

Weekly Watch

U.S.

April 4th, 2011
Economic Analysis

U.S.
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Highlights

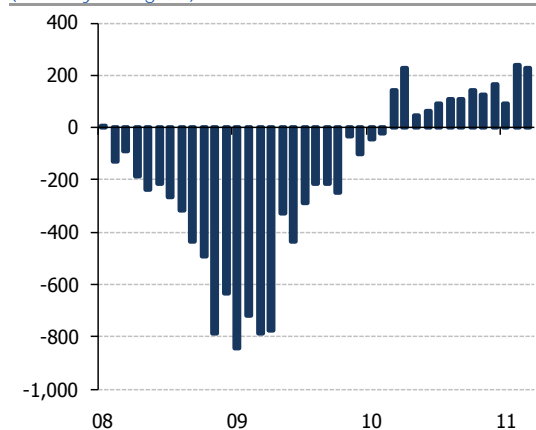
Home Prices continue to decline in January

The S&P/Case-Shiller Composite 20 Index declined 0.2% MoM in January and remained 31.3% below from its peak. Both the 10- and 20-City Composite indices were below 2.0% and 3.1% from their levels a year ago. Among 20 Metropolitan Statistical Areas (MSA), only San Diego and Washington D.C. has price increases on a year-over-year basis. Home prices in Washington DC climbed +3.6% YoY. The S&P/Case-Shiller home price indices include both distressed homes and, therefore, are negatively affected by foreclosures. The release indicates that home price indices for MSAs such as Atlanta, Charlotte, Chicago, Detroit, Las Vegas, Miami, New York, Phoenix, Portland (OR), Seattle and Tampa are currently at historically low levels.

U.S. Nonfarm Payroll Soared in March

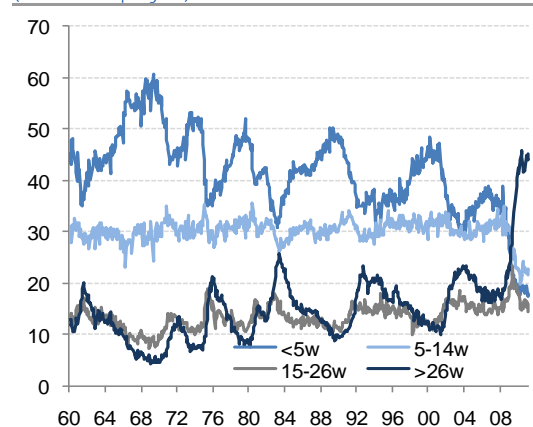
The Bureau of Labor Statistics (BLS) announced that the unemployment rate declined 0.1pp to 8.8% and nonfarm payrolls increased by 216K in March. Professional and business services (78K), health care (45K), leisure and hospitality (37K), and mining (15) created new jobs last month. Since February 2010 the U.S. economy created 1,492K new jobs. The service-providing sector continued to add more jobs in the economy. Professional and business services, for example, jumped 78K but a significant portion of this increase came from temporary help services (29K). The private sector added 230K jobs, up from 240K jobs in the previous month. On the other hand, fiscal problems urge local governments to lay-off more employees. Since May 2010 the government sector lost 814K jobs. Due to strong employment growth in March, the unemployment rate declined from 8.9% to 8.8%, which is 1.0pp lower than in November 2010. The alternative unemployment rate, which includes those marginally attached to the workforce and working part-time for economic reasons, also declined and reached 15.7% last month. Nevertheless, the median number of weeks unemployed increased from 21.2 to 21.7 weeks. The nonfarm payroll data indicate that the U.S. labor market is improving but still remains weak. Recent trends in economic activity and surveys indicate that the current positive trend in nonfarm payroll is likely to continue but rising oil prices might be a threat in the short-term.

Graph 1
Private Nonfarm Payroll
(Monthly change, K)



Source: BLS

Graph 2
Duration of Unemployment
(% of Unemployed)



Source: BLS

Week Ahead

ISM Services (March, Tuesday 10:00 ET)

Forecast: 59.5	Consensus: 59.5	Previous: 59.7
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In February the Institute for Supply Management (ISM) Non-Manufacturing Index climbed 0.3 pp and reached 59.7%. The data indicate that the economic activity in services sector continued to increase compared to previous month and business activity has increased in the last 19 months. The new orders index declined slightly but remained above 50, indicating expansion in new orders. Furthermore, recent increases in consumer and producer prices are also consistent with the ISM Prices Index, which increased by 1.2pp to 73.3%. This indicates that prices in services increased at a faster rate in February. We expect that both prices and economic activity in the non-manufacturing sector index will continue to increase in March.

Initial Jobless Claims (April-2, Thursday 08:30 ET)

Forecast: 380K	Consensus: 385K	Previous: 388K
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Both initial and continuing jobless claims continue to indicate gradual improvement in the labor markets. Latest data show that initial and continuing claims are at 388K and 3.7mn, respectively. Although initial claims increased slightly from the previous week, they are still below 400K and indicate that job creation will continue in the coming months. These levels were consistent with March nonfarm payroll data which have increased by 216K. We expect that ongoing improvement in the labor markets will continue as the U.S. economy experiences robust economic growth. However, recent developments in the Middle East North Africa (MENA), increasing oil prices and sovereign debt crisis in Europe might slow down this process. We forecast a slight decline in claims next week.

Consumer Credit (February, Thursday 15:00 ET)

Forecast: \$2.5bn	Consensus: \$4.8bn	Previous: \$5.0bn
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We expect total consumer credit to increase for the sixth month in a row to \$2414.8bn on a seasonally-adjusted basis, representing a -0.85% YoY decline. Government provision of student loans is a heavy influence on the overall headline consumer credit number and we expect declines in non-government consumer credit to continue. Revolving credit, for example, will continue to register YoY declines, while non-revolving credit will arrive with slow positive YoY growth. Last month's data revealed that the loan-to-value for new cars reached 80, a record low for the series, and we will monitor the evolution of this indicator going forward.

Wholesale Inventories (February, Friday 10:00 ET)

Forecast: 0.7%	Consensus: 1.0%	Previous: 1.0%
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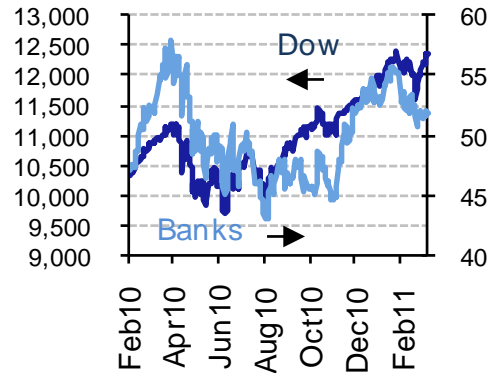
Last week, the U.S. Census Bureau released its revised report on wholesale trade and inventories. The latest report indicates that wholesale inventories have increased by 0.9% on average MoM since the end of 2009. In February, wholesale inventories are expected to continue increasing due to a relatively low inventory-to-sales ratio. We expect that wholesalers will continue to replenish sold inventory in 2011 and the ratio will converge to its historical average of 1.25.

Market Impact

Markets will be focused on Bernanke's speech on Monday and the FOMC minutes which will be released the following day. We do not expect any surprises either in his speech or in the FOMC Minutes. However, if Bernanke hints about the timing of the rate hikes, markets will adjust to this information very quickly.

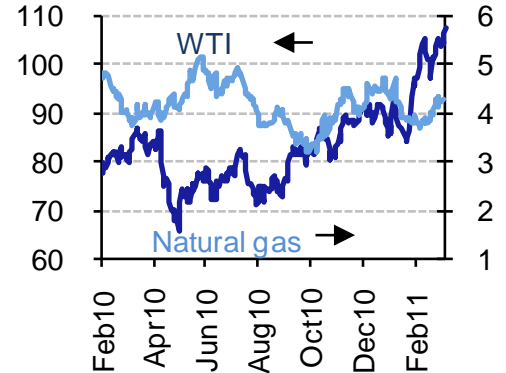
Financial Markets

Graph 3
Stocks (Index, KBW)



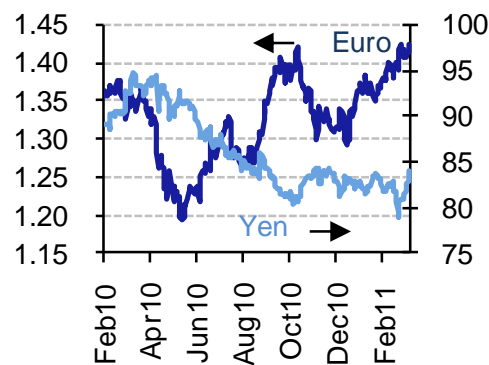
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



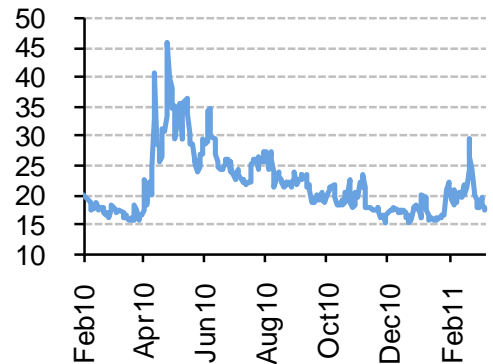
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



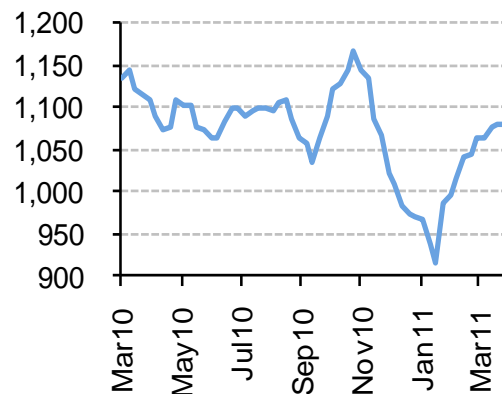
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



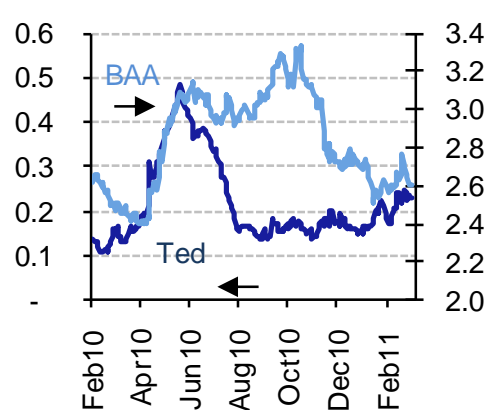
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

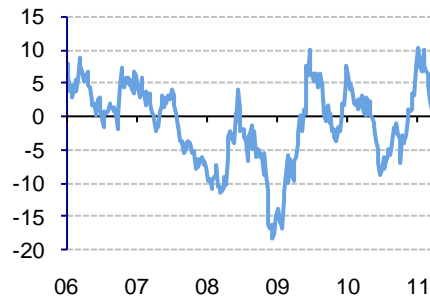
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

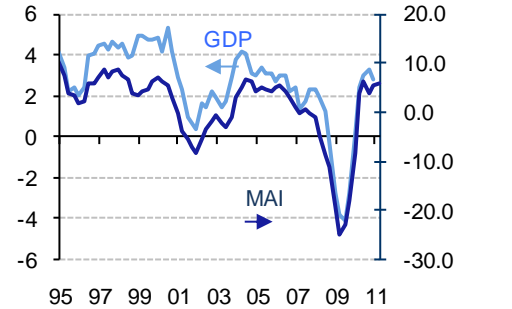
Economic Trends

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)



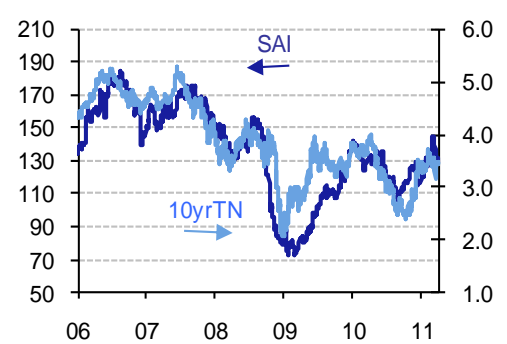
Source: BBVA Research & BEA

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



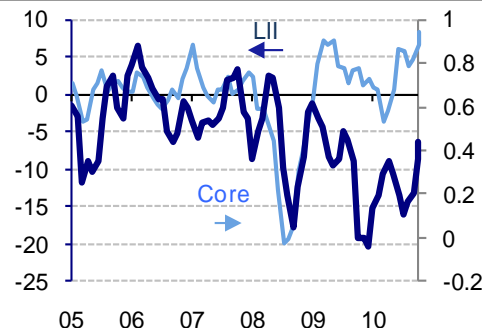
Source: BBVA Research

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



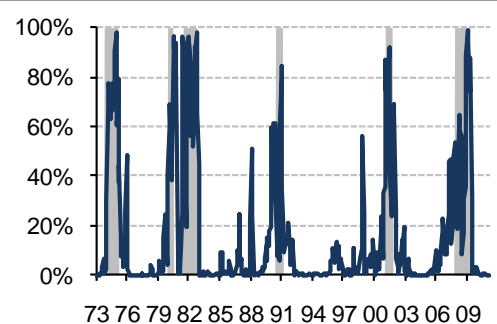
Source: Bloomberg & BBVA Research

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

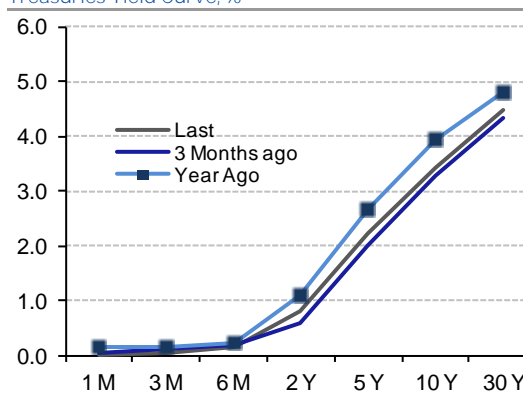
Yield Curve and Interest Rates

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	13.73	12.79
New Auto (36-months)	4.28	4.76	5.02	6.43
Heloc Loan 30K	5.48	5.48	5.53	5.68
30-year Fixed Mortgage *	4.86	4.81	4.87	5.08
Money Market	0.63	0.63	0.63	0.79
2-year CD	1.25	1.25	1.28	1.64
5-year CD	2.07	2.07	2.06	2.59

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasury Yield Curve, %



Source: Bloomberg

Quote of the Week

Federal Reserve Bank of St. Louis President James Bullard
March 29, 2011
2011 European Banking and Financial Forum
Prague, Czech Republic

"The process of normalizing policy, even once it begins, will still leave unprecedented policy accommodation on the table... The FOMC may not be willing or able to wait until all global uncertainties are resolved to begin normalizing policy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Apr	ISM Non-Manf. Composite	MAR	59.5	59.5	59.7
5-Apr	Minutes of FOMC Meeting	15-Mar	- -	- -	- -
7-Apr	Initial Jobless Claims	2-Apr	380K	385K	388K
7-Apr	Continuing Claims	26-Mar	3705K	3700K	3714K
7-Apr	Consumer Credit	FEB	\$2.5B	\$4.8B	\$5.0B
7-Apr	ICSC Chain Store Sales YoY	MAR	- -	- -	4.2%
8-Apr	Wholesale Inventories	FEB	0.7%	1.0%	1.0%

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