

U.S.

Weekly Watch

January 3, 2011

Economic Analysis

Hakan Danış
hakan.danis@bbvacompass.com

Marcial Nava
marcial.nava@bbvacompass.com

Highlights

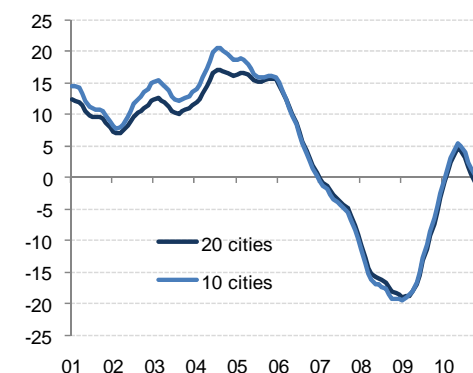
U.S. home prices dropped in October

The Case-Shiller 20-City Composite Index came below expectations, falling 0.8% year-over-year in October. This was the first year-over-year fall since January 2010. Only four out of 20 MSAs registered price increases relative to the previous year (Washington, San Diego, San Francisco and Los Angeles). On a monthly basis, though, home prices declined in all 20 MSAs. Prices decreased by more than 1% in fifteen cities. Trends in home prices suggest that the residential market remains weak. This is confirmed by both housing starts and home sales, which remain at historical lows, probably close to a bottom. As the rest of the economy improves, we expect the housing market to resurge in the following years; however, higher long-term interest rates and ongoing deleveraging in the mortgage market could delay the process.

Consumer confidence declined slightly in December

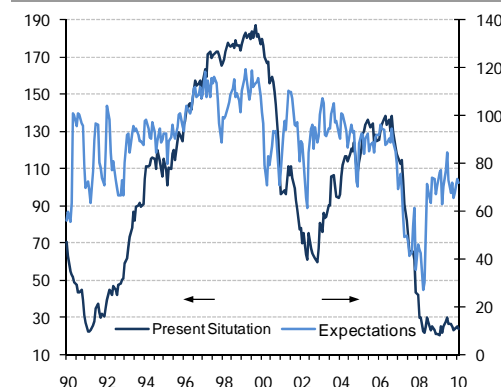
In December, the Conference Board's Consumer Confidence Index decreased slightly to 52.5 from 54.3 in December. Since mid-2009, the index has remained stable, reflecting consumers' cautiousness about the current and future state of the economy. The Present Situation Index declined to 23.5 from 25.4 in December; while the Expectations Index slipped to 71.9 from 73.6. Consumers' assessments on the labor market eased as the percentage of participants that described jobs as "hard to get" rose from 46.3 to 46.8, whereas the share of those declaring jobs as "plentiful" went down to 3.9 from 4.3. December's moderation in consumers' optimism is consistent with our baseline scenario of a moderate economic expansion.

Graph 1
Case-Shiller Home Price Index
(YoY % change)



Source: S&P

Graph 2
Consumer Confidence
(Index)



Source: Conference Board

Week Ahead

ISM Index (December, Monday 10:00 ET)

Forecast: 58.0	Consensus: 57.0	Previous: 56.6
----------------	-----------------	----------------

Institute for Supply Management (ISM) manufacturing index remained above 50 in the last 16 months indicating increase in economic activity in manufacturing industry. In November, industrial production increased by 0.4%, more than market expected and we expect that the positive trend in industrial production will continue in December. Furthermore, New York Fed Empire State Manufacturing Survey indicates that conditions improved in December for New York State manufacturers. Therefore, we expect that ISM manufacturing index will continue to remain above 55 in the next couple of months.

FOMC Minutes (Dec-14, Tuesday 14:00 ET)

Forecast: ---	Consensus: ---	Previous: ---
---------------	----------------	---------------

The Federal Open Market Committee (FOMC) held its final monetary policy meeting in 2010 on December 14, 2010. The statement indicated no major changes to the current monetary policy stance. As a result of the slow progress towards achieving its dual mandate, the FOMC decided to continue its November decision to purchase an additional \$600bn in Treasury securities by the end of 2011Q2 and to hold the Fed Funds rate at 0 to .25 percent. Although the minutes would give more detail about the FOMC's decision, we do not expect any surprises in the minutes.

Nonfarm Payrolls (December, Friday 08:30 ET)

Forecast: 130K	Consensus: 140K	Previous: 39K
----------------	-----------------	---------------

In November, the U.S. nonfarm payroll rose 39K in November following a 172K increase in the previous month. Private nonfarm payroll also increased slightly by 50K. In 2010, private sector created 106K additional jobs on average but total non-payroll employment has increased by 86K per month on average since December 2009 which is lower compared to historical average in recovery periods. The unemployment rate jumped 0.2pp and reached 9.8% in November. This is the highest unemployment rate since April 2010. We expect that the unemployment rate will remain elevated both in the short- and mid-terms due to moderate recovery, weak real estate markets and increase in participation rate in the coming months.

Consumer Credit (November, Friday 15:00 ET)

Forecast: \$1.7bn	Consensus: \$0.3bn	Previous: \$3.4bn
-------------------	--------------------	-------------------

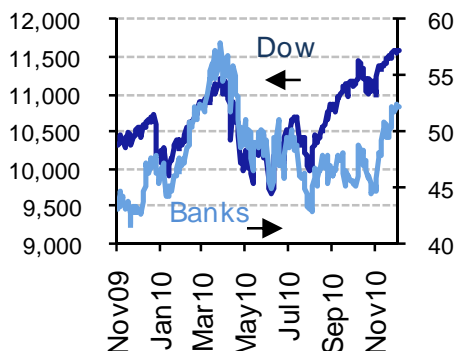
Consumer credit increased slowly in the last two months after declining 7 consecutive months. In October, although non-revolving consumer credits increased more than \$9bn, revolving credits continue to decline by \$5.6bn. Revolving credits declined in the last 26 months due to both tighter credit standards (supply) and less consumer willingness (demand) to apply for credits. We expect that this positive trend in consumer credits will continue at a very slow pace in November.

Market Impact

Current labor market conditions indicate that the unemployment rate will not drop to pre-crisis level anytime soon. Even better-than-expected nonfarm payrolls in December would not change market expectation. Furthermore, although we do not expect any surprises in the minutes of the FOMC meeting, anything indicating that the Fed would change its current monetary policy would definitely increase volatility in financial markets.

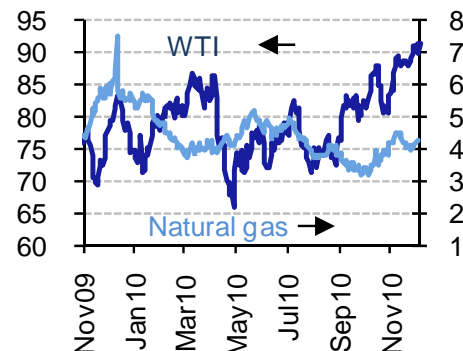
Financial Markets

Graph 3
Stocks (Index, KBW)



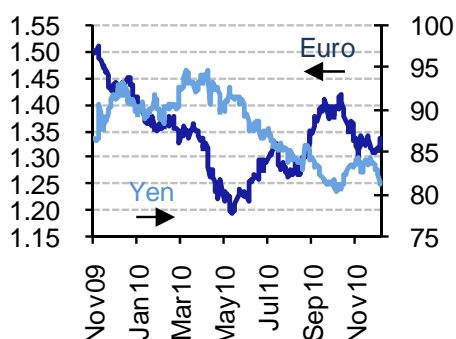
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



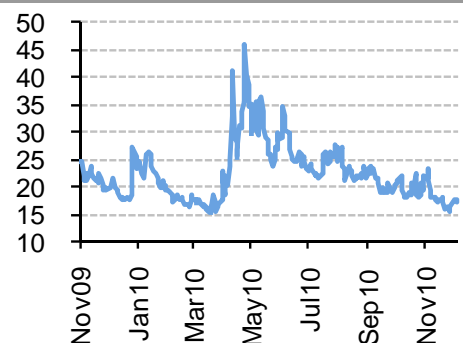
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



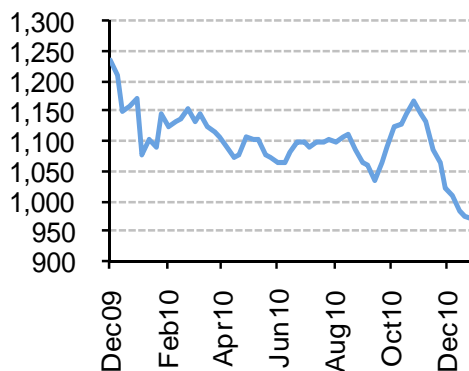
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



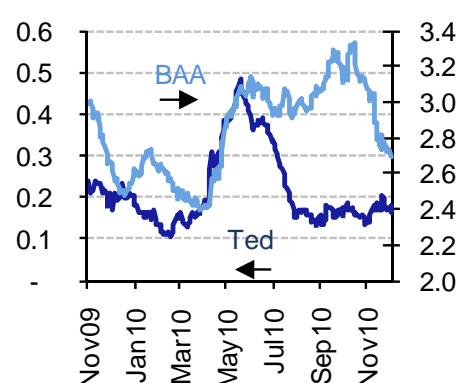
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

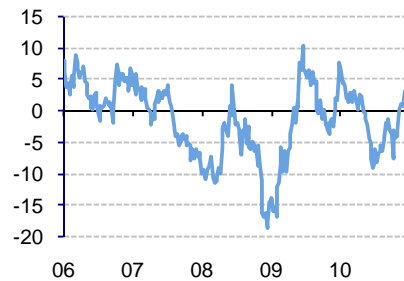
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

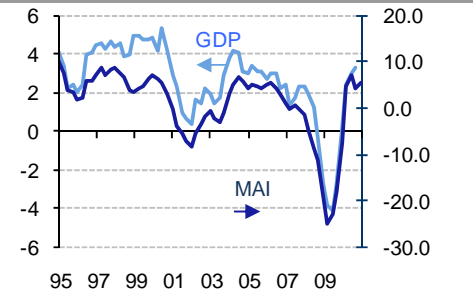
Economic Trends

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



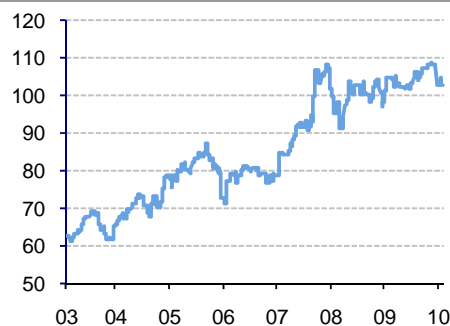
Source: BBVA Research

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



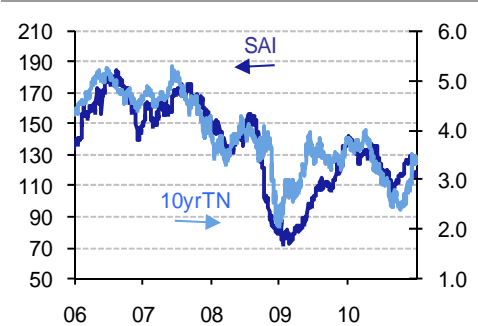
Source: BBVA Research & BEA

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



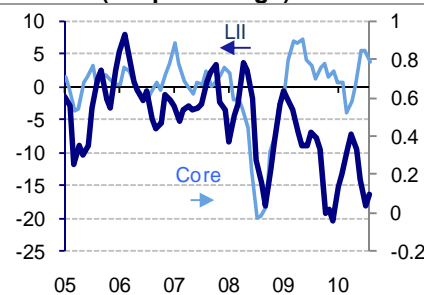
Source: BBVA Research

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



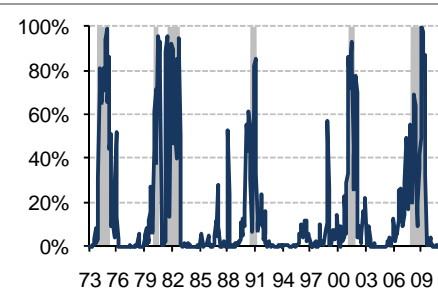
Source: Bloomberg & BBVA Research

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

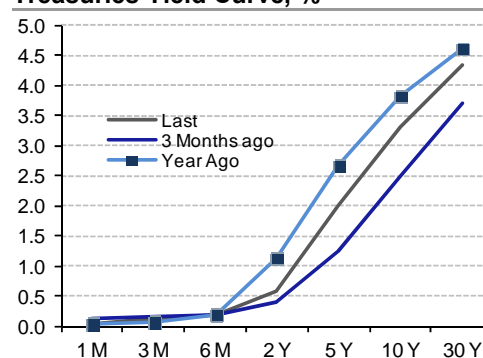
Key Interest Rates, %

	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	13.86	11.54
New Auto (36-months)	5.35	5.35	5.37	6.66
Heloc Loan 30K	5.50	5.49	5.50	5.67
30-year Fixed Mortgage *	4.86	4.81	4.46	5.14
Money Market	0.71	0.71	0.71	0.92
2-year CD	1.23	1.23	1.23	1.81
5-year CD	2.07	2.06	2.03	2.61

* 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

Michael K. Farr
December 30, 2010
CNBC

"... while the [S&P Case-Shiller Index of 20 major metropolitan areas] is still 4.4 percent above the April 2009 low, the new trend suggests that we may easily test those lows in the months to come."

Economic Calendar

Date	Event		Forecast	Survey	Previous
3-Jan	ISM Manufacturing	DEC	58.0	57.0	56.6
3-Jan	ISM Prices Paid	DEC	70.3	71.3	69.5
3-Jan	Construction Spending MoM	NOV	0.4%	0.2%	0.7%
4-Jan	Factory Orders	NOV	0.0%	-0.2%	-0.9%
4-Jan	Minutes of FOMC Meeting	14-Dec	---	---	---
4-Jan	Domestic Vehicle Sales	DEC	9.21M	9.20M	9.27M
4-Jan	Total Vehicle Sales	DEC	12.29M	12.30M	12.26M
5-Jan	ADP Employment Change	DEC	110K	100K	93K
5-Jan	ISM Non-Manf. Composite	DEC	55.0	55.6	55.0
6-Jan	Initial Jobless Claims	1-Jan	392K	404K	388K
6-Jan	Continuing Claims	25-Dec	4085K	4090K	4128K
7-Jan	Change in Private Payrolls	DEC	145K	155K	50K
7-Jan	Change in Nonfarm Payrolls	DEC	130K	140K	39K
7-Jan	Change in Manufact. Payrolls	DEC	0K	0K	-13K
7-Jan	Unemployment Rate	DEC	9.7%	9.7%	9.8%
7-Jan	Avg Hourly Earning MOM All Emp	DEC	0.1%	0.2%	0.0%
7-Jan	Avg Weekly Hours All Employees	DEC	34.3	34.3	34.3
7-Jan	Consumer Credit	NOV	\$1.7B	\$0.3B	\$3.4B

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 Danis

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 / Corporate Governance".