

Weekly Flash

U.S.

Highlights

6 February 2012
Economic Analysis

U.S.

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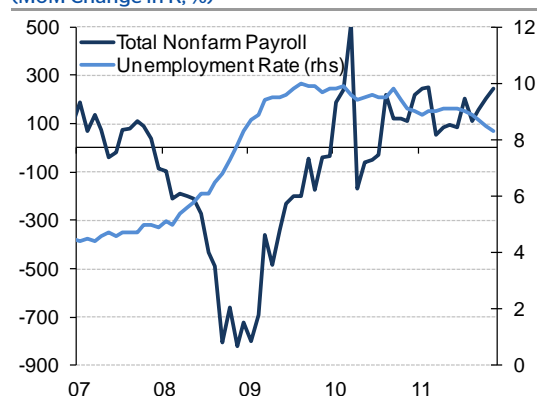
Employment Growth Surprises to the Upside Aside Gains in Personal Income

Nonfarm payroll growth beat consensus expectations in January, jumping 243K following upward revisions to both November (from 100K to 157K) and December (from 200K to 203K). Gains were led primarily by a 257K rise in private sector hiring, with job growth focused in professional and business services, manufacturing, and leisure and hospitality. As usual, government employment declined but to a lesser extent compared to the previous three months. Since the beginning of 2011, 276K jobs have been lost in the government sector. The unemployment rate fell for the fifth consecutive month to 8.3%, though this was likely influenced by a decline in the participation rate from 64% to 63.7%. Even still, the number of unemployed has decreased since August and therefore supports the recent declines in initial jobless claims, which dropped in the last week of January to 367K. On the downside, the number of long-term unemployed individuals was unchanged in January, accounting for 42.9% of the unemployed and suggesting that structural unemployment concerns may linger. Furthermore, the number of individuals employed part-time for economic reasons ("involuntary" part-time workers) increased for the first time in three months, which may be an indication of continued structural problems. The recent slide in consumer confidence may be a reflection of some of these concerns. Although employment gains remain weaker than that in 1Q11, continued acceleration in nonfarm payroll growth should help ease worries of a weak labor market. Following the Fed's recent announcements, we expect that the latest employment data will keep any interventions at bay for the near term.

In other positive news, personal income jumped 0.5% in December, reflecting a significant increase in wages and salaries. From the employment report, average earnings increased 0.2% for January. Although consumer spending was flat, income strength will likely encourage less conservative spending in the coming months.

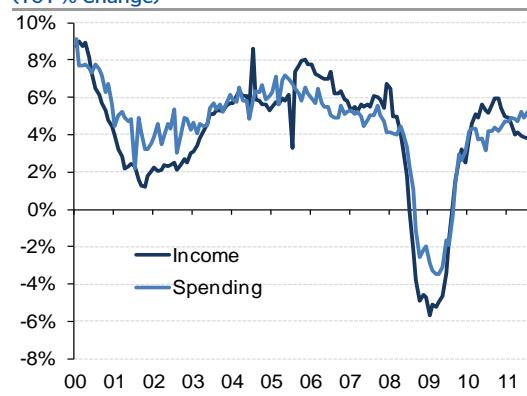
The ISM indices continue to indicate expansion in the services and manufacturing sectors. In particular, the non-manufacturing index jumped significantly to 56.8 in January from 53.0 in the previous month, mostly due to gains in the new orders and employment components. New orders also pushed up the manufacturing index to 54.1, signaling gains in future production.

Graph 1
Nonfarm Payroll & Unemployment Rate
(MoM Change in K, %)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Personal Income and Spending
(YoY % Change)



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

Consumer Credit (December, Tuesday 15:00 ET)

Forecast: \$10.5B

Consensus: \$7.0B

Previous: \$20.4B

Total outstanding consumer credit nearly doubled expectations in November, jumping \$20.4bn MoM compared to a \$6.0bn increase in the previous month. On a YoY basis, growth is positive for both revolving and nonrevolving credit, however, we expect monthly rates to decelerate in December. Reduced demand for auto loans should contribute to a slower pace of nonrevolving growth. On the revolving side, credit card spending will likely remain similar to the previous month as consumers close out the holiday shopping season.

Wholesale Inventories (December, Thursday 10:00 ET)

Forecast: 0.4%

Consensus: 0.5%

Previous: 0.1%

Inventory management appears balanced for the fourth quarter, and we expect modest growth trends to continue in December. Growth in the nondurable goods component of wholesale inventories has outpaced that of durable goods in both October and November, and yet both are expected to grow again in December. Other indicators, including the ISM indices and regional Federal Reserve manufacturing surveys have noted steady build in inventories for the month.

International Trade (December, Friday 8:30 ET)

Forecast: -\$48.0B

Consensus: -\$48.5B

Previous: -\$47.8B

The international trade balance is expected to widen only slightly in December following a worse-than-expected deterioration in November. Exports have declined throughout 4Q11, highlighting the negative impact from the slowdown in Europe, and trends are likely to be similar at year-end. Imports jumped significantly in November with a boost from oil and autos, however, growth should be slower in December due to reduced auto demand and a fall in oil prices. Declines in both import and export prices should deflate the overall value of trade, however, we expect that imports will slightly outweigh exports for the month.

Consumer Sentiment (February, Friday 9:55 ET)

Forecast: 74.0

Consensus: 74.0

Previous: 75.0

Consumer attitudes toward current and future conditions have improved steadily throughout the past few months. However, gains in consumer confidence appear to be diminishing as the employment situation remains weak. Rising gas prices and increasing consumer inflation expectations are a concern as consumers see their spending power decline in the coming months. Although consumer activity has remained relatively constant, we do not expect a meaningful rise in consumer sentiment for February.

Market Impact

This week markets await trade and inventory data for December to provide a clearer picture of real GDP growth for 4Q11. The latest good news from the employment report should keep markets relatively calm. Other data related to consumer activity will confirm whether positive sentiments have spilled over into 1Q12, though negative news could incite market uncertainties.

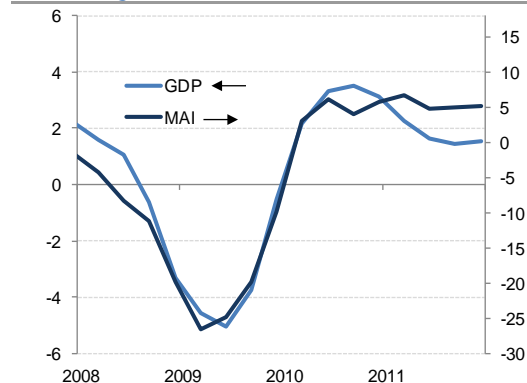
Economic Trends

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



Source: BBVA Research

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



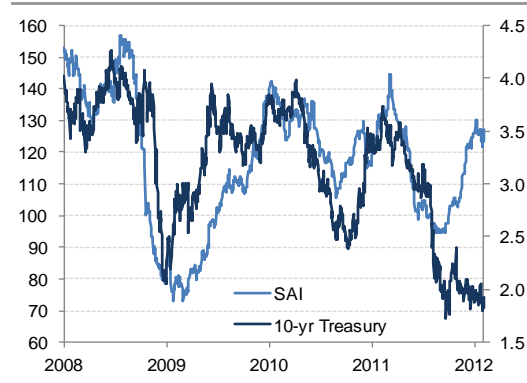
Source: BBVA Research & BEA

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



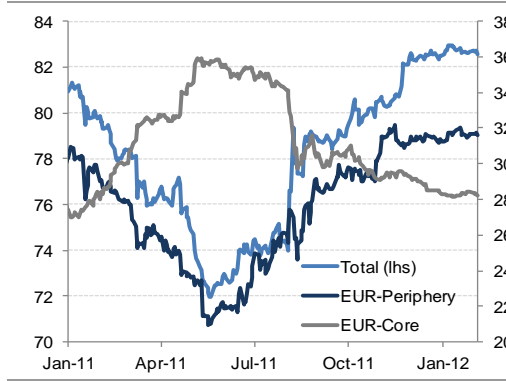
Source: BBVA Research

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



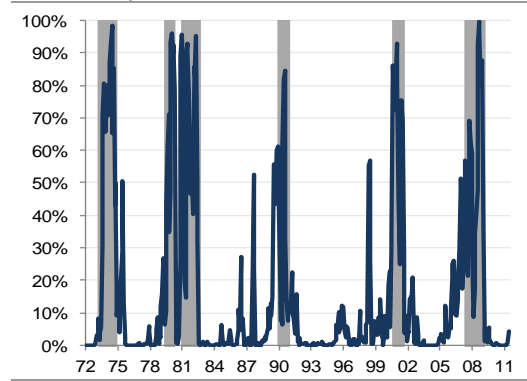
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

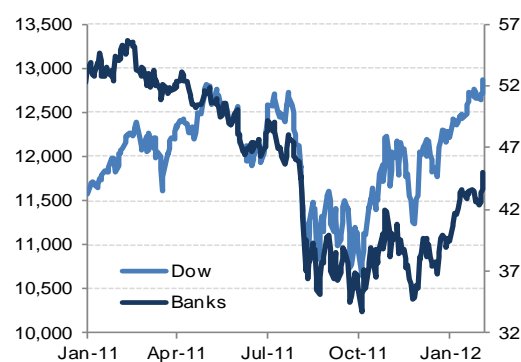
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

Financial Markets

Graph 9
Stocks (Index, KBW)



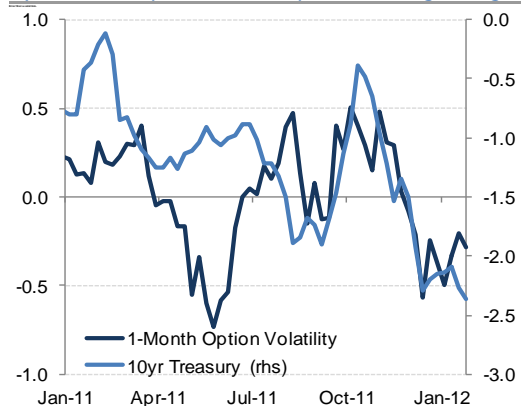
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



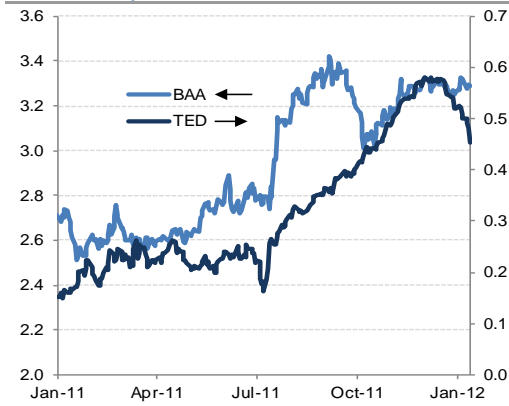
Source: Bloomberg & BBVA Research

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



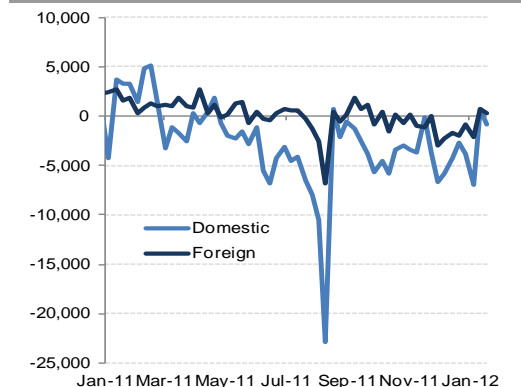
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



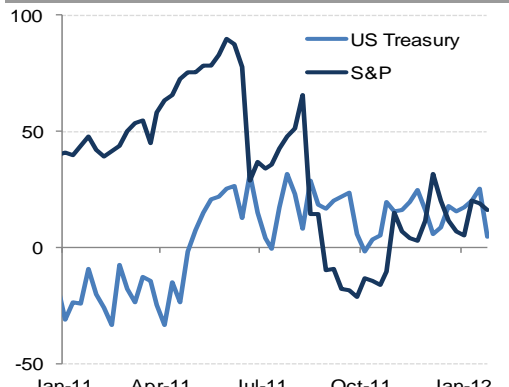
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

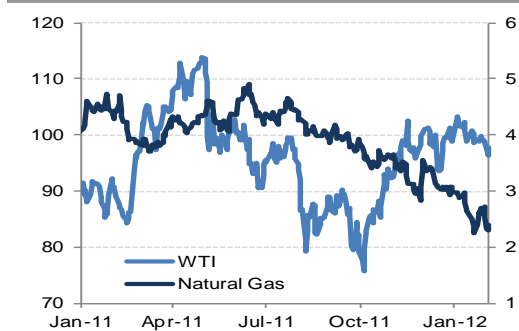
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



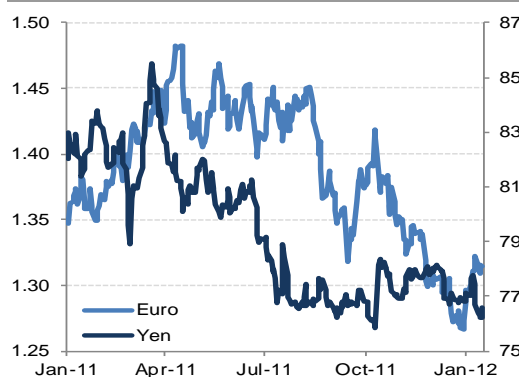
Source: Bloomberg & BBVA Research

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



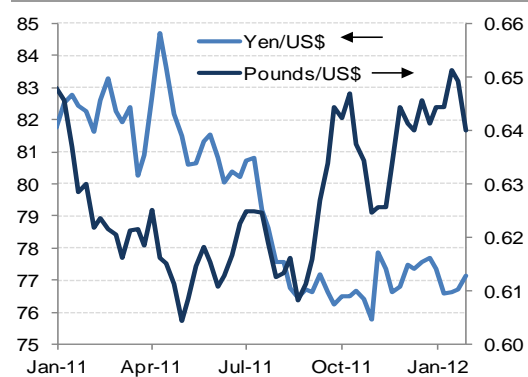
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



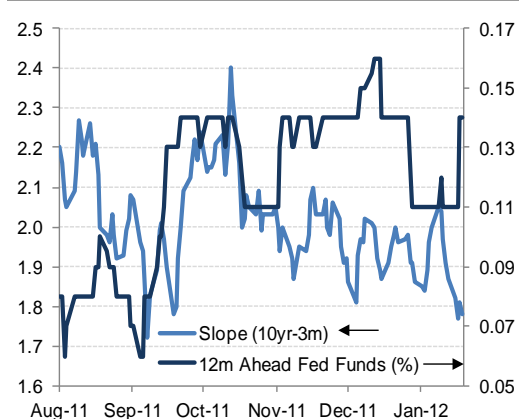
Source: Bloomberg & BBVA Research

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



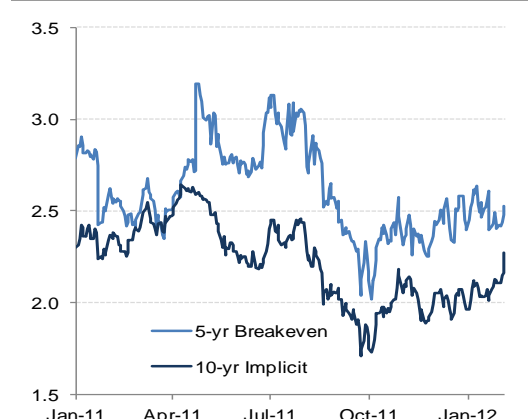
Source: BBVA Research

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)	14.10	13.94	13.94	13.68
New Auto (36-months)	3.53	3.54	3.77	5.10
Heloc Loan 30K	5.54	5.55	5.56	5.55
5/1 ARM*	2.80	2.85	2.86	3.69
15-year Fixed Mortgage *	3.14	3.24	3.23	4.08
30-year Fixed Mortgage *	3.87	3.98	3.91	4.81
Money Market	0.51	0.51	0.52	0.61
2-year CD	0.91	0.92	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	0.11	0.09	0.07	0.17
3M Libor	0.53	0.55	0.58	0.31
6M Libor	0.77	0.79	0.81	0.46
12M Libor	1.08	1.10	1.13	0.79
2yr Sw ap	0.50	0.54	0.68	0.96
5yr Sw ap	1.04	1.04	1.21	2.48
10Yr Sw ap	2.03	2.01	2.10	3.74
30yr Sw ap	2.82	2.76	2.71	4.49
7day CP	0.26	0.58	0.65	0.25
30day CP	0.39	0.72	0.43	0.31
60day CP	0.47	0.65	0.45	0.32
90day CP	0.53	0.55	0.56	0.32

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Bernanke, Chairman of the Federal Reserve
The Economic Outlook and the Federal Budget Situation
2 February 2012

"Although we cannot expect our economy to grow its way out of our fiscal imbalances, a more productive economy will ease the tradeoffs that we face and increase the likelihood that we leave a healthy economy to our children and grandchildren"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Feb	Consumer Credit	DEC	\$10.50B	\$7.00B	\$20.40B
9-Feb	Initial Jobless Claims	4-Feb	365K	370K	367K
9-Feb	Continuing Claims	28-Jan	3500K	3505K	3437K
9-Feb	Wholesale inventories	DEC	0.40%	0.50%	0.10%
10-Feb	International Trade Balance	DEC	-\$48.00B	-\$48.50B	-\$47.80B
10-Feb	Consumer Sentiment	FEB	74.00	74.00	75.00
10-Feb	Treasury Budget	JAN	-\$60.00B	-\$65.00B	-\$86.00B

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.3	2.3	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.5	8.1	7.7
Fed Target Rate, EOP (%)	0.25	0.25	0.25	0.50
10Yr Treasury, Avg (% Yield)	2.8	2.3	2.7	3.4
US Dollar/ Euro	1.31	1.27	1.26	1.25

Note: Bold numbers reflect actual data

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