

Economic Watch

U.S.

06 March 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

Hakan Danış
hakan.danis@bbvacompass.com

Monthly US Outlook

Positive Economic Data Lifting Spirits, But is it Sustainable?

- **Economic activity slows down while labor market conditions continue to improve gradually**
- **While the threat of a European spillover has faded slightly, downside risks have shifted toward geopolitical tensions and a possible oil shock**
- **The Federal Reserve is worried about the sustainability of the US recovery and is prepared to intervene if conditions deteriorate**

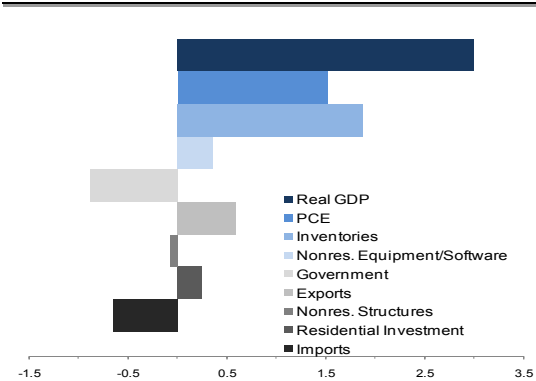
The most recent economic data have arrived in line with our expectations for slowing growth throughout 1Q12, though we expect activity to rebound in 2Q12. Volatility swings that highlighted the economic uncertainties in 4Q11 have become less cumbersome, and the threat of a spillover from the European sovereign debt crisis has diminished somewhat given the latest developments in February. Private investment and exports remain solid, labor market conditions continue to improve, and our economic indices point to robust activity in the coming months. The Bureau of Economic Analysis also revised its 4Q11 real GDP growth estimate from 2.8% to 3.0% SAAR, mainly due to upward revisions to nonresidential fixed investment and personal consumption expenditures (PCE), as well as a downward revision to imports. Consumer confidence appears to have rebounded from a brief deterioration in early 1Q12, but real PCE has been mostly flat in the last three months. Moreover, rising oil and gas prices remain a concern and could affect consumer sentiments negatively. Still, recent inflation data support our baseline scenario for moderating price pressures in 2012. Our baseline assumes 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 well-anchored inflation expectations limit potential upward pressure to core prices.

The Federal Reserve remains unconvinced of a stronger recovery, focusing particularly on weakness in the housing market. Although the correction in housing inventories is beginning to encourage construction of new single-family homes, we expect that increasing foreclosures will continue to put downward pressure on home prices throughout 2012. Other FOMC concerns include weak household spending, ongoing deleveraging, and high levels of fiscal and regulatory uncertainty. As Chairman Bernanke stressed in the Semiannual Monetary Policy Report to the Congress last week, the Fed set a numerical target of 2.0% PCE inflation over the long run in its last meeting and is unlikely to set a target for the unemployment rate. He also made it clear that the recent change in the communication policy is not an alteration in how the FOMC conducts monetary policy. Furthermore, improvements in the employment situation are not so clear given that long-term unemployment remains elevated, ultimately furthering concerns of structural problems. The fall in the unemployment rate could also be somewhat misleading given the simultaneous decline in the participation rate. The QE3 debate continues, but most FOMC members agree that conditions need to deteriorate to spark further action on their part.

Overall, we maintain our conservative outlook regarding the acceleration in economic activity as we approach 2Q12. We expect labor market conditions to remain weak in 2012, yet it will improve upon 2010-11 and will coincide with moderate economic growth. Political brinkmanship continues to incite fiscal uncertainty, and we do not expect significant reforms until after the elections.

Economic Indicators

Graph 1
Contributions to Real GDP Growth
(4Q11 Second Estimate, SAAR % Points)



Source: Bureau of Economic Analysis

Graph 2
Personal Income and Expenditures
(3MMA, MoM%)



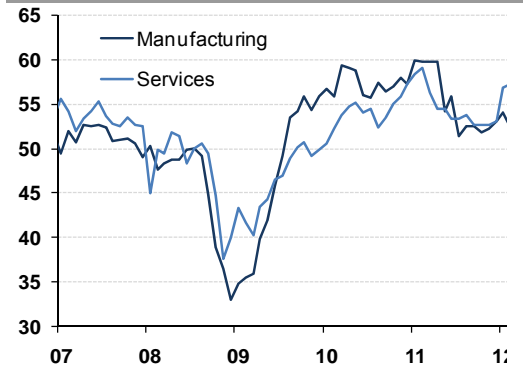
Source: Bureau of Economic Analysis

Graph 3
Consumer Confidence
(SA, Index 1985=100)



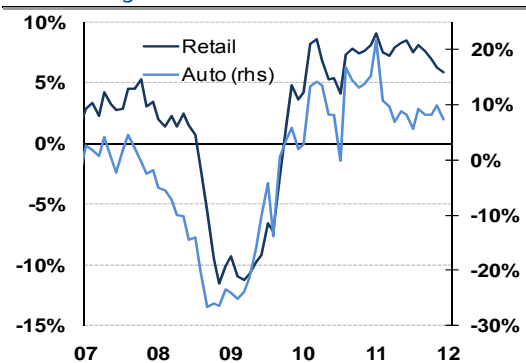
Source: Conference Board

Graph 4
ISM Indices
(SA, 50+ = Expansion)



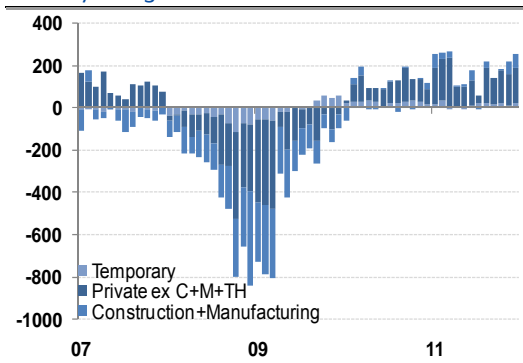
Source: ISM

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau

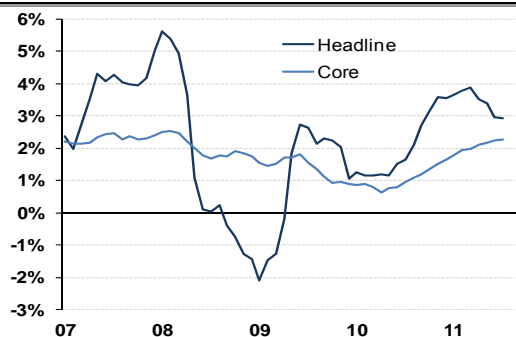
Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: Haver Analytics & BBVA Research

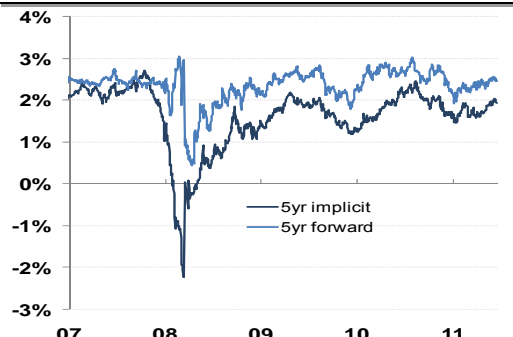
Economic Indicators

Graph 7
Consumer Price Index
(YOY% NSA, 1982-84=100)



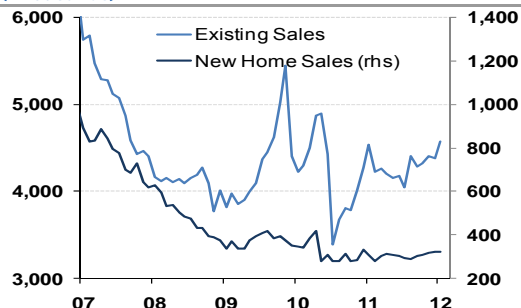
Source: Bureau of Labor Statistics

Graph 8
Inflation Expectations
(%)



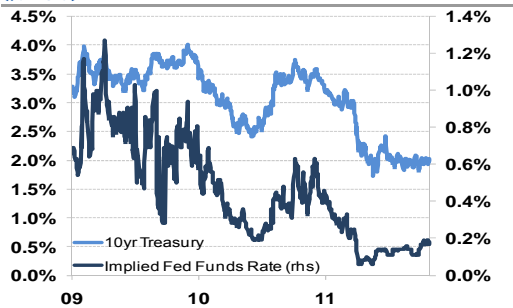
Source: Federal Reserve Board & BBVA Research

Graph 9
New and Existing Home Sales
(Thousands)



Source: Haver Analytics & BBVA Research

Graph 10
12 Month Implied Fed Funds Rate & 10 Yr Treasury
(%Yield)



Source: Haver Analytics

Table 1
Forecasts (**BOLD=FORECASTS**)

	2Q2011	3Q2011	4Q2011	2011	2012	2013
Real GDP (% SAAR)						
GDP	1.3	1.8	3.0	1.7	2.3	2.2
Real GDP (Contribution, pp)						
PCE	0.7	1.7	2.1	1.5	1.6	1.5
Gross Investment	6.4	1.3	20.6	0.6	0.9	0.8
Non Residential	10.3	15.7	2.8	0.8	0.8	0.7
Residential	4.2	1.3	11.5	0.0	0.1	0.1
Exports	3.6	4.7	4.3	0.9	0.8	0.9
Imports	1.4	1.2	3.8	-0.8	-0.8	-1.1
Government	-0.9	-0.1	-4.4	-0.4	-0.1	0.1
Unemployment rate (%)	9.0	9.1	8.7	9.0	8.5	8.1
Average Montly Nonfarm Payroll(k)	130	128	157	152	158	176
CPI						
CPI (YoY%)	3.4%	3.8%	3.3%	3.2	2.3	2.3
Core CPI (YoY%)	1.5%	1.9%	2.2%	1.7	1.9	1.8
Fiscal balance (% GDP)	-	-	-	-8.7	-7.1	-4.6
Current Account (bop, % GDP)	-3.3	-2.9	-	-3.2	-3.1	-3.2
Fed target rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25
S&P Case & Shiller Index	129.8	127.9	125.7	128.2	126.2	125.6
10Yr Treasury (% Yield, average)	3.2	2.4	2.0	2.8	2.3	2.7
US Dollar/ Euro	1.44	1.41	1.35	1.31	1.27	1.30
Oil Prices (dpb)	117.6	113.3	109.5	113.5	99.3	102.8

Source: BBVA Research

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.