

Weekly Watch

U.S.

Highlights

29 August 2011
Economic Analysis

U.S.

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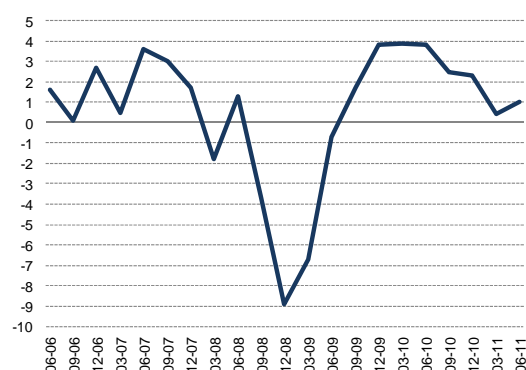
Downward revision to 2Q11 GDP in line with consensus

The Bureau of Economic Analysis released its second estimate for 2Q11 real GDP growth with little surprise to markets. As expected, growth was revised down to 1.0% for the quarter (annualized) on a seasonally-adjusted basis following an advance estimate of 1.3%. The downward revision primarily reflects lower net exports than initially expected for the advance estimate, as well as a reduction in private inventory investment. However, these declines were partially offset by upward revisions to nonresidential fixed investment and personal consumption expenditures. Final sales of domestic products were also revised up slightly for the second estimate, from 1.1% to 1.2% annualized. Despite an upward revision to the GDP price index, from 2.3% to 2.4%, inflation concerns are minimal. Real GDP growth for 2Q11 is up 1.5% YoY, yet the second estimate confirms a sluggish recovery for 2H11 with expectations for modest gains for the rest of the year. As Ben Bernanke's Jackson Hole speech did not reveal much in the way of planned policy responses, focus has turned to the extended FOMC meeting in September for more details of the Fed's tools to promote stronger economic activity (read our latest [Fed Watch](#) on August 26, 2011).

New transportation orders drive durable goods increase in July

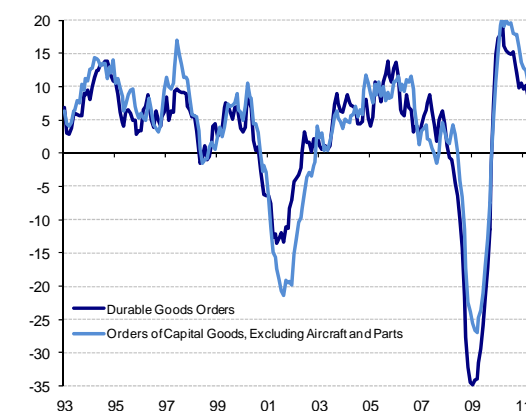
New orders for manufactured durable goods jumped 4.0% MoM in July following a revised 1.3% decline in the previous month. Transportation was the major contributor to the increase at 14.6%, mostly due to a 43% surge in aircraft orders. The motor vehicle component also increased, up 11.5% marking the largest gain in eight years. Durable goods orders rose 0.7% MoM excluding transportation and 4.8% MoM excluding defense. Inventories for durable goods increased for the 19th consecutive month, up 0.8% in July. The increase brought manufactured inventories to historical highs and furthered existing concerns of slowdowns in the manufacturing sector. In general, durable goods orders in July were better than expected, however the series tends to be very volatile. Furthermore, recent macroeconomic indicators point to continued weakness in the manufacturing sector and ultimately a slow recovery in 2H11.

Graph 1
US Real GDP Growth (QoQ % Change, SAAR)



Source: US Bureau of Economic Analysis

Graph 2
Durable Goods Orders (3-Month Average, YoY % Change)



Source: US Census Bureau

Week Ahead

Personal Income and Outlays (July, Monday 8:30 ET)

Forecast: 0.2%, 0.3%

Consensus: 0.3%, 0.5%

Previous: 0.1%, -0.2%

Personal income is expected to grow in July despite continued weakness in the labor market and uncertainties regarding future employment. Also, growth of personal expenditures is expected to rebound after declining MoM in June for the first time in 12 months. Decreasing consumer confidence throughout the summer months may have impacted real spending habits, however rising prices likely inflated the volume of personal expenditures. In general, we expect that the slower-than-expected recovery will keep figures low in real terms.

S&P Case-Shiller HPI (June, Tuesday 9:00 ET)

Forecast: -4.7%

Consensus: -4.6%

Previous: -4.5%

The S&P Case-Shiller 20-city composite house price index is expected to decline again in June on a YoY basis for the eighth consecutive month. The housing market suffers from suppressed demand conditions due to tight credit and weakness in the employment situation, and distressed properties are widespread. Looking forward, we expect the pessimistic housing market outlook to keep home prices low until a stronger recovery stimulates demand.

ISM Manufacturing Index (August, Thursday 10:00 ET)

Forecast: 50.0

Consensus: 48.5

Previous: 50.9

Slowdowns in the manufacturing sector and historically high inventories are likely to have a negative impact on the ISM index in August. Last month, the index approached the 50-point benchmark indicator of growth for the first time since the recovery began in mid 2009. Although growth in the manufacturing sector is at its slowest pace since before the recession and there are few signs of ongoing improvement in economic activity, we do not expect any further contractions.

Nonfarm Payroll and Unemployment Rate (August, Friday 8:30 ET)

Forecast: 100k, 9.1%

Consensus: 75k, 9.1%

Previous: 117k, 9.1%

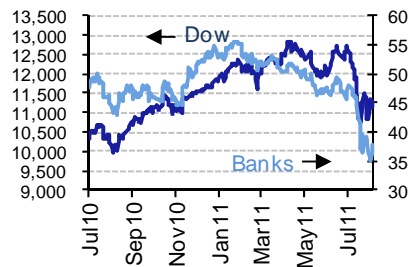
The conservative employment outlook extends into August, with nonfarm payrolls expected to add fewer jobs than in July. The private sector has led employment growth in recent months, however job creation is likely to decelerate as fears of future layoffs spread through the market. Continued cuts in government spending are likely to negatively impact nonfarm payrolls for the tenth consecutive month. Despite declines in initial jobless claims throughout July, claims in August have reverted to upward trends. With no indications of improvement in the labor market, we do not expect the unemployment rate to decline.

Market Impact

This week markets will hope for signs of a stronger recovery after weak economic data releases have dominated in recent months. Improvements in the manufacturing sector and the employment situation could indicate a positive trend for 2H11. Moreover, the markets will also focus on Tuesday's release of the FOMC minutes.

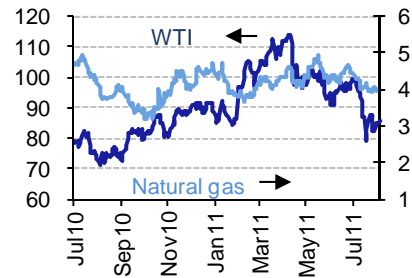
Financial Markets

Graph 3
Stocks (Index, KBW)



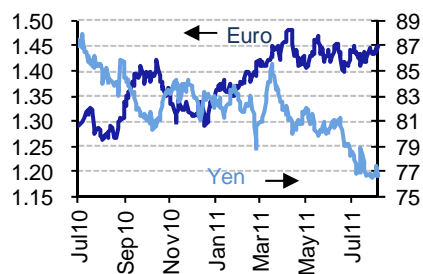
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



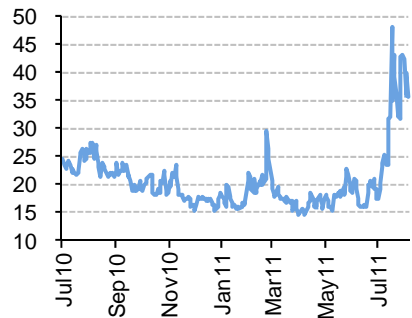
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



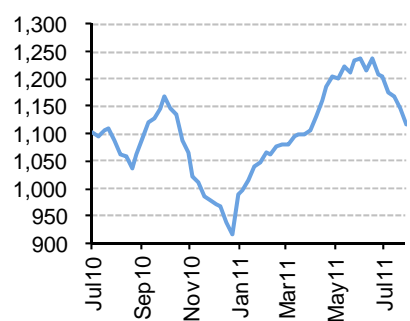
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



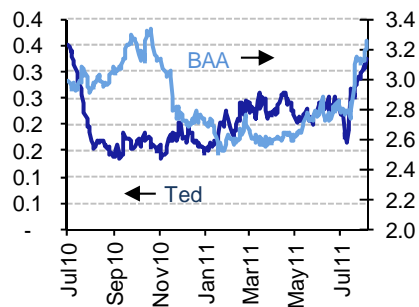
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

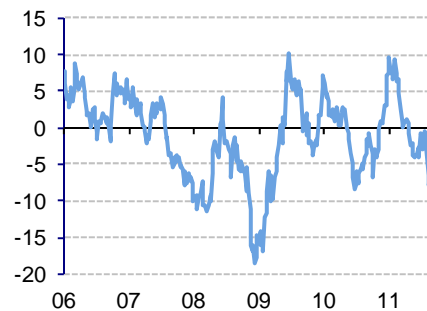
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

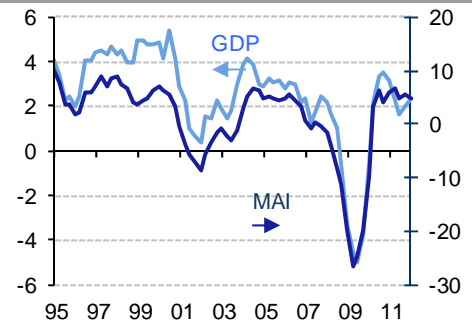
Economic Trends

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)



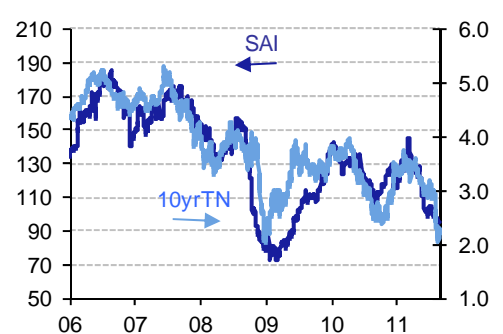
Source: BBVA Research & BEA

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



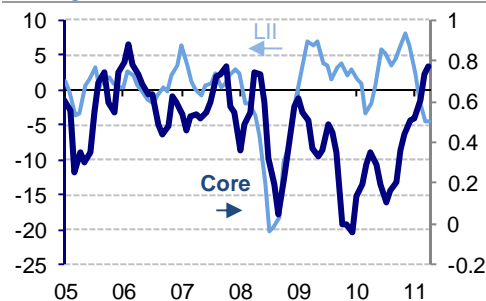
Source: BBVA Research

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



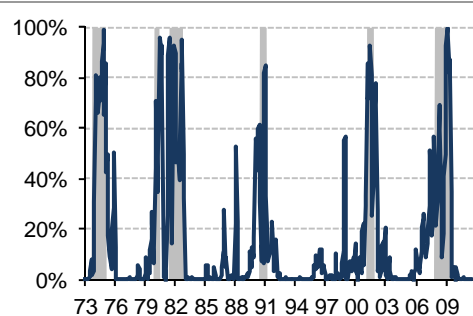
Source: Bloomberg & BBVA Research

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

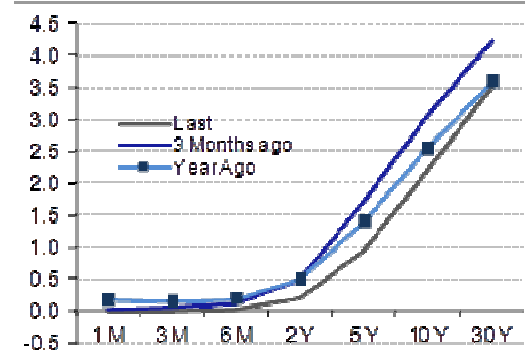
Yield Curve and Interest Rates

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)	13.78	13.73	13.73	13.44
New Auto (36-months)	4.39	3.87	3.94	6.08
Heloc Loan 30K	5.50	5.52	5.56	5.51
30-year Fixed Mortgage *	4.22	4.15	4.55	4.36
Money Market	0.57	0.57	0.58	0.73
2-year CD	100	100	104	145
5-year CD	184	190	2.01	2.36

* 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

Chairman Ben S. Bernanke
Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming
26 August 2011

"The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools as appropriate to promote a stronger economic recovery in a context of price stability."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
29-Aug	Personal Income	JUL	0.20%	0.30%	0.10%
29-Aug	Personal Spending	JUL	0.30%	0.50%	-0.20%
29-Aug	PCE Core (MoM)	JUL	0.20%	0.20%	0.10%
29-Aug	PCE Core (YoY)	JUL	1.50%	1.50%	1.30%
29-Aug	Pending Home Sales	JUL	-4.30%	-0.90%	2.40%
30-Aug	S&P Case-Shiller HPI	JUN	-4.70%	-4.60%	-4.51%
30-Aug	Consumer Confidence	AUG	54.00	52.00	59.50
31-Aug	ADP Employment Change	AUG	100K	100K	114K
31-Aug	Chicago Purchasing Manager Index	AUG	52.50	53.50	58.80
31-Aug	Factory Orders	JUL	2.00%	1.80%	-0.80%
1-Sep	Nonfarm Productivity	2QF	-0.10%	-0.50%	-0.30%
1-Sep	Unit Labor Costs	2QF	2.20%	2.30%	2.20%
1-Sep	Initial Jobless Claims	27-Aug	415K	408K	417K
1-Sep	Continuing Claims	20-Aug	3660K	3680K	3641K
1-Sep	ISM Manufacturing Index	AUG	50.00	48.50	50.90
1-Sep	Construction Spending (MoM)	JUL	-0.10%	0.20%	0.20%
1-Sep	Total Vehicle Sales	AUG	12.00M	12.10M	12.20M
1-Sep	Domestic Vehicle Sales	AUG	9.50M	9.50M	9.62M
2-Sep	Change in Nonfarm Payrolls	AUG	100K	75K	117K
2-Sep	Change in Private Payrolls	AUG	120K	108K	154K
2-Sep	Unemployment Rate	AUG	9.10%	9.10%	9.10%

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