

# US Weekly Flash

## Highlights

### • Real GDP Growth Revised Down on Weaker Consumption and Investment

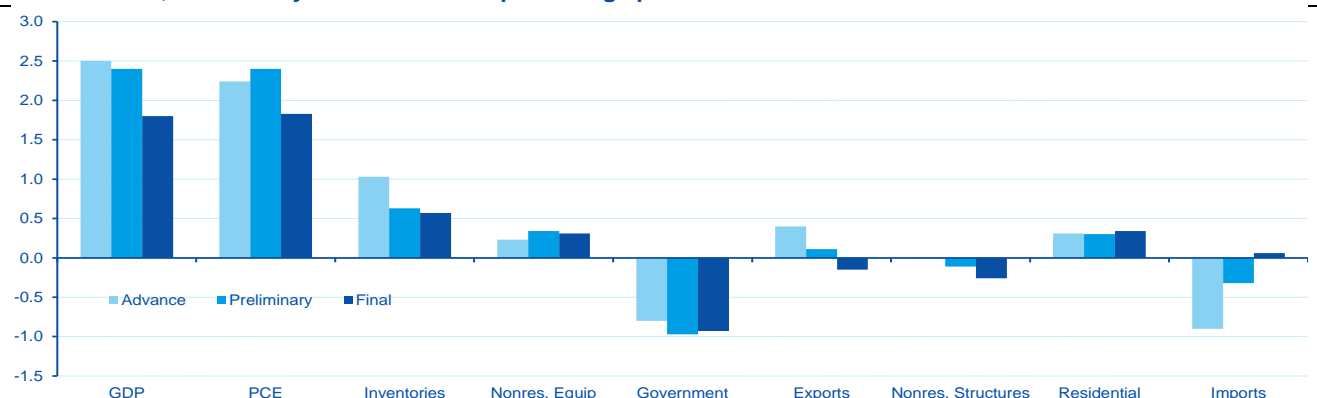
- Real GDP growth for 1Q13 unexpectedly declined from 2.4% in the preliminary report to 1.8% in the final estimate as consumer spending and non-residential investment emerged weaker than anticipated. Despite what was meant to be a stronger quarter, the final estimate of 1.8% remains markedly low compared to the first group of consensus figures for the advanced release which hovered around 3.2%. Nevertheless, given the pressure from the tax rise at the beginning of the year, coupled with financial and political headwinds, it may have been premature to accept a 2.2% contribution from personal consumption. The final estimate of 1.8% for consumption was not the only portion of the report to have been revised down, however. Non-residential structures, already in decline, were estimated to have accelerated its drag on GDP to a final estimate of -8.3% while exports for the quarter were revised into negative territory for the final estimate, down 1.1% for the second consecutive quarter.
- Looking at the quarter overall, the message is unclear but relatively optimistic. There was growth, although 1.8% is not a pre-recession high, but given the various headwinds in 1Q13, the economy sputtered along at a moderate pace. Inflation, which was revised at the core level from 1.6% to 1.7% YoY, was still within the bounds of the Fed's policy action and key components like consumer spending remain on an upward trend from last year. Ultimately, we do not expect that this downward revision will put any pressure on the Fed to significantly shift its monetary policy plans, so long as upcoming data do not disappoint.

### • Personal Income and Spending More Optimistic in May, Supported by Lower Prices

- After a mixed set of data which showed the consumer had taken their foot off of the throttle in April, the picture seems far more optimistic as both income and spending rose in May. After a moderate gain of only 0.1% in April, personal income made a significant leap back in May, rising 0.5% as wage and salary disbursements rose 0.3%. Outside of the private industry, government wages rose just below 0.1% as the sector continues to feel the pressure of spending reductions across the board and will unlikely shed the flat income growth trend in the coming quarters.
- Consumer spending was a similar bright spot in May as it reversed its decline from April but in the goods sector rather than services. Up 0.3%, the outlays portion of the report was bolstered by a 0.5% rise in goods spending. While non-durable goods rose 0.3% after a significant decline the month prior, durable goods jumped 0.9%, its fastest pace since December of last year. In terms of inflation, the situation has not changed from April at the core level, rising only 0.1% after remaining flat the month prior. The YoY figure was stable at 1.1% which further signals that the Fed's policies are not translating into accelerated inflation for the time being.

Graph 1

**Contributions to Real GDP Growth**  
1Q13 Advance, Preliminary and Final SAAR percentage points



# Week Ahead

## ISM Manufacturing Survey (June, Monday 10:00 ET)

Forecast: 49.9

Consensus: 50.2

Previous: 49.0

Mixed reports from the manufacturing sector are making June an interesting focal point in terms of gauging whether or not the sector is really in decline or just experiencing a temporary slowdown. Falling below 50 to signal a contraction in May, the ISM index purportedly showed that activity in the sector was following pundit's expectations and slowing in 2Q13. However, given recent data on growth in durable goods orders, it is difficult to specify whether May's decline in the ISM was only temporary or whether the durable goods report was the outlier. Nevertheless, we turn to the Federal Reserve surveys which tend to foreshadow the direction of the nation's manufacturing index as a whole. The Empire State survey has new orders and shipments declining heavily in June while the popular Philadelphia survey shows the same indicators moving in the positive direction with similar pace. While both jumped significantly into positive territory at the headline level, the ISM-adjusted figures remain slightly below 50 which indicate that they are still contracting. Overall, we expect the national ISM to shift toward expansion but not quite enough to suggest a strong pickup in activity.

## Construction Spending (May, Monday 10:00 ET)

Forecast: 0.7%

Consensus: 0.6%

Previous: 0.4%

Construction spending is expected to rise in May as private residential outlays continuing to drive the overall figure upward. Multifamily residential construction remains strong but with current credit tightness hindering a flood of supply, we do not expect that single family or multifamily metrics will significantly surpass the current pace. Despite the slight decline in housing starts in April, we did see a modest rebound in housing data for May. Nevertheless, given the mixed bag of inputs for the overall figure, it is unlikely that residential construction will be the only component to drive the total construction spending figure. Infrastructure spending emerged slightly stronger in April but the volatile nature of spending patterns does little to bolster any longer-term growth prospective. However, talk from many Midwest and Western states hints at on-going revitalization of road and utilities which would contribute to the public construction component.

## International Trade (May, Wednesday 8:30 ET)

Forecast: -\$40.0B

Consensus: -\$40.1B

Previous: -\$40.3B

While there have been few indications of any major trade deals posed by the US and its trading partners, recent product launches from Apple and strong domestic vehicle demand have the potential to lower the international trade balance for May. The trade balance rose in April as imports grew at a quicker pace than anticipated and should continue at a relatively modest pace as business confidence increases and consumer demand follows suit. The aforementioned growth in exports may be heavily influenced by services given that goods exports are both volatile and relatively flat in a relatively weak global economy. Growing demand for U.S. vehicles will likely have a positive effect over the coming months as more and more consumers look to replace an aging fleet of cars. Thus, with very little positive momentum in global trading patterns, we expect that the trade deficit will be mostly unchanged for May.

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

Forecast: 165K, 7.7%

Consensus: 165K, 7.5%

Previous: 175K, 7.6%

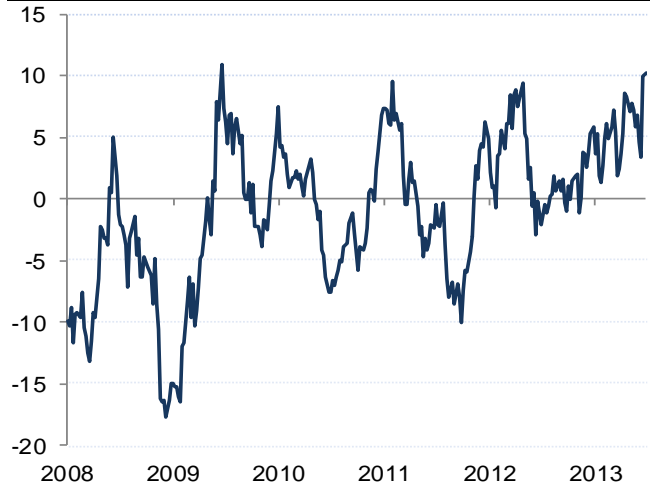
After a stronger showing in May from nonfarm payrolls, data is not conveying as much optimism for June. Initial jobless claims, although volatile, have been lower compared to May but not by much while continued claims have remained on the decline, possibly signaling that longer term unemployed people are finding work. However, given the recent rise in labor force participation, there may be some trepidation given the subsequent increase in the unemployment rate. This is no reason for alarm however; many people have been waiting for the best time to reenter the workforce and their reentry may signal some optimism in the labor market and for those who were discouraged after the worst of the recession hit. The hope is that the rise in the labor force will eventually be met with an increase in nonfarm payrolls but that remains to be seen as the second quarter is not expected to bring about explosive growth in employment. Without much growth in construction or durable goods employment over the month and little else to feed payrolls, we expect June's report to be similar to the trend set in May.

## Market Impact

Celebrating the 4<sup>th</sup> of July in the U.S. will likely mute most of the data that comes out earlier in the week, especially since the majority of attention will be on Friday's employment report. Nevertheless, the ISM report on Monday is particularly important given the weakness in manufacturing over the past few months. Although we do not expect the figure to break into the 50+ area, a move closer toward expansion will be a sigh of relief for the sector as some expect a further decline. Moving past independence day, the employment report will be a major indicator of how the economy will close out 2Q13 after a relatively weak real GDP figure forced some reevaluations on how 1H13 will look.

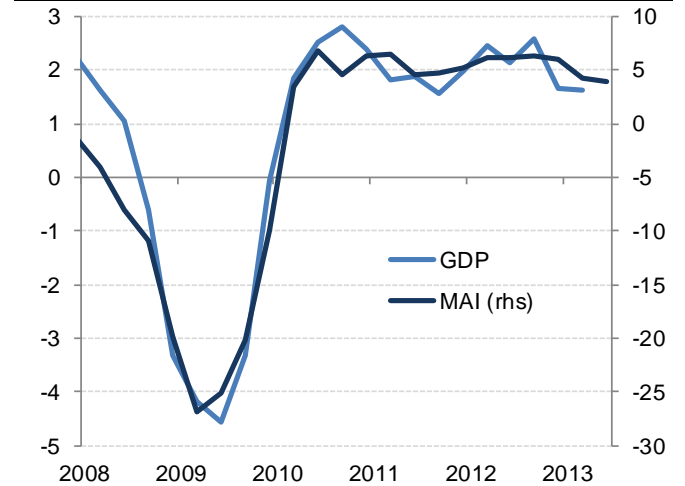
# Economic Trends

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



Source: BBVA Research

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



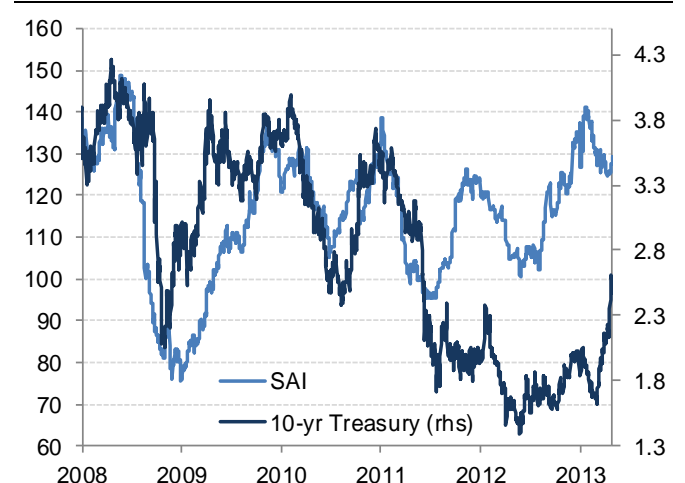
Source: BBVA Research & BEA

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



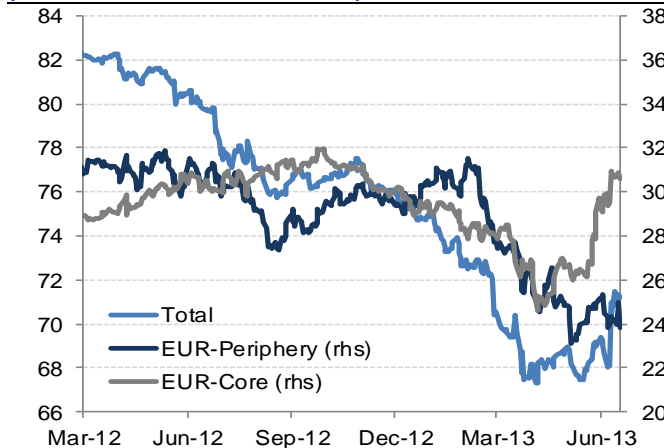
Source: BBVA Research

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



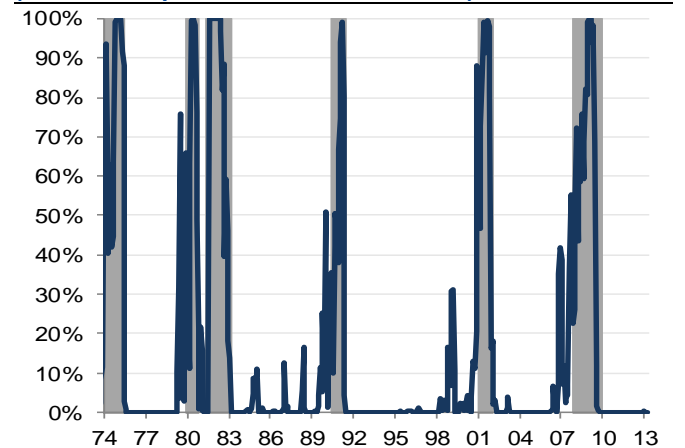
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

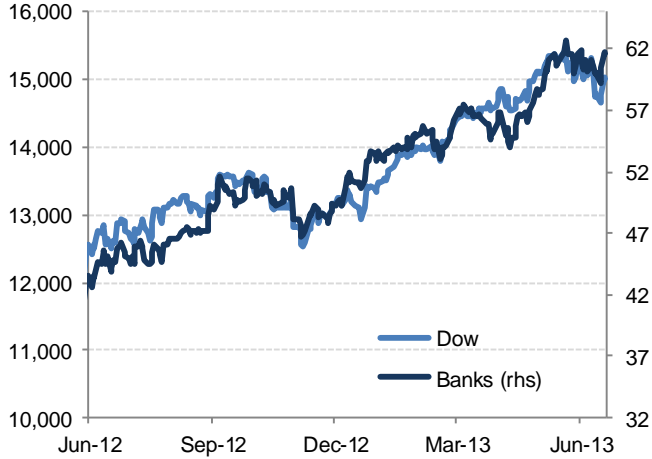
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas,%)



Source: BBVA Research

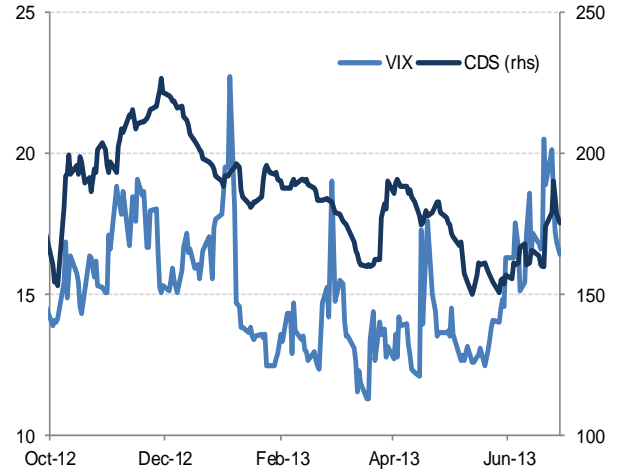
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



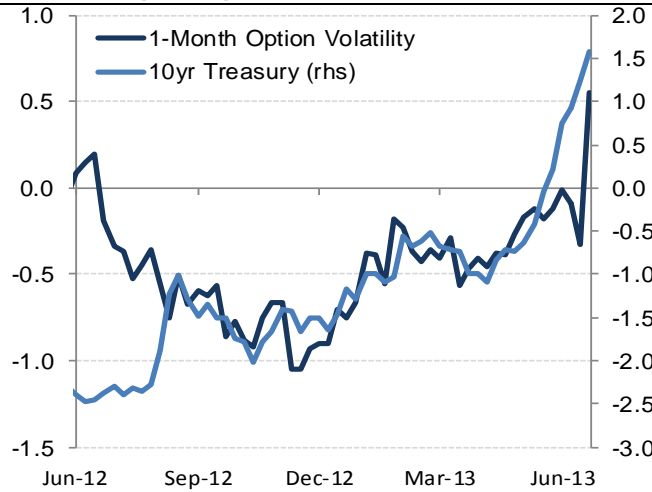
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



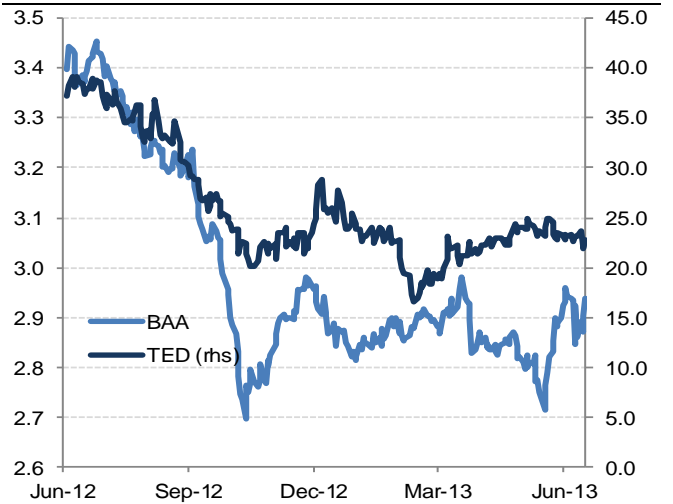
Source: Bloomberg & BBVA Research

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



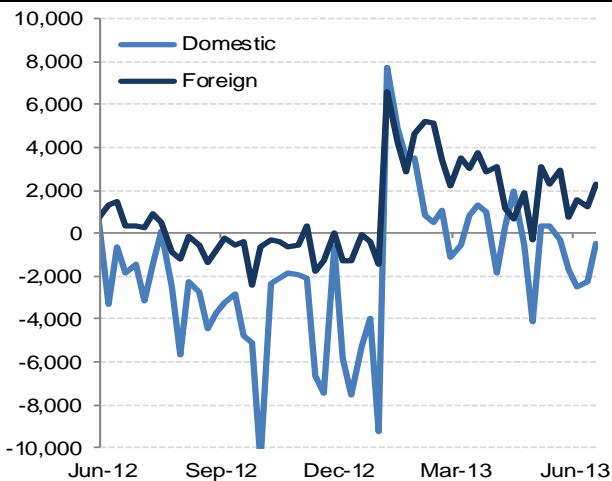
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



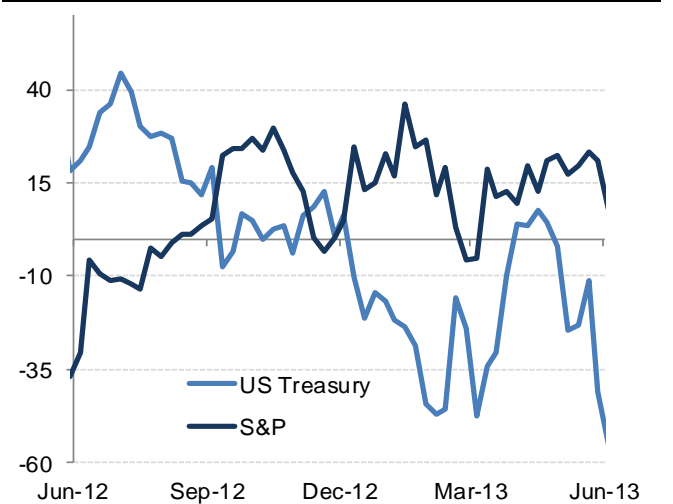
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

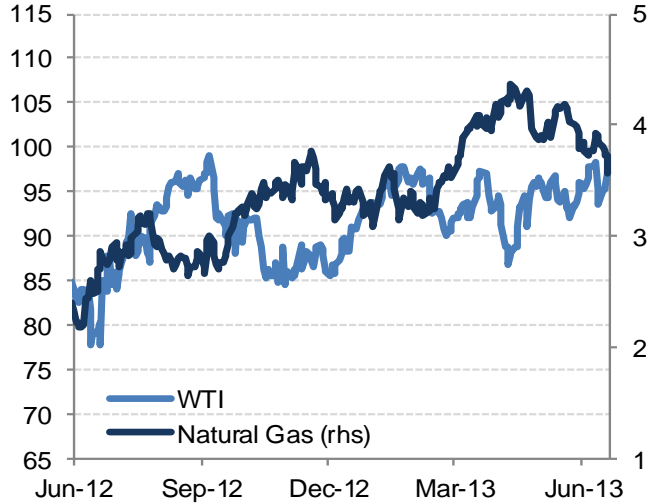
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

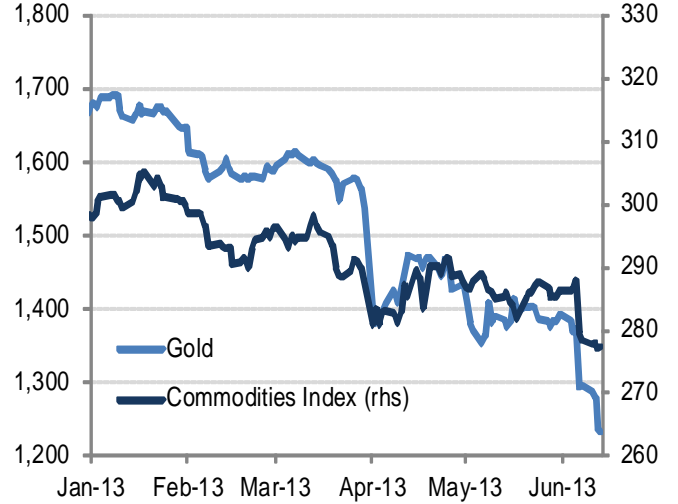
# Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



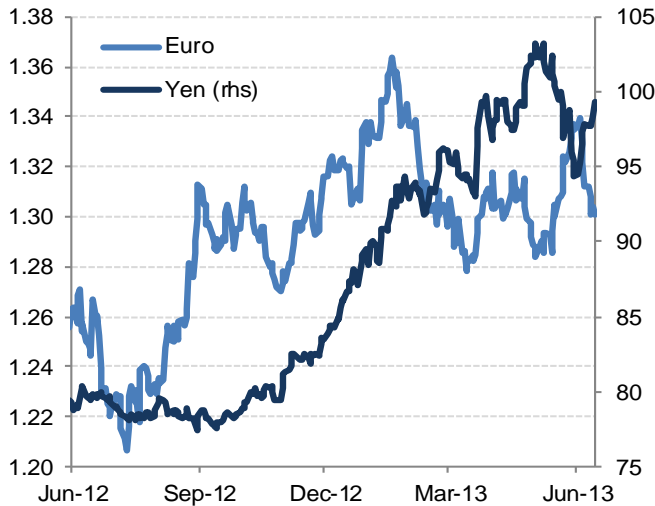
Source: Bloomberg & BBVA Research

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



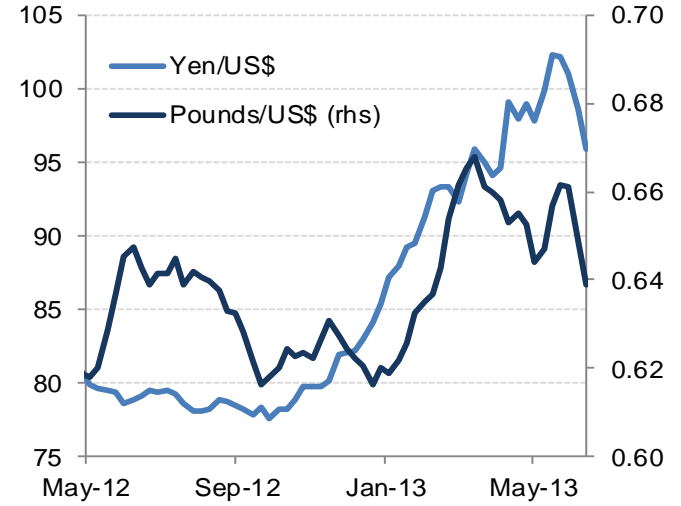
Source: Haver Analytics & BBVA Research

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



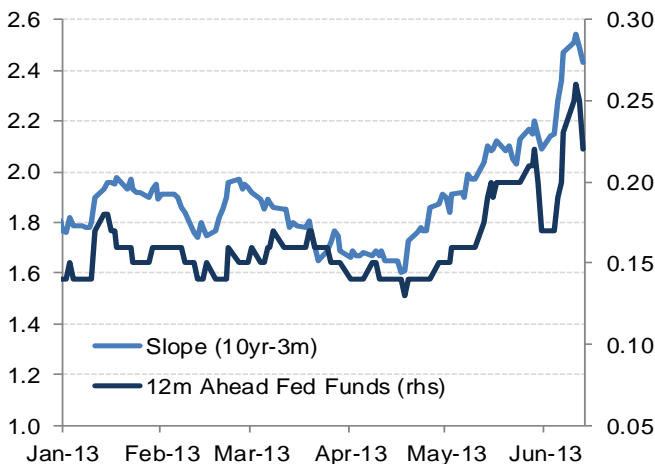
Source: Bloomberg & BBVA Research

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



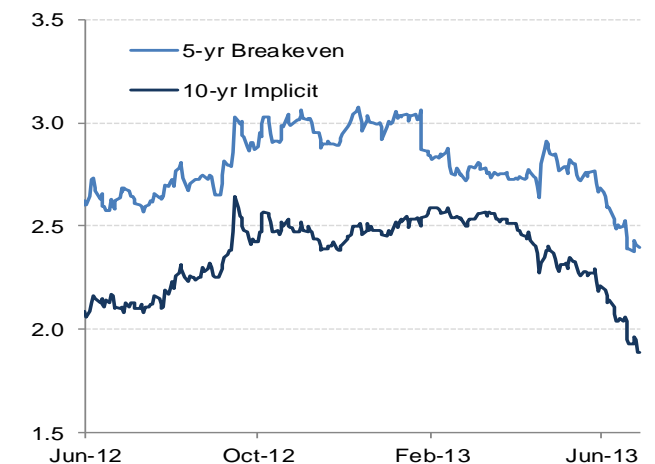
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		Week ago	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)	2.46	2.47	2.29	3.11
Heloc Loan 30K	5.34	5.34	5.33	5.52
5/1 ARM*	3.08	2.68	2.63	2.90
15-year Fixed Mortgage*	3.50	2.76	2.77	3.23
30-year Fixed Mortgage*	4.46	3.57	3.59	3.99
Money Market	0.45	0.45	0.46	0.72
2-year CD	0.71	0.72	0.70	0.90

\*Freddie Mac National Mortgage Homeowner Commitment US  
Source: Bloomberg & BBVA Research

Table 1

## Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.09	0.10	0.09	0.09
3M Libor	0.27	0.27	0.45	0.46
6M Libor	0.41	0.41	0.65	0.00
12M Libor	0.69	0.67	0.98	1.07
2yr Sw ap	0.52	0.57	0.46	0.55
5yr Sw ap	1.58	1.65	1.21	0.97
10Yr Sw ap	2.73	2.76	2.30	1.78
30yr Sw ap	3.49	3.49	3.21	2.50
30day CP	0.14	0.12	0.14	0.25
60day CP	0.14	0.14	0.14	0.29
90day CP	0.16	0.15	0.17	0.40

Source: Bloomberg & BBVA Research

## Quote of the Week

Federal Reserve Governor Jeremy Stein

At the C. Peter McColough Series on International Economics, Council on Foreign Relations, New York, New York  
28 June 2013

*"My only point is that consumers and businesses who look to asset prices for clues about the future stance of monetary policy should take care not to over-interpret these movements. We have attempted in recent weeks to provide more clarity about the nature of our policy reaction function, but I view the fundamentals of our underlying policy stance as broadly unchanged."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
1-Jul	ISM Manufacturing Survey	JUN	49.9	50.5	49
1-Jul	Construction Spending	MAY	0.7%	0.6%	0.4%
2-Jul	Total Vehicle Sales	JUN	15.3M	15.3M	15.23M
2-Jul	Factory Orders	MAY	1.5%	2.0%	1.0%
3-Jul	ADP Employment Report	JUN	150K	158K	135K
3-Jul	International Trade Balance	MAY	-\$40.0B	-\$40.1B	-\$40.3B
3-Jul	ISM Non-Manufacturing	JUN	54	54.1	53.7
5-Jul	Initial Jobless Claims	29-Jun	350K	345K	346K
5-Jul	Continued Jobless Claims	22-Jun	2949K	2965K	2965K
5-Jul	Nonfarm Payrolls	JUN	165K	165K	175K
5-Jul	Private Payrolls	JUN	176K	175K	178K
5-Jul	Manufacturing Payrolls	JUN	-1K	0K	-8K
5-Jul	Unemployment Rate	JUN	7.7%	7.5%	7.6%

## Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	<b>1.8</b>	<b>2.2</b>	1.8	2.3	2.5
CPI (YoY %)	<b>3.1</b>	<b>2.1</b>	2.1	2.2	2.3
CPI Core (YoY %)	<b>1.7</b>	<b>2.1</b>	1.9	2.0	2.1
Unemployment Rate (%)	<b>8.9</b>	<b>8.1</b>	7.6	7.0	6.5
Fed Target Rate (eop, %)	<b>0.25</b>	<b>0.25</b>	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	<b>1.98</b>	<b>1.72</b>	2.45	2.73	3.39
US Dollar/ Euro (eop)	<b>1.32</b>	<b>1.31</b>	1.32	1.30	1.35

Note: Bold numbers reflect actual data



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