

# US Weekly Flash

## Highlights

- **Durable goods orders increased 4.6% in December and 1.3% excluding transportation**
  - Since the collapse seen in the summer of 2012, falling as much as 13% in August, durable goods orders have maintained some consistency to finish up the year. New orders emerged strong for December, surprising to the upside as manufacturing and production seem to be picking up steam to keep up with the construction and auto industries. Rising by 4.6%, durable goods were driven mostly by much higher activity in the transportation sector. Posting the largest gain since September, transportation equipment orders increased 11.9% on an influx of defense aircraft orders, which jumped 56.4% (the largest gain in almost three years).
  - Excluding transportation, durable goods orders rose 1.3% on across-the-board gains from industries like machinery, prefabricated metal products, and almost all of the other components. Capital goods orders increased 14.4% following a very modest decline in November; however, nondefense orders excluding aircraft increased only 0.25%. On the bright side, this is the third consecutive month for gains for the component and reflects at least some positive momentum for business demand moving into 2013, despite hesitation related to the fiscal cliff
- **Real GDP shrank in 4Q12 by 0.1% as government spending declined by 6.6%**
  - The advanced report for real GDP growth in 4Q12 showed that the economy shrank in the last quarter leading up to 2013 as federal defense spending caused a significant drag on overall growth. Down by 0.1% on a QoQ seasonally-adjusted annualized rate (SAAR), the 6.6% decline in government spending, led by a 15% decline at the federal level, put significant downward pressure on 4Q12 GDP growth. National defense spending declined by 22.2% as the government scaled back expenditures in anticipation of the upcoming fiscal cliff sequester. Coupled with the downward pressure from the trade balance, these components were unable to offset gains in the areas that were less affected by the political sphere that occurred throughout the quarter. Exports fell quite dramatically, down 5.7% SAAR, plunging into negative territory for the first time since 1Q09. Global demand has faltered, despite the weak dollar, as U.S. trading partners' imports remain anemic.
  - Escaping from the government sphere, and you find that the numbers are relatively optimistic regarding consumer activity and the robust recovery in the housing market. Personal consumption for 4Q12 accelerated to 2.2% SAAR, continuing the ongoing upward trend from 2009, driven primarily by durable goods. The vehicles and parts cohort was the driver in goods growth up 6.1% QoQ, as the rest of the categories struggled to increase by more than 3.0% from the previous quarter.
- **Payrolls grew in January, boosting employment as 2012 revision emerged to the upside**
  - Starting the year off with a strong clap, the economy added 157K nonfarm payroll jobs in January, with 166K in the private sector. Hiring in retail, education, construction, and professional and business services increased by at least 25K jobs in each case, leading the nonfarm figures. Overall, the survey shows that, despite pundits' assertions that the fiscal cliff situation might continue to drag down employment opportunities into 2013, revisions and January's employment gains stand to oppose the negative sentiment and provide some optimism for the fragile employment market.
  - The gem in the report issued today were the revisions to a slew of data from 2012. First were the revisions to the final two months of 2012: November's gains were revised upward from 161K to 247K while December increased from 155K to 196K, in turn adding 127K to the two months leading up to 2013. Ultimately, January has emerged as an important month for the employment situation as dramatic revisions and steadfast payroll growth have calmed some of those who were more vocally pessimistic and downplaying the fiscal cliff's impact on payroll growth. The gains are on track with the Fed's requirements for gradual improvements in the labor market, even with the upward pressure on the unemployment rate from a larger labor force.

# Week Ahead

## ISM Non-Manufacturing Index (January, Tuesday 8:30 ET)

Forecast:55.9	Consensus: 55.0	Previous: 55.7
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After accelerating to 55.7 in December to finish 2012 off on a strong note, the ISM Non-Manufacturing Index is expected to increase again in January. Now that businesses have a better grasp of their financial situation, in terms of taxes, we have seen a slight uptick in activity coming into January as the housing market continues to pull up construction spending and trade has been recovering slightly. However, consumer confidence indicators for the month suggest a modest downturn in personal spending plans for the coming months, most likely reflecting the new year's hit to disposable income. Still, the overall sentiment is that retail and communications, along with the rebound in construction, should continue to push the services index higher as the economy as a whole begins firing on more cylinders.

## Consumer Credit (December, Thursday 15:00 ET)

Forecast: \$16.8B	Consensus: \$14.5B	Previous: \$16.0B
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Continuing its upward trend, we expect consumer credit to show moderate gains in December as students reluctantly fuel the nonrevolving credit facet with student loans. As the largest and most watched form of credit currently pushing the total figure in the report higher each month, it is unlikely we will see a decline due to the nature of student loans and their frequency. Coupled with the accelerated growth in auto sales in December, we can expect strong growth of auto loans to also help drive nonrevolving credit for the last month of 2012. However, in the revolving category we expect a slight decline in growth despite it being the final month for holiday spending. Prevailing winds of political uncertainty that became clear in December have dampened some borrowing activity across the board indicated by a deceleration in retail sales activity.

## International Trade (December, Friday 8:30 ET)

Forecast: \$-47.8B	Consensus: \$-46.0B	Previous: \$-48.7B
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Following November's significant increase in the trade deficit, we expect the balance to improve only slightly in December, remaining much higher than levels seen between June and October. Considering that the end of 4Q12 was not teeming with optimistic data about global demand, both imports and exports likely took a hit during the month, though with a definite chance for growth in 2013. As China and the U.S.'s other large trade partners continue to recover, we expect exports to increase at a modest pace; it is unlikely that exports will have enough demand to significantly reduce the deficit in the coming report. Parallel to the export side is imports which have seen a rise as consumers in the U.S. were focused on holiday spending. However, it is unlikely that imports will increase much after the large gain seen in November. With little influence from export and import prices for December, it is likely that the two components mostly offset each other to result in only a slight narrowing of the trade deficit.

## Wholesale Inventories (December, Friday 10:00 ET)

Forecast: 0.4%	Consensus: 0.4%	Previous:0.6%
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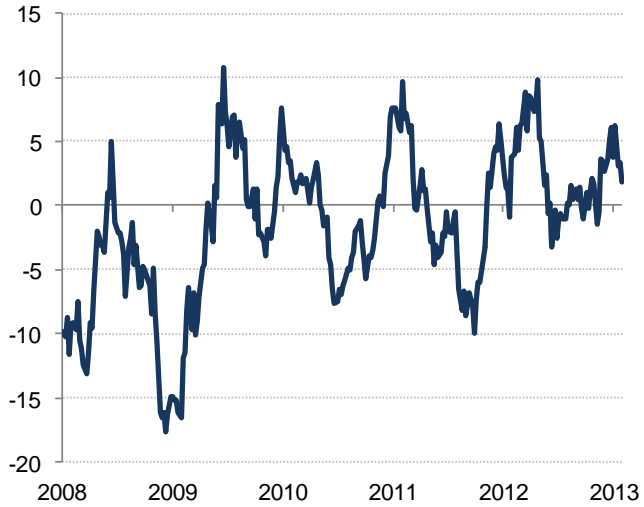
Wholesale inventories are expected to remain low as vendors work down their inventories throughout the holiday season after a strong November sales figure. Although the retail sector saw only moderate growth in December, the lower-cost wholesale market should see moderate growth in sales especially as the cost conscious consumer was fearful of a rise in taxes come the new year. As for inventories, strong vehicle sales and durable goods sales in December likely whittled down inventories further while the sale of nondurable goods also showed some strength, further depressing inventories at year end. Overall, we expect the wholesale market to show improvement in December with growth in sales and a subsequent decline in inventories.

## Market Impact:

Last week's economic ensemble had a slew of data for the market to digest and was a surge for the end of January, but this week should be less impactful. International trade and consumer credit are the two indicators to watch for as windows into the global economic enigma and student loans growth. The ISM Non-Manufacturing Index will also shed some light on the services sector and consumer goods production. Outside of a handful of smaller indicators, it is unlikely that much on the economic calendar will surprise the market, save some talk from pundits about the political situation. With the first date for the fiscal situation still almost a month away, the market will breathe a sigh of relief for a week with, hopefully, no market bending information from Washington.

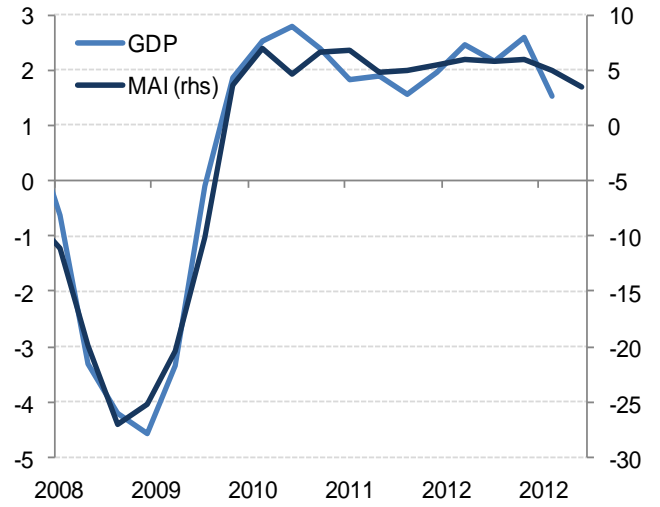
# Economic Trends

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



Source: BBVA Research

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



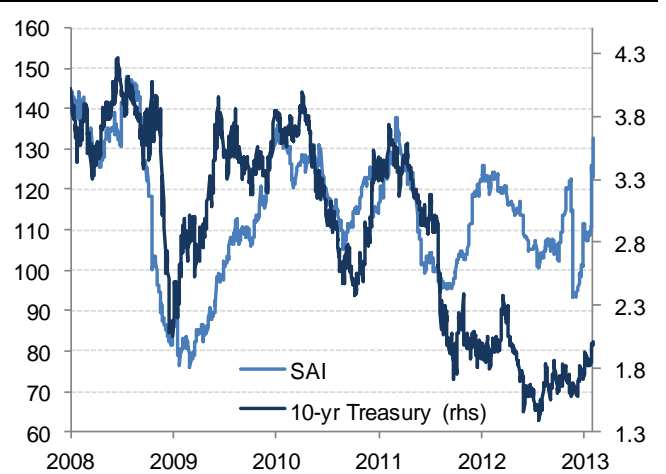
Source: BBVA Research & BEA

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



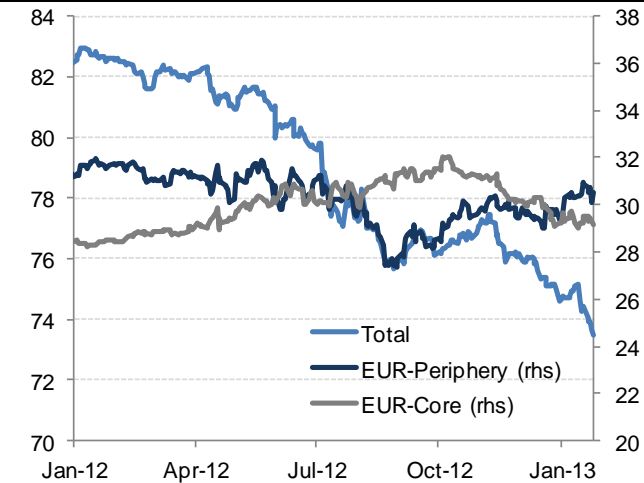
Source: BBVA Research

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



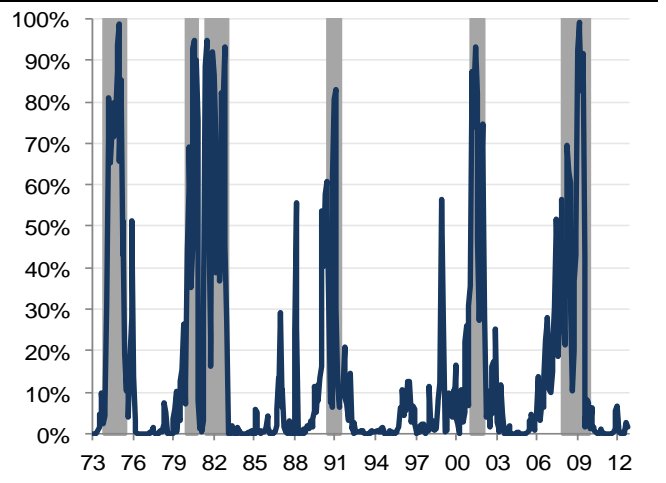
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

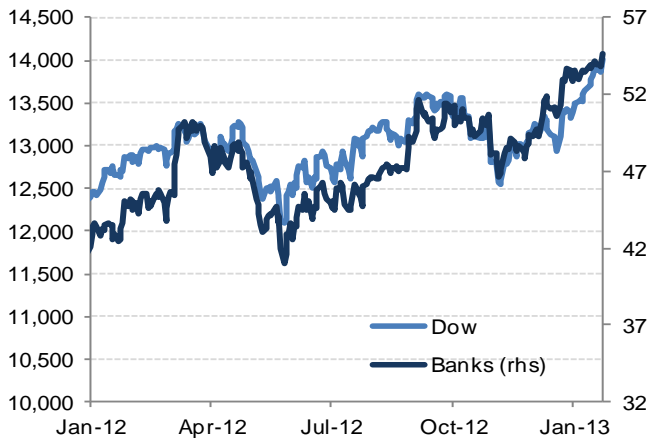
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

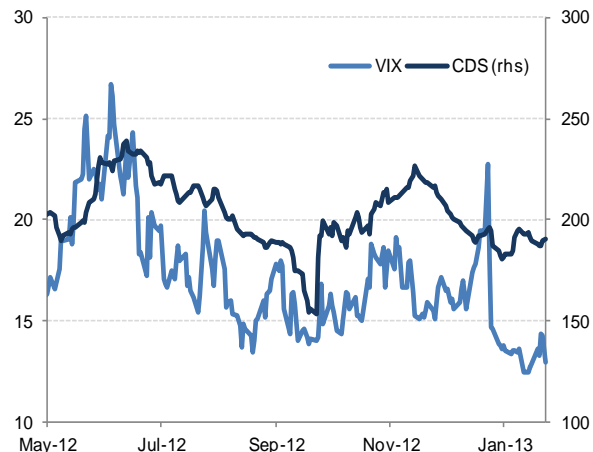
# Financial Markets

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



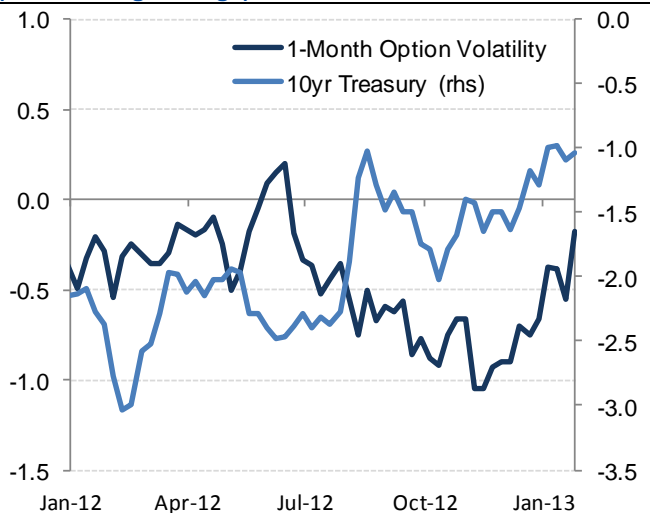
Source: Bloomberg & BBVA Research

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



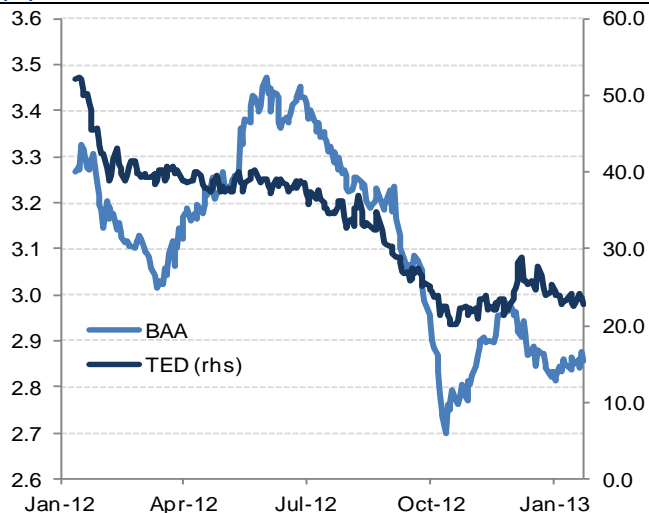
Source: Bloomberg & BBVA Research

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



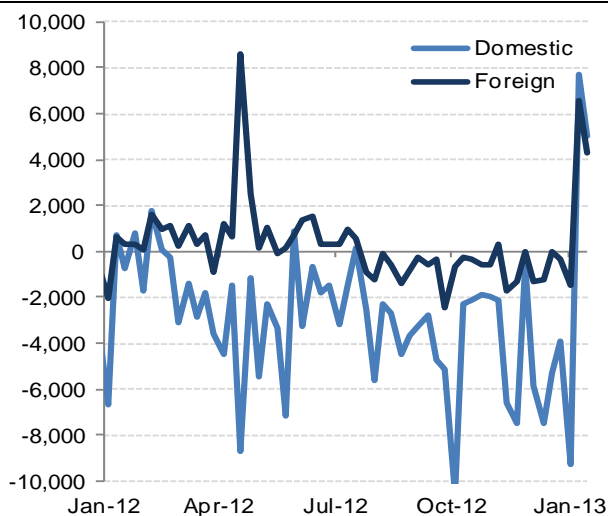
Source: Haver Analytics & BBVA Research

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



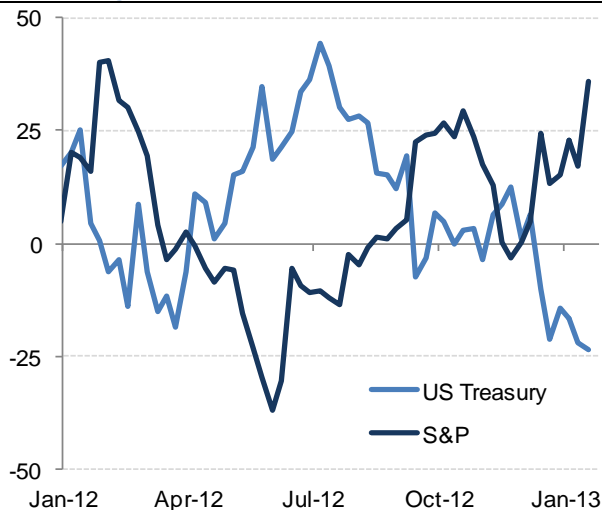
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

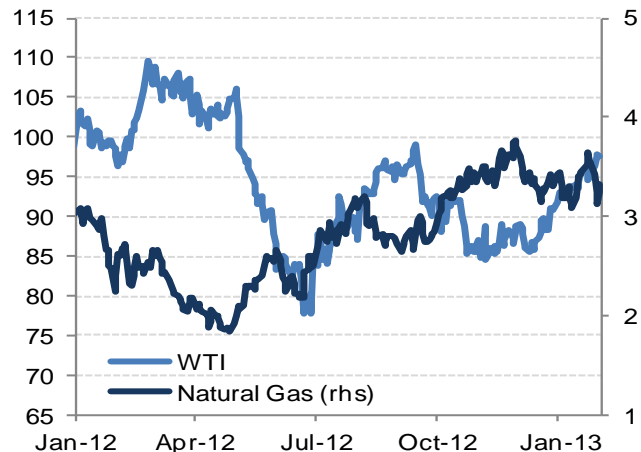
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

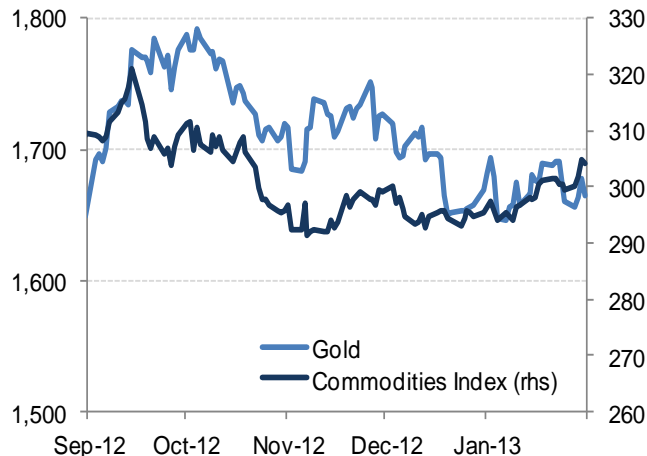
# Financial Markets

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



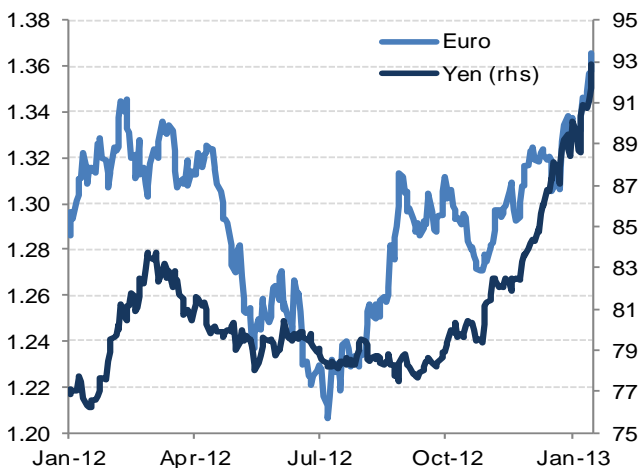
Source: Bloomberg & BBVA Research

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



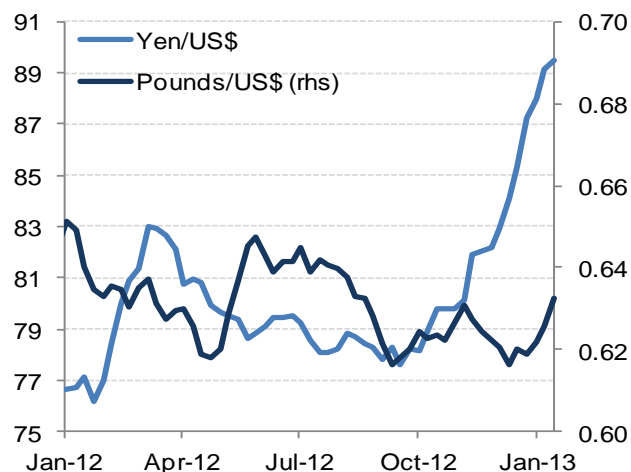
Source: Haver Analytics & BBVA Research

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



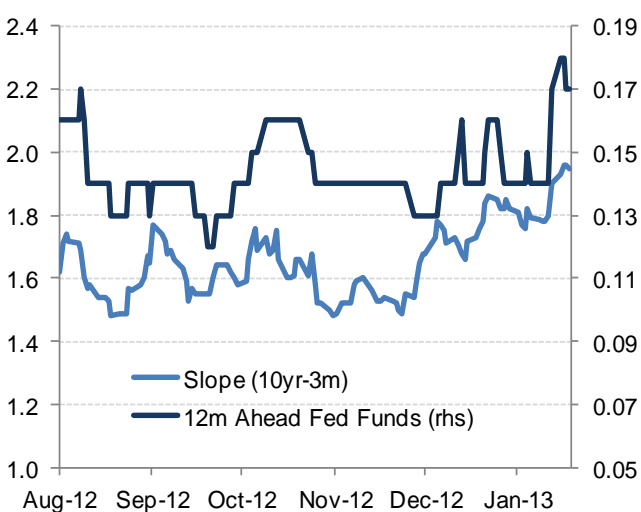
Source: Bloomberg & BBVA Research

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



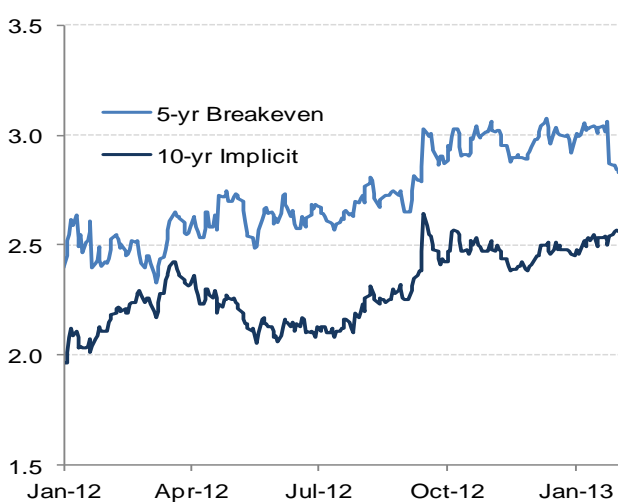
Source: Haver Analytics & BBVA Research

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)	14.46	14.46	13.98	14.10
New Auto (36-months)	2.51	2.59	2.76	3.92
Heloc Loan 30K	5.37	5.36	5.42	5.54
5/1 ARM*	2.70	2.67	2.71	2.80
15-year Fixed Mortgage*	2.81	2.71	2.64	3.14
30-year Fixed Mortgage*	3.53	3.42	3.34	3.87
Money Market	0.50	0.50	0.51	0.47
2-year CD	0.77	0.79	0.83	0.75

\*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	0.14	0.16	0.11
3M Libor	0.30	0.30	0.45	0.53
6M Libor	0.47	0.48	0.65	0.77
12M Libor	0.78	0.81	0.98	1.09
2yr Sw ap	0.43	0.43	0.40	0.50
5yr Sw ap	1.05	1.00	0.92	1.04
10Yr Sw ap	2.12	2.01	1.94	2.02
30yr Sw ap	3.07	2.96	2.88	2.81
30day CP	0.16	0.16	0.17	0.39
60day CP	0.18	0.17	0.20	0.47
90day CP	0.20	0.18	0.20	0.53

Source: Bloomberg & BBVA Research

## Quote of the Week

Introduction to the Global Agenda Outlook 2013  
World Economic Forum  
January 2013

*“One theme that recurs more than any others is the need for clean, dynamic leadership in a fast changing world. Given that most of today’s leaders- political, business, academic and society- grew up in vastly different world from today’s, it is perhaps no surprise that leadership remains the biggest challenge of all for 2013 and beyond.”*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
4-Feb	ISM New York	JAN	53.9	-	54.3
4-Feb	Factory Orders (MoM)	DEC	2.0%	2.2%	0.0%
5-Feb	ISM Non-Manufacturing Index	JAN	55.9	55.0	55.7
7-Feb	Initial Jobless Claims	4-Feb	343K	360K	368K
7-Feb	Continued Claims	27-Jan	3190K	3187K	3197K
7-Feb	Nonfarm Productivity	4Q P	-0.3%	-1.0%	2.9%
7-Feb	Unit Labor Costs	4Q P	1.5%	2.9%	-1.9%
7-Feb	Consumer Credit	DEC	\$16.8B	\$14.5B	\$16.0B
8-Feb	International Trade	DEC	-\$47.8B	-\$46.0B	-\$48.7B
8-Feb	Wholesale Inventories	DEC	0.4%	0.4%	0.6%

## Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	<b>1.8</b>	<b>2.2</b>	1.8	2.3	2.5
CPI (YoY %)	<b>3.1</b>	<b>2.1</b>	2.1	2.2	2.3
CPI Core (YoY %)	<b>1.7</b>	<b>2.1</b>	1.9	2.0	2.1
Unemployment Rate (%)	<b>8.9</b>	<b>8.1</b>	7.8	7.2	6.7
Fed Target Rate (eop, %)	<b>0.25</b>	<b>0.25</b>	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	<b>1.98</b>	<b>1.72</b>	2.35	2.80	3.37
US Dollar/ Euro (eop)	<b>1.32</b>	<b>1.31</b>	1.32	1.32	1.36

Note: Bold numbers reflect actual data



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