



# Weekly Observatory

March 23rd, 2009

## Week Ahead

### Existing and New Home Sales (Feb, Mon 10:00 ET, Wed 10:00 ET)

F: 4.37M, 302K      C: 4.45M, 300K      P: 4.49M, 309K

Existing and new home sales are expected to decrease further in February. Tight credit markets are making it increasingly difficult for potential buyers to get a mortgage. In addition, the weakening labor market is deterring people from making the financial commitment required to buy a house. Looking at historical data, the inventory to sales ratio for existing homes (the number of months required to sell the existing inventory) for the past few months is still well above the historical average of 5.8 months, which indicates that prices have room to fall before demand will be restored. As a result, we expect existing home sales and prices to continue to decline since we have not yet reached the bottom of the decline.

### Initial and Continuing Jobless Claims (Mar 21, Mar 14, Thurs 8:30 ET)

F: 642K, 5603K      C: 650K, 5458K      P: 646K, 5473K

Initial jobless claims are expected to remain above 600K for the seventh week in a row. Mass lay-offs are continuing but are not accelerating, so weekly initial claims could remain around the same level throughout the next few months. On the other hand, continuing claims will keep on increasing in the upcoming months. Labor market contraction has been widespread across most industries, and therefore it is becoming increasingly difficult for displaced workers to find new employment.

### Orders for Durable and Non-Defense Capital Goods (Feb, Wed 8:30 ET)

F: -2.5, -3.1      C: -2.0, -2.3      P: -4.5, -5.7

We expect non-defense capital goods orders, the country's primary export, to fall in February due to weakening global demand. In fact, while the decline of industrial production in some sectors has steadied over the past few months, but that of the high tech sector, a component of capital goods, accelerated to -14%. These trends support our expectation that non-residential investment in 1Q09 could decline further. In addition, we expect durable goods orders to decline further in February because prolonged weak demand and lack of available credit have stifled investment.

### Personal Income and Outlays (Feb, Fri 8:30 ET)

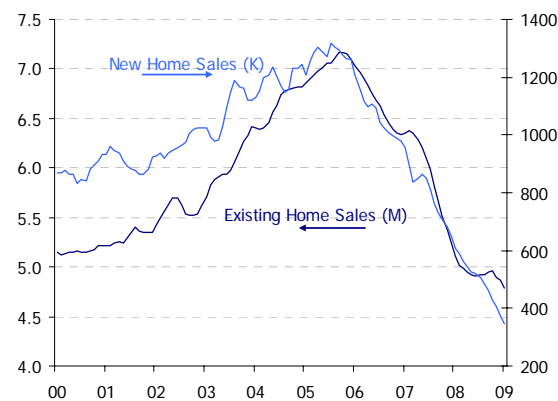
F: 0.1, 0.2      C: -0.1, 0.2      P: 0.4, 0.6

Nominal personal income is expected to increase slightly in February, mainly due to that month's 0.3% inflation. In real terms, personal income may fall 0.2%. Since the labor market is projected to weaken further, real personal income could decrease further in the upcoming months. Even though January's data presented an increase in both nominal and real income, it was due to a cost of living adjustment in social security payments, a transitory factor that is not indicative of the trend. Nominal personal consumption is also expected to increase because retail sales showed a nominal increase in spending across a variety of sectors; however, when adjusted for inflation, real personal consumption, like real retail sales, could decrease. Looking forward, we expect real personal outlays to remain weak for several more months.

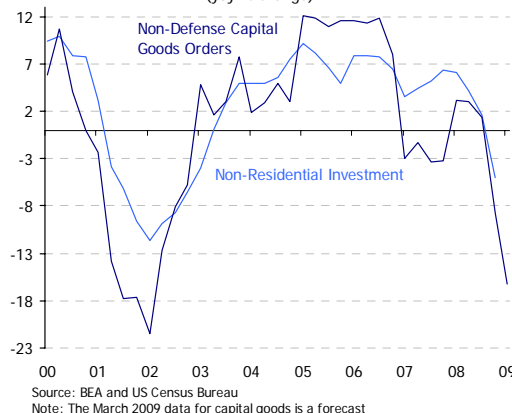
Kristin Lomicka

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

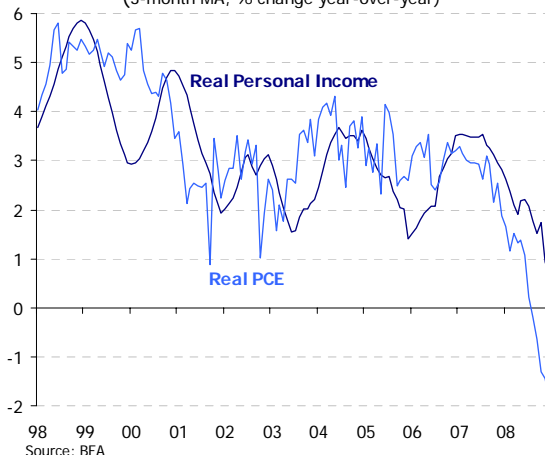
**New and Existing Home Sales**  
(6m moving average, K, M)



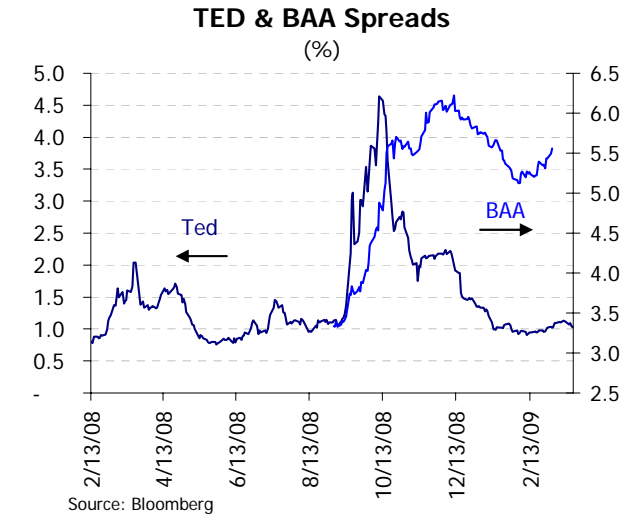
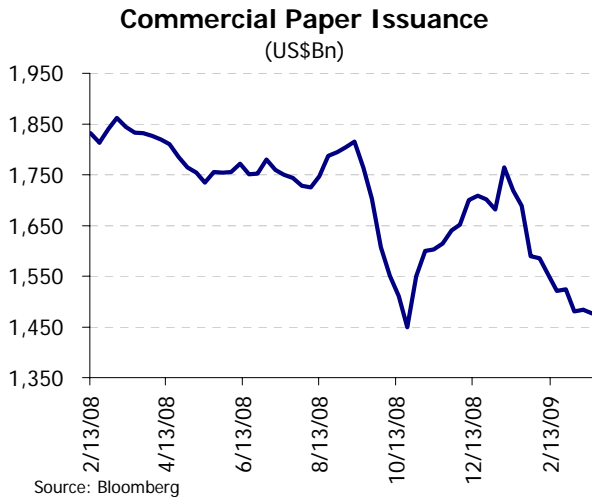
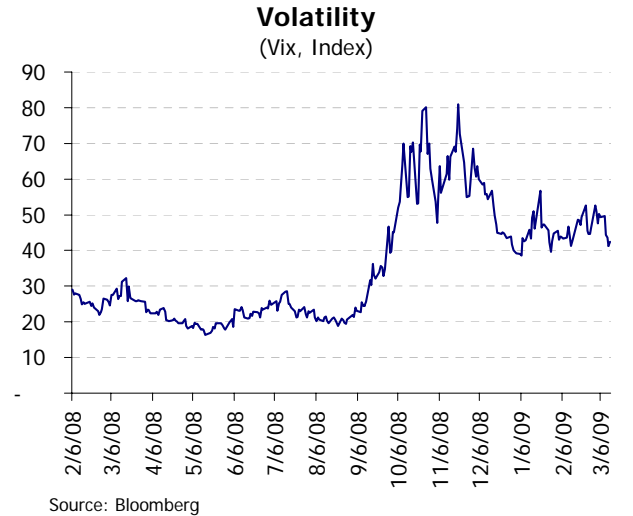
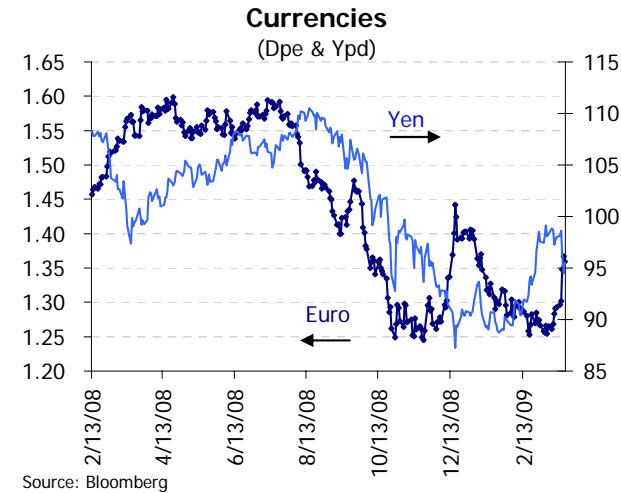
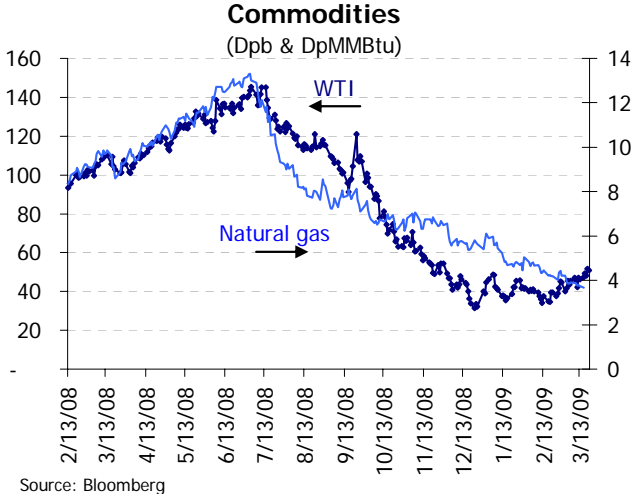
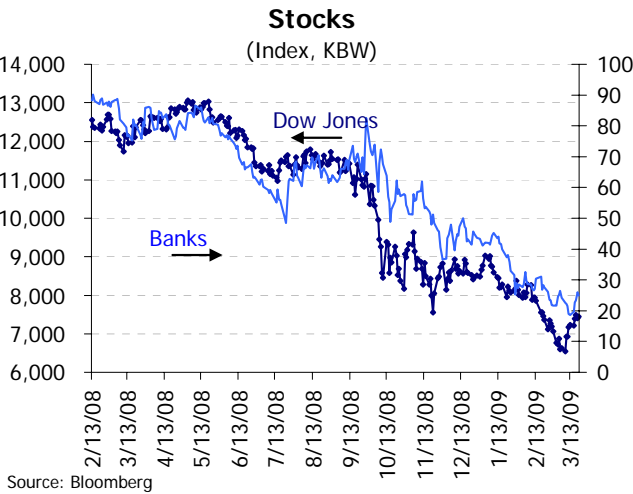
**Capital Goods & Non-Residential Investment**  
(yoy % change)



**Real Personal Income & PCE**  
(3-month MA, % change year-over-year)

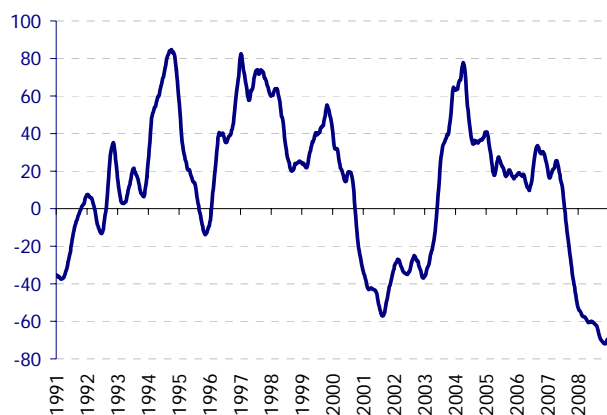


Financial Markets



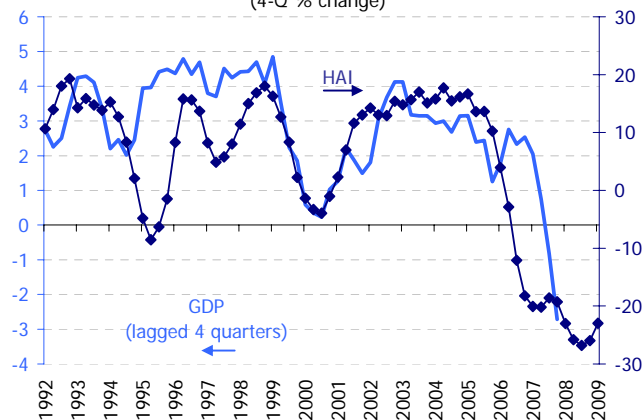
## Economic Trends

**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**  
(Index2004-7=100)



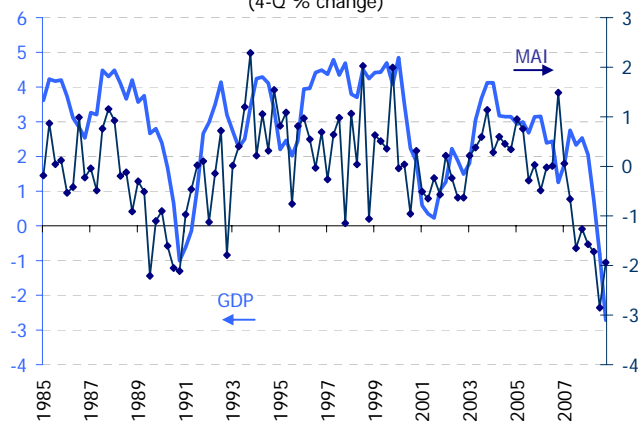
Source: BBVA ERD

**BBVA US Surprise Inflation Index**  
(Index2004-7=100)



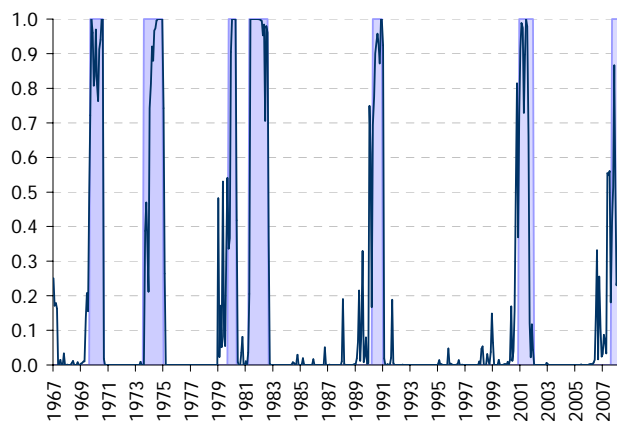
Source: BBVA ERD

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



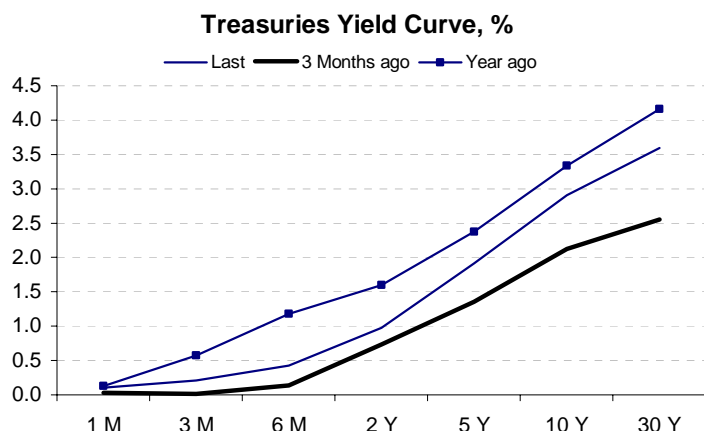
Source: BBVA ERD & BEA

**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	5.25
Credit Card (variable)	10.75	10.84	10.84	12.77
New Auto (36-months)	6.88	6.89	6.89	6.67
Heloc Loan 30K	5.15	5.14	5.07	5.23
30-year Fixed Mortgage *	4.98	5.03	6.37	6.71
Money Market	1.40	1.40	1.57	2.79
2-year CD	2.20	2.20	2.32	3.00
5-year CD	2.68	2.68	2.75	3.37

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Chairman Ben S. Bernake: At the Independent Community Bankers of America National Convention and Techworld, Phoenix, AZ, March 20, 2009

I want to conclude by encouraging you as community bankers to operate prudently in the current environment, but not to let fear drive your decisions. You should all continue to exercise good risk management—including strong underwriting for individual exposures and proper management of credit concentrations in your portfolios. You should also be certain that any deterioration in asset quality and borrowers' conditions are accurately identified, measured, and managed. And you should take steps to maintain a strong financial condition with sufficient capital and liquidity levels as preparation for any future economic and financial uncertainty. By doing so, you can ensure that your institutions can continue to provide a steady and consistent source of credit to businesses and borrowers for years to come. If community banks are prudent but opportunistic in extending credit to strong borrowers, they will help the economy recover while benefiting from that recovery themselves.

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
23-Mar	Existing Home Sales	FEB	4.37M	4.45M	4.49M
24-Mar	ABC Consumer Confidence	22-Mar	-47	-	-47
25-Mar	Durable Goods Orders	FEB	-0.025	-0.022	-0.052
25-Mar	Durables Ex Transportation	FEB	-0.021	-0.021	-0.025
25-Mar	New Home Sales	FEB	320K	300K	309K
26-Mar	GDP QoQ (Annualized)	4Q F	-0.062	-0.066	-0.062
26-Mar	Personal Consumption	4Q	-0.05	-0.044	-0.043
26-Mar	GDP Price Index	4Q	0.005	0.005	0.005
26-Mar	Core PCE QoQ	4Q	0.008	0.008	0.008
26-Mar	Initial Jobless Claims	21-Mar	642K	650K	646K
26-Mar	Continuing Claims	14-Mar	5603K	5458K	5473K
27-Mar	Personal Income	FEB	0.001	-0.001	0.004
27-Mar	Personal Spending	FEB	0.002	0.002	0.006
27-Mar	PCE Core (MoM)	FEB	0.002	0.001	0.001
27-Mar	PCE Core (YoY)	FEB	0.0166	0.016	0.016
27-Mar	U. of Michigan Confidence	MAR F	56.6	56.6	56.6