US Weekly Flash

Highlights

- **Headline inflation declines as energy prices soften in March**
  - Down 0.2%, the headline consumer price index (CPI) fell as energy prices reversed from the February surge as petroleum supplies normalized. The energy component to CPI fell 2.6%, its largest decline since November, putting strong downward pressure on the overall CPI figure. Gas prices dropped 4.4% following an extreme 9.1% jump in February. Electricity prices also declined sharply, falling 0.6% for its first decline since last July, pulling the headline figure downward further in terms of the energy index. Food prices remained flat for the month.
  - Core prices remained stable for March, rising 0.1% to continue the decline in pace over the past couple of months after January's 0.3% rise. The modest rise was tempered, however, by a prolific decline in the price of apparel which fell 1.0% from February. The price of used vehicles helped balance the decline in prices from apparel, rising by 1.2% as inventories declined slightly. A 1.9% YoY core inflation rate remains soft and in line with the Fed's target as economic indicators remain supportive of their policy action.
- **Housing starts surge to highest level since June 2008 as permits decline**
  - Housing starts and building permits for March tell a mixed story but the overall sentiment seems to be positive. Housing starts rose to their highest level in almost four years at 1.036M units as multifamily structures surged 31%, suggesting an influx of rental properties on the horizon. Single family starts continue to fumble as tight credit and rising costs are limiting construction for a sizeable amount of the smaller companies. On a YoY basis housing starts continue to impress, up 46.7% in March signifying that growth in the housing market will continue into the year as supply remains low. The South and Midwest continue to growth at a quick pace while the Northeast has stumbled, down for two of the past three months. The West, which arguably saw the worst of the property boom, and subsequent bust, is nonetheless showing a strong upward trend growing at a YoY rate of 53.7%.
  - Building permits fell in March however, down 3.9% over February as multifamily permit issuance declined by nearly 10%, its largest monthly decline since October. This could be a negative signal for housing starts in the near future as permits are a leading indicator, though we continue to expect that housing activity will remain supportive of a stronger recovery as we move through 2013
- **Industrial production rose on weather related demand from utilities production**
  - Industrial production was impacted heavily by the colder weather across the nation in March. Rising 0.4%, the increase in production was not heavily focused in the manufacturing sector as would normally be the case, but in utilities instead. The colder weather prompted a 5.3% monthly surge in utilities production and usage as natural gas was required for heating purposes. The energy component of nondurables grew by 4.8%, its largest monthly rise since May of last year. Production rose in both the durable and non-durable components as production of final products continued to rise for the past three months. Automotive continues to be the driver of durable consumer goods due to high demand from both the foreign and domestic markets. Business equipment rose slightly as the transit equipment component pulled the index upward
  - Manufacturing showed signs of decline as durable goods declined and non-durables remained flat. Primary metal manufacturing declined the most in the durable goods category while, mimicking the production figures, automotive vehicle and parts rose for the third straight month. In non-durables, apparel decline significantly while the remaining components were mixed and resulted in no change for the nondurable goods manufacturing component as a whole. Capacity utilization grew slightly although the rise is less pronounced after February's figure was revised downward to 78.3% from 79.6%. Overall, industrial production does point toward some growth in output although with weather related impacts the core production and manufacturing components are showing some softness as demand fluctuates.

Week Ahead

Existing Home Sales (March, Monday 10:00 ET)

Forecast: 5.00M	Consensus: 5.00M	Previous: 4.98M

Continuing its upward trend, we expect existing home sales to rise in March for the fourth month in a row. Although we expect the trend to continue as more homes are scooped up by prospective home owners vying for a piece of the rising market, the unexpected weather may have dampened some sales across the colder parts of the country. While it is difficult to gauge inclement weathers' impact on housing, the effort required for moving is affected by weather conditions as we can deduce from the slower sales in colder months in the past. However, we do still expect to see a slight increase in the number of homes sold as buyers seek out comparably cheaper housing and sellers look to capitalize on the recent surge in home prices. In reference to prices, we also expect the affordability index to continue its decline as home prices continue to rise at an accelerated pace due to falling inventory.

New Home Sales (March, Tuesday 10:00 ET)

Forecast: 422K	Consensus: 418K	Previous: 411K

As continually low interest rates fuel demand for new homes and rising prices encourage construction, the number of new homes sold for March is expected to rise. Housing starts have been steadily rising over the past year as companies continue to try keep up with demand while supply remains low, ultimately boosting the number of homes on the market. New home inventories actually increased slightly in February from 4.2 to 4.4 months, suggesting that more homes will be available for purchase in March and with the current pace of demand that should lead to some growth in sales. On the downside, the homebuilder's confidence index dropped a few points in March, largely on account of constrained credit conditions pulling down present sales. However, for the time being, new home sales should continue to rise at a subdued pace as supply struggles to meet demand.

GDP, Advance (1Q13, Friday 8:30 ET)

Forecast: 2.4%	Consensus: 3.0%	Previous: 0.4%

The advanced GDP figure for 1Q13 is expected to outstrip the slower end to 2012 as the general trend upward has continued for production and spending. Real personal consumption expenditures emerged slightly better than anticipated in the first two months of the quarter, on par with average growth seen in November and December. However, we expect that real spending will be relatively weak in March, even with subdued inflation pressures, as the latest retail sales data suggest a slowdown. In fact, retail sales have fallen to a QoQ rate of just under 1.0% in 1Q13 compared to nearly 1.5% in 4Q12. Thus, we do not expect to see personal consumption accelerate much higher than in the fourth quarter of 2012. Other contributors to growth, such as international trade are not expected to fare much better in 1Q13 as global demand has slowed and exports weakened at the beginning of the year. The largest drag on GDP will be government spending given the sequester and concurrent spending cuts which will continue to have a heavy impact on 1Q13 GDP growth

Consumer Sentiment (April, Friday 9:55 ET)

Forecast: 71.5	Consensus: 73.5	Previous: 72.3

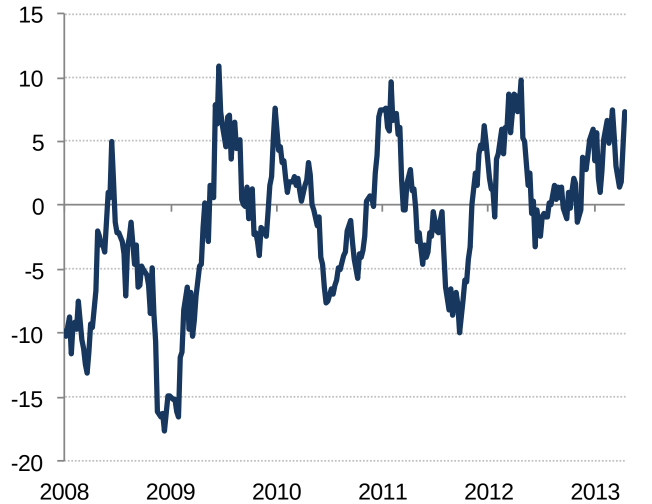
The latest consumer related data and the recent pullback in equities point toward a decline in consumer sentiment for the end of April. As equity markets continued to rise into the middle of March, the University of Michigan's consumer sentiment index was expected to rise along with this upward trend. However, given the recent downward shift in both major U.S. equity indices, coupled with the national security threats, it is very unlikely that consumer sentiment will rally higher than its original estimate at the beginning of the month. Similarly, in the middle of month, gold began its decline which remains worrisome given how many portfolios hold the commodity and its tie to the economy's health and perceived stability. Despite the recent declines in oil prices providing some relief to consumers, we are beginning to see a lagged impact on spending from the increase in the payroll tax that hit in January. Ultimately, we don't expect that the consumer outlook on current conditions has improved much since mid-month.

Market Impact

Markets this week will be focused mostly on the first estimate for 1Q13 GDP, which should be somewhat encouraging, at least compared to the 4Q12 figure. In other news, housing data could be a market mover if consensus expectations for slowing activity are confirmed. In general, though, it should be a relatively quiet week for markets leading up to the influx of data during the last week of the month. With corporate earnings continuing to come back mixed and even some surprising to the downside, a healthy mixture of macro and equity data will help wrap up 1Q13 and propel us into the next quarter.

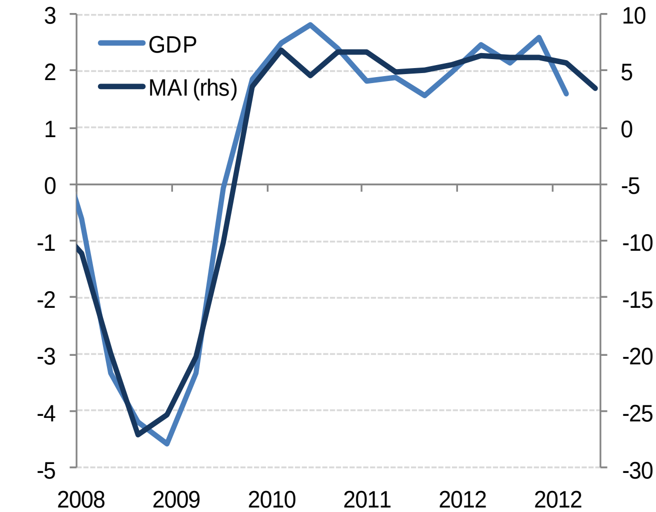
Economic Trends

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



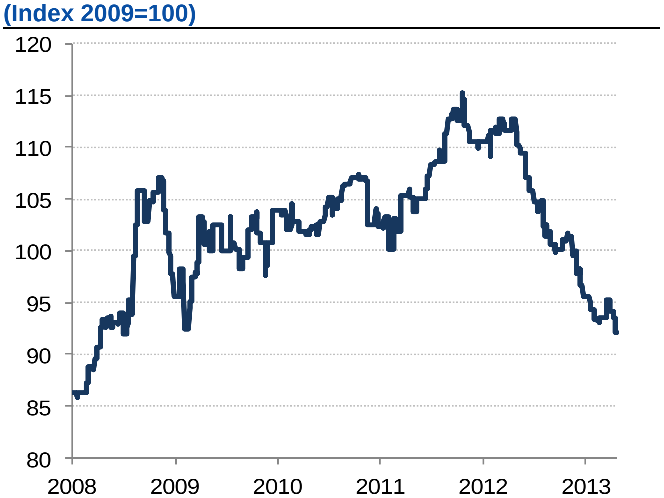
Source: BBVA Research

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



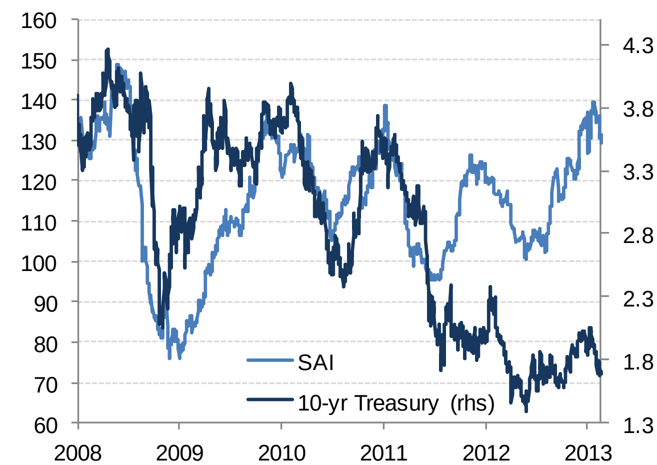
Source: BBVA Research & BEA

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



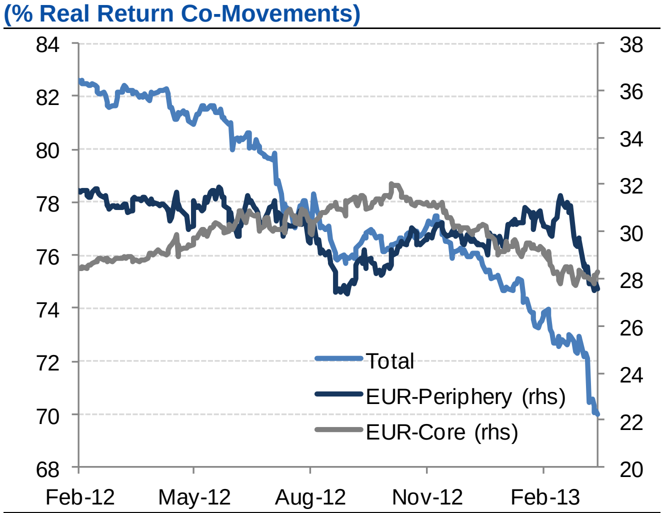
Source: BBVA Research

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



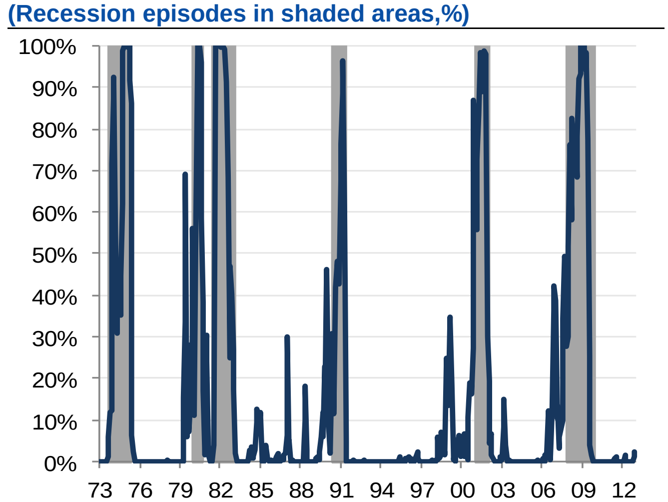
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

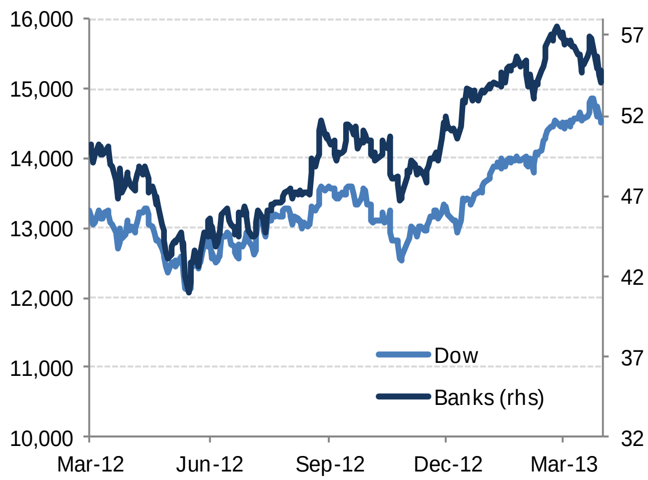
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas,%)



Source: BBVA Research

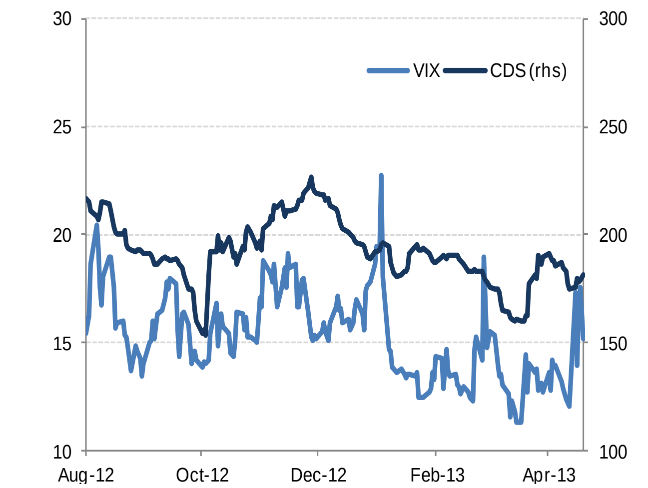
Financial Markets

Graph 9
Stocks
(Index, KBW)



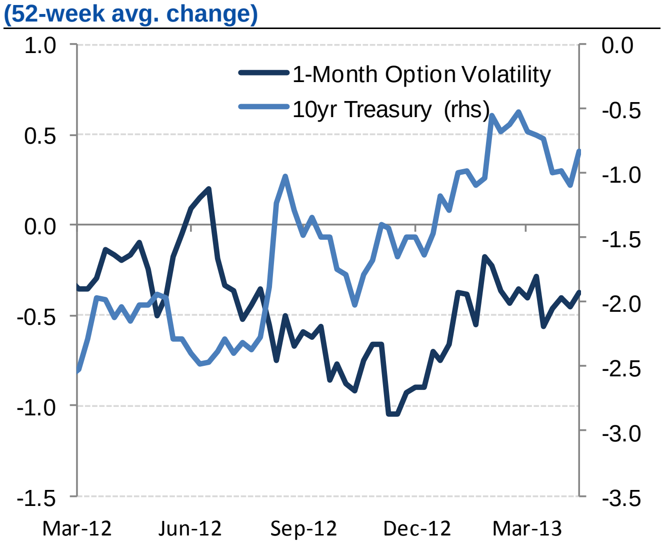
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



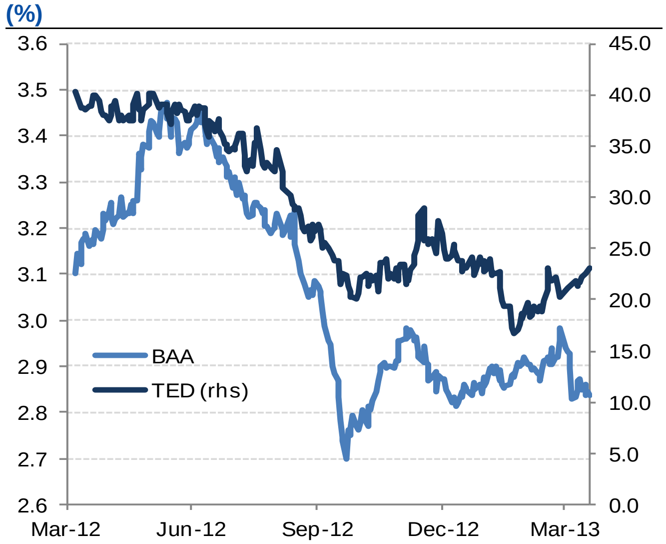
Source: Bloomberg & BBVA Research

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



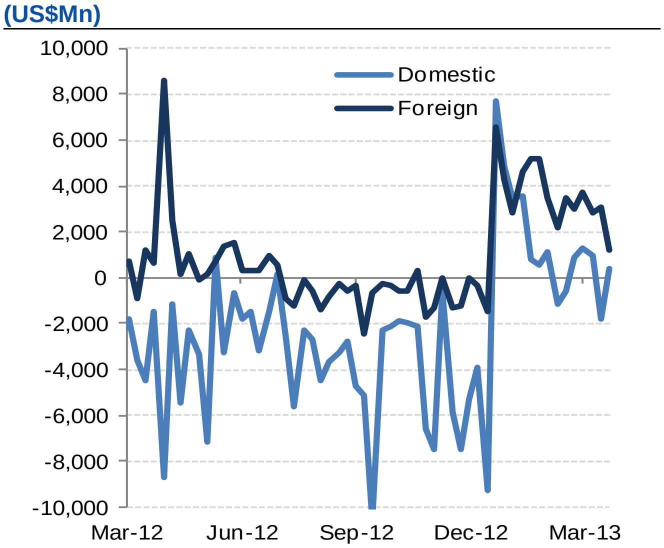
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



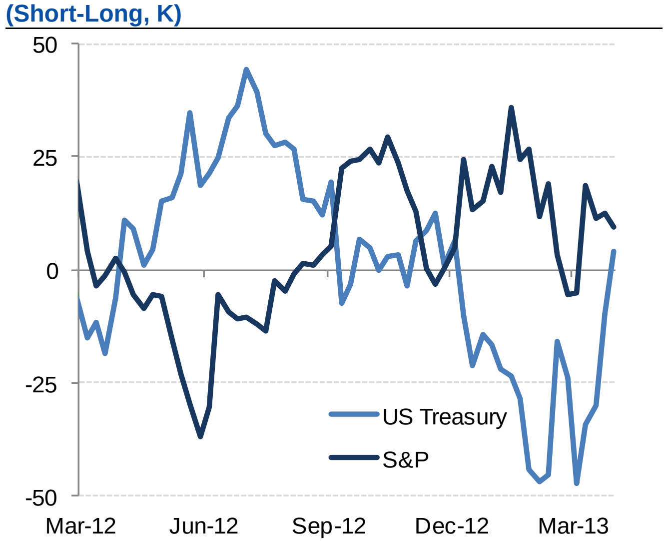
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

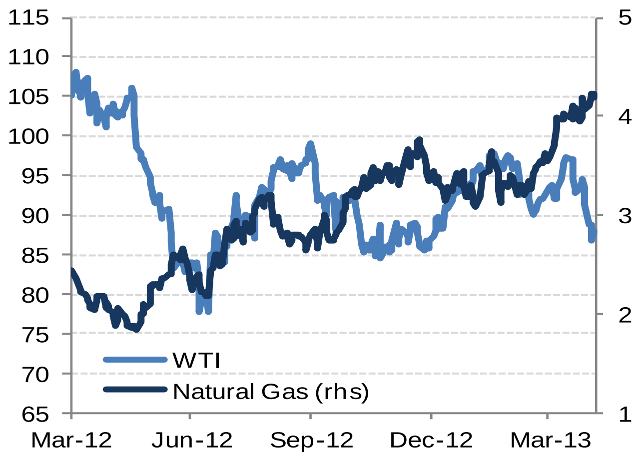
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

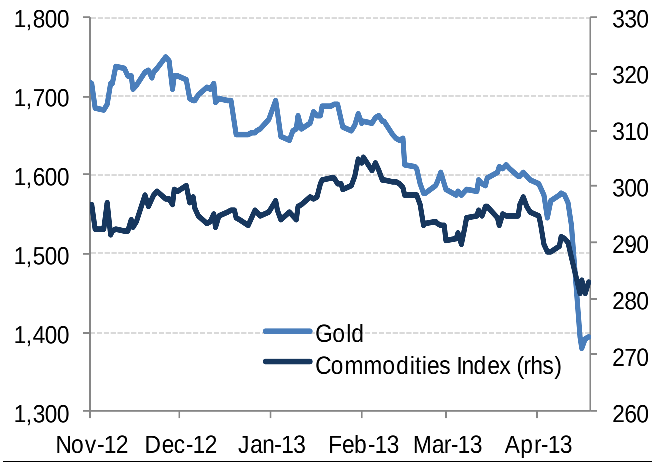
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



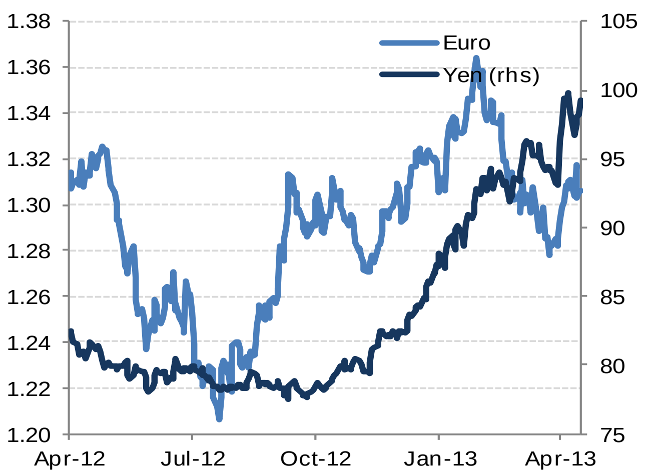
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



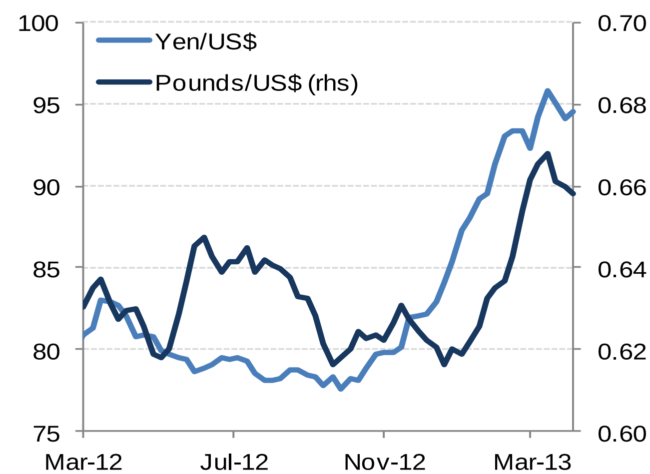
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



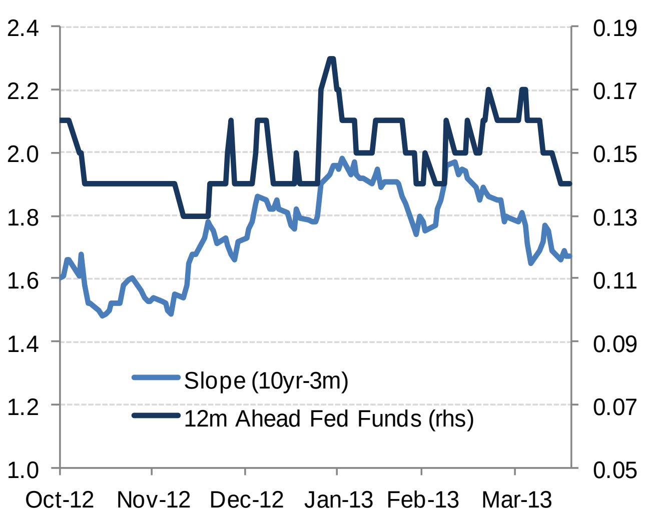
Source: Bloomberg & BBVA Research

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



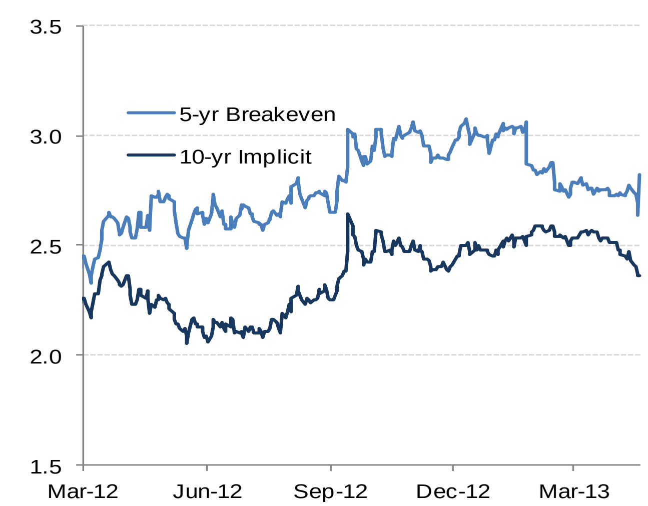
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.50	14.10
New Auto (36-months)	2.45	2.56	2.56	3.16
Heloc Loan 30K	5.24	5.25	5.24	5.46
5/1 ARM*	2.60	2.68	2.61	2.90
15-year Fixed Mortgage *	2.64	2.76	2.79	3.23
30-year Fixed Mortgage *	3.41	3.57	3.63	3.99
Money Market	0.47	0.47	0.48	0.73
2-year CD	0.66	0.67	0.70	0.90

*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	0.15	0.15	0.12
3M Libor	0.28	0.28	0.45	0.47
6M Libor	0.43	0.44	0.65	0.00
12M Libor	0.72	0.72	0.98	1.05
2yr Swap	0.37	0.37	0.43	0.57
5yr Swap	0.87	0.87	0.99	1.14
10Yr Swap	1.87	1.89	2.06	2.08
30yr Swap	2.80	2.86	3.02	2.83
30day CP	0.15	0.15	0.16	0.27
60day CP	0.16	0.16	0.17	0.35
90day CP	0.18	0.20	0.16	0.44

Source: Bloomberg & BBVA Research

Quote of the Week

Vice Chair of the FRB Janet Yellen
"Rethinking Macro Policy II" Conference, Washington D.C.
16 April 2013

"I don't see pervasive evidence of rapid credit growth, a marked buildup in leverage, or significant asset bubbles that would threaten financial stability."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
22-Apr	Existing Home Sales	MAR	5.00M	5.00M	4.98M
23-Apr	New Home Sales	MAR	422K	418K	411K
24-Apr	Durable Good Orders	MAR	-2.5%	-3.0%	5.7%
24-Apr	Durable Goods Ex. Transportation	MAR	0.4%	0.6%	-0.5%
25-Apr	Initial Jobless Claims	19-Apr	347K	354K	352K
25-Apr	Continued Claims	13-Apr	3060K	3060K	3068K
26-Apr	GDP QoQ Annualized	1Q13	2.4%	3.0%	0.4%
26-Apr	Personal Consumption	1Q13	2.0%	2.8%	1.8%
26-Apr	GDP Price Index	1Q13	1.1%	1.4%	1.0%
26-Apr	Consumer Sentiment	APR-F	71.5	73.5	72.3

Forecasts

	2011	2012	2013	2014	2015
Real GDP (% SAAR)	**1.8**	**2.2**	1.8	2.3	2.5
CPI (YoY %)	**3.1**	**2.1**	2.1	2.2	2.3
CPI Core (YoY %)	**1.7**	**2.1**	1.9	2.0	2.1
Unemployment Rate (%)	**8.9**	**8.1**	7.6	7.0	6.5
Fed Target Rate (eop, %)	**0.25**	**0.25**	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	**1.98**	**1.72**	2.45	2.73	3.39
US Dollar/ Euro (eop)	**1.32**	**1.31**	1.32	1.30	1.35

Note: Bold numbers reflect actual data

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