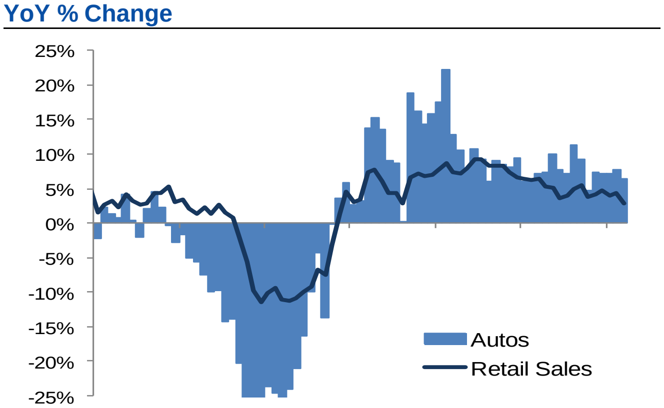
# US Weekly Flash

## Highlights

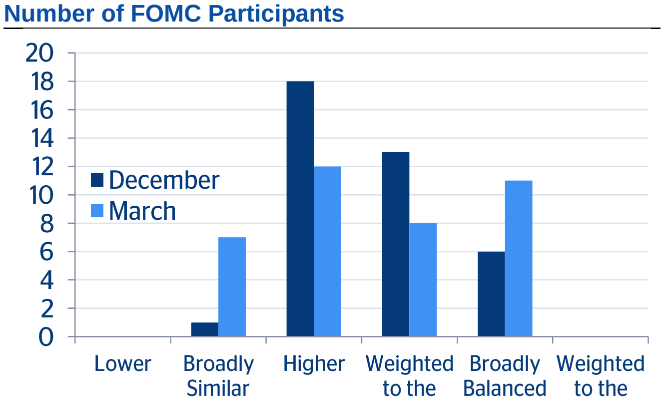
- **FOMC Minutes Reaffirm that QE3 Benefits Still Outweigh Costs, For Now…**
  - The FOMC minutes from the March meeting revealed that the majority of participants' view net gains to QE3 on the whole, with macroeconomic benefits outweighing the costs and risks associated with those asset purchases. Most of the participants communicated that considering current labor market improvements and the growing risks arising from QE3, a slowdown in purchases should be appropriate around mid to late 2013.
  - The minutes also revealed the participants' exit-related concerns regarding the sales strategy of MBS during the normalization of the balance sheet and emphasized transparency throughout this process to mitigate the risks to financial stability. Overall, these details reinforce our baseline expectations regarding the path of monetary policy. We continue to expect that the current pace of purchases will proceed until mid-2013.
- **Retail Sales Slump, Led by Gasoline and Merchandise**
  - The retail sales report for March showed a 0.4% decline in total sales, with most components on the downfall. Following a 1.0% rise in February, consumers seemed to have spent less as the payroll tax increase from January ultimately had some lagged impact. Adverse weather and disappointing Easter shopping also seemed to have acted as catalysts. Overall, the decline was heavily influenced by falling gasoline prices which declined over the month in comparison to February, pulling nominal gasoline station sales down 2.16%. In addition, vehicle and parts sales declined 0.6% for the second time in three months, despite the fact that demand for autos has been relatively strong.
  - Excluding autos and gasoline sales, March's retail sales figure still dropped by 0.1% as core components suffered a ubiquitous decline. The clothing store component dropped 0.6%, the largest decline in 10 months as consumers kept their jackets on for another temperate month. Sporting goods store sales declined 0.8% but the largest decline in the core component came from the general merchandise component of retail sales. Falling by 1.2%, the general merchandise sector has fared poorly over the past two quarters, in constant decline except for a brief moment of growth in February. There were a few components that managed to grow in March. Building materials rose by 0.1%, while the miscellaneous component increased 0.8% after falling in the prior two months on slowing office supply purchases. Finally, food services and drive places reversed its February decline, up 0.75%. These details in the retail sales report are very telling due to the fact that they remains a relatively strong gauge on how the consumer regulates discretionary spending. The broad decline points toward no particular sector taking the worst of the deceleration and we expect that as consumers adjust their budgets, spending will return in the coming months, fueled by better weather and economic conditions.

Graph 1
**Retail & Auto Sales**
**YoY % Change**




Source: US Census Bureau & BBVA Research

Graph 2
**Uncertainty and Risks to GDP Growth**
**Number of FOMC Participants**




Source: Federal Reserve Board & BBVA Research

# Week Ahead

## Consumer Price Index, Core (March, Tuesday 8:30 ET)

| Forecast: -0.1%, 0.1% | Consensus: 0.0%, 0.2% | Previous: 0.7%, 0.2% |
|---|---|---|

The headline consumer price index figure is expected to be relatively subdued in March compared to the jump in February. Oil prices declined sharply for the month, dragging down import prices as well as producer related costs. Natural gas prices were up slightly but are unlikely to significantly offset the drop in oil prices in the overall energy index. Also weighing on the headline figure are food prices, which have decreased according to the prices received by farmers released by the Department of Agriculture. Declining 9.2%, a broad based decline in crops and a slight decrease in livestock prices will add to the downward pressures from energy prices. At the core level, shelter prices should continue to rise due to the continuing strength of shelter prices coupled with medical costs that, despite the affordable care act, have not seen much downward pressure.

## Housing Starts & Building Permits (March, Tuesday 8:30 ET)

| Forecast: 925K, 940K | Consensus: 930K, 942K | Previous: 917K, 939K |
|---|---|---|

Housing starts and building permits for March are expected to rise slightly as the housing market picks up in activity for the spring season. Evidenced by the decline in the producer price index, input prices remained stable in March, which should help to reverse the slowdown in construction seen in recent months. In addition to costly inputs, credit standards continue to remain tight for small-to-medium sized construction companies who are struggling to find the available lines of credit for their projects. Plot availability is also an issue as construction companies are having to push outward in terms of proximity to cities or commerce hubs. The rise in single family demand is increasing the suburb type areas which take far longer to apply for and design. However, given the continually low supply of homes, both housing starts and building permits are expected to rise as the market improves gradually.

## Industrial Production & Capacity Utilization (March, Tuesday 9:15 ET)

| Forecast: 0.2%, 78.2% | Consensus: 0.2%, 78.4% | Previous: 0.8%, 78.3% |
|---|---|---|

Although January saw a one-tenth decline in the industrial production index, we expect that output will rebound in February. In general, the month has been relatively quiet aside from political headlines, but there have been pockets of manufacturing and business activity that are evidence for an increase in the production series. The ISM manufacturing index for February rose modestly with new orders on the rise along with export growth. In addition, the regional Federal Reserve manufacturing surveys indicated increasing activity with the Empire State survey breaking into expansionary territory for the first time in six months. These surveys hint at expansion in manufacturing for February along with sustained growth into March given the large increases in new orders in both groups. This is also coupled with a sustainable demand for appliances and larger goods for the housing market and the growing demand for vehicle parts which should combat some headwinds from overall political uncertainty.

## Philadelphia Fed Survey (April, Thursday 10:00 ET)

| Forecast: 2.8 | Consensus: 3.0 | Previous: 2.0 |
|---|---|---|

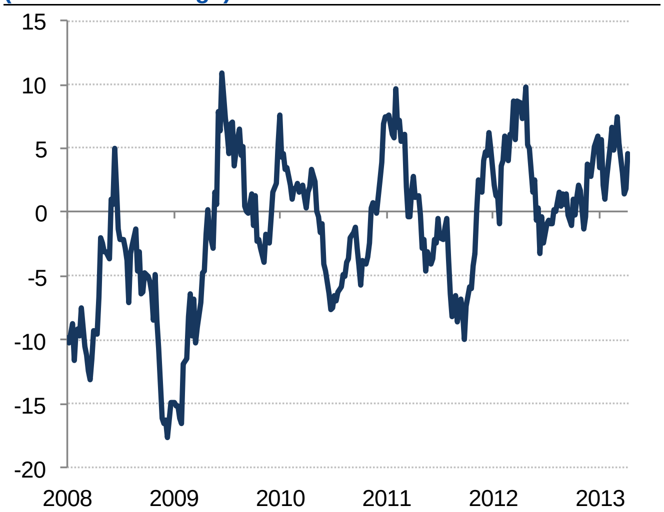
As the manufacturing sector continues to grapple with a stable recovery, the Philadelphia Fed Survey should continue to increase in April, although not by much given the uncertainty surrounding the industry. The new orders index from March was up only 0.5 after a deep decline in February which indicates that there may not be much growth in terms of production in the coming months. Production for March in the form of shipments has continued to increase since the beginning of the year, raising hopes that the industry is still trying to complete orders from late in 2012 and thus continue to grow in terms of production. However, as we move into 2Q13 there remains the threat of reduced demand and output as a larger portion of the spending cuts from the sequester take effect.

## Market Impact

In terms of market impact next week has quite a bit of influential data for March and April. Manufacturing continues to be a worrisome sector in the economy as recent leading indicators have been mixed. The CPI figure will be important following the lower-than-expected PPI figure, prompting speculation from markets on how the Fed will handle the data. In general, we do not except much in terms of drastic changes to our economic outlook for 2Q13 but the market will continue to monitor both industrial and consumer data to assess how well the recovery can sustain the spending cuts scheduled to come impact this quarter’s numbers.

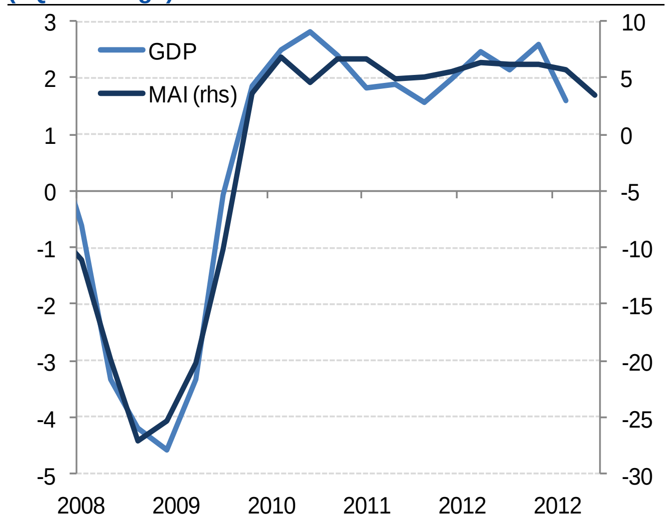
# Economic Trends

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



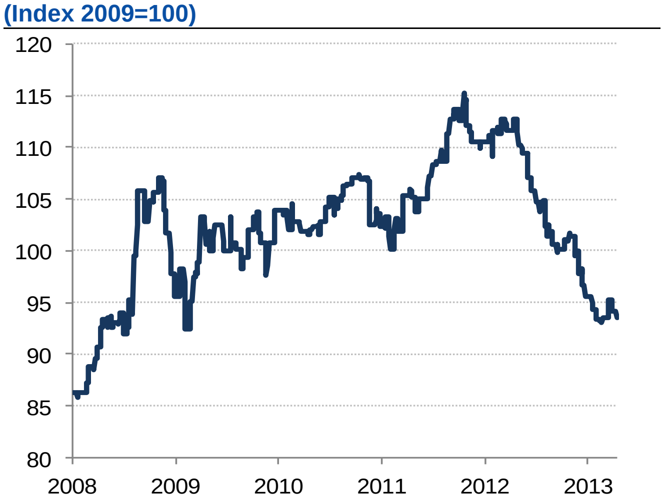

Source: BBVA Research

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



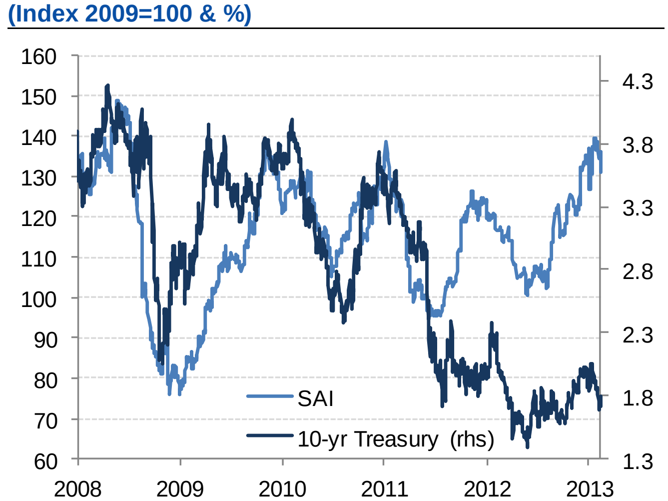

Source: BBVA Research & BEA

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



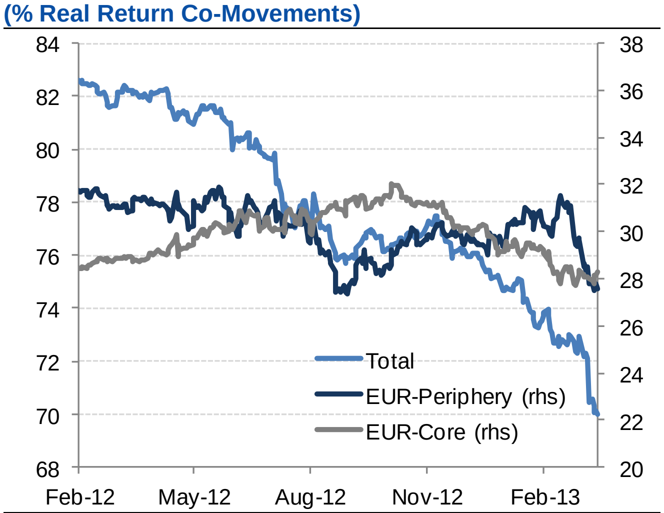

Source: BBVA Research

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



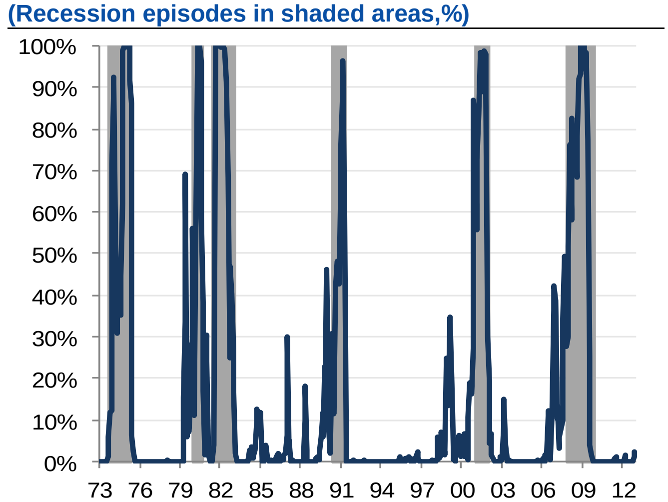

Source: Bloomberg & BBVA Research

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




Source: BBVA Research

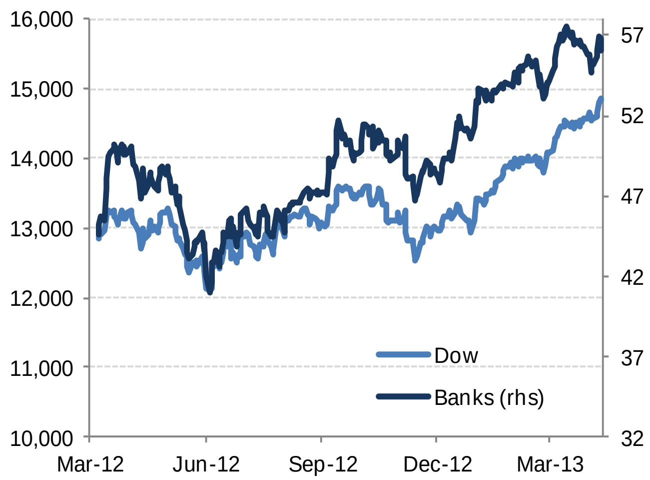
Graph 8
**BBVA US Recession Probability Model (Recession episodes in shaded areas,%)**




Source: BBVA Research

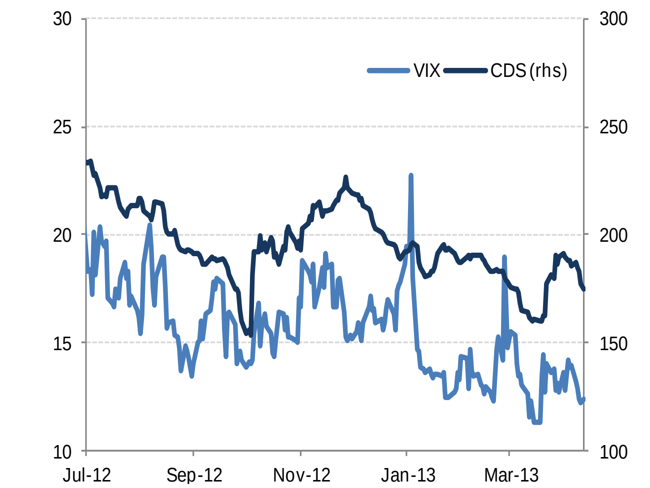
# Financial Markets

Graph 9
**Stocks**
**(Index, KBW)**



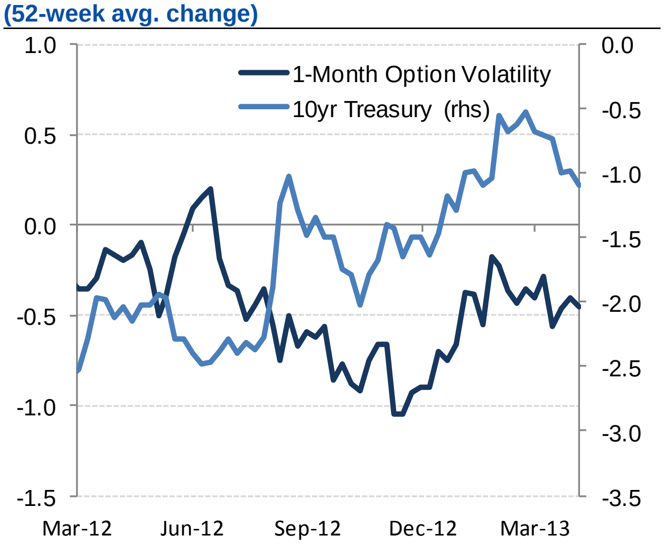

Source: Bloomberg & BBVA Research

Graph 10
**Volatility & High-Volatility CDS**
**(Indices)**



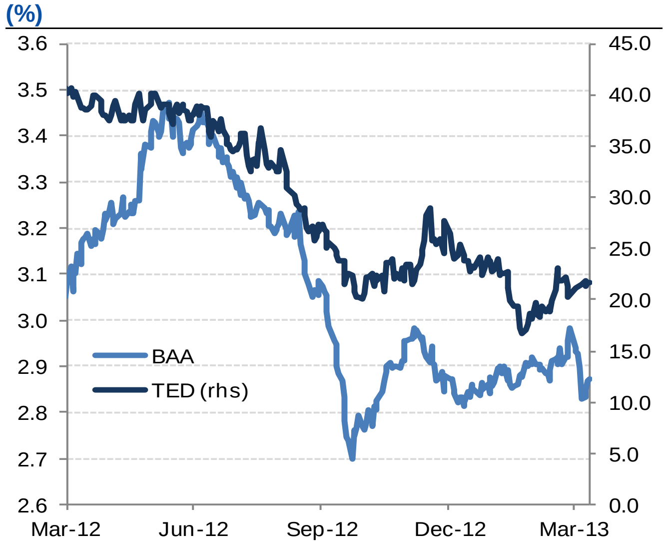

Source: Bloomberg & BBVA Research

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



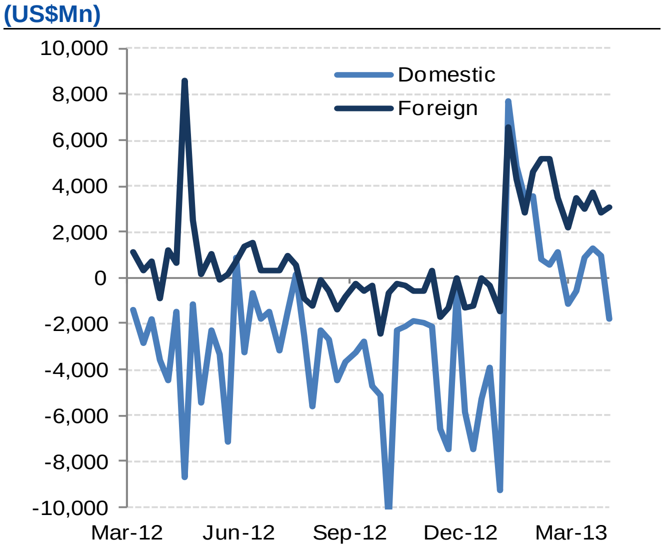

Source: Haver Analytics & BBVA Research

Graph 12
**TED & BAA Spreads**
**(%)**



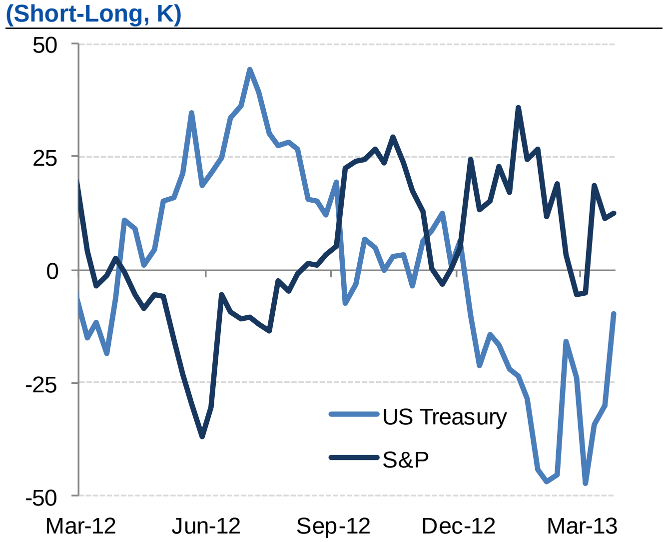

Source: Bloomberg & BBVA Research

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




Source: Haver Analytics & BBVA Research

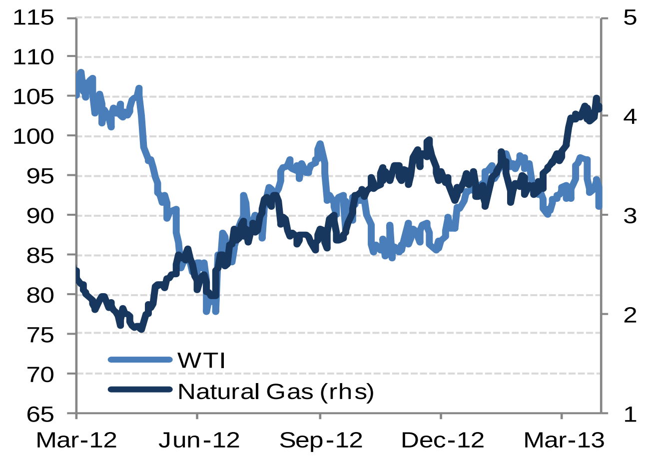
Graph 14
**Total Reportable Short & Long Positions**
**(Short-Long, K)**




Source: Haver Analytics & BBVA Research

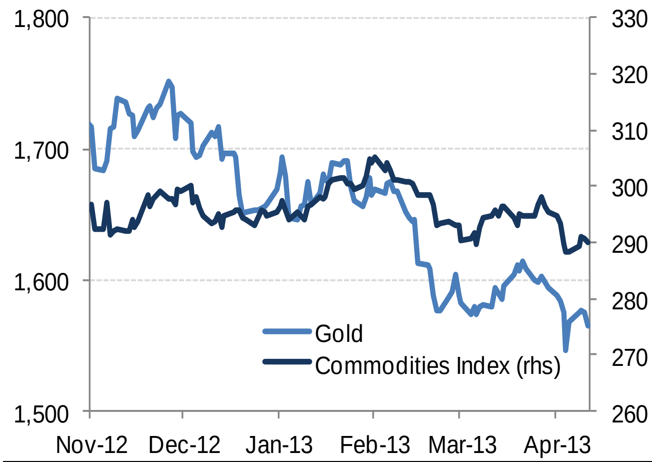
# Financial Markets

Graph 15
**Commodities**
**(Dpb & DpMMBtu)**



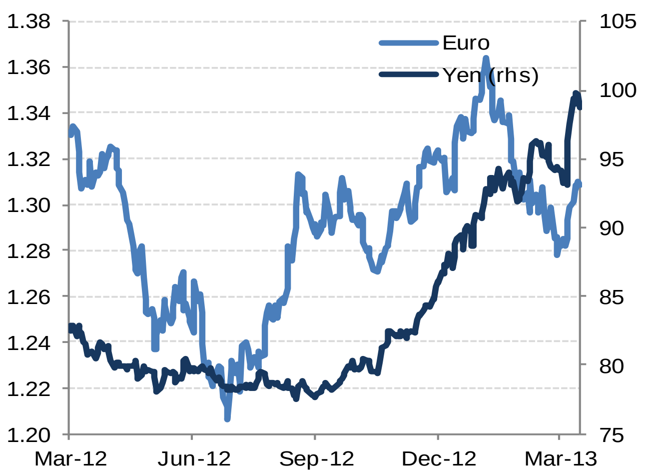

Source: Bloomberg & BBVA Research

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



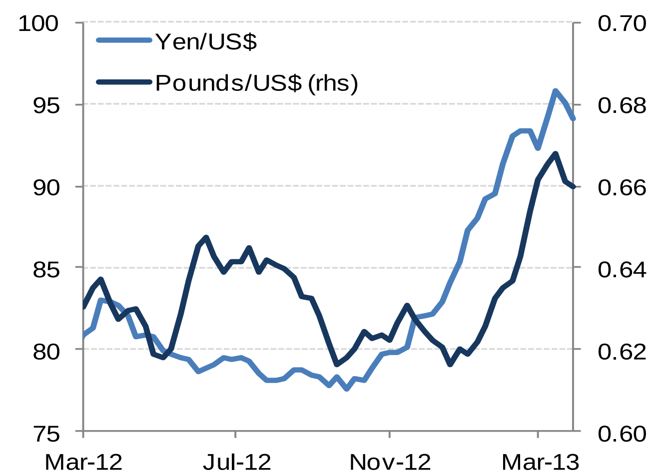

Source: Haver Analytics & BBVA Research

Graph 17
**Currencies**
**(Dpe & Ypd)**



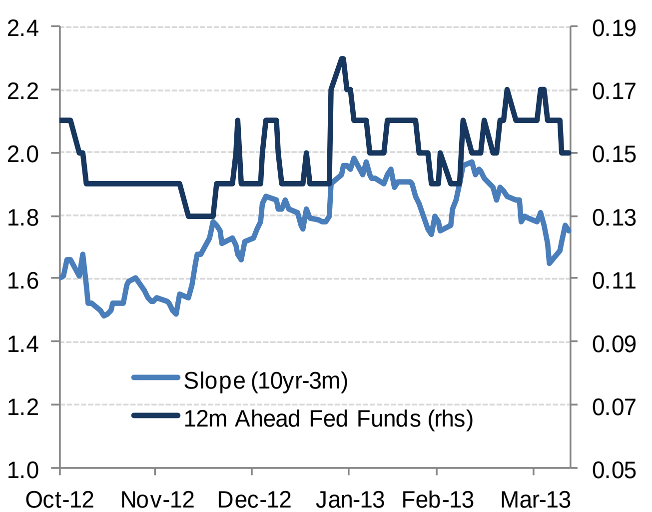

Source: Bloomberg & BBVA Research

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



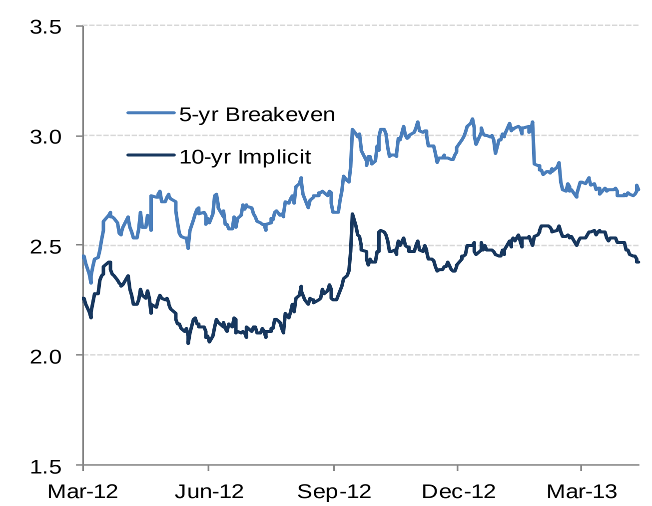

Source: Haver Analytics & BBVA Research

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 | 14.50 | 14.10 |
| New Auto (36-months) | 2.59 | 2.40 | 2.58 | 3.14 |
| Heloc Loan 30K | 5.25 | 5.26 | 5.24 | 5.46 |
| 5/1 ARM * | 2.62 | 2.68 | 2.63 | 2.90 |
| 15-year Fixed Mortgage * | 2.65 | 2.76 | 2.76 | 3.23 |
| 30-year Fixed Mortgage * | 3.43 | 3.57 | 3.52 | 3.99 |
| Money Market | 0.50 | 0.50 | 0.48 | 0.73 |
| 2-year CD | 0.67 | 0.65 | 0.70 | 0.90 |

*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 | 0.15 | 0.15 | 0.16 | 0.15 |
| 3M Libor | 0.28 | 0.28 | 0.45 | 0.47 |
| 6M Libor | 0.44 | 0.44 | 0.65 | 0.00 |
| 12M Libor | 0.72 | 0.73 | 0.98 | 1.05 |
| 2yr Sw ap | 0.37 | 0.38 | 0.39 | 0.57 |
| 5yr Sw ap | 0.87 | 0.88 | 0.99 | 1.15 |
| 10Yr Sw ap | 1.90 | 1.89 | 2.08 | 2.10 |
| 30yr Sw ap | 2.86 | 2.80 | 3.08 | 2.83 |
| 30day CP | 0.15 | 0.16 | 0.13 | 0.28 |
| 60day CP | 0.17 | 0.17 | 0.16 | 0.36 |
| 90day CP | 0.19 | 0.18 | 0.17 | 0.45 |

Source: Bloomberg & BBVA Research

# Quote of the Week

Chairman Ben Bernanke
Federal Reserve System Community Affairs Research Conference, Washington D.C
12 April 2013

*"…while employment and housing show signs of improving for the nation as a whole, conditions in lower-income neighborhoods remain difficult by many measures. For example, an analysis by Federal Reserve staff reveals that long-vacant housing units tend to be concentrated in a small number of neighborhoods that also tend to have high unemployment rates, low educational levels, and low median incomes."*

# Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|---|---|---|---|---|---|
| 15-Apr | Empire State Manufacturing Survey | APR | 6.5 | 7.00 | 9.24 |
| 15-Apr | NAHB Housing Market Index | APR | 43 | 45 | 44 |
| 16-Apr | Consumer Price Index | MAR | -0.1% | 0.0% | 0.7% |
| 16-Apr | CPI less food & energy | MAR | 0.0% | 0.2% | 0.2% |
| 16-Apr | Housing Starts | MAR | 925K | 930K | 917K |
| 16-Apr | Building Permits | MAR | 940K | 942K | 939K |
| 16-Apr | Industrial Production | MAR | 0.2% | 0.2% | 0.8% |
| 16-Apr | Capacity Utilization | MAR | 78.2% | 78.4% | 78.3% |
| 18-Apr | Initial Jobless Claims | 13-Apr | 340K | 350K | 346K |
| 18-Apr | Continued Claims | 6-Apr | 3070K | 3071K | 3079K |
| 18-Apr | Philadelphia Fed Survey | APR | 2.8 | 3.0 | 2.0 |
| 18-Apr | Leading Indicators | MAR | 0.2% | 0.1% | 0.5% |

# Forecasts

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Real GDP (% SAAR) | **1.8** | **2.2** | 1.8 | 2.3 | 2.5 |
| CPI (YoY %) | **3.1** | **2.1** | 2.1 | 2.2 | 2.3 |
| CPI Core (YoY %) | **1.7** | **2.1** | 1.9 | 2.0 | 2.1 |
| Unemployment Rate (%) | **8.9** | **8.1** | 7.6 | 7.0 | 6.5 |
| Fed Target Rate (eop, %) | **0.25** | **0.25** | 0.25 | 0.25 | 0.50 |
| 10Yr Treasury (eop, % Yield) | **1.98** | **1.72** | 2.45 | 2.73 | 3.39 |
| US Dollar/ Euro (eop) | **1.32** | **1.31** | 1.32 | 1.30 | 1.35 |

Note: Bold numbers reflect actual data

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