



# Weekly Observatory

November 2, 2009

## Week Ahead

### ISM Manufacturing Index (October, Monday 10:00 ET)

F: 53.8 C: P: 52.6

The ISM Manufacturing Index will be one of the first data released for the fourth quarter that provides insight into economic activity. Given increases in most regional manufacturing indices and the pick-up in durable goods orders, the ISM is expected to rise in October, coming in at a level consistent with economic growth for the sixth month in a row. As a result, we can infer that economic expansion will continue into 4Q08 and, furthermore, that industrial production will increase as well.

### FOMC Statement (Wednesday 2:30ET)

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

The FOMC's economic outlook is expected to remain positive given GDP growth in 3Q09 and further improvement in many economic indicators. While the exit strategy is anticipated to be a primary discussion topic, the committee is not expected to make any changes to the current policy until it is clear that the recovery is sustainable. As a result, we believe the target interest rate will remain unchanged.

### Productivity and Unit Labor Cost (3Q09, Thursday 8:30 ET)

F: 6.5%, -2.5% C: P: 6.6%, -5.8%

Productivity, defined as output per hour, is expected to rise 6.5% in 3Q09 after increasing 6.6% in the second quarter. GDP grew 3.5% this quarter, confirming that output rose. Hours, on the other hand, most likely decreased due to the weak economy and labor market. As a result, productivity will rise, not because workers are becoming more efficient, but due to the fact that fewer workers are absorbing the increase in output. Furthermore, unit labor costs are expected to decline for the third month in a row, reflecting the increase in productivity and downward pressures on compensation.

### Non-Farm Payrolls (October, Friday 8:30 ET)

F: C: P:

Non-farm payrolls are expected to decline further in October given ongoing weakness in the labor market. This will mark the 22<sup>nd</sup> month that payrolls will have declined since the beginning of the recession. Furthermore, the economy has shed more than 7m jobs during that period. The labor market is expected to remain fragile even as the economy begins to recover. As a result, consumers will continue to spend frugally and consumer spending will remain subdued.

### Consumer Credit (September, Friday 3:00 ET)

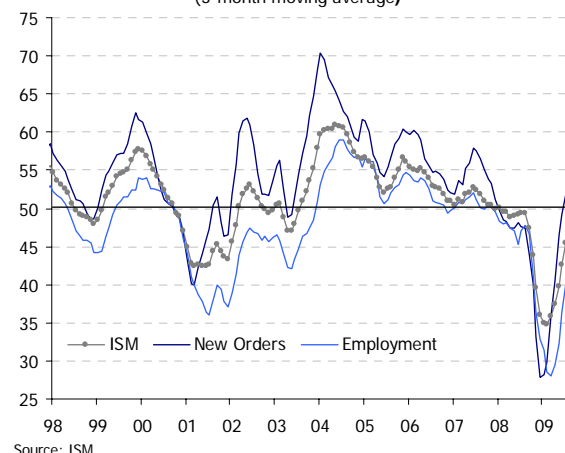
F: -\$9.2B C: P: -\$12.0B

Consumer credit outstanding is expected to decline for the twelfth month in a row in September. Consumers, plagued by ongoing weakness in the labor market, are still in the process of reducing their debt and credit markets remain tight, limiting access for those who seek it. The ongoing reduction in credit outstanding is one of the factors that lead us to believe that consumer spending will remain subdued throughout the recovery process.

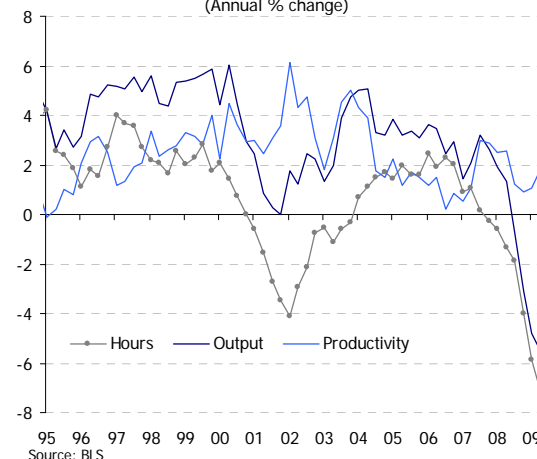
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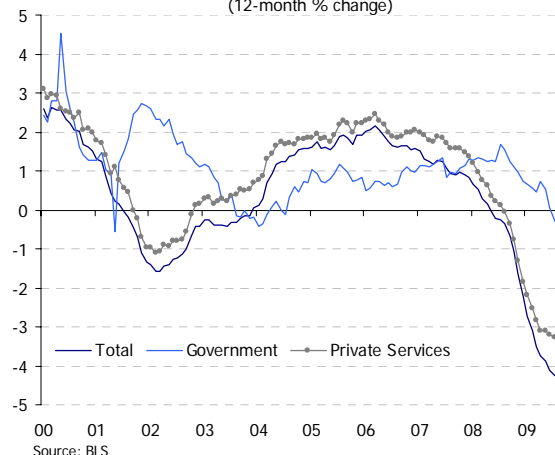
**ISM Manufacturing Index**  
(3-month moving average)



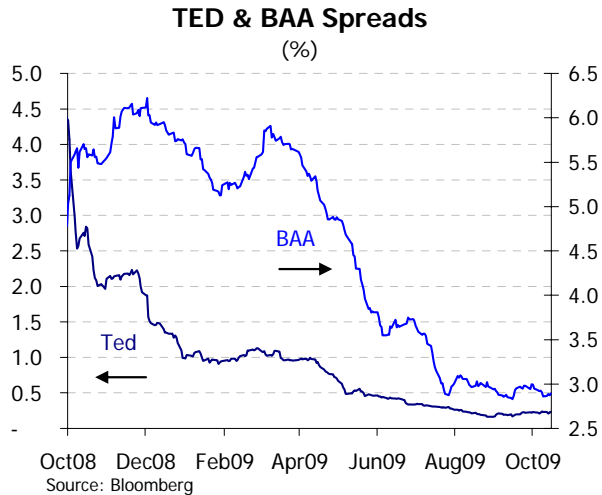
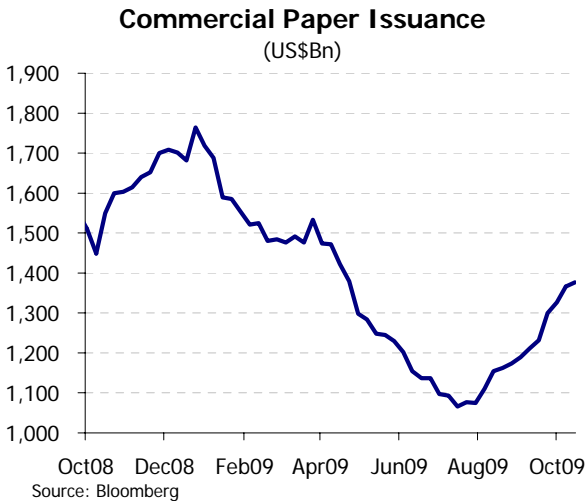
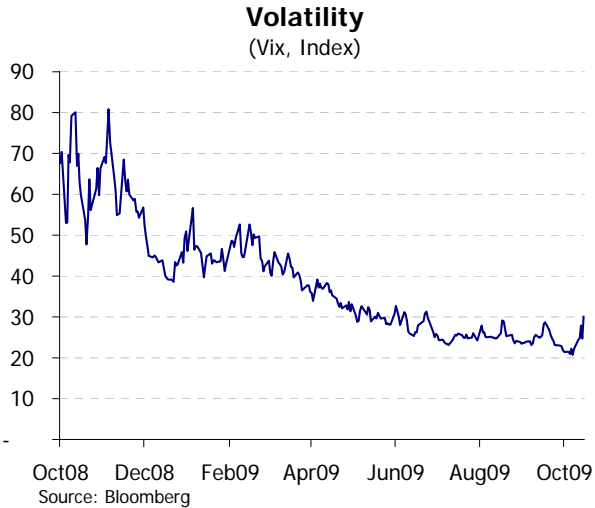
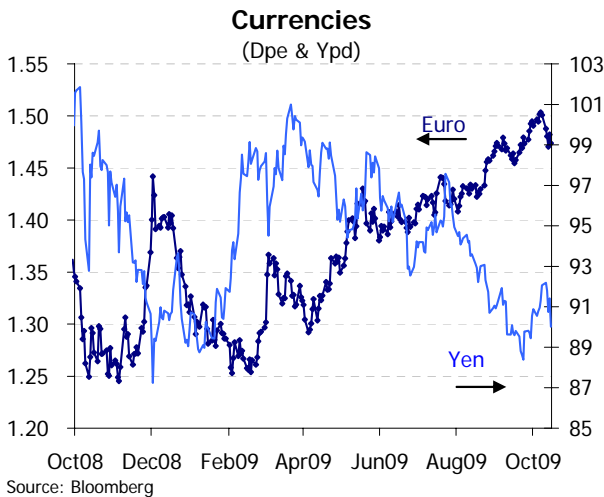
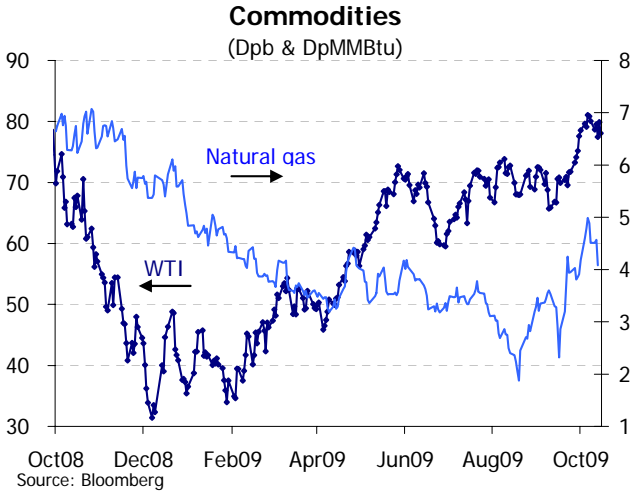
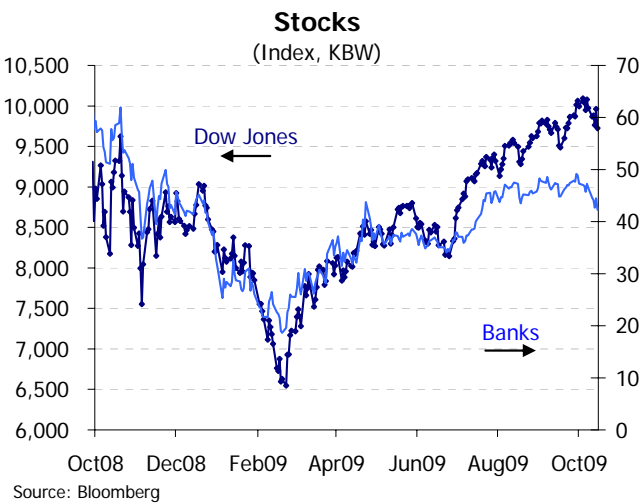
**Productivity, Hours & Output**  
(Annual % change)



**Total Nonfarm Payrolls**  
(12-month % change)



Financial Markets



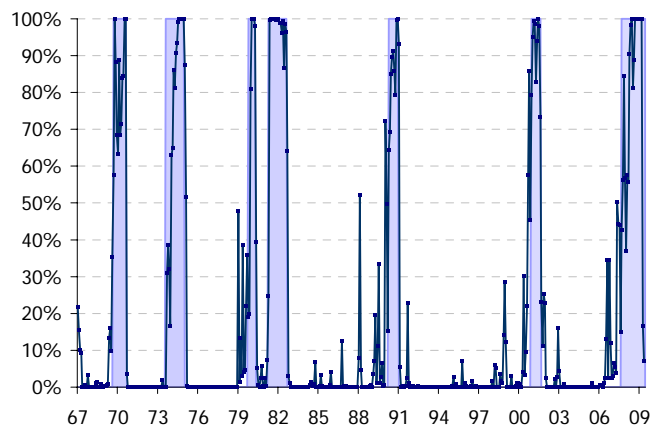
## Economic Trends

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



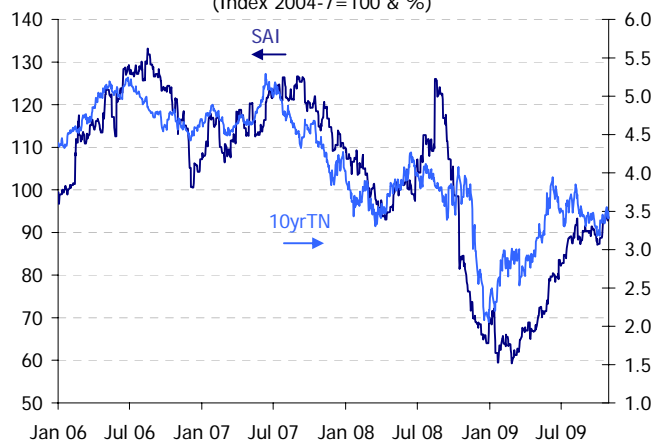
Source: BBVA ERD

**BBVA US Recession Probability Model**  
(Recession episodes in shaded areas, %)



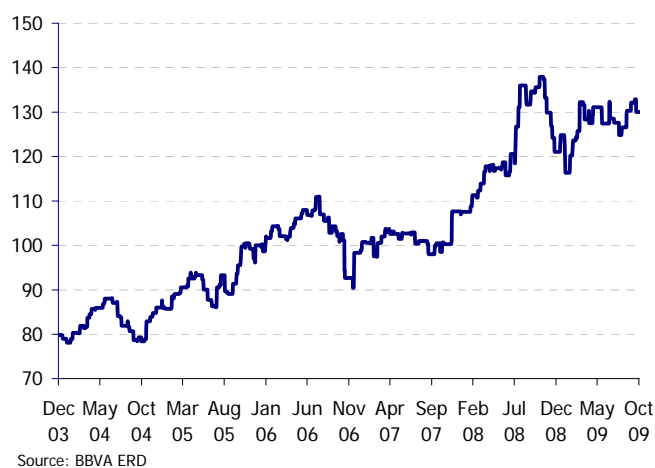
Source: BBVA ERD

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



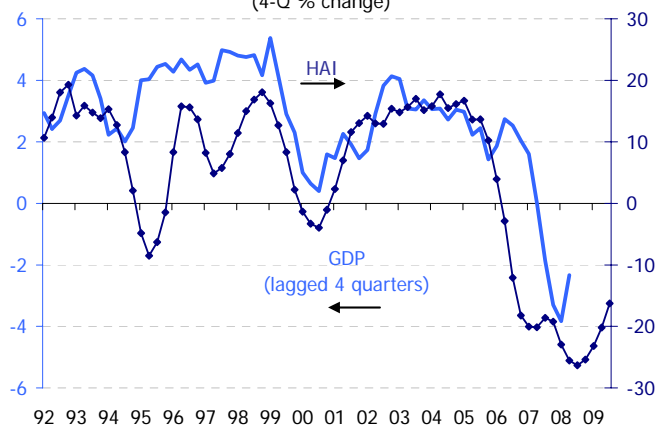
Source: BBVA ERD

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



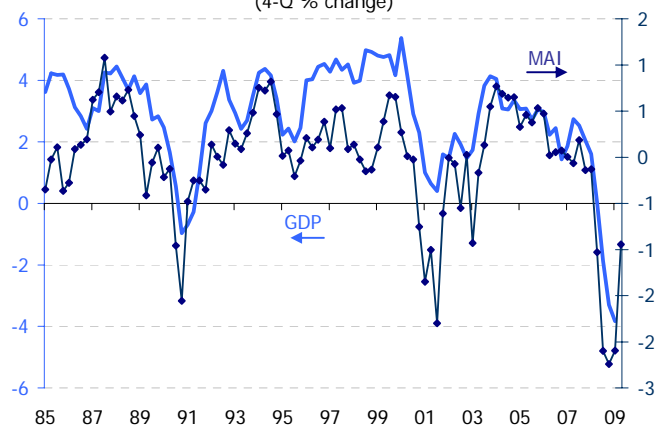
Source: BBVA ERD

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



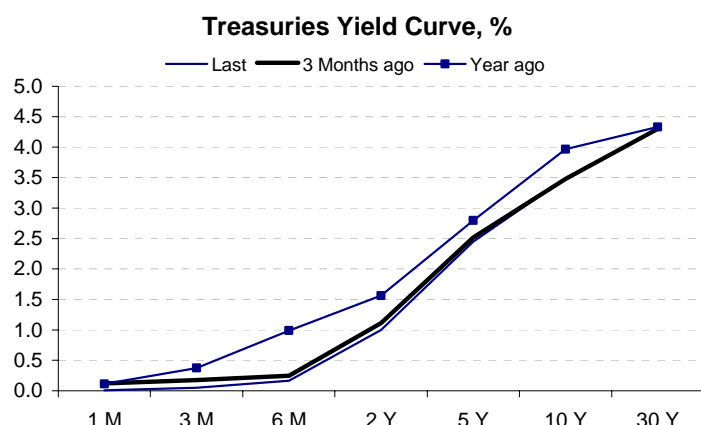
Source: BBVA ERD &amp; BEA

**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	4.50
Credit Card (variable)	11.48	11.41	11.41	11.68
New Auto (36-months)	6.96	7.08	7.13	6.84
Heloc Loan 30K	5.75	5.76	5.83	5.39
30-year Fixed Mortgage *	5.03	5.00	6.37	6.71
Money Market	1.06	1.07	1.10	2.49
2-year CD	1.95	1.95	2.00	3.60
5-year CD	2.69	2.70	2.71	3.94

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Statement on GDP from Council of Economic Advisors Chair Christina Romer  
Washington, DC. October 29, 2009

*However, this welcome milestone is just another step, and we still have a long road to travel until the economy is fully recovered. The turnaround in crucial labor market indicators, such as employment and the unemployment rate, typically occurs after the turnaround in GDP. And it will take sustained, robust GDP growth to bring the unemployment rate down substantially. Such a decline in unemployment is, of course, what we are all working to achieve.*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
2-Nov	ISM Manufacturing	OCT	53.8	53	52.6
2-Nov	Pending Home Sales MoM	SEP	0.50%	-0.30%	6.40%
2-Nov	ISM Prices Paid	OCT	64.5	64	63.5
2-Nov	Construction Spending MoM	SEP	-0.50%	-0.20%	0.80%
3-Nov	Factory Orders	SEP	0.20%	0.80%	-0.80%
3-Nov	Total Vehicle Sales	OCT	9.70M	9.80M	9.20M
3-Nov	Domestic Vehicle Sales	OCT	7.10M	7.35M	6.80M
4-Nov	ADP Employment Change	OCT	-220K	-190K	-254K
4-Nov	ISM Non-Manf. Composite	OCT	51.8	51.6	50.9
4-Nov	FOMC Rate Decision	4-Nov	0.25%	0.25%	0.25%
5-Nov	Nonfarm Productivity	3Q P	6.50%	6.20%	6.60%
5-Nov	Unit Labor Costs	3Q P	-2.50%	-4.00%	-5.90%
5-Nov	Initial Jobless Claims	31-Oct	520K	520K	530K
5-Nov	Continuing Claims	24-Oct	5750K	5750K	5797K
6-Nov	Change in Nonfarm Payrolls	OCT	-185K	-175K	-263K
6-Nov	Unemployment Rate	OCT	9.90%	9.90%	9.80%
6-Nov	Change in Manuf. Payrolls	OCT	-48K	-47K	-51K
6-Nov	Average Hourly Earnings MoM	OCT	0.10%	0.10%	0.10%
6-Nov	Average Weekly Hours	OCT	33	33.1	33
6-Nov	Wholesale Inventories	SEP	-1.50%	-1.00%	-1.30%
6-Nov	Consumer Credit	SEP	-\$9.2B	-\$10.0B	-\$12.0B

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