

Weekly Watch

U.S.

3 October 2011
Economic Analysis

U.S.

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Highlights

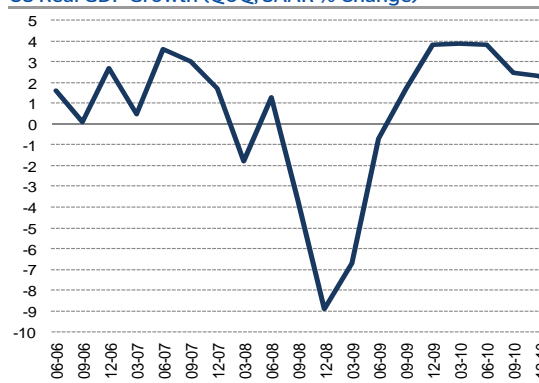
GDP growth better-than-expected but still signaling a slow recovery

The final estimate for 2Q11 GDP growth came in better than expected at 1.3% annualized, up from the preliminary estimate of 1.0% and matching the first estimate released in July. The upward revision reflects an increase in nonresidential structures, personal consumption expenditures, and net exports. Also, final sales of domestic product increased from 1.2% to 1.6% and final sales of domestic purchasers increased from 1.1% to 1.3%. The GDP price index was revised up from 2.4% to 2.5%, matching the advance estimate. However, inflation concerns are minimal due to excess resource slack. Today's better-than-expected data is somewhat reassuring after a shocking downward revision to first quarter growth, although the economic recovery is still weak. Increased downside risks, including political brinkmanship, deeper contagion from the European sovereign debt crisis, and further deleveraging, will continue to weigh on the recovery in the coming months. Although the US economy faces a higher probability of recession compared to last year, our baseline scenario does not assume that we will fall back into recession. We continue to expect stronger economic growth in 2H11 and 2012.

Modest gain in personal spending, decline in income

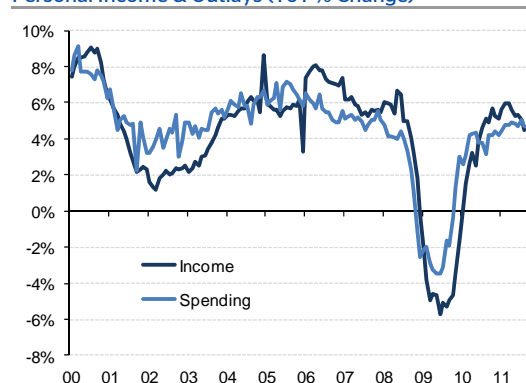
Personal income and outlays data for August were consistent with the discouraging employment situation and other weak economic reports for the month. Income dropped 0.1% MoM despite consensus expectations for 0.1% growth. Much of the decline was due to a 0.2% drop in wages and salaries that is consistent with a decline in earnings as suggested by the month's employment report. With regard to consumer activity, continued declines in confidence and flat retail sales suggested conservative spending for the month. As expected, personal spending slowed to 0.2% growth in August following a revised 0.7% jump in July. Consumption was led by a 0.3% rise in nondurable goods and a 0.2% increase in services, both of which decelerated from the previous month. Despite higher food and energy prices in August, the PCE price index slowed to 0.2% from 0.4% in July, with prices up 2.9% YoY. Overall, today's data are in line with current slowdowns in economic activity and unfortunately do not reflect a much-needed boost in consumer demand and activity. Although the data is not overly encouraging, we maintain our baseline scenario for moderate gains in momentum for the remainder of 2011 and 2012.

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



Source: Bureau of Economic Analysis

Graph 2
Personal Income & Outlays (YoY % Change)



Source: NAR & US Census Bureau

Week Ahead

ISM Manufacturing Index (September, Monday 10:00 ET)

Forecast: 51.0

Consensus: 50.3

Previous: 50.6

The ISM Manufacturing Index is expected to show only modest improvement in September and few signs of ongoing improvement in economic activity. In August, the index fell to its lowest point since the recession officially ended two years ago. This month, regional Federal Reserve surveys have indicated pessimism in the business outlook and weak employment data will likely prevent the sector from growing at an accelerated pace. Although the index has declined for the past three months, the above-50 readings continue to suggest slight economic expansion in the manufacturing sector.

Construction Spending (August, Monday 10:00 ET)

Forecast: -0.1%

Consensus: -0.2%

Previous: -1.3%

Construction spending is expected to decline in August, but at a slower pace than in July. The housing market has struggled to incite demand for new homes, with housing starts declining for two consecutive months. Furthermore, the pessimistic housing outlook remains as the homebuilder confidence index hovers near historical lows. Public sector outlays are likely to fall again in August, with weakness in both residential and nonresidential structures. With consumer activity at extreme lows, we expect sluggish demand to push down construction spending for the month.

ISM Non-Manufacturing Index (September, Wednesday 10:00 ET)

Forecast: 53.0

Consensus: 52.8

Previous: 53.3

The ISM Non-Manufacturing Index is likely to suggest increasing activity in the services sector for September, with little change over last month. Although the economy continues to struggle, business activity appears to have rebounded slightly in the services sector. Furthermore, the outlook for the services sector is much stronger than for manufacturing. However, sluggish improvements in the employment situation are likely to weigh on the index, keeping the figure close to the no-growth scenario.

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

Forecast: 60K, 9.1%

Consensus: 53K, 9.1%

Previous: 0K, 9.1%

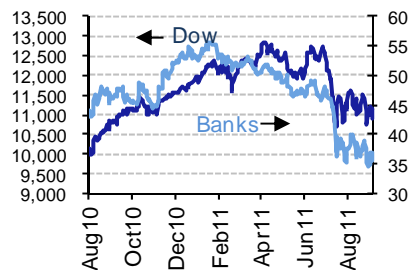
Significant improvements in the employment situation are not in the cards for September, however, we do expect a positive change in nonfarm payrolls. Last month saw no growth in the job market, with weakness in the government sector dragging down the report. In addition, anemic housing demand will likely impact construction hiring. While the labor market continues to struggle with only the private sector keeping it afloat, we expect the unemployment rate to remain unchanged.

Market Impact

Months of discouraging employment reports have caused markets to become very sensitive to weak economic data. Any signs of growth in the labor market could be a temporary sigh of relief after a shocking halt to hiring last month. Markets have already priced in weak manufacturing reports for September, however, a below-50 reading for the ISM index could cause some anxiety.

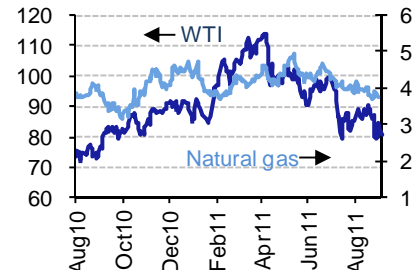
Financial Markets

Graph 3
Stocks (Index, KBW)



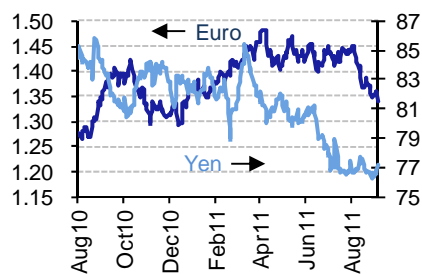
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



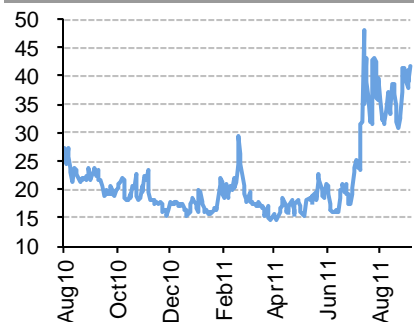
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



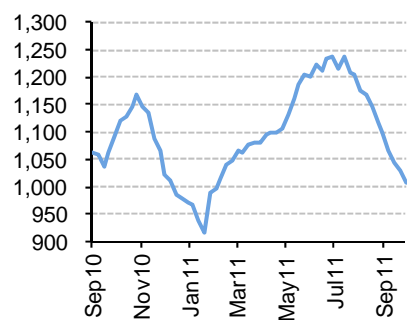
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



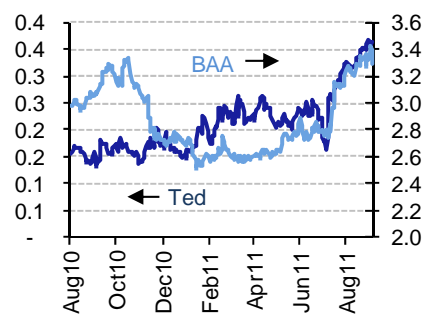
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

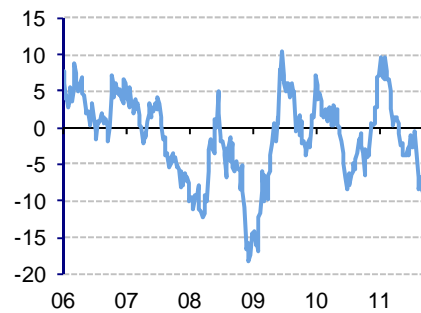
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

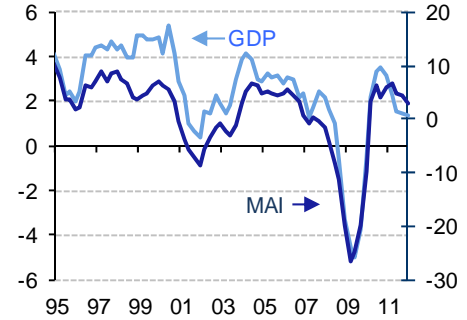
Economic Trends

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)



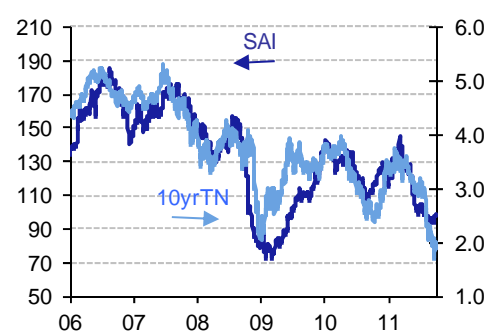
Source: BBVA Research & BEA

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



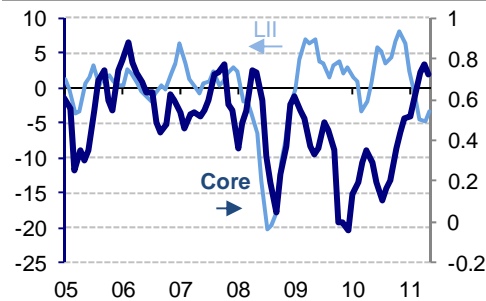
Source: BBVA Research

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



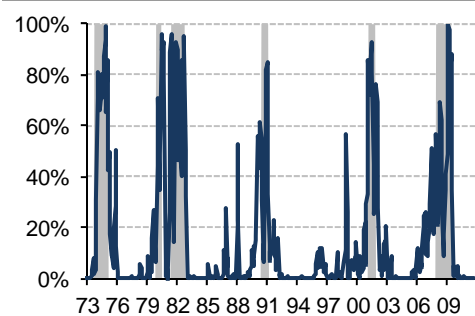
Source: Bloomberg & BBVA Research

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

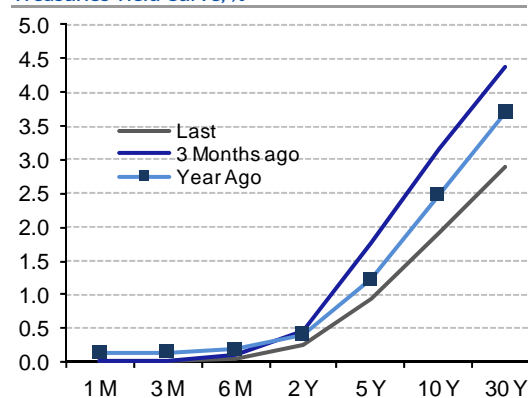
Yield Curve and Interest Rates

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	13.95	13.78	13.58
New Auto (36-months)	4.08	4.10	4.32	5.79
Heloc Loan 30K	5.50	5.49	5.48	5.49
30-year Fixed Mortgage *	4.01	4.09	4.22	4.35
Money Market	0.54	0.80	0.57	0.75
2-year CD	0.95	0.96	0.99	1.37
5-year CD	1.75	1.75	1.79	2.25

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasury's Yield Curve, %



Source: Bloomberg

Quote of the Week

Ben S. Bernanke, Federal Reserve Board Chairman
Lessons from Emerging Market Economies on the Sources of Sustained Growth
29 September 2011

"Advanced economies like the United States would do well to re-learn some of the lessons from the experiences of the emerging market economies, such as the importance of disciplined fiscal policies, the benefits of open trade, the need to encourage private capital formation while undertaking necessary public investments, the high returns to education and to promoting technological advances, and the importance of a regulatory framework that encourages entrepreneurship and innovation while maintaining financial stability."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Oct	ISM Manufacturing Index	SEPT	51.00	50.30	50.60
3-Oct	Construction Spending (MoM)	AUG	-0.10%	-0.20%	-1.30%
4-Oct	Total Vehicle Sales	SEPT	12.10M	12.60M	12.10M
4-Oct	Domestic Vehicle Sales	SEPT	9.40M	9.80M	9.52M
4-Oct	Factory Orders	AUG	0.20%	0.00%	2.40%
5-Oct	ADP Employment Change	SEPT	75K	70K	91K
5-Oct	ISM Non-Manufacturing Index	SEPT	53.00	52.80	53.30
6-Oct	Initial Jobless Claims	1-Oct	410K	410K	391K
6-Oct	Continuing Claims	24-Sep	3730K	3725K	3729K
7-Oct	Change in Nonfarm Payrolls	SEPT	60K	53K	0K
7-Oct	Change in Private Payrolls	SEPT	75K	90K	17K
7-Oct	Unemployment Rate	SEPT	9.1%	9.1%	9.1%
7-Oct	Wholesale Inventories	AUG	0.50%	0.60%	0.80%
7-Oct	Consumer Credit	AUG	\$9.900B	\$7.500B	\$11.965B

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