

U.S.

Weekly Watch

February 28, 2011

Economic Analysis

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Highlights

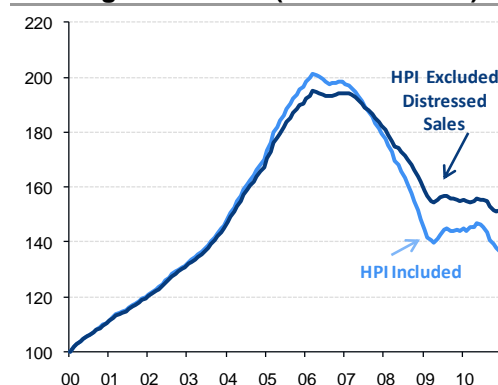
Foreclosures boost total home sales while pushing prices down

In January 2011, the National Association of Realtors (NAR) and the Census Bureau reported 4.97mn in seasonally-adjusted single family home sales, up 1.4% from December sales. While existing single family home sales increased 2.4% MoM and reached a total of 4.7mn units, new home sales declined 12.6% MoM to 0.28mn. The high volume of foreclosures and short sales are the main factors behind this dual evolution. In fact, foreclosures represented 26% of total residential sales in 2010, according to RealtyTrac. In addition, the positive evolution of some structural factors, such as employment and family income, is also supporting housing demand. Demand is attracted to the foreclosure market because those houses sell at an average price that is significantly below the average price of properties not in foreclosure. So, in December 2010, while the seasonally adjusted home price index of all properties declined by 1.2% MoM, the home index excluding distressed properties increased 0.3% MoM, according to CoreLogic data. Although demand is increasing, the current excess supply – estimated around 1.5mn homes in January – will limit housing price appreciation in 2011.

GDP Revision

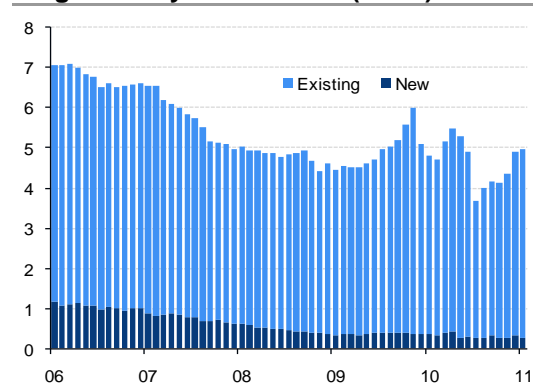
In 4Q10, the US economy grew 2.8% (annualized) according to the Bureau of Economic Analysis' (BEA) second estimate. The downward revised numbers indicate that the economic recovery is gaining momentum but at a slower pace than previously expected. According to the BEA, while personal consumption expenditures (PCE), exports, and nonresidential fixed investment increased, imports, government spending and inventories declined in 4Q10. The main driver of the real GDP growth in the last quarter of 2010 was personal consumption, which jumped 4.1% in 4Q10. However, gross private investment declined dramatically due to sharp decline in inventories. The market was expecting an upward revision in the 4Q10 real GDP estimate due to expectations of stronger net exports. However, the contribution of net exports to real GDP growth was almost same with the first estimate. In sum, US real GDP grew 2.8% in 2010, less than the first estimate of 2.9%. Although businesses and consumers are still optimistic about the economy, latest developments in the Middle East North Africa (MENA) pose negative risks to both the global and U.S. recovery.

Graph 1
Housing Price Index (Jan 2000 = 100)



Source: NAR and U.S. Census Bureau

Graph 2
Single Family Home Sales (000's)



Source: NAR and U.S. Census Bureau

Week Ahead

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

Forecast: 0.3%, 0.4%	Consensus: 0.4%, 0.4%	Previous: 0.4%, 0.7%
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In 2010 personal income and spending were stronger than previously expected and leading indicators point to a continuing trend in January. The previous month's personal income and spending jumped 0.4% and 0.7% MoM, respectively although some of this increase was due to an increase in prices. Additional fiscal stimulus and a less uncertain political environment after elections boosted consumers' expectations. For example, consumer confidence has increased in the last five months and reached 70.4, the highest level since February 2008. Although a weak labor market, reduced housing wealth and tight credit conditions will continue to limit the pace of consumption growth, we expect that recent trends in income growth and consumer optimism will continue pushing real PCE up in 1Q11.

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

Forecast: 60.3	Consensus: 60.8	Previous: 60.8
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In January, the ISM manufacturing index (ISM PMI) increased for the sixth consecutive month and reached 60.8, highest level since May 2004. ISM PMI is expected to remain significantly higher than the benchmark of 50 which indicates an increase in economic activity in the manufacturing sector compared to the previous month. Current trends in ISM PMI support strong economic expansion in 1Q11 and are consistent with our baseline scenario of 3.0% real GDP growth in 2011.

ISM Non-manufacturing Index (February, Thursday 10:00 ET)

Forecast: 59.0	Consensus: 59.5	Previous: 59.4
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Similar to ISM PMI, the ISM non-manufacturing index (ISM NMI) is currently at the highest level since August 2005. We expect that economic activity in non-manufacturing sector will continue to expand and ISM NMI will remain above 60. ISM NMI, which is also a reliable indicator of economic activity, is expected to remain above 50 for the 19th month in a row, implying that the economy is continuing to expand.

Nonfarm Payroll (February, Friday 08:30 ET)

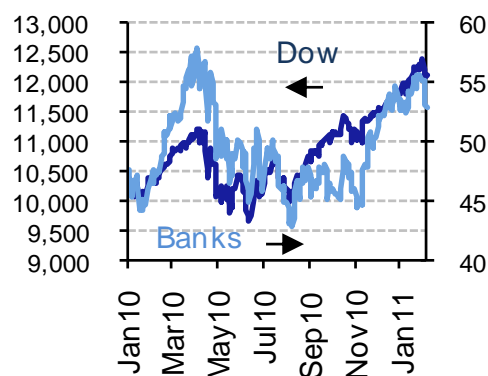
Forecast: 185K	Consensus: 188K	Previous: 36K
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The unemployment rate continued to fall in January from 9.4% to 9.0%, its lowest level since March 2009. On the contrary, total and private nonfarm payrolls rose only 36K and 50K, respectively. However, the release was blurred by significant revision to previous estimates due to the annual benchmarking process, updating of seasonal adjustments factors, new population estimates and severe weather in the U.S. The labor force participation rate continued to decline and reached 64.2%, the lowest level since March 1984. The latest labor market indicators suggest that the U.S. labor market has been improving at a slow pace and we expect stronger job creation in February compared to the previous month.

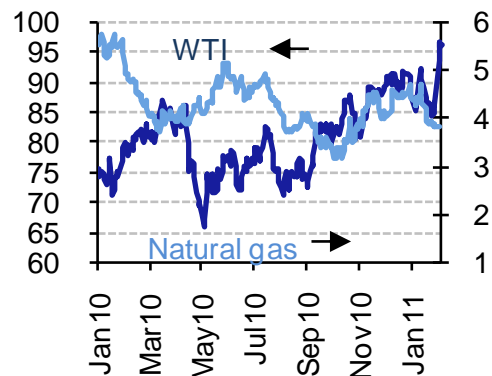
Market Impact

Although macroeconomic indicators continue pointing to a strong economic recovery in 1Q11, labor markets remain weak. Financial markets will be watching February nonfarm payroll data closely and any negative surprise would lead to losses in financial markets.

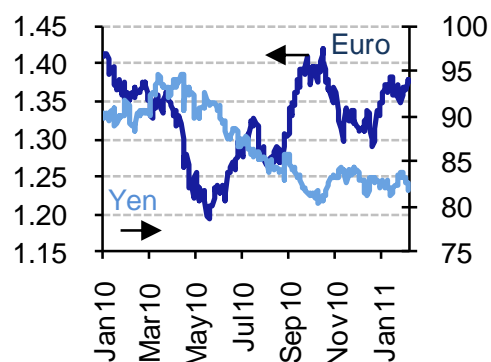
Financial Markets

Graph 3
Stocks (Index, KBW)

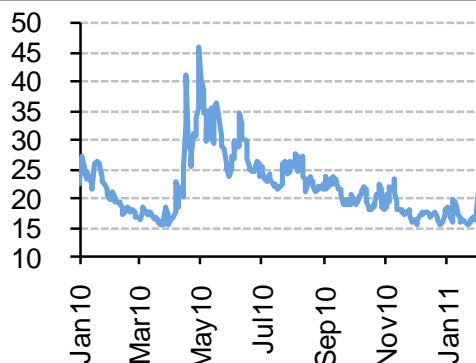
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)

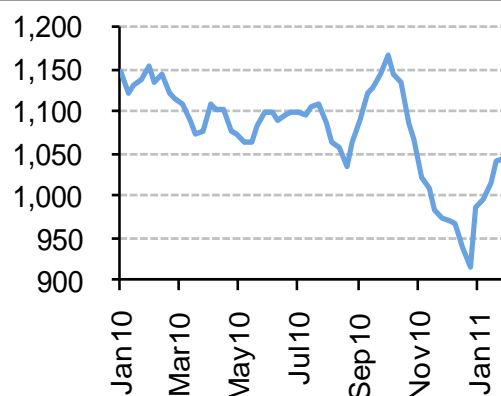
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)

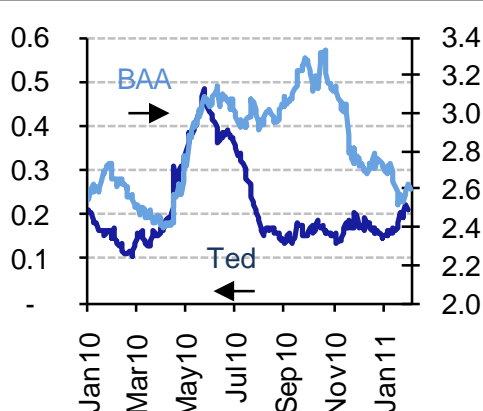
Source: Bloomberg & BBVA Research

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

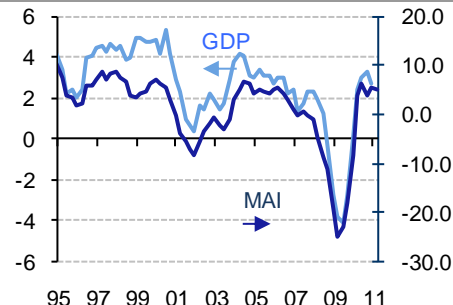
Economic Trends

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)**



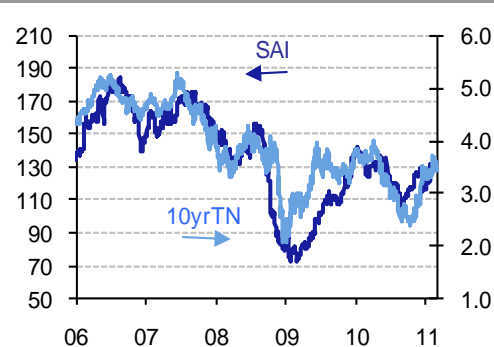
Source: BBVA Research & BEA

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



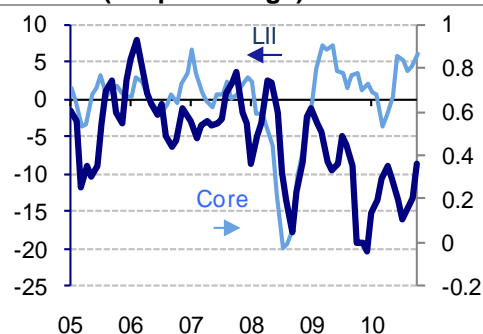
Source: BBVA Research

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



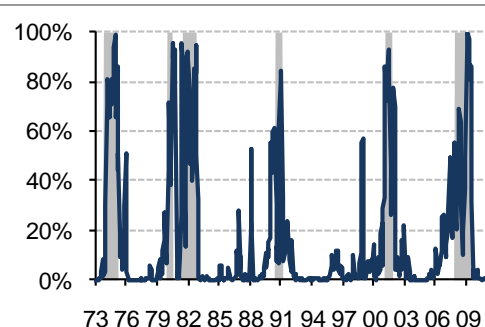
Source: Bloomberg & BBVA Research

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

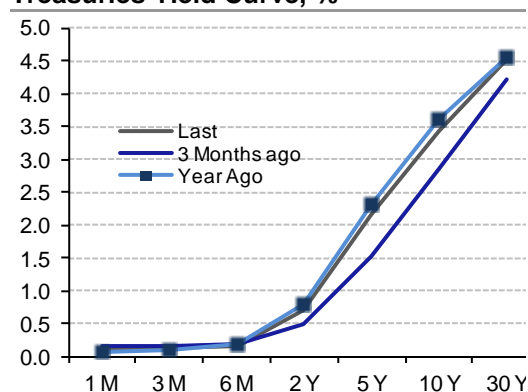
Yield Curve and Interest Rates

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)	13.73	13.73	13.68	12.45
New Auto (36-months)	5.04	5.06	5.09	6.28
Heloc Loan 30K	5.54	5.55	5.56	5.71
30-year Fixed Mortgage *	4.95	5.00	4.80	5.05
Money Market	0.61	0.63	0.71	0.84
2-year CD	1.29	1.29	1.31	1.73
5-year CD	2.06	2.06	2.00	2.65

* 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 Kansas City President Thomas M. Hoenig

February 23, 2011

Women in Housing and Finance, Washington, D.C.

"...the existence of too big to fail financial institutions poses the greatest risk to the U.S. economy. ... We must break up the largest banks, and could do so by expanding the Volcker Rule and significantly narrowing the scope of institutions that are now more powerful and more of a threat to our capitalistic system than prior to the crisis."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Feb	Personal Income	JAN	0.3%	0.4%	0.4%
28-Feb	Personal Spending	JAN	0.4%	0.4%	0.7%
28-Feb	PCE Deflator (YoY)	JAN	1.3%	1.3%	1.2%
28-Feb	PCE Core (MoM)	JAN	0.1%	0.1%	0.0%
28-Feb	Chicago Purchasing Manager	FEB	68.0	67.5	68.8
28-Feb	Pending Home Sales MoM	JAN	0.9%	-2.0%	2.0%
28-Feb	Dallas Fed Manf. Activity	FEB	13.0	12.6	10.9
1-Mar	Construction Spending MoM	JAN	-0.8%	-0.4%	-2.5%
1-Mar	ISM Manufacturing	FEB	60.3	60.8	60.8
1-Mar	Total Vehicle Sales	FEB	12.60M	12.70M	12.54M
1-Mar	Fed's Beige Book		---	---	---
2-Mar	ADP Employment Change	FEB	190K	180K	187K
3-Mar	Initial Jobless Claims	26-Feb	388K	395K	391K
3-Mar	Continuing Claims	19-Feb	3810K	3820K	3790K
3-Mar	Nonfarm Productivity	4Q F	2.6%	2.6%	2.6%
3-Mar	Unit Labor Costs	4Q F	-0.6%	-0.6%	-0.6%
3-Mar	ISM Non-Manf. Composite	FEB	59.0	59.5	59.4
4-Mar	Change in Nonfarm Payrolls	FEB	185K	188K	36K
4-Mar	Change in Private Payrolls	FEB	195K	200K	50K
4-Mar	Unemployment Rate	FEB	9.0%	9.1%	9.0%
4-Mar	Avg Weekly Hours All Employees	FEB	34.3	34.3	34.2
4-Mar	Factory Orders	JAN	2.3%	2.0%	0.2%

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