BBVA | RESEARCH

Economic Analysis
March 3, 2014

US Weekly Flash

Highlights

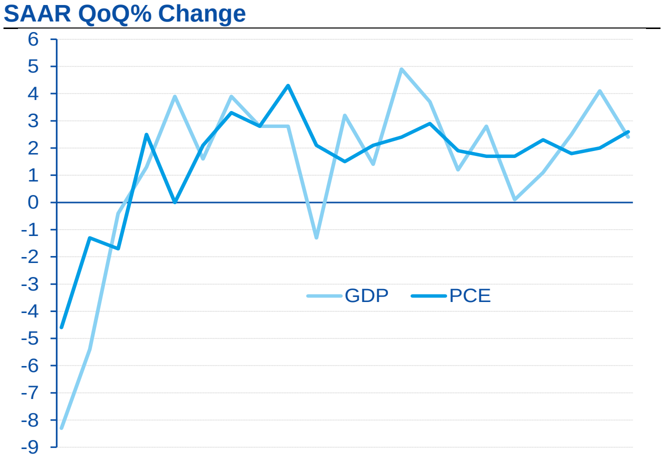
Second Estimate for 4Q13 Economic Growth Revised from 3.2% to 2.4%

- The BEA's preliminary estimate of 4Q13 real GDP indicated that the economy expanded at a substantially slower rate than previously thought for the quarter. The advanced estimate showed the economy expanding 3.2% on a QoQ seasonally-adjusted annualized rate but was revised down to 2.4%. Bad weather may have been a driver in dragging down economic activity, but we do not believe it was a significant factor, as the majority of data were already released prior to the initial GDP estimate. The downward revision was primarily driven by a decrease in consumer spending, which has been the backbone of the economic recovery. Although not as high as initially anticipated, the growth in consumption signals that consumers are spending at a healthy clip which is vital in propelling the economy moving forward.
- Even though this downward revision is likely to be pointed at as an example of the economy expanding at a slower pace, we do not believe the drop to 2.4% warrants the need to worry about an impending economic slowdown. Furthermore, we continue to see growth across all components of the GDP figure and do not see any glaring weaknesses in any major components. The initial estimate for GDP certainly would have been welcoming, but the downward revision should not cause spectators to write-off the economic recovery. Moving forward, we expect slowing momentum for GDP in 1Q14 at slightly less than 2.0%, but we maintain our forecast of 2.5% for annual GDP growth in 2014.

New Home Sales Unexpectedly Surge in January Following a Disappointing December

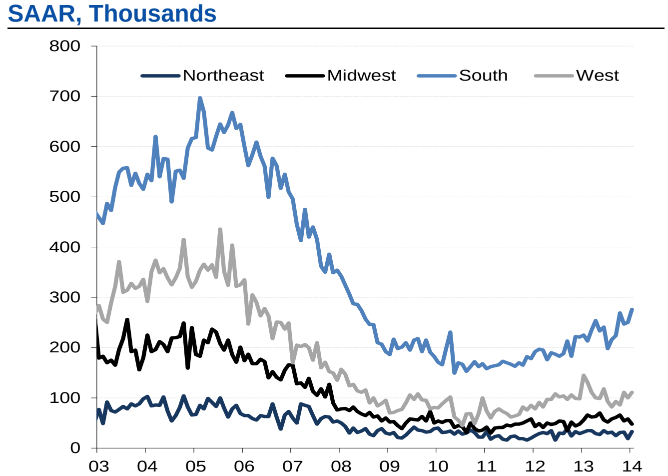
- Single-family new home sales rose 9.6% MoM to 468K, the highest seasonally adjusted annualized level of the recovery period. After two consecutive months of decline raised concerns about the housing market recovery, January's data should put short-term worries to rest, at least for the time being. In terms of affordability, the median sales price dropped to $260K, or -2.2% MoM, but home prices still remain up 3.4% on a YoY basis.
- The increase in home sales for the month is certainly encouraging and provides a sigh of relief after worries that the housing recovery might be stalling. Specifically, affordability has been a growing concern, as mortgage rates and home prices steadily rose through 2013. Despite the increasing costs of purchasing a home, individuals are still buying, an encouraging sign that consumers are feeling confident enough in their financial situation to take out a mortgage and make a home purchase. Although the data for January was positive, it is only one month, and we still need to keep an eye on the housing market over the next several months to gauge how sensitive potential homebuyers are to rising prices and mortgages rates. Although we certainly do not expect to see significant MoM gains every month, we do forecast the housing market to slowly and steadily recover as we move through 2014.

Graph 1
U.S. Real GDP and Personal Consumption Expenditures SAAR QoQ% Change



Source: ISM & BBVA Research

Graph 2
New Home Sales, by Region SAAR, Thousands



Source: Conference Board & BBVA Research

Week Ahead

Personal Income and Outlays (January, Monday 8:30 ET)

Forecast: 0.1%, 0.2%	Consensus: 0.2%, 0.1%	Previous: 0.0%, 0.4%

Personal income and outlays are both expected to trend near rates seen consistently over the past several months. For the first time in four years, personal income actually posted negative YoY growth to end 2013, which is certainly concerning, especially if the price of all other goods increases, as this means consumers are losing purchasing power. However, this was also partially a consequence of the significant boost in income we saw in December 2012 leading up to the fiscal cliff, so we do expect annual growth to shift positive again in 2014. Outlays, on the other hand, were up 3.6% on a YoY basis, so despite the decline in overall income, consumers continue to purchase as usual. This is positive, particularly in the short-run, as this signals that consumers feel confident enough to continue spending, which is vital for the economic recovery. Conversely, it may also mean that people are spending and borrowing outside of their means, which could lead to long-term economic issues if consumers are not able to pay back their debt. Overall, personal income and spending have have grown at a healthy rate over the past several months, and we forecast more of the same for January as well as for the rest of 1Q14.

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

Forecast: 52.5	Consensus: 52.0	Previous: 51.3

After the significant dropoff in manufacturing last month, we are forecasting a slight uptick in the ISM index for February. The ISM Manufacturing Index posted an unexpected loss in January, but still remained over 50, an indication that the sector overall was still expanding. Manufacturing activity has been strong for the last year, and even as spectators have been calling for a pullback, it continues to remained strong for the most part. The weather likely played a part in dampening manufacturing activity during the winter, but the extent of the damage is highly uncertain. Still, it is unlikely that the weather dragged down the index significantly in February, as we expect construction to be the only component of the index to be affected. While the levels of 56+ that were seen in 2013 would bring added confidence regarding health of the sector, we are keeping our expectations in check for February.

International Trade Balance (January, Friday 8:30 ET)

Forecast: -$36.5B	Consensus: -$38.6B	Previous: -$38.7B

The international trade balance is likely to shrink slightly in January behind a bounce-back in the export of goods, which decreased 1.8% MoM in December. The trade balance seesawed up and down through most of 2013, but over the last three years, the trend appears to be a shrinking deficit. Due to a drop in exports, December saw a widening of the trade gap to -$38.7B from -$34.6B in November, but we expect exports to once again pick up in January and narrow the gap. Petroleum product exports posted 10.4% YoY growth in 2013, and given the rapidly increasing oil and natural gas production over the past year, we expect energy to serve as the backbone behind exports in 2014. The largest threat to an increase in exports is a slowing global economy, specifically large trade-partners such as China, which would curtail demand and certainly temper export growth. Barring such an unforeseen slowdown, we expect the trade gap to continue to shrink, albeit gradually, and it should continue to provide upward bias to GDP moving into 1H14.

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

Forecast: 195K, 6.5%	Consensus: 150K, 6.6%	Previous: 113K, 6.6%

After a couple of dismal nonfarm payroll reports, we expect the February payroll numbers to bounce back and add close to 200K jobs for the month. There are concerns about the extreme winter effecting payrolls, but this is mostly stemming from other areas of the economy that have been hit harder, such as construction and manufacturing. Over the last two months, the government has lost 43K jobs, which has contributed to the sub-par payrolls. Construction added 48K of the jobs in January, and we look for the sector to once again provide a hiring boost for February. The unemployment rate is likely to tick down to 6.5%, as the addition of payrolls and another expected decline in participation will be enough to bring down unemployment to the Fed's target rate much sooner than previously predicted. Although the FOMC has been vague on how they will handle this threshold over the next few months, a drop to 6.5% would certainly place pressure on them to provide more clear guidelines on their policy moving forward. Still, we do not expect that February's job report will have much influence on their decision to make any major changes, as they will likely need to see more consistent data to believe the growth in the economy is indeed robust.

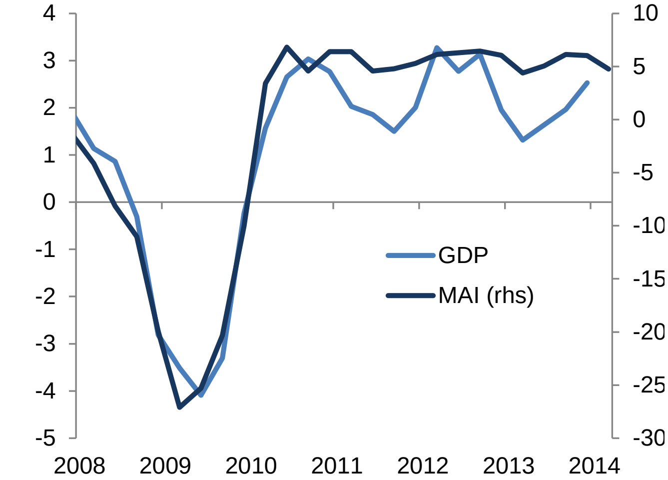
Market Impact

This week, all eyes will be on the unemployment report release on Friday. December and January posted nonfarm payroll additions of 75K and 114K, respectively, and it would be hard to imagine that a third consecutive dismal jobs report would not stir fear about the health of the labor market. Additionally, investors will be watching the unemployment rate, as a drop to 6.5% could have implications for the Fed and their next move with regards to forward guidance.

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

Source: BBVA Research

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

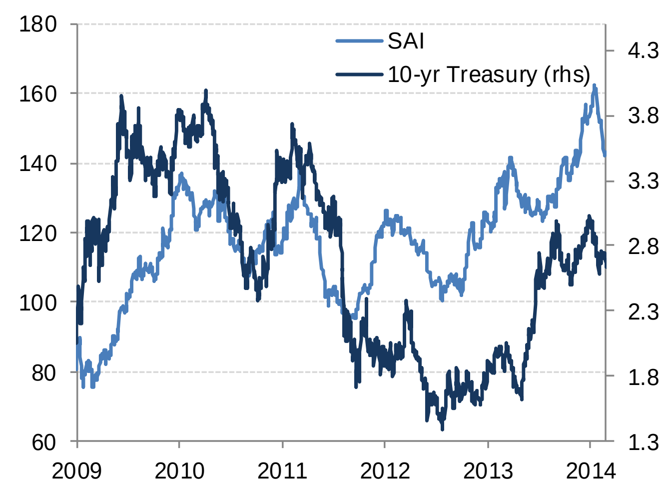


Source: BBVA Research & BEA

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

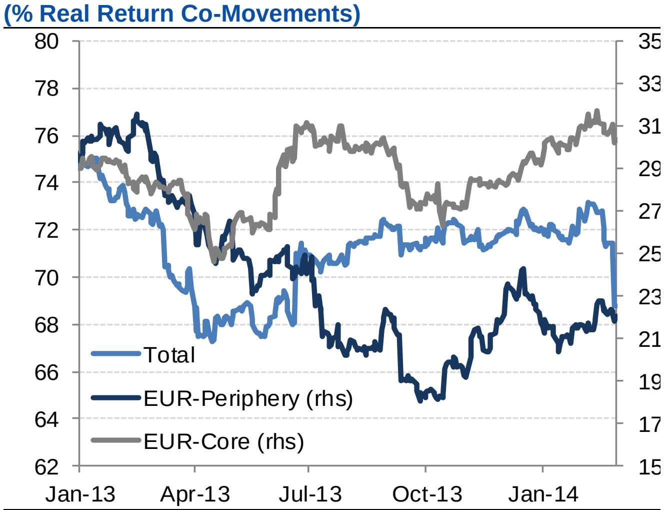
Source: BBVA Research

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



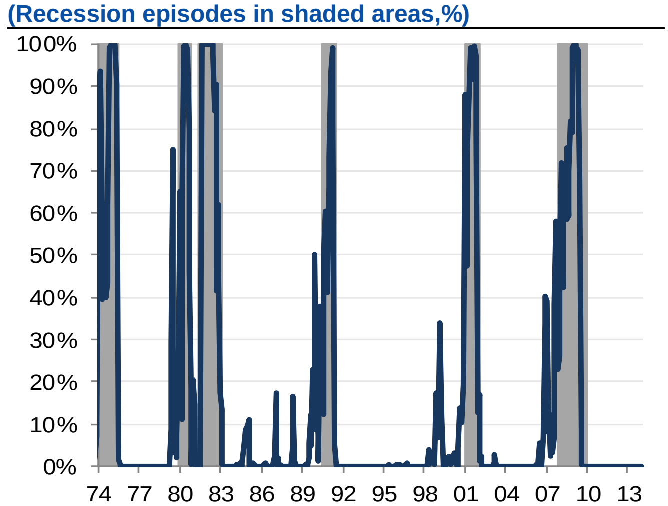
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

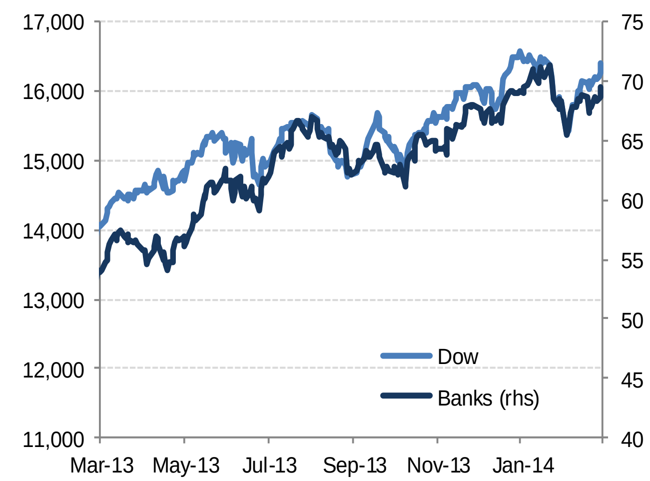
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

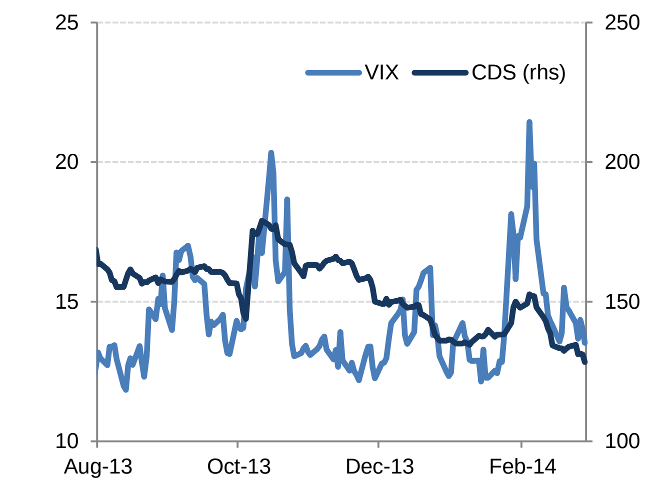
Financial Markets

Graph 9
Stocks
(Index, KBW)



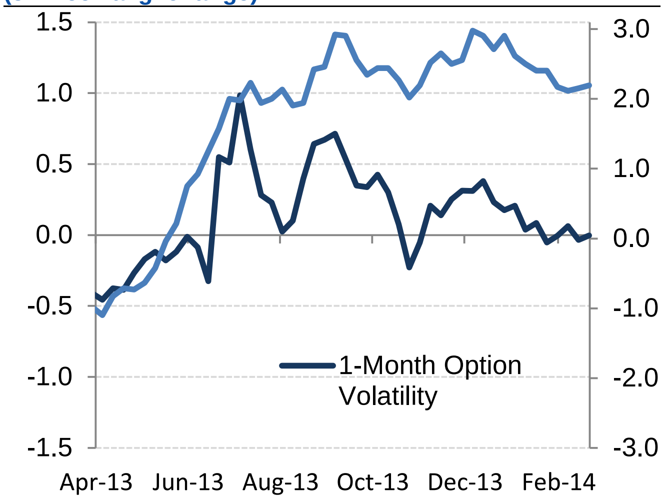
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



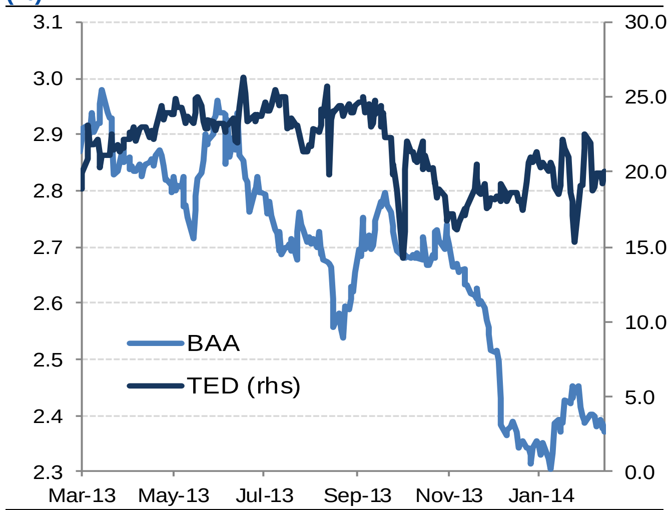
Source: Bloomberg & BBVA Research

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



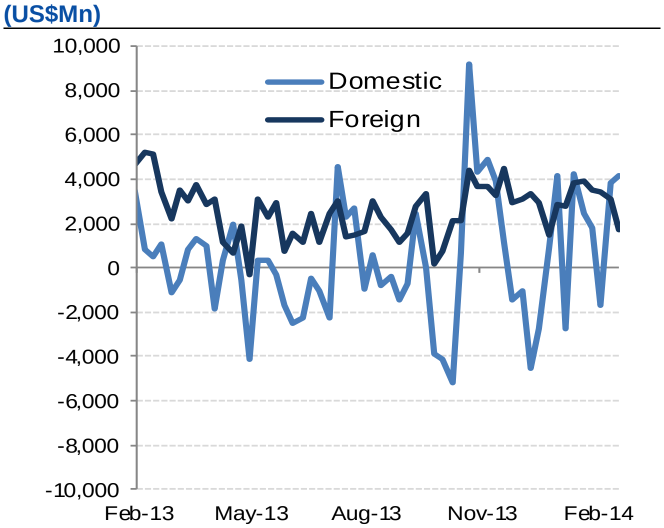
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



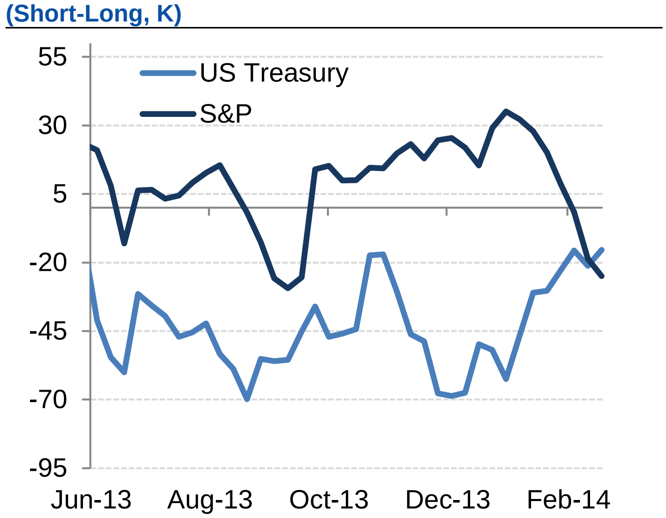
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

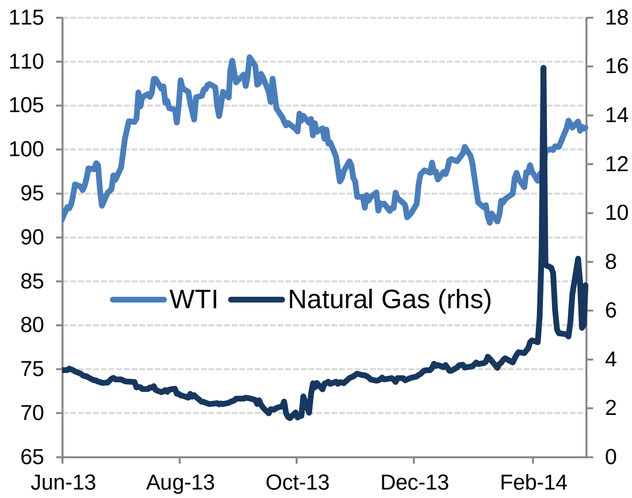
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

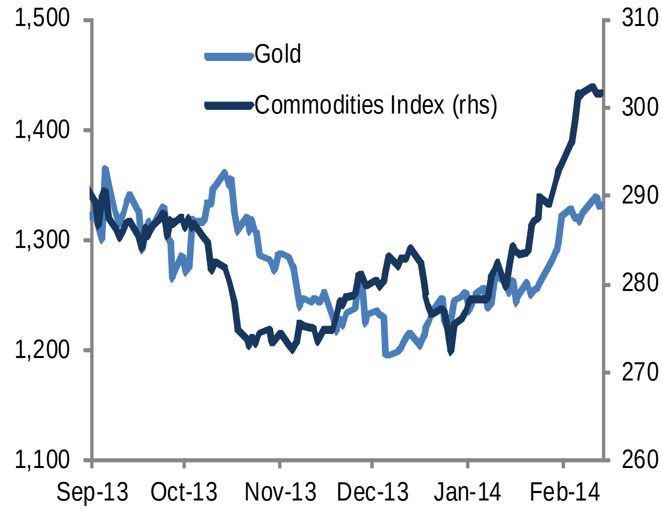
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



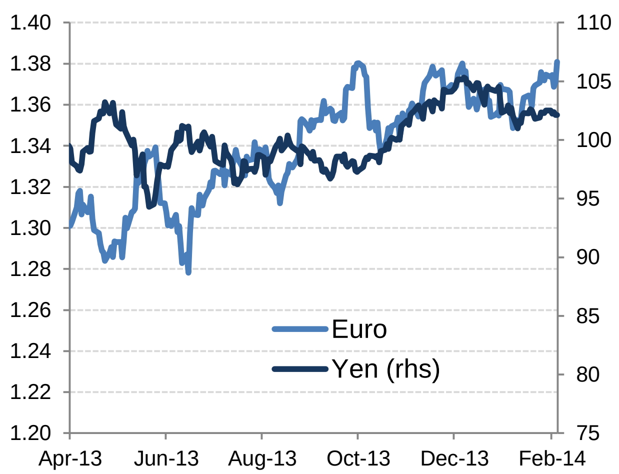
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



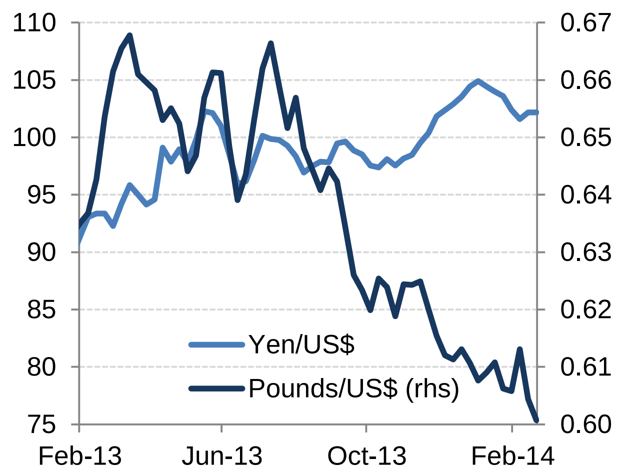
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



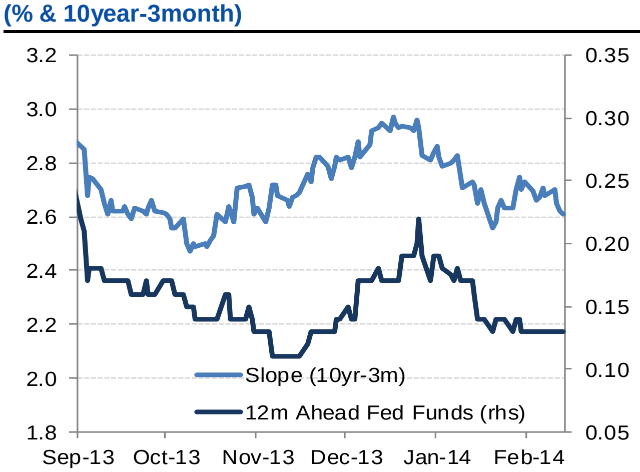
Source: Bloomberg & BBVA Research

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



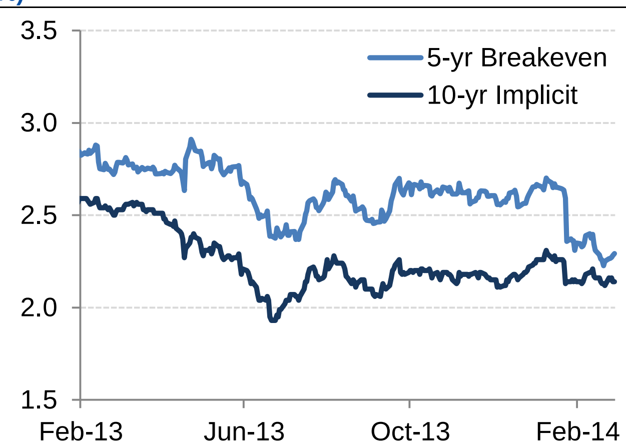
Source: Haver Analytics & BBVA Research

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)	2.47	2.39	2.36	2.58
Heloc Loan 30K	5.45	5.35	5.40	5.28
5/1 ARM *	3.05	3.08	3.12	2.90
15-year Fixed Mortgage *	3.39	3.35	3.40	3.23
30-year Fixed Mortgage *	4.37	4.33	4.32	3.99
Money Market	0.41	0.41	0.41	0.48
2-year CD	0.80	0.80	0.81	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
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

Source: Bloomberg & BBVA Research

Quote of the Week

Daniel Tarullo, Board of Governors of the United States Federal Reserve Board
Speech at Annual National Association for Business Economics Economic Policy Conference
25 February 2014

"But, while the recovery has been frustratingly slow and remains incomplete, there has been real progress, despite the fact that in the past couple of years a restrictive fiscal policy has been working at cross-purposes to monetary policy, and that balance sheet repair and financial strains in Europe have made it more difficult for the economy to muster much self-sustaining momentum."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Mar	Personal Income (MoM)	JAN	0.10%	0.20%	0.00%
3-Mar	Personal Spending (MoM)	JAN	0.20%	0.10%	0.40%
3-Mar	PCE Deflator Core (MoM)	JAN	0.20%	0.10%	0.10%
3-Mar	ISM Manufacturing Index	FEB	52.5	52.0	51.3
3-Mar	Construction Spending (MoM)	JAN	0.00%	-0.50%	0.10%
5-Mar	ADP Employment Change	FEB	180K	160K	175K
5-Mar	ISM Non-Manufacturing Index	FEB	54.2	53.5	54.0
6-Mar	Nonfarm Productivity	4Q	2.90%	2.50%	3.20%
6-Mar	Unit Labor Costs	4Q	-1.30%	-0.90%	-1.60%
6-Mar	Initial Jobless Claims	1-Mar	338K	338K	348K
6-Mar	Continuing Claims	22-Feb	2970K	2980K	2964K
6-Mar	Factory Orders (MoM)	JAN	-0.50%	-0.50%	-1.50%
7-Mar	International Trade Balance	JAN	-$36.5B	-$38.6B	-$38.7B
7-Mar	Nonfarm Payrolls	FEB	195K	150K	113K
7-Mar	Private Payrolls	FEB	175K	155K	142K
7-Mar	Manufaturing Payrolls	FEB	5K	5K	21K
7-Mar	Unemployment Rate	FEB	6.50%	6.60%	6.60%
7-Mar	Consumer Credit (MoM Change)	JAN	$15.00B	$14.00B	$18.76B

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	**6.7**	**6.2**	**5.7**
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	**3.50**	**3.80**	**4.10**
US Dollar/ Euro (eop)	1.31	1.31	1.37	**1.31**	**1.35**	**1.37**

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

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