

Weekly Flash

U.S.

2 January 2012
Economic Analysis

U.S.

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Highlights

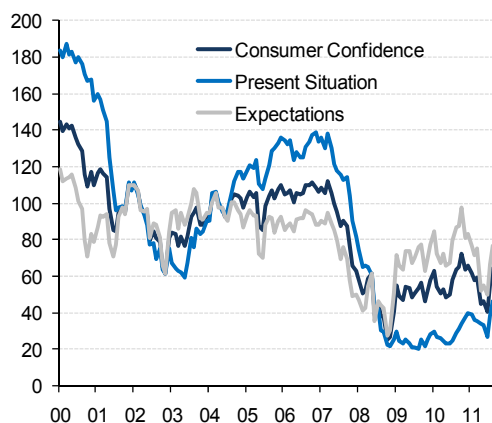
Home prices continue to decline while housing activity gains some ground

Housing activity indicators for 4Q11 continued to be better-than-expected while home prices keep falling. Pending home sales, a forward-looking indicator for existing home sales, increased 7.3% in November to 5.9%, above its November 2010 level. However, home prices continued to decline in October, according to S&P Case-Shiller home price index. The 20-cities home price index, which is a 3-month moving average, declined 0.6% MoM or 3.4% YoY. Home prices fell in 19 of the 20 cities included in the index. The report indicates that current home prices are at levels around its March 2003 levels and recent improvement in housing activity could be the result of declines in home prices not better fundamentals.

U.S. labor market also shows slight improvement in the last couple of months. Although the total nonfarm payrolls did not increase significantly, the unemployment rate declined faster than expected mainly due to decline in the participation rate. According to BLS, in the week ending December 24, initial claims increased 15K to 381K from the previous week's revised figure of 366K, on a seasonally adjusted basis. However, the 4-week moving average dropped 5.75K to 375K indicating slow improvement in the labor market conditions.

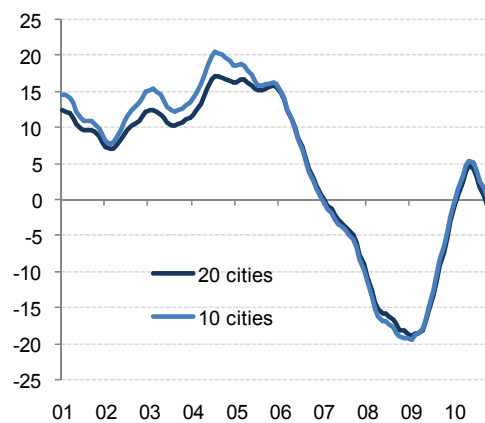
Along with stronger economic activity in 4Q11 and improvement in labor market conditions, U.S. consumers expect better economic prospects in the next six months. The Consumer Confidence Index, increased more than the market expectation of 56.0 to 64.5. Increase in consumer confidence suggests that personal consumption expenditures in December would be similar to the previous two months and provides additional evidence of stronger growth in 4Q11. We expect that the U.S. economy grew more than 3.0% QoQ annualized in 4Q11.

Graph 1
Consumer Confidence Index (Index)



Source: Conference Board

Graph 2
S&P Case & Shiller Home Price Index (Index)



Source: S&P

Week Ahead

ISM Index (December, Tuesday 10:00 ET)

Forecast: 53.7

Consensus: 53.2

Previous: 52.7

The ISM Manufacturing Index increased by 1.9pp to 52.7 in November, suggesting modest economic expansion in manufacturing activity. The prices sub-index remained below the threshold of 50, indicating no price pressures in the industry. On the other hand, new orders index has risen in the previous two months and is currently at 56.7 which points to a moderate increase in production. Moreover, the employment index has been above 50 since September 2009 although it declined in November. We expect the ISM and Employment indices to climb in December, consistent with our expectation of stronger economic growth in 4Q11 than in the previous quarter.

FOMC Minutes (Dec-13, Tuesday 14:00 ET)

Forecast: ---

Consensus: ---

Previous: ---

In its last meeting, the Fed kept the target interest rate steady at 0.0% to 0.25% and maintained its existing policy of lengthening the average maturity of its system open market account portfolio. The Fed also continued its policy of reinvesting principal into mortgage based securities. Although the statement revealed no new communication strategies or new information regarding the future of monetary policy stance, Minutes might hint us what the FOMC members consider for future monetary policy moves.

Factory Orders (November, Wednesday 10:00 ET)

Forecast: 2.1%

Consensus: 2.0%

Previous: -0.4%

Although factory orders declined slightly in October, second straight month, we expect factory orders to jump 2.1% in November, suggesting manufacturers could gain some ground despite a weak economy. Durable goods orders, which account more than 50% of the factory orders, rose 3.8% to \$207bn according to U.S. Census Bureau's advance report, which indicates strong increase in factory orders in November.

Nonfarm Payrolls (December, Friday 08:30 ET)

Forecast: 155K

Consensus: 150K

Previous: 120K

Labor market is expected to remain weak mainly due to low employment creation in construction sector and ongoing layoffs in local and state governments. The unemployment rate dropped surprisingly in November to 8.6%, the lowest since March 2009, but largely reflects a decline of 315K in the labor force. The participation rate has been declining since the recession and near a decade-low at 64.0%, which is a discouraging sign for potential employment growth. On the other hand, the private sector created 2.5 million jobs in the last two years and we expect that this trend will continue although it will not be sufficient to decrease the unemployment rate in December.

Market Impact

Markets will continue to remain relatively quiet in the first week of the new year. Although significant increase in ISM Indices would suggest strong economic growth in 4Q11, markets' focus will be on the European markets. Any negative news from the European markets would increase volatility in the U.S. financial markets. Happy New Year!

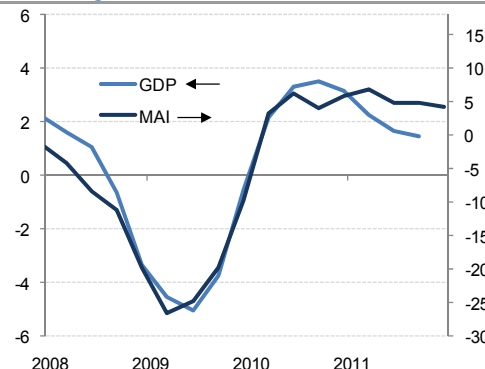
Economic Trends

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



Source: BBVA Research

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



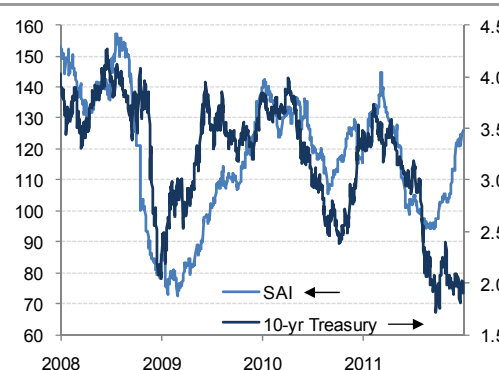
Source: BBVA Research & BEA

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



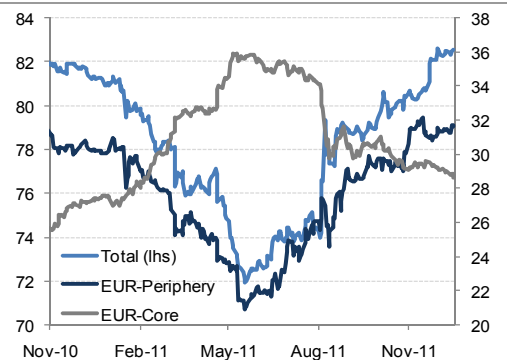
Source: BBVA Research

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



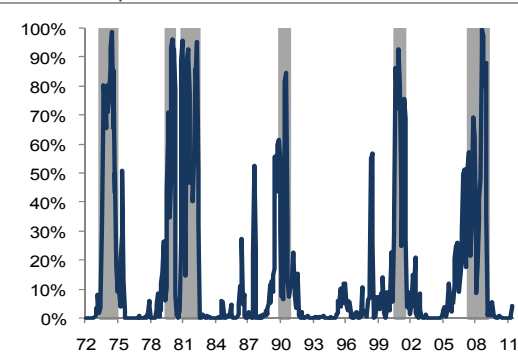
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

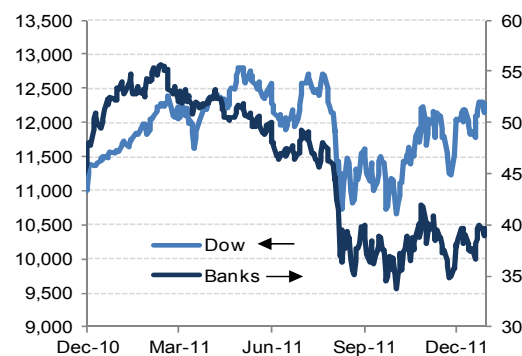
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

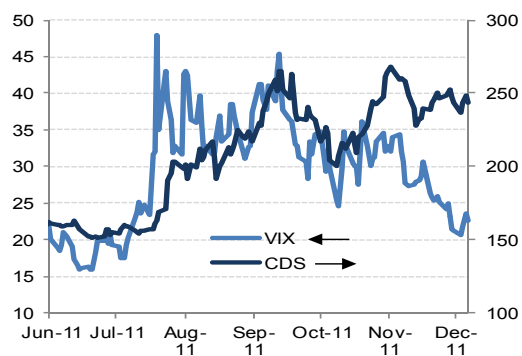
Financial Markets

Graph 9
Stocks (Index, KBW)



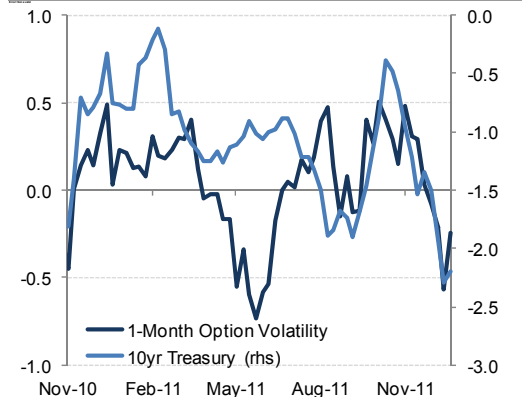
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



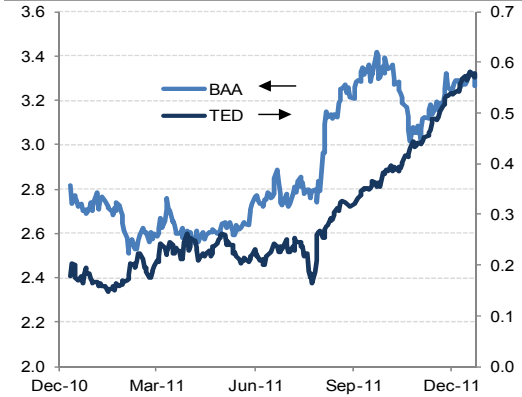
Source: Bloomberg & BBVA Research

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



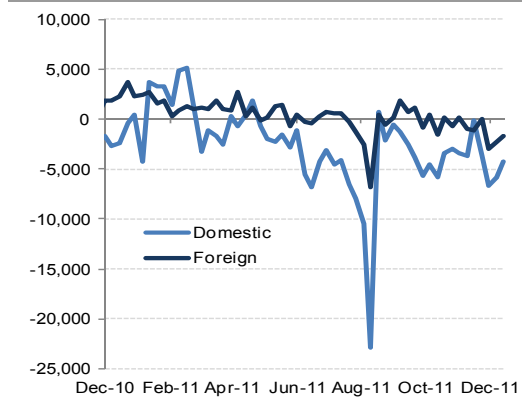
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



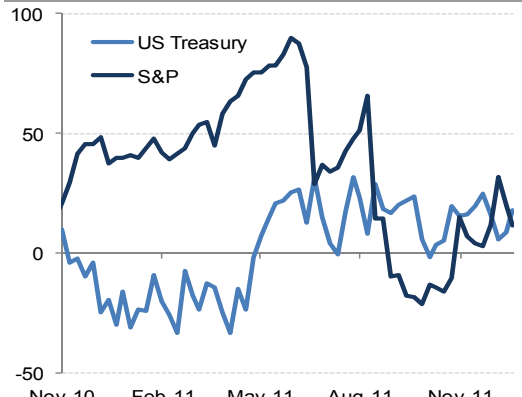
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

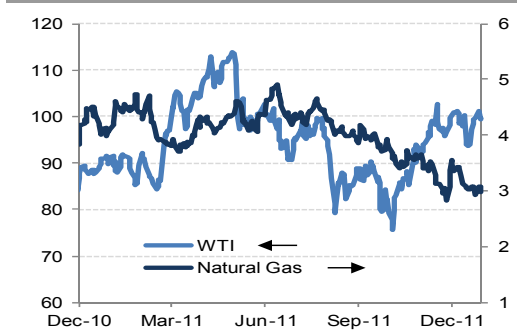
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

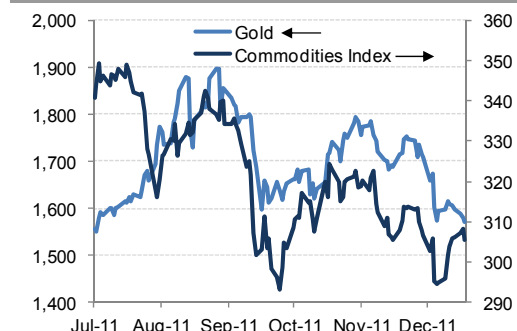
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



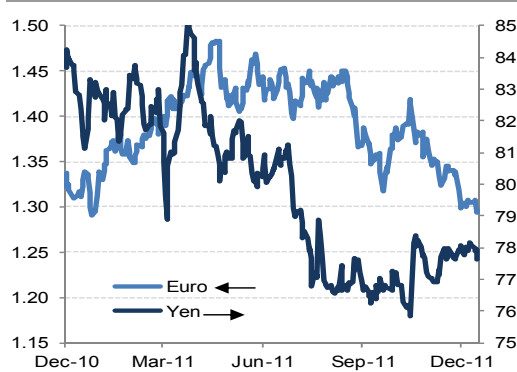
Source: Bloomberg & BBVA Research

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



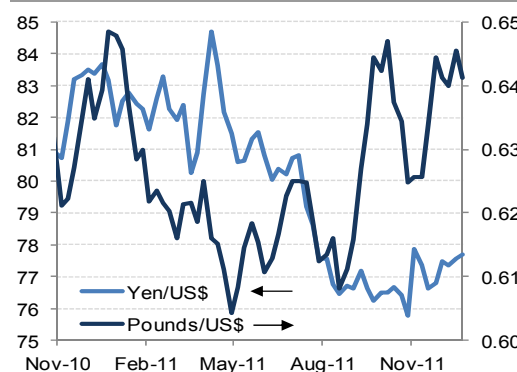
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



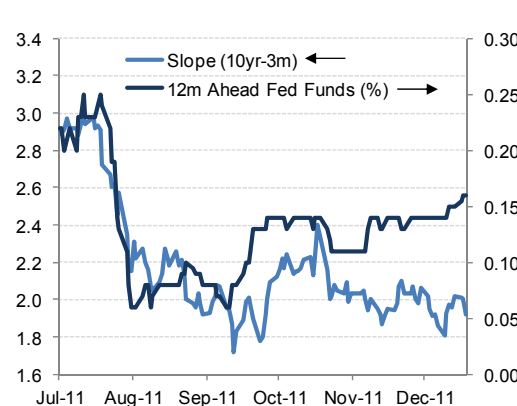
Source: Bloomberg & BBVA Research

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



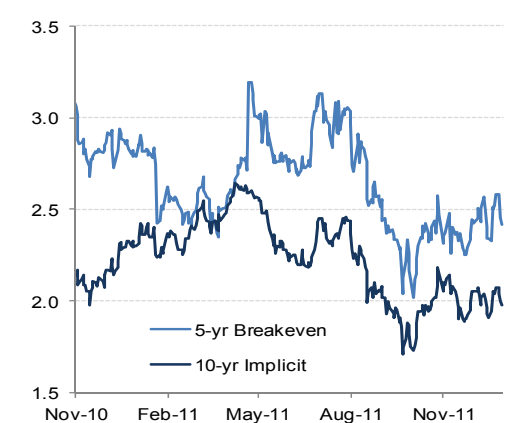
Source: BBVA Research

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)	13.94	13.94	13.96	13.68
New Auto (36-months)	3.75	3.75	3.79	5.35
Hblcc Loan 30K	5.54	5.55	5.53	5.50
5/1 ARM*	2.88	2.85	2.90	3.77
15-year Fixed Mortgage *	3.24	3.21	3.30	4.20
30-year Fixed Mortgage *	3.95	3.91	4.00	4.86
Money Market	0.49	0.49	0.51	0.71
2-year CD	0.94	0.94	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	0.19
3M Libor	0.58	0.57	0.53	0.30
6M Libor	0.81	0.80	0.75	0.46
12M Libor	1.13	1.12	1.07	0.78
2yr Sw ap	0.76	0.76	0.70	0.84
5yr Sw ap	1.29	1.31	1.33	2.24
10Yr Sw ap	2.08	2.11	2.21	3.45
30yr Sw ap	2.63	2.70	2.74	4.18
7day CP	0.95	0.81	0.73	0.20
30day CP	0.77	0.60	0.56	0.27
60day CP	0.57	0.50	0.43	0.29
90day CP	0.50	0.53	0.44	0.31

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
When he nominated Jeremy Stein and Jerome Powell to fill two vacancies on the Fed Board
27 December 2011

"Their distinguished backgrounds and experience coupled with their impressive knowledge of economic and monetary policy make them tremendously qualified to serve in these important roles."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Jan	Construction Spending MoM	NOV	0.7%	0.5%	0.8%
3-Jan	ISM Manufacturing	DEC	53.7	53.2	52.7
3-Jan	ISM Prices Paid	DEC	47.0	47.8	45.0
3-Jan	Minutes of FOMC Meeting	13-Dec	---	---	---
4-Jan	Factory Orders	NOV	2.1%	2.0%	-0.4%
4-Jan	Total Vehicle Sales	DEC	13.50M	13.52M	13.59M
5-Jan	Initial Jobless Claims	31-Dec	378K	375K	381K
5-Jan	Continuing Claims	24-Dec	3550K	3522K	3601K
5-Jan	ISM Non-Manf. Composite	DEC	52.5	53.0	52.0
6-Jan	Change in Nonfarm Payrolls	DEC	155K	150K	120K
6-Jan	Change in Private Payrolls	DEC	165K	165K	140K
6-Jan	Unemployment Rate	DEC	8.6%	8.7%	8.6%
6-Jan	Avg Hourly Earning MOM All Emp	DEC	0.2%	0.2%	-0.1%
6-Jan	Avg Hourly Earning YOY All Emp	DEC	2.1%	2.1%	1.8%
6-Jan	Avg Weekly Hours All Employees	DEC	34.3	34.3	34.3

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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