

Economic Analysis

Retail sales unchanged in July

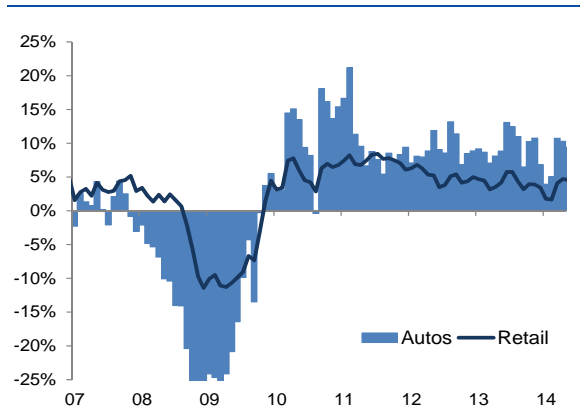
Kim Fraser Chase & Marcial Nava

Retail sales were unchanged in July showing the worst behavior since January, when consumers postponed spending due to a severe winter season. July's report suggests that consumers remained hesitant to increase spending on big-ticket items. For example, sales at motor vehicle and parts dealers fell 0.2%, posting the second decline in a row; sales at furniture & home furnishing stores dropped 0.1%, posting the third consecutive decline; and sales at electronics and appliances stores decreased 0.1%, falling for the fourth consecutive month. Nevertheless, excluding sales at motor vehicle dealers and gasoline stations, retailing increased by 0.1%, supported by a 0.3% surge in food and beverages, a 0.4% increase in healthcare and personal care products, a 0.4% growth in clothing and accessories, and a 0.2% increase in sporting goods, hobby, books & music stores. In contrast, sales at department stores fell by 0.7%, posting the third consecutive decline. The report is consistent with a decline in the Consumer Sentiment Index both in July and the first half of August. Both reports suggest a higher level of uncertainty surrounding the economic outlook in 2H14.

Industrial production boosted by manufacturing

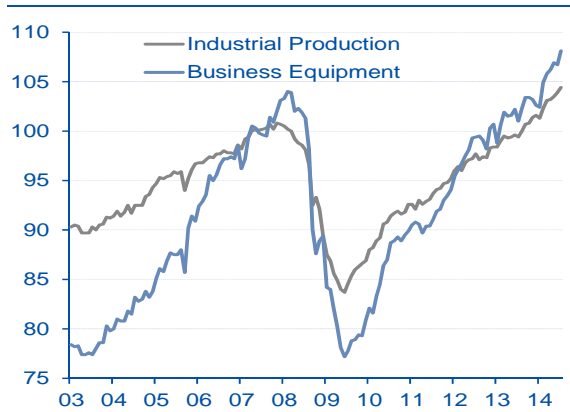
Industrial production increased 0.4% in July boosted by a 1% expansion in manufacturing, the biggest monthly increase since February. Production of motor vehicles and parts jumped 10%, the biggest increase since September 2009. Motor vehicle figures were consistent with Federal Reserve's data showing a \$101 billion increase in new auto loans in 2Q14, the highest in eight years. Excluding motor vehicles and parts, total production remained flat. Growth was widespread among durable goods, but results were mixed among non-durables. Mining growth slowed down to a modest 0.3% while utilities decreased 3.4% due to a cooler-than-average summer. A measure of economic slack, capacity utilization increased 0.1 percentage points to 79.2%, the highest reading since June 2008, but still 1.6 pp. below what it was at the beginning of the great recession. Since September 2010, capacity utilization has increased steadily by an average monthly rate of 0.1 percentage points. This is consistent with our expectations of no Fed Funds rate increases until mid-2015.

Graph 1
Retail and Auto Sales
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Graph 2
Industrial Production Index
SA, 2007=100



Source: FRB & BBVA Research

Week Ahead

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

Forecast: 0.2%, 0.2%

Consensus: 0.1%, 0.2%

Previous: 0.3%, 0.1%

Inflation is expected to continue along at a relatively steady pace in July. The consumer price index accelerated after a slow first quarter but has begun to stabilize near the 0.2% monthly pace. Energy prices have fallen in July and should help keep downward pressure on the headline index. Excluding food and energy, we are likely to see a slight pickup in inflation from June's 0.1% increase but not enough to spark further concerns of an immediate threat to Federal Reserve policy. Overall, consumer prices are expected to continue edging up but annual growth rates will remain below the Fed's target at least for the next year.

Housing Starts and Building Permits (July, Tuesday 8:30 ET)

Forecast: 930K, 1015K

Consensus: 970K, 1000K

Previous: 893K, 973K

Good news in the housing market has not lasted very long, particularly when it comes to new home construction. Housing starts jumped significantly in April but declined thereafter, crushing our hopes for more robust demand in the new home market. May and June saw consecutive declines in both housing starts and permits, both of which are expected to rebound only partially in July. Building permits, which are usually a good leading indicator for new home construction, are not pointing to as strong of a summer housing season as we had originally predicted. In general, we expect to see an increase in both components for July but not enough to significantly improve our housing outlook for the rest of the year.

Philadelphia Fed Survey (August, Thursday 10:00 ET)

Forecast: 19.70

Consensus: 20.0

Previous: 23.90

The Philadelphia Fed Survey has been one of the strongest regional reports coming out of the Federal Reserve. Similar to the Empire State Manufacturing Survey, the Philadelphia report has held at double-digit levels throughout the past four months, mostly due to strength in new orders and shipments. In July, the overall index for general business conditions increased to the highest level since March 2011, with both the new orders and shipments components actually rising to recovery highs. For August, we expect that the Philadelphia survey will decline slightly but continue to suggest strong manufacturing activity in the region.

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

Forecast: 5095K

Consensus: 5.00M

Previous: 5040K

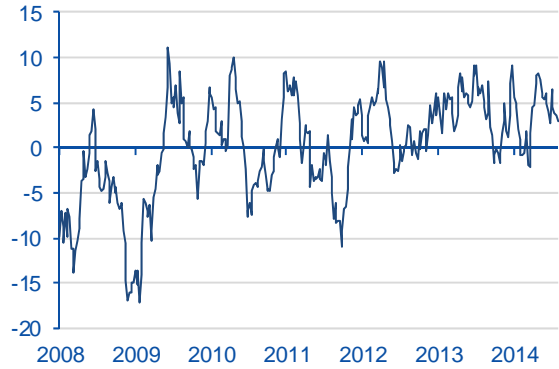
Data for the existing homes market has hinted at more positive activity throughout the past few months, at least in comparison to the demand for new homes. Existing home sales have been on an upward trend since March of this year, and we expect that this momentum will continue into the summer months. Pending home sales, which are a leading indicator of existing home sales, increased significantly in May but declined in June, suggesting that the potential gain for existing home sales in July remains low. Therefore, we expect that sales will rise for the fourth consecutive month but remain below the recent peak seen in July of last year.

Market Impact

The focus this week will be centered on the FOMC minutes, with markets looking for additional signs of a possible change in rate hike expectations. Inflation and housing data will also be watched closely as they relate to the Fed's monetary policy action.

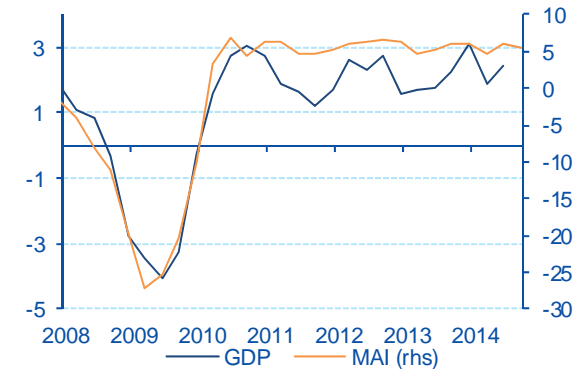
Economic Trends

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



Source: BBVA Research

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



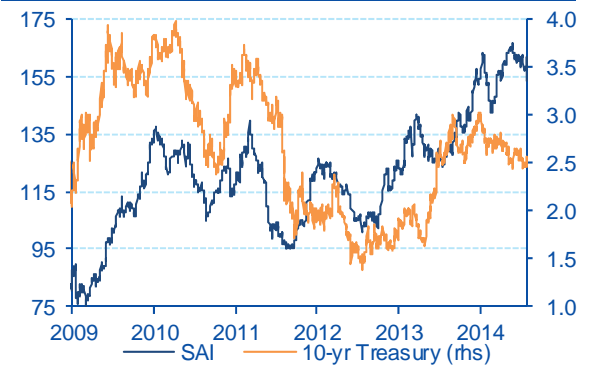
Source: BBVA Research & BEA

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



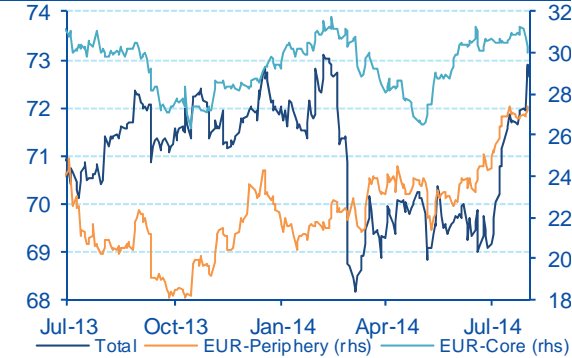
Source: BBVA Research

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



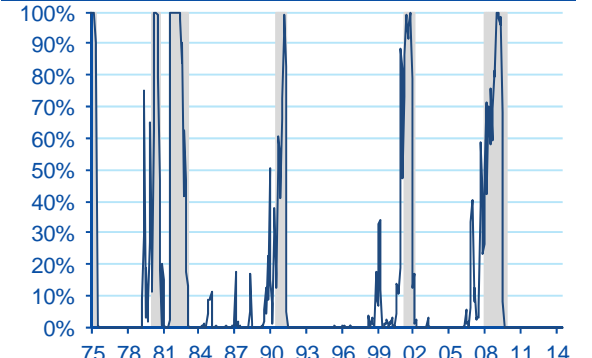
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

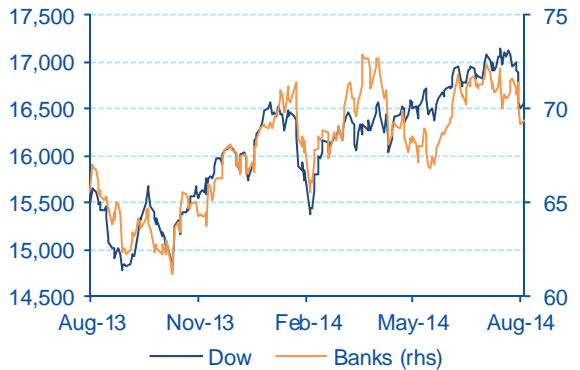
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

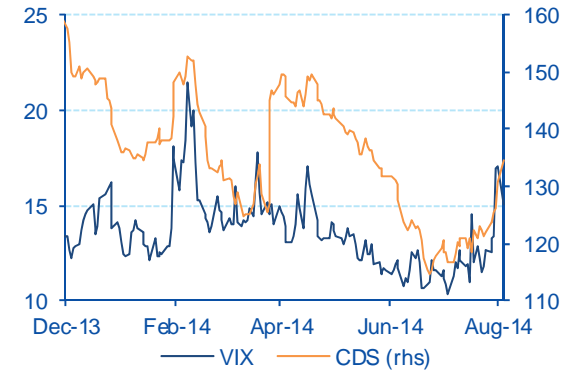
Financial Markets

Graph 9
Stocks
(Index, KBW)



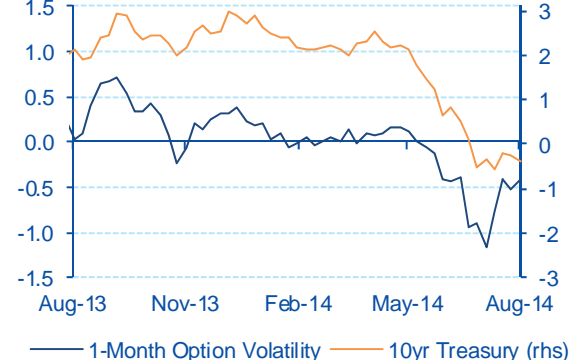
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



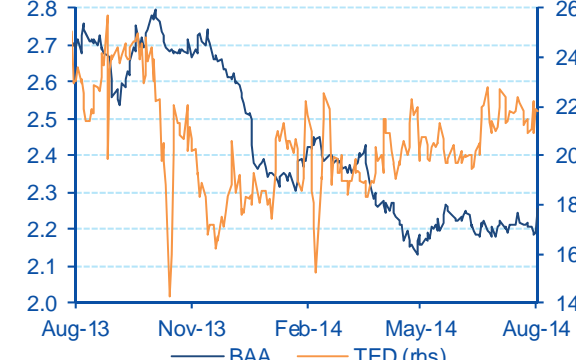
Source: Bloomberg & BBVA Research

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



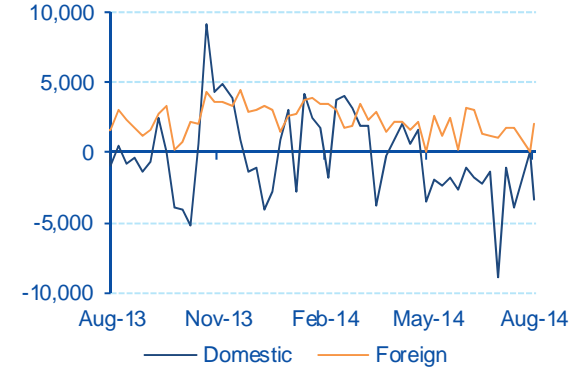
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



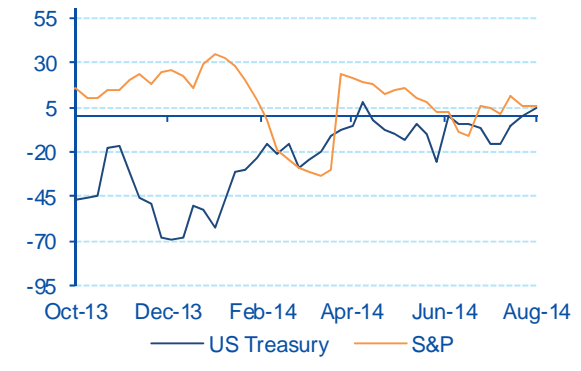
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

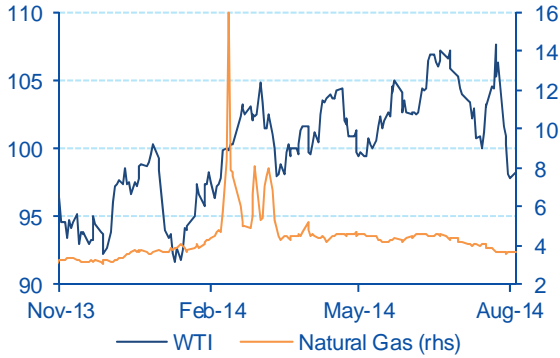
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

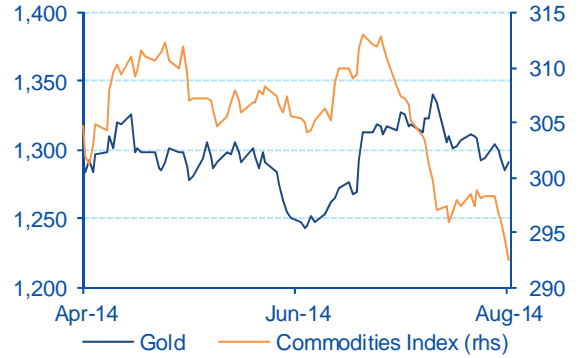
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



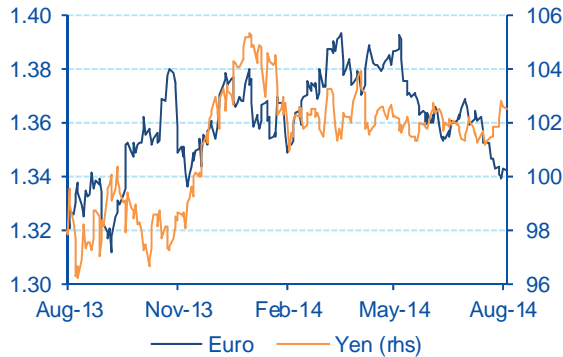
Source: Bloomberg & BBVA Research

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



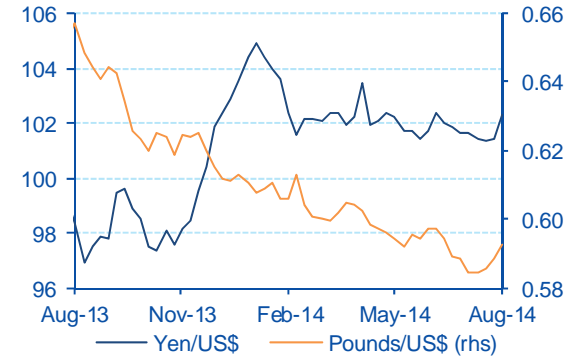
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



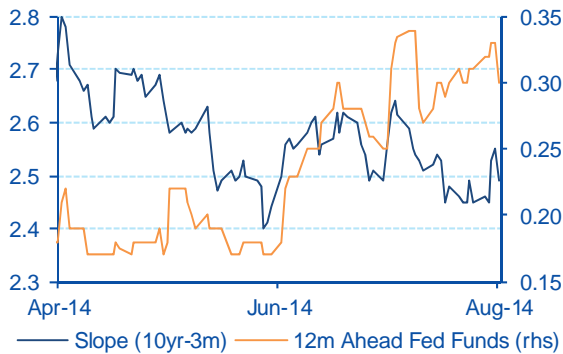
Source: Bloomberg & BBVA Research

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



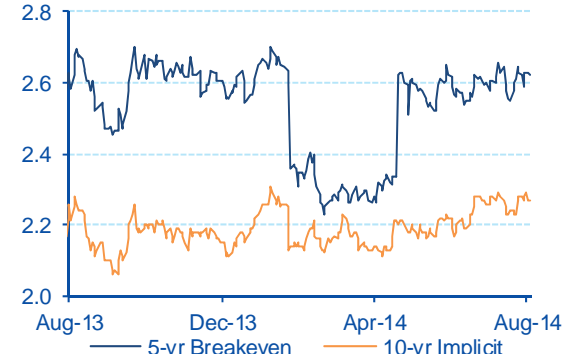
Source: Haver Analytics & BBVA Research

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)	14.86	14.86	14.86	14.10
New Auto (36-months)	2.90	2.90	2.90	2.49
Heloc Loan 30K	4.95	4.96	5.00	5.30
5/1 ARM *	3.01	3.01	2.99	2.90
15-year Fixed Mortgage *	3.23	3.23	3.24	3.23
30-year Fixed Mortgage *	4.12	4.12	4.15	3.99
Money Market	0.40	0.40	0.40	0.44
2-year CD	0.82	0.82	0.82	0.73

*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	0.09	0.09	0.10	0.08
3M Libor	0.24	0.23	0.23	0.26
6M Libor	0.33	0.33	0.32	0.39
12M Libor	0.58	0.56	0.55	0.66
2yr Sw ap	0.68	0.71	0.66	0.47
5yr Sw ap	1.80	1.83	1.81	1.53
10Yr Sw ap	2.63	2.61	2.71	2.75
30yr Sw ap	3.27	3.22	3.40	3.62
30day CP	0.10	0.12	0.11	0.12
60day CP	0.12	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

James Bullard

St. Louis Fed President

Interview with the Wall Street Journal

14 August 2014

"The idea that the Fed might get behind the curve is a powerful one, and that's certainly been the history of the institution. People are right to worry about that."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
18-Aug	National Association of Home Builders Market Index SA	AUG	54.00	53.00	53.00
19-Aug	US CPI Urban Consumers MoM SA	JUL	0.20	0.10	0.26
19-Aug	US CPI Urban Consumers Less Food & Energy MoM SA	JUL	0.20	0.20	0.13
19-Aug	US New Privately Owned Housing Units Started by Structure Total SAAR	JUL	930.00	970.00	893.00
19-Aug	Private Housing Authorized by Bldg Permits by Type Total SAAR	JUL	1015.00	1000.00	973.00
21-Aug	US Initial Jobless Claims SA	16-Aug	300.00	300.00	311.00
21-Aug	US Continuing Jobless Claims SA	9-Aug	2510.00	2523.00	2544.00
21-Aug	US Existing Homes Sales SAAR	JUL	5.10	5.00	5.04
21-Aug	US Existing Homes Sales MoM SA	JUL	1.10	-0.80	2.65
21-Aug	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	AUG	19.70	20.00	23.90
21-Aug	Conference Board US Leading Index MoM	JUL	0.30	0.60	0.30

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.0	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.9	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.3	5.9	5.8	5.5
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	3.00	3.50	3.75	4.00
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.31	1.29	1.36	1.36

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