

# US Weekly Flash

## Highlights

### • Real GDP Growth Unchanged at 3.0% for 4Q11

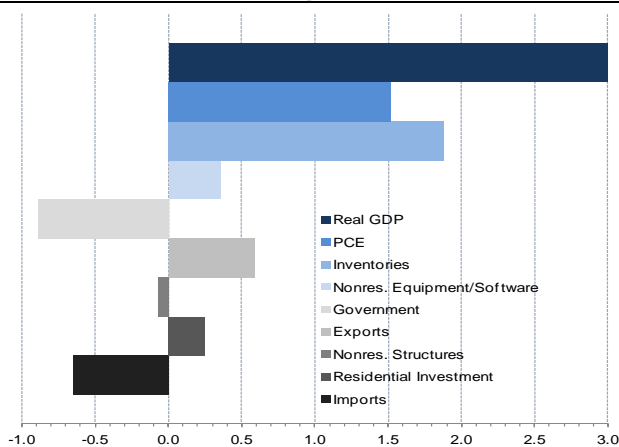
- The final estimate for real GDP growth in 4Q11 was unchanged from the advance figure, remaining at 3.0% QoQ annualized on a seasonally-adjusted basis. At this rate, economic activity in the fourth quarter expanded at the fastest pace since 2Q10.
- In regards to the major components, final sales to domestic purchasers were revised up slightly from 1.1% to 1.3%, reflecting somewhat stronger internal demand for the end of 2011. Personal consumption expenditures were unchanged at 2.1%. Nonresidential fixed investment was revised up to 5.2% from the advance estimate of 2.8%, although the final figure stands at only one-third of the rate in 3Q11. This upward revision offset a downward revision in export growth, from 4.3% to 2.7%, with the final estimate reaching the lowest rate of the recovery. Exports have rebounded slightly in 1Q12, however, the trade balance continues to deteriorate.
- This final estimate confirms the previously reported 1.7% annual growth for 2011. For 2012, we expect that growth will accelerate slightly but remain below the 3.0% annual rate seen in 2010. Looking at the first quarter of 2012, some of the momentum from 4Q11 appears to have carried over, although we have seen activity slowing in some areas. In particular, improvements in the employment situation may be slowing, with initial jobless claims data hovering near the 350K level all throughout March. Still, we expect that economic activity should rebound in 2Q12.

### • Impact of Rising Gas Prices on Consumer Activity Less-Than-Expected

- Personal income increased 0.2% in February for the second consecutive month, led mostly by a 0.3% increase in the wages and salaries component. Consumer spending jumped 0.8%, partially inflated by high gas prices. However, real spending jumped 0.5% for the month, suggesting that rising prices have not completely discouraged consumer activity. Also, real PCE was revised upward in January, from no-growth to 0.2%. A similar PCE increase in March could push up our forecast for 1Q12 GDP, though we continue to expect that growth will be slower than 4Q11.
- Consumer sentiment increased to 76.2 in March from 74.3 in the beginning of the month, highlighting improvements in personal financial and employment conditions. The expectations component fell slightly but was offset by gains in current conditions, with consumers noting a less significant impact of rising gas prices on activity.

Graph 1

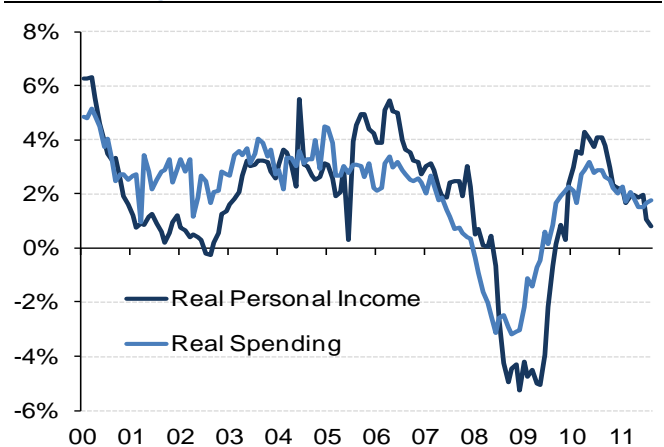
**Contributions to Real GDP Growth (4Q11 Final, SAAR Percentage Points)**



Source: Bureau of Economic Analysis & BBVA Research

Graph 2

**Real Personal Income and Spending (YoY % Change)**



Source: Bureau of Economic Analysis & BBVA Research

## Week Ahead

### ISM Manufacturing Index (March, Monday 10:00 ET)

Forecast: 52.5

Consensus: 53.0

Previous: 52.4

The ISM Manufacturing Index is expected to increase very slightly in March after declining in February for the first time in four months. Still, the index remains above the 50-mark to indicate continued expansion in the sector, just at a slightly slower pace. Most components declined in February, including new orders and production, yet an increase in new export orders suggests that any impacts stemming from the troubles in Europe appear to be subsiding. Regional Federal Reserve manufacturing surveys for March have been mixed, noting further slowing in new orders for the month.

### ISM Non-Manufacturing Index (March, Wednesday 10:00 ET)

Forecast: 57.0

Consensus: 56.8

Previous: 57.3

The services sector has outperformed manufacturing in recent months, with the ISM Non-Manufacturing Index jumping back near the pre-recession peak. The index increased in February for the fifth consecutive month, mostly due to a rise in new orders and business activity that conflicts with the manufacturing report. The non-manufacturing employment index slowed in February but remained above 50 for the second consecutive month, and we expect the data to be similar in March. In general, we expect the pace of economic activity to slow slightly in March but remain above levels seen in 4Q11.

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

Forecast: 200K, 8.3%

Consensus: 205K, 8.3%

Previous: 227K, 8.3%

Employment data has surprised to the upside in recent months, yet we do not expect significant improvements to continue in March. Initial jobless claims have declined steadily throughout the month, but at a slower pace compared to February. Furthermore, recent consumer confidence reports suggest a mixed employment outlook, with slightly deteriorating attitudes toward job availability and a more pessimistic view regarding future income. While some manufacturing surveys have noted gains in the number of employees, others reported a drop in the average workweek. Ultimately, we do not expect nonfarm payrolls to increase enough to influence a decline in the unemployment rate.

### Consumer Credit (February, Friday 15:00 ET)

Forecast: \$14.0B

Consensus: \$12.0B

Previous: \$17.8B

Gradual improvements in labor market conditions, rising consumer confidence, and strong auto demand are helping to boost consumer lending thus far in 2012. Over the past five months, total outstanding consumer credit has increased nearly \$70.0B on a seasonally adjusted basis and is approaching the historical peak reached in July 2008. Nonrevolving credit has been the main driver, and strength in February auto sales should indicate another gain for this component. Annual growth rates have accelerated, with revolving finally crossing into positive territory. However, consumers may be more conservative in their willingness to take on more credit card debt, with rising gas prices likely deterring big spending.

### Market Impact

Markets will be particularly focused on the employment report for March, which could signal whether the better-than-expected improvements will persist. The ISM indices may cause some market anxiety if they indicate a slowdown in the economic momentum gained in recent months. The FOMC meeting minutes on Tuesday will also warrant some attention as markets look for more details regarding the different monetary policy tools that could be implemented when Operation Twist ends in June. The minutes may also highlight Bernanke's concerns about the employment situation, which will keep markets on edge as they await Friday's payroll report.

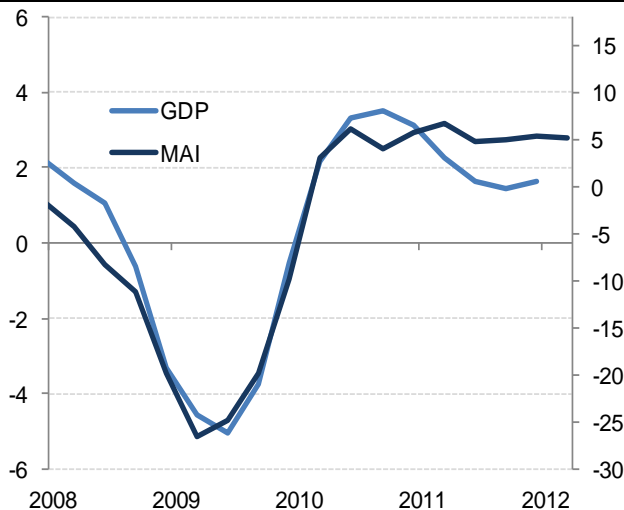
# Economic Trends

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



Source: BBVA Research

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



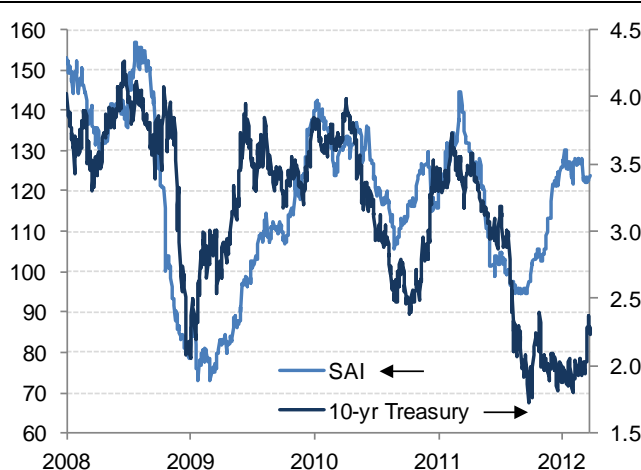
Source: BBVA Research & BEA

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



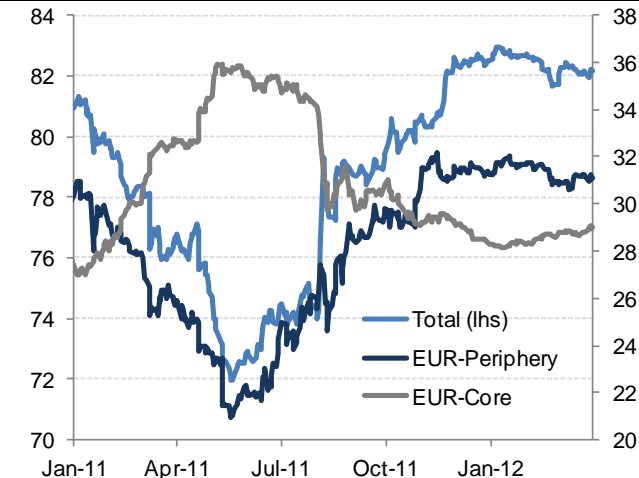
Source: BBVA Research

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



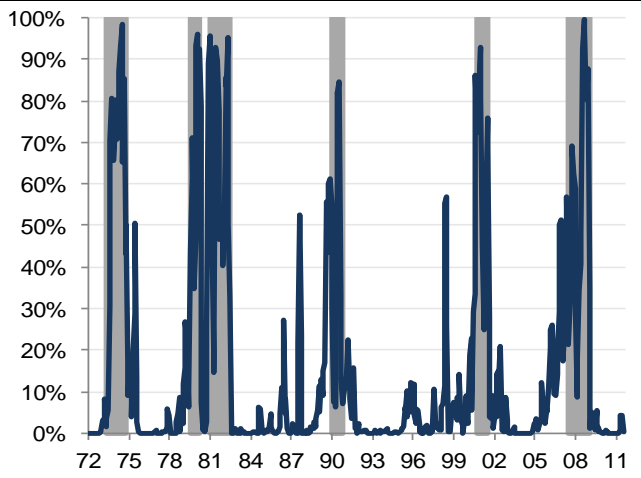
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

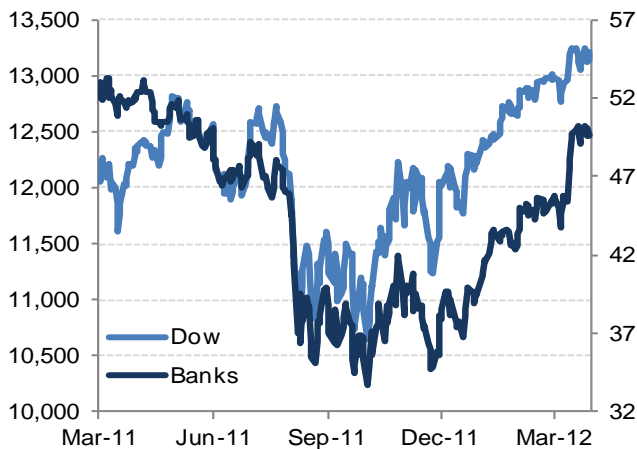
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

# Financial Markets

Graph 9  
Stocks  
(Index, KBW)



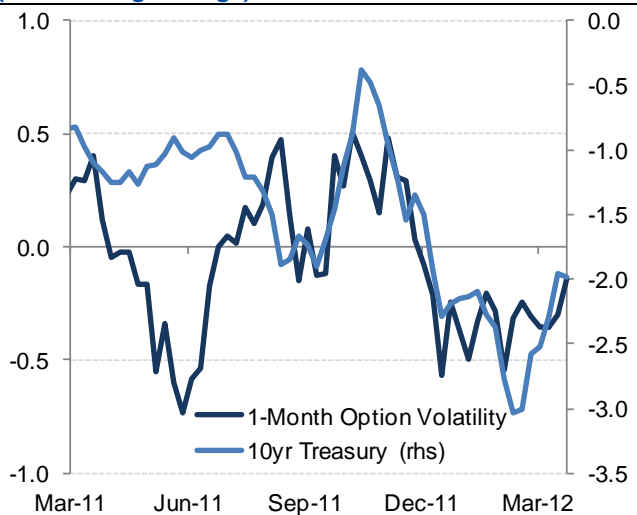
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS  
(Indices)



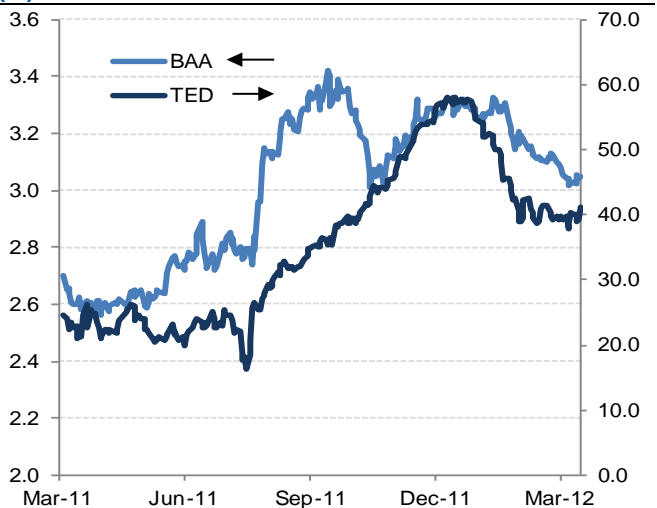
Source: Bloomberg & BBVA Research

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



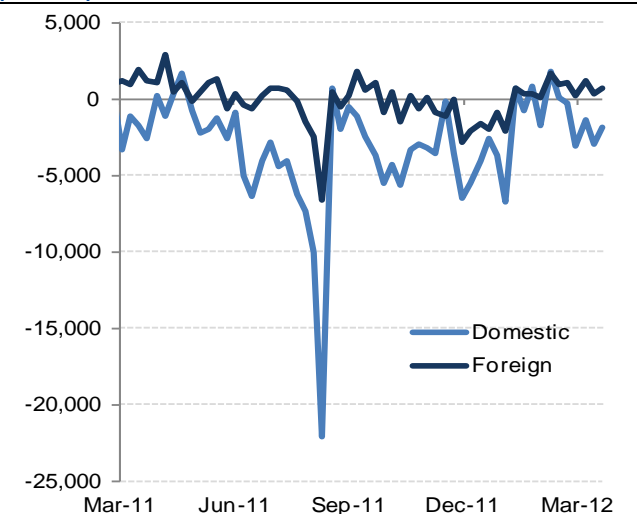
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads  
(%)



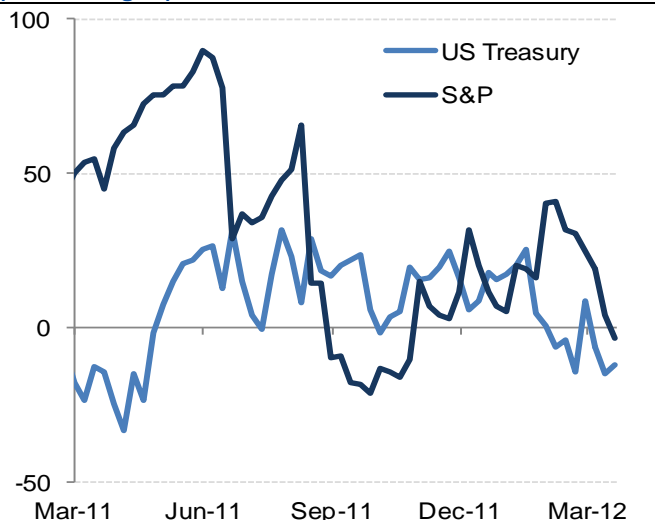
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

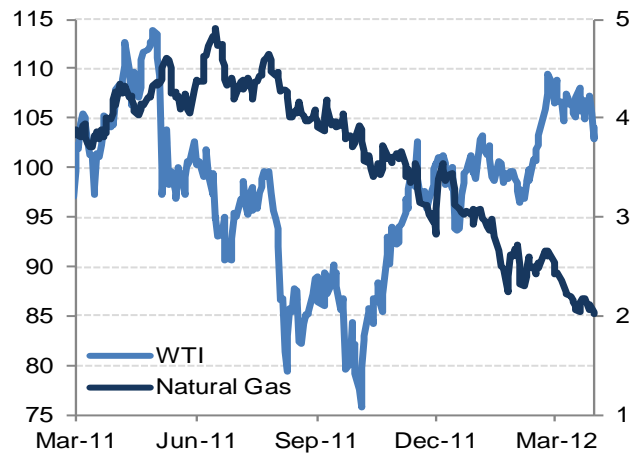
Graph 14  
Total Reportable Short & Long Positions  
(Short-Long, K)



Source: Haver Analytics & BBVA Research

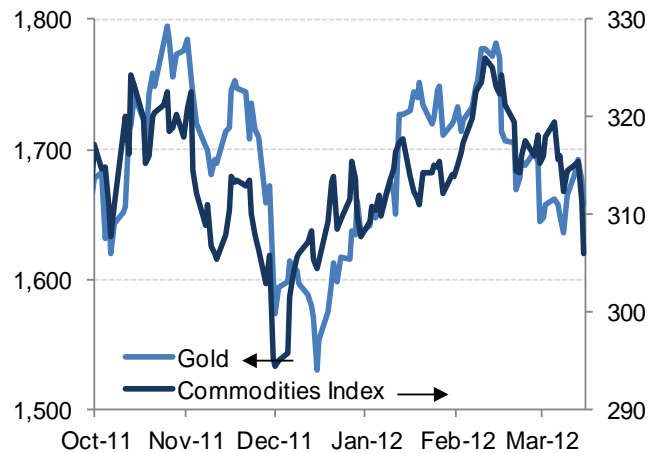
# Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



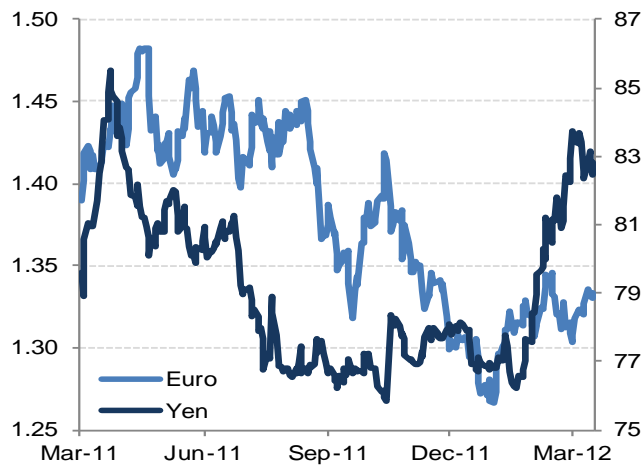
Source: Bloomberg & BBVA Research

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



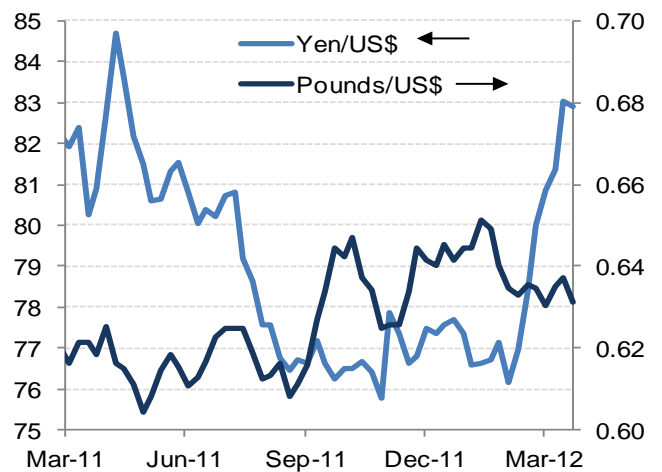
Source: Haver Analytics & BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



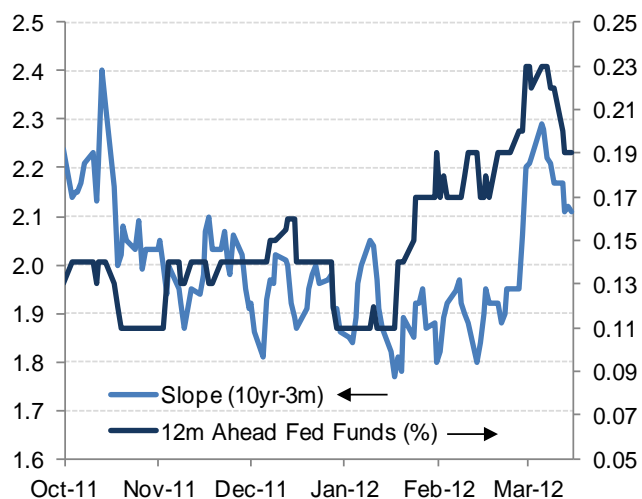
Source: Bloomberg & BBVA Research

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



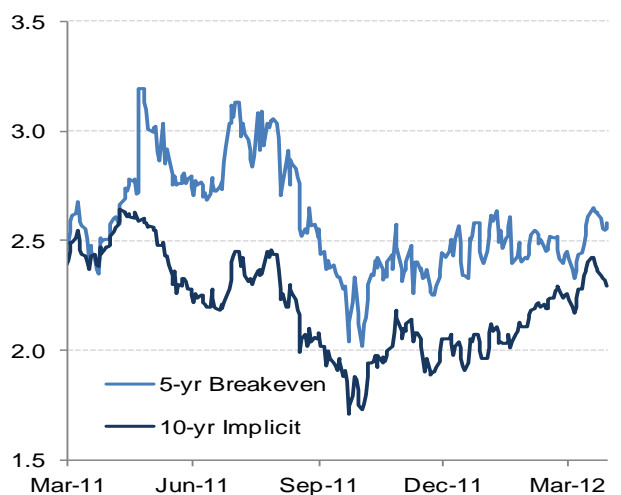
Source: Haver Analytics & BBVA Research

Graph 19  
**Fed Futures & Yield Curve Slope**  
(% & 10year-3month)



Source: Haver Analytics & 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)	3.12	3.18	3.54	4.28
Heloc Loan 30K	5.52	5.52	5.54	5.48
5/1 ARM*	2.90	2.96	2.83	3.70
15-year Fixed Mortgage*	3.23	3.30	3.17	4.09
30-year Fixed Mortgage*	3.99	4.08	3.90	4.86
Money Market	0.73	0.73	0.76	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 1  
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.13	0.14	0.11	0.11
3M Libor	0.47	0.47	0.48	0.30
6M Libor	0.73	0.74	0.75	0.46
12M Libor	1.05	1.05	1.06	0.79
2yr Sw ap	0.58	0.61	0.52	0.98
5yr Sw ap	1.28	1.34	1.10	2.45
10Yr Sw ap	2.30	2.31	2.06	3.55
30yr Sw ap	3.05	3.01	2.80	4.27
7day CP	0.21	0.15	0.25	0.16
30day CP	0.32	0.20	0.37	0.30
60day CP	0.41	0.25	0.44	0.33
90day CP	0.48	0.31	0.48	0.28

Source: Bloomberg & BBVA Research

## Quote of the Week

Jeffrey Lacker, Federal Reserve Bank of Richmond President  
Lacker Says Fed is 'Really Far' From Need for More Stimulus  
30 March 2012

*"Easing moves are part of the arsenal, part of the toolkit, and there are conditions that one could conceive of when you would pull them out and enact them. I think we are really far from that right now. If we get growth about what I am expecting, I don't see where the rationale for further easing is going to come from."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-Apr	ISM Manufacturing	MAR	52.5	53.0	52.4
2-Apr	Construction Spending (MoM)	FEB	0.5%	0.7%	-0.1%
3-Apr	Total Vehicle Sales	MAR	14.9M	14.5M	15.1M
3-Apr	Domestic Vehicle Sales	MAR	11.2M	11.3M	11.4M
3-Apr	Factory Orders	FEB	2.0%	1.5%	-1.0%
4-Apr	ADP Employment	MAR	205K	203K	216K
4-Apr	ISM Non-Manufacturing	MAR	57.0	56.8	57.3
5-Apr	Initial Jobless Claims	31-Mar	355K	356K	359K
5-Apr	Continuing Claims	24-Mar	3360K	3328K	3340K
6-Apr	Change in Nonfarm Payrolls	MAR	200K	205K	227K
6-Apr	Change in Private Payrolls	MAR	210K	222K	233K
6-Apr	Change in Manufacturing Payrolls	MAR	20K	20K	31K
6-Apr	Unemployment Rate	MAR	8.3%	8.3%	8.3%
6-Apr	Average Hourly Earning (MoM)	MAR	0.2%	0.2%	0.1%
6-Apr	Consumer Credit	FEB	\$14.0B	\$12.0B	\$17.8B

# 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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