

# US Weekly Flash

## Highlights

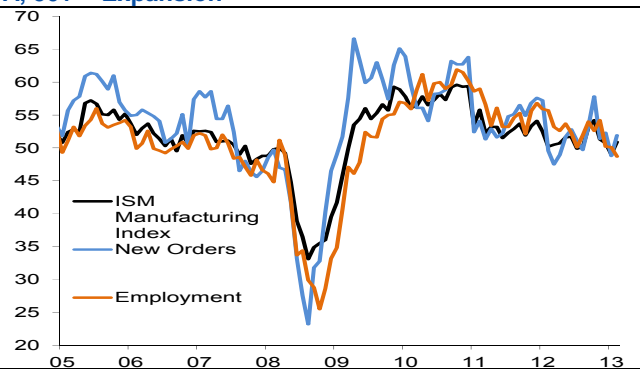
### • Manufacturing Activity Rebounds on New Orders and Production

- Alleviating the worry that the manufacturing sector was going to remain in contraction for the last two months of 2Q13, the ISM Manufacturing Index for June showed some renewed confidence in the industry. Rising almost 2 points in June to 50.9, the sector grew at an impressive clip after stuttering the month prior.
- New orders rose from 48.8 to 51.9 as the weakness from May subsided and firms began to request more from the sector as we shift into 2H13. As a current measure of how manufacturing activity fared after a weaker May, the production index surged from a weak 48.6 to 53.4. The negative component of the index was the employment index which has been decelerating precipitously and finally broke below 50 in June to 48.7, its lowest level in nearly four years.

### • Nonfarm Payrolls Surprise Upward as the Service Industry Shows Continued Strength

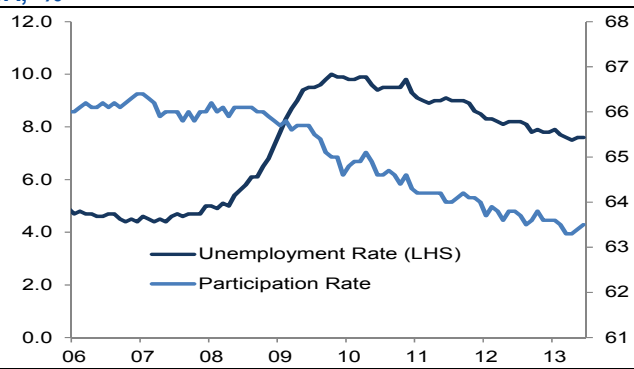
- The employment report for June will have a significant impact on how 2Q13 growth plays out as both June's figures and revisions to April and May bring the three-month average just under 200K. Nonfarm payrolls for the month rose much higher than expected, up 195K compared to consensus expectations for 161K. The goods producing sector continues to remain the weaker of the two sub-components as manufacturing has slowed since April. The sector as a whole added 8K with construction adding 13K and manufacturing creating most of the drag, falling 6K for the fourth consecutive month. Wholesale and retail trade both grew at a strong pace as the summer season has brought on a surge of interest from consumers, rising 11K & 27K, respectively. Transportation & warehousing, information, and other services were the three service components that declined, down 14K collectively with the split between them close to equal. Professional & business services also grew a moderate pace in June, up 53K after three months of strong gains. The heavy hitter of the month however, was leisure & hospitality services which rose 75K to its highest level since April of 2005 as the summer months roll around and these touristy industries benefit from travel seekers and warm weather habits. Helping to impart some optimism in the labor market were the revisions made to April and May employment figures which saw rises of 50K in April and 20K in May. This brings the three-month average to 195K which is very close to the 200K mark that economists are looking to surpass in order to bring sustained employment growth to the economy.
- Despite the surprisingly high nonfarm payroll figure, the unemployment rate remained at 7.6% due mostly to the participation rate which continued to rise, reaching 63.5% in June. While it remains pivotally low, given the growing confidence in the labor market, there may be room for growth as more people become emboldened with the hope of employment. Average weekly earnings however, ticked up 0.4% in June, marking the fastest pace since February. Overall this is a positive end to 1H13 and imparts optimism in terms of the outlook for 2H13 labor growth.

Graph 1  
**ISM Manufacturing Index, New Orders & Employment**  
SA, 50+ = Expansion



Source: Institute for Supply Management & BBVA Research

Graph 2  
**Unemployment & Participation Rate**  
SA, %



Source: Bureau of Labor Statistics & BBVA Research

# Week Ahead

## Consumer Credit (June, Monday 15:00 ET)

Forecast: \$12.33bn

Consensus: \$12.50bn

Previous: \$11.06bn

With consumer credit rising at an accelerated pace, it is evident that non-revolving credit will continue to be the majority driver of the figure. Although there is concern over the sustainability of the current level of student debt, fear will do little to hinder the current pace of non-revolving student loans which have been a significant portion of consumer credit growth. In addition, the growing demand for vehicles is likely to help bolster the non-revolving figure as consumers look to loans for help replacing or acquiring newer vehicles. With regard to the revolving component, there is not much to expect in terms of consumer credit growing at an accelerated clip based on revolving credit. Consumer spending has been relatively resilient, with retail sales up 0.6% in May, but not enough to expect that consumers were much more willing to take on credit-card related debt to fund their habits.

## JOLTS Report (May, Tuesday 10:00 ET)

Forecast: 3700K

Consensus: -

Previous: 3757K

Given that the latest jobs report showed better-than-expected hiring for the past few months, we expect that the JOLTS report will do much the same albeit with the added portion of turnovers to help depict the employment picture in more detail. With regard to job openings, the situation does not change dramatically from month to month although we do expect May to at least remain positive. Sectors like construction and retail will continue to be volatile as certain headwinds limit their ability to reel in as many employees as they would like. However, professional services should continue to bolster the opening and hiring components while separations may persist as people are becoming more comfortable with the fact that there are opportunities available.

## Initial Jobless Claims & Continued Claims (May, Wednesday 8:30 ET)

Forecast: 335K, 2949K

Consensus: 335K, 2960K

Previous: 343K, 2933K

Initial jobless claims data over the past few weeks have been mixed but they do signal a slight downward trend. The 4-week moving average is down to 345.5K which is moderately lower than the month prior and is in line with the trend that has been purported by the recent employment report for June. Since the influx of recent graduates will take time to either find work or enter into the unemployment statistics, they may remain outside of the scope of the initial jobless report. However, those who may have been replaced or laid off in preparation for new talent may show up in the coming months as they did in last year's statistics. Playing a large part as well will be the July 4<sup>th</sup> holiday that may skew the week's claims given that there was a day less to report. As for continued claims, we expect the volatility to remain but the underlying trend to be downward as the number of those who have been employed for more than 27 weeks, according to the employment survey, continues to decline.

## Consumer Sentiment (July P, Friday 9:55 ET)

Forecast: 84.8

Consensus: 85.0

Previous: 84.1.

The University of Michigan's consumer sentiment survey is expected to rise as recent data have shown some further momentum in how consumers view the outlook for the U.S. economy. With gas prices remaining relatively stable throughout the last week of June and into July, the consumer has fared relatively well in terms of purchasing power, and with equities mostly recovered after a brief Fed-related drop, their financial situation has remained steady. The latest Fed speak has sparked some concern about market ability to weather the increase in interest rates and the tapering of Fed purchases but in terms of the average consumer, the effect will be less drastic in the short term, save any fluctuation in particular equities. In hindsight, the consumer has weathered the payroll tax relatively well and continues to be the driver of GDP growth, and we expect this to bolster confidence in the economy as we enter into the summer months and spending/travel increase.

## Market Impact

After a short holiday week and a better than expected employment report, this week is likely to start off on the right foot despite the growing turmoil in Egypt and Portugal. Nevertheless, in the U.S. there is not much data emerging over the week that gives the market room for concern. The most important data may not be data at all but the release of the FOMC minutes and Ben Bernanke's speech thereafter which, coupled with the slew of other Fed representatives, could cause some anxiety if prior weeks are any representation. Consumer credit will be interesting to look at now that student loans have become a talking point in terms of credit concerns and political action. Overall, we expect the week to center on the FOMC minutes given the better than expect jobs report.

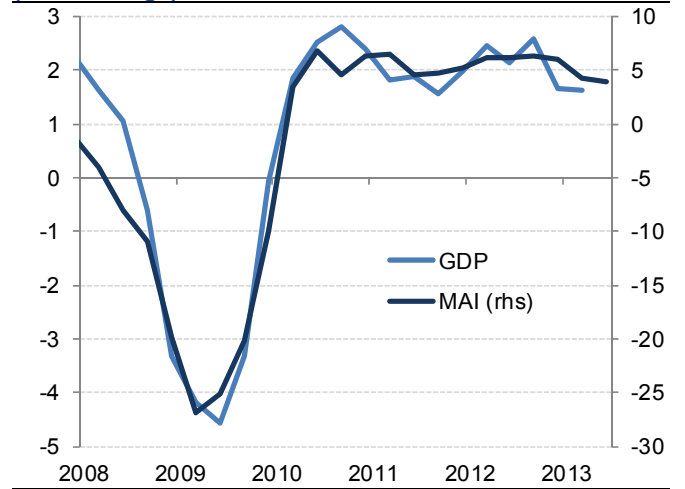
# Economic Trends

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



Source: BBVA Research

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



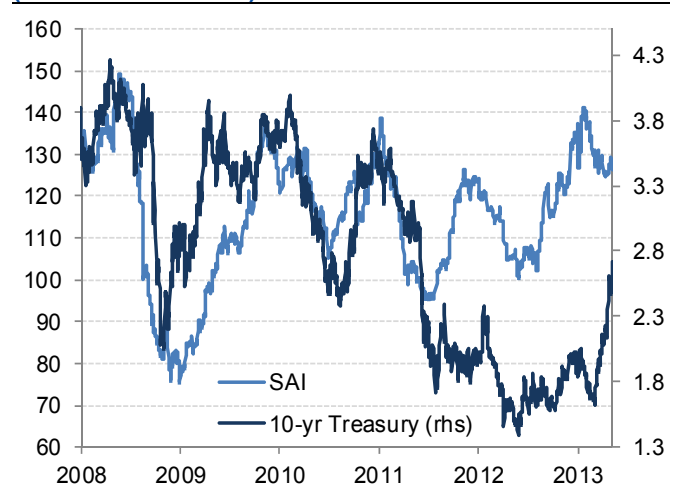
Source: BBVA Research & BEA

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



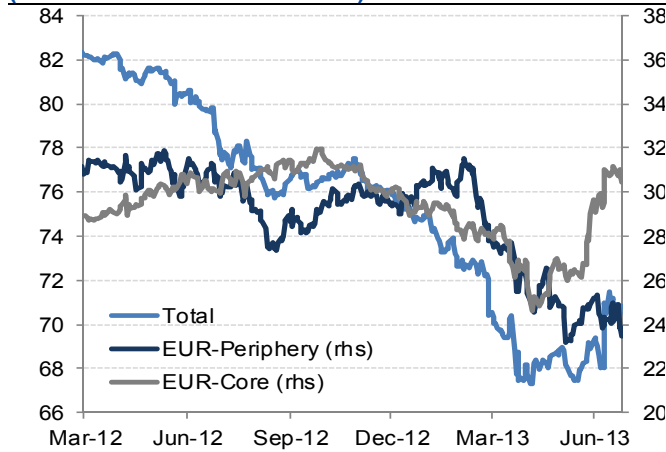
Source: BBVA Research

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



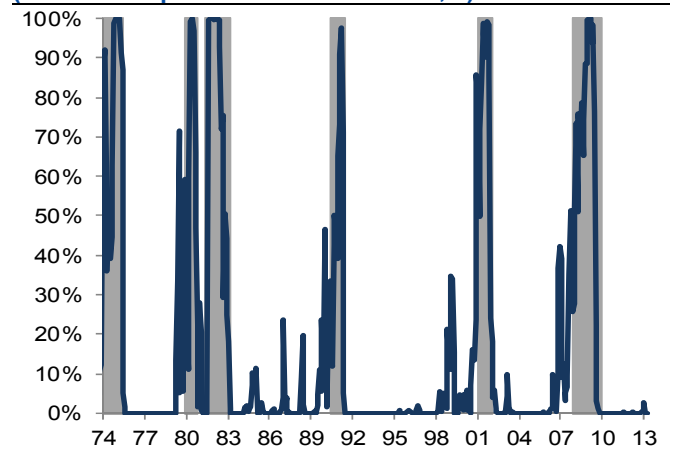
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

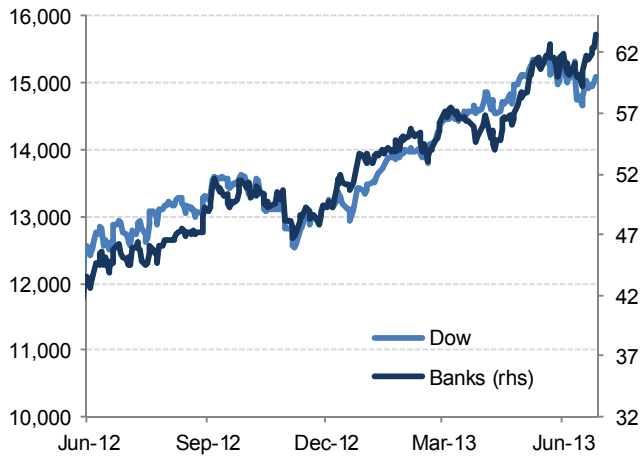
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

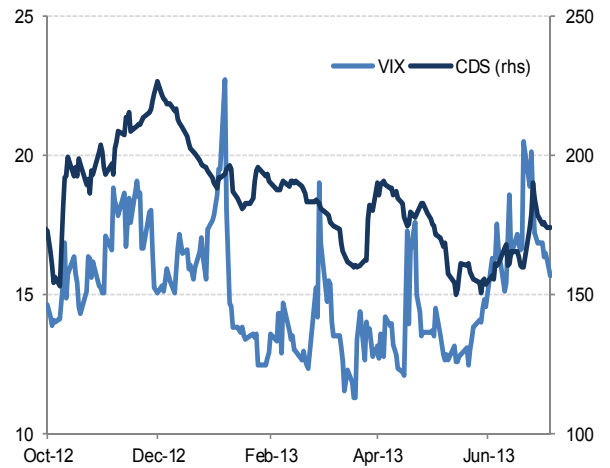
# Financial Markets

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



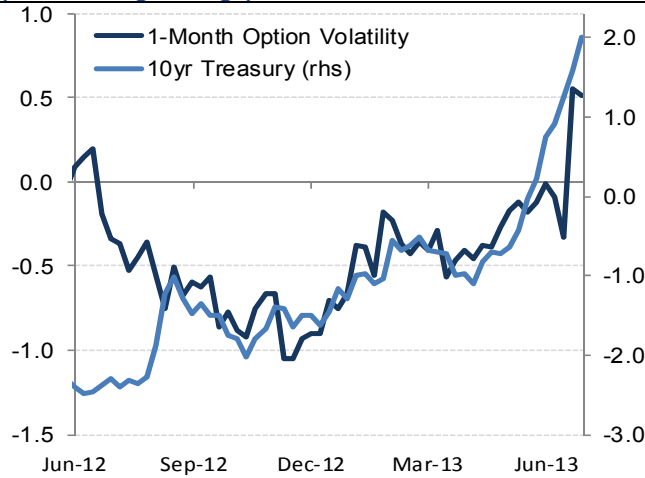
Source: Bloomberg & BBVA Research

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



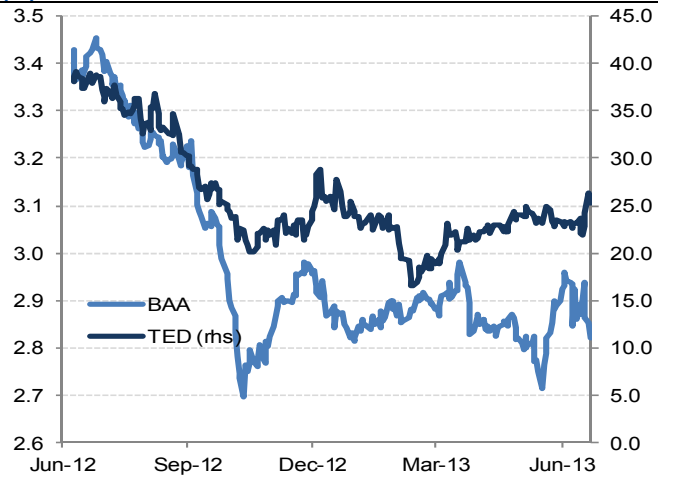
Source: Bloomberg & BBVA Research

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



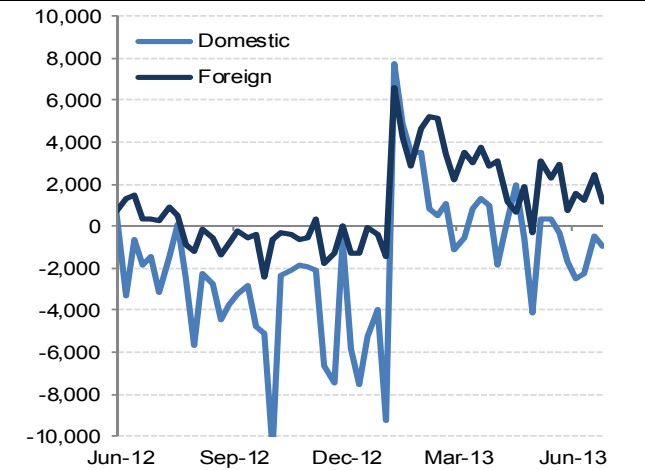
Source: Haver Analytics & BBVA Research

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



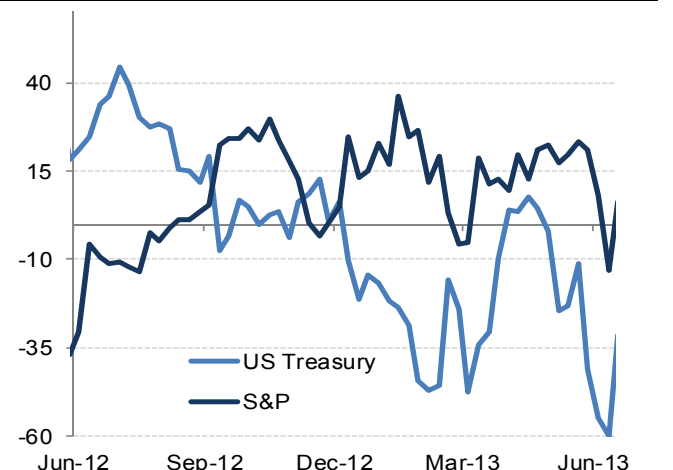
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

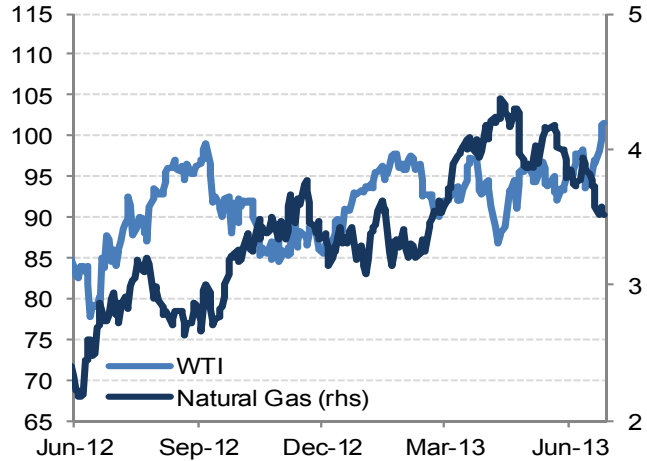
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

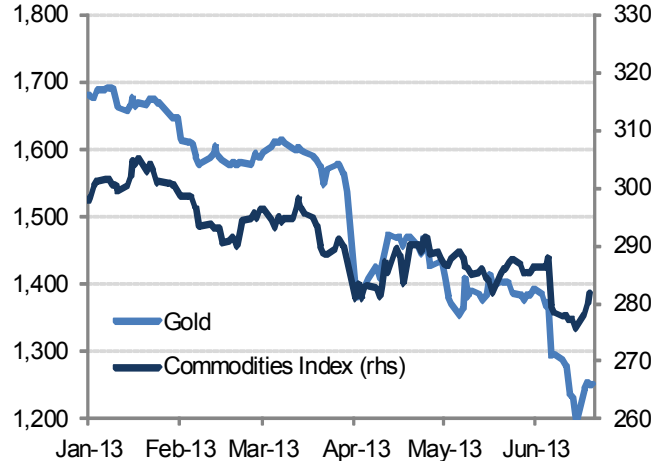
# Financial Markets

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



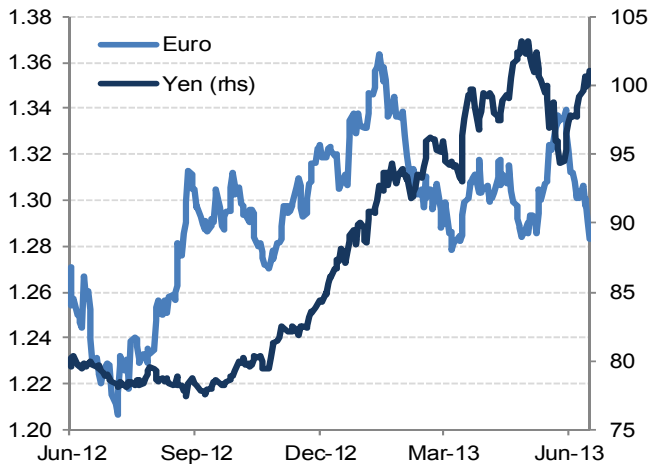
Source: Bloomberg & BBVA Research

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



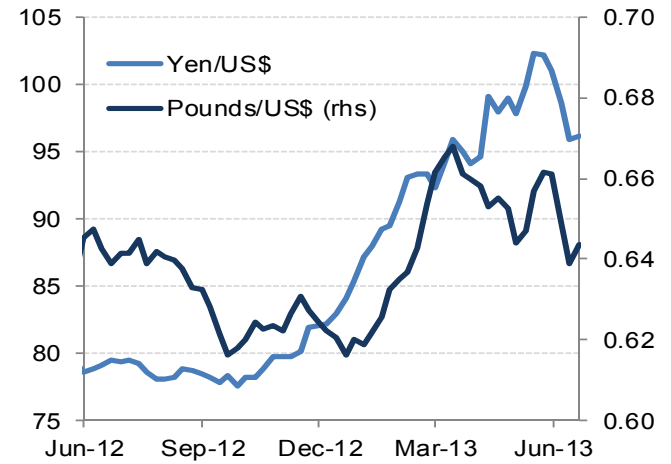
Source: Haver Analytics & BBVA Research

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



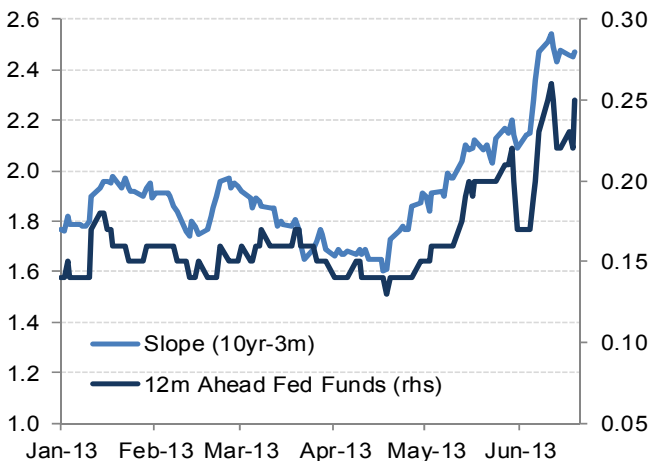
Source: Bloomberg & BBVA Research

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



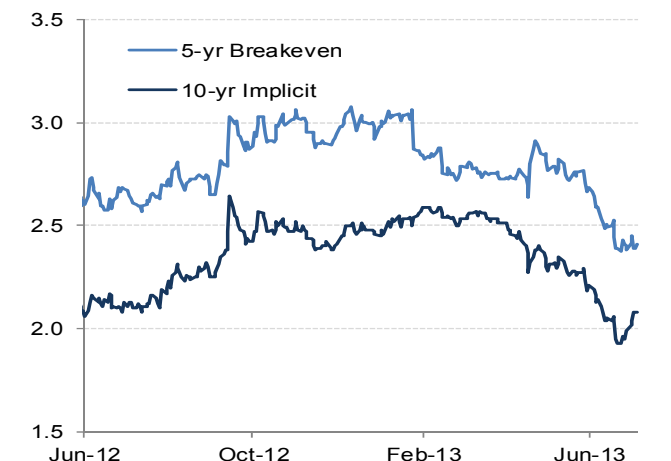
Source: Haver Analytics & BBVA Research

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 (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.16	14.12	14.12	14.10
New Auto (36-months)	2.46	2.46	2.45	3.11
Heloc Loan 30K	5.34	5.34	5.37	5.51
5/1 ARM*	3.10	2.68	2.66	2.90
15-year Fixed Mortgage*	3.39	2.76	2.98	3.23
30-year Fixed Mortgage*	4.29	3.57	3.81	3.99
Money Market	0.44	0.45	0.46	0.50
2-year CD	0.73	0.73	0.69	0.82

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

Table 1  
Key Interest Rates (%)

	4-Weeks			
	Last	Week ago	ago	Year ago
1M Fed	0.10	0.07	0.09	0.17
3M Libor	0.27	0.28	0.45	0.46
6M Libor	0.41	0.42	0.65	0.00
12M Libor	0.69	0.70	0.98	1.07
2yr Sw ap	0.58	0.51	0.48	0.52
5yr Sw ap	1.80	1.57	1.29	0.90
10Yr Sw ap	2.96	2.70	2.37	1.70
30yr Sw ap	3.67	3.45	3.26	2.43
30day CP	0.12	0.14	0.12	0.24
60day CP	0.15	0.14	0.14	0.28
90day CP	0.17	0.15	0.15	0.35

Source: Bloomberg & BBVA Research

## Quote of the Week

Federal Reserve Gov. Jerome Powell  
Deutsche Bundesbank Reception, New York, New York  
2 July 2013

*"Our proposal represents a targeted set of adjustments aimed at reducing the risks posed by the U.S. operations of large foreign banks to U.S. financial stability that were revealed during, and in the aftermath of, the recent financial crisis. The proposal is not intended to create a disadvantage for foreign banks in the U.S. market. Rather, the proposal is part of a larger set of regulatory reforms that substantially raises standards for all banking organizations operating in the United States and aims to achieve the goals we share with Germany: vigorous and fair competition and a stable financial system. Indeed, in some sense it follows the lead of the European Union and its member states in ensuring that all large subsidiaries of globally active banks meet Basel capital rules."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
8-Jul	Consumer Credit	MAY	\$12.3Bn	\$13.0Bn	\$11.0Bn
9-Jul	JOLTS Survey	MAY	3700K	-	3757K
9-Jul	Wholesale Inventories	MAY	0.3%	0.3%	0.2%
11-Jul	Import Price Index	JUN	0.0%	0.0%	-0.6%
11-Jul	Export Price Index	JUN	0.1%	-	-
11-Jul	Initial Jobless Claims	6-Jul	335K	335K	343K
11-Jul	Continued Claims	29-Jun	2949K	2960K	2933K
12-Jul	Producer Price Index	JUN	0.5%	0.5%	0.5%
12-Jul	PPI Core	JUN	0.1%	0.1%	0.1%
12-Jul	Consumer Confidence	JUL P	84.8	85.0	84.1

## 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>	1.6	2.3	2.4
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	6.4
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>	2.70	3.06	3.67
US Dollar/ Euro (eop)	<b>1.32</b>	<b>1.31</b>	1.31	1.30	1.35

Note: Bold numbers reflect actual data



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