

US Weekly Flash

Highlights

- **Private Investment Fuels Surprising Real GDP Growth for 2Q13**

- The advance report for 2Q13 real GDP growth showed a much better picture than expected given weaker manufacturing activity and sub-par private spending growth. Nonresidential fixed investment reversed its 4.6% decline in 1Q13, up 4.6% in 2Q13. This is primarily due to a much stronger quarter for nonresidential structures which saw heavy declines the period prior. It is also important to note the introduction of a new component within nonresidential fixed investment related to intellectual property products. This component encompasses research and development, software, and entertainment, literary, and artistic originals, reflecting some important changes in the dynamics of the U.S. economy over time. With regard to personal consumption, growth decelerated half a percent to 1.8% QoQ SAAR in 2Q13 on account of a strong deceleration in services. Durable goods consumption increased 6.5% after a drastic slowdown in 1Q13. Exports grew at a considerable 5.4% rate but were vastly overshadowed by the 9.5% jump in imports.
- With this report also came significant annual revisions stretching all the way back to 1947. Some of the highlights are an upward revision to the recent recessionary period, making the largest quarterly decline 8.3% rather than 8.9%. Furthermore, growth in 2012 was revised upward from 2.2% to 2.8% annual rate due to a much stronger personal consumption and less of a drag from government consumption (mostly seen in 1Q12). One of the most interesting revisions related to 1Q13, which we just had the final estimate for last month. Expected to remain stable, the final GDP figure for 1Q13 was 1.8%, but annual revisions pulled down the figure to 1.1%. This was due primarily to a downward revision to personal consumption and private domestic investment coupled with weaker exports and considerably stronger imports. Overall, this does not change our baseline forecasts – slow growth in 1H13 with expectations for a stronger 2H13. We maintain our forecast for 1.8% annual growth for 2013.

- **Unemployment Rate Drops as Steady Job Growth Continues in July**

- Employment conditions for the start of 3Q13 appear to be in line with expectations, but the underlying details are nothing significant to write home about. Nonfarm payrolls increased 162K for the month, following slight downward revisions to payrolls in May (195K to 176K) and June (195K to 188K). The private sector added only 161K jobs, the slowest increase since March, while the government sector added 1K jobs for the first time in three months.
- Despite this deceleration in payroll growth, the unemployment rate dropped from 7.6% in June to 7.4% in July. The participation rate dropped to 63.4%, though the unemployment-population ratio held steady at 58.7%. The number of people not in the labor force increased for the second consecutive month, up 0.3% in July. According to the CPS labor force status flows, more than 50% of the inflows into the “not in the labor force” category included those who just turned 16 as well as other adjustments to population totals. Close to 6% of unemployed individuals left the labor force, most of whom were unemployed 15-26 weeks. At this point, we maintain our expectations for an unemployment rate above 7.0% by the end of 2013, re-emphasizing the potential for reentrants into the labor force to put upward pressure on the figure as individuals become more confident looking for jobs again.

- **FOMC Message on QE3 Left Untouched to Relieve Tapering Pressure**

- The FOMC did not announce any changes in the pace or composition of asset purchases. The forward guidance of LSAP remained unchanged as well. Many language changes of the statement did not matter much as the dovish statements were balanced with the optimistic economic outlook. Looking forward to the minutes, we expect to learn more on the stance of the Committee members regarding the timing of the scaling down of QE3. Presently, we maintain our baseline scenario of the Fed announcing tapering later in September. In addition, our expectation for the pace of scaling down remains unchanged.

Week Ahead

ISM Non-Manufacturing Survey (July, Monday 10:00 ET)

Forecast: 52.8

Consensus: 53.0

Previous: 52.2

We expect the non-manufacturing ISM index to continue to expand and at a slightly better clip in July. According to the index, June was a difficult month for business activity in the services sector, which still expanded but at a slower pace than in prior months as the index declined to its lowest mark since November 2009. However, June's weak growth may have something to do with the timing of factory and product retooling that occurs in the summer time throughout many sectors, including a key driver in sales and transportation. Some consumer based surveys that should help predict the non-manufacturing situation in July show growth in the sector while another is less optimistic. The Philadelphia Fed Survey's business index fell slightly in July, remaining below 50 to indicate that overall business activity was slower. Still, we do expect July to be a stronger month as consumers shift into mid-year spending patterns and other services such as construction and mining continue to improve.

International Trade (June, Tuesday 8:30 ET)

Forecast: \$-43.2bn

Consensus: \$-43.5bn

Previous: \$-45.0bn

Weaker headwinds from abroad and strengthening export growth in motor vehicles and durable goods should translate into a shrinking trade deficit for June. China's economic slowdown over 1H13 in manufacturing has trickled into U.S. trade figures through weaker exports, while the continued depressed economic state in Europe does little to bolster short term export growth. Couple that with the growing rise in imports for a multitude of different industries and we can see why the deficit grew dramatically from April to May. However, 2Q13 estimates from the initial GDP report show that the recent declines in exports may be reversed in June as the BEA's numbers show exports rising 5.4%. Still, the other side of that coin is significant import growth which coincides with the widening of the trade deficit exhibited in April and May. It is possible that import growth may decelerate in June since a majority of the rise in imports according to the GDP report was already calculated with April and May's trade data. Exports will likely be a more important component in June's report and bring the trade deficit down slightly without augmented import growth to hamper expansion.

Jobs Openings and Labor Turnover Survey (June, Tuesday 10:00 ET)

Forecast: 3895K

Consensus: 3900K

Previous: 3828K

Given the stagnant outcome of June's establishment survey in terms of jobs added, we expect the JOLTS report to convey much the same situation, growth but at a weaker pace. Historically, the JOLTS components tend to move in a logical pattern with hires and openings rising while separations vary depending on prevailing labor market conditions. As of late, however, we have seen openings and hires show a distinct upward trend while separations have also risen. This change in pattern is a positive signal though, as people are becoming more comfortable with the prospect of finding work outside of their current position, translating into an overall optimistic attitude for the labor market. For June, metrics convey slightly weaker growth with more people entering the labor force but equal jobs added for the month. However, given the summer hiring trend for graduates and entry level positions, there may be growth in opening and hires that surprise to the upside. We also continue to expect separations to be fueled by quits given the aforementioned optimism.

Consumer Credit (June, Wednesday 15:00 ET)

Forecast: \$16.5B

Consensus: \$15.0B

Previous: \$19.6B

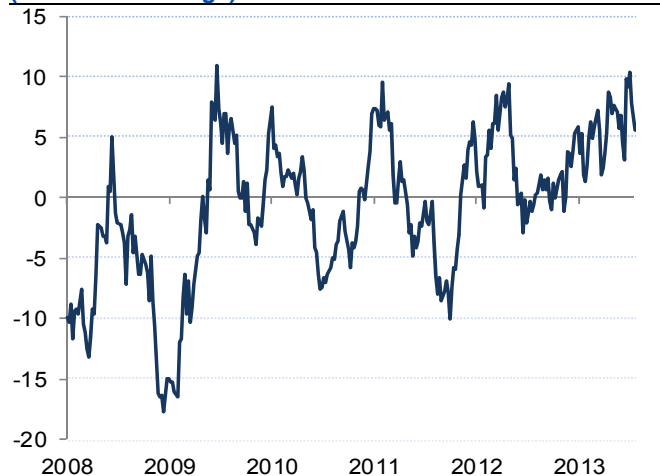
It unlikely, although possible, that we will see two consecutive months of augmented growth in revolving credit. Increases as significant as that seen in May tend to be linked with shorter term surges. Therefore, we expect June's credit expansion to decelerate compared to May as credit card debt returns to its more subdued levels and non-revolving credit continues to drive the overall figure. However, consumer credit has deviated over the past year from its trend, signaling that individuals may be more willing to take on credit card debt and therefore, sustain higher monthly credit increases. Other consumer spending data tell a story of more stable consumption growth. Auto sales were also up in June which should help to drive the non-revolving figure higher coupled with the steep upward trend from student loans as well.

Market Impact

After a heavy week of market moving data and lackluster Fed speak, this week will be counted as a breather while markets readjust and forecasts shift to accommodate new data. The data released this week will mostly be lagged by two months, except for the ISM non-manufacturing index. International trade carries some weight due to its importance in terms of the schedule for GDP. It is one of a handful of indicators in the GDP calculation that is unknown when the advanced figure is released. Barring any significant shift in consumer credit or odd JOTLS report, we should be in line for a calmer week.

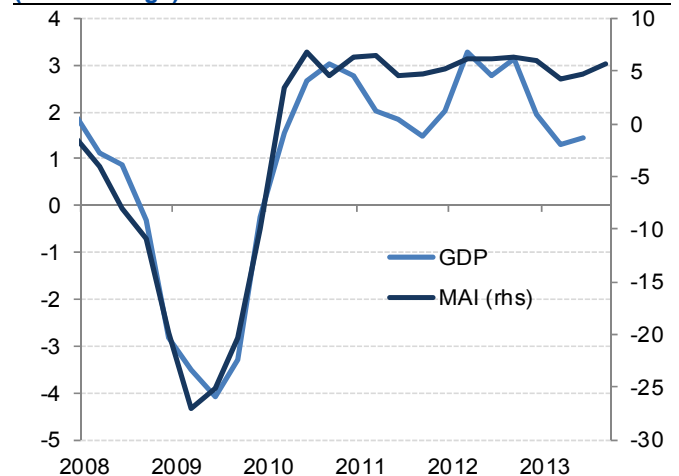
Economic Trends

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



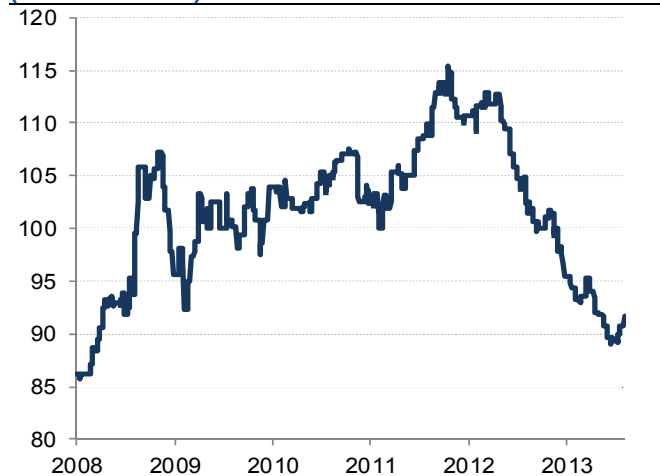
Source: BBVA Research

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



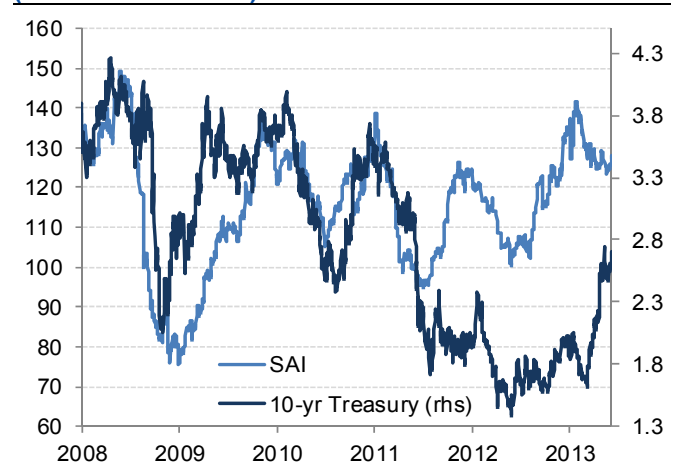
Source: BBVA Research & BEA

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



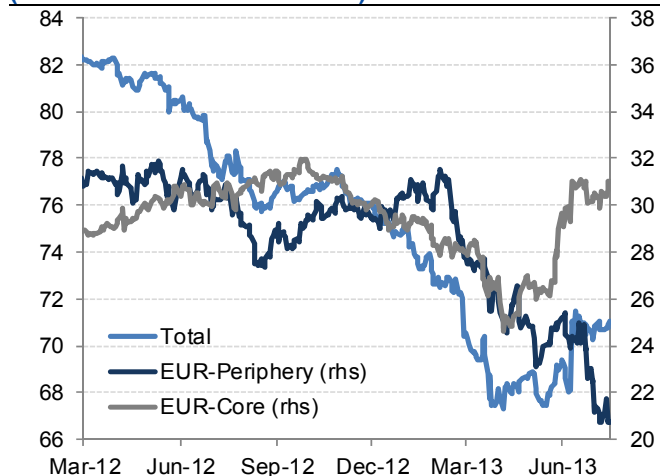
Source: BBVA Research

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



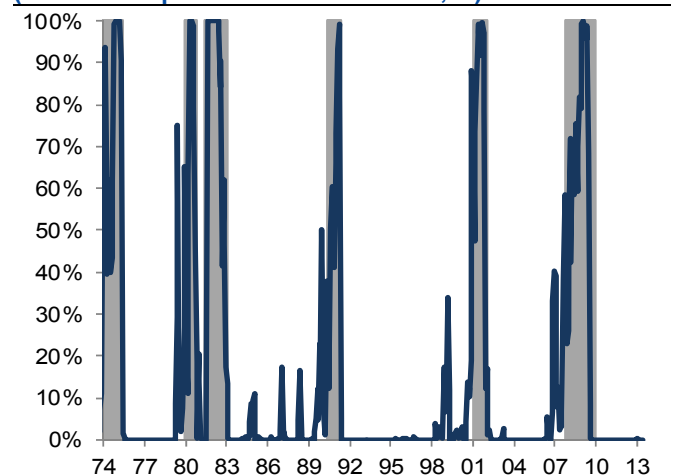
Source: Bloomberg & BBVA Research

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

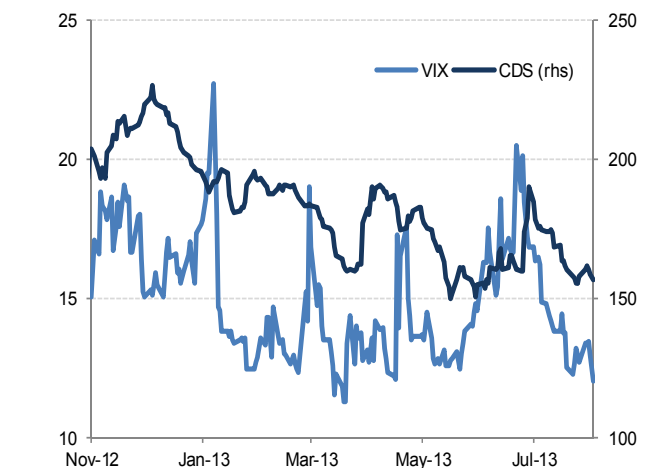
Financial Markets

Graph 9
Stocks
(Index, KBW)



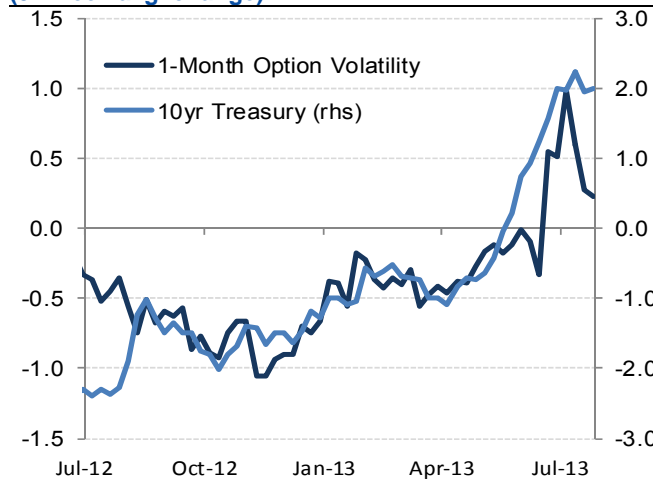
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



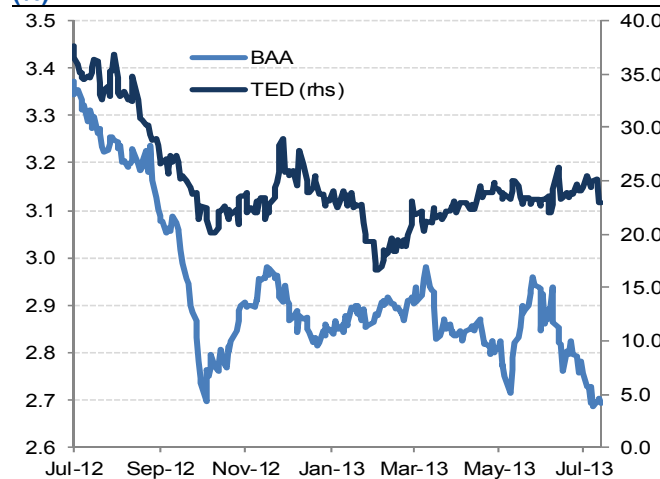
Source: Bloomberg & BBVA Research

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



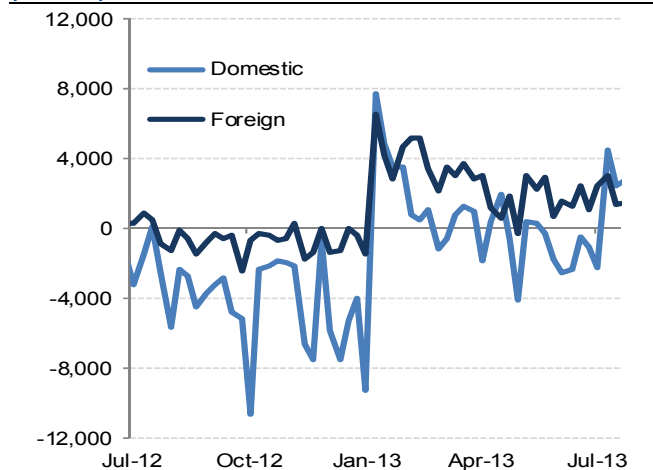
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



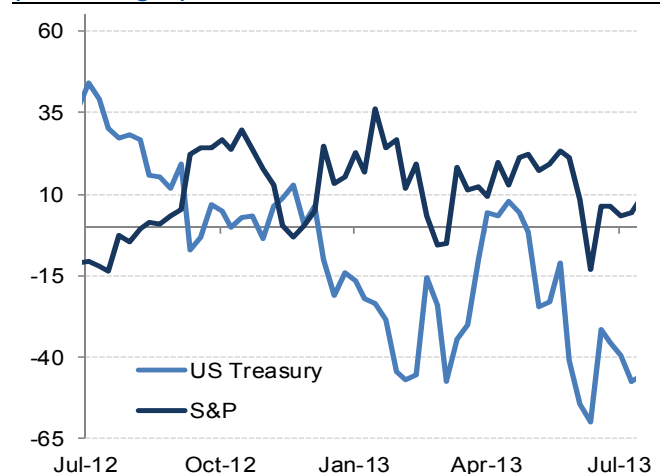
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

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

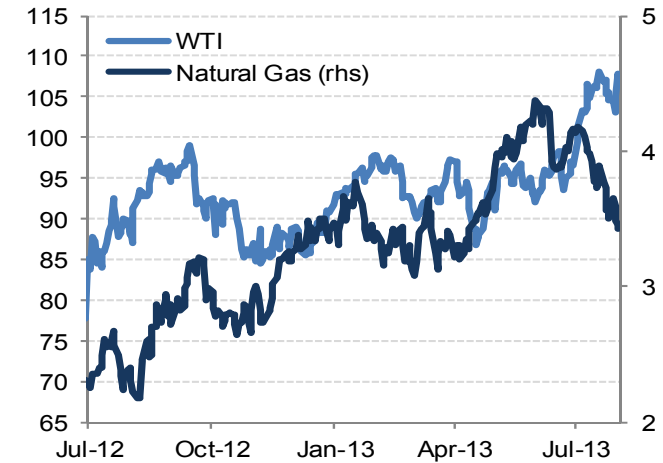


Source: Haver Analytics & BBVA Research

Financial Markets

Graph 15

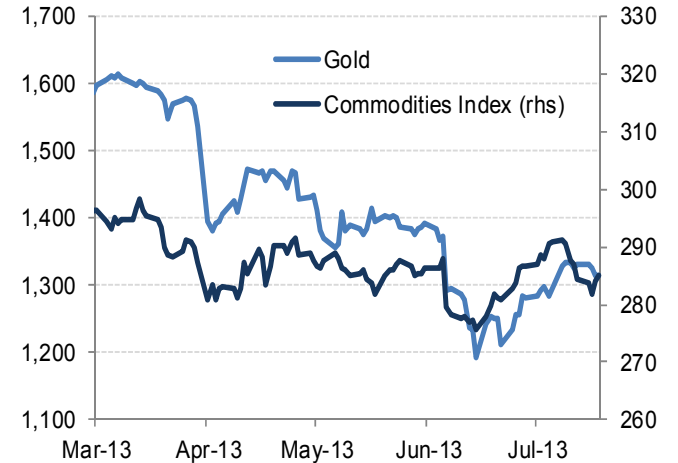
Commodities (Dpb & DpMMBtu)



Source: Bloomberg & BBVA Research

Graph 16

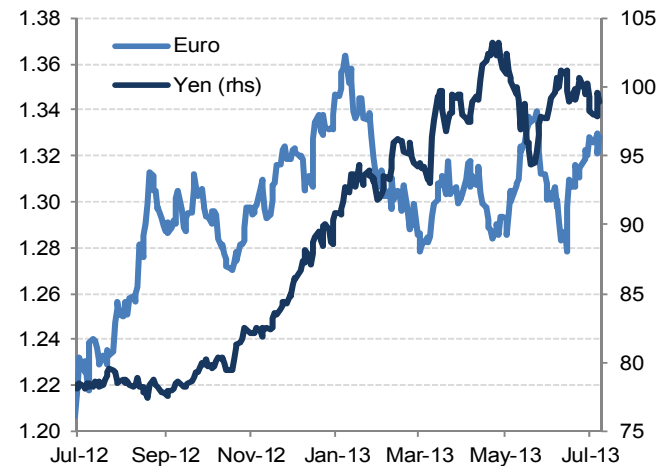
Gold & Commodities (US\$ & Index)



Source: Haver Analytics & BBVA Research

Graph 17

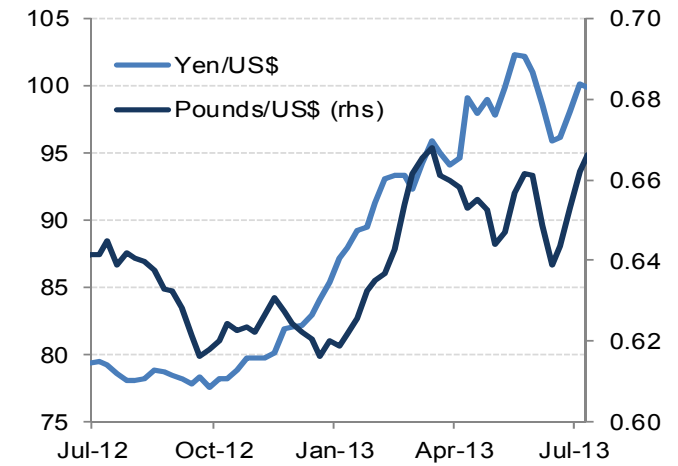
Currencies (Dpe & Ypd)



Source: Bloomberg & BBVA Research

Graph 18

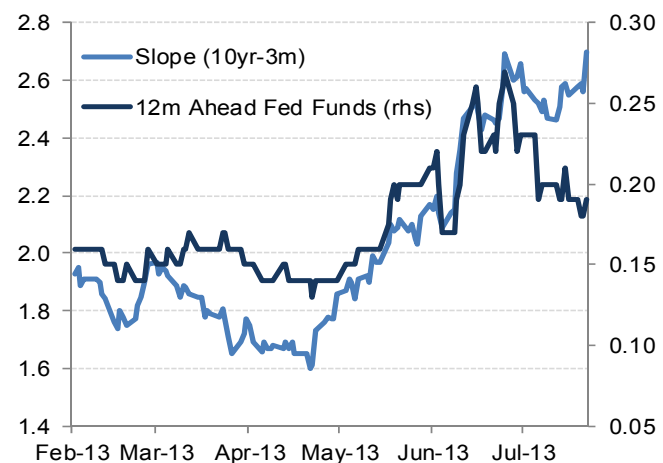
6-Month Forward Exchange Rates (Yen & Pound / US\$)



Source: Haver Analytics & BBVA Research

Graph 19

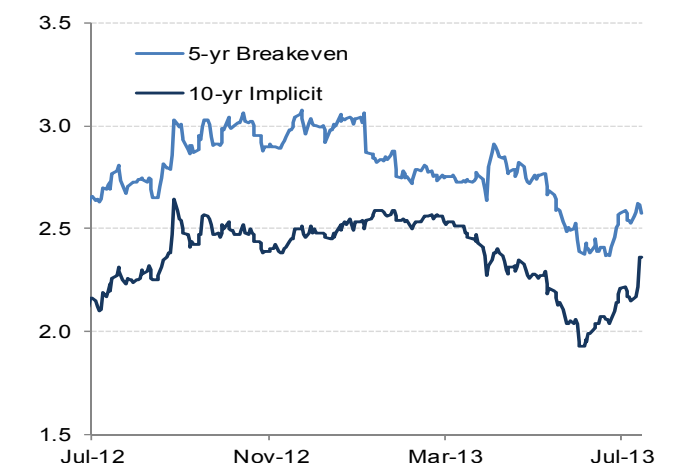
Fed Futures & Yield Curve Slope (% & 10year-3month)



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)	14.16	14.16	14.12	14.10
New Auto (36-months)	2.49	2.50	2.45	2.95
Heloc Loan 30K	5.27	5.29	5.34	5.44
5/1 ARM*	3.18	2.68	3.08	2.90
15-year Fixed Mortgage *	3.43	2.76	3.50	3.23
30-year Fixed Mortgage *	4.39	3.57	4.46	3.99
Money Market	0.44	0.44	0.45	0.52
2-year CD	0.73	0.73	0.73	0.87

*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	0.08	0.09	0.10	0.14
3M Libor	0.27	0.27	0.45	0.44
6M Libor	0.40	0.40	0.65	0.00
12M Libor	0.67	0.68	0.98	1.05
2yr Sw ap	0.47	0.47	0.59	0.45
5yr Sw ap	1.55	1.54	1.82	0.88
10Yr Sw ap	2.79	2.76	2.99	1.71
30yr Sw ap	3.67	3.60	3.73	2.45
30day CP	0.12	0.12	0.12	0.34
60day CP	0.13	0.14	0.15	0.36
90day CP	0.15	0.16	0.15	0.38

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Speech at Amazon facility in Chattanooga, TN
30 July 2013

"Today, our businesses have created 7.2 million new jobs over the last 40 months. This year, we're off to our best private-sector jobs growth since 1999. We now sell more products made in America to the rest of the world than ever before. We produce more renewable energy than ever. We produce more natural gas than anybody else in the world. Health care costs are growing at the slowest rate in 50 years. Our deficits are falling at the fastest rate in 60 years...But as I said last week, and as any middle-class family will tell you, we're not there yet."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Aug	ISM Non-manufacturing survey	JUL	52.8	53.0	52.2
6-Aug	International Trade	JUN	\$-43.2B	\$-43.5B	\$-45.0B
6-Aug	JOLTS Job Openings	JUN	3895K	3900K	3828K
7-Aug	Consumer Credit	JUN	\$16.5B	\$15.0B	\$19.6B
8-Aug	Initial Jobless Claims	2-Aug	338K	336K	326K
8-Aug	Continued Claims	27-Jul	2975K	2970K	2951K
9-Aug	Wholesale Inventories	JUN	0.3%	0.4%	-0.5%

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	1.8	2.8	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	2.90	3.28	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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