

Weekly Flash

U.S.

Highlights

27 February 2012
Economic Analysis

U.S.

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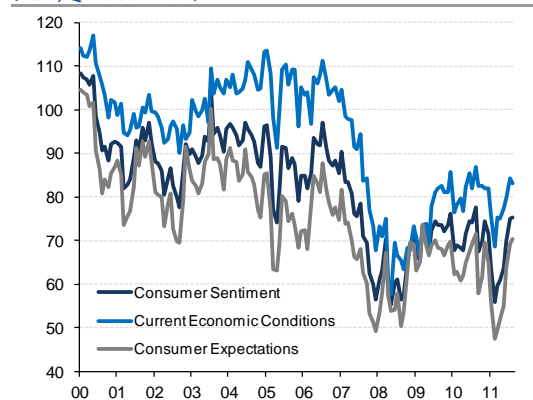
Consumer Sentiment Rebounds, New Home Sales Drag on Housing Recovery

Consumer sentiment rebounded at the end of February from a slight decline in the beginning of the month. The latest index, at 75.3, marks the highest level in 12 months and reflects a more positive 6-month outlook among consumers. However, consumer feelings toward current conditions have deteriorated slightly compared to the previous month, mostly due to rising gas prices. Although fewer consumers noted improvements in personal finances, the report highlights some progress in terms of job availability. This is in line with the continued declines in initial jobless claims, which held steady for the third week in February at 351K, the lowest level since early 2008.

Despite growth in many aspects of the economy, weak housing activity continues to weigh on the recovery. New home sales in January declined to 321K from an upwardly revised 324K in December. Levels remains near historical lows and are more than 75% lower than the pre-recession peak. Median home prices are similar to when the recession ended back in June 2009. On the plus side, supply of new homes on the market has decreased for six consecutive months and this trend could ease downwards pressure on home prices.

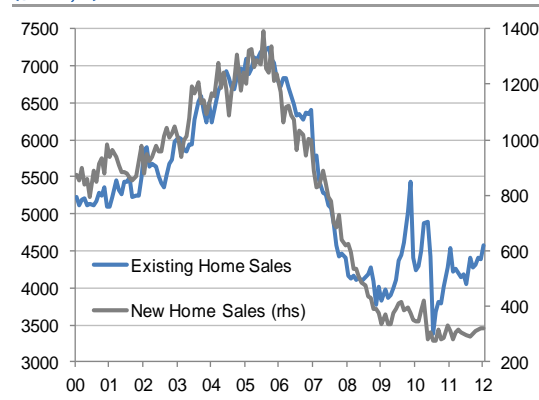
Existing home sales, on the other hand, increased in January and are showing signs of stronger activity compared to earlier in 2011. However, the median price of existing homes fell to the lowest level since November 2001, furthering concerns of weakness in the housing market. While foreclosures continue to weigh on home prices, increased affordability has helped to stimulate buyer demand for existing homes, at least for the time being. The question remains whether or not activity can continue at this pace. The Federal Reserve continues to stress concerns of structural problems in the housing market that are weakening the link between monetary policy and the real economy. The Fed maintains its wait-and-see stance for the near term and will monitor economic data closely to determine if and when appropriate intervention is necessary. Based on various speeches from Fed presidents, it is clear that not all members agree as to the best course for action.

Graph 1
Consumer Sentiment
(NSA, Q1-1966 = 100)



Source: University of Michigan & BBVA Research

Graph 2
New and Existing Home Sales
(SAAR, K)



Source: US Census Bureau, NAR, & BBVA Research

Week Ahead

Durable Goods Orders, Ex Transportation (January, Tuesday 8:30 ET)

Forecast: -0.5%, 0.5%	Consensus: -1.0%, 0.0%	Previous: 3.0%, 2.1%
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Durable goods orders are expected to slow in January following relatively strong growth in November and December. Aircraft orders, which are often volatile and have a significant impact on the headline figure, are likely to decline after two months of large gains. Despite some weakness in the auto sector, regional manufacturing surveys and ISM indices have noted increasing new orders for the month. Excluding transportation, durable goods orders have increased in seven of the last eight months, suggesting widespread expansion in the data.

GDP, Preliminary Estimate (4Q11, Wednesday 8:30 ET)

Forecast: 2.8%	Consensus: 2.8%	Previous: 2.8%
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The second estimate for real GDP growth in 4Q11 should be little changed from the advance report. Data released in the past few weeks suggest only a slight change in contributions to GDP given the worse-than-expected deterioration in the trade balance for December. However, we do not expect a significant downward revision given that exports did revert back to positive growth and November's trade data were revised up slightly. Business inventories increased at a modest pace in December in line with expectations, although total build for the fourth quarter appears slightly less than that in 3Q11. Finally, we do not expect any changes to personal consumption expenditures as most of the data had already been accounted for in the first estimate.

Personal Income and Outlays (January, Thursday 8:30 ET)

Forecast: 0.3%, 0.4%	Consensus: 0.5%, 0.4%	Previous: 0.5%, 0.0%
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Personal income and spending are both expected to increase in January. In December, income grew at the fastest pace since early 2011, mostly due to a rebound in the wages and salary component. Average earnings accelerated in January and should help lift the personal income figure. A jump in auto sales should boost outlays from no growth in December, and rising gasoline prices will likely increase nominal spending.

ISM Manufacturing Index (February, Thursday 10:00 ET)

Forecast: 55.0	Consensus: 54.5	Previous: 54.1
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The ISM Manufacturing Index is expected to increase for the fourth consecutive month as the sector continues to gain momentum. Regional Federal Reserve surveys have indicated strength in new orders for February which point to increased production in the coming months. Manufacturing activity has been in expansionary territory since July 2009, although January's pace was slower than a year ago. Overall, we expect the index to increase gradually but remain below year-ago levels for February.

Market Impact

Market attention will be centered primarily on the second GDP estimate, where a disappointing downward revision could spark concerns of weaker economic activity moving into 1Q12. A rebound in personal spending and consumer confidence would lift market spirits regarding a stronger recovery.

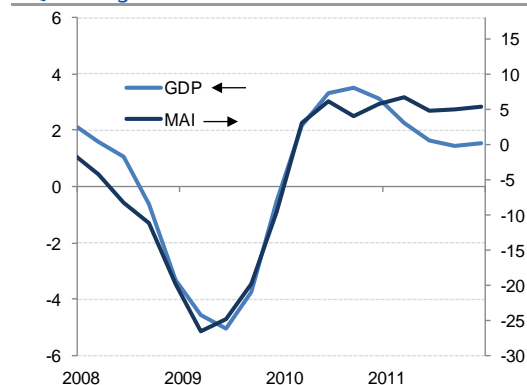
Economic Trends

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



Source: BBVA Research

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



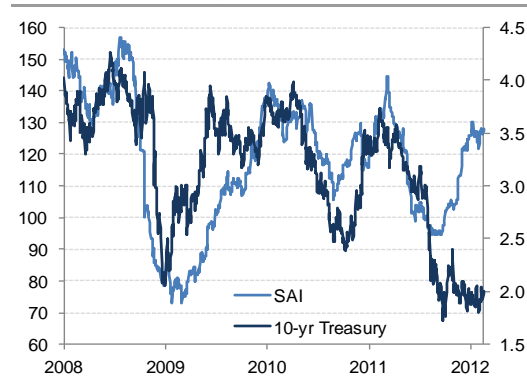
Source: BBVA Research & BEA

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



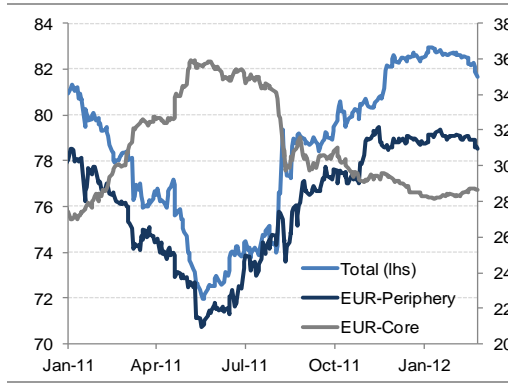
Source: BBVA Research

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



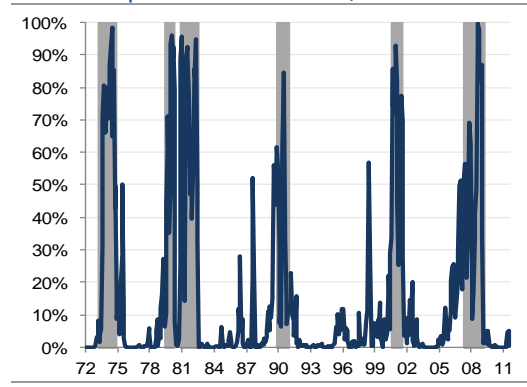
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

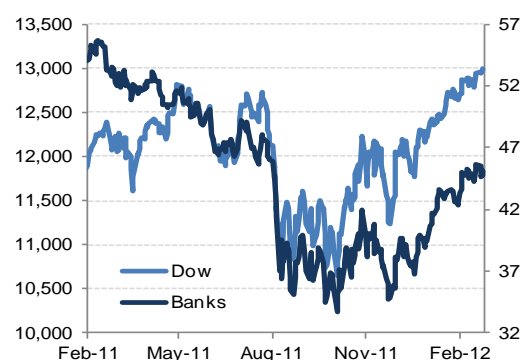
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

Financial Markets

Graph 9
Stocks (Index, KBW)



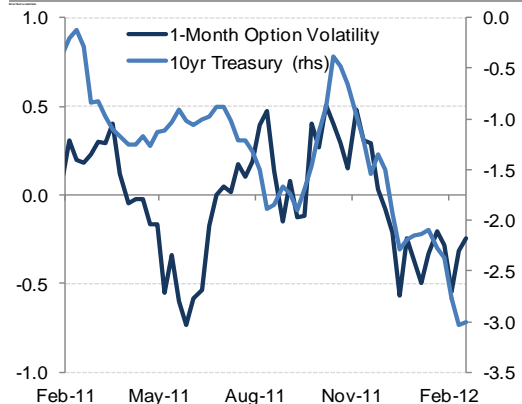
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



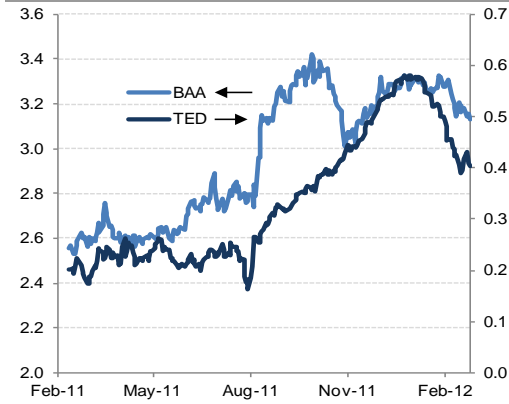
Source: Bloomberg & BBVA Research

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



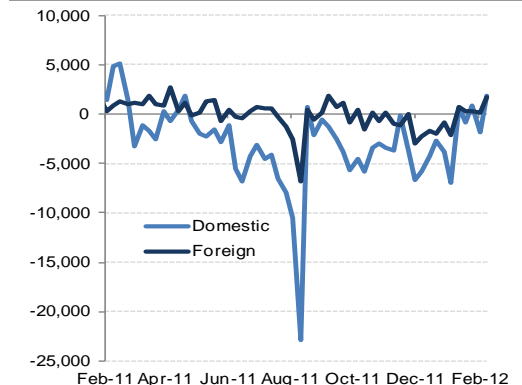
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



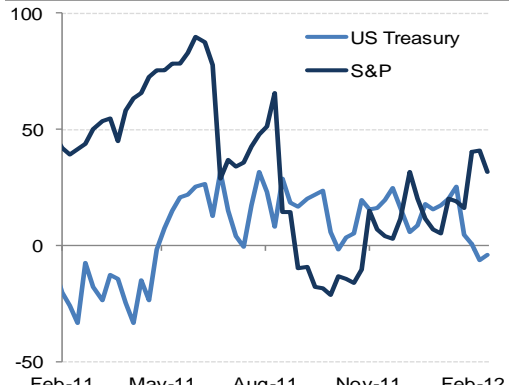
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

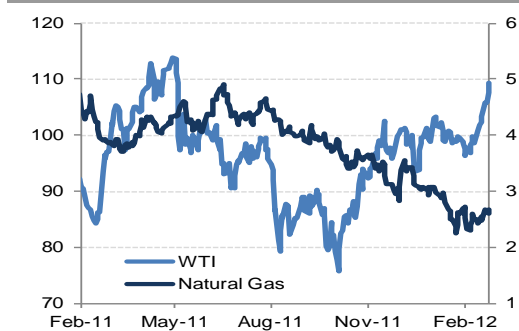
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

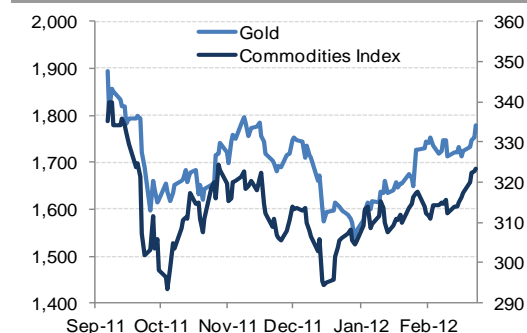
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



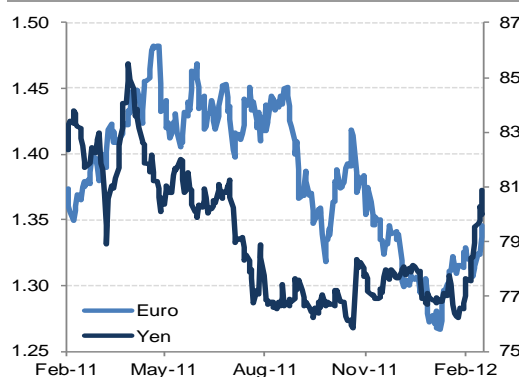
Source: Bloomberg & BBVA Research

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



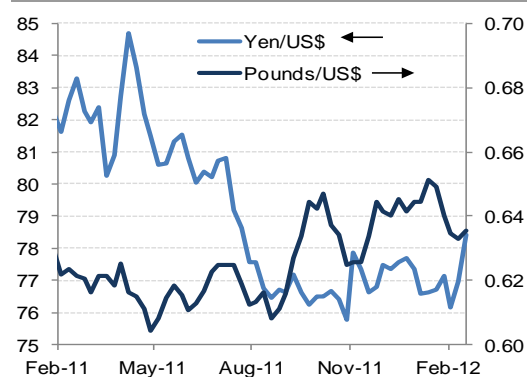
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



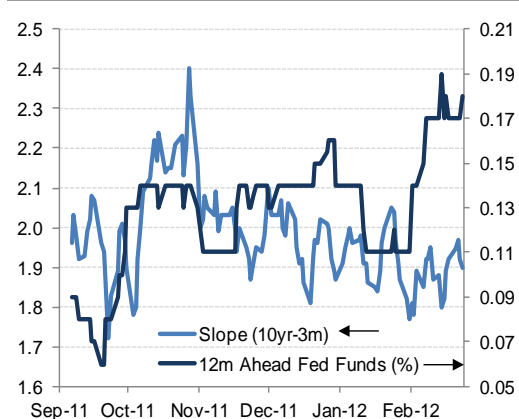
Source: Bloomberg & BBVA Research

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



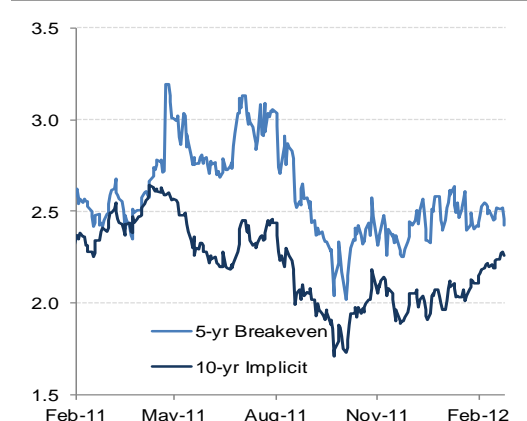
Source: BBVA Research

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)	3.73	3.89	3.54	5.04
Heloc Loan 30K	5.53	5.53	5.55	5.54
5/1 ARM*	2.80	2.82	2.85	3.80
15-year Fixed Mortgage *	3.19	3.16	3.24	4.22
30-year Fixed Mortgage *	3.95	3.87	3.98	4.95
Money Market	0.47	0.47	0.51	0.63
2-year CD	0.91	0.91	0.92	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	0.08	0.09	0.09	0.15
3M Libor	0.49	0.49	0.55	0.31
6M Libor	0.75	0.75	0.79	0.46
12M Libor	1.07	1.07	1.10	0.79
2yr Sw ap	0.62	0.58	0.54	0.91
5yr Sw ap	1.17	1.14	1.04	2.37
10Yr Sw ap	2.08	2.08	2.01	3.54
30yr Sw ap	2.79	2.82	2.76	4.28
7day CP	0.22	0.27	0.58	0.22
30day CP	0.36	0.38	0.72	0.25
60day CP	0.44	0.47	0.65	0.28
90day CP	0.48	0.52	0.55	0.30

Source: Bloomberg & BBVA Research

Quote of the Week

John C. Williams, President and CEO, Federal Reserve Bank of San Francisco
Presentation to the Monetary Policy Forum
24 February 2012

"But suppose monetary policy is less powerful than usual. That suggests we need to move our monetary instruments even more than usual to achieve our employment and price-stability objectives."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-Feb	Pending Home Sales (MoM)	JAN	1.00%	1.00%	-3.50%
27-Feb	Dallas Fed Manufacturing Survey	FEB	15.50	15.50	15.30
28-Feb	Durable Goods Orders	JAN	-0.50%	-1.10%	3.00%
28-Feb	Durable Goods Orders Ex Transportation	JAN	0.50%	0.00%	2.10%
28-Feb	S&P Case-Shiller HPI (YoY)	DEC	-3.50%	-3.60%	-3.67%
28-Feb	Consumer Confidence	FEB	62.00	63.00	61.10
29-Feb	GDP QoQ Annualized	4Q P	2.80%	2.80%	2.80%
29-Feb	Personal Consumption	4Q P	2.00%	2.00%	2.00%
29-Feb	GDP Price Index	4Q P	0.40%	0.40%	0.40%
29-Feb	Core PCE QoQ	4Q P	1.10%	1.10%	1.10%
1-Mar	Total Vehicle Sales	FEB	14.00M	14.00M	14.13M
1-Mar	Domestic Vehicle Sales	FEB	10.90M	11.00M	11.05M
1-Mar	Initial Jobless Claims	25-Feb	350K	355K	351K
1-Mar	Continuing Claims	18-Feb	3450K	3420K	3392K
1-Mar	Personal Income	JAN	0.30%	0.50%	0.50%
1-Mar	Personal Spending	JAN	0.40%	0.40%	0.00%
1-Mar	PCE Core (MoM)	JAN	0.20%	0.20%	0.20%
1-Mar	PCE Core (YoY)	JAN	1.80%	1.80%	1.80%
1-Mar	ISM Manufacturing	FEB	55.0	54.5	54.1
1-Mar	Construction Spending (MoM)	DEC	1.0%	1.0%	1.5%

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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