

US Weekly Flash

Highlights

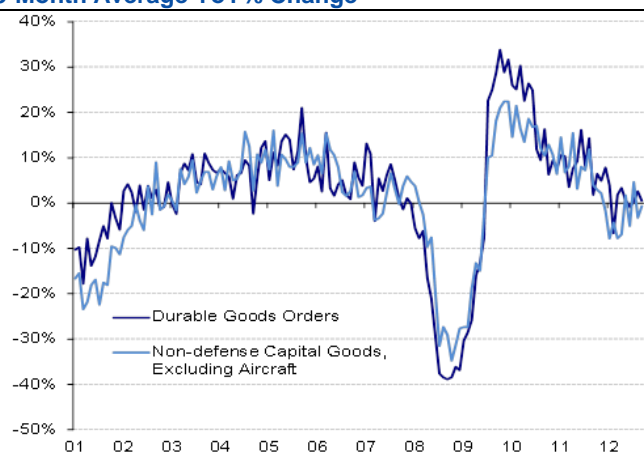
• Durable Goods Orders Dropped as Cuts Impact Defense Spending

- Durable goods orders fell by 5.7% in March, following a 4.3% gain in February, as spending cuts and weak capital goods sapped demand. Lead by transportation, where new orders declined by 15%, the durable goods decline was broader than expected, save the computer and electronic sector which managed to grow 1% and motor vehicles which grew 0.15%. Essentially, March's figures are a report card for the reduction in spending that is to come from government agencies, especially the military.
- The core figure provides a slightly more focused picture of how demand is faring. Unfortunately, new orders excluding transportation also declined in March, down 1.4% for the second consecutive month, following five months of positive growth between September and January. This figure still does include some facets of defense spending such as the computer industry and defense communications equipment which plunged 20% for the month. While the market understands that the headline and core figures for durable goods are always volatile and have, as of late, been impacted heavily by spending reductions, a more thorough investigation still points toward slow growth in durable goods orders throughout the first half of the year.

• Consumer Spending Overshadowed by Federal Austerity According to 1Q13 GDP

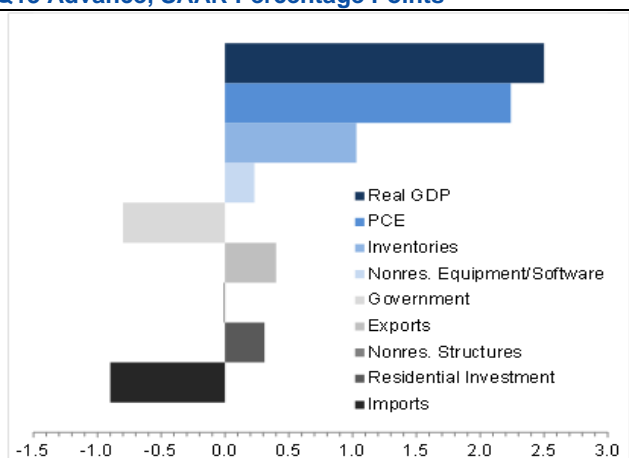
- The advanced report for real GDP growth in 1Q13 fell short of consensus expectations, coming in at 2.5% on a QoQ seasonally-adjusted annualized rate (SAAR) as opposed to the expected 3.1%. In line with our forecasts, the slower growth emerged from a mixture of government spending cutbacks and a sluggish global economy that resulted in reduced demand for exports. However, the bright spot in the report was clearly personal consumption, which surged 3.2% in 1Q13 after a rather weak 1.8% in 4Q12. In particular, the services sector saw a prolific rise in demand as it grew by 3.1% SAAR, its fastest pace in nearly 8 years.
- While the underlying foundation of the economy, the consumer, has continued to recover in a remarkable fashion, prevailing headwinds have hindered the economy from realizing its potential. The government shoulders the largest drag on GDP growth due to the financial austerity imposed by the sequester and general budget reform. The 4.1% SAAR decline in government consumption for 1Q13 is less of a drag compared to the 7.0% decline in 4Q12. Still, the spending cuts will continue to put strong downward pressure on GDP growth. Defense spending cuts were the biggest culprit, down 11.5%, and the federal spending cuts will continue to put downward pressure on the economy as the sequester-related provisions unfold throughout the rest of 2013 and beyond

Graph 1
Durable Goods Orders
3-Month Average YoY% Change



Source: US Census Bureau & BBVA Research

Graph 2
Contributions to Real GDP Growth
1Q13 Advance, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

Personal Income & Spending (March, Monday 8:30 ET)

Forecast: 0.4%, 0.2%

Consensus: 0.4%, 0.0%

Previous: 1.1%, 0.7%

Despite the year's volatile beginning, personal income is expected to continue growing, albeit at a muted pace, as incomes are less hindered by policy implications. However, given the implied budget reductions that were put forth in the sequester, it is unlikely that we will see much growth in incomes as furloughs remain common and wage pressures from the business side are subdued. Employment for March also reflects some slowdown in the labor market which will do little to extend wage increases as companies continue to sit on holdings, hiring employees at a slower pace. On the spending side, we expect the data to show a modest slowdown in consumer activity, following the trend already outlined for the month. Retail sales declined in March, even excluding the impact from lower gas prices, which evidences a slight pull back from the consumer as the first quarter came to a close. Spending on larger ticket items like vehicles and home furnishings also declined in March, an unwelcome sign for consumer spending as they are both high value items and usually a large portion of the consumption figure for the month.

ISM Manufacturing Index (April, Wednesday 10:00 ET)

Forecast: 51.1

Consensus: 51.0

Previous: 51.3

The ISM Manufacturing Survey for April is expected to show slower growth as early reports hint at more sluggish manufacturing and production. We are beginning to see somewhat of a lagged impact on economic activity from the sequester as momentum appears to be slowing in various sectors. Reports from the Federal Reserve areas are pointing toward growth in the manufacturing sector but at a slower pace. The Empire State Manufacturing Survey for New York showed a one-point drop as new orders and shipments fell, while the Philadelphia outlook actually continued to contract in April at a faster pace. In addition, the PMI index for April showed a similar slowdown in manufacturing citing a much slower rate of growth for new orders and employment as suppliers ease out their backlogs and production slows due to softer demand.

FOMC Meeting Announcement (Wednesday 14:00 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

The upcoming FOMC meeting is not expected to reveal any major changes to the Fed's current accommodation. We expect that the FOMC will continue asset purchases at the current pace of \$40bn in mortgage-backed securities and \$45bn in long-term treasuries, with a fed funds target rate of 0.0% and 0.25%. While the statement may not disclose a specific timeline for slowing QE3, the meeting minutes a few weeks later could provide more useful details. In general, we are watchful for possible changes to the Fed's economic outlook as a result of recent data that has been weaker than expected.

International Trade (March, Thursday 8:30 ET)

Forecast: -\$43.5

Consensus: -\$42.2

Previous: -\$43.0

The U.S. trade balance is expected to widen in March as imports are expected to rise and foreign demand seems softer. Various indicators for March suggest mixed results, with manufacturing surveys hinting at stronger export demand while the services sector showed the opposite result. The auto industry has been an important factor as demand for U.S. vehicles has grown recently, driving up high-value exports but also adding to imports as some components are sourced from abroad. News from Japan, a large U.S. trade partner, showed exports to the U.S. had grown in March by 7%, a sizeable increase from the month before.

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

Forecast: 7.6%, 160K

Consensus: 7.6%, 145K

Previous: 7.6%, 88K

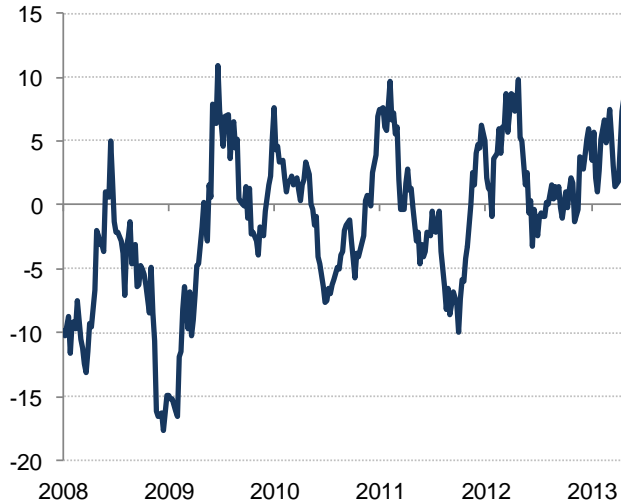
Nonfarm payrolls are expected to rise in April after posting pretty dismal numbers in March. A portion of March's deceleration was in the retail sector, pointing toward a possible continuation in job shedding for the sector. The spending and budget cuts which are taking place both directly, in federal programs, and indirectly, through sectors that interact with those programs, are likely to deal a blow to payroll growth as well. The Federal Reserve Manufacturing surveys are mixed with some showing labor growth and others hinting at relatively unchanged conditions in terms of hiring. With March's data as low as it was, April has the potential to return to payroll growth closer to the 150K range, in line with consensus expectations, or emerge lower in which case the Fed may have to re-evaluate its timeline for monetary policy accommodation.

Market Impact

Next week has quite a few pivotal data points including international trade, which was a large drag on GDP for 1Q13, and employment which is expected to improve from the last report but not enough to invoke much optimism. Markets will also pay close attention to the FOMC meeting announcement for any clues to upcoming changes to monetary policy accommodation.

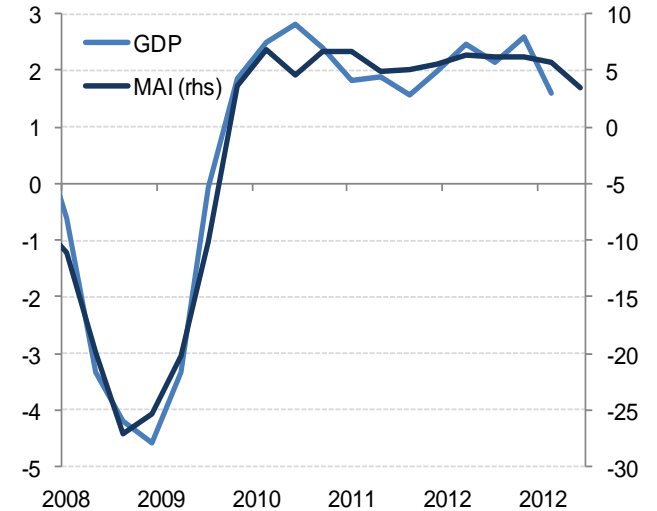
Economic Trends

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



Source: BBVA Research

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



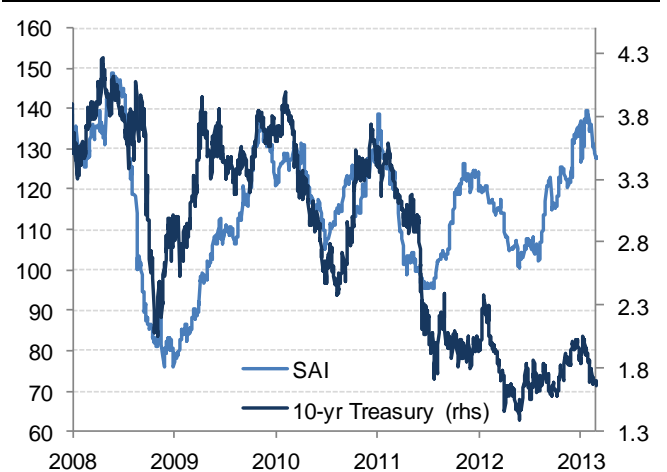
Source: BBVA Research & BEA

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



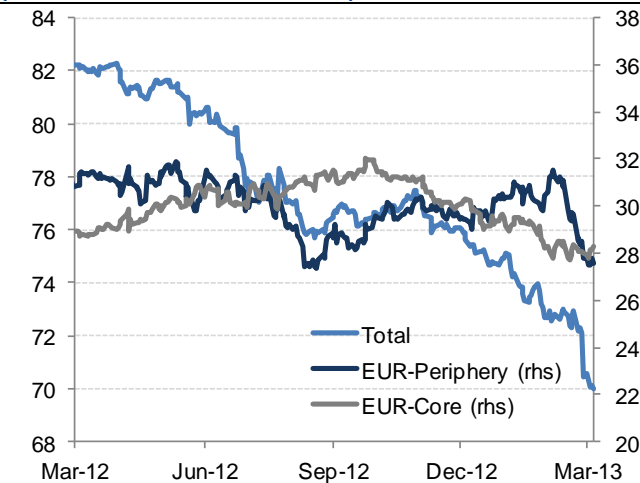
Source: BBVA Research

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



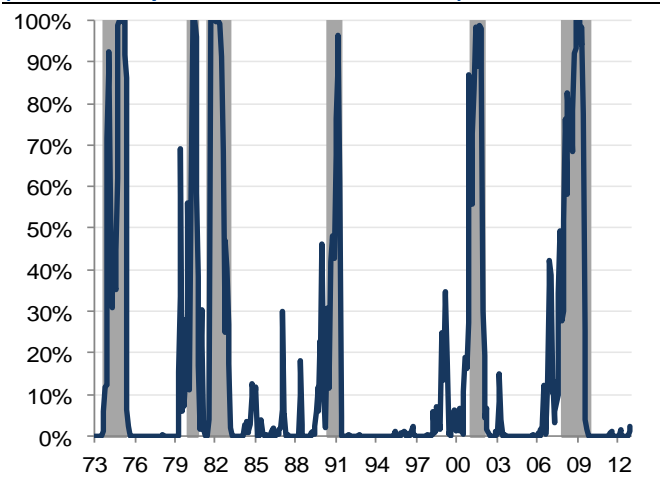
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

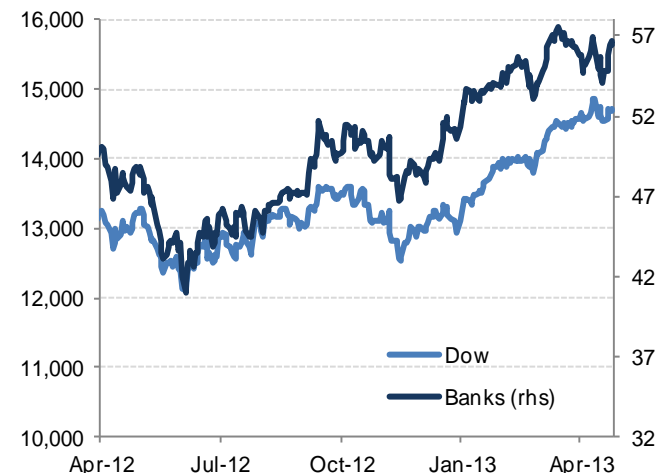
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

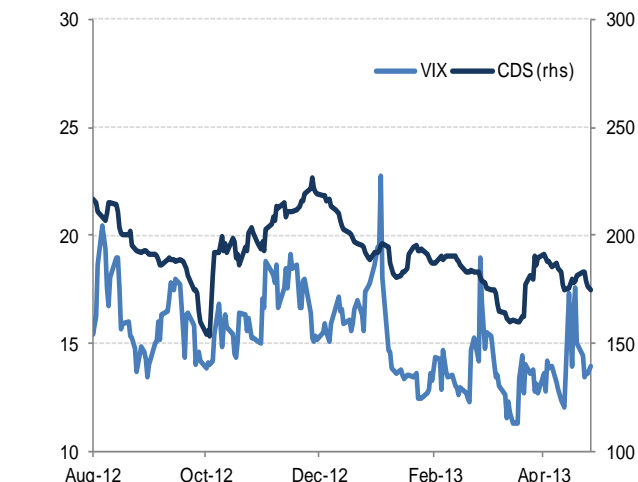
Financial Markets

Graph 9
Stocks
(Index, KBW)



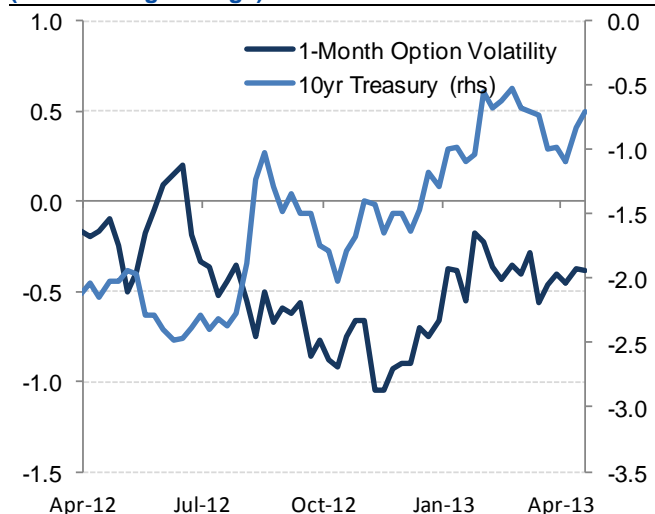
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



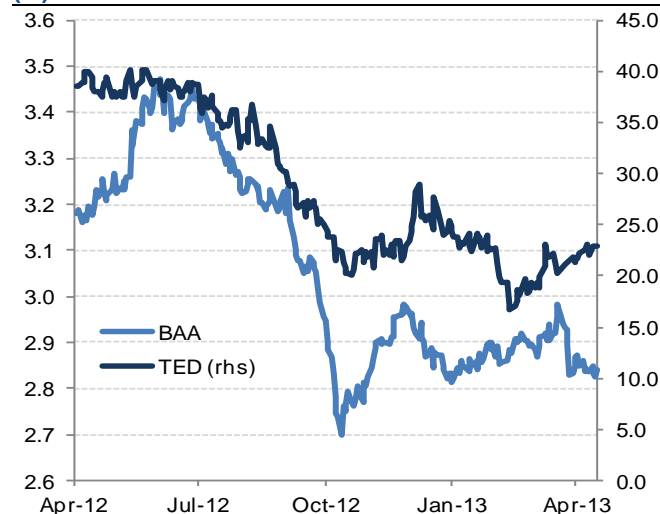
Source: Bloomberg & BBVA Research

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



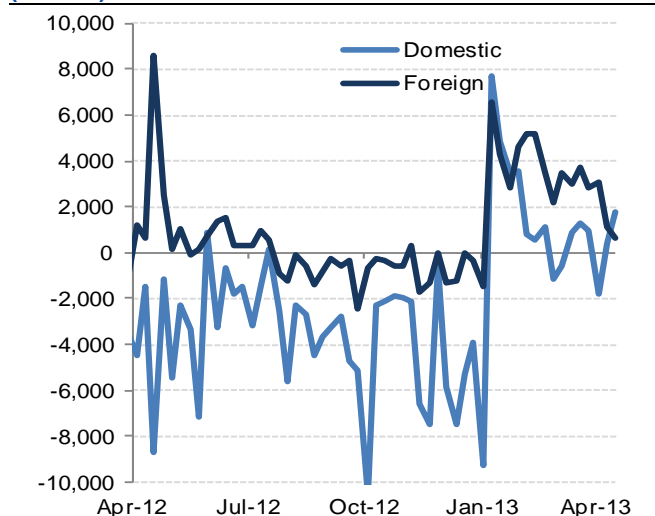
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



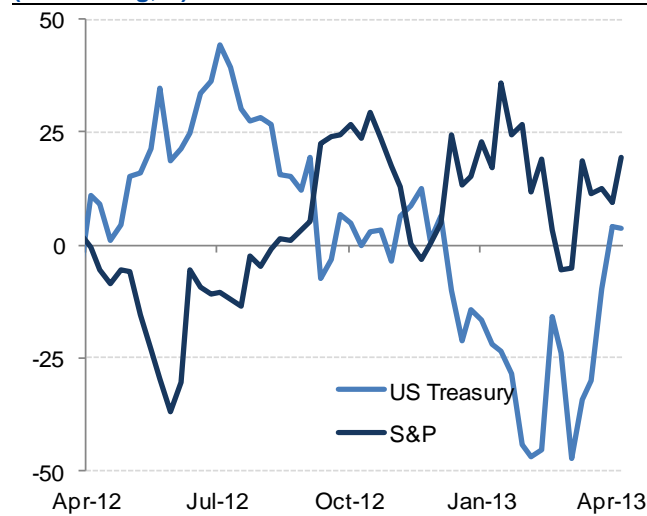
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

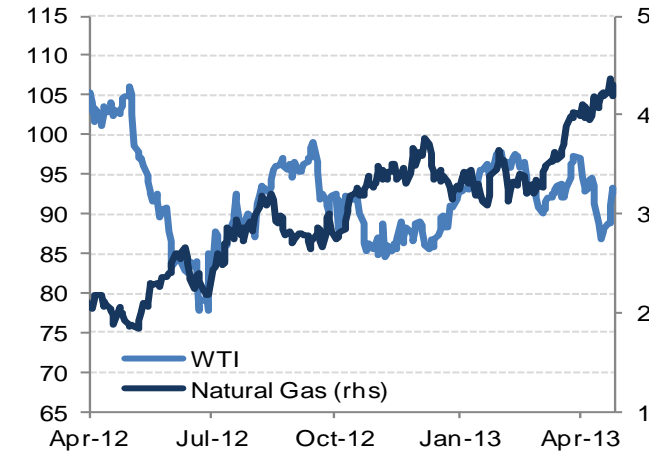
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

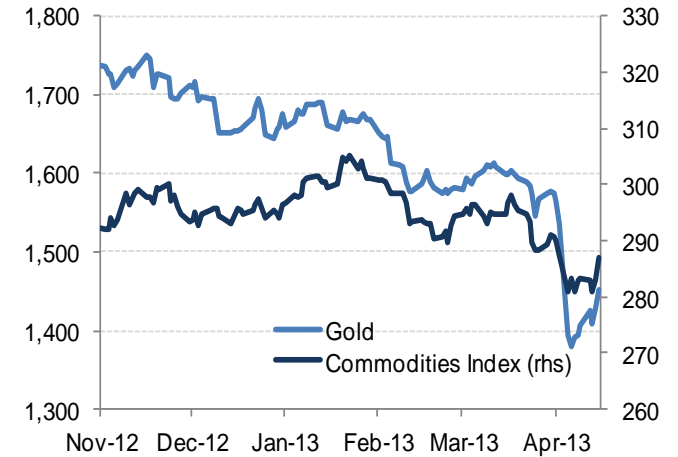
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



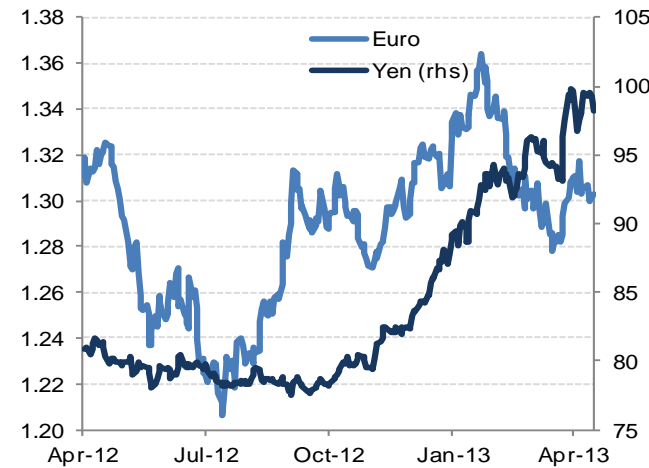
Source: Bloomberg & BBVA Research

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



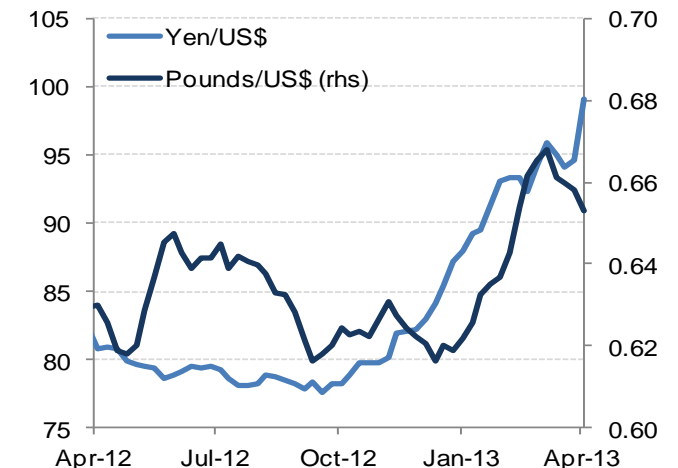
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



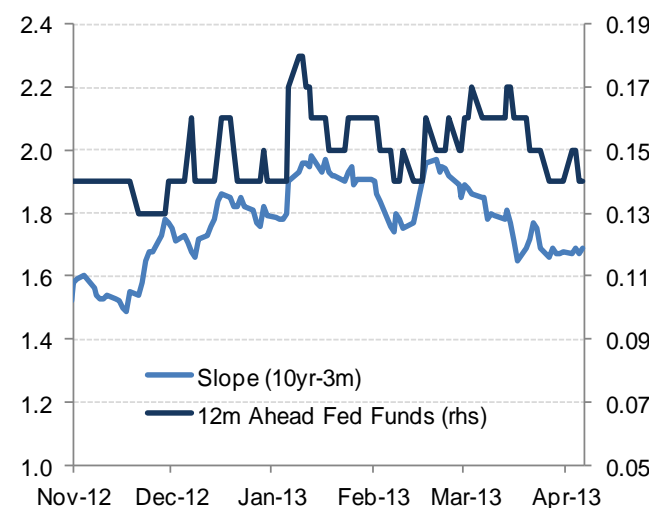
Source: Bloomberg & BBVA Research

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



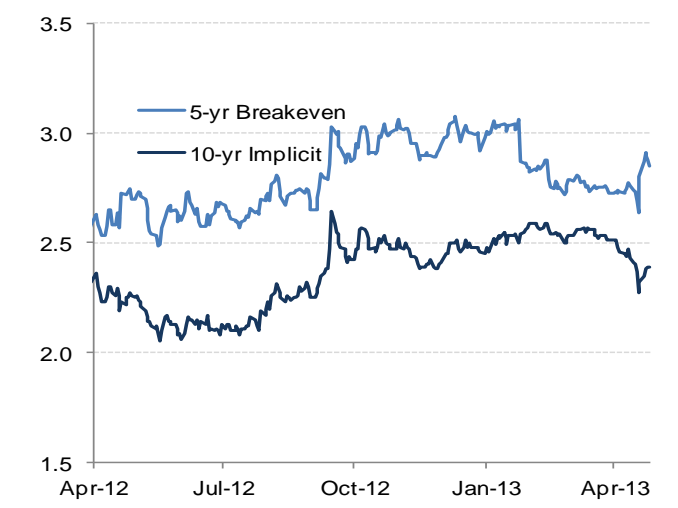
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.50	14.10
New Auto (36-months)	2.29	2.45	2.45	3.16
Heloc Loan 30K	5.23	5.24	5.26	5.45
5/1 ARM *	2.58	2.68	2.61	2.90
15-year Fixed Mortgage *	2.61	2.76	2.72	3.23
30-year Fixed Mortgage *	3.40	3.57	3.54	3.99
Money Market	0.47	0.47	0.50	0.72
2-year CD	0.66	0.66	0.66	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	0.13	0.15	0.09	0.13
3M Libor	0.28	0.28	0.45	0.47
6M Libor	0.43	0.44	0.65	0.00
12M Libor	0.71	0.72	0.98	1.05
2yr Sw ap	0.36	0.37	0.42	0.55
5yr Sw ap	0.84	0.88	0.95	1.12
10Yr Sw ap	1.84	1.87	2.01	2.07
30yr Sw ap	2.79	2.80	2.99	2.84
30day CP	0.13	0.15	0.15	0.25
60day CP	0.14	0.16	0.17	0.33
90day CP	0.18	0.17	0.18	0.42

Source: Bloomberg & BBVA Research

Quote of the Week

House Democrat Whip Steny Hoyer
Interview on Senate FAA Furlough Decision
25 April 2013

"We ought not to be mitigating the sequester's effect on just one segment when children, the sick, our military and many other groups who will be impacted by this irresponsible policy will be left unhelped."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
29-Apr	Personal Income	MAR	0.4%	0.4%	1.1%
29-Apr	Personal Spending	MAR	0.2%	0.0%	0.7%
29-Apr	Pending Home Sales Index	MAR	1.1%	1.0%	-0.4%
29-Apr	Dallas Fed Manufacturing Survey	APR	5.2	-	7.4
30-Apr	S&P Cash-Shiller HPI	FEB	0.9%	0.8%	1.0%
30-Apr	Chicago PMI	APR	52.7	52.5	52.4
30-Apr	Consumer Confidence	APR	60.8	60.8	59.7
1-May	ADP Employment Report	APR	157K	155K	158K
1-May	ISM Manufacturing Index	APR	51.1	51.0	51.3
1-May	Construction Spending	MAR	0.7%	0.6%	1.2%
1-May	FOMC Meeting Announcement	1-May	0.25%	0.25%	0.25%
2-May	International Trade	MAR	-\$43.5	-\$42.2	-\$43.0
2-May	Initial Jobless Claims	26-Apr	346K	348K	339K
2-May	Continued Claims	20-Apr	3040K	3026K	3000K
3-May	Nonfarm Payrolls	APR	160K	145K	88K
3-May	Unemployment Rate	APR	7.6%	7.6%	7.6%
3-May	Factory Orders	MAR	-1.7%	-2.5%	3.0%
3-May	ISM Non-manufacturing Index	APR	54	54	54.4

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	7.6	7.0	6.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.39	2.73	3.39
US Dollar/ Euro (eop)	1.32	1.31	1.32	1.30	1.35

Note: Bold numbers reflect actual data

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