

# Weekly Flash

U.S.

## Highlights

16 January 2012  
Economic Analysis

U.S.

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

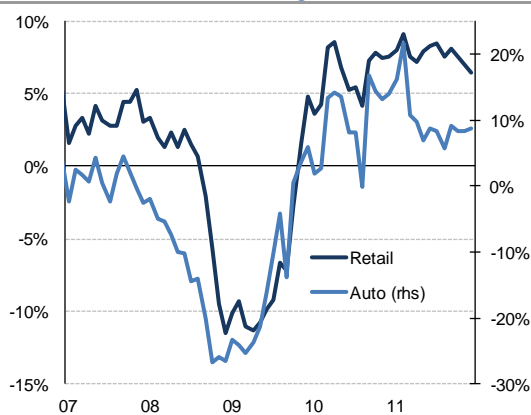
December retail sales came in slightly lower than expectations, increasing only 0.1% for the month due in large part to a 1.5% jump in auto sales. However, upward revisions to data from October (from 0.6% to 0.7%) and November (from 0.2% to 0.4%) suggest strength in 4Q11 compared to prior quarters. Excluding 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 13% 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.

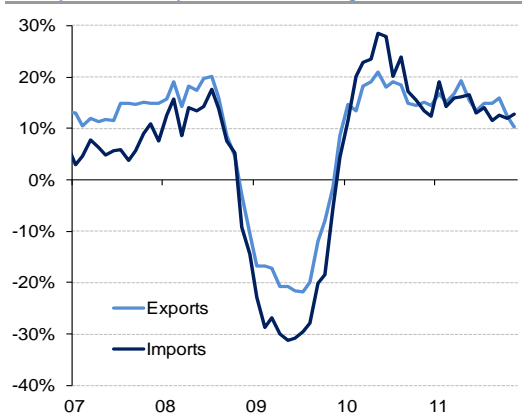
Total outstanding consumer credit nearly doubled expectations in November, increasing by \$20.4bn MoM on a seasonally-adjusted basis compared to a \$6.0bn increase in the prior month. As expected, growth in auto sales and credit card usage in preparation for the holidays inflated both nonrevolving and 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 &amp; BBVA Research

Graph 2  
US Exports and Imports (YoY % Change)



Source: US Census Bureau &amp; 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.

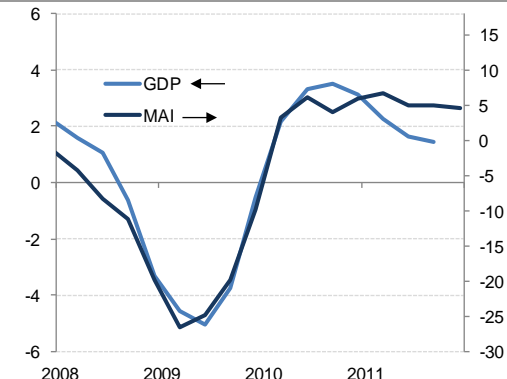
## Economic Trends

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



Source: BBVA Research

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



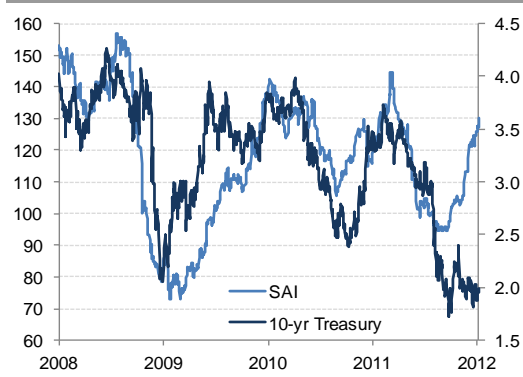
Source: BBVA Research & BEA

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



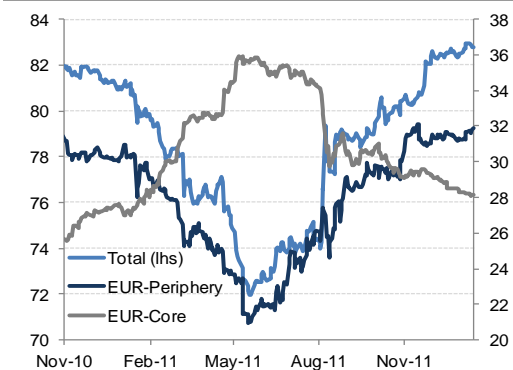
Source: BBVA Research

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



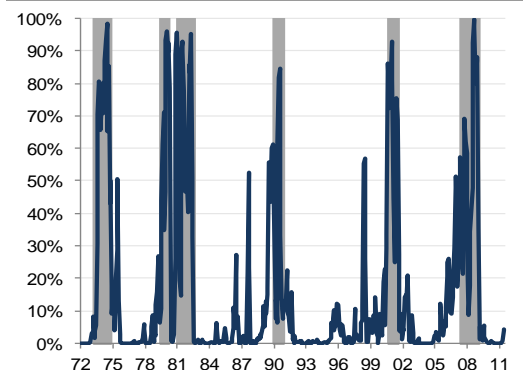
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

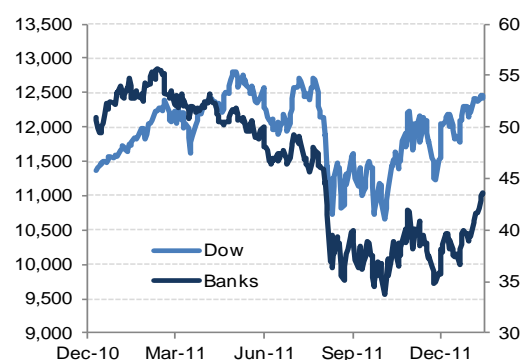
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

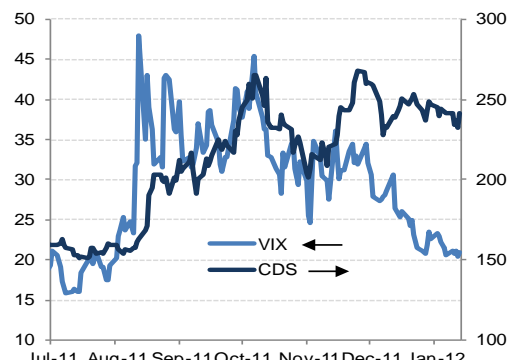
## Financial Markets

Graph 9  
Stocks (Index, KBW)



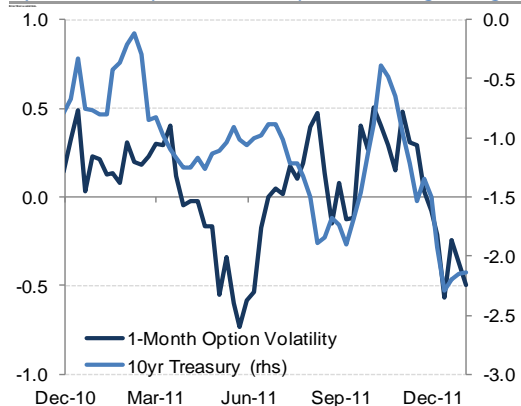
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



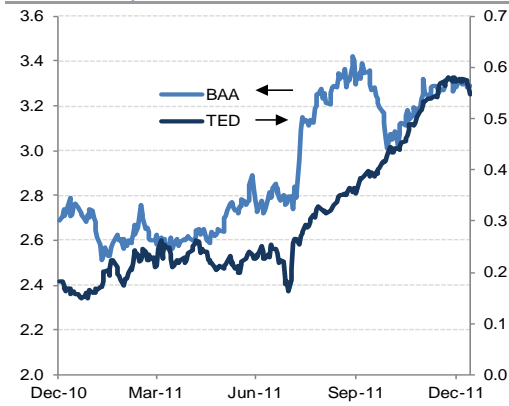
Source: Bloomberg & BBVA Research

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



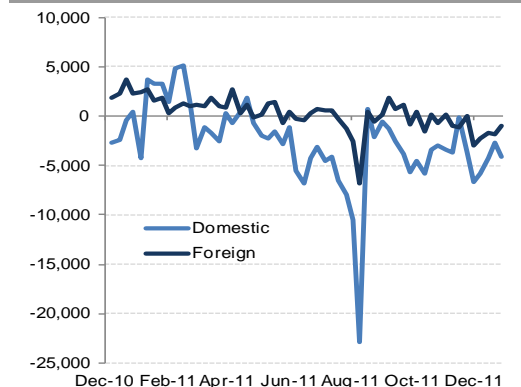
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



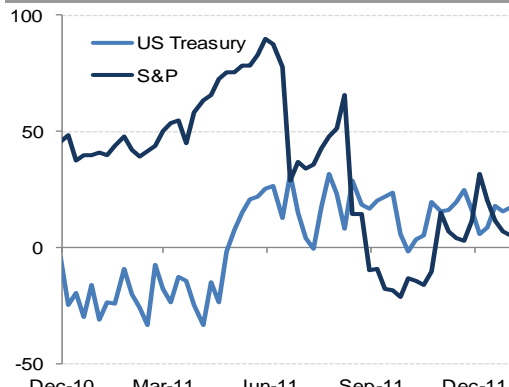
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

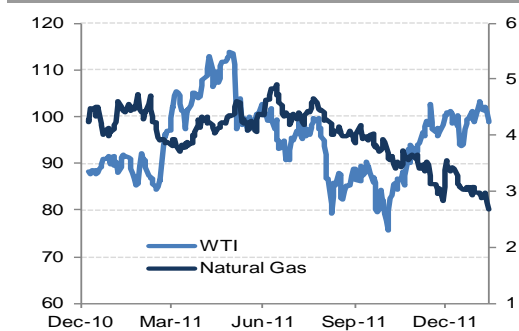
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

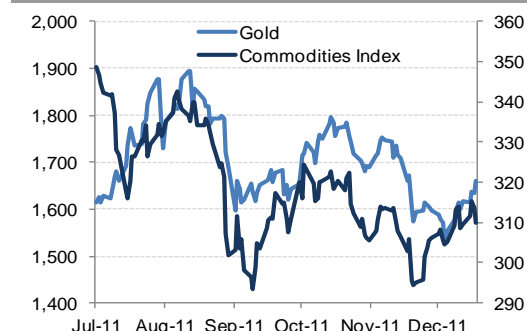
### Financial Markets

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



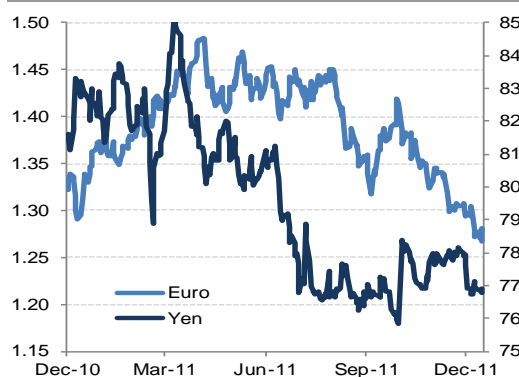
Source: Bloomberg & BBVA Research

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



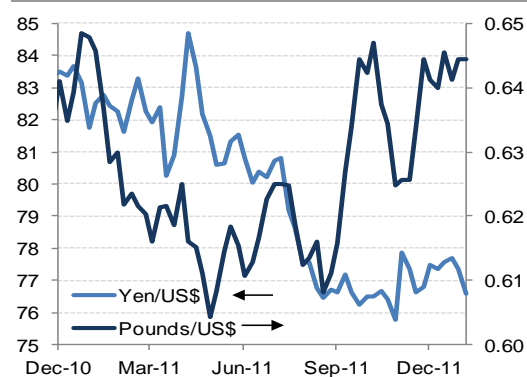
Source: BBVA Research

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



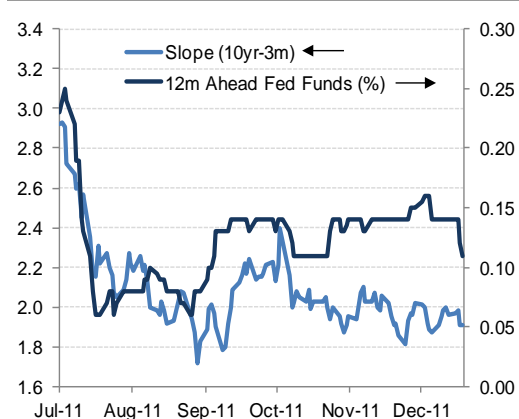
Source: Bloomberg & BBVA Research

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



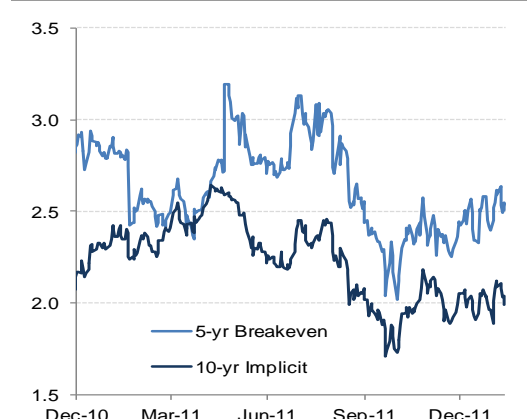
Source: BBVA Research

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	13.94	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 (%)	<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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