

US Weekly Flash

Highlights

• Consumer Credit Up \$6.5bn in June, Slowest Pace Since October

- Total outstanding consumer credit grew at a slower than expected pace in June, up only \$6.5bn due to a \$3.7bn drop in revolving credit. The decline in revolving credit better reflected the latest retail sales report and consumers' hesitation to spend. As in prior months, student loans remain the driving force behind nonrevolving credit growth. Excluding government, total consumer credit is only slightly higher than its post-recession low.
- The increasingly uncertain economic outlook appears to be weighing on consumers, with many forgoing usual spending routines despite rising personal income. Household debt levels are nowhere near dangerous but could become worrisome if economic growth continues to slow. Weak economic conditions, the looming fiscal cliff, and financial uncertainty stemming from Europe should keep consumer confidence subdued throughout 2H12.

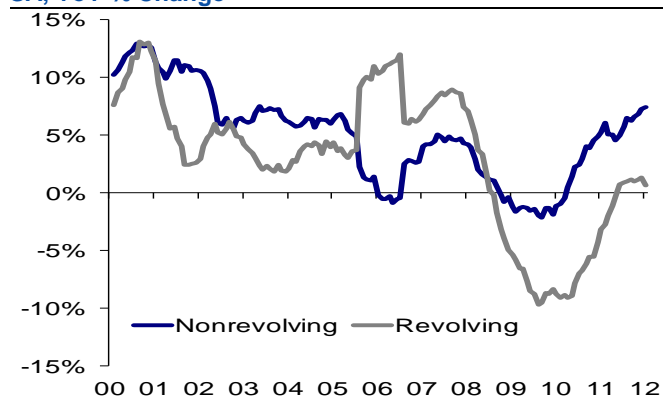
• June's JOLTS Report Suggests More Dynamic Labor Market in 2Q12

- Job openings in June increased nearly 3% MoM to 3762K, closing out the second quarter with a 315K total gain over the three-month period compared to only 264K in 1Q12. Although uncertainties continue to weigh on business confidence and expectations, the data suggests at least some improvement in the demand outlook. Hires actually declined slightly in June but still reflected a 148K increase for the quarter, almost 65% more than in 1Q12.
- The relative strength seen in June's report foreshadows what we now know was a better July in terms of nonfarm payroll growth. The gap between hires and separations widened in June and is an indication of stronger job growth for the following month. Overall, net employment increased at a similar pace as in previous months, totalling 1.8mn over the 12 months ending in June 2012.

• Trade Deficit in June Improves to Lowest Level Since December 2010

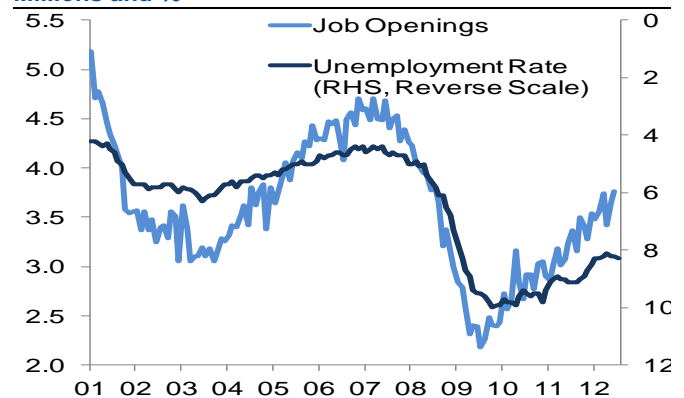
- The trade balance in June narrowed significantly to -\$42.9bn from -\$48.0bn in May, mostly on account of a 1.5% decline in imports, which fell throughout the entire second quarter. Exports increased for the second consecutive month, up 0.9% and enough to bring levels back to where they were at the end of 1Q12.
- Unfortunately, the data offer a mixed review on the state of the economy, as has been the case for several months. Although the increase in exports eases some worries of slowing global demand, the drop in imports suggests that businesses remain hesitant about the outlook for future demand conditions. Overall, the improvement will likely influence a slight upward revision to the second estimate of 2Q12 GDP growth.

Graph 1
Credit Type Outstanding
SA, YoY % Change



Source: Federal Reserve & BBVA Research

Graph 2
Job Openings and Unemployment Rate
Millions and %



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

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

| | | |
|----------------------|-----------------------|------------------------|
| Forecast: 0.2%, 0.3% | Consensus: 0.3%, 0.3% | Previous: -0.5%, -0.4% |
|----------------------|-----------------------|------------------------|

Total retail sales are likely to improve only slightly in July after being dragged down by falling gasoline and auto sales in June. Gas prices have rebounded somewhat and are therefore less likely to drag down nominal retail sales in July. However, a drop in unit auto sales for the month could weigh on the total. In addition, weekly retail sales surveys were volatile throughout July and suggest only modest monthly improvement. Ultimately, consumer confidence remains weak and recent gains in personal income have yet to boost consumer spending.

Consumer Price Index, Core (July, Wednesday 8:30 ET)

| | | |
|----------------------|-----------------------|----------------------|
| Forecast: 0.2%, 0.2% | Consensus: 0.2%, 0.2% | Previous: 0.0%, 0.2% |
|----------------------|-----------------------|----------------------|

Inflation concerns have been minimal in recent months as a result of declining energy prices, yet core inflation continues to rise. Crude oil prices in July have only partially recovered from previous declines but should put some upward pressure on headline inflation for the month. While food prices are not having an immediate impact on inflation, we expect to see added pressure from this component later in the year, and thereafter. Excluding food and energy, core inflation has been steady near 0.2% for four consecutive months, with most of the pressure coming from shelter and medical care services.

Empire State Manufacturing Survey (July, Wednesday 8:30 ET)

| | | |
|----------------|-----------------|----------------|
| Forecast: 5.00 | Consensus: 7.00 | Previous: 7.39 |
|----------------|-----------------|----------------|

August is not expected to be a strong month for the manufacturing sector, with past data hinting at slowing activity in the coming months. Despite declines in most other manufacturing surveys, the Empire State Index increased in July and remained above zero to indicate accelerating activity in the sector. However, the new orders component slipped into negative territory for the first time in eight months. The employment and production indices remain relatively strong and should help keep the total index above zero, yet weakness in other components are sure to suggest slowing growth in manufacturing output.

Industrial Production (July, Wednesday 9:15 ET)

| | | |
|----------------|-----------------|----------------|
| Forecast: 0.4% | Consensus: 0.5% | Previous: 0.4% |
|----------------|-----------------|----------------|

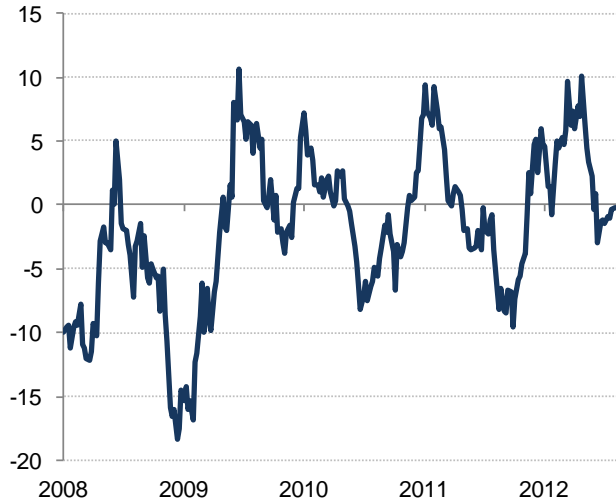
Industrial production more than recovered in June from a decline in the previous month, yet output is not expected to jump significantly in July. Reports of decelerating new orders in recent months are likely to limit production gains, with increasing uncertainties regarding the strength of manufacturing activity. Output in the manufacturing sector could decelerate further in July, although gains in utilities and mining should help offset some of this weakness.

Market Impact

Markets will be watchful of various economic indicators this week, hoping to gain a better understanding of the current trends in manufacturing, housing, and consumer activity. A first look at manufacturing data for August could highlight the potential for the sector to contribute to a stronger recovery in the second half of 2012. Given that consumer activity has remained subdued, another month of weaker-than-expected retail sales will likely cause some market anxiety. In addition, markets are still awaiting further resolution to the crisis in Europe.

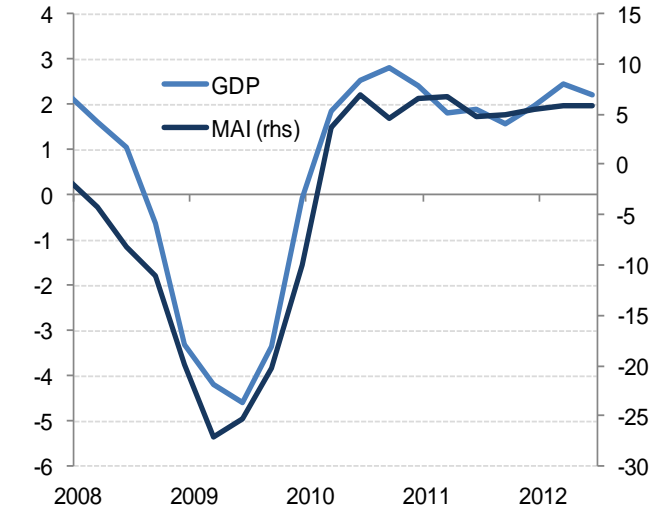
Economic Trends

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



Source: BBVA Research

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



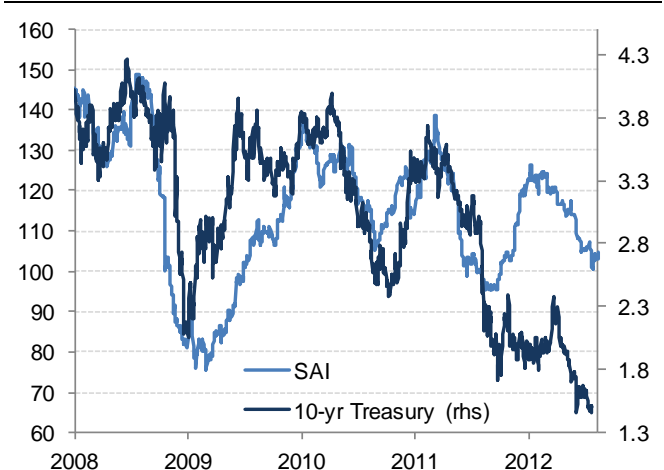
Source: BBVA Research & BEA

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



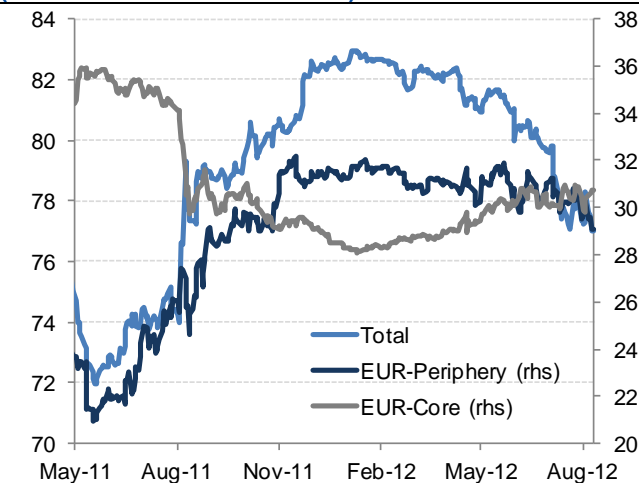
Source: BBVA Research

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



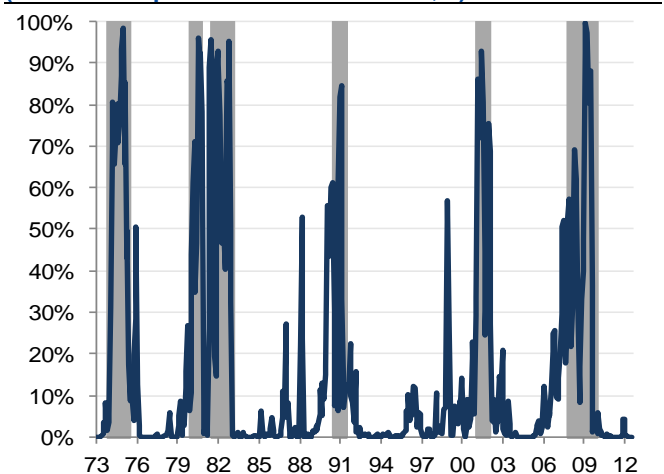
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

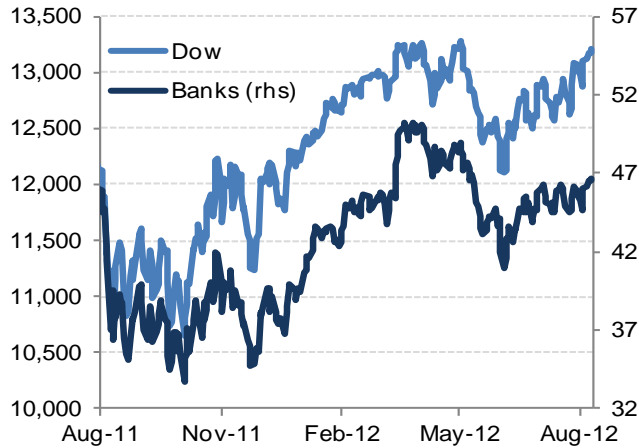
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

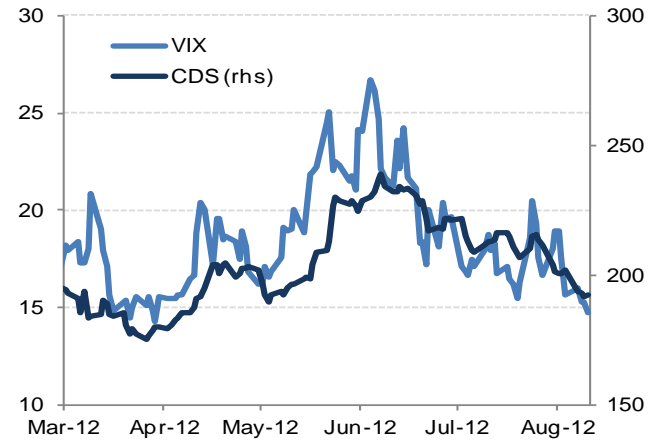
Financial Markets

Graph 9
Stocks
(Index, KBW)



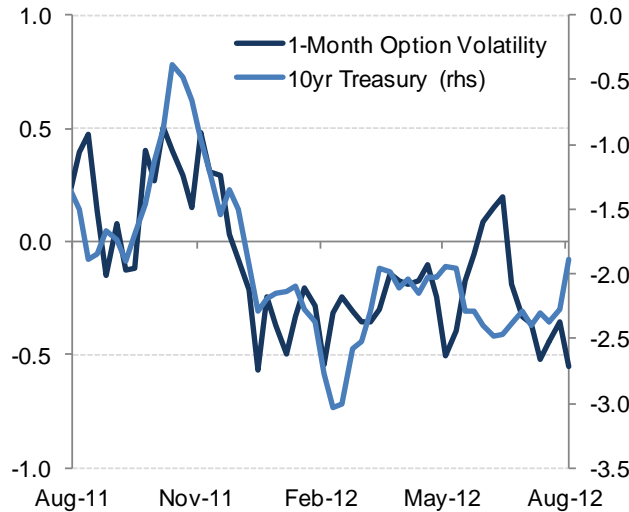
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



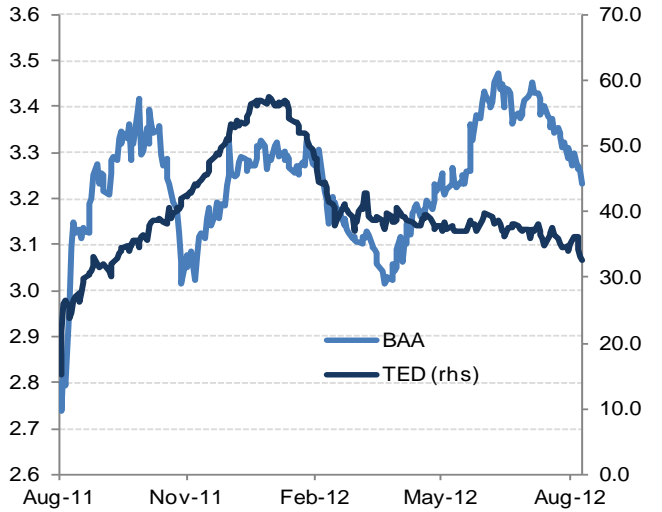
Source: Bloomberg & BBVA Research

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



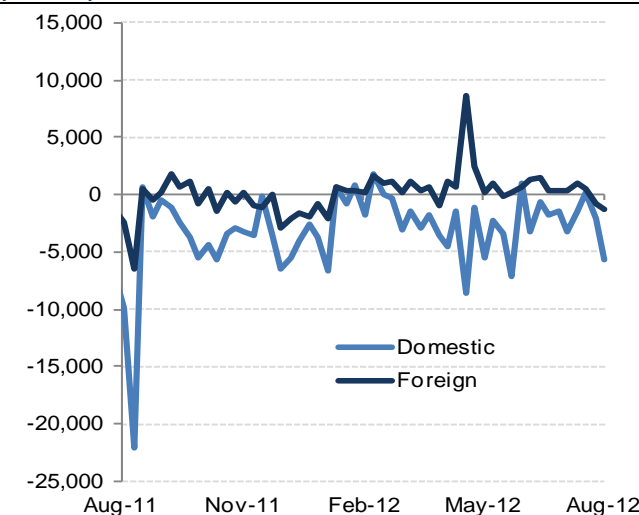
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



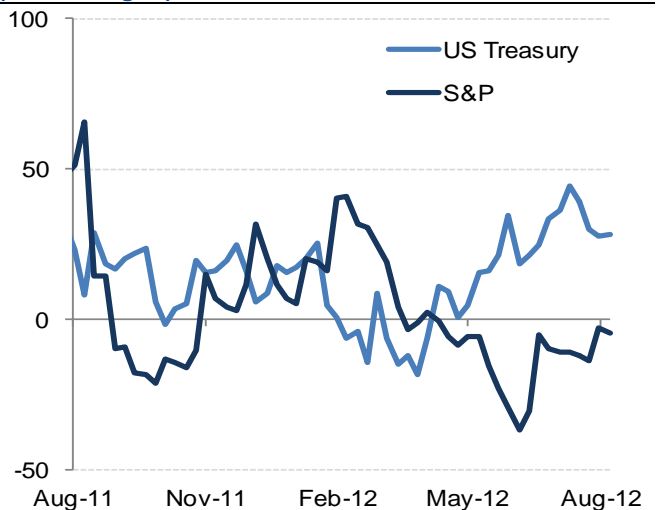
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

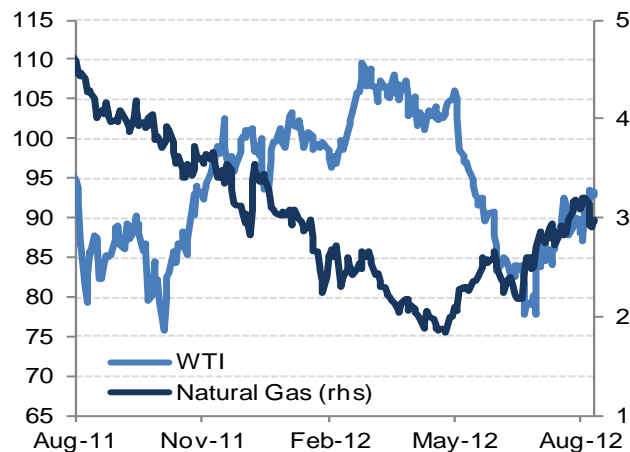
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

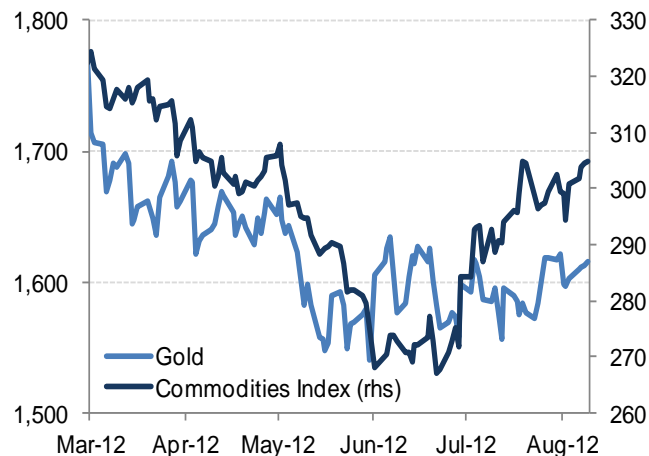
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



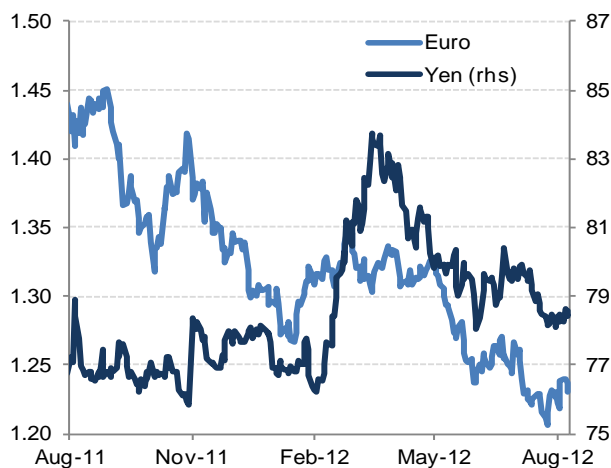
Source: Bloomberg & BBVA Research

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



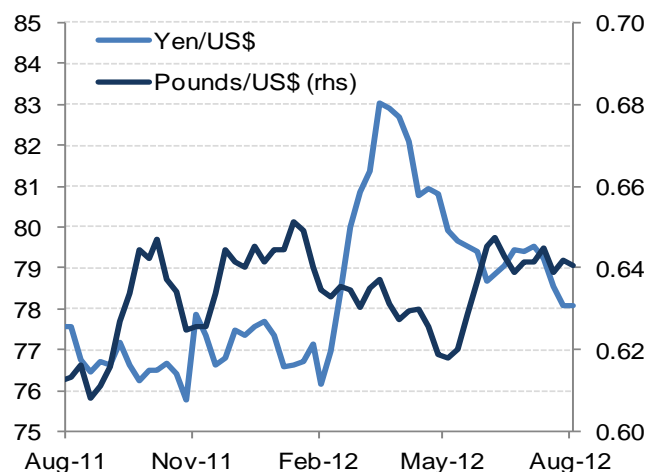
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



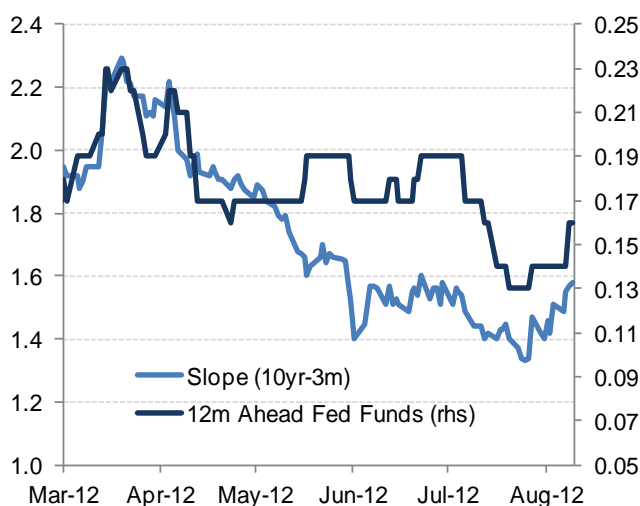
Source: Bloomberg & BBVA Research

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



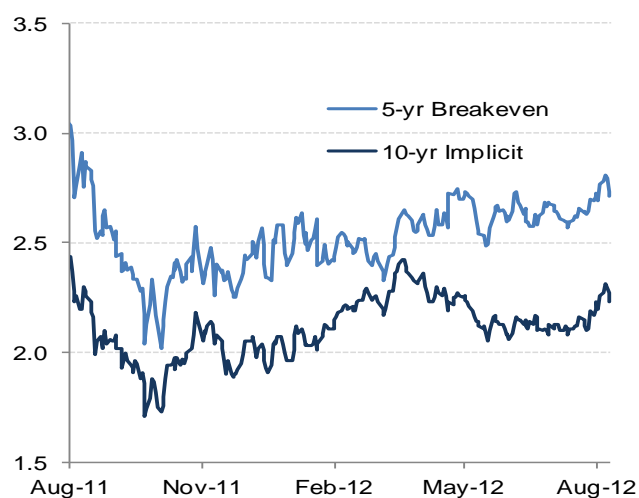
Source: Haver Analytics & BBVA Research

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) | 2.93 | 2.95 | 3.11 | 4.31 |
| Heloc Loan 30K | 5.49 | 5.44 | 5.47 | 5.55 |
| 5/1 ARM* | 2.77 | 2.75 | 2.74 | 3.13 |
| 15-year Fixed Mortgage * | 2.84 | 2.83 | 2.86 | 3.50 |
| 30-year Fixed Mortgage * | 3.59 | 3.55 | 3.56 | 4.32 |
| Money Market | 0.52 | 0.52 | 0.50 | 0.57 |
| 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 | 0.13 | 0.14 | 0.19 | 0.10 |
| 3M Libor | 0.44 | 0.44 | 0.46 | 0.29 |
| 6M Libor | 0.72 | 0.73 | 0.73 | 0.45 |
| 12M Libor | 1.05 | 1.05 | 1.07 | 0.77 |
| 2yr Sw ap | 0.47 | 0.45 | 0.46 | 0.44 |
| 5yr Sw ap | 0.91 | 0.88 | 0.85 | 1.24 |
| 10Yr Sw ap | 1.77 | 1.71 | 1.62 | 2.41 |
| 30yr Sw ap | 2.52 | 2.45 | 2.33 | 3.34 |
| 7day CP | 0.20 | 0.33 | 0.21 | 0.21 |
| 30day CP | 0.22 | 0.34 | 0.24 | 0.21 |
| 60day CP | 0.25 | 0.36 | 0.23 | 0.23 |
| 90day CP | 0.30 | 0.38 | 0.24 | 0.27 |

Source: Bloomberg & BBVA Research

Quote of the Week

Eric Rosengren, Boston Federal Reserve President
Treading Water on Jobs and the Economy
7 August 2012

"What I would argue for, actually, is to have it open-ended. That we focus on economic outcomes. I would argue that if we do a quantitative easing program, again, we should be using economic outcomes as what we're trying to get."

Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|--------|-----------------------------------|--------|----------|--------|----------|
| 14-Aug | Producer Price Index (MoM) | JULY | 0.20% | 0.20% | 0.10% |
| 14-Aug | PPI Ex Food & Energy (MoM) | JULY | 0.20% | 0.20% | 0.20% |
| 14-Aug | Advance Retail Sales | JULY | 0.20% | 0.30% | -0.50% |
| 14-Aug | Retail Sales Less Autos | JULY | 0.30% | 0.30% | -0.40% |
| 14-Aug | Business Inventories | JUNE | 0.10% | 0.20% | 0.30% |
| 15-Aug | Consumer Price Index (MoM) | JULY | 0.20% | 0.20% | 0.00% |
| 15-Aug | CPI Ex Food & Energy (MoM) | JULY | 0.20% | 0.20% | 0.20% |
| 15-Aug | Empire State Manufacturing Survey | AUG | 5.00 | 7.00 | 7.39 |
| 15-Aug | Industrial Production | JULY | 0.40% | 0.50% | 0.40% |
| 15-Aug | Capacity Utilization | JULY | 79.00% | 79.20% | 78.90% |
| 15-Aug | NAHB Housing Market Index | AUG | 36.00 | 34.00 | 35.00 |
| 16-Aug | Housing Starts | JULY | 765K | 758K | 760K |
| 16-Aug | Housing Starts (MoM) | JULY | 0.66% | -0.30% | 6.90% |
| 16-Aug | Building Permits | JULY | 770K | 766K | 755K |
| 16-Aug | Building Permits (MoM) | JULY | 1.99% | 0.70% | -3.70% |
| 16-Aug | Initial Jobless Claims | 11-Aug | 363K | 365K | 361K |
| 16-Aug | Continuing Claims | 4-Aug | 3300K | 3305K | 3332K |
| 16-Aug | Philadelphia Fed Survey | AUG | -7.00 | -5.00 | -12.90 |
| 17-Aug | U. Michigan Consumer Sentiment | AUG | 72.70 | 72.00 | 72.30 |
| 17-Aug | Leading Indicators | JULY | 0.20% | 0.20% | -0.20% |

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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