

US Weekly Flash

Highlights

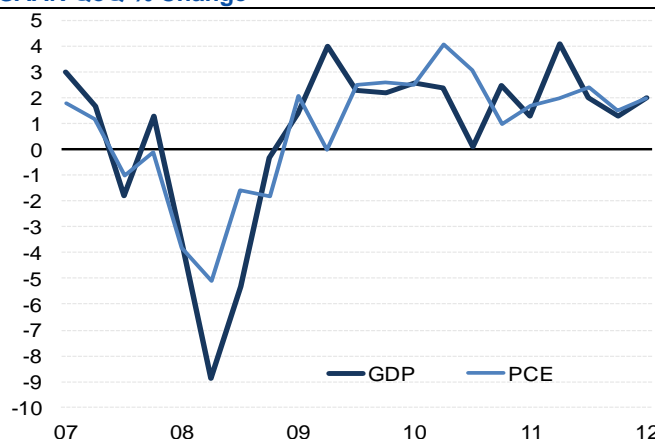
• GDP Growth Surprises to the Upside for 3Q12

- The first estimate for 3Q12 real GDP growth surprised to the upside as the U.S. saw a 2.0% increase in economic activity on a QoQ seasonally-adjusted annualized basis. Consumer and government expenditures were responsible for most of the boost, on top of the strong housing data that we have seen in recent months. Residential spending rose 14.4% in the third quarter on better-than-expected sales and new home construction, with the still low rates encouraging home ownership. Although consumer spending on foreign products did decline, it was the drop in exports into negative territory that imposes some worries on how the rest of the world is dealing with the slowing global economy and whether or not this lack of exports will persist into 4Q12.
- The increase in government spending was the biggest surprise, up 3.7% QoQ SAAR for the first time in more than two years. This likely reflects the significant upward revisions we have seen to government payrolls in the third quarter. National defense spending was the driver here, increasing 13.0%, while spending at the state and local level continued to decline. While there is some skepticism over the data due to the unnaturally high level of government spending that enhanced GDP figures for the quarter, the argument can be made that there would still have been moderate growth from the consumer side without the boost from federal defense.

• New Home Sales Reach Highest Levels Since 2010

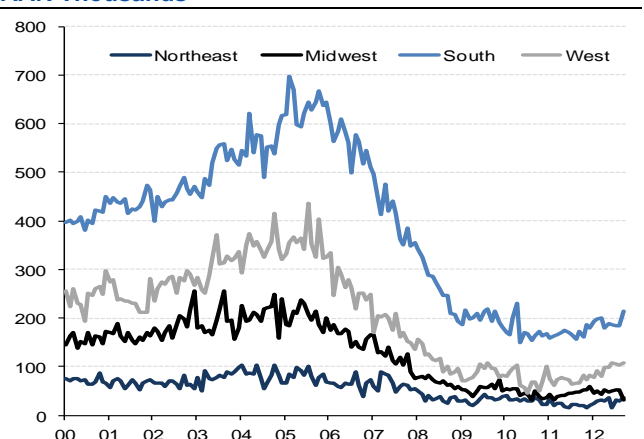
- Climbing 5.7% to 389K, the healthy jump in new home sales was led mostly by a 16.9% increase in the Southern region, which accounts for just about half of total new home sales. While the Northeast and West regions also saw growth in new home sales, the Midwest region saw a staggering -37.3% drop, the largest since the mid-1990s. Even still, September has been a break-out month for existing and new homes sales as well as construction data. Supply continues to decline, hitting 4.5 months' at the current sales rate and ultimately limiting sales. This points to continued gains in housing starts in the coming months but also puts upward pressure on home prices. The median price of new homes did decline 3.2% in September following two consecutive months of increases, but in general we are seeing an upward trend for prices throughout the housing market.
- With the Fed's commitment to keeping interest rates low for the next few years, we expect that demand for homes will continue to rise at a gradual pace. Although the housing sector is not moving fast enough to completely carry the recovery on its own, the data are surely a bright spot to finish out strong in 2012.

Graph 1
U.S. Real GDP and PCE Growth
SAAR QoQ % Change



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
New Home Sales, by Region
SAAR Thousands



Source: U.S. Census Bureau & BBVA Research

Week Ahead

Personal Income and Outlays (September, Monday 8:30 ET)

Forecast: 0.3%, 0.5%

Consensus: 0.4%, 0.6%

Previous: 0.1%, 0.5%

Personal income and spending are expected to grow again in September at a similar pace as in the previous month given. Personal income should accelerate after increasing in August at the slowest pace in nearly ten months. Improving labor market conditions for the month have bolstered consumer attitudes on income and the employment report noted a healthy 0.3% gain in average hourly earnings. Spending is also poised to grow at a relatively healthy pace, with retail sales rising another 1.1% in September, in large part due to increased auto demand. In particular, nominal spending will likely be strong given the inflation boost for the month.

S&P Case Shiller Home Price Index (August, Tuesday 9:00 ET)

Forecast: 1.45%

Consensus: 1.90%

Previous: 1.20%

The Case Shiller Index is expected to have decelerated slightly in August, with distressed sales still encouraging lower prices. Other home price indices, including the Core Logic and FHFA indicators, both noted modest MoM increases in August. However, the median price of existing homes has declined for three consecutive months. Constrained supply has been limiting sales and will likely put upward pressure on prices toward the end of the year. Despite our outlook for only a modest MoM increase for the home price index, we expect that the YoY rate will accelerate slightly in August.

ISM Manufacturing Index (October, Thursday 10:00 ET)

Forecast: 51.0

Consensus: 51.1

Previous: 51.5

Data for the manufacturing sector point to modest growth again in October, with mixed regional indexes but a slightly better economic situation in the U.S. The Federal Reserve's Empire State Manufacturing Survey came back for October still in negative territory but on the path to recovery from a disappointing September. The Kansas Fed Survey also indicated contracting activity for the month, mostly on account of low production and lower orders for exports. However, the Philadelphia index posted much better figures, breaking the five month negative trend since April and balancing out the disappointing numbers elsewhere. However, the fear lies in the details: new orders contracted while inventories rose in the Philadelphia region, questioning whether or not the rebound is certifiable growth. However, we do not think, despite mixed data, that the ISM Manufacturing Index will fall below the 50 range but will remain mostly consistent with the previous month.

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

Forecast: 125K, 7.9%

Consensus: 124K, 7.9%

Previous: 114K, 7.8%

September's employment report was a positive surprise for the unemployment rate, yet payroll gains were much lower than in the previous two months. For October, we expect that nonfarm payroll growth will accelerate slightly but not enough to beat the 3Q12 average near 150K. Initial jobless claims dropped significantly in the first week of the month but jumped back up the following week, keeping the average only slightly better than that in September. In regards to the unemployment rate, it is unlikely that we will see such a sharp decline again in the coming months. The participation rate increased in August as employment rose, yet the labor force still has room to grow. This could ultimately put upward pressure on the unemployment rate if payroll growth does not accelerate significantly. Overall, the third quarter ended with some encouraging employment figures and October should carry with it some of the continuing optimism, although maybe not with the same stunning results.

Market Impact

Market attention will be centered mostly on Friday's employment report for October, with hopes that more positive news will point to a true decline in the unemployment rate. Manufacturing data will also warrant some market reaction, with the ISM index providing a clearer picture of whether the sector's recent downturn was only temporary. With the last full week in swing until the Presidential election, economic news may help to sway an already-tight race.

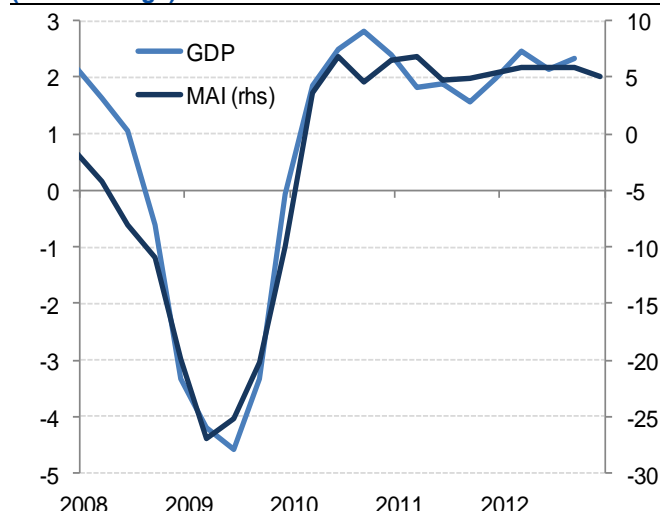
Economic Trends

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



Source: BBVA Research

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



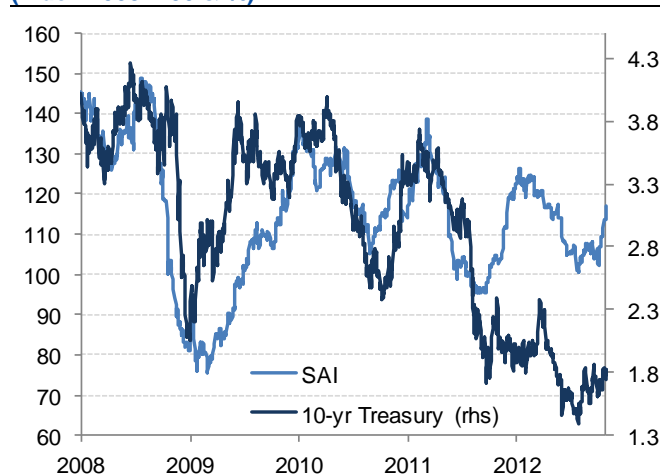
Source: BBVA Research & BEA

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



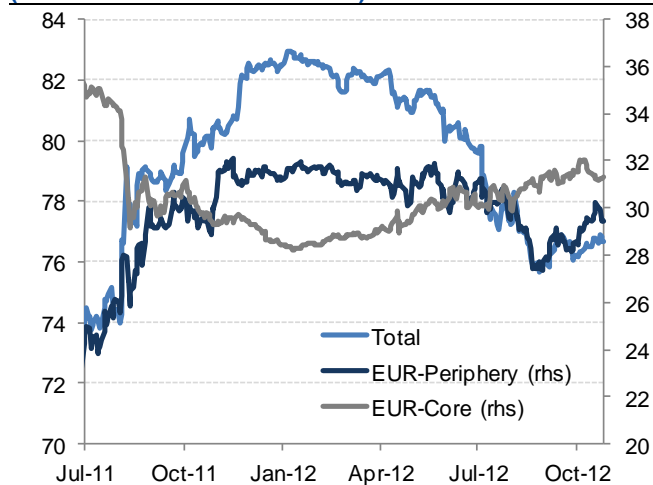
Source: BBVA Research

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



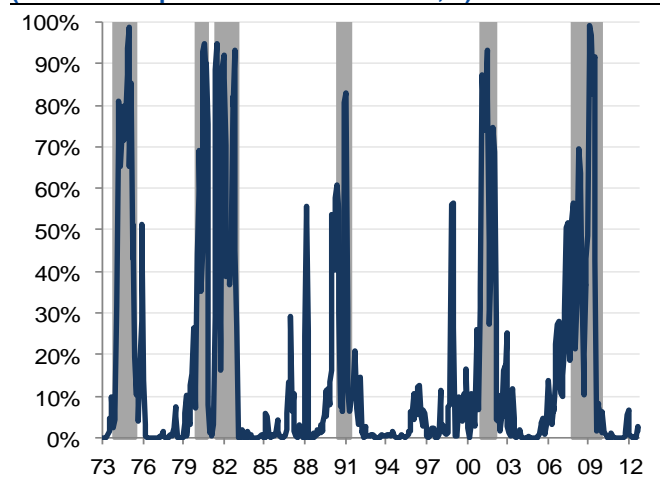
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

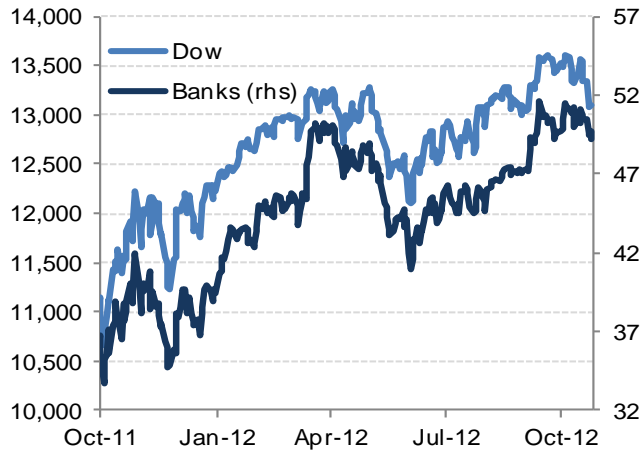
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

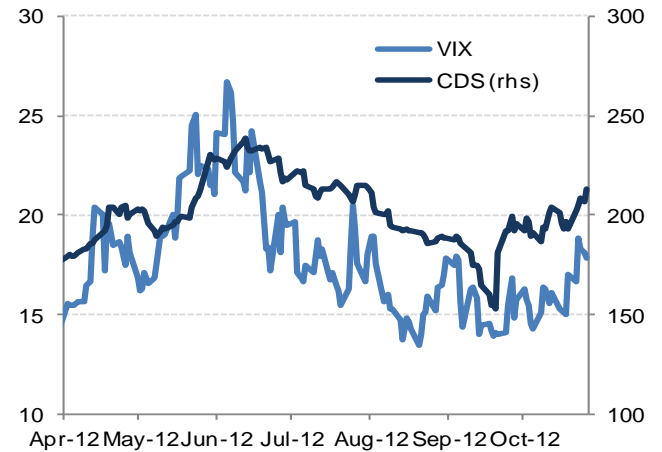
Financial Markets

Graph 9
Stocks
(Index, KBW)



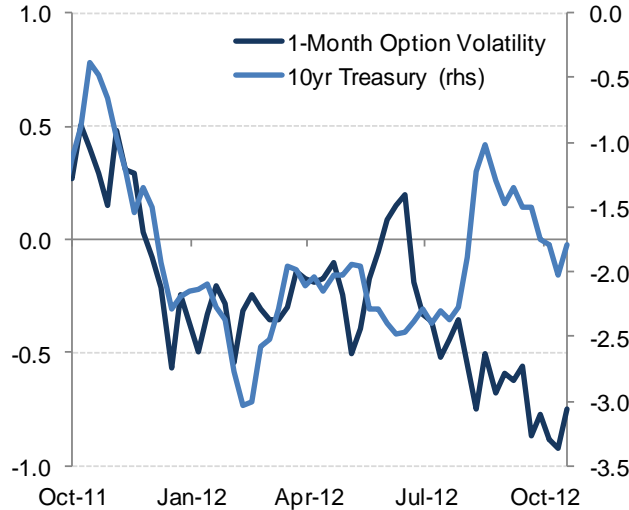
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



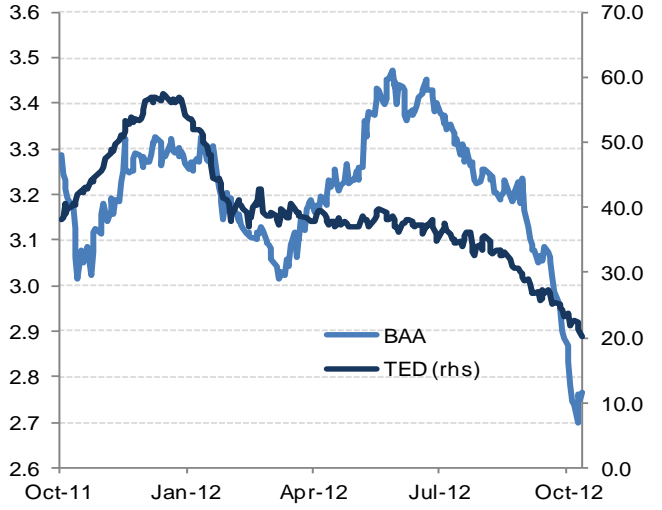
Source: Bloomberg & BBVA Research

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



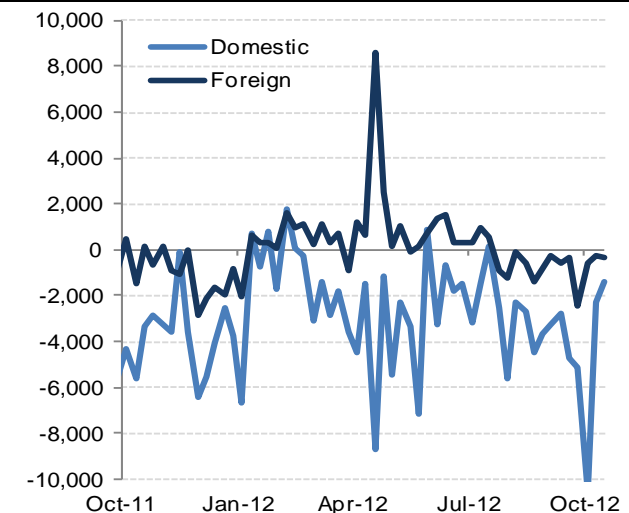
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



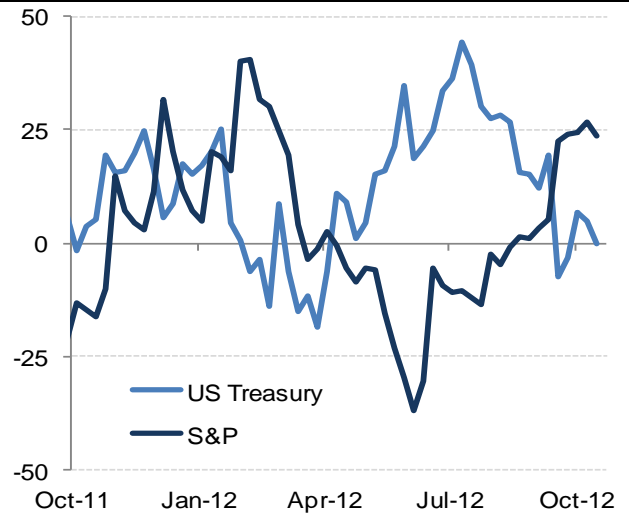
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

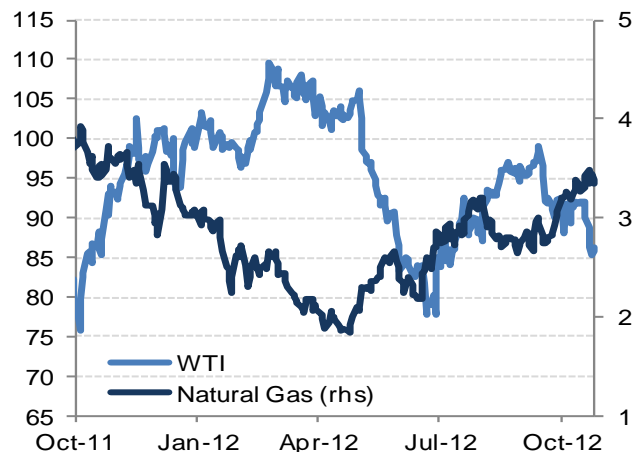
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

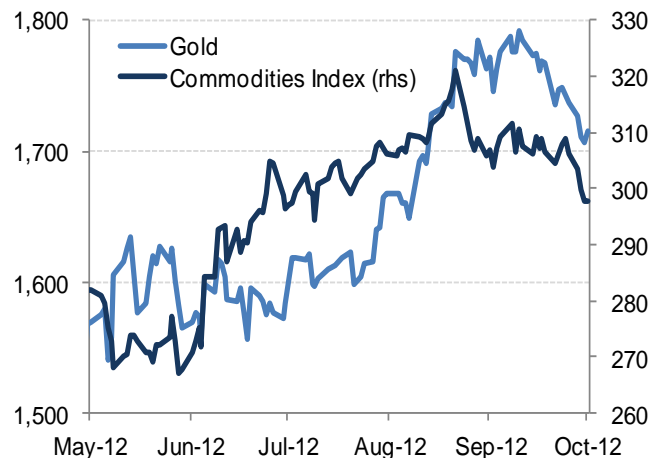
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



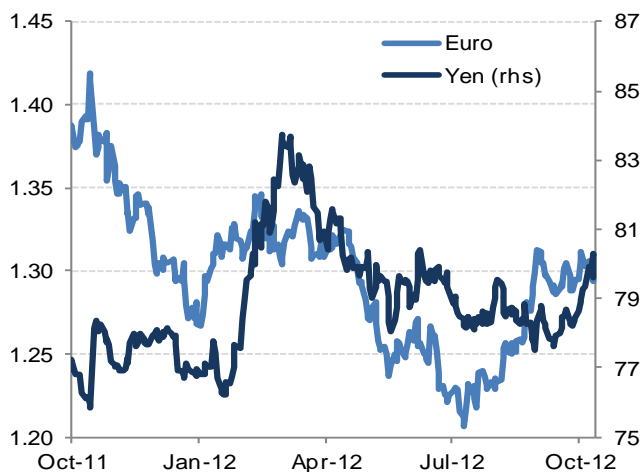
Source: Bloomberg & BBVA Research

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



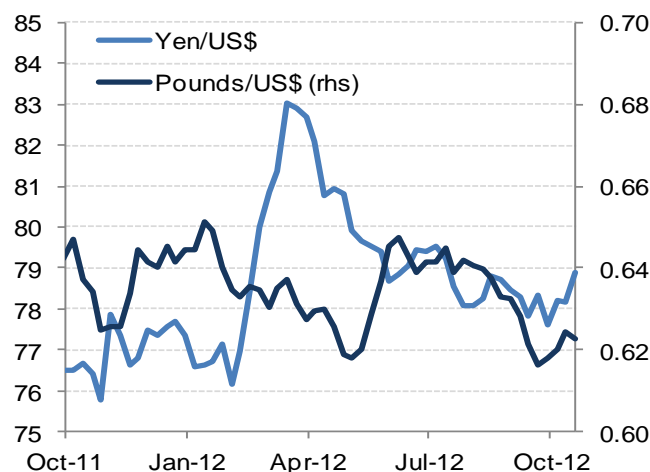
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



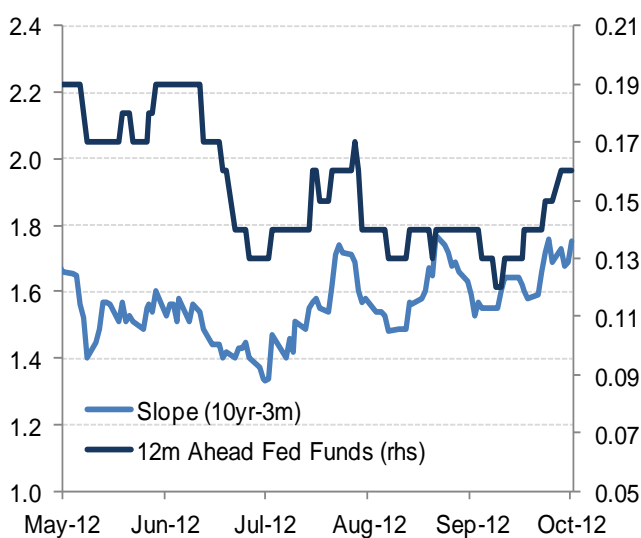
Source: Bloomberg & BBVA Research

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



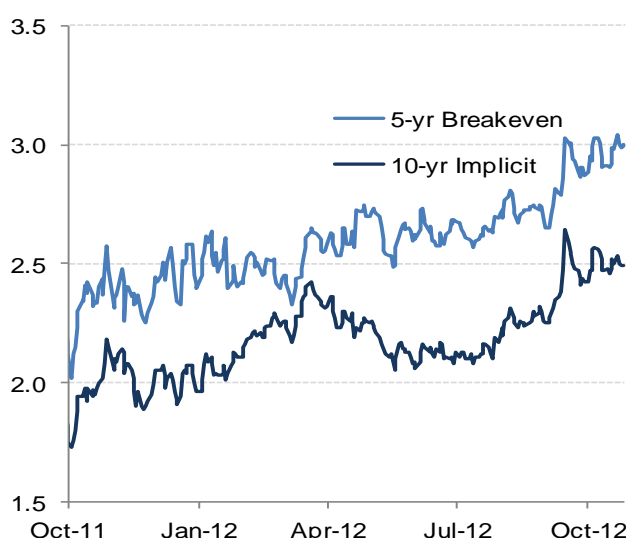
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.10	13.96
New Auto (36-months)	3.14	3.14	3.14	4.09
Heloc Loan 30K	5.45	5.46	5.46	5.49
5/1 ARM *	2.75	2.75	2.71	3.08
15-year Fixed Mortgage *	2.72	2.66	2.73	3.38
30-year Fixed Mortgage *	3.41	3.37	3.40	4.10
Money Market	0.51	0.51	0.51	0.52
2-year CD	0.84	0.86	0.87	0.83

*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	0.09	0.07
3M Libor	0.31	0.32	0.36	0.43
6M Libor	0.54	0.57	0.64	0.62
12M Libor	0.88	0.90	0.98	0.93
2yr Sw ap	0.40	0.40	0.37	0.60
5yr Sw ap	0.86	0.86	0.76	1.42
10Yr Sw ap	1.79	1.79	1.70	2.47
30yr Sw ap	2.66	2.69	2.61	3.13
7day CP	0.16	0.32	0.24	0.53
30day CP	0.21	0.27	0.34	0.47
60day CP	0.24	0.34	0.46	0.40
90day CP	0.26	0.38	0.53	0.40

Source: Bloomberg & BBVA Research

Quote of the Week

Huff Post Business Blog
Jared Bernstein
26 October 2012

"I could easily write the campaign press releases: Romney/Ryan: growth too slow! Obama/Biden: 13th quarter of expansion, growth picked up from last quarter, no time to change horse."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
29-Oct	Personal Income (MoM)	SEPT	0.3%	0.4%	0.1%
29-Oct	Personal Spending (MoM)	SEPT	0.5%	0.6%	0.5%
30-Oct	S&P Case-Shiller HPI (YoY)	AUG	1.45%	1.90%	1.20%
30-Oct	Consumer Confidence	OCT	71.8	72.5	70.3
31-Oct	ADP National Employment	OCT	140K	135K	162K
31-Oct	Employment Cost Index	3Q12	0.5%	0.5%	0.5%
31-Oct	Chicago PMI	OCT	50.8	51.4	49.7
1-Nov	Total Vehicle Sales	OCT	15.10M	15.00M	14.88M
1-Nov	Jobless Claims	27-Oct	362K	370K	369K
1-Nov	Continued Jobless Claims	27-Oct	3248K	3252K	3254K
1-Nov	Nonfarm Productivity	3Q P	1.6%	1.5%	2.2%
1-Nov	Unit Labor Costs	3Q P	1.4%	1.2%	1.5%
1-Nov	ISM Manufacturing Index	OCT	51.0	51.1	51.5
1-Nov	Construction Spending (MoM)	SEPT	0.8%	0.7%	-0.6%
2-Nov	Change in Nonfarm Payrolls	OCT	125K	124K	114K
2-Nov	Change in Private Payrolls	OCT	130K	123K	104K
2-Nov	Change in Manufacturing Payrolls	OCT	-6K	-3K	-16K
2-Nov	Unemployment Rate	OCT	7.9%	7.9%	7.8%
2-Nov	Average Hourly Earnings (MoM)	OCT	0.2%	0.2%	0.3%
2-Nov	Average Workweek Hours	OCT	34.4	34.5	34.5
2-Nov	ISM New York	OCT	52.0	-	52.9
2-Nov	Factory Orders	SEPT	3.4%	4.5%	-5.2%

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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