

# US Weekly Flash

## Highlights

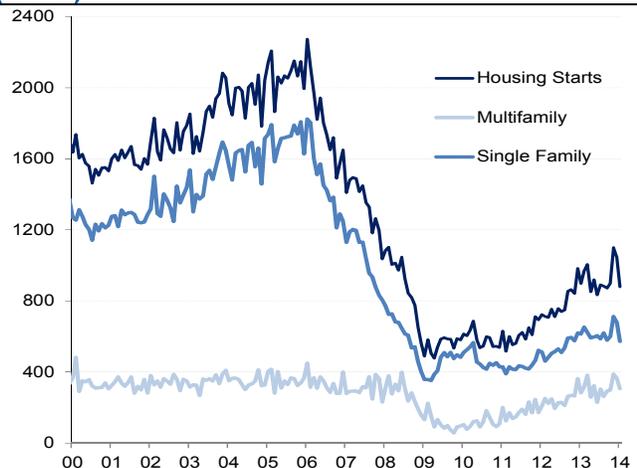
### Housing Starts and Building Permits Slump in January

- After soaring to yearly-highs in November and December, housing starts tumbled in January to 880K on a seasonally-adjusted annualized basis, a monthly decline of 16.0% from December. The drop in housing starts was expected as a result of the cold winter that likely dampened construction and home-building activity across the U.S. Furthermore, the increase in mortgage rates over 2H13 decreased the affordability of homes and likely discouraged potential homebuyers who were on the fence to purchase a house. The decline in permits could be an indication of slower building activity over the near future, so it will be crucial to keep an eye on as we move along in 2014.
- Though the decline in housing starts can be attributed to the recent extreme weather, the sharp drop in building permits is somewhat concerning. The weather may have played a minor role in discouraging potential homebuyers to apply for a permit, but it is more likely that the recent increase in mortgage rates was a bigger player in discouraging consumers to finalize their purchases. Housing activity has definitely decelerated following a pickup during the majority of 2H13, but we do not believe that the January data is enough to cause panic. Overall, we expect the housing market to continue a slow and steady recovery through 2014 (for more information, see our [2014 Housing Outlook](#)).

### Inflation and Core Prices Tick Upward in January

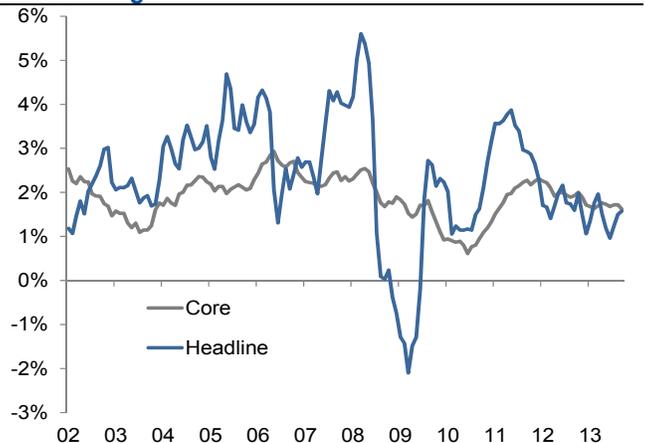
- The headline consumer price index for January increased by 0.1% on a monthly basis, primarily led by a jump in prices for energy services. Excluding food and energy, the consumer price index ticked upward slightly by 0.1% on a MoM basis. Shelter costs increased 2.6% on a YoY basis, a sign that consumers are forced to dedicate a greater portion of their salaries to living expenses. At the same time, medical care services are also increasing at a greater pace than overall goods, up 2.5% YoY in January. However, the growth in medical care appears to be decelerating, as this is the lowest YoY growth rate in medical care services in nearly 40 years.
- On a yearly basis, headline inflation and core prices are both up 1.6%, and with regards to monetary policy, continue to hover below the Fed's target of 2.0%. In the wake of a brighter employment picture, the Fed began scaling back the pace of asset purchases starting in January, and thus far it appears that it had no significant impact on the inflation rate. Still, we expect the board to watch CPI closely, as tapering too quickly could lead to lower price growth and potentially put the dollar at risk of low inflation and possibly deflation. Moving forward, we do not forecast any major changes in the inflation rate for 2014, and expect YoY growth to remain between 1-2% through the tapering process.

Graph 1  
**Housing Starts, Single and Multifamily Structures (Thous)**



Source: U.S. Census Bureau & BBVA Research

Graph 2  
**Consumer Price Inflation YoY % Change**



Source: BLS & BBVA Research

## Week Ahead

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

Forecast: 80.5

Consensus: 80.0

Previous: 80.7

The consumer confidence index reached levels above 80 for the first time in four months. Consumer expectations, however, were much more volatile in 2013, ranging from 59.9 in January to 91.1 in June, before finishing at 81.8 to start 2014, likely a reflection of the frustration due to the incompetence of Washington to compromise. Still, both figures are up tremendously YoY, and ideally, as consumers feel more confident in the economic recovery, the more likely they are to make purchases and boost consumption. Although the stock market took a hit earlier this month, a large portion of the losses have already been recouped, so we do not expect this to affect consumer confidence significantly. Economic indicators for manufacturing and housing were not upbeat in January, but we do not expect this to have a significant effect on consumer confidence. Overall, we are expecting a slight dip in consumer confidence, but still expect the index to remain over 80, driven mostly by strength in the expectations component.

### New Homes Sales (January, Wednesday 10:00 ET)

Forecast: 390K

Consensus: 400K

Previous: 414K

After hitting a recovery peak in October of last year, new home sales disappointed to close out 2013, declining in both November and December on a MoM basis. Still, the housing market has experienced positive YoY growth since September 2011, so the recent dip should not be taken as a sign of a serious slowdown in the housing recovery. As has been the story thus far this year, we expect the extreme weather conditions across the country to play a significant role in the housing market for 1Q14. Median prices have quietly been trending upwards, hurting the affordability of new homes and discouraging potential buyers. Furthermore, the increase in mortgage rates during the latter portion of the year also makes homes less affordable and is likely dampening housing activity, at least temporarily. After dismal housing data thus far for January, we expect a notable decline in new home sales for the month. However, we believe the drop is attributed to seasonal factors, and we expect the housing market to bounce back throughout most of 2014.

### Durable Goods Orders, Ex Transportation (January, Thursday 8:30 ET)

Forecast: -1.2%, -0.5%

Consensus: -1.6%, -0.2%

Previous: -4.2%, -1.3%

Durable goods new orders dropped 4.2% to end 2013, fueling anxieties that the manufacturing sector is slowing after a strong finish in 2013. On a MoM basis, the index is generally volatile, so we would need to see multiple monthly drops in a row before interpreting the sector's health as truly in jeopardy of decelerating. For the year, the sector finished up 0.4%, which was disappointing after November's YoY growth figure just over 10%. Although the manufacturing sector is unlikely to maintain the growth rate experienced during the latter part of 2013, we remain optimistic that the industry will expand moving forward, albeit at a slower pace. Still, we expect the weather to continue to skew economic data downwards, and we are expecting another drop in durable goods orders for January, though not as significant as the previous month.

### GDP, Preliminary (4Q13, Friday 8:30 ET)

Forecast: 2.9%

Consensus: 2.5%

Previous: 3.2%

The advanced reading for 4Q13 real GDP showed the economy expanded at a rate of 3.2% on a QoQ seasonally-adjusted annualized basis (SAAR). Growth was led largely by an increase in consumer spending, which is a positive sign that the increase in economic activity over 2H13 was likely robust and not a mirage. However, data since the initial release suggest a downward revision for the second estimate. The trade gap widened more-than-expected in December as exports declined 1.8% on a MoM basis, which could push down the GDP figure. Furthermore, construction spending and other forms of housing activity slowed significantly at the end of 2013, suggesting additional drag from residential investment. On the consumer front, consumer credit was higher-than-expected but retail sales were revised down for December, leading us to believe that consumption may receive a slight downgrade from the original reading. On the upside, business inventory growth was stronger-than-expected for December, so this may provide a boost to the advanced GDP figure. Overall, as most data changed only slightly for 4Q13, we are not expecting the estimate to revise significantly from the advanced reading. For these reasons, we are not predicting a major revision, simply a slight reduction in the GDP estimate for 4Q13.

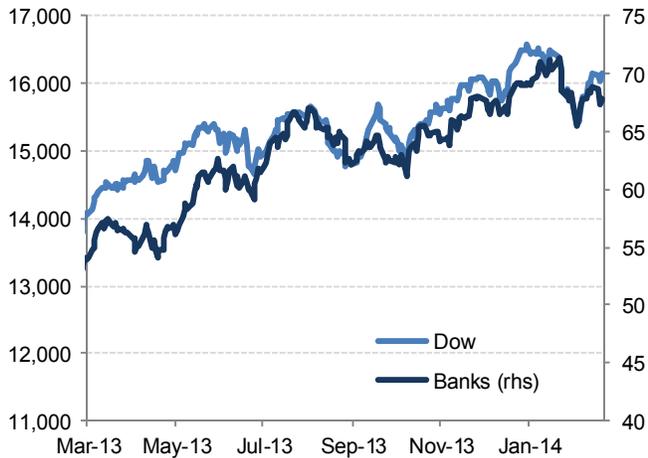
### Market Impact

The stock market had a relatively quiet week, responding negatively immediately following the FOMC release and disruption overseas, but quickly recouped the losses. Thus far, stocks have been relatively unphased after the last few economic reports showed signs of weakness, as most of the data have been written off as a result of the bad weather. This week, investors will need to pay attention to the GDP report on Friday to be aware of any 4Q13 revisions, as well as consumer confidence to get a pulse of consumers in the economy.



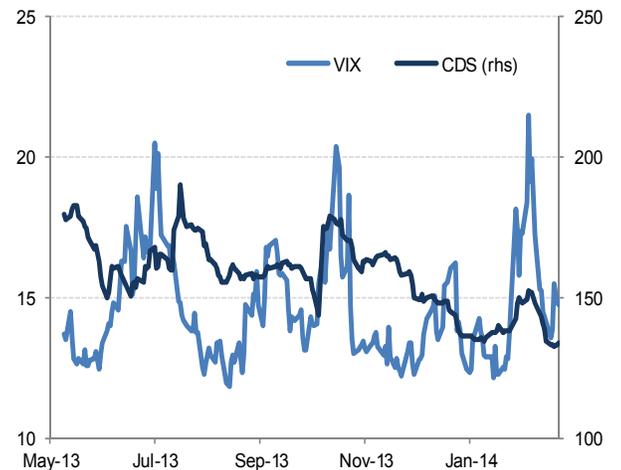
# Financial Markets

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



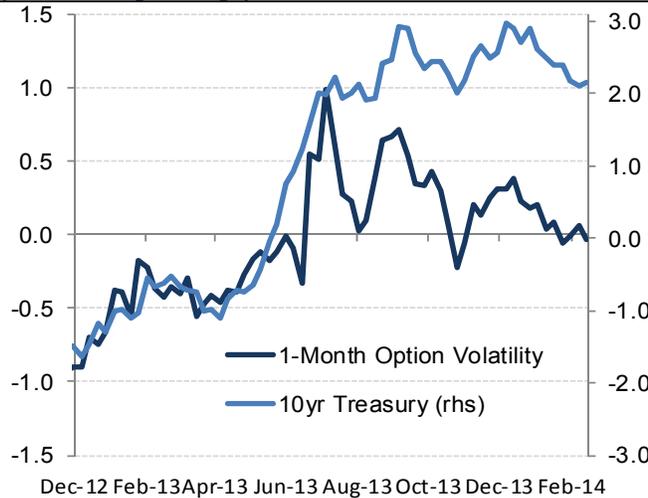
Source: Bloomberg & BBVA Research

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



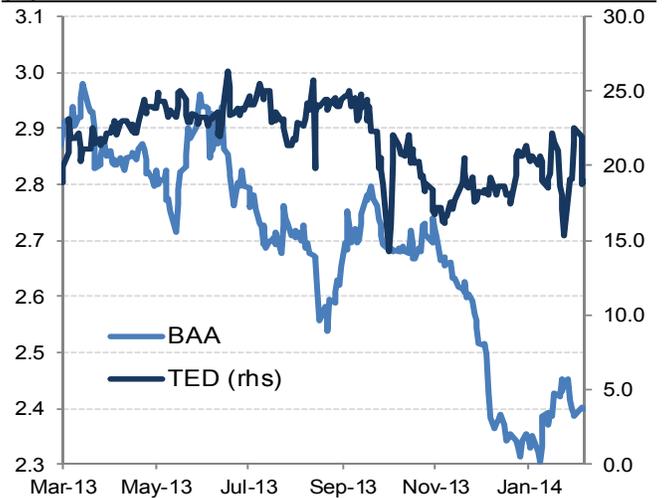
Source: Bloomberg & BBVA Research

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



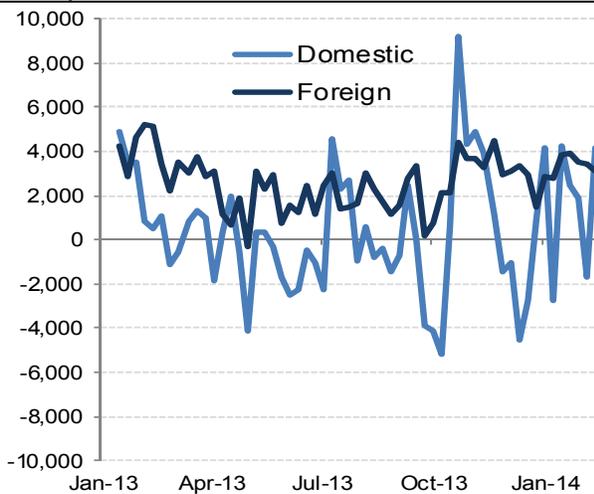
Source: Haver Analytics & BBVA Research

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



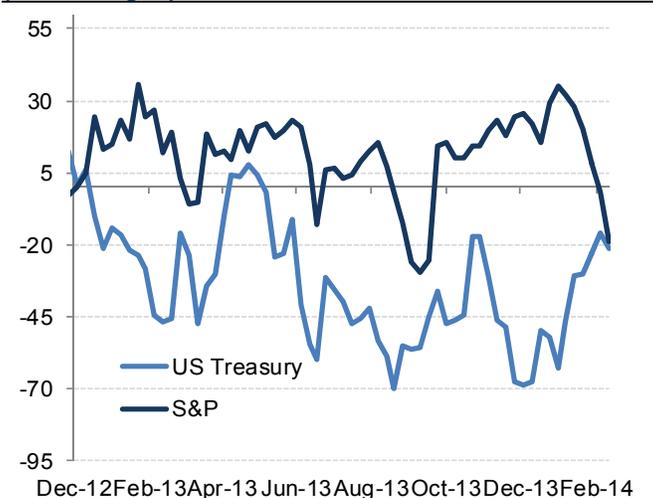
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

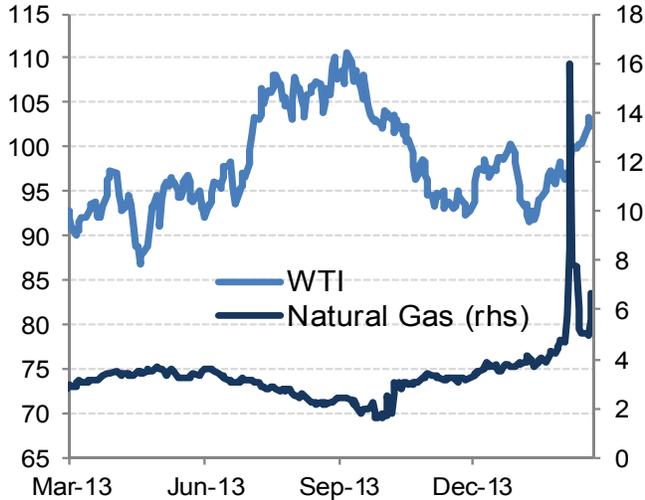
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

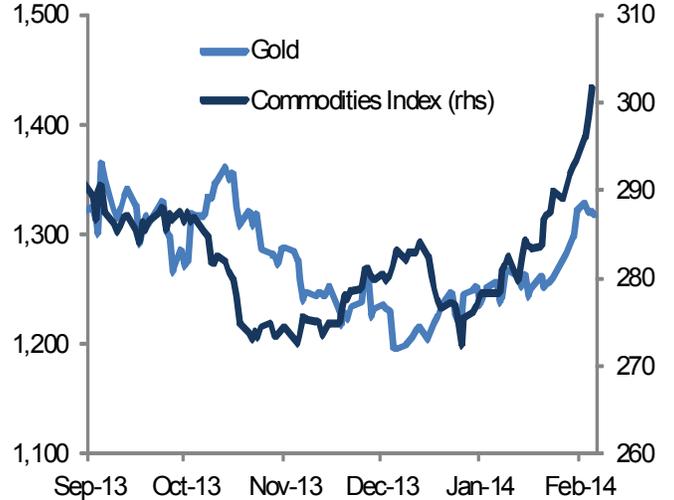
# Financial Markets

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



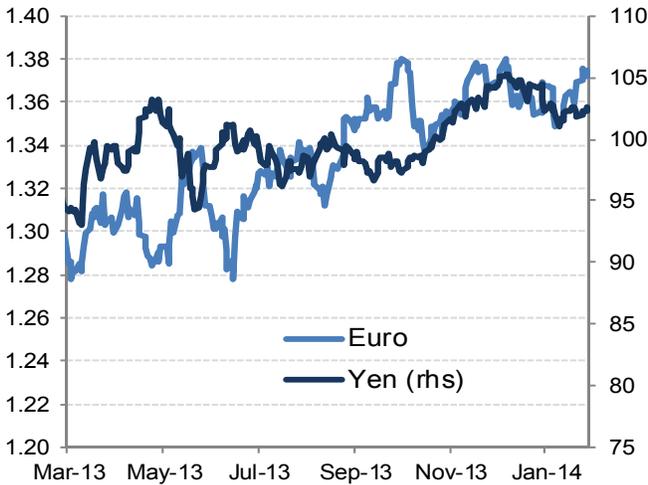
Source: Bloomberg & BBVA Research

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



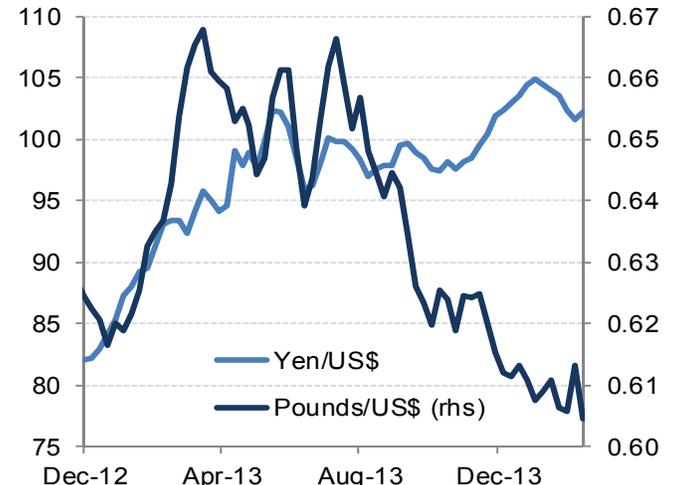
Source: Haver Analytics & BBVA Research

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



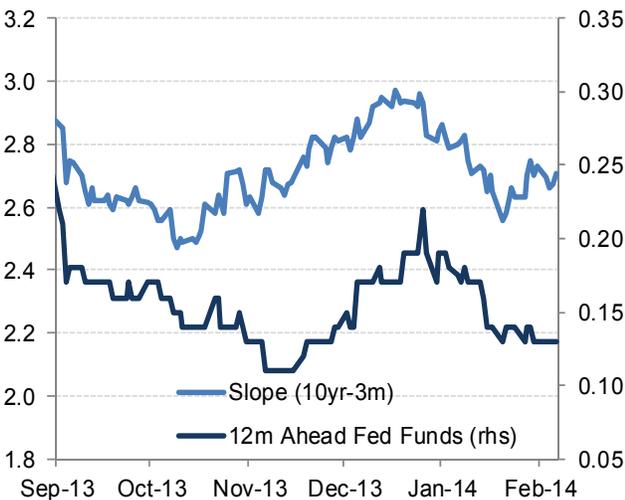
Source: Bloomberg & BBVA Research

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



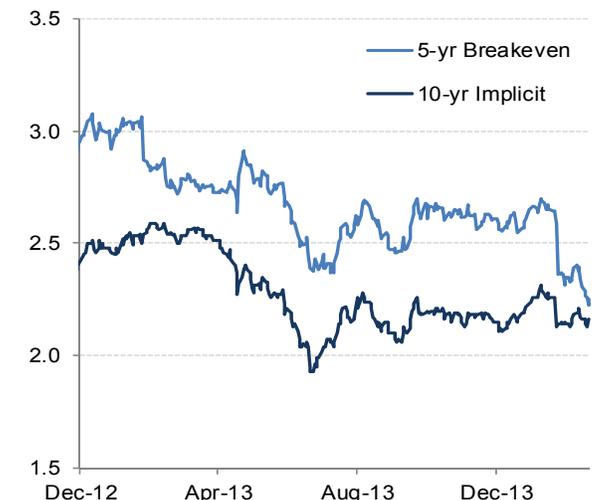
Source: Haver Analytics & BBVA Research

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)	2.39	2.57	2.33	2.44
Heloc Loan 30K	5.35	5.37	5.37	5.38
5/1 ARM*	3.08	3.05	3.15	2.90
15-year Fixed Mortgage *	3.35	3.33	3.44	3.23
30-year Fixed Mortgage *	4.33	4.28	4.39	3.99
Money Market	0.41	0.41	0.42	0.48
2-year CD	0.80	0.80	0.82	0.74

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

Table 2  
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.07	0.06	0.07	0.16
3M Libor	0.23	0.24	0.24	0.29
6M Libor	0.33	0.33	0.33	0.46
12M Libor	0.56	0.55	0.57	0.75
2yr Sw ap	0.45	0.45	0.49	0.39
5yr Sw ap	1.64	1.64	1.66	0.94
10Yr Sw ap	2.83	2.85	2.84	1.97
30yr Sw ap	3.66	3.68	3.62	2.93
30day CP	0.10	0.12	0.11	0.16
60day CP	0.10	0.10	0.11	0.18
90day CP	0.12	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

## Quote of the Week

James Bullard, President and CEO of Federal Reserve Bank of St. Louis  
The Rise and Fall of Labor Force Participation in the U.S.  
19 February 2014

*“At its broadest level, the debate about the labor force participation rate is a debate about the nature of the U.S. economy over the 4½ years since the end of the recession in the summer of 2009. Should we characterize the economy as substantially back to normal following the very severe recession? Or, has little progress really been made, so that the economy remains far from its potential?”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
24-Feb	Chicago Fed National Activity Index	JAN	-0.15	-0.20	0.16
24-Feb	Dallas Fed Manufacturing Index	FEB	2.5	3.0	3.8
25-Feb	S&P Case-Shiller 20 City (MoM)	DEC	0.70%	0.60%	0.90%
25-Feb	Consumer Confidence	FEB	80.5	80.0	80.7
26-Feb	New Home Sales	JAN	390K	400K	414K
27-Feb	Durable Goods (MoM)	JAN	-1.2%	-1.6%	-4.3%
27-Feb	Durable Goods, Ex-transportation (MoM)	JAN	-0.5%	-0.2%	-1.3%
27-Feb	Initial Jobless Claims	22-Feb	335K	335K	336K
27-Feb	Continuing Claims	15-Feb	2.985M	2.995M	2.981M
28-Feb	Real GDP (QoQ SAAR)	Q4	2.90%	2.50%	3.20%
28-Feb	Core PCE Prices	Q4	0.80%	1.10%	1.10%
28-Feb	University of Michigan Consumer Sentiment	FEB	81.0	81.2	81.2
28-Feb	Pending Home Sales (MoM)	JAN	0.50%	1.70%	-8.70%

## Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.9	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>
CPI (YoY %)	3.1	2.1	1.5	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>
CPI Core (YoY %)	1.7	2.1	1.8	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>
Unemployment Rate (%)	8.9	8.1	7.4	<b>6.7</b>	<b>6.2</b>	<b>5.7</b>
Fed Target Rate (eop, %)	0.25	0.25	0.25	<b>0.25</b>	<b>0.50</b>	<b>1.50</b>
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	<b>3.50</b>	<b>3.80</b>	<b>4.10</b>
US Dollar/ Euro (eop)	1.31	1.31	1.37	<b>1.31</b>	<b>1.35</b>	<b>1.37</b>

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



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