

US Weekly Flash

Highlights

• Consumer Price Index Unchanged in July, Core Pressures Muted

- Consumer prices remained unchanged in July for the third time in four months. Food inflation actually slowed for the month but we expect to see a bigger impact from this component throughout the rest of the year. Energy prices continue to weigh on headline inflation, declining for the fourth consecutive month despite a 0.3% rise in gasoline prices. The negative impact of energy prices is expected to fade in the coming months given increasing pressure on oil prices. In August thus far, crude oil prices have increased nearly 10%.
- Core inflation rose a modest 0.1% in July following a four-month streak of steady 0.2% gains. Prices of medical care services slowed significantly, while the transportation price index declined for the second consecutive month. Shelter prices remained steady near 0.1% growth. Ultimately, this is unlikely to have much of an impact on the next Fed meeting, planned for the day before the next inflation report.

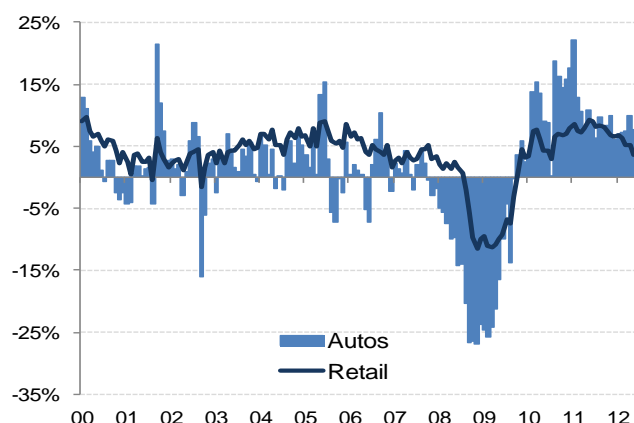
• July's Retail Sales Surprise to the Upside

- Retail sales increased 0.8% in July following a downwardly revised 0.7% decline in June. Excluding autos, retail sales also increased 0.8% due to widespread gains in most of the major components.
- Total sales still remain lower than the peak reached in March, but the news is a bright spot after seeing weakening consumer activity throughout the past few months. Most of the recent declines had been driven in large part by lower gas prices. In real terms, retail sales also increased 0.8% in July and recovered from the drop in June. Still, levels have not quite reached the historical high reached in November 2007.

• Manufacturing Still Contracting in August, Future Production Gains Limited

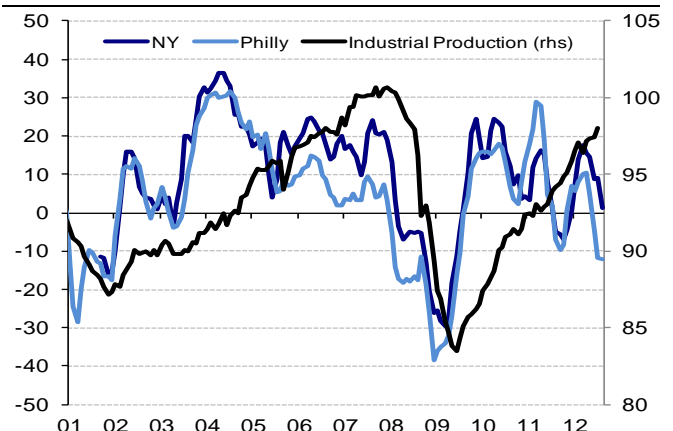
- The New York and Philadelphia Federal Reserve Manufacturing Surveys both indicated continued weakness for August. Negative readings for both indices suggest that activity continues to contract, with particular deterioration in new orders. Although the two regions have some contradicting data in some of the components, including production and employment, the general consensus is that manufacturing will not be leading a stronger recovery in the coming months.
- On the other hand, industrial production has continued to grow throughout the past four months, increasing 0.6% in July. Manufacturing, mining, and utilities output all contributed positively to overall production. However, the outlook for the rest of the quarter is downbeat given the influence of new orders on future production.

Graph 1
Total Retail and Auto Sales
YoY % Change



Source: Census Bureau & BBVA Research

Graph 2
Industrial Production and Fed Manufacturing Surveys
Index and 3mma



Source: Federal Reserve & BBVA Research

Week Ahead

Existing Home Sales (July, Wednesday 10:00 ET)

Forecast: 4.55M

Consensus: 4.52M

Previous: 4.37M

Existing home sales dropped in June for the first time in three months, but we expect that activity will rebound in July. Pending home sales, which are considered a leading indicator of existing home sales, jumped significantly in May and thus point to a larger gain for July's sales, particularly given June's decline. However, rising prices will likely suppress homebuyer demand, with housing affordability at its lowest level in almost a year. Furthermore, constrained supply may limit immediate sales until prices are high enough to convince homeowners that the time is right to sell.

Jobless Claims (August, Thursday 8:30 ET)

Forecast: 363K

Consensus: 365K

Previous: 366K

Throughout the first half of August, jobless claims fell below the averages of the previous four months and matched that of the former lows last seen in March. Although we saw some weeks in July where initial claims were near 350K, much of this was due to seasonal distortions in the auto sector. These influences have mostly faded, so the latest data are indicative of a slightly better employment report for August. Looking forward, claims are likely to remain below the 400K-mark as we continue to see gradual improvements in the labor market.

New Home Sales (July, Thursday 10:00 ET)

Forecast: 368K

Consensus: 365K

Previous: 350K

New home sales are expected to increase in July but not quite enough to make up for the significant decline in the previous month. Despite a slow-growing economy and weak labor market conditions that continue to weigh on consumer sentiments, the housing outlook remains positive. Homebuilder confidence in July hit its strongest level of the recovery, reflecting a large jump in both current and future sales. Ultimately, we expect that gradual improvements in housing activity will carry on and that new home sales will continue to grow at a healthy YoY pace.

Durable Goods Orders, Ex-Transportation (July, Friday 8:30 ET)

Forecast: 0.8%, 0.3%

Consensus: 1.6%, 0.5%

Previous: 1.6%, -1.1%

Durable goods increased through most of 2Q12, mostly on account of strength in aircraft orders. In July, we expect that transportation-related orders will remain positive but will grow at a slower pace compared to previous months. Excluding transportation, durable goods orders have declined in three of the last four months, with particular weakness in capital goods orders. Despite reports of slowing new orders for the month from the ISM and Federal Reserve manufacturing surveys, the ex-transportation component is expected to recover slightly from a relatively large decline in June.

Market Impact

The week is light in terms of economic data but follows a relatively positive wave of news, with one of the only negatives being further contraction in manufacturing activity. Continued growth in durable goods orders for July could offset some pessimism in the sector, pointing to stronger production and capital spending in the coming months. Furthermore, a run of positive housing data will keep markets happy at least for the time being. Markets will also look to the FOMC meeting minutes on Wednesday for clues of a future QE3 announcement.

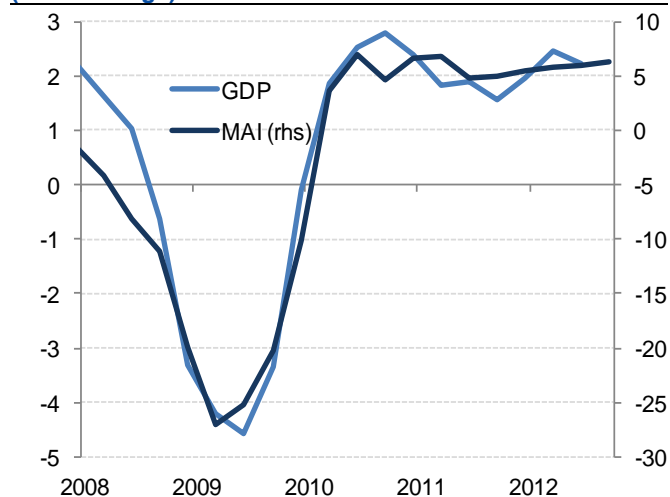
Economic Trends

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



Source: BBVA Research

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



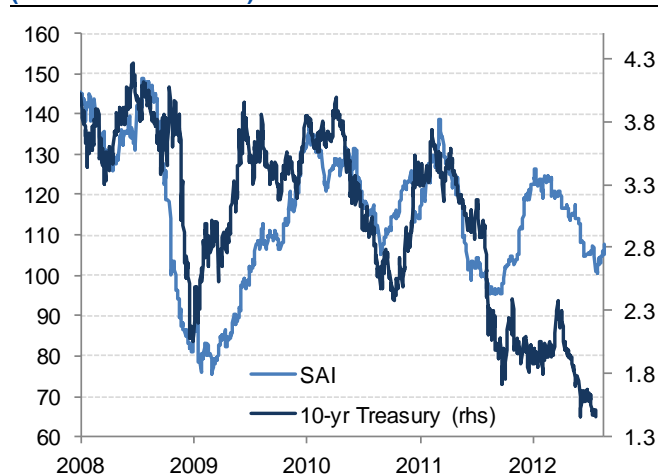
Source: BBVA Research & BEA

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



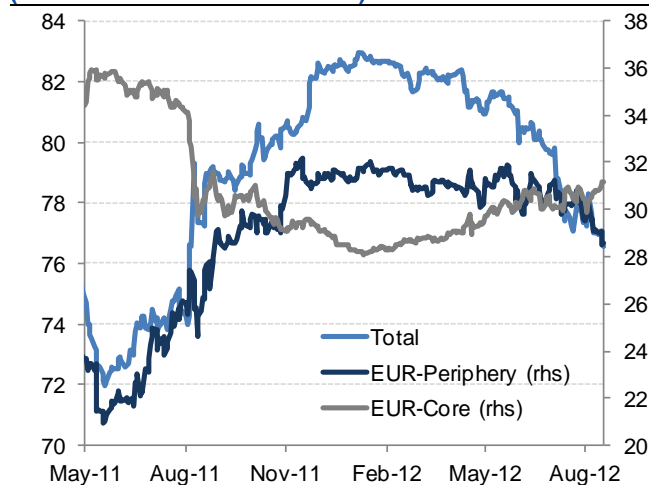
Source: BBVA Research

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



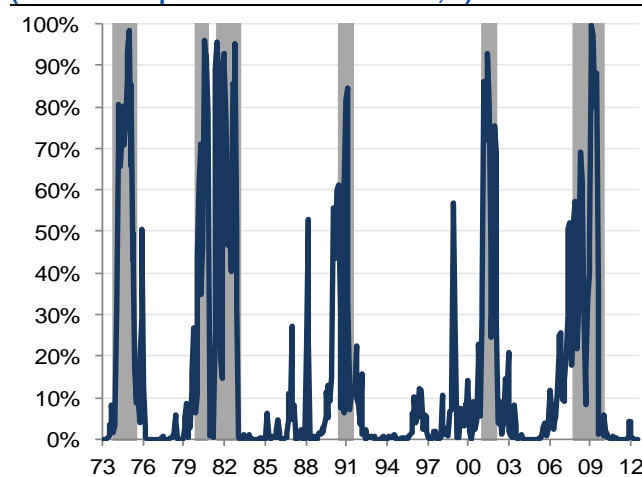
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

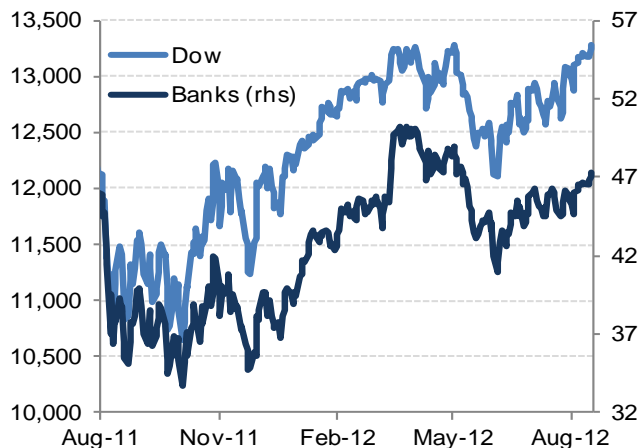
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

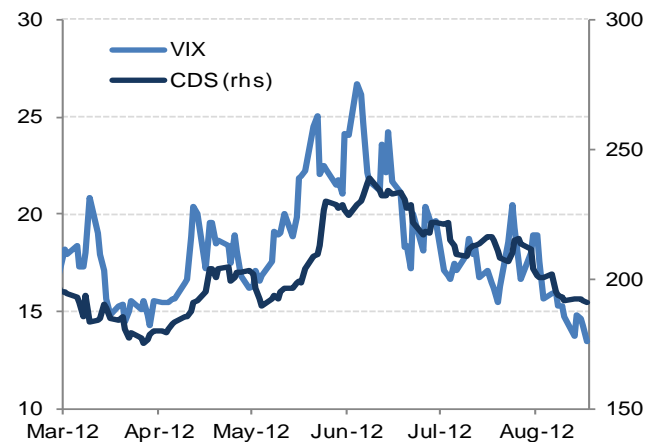
Financial Markets

Graph 9
Stocks
(Index, KBW)



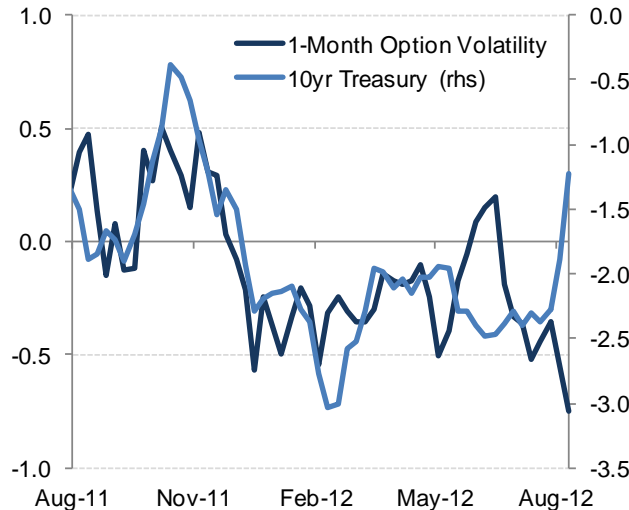
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



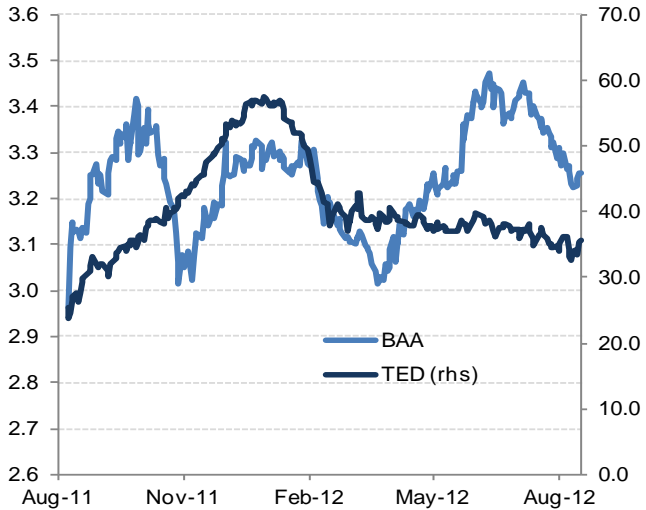
Source: Bloomberg & BBVA Research

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



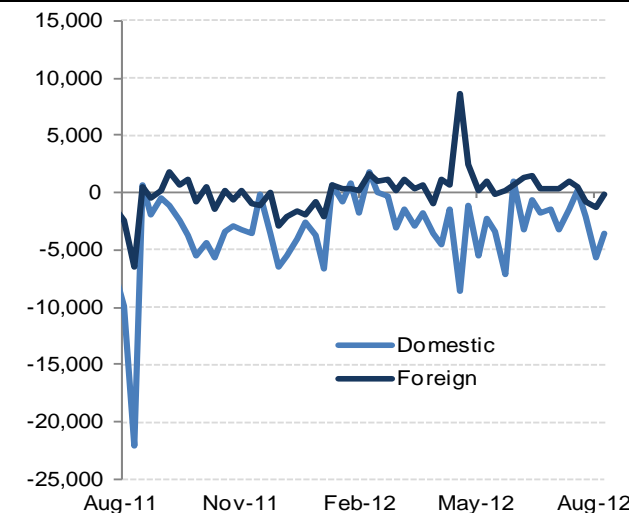
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



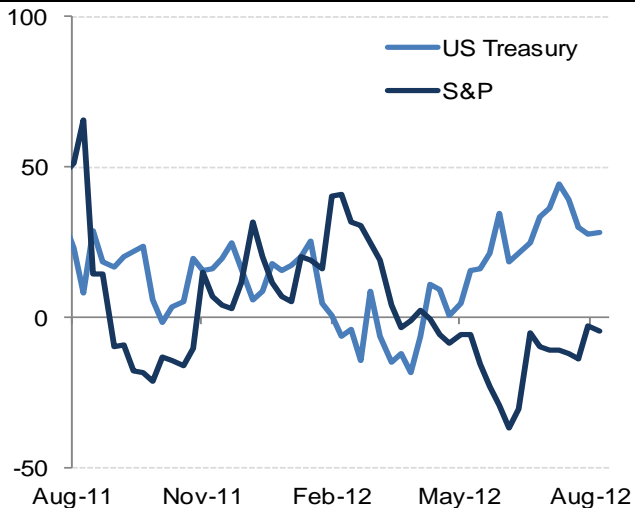
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

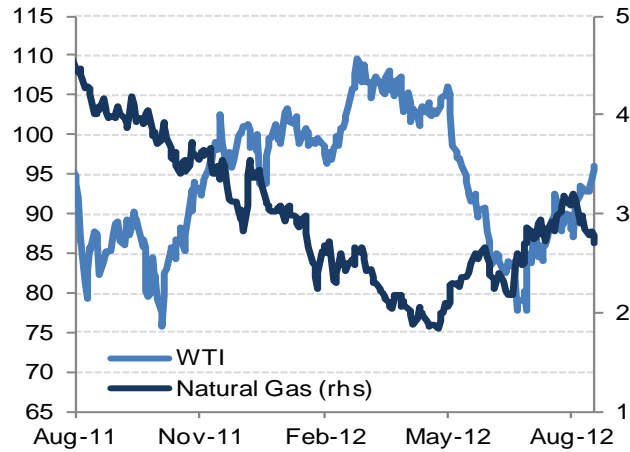
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

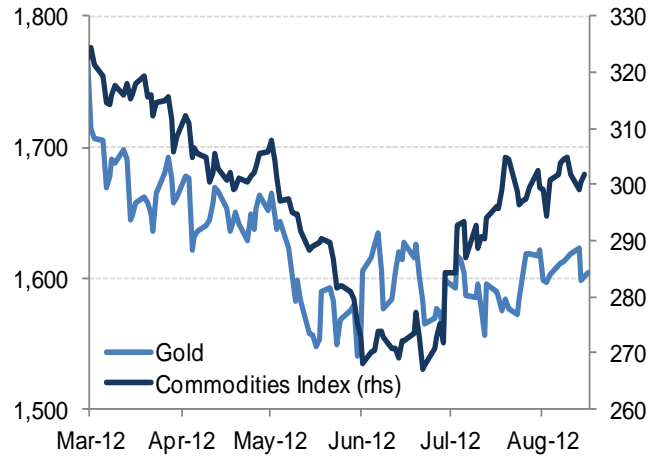
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



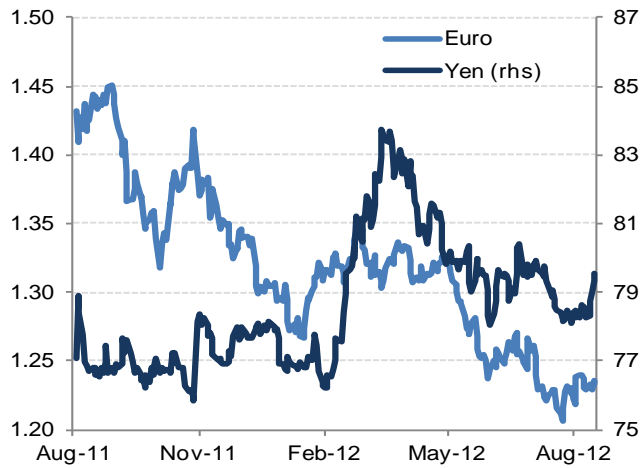
Source: Bloomberg & BBVA Research

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



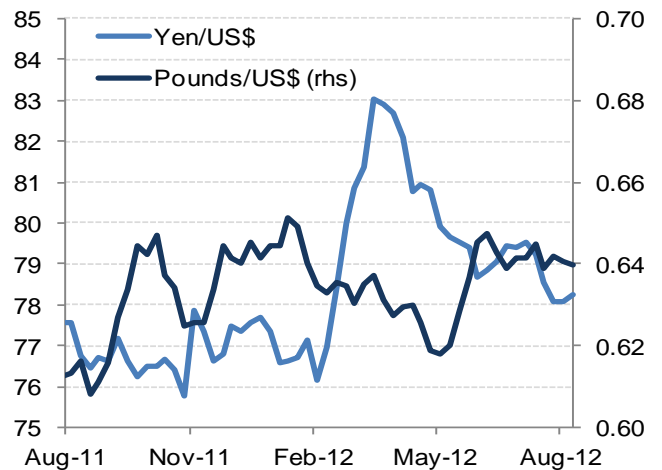
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



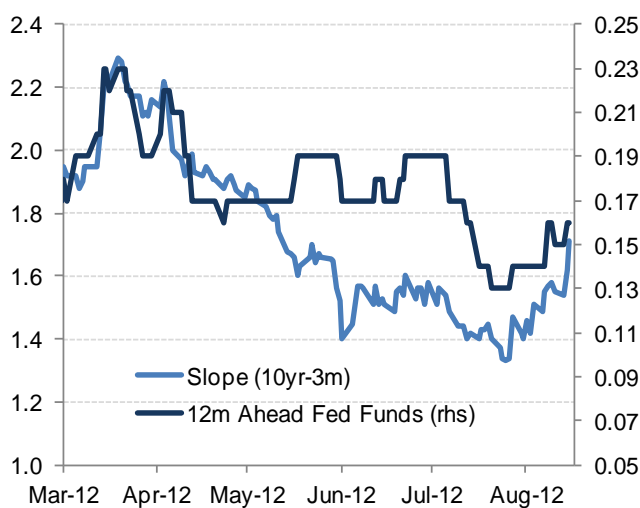
Source: Bloomberg & BBVA Research

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



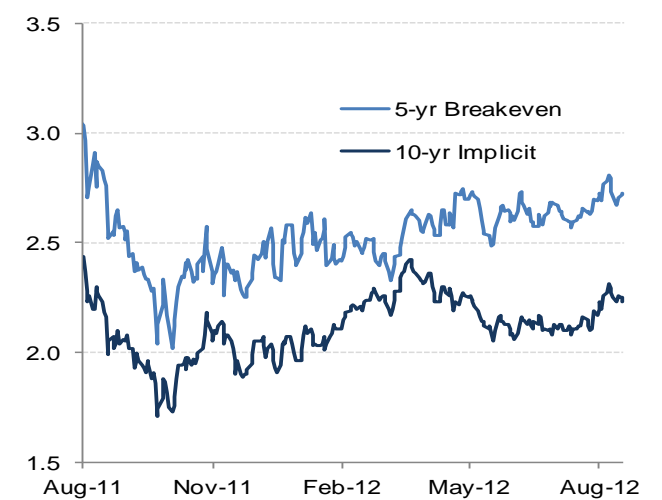
Source: Haver Analytics & BBVA Research

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	2.93	3.01	4.23
Heloc Loan 30K	5.46	5.49	5.44	5.52
5/1 ARM*	2.76	2.77	2.69	3.08
15-year Fixed Mortgage*	2.88	2.84	2.83	3.36
30-year Fixed Mortgage*	3.62	3.59	3.53	4.15
Money Market	0.52	0.52	0.51	0.57
2-year CD	0.86	0.86	0.85	1.00

*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	0.13	0.13	0.09
3M Libor	0.43	0.44	0.45	0.30
6M Libor	0.72	0.72	0.73	0.46
12M Libor	1.04	1.05	1.06	0.78
2yr Sw ap	0.50	0.47	0.44	0.48
5yr Sw ap	1.01	0.91	0.81	1.18
10Yr Sw ap	1.93	1.77	1.59	2.20
30yr Sw ap	2.71	2.53	2.32	3.04
7day CP	0.20	0.23	0.45	0.32
30day CP	0.24	0.30	0.41	0.28
60day CP	0.26	0.34	0.40	0.24
90day CP	0.32	0.36	0.43	0.27

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Plosser, Philadelphia Federal Reserve President
Fed 'Hawks' Weigh in Against More Action
15 August 2012

"I'm very dubious. There are diminishing returns to these actions. The evidence is not strong that somehow more [bond purchases] are going to help the unemployment rate move faster to where we'd like it to be. I don't see that there's much benefit."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
20-Aug	Chicago Fed National Activity Index	JULY	-0.05	--	-0.15
22-Aug	Existing Home Sales	JULY	4.55M	4.52M	4.37M
22-Aug	Existing Home Sales (MoM)	JULY	4.12%	3.30%	-5.40%
23-Aug	Initial Jobless Claims	18-Aug	363K	365K	366K
23-Aug	Continuing Claims	11-Aug	3295K	3300K	3305K
23-Aug	New Home Sales	JULY	368K	365K	350K
23-Aug	New Home Sales (MoM)	JULY	5.14%	4.30%	-8.40%
24-Aug	Durable Goods Orders	JULY	0.80%	1.60%	1.60%
24-Aug	Durable Goods Orders Ex	JULY	0.30%	0.50%	-1.10%

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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