US Weekly Flash

Highlights

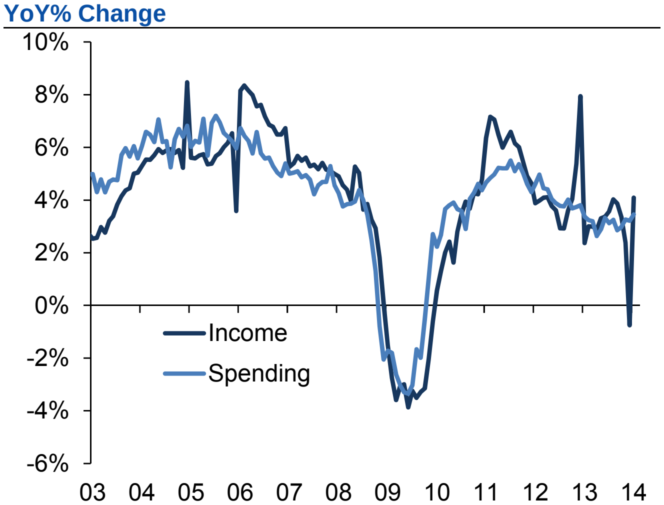
Personal Spending and Income Continue Upward Trend in January

- Consumer spending in January increased 0.4% MoM, continuing its upward trend over the last year but driven mostly by services instead of the goods component. Month-to-month readings on spending do not always tell the full story, and looking at the bigger picture, overall consumption expenditures are up a healthy 3.45% YoY, the biggest annual gain since December 2012. Meanwhile, personal income in January rose a strong 0.3%, just a touch below consumption growth, which shows that consumers are spending more and saving less. In fact, personal savings has declined for four consecutive months and remains low as a share of disposable personal income at 4.3%, yet still considerably higher than 2-3% range seen before the recession. In the short-term, this trend is positive for the economy, as spending serves as the backbone for growth, accounting for roughly two-thirds of economic activity.
- Looking at inflation, the personal consumption expenditures price index increased 1.2% on a YoY basis, and because personal income is rising at a more rapid pace, consumers are feeling more bang for their buck. As personal consumption and income remain healthy overall amid the economy recovery, we are turning our attention to inflation levels to ensure they do not drop to dangerous levels as the Fed continues with QE tapering.

Employment Situation Brightens Despite Weather Concerns

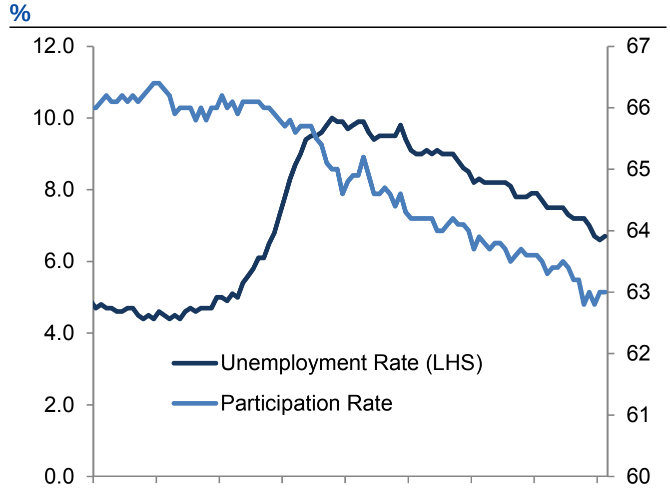
- After consecutive months of underwhelming job growth, February's report showed a moderate improvement in the employment situation. The U.S. economy added 175K to total nonfarm payrolls in February, though the unemployment rate ticked up to 6.7%. Looking the underlying details of the labor force, the participation rate held steady at 63.0% in February after an unexpected uptick following the expiration of unemployment benefits in January. The fact that the people who are moving into the labor force are jumping straight into employment means that job growth will need to accelerate more quickly in order to bring down the unemployment rate. The downward movement in the labor force had been pushing down the unemployment rate despite dismal nonfarm payroll additions over the last several months, but it is possible that the trend is reversing and that the unemployment rate will decline at a slower pace throughout the coming months.
- While the jobs report for February was much brighter than the previous two months, growth will need to be stronger in order to improve the employment picture meaningfully Looking forward, we expect nonfarm payrolls to pick up in the coming months, but due to the recent trends in labor flows, we project the unemployment rate to remain relatively unchanged between the 6.5-7.0% range.

Graph 1
Personal Income and Expenditures
YoY% Change



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Unemployment and Participation Rate
%



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

JOLTS (January, Tuesday 10:00 ET)

Forecast: 4020K	Consensus: --	Previous: 3990K

Job openings are expected to increase only slightly in January as the winter months experience subdued growth compared to earlier months. Recent JOLTS reports have shown a growing discrepancy between hiring and job availability, suggesting that the economy is facing structural unemployment concerns, as businesses are struggling to find qualified individuals to fill their positions. Despite the fact that companies are not always able to find well-matched employees, the fact that job openings continue to increase is still encouraging for the labor market, as this reflects that companies are at least confident enough to add employees onto their payroll. Still, hiring is much improved from one year ago, and the labor market is expected to steadily improve in 2014. Employment reports over the last couple of months have been underwhelming, and thus we expect January's JOLTS data to show only a modest increase in both job openings and hiring.

Retail Sales, Ex Auto (February, Thursday 8:30 ET)

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

Retail sales are not expected to show much improvement in February as persistently cold weather and other temporary factors discourage big spending among consumers. January's 0.4% MoM decline in retail sales was the largest since June 2012, and although the sharp decline sparked fear that consumer spending was slowing down, the cause of the decline was likely just a pull-back after a surge during the latter months of 2013. Although not as bright as the 4-5% YoY increases seen during the summer, rates still held above 2.5% for January despite the decline, and we see this as a cyclical bump in the road rather than a foreshadowing trend. Overall, weekly retail sales surveys indicate there was insignificant change from January's sales figures, leading us to believe the overall retail sales figure will follow suit. Auto sales have been trending downward over the last couple of months, as multiple companies have reported slowdowns and less-than-anticipated sales. Thus, we expect autos to drag down on the overall retail sales figure, with other underlying components driving the ex-auto figure.

Business Inventories (January, Thursday 10:00 ET)

Forecast: 0.3%	Consensus: 0.4%	Previous: 0.5%

For January, we are expecting an increase in demand to push the business inventories figure upward. Business inventories grew at a steady rate in 2013, and finished the year up 4.4% YoY in December. Overall, sales and inventories grew hand-in-hand through most of last year, so producers were simply meeting consumer demand. The increase in inventories in December in the absence of a sales increase may appear to be a concern, but as long as the trend does not extend beyond a couple of months, there should not be cause for worry. In fact, it is possible that retailers and wholesale merchants are stocking up inventory in anticipation of future demand. We look for inventories to increase at a higher rate than sales in January, as retail sales figures for the month took a dive, implying that businesses held onto more inventory.

Consumer Sentiment (March, Friday 9:55 ET)

Forecast: 82.0	Consensus: 81.8	Previous: 81.6

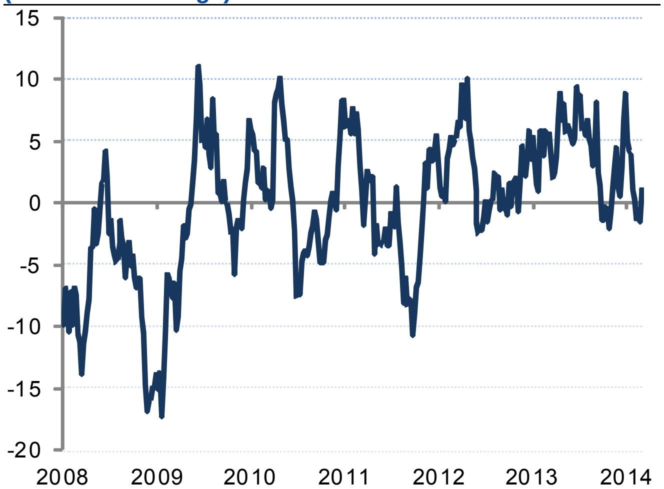
A series of bad economic data in January through mid-February sparked worries about the economic recovery, but after some upbeat housing data and a more positive jobs report, consumer sentiment should once again be on the rise. Consumer expectations have been the drag throughout the past few years, though it did rebound in February and we expect the component to accelerate moving forward. There does not seem to be any fiscal or political uncertainty in the near future, so we believe consumer sentiment will steadily rise in conjunction with GDP growth. After an upbeat employment report for February and as the bleak weather slowly dissipates, we look for consumer sentiment to post its second consecutive monthly gain.

Market Impact

After panic set in about the robustness of the economic recovery, the stock market has quietly regained most of the losses from the late January sell-off. Even in the wake of gloomier-than-expected economic reports and the Fed's tapering, the market has continued to trend upward. This week, there will not be any significant data to move the market either way; therefore, we look for uncertainty overseas to potentially sway the market, though overall, stocks have not responded significantly to worries abroad thus far.

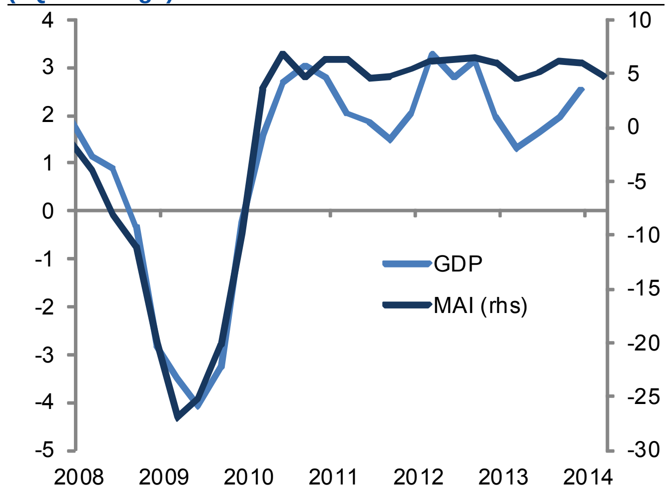
Economic Trends

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



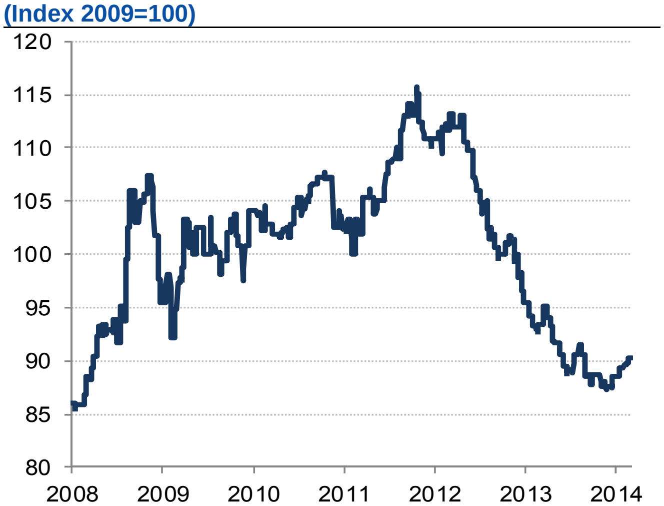
Source: BBVA Research

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



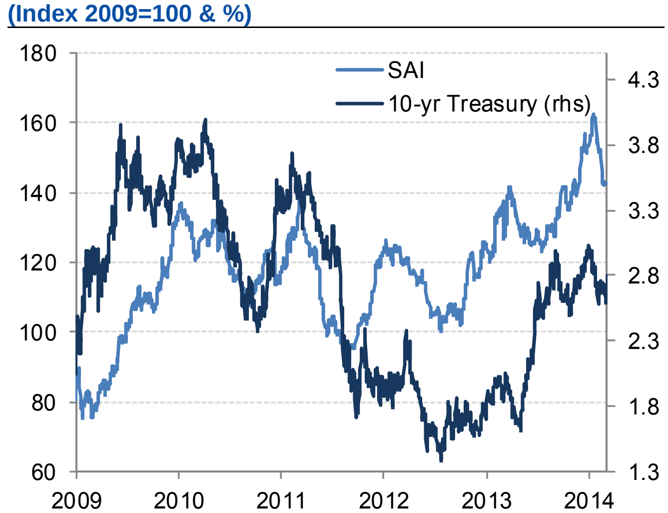
Source: BBVA Research & BEA

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



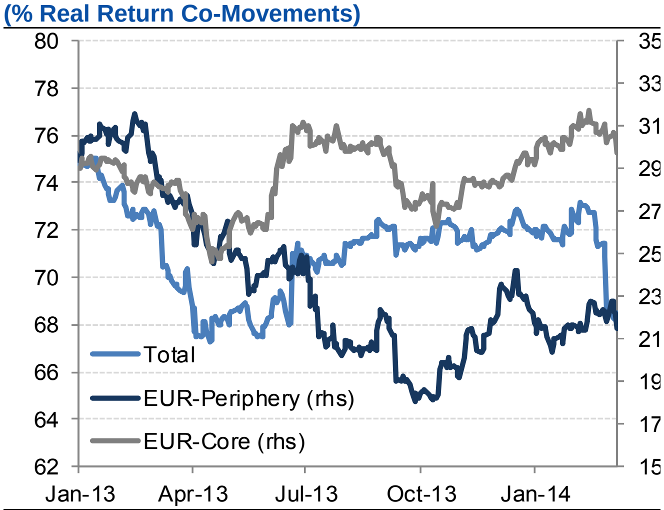
Source: BBVA Research

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



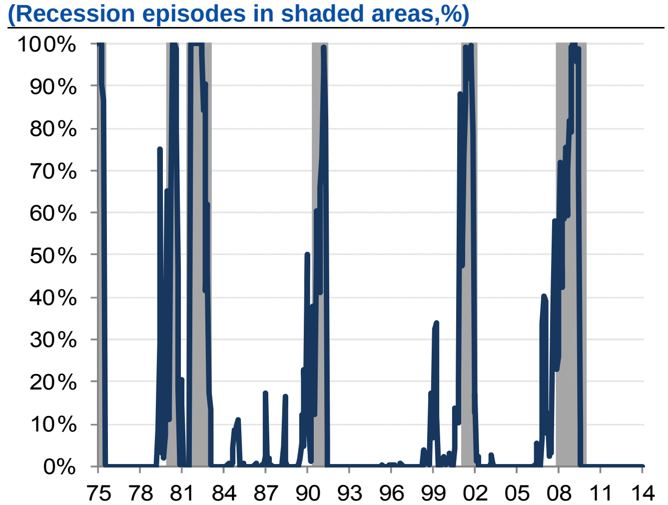
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

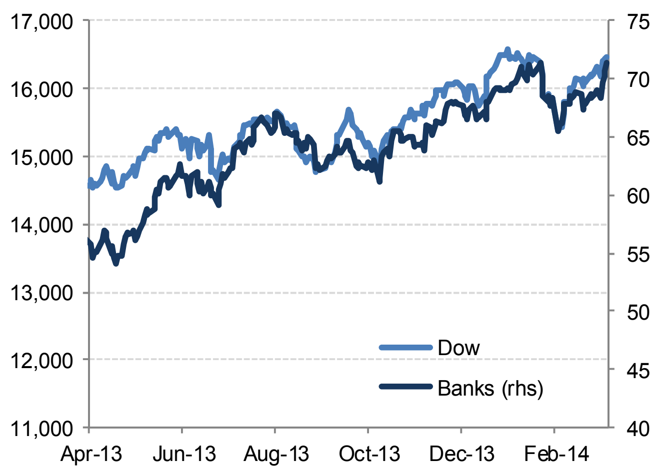
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

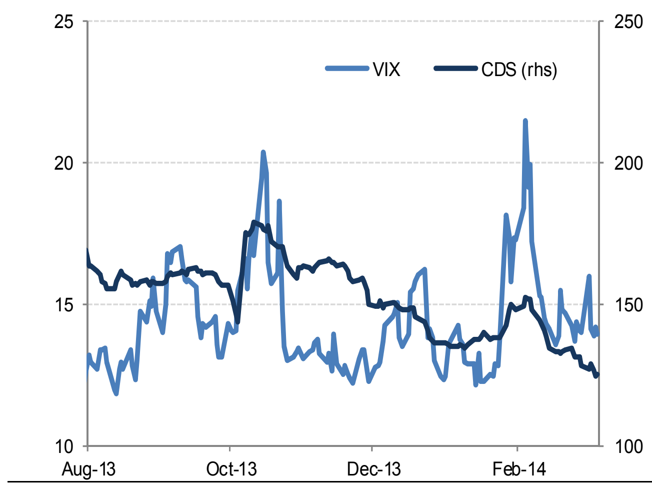
Financial Markets

Graph 9
Stocks
(Index, KBW)



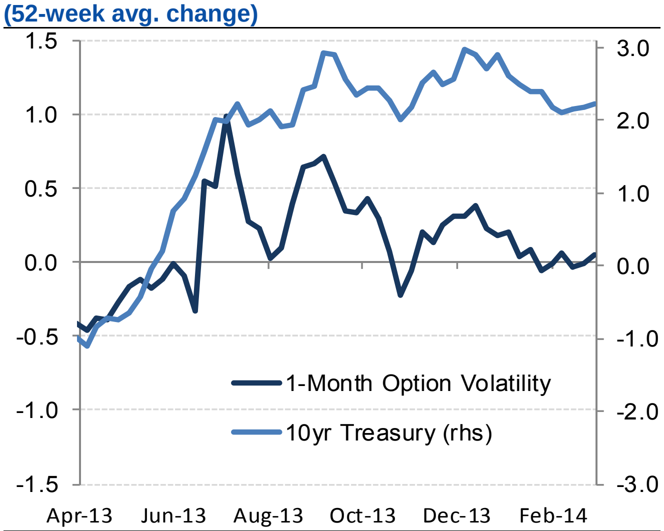
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



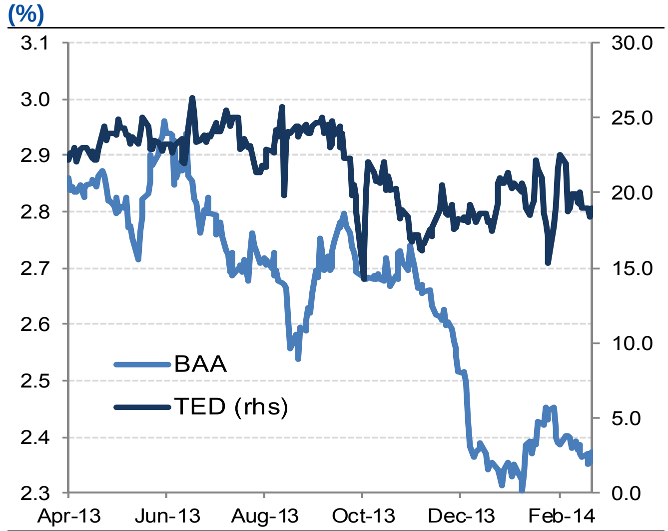
Source: Bloomberg & BBVA Research

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



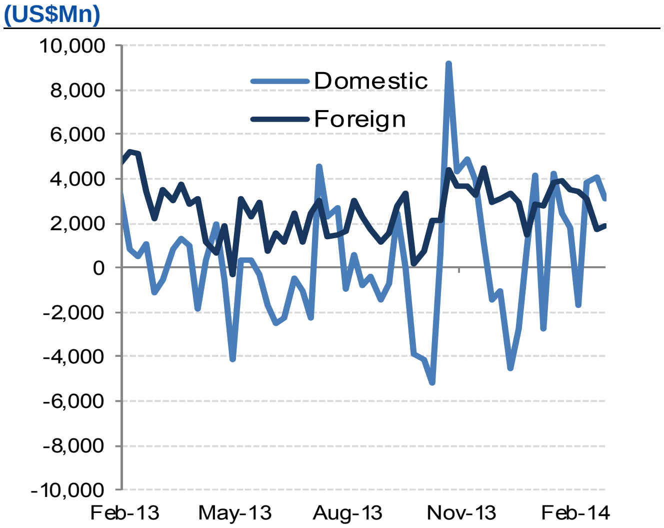
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



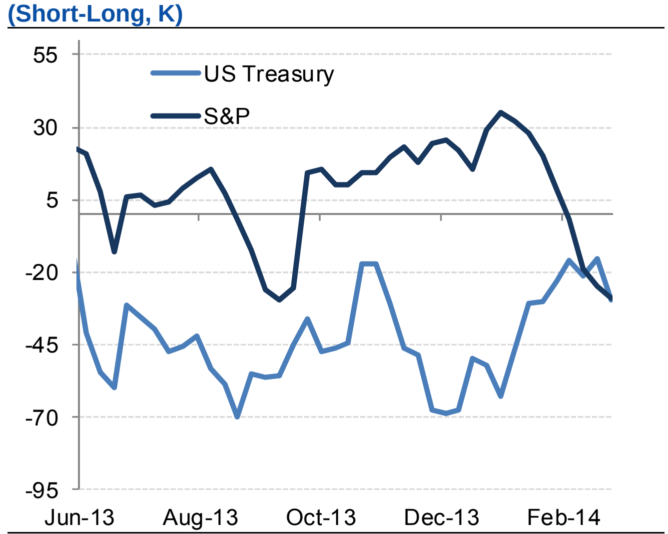
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

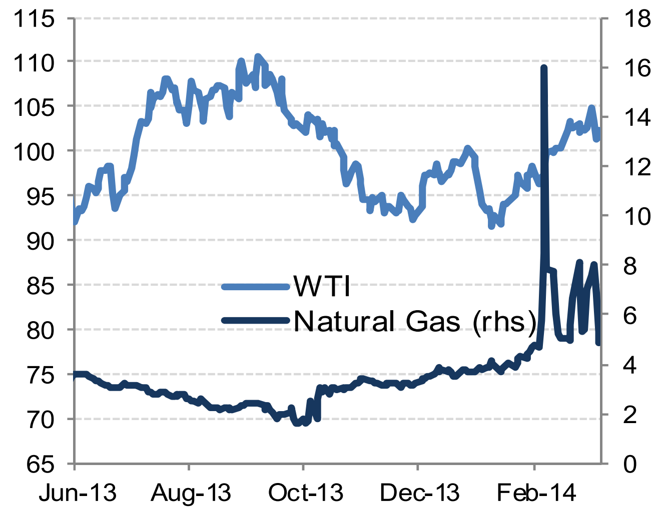
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

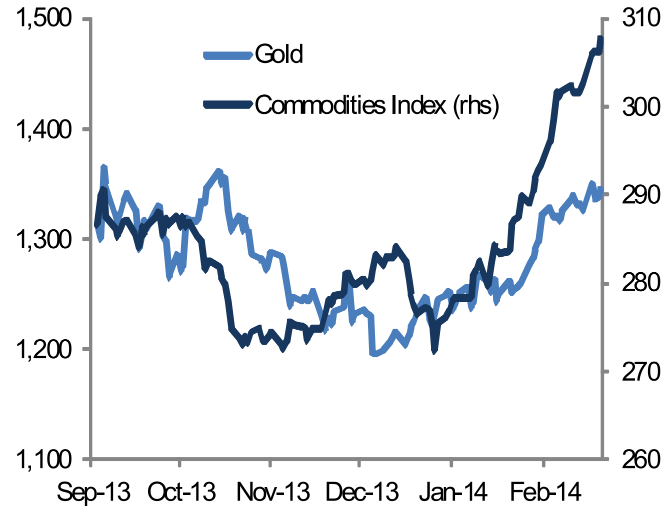
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



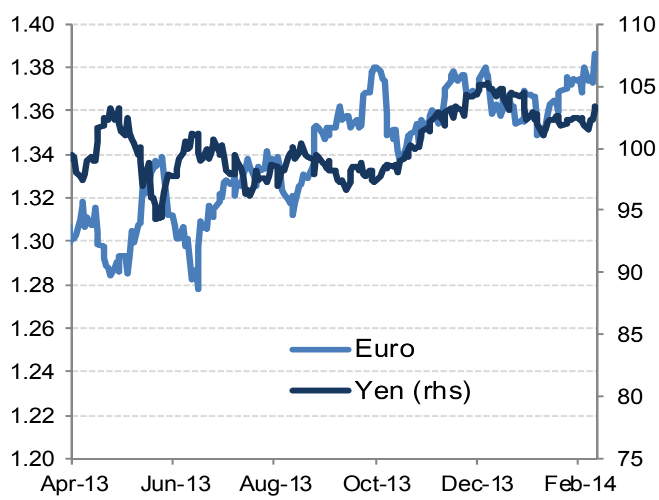
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



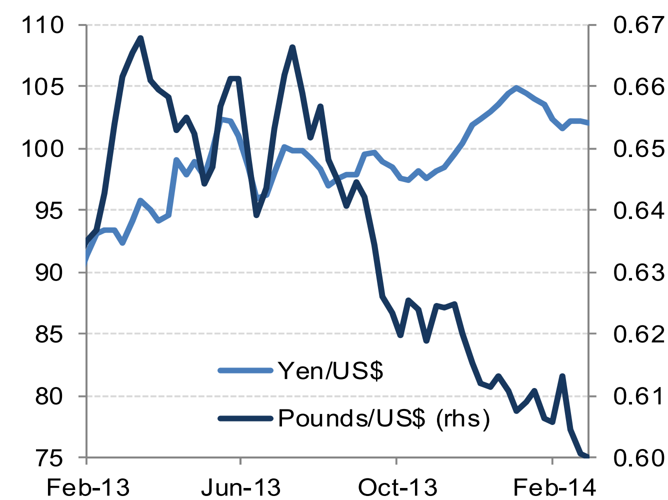
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



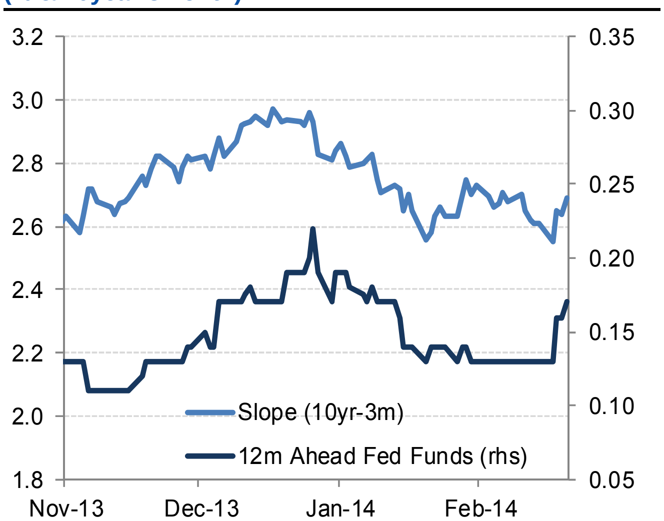
Source: Bloomberg & BBVA Research

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



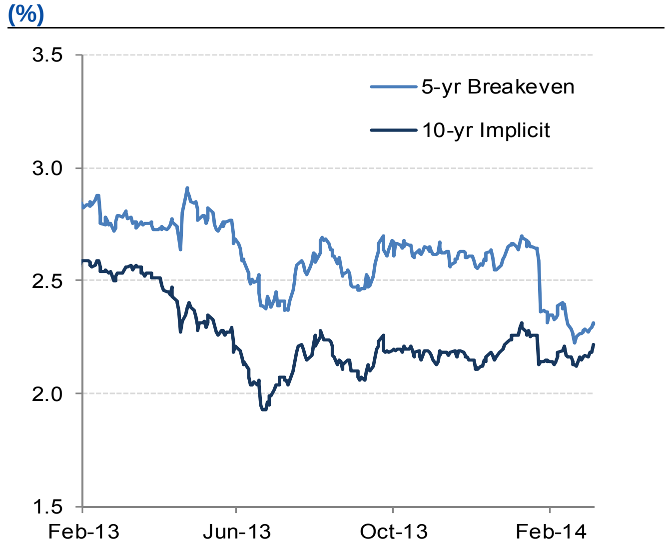
Source: Haver Analytics & BBVA Research

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)	2.46	2.47	2.57	2.58
Heloc Loan 30K	5.34	5.45	5.38	5.30
5/1 ARM *	3.03	3.05	3.08	2.90
15-year Fixed Mortgage *	3.32	3.39	3.33	3.23
30-year Fixed Mortgage *	4.28	4.37	4.23	3.99
Money Market	0.43	0.41	0.41	0.49
2-year CD	0.80	0.80	0.80	0.71

*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	0.08	0.06	0.06	0.15
3M Libor	0.24	0.23	0.23	0.28
6M Libor	0.33	0.33	0.33	0.45
12M Libor	0.55	0.55	0.56	0.73
2yr Sw ap	0.51	0.45	0.43	0.39
5yr Sw ap	1.73	1.60	1.58	1.01
10Yr Sw ap	2.90	2.76	2.82	2.10
30yr Sw ap	3.70	3.57	3.67	3.07
30day CP	0.10	0.12	0.11	0.15
60day CP	0.11	0.12	0.11	0.16
90day CP	0.13	0.13	0.13	0.17

Source: Bloomberg & BBVA Research

Quote of the Week

Janet Yellen, Chair of the Federal Reserve Bank
Officially Being Sworn in as Fed Chair
5 March 2014

"I will also continue the work of helping repair the damage done by the financial crisis to the economy. Too many Americans still can't find a job or are forced to work part-time. The goals set by Congress for the Federal Reserve are clear: maximum employment and stable prices. It is equally clear that the economy continues to operate considerably short of these objectives. I promise to do all that I can, working with my fellow policymakers, to achieve the very important goals Congress has assigned to the Federal Reserve."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
11-Mar	JOLTS	JAN	4020K	--	3990K
11-Mar	Wholesale Inventories (MoM)	JAN	0.4%	0.4%	0.3%
13-Mar	Import Prices (MoM)	FEB	0.3%	0.5%	0.1%
13-Mar	Initial Jobless Claims	8-Mar	335K	330K	323K
13-Mar	Continuing Claims	1-Mar	2905K	2900K	2907K
13-Mar	Retail Sales (MoM)	FEB	-0.1%	0.2%	-0.4%
13-Mar	Retail Sales, Ex-Auto (MoM)	FEB	0.0%	0.1%	0.0%
13-Mar	Business Inventories (MoM)	JAN	0.3%	0.4%	0.5%
14-Mar	PPI Final Demand (MoM)	FEB	0.1%	0.2%	0.2%
14-Mar	PPI Core (MoM)	FEB	0.1%	0.1%	0.2%
14-Mar	U. of Michigan Consumer Sentiment	MAR	82.0	81.8	81.6

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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