



Weekly Observatory

August 10, 2009

Week Ahead

Trade Balance (June, Wednesday 8:30 ET)

F: -\$27.6B C: -\$28.5B P: -\$26.0B

As both domestic and global demand remain weak due to the ongoing recession, both imports and exports are forecasted to drop further in June. The decline in imports, however, is expected to be slower than that of exports because the 17.7% jump in oil prices in June could help to offset the downward pressures from demand. As a result, the trade deficit could expand after contracting in May.

FOMC Meeting Statement (Wednesday 14:15 ET)

F: 0%-0.25% C: 0%-0.25% P: 0%-0.25%

Although economic contraction appears to be easing, the economy remains weak. For this reason, we expect the Federal Reserve to maintain its expansionary monetary policy. In addition, we do not expect the committee to make modifications to its existing asset purchase plan. Furthermore, we believe that sufficient economic slack warrants the Fed to keep rates unchanged for a prolonged period of time.

Retail Sales, excluding Autos (July, Thursday 8:30 ET)

F: 0.4%, 0.2% C: 0.5%, 0.1% P: 0.6%, 0.3%

Retail sales are expected to rise for the third month in a row, but they will remain weak at levels below those of last year. Heightened auto sales in July due to the popular Cash for Clunkers program could help to boost total sales. Sales levels are expected to remain low going forward as ongoing job losses and declining wages and salary put additional pressure on consumers to reign in spending.

Consumer Price Index (Headline, Core) (July, Friday 8:30 ET)

F: -0.1%, 0.2% C: 0.0%, 0.2% P: 0.7%, 0.2%

Headline inflation is expected to fall 0.1% after rising 0.7% in June. Last month's large increase was due to a 17.3% rise in gasoline prices, however, prices of both gasoline and energy have dropped in July, which will pull down headline inflation from last month's levels. On the other hand, core inflation is expected to rise 0.2%, which is in line with our baseline scenario of low but positive inflation for 2009. Although ongoing economic slack and signs that wages could be decreasing present downside risks to inflation, we expect the risks to remain contained due to the fiscal stimulus and expansionary monetary policy.

Industrial Production (July, Friday 9:15 ET)

F: -0.1% C: 0.2% P: -0.4%

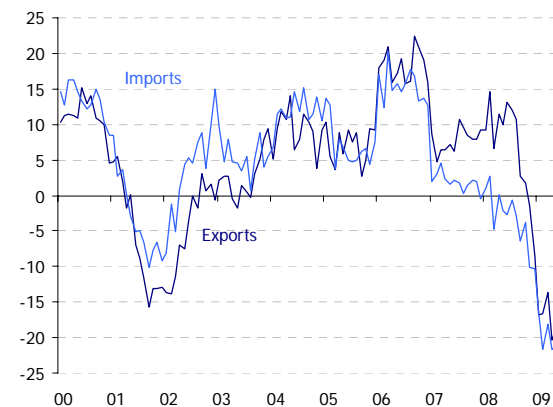
Industrial production is expected to drop further in July as the ISM and other regional manufacturing indices indicate that the manufacturing industry is still contracting, albeit at a slower pace. Although levels are expected to remain well below those of last year, the pace of decline could begin to stabilize. New orders and inventories are two factors that could impact production levels in the upcoming months. The ISM new orders index indicated that orders increased in July. If this trend continues, we could see a pick-up in production. In addition, inventory levels are low, so it is anticipated that businesses will need to restock in the near future, which will prompt a resumption in production.

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Exports & Imports of Goods

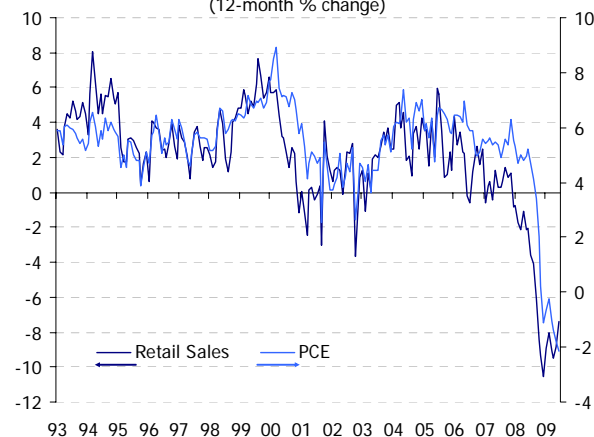
(2000-chain-weighted dollars, annual % change)



Source: US Census Bureau

Real Retail Sales & PCE

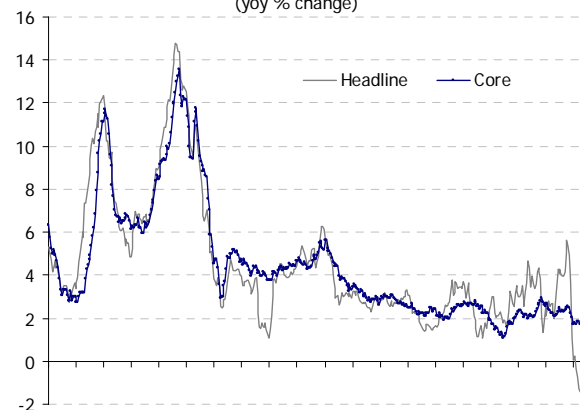
(12-month % change)



Source: US Census Bureau

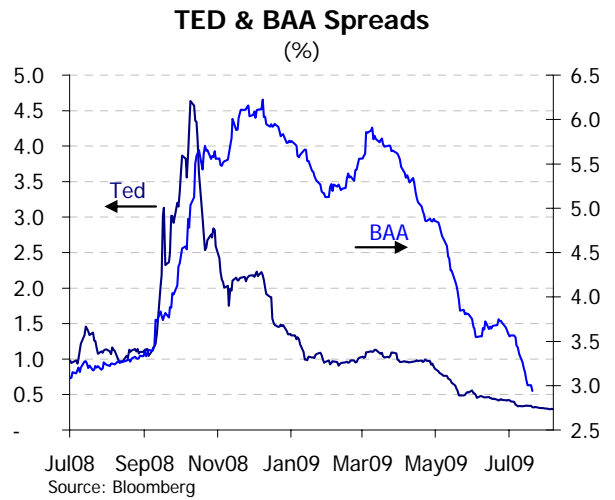
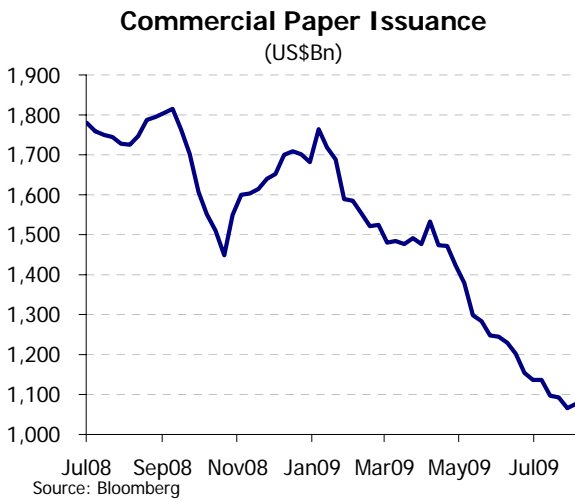
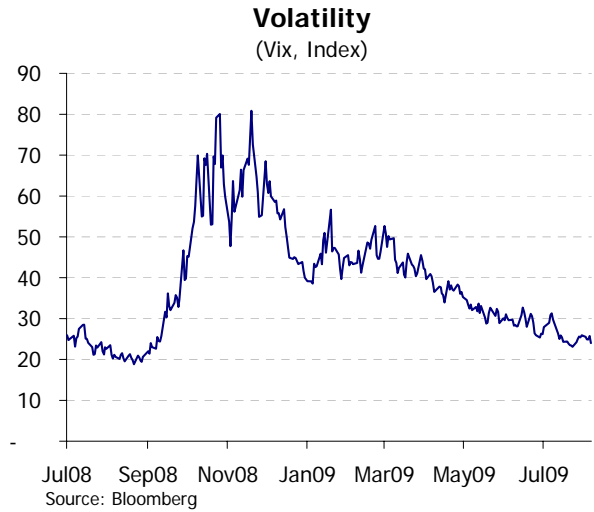
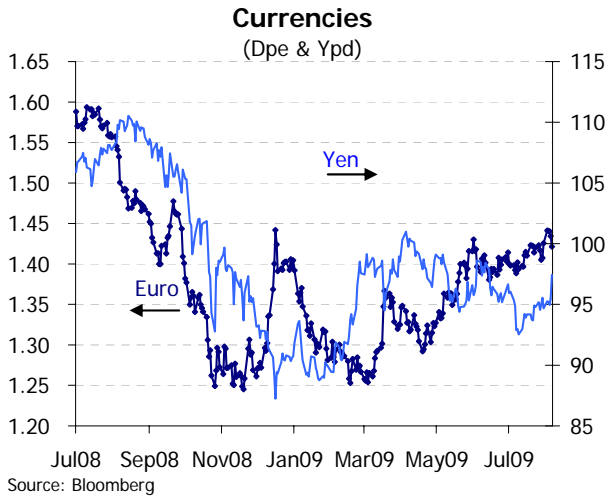
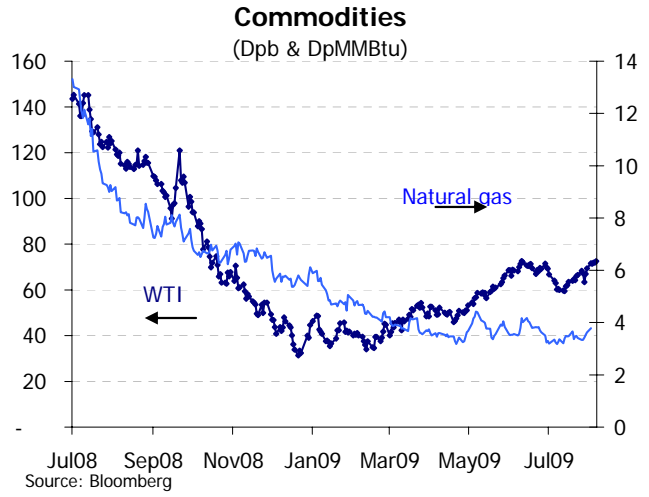
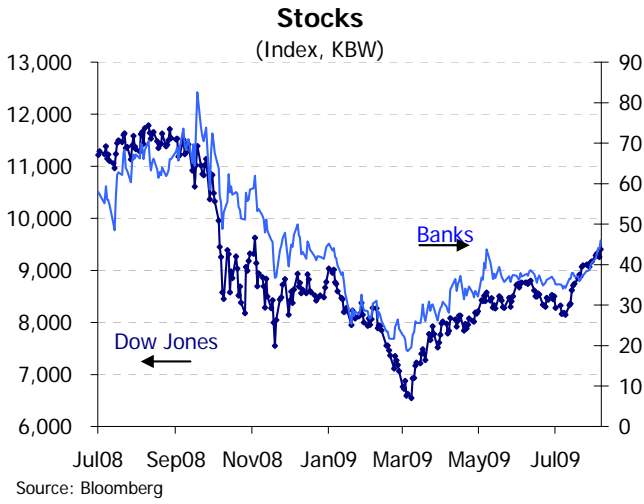
Consumer Price Index

(yoy % change)



Source: BLS

Financial Markets



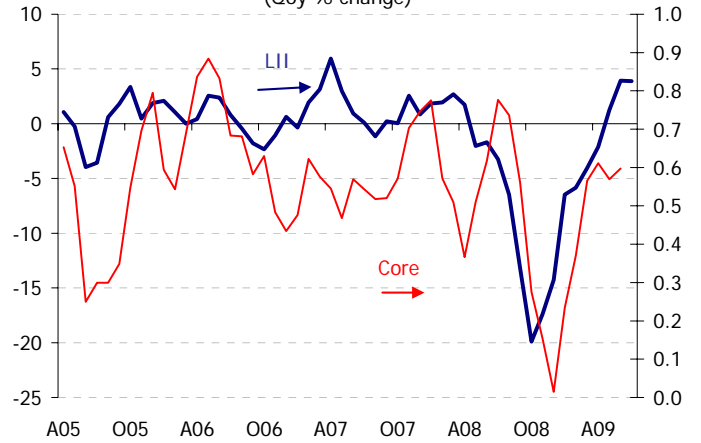
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



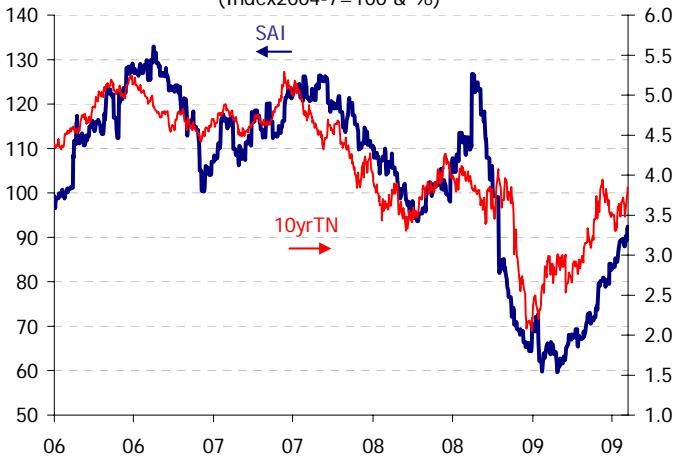
Source: BBVA ERD

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



Source: BBVA ERD

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



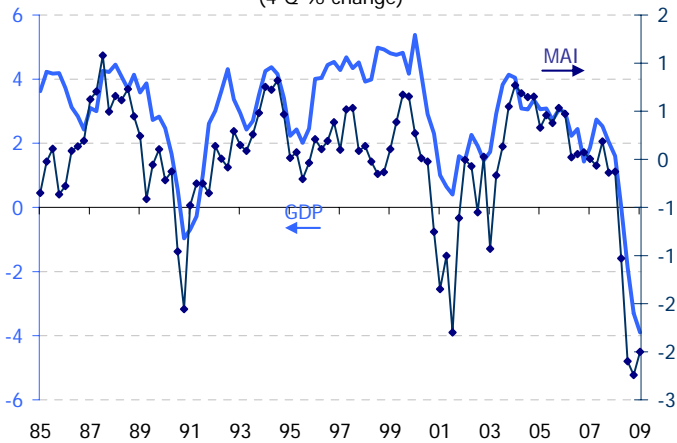
Source: BBVA ERD

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



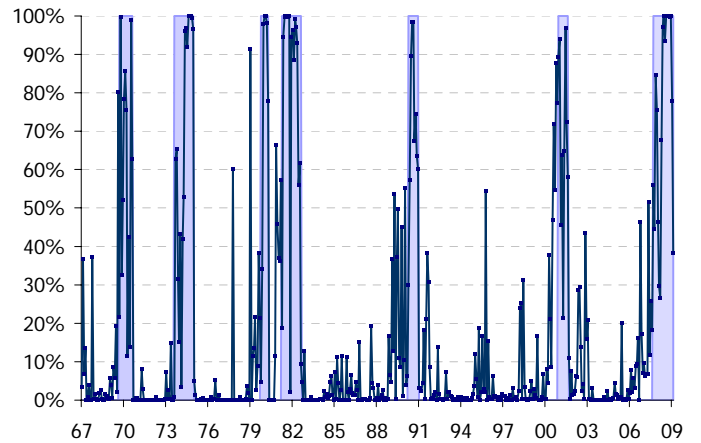
Source: BBVA ERD

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



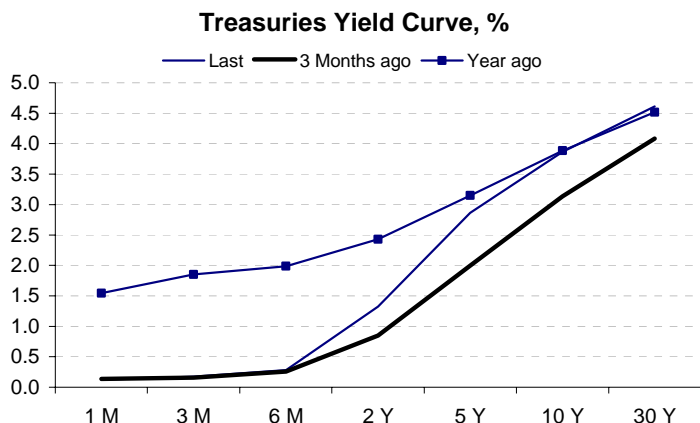
Source: BBVA ERD & BEA

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)	11.16	11.08	11.08	11.62
New Auto (36-months)	7.06	7.09	7.13	6.75
Heloc Loan 30K	5.80	5.78	5.76	5.54
30-year Fixed Mortgage *	5.22	5.25	6.37	6.71
Money Market	1.20	1.21	1.24	2.49
2-year CD	1.95	1.95	1.99	3.81
5-year CD	2.64	2.64	2.60	4.25

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Assistant Secretary for Financial Institutions Michael Barr: Written Testimony before the Senate Committee on Banking, Housing and Urban Affairs
August 5, 2009

“In the weeks since we released our plan for reform, we have been criticized by some for going too far and by some for not going far enough. These charges are stuck in a debate that presumes that regulation--and efficient and innovative markets--are at odds. In fact, the opposite is true. Markets rely on faith and trust. We must restore honesty and integrity to our financial system. These proposals maintain space for growth, innovation and change, but require that regulation and oversight adapt as well. Markets require clear rules of the road. Consumers' confidence is based on the trust and fair dealing of financial institutions. Regulation must be consistent, comprehensive and accountable.”

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
11-Aug	Nonfarm Productivity	2Q P	2.90%	5.50%	1.60%
11-Aug	Unit Labor Costs	2Q P	-2.30%	-2.50%	3.00%
11-Aug	Wholesale Inventories	JUN	-1.10%	-0.90%	-0.80%
12-Aug	Trade Balance	JUN	-\$27.6B	-\$28.5B	-\$26.0B
12-Aug	Monthly Budget Statement	JUL	-\$173.0B	-\$161.5B	--
12-Aug	FOMC Rate Decision	12-Aug	0.25%	0.25%	0.25%
13-Aug	Import Price Index (MoM)	JUL	1.00%	-0.50%	3.20%
13-Aug	Advance Retail Sales	JUL	0.40%	0.50%	0.60%
13-Aug	Retail Sales Less Autos	JUL	0.20%	0.10%	0.30%
13-Aug	Continuing Claims	1-Aug	6350K	6350K	6310K
13-Aug	Initial Jobless Claims	8-Aug	539K	540K	550K
13-Aug	Business Inventories	JUN	-0.90%	-0.90%	-1.00%
14-Aug	Consumer Price Index (MoM)	JUL	-0.10%	0.00%	0.70%
14-Aug	CPI Ex Food & Energy (MoM)	JUL	0.20%	0.20%	0.20%
14-Aug	Consumer Price Index (YoY)	JUL	-2.00%	-1.90%	-1.40%
14-Aug	CPI Ex Food & Energy (YoY)	JUL	1.70%	1.60%	1.70%
14-Aug	Industrial Production	JUL	-0.10%	0.20%	-0.40%
14-Aug	Capacity Utilization	JUL	67.60%	68.10%	68.00%
14-Aug	U. of Michigan Confidence	AUG P	68.4	69	66

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