

# Weekly Watch

U.S.

## Highlights

19 September 2011  
Economic Analysis

U.S.

Boyd Stacey  
boyd.stacey@bbvacompass.com

Kim Fraser  
kim.fraser@bbvacompass.com

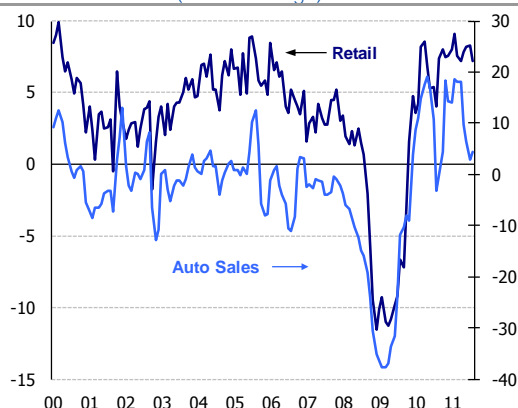
### Headline retail sales flat in August, YoY growth still robust

August retail sales were unchanged from July, failing to meet consensus expectations for 0.2% MoM growth. Apparel and auto sales dragged down headline figures, declining 0.7% and 0.3%, respectively, while gasoline and merchandise sales increased slightly. Retail sales excluding autos increased 0.1%, mostly due to contributions from sporting goods, electronics, non-store retail, and building materials. The discouraging monthly figures are in line with recent declines in business and consumer confidence, in addition to various weather-related issues that have dampened economic activity across the country. Furthermore, the modest 2.1% annualized growth seen throughout the past three months is much lower than the double-digit growth seen in 4Q10 and 1Q11. Despite this obvious weakness, total retail sales remain strong at 7.2% on a YoY basis. Overall, it appears that weak economic activity may continue to weigh on the recovery in the coming months.

### Consumer price index higher-than-expected for second consecutive month

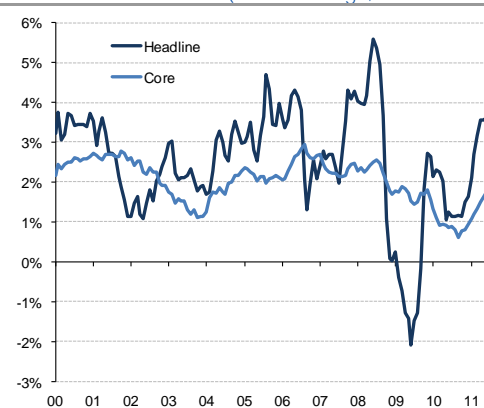
The consumer price index (CPI) increased more than expected for the second consecutive month, up 0.4% MoM in August following a 0.5% jump in July. Total energy and gasoline prices continued to grow, at 1.2% and 1.9%, respectively, however both indices reflect a slower MoM pace than in the previous month. In addition, food prices continued to accelerate, up 0.5% after a 0.4% rise in July. On a YoY non-seasonally-adjusted basis, headline CPI accelerated to 3.8%, the highest rate since September 2008. Energy prices have jumped 18.4% in the past 12 months, while food prices have increased 4.6% YoY. Despite the rise in headline inflation, core CPI remained steady at 0.2% MoM growth. The main contributors to core inflation were apparel and shelter, which increased 1.1% and 0.2%, respectively. Prices also increased for used cars and trucks, medical care, household furnishings and operations, recreation, tobacco, and personal care, while new vehicle prices did not change. The non-seasonally-adjusted core index jumped to 2.0% on a YoY basis, hitting the Fed's maximum rate in the implicit inflation target range of 1.5-2.0%. Ultimately, inflation data for August suggest that deflationary risks have declined. Looking forward to next week's two-day FOMC meeting, today's report could have significant implications for Fed action as members discuss strategies to boost growth.

Graph 1  
Retail & Auto Sales (YoY % Change)



Source: US Census Bureau

Graph 2  
Consumer Price Inflation (YoY % Change, 1982-84=100)



Source: US Bureau of Labor Statistics

## Week Ahead

### Housing Starts (August, Tuesday 8:30 ET)

Forecast: 602K	Consensus: 590K	Previous: 604K
----------------	-----------------	----------------

Housing starts are likely to be flat in August as home builders remain uncertain about a stronger recovery. Despite an increase in prospective buyers, weakness in the labor market continues to drag down overall demand for new homes. Furthermore, the future sales index declined for the month, indicating prolonged weakness in housing market conditions.

### Existing Home Sales (August, Wednesday 10:00 ET)

Forecast: 4.55M	Consensus: 4.75M	Previous: 4.67M
-----------------	------------------	-----------------

Existing home sales are expected to decline in August for the third consecutive month as demand conditions remain weak. The housing market outlook has deteriorated throughout the summer months, with low employment growth and weak consumer activity weighing on the economic recovery. Furthermore, tight credit conditions make it difficult for consumers to take advantage of extremely low interest rates. In general, it is unclear whether the recovery will strengthen in the coming months, and negative housing prospects are likely to prevail.

### FOMC Meeting Announcement (September, Wednesday 14:15 ET)

Forecast: 0.0%-0.25%	Consensus: 0.0%-0.25%	Previous: 0.0%-0.25%
----------------------	-----------------------	----------------------

The Fed has committed to keeping interest rates low through mid-2013, however additional policy tools are available and on the table. The decision to extend the September FOMC meeting could suggest Fed action and the potential for an "Operation Twist" announcement in this meeting. Strong language surrounding balance sheet adjustments and Bernanke's personal bias suggests further impetus for expanding the longer-term Treasuries holdings. However, stable inflation, grounded inflation expectations, abating deflationary pressures, and growing dissension among FOMC members provide a strong counterpoint to any argument for further quantitative easing in the form of balance sheet growth. In addition, there is no indication the Fed will announce plans to explicitly target inflation, switch to nominal GDP targeting regime, or adjust interest paid on excessive reserves.

### Jobless Claims (September 16, Thursday 8:30 ET)

Forecast: 420K	Consensus: 420K	Previous: 428K
----------------	-----------------	----------------

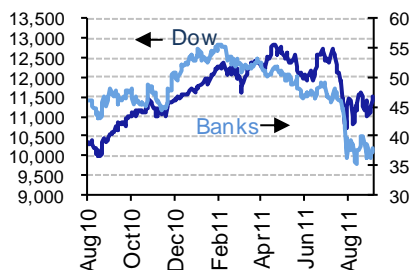
Initial jobless claims for the week ending September 16<sup>th</sup> are expected to show little improvement after weeks of disappointing reports. The employment situation remains discouraging, with no growth in nonfarm payrolls and steady increases in initial claims since mid-August. Despite a holiday-shortened week, which often skews the numbers down, last week's figure was the highest since June. Furthermore, the 4-week moving average was 15K higher compared to one month ago. Looking forward, we expect jobless claims to stay in line with the average at 420K.

### Market Impact

This week markets will watch the FOMC meeting closely as future Fed action could have significant implications for a stronger recovery. Slowdowns in economic activity are widely known, so continued weakness in the housing market should warrant little reaction from markets. However, better-than-expected figures could indirectly stimulate economic activity and strengthen market confidence.

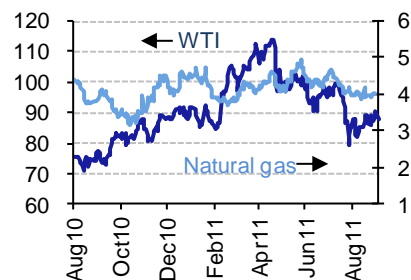
## Financial Markets

Graph 3  
Stocks (Index, KBW)



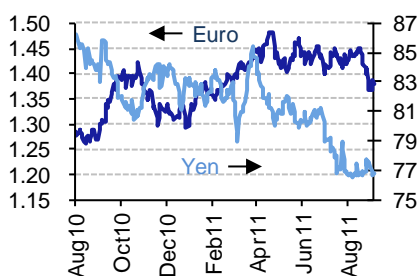
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



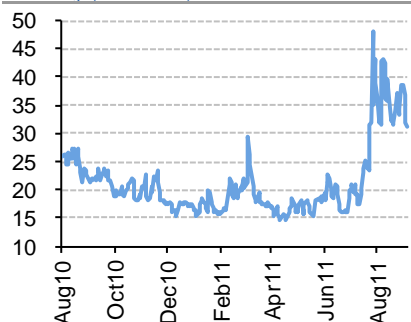
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



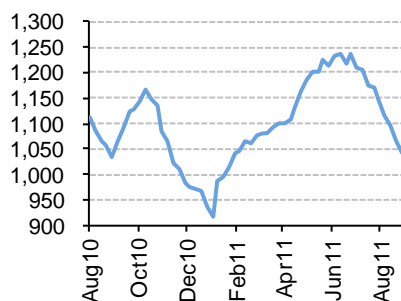
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



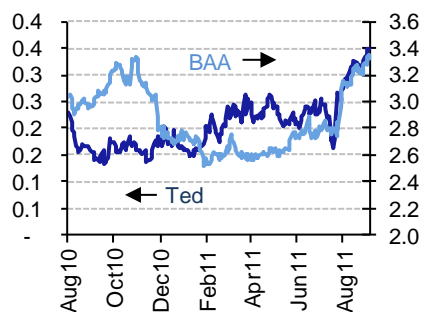
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

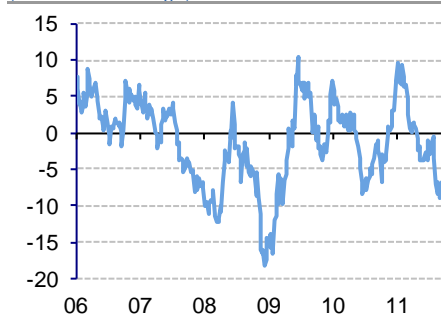
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

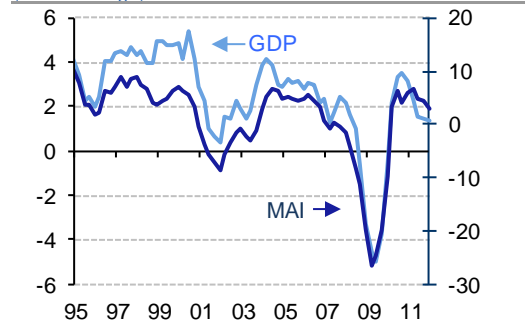
## Economic Trends

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)



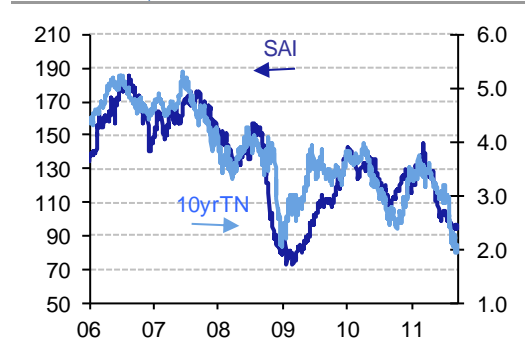
Source: BBVA Research & BEA

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



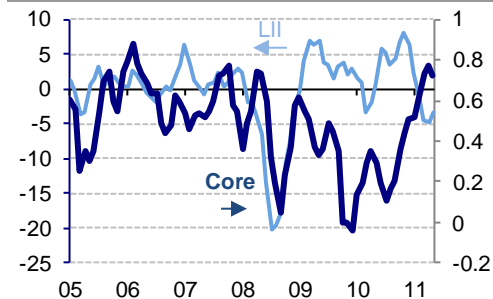
Source: BBVA Research

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



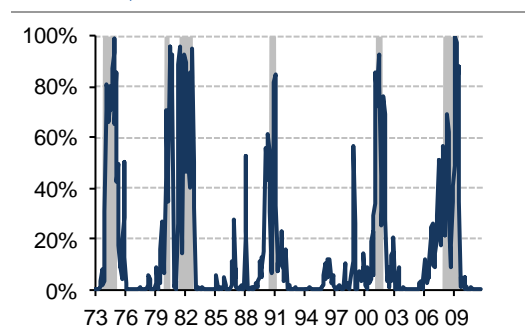
Source: Bloomberg & BBVA Research

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

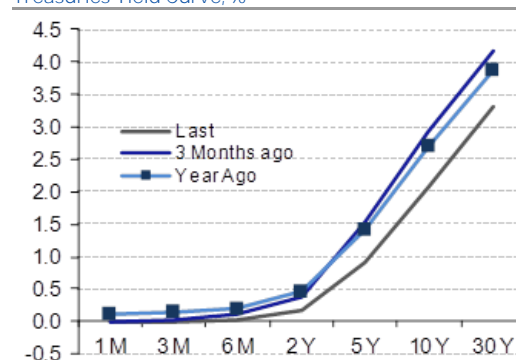
## Yield Curve and Interest Rates

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)	13.95	13.78	13.73	13.58
New Auto (36-months)	4.22	4.22	3.87	5.90
Heloc Loan 30K	5.47	5.49	5.52	5.52
30-year Fixed Mortgage	4.09	4.12	4.15	4.37
Money Market	0.56	0.56	0.57	0.98
2-year CD	0.98	0.99	1.00	1.40
5-year CD	1.78	1.78	1.90	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

Timothy Geithner, U.S. Treasury Secretary  
Geithner presses EU to act; meet resistance  
16 September 2011

*"What is very damaging (in Europe) from the outside is not the divisiveness about the broader debate, about strategy, but about the ongoing conflict between governments and the central bank, and you need both to work together to do what is essential to the resolution of any crisis."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Sep	NAHB Housing Market Index	SEPT	15.00	15.00	15.00
20-Sep	Housing Starts	AUG	602K	590K	604K
20-Sep	Housing Starts (MoM)	AUG	-0.33%	-2.30%	-1.50%
20-Sep	Building Permits	AUG	595K	590K	601K
20-Sep	Building Permits (MoM)	AUG	-0.34%	-1.80%	-3.20%
21-Sep	Existing Home Sales	AUG	4.55M	4.75M	4.67M
21-Sep	Existing Home Sales (MoM)	AUG	-2.57%	1.70%	-3.50%
21-Sep	FOMC Meeting Announcement	SEPT	0.25%	0.25%	0.25%
22-Sep	Initial Jobless Claims	17-Sep	420K	420K	428K
22-Sep	Continuing Claims	10-Sep	3730K	3720K	3726K
22-Sep	FHFA House Price Index	JUL	-0.20%	0.20%	0.90%

*Chief Economist for US*

Nathaniel Karp

Nathaniel.karp@bbvacompass.com

Ignacio San Martin

Ignacio.SanMartin@bbvacompass.com

Hakan Danis

Hakan.Danis@bbvacompass.com

Boyd Stacey

Boyd.Stacey@bbvacompass.com

Marcial Nava

Marcial.Nava@bbvacompass.com

Jeffrey Owen Herzog

Jeff.Herzog@bbvacompass.com

Jason Frederick

Jason.Frederick@bbvacompass.com

Kim Fraser

Kim.Fraser@bbvacompass.com

Contact details

---

**BBVA Research**

5 Riverway Drive

Houston, Texas 77056

BBVA Research reports are available in English and Spanish

---

## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. **Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.**

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.