

US Weekly Flash

Highlights

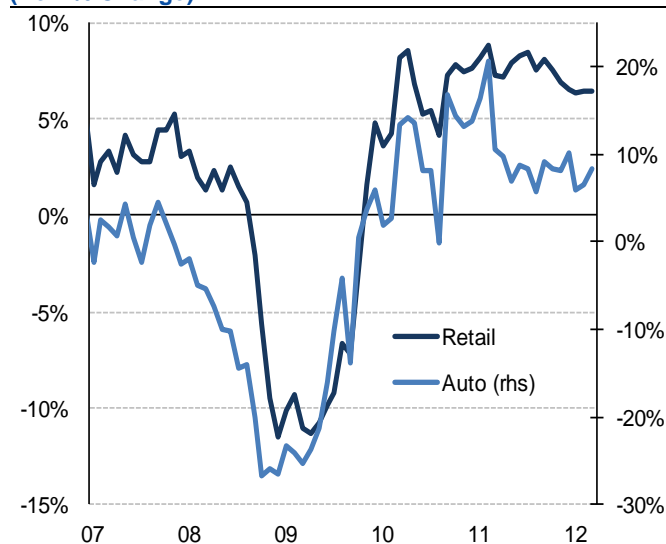
• Consumer Activity Healthy in March, Future Gains May be Limited

- Retail sales beat consensus expectations in March, up 0.8% for the tenth consecutive month of gains. Auto sales surprised to the upside, increasing 0.9% despite a drop in unit sales data released in the previous week. Excluding autos, retail sales increased 0.8% showing widespread strength across the core components. Higher gas prices have clearly had an impact on the nominal figure, with sales up 1.1% following a 3.6% rise in February.
- Consumer confidence has been wavering in the past few months, though special factors appear to have encouraged retail spending. Slowing improvements in the employment situation did not hurt consumer activity in March, although another disappointing month for nonfarm payrolls will likely translate into lower real activity for April.

• Slowing Strength in the Manufacturing Sector

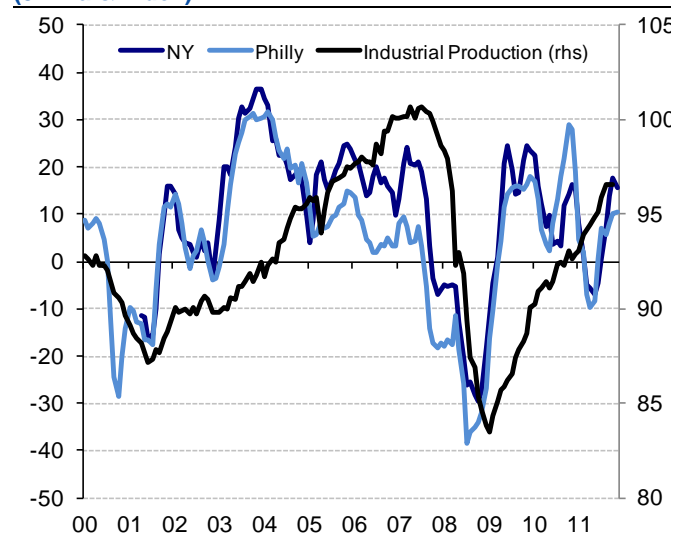
- Industrial production was flat in March for the second consecutive month, although the index remains near the highest of the recovery. On a positive note, mining and utilities output increased 0.2% and 1.5%, respectively. However, manufacturing declined 0.2% following three months of steady growth, a signal that activity in the sector may be slowing as we move into 2Q12. Auto production increased 0.6% but at a much slower rate compared to the strength seen in the previous three months.
- Regional manufacturing surveys from the Federal Reserve showed similar slowing in manufacturing activity. The Empire State Manufacturing Survey dropped from 20.21 in March to only 6.56 in April, while the Philly Fed index fell from 12.5 to 8.5. Both surveys continue to suggest increasing monthly activity but at a much slower pace compared to the first quarter of 2012. The surveys noted particular weakness in new orders and shipments, which is a disappointing sign for future production. Surprisingly, the employment components were strong in both regions and could point to stronger manufacturing payrolls for the month despite weakness in other areas. The six-month outlook is mixed, highlighting the uncertainty that continues to weigh on the economic recovery.

Graph 1
Retail & Auto Sales
(YoY % Change)



Source: U.S. Census Bureau & BBVA Research

Graph 2
Fed Manufacturing Surveys & Industrial Production
(3mma & Index)



Source: Federal Reserve & BBVA Research

Week Ahead

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

Forecast: -3.6%

Consensus: -3.5%

Previous: -3.8%

S&P Case-Shiller home prices are expected to remain weak in February compared to year-ago levels, though we may see a slight recovery on a monthly basis. On a YoY basis, price declines decelerated slightly in January but remained worse than rates seen in late 3Q11 and early 4Q11. Modest forward momentum in existing and new home sales has pushed up median prices, although foreclosures are still a pressing concern. In general, we do not expect significant improvement in home prices throughout 2012 given continuing downward pressure from distressed properties.

New Home Sales (March, Tuesday 10:00 ET)

Forecast: 315K

Consensus: 318K

Previous: 313K

New home sales declined in February to the lowest level in four months, yet we do not expect data in March to show much improvement. Existing home sales have been driving housing demand but fell slightly in March, an indication that overall home purchases may be slowing again. The homebuilder confidence index was unchanged for the month and continues to suggest weak activity, although the six-month outlook is more positive. Despite the fact that consumer activity has been picking up, weakness in the employment situation and household financial conditions may limit consumers' willingness to buy.

Gross Domestic Product, Advance (1Q12, Friday 8:30 ET)

Forecast: 2.4%

Consensus: 2.5%

Previous: 3.0%

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. The manufacturing sector continues to expand but at a slightly slower pace, with strength in durable goods relatively unchanged from the end of 2011. Business inventories have increased thus far throughout 1Q12 and are on pace for a slightly stronger contribution to growth. Housing sector gains have been limited, and continuous declines in construction spending in January and February will likely be a drag on GDP. On the other hand, real personal consumption expenditures, which had shown signs of little to no growth in the previous months, increased 0.5% in February following upward revisions to data in both December and January. Thus far, consumption has been stronger than the 4Q11 average, and positive consumer data suggest similar growth in March. Finally, the trade balance recovered in February from a significant deterioration in January, and we expect that exports will finish off the quarter on a positive note.

Employment Cost Index (1Q12, Friday 8:30 ET)

Forecast: 0.6%

Consensus: 0.5%

Previous: 0.4%

The Employment Cost Index is expected to increase in 1Q12 at a slightly faster pace than in 4Q11 but will remain low compared to historical trends. On a monthly basis, growth in average hourly earnings has outpaced that of the previous quarter, although real earnings have declined for three consecutive months. The wages and salaries component of personal income has increased at a similar pace compared to 4Q11, but continued weakness in employment conditions have limited significant growth in labor costs. Given the latest inflation data, particularly the increasing costs for healthcare and benefits, we expect that the employment cost index will continue to increase on a nominal basis.

Market Impact

A first look at 1Q12 GDP growth will be the central focus this week, as will the FOMC meeting, with markets on alert for disclosure of any changes to the economic outlook that may influence future policy action. Still, we do not expect that the Fed will change its accommodative stance at this time. Other data will warrant little market reaction unless trends take a severe turn for the worse.

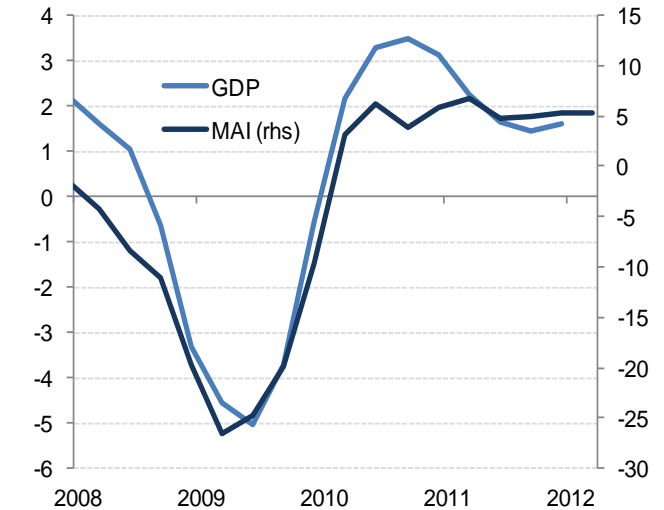
Economic Trends

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



Source: BBVA Research

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



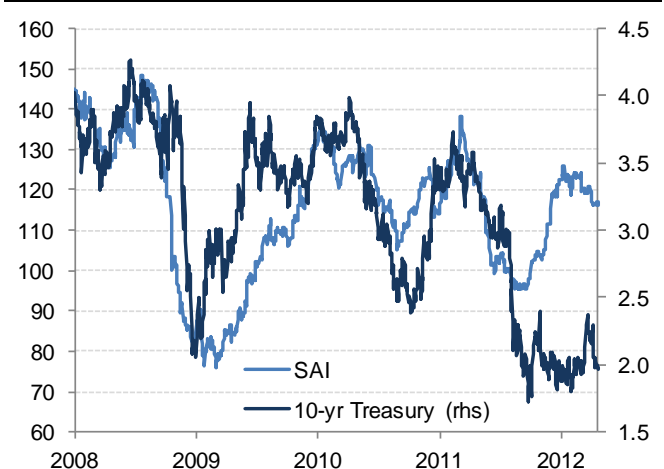
Source: BBVA Research & BEA

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



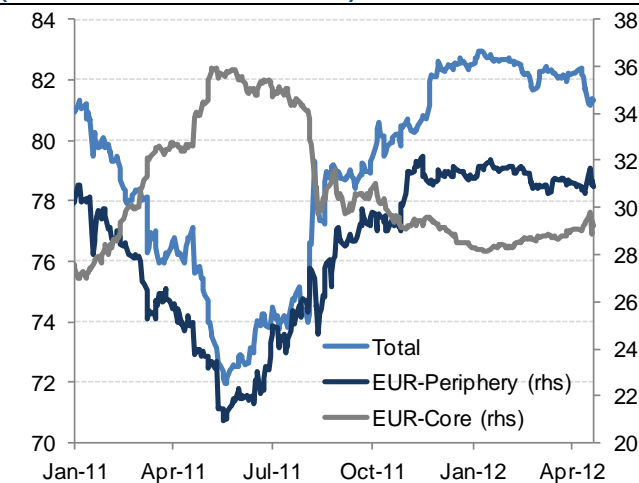
Source: BBVA Research

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



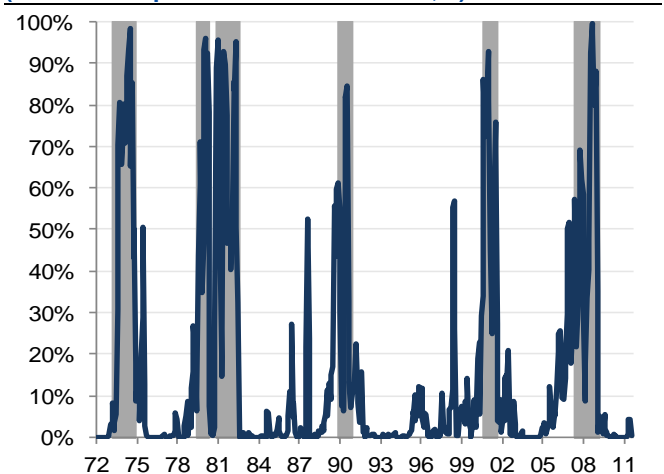
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

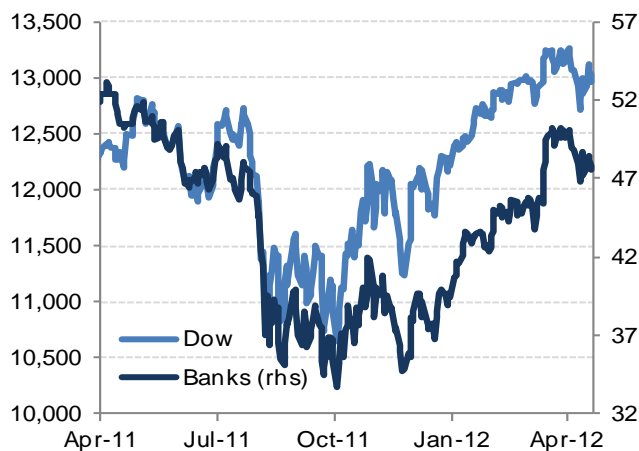
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

Financial Markets

Graph 9
Stocks
(Index, KBW)



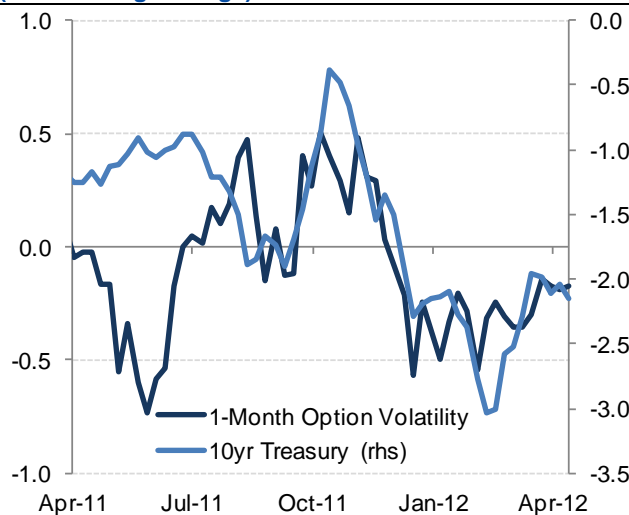
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



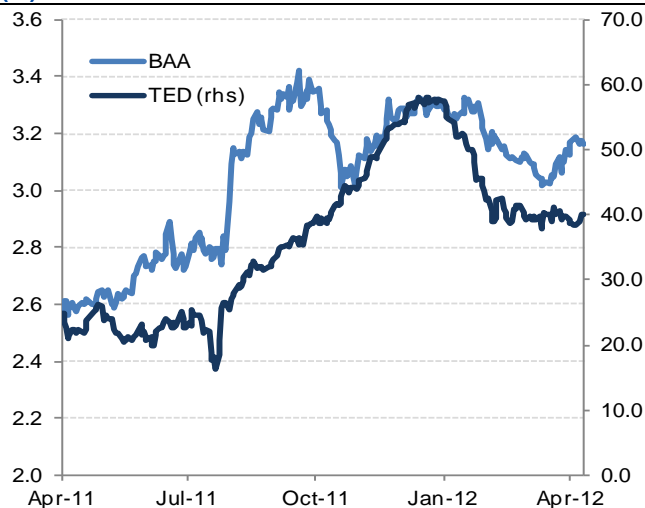
Source: Bloomberg & BBVA Research

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



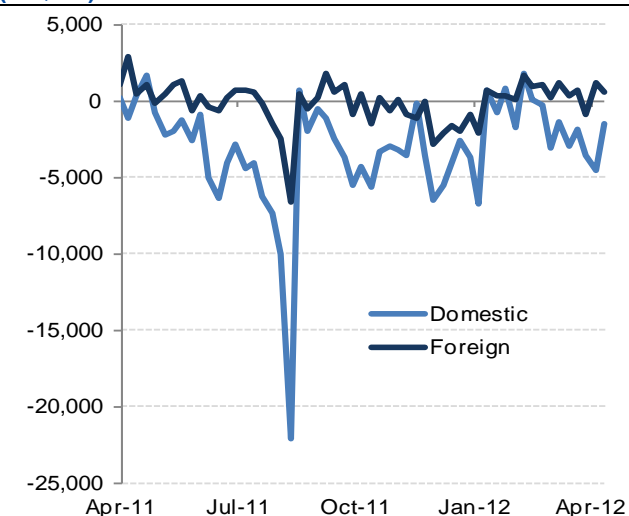
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



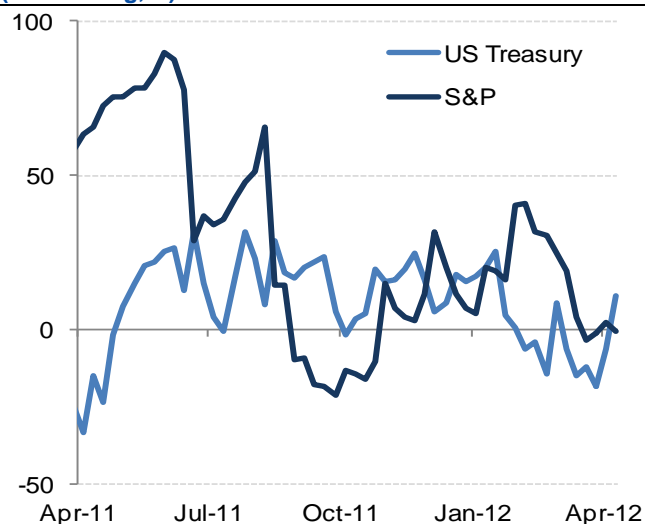
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

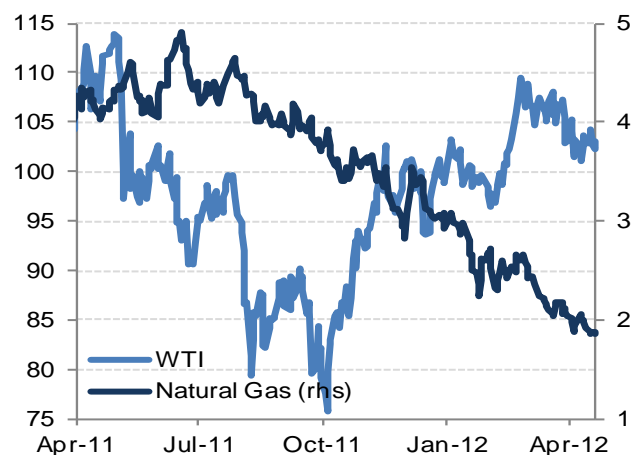
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

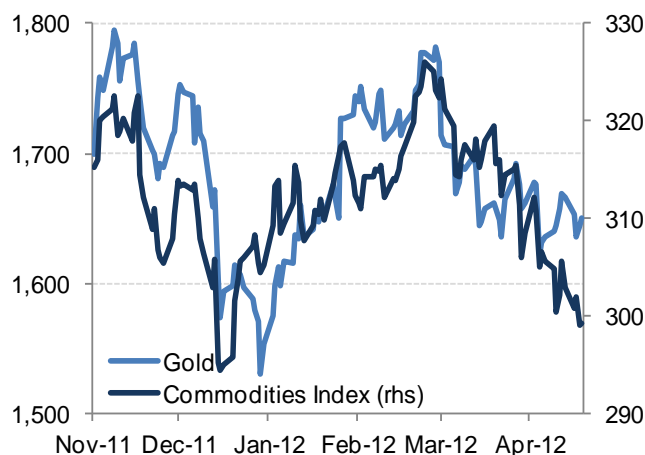
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



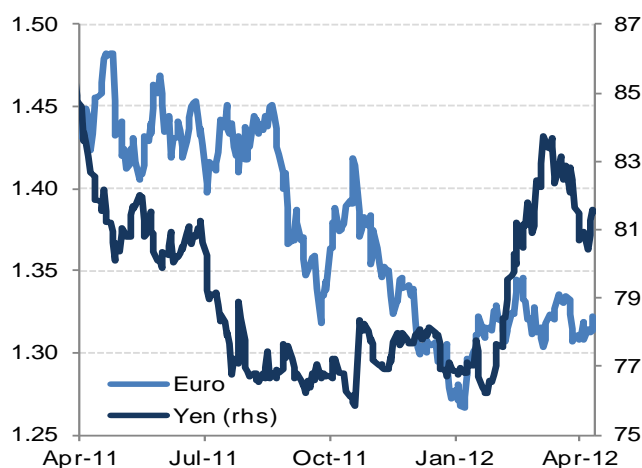
Source: Bloomberg & BBVA Research

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



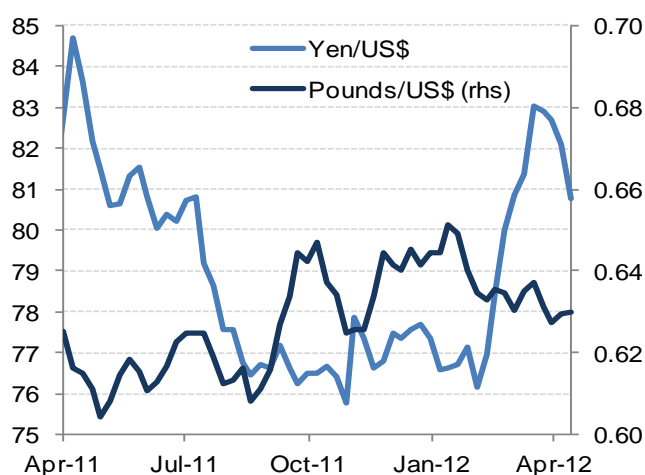
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



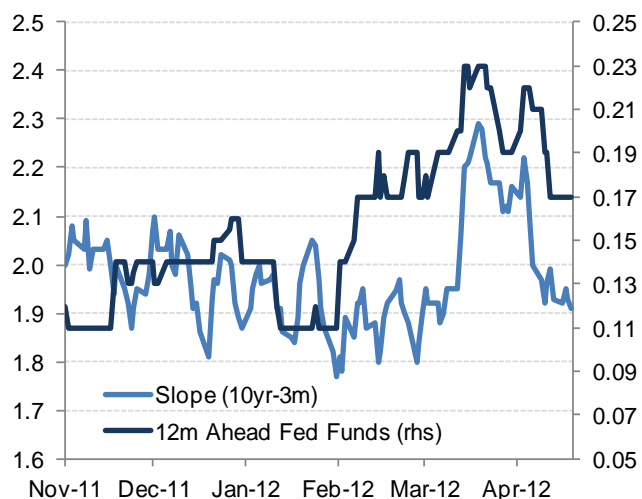
Source: Bloomberg & BBVA Research

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



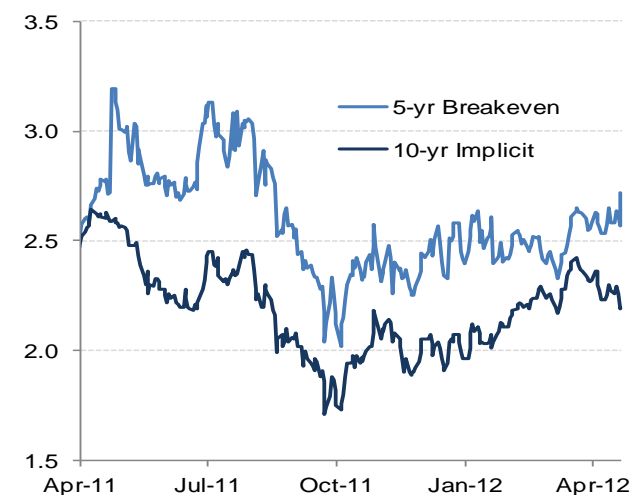
Source: Haver Analytics & BBVA Research

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)	3.16	3.14	3.18	4.17
Heloc Loan 30K	5.47	5.46	5.52	5.47
5/1 ARM*	2.78	2.85	2.96	3.61
15-year Fixed Mortgage *	3.13	3.11	3.30	4.02
30-year Fixed Mortgage *	3.90	3.88	4.08	4.80
Money Market	0.73	0.73	0.73	0.65
2-year CD	0.90	0.90	0.90	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	0.15	0.14	0.10
3M Libor	0.47	0.47	0.47	0.27
6M Libor	0.73	0.73	0.74	0.43
12M Libor	1.05	1.05	1.05	0.76
2yr Sw ap	0.58	0.57	0.61	0.84
5yr Sw ap	1.14	1.15	1.34	2.30
10Yr Sw ap	2.07	2.10	2.31	3.48
30yr Sw ap	2.82	2.83	3.01	4.24
7day CP	0.21	0.25	0.15	0.12
30day CP	0.25	0.28	0.20	0.21
60day CP	0.36	0.36	0.25	0.25
90day CP	0.46	0.45	0.31	0.24

Source: Bloomberg & BBVA Research

Quote of the Week

Timothy Geithner, U.S. Treasury Secretary
Geithner Says U.S. Plays Key Role Helping Europe
18 April 2012

"The IMF is in a very good position... to demonstrate to the world that... it has the ability to raise additional finance from other countries very, very quickly if it needs to do that. I think that's good because that will prove to the world that there's a substantial capacity that can reinforce what Europeans are doing and help cushion, if necessary, the effects of any European trauma on the rest of the world. What we did not want to see is people look to the IMF as a way to substitute for a more forceful European response."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
24-Apr	S&P Case-Shiller HPI (YoY)	FEB	-3.60%	-3.50%	-3.80%
24-Apr	New Home Sales	MAR	315K	318K	313K
24-Apr	New Home Sales (MoM)	MAR	0.63%	1.60%	-1.60%
24-Apr	Consumer Confidence	APR	70.00	69.80	70.20
25-Apr	Durable Goods Orders	MAR	-1.00%	-1.70%	2.20%
25-Apr	Durable Goods Orders Ex Transportation	MAR	0.50%	0.50%	1.60%
25-Apr	FOMC Meeting Announcement	APR	0.25%	0.25%	0.25%
26-Apr	Initial Jobless Claims	21-Apr	375K	375K	386K
26-Apr	Continuing Claims	14-Apr	3310K	3284K	3297K
26-Apr	Chicago Fed National Activity Index	MAR	-0.15	--	-0.09
26-Apr	Pending Home Sales (MoM)	MAR	0.50%	1.10%	-0.50%
27-Apr	GDP QoQ Annualized	1Q12 A	2.40%	2.50%	3.00%
27-Apr	Personal Consumption	1Q12 A	2.30%	2.30%	2.10%
27-Apr	GDP Price Index	1Q12 A	2.20%	2.20%	0.90%
27-Apr	Core PCE QoQ	1Q12 A	2.10%	2.10%	1.30%
27-Apr	Employment Cost Index (QoQ)	1Q12	0.60%	0.50%	0.40%
27-Apr	U. of Michigan Consumer Sentiment	APR	75.50	75.70	75.70

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.5	2.2	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.3	7.9	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.5	2.7	3.1
US Dollar/ Euro (eop)	1.31	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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