

# US Weekly Flash

## Highlights

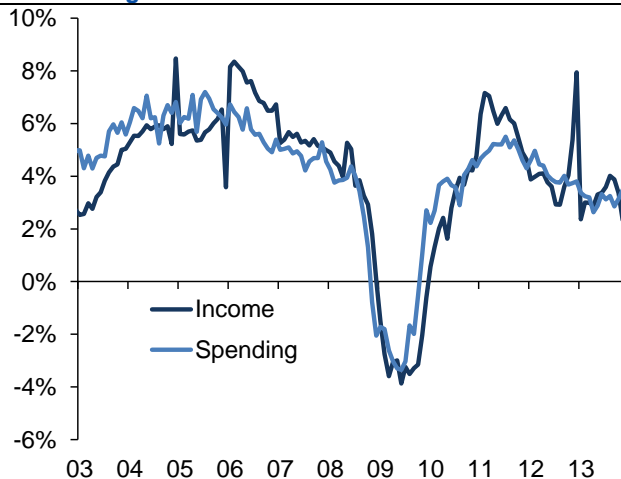
### Consumer Spending Accelerates in November as Holiday Season Gets Underway

- Consumer spending increased 0.5% in November, the fastest pace since June of this year, as consumers prepared for the holiday season. Representing the largest portion of U.S. demand, the increase in spending is a positive signal for holiday sales and the latest indication that the U.S. economic recovery is gaining steam. The acceleration in spending was led by durables which increased by 1.9% MoM. On the other hand, nondurables dragged down the gain, falling by 0.4% as gasoline prices also dipped in November. The increase in consumer spending comes at a critical time, particularly for retailers, as many shops rely on the holiday season for a large portion of sales.
- The pickup in spending was mirrored by an acceleration in personal income, which was lower than forecasted at 0.2% in November, but stronger than the 0.1% dip in October. Wages and salaries improved by 0.4% in November, a positive sign for workers which should reflect positively on consumption during the coming months. Compensation in private industries led the way with 0.4% MoM growth, while government compensation increased by 0.1%. The price index for consumption expenditures remained flat, posting the second consecutive month of unchanged inflation, showing that consumers actually saw an increase in purchasing power in November. Overall, income growth remains relatively subdued and we do not expect to see significant inflation pressures from wages at least in the early parts of 2014.

### Consumer Sentiment Reaches Highest Level Since July

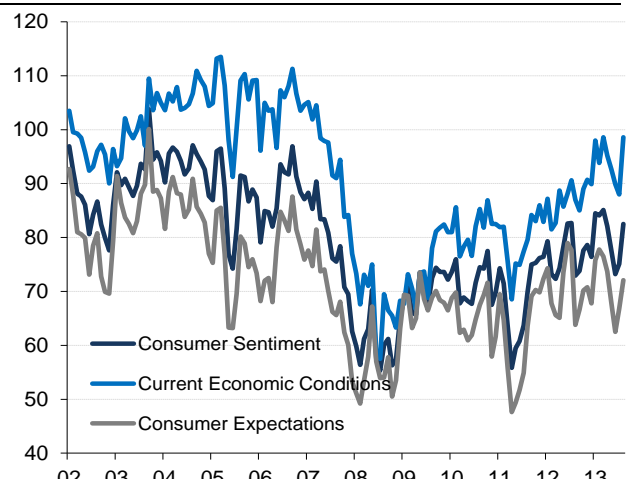
- Consumer sentiment in December rose to 82.5, the highest level since July of this year, marking an increase of 9.8% from November's reading. The index has bounced around throughout 2013, plummeting to annual lows in October in the wake of the government shutdown. This confidence report is in line with consumer spending data, which also showed a healthy increase in 4Q13 thus far.
- Attitudes toward current economic conditions in the U.S. improved in December, halting a stretch of four consecutive months of decline. The boost in consumer sentiment was driven by an appreciation in stock prices, Washington's unexpected advancement to a budget deal, and a drop in gasoline prices during the latter half of the year. The recent influx of positive economic news, particularly the upward revision of 3Q13 GDP and the better-than-expected employment report, is increasing consumer confidence in the economic recovery. We expect the elated consumer sentiment levels to reflect in this year's holiday season, as the boost in confidence should encourage consumers to spend more freely this month.

Graph 1  
**Personal Income and Spending**  
YoY% Change



Source: BEA & BBVA Research

Graph 2  
**Consumer Sentiment**  
Index



Source: University of Michigan & BBVA Research

# Week Ahead

## S&P Case-Shiller Home Price Index (October, Tuesday 9:00 ET)

Forecast: 13.0%

Consensus: 13.5%

Previous: 13.3%

Home prices have continued to accelerate rapidly throughout the second half of 2013. The S&P Case-Shiller Index has experienced double-digit annual growth rates for seven consecutive months, and we expect this trend to continue into October. However, we see this YoY growth leveling off around 13.0% over the next few quarters as the index reaches its cyclical peak and homebuyers demand adjusts. Furthermore, the rise in mortgage rates will lead to an adjustment in housing demand as houses become less affordable and thus growth in home prices slows. For now, the continued positive growth in home prices remains crucial to the economy, as rising home values should encourage construction and housing starts, and also encourage consumers to spend more liberally as a result of the appreciation.

## Consumer Confidence (December, Tuesday 10:00 ET)

Forecast: 76.0

Consensus: 76.3

Previous: 70.4

After running lower than forecasted in previous months, we expect consumer confidence to shift upward from the holiday season boost through the end of 2013. Furthermore, we anticipate that Washington's fiscal resolution earlier in the month should have a positive impact on December's confidence. We continue to see signs of significant improvement when it comes to the job market outlook, and we expect this will weigh positively on consumer confidence for the time being. Additionally, gasoline prices continue to remain very low and have helped boost consumers' purchasing power, a fact that is particularly important during the holiday shopping season. The announcement to begin tapering last week shows that the Federal Reserve is at last confident that the economy is recovering, sending stock prices to all-time highs. Therefore, we expect to see an upbeat consumer confidence report for December.

## ISM Manufacturing Index (December, Thursday 10:00 ET)

Forecast: 57.5

Consensus: 56.9

Previous: 57.3

Manufacturing has recovered substantially in the second half of 2013, after falling to year-lows in May and causing concern that the sector was once again on a downward spiral. According to the ISM index, manufacturing activity has been accelerating for six straight months, with the index reaching two-year highs from September through November. Most of the major components accelerated in November with the employment index leading the way. The new orders and production indices also experienced solid gains in November, which is a positive signal looking toward the coming months. However, we did see mixed results in the various regional Federal Reserve manufacturing surveys, suggesting that there remain pockets of weakness throughout the U.S. Still, we expect that overall gains at the national level will carry over in December's ISM Manufacturing Index, mostly fueled by the holiday season.

## Construction Spending (November, Thursday 10:00 ET)

Forecast: 0.6%

Consensus: 0.6%

Previous: 0.8%

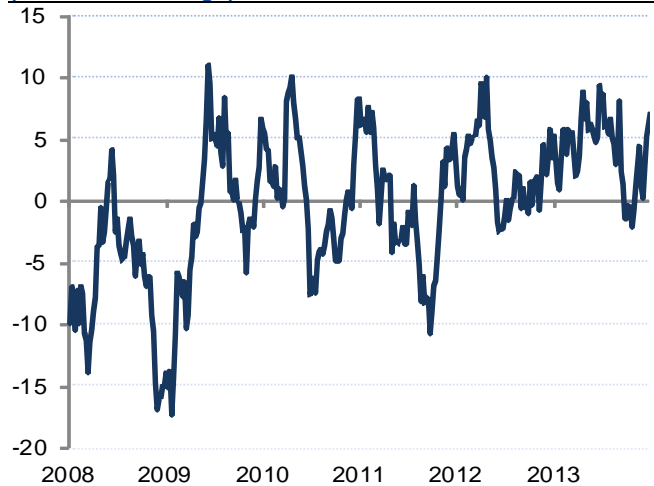
Construction spending has been hit or miss through most of 2013 but has begun to stabilize during the second half of 2013. In October, an increase in public construction more than offset a decline from the private sector, boosting overall outlays 3.86% for the month. Nonresidential public construction was strong across all components, but particularly for office, educational, and power sectors. For December, we expect that growth in public sector construction will continue as fiscal issues in Washington have been somewhat resolved. Although private construction spending was negative in October for both residential and nonresidential sectors, we expect the recent boost in housing demand to provide upward pressure on construction this month. Overall, we expect construction spending to finish 2013 on a positive gain.

## Market Impact

As we welcome in the new year, no major economic indices will be reported and therefore we do not expect any major movement in the market. Together, the housing index and construction spending will give us key insight into the health of the housing market for the last quarter of the year. Additionally, the consumer confidence report will foreshadow how retail sales perform in December, so there may be some market movement following the release of the survey.

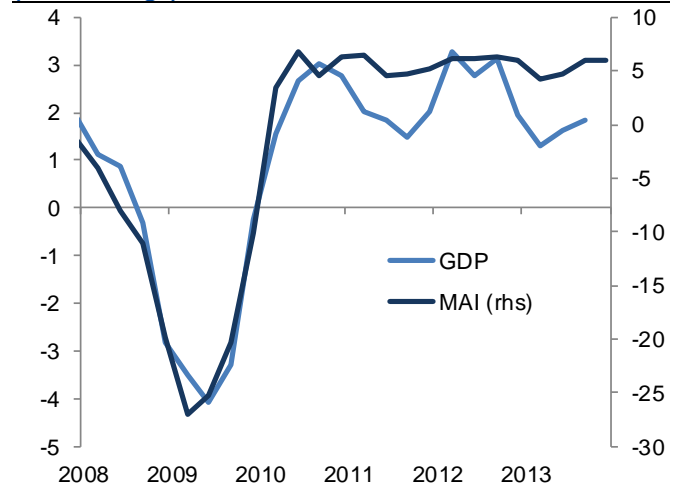
# Economic Trends

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



Source: BBVA Research

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



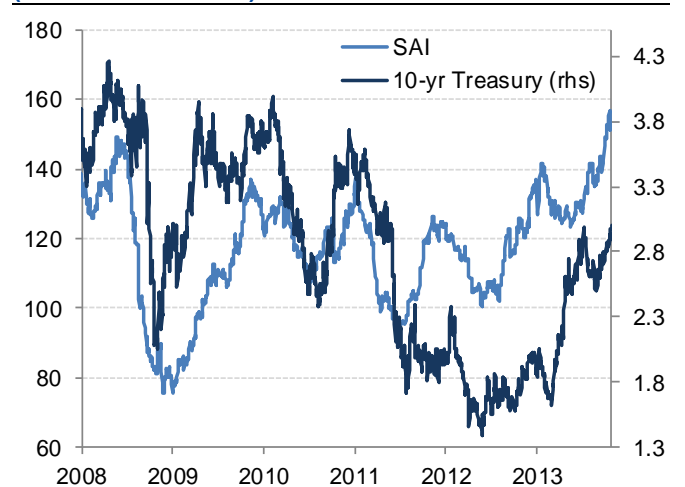
Source: BBVA Research & BEA

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



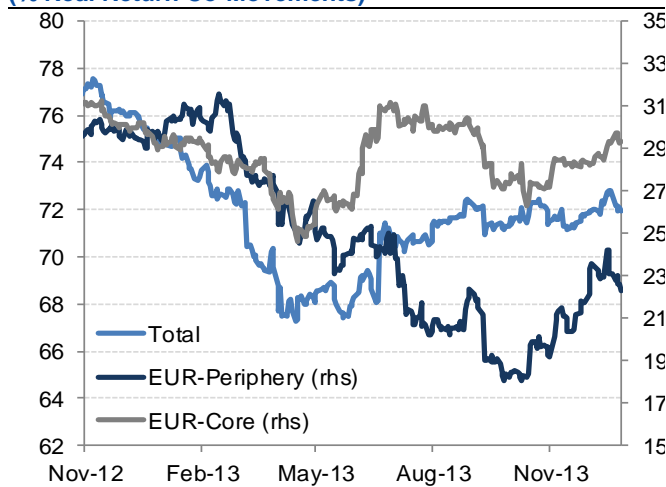
Source: BBVA Research

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



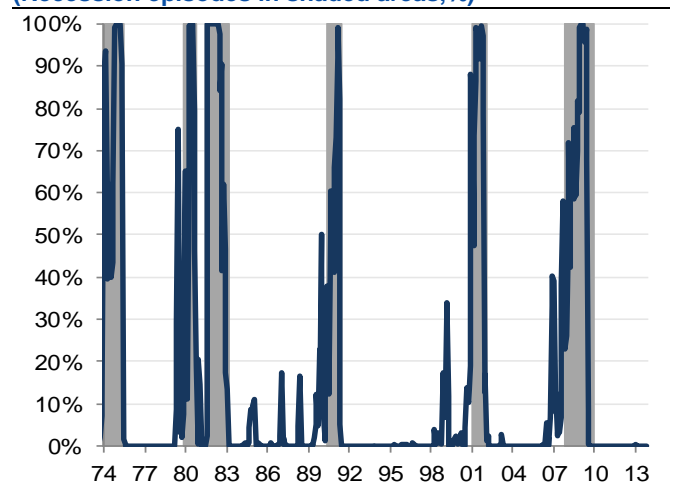
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

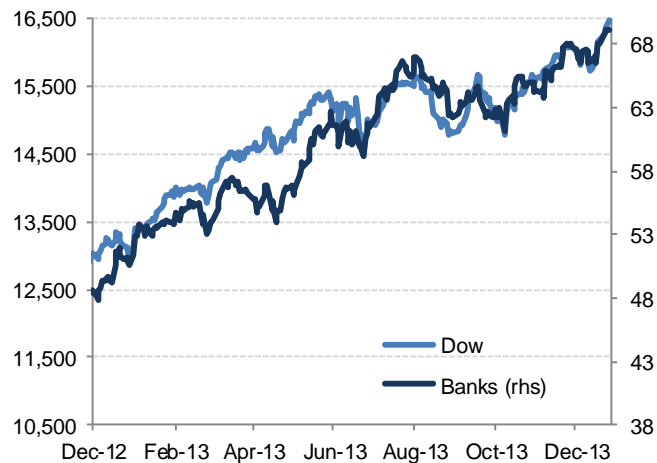
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

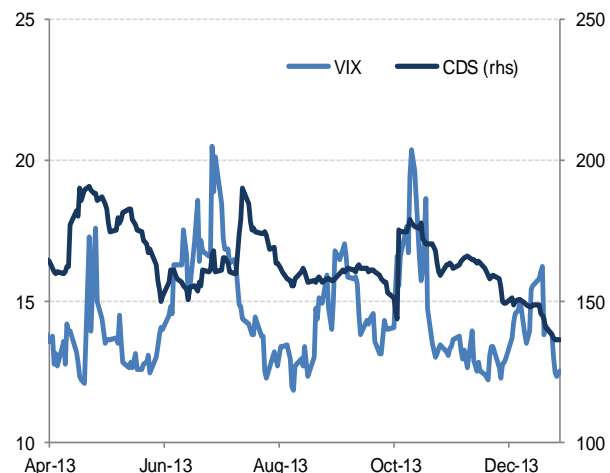
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



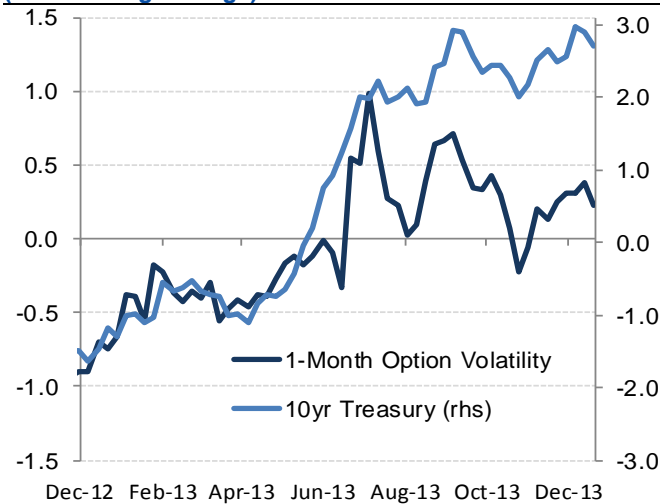
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



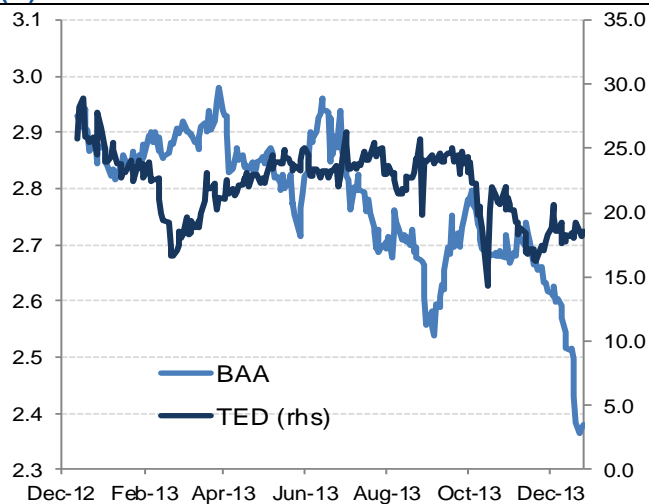
Source: Bloomberg & BBVA Research

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



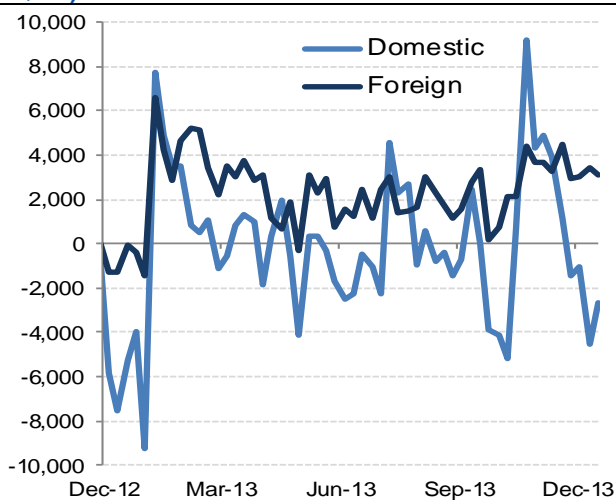
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



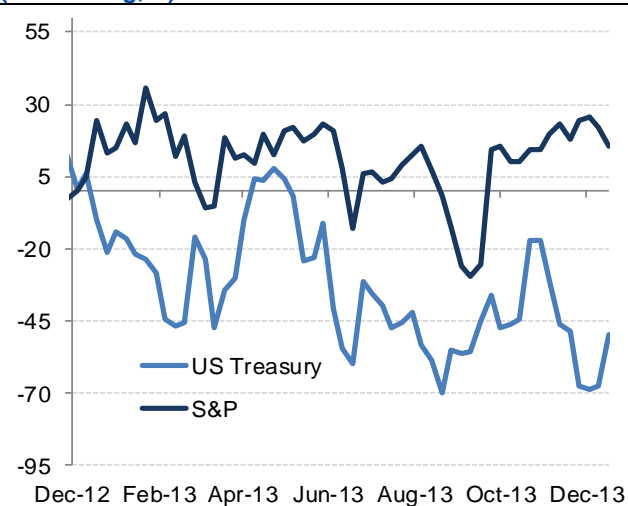
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

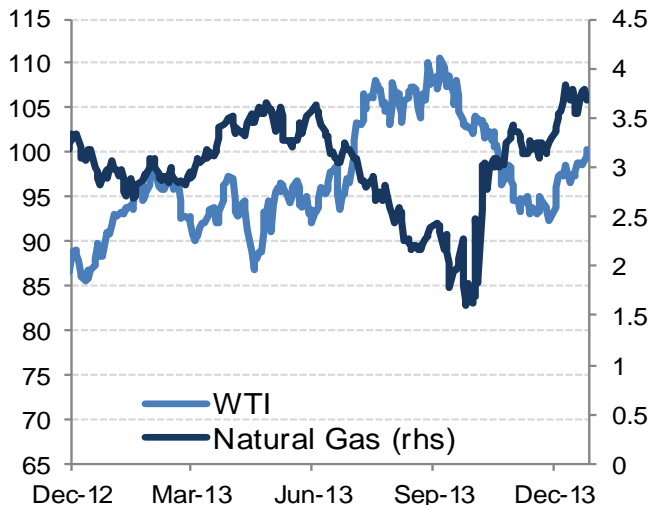
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

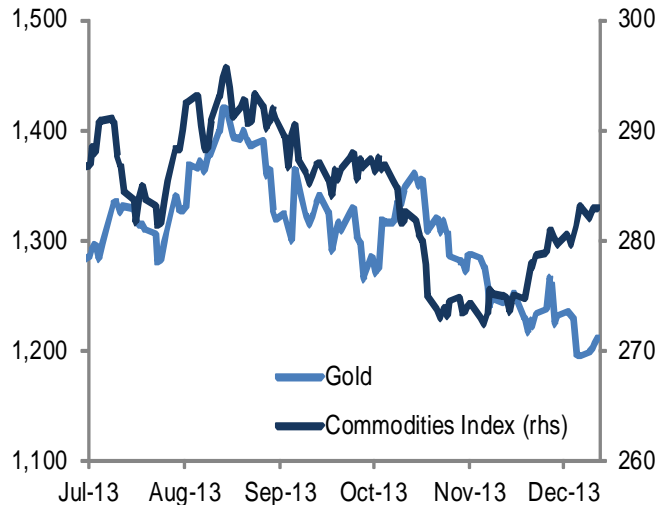
# Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



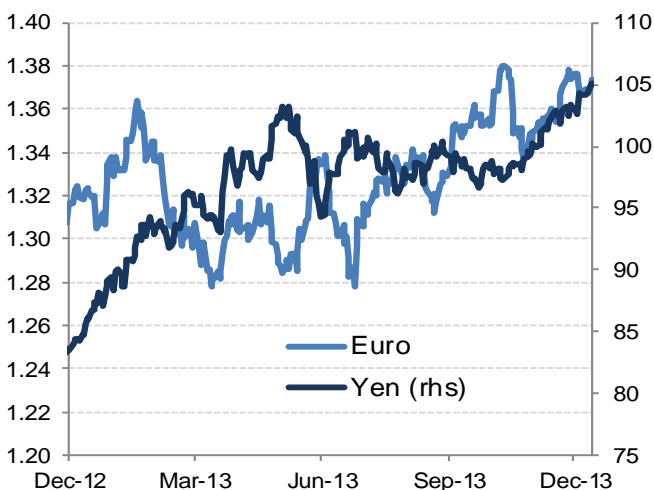
Source: Bloomberg & BBVA Research

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



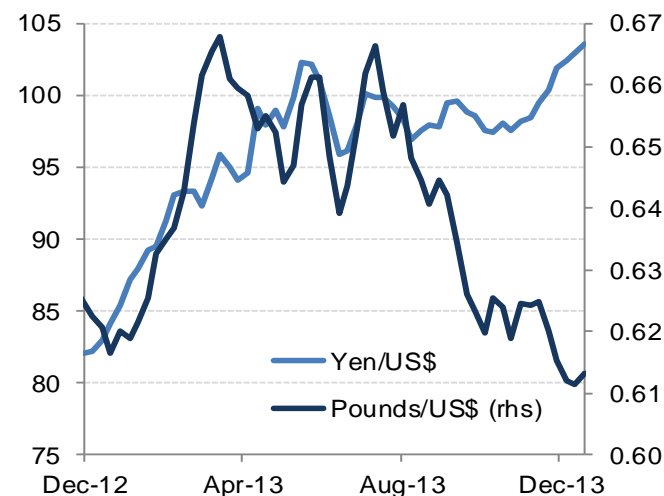
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



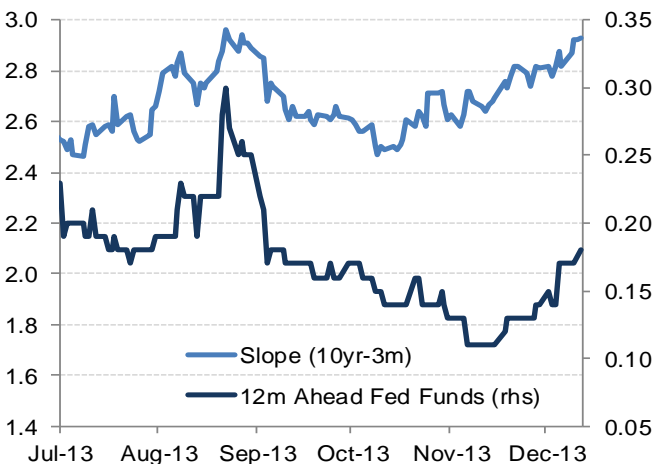
Source: Bloomberg & BBVA Research

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



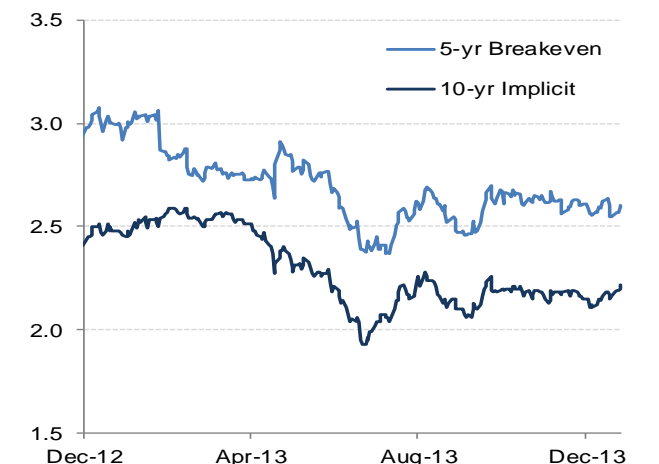
Source: Haver Analytics & BBVA Research

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	14.23	14.10
New Auto (36-months)	2.66	2.67	2.67	2.76
Heloc Loan 30K	5.33	5.32	5.20	5.45
5/1 ARM*	3.00	2.96	2.94	2.90
15-year Fixed Mortgage*	3.52	3.51	3.30	3.23
30-year Fixed Mortgage*	4.48	4.47	4.29	3.99
Money Market	0.43	0.42	0.42	0.51
2-year CD	0.82	0.81	0.83	0.83

\*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	0.09	0.07	0.17
3M Libor	0.25	0.24	0.24	0.31
6M Libor	0.35	0.35	0.35	0.51
12M Libor	0.58	0.58	0.58	0.84
2yr Sw ap	0.48	0.46	0.38	0.40
5yr Sw ap	1.78	1.70	1.47	0.87
10Yr Sw ap	3.06	2.95	2.82	1.80
30yr Sw ap	3.89	3.78	3.75	2.74
30day CP	0.12	0.12	0.10	0.18
60day CP	0.15	0.14	0.11	0.18
90day CP	0.15	0.13	0.13	0.20

Source: Bloomberg & BBVA Research

## Quote of the Week

Barack Obama, President of the United States  
Obama Signs Budget Agreement  
26 December 2013

*"All told, it's a good first step away from the shortsighted, crisis-driven decision-making that has only served to act as a drag on our economy."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
30-Dec	Pending Home Sale (MoM)	NOV	0.80%	1.00%	-0.60%
31-Dec	S&P/CS Composite-20 (YoY)	OCT	13.00%	13.40%	13.29%
31-Dec	Consumer Confidence	DEC	76.00	76.30	70.40
2-Jan	Initial Jobless Claims	28-Dec	340K	345K	338K
2-Jan	Continuing Claims	21-Dec	2925K	2855K	2923K
2-Jan	ISM Manufacturing	DEC	57.50	56.90	57.30
2-Jan	Construction Spending (MoM)	NOV	0.60%	0.60%	0.80%
3-Jan	Total Vehicle Sales	DEC	16.31M	16.00M	16.31M

## Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	<b>1.8</b>	<b>2.8</b>	1.6	2.3	2.5	2.8
CPI (YoY %)	<b>3.1</b>	<b>2.1</b>	1.7	2.2	2.4	2.4
CPI Core (YoY %)	<b>1.7</b>	<b>2.1</b>	1.8	2.0	2.1	2.3
Unemployment Rate (%)	<b>8.9</b>	<b>8.1</b>	7.4	7.0	6.4	5.9
Fed Target Rate (eop, %)	<b>0.25</b>	<b>0.25</b>	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	<b>1.98</b>	<b>1.72</b>	2.75	3.37	3.64	4.05
US Dollar/ Euro (eop)	<b>1.31</b>	<b>1.31</b>	1.30	1.30	1.38	1.36

Note: Bold numbers reflect actual data



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