

# US Weekly Flash

## Highlights

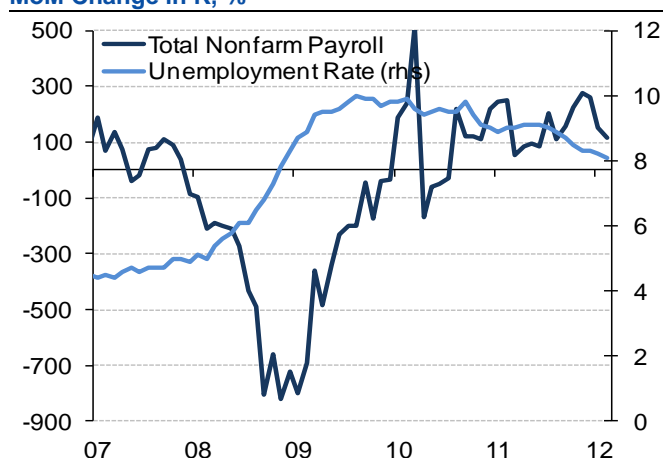
### • Weak Nonfarm Payrolls Despite Drop in the Unemployment Rate

- Nonfarm payrolls increased only 115K in April following upward revisions to both March (120K to 154K) and February (240K to 259K). While the upward revisions are somewhat encouraging, March and April payrolls remain far from the 200K+ gains seen throughout the winter months. The latest trend supports recent arguments that the warmer-than-usual weather may have shifted some of the usual spring gains to the earlier winter months.
- Private payrolls increased 130K from a revised 166K in March. Gains were led mostly by professional and business services. Despite the reports of positive employment gains in manufacturing, the sector's payrolls increased less than expected, up only 16K to mark the slowest growth since November.
- The unemployment rate surprisingly declined to 8.1% but once again reflected a decline in the labor force. The participation rate dropped to 63.6%, the lowest since December 1981. In terms of labor force flows, most of the change appears to mirror movement from unemployment out of the labor force, particularly given the modest decline in those unemployed longer than 27 weeks. Still, the long-term unemployed account for more than 40% of all unemployed. While employment growth in the past two months has been a disappointment, we do not expect that the data will cause any immediate action from the Fed.

### • 1Q12 Personal Income and Spending Strongest Since Early 2011

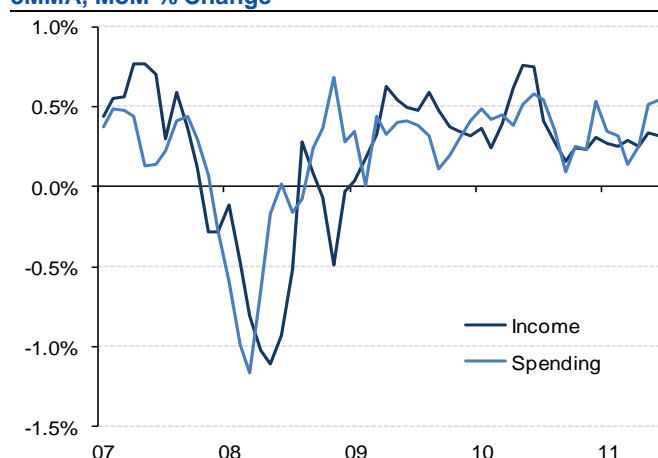
- Personal income and spending beat consensus expectations in March, increasing 0.4% and 0.3%, respectively, and rounding out the first quarter on a relatively strong note. Average growth for both components was stronger in 1Q12 than in the previous three quarters, highlighting the underlying importance of consumer activity for first quarter growth. The wages and salaries component of personal income increased 0.3% for the fourth consecutive month but may be limited in the second quarter given the uncertain employment outlook. Real personal income rebounded from a decline in February, increasing 0.2% in March.
- Consumer spending was driven in large part by inflation, but less so than in the previous two months. In real terms, consumption increased 0.1% in March following 0.3% and 0.5% growth in January and February, respectively. At this rate, real spending increased at the fastest pace in more than five years. For 2Q12, we expect that this component will have a smaller impact on real GDP growth given that slowdowns in employment conditions may influence more conservative consumer activity.

Graph 1  
**Nonfarm Payrolls and Unemployment Rate**  
MoM Change in K, %



Source: Bureau of Labor Statistics & BBVA Research

Graph 2  
**Personal Income and Spending**  
3MMA, MoM % Change



Source: Bureau of Economic Research & BBVA Research

# Week Ahead

## Consumer Credit (March, Monday 15:00 ET)

Forecast: \$10.0B	Consensus: \$9.8B	Previous: \$8.7B
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Seasonally-adjusted consumer credit has been following an upward trend for nearly six months, although gains in February were much smaller compared to the previous three months. Nonrevolving credit continues to drive the headline figure, while revolving has lost some momentum thus far in 1Q12. Personal finances are rallying slightly, but slowing improvements in employment conditions may limit consumers' willingness to take on more debt. Still, we expect that the recent surge in auto demand will help boost nonrevolving loans and more than offset any weakness stemming from the revolving side.

## International Trade Balance (March, Thursday 8:30 ET)

Forecast: -\$48.0B	Consensus: -\$50.0B	Previous: -\$46.0B
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The trade balance is expected to deteriorate slightly in March but remain better than December and January levels. A surprising drop in imports led to the better-than-expected improvement in February after the deficit reached its largest level of the recovery in January. Exports have increased for three consecutive months on account of increasing export demand for nonpetroleum goods and strength in the services sector. New export orders in both manufacturing and services show signs of slowing in March according to the ISM indices, yet we expect that export growth will remain in positive territory. Higher crude oil prices, which reached their peak in March, will likely contribute to further deterioration in the petroleum goods balance.

## Jobless Claims (Week Ending May 5<sup>th</sup>, Thursday 8:30 ET)

Forecast: 370K	Consensus: 370K	Previous: 365K
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Recent upward trends in initial jobless claims have signaled slowing improvements in the employment situation to start 2Q12. After increasing for three consecutive weeks in April, reverting back near the 400K-mark, claims finally dropped during the last week of the month. On the downside, the monthly average in April sits well above that of the prior three months, and it is unclear yet whether the latest decline will point to an improving trend. Employment conditions remain very fragile and business hiring plans remain conservative. While it is possible that we may see continuous bumps in the road, we expect that initial jobless claims will remain above 350K at least for the near term.

## Consumer Sentiment (May, Friday 9:55 ET)

Forecast: 76.3	Consensus: 76.4	Previous: 76.4
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Consumer activity has held up surprisingly well despite persistently high gas prices and weakness in the employment situation. The consumer sentiment index increased in April for the eight consecutive month, approaching the highest level of the recovery period. Temporary factors have dragged down the current conditions component in recent months, yet consumer expectations remain strong. For May, we expect that the overall index will be mostly unchanged from the previous month. Moderating gas prices should help boost current confidence in future income, however, continued weakness in the job market may limit significant gains.

## Market Impact

The relatively quiet week in terms of economic news will give markets time to digest the disappointing employment report for April, which will ultimately create a more worrisome market climate. Jobless claims data will be of interest given the prior week's surprising decline, and a continuation of this downward trend provide a more encouraging outlook for the employment situation in May. International trade data for March may signal some revisions to the advance GDP estimate for 1Q12 if it differs significantly from consensus expectations. A first look at consumer sentiment for May could indicate whether or not the slowdowns in April will extend into the current month.

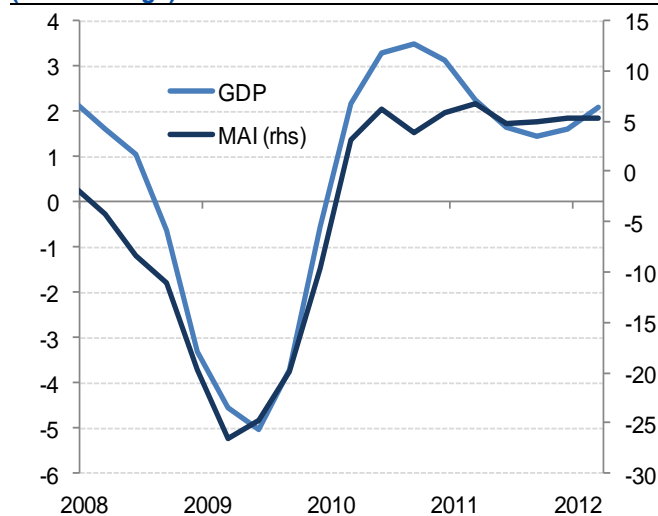
# Economic Trends

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



Source: BBVA Research

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



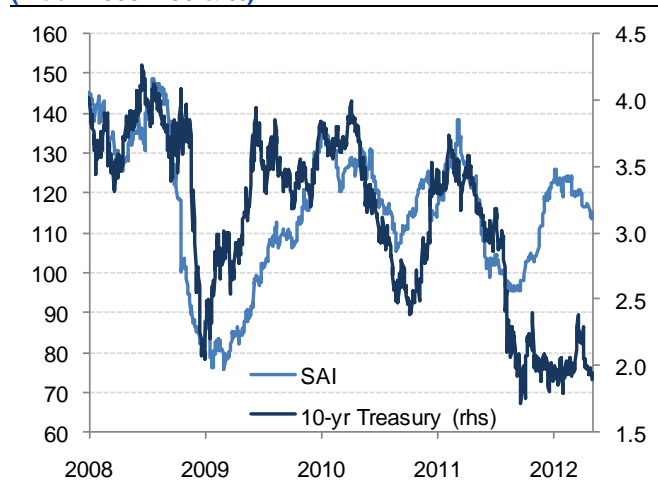
Source: BBVA Research & BEA

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



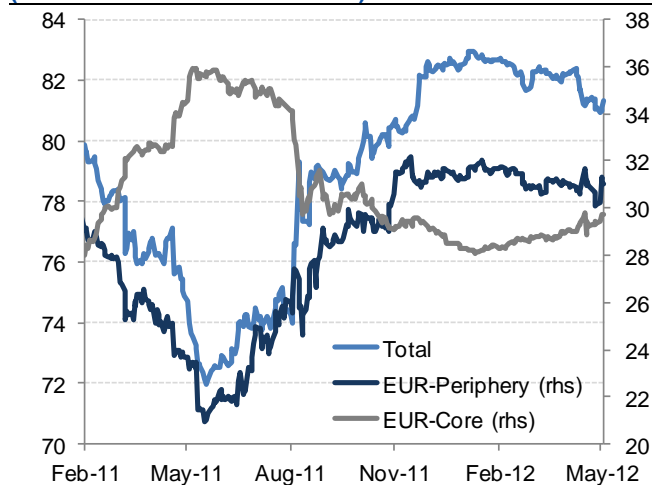
Source: BBVA Research

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



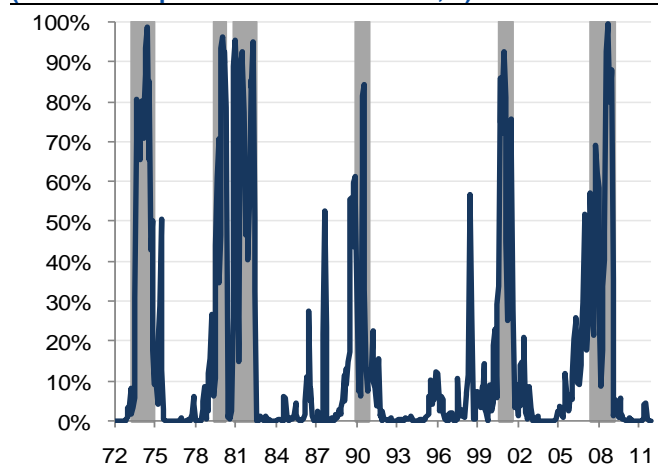
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

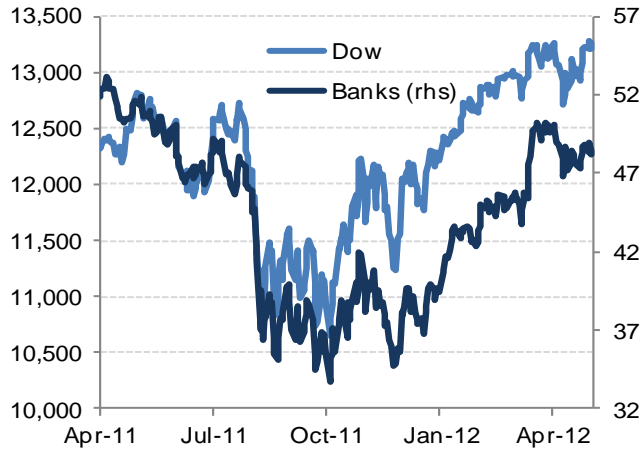
Graph 8  
**BBVA US Recession Probability Model  
(Recession episodes in shaded areas, %)**



Source: BBVA Research

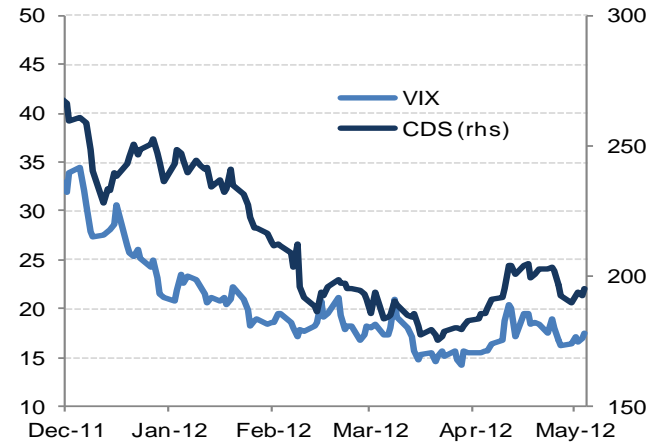
# Financial Markets

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



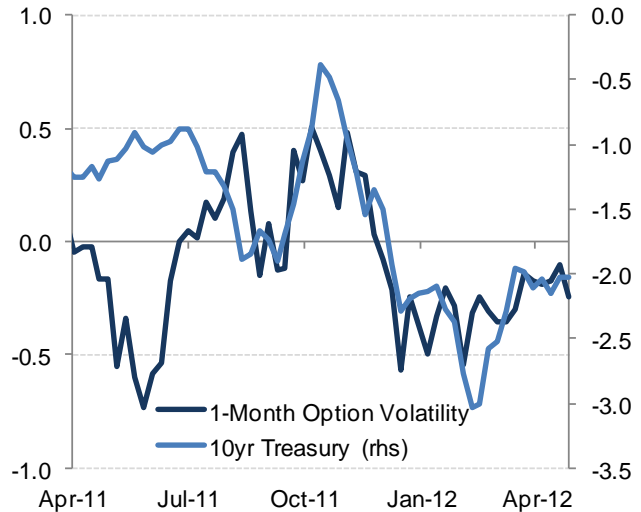
Source: Bloomberg & BBVA Research

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



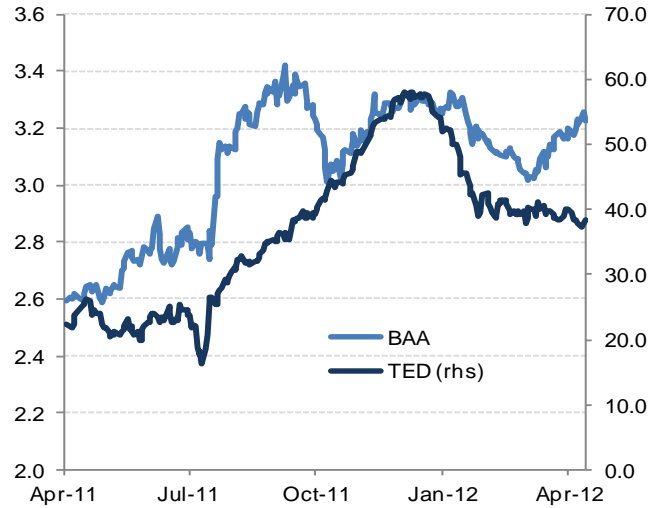
Source: Bloomberg & BBVA Research

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



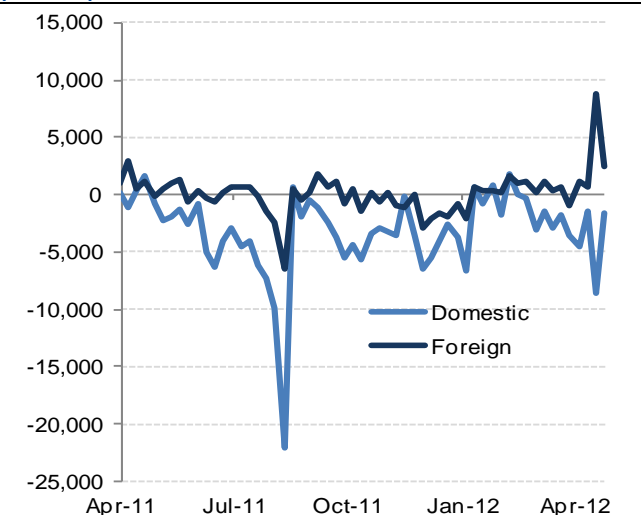
Source: Haver Analytics & BBVA Research

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



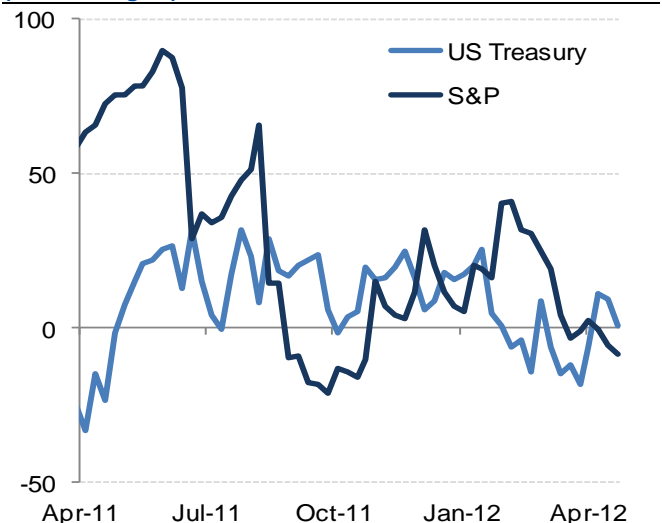
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

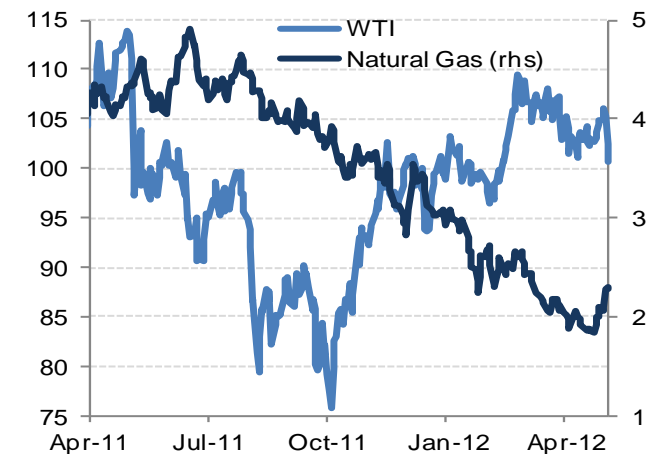
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

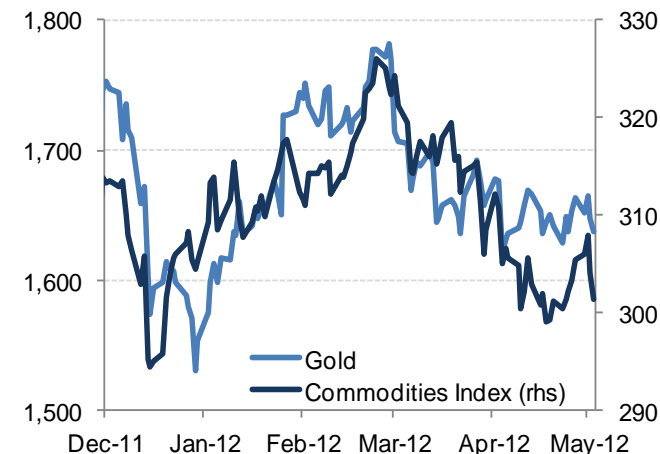
# Financial Markets

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



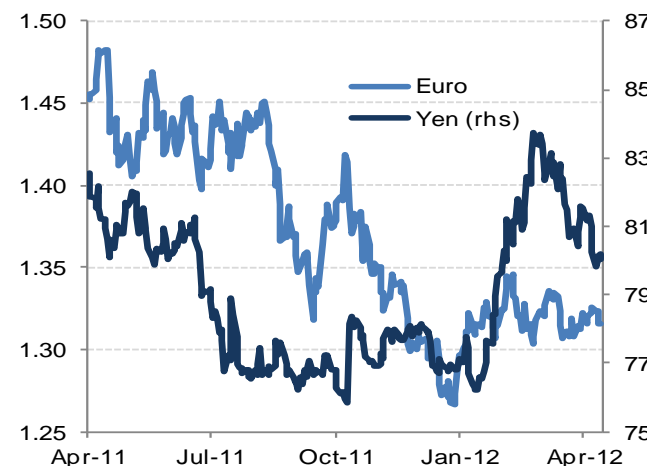
Source: Bloomberg & BBVA Research

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



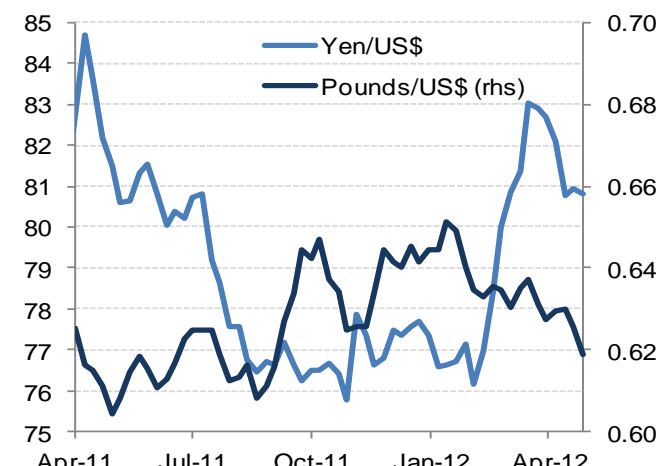
Source: Haver Analytics & BBVA Research

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



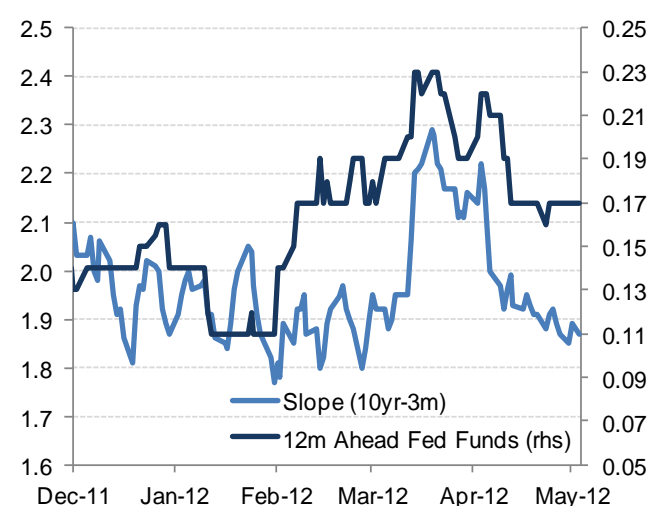
Source: Bloomberg & BBVA Research

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



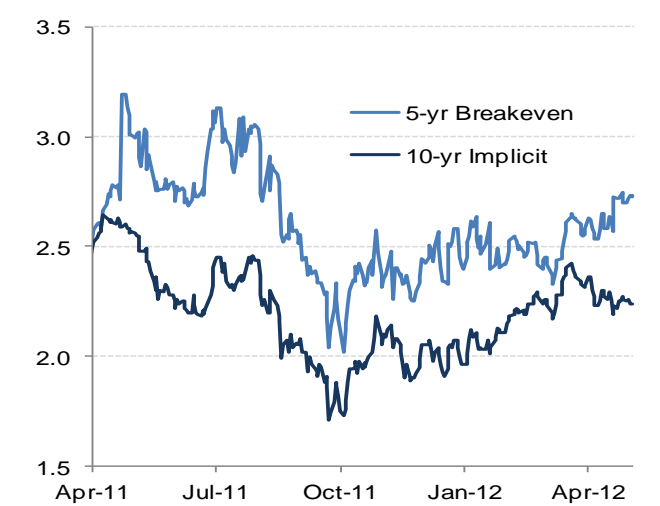
Source: Haver Analytics & BBVA Research

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	3.13	3.81
Heloc Loan 30K	5.47	5.45	5.42	5.48
5/1 ARM*	2.85	2.85	2.86	3.47
15-year Fixed Mortgage *	3.07	3.12	3.21	3.89
30-year Fixed Mortgage *	3.84	3.88	3.98	4.71
Money Market	0.72	0.72	0.73	0.62
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	0.15	0.13	0.12	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	0.75
2yr Sw ap	0.55	0.55	0.61	0.74
5yr Sw ap	1.09	1.12	1.17	2.05
10Yr Sw ap	2.04	2.07	2.14	3.24
30yr Sw ap	2.80	2.84	2.91	4.03
7day CP	0.19	0.18	0.23	0.18
30day CP	0.29	0.25	0.24	0.17
60day CP	0.41	0.33	0.25	0.20
90day CP	0.49	0.42	0.32	0.24

Source: Bloomberg & BBVA Research

## Quote of the Week

Charles Plosser, Federal Reserve Bank of Philadelphia President and CEO  
Transparency and Monetary Policy  
3 May 2012

*"Indeed, the Fed has no crystal ball that allows it to see into the future so we have to make policy decisions in the fog of uncertainty, just like everyone else. While we cannot predict the future, we can and should clearly communicate our objectives and how we are likely to react to future events."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-May	Consumer Credit	MAR	\$10.0B	\$9.8B	\$8.7B
9-May	Wholesale inventories	MAR	0.4%	0.6%	0.9%
10-May	International Trade Balance	MAR	-\$48.0B	-\$50B	-\$46.0B
10-May	Initial Jobless Claims	5-May	370K	370K	365K
10-May	Continuing Claims	28-Apr	3295K	3280K	3276K
10-May	Import Prices (MoM)	APR	-0.10%	-0.20%	1.30%
10-May	Export Prices (MoM)	APR	0.10%	--	0.80%
11-May	Producer Price Index (MoM)	APR	0.10%	0.00%	0.00%
11-May	PPI Ex Food & Energy (MoM)	APR	0.10%	0.20%	0.30%
11-May	U. Michigan Consumer Sentiment	MAY	76.30	76.40	76.50



# 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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