



# Weekly Observatory

March 16th, 2009

## Week Ahead

### Industrial Production (Feb, Monday 9:15 ET)

F: -1.6%      C: -1.2%      P: -1.8%

Industrial production is expected to decline in February for the third month in a row. Durable goods orders have been declining since October and the trend is expected to continue into February. As a result, there will be a negative impact on industrial production. In addition, demand for automobiles is continuing to decrease. This trend will put additional downward pressure on the manufacturers, many of whom have already closed and stopped production at a number of plants.

### Housing Starts and Building Permits (Feb, Tuesday 8:30 ET)

F: 450K, 480K      C: 453K, 510K      P: 466K, 531K

We expect housing starts and building permits to decline further. The supply of existing homes is increasing due to the rising number of foreclosures and the falling price of real estate. As a result, consumers are buying existing homes rather than new ones, which is discouraging new residential construction. This forecast is in line with our expectation of a 12.6% decline in residential investment in 2009.

### Consumer Price Index (Headline, Core) (Feb, Wednesday 8:30 ET)

F: 0.3%, 0.2%      C: 0.3%, 0.1%      P: 0.3%, 0.2%

We expect headline inflation to rise by 0.3% in February, the same as for the previous month. This is the result of a 3.9% jump in February's gasoline prices, which averaged \$1.96/gallon compared to an average of \$1.89/gallon in January. In addition, we expect core inflation to remain stable at 0.2%. Even though the economy is weakening, wages are still increasing, which is alleviating downward pressure on prices. In our baseline scenario, we expect to see a downward trend in headline consumer prices on a year-over-year basis for 2009 due to lower energy prices in 2009 compared to 2008.

### Current Account Balance (4Q08, Wednesday 8:30 ET)

F: -\$144.6bn      C: -\$136.7bn      P: -\$174.1bn

The current account deficit for Q408 is expected to contract further to \$144.6bn from 174.1bn in Q308. This will be driven by a decrease in the trade balance deficit. The average price of oil decreased by 50.5% in the fourth quarter compared to the third, resulting in a lower value of imports. Exports also declined as the economic downturn resonated around the world and reduced the demand for US goods.

### FOMC Rate Decision (Wednesday 14:15 ET)

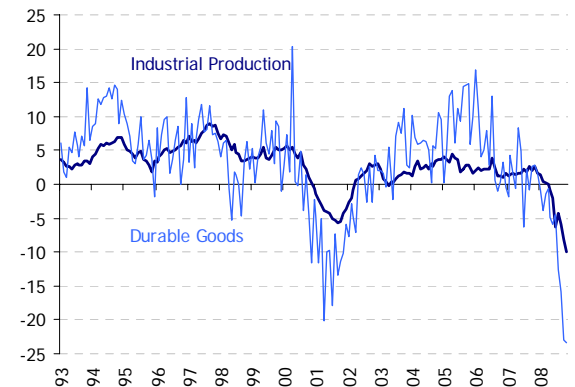
We expect the FOMC to keep its target rate unchanged between 0-0.25%. Short-term indicators in the inter-meeting period showed that overall economic activity weakened significantly. Deflationary risks remain contained by sustained wage growth and inflation expectations continue to be well anchored. Therefore, the Fed's balance of risks continues to be tilted towards economic growth. We expect the interest rate to remain low for a prolonged period of time.

Kristin Lomicka

[Kristin.Lomicka@compassbank.com](mailto:Kristin.Lomicka@compassbank.com)

### Industrial Production & Durable Goods Orders

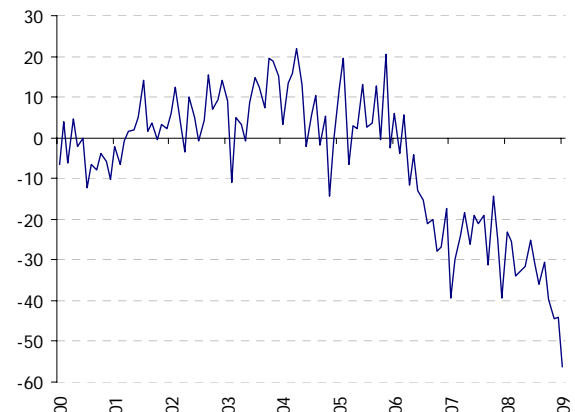
(yoy % change)



Source: Federal Reserve and US Census Bureau

### Housing Starts

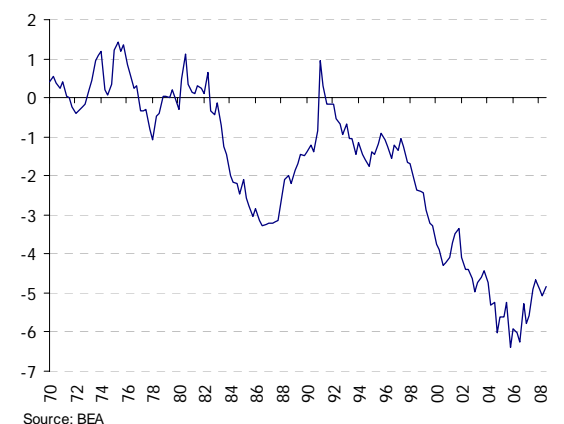
(yoy % change)



Source: US Census Bureau

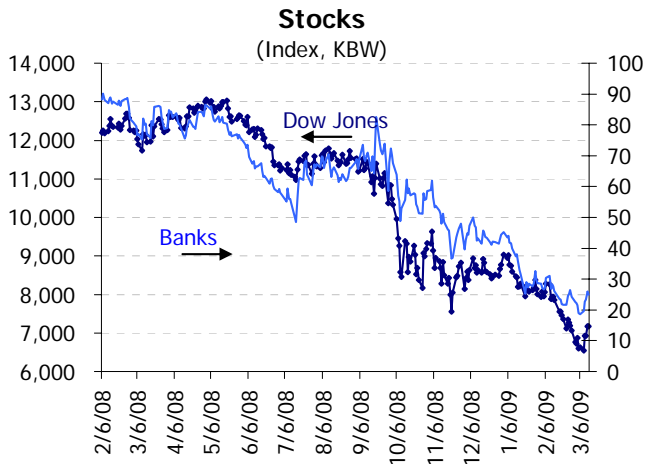
### Current Account Balance

(% of GDP)

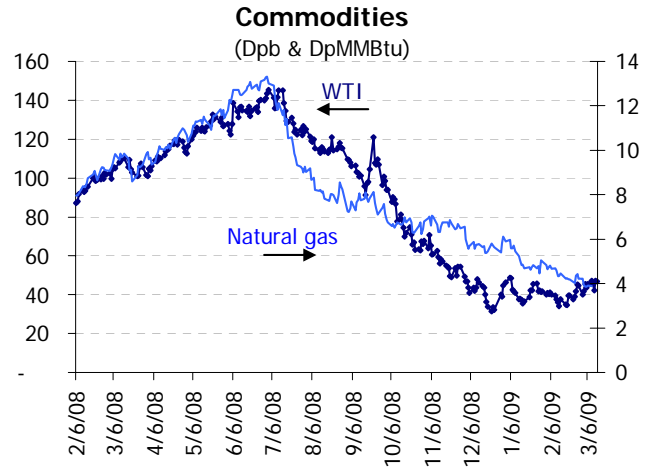


Source: BEA

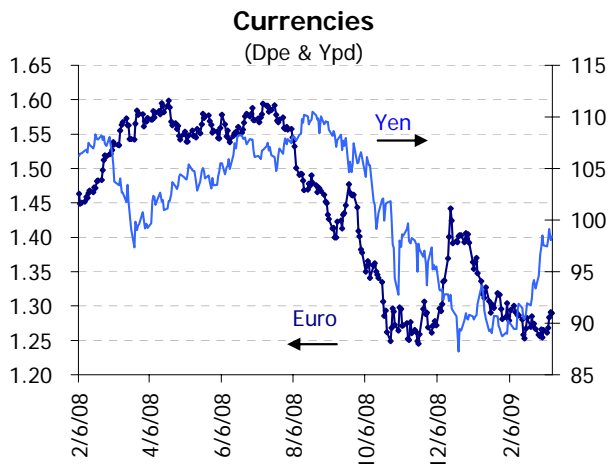
Financial Markets



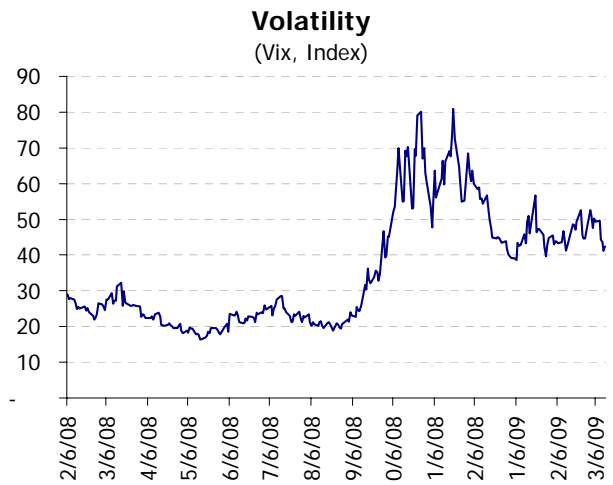
Source: Bloomberg



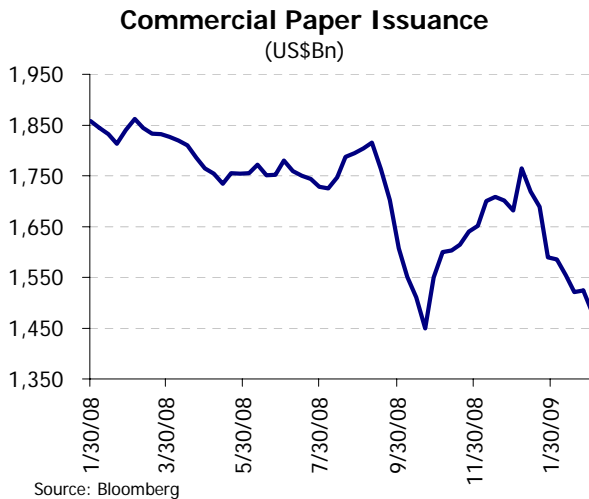
Source: Bloomberg



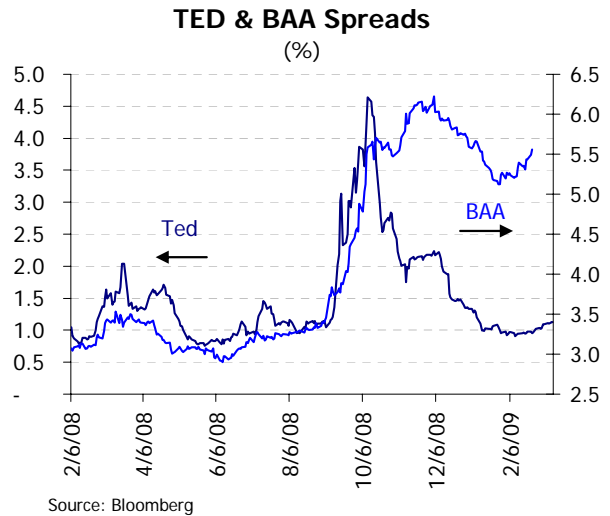
Source: Bloomberg



Source: Bloomberg



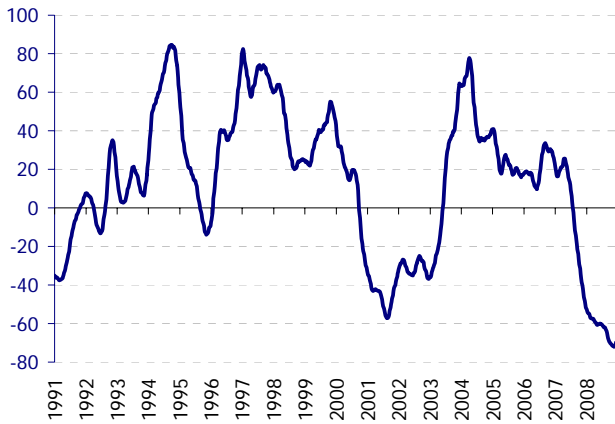
Source: Bloomberg



Source: Bloomberg

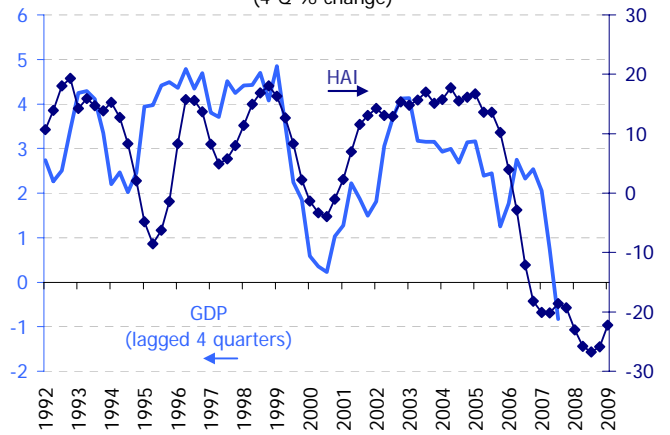
Economic Trends

**BBVA US Weekly Activity Index**  
(Yoy % change)



Source: BBVA ERD

**BBVA Housing Activity Index & Real Gross Domestic Product**  
(4-Q % change)



Source: BBVA ERD & BEA

**BBVA US Surprise Activity Index**  
(Index<sub>2004-7</sub>=100)



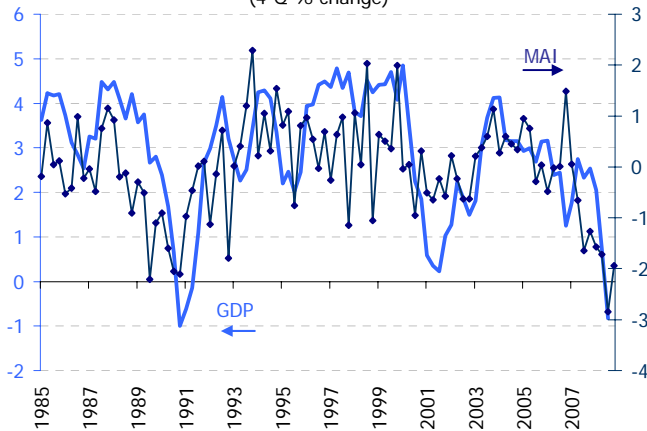
Source: BBVA ERD

**BBVA US Surprise Inflation Index**  
(Index<sub>2004-7</sub>=100)



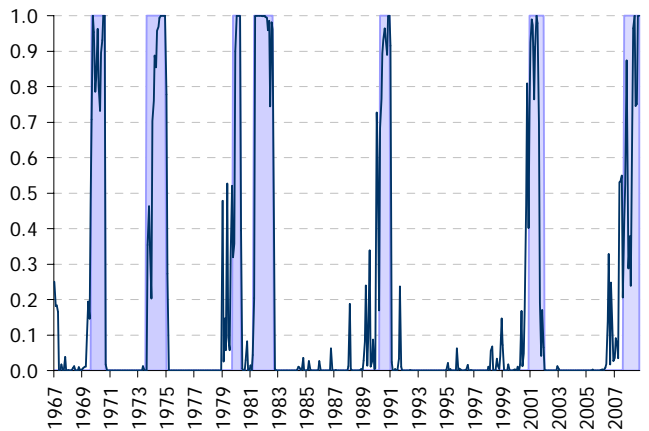
Source: BBVA ERD

**BBVA US Monthly Activity Index & Real Gross Domestic Product**  
(4-Q % change)



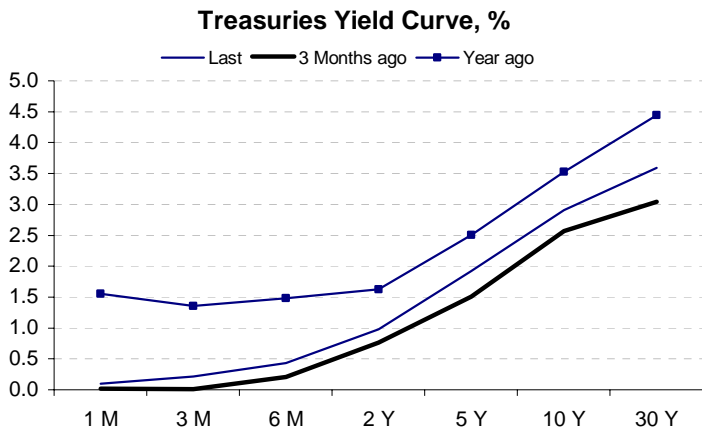
Source: BBVA ERD & BEA

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



Source: BBVA ERD

## Yield Curve and Interest Rates



### Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	6.00
Credit Card (variable)	10.80	10.84	10.84	12.89
New Auto (36-months)	6.89	6.91	6.93	6.67
Heloc Loan 30K	5.14	5.14	5.07	5.50
30-year Fixed Mortgage *	5.03	5.15	6.37	6.71
Money Market	1.41	1.45	1.65	2.77
2-year CD	2.21	2.24	2.36	3.09
5-year CD	2.68	2.72	2.79	3.45

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Chairman Ben S. Bernake: *Financial Reform to Address Systematic Risk*, March 10, 2009

“We must have a strategy that regulates the financial system as a whole, in a holistic way, not just its individual components. In particular, strong and effective regulation and supervision of banking institutions, although necessary for reducing systemic risk, are not sufficient by themselves to achieve this aim.”

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
16-Mar	Empire Manufacturing	MAR	-36.1	-32	-34.65
16-Mar	Net Long-term TIC Flows	JAN		\$45.0B	\$34.8B
16-Mar	Industrial Production	FEB	-1.60%	-1.30%	-1.80%
16-Mar	Capacity Utilization	FEB	71.20%	71.00%	72.00%
16-Mar	NAHB Housing Market Index	MAR	8	9	9
17-Mar	Producer Price Index (MoM)	FEB	0.30%	0.40%	0.80%
17-Mar	PPI Ex Food & Energy (MoM)	FEB	0.30%	0.10%	0.40%
17-Mar	Housing Starts	FEB	450K	450K	466K
17-Mar	Building Permits	FEB	480K	500K	521K
17-Mar	ABC Consumer Confidence	15-Mar	-48	-48	-48
18-Mar	MBA Mortgage Applications	13-Mar	--	--	11.30%
18-Mar	Consumer Price Index (MoM)	FEB	0.30%	0.30%	0.30%
18-Mar	CPI Ex Food & Energy (MoM)	FEB	0.20%	0.10%	0.20%
18-Mar	Consumer Price Index (YoY)	FEB	-0.10%	0.00%	0.00%
18-Mar	CPI Ex Food & Energy (YoY)	FEB	1.80%	1.70%	1.70%
18-Mar	Current Account Balance	4Q	-\$144.6B	-\$137.5B	--
18-Mar	FOMC Rate Decision	18-Mar	0.25%	0.25%	0.25%
19-Mar	Initial Jobless Claims	14-Mar	661K	660K	654K
19-Mar	Continuing Claims	7-Mar	5410K	5313K	5317K
19-Mar	Leading Indicators	FEB	-0.50%	-0.60%	0.40%
19-Mar	Philadelphia Fed.	MAR	-45.1	-39	-41.3