

Weekly Watch

U.S.

6 June 2011
Economic Analysis

U.S.

Jeff Herzog
jeff.herzog@bbvacompass.com

Marcial Nava
marcial.nava@bbvacompass.com

Highlights

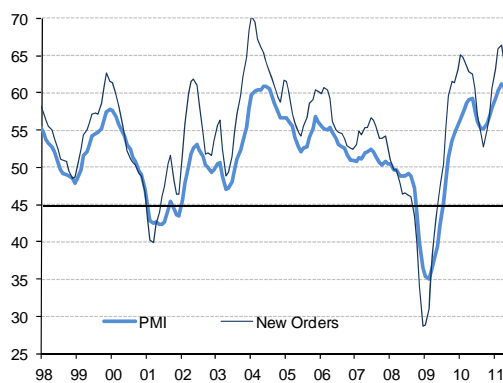
Weaker than expected data in line with our baseline scenario

US financial markets last week reacted to indications of slow growth reported by data releases of consumer confidence, the ISM index, and employment. Consumer confidence declined to 60.8 in May, which is down from April's revised 66.0 reading and departs from a consensus forecast of 66.5. Indicators of future expectations moved lower in general. Turning to the manufacturing sector, the ISM index declined more than expected by consensus to 53.5, although this reading is still in expansion territory. One wrinkle in the ISM story is that new orders indicate a slowdown in the future as manufacturers turned more to clearing their backlogs, but at the same time this may reflect lingering supply-chain disruptions from the Japanese earthquake.

Estimates from ADP on private payrolls also disappointed consensus estimates of 210k by clinging in at 38k. Moreover, on Friday, the BLS released May's employment report, showing a substantial moderation in job creation (54K from 232K in April). Although job creation in private services was certainly weak (80K vs. 213K in April), state and local governments were responsible for the biggest losses (-29K). This reflects the ongoing adjustment conducted to deal with budget pressures. The unemployment rate unexpectedly increased to 9.1% from 9.0% in April, adding an additional element of uncertainty to the labor market.

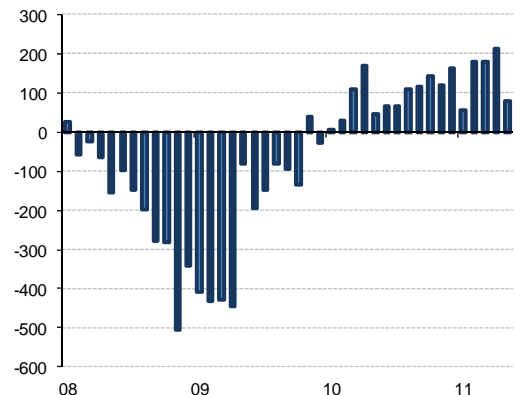
Naturally, these indicators have amped up the desire for safety and heightened risk aversion. Nonetheless, our view of these readings is more measured: they appear to be consistent with our expectations of moderate hiring and growth throughout 2011. They are also consistent with a Federal Reserve still uncertain of the sustainability of the recovery and with no desire to raise interest rates until March 2012.

Graph 1
ISM Manufacturing
(Index, 3-month MA)



Source: ISM and BBVA Research

Graph 2
Non-farm Payroll in Private Services
(Monthly change, thousands)



Source: BLS and BBVA Research

Week Ahead

Consumer Credit (April, Tuesday 15:00 ET)

Forecast: \$6.2B	Consensus: \$5.5B	Previous: \$6.0B
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We expect total outstanding seasonally-adjusted consumer credit to increase MoM by \$6.2bn to \$2431.7bn, which will represent acceleration in YoY terms but a stabilization based on monthly annualized rates. Consumer expenditures most likely weathered the increase in oil prices during April, but given ongoing uncertainty in the labor market they are likely still cautious of taking on commitments. Auto sales at a seasonally-adjusted annual rate remained largely constant between March and April. Although not reflected in April's data, May's precipitous decline in auto sales casts doubt for acceleration in consumer credit growth. Our current scenario envisages a few more months of declines in consumer credit excluding government and nonfinancial businesses.

Jobless Claims (Week ending May 28th, Thursday 8:30 ET)

Forecast: 420K	Consensus:	Previous: 422K
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The initial unemployment insurance claims' 4-week moving average declined in the week ending May 28th to 425K from 439.5K, following several weeks of sustained increases. We expect claims to remain relatively constant at 420K in the week ending June 3rd. Uncertainty in the labor market and the extension of unemployment benefits early this year will prevent initial claims and the unemployment rate from adjusting rapidly. In our baseline scenario, job creation will continue through the rest of the year but at a moderate pace.

Trade Balance (April, Thursday 8:30 ET)

Forecast: -\$50.5B	Consensus: -\$48.7B	Previous: -\$48.2B
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In April, elevated energy prices inflated the value of imports, widening the trade gap. We expect April's trade deficit to expand from \$48.2B to \$50.5B. In real terms, both imports and exports are likely to continue showing a robust expansion relative to the previous year. The trade deficit is likely to widen in the following months as higher international prices will increase the value of imported food and industrial supplies. At the same time, the recovery of the U.S. economy will boost demand for other imported goods. On the other hand, exports will continue to be supported by sustained growth overseas.

Import Prices (May, Friday 8:30 ET)

Forecast: -0.5%	Consensus: -0.7%	Previous: 2.2%
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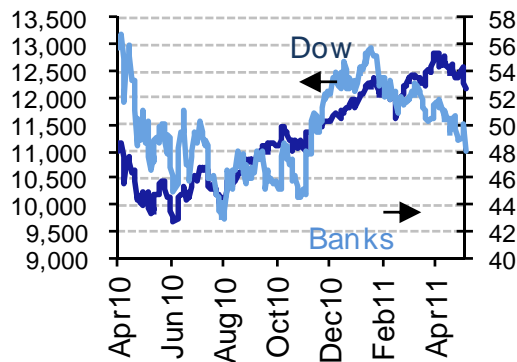
We expect import prices to decrease 0.5% in May from a 2.2% increase in April as oil prices declined during the month. However, this implies an 11.4% YoY rate from 11.1% in April. Despite these high YoY rates, the risk of pass through to core consumer prices is still limited as growth in corporate profits (8.5% in 1Q11) suggests that firms still have room to absorb shocks on prices of imported inputs.

Market Impact

Markets can expect a relatively calm week. Higher-than-expected import prices and negative surprises in unemployment insurance claims might add some volatility. In any case the reaction is likely to be milder than that observed during the previous week.

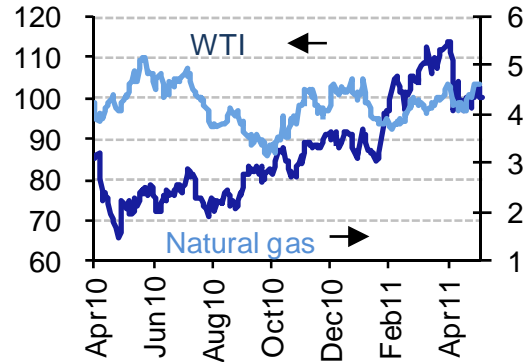
Financial Markets

Graph 3
Stocks (Index, KBW)



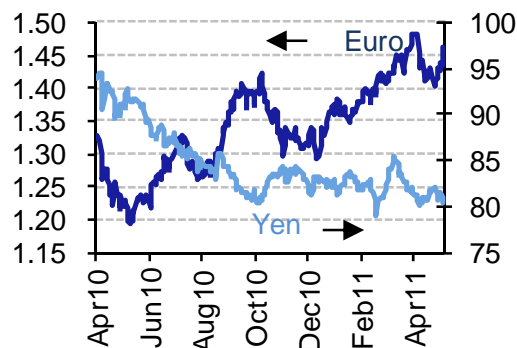
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



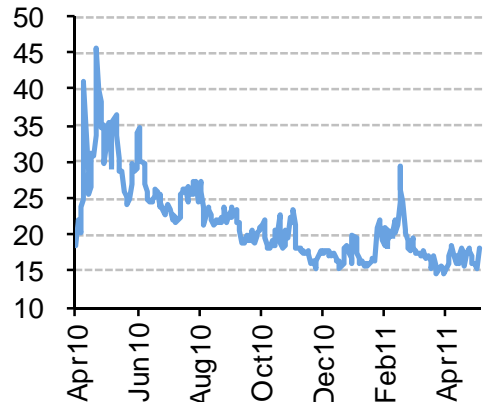
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



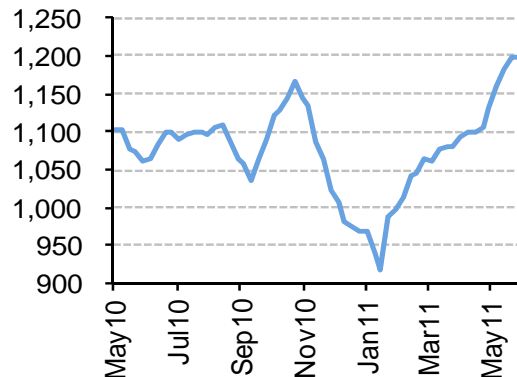
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



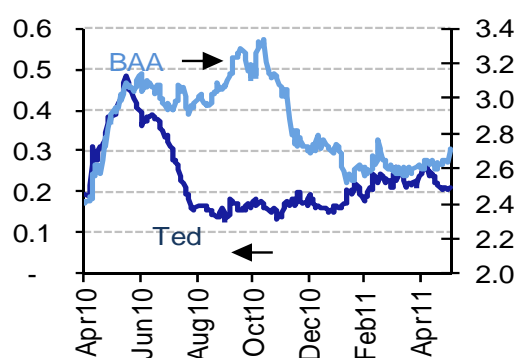
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

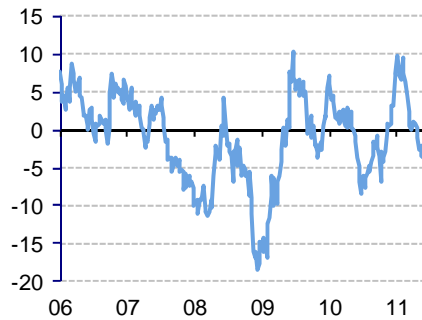
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

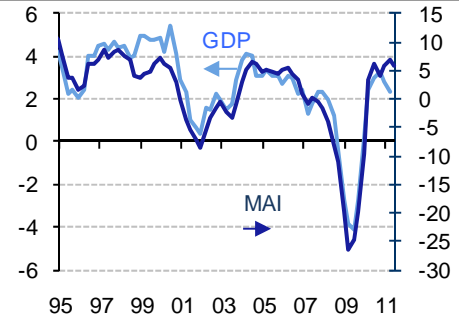
Economic Trends

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)



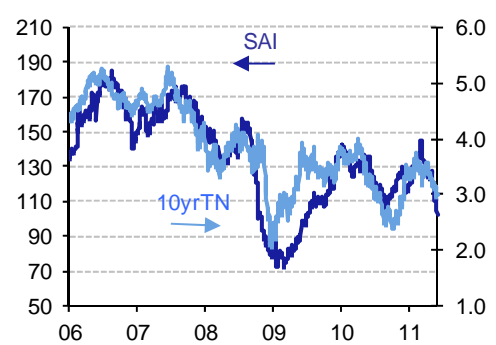
Source: BBVA Research & BEA

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



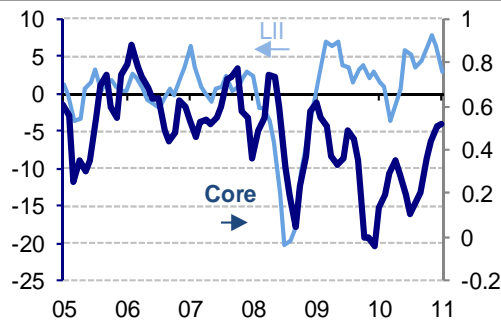
Source: BBVA Research

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



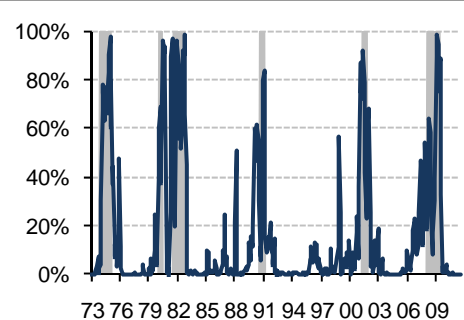
Source: Bloomberg & BBVA Research

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

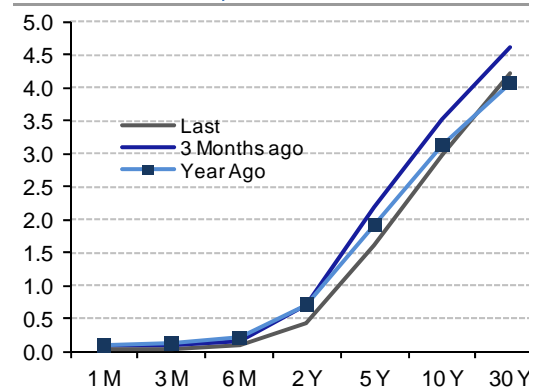
Yield Curve and Interest Rates

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	13.44
New Auto (36-months)	3.80	3.82	3.81	6.35
Heloc Loan 30K	5.49	5.47	5.48	5.56
30-year Fixed Mortgage *	4.55	4.60	4.71	4.79
Money Market	0.62	0.62	0.62	0.78
2-year CD	1.12	1.12	1.25	1.60
5-year CD	2.12	2.12	2.09	2.58

* 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 Governor Daniel K. Tarullo
"Regulating Systemically Important Financial Firms"
June 3, 2011
Washington, D.C.

"...the history of financial regulation over the last thirty years suggests that, when certain activities are restricted, firms will look for new areas in which to take more risk in the search for return. Capital regulation is the supplest and most dynamic tool we have to keep pace with the shifting sources of risk taken by financial firms"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Jun	Consumer Credit	APR	\$6.2B	\$5.6B	\$6.0B
8-Jun	Fed's Beige Book				
9-Jun	Initial Jobless Claims	40697	420	419	422
9-Jun	Continuing Claims	40691	3710	3700	3711
9-Jun	Trade Balance	APR	-\$50.5B	-\$48.7B	-\$48.2B
9-Jun	Wholesale Inventories	APR	0.9%	1.0%	1.1%
10-Jun	Import Price Index (MoM)	MAY	-0.5%	-0.7%	2.2%
10-Jun	Import Price Index (YoY)	MAY	11%	-	11%
10-Jun	Monthly Budget Statement	MAY	-\$140.0B	-\$160.0B	-

Chief Economist for US

Nathaniel Karp
Nathaniel.karp@bbvacompass.com

Ignacio San Martin
Ignacio.SanMartin@bbvacompass.com

Jeffrey Owen Herzog
Jeff.Herzog@bbvacompass.com

Marcial Nava
Marcial.Nava@bbvacompass.com

Hakan Danış
Hakan.Danis@bbvacompass.com

Jason Frederick
Jason.Frederick@bbvacompass.com

Contact details

BBVA Research
5 Riverway Drive
Houston, Texas 77056

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