

US Weekly Flash

Highlights

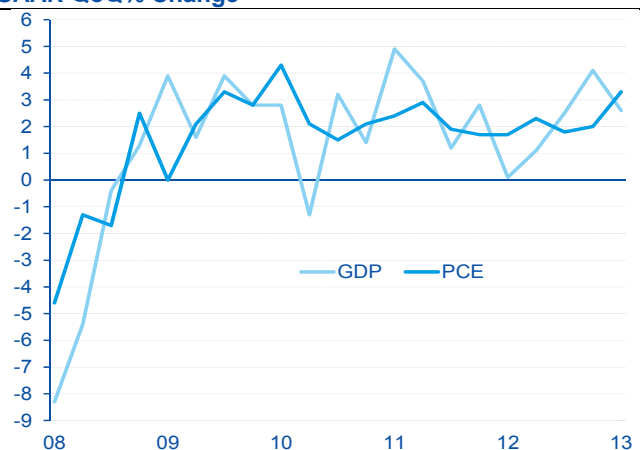
Final 4Q13 GDP Estimate Revised Up Slightly to 2.6%

- The BEA's final estimate of 4Q13 real GDP showed that the economy expanded at a slightly higher rate than as told by the preliminary report. Overall, the final figure showed little significant change, up to 2.6% on a QoQ seasonally-adjusted annualized rate after the preliminary estimate revised GDP growth downward from 3.2% to 2.4%. The key drivers were personal consumption, residential investment, and inventories. Initial estimates showed personal consumption expenditures up 3.3% for 4Q13, and after the preliminary readings scaled spending down to 2.6%, the final estimate once again revised consumption back up to 3.3% on a QoQ SAAR basis. The increase in consumption signals that consumers continue to spend at a healthy clip and is the most vital indicator in boosting economic growth moving forward.
- Overall, the upward final GDP estimate for 4Q13 indicates little overall change and is largely in line with our projections. Looking at the bigger picture, annual growth for 2013 remains unchanged at 1.9%. After a year filled with fiscal and political uncertainty, we expect that 2014 will be a brighter year for the economy, as reduced uncertainty and personal consumption expenditures will serve as the backbone behind economic expansion. Looking forward, the report does not shift our future estimates, and we reaffirm our 2014 forecast of 2.5% GDP growth.

Personal Income and Spending Accelerate in February

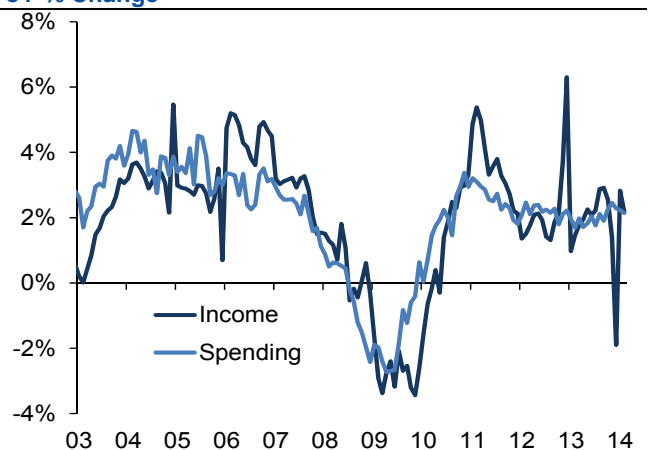
- Consumer spending in February increased 0.3% MoM, closely in line with our projections, marking the tenth consecutive month of positive growth for the indicator. The gain was led primarily by an increase of spending in the services sector, which continues to rapidly trend upward, increasing by 0.3% MoM. Personal income growth also improved, up 0.3% MoM for February. PCE prices, however, are not growing nearly as quickly; the personal consumption expenditures index shows that prices were up only 0.1% MoM in February, and are now down to 0.9% YoY, the lowest level since the recession. As inflation continues to trend far below the 2% target rate, the Fed will need to keep tabs on the measure as it hovers to lower levels.
- Looking at the bigger picture, the upward movement in personal income and spending is certainly positive news for the economy. Sluggish growth in December and January may have paused economic momentum momentarily, but positive data for employment, manufacturing, and now spending confirm our bullish outlook on the economy for the later part of this year. Moving forward, we expect spending and income to continue trending upward between 0.1%-0.3% MoM. We look for spending in the services sector to decline over the next three to four months, after utilities spending provided a boost amid the cold winter. However, durable goods spending should reverse its negative trend and begin to move upward as the component shakes off the seasonal factors that came into play over the last three months.

Graph 1
**U.S. Real GDP and PCE Growth
SAAR QoQ% Change**



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
**Real Personal Income and Spending
YoY % Change**



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

ISM Manufacturing Index (March, Tuesday 10:00 ET)

Forecast: 54.5

Consensus: 54.0

Previous: 53.2

After dipping in January and recovering only slightly in February, we expect to see a strong increase in the ISM manufacturing index for March. Recent manufacturing data point to activity once again picking up following a small hiccup in January and February. Now that the cold weather is past us, the weather in March should have no significant impact in the index. After dropping to 54.8 in January and 48.2 in February, we look for a bounce-back in the production component of the index, which indicated contraction for the first time since August 2012. In accordance with our nonfarm payroll forecast, we project the employment index to provide upward bias and expect the component to jump from 52.3 in February to 55.0 in March. Looking ahead, we expect that manufacturing activity will continue to accelerate throughout the rest of 2014.

Factory Orders (February, Wednesday 10:00 ET)

Forecast: 1.5%

Consensus: 1.2%

Previous: -0.7%

Factory orders have stumbled in three of the past four months, yet we expect to see a modest rebound for February. The durable goods report for the month was stronger than expected, increasing 2.2%, and we expect this will be reflected in a big way in the factory orders report. The durable goods orders data wiped away most fears that weather played a significant factor for February, so we remain confident that the factory orders data will shrug that off. Furthermore, consecutive drops in the data hint at a natural bounce-back for the component, which continues to be highly volatile on a month-to-month basis. Hence, we look for a 1.5% MoM increase in factory orders, which would mark the component's biggest MoM increase since November.

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

Forecast: \$-38.5B

Consensus: \$-38.5B

Previous: \$-39.1B

After remaining relatively unchanged in January, we project the international trade balance to narrow slightly in February. Over the long-run, we continue to believe that petroleum exports are going to be the major driver in narrowing the trade gap. Unfortunately, natural gas export terminals still need approval, so it would likely be at least five years before natural gas makes a significant impact. However, the developing situation in Russia may push the issue to the forefront if it continues to become a growing threat. Europe gets nearly a third of its fuel from Russia and may look to the U.S. as a source of secure energy years down the road. In the short-run, crude oil and petroleum product exports were up 2.4% between the last week in January and last week in February, so we believe this positive boost in exports will lessen the deficit. Additionally, service exports reached an all-time high in January, and we project this trend will continue to provide an upward bias on the trade balance over the coming months.

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

Forecast: 220K, 6.7%

Consensus: 200K, 6.6%

Previous: 175K, 6.7%

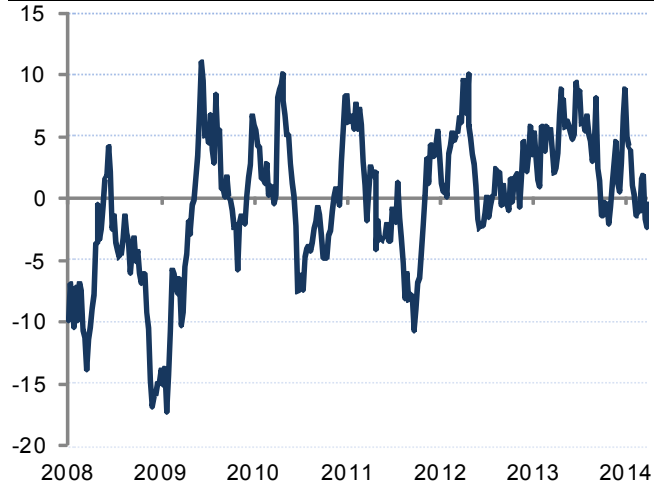
Now that seasonal factors appear to be behind us and political uncertainty is far in the rear-view mirror, we expect that nonfarm payroll growth in March will be the largest since November of last year. The construction and manufacturing sectors have shown signs of picking up, and thus we look for these components to provide the largest boost to nonfarm payrolls. The unemployment rate continues to be tricky, often moving in the opposite direction of nonfarm payroll additions due to fluctuations in the participation rate as workers leave and re-enter the labor market. Last week, the Fed put to rest debate over the 6.5% unemployment rate threshold and downplayed the importance of a specific indicator as a predictor for forward guidance. Although it is often the case that job growth above 200K per month is sufficient to push down the unemployment rate, we do not believe it will be large enough in March.

Market Impact

All eyes this week will be on Friday's employment report and additional Fed speak that may give markets more clarity. Otherwise, we do not project any of any other economic indicators to have a significant impact. Globally, spectators will need to keep an eye on the situation in Russia and potential monetary policy announcements in China, after Chinese officials announced plans of ramping up their stimulus.

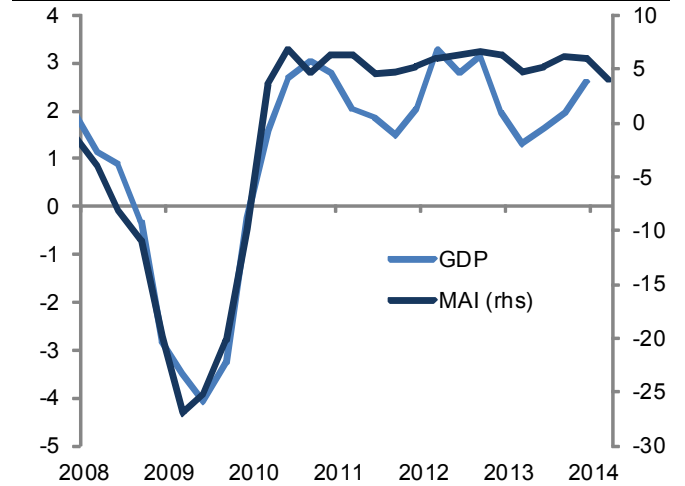
Economic Trends

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



Source: BBVA Research

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



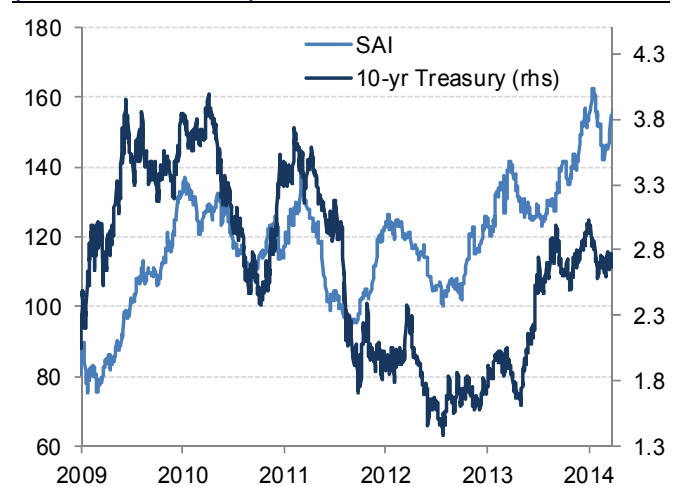
Source: BBVA Research & BEA

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



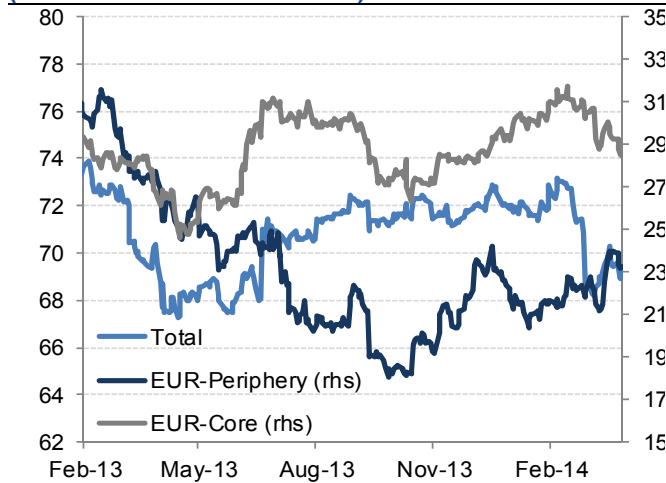
Source: BBVA Research

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



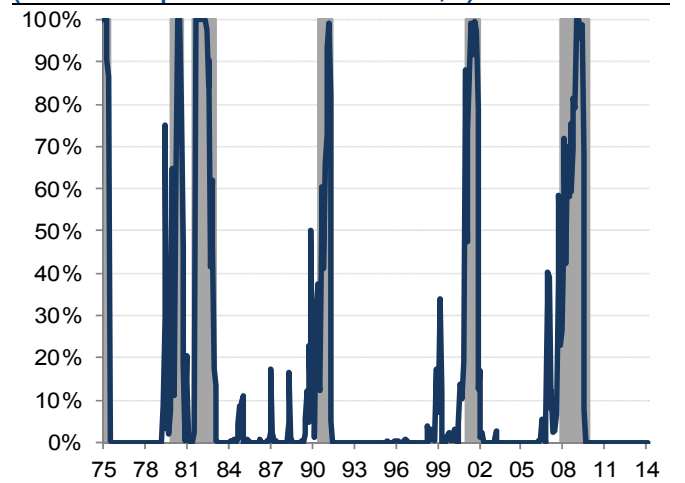
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

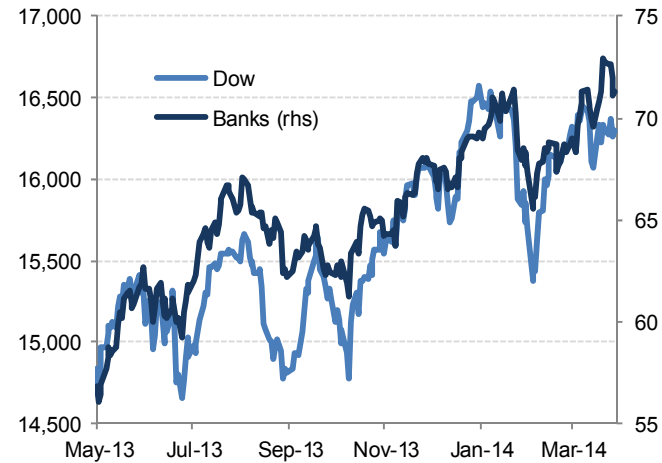
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

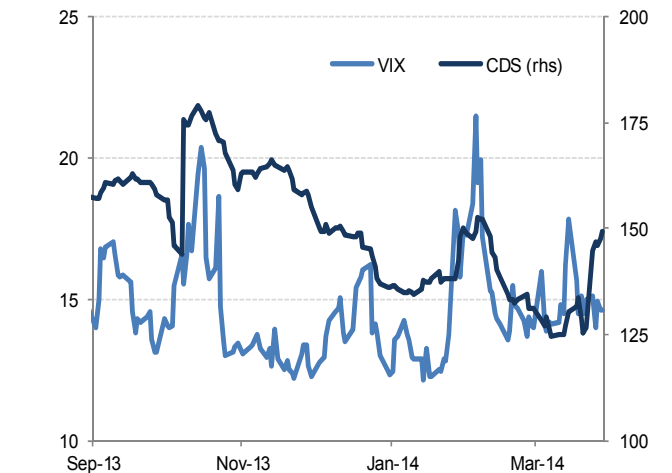
Financial Markets

Graph 9
Stocks
(Index, KBW)



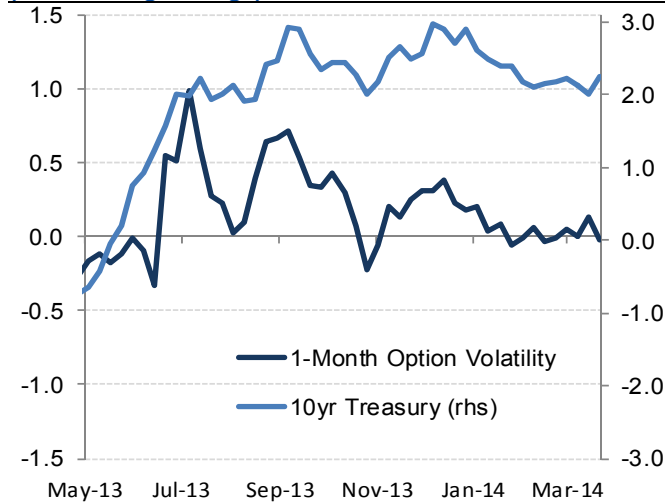
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



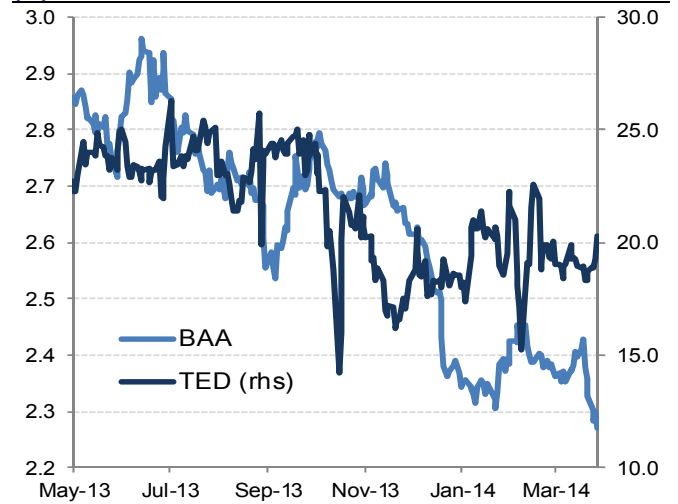
Source: Bloomberg & BBVA Research

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



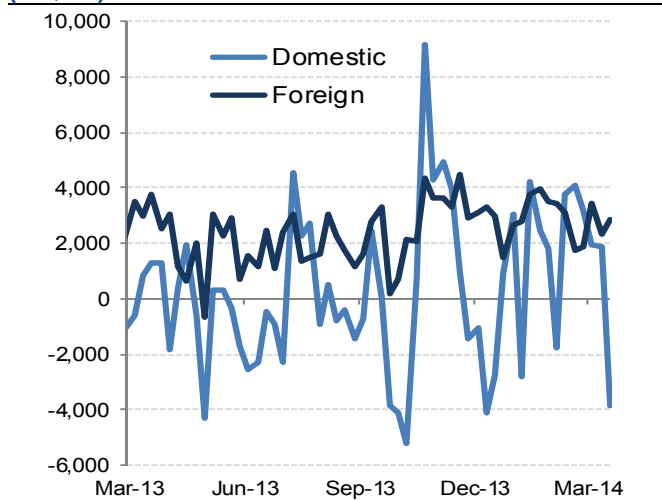
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



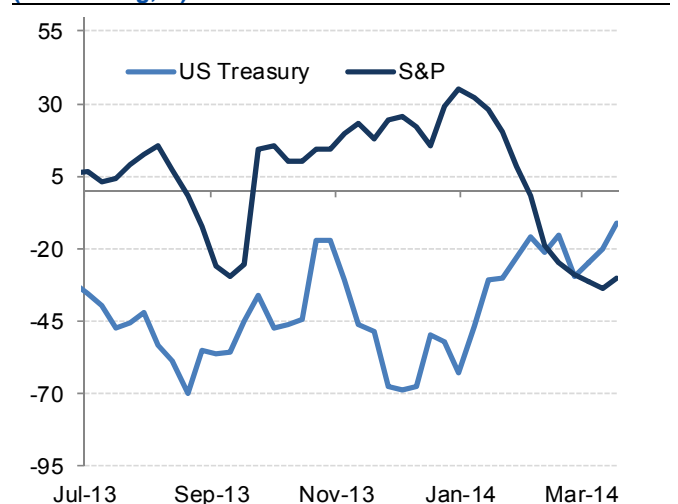
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

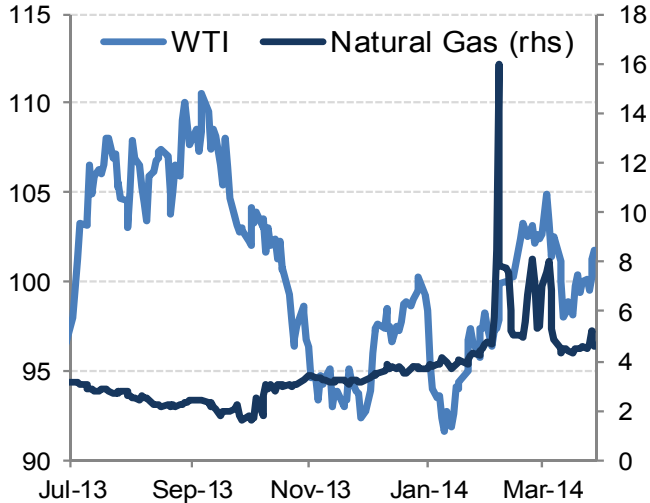
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

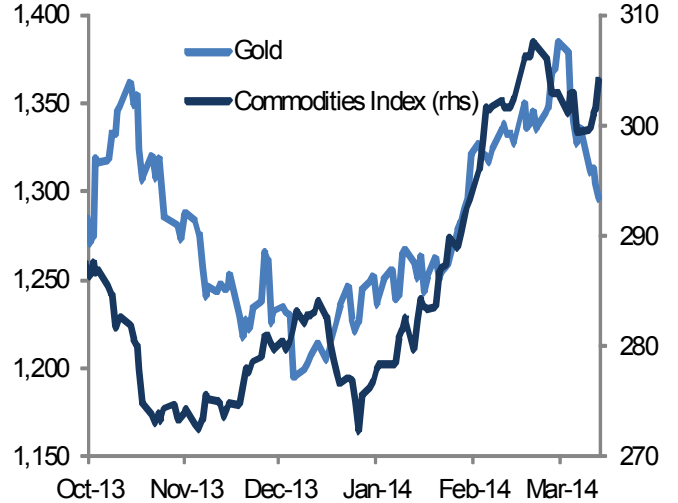
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



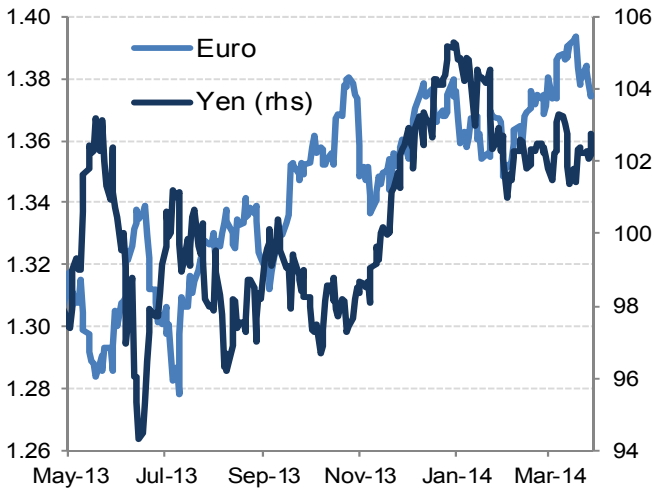
Source: Bloomberg & BBVA Research

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



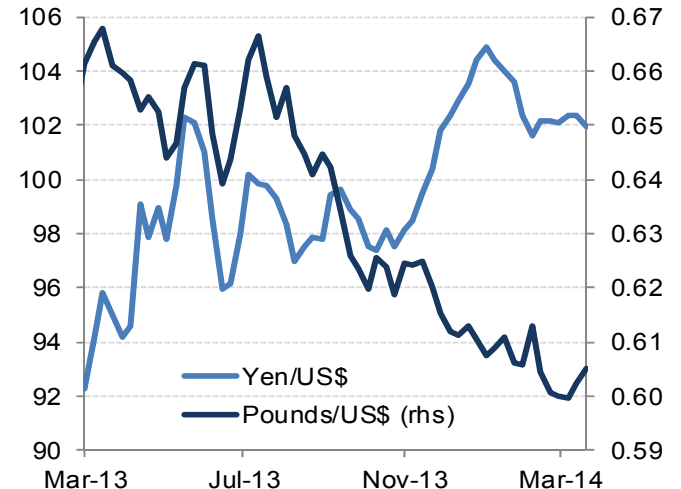
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



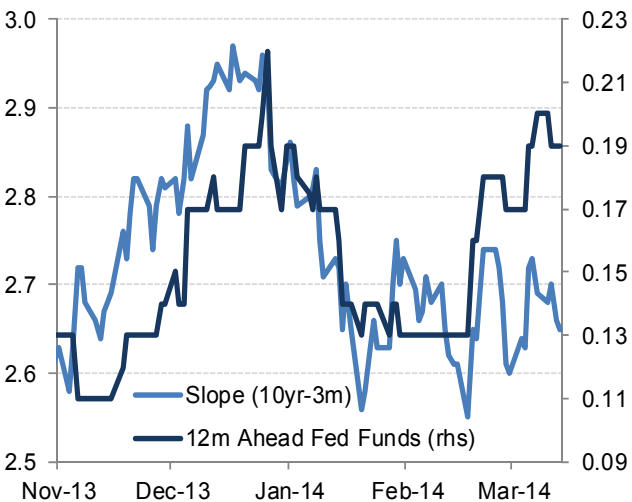
Source: Bloomberg & BBVA Research

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



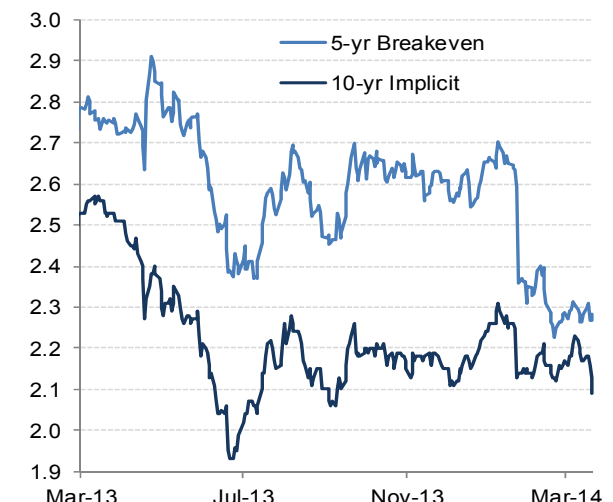
Source: Haver Analytics & BBVA Research

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)	14.72	14.23	14.23	14.10
New Auto (36-months)	2.60	2.75	2.47	2.45
Heloc Loan 30K	5.27	5.29	5.45	5.27
5/1 ARM*	3.10	3.02	3.05	2.90
15-year Fixed Mortgage *	3.42	3.32	3.39	3.23
30-year Fixed Mortgage *	4.40	4.32	4.37	3.99
Money Market	0.41	0.41	0.41	0.50
2-year CD	0.78	0.77	0.80	0.66

*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	0.08	0.08	0.06	0.09
3M Libor	0.23	0.23	0.24	0.28
6M Libor	0.33	0.33	0.33	0.44
12M Libor	0.56	0.56	0.55	0.73
2yr Sw ap	0.57	0.56	0.45	0.41
5yr Sw ap	1.82	1.80	1.60	0.95
10Yr Sw ap	2.84	2.86	2.76	2.02
30yr Sw ap	3.52	3.58	3.57	2.99
30day CP	0.11	0.12	0.11	0.15
60day CP	0.11	0.14	0.11	0.17
90day CP	0.13	0.13	0.13	0.18

Source: Bloomberg & BBVA Research

Quote of the Week

Barack Obama, President of the United States
Speech in Brussels
26 March 2014

"Yes, we believe in democracy, with elections that are free and fair, and independent judiciaries and opposition parties, civil society and uncensored information so that individuals can make their own choices. Yes, we believe in open economies based on free markets and innovation and individual initiative and entrepreneurship and trade and investment that creates a broader prosperity."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
31-Mar	Chicago PMI	MAR	60.1	59.5	59.8
1-Apr	ISM Manufacturing Index	MAR	54.5	54.0	53.2
1-Apr	Total Vehicle Sales	MAR	15.7M	15.80M	15.65M
1-Apr	Construction Spending	FEB	0.2%	0.1%	0.1%
2-Apr	ADP National Employment	MAR	225K	190K	139K
2-Apr	Factory Orders	FEB	1.5%	1.2%	-0.7%
3-Apr	International Trade Balance	FEB	-\$38.5B	-\$38.5B	-\$39.1B
3-Apr	Initial Jobless Claims	29-Mar	318K	320K	311K
3-Apr	Continuing Jobless Claims	29-Mar	2.845M	2.850K	2.823K
3-Apr	ISM Non-Manufacturing Index	MAR	53.3	53.5	51.6
4-Apr	Nonfarm Payrolls	MAR	220K	200K	175K
4-Apr	Unemployment Rate	MAR	6.7%	6.6%	6.7%
4-Apr	Average Workweek Hours	MAR	34.3	34.4	34.2

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	3.41	3.80	4.10
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.31	1.35	1.37

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



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