

# Weekly Flash

U.S.

## Highlights

13 February 2012  
Economic Analysis

U.S.

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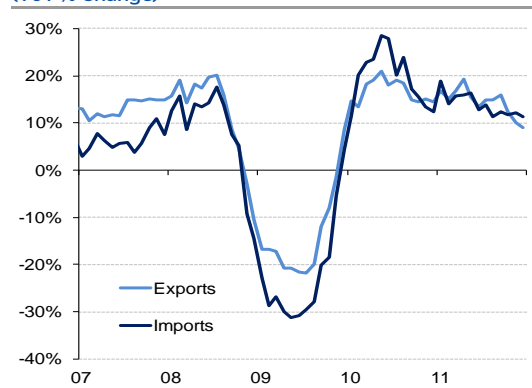
### International Trade Data Disappoint, Consumer Activity Remains Mixed

The international trade balance widened more than expected in December to -\$48.8bn, mostly due to a 1.3% jump in imports. Exports grew 0.7%, rebounding from two prior months of declines, although the pace of growth was not enough to offset gains in imports. Most of the deterioration was due to the nonpetroleum goods balance, which widened for the fourth consecutive month. On the bright side, imports were led primarily by capital goods (excluding autos) suggesting that business confidence may be improving in regards to future capital investment plans. However, the data may imply a slight downward revision to real GDP growth for 4Q11 since the trade balance worsened throughout the entire quarter. Strong inventory growth may help to offset this revision.

Reports related to consumer activity were mixed, increasing uncertainty about the strength of the recovery. Consumer sentiment declined to 72.5 in February, primarily highlighting concerns regarding current conditions. For the most part, consumers seem worried about rising gas prices and the potential impact on future spending power. The report also suggests some uncertainty related to the job market, a detail that conflicts with the better-than-expected employment report for January and the recent declines in initial jobless claims for February. During the first week of this month, claims fell to 358K, one of the lowest levels since the start of the recovery. Even still, the consumer outlook appears more uncertain compared to previous months.

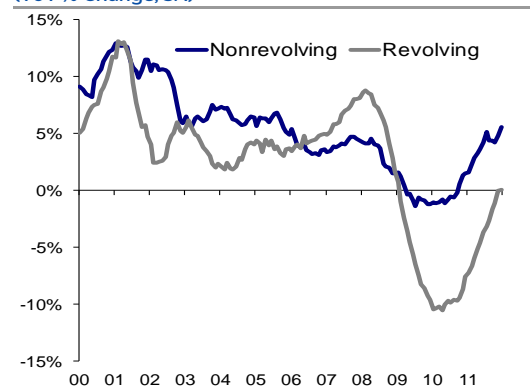
Total outstanding consumer credit jumped for the second consecutive month, up \$19.3bn in December following an increase of \$20.4bn in November. The latest data mark the largest two-month gain in seasonally-adjusted (SA) consumer credit in more than a decade. As expected, nonrevolving credit appears to be driving growth and may remain high if strong auto demand continues. However, we continue to suspect that seasonal issues are playing a deceiving role. Non-seasonally-adjusted (NSA) consumer credit increased significantly (\$33.1bn) compared to the SA figure, highlighting our concern that the data are presenting misleading trends. Excluding government, NSA nonrevolving credit is at the same level as it was a year ago. Looking forward, we maintain our cautious outlook until gains appear to extend into the longer term.

Graph 1  
US Exports and Imports  
(YoY % Change)



Source: US Census Bureau & BBVA Research

Graph 2  
Outstanding Consumer Credit  
(YoY % Change, SA)



Source: Federal Reserve & BBVA Research

## Week Ahead

### Retail Sales, Ex Auto (January, Tuesday 8:30 ET)

Forecast: 0.6%, 0.3%	Consensus: 0.8%, 0.5%	Previous: 0.1%, -0.2%
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Retail sales are expected to increase in January following disappointing growth in December. Auto sales rebounded in January and should lift the headline figure, though gains were concentrated in the less expensive car component rather than trucks. In addition, rising gas prices should inflate the total value of retail sales. Weekly retail sales surveys suggest some increases due to rising demand for cold weather goods, although trends appear to be slowing for the ex-auto ex-gas figure. Furthermore, slight declines in consumer attitudes suggest some hesitation in spending for the month.

### Industrial Production (January, Wednesday 9:15 ET)

Forecast: 0.5%	Consensus: 0.6%	Previous: 0.4%
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Gains in auto production are likely to drive industrial production growth in January, which is expected to increase at a similar pace as in December. Manufacturing indicators have been strong, mostly led by the durable goods component, and increasing new orders point to gains in future production. Furthermore, nonfarm payroll growth in manufacturing, mining, and utilities suggest increasing activity in January for the industrial production components.

### Housing Starts and Permits (January, Thursday 8:30 ET)

Forecast: 675K, 685K	Consensus: 671K, 680K	Previous: 657K, 679K
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A positive homebuilder outlook and rising demand are likely to boost housing starts and building permits for January. The housing market has been improving very modestly, yet activity remains weak compared to pre-recession levels. The multifamily component dragged down data in December, halting some of the momentum gained in prior months. However, YoY growth rates are relatively strong, highlighting a more positive trend for the housing activity compared to last year.

### Consumer Price Index, Core (January, Friday 8:30 ET)

Forecast: 0.3%, 0.1%	Consensus: 0.3%, 0.2%	Previous: 0.0%, 0.1%
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Headline inflation is expected to increase in January following two months of nearly flat growth. Energy prices have declined for three consecutive months but are likely to increase in January due to rising oil and gas prices. Food and other commodity prices are expected to increase, though import price pressures should be limited. Consumer inflation expectations have increased and signal rising prices for the month. Despite high rent costs and the recent bounce back in gas prices, we continue to expect that inflation will be under control in the coming months.

### Market Impact

Market attention will be centered on production and consumer-related data to gauge the strength of the recovery in 1Q12. Positive retail sales and industrial production growth will keep markets calm, although surprising setbacks could increase concerns of slowing economic activity. Inflation data should come as little surprise to markets given rising oil and gas prices. Markets will also look to the FOMC minutes for further details on the latest meeting.

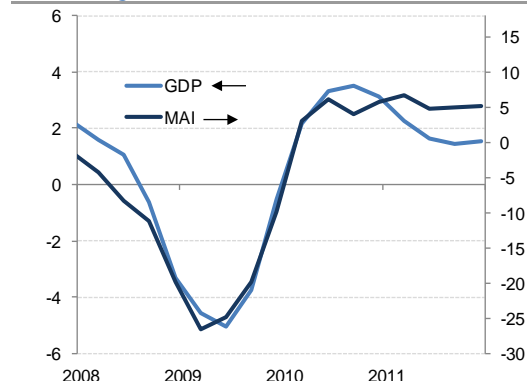
## Economic Trends

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



Source: BBVA Research

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



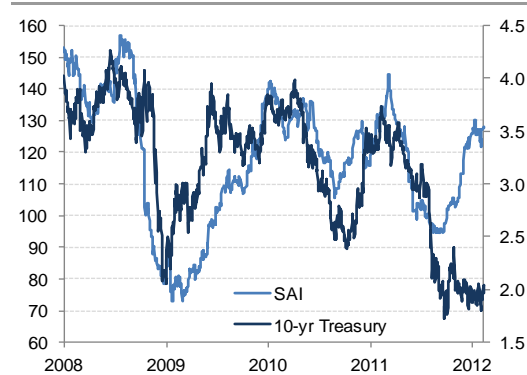
Source: BBVA Research & BEA

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



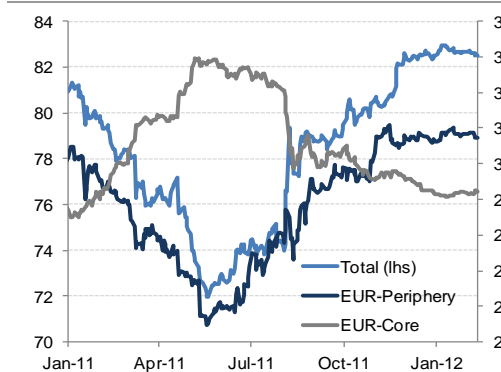
Source: BBVA Research

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



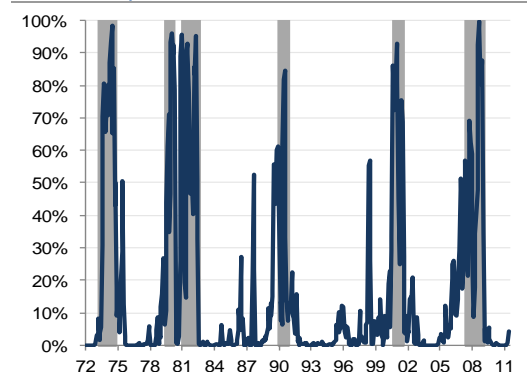
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

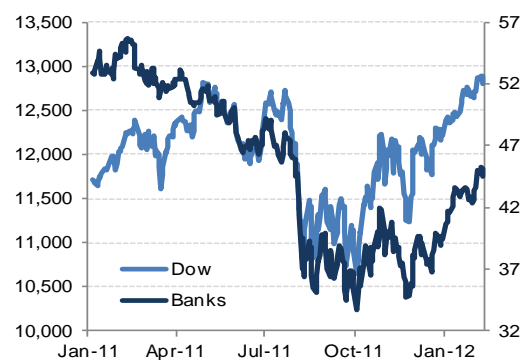
Graph 8  
BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)



Source: BBVA Research

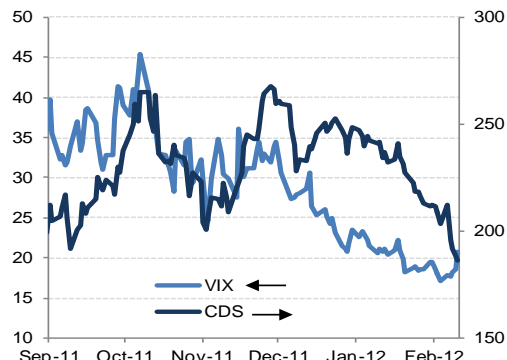
## Financial Markets

Graph 9  
Stocks (Index, KBW)



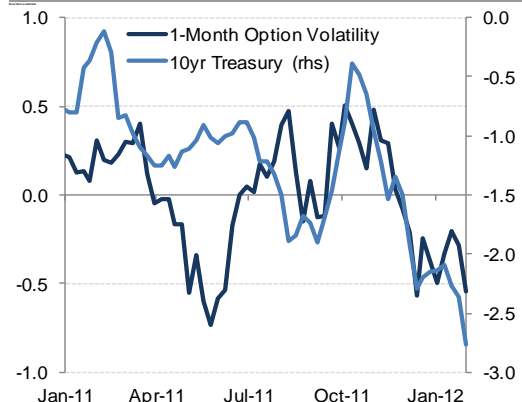
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



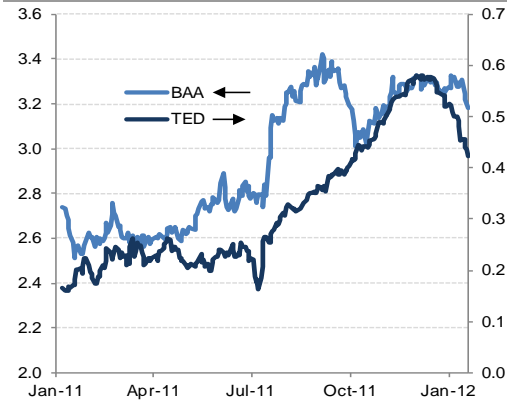
Source: Bloomberg & BBVA Research

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



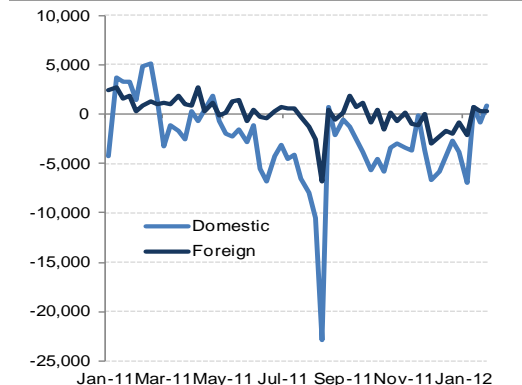
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



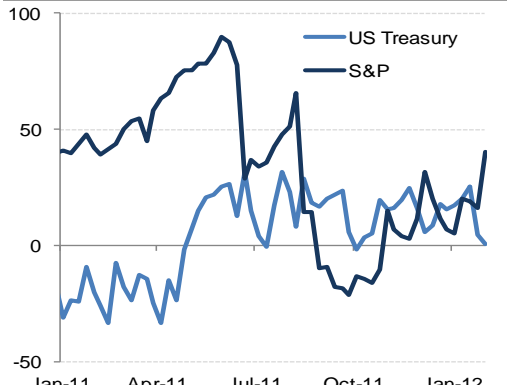
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

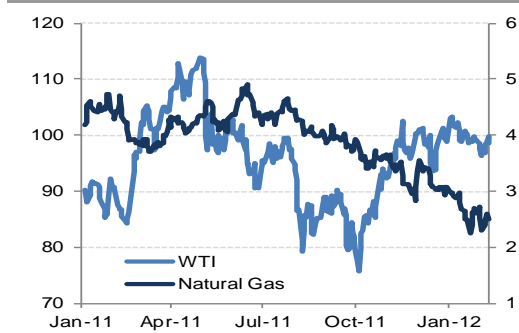
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

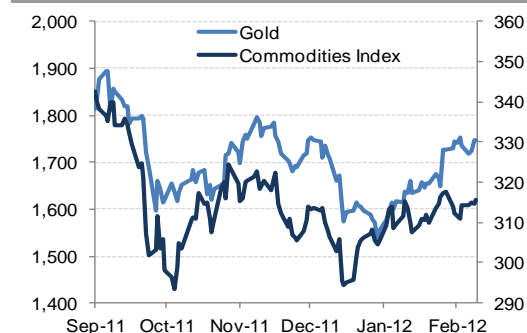
## Financial Markets

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



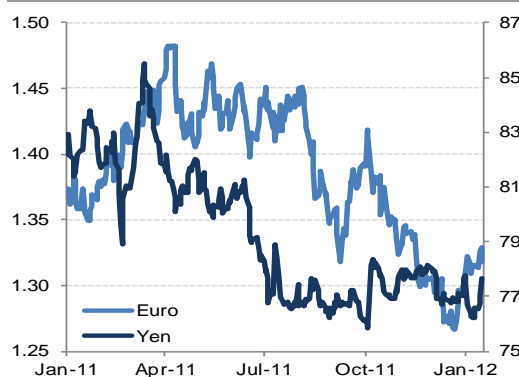
Source: Bloomberg & BBVA Research

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



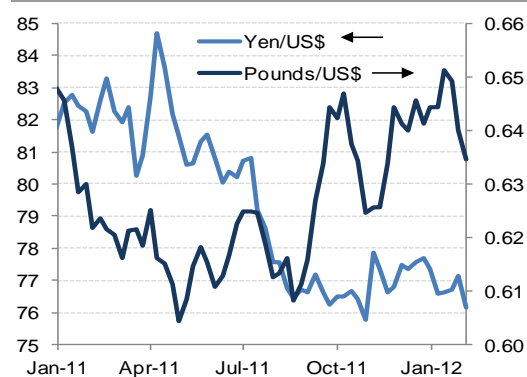
Source: BBVA Research

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



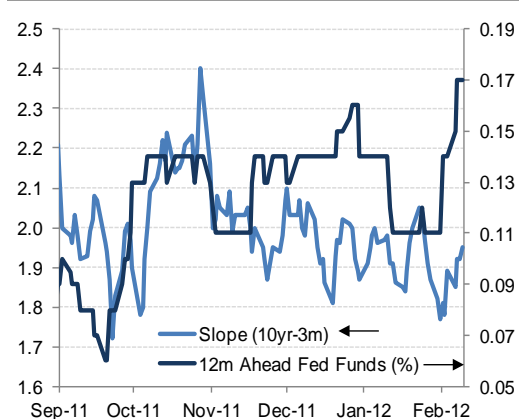
Source: Bloomberg & BBVA Research

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



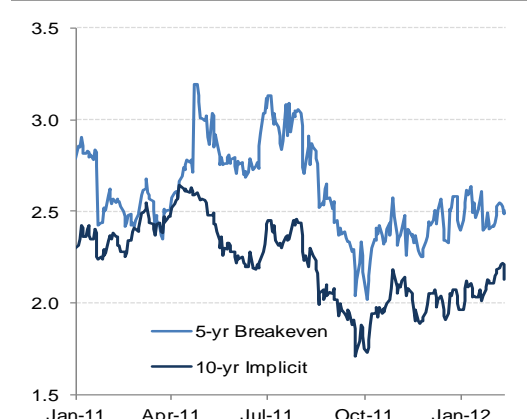
Source: BBVA Research

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	14.10	13.94	13.71
New Auto (36-months)	3.50	3.92	3.93	5.07
Heloc Loan 30K	5.53	5.54	5.55	5.54
5/1 ARM*	2.83	2.80	2.82	3.92
15-year Fixed Mortgage *	3.16	3.14	3.16	4.29
30-year Fixed Mortgage *	3.87	3.87	3.89	5.05
Money Market	0.47	0.47	0.51	0.65
2-year CD	0.91	0.91	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	0.11	0.09	0.15
3M Libor	0.51	0.53	0.57	0.31
6M Libor	0.76	0.77	0.79	0.47
12M Libor	1.07	1.08	1.11	0.80
2yr Swap	0.55	0.50	0.57	1.04
5yr Swap	1.09	1.04	1.12	2.57
10Yr Swap	2.06	2.02	2.01	3.75
30yr Swap	2.81	2.81	2.64	4.47
7day CP	0.26	0.26	0.84	0.22
30day CP	0.46	0.39	0.71	0.29
60day CP	0.51	0.47	0.54	0.30
90day CP	0.50	0.53	0.49	0.31

Source: Bloomberg & BBVA Research

## Quote of the Week

Ben Bernanke, Chairman of the Federal Reserve  
Housing Holds Back Fed Efforts  
10 February 2012

*"Some tightening was no doubt necessary. That being said, the pendulum has probably swung too far in the other direction by this time. Conditions are still too tight for the health of both the financial system, for the construction industry and for our economy."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
14-Feb	Advance Retail Sales	JAN	0.60%	0.80%	0.10%
14-Feb	Retail Sales Less Autos	JAN	0.30%	0.50%	-0.20%
14-Feb	Import Prices (MoM)	JAN	0.10%	0.30%	-0.10%
14-Feb	Export Prices (MoM)	JAN	0.10%	--	-0.50%
14-Feb	Business Inventories	DEC	1.10%	0.40%	0.30%
15-Feb	Empire State Manufacturing Survey	FEB	14.50	14.65	13.48
15-Feb	Industrial Production	JAN	0.50%	0.60%	0.40%
15-Feb	Capacity Utilization	JAN	78.30%	78.60%	78.10%
15-Feb	NAHB Housing Market Index	FEB	25.00	26.00	25.00
16-Feb	Housing Starts	JAN	675K	671K	657K
16-Feb	Housing Starts (MoM)	JAN	2.74%	2.10%	-4.10%
16-Feb	Building Permits	JAN	685K	680K	679K
16-Feb	Building Permits (MoM)	JAN	0.88%	1.30%	-0.10%
16-Feb	Initial Jobless Claims	11-Feb	360K	365K	358K
16-Feb	Continuing Claims	4-Feb	3500K	3480K	3515K
16-Feb	Producer Price Index (MoM)	JAN	0.30%	0.40%	-0.10%
16-Feb	PPI Ex Food & Energy (MoM)	JAN	0.10%	0.20%	0.30%
16-Feb	Philadelphia Fed Survey	FEB	8.00	9.00	7.30
17-Feb	Consumer Price Index (MoM)	JAN	0.30%	0.30%	0.00%
17-Feb	CPI Ex Food & Energy (MoM)	JAN	0.10%	0.20%	0.10%
17-Feb	Leading Indicators	JAN	0.50%	0.50%	0.40%

## Forecasts

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

Note: Bold numbers reflect actual data

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