

US Weekly Flash

Highlights

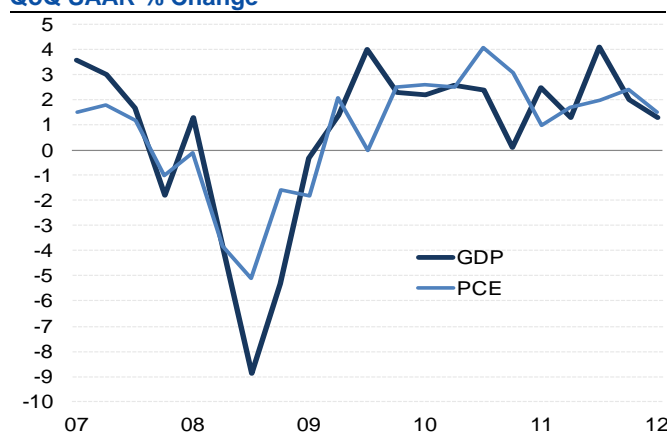
• Final Estimate for 2Q12 GDP Growth Revised Down to 1.3%

- The final estimate for real GDP growth in 2Q12 came in at 1.3% on a QoQ seasonally-adjusted annualized basis, lower than both the advance and preliminary estimates of 1.5% and 1.7%, respectively. The downward revision was larger than expected given only small changes to the data since the previous release last month. Still, the BEA's revision reflected a significant drop in the contribution from change in private inventories, from -0.23 to -0.46 percentage points, which accounted for almost half of the total GDP revision. Contributions from personal consumption expenditures, exports, and nonresidential structures were revised down from the second estimate but were mostly in line with the initial estimates released for the quarter. On the other hand, negative contributions from government spending and imports were slightly less than previously reported.
- Despite this downward shift in GDP growth for the second quarter, we are still on track to reach our baseline scenario of 2.1% growth for the year. The outlook for GDP growth in 3Q12 is not so encouraging given weak production data and only a modest boost in consumer spending, so we could see growth just as slow as in the second quarter. However, the QE3 announcement from the Fed could help increase growth for 4Q12 as long as fiscal uncertainties do not intensify significantly.

• Consumer Spending Accelerates Alongside Weaker Income Growth in August

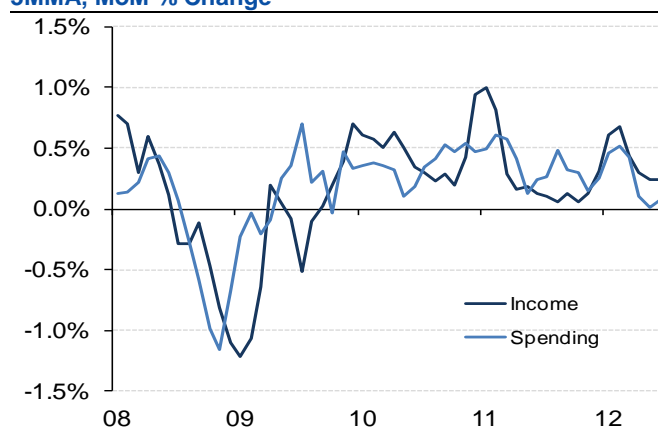
- Personal consumption expenditures increased 0.5% in August, the fastest pace since January, mostly due to a 1.7% jump in spending on nondurable goods. Thus far in the third quarter, consumer spending has been much stronger, on average, compared to the second quarter (0.47% vs. 0.02%), and is more in line with the strength seen earlier in the year. Even with most of the increase coming from a rise in gas prices, real PCE has averaged more than 0.2% in 3Q12 compared to only 0.05% in 2Q12. This is a positive sign for GDP growth for the quarter and should help to offset some of the weakness stemming from the production side.
- On the other hand, personal income decelerated for the second consecutive month, increasing only 0.1% in August after a similar rise in July. Average growth trends have been much weaker in the third quarter than during the first half of the year, signaling further slowdowns in consumer spending in the months ahead. Real personal income actually declined for the first time in almost one year and could continue to do so throughout the next few months even with only modest inflation.

Graph 1
Real GDP and PCE Growth
QoQ SAAR % Change



Source: Bureau of Economic Activity & BBVA Research

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



Source: Bureau of Economic Activity & BBVA Research

Week Ahead

ISM Manufacturing Index (September, Monday 10:00 ET)

Forecast: 49.9

Consensus: 49.8

Previous: 49.6

The ISM Manufacturing Index is expected to show only slight improvement in September after hanging below 50 for three consecutive months. The new orders component has shown extreme weakness, falling in August to the lowest level since the end of the recession in mid-2009. Consequently, the production index dropped below 50 in August and is likely to remain that way for the next few months until new orders pick up again. On the bright side, some regional Federal Reserve manufacturing surveys have noted a return to increasing activity for the sector in September, which could be a sign that conditions are not going to deteriorate much further.

ISM Non-Manufacturing Index (September, Wednesday 10:00 ET)

Forecast: 52.7

Consensus: 53.4

Previous: 53.7

The ISM Non-Manufacturing Index increased in August to indicate accelerating activity in the services sector and presents a much different story than the manufacturing counterpart. We did see some slowing in general business activity and new orders, but both components remained above the 50-mark. Employment also crossed back into positive territory and is expected to hover near similar levels for the coming months given the steady gains in services payrolls. However, looming uncertainties for the upcoming quarters will surely limit significant business expansion, so we expect that the overall services index will not increase far above levels seen earlier in the year.

Nonfarm Payrolls and Unemployment Rate (September, Friday 8:30 ET)

Forecast: 95K, 8.2%

Consensus: 115K, 8.2%

Previous: 96K, 8.1%

The latest data suggest that the employment situation in September is not likely to improve much over August. In general, we have seen a consistent pattern in the past few quarters in which a decline in jobless claims matches an acceleration in payroll growth for a given month (and vice versa). Since initial jobless claims for September are slightly higher, on average, compared to August (374K vs. 371K), we do not expect to see a significant improvement in payroll growth for the month. On the bright side, the latest consumer confidence reports suggest a more optimistic outlook in terms of job availability in the next six months. Still, the unemployment rate dropped unexpectedly in August due to a drop in the labor force, which opens the door for the rate to increase when people start looking for work again.

Consumer Credit (August, Friday 15:00 ET)

Forecast: \$5.0B

Consensus: \$7.5B

Previous: -\$3.3B

Consumer credit is expected to rebound in August after falling in July for the first time in almost one year. July's decline was somewhat inconsistent with the boost in consumer spending for the month, particularly since we saw a drop in revolving credit. We expect that the slight acceleration in retail sales in August could hint at a more positive reading for consumer credit. Nonrevolving credit is also expected to remain positive given upward pressure from student loans, despite slowing significantly in July.

Market Impact

The employment report for September will be the main focus this week, particularly after last week's disappointing final growth estimate for 2Q12. Another month of weak payroll growth will support the Fed's latest decision to move forward with QE3. The markets will also pay close attention to the FOMC meeting minutes to be released on Thursday for further details on the latest policy announcements.

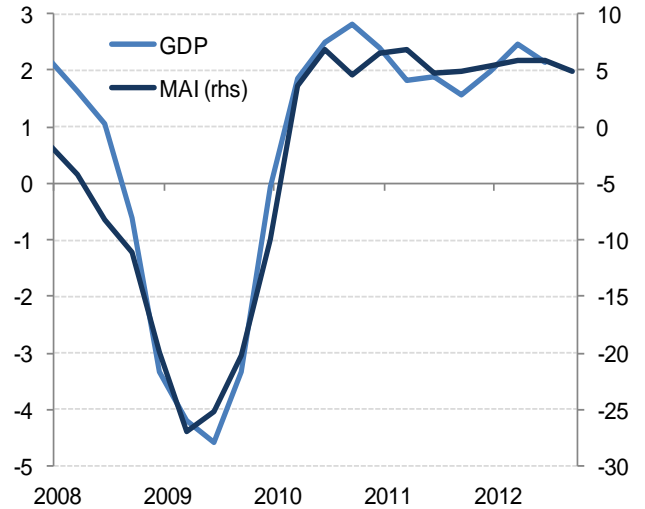
Economic Trends

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



Source: BBVA Research

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



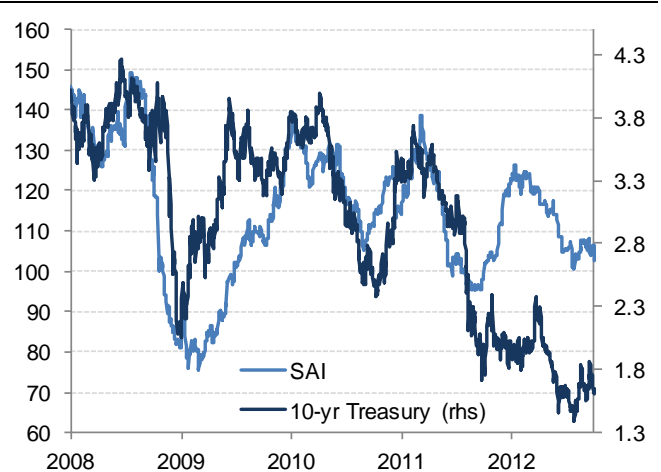
Source: BBVA Research & BEA

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



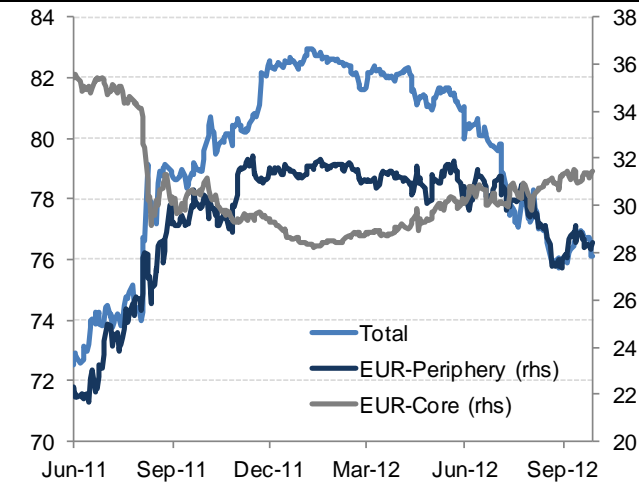
Source: BBVA Research

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



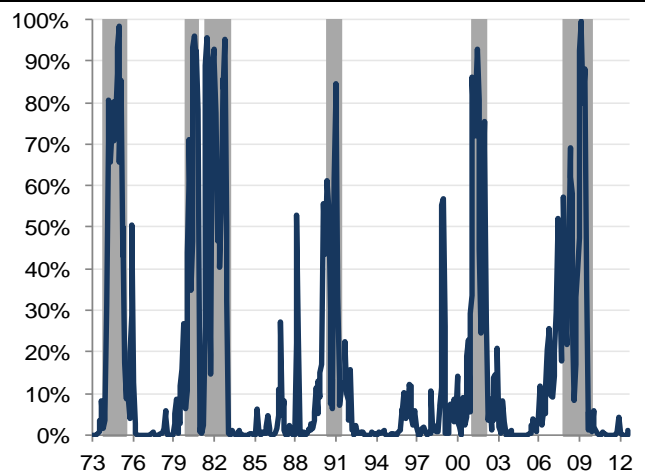
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

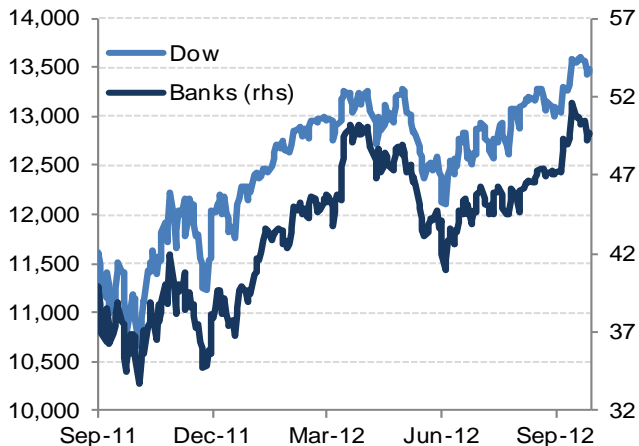
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

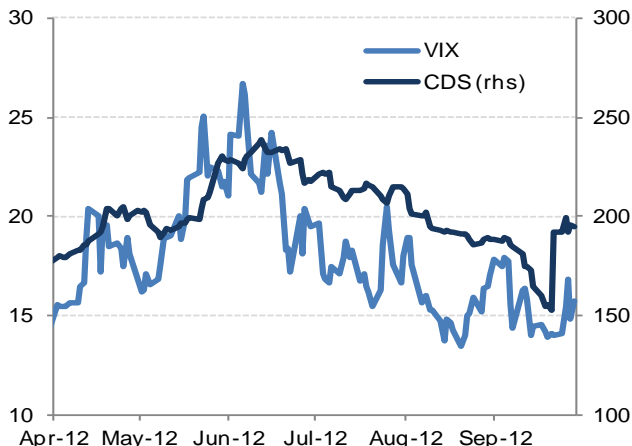
Financial Markets

Graph 9
Stocks
(Index, KBW)



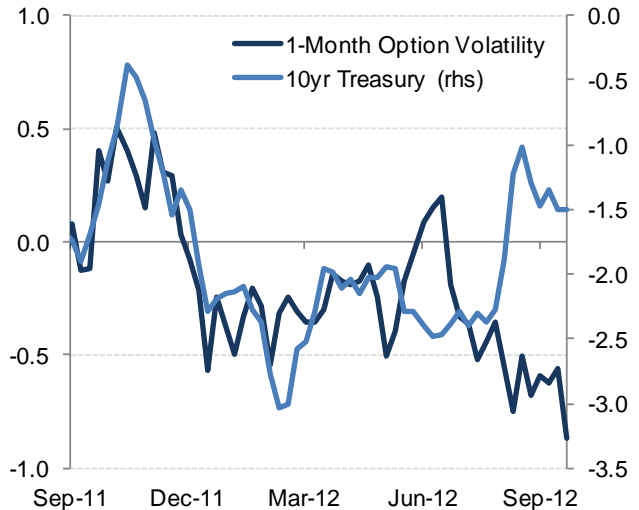
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



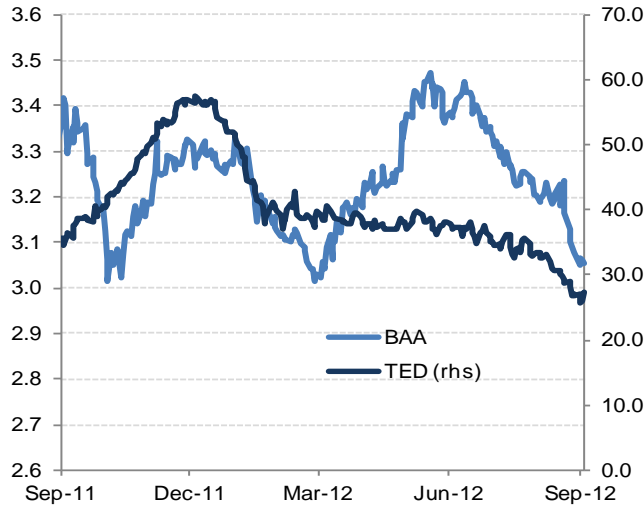
Source: Bloomberg & BBVA Research

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



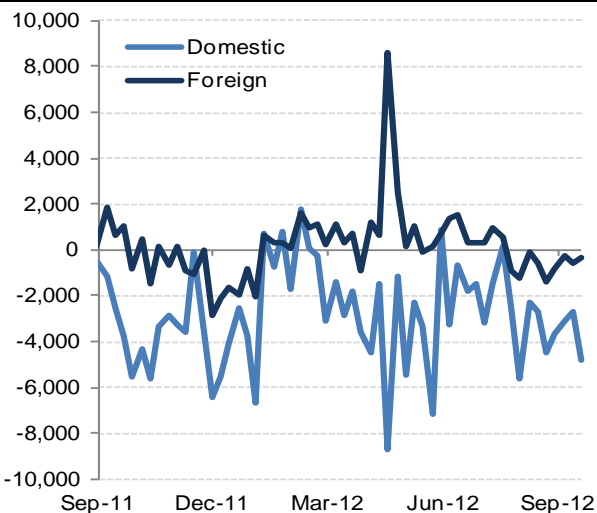
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



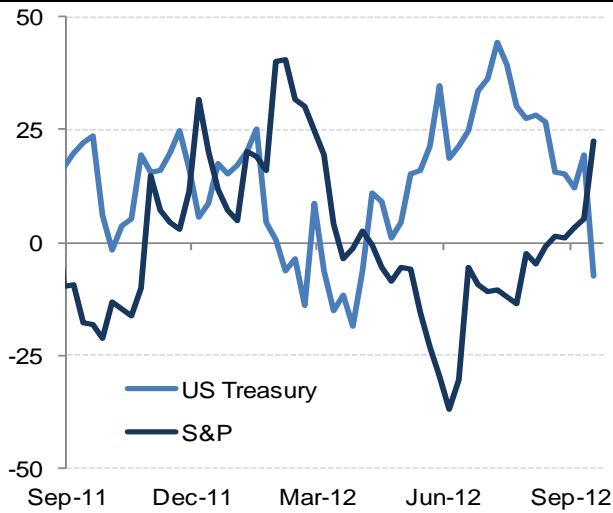
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

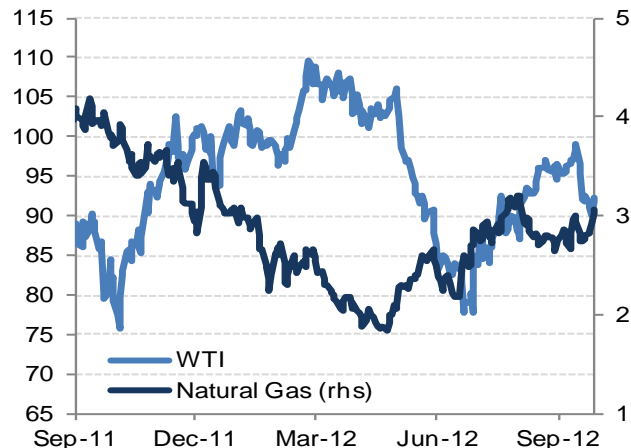
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

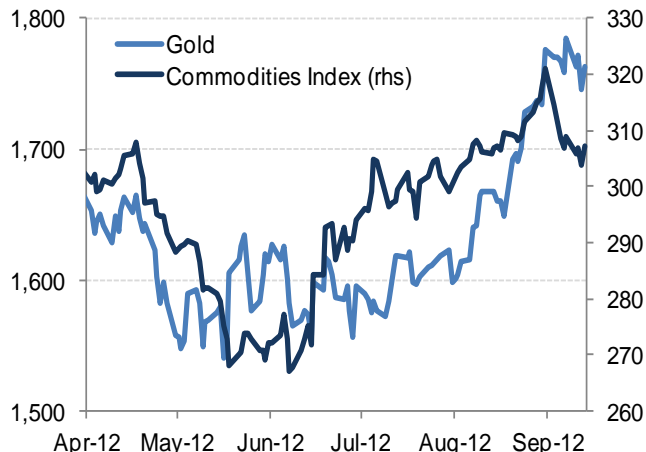
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



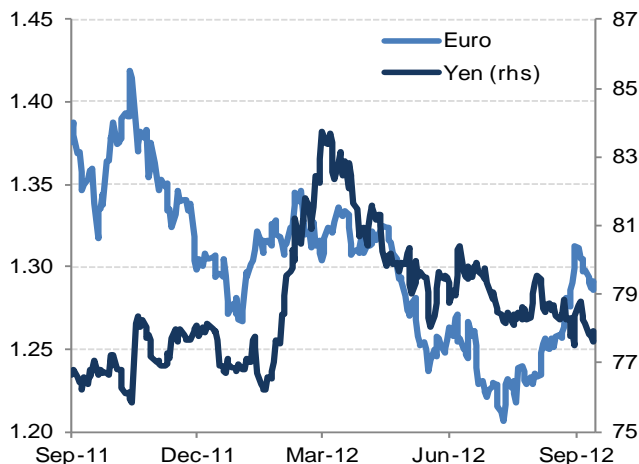
Source: Bloomberg & BBVA Research

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



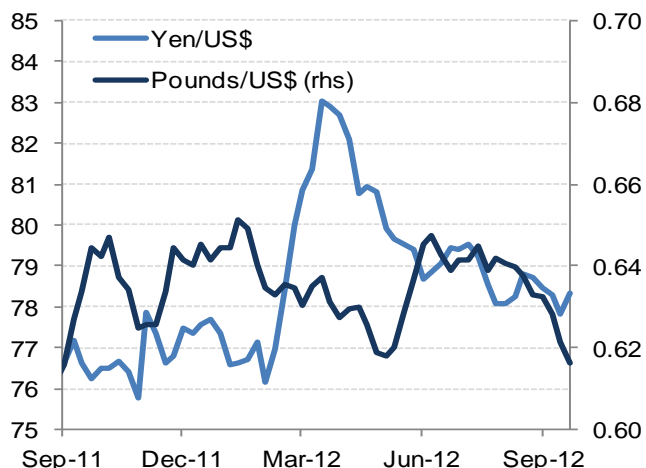
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



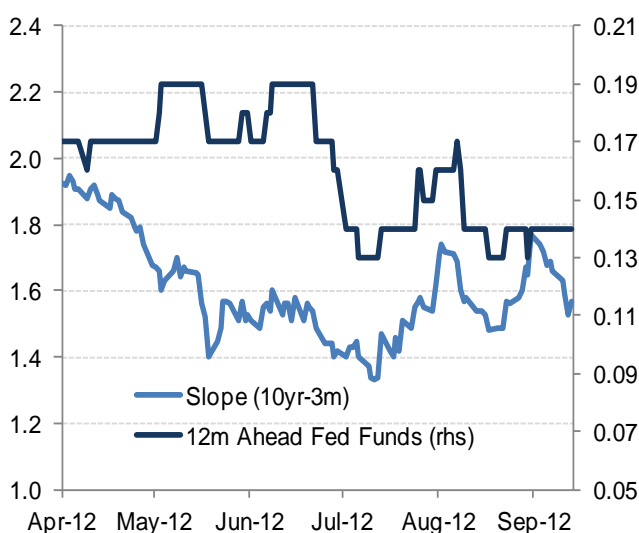
Source: Bloomberg & BBVA Research

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



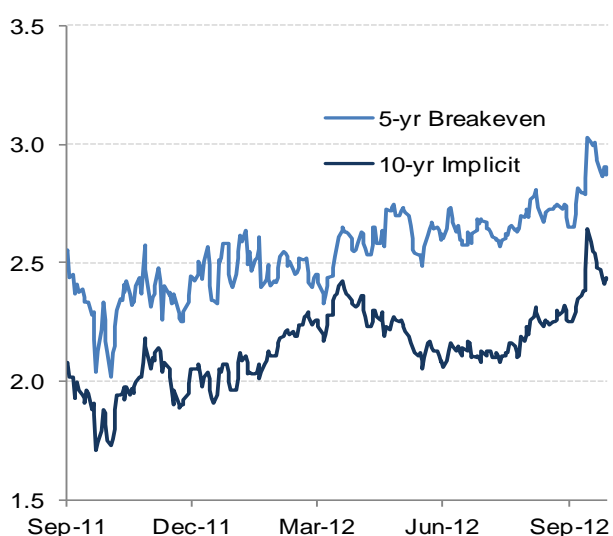
Source: Haver Analytics & BBVA Research

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)	3.14	3.15	2.92	4.08
Heloc Loan 30K	5.46	5.50	5.48	5.50
5/1 ARM*	2.71	2.76	2.78	3.02
15-year Fixed Mortgage*	2.73	2.77	2.86	3.28
30-year Fixed Mortgage*	3.40	3.49	3.59	4.01
Money Market	0.51	0.51	0.52	0.54
2-year CD	0.87	0.86	0.85	0.95

*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	0.15	0.13	0.06
3M Libor	0.36	0.37	0.42	0.37
6M Libor	0.64	0.66	0.71	0.55
12M Libor	0.97	0.99	1.03	0.86
2yr Sw ap	0.37	0.39	0.40	0.58
5yr Sw ap	0.77	0.80	0.77	1.26
10Yr Sw ap	1.70	1.77	1.66	2.11
30yr Sw ap	2.60	2.70	2.47	2.70
7day CP	0.24	0.32	0.35	0.50
30day CP	0.34	0.24	0.22	0.44
60day CP	0.46	0.35	0.27	0.38
90day CP	0.53	0.51	0.35	0.40

Source: Bloomberg & BBVA Research

Quote of the Week

Charles Plosser, President and CEO of the Federal Reserve Bank of Philadelphia
Economic Outlook and Monetary Policy
25 September 2012

"A common error in policymaking is an excessive focus on the short term and an underestimation of the longer-term consequences of policy choices. In my view, the potential costs outweigh what appear to be meager potential benefits of further asset purchases and extended forward guidance."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
1-Oct	ISM Manufacturing Index	SEPT	49.9	49.8	49.6
1-Oct	Construction Spending (MoM)	AUG	0.4%	0.5%	-0.9%
2-Oct	ISM NY Index	SEPT	50.5	--	51.4
2-Oct	Total Vehicle Sales	SEPT	14.50M	14.50M	14.46M
2-Oct	Domestic Vehicle Sales	SEPT	11.50M	11.40M	11.54M
3-Oct	ADP Employment	SEPT	100K	145K	201K
3-Oct	ISM Non-Manufacturing Index	SEPT	52.7	53.4	53.7
4-Oct	Initial Jobless Claims	29-Sep	365K	370K	359K
4-Oct	Continuing Claims	22-Sep	3285K	3275K	3271K
4-Oct	Factory Orders	AUG	-8.0%	-5.9%	2.8%
5-Oct	Change in Nonfarm Payrolls	SEPT	95K	115K	96K
5-Oct	Change in Private Payrolls	SEPT	100K	130K	103K
5-Oct	Change in Manufacturing Payrolls	SEPT	5K	0K	-15K
5-Oct	Unemployment Rate	SEPT	8.2%	8.2%	8.1%
5-Oct	Average Hourly Earnings (MoM)	SEPT	0.2%	0.2%	0.0%
5-Oct	Consumer Credit	AUG	\$5.0B	\$7.5B	-\$3.3B

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	0.25
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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