

US Weekly Flash

Highlights

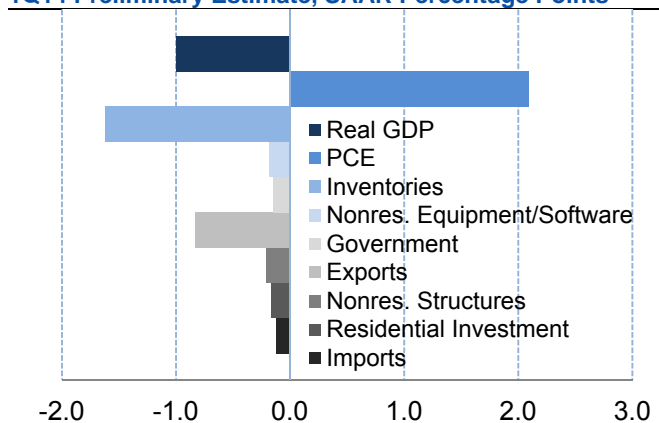
Preliminary GDP Estimate Revised Downward

- The BEA's preliminary estimate of 1Q14 real GDP showed contraction in economic growth compared to the advance estimate of only modest expansion. The report noted that economy contracted 1.0% on a QoQ seasonally adjusted annualized basis, the biggest quarterly drop in three years. The reason for the steep downward revision was mostly due to the change in private inventories, which subtracted 1.6pp from GDP growth after the advance estimate of only -0.6pp. Another factor dragging on GDP was gross private domestic investment, which tumbled 11.7% in the first quarter, the biggest dive since 2Q09, compared to the initial estimate of a 6.1% drop. On a positive note, personal consumption expenditures were revised up slightly to a 3.1% rate through 1Q14, driven by a 4.3% surge in services spending, the highest since 2000. The services component may be a product of increased spending on healthcare over the first quarter as the Affordable Care Act comes into play, and will be an important component to watch moving forward.
- Though the slower-than-expected GDP estimate for 1Q14 is disappointing, we remain optimistic about economic growth moving forward. Our bullish stance on housing leads us to conclude that residential investment will bounce back in the coming quarters. Additionally, inventories appear to have bottomed out, and it is unlikely that there will be another significant negative inventory figure to bias GDP downward through the rest of the year. With regards to our 2014 forecast, the 1Q14 figure exerts downward pressure on our initial projection for 2.5% growth, but we maintain our projection as it stands under the assumption that activity will accelerate throughout the rest of the year.

Personal Consumption Slows, but Income Growth Remains Strong in April

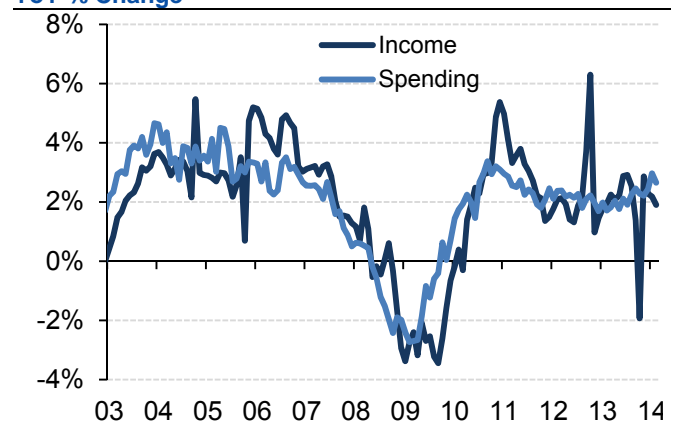
- Personal consumption expenditures fell by 0.1% in April following eleven straight months of gains. The drop was driven by a combination of dips in both goods and services, both falling by 0.1%. Though the decline is disappointing, consumer spending remains strong thus far this year. First quarter spending rose 3.1% QoQ SAAR in 1Q14, so the latest move appears to be a blip rather than a negative sign of things to come. On the other hand, personal income rose by 0.3% in April and has now averaged growth of 0.4% MoM this year. The growth in income could be fueled by payroll additions in recent months, specifically in April, when the economy added 288K jobs.
- The drop in consumption is not concerning and should not be cause for worry over the long run. Despite the drop, YoY growth in April was 4.3%, the highest since April 2012, so spending is still healthy when looking at the bigger picture. We remain optimistic about spending moving into 2Q14 and expect to see it steadily regain momentum in the quarter. With respect to income, we expect continued job growth to exert upward pressure on personal income growth, which should further encourage expenditures.

Graph 1
Contributions to Real GDP Growth
1Q14 Preliminary Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Real Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

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

Forecast: 55.3

Consensus: 55.5

Previous: 54.9

The ISM manufacturing index should show a slight uptick in activity from April. The index has now risen for three consecutive months and is up 7.0% for the year. Specifically, the inventories index had jumped from 44.0 to 53.0 between January and April, and we expect the component to put upward pressure on the overall index in the coming months as companies begin to restock in anticipation of stronger demand. After the Beige Book released last month provided positive insight on manufacturing activity across several districts, the ISM release will provide an update on the status of the sector from industry participants. Looking ahead, we fully expect the manufacturing index to show expansion (50+) in the wake of increased business activity.

Construction Spending (April, Monday 10:00 ET)

Forecast: 0.7%

Consensus: 0.5%

Previous: 0.1%

After a few weak months of growth, we expect construction spending to jump in April. The housing market has been slow to start the year, but we remain bullish on the market moving forward as we enter the summer months. The 30-year mortgage rate has been quietly trending downward, moving below 4.2% in May, which should incentivize prospective homebuyers to make their purchase. Additionally, housing starts data for April surpassed forecasts, jumping 13.2% from the previous month to 1.07M, and housing permits gained 8.0% in April, a positive sign for construction spending in future months. Therefore, construction spending will likely show a spike for April and begin trending upward through the rest of the year.

International Trade Balance (April, Wednesday 8:30 ET)

Forecast: -\$40.0B

Consensus: -\$41.0B

Previous: -\$40.4B

As global demand continues to gradually pick up, we expect that the trade deficit will narrow slightly but remain insignificantly changed for April. In March, imports rose by 1.1% while exports increased 2.1% due to a jump in demand overseas. Domestic demand has rapidly picked up in 2014 and is expected to boost import activity moving forward. We expect that an equivalent increase in global economic demand will likely offset a large share of import activity. However, a slowdown abroad, particularly China, remains the biggest threat to U.S. exports. With regards to economic growth, the widening of the trade deficit over the first three months of the year deducted from GDP, but moving ahead, we project that increased energy production will boost exports and provide an upward bias. Overall, we expect that petroleum exports will be the main catalyst in steadily narrowing the trade gap through 2014.

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

Forecast: 205K, 6.4%

Consensus: 218K, 6.4%

Previous: 288K, 6.3%

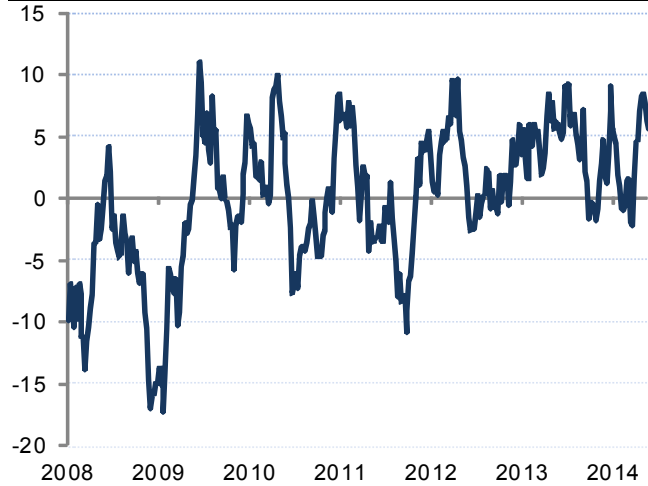
As the labor market continues to gain momentum, we expect nonfarm payrolls to add over 200K jobs for the fourth consecutive month. Jobless claims data continue to remain at post-recession lows, with the monthly average in May falling just under April's level. Health care jobs have been a catalyst as of late, averaging 27K job additions per month over the last three months, and we expect this to become an ongoing trend as the baby-boomer generation rapidly enters retirement. The housing data for April showed signs of life in the sector, so we expect a pickup in activity to boost construction payrolls moving into the summer months. Though the unemployment rate dropped from 6.7% to 6.3% in May, the dip was largely attributed to workers exiting the labor force, and as workers re-enter the force, we project that unemployment will tick up slightly. Looking ahead to the coming months, we expect that nonfarm payrolls will continue to add about 200K per month backed by stable economic growth.

Market Impact

Stocks continue to break records and trend near all-time highs. This Friday, investors will want to eye the May jobs report to grasp a pulse on the labor market. Outside of the employment situation, there should not be significant market-moving data, though investors may want to look at the ISM-data to get a better idea on the health of the manufacturing sector.

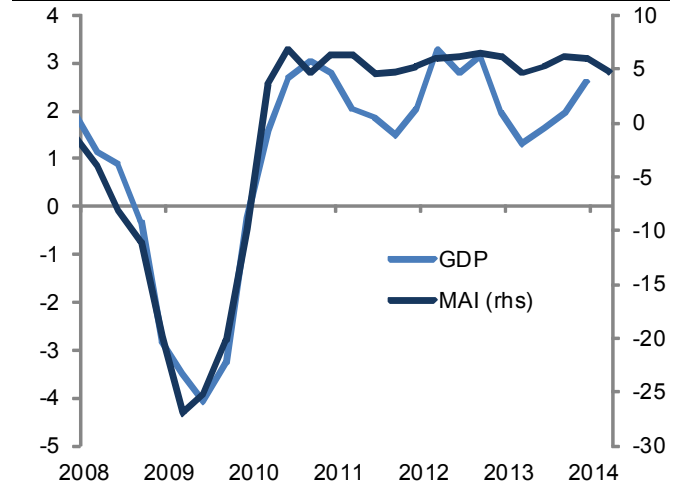
Economic Trends

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



Source: BBVA Research

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



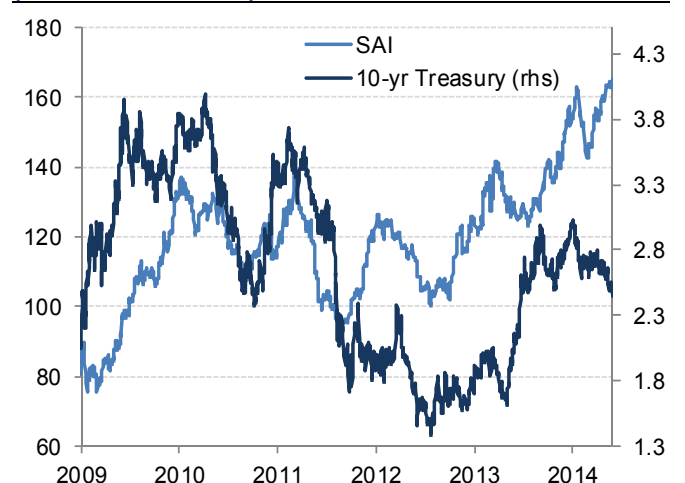
Source: BBVA Research & BEA

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



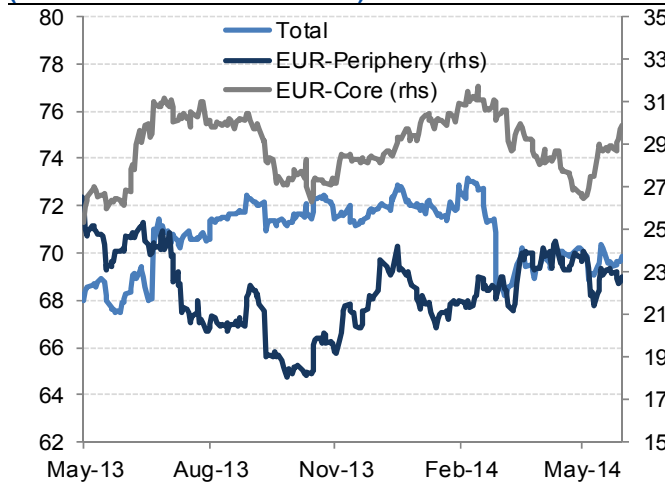
Source: BBVA Research

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



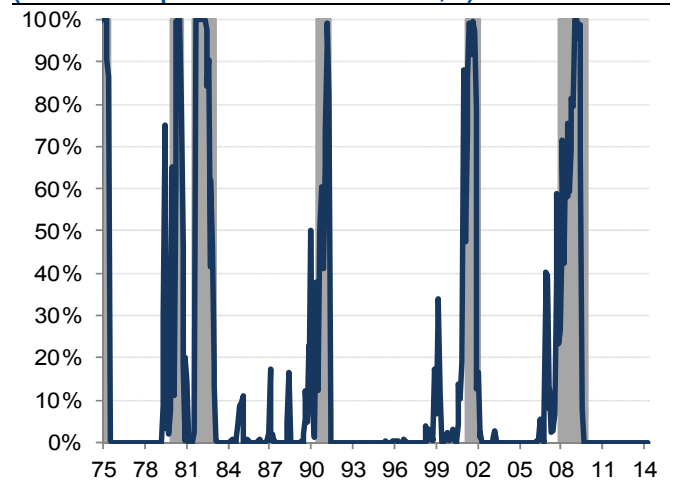
Source: Bloomberg & BBVA Research

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

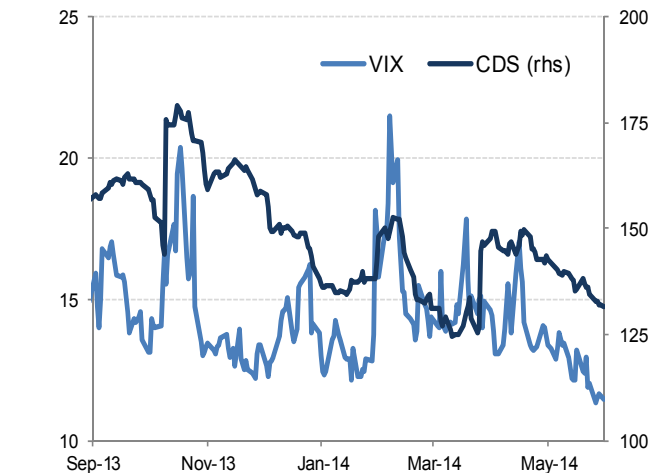
Financial Markets

Graph 9
Stocks
(Index, KBW)



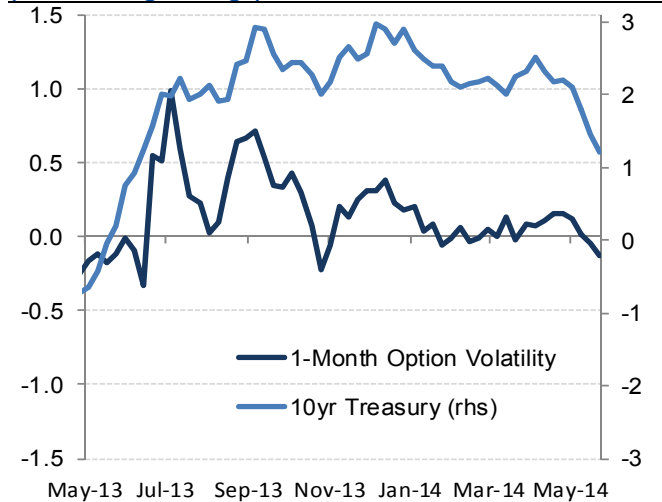
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



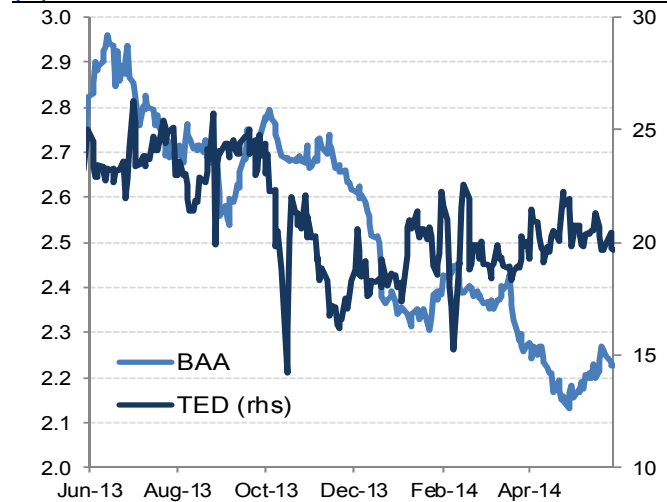
Source: Bloomberg & BBVA Research

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



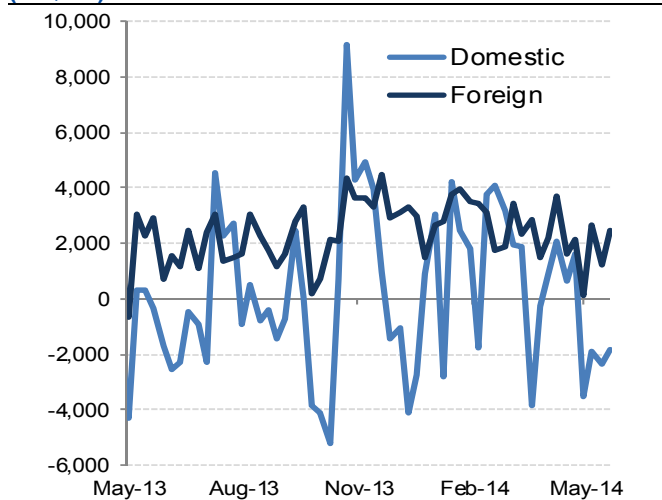
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



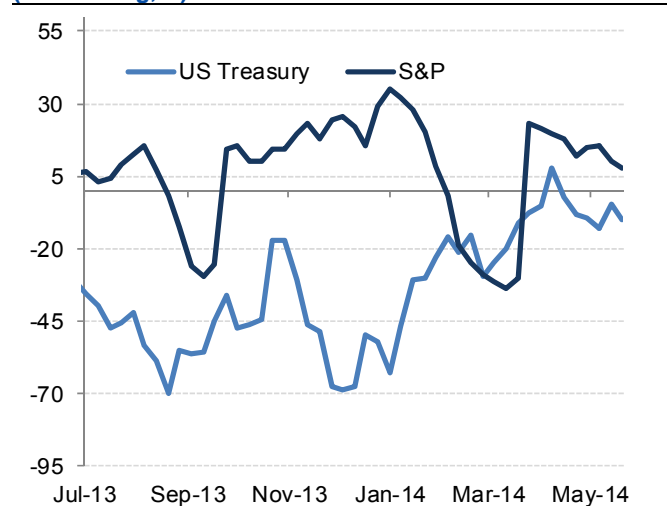
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

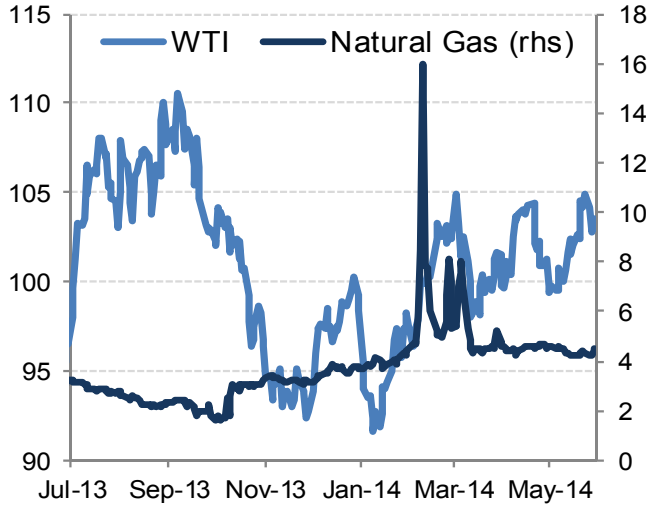
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

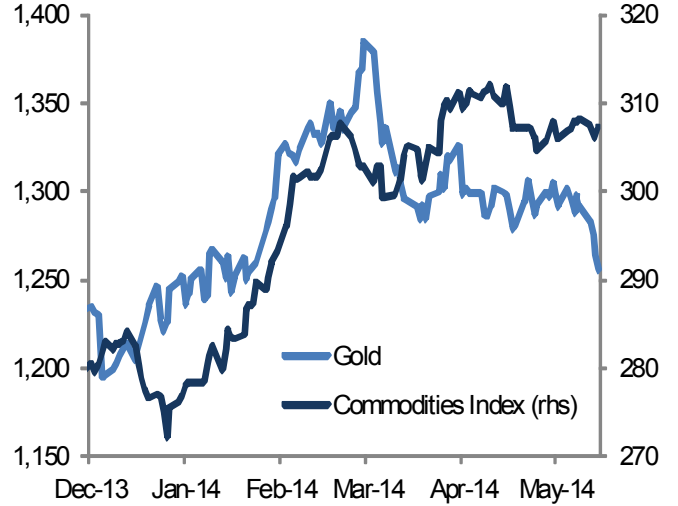
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



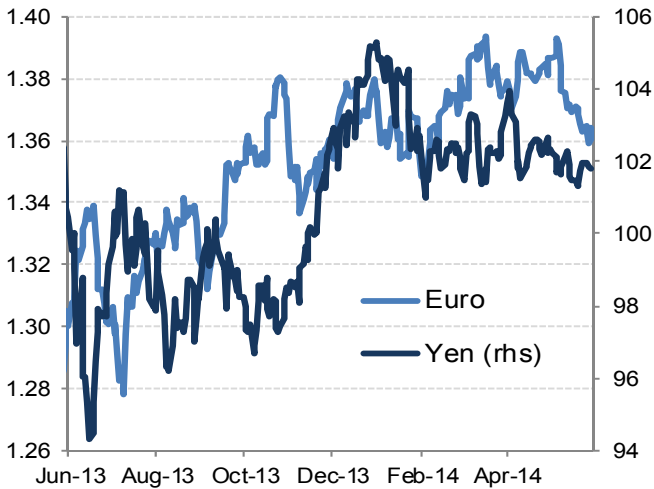
Source: Bloomberg & BBVA Research

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



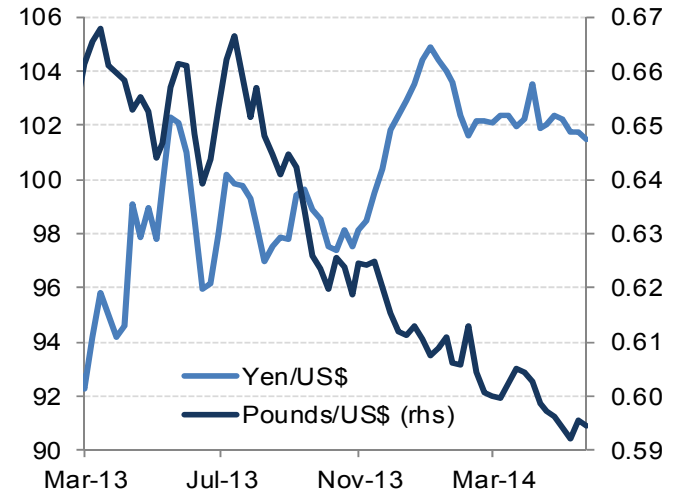
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



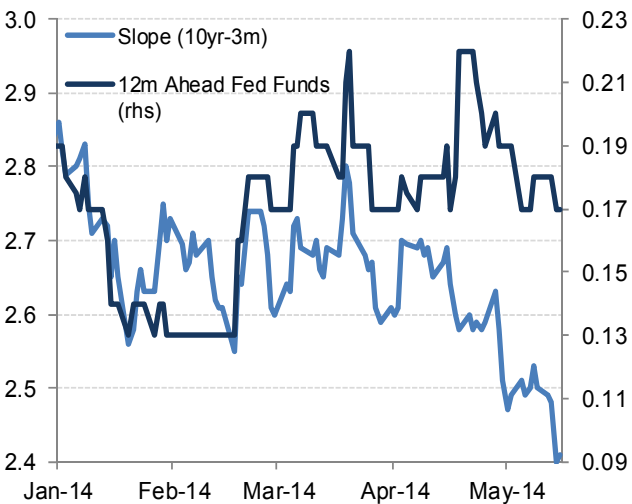
Source: Bloomberg & BBVA Research

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



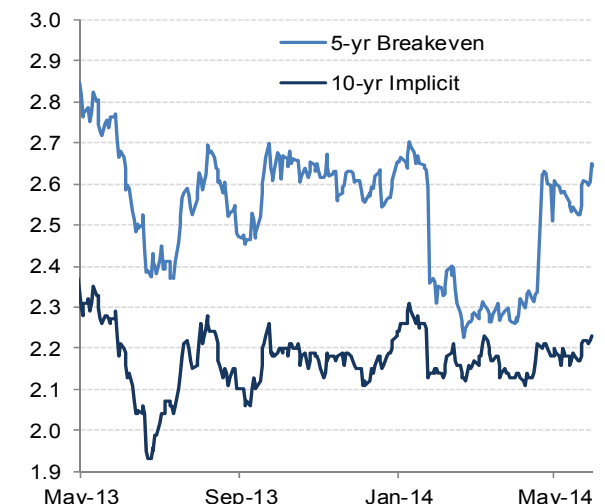
Source: Haver Analytics & BBVA Research

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	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)	2.80	2.79	2.57	2.46
Heloc Loan 30K	5.14	5.25	5.13	5.35
5/1 ARM*	2.96	2.96	3.05	2.90
15-year Fixed Mortgage*	3.21	3.25	3.38	3.23
30-year Fixed Mortgage*	4.12	4.14	4.29	3.99
Money Market	0.40	0.40	0.40	0.46
2-year CD	0.81	0.81	0.79	0.69

*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	0.09	0.09	0.09
3M Libor	0.23	0.23	0.23	0.27
6M Libor	0.32	0.33	0.32	0.41
12M Libor	0.53	0.53	0.55	0.69
2yr Sw ap	0.51	0.51	0.56	0.47
5yr Sw ap	1.61	1.62	1.75	1.25
10Yr Sw ap	2.58	2.62	2.70	2.34
30yr Sw ap	3.30	3.36	3.37	3.26
30day CP	0.11	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.15
90day CP	0.12	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

Dennis Lockhart, President and CEO of Federal Reserve Bank of Atlanta
At Louisiana State University
27 May 2014

"On the question of the timing of liftoff, let me make a few points. At any given juncture, absolute certainty of the economy's direction is not achievable. As I've suggested, I feel the need to see confirming evidence in the data validating the view that above trend growth is occurring and is sustainable, and that the FOMC is closing in on its policy objectives. One quarter's data isn't enough. I expect it will take a number of months for me to arrive at conviction on that account."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-Jun	ISM Manufacturing PMI SA	MAY	55.3	55.5	54.9
2-Jun	Census Bureau US Construction Spending MoM SA	APR	0.7	0.7	0.2
3-Jun	US Auto Sales Total Annualized SA	MAY	16.1	16.1	16.0
3-Jun	US Auto Sales Domestic Vehicles Annualized SA	MAY	12.8	12.7	12.7
3-Jun	US Manufacturers New Orders Total MoM SA	APR	0.6	0.5	0.9
4-Jun	ADP National Employment Report SA Private Nonfarm Level Change	MAY	200	215	220
4-Jun	US Trade Balance Balance Of Payments SA	APR	-40.0	-40.5	-40.4
4-Jun	ISM Non-Manufacturing NMI NSA	MAY	55.3	55.5	55.2
5-Jun	US Initial Jobless Claims SA	MAY 31	310	313	300
5-Jun	US Continuing Jobless Claims SA	MAY 24	2645	-	2631
6-Jun	US Employees on Nonfarm Payrolls Total MoM Net Change SA	MAY	205	219	288
6-Jun	US Employees on Nonfarm Payrolls Total Private MoM Net Change SA	MAY	195	215	273
6-Jun	US Employees on Nonfarm Payrolls Manufacturing Industry Monthly Net Change SA	MAY	10	10	12
6-Jun	U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted	MAY	6.40	6.4	6.3
6-Jun	US Average Hourly Earnings All Employees Total Private Monthly Percentage Change	MAY	0.1	0.2	0.0
6-Jun	US Average Hourly Earnings All Employees Total Private Yearly Percent Change SA	MAY	1.9	2.0	1.9
6-Jun	US Average Weekly Hours All Employees Total Private SA	MAY	34.5	34.5	34.5
6-Jun	Federal Reserve Consumer Credit Total Net Change SA	APR	16.00	16.00	17.53

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.9	2.5	2.5	2.8
CPI (YoY %)	3.1	2.1	1.5	2.3	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.3	2.4	2.3
Unemployment Rate (%)	8.9	8.1	7.4	6.7	6.2	5.7
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	3.41	3.80	4.10
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.35	1.32	1.37

Note: Non-Bold numbers reflect actual data.

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