

Weekly Flash

U.S.

16 January 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Highlights

Underwhelming retail sales and trade data, consumer credit a big surprise

December retail sales came in slightly lower than expectations, increasing only 0.1% for the month due in large part to a 1.5% jump in auto sales. However, upward revisions to data from October (from 0.6% to 0.7%) and November (from 0.2% to 0.4%) suggest strength in 4Q11 compared to prior quarters. Excluding autos, the data were more disappointing, dragged down 0.2% by a significant decline in gasoline sales. Sales have also weakened slightly on a YoY basis, although we expect consumer spending habits to continue at a similar pace moving into 1Q12.

Trade data also surprised to the downside, widening to -\$47.8B in November after narrowing in the prior four months. Imports outgrew exports for the month, jumping 1.3% due to a surge in oil and auto imports. Exports declined for the second consecutive month, and annual growth rates are on a downward trend, likely highlighting a growing impact from the fragile situation in Europe. December's data could be a turning point in our expectations for fourth quarter growth, and further widening of the trade balance may drag down our projections.

Despite the disappointing trade data, business inventories increased again in November and may help offset weakness from other GDP components. Furthermore, the Federal Reserve's Beige Book for December suggests improvements in economic activity compared to prior months. The report highlighted an increase in consumer spending in addition to gains in the manufacturing sector.

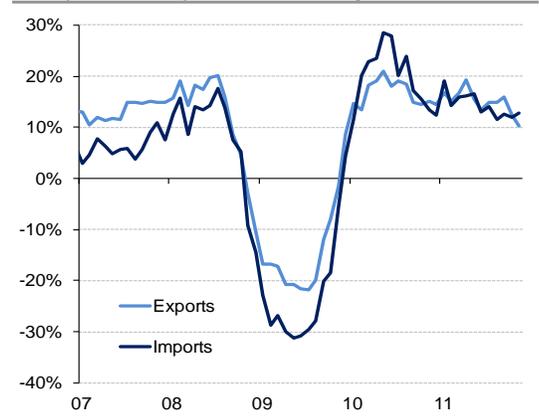
Total outstanding consumer credit nearly doubled expectations in November, increasing by \$20.4bn MoM on a seasonally-adjusted basis compared to a \$6.0bn increase in the prior month. As expected, growth in auto sales and credit card usage in preparation for the holidays inflated both nonrevolving and revolving credit. However, the data may have been misleading and we cannot fully assess the significance of this report until we see the trend continue in the coming months. Despite monthly growth from previously weak components on the revolving side, non-seasonally-adjusted nonrevolving credit (excluding government) has been relatively flat for more than half of 2011.

Graph 1
Retail & Auto Sales (YoY % Change)



Source: US Census Bureau & BBVA Research

Graph 2
US Exports and Imports (YoY % Change)



Source: US Census Bureau & BBVA Research

Week Ahead

Empire State Manufacturing Survey (January, Tuesday 8:30 ET)

Forecast: 10.0

Consensus: 11.0

Previous: 9.53

The Empire State Manufacturing Index is expected remain positive for the third consecutive month in January after jumping to a 7-month high in December. Manufacturing payrolls rebounded in December to the highest levels since July, possibly marking a reversal in the slow-growth trend for the sector. The 6-month outlook has improved significantly in recent months, and growth in the new orders component points to gains in future production. Overall, we expect that this momentum will spillover into the beginning of 2012.

Industrial Production (December, Wednesday 9:15 ET)

Forecast: 0.4%

Consensus: 0.5%

Previous: -0.2%

Industrial production dropped in November for the first time since April 2011, dragged down by weakness in the auto sector. According to regional Federal Reserve surveys, the manufacturing sector has rebounded in December and durable goods orders remain strong. Furthermore, manufacturing employment jumped significantly, signaling an increase in activity for the month. In general, production is expected to grow in December to make up for losses in the previous month and will continue to approach pre-recession levels.

Consumer Price Index, Core (December, Thursday 8:30 ET)

Forecast: 0.1%, 0.1%

Consensus: 0.1%, 0.1%

Previous: 0.0%, 0.2%

Headline inflation has been lower-than-expected in the past two months and will likely increase only slightly in December. The energy component of CPI declined in both October and November and appears to have fallen again in December as suggested by a decline in crude oil prices. Food inflation has been decelerating but is likely to remain positive. Import prices declined only slightly for the month after a large jump in November, while rent prices continue to exert pressure on inflation. Excluding food and energy, core inflation is expected to continue easing due to excess resource slack.

Existing Homes Sales (December, Friday 10:00 ET)

Forecast: 4.55M

Consensus: 4.65M

Previous: 4.42M

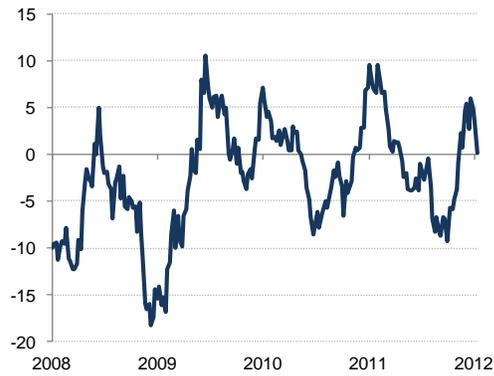
Existing home sales increased on a MoM basis in November, however, downward revisions to the prior 5 years of data suggest a more discouraging outlook of the housing recovery. Recent price increases and depleting supply likely reflect a moderate rebound in demand conditions, with gains centered mostly in the single-family component. Although tight credit conditions continue to limit sales of existing homes, we expect modest increases to continue for the third straight month.

Market Impact

Markets will remain sensitive this week to further developments in Europe following S&P's downgrade of several sovereign credit ratings. We suspect that market attention will center on these details, and it is unlikely that only modest improvements in US data will offset much of the pessimism. However, easing core inflation in line with Fed expectations could provide a more stable US outlook for the start of 2012.

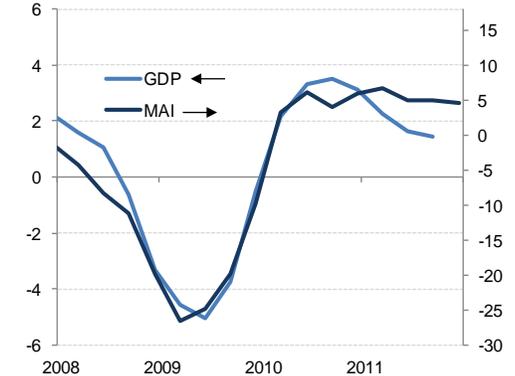
Economic Trends

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



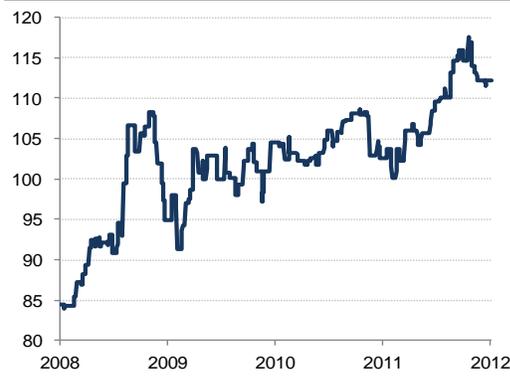
Source: BBVA Research

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



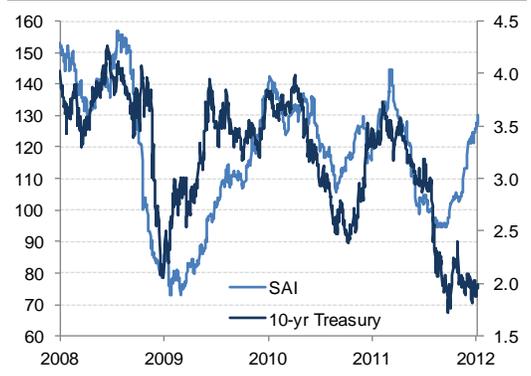
Source: BBVA Research & BEA

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



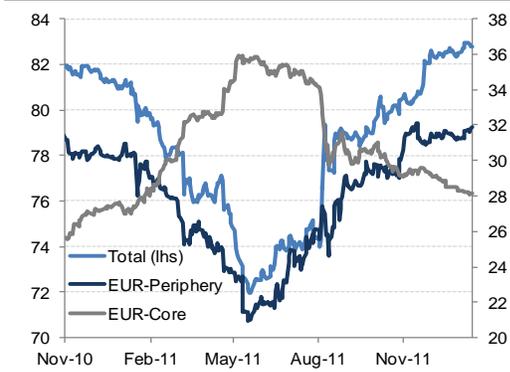
Source: BBVA Research

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



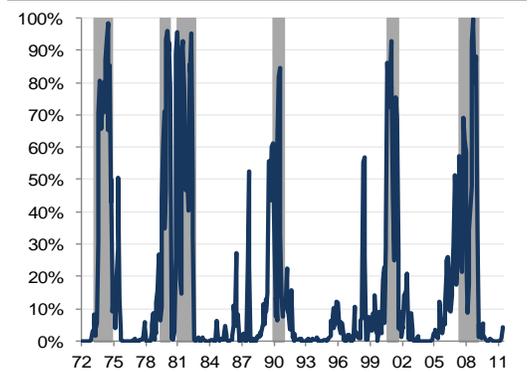
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

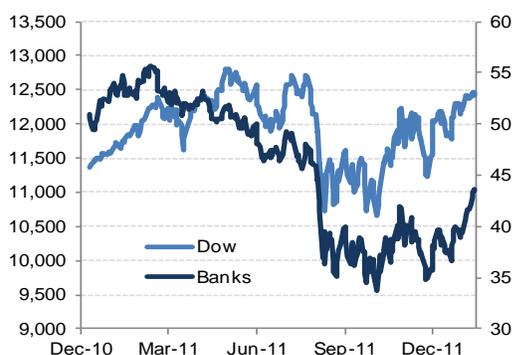
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

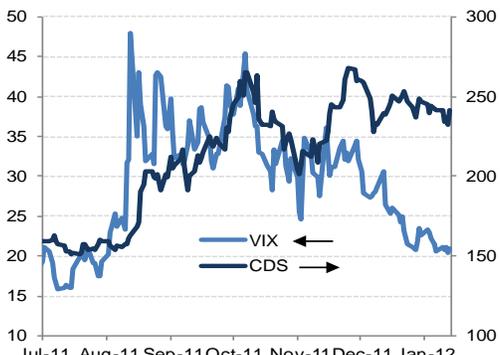
Financial Markets

Graph 9
Stocks (Index, KBW)



Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



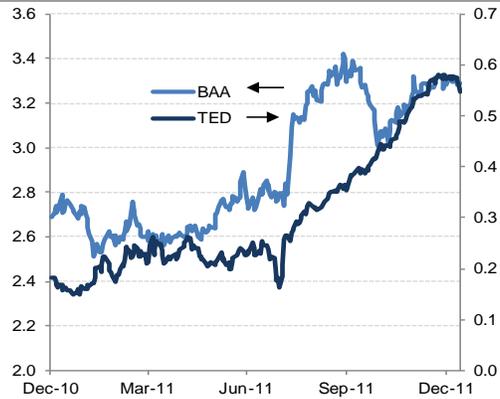
Source: Bloomberg & BBVA Research

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



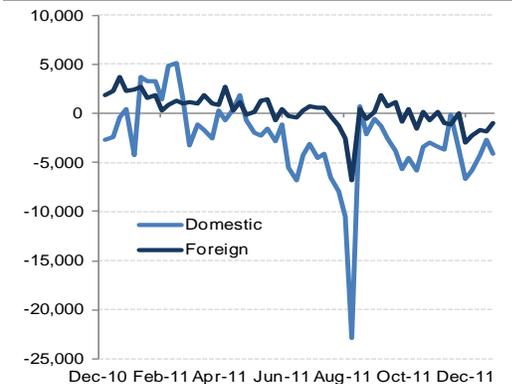
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



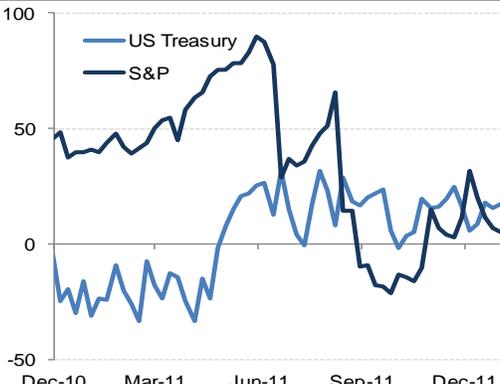
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

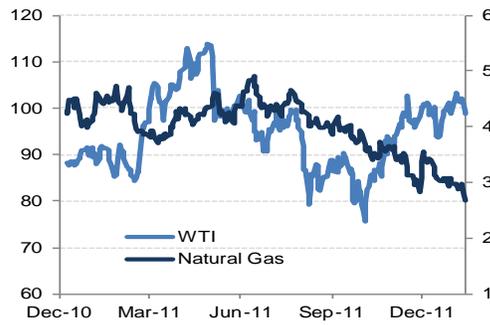
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

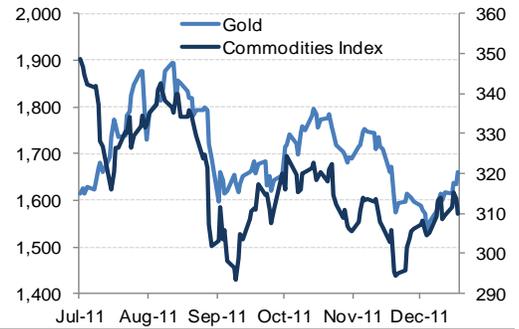
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



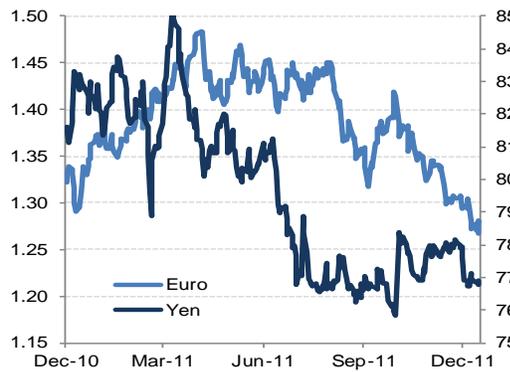
Source: Bloomberg & BBVA Research

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



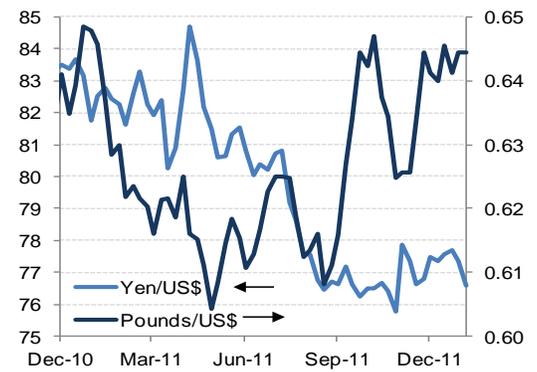
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



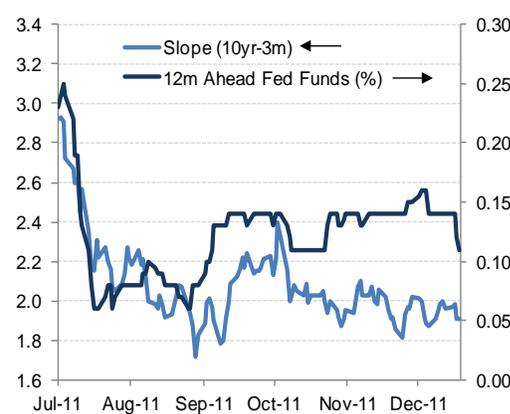
Source: Bloomberg & BBVA Research

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



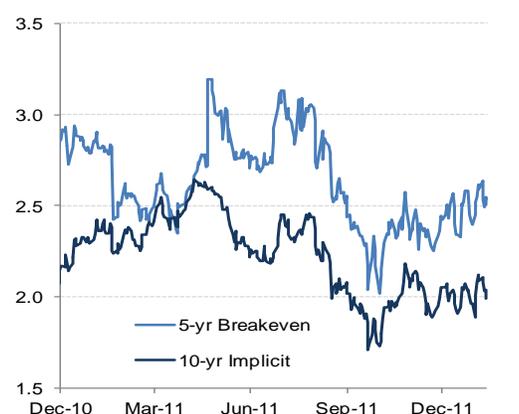
Source: BBVA Research

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)	4.04	3.77	3.78	5.09
Heloc Loan 30K	5.55	5.56	5.54	5.56
5/1 ARM*	2.82	2.86	2.86	3.72
15-year Fixed Mortgage *	3.16	3.23	3.21	4.08
30-year Fixed Mortgage *	3.89	3.91	3.94	4.71
Money Market	0.51	0.52	0.51	0.71
2-year CD	0.94	0.94	0.95	1.31

* 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	0.07	0.16
3M Libor	0.57	0.58	0.56	0.30
6M Libor	0.79	0.81	0.79	0.46
12M Libor	1.11	1.13	1.11	0.78
2yr Sw ap	0.57	0.68	0.72	0.80
5yr Sw ap	1.12	1.21	1.23	2.15
10Yr Sw ap	2.02	2.10	2.03	3.40
30yr Sw ap	2.65	2.71	2.59	4.23
7day CP	0.84	0.65	0.87	0.29
30day CP	0.71	0.43	0.57	0.28
60day CP	0.54	0.45	0.46	0.27
90day CP	0.49	0.56	0.51	0.29

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
 Obama Wants Power to Shrink Government in Election Year
 13 January 2012

"As it turns out, the Interior Department is in charge of salmon in fresh water, but the Commerce Department handles them in saltwater. If you're wondering what the genesis of this was, apparently, it had something to do with President (Richard) Nixon being unhappy with his Interior Secretary for criticizing him about the Vietnam War. And so he decided not to put NOAA in what would have been a more sensible place."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Jan	Empire State Manufacturing Survey	JAN	10.00	11.00	9.53
18-Jan	Producer Price Index (MoM)	DEC	0.00%	0.10%	0.30%
18-Jan	PPI Ex Food & Energy (MoM)	DEC	0.10%	0.10%	0.10%
18-Jan	Industrial Production	DEC	0.40%	0.50%	-0.20%
18-Jan	Capacity Utilization	DEC	77.90%	78.10%	77.80%
18-Jan	NAHB Housing Market Index	JAN	21.00	22.00	21.00
19-Jan	Consumer Price Index (MoM)	DEC	0.10%	0.10%	0.00%
19-Jan	CPI Ex Food & Energy (MoM)	DEC	0.10%	0.10%	0.20%
19-Jan	Housing Starts	DEC	680K	680K	685K
19-Jan	Housing Starts (MoM)	DEC	-0.70%	-0.70%	9.25%
19-Jan	Building Permits	DEC	680K	680K	681K
19-Jan	Building Permits (MoM)	DEC	-0.15%	-0.15%	5.59%
19-Jan	Initial Jobless Claims	14-Jan	385K	385K	399K
19-Jan	Continuing Claims	7-Jan	3640K	3595K	3629K
19-Jan	Philadelphia Fed Survey	JAN	11.50	10.90	10.30
20-Jan	Existing Home Sales	DEC	4.55M	4.65M	4.42M
20-Jan	Existing Home Sales (MoM)	DEC	2.94%	5.20%	4.00%

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)	2.00	2.64	3.17	3.60
US Dollar/ Euro	1.35	1.33	1.36	1.34

Note: Bold numbers reflect actual data

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.