

# Weekly Flash

U.S.

## Highlights

30 January 2012  
Economic Analysis

U.S.

Kim Fraser  
kim.fraser@bbvacompass.com

Hakan Danis  
hakan.danis@bbvacompass.com

Jeffrey Owen Herzog  
jeff.herzog@bbvacompass.com

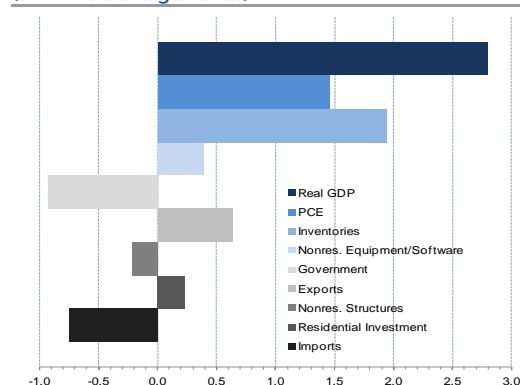
Nathaniel Karp  
nathaniel.karp@bbvacompass.com

### Real 4Q GDP growth strongest of 2011, FOMC's highly accommodative stance

Real GDP growth for 4Q11 came in at 2.8% QoQ annualized on a seasonally-adjusted basis, slightly lower than expected but still in line with our projections for stronger fourth quarter activity. Compared to the final estimate for 3Q11 of 1.8%, Friday's figure reflects a positive contribution from the change in private inventories and a stronger contribution from personal consumption expenditures. PCE grew 2.0% in 4Q11, up from 1.7% in 3Q11 and 0.7% in 2Q11, showing significant strength in durable goods. The data also indicate a larger negative contribution from imports, which was expected given the acceleration in import growth in November. Government also subtracted from GDP growth, mostly due to a decline in national defense spending. Pending further revisions to this GDP figure, 2011 growth stands at 1.7%. While we do not expect the upcoming data to influence a significant downward revision to GDP growth, we remain cautious in our outlook. Imports grew at a faster pace in November while exports declined for the second consecutive month, highlighting the trade impact from the slowdown in Europe and suggesting that this trend will likely continue in December. However, inventory growth should remain strong through the end of 2011, and December's durable goods data released this week suggest continued growth in new orders.

The lower-than-expected estimate for 4Q11 is in line with Bernanke's view that the growth outlook is mixed and the recovery not "self-sustaining", prompting the Fed to revise down their growth projections for 2012 and 2013. We still regard the FOMC's projections of US GDP growth as too high, especially given the fiscal drag from expected future austerity measures. The looming crisis in Europe remains the most immediate concern in terms of downside risks to growth, in addition to continued weakness in the housing market. Bernanke regards the housing sector as partially responsible for the damaged link between monetary policy and economic activity. Any future scheme of large-scale asset purchases is likely to involve mortgage-backed securities. Possible triggers for quantitative easing, according to Bernanke, include renewed risk of deflation or poor employment generation. FOMC developments suggest that the Fed will keep constant the size of the balance sheet until 2015, unless they engage in more asset purchases. Finally, the FOMC noted that the target Fed Funds rate will remain "exceptionally low at least through late 2014".

Graph 1  
Contributions to Real GDP Growth, 4Q11 Advance  
(SAAR Percentage Points)



Source: Bureau of Economic Analysis

Graph 2  
January 2012 FOMC Projections

Jan 2012 FOMC Projections				
	2012	2013	2014	Long-term
GDP, 4Q yoy % change				
High	3.0	3.8	4.3	3.0
Low	2.1	2.4	2.8	2.2
Unemployment rate, 4Q %				
High	8.6	8.2	7.7	6.0
Low	7.8	7.0	6.3	5.0
Core PCE, 4Q yoy % change				
High	2.0	2.0	2.0	---
Low	1.3	1.4	1.4	---

Source: Federal Reserve

## Week Ahead

### Personal Income and Outlays (December, Monday 8:30 ET)

Forecast: 0.2%, 0.0%	Consensus: 0.4%, 0.1%	Previous: 0.1%, 0.1%
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Improvements in consumer sentiment throughout the past few months suggest continued growth for personal income in December. Wages and salaries declined in November but are likely to rebound given the latest 0.2% rise in average earnings. Aside from wages, rental income and dividends should continue contributing most to personal income growth. On the downside, disappointing retail sales suggest conservative spending towards the end of the holiday shopping season. Furthermore, the lower-than-expected advance estimate for 4Q11 GDP suggests that personal consumption expenditures will be muted in December.

### Employment Cost Index (4Q11, Tuesday 8:30 ET)

Forecast: 0.5%	Consensus: 0.4%	Previous: 0.3%
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The Employment Cost Index is expected to accelerate in 4Q11 after growing in 3Q11 at its slowest pace since mid-2009. Wages and salaries are expected to increase in December on a MoM basis, adding to the 0.6% growth in October and offsetting the small 0.1% decline in November. Gradual increases in nonfarm payrolls and average earnings suggest higher wage-related costs for the end of 2011. The benefits component of the index, which accounts for nearly 30% of total compensation costs, are likely to grow at a faster pace compared to the historically-low growth rate in the previous quarter.

### ISM Manufacturing Index (January, Wednesday 10:00 ET)

Forecast: 54.5	Consensus: 54.5	Previous: 53.9
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The ISM manufacturing index is expected to improve in January for the fourth consecutive month as the sector gains momentum. Throughout most of the fourth quarter, manufacturing activity surpassed that of the services sector for the first time since June. Regional Federal Reserve surveys have noted increasing strength in manufacturing for January, particularly in new orders, production, and employment. Despite concerns of a recession in Europe, demand for manufactured goods appears healthy. However, slower growth expectations for 2012 may limit significant expansion in the coming months.

### Nonfarm Payrolls and Unemployment Rate (January, Friday 8:30 ET)

Forecast: 175K, 8.5%	Consensus: 150K, 8.5%	Previous: 200K, 8.5%
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Modest growth trends in the labor market are expected to continue into 2012, pointing to little change in the unemployment rate. Initial jobless claims dropped sharply in January to the lowest level since before the recession, although the data may have been skewed by recent shortened holiday weeks. While consumer confidence has improved, business hiring plans remain relatively conservative. However, regional Federal Reserve surveys have indicated an increase in the number of employees and the average workweek in the manufacturing sector, which we expect to help boost nonfarm payrolls for January.

### Market Impact

This week is relatively busy in terms of economic data, and markets will get a closer look at consumer activity for January. Markets will focus primarily on employment data as an indication of whether 4Q11 strength will spill over into 2012.

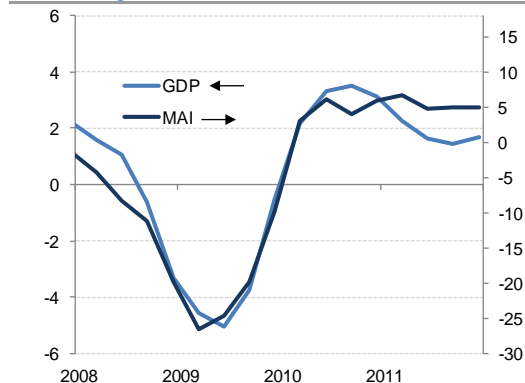
## Economic Trends

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



Source: BBVA Research

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



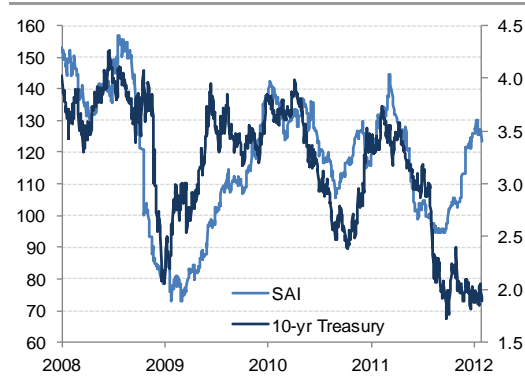
Source: BBVA Research & BEA

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



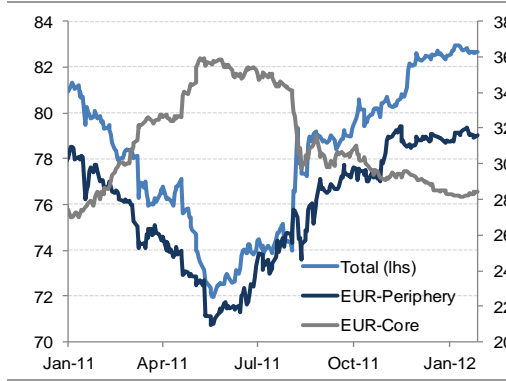
Source: BBVA Research

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



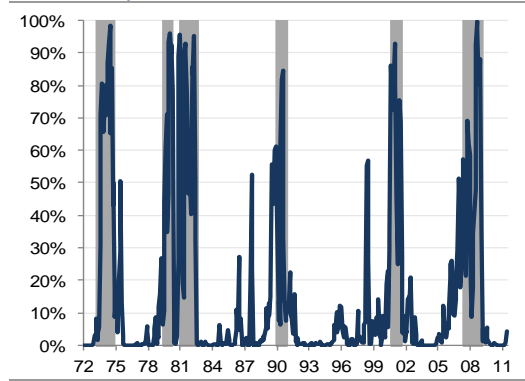
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

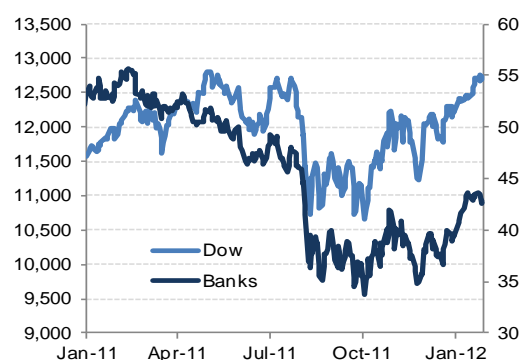
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

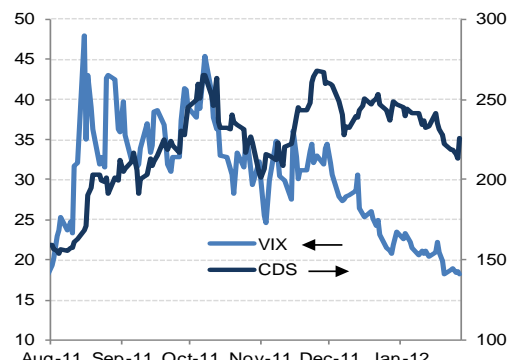
## Financial Markets

Graph 9  
Stocks (Index, KBW)



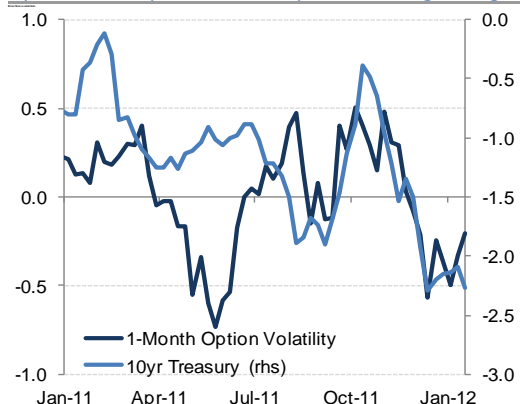
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



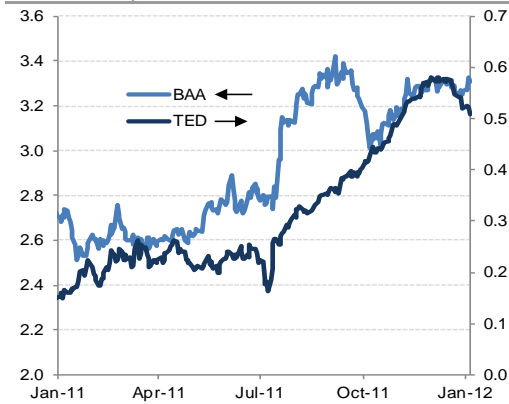
Source: Bloomberg & BBVA Research

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



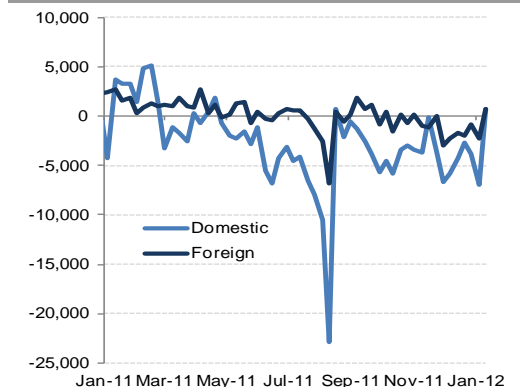
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



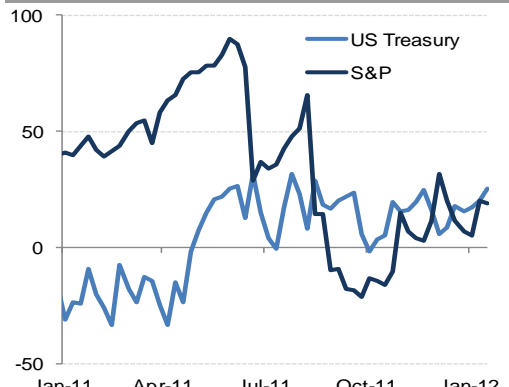
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

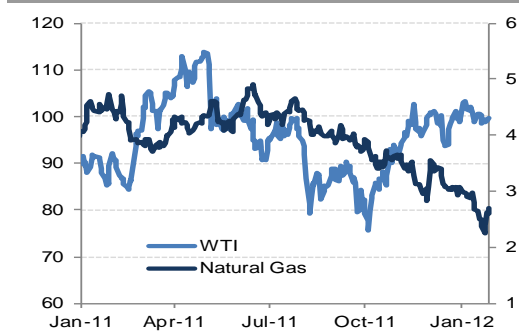
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

## Financial Markets

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



Source: Bloomberg & BBVA Research

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



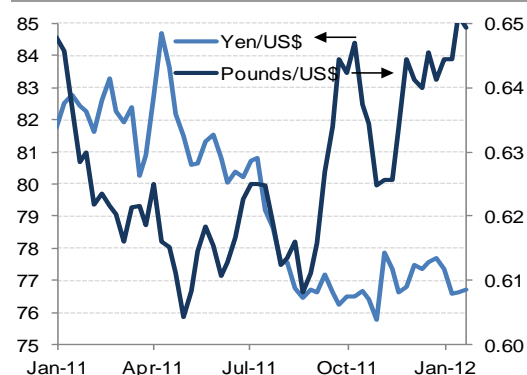
Source: BBVA Research

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



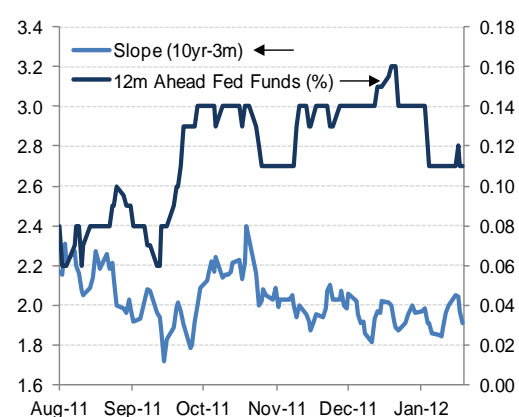
Source: Bloomberg & BBVA Research

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



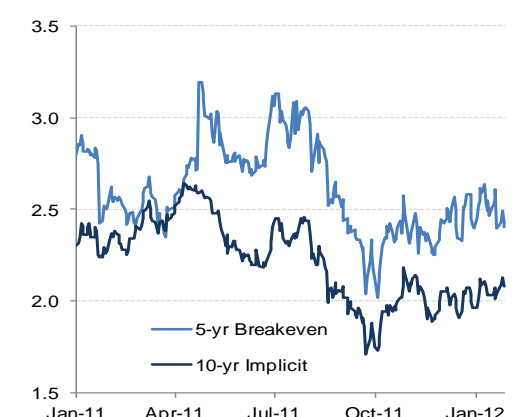
Source: BBVA Research

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)	3.92	3.90	3.74	5.09
Heloc Loan 30K	5.55	5.55	5.54	5.55
5/1 ARM*	2.85	2.82	2.88	3.70
15-year Fixed Mortgage *	3.24	3.17	3.24	4.09
30-year Fixed Mortgage *	3.98	3.88	3.95	4.80
Money Market	0.50	0.51	0.49	0.71
2-year CD	0.92	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	0.08	0.09	0.04	0.17
3M Libor	0.55	0.56	0.58	0.30
6M Libor	0.79	0.79	0.81	0.45
12M Libor	1.10	1.11	1.13	0.78
2yr Sw ap	0.54	0.60	0.73	0.77
5yr Sw ap	1.05	1.20	1.22	2.15
10Yr Sw ap	2.01	2.15	2.03	3.42
30yr Sw ap	2.77	2.82	2.62	4.26
7day CP	0.58	0.62	0.87	0.25
30day CP	0.72	0.48	0.52	0.31
60day CP	0.65	0.44	0.49	0.32
90day CP	0.55	0.50	0.59	0.31

Source: Bloomberg & BBVA Research

## Quote of the Week

William Dudley, President of the Federal Reserve Bank of New York  
May Have to Wait Until After Election for Changes in Fiscal Policy  
27 January 2012

*"Despite the extension of the payroll tax cut, the stance of federal fiscal policy has tightened and employment and spending by state and local governments continues to decline. Monetary policy has done and will continue to do its part in supporting the recovery—but it is not all-powerful."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
30-Jan	Personal Income	DEC	0.20%	0.40%	0.10%
30-Jan	Personal Spending	DEC	0.00%	0.10%	0.10%
31-Jan	Employment Cost Index (QoQ)	4Q	0.50%	0.40%	0.30%
31-Jan	S&P Case-Shiller HPI (YoY)	NOV	-3.20%	-3.21%	-3.40%
31-Jan	Chicago Purchasing Manager Index	JAN	63.00	63.00	62.50
31-Jan	Consumer Confidence	JAN	67.00	68.00	64.50
1-Feb	Total Vehicle Sales	JAN	13.61M	13.55M	13.60M
1-Feb	Domestic Vehicle Sales	JAN	10.45M	10.50M	10.30M
1-Feb	ADP Employment	JAN	200K	185K	325K
1-Feb	ISM Manufacturing	JAN	54.5	54.5	53.9
1-Feb	Construction Spending (MoM)	DEC	1.0%	0.5%	1.2%
2-Feb	Initial Jobless Claims	28-Jan	370K	370K	377K
2-Feb	Continuing Claims	21-Jan	3570K	3530K	3569K
2-Feb	Nonfarm Productivity	4Q	0.72%	0.80%	3.10%
2-Feb	Unit Labor Costs	4Q	0.66%	0.90%	-2.40%
3-Feb	Change in Nonfarm Payrolls	JAN	175K	150K	200K
3-Feb	Change in Private Payrolls	JAN	200K	170K	212K
3-Feb	Change in Manufacturing Payrolls	JAN	15K	12K	23K
3-Feb	Unemployment Rate	JAN	8.5%	8.5%	8.5%
3-Feb	Factory Orders	DEC	2.0%	1.5%	1.8%
3-Feb	ISM Non-Manufacturing	JAN	53.0	53.2	52.6

## Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.2	2.3	2.4
CPI Core (YoY %)	1.7	1.7	1.8	1.9
Unemployment Rate (%)	9.0	8.9	8.4	7.9
Fed Target Rate, EOP (%)	0.25	0.25	1.00	2.00
10Yr Treasury (% Yield)	2.0	2.6	3.2	3.6
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

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Contact details

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

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