

Weekly Flash

U.S.

Highlights

20 February 2012
Economic Analysis

U.S.

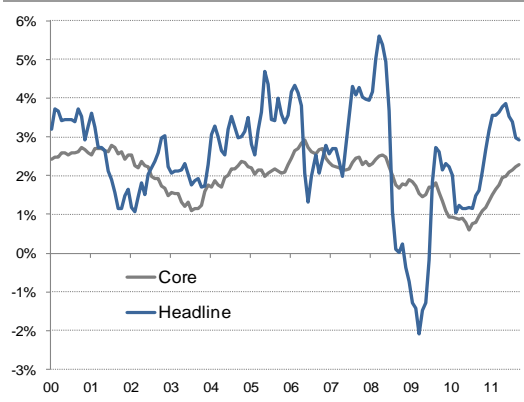
Kim Fraser
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Gas Prices Drive Inflation in January While Autos Drag Down Retail Sales

Headline consumer price inflation increased 0.2% MoM in January following no change in December. As expected, rising gasoline prices contributed most to inflation, up 0.9% after declining throughout all of 4Q11. Overall energy prices increased only 0.2%, reflecting a 0.6% decline in household energy. Food inflation remains steady at 0.2%, driven mostly by the food away from home component. Excluding food and energy, core inflation increased 0.2%, led by gains in apparel and recreation prices (up 0.9% and 0.6%, respectively). Pressures from shelter and medical care prices, which have been increasing at a steady pace, were modest in January compared to the leading components. New and used car prices declined for the fifth consecutive month. On a YoY basis, headline inflation dropped to 2.9% in January from 3.0% in December, while core increased slightly to 2.3% from 2.2%. The latest inflation data support our baseline scenario for moderating price pressures in 2012. Although rising oil and gas prices have been a concern for consumers, overall energy inflation is moderate. We expect that commodity price pressures will decline throughout 1Q12, particularly with the slowdown and uncertainty in global economies. However, we remain cautious of an oil shock related to tensions in the Middle East, as high gas prices could linger and put upward pressure on headline inflation for longer than expected. In general, inflation trends are still unfolding as expected by the FOMC and recent data should keep any Fed interventions at bay at least for the near term.

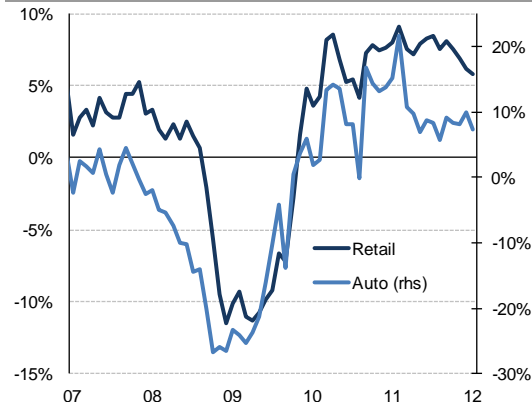
While rising gas prices helped to lift nominal retail sales in January, a 1.1% decline in auto sales weighed on the headline figure. Total retail sales increased 0.4% for the month, higher than that in November and December, but lower than the consensus estimate of 0.7% for January. Excluding autos, sales were the strongest since 1Q11 and imply healthy consumer spending for the month. Manufacturing data were strong in February, with gains in both the Empire State and Philadelphia Fed surveys. Continued strength in new orders and a decline in inventories both point to gains in future production. On the downside, the employment components in the Philadelphia Fed survey were weak and the 6-month outlook declined significantly with concerns over Europe.

Graph 1
Consumer Price Inflation
(YoY % Change)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau & BBVA Research

Week Ahead

Existing Home Sales (January, Wednesday 10:00 ET)

Forecast: 4.65M	Consensus: 4.65M	Previous: 4.61M
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Existing home sales appear to be the bright spot in housing activity, having increased for three consecutive months and recovering somewhat from post-recession lows. A positive housing market index in January suggests that demand conditions are improving. However, YoY gains have been slowing despite accelerating growth on a monthly basis. Although continued weakness in the employment situation and a more uncertain consumer outlook may limit demand, we expect that existing home sales will increase slightly in January.

Initial Jobless Claims (February 18th, Thursday 8:30 ET)

Forecast: 350K	Consensus: 355K	Previous: 348K
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Initial jobless claims have dropped significantly in February to the lowest levels seen since before the crisis. The 4-week moving average has declined in ten of the last eleven weeks, suggesting a more permanent improvement in the job market. However, our outlook remains cautious given the recent declines in employment-related consumer confidence and only modest growth in nonfarm payrolls. Still, we do expect jobless claims to remain at similar low levels for the next week.

Consumer Sentiment (February, Friday 9:55 ET)

Forecast: 73.0	Consensus: 72.8	Previous: 72.5
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Consumer sentiment declined in the beginning of February for the first time since August, mostly due to deterioration in the current conditions component. Although the six-month outlook is relatively unchanged, consumers are showing some uncertainty in regards to the job market, attitudes that conflict the latest employment data. Although the index declined from January, consumer sentiment is still better than most of 2H11. The most recent data do not suggest any significant boost in consumer sentiment, and we expect that the index will increase only slightly to remain below January's level.

New Home Sales (January, Friday 10:00 ET)

Forecast: 300K	Consensus: 315K	Previous: 307K
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New home sales are expected to decrease slightly in January after dropping in December for the first time in three months. Compared to existing home sales, the new home segment highlights weakness in housing activity, as levels have been relatively flat throughout the last year. Furthermore, demand for new home sales appears worse now than at the end of the recession. Despite a positive homebuilder index, low mortgage rates, and affordable prices, we expect that demand for new home sales will be muted in January.

Market Impact

The light economic calendar and shortened holiday week in the US will warrant little market reaction, with most attention focused on developments in Europe. Another gain in existing home sales will confirm the gradual recovery in housing demand, while a surprise to the upside for new home sales could ease concerns for the market.

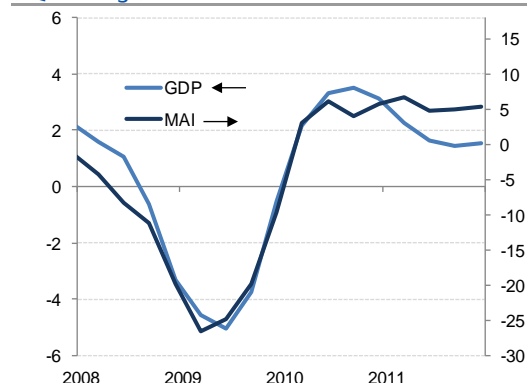
Economic Trends

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



Source: BBVA Research

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



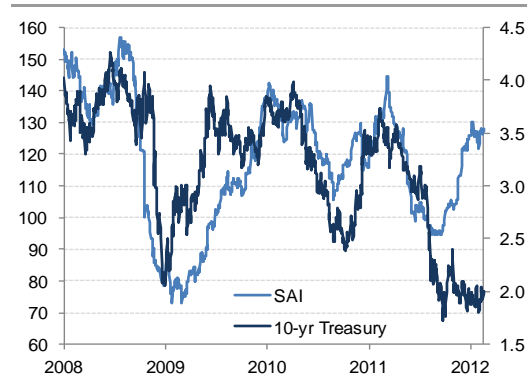
Source: BBVA Research & BEA

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



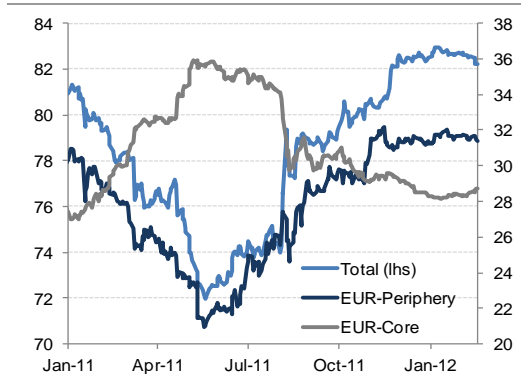
Source: BBVA Research

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



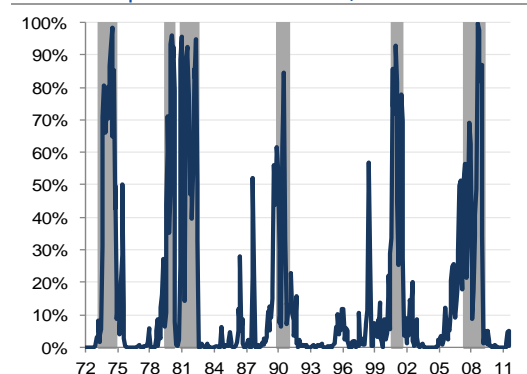
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

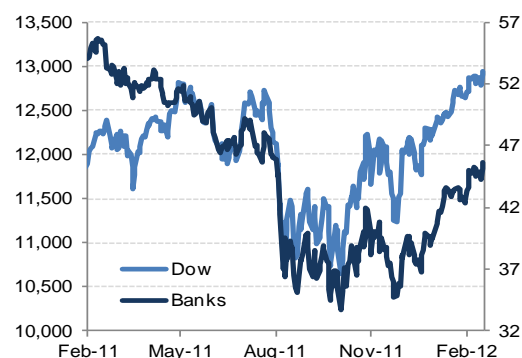
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

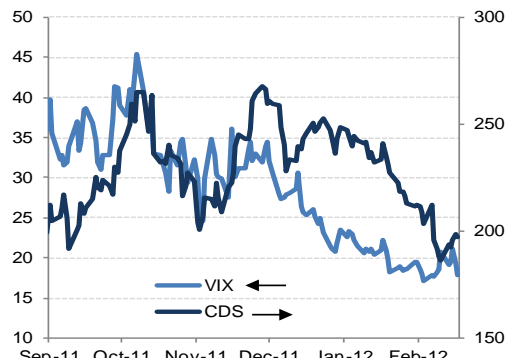
Financial Markets

Graph 9
Stocks (Index, KBW)



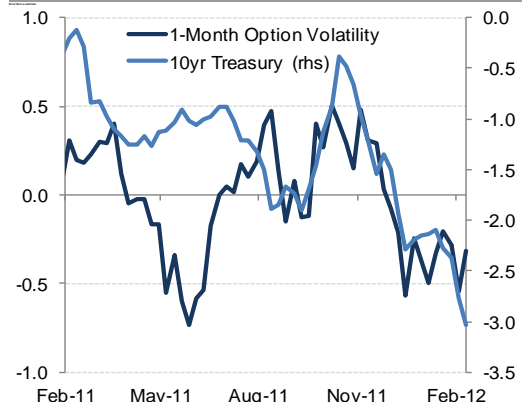
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



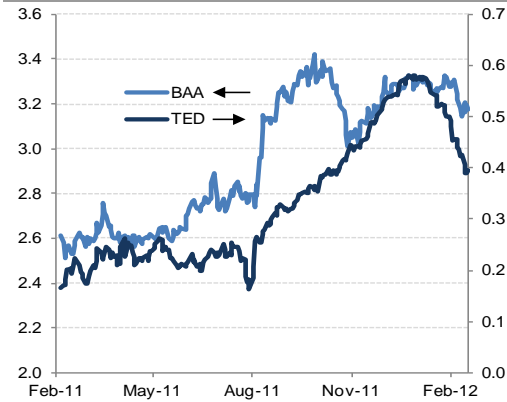
Source: Bloomberg & BBVA Research

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



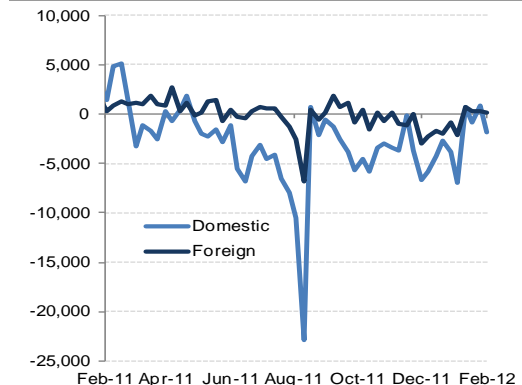
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



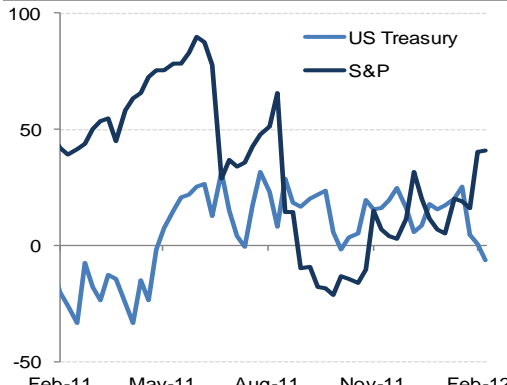
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

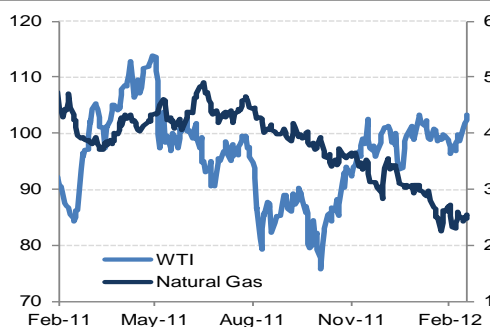
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

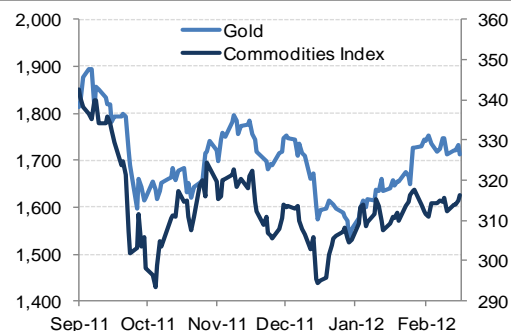
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



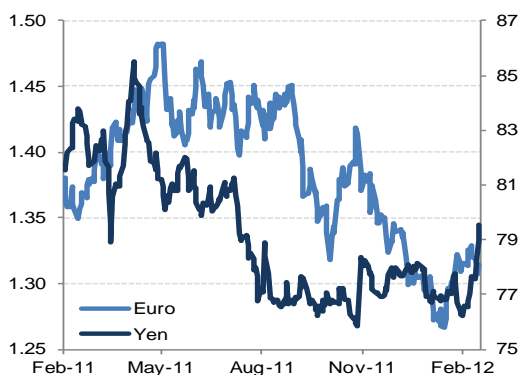
Source: Bloomberg & BBVA Research

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



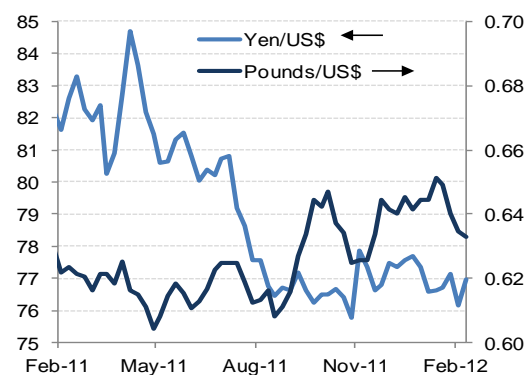
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



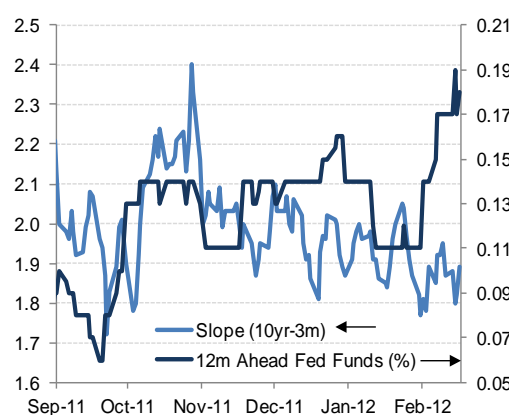
Source: Bloomberg & BBVA Research

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



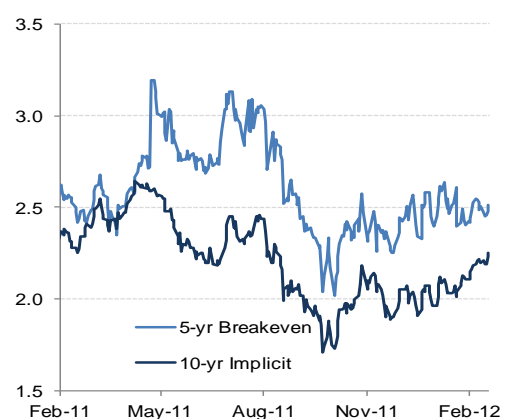
Source: BBVA Research

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	13.73
New Auto (36-months)	3.89	3.51	3.90	5.05
Heloc Loan 30K	5.52	5.53	5.55	5.54
5/1 ARM*	2.82	2.83	2.82	3.87
15-year Fixed Mortgage *	3.16	3.16	3.17	4.27
30-year Fixed Mortgage *	3.87	3.87	3.88	5.00
Money Market	0.47	0.47	0.51	0.62
2-year CD	0.91	0.91	0.94	1.29

* 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	0.12	0.09	0.15
3M Libor	0.49	0.51	0.56	0.31
6M Libor	0.75	0.76	0.79	0.47
12M Libor	1.07	1.07	1.11	0.80
2yr Sw ap	0.58	0.55	0.60	0.96
5yr Sw ap	1.14	1.11	1.20	2.48
10Yr Sw ap	2.08	2.07	2.15	3.68
30yr Sw ap	2.80	2.81	2.82	4.44
7day CP	0.27	0.26	0.62	0.25
30day CP	0.38	0.46	0.48	0.26
60day CP	0.47	0.51	0.44	0.27
90day CP	0.52	0.50	0.50	0.31

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Obama's Budget: The Decline and Fall of the American Economy
16 February 2012

"To succeed and thrive in the global, high tech economy, we need America to be a place with the highest-skilled, highest-educated workers; the most advanced transportation and communication networks; and the strongest commitment to research and technology in the world. This budget makes investments that can help America win this race, create good jobs, and lead in the world economy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
21-Feb	Chicago Fed National Activity Index	JAN	0.20	0.22	0.17
22-Feb	Existing Home Sales	JAN	4.65M	4.65M	4.61M
22-Feb	Existing Home Sales (MoM)	JAN	0.90%	0.90%	5.00%
23-Feb	Initial Jobless Claims	18-Feb	350K	355K	348K
23-Feb	Continuing Claims	11-Feb	3450K	3468K	3426K
23-Feb	FHFA House Price Index (MoM)	DEC	0.30%	0.10%	1.00%
24-Feb	U. of Michigan Consumer Sentiment	FEB	73.00	72.80	72.50
24-Feb	New Home Sales	JAN	300K	315K	307K
24-Feb	New Home Sales (MoM)	JAN	-2.28%	2.60%	-2.20%

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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