

# Weekly Watch

U.S.

## Highlights

May 16<sup>th</sup>, 2011  
Economic Analysis

U.S.

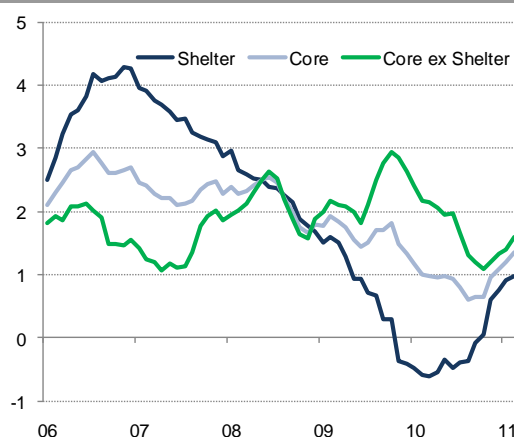
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### Consumer prices jumped 0.4% in April

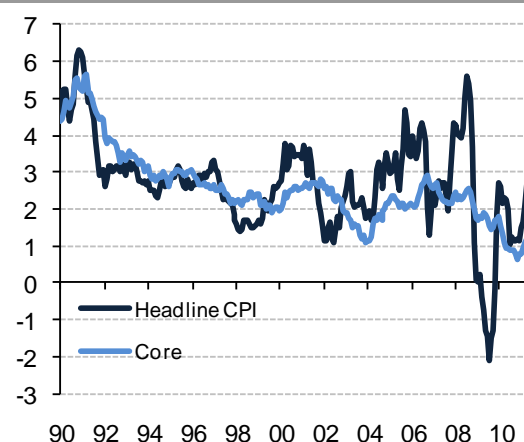
The Bureau of Labor Statistics (BLS) announced that headline and core consumer prices jumped 0.4% MoM and 0.2% MoM in April, respectively on a seasonally adjusted basis. Consumer prices increased 3.2% over the last 12 months, representing the highest level since October 2008. In November, the 12-month inflation rate was 1.1% and the main reason for this sharp increase is a combination of high liquidity and rising food and energy prices. However, pass-through effect to underlying inflation remains limited. While the energy and food indices have increased 19.0% and 3.2% over the last 12 months, respectively, core prices, the index for all items less food and energy, have increased only by 1.3% in the same period. In addition, the food index increased by 0.4% in April, the smallest increase this year so far. The food index rose 0.4 percent in April after rising 0.8 percent in March. The deceleration was mainly due to a decline in the fresh vegetables index, which fell 2.7% MoM. Core prices, measured by consumer prices excluding energy and food prices, increased 0.2% MoM and pushed the 12-month core inflation rate to 1.3%, the highest level since January 2010. Shelter prices increased 0.1%, the slowest pace since October 2010. The rent and owners' equivalent rent components increased 0.1% MoM, which is similar to their March increase. The new vehicles index rose 0.7%, while the index for used cars and trucks jumped 1.2% MoM in April. The index for medical care increased 0.4% MoM, while the apparel and household furnishings and operations rose 0.2% MoM in April. In sum, latest inflation data are consistent with our expectations that the headline inflation rate will remain above 2.5% YoY throughout the year while core prices increase at a slow pace. We believe that both headline and core inflation remain within Federal Reserve's "comfort zone." Conditional on stabilizing home prices and declining commodity prices in the second half of 2011, we expect food, energy and shelter components of inflation to contribute less strongly to core inflation by 2012. We believe that average headline and core prices will increase 2.8% and 1.3% YoY in 2011, respectively.

Graph 1  
Consumer Price Index  
(YoY % change)



Source: BLS

Graph 2  
Consumer Price Index  
(YoY % change)



Source: BLS

## Week Ahead

### Empire State Manufacturing Index (May, Monday 08:30 ET)

Forecast: 18.5	Consensus: 19.9	Previous: 21.7
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The Empire State Manufacturing Index is expected to decline but remain positive in May, indicating that more manufacturers consider business conditions to be improving. The index is one of the first regional indices to be released for May and will give valuable information about economic activity in the manufacturing sector. We expect that economic activity in 2Q11 will be stronger than in the first quarter.

### Housing Starts (April, Tuesday 08:30 ET)

Forecast: 562K	Consensus: 570K	Previous: 549K
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Residential construction is expected to improve in April as a result of positive readings on new home sales. Although builders' view on the market's future has not changed in recent months, they will slightly increase the production of houses given the improvement in demand conditions and the low inventories of new homes, which are at historically minimum levels. Despite the mentioned market improvement, there is still a significant degree of uncertainty surrounding residential construction as the economy will likely recover at a slow pace in the second half of 2011.

### Industrial Production (April, Tuesday 09:15 ET)

Forecast: 0.5%	Consensus: 0.4%	Previous: 0.8%
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The industrial production index has increased in the last 21 months, excluding October 2010. In March, the index jumped 0.8% MoM and is 5.9% higher than its level in last year. Manufacturing activity climbed 0.7% MoM and capacity utilization in the sector reached 75.3%, lower than its pre-crisis level. The utilities sector picked up 1.7% MoM and the utilization rate in the sector increased to 79.7%. Overall, the capacity utilization rate is at 77.4% and illustrates that economic slack still remains in the economy. We expect the industrial production index to increase at a slower pace in April due to high oil prices.

### Existing Home Sales (April, Thursday 10:00 ET)

Forecast: 5.4M	Consensus: 5.2M	Previous: 5.1M
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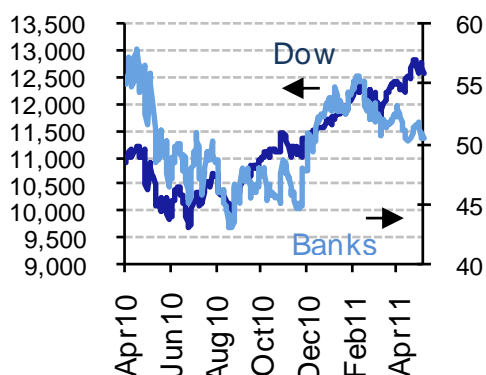
Existing home sales are expected to rise in April as March's 5.1% increase in pending home sales, a leading indicator for existing sales, supports this scenario. April sales could benefit from the large amount of distressed properties that are in the market and reach a total of 5.4 million, similar to January's sales. Looking forward, demand is expected to firm, albeit slowly, in the upcoming months as labor market conditions improve, lower housing prices and favorable mortgage rates attract buyers to the market.

### Market Impact

The releases this week will be more real estate-related. Significantly slower-than-expected industrial production and housing starts would signal weakness in the economic recovery and ignite discussions of recession or a slowdown in the economy and will draw financial markets downwards.

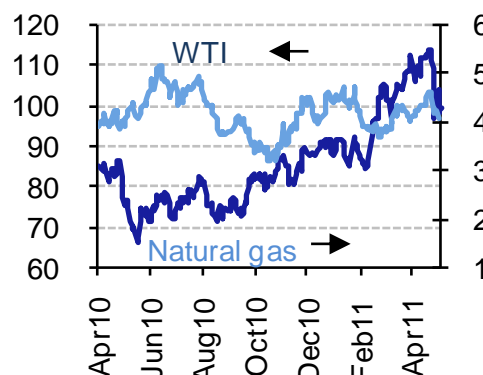
## Financial Markets

Graph 3  
 Stocks (Index, KBW)



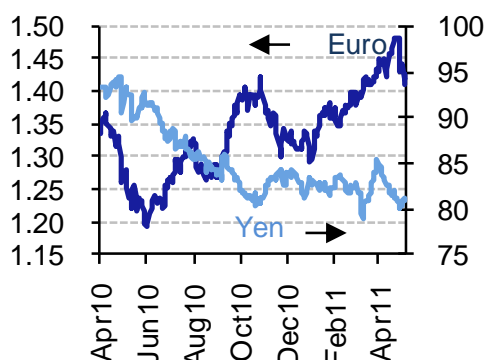
Source: Bloomberg & BBVA Research

Graph 4  
 Commodities (Dpb & DpMMBtu)



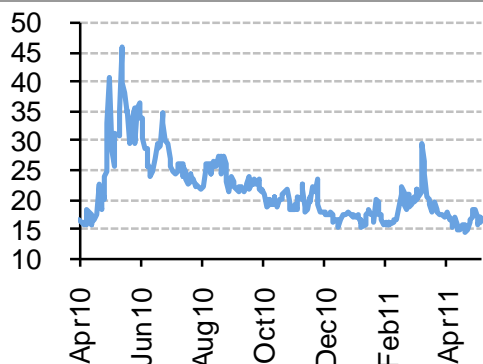
Source: Bloomberg & BBVA Research

Graph 5  
 Currencies (Dpe & Ypd)



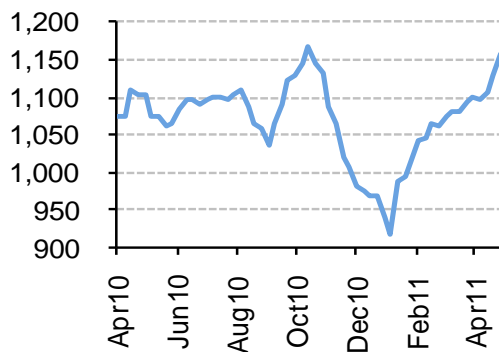
Source: Bloomberg & BBVA Research

Graph 6  
 Volatility (Vix, Index)



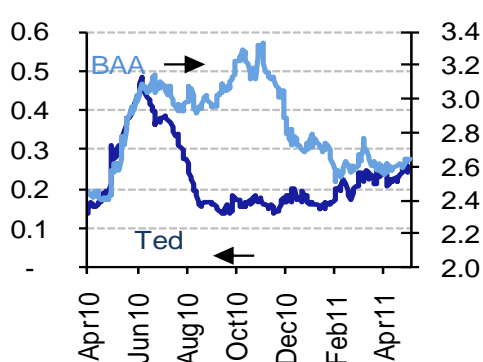
Source: Bloomberg & BBVA Research

Graph 7  
 Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

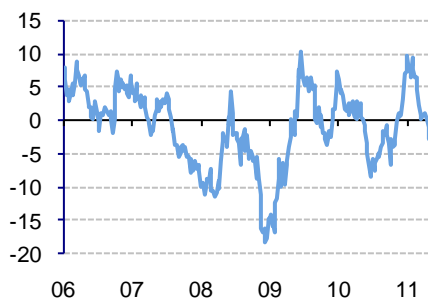
Graph 8  
 TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

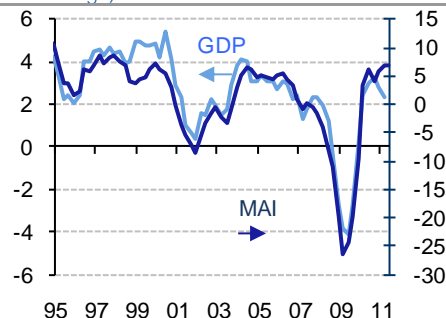
### Economic Trends

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)



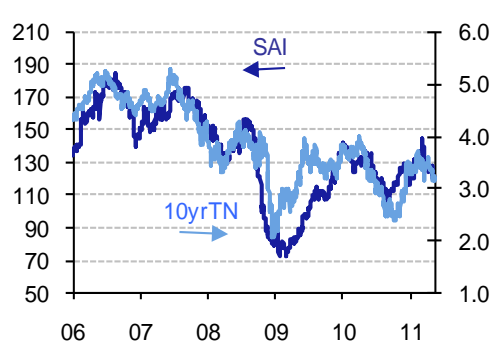
Source: BBVA Research & BEA

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



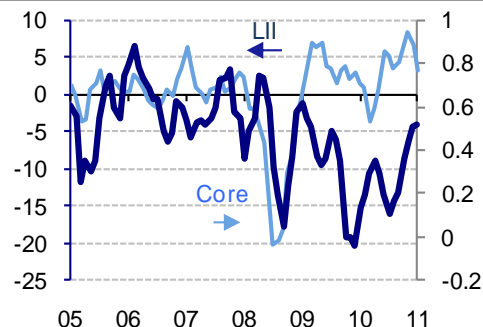
Source: BBVA Research

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



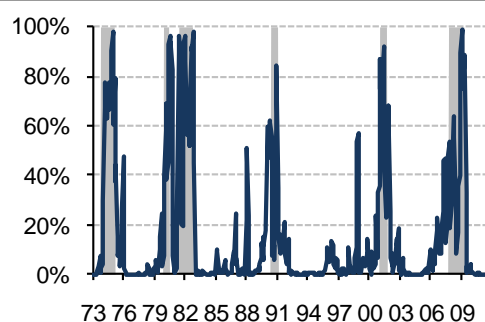
Source: Bloomberg & BBVA Research

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

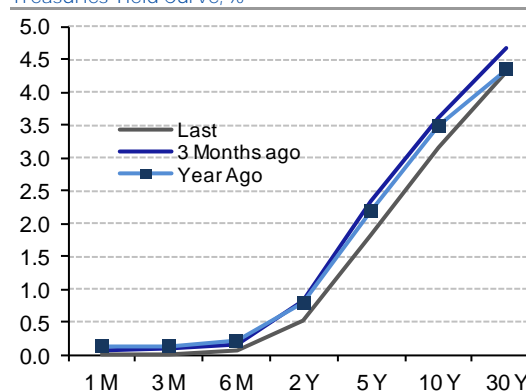
## Yield Curve and Interest Rates

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)	3.79	3.81	4.22	6.43
Heloc Loan 30K	5.48	5.48	5.48	5.59
30-year Fixed Mortgage *	4.63	4.71	4.91	4.93
Money Market	0.62	0.62	0.60	0.74
2-year CD	1.23	1.25	1.25	1.60
5-year CD	2.07	2.09	2.09	2.63

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

Graph 15  
Treasury's Yield Curve, %



Source: Bloomberg

## Quote of the Week

Federal Reserve Bank of Minneapolis President Narayana Kocherlakota  
"Some Contingent Planning for Monetary Policy,"  
May 11, 2011  
Forecasters' Club of New York  
New York, NY

"... under my baseline forecast, it would be desirable for the FOMC to raise the fed funds target interest rate by a modest amount toward the end of 2011."

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
16-May	Empire Manufacturing	MAY	18.5	19.9	21.7
16-May	NAHB Housing Market Index	MAY	17.0	17.0	16.0
17-May	Housing Starts	APR	562K	570K	549K
17-May	Building Permits	APR	606K	585K	585K
17-May	Housing Starts MOM%	APR	2.4%	3.8%	7.2%
17-May	Building Permits MOM%	APR	3.5%	0.0%	11.2%
17-May	Industrial Production	APR	0.5%	0.4%	0.8%
17-May	Capacity Utilization	APR	77.8%	77.6%	77.4%
18-May	Minutes of FOMC Meeting	26-27 April	---	---	---
19-May	Initial Jobless Claims	14-May	425K	420K	434K
19-May	Continuing Claims	7-May	3735K	3723K	3756K
19-May	Existing Home Sales	APR	5.4M	5.20M	5.10M
19-May	Existing Home Sales MoM	APR	5.9%	2.0%	3.7%
19-May	Leading Indicators	APR	0.2%	0.1%	0.4%
19-May	Philadelphia Fed.	MAY	19.0	20.1	18.5

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