

# US Weekly Flash

## Highlights

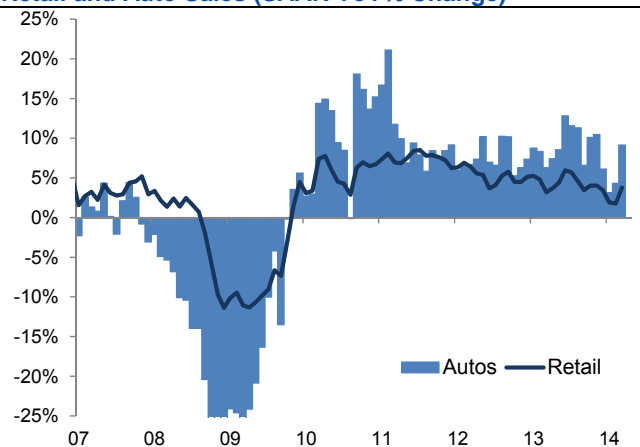
### Retail Sales Strong in March Led By Boost in Autos

- Headline retail sales jumped 1.1% in March, the biggest gain since September 2012, supporting our expectations that the slowdown was due mostly to transitory factors. The auto sales component led the charge, jumping 3.1% MoM, after positive sales for major dealerships hinted at an above-average auto sales figure for the retail report. Even excluding autos, sales still rose 0.7%, marking the biggest MoM increase since February 2013. As if March's upbeat data was not enough, February growth was revised up from 0.3% to 0.7% MoM. Overall, the economy now appears to have mostly shaken off seasonal factors stemming from the colder-than-expected winter.
- The pickup in retail sales for March, combined with the notable upward revision in the February figure, adds a slight upward bias to GDP for 1Q14, though we continue to expect slower growth compared to 2H13. The report confirms our suspicion that the dropoff in retail sales in December and January was likely attributed to seasonal factors rather than fundamentals. Furthermore, the sales data hints that consumer spending has gained traction after a brief slowdown, which remains crucial to sustain economic growth seen over the last four quarters. With political uncertainty and seasonal factors now in the rear-view mirror, it appears that the economy will soon begin firing on all cylinders. Looking ahead, we expect positive retail sales data to ripple its effects in the form of stronger employment and GDP growth as we enter 2Q14.

### Headline and Core Inflation Tick Up as Expected in March

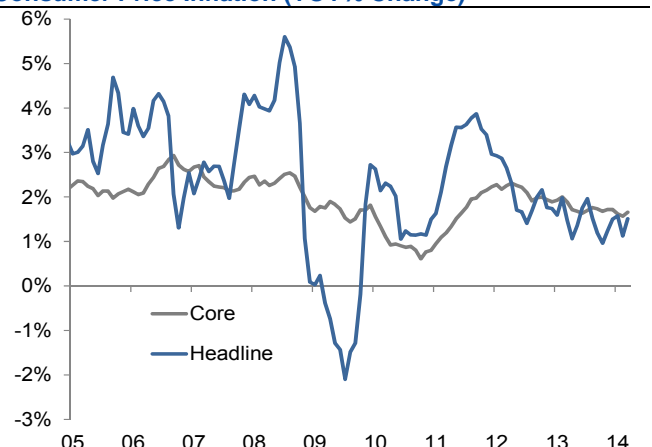
- The headline consumer price index increased 0.2% in March, slightly accelerating after posting back-to-back months of 0.1% growth. On a positive note, YoY headline inflation growth bumped up to 1.5% after falling to a hazardous 1.1% low in February which supported concerns about depressed inflation and potential deflation. The acceleration was once again led by a spike in food prices, which jumped 0.4% for the second consecutive month. The Department of Agriculture expects food prices to increase 2.5-3.5% this year barring any severe weather, and cites the ongoing drought in California as a reason for the spike in costs. With regards to the economy, if food prices outpace personal income growth this year, consumers may be forced to spend a larger portion of their budget on groceries and have less money to spend elsewhere, which could weaken demand in other areas and dampen overall consumer spending.
- On a yearly basis, core inflation ticked up to 1.7% YoY, still significantly below the 2.5% Fed target for the CPI figure. Though the Fed tends to focus on the PCE index, the bump in CPI will likely ease concerns about falling inflation. We do not believe there will be an adjustment in monetary policy and expect the Fed to gradually taper through the end of this year. Overall, our short-term forecasts suggest that moderate inflationary pressures in 2014 will arise from medical care, shelter, and energy, while food prices will remain subdued.

Graph 1  
**Retail and Auto Sales (SAAR YoY% Change)**



Source: US Census Bureau & BBVA Research

Graph 2  
**Consumer Price Inflation (YOY% Change)**



Source: Bureau of Labor Statistics & BBVA Research

# Week Ahead

## Existing Home Sales (March, Tuesday 10:00 ET)

Forecast: 4.85M

Consensus: 4.55M

Previous: 4.60M

We look for existing home sales to accelerate in March as the housing market thaws out from January and February lows. February saw the lowest level for existing home sales since July 2012, which was somewhat weather related, but could also be a factor of the mortgage rate increase seen in 2H13. However, the median sales price in February finished 11.7% below the recent peak in June of last year. Additionally, consumers who may have postponed purchasing their home due to the freezing winter temperatures could come through in March. Thus, we expect that existing home sales in March will reach the highest level of 2014 so far.

## New Home Sales (March, Wednesday 10:00 ET)

Forecast: 460K

Consensus: 450K

Previous: 440K

As with existing home sales, we expect new home sales to rise and reach its highest pace since July 2008. Following the winter break, new home sales have been steady since the beginning of 2013, consistently hovering just above the 400K mark. Housing units authorized peaked in October 2013 (1039K) and have remained around 1000K, which leads us to believe that demand for new housing will be strong in the coming months. The rate on the 30-year mortgage dropped from 4.67% in January to 4.45% in February, which should encourage further purchasing and support our belief in a near-term demand spurt. As January and February's cold weather likely postponed building activity, we look for a release of demand in March to propel the new home sales figure for the month.

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

Forecast: 0.7%, 0.4%

Consensus: 1.5%, 0.4%

Previous: 2.2%, 0.1%

As business and consumer demand appears to be on the rise once again, we expect durable goods orders to tick up in March as factories ramp up their supply. Auto sales have begun trending upward, as Autodata figures showed an increase of 6.9% MoM in unit sales for March. To stay on pace with future demand, dealers will likely stock up on motor vehicle bodies and parts. Thus, we project that transportation equipment will provide a sizeable boost to the headline durable goods figure. Even excluding transportation, we look for durable goods to increase slightly, as manufacturing activity has picked up throughout the month. The new orders components of the ISM Manufacturing Index and various regional Federal Reserve Surveys point to accelerating growth in the coming months.

## Consumer Sentiment (April, Friday 9:55 ET)

Forecast: 83.2

Consensus: 83.0

Previous: 82.6

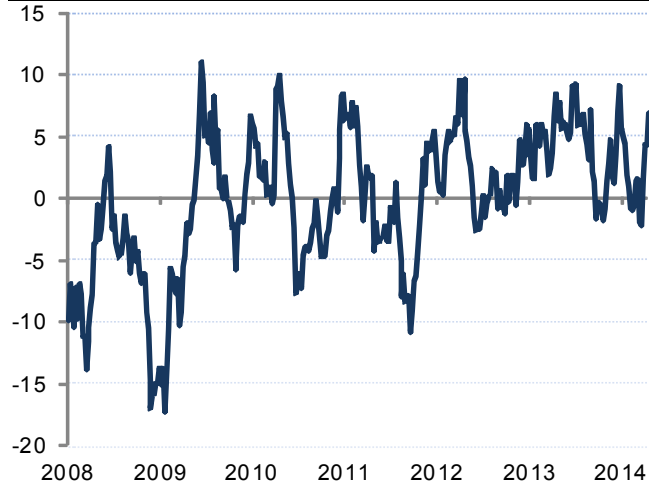
We expect consumer sentiment to continue trending upward in April as economic data has been mostly positive in recent weeks. New jobless claims fell to 300K for the week ending April 5, marking the lowest level since before the recession, and only ticked up to 304K the following week. Additionally, the Beige Book released this week found that consumer spending had begun to pick up over the last six weeks across several Districts, a reflection that consumers are confident in the state of the economy. However, the jump in gas prices at the pump over the last ten days will likely put some downward pressure on confidence. Still, the wave of positive economic data should outweigh this, and we believe both the current economic conditions and consumer expectations components will see a slight increase and push the index upward.

## Market Impact

This week does not have any significant market-moving indicators, although housing data may prompt some reaction if strong enough in either direction. Otherwise, investors will be fully focused on corporate profits and company performance over the first quarter.

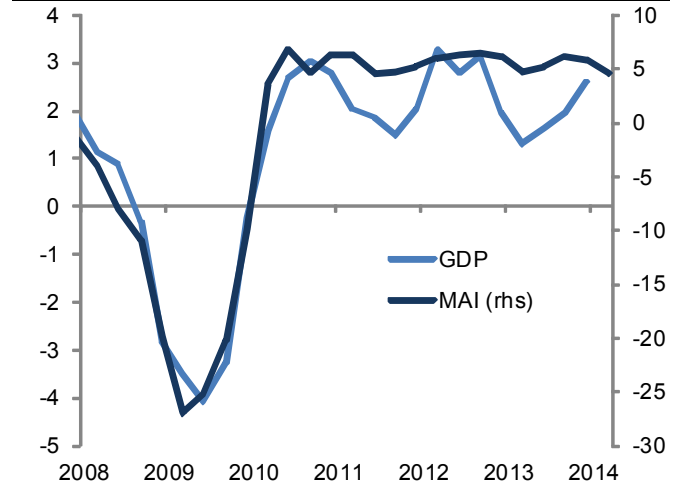
# Economic Trends

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



Source: BBVA Research

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



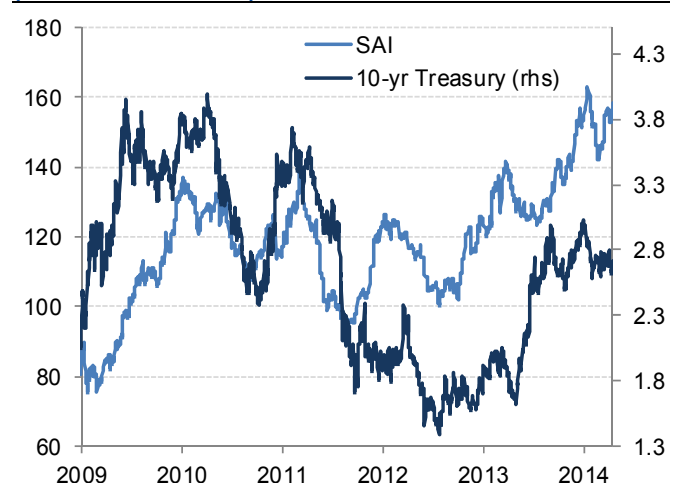
Source: BBVA Research & BEA

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



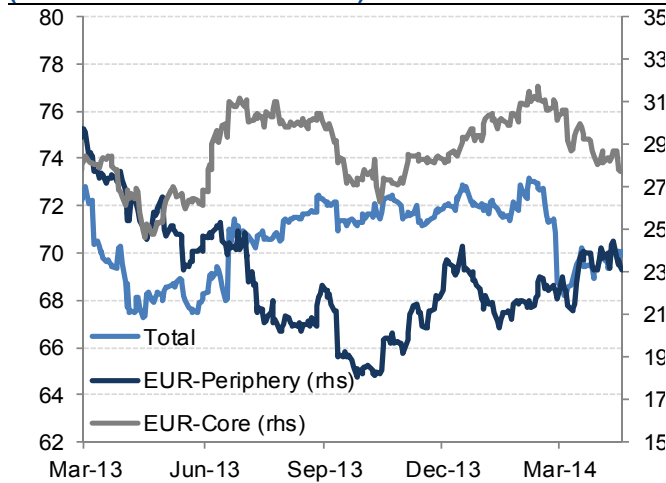
Source: BBVA Research

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



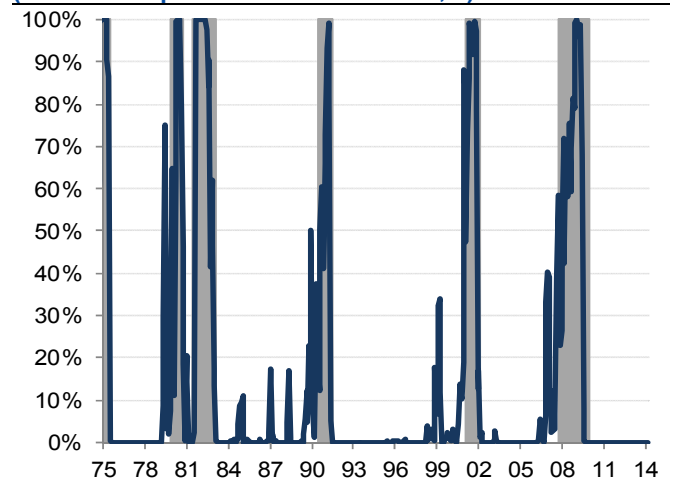
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

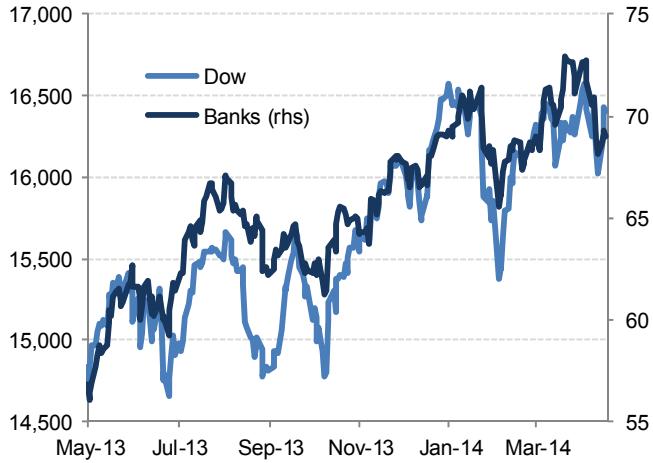
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

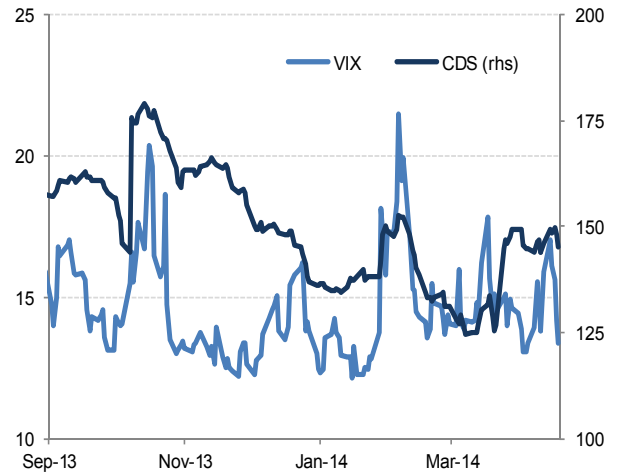
# Financial Markets

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



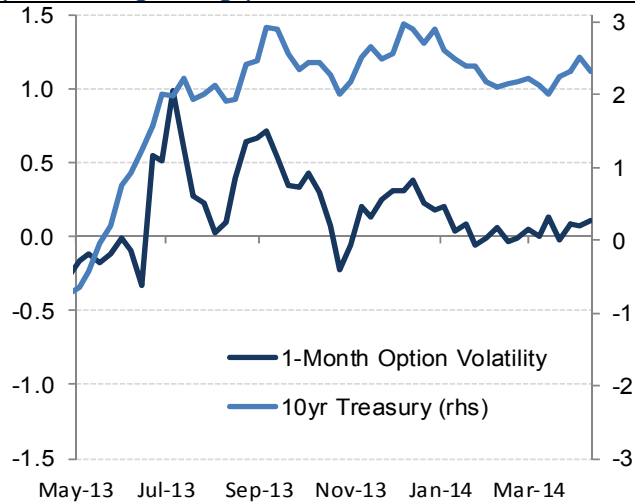
Source: Bloomberg & BBVA Research

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



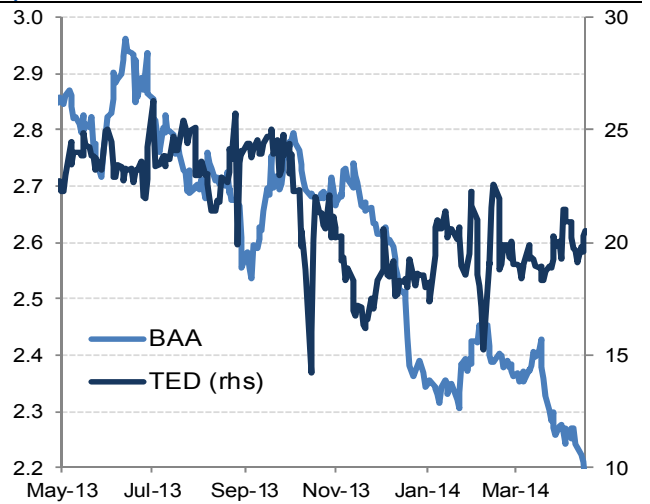
Source: Bloomberg & BBVA Research

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



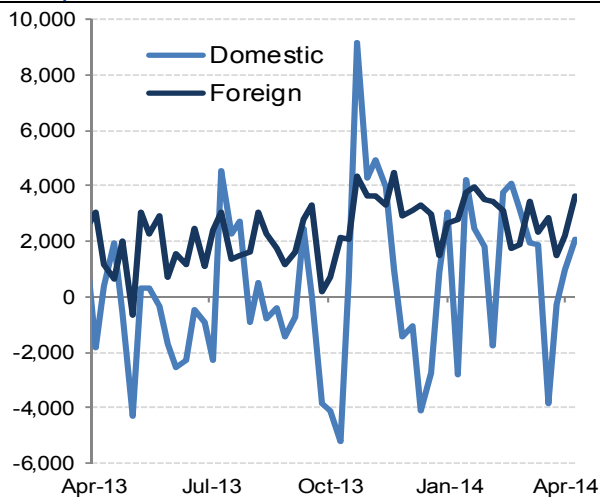
Source: Haver Analytics & BBVA Research

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



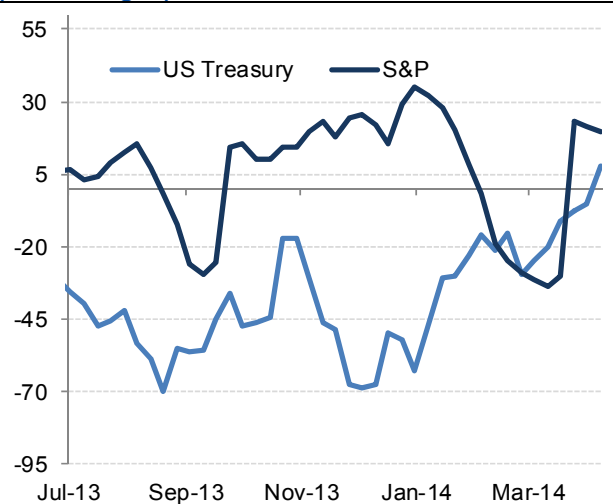
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

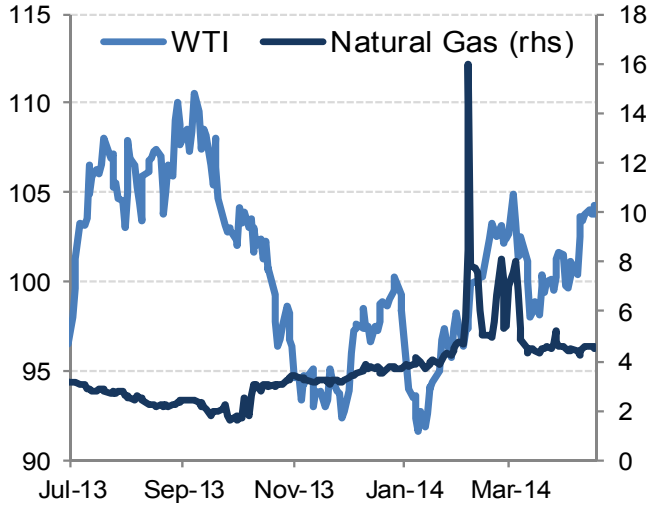
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

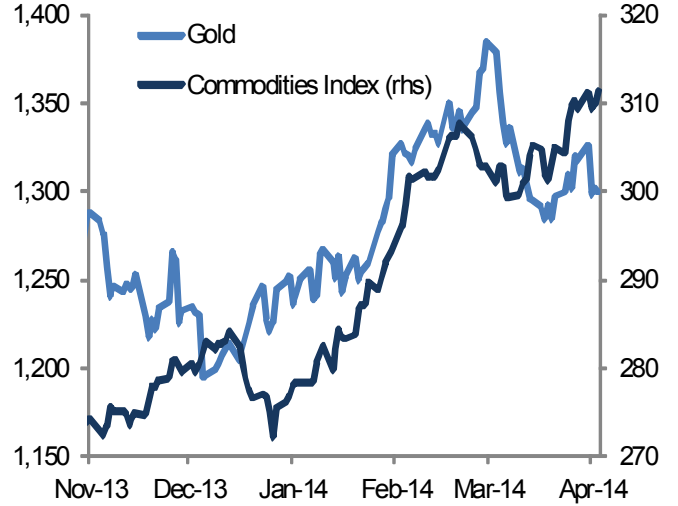
# Financial Markets

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



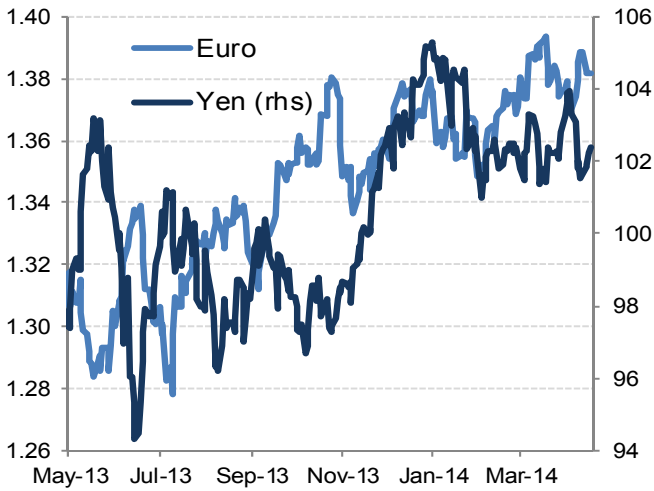
Source: Bloomberg & BBVA Research

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



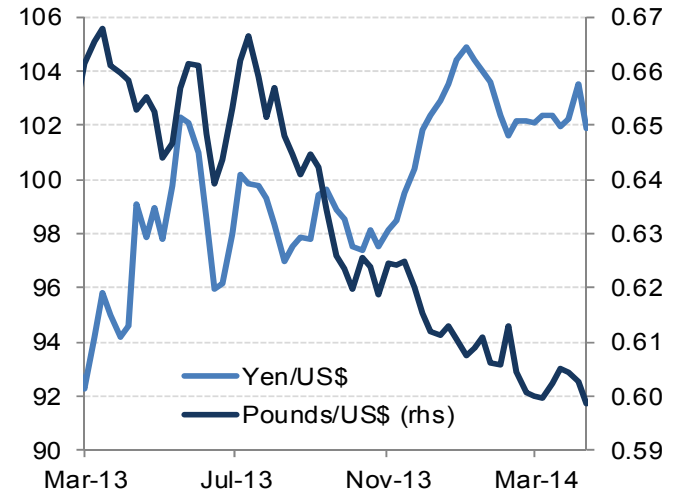
Source: Haver Analytics & BBVA Research

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



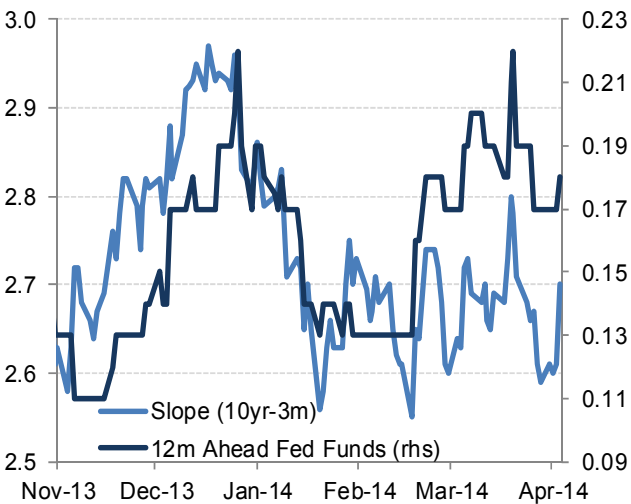
Source: Bloomberg & BBVA Research

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)	14.82	14.82	14.23	14.10
New Auto (36-months)	2.56	2.55	2.75	2.45
Heloc Loan 30K	5.18	5.20	5.29	5.24
5/1 ARM*	3.03	3.09	3.02	2.90
15-year Fixed Mortgage*	3.33	3.38	3.32	3.23
30-year Fixed Mortgage*	4.27	4.34	4.32	3.99
Money Market	0.41	0.41	0.41	0.47
2-year CD	0.79	0.78	0.77	0.66

\*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	0.09	0.09	0.08	0.15
3M Libor	0.23	0.23	0.23	0.28
6M Libor	0.32	0.33	0.33	0.43
12M Libor	0.55	0.55	0.56	0.71
2yr Sw ap	0.55	0.49	0.56	0.36
5yr Sw ap	1.84	1.69	1.80	0.88
10Yr Sw ap	2.85	2.74	2.86	1.90
30yr Sw ap	3.52	3.47	3.58	2.84
30day CP	0.12	0.12	0.11	0.15
60day CP	0.11	0.11	0.11	0.15
90day CP	0.12	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

## Quote of the Week

Janet Yellen, Chair of the Federal Reserve  
At the Economic Club of New York  
16 April 2014

*"In sum, the central tendency of FOMC participant projections for the unemployment rate at the end of 2016 is 5.2 to 5.6 percent, and for inflation the central tendency is 1.7 to 2 percent. If this forecast was to become reality, the economy would be approaching what my colleagues and I view as maximum employment and price stability for the first time in nearly a decade. I find this baseline outlook quite plausible."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Apr	Conference Board US Leading Index MoM	MAR	0.50	0.70	0.50
22-Apr	US Existing Homes Sales SAAR	MAR	4.85	4.55	4.60
22-Apr	US Existing Homes Sales MoM SA	MAR	5.43	-1.09	-0.43
24-Apr	US Initial Jobless Claims SA	APR 19	310	315	304
24-Apr	US Continuing Jobless Claims SA	APR 12	2800	2740	2739
24-Apr	US Durable Goods New Orders Industries MoM SA	MAR	2.20	2.00	2.20
24-Apr	US Durable Goods New Orders Total ex Transportation MoM SA	MAR	0.10	0.60	0.10
25-Apr	University of Michigan Survey of Consumer Confidence Sentiment	APR F	83.50	83.00	82.60

## 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>3.41</b>	<b>3.80</b>	<b>4.10</b>
US Dollar/ Euro (eop)	1.31	1.31	1.37	<b>1.35</b>	<b>1.32</b>	<b>1.37</b>

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



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