

# Weekly Watch

U.S.

## Highlights

5 December 2011  
Economic Analysis

U.S.

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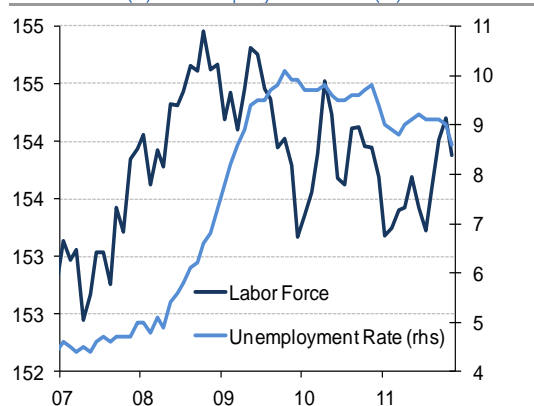
### November payrolls rise aside a surprising drop in the unemployment rate

Employment data released today somewhat confirm expectations for gradual improvements in the labor market. Nonfarm payrolls increased 120K in November following upward revisions to September (from 158K to 210K) and October (from 80K to 100K). The private sector continues to lead job growth, up 140K for the month mostly due to service-providing payrolls. Persistent increases in service employment, such as retail and leisure and hospitality, suggest that businesses are becoming more comfortable with the outlook for consumer demand. On the downside, government jobs continued to decline steadily and construction employment fell for the second consecutive month. Average hourly earnings fell 0.1% MoM following two consecutive months of growth, however, YoY growth remains steady. The unemployment rate dropped surprisingly to 8.6%, the lowest since March 2009, but reflects a decline of 315K in the labor force. The participation rate has been declining since the recession and is near a decade-low at 64.0%, which is a discouraging sign for potential employment growth. The data also indicate an increase in discouraged workers, so many of those who left the labor force most likely did so because they could not find work. This furthers concerns of structural unemployment as employers appear to be having difficulty finding skilled workers to match their job requirements.

### Beige Book points to moderate economic activity

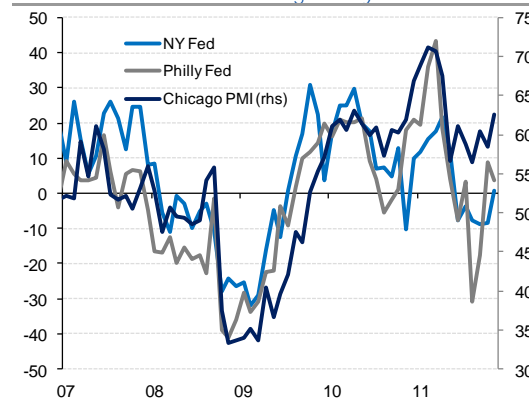
Details from the Federal Reserve's November Beige Book suggest that current economic conditions reflect only moderate growth throughout the country. Most Districts reported "slow to moderate" increases in economic activity, indicating a more favorable environment for both consumers and producers compared to the previous months. Consumer spending and retail sales increased in line with other personal consumption data for the month. Motor vehicle sales were particularly strong in many regions, and inventories remained at manageable levels. Districts also reported growth in tourism that has caused businesses to be more optimistic about future demand conditions. Nonfinancial business activity was relatively flat across most regions, though manufacturing activity was stronger than previously reported. While the report continues to suggest only moderate growth among most regions, the details hint that things could pick up in the coming months.

Graph 1  
Labor Force (K) & Unemployment Rate (%)



Source: Bureau of Labor Statistics

Graph 2  
Federal Reserve Manufacturing Surveys



Source: Federal Reserve Board

## Week Ahead

### ISM Non-Manufacturing Index (November, Monday 10:00 ET)

Forecast: 53.5

Consensus: 53.9

Previous: 52.9

The ISM Non-Manufacturing Index is expected to increase slightly in November. The services sector has been expanding steadily for the past two years, however, growth in October was below the average trend since December 2009. The employment index has been gaining strength, and business activity and new orders remain in expansionary territory. While the potential for significant growth is minimal, we continue to expect above-50 levels for the index.

### Consumer Credit (October, Wednesday 15:00 ET)

Forecast: \$5.7B

Consensus: \$7.0B

Previous: \$7.4B

Seasonally-adjusted consumer credit is likely to increase in October though at a slower pace than in September. Revolving credit has weighed on total outstanding consumer credit in recent months, reflecting continued uncertainties among consumers and businesses. However, declines have become smaller over the past few months and we expect a similar trend to continue as economic prospects improve. Nonrevolving credit, which continues to surpass historical highs, should help boost total consumer credit for the month.

### Wholesale Inventories (October, Thursday 10:00 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: -0.1%

Inventory growth has slowed throughout the past few months and stalled in September as businesses adjusted to sluggish demand conditions. Declines in nondurable goods have weighed on wholesale inventories in recent months, and growth of durable goods has been slowing since May. However, with the holiday shopping season approaching, demand is expected to pick up and businesses are likely to respond via an increase in production.

### International Trade Balance (October, Friday 8:30 ET)

Forecast: -\$44.0B

Consensus: -\$43.9B

Previous: -\$43.1B

The international trade balance is expected to widen slightly after three consecutive months of modest improvements. Increasing demand for gold and other goods have helped maintain exports. However, global slowdowns due to the increasing intensity of the crisis in Europe likely had a negative impact on the trade gap in October. Furthermore, recent appreciation of the USD could contribute to a reduction in exports. While we do expect some deterioration, moderating price pressures should limit significant widening of the trade balance.

### Market Impact

This week markets will get a better look at consumer and business activity related to the start of the holiday shopping season. Continued improvements in the non-manufacturing sector could boost attitudes toward a stronger recovery, particularly after November's more positive employment report. A first look at Q4 trade data will likely indicate a growing impact from the fragile situation in Europe.

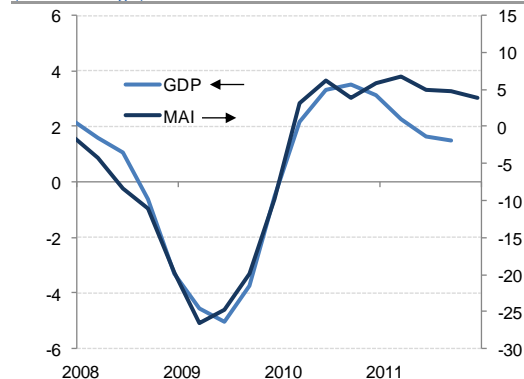
## Economic Trends

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



Source: BBVA Research

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



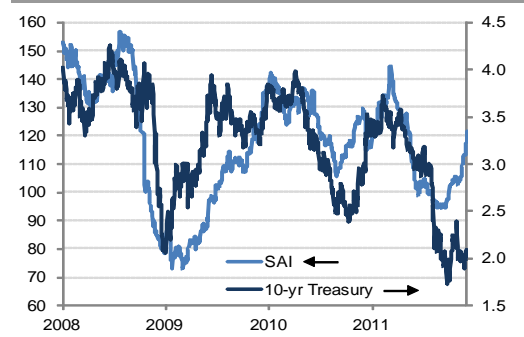
Source: BBVA Research & BEA

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



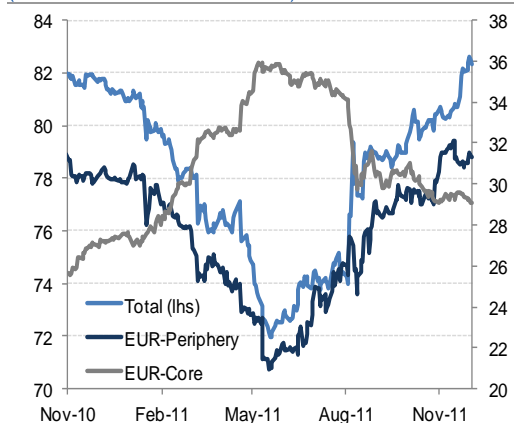
Source: BBVA Research

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



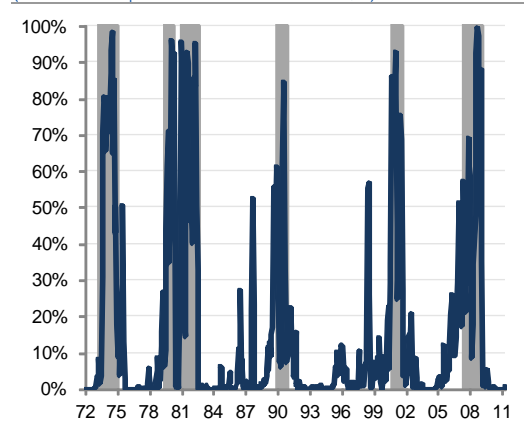
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

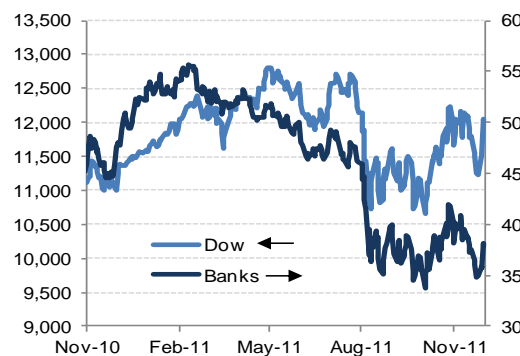
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas,%)



Source: BBVA Research

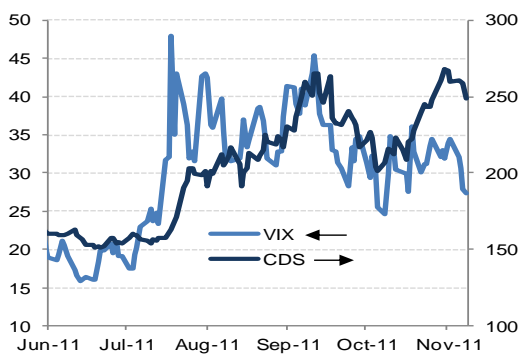
## Financial Markets

Graph 9  
Stocks (Index, KBW)



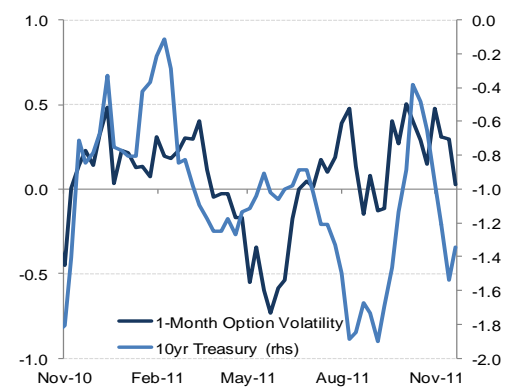
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



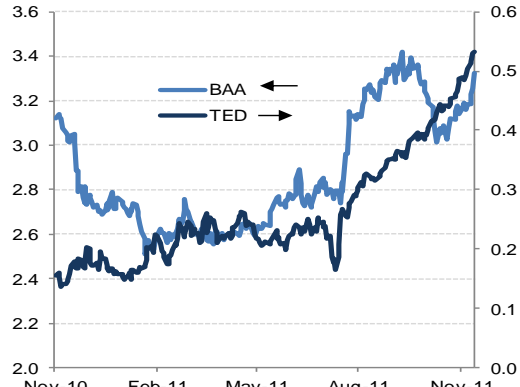
Source: Bloomberg & BBVA Research

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



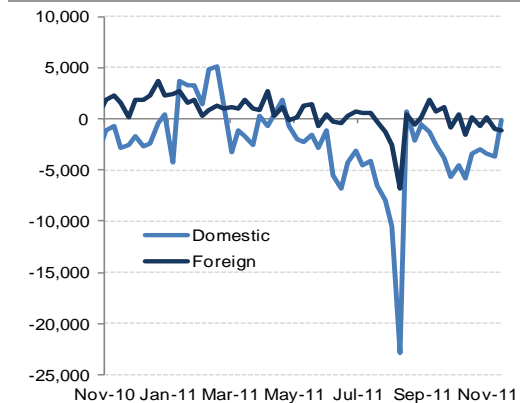
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



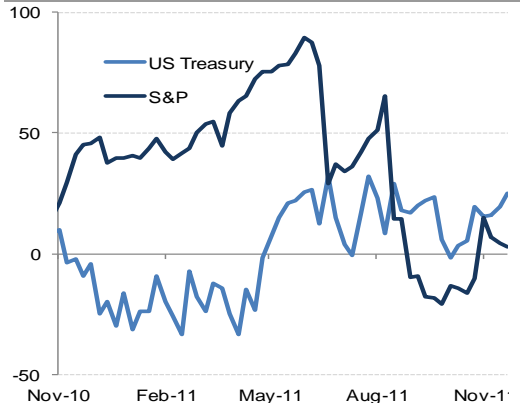
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

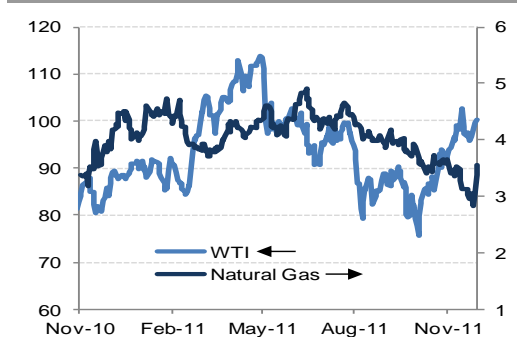
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

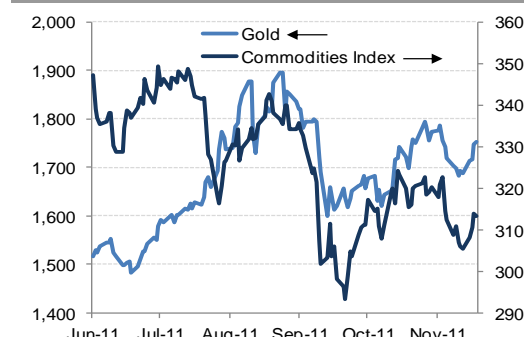
### Financial Markets

Graph 15  
Commodities  
(Dpb & DpMMBtu)



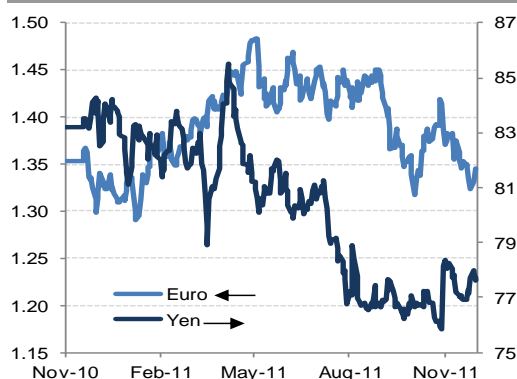
Source: Bloomberg & BBVA Research

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



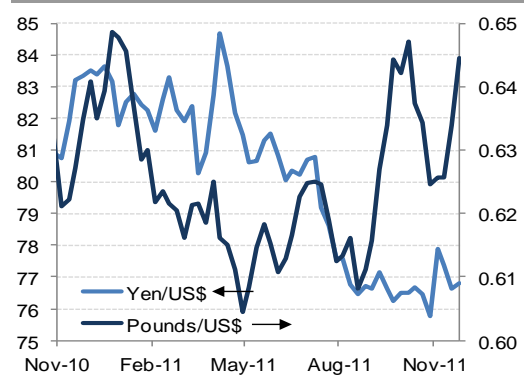
Source: BBVA Research

Graph 17  
Currencies  
(Dpe & Ypd)



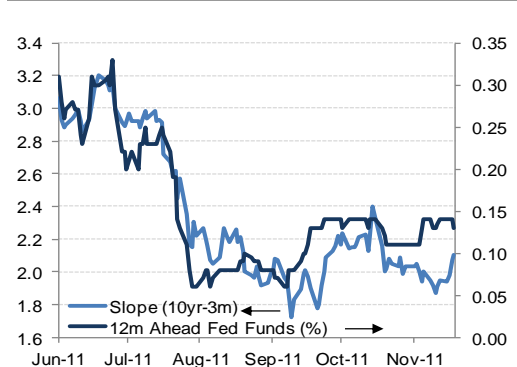
Source: Bloomberg & BBVA Research

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



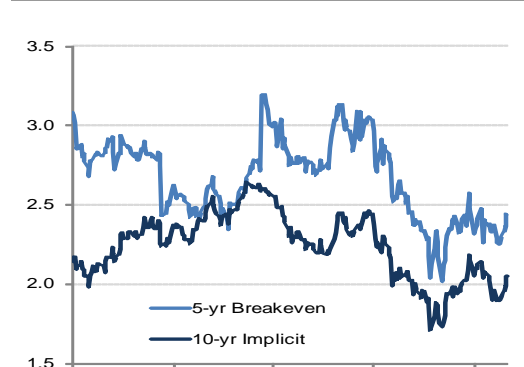
Source: BBVA Research

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	13.86
New Auto (36-months)	3.79	4.10	4.08	5.38
Heloc Loan 30K	5.53	5.51	5.52	5.50
5/1 ARM*	2.90	2.91	2.96	3.49
15-year Fixed Mortgage *	3.30	3.30	3.31	3.81
30-year Fixed Mortgage *	4.00	3.98	4.00	4.46
Money Market	0.51	0.52	0.52	0.71
2-year CD	0.95	0.95	0.90	1.23

\* 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	0.07	0.08	0.18
3M Libor	0.53	0.52	0.44	0.30
6M Libor	0.75	0.73	0.63	0.46
12M Libor	1.07	1.05	0.95	0.79
2yr Swap	0.70	0.82	0.59	0.69
5yr Swap	1.33	1.36	1.21	1.87
10Yr Swap	2.21	2.16	2.19	3.16
30yr Swap	2.74	2.63	2.85	4.04
7day CP	0.73	0.54	0.53	0.23
30day CP	0.56	0.40	0.52	0.25
60day CP	0.43	0.36	0.43	0.27
90day CP	0.44	0.43	0.40	0.29

Source: Bloomberg & BBVA Research

## Quote of the Week

German Chancellor Angela Merkel  
Marathon Crisis Will Take Years to Solve  
2 December 2011

*"Marathon runners often say that the run becomes especially difficult at the 35 kilometer mark, but they also say that reaching the finish line is possible if you are conscious of the full challenge from the very start and approach it accordingly. The one who starts fastest isn't necessarily the most successful. It is the one who is aware of what is involved in running the full distance."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Dec	Factory Orders (MoM)	OCT	-0.10%	-0.30%	0.30%
5-Dec	ISM Non-Manufacturing Index	NOV	53.50	53.90	52.90
7-Dec	Consumer Credit	OCT	\$5.70B	\$7.00B	\$7.40B
8-Dec	Initial Jobless Claims	3-Dec	397K	395K	402K
8-Dec	Continuing Claims	26-Nov	3710K	3700K	3740K
8-Dec	Wholesale inventories	OCT	0.20%	0.30%	-0.10%
9-Dec	International Trade Balance	OCT	-\$44.00B	-\$43.90B	-\$43.10B
9-Dec	Consumer Sentiment	DEC	65.00	65.50	64.10

## 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 (%)	9.00	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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