

U.S.

# Weekly Watch

February 14, 2011

## Economic Analysis

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## Highlights

### Initial jobless claims declined to 383K

Last Thursday, U.S. Department of Labor (DOL) reported that in the week ending Feb. 5, initial claims decreased by 36K to 383K on a seasonally adjusted basis. Insured unemployment, also known as continuing jobless claims, during the week ending Jan. 29 dropped 47K to 3.89 million from the preceding week's revised level. Since weekly initial and continuing claims are volatile, economists usually consider the 4-week moving average of both initial and continuing claims as a more reliable measure. Latest report indicates that while the 4-week moving average of initial claims declined 16K to 415.5K, the 4-week moving average increased 250 to 3.9 million. DOL's report, in general, shows improvement in labor market conditions. However, in our opinion, in order to see significant increase in job creation, 4-week moving average of initial claims should decline below 375K.

### U.S. trade deficit widens further

The Department of Commerce announced that exports increased by \$2.8bn to \$163.0bn while imports rose \$5.1bn to \$198.5bn in December. As a result, the trade deficit widened 5.9% and reached \$40.6bn. One of the main drivers of increase in imports is the rising oil prices which pushed the value of imports up. The price of imported oil jumped 16.8% percent and reached \$80 in December. The report also shows that the trade deficit with China widened to \$20.7bn. Furthermore, in all of 2010, the U.S. trade deficit in goods and services increased 32.8% and climbed to \$497.8bn while the trade deficit with China peaked at \$273.1bn. Last week's release indicates that the contribution of net exports to 4Q10 real GDP advance estimate is likely to be revised up since the BEA's assumption for December's net exports was weaker than the latest data suggest.

Graph 1  
**Initial Jobless Claims**  
(K, Monthly)



Source: BLS

Graph 2  
**Real Exports and Imports of Goods**  
(Y-o-Y % change)



Source: U.S. Census Bureau

## Week Ahead

### Retail Sales, ex-auto (January, Tuesday 08:30 ET)

<b>Forecast: 0.5%, 0.4%</b>	<b>Consensus: 0.5%, 0.5%</b>	<b>Previous: 0.6%, 0.5%</b>
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The advance estimates of the U.S. Census Bureau indicated a 0.6% increase in retail and food services sales for December from the previous month. While retail trade sales increased by 0.7%, retail sales excluding autos jumped 0.5% in the same period. Auto and other motor vehicle sales have performed better throughout 2010 compared to the previous year. In December, auto and other motor vehicle sales soared 14.7% from a year. Consistent with last month's strong personal spending data, we expect retail sales to continue increasing in January.

### Housing Starts (January, Wednesday 08:30 ET)

<b>Forecast: 550K</b>	<b>Consensus: 540K</b>	<b>Previous: 529K</b>
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January's housing starts are expected to recover from their drop in October and reach a total of 550K units. While builders may have put projects on hold in the previous months to wait for the demand for new housing to rise, higher pending home sales could stimulate new house building. Furthermore, demand drivers are picking up, home prices are stabilizing and inventories of new homes have dropped to extremely low levels. All these factors create a more favorable environment for home builders.

### Industrial Production (January, Wednesday 09:15 ET)

<b>Forecast: 0.5%</b>	<b>Consensus: 0.6%</b>	<b>Previous: 0.8%</b>
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According to the Federal Reserve's estimate, the U.S. industrial production (IP) rose 0.8% in December. While production in the manufacturing sector increased by 0.4%, severe cold weather in December increased demand for utilities, and therefore the output of utilities soared 4.3%. With strong growth in December production, the total capacity utilization rate (CU) reached 76%. The CU in utilities jumped more than 3pp and reached 82.3%. Recent regional Fed surveys indicate that the manufacturing activity remains robust and therefore, we expect IP to continue increasing in January. However, inflationary pressures are expected to remain contained due to the low total CU.

### Consumer Price Index, Core (January, Thursday 08:30 ET)

<b>Forecast: 0.3%, 0.1%</b>	<b>Consensus: 0.3%, 0.1%</b>	<b>Previous: 0.5%, 0.1%</b>
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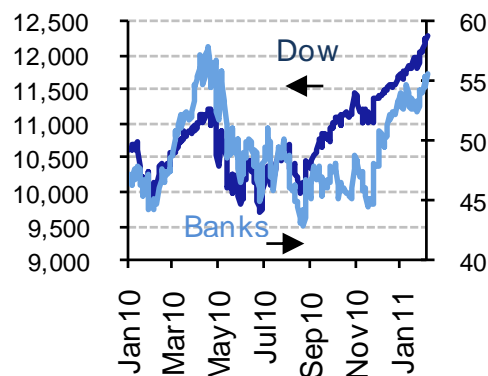
In December, headline and core consumer price indices increased by 0.5% and 0.1%, respectively MoM on a seasonally adjusted basis. Energy prices were the main driver of the increase in headline prices. The energy index jumped 4.6% in which the gasoline index hiked 8.5% and accounted for 80% of the all items increase in December. Although deflationary pressures remain elevated in core consumer prices, shelter prices are curtailing some of these pressures. With the latest figures, headline and core consumer prices rose 1.6% and 1.0% in 2010, respectively. We expect that core inflation will continue to remain low but positive in 2011. Furthermore, we expect a slowdown in headline inflation in January given a slowdown in increase in energy prices.

### Market Impact

While stronger-than-expected industrial production activity would indicate robust economic growth in 1Q11 and push equity prices even higher, upward surprise in core prices would welcome by the Fed and markets and decrease deflation fears significantly.

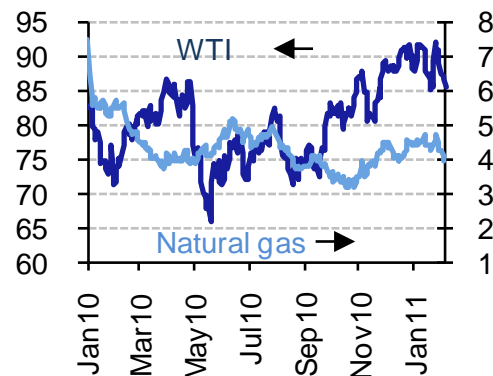
# Financial Markets

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



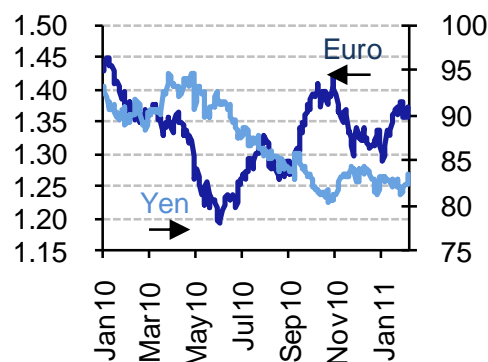
Source: Bloomberg & BBVA Research

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



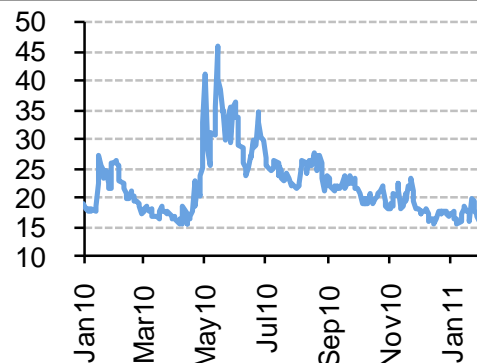
Source: Bloomberg & BBVA Research

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



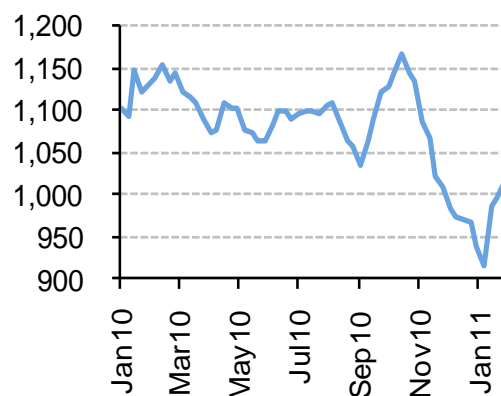
Source: Bloomberg & BBVA Research

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



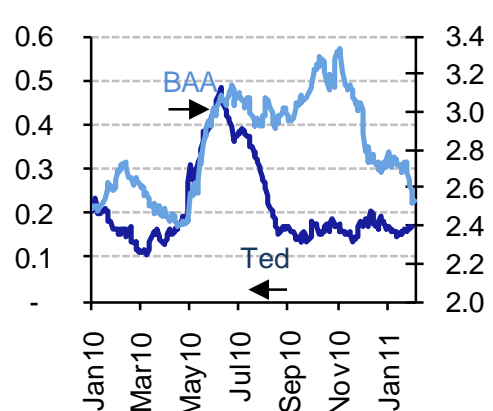
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

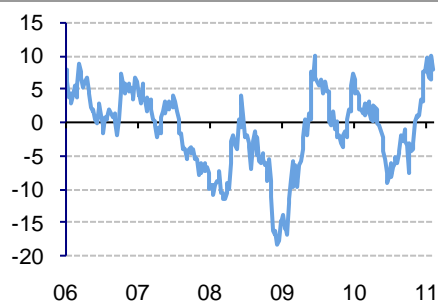
Graph 8  
**TED & BAA Spreads (%)**



Source: Bloomberg & BBVA Research

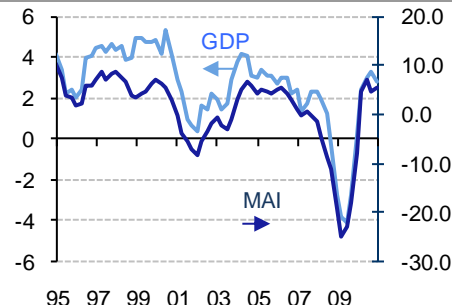
## Economic Trends

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)**



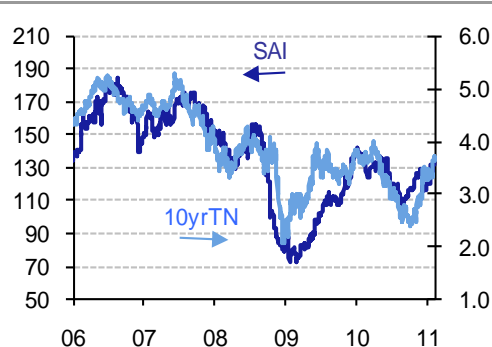
Source: BBVA Research & BEA

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



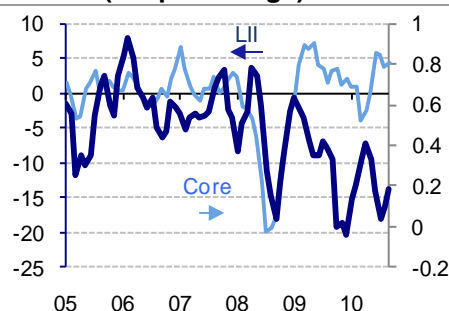
Source: BBVA Research

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



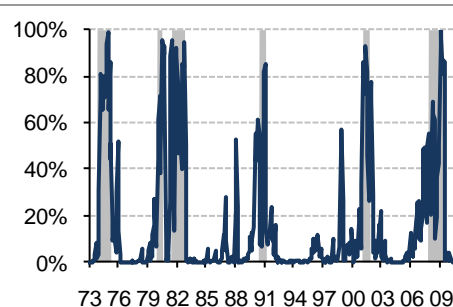
Source: Bloomberg & BBVA Research

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

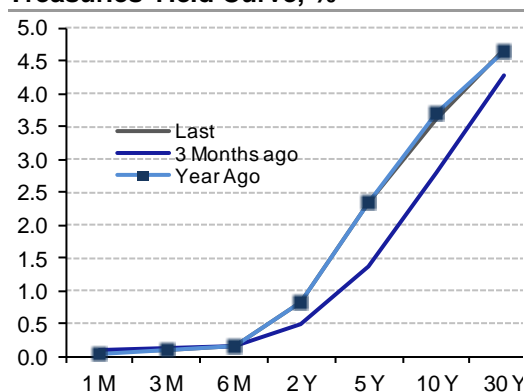
### Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.71	13.68	13.68	12.53
New Auto (36-months)	5.07	5.10	5.09	6.38
Heloc Loan 30K	5.54	5.55	5.55	5.71
30-year Fixed Mortgage *	5.05	4.81	4.71	4.97
Money Market	0.65	0.62	0.71	0.90
2-year CD	1.31	1.31	1.31	1.74
5-year CD	2.06	2.06	2.06	2.66

\* 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 Bank of Atlanta President Dennis Lockhart  
February 10, 2011  
Atlanta, GA

*"I have no intention of supporting, under political pressure, the monetizing of the debt, [that would be] a central banker's cardinal sin."* [Bloomberg]

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Feb	Empire Manufacturing	FEB	14.0	15.0	11.9
15-Feb	Import Price Index (MoM)	JAN	0.9%	0.9%	1.1%
15-Feb	Import Price Index (YoY)	JAN	4.4%	4.4%	4.8%
15-Feb	Advance Retail Sales	JAN	0.5%	0.5%	0.6%
15-Feb	Retail Sales Less Autos	JAN	0.4%	0.5%	0.5%
15-Feb	Retail Sales Ex Auto & Gas	JAN	0.4%	0.4%	0.4%
15-Feb	Business Inventories	DEC	0.4%	0.7%	0.2%
15-Feb	NAHB Housing Market Index	FEB	17.0	17.0	16.0
16-Feb	Housing Starts	JAN	550.0	540K	529K
16-Feb	Building Permits	JAN	530K	570K	627K
16-Feb	Producer Price Index (MoM)	JAN	0.6%	0.8%	1.1%
16-Feb	PPI Ex Food & Energy (MoM)	JAN	0.2%	0.2%	0.2%
16-Feb	Producer Price Index (YoY)	JAN	3.4%	3.5%	4.0%
16-Feb	PPI Ex Food & Energy (YoY)	JAN	1.2%	1.2%	1.3%
16-Feb	Industrial Production	JAN	0.5%	0.5%	0.8%
16-Feb	Capacity Utilization	JAN	76.4%	76.4%	76.0%
16-Feb	Minutes of FOMC Meeting	26-Jan	---	---	---
17-Feb	Consumer Price Index (MoM)	JAN	0.3%	0.3%	0.5%
17-Feb	CPI Ex Food & Energy (MoM)	JAN	0.1%	0.1%	0.1%
17-Feb	Consumer Price Index (YoY)	JAN	1.6%	1.6%	1.5%
17-Feb	CPI Ex Food & Energy (YoY)	JAN	0.9%	0.9%	0.8%
17-Feb	Initial Jobless Claims	12-Feb	390K	403K	383K
17-Feb	Continuing Claims	5-Feb	3890K	3898K	3888K
17-Feb	Leading Indicators	JAN	0.4%	0.2%	1.0%
17-Feb	Philadelphia Fed.	FEB	20.0	21.0	19.3

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