



Weekly Observatory

May 17, 2010

Week Ahead

Empire State Manufacturing Index (May, Monday 8:00 ET)

Forecast: 29.6 Consensus: 30 Previous: 31.9

The manufacturing industry in the New York region is expected to continue to expand at a healthy pace in line with that of previous expansionary periods in May. New orders surged according to last month's survey, external demand is picking up and businesses are adding to inventories, which are all factors that could stimulate further expansion in the manufacturing industry. The index's results would be a good indication that both the ISM and industrial production will grow in May.

Housing Starts (April, Tuesday 8:00 ET)

Forecast: 643: Consensus: 650K Previous: 626K

Housing starts are expected to grow for the fourth consecutive month. With demand firming, prices stabilizing and inventories of new homes at historically low levels, builders' confidence has risen to the highest level since November 2009. Nevertheless, residential construction is expected to recover at a slow pace throughout 2010. Since housing starts have a powerful ripple effect, a positive result for this indicator would filter through to durable goods consumption, industrial production and corporate profits.

CPI (Headline, Core) (April, Wednesday 8:30 ET)

Forecast: 0.1%, 0.1% Consensus: 0.1%, 0.1% Previous: 0.1%, 0.0%

Energy prices are not expected to have a significant impact on headline inflation in April, while core inflationary pressures will be limited. First quarter productivity and cost data illustrated that producers are not experiencing pressure to increase prices. This development, combined with ongoing economic slack and low capacity utilization, will keep core inflation low. In fact, surprises in recent months have been tilted to the downside. If this trend continues, the Fed will be more likely to hold interest rates low for a prolonged period.

Initial Jobless Claims (w/e May 14, Thursday 8:30 ET)

Forecast: 435K Consensus: 440K Previous: 444K

Initial jobless claims have come down significantly from the recession high of 651K in March 2009, but they are still far from the historical average of 361K. As the labor market improves, jobless claims are expected to continue to drop. However, the pace may be slow until the employment situation reaches more steady footing. A steady decline in this indicator throughout the month could point to an acceleration in job creation in May.

Leading Economic Index (April, Thursday 10:00 ET)

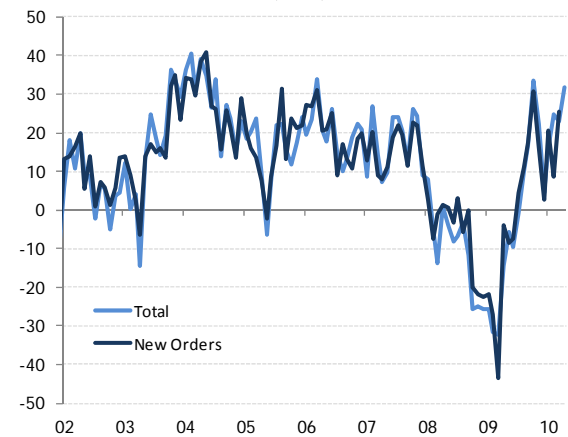
Forecast: 0.5% Consensus: 0.2% Previous: 1.4%

The Leading Economic Index is expected to illustrate economic expansion for the thirteenth consecutive month. While manufacturing activity, financial markets and consumer expectations could have positive contributions, April's rise in initial jobless claims will subtract from it. Persistent growth in this leading indicator indicates that the recovery is strengthening. Furthermore, an expansion in April would be in line with our expectations of GDP growth in 2Q10.

Kristin Lomicka

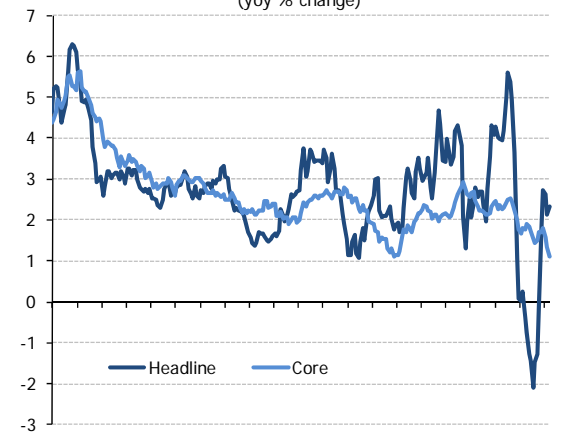
Kristin.Lomicka@bbvacompass.com

Empire State Manufacturing Index
(Index)



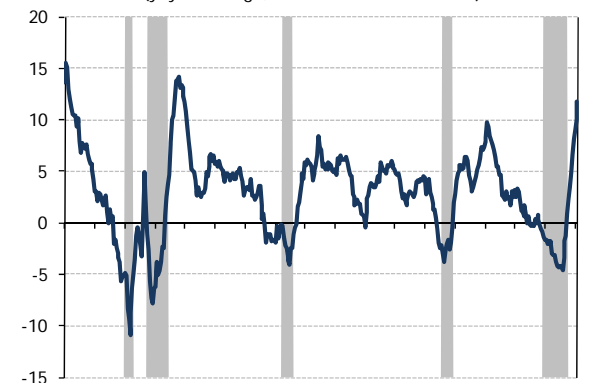
Source: Federal Reserve Bank of New York

Consumer Price Index
(yoy % change)



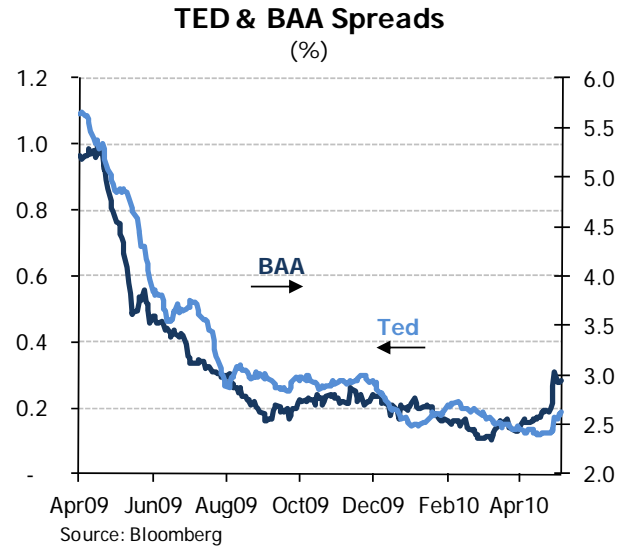
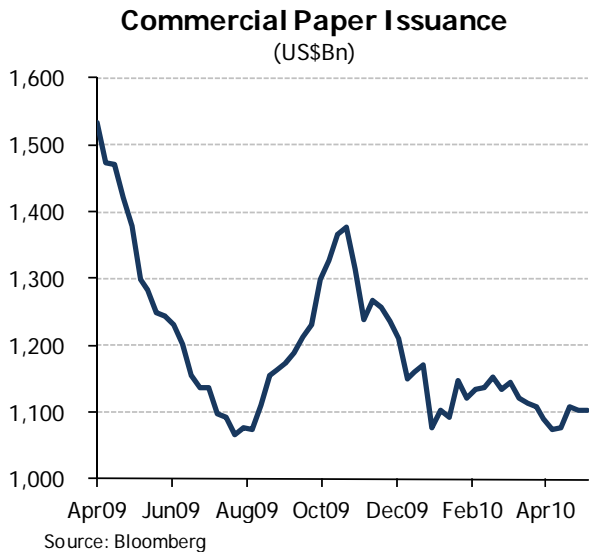
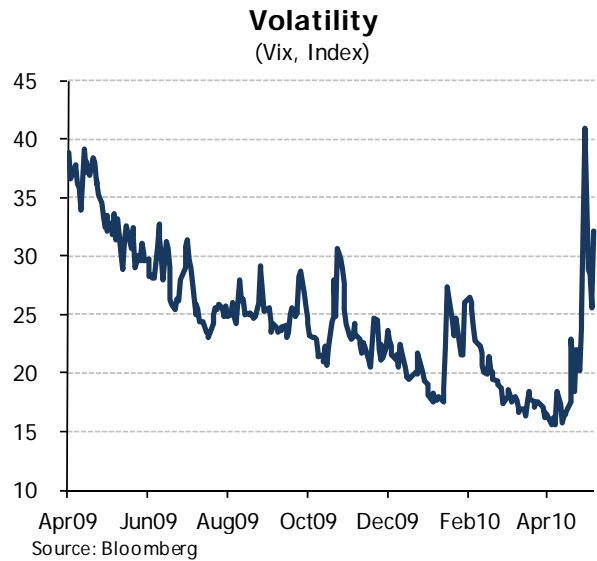
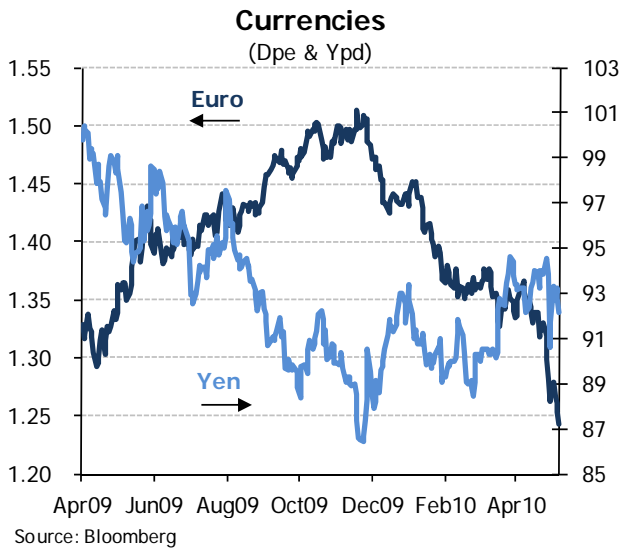
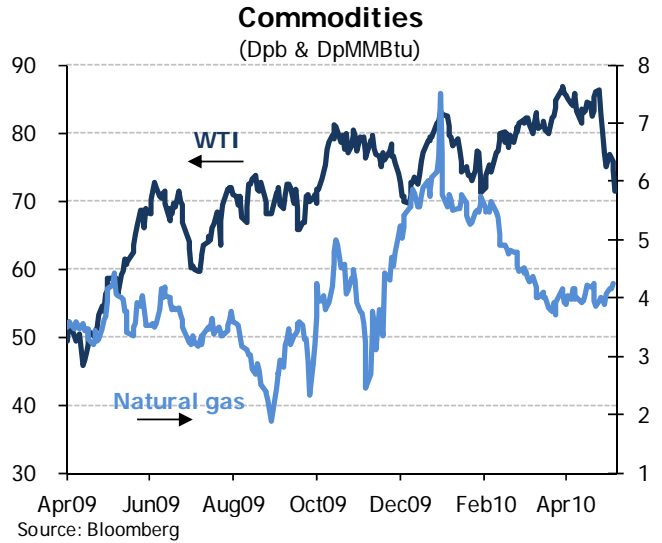
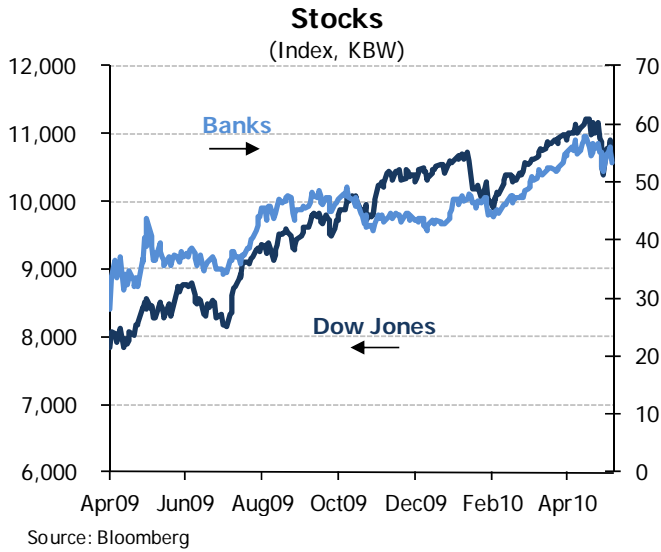
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10
Source: BLS

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



76 78 80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10
Source: Conference Board

Financial Markets



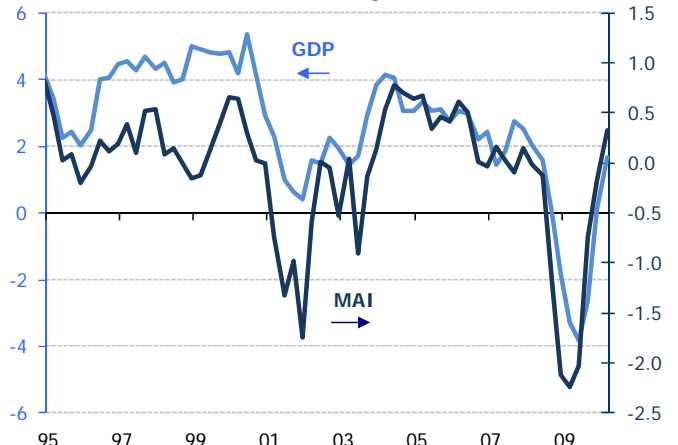
Economic Trends

BBVA US Weekly Activity Index
(3 month % change)



Source: BBVA ERD

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



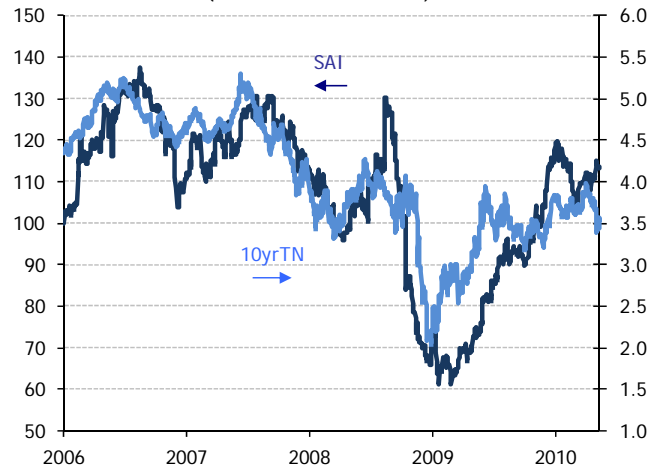
Source: BBVA Research & BEA

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



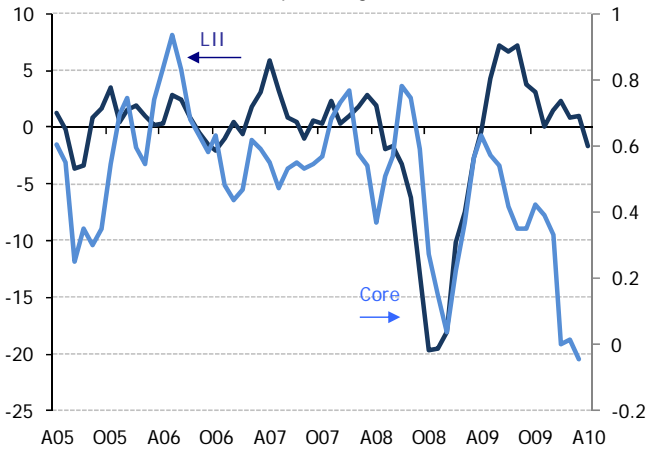
Source: BBVA ERD

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



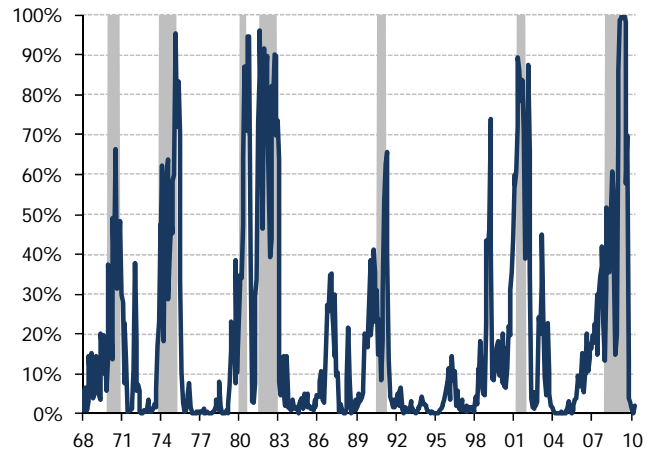
Source: BBVA ERD

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



Source: BBVA ERD

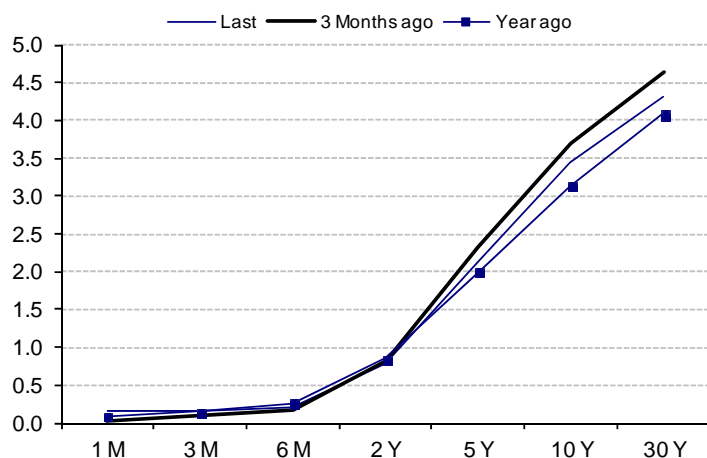
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



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) | 13.00 | 13.00 | 13.00 | 10.76 |
| New Auto (36-months) | 6.43 | 6.46 | 6.51 | 7.17 |
| Heloc Loan 30K | 5.59 | 5.61 | 5.61 | 5.19 |
| 30-year Fixed Mortgage * | 4.93 | 5.00 | 6.37 | 4.86 |
| Money Market | 0.74 | 0.76 | 0.79 | 1.36 |
| 2-year CD | 1.60 | 1.63 | 1.64 | 2.20 |
| 5-year CD | 2.63 | 2.64 | 2.61 | 2.79 |

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

American Banking Association President Edward Yingling
As quoted by the Washington Post
May 13, 2010

“Preserving Fed supervision over smaller institutions means preserving its access to timely information about the flow of credit to small businesses and in communities of all sizes across the country.”

Economic Calendar

| Event | Period | Forecast | Survey | Previous |
|----------------------------|--------|----------|--------|----------|
| Empire Manufacturing | MAY | 29.6 | 30 | 31.86 |
| NAHB Housing Market Index | MAY | 20 | 20 | 19 |
| Producer Price Index (MoM) | APR | -0.30% | 0.10% | 0.70% |
| PPI Ex Food & Energy (MoM) | APR | 0.10% | 0.10% | 0.10% |
| Producer Price Index (YoY) | APR | 5.23% | 5.60% | 6.00% |
| PPI Ex Food & Energy (YoY) | APR | 0.10% | 0.90% | 0.90% |
| Housing Starts | APR | 643K | 650K | 626K |
| Building Permits | APR | 690K | 677K | 685K |
| ABC Consumer Confidence | 16-May | -- | -- | -47 |
| MBA Mortgage Applications | 14-May | -- | -- | 3.90% |
| Consumer Price Index (MoM) | APR | 0.10% | 0.10% | 0.10% |
| CPI Ex Food & Energy (MoM) | APR | 0.10% | 0.10% | 0.00% |
| Consumer Price Index (YoY) | APR | 2.40% | 2.40% | 2.30% |
| CPI Ex Food & Energy (YoY) | APR | 1.00% | 1.00% | 1.10% |
| Minutes of FOMC Meeting | 19-May | | | |
| Initial Jobless Claims | 15-May | 435K | 440K | 444K |
| Continuing Claims | 8-May | 4578K | -- | 4627K |
| Philadelphia Fed. | MAY | 20.4 | 22 | 20.2 |
| Leading Indicators | APR | 0.50% | 0.20% | 1.40% |