

Weekly Watch

U.S.

10 October 2011
Economic Analysis

U.S.

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Highlights

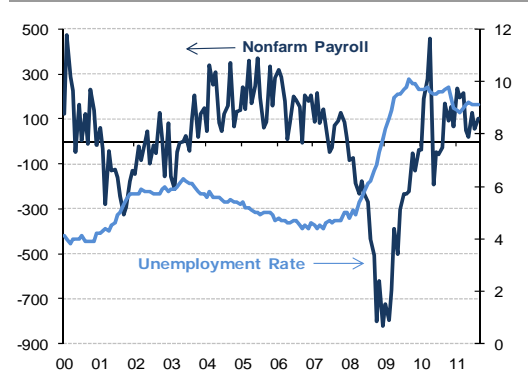
Better-than-expected shift in 3Q11 employment data

The BLS employment report for September reflects much-needed relief and suggests better-than-expected 3Q11 growth. Nonfarm payrolls increased by 103K, following upward revisions to both July (from 85K to 127K) and August (from 0K to 57K). The September increase was led by the private sector, adding 137K jobs after adding only 42K in August. The end to telecommunication worker strikes added back 45K jobs for the month. Government employment was revised up to 15K in August but shed 34K jobs in September, while manufacturing payrolls declined for the 2nd consecutive month. Other positive aspects of the employment report for September include a 0.2% rebound in average hourly earnings and a slight increase in the average workweek to 34.3 hours. The unemployment rate held steady at 9.1%. The increase in payrolls is positive news for the employment situation, however the data indicate a rise in the number of workers employed part time for economic reasons. These “involuntary part-time workers” likely had difficulty finding a full-time job to match their skill set or were working part time because their hours had been cut back. The duration of unemployment also increased, suggesting that structural unemployment is still a concern. Although today's report reflects slower job growth than in early 2011, the data indicate a better outlook for employment in 3Q11 than previously thought.

ISM indices suggest modest growth for manufacturing and services

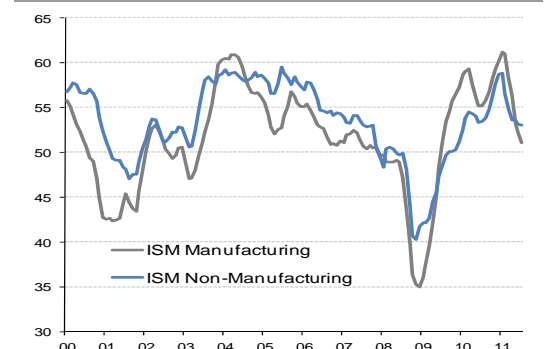
The ISM Manufacturing Index increased to 51.6 in September from a 2-year low of 50.6 in August, while the Non-Manufacturing Index held steady near 53.0. The production components of each index increased for the month, with the service sector showing the strongest growth since March. While both indices suggest modest economic expansion in the respective sectors, the data offer conflicting reports in new orders and employment. The new orders component of the ISM Manufacturing Index was below 50 for the third consecutive month reflecting a slowdown in final demand, however a rise in new orders in the ISM Non-Manufacturing Index indicates accelerating growth for the service sector. The manufacturing employment index increased slightly, while the service employment index dropped below 50 for the first time since August 2010. Although today's data suggest an accelerated pace of growth in both the manufacturing and services sector, it is unclear whether these trends will continue as businesses continue to report concerns over the sluggish economy, political and financial uncertainties, and weak demand.

Graph 1
Nonfarm Payroll & Unemployment (MoM K change, %)



Source: Bureau of Labor Statistics

Graph 2
ISM Indices (3-month moving average)



Source: Institute for Supply Management

Week Ahead

International Trade (August, Thursday 8:30 ET)

Forecast: -\$45.0B	Consensus: -\$46.0B	Previous: -\$44.8B
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Slowdowns in the global economy likely weighed on international transactions in August, and we expect the trade balance to remain relatively unchanged. Both imports and exports are expected to decline as a result of reduced demand for goods and services, both in the US and abroad. A monthly decline in import prices likely deflated the value of imports, while a large jump in export prices may have further discouraged external demand. With increased concerns of an economic slowdown in the developed world, we do not expect substantial changes to the trade gap.

Retail Sales, Ex. Auto (September, Friday 8:30 ET)

Forecast: 0.3%, 0.1%	Consensus: 0.6%, 0.3%	Previous: 0.0%, 0.1%
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Strong auto sales likely contributed to an increase in retail sales for September despite continued weakness in consumer activity. While domestic and imported vehicle sales were positive, soft demand and price declines likely influenced weakness in gasoline sales. Furthermore, various retail surveys indicate slowing sales for the month as a result of intensified consumer concern over the economy. Although consumer confidence indicators edged up slightly, they continue to suggest uncertainty over a deteriorating economy. Thus, we expect only modest growth in retail sales for September.

Consumer Sentiment (October, Friday 9:55 ET)

Forecast: 60.0	Consensus: 60.3	Previous: 59.4
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Consumer sentiment is likely to increase only slightly in October as economic conditions remain sluggish. Last month the index improved from a 30-month low but remained below 60 for the first time since early 2009. While feelings toward current conditions appear to be improving, consumer expectations remain weak. Gradual improvements in the employment situation may help reduce uncertainties regarding future earnings, and easing inflation expectations may help boost consumer activity. Although consumers continue to face an uphill battle, we expect attitudes to recover slowly throughout 4Q11.

Business Inventories (August, Friday 10:00 ET)

Forecast: 0.4%	Consensus: 0.4%	Previous: 0.4%
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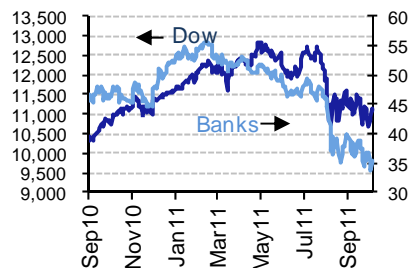
Business inventories have been growing nonstop since January 2010 and are expected to increase again in August. Wholesale inventory growth fell to 0.4% for the month, the lowest rate since November 2010, reflecting a decline in nondurables but a strong surge in durable goods. Manufacturing and retail inventories are also showing signs of decelerating growth. Although inventories continue to approach historical highs, we expect that the data will level off in the coming months.

Market Impact

This week's data should warrant less volatile reactions from the market following a better-than-expected employment report. Market expectations for a rebound in consumer activity are low, although a significant jump in retail sales could turn the tables and reduce market anxiety. In addition, large shifts in the trade balance could have significant implications for 3Q11 GDP.

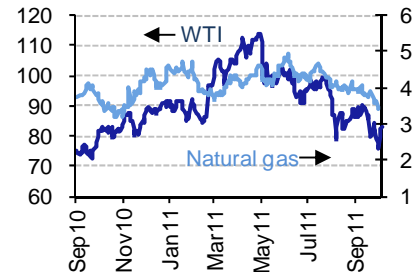
Financial Markets

Graph 3
Stocks (Index, KBW)



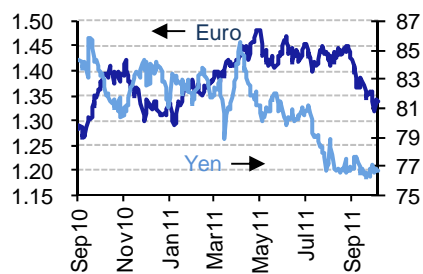
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



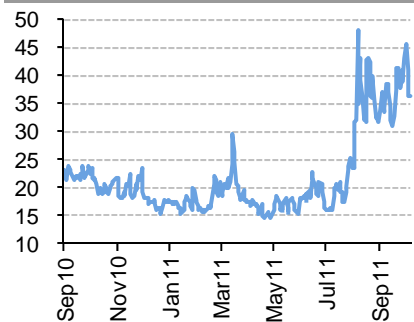
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



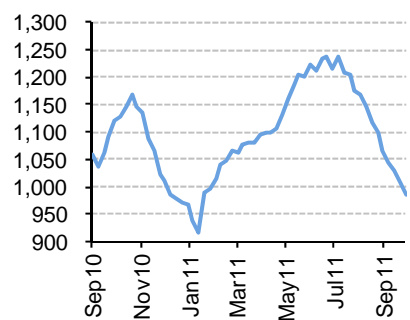
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



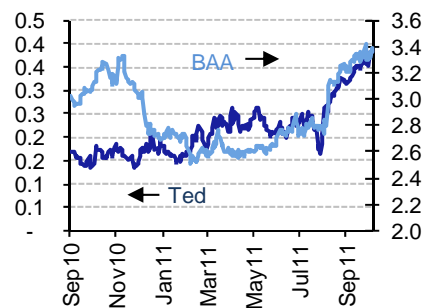
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

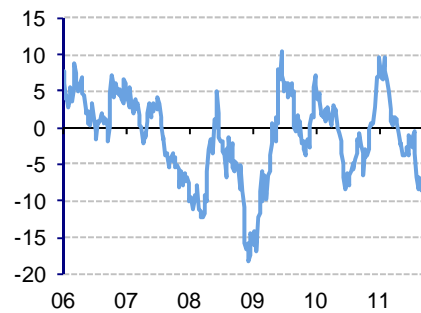
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

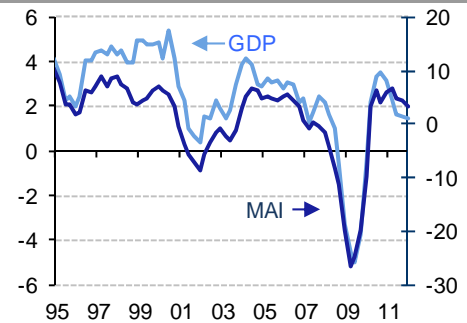
Economic Trends

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)



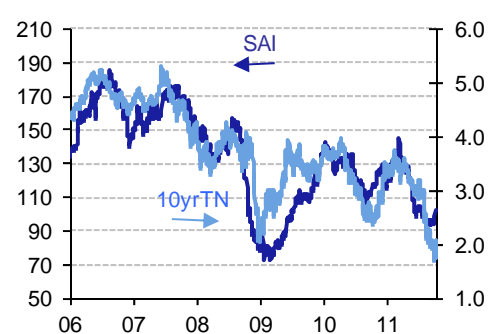
Source: BBVA Research & BEA

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



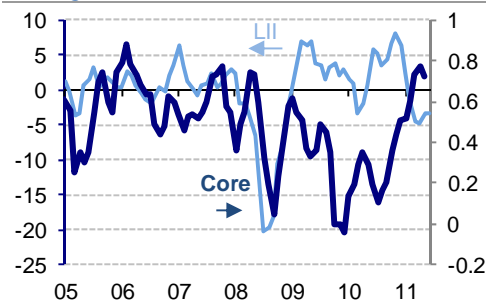
Source: BBVA Research

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



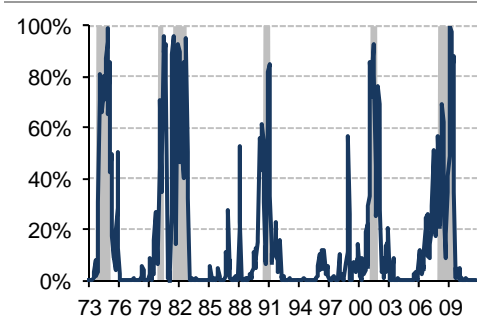
Source: Bloomberg & BBVA Research

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

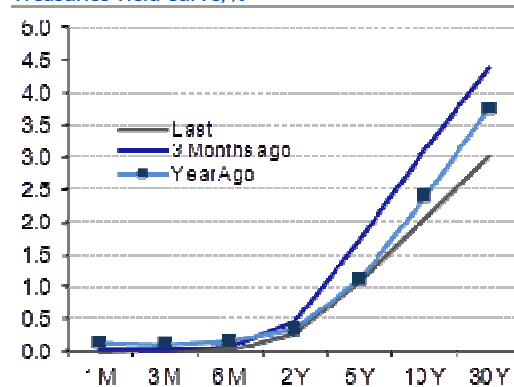
Yield Curve and Interest Rates

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)	13.95	13.95	13.78	13.58
New Auto (36-months)	4.12	4.08	4.22	5.85
Heloc Loan 30K	5.50	5.50	5.49	5.47
30-year Fixed Mortgage *	3.94	4.01	4.12	4.27
Money Market	0.55	0.54	0.56	0.75
2-year CD	0.93	0.95	0.99	1.33
5-year CD	1.74	1.75	1.78	2.22

* 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
Economic Outlook and Recent Monetary Policy Actions
4 October 2011

"Monetary policy can be a powerful tool, but it is not a panacea for the problems currently faced by the U.S. economy. Fostering healthy growth and job creation is a shared responsibility of all economic policymakers, in close cooperation with the private sector. For our part, we at the Federal Reserve will continue to work to help create an environment that provides the greatest possible economic opportunity for all Americans."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Oct	International Trade Balance	AUG	-\$45.0B	-\$46.0B	-\$44.8B
13-Oct	Initial Jobless Claims	8-Oct	405K	405K	401K
13-Oct	Continuing Claims	1-Oct	3710K	3710K	3700K
13-Oct	Treasury Budget	SEPT	-\$100.0B	--	-\$134.2B
14-Oct	Advance Retail Sales	SEPT	0.30%	0.60%	0.00%
14-Oct	Retail Sales Less Autos	SEPT	0.10%	0.30%	0.10%
14-Oct	Import Prices (MoM)	SEPT	-0.10%	-0.40%	-0.40%
14-Oct	Export Prices (MoM)	SEPT	0.10%	--	0.50%
14-Oct	Consumer Sentiment	OCT	60.00	60.30	59.40
14-Oct	Business Inventories	AUG	0.40%	0.40%	0.40%

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