



# Weekly Observatory

October 5, 2009

## Week Ahead

### Non-manufacturing ISM (September, Monday 10:00 ET)

F: 49.5

C: 50.0

P: 48.4

The ISM Non-Manufacturing Index is expected to remain virtually unchanged. Although the index has rebounded substantially since November 2008 -when it reached a minimum of 37- its trend continues to show a weak environment for non-manufacturing industries such as construction, services and finances. Uncertainty in these sectors remains, as suggested by September's employment report, which showed a contraction of 263,000 jobs in the month vs. 201,000 in August. Employment losses were widespread, with the service sector accounting for almost half of them. We maintain our expectation of a slow economic recovery in the coming quarters.

### Initial Jobless Claims (w/e 10/3/09, Thursday 8:30 ET)

F: 545K

C: 540K

P: 551K

Initial jobless claims have shown a gradual improvement over the past six months; yet, they are still well above the levels of early 2008. Their modest recovery is consistent with recent payroll figures that depict a slower pace of job destruction than in the first half of the year. On the other hand, continuing jobless claims have bottomed out, though they remain high by historical standards. This suggests that the unemployment rate could remain elevated.

### Trade Balance (August, Friday 8:30 ET)

F: -\$33.5B

C: -\$33.0B

P: -\$32.0B

Positive news in some foreign economies boosted exports over the past three months. Moreover, imports of goods increased substantially in July, suggesting a better economic environment for U.S. consumers. We expect these trends to continue, although with some reservations. On the exports side, positive surprises have been limited to only a few countries, while on the imports side, economic conditions in the U.S. remain weak. Therefore, international trade is likely to remain subdued for some more quarters.

### Wholesale Inventories (August, Thursday 10:00 ET)

F: -1.2%

C: -1.0%

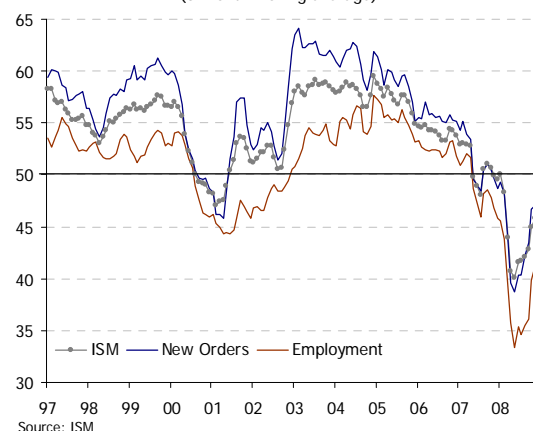
P: -1.4%

Inventories likely declined in August for the twelfth consecutive month as firms continue to scale back production in response to a sluggish demand. However, some indicators suggest that this trend could revert in the near future. Industrial production increased in August for the second consecutive month; in particular, manufacturing output rose by 1% on average in July and August, following eighteen consecutive months of contraction. Business confidence have also improved, suggesting slightly better conditions. Moreover, wholesale inventories have increased from May to July, boosting the inventories to sales ratio. In order to bring this ratio back to normal levels, firms will have to increase production. Therefore, inventory accumulation is likely to contribute positively to GDP growth in the near future.

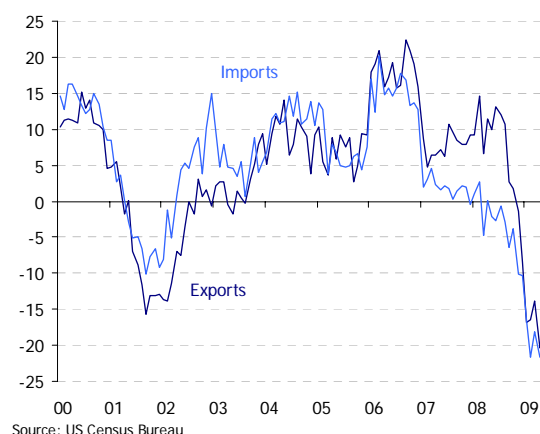
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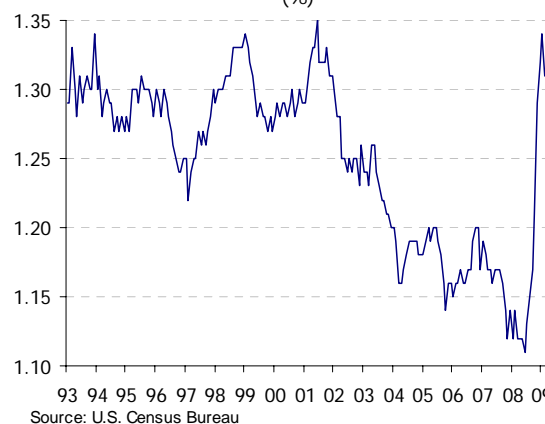
**ISM Non-Manufacturing Index**  
(3-month moving average)



**Real Exports & Imports of Goods**  
(annual % change)



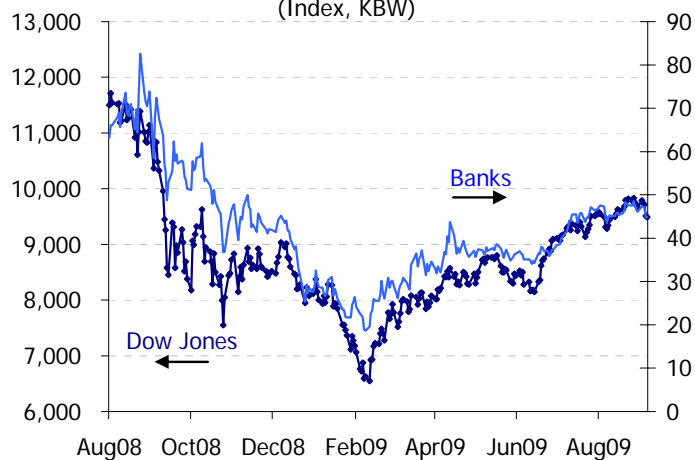
**Wholesale Inventory to Sales Ratio**  
(%)



## Financial Markets

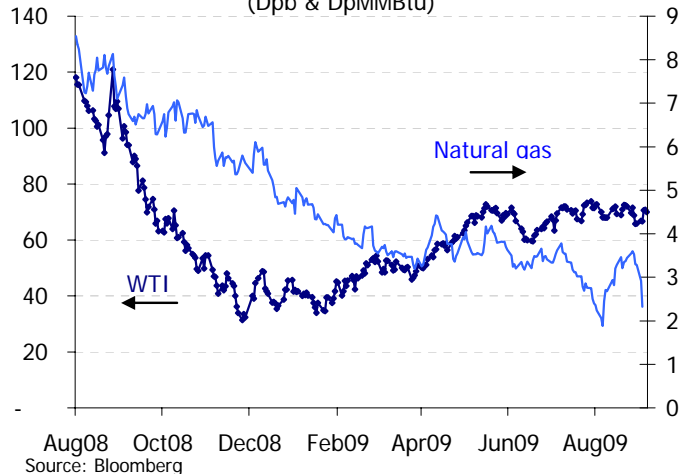
## Stocks

(Index, KBW)



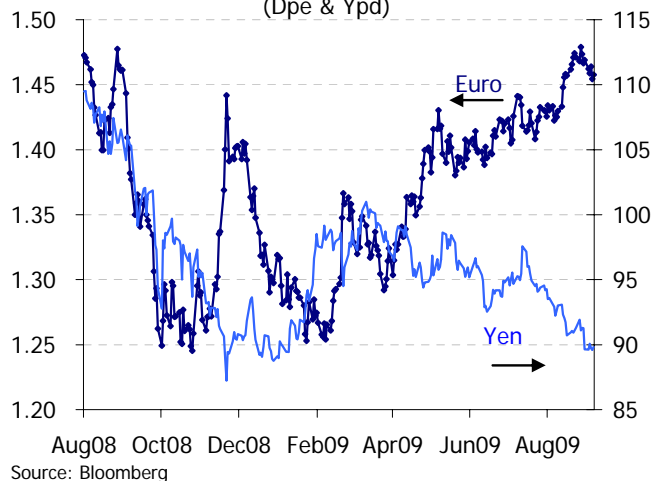
## Commodities

(Dpb &amp; DpMMBtu)



## Currencies

(Dpe &amp; Ypd)



## Volatility

(Vix, Index)



## Commercial Paper Issuance

(US\$Bn)



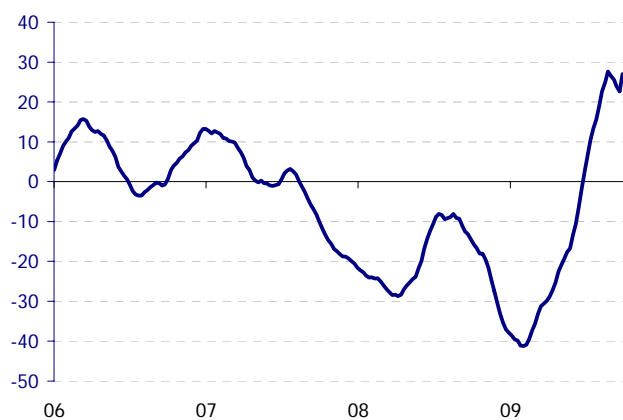
## TED &amp; BAA Spreads

(%)



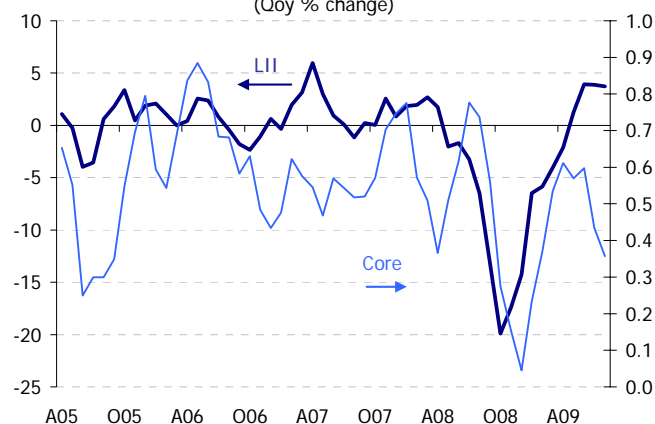
## Economic Trends

**BBVA US Weekly Activity Index**  
(3 month % change)



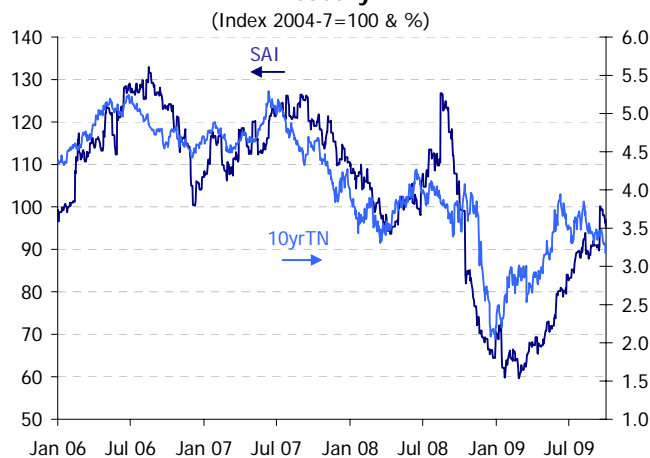
Source: BBVA ERD

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



Source: BBVA ERD

**BBVA US Surprise Activity Index & 10-yr Treasury**  
(Index 2004-7=100 & %)



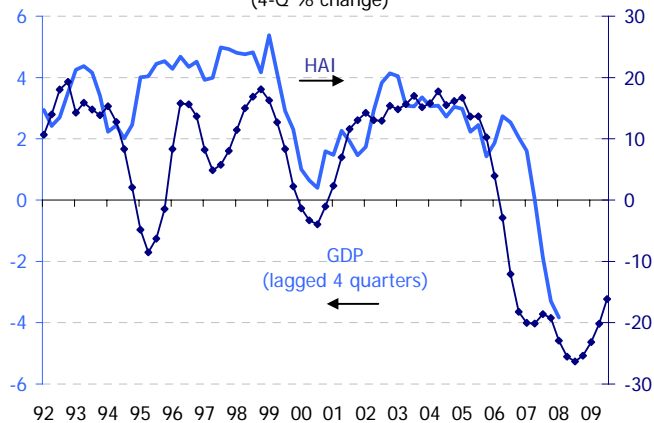
Source: BBVA ERD

**BBVA US Surprise Inflation Index**  
(Index 2004-7=100)



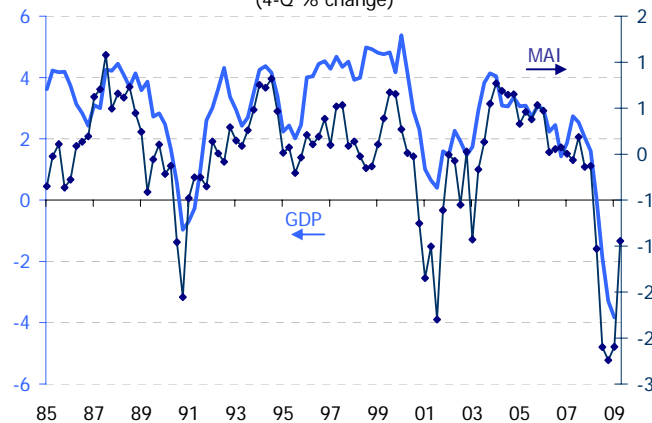
Source: BBVA ERD

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



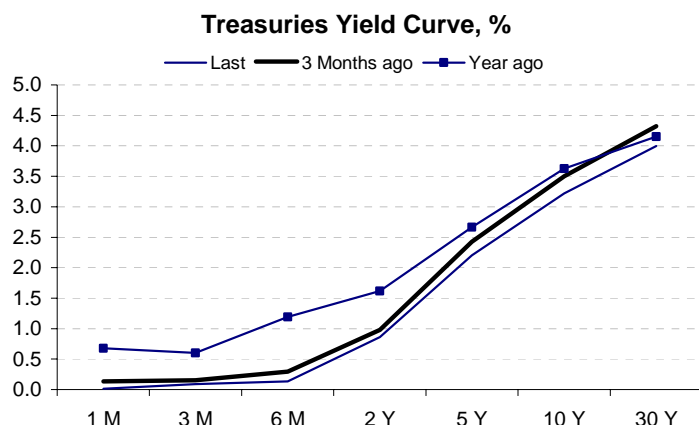
Source: BBVA ERD &amp; BEA

**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	11.41	11.57
New Auto (36-months)	7.12	7.21	7.21	6.73
Heloc Loan 30K	5.83	5.86	5.81	5.60
30-year Fixed Mortgage *	4.94	5.04	6.37	6.71
Money Market	1.10	1.12	1.16	2.47
2-year CD	2.00	1.98	1.91	3.87
5-year CD	2.71	2.71	2.66	4.23

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Fed's Vice Chairman Donald L. Kohn: *Central Bank Exit Policies*. September 30, 2009

*We will need to begin to remove the extraordinary degree of accommodation in its various dimensions when we judge that exiting from the current stance of policy will be necessary to preserve price stability as the economy returns to higher levels of resource utilization. Because it takes people time to adjust their spending and pricing decisions in response to a change in interest rates or other aspects of financial conditions, like other monetary policy decisions, that judgment will need to be based on a forecast of economic developments, not on current conditions. So we must begin to withdraw accommodation well before aggregate spending threatens to press against potential supply, and well before inflation as well as inflation expectations rise above levels consistent with price stability.*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
5-Oct	ISM Non-Manf. Composite	SEP	49.5	50	48.4
8-Oct	Initial Jobless Claims	3-Oct	545K	540K	551K
8-Oct	Wholesale Inventories	AUG	-1.2%	-1.0%	-1.4%
9-Oct	Trade Balance	AUG	-\$33.5B	-\$33.0B	-\$32.0B