

US Weekly Flash

Highlights

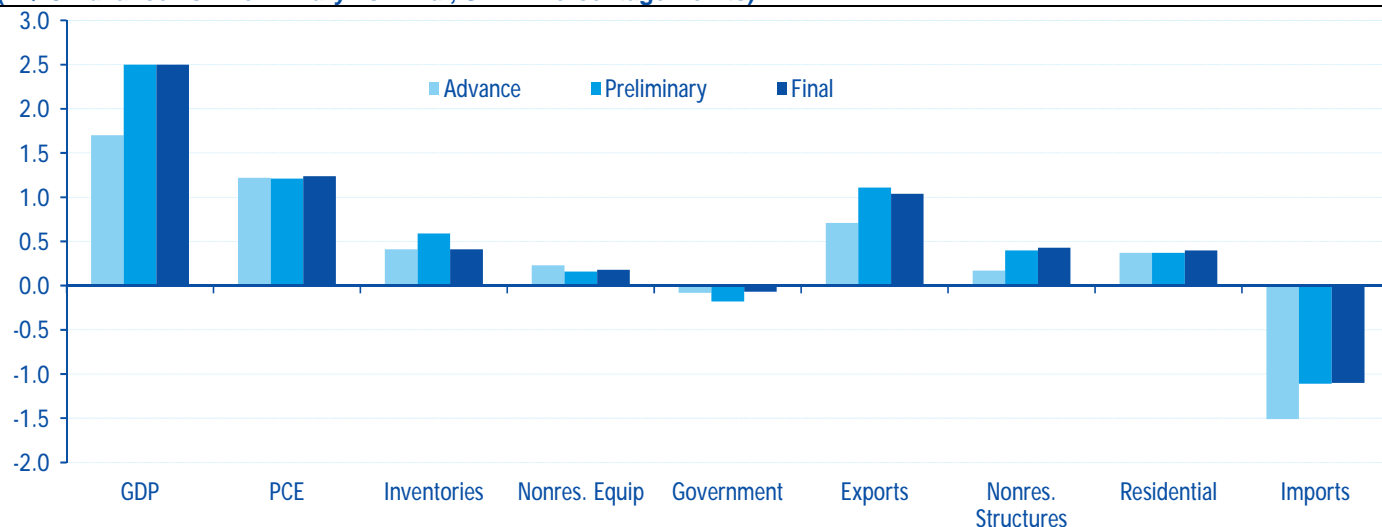
- **Final Estimate for 2Q13 Real GDP Growth Unchanged at 2.5%**

- Real GDP growth in the second quarter of 2013 remained unchanged at 2.5% on a QoQ seasonally-adjusted annualized basis. Expectations were for a slight upward revision due to the most recent reports on 2Q13 data, however a bigger drag from inventory investment offset any positive boost from residential and nonresidential. Personal consumption expenditures were unchanged at 1.8% QoQ SAAR. Exports, which have been more of a focus lately given the sluggish global economy, were also revised down slightly to 8.0% from the preliminary report of 8.6%.
- More importantly, this data is helpful in assessing whether or not 2013 growth will be slower than originally predicted. So far in the first half of the year we have seen an average of 1.5% growth on a 4Q/4Q basis, which is in line with what we expected for a slow start to 2013. However, to reach our current 1.8% annual baseline forecast we would need to see an average of 2.2% 4Q/4Q growth in the second half of the year. This corresponds to above 3.0% QoQ SAAR growth rates in both 3Q13 and 4Q13. While we maintain our expectations for acceleration in 2H13 compared to 1H13, it is unlikely that we will reach such strong growth rates in the next two quarters if we do not see a significant boost from upcoming data. Still, we maintain our forecast for 1.8% growth for the year, but with downward bias.

- **Personal Income and Outlays Gain Momentum in August**

- Consumer-related data shows some improvement as more reports are spilling in for 3Q13. Personal income and outlays both met expectations for August, up 0.4% and 0.3%, respectively, following upward revisions to 0.2% growth in July for both components. On a YoY basis, income jumped to 3.7% and spending increased to 3.2%.
- In real terms, income and outlays increased 0.3% and 0.2% in August, slightly brightening the outlook for 3Q13. At this pace, the third quarter is shaping up to be pretty similar to 2Q13 when it comes to consumer activity. Given that we are headed into pre-holiday shopping season, we expect that consumer spending will hold up. However, employment growth is still weak and therefore upward pressures on income are limited.

Graph 1
Contributions to Real GDP Growth
(2Q13 Advance vs. Preliminary vs. Final, SAAR Percentage Points)



Week Ahead

ISM Manufacturing Index (September, Tuesday 10:00 ET)

Forecast: 55.9

Consensus: 55.1

Previous: 55.7

The ISM Index has signaled significant acceleration in manufacturing activity for the third quarter thus far, and we expect this momentum to continue through September. Most of the strength in recent months has stemmed from a rise in new orders and production, both of which jumped to nearly two-year highs. The employment component remains above the 50-mark to suggest that manufacturers are still willing to hire additional workers, yet levels are well below the recovery peak seen in early 2011. Still, we expect that the latest increase in demand will fuel future production, keeping the overall index on the path toward recovery highs.

Construction Spending (August, Tuesday 10:00 ET)

Forecast: 0.3%

Consensus: 0.4%

Previous: 0.6%

Construction spending has been relatively strong in recent months, aside from a brief stall in June. In July, an increase in private construction more than offset a decline from the public side, boosting overall outlays 0.6% for the month. Nonresidential private growth was particularly strong, and single-family construction led the residential component. For August, we expect that a similar trend will emerge as fiscal issues limit public spending for the time being. Private real estate has been gaining momentum, and an uptick in housing starts should help boost overall construction spending. However, we expect that growth in August could be a bit slower than in July given the increased pressures on public outlays.

ISM Non-Manufacturing Index (September, Thursday 10:00 ET)

Forecast: 58.0

Consensus: 57.0

Previous: 58.6

Unlike the manufacturing sector, the services sector has for the most part recovered to pre-recession activity levels, at least according to the ISM Non-Manufacturing Index. In August, the overall index jumped to the highest level seen since late 2005, with a big push from business activity and new orders. Employment in the services sector also accelerated in August at the fastest pace since earlier this year. For September, we expect that the ISM index will continue to point to increasing activity in services, but at a slightly slower pace than in August. Some temporary headwinds, such as the looming fiscal talks in Washington, may postpone some business activity in the short-term.

Nonfarm Payrolls and Unemployment Rate (September, Friday 8:30 ET)

Forecast: 180K, 7.3%

Consensus: 180K, 7.3%

Previous: 169K, 7.3%

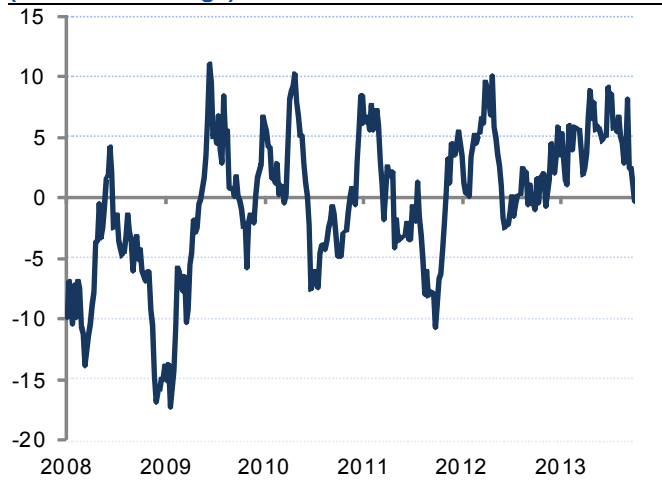
Employment growth has been nothing to write home about, yet the unemployment rate continues to trend downward. The declining labor force has put significant pressure on the unemployment rate throughout the past year, and we expect that this influence will continue for some time. At the same time, we don't expect nonfarm payroll growth to accelerate much, holding at or below the 200K mark per month as businesses remain hesitant to go full steam ahead with expanding their workforce. Throughout the past few months, jobless claims data have suggested a noticeable decline in layoffs, and the story for September appears to be slightly improved from August. Other indicators, such as the ISM indices for both manufacturing and services as well as regional Federal Reserve Surveys, all reflect increasing momentum in the labor market throughout 3Q13, albeit at a very gradual pace.

Market Impact

All eyes are on Congress this week as the deadline for budget negotiations quickly comes and goes. The start of the week could see some serious market reaction if an agreement is not reached by the October 1st government shutdown date. In terms of economic data, the employment report should draw most market attention for the week, particularly as it relates to eventual Fed tapering of QE3. The ISM indices are also important indicators and can be market movers if not overshadowed by political headwinds.

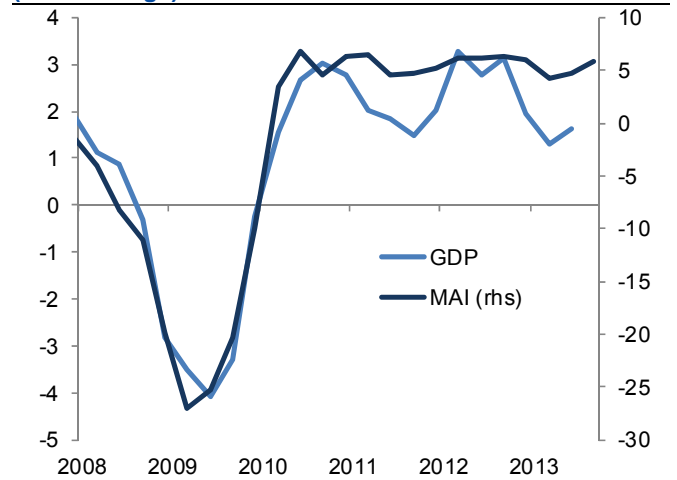
Economic Trends

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



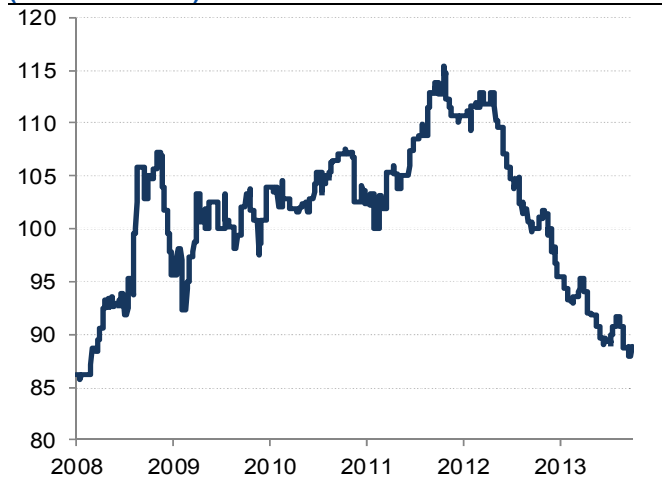
Source: BBVA Research

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



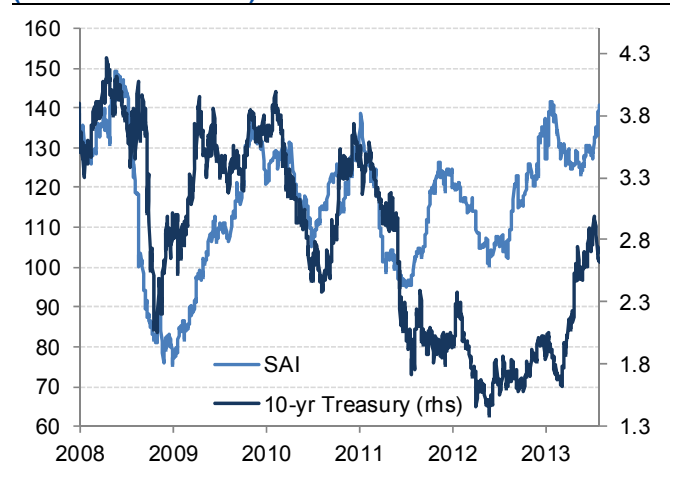
Source: BBVA Research & BEA

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



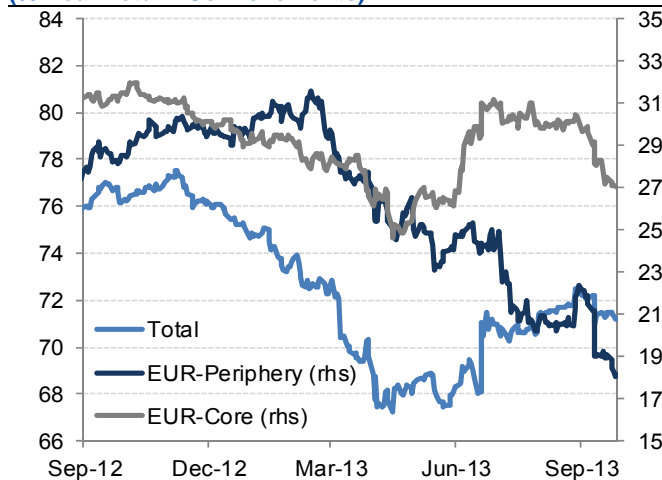
Source: BBVA Research

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



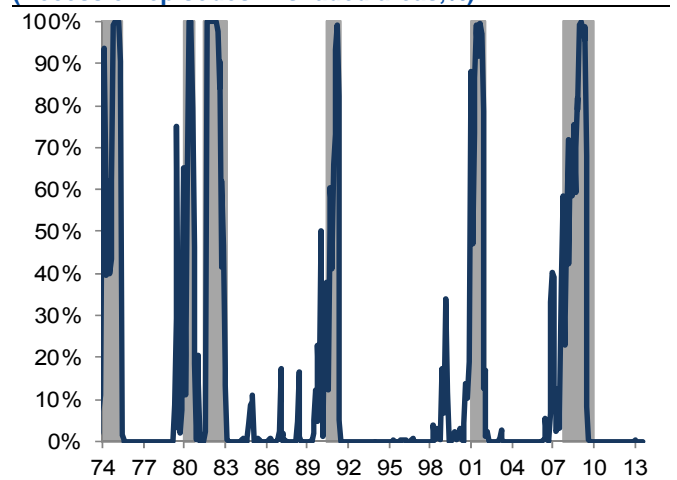
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

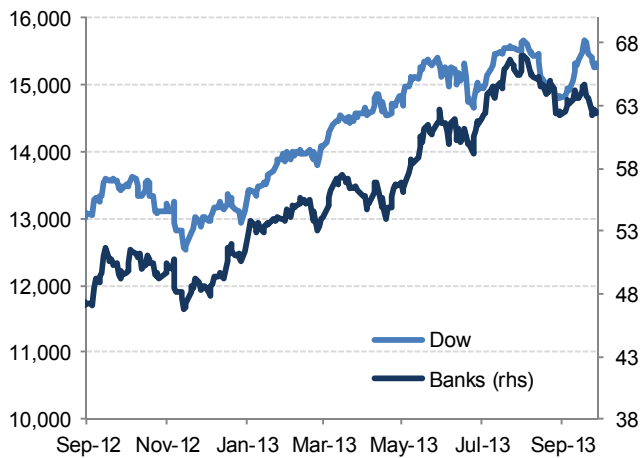
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

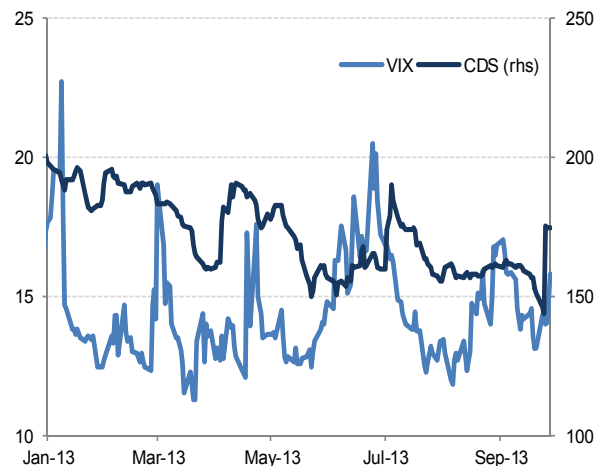
Financial Markets

Graph 9
Stocks
 (Index, KBW)



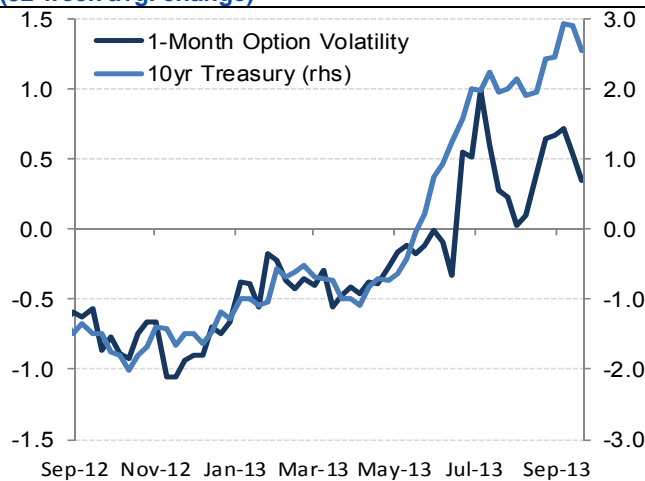
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
 (Indices)



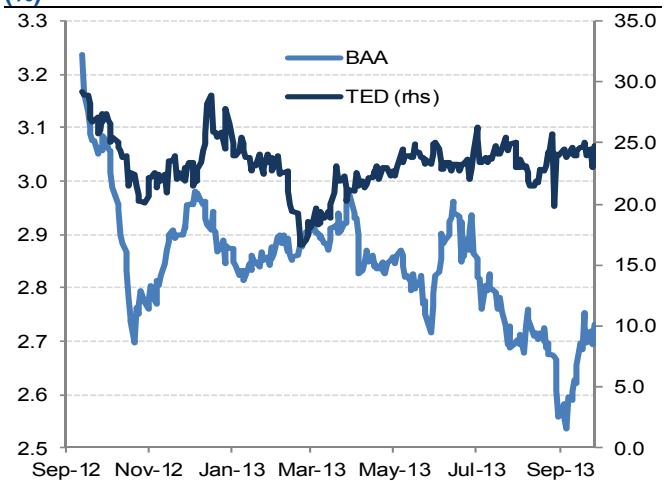
Source: Bloomberg & BBVA Research

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



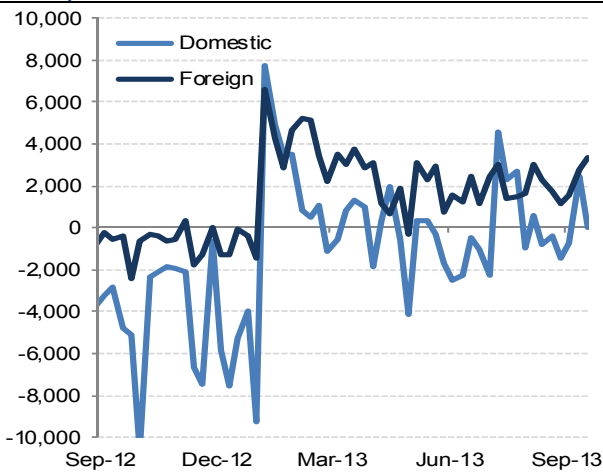
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
 (%)



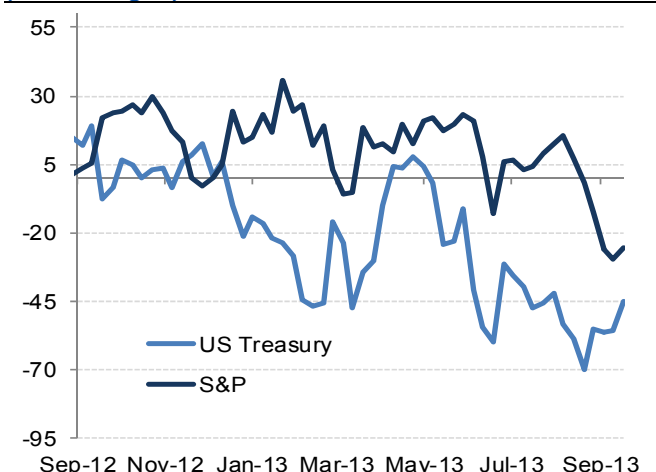
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

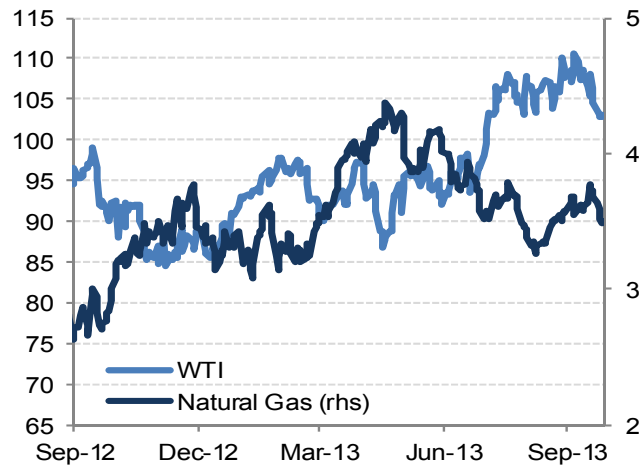
Graph 14
Total Reportable Short & Long Positions
 (Short-Long, K)



Source: Haver Analytics & BBVA Research

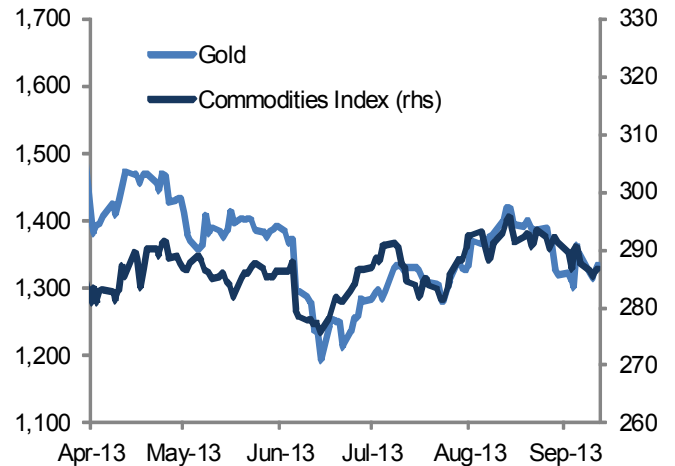
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



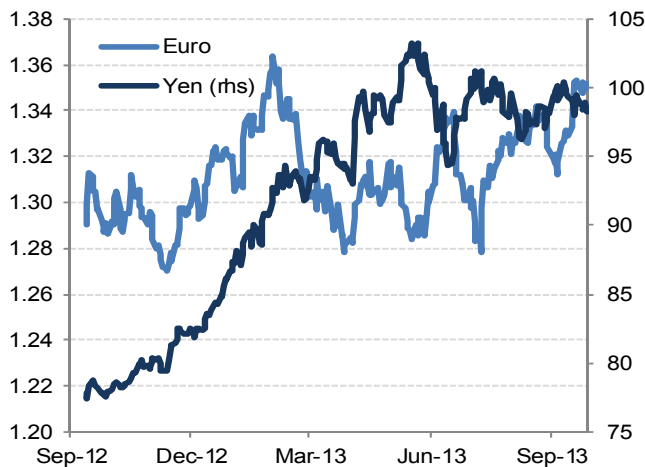
Source: Bloomberg & BBVA Research

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



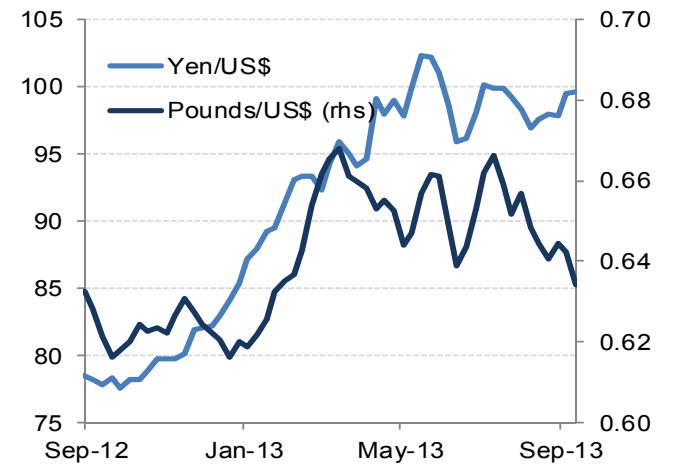
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



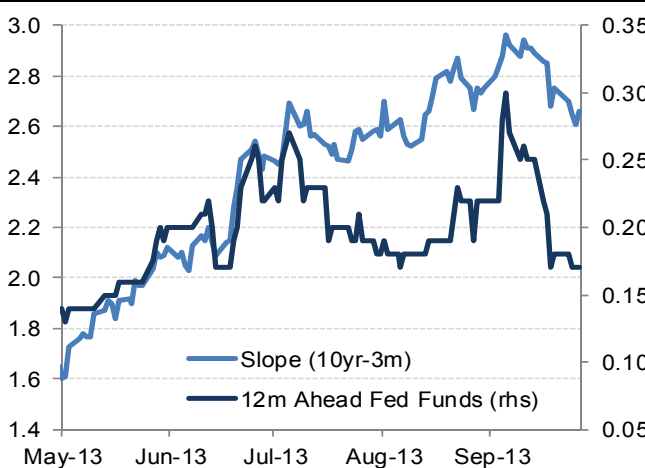
Source: Bloomberg & BBVA Research

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



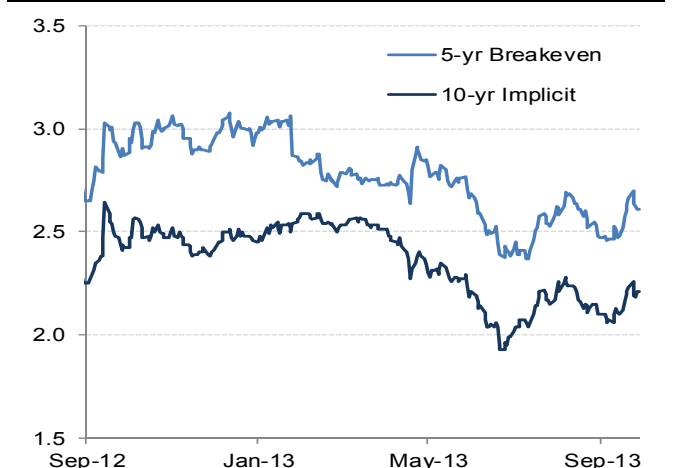
Source: Haver Analytics & BBVA Research

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	14.16	14.16	14.10
New Auto (36-months)	2.50	2.51	2.39	3.14
Heloc Loan 30K	5.19	5.23	5.33	5.46
5/1 ARM*	3.07	3.11	3.24	2.90
15-year Fixed Mortgage*	3.37	3.54	3.54	3.23
30-year Fixed Mortgage*	4.32	4.50	4.51	3.99
Money Market	0.41	0.41	0.44	0.51
2-year CD	0.78	0.77	0.76	0.87

*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	0.08	0.08	0.07	0.09
3M Libor	0.25	0.25	0.26	0.36
6M Libor	0.37	0.38	0.39	0.64
12M Libor	0.63	0.64	0.67	0.98
2yr Sw ap	0.47	0.49	0.57	0.40
5yr Sw ap	1.55	1.66	1.81	0.79
10Yr Sw ap	2.78	2.89	2.98	1.71
30yr Sw ap	3.66	3.74	3.72	2.61
30day CP	0.10	0.11	0.10	0.27
60day CP	0.11	0.12	0.14	0.35
90day CP	0.13	0.14	0.17	0.43

Source: Bloomberg & BBVA Research

Quote of the Week

Richard W. Fisher, President of the Federal Reserve Bank of Dallas
Review, Reflect and Deflect
23 September 2013

“As I said at the beginning of my remarks, I am going to try to avoid answering questions you might have about last week’s FOMC meeting and what some in the press have now labeled ‘the taper caper’. Nearly every Federal Reserve Bank president and his or her sister will be speaking to this topic this week, so you will be getting an earful of cacophonous comments on this subject. I will simply say that I disagreed with the decision of the committee and argued against it. Here is a direct quote from the summation of my intervention at the table during the policy ‘go round’ when Chairman [Ben] Bernanke called on me to speak on whether or not to taper: ‘Doing nothing at this meeting would increase uncertainty about the future conduct of policy and call the credibility of our communications into question’. I believe that is exactly what has occurred, though I take no pleasure in saying so.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
30-Sep	Chicago PMI	SEPT	53.5	54.0	53.0
30-Sep	Dallas Fed Manufacturing Survey	SEPT	6.1	5.0	5.0
1-Oct	Motor Vehicle Sales (Mn)	SEPT	16.0	15.8	16.1
1-Oct	ISM Manufacturing Index	SEPT	55.9	55.1	55.7
1-Oct	Construction Spending (MoM)	AUG	0.3%	0.4%	0.6%
2-Oct	ADP Employment	SEPT	200K	176K	176K
2-Oct	ISM New York	SEPT	59.00	--	60.50
3-Oct	Initial Jobless Claims	28-Sep	310K	315K	305K
3-Oct	Continuing Claims	21-Sep	2800K	2800K	2823K
3-Oct	Factory Orders (MoM)	AUG	0.5%	0.3%	-2.7%
3-Oct	ISM Non-Manufacturing Index	SEPT	58.0	57.0	58.6
4-Oct	Nonfarm Payrolls	SEPT	180K	180K	169K
4-Oct	Private Payrolls	SEPT	187K	180K	152K
4-Oct	Manufacturing Payrolls	SEPT	5K	7K	14K
4-Oct	Unemployment Rate	SEPT	7.3%	7.3%	7.3%
4-Oct	Average Hourly Earnings (MoM)	SEPT	0.20%	0.20%	0.20%

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	7.5	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	3.00	3.35	3.64
US Dollar/ Euro (eop)	1.32	1.31	1.30	1.30	1.35

Note: Bold numbers reflect actual data

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