

Weekly Watch

U.S.

5 September 2011
Economic Analysis

U.S.

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Highlights

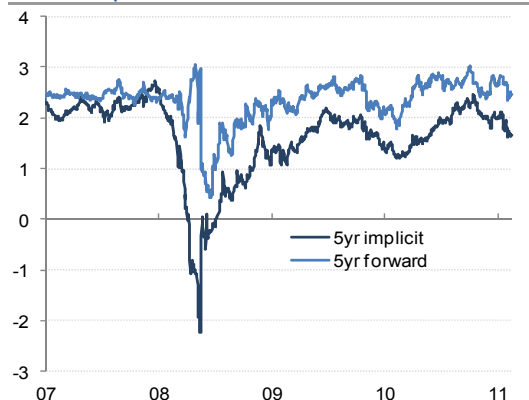
FOMC Meeting Minutes Suggest Growing Bias Towards Fed Action

The FOMC minutes released this week described a deteriorating recovery in the US that has increased already high forecast uncertainty. The Federal Reserve notably lowered their forecasts for the US and the staff review of the economic situation painted a morose picture of current conditions. Many FOMC participants view downside risks to growth as having increased since the last meeting. In particular, the state of the economy leaves it vulnerable to shocks, which may arise from European sovereign debt issues, unfolding US fiscal austerity, and household financial conditions. Inflation forecasts over the medium term are for subdued growth after temporary price shocks dissipate. High resource slack will contain any inflation fears for a considerable time. The FOMC discussed possible tools for implementing more accommodation at this stage in the business cycle: lowering the interest on excess reserves, lengthening the average maturity of the System Open Market Account, use of more forward guidance, and possibly tying decisions to a numerical inflation or unemployment rate. Some FOMC members believe that monetary policy may be ineffective in combating the long-term rigidities that are currently holding back a robust recovery. Despite some dissenters in the group, most members felt that the use of forward guidance was a measured step towards more aggressive easing. Thus, we can expect more accommodative measures if economic conditions deteriorate further.

No Change in August Nonfarm Payrolls, Downward Revisions to June and July

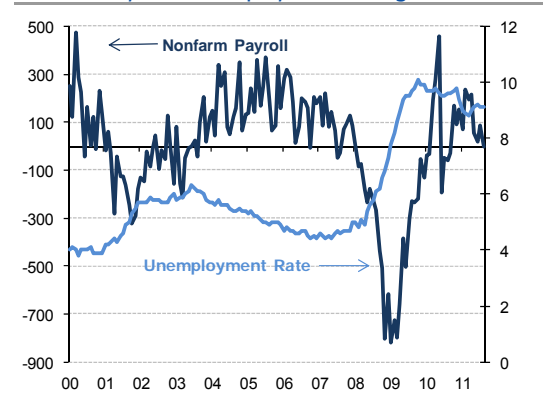
Employment data released today indicated no change in nonfarm payrolls for August despite consensus expectations of 68K. In addition, downward revisions to June (from 45K to 20K) and July (from 117K to 85K) suggest that employment recovery is much weaker than originally thought. The private sector continued to expand in August, adding a modest 17K jobs compared to 156K in July and 75K in June. As expected, government employment declined for the tenth consecutive month, shedding 17K jobs. The unemployment rate remained unchanged at 9.1% in August, while average hourly earnings declined 0.1% MoM. Lower-than-expected employment figures suggest that the fiscal debacle in Washington and increased stock market volatility likely had a lasting impact on business confidence, resulting in unwillingness to hire. Our focus shifts to Obama's speech next week and his strategy for increased job creation in the coming year.

Graph 1
Inflation Expectations (%)



Source: Federal Reserve Board

Graph 2
Nonfarm Payroll & Unemployment (Change in K & %)



Source: US Bureau of Labor Statistics

Week Ahead

ISM Non-Manufacturing Index (August, Tuesday 10:00 ET)

Forecast: 51.5

Consensus: 51.0

Previous: 52.7

The ISM Non-Manufacturing Index is expected to decline slightly in August for the third consecutive month as the economy struggles to maintain a strong recovery. Declining consumer confidence and increasing uncertainties regarding the business outlook likely put a damper on service activity for the month. Despite weak labor market growth, service employment continues to outperform other sectors. Thus, it is likely that the index will continue to indicate increasing economic activity, although at a slower pace.

International Trade Balance (July, Thursday 8:30 ET)

Forecast: -\$54.0B

Consensus: -\$51.0B

Previous: -\$53.1B

Continued weakness in the global economy likely contributed to a widening of the trade balance for July. Export expansion in the service sector has slowed, and concerns of sluggish growth and activity in global markets likely impacted external demand. Auto imports are expected to rebound now that supply chain disruptions from the Japanese earthquake have faded. Furthermore, rising import prices in July likely inflated the value of imports. Thus, we expect reduced exports and increased imports to contribute to a modest deterioration of the trade balance.

Consumer Credit (July, Thursday 15:00 ET)

Forecast: \$7.0B

Consensus: \$6.0B

Previous: \$15.5B

Seasonally-adjusted consumer credit is expected to grow in July for the tenth consecutive month, although at a slower MoM pace. June's large increase reflected continued growth in nonrevolving credit as well as a significant turnaround in revolving credit. Although YoY growth of revolving credit is negative, MoM expansion could signal returns to pre-recession spending levels. Weak consumer activity in July may have impacted willingness to take on credit card debt, however, with nonrevolving credit surpassing historical highs, we expect consumer credit growth to remain positive for the month.

Wholesale Inventories (July, Friday 10:00 ET)

Forecast: 0.7%

Consensus: 0.8%

Previous: 0.6%

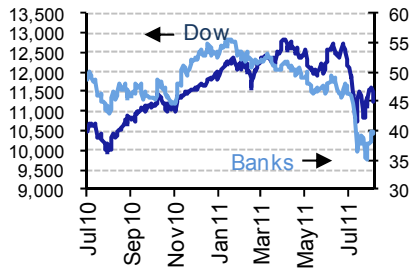
Wholesale inventories have surpassed historical highs and are expected to continue expanding in July. Durable goods inventories are on the rise, mostly due to transportation equipment, while growth of nondurable goods inventories appears to be decelerating. Consumer confidence has declined during the summer months, and with no clear signs of recovering demand, it is unlikely that a rebound in sales will reduce high inventories. Thus, we expect wholesale inventories to continue growing in July.

Market Impact

Limited economic releases for the holiday-shortened week should help stabilize markets. However, any signs of continued slowdowns in the economy may cause market anxiety. In particular, a large deterioration of the trade balance could have significant implications for 3Q11 GDP.

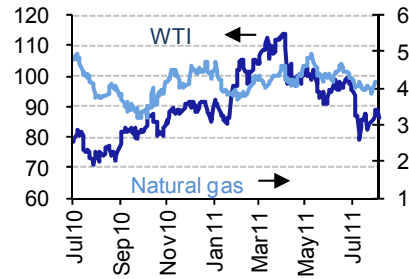
Financial Markets

Graph 3
Stocks (Index, KBW)



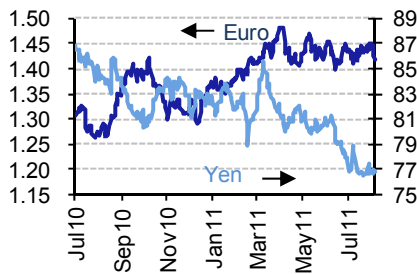
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



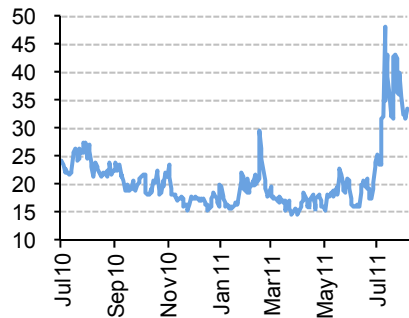
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



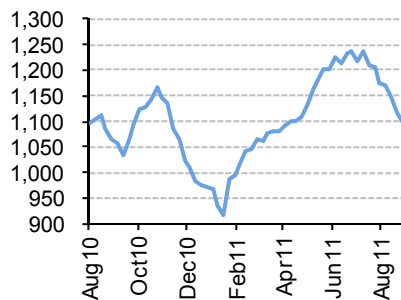
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



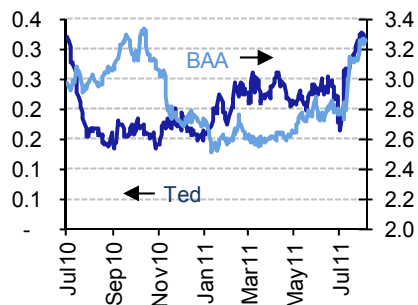
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

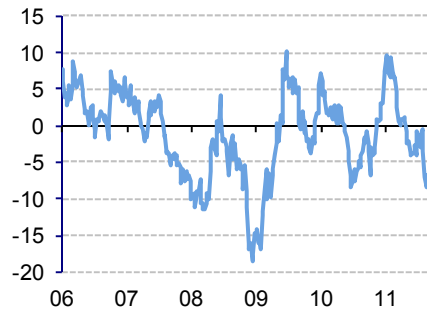
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

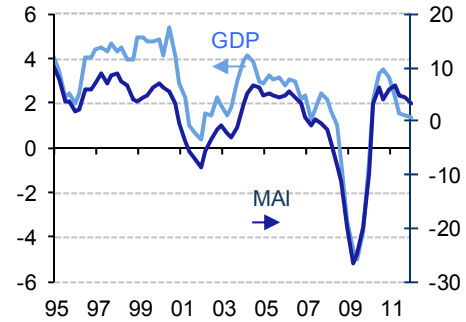
Economic Trends

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)



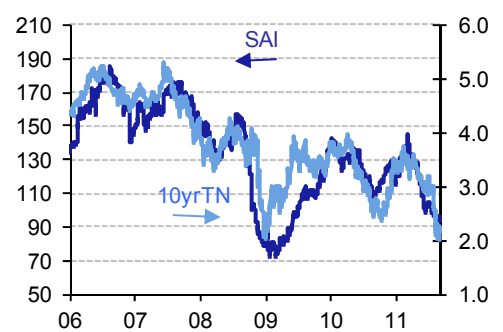
Source: BBVA Research & BEA

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



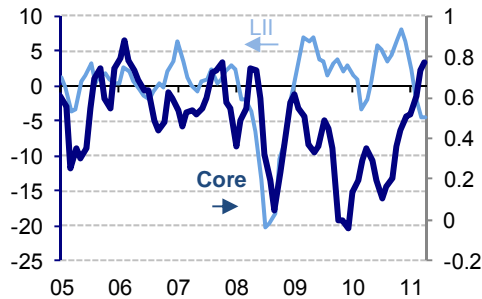
Source: BBVA Research

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



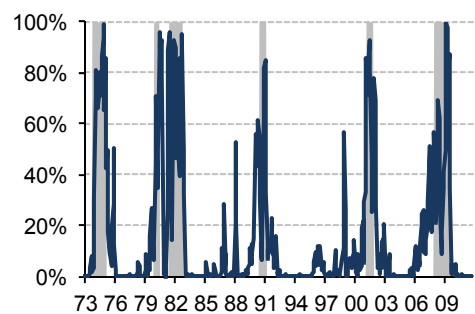
Source: Bloomberg & BBVA Research

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

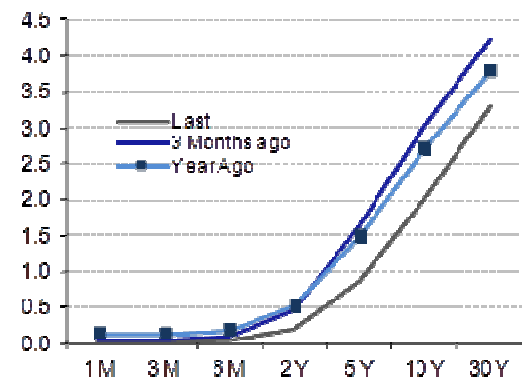
Yield Curve and Interest Rates

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	13.78	13.73	13.58
New Auto (36-months)	4.32	4.39	4.30	6.08
Heloc Loan 30K	5.48	5.50	5.54	5.52
30-year Fixed Mortgage *	4.22	4.22	4.39	4.32
M Money Market	0.57	0.57	0.58	0.73
2-year CD	0.99	1.00	1.04	1.43
5-year CD	1.79	1.84	2.01	2.33

* 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

President Barack Obama
Obama to Address Congress on Jobs
31 August 2011

"Washington needs to put aside politics and start making decisions based on what is best for our country and not what is best for each of our parties in order to grow the economy and create jobs."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
6-Sep	ISM Non-Manufacturing Index	AUG	51.50	51.00	52.70
8-Sep	International Trade Balance	JUL	-\$54.0B	-\$51.0B	-\$53.1B
8-Sep	Initial Jobless Claims	3-Sep	410K	410K	409K
8-Sep	Continuing Claims	27-Aug	3740K	3705K	3735K
8-Sep	Consumer Credit	JUL	\$7.0B	\$6.0B	\$15.5B
9-Sep	Wholesale Inventories	JUL	0.70%	0.80%	0.60%

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