

# Weekly Watch

U.S.

## Highlights

30 May 2011  
Economic Analysis

U.S.

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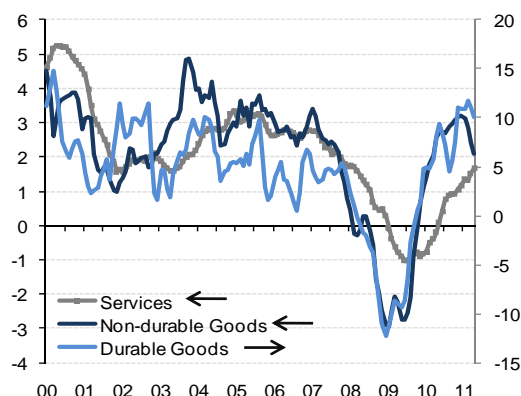
### 1Q11 Real GDP Growth Remains at 1.8% After Revision

The Bureau of Economic Analysis (BEA) announced that the U.S. economy grew 1.8% QoQ (annualized) on a seasonally adjusted basis. The new estimate revised all the components of GDP but overall economic growth is unchanged from the institution's previous estimate. New estimates, which are based on more complete source data than were previously available, indicate upward revisions to exports, private inventory investment, and nonresidential fixed investment which increased real GDP. However, these increases were offset by an upward revision to imports and a downward revision to personal consumption expenditures (PCE). With the new estimates, PCE increased 2.2% QoQ (annualized) compared with 2.7% QoQ (annualized) in the previous estimate. Within PCE, durable goods jumped 8.9% QoQ (annualized) while nondurable goods increased only 1.1%. The report also indicated that corporate profits increased \$21.9bn, compared to an increase of \$38.2bn in the previous quarter. The drop in profit growth could be a result of a decline in productivity growth as companies start hiring. The latest economic indicators are also consistent with moderate economic growth in the current quarter. Our current baseline scenario assumes 3.0% economic growth in 2011, but overall risks are more to the downside.

### Personal Income and Spending

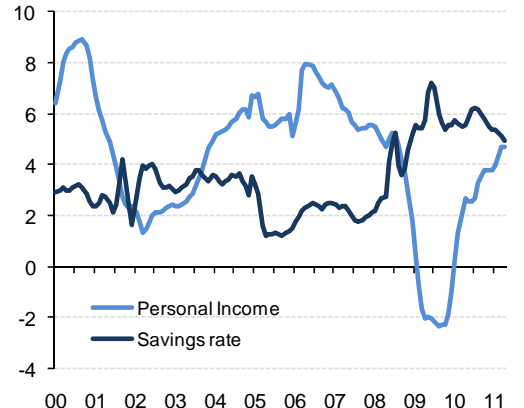
Personal income and outlays continued to increase in April. Personal consumption increased 0.4% MoM in April, after rising 0.5% MoM in the previous month. After removing price changes, real personal spending rose only 0.1% MoM. Changes in price indices continued to show a limited pass-through effect to core prices. Headline and core PCE price indices increased by 0.3% and 0.2% MoM, respectively. Furthermore, personal income also increased by 0.4% last month. Wages and salary disbursements jumped 0.4% similar to the previous months indicating a mild upward pressure on inflation. Rental income continued to rise due to increases in rent prices. Furthermore, the real personal income and savings rate (4.9%) was unchanged in April. The release overall indicates that real personal consumption in 2Q11 could be weaker than previously expected, consistent with the second estimate for 1Q11 GDP released last week.

Graph 1  
Real PCE  
(3mma, YoY % change)



Source: BEA and BBVA Research

Graph 2  
Personal Income and Savings Rate  
(3mma, YoY % change & %)



Source: BEA and BBVA Research

## Week Ahead

### S&P Case-Shiller House Price Index (March, Tuesday 09:00 ET)

|                 |                  |                 |
|-----------------|------------------|-----------------|
| Forecast: -3.8% | Consensus: -3.4% | Previous: -3.3% |
|-----------------|------------------|-----------------|

The S&P Case-Shiller 20-city composite house price index is expected to decline again in March by showing a yearly depreciation of -3.8%. Prices are affected by the large amount of distressed properties that are currently in the market; in fact, in the first quarter of 2011, they accounted for one every three houses sold. The financial institutions are processing distressed properties through short-sales or public auctions with a significant price discount. Looking forward, as prices get more attractive and labor market conditions improve, demand will slightly increase, leading average housing prices to stabilize once the distressed properties are cleared.

### ISM Manufacturing Index (May, Wednesday 10:00 ET)

|                |                 |                |
|----------------|-----------------|----------------|
| Forecast: 59.0 | Consensus: 57.5 | Previous: 60.4 |
|----------------|-----------------|----------------|

The ISM manufacturing index declined slightly from 61.2 to 60.4 in April and remained above 60% for the fourth consecutive month. The ISM Prices Index increased for the fifth consecutive month, consistent with an increase in consumer prices and energy prices. We expect the ISM manufacturing index to remain above 55, indicating ongoing improvement in economic activity.

### Nonfarm Payroll (May, Friday 08:30 ET)

|                |                 |                |
|----------------|-----------------|----------------|
| Forecast: 210K | Consensus: 190K | Previous: 244K |
|----------------|-----------------|----------------|

Nonfarm payrolls increased by 244K and the unemployment rate climbed to 9.0% in April. Most of the service-providing industries, manufacturing, and mining sectors created new jobs and the private sector added 268K new jobs in April. However, the government sector continued to layoff workers due to state and local governments' fiscal problems. Of the 268K jobs created in the private sector, 224K came from private service-providing sectors. Temporary help services declined, illustrating that some private companies could become more willing to commit to hiring permanent employees. On the other hand, the number of unemployed people increased by 205K and pushed the unemployment rate up, which is also consistent with recent increase in initial jobless claims. We expect the U.S. economy created 210K new jobs in May but the unemployment rate will remain at 9.0%.

### ISM Non-Manufacturing Index (May, Friday 10:00 ET)

|                |                 |                |
|----------------|-----------------|----------------|
| Forecast: 53.0 | Consensus: 54.0 | Previous: 52.8 |
|----------------|-----------------|----------------|

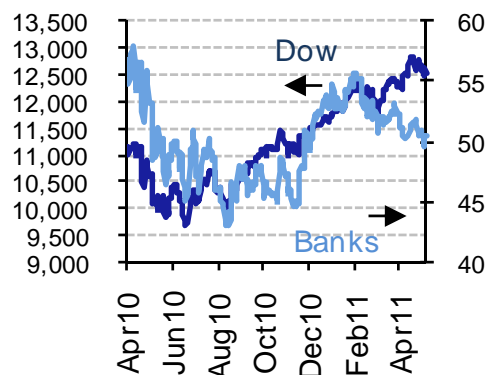
The ISM non-manufacturing (services) index decreased to 52.8 from 57.3 but remained above the benchmark of 50, illustrating that economic activity in the services sector continued to expand in April. The business activity, new orders and employment indices also remained above 50 but declined slightly. We expect little change to the ISM services index in May, consistent with moderate economic activity in 2Q11.

### Market Impact

An increase in the ISM manufacturing index would surprise financial markets, eliminate some of the pessimism about the pace of the recovery and increase stock prices. However, if nonfarm payrolls come out significantly lower than expected, it would imply a slowdown in hiring and economic activity in 2Q11 and bring down equity prices.

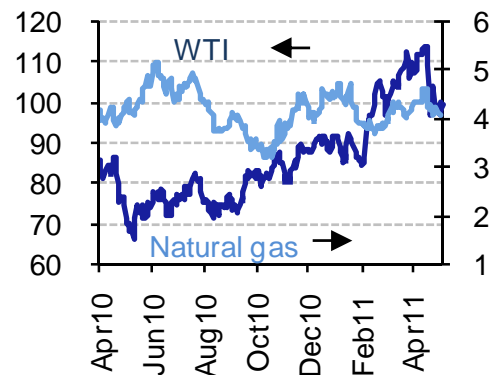
## Financial Markets

Graph 3  
Stocks (Index, KBW)



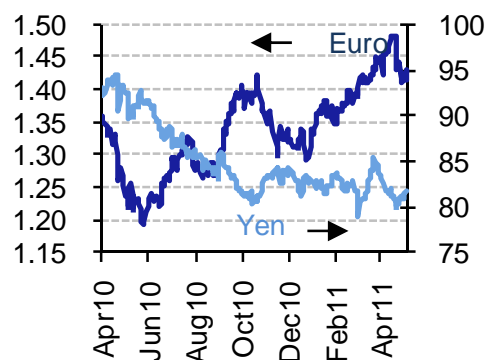
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



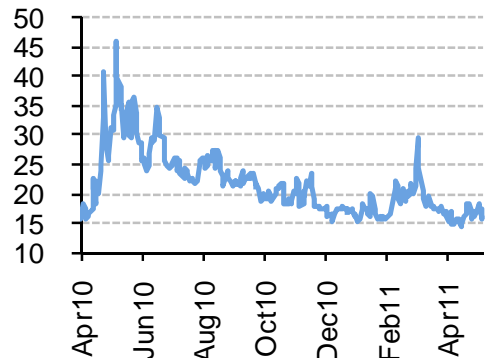
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



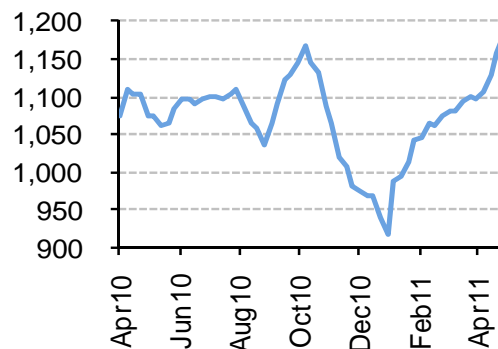
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



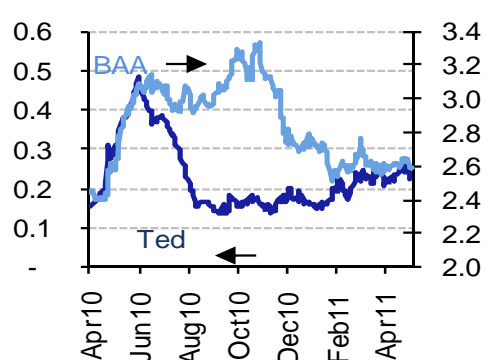
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

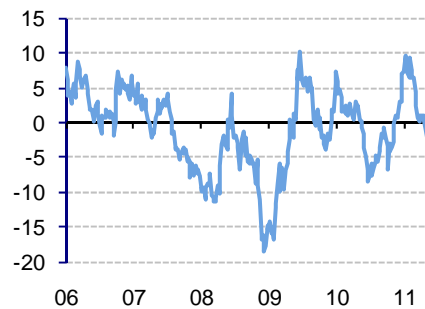
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

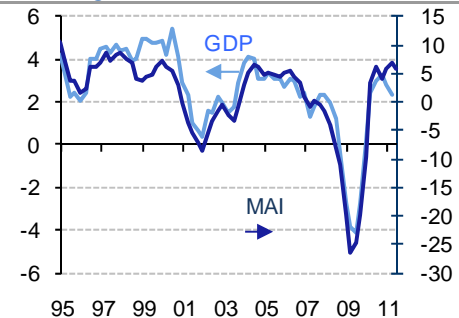
### Economic Trends

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)



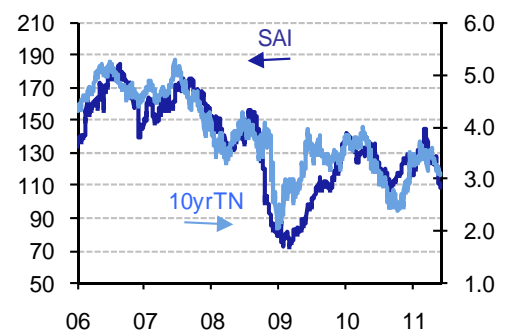
Source: BBVA Research & BEA

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



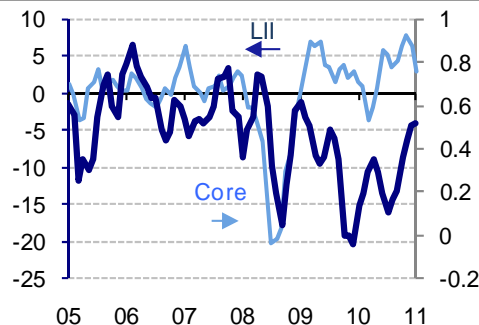
Source: BBVA Research

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



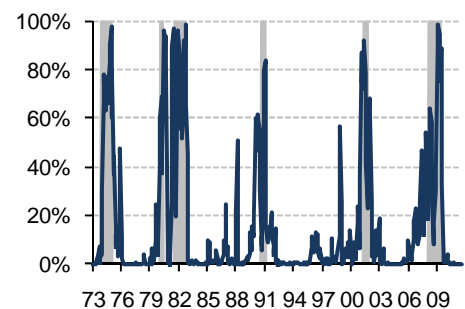
Source: Bloomberg & BBVA Research

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

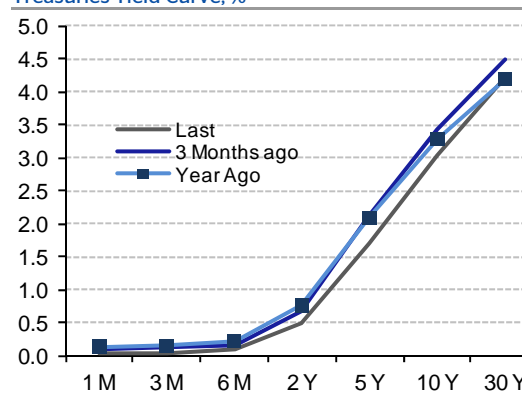
## Yield Curve and Interest Rates

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       | 13.15    |
| New Auto (36-months)     | 3.82  | 3.83     | 4.11        | 6.30     |
| Heloc Loan 30K           | 5.47  | 5.48     | 5.48        | 5.53     |
| 30-year Fixed Mortgage * | 4.60  | 4.61     | 4.78        | 4.78     |
| Money Market             | 0.62  | 0.63     | 0.65        | 0.79     |
| 2-year CD                | 1.12  | 1.23     | 1.25        | 1.65     |
| 5-year CD                | 2.12  | 2.07     | 2.09        | 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 Minneapolis President Narayana Kocherlakota  
"Some Contingent Planning for Monetary Policy"  
May 25, 2011  
Rochester, Minnesota

*"If PCE core inflation rises to 1.5% over the course of 2011, the FOMC should raise the fed funds rate by around 50 bps. Of course, a core inflation rate of 1.5% is still markedly below the Fed's price stability objective of 2%. Accordingly, an increase of 50bps in the fed funds rate would still leave the Fed in a highly accommodative stance."*

## Economic Calendar

| Date   | Event                          | Period | Forecast | Survey | Previous |
|--------|--------------------------------|--------|----------|--------|----------|
| 31-May | S&P/CS 20 City MoM% SA         | MAR    | -0.9%    | -0.2%  | -0.2%    |
| 31-May | S&P/CS Composite-20 YoY        | MAR    | -3.8%    | -3.4%  | -3.3%    |
| 31-May | Chicago Purchasing Manager     | MAY    | 64.0     | 62.3   | 67.6     |
| 31-May | Consumer Confidence            | MAY    | 66.0     | 66.5   | 65.4     |
| 1-Jun  | Construction Spending MoM      | APR    | -0.1%    | 0.4%   | 1.4%     |
| 1-Jun  | ISM Manufacturing              | MAY    | 59.0     | 57.5   | 60.4     |
| 1-Jun  | Total Vehicle Sales            | MAY    | 13.00M   | 12.80M | 13.14M   |
| 2-Jun  | Nonfarm Productivity           | 1Q F   | 1.6%     | 1.7%   | 1.6%     |
| 2-Jun  | Unit Labor Costs               | 1Q F   | 0.9%     | 0.8%   | 1.0%     |
| 2-Jun  | Initial Jobless Claims         | 28-May | 415K     | 420K   | 424K     |
| 2-Jun  | Continuing Claims              | 21-May | 3670K    | 3680K  | 3690K    |
| 2-Jun  | Factory Orders                 | APR    | -0.1%    | -0.9%  | 3.4%     |
| 3-Jun  | Change in Nonfarm Payrolls     | MAY    | 210K     | 190K   | 244K     |
| 3-Jun  | Change in Private Payrolls     | MAY    | 225K     | 220K   | 268K     |
| 3-Jun  | Unemployment Rate              | MAY    | 9.0%     | 8.9%   | 9.0%     |
| 3-Jun  | Avg Hourly Earning MOM All Emp | MAY    | 0.2%     | 0.2%   | 0.1%     |
| 3-Jun  | ISM Non-Manf. Composite        | MAY    | 53.0     | 54.0   | 52.8     |

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