

US Weekly Flash

Highlights

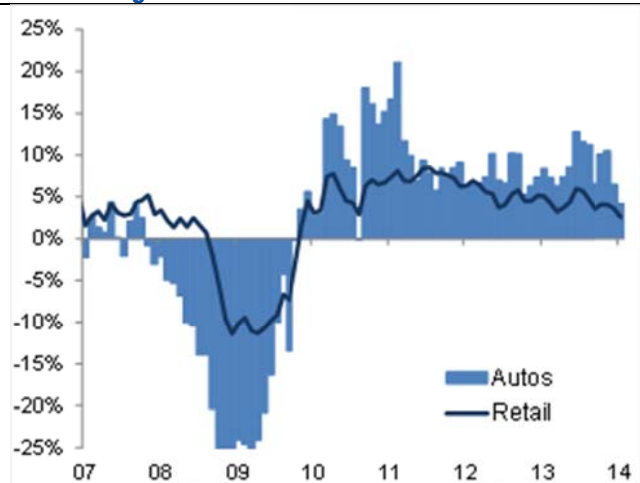
Retail Sales Sluggish in January Due to Slowdown in Autos

- Retail sales dropped by a seasonally adjusted 0.4% on a MoM basis in January, dragged down by a slowdown in auto sales to start the year. The decline in retail sales marks the biggest MoM decline since June 2012. Excluding auto sales, retail sales remained unchanged in the month of January. On a YoY basis, overall retail sales continue to show healthy improvements and are a bright spot for the slowly expanding economy, as retail sales account for roughly one-third of consumer spending. Although there are existing concerns of an auto-industry slowdown, YoY numbers for auto-sales continue to remain positive and growth in the industry appears robust for now.
- Overall, we would not read too much into the retail sales decline, as many factors were likely to play a part in the MoM decline. The extreme cold weather that has been hitting much of the country over the past month certainly played a part in the drop off in retail spending, particularly for autos, restaurants and malls. Although retail sales have now declined for two consecutive months and other recent economic indicators appear sluggish as of late, we believe there is no need to overreact, as the economy is still growing at a modest pace on a YoY basis. Although the retail sales data will likely put downward bias on our 1Q14 GDP estimate, we still expect consumer spending to accelerate over the year and provide a boost to economic growth.

Industrial Production Declines in Wake of Extreme Weather

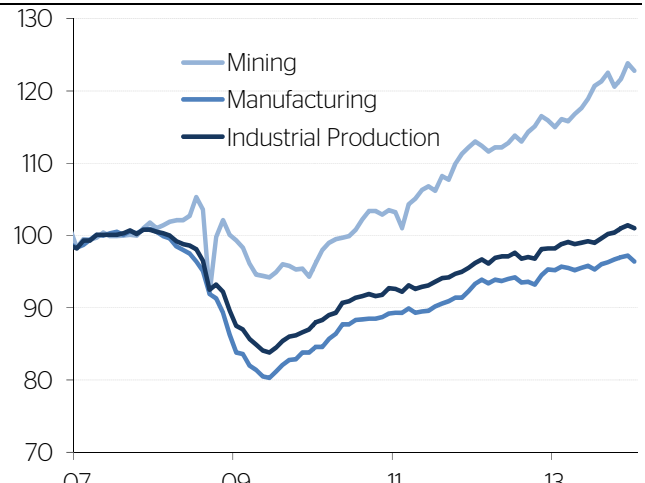
- Industrial production fell below expectations in January, declining by a seasonally adjusted 0.3% on a MoM basis. The drop was largely attributed to a steep decline in manufacturing and mining output, which fell 0.8% and 0.9%, respectively. Although the dip in industrial production was the largest MoM fall since April 2013, YoY figures remain positive and show a pickup in the index from a year prior, up 2.85%. Overall, capacity utilization fell from 78.9% in December to 78.5%, but the index remains healthy compared to the past few years.
- While the industrial production data for January fell below our forecasts, we are not entirely surprised by the decline given that recent indicators have signaled a slowdown in the manufacturing sector. The dropoff in manufacturing and mining should be taken with a grain of salt, as seasonality and extreme weather conditions certainly contributed to the slowdown in activity. Unless production activity does not pick up as we move forward into 1H14, we do not see this as a time to panic. Looking at the big picture, industrial production has been trending positive over the last two years, and as the majority of economic indicators continue to pick up, we fully expect an upward trend moving forward.

Graph 1
Retail and Auto Sales
YoY% Change



Source: ISM & BBVA Research

Graph 2
Existing Home Sales by Region
Thousands



Source: Conference Board & BBVA Research

Week Ahead

Empire State Manufacturing Survey (February, Tuesday 8:30 ET)

Forecast: 5.50

Consensus: 9.75

Previous: 12.51

The majority of 2013 witnessed surprisingly strong manufacturing data, but the latest reports for January have surprised largely to the downside. Investors have once again grown anxious regarding the health of the manufacturing sector. However, the growth experienced over 2H13 was likely unsustainable and due for a deceleration at some point. Furthermore, even though the manufacturing sector has shown signs of decelerating, the major components are still signaling expansion, albeit at a slower pace. Amid the freezing temperatures felt across the nation, new orders and production dropped substantially last month, and as the snowstorms continue to plague the country, particularly the Northeast, we expect more of the same. Therefore, we expect seasonality to place downward pressure on the Empire State Manufacturing Survey index in February after a surprising gain to start 2014.

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

Forecast: 940K, 980K

Consensus: 950K, 986K

Previous: 999K, 991K

Housing starts finished the year with a thud in 2013, falling 9.8% MoM in December after a 23.1% gain in the previous month. However, the data is naturally volatile on a monthly basis, so we would not recommend putting much stock in the month-over-month figure. Housing starts finished up 1.6% YoY in 2013, and while the housing market did not finish the year on the high note that was generally expected, the positive YoY growth is still a good sign that the market is steadily improving. As such, January's housing starts and building permits report will be carefully watched, as the data can carry a significant ripple effect on the economy. Unfortunately, we are not optimistic about January's housing starts figure, as bad weather likely discouraged potential homebuyers from purchasing a house. Furthermore, building permits have declined throughout the past few months, and as a leading indicator for starts, this is not a great signal for new home construction to start 2014.

Consumer Price Index, Core (January, Thursday 8:30 ET)

Forecast: 0.3%, 0.0%

Consensus: 0.1%, 0.1%

Previous: 0.3%, 0.1%

The consumer price index finished up 0.3% MoM in December, pushing inflation up to 1.5% on a YoY basis, closer to the Fed's target inflation rate but still considerably below 2.0%. Now that tapering has officially begun, it will be crucial to monitor the inflation rate to ensure that it does not fall too low and curb the effectiveness of the Fed's policy actions. Income growth has also remained subdued, and if it does not keep up with inflation, consumers' are essentially losing value on their dollar, which could tamper overall consumption and potentially slow economic growth. December's CPI report was partially driven by an increase in energy prices as the colder-than-expected winter had people cranking up their heaters. For January, we expect energy prices to once again skew the headline inflation number slightly upward, but the core inflation figure is likely to remain stagnant for the month.

Existing Home Sales (January, Friday 10:00 ET)

Forecast: 4.60M

Consensus: 4.70M

Previous: 4.87M

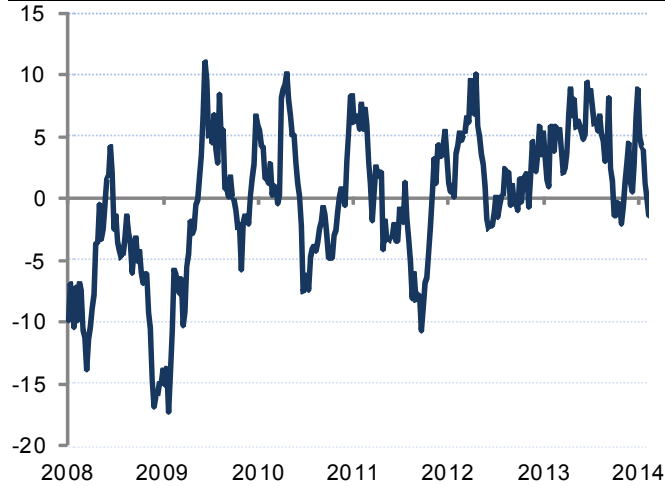
Existing home sales finally posted a positive gain of 1.0% in December after three consecutive negative months spurred fear that the housing market was coming to a halt. After experiencing double-digit YoY growth through most of 2013, existing home sales began to decline in 4Q13. At the same time, mortgage rates have steadily declined through the first few weeks of 2014, so homebuyers who were previously discouraged by the rapidly-increasing interest rates may reconsider entering the hunt for a home once again. However, Arctic-like weather experienced thus far in 2014 is likely to dampen the existing home sales data for January. For this reason, we are forecasting a significant decline for the month, but we do not believe the data should not be seen as a sign of a housing market slowdown but rather a consequence of temporary factors at play.

Market Impact

After the sharp pullback a couple of weeks ago that saw the major indices recede roughly 7% off all-time highs, the stock market has quietly regained traction. Economic data, particularly manufacturing, has been weak over the last few weeks, but the stock market has moved upwards regardless. Barring any catastrophic news or data, we do not expect any of the economic reports released this week to significantly move the stock market one way or the other. Markets will likely be more focused on the FOMC meeting minutes for further signs of future tapering plans.

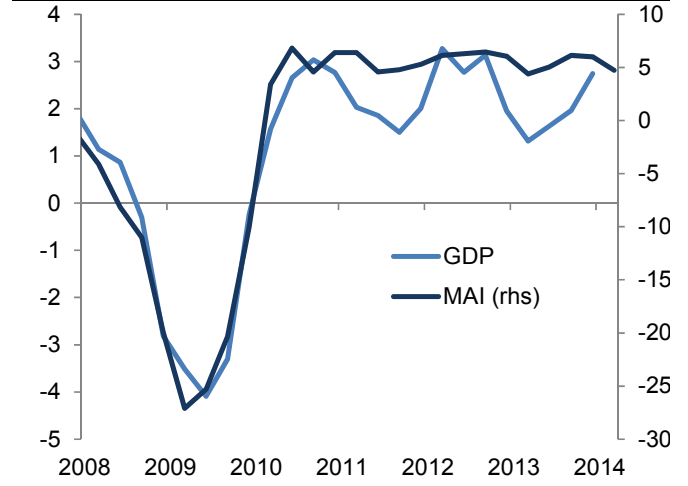
Economic Trends

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



Source: BBVA Research

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



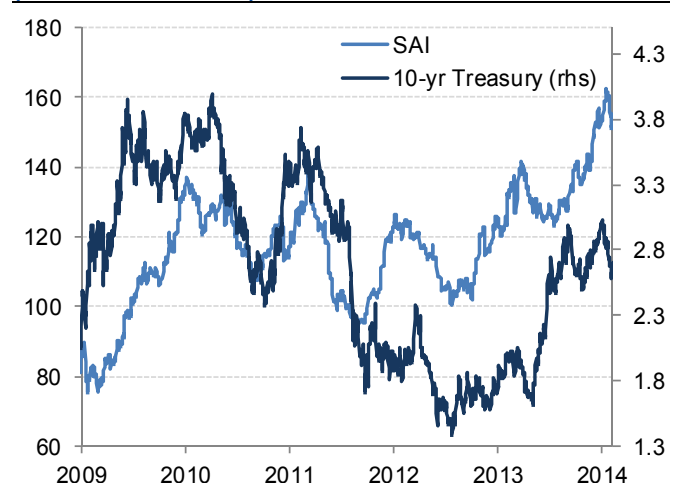
Source: BBVA Research & BEA

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



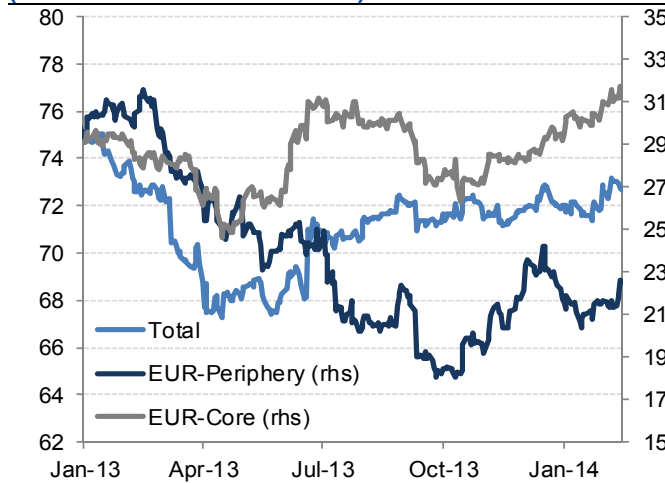
Source: BBVA Research

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



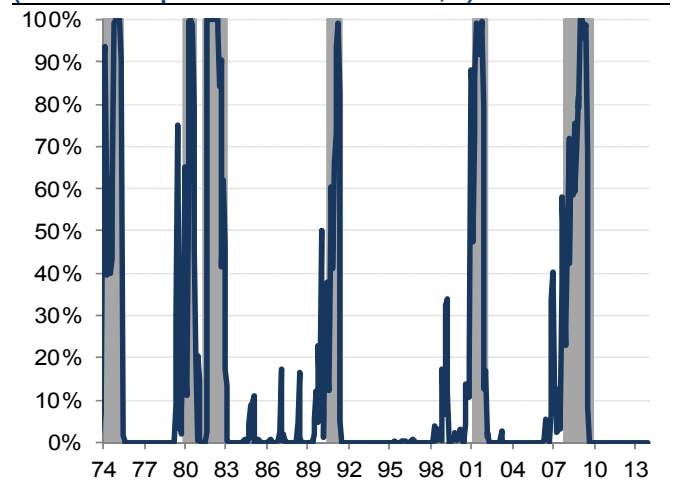
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

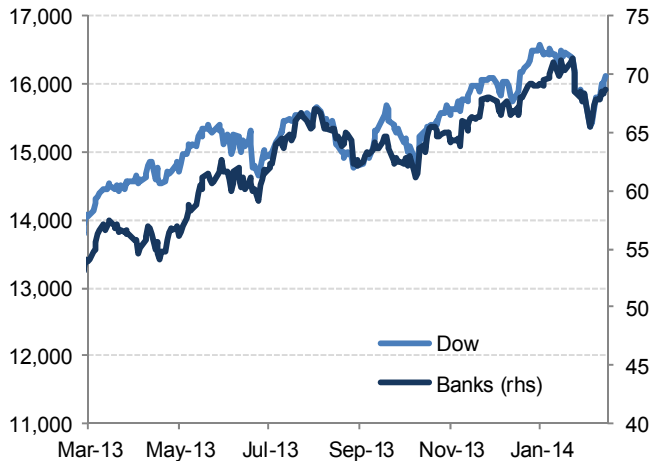
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

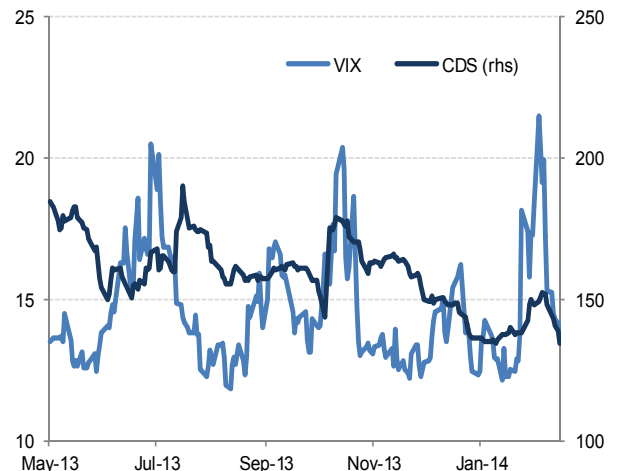
Financial Markets

Graph 9
Stocks
(Index, KBW)



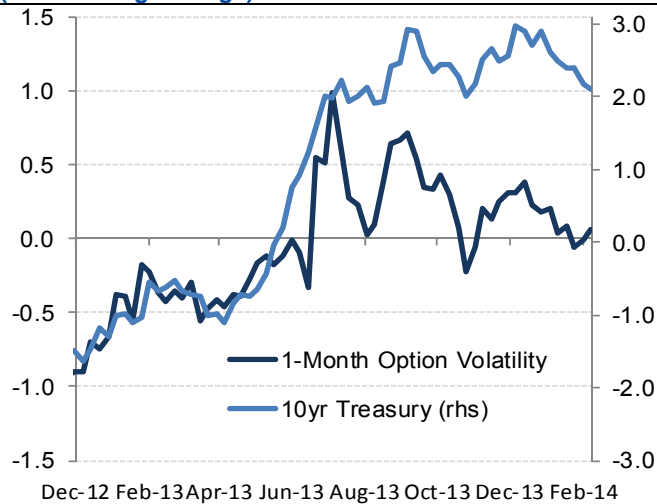
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



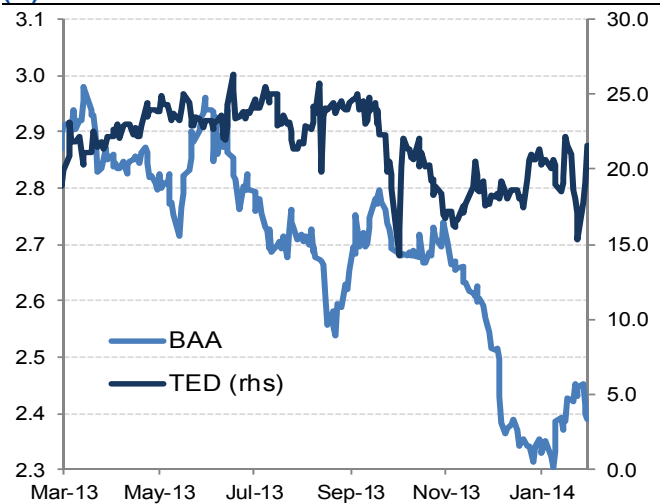
Source: Bloomberg & BBVA Research

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



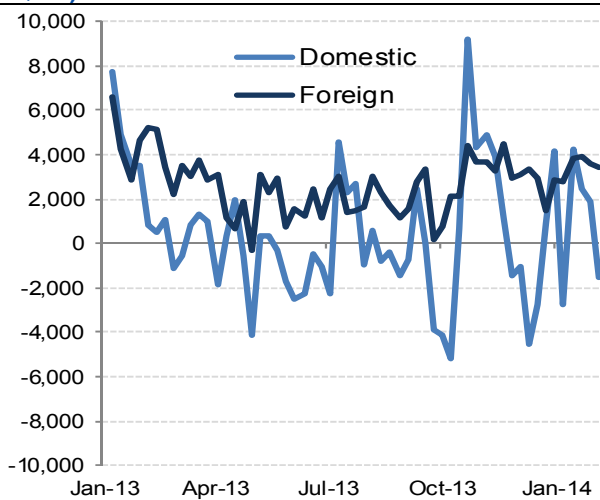
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



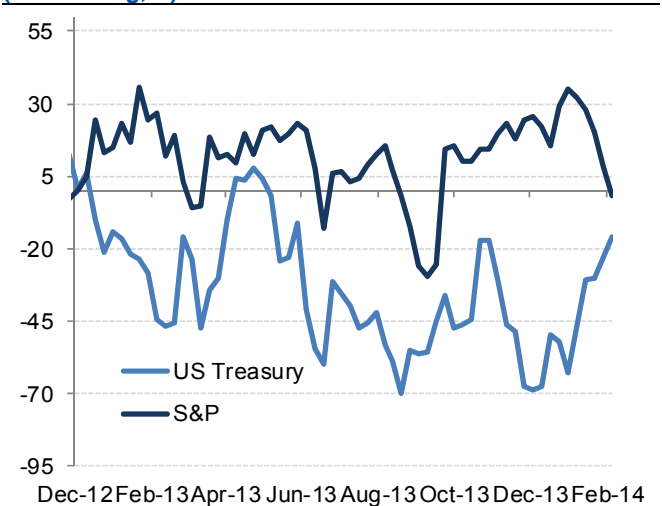
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

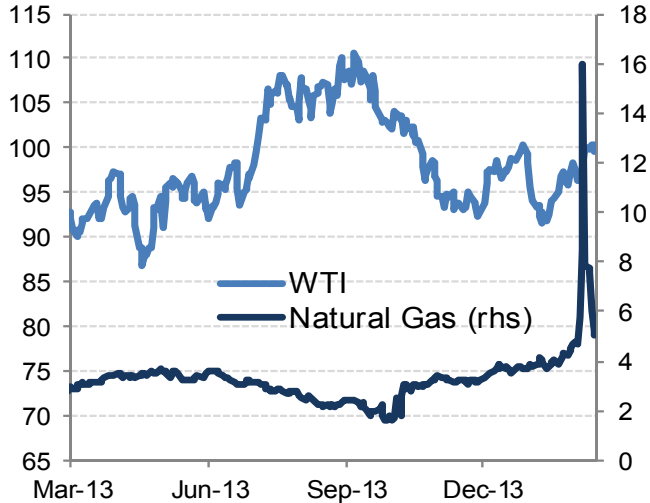
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

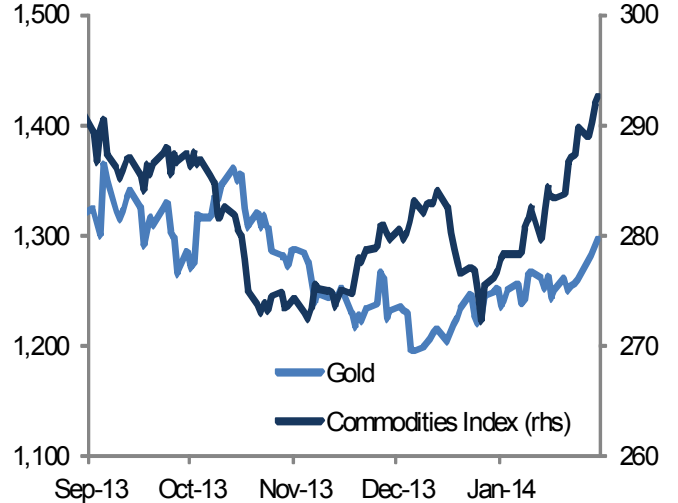
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



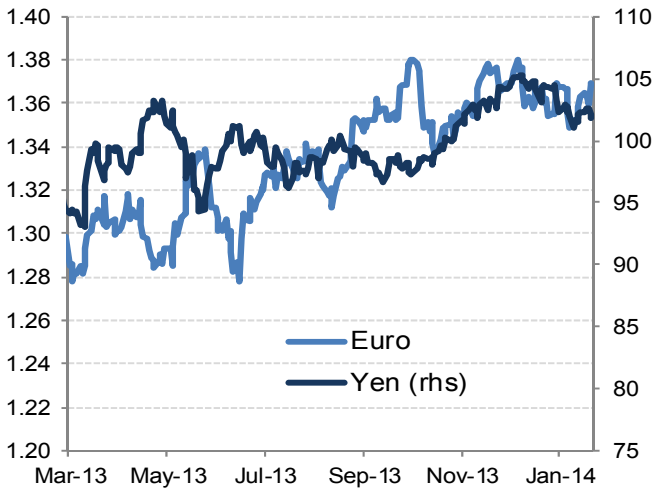
Source: Bloomberg & BBVA Research

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



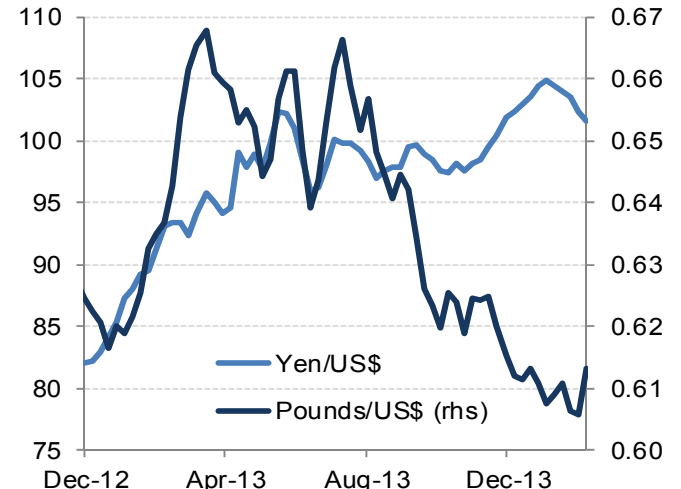
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



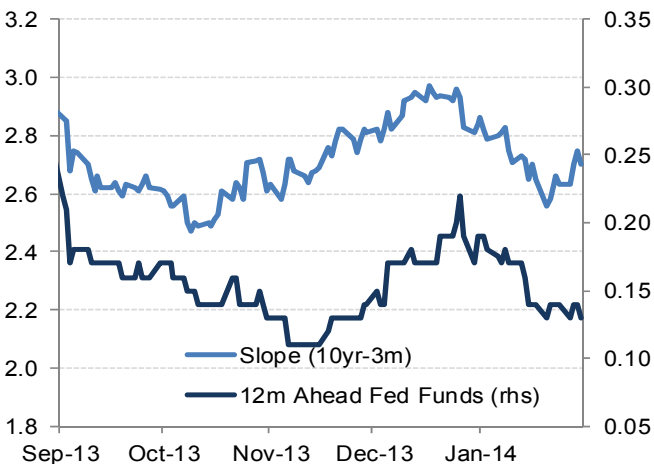
Source: Bloomberg & BBVA Research

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



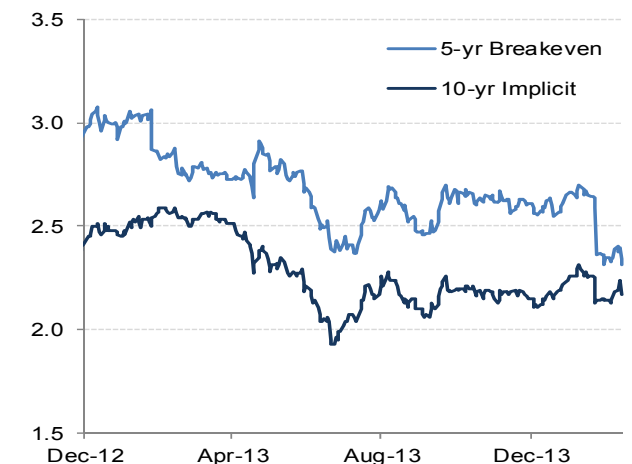
Source: Haver Analytics & BBVA Research

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 ag
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)	2.57	2.57	2.42	2.44
Heloc Loan 30K	5.37	5.38	5.36	5.38
5/1 ARM*	3.05	3.08	3.10	2.90
15-year Fixed Mortgage*	3.33	3.33	3.45	3.23
30-year Fixed Mortgage*	4.28	4.23	4.41	3.99
Money Market	0.41	0.41	0.42	0.50
2-year CD	0.80	0.80	0.82	0.73

*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	0.06	0.06	0.07	0.16
3M Libor	0.24	0.24	0.24	0.29
6M Libor	0.33	0.33	0.33	0.46
12M Libor	0.55	0.56	0.57	0.76
2yr Sw ap	0.45	0.43	0.50	0.42
5yr Sw ap	1.64	1.58	1.73	1.04
10Yr Sw ap	2.85	2.82	2.93	2.10
30yr Sw ap	3.68	3.67	3.74	3.07
30day CP	0.11	0.12	0.11	0.15
60day CP	0.10	0.12	0.11	0.17
90day CP	0.13	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Barack Obama, President of the United States
Remarks by the President on Signing of Executive Order
12 February 2014

"But while those at the top are doing better than ever--corporate profits have been high, the stock market has been high--average wages have barely budged. So you've got too many Americans who are working harder than ever before just to get by, but they can't seem to get ahead, can't seem to make all the ends meet."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
18-Feb	Empire State Manufacturing Index	FEB	5.50	9.75	12.51
19-Feb	Housing Starts	JAN	940K	950K	999K
19-Feb	Building Permits	JAN	980K	986K	991K
19-Feb	Producer Price Index (MoM)	JAN	0.2%	0.4%	0.4%
19-Feb	Producer Price Index, Core (MoM)	JAN	0.1%	0.3%	0.3%
20-Feb	Consumer Price Index (MoM)	JAN	0.3%	0.1%	0.3%
20-Feb	Consumer Price Index, Core (MoM)	JAN	0.0%	0.1%	0.1%
20-Feb	Intial Jobless Claims	14-Feb	345K	332k	339K
20-Feb	Continuing Claims	7-Feb	2970K	2978K	2953K
20-Feb	Leading Indicators	JAN	0.4%	0.4%	0.1%
20-Feb	Philly Fed Business Index	FEB	7.0	8.0	9.4
21-Feb	Existing Home Sales	JAN	4.60M	4.70M	4.87M

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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