

US Weekly Flash

Highlights

- **Retail Sales jump 1.1% on strong consumer activity in February**
 - Emerging far stronger than consensus expected, retail sales for February grew by 1.1% over last month as consumer activity expanded. This comes on the heels of a much stronger employment report and consequently adds to the growing optimism regarding the recovery. Sales at the headline level were bolstered by higher gasoline prices which were moderately higher on average in February in comparison to prior months. Demand was still strong despite higher prices as the gasoline station portion of the sales release rose 5%. Automotive sales also put upward pressure on the headline sales figure as it continued its recent growth on better vehicle and parts sales. Vehicle sales rose 1.0% after declining the month before while auto parts rose 1.7% MoM in February, its largest rise in over a year. Excluding autos and gasoline, retail sales grew by 0.4% on gains from a variety of subcomponents. Building materials, clothing stores, miscellaneous stores and non-store retailers all grew above 1.1% in February with miscellaneous stores rising the most at 1.8%. This points toward a positive outcome for consumers as they showed some resilience in spending activity despite the payroll tax and delayed income tax return that weakened personal income.
- **Consumer Price Index headline figure rose moderately on higher gasoline prices**
 - Consumer prices were mixed as headline inflation showed a significant rise but core prices remained on par with past months. The headline consumer prices index (CPI) rose by 0.7%, its largest monthly upswing since June 2009. Energy costs, the predominant mover in headline inflation as of late, climbed by 5.4%. The gasoline subcomponent price was the substantial mover in energy costs, up 9.0% in February. On a YoY basis the headline figure rose 2.0% in February a significant increase along with headlines monthly rise. However, with gasoline prices already on the decline in March, we do expect this headline figure to return to a more passive level save any additional disruption in energy prices.
 - Core prices rose 0.2% and 2.0% YoY, still below the Fed's 2.5% threshold for policy action and therefore within their guiderails. Within the commodities subcomponent, used cars and trucks showed the only rise in price, up 0.8%, whereas new vehicles declined 0.3% for its first negative figure since late 2011. The services figure rose by 0.2%, a stable increase given its fluctuation between 0.1%-0.3% over the past 2 years. Within services, shelter prices rose 0.2%, the same as the month before while the medical subcomponent saw a 0.8% rise in prices for hospital services. As core levels remain soft the Fed's policy continues to be viable and accommodative for the time being
- **Industrial Production continued its upward trend, climbing for the 3rd straight month**
 - Industrial production (IP) showed modest strength in February, rising by 0.7% after a decline in January was revised upward to show no change. Its highest monthly increase in 3 months, IP rose on solid footing from manufacturing gains in both durable and non-durable production. Focusing on durable goods, wood, nonmetallic mineral and fabricated products all rose by more than 1.6% while primary metals saw a 2.6% decline, its largest fall since August 2012. Furniture manufacturing grew 1.7% and miscellaneous production rose by 0.7%. The mover in durable goods was motor vehicles which resurged in February rising 3.6% after declining in January by 4.7%. Nondurables also rose after the decline in January, up 0.4% on a significant increase in petroleum and coal products which rose 1.5%. Mining continued its decline since last November, falling 0.4%. Electric and gas utilities weathered the prior months and rose 1.6% in February with electric power generation growing by 1.4% and natural gas distribution rising by 3.5%.
 - Manufacturing is showing signs of growth as durable goods grew in most components and nondurable production fared well. Motor vehicle production continues to be the strong component of durable goods and with its robust turn around after a deep decline in January, its seems likely to grow further as demand remains strong. Overall production has made a strong return in February and we anticipate continued growth in March as long-term expectations from Federal Reserve surveys look optimistic

Week Ahead

Housing Market Index (March, Monday 10:00ET)

Forecast: 48

Consensus: 47

Previous: 46

From the supply perspective, housing continues to improve and we expect the housing market index to relay continuing optimism for the coming months. The supply of homes remains low in comparison to the resurgence of demand. The continuing rise in home prices has provided incentive to builders to reenter the market and begin construction as supply remains low. However, headwinds are present as both construction and consumer credit remain tight and standards have yet to fall fast enough and have keep supply constrained. A rise in the cost of construction materials has caused a deceleration in new homes construction and a fall in available lots has stunted the construction process, evidenced by the volatile housing start data in recent months.

Housing Starts & Building Permits (February, Tuesday 10:00 ET)

Forecast: 918K, 926K

Consensus: 915K, 925K

Previous: 890K, 925K

Housing starts for February are likely to grow moderately as demand continues to prompt more construction of single and multifamily homes. Declining by more than 80K in January, the start of year lull is likely to be reversed due to the increasing growth in demand for new homes. Housing demand is likely to be bolstered by increasing wealth and a more stable employment situation for the first part of the year. Moreover, supply is at its lowest level since 2005 and with prices continuing their steady rise more builders will reenter the market. With permits showing strength in January, the upward trend in construction and permits issuance is likely to remain for the rest of the year.

Federal Reserve Announcement (Wednesday 8:30 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

The upcoming March FOMC meeting is anticipated to focus on the Large Scale Asset Purchase (LSAP) efficacy and the cost, debating the short term action plan for the timing and quantities of LSAP. The current pace of purchase is not expected to change in the March 20th FOMC Statement. The markets will be watchful of the Chairman Bernanke's Press Conference and the FOMC forecast release, while in his last public appearance (March 1, 2013) Bernanke states that "highly accommodative stance of monetary policy is likely to remain appropriate for a considerable time after the current asset purchase program ends." Federal Reserve Presidents and the Governors March speeches continued to elaborate on what factors they are watchful for as a "substantial improvement in the economy," stressing that the unemployment rate is a key determinant but not the sole indicator to assess. Further discussion on this topic is expected to carry into the Board Room on March 20th.

Existing Home Sales (February, Friday 8:30 ET)

Forecast: 4.99M

Consensus: 5.00M

Previous: 4.92M

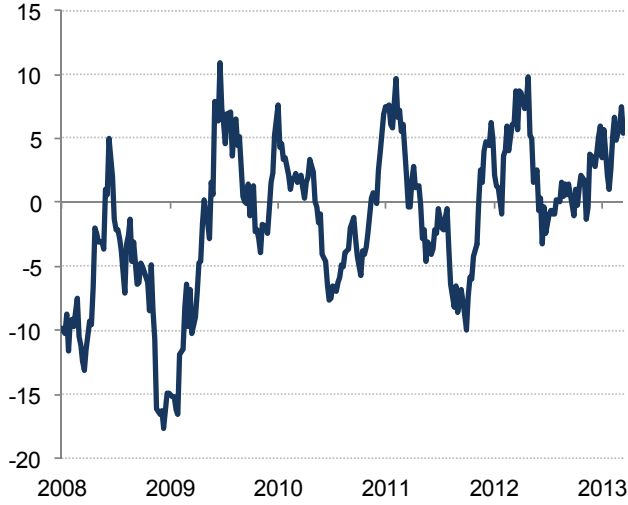
Existing home sales are expected to grow, at a weaker pace, as inventories continue to decline and credit remains tight. According to the National Association of Realtors, supply of existing homes is the lowest it's been since the middle of 2005. With such a lack of supply and surging demand, it is no surprise that home prices have seen evident gains over the past year. Due to the overall lag in construction that preceded the housing recovery, existing homes were a viable and more affordable option than new and have therefore seen a prolific decline in supply, down to an almost 13 year low. This trend has been reinforced by the many homeowners who, despite the climbing prices, are withholding sale of their own home due to the fact that they owe more on their mortgages than their homes are worth, encouraging them to wait until prices rise further. With the median sales price at \$173,600, up 12.3% YoY, it is likely that the 4.2 month supply will remain steady as rising prices allow for people to put their homes for sale without the negative equity faced during the recession.

Market Impact

While the FOMC meeting will take up most of the interest this week, there are a few additional pieces of data released that garner attention. Housing data in the form of the housing market index, housing starts and existing home sales will shed some light on how builders fared in February and whether or not they are as optimistic as pundits believe. The market will also digest the figure behind the sale of existing homes which has grown steadily but slowed slightly as supply continues to be constrained. Washington will also be under close watch due to president Obama's effort to bring his own party and the senate together in order to try and fashion some sort of deal with regard to the sequester.

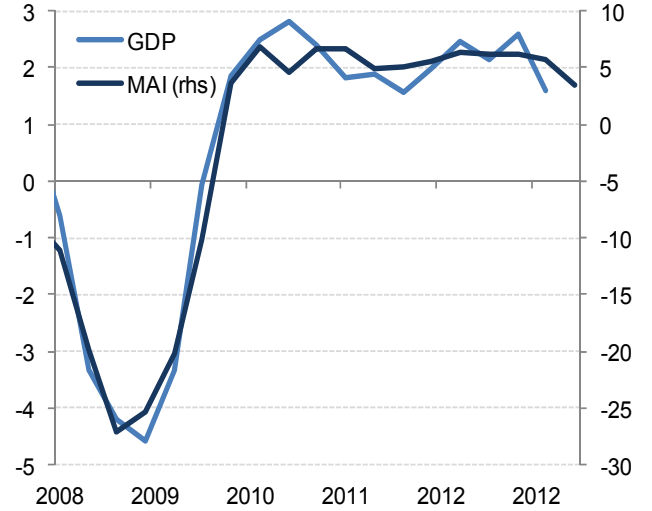
Economic Trends

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



Source: BBVA Research

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



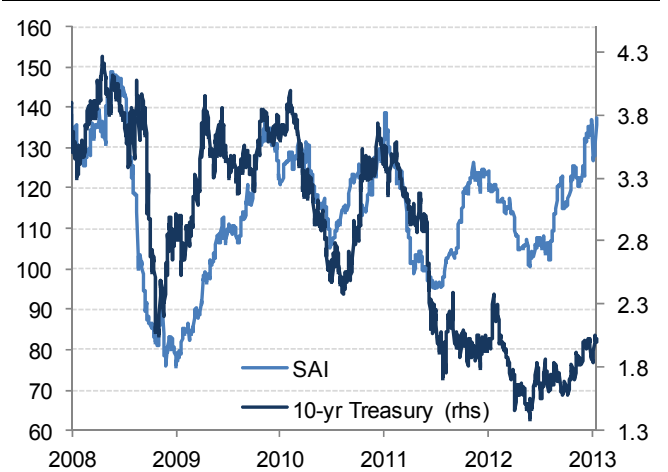
Source: BBVA Research & BEA

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



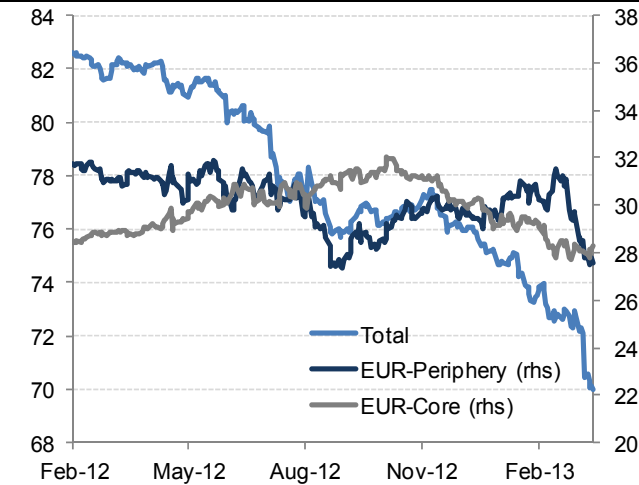
Source: BBVA Research

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



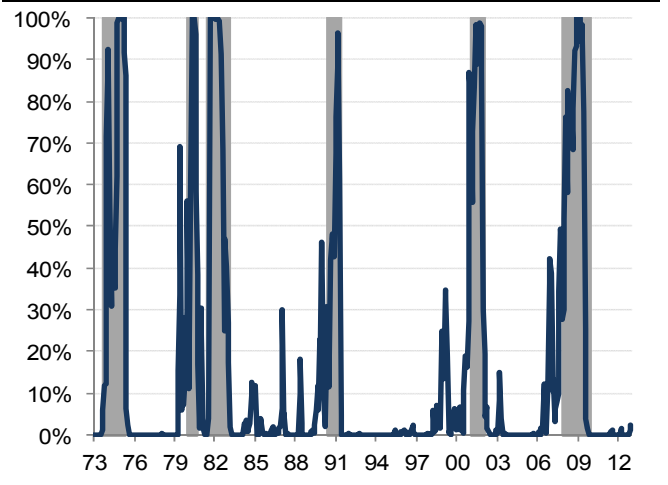
Source: Bloomberg & BBVA Research

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

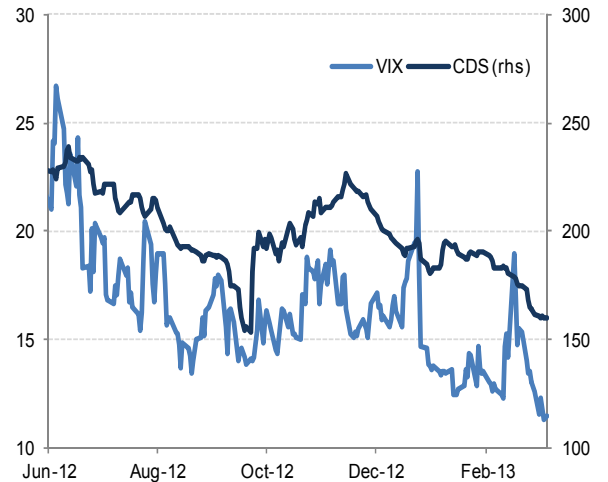
Financial Markets

Graph 9
Stocks
(Index, KBW)



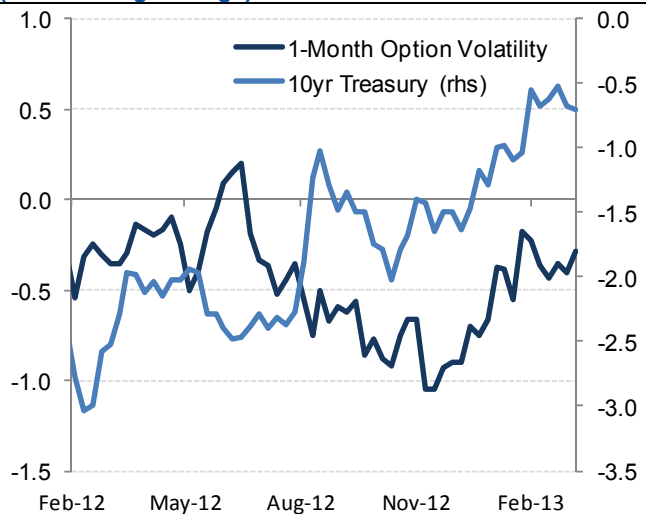
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



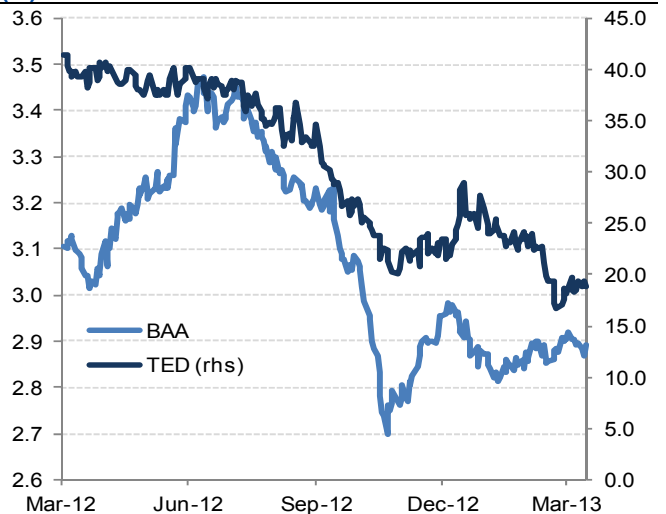
Source: Bloomberg & BBVA Research

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



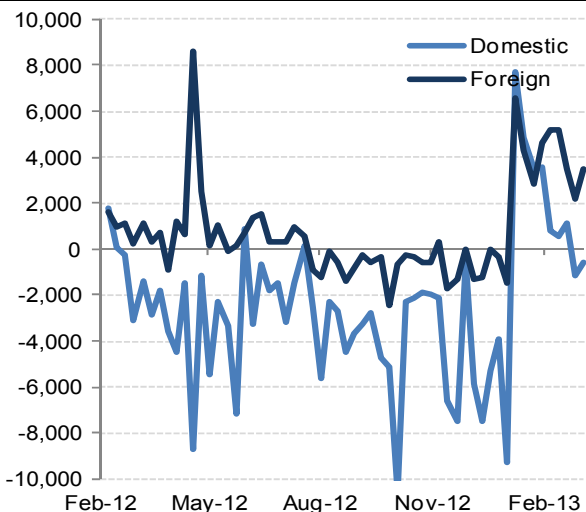
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



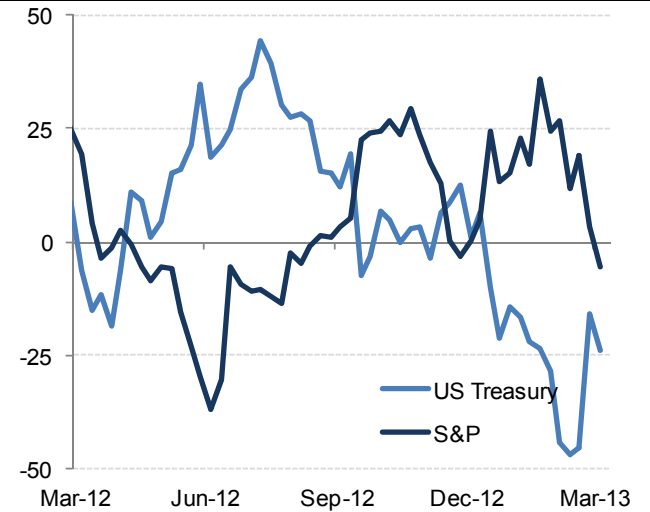
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

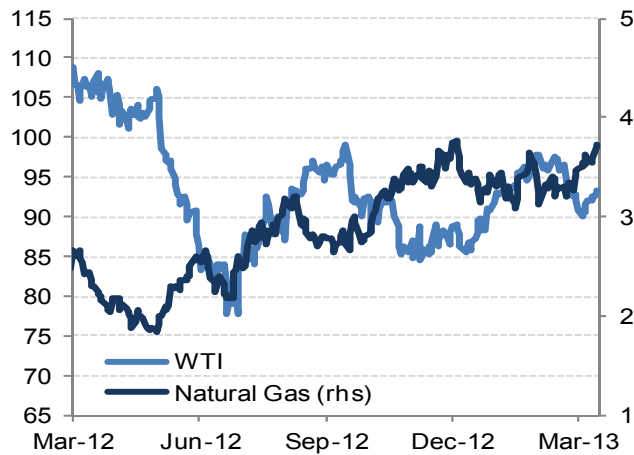
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

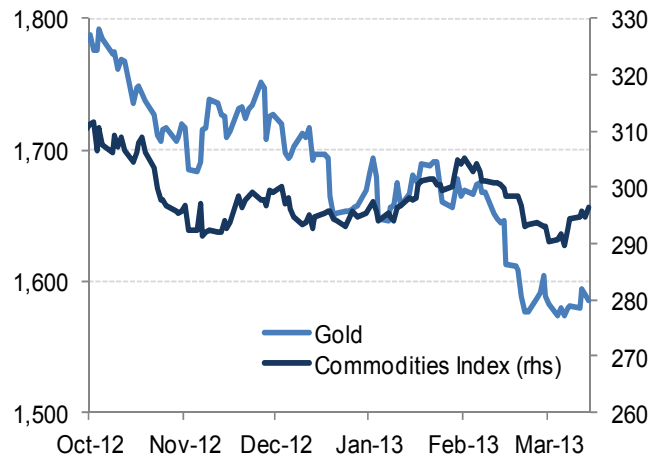
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



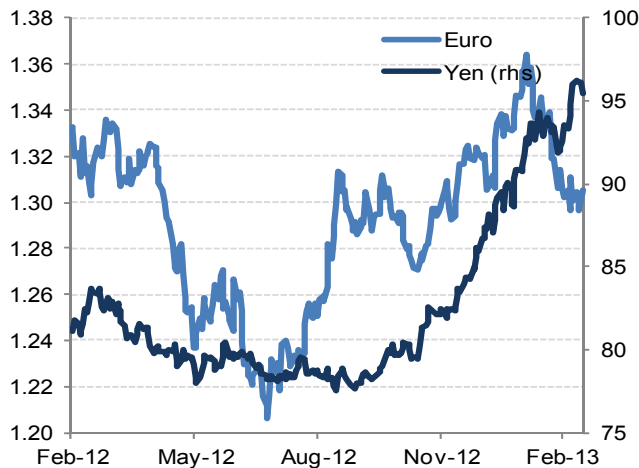
Source: Bloomberg & BBVA Research

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



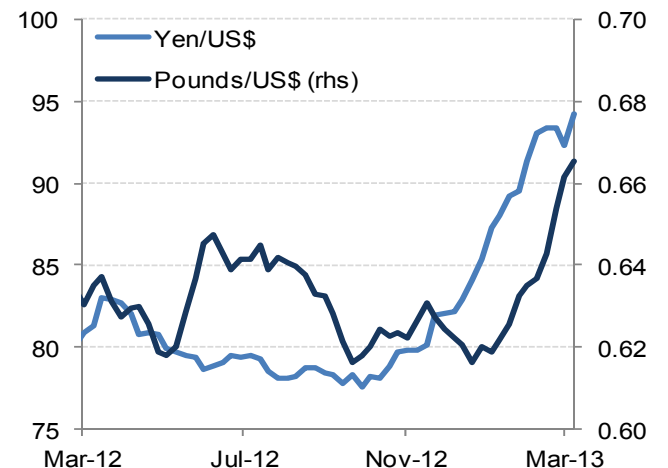
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



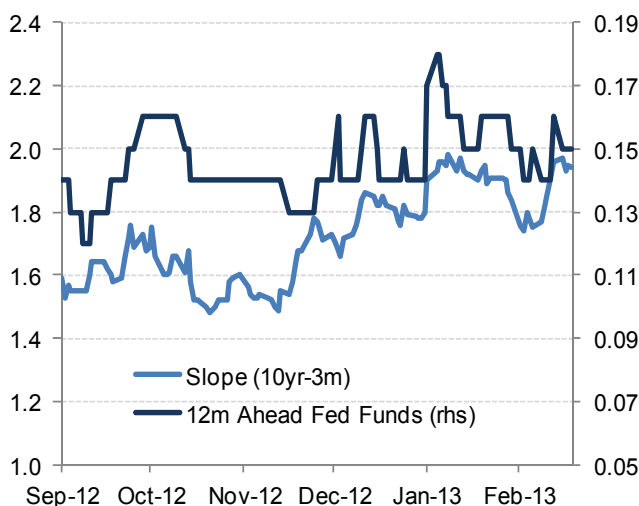
Source: Bloomberg & BBVA Research

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



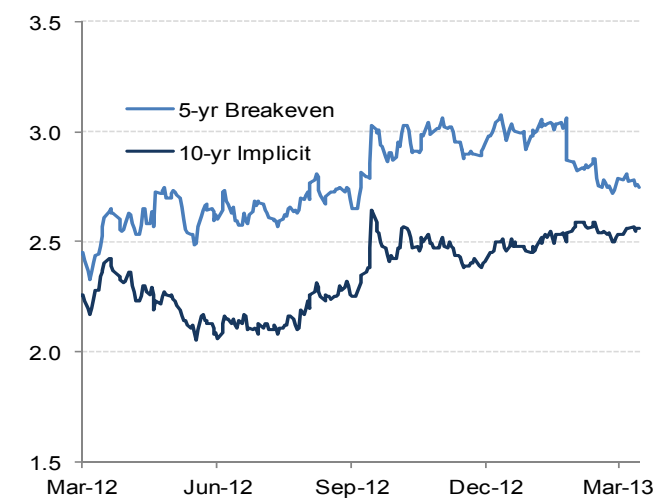
Source: Haver Analytics & BBVA Research

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)	14.50	14.50	14.46	14.10
New Auto (36-months)	2.58	2.58	2.44	3.18
Heloc Loan 30K	5.24	5.30	5.38	5.54
5/1 ARM*	2.61	2.63	2.64	2.83
15-year Fixed Mortgage *	2.79	2.76	2.77	3.16
30-year Fixed Mortgage *	3.63	3.52	3.53	3.92
Money Market	0.48	0.49	0.50	0.47
2-year CD	0.70	0.71	0.73	0.80

*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	0.15	0.15	0.16	0.15
3M Libor	0.28	0.28	0.45	0.47
6M Libor	0.44	0.45	0.65	0.74
12M Libor	0.73	0.74	0.98	1.05
2yr Sw ap	0.39	0.40	0.43	0.62
5yr Sw ap	0.99	1.04	1.02	1.35
10Yr Sw ap	2.08	2.13	2.07	2.35
30yr Sw ap	3.08	3.10	3.03	3.10
30day CP	0.13	0.15	0.15	0.33
60day CP	0.16	0.16	0.17	0.40
90day CP	0.17	0.17	0.17	0.45

Source: Bloomberg & BBVA Research

Quote of the Week

House Majority Leader Eric Cantor
Meeting with President Barak Obama
13 March 2013

"If the president wants to let our unwillingness to raise taxes get in the way, then we're not going to be able to set differences aside and focus on what we agree on"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
18-Mar	Housing Market Index	MAR	48	47	46
19-Mar	Housing Starts	FEB	918K	915K	890K
19-Mar	Building Permits	FEB	926K	925K	925K
20-Mar	FOMC Announcement	20-Mar	0.25%	0.25%	0.25%
20-Mar	Jobless Claims	17-Mar	338K	341K	332K
21-Mar	Continued Claims	10-Mar	3030K	3080K	3024k
21-Mar	PMI Manufacturing Index	MAR	55.6	54.9	55.2
21-Mar	FHFA House Price Index	JAN	0.8%	0.6%	0.6%
21-Mar	Existing Home Sales	FEB	4.99M	5.00M	4.92M
21-Mar	Philadelphia Fed Survey	MAR	-4.0	-3.5	-12.5
21-Mar	Leading Indicators	FEB	0.4%	0.3%	0.2%

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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