

Weekly Flash

U.S.

19 March 2012
Economic Analysis

U.S.

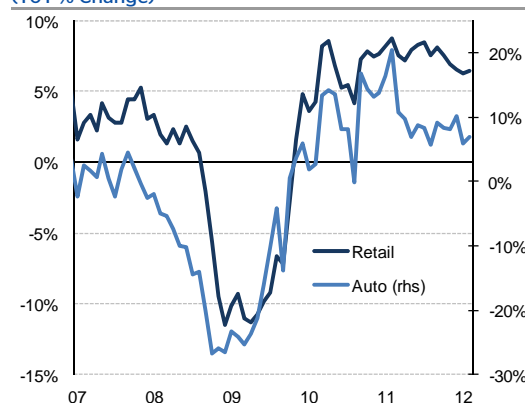
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Highlights

Retail Sales Give Boost to Economic News, Energy Prices Drive Headline CPI

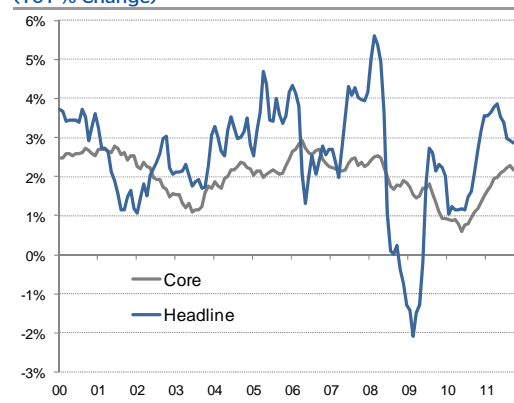
Retail sales jumped 1.1% in February following a revised 0.6% increase in January, mostly due to a 1.6% rebound in auto sales. Excluding autos, retail sales increased 0.9% due in large part to a 3.3% boost from gasoline prices. Recent data support market sentiments for a stronger recovery, especially when compared to the disappointing consumer spending data during the holiday season. However, much of the gain was due to rising gasoline prices, which may be indicative of a misleading trend. In real terms, retail sales are increasing at a slower pace, though the data still suggest improving consumer activity. Consumer price inflation increased 0.4% in February following a 0.2% rise in January, marking the largest gain in ten months. As expected, energy prices were the main driver of inflation, up 3.2% after rising 0.2% in January. The gasoline index led the energy components at 6.0%, while the household energy index declined for the fifth consecutive month. Food inflation was unchanged in February for the first time since July 2010, in line with our expectations for easing commodity prices throughout 1Q12. Excluding food and energy, core inflation eased to 0.1% from a 0.2% gain in January. Rising energy prices appear to be the main focus, although concerns are limited for the time being. In general, energy prices have mostly recovered from three consecutive months of decline in 4Q12, though the index remains slightly below September's level. Prolonged tensions in the Middle East could cause prices to remain high for longer than previously expected, yet our baseline scenario assumes moderating price pressures throughout the coming quarters. In the latest FOMC meeting announcement, the Fed noted that rising oil prices will increase inflation only temporarily, and inflation expectations remain stable. Thus, we do not expect recent inflation data to expedite Fed action. Bigger news from the Fed involved the results of the stress tests among 19 of the largest bank holding companies in the US. Under the stress scenario, the Fed estimated total losses of more than \$500bn combined for the participating banks, an amount that is comparable to the Lehman Brothers crisis. While this seems extreme, only four of the 19 banks actually failed the test, with post-loss capital ratios below the minimum regulatory requirements. Although we would expect to see some bank failures in the event of another crisis, the banking system appears much better prepared for a meltdown compared to the 2008 shock.

Graph 1
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau & BBVA Research

Graph 2
Consumer Price Inflation
(YoY % Change)



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Housing Starts and Building Permits (February, Tuesday 8:30 ET)

Forecast: 697K, 678K	Consensus: 700K, 686K	Previous: 699K, 676K
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New home starts have reached the highest level of the recovery but are expected to remain relatively unchanged in February. Housing starts rebounded in January in large part due to the multifamily component, which is showing signs of a stronger upward trend compared to the overall figure. YoY growth decelerated significantly, however, positive trends are likely to continue. Building permits are also expected to remain stable in February as the single-unit issuance fails to lift the total number.

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

Forecast: 4.65M	Consensus: 4.60M	Previous: 4.57M
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Existing home sales are expected to increase in February as housing affordability surpasses historical highs. An increase in the number of foreclosed homes influenced a significant price decline in January and likely contributed to the jump in existing home sales. Improvements in the employment situation and rising rent costs are most likely pushing people toward the idea of home ownership, with extremely low prices and mortgage rates making existing homes much more attractive.

Jobless Claims (March 17th, Thursday 8:30 ET)

Forecast: 345K	Consensus: 351K	Previous: 351K
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Initial jobless claims declined last week following two consecutive weeks of gains, and we expect that the gradual declines will continue in the coming months. Companies appear to be laying off fewer workers, and steady gains in nonfarm payrolls suggest that some have become more confident in their hiring plans. However, we do not expect the unemployment rate to decline much in the next few months. As such, jobless claims are likely to decline only slightly but remain near the 350K level on average.

New Homes Sales (February, Friday 10:00 ET)

Forecast: 318K	Consensus: 325K	Previous: 321K
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New homes sales have dragged down views of a consistent recovery in the housing sector, remaining near historical lows since the recession ended. Increasing housing starts could suggest a rise in future sales, and the mild winter may have encouraged buyers in February. However, higher affordability of existing homes likely deterred buyers away from new home purchases. Given the particular strength in demand for existing homes, we do not expect a rebound in new home sales for February.

Market Impact

Economic news will be dominated by the housing sector this week, with markets looking for any signs of increased homebuyer activity. Market sentiments regarding the housing situation remain weak, yet even modest improvements could warrant a positive reaction. Comments from Ben Bernanke on Tuesday may cause some anxiety as markets wait to hear of any changes to the Fed's monetary plans.

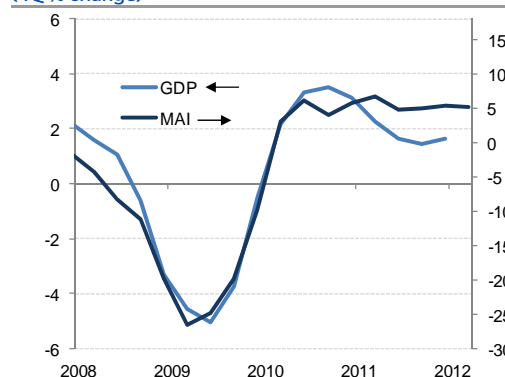
Economic Trends

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



Source: BBVA Research

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



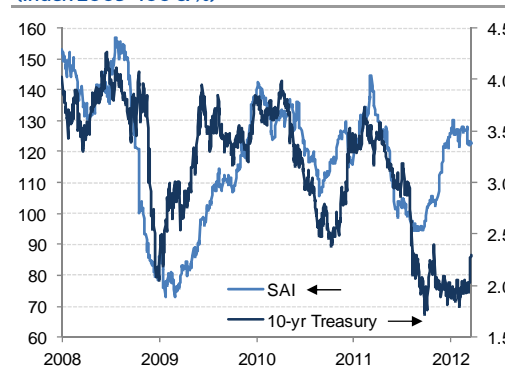
Source: BBVA Research & BEA

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



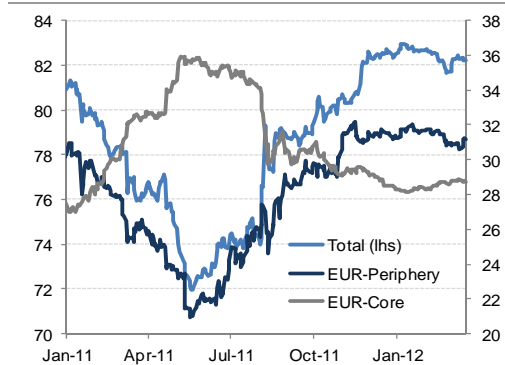
Source: BBVA Research

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



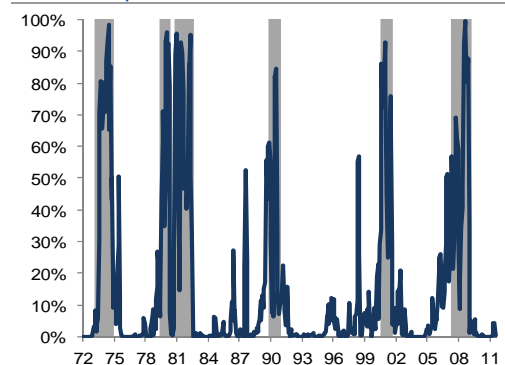
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

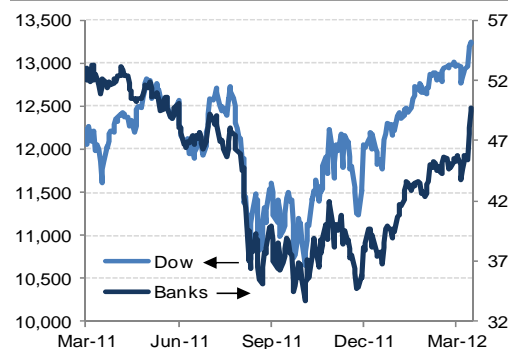
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

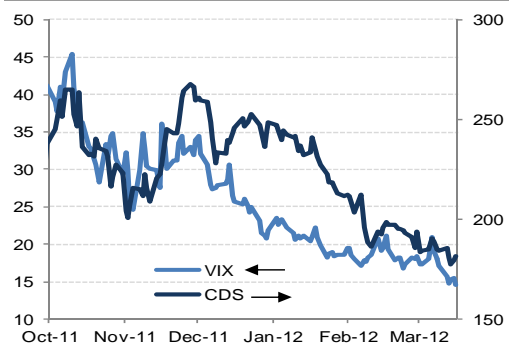
Financial Markets

Graph 9
Stocks (Index, KBW)



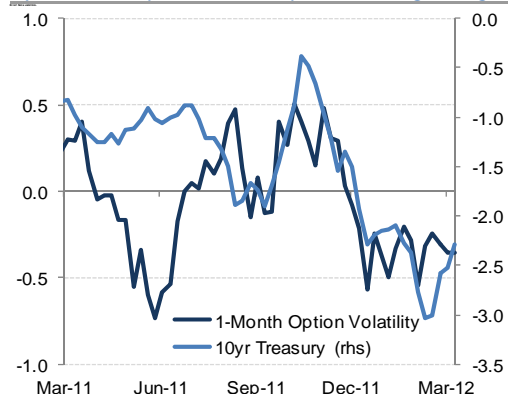
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



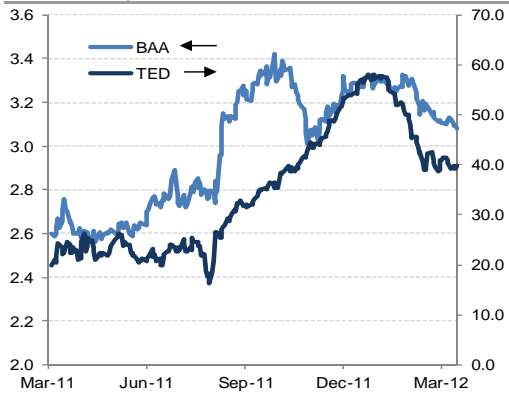
Source: Bloomberg & BBVA Research

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



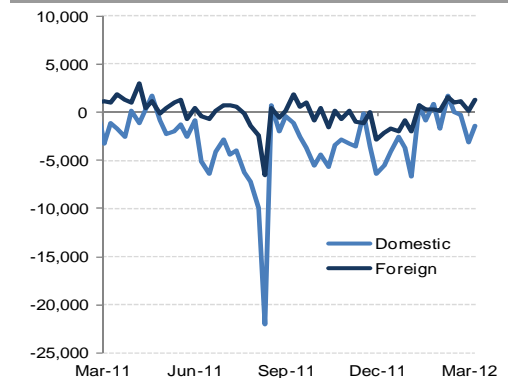
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



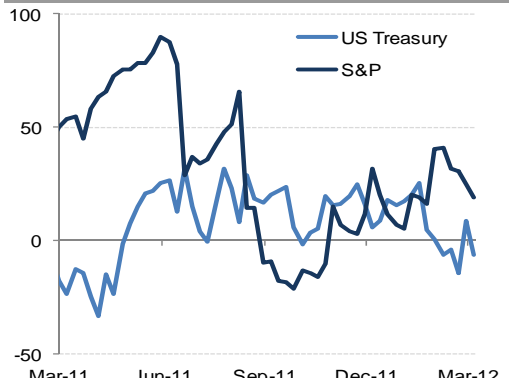
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

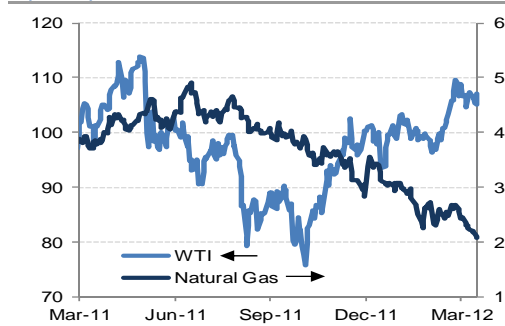
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

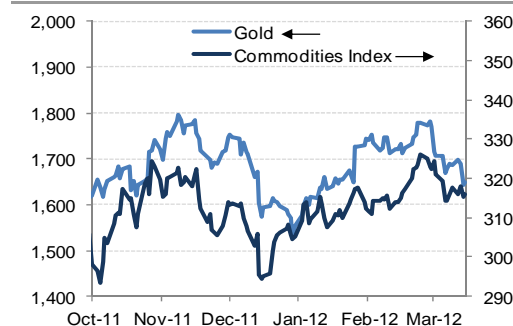
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



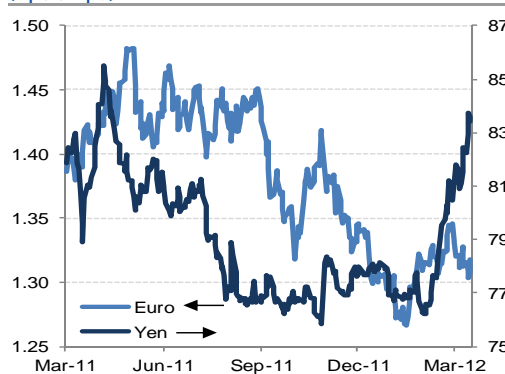
Source: Bloomberg & BBVA Research

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



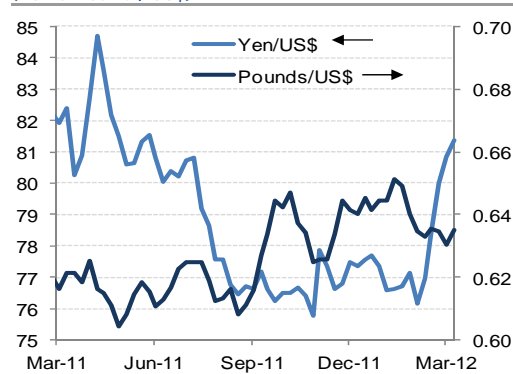
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



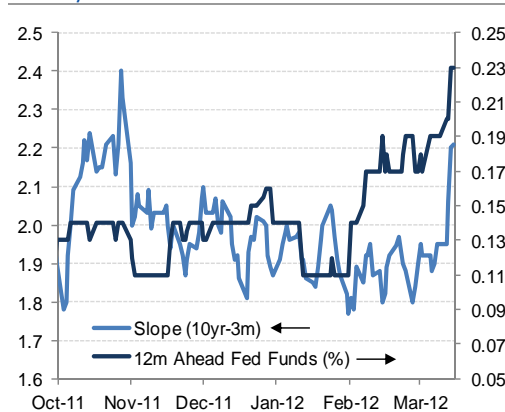
Source: Bloomberg & BBVA Research

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



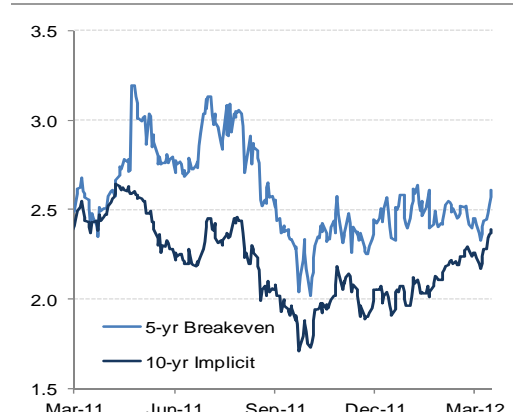
Source: BBVA Research

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)	3.18	2.97	3.89	4.81
Heloc Loan 30K	5.53	5.53	5.53	5.47
5/1 ARM*	2.83	2.81	2.82	3.57
15-year Fixed Mortgage*	3.16	3.13	3.16	3.97
30-year Fixed Mortgage*	3.92	3.88	3.87	4.76
Money Market	0.73	0.76	0.47	0.59
2-year CD	0.90	0.91	0.91	1.25

* 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	0.14	0.12	0.09	0.15
3M Libor	0.47	0.47	0.49	0.31
6M Libor	0.74	0.74	0.75	0.46
12M Libor	1.05	1.06	1.07	0.77
2yr Sw ap	0.62	0.58	0.58	0.80
5yr Sw ap	1.35	1.14	1.14	2.16
10Yr Sw ap	2.36	2.11	2.08	3.37
30yr Sw ap	3.10	2.85	2.82	4.15
7day CP	0.24	0.24	0.27	0.22
30day CP	0.33	0.35	0.38	0.31
60day CP	0.40	0.41	0.47	0.31
90day CP	0.45	0.45	0.52	0.30

Source: Bloomberg & BBVA Research

Quote of the Week

Timothy Geithner, US Treasury Secretary
Remarks by Secretary Geithner before the Economic Club of New York
15 March 2012

"We have a set of very tough challenges ahead. Yet, as tough as they are, these are manageable challenges for the United States. And I would prefer our challenges to those of any economy anywhere in the world. We can afford the investments that are important for future growth. We can adjust to the changes that will be compelled by the need to bring our long-term deficits down."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Mar	NAHB Housing Market Index	MAR	30.00	30.00	29.00
20-Mar	Housing Starts	FEB	697K	700K	699K
20-Mar	Housing Starts (MoM)	FEB	-0.29%	0.10%	1.50%
20-Mar	Building Permits	FEB	678K	686K	676K
20-Mar	Building Permits (MoM)	FEB	0.30%	0.50%	0.70%
21-Mar	Existing Home Sales	FEB	4.65M	4.60M	4.57M
21-Mar	Existing Home Sales (MoM)	FEB	-1.75%	0.70%	4.30%
22-Mar	Initial Jobless Claims	17-Mar	345K	351K	351K
22-Mar	Continuing Claims	10-Mar	3375K	3385K	3343K
22-Mar	Leading Indicators	FEB	0.70%	0.60%	0.40%
23-Mar	New Home Sales	FEB	318K	325K	321K
23-Mar	New Home Sales (MoM)	FEB	-0.94%	1.30%	-0.90%

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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