

US Weekly Flash

Highlights

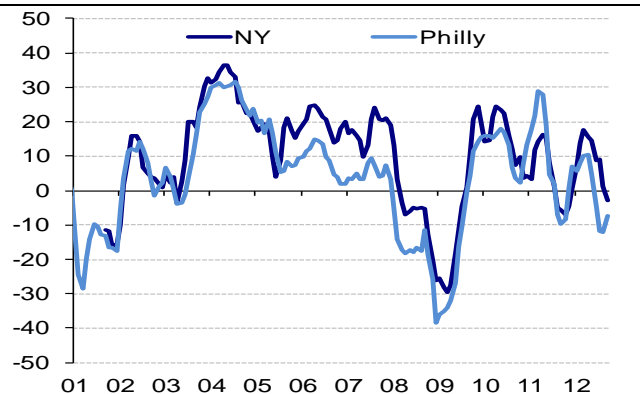
• Manufacturing Surveys Point to Continued Contraction in September

- The Empire State and Philadelphia Fed manufacturing surveys remained below zero in September to suggest continued contraction in the sector. The Empire State Index decelerated to -10.41 on account of further declines in new orders. Surprisingly, the shipments index was positive despite indications that falling new orders would slow production, yet we should see the delayed impact in the next few months.
- On the other hand, contractions in manufacturing activity in the Philadelphia region have become less intense, with the index improving to -1.9 in September from -7.1 in August. The survey was the first of the major manufacturing indicators to suggest decelerating activity and has remained below zero for five consecutive months. Unlike the Empire State Survey, the new orders index of the Philly report crossed into positive territory and could be a sign that demand for manufactured goods will pick up through the rest of the year. The significant decline in the shipments index reflects the declines in new orders that we saw in the months leading up to September.
- Employment in the manufacturing sector is not consistent across regions, with the NY index reporting an increase in hiring (albeit at the slowest pace all year by far) but the Philly report noting a decline in the number of employees for the third consecutive month. However, both surveys indicated a decline in the average employee workweek for September.

• Housing Activity Moving in the Right Direction, but Slowly

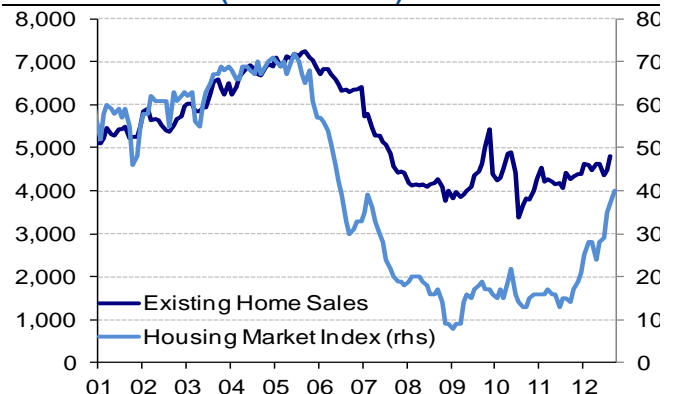
- Housing indicators for August continue to point to gradual improvements in the residential sector. Existing home sales increased at the fastest pace in a year, up 7.8% to 4820K. The data also reflected a modest decline in the median sales price for the second consecutive month, although the share of distressed sales dropped slightly to 22% of the total.
- The homebuilder confidence index jumped for the fifth straight month, indicating a significant improvement in the 6-month outlook for sales. This is positive news for new home sales throughout the next year, which have been improving more gradually compared to existing homes. The gain in housing starts for August also points to more significant improvement in the new homes market.
- While we are seeing steady improvements in housing market activity, the gains are not enough to fully support the economic recovery. The recession led to a lot of structural changes in regards to both housing demand and supply, with extremely tight credit conditions limiting potential purchases. Sales figures are still far from pre-recession levels and we may never get back to those high points, but at least activity is finally moving in a positive direction.

Graph 1
Federal Reserve Regional Manufacturing Surveys
3mma



Source: Federal Reserve & BBVA Research

Graph 2
Existing Home Sales and Housing Market Index
SAAR K and Index (All Good = 100)



Source: NAR, NAHB, & BBVA Research

Week Ahead

S&P Case-Shiller HPI (July, Tuesday 9:00 ET)

| | | |
|----------------|------------------|----------------|
| Forecast: 0.3% | Consensus: 1.10% | Previous: 0.5% |
|----------------|------------------|----------------|

Home prices have improved drastically over the past few months, with the S&P Case-Shiller index showing YoY growth for the first time in almost two years. Underperformance of distressed sales has helped to lift prices, along with constrained supply of existing homes. However, prices of new and existing homes actually declined on a monthly basis in July. We expect that this could result in a modest deceleration in YoY growth for the S&P HPI for the month, particularly since comparison levels in July 2011 were high for the recovery period.

Consumer Confidence (September, Tuesday 10:00 ET)

| | | |
|----------------|-----------------|----------------|
| Forecast: 61.5 | Consensus: 63.2 | Previous: 60.6 |
|----------------|-----------------|----------------|

Consumer confidence is expected to increase only slightly in September after falling in August to the lowest level in ten months. Views on the current situation were relatively unchanged in August, implying that consumer expectations dropped significantly. Unfortunately, the latest trends are similar to a year ago when fiscal and policy uncertainty was weighing on consumer activity. Pessimism regarding employment, income, and current business conditions is likely to continue in September, with rising gas and food prices having a reasonable impact. Labor market conditions remain weak but the latest data still suggest positive payroll growth for the month.

GDP, Final Estimate (2Q12, Thursday 8:30 ET)

| | | |
|----------------|-----------------|----------------|
| Forecast: 1.7% | Consensus: 1.7% | Previous: 1.7% |
|----------------|-----------------|----------------|

The final GDP estimate for 2Q12 is expected to be unchanged from the second release last month. Data on personal consumption expenditures and businesses inventories reflected no revision to June's figures following the second estimate for GDP. On the other hand, the trade deficit for June was revised down significantly due to a larger-than-expected increase in exports. However, export growth for May was actually revised lower, so the total revision for 2Q12 is likely to have very little impact on the final GDP estimate.

Personal Income and Outlays (August, Friday 8:30 ET)

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

Personal income and spending are expected to increase in August at a similar pace as in the previous month. Income growth has been particularly strong in recent months despite weak employment reports and deteriorating consumer confidence. Most of the growth stems from components other than wages and salaries, which are expected to be limited in August given the slight drop in average earnings for the month. On the other hand, consumer spending has rebounded from weakness in 2Q12. Retail sales accelerated in August, suggesting positive PCE growth for the month, even though much of this gain was due to rising gas prices. Ultimately, consumers appeared to be more worried about income prospects in August than in previous months, and heightened uncertainty may limit real spending habits.

Market Impact

The last week of the economic calendar for 3Q12 should incite little market anxiety, with mostly positive expectations for the data releases. Consumer activity will likely be the highlight, with confidence and sentiment reports hopefully pointing to an improved outlook and data on personal consumption expenditures suggesting increased willingness to spend. The final GDP estimate should have little impact on markets given that much of the relevant data has already been released.

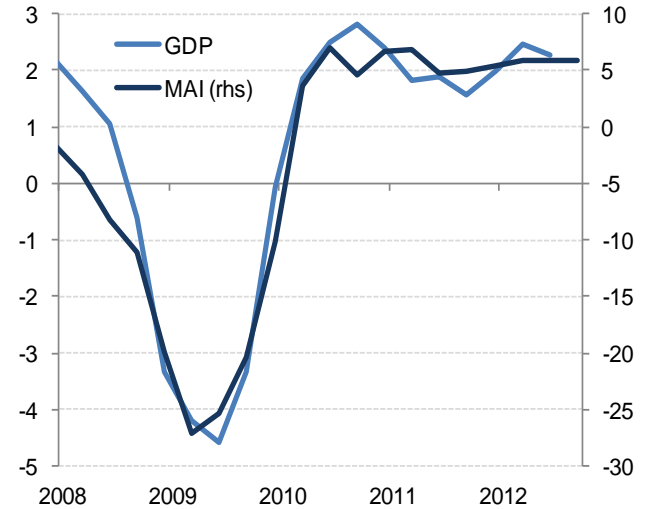
Economic Trends

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



Source: BBVA Research

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



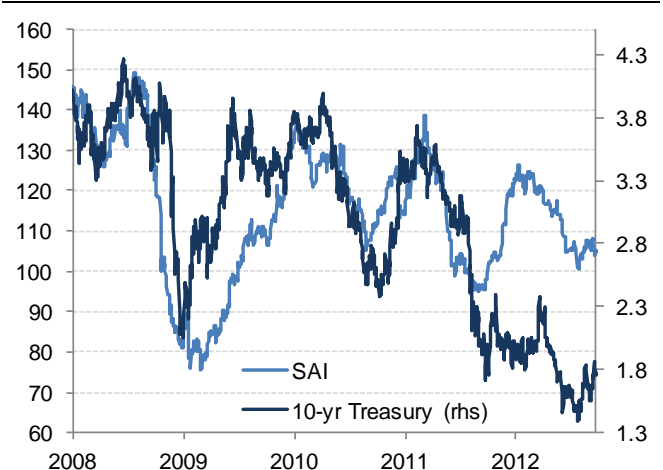
Source: BBVA Research & BEA

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



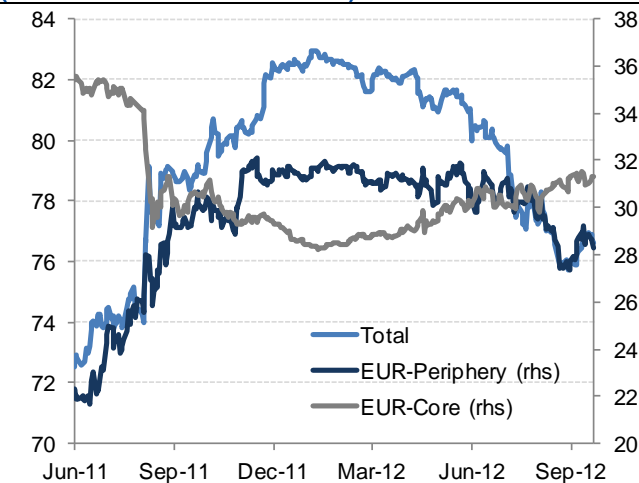
Source: BBVA Research

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



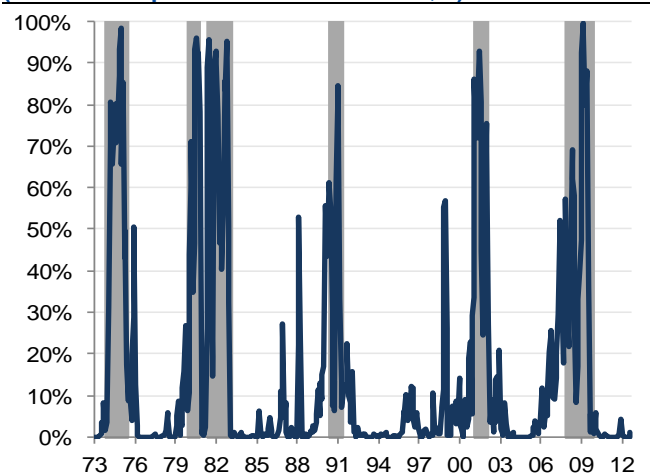
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

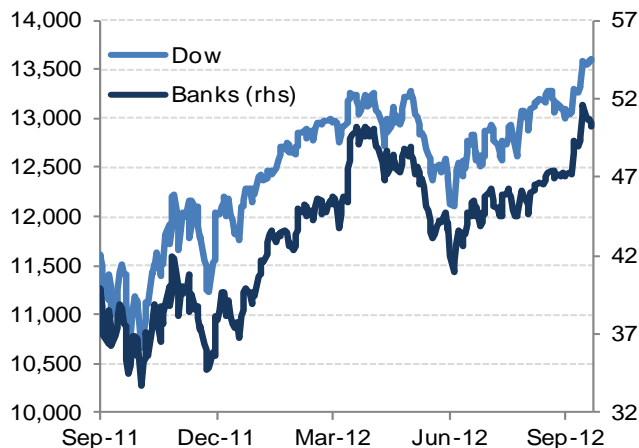
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

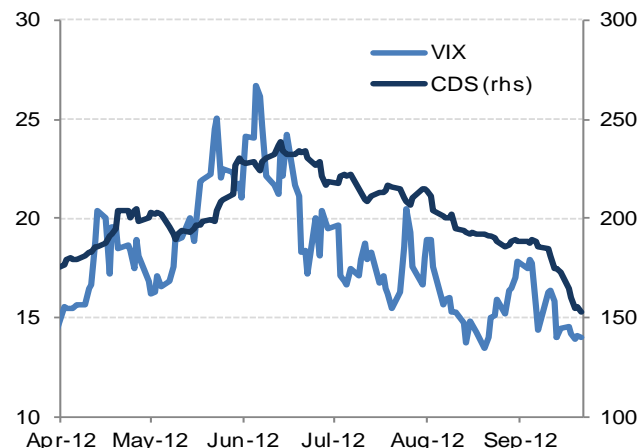
Financial Markets

Graph 9
Stocks
(Index, KBW)



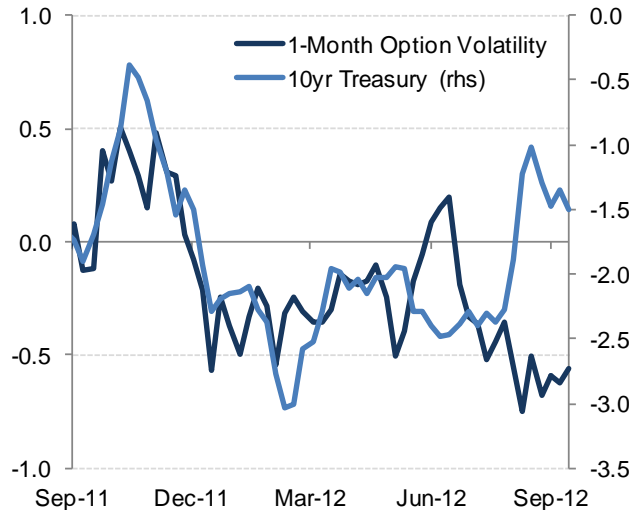
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



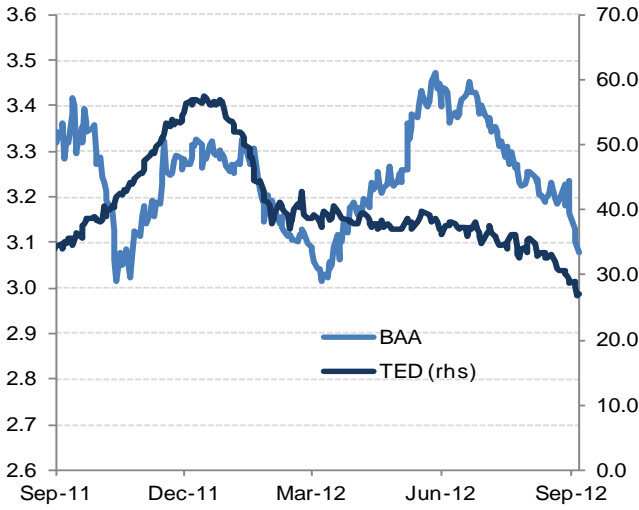
Source: Bloomberg & BBVA Research

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



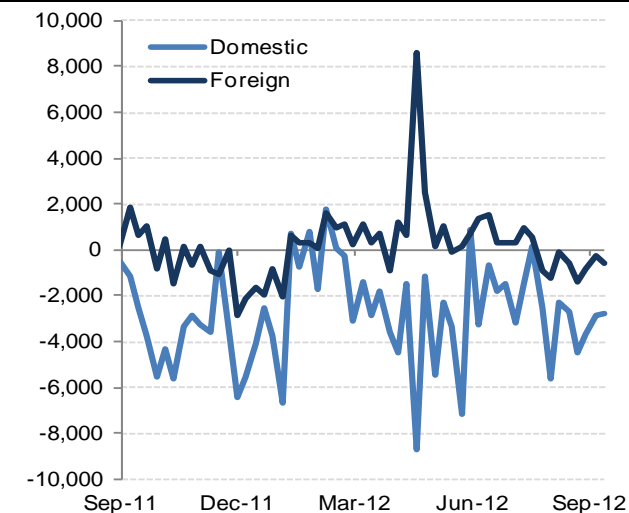
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



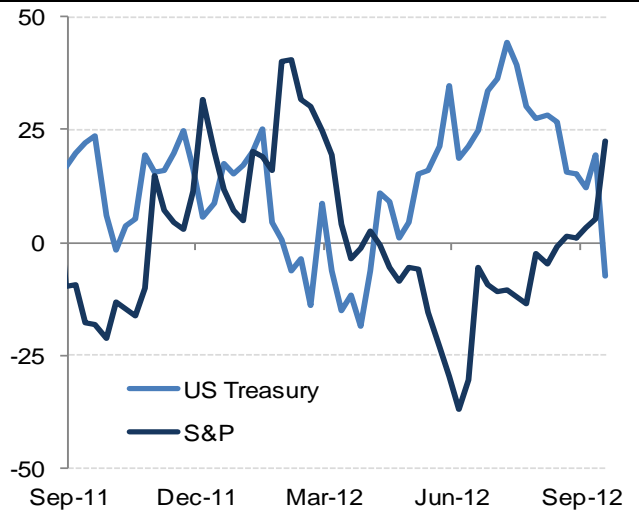
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

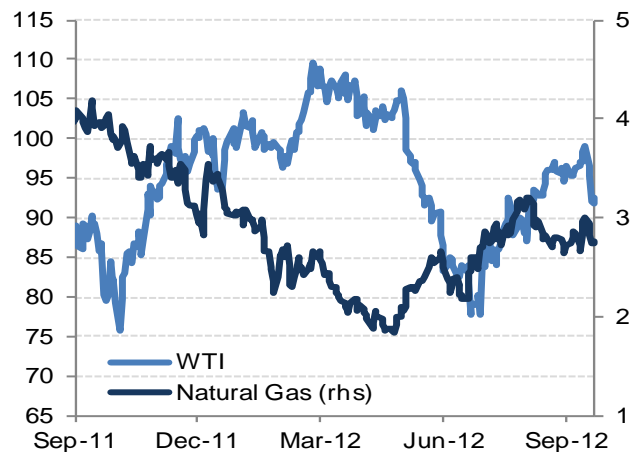
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

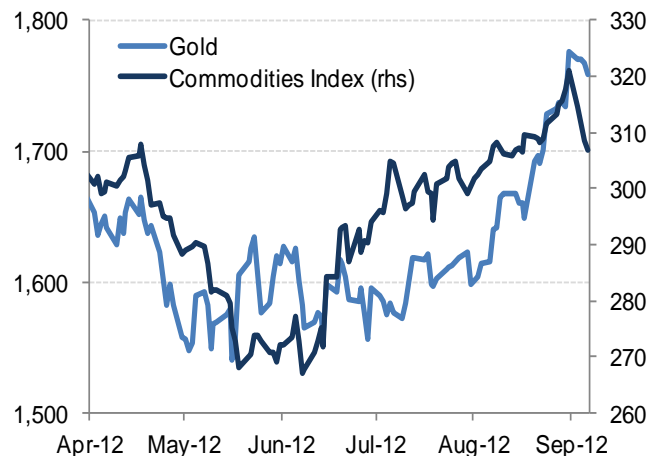
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



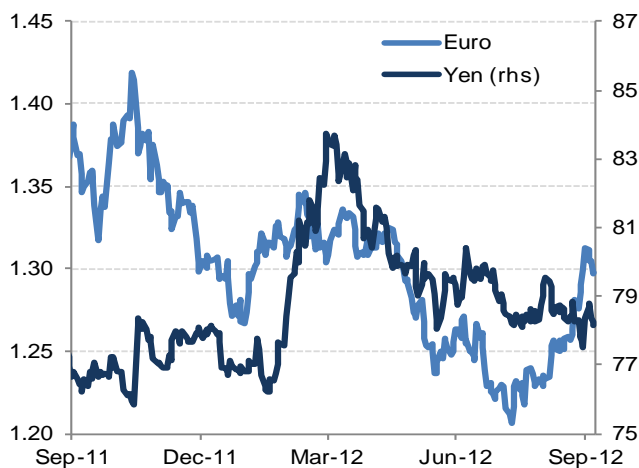
Source: Bloomberg & BBVA Research

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



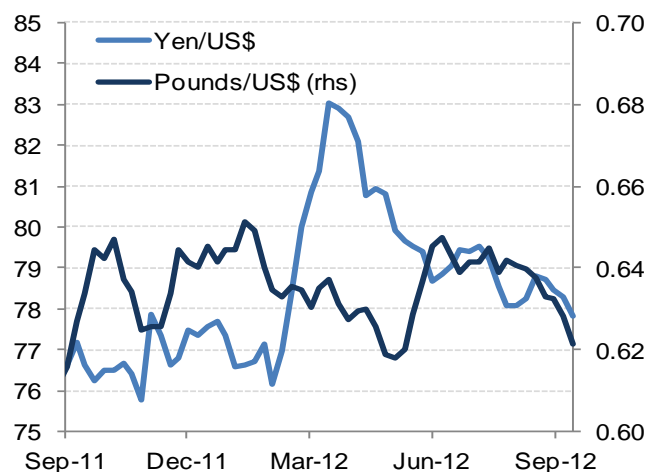
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



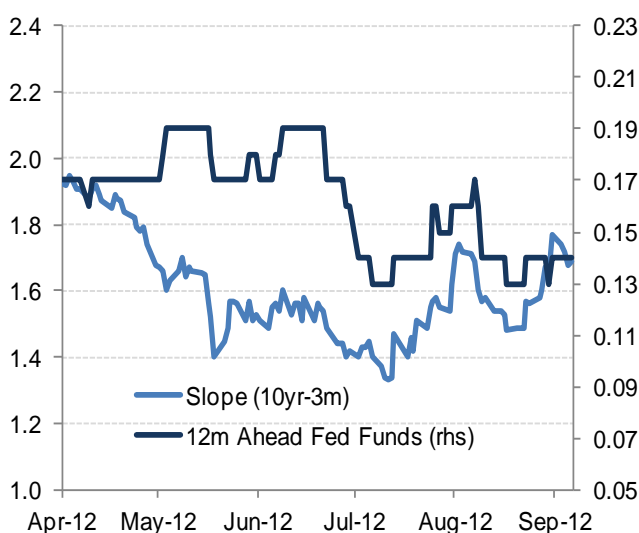
Source: Bloomberg & BBVA Research

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



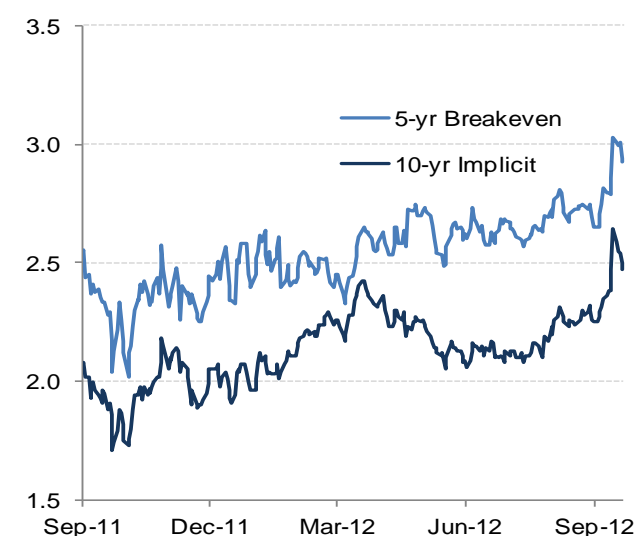
Source: Haver Analytics & BBVA Research

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 | 13.95 |
| New Auto (36-months) | 3.15 | 3.15 | 2.93 | 4.10 |
| Heloc Loan 30K | 5.50 | 5.46 | 5.47 | 5.49 |
| 5/1 ARM* | 2.76 | 2.72 | 2.80 | 3.02 |
| 15-year Fixed Mortgage * | 2.77 | 2.85 | 2.89 | 3.29 |
| 30-year Fixed Mortgage * | 3.49 | 3.55 | 3.66 | 4.09 |
| Money Market | 0.51 | 0.51 | 0.52 | 0.54 |
| 2-year CD | 0.86 | 0.87 | 0.85 | 0.96 |

*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 | 0.16 | 0.13 | 0.08 |
| 3M Libor | 0.37 | 0.39 | 0.43 | 0.36 |
| 6M Libor | 0.66 | 0.68 | 0.71 | 0.54 |
| 12M Libor | 0.98 | 1.00 | 1.04 | 0.84 |
| 2yr Sw ap | 0.39 | 0.38 | 0.45 | 0.52 |
| 5yr Sw ap | 0.80 | 0.86 | 0.90 | 1.16 |
| 10Yr Sw ap | 1.77 | 1.90 | 1.79 | 2.02 |
| 30yr Sw ap | 2.69 | 2.84 | 2.58 | 2.66 |
| 7day CP | 0.27 | 0.32 | 0.36 | 0.42 |
| 30day CP | 0.24 | 0.40 | 0.22 | 0.34 |
| 60day CP | 0.35 | 0.57 | 0.18 | 0.33 |
| 90day CP | 0.51 | 0.50 | 0.23 | 0.40 |

Source: Bloomberg & BBVA Research

Quote of the Week

Eric S. Rosengren, President and CEO of the Federal Reserve Bank of Boston
Acting to Avoid a "Great Stagnation"
20 September 2012

"A very challenging economic climate confronts us all, but I am very pleased that monetary policymakers in the U.S. are proving willing to take difficult actions like these rather than accept the possibility of a long, slow recovery turning into a stagnation that someday earns the dubious title of 'Great'. Japan's experience is a sobering real-world reminder of why forceful and timely action is appropriate."

Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|--------|--|--------|----------|--------|----------|
| 24-Sep | Chicago Fed National Activity Index | AUG | -0.20 | -- | -0.13 |
| 24-Sep | Dallas Fed Manufacturing Survey | SEPT | -3.00 | -2.70 | -1.60 |
| 25-Sep | S&P Case-Shiller HPI (YoY) | JULY | 0.30% | 1.10% | 0.50% |
| 25-Sep | Consumer Confidence | SEPT | 61.50 | 63.20 | 60.60 |
| 26-Sep | New Home Sales | AUG | 380K | 380K | 372K |
| 26-Sep | New Home Sales (MoM) | AUG | 2.20% | 2.20% | 3.62% |
| 27-Sep | Durable Goods Orders | AUG | -2.00% | -5.00% | 4.20% |
| 27-Sep | Durable Goods Orders Ex Transportation | AUG | -0.50% | 0.30% | -0.40% |
| 27-Sep | GDP QoQ Annualized | 2Q12 F | 1.70% | 1.70% | 1.70% |
| 27-Sep | Personal Consumption | 2Q12 F | 1.70% | 1.70% | 1.70% |
| 27-Sep | GDP Price Index | 2Q12 F | 1.60% | 1.60% | 1.60% |
| 27-Sep | Core PCE QoQ | 2Q12 F | 1.80% | 1.80% | 1.80% |
| 27-Sep | Initial Jobless Claims | 22-Sep | 377K | 375K | 382K |
| 27-Sep | Continuing Claims | 15-Sep | 3290K | 3285K | 3272K |
| 27-Sep | Pending Home Sales (MoM) | AUG | -1.00% | 0.00% | 2.40% |
| 28-Sep | Personal Income (MoM) | AUG | 0.30% | 0.20% | 0.30% |
| 28-Sep | Personal Spending (MoM) | AUG | 0.50% | 0.50% | 0.40% |
| 28-Sep | Chicago PMI | SEPT | 52.00 | 53.00 | 53.00 |
| 28-Sep | U. of Michigan Consumer Sentiment | SEPT | 79.00 | 79.00 | 79.20 |

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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