

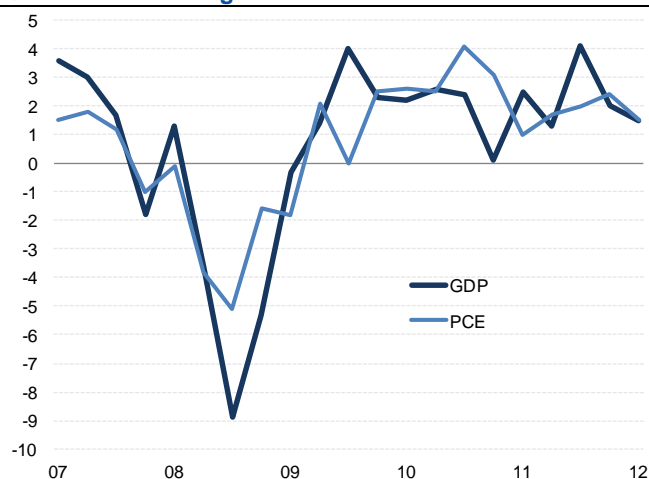
US Weekly Flash

Highlights

• Economic Momentum Slows in 2Q12, Outlook for 2H12 Remains Unchanged

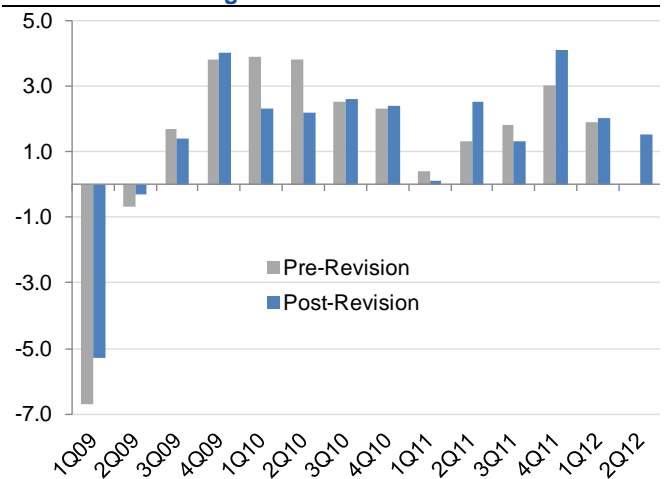
- The Bureau of Economic Analysis confirmed the economic slowdown in 2Q12 with the release of the advance GDP growth rate, coming in at 1.5% on a QoQ seasonally-adjusted annualized basis. This is slightly slower than growth in 1Q12, which was revised up from 1.9% to 2.0%.
- Second quarter slowing was due in large part to decelerating personal consumption expenditures (PCE), which fell to 1.5% from 2.4% in the first quarter, in addition to lower growth in residential and non-residential fixed investment. Nonresidential structures slowed significantly after jumping 12.9% in the first quarter, despite slightly stronger data on construction spending. Exports accelerated but not enough to offset the gain in imports for the quarter. Private inventory investment was stronger, with the change in real private inventories contributing 0.32 percentage points to GDP following a 0.39 negative contribution in 1Q12. If consumption does not increase enough to compensate for this inventory build, then we could see more sluggish production in the coming months. However, we remain relatively optimistic that the current data hints at only a temporary slowdown rather than stalling growth.
- In regards to the annual revisions, most of the data changed only slightly from prior estimates. Annual growth for 2009 was revised up from -3.5% to -3.1%, 2010 was revised down from 3.0% to 2.4%, and 2011 was revised up from 1.7% to 1.8%. The 2011 change mostly came from the second and fourth quarters, which were revised up significantly to 2.5% and 4.1%, respectively, as a result of upward revisions to PCE and inventory investment, though first quarter of 2011 was revised down further. Overall, the average revision was 0.7 percentage points over the 13 quarters from 2009 to present.
- While second quarter growth came in slightly lower than expected, we are still on target in terms of our baseline scenario for the year. Our newly revised forecast for 2.1% growth allows for acceleration in the second half of the year, which we expect could be stronger once temporary factors fade. Ultimately, this data should have little impact on the upcoming Fed meeting, which we expect will feature discussions of further action but will not result in any significant announcements just yet.

Graph 1
Real GDP and PCE Growth
QoQ SAAR % Change



Source: Bureau of Economic Activity & BBVA Research

Graph 2
Annual GDP Revisions
QoQ SAAR % Change



Source: Bureau of Economic Activity & BBVA Research

Week Ahead

Personal Income and Outlays (June, Tuesday 8:30 ET)

Forecast: 0.3%, 0.0%

Consensus: 0.4%, 0.1%

Previous: 0.2%, 0.0%

Momentum in the consumer sector, as measured by personal income and outlays, is expected to remain relatively steady in June compared to previous months. Weak employment conditions have yet to take a significant toll on personal income, which has grown at a healthy pace since December. The wages and salaries component was unchanged in May, yet we expect to see positive growth in June given the 0.3% rise in average earnings for the month. On the down side, stronger income growth has yet to translate into increased spending. Lingering uncertainties have left consumers hesitant to spend, even with the boost from falling gas prices. Other consumer data from June, including the larger-than-expected decline in both nominal and real retail sales, suggest minimal growth in personal outlays for the month.

ISM Manufacturing Index (July, Wednesday 10:00 ET)

Forecast: 49.9

Consensus: 50.2

Previous: 49.7

Manufacturing data has been pointing to a slowdown in activity for the past few months, with the ISM Index dropping below 50 for the first time in years. Weakness is stemming mostly from the new orders component, which hints at less robust production in the coming months unless consumption recovers soon. Furthermore, new export orders will likely suffer as demand from Europe and China continues to slow. Given the latest trends, we expect that the index will hover near the 50-mark in July to indicate a very limited change in activity for the month.

FOMC Meeting Announcement (August, Wednesday 14:15 ET)

Forecast: 0.25%

Consensus: 0.25%

Previous: 0.25%

The most recent Fed speeches and details from the latest FOMC meeting minutes suggest increasing concerns related to developments in Europe that may push the committee towards additional quantitative easing. Still, we do not expect that the Fed will announce any additional action in the upcoming meeting as the ideological division among members remains strong. The extension of Operation Twist in the previous meeting bought the Fed some more time to debate the effectiveness of further monetary policy easing, and we expect that this next meeting will involve serious discussions regarding QE3. However, it is more likely that the Fed will announce QE3 in the September meeting.

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

Forecast: 100K, 8.2%

Consensus: 100K, 8.2%

Previous: 80K, 8.2%

July's employment report is unlikely to show a drastic change from June, and the question remains whether we will see a clearer trend in job growth following the supposed weather impacts in Q1 and Q2. In July, we have seen very little improvement in labor market conditions compared to the previous month, with consumer sentiment reports still pointing to weakness in terms of job availability and future income. There was a slight improvement in weekly jobless claims data in the beginning of the month, but this was mostly due to the shortened holiday week and the usual seasonal volatility this time of year. The later claims estimates for July jumped back up to levels more consistent with June's data, suggesting that labor market conditions remain weak. Furthermore, details from manufacturing surveys indicate decelerating job growth in the sector.

Market Impact

Markets will likely be volatile this week due to the heavy economic calendar. The employment report and manufacturing data for July will be key indicators of how economic momentum may change in the second half of the year. Consumer activity will also be a major focus, with markets hoping for a strong PCE release that could potentially boost the first estimate of 2Q12 GDP. Finally, markets will pay close attention to the FOMC meeting announcement as well as further developments in Europe.

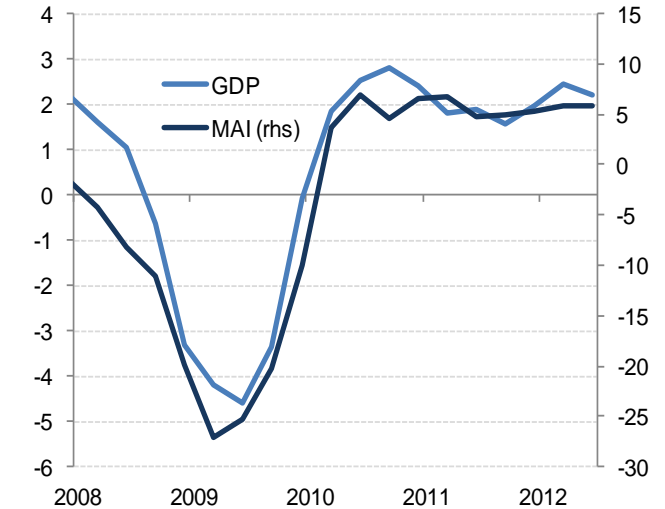
Economic Trends

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



Source: BBVA Research

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



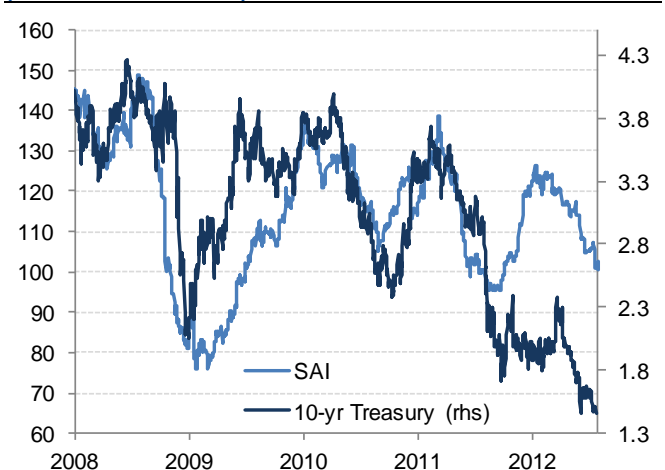
Source: BBVA Research & BEA

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



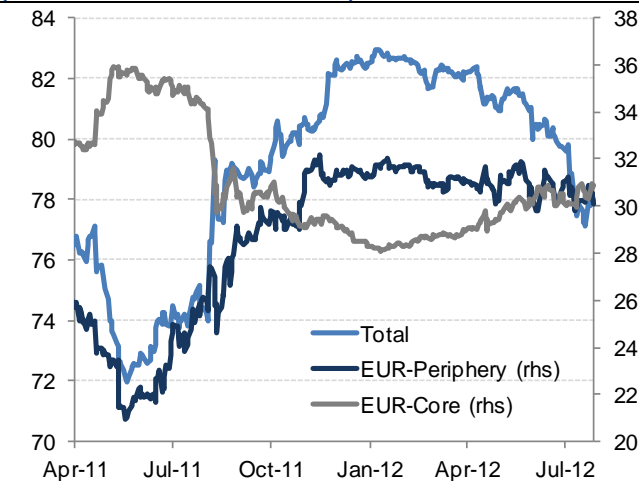
Source: BBVA Research

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



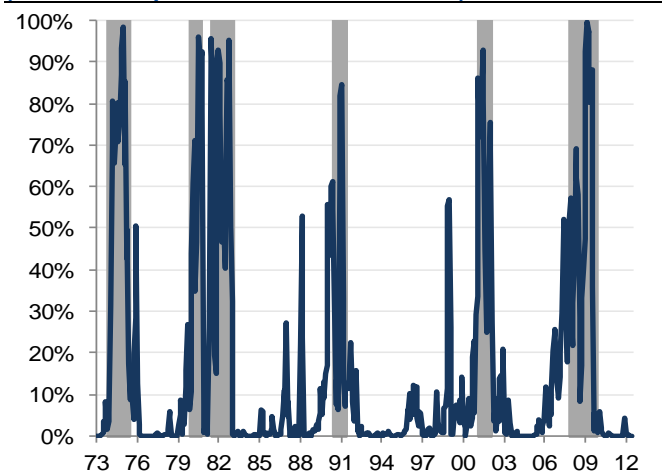
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

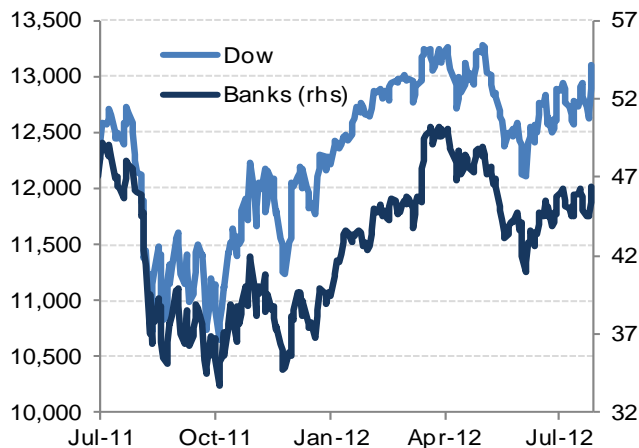
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

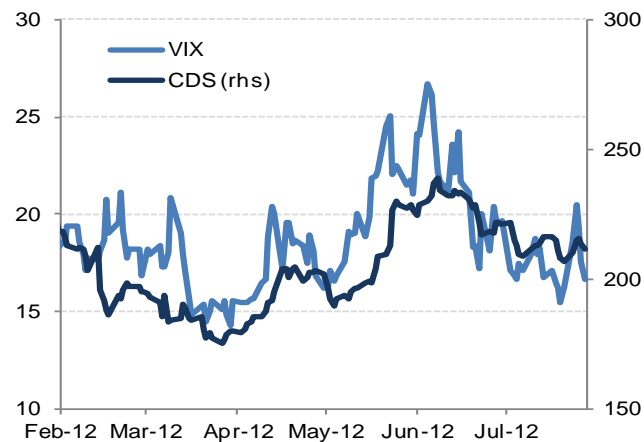
Financial Markets

Graph 9
Stocks
(Index, KBW)



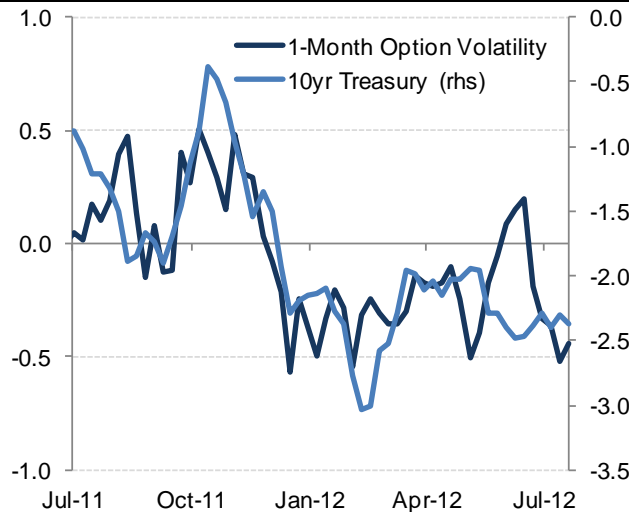
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



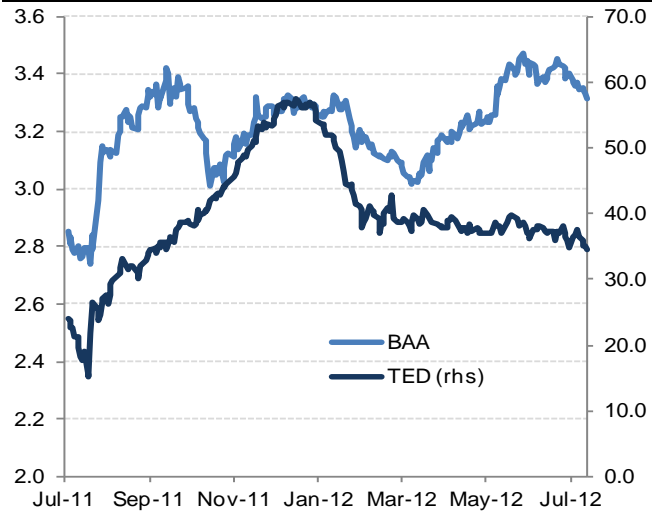
Source: Bloomberg & BBVA Research

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



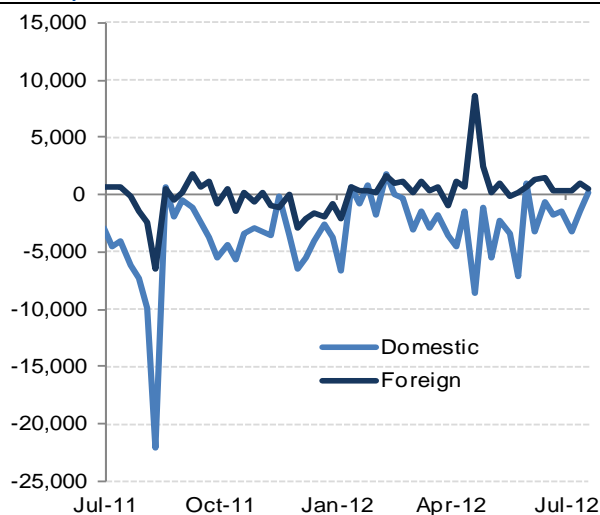
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



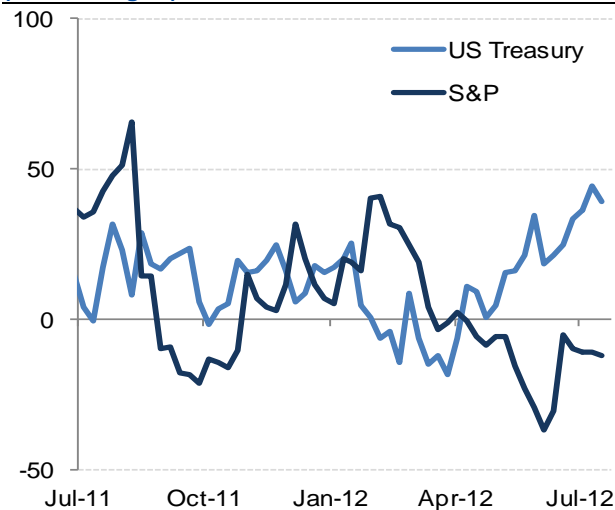
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

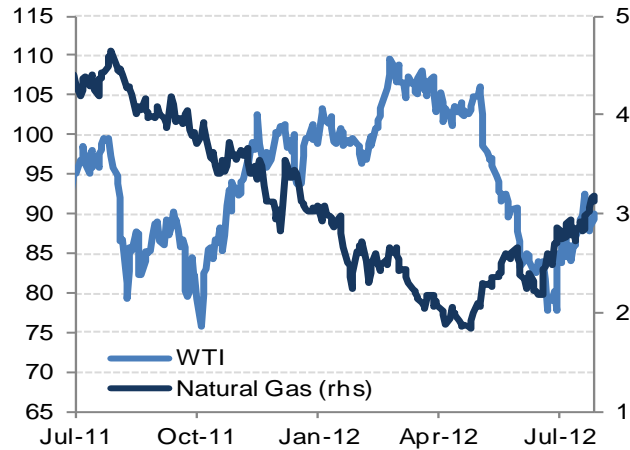
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

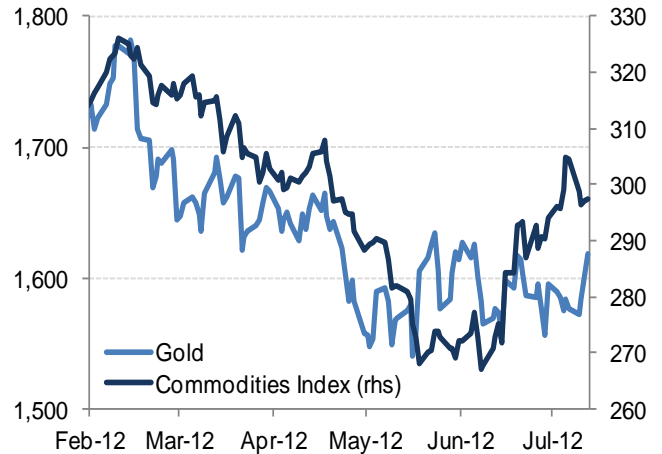
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



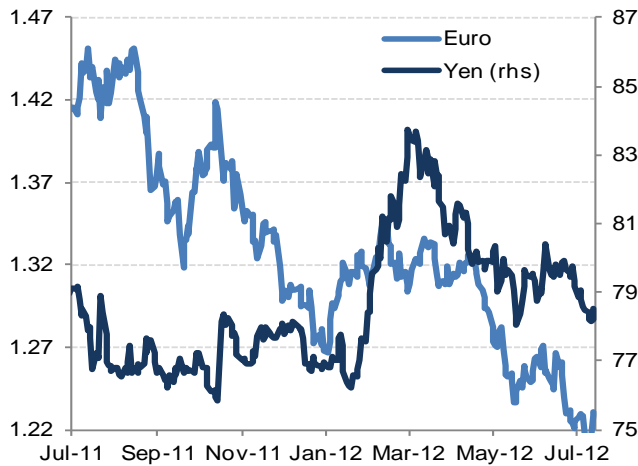
Source: Bloomberg & BBVA Research

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



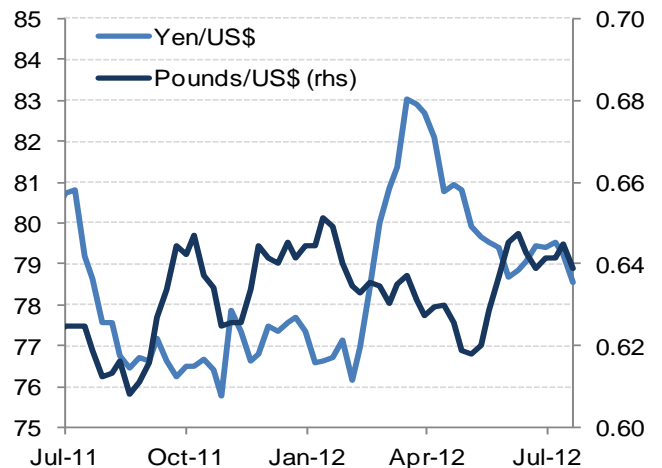
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



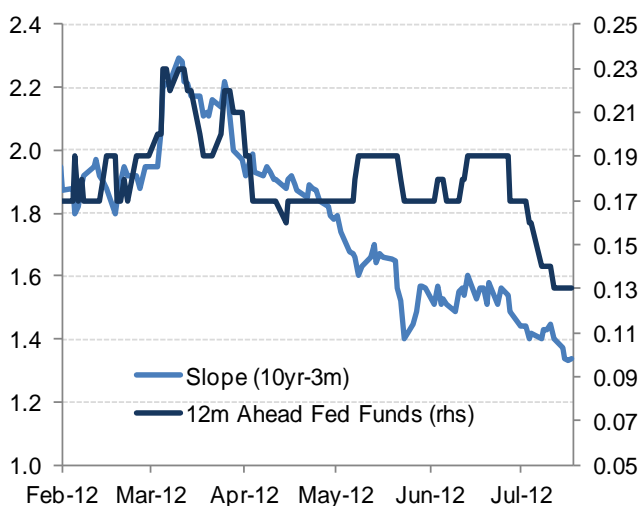
Source: Bloomberg & BBVA Research

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



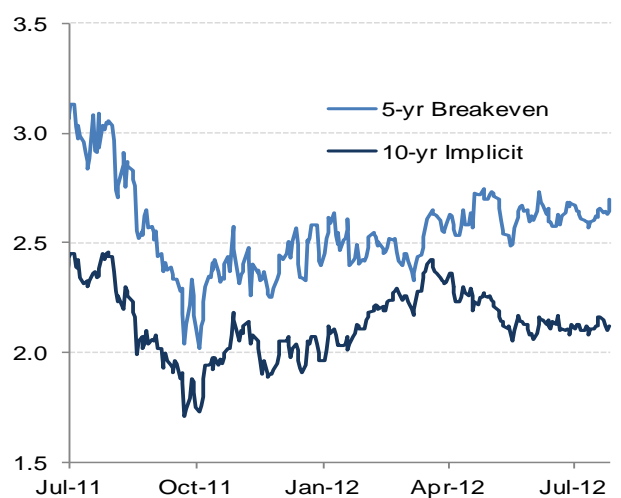
Source: Haver Analytics & BBVA Research

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) | 3.01 | 3.01 | 3.11 | 3.93 |
| Heloc Loan 30K | 5.42 | 5.44 | 5.52 | 5.56 |
| 5/1 ARM* | 2.74 | 2.69 | 2.79 | 3.25 |
| 15-year Fixed Mortgage* | 2.80 | 2.83 | 2.94 | 3.66 |
| 30-year Fixed Mortgage* | 3.49 | 3.53 | 3.66 | 4.55 |
| Money Market | 0.53 | 0.51 | 0.72 | 0.58 |
| 2-year CD | 0.87 | 0.85 | 0.90 | 1.04 |

*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 | 0.13 | 0.09 | 0.11 |
| 3M Libor | 0.45 | 0.45 | 0.46 | 0.25 |
| 6M Libor | 0.72 | 0.73 | 0.73 | 0.43 |
| 12M Libor | 1.06 | 1.06 | 1.07 | 0.76 |
| 2yr Sw ap | 0.45 | 0.44 | 0.55 | 0.59 |
| 5yr Sw ap | 0.86 | 0.81 | 0.97 | 1.62 |
| 10Yr Sw ap | 1.67 | 1.59 | 1.78 | 2.93 |
| 30yr Sw ap | 2.39 | 2.32 | 2.50 | 3.81 |
| 7day CP | 0.36 | 0.45 | 0.31 | 0.18 |
| 30day CP | 0.38 | 0.41 | 0.25 | 0.21 |
| 60day CP | 0.37 | 0.40 | 0.29 | 0.22 |
| 90day CP | 0.36 | 0.43 | 0.40 | 0.21 |

Source: Bloomberg & BBVA Research

Quote of the Week

U.S. Treasury Secretary Tim Geithner
Europe Threatens U.S. Economy
25 July 2012

"The economic recession in Europe is hurting economic growth around the world, and the ongoing financial stress is causing a general tightening of financial conditions, exacerbating the global slowdown. They've said, 'We will do everything it takes to hold the European Union together.' And you could say that's what they're trying to do. If you leave Europe on the edge of the abyss, if you leave it just teetering on the edge of financial disaster, it'll be much harder for this strategy to work."

Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|--------|----------------------------------|--------|----------|--------|----------|
| 30-Jul | Dallas Fed Manufacturing Survey | JULY | 2.00 | 2.00 | 5.80 |
| 31-Jul | Personal Income (MoM) | JUNE | 0.30% | 0.40% | 0.20% |
| 31-Jul | Personal Spending (MoM) | JUNE | 0.00% | 0.10% | 0.00% |
| 31-Jul | Employment Cost Index (QoQ) | 2Q12 | 0.40% | 0.50% | 0.40% |
| 31-Jul | S&P Case-Shiller HPI (YoY) | MAY | -1.70% | -1.45% | -1.90% |
| 31-Jul | Chicago PMI | JULY | 52.50 | 52.50 | 52.90 |
| 31-Jul | Consumer Confidence | JULY | 62.50 | 61.40 | 62.00 |
| 1-Aug | Total Vehicle Sales | JULY | 14.00M | 14.00M | 14.05M |
| 1-Aug | Domestic Vehicle Sales | JULY | 11.10M | 11.00M | 11.05M |
| 1-Aug | ADP Employment | JULY | 120K | 120K | 176K |
| 1-Aug | ISM Manufacturing Index | JULY | 49.9 | 50.2 | 49.7 |
| 1-Aug | Construction Spending (MoM) | JUNE | 0.3% | 0.3% | 0.9% |
| 1-Aug | FOMC Meeting Announcement | JULY | 0.25% | 0.25% | 0.25% |
| 2-Aug | Initial Jobless Claims | 28-Jul | 365K | 370K | 353K |
| 2-Aug | Continuing Claims | 21-Jul | 3295K | 3278K | 3287K |
| 2-Aug | Factory Orders | JUNE | 0.4% | 0.5% | 0.7% |
| 3-Aug | Change in Nonfarm Payrolls | JULY | 100K | 100K | 80K |
| 3-Aug | Change in Private Payrolls | JULY | 105K | 110K | 84K |
| 3-Aug | Change in Manufacturing Payrolls | JULY | 8K | 10K | 11K |
| 3-Aug | Unemployment Rate | JULY | 8.2% | 8.2% | 8.2% |
| 3-Aug | Average Hourly Earning (MoM) | JULY | 0.2% | 0.2% | 0.3% |
| 3-Aug | ISM Non-Manufacturing Index | JULY | 51.9 | 52.3 | 52.1 |

Forecasts

| | 2011 | 2012 | 2013 | 2014 |
|------------------------------|------|------|------|------|
| Real GDP (% SAAR) | 1.7 | 2.1 | 1.8 | 2.3 |
| CPI (YoY %) | 3.2 | 2.0 | 1.9 | 2.3 |
| CPI Core (YoY %) | 1.7 | 2.1 | 1.8 | 1.9 |
| Unemployment Rate (%) | 9.0 | 8.2 | 8.1 | 7.6 |
| Fed Target Rate (eop, %) | 0.25 | 0.25 | 0.25 | 0.50 |
| 10Yr Treasury (eop, % Yield) | 2.0 | 2.1 | 2.6 | 3.0 |
| US Dollar/ Euro (eop) | 1.31 | 1.25 | 1.31 | 1.31 |

Note: Bold numbers reflect actual data

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