

# US Weekly Flash

## Highlights

### • Trade Balance Deteriorates Despite Improvements in Underlying Demand

- The international trade balance worsened in March to -\$51.8bn from an improved -\$45.4bn in February, closing out 1Q12 as one of the weakest trading quarters throughout the recovery period. Export growth was the strongest since July 2011, at 2.9%, but not enough to offset the 5.2% increase in imports. As expected, higher crude oil prices contributed to further deterioration in the petroleum goods balance.
- Although the increasing trade deficit may have a negative impact on the upcoming GDP revisions for 1Q12, the underlying data are more encouraging. The increase in imports was led by capital goods excluding autos, consumer goods, and industrial supplies, indicating that businesses are more optimistic regarding future consumer demand. Furthermore, the substantial export growth suggests that the impact from the European crisis was minimal. However, with conditions worsening throughout April and May, it is likely that European factors will have a stronger influence on the trade balance in the coming months.

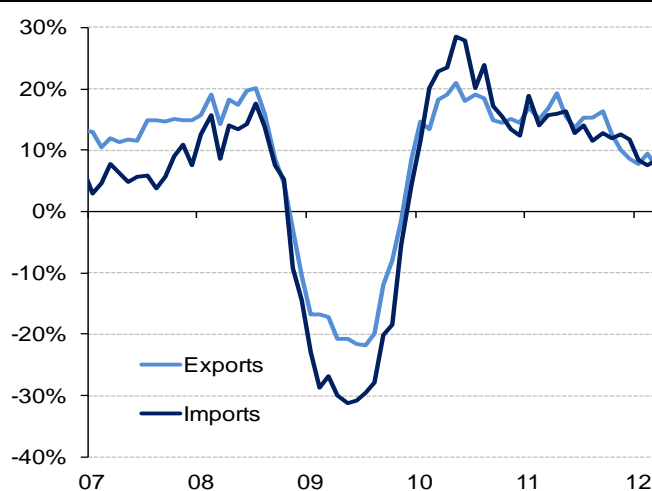
### • Consumer Credit Jumps \$21.3bn in March, Largest Gain Since 2001

- Seasonally-adjusted consumer credit jumped \$21.3bn in March, reflecting the largest monthly gain in more than a decade. Nonrevolving credit increased for the seventh consecutive month, up \$16.2bn, while revolving credit recovered from two prior months of declines.
- Non-seasonally adjusted (NSA) data increased only \$4.4bn and reflected a \$4.5bn decline on the revolving side. In fact, revolving credit remains near recovery lows. On the nonrevolving side, issuance from the federal government has kept total NSA consumer credit afloat throughout the past three months, mostly due to increasing student loans. Consumer credit has nearly approached the pre-recession peak, yet excluding the government component, levels have barely recovered from post-crisis lows.

### • Improvements in Current Conditions Lead to Consumer Sentiment Gains

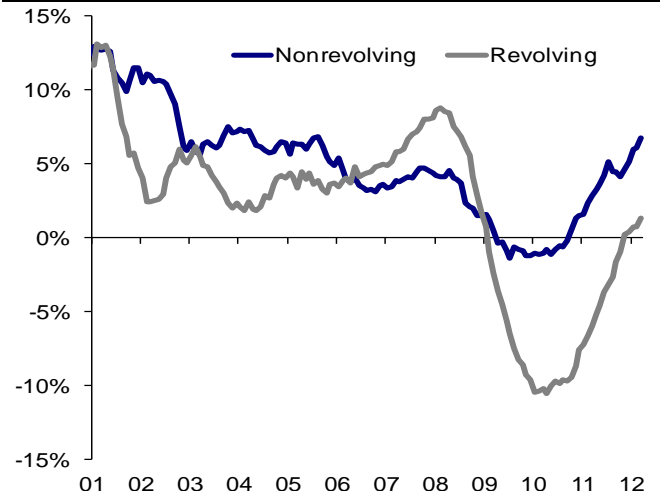
- Consumer sentiment increased from 76.4 in April to 77.8 in the beginning of May, the highest level of the recovery. The index for current economic conditions also jumped to its highest post-crisis level, mostly on account of declining gas prices.
- On the downside, consumer expectations have dwindled slightly, suggesting that the latest weakness in employment data may limit future spending.

Graph 1  
U.S. Exports and Imports  
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2  
Credit Type Outstanding  
YoY % Change



Source: Federal Reserve & BBVA Research

## Week Ahead

### Consumer Price Index, Core (April, Tuesday 8:30 ET)

Forecast: 0.1%, 0.2%	Consensus: 0.0%, 0.2%	Previous: 0.3%, 0.2%
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Consumer price inflation is expected to decelerate in April at the headline level as transitory influences fade. Energy prices are finally beginning to moderate, with crude oil prices declining from March but remaining above February's levels. Headline inflation is slowing compared to the oil spike last year, while commodity and other core price pressures are also easing. Furthermore, consumer inflation expectations for both the one-year and five-year outlook decreased significantly in April following the higher gas prices seen in March. Although medical care and shelter prices put upward pressures on core consumer prices, we expect that inflation will be more under control in the coming months.

### Retail Sales, Ex Auto (April, Tuesday 8:30 ET)

Forecast: 0.3%, 0.2%	Consensus: 0.2%, 0.2%	Previous: 0.8%, 0.8%
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Retail sales have been relatively strong throughout the first quarter, yet we expect that growth will decelerate in April. Higher gas prices have driven nominal sales in previous months, though recent price declines suggest that this influence will be less significant in April. Auto sales increased in March for the second consecutive month but are unlikely to accelerate in April given that unit vehicle sales were mostly unchanged. Consumer confidence was mixed in April, with the weakening employment situation weighing on consumer behavior. Furthermore, weekly retail sales reports suggest slower growth compared to March despite some strength in the first week of the month.

### Empire State Manufacturing Survey (May, Tuesday 8:30 ET)

Forecast: 8.00	Consensus: 9.80	Previous: 6.56
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The Empire State Manufacturing Survey is expected to increase slightly in May after dropping in April to the lowest level in five months. The index has been positive since November but suggests that activity has slowed compared to earlier in the year. In particular, weakness is stemming from the new orders and shipments components which point to slower future production. On the bright side, the sector continues to add jobs at a relatively healthy pace despite weakness in overall employment gains. As a first look at manufacturing for May, we expect to see only modest improvement over April's activity.

### Industrial Production (April, Wednesday 9:15 ET)

Forecast: 0.3%	Consensus: 0.6%	Previous: 0.0%
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Industrial production has been flat throughout most of the first quarter, yet we expect to see a modest rebound in April. Mining and utilities output are showing signs of a gradual recovery, and trends are likely to carry over into April. Although manufacturing production surprised to the downside in March, the index remains above January's level. Various manufacturing reports for April suggest continued expansion in the sector, though at a slightly slower pace. Gains in auto production may be less convincing in April compared to the significant boost in March, but overall the sector remains healthy.

### Market Impact

This week markets will focus on inflation data as a possible indication for future Fed actions, while the FOMC minutes to be released on Wednesday may provide a clearer picture of the committee's views on additional easing. Retail sales data will also be of some interest to markets in order to gain a better understanding of consumer activity as gas prices ease and employment conditions weaken. A first look at manufacturing for May will relieve some concerns if the data suggest that the latest slowdowns were only temporary. Most importantly, markets will remain sensitive to discouraging news from Europe.

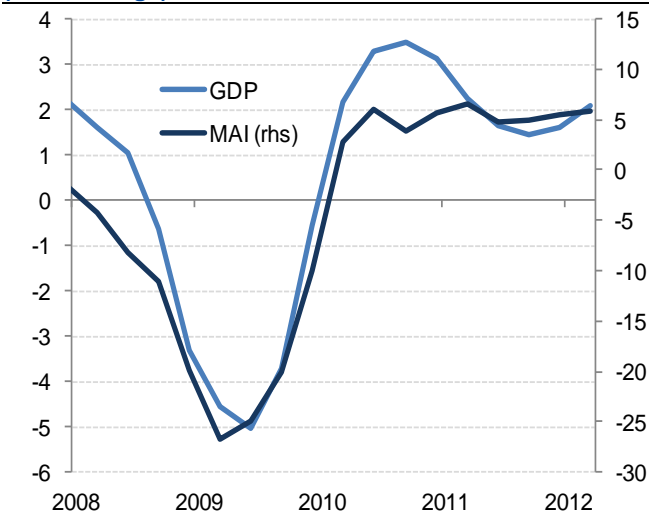
# Economic Trends

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



Source: BBVA Research

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



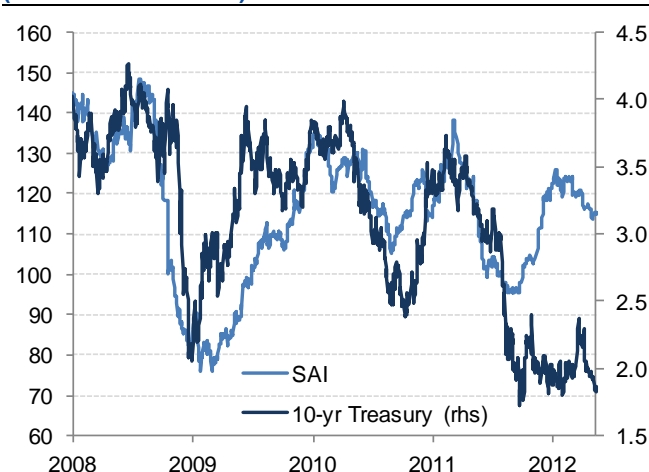
Source: BBVA Research & BEA

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



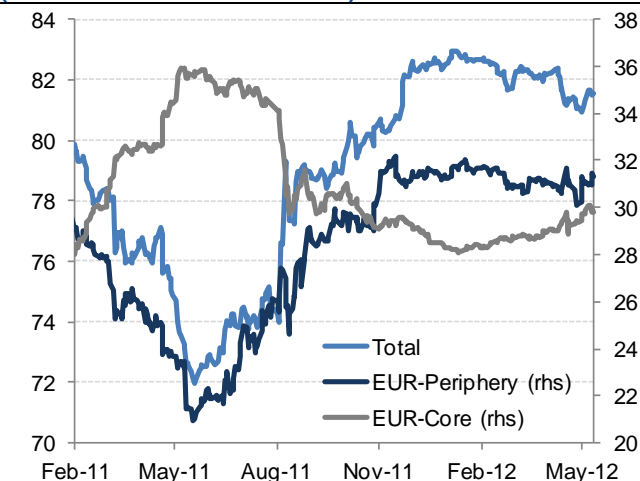
Source: BBVA Research

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



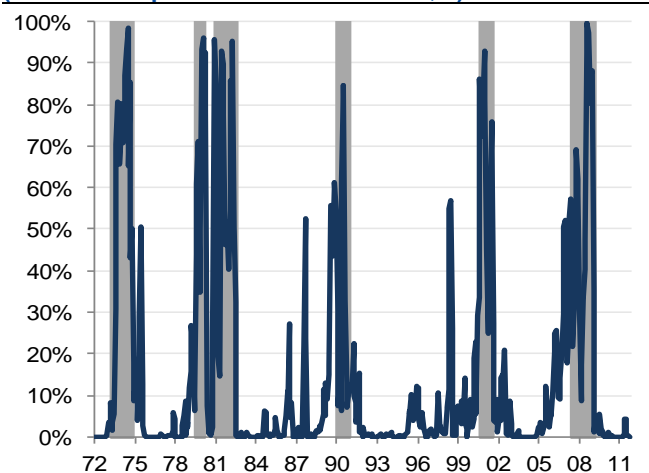
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

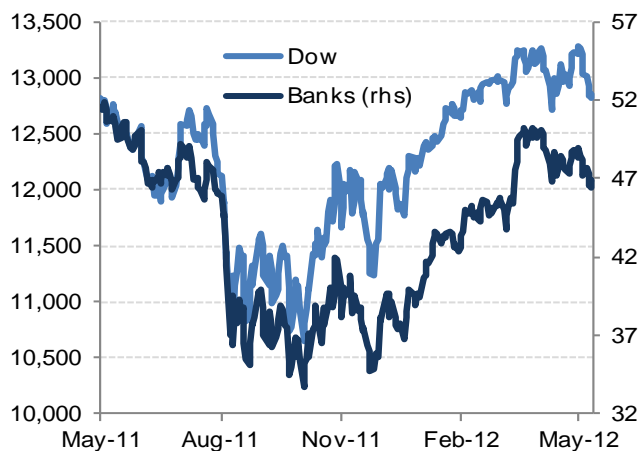
Graph 8  
**BBVA US Recession Probability Model**  
(Recession episodes in shaded areas, %)



Source: BBVA Research

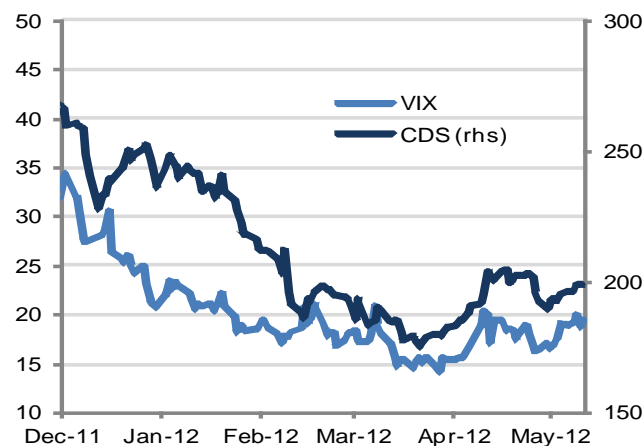
# Financial Markets

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



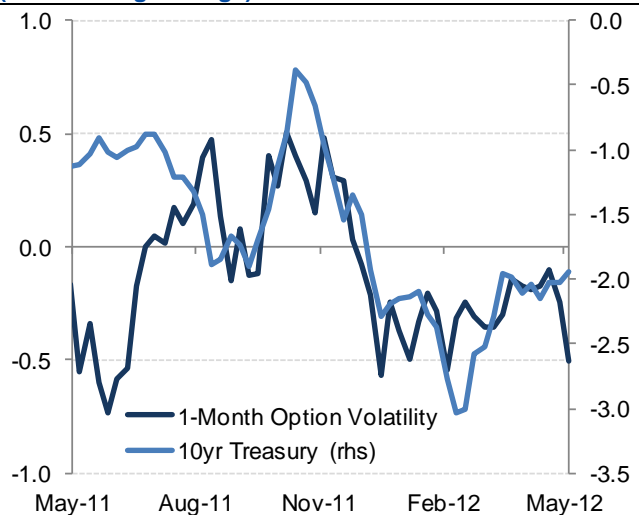
Source: Bloomberg & BBVA Research

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



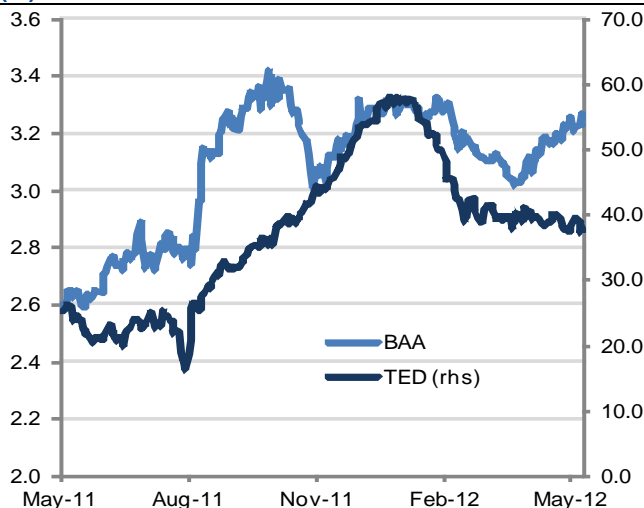
Source: Bloomberg & BBVA Research

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



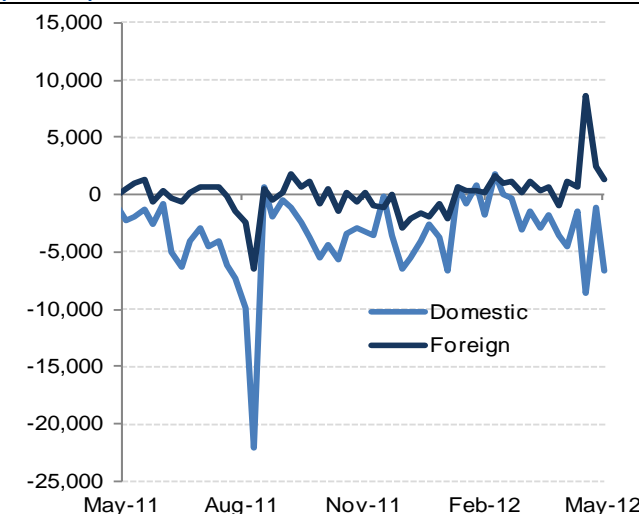
Source: Haver Analytics & BBVA Research

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



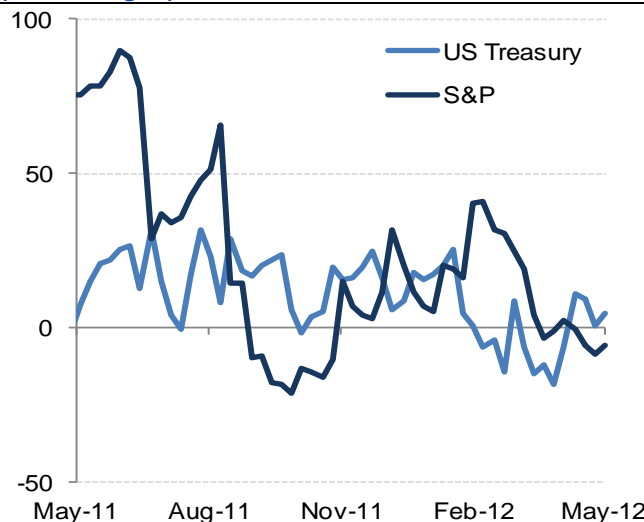
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

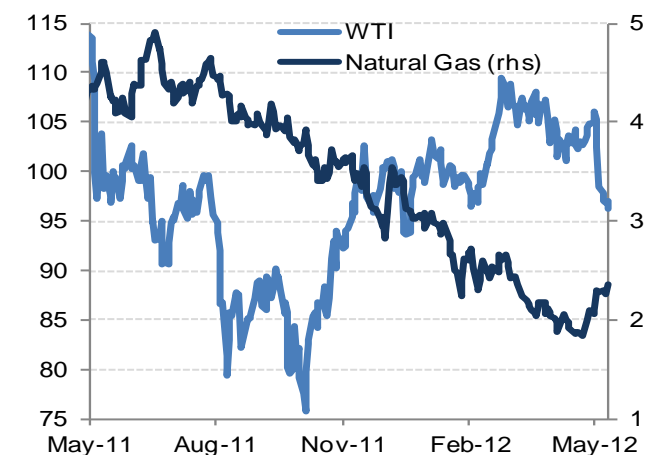
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

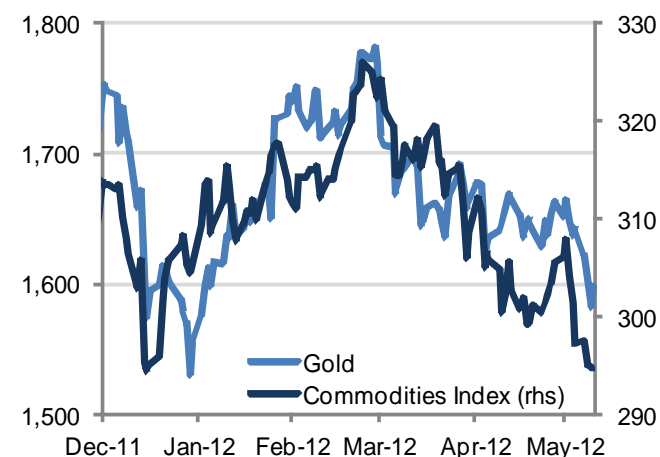
# Financial Markets

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



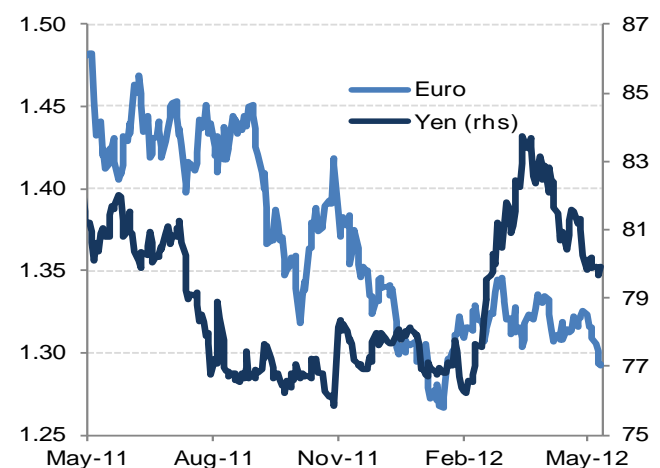
Source: Bloomberg & BBVA Research

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



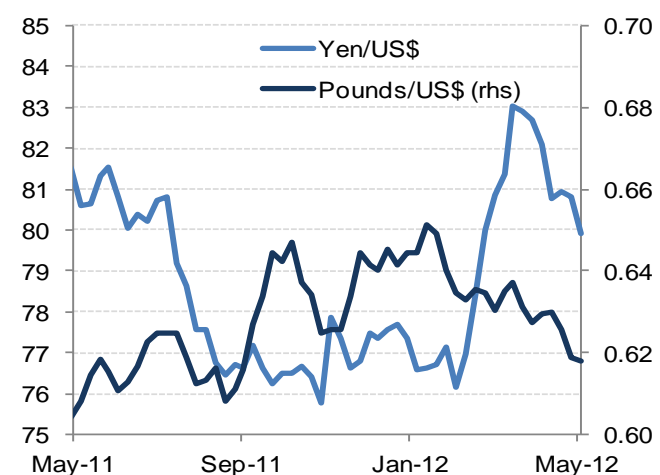
Source: Haver Analytics & BBVA Research

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



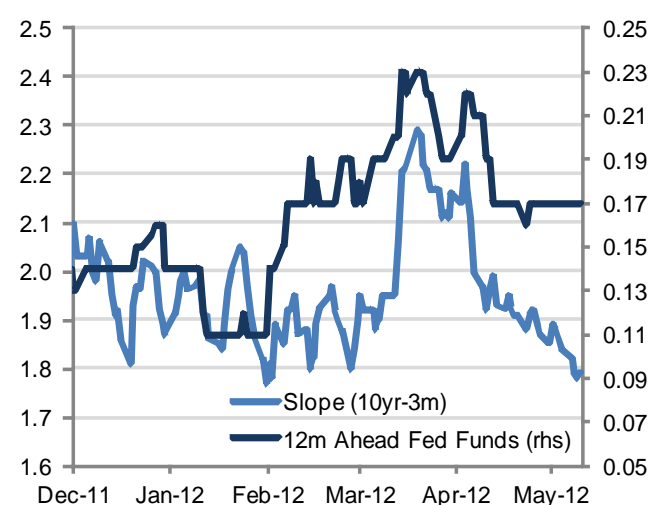
Source: Bloomberg & BBVA Research

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



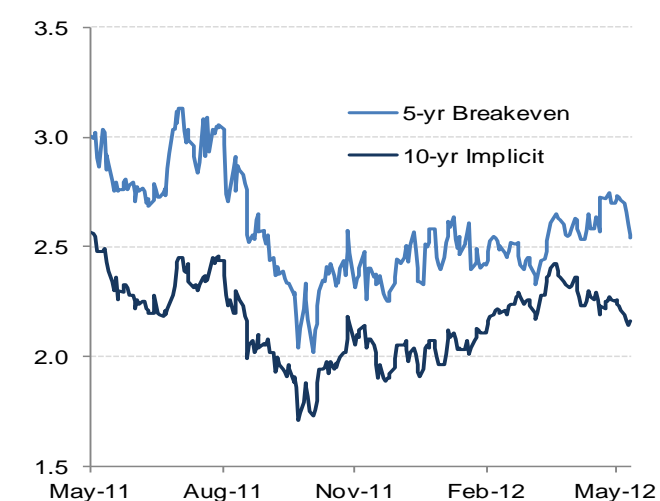
Source: Haver Analytics & BBVA Research

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)	3.13	3.16	3.14	3.80
Heloc Loan 30K	5.50	5.47	5.46	5.48
5/1 ARM*	2.81	2.85	2.85	3.41
15-year Fixed Mortgage *	3.05	3.07	3.11	3.82
30-year Fixed Mortgage *	3.83	3.84	3.88	4.63
Money Market	0.72	0.72	0.73	0.62
2-year CD	0.90	0.90	0.90	1.23

\*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	0.16	0.15	0.09
3M Libor	0.47	0.47	0.47	0.26
6M Libor	0.73	0.73	0.73	0.42
12M Libor	1.06	1.05	1.05	0.74
2yr Sw ap	0.61	0.55	0.57	0.73
5yr Sw ap	1.10	1.08	1.15	2.06
10Yr Sw ap	1.99	2.02	2.10	3.25
30yr Sw ap	2.74	2.79	2.83	4.05
7day CP	0.19	0.19	0.25	0.13
30day CP	0.30	0.29	0.28	0.17
60day CP	0.40	0.41	0.36	0.19
90day CP	0.46	0.49	0.45	0.27

Source: Bloomberg & BBVA Research

## Quote of the Week

Narayana Kocherlakota, Federal Reserve Bank of Minneapolis President  
Fed's Kocherlakota Sees 'Persistent' Damage to Job Market  
10 May 2012

*"We have to be careful not to let things get ahead of ourselves in the sense that we might have to start to move as early as I indicated, in six to nine months. This doesn't mean starting to raise rates immediately. It means starting to prepare the ground work for raising rates. Exit is a very long and involved policy."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-May	Consumer Price Index (MoM)	APR	0.10%	0.00%	0.30%
15-May	CPI Ex Food & Energy (MoM)	APR	0.20%	0.20%	0.20%
15-May	Advance Retail Sales	APR	0.30%	0.20%	0.80%
15-May	Retail Sales Less Autos	APR	0.20%	0.20%	0.80%
15-May	Empire State Manufacturing Survey	MAY	8.00	9.80	6.56
15-May	Business Inventories	MAR	0.40%	0.40%	0.60%
15-May	NAHB Housing Market Index	MAY	25.00	26.00	25.00
16-May	Housing Starts	APR	680K	685K	654K
16-May	Housing Starts (MoM)	APR	3.98%	4.70%	-5.80%
16-May	Building Permits	APR	750K	730K	747K
16-May	Building Permits (MoM)	APR	0.40%	-4.50%	4.50%
16-May	Industrial Production	APR	0.30%	0.60%	0.00%
16-May	Capacity Utilization	APR	78.50%	79.00%	78.60%
17-May	Initial Jobless Claims	12-May	365K	365K	367K
17-May	Continuing Claims	5-May	3200K	3230K	3229K
17-May	Philadelphia Fed Survey	MAY	10.00	10.00	8.50
17-May	Leading Indicators	APR	0.20%	0.10%	0.30%

# 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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