US Weekly Flash

Highlights

- **Consumer Credit Expanded Quickly in May as Revolving Credit Surged Unexpectedly**
  - Total outstanding consumer credit accelerated again in May, up $19.6bn for the largest gain in one year. The difference from prior reports was that revolving credit, typically weak, surged upward $6.6bn as credit card use rose dramatically. Non-revolving credit continued to expand at its usual clip due to growing auto loan demand and the expansion of student debt that has come under some scrutiny as of late. Given that it is highly unlikely we will see two consecutive months of augmented growth in revolving credit, we expect June's credit expansion to decelerate compared to May as credit card debt returns to its more subdued levels. Other consumer spending data tell a story of more stable consumption growth. Still, we expect that auto and student loans will continue to drive most of consumer credit growth.

- **FOMC Members Seem Afraid to Commit to QE Timeline**
  - Monetary policy has been at the center of all the hustle and bustle as of late. The June 19th FOMC statement and press conference caused quite a surprising stir, and subsequent Fedspeak was geared toward calming markets and correcting this "overreaction". Rising interest rates had sparked some discussion leading up to the June meeting, with FOMC members attributing most of the increase to an improved economic outlook. Still, there was definitely cause for concern within the Committee, with many members concerned that higher rates could limit the recovery's momentum.
  - Overall, most FOMC members agreed that maintaining the current pace of purchases would be appropriate until they saw further improvement in the labor market, with one member (Bullard) against any form of tapering until inflation moved closer toward the 2% target. Approximately half of FOMC participants felt that it would be appropriate to end QE3 by late 2013, with many others favoring purchases continuing into 2014. A few members did argue that slowing asset purchases would have been appropriate at this June meeting. While the Committee will continue to assess the costs and benefits of QE3, one participant noted that it would be necessary to "explore other options for providing appropriate monetary policy accommodation" if QE3 were to end solely due to potential negative consequences outweighing the positive. Our expectations remain unchanged for tapering of asset purchases to begin in late 3Q13, with QE3 concluding in 1H14, assuming that economic activity continues to improve gradually. Based on the latest Fedspeak and these meeting minutes, it is clear that the FOMC is ready and willing to adjust as necessary should economic conditions stray off course, for better or for worse. Furthermore, the Fed will surely be more cautious in communication transparency moving forward.

- **JOLTS Report Points Toward Stronger 2Q Employment as May Situation Strengthens**
  - The Job Openings and Labor Turnover Survey (JOLTS) report for May 2013 shows some positive data coming out of the labor force to bolster the already strong and revised growth in nonfarm payrolls. The number of total job openings rose 28K (0.7%), marking the first gain in three months, with a majority of the rise attributable to the trade, transport & utilities sector. In particular, retail trade rose 82K (18.0%) on a very strong outlook for the summer months ahead. Construction vacancies increased while manufacturing, professional services, education & health and leisure & hospitality all declined. Hiring declined in the aforementioned service components such as leisure and professional services, which pulled overall hires down 46K (1.05%). Construction and manufacturing hires rose 24K and 14K, respectively, while retail trade gained 27K workers which is slightly less than its strong April increase. According to the JOLTS report, separations rose in May by 36K (0.8%) due mostly to the manufacturing and trade, transportation and utilities sectors. Except for the healthcare sector, the remaining components saw a decline in separations. Breaking down the separations data, a more optimistic situation arises. The number of separations that were listed as quits increased for the second consecutive month, while layoffs actually declined slightly. As has been the case over the last two quarters, the number of quits has been growing as people are becoming more confident in the labor market. Overall, May's data points toward a gain in the retail and trade sector while the remaining components saw a weaker month.

Week Ahead

Retail Sales, Less Auto & Gas (June, Monday 8:30 ET)

Forecast: 0.9%, 0.4%	Consensus: 0.8%, 0.4%	Previous: 0.6%, 0.3%

Retail sales for June are expected to accelerate as auto sales should push the headline figure higher, although the core figure may be far more passive. The past few months have been relatively subdued in terms of retail sales growth as consumers seem to be having a lagged response to the payroll increase at the beginning of the year. However, we are starting to the lagged effect dissipate as larger purchases such as vehicles have been on the rise recently. June is set to be a strong month for vehicle sale growth with Autodata showing an increase of almost 500K in domestic auto and light truck sales for June. With gasoline prices remaining stable over the month, this boost in vehicles sales will likely be the driving force behind the headline growth. On the other hand, weekly retail sales surveys have shown a mixed bag of results, suggesting much more moderate growth in the core figure. Growth in miscellaneous and non-retail store sales helped boost the core figure in May and it's possible they could continue to help drive some growth. However, the remaining sub components seem to be mixed as apparel may continue to see growth while furniture and appliances remain weak

Consumer Price Index, Less Food & Energy (June, Tuesday 8:30 ET)

Forecast: 0.2%, 0.2%	Consensus: 0.3%, 0.2%	Previous: 0.1%, 0.2%

Headline inflation for June is expected to increase slightly as energy prices increased for the month while food prices fell at an accelerated pace. According to the Energy Information Agency, the average prices of gasoline across all grades and states rose by $0.01 after a $0.06 rise the month prior. With the hotter months in full swing across most of the U.S., it is likely that natural gas and electricity prices will see some upward movement as usage rises, putting upward pressure on the energy component of CPI. Some downward pressure might result from the food subcomponent, as the S&P Goldman Sachs Agriculture Index declined 7.3% in June to continue its five-month decline in the index. Shifting toward the core price index, we expect a stronger figure due to the impact of shelter prices which declined in May but should rebound in June to help drive the shelter component upward. Other consumer goods like apparel and vehicle prices haven't accelerated in two months but we expect some movement in June as summer apparel takes hold and new models and inventory begin to filter into U.S. auto dealerships.

Industrial Production & Capacity Utilization (June, Tuesday 9:15 ET)

Forecast: 0.3%, 77.6%	Consensus: 0.3%, 77.7%	Previous: 0.1%, 77.6%

Industrial production skewed positive in May following a 0.5% decline in growth in April, hinting that the weakness in manufacturing was likely a short term issue. With the latest new on manufacturing activity, we expect the June figure to show continued strength. Breaking down the index, the manufacturing component remains below its early 2013 highs after a drop in April. With growing demand purported from different Federal Reserve Surveys and new orders in the recent durable goods report, there is hope that the sub index will see growth. The Philadelphia Fed Manufacturing Survey showed a significant jump, and growth in new orders and shipments should translate into better industrial demand. Adding to June's optimism were the Richmond and Dallas Fed survey results for production and shipments which continued to show considerable strength. Other Fed surveys like the NY and Cleveland branches had negative production figures but we expect those to balance out growth coming from other regions rather than overpower the overall expansion of the sector. We continue to expect capacity utilization to ebb and flow but with incremental movements given that the industry is still hesitant to fire on all cylinders in case of a slowdown

Housing Starts & Building Permits (June, Wednesday 8:30 ET)

Forecast: 954K, 1050K	Consensus: 960K, 1000K	Previous: 914K, 974K

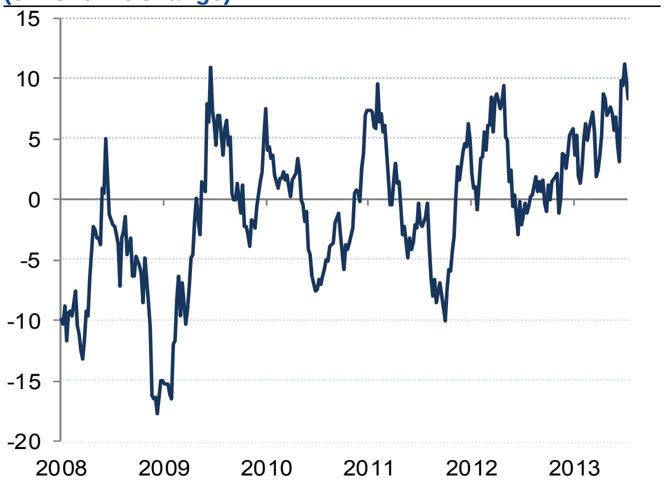
The housing market, a driving force behind the recovery, has seen a few hiccups over the past two months as credit standards have remained tight, constraining construction efforts. Nevertheless, the demand for homes fueled by the rise in home prices has caused the supply of homes to dwindle and housing starts have been on the rise to combat the shortage. We expect this trend to continue in June as the summer months aid in continuous construction and recent reports show the rise in mortgage rates have ignited a surge in home procurement. This will likely lead to a continued relaxation of lending standards as banks feel more confident in the ability of companies to remain solvent as their industry proves resilient. We also expect this to translate into growth in building permits due to the surge in demand that will leave construction companies eager to finalize permits.

Market Impact

This week the markets can expect quite a change of pace compared to last week. While the ensuing reels of data may result in a shift of sentiment if they emerge weaker than expected, the situation looks more optimistic than some pundits give it credit. Retail sales are expected to show strength as autos and summer-fueled products should help bolster consumer activity. Industrial production should also hint at a better situation for the manufacturing industry with modest growth. Inflationary pressures may rise somewhat but given their low levels it's doubtful that their impact will be significant.

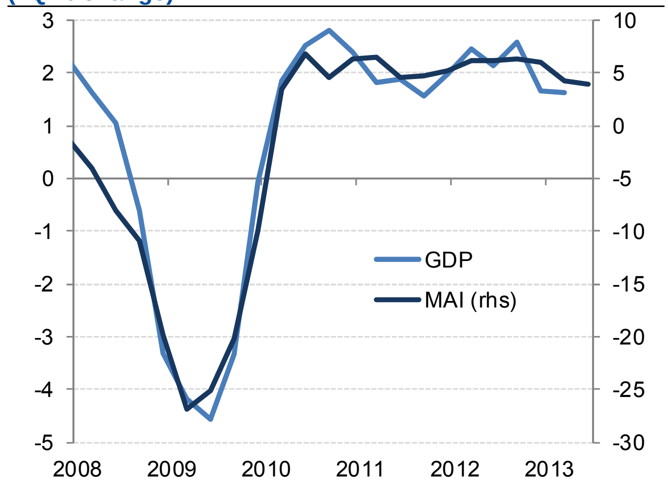
Economic Trends

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



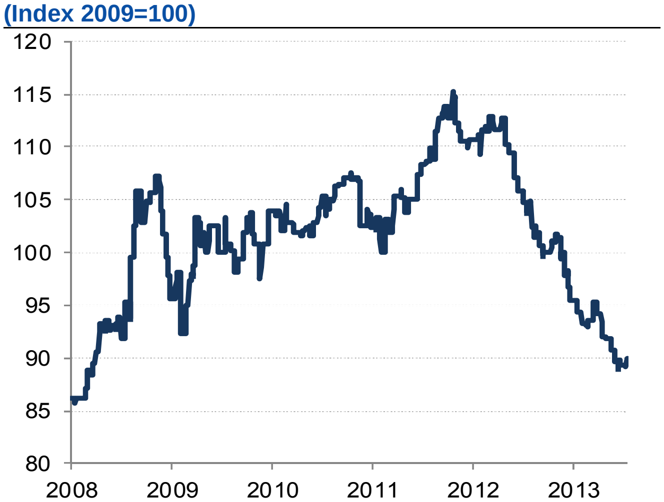
Source: BBVA Research

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



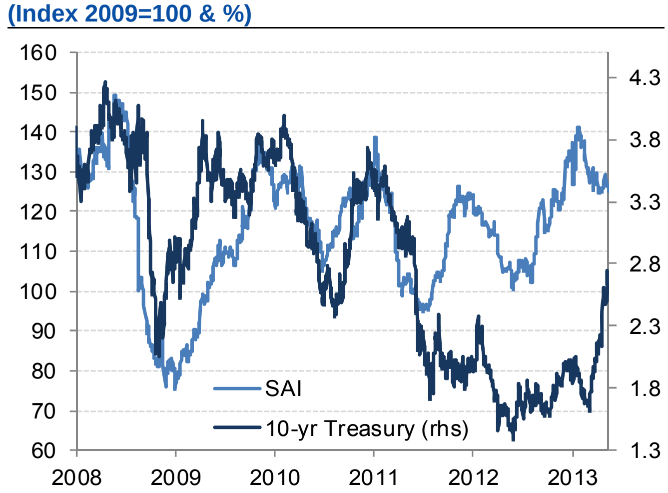
Source: BBVA Research & BEA

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



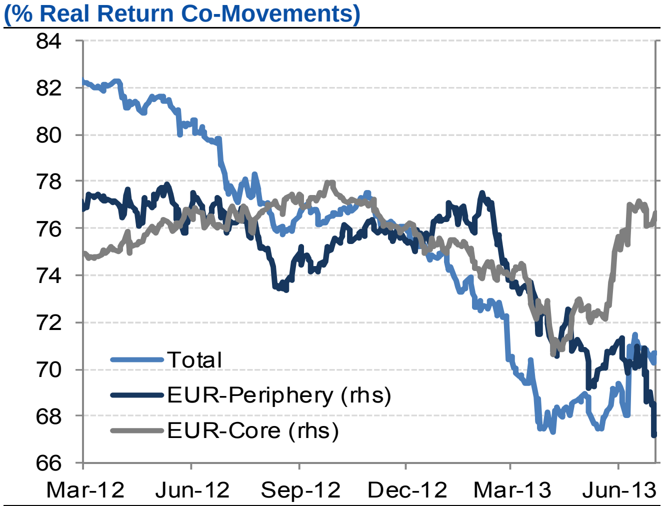
Source: BBVA Research

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



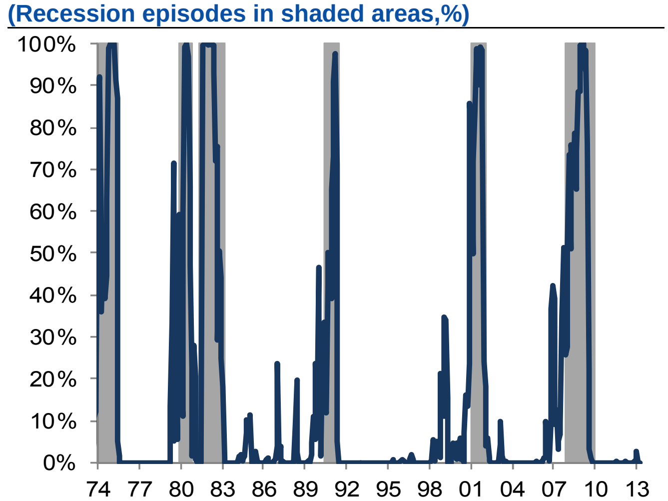
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

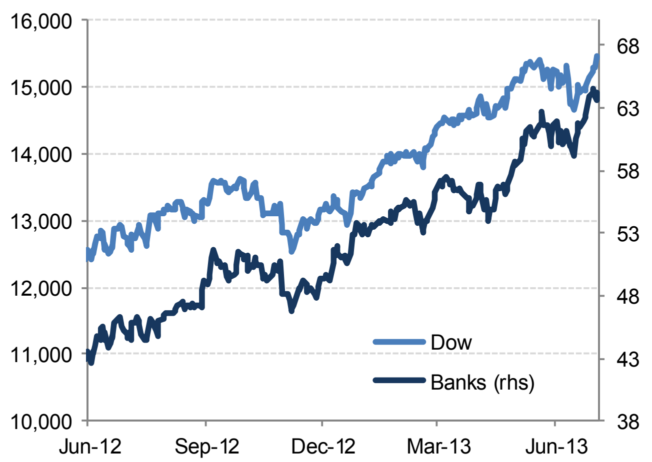
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

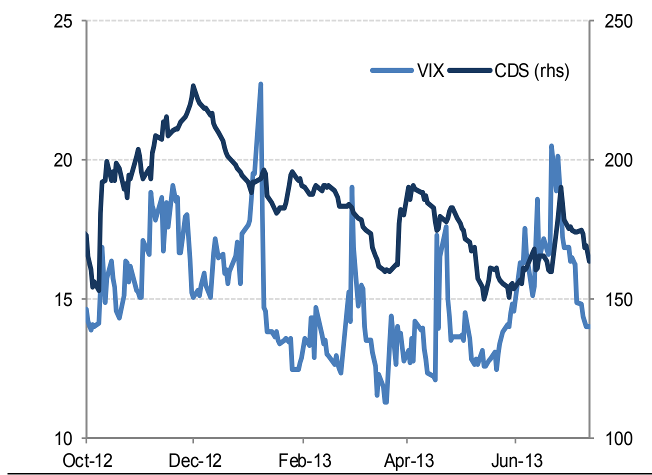
Financial Markets

Graph 9
Stocks
(Index, KBW)



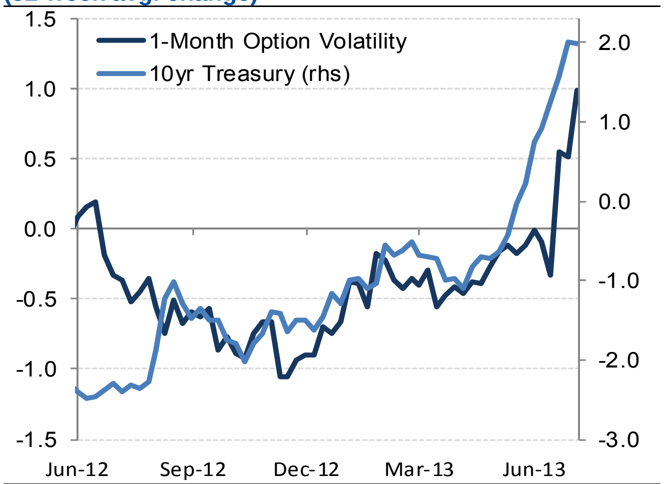
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



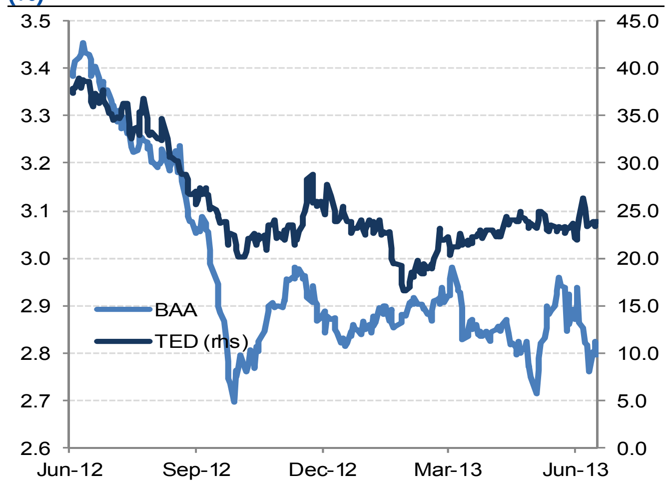
Source: Bloomberg & BBVA Research

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



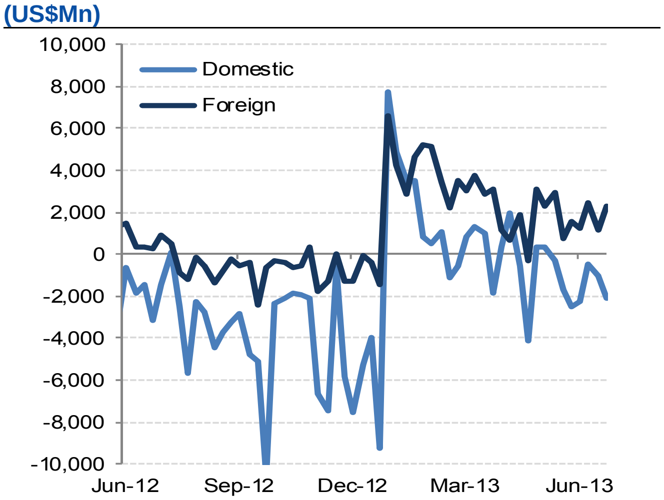
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



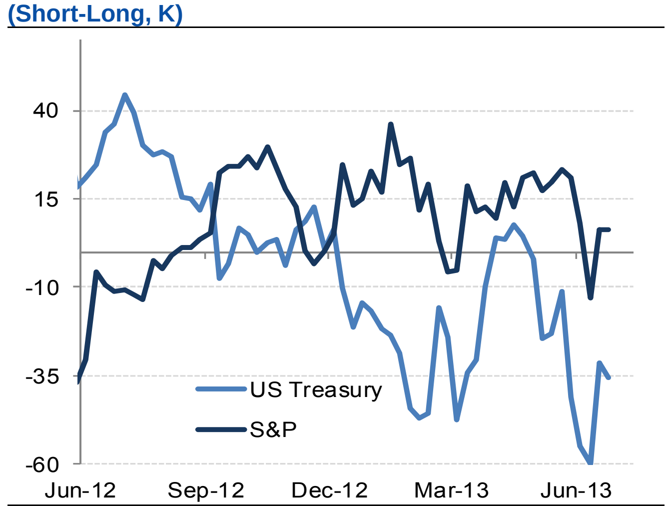
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

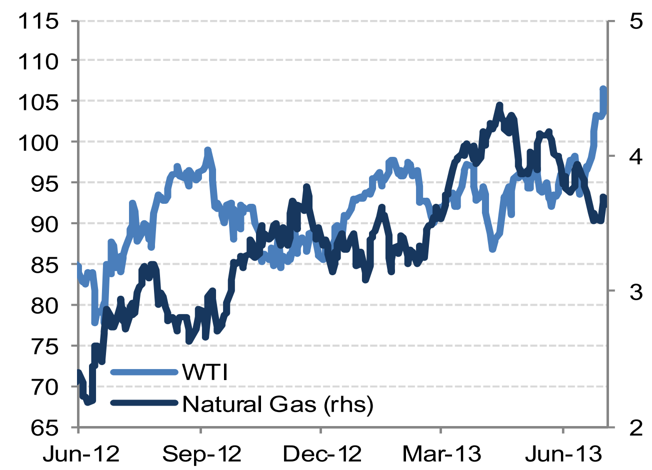
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

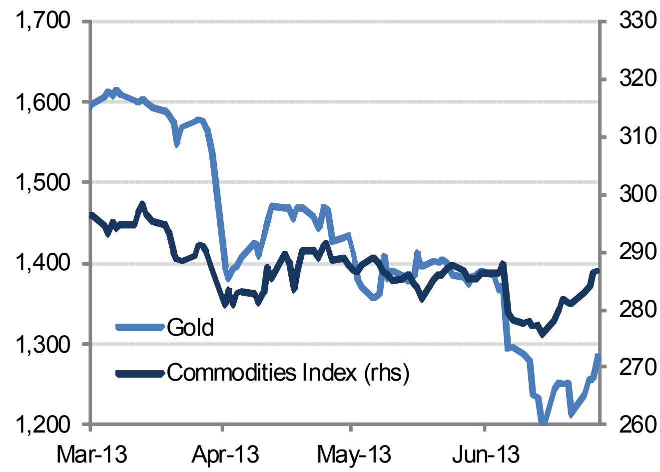
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



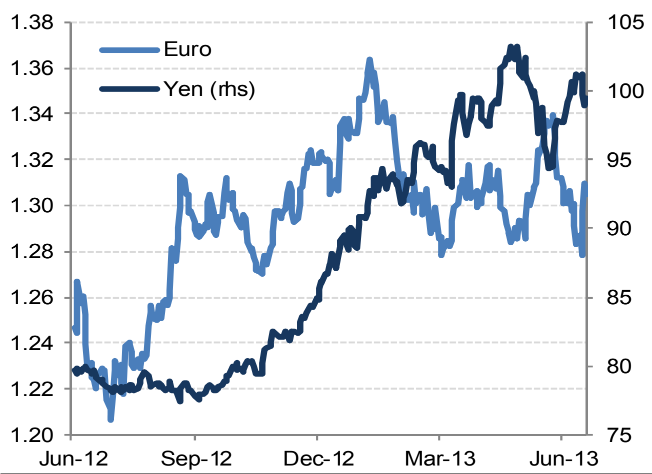
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



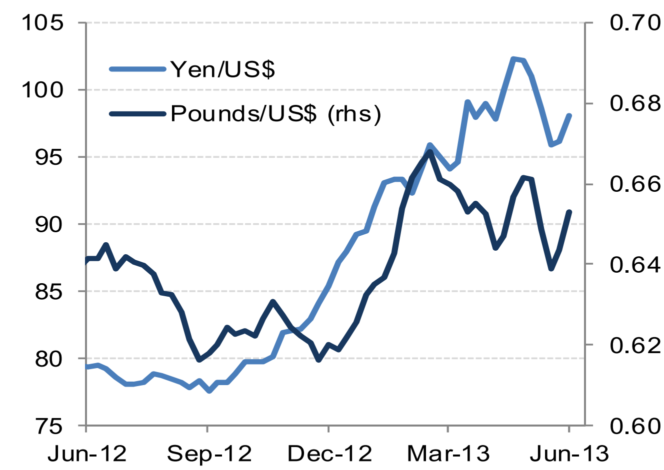
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



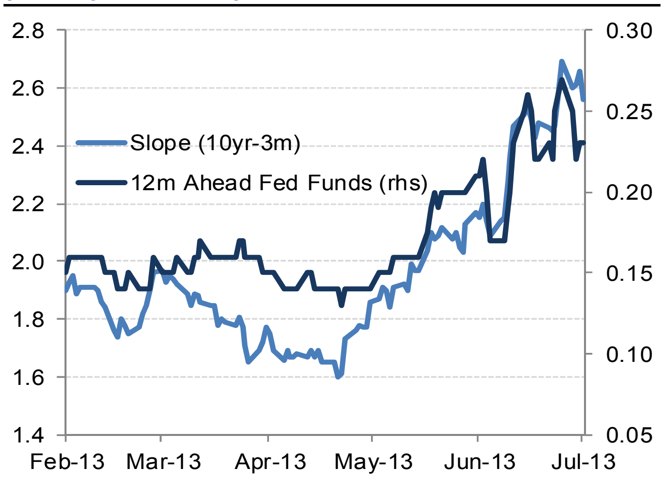
Source: Bloomberg & BBVA Research

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



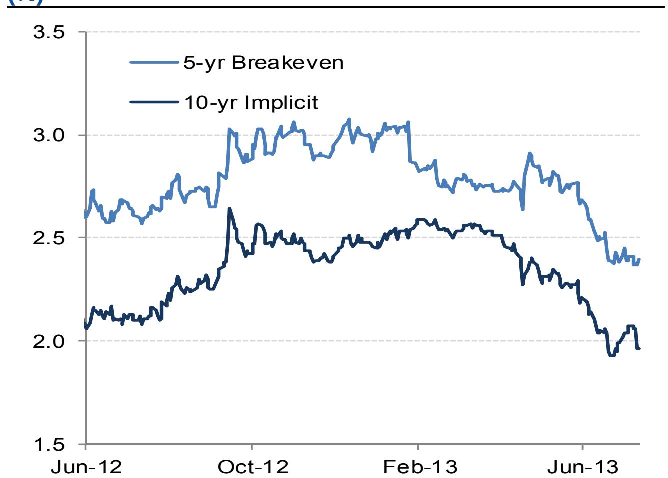
Source: Haver Analytics & BBVA Research

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)	14.16	14.16	14.12	14.10
New Auto (36-months)	2.45	2.45	2.47	3.11
Heloc Loan 30K	5.30	5.34	5.35	5.47
5/1 ARM *	3.26	2.68	2.74	2.90
15-year Fixed Mortgage *	3.53	2.76	3.03	3.23
30-year Fixed Mortgage *	4.51	3.57	3.91	3.99
Money Market	0.44	0.44	0.45	0.50
2-year CD	0.73	0.73	0.70	0.82

*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	0.09	0.10	0.10	0.19
3M Libor	0.27	0.27	0.45	0.46
6M Libor	0.40	0.41	0.65	0.00
12M Libor	0.69	0.69	0.98	1.07
2yr Sw ap	0.52	0.59	0.43	0.46
5yr Sw ap	1.60	1.82	1.22	0.85
10Yr Sw ap	2.82	2.99	2.31	1.62
30yr Sw ap	3.61	3.73	3.20	2.33
30day CP	0.13	0.13	0.13	0.24
60day CP	0.15	0.14	0.13	0.23
90day CP	0.17	0.16	0.16	0.24

Source: Bloomberg & BBVA Research

Quote of the Week

Deputy National Security Advisor for Trade Talks Michael Froman
EU-US Trade Negotiations
10 July 2013

Regarding EU-US trade talks and the topics of film, GM crops, autos and pharmaceuticals:
"There are sensitivities on both sides that will have to be addressed. But we think the prospect of a broad and comprehensive agreement gives us our best opportunity for achieving something that has eluded us before."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Jul	Empire State Manufacturing	JUL	3.6	5.00	7.84
15-Jul	Retail Sales	JUN	0.9%	0.8%	0.6%
15-Jul	Retail Sales Ex Autos & Gas	JUN	0.5%	0.4%	0.3%
15-Jul	Business Inventories	MAY	0.0%	0.1%	0.3%
16-Jul	Consumer Price Index	JUN	0.2%	0.3%	0.1%
16-Jul	CPI Ex Food & Energy	JUN	0.2%	0.2%	0.2%
16-Jul	Industrial Production	JUN	0.3%	0.3%	0.0%
16-Jul	Capacity Utilzation	JUN	77.6%	77.7%	77.6%
17-Jul	Housing Starts	JUN	954K	960K	914K
17-Jul	Building Permits	JUN	1050K	1000K	974K
18-Jul	Initial Jobless Claims	13-Jul	350K	342K	360K
18-Jul	Continued Jobless Claims	6-Jul	2940K	2956K	2977K
18-Jul	Philadelphia Fed Survey	JUL	7.8	7.0	12.5
18-Jul	Leading Indicators	JUN	0.3%	0.3%	0.1%

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**	1.6	2.3	2.4
CPI Core (YoY %)	**1.7**	**2.1**	1.9	2.0	2.1
Unemployment Rate (%)	**8.9**	**8.1**	7.6	7.0	6.4
Fed Target Rate (eop, %)	**0.25**	**0.25**	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	**1.98**	**1.72**	2.70	3.06	3.67
US Dollar/ Euro (eop)	**1.32**	**1.31**	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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