

US Weekly Flash

Highlights

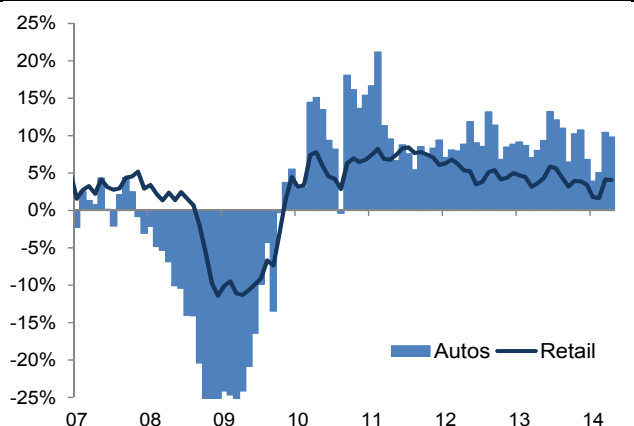
Retail Sales Break Accelerating Streak in April

- Headline retail sales rose 0.1% in April, the third consecutive month of positive change but a deceleration from February and March. The figure was led by a 0.6% MoM increase in auto sales, as the ex-auto figure was flat for the month. Sales at gasoline stations increased a modest 0.8%, though this nominal increase could be attributed to rising gas prices in April. Excluding both auto sales and gas, retail sales declined 0.1%. Looking at specific components, clothing and accessory stores posted a gain of 1.2% in April after jumping 1.1% the previous month, but we expect the component to take a breather next month after the rapid growth. Furniture and home furnishing stores showed a 1.5% decline in spending for April. This reflects sluggish housing market data and does not bode well for housing data released later this month. On a positive note, an upward revision for the headline figure in March from 1.1% to 1.5% more than offsets the stagnation in April.
- The retail sales data in April should not be viewed as a signal of an economic slowdown. Retail sales have been volatile on a month-to-month basis, and data over the past three months show that the component has been trending upward. After posting the two strongest back-to-back monthly gains since 2012, a pullback in growth is to be expected. We continue to expect consumer spending to drive economic growth as we transition into 2Q14, and as such, we project that monthly retail sales growth will be higher for both May and June. Moving forward, strong retail sales data should continue to be a reflection of strengthening employment data and robust GDP growth throughout the rest of the year.

Headline Consumer Price Index Continues to Edge Upward in April

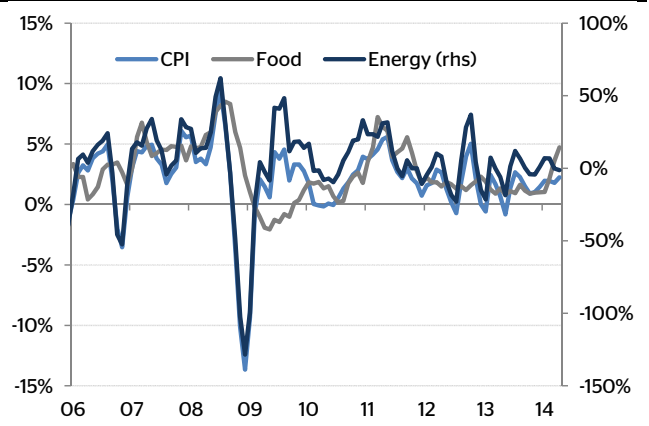
- The headline consumer price index rose 0.3% in April, the highest MoM growth rate since June of last year. The surge was once again led by food prices, which have now grown 0.4% MoM for three consecutive months. Still, YoY food price growth is only 1.9%, far below the 4.0%+ levels seen in 2011, but due to the droughts throughout much of the country, we expect the component to continue moving upward through the year. As expected, the energy services component dropped 1.9% after seven consecutive months of growth. Barring unusual seasonal factors, we expect that energy services and commodity prices will once again stabilize following the heavy winter months. Looking at the bigger picture, headline inflation has quickly reached 2.0% on a YoY basis, reflecting a more rapid bounce-back after briefly falling to 1.1% in February. Core CPI jumped to 1.8% but still remains well below the Fed's 2.5% target.
- Moving forward, we add some upward bias to our inflation forecast due to pressure from an increase in food prices. With regards to monetary policy, the recent data should ease worries about slow inflation or deflation, at least in the short term. Still, we expect that price growth will be contained and should hold between 2.0-2.5% YoY in the coming quarters.

Graph 1
Retail and Auto Sales
YoY % Change



Source: US Census Bureau & BBVA Research

Graph 2
Consumer Price Inflation by Component
3-month % Change, Annualized



Source: Bureau of Labor Statistics & BBVA Research

Week Ahead

FOMC Minutes (April, Wednesday 14:00 ET)

Forecast:

Consensus:

Previous:

The upcoming FOMC meeting minutes are likely to reveal the Committee's further discussion on crafting an effective communication strategy to anchor expectations on the future path of the federal funds rate, as well as addressing the principal payments reinvestment policy. During the April meeting, the current state of forward guidance seemed to satisfy all the FOMC voters, pulling together a unanimous vote. However, the relevance of April meeting's discussions to the future of monetary policy is questionable, with two FOMC voting members leaving and another two new members coming in for the next meeting in June. Overall, we do not expect that the meeting minutes will significantly impact our current outlook for the course of monetary policy but may instead provide additional insight on various views regarding the timing and trajectory of the federal funds rate hike.

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

Forecast: 4.75M

Consensus: 4.68M

Previous: 4.59M

Existing home sales are expected to bounce back in April after three straight months of declines. Although affordability has been hit harder in the past few months compared to mid-2013, the average 30-year fixed-rate mortgage held steady in April and continues to hover around 4.3%. This should help to encourage homebuyers, but rising prices continue to push potentials out of the market. On the bright side, the latest Senior Loan Officer Survey from the Federal Reserve showed that credit standards are generally being eased, which should make it easier for prospective home buyers to obtain a mortgage. Still, home inventories are tight in regions of high demand, which would provide downward pressure on our forecast for April. Thus, we look for a slight increase in existing home sales for the month, and overall we expect the component to trend upward this year as confidence in the economic recovery is restored.

Leading Indicators (April, Thursday 10:00 ET)

Forecast: 0.4%

Consensus: 0.4%

Previous: 0.8%

Growth in the leading indicators index is expected to decelerate in April, but still show positive MoM growth. In April, the composite index reached its highest level since January 2008 and has increased or held steady in every month since March of last year. Interest rate spreads and the S&P 500 have been key drivers of recent strength for the overall index. As economic conditions continue to improve, we see no reason for the trend to change as we head into a stronger second quarter. The S&P index finished slightly higher in April than it did March as the stock market continues to break all-time records, so we look for some upward pressure from the stock price component. Furthermore, interest rates remain low and mostly unchanged for the month, so the spread between the 10-year Treasury yield and the federal funds rate should remain a strong contributor. Finally, we expect that the consumer expectations component, which has negatively contributed to the index for seven straight months, may drag on the index once again but will be outweighed by steady gains from the aforementioned components.

New Home Sales (April, Friday 10:00 ET)

Forecast: 430K

Consensus: 420K

Previous: 384K

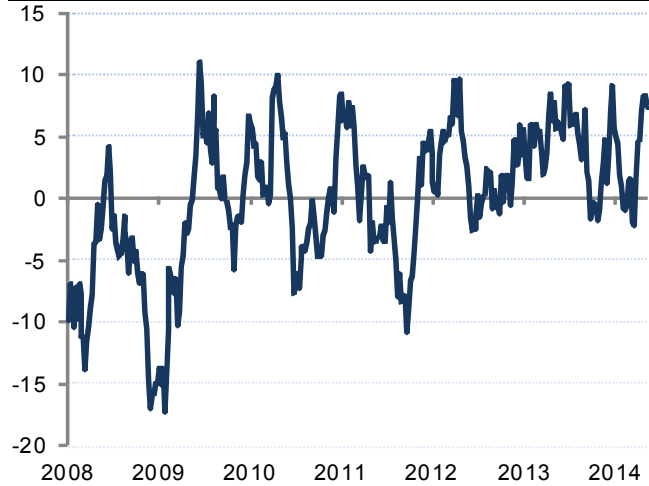
We expect new home sales to surge in April as the housing market regains momentum in 2Q14. New residential home sales slumped under 400K SAAR in March for the first time in six months due to a decline in housing affordability, as median home prices rose over 11% in March and mortgage rates continue to edge up slightly. However, much like existing home sales, we expect resurgence in consumer demand fueled by robust economic growth to boost sales in new homes. Housing starts in April showed positive activity in the sector, jumping 125K (13.2%) from the previous month. Additionally, building permits increased 80K (8.0%), which should be seen as a positive sign for future new home sale activity. Thus, we look for new home sales to surge in April as the outlook brightens for the housing market.

Market Impact

This week will be mostly quiet when it comes to data releases, so there should not be significant market movement based on the economic side. Investors will gauge the state of the housing market with the release of existing and new home sales, which may provide insight on the confidence of civilians. However, all eyes will be on the FOMC minutes to clue in on any potential changes to monetary policy.

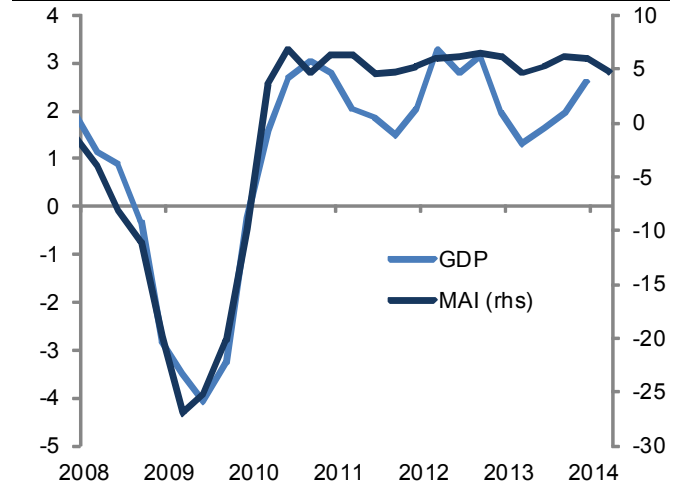
Economic Trends

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



Source: BBVA Research

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



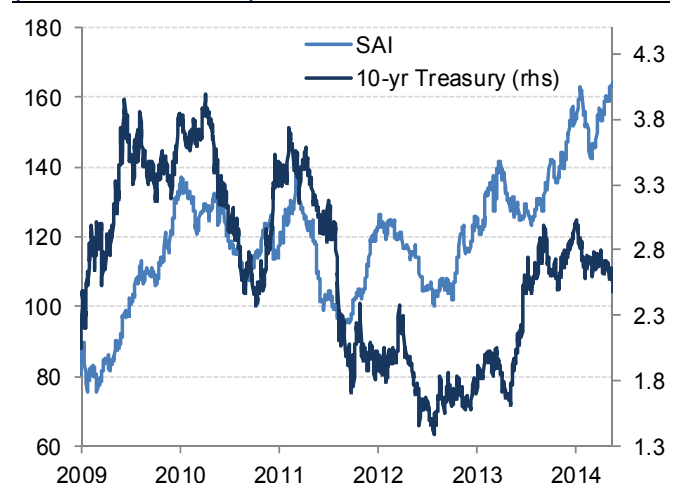
Source: BBVA Research & BEA

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



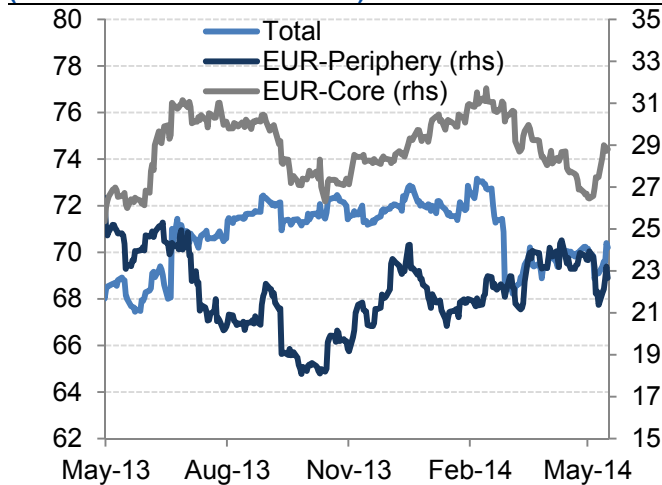
Source: BBVA Research

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



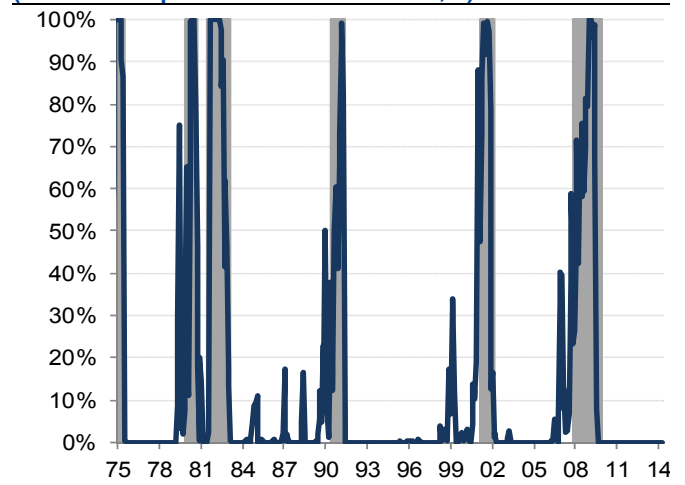
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

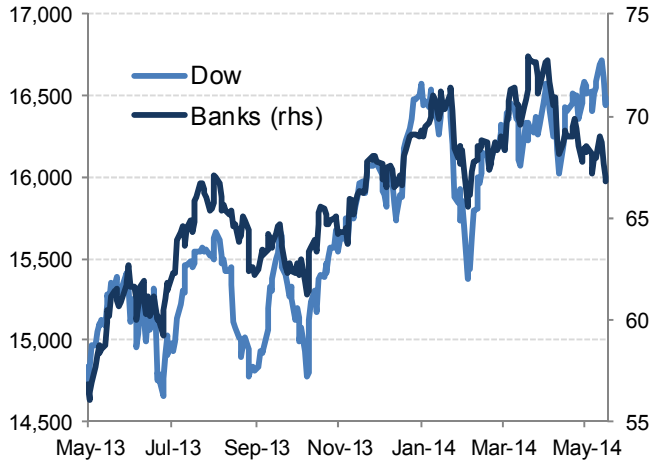
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

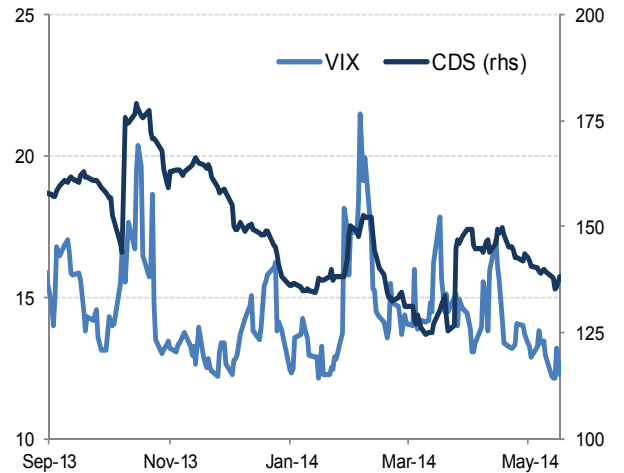
Financial Markets

Graph 9
Stocks
(Index, KBW)



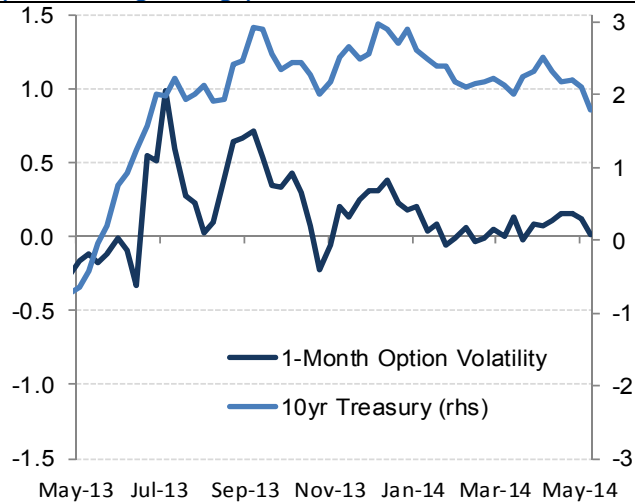
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



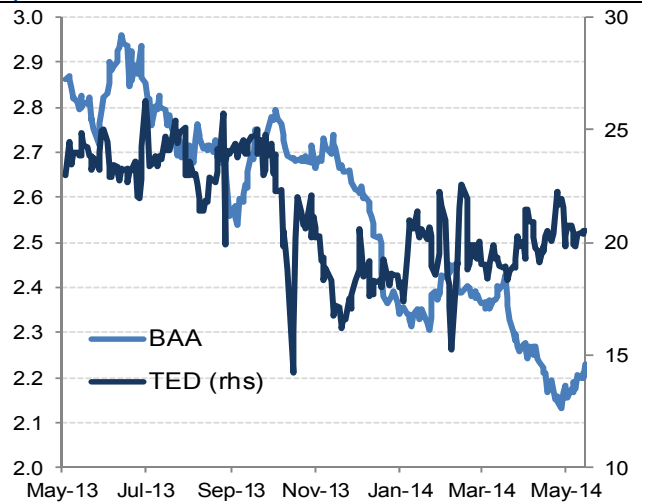
Source: Bloomberg & BBVA Research

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



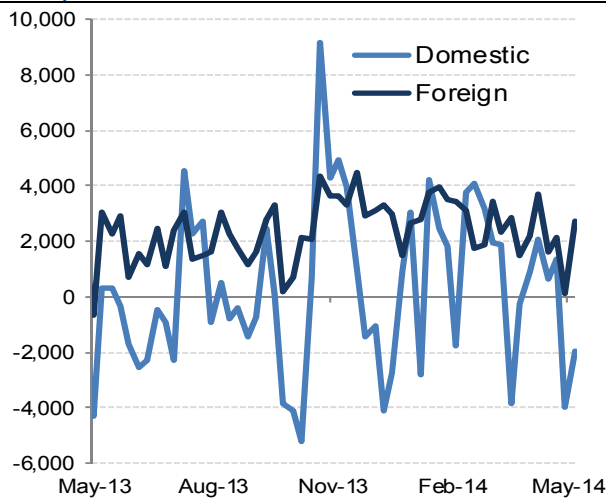
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



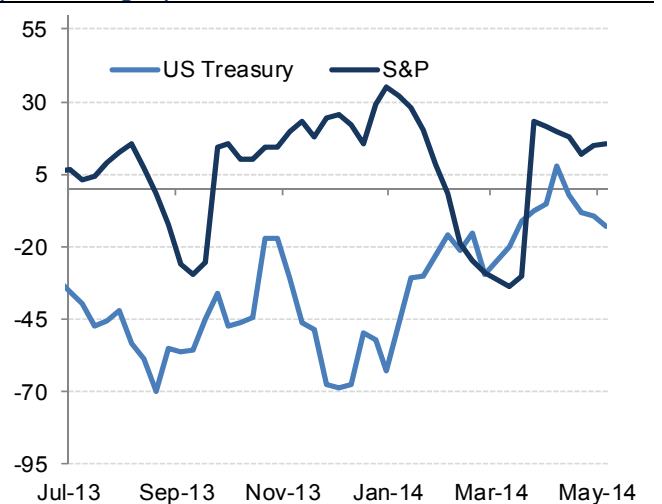
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

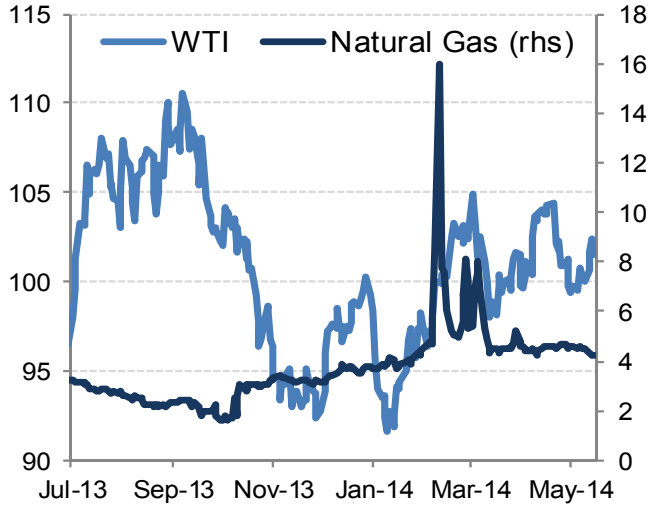
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

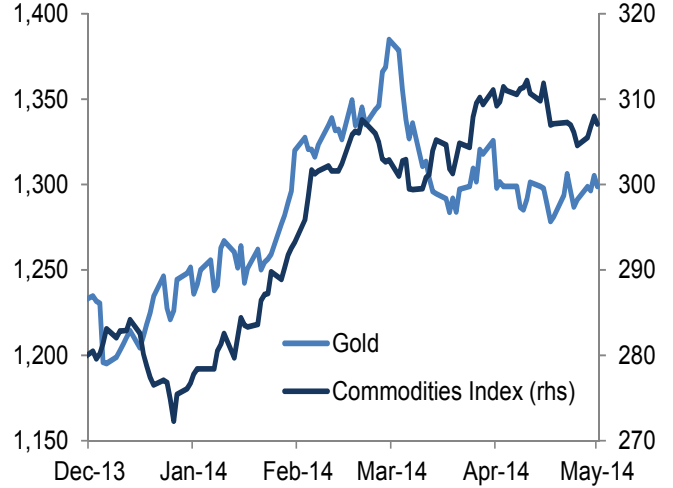
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



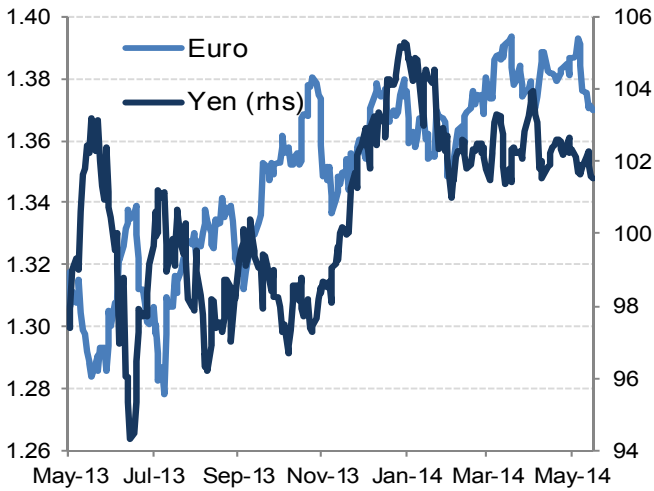
Source: Bloomberg & BBVA Research

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



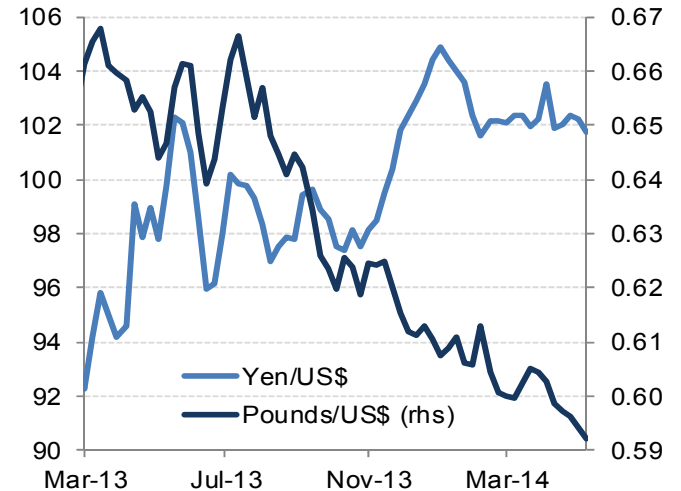
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



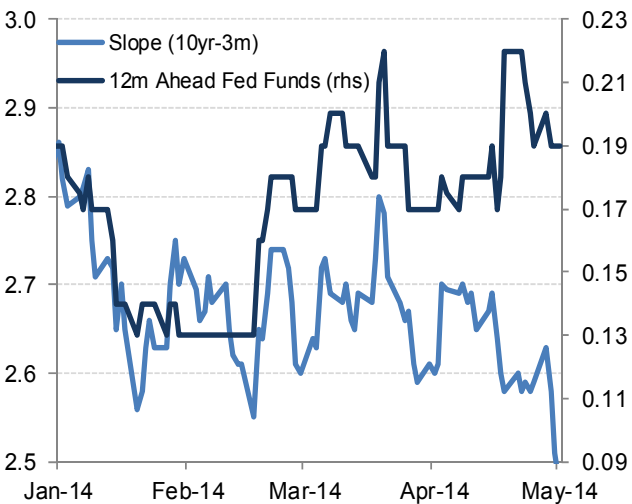
Source: Bloomberg & BBVA Research

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	4-Weeks		
		Week ago	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	2.58	2.56	2.30
Heloc Loan 30K	5.20	5.11	5.18	5.34
5/1 ARM*	3.01	3.05	3.03	2.90
15-year Fixed Mortgage*	3.29	3.32	3.33	3.23
30-year Fixed Mortgage*	4.20	4.21	4.27	3.99
Money Market	0.40	0.40	0.41	0.46
2-year CD	0.80	0.80	0.79	0.70

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2

Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.09	0.08	0.10	0.10
3M Libor	0.23	0.22	0.23	0.27
6M Libor	0.33	0.32	0.32	0.42
12M Libor	0.53	0.54	0.55	0.69
2yr Sw ap	0.51	0.52	0.55	0.38
5yr Sw ap	1.65	1.72	1.84	0.98
10Yr Sw ap	2.62	2.71	2.85	2.05
30yr Sw ap	3.32	3.43	3.52	3.04
30day CP	0.10	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.14
90day CP	0.17	0.13	0.13	0.16

Source: Bloomberg & BBVA Research

Quote of the Week

Janet Yellen, Chair of the Federal Reserve
At the National Small Business Week Event, Washington D.C.
15 May 2014

"America has come a long way since the dark days of the financial crisis, and small businesses deserve a considerable share of the credit for the investment and hiring that have brought that progress. Although we have come far, it is also true that we have further to go to achieve a healthy economy, and I am certain that small businesses will continue to play a critical role in reaching that objective".

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
22-May	US Initial Jobless Claims SA	MAY 17	315	310	297
22-May	US Continuing Jobless Claims SA	MAY 10	2680	2670	2667
22-May	Conference Board US Leading Index MoM	APR	0.4	0.4	0.8
22-May	US Existing Homes Sales SAAR	APR	4.75	4.68	4.59
22-May	US Existing Homes Sales MoM SA	APR	3.5	2.0	-0.2
23-May	US New One Family Houses Sold Annual Total MoM SA	APR	12.0	9.4	-14.5
23-May	US New One Family Houses Sold Annual Total SAAR	APR	430	420	384

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	1.36

Note: Bold numbers reflect actual data.



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