Weekly Watch

U.S.

April 18th, 2011
Economic Analysis

U.S.
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Highlights

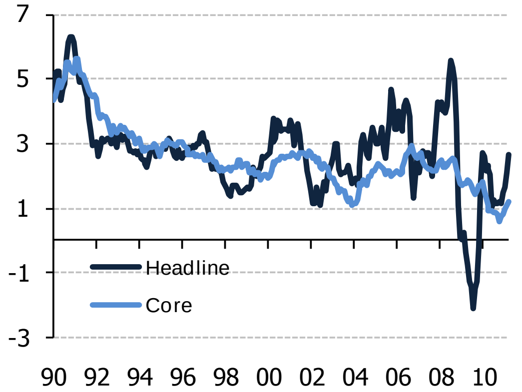
Consumer Prices Continue to Surge in March Due to High Energy Prices

Last Friday, Bureau of Labor Statistics (BLS) announced that consumer prices jumped 0.5% MoM in March on a seasonally adjusted basis. Consumer prices jumped 2.6% over the last 12 months. Inflation was 1.1% MoM in November 2010 and the current inflation rate is at the second highest level since October 2008. The main drivers of the March increase were food and energy prices which accounted for roughly 75%. The energy index jumped 3.5% MoM on a seasonally adjusted basis, driven by the gasoline index which has increased 14.4% over the last three months. The energy index soared 15.5% in the last 12 months while the gasoline index jumped 27.5%. Food prices also increased by 0.7% MoM. On the other hand, the pass-through effect from high oil and food prices to core prices remained limited. Core consumer prices, all items less food and energy, rose only by 0.1% MoM, less than what markets were expecting (consensus=0.2%). Both rent and owners' equivalent rent increased by 0.1%, while transportation indices increased significantly. First responses from Fed officials were positive. Chicago Federal Reserve Bank President Charles Evans, for example, told reporters after the release that March inflation is "in line with low underlying inflation." Although 12-month core inflation trended upwards, it remains within the Fed's comfort zone. We expect both headline and core consumer prices to increase by2.8 % and 1.3% in 2011, respectively.

U.S. Industrial Production Jumped 0.8% in March

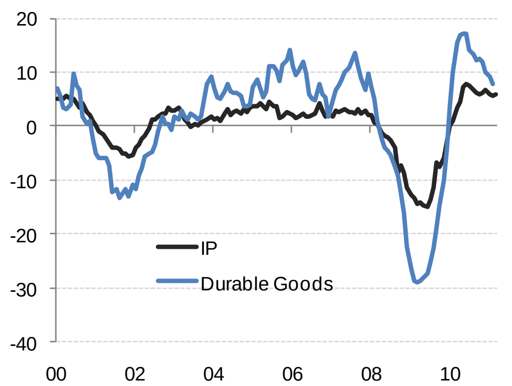
The Federal Reserve's estimates indicate that the U.S. industrial production index (IP) increased 0.8% MoM in March, consistent with the regional Feds' and ISM manufacturing indices. Last month, all major industry and market groups posted increases. Among major industry groups, the utilities increased significantly by 1.7% MoM after declining two consecutive months. Across market groups, the production of consumer goods rose 0.9% and business equipment climbed 0.4%, illustrating that demand is picking up on one side and slowing down on the other side of the spectrum. The report also indicated that capacity utilization rates (CUR) are climbing in all major industries. In March, the CUR increased by 0.5pp to 77.4%, the highest level since August 2008, but remained below its historical average. We believe that the current CUR level will contain inflationary pressures.

Graph 1
Consumer Prices
(YoY % change)



Source: BLS

Graph 2
Industrial Production & Durable Goods
(YoY % change, 3mma YoY % change)



Source: Federal Reserve

Week Ahead

Housing Starts (March, Tuesday 08:30 ET)

Forecast: 520K	Consensus: 525K	Previous: 479K

Housing starts and building permits are expected to increase in March after falling significantly in the previous month. The housing market continues to struggle with foreclosures despite robust economic recovery. Significant declines in existing home prices attract buyers and limit demand for new homes and therefore, we expect housing starts and building permits to improve but remain weak throughout the year.

Existing Home Sales (March, Wednesday 10:00 ET)

Forecast: 4.95M	Consensus: 5.0M	Previous: 4.88M

Recent real estate indicators raise questions about the fundamentals of the housing sector. The negative trend in home prices, weak home sales and elevated rate of foreclosures show that the residential sector will remain depressed through at least the first half of 2011. Although existing home sales had started to recover in late 2010, recent data show that sales remain depressed. We expect that existing home sales to increase in March after dropping dramatically. Furthermore, current market conditions remain favorable for home buyers and these conditions will help support home sales in the second half of the year.

Initial Claims (April-16, Thursday 08:30 ET)

Forecast: 395K	Consensus: 390K	Previous: 412K

Labor markets are improving but at a gradual pace. Last month, the unemployment rate declined further by 0.1pp to 8.8% and nonfarm payrolls increased by 216K in March. Since February 2010 the U.S. economy created approximately 1.5mn new jobs. The most recent jobless claims report indicates that initial unemployment claims increased to 412K in the week ending April-8 while continuing claims declined slightly to 3.68mn. Although initial claims increased, the 4-week moving average remains below 400K for the seventh consecutive week. However, initial claims needs to remain below 375K in order to see sustainable and robust employment growth in nonfarm payrolls. We expect initial claims to remain around 400K.

FHFA Housing Price Index (February, Thursday 10:00 ET)

Forecast: -0.2%	Consensus: -0.2%	Previous: -0.3%

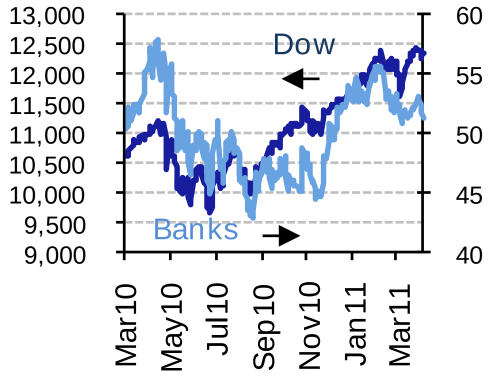
Home prices, as measured by the Federal Housing Finance Agency Housing Price Index, are currently 16.5% lower than their peak level (April 2007). The index is calculated using purchase prices of houses with mortgages backed by Fannie Mae and Freddie Mac. We expect the index to decline further in February due to ongoing high foreclosures and bank short-selling in the housing market.

Market Impact

It will be a relatively calm week in terms of macroeconomic releases which are more related to real estate sector. On the other hand, financial markets will be focused on first-quarter earnings announcements. A further decline in existing home sales would increase the chances of a double-dip in housing market and therefore, could increase pessimism in financial markets. Moreover, if initial claims jump unexpectedly it would also indicate deterioration in labor market conditions and negatively affect financial markets.

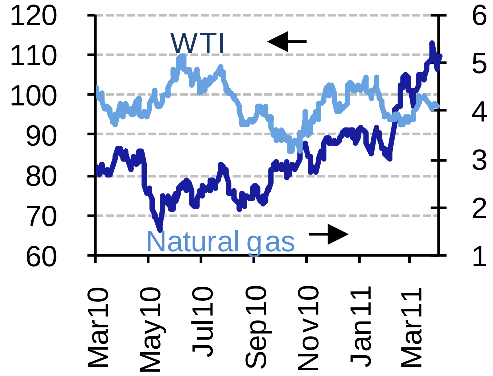
Financial Markets

Graph 3
Stocks (Index, KBW)



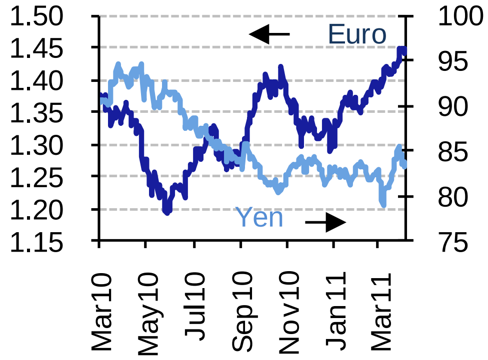
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



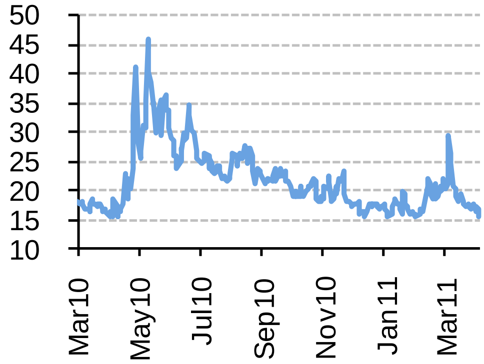
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



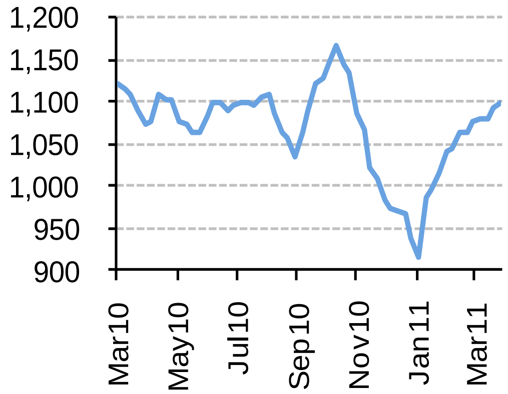
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



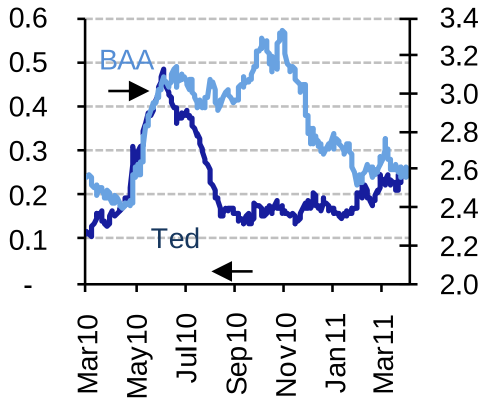
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US$Bn)



Source: Bloomberg & BBVA Research

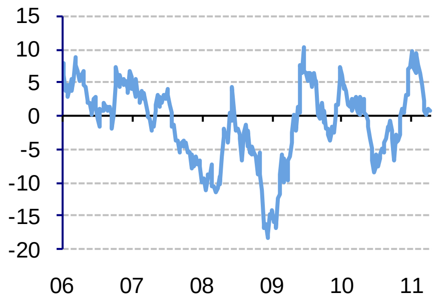
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

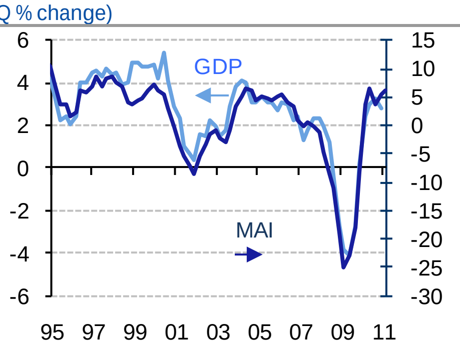
Economic Trends

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)

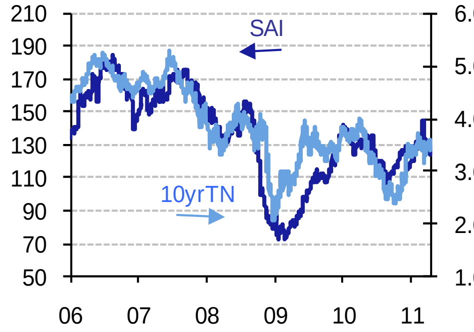


Source: BBVA Research & BEA

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

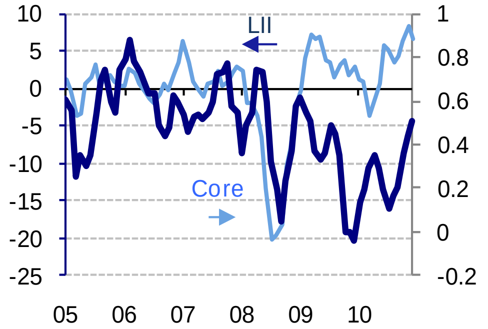
Source: BBVA Research

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



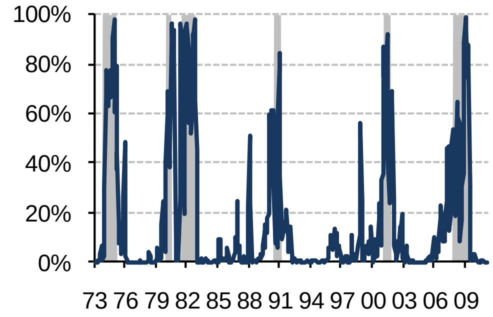
Source: Bloomberg & BBVA Research

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

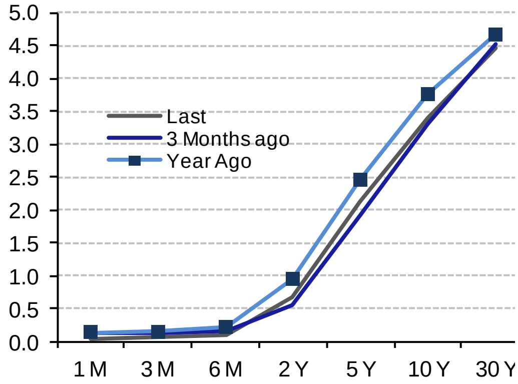
Yield Curve and Interest Rates

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	13.73	13.00
New Auto (36-months)	4.22	4.26	4.81	6.50
Heloc Loan 30K	5.48	5.47	5.47	5.61
30-year Fixed Mortgage *	4.91	4.87	4.76	5.07
Money Market	0.60	0.62	0.61	0.79
2-year CD	1.25	1.25	1.28	1.63
5-year CD	2.09	2.07	2.06	2.59

* 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 Vice Chair Janet L. Yellen
April 11, 2011
The Economic Club of New York,
New York, NY

"...the surge in commodity prices over the past year appears to be largely attributable to a combination of rising global demand and disruptions in global supply. These developments seem unlikely to have persistent effects on consumer inflation or to derail the economic recovery and hence do not, in my view, warrant any substantial shift in the stance of monetary policy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
18-Apr	NAHB Housing Market Index	APR	17.0	17.0	17.0
19-Apr	Building Permits MOM%	MAR	3.0%	1.1%	-5.2%
19-Apr	Housing Starts MOM%	MAR	8.60%	9.60%	-22.50%
19-Apr	Building Permits	MAR	550K	540K	534K
19-Apr	Housing Starts	MAR	520K	525K	479K
20-Apr	Existing Home Sales MoM	MAR	1.4%	2.5%	-9.6%
20-Apr	Existing Home Sales	MAR	4.95M	5.00M	4.88M
21-Apr	Initial Jobless Claims	16-Apr	395K	390K	412K
21-Apr	Continuing Claims	9-Apr	3660K	3682K	3680K
21-Apr	House Price Index MoM	FEB	-0.2%	-0.2%	-0.3%
21-Apr	Leading Indicators	MAR	0.5%	0.3%	0.8%
21-Apr	Philadelphia Fed.	APR	33.0	36.8	43.4

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