

U.S.

# Weekly Watch

December 20, 2010

## Highlights

### Economic Analysis

**Hakan Danış**  
hakan.danis@bbvacompass.com

**Jeff Herzog**  
Jeff.Herzog@bbvacompass.com

**Marcial Nava**  
Marcial.Nava@bbvacompass.com

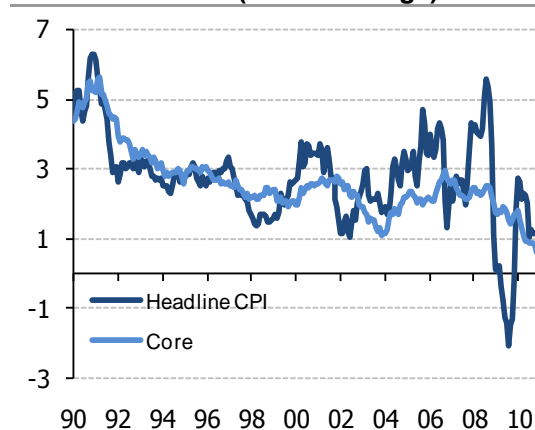
### U.S. consumer prices increased by 0.1% in November

On Wednesday, the Bureau of Labor Statistics announced that both headline and core consumer price index increased by 0.1% in November on a seasonally adjusted basis. Headline consumer prices rose 1.1% in the last 12 months (a decline from 1.2%). In the last 6 months, the 12 month inflation was 1.1% on average. The report revealed that the food and energy indices also increased by 0.2% in November. The 12-month increase in the energy index is 3.92%. The gasoline index hiked 7.3%, while the household energy index dropped 0.2% in the same period. The index for housing increased by 0.03% in November. Shelter prices rose 0.11%, which is the second highest increase in the last 19 months. The shelter index rose 0.2% in the last 12 months. The rent index and the index for owners' equivalent rent also rose 0.2% and 0.1% in November, respectively. The medical care index jumped 3.2% while the index for used cars and trucks hiked 6.0% in the last 12 month. On the other hand, the indexes for household furnishings and operations, new vehicles, apparel, and recreation have fallen 2.5%, 0.4%, 0.8% and 0.9% over the last 12 months, respectively. Although the headline inflation in November is slightly lower than expectations, the inflation report is consistent with our baseline scenario of low but positive inflation in 2010 and 2011.

### Federal Reserve purchased \$21.4bn of Treasuries since Dec 13<sup>th</sup>

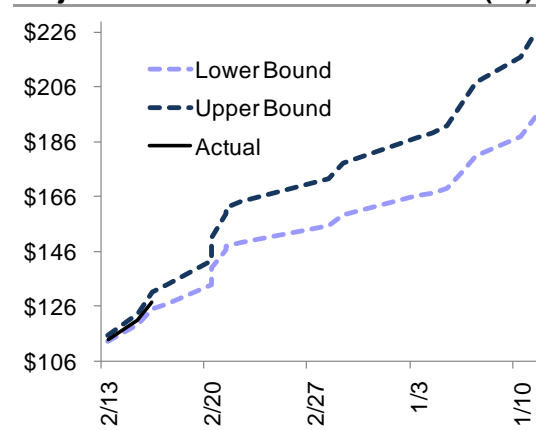
The Fed purchased \$106.3bn of Treasuries in the first month of QE2, slightly above the stated aim of \$105bn per month. As a result, so far this month the Fed's purchases have tended slightly towards the lower end of the purchase schedule. In the week ending Dec 15th, the maturity distribution of the Fed's holdings of Treasury securities strongly favored 5 to 10 year treasuries, with a decline in the 1 to 5 year treasuries. The Fed increased \$17.1bn and reduced \$1.3bn, respectively. It could be the case that the Fed focused more closely on longer-maturity treasuries given recent robust movements in the long end of the yield curve, which the Fed believes is a key metric in fostering long-term investment. The maturity distribution table for 1 to 5 years has not been negative since Oct 6.

Graph 1  
**Consumer Prices (YoY % change)**



Source: BLS

Graph 2  
**Projected and Actual Fed Purchases (bn)**



Source: Federal Reserve and BBVA Research

## Week Ahead

### Initial Jobless Claims (Dec-18, Thursday 08:30 ET)

<b>Forecast: 420K</b>	<b>Consensus: 420K</b>	<b>Previous: 420K</b>
-----------------------	------------------------	-----------------------

The labor market seems to be improving as suggested by recent trends in unemployment insurance claims. In fact, claims' 4-week moving average has declined continuously since the end of October, standing at 422.8K, the lowest level since August 2008. Although this is a positive sign, initial claims are still above pre-recession levels. Consistent with our expectation of a slow economic recovery, we expect initial claims to experience small changes in the following weeks, standing at 420K for the week ending December 18th.

### Personal Income and Spending (November, Thursday 08:30 ET)

<b>Forecast: 0.3%, 0.4%</b>	<b>Consensus: 0.2%, 0.5%</b>	<b>Previous: 0.5%, 0.4%</b>
-----------------------------	------------------------------	-----------------------------

U.S. retail sales in November increased by 0.8% and reached a level of 7.7% above its November 2009 level. Total sales in the last three months jumped 7.8% from the same period a year ago. Retail sales excluding autos also increased by 1.2%, above expectations of a 0.6% increase. Furthermore, the ICSC/UBS Retail Chain Store Sales Index rose 1.1% in November following a three consecutive month fall. Therefore, we expect personal income and spending to continue increasing in November.

### Durable Goods Orders (November, Thursday 08:30 ET)

<b>Forecast: -0.3%</b>	<b>Consensus: -0.7%</b>	<b>Previous: -3.3%</b>
------------------------	-------------------------	------------------------

Durable goods orders and new orders excluding transportation declined 3.3% and 2.7% in October, respectively and disappointed the market. Excluding defense, new orders were 2.1% lower than the previous month. Transportation equipment also dropped in two of the last three months. It decreased by 5.2% (\$2.9bn) due to a sharp 25% decline in defense aircraft and parts. Nondefense aircraft and parts (demand for commercial aircrafts) dropped 4.4% following a 112.6% increase in the previous month. This component has increased by 74% in the last 12 months. The current indicators point to a continuing contraction in the new orders for durable goods but at a slower pace.

### New Home Sales (November, Thursday 10:00 ET)

<b>Forecast: 305K</b>	<b>Consensus: 300K</b>	<b>Previous: 283K</b>
-----------------------	------------------------	-----------------------

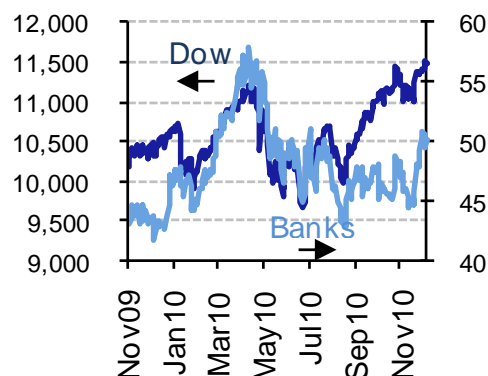
New home sales are expected to increase in November from its record-low levels. Although we expect a 7.8% jump in new home sales in November, it will still remain at a very low level compared to its historical average of 697K. Considering current inventories in the housing markets, we expect new home sales remain weak even in 2011.

### Market Impact

While existing and new home sales are crucial to understanding the trends in the real estate industry, personal income and spending will help us forecast the contribution of consumption to the economic recovery in 4Q10. If the real PCE continues to increase at the same pace as in the last three months, it would imply a very strong PCE contribution to economic growth in 4Q10. Moreover, better-than-expected new orders might indicate better-than-expected economic activity in the coming months and would be welcome by the markets.

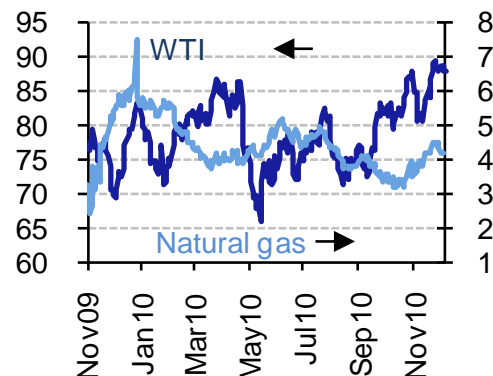
## Financial Markets

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



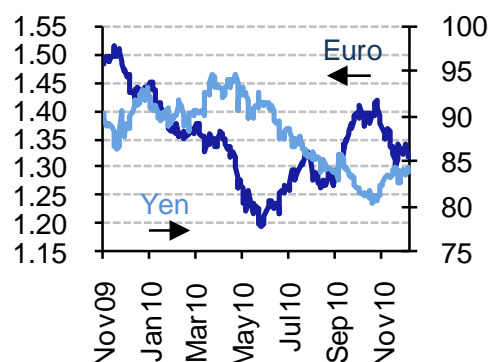
Source: Bloomberg & BBVA Research

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



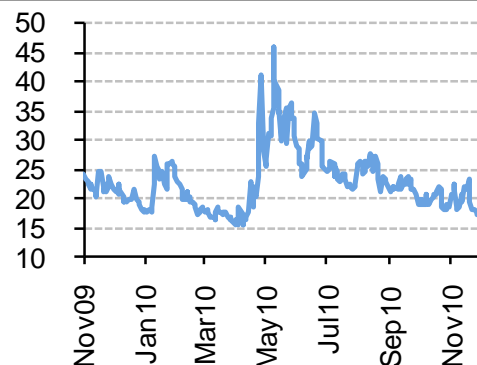
Source: Bloomberg & BBVA Research

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



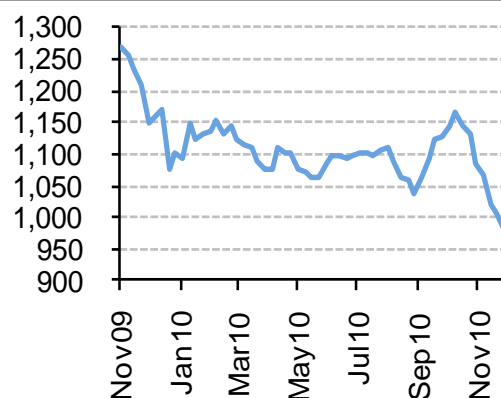
Source: Bloomberg & BBVA Research

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



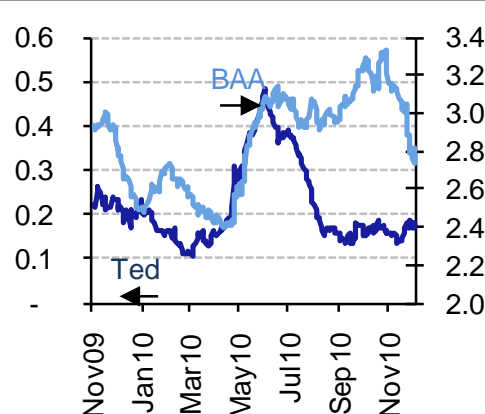
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

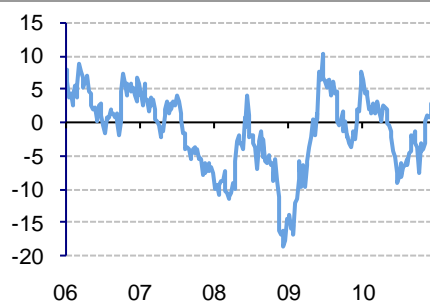
Graph 8  
**TED & BAA Spreads (%)**



Source: Bloomberg & BBVA Research

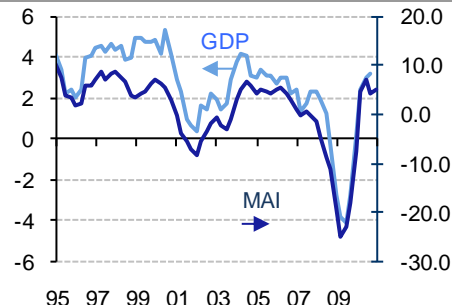
## Economic Trends

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)**



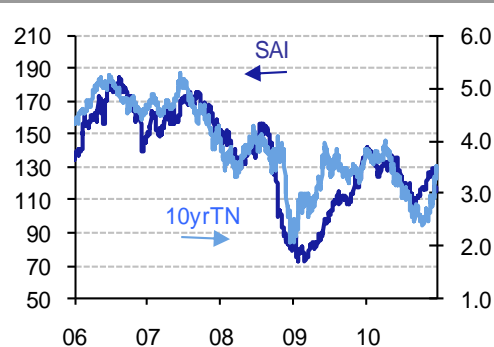
Source: BBVA Research & BEA

Graph 11  
**BBVA US Surprise Inflation Index  
 (Index 2009=100)**



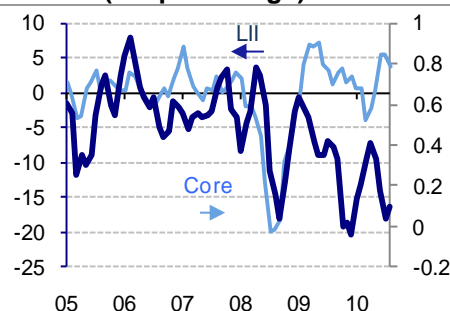
Source: BBVA Research

Graph 12  
**BBVA US Surprise Activity Index & 10-yr  
 Treasury (Index 2009=100 & %)**



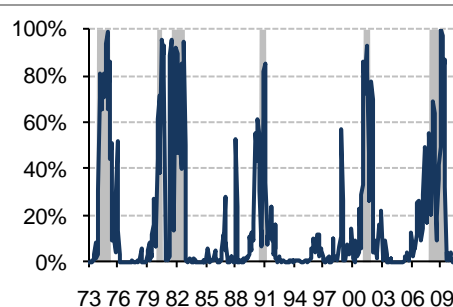
Source: Bloomberg & BBVA Research

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

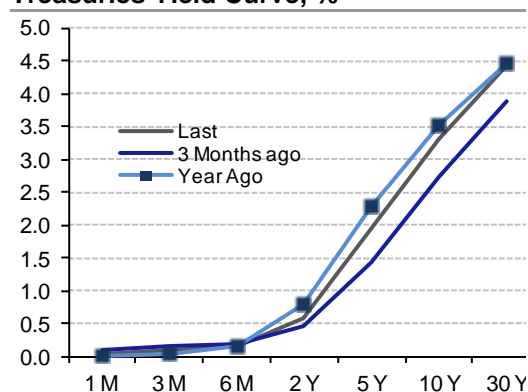
### Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.68	13.68	13.83	11.48
New Auto (36-months)	5.33	5.34	5.54	6.70
Heloc Loan 30K	5.49	5.51	5.46	5.66
30-year Fixed Mortgage *	4.83	4.61	4.39	4.94
Money Market	0.71	0.71	0.71	0.87
2-year CD	1.23	1.23	1.24	1.81
5-year CD	2.03	2.03	2.03	2.57

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US  
Source: Bloomberg and BBVA Research

Graph 15

### Treasuries Yield Curve, %



Source: Bloomberg

## Quote of the Week

Rep. Ron Paul (R., Texas)

December 17, 2010

C-SPAN (The Wall Street Journal)

*"I don't think we need regulators. We need law and order. We need people to fulfill their contracts... The market is a great regulator, and we've lost understanding and confidence that the market is probably a much stricter regulator."*

## Economic Calendar

Date	Event		Forecast	Survey	Previous
20-Dec	Chicago Fed Nat Activity Index	NOV	0.1	0.0	-0.3
22-Dec	GDP QoQ (Annualized)	3Q T	2.7%	2.8%	2.5%
22-Dec	Personal Consumption	3Q T	2.8%	2.8%	2.8%
22-Dec	GDP Price Index	3Q T	2.3%	2.3%	2.3%
22-Dec	Core PCE QoQ	3Q T	0.8%	0.8%	0.8%
22-Dec	Existing Home Sales	NOV	4.78M	4.75M	4.43M
22-Dec	Existing Home Sales MoM	NOV	7.9%	7.2%	-2.2%
22-Dec	House Price Index MoM	OCT	0.0%	-0.2%	-0.7%
23-Dec	Durable Goods Orders	NOV	-0.3%	-0.7%	-3.4%
23-Dec	Durables Ex Transportation	NOV	1.8%	2.0%	-2.7%
23-Dec	Personal Income	NOV	0.3%	0.2%	0.5%
23-Dec	Personal Spending	NOV	0.4%	0.5%	0.4%
23-Dec	PCE Deflator (YoY)	NOV	1.1%	1.1%	1.3%
23-Dec	PCE Core (MoM)	NOV	0.1%	0.1%	0.0%
23-Dec	PCE Core (YoY)	NOV	0.9%	0.9%	0.9%
23-Dec	Initial Jobless Claims	18-Dec	420K	420K	420K
23-Dec	Continuing Claims	11-Dec	4120K	4106K	4135K
23-Dec	U. of Michigan Confidence	DEC F	74.5	74.5	74.2
23-Dec	New Home Sales	NOV	305K	300K	283K
23-Dec	New Home Sales MoM	NOV	7.8%	6.0%	-8.1%

*Chief Economist for US and Mexico*

**Jorge Sicilia**

J.Sicilia@bbva.bancomer.com

*Chief Economist for US*

**Nathaniel Karp**

Nathaniel.karp@bbvacompass.com

**Ignacio San Martin**

Ignacio.SanMartin@bbvacompass.com

**Jeffrey Owen Herzog**

Jeff.Herzog@bbvacompass.com

**Marcial Nava**

Marcial.Nava@bbvacompass.com

**Hakan Danış**

Hakan.Danis@bbvacompass.com

**Jason Frederick**

Jason.Frederick@bbvacompass.com

## Contact details

---

**BBVA Research**

5 Riverway Drive

Houston, Texas 77056

BBVA Research reports are available in English and Spanish

---

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**