

Weekly Watch

U.S.

Highlights

14 November 2011
Economic Analysis

U.S.

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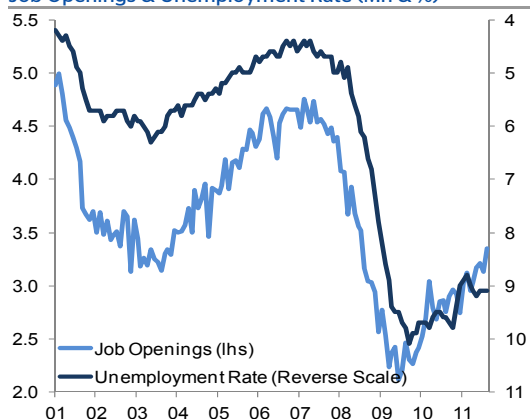
JOLTS Report Shows Job Vacancies at Highest Rate Since August 2008

The Job Openings and Labor Turnover Survey (JOLTS) for September hints at gradual improvements in the labor market as the economy gets back on track for recovery. After a weak report in August, the number of job openings jumped to 3.4mn in September, the highest since August 2008, marking a 38% increase since the end of the recession in June 2009. On a seasonally-adjusted basis, most industries and regions experienced an increase in vacancies. A rise in separations could be partially responsible for the significant increase in job openings, with an increase in the number of quits as more employees feel comfortable with the prospect of finding other positions. The number of layoffs and discharges has returned to pre-recession levels, suggesting that businesses may be reaching the end of planned job cuts as a primary cost-cutting strategy. Given that the report is lagged, this data appears to be good foreshadowing for declines in the unemployment rate, which fell slightly to 9.0% in October. The question remains whether businesses are willing to boost hiring enough to push unemployment even lower. The good news is that hiring rates have increased slightly over the past few months, with levels slowly approaching the 5.0mn mark listed when the recession began in January 2008. The response of hiring to the job openings rate will also be instructive of structural unemployment.

Global Slowdowns Less Troublesome for the US Trade Balance in September

Despite expectations for weaker external demand, the trade gap improved to -\$43.1bn from a revised -\$44.9 billion in August, mostly due to a 1.4% rise in exports. Much of the demand for exports came from the goods side, as service exports declined for the first time in six months. In addition, flight-to-safety attitudes stemming from the European debt crisis led to a rise in gold exports. Imports also increased in September but at a slower pace than exports, up 0.3% following three months of declines. The petroleum balance widened for the second consecutive month, partially offsetting improvements in the nonpetroleum goods gap. While imports of industrial supplies and autos also increased, declines in capital and consumer goods suggest that businesses remain pessimistic about economic prospects and are likely holding back on these goods until demand conditions improve. Overall, trade data for September is good news for Q3 GDP and reduces concerns regarding downward revisions to the advance estimate.

Graph 1
Job Openings & Unemployment Rate (Mn & %)



Source: Bureau of Labor Statistics

Graph 2
US Exports & Imports (Annual % change)



Source: US Census Bureau

Week Ahead

Retail Sales, Ex. Auto (October, Tuesday 8:30 ET)

Forecast: 0.4%, 0.3%	Consensus: 0.3%, 0.2%	Previous: 1.1%, 0.6%
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Retail sales are expected to increase in October for the fifth consecutive month as consumer activity recovers. A rise in auto sales likely drove headline retail volume for the month, although the gain reflected fewer expensive truck sales compared to the previous report. While weather issues may have been a concern in some regions, Halloween-related sales likely boosted the ex-auto figure at month's end. In general, retail sales are expected to be softer than in September but should continue growing as we approach the holiday shopping season.

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

Forecast: 0.1%, 0.1%	Consensus: 0.0%, 0.1%	Previous: 0.3%, 0.1%
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High food and energy prices have exerted pressure on headline inflation throughout the past few months, however, we expect this trend to moderate in October. Price pressures are slowing, with declines in both import and export prices. While some oil and other commodity prices increased in October, others declined slightly. Furthermore, slowing demand conditions have eased both input and output prices in the manufacturing sector. Core inflation is also slowing in line with Fed expectations for more stable prices in the coming months.

Industrial Production (October, Wednesday 9:15 ET)

Forecast: 0.2%	Consensus: 0.4%	Previous: 0.2%
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Industrial production is expected to expand again in October due in large part to increasing production in the auto sector. Manufacturing conditions are finally beginning to turn around, with reports of increased shipments and new orders. Although nondurable goods production has declined slightly throughout the past few months, the durable goods component continues to hold strong. The industrial production index is slowly approaching levels seen before the crisis began in 2008, and we expect this trend to continue as the economic recovery gains momentum.

Housing Starts (October, Thursday 8:30 ET)

Forecast: 630K	Consensus: 606K	Previous: 658K
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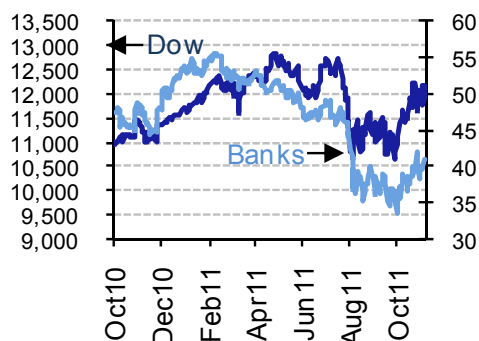
Increasing demand for multifamily homes led to a better-than-expected jump in housing starts in September, yet levels remain at only one-quarter of the pre-recession peak. While the latest homebuilder outlook suggests sizeable improvement in the residential market, demand does not appear to be rebounding quickly enough to absorb the additional supply of homes. Furthermore, weakness in building permit issuance could indicate a decline in new home starts for October. Thus, we expect housing starts to be slower than September but remain above the low levels seen throughout the summer months.

Market Impact

This week's indicators should cause little anxiety in the market given that much of the economic focus remains tied to Europe. While it is not yet clear that the US is safe from troubled waters, continued growth in production and retail sales should confirm that the recovery is gaining momentum. Furthermore, moderating price pressures should ease worries for both consumers and producers.

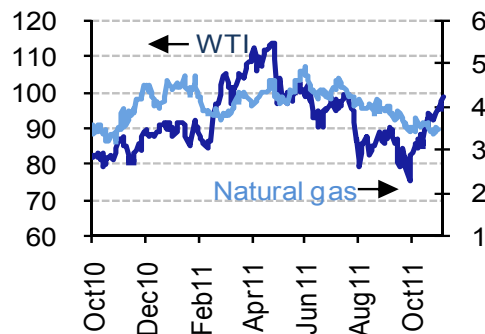
Financial Markets

Graph 3
Stocks (Index, KBW)



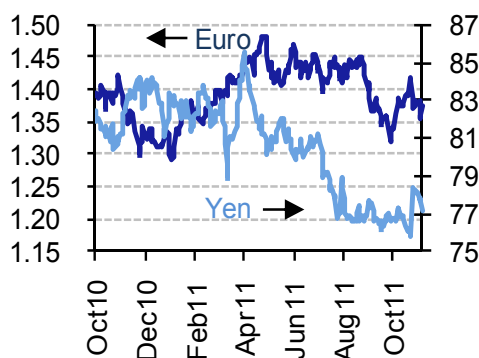
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



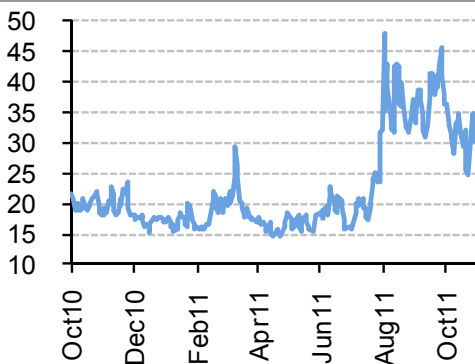
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



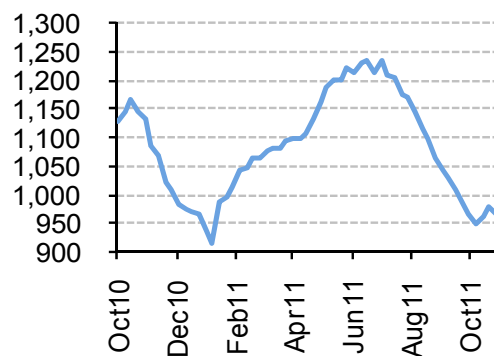
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



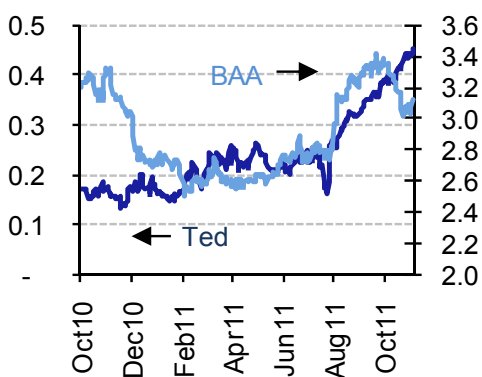
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

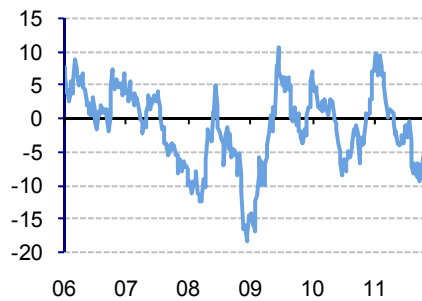
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

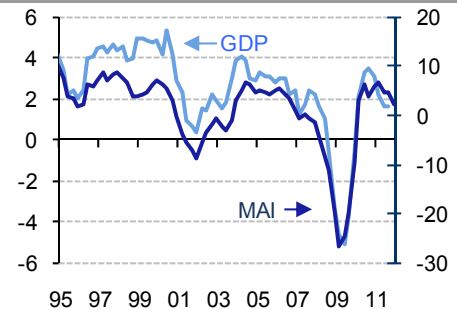
Economic Trends

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)



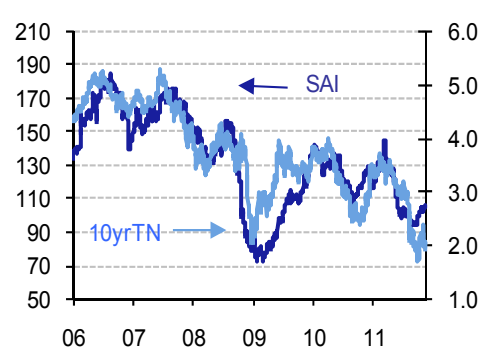
Source: BBVA Research & BEA

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



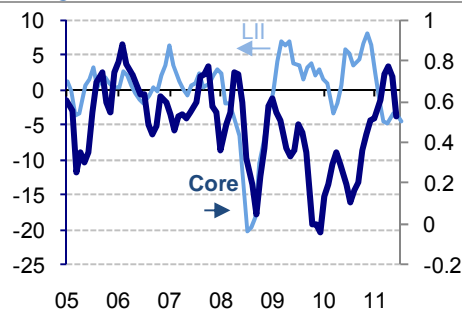
Source: BBVA Research

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



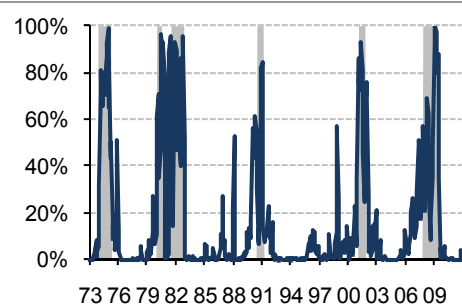
Source: Bloomberg & BBVA Research

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

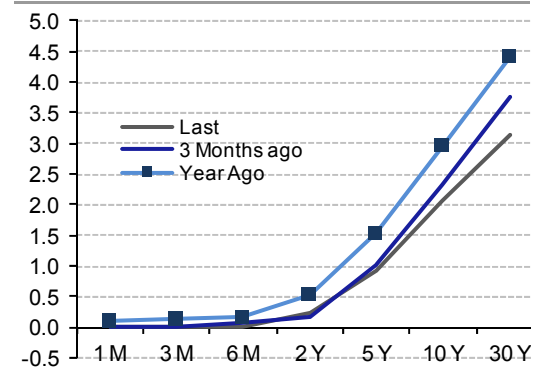
Yield Curve and Interest Rates

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)	4.13	4.04	4.08	5.58
Heloc Loan 30K	5.54	5.52	5.50	5.46
30-year Fixed Mortgage *	3.99	4.00	4.12	4.17
Money Market	0.53	0.52	0.54	0.71
2-year CD	0.96	0.90	0.93	1.24
5-year CD	1.66	1.67	1.74	2.05

* 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

British Prime Minister David Cameron
Italy "Clear and Present Danger" to Euro Zone
10 November 2011

"What is happening in Italy is a warning to any country, any government, without a credible plan to deal with excessive debts and excessive deficits that you need a plan and you need to stick to that plan."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Nov	Producer Price Index (MoM)	OCT	0.00%	-0.10%	0.80%
15-Nov	PPI Ex Food & Energy (MoM)	OCT	0.10%	0.10%	0.20%
15-Nov	Advance Retail Sales	OCT	0.40%	0.30%	1.10%
15-Nov	Retail Sales Less Autos	OCT	0.30%	0.20%	0.60%
15-Nov	Empire State Manufacturing Survey	NOV	-1.00	-2.30	-8.48
15-Nov	Business Inventories	SEPT	0.10%	0.20%	0.50%
16-Nov	Consumer Price Index (MoM)	OCT	0.10%	0.00%	0.30%
16-Nov	CPI Ex Food & Energy (MoM)	OCT	0.10%	0.10%	0.10%
16-Nov	Industrial Production	OCT	0.20%	0.40%	0.20%
16-Nov	Capacity Utilization	OCT	77.50%	77.70%	77.40%
16-Nov	NAHB Housing Market Index	NOV	18.00	17.00	18.00
17-Nov	Housing Starts	OCT	630K	606K	658K
17-Nov	Housing Starts (MoM)	OCT	-4.26%	-7.90%	15.03%
17-Nov	Building Permits	OCT	590K	600K	594K
17-Nov	Building Permits (MoM)	OCT	-0.67%	1.01%	-5.76%
17-Nov	Initial Jobless Claims	12-Nov	395K	395K	390K
17-Nov	Continuing Claims	5-Nov	3650K	3615K	3615K
17-Nov	Philadelphia Fed Survey	NOV	5.00	10.00	8.70
18-Nov	Leading Indicators	OCT	0.30%	0.50%	0.20%

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