

US Weekly Flash

Highlights

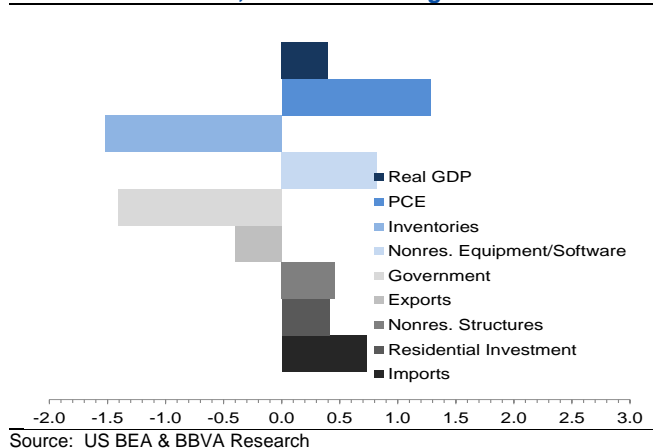
- **Final GDP revision for 4Q12 suggests only marginally better growth**

- In line with our estimate for 4Q12 real GDP growth, the BEA's final estimate showed an upward revision to 0.4% on a QoQ seasonally-adjusted annualized basis (SAAR). The figure is only slightly better than the second estimate of 0.1% but shows a decent jump from the initial report of a modest 0.1% decline. This upward revision stems from a stronger trade balance and growth in nonresidential structures that had been slightly understated in the prior release.
- Government spending still put significant downward pressure on GDP growth while the consumer retreated amidst uncertain political action. Personal consumption expenditures were revised down from 2.1% to 1.8% QoQ SAAR. While 0.4% growth is far from desired, annual GDP growth balanced out to 2.2%, which continues to resonate with our outlook in terms of an economy that is gaining momentum as the groundwork is laid for stronger growth in the months to come. As 1Q13 comes to a close it is already evident that we have pressed on after a slower end to 2012 with resurgence in consumer activity and stronger investment. However, government spending will continue to be a drag on growth and we do not expect a significant acceleration in annual growth for 2013.

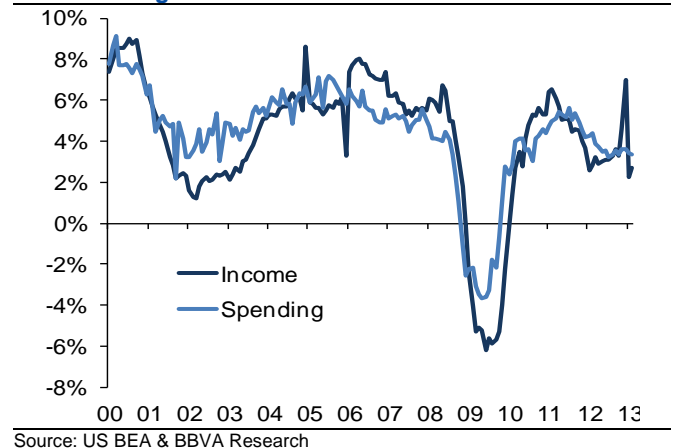
- **Personal Income and Spending**

- As expected, given the rather volatile shifts in income and taxes over the past two months, income and spending data for February deviated from normalcy. Personal income rose by 1.1% in February, which in normal times would be a significant jump but in this case merely reflects another swing to balance out the past few months. Despite the payroll tax effect, disposable personal income is 2.25% higher than a year ago and only 0.3% lower than in November, the most recent month of "normal" data. We expect that post-payroll tax increase, disposable income will continue to grow at a stable clip as companies continue to hire and economic conditions improve. Therefore, it would be prudent to wait until the next set of income data for March to assess the trajectory of incomes after such a capricious few months.
- Consumer spending also surprised to the upside in February, although a significant portion of that was nondurable goods in the form of gasoline expenditures. Real spending for February rose by 0.3% which points to modest growth in consumer spending after a similar rise in January. Personal consumption expenditures remain strong year-over-year at 3.3%, though this is the annual lowest growth rate since October. Inflation did show a jump in the headline figure for the month as it rose 0.4% in February after a flat reading the month before, likely caused by a jump in gasoline prices. The core figure showed a calmer rise in prices, up 0.1% after a similar rise in January.

Graph 1
Contributions to Real GDP Growth
4Q12 Final Estimate, SAAR Percentage Points



Graph 2
Real Personal Income and Spending
YoY % Change



Week Ahead

ISM Manufacturing Survey (March, Monday 10:00 ET)

Forecast: 53.9

Consensus: 54.2

Previous: 54.2

The ISM Manufacturing Index is likely to decelerate as regional Federal Reserve surveys point to slower growth and mixed results across the governed areas. Although it remains above the 50 threshold in terms of growth, the Empire State manufacturing index for March declined 2.5 points on slower new orders and a decline in shipments and employment. One of the more followed manufacturing indexes, the Philly Fed Survey, continued to contract as the index remained below trend for the 11th straight month. The Richmond manufacturing survey saw some growth in the overall index and shipments for March which may influence a stronger production index. However, we still expect steady growth in the nation's manufacturing but at a slightly decelerated level from the ISM reading in March.

Unemployment Rate & Nonfarm Payrolls (March, Friday 8:30 ET)

Forecast: 7.7%, 198K

Consensus: 7.7%, 190K

Previous: 7.7%, 236K

Nonfarm payrolls are expected to increase at a slightly slower pace in March compared to the jump in February, but still remain strong as economic indicators continue to show employment growth. The jobless claims report for the first three weeks in March point to a rise in the number of initial filings and the 4-week moving average has ticked up slightly, pointing to somewhat slower job growth. However, the New York, Richmond and Philadelphia manufacturing and business outlook surveys show moderate to significant improvement in their employment indices for the month. Barring any shift in the participation rate, we expect that nonfarm payroll growth won't be quiet enough to shift down the unemployment rate. Last month's surge in nonfarm payrolls is unlikely to be matched in March despite the strengthening employment data from various business surveys given overall economic headwinds from Europe and some sluggish figures from the housing market.

International Trade (February, Friday 8:30 ET)

Forecast: \$-44.6B

Consensus: \$-44.6B

Previous: \$-44.4B

The U.S. trade balance is expected to expand slightly in February following a significant improvement in January. Europe's slow recovery continues to plague the U.S. export market as goods continue to remain out of reach for many European consumers and businesses. The ISM manufacturing survey did show some growth in its export index, up 3.5 points to 53.5 but an even larger rise in the import component, up 4 points to 54. Although we expect imports to remain steady, there is some upward risk as pointed out by the ISM import component. With exports unlikely to rise as trade partners continue to look inward rather than to the U.S. for goods, it is unlikely that exports will do much to pull the trade balance down significantly. As a slow global recovery continues to dampen overall trade, signs are emerging from Asia and parts of Europe in terms of manufacturing and production growth which may lead to a better situation for the U.S. throughout the latter half of the year.

Consumer Credit (February, Friday 15:00 ET)

Forecast: \$16.6B

Consensus: \$16.0B

Previous: \$16.15B

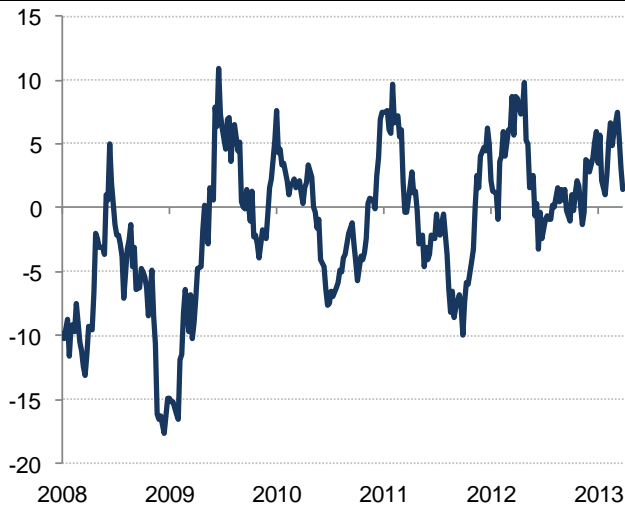
Total outstanding consumer credit is expected to grow in February as non-revolving credit carries the overall level higher despite little growth on the revolving side from credit card debt. The continuing growth in student loans that has been driving total consumer credit over the past months appears to be accelerating to no end, raising the non-revolving figure, along with increasing demand for auto loans. As for the revolving credit component, consumers are continuing to spend but are still hesitant to take on more credit card debt. This has been further stumped by the payroll tax increase which has shown signs of impacting certain areas of personal spending from entertainment to larger asset purchases that would typically prompt credit.

Market Impact

This week has fewer impactful indicators compared to last week but employment and consumer credit are the two that warrant some attention. Employment has shown marked improvement over the past few months and this report will either continue to surprise upwards or instill further caution. Consumer credit is also one to watch as the recent fears of student loan repayments may be bolstered by the fervent growth of student credit issuance. The U.S. trade balance and consumer credit reports are both lagged from February so their impact on the markets should be muted. As for March's data, employment and the ISM figures will help solidify the recovery's footing and implore further optimism in the economy.

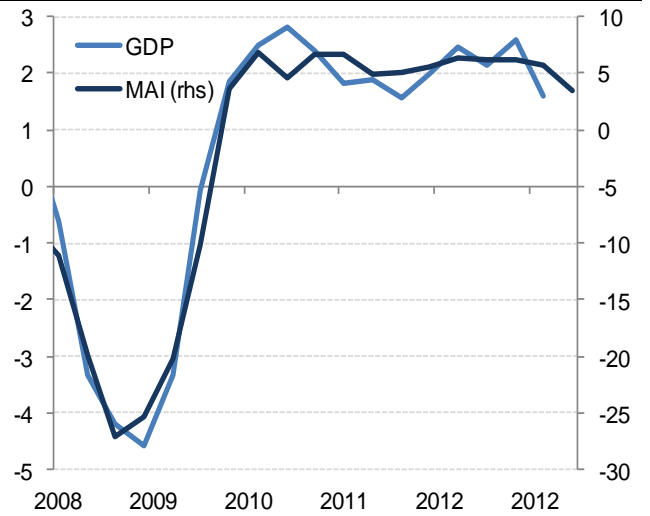
Economic Trends

(3 month % change)



Source: BBVA Research

(4Q % change)



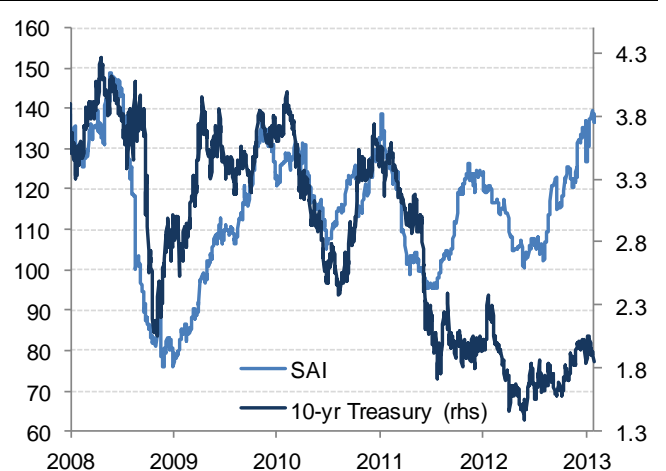
Source: BBVA Research & BEA

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



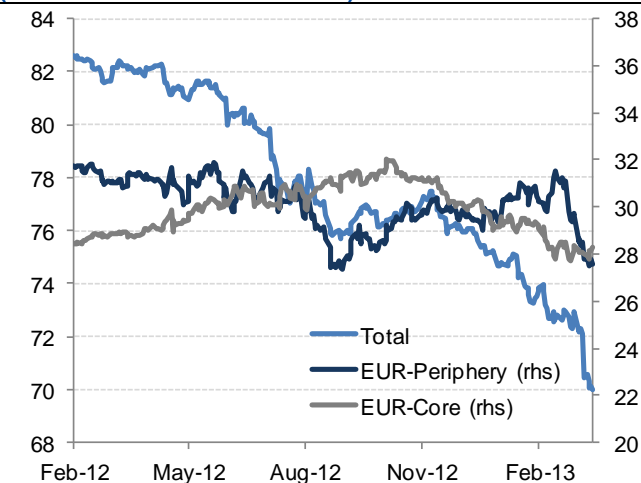
Source: BBVA Research

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



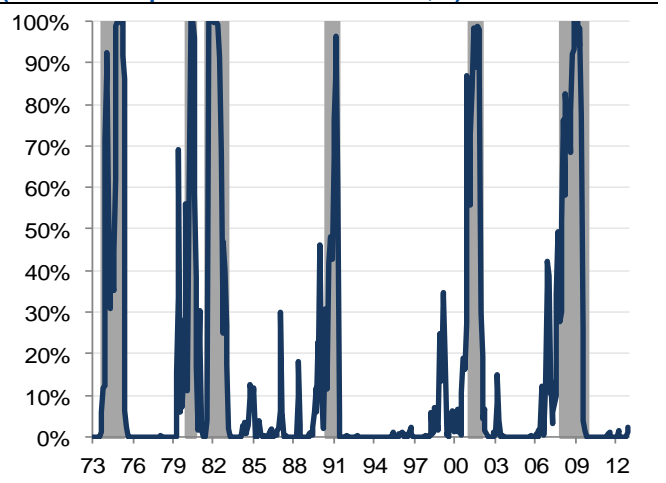
Source: Bloomberg & BBVA Research

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, %)



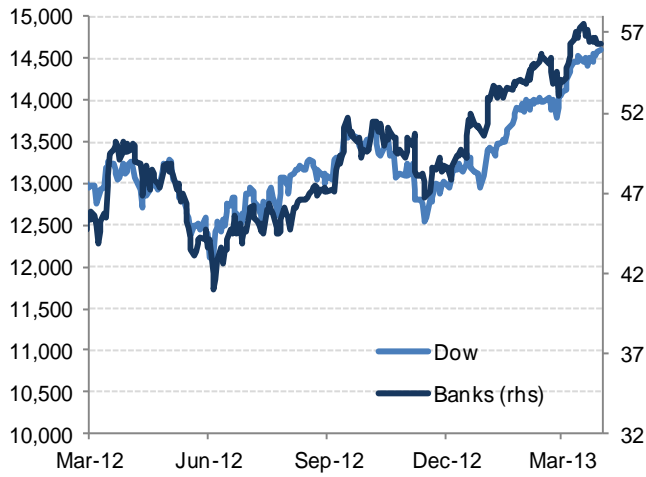
Source: BBVA Research

Financial Markets

Graph 9
Stocks

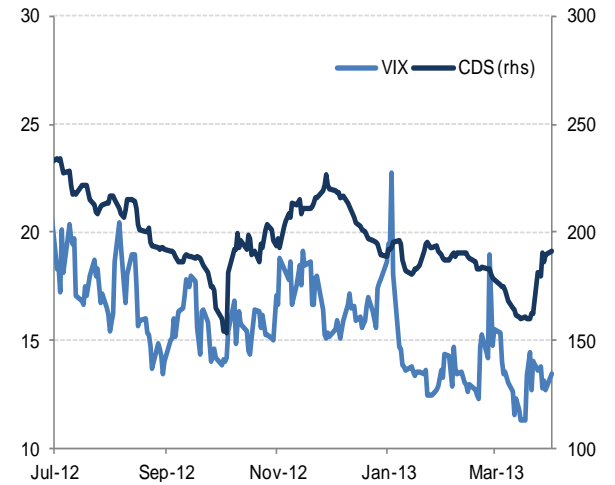
Graph 10
Volatility & High-Volatility CDS

(Index, KBW)



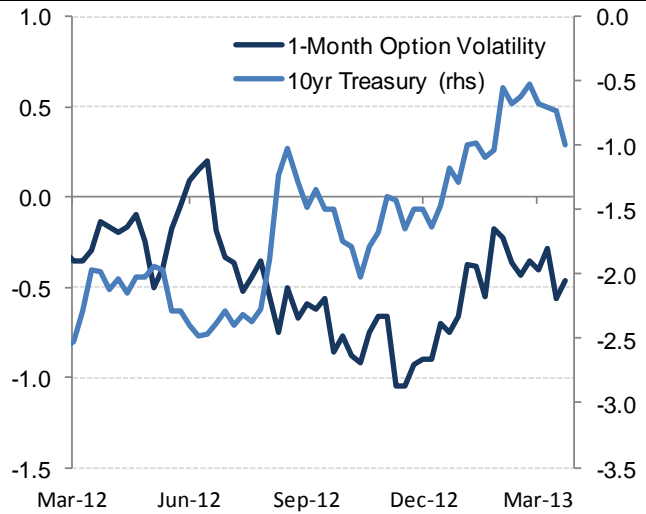
Source: Bloomberg & BBVA Research

(Indices)



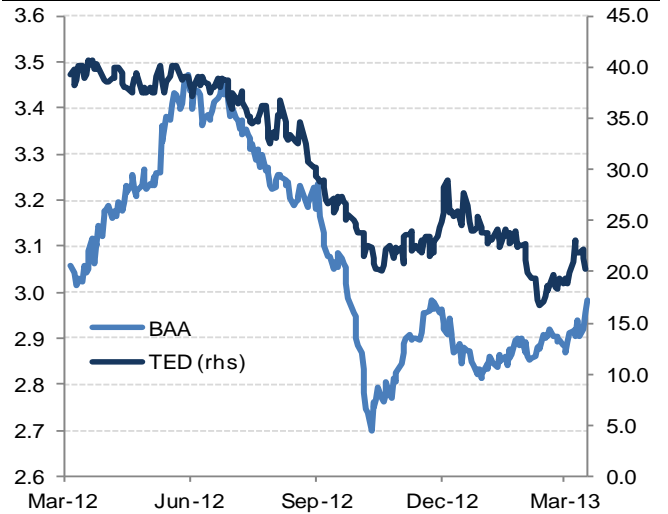
Source: Bloomberg & BBVA Research

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



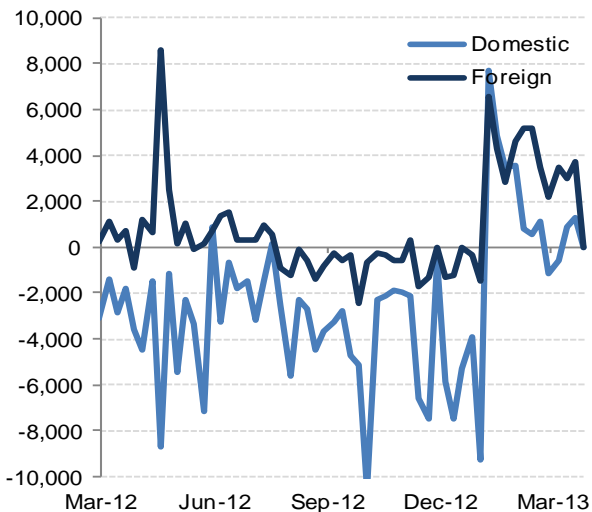
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



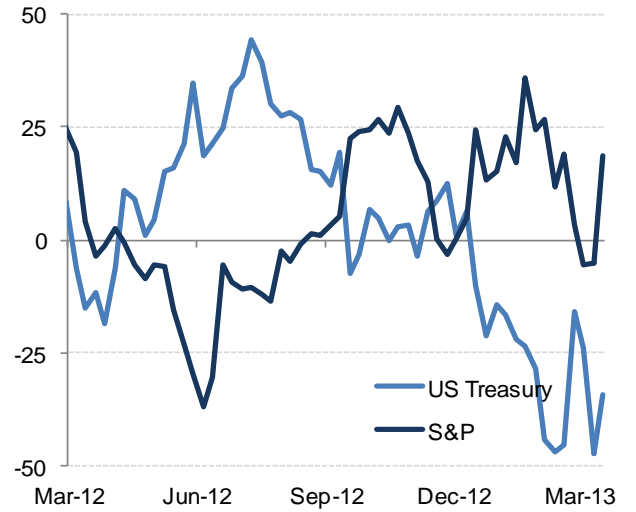
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

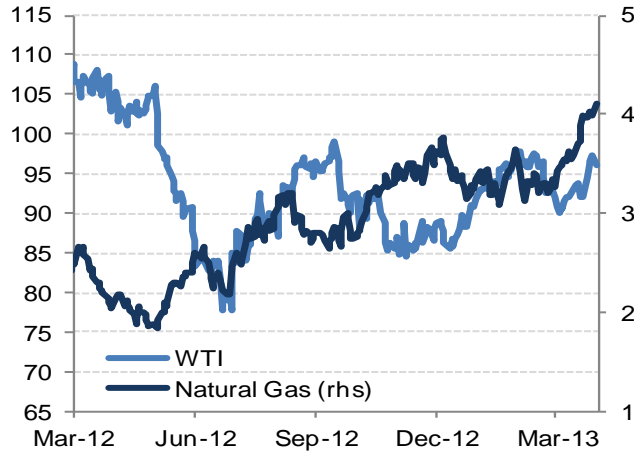
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

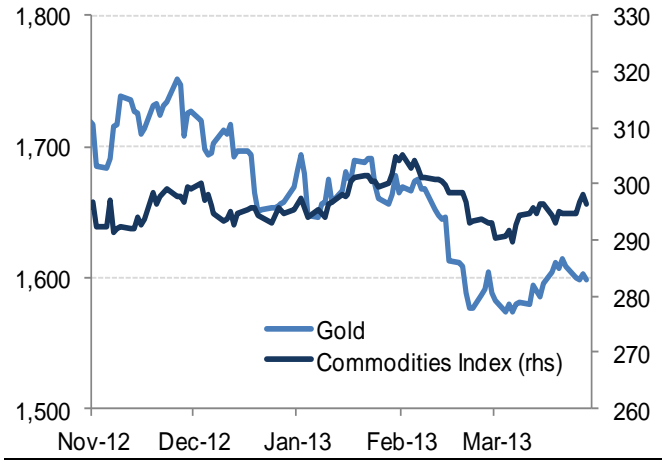
Financial Markets

**Commodities
(Dpb & DpMMBtu)**



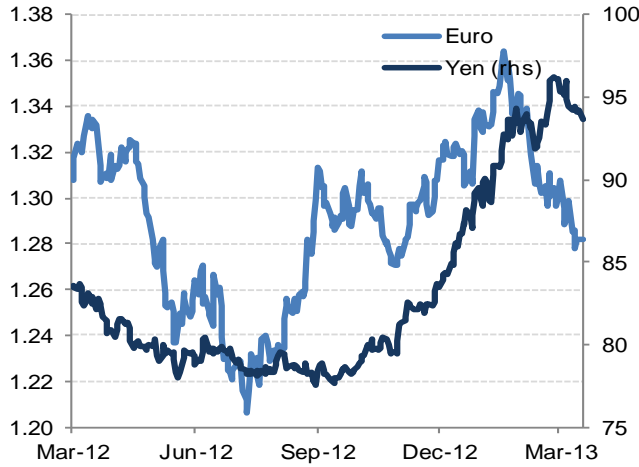
Source: Bloomberg & BBVA Research

**Gold & Commodities
(US\$ & Index)**



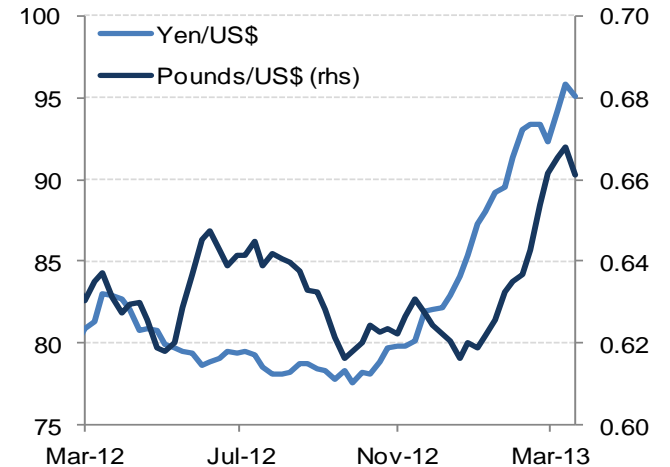
Source: Haver Analytics & BBVA Research

**Graph 17
Currencies
(Dpe & Ypd)**



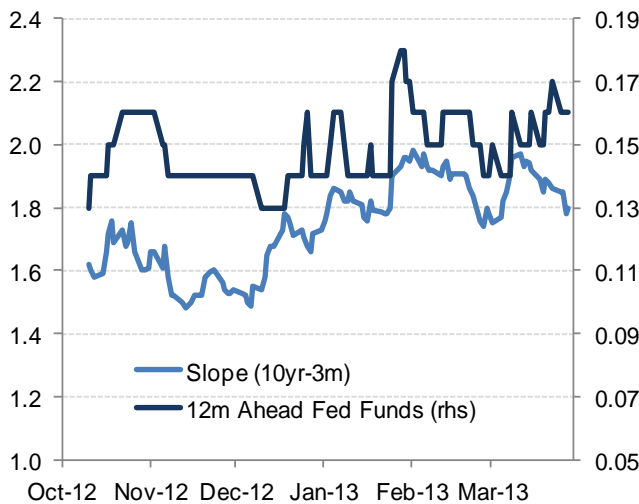
Source: Bloomberg & BBVA Research

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



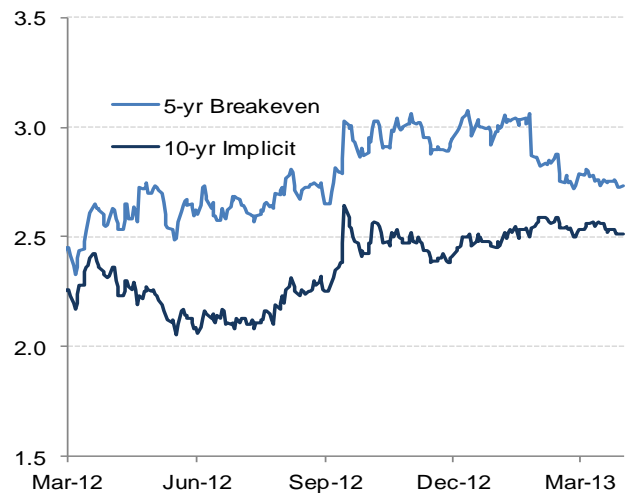
Source: Haver Analytics & BBVA Research

**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)	14.26	13.94	14.50	14.10
New Auto (36-months)	2.45	2.45	2.44	3.12
Heloc Loan 30K	5.27	5.26	5.28	5.52
5/1 ARM*	2.68	2.68	2.61	2.90
15-year Fixed Mortgage*	2.76	2.76	2.76	3.23
30-year Fixed Mortgage*	3.57	3.57	3.51	3.99
Money Market	0.50	0.50	0.48	0.73
2-year CD	0.66	0.66	0.75	0.90

*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	0.09	0.15	0.16	0.15
3M Libor	0.28	0.28	0.45	0.47
6M Libor	0.44	0.45	0.65	0.73
12M Libor	0.73	0.74	0.98	1.05
2yr Sw ap	0.42	0.43	0.37	0.58
5yr Sw ap	0.96	0.98	0.91	1.26
10Yr Sw ap	2.02	2.06	1.96	2.27
30yr Sw ap	3.01	3.02	2.94	3.03
30day CP	0.15	0.16	0.15	0.27
60day CP	0.20	0.17	0.15	0.36
90day CP	0.20	0.17	0.17	0.46

Source: Bloomberg & BBVA Research

Quote of the Week

Federal Reserve Chairman Ben Bernanke
London School of Economics Speech
25 March 2013

"In sum, the advanced industrial economies are currently pursuing appropriately expansionary policies to help support recovery and price stability in their own countries. As the modern literature on the Great Depression demonstrates, these policies confer net benefits on the world economy as a whole and would not be confused with zero-or negative sum policies of trade diversion. In fact, the simultaneous use by several countries of accommodative policy can be mutually reinforcing to the benefit of all."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
1-Apr	Motor Vehicle Sales	MAR	\$15.25	\$15.30	\$15.33
1-Apr	ISM Manufacturing Survey	MAR	53.9	54.2	54.2
1-Apr	Construction Spending	FEB	1.1%	0.8%	-2.1%
2-Apr	Factory Orders	FEB	1.4%	2.5%	-2.0%
3-Apr	ADP Employment report	MAR	187K	198K	198K
3-Apr	ISM Non-Manufacturing Index	MAR	56.3	56.0	56.0
4-Apr	Initial Jobless Claims	30-Mar	330K	353K	357K
4-Apr	Continued Claims	23-Mar	3040K	3065K	3050K
5-Apr	Unemployment Rate	MAR	7.7%	7.7%	7.7%
5-Apr	Change in Non-farm Payrolls	MAR	198K	190K	236K
5-Apr	Change in Private Payrolls	MAR	201K	203K	246K
5-Apr	International Trade	FEB	\$-44.6	\$-44.6B	\$-44.4B
5-Apr	Consumer Credit	FEB	\$16.60	\$16.00	\$16.15

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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