

# Weekly Watch

U.S.

## Highlights

19 December 2011  
Economic Analysis

U.S.

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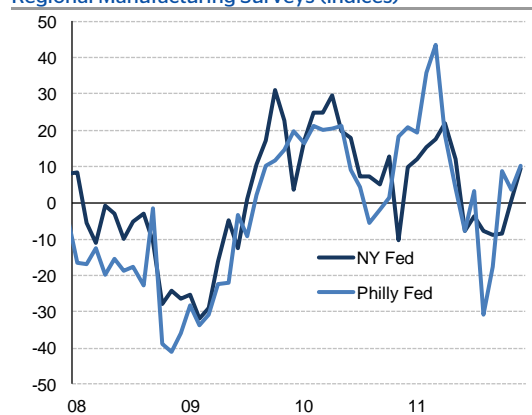
### Stronger manufacturing data alongside stabilizing inflation

Economic activity in 4Q11 continues to gain momentum despite worries of a spillover from the crisis in Europe. The manufacturing sector posted significant improvements in December, with both the Empire State and Philadelphia Fed indices jumping to the highest levels since April and May. Both reports noted strength in new orders in addition to building optimism in the 6-month outlook for the sector. Although industrial production fell 0.2% in November after several months of growth, increasing new orders in December point to gains in future production. Demand measured by retail sales was slightly lower-than-expected in November, but data for prior months were revised up.

Headline consumer price inflation appears to be stabilizing, posting no change in November after declining 0.1% in the previous month. Energy prices slowed for the second consecutive month, falling 1.6% despite expectations for upward pressure from crude oil. Food inflation, which has been increasing for more than a year, decelerated to the lowest rate since July 2010. Core inflation, on the other hand, accelerated to 0.2%, mostly due to increases in apparel, shelter, and medical care. Although core consumer price inflation has not eased as much as the headline figure, core PCE, which the Fed follows closely, remains within the target range.

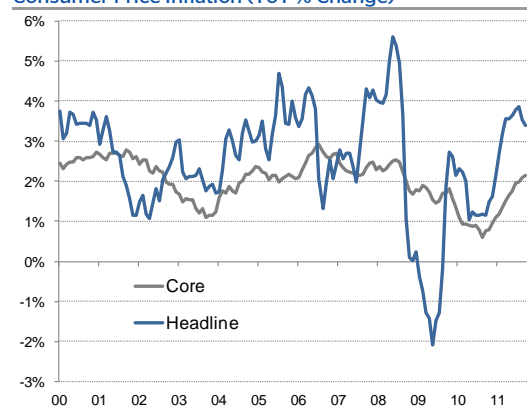
Employment data were mixed for the week, with significant declines in initial jobless claims offsetting the underwhelming JOLTS report for October. The number of job openings fell to 3.27mn in October after jumping to a 3-year high of 3.38mn in September. Although vacancies have trended upward since the low of 2.11mn at the end of the recession, levels have rebounded only 35% compared to the pre-recession peak of 4.76mn. Hiring trends have been much weaker, increasing only 12% since June 2009, suggesting that businesses remain hesitant to hire additional employees. However, layoffs and discharges dropped significantly in October and have approached historically-low levels. On a more positive note, initial jobless claims have remained under 400K for most of November and December and recently dropped to the lowest levels since May 2008.

Graph 1  
Regional Manufacturing Surveys (Indices)



Source: Federal Reserve Board

Graph 2  
Consumer Price Inflation (YoY % Change)



Source: Bureau of Labor Statistics

## Week Ahead

### Housing Starts and Permits (November, Tuesday 8:30 ET)

Forecast: 620K, 618K	Consensus: 630K, 630K	Previous: 628K, 653K
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New home starts are expected to decline slightly in November, while building permits will likely see a sharper drop given the excess supply on the market. The homebuilder outlook for November improved following stronger-than-expected starts and permit issuance in September and October. Although demand for new homes remains low by historical standards, it appears that low mortgages rates and affordable prices are attracting buyers. While we do expect a modest decline in November, YoY growth should continue.

### Gross Domestic Product, Final (3Q11, Thursday 8:30 ET)

Forecast: 2.0%	Consensus: 2.0%	Previous: 2.0%
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The final GDP estimate for 3Q11 is likely to remain unchanged compared to the second estimate released last month. Although the first estimate was 2.5%, the revision reflected a decline in change in private inventory investment, and personal consumption expenditures were relatively unchanged. Most relevant data has already been accounted for in the last report, however, the international trade balance and durable goods orders for September were revised down slightly. Business inventories, which were flat at the end of the quarter, were not revised and should stay near 1.3% QoQ growth. While this slight deterioration in the underlying data may be reflected in the revised GDP figure, we expect that strong consumption will limit further declines in growth.

### Durable Goods Orders, Ex Transportation (November, Friday 8:30 ET)

Forecast: 1.5%, 0.4%	Consensus: 2.1%, 0.4%	Previous: -0.7%, 0.7%
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Durable goods orders were dragged down by declining aircraft orders in October, but trends are expected to revert in November. Healthy demand in the auto sector should lift headline orders, while holiday-related strength in other components will likely contribute to growth in the ex-transportation figure. Despite monthly volatility in the data, forward momentum continues for the manufacturing sector, and the underlying trend is positive.

### Personal Income and Outlays (November, Friday 8:30 ET)

Forecast: 0.2%, 0.3%	Consensus: 0.3%, 0.4%	Previous: 0.4%, 0.1%
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Personal income and spending have both increased throughout the past few months, and we expect this trend to continue in November. Income growth is likely to decelerate given a small decline in average earnings for the private sector. On the other hand, personal spending is expected to increase at a faster pace compared to October due to the holiday shopping season. Although retail sales for the month were lower-than-expected, rising consumer confidence levels suggest that consumers are more willing to spend.

### Market Impact

The final GDP estimate for 3Q11 will be a focus this week, although markets should have little reaction given that much of the relevant data has already been released. Signs of a stronger recovery in both manufacturing and housing should lift spirits as we approach the end of the year. However, markets continue to show sensitivity toward pending action in Europe.

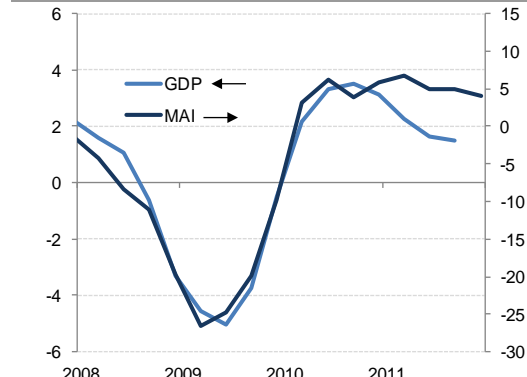
### Economic Trends

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



Source: BBVA Research

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



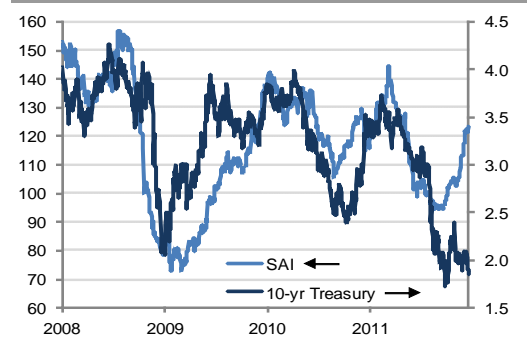
Source: BBVA Research & BEA

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



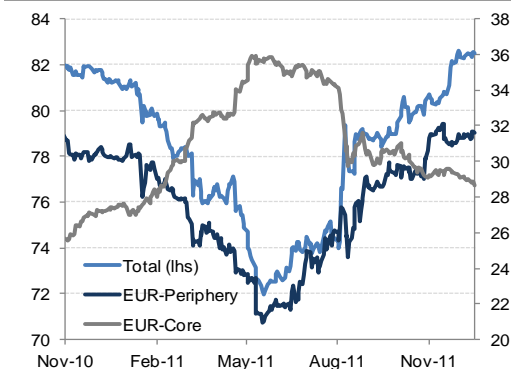
Source: BBVA Research

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



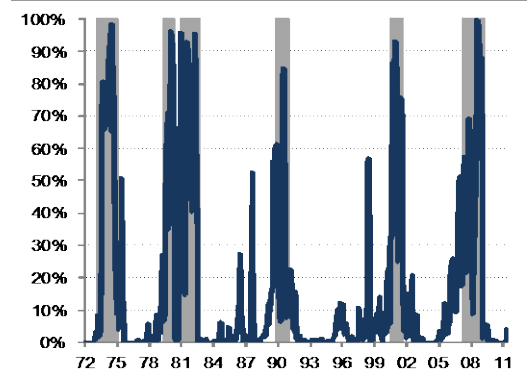
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

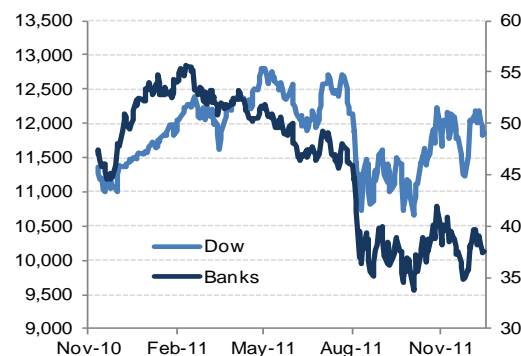
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

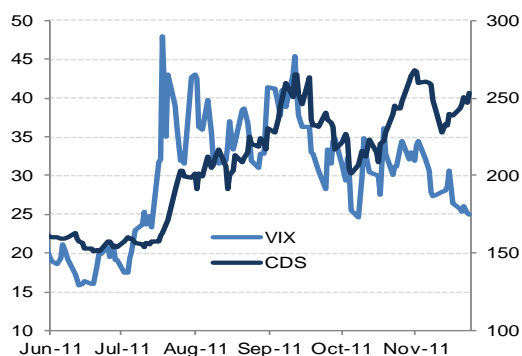
## Financial Markets

Graph 9  
Stocks (Index, KBW)



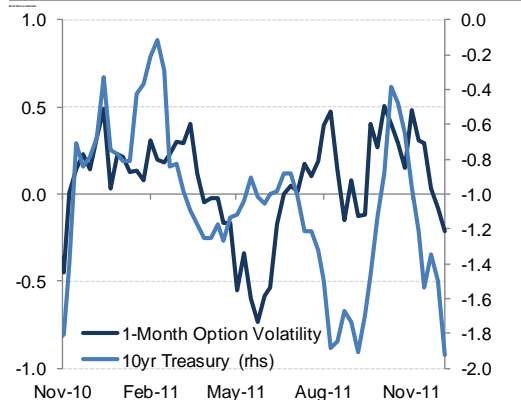
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



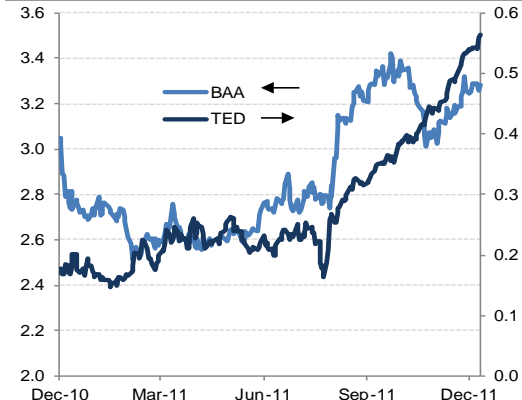
Source: Bloomberg & BBVA Research

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



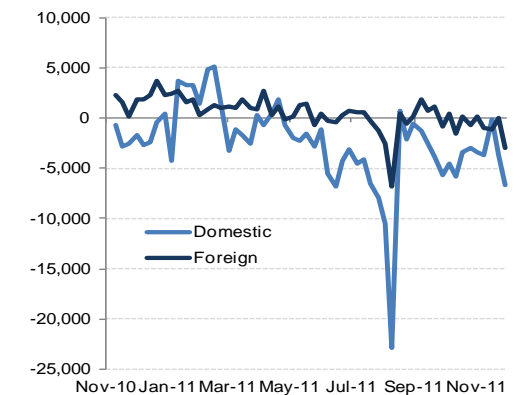
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



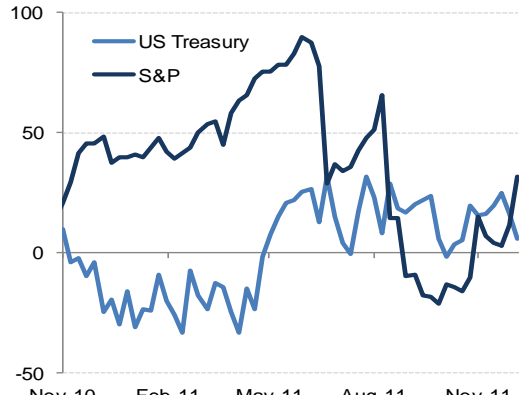
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

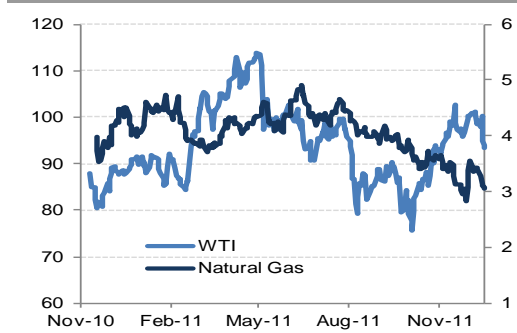
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

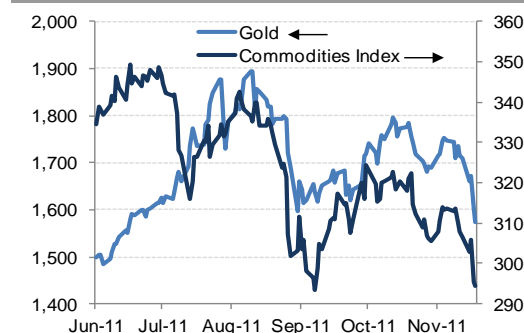
## Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



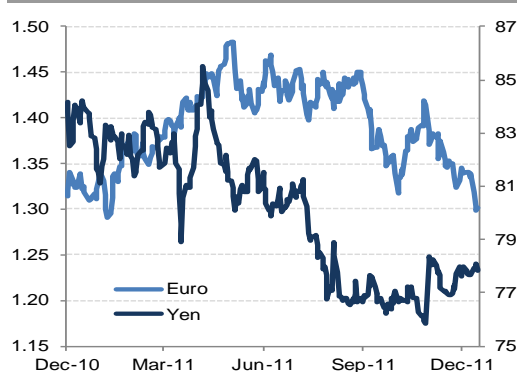
Source: Bloomberg & BBVA Research

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



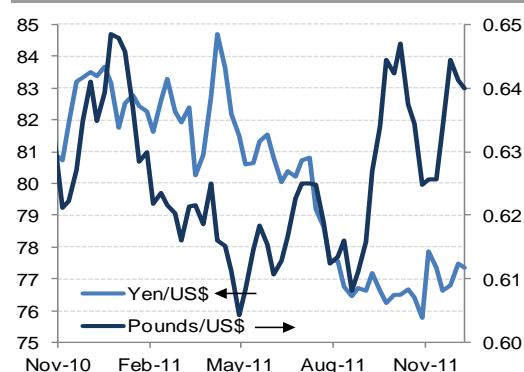
Source: BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



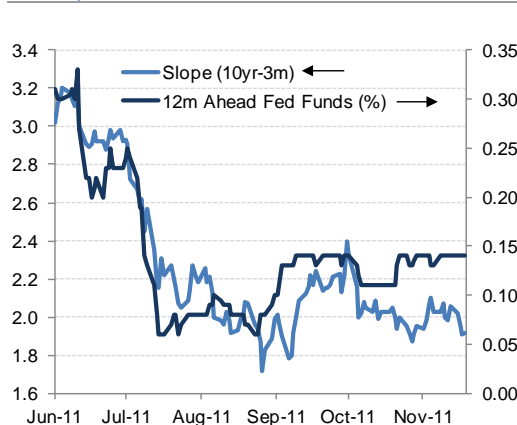
Source: Bloomberg & BBVA Research

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



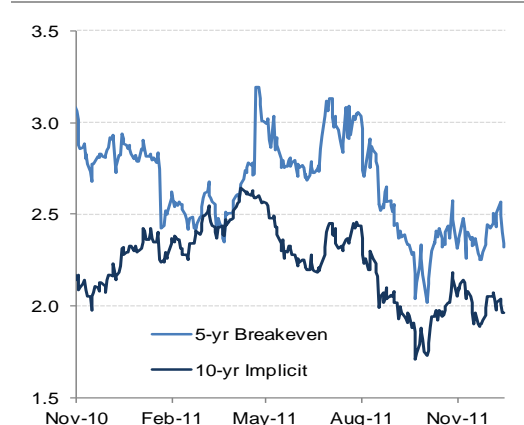
Source: BBVA Research

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)	13.94	13.94	13.96	13.68
New Auto (36-months)	3.78	3.76	4.09	5.33
Heloc Loan 30K	5.54	5.52	5.55	5.49
5/1 ARM*	2.86	2.93	2.97	3.77
15-year Fixed Mortgage *	3.21	3.27	3.31	4.17
30-year Fixed Mortgage *	3.94	3.99	4.00	4.83
Money Market	0.51	0.51	0.52	0.71
2-year CD	0.95	0.95	0.95	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	0.07	0.07	0.08	0.20
3M Libor	0.56	0.54	0.49	0.30
6M Libor	0.79	0.76	0.70	0.46
12M Libor	1.11	1.08	1.02	0.78
2yr Sw ap	0.73	0.65	0.77	0.84
5yr Sw ap	1.22	1.26	1.35	2.16
10Yr Sw ap	2.01	2.19	2.19	3.43
30yr Sw ap	2.58	2.78	2.71	4.16
7day CP	0.87	0.82	0.62	0.20
30day CP	0.57	0.58	0.34	0.26
60day CP	0.46	0.47	0.33	0.29
90day CP	0.51	0.49	0.46	0.31

Source: Bloomberg & BBVA Research

## Quote of the Week

William C. Dudley, Federal Reserve Bank of New York President  
Europe Doesn't Face Fiscal Insolvency Over Debt Crisis  
16 December 2011

*"You really have two problems, to make sure the banks have enough capital, and to get each country on a sustainable fiscal path so that people are comfortable that the sovereign debt they hold is going to be money good."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Dec	NAHB Housing Market Index	DEC	20.00	20.00	20.00
20-Dec	Housing Starts	NOV	620K	630K	628K
20-Dec	Housing Starts (MoM)	NOV	-1.27%	0.30%	-0.30%
20-Dec	Building Permits	NOV	618K	635K	653K
20-Dec	Building Permits (MoM)	NOV	-5.36%	-1.40%	10.90%
21-Dec	Existing Home Sales	NOV	5.00M	5.07M	4.97M
21-Dec	Existing Home Sales (MoM)	NOV	0.60%	2.10%	1.40%
22-Dec	GDP QoQ Annualized	3Q F	2.00%	2.00%	2.00%
22-Dec	Personal Consumption	3Q F	2.30%	2.30%	2.30%
22-Dec	GDP Price Index	3Q F	2.50%	2.50%	2.50%
22-Dec	Core PCE QoQ	3Q F	2.00%	2.00%	2.00%
22-Dec	Initial Jobless Claims	17-Dec	380K	375K	366K
22-Dec	Continuing Claims	10-Dec	3650K	--	3603K
22-Dec	Chicago Fed National Activity Index	NOV	0.10	--	-0.13
22-Dec	U. of Michigan Consumer Sentiment	DEC	68.00	68.00	67.70
22-Dec	Leading Indicators	NOV	0.40%	0.30%	0.90%
23-Dec	Durable Goods Orders	NOV	1.50%	2.20%	-0.70%
23-Dec	Durable Goods Orders Ex Transportation	NOV	0.60%	0.40%	0.70%
23-Dec	Personal Income	NOV	0.10%	0.30%	0.40%
23-Dec	Personal Spending	NOV	0.40%	0.30%	0.10%
23-Dec	New Home Sales	NOV	310K	313K	307K
23-Dec	New Home Sales (MoM)	NOV	0.98%	2.00%	1.30%

## 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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