

US Weekly Flash

Highlights

- **Despite weak employment growth, the unemployment rate declined in August**

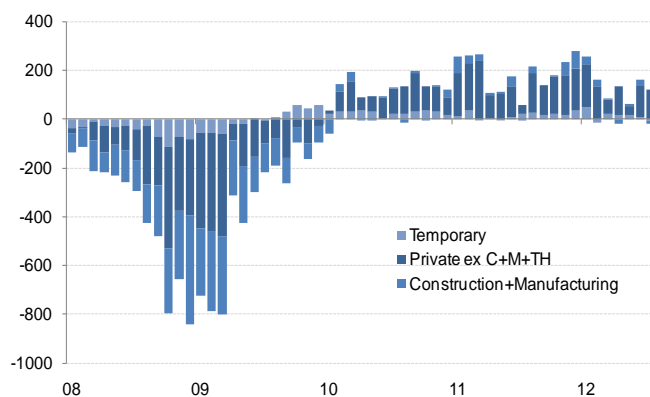
- Bureau of Labor Statistics announced on Friday that the total nonfarm payrolls increased by 96K while the unemployment rate declined unexpectedly by 0.2pp to 8.1%. Private sector hiring remains stronger than the public sector. Private sector created 103K jobs after generating 162K in July while public sector employment continued to fall by 7K. The report continues to point ongoing weaknesses and structural problems in the labor market. For instance, the number of long term unemployed (27+weeks) was almost unchanged at 5 million, accounting for 40% of the total unemployed. The number of discouraged workers and persons employed part time for economic reasons were also little changed from the previous month. Furthermore, average hourly earnings were flat indicating little inflationary pressures from labor costs. In sum, the August employment report is not weak enough to drive FOMC members to announce QE3 next week but could be sufficient to change the policy guidance next week.

- **ISM Manufacturing Index remained under the threshold of 50**

- Manufacturing activity has now contracted for three consecutive months, according to the ISM index which fell below 50 to the lowest level since July 2009. New orders have declined significantly in 3Q12 thus far from strength seen in earlier months, while production contracted for the first time in more than three years. The employment index continues to suggest modest job gains in the sector, yet the pace has slowed considerably throughout 2012.
- On the other hand, the ISM Non-Manufacturing Index increased for the second consecutive month by 1.1 point to 53.7 remaining above the threshold level of 50 in the last 32 months. The index increased due to improvement in the employment and supplier deliveries conditions and depicts brighter economic activity in the services sector. In addition, the prices index jumped from 54.9 to 64.3 in August indicating that there could be some inflationary pressures in the services sector.

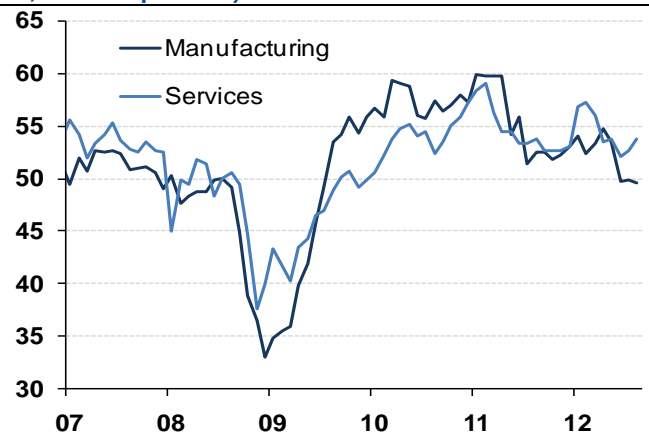
Overall, the economic data released during the week were somewhat mixed. Although the August employment report was weaker than expected in terms of job creation, the decline in the unemployment rate would probably delay additional monetary easing in the next meeting. However, as we mentioned in our previous briefs, we expect the Fed announce changes in the policy guidance this week.

Graph 1
Private Nonfarm Payrolls
Monthly Change in K



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
ISM Indices
SA, 50+ = Expansion)



Source: ISM & BBVA Research

Week Ahead

International Trade Balance (July, Tuesday 8:30 ET)

Forecast: -\$43.3B

Consensus: -\$44.2B

Previous: -\$42.9B

The trade deficit is expected to deteriorate only slightly in July after reaching its lowest level since December 2010. Despite slowing demand from Europe and China, exports have increased in six of the last seven months. However, various manufacturing surveys suggest a decelerating trend in regards to new export orders. On the other hand, imports have declined for three consecutive months and hint at a more pessimistic outlook regarding future demand conditions. A shrinking petroleum deficit has been a key driver of trade balance improvements in previous months, though we expect that a rebound in oil prices should contribute to a reversal in this trend.

Consumer Price Index, Core (August, Friday 8:30 ET)

Forecast: 0.5%, 0.2%

Consensus: 0.5%, 0.2%

Previous: 0.0%, 0.1%

Consumer prices have been subdued throughout the past four months, but we have seen some pressure building for the headline figure in August. Energy prices are being driven by a rebound in oil prices, which have jumped back up near levels last seen in May. Natural gas prices declined in August but remain much higher than earlier in 2012. At the same time, the Midwest drought has put upward pressure on food inflation which is expected to have a bigger influence throughout the rest of the year. However, neither of these components are expected to have a large impact on core prices just yet.

Retail Sales, Ex Auto (August, Friday 8:30 ET)

Forecast: 0.7%, 0.6%

Consensus: 0.6%, 0.6%

Previous: 0.8%, 0.8%

Consumer activity rebounded in July, with retail sales increasing after three consecutive months of declines. In August, we expect to see a similar trend although rising prices may have more of an influence on the headline figure. In particular, increasing oil prices will surely lift nominal gasoline sales. Additionally, the latest data suggest a significant jump in unit auto sales for the month, which should contribute positively to the report. However, weekly retail sales surveys do not point to substantial improvement in August, so we expect a slightly slower pace of growth compared to the previous month.

Industrial Production (August, Friday 9:15 ET)

Forecast: 0.3%

Consensus: 0.2%

Previous: 0.6%

Industrial production rebounded in July following weak growth towards the end of the second quarter. Despite reports of slowing new orders, business activity and output have continued to expand in prior months. Manufacturing output has been steady near 0.5% growth throughout the past two months, mostly supported by auto production. However, the latest manufacturing reports suggest contracting production for the first time in years that is likely to be reflected in the industrial production report. Mining and utilities output both jumped significantly in July but will likely increase at a slower pace in August.

Market Impact

Markets will be focused primarily on the FOMC meeting this week, with high expectations for a policy announcement on Thursday. Although the employment report for August was probably not bad enough to push the Fed towards QE3, markets are still expecting that additional steps will be taken in some form. Other important data for the week include inflation, production, and retail sales, though the market impact may be minimal following the FOMC announcement the day before.

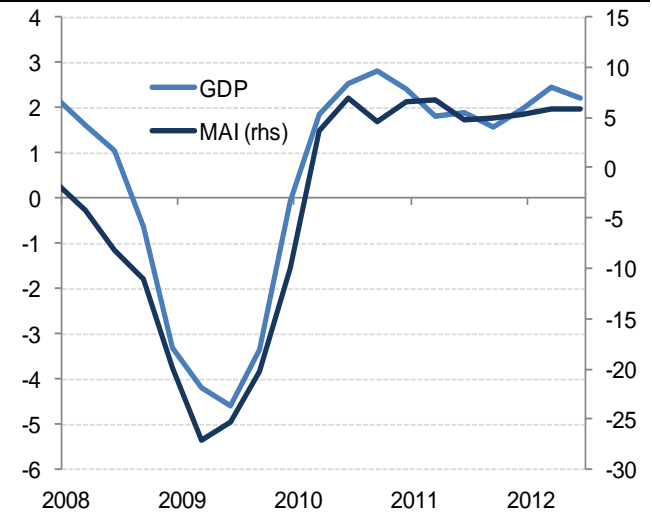
Economic Trends

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



Source: BBVA Research

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



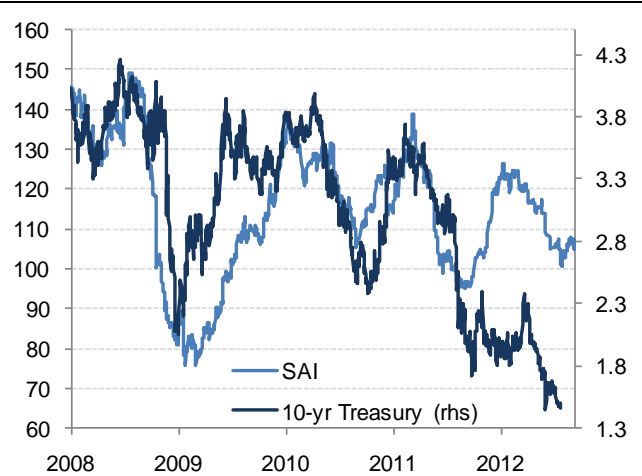
Source: BBVA Research & BEA

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



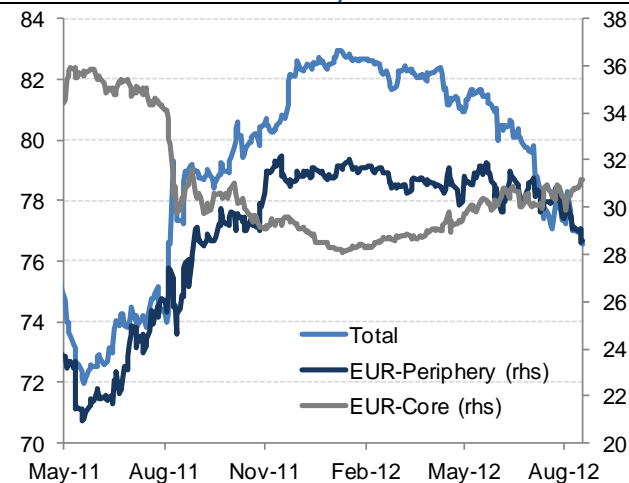
Source: BBVA Research

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



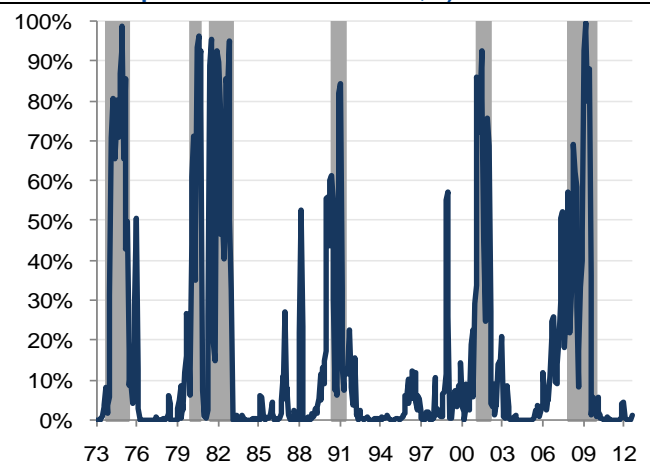
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

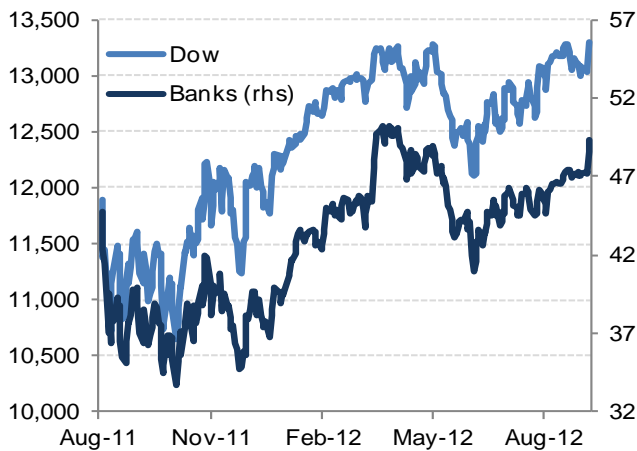
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

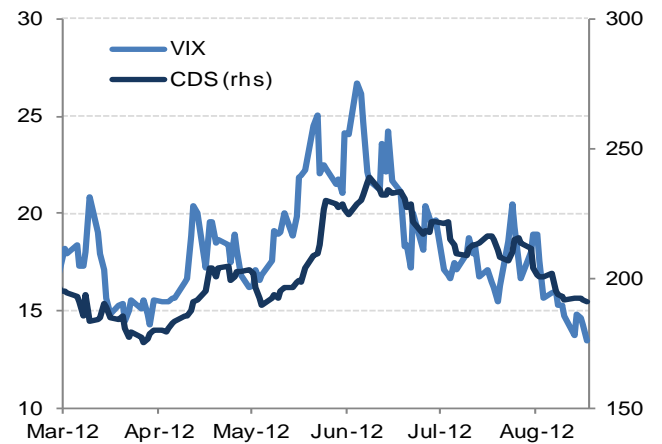
Financial Markets

Graph 9
Stocks
(Index, KBW)



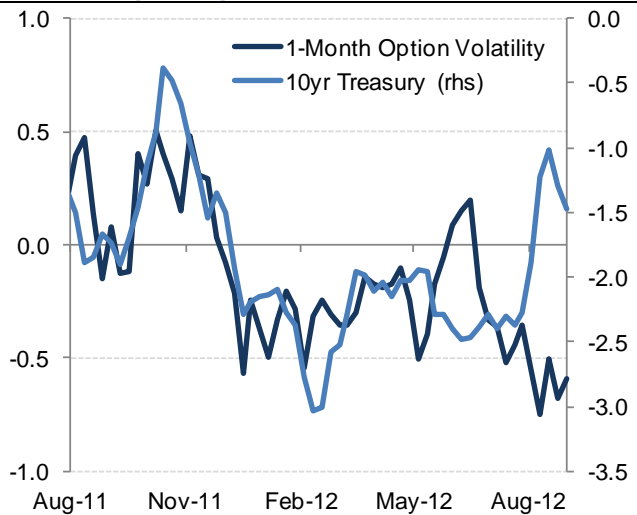
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



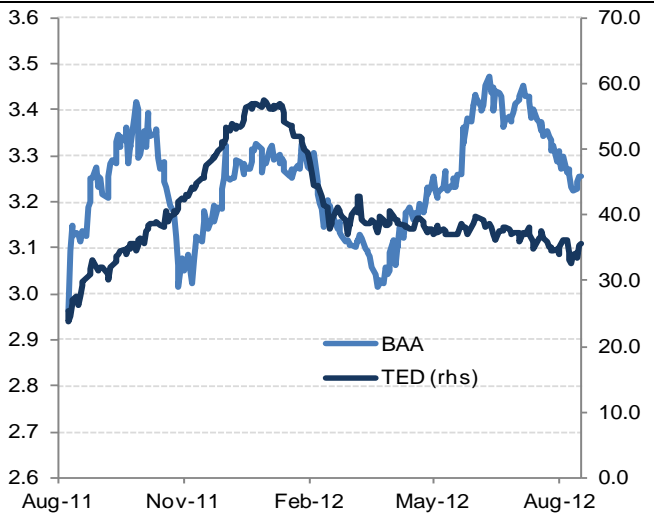
Source: Bloomberg & BBVA Research

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



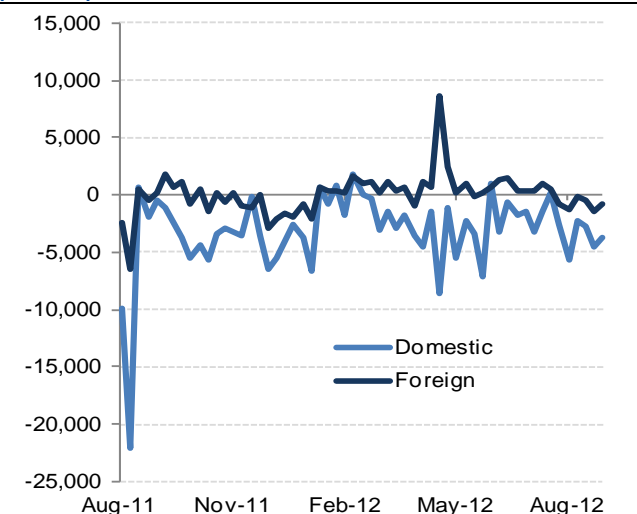
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



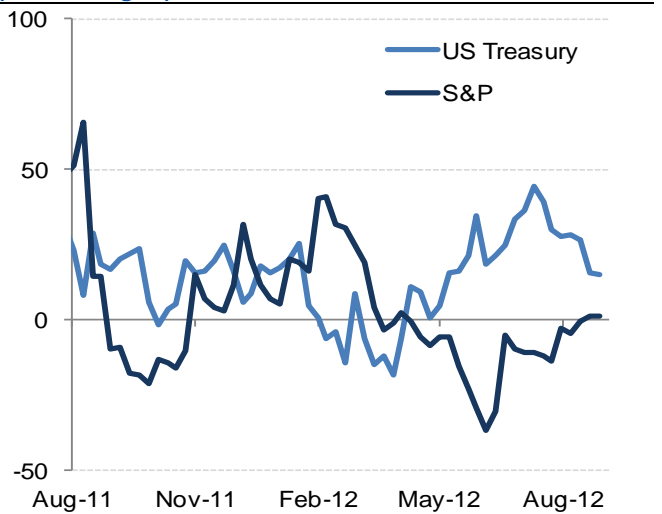
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

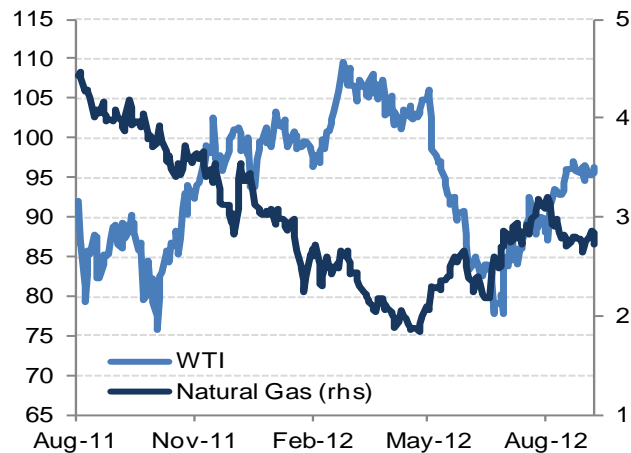
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

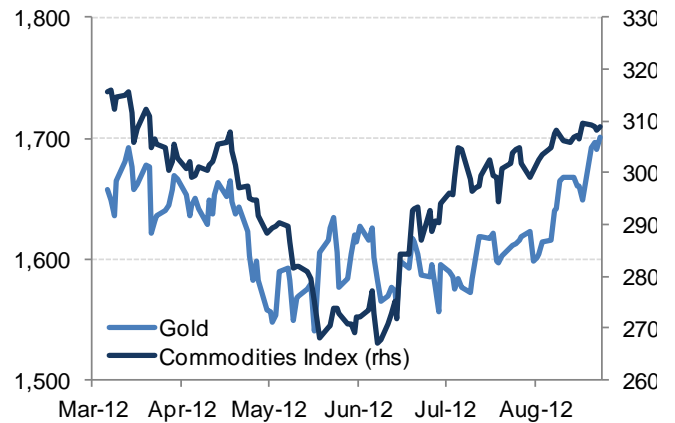
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



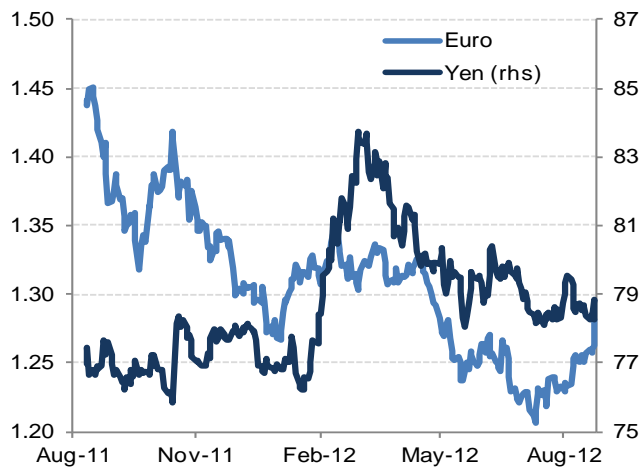
Source: Bloomberg & BBVA Research

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



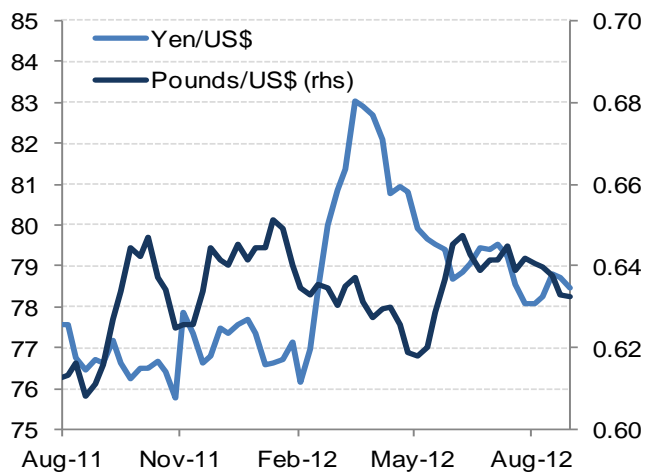
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



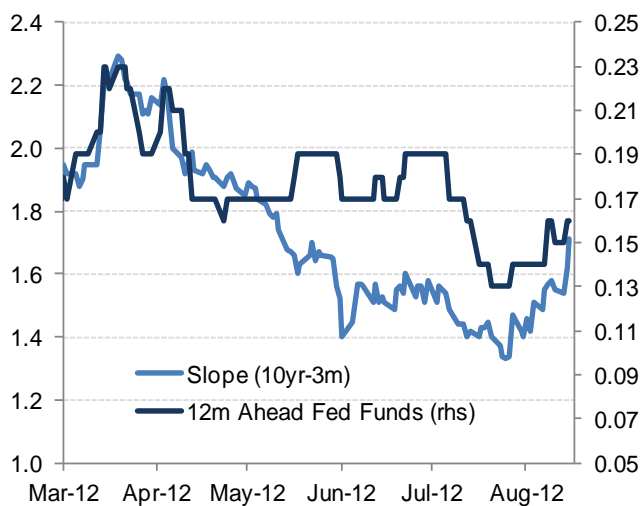
Source: Bloomberg & BBVA Research

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



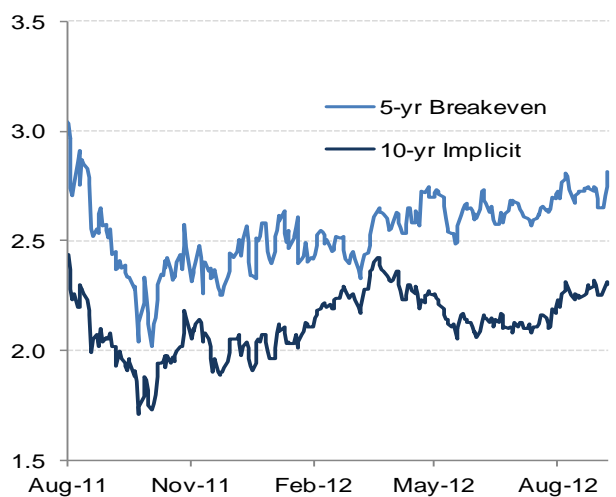
Source: Haver Analytics & BBVA Research

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	13.78
New Auto (36-months)	3.14	2.92	2.93	4.22
Heloc Loan 30K	5.48	5.48	5.49	5.49
5/1 ARM*	2.75	2.78	2.77	2.96
15-year Fixed Mortgage *	2.86	2.86	2.84	3.33
30-year Fixed Mortgage *	3.55	3.59	3.59	4.12
Money Market	0.52	0.52	0.52	0.55
2-year CD	0.86	0.85	0.86	0.99

*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	0.16	0.13	0.13	0.09
3M Libor	0.41	0.42	0.44	0.34
6M Libor	0.69	0.71	0.72	0.50
12M Libor	1.02	1.03	1.05	0.82
2yr Sw ap	0.40	0.40	0.47	0.52
5yr Sw ap	0.82	0.77	0.91	1.13
10Yr Sw ap	1.78	1.66	1.77	2.14
30yr Sw ap	2.63	2.47	2.53	2.97
7day CP	0.30	0.32	0.23	0.26
30day CP	0.57	0.22	0.30	0.26
60day CP	0.69	0.27	0.34	0.31
90day CP	0.67	0.35	0.36	0.33

Source: Bloomberg & BBVA Research

Quote of the Week

Nouriel Roubini, Professor of Economics at New York University
Cernobbio, Italy
7 September 2012

"History suggests that whenever (there is) a crisis with too much private debt first and public debt second you have a painful process of deleveraging."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Sep	Consumer Credit	JULY	\$9.0B	\$8.8B	\$6.5B
11-Sep	International Trade Balance	JULY	-\$43.3B	-\$44.2B	-\$42.9B
12-Sep	Wholesale inventories	JULY	0.2%	0.3%	-0.2%
13-Sep	Initial Jobless Claims	8-Sep	365K	370K	365K
13-Sep	Continuing Claims	1-Sep	3325K	3315K	3322K
13-Sep	Producer Price Index (MoM)	AUG	1.00%	1.10%	0.30%
13-Sep	PPI Ex Food & Energy (MoM)	AUG	0.20%	0.20%	0.40%
13-Sep	FOMC Meeting Announcement	SEPT	0.25%	0.25%	0.25%
14-Sep	Consumer Price Index (MoM)	AUG	0.50%	0.50%	0.00%
14-Sep	CPI Ex Food & Energy (MoM)	AUG	0.20%	0.20%	0.10%
14-Sep	Advance Retail Sales	AUG	0.70%	0.60%	0.80%
14-Sep	Retail Sales Less Autos	AUG	0.60%	0.60%	0.80%
14-Sep	Industrial Production	AUG	0.30%	0.20%	0.60%
14-Sep	Capacity Utilization	AUG	79.20%	79.40%	79.30%
14-Sep	U. Michigan Consumer Sentiment	SEPT	73.50	74.30	74.30
14-Sep	Business Inventories	JULY	0.20%	0.30%	0.10%

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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