

# Weekly Watch

U.S.

## Highlights

7 November 2011  
Economic Analysis

U.S.

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### FOMC Downgrades Growth Forecast for 2012-2013, Talks of More Stimulus

The latest FOMC statement repeated many of the themes from the previous meeting, but with a dissent from one member urging more accommodation. While growth strengthened in 3Q11, overall economic conditions remain insufficiently strong to appreciably reduce the unemployment rate. Growth remains limited by household deleveraging, global financial uncertainty, sluggish residential investment, and tight credit conditions. The Fed's new projections suggest a downgraded outlook for the economy, lowering their estimate for 2012-2013 GDP growth and increasing their projection for 2012-2013 unemployment rates. The lack of new insight from the statement reflects the strong internal discussion occurring within the Fed regarding the need for additional stimulus. The first step towards more stimulus will likely involve a new communication mechanism in December. Furthermore, the December meeting has the potential for more drastic action only if financial conditions worsen considerably. January's meeting will involve a change in committee membership and new members will lean more towards Bernanke's views, increasing the probability that a new round of mortgage-backed securities (MBS) purchases will occur.

### October Report Hints at Improvements in Employment Conditions

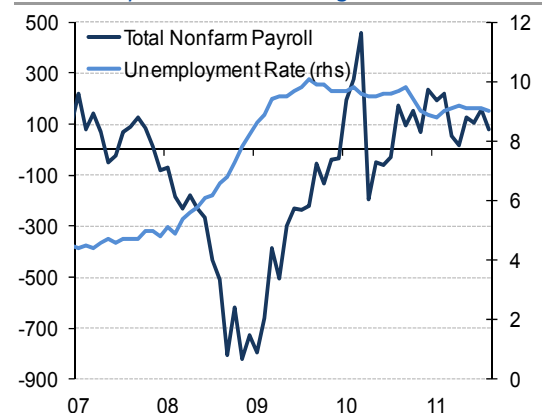
The employment situation in October was slightly weaker than expected, with payrolls up only 80K compared to consensus of 90K. A rise of 104K in private sector hiring was weighed down by continued declines in government payrolls at both the federal and state/local levels. On the bright side, payrolls from the previous two months were revised upward, from 57K to 104K in August and from 103K to 158K in September. This net gain of 102K in total payrolls, including a gain of 84K in the private sector, was enough to bring down the unemployment rate to 9.0%. Other good news in the data include a decline in the number of long-term unemployed as well as a decline in the number of persons working part time for economic reasons. Furthermore, the number of discouraged workers declined significantly from 12 months ago, suggesting that attitudes toward job availability are improving. In addition, average hourly earnings for all employees increased 0.2% for the month. Although hiring in October appears to have slowed, the underlying data indicate that the employment situation is improving gradually, in line with our baseline scenario.

Graph 1  
Federal Reserve Forecasts

Nov 2011 FOMC Projections					
	2011	2012	2013	2014	Long-term
<b>GDP, 4Q yoy % change</b>					
High	1.8	3.5	4.0	4.5	3.0
Low	1.6	2.3	2.7	2.7	2.2
<b>Unemployment rate, %</b>					
High	9.1	8.9	8.4	8.0	6.0
Low	8.9	8.1	7.5	6.5	5.0
<b>Core PCE, yoy % change</b>					
High	2.0	2.1	2.1	2.2	--
Low	1.7	1.3	1.4	1.4	--

Source: Federal Reserve Board

Graph 2  
Nonfarm Payrolls & UR (MoM change in K, %)



Source: Bureau of Labor Statistics

## Week Ahead

### Consumer Credit (September, Monday 15:00 ET)

Forecast: \$5.7B	Consensus: \$5.2B	Previous: -\$9.5B
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Seasonally-adjusted consumer credit is expected to improve in September after declining in August for the first time in 11 months. Much of the decline reflected a surprising drop in nonrevolving credit, which may have been influenced by a fixed seasonal adjustment. On a non-seasonally-adjusted basis, data continue to suggest strength in both revolving and nonrevolving credit. In the coming months, we expect to see nonrevolving credit revert back to trend as the seasonality affects become less intense. Although the outlook for consumer activity has improved slightly, revolving credit continues to hover near pre-recession lows.

### Wholesale Inventories (September, Wednesday 10:00 ET)

Forecast: 0.5%	Consensus: 0.5%	Previous: 0.4%
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Historically-high inventories have been a concern among businesses but finally appear to be decelerating. Sluggish demand conditions have contributed to slower growth in wholesale inventories during the summer months compared to earlier in the year. Data from the past few months suggest that wholesalers are beginning to deplete old inventories while consumer demand rebounds. However, regional Federal Reserve surveys have indicated relatively strong inventories for the month, with durable goods stronger than nondurables. While a decline in supply levels is unlikely, we do expect a slowing in inventory accumulation.

### International Trade Balance (September, Thursday 8:30 ET)

Forecast: -\$45.0B	Consensus: -\$46.0B	Previous: -\$45.6B
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The trade balance is expected to remain relatively unchanged in September due to continued weakness in global markets. Exports are expected to decline given the slowdowns in demand stemming from the European sovereign debt crisis, but levels remain strong compared to historical trends. Imports, on the other hand, declined in August and are beginning to trend downward on a YoY basis. Businesses remain pessimistic about economic prospects and are likely holding back on importing consumer goods and capital equipment. Thus, slowing in both exports and imports should lead to no significant changes in the trade gap.

### Consumer Sentiment (November, Friday 9:55 ET)

Forecast: 62.0	Consensus: 61.5	Previous: 60.9
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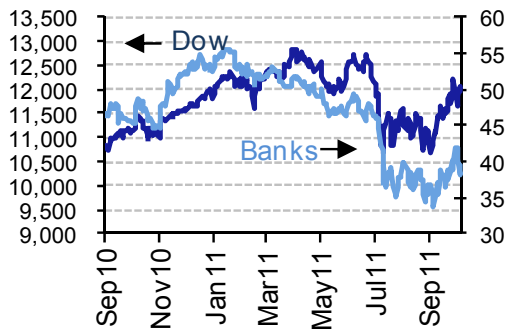
Gradual improvement in consumer sentiment is expected to continue into November after two months of minimal gains. Consumer expectations for future conditions have dragged down overall sentiment in recent months, however, feelings toward the current situation are stronger. The latest employment report suggests better-than-expected hiring compared to previous estimates, and average hourly earnings continue to increase. Furthermore, easing in inflation expectations may help to boost consumer activity.

### Market Impact

This week's indicators will provide markets with an understanding of business and consumer activity that could signal growing strength in the recovery. In addition, markets will get a last look at the trade balance for Q3, which can have significant implications for revisions to GDP growth for the quarter. However, the lagged report should cause little anxiety in the market unless it suggests a downward revision to the advance GDP estimate.

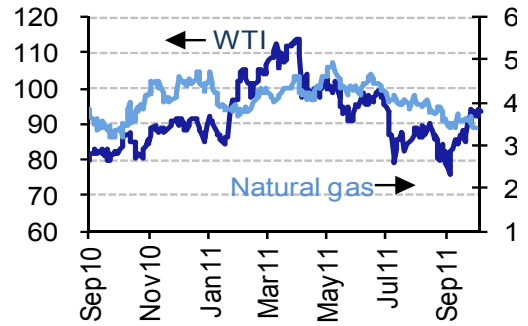
## Financial Markets

Graph 3  
Stocks (Index, KBW)



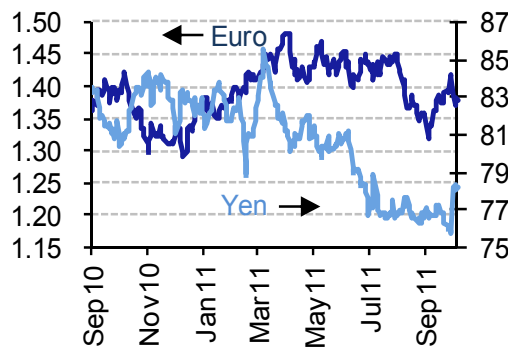
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



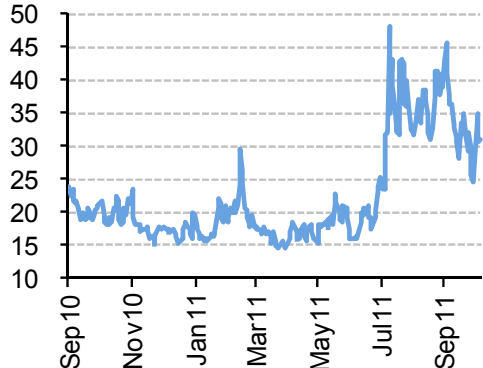
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



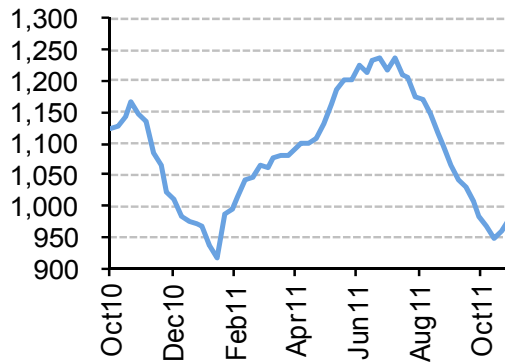
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



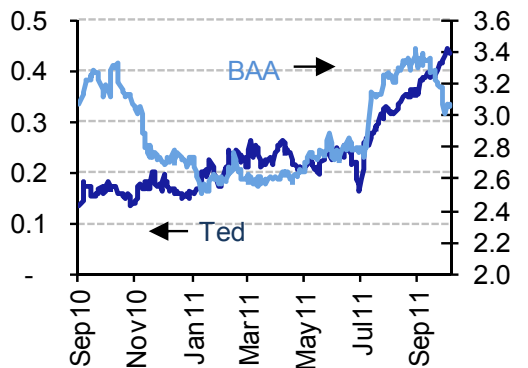
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

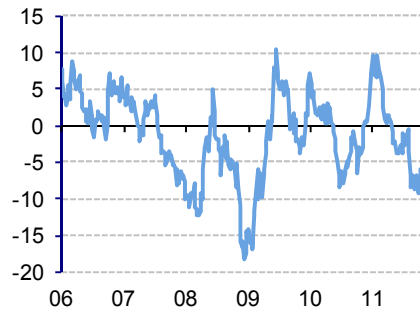
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

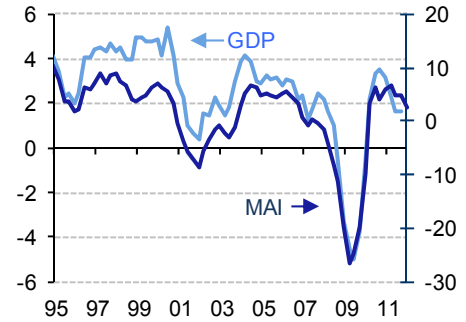
## Economic Trends

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)



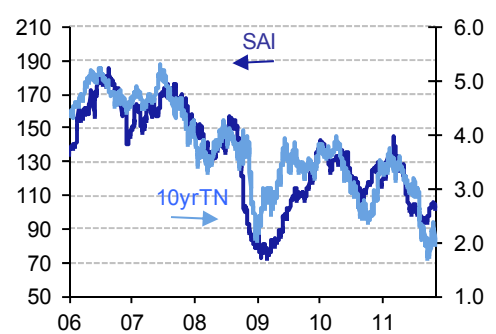
Source: BBVA Research & BEA

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



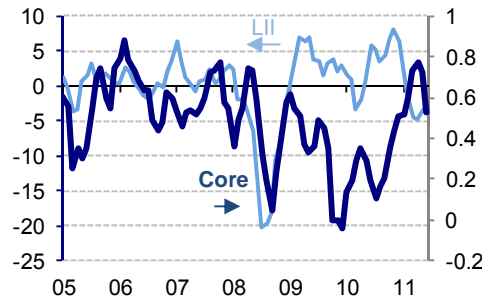
Source: BBVA Research

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



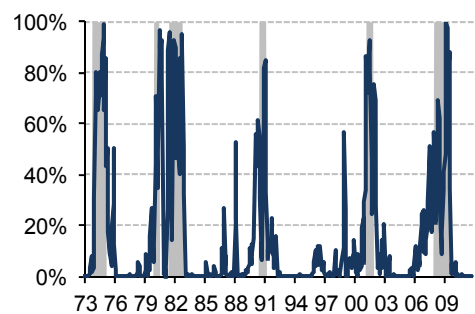
Source: Bloomberg & BBVA Research

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

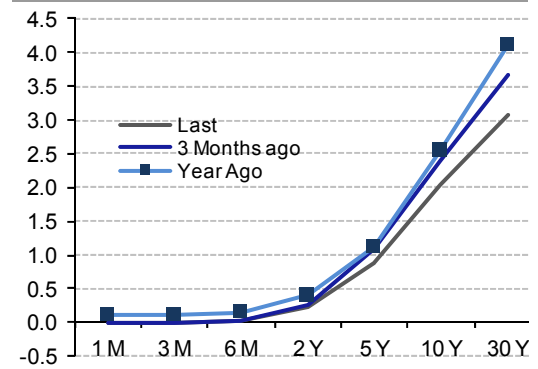
## Yield Curve and Interest Rates

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)	4.04	4.08	4.12	5.62
Heloc Loan 30K	5.52	5.49	5.50	5.45
30-year Fixed Mortgage *	4.00	4.10	3.94	4.24
Money Market	0.52	0.52	0.55	0.71
2-year CD	0.90	0.84	0.93	1.26
5-year CD	1.67	1.58	1.74	2.06

\* 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

President Barack Obama  
Progress Made on Global Economic Recovery  
4 November 2011

*"They're going to have a strong partner in us, but European leaders understand that ultimately what the markets are looking for is a strong signal from Europe that they're standing behind the Euro. There's no excuse for inaction. That's true globally. It's certainly true back home. And I'm going to keep pushing it."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Nov	Consumer Credit	SEPT	\$5.7B	\$5.2B	-\$9.5B
9-Nov	Wholesale Inventories	SEPT	0.50%	0.50%	0.40%
10-Nov	International Trade Balance	SEPT	-\$45.0B	-\$46.0B	-\$45.6B
10-Nov	Initial Jobless Claims	5-Nov	400K	400K	397K
10-Nov	Continuing Claims	29-Oct	3690K	3680K	3683K
10-Nov	Import Prices (MoM)	OCT	-0.10%	0.20%	0.30%
10-Nov	Export Prices (MoM)	OCT	0.20%	--	0.50%
10-Nov	Treasury Budget	OCT	-\$100.0B	-\$105.0B	-\$64.6B
11-Nov	Consumer Sentiment	NOV	62.00	61.50	60.90

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