

US Weekly Flash

Highlights

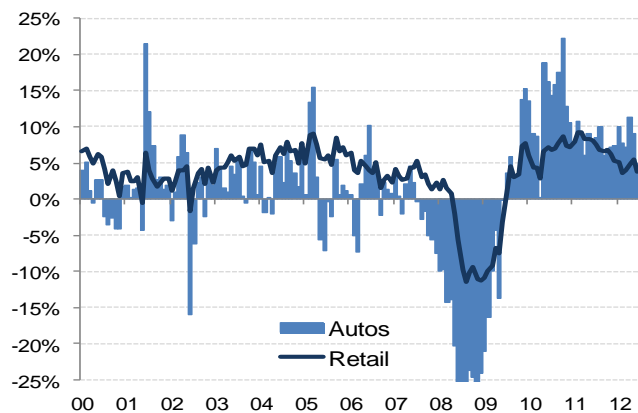
• Retail Sales Contract as Sandy's Impact is Realized

- Retail Sales for October showed a slowdown from the month prior as stores showed the strain imposed by Hurricane Sandy on consumers. Most of the -0.3% fall can be attributed to the overall effect of Hurricane Sandy that made landfall in late October and had drastic effects on the Northeastern and residual coastline. With most of New York City at a standstill, the days following the hurricane were awash with empty retail outlets and destroyed stores. It was uncertain exactly how negative an impact this would have on the economy but with only a few days left in October the consensus was that the affect would be realized mostly in November.
- Motor vehicles were also brought down by -1.47% as consumers reeled back on larger purchases, still trying to assess the impact of the fiscal cliff on their incomes and taxes. We expect, however, for this figure to reverse itself in November as both new and used cars in the hurricane struck areas will have to be replaced. Overall, we expect that retail sales for November and December will average about 4% annual growth, down from closer to 7% last year.

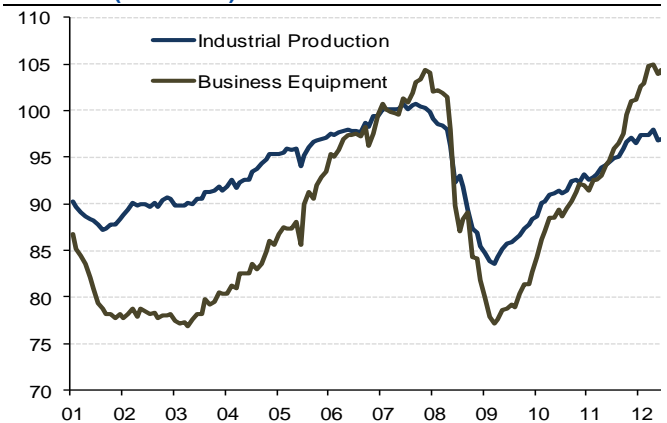
• Industrial Production Falls on Hurricane Effect and Lower Global Demand

- Although it was expected that Hurricane Sandy would have a negative impact on the industrial sector along the Eastern seaboard, the consensus and actual figures were surprisingly distant. Industrial production fell by 0.4% as the hurricane shutdown most of the Northeast for the last days in October and global demand was still not where it needed to be to push production back to its highs from earlier this year. All three components of the report erased their September gains as industrial production fell back to its levels from January and capacity utilization dropped to its lowest level in a year. This does not bode well for a sector that is already fairly hesitant about making any capital intensive changes as it factors in what sort of damage the fiscal cliff could cause in terms of tax increases.
- Yet another month that sees significant slowdown due to natural disaster, the YoY figures are showing a downward trend as 2012 industrial production decelerates. Although the Fed estimates that the recent hurricane caused a majority of the drop in production (approximately 1.0%), the YoY figures, while positive, are showing a downward trend forming. Both durable and nondurable goods have been on a steady decline since April and nondurable manufacturing is reaching lows from early 2009. However, on the brighter side mining and utilities are still higher than their levels from the start of 2012 and as the year closes we expect to see total output and manufacturing improve as capacity returns and companies choose whether or not to restart impacted factories.

Graph 1
**Total Retail and Auto Sales
YoY % Change**



Graph 2
**Industrial Production and Business Equipment
SA Index (2007=100)**



Week Ahead

Existing Home Sales (October, Monday 10:00 ET)

Forecast: 4.70M

Consensus: 4.75M

Previous: 4.75M

Sales of existing homes are expected to decline in October for the second consecutive month despite building momentum in the housing market. Although we saw a 1.7% drop in September, existing home sales remain at relatively high levels for the recovery and YoY growth has held strong near 10%. Looming uncertainties in the fourth quarter may be having an impact on immediate demand for homes, and the hurricane in the Northeast could have hindered some sales toward the end of the month. Median prices of existing homes declined throughout the entire third quarter but were unable to encourage homebuyers in September. Pending home sales, which are a leading indicator for existing sales, increased only slightly in September following a sharp drop in the previous month. Even still, we expect that the small decline in October will be temporary given the more optimistic outlook on the housing sector as a whole.

Housing Starts and Permits (October, Tuesday 8:30 ET)

Forecast: 850K, 870K

Consensus: 840K, 865K

Previous: 872K, 890K

Housing starts are expected to remain high but slightly off of September's 15% MoM leap, adding to the gaining recovery and confidence in the housing market. The housing market index reached a recovery high in October, with homebuilders noting an increase in the traffic of prospective buyers. Building permits also jumped significantly in September and indicate a growing demand for new home construction. However, while there is no doubt that the housing market is doing far better than it was this time last year, October will likely see a deceleration in the pace of housing starts, with Hurricane Sandy likely having an impact on construction near the end of the month. Given the usual month-to-month volatility of building permits, we do not expect to see another increase in issuance for October.

Initial Jobless Claims (November 17th, Wednesday 8:30 ET)

Forecast: 440K

Consensus: 400K

Previous: 439K

Initial jobless claims surged last week on the influx of the need for unemployment benefits following the hurricane in the Northeast, and we expect that the augmented figures will not drastically fall for this coming week. We expect that the latest figures reflect only a portion of the jump in joblessness that will amount from Hurricane Sandy's wreckage. With its impact spanning from industrial production to retail it is doubtful that only one week of jobless claims will be impacted. Employment has fared better throughout the past weeks as evidenced by the fall below 8.0% for the unemployment figures. However, we expect that the recent natural disaster will still put pressure on employment and drive jobless claims up slightly before they can shift downward later in the month.

Consumer Sentiment (October, Wednesday 9:55 ET)

Forecast: 84.5

Consensus: 84.5

Previous: 84.9

The figure for the preliminary measure saw a pop upward in November as the election came to an end and employment looked to be on the rise. While we expect there to be a small drop, there might be more downward movement if the recent hurricane and fiscal cliff worries resonate heavier with the public. Although Sandy did not affect a majority of the population, fears on its impact and the fiscal cliff are taking their toll on large purchases and consumers' outlook for income and taxes in the near future. However, employment has been recovering along with the housing market and conversation is beginning to surface on the fiscal cliff resolution. Therefore, while there is reason to suspect November's figures to be a little lower than their preliminary reading, we don't expect it to dampen the mood significantly.

Market Impact

This week's economic calendar, although short and rather empty, houses a few key indicators that are vital to the recovery. The housing market has been on the rise over the past year, and both existing home sales and housing starts are important pulse measurements. We expect both to be less than their prior figures, though there is little evidence that they should be surprisingly high or low. Consumer sentiment may also be lower as the fiscal cliff debate still sits atop the hierarchy of economic fears. In addition, much of the data is going to be tightly connected to Hurricane Sandy and therefore might not be as telling as we expected, so markets should remain relatively calm as a result.

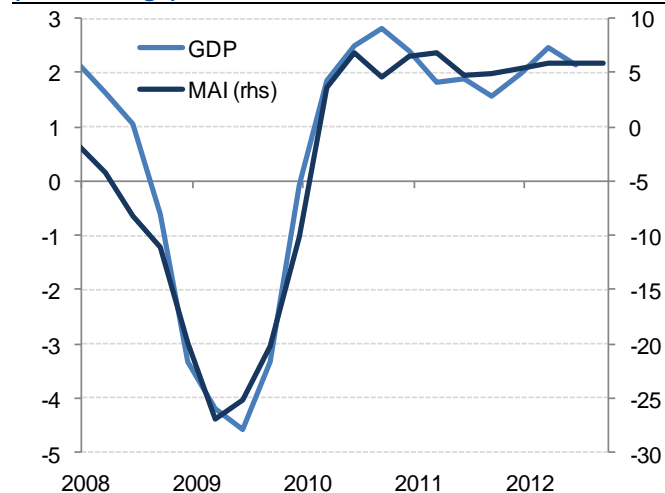
Economic Trends

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



Source: BBVA Research

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



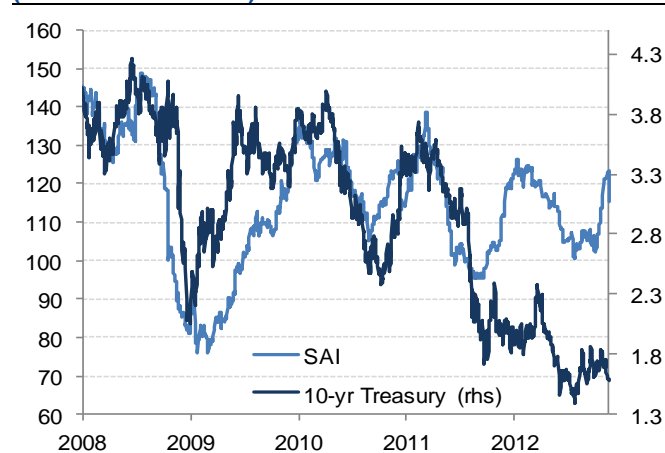
Source: BBVA Research & BEA

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



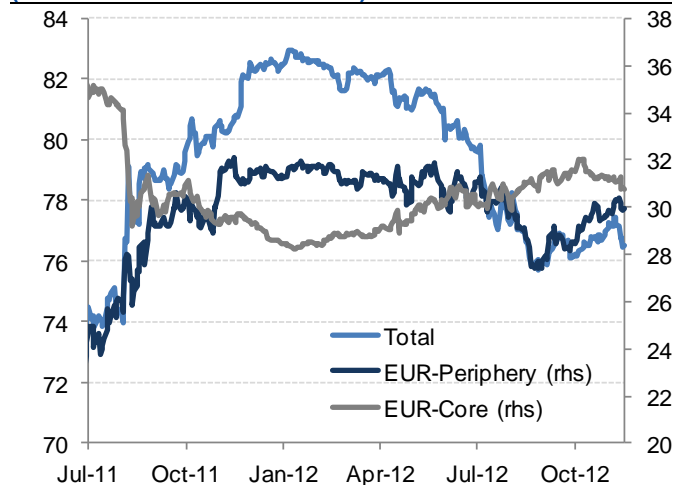
Source: BBVA Research

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



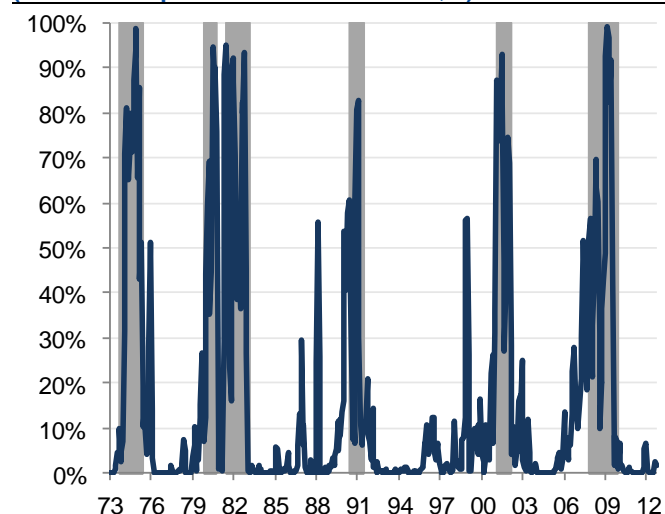
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

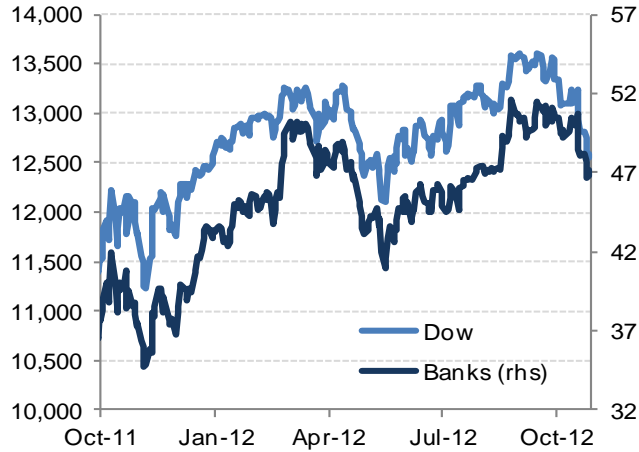
Graph 8
**BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)**



Source: BBVA Research

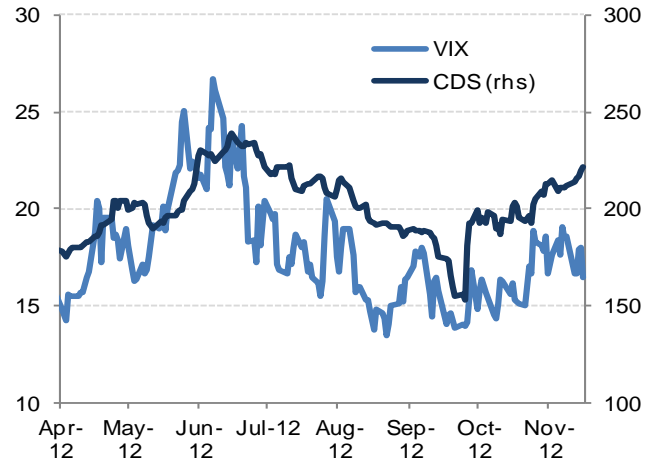
Financial Markets

Graph 9
Stocks
(Index, KBW)



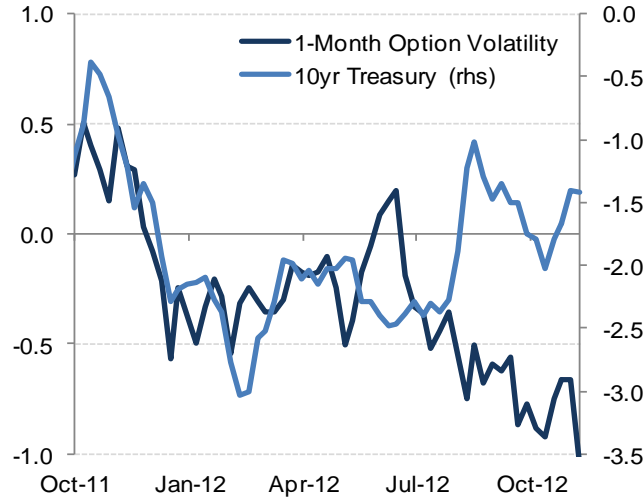
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



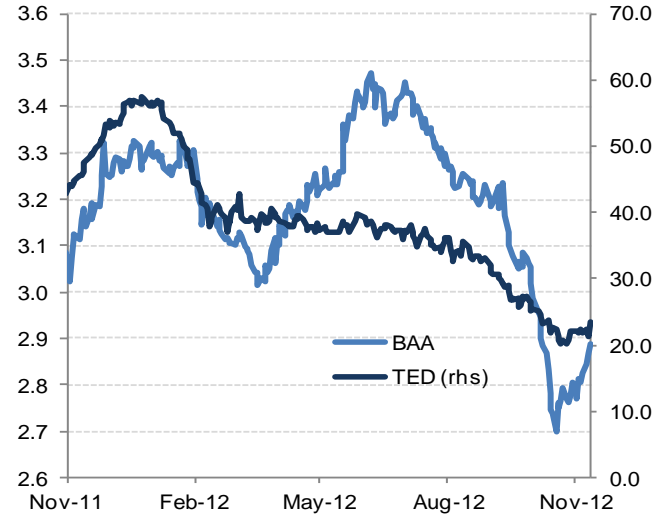
Source: Bloomberg & BBVA Research

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



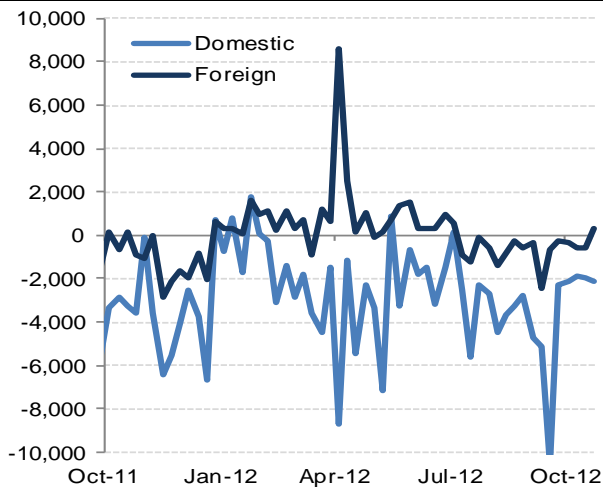
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



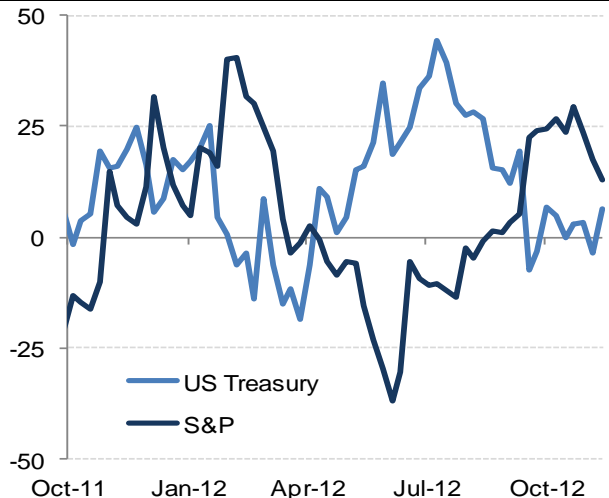
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

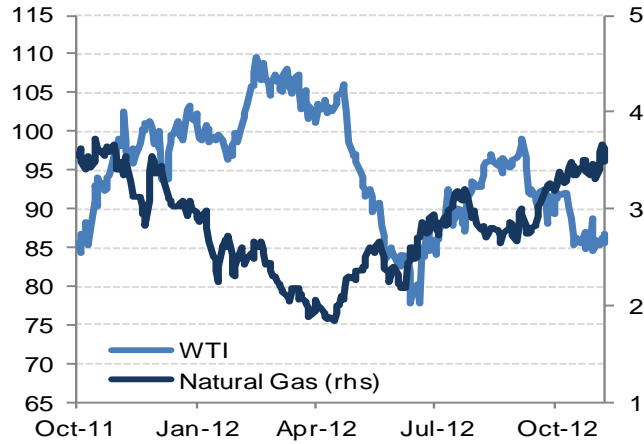
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

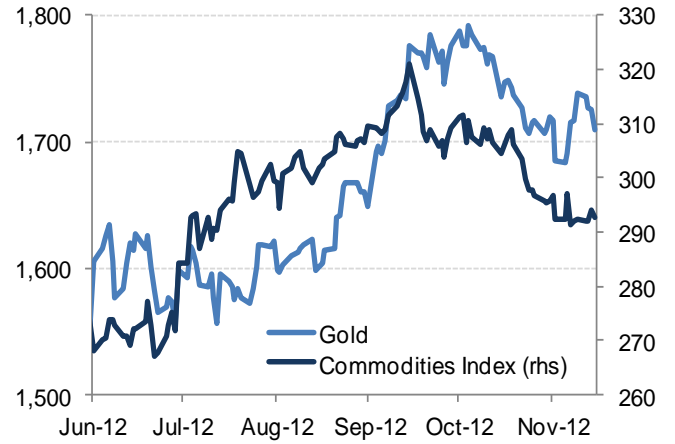
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



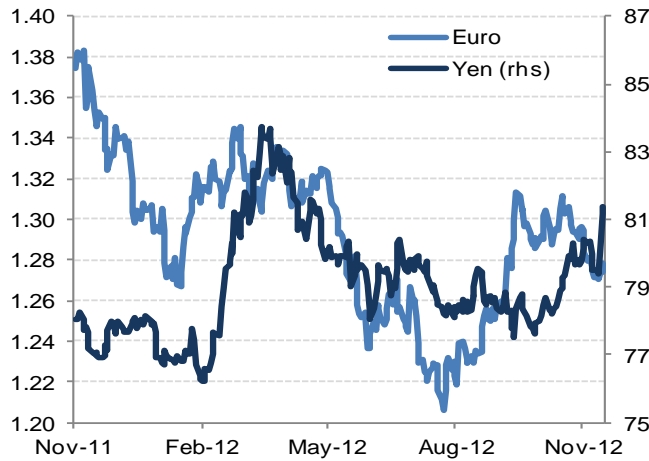
Source: Bloomberg & BBVA Research

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



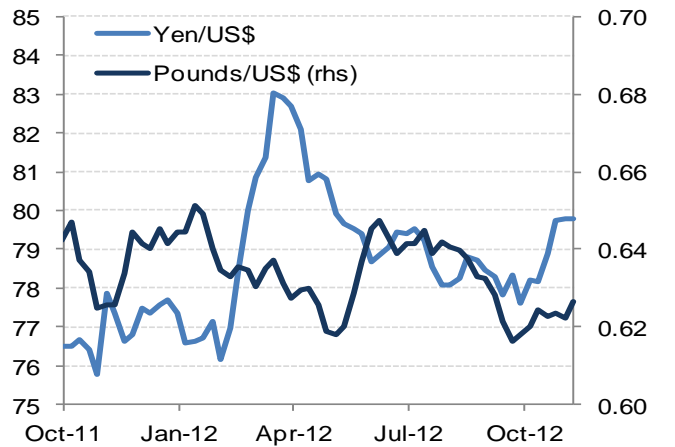
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



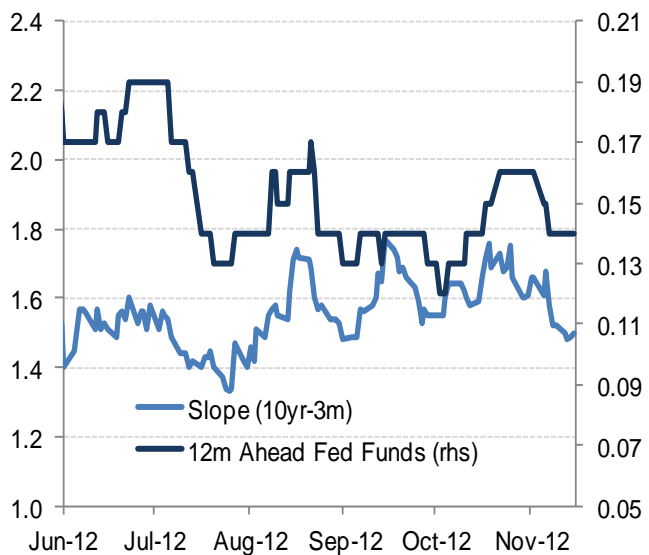
Source: Bloomberg & BBVA Research

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



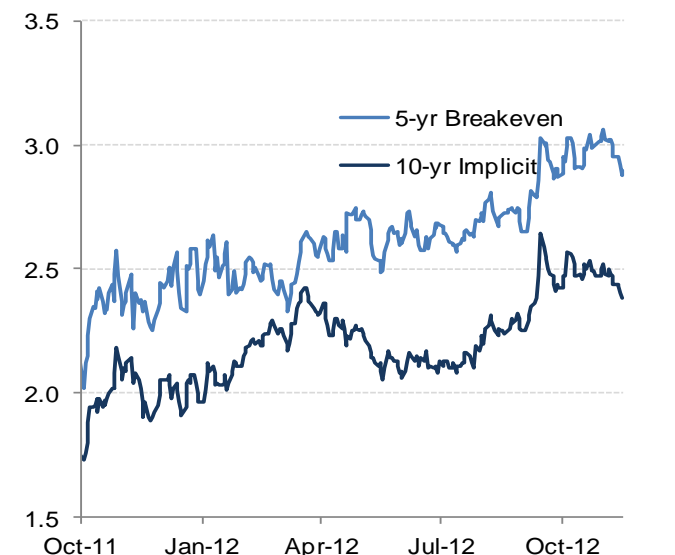
Source: Haver Analytics & BBVA Research

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)	3.07	3.07	3.14	4.09
Heloc Loan 30K	5.44	5.41	5.46	5.55
5/1 ARM*	2.74	2.73	2.75	2.97
15-year Fixed Mortgage *	2.65	2.69	2.66	3.31
30-year Fixed Mortgage *	3.34	3.40	3.37	4.00
Money Market	0.51	0.50	0.51	0.52
2-year CD	0.87	0.86	0.86	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	0.16	0.16	0.16	0.08
3M Libor	0.31	0.31	0.32	0.48
6M Libor	0.53	0.53	0.57	0.69
12M Libor	0.86	0.86	0.90	1.01
2yr Sw ap	0.38	0.38	0.40	0.77
5yr Sw ap	0.75	0.77	0.86	1.35
10Yr Sw ap	1.63	1.65	1.79	2.19
30yr Sw ap	2.49	2.48	2.69	2.71
7day CP	0.17	0.32	0.17	0.56
30day CP	0.18	0.20	0.27	0.34
60day CP	0.18	0.20	0.34	0.33
90day CP	0.20	0.20	0.38	0.46

Source: Bloomberg & BBVA Research

Quote of the Week

Alan Greenspan, Former Chairman of the Federal Reserve
Interview with Bloomberg
16 November 2012

"Even if we have to pay the cost of a significant rise in taxes to get a significant slowing, and then decline, in social benefits that is a very cheap price...a large increase in taxes required to fund what is currently in the books is going to cause a recession. If we can get away with that as the only cost to this whole problem, I think that's a pretty good deal."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Nov	Existing Home Sales	OCT	4.70M	4.75M	4.75M
19-Nov	Existing Home Sales (MoM)	OCT	-1.05%	-0.10%	-1.70%
19-Nov	Housing Market Index	NOV	41.0	41.0	41.0
20-Nov	Housing Starts	OCT	850K	840K	872K
20-Nov	Housing Starts (MoM)	OCT	-2.52%	-3.70%	15.00%
20-Nov	Building Permits	OCT	870K	865K	890K
20-Nov	Building Permits (MoM)	OCT	-2.25%	-2.80%	11.10%
21-Nov	Initial Jobless Claims	17-Nov	440K	400K	439K
21-Nov	Continuing Claims	10-Nov	3338K	3345K	3334K
21-Nov	U. of Michigan Consumer Sentiment	NOV	84.5	84.5	84.9
21-Nov	Leading Indicators	OCT	0.2%	0.1%	0.6%

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	8.1	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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