

US Weekly Flash

Highlights

- **Nonfarm payrolls rose 69K while the unemployment rate increased to 8.2% in May**
 - Today's BLS report reflects worse-than-expected employment situation and increased uncertainty about the economic recovery in the coming months. Nonfarm payrolls in May increased only by 69K, following downward revisions to both April (from 115K to 77K) and March (from 154K to 143K). In May, employment growth was led by the private sector, adding 82K jobs after adding 87K in April. Most of the private sector hiring was concentrated in service providing industries (+97K) such as transportation and warehousing (+36K) and education and health services (+46K) and wholesale trade (+16K). Construction payrolls continued to fall by 28K in May while employment in professional and business services was almost unchanged. Government sector continued to layoff as the government payrolls declined by 13K, biggest drop since November 2011.
 - A detailed look to the employment data shows very weak labor market conditions in 2Q12. The unemployment rate increased by 0.1pp to 8.2% due to weak employment growth and increase in the participation rate. The participation rate increased by 0.2pp to 63.8% and offset its decline in the previous month. The number of long-term employment, people unemployed for +27 weeks, increased by 300K. The data also indicates a rise in the number of workers employed part time for economic reasons. All these details suggest that structural unemployment is still a concern. Today's report reflects slower job growth in 2Q12 compared to in 1Q12 when the nonfarm payrolls increased by 226K per month. Weak April and May payrolls could be due to the warmer-than-usual weather which may have shifted some of the usual Spring gains to the earlier winter months. Therefore, June and July payroll data will be important to understand the real trend.
- **1Q12 GDP growth revised down to 1.9%**
 - Real GDP growth in 1Q12 is revised down to 1.9% (q/q annualized rate) from 2.2%, consistent with market expectations. The revision reflects downward revisions to private inventory investment, personal consumptions expenditures (PCE) and government spending and an upward revision to imports. Upward revisions to exports and nonresidential investments partially offset the downward revision to real GDP growth.
 - The release indicates that the contribution of PCE to real economic growth was 1.9pp in 1Q12 while private fixed investment lost its momentum. Private investment contributed 0.8pp in 1Q12 compared to 2.6pp in 4Q11 while structures have been a drag in the last two quarters. The slowdown in nondefense capital goods orders ex-aircraft also indicates that firms do not want to significantly increase their capital stock.
- **Weak macroeconomic data pushed 10yr Treasury yields below 1.5%**

In general, May labor market figures and recent economic activity indicators are going in the opposite direction that the Fed would like to see. Weak labor market indicators, contagion from European sovereign debt crisis, drop in consumer confidence and downward revision to economic growth in the first quarter of the year could signal that the U.S. economy is losing momentum. There are also no signs of inflationary pressures from today's data as well. PCE deflator was unchanged and core PCE prices increased only 0.1%MoM in April. In addition, ISM Manufacturing Prices Index declined below 50 indicating decreasing prices in the manufacturing sector.

There was also good news about the economic activity. For example, ISM Manufacturing index remained above 50% threshold (at 53.5%) while personal spending and income increased 0.3% and 0.2% in April, respectively. However, it was not enough to eliminate the negative news. All these negative news increased pessimism in financial markets and pushed 10-year Treasury yields below 1.5%. A few more weak data like this could urge the Fed to act, but with 10yr rates at all-time lows, there will clearly be difficulties in stimulating matters further, unless the Fed gets creative.

Week Ahead

ISM Non-Manufacturing Index (May, Tuesday 10:00 ET)

Forecast: 54.0

Consensus: 53.5

Previous: 53.5

The ISM Non-Manufacturing Index is expected to increase following a slight decline in the previous month. New orders and business activity weighed on the services sector in April, with the respective index components suggesting the slowest rate of expansion in nearly six months. The employment index also declined in April and remains weaker than the corresponding component of the manufacturing sector, and we do not expect a significant rebound in the near term. On the bright side, easing input prices should help stimulate activity in May.

Consumer Credit (April, Thursday 15:00 ET)

Forecast: \$15.0B

Consensus: \$10.3B

Previous: \$21.4B

Seasonally-adjusted consumer credit jumped significantly in March, reflecting the largest monthly gain in more than a decade. Pent-up auto demand and increasing student loans have boosted nonrevolving credit, although excluding issuance from the federal government, total non-seasonally adjusted consumer credit remains extremely weak. Revolving credit continues to drag on the headline figure, holding near recovery lows, and the latest weakness in employment data should limit a significant rebound in 2Q12.

International Trade Balance (April, Friday 8:30 ET)

Forecast: -\$49.0B

Consensus: -\$49.5B

Previous: -\$51.8B

The international trade balance deteriorated more than expected in March, closing out 1Q12 as one of the weakest trading quarters throughout the recovery period. The underlying data were more encouraging, noting a fourth consecutive month of export growth, and for April, the ISM indices suggest a surge in new export orders. 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.

Wholesale Inventories (April, Friday 10:00 ET)

Forecast: 0.1%

Consensus: 0.4%

Previous: 0.3%

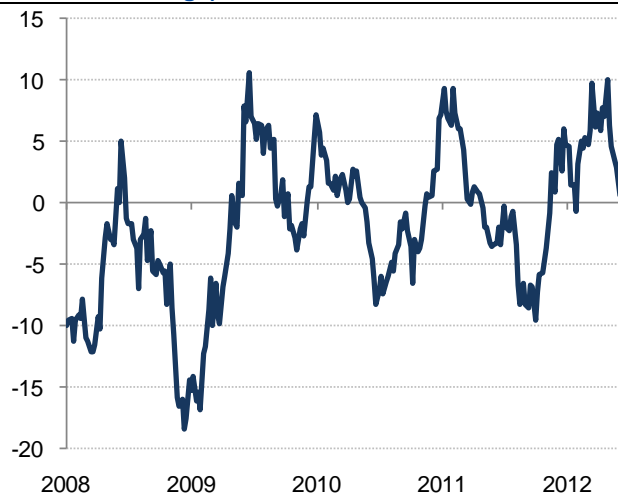
Inventory build has been steady throughout the beginning of 2012, and we expect this modest trend to continue in April. Manufacturing new orders slowed slightly in the first quarter and suggest that wholesalers did not need to increase inventories too much in order to keep up with demand. For April, the ISM indices indicate a slight decrease in inventories, pointing to the need for future orders to rebuild inventory stock. Thus, we expect that wholesale inventories will increase in April but at a very slow pace.

Market Impact

Markets will be on high alert this week following last week's influx of weaker-than-expected economic data. Markets would discuss about whether the Fed would implement additional accommodative monetary policies and how Congress should handle fiscal cliff and debt ceiling issues in order to revive economic recovery in the short-term. As with the past few weeks, the threat of a Greek exit from the Euro will be the central focus. In the U.S., improvements in the trade balance may offset some market anxiety in relation to 2Q12 GDP.

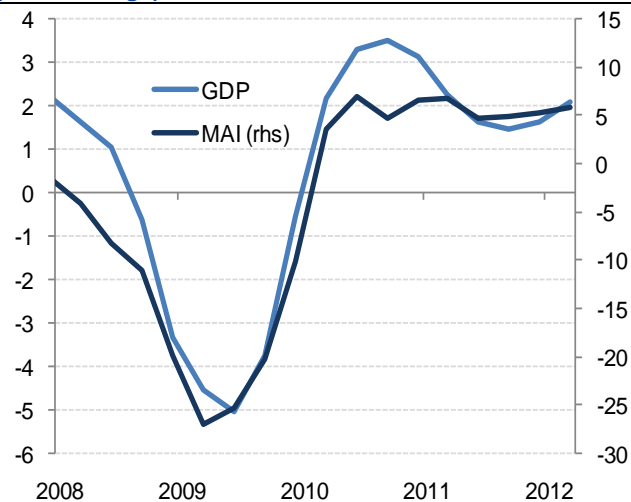
Economic Trends

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



Source: BBVA Research

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



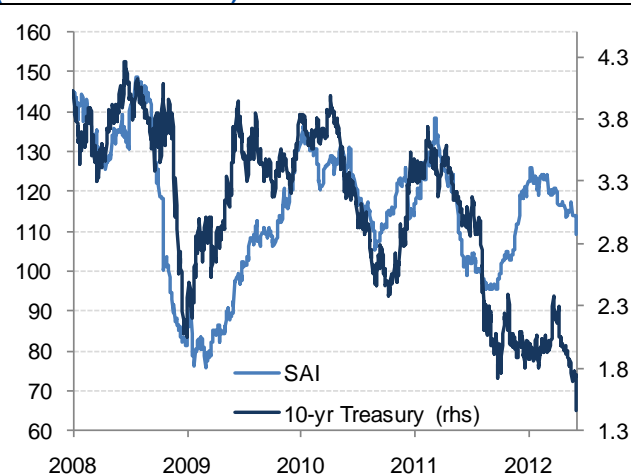
Source: BBVA Research & BEA

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



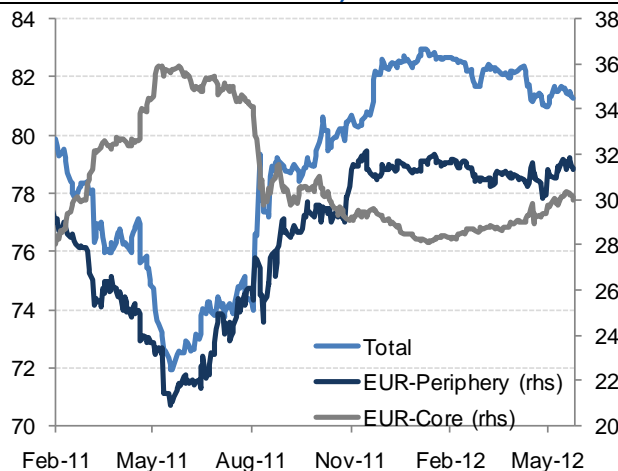
Source: BBVA Research

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



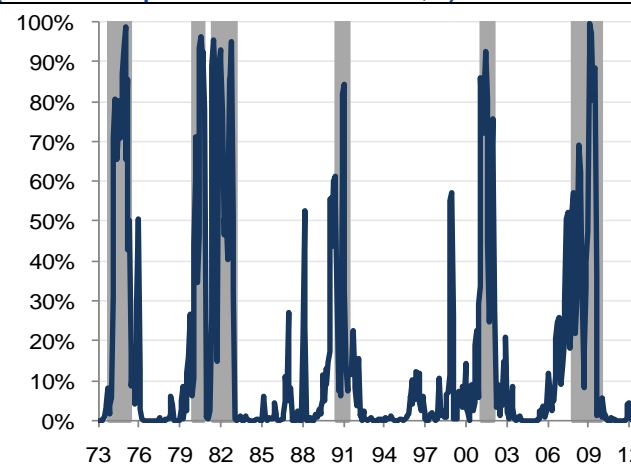
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

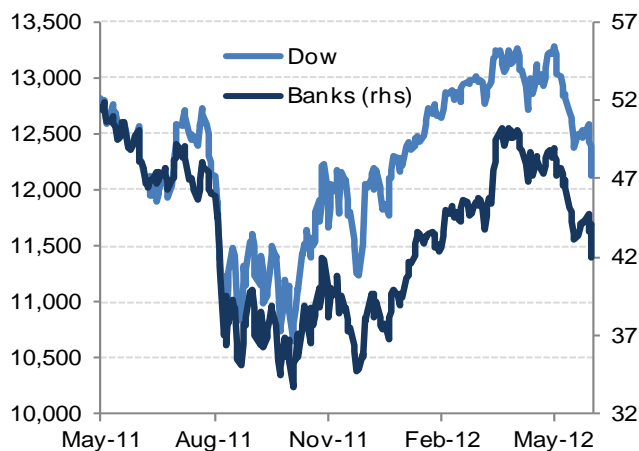
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

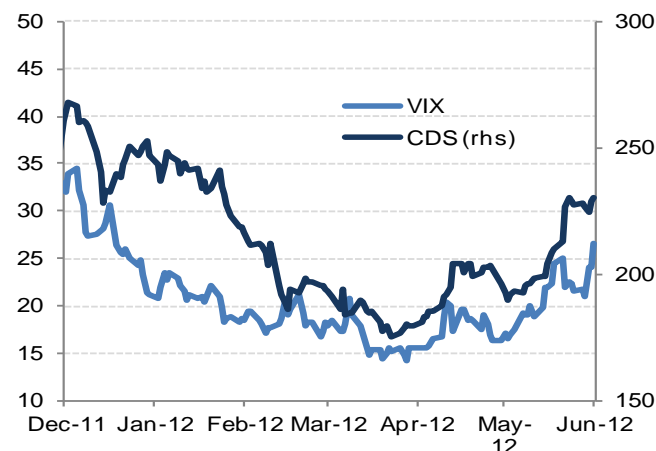
Financial Markets

Graph 9
Stocks
(Index, KBW)



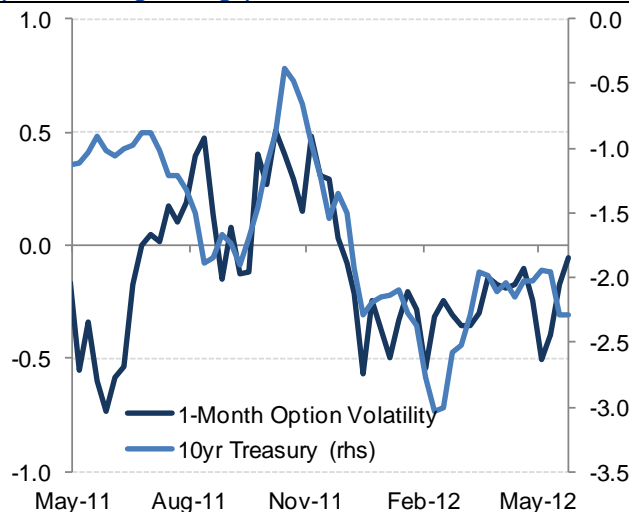
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



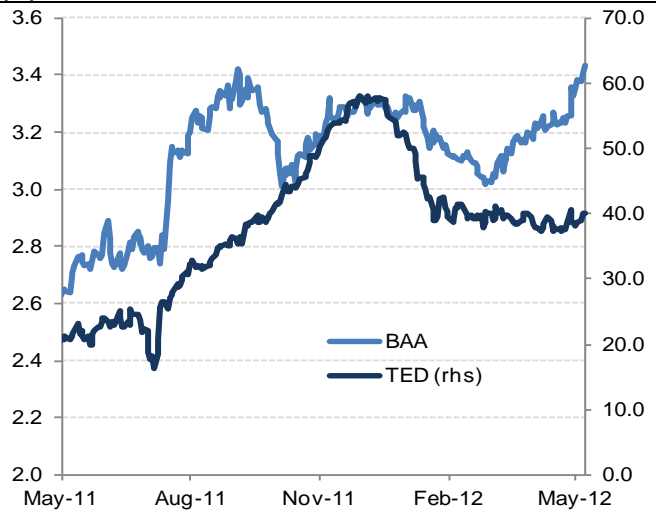
Source: Bloomberg & BBVA Research

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



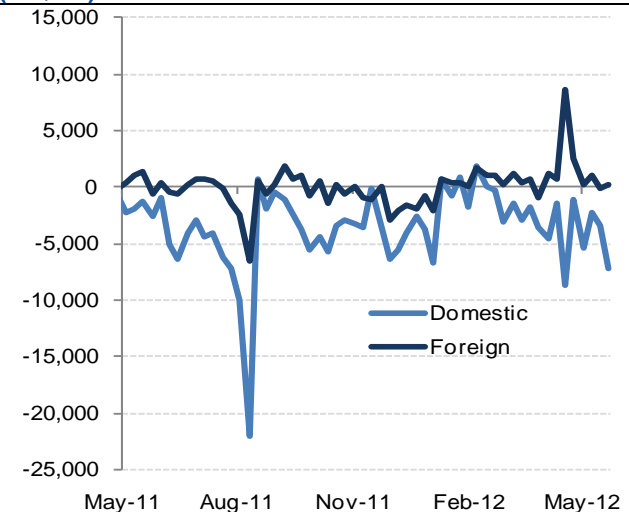
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



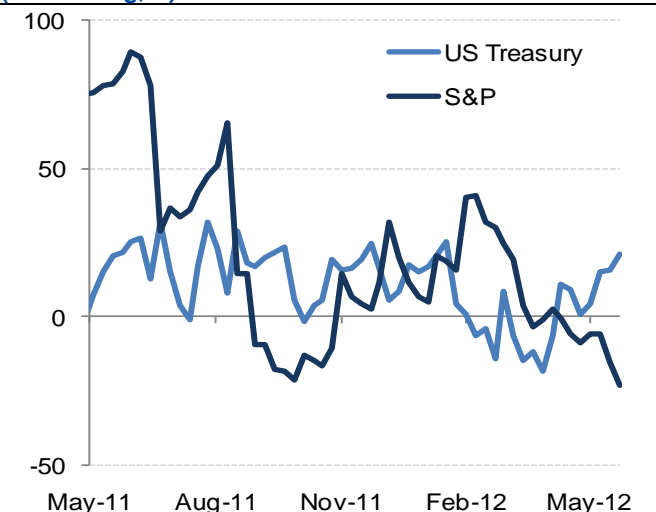
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

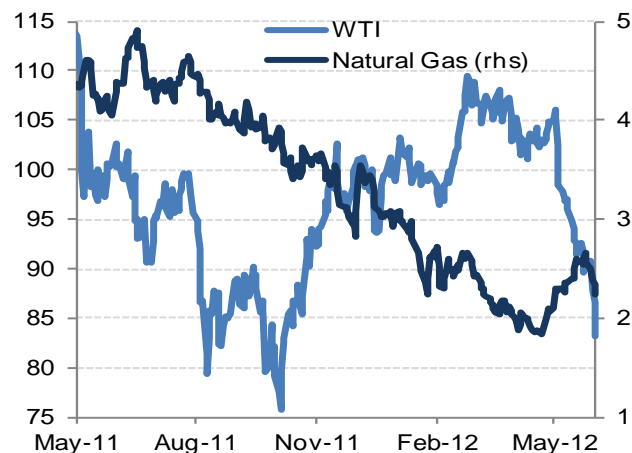
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

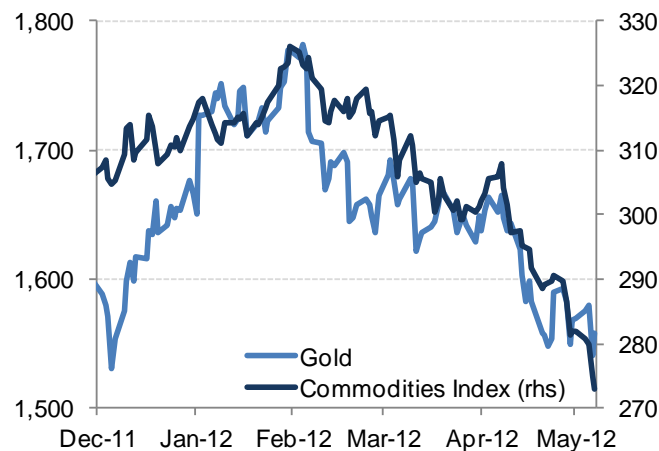
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



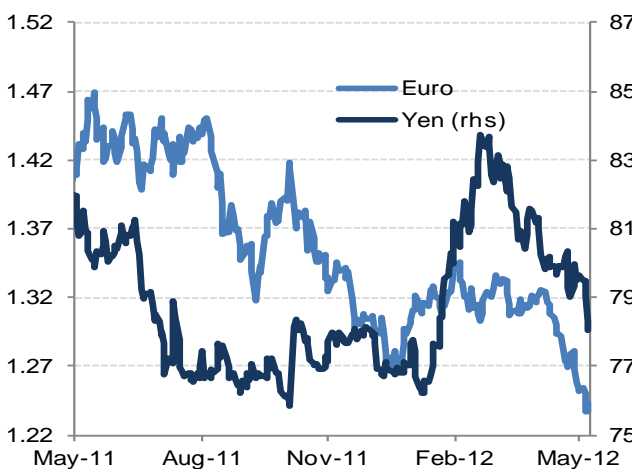
Source: Bloomberg & BBVA Research

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



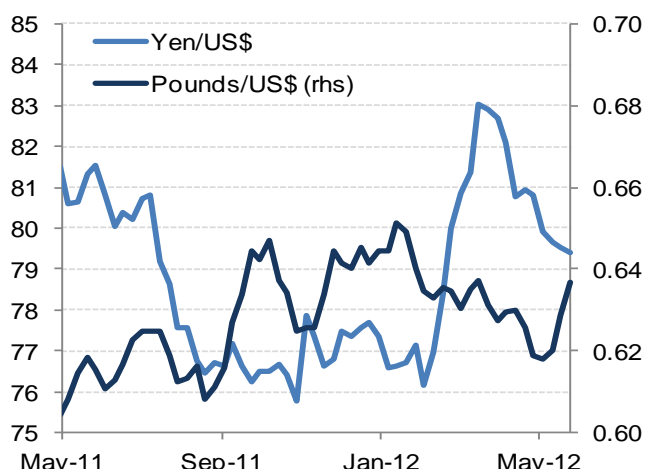
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



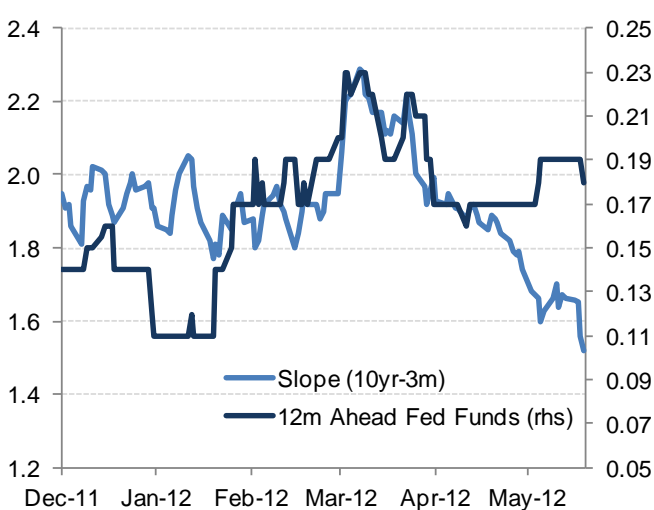
Source: Bloomberg & BBVA Research

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



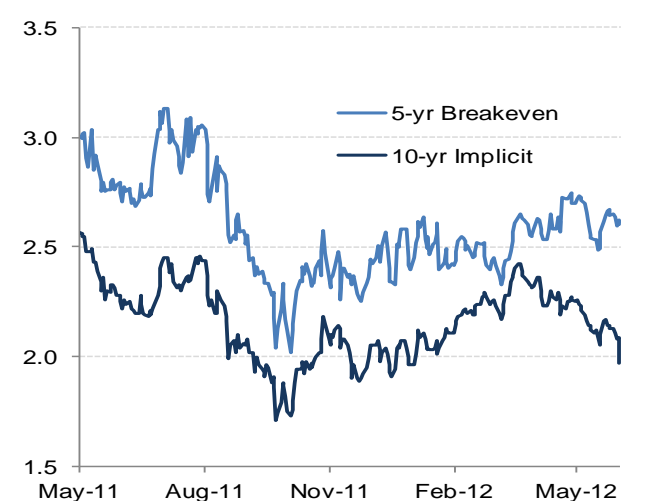
Source: Haver Analytics & BBVA Research

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)	3.09	3.11	3.16	3.80
Heloc Loan 30K	5.53	5.53	5.47	5.49
5/1 ARM*	2.84	2.83	2.85	3.41
15-year Fixed Mortgage*	2.97	3.04	3.07	3.74
30-year Fixed Mortgage*	3.75	3.78	3.84	4.55
Money Market	0.72	0.72	0.72	0.62
2-year CD	0.90	0.90	0.90	1.12

*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	0.16	0.15	0.16	0.11
3M Libor	0.47	0.47	0.47	0.25
6M Libor	0.74	0.74	0.73	0.40
12M Libor	1.07	1.07	1.05	0.73
2yr Sw ap	0.63	0.64	0.55	0.62
5yr Sw ap	0.99	1.09	1.08	1.86
10Yr Sw ap	1.67	1.89	2.02	3.11
30yr Sw ap	2.28	2.57	2.79	3.96
7day CP	0.23	0.20	0.19	0.13
30day CP	0.32	0.35	0.29	0.17
60day CP	0.40	0.44	0.41	0.20
90day CP	0.44	0.48	0.49	0.24

Source: Bloomberg & BBVA Research

Quote of the Week

William Dudley, Federal Reserve Bank of New York President and CEO
Remarks at the Quarterly Regional Economic Press Briefing
30 May 2012

"As long as the U.S. economy continues to grow sufficiently fast to cut into the nation's unused economic resources at a meaningful pace, I think the benefits from further action are unlikely to exceed the costs. But if the economy were to slow so that we were no longer making material progress toward full employment, the downside risks to growth were to increase sharply, or if deflation risks were to climb materially, then the benefits of further accommodation would increase in my estimation and this could tilt the balance toward additional easing."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-May	Factory Orders	APR	0.3%	0.2%	-1.9%
3-May	ISM Non-Manufacturing	MAY	54.0	53.5	53.5
3-May	Nonfarm Productivity	1Q	-0.6%	-0.7%	-0.5%
3-May	Unit Labor Costs	1Q	2.0%	2.2%	2.0%
31-May	Initial Jobless Claims	2-Jun	380K	379K	383K
31-May	Continuing Claims	26-May	3235K	3240K	3242K
7-May	Consumer Credit	APR	\$15.0B	\$10.3B	\$21.4B
10-May	International Trade Balance	APR	-\$49.0B	-\$49.5B	-\$51.8B
9-May	Wholesale inventories	APR	0.1%	0.4%	0.3%

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	8.2	7.8	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.2	2.7	3.1
US Dollar/ Euro (eop)	1.31	1.25	1.31	1.31

Note: Bold numbers reflect actual data

Hakan Danış
Hakan.Danis@bbvacompass.com

Kim Fraser
Kim.Fraser@bbvacompass.com



2001 Kirby Drive, Suite 31, Houston, Texas 7701 | Tel.: +34 91 374 60 00 | www.bbva.com

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.