

US Weekly Flash

Highlights

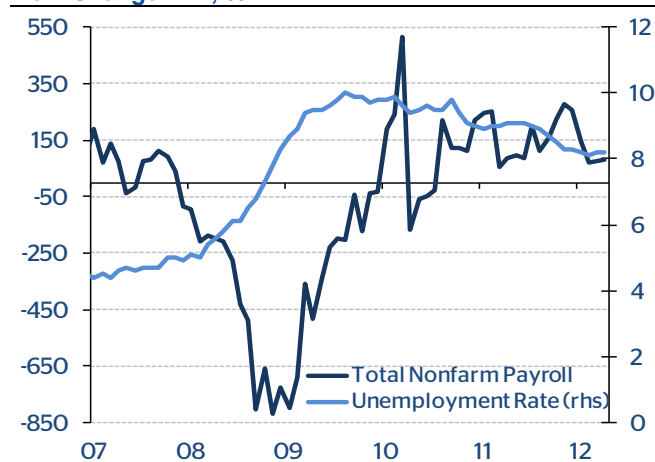
- **Total Employment Growth Only 225K in 2Q12**

- The BLS employment report for June suggests a modest 80K increase in nonfarm payrolls for the month following a slight upward revision to May's data (from 69K to 77K). The figure brings total employment growth for the second quarter to 225K, significantly lower than the 677K total achieved in the first quarter. Payrolls are similar to this time last year, almost matching the 84K increase in June 2011 and similar weakness in surrounding months. Last summer, conditions were extremely vulnerable leading up to the debt ceiling agreement, and weak payroll data added to concerns that we were headed toward another recession. Luckily, the situation turned itself around by September, with employment growth more than doubling from the rate in August. This is somewhat encouraging for the upcoming months in 2012 given that job gains strengthened by the end of 2011. We expect that payroll gains will continue at a modest pace but will not significantly exceed the 200K level. The unemployment rate held steady at 8.2%, and we expect that levels would remain elevated throughout the remainder of the year.
- In more positive news, average earnings increased 0.3% in June, marking the largest monthly increase in four months. This is positive news for the consumer, potentially boosting consumption for the summer months. However, this may be something to monitor in regards to core inflation if wage growth continues to accelerate. Ultimately, the impact of weather-related factors that has come into question this quarter should subside for July's report. Thus, employment data for the upcoming months will provide a clearer picture of whether hiring trends have in fact slowed considerably. Still, the mix of data we have seen recently creates uncertainty in the outlook.

- **ISM Manufacturing Surprises to the Downside, Services Sector Still Growing**

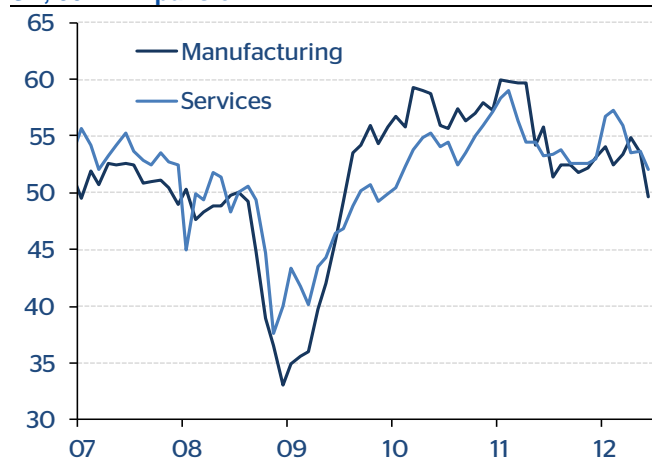
- The latest ISM Manufacturing Index for June suggests contracting activity for the first time since July 2009, falling in line with reports from recent regional Federal Reserve surveys. Although some of the components continue to show increasing activity, particularly in employment and production, contracting new orders imply much slower manufacturing growth in the coming months.
- The ISM Non-Manufacturing Index held above the 50-mark in June to indicate continued expansion in the services sector, though it hit the lowest level since contracting in December 2009. The weakest component here is the business activity index, which fell further than the new orders and employment indices. In fact, the index suggests that employment growth actually accelerated in June, which could be an encouraging sign for the coming months.

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



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
ISM Indices
SA, 50+ = Expansion



Source: ISM & BBVA Research

Week Ahead

Consumer Credit (May, Monday 15:00 ET)

Forecast: \$9.0B

Consensus: \$8.0B

Previous: \$6.5B

Total outstanding consumer credit is expected to increase in May for the ninth consecutive month. Strength in student loans continues to drive nonrevolving credit growth, and we expect that this trend will continue throughout the rest of the year. Increased demand for auto loans has boosted the figure in recent months, but the chances of this being a constant driver are unlikely. In regards to revolving credit, weakening consumer attitudes throughout 2Q12 likely limited individuals' willingness to take on additional debt. In general, we expect that consumer credit growth in May will be similar to the average monthly growth seen in the first quarter.

International Trade Balance (May, Wednesday 8:30 ET)

Forecast: -\$49.5B

Consensus: -\$48.5B

Previous: -\$50.1B

The international trade balance has deteriorated thus far in 2012 compared to mid-2011 levels. In April, the gap improved only slightly from the downwardly revised figure in March, with export growth declining for the first time in five months. Exports are finally beginning to reflect signs of slowing demand in Europe and China, and various manufacturing reports have noted weaker new export orders for the month. Import growth is also likely to slow again for the third time in four months given deteriorating business confidence regarding future demand conditions.

Wholesale Inventories (May, Wednesday 10:00 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: 0.6%

Wholesale inventories are expected to increase in May for the seventh consecutive month but at a slower pace than in April. Recent data have shown signs of weakening consumer activity, with wholesalers selling off current inventories. Lean inventory management has been the key factor given uncertain demand conditions, and it may be the case that businesses feel little need to rebuild inventory stock. Still, many manufacturing reports have indicated growing inventories for the month, though much of this may be unwanted.

Consumer Sentiment (July, Friday 9:55 ET)

Forecast: 74.0

Consensus: 73.5

Previous: 73.2

The first estimate for consumer sentiment in July is expected to be similar to June, particularly with the latest employment report weighing on consumers' minds. The latest figure dropped to the lowest level of 2012, reflecting hesitation from consumers regarding both current conditions and expectations. On the bright side, strength in average earnings combined with continued declines in gas prices has helped lift consumers' spending power, with the view on current conditions slightly stronger than the 6-month outlook. While the crisis in Europe remains a serious concern, recent developments have hinted at some stabilization that will likely ease the consumer outlook.

Market Impact

The sluggish employment report for June has set the stage for a more sensitive market this week, even though most of the indicators are lagged a few months. Markets will likely focus on the FOMC meeting minutes to be released on Wednesday with further details regarding the extension of Operation Twist and discussions related to additional quantitative easing. The international trade balance will shed some light on the possible contribution to GDP growth in the second quarter.

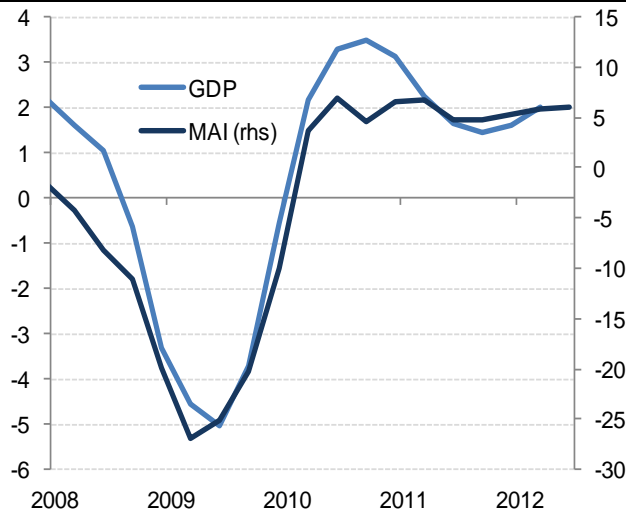
Economic Trends

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



Source: BBVA Research

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



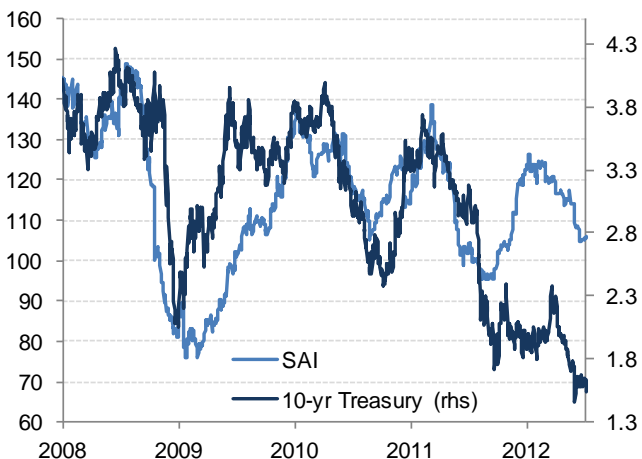
Source: BBVA Research & BEA

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



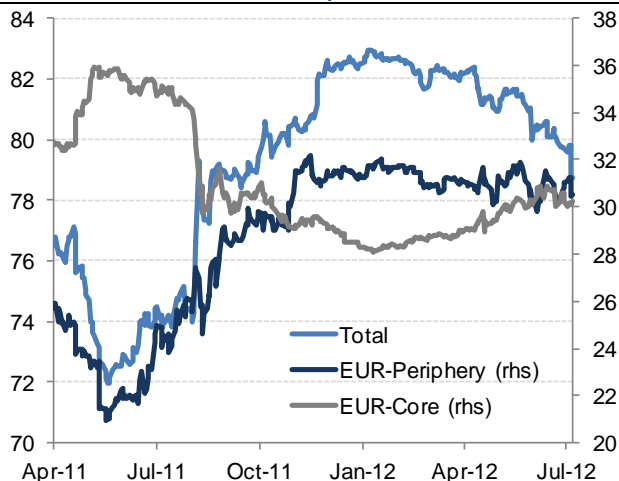
Source: BBVA Research

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



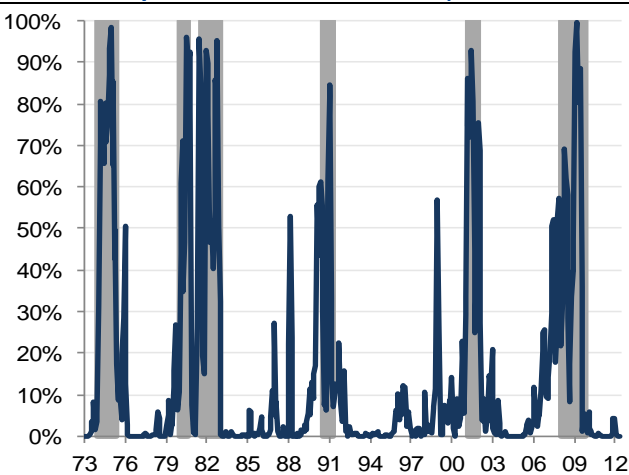
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

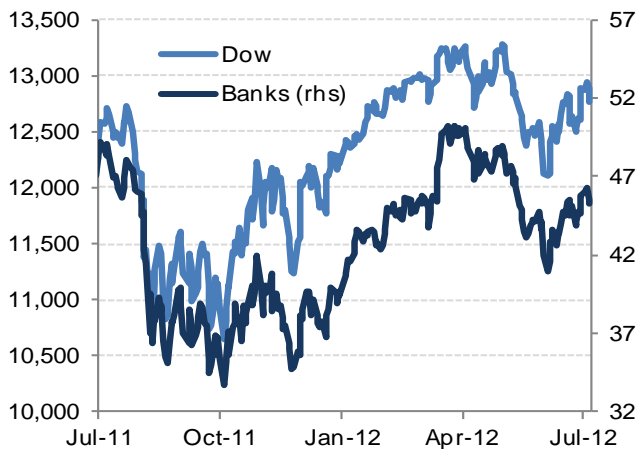
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

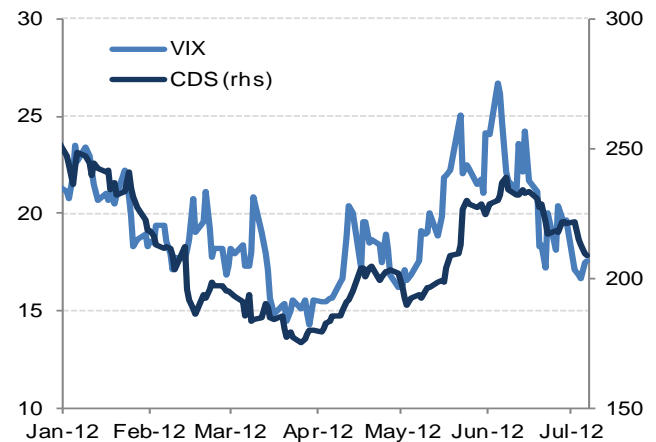
Financial Markets

Graph 9
Stocks
(Index, KBW)



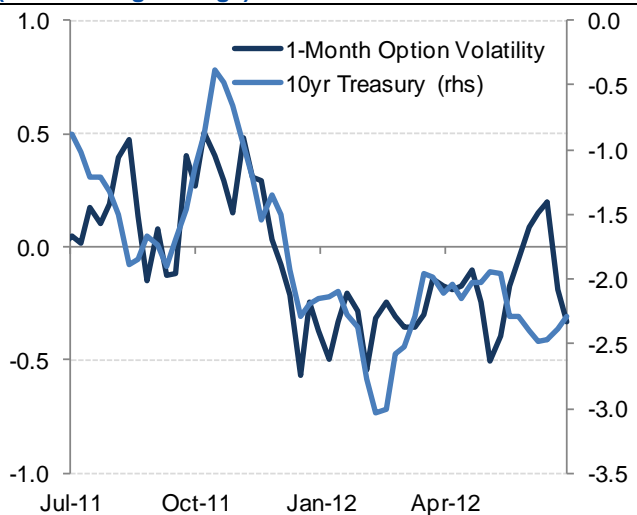
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



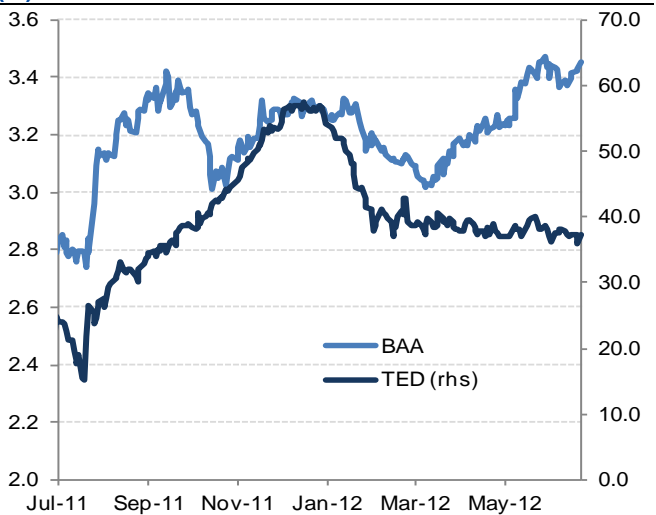
Source: Bloomberg & BBVA Research

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



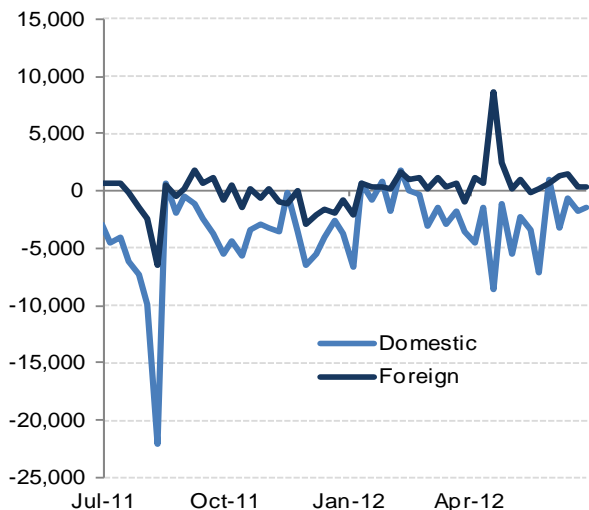
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



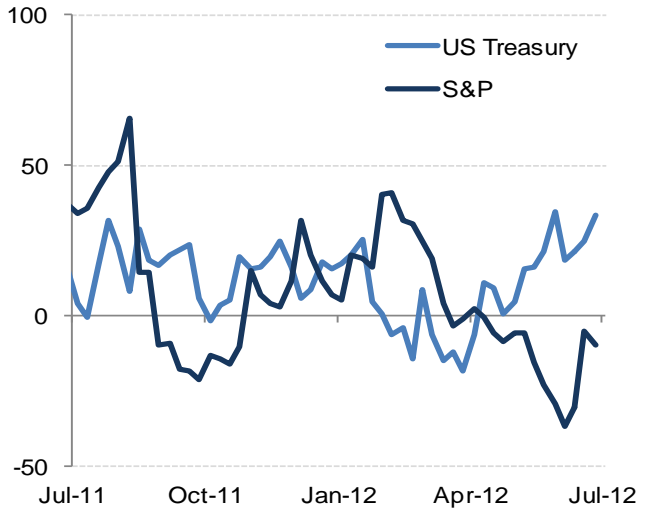
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

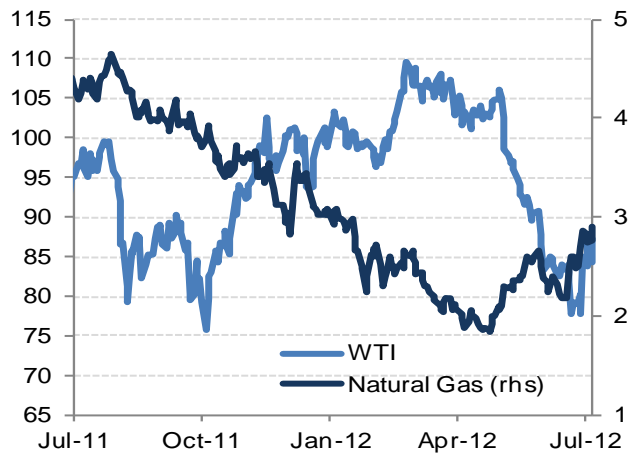
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

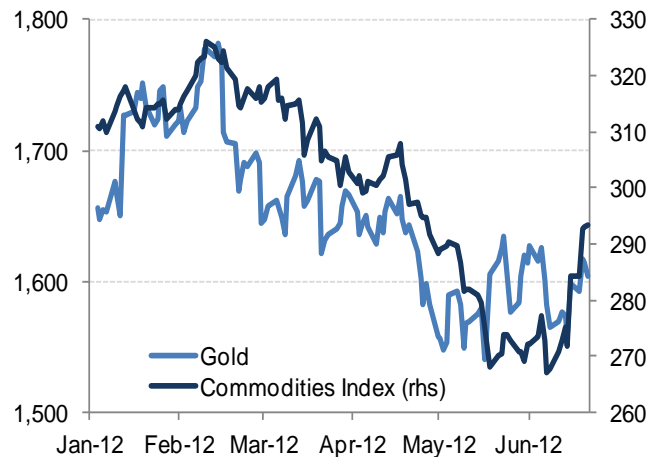
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



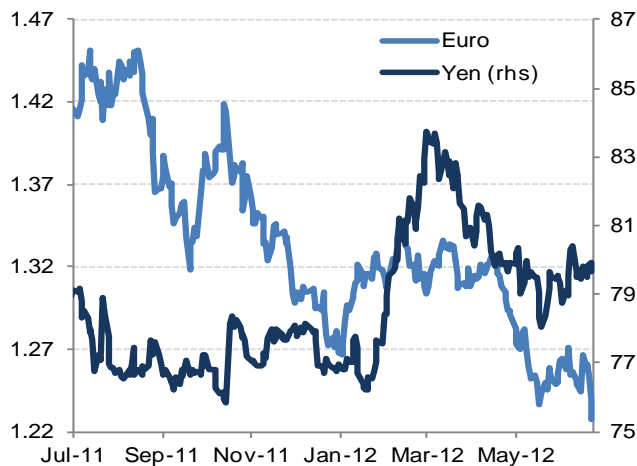
Source: Bloomberg & BBVA Research

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



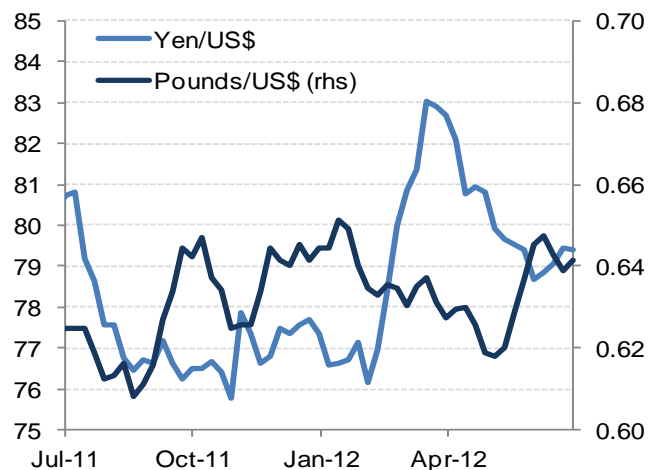
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



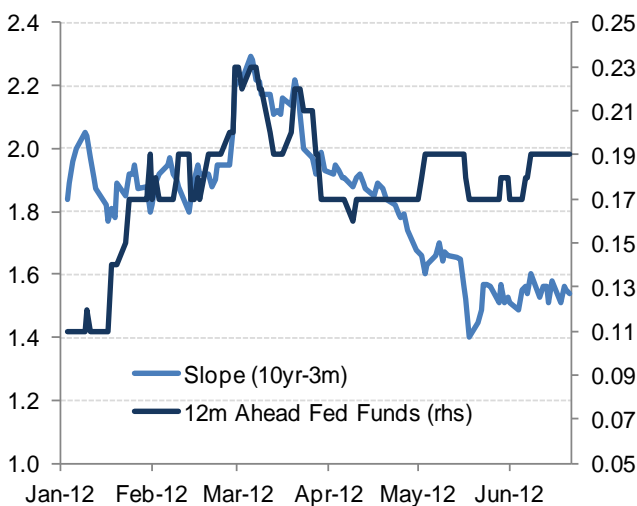
Source: Bloomberg & BBVA Research

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



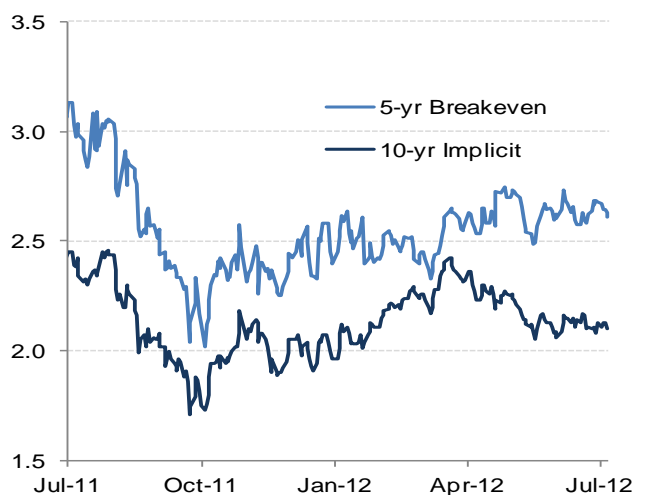
Source: Haver Analytics & BBVA Research

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)	3.11	3.11	3.07	3.68
Heloc Loan 30K	5.51	5.52	5.56	5.55
5/1 ARM*	2.79	2.79	2.84	3.30
15-year Fixed Mortgage*	2.89	2.94	2.94	3.75
30-year Fixed Mortgage*	3.62	3.66	3.67	4.60
Money Market	0.72	0.72	0.72	0.63
2-year CD	0.90	0.90	0.90	1.06

*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	0.17	0.09	0.17	0.07
3M Libor	0.46	0.46	0.47	0.25
6M Libor	0.74	0.73	0.74	0.40
12M Libor	1.07	1.07	1.07	0.74
2yr Sw ap	0.52	0.55	0.58	0.64
5yr Sw ap	0.90	0.97	1.02	1.88
10Yr Sw ap	1.70	1.78	1.82	3.17
30yr Sw ap	2.43	2.50	2.51	3.99
7day CP	0.29	0.31	0.29	0.16
30day CP	0.24	0.25	0.37	0.21
60day CP	0.26	0.29	0.37	0.27
90day CP	0.32	0.40	0.34	0.26

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
Obama: Jobs Report Is 'Step in the Right Direction'
6 July 2012

"We learned this morning that our businesses created 84,000 new jobs last month. And that, overall, means that businesses have created 4.4 million new jobs over the past 28 months, including 500,000 new manufacturing jobs. That's a step in the right direction. But we can't be satisfied because our goal was never to just keep on working to get back to where we were back in 2007. I want to get back to a time when middle-class families and those working to get into the middle class have some basic security. That's our goal. It's still tough out there. We've got to grow the economy even faster. And we've got to put even more people back to work."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
9-Jul	Consumer Credit	MAY	\$9.0B	\$8.0B	\$6.5B
11-Jul	International Trade Balance	MAY	-\$49.5B	-\$48.5B	-\$50.1B
11-Jul	Wholesale inventories	MAY	0.2%	0.3%	0.6%
12-Jul	Initial Jobless Claims	7-Jul	377K	370K	374K
12-Jul	Continuing Claims	30-Jun	3300K	3255K	3306K
12-Jul	Import Prices (MoM)	JUNE	-1.00%	-1.90%	-1.00%
12-Jul	Export Prices (MoM)	JUNE	-0.10%	--	-0.40%
13-Jul	Producer Price Index (MoM)	JUNE	-0.10%	-0.40%	-1.00%
13-Jul	PPI Ex Food & Energy (MoM)	JUNE	0.10%	0.20%	0.20%
13-Jul	U. Michigan Consumer Sentiment	JULY	74.00	73.50	73.20

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. Forecasts pending revisions.

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