US Weekly Flash

Highlights

- **International Trade Balance Widens in September as Goods Imports Surge**
  - Domestic and global headwinds have been influencing the U.S. trade balance in recent months as both import and export growth remains subdued. In September, the trade deficit widened to -$41.8bn, the worst level seen since May, as import growth outpaced that of exports. In fact, exports actually declined for the third consecutive month, a trend not seen since the depths of the recession. Imports, on the other hand, jumped 1.2% after stalling in August, reflecting a 1.5% increase in the goods component. Overall, the trade balance for the third quarter averaged -$39.7bn, slightly worse than in 2Q13 but an improvement over the previous year.
  - With more complete 3Q13 data under our belts, we are getting a clearer picture of how the final GDP estimates may evolve. The lack of improvement in the trade deficit for September will likely influence a minor downward revision to GDP, particularly as we saw an accelerated decline in exports for the month. Looking forward, we do expect that these temporary headwinds will fade as the global economy continues on a slow recovery and domestic consumers regain some of the confidence that was lost during the government shutdown.

- **Industrial Production Dips in October, but Manufacturing Output on the Rise**
  - Total output fell a modest 0.1% in October following two months of steady gains. Fortunately, much of the drop was due to a sharp reversal in utilities output, which fell 1.1% following a 4.5% spike in September. Mining output also declined in October for the first time since March, down 1.6% for the month. On the bright side, manufacturing output increased 0.3% despite a 1.3% drop in auto production. Recent indicators have painted a hazy picture of manufacturing activity, though it does appear that new orders were up for 3Q13 and should thus have a positive influence on production in 4Q13. Year-on-year growth for total industrial production reached 3.3% in October, and we expect growth to remain steady at this pace for the foreseeable future.

- **Yellen's Confirmation Hearing: No Hints on Start to Tapering**
  - At the Congressional hearing Thursday, Fed Vice Chair Janet Yellen stated that the FOMC should be ready to exit the highly accommodative policy once it sees evidence that the "recovery takes hold and progresses." She further confirmed that the decision to reduce the pace of asset purchases is taken one meeting at a time. Yellen kept her views in line with the last FOMC statement that the crucial factor behind the tapering decision is the incoming economic data.
  - Tapering or not, Yellen plans to support highly accommodative monetary policy with a near-zero policy rate far into the future and will likely hold on to a slower pace of QE3 for some time as well. The nominee to lead the Fed reassured that she will "continue promoting a robust recovery," putting this at the frontline of the Fed's mission. Her testimony read: "I believe that supporting the recovery today is the surest path to returning to a more normal approach to monetary policy." Furthermore, the testimony cleverly drew attention to the fact that she "led the effort to adopt a statement of the FOMC longer-run objectives, including a 2 percent goal for inflation." Yellen acknowledged that there are dangers on both sides of the Fed's growing balance sheet: ending QE too early or continuing the asset purchase program too long.
  - The promise that Yellen was obliged to make today was that if confirmed she will be a strong leader in further resolving the "too big-to-fail" problem. The Vice Chair also committed to openness and transparency in Fed communication, upholding the standard set by Chairman Bernanke. On the downside, the Congressional hearing did not address whether the FOMC is considering a revision of policy thresholds ("forward guidance"). Some Fed officials are debating whether the 6.5% unemployment rate threshold for the zero policy rate should be further reduced to 6%, so this will be an issue to watch in 2014 FOMC statements.

Week Ahead

Consumer Price Index, Core (October, Wednesday 8:30 ET)

Forecast: 0.1%, 0.2%	Consensus: 0.0%, 0.1%	Previous: 0.2%, 0.1%

Inflation has consistently held below 2.0% annual growth for almost a year now, despite the added stimulus from the Fed that was expected to cause a jump in prices. In September, headline inflation was driven by modest growth in energy prices but a flat reading for the food index. Moving into October, these trends appear to have shifted somewhat, with crude oil prices falling further and food prices on the rise. While we have seen more volatility in producer prices, the pass-through to consumers has been minimal. Consumer price pressures are likely to remain subdued as we move through 4Q13 and retailers become desperate to make a sale as confidence hangs low during the holiday season. Furthermore, still-weak labor market conditions suggest little pressure for businesses to increase wages anytime soon.

Retail Sales, Ex Auto (October, Wednesday 8:30 ET)

Forecast: 0.0%, 0.1%	Consensus: 0.1%, 0.1%	Previous: -0.1%, 0.4%

The holiday season is upon us, and retailers are preparing for a hopeful surge of consumer spending throughout the next few months. However, consumers were seemingly more hesitant to spend in October as confidence dropped and the government shutdown created more uncertainty in the economic outlook. Weekly retail surveys for the month of October suggest weakness during the first few weeks with only a modest recovery by month-end. On the bright side, consumer prices remain low (particularly at the gas pump) and at least give a boost to purchasing power for the time being. Still, nominal retail sales will be lower because of this price effect. With unit auto sales down slightly for the second consecutive month, we do not expect much strength out of the headline figure. On the other hand, growth in retail sales excluding gas and autos will likely remain positive as the start to holiday shopping sprees at least partially offsets consumer pessimism related to the government shutdown.

Business Inventories (September, Wednesday 10:00 ET)

Forecast: 0.3%	Consensus: 0.3%	Previous: 0.3%

Inventory growth has been a strong contributor to GDP in recent quarters as businesses remain hopeful that consumer demand will improve in the near future. Total business inventories have remained mostly stable throughout the third quarter thus far, reflecting growth from manufacturers, retailers, and wholesalers. In September, wholesale inventories increased for the third consecutive month, most likely related to preparations for the upcoming holiday shopping season. Overall, we do expect inventory growth to remain positive for the coming months, so long as the inventory-to-sales ratio remains constant. Things could turn sour for consumer demand again in 1Q14 if monetary and fiscal policy uncertainty doesn’t shake itself out.

Existing Home Sales (October, Wednesday 10:00 ET)

Forecast: 5.20M	Consensus: 5.16M	Previous: 5.29M

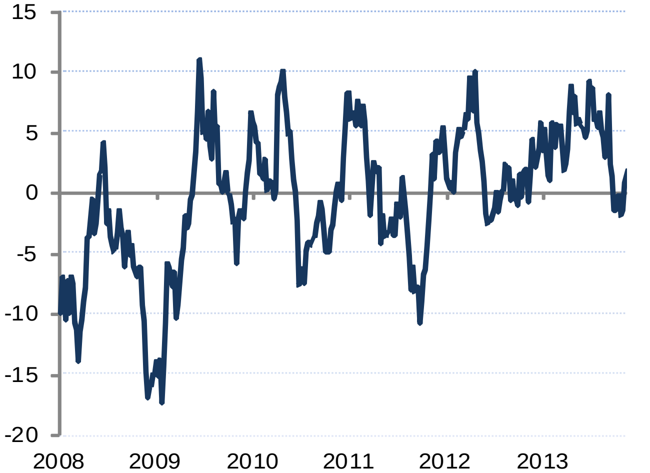
Housing activity has been losing momentum lately as home prices continue to increase and mortgage rates become less attractive to buyers. On average, existing home sales in 3Q13 reached the highest level since before the recession, although numbers did decline slightly in September. For October, we do not expect to see much improvement as the government shutdown weighed on consumer confidence and homebuyer affordability continued to decline. Mortgage rates, which jumped back in early summer, are now rising at a very slow pace, and even appear to have dropped a few percentage points for the month of October. Still, prices of existing homes continue to increase on aggregate as the supply of cheaper foreclosures declines. Overall, we expect to see continued hesitation among homebuyers for the time being as job prospects remain weak and income growth slow.

Market Impact

This week markets will have a variety of economic news to reflect on, from retail sales and inflation to the FOMC minutes and related Fedspeak. So far though, markets have remained relatively positive since the government shutdown given that most data were simply par for the course. Overall, most focus this week will probably be centered on the FOMC minutes with the hopes that the underlying details provide a clearer picture for when the Fed will ultimately be ready to taper.

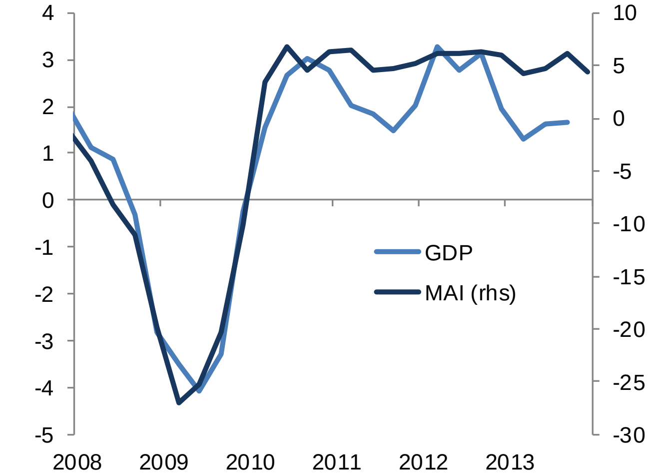
Economic Trends

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



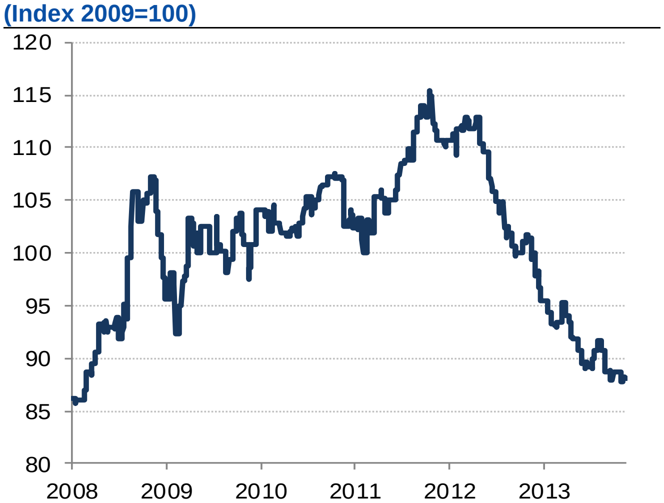
Source: BBVA Research

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



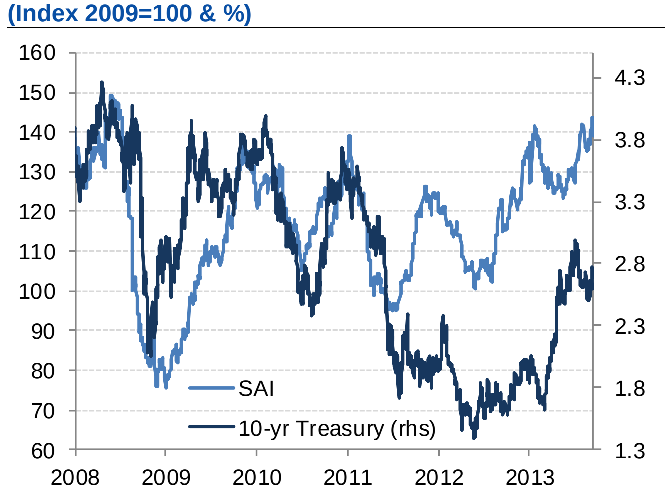
Source: BBVA Research & BEA

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



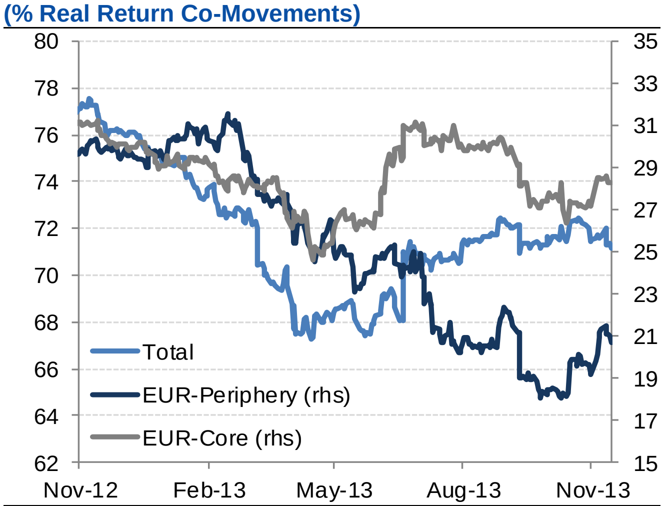
Source: BBVA Research

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



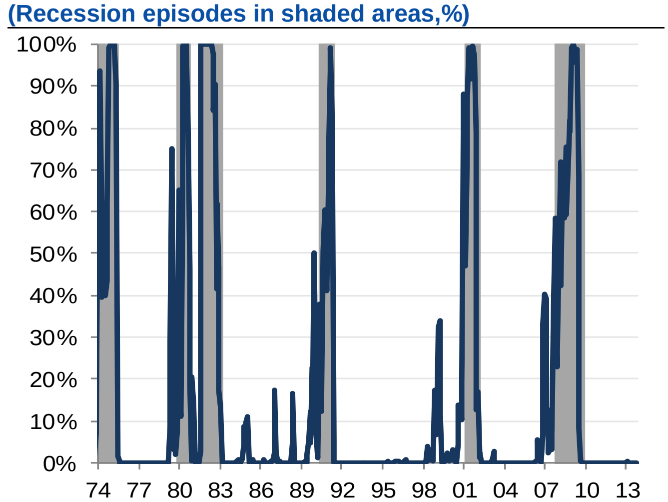
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

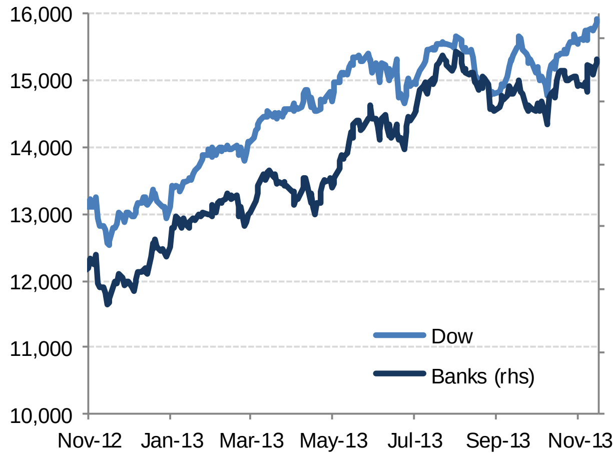
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)**



Source: BBVA Research

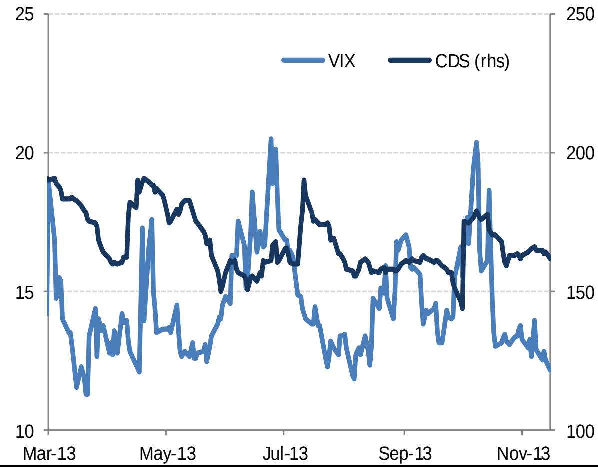
Financial Markets

Graph 9
Stocks
(Index, KBW)



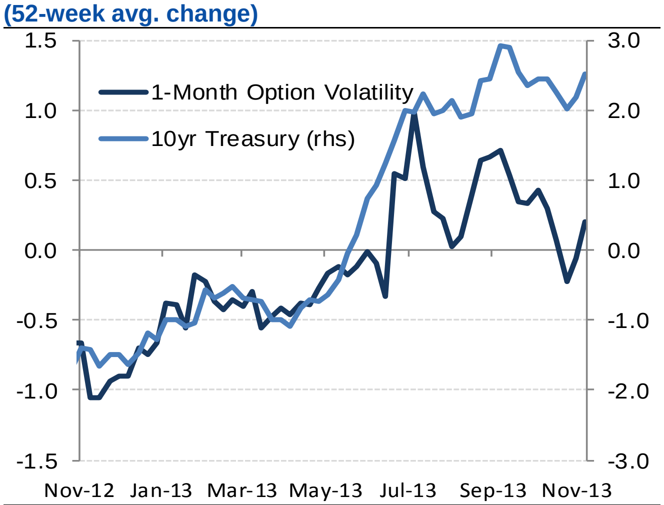
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



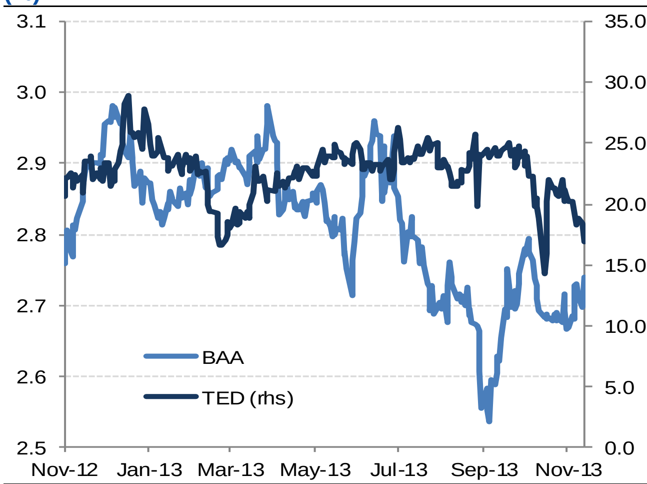
Source: Bloomberg & BBVA Research

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



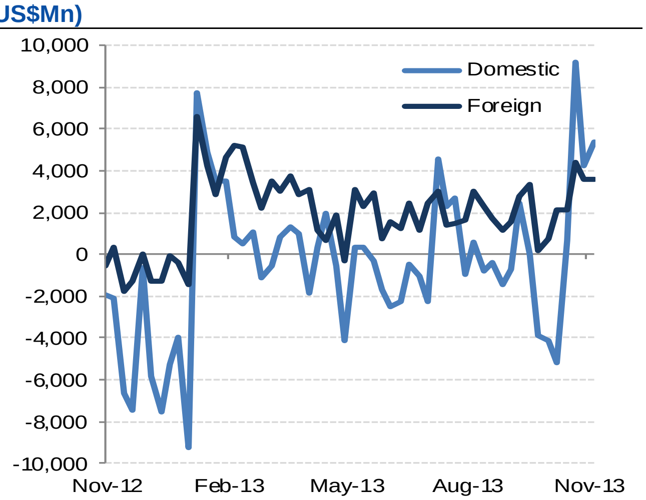
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



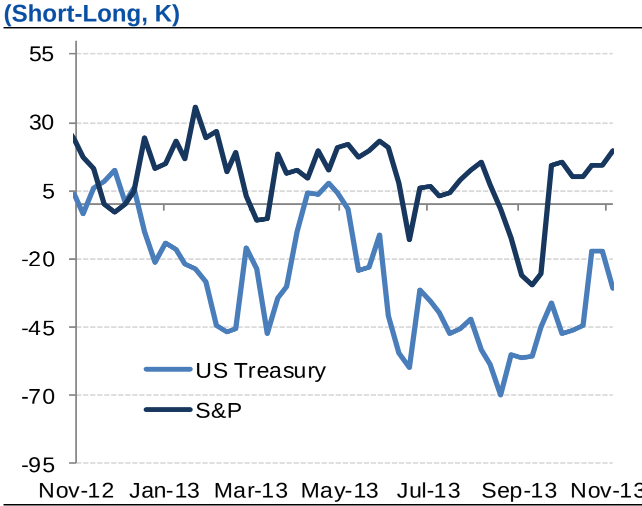
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

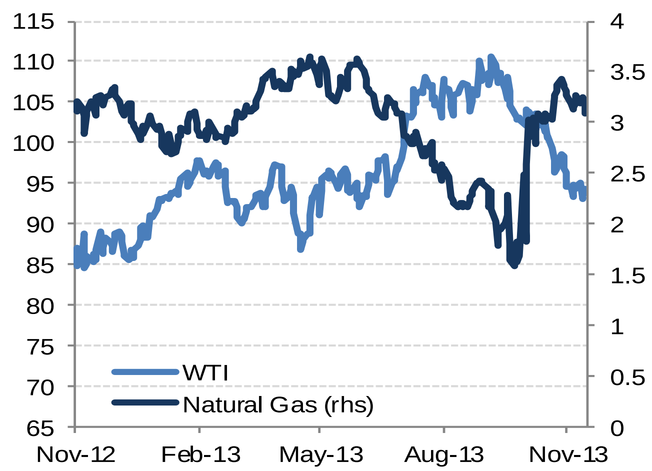
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

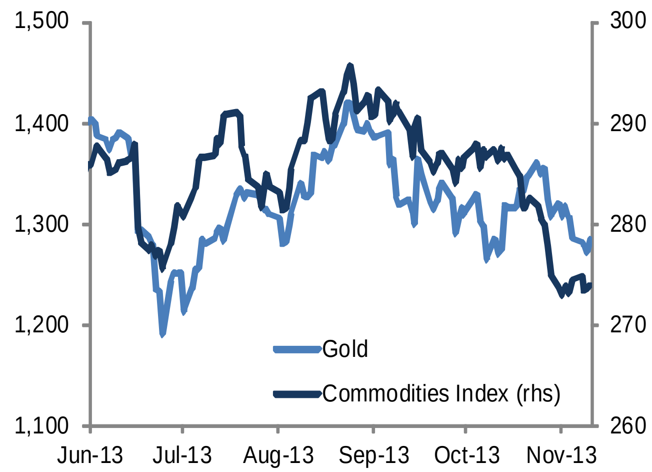
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



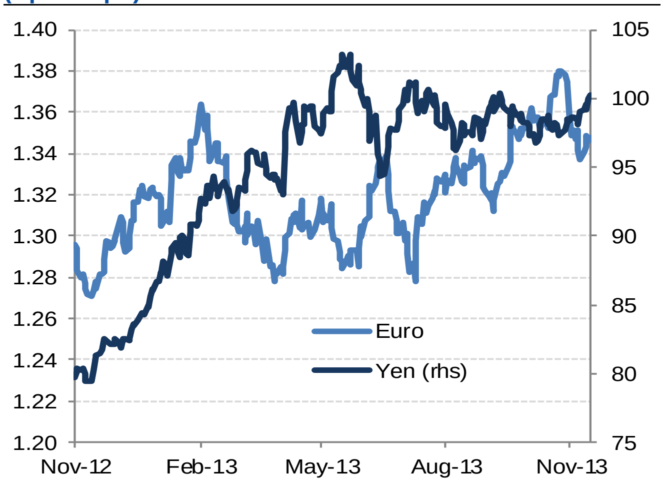
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



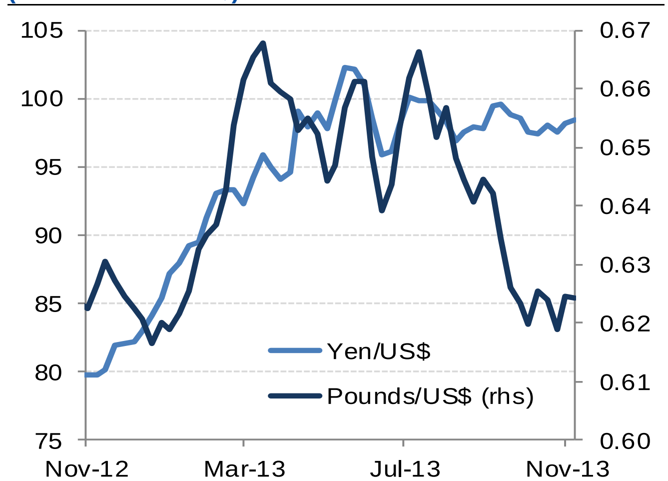
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



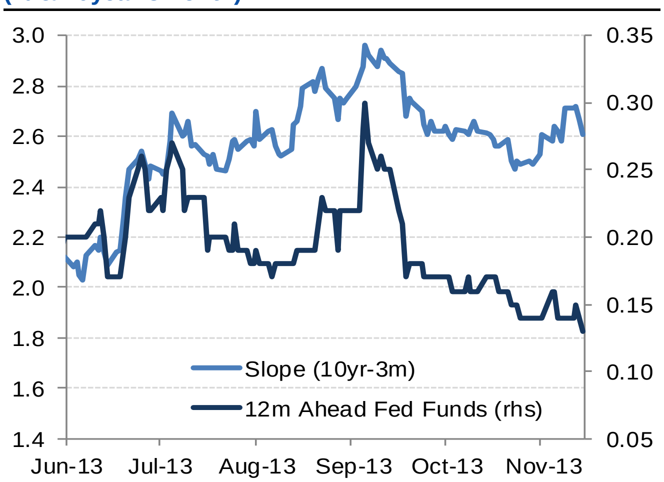
Source: Bloomberg & BBVA Research

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



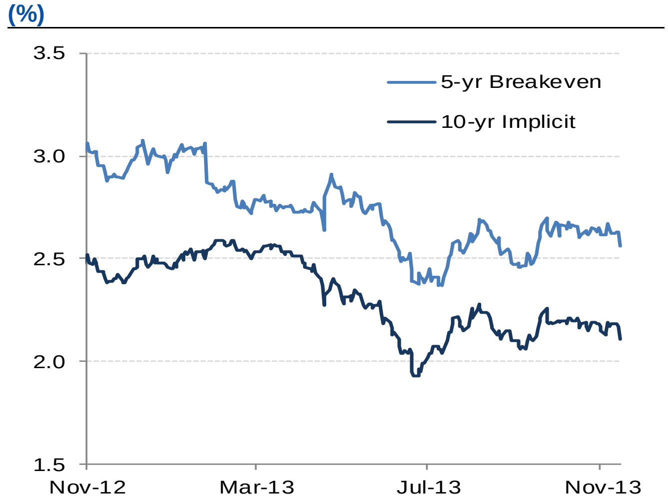
Source: Haver Analytics & BBVA Research

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	14.16	14.10
New Auto (36-months)	2.66	2.63	2.63	3.07
Heloc Loan 30K	5.23	5.22	5.28	5.44
5/1 ARM *	3.01	2.96	3.07	2.90
15-year Fixed Mortgage *	3.35	3.27	3.33	3.23
30-year Fixed Mortgage *	4.35	4.16	4.28	3.99
Money Market	0.42	0.42	0.41	0.51
2-year CD	0.83	0.83	0.81	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	0.09	0.08	0.10	0.16
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.35	0.35	0.36	0.52
12M Libor	0.58	0.59	0.61	0.86
2yr Sw ap	0.40	0.43	0.45	0.38
5yr Sw ap	1.46	1.54	1.50	0.76
10Yr Sw ap	2.79	2.87	2.72	1.64
30yr Sw ap	3.73	3.80	3.63	2.48
30day CP	0.10	0.10	0.12	0.16
60day CP	0.11	0.12	0.17	0.16
90day CP	0.12	0.12	0.15	0.22

Source: Bloomberg & BBVA Research

Quote of the Week

Janet L. Yellen, Vice Chair of the Federal Reserve Board
Confirmation Hearing Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C.
14 November 2013

"In the past two decades, and especially under Chairman Bernanke, the Federal Reserve has provided more and clearer information about its goals. Like the Chairman, I strongly believe that monetary policy is most effective when the public understands what the Fed is trying to do and how it plans to do it."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
18-Nov	NAHB Housing Market Index	NOV	55.00	56.0	55.0
19-Nov	Employmnt Cost Index	3Q13	0.4%	0.5%	0.5%
20-Nov	Retail Sales (MoM)	OCT	0.00%	0.10%	-0.10%
20-Nov	Retail Sales, Ex Autos (MoM)	OCT	0.10%	0.10%	0.40%
20-Nov	Consumer Price Index (MoM)	OCT	0.10%	0.00%	0.20%
20-Nov	Consumer Price Index, Core (MoM)	OCT	0.20%	0.10%	0.10%
20-Nov	Existing Home Sales	OCT	5.20M	5.16M	5.29M
20-Nov	Existing Home Sales (MoM)	OCT	-1.70%	-2.50%	-1.90%
20-Nov	Business Inventories (MoM)	SEPT	0.30%	0.30%	0.30%
21-Nov	Initial Jobless Claims	16-Nov	330K	335K	339K
21-Nov	Continuing Claims	9-Nov	2850K	--	2874K
21-Nov	Producer Price Index (MoM)	OCT	-0.10%	-0.20%	-0.10%
21-Nov	Producer Price Index, Core (MoM)	OCT	0.10%	0.10%	0.10%
21-Nov	Philadelphia Fed Survey	NOV	13.30	15.0	19.8
22-Nov	Job Openings (JOLTS)	SEPT	3850K	--	3883K

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	**1.8**	**2.8**	1.6	2.3	2.5	2.8
CPI (YoY %)	**3.1**	**2.1**	1.7	2.2	2.4	2.4
CPI Core (YoY %)	**1.7**	**2.1**	1.8	2.0	2.1	2.3
Unemployment Rate (%)	**8.9**	**8.1**	7.5	7.0	6.4	5.9
Fed Target Rate (eop, %)	**0.25**	**0.25**	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	**1.98**	**1.72**	2.90	3.37	3.64	4.05
US Dollar/ Euro (eop)	**1.31**	**1.31**	1.30	1.30	1.38	1.36

Note: Bold numbers reflect actual data

Kim Fraser
Kim.Fraser@bbvacompass.com

BBVA | RESEARCH | 2200 Post Oak Blvd, 21st Floor, Houston, Texas 77056 | Tel.: +1 713 831 7345 | www.bbvaresearch.com

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