

# Weekly Flash

U.S.

## Highlights

9 January 2012  
Economic Analysis

U.S.

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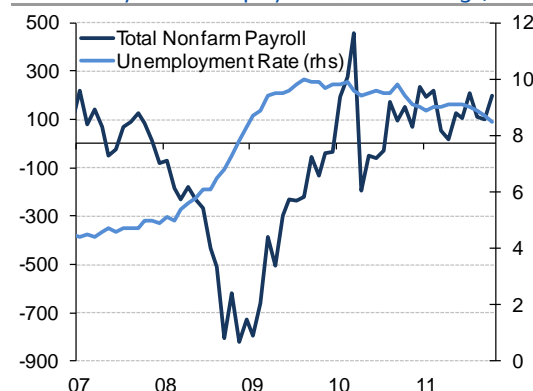
### Employment surprises to the upside, ISM indices point to modest expansion

The employment report for December surprised to the upside with improvements in both nonfarm payrolls and the unemployment rate. Total nonfarm payrolls increased 200K, with private payrolls coming in at a three-month high of 212K. The unemployment rate dropped to 8.5% from a revised 8.7% in November, which could be meaningful given that the participation rate did not decline from the previous month. The lower unemployment rate reflects continued declines in initial jobless claims, with the 4-week moving average reaching a recovery low for the week ending December 31st. However, we remain cautious in our labor market outlook as it is not yet clear whether these trends will continue.

The ISM Manufacturing and Non-Manufacturing Indices increased in December, suggesting further expansion in both sectors. The manufacturing sector appears to be at its best since June, with the index up to 53.9. On the services side, the index increased to 52.6, up from November but lower than all other readings since January 2010. Business activity and production remain the strongest components, with new orders growing at a relatively steady pace. The good news is that both indices have recovered to pre-recession levels, and respondents in both surveys noted stable business conditions. However, expectations for the coming months are mixed, with uncertain demand and weak hiring plans contributing to a fragile outlook.

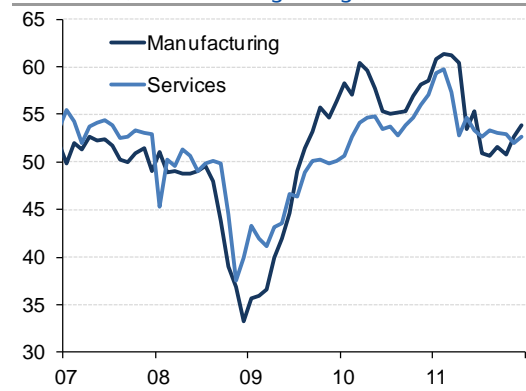
The latest meeting minutes from the Federal Reserve revealed few changes in terms of the Fed's economic outlook but suggested important changes to the communication of monetary policy. First, while indicators of economic activity over the past two months support moderate GDP growth, the fragility of the recovery remains an issue alongside potential shocks from a worsening European debt crisis. Second, the FOMC agreed to release the future path of the Federal Funds Target Rate as part of January's forthcoming Summary of Economic Projections. The result may or may not be expectations of a later first rate hike, but the purpose of the policy is to provide more transparency to the financial markets of the FOMC's thinking and reduce uncertainty. FOMC participants are still deciding on the best course of action for conveying their long-term monetary policy goals to the public. As such, we expect these to feature as questions to Chairman Bernanke during the press conference and also to feature in the minutes released in February.

Graph 1  
Nonfarm Payroll & Unemployment (MoM K change, %)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2  
ISM Indices (3-month moving average)



Source: Institute for Supply Management & BBVA Research

## Week Ahead

### Consumer Credit (November, Monday 14:00 ET)

Forecast: \$6.9B

Consensus: \$7.0B

Previous: \$7.7B

Consumer credit is expected to increase in November for the third consecutive month, confirming strength in consumer spending. Rising consumer confidence levels suggest an increased willingness to take on more debt, particularly in the form of credit cards. Furthermore, recent strength in auto sales indicate that demand for auto loans will continue to grow. In general, gradual improvements in the economic outlook suggest that consumer credit should follow similar expansionary trends at least in the short-term.

### Retail Sales, Ex Auto (December, Thursday 8:30 ET)

Forecast: 0.1%, 0.2%

Consensus: 0.3%, 0.3%

Previous: 0.2%, 0.2%

Retail sales were less-than-expected in November, marking a relatively weak start to the holiday shopping season. Various sales reports have noted that the weakness continued throughout December, though last-minute spending likely intensified demand in the latter half of the month. Soft demand for seasonal goods and declining gas prices may have weighed on nominal retail sales. Furthermore, auto sales, which make up close to one-fifth of total sales, were relatively unchanged in December. Thus, we expect only modest retail sales growth for the month.

### Business Inventories (November, Thursday 10:00 ET)

Forecast: 0.5%

Consensus: 0.4%

Previous: 0.8%

Business inventories are likely to expand in November but at a slower monthly pace as seasonal demand conditions were weaker-than-expected. Activity at the wholesale and factory level drove total inventory growth in October following close to zero growth in the previous month. In November, factory inventories increased 0.5%, with wholesale inventories expected to increase at a similar monthly rate. Retail inventories were weak in the prior two months but should recover in November as a result of holiday-related demand.

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

Forecast: -\$44.0B

Consensus: -\$45.0B

Previous: -\$43.5B

The international trade balance is expected to widen slightly in November after narrowing in October for the fourth consecutive month. Exports are expected to rebound from a slight decline in October, although continued weakness stemming from Europe will limit significant growth. Imports also dropped in the previous month but are likely to recover at a stronger pace than exports given a surge in auto demand for the month. Continued appreciation of the US dollar may hinder export demand, highlighting a growing impact from the fragile situation in Europe.

### Market Impact

Markets will be on the lookout for positive consumer data to confirm the better-than-expected December employment report. A final look at consumer activity for 2011 should indicate whether positive trends will spillover into 2012. Inventory and trade data will provide markets with further details on fourth quarter growth.

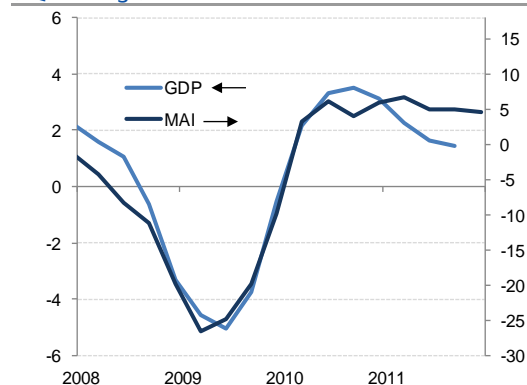
### Economic Trends

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



Source: BBVA Research

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



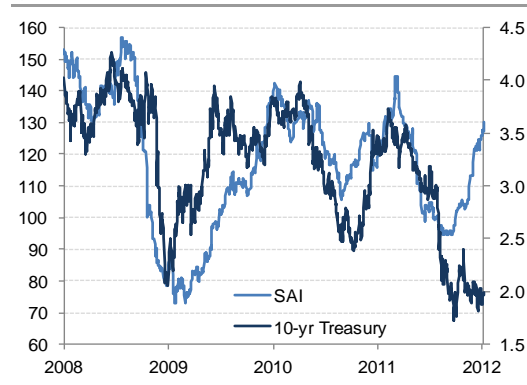
Source: BBVA Research & BEA

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



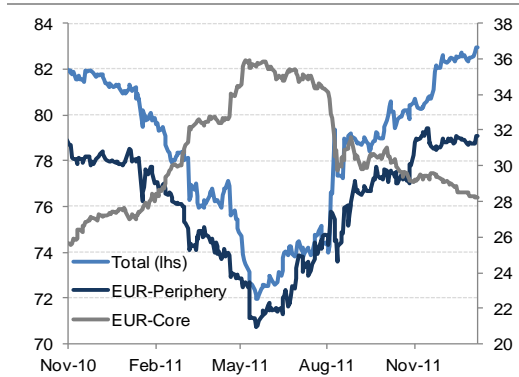
Source: BBVA Research

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



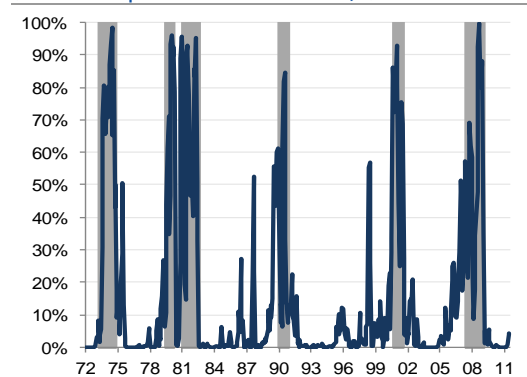
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

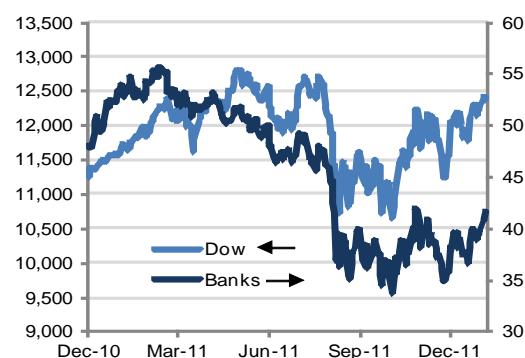
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

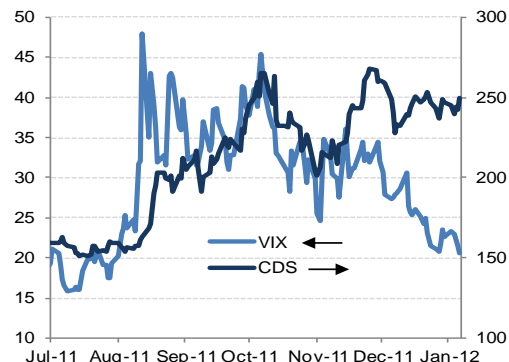
## Financial Markets

Graph 9  
Stocks (Index, KBW)



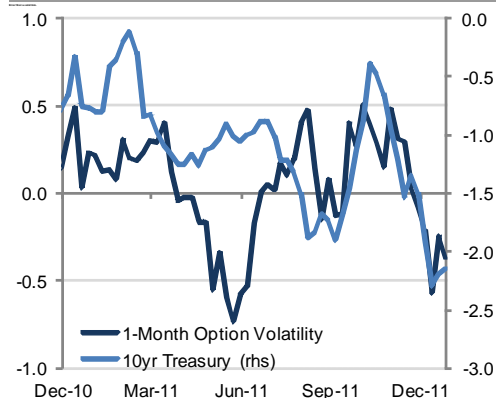
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



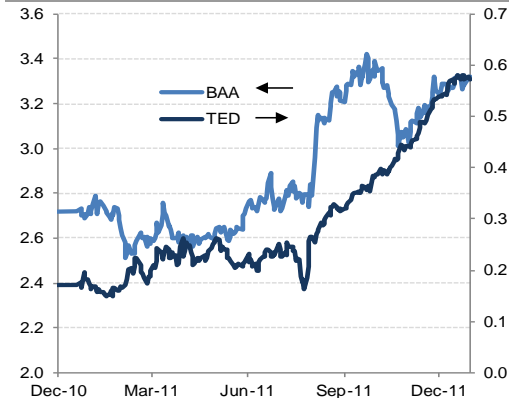
Source: Bloomberg & BBVA Research

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



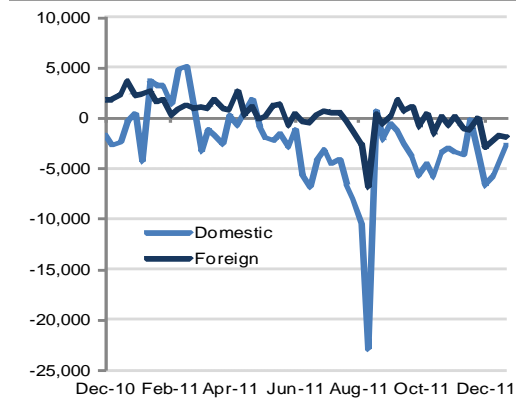
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



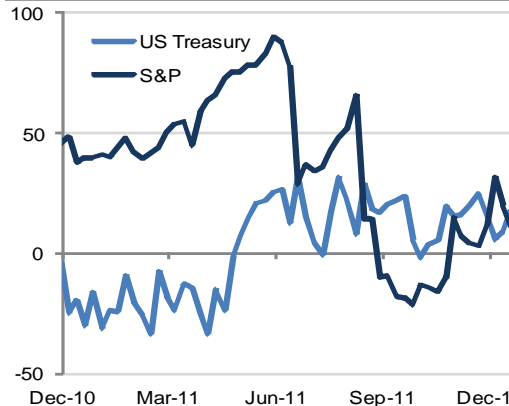
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

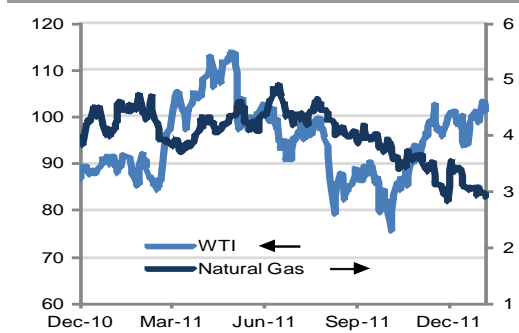
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

### Financial Markets

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



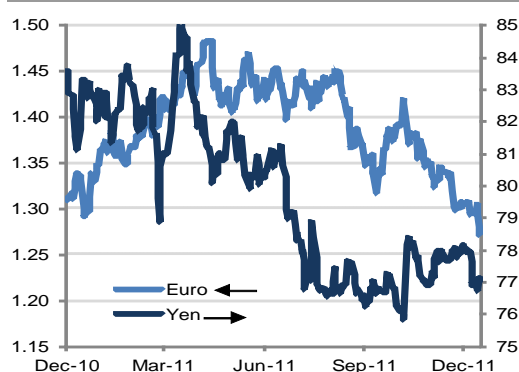
Source: Bloomberg & BBVA Research

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



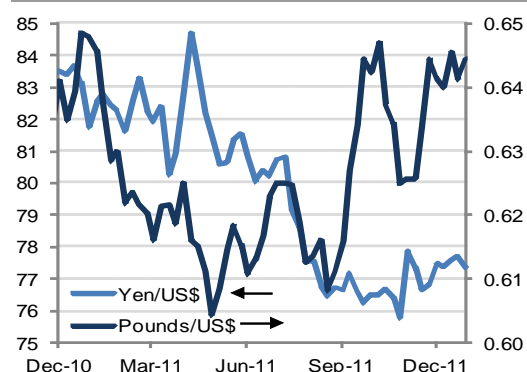
Source: BBVA Research

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



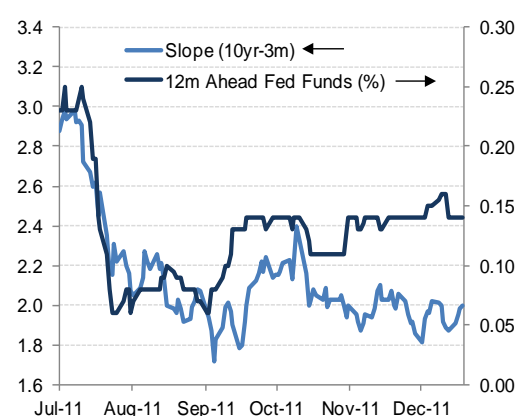
Source: Bloomberg & BBVA Research

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



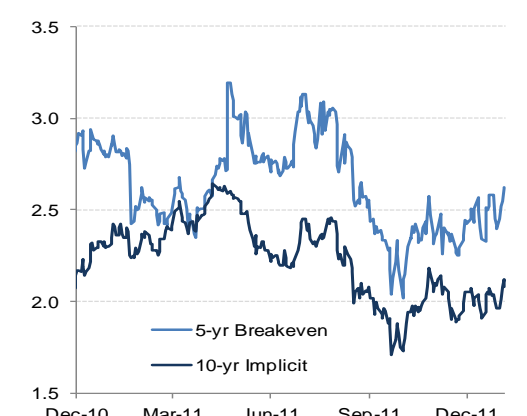
Source: BBVA Research

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)	13.94	13.94	13.94	13.68
New Auto (36-months)	3.77	3.74	3.76	5.34
Heloc Loan 30K	5.56	5.54	5.52	5.47
5/1 ARM*	2.86	2.88	2.93	3.75
15-year Fixed Mortgage*	3.23	3.24	3.27	4.13
30-year Fixed Mortgage*	3.91	3.95	3.99	4.77
Money Market	0.51	0.49	0.51	0.71
2-year CD	0.94	0.94	0.95	1.20

\* 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	0.04	0.07	0.17
3M Libor	0.58	0.58	0.54	0.30
6M Libor	0.81	0.81	0.76	0.46
12M Libor	1.13	1.13	1.08	0.79
2yr Sw ap	0.68	0.73	0.65	0.86
5yr Sw ap	1.21	1.22	1.26	2.19
10Yr Sw ap	2.10	2.03	2.19	3.41
30yr Sw ap	2.71	2.62	2.78	4.20
7day CP	0.65	0.87	0.82	0.25
30day CP	0.43	0.52	0.58	0.26
60day CP	0.45	0.49	0.47	0.27
90day CP	0.56	0.59	0.49	0.30

Source: Bloomberg & BBVA Research

## Quote of the Week

President Barack Obama  
"We Have a Lot More Work to Do"  
6 January 2012

*"We're starting to rebound. We're moving in the right direction. We have made real progress. Now is not the time to stop it. We have a responsibility to make sure the economy that we're rebuilding is one where middle class families feel like they can get ahead again"*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
9-Jan	Consumer Credit	NOV	\$6.90B	\$7.00B	\$7.65B
10-Jan	Wholesale inventories	NOV	0.50%	0.50%	1.60%
12-Jan	Initial Jobless Claims	7-Jan	365K	375K	372K
12-Jan	Continuing Claims	31-Dec	3600K	3575K	3595K
12-Jan	Advance Retail Sales	DEC	0.10%	0.30%	0.20%
12-Jan	Retail Sales Less Autos	DEC	0.20%	0.30%	0.20%
12-Jan	Business Inventories	NOV	0.50%	0.40%	0.80%
12-Jan	Treasury Budget	DEC	-\$65.00B	-\$80.00B	-\$137.30B
13-Jan	International Trade Balance	NOV	-\$44.00B	-\$45.00B	-\$43.50B
13-Jan	Import Prices (MoM)	DEC	-0.10%	-0.10%	0.70%
13-Jan	Export Prices (MoM)	DEC	0.10%	--	0.10%
13-Jan	Consumer Sentiment	JAN	71.00	71.50	69.90

## 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 (%)	<b>9.00</b>	8.90	8.40	7.90
Fed Target Rate, EOP (%)	<b>0.25</b>	0.25	1.00	2.00
10Yr Treasury (% Yield)	<b>2.00</b>	2.64	3.17	3.60
US Dollar/ Euro	<b>1.35</b>	1.33	1.36	1.34

Note: Bold numbers reflect actual data

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