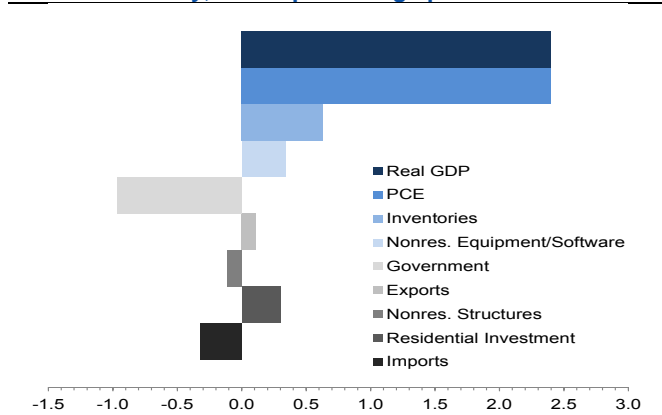


US Weekly Flash

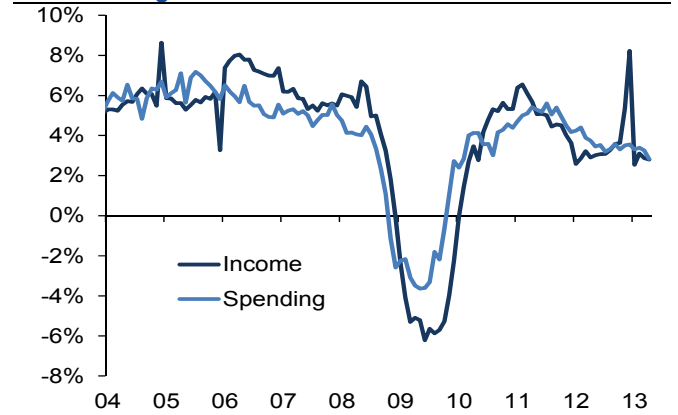
Highlights

- Lower Inventory Growth Offsets Gains in Consumption as GDP is revised downward**
 - The preliminary estimate for 1Q13 real GDP growth was revised down slightly as continuing headwinds put downward pressure on the recovering private sector. Slowing from 2.5% to 2.4% QoQ SAAR, the quarter's revisions showed a similar situation to what was expected when the first estimate was released. Inventories bore the brunt of the slowdown in this second revision having posted a large gain in the first estimate. Gross private domestic investment decelerated 3.3pp to 9%, led by non-residential structures which rose less than previously estimated. Government consumption and investment continues to exert added weight on GDP growth as total government spending was revised downward 0.8pp. Exports were revised downward but net exports actually shifted upward slightly given the larger than expect drop in import growth
 - As per usual it was personal consumption which managed to remain fervently positive despite the headwinds posed by the government's self-inflicted spending curtailment and lower private investment. Personal consumption was revised upward as the consumer continues to be the driving force in the economy. Up 0.2pp to 3.4% QoQ SAAR, the increase from the first estimate was primarily in nondurable goods which rose by a full 1.2pp to 2.2%, a significant increase and an positive signal that, despite the sequester and sluggish global growth, the U.S. consumer remains resilient and hungry for economic growth.
- Personal income and spending lose steam as consumer activity wanes slightly**
 - Personal income in April showed no signs of an increase as the figure was unchanged on a MoM basis after a 0.3% rise the month prior. The wages and salaries component was also unchanged while supplements to wages and salaries rose by 0.1% due to a slight rise in employer contributions to pension and insurance funds. Additionally, income from receipts on assets rose 0.7% which is quite muted but much better than the decline in March. This is in line with our expectations for subdued wage growth in the coming quarters.
 - Personal spending was more disappointing, down 0.2% as consumers took their foot off of the gas for the month, evidenced as well by weaker retail sales. The bulk of the decline was focused on goods and in particular non-durable goods which declined 1.2% in April. While consumer spending has been a significant driver in economic growth over the past quarters, there is some concern that a slowdown is imminent given the weaker pace of consumer activity over the past two months. Nevertheless, with lower energy prices and summer months ahead, we do not expect this decline to persist into the 2H13. Turning to inflation, the situation still favors the Fed's quantitative easing policy but with a YoY headline rate of 0.7% the notion of deflationary pressures will probably become a topic of conversation for the coming meetings.

Graph 1
Contributions to Real GDP growth
1Q13 Preliminary, SAAR percentage points



Graph 2
Personal Income and Expenditures
YoY % Change



Week Ahead

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

Forecast: 50.2

Consensus: 50.5

Previous: 50.7

The ISM Manufacturing index for May is expected to rest near the 50 mark again as few signs point toward a recovery in the sector. Similar to last year's trend, the industry began the year on a strong heading but lost steam into the second quarter. This has been evidenced already as the index fell in April to 50.7, 3.5 points below 2013's high reached in February. Recent Federal Reserve surveys do little to impart much optimism in the industry as most show a neutral or declining trajectory. The Texas manufacturing survey's general business activity index recovered slightly but remains in negative territory in May at -2.2. The New York Fed's survey also showed declines in both new orders and shipments. Another heavily followed index, the Philly Fed survey, plunged in May, falling to -5.2 as new orders and shipments put strong downward pressure on the current outlook for businesses. Overall, the situation is much in line with the 2Q13 swoon that pundits pointed to as a headwind for the sectors growth 2013. However, given the resilience of certain aspects within the manufacturing survey such as energy and construction, the ISM manufacturing index is unlikely to fall below the 50 mark in May.

International Trade (April, Tuesday 10:00 ET)

Forecast: \$-40.5B

Consensus: \$-41.0B

Previous: \$-38.8B

The international trade balance is expected to worsen for the first time in three months as global demand shows some signs of weakening and currency depreciation may result in an increase in imports. Energy remains a key factor for the U.S. in terms of influencing the trade balance on a month-to-month basis. According to the March report, exports of oil and gas were up 51.7% YoY with double digit gains throughout the past two quarters. We continue to expect this trend to rise as the U.S. turns to cheaper natural gas as an alternative to imported commodities. While exports of energy are helping to boost demand for U.S. commodities, the overall the appetite for U.S. goods has been decelerating over the past quarter and is not expected to increase in 2Q13 unless the global economy mounts a recovery in the short term. In terms of imports, we have seen a similar deceleration or stabilization of domestic demand over the past few months as the U.S. turns inward for large ticket items like vehicles and larger capital. Also, given the depreciation of the Yen since the implementation of Japanese quantitative easing, there is upside potential for U.S. imports from Japan to increase, at least temporarily as it is one of our largest trading partners. Overall however, we do not expect the trade balance to deteriorate any further than its level at the beginning of the year and we remain optimistic with regard to a 2H13 rise in global demand for U.S. goods.

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

Forecast: 176K, 7.5%

Consensus: 168K, 7.5%

Previous: 176K, 7.5%

Continuing to recover from its slight deceleration in March, we expect nonfarm payrolls to rise as overall economic conditions continue to improve, albeit at a leisurely rate. Initial jobless and continued claims have fallen at a quicker pace since April, hinting at better employment conditions throughout the economy in May. However, given the weakening manufacturing sector and feeble retail sales growth, there is little evidence to support payroll growth surpassing April's 165K by an exorbitant amount. Despite some of the difficulties plaguing the construction market, we continue to expect the industry to grow in terms of employment as spring housing activity blooms and easing credit standards promote housing starts. In general, we expect that payroll growth will remain comparatively weaker than the 200K mark per month, recovering in 2H13 as our forecasts point toward a pickup in manufacturing and consumer activity.

Consumer Credit (April, Friday 8:30 ET)

Forecast: \$13.8B

Consensus: \$13.4B

Previous: \$7.9B

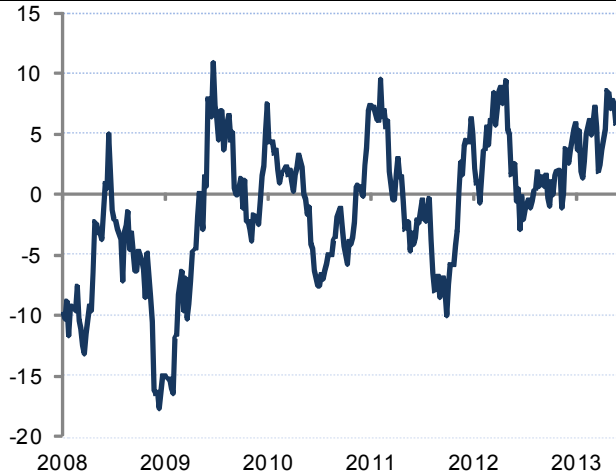
The decline in revolving credit continues its downward movement from last month, reflective of a more cautious the consumer as soft employment data and retail sales do not bode well for consumption trends. As for non-revolving credit, the weaker pace in March may be indicative of slower auto demand but student loans will continue to dominate the expansion of total outstanding consumer credit. Given recent data on consumer spending from March however, there is potential downside for April in terms of credit growth as the consumer seems to be less confident in spending outside of their means. With auto sales slowing somewhat in April, it is likely that overall credit figure will be driven by student loans with significant drag from revolving credit.

Market Impact

Next week holds a few broad indicators that are likely to continue to show the overall slowdown in the manufacturing sector and weaker global demand in terms of trade. However, the expected rise in nonfarm payrolls should impart some optimism to the consumer and with confidence on the rise according to various surveys, the situation should improve after a disappointing read on April consumer spending.

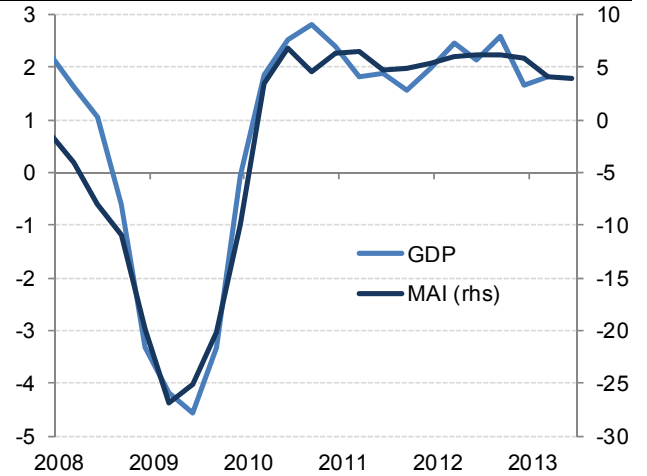
Economic Trends

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



Source: BBVA Research

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



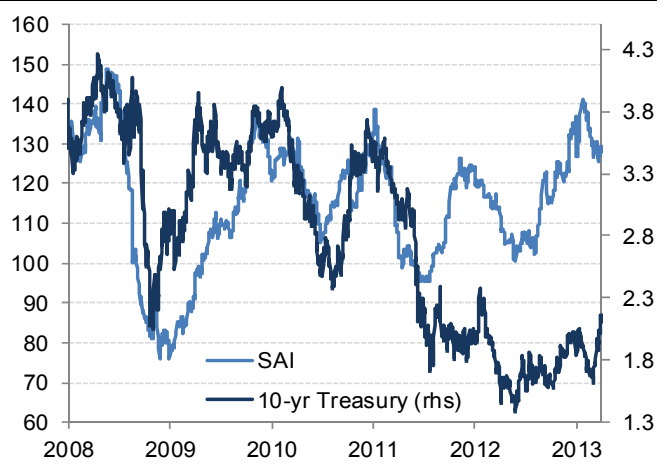
Source: BBVA Research & BEA

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



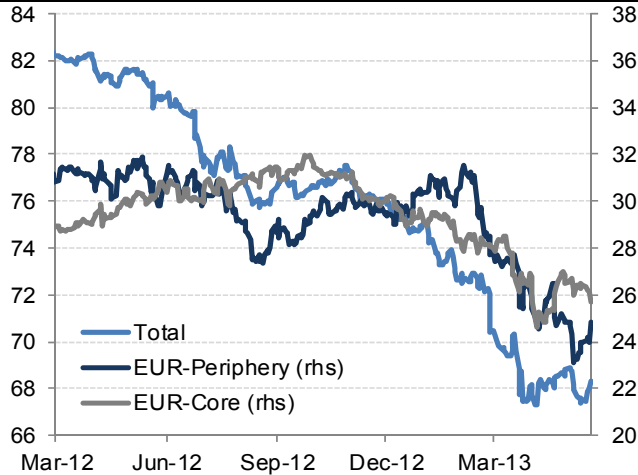
Source: BBVA Research

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



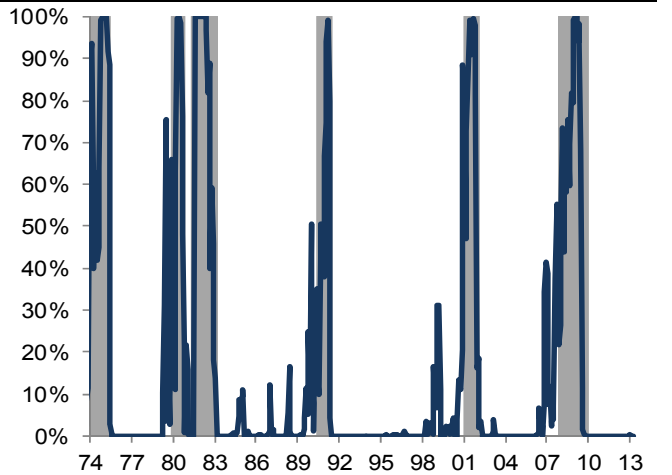
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

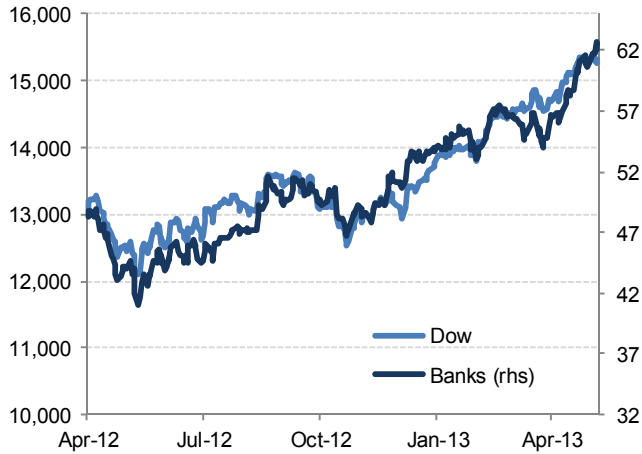
Graph 8
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

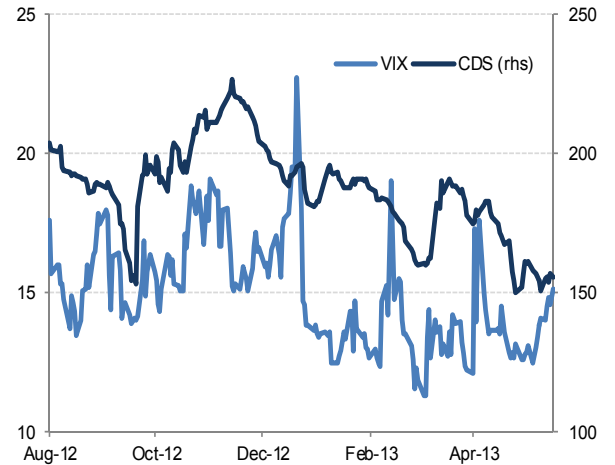
Financial Markets

Graph 9
Stocks
(Index, KBW)



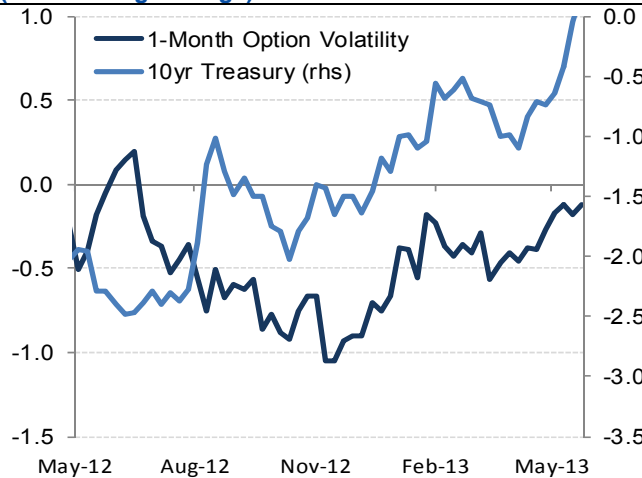
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



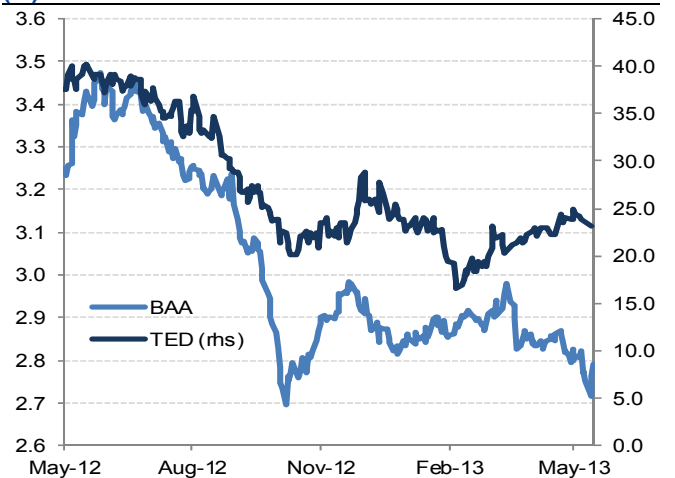
Source: Bloomberg & BBVA Research

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



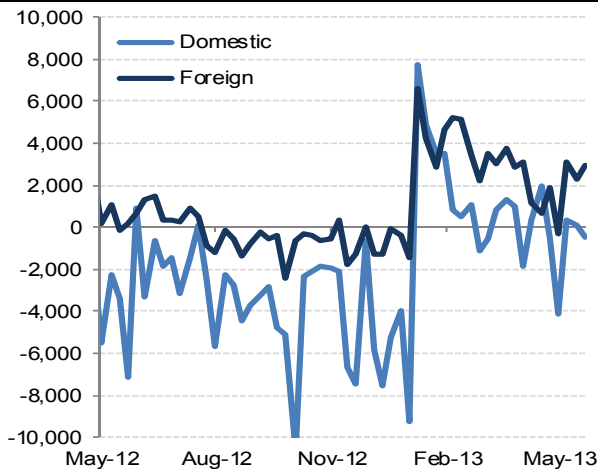
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



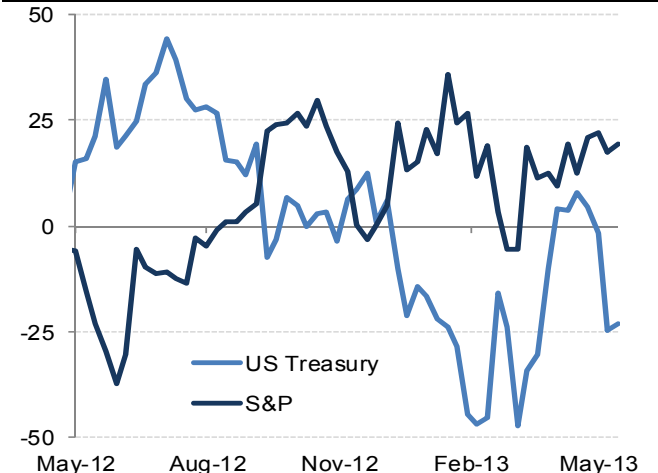
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

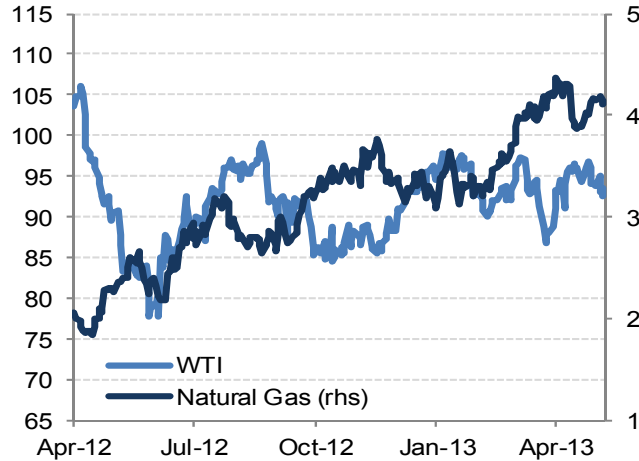
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

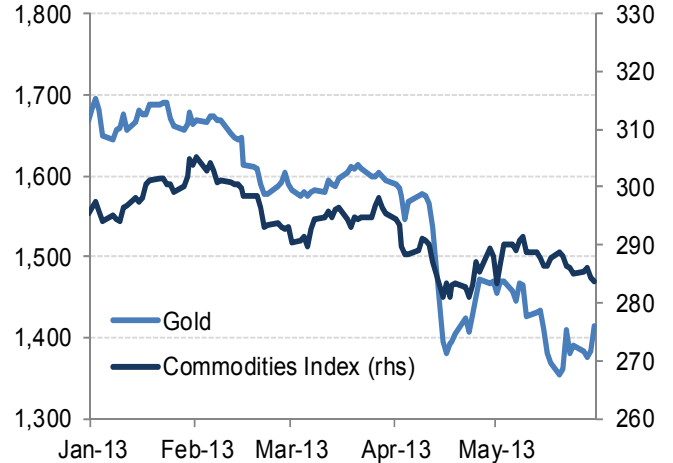
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



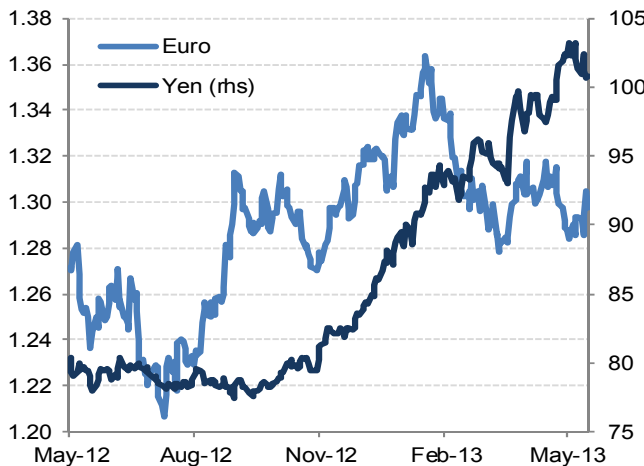
Source: Bloomberg & BBVA Research

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



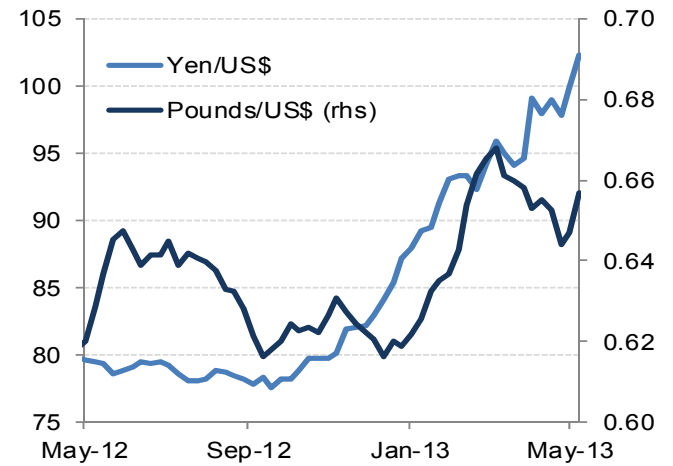
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



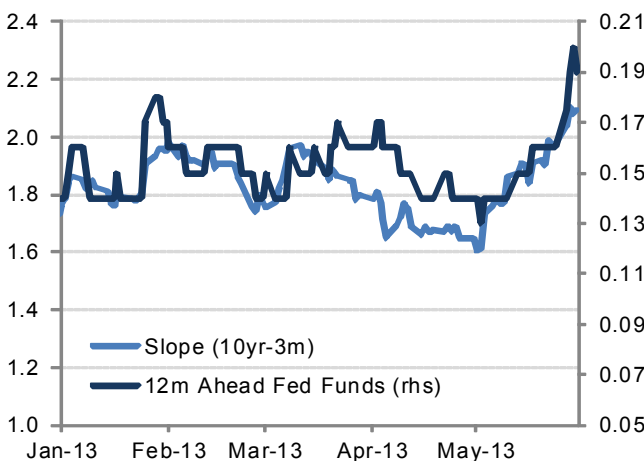
Source: Bloomberg & BBVA Research

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



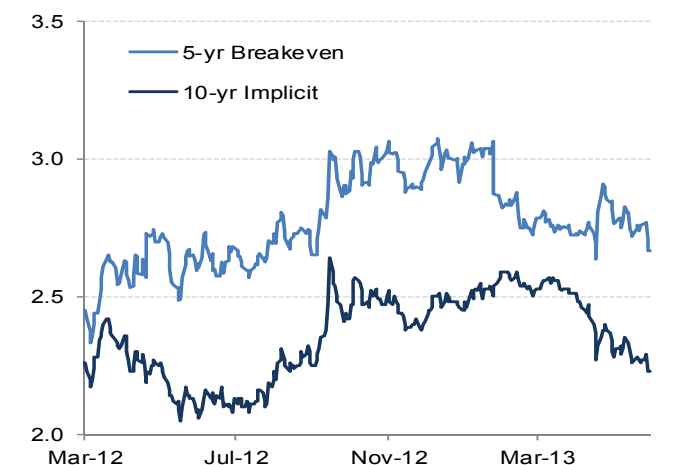
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.12	14.10
New Auto (36-months)	2.46	2.29	2.29	3.09
Heloc Loan 30K	5.34	5.34	5.23	5.53
5/1 ARM*	2.66	2.68	2.58	2.90
15-year Fixed Mortgage*	2.98	2.76	2.61	3.23
30-year Fixed Mortgage*	3.81	3.57	3.40	3.99
Money Market	0.46	0.46	0.47	0.72
2-year CD	0.70	0.70	0.65	0.90

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

Table 1
Key Interest Rates (%)

	Last	4-Weeks		
		Week ago	ago	Year ago
1M Fed	0.08	0.09	0.14	0.16
3M Libor	0.28	0.27	0.45	0.47
6M Libor	0.41	0.42	0.65	0.00
12M Libor	0.69	0.69	0.98	1.07
2yr Sw ap	0.47	0.41	0.36	0.63
5yr Sw ap	1.23	1.07	0.89	0.99
10Yr Sw ap	2.32	2.16	1.92	1.67
30yr Sw ap	3.22	3.10	2.89	2.28
30day CP	0.14	0.12	0.13	0.35
60day CP	0.15	0.14	0.15	0.43
90day CP	0.23	0.16	0.17	0.46

Source: Bloomberg & BBVA Research

Quote of the Week

Boston Federal Reserve President Eric Rosengren
Economics Club of Minnesota
29 May 2013

"...it may be undesirable to abruptly stop purchases, so it may make sense to consider a modest reduction in the pace of asset purchases if we see a few months more of gradual improvement in labor markets and improvement in the overall growth rate in the economy – consistent, by the way, with my forecast, which is somewhat more optimistic than that of many private forecasters"

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
3-Jun	Construction Spending	APR	1.3%	1.0%	-1.7%
3-Jun	ISM Manufacturing Index	MAY	50.2	50.5	50.7
3-Jun	Total Vehicle Sales	MAY	15.00M	15.10M	14.88M
4-Jun	International Trade Balance	APR	-\$40.5B	-\$40.1B	-\$38.8B
4-Jun	ISM New York	MAY	55.6	-	58.3
5-Jun	ADP Employment	MAY	160K	170K	119K
5-Jun	Factory Orders	APR	1.0%	1.5%	-4.0%
5-Jun	ISM Non-Manufacturing Index	MAY	53.4	53.5	53.1
6-Jun	Initial Jobless Claims	1-Jun	340K	345K	354K
6-Jun	Continued Claims	25-May	2960K	2975K	2986K
7-Jun	Nonfarm Payrolls	MAY	175K	175K	165K
7-Jun	Private Payroll	MAY	184K	175K	176K
7-Jun	Unemployment Rate	MAY	7.5%	7.5%	7.5%
7-Jun	Consumer Credit	APR	\$13.8B	\$14.0B	\$7.96B

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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