

US Weekly Flash

Highlights

• Retail Sales Show Signs of Improvement Despite the Decline in Gas Prices

- The retail sales report for April showed a slight rise in consumer spending despite the call for a consensus decline. Headline retail sales rose 0.1%, which is modest considering the 0.5% decline seen in March. The nominal figure was higher than expected given the lower gas prices seen during the month. Sales at gasoline stations declined for the second consecutive month, down 4.7% in April. On the other hand, auto sales unexpectedly rose 1.0% after a dip in March, continuing a volatile string of recent data and conflicting yet again the unit sales report released earlier this month.
- Excluding autos, retail sales declined 0.3% following a 0.6% drop in March. When excluding both autos and gas, retail sales increased 0.6% for its quickest pace since last November. This is on the back of strong building materials growth and clothing store sales which grew at 1.5% and 1.2%, respectively. In general, this report points toward some resurgence in consumer spending as the spring and summer season draws customers out. We expect that spending may be a bit subdued during the second quarter but then accelerate again as we approach 3Q13 and beyond.

• Industrial Production Slows as Autos and Utilities Drop Unexpectedly

- Industrial production declined heavily as the utilities and manufacturing components yet again played havoc with the headline series. Down 0.5% in April, the industrial production index saw across the board declines but was pushed down most predominantly by a sharp fall in utilities output as demand shifted due to more accommodative weather. Stepping outside of utilities and energy, manufacturing production continued to show an overall slowdown, down 0.4% following a 0.3% decline in March. Auto demand has also been a bit volatile in the past few months, so it is not surprisingly that production fell 0.8% after substantial gains in February and March. Nondurables also declined based primarily on the aforementioned energy component rather than the nonenergy, which actually increased 0.4%.
- Mining seemed to be the one bright spot throughout the report, rising 0.9% as the series continues its upward trend despite the decline in commodity prices. Capacity utilization also declined to 77.8% which is in line with the overall slowdown throughout the industry. Overall, industrial production declined at a stronger pace than expected and with the sentiment pointing toward a continuing slowdown in the manufacturing sector, it is unlikely we will see much of a reversal in the coming months, barring any fluctuations in utilities. This supports our current baseline expectations for slight moderation in 2Q13 before growth accelerates again throughout the second half of the year.

• CPI Headline Inflation Continues to Decline While Core Prices Rise Slightly

- Headline consumer prices declined more than anticipated in April due to a sharp decline in the energy index for the second month in a row. Falling 0.4%, the headline consumer price index (CPI) was heavily influenced, as it has been as of late, not by food prices but energy. As supplies of oil continue to grow, WTI crude and other major oil indices have seen a rapid decline. This has translated into a heavy precipitous downturn in the energy component of the CPI index, down 4.3% in April. Gas prices dropped a significant 8.1% following a 4.4% decline in March. As for the remaining headline component, food prices rose 0.2% as both grain and meat prices increase despite a significant decline in the price of fruits and vegetables.
- Core inflation remained stable, rising by 0.1% in April as they had in March. As far as commodities were concerned, new & used vehicle prices rose as did medical care commodities and tobacco while apparel prices declined slightly. The services index, which has been driven upwards consistently by shelter prices, rose 0.1% as shelter prices rose 0.2% while medical and transportation services costs declined. This would primarily be due to the combined effects of the housing market and lower fuel costs. On an annual basis, however, headline and core inflationary rates remain well below the Fed's target rate which both supports their policy action but also could invoke some discussion as to whether this trend could continue. Overall, energy prices remain the exclusive driver of the headline figure and the core rate will continue to be heavily influenced by rising home prices.

Week Ahead

Existing Home Sales (April, Wednesday 10:00 ET)

Forecast: 4.98M

Consensus: 4.97M

Previous: 4.92M

Existing home sales for April are expected to remain on an upward trend as home prices continue to rise, prompting more homes to come onto the market. As residential prices have risen at an accelerated pace over the past year, there has been a growing ability for those who were waiting for an opportunity to sell to do just that. With home prices unlikely to lose pace in the coming year we are expecting the number of existing homes on the market to increase due to a willingness from the homeowner to sell now that their most important asset is beginning to regain value. A driver of this slow supply continues to be the dwindling inventory of distressed homes which, only months ago, was fueling the growth in existing home sales. For the time being though, existing homes will continue to sell quickly and with such a low supply it is unlikely that the number of homes sold per month surges from its current point.

FOMC Meeting Minutes (Wednesday 14:00 ET)

The most recent speeches from Federal Reserve Presidents shed light on what should be expected from the FOMC minutes to be released on Wednesday. While the statement communicated an elevated level of readiness to dial up purchases if “the outlook for the labor market or inflation changes,” the details of the minutes will likely reveal the Committee’s view on the present downward pressure on the inflation rate and may contain a critical assessment of the fiscal policy impact of “restraining economic growth.” We do not expect that the minutes will reveal any additional information as to a clearer timeline for tapering asset purchases.

New Home Sales (April, Thursday 10:00 ET)

Forecast: 428K

Consensus: 425K

Previous: 417K

Continuing its upward trend, we expect new home sales to rise again in April as more and more homes come online from the latest construction gains. Despite the large increase in housing starts in March, single family home construction remains fairly weak. The tight credit market and dwindling land availability is suppressing momentum in the construction sector for the time being. However, over the past 4-5 months there has been an increase in the number of single family homes that have been completed, according to the U.S. Census Bureau. Up 7.4% since the beginning of the year, new home completion has picked up pace which is encouraging for supply given how restrictive it has been. The accommodative weather will also pair well with the spring buying season and should help to bring buyers into the market. With rates remaining low and employment continuing to stabilize, the coming months should show an uptick in growth in the housing market.

Durable Goods Orders, Ex Transportation (April, Friday 8:30 ET)

Forecast: -0.9%, -0.2%

Consensus: 1.8%, 0.5%

Previous: -5.7%, -1.4%

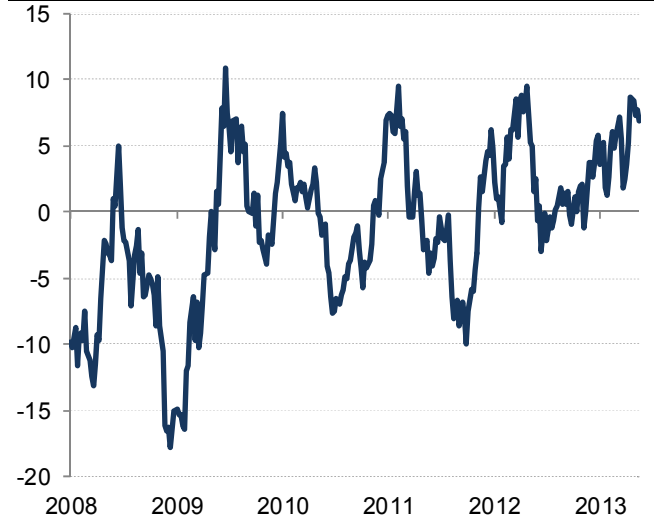
Durable goods orders are expected to shrink again in April as the manufacturing sector shows signs of slowing. While the transportation component, particularly aircraft orders, often encourages a more volatile headline figure, the core data show a somewhat clearer trend. Durable goods orders excluding transportation have declined throughout the past two months, reflecting a similar slowdown as seen with other manufacturing indicators for the start of 2Q13. The ISM index has fallen for the past two months as well, nearing the 50 mark as it hovers at 50.7, which is significantly lower than its yearly high in February of 54.2. Coupled with the recent decline in industrial production for April, the evidence is pointing toward another month of falling new orders and possibly a decline in shipments as well given the lack of demand across sectors. The Empire State and the Philadelphia Fed surveys also declined in April as demand slowed and new orders were far from positive. The outlook from both surveys for the coming six months was less optimistic than in prior months, ultimately suggesting that durable goods demand may continue to be weak.

Market Impact

This week will be heavily focused on both the release of the FOMC meeting minutes and the latest housing data. We expect the housing recovery to continue on par with prior months despite the continuing lack of supply, forcing prices to rise across the board. Durable goods, released at the end of the week, will be interesting to watch purely because we have not had two consecutive declines in a few months and with current manufacturing data looking slow, we may be on track to have another, which could cause markets to move back slightly from their historical highs.

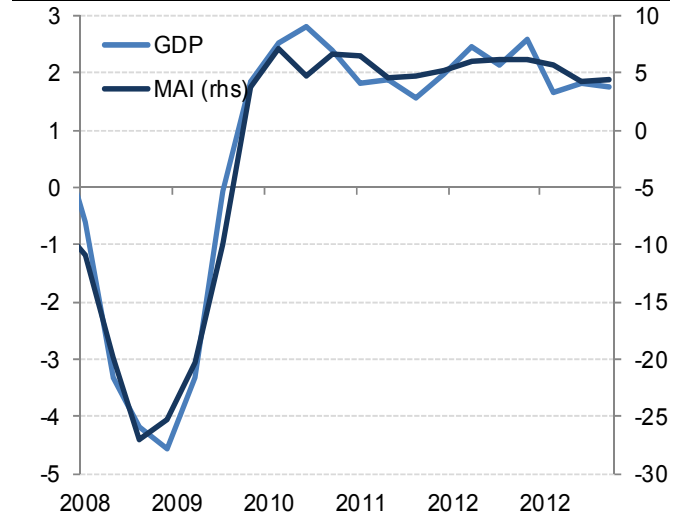
Economic Trends

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



Source: BBVA Research

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



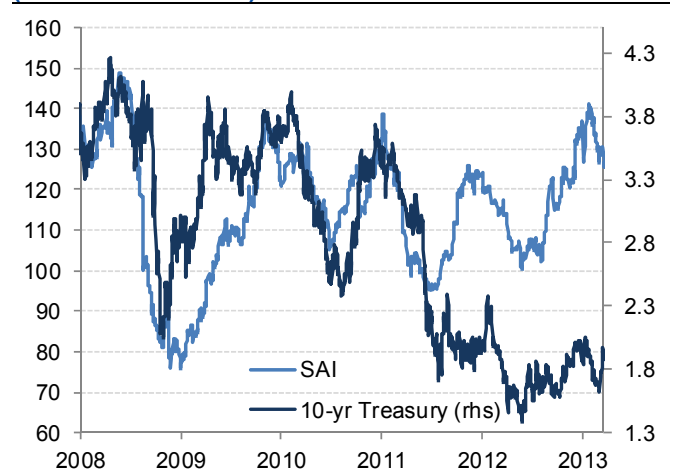
Source: BBVA Research & BEA

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



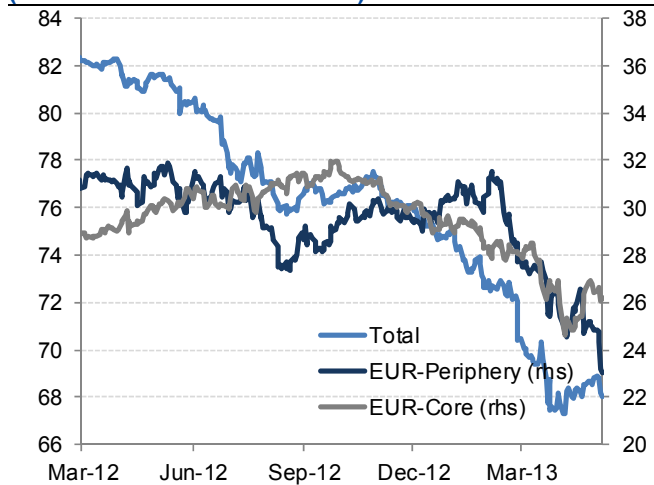
Source: BBVA Research

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



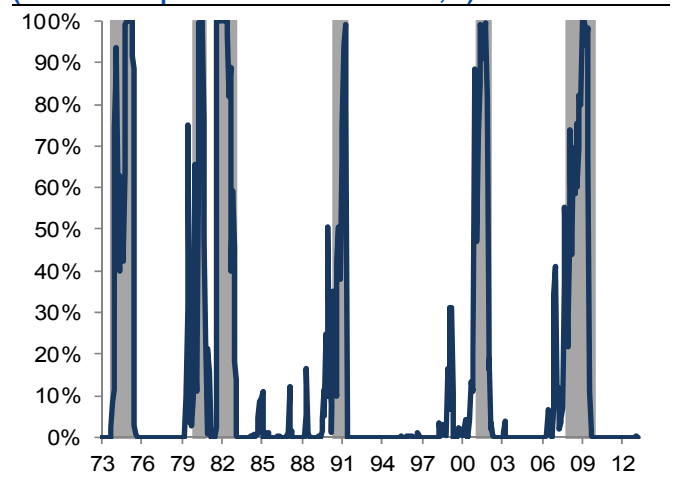
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

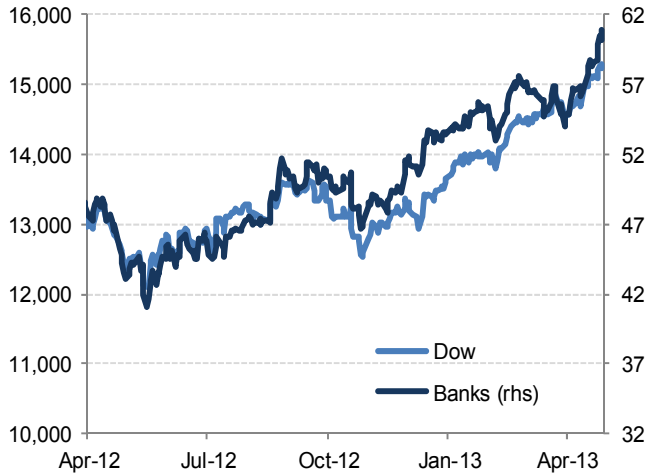
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

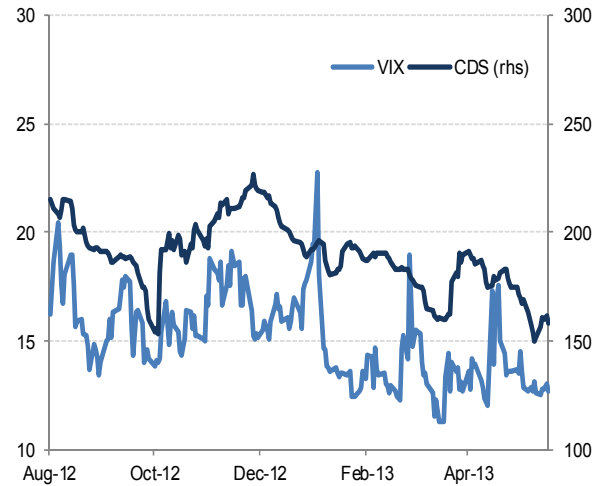
Financial Markets

Graph 9
Stocks
(Index, KBW)



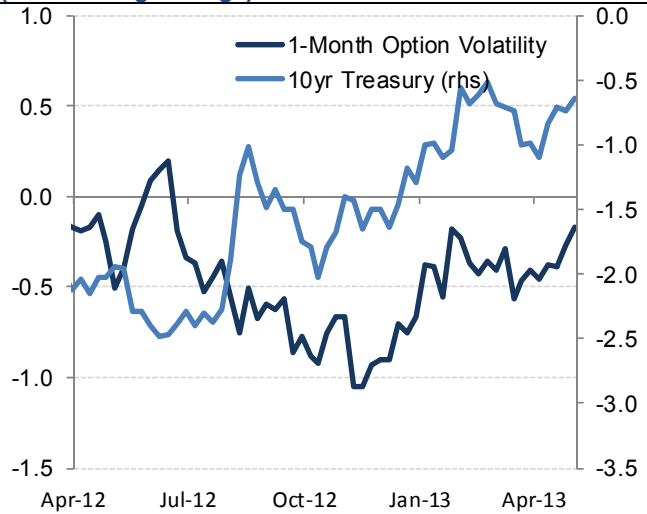
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



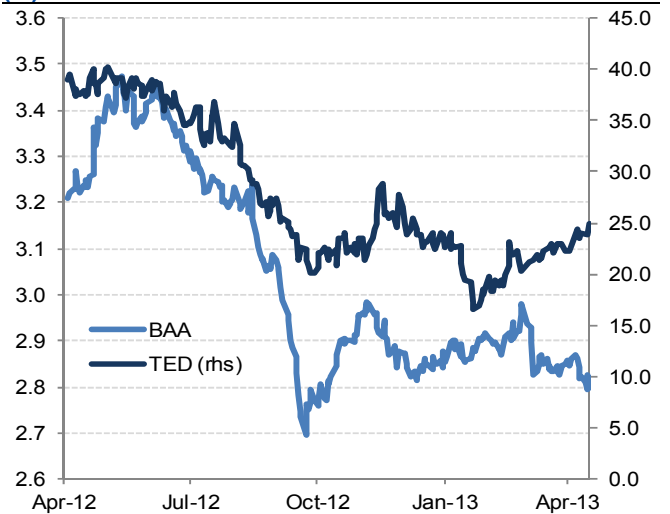
Source: Bloomberg & BBVA Research

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



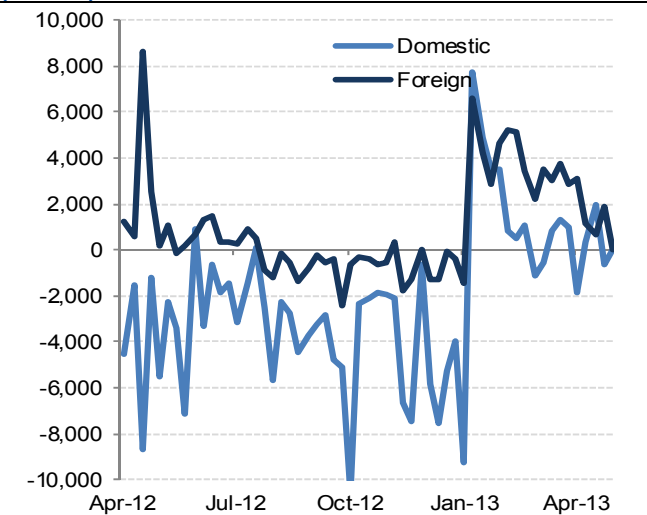
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



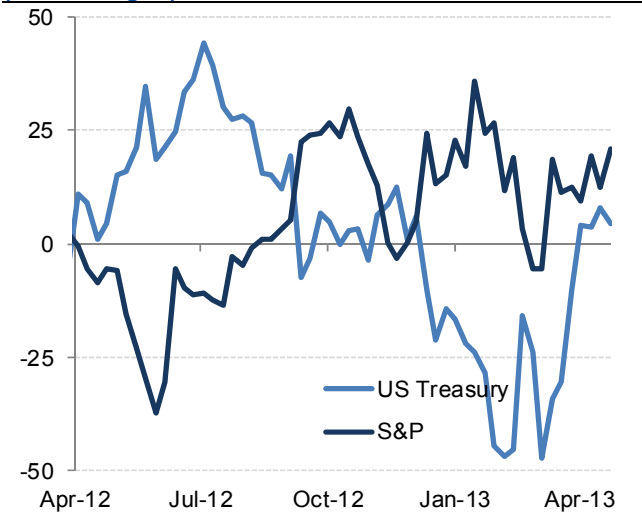
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

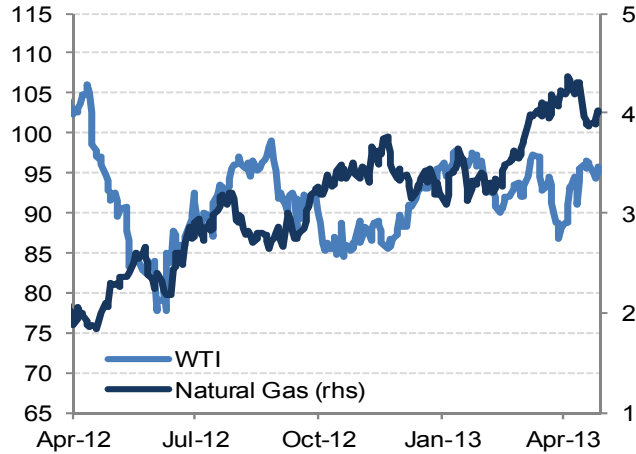
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

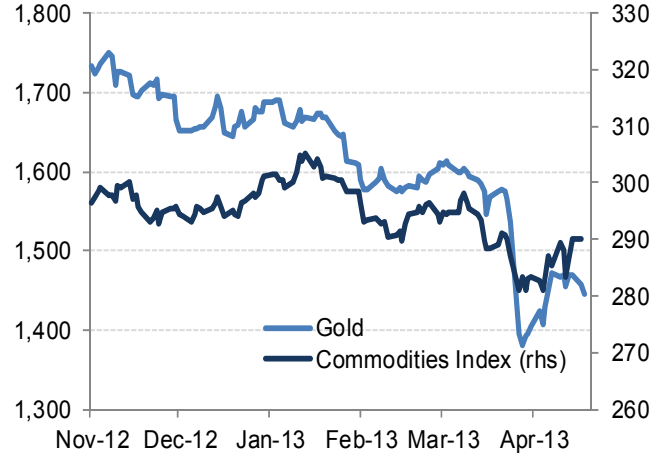
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



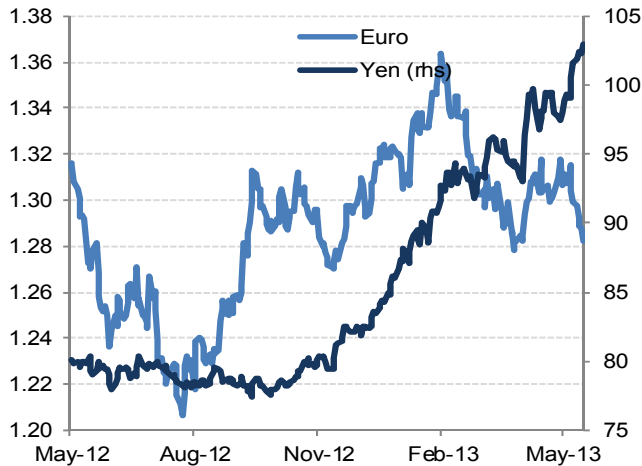
Source: Bloomberg & BBVA Research

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



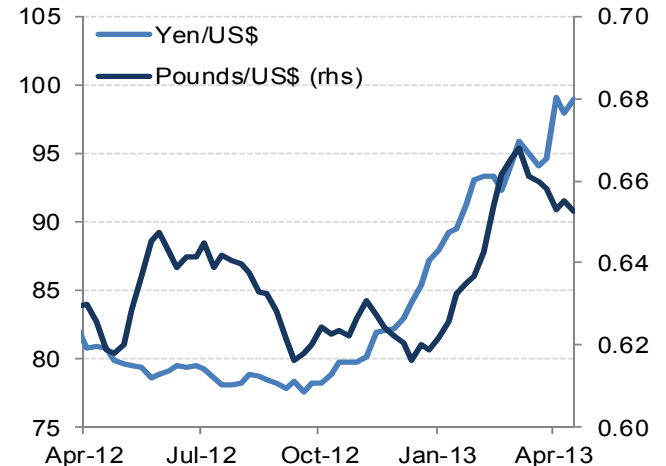
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



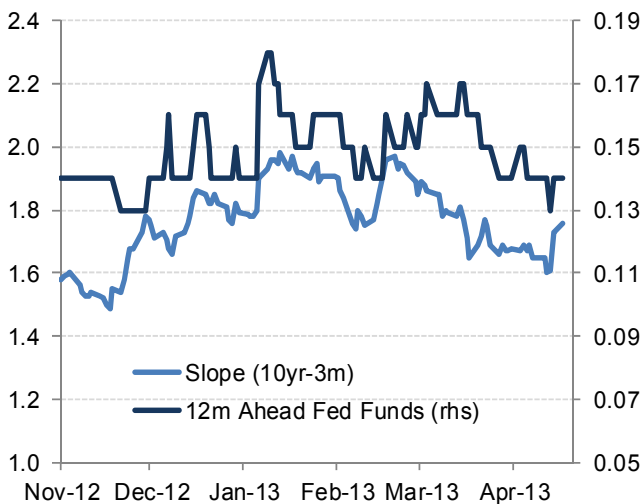
Source: Bloomberg & BBVA Research

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



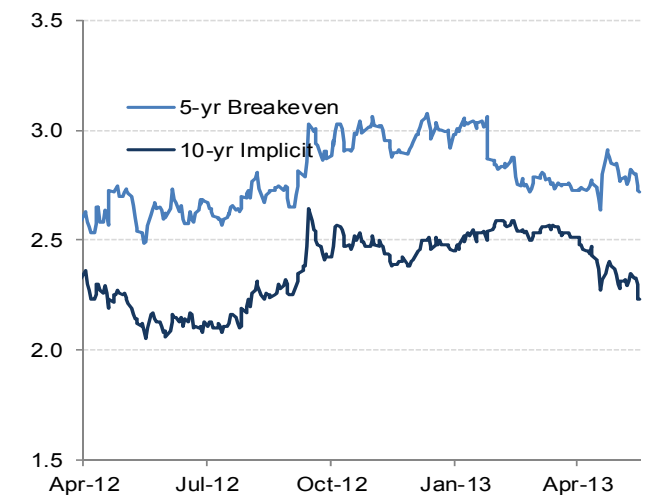
Source: Haver Analytics & BBVA Research

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	14.12	14.10
New Auto (36-months)	2.30	2.30	2.44	3.13
Heloc Loan 30K	5.34	5.35	5.25	5.52
5/1 ARM*	2.62	2.68	2.62	2.90
15-year Fixed Mortgage*	2.69	2.76	2.65	3.23
30-year Fixed Mortgage*	3.51	3.57	3.43	3.99
Money Market	0.47	0.47	0.47	0.72
2-year CD	0.67	0.67	0.63	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	0.11	0.12	0.15	0.16
3MLibor	0.27	0.28	0.45	0.47
6MLibor	0.42	0.43	0.65	0.00
12MLibor	0.69	0.70	0.98	1.07
2yr Swap	0.38	0.37	0.37	0.67
5yr Swap	0.97	0.97	0.88	1.10
10Yr Swap	2.05	2.04	1.87	1.85
30yr Swap	3.06	3.02	2.80	2.49
30day CP	0.15	0.12	0.15	0.34
60day CP	0.14	0.15	0.15	0.42
90day CP	0.17	0.16	0.16	0.46

Source: Bloomberg & BBVA Research

Quote of the Week

San Francisco Federal Reserve President John Williams
Portland Business Journal Luncheon
16 May 2013

"Assuming my economic forecast ... holds true and various labor market indicators continue to register appreciable improvement in coming months, my view is we could reduce somewhat the pace of our securities purchases, perhaps as early as this summer."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
22-May	Existing Home Sales	APR	4.98M	4.97M	4.92M
23-May	Initial Jobless Claims	17-May	345K	346K	360K
23-May	Continued Claims	11-May	2995K	3000K	3009K
23-May	FHFA House Price Index	MAR	0.8%	0.8%	0.7%
23-May	New Home Sales	APR	428K	425K	417K
24-May	Durable Goods Orders	APR	-0.9%	1.8%	-5.7%
24-May	Durable Goods Ex Transportation	APR	-0.2%	0.5%	-1.4%

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	2.45	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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