

U.S.

Weekly Watch

December 27, 2010

Economic Analysis

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Highlights

U.S. 3Q10 GDP revised up by 0.1pp

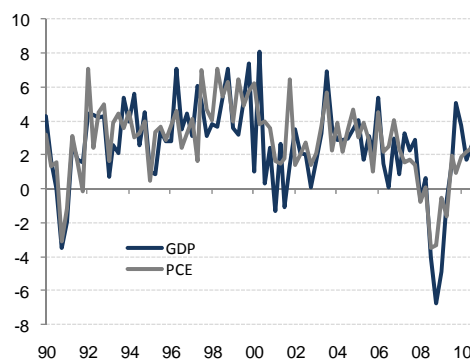
On Wednesday, the Bureau of Economic Analysis (BEA) released its latest estimate for the U.S. real gross domestic product (GDP) in 3Q10. The release indicates that the U.S. economy grew at an annual rate of 2.6% compared to 2.5% as previously estimated. The markets were expecting 2.8% (BBVA=2.7%) growth in 3Q10. The main reason for the upward revision was the accumulation of inventories. The change in real private inventories contributed 1.61pp to the economic growth in 3Q10, following its contribution of 0.82pp in 2Q10. On the other hand, the BEA revised down its personal consumption expenditures (PCE) estimate from 2.8% to 2.4% which limited upward revision in real GDP in 3Q10. Real exports and imports of goods and services jumped 6.8% and 16.8% respectively while equipment and software increased by 15.4%. Real residential investment, however, declined 27.3% in 3Q10 after increasing 25.7% in 2Q10. We expect real GDP to continue increasing moderately in 4Q10 and 2011 due to fiscal stimulus bill recently signed by the President Obama and current accommodative monetary policy.

Personal income and spending continue to increase in November

The BEA announced that U.S. personal income and spending increased by 0.3% and 0.4% in November, respectively. Real PCE increased by 0.3% in November, after increasing 0.5% percent in October which increased by 0.3% on average in the last 10 months. Growth in purchases of durable goods slowed down significantly in November where it increased by 0.2% compared to an increase of 3.7% in the previous month. However, purchases of nondurable goods rose 0.5% in November compared to an increase of 0.3% in October. On the other hand, real disposable income increased only by 0.2% on average in the same period. Savings rate continued to decline and reached 5.3% in November. We expect personal spending continue to increase in the coming months and make significant contribution to the U.S. economic growth in 4Q10 and 2011.

Graph 1

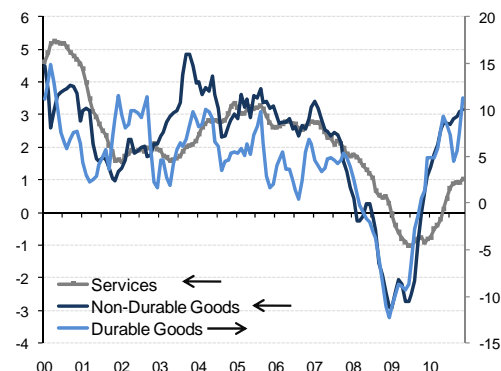
Real GDP (QoQ % change, annualized)



Source: BEA

Graph 2

Real PCE (3mma, YoY % change)



Source: BEA

Week Ahead

Case-Shiller 20-city Index (October, Tuesday 09:00 ET)

Forecast: 0.06%	Consensus: -0.20%	Previous: 0.59%
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Home prices are expected to slip for the third month in a row, following four months of rises. The slowdown could be the result of a slowdown in demand over the winter months. Stabilization in home prices is an essential first step for the recovery of the housing market. Prices are now both low and stable, amounting to an attractive environment for potential home buyers. The housing market remains weak and there is some uncertainty associated with the labor market. Nonetheless, home prices are expected to remain low but stable in the near future.

Consumer Confidence (December, Tuesday 10:00 ET)

Forecast: 57.0	Consensus: 56.1	Previous: 54.1
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Consumer confidence is expected to increase for the third month in a row in December, yet it will remain significantly low compared to its historical average of 94.7. The current trend in consumer confidence indicates that although consumers' economic outlook is weak it shows signs of improvement in the last couple of months. With the latest fiscal stimulus bill signed by the President Obama last week is expected to boost business confidence and improve consumers' expectations on labor market conditions. Therefore, we expect increase in consumer confidence in the next couple of months but at a low pace.

Initial Claims (Dec-25, Thursday 08:30 ET)

Forecast: 415K	Consensus: 416K	Previous: 420K
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Initial jobless claims are expected to remain fairly stable in the week ending Dec 25th. In the week ending Dec. 17th, seasonally adjusted initial claims decreased by 3K to 420K, yet the 4-week moving average of initial claims increased slightly after declining 6 consecutive months. Although initial claims remain elevated compared to its historical average, they are significantly lower than the peak in March 2009 of 651K.

Chicago PMI (December, Thursday 09:45 ET)

Forecast: 61.5	Consensus: 62.5	Previous: 62.5
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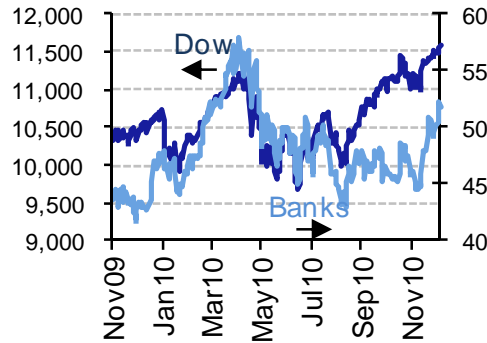
Comment: In November, Chicago Business barometer, also known as Chicago PMI increased to its highest level since April. The index has increased for the last fourteenth months. The report indicates that production and new orders reached its highest level since February 2005 and 2007, respectively. While employment index marked a sixth month of growth, index for inventories dropped below 50 indicating contraction in employment in the region. We expect Chicago PMI to slide slightly in December, yet remain above 50 indicating expansion in economic activity in the region.

Market Impact

A relatively calm week is waiting for the markets in the final week of a busy year. Chicago PMI has been a good indicator for ISM manufacturing index and therefore an increase in Chicago PMI would point to an increase in ISM manufacturing in December.

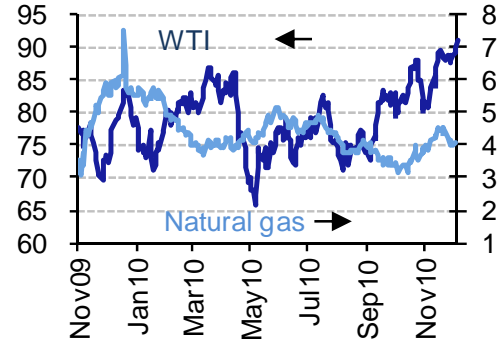
Financial Markets

Graph 3
Stocks (Index, KBW)



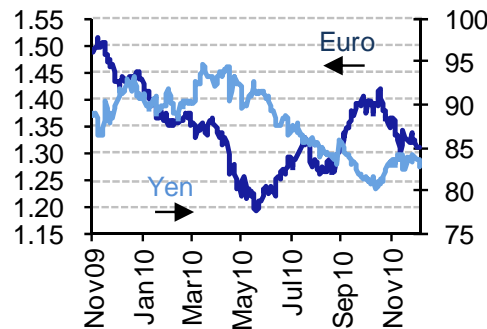
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



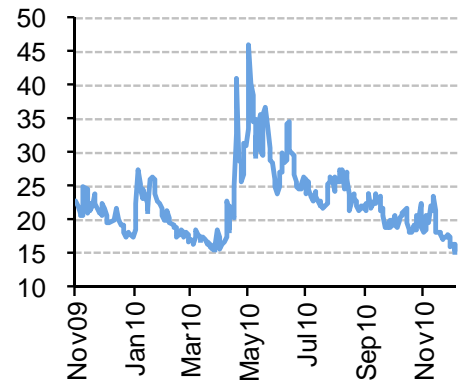
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



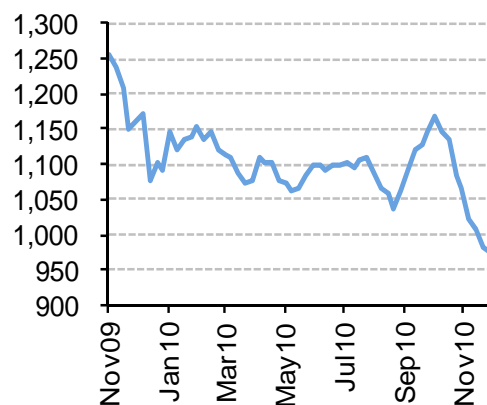
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



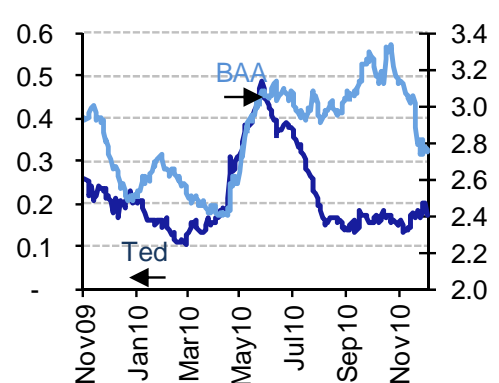
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

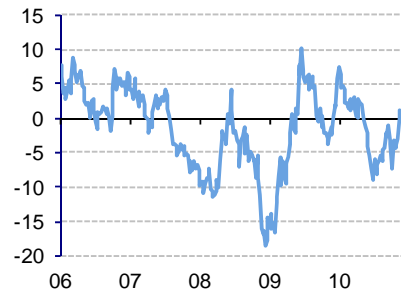
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

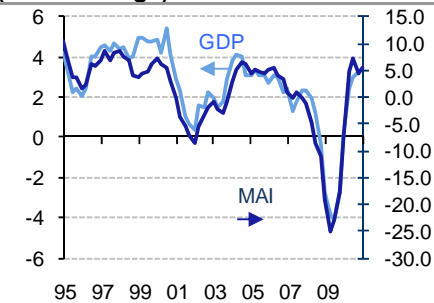
Economic Trends

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)**



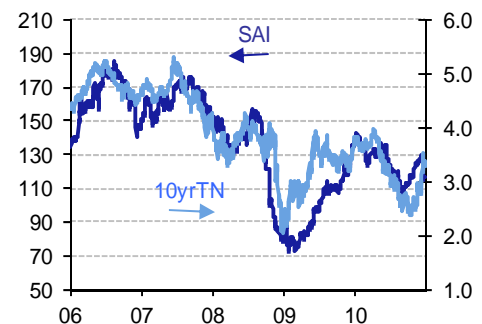
Source: BBVA Research & BEA

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



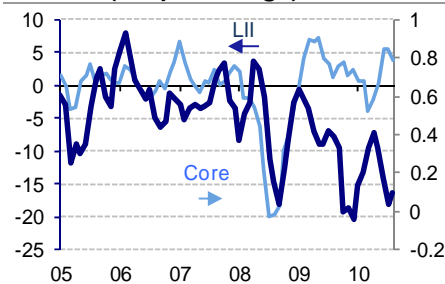
Source: BBVA Research

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



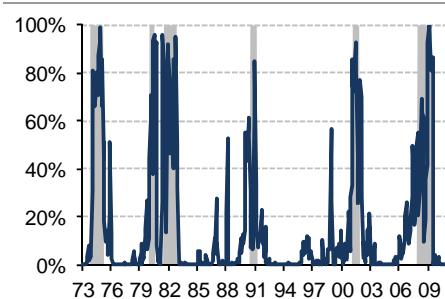
Source: Bloomberg & BBVA Research

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

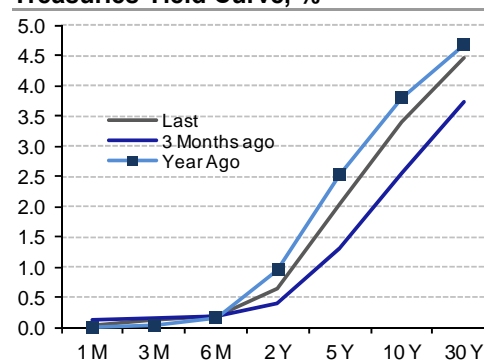
Key Interest Rates, %

	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	13.86	11.48
New Auto (36-months)	5.35	5.33	5.42	6.70
Heloc Loan 30K	5.49	5.49	5.48	5.65
30-year Fixed Mortgage *	4.81	4.83	4.40	5.05
Money Market	0.71	0.71	0.71	0.90
2-year CD	1.23	1.23	1.24	1.81
5-year CD	2.06	2.03	2.02	2.59

* 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

Federal Reserve Chairman Ben S. Bernanke

December 23, 2010

10 Questions for Ben Bernanke (Time Magazine)

"I think the dollar will remain the leading reserve currency for the foreseeable future. Countries continue to hold the great majority of their reserves in dollars. We have the advantage of having very deep and liquid financial markets."

Economic Calendar

Date	Event		Forecast	Survey	Previous
28-Dec	S&P/CS 20 City MoM% SA	OCT	-0.5%	-0.7%	-0.8%
28-Dec	S&P/CS Composite-20 YoY	OCT	0.1%	-0.2%	0.6%
28-Dec	Consumer Confidence	DEC	57.0	56.1	54.1
30-Dec	Initial Jobless Claims	25-Dec	415K	416K	420K
30-Dec	Continuing Claims	18-Dec	4080K	4030K	4064K
30-Dec	Chicago Purchasing Manager	DEC	61.5	62.5	62.5
30-Dec	Pending Home Sales MoM	NOV	-3.5%	-1.8%	10.4%

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