

US Weekly Flash

Highlights

• ISM Manufacturing Survey

- The ISM Manufacturing Index decelerated slightly to 50.7 in April despite a rise in new orders and production. Although the overall index declined, new orders for April rose to 52.3, halting the deceleration that was expected as we entered into 2Q13. In addition to the rise in new orders, production also rose for the month to 53.5 which reversed the sharp decline seen in last month's report. While both components did not recover back to February levels above the 57 clip, April's acceleration was unexpected and bodes well in terms of the general sentiment abound in the manufacturing sector. On the downside, the employment index, a gauge on hiring and general labor market conditions for manufacturing, declined sharply by 4 points to 50.2, very close to falling below 50 into contraction territory.

• International Trade

- The U.S. international trade deficit improved to -\$38.8B in March following a modest decline to -\$43.6B in February, reaching the lowest level since December. Total imports fell 2.8%, the largest decline in four years, as domestic demand for foreign goods fell dramatically. According to the breakdown of imports, the largest share of the decline was in consumer and capital goods, which declined 7.3% and 3.3%, respectively. Exports fell by 0.9%, with goods exports down 1.4% and offset only partially by a modest 0.2% increase in services. Within the goods portion it was the foods, feeds and beverages portion that saw a dramatic decline in foreign demand, dropping 7.4% for its largest decline in five months.

• FOMC Meeting Announcement Hints at Possibility of Dialing up Purchases

- FOMC statement released on May 1st hinted on the possibility of dialing up purchases if 'the outlook for the labor market or inflation changes,' communicating elevated level of readiness if faced with weaker than expected labor market conditions and/or further decline in inflation indicators. FOMC's outlook on labor market conditions changed from stating that the labor market shows 'signs of improvement' to 'some improvement,' 'on balance.' The announcement did not disclose Committee's assessment of the present downward pressure on inflation. The pace of asset purchases was left unchanged and was in line with our expectation on maintaining the current pace of \$85bn per month in asset purchases. We maintain our projection that the current pace of purchases will continue until 3Q13.

• 165K nonfarm payrolls added in April as the unemployment rate fell to 7.5%

- The labor market appears to have shed the appearance of a marked slowdown as March payroll figures were revised upward and April added 165K in nonfarm payrolls. The revision for March brought the quarters average back above 200K which is a needed gain given how lackluster the original 88K first reported. With March's revision made, April's 165K nonfarm payroll growth was a welcome start of the second quarter's employment figures. In addition, the unemployment rate for April declined to a 4 year low of 7.5% despite the number of participants in the labor force increasing. This points toward an actual decline in those unemployed rather than the recent experience of a decline in labor force participation driving down the unemployment rate with little real job growth. The goods producing sectors did not fare well as the continued lull in manufacturing does little to bolster employment growth. Turning to the service sector the situation becomes more optimistic. Save information services, every service component posted positive employment figures for April. The leader of the survey was professional and business services which has been a key driver for employment growth since early 2012. The sector added an impressive 73K which, February notwithstanding, would be the highest monthly gain in the last 12 months. This is the most diverse of industries which includes scientific and technical workers such as engineers to legal and accounting services. The average weekly hours worked fell slightly to 34.4 from 34.6 as both weather conditions and some holiday's worked their way into the workweek for April. With regard to earnings the data shows a moderate rise in the average hourly earnings but a surprising decline in the weekly earnings figure which may take into account the government induced furloughs that took effect over the month

Week Ahead

Job Openings and Labor Turnover Survey (March, Tuesday 9:00 ET)

Forecast: 3630K

Consensus: -

Previous: 3925K

Given the weak employment data for March we expect the JOLTS survey to convey the decline in labor market activity that is consistent with slowing nonfarm payrolls growth for March. Split between job openings, hires, and separations, our view is that while job openings may have remained the same or declined slightly, hires will show the most dramatic decline. As far as predictability, the nonfarm figure is a relatively good measure of how strong or weak hires will emerge in the JOLTS report and given the prolific decline in payroll growth for March the decline should be strong. With regard to job openings, the situation is less correlated with payroll growth but we expect the figure to decline somewhat from its February figure as payroll growth in the private sector and consumer confidence surveys showed little potential for a rise in available jobs. The JOLTS reports have been hinting at signs of structural unemployment and we do not expect this trend to change as job openings remain elevated compared to the number of hires.

Consumer Credit (March, Tuesday 15:00 ET)

Forecast: \$17.1B

Consensus: \$16.0B

Previous: \$18.1B

Total outstanding consumer credit is expected to shrink in April and given the weaker push from revolving credit in February it will likely be fueled solely by the non-revolving side. As student loans continue to pump up the heavy side of consumer credit, adding on to an increasing balance from auto loans, the non-revolving portion is likely to continue to perform at a far more augmented rate than revolving. Given the decline in consumption indicators like retail sales and durable goods purchases, we expect that revolving credit and the consumer's willingness to take on more credit card debt remained subdued in April. Signs that credit card debt is likely to be lower in April does not overshadow the massive push from student loans but does raise some concern that the consumer is not faring as well as had previously been expected in terms of first quarter growth.

Initial Jobless Claims & Continued Claims (May 4 & Apr 27, Thursday 8:30 ET)

Forecast: 337K, 3020K

Consensus: 334K, 3020K

Previous: 324K, 3019K

Initial jobless claims are not expected to decline significantly as weaker reports from Federal Reserve activity indices and the most recent employment data do little to bolster much optimism in terms of sustainable labor market improvements. As a leading indicator, jobless claims data for April thus far hint at only a slightly better monthly average compared to March (347K vs. 352K). The most recent view of the 4-month moving average shows that after the surge upward in late March due to some large layoffs and weaker employment growth, the data has been much more stable near 350K. Both the Philadelphia and Texas Federal Reserve activity measures showed weaker data and declines in the number of employees for April that hint at no major improvements from the claims data.

Wholesale Inventories (March, Thursday 10:00 ET)

Forecast: 0.2%

Consensus: 0.4%

Previous: -0.3%

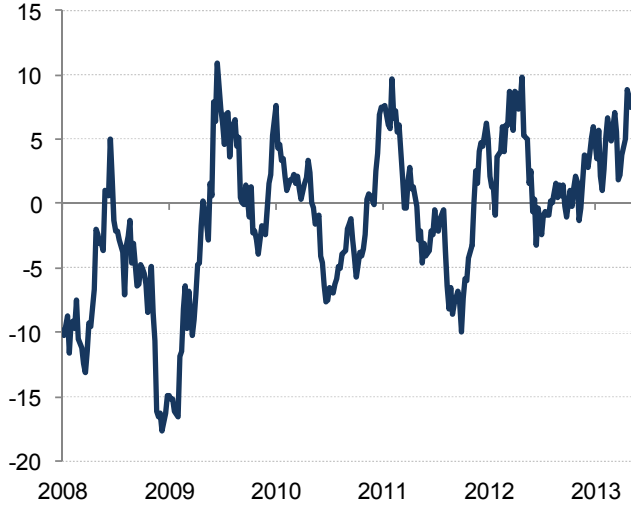
Wholesale inventories are likely to rise only slightly as various manufacturing reports hint at slower activity in March. At the wholesale level, inventories declined 0.3% in February for the first time since June, so it is unlikely that levels will drop again in March. Still, regional Federal Reserve manufacturing surveys across the districts show some mixed data in terms of inventories. Most reports noted an increase in inventories, save the Empire State Survey, and thus we expect the wholesale inventories report to show some signs of modest growth. The durable goods report for March also showed a slight rise in the measure of inventories for the third straight month although at a slower pace than February. However, we do not expect that demand for durable and nondurable goods will increase over the coming months therefore pushing inventories higher as stock on hand becomes difficult to shed.

Market Impact

After a data filled week, especially with the employment report, this week looks to be slightly more tranquil. Consumer credit will be interesting due to its ability to measure how far outside of their means the consumer is currently willing to go to get that couch, vehicle, or large ticket item. Outside of some minor data points we expect President Obama to continue putting pressure on both parties to reignite budget talks as he moves to make headway before more of the sequestration can hit.

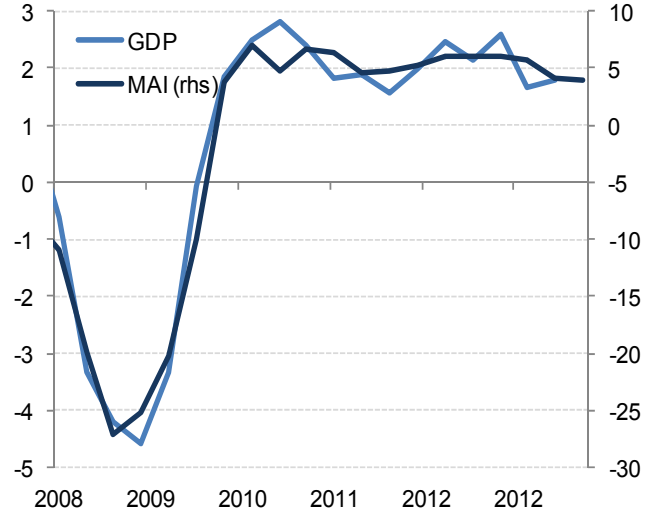
Economic Trends

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



Source: BBVA Research

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



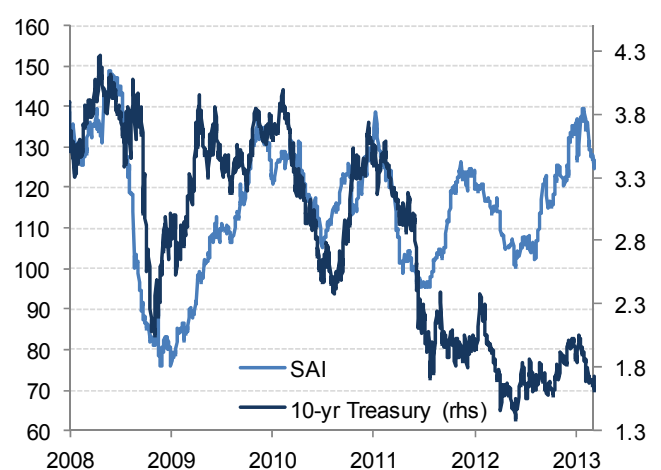
Source: BBVA Research & BEA

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



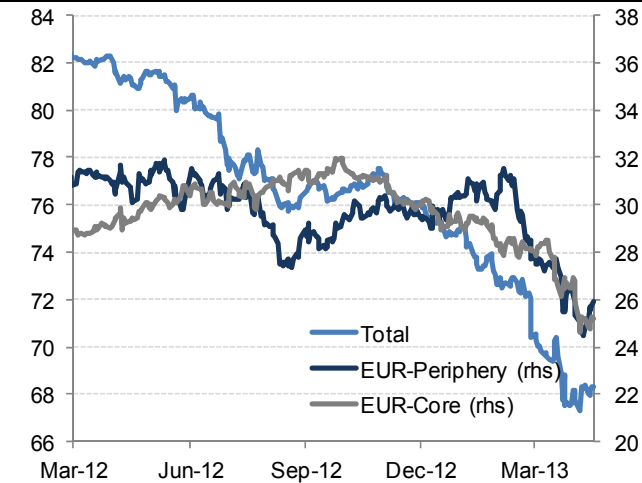
Source: BBVA Research

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



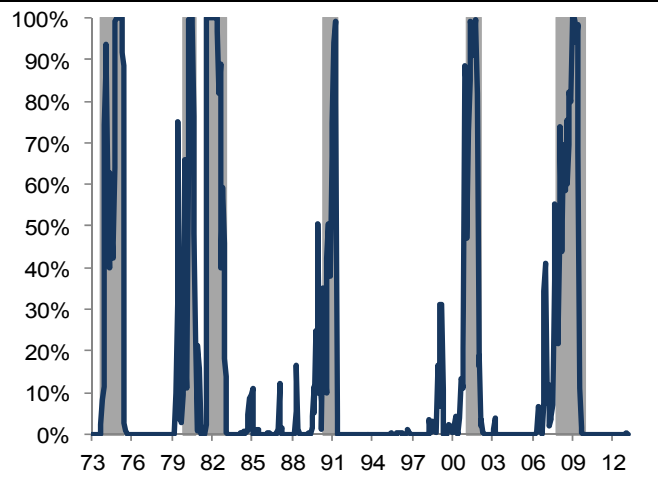
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

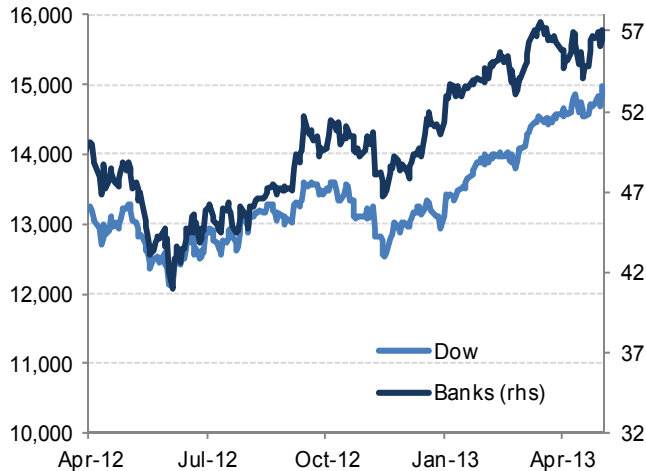
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

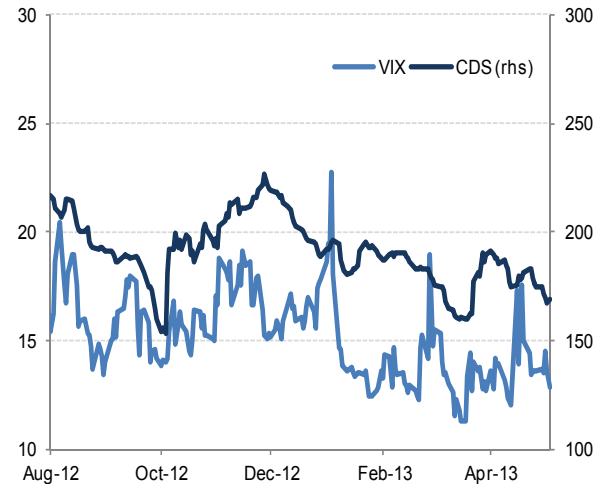
Financial Markets

Graph 9
Stocks
(Index, KBW)



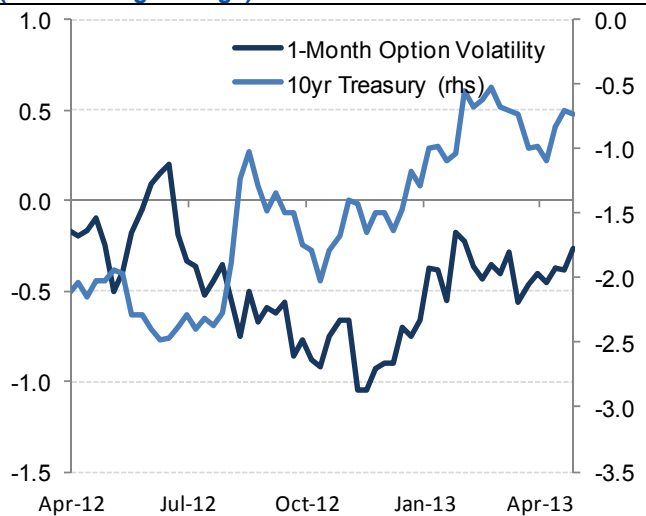
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



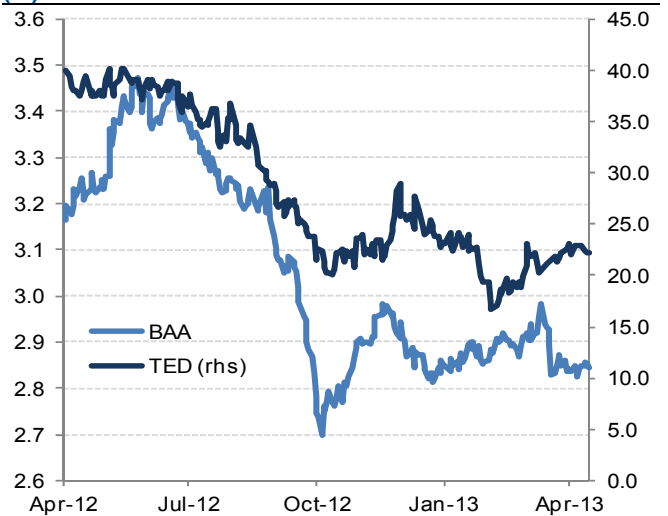
Source: Bloomberg & BBVA Research

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



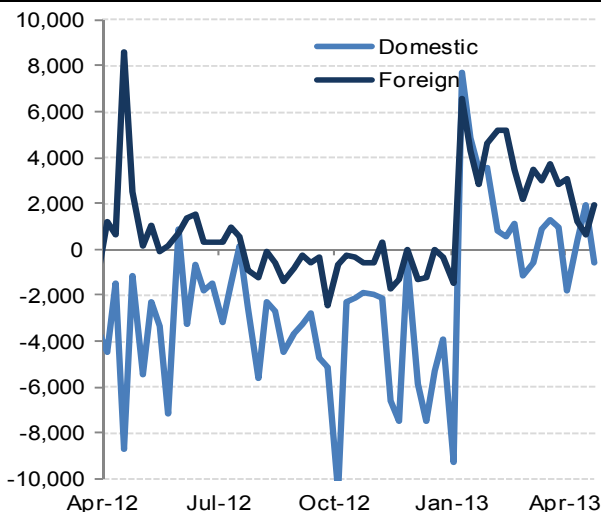
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



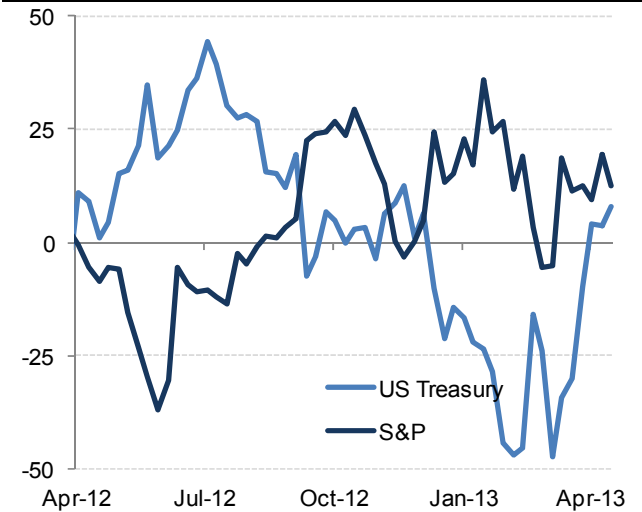
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

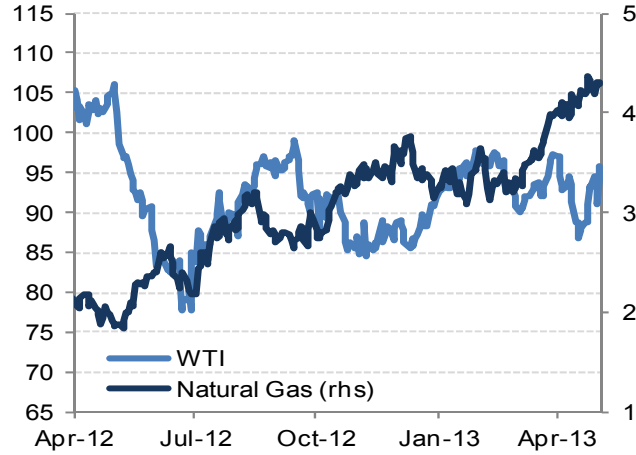
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

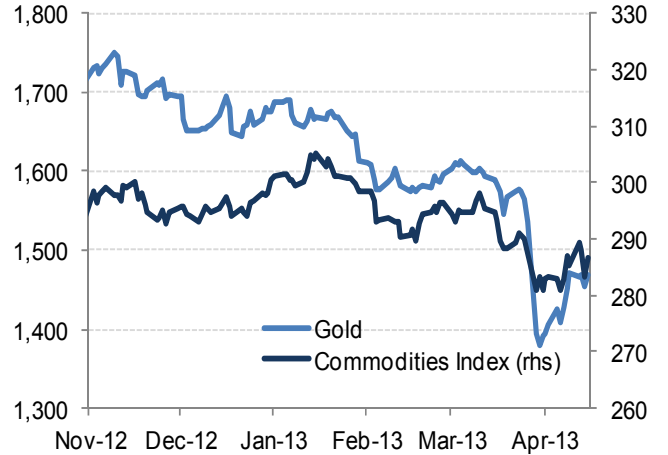
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



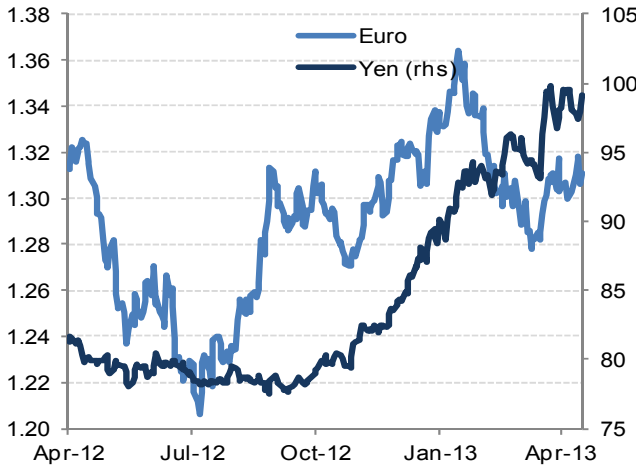
Source: Bloomberg & BBVA Research

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



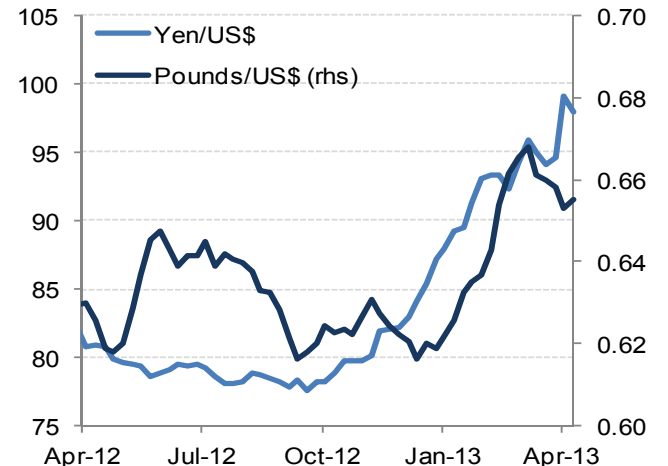
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



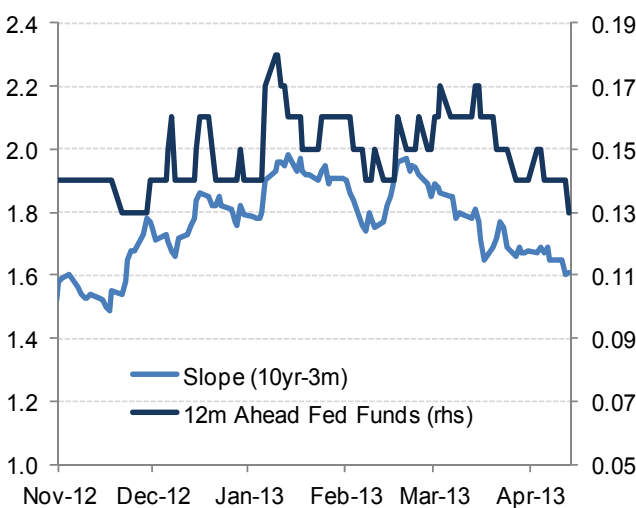
Source: Bloomberg & BBVA Research

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



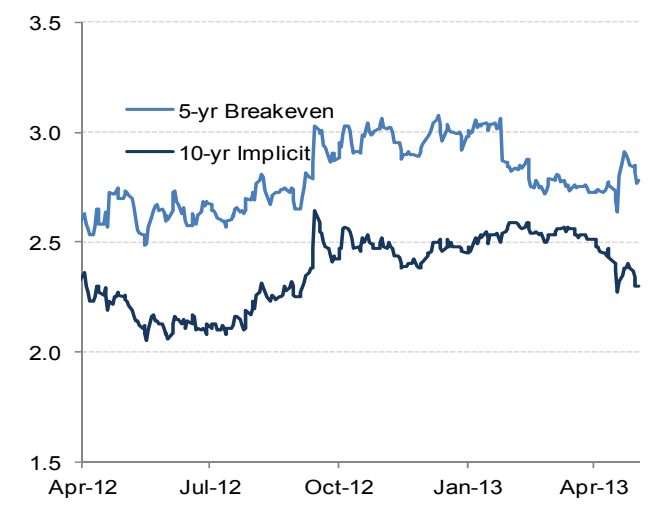
Source: Haver Analytics & BBVA Research

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	14.26	14.10
New Auto (36-months)	2.30	2.29	2.44	3.16
Heloc Loan 30K	5.22	5.24	5.26	5.47
5/1 ARM *	2.56	2.68	2.68	2.90
15-year Fixed Mortgage *	2.56	2.76	2.76	3.23
30-year Fixed Mortgage *	3.35	3.57	3.57	3.99
Money Market	0.47	0.47	0.50	0.72
2-year CD	0.65	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
1MFed	0.15	0.13	0.15	0.16
3MLibor	0.28	0.28	0.45	0.47
6MLibor	0.43	0.43	0.65	0.00
12MLibor	0.70	0.71	0.98	1.05
2yr Swap	0.35	0.36	0.38	0.55
5yr Swap	0.88	0.84	0.88	1.08
10Yr Swap	1.90	1.84	1.89	2.02
30yr Swap	2.86	2.80	2.80	2.79
30day CP	0.14	0.13	0.14	0.29
60day CP	0.15	0.13	0.17	0.41
90day CP	0.17	0.16	0.18	0.49

Source: Bloomberg & BBVA Research

Quote of the Week

President Barak Obama
Conference in Washington on Mexico visit
30 April 2013

"We've spent so much time on security issues between the United States and Mexico that sometimes I think we forget this is a massive trading partner responsible for huge amounts of commerce and huge numbers of jobs on both sides of the border"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-May	Consumer Credit	MAR	\$17.1B	\$16.0B	\$18.1B
7-May	JOLTS Report	MAR	3060K	-	3925K
9-May	Initial Jobless Claims	3-May	337K	334K	324K
9-May	Continued Claims	27-Apr	3020K	3020K	3056K
9-May	Wholesale Inventories	MAR	0.2%	0.4%	-0.3%

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	2.45	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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