



Weekly Observatory

September 14, 2009

Week Ahead

Business Inventories (July, Tuesday 10:00 ET)

F: -1.0% C: -0.8% P: -1.1%

The inventory adjustment processes is not yet over for businesses as they continue to shed stock at an accelerating pace. However, the inventory to sales ratio is declining, which could indicate that the adjustment is nearing bottom. Although a slower rate of decline in inventories could result in a positive effect on GDP, businesses are expected to hold inventories at low levels until demand is restored.

Consumer Price Index (headline, core) (August, Wednesday 8:30 ET)

F: 0.2%, 0.1% C: 0.3%, 0.1% P: 0.0%, 0.1%

Increases in August energy prices are expected to result in a monthly rise in headline inflation, slowing the index's decline on a year-over-year basis. Meanwhile, core inflation will remain low but positive; however, ongoing economic slack, which can be seen in the form of the high unemployment rate, low capacity utilization and declining wages, will continue to emit downward pressure on prices. As a result, we continue to believe that the Fed will hold the target interest rate low for a prolonged period of time.

Industrial Production (August, Wednesday 9:15 ET)

F: 0.6% C: 0.7% P: 0.5%

Industrial production is expected to rise for the second month in a row in August, driven by an increase in manufacturing activity as indicated by the ISM and other regional manufacturing indices. Furthermore, the spike in auto sales driven by the Cash for Clunkers program could result in an increase in production of motor vehicles. Although industrial production could show further stabilization on a year-over-year basis, it is expected to remain low in response to feeble demand.

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

F: 1.2%, 0.3% C: 1.7%, 0.4% P: -0.1%, -0.6%

Retail sales are expected to receive a boost from the Cash for Clunkers program, which pushed auto sales up to 14 million in August. While auto sales have experienced significant stabilization, the other components of retail sales remain extremely weak as consumers continue to spend cautiously. As a result, consumption is forecasted to be positive in 3Q09, but its growth progression will be slow.

Housing Starts (August, Thursday 8:30 ET)

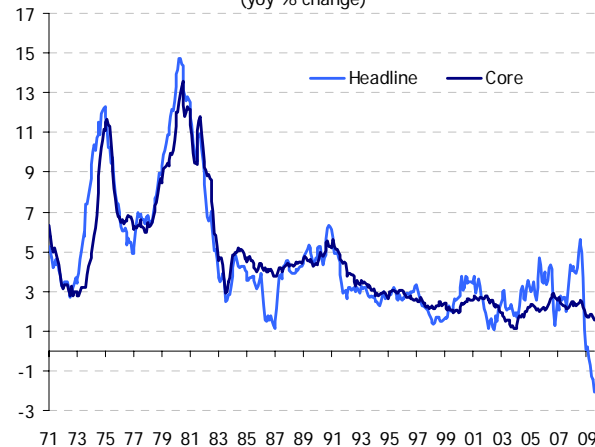
F: 596K C: 595K P: 581K

Housing starts are expected to rise in August in response to increasing builders' confidence. In recent months, housing starts have begun to stabilize, but levels still remain more than 35% below those of last year. Looking forward, starts could show further stabilization, but they will be slow to recover due to the high inventory levels of existing homes.

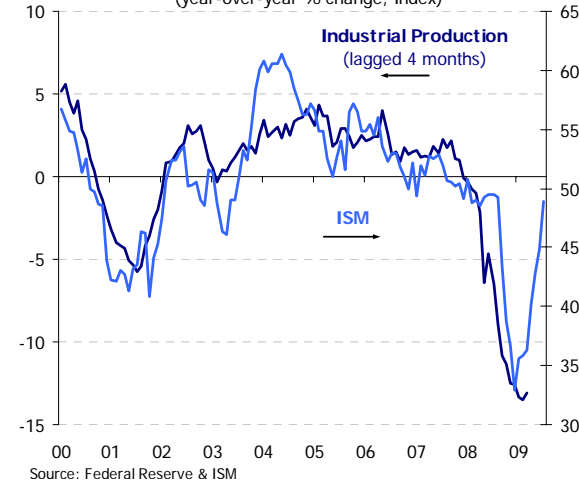
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Consumer Price Index
(yoy % change)

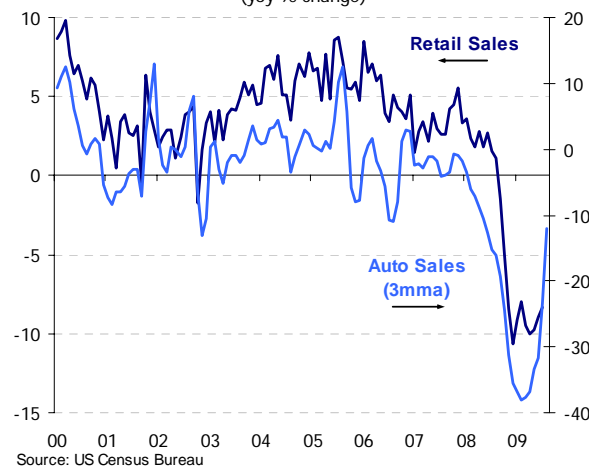


Industrial Production & ISM
(year-over-year % change, Index)



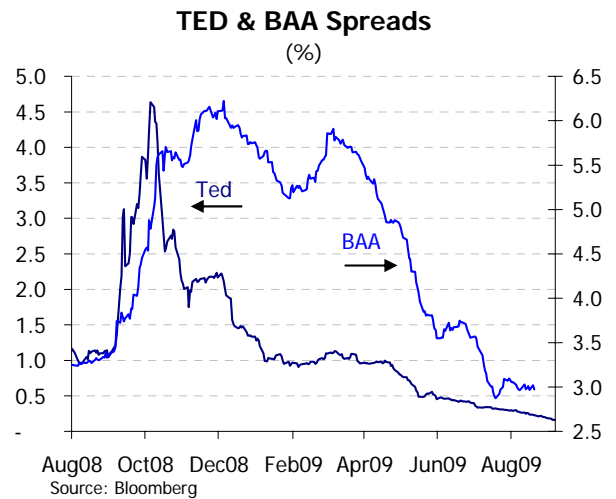
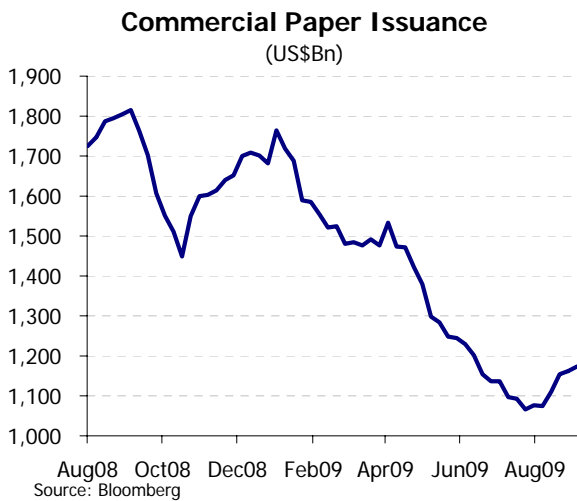
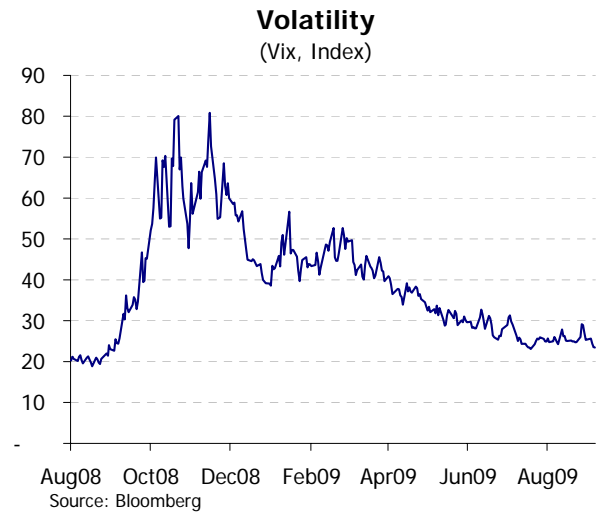
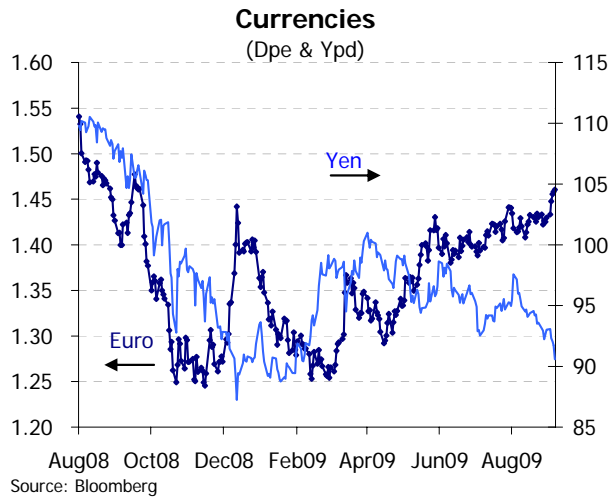
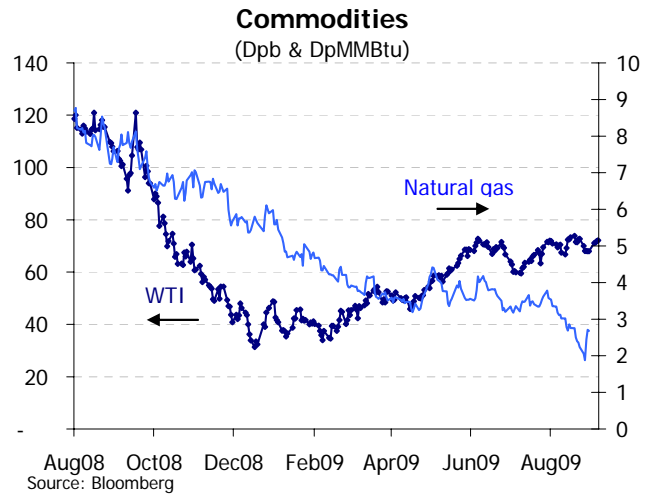
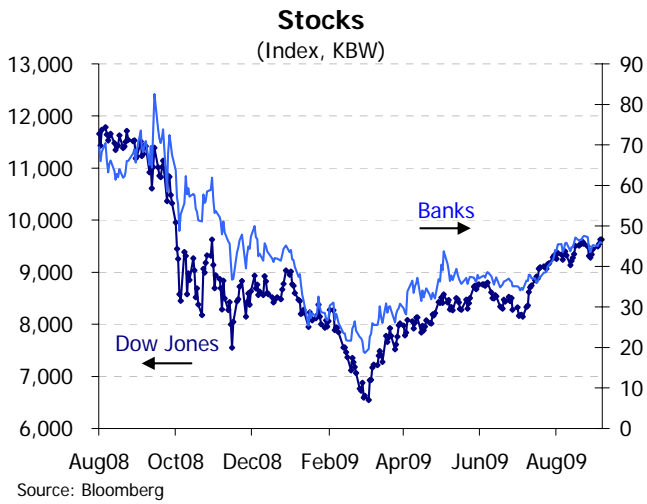
Source: Federal Reserve & ISM

Retail Sales and Auto Sales
(yoy % change)



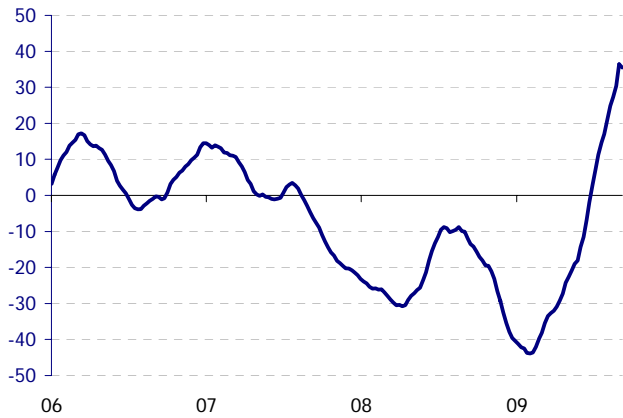
Source: US Census Bureau

Financial Markets



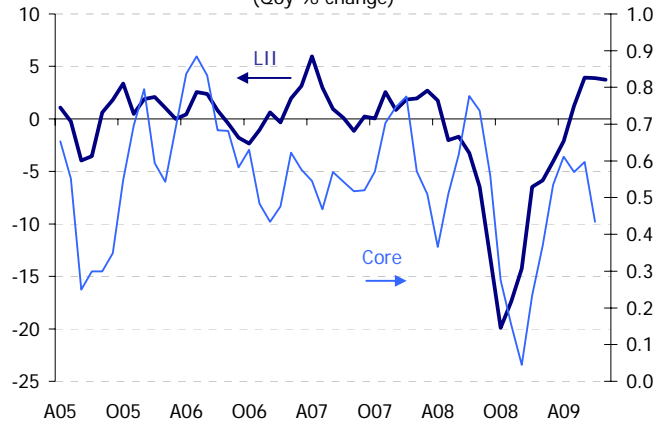
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



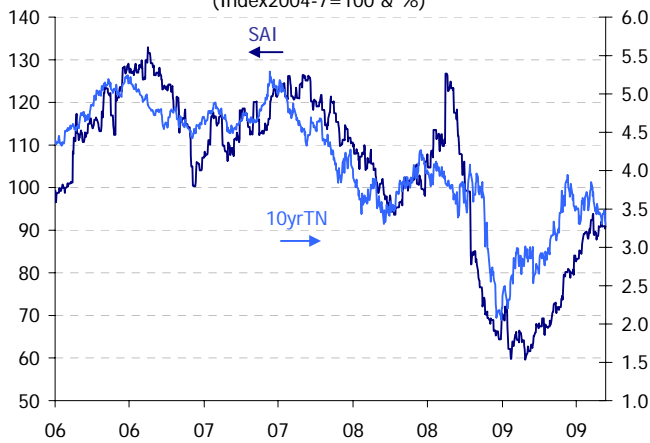
Source: BBVA ERD

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



Source: BBVA ERD

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



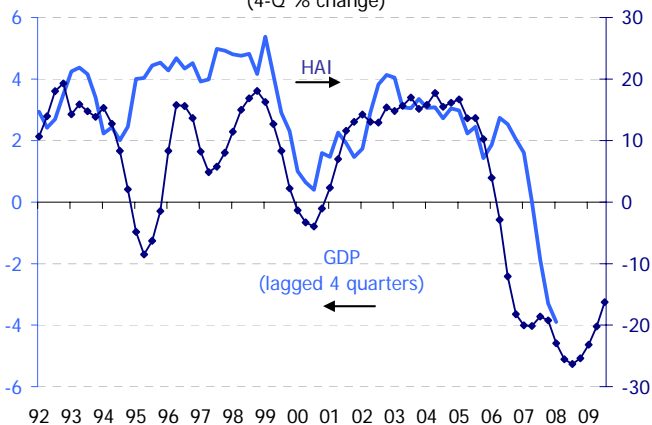
Source: BBVA ERD

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



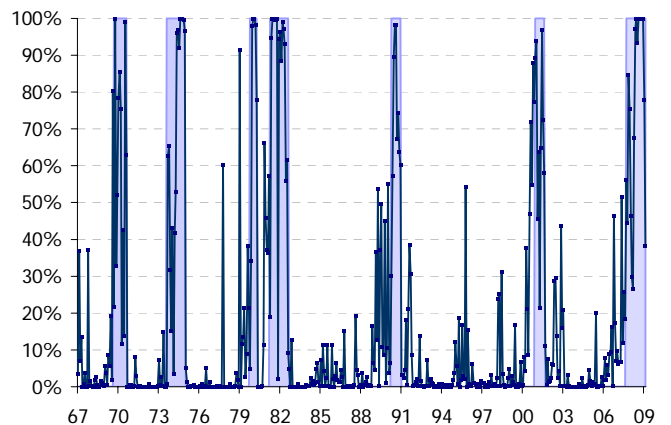
Source: BBVA ERD

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



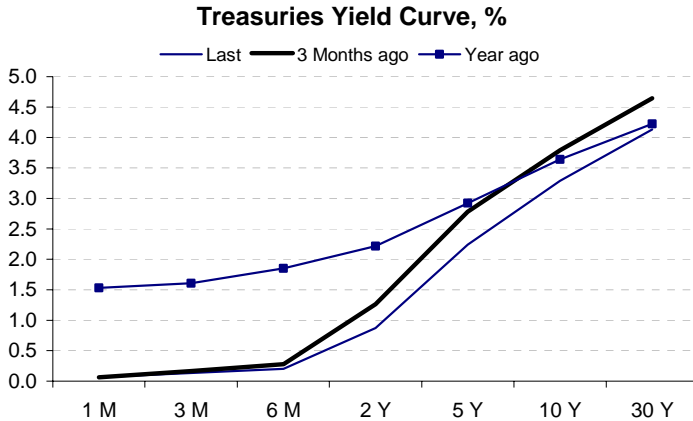
Source: BBVA ERD & BEA

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)	11.41	11.28	11.16	11.57
New Auto (36-months)	7.20	7.21	7.13	6.70
Heloc Loan 30K	5.82	5.81	5.77	5.56
30-year Fixed Mortgage *	5.07	5.08	6.37	6.71
Money Market	1.16	1.16	1.17	2.48
2-year CD	1.90	1.91	1.91	3.92
5-year CD	2.66	2.66	2.64	4.28

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Secretary of the Treasury Timothy Geithner:
Written Testimony before the Congressional Oversight Committee
 September 10, 2009

“Going forward, we must continue reinforcing recovery until it is self-sustaining and led by private demand. The classic errors of economic policy during crises are to act late with insufficient force and then put the brakes on too early. We are not going to repeat those mistakes.”

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
15-Sep	Producer Price Index (MoM)	AUG	0.60%	0.80%	-0.90%
15-Sep	PPI Ex Food & Energy (MoM)	AUG	0.10%	0.10%	-0.10%
15-Sep	Advance Retail Sales	AUG	1.20%	1.70%	-0.10%
15-Sep	Retail Sales Less Autos	AUG	0.30%	0.40%	-0.60%
15-Sep	Empire Manufacturing	SEP	9.5	14	12.08
15-Sep	Business Inventories	JUL	-1.00%	-0.80%	-1.10%
16-Sep	Consumer Price Index (MoM)	AUG	0.20%	0.30%	0.00%
16-Sep	CPI Ex Food & Energy (MoM)	AUG	0.10%	0.10%	0.10%
16-Sep	Consumer Price Index NSA	AUG	215.8	215.62	215.351
16-Sep	Current Account Balance	2Q	-\$96.1B	-\$92.0B	-\$101.5B
16-Sep	Industrial Production	AUG	0.60%	0.70%	0.50%
16-Sep	Capacity Utilization	AUG	68.70%	69.10%	68.50%
16-Sep	NAHB Housing Market Index	SEP	18	19	18
17-Sep	Housing Starts	AUG	596K	595K	581K
17-Sep	Building Permits	AUG	568K	580K	560K
17-Sep	Initial Jobless Claims	12-Sep	540K	560K	550K
17-Sep	Continuing Claims	5-Sep	6016K	-	6088K
17-Sep	Philadelphia Fed.	SEP	2.5	7.5	4.2