

# Weekly Flash

U.S.

## Highlights

23 January 2012  
Economic Analysis

U.S.

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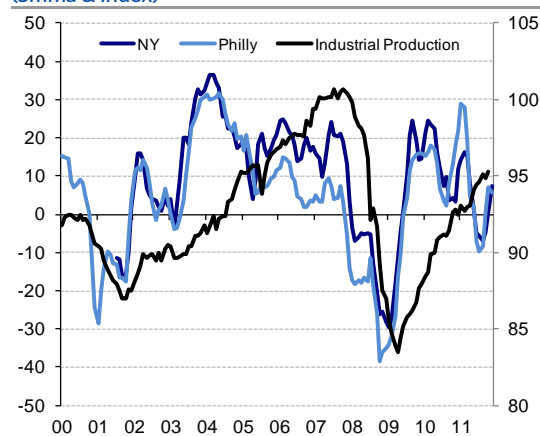
### More good news on the manufacturing sector, easing consumer prices

Manufacturing data continue to indicate growing momentum in the sector. Both the Empire State and the Philadelphia Fed indices increased in January, pointing to the third consecutive month of expansion in manufacturing. Strength was surprisingly centered in the employment components, showing improvements in both the number of employees and the average workweek. New orders were also strong, and activity appears to have rebounded to where it was in the beginning of the year. Complementing this data was a 0.4% increase in industrial production for December due mostly to a 0.9% jump in manufacturing output, the largest gain in 12 months.

The housing sector has also shown some improvement in activity for December. The housing market index jumped to its highest level since June 2007, with homebuilders citing gains in present sales, future sales, and homebuyer traffic. Building permits were also strong, indicating increased demand despite a slight drop in new home starts. Existing home sales also grew, helping to edge up median prices for the month. We expect that if this momentum continues, the Fed will be less inclined to intervene in the housing market.

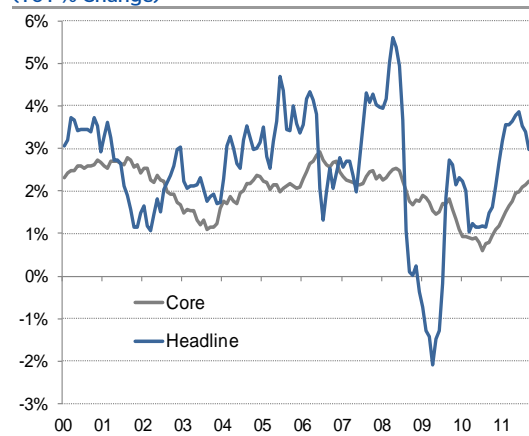
On the inflation front, price pressures appear to be easing in line with the Fed's expectations, ultimately helping to boost growth by encouraging consumer spending. Headline consumer price inflation was unchanged in December for the second consecutive month, confirming expectations of price stabilization moving into 2012. Declining energy prices were the main driver of easing inflation, falling 1.3% after dropping 1.6% and 2.0% in the previous two months. Food prices increased 0.2% following 0.1% inflation in October and November. Core inflation decelerated to 0.1%, with increases concentrated in medical care and rent. Partially offsetting these core component gains were declines in new and used car and apparel prices. Over the past 12 months, headline and core inflation increased 3.0% and 2.2%, respectively. Alternative measures of underlying inflation, such as the trimmed-mean CPI and the median CPI, have increased on both a MoM and YoY basis. Recent trends will likely be reflected in FOMC discussions during the upcoming two-day meeting.

Graph 1  
Fed Manufacturing Surveys & Industrial Production  
(3mma & Index)



Source: Federal Reserve Board

Graph 2  
Consumer Price Inflation  
(YoY % Change)



Source: Bureau of Labor Statistics

## Week Ahead

### FOMC Rate Announcement (January, Wednesday 12:30 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

Next week's two-day FOMC meeting is likely to be very informative in terms of the Fed's new monetary policy communication. We expect that the FOMC will follow through on its commitment to release the future path of the Federal Funds Target Rate as part of the Summary of Economic Projections. In addition, we expect committee members to continue discussions on the best course of action for conveying long-term monetary goals to the public. Given the continued improvements in economic activity, we do not expect the FOMC to announce QE3.

### Durable Goods Orders, Ex Transportation (December, Thursday 8:30 ET)

Forecast: 1.5%, 0.5%

Consensus: 2.0%, 0.9%

Previous: 3.8%, 0.3%

Durable goods orders are expected to increase in December but at a slower pace than in the previous month. November's growth was driven by a large jump in aircraft orders, while growth in most other components remained only moderately positive. Aircraft producers continue to report increasing demand, and outside of aircrafts, December's data point to persistent gains in manufacturing. Despite some weakness in the auto sector, regional Federal Reserve surveys and ISM indices have noted increasing new orders for the month.

### New Home Sales (December, Thursday 10:00 ET)

Forecast: 323K

Consensus: 320K

Previous: 315K

New home sales are expected to increase in December at a similar rate as in the previous month. Supply of new homes has been on a downward trend, indicating increasing demand from buyers. Furthermore, homebuilders have noted improvements in the housing outlook due to increased traffic of prospective buyers. Affordable prices of new homes, which are down 2.5% on a YoY basis, continue to encourage demand. Given the increasing momentum in housing activity, we do expect positive growth in December for the fourth consecutive month.

### Gross Domestic Product, Advance (4Q11, Friday 8:30 ET)

Forecast: 3.1%

Consensus: 3.0%

Previous: 1.8%

Current macroeconomic indicators in the US continue to indicate stronger growth in 4Q11, and we expect GDP growth near 3.1% annualized for the quarter. Manufacturing has shown significant improvements over the previous quarter, with strength in durable goods and growing inventories pointing to a stronger economy. The housing sector has also been gaining momentum, although construction spending was revised down significantly in October. Personal consumption expenditures grew in October and November, and recent increases in consumer confidence suggest that spending will be similar in December. Although larger-than-expected declines in exports led to a widening of the trade balance in November, we expect that gains in most other components should offset this weakness.

### Market Impact

A first look at 4Q11 GDP will be the central focus this week, as will the FOMC meeting, with markets on alert for disclosure of the ranges of the interest rate forecast, the timing of the first rate hike and policymakers' expectations for the Fed's balance. Continued improvements in housing and jobless claims data will warrant positive reaction from markets.

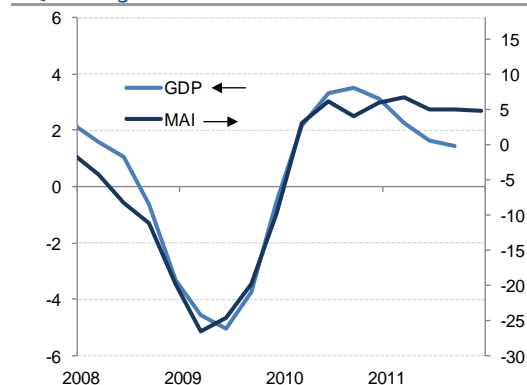
## Economic Trends

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



Source: BBVA Research

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



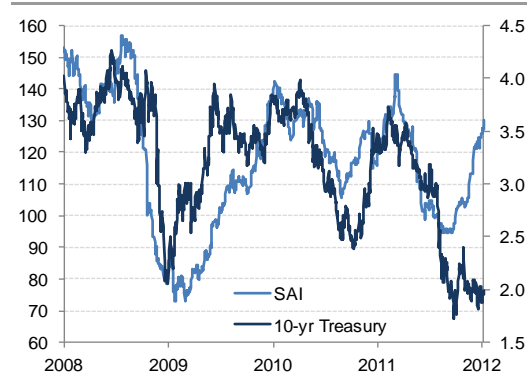
Source: BBVA Research & BEA

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



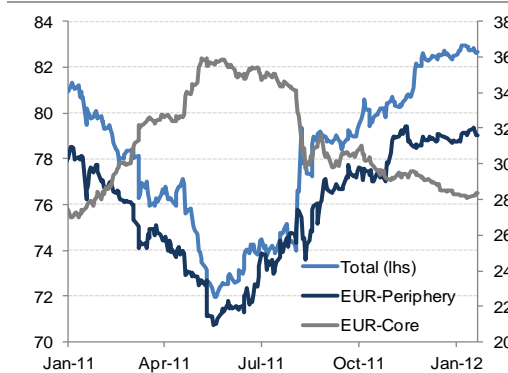
Source: BBVA Research

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



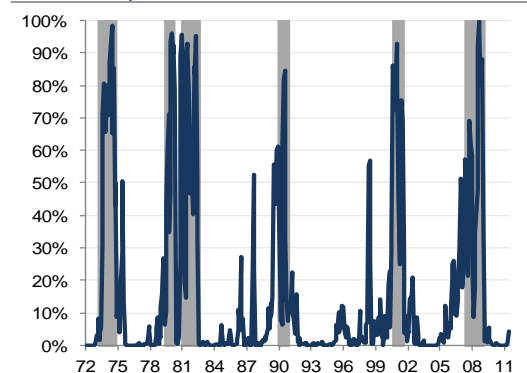
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

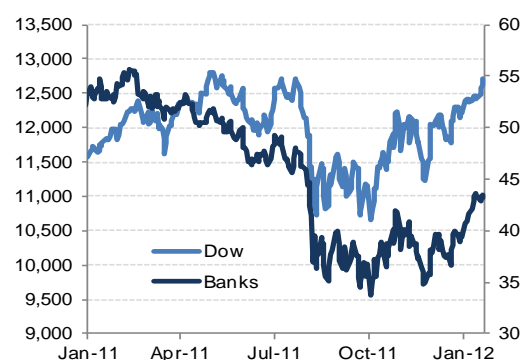
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

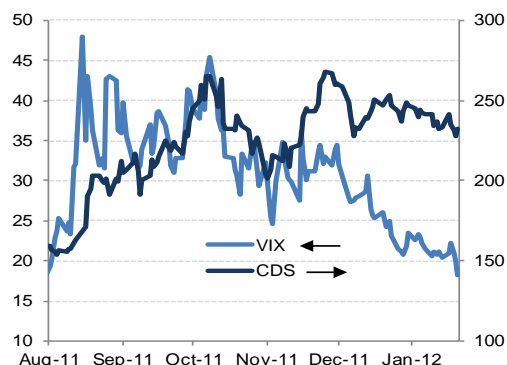
## Financial Markets

Graph 9  
Stocks (Index, KBW)



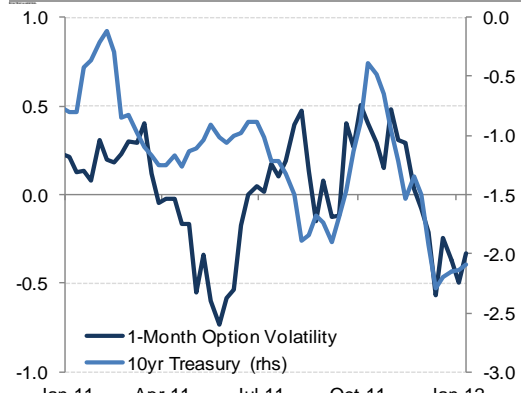
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



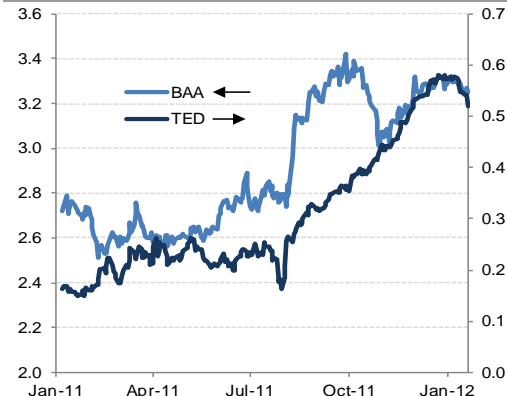
Source: Bloomberg & BBVA Research

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



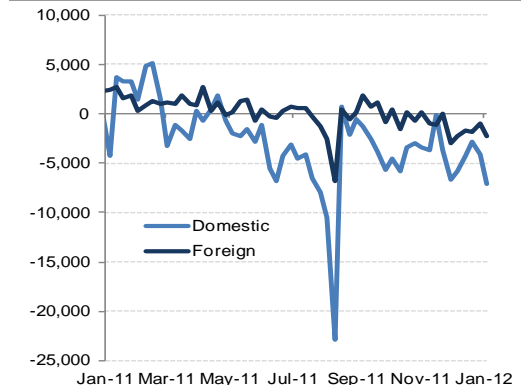
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



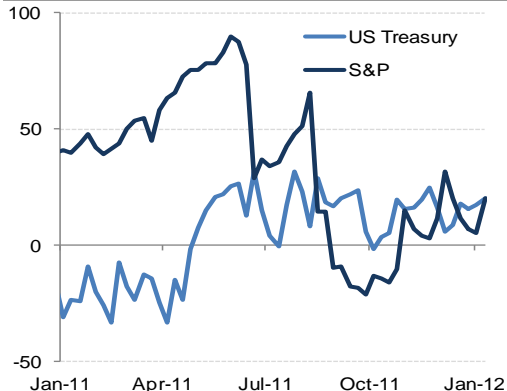
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

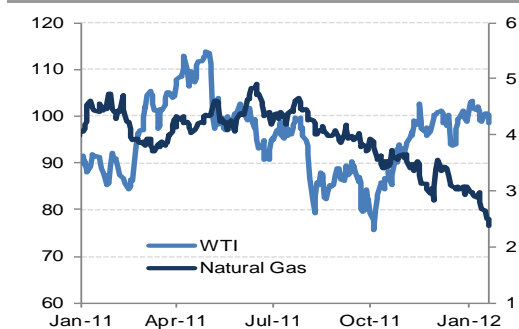
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

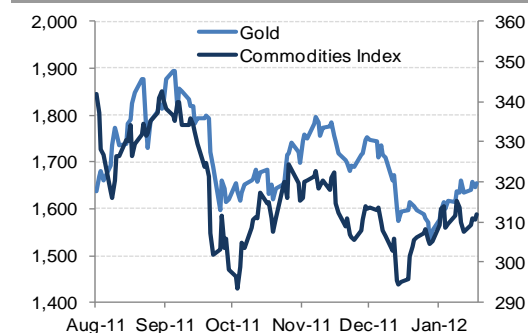
## Financial Markets

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



Source: Bloomberg & BBVA Research

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



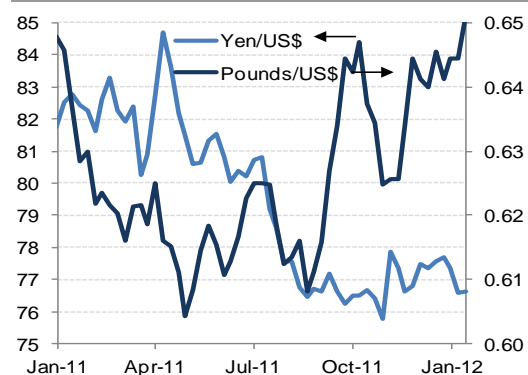
Source: BBVA Research

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



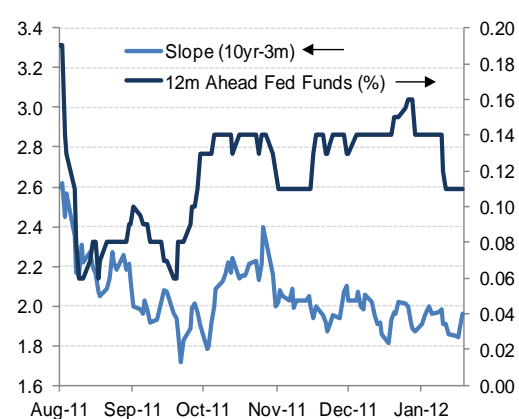
Source: Bloomberg & BBVA Research

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



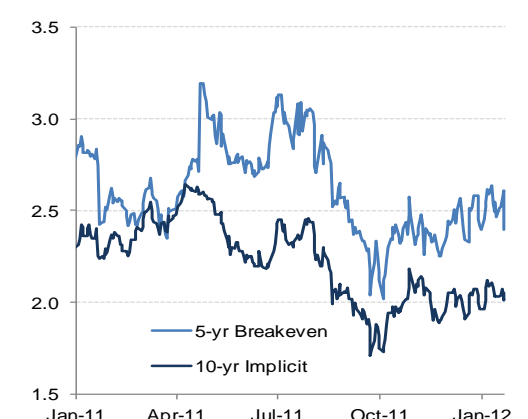
Source: BBVA Research

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)	3.91	3.93	3.75	5.10
Heloc Loan 30K	5.54	5.55	5.55	5.56
5/1 ARM*	2.82	2.82	2.85	3.69
15-year Fixed Mortgage *	3.17	3.16	3.21	4.05
30-year Fixed Mortgage *	3.88	3.89	3.91	4.74
Money Market	0.51	0.51	0.49	0.71
2-year CD	0.94	0.94	0.94	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	0.10	0.09	0.08	0.17
3M Libor	0.56	0.57	0.58	0.30
6M Libor	0.79	0.79	0.80	0.45
12M Libor	1.11	1.11	1.12	0.78
2yr Sw ap	0.59	0.57	0.79	0.84
5yr Sw ap	1.21	1.12	1.37	2.23
10Yr Sw ap	2.15	2.01	2.19	3.48
30yr Sw ap	2.81	2.64	2.77	4.29
7day CP	0.62	0.84	0.84	0.26
30day CP	0.48	0.71	0.68	0.27
60day CP	0.44	0.54	0.54	0.28
90day CP	0.50	0.49	0.52	0.31

Source: Bloomberg & BBVA Research

## Quote of the Week

Newt Gingrich  
South Carolina Republican Presidential Debate  
19 January 2012

*"You're right. I think grandiose thoughts. This is a grandiose country of big people doing big things. And we need leadership prepared to take on big projects."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Jan	Pending Home Sales (MoM)	DEC	0.30%	-1.00%	7.30%
25-Jan	FOMC Rate Announcement	DEC	0.25%	0.25%	0.25%
26-Jan	Durable Goods Orders	DEC	1.50%	2.00%	3.80%
26-Jan	Durable Goods Orders Ex Transportation	DEC	0.50%	0.90%	0.30%
26-Jan	Initial Jobless Claims	21-Jan	375K	370K	352K
26-Jan	Continuing Claims	14-Jan	3550K	3525K	3432K
26-Jan	New Home Sales	DEC	323K	320K	315K
26-Jan	New Home Sales (MoM)	DEC	2.54%	1.60%	1.60%
26-Jan	Leading Indicators	DEC	0.60%	0.70%	0.50%
27-Jan	GDP QoQ Annualized	4Q A	3.10%	3.00%	1.80%
27-Jan	Personal Consumption	4Q A	2.20%	2.40%	1.70%
27-Jan	GDP Price Index	4Q A	2.00%	2.00%	2.60%
27-Jan	Core PCE QoQ	4Q A	2.00%	2.00%	2.10%
27-Jan	U. of Michigan Consumer Sentiment	JAN	74.30	74.00	74.00

## Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	2.3	2.2	2.5
CPI (YoY %)	<b>3.2</b>	2.2	2.3	2.4
CPI Core (YoY %)	<b>1.7</b>	1.7	1.8	1.9
Unemployment Rate (%)	<b>9.0</b>	8.9	8.4	7.9
Fed Target Rate, EOP (%)	<b>0.25</b>	0.25	1.00	2.00
10Yr Treasury (% Yield)	<b>2.0</b>	2.6	3.2	3.6
US Dollar/ Euro	<b>1.35</b>	1.33	1.36	1.34

Note: Bold numbers reflect actual data

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