



Weekly Observatory

May 18th, 2009

Week Ahead

Housing Starts (April, Tuesday 8:30 ET)

F: 520K

C: 523K

P: 510K

The worst for residential construction may be over. In April, the National Association of Home Builders/Wells Fargo Housing Market Index jumped to 14 from 9. This was the largest one-month change since March 2003. This is good news for the residential investment outlook. According to this report, potential single-family home buyers seem to be taking advantage from falling prices, low mortgage rates and an \$8,000 first-time homebuyer tax credit. We expect housing starts to improve a bit in April; yet, they will continue to be very low compared to the previous year.

Initial Unemployment Insurance Claims (May 16th, Thursday 8:30 ET)

F: 635

C: 630K

P: 637K

Initial jobless claims are expected to remain fairly stable in the week ending May 16th. Over the past ten weeks claims' pace of expansion has decelerated significantly, suggesting that the worst adjustments in the labor market have taken place. On average, claims tend to stabilize several months before a recession comes to an end. This does not mean that job destruction is over, on the contrary, massive-layoffs are likely to continue in the next months, though at a slower pace.

Philadelphia Fed Manufacturing Index (May, Thursday 10:00 ET)

F: -20.0

C: -18

P: -24.4

The modest recovery seen in consumer confidence is likely to have some impact on business assessment on current and future conditions. Thus, we expect the Philadelphia Fed Business Outlook Survey to show a modest improvement in the manufacturing industry. Our expectations were supported by May's Empire State Survey, which suggested that the decline in manufacturing activity is diminishing.

Leading Economic Indicators Index (LEI) (April, Thursday 10:00 ET)

F: 0.5%

C: 0.8%

P: -0.3%

We expect the LEI to increase significantly in April, anticipating better economic conditions early in the second quarter. Most of the LEI components improved from the previous month. For instance, the Consumer Confidence Index experienced the largest one-month increase since December 2005. Meanwhile, initial unemployment insurance claims went down to February levels. The S&P 500 experienced a 12% gain, while building permits are expected to increase.

Minutes of April 29th FOMC Meeting (Wednesday 14:00 ET)

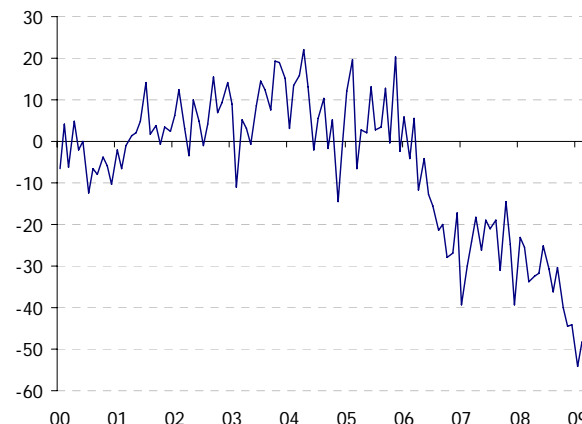
We expect a significant improvement from the previous meeting in the economic assessment from FOMC members, and little disagreement on inflationary risks and monetary easing. Very likely FOMC revised down once again its GDP growth forecast, but did not consider the implementation of new liquidity measures. Instead, FOMC kept focused on the evolution of those facilities already in place. We continue to expect the Fed funds rate to remain significantly low for a protracted period of time.

Marcial Nava

marcial.nava@bbvacompass.com

Housing Starts

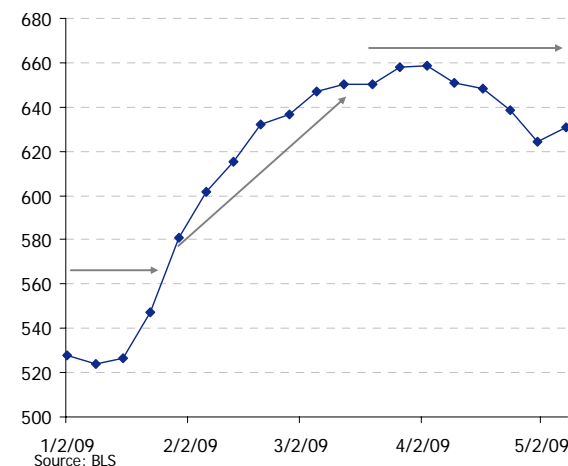
(12-month % change)



Source: US Census Bureau

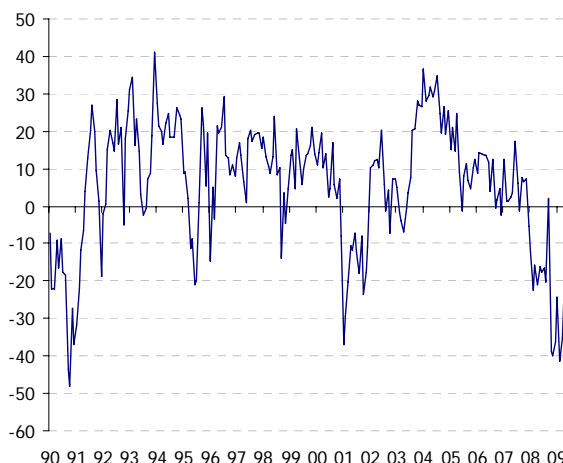
Initial Jobless Claims

(4-week moving average)

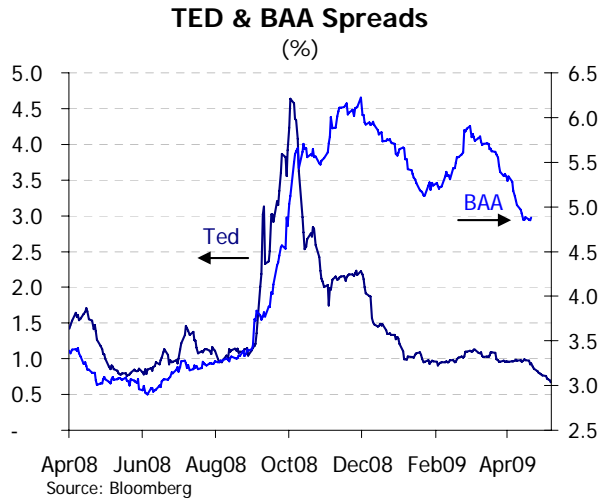
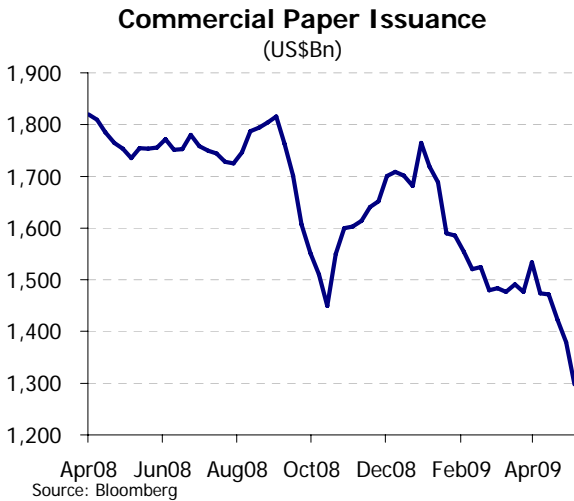
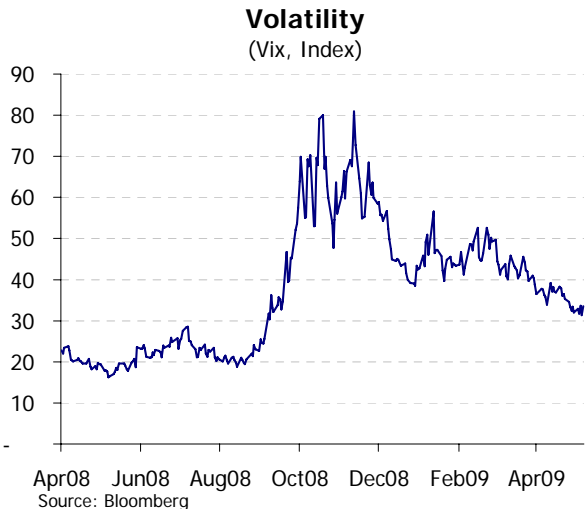
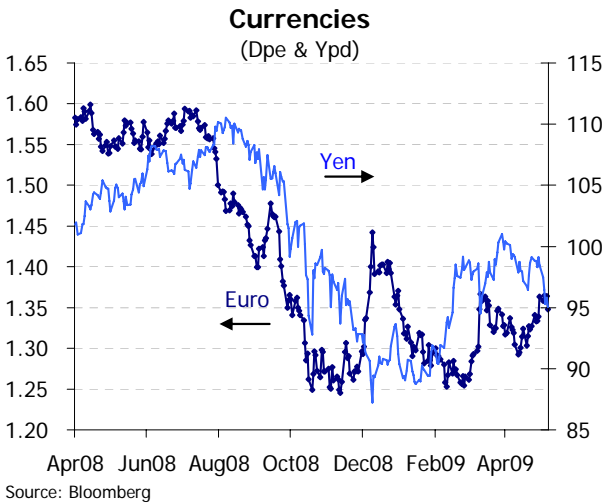
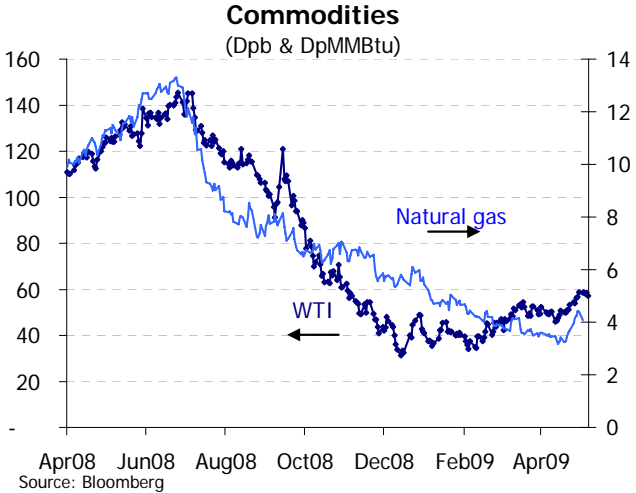
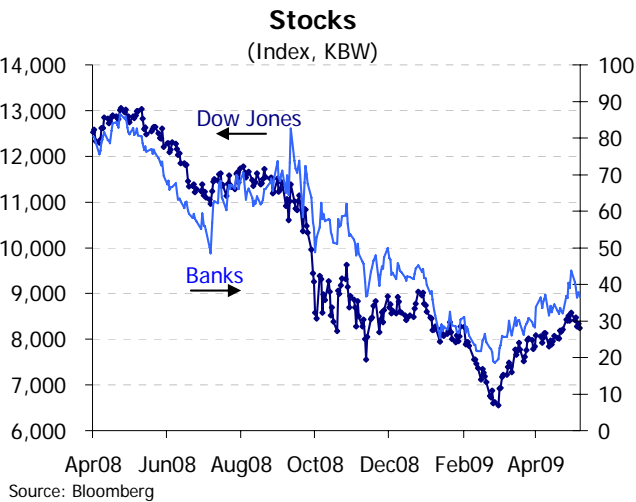


Source: BLS

Philly Fed Index

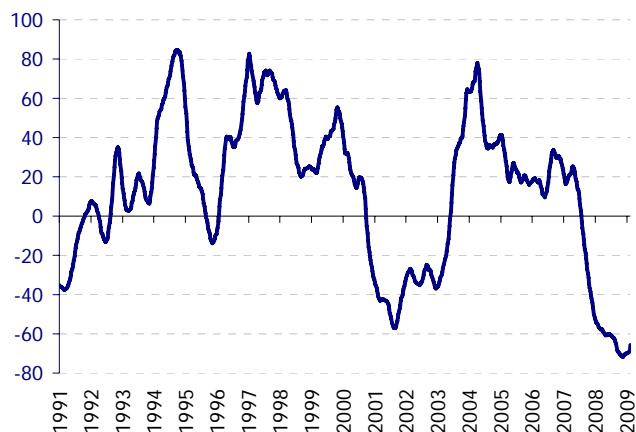


Financial Markets



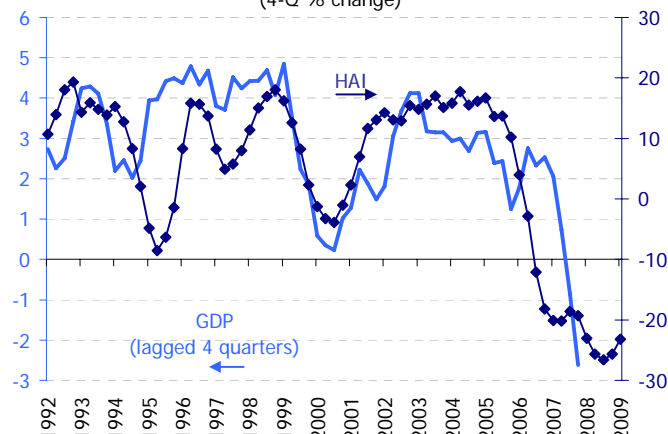
Economic Trends

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)



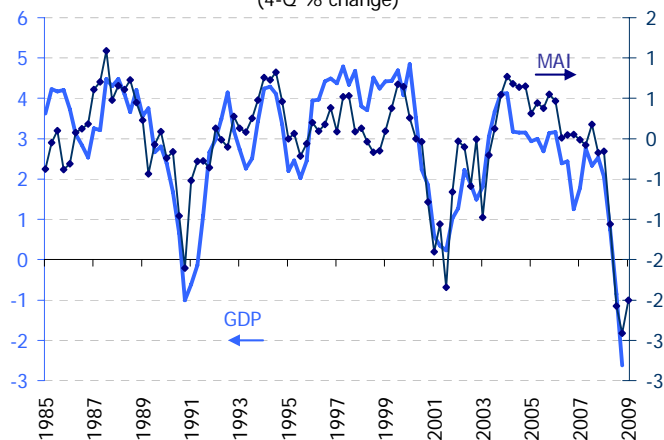
Source: BBVA ERD

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



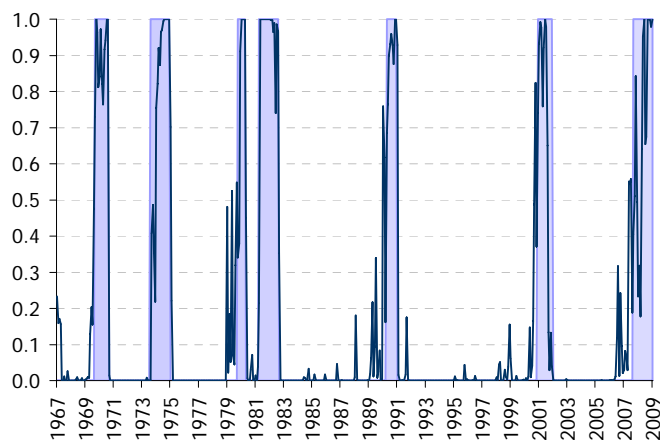
Source: BBVA ERD

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



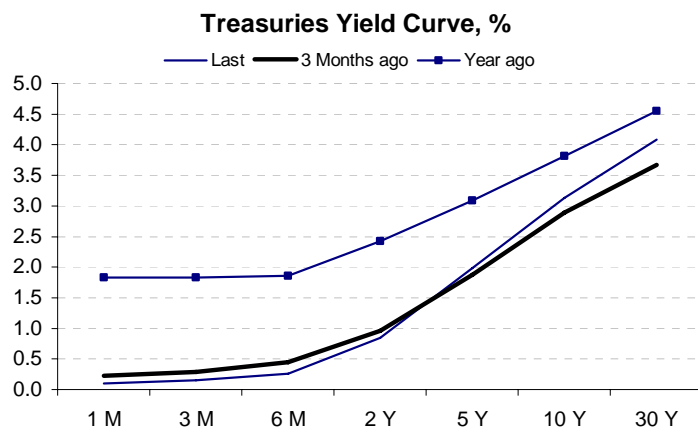
Source: BBVA ERD & BEA

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	5.00
Credit Card (variable)	10.76	10.75	10.73	11.90
New Auto (36-months)	7.18	7.17	7.34	6.80
Heloc Loan 30K	5.20	5.17	5.12	4.72
30-year Fixed Mortgage *	4.86	4.84	6.37	6.71
Money Market	1.36	1.36	1.32	2.36
2-year CD	2.20	2.18	2.19	3.15
5-year CD	2.79	2.76	2.71	3.60

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

President Barack Obama, 15 May 2009 Rio Rancho New Mexico

“Enough’s enough,” he said. “It’s time for strong reliable protections for our consumers. It’s time for reform that’s built on transparency and accountability and mutual responsibility, values fundamental to the new foundation we seek to build for our economy.”

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
18-May	NAHB Housing Market Index	MAY	15	16	14
19-May	Housing Starts	APR	520K	523K	510K
19-May	Building Permits	APR	532K	530K	516K
19-May	ABC Consumer Confidence	17-May	-42	-42	-42
20-May	MBA Mortgage Applications	15-May		- -	-8.60%
20-May	Minutes of April 29 FOMC Meeting	20-May			
21-May	Initial Jobless Claims	16-May	635K	630K	637K
21-May	Continuing Claims	9-May	6640K	6650K	6560K
21-May	RPX Composite 28dy YoY	MAR		- -	-22.27%
21-May	RPX Composite 28dy Index	MAR		- -	186.56
21-May	Leading Indicators	APR	0.5%	0.8%	-0.3%
21-May	Philadelphia Fed.	MAY	-20	-18	-24.4

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