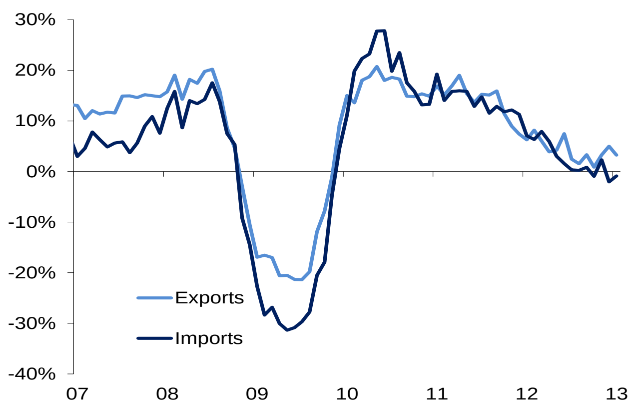
US Weekly Flash

Highlights

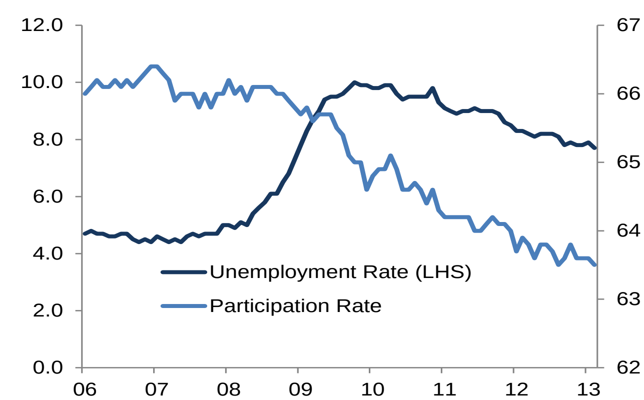
- **U.S. trade deficit widens on a surge in oil imports**
  - The U.S. international trade deficit rose in January after a hefty decline in the prior month, pointing more toward a shift in the petroleum balance than a general slowdown in demand from abroad. Widening to -$44.4bn, the deficit felt the largest drag from the goods sector rather than services for both exports and imports. Once again, the petroleum deficit weighed in on both facets, growing from $18.6bn in December to $24.3bn in January. Petroleum-related imports increased 7.85% while exports dropped a significant 16.9%, the largest monthly decline since September 2008. Much of this nominal increase was due to the rise in crude oil prices to start 2013, with import prices for petroleum products up nearly 3% in January.
  - Other sectors that caused the trade balance to increase were affected more by a global slowdown than any one determinant industry or export. Agricultural, manufacturing and mining exports all saw declines as demand from Europe tailed off from the end of the year and the rest of the global economy struggles to get back on both feet. With weaker exports primarily in the industrial sector for January and imports concurrently led by the same sector, it is likely that trade data in 1Q13 will show only a minor drag on GDP as fluctuations in manufacturing and industrial products are less volatile and point toward extended movements rather than a one-off figure.
- **Unemployment rate falls to 7.7% on broad based employment gains**
  - Employment growth over the past few months has been slightly volatile, yet February's report points toward broad job growth rather than gains in only select industries. While a revision dropped January's increase to only 119K, February's 236K jump in nonfarm payrolls showed significant gains in the goods producing and private service-producing sectors. The majority of the sectors reported in the establishment survey showed significant gains with construction adding 23K, information adding 19K and professional services a substantial 57K. Wholesale and retail trade employment fell by 9.6K and 5.3K, respectively, as most stores shed some temporary or part-time staff that were injected to manage the holiday influx of demand. The government figure also continued to fall as the sequester prompted layoffs prior to the sequester deadline.
  - On the whole, February's employment report does point toward better, and even sustainable, employment growth for 1Q13 as long as construction demand persists and companies continue to loosen their grip on hiring. This however, as with many recent economic indicators, comes with a caveat. March's data must continue this trend without making significant revisions to February's figures and continue growth on a broad basis. The Fed is closely monitoring the employment situation and could start to slow asset purchases if we see similar job reports in the next few months.

Graph 1
**U.S. Exports and Imports
YoY % Change**



Source: US Census & BBVA Research

Graph 2
**Unemployment and Participation Rates
Sa, %**



Source: US BLS & BBVA Research

Week Ahead

Retail Sales, Ex Auto (February, Wednesday 8:30 ET)

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

Retail sales for February are not expected to show much of a change due to lacking engagement from consumers and continuing political headwinds that may hinder some activity. Historically a positive month, February indicators released thus far show little sign of consumer activity being bolstered by political capitulation. However, the sustained growth in housing prices and equity market gains may have an increased wealth effect as both major U.S. equity indices reached 5-year highs during the month. For February, the ICSC Goldman Sachs retail store sales index increased but the monthly average is only slightly above that of January. Other retail surveys suggest a similar story, and the fluctuations show little evidence for a significant acceleration in retail sales growth. With oil prices on the rise again in February, igniting some of pressure on consumer spending power, we expect overall growth in retail sales to be minimal but positive.

Consumer Price Index, Core (February, Friday 8:30 ET)

Forecast: 0.4%, 0.2%	Consensus: 0.5%, 0.2%	Previous: 0.0% 0.3%

The headline consumer price index figure is expected to show a larger monthly increase as energy prices, specifically oil, are expected to have a slightly lagged effect, pushing up the energy index. Although oil prices rose slightly in February, the combined increase with January was slow to effect petrol prices until recently when national prices at the pump increased. The pervading notion is that oil prices might have lagged slightly and therefore will put upward pressure on prices for February. Food prices have conversely decreased according to the prices received by farmers released by the Department of Agriculture. Declining 9.2%, a broad based decline in crops and a slight decrease in livestock prices will help to offset some of the increase from energy prices. At the core level, shelter prices will continue to rise due to the continuing strength of the housing market coupled with medical costs that, despite the affordable care act, have not seen much downward pressure.

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

Forecast: 8.40	Consensus: 8.50	Previous: 10.04

The Empire State Manufacturing Survey is expected to show continued growth as most related reports indicated in February that demand was on the rise and new orders had surged fervently. Both the Empire State survey and the ISM manufacturing survey reported significant gains in new orders for February which typically translate into better production in the coming months as they process and complete the pent up orders. With inventory growth expected to accelerate it is likely that production will actually outpace itself from the last month as little on hand supply forces augmented production schedules. However, without the addition of global demand for exported goods to boost production, it is unlikely that the survey will report overall figures that beat February unless domestic demand replaces foreign or global demand is uninterrupted by weaker expansion. As a first look at manufacturing for March, this report will surely give a good reading on whether the recovery's momentum will continue.

Industrial Production & Capacity Utilization (October, Friday 3:00 ET)

Forecast: 0.2%, 79.2%	Consensus: 0.3%, 79.3%	Previous: -0.1%, 79.1%

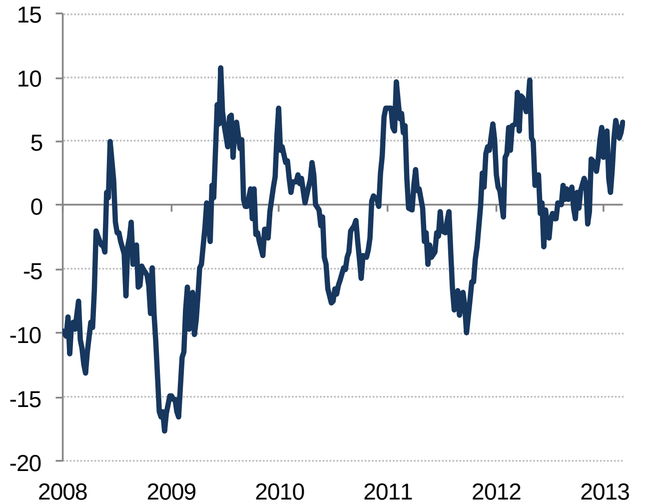
Although January saw a one-tenth decline in the industrial production index, we expect that output will rebound in February. In general, the month has been relatively quiet aside from political headlines, but there have been pockets of manufacturing and business activity that are evidence for an increase in the production series. The ISM manufacturing index for February rose modestly with new orders on the rise along with export growth. In addition, the regional Federal Reserve manufacturing surveys indicated increasing activity with the Empire State survey breaking into expansionary territory for the first time in six months. These surveys hint at expansion in manufacturing for February along with sustained growth into March given the large increases in new orders in both groups. This is also coupled with a sustainable demand for appliances and larger goods for the housing market and the growing demand for vehicle parts which should combat some headwinds from overall political uncertainty.

Market Impact

The week following the employment report tends to be a quieter one as the market absorbs and repositions itself after an important shift in the economic paradigm. Equity markets have seen record strength in recent weeks and Friday's positive employment report for February should help keep spirits up throughout the upcoming period. This week, retail sales and industrial production will give us the big picture in terms of how consumer activity and production are faring as political headwinds fade for the time being. Both producer and consumer inflationary measures are coming out as well and will help to assess whether the Fed's accommodative policies remain flexible.

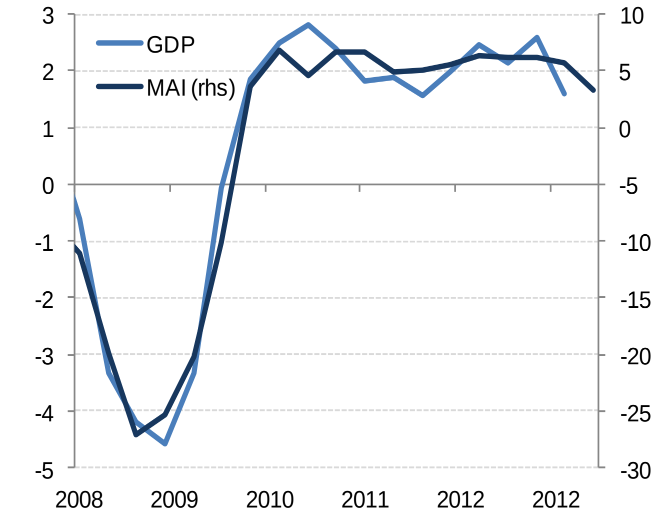
Economic Trends

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



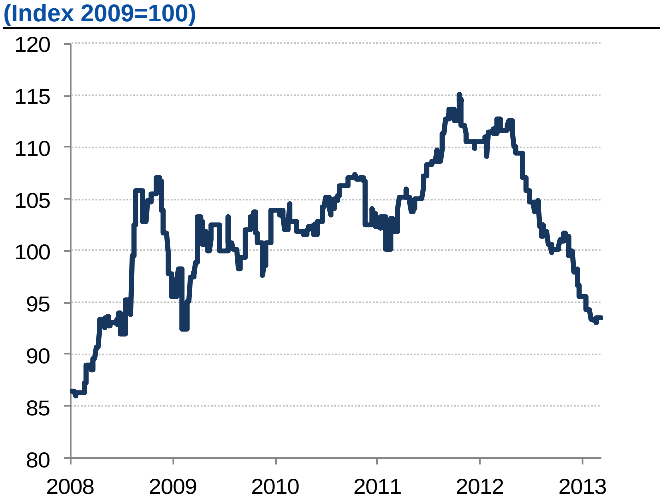
Source: BBVA Research

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



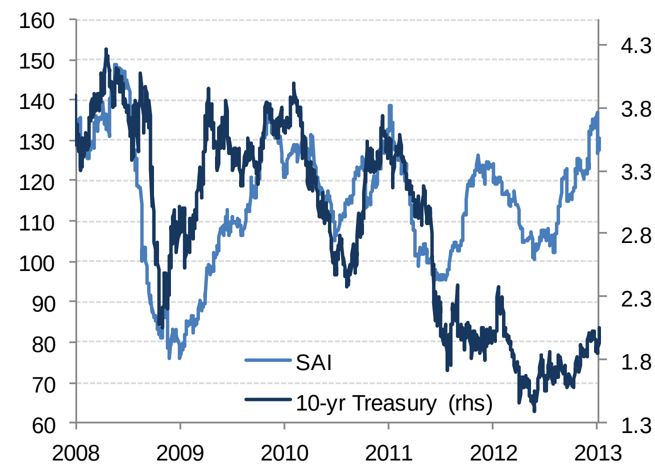
Source: BBVA Research & BEA

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



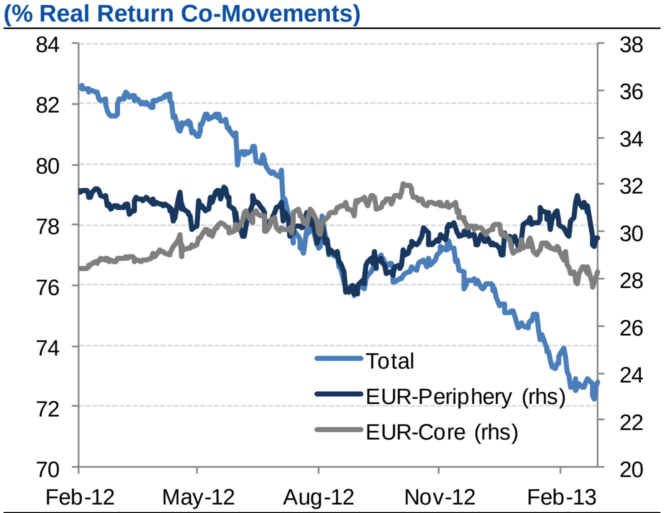
Source: BBVA Research

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



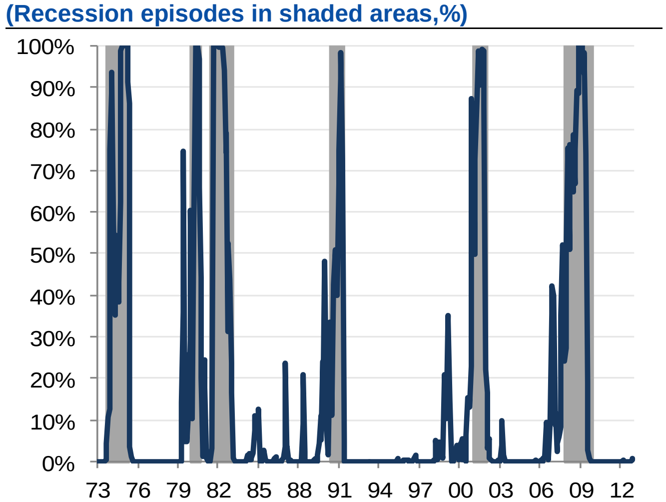
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

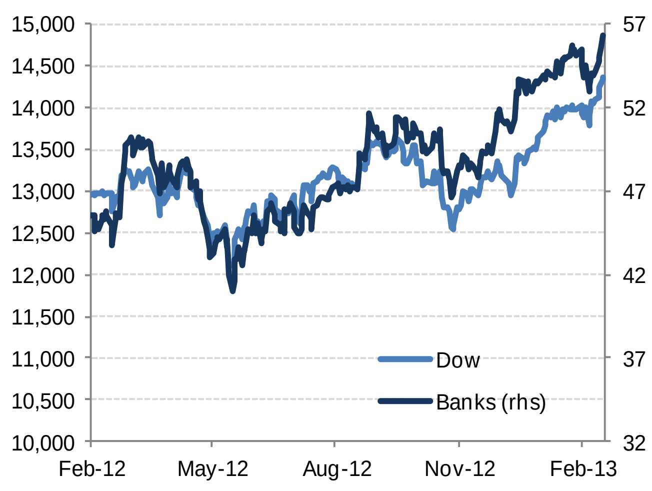
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

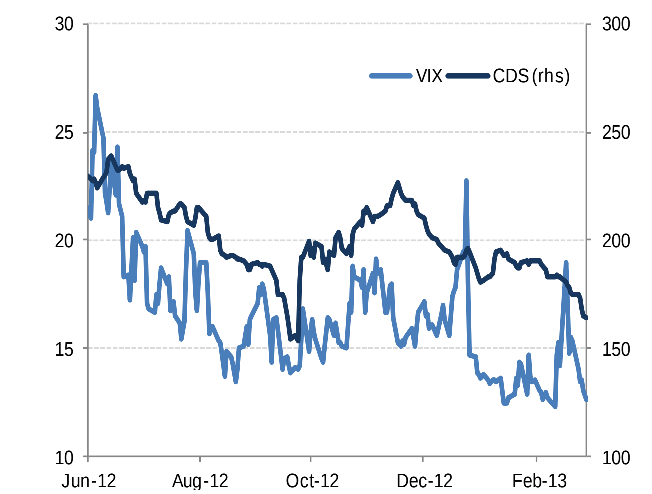
Financial Markets

Graph 9
Stocks
(Index, KBW)



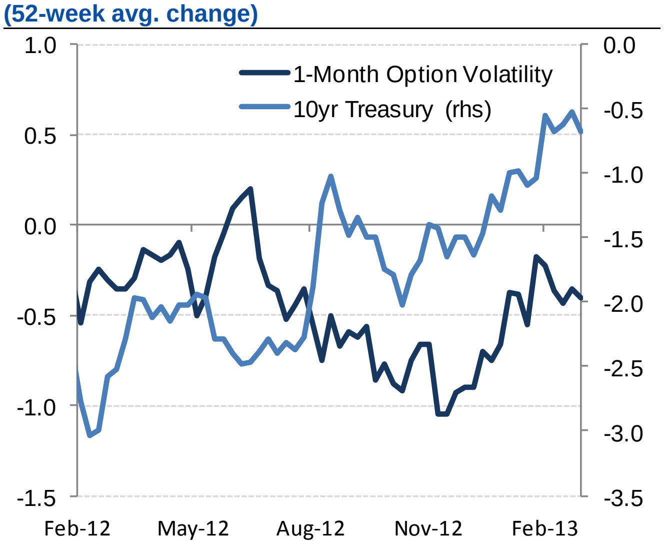
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



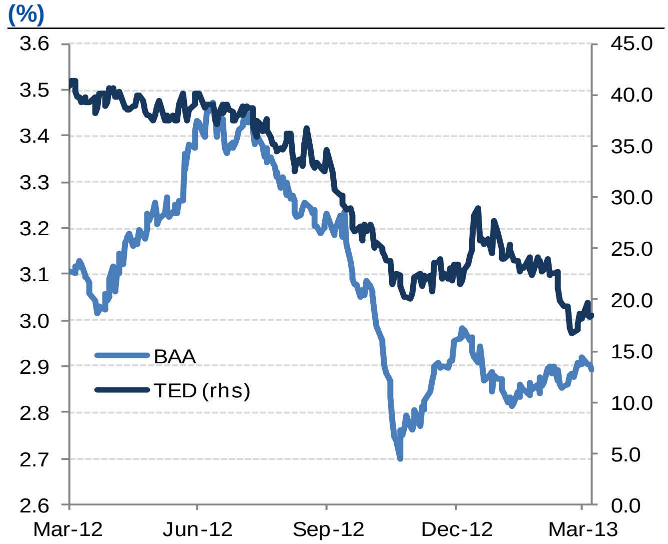
Source: Bloomberg & BBVA Research

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



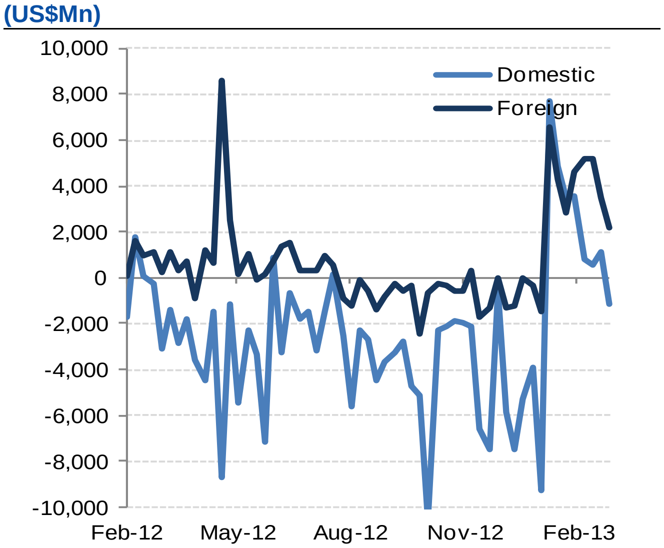
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



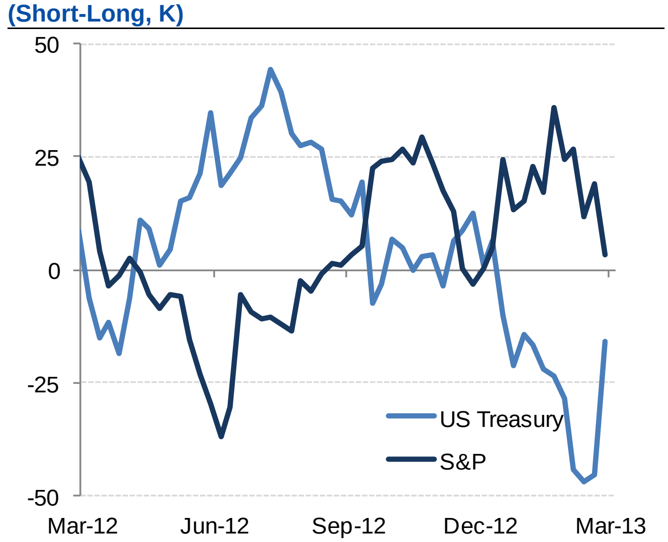
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

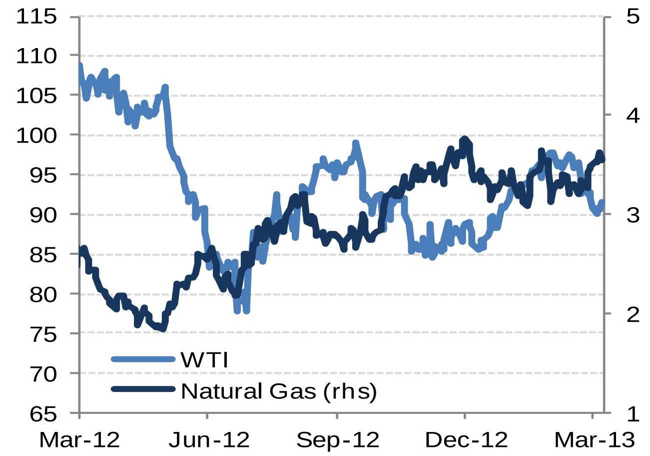
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

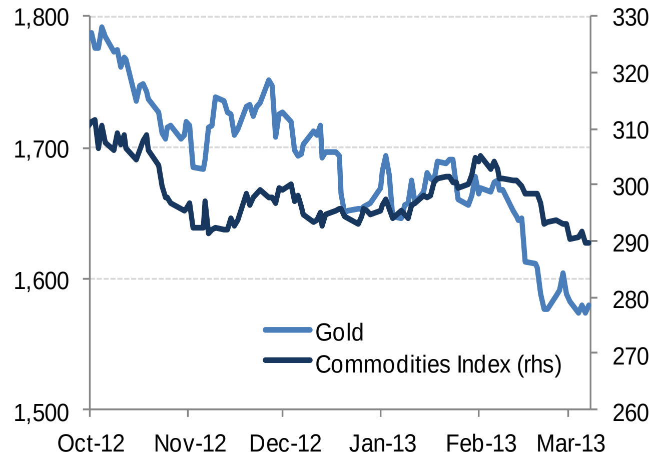
Financial Markets

Graph 15
Commodities (Dpb & DpMMBtu)



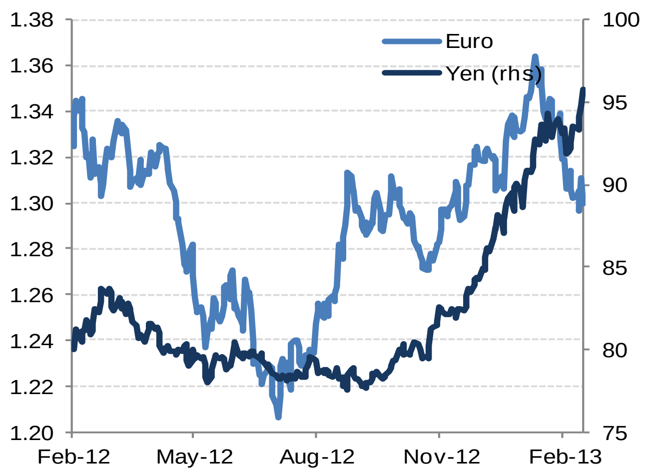
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities (US$ & Index)



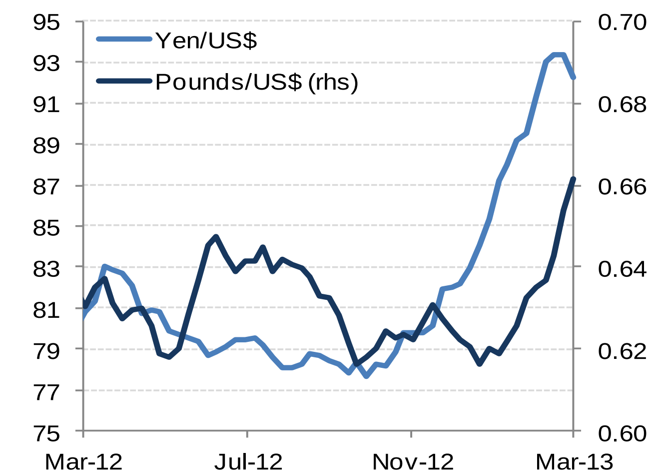
Source: Haver Analytics & BBVA Research

Graph 17
Currencies (Dpe & Ypd)



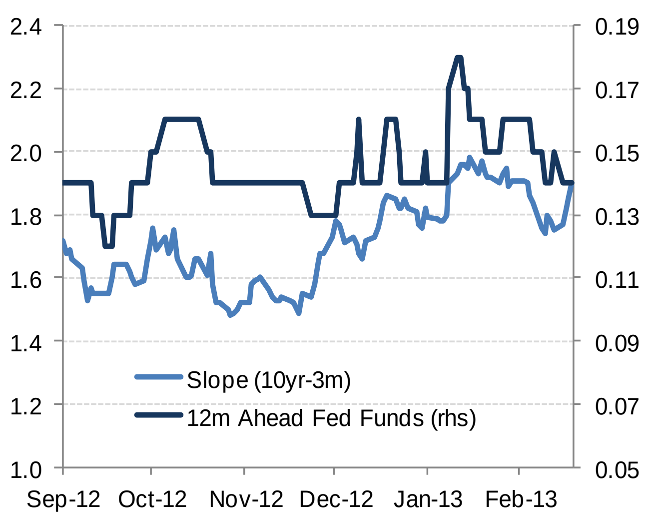
Source: Bloomberg & BBVA Research

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



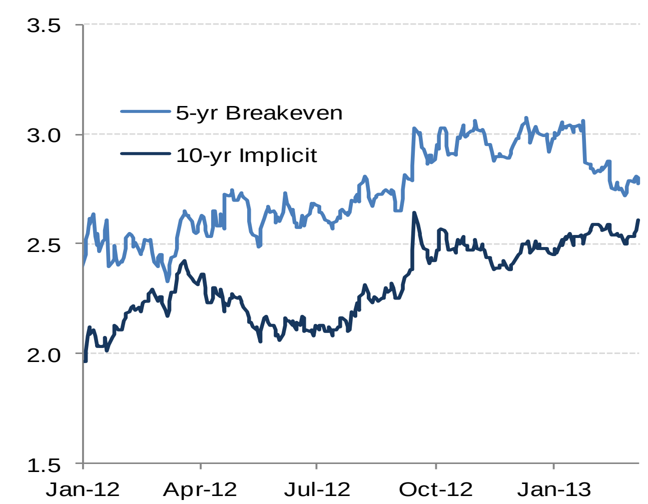
Source: Haver Analytics & BBVA Research

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	14.50	14.46	14.10
New Auto (36-months)	2.58	2.58	2.46	2.97
Heloc Loan 30K	5.26	5.28	5.39	5.53
5/1 ARM *	2.63	2.61	2.63	2.81
15-year Fixed Mortgage *	2.76	2.76	2.77	3.13
30-year Fixed Mortgage *	3.52	3.51	3.53	3.88
Money Market	0.49	0.48	0.50	0.48
2-year CD	0.71	0.73	0.75	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	0.16	0.14	0.14	0.12
3M Libor	0.28	0.29	0.45	0.47
6M Libor	0.45	0.46	0.65	0.74
12M Libor	0.73	0.75	0.98	1.06
2yr Swap	0.40	0.38	0.41	0.58
5yr Swap	1.04	0.90	0.98	1.14
10Yr Swap	2.13	1.94	2.03	2.11
30yr Swap	3.10	2.92	2.99	2.85
30day CP	0.15	0.17	0.13	0.35
60day CP	0.16	0.19	0.16	0.41
90day CP	0.17	0.17	0.18	0.45

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Plosser, Philadelphia Federal Reserve Bank President
Speech to the Economic Development Company of Lancaster County
6 March 2013

"While the potential costs are difficult to measure, they are nonetheless important factors that we need to assess in setting policy. In light of what I believe are meager benefits, should economic conditions evolve as I currently anticipate, I believe we should begin to taper our asset purchases with an aim of ending them before year-end. This will allow for an orderly transition to a gradual reversal of our highly accommodative stance of monetary policy when economic conditions warrant it."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Mar	Retail Sales	FEB	0.2%	0.5%	0.1%
13-Mar	Retail Sales less autos	FEB	0.3%	0.5%	0.2%
13-Mar	Export Prices	FEB	0.3%	-	-
13-Mar	Import Prices	FEB	0.6%	0.5%	0.6%
13-Mar	Business Inventories	JAN	0.2%	3.0%	0.1%
14-Mar	Jobless Claims	9-Mar	330K	350K	340K
14-Mar	Continued Claims	3-Mar	3105K	3080K	3094K
14-Mar	Producer Price Index	FEB	0.5%	0.6%	0.2%
14-Mar	PPI less food & energy	FEB	0.2%	0.1%	0.2%
15-Mar	Consumer Price Index	FEB	0.4%	0.5%	0.0%
15-Mar	CPI less food & energy	FEB	0.2%	0.2%	0.3%
15-Mar	Empire State Manufacturing Survey	MAR	8.40	8.50	10.04
15-Mar	Industrial Production	FEB	0.2%	0.3%	-0.1%
15-Mar	Capacity Utilization	FEB	79.2%	79.3%	79..1%
15-Mar	Consumer Sentiment	MAR	78.4	77.7	77.6

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	**1.8**	2.1	1.8	2.3
CPI (YoY %)	**3.2**	2.0	2.1	2.4
CPI Core (YoY %)	**1.7**	2.1	1.9	2.0
Unemployment Rate (%)	**9.0**	8.2	8.1	7.6
Fed Target Rate (eop, %)	**0.25**	0.25	0.25	0.25
10Yr Treasury (eop, % Yield)	**2.0**	1.7	2.4	2.7
US Dollar/ Euro (eop)	**1.32**	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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