



Weekly Observatory

July 6, 2009

Week Ahead

ISM Non-Manufacturing Index (June, Monday 10:00 ET)

F: 45.1 C: 46.0 P: 44.0

The ISM non-manufacturing index is expected to increase for the third month in a row, but will remain below the benchmark of 50, indicating that the non-manufacturing sector continues to contract but at a slower pace. These results would be in line with our expectation of slower economic contraction in 2Q09 than the previous quarter.

Consumer Credit (May, Wednesday 15:00 ET)

F: -\$12.7B C: -\$10.0B P: -\$15.7B

Consumer credit outstanding is expected to decline for the fourth month in a row, adding to the \$38.4B that it has already dropped in 2009. Ongoing insecurity in the job market and the shift in consumer attitudes from spending to saving is limiting demand for new credit and pushing consumers to pay down existing debts, while tight credit markets are inhibiting supply. The declining supply and demand for credit in the market could slow the recovery of consumption in the second half of the year as consumers will have less purchasing power.

Wholesale Inventories (May, Thursday 10:00 ET)

F: -0.8% C: -1.0% P: -1.4%

Wholesale inventories are expected to continue the declining trend that began in September 2008. The inventory to sales ratio spiked due to a steep drop in demand, but has since come down from its peak of 1.34 in January because businesses are not replenishing sold inventory. We expect this trend to continue into the second half of the year, however, once wholesalers reach the minimum threshold for inventories, we could see an increase in industrial production.

International Trade Balance (May, Friday 8:30 ET)

F: -\$29.8B C: -\$30.0B P: -\$29.2B

The international trade balance is expected to reflect the ongoing decline in demand both at home and abroad. While both imports and exports are forecasted to decline, the value of imports will be supported by the 18.7% rise in oil prices. As a result, the trade balance could widen due to a larger drop in the value of exports compared to that of imports. If this scenario holds true, net exports could have a negative contribution to GDP in 2Q09.

University of Michigan Consumer Sentiment (July, Friday 9:55 ET)

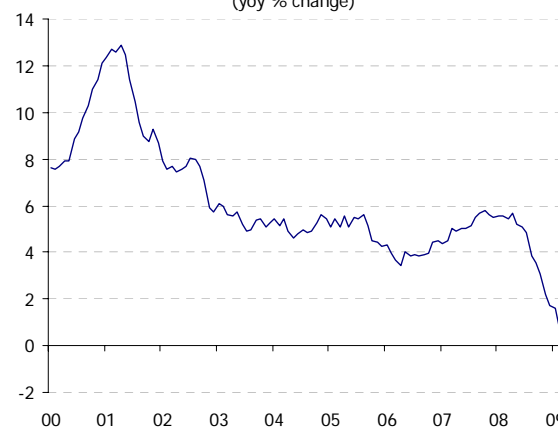
F: 71.2 C: 70.6 P: 70.8

Consumer sentiment is expected to rise for the fifth month in a row as people continue to react positively to the recent stabilization in the labor market, increase in disposable income and pick-up in retail sales. Nevertheless, the index is expected to remain below the historical average of 86.6, indicating that consumer confidence is still low. Ongoing steady increases in consumer sentiment could have a positive impact on the consumption component of GDP because consumers will feel more comfortable spending money as their economic outlook rises.

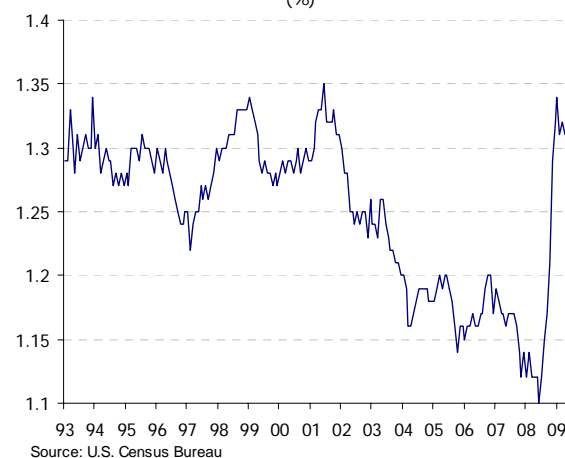
Kristin Lomicka

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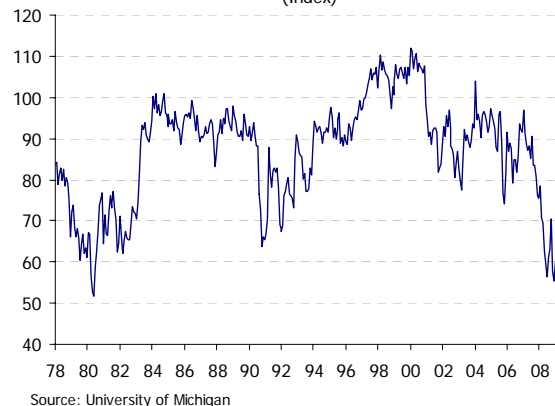
Consumer Credit
(yoy % change)



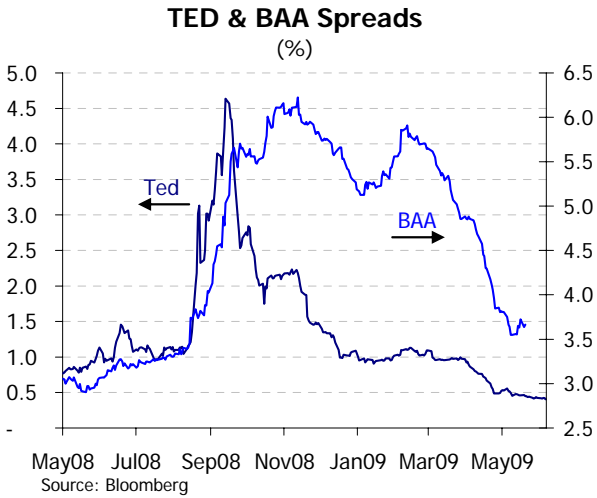
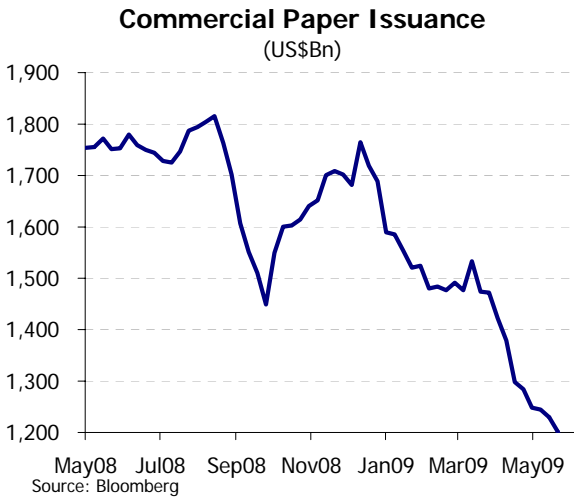
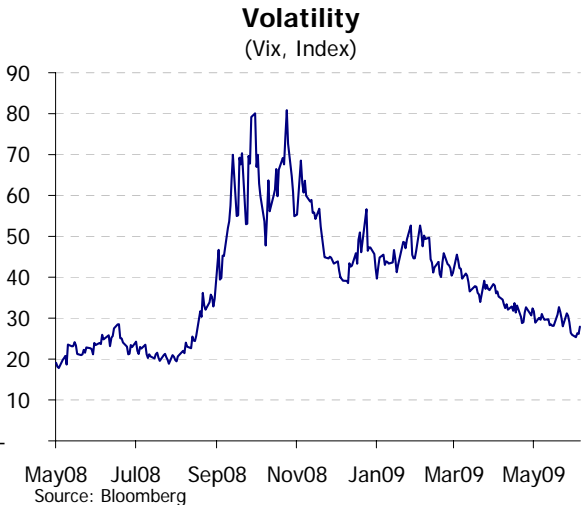
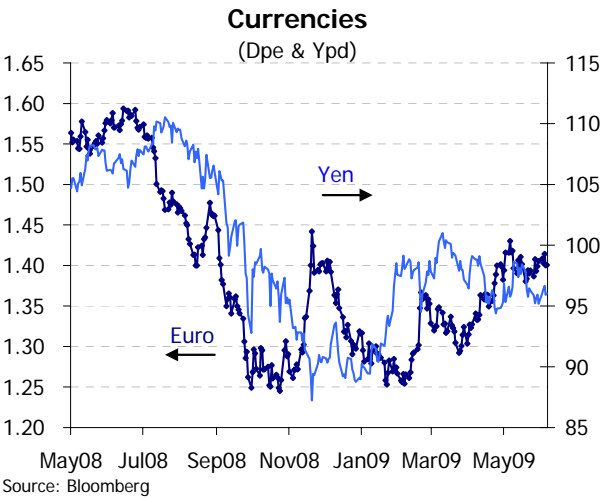
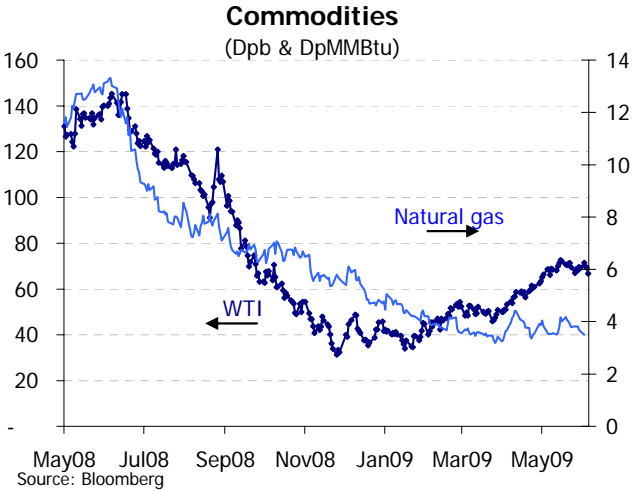
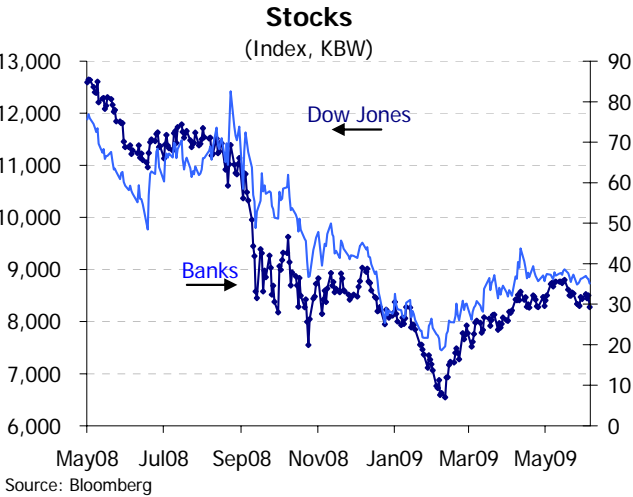
Inventory to Sales Ratio
(%)



University of Michigan Consumer Sentiment
(Index)



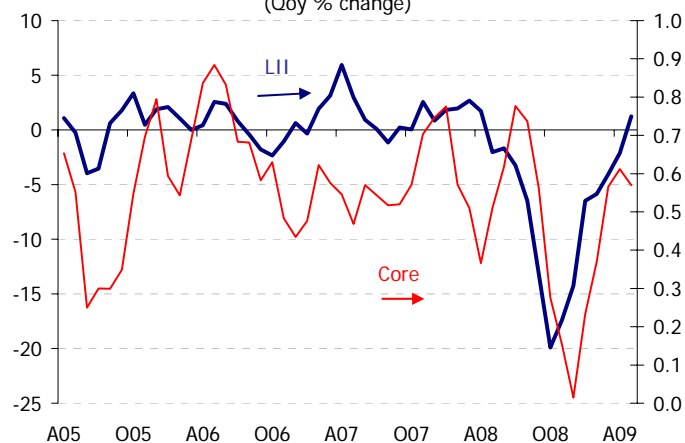
Financial Markets



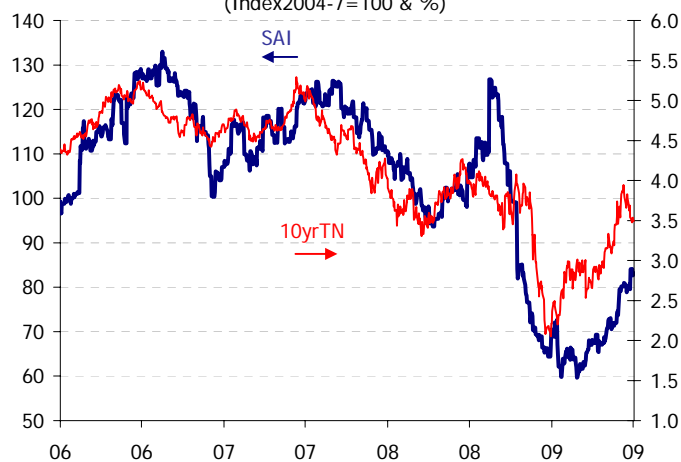
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)


Source: BBVA ERD

BBVA US Leading Inflation Index & Core Inflation
(Qoy % change)


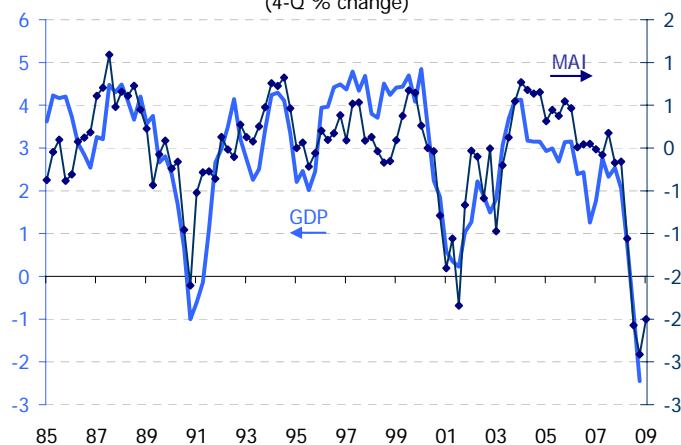
Source: BBVA ERD

BBVA US Surprise Activity Index & 10-yr Treasury
(Index 2004-7=100 & %)


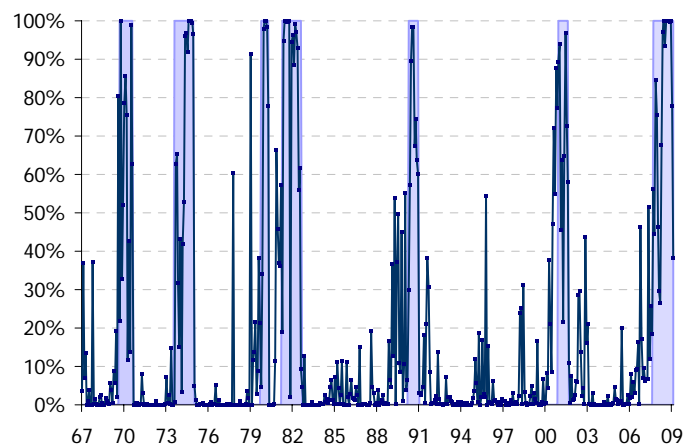
Source: BBVA ERD

BBVA US Surprise Inflation Index
(Index 2004-7=100)


Source: BBVA ERD

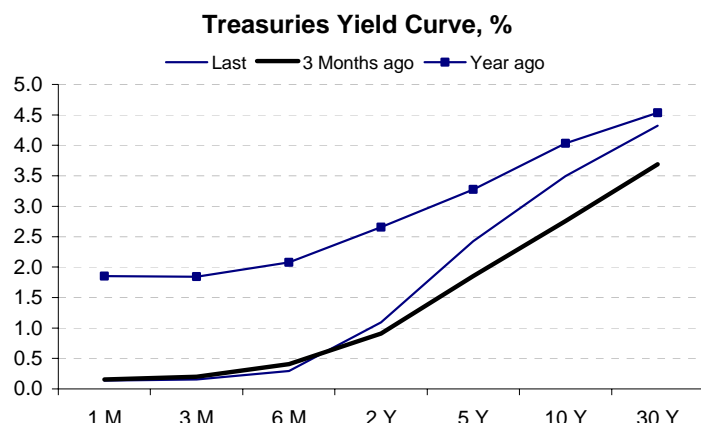
BBVA US Monthly Activity Index & Real Gross Domestic Product
(4-Q % change)


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)	11.08	10.80	10.78	11.67
New Auto (36-months)	7.14	7.15	7.32	6.80
Heloc Loan 30K	5.28	5.24	5.27	4.53
30-year Fixed Mortgage *	5.32	5.42	6.37	6.71
Money Market	1.28	1.29	1.33	2.44
2-year CD	2.01	2.04	2.04	3.56
5-year CD	2.61	2.65	2.67	4.03

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Federal Reserve Bank of San Francisco President Janet Yellen: *A View of the Economic Crisis and the Federal Reserve's Response*, Presentation to the Commonwealth Club of California
June 30, 2009

"But I don't believe the United States faces that threat. Looking back in history, runaway fiscal deficits have often been accompanied by high inflation. But, since World War II, such a relationship has only held in developing countries. In countries with advanced financial systems and histories of low inflation, no such connection is found."

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
6-Jul	ISM Non-Manf. Composite	JUN	45.1	46	44
7-Jul	ABC Consumer Confidence	5-Jul	-51	-51	-51
8-Jul	MBA Mortgage Applications	2-Jul	--	--	-18.90%
8-Jul	Consumer Credit	MAY	-\$12.7B	-\$10.0B	-\$15.7B
9-Jul	Initial Jobless Claims	4-Jul	610K	--	614K
9-Jul	Continuing Claims	27-Jun	6741K	--	6702K
9-Jul	Wholesale Inventories	MAY	-0.80%	-1.00%	-1.40%
10-Jul	Trade Balance	MAY	-\$29.8B	-\$30.0B	-\$29.2B
10-Jul	Import Price Index (MoM)	JUN	1.80%	2.00%	1.30%
10-Jul	Import Price Index (YoY)	JUN	-18.60%	--	-17.60%
10-Jul	U. of Michigan Confidence	JUL P	71.2	70.6	70.8