

US Weekly Flash

Highlights

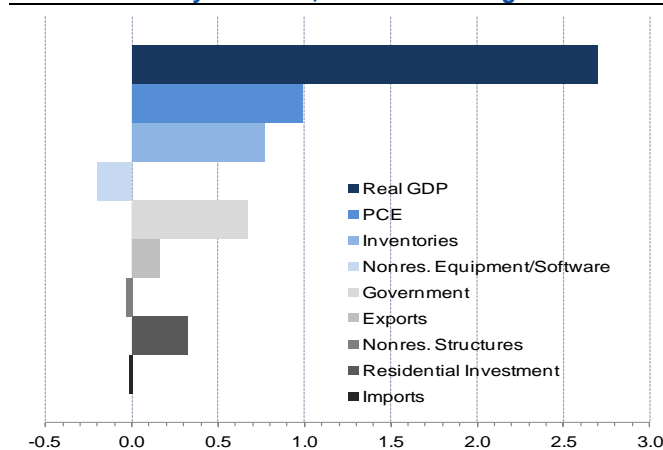
• Higher Inventories and Lower Trade Deficit Drive GDP Revision

- After a modest advanced report for 3Q12 GDP, the revised figures for the second estimate show better than expected growth in exports and inventories offsetting slower consumption. Compared to the first estimate of 2.0% QoQ seasonally-adjusted annualized growth, the revised figure of 2.7% hints at some large changes in what was expected to be another slow quarter following an even slower one prior. One of the biggest drivers of the higher growth rate came from a better-than-expected trade balance to close out the third quarter, reflecting stronger exports and slower import growth. Another key driver of the revised GDP figure was an increase in private business inventories that increased nearly double from the advance estimate released in October. Together, these positive revisions helped to offset the slow increase in household purchases, which increased only 1.4% in the third quarter (from an advance estimate of 2.0%) to mark the slowest rate seen in over a year.
- Looking ahead to 4Q12, we expect that growth will appear subdued compared to the rate seen in 3Q12. Recent data have already hinted at an impact from Hurricane Sandy, putting pressure on production and spending figures. Given the rising fiscal uncertainty as we approach the end of the year, businesses and consumers alike have been slow to make any major spending decisions until the path is clearer and long term spending and tax rates are known

• Spending Falls and Income Stays Flat on Sandy's Impact

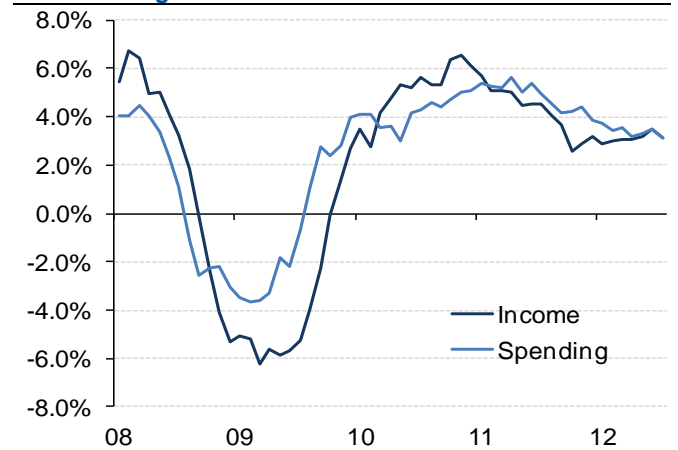
- Personal consumption expenditures dropped 0.2% in October, the first decline in four months, following a 0.8% jump in September. In general, the figures, while negative, do not clearly point to a sustained decline in spending as the Northeast regains momentum and shoppers gear up for the holiday season. Increased consumer confidence and sentiment should be enough to entice shoppers for November as they filled shopping centers for the post Thanksgiving sales.
- Personal income was unchanged in October a 0.4% increase in the prior month. The wages and salaries component actually declined 0.3%, the first such decline since 2Q12. The storm left much of the Northeast on hold for several days, cutting back working days and potential income. With the storm's recovery and the influx of back-to-work employees in November, income should boost back up again.
- Overall, it is hard to get a clear reading on the true trends to start the fourth quarter given that Sandy's impact overlaps both October and November. However, a first look at the holiday shopping season hints at some optimism that the consumption figures will recover somewhat in November and December.

Graph 1
Contributions to Real GDP Growth
3Q12 Preliminary Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

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

Forecast: 51.2

Consensus: 51.4

Previous: 51.7

The ISM Manufacturing Index is expected to show continued growth in manufacturing activity in November, but at a slightly slower pace compared to the previous month. Hurricane Sandy likely had some impact on the sector, given that both the Empire State and Philadelphia Fed surveys noted significant contraction in manufacturing for the month. Even still, we expect that some of the positive momentum from October will carry over and offset some of the weakness from the storm. New orders rose in October signaling a moderate increase from September, still low for the year but increasing steadily for the past 3 months. The production index has also been increasing over a similar period, up 11% since August, and the acceleration in new orders points to further gains in future output. Employment in manufacturing shows signs of improvement as more respondents pointed to higher employment than lower in the survey, even though the index fell 2.6 points. Overall, optimism is still present for the time being, but uncertainties moving into 2013 will likely limit significant expansion in the sector.

Construction Spending (October, Monday 10:00 ET)

Forecast: 0.5%

Consensus: 0.4%

Previous: 0.6%

Construction spending is expected to grow at a slower pace in October but still at a moderate rate as the housing market continues to show signs of a sustainable recovery. Residential construction will probably be an important driver in positive growth for October as housing starts continue to rise nationwide, fueling construction along with multi-unit structures that have grown very quickly since 2011. In addition to housing starts, the steady increase in building permits will also help to bolster the figure for construction spending come year end while adding to the longer term growth of the construction industry as demand continues to grow.

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

Forecast: 120K, 7.9%

Consensus: 95K, 7.9%

Previous: 171K, 7.9%

October's employment report showed some evidence for the unemployment rate holding below 8%, with nonfarm payroll growth accelerating from the previous month. However, recent indicators suggest that November's report may not be quite as exciting. Initial jobless claims for the first half of November have been particularly high and volatile given Hurricane Sandy's impact, jumping back up to 450K, far above October's high of 392K. Other data for November also does little to convey optimism: various surveys measuring businesses sentiment noted a drop in the view on current conditions, alluding to a hesitant if not stagnant approach to hiring until the fiscal cliff is decided upon. In line with our forecasts, we expect the unemployment rate to remain the same or shift marginally higher as payrolls increase at a much slower pace due to looming uncertainties.

Consumer Credit (October, Friday 3:00 ET)

Forecast: \$9.7B

Consensus: \$10.0B

Previous: \$11.4B

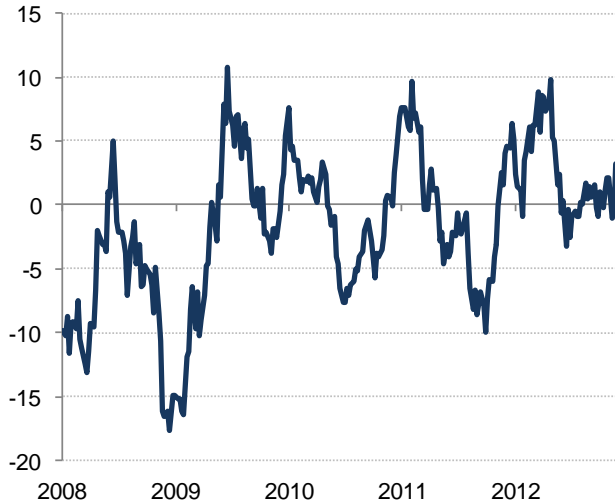
Fiscal uncertainty seems to be putting pressure on households to hold off on credit purchases and remain cash dependent until some clarity on fiscal issues emerges. Increasing demand for auto loans will help keep upward pressure on nonrevolving credit for October but with Sandy's impact on autos in the Northeast it is uncertain how many people will be re-entering the auto market. In general, we do not expect consumer credit to grow at the same pace as in September. Nonrevolving credit will likely remain strong due to pressures from student loans but revolving credit may experience some slow down as consumers hold off until closer to the holiday season to make bigger ticket purchases with credit and engage in end of year spending.

Market Impact

There is enough data this week for the economy to provide insight into how manufacturing and employment are fairing. The ISM indices are expected to still be growing but at a slower pace and factory orders should give us some idea of how companies are dealing with the uncertainty of next year's taxes and spending coupled with how they are coping post-Sandy. The biggest piece of information coming is the employment situation later in the week, which could throw markets into a frenzy if numbers are weak again. Overall, we expect mixed data next week but with Sandy's impacts still being measured and the fiscal cliff getting closer, we do not foresee much in the way of game changing news unless someone makes a viable proposal to solve the cliff.

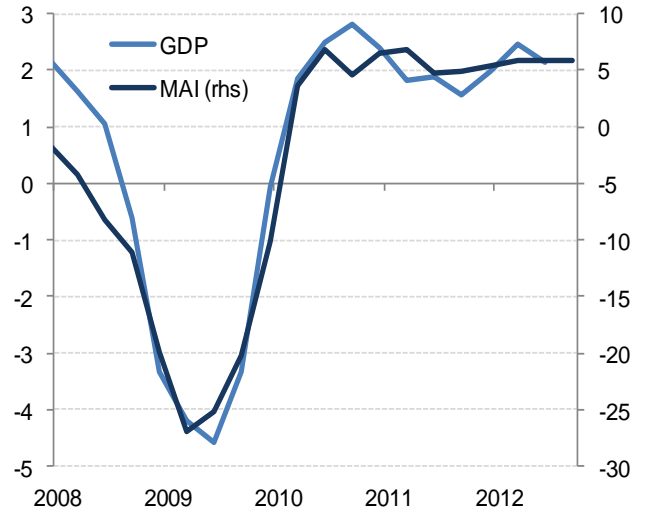
Economic Trends

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



Source: BBVA Research

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



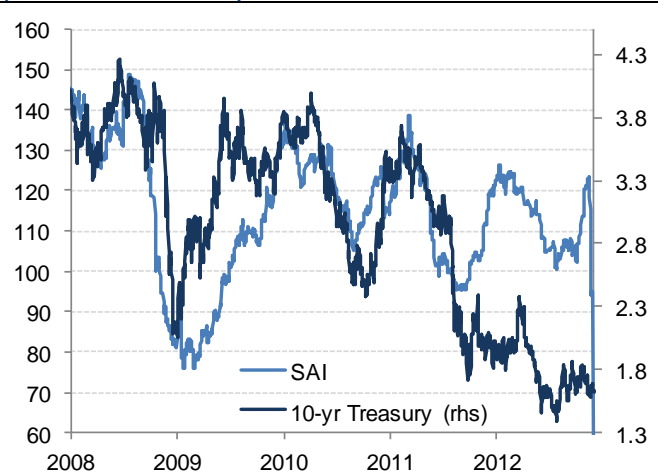
Source: BBVA Research & BEA

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



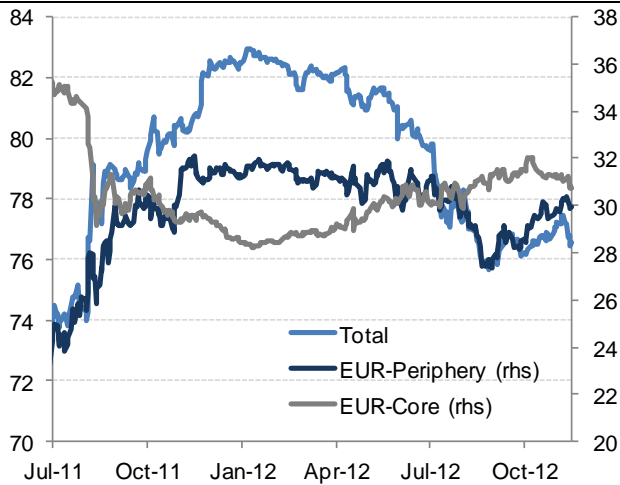
Source: BBVA Research

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



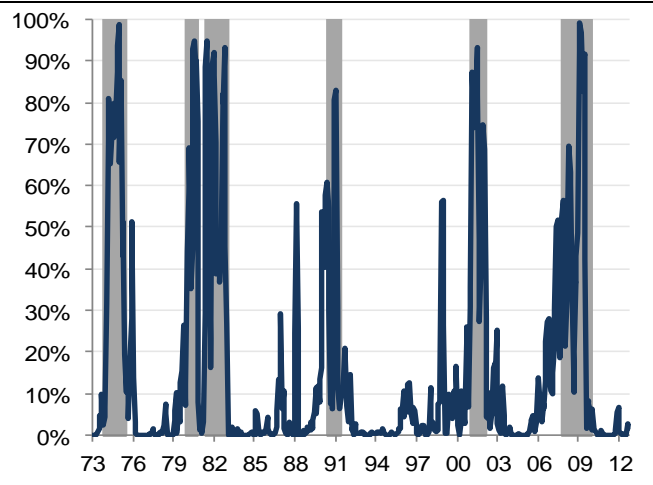
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

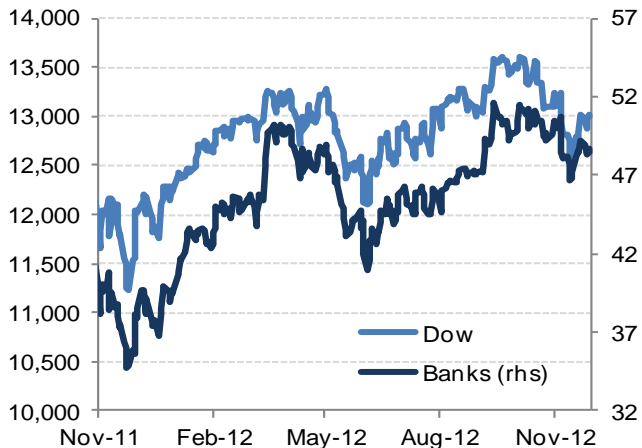
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

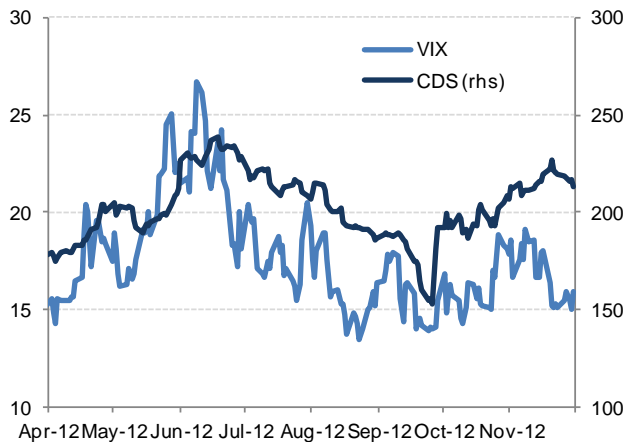
Financial Markets

Graph 9
Stocks
(Index, KBW)



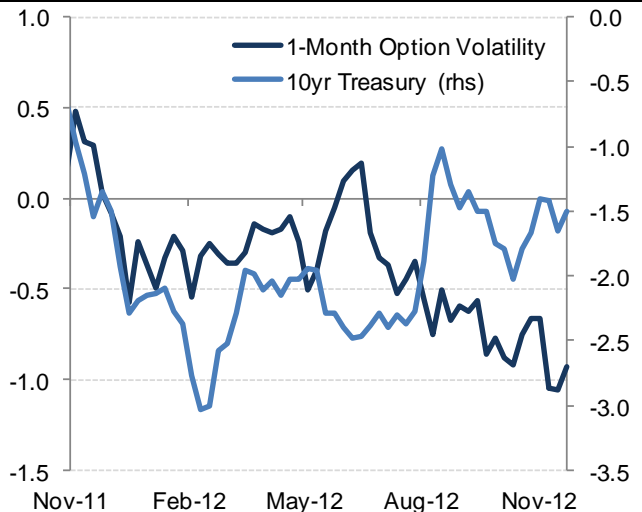
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



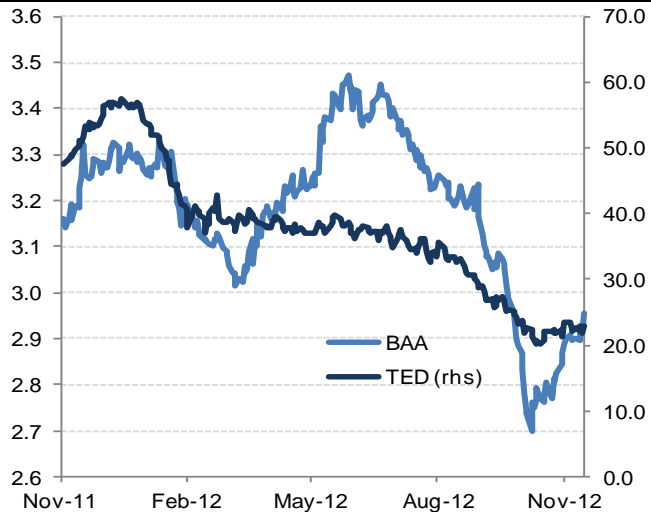
Source: Bloomberg & BBVA Research

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



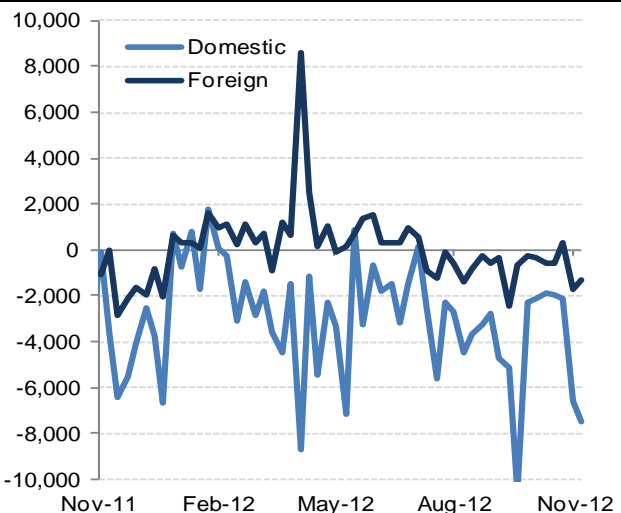
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



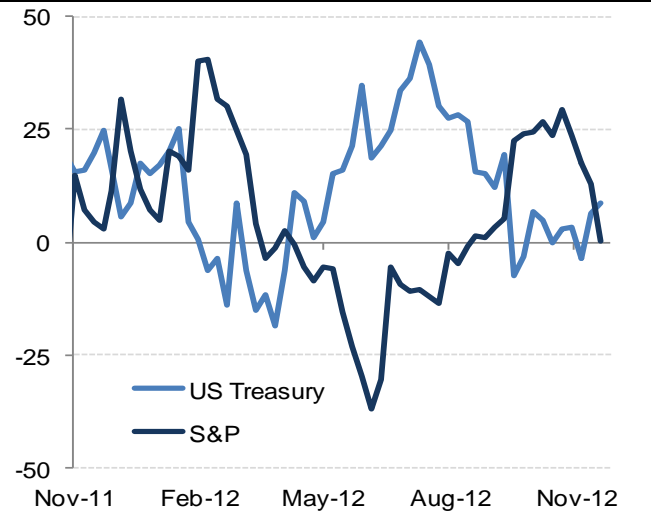
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

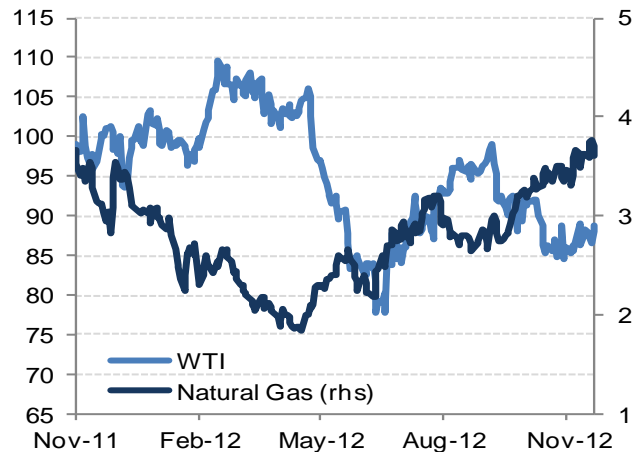
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

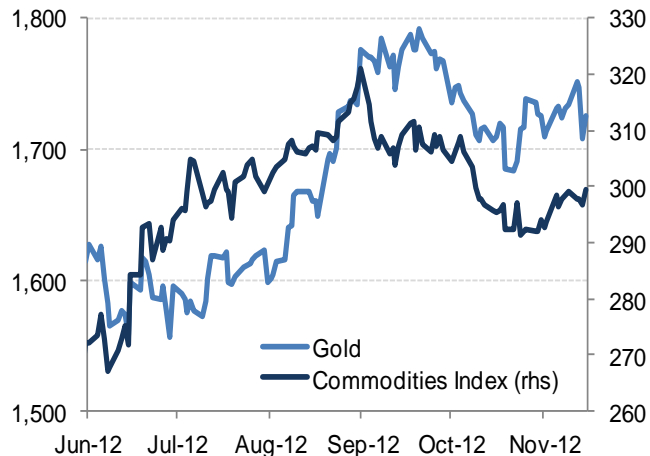
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



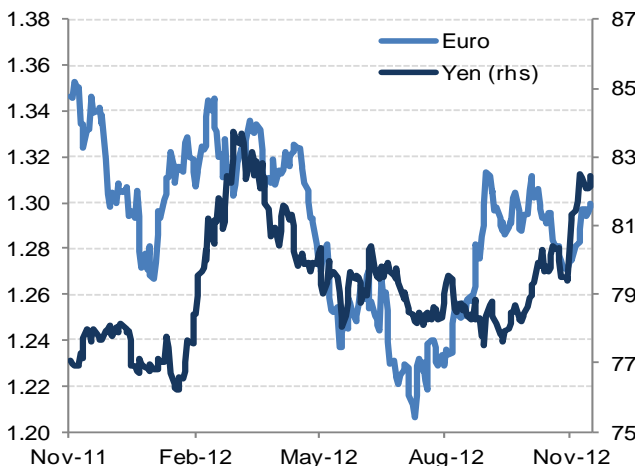
Source: Bloomberg & BBVA Research

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



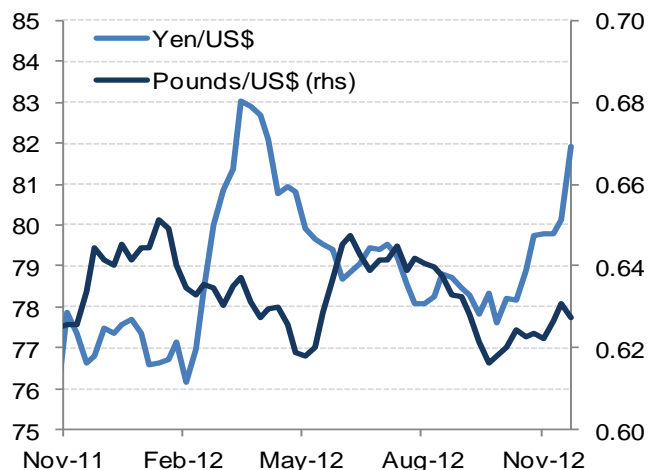
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



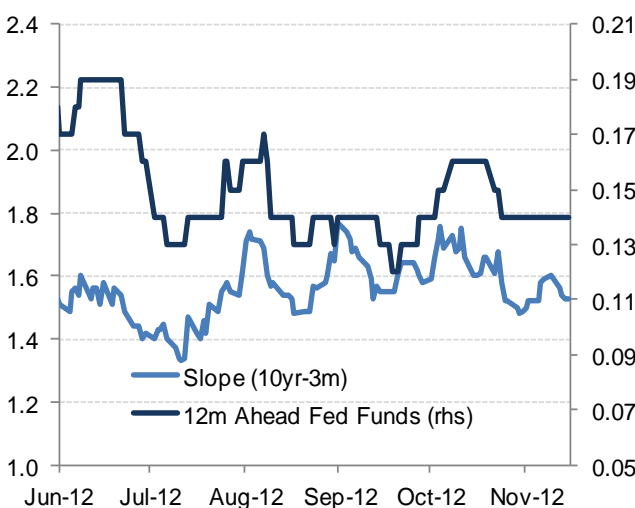
Source: Bloomberg & BBVA Research

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



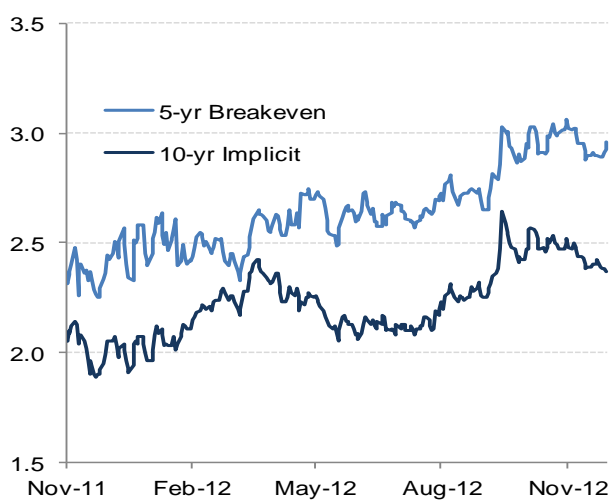
Source: Haver Analytics & BBVA Research

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)	13.98	13.98	14.12	13.96
New Auto (36-months)	2.78	2.77	3.13	3.79
Heloc Loan 30K	5.39	5.40	5.45	5.53
5/1 ARM*	2.72	2.74	2.74	2.90
15-year Fixed Mortgage*	2.64	2.63	2.70	3.30
30-year Fixed Mortgage*	3.32	3.31	3.39	4.00
Money Market	0.51	0.51	0.51	0.51
2-year CD	0.87	0.87	0.84	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	0.31	0.53
6M Libor	0.53	0.53	0.54	0.75
12M Libor	0.86	0.86	0.88	1.06
2yr Sw ap	0.37	0.40	0.39	0.70
5yr Sw ap	0.75	0.82	0.82	1.33
10Yr Sw ap	1.66	1.73	1.75	2.21
30yr Sw ap	2.58	2.59	2.63	2.74
7day CP	0.17	0.32	0.20	0.77
30day CP	0.17	0.16	0.23	0.56
60day CP	0.18	0.18	0.22	0.43
90day CP	0.22	0.22	0.20	0.44

Source: Bloomberg & BBVA Research

Quote of the Week

William Dudley, New York Fed President
Speech at Pace University, New York
20 November 2012

"Many parts of our region were showing a stronger pace of growth than the country as a whole before the storms hit—and I am hopeful that Sandy will not have pushed us off this trajectory for long. The recovery of housing markets are important part of this renewed growth, although certain communities are still weighed down by lingering high rates of delinquencies and foreclosures and some others have suffered appalling damage from Sandy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Dec	ISM Manufacturing Index	NOV	51.2	51.5	51.7
3-Dec	Construction Spending (MoM)	OCT	0.5%	0.4%	0.6%
3-Dec	Total Vehicle Sales	NOV	14.1M	14.8M	14.2M
4-Nov	ISM New York	NOV	46.0	-	45.9
5-Dec	ADP Employment Report	NOV	148K	130K	158K
5-Dec	Nonfarm Productivity	3Q12 F	2.3%	2.7%	1.9%
5-Dec	Unit Labor Costs	3Q12 F	-0.4%	-0.9%	-0.1%
5-Dec	Factory Orders	OCT	0.5%	0.0%	4.8%
5-Dec	ISM Non-Manufacturing Index	NOV	53.70	53.50	54.20
6-Dec	Initial Jobless Claims	1-Dec	380K	380K	393K
6-Dec	Continued Claims	24-Nov	3280K	3275K	3287K
7-Dec	Change in Nonfarm Payrolls	NOV	120K	95K	171K
7-Dec	Change in Private Nonfarm Payrolls	NOV	130K	105K	184K
7-Dec	Change in Manufacturing Payrolls	NOV	-3K	-5K	13K
7-Dec	Unemployment Rate	NOV	7.9%	7.9%	7.9%
7-Dec	Average Hourly Earnings (MoM)	NOV	0.1%	0.2%	0.0%
7-Dec	Average Workweek Hours	NOV	34.4	34.4	34.4
7-Dec	U. of Michigan Consumer Sentiment	DEC	82.4	82.0	82.7
7-Dec	Consumer Credit	OCT	\$9.7B	\$10.0B	\$11.4B

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	8.0	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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