US Weekly Flash

Highlights

U.S. Economy Grows 3.2% in Final Quarter of 2013

— The BEA's advanced estimate of 4Q13 real GDP showed that the economy increased at rate of 3.2% on a QoQ seasonally-adjusted annualized basis (SAAR). Assuming there are no revisions to the 4Q13 GDP figure, this pace brings annual growth to 1.9% in 2013, significantly lower than 2012, but in general higher than consensus estimates for the year. Personal consumption, which accounts for roughly two-thirds of the economy, grew a solid 3.3% SAAR, which is its highest growth rate since 4Q10 and points to an increase in confidence as consumers are spending more freely. Unfortunately, for the first time since 2010, residential investment was down for the quarter, a movement which is likely attributed to a combination of higher home prices, increasing interest rates, and extreme weather conditions, particularly during November and December. In regards to trade, net exports were significantly higher for the quarter and are steadily becoming a reliable source for growth in the economy, fueled by the increase in domestic drilling of shale gas and petroleum products.

— Overall, the growth in consumption spending is encouraging and is a positive sign of confidence in the economic recovery as we enter the New Year. After a slow start to the year raised questions about the strength of the economy, the 3.2% growth estimate for 4Q13 is a relief that the economy is accelerating upwards. Furthermore, the decision of the Fed to begin tapering in 2014 appears to be validated as the economy begins to stand on its own feet. Previous spurts of economic growth have dissipated in the past, so GDP in the first quarter will be crucial in determining whether the growth is able to steadily roll over into 2014. Looking ahead, we expect that the momentum from the final quarter of 2013 will carry forward into 2014, with our annual growth projection at 2.5% for the coming year.

FOMC Statement: Pace of Purchases Further Reduced to $65 Billion

— The latest FOMC statement was in line with our expectations for reducing the pace of Large-Scale Asset Purchases (LSAP) to $65bn per month. Beginning in February, the Committee will purchase $30bn in mortgage-back-securities (MBS) and $35bn in longer-term Treasury securities, as well as continue reinvesting principal payments into MBS and rolling over maturing Treasury securities at auction. This decision action occurred despite turmoil in emerging financial markets. The Fed kept LSAP dependent on the economic outlook. In particular, improvement of labor markets conditions, and the path of inflation expectations. In addition, LSAP remains conditional on the efficacy and costs of such purchases. While the Fed's balance sheet will continue to rise, the pace of monthly asset purchases will continue to decline.

— In the absence of new economic distress and negative fiscal policy surprises, the FOMC will conclude QE3 in late 2014. Although the thresholds were left unchanged, FOMC members probably continued discussing alternatives to narrow the gap between the timing of policy firming and the unemployment rate threshold. It is likely that the majority prefers to wait for more clarity on labor market conditions while some may prefer to add other unemployment indicators to their communication policy. This will allow the Fed to keep the timing of policy firming close to 2015 even if the unemployment rate were to reach 6.5% or lower in coming months.

Week Ahead

ISM Manufacturing Index (January, Monday 10:00 ET)

Forecast: 55.8	Consensus: 56.0	Previous: 57.0

Manufacturing made significant strides in recovering during the last few months of the year after a dismal start in 2013 had many concerned that the sector was on a downhill trajectory. The ISM index in 2H13 accelerated for six straight months before stabilizing in December. The durable goods report for December was far below expectations, leading us to believe that the recent surge in manufacturing may be slowing. Furthermore, the regional manufacturing surveys conducted by the Federal Reserve show mixed signs of improvement across different regions in the United States, suggesting that manufacturing activity is still weak in certain areas. Overall, we expect a slight slowdown in manufacturing growth for the month, but still remain bullish on the index through 2014.

International Trade Balance (December, Thursday 8:30 ET)

Forecast: -$35.0B	Consensus: -$36.0B	Previous: -$34.3B

The trade deficit is expected to decrease slightly in December after a surprising November imports figure saw the balance shrink to its lowest level in over four years. Exports also increased in November, a gain that was largely attributed to an increase in both manufacturing and petroleum products and was further backed by an increase in global activity as consumers spent for the holidays. We expect goods exports to continue accelerating in December as the holiday season comes to a close. Furthermore, as companies continue to drill domestically, we believe the energy boom will continue to fuel an increase in petroleum exports while simultaneously decreasing imports of foreign oil for the foreseeable future. For December, we do not forecast any significant change to the trade balance, assuming that export growth holds steady and imports rebound from November's decline.

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

Forecast: 190K, 6.8%	Consensus: 180K, 6.7%	Previous: 74K, 6.7%

The employment situation brightened throughout the second half of 2013 but finished unexpectedly negative in December. Manufacturing and construction had been the catalysts for the acceleration in employment in recent months, as both sectors rebounded from slow starts to the year. Housing figures have slowed as of late but still remain positive overall, so we expect that construction will provide a boost for employment in January, in part offsetting the drop in construction jobs in December. Additionally, we forecast at least some upward revision to December's dismal job report. Overall, we expect nonfarm payroll growth to bounce back positively in January and for companies to begin hiring once again as the new year begins. However, we believe the unemployment rate will tick up to 6.8% as previously discouraged workers will re-enter the labor force following the holiday season. The unemployment report carries large implications for monetary policy, as another drop may bring into question the Fed's forward guidance threshold of 6.5% and force the FOMC to reassess their guidance.

Consumer Credit (December, Friday 3:00 ET)

Forecast: $13.00B	Consensus: $12.00B	Previous: $12.32B

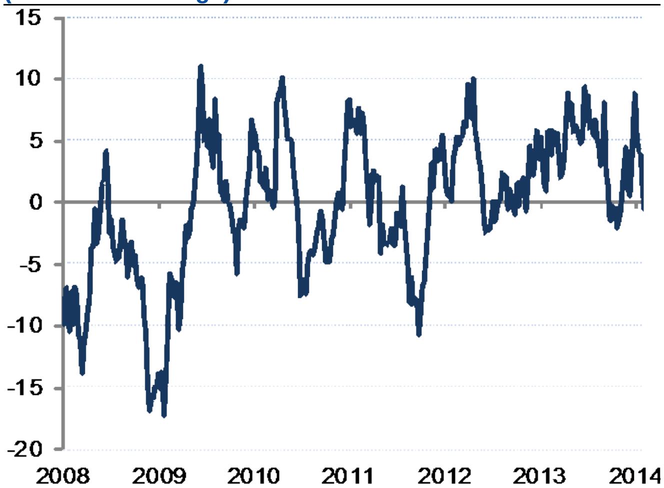
Consumer credit is expected to increase in December, mostly on the back of the usual gains in outstanding student loans as well as a holiday shopping related push from the revolving side. In November, total outstanding consumer credit continued the recent upward trend, but grew at the slowest pace in almost seven months. Although the SA data was weaker, revolving credit on a non-SA basis jumped $10.9bn, the biggest gain in a year. The opposite was true for non-revolving: the NSA increase was much less pronounced at only $6.9bn. The NSA revolving credit figure boosted the overall consumer credit figure in November but we do not forecast an increase of the same magnitude in December, The fact that credit issued by depository institutions is steadily increasing should be viewed as a positive sign that Americans have regained confidence to borrow and spend. Moving forward, we expect non-revolving credit in the form of auto loans and student debt will be the consistent driver in December and in the coming months.

Market Impact

Markets continued to move off all-time highs through the past week due to a combination of weak earnings, foreign currency instability, and a weak durable goods report. However, the upbeat GDP report closed out 2013 on a more positive note and stabilized the markets as we enter this week. Looking ahead, markets will turn their attention to the employment report on Friday for assurance that the economic recovery is robust. Furthermore, investors will be looking for an upward revision after last month's dismal figure became cause for concern in the job market.

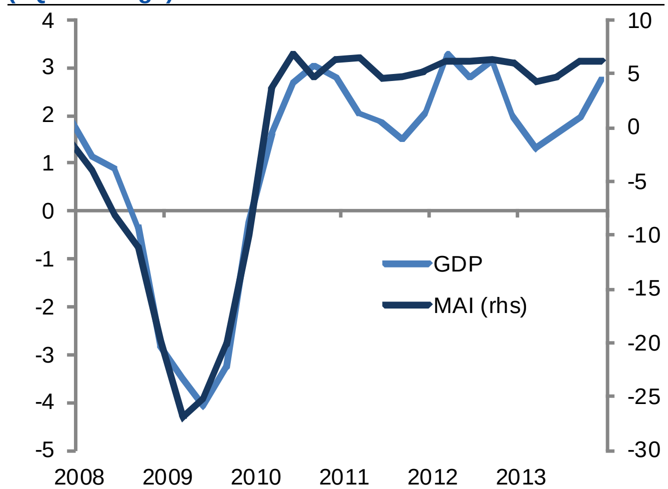
Economic Trends

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



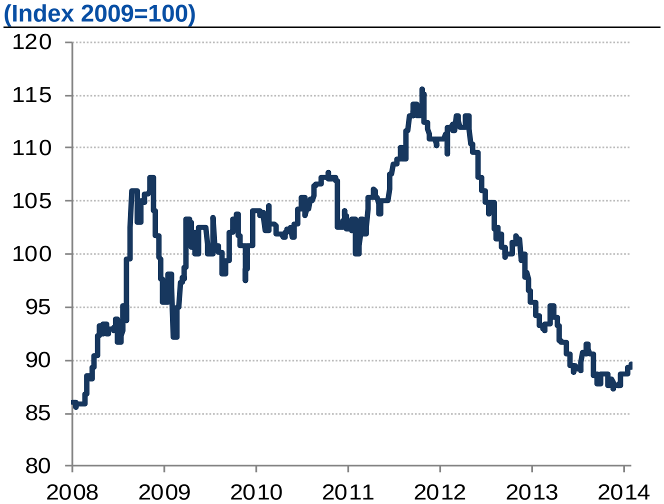
Source: BBVA Research

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



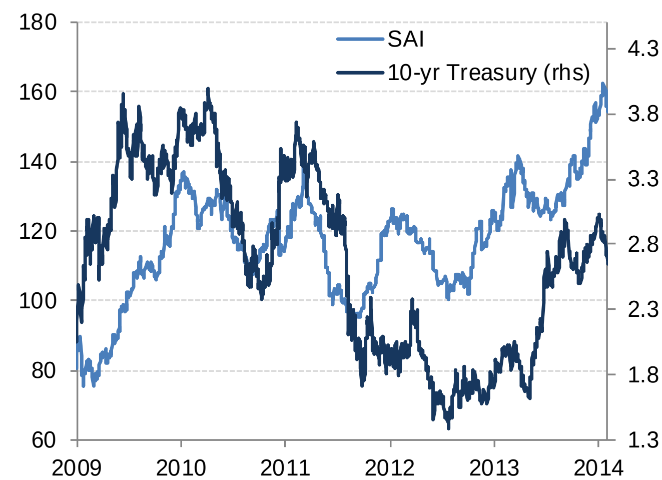
Source: BBVA Research & BEA

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



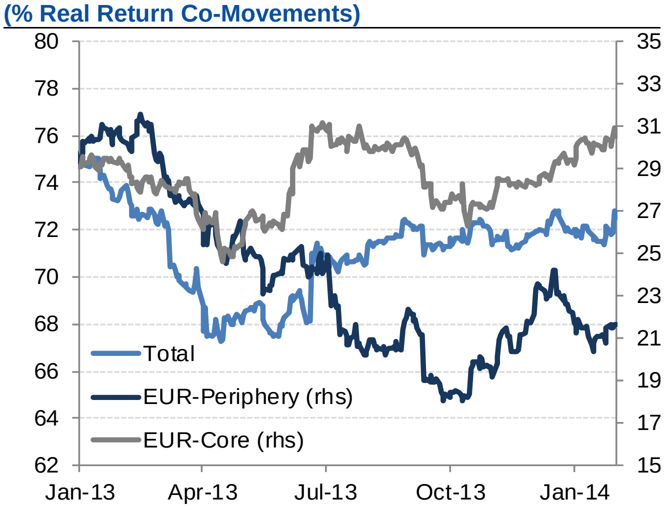
Source: BBVA Research

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



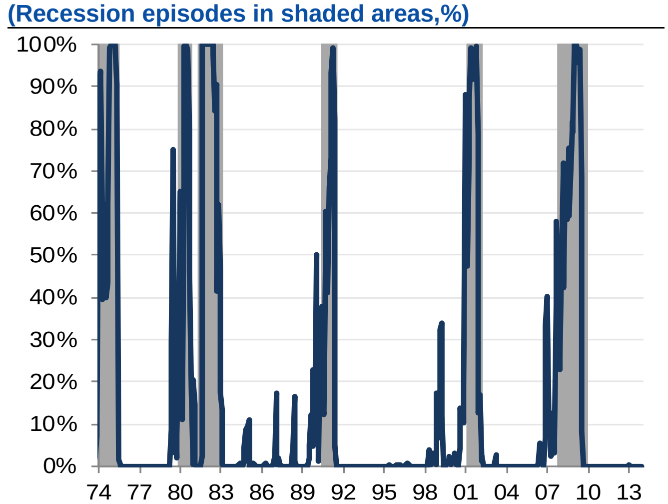
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

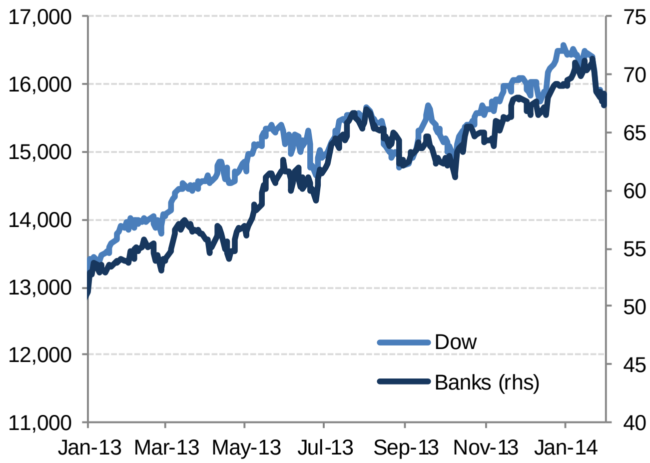
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

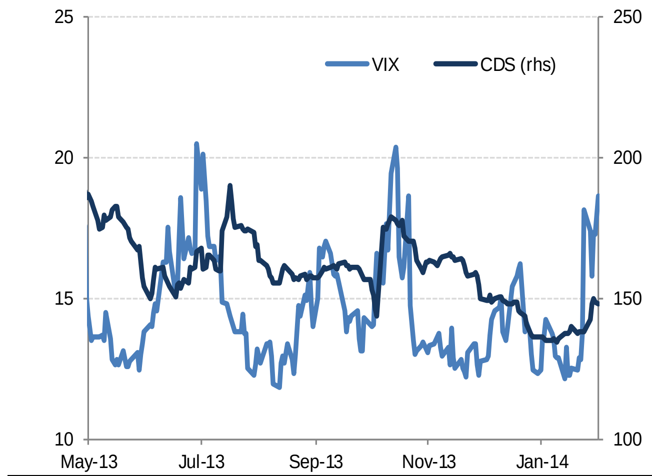
Financial Markets

Graph 9
Stocks
(Index, KBW)



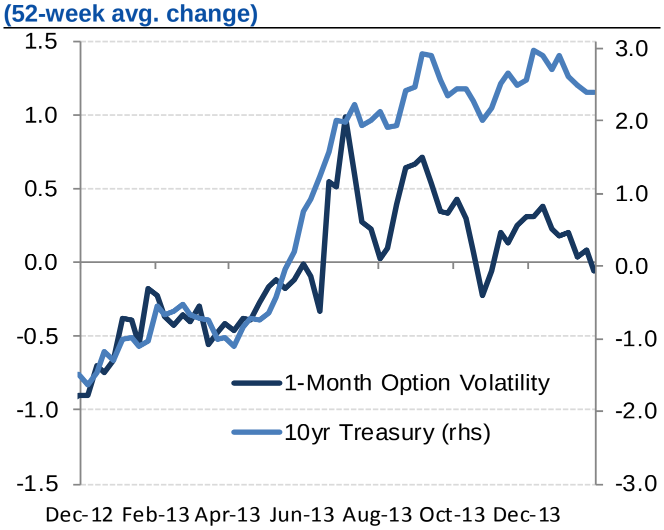
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



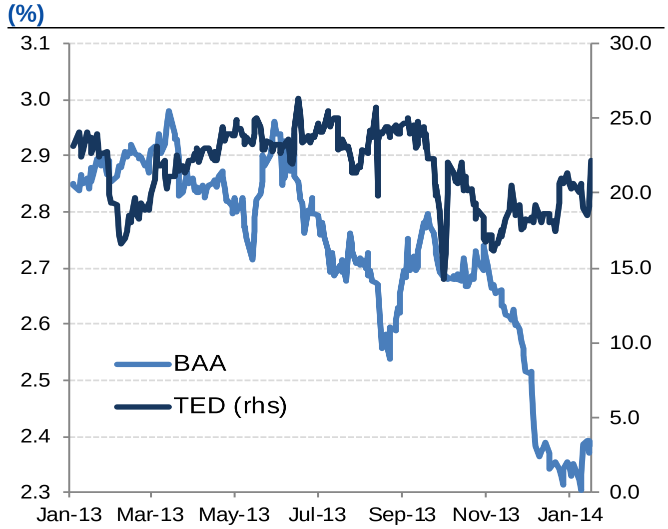
Source: Bloomberg & BBVA Research

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



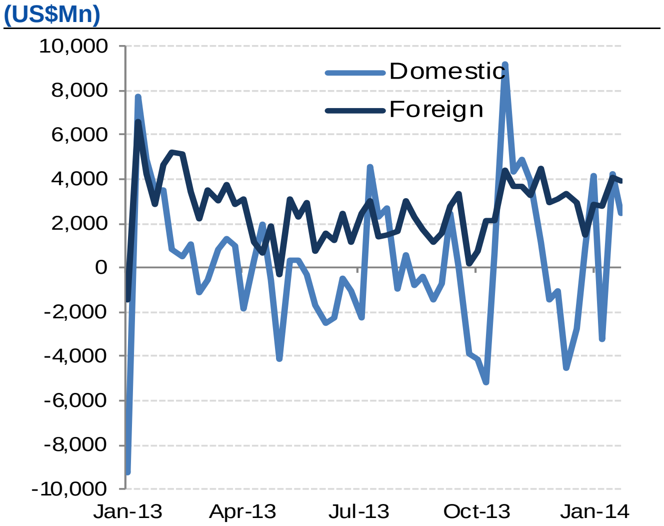
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



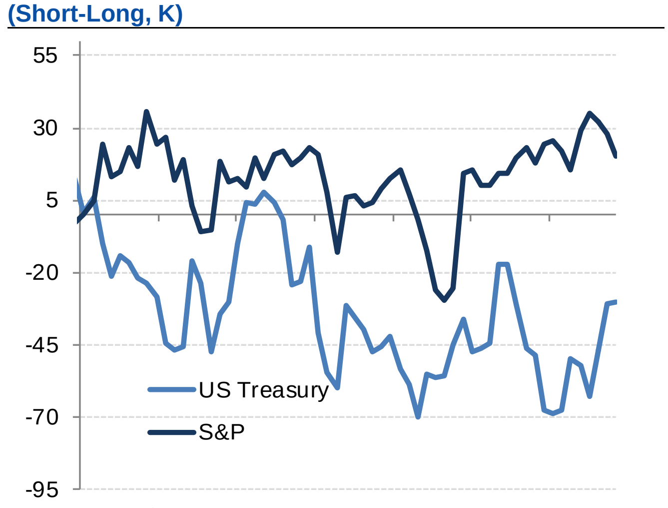
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

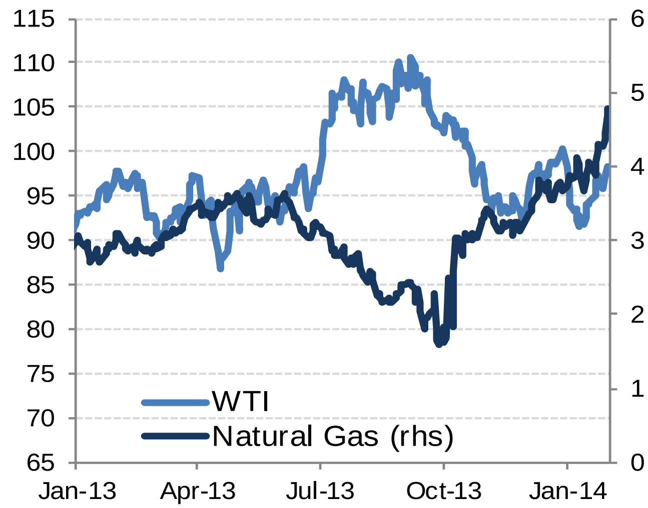
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

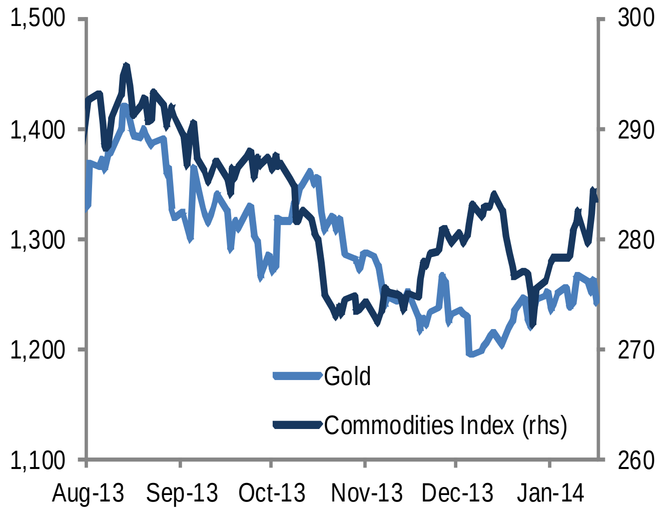
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



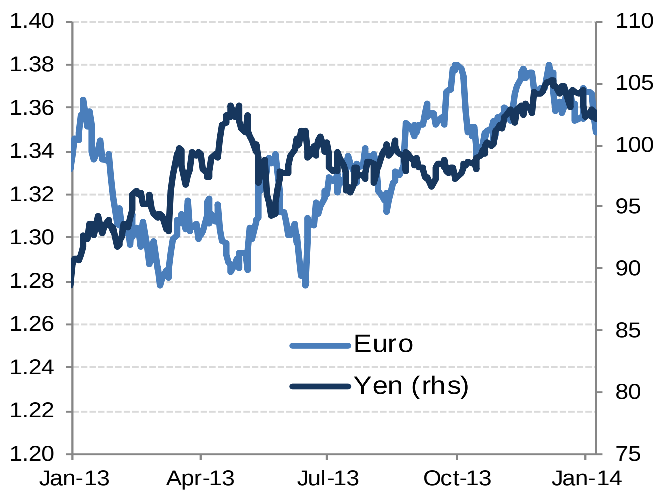
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



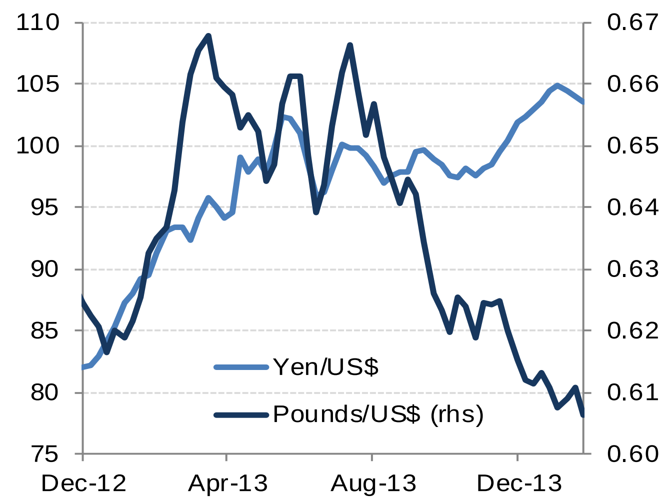
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



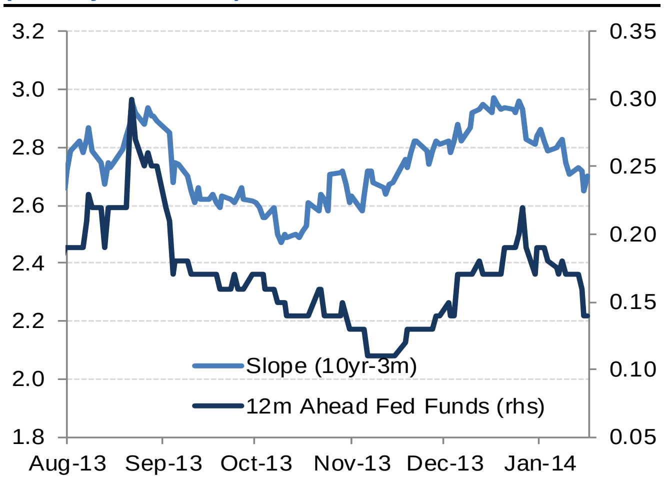
Source: Bloomberg & BBVA Research

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



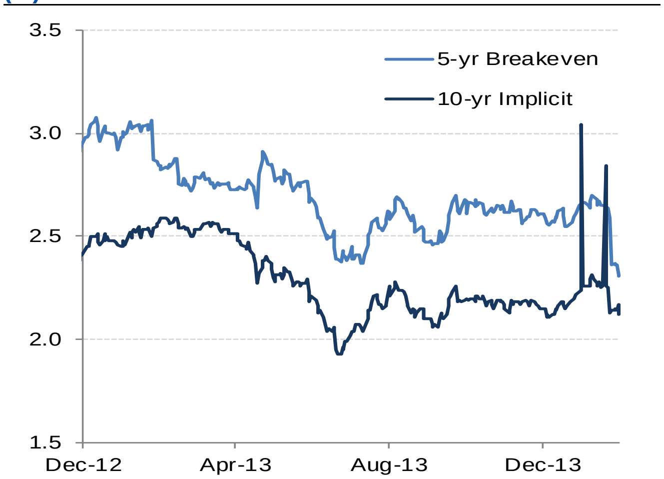
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.23	14.10
New Auto (36-months)	2.36	2.33	2.44	2.47
Heloc Loan 30K	5.40	5.37	5.32	5.38
5/1 ARM *	3.12	3.15	3.05	2.90
15-year Fixed Mortgage *	3.40	3.44	3.55	3.23
30-year Fixed Mortgage *	4.32	4.39	4.53	3.99
Money Market	0.41	0.42	0.43	0.50
2-year CD	0.82	0.82	0.82	0.77

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2

Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.07	0.07	0.08	0.14
3M Libor	0.24	0.24	0.24	0.30
6M Libor	0.34	0.33	0.35	0.47
12M Libor	0.57	0.57	0.58	0.77
2yr Sw ap	0.46	0.49	0.51	0.43
5yr Sw ap	1.61	1.66	1.79	1.03
10Yr Sw ap	2.79	2.84	3.07	2.09
30yr Sw ap	3.60	3.62	3.90	3.05
30day CP	0.13	0.12	0.11	0.16
60day CP	0.11	0.11	0.11	0.18
90day CP	0.13	0.13	0.13	0.17

Source: Bloomberg & BBVA Research

Quote of the Week

Barack Obama, President of the United States
State of the Union Address
28 January 2014

"China and Europe aren't standing on the sidelines. Neither should we. We know that the nation that goes all-in on innovation today will own the global economy tomorrow. This is an edge America cannot surrender."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Feb	Total Vehicle Sales	JAN	15.2M	15.7M	15.4M
3-Feb	ISM Manufacturing Index	JAN	55.8	56.0	57.0
3-Feb	Construction Spending (MoM)	DEC	0.40%	0.00%	1.00%
4-Feb	Factory Orders (MoM)	DEC	-0.60%	-1.80%	1.80%
5-Feb	ADP National Employment	JAN	180K	190K	238K
5-Feb	ISM Non-manufacturing Index	JAN	53.2	53.7	53.0
6-Feb	International Trade Balance	DEC	-$35.0B	-$36.0B	-$34.3B
6-Feb	Nonfarm Productivity	Q4	2.20%	2.50%	3.00%
6-Feb	Unit Labor Costs	Q4	0.50%	-0.50%	1.40%
6-Feb	Initial Jobless Claims	1-Feb	340K	335K	348K
6-Feb	Continuing Claims	25-Jan	2985K	3000K	2991K
7-Feb	Non-Farm Payrolls	JAN	190K	180K	74K
7-Feb	Private Payrolls	JAN	195K	190K	87K
7-Feb	Manufacturing Payrolls	DEC	11K	10K	9K
7-Feb	Unemployment Rate	JAN	6.80%	6.70%	6.70%
7-Feb	Average Hourly Earnings	JAN	0.20%	0.20%	0.10%
7-Feb	Average Work Week	JAN	34.5	34.4	34.4
7-Feb	Consumer Credit	DEC	13.00B	12.00B	12.32B

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.9	**2.5**	**2.5**	**2.8**
CPI (YoY %)	3.1	2.1	1.5	**2.3**	**2.4**	**2.4**
CPI Core (YoY %)	1.7	2.1	1.8	**2.3**	**2.4**	**2.3**
Unemployment Rate (%)	8.9	8.1	7.4	**6.8**	**6.2**	**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	3.03	**3.37**	**3.64**	**4.05**
US Dollar/ Euro (eop)	1.31	1.31	1.37	**1.30**	**1.38**	**1.36**

Note: Bold numbers reflect actual data. Forecast revisions pending.

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