

US Weekly Flash

Highlights

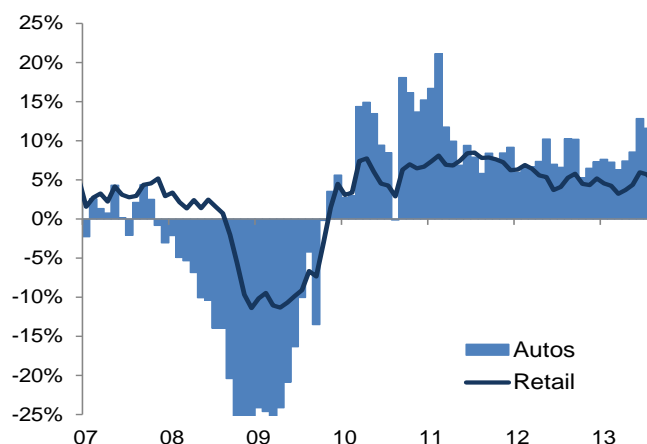
- **Retail Sales Stronger than Expected, Sparked by Auto Growth**

- As the holidays approach, retail sales for November convey positive signals for the U.S. economy as consumer spending continues to rise. Sales rose 0.7% for the month, slightly higher than the 0.6% consensus expectation, showing that U.S. consumers are spending more freely than in past months. So far, the fourth quarter is looking extremely strong compared to 3Q13, with YoY growth jumping back above 4.5%. Despite our expectations for a slight slowdown in 4Q13 GDP growth, these retail sales figures suggest a bigger contribution from consumption compared to the third quarter. Looking at the details of the November report, motor vehicle sales stood out as a main driver, increasing by 1.84% following a 1.10% monthly gain in October. On the other hand, gasoline prices fell again in November, which was the likely culprit for the 1.15% decrease in gas station sales for the month.
- Overall, the healthy retail sales growth in November, along with the encouraging employment report for the month, point to an improving economy and offer hope that consumers are becoming more confident in the recovery. While personal consumption expenditures had a relatively weak contribution to the stronger-than-expected 3Q13 GDP report, the latest retail sales data suggest more robust consumer activity carrying over into 4Q13. In this context, the Federal Reserve could be more confident to start tapering earlier than expected as economic growth continues to improve across the board.

- **Job Openings on the Rise in October While Hiring Falls to a Three-Month Low**

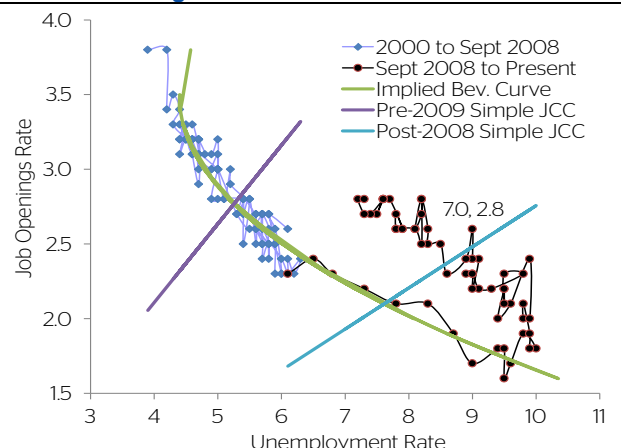
- The Job Openings and Labor Turnover Survey (JOLTS) reported a slight increase in job openings for October to 3.925M from 3.883M in September. Leading sectors for job vacancies included arts, entertainment and recreation, professional and business services, construction, and manufacturing. While total job openings continue to creep higher, albeit at a slow rate, and have now reached the highest level since May 2008, hiring remains weak. Total hires fell for the first time since June, from 4.63M in September to 4.50M in October.
- It is interesting to note the mismatch between leading sectors in job vacancies and in hiring – professional and business services saw the largest drop in hiring since December 2009, despite the fact that the number of job openings increased for the month. A similar trend was reported for manufacturing, in which the JOLTS data also point to a decline in hiring. Ultimately, this disparity supports our ongoing argument for structural issues in the labor market. High levels of long-term unemployment and a skill mismatch among the large pool of unemployed are concerns that put a damper on our outlook for potential growth in the U.S.

Graph 1
Retail and Auto Sales (YoY % Change)



Source: U.S. Census Bureau & BBVA Research

Graph 2
National Beveridge Curve



Source: BLS & BBVA Research

Week Ahead

Industrial Production (November, Monday 9:15 ET)

Forecast: 0.3%	Consensus: 0.6%	Previous: -0.1%
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Industrial production has been on the rise for the most part of 2013 and hit a multi-year high in September before taking a step back in October. We expect industrial production to continue trending upwards through the rest of 4Q13, driven by increasingly cold weather boosting utility demand accompanied by growth in the manufacturing industry. Furthermore, the production component of the ISM Manufacturing Index continues to hold near recovery highs in the second half of 2013, an encouraging sign that businesses are continuing to see reasonable gains in production. Although the industrial production index fell slightly in October, we expect a bounce back report for November and a positive trend to continue through the end of the year.

Consumer Price Index, Core (November, Tuesday 8:30 ET)

Forecast: -0.1%, 0.1%	Consensus: 0.1%, 0.1%	Previous: -0.1%, 0.1%
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Inflationary pressures have been relatively subdued throughout the second half of 2013. Energy prices, in particular, have been a primary driver of low inflation. In November, commodity prices fell across the board, as both natural gas and Brent crude oil prices declined 1.1%, while WTI crude oil prices plummeted for the third consecutive month. On the other hand, food prices have remained relatively stable throughout the year and are expected to continue to grow only modestly in the coming months. Overall, we expect a slight drop in headline inflation, driven by the decline in oil and natural gas prices. The timing of this report is particularly significant, as whispers of Fed tapering this month have intensified once again after a brighter than expected jobs report. However, we expect that the annual inflation rate will remain well below the 2% target of the Fed, so tapering may be held off longer to avoid a situation in which the economy would experience deflation.

Housing Starts and Building Permits (November, Wednesday 8:30 ET)

Forecast: 925K, 1010K	Consensus: 950K, 990K	Previous: --, 1039K
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This month's housing starts report will be particularly important as it will include reports for September, October, and November, providing more clarity and insight on housing activity for the second half of 2013. After peaking in March, housing starts have gradually declined, but the upbeat economic data for the last few months lead us to believe that housing starts have since picked up once again. Most importantly, private housing building permits sharply increased from August to October, and it is likely that housing starts are a beneficiary of the increase in permits. For these reasons, we expect housing starts to trend higher in the November report as well as through the rest of 4Q13.

GDP, Final (3Q13, Friday 8:30 ET)

Forecast: 3.6%	Consensus: 3.6%	Previous: 3.6%
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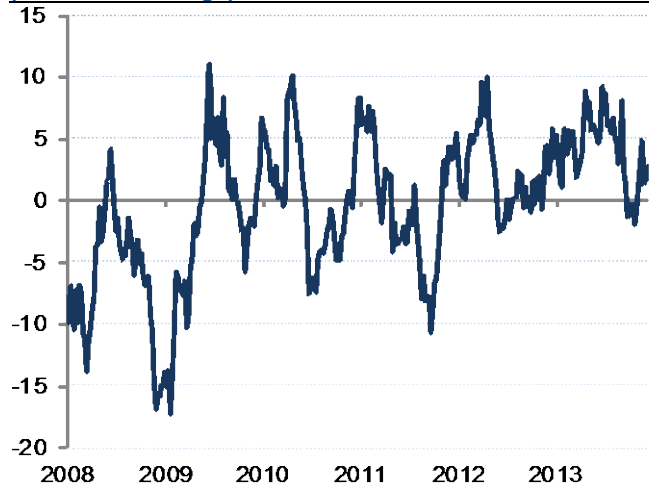
Third quarter GDP was revised up from the preliminary estimate of 2.8% QoQ SAAR to 3.6%, marking the economy's highest growth rate since the beginning of 2012. The surge was attributed to inventory growth, where the contribution to GDP doubled from initial estimates, increasing from 0.83 to 1.68 SAAR points. Despite the fact that most underlying drivers of economic growth were weaker than in 2Q13 (i.e., PCE, residential investment, net exports), we do not expect to see much revision for the final estimate. Most of the relevant data from the third quarter have already been released, and revisions to September data have been minimal since the last report was released a few weeks ago. Regardless of whether the growth figure holds for 3Q13, we do not expect that the strong contribution from private inventories will carry over into 4Q13.

Market Impact

Markets this week have a surplus of economic news to digest, along with the FOMC meeting and the recent fiscal deal struck in Congress. While a budget deal is surely a sigh of relief for the economy, markets may actually be a bit negative as this reduced fiscal uncertainty could imply tapering in December. With the Fed meeting on Wednesday amidst the positive wave of economic data over the past few weeks, the upcoming reports could sway members of the board one way or another when deciding the appropriate time to begin tapering. Specifically, consumer price index data could play a large factor in deciding whether tapering should begin sooner rather than later; if the CPI data is reasonably below the 2% target set by the Fed, it is less likely that the FOMC will opt to begin tapering in December. If inflation is accelerating a healthy rate and the Fed is convinced by the rest of the positive economic data, we see a higher probability of announcement next week to begin tapering.

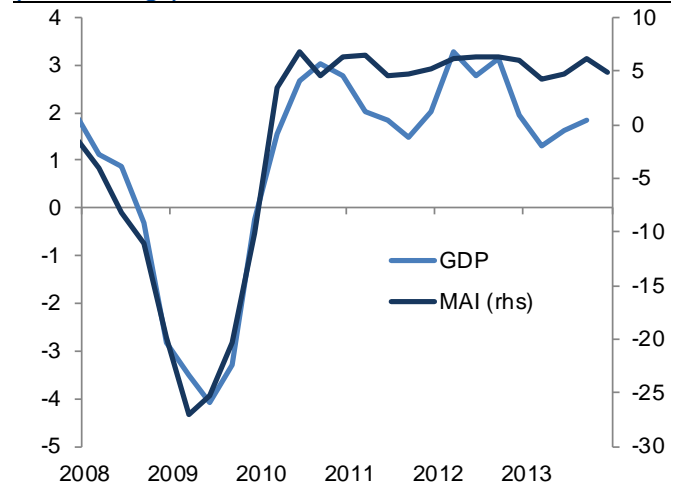
Economic Trends

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



Source: BBVA Research

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



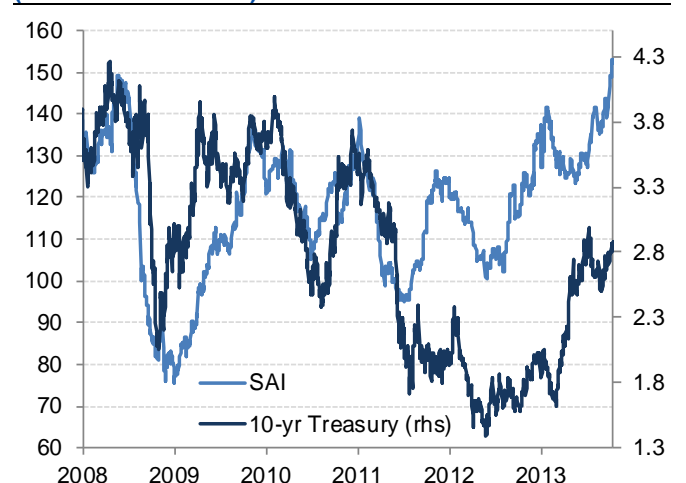
Source: BBVA Research & BEA

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



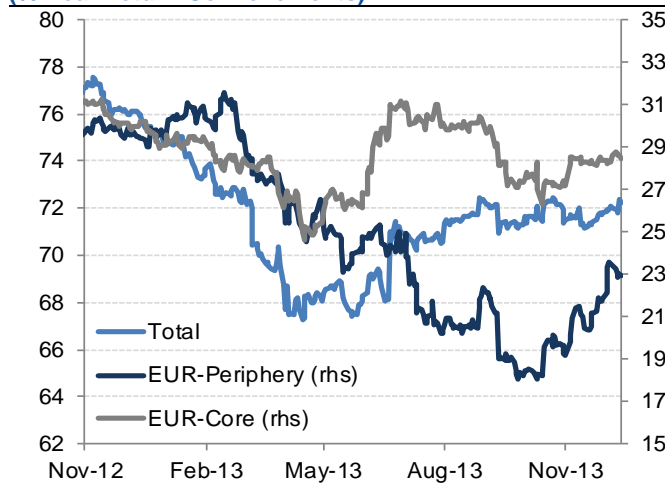
Source: BBVA Research

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



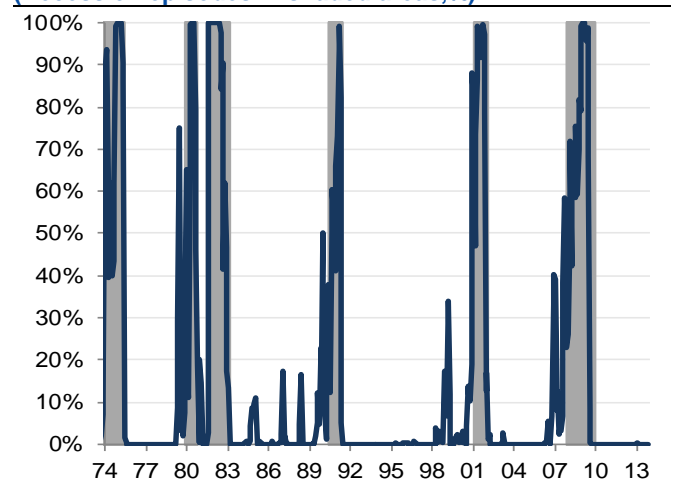
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

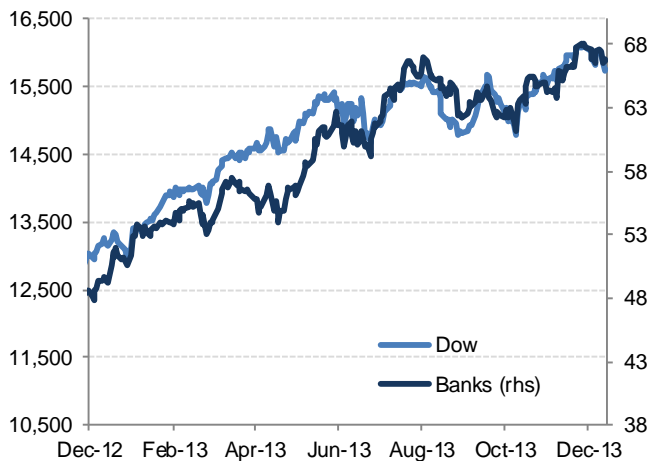
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

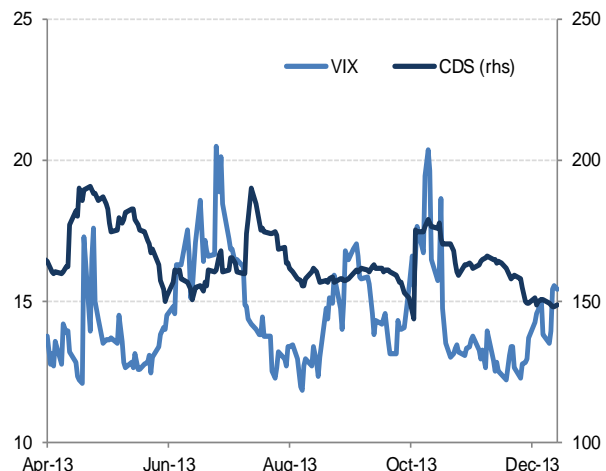
Financial Markets

Graph 9
Stocks
(Index, KBW)



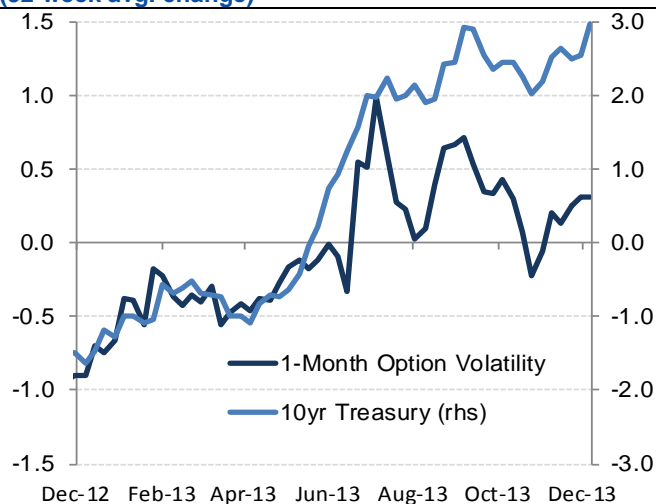
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



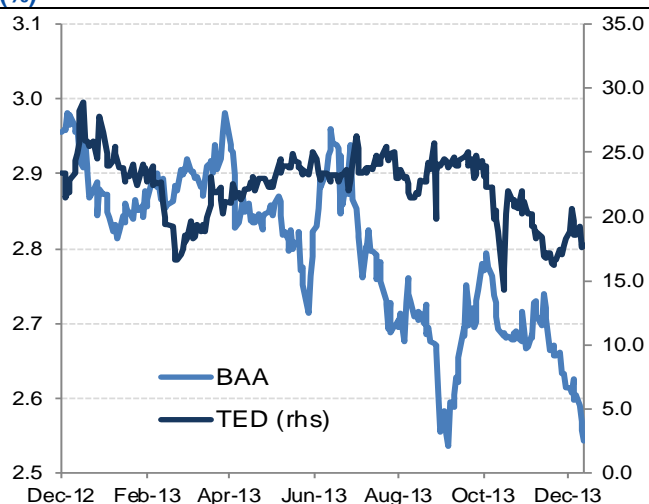
Source: Bloomberg & BBVA Research

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



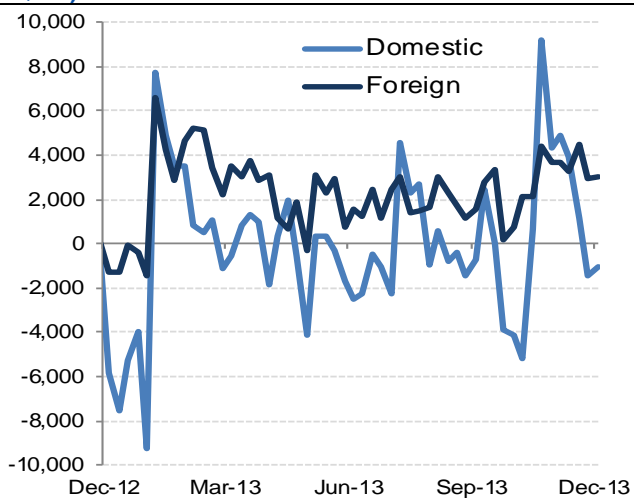
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



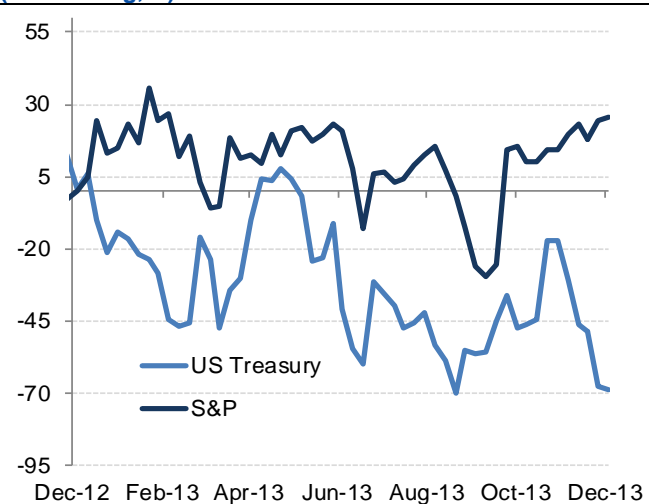
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

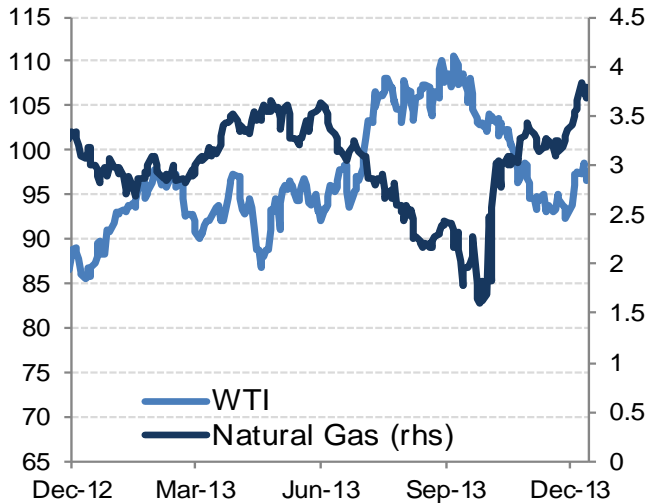
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

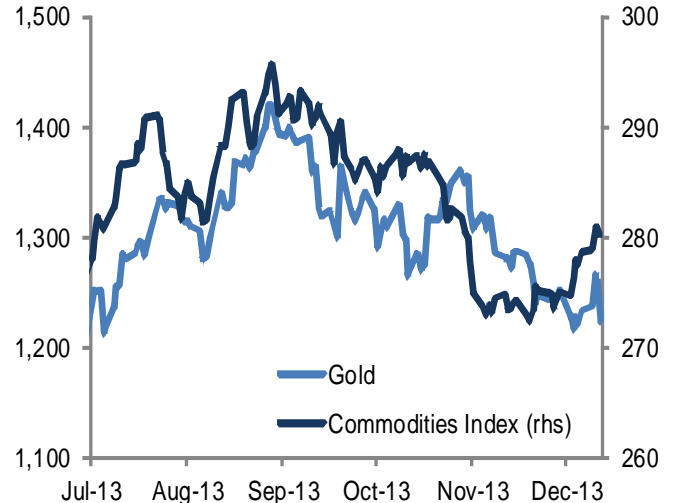
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



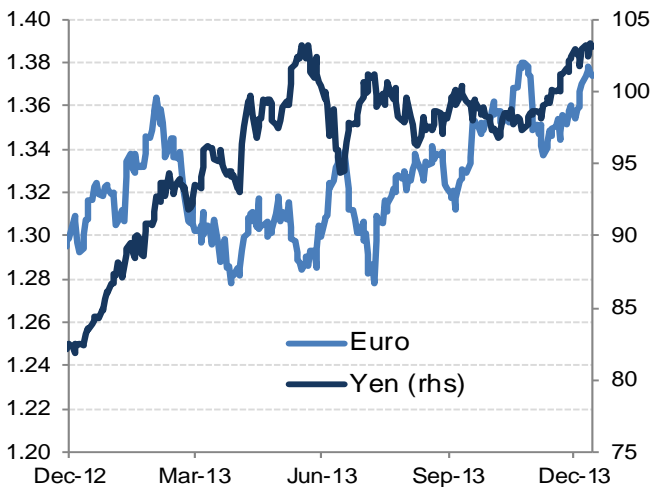
Source: Bloomberg & BBVA Research

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



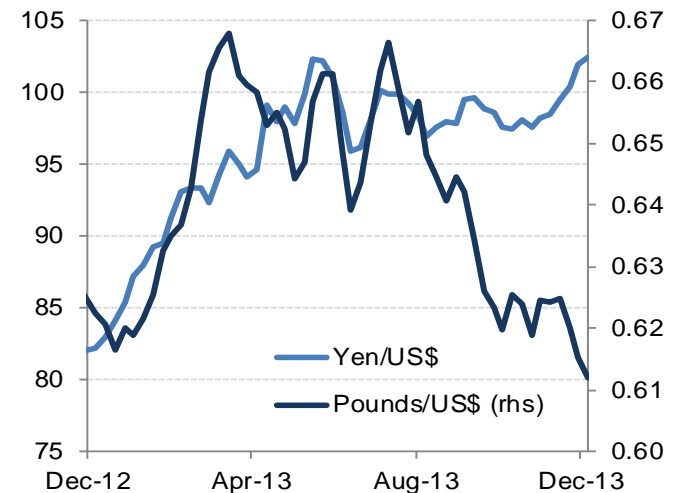
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



Source: Bloomberg & BBVA Research

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



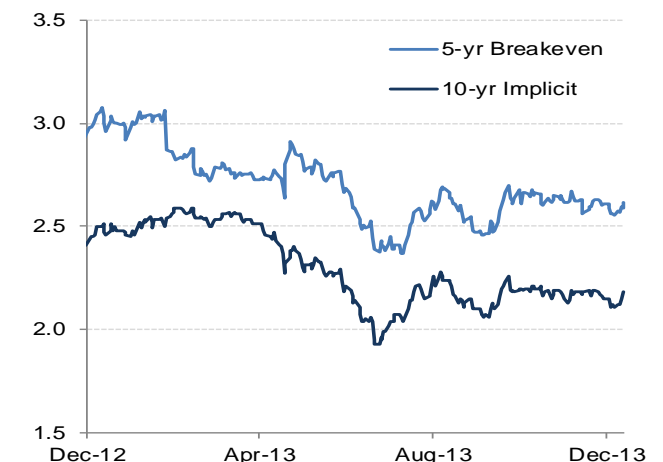
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.16	14.10
New Auto (36-months)	2.66	2.67	2.66	2.77
Heloc Loan 30K	5.31	5.28	5.23	5.41
5/1 ARM*	2.94	2.99	3.01	2.90
15-year Fixed Mortgage*	3.43	3.47	3.35	3.23
30-year Fixed Mortgage*	4.42	4.46	4.35	3.99
Money Market	0.42	0.42	0.42	0.51
2-year CD	0.80	0.83	0.83	0.84

*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	0.09	0.17
3M Libor	0.24	0.24	0.24	0.31
6M Libor	0.35	0.34	0.35	0.51
12M Libor	0.58	0.58	0.58	0.85
2yr Sw ap	0.43	0.40	0.40	0.36
5yr Sw ap	1.62	1.57	1.45	0.83
10Yr Sw ap	2.93	2.92	2.77	1.78
30yr Sw ap	3.79	3.81	3.70	2.69
30day CP	0.12	0.11	0.10	0.17
60day CP	0.11	0.11	0.11	0.17
90day CP	0.14	0.13	0.12	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

Barrack Obama, President of the United States
Obama Applauds Congressional Budget Deal
11 December 2013

"That's the nature of compromise. But it's a good sign that Democrats and Republicans in Congress were able to come together and break the cycle of short-sighted, crisis-driven decision-making to get this done."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
16-Dec	Empire State Manufacturing Survey	DEC	3.10	5.00	-2.21
16-Dec	Nonfarm Productivity	3Q F	2.00%	2.80%	1.90%
16-Dec	Unit Labor Costs	3Q F	-0.80%	-1.40%	-0.60%
16-Dec	Industrial Production (MoM)	NOV	0.30%	0.60%	-0.10%
16-Dec	Capacity Utilization	NOV	78.3%	78.4%	78.1%
17-Dec	Consumer Price Index (MoM)	NOV	-0.10%	0.10%	-0.10%
17-Dec	Consumer Price Index, Core (MoM)	NOV	0.10%	0.10%	0.10%
17-Dec	Housing Market Index	DEC	55.00	55.00	54.00
18-Dec	Housing Starts (K)	NOV	925K	950K	--
18-Dec	Housing Starts (MoM)	NOV	--	--	--
18-Dec	Building Permits (K)	NOV	1010K	990K	1039K
18-Dec	Building Permits (MoM)	NOV	-2.79%	-4.70%	6.20%
18-Dec	FOMC Rate Announcement	DEC	0.25%	0.25%	0.25%
19-Dec	Initial Jobless Claims	14-Dec	330K	330K	368K
19-Dec	Continuing Claims	7-Dec	2770K	2770K	2791K
19-Dec	Philadelphia Fed Survey	DEC	8.00	10.00	6.50
19-Dec	Existing Home Sales	NOV	5.17M	5.02M	5.12M
19-Dec	Existing Home Sales (MoM)	NOV	0.98%	-2.00%	-3.21%
19-Dec	Leading Indicators (MoM)	NOV	0.40%	0.70%	0.20%
20-Dec	GDP QoQ Annualized	3Q F	3.60%	3.60%	3.60%
20-Dec	Personal Consumption	3Q F	1.40%	1.40%	1.40%
20-Dec	GDP Price Index	3Q F	2.00%	2.00%	2.00%
20-Dec	Core PCE QoQ	3Q F	1.50%	1.50%	1.50%

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

Michael Soni
Michael.Soni@bbvacompass.com

BBVA RESEARCH



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

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