US Weekly Flash

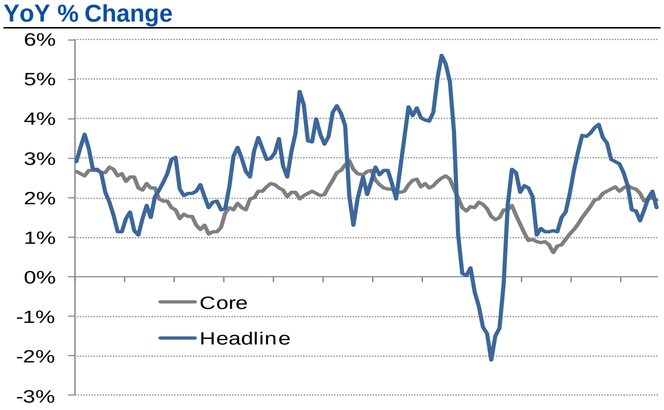
Highlights

- **Retail sales for November show moderate gain of 0.3% and 0.7% less auto and gas**
  - Retail sales for November show encouraging signs for the end of the year, up 0.7% excluding autos and gasoline and prompting a better outlook for 4Q12 figures as consumers seem to be less reluctant than expected to spend. The auto category showed signs of recovering from its October slump, up 1.4% for the month. However, a 0.4% drop in gasoline sales dragged down the headline figure to a modest 0.3% in November, just enough to offset October's decline. The largest rise from October was in non-retail stores and electronics stores, bolstered by the influx of holiday traffic and special sales in November, up 3.0% and 2.5%, respectively. Retailers are expecting strong sales in December in lieu of holiday shopping and travel and YoY growth should remain strong. Unfortunately, there is still some downside risk as the shopping season is paralleled by the coming fiscal cliff and, while retailers remain optimistic, signs of hesitation pervade the economy and may have an impact on the consumer as well.

- **CPI falls 0.3% in November on account of low energy costs**
  - A 4.1% decline in energy prices weighed on headline inflation in November, down 0.3% for the first time since May. Motor fuel declined 7.3%, the most since late 2008, as oil and gas based commodities fell in price between October and November. As expected, food inflation held steady at 0.2% for the month. Excluding food and energy, the core rate rose by 0.1%, just below the current average rate for 2012, exhibiting some softening but in line with the Fed's desired band. The apparel, used vehicles, and medical care commodities indices saw respective 0.6%, 0.5%, 0.4% declines. The price of medical care services accelerated slightly, while shelter and transportation remained more subdued.

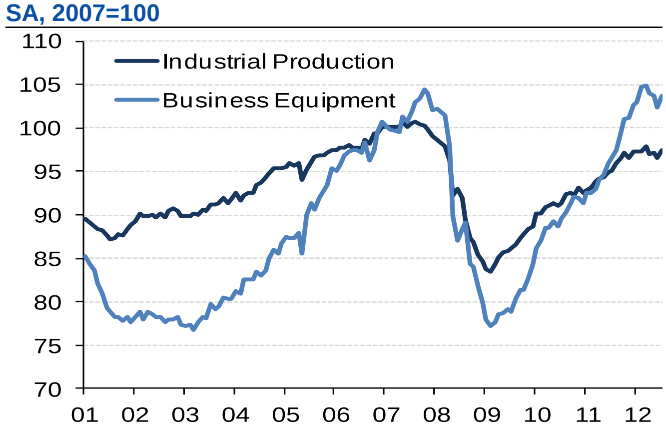
- **Industrial production makes a prolific rebound, up 1.1% after falling 0.7% in October**
  - Rising by the most in almost two years, industrial production recovered from the deleterious effects of Hurricane Sandy that dragged production down by a revised 0.7% in October. Manufacturing output jumped 1.1% as the Northeast's final product manufacturers came back to life and churned out consumer goods on high demand from the holiday season. Auto production rose 3.4% as the demand for vehicles has increased over the past few months as end-of-year sales become pervasive. There is still some concern that firms are tentative on the fiscal cliff uncertainty and have therefore put on hold their demand for capital equipment until 2013, but consumer lead growth has fueled production for the time being. Overall, production remains positive and we expect it to carry this trend into 2013 as Sandy's effects are fully shed and production demand returns on fiscal clarity.

Graph 1
Consumer Price Index
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Industrial Production Index
SA, 2007=100



Source: Federal Reserve Board & BBVA Research

Week Ahead

Empire State Manufacturing Survey (December, Monday 8:30 ET)

Forecast: 0.00	Consensus: -1.00	Previous: -5.22

The Empire State Manufacturing Survey is expected to show signs of continued recovery after reports in prior months indicating the damage caused by Hurricane Sandy. With November showing higher-than-expected new orders and a surge in shipments, it is likely that this momentum will continue in December and into 2013, particularly with demand for reconstruction along the East Coast. With the Philly Fed Index indicating that it bore a lot of the damage from Sandy, it stands to reason that the NY Fed area may see an increased demand as its neighbor recovers. This follows suit with the rise in new orders seen in November and the increase in general business conditions since September, pointing to an increase in activity for the NY Fed area.

GDP (3Q12 Final, Thursday 8:30 ET)

Forecast: 2.8%	Consensus: 2.8%	Previous: 2.7%

The final estimate for 3Q12 GDP is expected to be slightly higher as revised data show a better than expected trade balance. September's trade deficit was revised from -$41.5bn to -$40.3bn, highlighting strength in export growth, though we know now with data for October that this momentum did not carry over into the start of 4Q12. Most other contributors to GDP growth were not revised much, including consumption and construction spending. Personal consumption expenditures for September were revised down slightly, and construction spending was also slightly lower than previously calculated. Data on business inventories show no change from the preliminary estimate. Overall, there isn't much in terms of key indicators, aside from the trade balance, that should affect the GDP estimates. We expect that the change in the trade balance will offset the downward revisions to other contributors and lead to a modest boost in 3Q12 GDP growth to 2.8% given the large increase already seen from advanced to preliminary estimates.

Existing Home Sales (November, Thursday 10:00 ET)

Forecast: 4.80M	Consensus: 4.90M	Previous: 4.79M

Existing sales are expected to remain mostly unchanged for November as the housing market attempts to maintain its recovery among some fears with respect to the fiscal cliff situation. As the Fed reassures borrowers that mortgage rates will remain low until mid 2015, borrowing remains cheap for most consumers. Couple this with declining prices for homes that were either foreclosed or scooped up by banks since May, and housing affordability for existing homes remains high. Unfortunately, the ever present fear of the fiscal cliff could have a dampening effect on home sales since the uncertain outcome of the situation could affect the affordability of consumers' largest asset. New homes sales have been weak recently, falling 0.2% in October while existing sales rose 2.1%. Therefore, we expect existing home sales to continue to rise, although at a decelerated pace given the fiscal uncertainty.

Personal Income & Spending (November, Friday 8:30 ET)

Forecast: 0.3%, 0.4%	Consensus: 0.3%, 0.4%	Previous: 0.0%, -0.2%

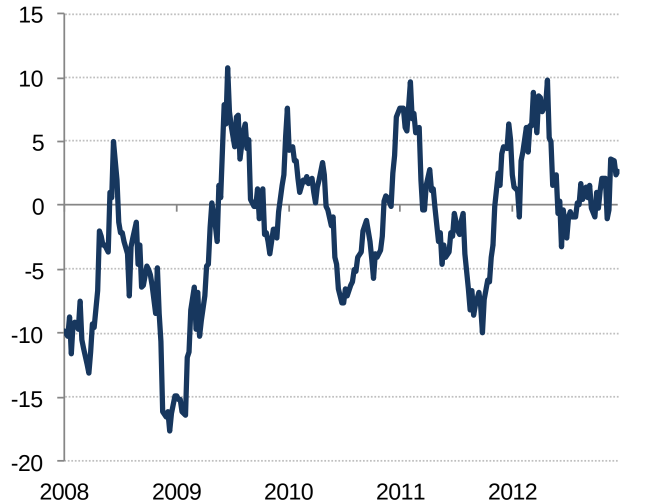
Personal income and spending are expected to rise in November as employment shows signs of some improvement and sales indicators point to better conditions despite fiscal uncertainty. In terms of income, average hourly and weekly earnings for November rose after falling the month prior. Income also has some room to rise as the unemployment rate declined quite sharply for the month. Expectations for retail sales show improvement from the month before and with stronger spending especially as the holiday season approaches. Auto sales should help bolster spending as well, climbing 8.7% for November. However, with the fiscal cliff approaching, consumer pessimism may translate into a less significant growth rate for spending as consumers abstain from larger purchases until a decision is reached.

Market Impact:

It goes without saying that this week harbors many vital indicators and meetings that will shape how 4Q12 ends and 2013 begins. The two Fed manufacturing surveys should give the market a glimpse as to how the Northeast has fared, and to what extent it is recovering from Hurricane Sandy. Housing starts and existing home sales, will provide some more data to assess how sustainable the housing recovery is and its relative strength as the year comes to a close. In terms of importance, the GDP result and personal income are the two leaders. The final figure of 3Q12 GDP growth should solidify some optimism as the economy grows more than expected. Personal income and spending are expected to rise as well, hopefully leaving markets more positive prior to the holiday break.

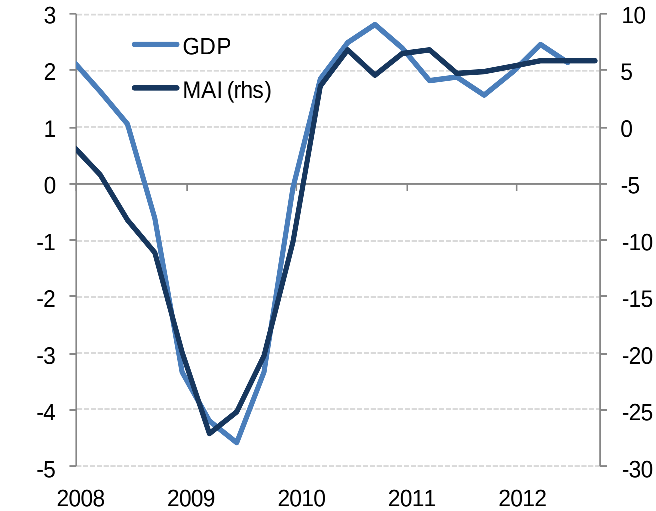
Economic Trends

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



Source: BBVA Research

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

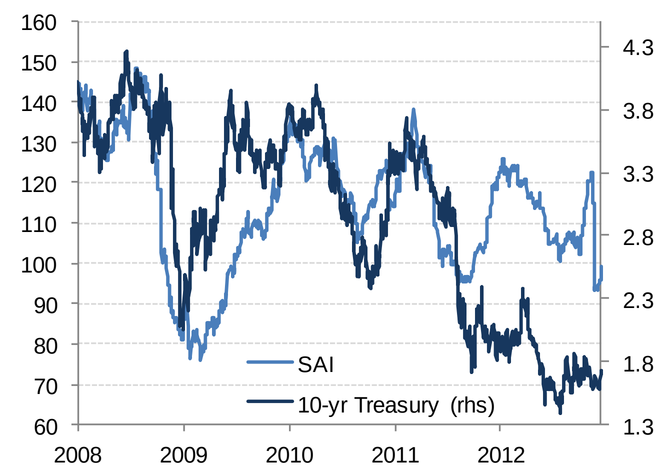


Source: BBVA Research & BEA

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

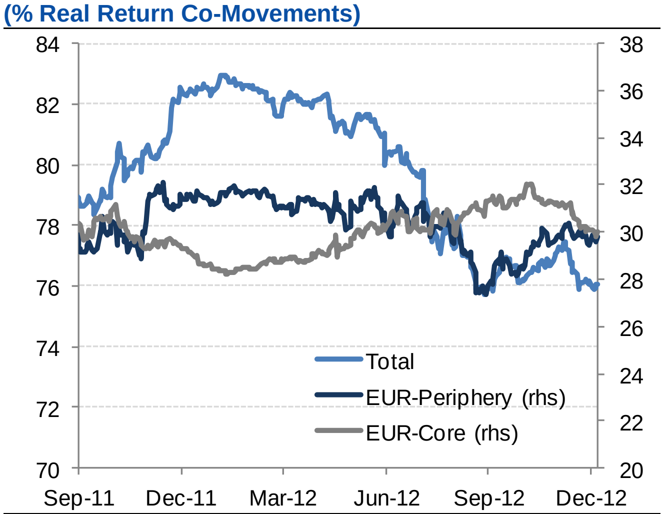
Source: BBVA Research

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



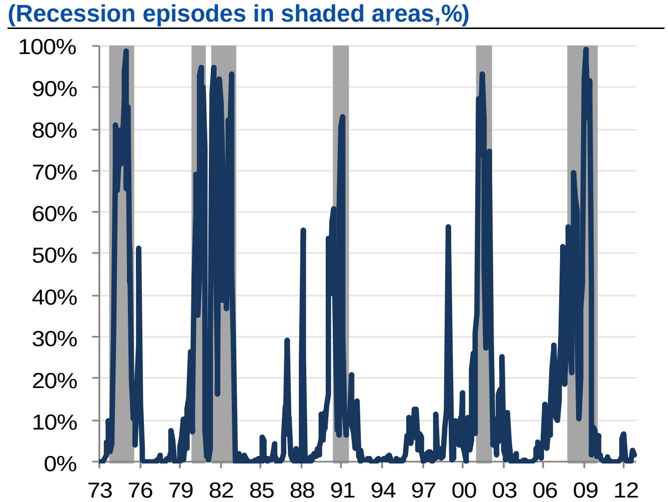
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

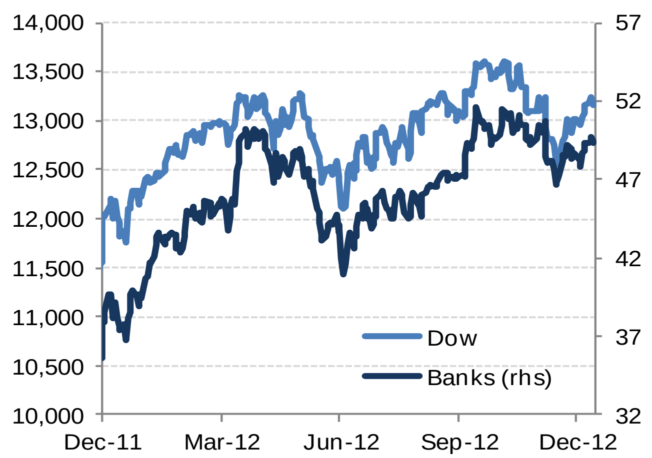
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

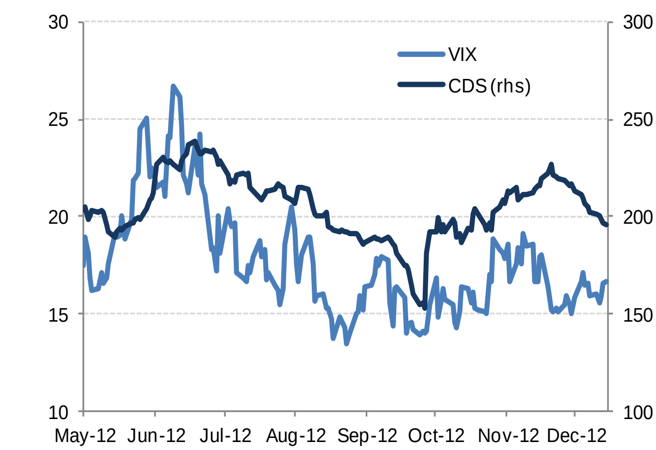
Financial Markets

Graph 9
Stocks
(Index, KBW)



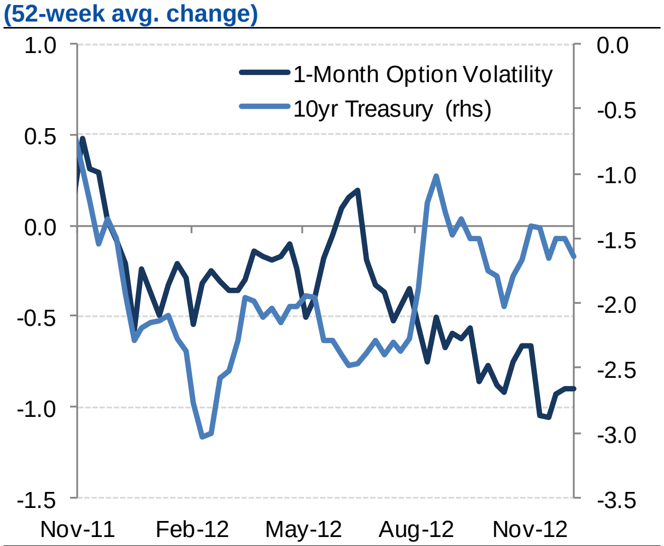
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



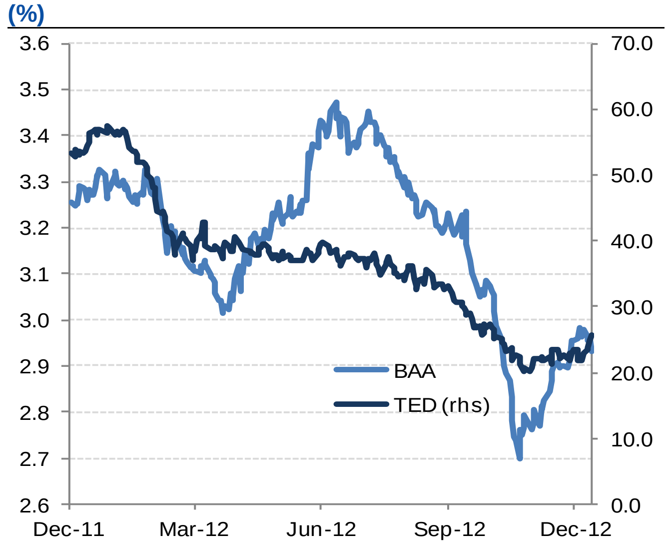
Source: Bloomberg & BBVA Research

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



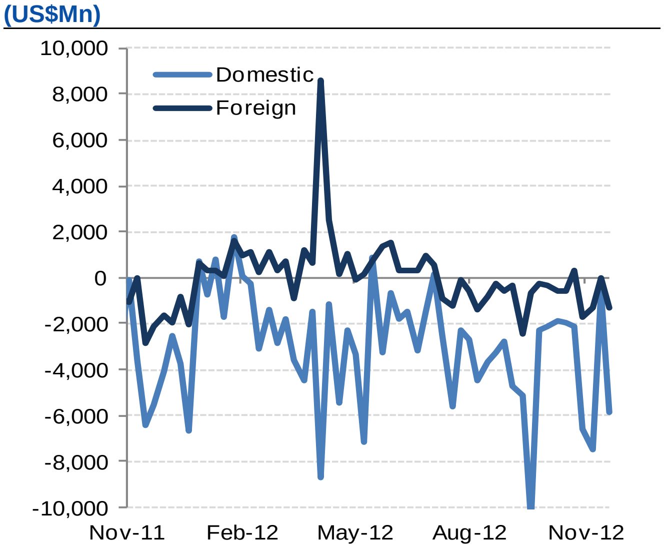
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



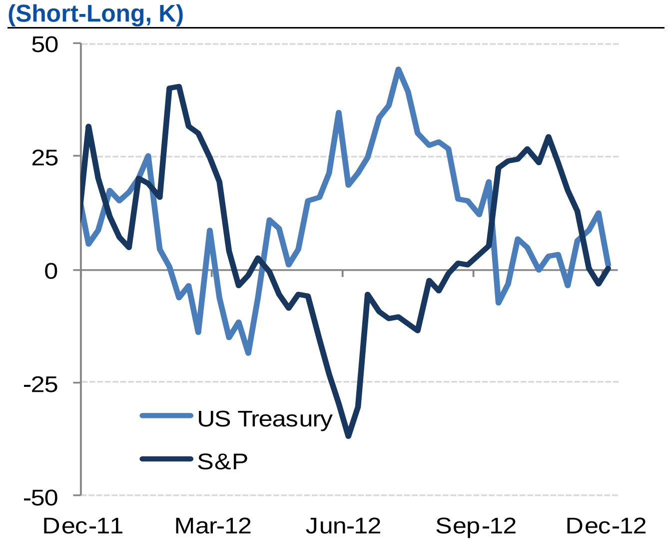
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

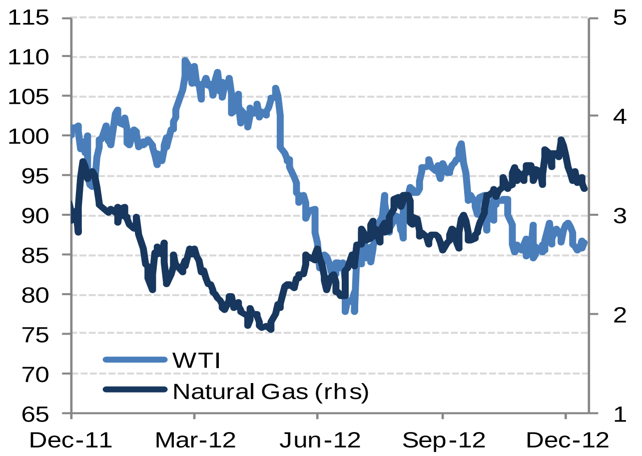
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

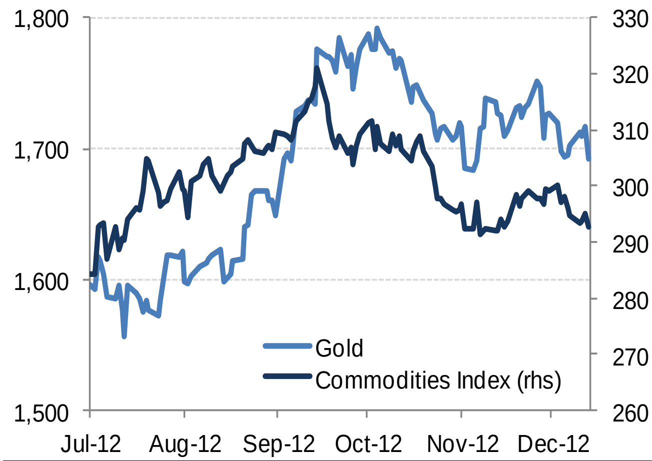
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



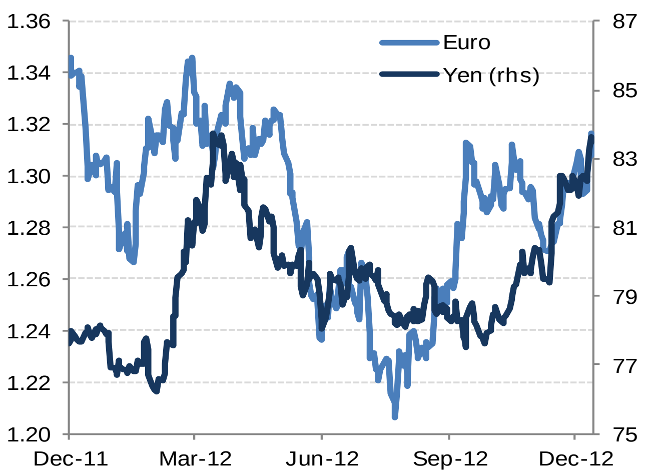
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



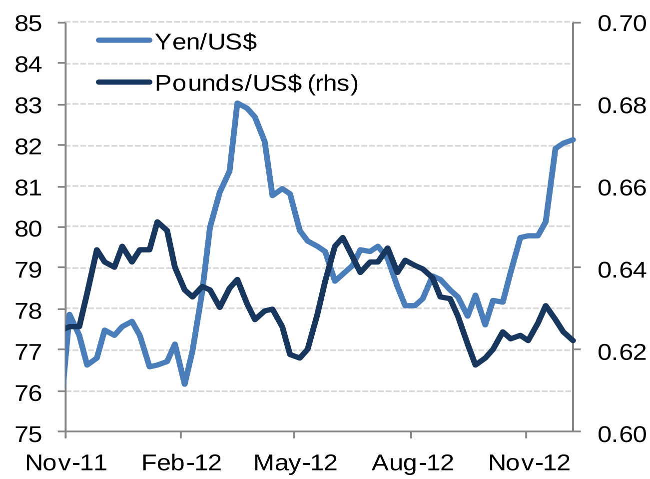
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



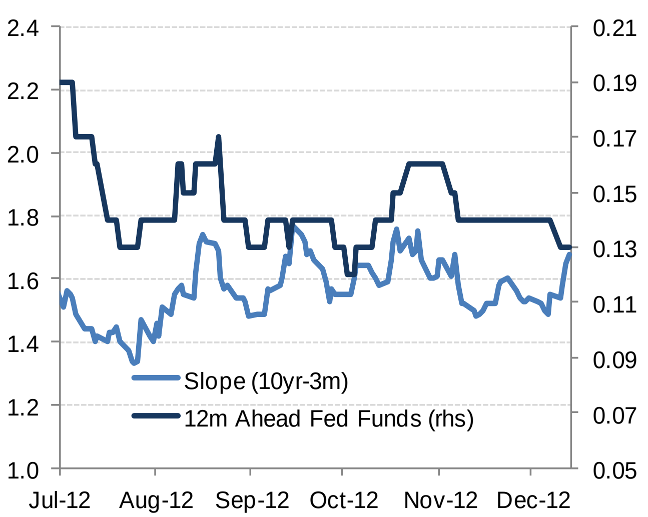
Source: Bloomberg & BBVA Research

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



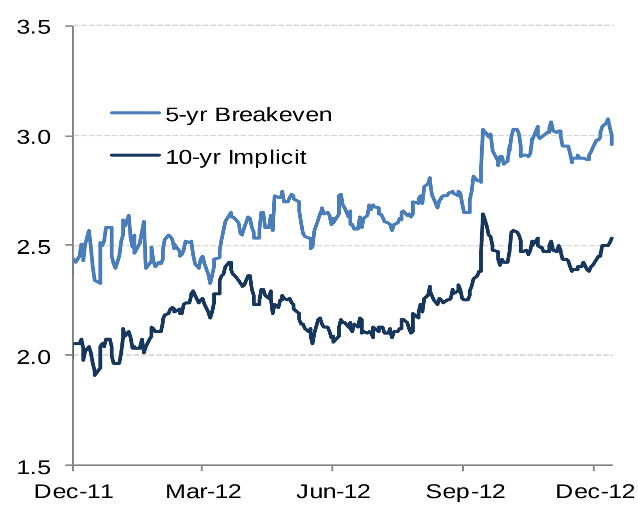
Source: Haver Analytics & BBVA Research

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)	13.98	13.98	14.12	13.94
New Auto (36-months)	2.77	2.78	3.07	3.78
Heloc Loan 30K	5.41	5.40	5.44	5.54
5/1 ARM*	2.70	2.69	2.74	2.86
15-year Fixed Mortgage *	2.66	2.67	2.65	3.21
30-year Fixed Mortgage *	3.32	3.34	3.34	3.94
Money Market	0.51	0.52	0.51	0.51
2-year CD	0.84	0.88	0.87	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	0.07
3M Libor	0.31	0.31	0.31	0.56
6M Libor	0.51	0.52	0.52	0.78
12M Libor	0.84	0.86	0.86	1.11
2yr Sw ap	0.36	0.36	0.38	0.72
5yr Sw ap	0.82	0.75	0.75	1.23
10Yr Sw ap	1.76	1.68	1.63	2.03
30yr Sw ap	2.66	2.59	2.48	2.59
7day CP	0.14	0.32	0.17	0.77
30day CP	0.17	0.19	0.18	0.57
60day CP	0.17	0.20	0.18	0.46
90day CP	0.19	0.22	0.20	0.51

Source: Bloomberg & BBVA Research

Quote of the Week

FOMC Press release
Board Of Governors of the Federal Reserve
12 December 2012

"In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
17-Dec	Empire State Manufacturing Survey	DEC	0.00	-1.00	-5.22
18-Dec	Housing Market Index	DEC	46	47	46
19-Dec	Housing Starts	NOV	870K	875K	894K
19-Dec	Housing Starts (MoM)	NOV	-2.68%	-2.10%	3.60%
19-Dec	Building Permits	NOV	865K	875K	868K
19-Dec	Building Permits (MoM)	NOV	-0.35%	0.80%	-2.70%
20-Dec	GDP QoQ Annualized	3Q12 F	2.8%	2.8%	2.7%
20-Dec	Personal Consumption	3Q12 F	1.6%	1.6%	1.4%
20-Dec	GDP Price Index	3Q12 F	2.7%	2.7%	2.7%
20-Dec	Core PCE QoQ	3Q12 F	1.1%	1.1%	1.1%
20-Dec	Initial Jobless Claims	15-Dec	324K	360K	343K
20-Dec	Continuing Claims	8-Dec	3184K	3199K	3198K
20-Dec	Existing Home Sales	NOV	4.80M	4.90M	4.79M
20-Dec	Existing Home Sales (MoM)	NOV	0.21%	2.30%	2.10%
20-Dec	Philadelphia Fed Survey	DEC	-2.5	-3.0	-10.7
20-Dec	FHFA House Price Index	OCT	0.3%	0.2%	0.2%
20-Dec	Leading Indicators	NOV	0.0%	-0.2%	0.2%
21-Dec	Personal Income (MoM)	NOV	0.3%	0.3%	0.0%
21-Dec	Personal Spending (MoM)	NOV	0.4%	0.4%	-0.2%
21-Dec	Durable Goods Orders	NOV	0.7%	0.5%	0.0%
21-Dec	Durable Goods ex. Transportation	NOV	0.1%	-0.2%	1.5%
21-Dec	U. Michigan Consumer Sentiment	DEC	74.0	75.0	74.5

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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