



# Weekly Observatory

September 21, 2009

## Week Ahead

### Leading Economic Index (LEI) (August, Monday 10:00 ET)

F: 0.8% C: 0.7% P: 0.6%

The LEI is expected to climb 0.8% in August, further substantiating that the worst of the economic adjustment has passed. The index will be supported by strength in the majority of its components. The ISM manufacturing index indicated that manufacturers' new orders have increased. Furthermore, with the growth in manufacturing activity, the sector's average weekly hours are expected to rise. Moreover, increases in building permits, consumer confidence and the S&P 500 will help to boost the index, but initial jobless claims, which rose in August, will have a negative contribution.

### FOMC Statement (Wednesday 14:00 ET)

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

Given that economic data is coming in line with expectations, we are not anticipating major changes in the FOMC statement. Even though the overall economic outlook has improved, activity remains weak, which would justify upholding the current monetary policy and schedule for asset purchases. Furthermore, we believe that sufficient economic slack would defend maintaining the current target Fed funds rate for a prolonged period of time.

### Initial Jobless Claims (w/e 8/18/09, Thursday 8:30 ET)

F: 537K C: 550K P: 545K

The ongoing weakness in the labor market will be evident in next week's initial jobless claims data. Although job destruction has slowed, the high level of initial claims will indicate that layoffs are still prevalent. As a result, the unemployment rate is expected to continue to climb in the remainder of 2009. Furthermore, the challenges in the labor market will contribute to our expectation of a slow recovery in the consumption in 2010.

### New and Existing Home Sales (August, Friday 10:00, Thursday 10:00 ET)

F: 446K, 5.35M C: 440K, 5.35M P: 433K, 5.24M

Both new and existing home sales are expected to increase in August. According the S&P Case-Shiller Home Price Index, prices are stabilizing, indicating that the steep decline in prices is now over. Furthermore, even though credit markets remain tight, the mortgage rate is at historically low levels. Due to favorable current conditions and the expectation that both prices and mortgage rates will increase in the future, sales of both new and existing homes will rise.

### Durable Goods Orders, Excl. Transportation (August, Fri 8:30 ET)

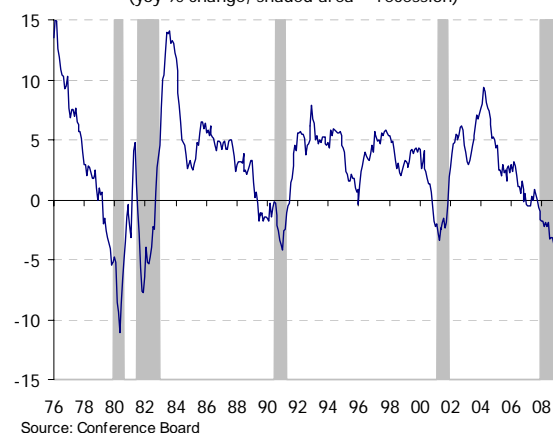
F: -0.7%, 0.5% C: 0.4%, 1.0% P: 5.1%, 1.1%

New orders of durable goods are forecasted to drop 0.7% as they adjust from last month's boom in orders of transportation equipment. Nevertheless, the year-over-year rate of decline will show further stabilization, indicating that demand is picking up, although it remains weak. On the other hand, orders excluding transportation are expected to rise 0.5%, which will indicate that manufacturing and production activity could rise further across a variety of sectors.

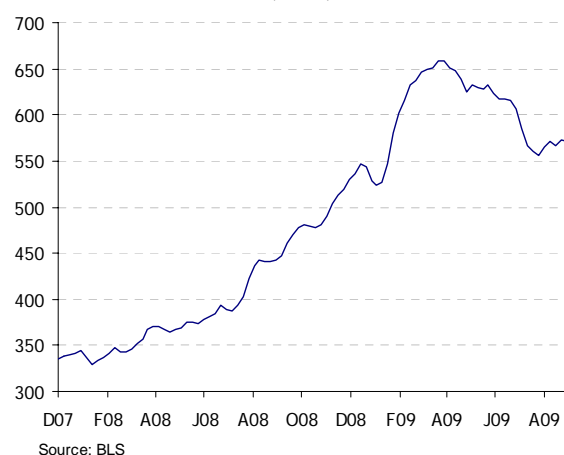
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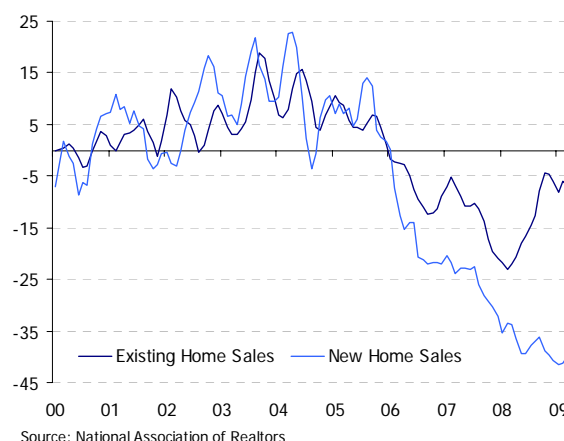
**Leading Indicators Index**  
(yoy % change, shaded area = recession)



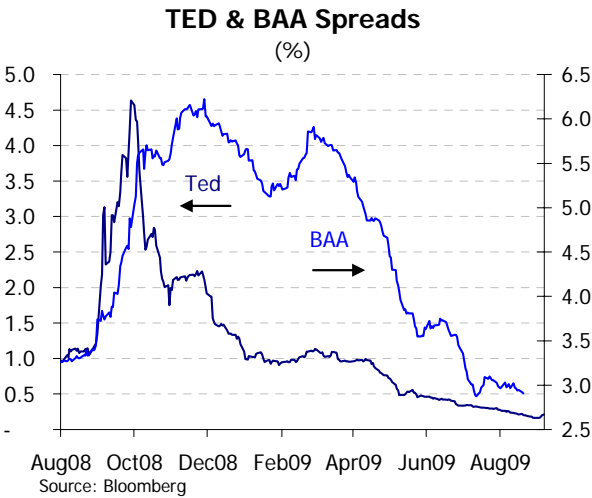
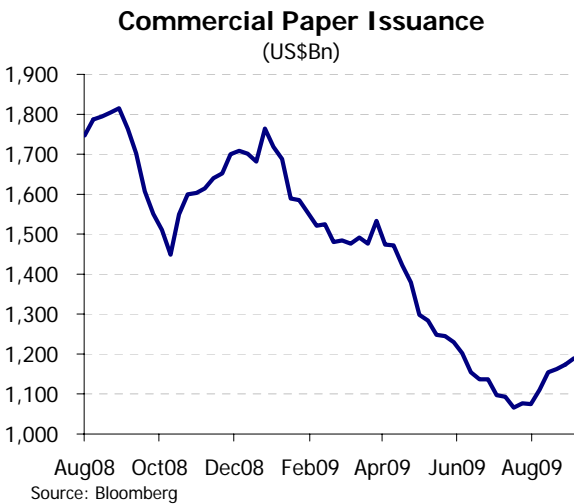
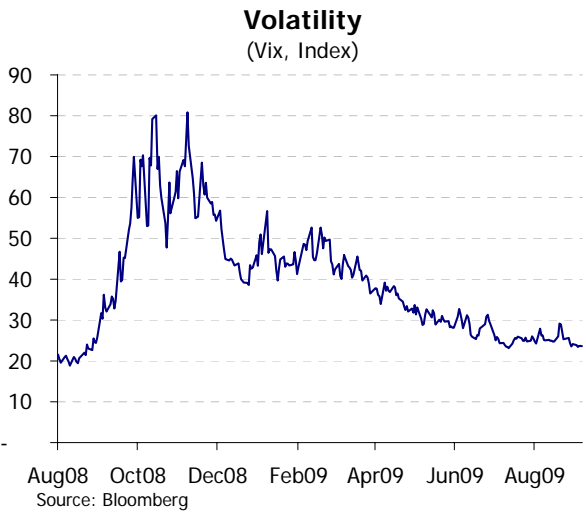
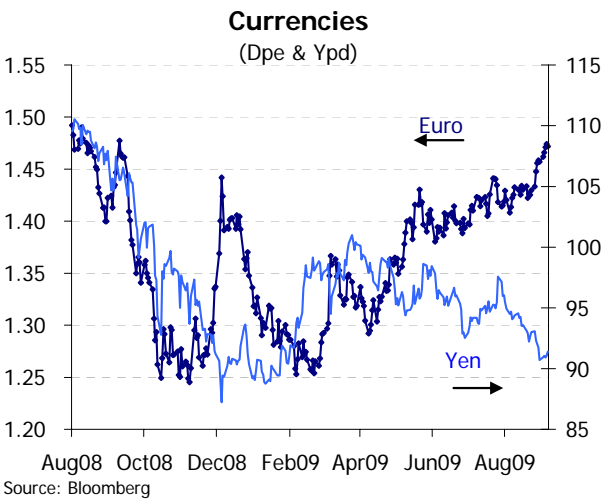
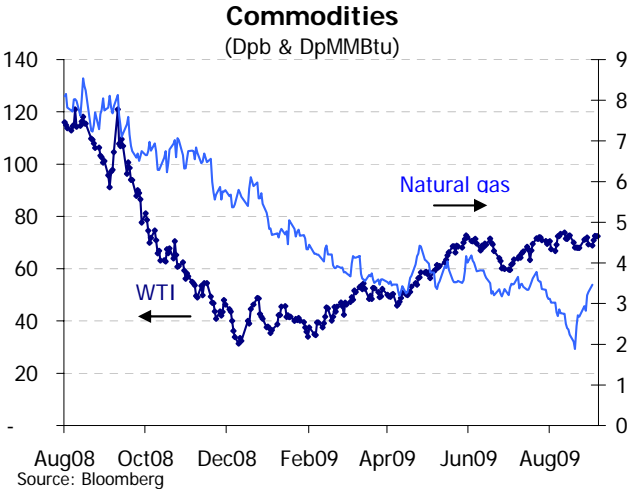
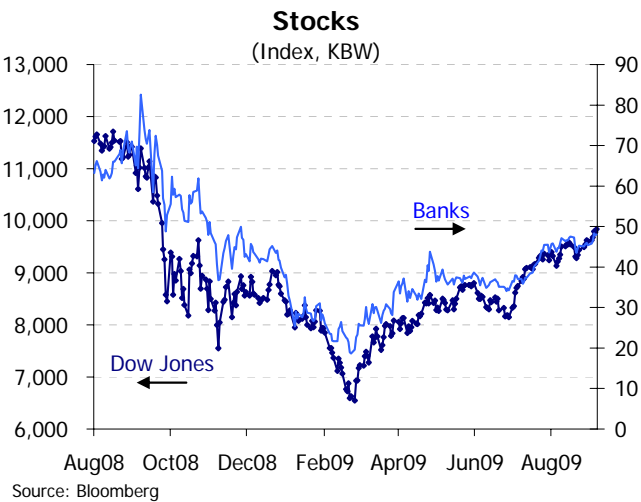
**Initial Jobless Claims**  
(3mma)



**New and Existing Home Sales**  
(3m average of yoy % change)



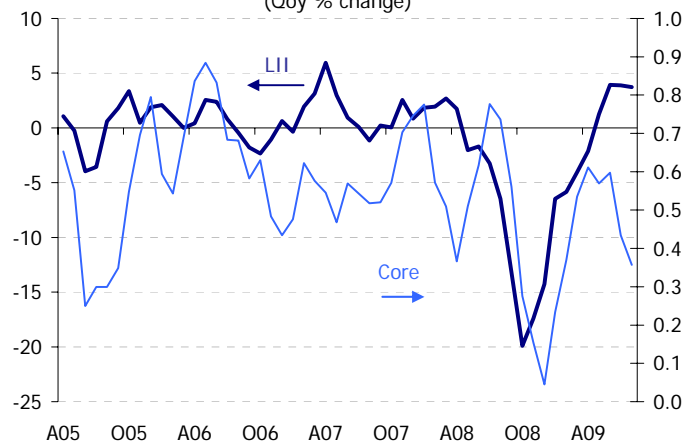
Financial Markets



## Economic Trends

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

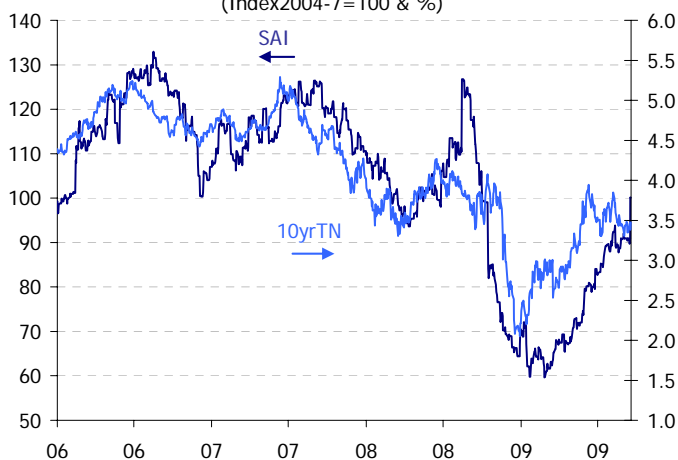

Source: BBVA ERD

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


Source: BBVA ERD

**BBVA US Surprise Activity Index & 10-yr Treasury**

(Index2004-7=100 &amp; %)



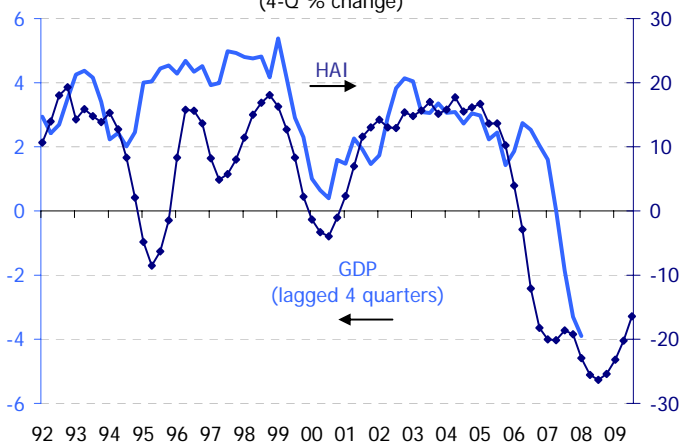
Source: BBVA ERD

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


Source: BBVA ERD

**BBVA Housing Activity Index & Real Gross Domestic Product**

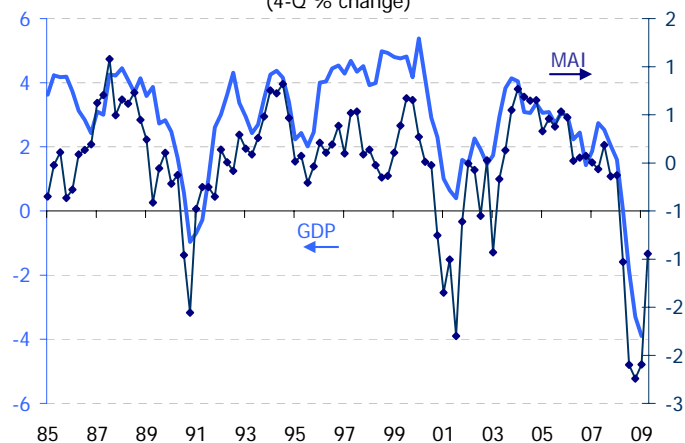
(4-Q % change)



Source: BBVA ERD &amp; BEA

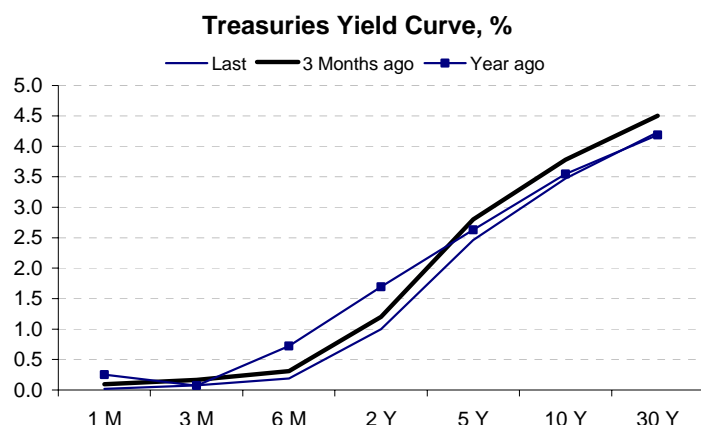
**BBVA US Monthly Activity Index & Real Gross Domestic Product**

(4-Q % change)



Source: BBVA ERD &amp; BEA

## 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	11.41	11.16	11.57
New Auto (36-months)	7.24	7.20	7.12	6.71
Heloc Loan 30K	5.85	5.82	5.82	5.57
30-year Fixed Mortgage *	5.04	5.07	6.37	6.71
Money Market	1.15	1.15	1.17	2.43
2-year CD	1.95	1.90	1.91	3.91
5-year CD	2.70	2.66	2.64	4.25

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Federal Reserve Bank of San Francisco President Janet Yellen:  
*The Outlook for Recovery in the U.S. Economy*  
 September 14, 2009

*The fear of higher long-term inflation reflects, to a large degree, worries about Fed monetary policy. Our array of new programs to spur the economy have pumped up our balance sheet and created a huge quantity of bank reserves in the process. Some worry that we won't be able to shrink our balance sheet because of political pressures, and in the process we will end up monetizing the government debt. This fear is real, growing, and disruptive. That's why it's so important for me to say the following loud and clear: We at the Fed are and will remain fiercely independent from politics. We have the means—and we certainly have the will—to tighten policy when the time is right. In fact, by raising the interest rate that we pay on excess reserves we can tighten monetary policy even before our balance sheet shrinks. And we are, as always, steadfast in our determination to achieve both of our statutory goals of full employment and price stability.*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
21-Sep	Leading Indicators	AUG	0.80%	0.70%	0.60%
22-Sep	ABC Consumer Confidence	20-Sep	--	--	-49
23-Sep	MBA Mortgage Applications	18-Sep	--	--	-8.60%
23-Sep	FOMC Rate Decision	23-Sep	0.25%	0.25%	0.25%
24-Sep	Initial Jobless Claims	19-Sep	537K	550K	545K
24-Sep	Continuing Claims	12-Sep	6195K	6195K	6230K
24-Sep	Existing Home Sales	AUG	5.35M	5.35M	5.24M
24-Sep	Existing Home Sales MoM	AUG	2.10%	2.10%	7.20%
25-Sep	Durable Goods Orders	AUG	-0.70%	0.40%	4.90%
25-Sep	Durables Ex Transportation	AUG	0.50%	1.00%	0.80%
25-Sep	U. of Michigan Confidence	SEP F	70.3	70.5	70.2
25-Sep	New Home Sales	AUG	446K	440K	433K
25-Sep	New Home Sales MoM	AUG	0.40%	1.60%	9.60%

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