

US Weekly Flash

Highlights

- **Services Sector still Growing as Employment Rises**

- The ISM Non-Manufacturing Index and its components for October point to a slight decrease in the pace of growth as the overall index fell to 54.2 from a six-month high of 55.1 in September. The deceleration in services activity was brought about by a noticeable decline in both the business activity and new orders indices. Although both are still above the 50 level which separates growth from contraction, their declines show some signs of weakening activity in October. The declines are worrying as they tend to measure how the sector gauges its future capacities and how optimistic businesses can be about future conditions.
- However, the October figures also showed that employment increased to a seven-month high of 54.9 from 51.1 in September. This breathes some life into the report as employment has been on the rise since July but with the coming conditions unknown for a lot of industries, new hiring takes confidence in the economic situation and that seems to be what is being exhibited

- **JOLTS Report Points To Uncertainty For Labor Inactivity**

- The Job Openings and Labor Turnover (JOLTS) report for September shows signs of a restrained labor market as firms throughout the economy are adamantly awaiting some sort of fiscal lucidity before they begin to take on more employees. Although job openings have been on a jumpy but visible rise since 2009, September's figures showed a slight contraction in certain sectors but total openings only fell by 0.1 according to the JOLTS rate. This decline was fueled mostly by less openings in manufacturing, professional and business services, and government. Out of the four regions in the report, the Midwest was the only one to post positive movement in openings up 0.3 since August. With companies less inclined to hire, the positions available since the beginning of the year are slowly being filled and as we get closer to years end with no better understanding of how the fiscal cliff will turn out, the number is likely to fall for October as well.
- Separations declined for September, down 0.3% for total nonfarm and 0.2% for private. Overall, the numbers point to fewer separations for most sectors except construction which rose moderately and offset its gains in hiring, surprisingly. Notwithstanding the rise in separations in the recreation sector, every other industry shed fewer employees in September than in August. Overall then the report stresses a lull in the labor market as the fiscal cliff nears and companies choose to wait until a conclusion arrives before they move on altering their largest expense, workers. October will prove to be roughly the same story although we expect the housing market to show some better signs of recovery and hiring to increase further as industries gain some momentum on better economic indicators.

- **Consumer Credit Gains Show Signs of Growth, But Still Driven by Student Loans**

- Total outstanding consumer credit growth decelerated in September as revolving credit tightened due to fiscal uncertainty from the consumer. This slowdown comes from a shift into negative territory for credit from commercial banks and savings institutions. Within nonrevolving, it's still the federal government that is keeping figures positive with student loans. On a non-seasonally adjusted basis, consumer credit excluding government remains relatively flat.
- Fiscal uncertainty seems to be putting pressure on households to hold off on credit purchases and remain cash dependent until some clarity on fiscal issues emerges. As personal spending continues to rise, we expect credit to grow as consumers become more willing to take on debt, particularly during the upcoming holiday shopping season. Increasing demand for auto loans will help keep upward pressure on nonrevolving credit.

Week Ahead

Retail Sales, Ex Auto (October, Wednesday 8:30 ET)

Forecast: 0.1%, 0.3%

Consensus: -0.1%, 0.2%

Previous: 1.1%, 1.1%

A drop in the price of most of the basket commodities, including oil and natural gas, will likely put downward pressure on retail sales for October, causing a deceleration from the significant gains in August and September. While consumers are paying less at the pump, they are also purchasing fewer vehicles, evidenced by the 4% drop in total light weight vehicle sales for October. We expect retail sales growth to remain positive but recent weekly surveys have been lack luster and shown no real rise in sales or any reason to anticipate a surge from the consumer in usually slow sectors. However, as the holiday season approaches and consumer spending continues to climb, we expect store sales to be the driving force behind any growth that does come from October's figures, rather than any boost from commodities and vehicle sales. We also do not expect the recent natural disaster in the Northeast to effect sales for October but rather be realized in November's figures, excluding any preparatory purchases such as disaster supplies that may have occurred leading up to the storm

Consumer Price Index, Core (October, Thursday 8:30 ET)

Forecast: 0.2%, 0.1%

Consensus: 0.1%, 0.1%

Previous: 0.6%, 0.1%

Consumer credit is forecasted to grow but at a decelerated pace from September as commodity prices fall. Although the effects of the drought have not yet subsided, food prices continue to rise for September as higher grain prices raise the cost of meats due to feed. However, monthly commodity index's show agriculture and livestock prices to be falling slightly compared to the month prior and thus have a more subdued pressure on CPI for October. Energy prices have also fallen slightly as Brent and WTI drop in October. However, natural gas prices did shift higher and should muffle the decline in oil prices. We also don't expect much of an increase from the medical services standpoint and although housing prices continue to climb, it is unlikely to be a driving force in raising the core figure.

Empire State Manufacturing Survey (November, Thursday 8:30 ET)

Forecast: -8.00

Consensus: -7.35

Previous: -6.16

Although the Empire State Manufacturing Survey was making a move upward toward positive territory, the impact of Hurricane Sandy will probably be the largest factor in evidencing the expected drop in the index for November. Due to the timing of the survey, most manufacturers were either dealing with the aftermath or preparing to face the natural disaster. The predicted damage to manufacturers in the area is extensive and the index will reflect the predicated damage caused and sentiment thereafter, hopefully with some optimism building throughout the storm's recovery process in the coming months. The declines should be seen mostly in new orders, shipments, and delivery time since those would be the most immediately affected. Overall, we expect a lower index for November but hopefully a strong recovery in December as manufacturers restart production in time for the holiday orders and year-end shipments.

Industrial Production (October, Friday 9:15 ET)

Forecast: 0.2%

Consensus: 0.2%

Previous: 0.4%

Industrial production is expected to decelerate slightly as a consequence of some uncertainty down the road and the preparation for the natural disaster that affected most of the East Coast at the end of October. Although some mixed signals have emerged from the Chicago PMI and other surveys, the majority of indicators that directly reference manufacturing and production, such as factory orders, seem to be showing some movement upwards. However, small gains in more indicative figures like the ISM do not provide ample predictive information for either direction. While we expect there to still be growth in production, mixed indicators are showing some deceleration and if the recent hurricane has any factor in the later data, the slowdown may be stronger.

Market Impact

Now that the election has come to a close and Obama retains his position as President, sentiment has shifted straight to the fiscal cliff and its resolution. However, for the coming week, retail sales will give an indication of whether the consumers are out and spending as they had last month. Also in the limelight is inflation as CPI data comes out followed by production on Friday to give us a general outlook for October on manufacturing and retail. Also the FOMC will release the meeting minutes midweek which could give some details regarding upcoming policy accommodation plans by the end of the year.

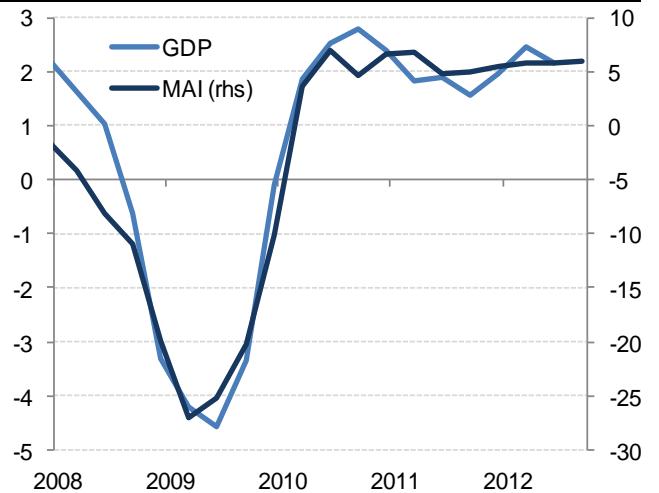
Economic Trends

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



Source: BBVA Research

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



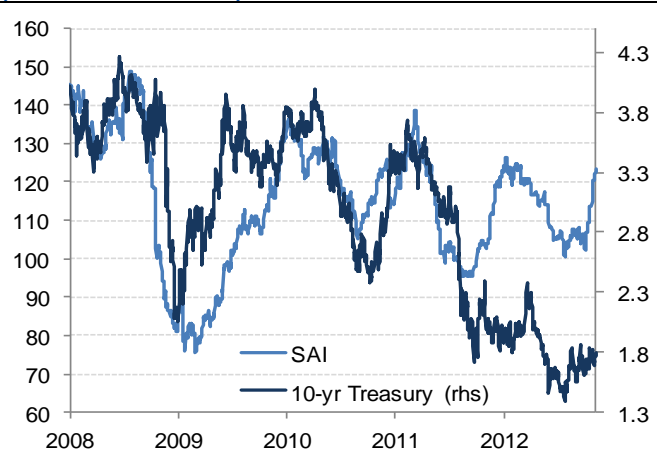
Source: BBVA Research & BEA

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



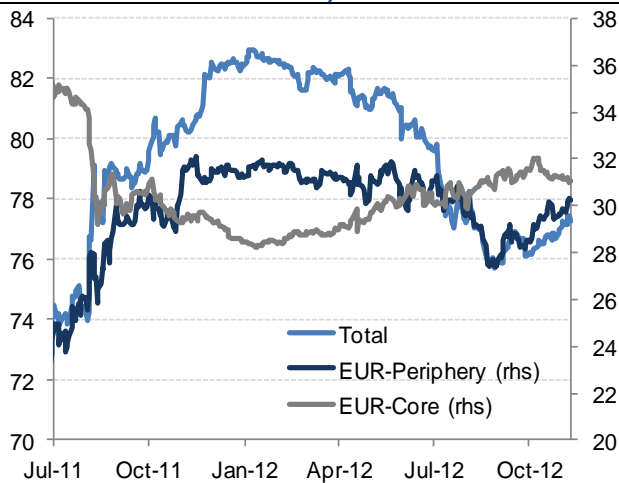
Source: BBVA Research

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



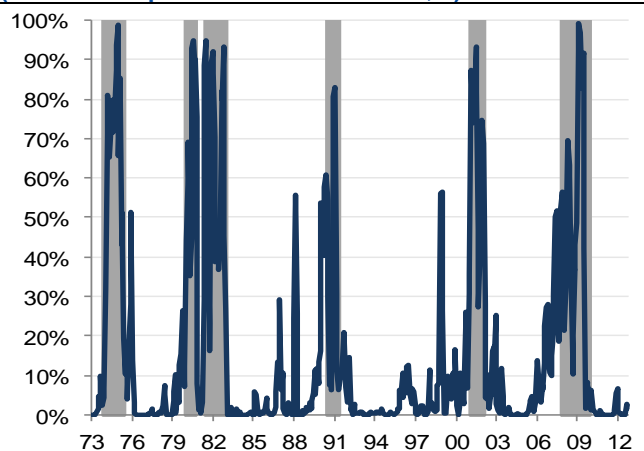
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

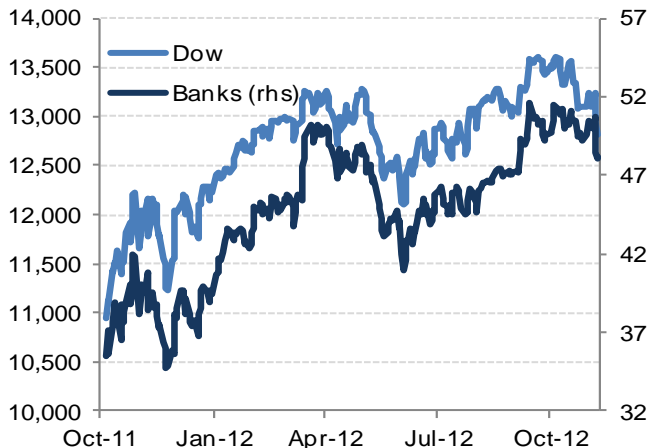
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

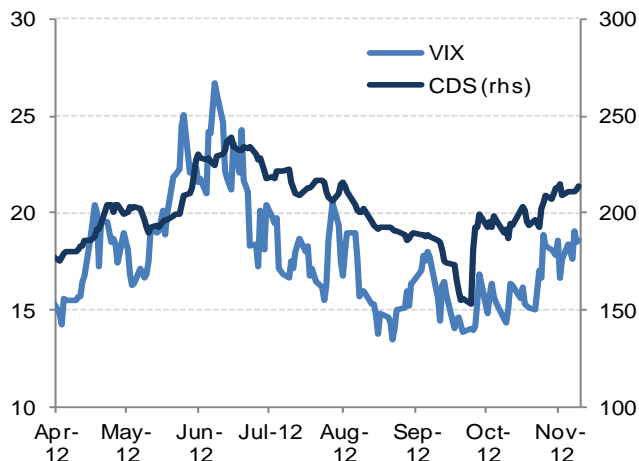
Financial Markets

Graph 9
Stocks
(Index, KBW)



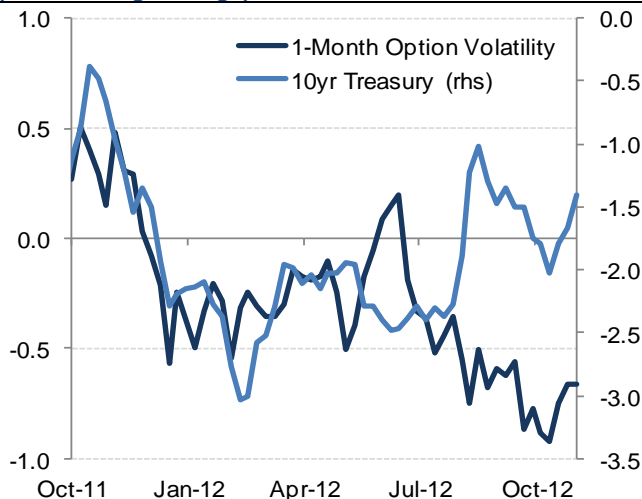
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



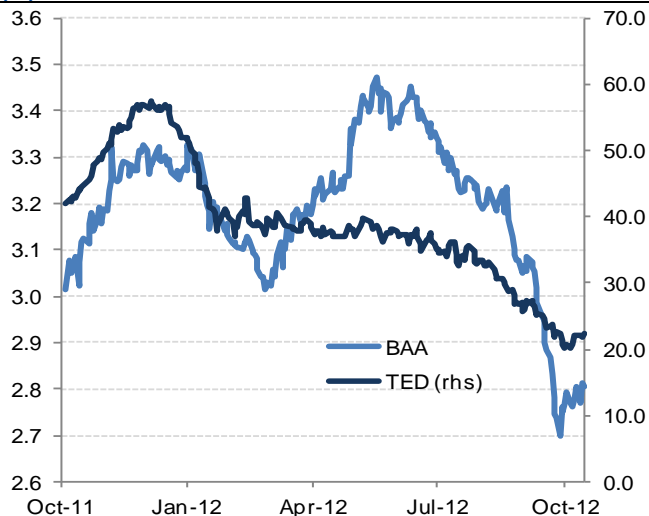
Source: Bloomberg & BBVA Research

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



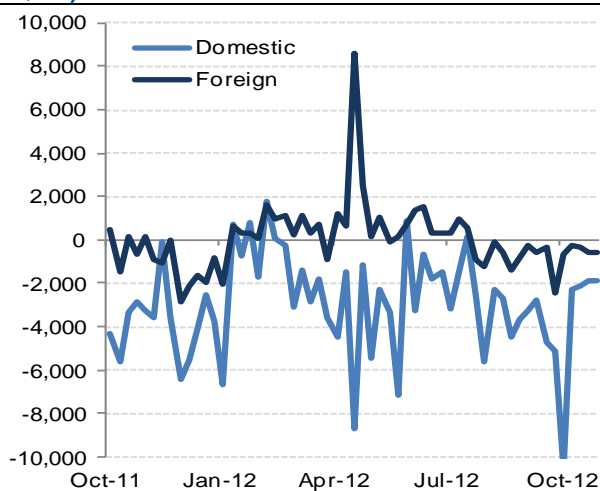
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



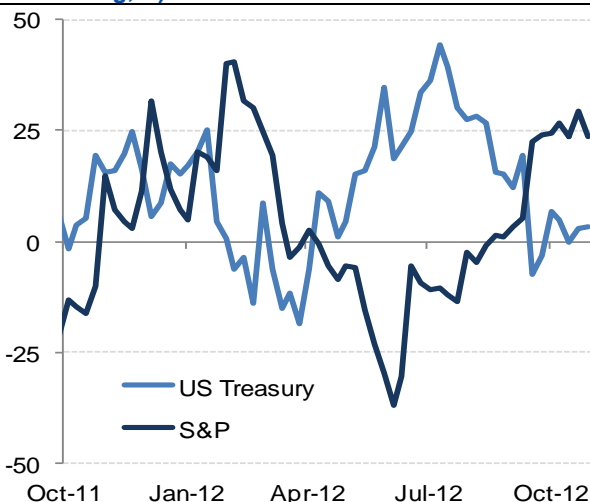
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

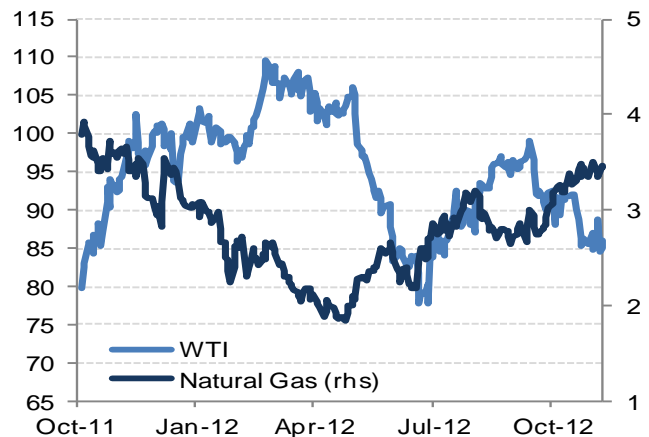
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

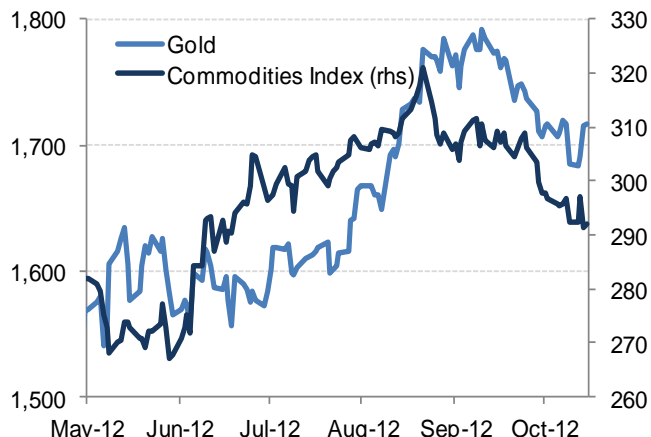
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



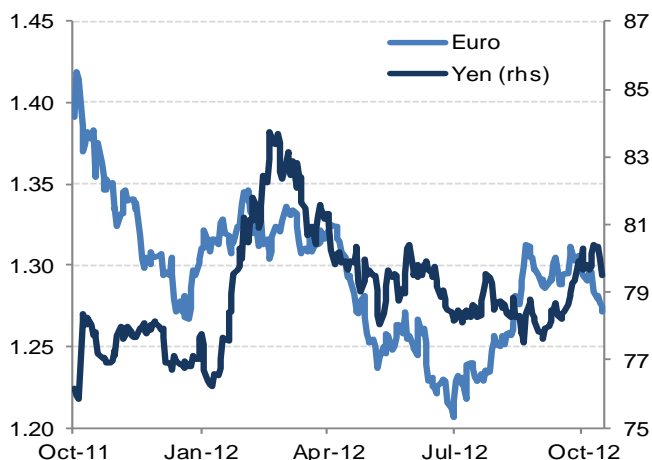
Source: Bloomberg & BBVA Research

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



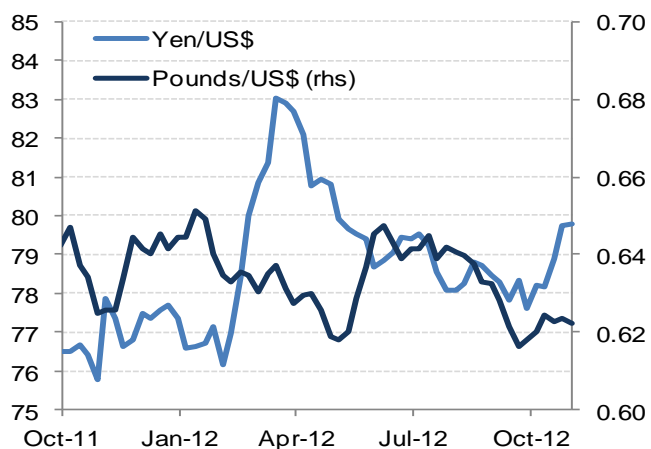
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



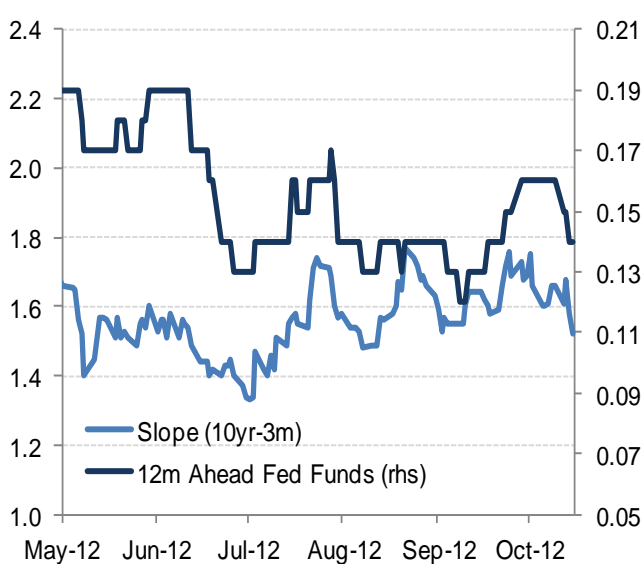
Source: Bloomberg & BBVA Research

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



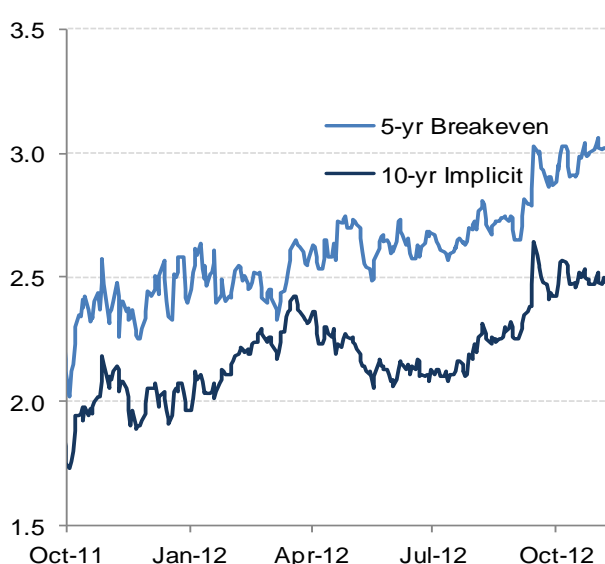
Source: Haver Analytics & BBVA Research

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	14.12	13.96
New Auto (36-months)	3.13	3.13	3.65	4.12
Heloc Loan 30K	5.42	5.45	5.47	5.53
5/1 ARM*	2.73	2.74	2.73	2.98
15-year Fixed Mortgage*	2.69	2.70	2.70	3.30
30-year Fixed Mortgage*	3.40	3.39	3.39	3.99
Money Market	0.50	0.51	0.52	0.53
2-year CD	0.86	0.84	0.86	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	0.16	0.08
3M Libor	0.31	0.31	0.34	0.45
6M Libor	0.53	0.54	0.60	0.65
12M Libor	0.86	0.88	0.94	0.98
2yr Sw ap	0.38	0.39	0.38	0.71
5yr Sw ap	0.77	0.82	0.79	1.30
10Yr Sw ap	1.65	1.75	1.71	2.21
30yr Sw ap	2.48	2.63	2.61	2.86
7day CP	0.17	0.32	0.21	0.50
30day CP	0.20	0.23	0.25	0.45
60day CP	0.20	0.22	0.25	0.40
90day CP	0.20	0.20	0.23	0.42

Source: Bloomberg & BBVA Research

Quote of the Week

James Bullard, President of the Federal Reserve Bank of St. Louis
Economy Improving, Operation Twist May Not be Extended
8 November 2012

"It is of critical importance that the president and Congress get together and get a solution on this. This could cause tremendous damage to the U.S. economy if it is not addressed in an appropriate way. I don't think that the Fed can take additional action that would be powerful enough to offset the complete failure to address the fiscal cliff."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
14-Nov	Producer Price Index (MoM)	OCT	0.30%	0.20%	1.10%
14-Nov	PPI Ex Food & Energy (MoM)	OCT	0.10%	0.10%	0.00%
14-Nov	Advance Retail Sales	OCT	0.10%	-0.20%	1.10%
14-Nov	Retail Sales Less Autos	OCT	0.30%	0.20%	1.10%
14-Nov	Business Inventories	SEPT	0.6%	0.5%	0.6%
15-Nov	Consumer Price Index (MoM)	OCT	0.20%	0.10%	0.60%
15-Nov	CPI Ex Food & Energy (MoM)	OCT	0.10%	0.10%	0.10%
15-Nov	Empire State Mfg Survey	NOV	-8.00	-7.35	-6.16
15-Nov	Initial Jobless Claims	13-Oct	365K	375K	355K
15-Nov	Continuing Claims	6-Oct	3140K	3165K	3127K
15-Nov	Philadelphia Fed Survey	NOV	2.3	1.5	5.7
16-Nov	Industrial Production	OCT	0.2%	0.2%	0.4%
16-Nov	Capacity Utilization	OCT	78.40%	78.30%	78.30%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	2.1	1.8	2.3
CPI (YoY %)	3.2	2.0	2.1	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0
Unemployment Rate (%)	9.0	8.2	7.9	7.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25
10Yr Treasury (eop, % Yield)	2.0	1.7	2.4	2.7
US Dollar/ Euro (eop)	1.32	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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