

Weekly Watch

U.S.

Highlights

21 November 2011
Economic Analysis

U.S.

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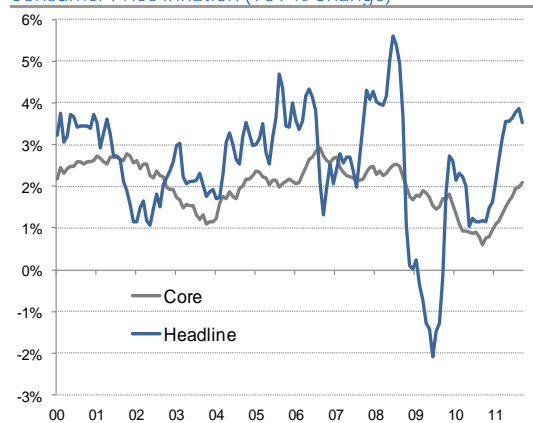
Headline inflation dragged down by declining energy prices in October

Consumer price inflation eased in October, falling 0.1% following three months of higher-than-expected MoM growth. The negative headline figure primarily reflects a 2% decline in energy prices, mostly coming from a drop in crude oil prices for the month. Gasoline prices fell 3.1% after jumping 2.9% in September, while the household energy index declined 0.3%. Increasing energy prices throughout the past few months were in large part due to fixed seasonal adjustments, as the non-seasonally-adjusted energy index has been negative since June. Food prices, which have been on the rise for more than a year, increased again but at the slowest pace since October 2010. Excluding food and energy, prices increased 0.1% for the second consecutive month. Leading the core components were medical care (0.5%) and apparel (0.4%), which were partially offset by a 1.1% decline in the transportation index. While today's data is in line with the Fed's expectations for easing inflation, it is likely that we will see a bigger jump in prices for November as oil prices rebound. Alternative measures of underlying inflation, such as the trimmed-mean CPI and the median CPI, have accelerated on a YoY basis, but decelerated on a MoM basis. However, the distribution of prices in the CPI suggests an increasing central tendency.

Growing retail sales suggest healthier activity in 4Q11

Retail sales grew for the fifth consecutive month in October, up 0.5% following a surprising 1.1% jump in September. While much of September's gain was due to increasing auto sales, October retail was strongest in the electronics and appliances component, which grew 3.7%. Most other components increased as well, including building materials (1.5%), sporting goods (1.3%), food and beverage stores (1.1%), and autos (0.4%). On the downside, apparel and gasoline sales dragged on the figure, down 0.7% and 0.4%, respectively. Excluding autos, sales increased 0.6% for the month marking the largest gain since March 2011. On a YoY basis, total retail sales are up a healthy 7.3% and suggest improvements in consumer activity despite depressed confidence levels. Furthermore, retail sales data for September and October are positive with regard to forthcoming GDP estimates. While October's sales were softer than in September, data remains strong compared to 2Q11 and early 3Q11.

Graph 1
Consumer Price Inflation (YoY % Change)



Source: Bureau of Labor Statistics

Graph 2
Retail & Auto Sales (YoY % Change)



Source: US Census Bureau

Week Ahead

Existing Home Sales (October, Monday 10:00 ET)

Forecast: 4.85M	Consensus: 4.80M	Previous: 4.91M
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Existing home sales are expected to decline slightly in October given the increased demand in new homes for the month. The single-family component weighed on total sales in September and is likely to remain a weak spot in October. Existing home supply has increased suggesting that demand is still weak. 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.

GDP, Preliminary Estimate (3Q11, Tuesday 8:30 ET)

Forecast: 2.5%	Consensus: 2.5%	Previous: 2.5%
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Third quarter data released since the advance GDP estimate suggest little change in economic growth. Despite expectations for a widening of the trade balance in September, higher-than-expected export growth contributed to a better trade gap compared to the first and second quarters. However, declining business inventories may have offset any gains to GDP from the narrowing trade balance. On the consumption side, the advance estimate for PCE was stronger-than-expected and it is unlikely that the figure will be significantly revised upward. At the same time, gradual strengthening in the labor market and healthy retail sales suggest a low probability for downward revision to consumption.

Durable Goods Orders (October, Wednesday 8:30 ET)

Forecast: 0.5%, 0.1%	Consensus: -1.2%, 0.0%	Previous: -0.8%, 1.7%
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Durable goods orders are expected to grow slightly in October after the transportation sector dragged down orders in September. Retail sales continue to increase on a MoM basis, although less so due to autos than to other consumer goods. Aircraft orders, which often have a significant impact on total durable goods orders, are likely to increase after a significant decline in the previous month. Furthermore, ISM and Federal Reserve manufacturing surveys suggest increasing new orders for the month.

Personal Income and Outlays (October, Wednesday 8:30 ET)

Forecast: 0.1%, 0.3%	Consensus: 0.3%, 0.3%	Previous: 0.1%, 0.6%
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Personal income and outlays are expected to grow again in October in line with other consumer data that has trended positive for the month. Wages and salaries have been healthy compared to earlier in the year, although average earnings in October increased at a slower pace than in the previous month. Consumer spending increased more than expected in September and is likely to be softer in October. However, strong retail sales and gradual improvements in consumer sentiments suggest positive spending growth.

Market Impact

Markets remain volatile but most of the concern rests on developments in Europe, so this week's data should incite little reaction. Recent data hints at ongoing improvements in economic activity and continued strength in personal income and spending could signal a brighter end to 2011.

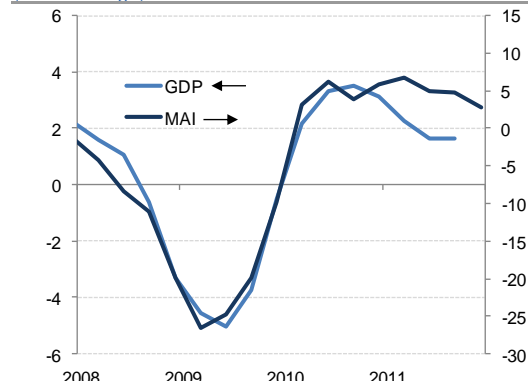
Economic Trends

Graph 3
 BBVA US Weekly Activity Index
 (3 month % change)



Source: BBVA Research

Graph 4
 BBVA US Monthly Activity Index & Real GDP
 (4Q % change)



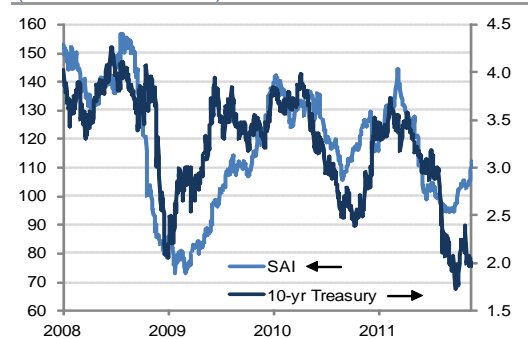
Source: BBVA Research & BEA

Graph 5
 BBVA US Surprise Inflation Index
 (Index 2009=100)



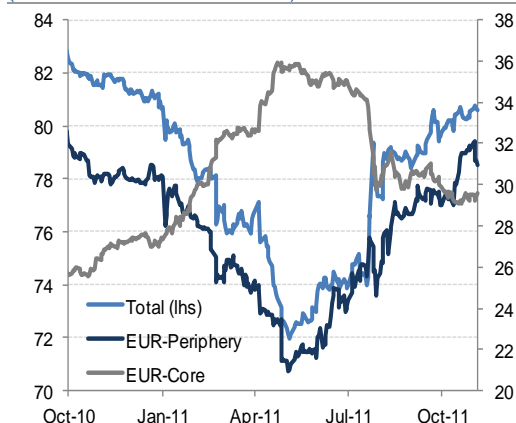
Source: BBVA Research

Graph 6
 BBVA US Surprise Activity Index & 10-yr Treasury
 (Index 2009=100 & %)



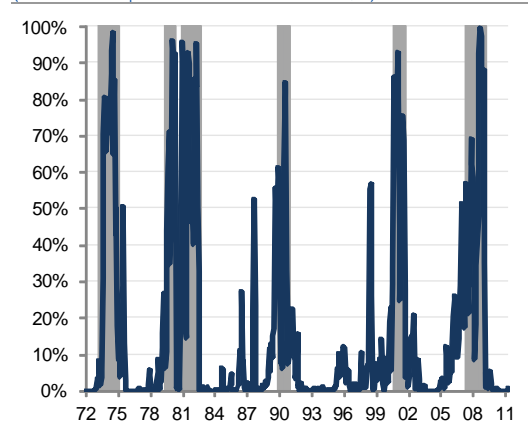
Source: Bloomberg & BBVA Research

Graph 7
 Equity Spillover Impact on US
 (% Real Return Co-Movements)



Source: BBVA Research

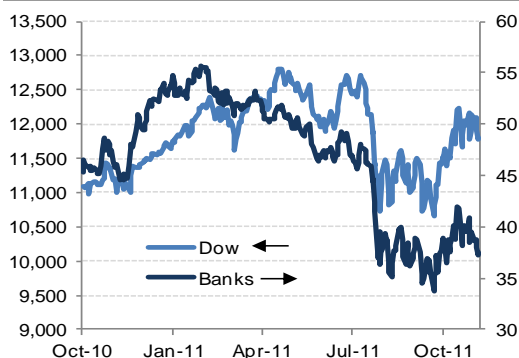
Graph 8
 BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

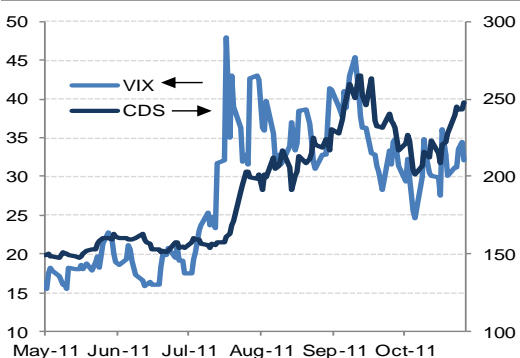
Financial Markets

Graph 9
Stocks (Index, KBW)



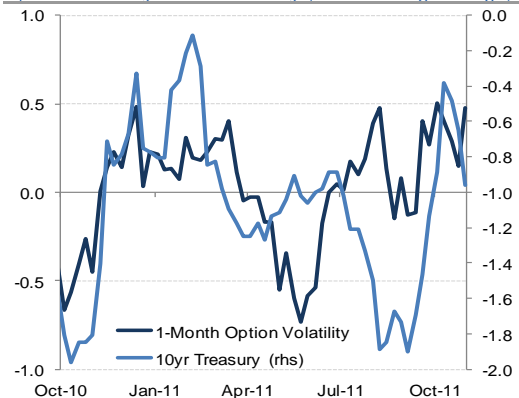
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



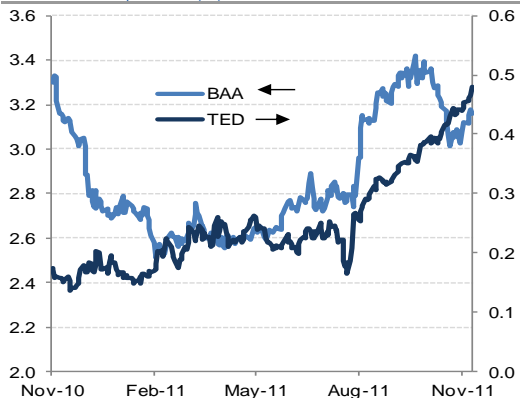
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury (52-week avg. change)



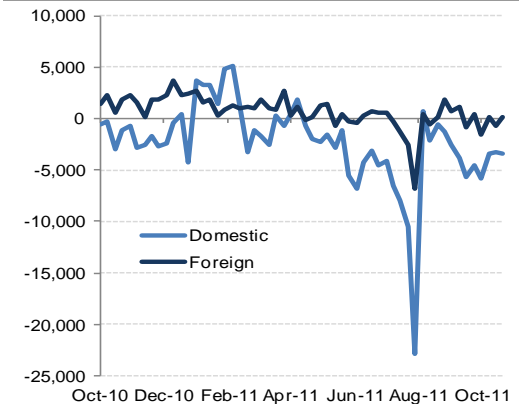
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



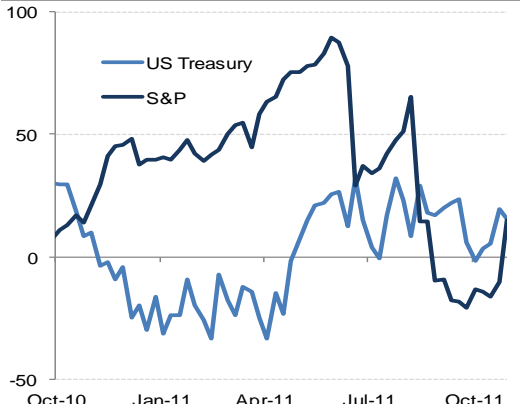
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows (US\$Mn)



Source: Bloomberg & BBVA Research

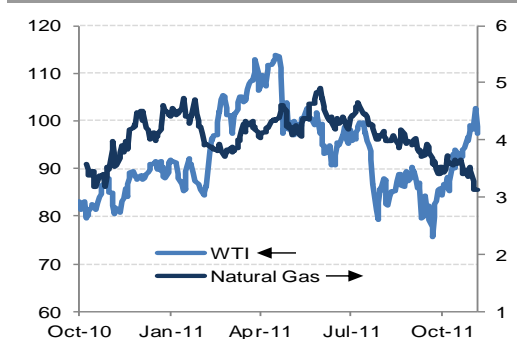
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

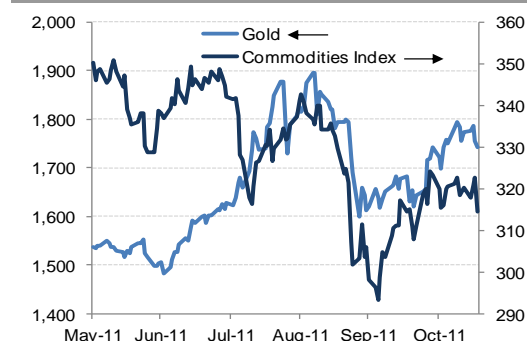
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



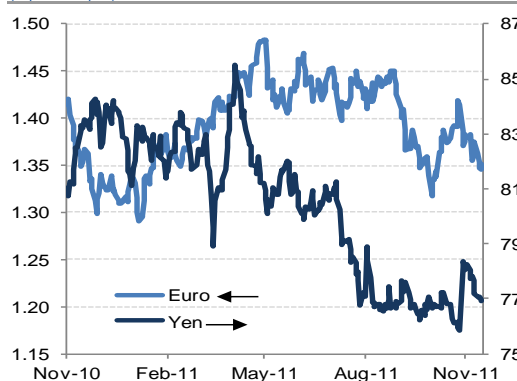
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



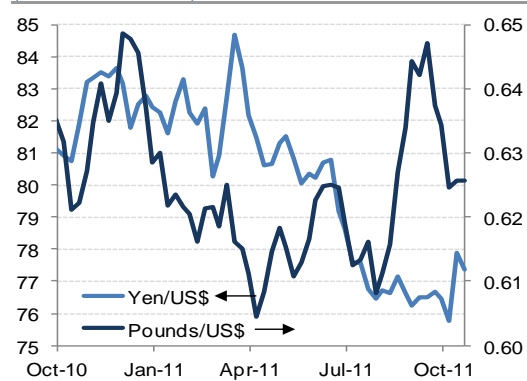
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



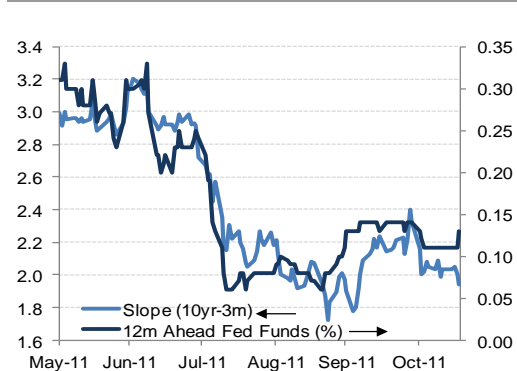
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



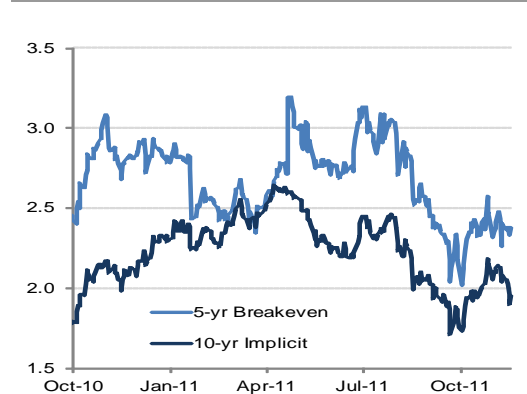
Source: BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

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	13.96	13.83
New Auto (36-months)	4.09	4.12	4.07	5.55
Heloc Loan 30K	5.54	5.53	5.50	5.46
5/1 ARM*	2.97	2.98	3.01	3.40
15-year Fixed Mortgage*	3.31	3.30	3.38	3.76
30-year Fixed Mortgage*	4.00	3.99	4.11	4.39
Money Market	0.52	0.53	0.54	0.71
2-year CD	0.95	0.96	0.87	1.24

* Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.08	0.08	0.07	0.21
3M Libor	0.49	0.46	0.42	0.28
6M Libor	0.70	0.66	0.61	0.44
12M Libor	1.02	0.98	0.92	0.76
2yr Sw ap	0.77	0.71	0.65	0.69
5yr Sw ap	1.34	1.30	1.42	1.78
10Yr Sw ap	2.18	2.21	2.42	3.03
30yr Sw ap	2.70	2.86	3.05	3.95
7day CP	0.62	0.55	0.55	0.23
30day CP	0.34	0.45	0.41	0.24
60day CP	0.33	0.40	0.34	0.26
90day CP	0.46	0.42	0.38	0.28

Source: Bloomberg & BBVA Research

Quote of the Week

German Chancellor Angela Merkel
IMF Backs Merkel Over ECB Powers
18 November 2011

"The British demand that we use a large amount of firepower to win back credibility for the euro zone is right. But we have to take care that we don't pretend to have powers we don't have. Because the markets will figure out very quickly that this won't work."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Nov	Chicago Fed National Activity Index	OCT	0.10	0.19	-0.20
21-Nov	Existing Home Sales	OCT	4.85M	4.80M	4.91M
21-Nov	Existing Home Sales (MoM)	OCT	-1.22%	-2.24%	-3.00%
22-Nov	GDP QoQ Annualized	3Q P	2.50%	2.50%	2.50%
22-Nov	Personal Consumption	3Q P	2.40%	2.40%	2.40%
22-Nov	GDP Price Index	3Q P	2.50%	2.50%	2.50%
22-Nov	Core PCE QoQ	3Q P	2.10%	2.10%	2.10%
23-Nov	Durable Goods Orders	OCT	0.50%	-1.20%	-0.80%
23-Nov	Durable Goods Orders Ex Transportation	OCT	0.10%	0.00%	1.70%
23-Nov	Personal Income	OCT	0.10%	0.30%	0.10%
23-Nov	Personal Spending	OCT	0.30%	0.30%	0.60%
23-Nov	PCE Core (MoM)	OCT	0.10%	0.10%	0.00%
23-Nov	PCE Core (YoY)	OCT	1.70%	1.70%	1.60%
23-Nov	Initial Jobless Claims	19-Nov	390K	390K	388K
23-Nov	Continuing Claims	12-Nov	3630K	3606K	3608K
23-Nov	U. of Michigan Sentiment	NOV	64.20	64.50	64.20

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.60	2.30	2.20	2.50
CPI (YoY %)	2.90	2.20	2.30	2.40
CPI Core (YoY %)	1.60	1.70	1.80	1.90
Unemployment Rate (%)	9.10	8.90	8.40	7.90
Fed Target Rate, EOP (%)	0.25	0.25	1.00	2.00
10Yr Treasury (% Yield)	2.21	2.64	3.17	3.60
US Dollar/ Euro	1.37	1.33	1.36	1.34

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