

US Weekly Flash

Highlights

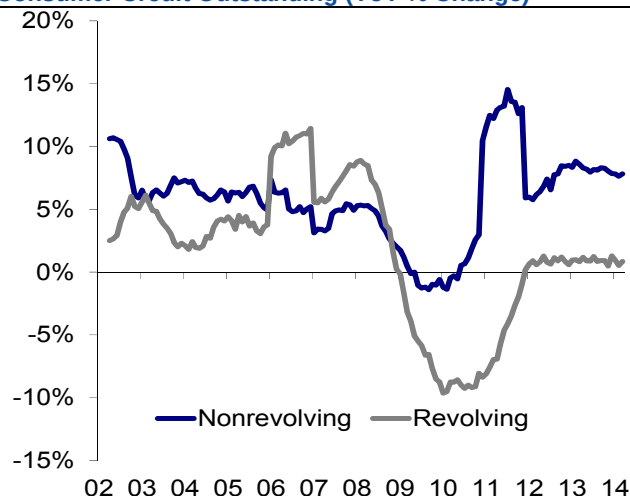
Consumer Credit: Monthly Situation Report

- Total outstanding consumer credit rose \$17.5B (seasonally-adjusted) in March, the largest gain since February 2013. Non-revolving credit continues to trend upward, increasing \$16.4B on a seasonally-adjusted basis, and has now accelerated for four consecutive months. Revolving credit increased by \$1.1B on a seasonally adjusted basis due to a bump in credit card and auto loans as consumers shook off the effect of the winter. Non-seasonally adjusted data in April show a much more modest gain in total consumer credit, up only \$1.2B. Depository institutions credit issuance fell \$2.8B, the third consecutive month of decline. The government component continues to be an upward driver, though credit only rose by \$2.6B, the lowest monthly gain since October 2011, led primarily by outstanding student loan debt.
- Banks continue to ease lending standards, so we expect credit cards will provide upward pressure on revolving credit as personal consumption was strong in 1Q14 despite the disappointing GDP figure. On the non-revolving side, student loans will continue to be the main driver with auto loans providing additional tailwind. Gaps between seasonally and non-seasonally adjusted data will be closely monitored.

Labor Market Health Relatively Unchanged in March

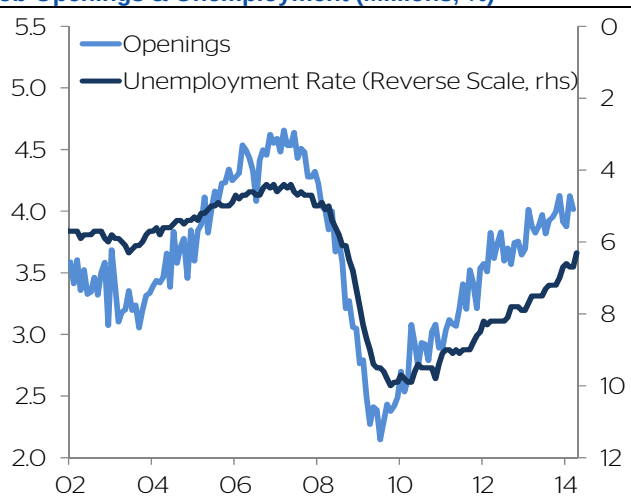
- The Job Openings and Labor Turnover Survey (JOLTS) for March 2014 showed little change in the health of the labor market from February. Job openings slipped to 4014K in March after climbing near post-recession highs in the previous month. Despite the MoM drop, March marks only the fourth month that job openings have been over 4000K since the recession, which is a sign that conditions are at least following a gradual upward trend. Hiring data was insignificantly changed from February, down 74K (-1.6%) to 4625K for the month. On a positive note, the quits rate for March was 1.8% and continues to inch closer to the 2.0%+ pre-recession levels. The gradual improvement in the quits rate points to strengthening confidence of workers regarding the health of the labor market, which has been reflected by consumer sentiment surveys in 1Q14.
- Though hirings and job openings did not show improvement from the previous report, broader labor market conditions remain stable. Furthermore, the relationship between job openings and unemployment has been steadily shifting back towards the Implied Beveridge Curve, tempering fears of structural unemployment (Chart 2). Looking at the bigger picture, data have consistently shown gradual improvement in the labor market over the last year, albeit at a modest pace. Our baseline scenario assumes that the labor market will slowly improve through the rest of the year.

Graph 1

Consumer Credit Outstanding (YoY % Change)


Source: Federal Reserve & BBVA Research

Graph 2

Job Openings & Unemployment (Millions, %)


Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

Retail Sales, Ex Autos & Gas (April, Tuesday 8:30 ET)

Forecast: 0.5%, 0.3%

Consensus: 0.4%, 0.5%

Previous: 1.2%, 1.0%

Retail sales should see a third consecutive month of gains in April, once again fueled by the motor vehicle & parts component. U.S. auto sales have been on a rampage since February, as total vehicle sales for April rose to 16.1 million on a SAAR basis, up from 15.1 million in April 2013. Additionally, the Senior Loan Officer Survey showed that banks are relaxing their standards on credit cards and auto loans. As consumers continue to become more confident in the health of the economy, they are more comfortable with opening their wallets and taking on more debt. As such, we should feel a tailwind from recovering components like furniture and home furnishing sales, particularly as the housing market regains momentum in the coming quarters. Additionally, weekly retail sales surveys note a jump in sales toward the end of the month that will help offset prior weakness. Moving into April and the rest of 2Q14, we look for retail sales to continue trending upward.

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

Forecast: 0.2%, 0.2%

Consensus: 0.3%, 0.1%

Previous: 0.2%, 0.2%

Consumer price inflation is expected to remain suppressed in April for both the headline and core figures as temporary factors continue to have some influence. Brent crude oil prices increased only slightly in April but not enough to recover from March's decline, so the pressures here should be minimal. However, natural gas prices dropped for the second consecutive month and will likely have a bigger influence on the energy price component of headline CPI. Food prices have been on the rise recently, with 0.4% MoM growth in both February and March due to droughts in California, and thus we expect that the component will put upward pressure on the headline figure again in April. Excluding food and energy, we do not expect prices to rise significantly for the month. Medical care services and shelter, which both have been relatively strong contributors to core CPI, are not expected to significantly offset downward bias from other components.

Industrial Production (April, Thursday 9:15 ET)

Forecast: 0.2%

Consensus: 0.0%

Previous: 0.7%

The industrial production index is likely to see another monthly gain following a significant boost in February and March. Multiple surveys have painted a positive picture for manufacturing, so we remain bullish on the outlook for the component and expect positive headwinds through 2Q14. Utilities are also expected to push the overall index upward for April. Specifically, the electric power generation component has been a significant contributor since September, increasing 6.8% in that span, driven by rising natural gas and electric power costs. As natural gas prices have been stabilizing over the past couple of months following the volatile winter, we expect a pullback in the electric power component. Overall, we do not expect that the index will accelerate as quickly as it has over the last two months, but we should continue to see gradual upward movement in April.

Housing Starts & Building Permits (April, Friday 8:30 ET)

Forecast: 970K, 1000K

Consensus: 982K, 1015K

Previous: 946K, 997K

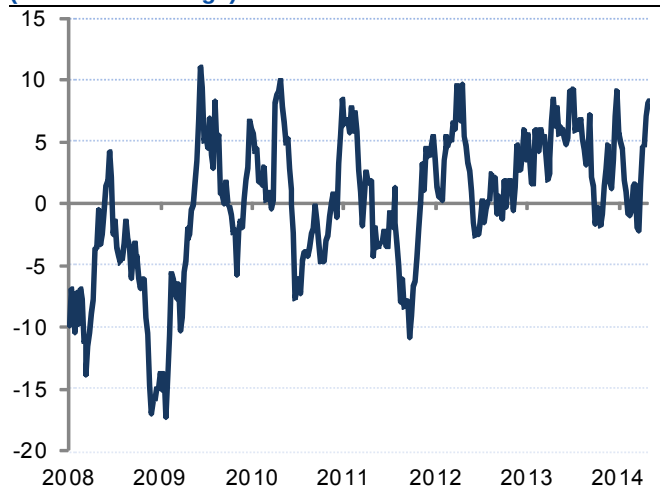
Housing starts have trended upward since a massive drop off to start the year, and we maintain our expectations that activity will continue to pick up in April. Building permits have been strong since October, hovering around the 1000K mark, levels not seen since early-to-mid 2008, which bodes well for construction projects over the coming months. Mortgage rates remained stable between March and April and affordability is fundamentally unchanged thus far in 2014. Furthermore, the consumer confidence index inched closer to post-recession highs in April. Additionally, non-farm payroll additions in April were 288K, marking the third consecutive month of 200K+ gains. As civilians become comfortably employed and the labor market gains traction, we expect housing purchases to follow suit. Hence, we look for housing starts and building permits to steadily trend upward through 2Q14.

Market Impact

As earnings season is reaching the final stretch for 1Q14, attention will gradually shift back to the health of the economy. Retail sales data released Tuesday will give investors the first hint at consumption expenditures for April. The consumer price index on Thursday may carry implications tied to monetary policy and the rate of tapering. Finally, housing data will be closely watched on Wednesday and Friday, as the sector has been weak so far this year relative to other economic components.

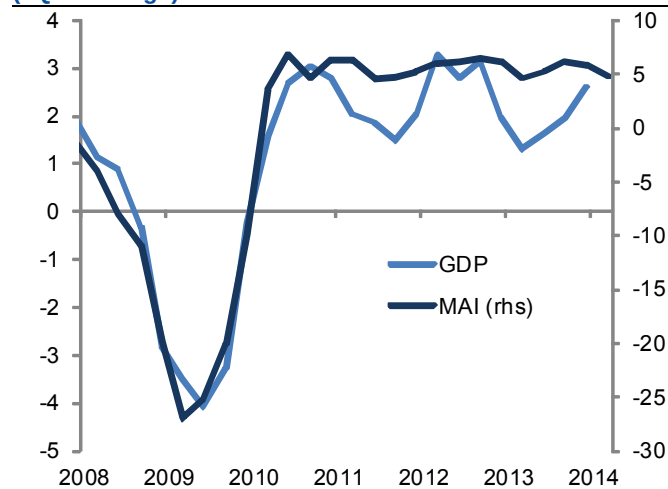
Economic Trends

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



Source: BBVA Research

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



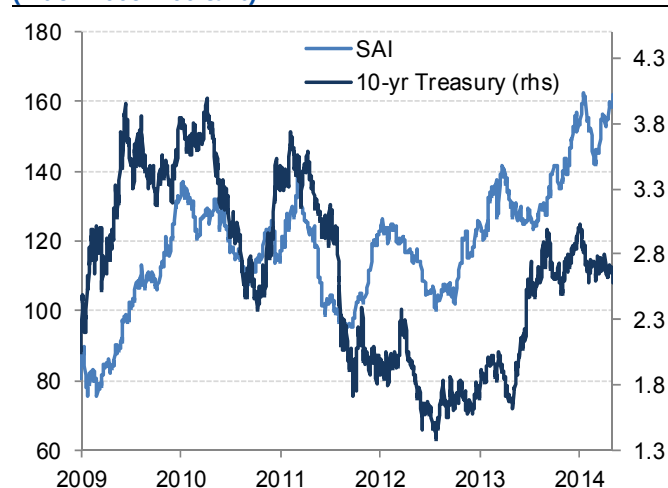
Source: BBVA Research & BEA

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



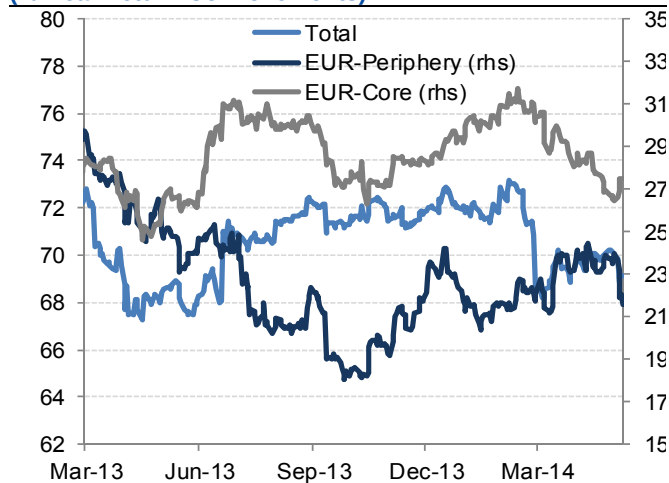
Source: BBVA Research

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



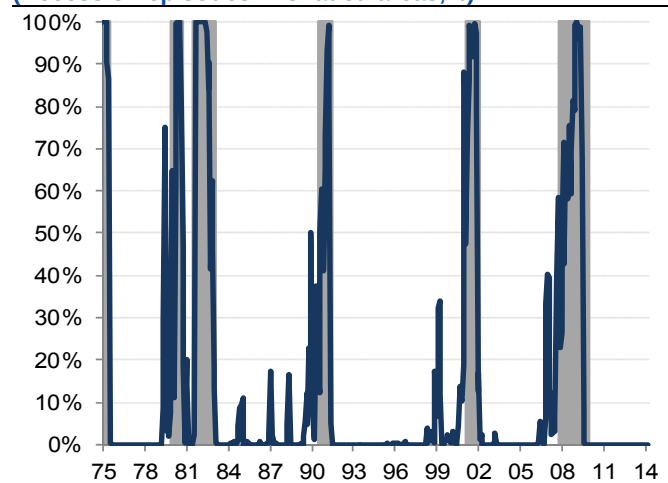
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

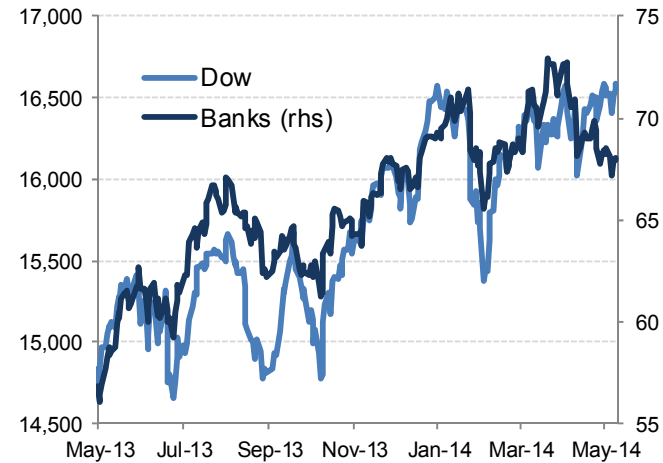
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

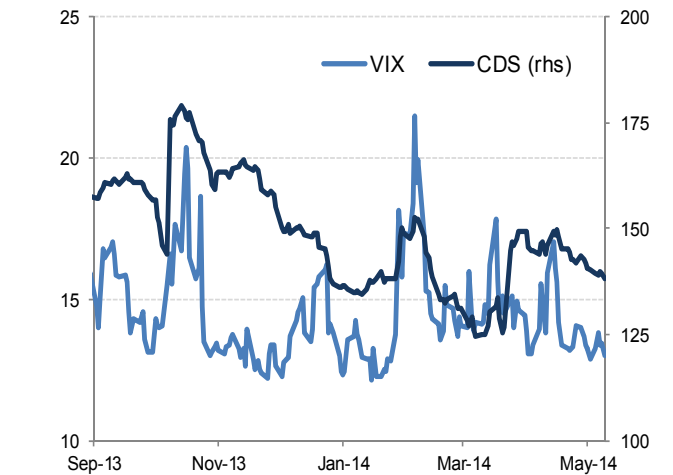
Financial Markets

Graph 9
Stocks
(Index, KBW)



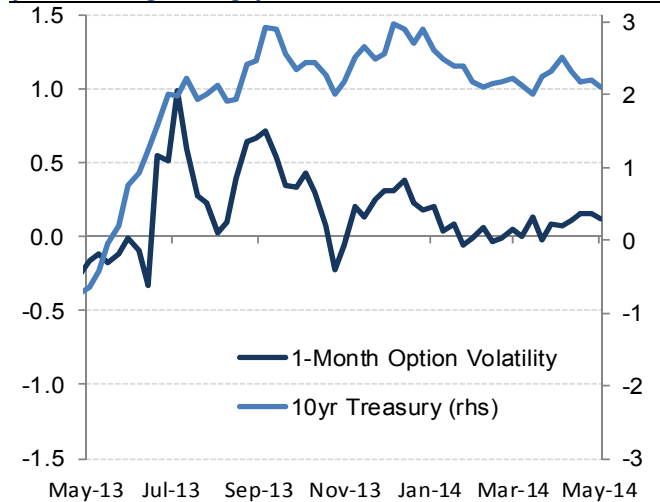
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



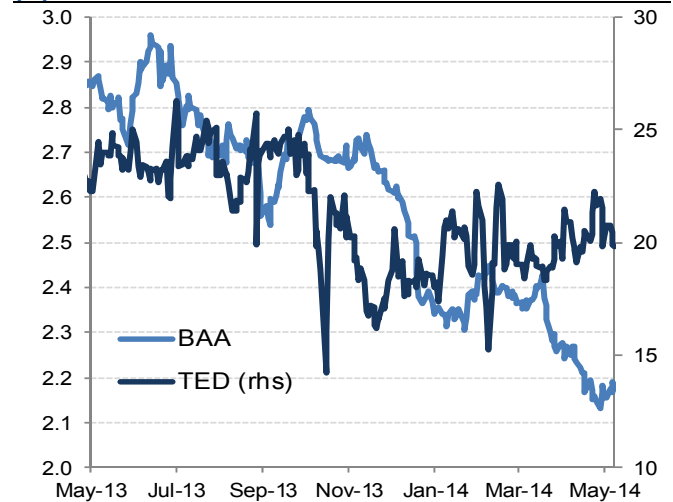
Source: Bloomberg & BBVA Research

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



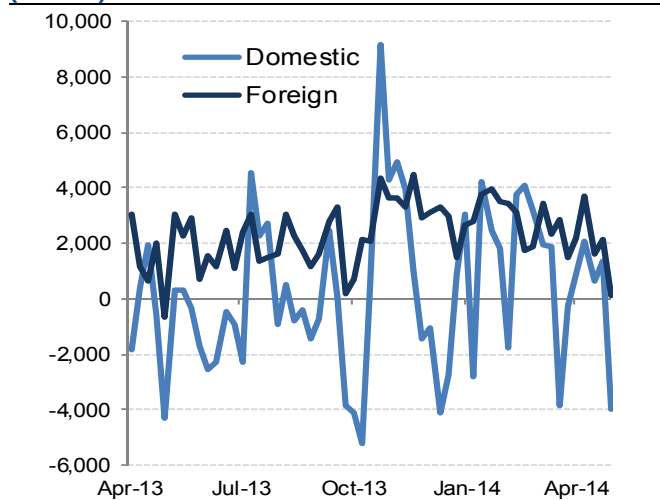
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



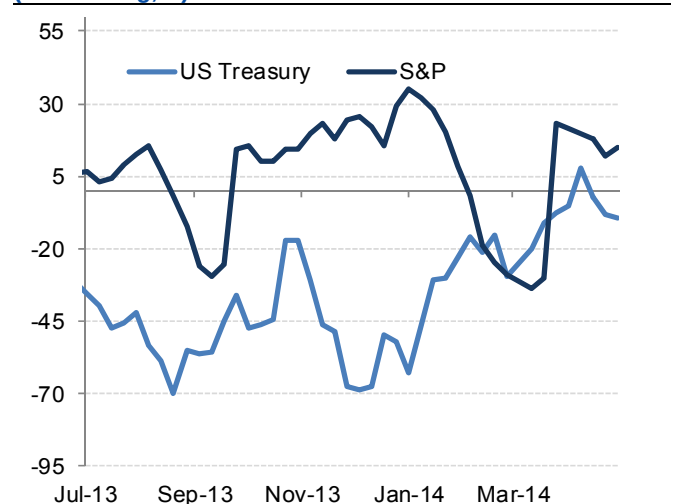
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

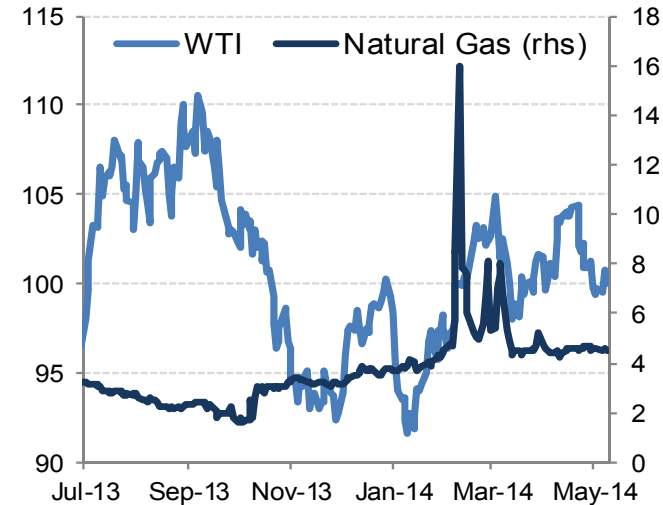
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

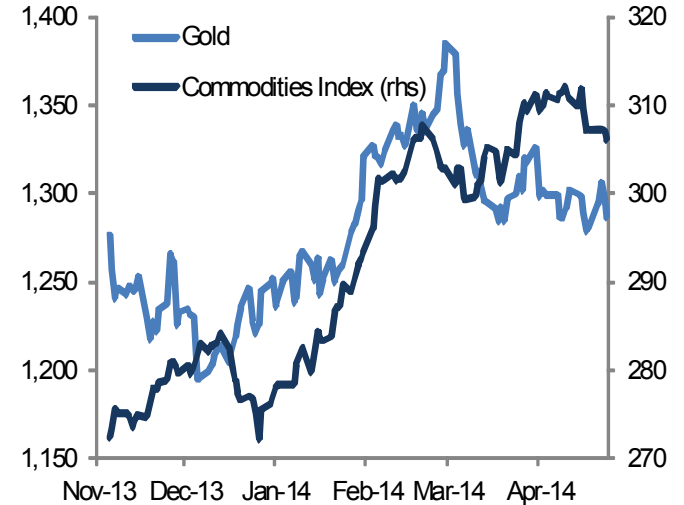
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



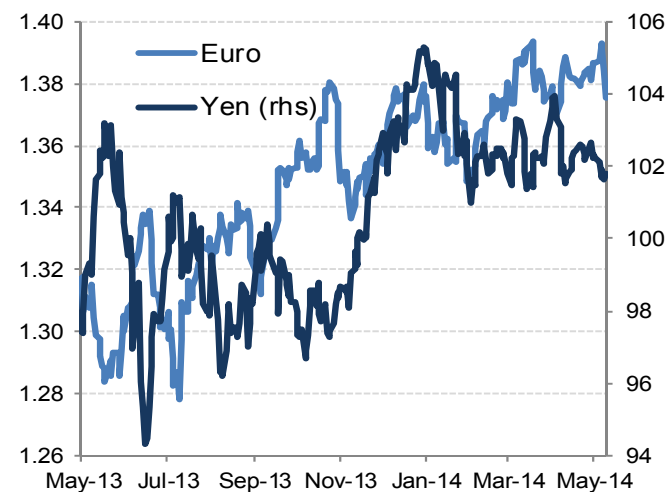
Source: Bloomberg & BBVA Research

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



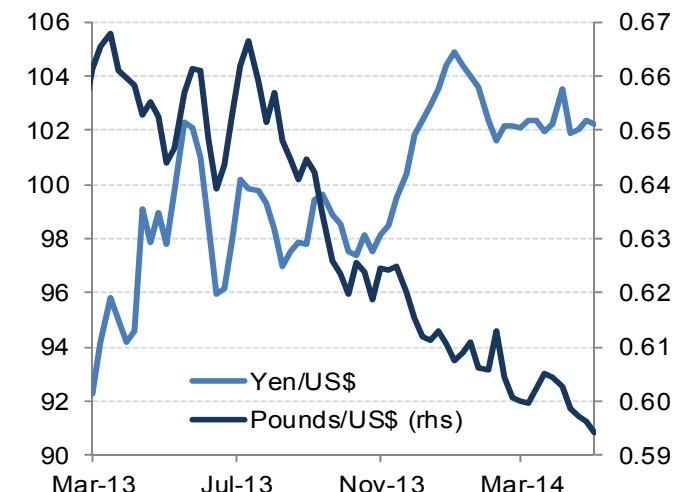
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



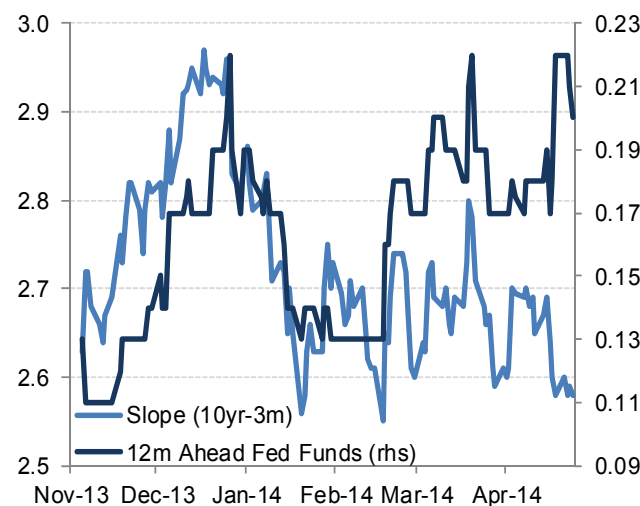
Source: Bloomberg & BBVA Research

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



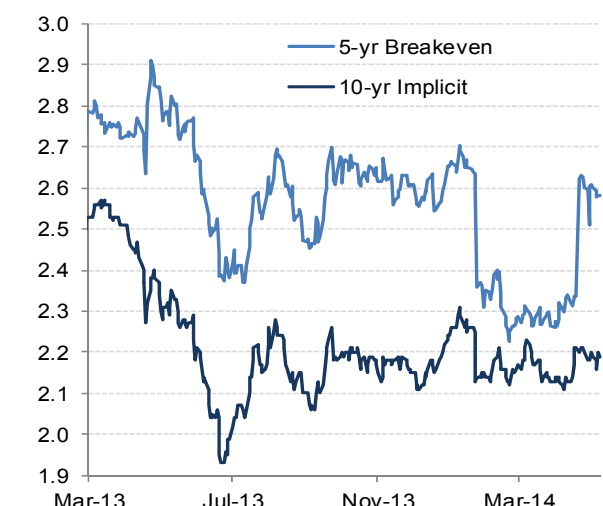
Source: Haver Analytics & BBVA Research

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)	14.82	14.82	14.82	14.10
New Auto (36-months)	2.58	2.57	2.55	2.30
Heloc Loan 30K	5.11	5.13	5.20	5.35
5/1 ARM*	3.05	3.05	3.09	2.90
15-year Fixed Mortgage*	3.32	3.38	3.38	3.23
30-year Fixed Mortgage*	4.21	4.29	4.34	3.99
Money Market	0.40	0.40	0.41	0.47
2-year CD	0.81	0.79	0.78	0.67

*Freddie Mac National Mortgage Homeowner Commitment US

Source: Bloomberg & BBVA Research

Table 2

Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.08	0.09	0.09	0.12
3M Libor	0.22	0.23	0.23	0.27
6M Libor	0.32	0.32	0.32	0.42
12M Libor	0.54	0.55	0.55	0.70
2yr Sw ap	0.52	0.56	0.49	0.39
5yr Sw ap	1.71	1.75	1.69	1.02
10Yr Sw ap	2.70	2.70	2.74	2.12
30yr Sw ap	3.43	3.37	3.47	3.12
30day CP	0.10	0.12	0.11	0.15
60day CP	0.11	0.11	0.11	0.16
90day CP	0.12	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

Jeremy Stein, Member of the Board of Governors of the Federal Reserve Bank
At the Money Marketeers of New York University
6 May 2014

"In part for this reason, I believe we are currently in a very good position with respect to the market's expectations for our asset purchases going forward. Market participants now appear to almost uniformly expect that, barring a material change in the outlook for the economy, the Committee is likely to continue tapering our purchases in further measured steps over the remainder of this year. With these expectations in place, the execution of the taper itself becomes much easier, as we no longer have to worry about a step-down at each meeting sending a potentially misleading message about our intentions with respect to the future path of the federal funds rate."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-May	NFIB Small Business Optimism Index	APR	94.1	94.5	93.4
13-May	Adjusted Retail & Food Services Sales SA Total Monthly % Change	APR	0.5	0.4	1.2
13-May	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	APR	0.3	0.5	1.0
13-May	US Import Price Index by End Use All MoM NSA	APR	0.4	0.3	0.6
13-May	US Import Price Index by End Use All YoY NSA	APR	0.6	0.4	-0.6
13-May	US Manufacturing & Trade Inventories Total MoM SA	MAR	0.3	0.4	0.4
15-May	US Initial Jobless Claims SA	MAY 10	325	320	319
15-May	US Continuing Jobless Claims SA	MAY 3	2690	2750	2685
15-May	US Empire State Manufacturing Survey General Business Conditions SA	MAY	5.0	6.0	1.3
15-May	US CPI Urban Consumers MoM SA	APR	0.2	0.3	0.2
15-May	US CPI Urban Consumers Less Food & Energy MoM SA	APR	0.2	0.1	0.2
15-May	US CPI Urban Consumers YoY NSA	APR	1.9	2.0	1.5
15-May	US CPI Urban Consumers Less Food & Energy YoY NSA	APR	1.8	1.7	1.7
15-May	US Industrial Production MoM 2007=100 SA	APR	0.2	0.0	0.7
15-May	US Capacity Utilization % of Total Capacity SA	APR	79.2	79.1	79.2
15-May	US Industrial Production Industry Groups Manufacturing MoM SA	APR	0.4	0.3	0.5
15-May	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	MAY	9.5	14.1	16.6
15-May	National Association of Home Builders Market Index SA	MAY	48.0	49.0	47.0
16-May	Private Housing Authorized by Bldg Permits by Type Total SAAR	APR	1000	1015	997
16-May	US New Privately Owned Housing Units Started by Structure Total SAAR	APR	970	982	946
16-May	University of Michigan Survey of Consumer Confidence Sentiment	MAY P	84.3	84.5	84.1

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.5	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.8	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	1.9	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.6	5.9	5.6	5.2
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.41	3.80	4.10	4.34
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.35	1.32	1.37	1.37

Note: Non-Bold numbers reflect actual data. Forecast revisions pending.

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