

U.S.

Weekly Watch

January 31, 2011

Economic Analysis

Hakan Danış

hakan.danis@bbvacompass.com

Jeffrey Owen Herzog

jeff.herzog@bbvacompass.com

Highlights

Fed statement: No sign of early termination of LSAP

The Federal Open Market Committee (FOMC) released a statement last Wednesday indicating no major changes to the current monetary policy stance, which is pursuing a combination of extremely low interest rates and large-scale asset purchases (LSAPs) to combat below-mandate inflation and employment. FOMC members upgraded their characterization of household spending and the pace of personal consumption expenditures (PCE) growth. However, PCE remains constrained by tight credit conditions, low housing wealth and high unemployment. The statement noted that while commodity prices have increased, indicators of inflation expectations remain stable and measures of core inflation continue to trend downward. Additionally, with the inclusion of new FOMC members, the statement does not have any dissenting opinions for the first time in many months. Given this discussion above and the “disappointingly” slow progress towards achieving its dual mandate, the FOMC decided to continue implementing LSAP as planned and holding the Fed Funds rate at 0 to .25%. Overall, the Fed’s statement suggests no rate hikes in 2011.

Gross Domestic Product: Strong economic activity in 4Q10

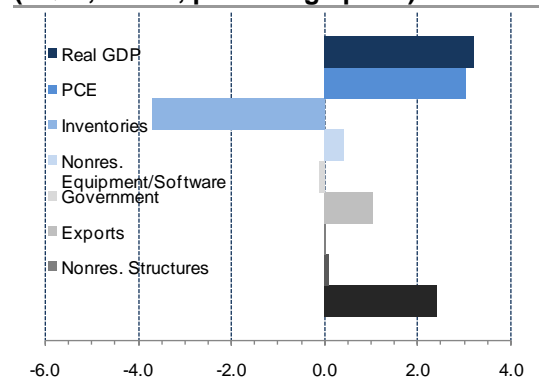
In 4Q10, the US economy grew 3.2% (q/q, annualized) according to the Bureau of Economic Analysis’ advance estimate. Although the market expected a slightly higher increase of 3.5% (BBVA=3.3%), the numbers indicate the economic recovery is gaining momentum. PCE jumped 4.4% in 4Q10 and contributed 3.04pp to GDP growth. However, gross private investment declined dramatically due to weak inventories data and a slowdown in nonresidential investment (NRI). Change in total inventories declined from \$121.4bn to \$7.2bn and contributed -3.7pp to GDP growth. This decline was partly offset by increases in NRI and residential investment. NRI slowed down in 4Q10 due to deceleration in equipment and software while structures increased after declining 9 consecutive quarters. Moreover, exports jumped 5.8%, imports declined 13.6% and the net contribution of net exports was 3.4pp to GDP growth in 4Q10. In summary, real GDP grew 2.9% in 2010. Although current trends point to strong growth this year, the recovery remains highly dependent on fiscal and monetary stimulus and it is still too early to claim a self-sustained and private-led recovery.

Graph 1
Real GDP
(SAAR, QoQ % change)



Source: BEA and Haver

Graph 2
Contributions to Real GDP Growth
(4Q10, SAAR, percentage point)



Source: BEA and Haver

Week Ahead

Personal Income and Outlays (December, Monday 08:30 ET)

Forecast: 0.4%, 0.4%	Consensus: 0.4%, 0.5%	Previous: 0.3%, 0.4%
-----------------------------	------------------------------	-----------------------------

Since July 2010, personal spending has increased 0.5% on average on a MoM basis. Latest macroeconomics indicators such as retail sales, consumer confidence and nonfarm payrolls suggest that this trend continued in December. With new tax incentives and political dynamics after the November elections, consumers face a less uncertain tax environment which has boosted consumer expectations. We expect that recent trends in income growth, retail sales, relative improvement in labor market conditions and consumer optimism will push personal spending up in the coming months. However, elevated unemployment, reduced housing wealth and tight credit conditions will continue to limit the pace of consumption growth.

ISM Manufacturing Index (January, Tuesday 10:00 ET)

Forecast: 58.5	Consensus: 58.0	Previous: 58.5
-----------------------	------------------------	-----------------------

The Institute for Supply Management's (ISM) manufacturing index is expected to remain flat in January. ISM Purchasing Managers Index increased in the last 6 consecutive months and has been higher than 50 since August 2009, indicating that manufacturing activity is expanding compared to the previous month. Regional Fed's manufacturing activity indices confirm that the manufacturing activity in the U.S. continues expanding. We believe that manufacturing activity is growing and PMI will remain at 58.5.

Construction Spending (December, Tuesday 10:00 ET)

Forecast: 0.2%	Consensus: 0.1%	Previous: 0.4%
-----------------------	------------------------	-----------------------

Construction spending increased 0.8% on average in the last three months. We expect that construction spending increased slightly due to relative improvement in real estate industry. Since the construction spending data is released with a long lag, the market reaction could be limited, yet it would help us understand current conditions in both the residential and nonresidential construction industry.

Nonfarm Payroll, Private (January, Friday 08:30 ET)

Forecast: 140K, 150K	Consensus: 136K, 150K	Previous: 103K, 113K
-----------------------------	------------------------------	-----------------------------

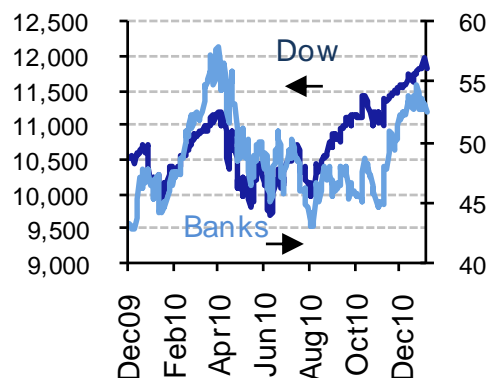
In December, total and private nonfarm payrolls rose 103K and 113K, respectively. Most of the job creation came from service-providing industries where total private service-providing industries created 115K new jobs in December. Job creation in mining and manufacturing was limited. In-line with subdued residential investment activity, construction employment declined 16K. On the other hand, the unemployment rate declined 0.4pp to 9.4% due to a decline in the participation rate and labor force. We expect nonfarm payroll employment to gain momentum in 2011. However, even with strong employment growth, the unemployment rate is expected to remain elevated in 2011 due to a possible increase in the labor force and participation rate.

Market Impact

Personal consumption and nonfarm payroll data will be the main focus of the markets this week. Better-than-expected personal spending and income numbers will push optimism even higher in the financial markets. Moreover, better-than-expected job creation in January would be an important sign for improvement in labor market conditions and welcome by the financial markets and the Fed.

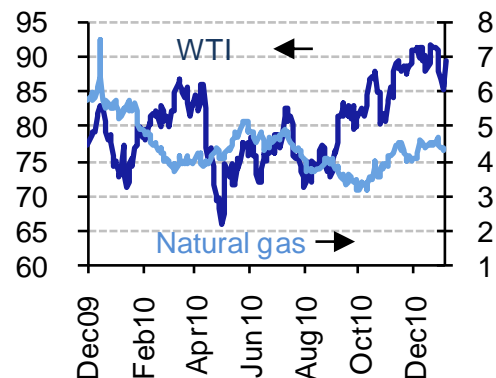
Financial Markets

Graph 3
Stocks (Index, KBW)



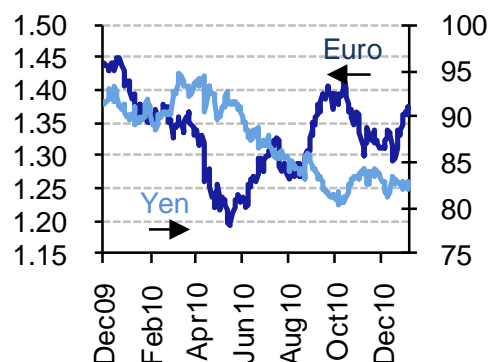
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



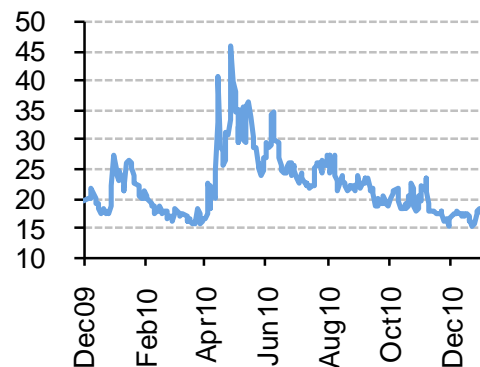
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



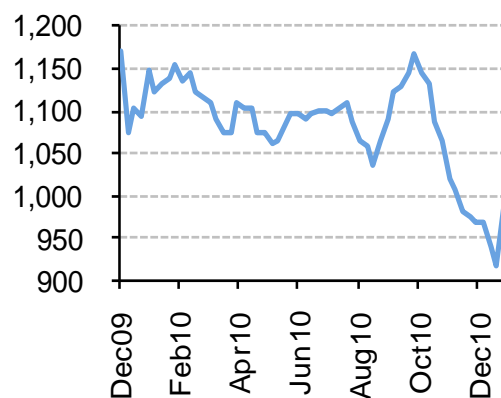
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



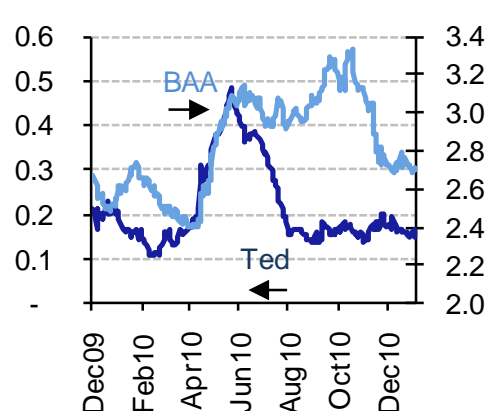
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

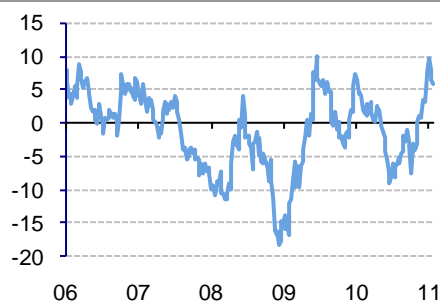
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

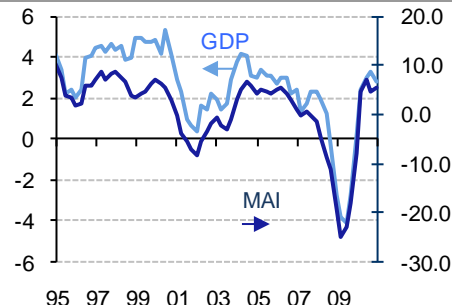
Economic Trends

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



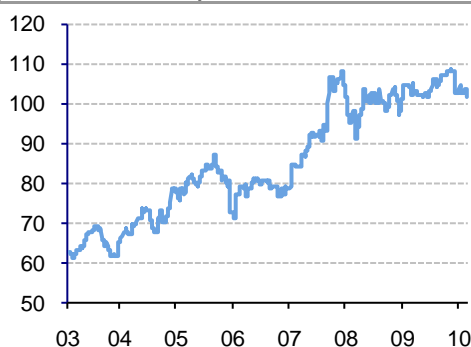
Source: BBVA Research

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



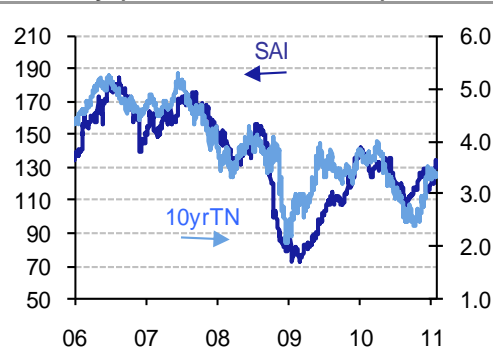
Source: BBVA Research & BEA

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



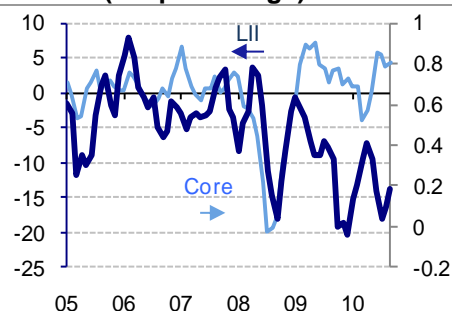
Source: BBVA Research

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



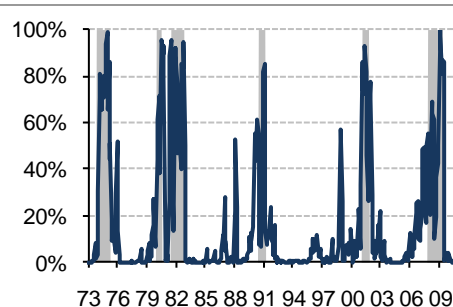
Source: Bloomberg & BBVA Research

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

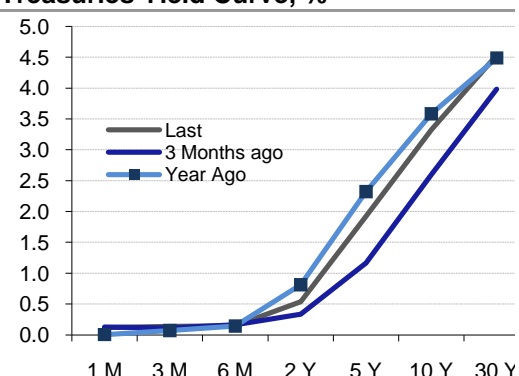
Yield Curve and Interest Rates

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	13.68	12.34
New Auto (36-months)	5.09	5.10	5.35	6.44
Heloc Loan 30K	5.56	5.56	5.50	5.68
30-year Fixed Mortgage *	4.80	4.74	4.86	4.98
Money Market	0.71	0.71	0.71	0.88
2-year CD	1.31	1.31	1.23	1.79
5-year CD	2.00	2.07	2.07	2.69

* 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

Nouriel Roubini, Economist

January 26, 2011

Bloomberg Television Interview

World Economic Forum at Davos, Switzerland

"The fiscal problem is very serious... The bond vigilantes have not yet woken up in the U.S. in the way they have in the euro zone. Unless the U.S. addresses this fiscal problem, we're going to see a train wreck."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
31-Jan	Personal Income	DEC	0.4%	0.4%	0.3%
31-Jan	Personal Spending	DEC	0.4%	0.5%	0.4%
31-Jan	PCE Core (MoM)	DEC	0.1%	0.1%	0.1%
31-Jan	PCE Deflator (YoY)	DEC	1.3%	1.3%	1.0%
31-Jan	Chicago Purchasing Manager	JAN	64.0	65.0	66.8
31-Jan	Dallas Fed Manf. Activity	JAN	14.0	15.0	12.8
1-Feb	Construction Spending MoM	DEC	0.2%	0.1%	0.4%
1-Feb	ISM Manufacturing	JAN	58.5	58.0	58.5
1-Feb	ISM Prices Paid	JAN	73.0	73.3	72.5
1-Feb	Total Vehicle Sales	JAN	12.65M	12.61M	12.53M
2-Feb	ADP Employment Change	JAN	140K	150K	297K
3-Feb	Unit Labor Costs	4Q P	0.2%	0.3%	-0.1%
3-Feb	Initial Jobless Claims	29-Jan	440K	420K	454K
3-Feb	Continuing Claims	22-Jan	3960K	3950K	3991K
3-Feb	Nonfarm Productivity	4Q P	2.0%	2.0%	2.3%
3-Feb	ISM Non-Manf. Composite	JAN	57.1	57.0	57.1
3-Feb	Factory Orders	DEC	0.2%	-0.5%	0.7%
4-Feb	Change in Nonfarm Payrolls	JAN	140K	136K	103K
4-Feb	Change in Private Payrolls	JAN	150K	150K	113K
4-Feb	Change in Manufact. Payrolls	JAN	11K	9K	10K
4-Feb	Unemployment Rate	JAN	9.5%	9.5%	9.4%
4-Feb	Avg Hourly Earning MOM All Emp	JAN	0.2%	0.2%	0.1%
4-Feb	Avg Weekly Hours All Employees	JAN	34.3	34.3	34.3

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".