

US Weekly Flash

Highlights

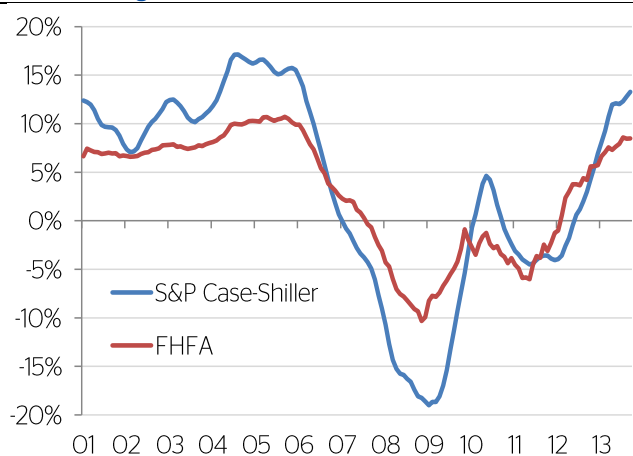
- **Home Prices Continue to Surge as Building Permits Rebound in September and October**

- Growth in home prices does not appear to be slowing despite the fact that homebuyer demand is waning. The S&P Case-Shiller 20-city HPI noted a 1.0% monthly increase in September, with prices accelerating to 13.3% on a year-over-year basis (the strongest pace since early 2006). At the same time, the FHFA index increased 0.3%, holding steady near 8.5% YoY growth. While rising home prices are great for homeowners, the problem lies in shifting demand. The simultaneous rise in mortgage rates has not helped affordability, and sales of new and existing homes have dropped slightly in recent months. If this trend continues, we expect that prices will eventually have to adjust downwards in order to reflect the lagging demand from homebuyers. Our baseline scenario for home prices assumes a deceleration in growth beginning in late 2013/early 2014, eventually stabilizing near 6.0% in the next few years.
- Previously delayed data on building permits were also strong for the past few months. Permits increased 5.2% in September and 6.2% in October, reaching the highest level seen in the recovery thus far. This is good news for new home construction given that permits are a leading indicator for housing starts (the Census Bureau further delayed the release of housing starts due to budgetary issues). An increase in the supply of new homes will also help put the brakes on home price appreciation, which seems to be scaring off potential buyers for the time being. While we have seen some volatility in housing activity in recent months, we do expect the recovery to continue at a gradual pace.

- **Consumer Confidence Drops for Third Straight Month on Back of Fiscal Uncertainty**

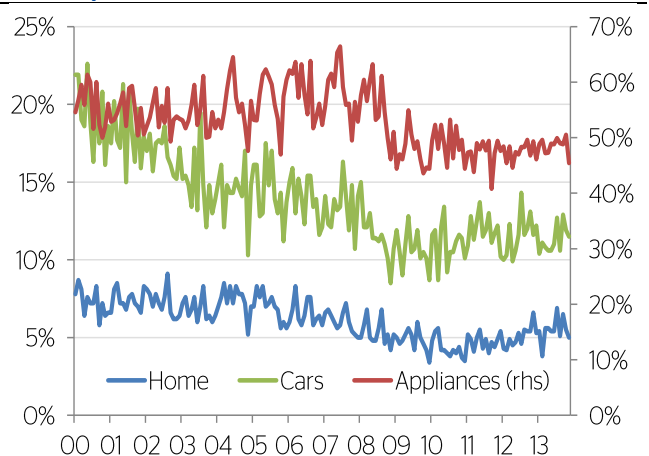
- Consumer confidence dropped in November to 70.4, the lowest level seen since April, as fiscal uncertainty continues to weigh on the outlook. It was no shock that confidence dropped in October as the government shutdown came to fruition, but we would have expected a rebound in November as consumers head into the holiday season. November's drop was mostly due to the expectations component, which fell at a fast pace compared to views on the present situation. Future spending plans also declined somewhat, with fewer consumers expecting to buy homes, major appliances, and cars within the next six months.
- At such a low level in November, we expect that consumer confidence will rebound in December, though probably not enough to correct for the aggregate decline throughout the past three months. Inflation remains very subdued, which is a positive when it comes to consumers' purchasing power at a time of the year when increased spending is common. Outside of further fiscal-related disturbances come January, we expect to see gradual improvement in consumer confidence throughout the next few quarters.

Graph 1
**Home Price Index
YoY % Change**



Source: S&P, FHFA, & BBVA Research

Graph 2
**Consumer Plans to Buy Within 6 Months
% of Respondents**



Source: Conference Board & BBVA Research

Week Ahead

International Trade (October, Wednesday 8:30 ET)

Forecast: -\$40.0B	Consensus: -\$40.2B	Previous: -\$38.8B
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The international trade balance for 3Q13 was slightly worse than in 2Q13, with export growth declining for three consecutive months. In fact, total exports in September hit the lowest level since May, when the global economic environment was much gloomier. For October, we expect to see a modest improvement as demand picks up for the holiday season. Domestic production has picked up and export orders have increased, suggesting that growth will finally turn positive for the export sector. However, domestic consumers remain extremely hesitant to significantly change their conservative consumption habits. Consumer confidence has declined throughout the past few months as a result of the government shutdown, and we have yet to see a big boost that will drive demand for the coming quarter. Still, we expect that import growth will remain consistent with September's pace but will be offset by stronger export growth for the first time in four months.

GDP, Preliminary (3Q13, Thursday 8:30 ET)

Forecast: 2.6%	Consensus: 3.0%	Previous: 2.8%
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The first estimate for 3Q13 GDP growth was delayed due to the government shutdown, and it is likely that the report was lacking some significant data points from the quarter. International trade data for September, which was released after the GDP estimate, was worse than expected and therefore hints at a downward revision, especially with export growth declining for the third consecutive month. Similarly, personal consumption decelerated in September as consumer confidence dwindled, not only suggesting sluggish PCE growth in 3Q13 but in 4Q13 as well. Residential investment may also take a hit as leading housing indicators suggest a slowdown in sales and construction. On the other hand, business inventory growth was strong for September and confirms the existing strength from the inventory investment side. Overall, we expect a slight downward revision to the first GDP estimate for 3Q13, in line with our annual forecast for 1.6% growth.

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

Forecast: 170K, 7.2%	Consensus: 183K, 7.2%	Previous: 204K, 7.3%
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Nonfarm payroll growth surprised to the upside in October despite the fact that the government shutdown weighed on consensus expectations for the employment situation. Upward revisions to the prior few months were also significant and paint a brighter picture for job growth than what was previously known. However, this year we have yet to see above 200K monthly payrolls for more than two consecutive months, so it is unlikely that we will see another such figure in November. Various employment indicators suggest that job opportunities are slowly improving but hiring remains subdued compared to pre-recession levels, while long-term unemployment remains elevated. The unemployment rate ticked up again in October despite the fact that employment growth accelerated and labor force participation declined. For November, we expect the unemployment rate to drop back to 7.2% as we continue to see discouraged employees leave the workforce.

Personal Income and Outlays (October, Friday 8:30 ET)

Forecast: 0.2%, 0.2%	Consensus: 0.3%, 0.2%	Previous: 0.5%, 0.2%
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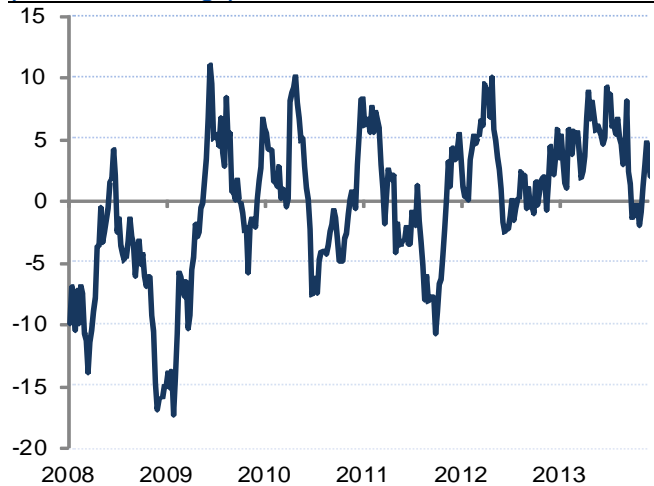
Personal income growth has been surprisingly strong throughout the past few months, although consumption has not followed suit. Despite the fact that the consumer deleveraging process is mostly over, spending habits remain conservative and personal savings high. Similarly, with labor market conditions still relatively weak, income growth prospects are low. Consumption in the third quarter finished about on par with 2Q13, and the expectations for 4Q13 are not much different. For October, we expect to see a slowdown in monthly growth for both income and outlays, particularly since consumer confidence has declined heading into the holiday shopping season.

Market Impact

The economic calendar is busy this week after a quiet few days before Thanksgiving. All the major indicators will see the light, including the employment situation, GDP revisions, and personal income and outlays. Markets have not been reacting much to weak economic reports as of late, so we don't expect to see much volatility except to the upside if the reports suggest a brighter outlook for 4Q13. In addition, this is the last employment release in 2013, which could be an influential factor for the Fed's tapering strategy in the coming months.

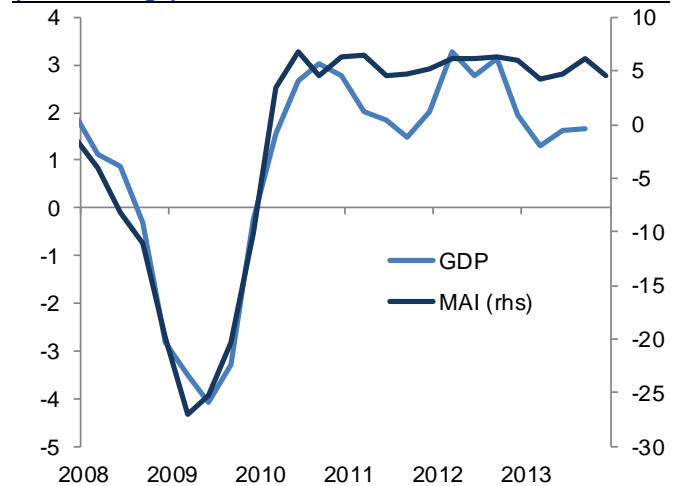
Economic Trends

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



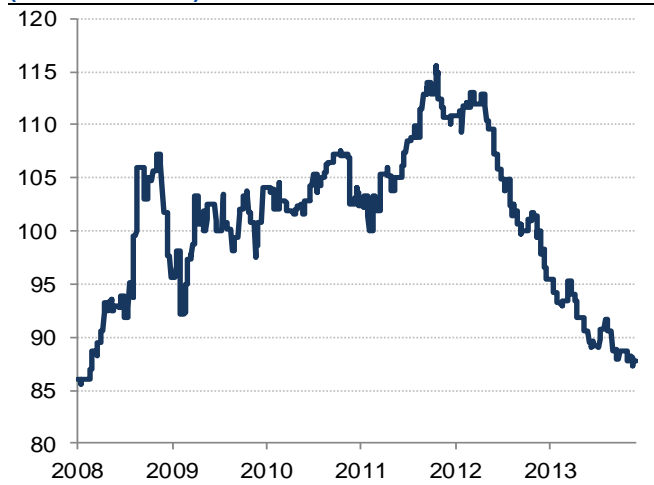
Source: BBVA Research

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



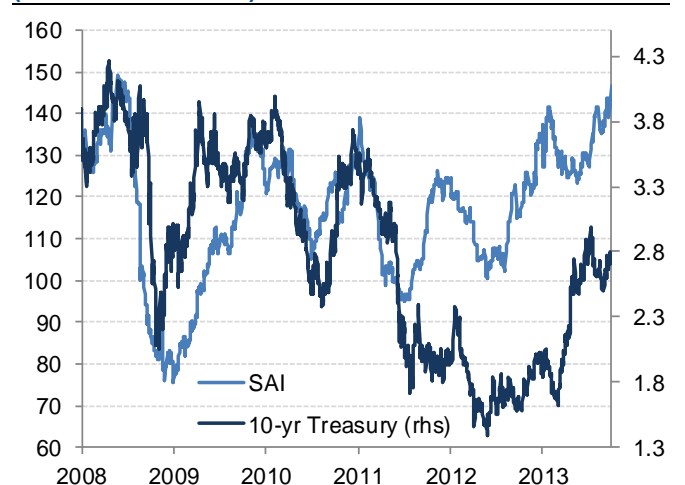
Source: BBVA Research & BEA

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



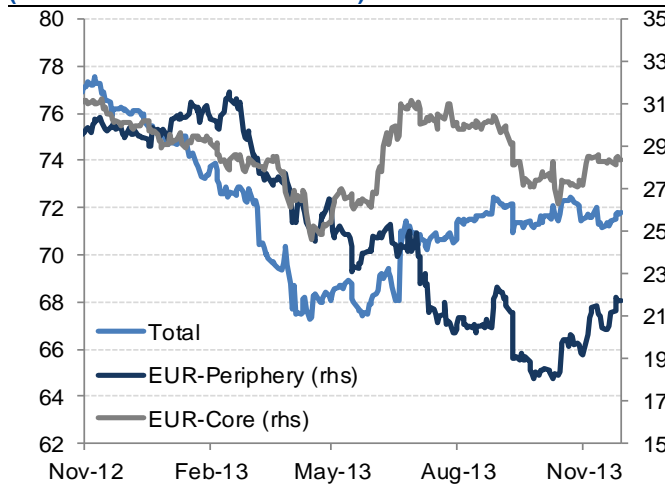
Source: BBVA Research

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



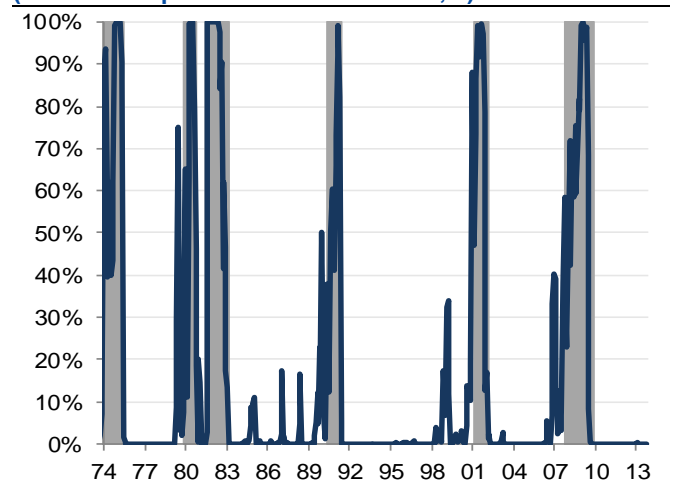
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

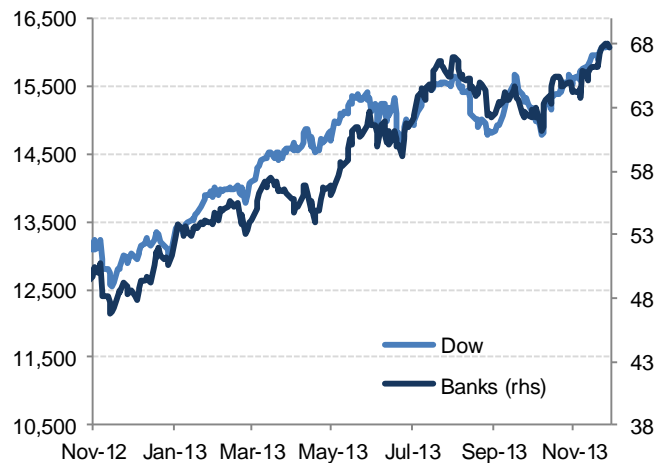
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

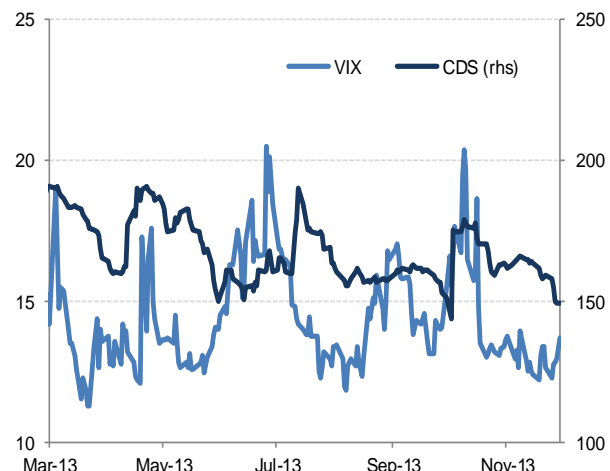
Financial Markets

Graph 9
Stocks
(Index, KBW)



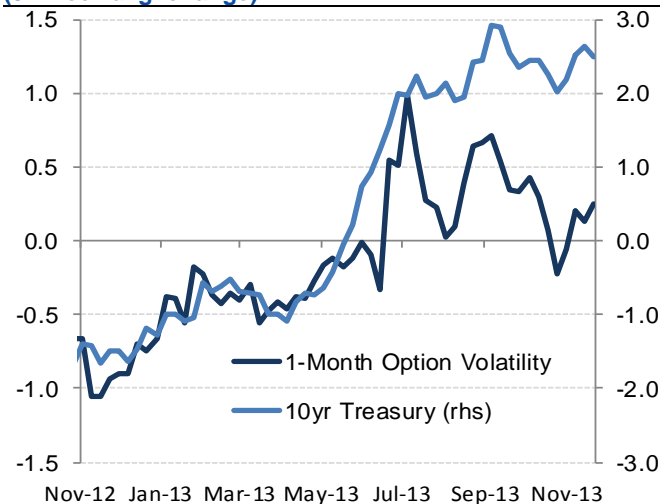
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



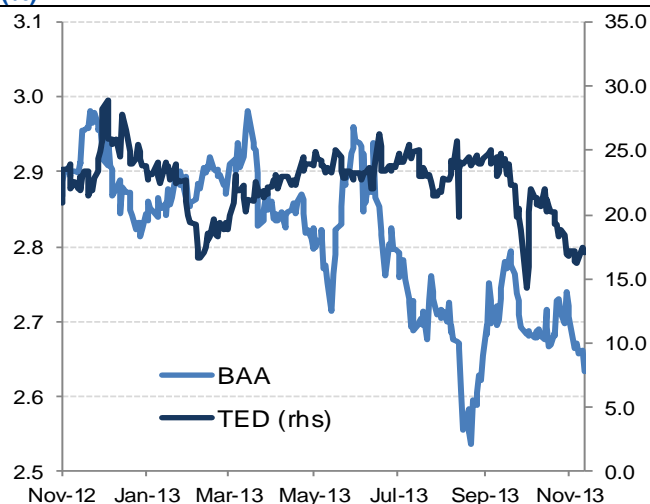
Source: Bloomberg & BBVA Research

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



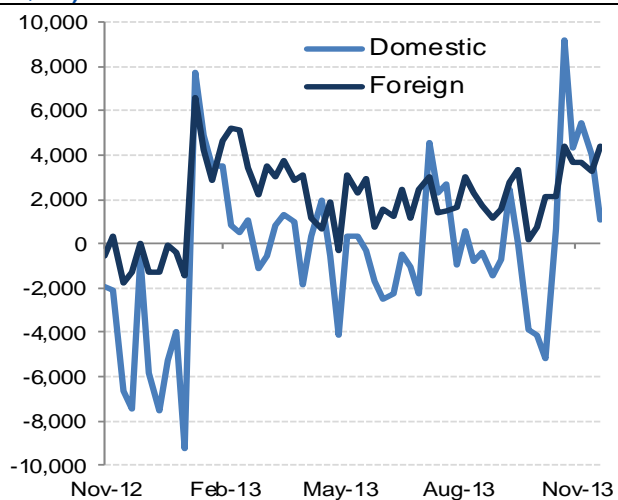
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



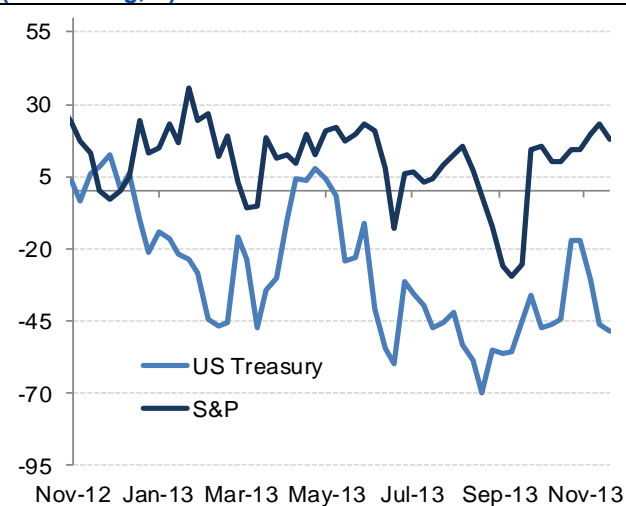
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

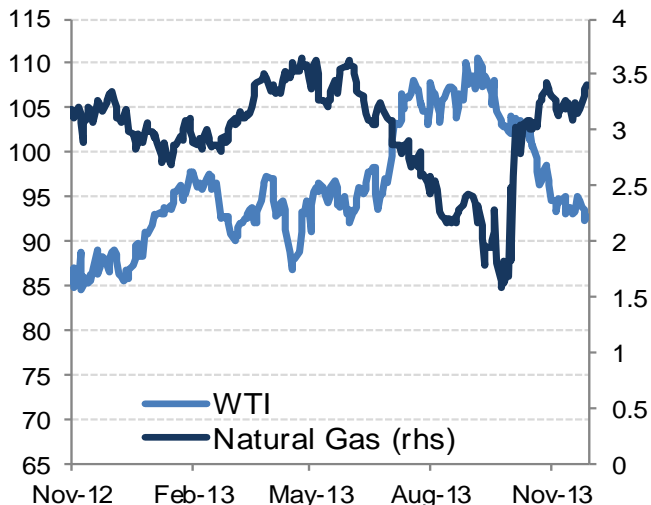
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

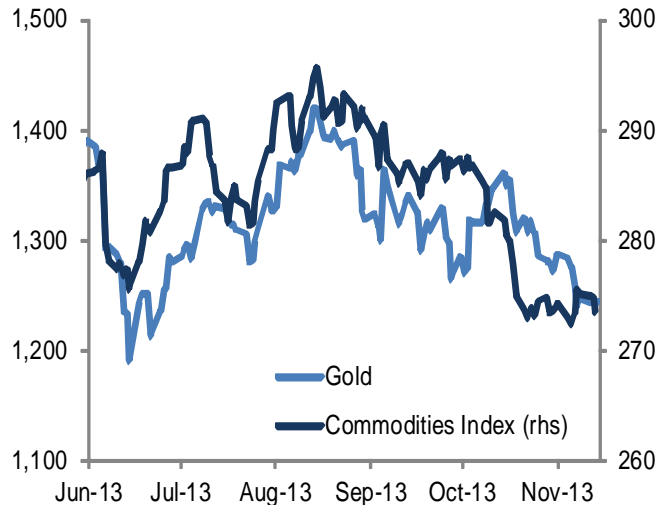
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



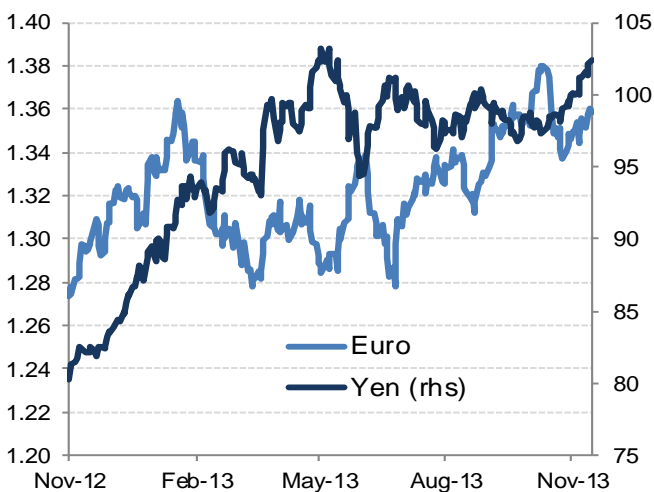
Source: Bloomberg & BBVA Research

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



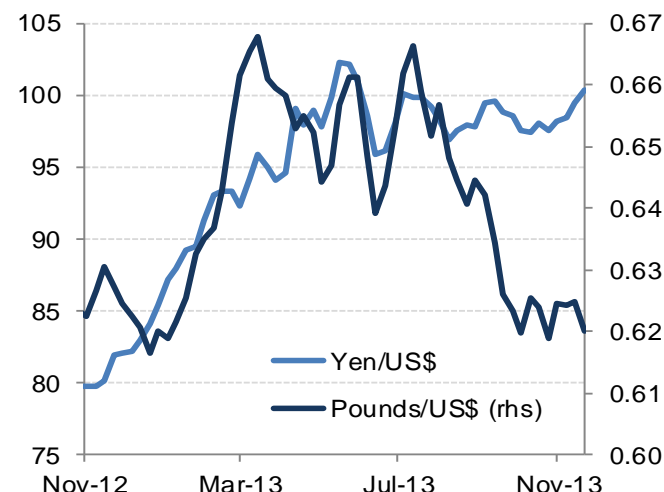
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



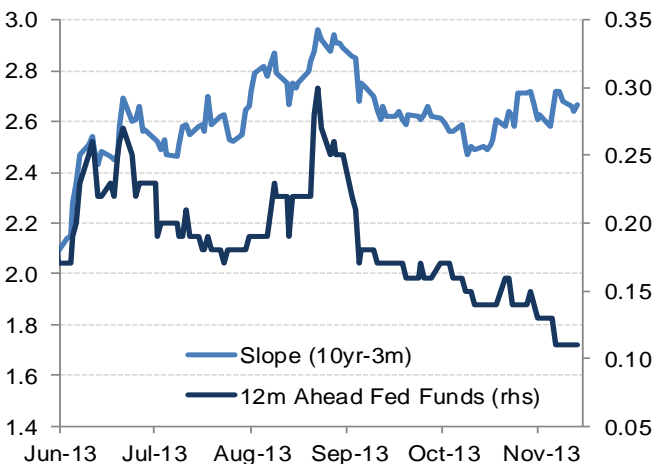
Source: Bloomberg & BBVA Research

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



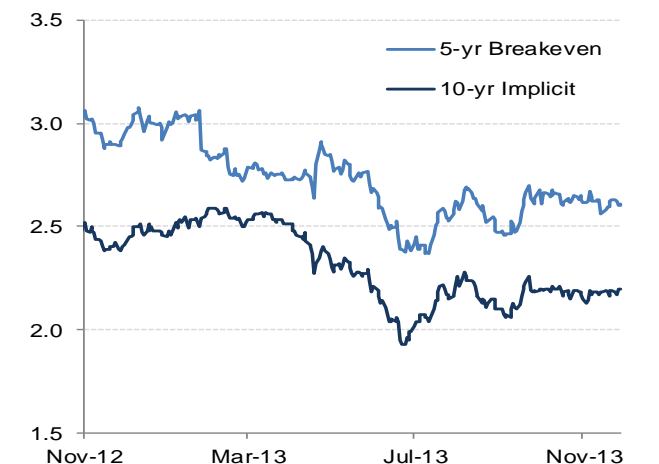
Source: Haver Analytics & BBVA Research

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	4-Weeks		
		Week ago	ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.23	14.23	14.16	14.10
New Auto (36-months)	2.67	2.68	2.64	2.78
Heloc Loan 30K	5.20	5.18	5.26	5.39
5/1 ARM*	2.94	2.95	2.96	2.90
15-year Fixed Mortgage*	3.30	3.27	3.20	3.23
30-year Fixed Mortgage*	4.29	4.22	4.10	3.99
Money Market	0.42	0.42	0.42	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	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.09	0.09	0.08	0.16
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.35	0.35	0.35	0.53
12M Libor	0.58	0.57	0.60	0.86
2yr Swap	0.38	0.38	0.43	0.38
5yr Swap	1.47	1.45	1.51	0.76
10Yr Swap	2.82	2.81	2.77	1.66
30yr Swap	3.74	3.75	3.67	2.57
30day CP	0.10	0.12	0.10	0.17
60day CP	0.11	0.11	0.11	0.19
90day CP	0.13	0.12	0.13	0.22

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama

Remarks by the President at First Joint DCCC/DSCC Event -- Beverly Hills, CA

26 November 2013

"And there are certain things we can do to promote a growth agenda generally, because it really is true that a rising tide can lift a lot of boats -- it makes it a lot easier to lift all those boats. But it's also true that we've got to make sure we've got an economy in which everybody from the boardroom down to the factory floor -- the folks in the corner office, but also the folks cleaning the corner office -- that they have a chance to make it."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-Dec	ISM Manufacturing Index	NOV	57.50	55.10	56.40
2-Dec	Construction Spending (MoM)	SEPT	0.30%	0.40%	0.60%
2-Dec	Construction Spending (MoM)	OCT	0.10%	0.40%	--
3-Dec	Motor Vehicle Sales	NOV	15.50M	15.80M	15.15M
4-Dec	ADP Employment	NOV	165K	165K	130K
4-Dec	International Trade Balance	OCT	-\$40.0B	-\$40.2B	-\$41.8B
4-Dec	New Home Sales (K)	SEPT	430K	425K	421K
4-Dec	New Home Sales (K)	OCT	430K	430K	--
4-Dec	ISM Non-Manufacturing Index	NOV	54.70	55.00	55.40
5-Dec	Initial Jobless Claims	30-Nov	320K	325K	316K
5-Dec	Continuing Claims	23-Nov	2850K	--	2776K
5-Dec	GDP QoQ Annualized	3Q P	2.6%	3.0%	2.8%
5-Dec	Personal Consumption	3Q P	1.5%	1.5%	1.5%
5-Dec	GDP Price Index	3Q P	1.8%	1.9%	1.9%
5-Dec	Core PCE QoQ	3Q P	1.4%	1.4%	1.4%
5-Dec	Factory Orders (MoM)	OCT	-1.00%	-1.00%	1.70%
6-Dec	Nonfarm Payrolls	NOV	170K	183K	204K
6-Dec	Private Payrolls	NOV	177K	175K	212K
6-Dec	Manufacturing Payrolls	NOV	7K	6K	19K
6-Dec	Unemployment Rate	NOV	7.2%	7.2%	7.3%
6-Dec	Average Hourly Earnings (MoM)	NOV	0.20%	0.20%	0.10%
6-Dec	Personal Income (MoM)	OCT	0.20%	0.30%	0.50%
6-Dec	Personal Spending (MoM)	OCT	0.20%	0.20%	0.20%
6-Dec	U. of Michigan Consumer Sentiment	DEC	73.0	76.0	75.1
6-Dec	Consumer Credit	OCT	\$15.30B	\$14.50B	\$13.74B

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	2.75	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



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

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