

U.S.

Weekly Watch

March 7, 2011

Economic Analysis

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Highlights

Fed's Beige Book signals price pressures

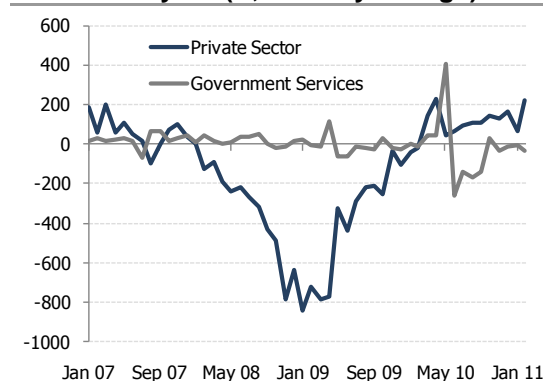
Current Economic Conditions, also known as the Beige Book, released by the Federal Reserve Bank of Kansas City is based on information collected on or before February 22, 2010. The report indicates that economic activity continued to improve at a “modest to moderate pace” since the beginning of 2011 till early February. Labor market conditions continued to improve in all Districts. However, the report warns about increasing price pressure due to an increase in input prices. Residential real estate sales and construction remained weak across all Districts while commercial real estate activity showed signs of stabilizing but remained feeble. In sum, the report supports other recent macroeconomic indicators suggesting that the economic recovery is gaining strength but prices started to increase mainly due to increase in input prices.

The unemployment rate continued to decline in February

The Bureau of Labor Statistics (BLS) announced that in February, total nonfarm payroll rose 192K while private sector created 222K new jobs. Government sector lost 30K jobs last month. Due to bad weather in January we were expecting strong employment creation in February. Moreover, strong ADP employment data in the last three months and significant declines in initial and continuing claims were positive signs for today's release. The unemployment rate continued to decline for the third month in a row to 8.9%, the lowest level since March 2009. The labor force participation rate remained at 64.2%, which is the lowest level since March 1984. The employment level increased in manufacturing and construction sectors but declined in retail and government sectors in February. This is the first monthly increase in the construction sector since August 2010. Furthermore, the alternative unemployment rate, which includes those marginally attached to the workforce and working part-time for economic reasons, also declined to 15.9%. The median number of weeks unemployed declined to 21.2 and 43.8% of those without jobs have been unemployed for 27 weeks or more. The nonfarm payroll data indicate that the U.S. labor market is improving and recent indicators such as initial and continuing claims also point to better labor market conditions. We expect that labor market conditions will continue to improve in 1Q11 but the unemployment rate will remain elevated in 2011 and 2012.

Graph 1

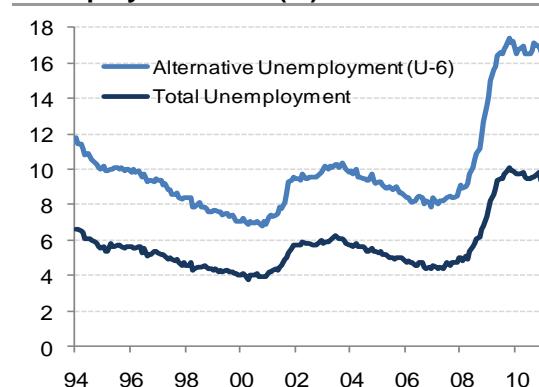
Nonfarm Payroll (K, Monthly change)



Source: BLS

Graph 2

Unemployment Rate (%)



Source: BLS

Week Ahead

Consumer Credit (January, Monday 15:00 ET)

Forecast: \$4.95bn	Consensus: \$3.40bn	Previous: \$6.10bn
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We expect total outstanding consumer credit to increase MoM by \$4.95bn in January to \$2415.4bn seasonally-adjusted, which represents a -1.31% YoY decline. One issue with this month's data is the divestment of \$25bn in consumer credit from banks to nonbanks in December. We believe that this shift within the total outstanding may affect the seasonality adjustments made within individual categories, so the risk of substantial data revisions is high. Regardless of these data revisions, total consumer credit is growing gingerly MoM for the past few months, but we do not anticipate YoY growth until mid-2011.

International Trade Balance (January, Thursday 08:30 ET)

Forecast: -\$41.0bn	Consensus: -\$41.5bn	Previous: -\$40.6bn
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In December, imports increased by \$5.1bn to \$203.5bn while exports rose \$2.8bn to \$163.0bn. All of the increase in imports came from goods imports and services imports declined by \$14mn. In January, demand for both imports and exports is expected to increase as domestic consumers continue to increase their spending. However, import prices rose 1.5% MoM in January partly due to increase in oil prices, which could inflate the value of imports. As a result, we could see the trade balance widen in January.

Retail Sales (February, Friday 08:30 ET)

Forecast: 0.6%	Consensus: 1.0%	Previous: 0.3%
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Retail sales climbed 0.3% MoM in January and 0.8% MoM on average in the last seven months. Recent increases in consumer prices and moderate growth in auto sales would support an upward trend in retail sales. With better economic prospects and strong consumer expectations, we expect retail sales to continue increasing in February. Moreover, possible improvements in labor market conditions would also support retail sales in 2011.

Consumer Sentiment (March, Friday 09:55 ET)

Forecast: 77.0	Consensus: 76.5	Previous: 77.5
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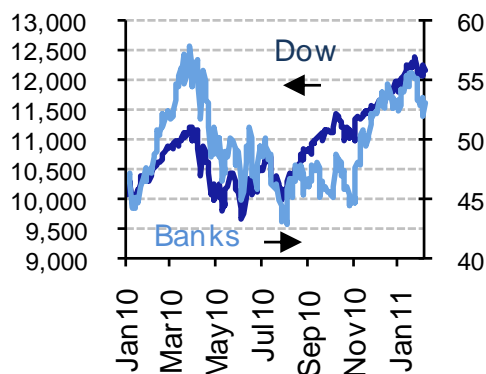
In February, consumer confidence measured by the University of Michigan's Consumer Sentiment Index reached 77.5, the highest level since January 2008. Due to strong economic activity, relative improvement in labor market conditions and financial markets, consumers' confidence has grown considerably. However, increase in oil and energy prices is expected to limit consumers' optimism in March. We expect consumer sentiment to decline slightly to 77.0.

Market Impact

Although consumer credit is not closely followed in the financial markets, the trend of credit growth would help us understand financial market conditions better. Strong consumer credit growth would signal better financial conditions and would support consumer spending in 2011. Therefore, markets would react positively to a better-than-expected consumer credit report. Strong real retail sales and a smaller trade balance would be a sign of strong personal consumption and would support economic recovery in 1Q11 and therefore support an upward trend in stock markets.

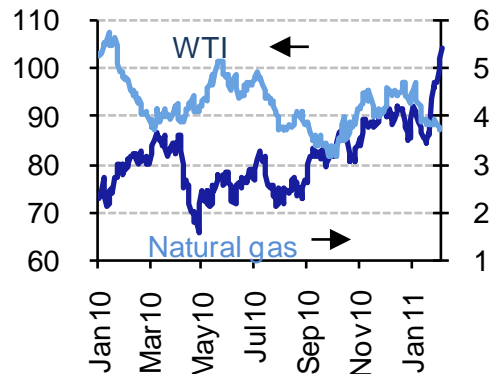
Financial Markets

Graph 3
Stocks (Index, KBW)



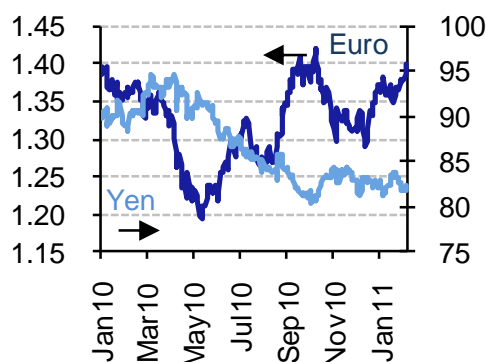
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



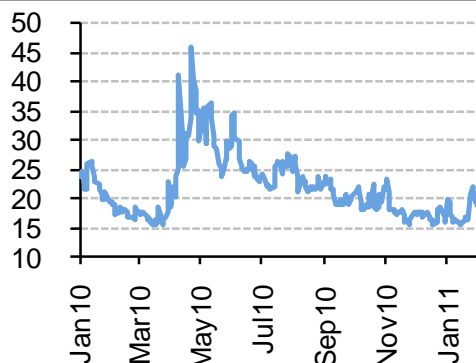
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



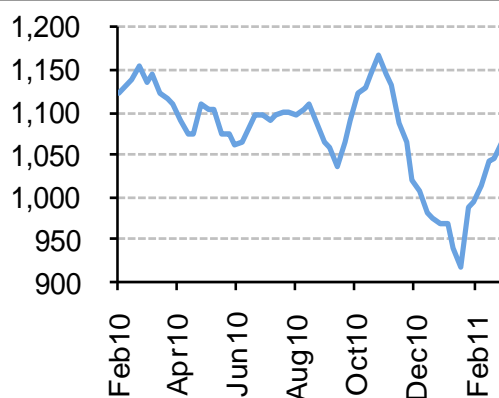
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



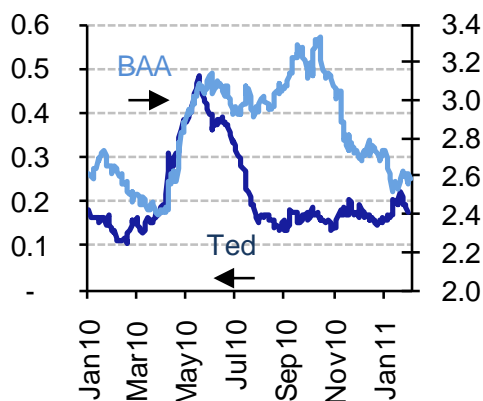
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

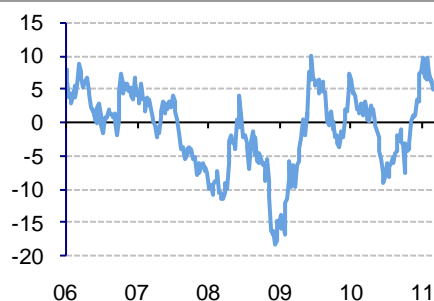
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

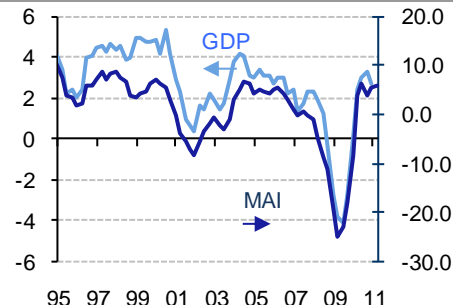
Economic Trends

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)**



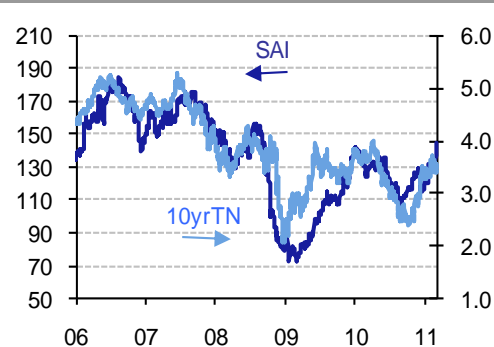
Source: BBVA Research & BEA

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



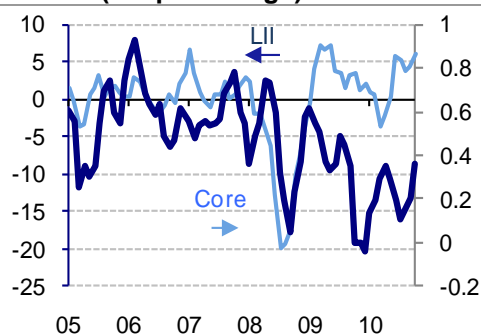
Source: BBVA Research

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



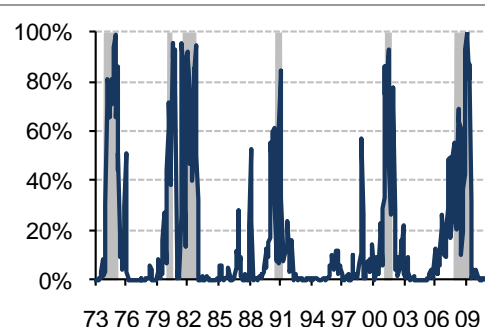
Source: Bloomberg & BBVA Research

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

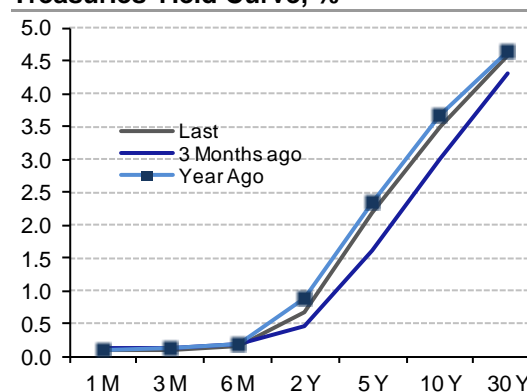
Key Interest Rates, %

	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	12.55
New Auto (36-months)	5.02	5.04	5.10	6.70
Heloc Loan 30K	5.53	5.54	5.55	5.70
30-year Fixed Mortgage *	4.87	4.95	4.81	4.97
Money Market	0.63	0.61	0.62	0.82
2-year CD	1.28	1.29	1.31	1.72
5-year CD	2.06	2.06	2.06	2.64

* 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 Chairman Ben S. Bernanke

March 2, 2011

Before the Committee on Financial Services, U.S. House of Representatives
Washington, D.C.

"Governments may wish to revisit their criteria for accumulating and using fiscal reserves. Building an adequate reserve fund during good times may not be politically popular, but doing so can pay off during bad times as well as lessen the tendency to overspend when times are good."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Mar	Consumer Credit	JAN	\$4.95B	\$3.400B	\$6.099B
8-Mar	NFIB Small Business Optimism	FEB	96.0	95.0	94.1
9-Mar	Wholesale Inventories	JAN	0.8%	0.9%	1.0%
10-Mar	Initial Jobless Claims	5-Mar	370K	378K	368K
10-Mar	Continuing Claims	26-Feb	3740K	3750K	3774K
10-Mar	Trade Balance	JAN	-\$41.0B	-\$41.5B	-\$40.6B
10-Mar	Monthly Budget Statement	FEB	-\$227.5B	-\$227.5B	-
11-Mar	Advance Retail Sales	FEB	0.6%	1.0%	0.3%
11-Mar	Retail Sales Less Autos	FEB	0.4%	0.7%	0.3%
11-Mar	U. of Michigan Confidence	MAR P	77.0	76.5	77.5
11-Mar	Business Inventories	JAN	0.7%	0.8%	0.8%

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