

Weekly Flash

U.S.

Highlights

Houston, March 26, 2012
Economic Analysis

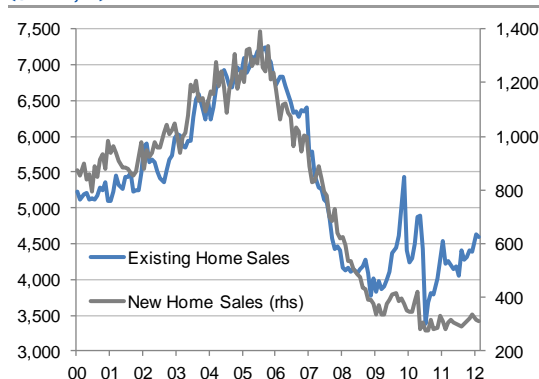
U.S. Economic Research

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Housing Market Still Struggling, Declines in Jobless Claims Slowing

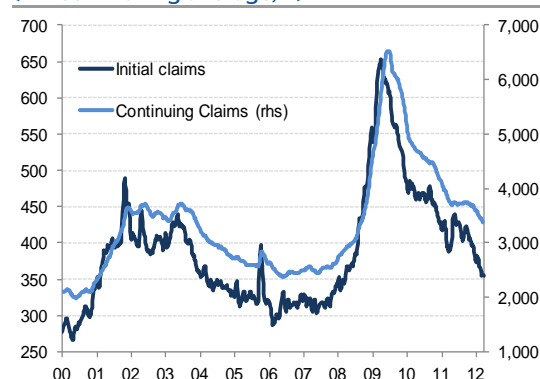
Data on the housing sector continue to improve gradually, yet gains do not appear strong enough to spur the market back towards pre-recession activity. The homebuilder confidence index, which has been on the rise since September, stalled in March due to weakness in current sales conditions. Traffic of prospective buyers remained unchanged, yet the outlook for the next six months improved slightly. Still, the index remains far below pre-recession levels and is nearly half of the 50-mark used to indicate healthy market conditions. In February, housing starts dropped slightly but building permits jumped to the highest level of the recovery, with strength coming primarily from the multifamily component. Sales of both new and existing homes declined in February despite expectations that mild winter weather would boost demand. Shadow inventories are at record highs, near four million, and approximately 25% of total home sales involve distressed properties. Falling home prices are a plus for buyers but make conditions worse off for sellers, and distressed properties are ultimately hurting homebuilders. Furthermore, tight credit conditions deter many willing purchases. Consequently, families are choosing to rent rather than buy, and the homeownership rate continues to fall. Nevertheless, the floor in housing sales and starts appears to have occurred last year, and we expect these measures to continue trending upward throughout 2012, though at a muted pace. Even with continuing declines in home prices, lower new home inventories indicate that new residential construction will likely make a positive contribution to economic growth this year. As the unemployment rate declines and the perceived risk of job losses declines, demand and supply should adjust accordingly. In other news, initial jobless claims declined in the March 17th week to 348K, slightly beating consensus expectations. 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. Although initial claims have reached the lowest point of the recovery, overall declines appear to be slowing. Weekly claims have increased a few times since mid-February, and the 4-week moving average has fallen only 5K in the last 4 weeks compared to a 20K drop in the previous month. Given our cautious employment outlook, we expect that claims will remain near the 350K level on average throughout the next month.

Graph 1
New and Existing Home Sales (SAAR, K)



Source: US Census Bureau, NAR, & BBVA Research

Graph 2
Jobless Claims (4-week moving average, K)



Source: Department of Labor & BBVA Research

Week Ahead

S&P Case-Shiller Home Price Index (January, Tuesday 9:00 ET)

Forecast: -3.6%

Consensus: -3.8%

Previous: -4.0%

The S&P Case-Shiller HPI is expected to decline on a MoM basis in January for the fifth consecutive month, though YoY declines should moderate slightly. Despite some improvements in the median sales price of new homes, prices of existing homes continued to fall in January. Overall, we expect that home prices will continue to slide due to high inventory of distressed properties, while non-distressed property prices remain under pressure.

Durable Goods Orders, Ex Transportation (February, Wednesday 8:30 ET)

Forecast: 2.2%, 1.0%

Consensus: 3.0%, 1.7%

Previous: -4.0%, -3.2%

Durable goods orders declined in January for the first time in four months, mostly due to a large decline in aircrafts. Monthly data from the ISM manufacturing and Federal Reserve surveys suggest mixed reports for new orders in February, with some indicating slight declines in the component. However, the manufacturing sector in general has been holding steady thus far throughout 2012. Given the usual volatility in the data series, we expect that new orders for durable goods will increase at a modest pace in February.

GDP, Final Estimate (4Q11, Thursday 8:30 ET)

Forecast: 3.0%

Consensus: 3.0%

Previous: 3.0%

The final estimate for 4Q11 GDP growth should remain near 3.0% given that most of the relevant data has already been accounted for. The second estimate was revised up due to increased nonresidential fixed investment and personal consumption expenditures as well as a downward revision to imports. Inventory growth has been the main driver of 4Q11 GDP growth, with business inventories revised up slightly for December. Productivity growth was also revised up for the fourth quarter, reflecting a higher estimate for total output. However, the trade deficit for December was larger than previously thought and will likely offset any upward revisions to other GDP components. Personal spending data was unrevised for December, so we do not expect any changes to the PCE estimate.

Personal Income and Outlays (February, Friday 8:30 ET)

Forecast: 0.3%, 0.6%

Consensus: 0.4%, 0.6%

Previous: 0.3%, 0.2%

Personal income and outlays are expected to increase in February as consumer activity regains some momentum. Average earnings increased again in February and should lift personal income for the month, with increasing income expectations indicating continued growth. On the spending side, a jump in retail sales suggests that nominal outlays will likely increase at a faster pace than in January, though mostly due to higher gas prices. In real terms, we expect that personal consumption expenditures will remain relatively flat as they have been for the past three months.

Market Impact

The final estimate for 4Q11 GDP should not shock markets this week, unless growth surprises to the downside. Markets will likely pay closer attention to durable goods orders and personal income and spending data, which should suggest a gradual recovery in consumer activity. Additional comments from FOMC members throughout the week will warrant some market attention with the hopes of revealing further details regarding Fed interventions.

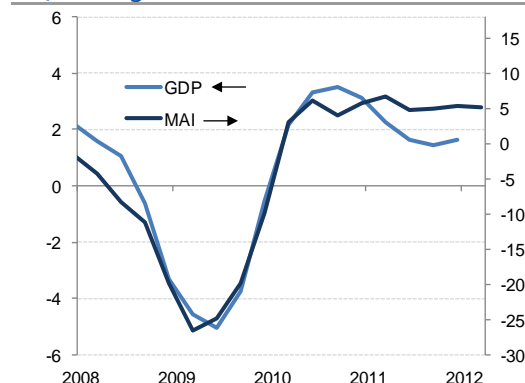
Economic Trends

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



Source: BBVA Research

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



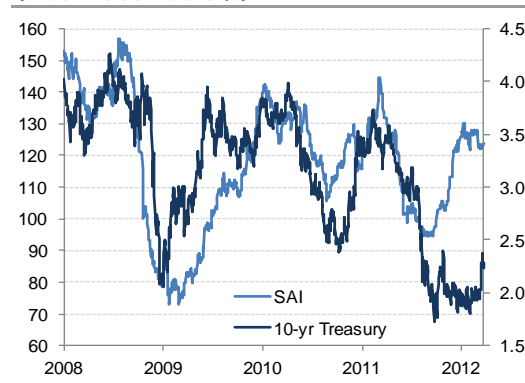
Source: BBVA Research & BEA

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



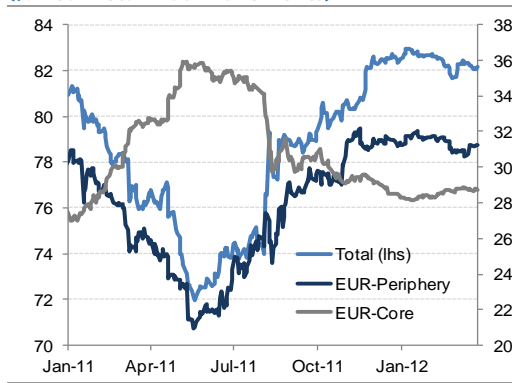
Source: BBVA Research

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



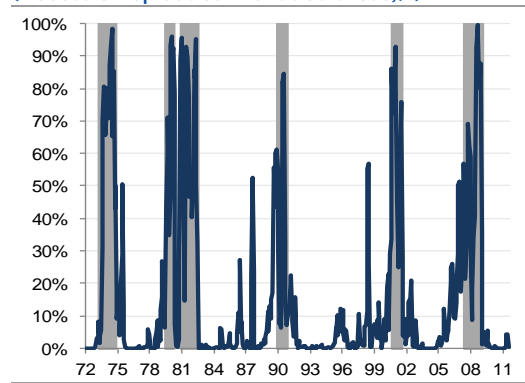
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

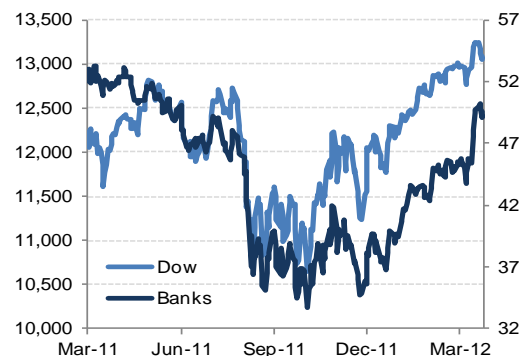
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

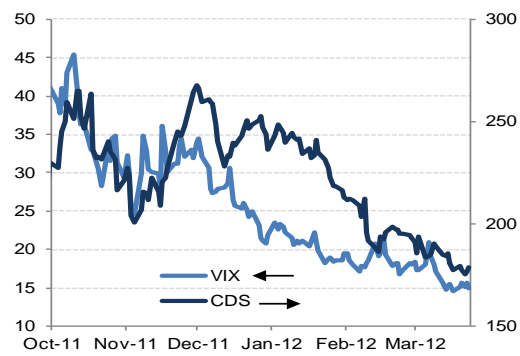
Financial Markets

Graph 9
Stocks
(Index, KBW)



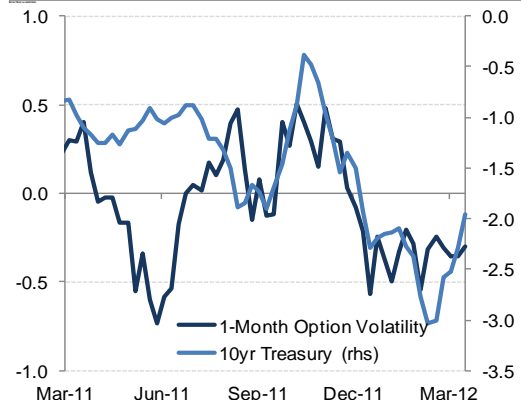
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



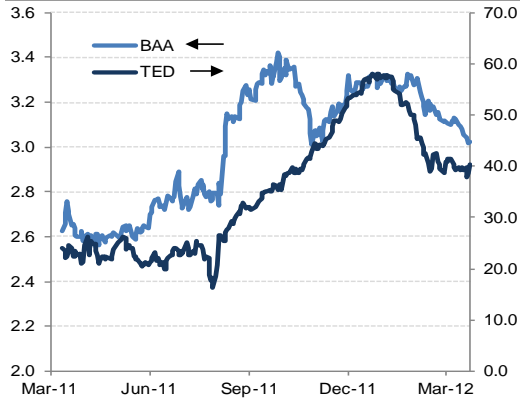
Source: Bloomberg & BBVA Research

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



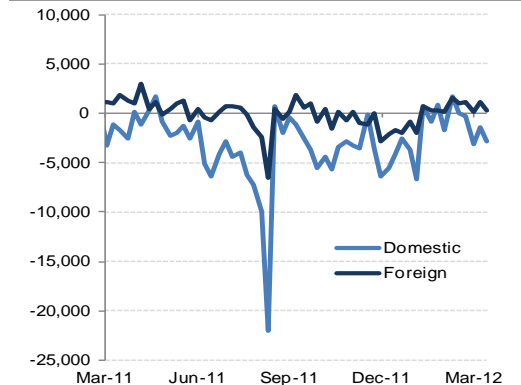
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



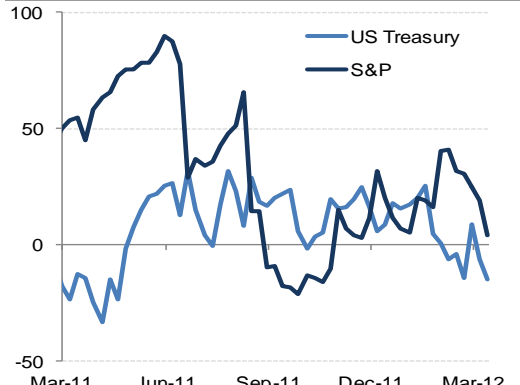
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

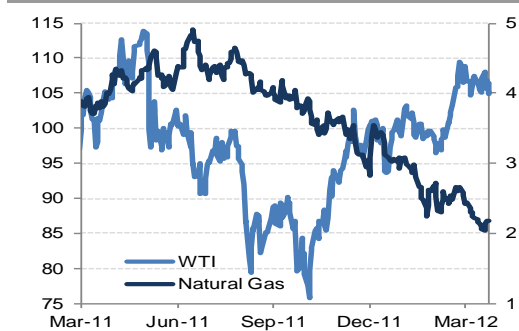
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Bloomberg & BBVA Research

Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



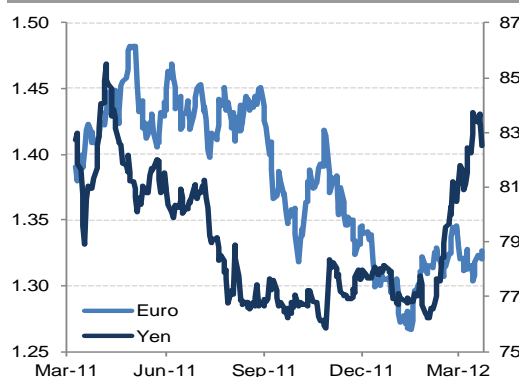
Source: Bloomberg & BBVA Research

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



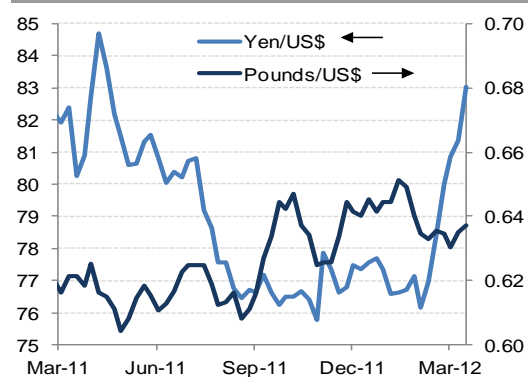
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



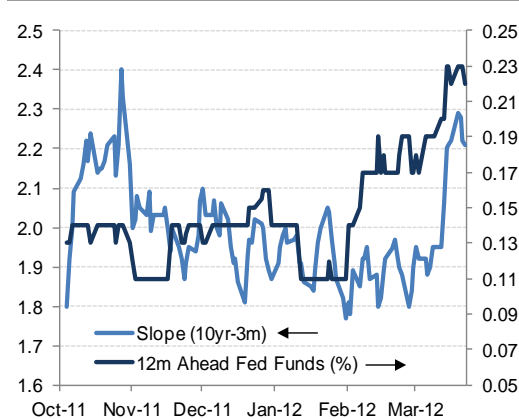
Source: Bloomberg & BBVA Research

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



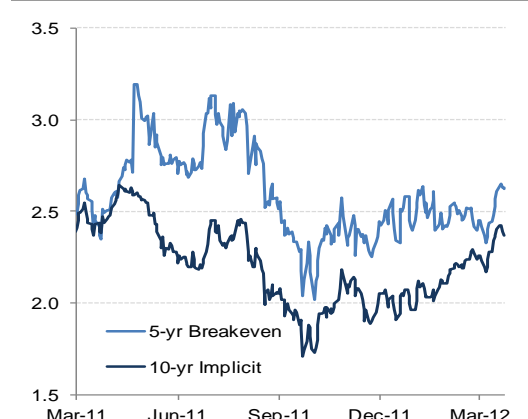
Source: BBVA Research

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	14.10	13.73
New Auto (36-months)	3.18	3.18	3.73	4.77
Heloc Loan 30K	5.53	5.54	5.53	5.48
5/1 ARM*	2.96	2.83	2.80	3.62
15-year Fixed Mortgage*	3.30	3.16	3.19	4.04
30-year Fixed Mortgage*	4.08	3.92	3.95	4.81
Money Market	0.73	0.73	0.47	0.63
2-year CD	0.90	0.90	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	0.15	0.09	0.13
3M Libor	0.47	0.47	0.49	0.31
6M Libor	0.74	0.74	0.75	0.46
12M Libor	1.05	1.05	1.07	0.78
2yr Sw ap	0.61	0.62	0.62	0.93
5yr Sw ap	1.33	1.35	1.17	2.38
10Yr Sw ap	2.31	2.35	2.08	3.55
30yr Sw ap	3.01	3.10	2.80	4.27
7day CP	0.15	0.24	0.22	0.21
30day CP	0.20	0.33	0.36	0.25
60day CP	0.25	0.40	0.44	0.28
90day CP	0.31	0.45	0.48	0.28

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Bernanke, Federal Reserve Chairman
Bernanke Says Central Banks Should Learn More About Policy Tools
23 March 2012

"In the wake of the crisis, the Federal Reserve and other regulatory agencies have been charged with challenging new responsibilities in the area of macroprudential supervision, with the objective of promoting financial stability and reducing the likelihood and the costs of a future financial crisis. Although much progress has been made, we are still at an early stage in understanding how best to meet these new macroprudential responsibilities."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
26-Mar	Chicago Fed National Activity Index	FEB	0.25	--	0.22
26-Mar	Pending Home Sales (MoM)	FEB	1.30%	1.00%	2.00%
26-Mar	Dallas Fed Manufacturing Survey	MAR	18.50	16.00	17.80
27-Mar	S&P Case-Shiller HPI (YoY)	JAN	-3.60%	-3.80%	-4.00%
27-Mar	Consumer Confidence	MAR	70.50	70.00	70.80
28-Mar	Durable Goods Orders	FEB	2.20%	3.00%	-4.00%
28-Mar	Durable Goods Orders Ex Transportation	FEB	1.00%	1.70%	-3.20%
29-Mar	GDP QoQ Annualized	4Q F	3.00%	3.00%	3.00%
29-Mar	Personal Consumption	4Q F	2.10%	2.10%	2.10%
29-Mar	GDP Price Index	4Q F	0.90%	0.90%	0.90%
29-Mar	Core PCE QoQ	4Q F	1.30%	1.30%	1.30%
29-Mar	Initial Jobless Claims	24-Mar	345K	350K	355K
29-Mar	Continuing Claims	17-Mar	3370K	3350K	3352K
30-Mar	Personal Income	FEB	0.30%	0.40%	0.30%
30-Mar	Personal Spending	FEB	0.60%	0.60%	0.20%
30-Mar	PCE Core (MoM)	FEB	0.10%	0.10%	0.20%
30-Mar	PCE Core (YoY)	FEB	1.90%	1.90%	1.90%
30-Mar	Chicago PMI	MAR	64.50	63.00	64.00
30-Mar	U. of Michigan Consumer Sentiment	MAR	74.50	74.70	74.30

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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