



# Weekly Observatory

April 5, 2010

## Week Ahead

### ISM Non-Manufacturing Index (March, Monday 10:00 ET)

Forecast: 53.7      Consensus: 54.0      Previous: 53.0

Activity in the non-manufacturing sector is expected to pick-up in March as the ISM Non-Manufacturing Index rises to 53.7 from 53.0. While recovery in this sector lagged that of the manufacturing industry, the index has come in above 50 for six of the last seven months, indicating that business confidence is improving. Furthermore, the trend is a signal that private demand is firming. An improvement in March's index would support our expectation of economic growth in 1Q10.

### Pending Home Sales (February, Monday 10:00 ET)

Forecast: -0.7%      Consensus: -1.0%      Previous: -7.6%

Pending home sales could slip further in February as extreme weather conditions may have disrupted house hunting efforts. As a result, existing home sales could post another decline in March. Even though home sales remain sluggish, they have firmed to levels above those of the previous year. As the weather improves in the spring and summer months, favorable interest rates and low prices are expected to attract buyers to the market.

### Consumer Credit (February, Wednesday 15:00 ET)

Forecast: -\$0.3B      Consensus: \$1.2B      Previous: \$5.0B

Consumer credit is expected to remain flat or negative in February as inclement weather restricts shopping behavior and households continue to recalibrate their reliance on debt-financed consumption. Over the past several months consumer credit registered negative monthly declines, which is a trend we expect to moderate first before posting more healthy positive monthly growth. Overall, we expect slow positive consumer credit growth in the second half of the year.

### Initial Jobless Claims (w/e 4/2/10, Thursday 8:30 ET)

Forecast: 431K      Consensus: 435K      Previous: 439K

Initial unemployment insurance claims are expected to go down further in coming months, reflecting a modest improvement in the labor market. Initial claims reached a peak at 639,000 in February 2009 and have declined since then to a range between 440,000 and 450,000. Although this is a significant improvement, claims remain high by historical standards, suggesting that job creation is still weak. In fact, the latest employment report confirmed this assessment. Excluding temporary jobs created for the U.S. 2010 Census, the non-farm payroll expanded by an average of 18,000 jobs per month in the first quarter, while the unemployment rate moderated remained constant at 9.7%. These figures are consistent with our expectation of a slow economic recovery in 2010.

### Wholesale Inventories (February, Friday 10:00 ET)

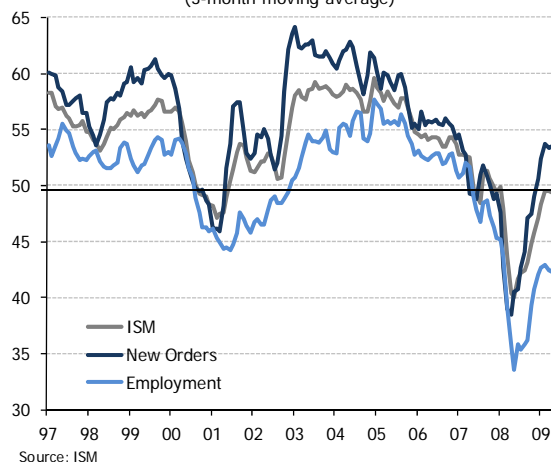
Forecast: 0.1%      Consensus: 0.3%      Previous: --0.2%

Inventories are expected to post a modest increase in February as wholesalers begin to restock after liquidating inventories to low levels. While businesses are expected to keep inventories slim, the inventory to sales ratio is at the lowest point in the history of the data, indicating that companies will need to restock in order to meet new demand. A positive externality from the restocking process is the boost to industrial production, which will continue throughout 1H10.

Kristin Lomicka

Kristin.Lomicka@bbvacompass.com

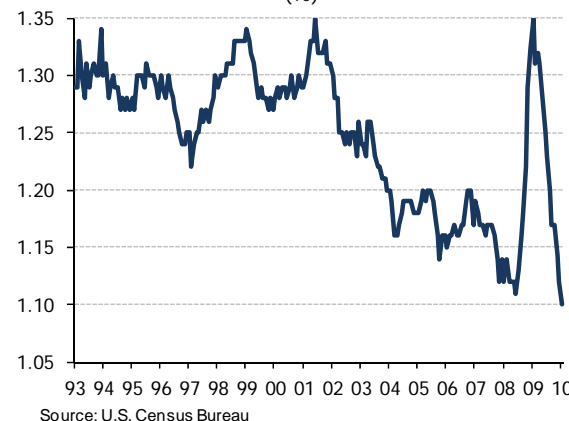
**ISM Non-Manufacturing Index**  
(3-month moving average)



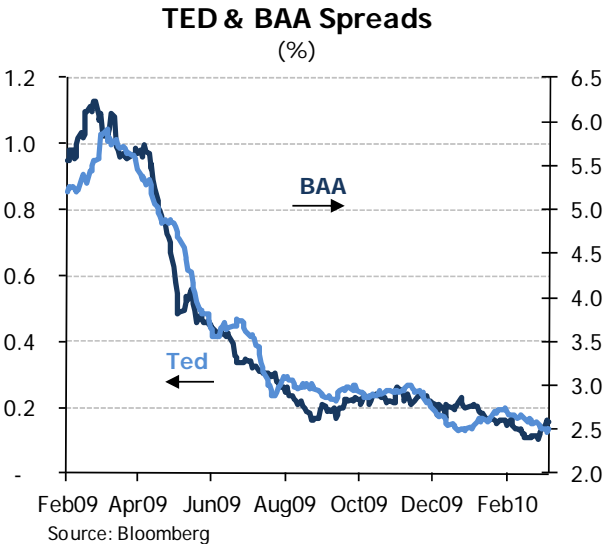
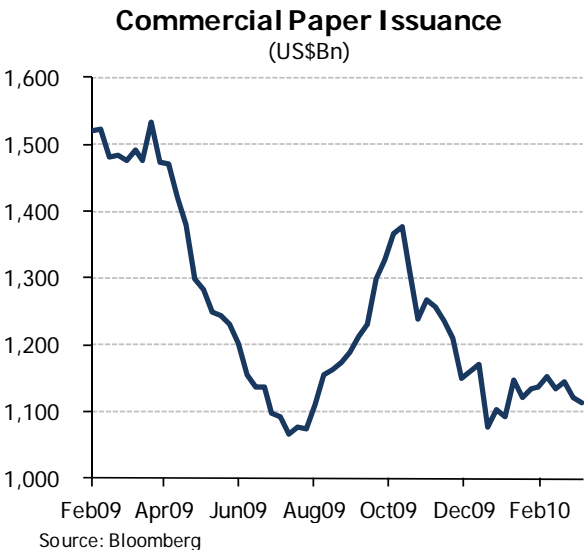
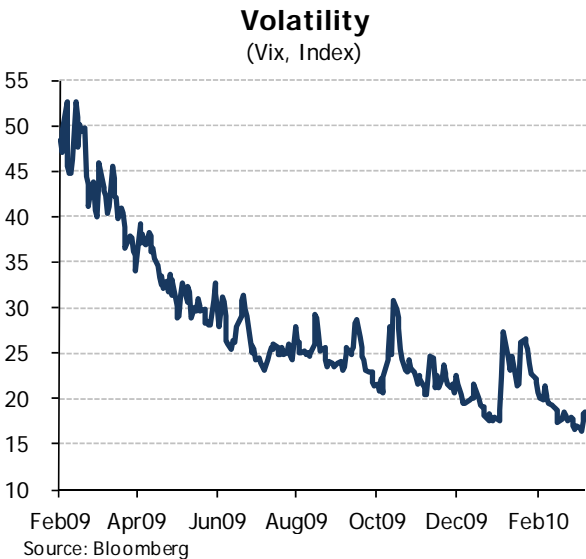
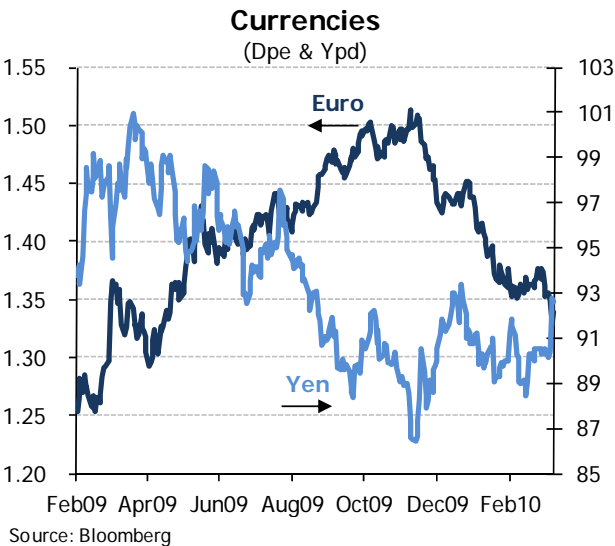
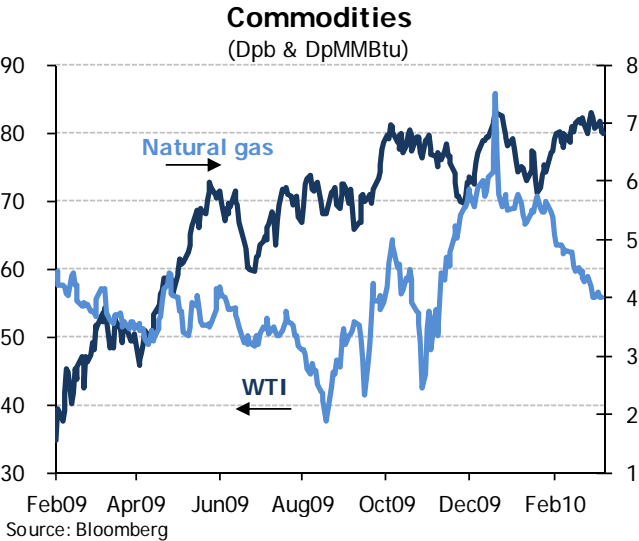
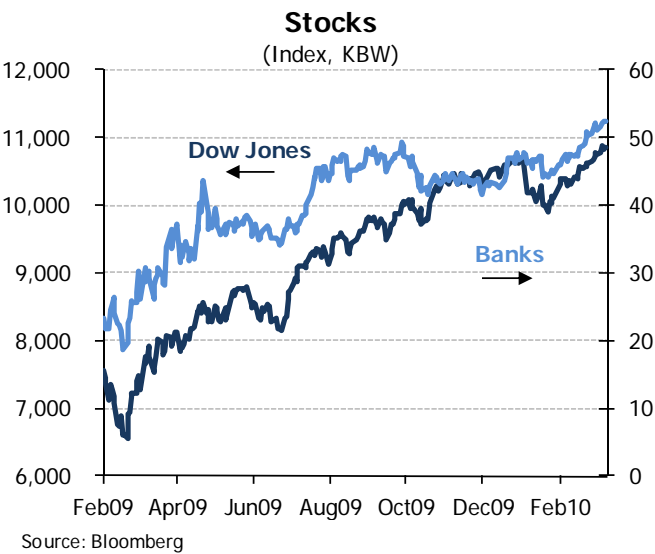
**Pending and Existing Home Sales**  
(Annual % change)



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



Financial Markets



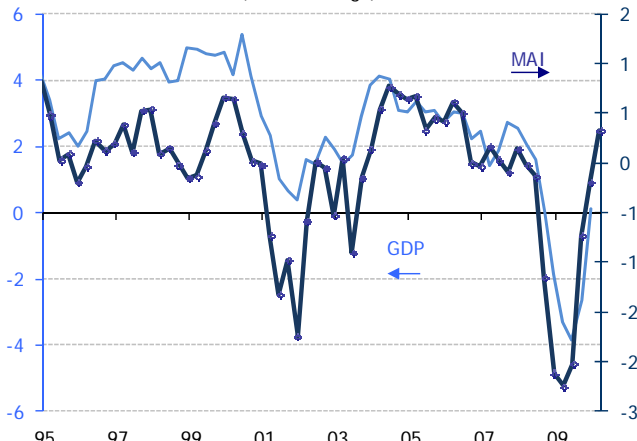
Economic Trends

BBVA US Weekly Activity Index  
(3 month % change)



Source: BBVA ERD

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



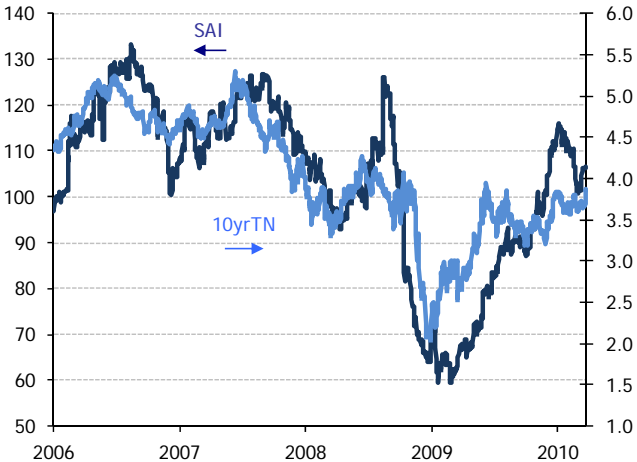
Source: BBVA ERD & BEA

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



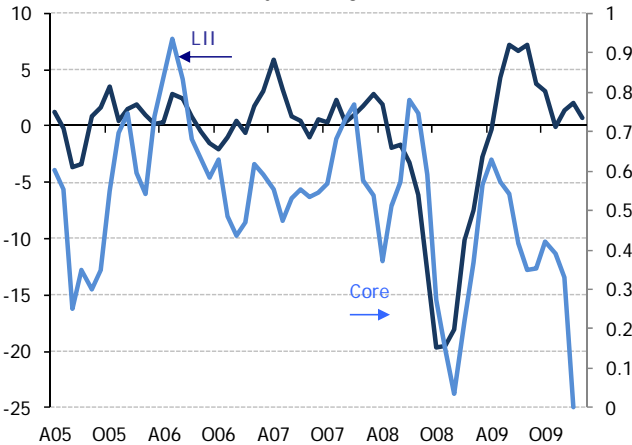
Source: BBVA ERD

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



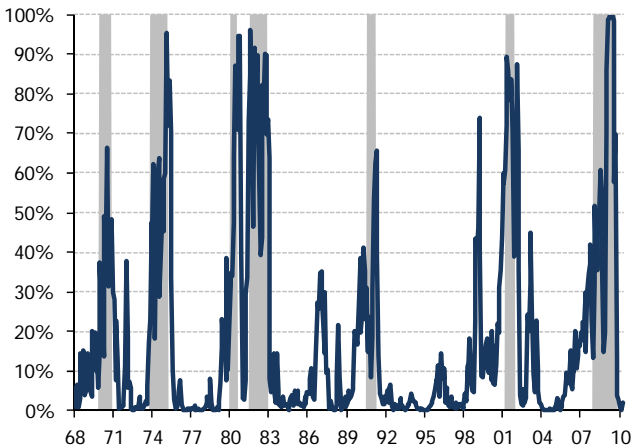
Source: BBVA ERD

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



Source: BBVA ERD

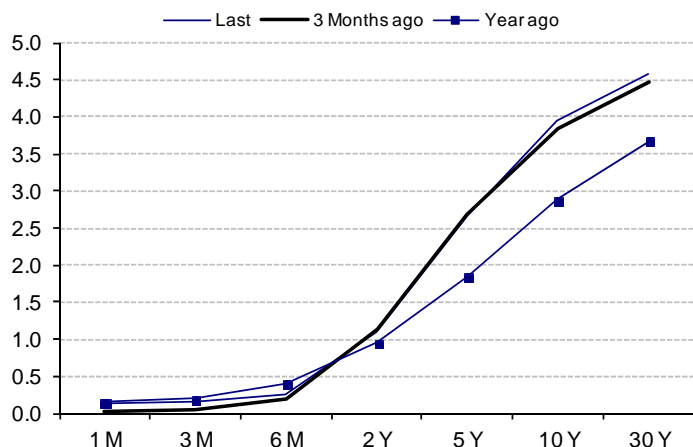
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA ERD

## Yield Curve and Interest Rates

**Treasuries Yield Curve, %**



**Key Interest Rates**

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	12.79	12.99	12.55	10.73
New Auto (36-months)	6.43	6.40	6.69	6.87
Heloc Loan 30K	5.68	5.56	5.71	5.10
30-year Fixed Mortgage *	5.08	4.99	6.37	4.78
Money Market	0.79	0.79	0.82	1.35
2-year CD	1.64	1.64	1.70	2.15
5-year CD	2.59	2.60	2.63	2.62

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Federal Reserve Bank of Atlanta President Dennis P. Lockhart  
*Prospects for Sustained Recovery and Employment Gains*  
 March 31, 2010

All things considered, labor market trends appear to be headed in the right direction. But it's quite possible the recovery could be well advanced before any significant reduction of unemployment materializes. It's also quite possible circumstances justifying the start of a cycle of policy tightening will develop well before the unemployment rate has found a satisfactory level.

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Apr	ISM Non-Manf. Composite	MAR	53.7	54	53
5-Apr	Pending Home Sales MoM	FEB	-0.70%	-1.00%	-7.60%
5-Apr	Pending Home Sales YoY	FEB	7.90%	-	8.80%
6-Apr	Minutes of FOMC Meeting	6-Apr			
6-Apr	ABC Consumer Confidence	4-Apr	-	-	-45
7-Apr	MBA Mortgage Applications	2-Apr	-	-	1.30%
7-Apr	Consumer Credit	FEB	-\$0.3B	\$1.2B	\$5.0B
8-Apr	Initial Jobless Claims	3-Apr	431K	435K	439K
8-Apr	Continuing Claims	27-Mar	4620K	4650K	4662K
8-Apr	ICSC Chain Store Sales YoY	MAR	-	-	3.70%
9-Apr	Wholesale Inventories	FEB	0.10%	0.30%	-0.20%

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