



Weekly Observatory

July 13, 2009

Week Ahead

Retail Sales, Excluding Autos (June, Tuesday 8:30 ET)

F: 0.4%, 0.5% C: 0.4%, 0.5% P: 0.5%, 0.5%

Retail sales are expected to increase for the second month in a row in June due to the jump in personal income over the past two months. The rise, however, is expected to be moderate as the job market remains weak and the savings rate is increasing. Given this backdrop, consumption expenditures in 2Q09 are expected to remain low, at levels below those of last year.

Business Inventories (July, Tuesday 10:00 ET)

F: -0.8% C: -0.8% P: -1.1%

Business inventories are expected to fall for the ninth month in a row as companies continue to trim their inventory levels in response to weak demand. This strong reduction in inventories could actually have a positive effect on the economy because once inventories reach a certain threshold, we could see an uptick in industrial production as companies need to maintain a particular level in order to do business.

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

F: 0.2%, 0.1% C: 0.6%, 0.1% P: 0.1%, 0.1%

Headline inflation is expected to rise by 0.2% in June as the effect of increasing energy prices is muted by declining food prices. In addition, core inflation is expected to rise by 0.1%. On a year-over-year basis, it is forecasted to rise 1.7%, which would be consistent with our baseline scenario of low but positive inflation for 2009. Although ongoing economic slack presents downside risks to core inflation, we expect them to remain contained due to expansionary monetary policy and the fiscal stimulus package.

Industrial Production (June, Wednesday 9:15 ET)

F: -0.9% C: -0.6% P: -1.1%

Industrial production is expected to drop for the eighth month in a row as the weak economy and the shedding of inventories by businesses erode demand. Furthermore, the high tech industry's decline in production is expected to accelerate further, posing additional risks for the non-residential investment component of GDP.

Housing Starts (June, Friday 8:30 ET)

F: 543K C: 530K P: 532K

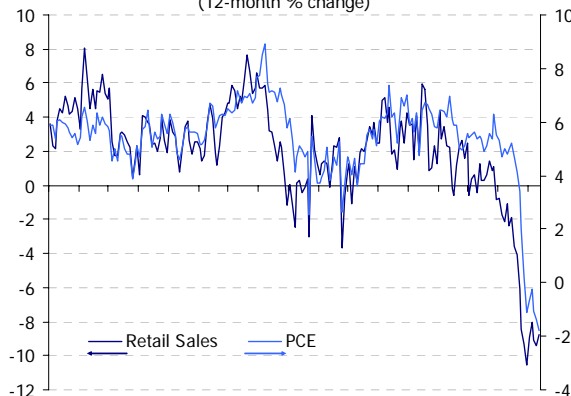
Housing starts are expected to remain low in June in response to weak demand for new homes. Even though the decline in new home sales has stabilized, the market has not experienced the same renewed demand as that of existing homes because the price of a new home is not as flexible as that of an existing one. As a result, the current demand is skewed towards the more affordable market for existing homes. Once prices for existing homes stabilize and the excess inventory is depleted, the market for new homes could pick up again and we will see an increase in housing starts.

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Real Retail Sales & PCE

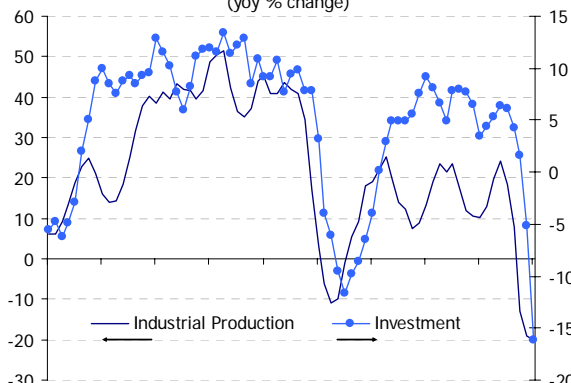
(12-month % change)



Source: US Census Bureau

High Tech Industrial Production and Non-Residential Investment

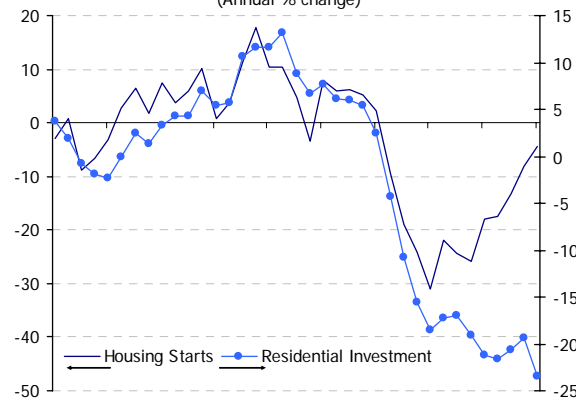
(yoy % change)



Source: BEA and Federal Reserve Bank

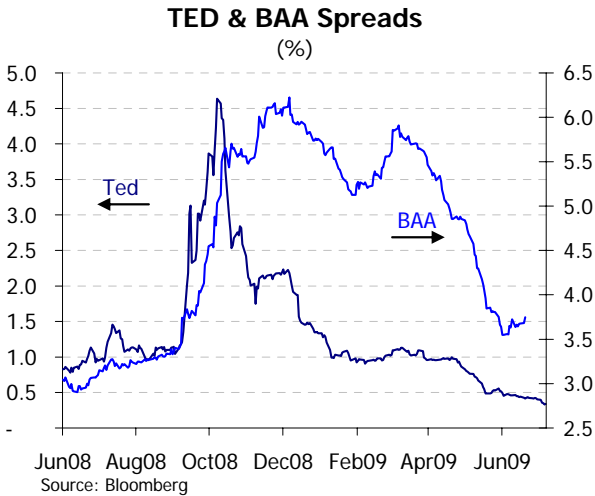
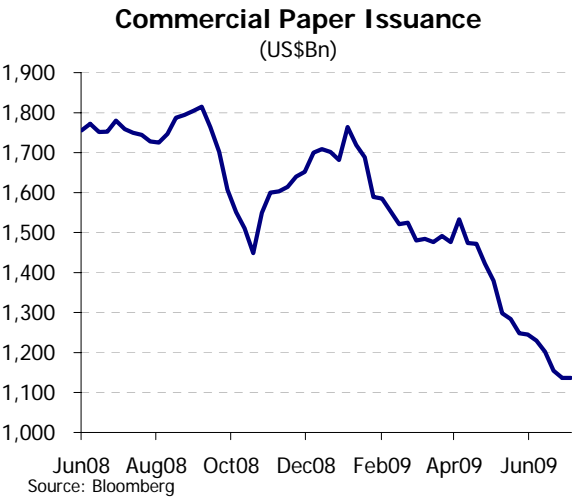
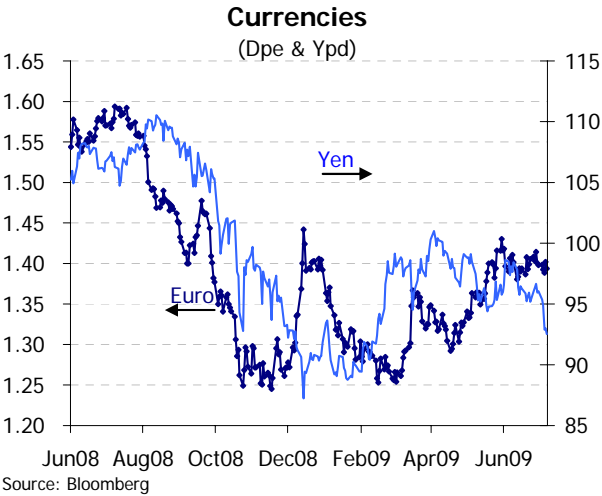
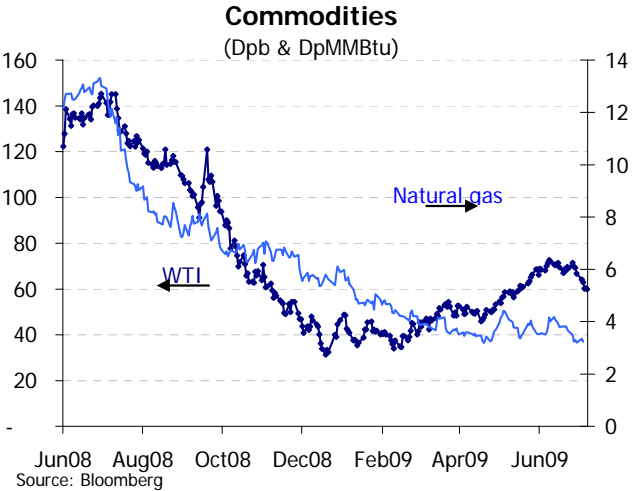
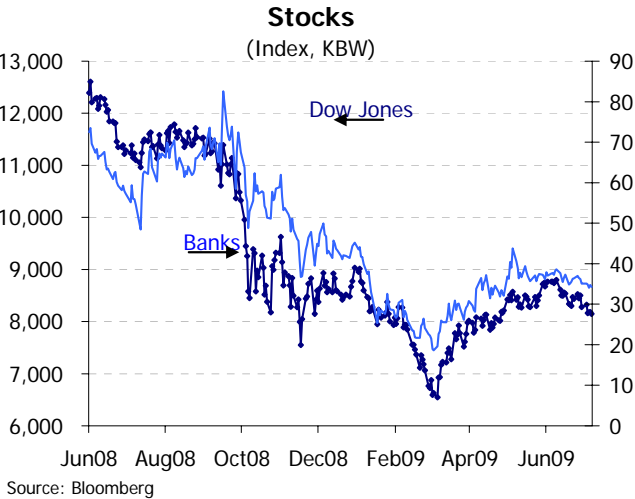
Housing Starts & Residential Investment

(Annual % change)



Source: BEA and US Census Bureau

Financial Markets



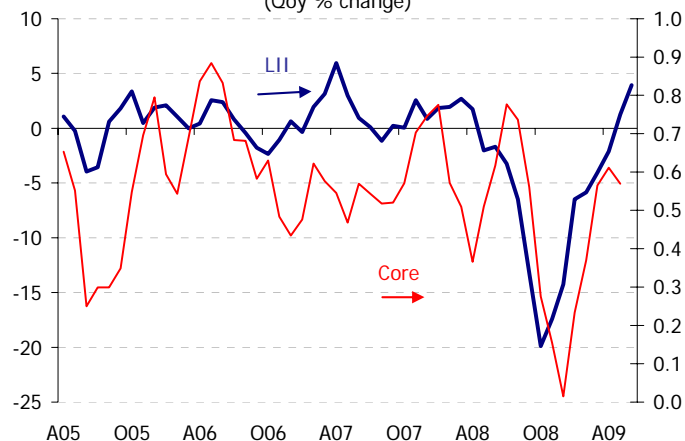
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



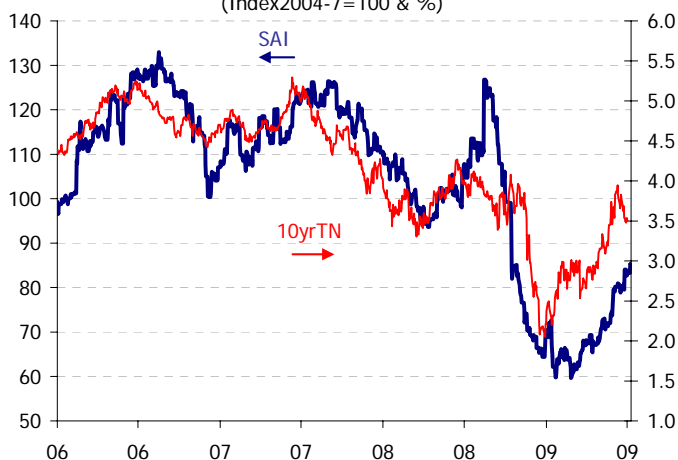
Source: BBVA ERD

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



Source: BBVA ERD

BBVA US Surprise Activity Index & 10-yr Treasury
(Index2004-7=100 & %)



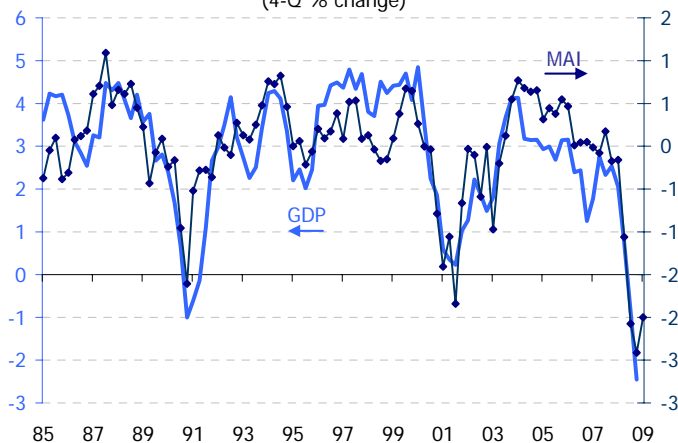
Source: BBVA ERD

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



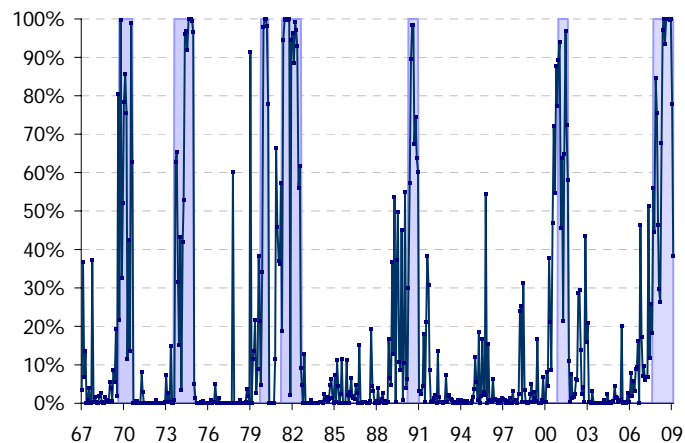
Source: BBVA ERD

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



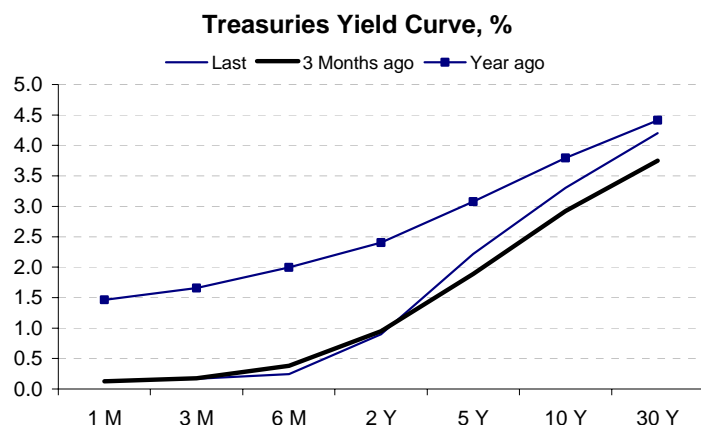
Source: BBVA ERD & BEA

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)	11.08	10.80	10.80	11.67
New Auto (36-months)	7.10	7.14	7.26	6.81
Heloc Loan 30K	5.20	5.28	5.29	4.54
30-year Fixed Mortgage *	5.20	5.32	6.37	6.71
Money Market	1.26	1.28	1.31	2.43
2-year CD	2.00	2.01	1.99	3.62
5-year CD	2.61	2.61	2.61	4.06

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Federal Reserve Vice Chairman Donald Kohn before the Subcommittee on Domestic Monetary Policy and Technology, Committee on Financial Services, U.S. House of Representatives, July 9, 2009

"The insulation from short-term political pressures--within a framework of legislated objectives and accountability and transparency--that the Congress has established for the Federal Reserve has come to be widely emulated around the world. Considerable experience shows that this type of approach tends to yield a monetary policy that best promotes economic growth and price stability. Operational independence--that is, independence to pursue legislated goals--reduces the odds on two types of policy errors that result in inflation and economic instability. First, it prevents governments from succumbing to the temptation to use the central bank to fund budget deficits. Second, it enables policymakers to look beyond the short term as they weigh the effects of their monetary policy actions on price stability and employment."

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
13-Jul	Monthly Budget Statement	JUN	-\$109.3B	-\$86.0B	\$33.5B
14-Jul	Producer Price Index (MoM)	JUN	0.30%	0.80%	0.20%
14-Jul	PPI Ex Food & Energy (MoM)	JUN	0.10%	0.10%	-0.10%
14-Jul	Producer Price Index (YoY)	JUN	-5.70%	-5.30%	-5.00%
14-Jul	PPI Ex Food & Energy (YoY)	JUN	2.90%	2.90%	3.00%
14-Jul	Advance Retail Sales	JUN	0.40%	0.40%	0.50%
14-Jul	Retail Sales Less Autos	JUN	0.50%	0.50%	0.50%
14-Jul	Business Inventories	MAY	-0.80%	-0.80%	-1.10%
15-Jul	Consumer Price Index (MoM)	JUN	0.20%	0.60%	0.10%
15-Jul	CPI Ex Food & Energy (MoM)	JUN	0.10%	0.10%	0.10%
15-Jul	Consumer Price Index (YoY)	JUN	-1.70%	-1.60%	-1.30%
15-Jul	CPI Ex Food & Energy (YoY)	JUN	1.70%	1.70%	1.80%
15-Jul	Empire Manufacturing	JUL	-6.3	-5	-9.41
15-Jul	Industrial Production	JUN	-0.90%	-0.60%	-1.10%
15-Jul	Capacity Utilization	JUN	67.90%	67.90%	68.30%
15-Jul	Minutes of June 24 FOMC Meeting	15-Jul			
16-Jul	Initial Jobless Claims	11-Jul	589K	555K	565K
16-Jul	Continuing Claims	4-Jul	6797K	6800K	6883K
16-Jul	Philadelphia Fed.	JUL	-4.2	-5	-2.2
16-Jul	NAHB Housing Market Index	JUL	15	16	15
17-Jul	Housing Starts	JUN	543K	530K	532K
17-Jul	Building Permits	JUN	525K	523K	518K