

US Weekly Flash

Highlights

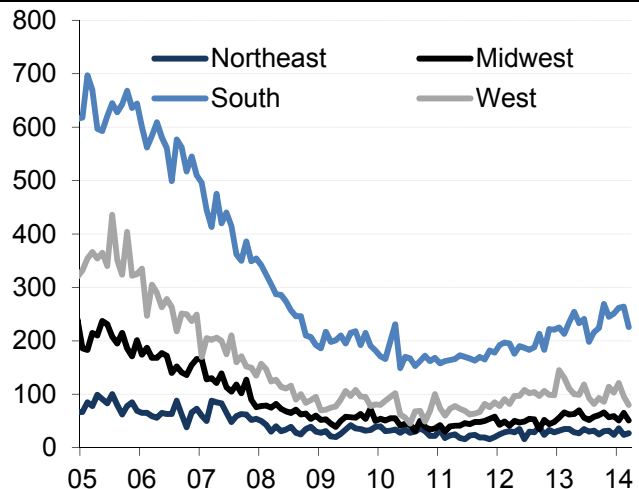
New Residential Sales Free-fall in March

- The Census Bureau reported today that new home sales in March plummeted 14.5% on a MoM basis to 384,000 SAAR, the lowest level since July 2013. New home sales in the Midwest, South, and West regions declined 21.5%, 14.4% and 16.7%, respectively, while Northeast home sales picked up by 12.5%. Still, the impact of the increase is insignificant overall, as the Northeast only made up about 7% of overall sales for the month. The median number of months that home sales have been on the market has risen or remained steady each of the last five months, an indication that housing market activity has stalled after accelerating during the second half of 2013. Though the months' supply of new homes at the current sales rate rose to 6.0, the increase is mostly explained by the lower sales rate rather than the 3.2% uptick in new home inventory. Regional reports suggest that exceptionally low inventory is holding back the pace of new home sales.
- Overall, the decline in housing sales can be attributed to the fall in housing affordability. Median home prices rose by 11.2% in March to \$290,000, the highest level and the biggest MoM increase since the Census Bureau started tracking new home sales in 1963. Meanwhile, mortgage rates have increased nearly a full percentage point since reaching all-time lows last March and have hovered around 4.3-4.5% thus far in 2014, further hurting affordability and hindering demand. Still, we believe housing will bounce back in 2Q14. Housing starts were up to 946K from 920K in February, and housing units under construction increased in March to the highest level since February 2009. While the new home sales figure for March was underwhelming, we look for the overall housing market to bounce back in the following months.

Consumer Sentiment Surges in April to Nine-Month High

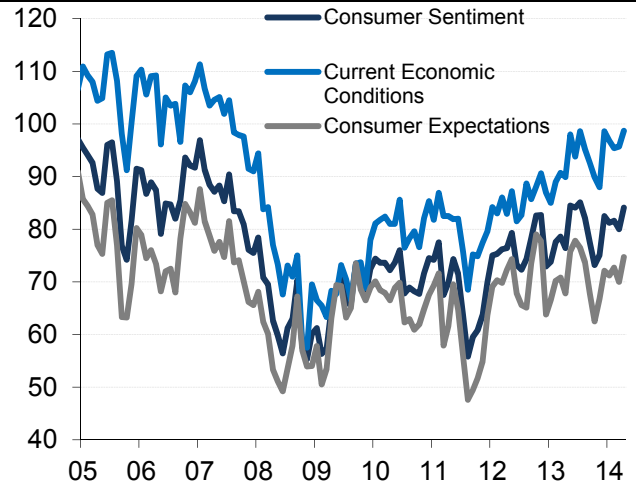
- Consumer sentiment climbed to 84.1 in April from 80.0 the month prior, the highest level since July of last year. The index had slumped to 73.2 in October, but now that the fiscal debacle in Washington is far in the rear-view mirror and economic conditions have considerably improved, overall sentiment regarding the growth of the economy has become much more upbeat. The index was driven higher by a combination of the current economic conditions component, which hit 98.7, the highest level since 2007, and the consumer expectations index, which reached 74.7.
- The fact that the current economic conditions component has bounced back to levels not seen since the recession indicates that consumers are finally starting to perceive the economy as healthy, rather than one that is recovering. Looking forward, the rise in sentiment should be reflected by increased consumer spending in the coming months, which has the potential to provide upward bias to our 2Q14 GDP forecast.

Graph 1
New Home Sales by Region (SAAR, Thousands)



Source: Census Bureau & BBVA Research

Graph 2
Consumer Sentiment Index (Q166=100)



Source: University of Michigan & BBVA Research

Week Ahead

GDP, Advanced (1Q14, Wednesday 8:30 ET)

Forecast: 1.3%

Consensus: 1.2%

Previous: 2.6%

The advanced real GDP estimate for 1Q14 is expected to show slower growth compared to 4Q13. Personal consumption expenditures for January and February saw MoM growth of 0.06% and 0.19%, respectively, which was considerably below spending data for 4Q13. Residential activity has also been weak, with new and existing home sales declining throughout the first few months of the year. Another important factor during 1Q14 has been the trade balance, which expanded in January and February as export demand struggled. On the positive side, the industrial production index has shown increasing output in February and March, which could help to offset some of the negative factors above. Furthermore, manufacturing activity and retail sales data both hint at stronger economic activity in March following the winter slowdown, so it is possible that we could see some positive revisions following the advanced estimate once all the data for the month is released. For this initial estimate, however, we forecast growth of 1.3% SAAR, the slowest quarterly growth since 1Q13.

Personal Income and Outlays (March, Thursday 8:30 ET)

Forecast: 0.2%, 0.4%

Consensus: 0.4%, 0.6%

Previous: 0.3%, 0.3%

We expect personal income and spending to continue trending upward in April. Income growth has been strong over the past two months, averaging 0.3% MoM. This is a positive sign for overall consumer spending, because income levels are accelerating substantially faster than inflation, giving consumers more bang for their buck. On the other hand, outlays have not accelerated quite as quickly thus far this year, increasing by an average of 0.1% over the first two months, but we expect spending to surge due to pent-up demand from the slowdown this winter. Looking forward, outlays should slightly outpace income growth, as spending on credit rises now that consumers are more confident in the economic recovery and inflation remains subdued through the rest of the year.

ISM Manufacturing Index (April, Thursday 10:00 ET)

Forecast: 54.0

Consensus: 54.2

Previous: 53.7

We look for manufacturing to continue trending upward in April, after indications from various regional Federal Reserve surveys showed expanding activity for the month. The ISM manufacturing index fared relatively well through the winter, holding above the 50 mark, and has hinted at acceleration since a brief slowdown in January. The employment component of the index dipped in March to its lowest level in nine months, but we expect it to bounce back after initial jobless claims dipped to record-lows earlier this month. In March, all components of the index held over 50, a signal that manufacturing activity is expanding on all fronts. Now that most weather-related factors are behind us and the majority of economic data remain positive, we see no reason for manufacturing activity to decline.

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

Forecast: 210K, 6.7%

Consensus: 210K, 6.6%

Previous: 192K, 6.7%

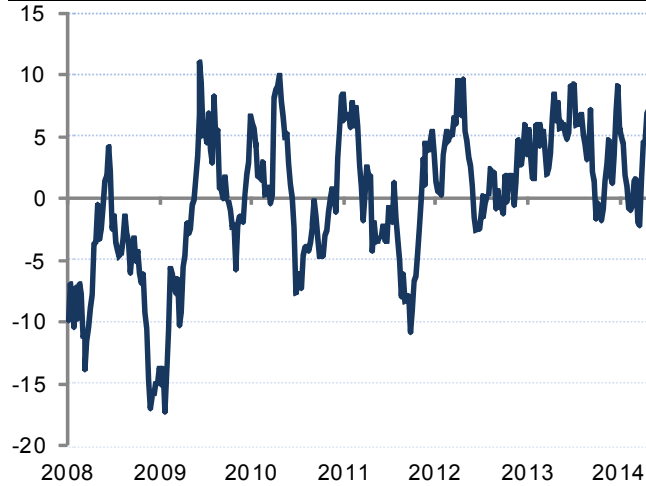
The labor market has picked up momentum in recent months, and as such we expect another improvement in the jobs report moving into 2Q14. Despite the fact that the winter weather had a significant impact on economic activity throughout the first quarter, we have seen relatively healthy job growth throughout the past few months. Even with weakness in the housing sector, construction hiring has been the catalyst so far in 2014, accounting for 16.5% of total nonfarm payroll additions through the first three months of the year. Manufacturing saw a small loss in payroll additions for March, but the pickup in activity for the sector should lead to expansion and hiring moving forward, as several regional Federal Reserve Manufacturing surveys noted acceleration in hiring for April. Initial jobless claims data also point to continued improvement in nonfarm payroll growth for the month, with the first two weeks posting near 300K compared to the 320K average in March. Even with the sizeable payroll additions, we do not expect to see a change in the unemployment rate, and we look for previously discouraged workers to re-enter the now healthier labor market.

Market Impact

After a quiet week in terms of economic data, investors will be paying close attention to GDP for the first quarter as well as the employment report Friday to get a gauge on activity. Furthermore, the FOMC Meeting Announcement on Wednesday is sure to warrant some market reaction. Market expectations have not been this high for the economy thus far in 2014, so disappointing data could spark a sell-off. Spectators will also continue to keep a close eye on the Russia-Ukraine situation, as tensions appeared to escalate at the end of last week.

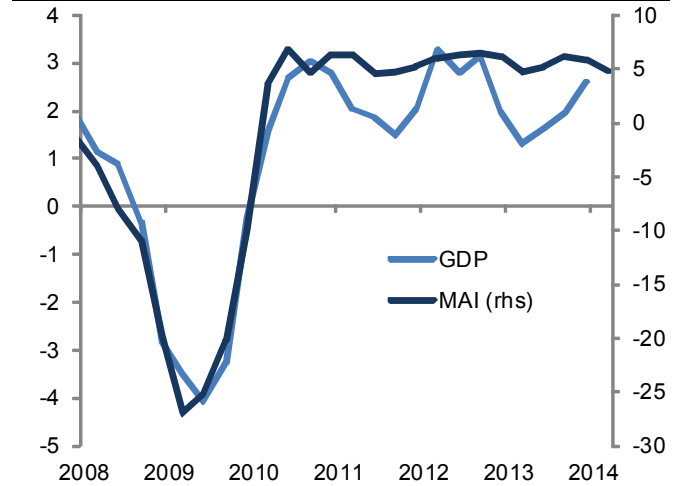
Economic Trends

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



Source: BBVA Research

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



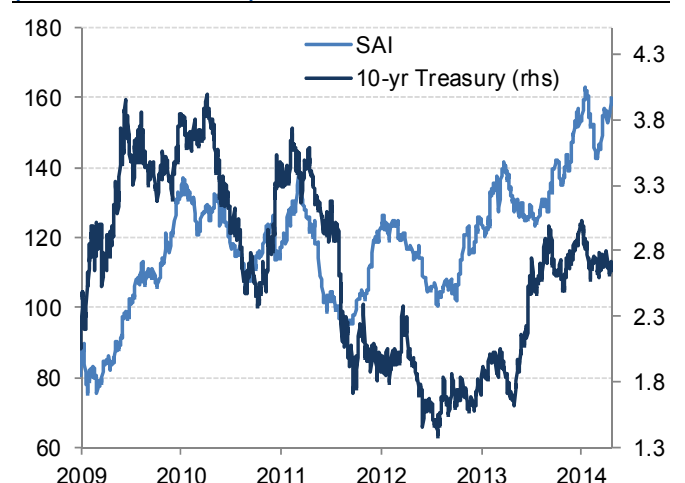
Source: BBVA Research & BEA

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



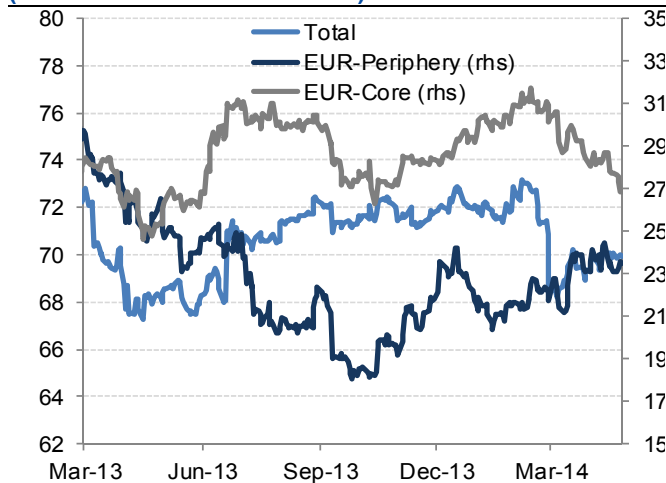
Source: BBVA Research

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



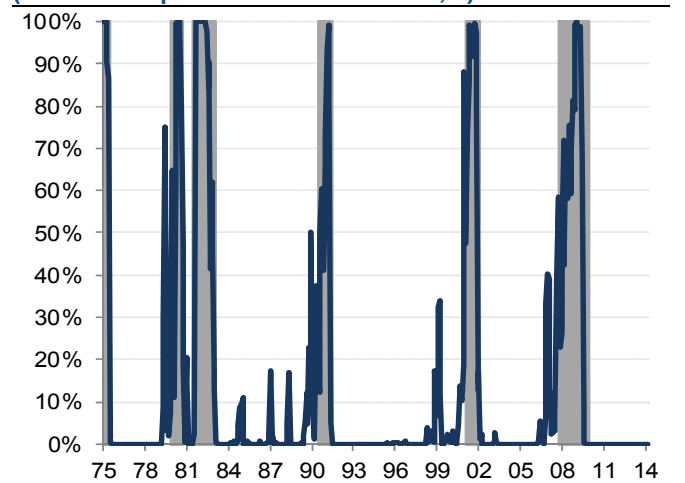
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

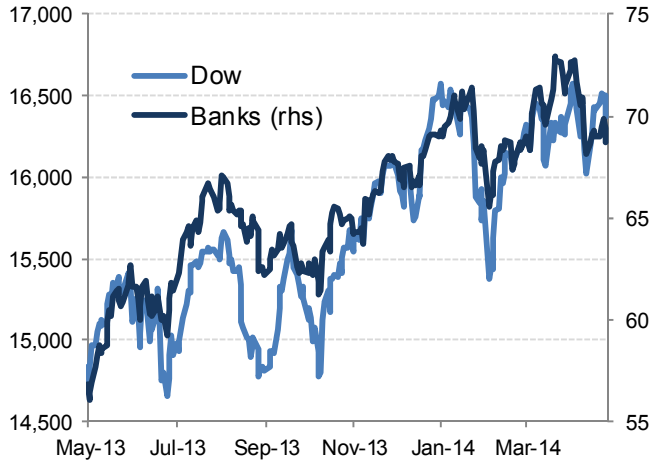
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

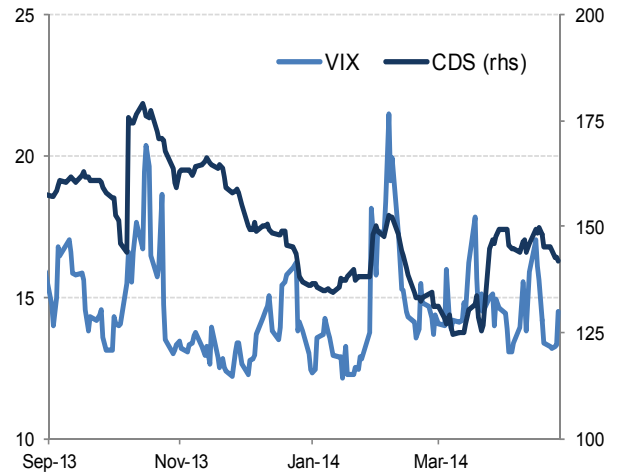
Financial Markets

Graph 9
Stocks
(Index, KBW)



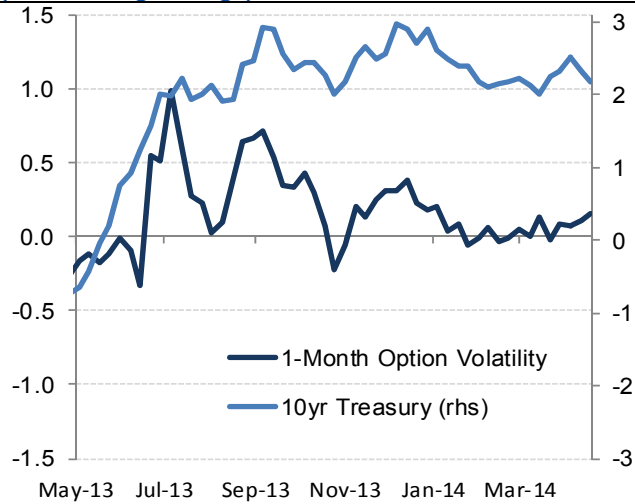
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



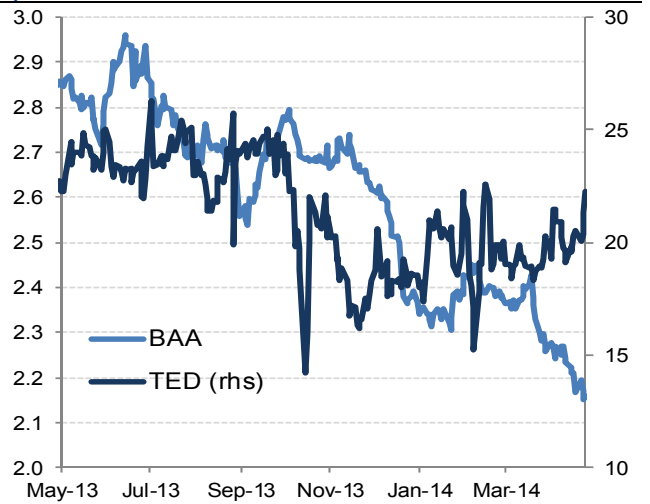
Source: Bloomberg & BBVA Research

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



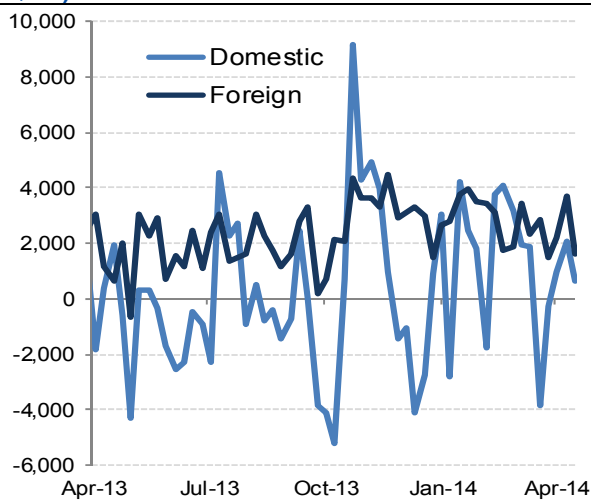
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



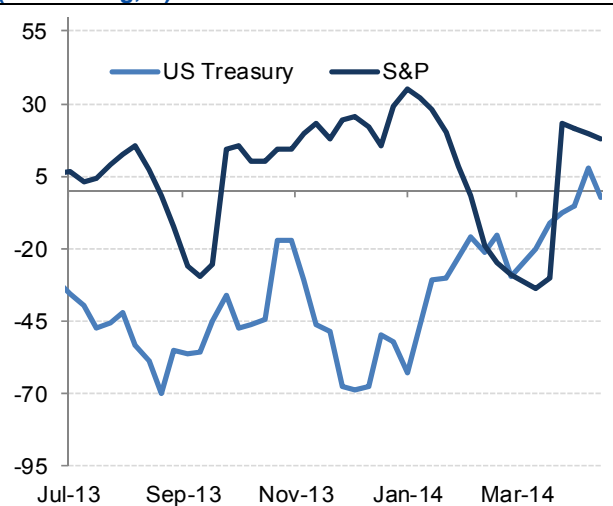
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

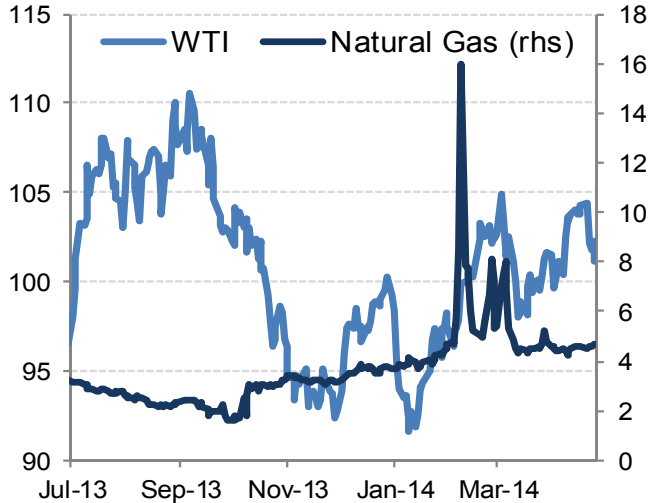
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

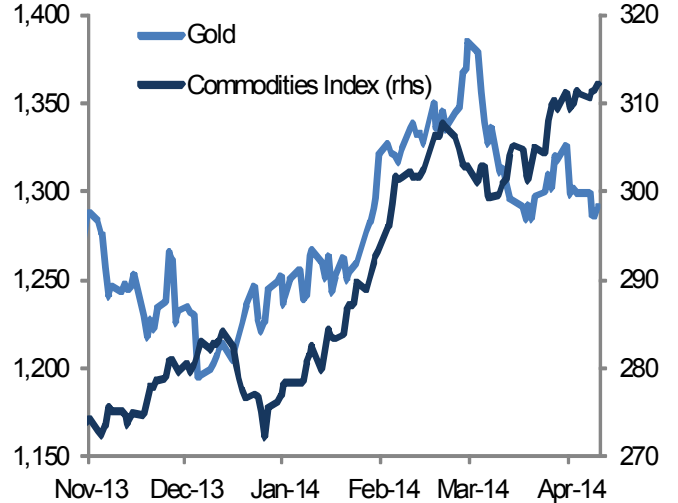
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



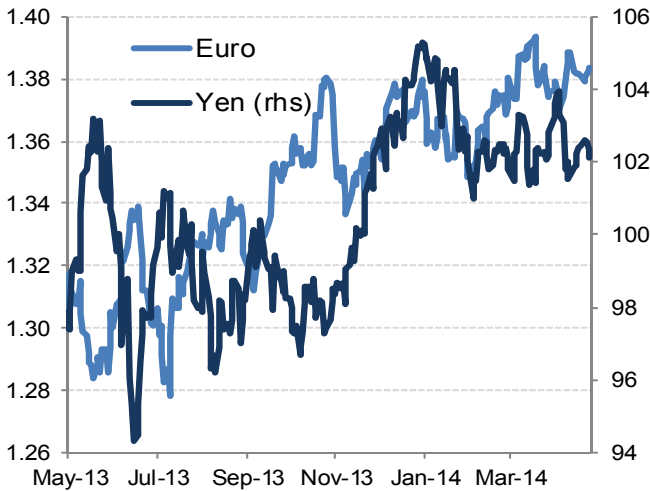
Source: Bloomberg & BBVA Research

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



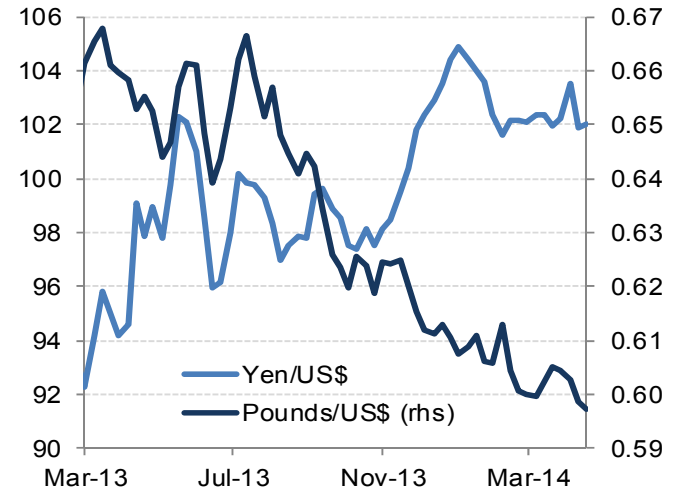
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



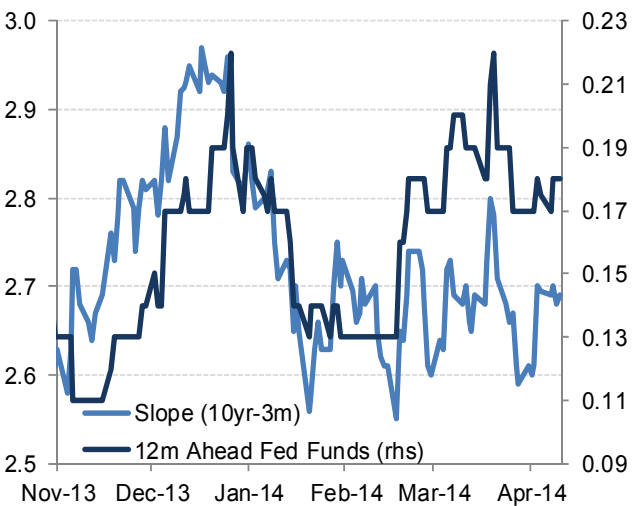
Source: Bloomberg & BBVA Research

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)	14.82	14.82	14.72	14.10
New Auto (36-months)	2.56	2.56	2.60	2.29
Heloc Loan 30K	5.16	5.18	5.27	5.24
5/1 ARM*	3.03	3.03	3.10	2.90
15-year Fixed Mortgage*	3.39	3.33	3.42	3.23
30-year Fixed Mortgage*	4.33	4.27	4.40	3.99
Money Market	0.41	0.41	0.41	0.47
2-year CD	0.79	0.79	0.78	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	0.10	0.10	0.08	0.13
3M Libor	0.23	0.23	0.23	0.27
6M Libor	0.32	0.32	0.33	0.43
12M Libor	0.55	0.55	0.56	0.70
2yr Sw ap	0.54	0.55	0.57	0.35
5yr Sw ap	1.79	1.84	1.83	0.84
10Yr Sw ap	2.77	2.85	2.84	1.85
30yr Sw ap	3.43	3.52	3.52	2.81
30day CP	0.12	0.12	0.11	0.13
60day CP	0.11	0.11	0.11	0.14
90day CP	0.13	0.13	0.13	0.17

Source: Bloomberg & BBVA Research

Quote of the Week

Barack Obama, President of the United States
News Conference in Tokyo
24 April 2014

"Sanctions hurt Russia more than anybody else, but they're disruptive to the global economy, and they're unnecessary if in fact Russia would recognize that the government in Kiev is prepared to have serious negotiations that preserve the rights of all Ukrainians, including Russian speakers, and is prepared to decentralize in ways that originally Mr. Putin said were of utmost importance to him."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Apr	US Pending Home Sales Index MoM SA	MAR	0.60	0.75	-0.84
29-Apr	S&P/Case-Shiller Composite-20 City Home Price Index SA MOM % Change	FEB	0.70	0.70	0.85
29-Apr	S&P/Case-Shiller Composite-20 City Home Price Index YoY	FEB	13.00	13.00	13.24
29-Apr	Conference Board Consumer Confidence SA 1985=100	APR	82.50	83.00	82.30
30-Apr	ADP National Employment Report SA Private Nonfarm Level Change	APR	200.00	206.00	191.40
30-Apr	GDP US Chained 2009 Dollars QoQ SAAR	1Q A	1.30	1.20	2.60
30-Apr	GDP US Personal Consumption Chained 2009 Dlr % Change from Previous Period SAAR	1Q A	1.6	1.9	3.3
1-May	US Auto Sales Total Annualized SA	APR	16.30	16.20	16.33
1-May	US Initial Jobless Claims SA	APR 26	325	320	329
1-May	US Continuing Jobless Claims SA	APR 19	2760	2710	2680
1-May	US Personal Income MoM SA	MAR	0.2	0.4	0.3
1-May	US Personal Consumption Expenditures Nominal Dollars MoM SA	MAR	0.4	0.6	0.3
1-May	ISM Manufacturing PMI SA	APR	54.0	54.2	53.7
1-May	Census Bureau US Construction Spending MoM SA	MAR	0.4	0.6	0.1
2-May	US Employees on Nonfarm Payrolls Total MoM Net Change SA	APR	210	210	192
2-May	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	APR	208	210	192
2-May	U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted	APR	6.7	6.6	6.7
2-May	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	APR	6	5	-1
2-May	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	APR	0.1	0.2	0.0
2-May	US Average Weekly Hours All Employees Total Private SA	APR	34.5	34.5	34.5
2-May	US Manufacturers New Orders Total MoM SA	MAR	0.8	1.5	1.6

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	3.41	3.80	4.10
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.35	1.32	1.37

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

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