

# Weekly Watch

U.S.

## Highlights

28 November 2011  
Economic Analysis

U.S.

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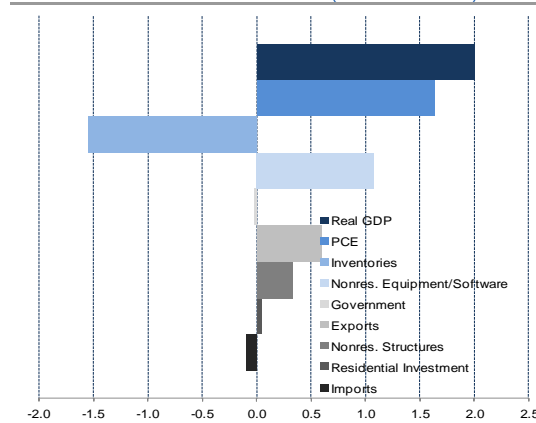
### Downward revision to 3Q11 GDP growth, but consumption still strong

The Bureau of Economic Analysis released its second estimate for 3Q11 real GDP growth with some surprise to markets. Growth was revised down more than expected for the third quarter to 2.0% annualized on a seasonally-adjusted basis following an advance estimate of 2.5%. The downward revision primarily reflects a decline in change in private inventory investment equal to a 0.43 percentage point contribution to GDP growth. Although declining inventories may be a negative sign for GDP growth, businesses have been depleting old inventories while consumer demand rebounds and are likely to boost production again once the outlook for future sales improves. Personal consumption remains strong at 2.3% annualized, suggesting only minimal change in underlying demand for the quarter. A downward revision to imports partially offset the declines in other major components. Contributions from nonresidential equipment and software, nonresidential structures, and residential investment remained positive and were relatively unchanged. The downward revision to 3Q11 GDP growth appears significant but reflects very little change in personal consumption. Gradual strengthening in the labor market and healthy retail sales suggest similar consumer activity moving into 4Q11.

### Personal income growth holds strong moving into 4Q11

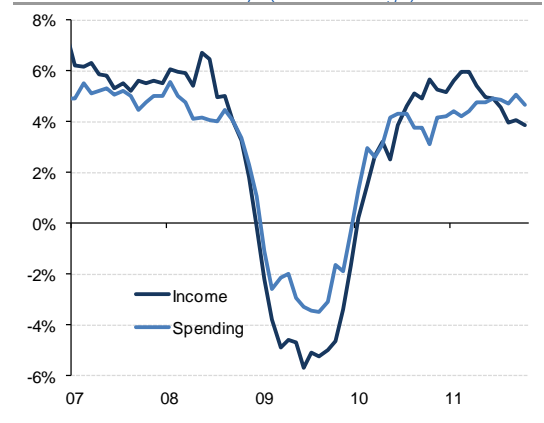
Personal income growth accelerated to 0.4% in October from 0.1% in September, mostly led by a strong increase in wages and salaries. As expected, spending also increased but at a slower pace than in the previous month, up only 0.1% compared to a 0.7% jump in September. Consumption was led by a 0.8% rise in durable goods and a 0.1% increase in services, both of which decelerated from the previous month and were partially offset by a 0.2% decline in nondurable goods. Strong retail sales and gradual improvements in consumer sentiments suggest that positive spending growth should continue. Recent consumer data has hinted at ongoing improvements in economic activity, and continued strength in personal income and spending may signal a brighter end to 2011. However, risk of weaker demand from Europe could drag on employment conditions and ultimately limit significant growth in income and spending.

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



Source: Bureau of Economic Analysis

Graph 2  
Personal Income & Outlays (YoY % Change)



Source: Bureau of Economic Analysis

## Week Ahead

### S&P Case-Shiller HPI (September, Tuesday 9:00 ET)

Forecast: -3.4%	Consensus: -3.0%	Previous: -3.8%
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Recent housing indicators have been better-than-expected and suggest general improvement in the residential market. House prices have been stabilizing and we expect slowing in price contraction to continue on a YoY basis. However, increases in foreclosures may have contributed to lower prices for September, given that median home and other price indices declined for the month. While we do expect a slight MoM decline, home prices are likely to remain above the low levels seen in early 2011.

### Consumer Confidence (November, Tuesday 10:00 ET)

Forecast: 43.0	Consensus: 44.0	Previous: 39.8
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Consumer confidence is expected to improve in November after hitting a 30-month low in October. Despite improvements in other economic data, consumer expectations reached the lowest level seen since March 2009. While attitudes toward current conditions remain weak, we expect that gradual improvements in employment conditions should increase consumer spirits for the month. However, it appears that consumers are hesitant to accept that the economic recovery is in the clear.

### ISM Manufacturing Index (November, Thursday 10:00 ET)

Forecast: 51.0	Consensus: 51.7	Previous: 50.8
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The ISM manufacturing index has hovered near the no-growth boundary throughout the past four months, and we do not expect much change in November. New orders and production have picked up in recent months, and declining price pressures suggest easing conditions for manufacturers. Regional Federal Reserve surveys indicate some growth in the manufacturing sector, but demand expectations remain mixed. Thus, we expect the ISM index to remain near the 50-mark to indicate only minimal expansion in the sector.

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

Forecast: 110K, 9.0%	Consensus: 120K, 9.0%	Previous: 80K, 9.0%
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The employment situation has improved gradually in recent months, but payrolls remain at only a fraction of pre-recession levels. Initial jobless claims have declined throughout November, dropping below the 400 level for the first three weeks. Improvements in the housing market suggest some growth in construction employment, however, hiring in the manufacturing sector remains mixed. Furthermore, weakness in government employment continues to drag on total payrolls. While job availability appears to be improving, it has not been enough to significantly decrease the unemployment rate.

## Market Impact

While much of the focus remains on Europe, markets will pay close attention to consumer activity and employment indicators in the US. Significant job growth could soften the blow from the Supercommittee's failure, which has increased market uncertainties regarding fiscal stability. In addition, a breakthrough in manufacturing and housing indicators could reduce fears of further downward revisions to GDP growth.

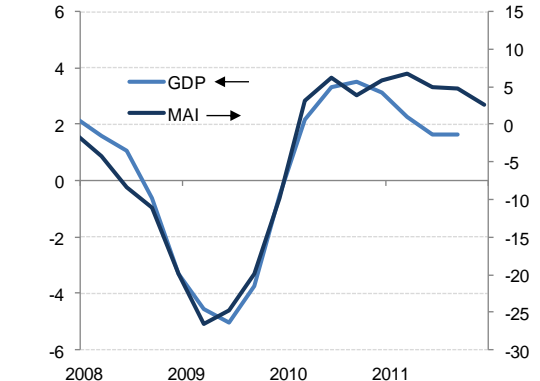
## Economic Trends

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



Source: BBVA Research

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



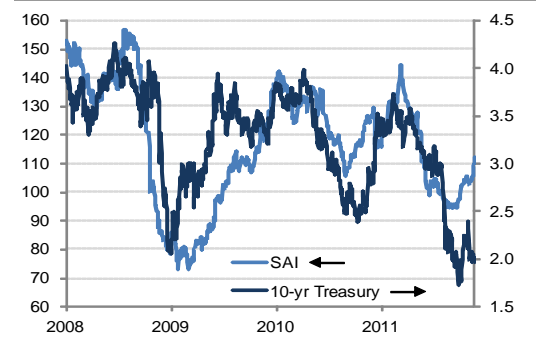
Source: BBVA Research & BEA

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



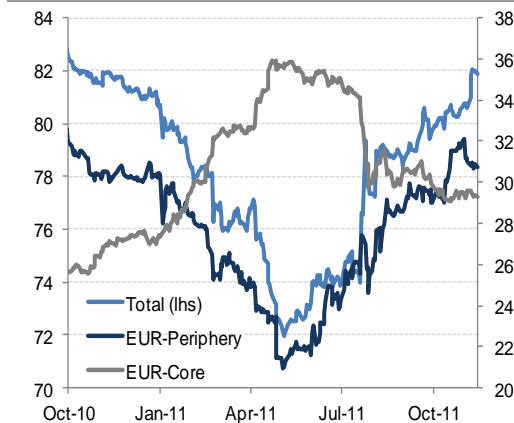
Source: BBVA Research

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



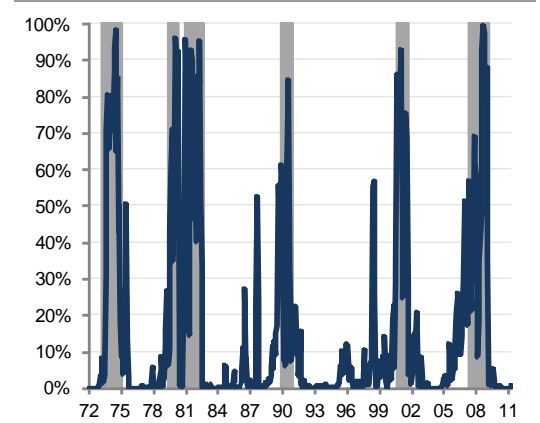
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

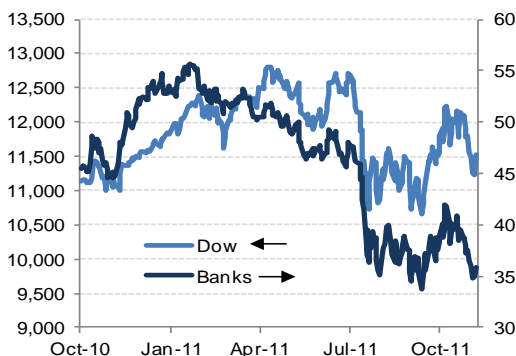
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

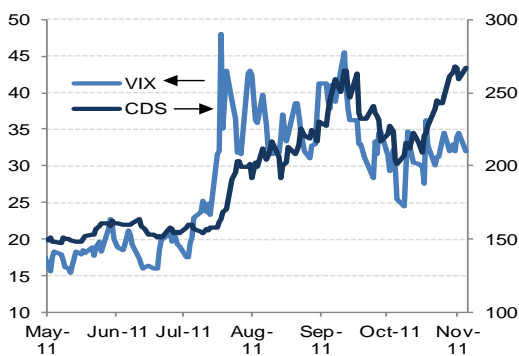
## Financial Markets

Graph 9  
Stocks (Index, KBW)



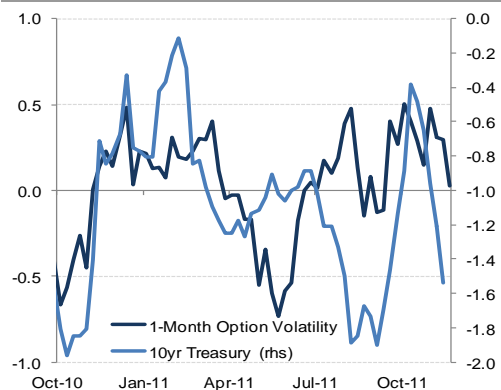
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



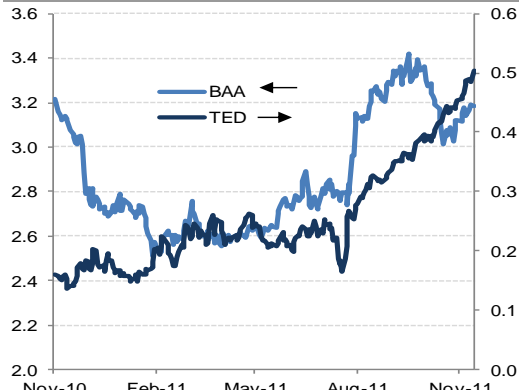
Source: Bloomberg & BBVA Research

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



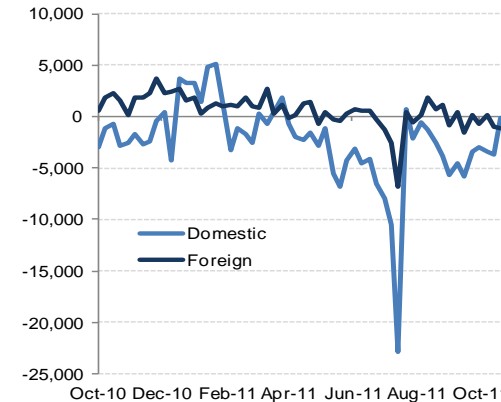
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



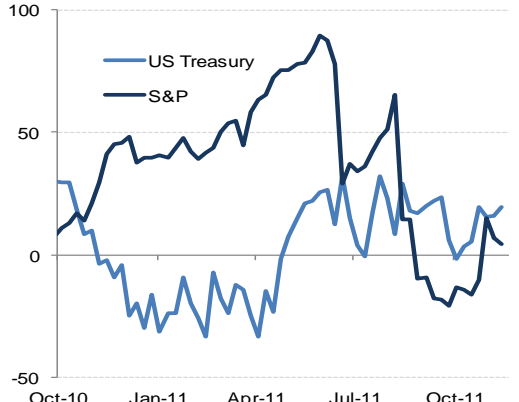
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

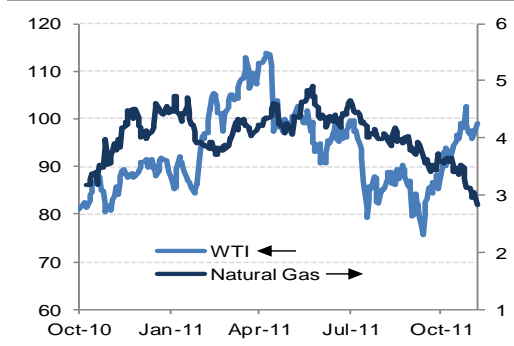
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

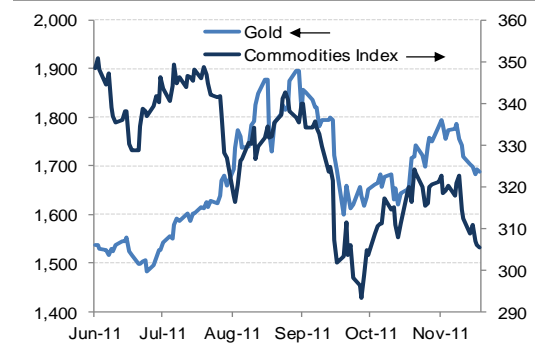
## Financial Markets

Graph 15  
Commodities  
(Dpb & DpMMBtu)



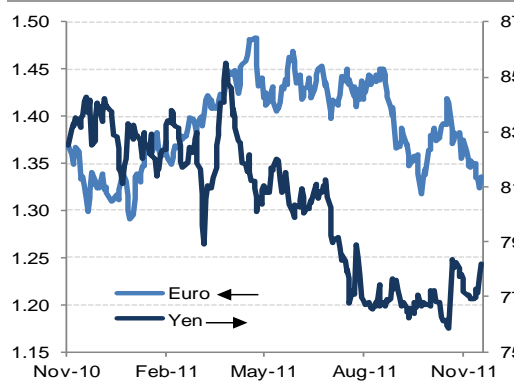
Source: Bloomberg & BBVA Research

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



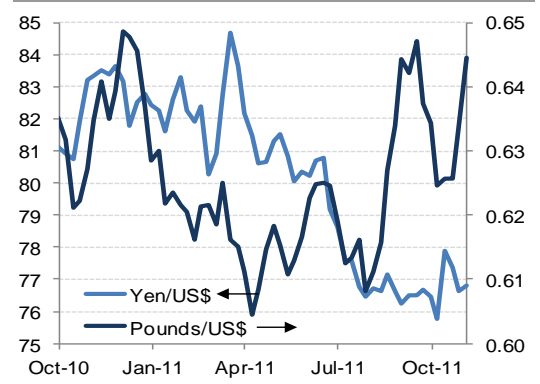
Source: BBVA Research

Graph 17  
Currencies  
(Dpe & Ypd)



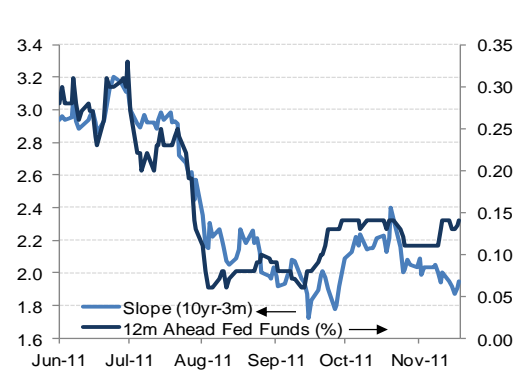
Source: Bloomberg & BBVA Research

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



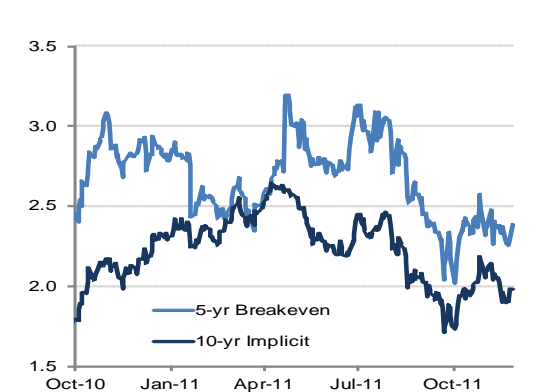
Source: BBVA Research

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  
 Monti, Merkel, Sarkozy will not ask ECB help to stem crisis  
 28 November 2011

*"This is not about give and take. To try to achieve this by compulsion would weaken us all."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
28-Nov	New Home Sales	OCT	330K	310K	313K
28-Nov	New Home Sales (MoM)	OCT	5.43%	-1.00%	5.70%
29-Nov	S&P Case-Shiller HPI	SEPT	-3.40%	-3.00%	-3.80%
29-Nov	Consumer Confidence	NOV	43.00	44.00	39.80
30-Nov	ADP Employment Report	NOV	130K	130K	110K
30-Nov	Nonfarm Productivity	3Q	3.00%	2.50%	3.10%
30-Nov	Unit Labor Costs	3Q	-2.40%	-2.10%	-2.40%
30-Nov	Chicago Purchasing Manager Index	NOV	60.00	58.50	58.40
30-Nov	Pending Home Sales (MoM)	OCT	0.20%	2.00%	-4.60%
1-Dec	Total Vehicle Sales	NOV	13.2M	13.4M	13.3M
1-Dec	Domestic Vehicle Sales	NOV	10.2M	10.4M	10.1M
1-Dec	Initial Jobless Claims	26-Nov	385K	390K	393K
1-Dec	Continuing Claims	19-Nov	3610K	3650K	3691K
1-Dec	ISM Manufacturing Index	NOV	51.00	51.70	50.80
1-Dec	Construction Spending (MoM)	OCT	0.20%	0.30%	0.20%
2-Dec	Change in Nonfarm Payrolls	NOV	110K	120K	80K
2-Dec	Change in Private Payrolls	NOV	130K	146K	104K
2-Dec	Change in Manufacturing Payrolls	NOV	7K	9K	5K
2-Dec	Unemployment Rate	NOV	9.00%	9.00%	9.00%

## 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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