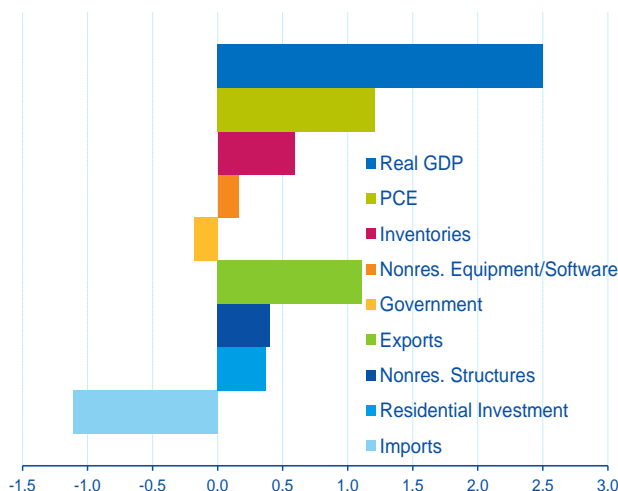


US Weekly Flash

Highlights

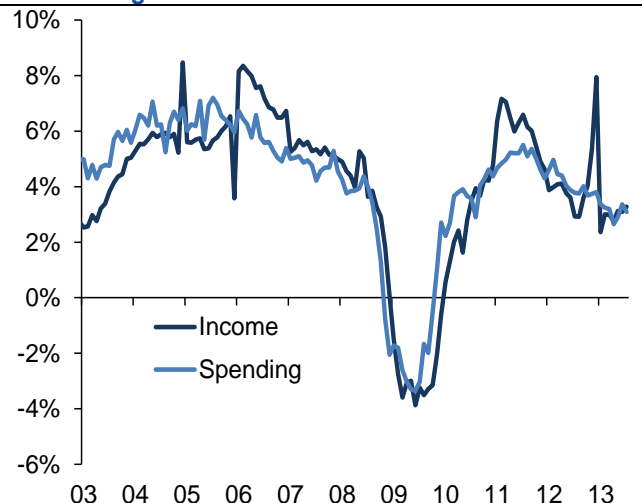
- 2Q13 Real GDP Rises to 2.5% On Stronger Net Exports and Nonresidential Structures**
 - In line with our forecast for the revision to 2Q13, the BEA's preliminary report on real GDP SAAR showed the economy grew by 2.5%, up from the advanced report of 1.7%. Data released between the two reports showed much stronger gains in the net exports as the export market seemed to have become augmented by strong capital goods demand from Europe and Asia while the domestically, imports saw slower demand. Leaders in the upward revision include private domestic investment which rose 0.9pp to 9.9%. This is due primarily to nonresidential structures which rose from 6.8% in the advanced report but was revised upward to 16.1% in the preliminary. Residential investment was actually revised downward by 0.5pp which is in line with what we have been seeing in the housing market over the past quarter as rising mortgage rates and continually slim supply constrain the market. However the key driver in the revision upward was net exports which contributed most of the increase to real GDP. Exports rose to 8.6%, far higher than originally estimated and the highest rate since 4Q10. Imports also declined which helped drive the net figure, falling to 7.0%. Net exports contribution to GDP rose from -0.8pp to 0.0pp which is a significant increase for one quarter's data. Government expenditures continued to be a drag but the overall component remained stable at -0.9% SAAR. However, delving further into the data we see that state and local expenditures, which had risen for the first time in a year, was revised downward from 0.3% to -0.5%.
- Personal Income and Spending Rose in July But Underlying Data Was Weak**
 - Despite the 0.1% rise in personal income for July, the underlying data for income was less positive. Compensation for employees declined 0.25% MoM, the first decline since the income tax increase at the beginning of the year. Wages & salaries declined 0.3% with private and government components falling 0.3% and 0.5%, respectively. This is in line with our expectations given the employment statistics for in the household survey for average hourly earnings declined for the same period.
 - Personal consumption was slow for July after a much stronger June, up 0.1% after a 0.6% rise in June. Spending was in line with data released earlier in the month as retail sales decelerated from its June report as vehicle purchases slowed from their accelerated pace over the 1H13. Spending on goods was still up in July however, with durable goods providing the lift needed to offset the decline in services. PCE at the headline and core levels rose 0.1% in July which put the YoY rates at 1.4% and 1.2% respectively.

Graph 1
Contributions to Real GDP Growth
2Q13 Preliminary Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Personal Income and Spending
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

ISM Manufacturing (August, Tuesday 10:00 ET)

Forecast: 54.2

Consensus: 54.0

Previous: 55.4

We expect the August ISM manufacturing survey to decelerate slightly as manufacturing data has showed signs of weakening. July's jump to 55.4 was on the back of very strong new orders and ever stronger production, levels unseen for two years. While the manufacturing sector showed considerable demand growth in July, current data from the Federal Reserve regions point toward a slight deceleration. The Philadelphia and New York federal reserve surveys, ISM adjusted, fell in August despite the strong gains in July. As is the case with manufacturing, evidenced by recent durable goods orders, one month's strength does not translate into continued and stable growth. Much of the manufacturing industry thrives off of sporadic orders for large capital goods or a steady portfolio of buyers but only a few industries experience stable, continued growth for long periods of time. Nevertheless, the deceleration does not mean that manufacturing is on the decline. We continue to hold our forecast well above the 50 mark which signifies growth.

Construction Spending (July, Tuesday 8:30 ET)

Forecast: 0.5%

Consensus: 0.3%

Previous: -0.6%

After a considerable decline in June, we expect July's figure to show some expansion based on positive data for the housing industry and non-residential construction. June's decline of 0.6% on the back of a 7.9% decline in housing starts should be reversed or at least softened in July as housing starts jumped upward to just below 900K. We continue to see single family homes fluctuate up and down as multifamily construction remains the dominant component. Between the two of them, single family starts declined 13K but multifamily construction jumped up 63K, rounding out the single family starts decline and raising overall housing starts by 50K. Additionally, there remain 13K units under construction which should help to add to the month's growth.

International Trade (July, Wednesday 8:30 ET)

Forecast: -\$37.8bn

Consensus: -\$38.8bn

Previous: -\$34.2bn

We expect the international trade deficit to grow in July after a prolific decline in June. Down \$9bn in June as energy exports grew along with capital goods, it is unlikely that the situation will continue to improve given the fluctuating nature of the indicator. We expect imports will tick upward slightly due to stronger demand for consumer goods and electronics given the start of the school year. Exports, while strong in most consumer segments, may have seen a majority of its strength in June as Europe continues to lag in terms of demand and Asian nations, namely China and Japan, are still struggling domestically. According to the ISM report which publishes information on its survey for export and imports, the situation supports our forecast. The ISM manufacturing survey reported both its export and import index's above 50 which signifies expansion. However, the export index ticked downward and the import index reached its highest level since April 2010. Exports orders ticked upward, still below 50, while imports declined but stayed just above the 50 mark. We therefore expect the deficit to rise slightly but to remain below \$39bn as current data still shows possible upside potential from consumer goods and energy.

Nonfarm Payrolls & Unemployment Rate (August, Friday 9:55 ET)

Forecast: 178K, 7.4%

Consensus: 180K, 7.4%

Previous: 162K, 7.4%

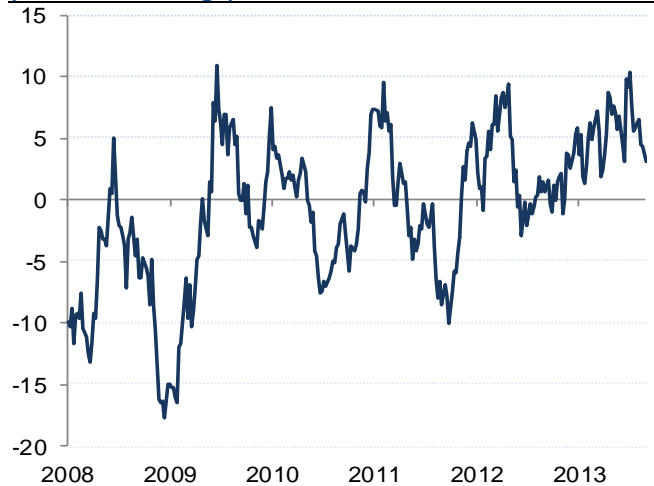
We expect August will show a continued strength in the labor market with nonfarm payrolls increasing while the unemployment rate remains stable as more people re-enter the labor force. A level of optimism is behind this report given the declining level of initial jobless claims over the past month. As of the most recent data for August up to the third week, claims are 3.8% lower MoM and have reached the lowest 3 month moving average since 2008. This, coupled with continued hiring in the service sector, points toward stronger payroll figures for August at the headline level. Headwinds remain however, as the summer hiring for teachers and some service based sectors slows. We expect the government sector to continue its current trend at or below 0K added given sequestration for FY14. In terms of the unemployment rate, we expect the participation rate to rise in August which will offset the increase in nonfarm payrolls.

Market Impact

Despite the much higher GDP revisions for 2Q13, 3Q13 data so far has not been as strong as was anticipated which may lead to a slower overall 2H13. Nevertheless, data for next week's seems to compete with current data as employment shows signs of strengthening and the ISM continues to remain above 54 signifying moderately strong growth. Employment will be the most important data point out next week however, as the Fed will be watching for increasing signals to support their tapering come their September meeting.

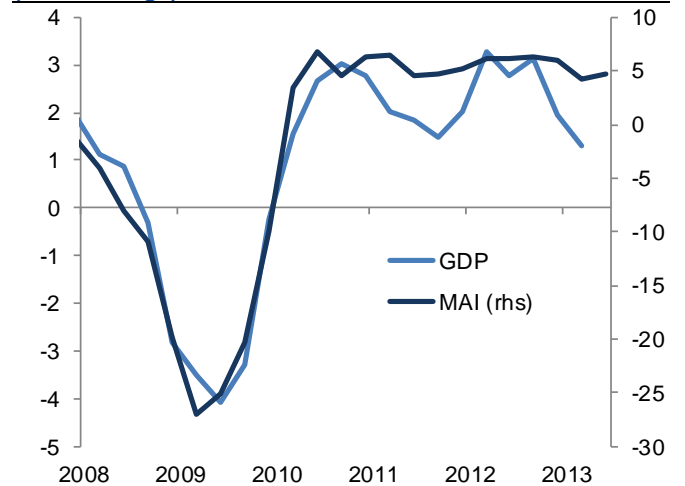
Economic Trends

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



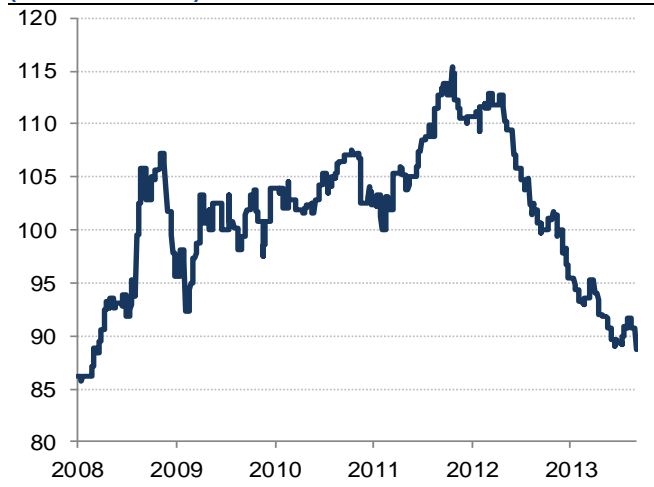
Source: BBVA Research

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



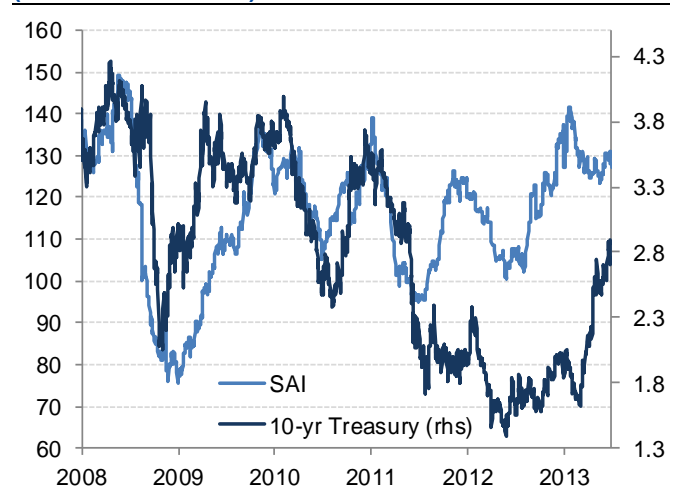
Source: BBVA Research & BEA

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



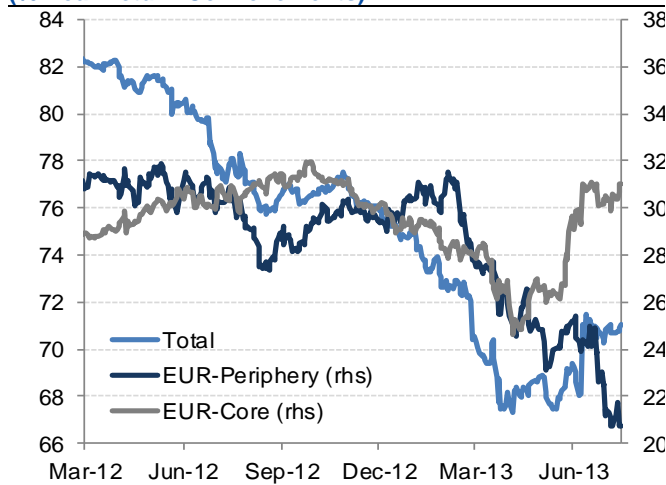
Source: BBVA Research

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



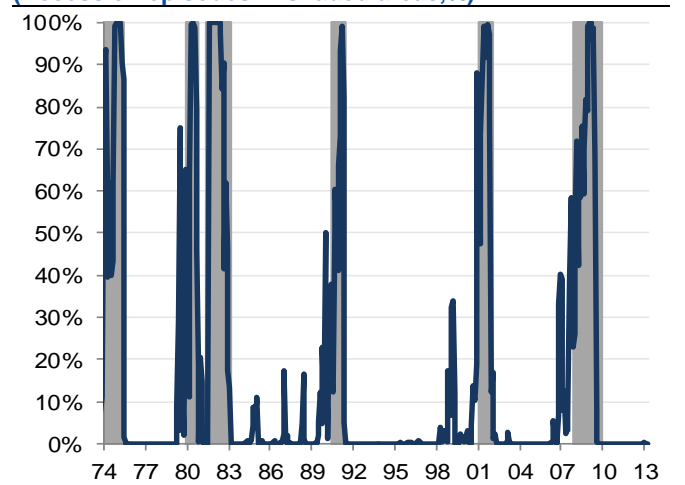
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

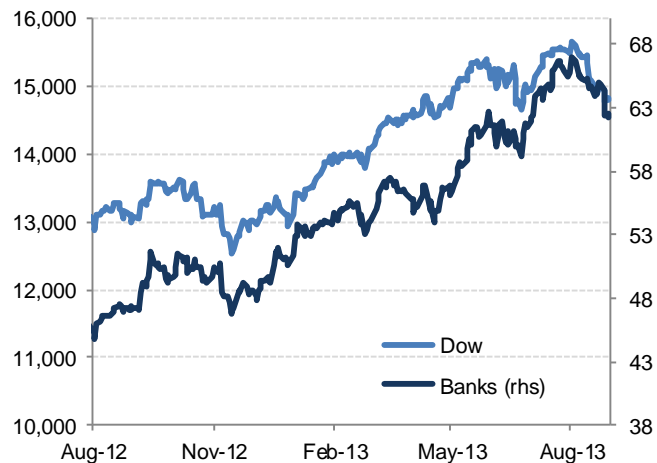
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

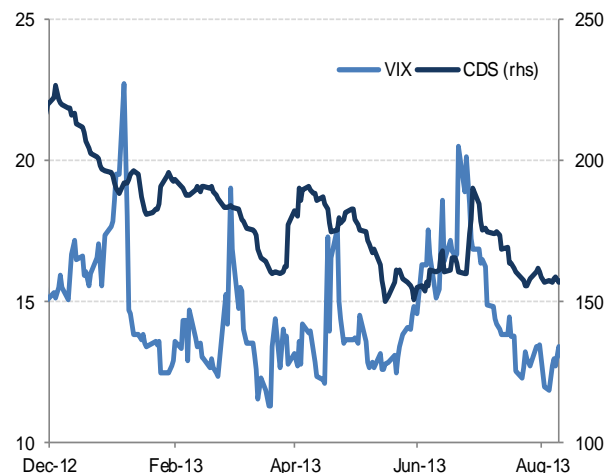
Financial Markets

Graph 9
Stocks
(Index, KBW)



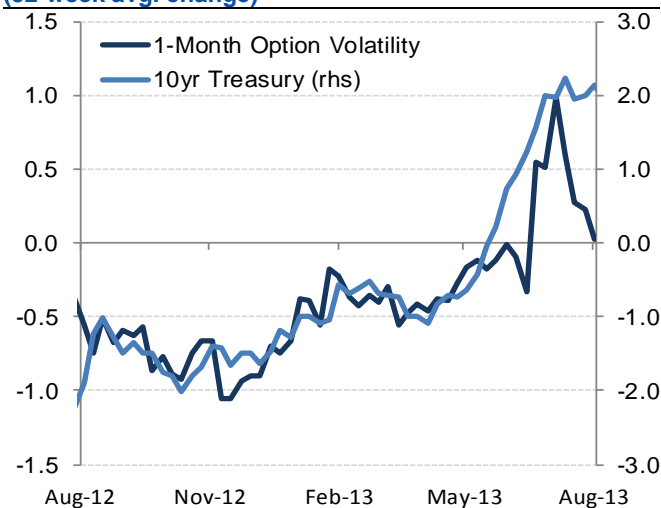
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



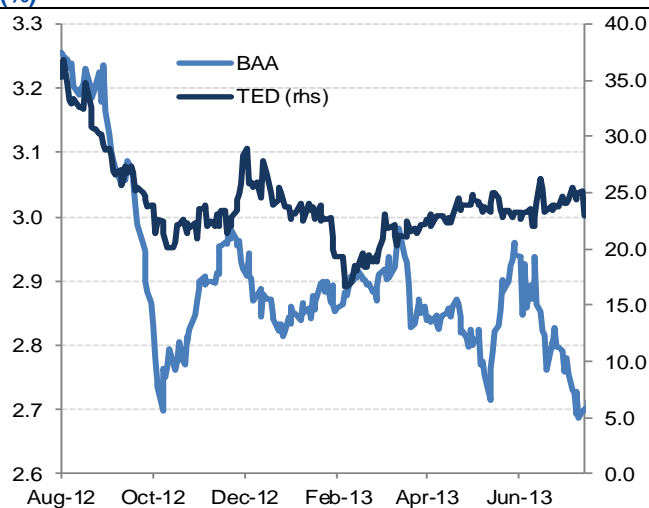
Source: Bloomberg & BBVA Research

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



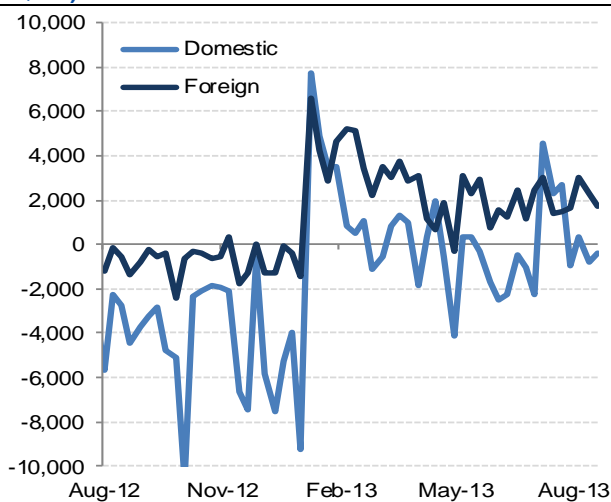
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



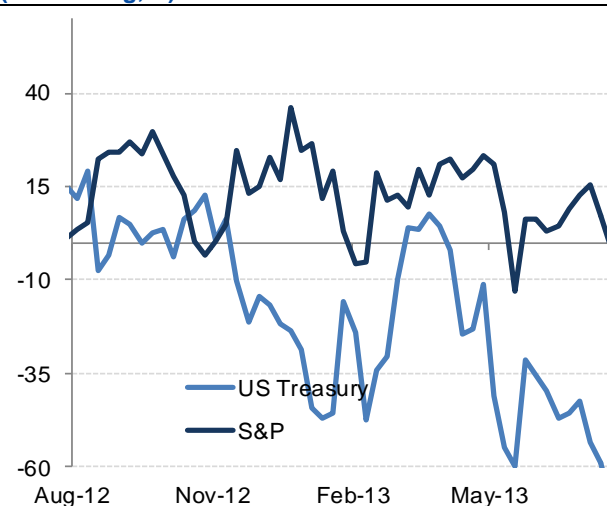
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

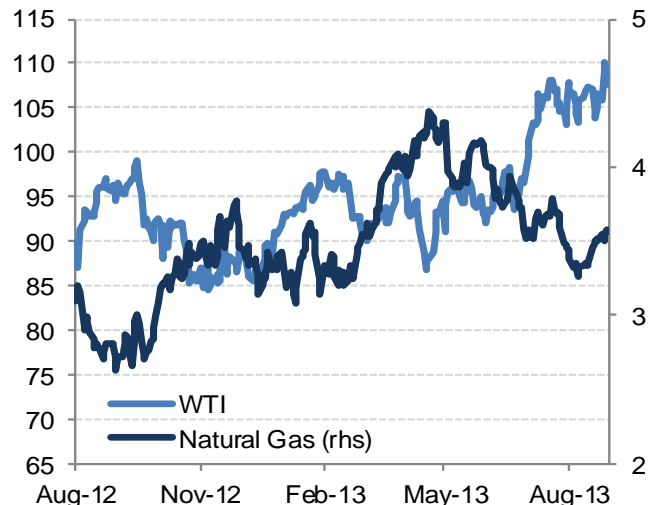
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

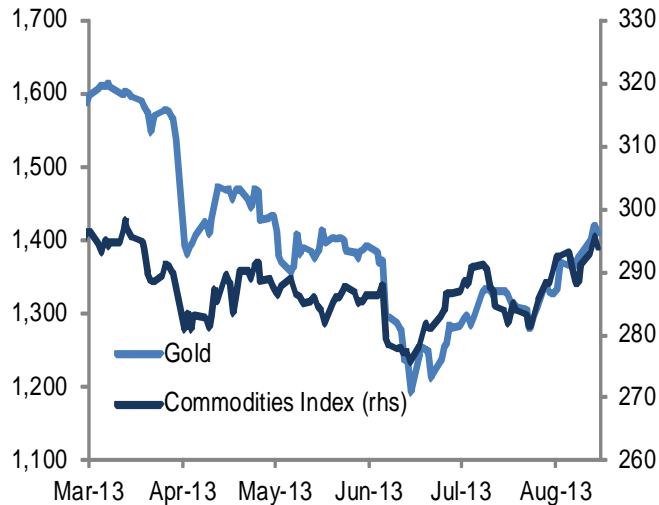
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



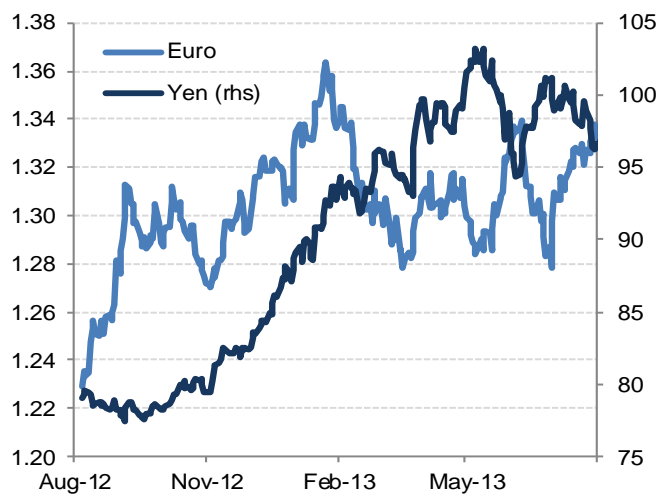
Source: Bloomberg & BBVA Research

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



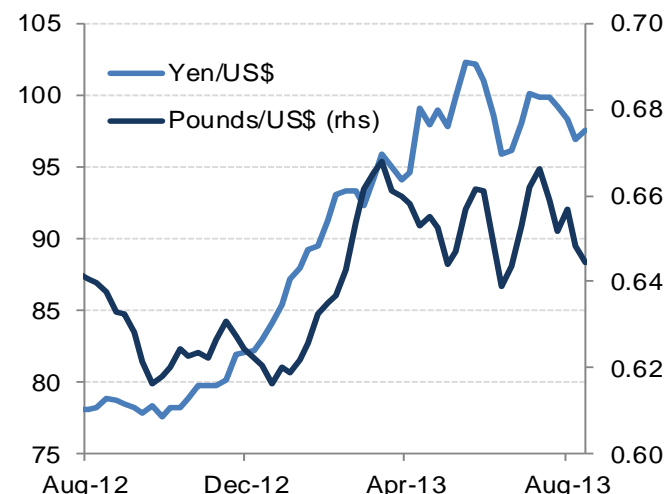
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



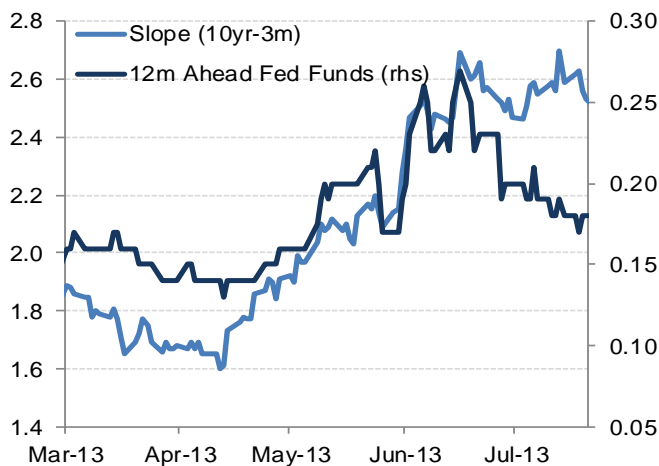
Source: Bloomberg & BBVA Research

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



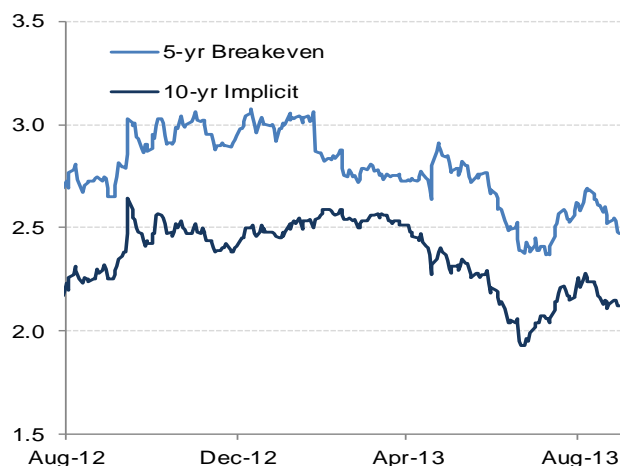
Source: Haver Analytics & BBVA Research

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)	14.16	14.16	14.16	14.10
New Auto (36-months)	2.39	2.39	2.49	2.92
Heloc Loan 30K	5.33	5.35	5.29	5.48
5/1 ARM*	3.24	2.68	3.16	2.90
15-year Fixed Mortgage*	3.54	2.76	3.39	3.23
30-year Fixed Mortgage*	4.51	3.57	4.31	3.99
Money Market	0.44	0.44	0.42	0.52
2-year CD	0.76	0.75	0.73	0.85

*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	0.08	0.08	0.09	0.13
3M Libor	0.26	0.26	0.45	0.42
6M Libor	0.39	0.39	0.65	0.00
12M Libor	0.67	0.67	0.98	1.03
2yr Swap	0.56	0.56	0.47	0.40
5yr Swap	1.79	1.81	1.53	0.77
10Yr Swap	2.97	3.01	2.77	1.66
30yr Swap	3.72	3.79	3.64	2.47
30day CP	0.12	0.12	0.12	0.22
60day CP	0.14	0.14	0.13	0.27
90day CP	0.17	0.17	0.17	0.35

Source: Bloomberg & BBVA Research

Quote of the Week

Speaker of the House John Boehner
Speech in Congress
27 August 2013

"Before there is any long-term debt limit increase, a budget should be passed that cuts spending"

Economic Calendar

Date	Event	Period	Forecast	Survey	Prior
3-Sep	Construction Spending	JUL	0.5%	0.3%	-0.6%
3-Sep	ISM Manufacturing Survey	AUG	54.2	54.0	55.4
4-Sep	International Trade Balance	JUL	-\$37.8B	-\$38.8B	-\$34.2B
4-Sep	ADP Employment	AUG	175	180K	200K
5-Sep	Initial Jobless Claims	31-Aug	335	330K	331K
5-Sep	Continued Claims	24-Aug	2978K	2990K	2989K
5-Sep	Factory Orders	JUL	-0.5%	-3.5%	1.5%
5-Sep	ISM Non-Manufacturing Index	AUG	54.5	55.0	56.0
6-Sep	Change in Nonfarm Payrolls	AUG	178K	180K	162K
6-Sep	Private Payrolls	AUG	173K	180K	161K
6-Sep	Manufacturing Payrolls	AUG	4K	5K	6K
6-Sep	Unemployment Rate	AUG	7.4%	7.4%	7.4%

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	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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