

Weekly Flash

U.S.

Highlights

5 March 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Hakan Danış
hakan.danis@bbvacompass.com

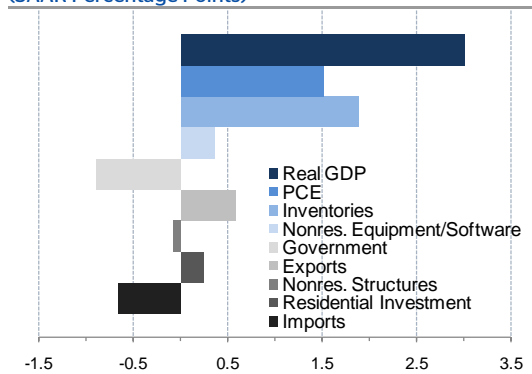
4Q11 GDP Growth Revised up to 3.0%, January Spending Disappointed

The second estimate for 4Q11 real GDP growth was little changed from the advance release. According to BEA's second estimate, the U.S. economy grew 3.0% SAAR in 4Q11, slightly higher than the previous estimate of 2.8% SAAR. The upward revision in nonresidential fixed investment and personal consumption expenditures (PCE) and a downward revision to imports were the main determinants of the revision. Overall, real GDP growth remained at 1.7% in 2011.

Last week's data on economic activity for the 1Q12 indicated a clear sign for slowdown for the quarter. The U.S. Census announced that durable goods orders declined 4.0% in January. Even excluding the volatile transportation component, durable goods dropped 3.2% after increasing during four consecutive months. However, the ISM Manufacturing Index declined almost 2 points to 52.4 from 54.1 but remained above the threshold of 50.0 indicating that economic expansion in the manufacturing sector continued in February. The ISM index has been above 50.0 since August 2009 and it shows that new orders and supplier deliveries fell 2.7 and 4.6 points, respectively. Furthermore, the Federal Reserve released the Beige Book, which includes anecdotal information from the Fed's regional districts. The report points to "modest to moderate" economic growth in 1Q12. In the report, Philadelphia and Atlanta Federal Districts were the best performing districts. The most important sign for the slowdown in 1Q12 came from PCE last Thursday. BEA reported that real PCE increased only 0.03% MoM in January indicating that PCE has been almost flat since October. Even if real PCE increases 0.3% in February and March, it would indicate only a 1.2% SAAR growth in PCE in 1Q12. Although U.S. auto sales came better than expected, we project that the economic activity in the current quarter will be weaker than previously expected.

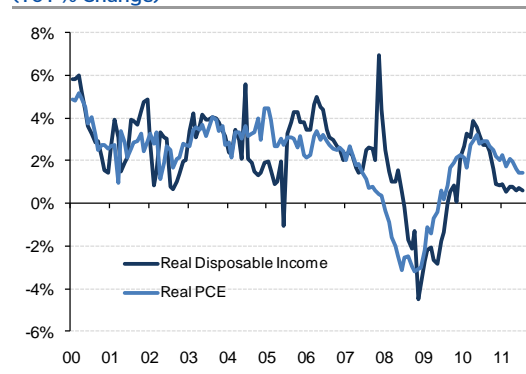
On the monetary policy side, Chairman Ben Bernanke gave a speech before the House Committee on Financial Services on Wednesday. His speech offered little new information for characterizing the direction of policy, which is currently at a highly accommodative stance. In general, we believe that the Fed is unconvinced of the sustainability of the recovery, but due to some pockets of good data, the Fed needs to see clear deterioration before pushing the button for more large-scale asset purchases.

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



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Real Disposable Income and Spending
(YoY % Change)



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

ISM Non-Manufacturing Index (February, Monday 10:00 ET)

Forecast: 56.0

Consensus: 56.2

Previous: 56.8

The ISM Non-Manufacturing Index is expected to increase slightly in February to indicate continued expansion in service activity. Surprising improvement in the employment component led to a significant jump in January, and recent declines in initial jobless claims suggest steady growth in this index. New orders are also showing strength, indicating accelerating activity in the coming months. While we do expect a decline in most components, the index will likely remain above the expansion threshold of 50.0.

Consumer Credit (January, Wednesday 15:00 ET)

Forecast: \$14.2B

Consensus: \$12.0B

Previous: \$19.3B

Seasonally-adjusted consumer credit is expected to increase again in January but at a slower pace compared to previous months. Nonrevolving credit continues to drive total outstanding consumer credit, with December's figure marking the largest component gain in more than 10 years. Strong auto demand in January should put upward pressure on nonrevolving loan growth. However, mixed consumer confidence may limit revolving credit, which just recently crossed into positive YoY growth territory. Given the seasonal factors are at play during this time of the year, our outlook for consumer credit remains conservative.

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

Forecast: 200K, 8.3%

Consensus: 210K, 8.3%

Previous: 243K, 8.3%

The employment situation has been better-than-expected in recent months, with stronger nonfarm payroll growth and significant declines in the unemployment rate. The private sector continues to lead employment growth, with rebounds in manufacturing and construction hiring. While government layoffs remain the weakest component, job losses appear to be shrinking. Persistent declines in initial jobless claims, in addition to reports from regional Federal Reserve manufacturing surveys and the ISM indices, suggest that February's employment report will be similar to January. However, we do not expect another decline in the unemployment rate given a more steady participation rate.

International Trade Balance (January, Friday 8:30 ET)

Forecast: -\$48.2B

Consensus: -\$49.0B

Previous: -\$48.8B

The international trade balance deteriorated through 4Q11 but is expected to improve slightly in January. Exports reverted back to positive growth in December, and the latest ISM reports suggest a continuing trend of increased demand for US goods and services in January. December's rise in imports, which was led primarily by capital and consumer goods, indicates that these trends may continue alongside improvement in the overall business outlook. Although rising crude oil prices will likely lift the nominal value of imports, we expect that export growth will exceed import growth for the first time since 3Q11.

Market Impact

Markets would look to the job report to confirm continued improvement in employment conditions, though worse-than-expected data could negate positive news in other sectors. International trade data should warrant little market reaction but will provide a first glance at the impact of the European crisis heading into 2012.

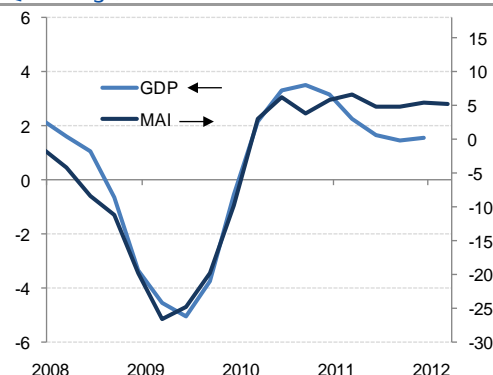
Economic Trends

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



Source: BBVA Research

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



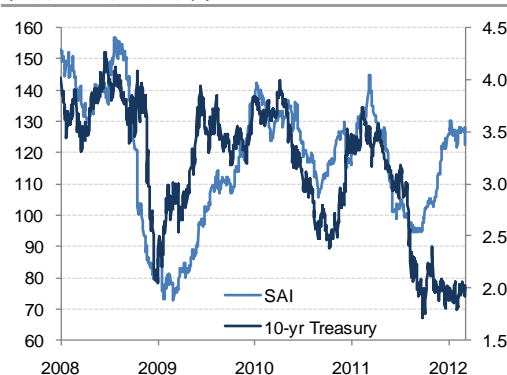
Source: BBVA Research & BEA

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



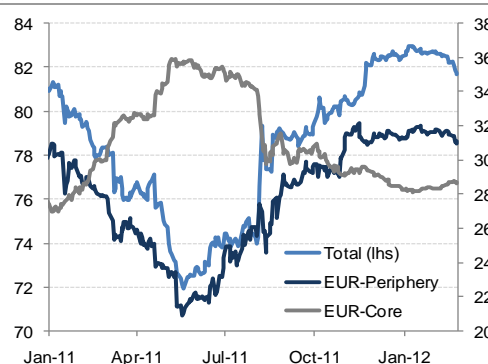
Source: BBVA Research

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



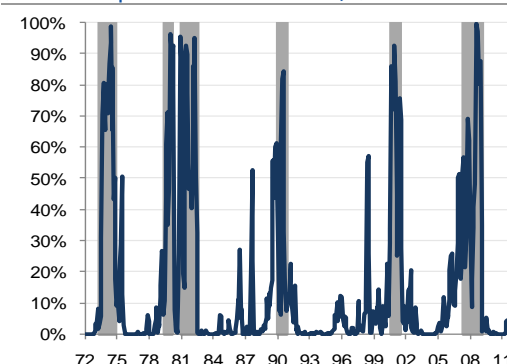
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

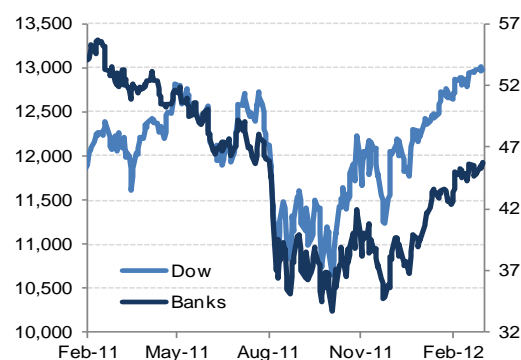
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

Financial Markets

Graph 9
Stocks (Index, KBW)



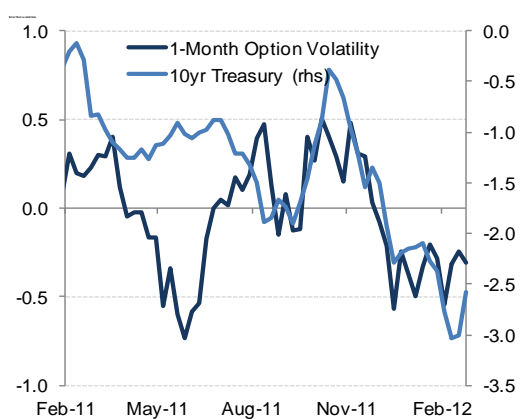
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



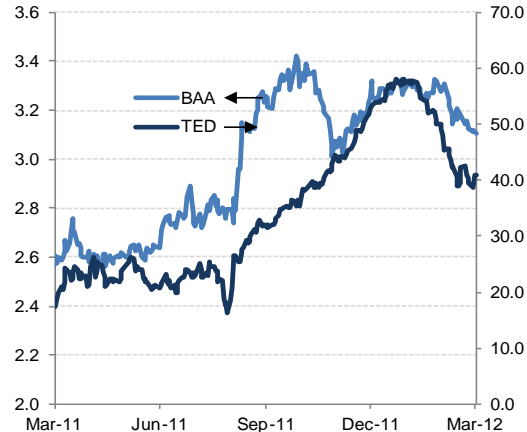
Source: Bloomberg & BBVA Research

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



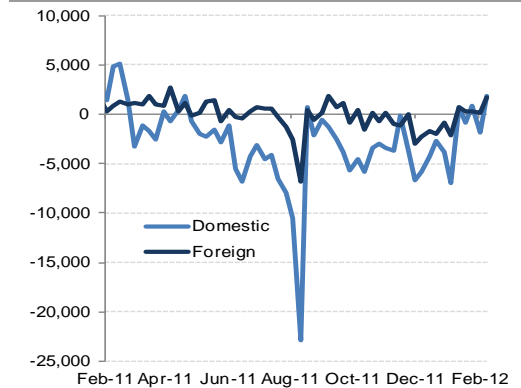
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



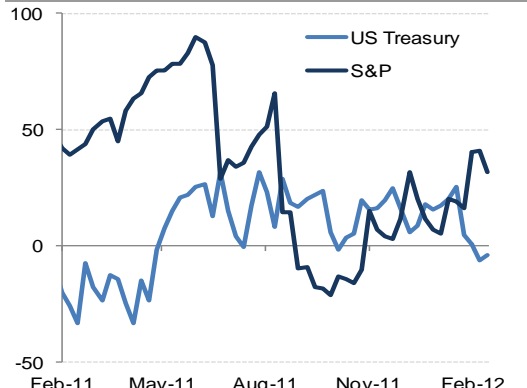
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

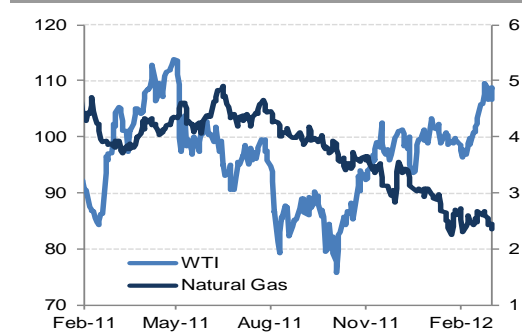
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



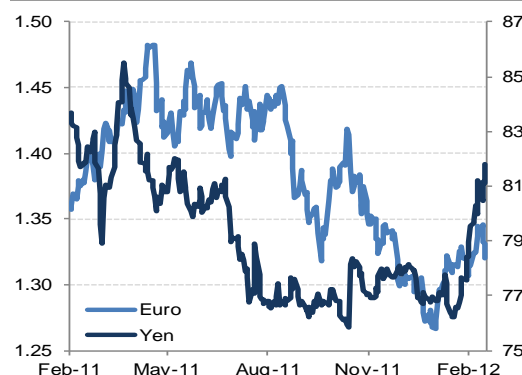
Source: Bloomberg & BBVA Research

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



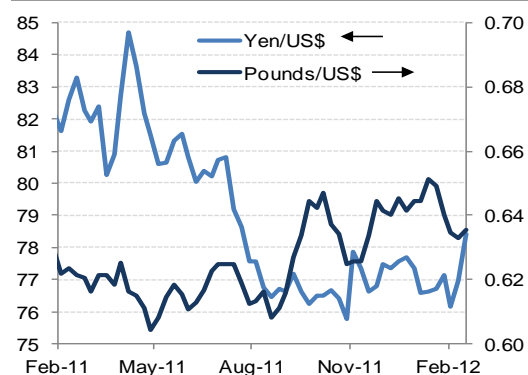
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



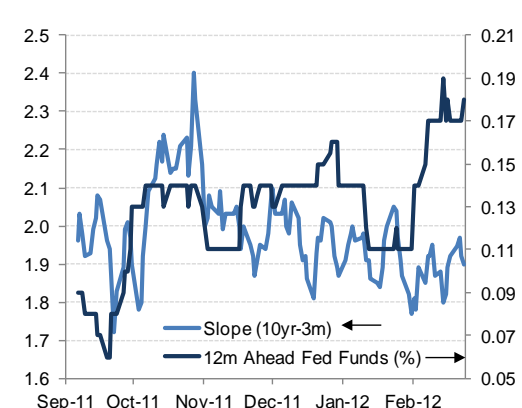
Source: Bloomberg & BBVA Research

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



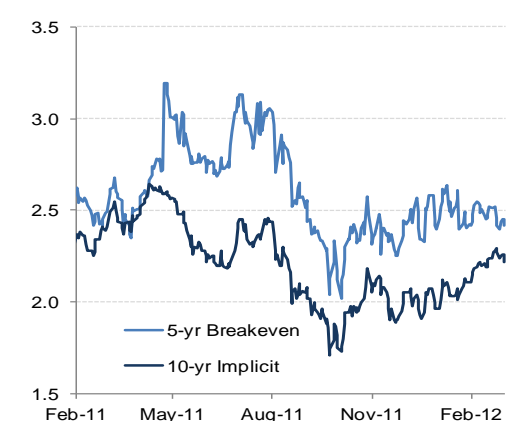
Source: BBVA Research

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	14.10	13.73
New Auto (36-months)	3.55	3.73	3.92	5.02
Heloc Loan 30K	5.54	5.53	5.54	5.53
5/1 ARM*	2.83	2.80	2.80	3.72
15-year Fixed Mortgage *	3.17	3.19	3.14	4.15
30-year Fixed Mortgage *	3.90	3.95	3.87	4.87
Money Market	0.76	0.47	0.47	0.63
2-year CD	0.91	0.91	0.91	1.28

* 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	0.11	0.15
3M Libor	0.48	0.49	0.53	0.31
6M Libor	0.75	0.75	0.77	0.46
12M Libor	1.06	1.07	1.08	0.79
2yr Sw ap	0.52	0.62	0.50	0.89
5yr Sw ap	1.10	1.17	1.04	2.40
10Yr Sw ap	2.06	2.08	2.02	3.61
30yr Sw ap	2.80	2.80	2.81	4.37
7day CP	0.25	0.22	0.26	0.23
30day CP	0.37	0.36	0.39	0.24
60day CP	0.44	0.44	0.47	0.29
90day CP	0.48	0.48	0.53	0.33

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Bernanke, Chairman of the Federal Reserve
Semiannual Monetary Policy Report to the Congress
29 February 2012

"[Current economic recovery] suggests that interest rates in some sense should be lower rather than higher. We cannot make interest rates lower, of course. [They] only can go down to zero."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Mar	Factory Orders	JAN	-1.7%	-1.5%	1.1%
5-Mar	ISM Non-Manufacturing	FEB	56.0	56.2	56.8
7-Mar	ADP Employment	FEB	215K	210K	170K
7-Mar	Nonfarm Productivity	4Q	0.7%	0.8%	0.7%
7-Mar	Unit Labor Costs	4Q	1.2%	1.2%	1.2%
7-Mar	Consumer Credit	JAN	14.2B	12.0B	19.3B
8-Mar	Initial Jobless Claims	3-Mar	350K	351K	353K
8-Mar	Continuing Claims	25-Feb	3395K	3388K	3404K
9-Mar	Change in Nonfarm Payrolls	FEB	200K	210K	243K
9-Mar	Change in Private Payrolls	FEB	220K	220K	257K
9-Mar	Change in Manufacturing Payrolls	FEB	25K	20K	50K
9-Mar	Unemployment Rate	FEB	8.3%	8.3%	8.3%
9-Mar	Average Hourly Earning (MoM)	FEB	0.2%	0.2%	0.2%
9-Mar	International Trade Balance	JAN	-\$48.2B	-\$49.0B	-\$48.8B
9-Mar	Wholesale inventories	JAN	0.5%	0.6%	1.0%

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

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

Contact details

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

BBVA Research reports are available in English and Spanish

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.