

Economic Watch

U.S.

06 January 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Hakan Danış
hakan.danis@bbvacompass.com

Monthly US Outlook A Quiet End to 2011, But How Long Will it Last?

- **Despite a downward revision to 3Q11 GDP, economic data point to stronger growth in 4Q11 but increased uncertainties for 2012**
- **The Fed has plans to improve their communication strategy, but unlikely to announce QE3 as they await outcomes from Congress and Europe**

The economic recovery in the US continues to gain momentum in 4Q11 despite the slowing European economy and a lower-than-expected final GDP estimate for 3Q11. Growth was revised down to 1.8% QoQ annualized on a seasonally-adjusted basis from the second estimate of 2.0%. The downward revision was in large part due to surprising decline in personal consumption expenditures, mostly related to health care spending. Spending on durable goods was stronger than previously estimated, suggesting that underlying demand conditions have not deteriorated. While Europe appears to be heading into recession, current macroeconomic indicators in the US continue to indicate stronger growth in 4Q11, and we expect GDP growth more than 3.0% annualized for the quarter. Given the acceleration in economic activity in the latter half of 2011, annual growth is likely to be greater than our baseline forecast for 1.6%. In regards to fiscal policy, the Obama Administration was able to extend the payroll tax cut and unemployment benefits for two months. We expect that these measures will be extended until the end of the year and will have positive but yet minimal effect on the pace and sustainability of economic growth.

Recent increases in consumer confidence suggest that personal consumption expenditures in December will be similar to the previous two months and provide additional evidence of stronger growth in 4Q11. Consumer attitudes toward current conditions have increased slightly, and expectations for the next six months have improved significantly. Much of this can be attributed to positive labor market data, mostly centered on declines in initial jobless claims and the lower unemployment rate. Although total nonfarm payrolls have increased only modestly in recent months, the unemployment rate declined faster than expected in 4Q11 mainly due to a decline in the participation rate. Looking forward, we expect labor market conditions to improve only gradually throughout 2012, while the unemployment rate remains much higher than pre-recession levels.

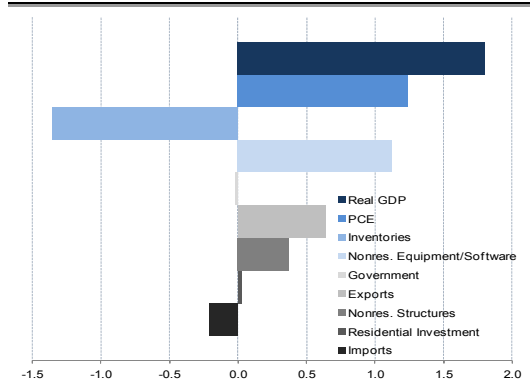
Inflation expectations have been relatively stable and pressures should remain limited in the coming months. Inflationary pressures on core prices should ease due to excess resource slack. For 2011, we expect that headline inflation will be near 3.2%, slightly higher than our baseline forecast of 2.9%, but will slow down in 2012.

The Fed continues to monitor economic data and is prepared to act if conditions worsen. Given that the economy is growing at a moderate pace and further action relies on pending outcomes in Congress and in Europe, the Fed has turned its focus to the communication strategy. In the next meeting, we expect the FOMC to follow through on its commitment to release the future path of the Federal Funds Target Rate, a long-run level of the rate, and a timing of the first rate increase as part of the Summary of Economic Projections. Our baseline scenario assumes that there will be no implementation of QE3, since a modest economic recovery will mean significant pressure over the Fed not to implement. The needed consensus around QE3 will be difficult to build in the face of moderate growth.

In summary, while 4Q11 growth is likely to lift 2011 GDP above our baseline forecast, downside risks to 2012 growth have increased. The crisis in Europe, slower global growth, and fiscal debates in the US have furthered uncertainties for 2012.

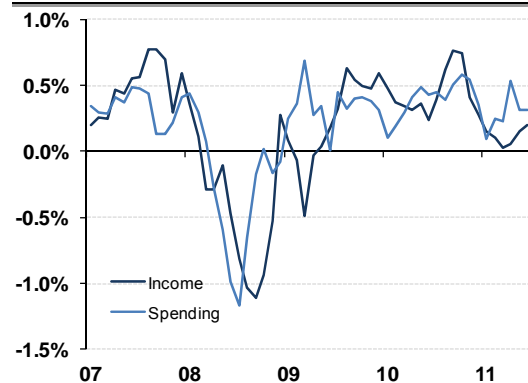
Economic Indicators

Graph 1
Contributions to Real GDP Growth
(3Q11 Preliminary, SAAR % Points)



Source: Bureau of Economic Analysis

Graph 2
Personal Income and Expenditures
(3MMA, MoM%)



Source: Bureau of Economic Analysis

Graph 3
Consumer Confidence
(SA, Index 1985=100)



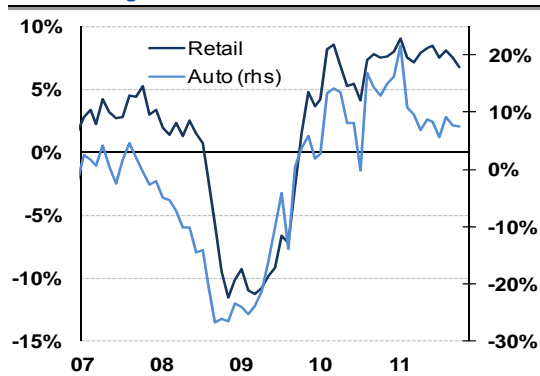
Source: Conference Board

Graph 4
ISM Indices
(SA, 50+ = Expansion)



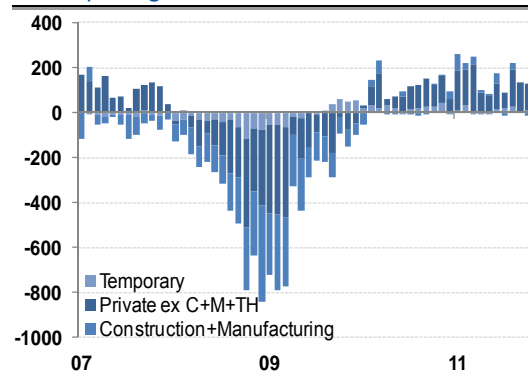
Source: ISM

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau

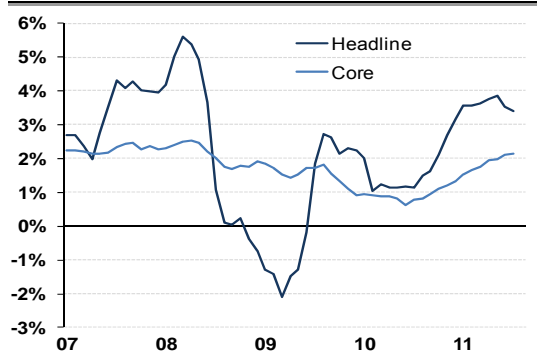
Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: Haver Analytics & BBVA Research

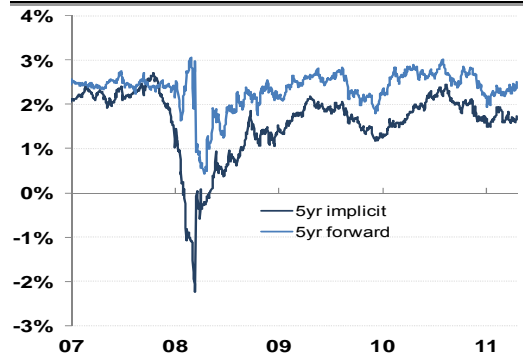
Economic Indicators

Graph 7
Consumer Price Index
(YOY% NSA, 1982-84=100)



Source: Bureau of Labor Statistics

Graph 8
Inflation Expectations
(%)



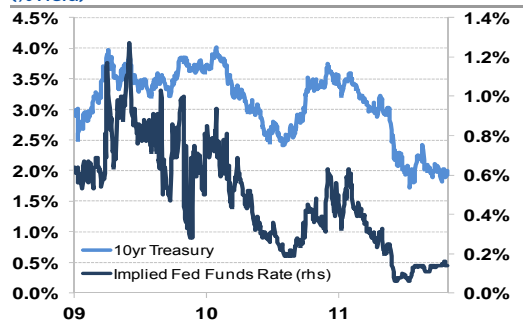
Source: Federal Reserve Board & BBVA Research

Graph 9
New and Existing Home Sales
(Thousands)



Source: Haver Analytics & BBVA Research

Graph 10
12 Month Implied Fed Funds Rate & 10 Yr Treasury
(%Yield)



Source: Haver Analytics

Table 1
Forecasts (**BOLD=FORECASTS**)

	4Q2010	1Q2011	2Q2011	3Q2011	2011	2012	2013
Real GDP (% SAAR)							
GDP	2.3	0.4	1.3	1.8	1.6	2.3	2.2
Real GDP (Contribution, pp)							
PCE	3.6	2.1	0.7	1.7	2.2	2.0	2.0
Gross Investment	-7.1	3.8	6.4	1.3	3.7	8.6	6.5
Non Residential	8.7	2.1	10.3	15.7	8.9	9.5	7.1
Residential	2.5	-2.4	4.2	1.3	-1.9	3.0	4.3
Exports	7.8	7.9	3.6	4.7	6.7	6.1	6.8
Imports	-2.3	8.3	1.4	1.2	5.1	6.5	6.8
Government	-2.8	-5.9	-0.9	-0.1	-1.9	0.2	0.9
Unemployment rate (%)	9.6	9.0	9.0	9.1	9.0	8.9	8.4
Average Monthly Nonfarm Payroll(k)	139	166	97	147	137	128	168
CPI							
CPI (YoY%)	1.3%	2.1%	3.4%	3.8%	2.9	2.2	2.3
Core CPI (YoY%)	0.7%	1.1%	1.5%	1.9%	1.6	1.7	1.8
Fiscal balance (% GDP)	-	-	-	-	-8.5	-7.1	-4.6
Current Account (bop, % GDP)	-3.0	-3.2	-3.3	-2.9	-3.0	-2.9	-3.0
Fed target rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	1.00
S&P Case & Shiller Index	130.9	125.5	130.2	130.4	128.5	128.5	130.2
10Yr Treasury (% Yield)	2.9	3.5	3.2	2.4	2.0	2.6	3.2
US Dollar/ Euro	1.36	1.37	1.44	1.41	1.35	1.33	1.36
Oil Prices (dpb)	86.6	104.8	117.6	113.3	109.5	94.0	102.5

Note: Revisions pending

Source: BBVA Research

Chief Economist for US

Nathaniel Karp
Nathaniel.karp@bbvacompass.com

Hakan Danış
Hakan.Danis@bbvacompass.com

Boyd Stacey
Boyd.Stacey@bbvacompass.com

Marcial Nava
Marcial.Nava@bbvacompass.com

Jeffrey Owen Herzog
Jeff.Herzog@bbvacompass.com

Jason Frederick
Jason.Frederick@bbvacompass.com

Kim Fraser
Kim.Fraser@bbvacompass.com

Contact details

BBVA Research
2001 Kirby Drive, Suite 310
Houston, Texas 77019

BBVA Research reports are available in English and Spanish

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.