



# Weekly Observatory

August 17, 2009

## Week Ahead

### Housing Starts and Building Permits (July, Tuesday 8:30 ET)

F: 602K, 580K      C: 598K, 575K      P: 582K, 570K

Both housing starts and building permits are expected to rise in July for the third month in a row, indicating that the decline in residential construction could be slowing. Nevertheless, construction remains at extremely low levels with housing starts more than 40% below those of last year. This sector will continue to face challenges as foreclosures further push down the price of existing homes, making them more affordable than new homes. As a result, we might need to see price stabilization and inventory reduction in the market for existing homes in order for there to be a strong recovery in housing starts.

### Producer Price Index (Headline, Core) (July, Tuesday 8:30 ET)

F: -0.1%, 0.2%      C: -0.3%, 0.1%      P: 1.8%, 0.5%

Producers may see a 0.1% drop in headline producer prices in July, compared to a 1.8% increase in June, due to a drop in energy prices, which skyrocketed in the previous month. Furthermore, the rise in core producer prices is expected to slow to 0.2% from 0.5% with modest but widespread increases across most components. Overall, core producer prices remain more than 3% above those of last year, which could help to offset the effect of declining wages, producers' primary cost, on consumer prices.

### Leading Economic Index (LEI) (July, Thursday 10:00 ET)

F: 0.5%      C: 0.6%      P: 0.7%

July's LEI is expected to point to further easing in economic contraction by rising for the fourth consecutive month. The majority of the index's components have shown improvement over the past month. Initial unemployment insurance claims continued to ease, the ISM Manufacturing Index indicated that manufacturers' new orders increased and the S&P 500 rallied. In addition, building permits are expected to rise for the third month in a row. Declining consumer expectations, however, will have a small negative effect on the index. Overall, continued improvement in the LEI would indicate that economic contraction could ease further in 3Q09, which is in line with our baseline scenario.

### Existing Home Sales (July, Friday 10:00 ET)

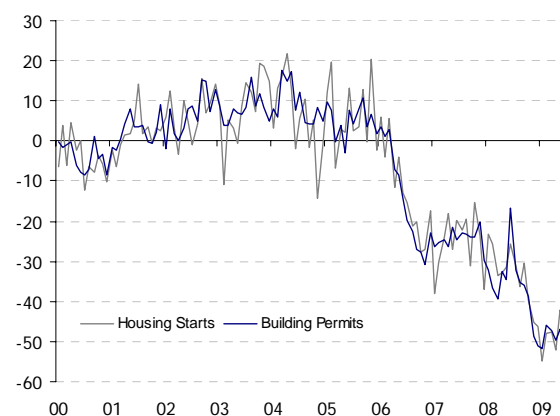
F: 5.01M      C: 5.00M      P: 4.89M

The housing market is expected show additional signs of stabilization in July as existing home sales increase for the fifth month in a row due to favorable prices that are attracting buyers to the market. Even though inventories have fallen over the past two months, they remain at elevated levels, which could result in prices remaining low in the upcoming months. In addition, foreclosures are ongoing, which will keep inventories at high levels, putting further downward pressure on prices.

Kristin Lomicka

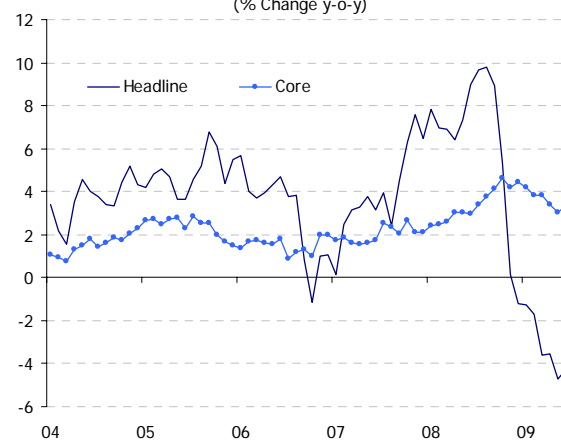
[kristin.lomicka@bbvacompass.com](mailto:kristin.lomicka@bbvacompass.com)

**Housing Starts & Building Permits**  
(yoy % change)



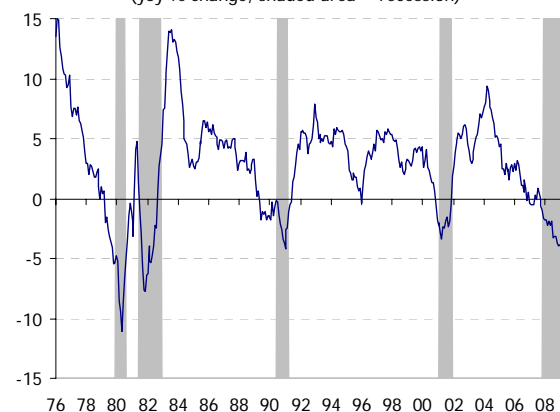
Source: US Census Bureau

**Producer Price Index**  
(% Change y-o-y)



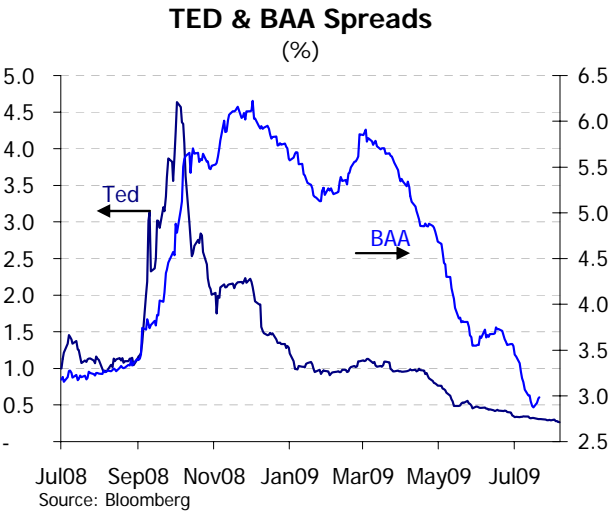
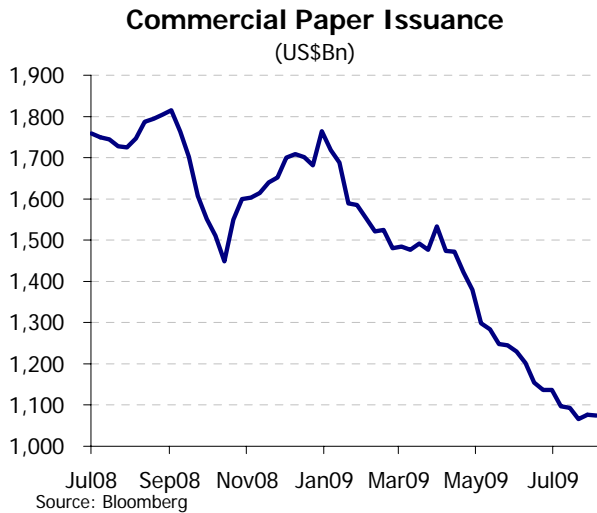
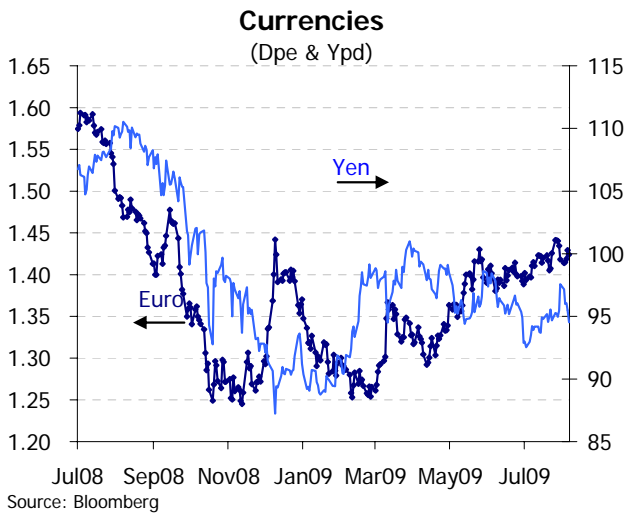
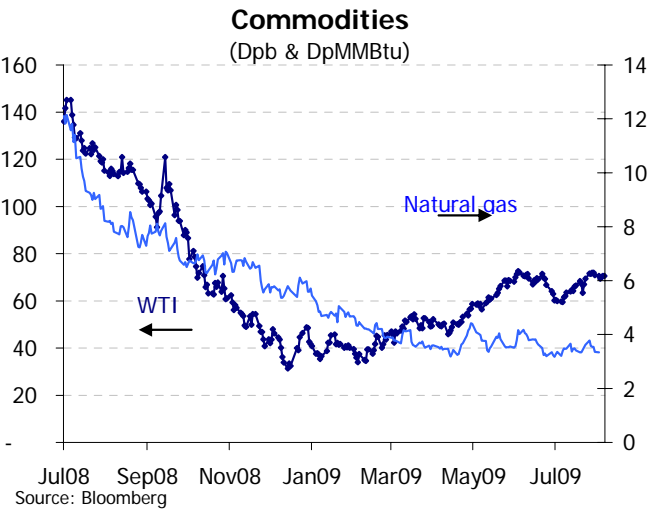
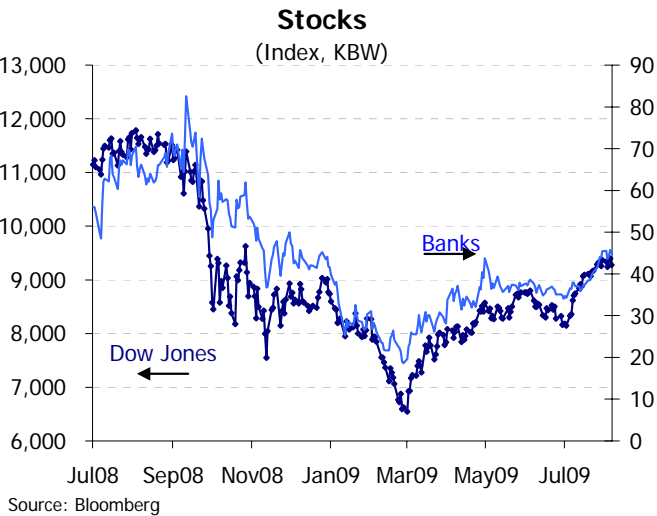
Source: BLS

**Leading Economic Index**  
(yoy % change, shaded area = recession)



Source: Conference Board

Financial Markets



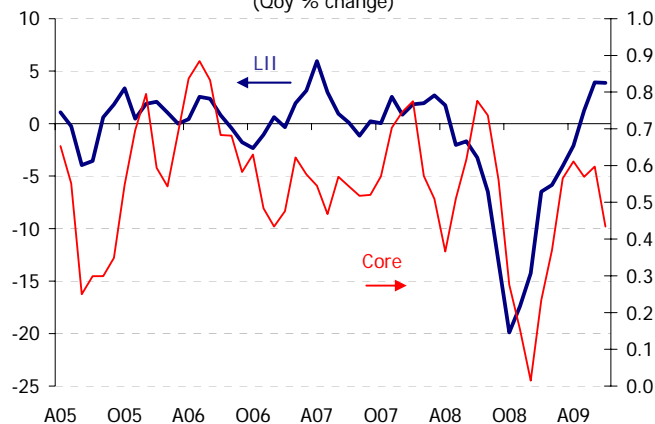
## Economic Trends

**BBVA US Weekly Activity Index**  
(Yoy % change)



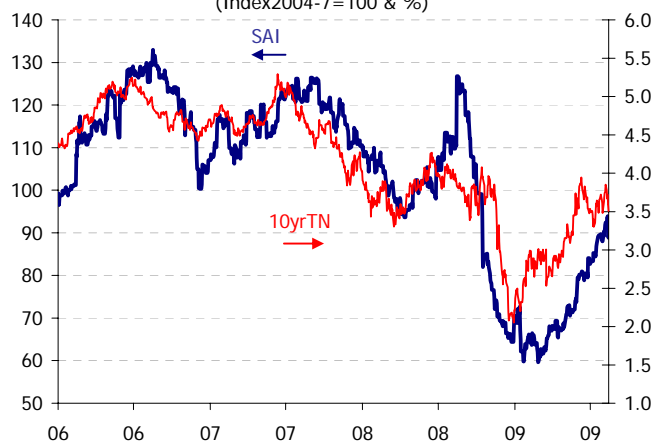
Source: BBVA ERD

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



Source: BBVA ERD

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



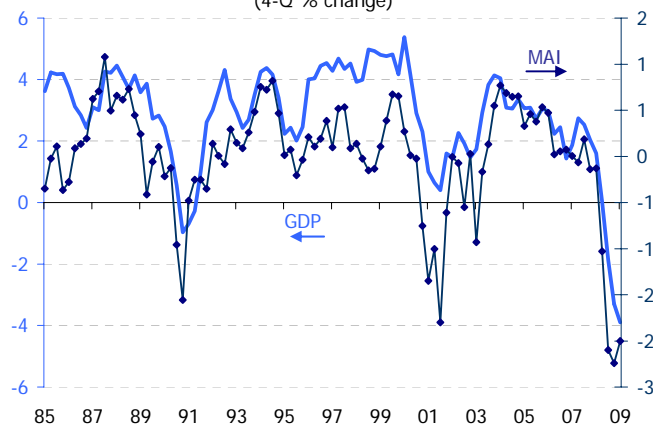
Source: BBVA ERD

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



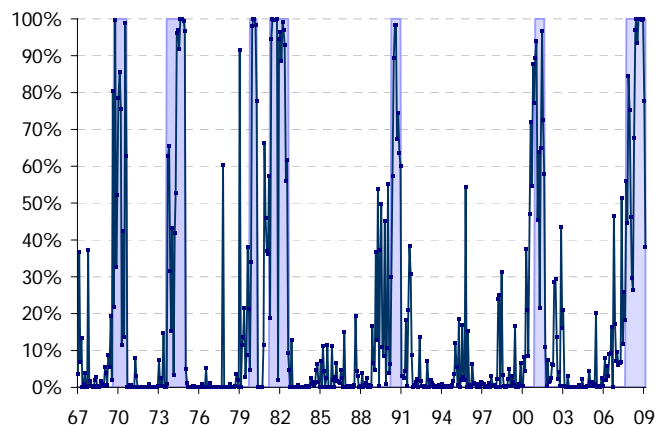
Source: BBVA ERD

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



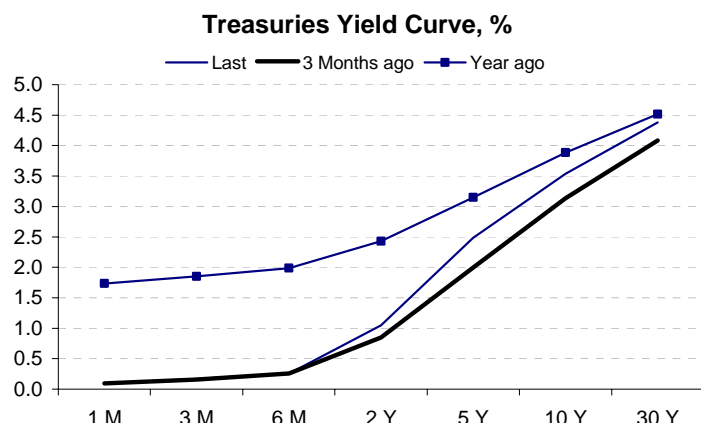
Source: BBVA ERD &amp; BEA

**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	11.16	11.08	11.57
New Auto (36-months)	7.13	7.06	7.08	6.73
Heloc Loan 30K	5.77	5.79	5.76	5.55
30-year Fixed Mortgage *	5.29	5.22	6.37	6.71
Money Market	1.17	1.20	1.23	2.51
2-year CD	1.93	1.95	1.96	3.82
5-year CD	2.64	2.66	2.61	4.23

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Treasury Secretary Timothy Geithner as quoted by the Wall Street Journal  
August 14, 2009

*"I don't think the financial system is reverting to past practice, and we won't let that happen," Mr. Geithner said. "The big banks are running with much less leverage now, much more conservative liquidity cushions, there's been a significant shrinking of their balance sheets, getting rid of bad assets and cleaning up. And the weakest parts of the system don't exist anymore."*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
17-Aug	Empire Manufacturing	AUG	0.73	2.75	-0.55
17-Aug	NAHB Housing Market Index	AUG	18	18	17
18-Aug	Producer Price Index (MoM)	JUL	-0.10%	-0.30%	1.80%
18-Aug	PPI Ex Food & Energy (MoM)	JUL	0.20%	0.10%	0.50%
18-Aug	Producer Price Index (YoY)	JUL	-5.10%	-5.80%	-4.60%
18-Aug	PPI Ex Food & Energy (YoY)	JUL	3.10%	2.80%	3.30%
18-Aug	Housing Starts	JUL	602K	598K	582K
18-Aug	Building Permits	JUL	580K	575K	563K
20-Aug	Initial Jobless Claims	15-Aug	549K	550K	558K
20-Aug	Continuing Claims	8-Aug	6181K	6220K	6202K
20-Aug	Leading Indicators	JUL	0.50%	0.60%	0.70%
20-Aug	Philadelphia Fed.	AUG	-4.7	-1.5	-7.5
21-Aug	Existing Home Sales	JUL	5.01M	5.00M	4.89M
21-Aug	Existing Home Sales MoM	JUL	2.50%	2.30%	3.60%