



Weekly Observatory

March 15, 2010

Week Ahead

Empire State Manufacturing Index (March, Monday 8:30 ET)
 Forecast: 22.9 Consensus: 21.45 Previous: 24.91

Expansion in the manufacturing industry in the New York Fed's district could ease slightly in March as indicated in the slowdown in the previous month's new orders index. Nevertheless, the manufacturing industry continues to lead the economic recovery and is expected to expand further.

Industrial Production (February, Monday 9:15 ET)
 Forecast: 0.2% Consensus: 0.0% Previous: 0.9%

The pace of expansion of industrial production will ease in February to 0.2% from 0.9%. The largest component of industrial production is manufacturing, which grew at a slower pace in February according to the ISM Manufacturing Index. While the impact of fiscal stimulus and inventory restocking has led to questions about the sustainability of growth in industrial production, production levels have been expanding across a progressively wider spectrum of industries, indicating that growth will continue.

Housing Starts (February, Tuesday 8:30 ET)
 Forecast: 583K Consensus: 570K Previous: 591K

Amid weak demand, low builders confidence and extreme weather in some regions, housing starts could slip 1.4% following January's 2.8% rise. While starts have risen 21.1% above those of last year, they remain at some of the lowest levels in the history of the data (starting in 1959). New construction is expected to pick-up as the weather improves, but the pace will be slow due to limited demand for new homes. The implication for 1Q10 is that residential investment will likely improve, but at a slow pace.

Consumer Price Index (February, Thursday 8:30 ET)
 Forecast: 0.1%, 0.1% Consensus: 0.1%, 0.1% Previous: 0.2%, -0.1%

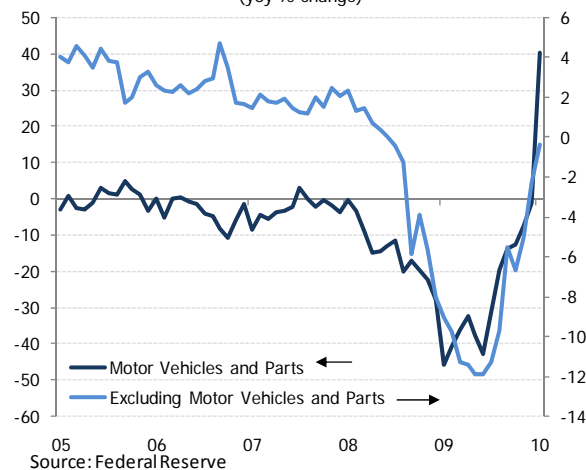
Both headline and core prices are expected to rise 0.1% in February. Declining rent prices could continue to weigh down on the shelter component, which constitutes approximately 30% of the index. Furthermore, substantial economic slack, as exhibited by the high unemployment rate and low rate of capacity utilization, will offset price pressures and inflation expectations remain well anchored. As a result, we continue to expect core inflation to remain low but positive in 2010.

Leading Economic Index (March, Thursday 10:00 ET)
 Forecast: 0.3% Consensus: 0.1% Previous: 0.3%

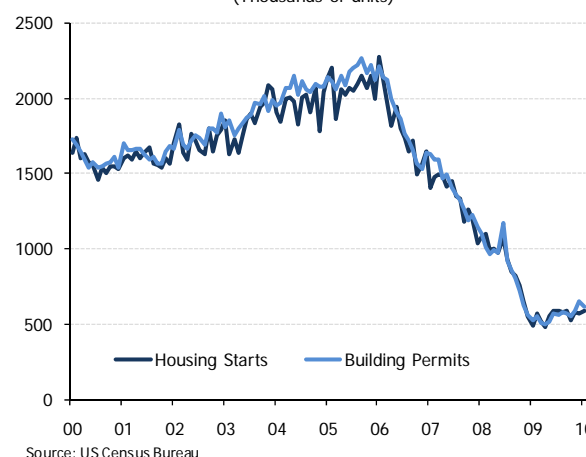
The Leading Economic Index will increase at a slower pace in February than January, indicative of some of the speed bumps that the economic recovery will have to overcome. While most components are expected to contribute positively, declines in consumer expectations and building permits could limit the index's expansion. Furthermore, initial jobless claims will only post a small contribution, whereas it has been a driver in previous months. Nevertheless, the index will climb for the eleventh consecutive month, indicating that the economy is still on the path to recovery.

Kristin Lomicka
 Kristin.Lomicka@bbvacompass.com

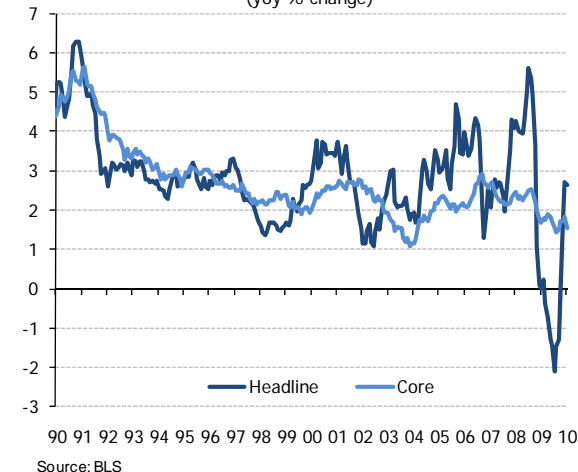
Industrial Production
 (yoy % change)



Housing Starts & Building Permits
 (Thousands of units)



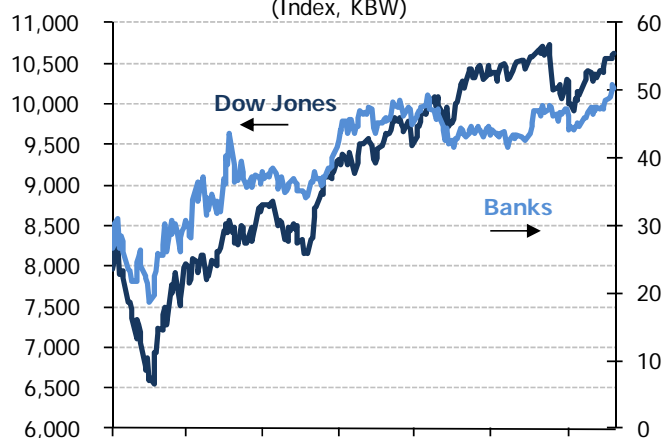
Consumer Price Index
 (yoy % change)



Financial Markets

Stocks

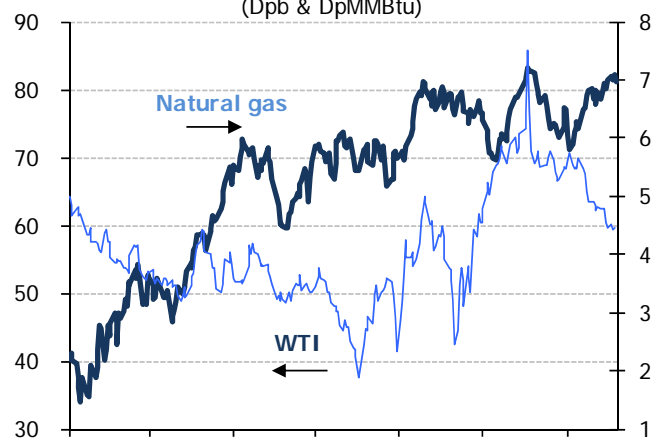
(Index, KBW)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

Commodities

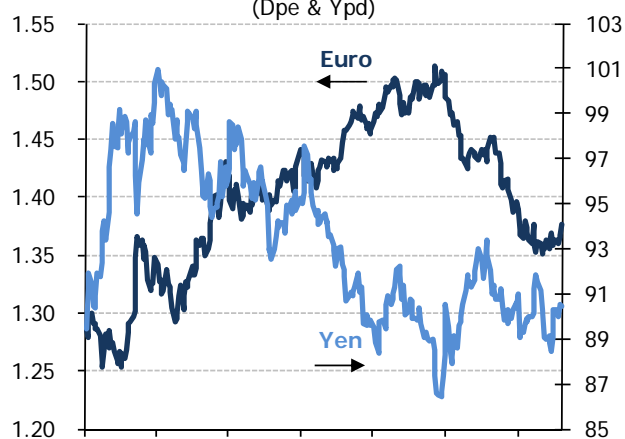
(Dpb & DpMMBtu)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

Currencies

(Dpe & Ypd)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

Volatility

(Vix, Index)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

Commercial Paper Issuance

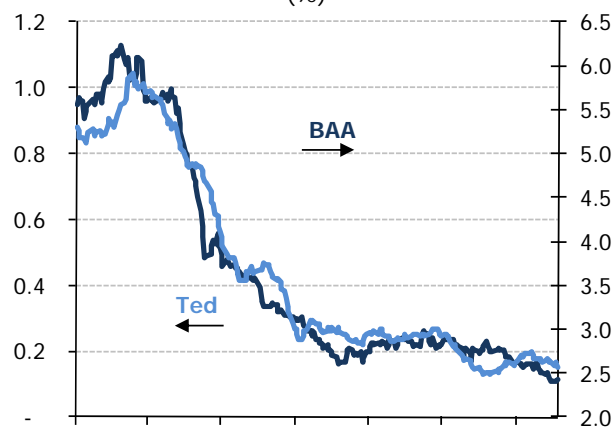
(US\$Bn)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

TED & BAA Spreads

(%)



Feb09 Apr09 Jun09 Aug09 Oct09 Dec09 Feb10
Source: Bloomberg

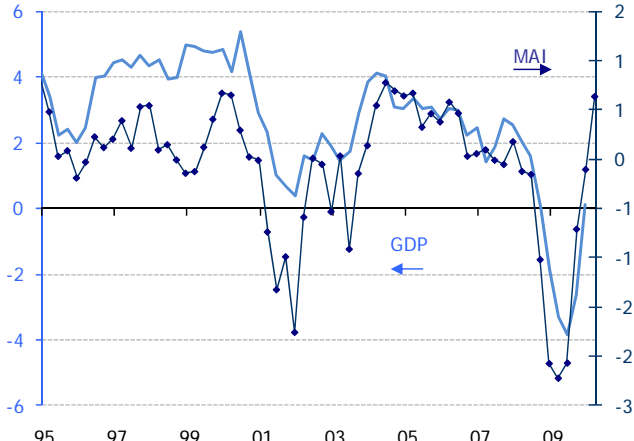
Economic Trends

BBVA US Weekly Activity Index
(3 month % change)



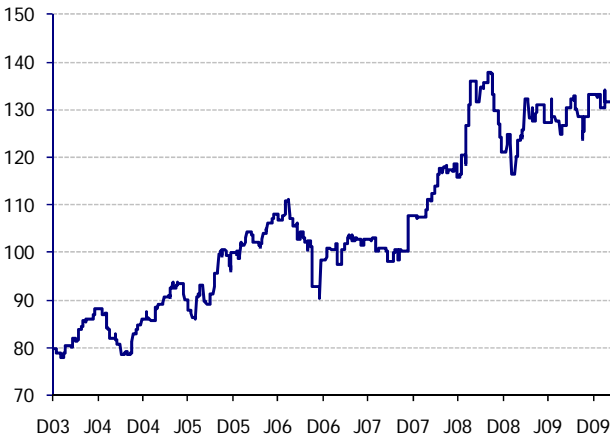
Source: BBVA ERD

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



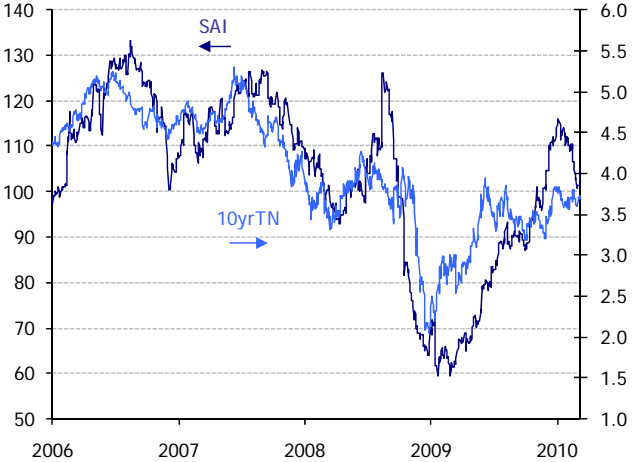
Source: BBVA ERD & BEA

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



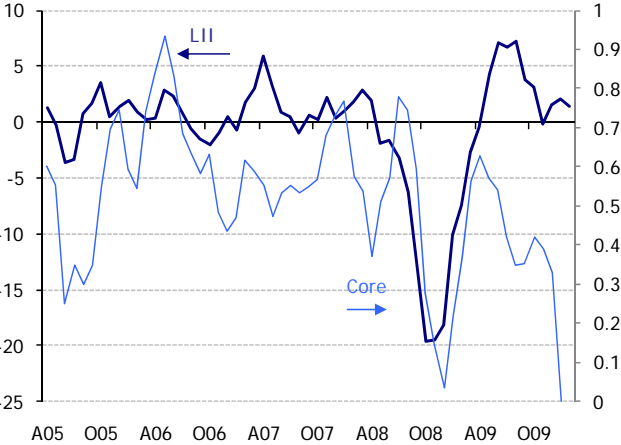
Source: BBVA ERD

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



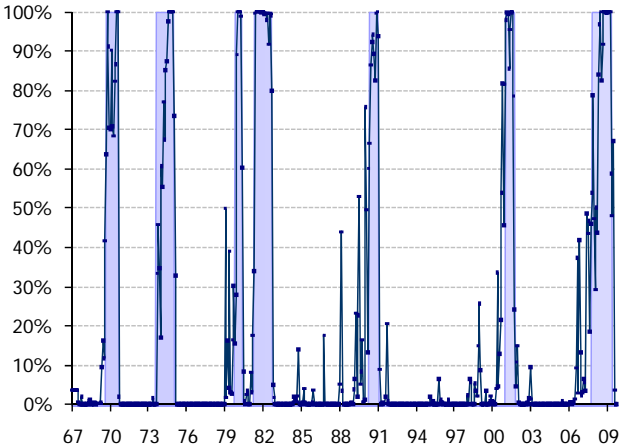
Source: BBVA ERD

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



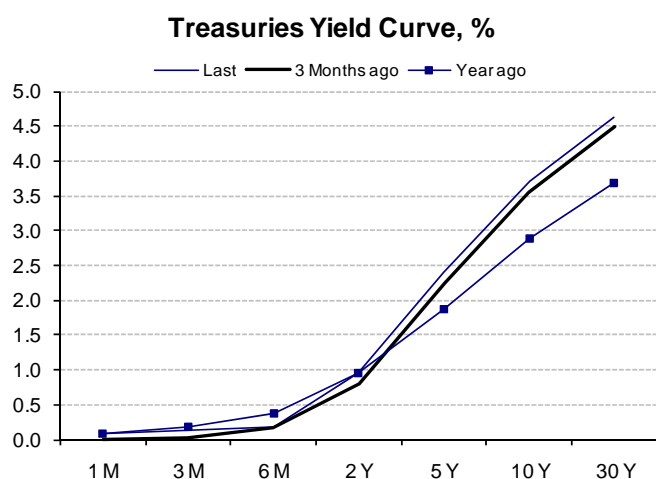
Source: BBVA ERD

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	3.25
Credit Card (variable)	12.55	12.45	12.53	10.80
New Auto (36-months)	6.44	6.69	6.38	6.88
Heloc Loan 30K	5.70	5.71	5.67	5.16
30-year Fixed Mortgage *	4.95	4.97	6.37	5.03
Money Market	0.81	0.82	0.89	1.42
2-year CD	1.66	1.70	1.75	2.21
5-year CD	2.60	2.63	2.66	2.68

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Federal Reserve of Chicago President Charles Evans
26th Annual NABE Economic Policy Conference
March 9, 2010

I find myself in broad agreement with the view that restrictive bank credit, along with business and household caution, will continue to restrain the recovery's strength but that these headwinds will abate as we move through 2010. Most business cycle indicators have turned favorable already. Yet many households and businesses remain wary that a full-fledged recovery is in train. That is not surprising. As we all know, employment is often the last piece of the puzzle to fall into place, and until the economy begins to add jobs in significant numbers, for many it will not feel like much of a recovery.

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Mar	Empire Manufacturing	MAR	22.9	21.45	24.91
15-Mar	Industrial Production	FEB	0.20%	0.00%	0.90%
15-Mar	Capacity Utilization	FEB	73.10%	72.60%	72.60%
15-Mar	NAHB Housing Market Index	MAR	17	17	17
16-Mar	Import Price Index (MoM)	FEB	0.20%	-0.20%	1.40%
16-Mar	Housing Starts	FEB	583K	570K	591K
16-Mar	Building Permits	FEB	612K	602K	621K
16-Mar	FOMC Rate Decision	16-Mar	0.25%	0.25%	0.25%
17-Mar	Producer Price Index (MoM)	FEB	-0.10%	-0.20%	1.40%
17-Mar	PPI Ex Food & Energy (MoM)	FEB	0.10%	0.10%	0.30%
17-Mar	Producer Price Index (YoY)	FEB	5.10%	4.90%	4.60%
17-Mar	PPI Ex Food & Energy (YoY)	FEB	1.00%	1.00%	1.00%
18-Mar	Consumer Price Index (MoM)	FEB	0.10%	0.10%	0.20%
18-Mar	CPI Ex Food & Energy (MoM)	FEB	0.10%	0.10%	-0.10%
18-Mar	Consumer Price Index (YoY)	FEB	2.30%	2.30%	2.60%
18-Mar	CPI Ex Food & Energy (YoY)	FEB	1.40%	1.40%	1.60%
18-Mar	Initial Jobless Claims	13-Mar	460K	450K	462K
18-Mar	Current Account Balance	4Q	-\$118.3	-\$120.0B	-\$108.0B
18-Mar	Continuing Claims	6-Mar	4540K	4500K	4558K
18-Mar	Philadelphia Fed.	MAR	19	18	17.6
18-Mar	Leading Indicators	FEB	0.30%	0.10%	0.30%

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