

US Weekly Flash

Highlights

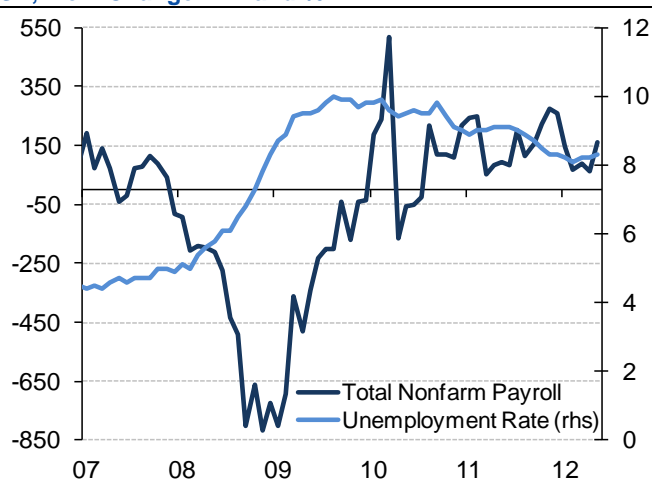
• Unemployment Rate Rises to 8.3% in July Despite Stronger Nonfarm Payroll Growth

- The employment report for July was somewhat mixed, with stronger-than-expected nonfarm payroll growth but a shift in the unemployment rate back to 8.3%. Total nonfarm payrolls increased 163K in July, above consensus expectations for a 100K gain. June's estimate was revised down from 80K to 64K, resulting in an average monthly increase of only 73K for 2Q12. Within the total, private payrolls increased 172K, the largest jump since February, with manufacturing up a surprising 25K. This data supports the ongoing argument that the warmer than usual winter shifted job growth to the first quarter that otherwise would have occurred in the second quarter.
- On the downside, nonfarm payroll growth did not rebound enough to push down the unemployment rate, or even keep it unchanged. At 8.3%, the increase in the unemployment rate reflected a drop in the participation rate to 63.7%. Flows out of the labor force increased 0.4% in July due to individuals leaving employment as well as some adjustments to population totals. According to the CPS labor force status flows, only 0.5% of unemployed individuals became employed in July.
- Ultimately, July's better-than-expected employment report eases some worries over a stalling economy. However, given that job growth is lagged, we will likely see some slowing again later in the year that reflects the current weakness in demand conditions. Also, we expect that this could ease some pressure on the Fed to announce QE3 in the next meeting, but we will be better able to judge with the August employment report to be released beforehand.

• June's Personal Income Not Enough to Boost Consumer Spending

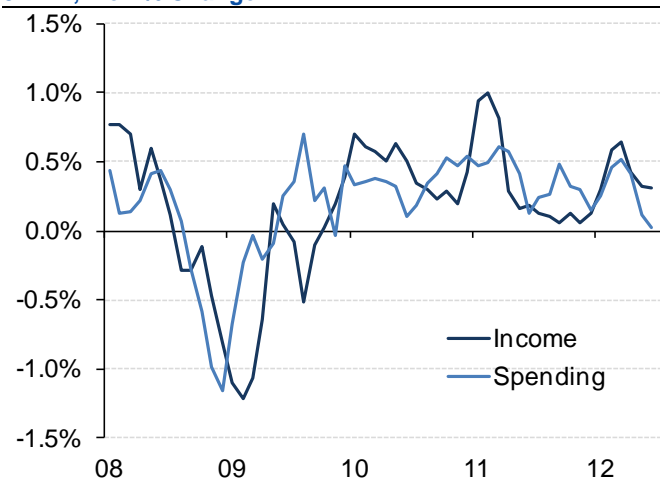
- Personal income increased 0.5% in June following a 0.3% gain in the previous month. The wages and salaries component gained some momentum but remained weaker than in the first quarter. On average, monthly income growth in 2Q12 was about half that in 1Q12.
- Unfortunately, consumers appear to be increasingly conservative when it comes to spending. Personal outlays remained unchanged in June after dropping 0.1% in May, ending the quarter on a weak note. In fact, average monthly spending growth in 2Q12 was the weakest since March 2009. However, the gradual improvement in labor market conditions seen in July's report could boost consumer confidence throughout the third quarter. On the downside, the 0.1% decline in real PCE leaves little room for an upward revision to the advance GDP estimate for 2Q12.

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



Source: Bureau of Labor Statistics & BBVA Research

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



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

Consumer Credit (June, Tuesday 15:00 ET)

Forecast: \$10.5B

Consensus: \$10.0B

Previous: \$17.1B

Total outstanding consumer credit continues to surpass expectations as a result of growing issuance of student loans rather than an increase in underlying consumer activity. Nonrevolving credit is driven in large part by increasing student loans, yet when excluding this government component, it has been mostly flat throughout the recovery period. Revolving credit has been a volatile component recently but jumped \$8.0B in May, the strongest gain since November 2007. Weaker consumer spending data for June suggest that consumers were probably more hesitant to take on credit card debt compared to the previous month, a sentiment that is also reflected in the latest confidence reports. In general, we expect that total consumer credit will grow at a slightly slower pace compared to the previous month.

Productivity and Costs (2Q12, Wednesday 8:30 ET)

Forecast: 1.3%, 0.3%

Consensus: 1.4%, 0.4%

Previous: -0.9%, 1.3%

Nonfarm productivity and unit labor costs in 1Q12 were revised down on account of slower output growth and lower estimates for compensation. Looking at 2Q12 data, output has been slightly stronger as measured by the industrial production index, which increased 0.9% throughout the quarter. Despite the slower growth estimate reported in 2Q12, the minor decline in average hours worked suggests that productivity likely increased on a QoQ basis. In regards to unit labor costs, weaker labor market conditions and slower compensation growth in the second quarter point to downward pressure for employer expenses.

International Trade Balance (June, Thursday 8:30 ET)

Forecast: -\$48.3B

Consensus: -\$47.5B

Previous: -\$48.7B

The international trade deficit is expected to narrow slightly in June after improving more than expected in May. Although slowdowns in Europe and China have raised concerns of deteriorating demand for US goods, lower oil prices should continue to help in the overall improvement of the trade balance. Export growth did rebound in May but will likely remain sensitive to external slowing, and we expect some monthly volatility through the second half of 2012. Various manufacturing surveys have hinted at slowing new export orders in recent months, pointing to reduced shipments ahead. The uncertain business outlook will continue to limit import orders, offsetting some potential weakness from export growth.

Wholesale Inventories (June, Thursday 10:00 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: 0.3%

Wholesale inventories have started to taper off a bit given the slowing consumer outlook and weak demand conditions. So far in 2Q12, wholesalers have increased inventory at about half the average pace as in 1Q12. In May, the stock to sales ratio increased for the first time in seven months, indicating that inventory growth should continue to slow on account of weaker sales. Finally, various manufacturing surveys have noted steady but lean inventory build, and we expect that wholesalers will continue to build stock at a modest pace.

Market Impact

This week's calendar should incite less market anxiety compared to the previous week, though market sensitivity will linger as the implications from the latest employment report and other weak data settle in. A significant improvement in the international trade balance could hint at an upward revision to the GDP estimate for 2Q12, while a look at productivity and costs could confirm the seriousness of the slowdown for the business sector.

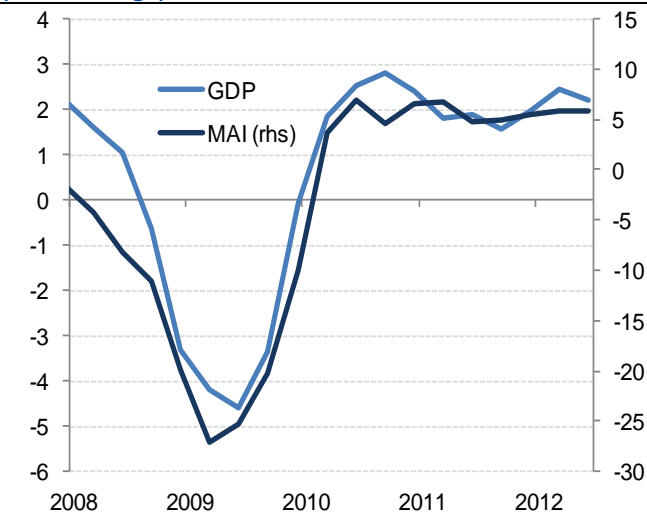
Economic Trends

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



Source: BBVA Research

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



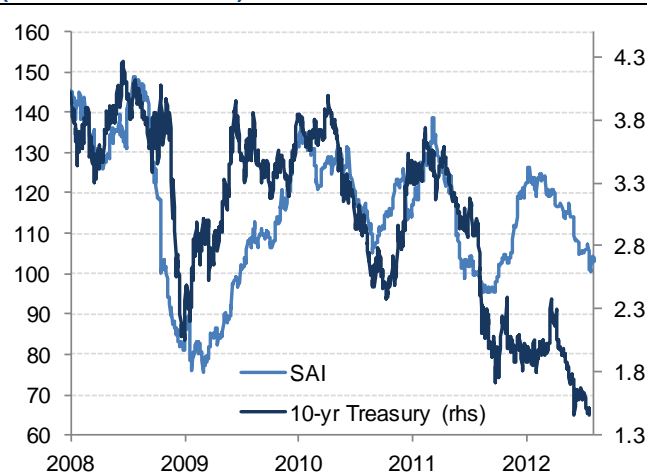
Source: BBVA Research & BEA

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



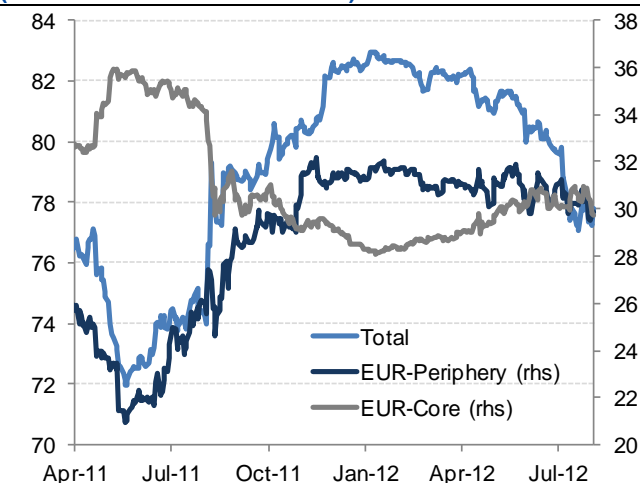
Source: BBVA Research

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



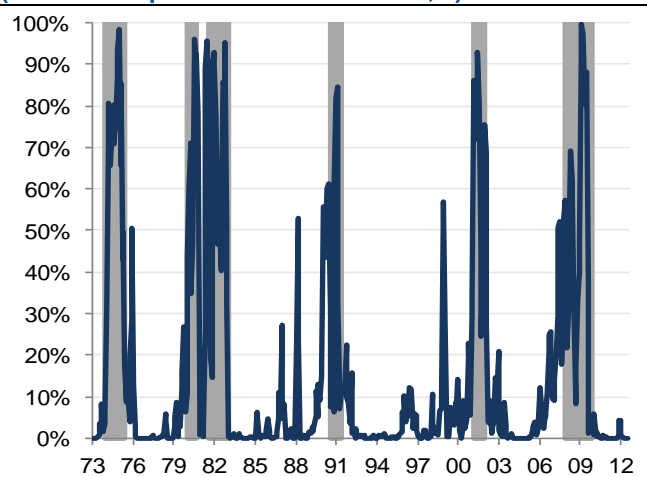
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

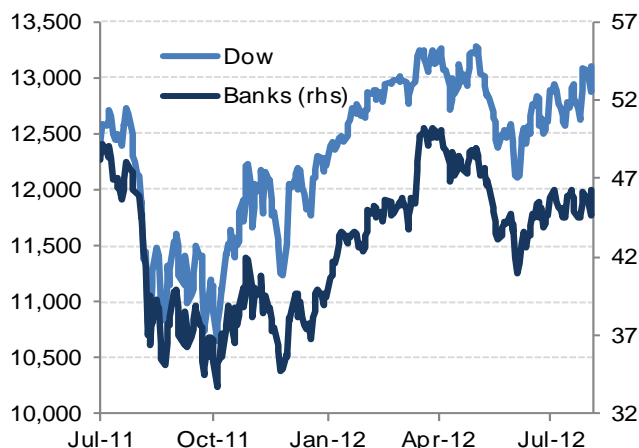
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

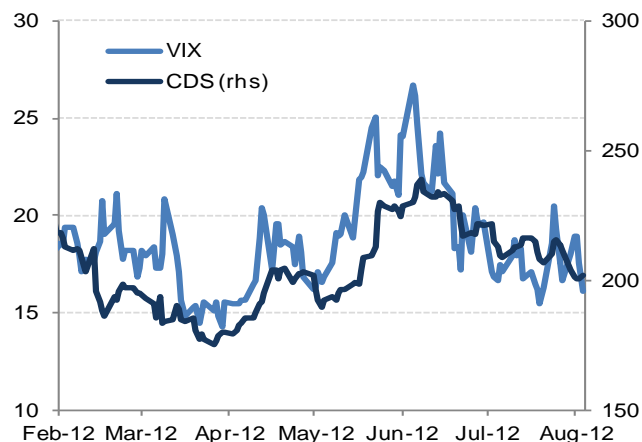
Financial Markets

Graph 9
Stocks
(Index, KBW)



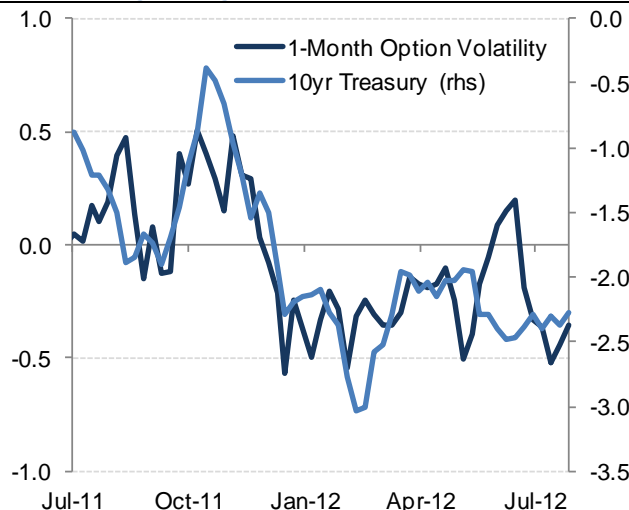
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



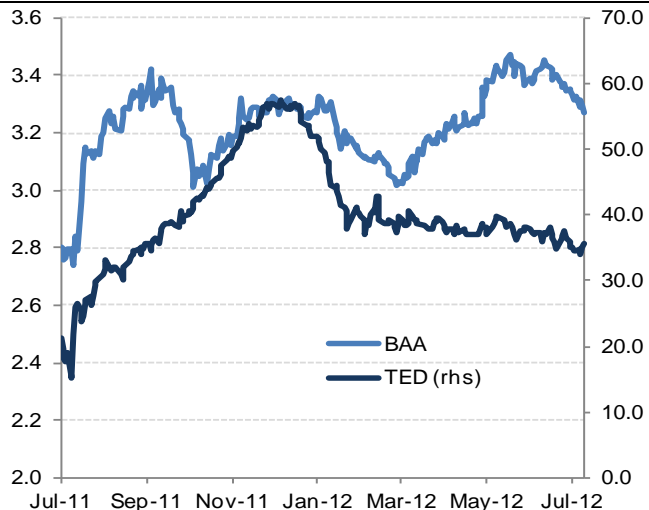
Source: Bloomberg & BBVA Research

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



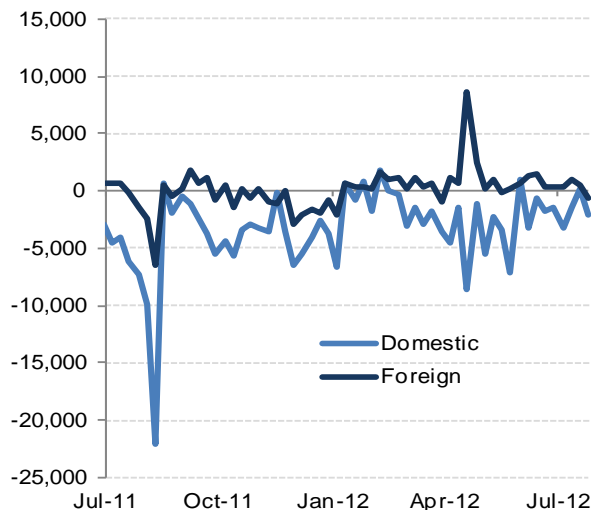
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



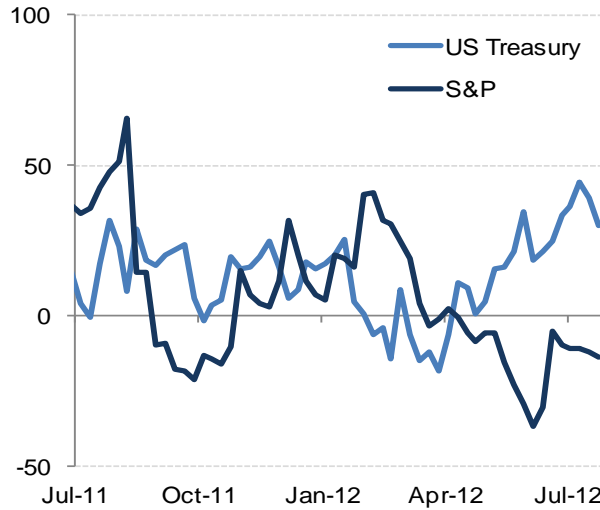
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

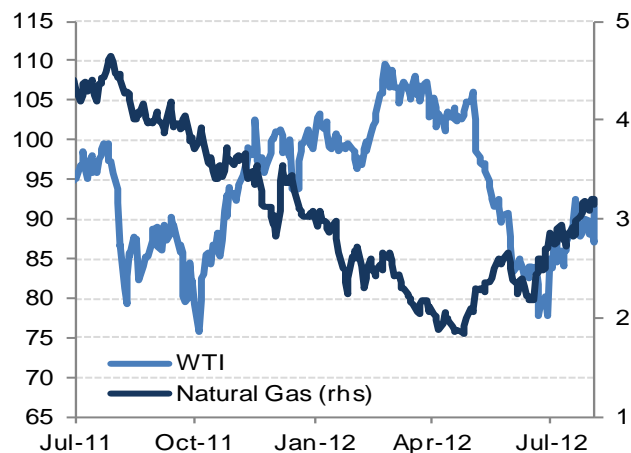
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

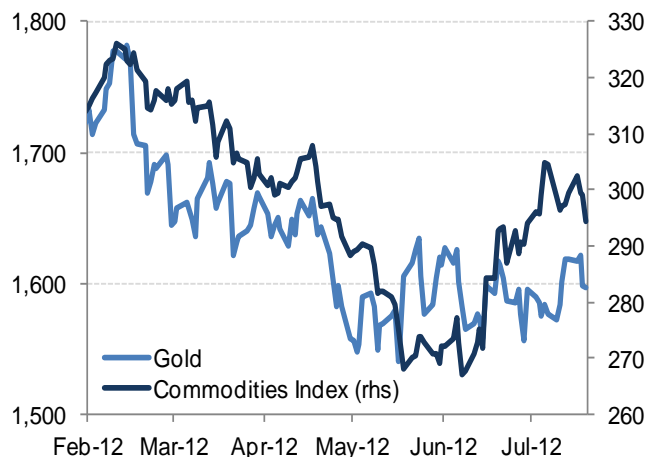
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



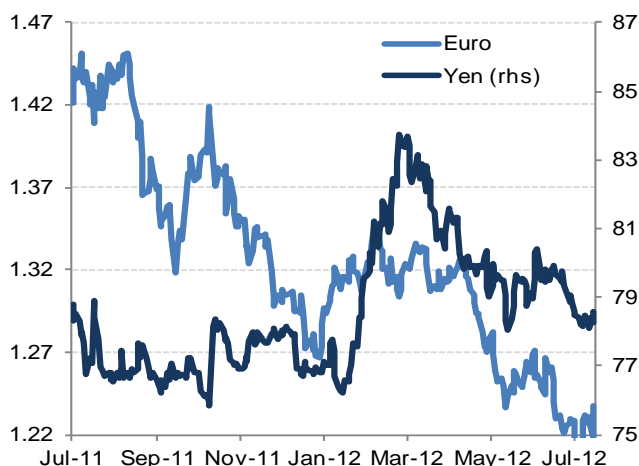
Source: Bloomberg & BBVA Research

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



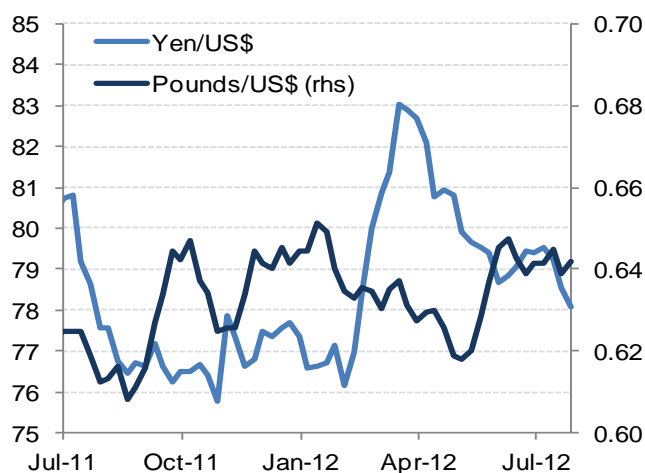
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



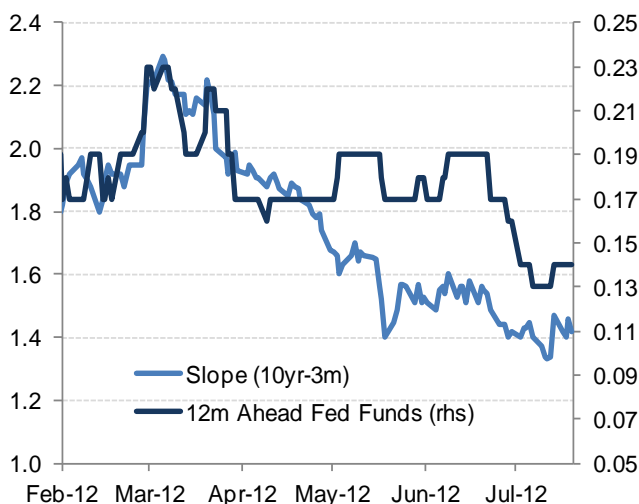
Source: Bloomberg & BBVA Research

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



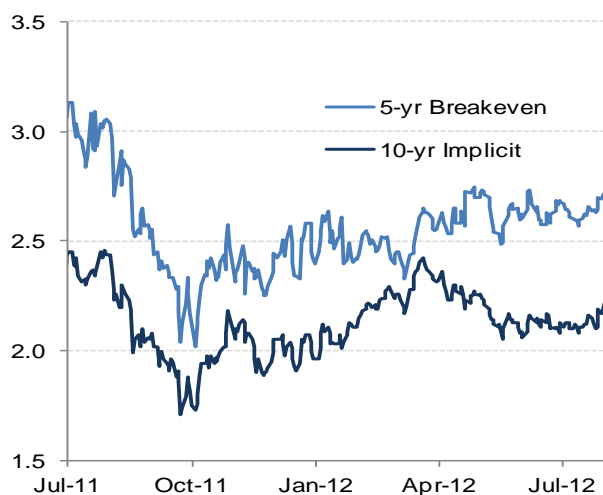
Source: Haver Analytics & BBVA Research

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)	2.95	3.01	3.11	4.30
Heloc Loan 30K	5.43	5.42	5.51	5.55
5/1 ARM*	2.75	2.74	2.79	3.18
15-year Fixed Mortgage *	2.83	2.80	2.89	3.54
30-year Fixed Mortgage *	3.55	3.49	3.62	4.39
Money Market	0.53	0.53	0.50	0.58
2-year CD	0.87	0.87	0.82	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	0.14	0.17	0.08
3M Libor	0.44	0.45	0.46	0.27
6M Libor	0.72	0.72	0.74	0.44
12M Libor	1.05	1.06	1.07	0.77
2yr Sw ap	0.44	0.44	0.52	0.54
5yr Sw ap	0.88	0.85	0.90	1.54
10Yr Sw ap	1.72	1.67	1.70	2.73
30yr Sw ap	2.45	2.40	2.43	3.56
7day CP	0.30	0.36	0.27	0.29
30day CP	0.37	0.37	0.24	0.23
60day CP	0.36	0.39	0.28	0.21
90day CP	0.32	0.42	0.35	0.25

Source: Bloomberg & BBVA Research

Quote of the Week

Jeffrey Lacker, Richmond Federal Reserve President
Lacker says Fed rate hike could come before late 2014
3 August 2012

"I believe that exceptionally low federal funds rates are not likely to be warranted for this length of time. My assessment is that significant uncertainty regarding the evolution of economic conditions over the next few years makes the future path of interest rates difficult to forecast. The Committee's statement implies more confidence about the persistence of low interest rates than I believe is justified by the current outlook."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Aug	Consumer Credit	JUNE	\$10.5B	\$10.0B	\$17.1B
8-Aug	Nonfarm Productivity	2Q12	1.3%	1.4%	-0.9%
8-Aug	Unit Labor Costs	2Q12	0.5%	0.4%	1.3%
9-Aug	International Trade Balance	JUNE	-\$48.3B	-\$47.5B	-\$48.7B
9-Aug	Initial Jobless Claims	4-Aug	365K	370K	365K
9-Aug	Continuing Claims	28-Jul	3280K	3272K	3272K
9-Aug	Wholesale inventories	JUNE	0.2%	0.3%	0.3%
10-Aug	Import Prices (MoM)	JULY	-0.50%	0.20%	-2.70%
10-Aug	Export Prices (MoM)	JULY	0.00%	--	-1.70%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	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	1.23	1.31	1.31

Note: Bold numbers reflect actual data

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