

# U.S. Weekly Watch

May 31, 2010

## The Week Ahead

**Kristin Lomicka**  
kristin.lomicka@bbvacompass.com

### ISM Manufacturing Index (May, Tuesday 10:00 ET)

Forecast: 59.9 Consensus: 58.9 Previous: 60.4

May's regional manufacturing indices have indicated that manufacturing activity will remain strong, but the pace of expansion could slow slightly. As a result, the ISM may fall back to 59.9 from 60.4, but the level will still remain above the historical average of 52.0. This result would be a good sign that non-residential investment in equipment and software will firm in 2Q10 and that the manufacturing industry will be a source of job growth.

### Motor Vehicle Sales (May, Tuesday, time n.a.)

Forecast: 11.4M Consensus: 11.4M Previous: 11.2M

May means Memorial Day sales for auto buyers. As a result, we anticipate that the end of the month discounts will help to push auto sales up to 11.4M from 11.2M in April. Nevertheless, even apart from the demand generated by this month's discounts, auto demand has been slowly improving since the end of the Cash for Clunkers program. The significance of an improvement in May's sales would be two-fold. First, it would imply that demand for big ticket items is improving and, second, it would indicate that motor vehicle and parts manufacturing could remain sturdy.

### Pending Home Sales (April, Wednesday 10:00 ET)

Forecast: 2.7% Consensus: 4.4% Previous: 5.3%

The tax credit for home buyers is expected to boost pending home sales for one last month in April as potential buyers rush to sign the sales contract before the April 30<sup>th</sup> expiration date. Unlike the original tax credit, buyers only have to sign a binding sales contract by the expiration date, but have up to June 30<sup>th</sup> to finalize the purchase. As a result, the benefit to existing home sales could continue into May. While we do anticipate that home sales could adjust down after the end of the tax credit, low prices and favorable mortgage rates will continue to attract buyers to the market.

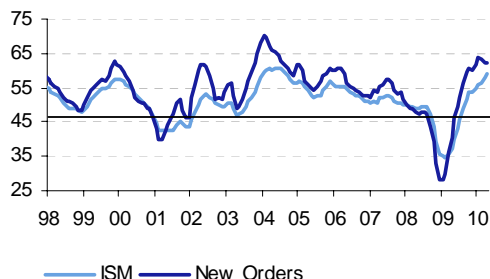
### Non-Farm Payrolls and Unemployment Rate (May, Friday 8:30 ET)

Forecast: 375K, 9.9% Consensus: 500K, 9.8% Previous: 290K, 9.9%

The labor market is expected to gain momentum in May as job creation accelerates for the fifth consecutive month. May payrolls will benefit from Census hiring, but the primary driver of job growth will be the private sector. Nevertheless, the unemployment rate is expected to remain high at 9.9% due to an influx of new labor market participants as formerly discouraged workers resume their job search. Consumers have been reacting well to the payroll data. Another positive month will support consumer confidence and, in turn, consumer spending. This result would support our expectation that consumption will support GDP growth in 2Q10.

Graph 1

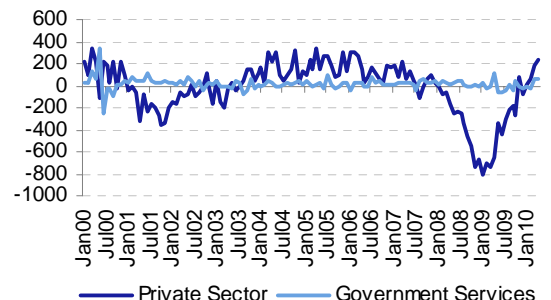
#### ISM Manufacturing Index (3-Month Moving Average)



Source: ISN

Graph 2

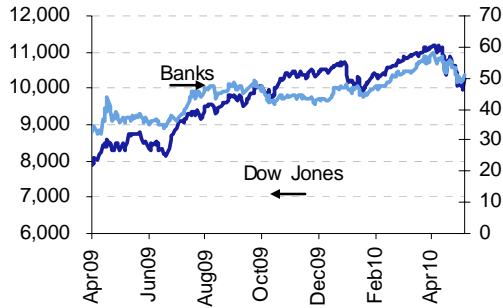
#### Non-Farm Payrolls (K, Monthly Change)



Source: BLS

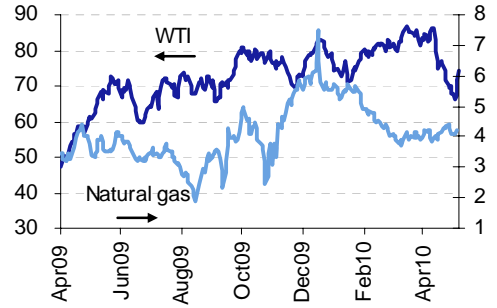
## Financial Markets

Graph 3  
**Stocks (Index, KBW)**



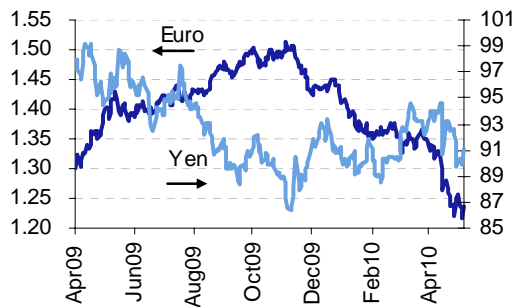
Source: Bloomberg & BBVA Research

Graph 4  
**Commodities (Dpb & DpMMBtu)**



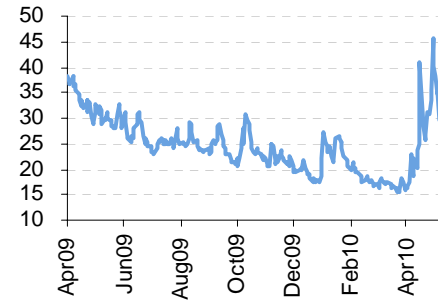
Source: Bloomberg & BBVA Research

Graph 5  
**Currencies (Dpe & Ypd)**



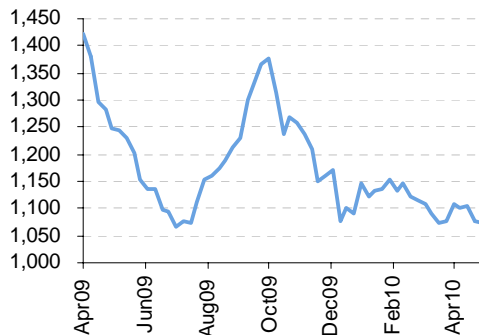
Source: Bloomberg & BBVA Research

Graph 6  
**Volatility (Vix, Index)**



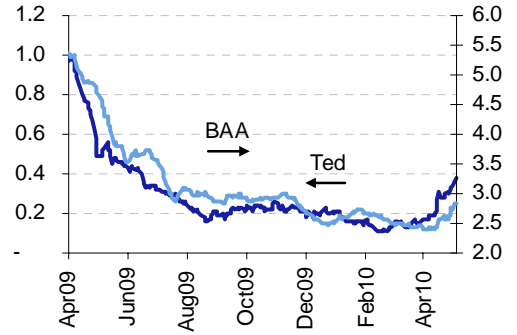
Source: Bloomberg & BBVA Research

Graph 7  
**Commercial Paper Issuance (US\$Bn)**



Source: Bloomberg & BBVA Research

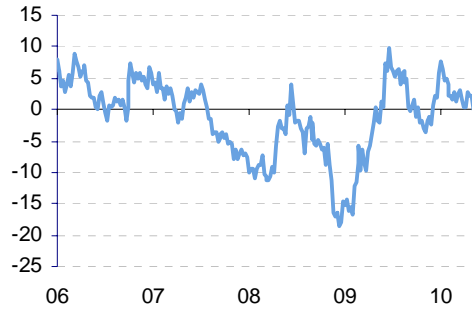
Graph 8  
**TED & BAA Spreads (%)**



Source: Bloomberg & BBVA Research

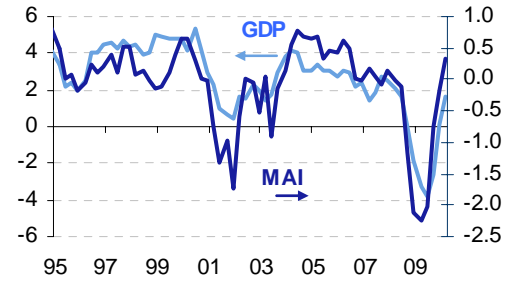
## Economic Trends

Graph 9  
**BBVA US Weekly Activity Index  
 (3 month % change)**



Source: BBVA Research

Graph 10  
**BBVA US Monthly Activity Index & Real  
 Gross Domestic Product  
 (4Q % change)**



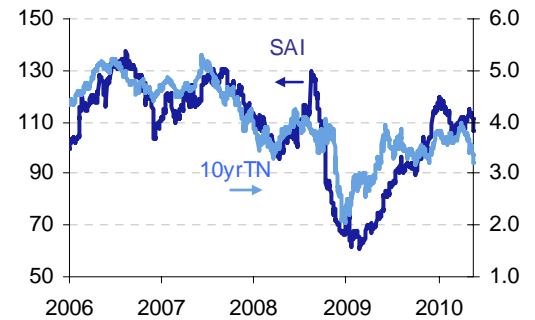
Source: BBVA Research & BEA

Graph 11  
**BBVA US Surprise Inflation Index  
 (Index 2004-09=100)**



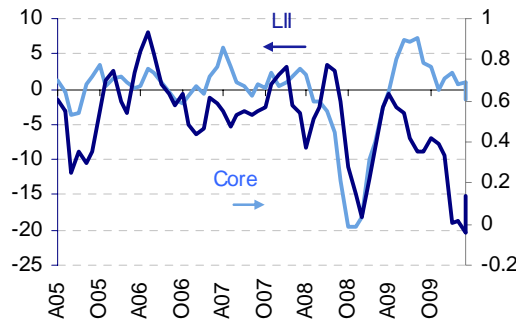
Source: BBVA Research

Graph 12  
**BBVA US Surprise Activity Index & 10-yr  
 Treasury (Index 2004-09=100 & %)**



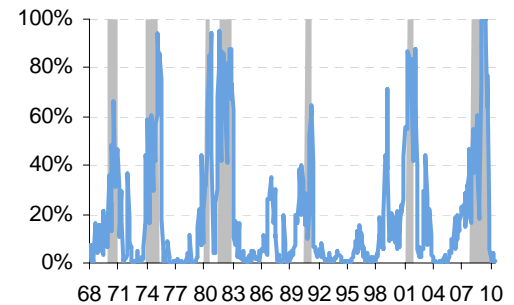
Source: Bloomberg & BBVA Research

Graph 13  
**BBVA US Leading Inflation Index & Core  
 Inflation (Qoq % change)**



Source: BLS & BBVA Research

Graph 14  
**BBVA US Recession Probability Model  
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

## Yield Curve and Interest Rates

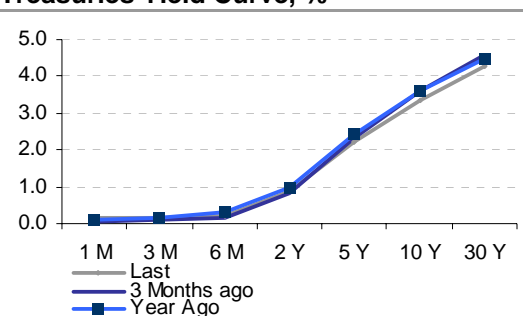
Table 1  
Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.15	13.00	13.00	10.78
New Auto (36-months)	6.30	6.31	6.46	7.38
Heloc Loan 30K	5.53	5.55	5.60	5.27
30-year Fixed Mortgage *	4.78	4.84	6.37	4.91
Money Market	0.79	0.78	0.78	1.34
2-year CD	1.65	1.67	1.63	2.14
5-year CD	2.60	2.62	2.59	2.74

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Source: Bloomberg and BBVA Research

Graph 15  
Treasury's Yield Curve, %



Source: Bloomberg

## Quote of the Week

Federal Reserve Chairman Ben Bernanke  
2010 Institute for Monetary and Economic Studies Conference International Conference  
May 25, 2010

***Undue political influence on monetary policy decisions can also impair the inflation-fighting credibility of the central bank, resulting in higher average inflation and, consequently, a less-productive economy. Central banks regularly commit to maintain low inflation in the longer term; if such a promise is viewed as credible by the public, then it will tend to be self-fulfilling, as inflation expectations will be low and households and firms will temper their demands for higher wages and prices.***

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
01-Jun	ISM Manufacturing	MAY	59.9	59.4	60.4
01-Jun	ISM Prices Paid	MAY	76	73	78
01-Jun	Construction Spending MoM	APR	0.20%	0.00%	0.20%
02-Jun	Pending Home Sales MoM	APR	2.70%	6.00%	5.30%
02-Jun	Domestic Vehicle Sales	MAY	8.90M	8.90M	8.78M
02-Jun	Total Vehicle Sales	MAY	11.4M	11.40M	11.21M
03-Jun	ADP Employment Change	MAY	52K	58K	32K
03-Jun	Nonfarm Productivity	1Q F	3.60%	3.60%	3.60%
03-Jun	Unit Labor Costs	1Q F	-1.60%	-1.60%	-1.60%
03-Jun	Initial Jobless Claims	29-May	458K	450K	460K
03-Jun	Continuing Claims	22-May	4581K	--	4607K
03-Jun	Factory Orders	APR	1.40%	1.30%	1.30%
03-Jun	ISM Non-Manf. Composite	MAY	55.6	55.9	55.4
04-Jun	Change in Nonfarm Payrolls	MAY	375K	500K	290K
04-Jun	Change in Manufact. Payrolls	MAY	36K	35K	44K
04-Jun	Unemployment Rate	MAY	9.90%	9.80%	9.90%
04-Jun	Avg Weekly Hours All Employees	MAY	34.3	34.1	34.1

### Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.