

Weekly Watch

U.S.

Highlights

31 October 2011
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Hakan Danis
hakan.danis@bbvacompass.com

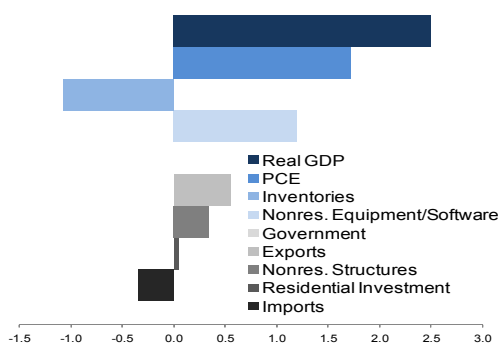
2H11 growth off to a better start than early 2011

The advance GDP estimate for 3Q11 suggests a stronger 2H11, with real growth coming in at 2.5% annualized compared to 1.3% in 2Q and 0.4% in 1Q. Personal consumption expenditures were the largest contributor to the acceleration in growth, up 2.4% from 0.7% in the previous quarter. Specifically, durable goods jumped 4.1% following a 5.3% decrease in 2Q11. Other positive contributions stemmed from nonresidential equipment and software, net exports, and nonresidential structures. In general, the GDP figure for 3Q11 represents a much-needed pickup in demand, with final sales of domestic purchases up 3.6%. Business fixed investment also increased significantly from the first half of 2011. Government spending was flat for the quarter, as a 2% rise in federal spending (mostly defense-related) offset a 1.3% decline at the state and local level. On the downside, changes in real private inventories and imports dragged down overall growth in the quarter. In regards to inflation, the GDP price index remained steady at 2.5% for the third consecutive quarter. Overall, today's data are in line with our baseline scenario for stronger growth in 2H11 and should diminish most fears of a double-dip recession for the time being. However, weak employment growth and other downside risks (political brinkmanship and slowdowns in Europe) will limit significant acceleration in 4Q11.

Transportation drags down durable goods for September

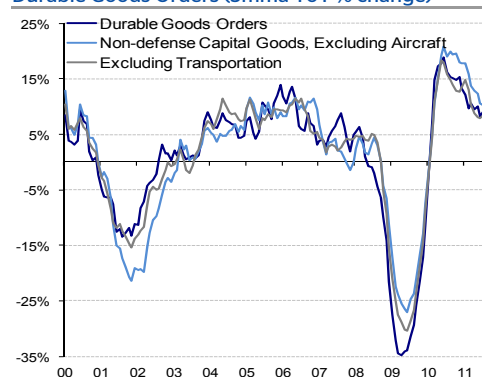
Durable goods orders declined for the second consecutive month in September, down 0.8% MoM following a 0.1% dip in August. Transportation accounted for much of the weakness, falling 7.5%, due in large part to a 27.8% decline in aircraft orders. Despite a surge in motor vehicle sales for September, orders fell 2.7%. On the upside, durable goods orders excluding transportation increased 1.7%, marking the largest gain since March 2011. Defense capital goods jumped 8.6% while nondefense capital goods excluding aircraft increased 2.4% for the month. Although aircraft dragged down total capital goods orders, the underlying positive data suggest modest improvements in business investment. Overall, durable goods orders are up 4.9% YoY and have rebounded since the end of the recession to about half of the historical peak. Manufacturing data suggested continued weakness in September, however, October appears to be a better month for the sector. While we expect only modest growth for the next few quarters, improvements in demand conditions could be a good sign for durable goods in the coming months.

Graph 1
Contributions to Real GDP Growth (SAAR % Points)



Source: Bureau of Economic Analysis

Graph 2
Durable Goods Orders (3mma YoY % change)



Source: US Census Bureau

Week Ahead

ISM Manufacturing Index (October, Tuesday 10:00 ET)

Forecast: 52.0

Consensus: 52.0

Previous: 51.6

The ISM Manufacturing Index is expected to show slight acceleration in economic activity compared to last month. Third quarter figures were much weaker than in 1H11, but regional Federal Reserve surveys suggest some improvements in October. Rebounds in production and new orders may suggest a recovery in demand. However, price pressures have been stronger than expected lately and could increase the downside risk to demand expectations. Furthermore, manufacturing employment is not expected to improve much after two consecutive months of declines.

Construction Spending (September, Tuesday 10:00 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: 1.4%

Better-than-expected housing data should lift construction spending in September, though at a slower pace compared to August. Public sector outlays led to a significant gain in August despite consensus expectations for a small MoM decline. While residential remains weak, investment in nonresidential structures appears to be increasing. Furthermore, housing starts jumped 15% in September, the most since January 2011, despite a drop in the homebuilder outlook for the month. Thus, construction spending should sway toward positive side.

ISM Non-Manufacturing Index (October, Thursday 10:00 ET)

Forecast: 53.5

Consensus: 53.6

Previous: 53.0

The non-manufacturing sector has fared better than manufacturing in recent months, and we expect this trend to continue into October. Both the new orders and business activity components increased in September, suggesting a modest rebound in demand. However, weakness in the employment component continues to drag on the index, falling below 50 last month for the first time since August 2010 to indicate conservative hiring plans among non-manufacturers. While this may keep the index close to the no-growth scenario, we do not expect contractions in the non-manufacturing sector.

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

Forecast: 105K, 9.1%

Consensus: 95K, 9.1%

Previous: 103K, 9.1%

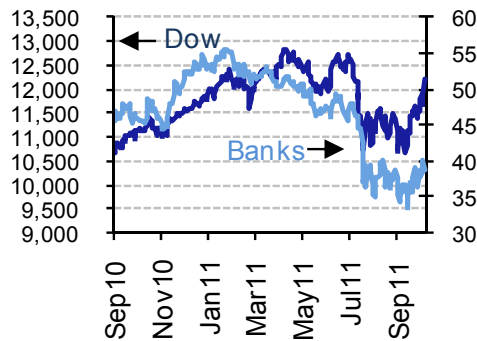
Mixed economic reports in October suggest little improvement in the employment situation and only modest growth in nonfarm payrolls for the month. Despite upward revisions to Q3 data in last month's report, employers continue to announce planned job cuts. Employment data in manufacturing reports have been mixed, suggesting that job growth in the sector will be weak. Furthermore, government layoffs are likely to continue. Initial jobless claims have hovered near 400K but have not dropped below this level since September. Given these labor market trends, we do not expect the unemployment rate to fall.

Market Impact

Markets should be more optimistic this week following a stronger 3Q GDP report. While fears of a double-dip recession have eased, weak employment data could turn the tables again and put pressure on the Fed to take action. In addition, ISM reports could cause some anxiety if they do not indicate improvements in business conditions. Moreover, markets will also focus on Wednesday's Fed meeting and press conference.

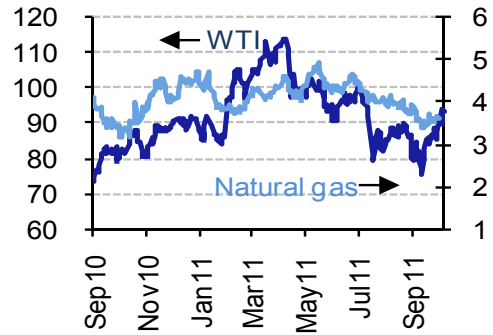
Financial Markets

Graph 3
Stocks (Index, KBW)



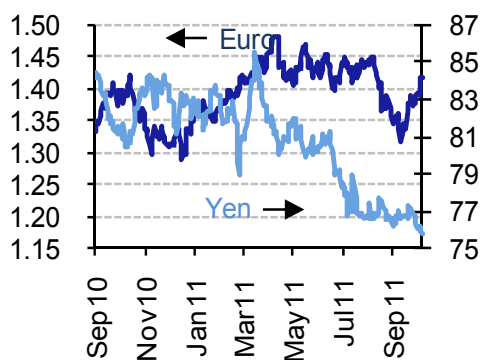
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



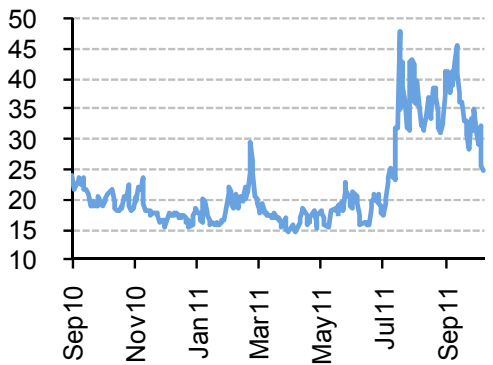
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



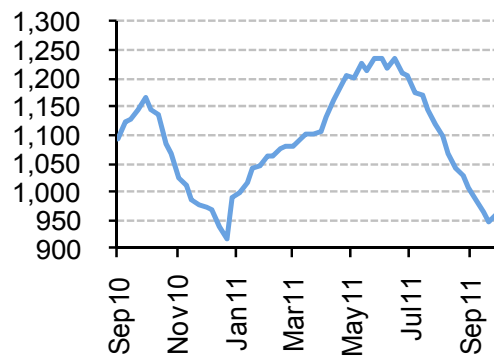
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



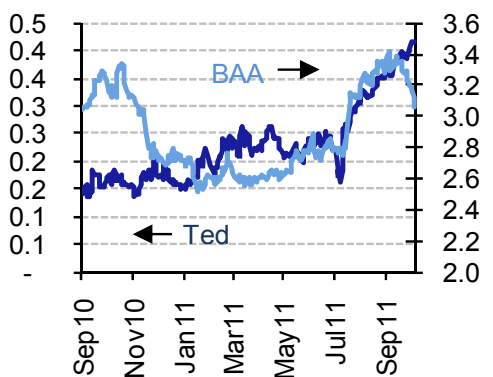
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

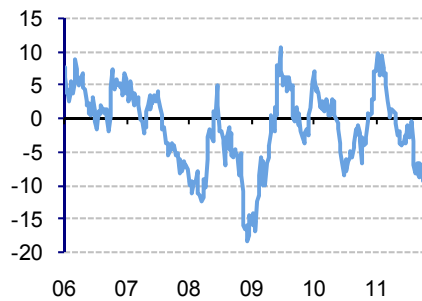
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

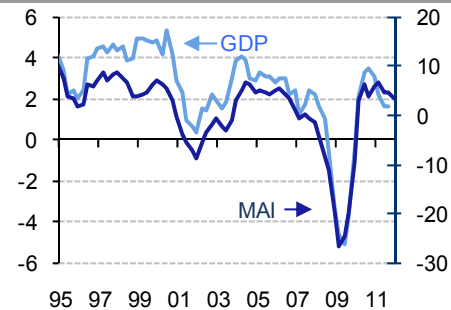
Economic Trends

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)



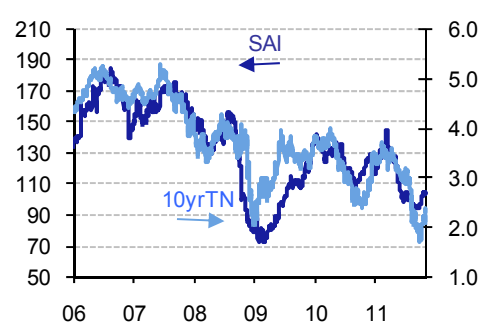
Source: BBVA Research & BEA

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



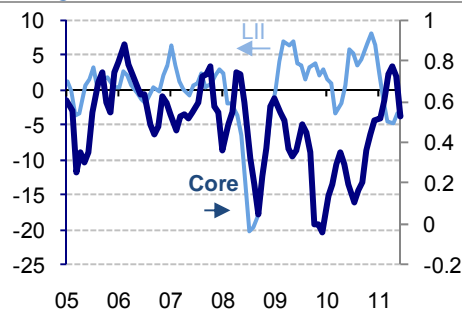
Source: BBVA Research

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



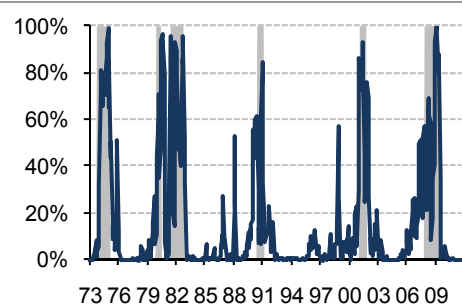
Source: Bloomberg & BBVA Research

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

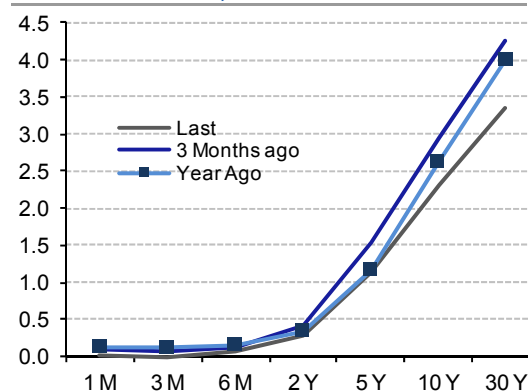
Yield Curve and Interest Rates

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)	13.96	13.96	13.95	13.83
New Auto (36-months)	4.08	4.07	4.08	5.80
Heloc Loan 30K	5.49	5.52	5.50	5.44
30-year Fixed Mortgage *	4.10	4.11	4.01	4.23
Money Market	0.52	0.54	0.54	0.71
2-year CD	0.84	0.87	0.95	1.25
5-year CD	1.58	1.59	1.75	2.09

* 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

President Barack Obama
Europe Debt Will Affect US Economy
27 October 2011

"If Europe is weak, if Europe is not growing, as our largest trading partner, that's going to have an impact on our businesses and our ability to create jobs here in the United States."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
31-Oct	Chicago Purchasing Manager Index	OCT	60.00	59.00	60.40
1-Nov	Total Vehicle Sales	OCT	13.00M	13.20M	13.10M
1-Nov	Domestic Vehicle Sales	OCT	10.10M	10.30M	10.00M
1-Nov	ISM Manufacturing Index	OCT	52.00	52.00	51.60
1-Nov	Construction Spending (MoM)	SEPT	0.20%	0.30%	1.40%
2-Nov	ADP Employment Change	OCT	115K	100K	91K
2-Nov	FOMC Meeting Announcement	OCT	0.25%	0.25%	0.25%
3-Nov	Initial Jobless Claims	29-Oct	400K	400K	402K
3-Nov	Continuing Claims	22-Oct	3670K	3700K	3645K
3-Nov	Nonfarm Productivity	3Q	2.50%	2.80%	-0.70%
3-Nov	Unit Labor Costs	3Q	-0.40%	-0.50%	3.30%
3-Nov	Factory Orders	SEPT	-0.20%	-0.10%	-0.20%
3-Nov	ISM Non-Manufacturing Index	OCT	53.50	53.60	53.00
4-Nov	Change in Nonfarm Payrolls	OCT	105K	95K	103K
4-Nov	Change in Private Payrolls	OCT	115K	125K	137K
4-Nov	Change in Manufacturing Payrolls	OCT	0K	4K	-13K
4-Nov	Unemployment Rate	OCT	9.1%	9.1%	9.1%

Chief Economist for US

Nathaniel Karp
Nathaniel.karp@bbvacompass.com

Ignacio San Martin
Ignacio.SanMartin@bbvacompass.com

Hakan Danış
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

2001 Kirby Drive
Houston, Texas 77019

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