

# US Weekly Flash

## Highlights

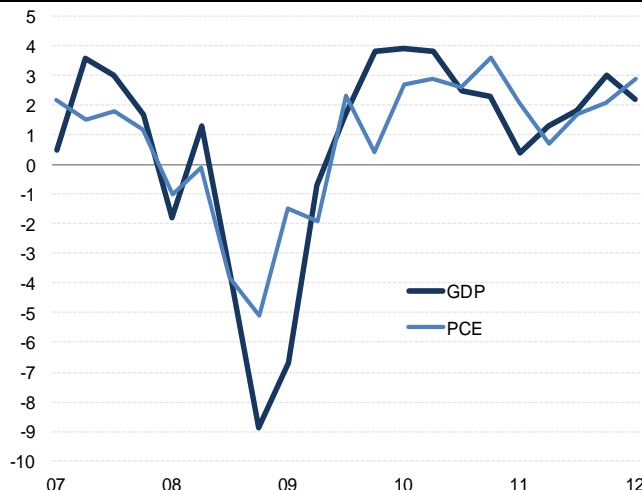
### • Real PCE Drives GDP Growth in 1Q12

- The first estimate for 1Q12 real GDP growth came in at 2.2% QoQ annualized on a seasonally-adjusted basis, driven in large part by 2.9% growth in personal consumption expenditures (PCE). The lower-than-expected figure was likely a result of contractions in government spending and nonresidential fixed investment, which declined 3.0% and 2.1%, respectively. Also, the positive contribution from the change in real private inventories was much smaller compared to the fourth quarter. However, excluding inventories, which were a primary driver of the 3.0% growth in 4Q11, first quarter GDP growth was slightly stronger.
- Overall, this advance estimate is supportive of our economic outlook for the year and we do not expect that the news will have any immediate impact on the Federal Reserve's accommodative stance. As always, we await the final trade, inventory, and PCE data to provide a better gauge for the second and third GDP revisions

### • A Slightly More Centrist FOMC with Lower QE Probability

- The latest FOMC statement revealed an upgrade to the Fed's 2012 GDP forecast, but a downgrade in the 2013 and 2014 forecasts. The Fed also increased their outlook for inflation given recent increases in commodity prices, though inflation should reside at or below their long-run inflation target by year end.
- Given ongoing risks to the outlook (i.e. European sovereign debt issues) and persistent drags on growth (i.e. US fiscal consolidation and a depressed housing sector), conditions still warrant low interest rates for a long period of time. Within the overview of FOMC participants' assessments of appropriate monetary policy, the major change today was a retreat of two participants away from a 2016 policy firming. This reveals gravitation towards the centrist view of the FOMC.
- Given a "gradual" decline in the unemployment rate and a "pickup" in economic activity expectations, the probability of additional large-scale asset purchases has declined. Naturally, if financial conditions deteriorate or growth is derailed by one of many persistent drags on the economy, quantitative easing remains "on the table" as a policy option.

Graph 1  
**U.S. Real GDP and PCE Growth**  
SAAR QoQ % Change



Source: Bureau of Economic Analysis & BBVA Research

Graph 2  
**Federal Reserve Forecasts: April 25 FOMC Statement**  
Central Tendency

Apr 2012 FOMC Projections				
	2012	2013	2014	Long-term
<b>GDP, 4Q yoy % change</b>				
Low	2.4	2.7	3.1	2.3
High	2.9	3.1	3.6	2.6
<b>Unemployment rate, 4Q %</b>				
Low	7.8	7.3	6.7	5.2
High	8.0	7.7	7.4	6.0
<b>Core PCE, 4Q yoy % change</b>				
Low	1.8	1.7	1.8	---
High	2.0	2.0	2.0	---

Source: Federal Reserve & BBVA Research

# Week Ahead

## Personal Income and Outlays (March, Monday 8:30 ET)

Forecast: 0.2%, 0.4%	Consensus: 0.3%, 0.4%	Previous: 0.2%, 0.8%
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Personal income and outlays are expected to increase in March at a similar rate as in February. Despite slowing improvements in the employment situation, average earnings growth is steady and suggests that personal income will follow suit. High gas prices have been driving personal spending throughout the past few months, which increased in February at the fastest rate since August 2009. In real terms, personal spending has surprised to the upside and has thus far increased at a faster pace than the 4Q11 average. However, real income levels have declined in the past two months and support recent consumer concerns regarding future income. Still, we expect that nominal income and spending will finish off the first quarter of 2012 on a positive note.

## ISM Manufacturing Index (April, Tuesday 10:00 ET)

Forecast: 53.0	Consensus: 53.0	Previous: 53.4
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Manufacturing activity has been a primary driver of the economic recovery, yet the momentum appears to be slowing. The ISM Manufacturing Index increased more than expected in March despite slowing in new orders and production, however, we expect that overall expansion in the sector will decelerate slightly in April. Regional Federal Reserve surveys have noted similar trends for the month, with most indices declining but remaining marginally above the expansion threshold. The majority of manufacturing reports have noted particular strength in the employment components, which is likely to continue despite the lower expectations for total nonfarm payroll growth.

## ISM Non-Manufacturing Index ( April, Thursday 10:00 ET )

Forecast: 55.0	Consensus: 55.5	Previous: 56.0
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The ISM Non-Manufacturing Index is expected to decline slightly in April in line with general slowing in economic activity moving into 2Q12. In general, the services sector has been performing relatively well throughout the past few months, accelerating between November and February. Although the index declined slightly in March, the level remains above that of 2H11. Similar to manufacturing, most components of the services index declined in the past month with the exception of employment. Business confidence is still on the mend and we expect that this will limit significant gains in service activity for the next few months.

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

Forecast: 150K, 8.2%	Consensus: 168K, 8.2%	Previous: 120K, 8.2%
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Nonfarm payrolls are expected to accelerate slightly in April after the disappointing growth in March but still remain below growth rates seen earlier in the year. Recent manufacturing surveys have noted particular strength in employment, suggesting that the sector will likely give a healthy boost to private payrolls. Although initial jobless claims in April have remained below the 400K mark, they have thus far surpassed the average for March. Furthermore, mixed consumer confidence reports hint at a deteriorating outlook for employment and future income. The unemployment rate declined to 8.2% in March, primarily due to a drop in the labor force, but is expected to remain unchanged in April. However, the extremely low participation rate highlights the potential for an increasing unemployment rate throughout the coming months if more individuals enter (or re-enter) the workforce.

## Market Impact

Markets will be on alert for some relief in the employment situation, where a second month of worse-than-expected payrolls could incite some concern. In addition, another week of increasing initial jobless claims will certainly add to market anxiety. Personal spending data will also be of some importance given the relationship with GDP.

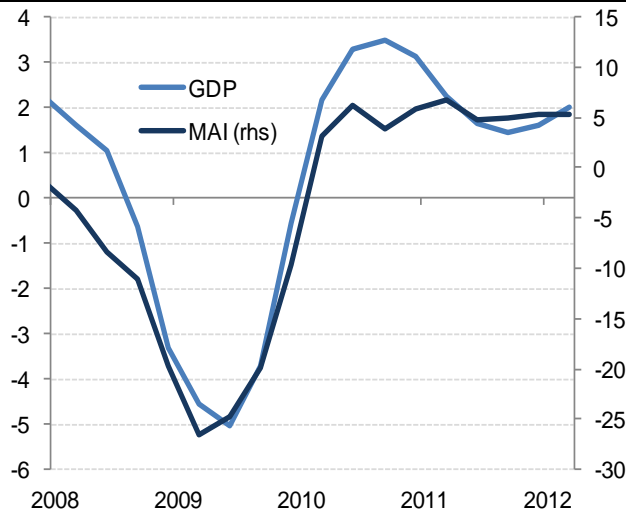
# Economic Trends

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



Source: BBVA Research

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



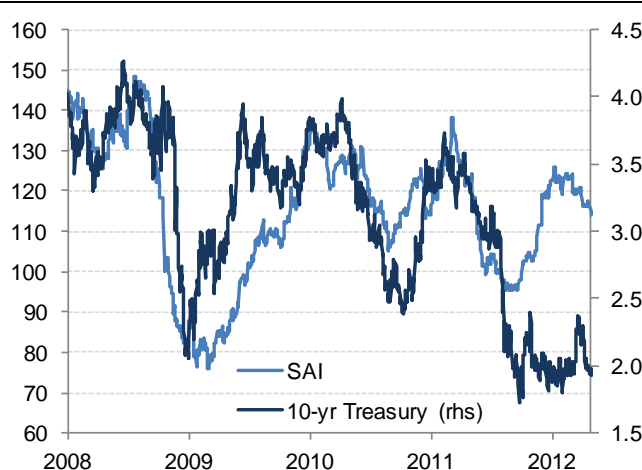
Source: BBVA Research & BEA

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



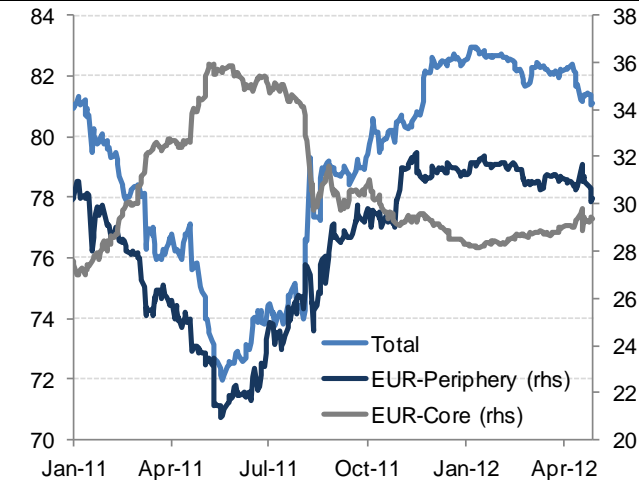
Source: BBVA Research

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



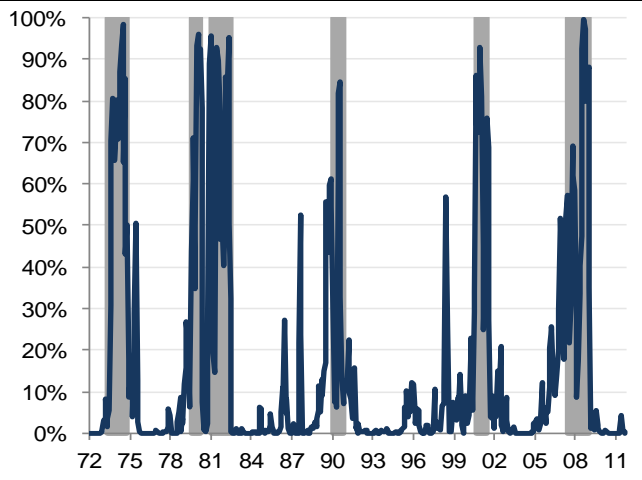
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

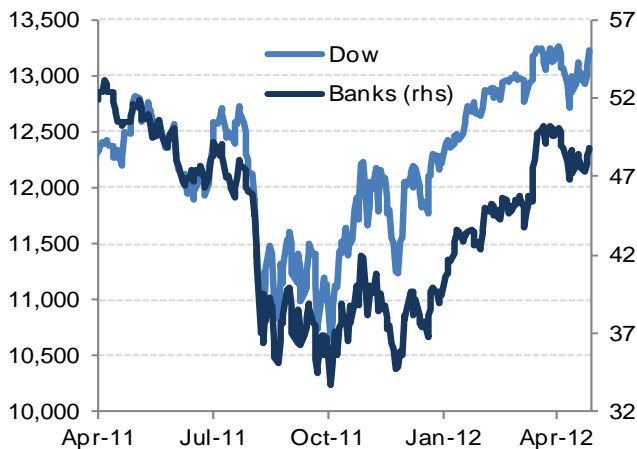
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

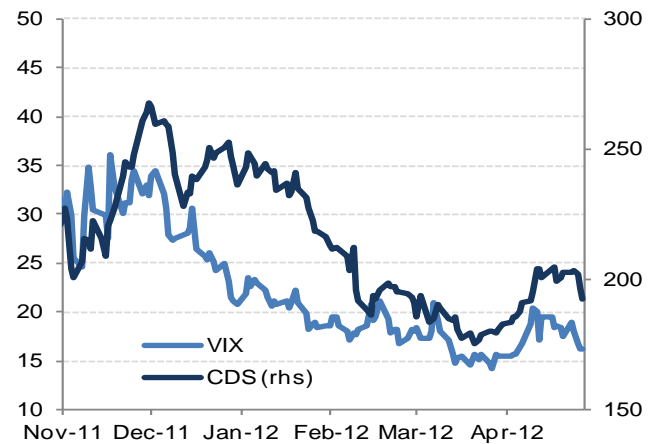
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



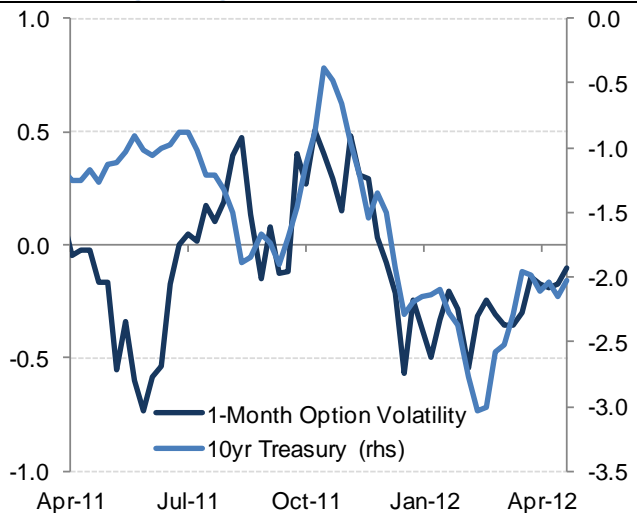
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



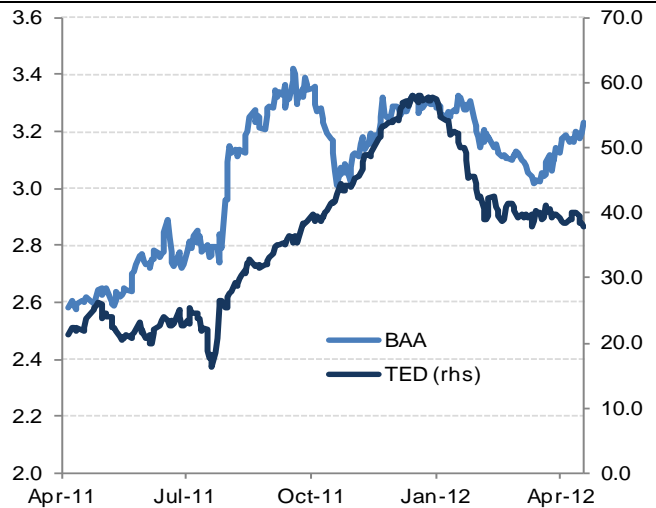
Source: Bloomberg & BBVA Research

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



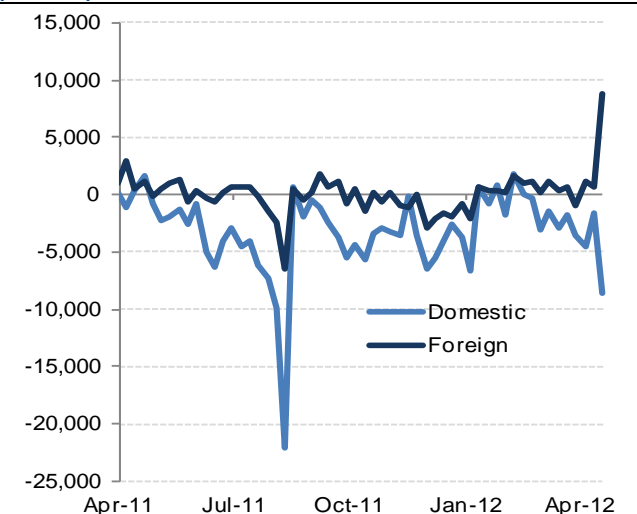
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



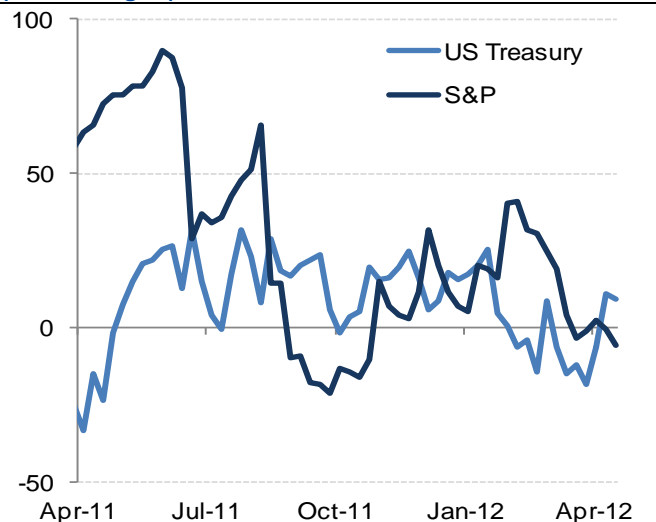
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

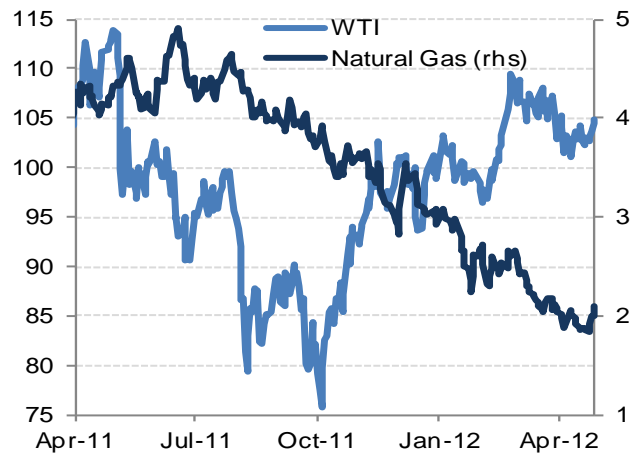
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

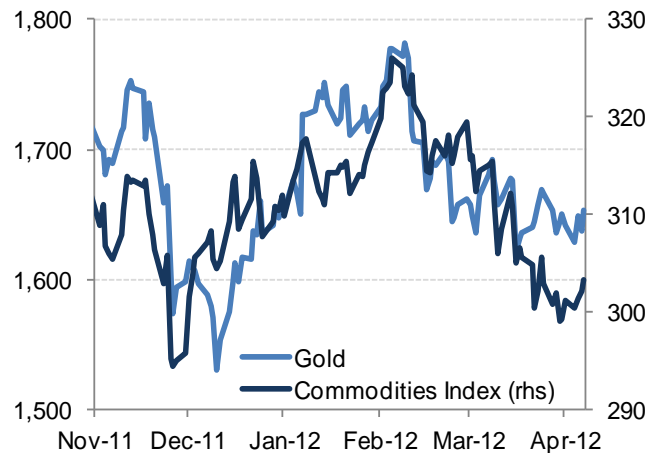
# Financial Markets

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



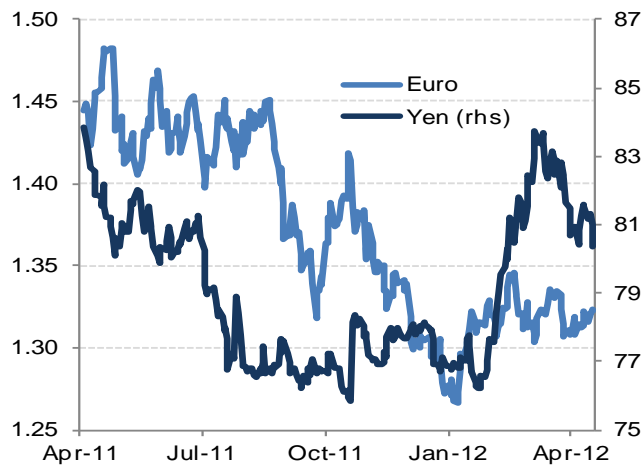
Source: Bloomberg & BBVA Research

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



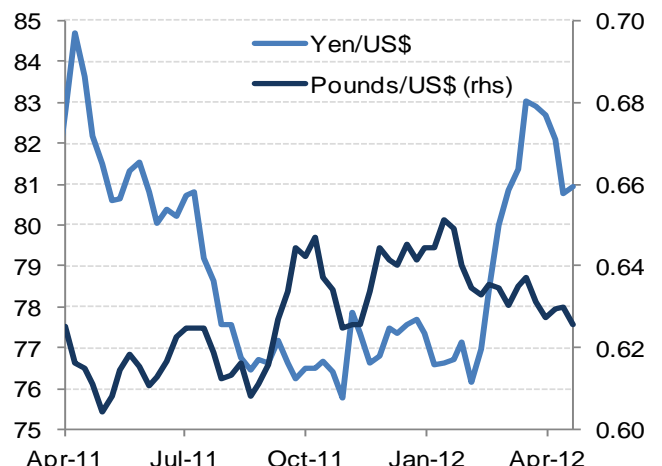
Source: Haver Analytics & BBVA Research

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



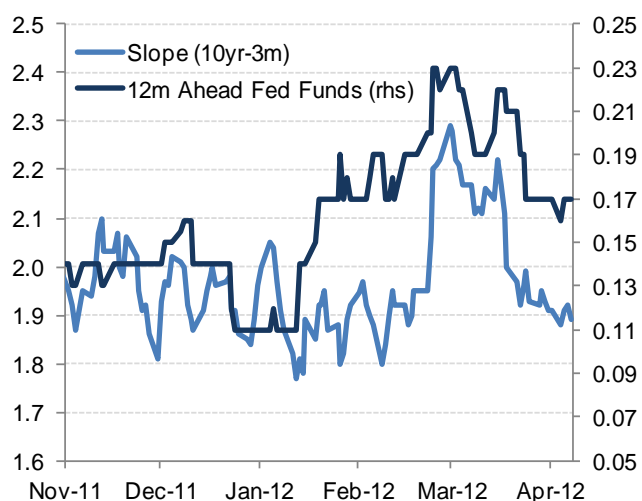
Source: Bloomberg & BBVA Research

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



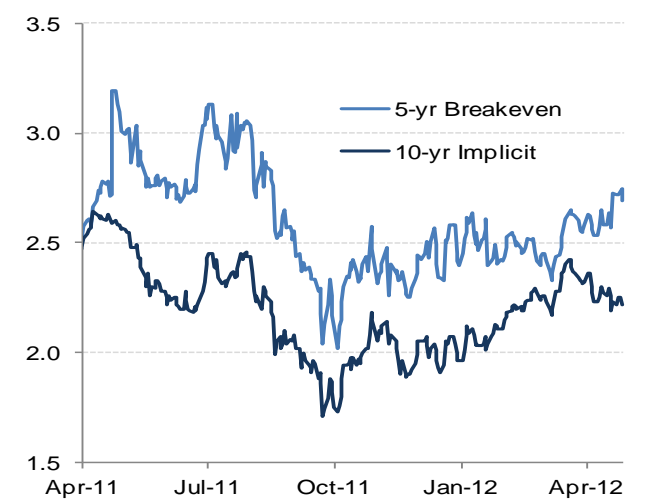
Source: Haver Analytics & BBVA Research

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	3.16	3.12	4.11
Heloc Loan 30K	5.47	5.46	5.52	5.49
5/1 ARM*	2.85	2.78	2.90	3.51
15-year Fixed Mortgage*	3.12	3.13	3.23	3.97
30-year Fixed Mortgage*	3.88	3.90	3.99	4.78
Money Market	0.72	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	0.14	0.12	0.09	0.09
3M Libor	0.47	0.47	0.47	0.27
6M Libor	0.73	0.73	0.73	0.43
12M Libor	1.05	1.05	1.05	0.76
2yr Sw ap	0.56	0.57	0.58	0.78
5yr Sw ap	1.12	1.14	1.27	2.15
10Yr Sw ap	2.06	2.08	2.29	3.37
30yr Sw ap	2.82	2.83	3.04	4.16
7day CP	0.18	0.23	0.21	0.17
30day CP	0.25	0.27	0.32	0.17
60day CP	0.33	0.35	0.41	0.25
90day CP	0.42	0.44	0.48	0.24

Source: Bloomberg & BBVA Research

## Quote of the Week

Ben Bernanke, Federal Reserve Chairman  
Chairman Press Conference  
25 April 2012

*"If no action were to be taken by the fiscal authorities, the size of the fiscal cliff is such that there's absolutely no chance the Federal Reserve could, or would have any ability whatsoever to offset that effect on the economy."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
30-Apr	Personal Income	MAR	0.20%	0.30%	0.20%
30-Apr	Personal Spending	MAR	0.40%	0.40%	0.80%
30-Apr	Chicago PMI	APR	60.00	60.50	62.20
30-Apr	Dallas Fed Manufacturing Survey	APR	8.00	8.00	10.80
1-May	Total Vehicle Sales	APR	14.50M	14.45M	14.32M
1-May	Domestic Vehicle Sales	APR	11.05M	11.15M	11.09M
1-May	ISM Manufacturing	APR	53.0	53.0	53.4
1-May	Construction Spending (MoM)	MAR	0.3%	0.5%	-1.1%
2-May	ADP Employment	APR	165K	175K	209K
2-May	Factory Orders	MAR	-2.0%	-1.5%	1.3%
3-May	Initial Jobless Claims	28-Apr	380K	380K	388K
3-May	Continuing Claims	21-Apr	3305K	3312K	3315K
3-May	Nonfarm Productivity	1Q	-0.3%	-0.5%	0.9%
3-May	Unit Labor Costs	1Q	2.8%	2.7%	2.8%
3-May	ISM Non-Manufacturing	APR	55.0	55.5	56.0
4-May	Change in Nonfarm Payrolls	APR	150K	168K	120K
4-May	Change in Private Payrolls	APR	165K	173K	121K
4-May	Change in Manufacturing Payrolls	APR	25K	21K	37K
4-May	Unemployment Rate	APR	8.2%	8.2%	8.2%
4-May	Average Hourly Earning (MoM)	APR	0.2%	0.2%	0.2%

# Forecasts

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

Note: Bold numbers reflect actual data

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