

Weekly Watch

U.S.

Highlights

17 October 2011
Economic Analysis

U.S.

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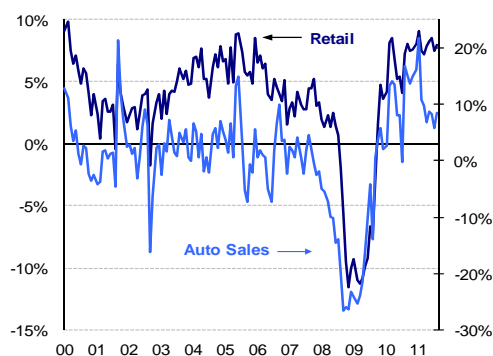
Auto sector drives September boost in retail sales

Retail sales estimates for September show better-than-expected consumer activity, up 1.1% MoM and beating consensus expectations for 0.8% growth. Much of the gain was driven by strength in the auto sector, with motor vehicle sales up 3.7%. Excluding autos, sales grew 0.6% MoM reflecting gains in clothing and accessories (1.3%), food services and drinking places (1.3%), and gasoline stations (1.2%). Retail sales excluding both autos and gas were up 0.5%, suggesting some recovery in other consumer goods. On the downside, sales of sporting goods, hobby, book and music stores, and building materials declined in September, however, contraction was minimal. Upward revisions to retail sales in August (from 0.0% to 0.3% for total sales and 0.1% to 0.5% excluding autos) suggest a slightly stronger recovery than previously thought. On a YoY basis, total and ex-auto retail sales are up 7.9% and 7.8%, respectively, and continue to surpass historical highs. Although various retail surveys have indicated slowing sales for the month, consumer confidence indicators have edged up slightly and concerns over a deteriorating economy have fallen. As consumers appear to be loosening their spending habits, the likelihood of a double-dip recession has declined.

Trade balance unchanged from July, exports remain strong

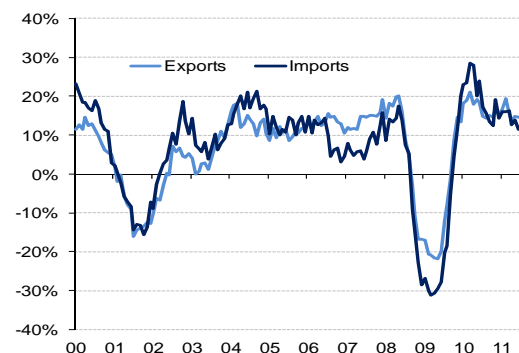
The US trade balance was unchanged in August from a revised -\$45.6bn in July, slightly beating consensus expectations of -\$46.0bn. Widening of the petroleum balance from -\$25.7bn to -\$26.1bn weighed on the overall trade gap, while the nonpetroleum goods balance narrowed slightly. Exports of goods and services remained strong near historical highs, declining only 0.1% after a 3.4% jump in July. On the goods side, exports were led by industrial supplies and materials, and foods, feeds and beverages. Auto exports fell sharply after a large gain in the previous month. Declining imports of capital and consumer goods reflect the sluggish demand conditions facing the domestic economy. The services surplus increased slightly due to small gains in service exports and a 0.4% decline in imports. Although the trade balance has improved significantly since the depths of the recession, sustained export growth is necessary for stronger GDP growth. Petroleum prices appear to be trending downward from a 2-year peak in April and could contribute to a reduction in the value of imports. Looking forward, further export boosts and moderating price pressures should limit significant widening of the trade balance.

Graph 1
Retail and Auto Sales (Annual % Change)



Source: US Census Bureau

Graph 2
US Exports and Imports (Annual % Change)



Source: US Census Bureau

Week Ahead

Empire State Manufacturing Index (October, Monday 8:30 ET)

Forecast: -2.00

Consensus: -4.00

Previous: -8.82

The Empire State Manufacturing Index is likely to suggest slowing in the manufacturing sector for the fifth consecutive month despite some improvements in business activity. Inventories and new orders have declined throughout the past few months and sluggish demand conditions indicate little upside potential. Expectations for the next six months have improved slightly, but levels remain well below highs from the beginning of the year. While overall employment conditions have been better than expected, employment in the manufacturing sector has declined for two straight months. Thus, we expect manufacturing weakness to continue, although slightly less severe than last month.

Industrial Production (September, Monday 9:15 ET)

Forecast: 0.2%

Consensus: 0.2%

Previous: 0.2%

Industrial production is expected to grow again in September at a similar pace as in August. Exports of goods and services have remained strong despite slowdowns in demand stemming from the sovereign debt crises in Europe. Manufacturing expectations for the coming months have improved, however, regional Fed surveys continue to suggest slowing in the manufacturing sector. In addition, monthly auto production declined in September, limiting the upside growth potential for total industrial production.

Consumer Price Index, Core (September, Wednesday 8:30 ET)

Forecast: 0.2%, 0.2%

Consensus: 0.3%, 0.2%

Previous: 0.4%, 0.2%

Consumer prices are beginning to moderate after two months of higher-than-expected headline inflation. Rising food and energy prices have driven inflation throughout the summer months. However, both appear to have declined slightly in September. The commodity price index has dropped significantly since its peak in April 2011 and lower global growth prospects should limit runaway food inflation. Continued weakness in economic activity will likely keep headline price pressures in check with limited pass-through to core inflation.

Housing Starts (September, Wednesday 8:30 ET)

Forecast: 560K

Consensus: 595K

Previous: 571K

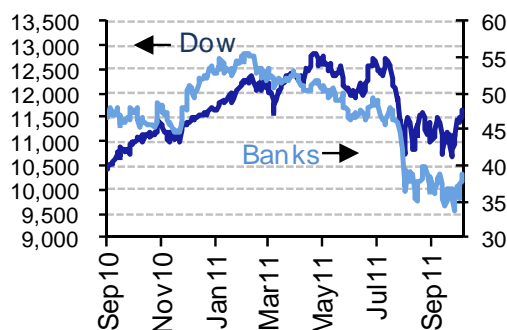
Housing starts are expected to remain low in September given continued pessimism among home builders. An increasing supply of foreclosures has reduced prices and boosted sales of existing homes, which deter buyers from investing in new homes. Furthermore, building permits hovering near historical lows suggest that demand has not yet recovered. The housing market outlook is grim and we expect little change from last month's discouraging data.

Market Impact

This week will hopefully bring better economic data for the end of 3Q11. The Fed has stressed that inflation will settle within their comfort zone, so worries of rising price pressures are minimal. However, another month of higher-than-expected headline inflation could raise concerns. Although positive industrial production growth will keep markets calm, surprising setbacks could reignite concerns of a double-dip recession.

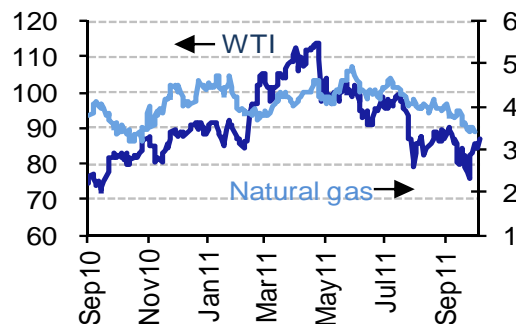
Financial Markets

Graph 3
Stocks (Index, KBW)



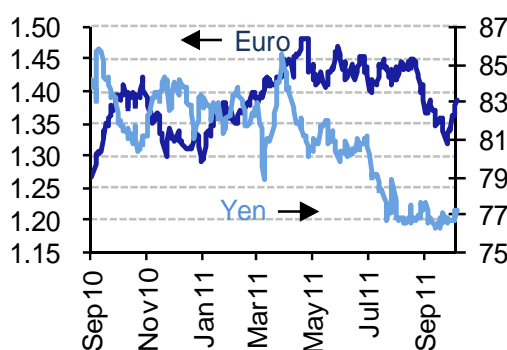
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



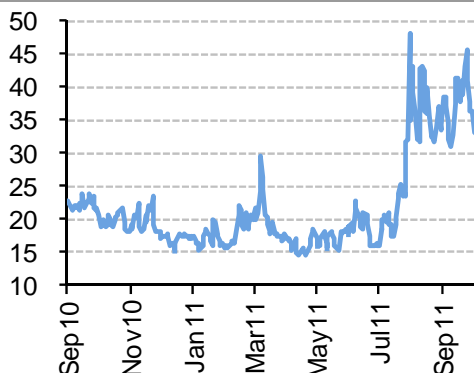
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



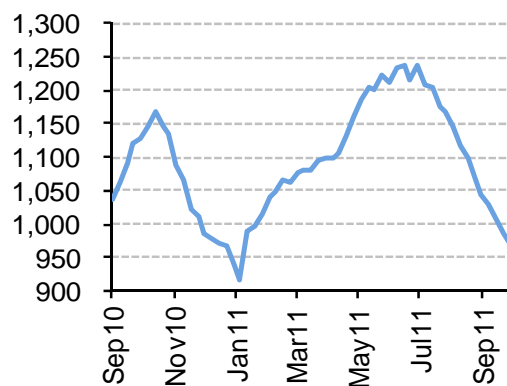
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



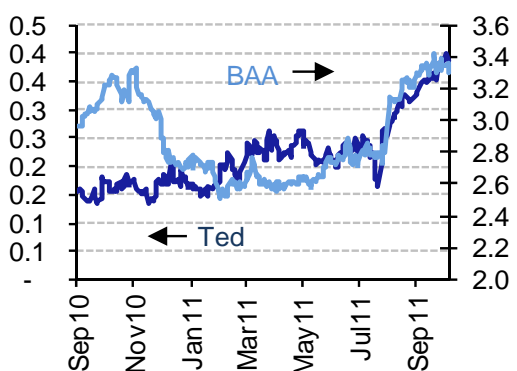
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

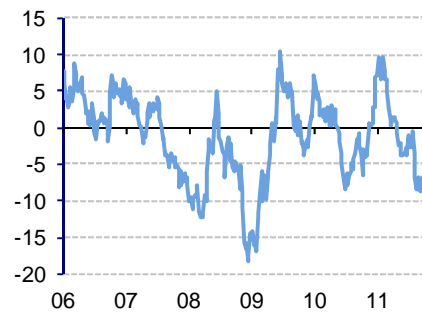
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

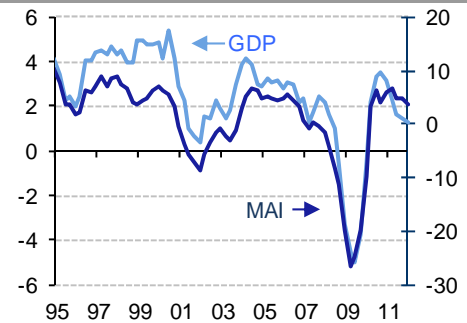
Economic Trends

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)



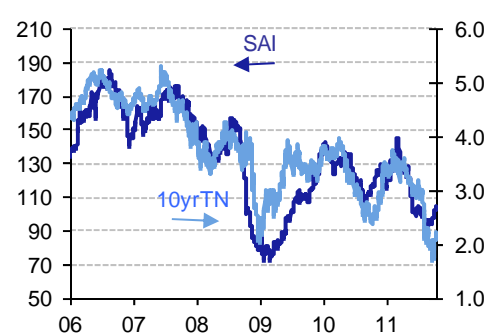
Source: BBVA Research & BEA

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



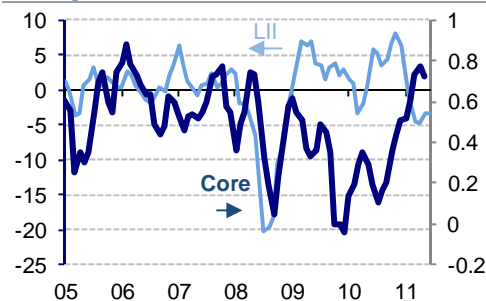
Source: BBVA Research

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



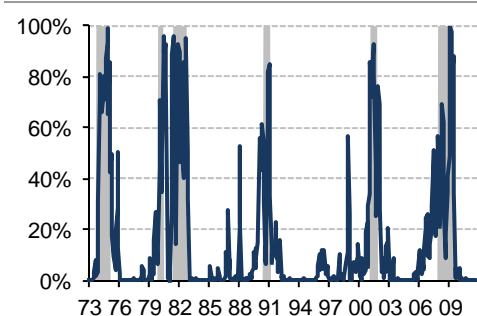
Source: Bloomberg & BBVA Research

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

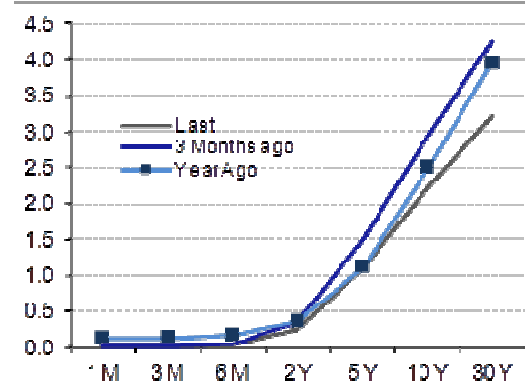
Yield Curve and Interest Rates

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	13.95	13.58
New Auto (36-months)	4.08	4.12	4.22	5.84
Heloc Loan 30K	5.50	5.50	5.47	5.48
30-year Fixed Mortgage *	4.12	3.94	4.09	4.19
Money Market	0.54	0.55	0.56	0.73
2-year CD	0.93	0.93	0.98	1.31
5-year CD	1.74	1.74	1.78	2.18

* 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

US Treasury Secretary Timothy F. Geithner
Geithner Says Europe 'Clearly Moving' Toward Crisis Package
14 October 2011

"Europe as a whole has very substantial resources to help manage their problems. Through the IMF we have a direct stake in the choices they're making. We're going to be as forceful and persuasive as we can."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Oct	Empire State Manufacturing Survey	OCT	-2.00	-4.00	-8.82
17-Oct	Industrial Production	SEPT	0.20%	0.20%	0.20%
17-Oct	Capacity Utilization	SEPT	77.50%	77.50%	77.40%
18-Oct	Producer Price Index (MoM)	SEPT	0.10%	0.20%	0.00%
18-Oct	PPI Ex Food & Energy (MoM)	SEPT	0.10%	0.10%	0.10%
18-Oct	NAHB Housing Market Index	OCT	14.00	15.00	14.00
19-Oct	Consumer Price Index (MoM)	SEPT	0.20%	0.30%	0.40%
19-Oct	CPI Ex Food & Energy (MoM)	SEPT	0.20%	0.20%	0.20%
19-Oct	Housing Starts	SEPT	560K	595K	571K
19-Oct	Housing Starts (MoM)	SEPT	-1.93%	4.20%	-5.46%
19-Oct	Building Permits	SEPT	600K	610K	620K
19-Oct	Building Permits (MoM)	SEPT	-4.00%	-2.40%	3.85%
20-Oct	Initial Jobless Claims	15-Oct	400K	402K	404K
20-Oct	Continuing Claims	8-Oct	3690K	3675K	3670K
20-Oct	Existing Home Sales	SEPT	5.10M	4.93M	5.03M
20-Oct	Existing Home Sales (MoM)	SEPT	1.39%	-2.10%	7.70%
20-Oct	Philadelphia Fed Survey	OCT	-5.00	-9.80	-17.50
20-Oct	Leading Indicators	SEPT	0.20%	0.30%	0.30%

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