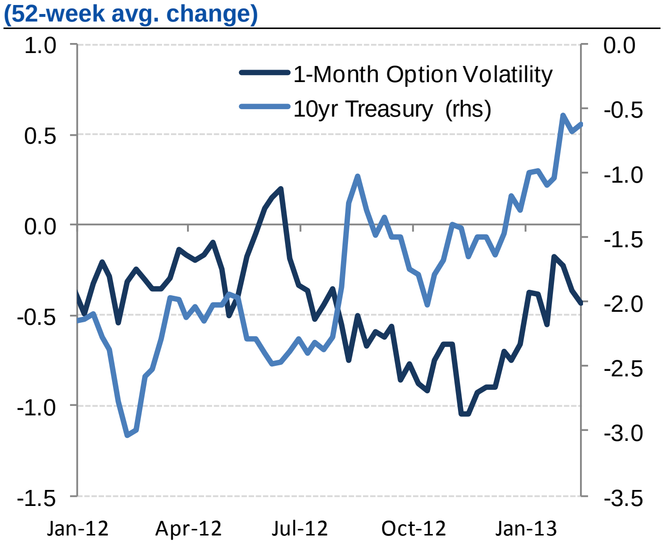
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



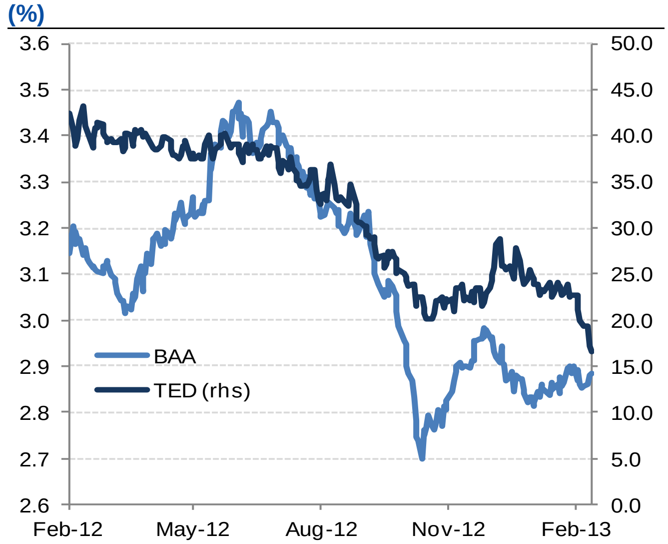
Source: Bloomberg & BBVA Research

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



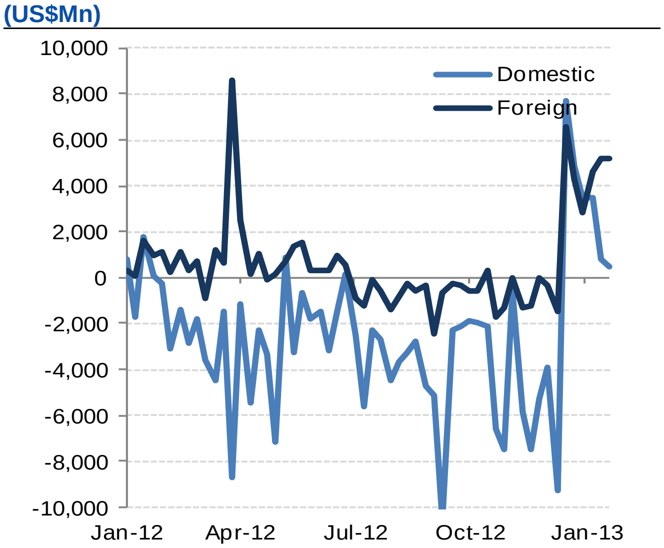
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



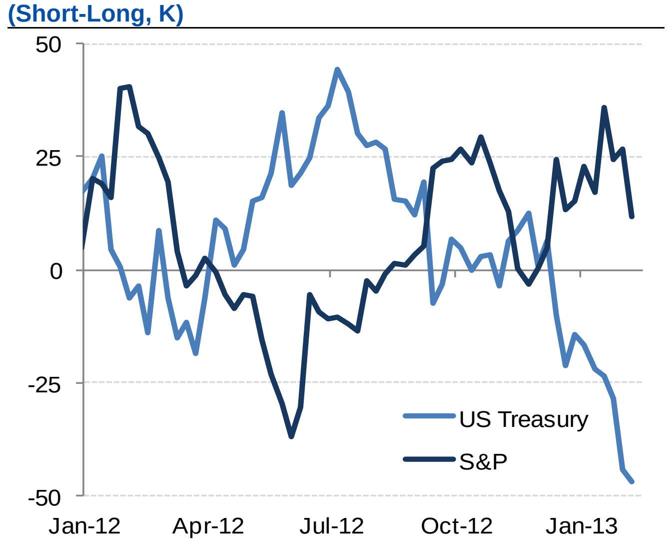
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

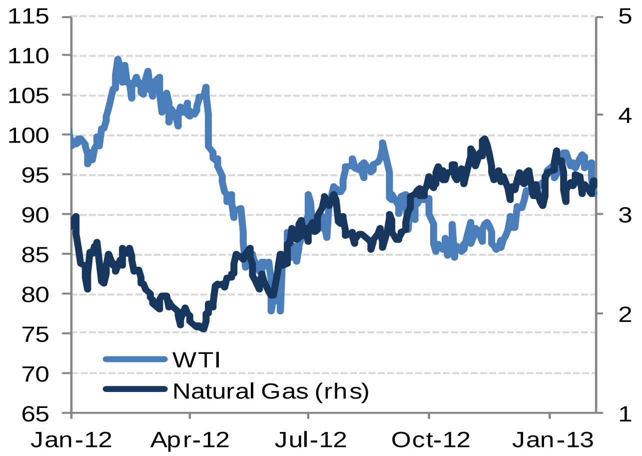
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

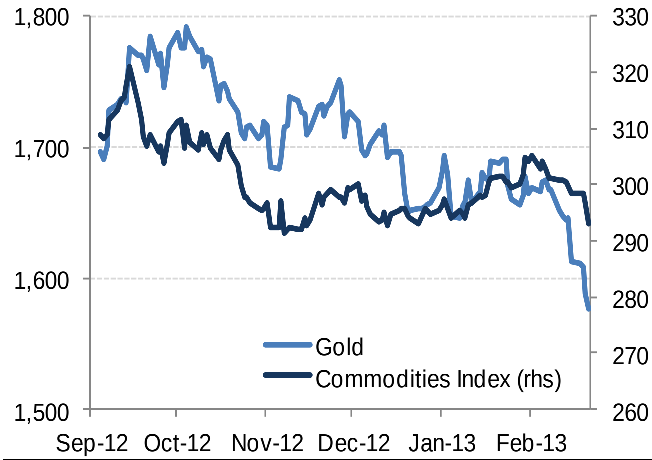
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



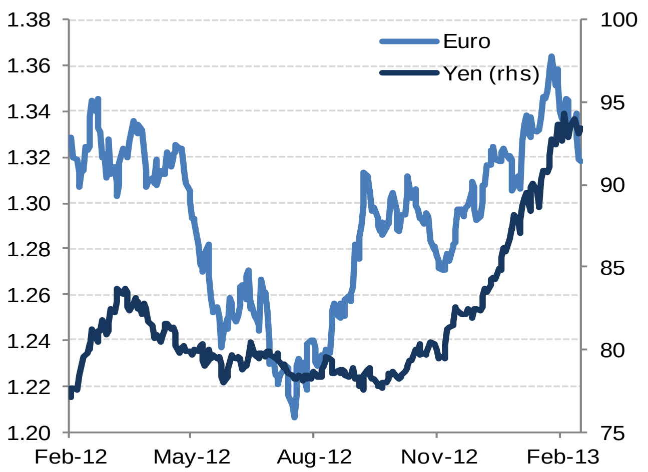
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



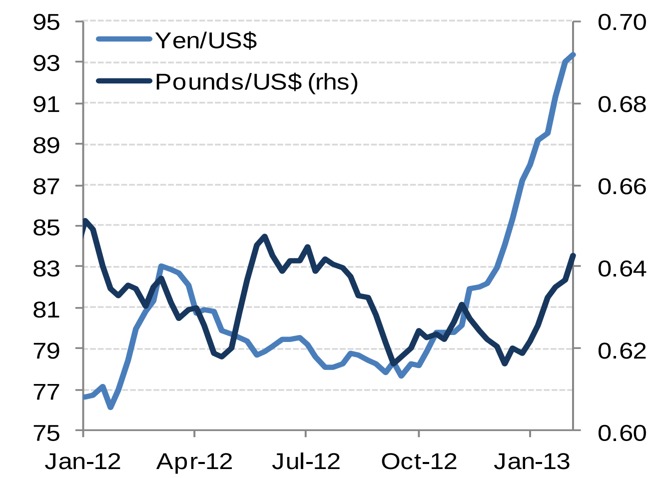
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



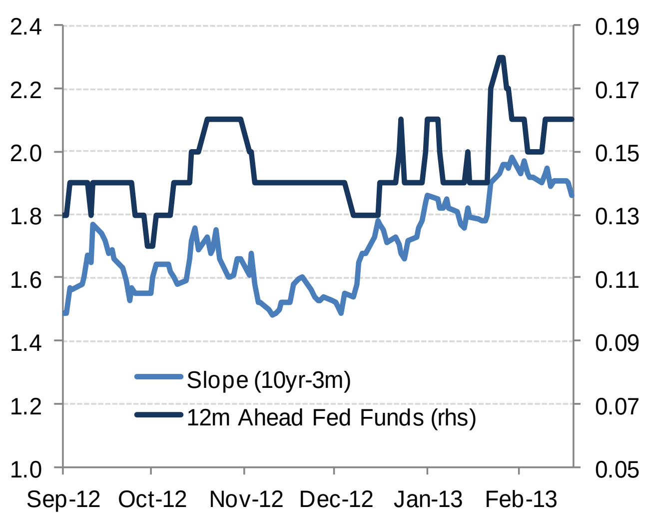
Source: Bloomberg & BBVA Research

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



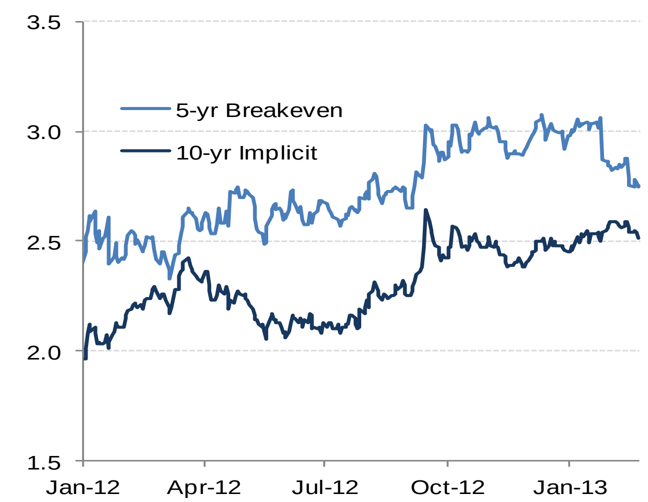
Source: Haver Analytics & BBVA Research

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)	14.50	14.46	14.46	14.10
New Auto (36-months)	2.44	2.44	2.59	3.73
Heloc Loan 30K	5.38	5.38	5.36	5.53
5/1 ARM *	2.64	2.64	2.67	2.80
15-year Fixed Mortgage *	2.77	2.77	2.71	3.19
30-year Fixed Mortgage *	3.56	3.53	3.42	3.95
Money Market	0.48	0.50	0.50	0.44
2-year CD	0.74	0.73	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	0.16	0.16	0.14	0.09
3M Libor	0.29	0.29	0.45	0.49
6M Libor	0.46	0.46	0.65	0.75
12M Libor	0.76	0.76	0.98	1.07
2yr Sw ap	0.40	0.43	0.43	0.62
5yr Sw ap	0.98	1.02	1.00	1.17
10Yr Sw ap	2.04	2.07	2.01	2.08
30yr Sw ap	3.01	3.03	2.96	2.80
30day CP	0.16	0.15	0.16	0.36
60day CP	0.18	0.17	0.17	0.44
90day CP	0.16	0.17	0.18	0.48

Source: Bloomberg & BBVA Research

Quote of the Week

San Francisco Federal Reserve Bank President John Williams
New York Forecasters Club
February 22, 2013

"*Labor force participation plunged during the recession and recovery. Retirement of baby boomers and other demographic factors contributed to this drop. But much of it appears to have been cyclical. Widespread job losses kept many people originally in the labor force from looking for work. A cross-state comparison supports the view that the drop in participation included an important cyclical component. The states that saw the largest increases in unemployment during the recession generally experienced the largest declines in participation rates as well.*"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Feb	Dallas Fed Mfg Survey	FEB	5.8	--	5.5
26-Feb	FHFA House Price Index	DEC	0.7%	0.6%	0.6%
26-Feb	S&P Case Shiller HPI (YoY)	DEC	6.5%	6.6%	5.5%
26-Feb	New Home Sales	JAN	372K	380K	369K
26-Feb	New Home Sales (MoM)	JAN	0.8%	3.0%	-7.3%
26-Feb	Consumer Confidence	FEB	60	61.8	58.6
27-Feb	Durable Goods Orders	JAN	-1.7%	-4.4%	4.6%
27-Feb	Durable Goods Ex Transportation	JAN	0.2%	0..2%	1.3%
28-Feb	GDP	4Q12	0.7%	0.5%	-0.1%
28-Feb	Initial Jobless Claims	24-Feb	358K	360K	362K
28-Feb	Continued Claims	17-Feb	3137K	3137K	3148K
28-Feb	Chicago PMI	FEB	54.0	54.1	55.6
1-Mar	Total Vehicle Sales	FEB	15.00	15.10	15.23
1-Mar	Personal Income (MoM)	JAN	-2.1%	-2.3%	2.6%
1-Mar	Personal Spending (MoM)	JAN	0.1%	0.2%	0.2%
1-Mar	ISM Manufacturing Index	FEB	52.1	52.5	53.1
1-Mar	Construction Spending	JAN	0.3%	0.4%	0.9%

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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