

# Weekly Watch

U.S.

April 25<sup>th</sup>, 2011  
Economic Analysis

U.S.

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## Highlights

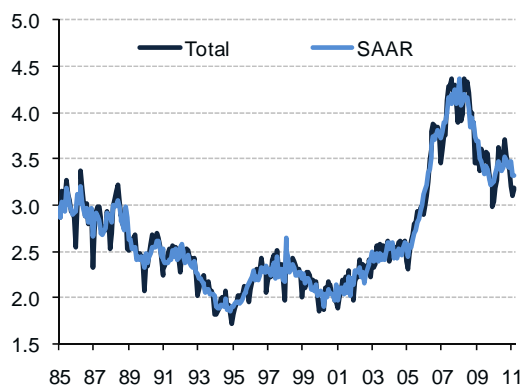
### Slow Inventory Clearing in a Weak Residential Market

Since the housing meltdown began, housing demand focused on the rental segment instead of the ownership segment: in the last quarter of 2006, owner occupied housing reached a peak of almost 76.0mn units, while renter occupied housing was approximately 34.3mn units, according to the Census Bureau. By the end of 2010, the number of occupied housing increased by 2.2mn; while the owner occupied segment decreased by 1.2mn units, the renter segment increased by 3.4mn. Even though the economy is on positive ground again, housing demand has oriented towards the rental sector because employment recovery has been very slow and house price depreciation has persisted. In addition, although affordability ratios are very attractive for buyers, stricter loan conditions are preventing demand from the ownership segment. In the first quarter of 2011, housing remained a weak component in the economic recovery: housing starts and housing sales have remained low and prices have declined significantly. However, the slight improvement in home sales observed in the last two quarters has helped diminish the excess supply to half of the peak. House prices are having a dual performance: while homes in the regular market have depreciated slightly, the home price index of distressed properties has declined significantly. In the second half of 2011, we are expecting a more positive trend in the residential market as employment growth stabilizes and consumer confidence increases.

### Initial Jobless Claims Continue to Point Weak Labor Market

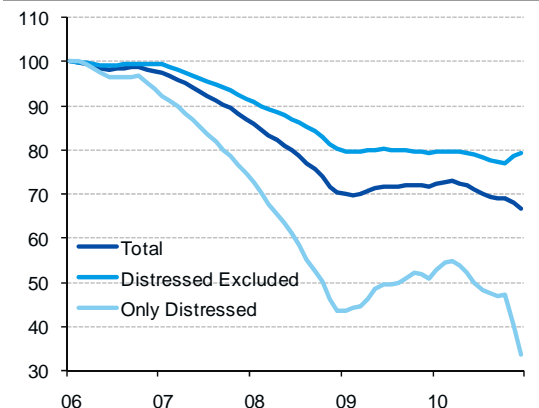
Initial jobless claims dropped slightly less than expected from 416K to a revised 403K. However, the 4-week moving average continued to increase to 399K from 397K. The data indicate that labor market conditions are slightly weaker than in March. Continuing claims also declined slightly to 3.7mn, the lowest level since October 2008. We expect labor market conditions to improve gradually and the nonfarm payroll to continue increasing moderately in April. However, rising oil prices could be a threat in the short-term to the recovery in hiring.

Graph 1  
Total Single Home for Sale Inventory  
(Million)



Source: NAR, Census and BBVA Research

Graph 2  
Housing Price Index  
(Peak 03/2006=100)



Source: CoreLogic and BBVA Research

## Week Ahead

### Case-Shiller 20-city Index (February, Tuesday 08:30 ET)

Forecast: -3.1%	Consensus: -3.2%	Previous: -3.1%
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In February, we expect the home price index to drop for the seventh consecutive month as housing demand remains weak and concentrated on distressed properties. From the July peak, the home price index has depreciated 6.2% and the trend may continue for several more months. However, this price depreciation has made houses more affordable, suggesting demand may not fall much more.

### FOMC Meeting Statement (Wednesday 12:30 ET)

Forecast: 0.25%	Consensus: 0.25%	Previous: 0.25%
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The Federal Reserve will meet for a regular two-day meeting. This time the statement will be released a couple of hours earlier than in the previous meetings due to the Fed's new communication strategy. Starting on April 27, the Chairman Bernanke will hold a press conference after each two-day meeting in order to ensure clarity of objectives and implementation of monetary policy to the markets. We expect no significant changes in the statement. The Fed is expected to keep the federal funds rate unchanged, implement QE2 as planned and continue reinvesting principal payments from MBS into Treasuries. Our baseline scenario assumes that the Fed will start hiking the federal funds target rate in March 2012.

### Gross Domestic Product (1Q11, Thursday 08:30 ET)

Forecast: 2.2%	Consensus: 1.8%	Previous: 3.1%
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In 4Q10, the U.S. economy grew 3.1% QoQ at an annualized rate. The main contributors to real economic growth were personal consumption and net exports. Recent global events such as the European sovereign debt crisis, political turmoil in Middle East North Africa (MENA), the earthquake in Japan, and airstrikes in Libya, have added volatility to financial markets, pushed oil prices up and are expected to negatively affect economic growth in 1H11. However, monthly macroeconomic indicators still point to moderate growth in 1Q11.

### Personal Income and Outlays (March, Friday 08:30 ET)

Forecast: 0.5%, 0.5%	Consensus: 0.4%, 0.5%	Previous: 0.3%, 0.7%
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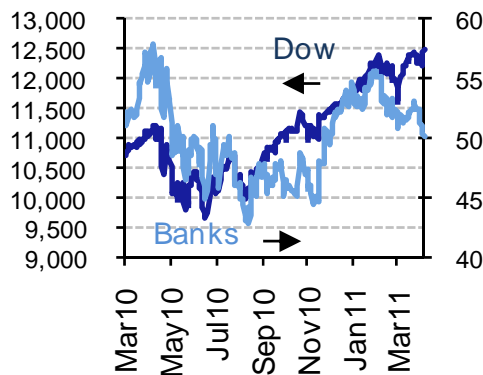
We expect personal income and spending to continue increasing in March, after increasing 0.5% MoM in the last two months due an increase in consumer prices. Real personal spending climbed only by 0.1% MoM compared to a 0.2% MoM increase in the previous 12 months. Due to sharp increase in oil and food prices, consumers are left with less money to spend on other goods and services. Therefore, we forecast weaker real personal consumption expenditures in 1H11 than previously expected.

### Market Impact

Markets are waiting for the 1Q11 GDP estimate and FOMC meeting. If real GDP growth exceeds 2.5% in 1Q11, it would lead to immediate jump in stock prices. Moreover, if Bernanke's press conference or statement reveals any clues about the timing and pace of the exit strategy, markets will price it accordingly.

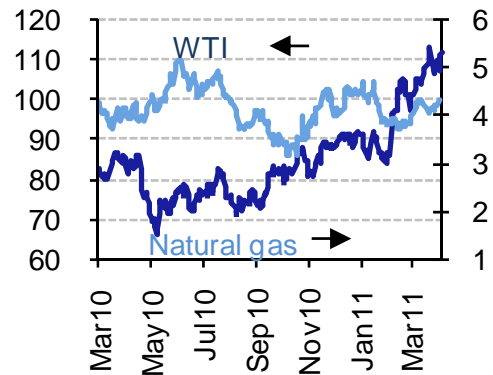
## Financial Markets

Graph 3  
Stocks (Index, KBW)



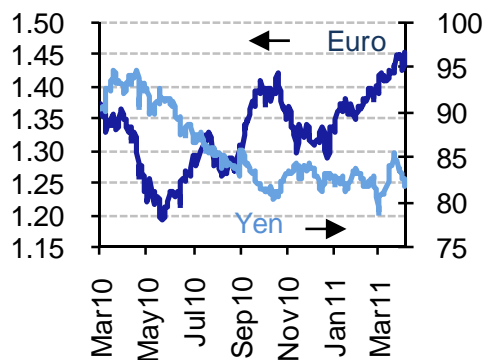
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



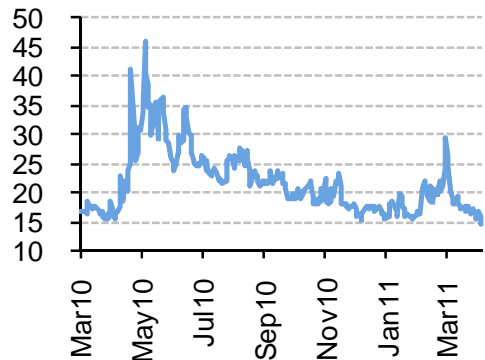
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



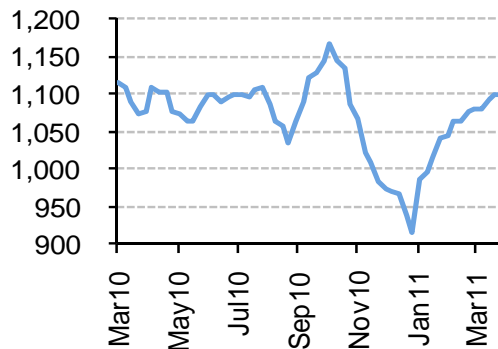
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



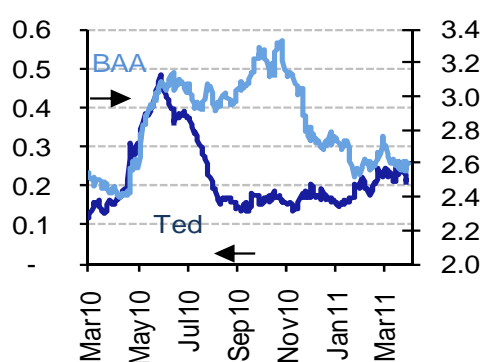
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

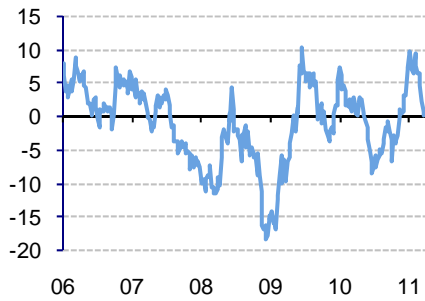
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

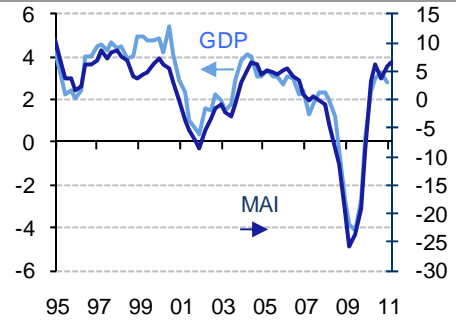
## Economic Trends

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)



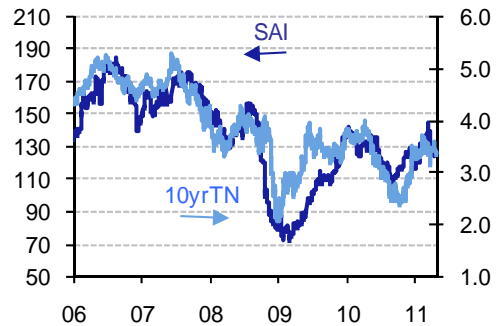
Source: BBVA Research & BEA

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



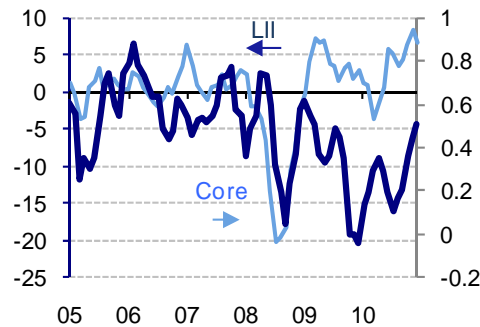
Source: BBVA Research

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



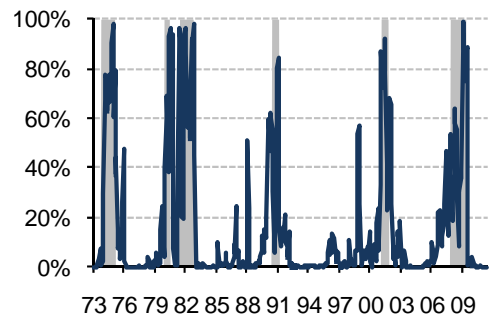
Source: Bloomberg & BBVA Research

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

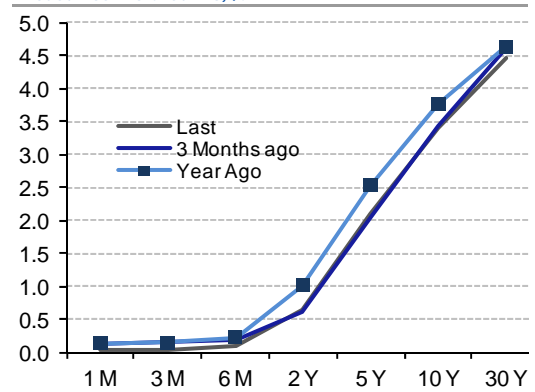
## Yield Curve and Interest Rates

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)	4.17	4.22	4.77	6.51
Heloc Loan 30K	5.47	5.48	5.48	5.63
30-year Fixed Mortgage *	4.80	4.91	4.81	5.07
Money Market	0.65	0.61	0.62	0.78
2-year CD	1.25	1.25	1.25	1.64
5-year CD	2.09	2.08	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  
April 18, 2011, Louisville, KY

*"Headline inflation is the ultimate objective of monetary policy with respect to prices ... Core inflation is not an objective in itself ... The only reason to look at core is as an indicator for headline."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Apr	New Home Sales	MAR	262K	280K	250K
26-Apr	S&P/CS 20 City MoM% SA	FEB	-0.5%	-0.4%	-0.2%
26-Apr	S&P/CS Composite-20 YoY	FEB	-3.1%	-3.2%	-3.1%
26-Apr	Consumer Confidence	APR	63.0	64.4	63.4
27-Apr	Durable Goods Orders	MAR	1.0%	2.0%	-0.6%
27-Apr	FOMC Rate Decision	27-Apr	0.25%	0.25%	0.25%
28-Apr	GDP QoQ (Annualized)	1Q A	2.2%	1.8%	3.1%
28-Apr	GDP Price Index	1Q A	2.4%	2.5%	0.4%
28-Apr	Personal Consumption	1Q A	2.1%	2.1%	4.0%
28-Apr	Initial Jobless Claims	23-Apr	395K	-	403K
28-Apr	Continuing Claims	16-Apr	3680K	-	3695K
28-Apr	Pending Home Sales MoM	MAR	1.8%	1.5%	2.1%
29-Apr	Employment Cost Index	1Q	0.6%	0.5%	0.4%
29-Apr	PCE Core (MoM)	MAR	0.1%	0.1%	0.2%
29-Apr	Personal Spending	MAR	0.5%	0.5%	0.7%
29-Apr	PCE Deflator (YoY)	MAR	1.9%	1.9%	1.6%
29-Apr	Personal Income	MAR	0.5%	0.4%	0.3%
29-Apr	U. of Michigan Confidence	APR F	69.5	70.0	69.6

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