

US Weekly Flash

Highlights

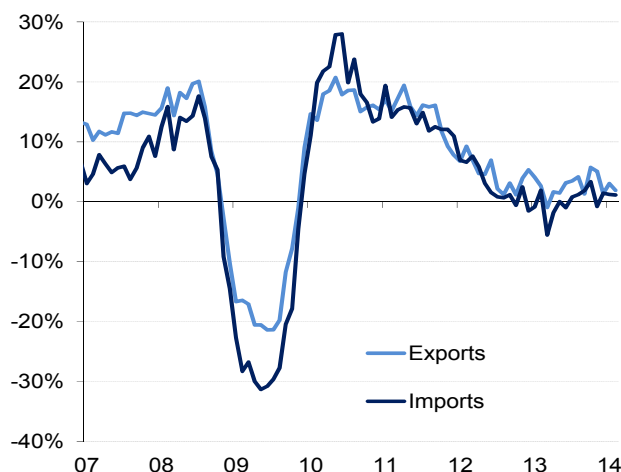
U.S. Trade Gap Widens in February as Exports Dip

- The U.S. international trade gap widened much more than expected for the third consecutive month, reaching -\$42.3bn in February and marking the biggest deficit since September. Exports were a concern in this report, dropping 1.1% for the month and more than offsetting a modest 0.4% rise in imports. The import growth figure was not out of the norm, but the decline in exports is more concerning because the risk of slowing demand overseas could threaten economic growth in the U.S. The dip in exports was led by a 1.5% drop-off in the goods component, while services exports remained unchanged from the previous month. Looking at specific components of the data, auto imports were up 5.9% MoM, an encouraging sign on the heels of a strong vehicle sales report this week. Furthermore, the petroleum related trade balance widened slightly to -\$19.9bn from -\$19.3bn, though the U.S. continues to shift from dependence on energy overseas to domestic sources.
- Overall, trade data for February suggest a downward bias for the 1Q14 GDP figure. Exports have declined in two of the last three months, and the biggest threat remains a slowdown abroad, particularly in China. However, the economy is looking brighter in Europe, the developing situation in Russia and Ukraine is an additional risk to European demand. Looking forward, we believe the trade deficit will steadily shrink behind a positive effect of the domestic energy boom, as an increase of supply will diminish the need for foreign reliance on energy.

Employment Gains Steady for Second Consecutive Month

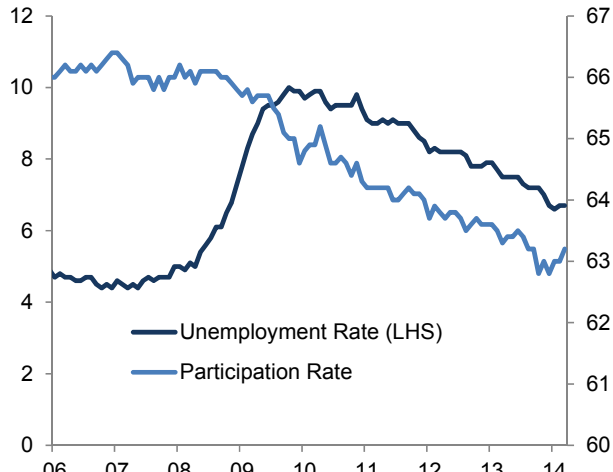
- According to the report released by the Bureau of Labor Statistics on Friday, the U.S. economy added 192K jobs in March. Additionally, revisions in both January and February showed that job growth was higher than initially estimated, as February's figure was revised up from 175K to 197K and January's estimate was revised from 129K to 144K. The private sector was responsible for all of the job gains in March, with some notable tailwinds coming from professional and business services (57K), education and health services (34K), and construction (19K). On the downside, manufacturing jobs declined 1K in March for the first time since July.
- Overall, the jobs data for March, along with the substantial upward revisions to initial estimates for January and February, are positive signs for the economy after a brief slowdown throughout the cold winter months. However, to significantly improve the employment situation, job growth needs to be in the 200-250K range. We also expect that as the job outlook improves, people will re-enter the labor force and put upward pressure on the unemployment rate. Thus, we do not expect that the unemployment rate will decline as quickly as it did in 2013, holding above 6.0% through mid-2015.

Graph 1
U.S. Exports and Imports
(YoY % Change)



Source: U.S. Census Bureau & BBVA Research

Graph 2
Unemployment and Participation Rates
(%)



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Consumer Credit (February, Monday 15:00 ET)

Forecast: \$16.20B

Consensus: \$14.00B

Previous: \$13.70B

Total outstanding consumer credit is expected to increase in February at a slightly faster pace compared to the prior few months. Personal income rose 0.3% MoM in both January and February, and as incomes rise, we expect consumers to accelerate their spending and feel more comfortable taking on additional debt. Furthermore, retail sales data for February, which showed a 0.3% MoM increase, provided further evidence that consumer spending picked up. Additionally, consumer confidence has held steady, and confidence in current economic conditions has trended upward, suggesting that consumers may be looking to loosen the purse strings in the near term.

JOLTS (February, Tuesday 10:00 ET)

Forecast: 4010K

Consensus: --

Previous: 3974K

Job openings and hiring data in the JOLTS report continue to show steady improvement, and as such we expect openings to total slightly over four million in February as the figure approaches recovery highs. In particular, we expect that growth will be led primarily by a resurgence in manufacturing jobs that were temporarily slowed due to harsh winter weather. The job creation curve has been shifting back towards the Implied Beveridge Curve over the last twelve months, which could mean that companies are having less trouble finding more qualified individuals for their openings. Hiring should continue to trend upward as economic conditions improve and companies feel more confident in the robustness of the recovery. Although the economy is picking up strength, we do not believe that employees are quite confident enough to leave their job in search of a new position, and thus we project quit levels will continue to remain stable throughout the year.

Wholesale Inventories (February, Wednesday 10:00 ET)

Forecast: 0.3%

Consensus: 0.5%

Previous: 0.7%

Wholesale inventories are likely to decelerate but still register positive growth in February following a larger-than-expected gain in January. Inventory growth had a significant impact on GDP growth throughout the second half of 2013 as businesses remain more optimistic of future demand. January's increase in inventories was likely due to wholesalers anticipating higher demand levels that were reduced in the heart of the winter season. However, it is likely that merchant wholesalers slowed down on stockpiling in February, and instead are waiting for a pickup in demand to catch up with supply. Therefore, we project more modest growth in wholesale inventories for the month.

Consumer Sentiment (April, Friday 9:55 ET)

Forecast: 80.5

Consensus: 81.5

Previous: 80.0

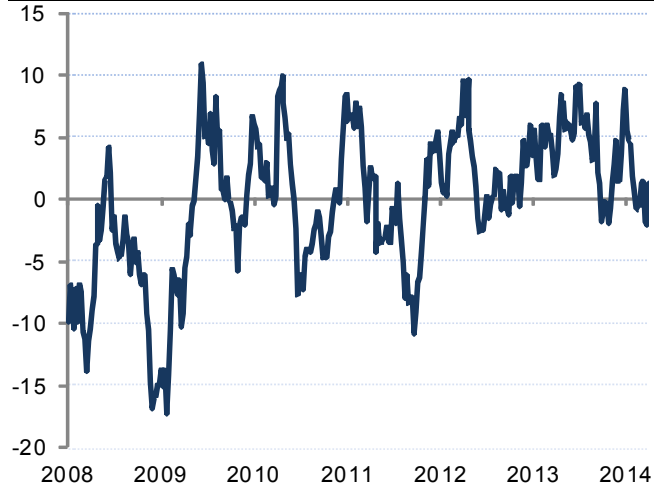
Consumer sentiment is expected to rise slightly in the preliminary report for April following a minor decline in March. Consumer spending appears to be holding steady, with no major headwinds discouraging personal consumption trends. The strong jobs report last Friday will likely provide an upward bias to the consumer sentiment index. Furthermore, there does not appear to be any near-term political or fiscal uncertainty, which should boost consumer expectations of the economy. Additionally, stock prices have been on the rise after a dip earlier in the year, and the S&P reached another all-time high last Thursday. Downward pressure may come from retail gasoline prices, as they jumped an average of almost 18 cents in March according to Department of Energy data, and have continued to rise in April to the displeasure of consumers. Still, we project the consumer sentiment index to finish slightly higher for the first part of April.

Market Impact

No major economic reports will be released this week, so we do not expect any surprises in the markets. However, investors will closely monitor the FOMC meeting minutes released on Wednesday in order to gain clues on potential actions of the Fed in 2014. On the international level, investors should continue to pay attention to the situation in Russia and potential monetary policy changes in China.

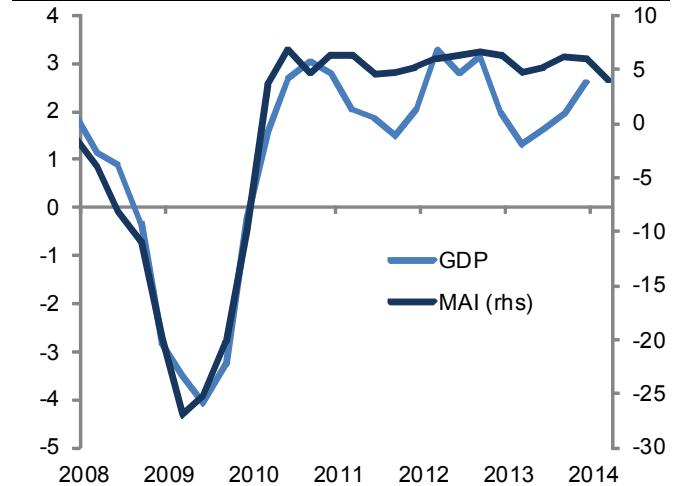
Economic Trends

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



Source: BBVA Research

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



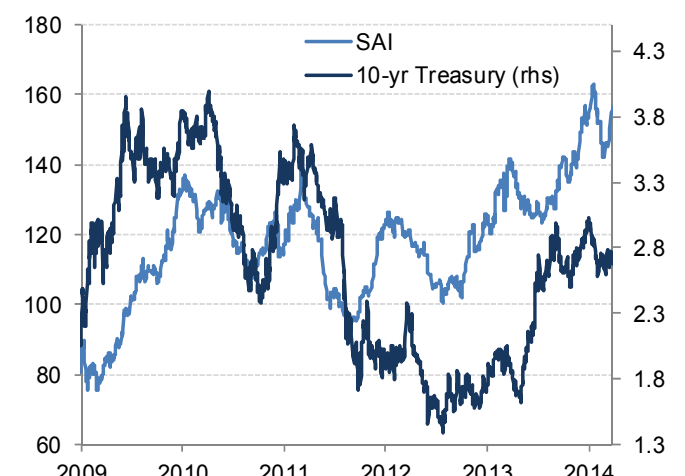
Source: BBVA Research & BEA

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



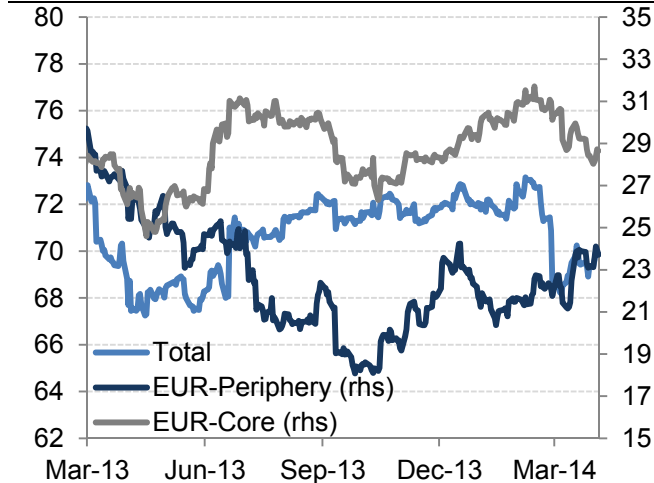
Source: BBVA Research

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



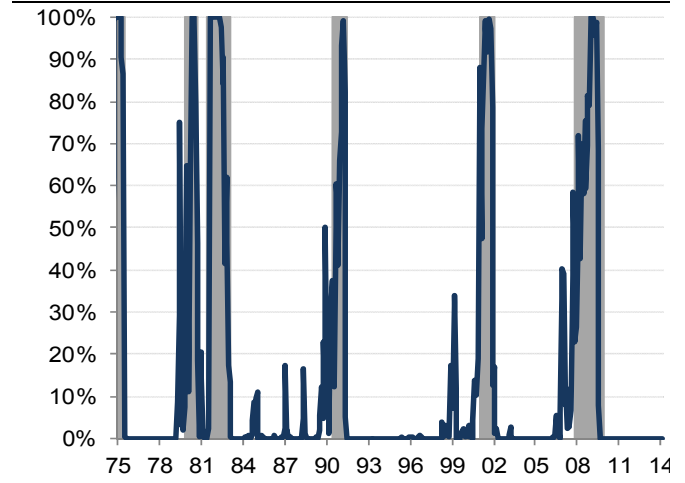
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

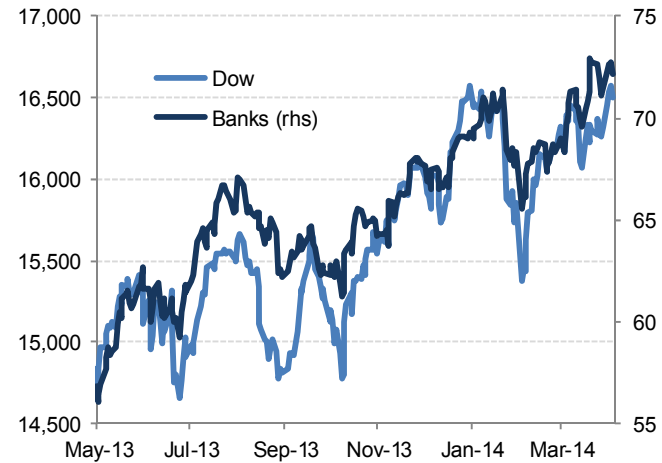
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

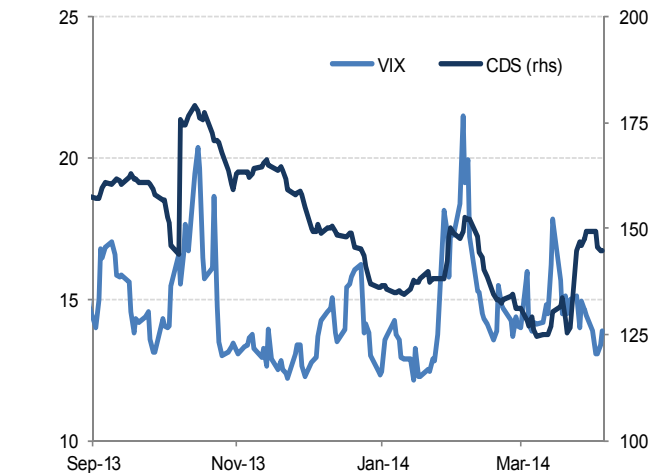
Financial Markets

Graph 9
Stocks
(Index, KBW)



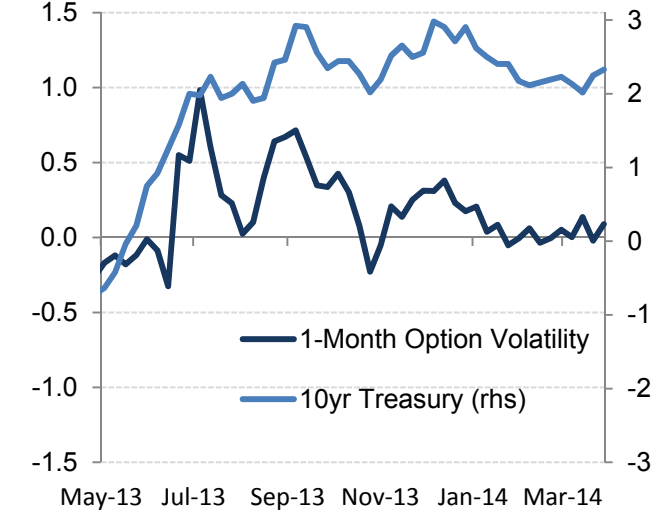
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



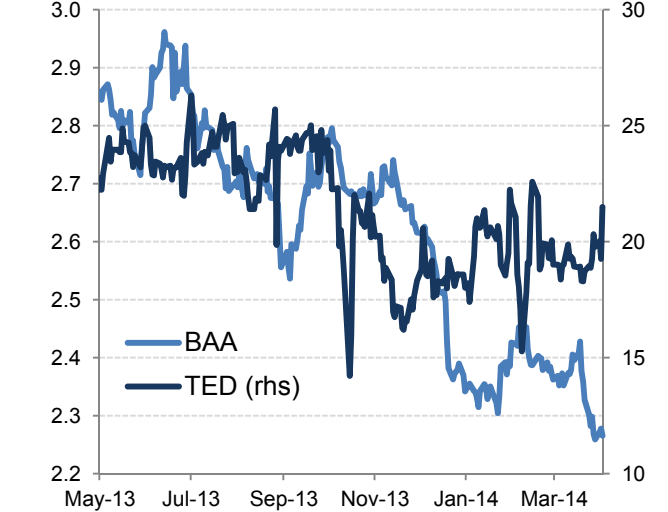
Source: Bloomberg & BBVA Research

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



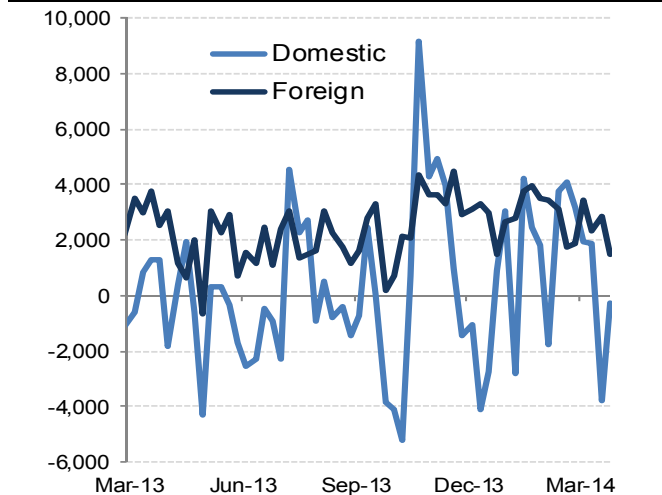
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



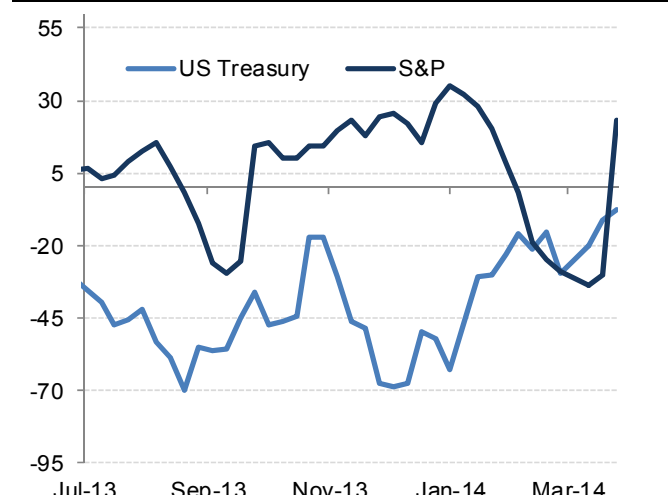
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

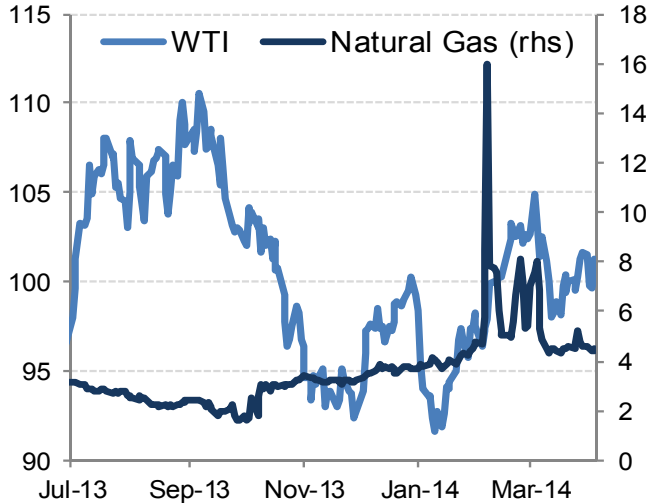
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



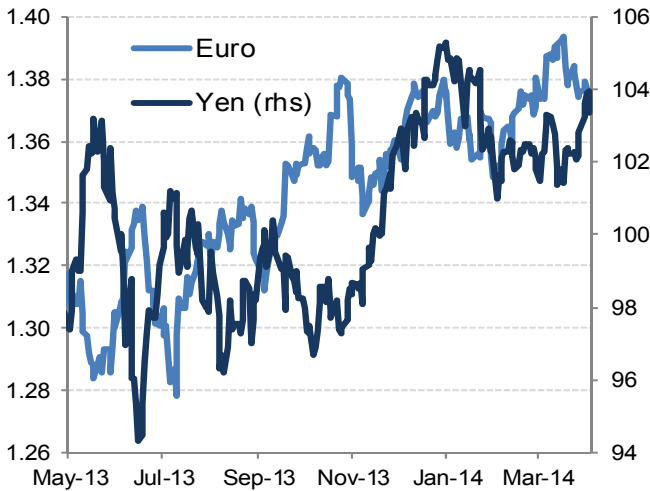
Source: Bloomberg & BBVA Research

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



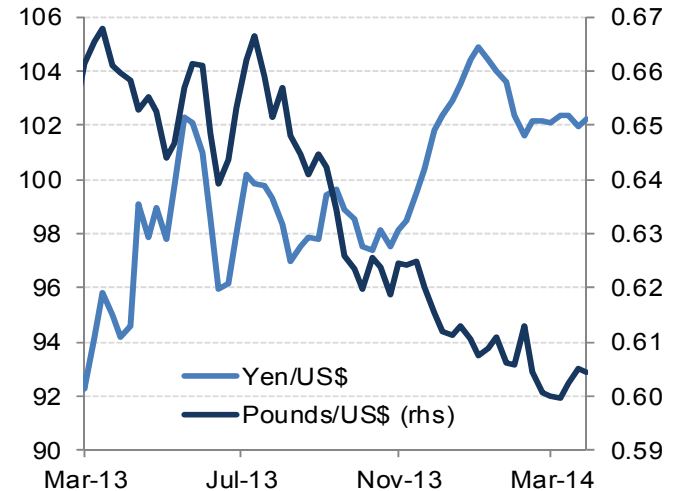
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



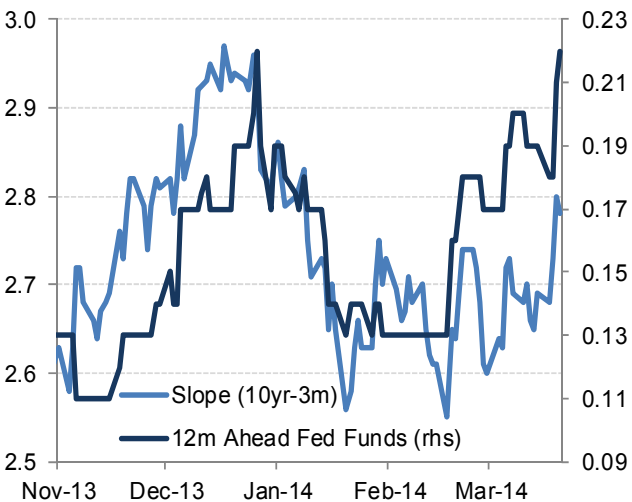
Source: Bloomberg & BBVA Research

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



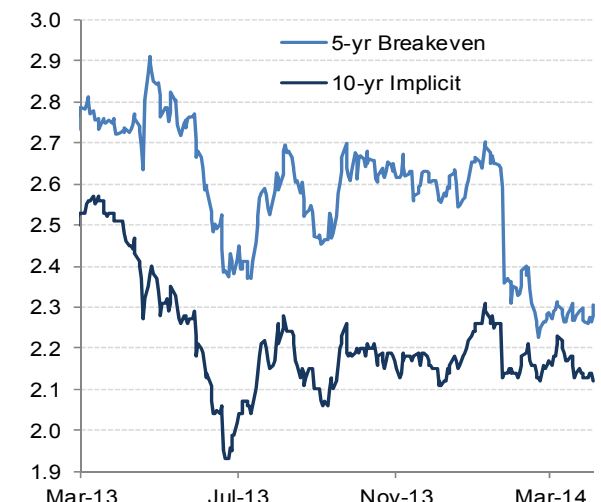
Source: Haver Analytics & BBVA Research

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	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.72	14.72	14.23	14.10
New Auto (36-months)	2.51	2.60	2.46	2.40
Heloc Loan 30K	5.24	5.27	5.34	5.26
5/1 ARM*	3.12	3.10	3.03	2.90
15-year Fixed Mortgage*	3.47	3.42	3.32	3.23
30-year Fixed Mortgage*	4.41	4.40	4.28	3.99
Money Market	0.41	0.41	0.43	0.50
2-year CD	0.78	0.78	0.80	0.65

*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	0.08	0.08	0.15
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	0.72
2yr Sw ap	0.54	0.57	0.51	0.38
5yr Sw ap	1.80	1.83	1.73	0.88
10Yr Sw ap	2.84	2.84	2.89	1.93
30yr Sw ap	3.57	3.52	3.69	2.88
30day CP	0.09	0.12	0.11	0.14
60day CP	0.15	0.11	0.11	0.17
90day CP	0.14	0.13	0.13	0.19

Source: Bloomberg & BBVA Research

Quote of the Week

Janet Yellen, Chair of the Federal Reserve Bank
2014 National Interagency Community Reinvestment Conference in Chicago
31 March 2014

"When the recession began, 66 percent of the working-age population was part of the labor force. Participation dropped, as it normally does in a recession, but then kept dropping in the recovery. It now stands at 63 percent, the same level as in 1978, when a much smaller share of women were in the workforce. Lower participation could mean that the 6.7 percent unemployment rate is overstating the progress in the labor market."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Apr	Consumer Credit	FEB	\$16.20B	\$14.00B	13.70B
8-Apr	JOLTS	FEB	4010K	--	3974K
9-Apr	Wholesale Inventories (MoM)	FEB	0.3%	0.5%	0.7%
10-Apr	Initial Jobless Claims	5-Apr	325K	320K	326K
10-Apr	Continuing Claims	29-Mar	2835K	2800K	2836K
10-Apr	Import Prices (MoM)	MAR	0.3%	0.2%	0.9%
11-Apr	PPI Final Demand (MoM)	MAR	0.2%	0.1%	-0.1%
11-Apr	PPI Core (MoM)	MAR	0.2%	0.2%	-0.2%
11-Apr	Consumer Sentiment	APR	80.5	81.5	80.0

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: Non-bold numbers reflect actual data. Forecast revisions pending.



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