US Weekly Flash

Highlights

- **Retail sales decelerate as spending growth was stunted by a handful of weaker sectors**
  - Retail sales for June were slightly disappointing, showing modest improvement in certain sectors while a handful of others dragged the overall figure downward. Expanding 0.4% for the month, the figure was shy of the consensus expectations for 0.8% and came in a bit slower than May's 0.5% gain. Autos expanded at a considerable clip, up 1.8%, which is line with what we expected given the strong unit sales volume seen in Autodata's latest report. This surge also brought the annual growth figure for vehicle and parts sales to 11.4% which is its highest point since March 2011 and continues to bolster the overall retail sales figure. Excluding autos and gasoline stations, the situation is a little more fragmented. Consumer based products seemed to have done better than expected in June despite the call for weaker growth given the bump in sales we saw in May. Furniture & home products grew at a moderate pace in June, up 1.2% after declining in May. Apparel also saw a boost in sales despite the difficulty many store have been experiencing with online sales encroaching into their market. This positive data was pulled down by a handful of weak sectors. Building materials ranked first in terms of overall drag, falling 2.2% in June as paint & hardware stores saw a big hit in terms of demand. Miscellaneous store retailers also took a significant hit, dropping 2.5% in June as office, novelty and used merchandise sales fell back to March levels. Finally, food and drink establishments saw a significant decline in traffic.

- **Headline inflation rises on energy price gains as the core rate grows at a moderate pace**
  - The headline consumer price index for June rose faster than the market was expecting as energy prices weighed in after a rather weak performance in May. Rising 0.5% for the month, the headline inflation increase was driven primarily by the motor fuel component of energy, up 6.1% in June. The remaining energy components were not as strong with electricity prices rising 0.2% and utilities actually falling in response to the fluctuating weather across the country. In total, energy prices increased 3.4%, an acceleration from May's 0.4% rise that came off of two consecutive months of prices declines in March and April. Food inflation returned to its usual 0.2% monthly rate after declining in May for the first time in nearly three years. Turning toward the core inflation figure, the situation remains similar to prior months. Core prices rose 0.2%, remaining on par with the current median trend between 0.1% and 0.3%. The rise in prices in June was based not only in the service sector but in commodities as well. After two months of flat readings, commodities rose 0.2% on a few select industries. On a YoY basis the headline rate of inflation rose quite quickly from 1.4% in May to 1.8% in June. Core prices, however, decelerated slightly to 1.6% YoY as neither commodities nor services created much inflationary pressure

- **Housing starts decline but single family units emerge stronger than multi-family**
  - Housing starts saw a significant decline in June despite the strength in the gaining strength in the housing market, falling almost 10% following a 8.9% increase in May. The series fell to its lowest level in ten months at 836K, but the situation itself is not as bleak as the headline purports. The majority of the decline in starts was focused in multifamily structures, which fell a sharp 26.2% after jumping 28.2% the month before. The decline as of late may be a sign that single family homes are getting more attention and home builders are beginning to focus on acquiring as much of the real estate sector as possible. With that in mind, single family home starts fell only 0.8%. In terms of regions, the Northeast and South saw the heaviest declines in June, both dropping 12%. The Midwest and West fared a little better, declining 7.3% and 5.4% respectively, but remain a smaller share overall of total housing starts in the U.S. Specifically, this marks the fifth straight month of declines for the Western region with a 21% decline in starts since January. Turning to permits, the situation is much the same. Multifamily housing units declined heavily in June, plummeting 21.4% for the largest monthly rate of decline since July 2009. This helps to embolden the notion that home builders may be slowing their rate of construction with regard to multifamily units given that current availability has increased. Single family units fared significantly better, however, rising 0.7% for the third consecutive monthly gain. Overall, the report conveys the growing trend toward single family units rather than the multifamily structures as home prices incentivize construction.

Week Ahead

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

Forecast: 5.21M	Consensus: 5.25M	Previous: 5.18M

Existing home sales are expected to rise in June but a slower pace than in prior months as rising mortgage rates and reduced affordability may hold back home buyers. The recent rise in mortgage rates may be discouraging homebuyers that were hoping to keep their payments tied to a lower rate, causing them to refrain from purchasing a new home at this point. Rising home prices should help to keep inventories growing due purely to the opportunities presented by a seller's market in much of the U.S. With this in mind, the deceleration we expect to see in June may be just a short-term hiccup as headwinds from borrowing rates and record low inventories make finding the right home a little more difficult. We also expect the median sales price of homes to decelerate slightly as the 8.5% rise in April may be difficult to replicate with aspects of the housing market slowing. Affordability may be the hardest hit component of the report however, as the aforementioned rate increases will hurt potential homebuyers.

New Home Sales (June, Wednesday 10:00 ET)

Forecast: 484K	Consensus: 484K	Previous: 476K

New home sales are expected to rise again in June but only slightly as the inventory of units on the market remains steady and prices continue to rise. With demand for homes still growing, the inventory dilemma continues to play out across the country as construction companies are still having difficulty attaining loans and finding suitable investment areas to begin work. However, we do continue to believe that, with the escalating trend of home prices, more builders will be enticed into the market and construction of single family units will continue to grow. That being said, there is still some downside risk that may emerge as mortgage rates have continued to rise since early May and have increased more than a 100 basis points since the beginning of May. While it may not have impacted a substantial majority of borrowers, many home buyers may have been pushed out of the market after hitting a certain rate and forced to rethink their property choice for a more feasible mortgage payment. A counter point may be that, given the historically low rate, more borrowers may begin to speed up the process to capture low rates before they climb. Nevertheless, we expect prices to continue to rise for the coming months along with the upward trend of sales, barring any headwinds presented by inventories or rates.

Durable Goods Orders, Ex. Transportation (June, Thursday 8:30 ET)

Forecast: 1.8%, 0.6%	Consensus: 1.1%, 0.5%	Previous: 3.6%, 0.6%

Durable goods orders are expected to rise in June for the third consecutive month, propelled significantly by the transportation component. Throughout June there was an increase in orders for Boeing aircraft after the Paris airshow which debuted a handful of new products and future designs. These orders are expected to be logged in June and July as the final contracts are made and should help boost the aircraft portion of transport within the overall durable goods report. Excluding transportation, the situation may emerge similar to May with a modest rise in orders coming from a wide variety of subcomponents. Computers and electrical equipment have been strong aspects of the report along with non-defense capital goods. These are the components that help drive a more optimistic sentiment as they translate into business expansion rather than sporadic aircraft purchases or defense-driven orders. In terms of indicators for new orders excluding transportation, the latest Federal Reserve manufacturing surveys were only mixed for the month, with the Empire State report showing a decline in new orders while the Philadelphia Fed survey noted a significant increase. Nevertheless, the series remains volatile and businesses apprehensive as varying indicators from employment to housing show a mixed picture about the outlook for the coming quarters

Consumer Sentiment (July, Friday 9:55 ET)

Forecast: 84.3	Consensus: 84.0	Previous: 83.9

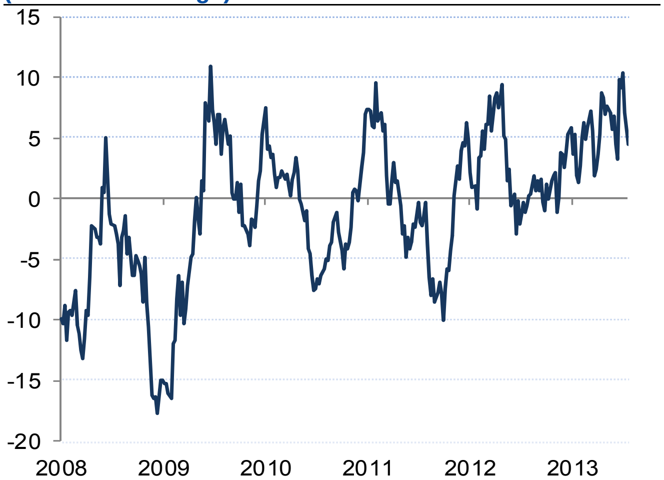
As of late, most confidence indicators have been on a tear due to rising equity and asset prices coupled with the growing aura of calm that has permeated the economy after a drastically different tone earlier in the year. From consumer sentiment to the conference board, sentiment has been on the rise since March but with gas prices and mortgage rates increasing in July, there is potential for some discontent in terms of average consumers who are being priced out of a potential home and have to pay more at the pump to get to work. However, with recent speeches from Ben Bernanke urging equity and asset prices to new highs, there may be enough of a boost to wealth to help counteract higher gas prices and bring the figure above its 84.1 reading in June.

Market Impact

This week's data are housing centric with a spatter of manufacturing to even out the tone. With the lackluster housing starts data that showed multi-family units taking a tumble, the outlook for single family units remains stronger on the demand side. This should continue to put pressure on supply which brings more work for construction companies and continued jobs growth in the sector. As for manufacturing, the durable goods report will help solidify the optimistic results of the last release or reignite the fear that manufacturing may be experiencing some turbulence. Given our upward forecasts for the week, we expect markets to react positively to the data and Bernanke's recent comments.

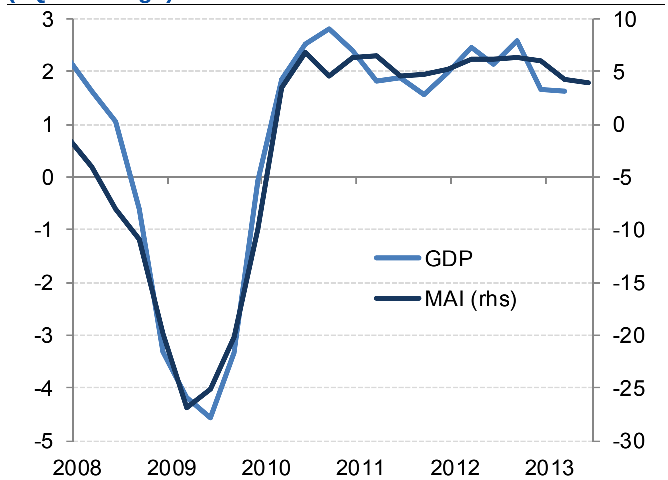
Economic Trends

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



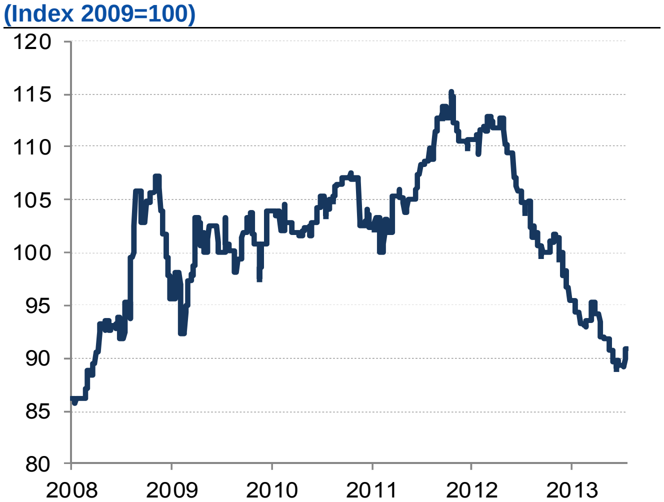
Source: BBVA Research

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



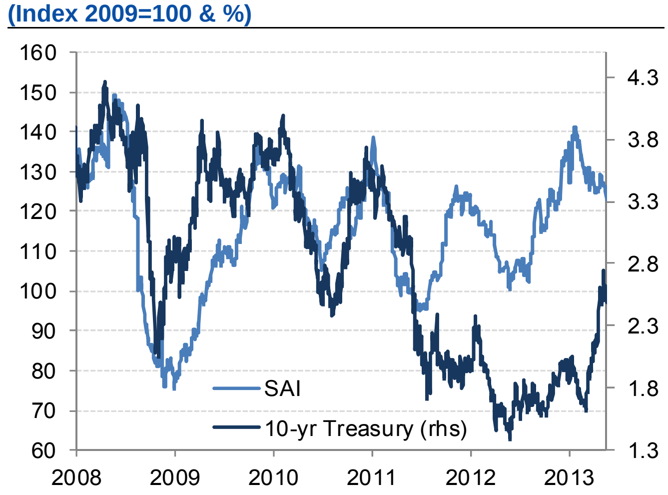
Source: BBVA Research & BEA

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



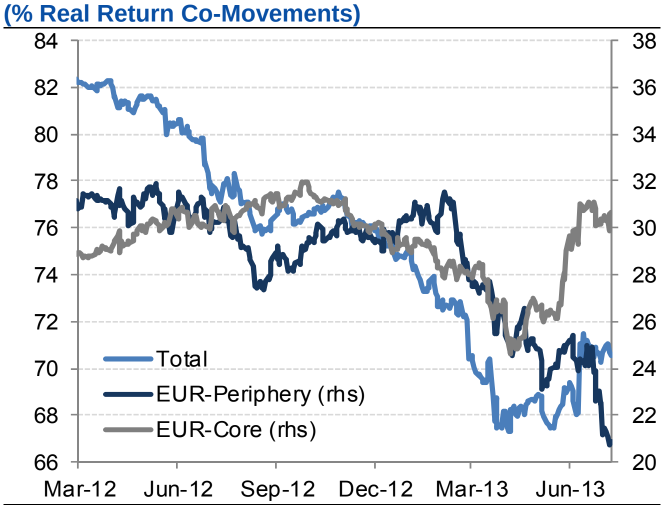
Source: BBVA Research

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



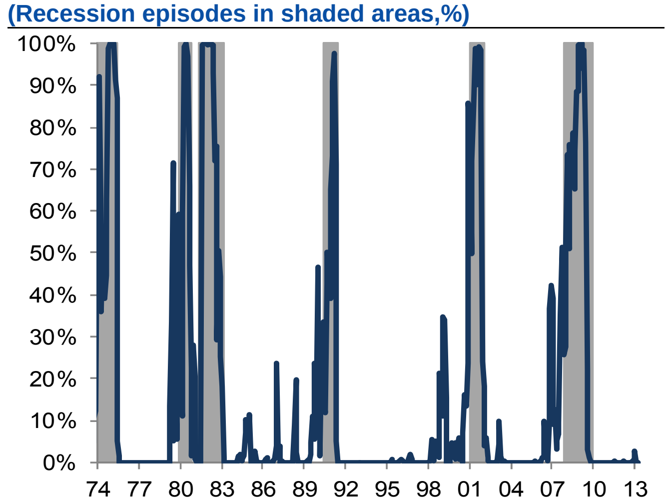
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

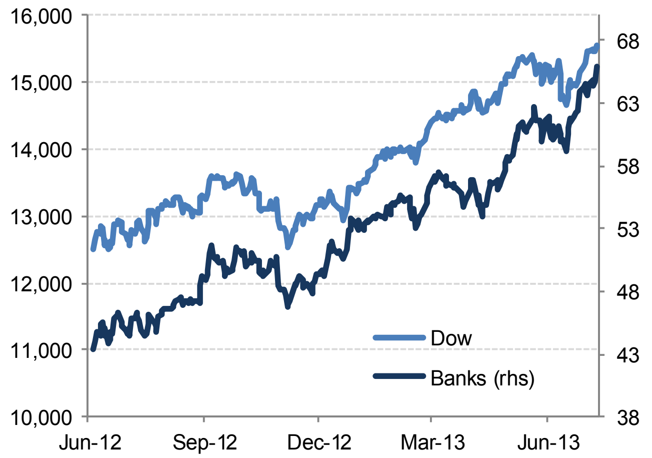
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

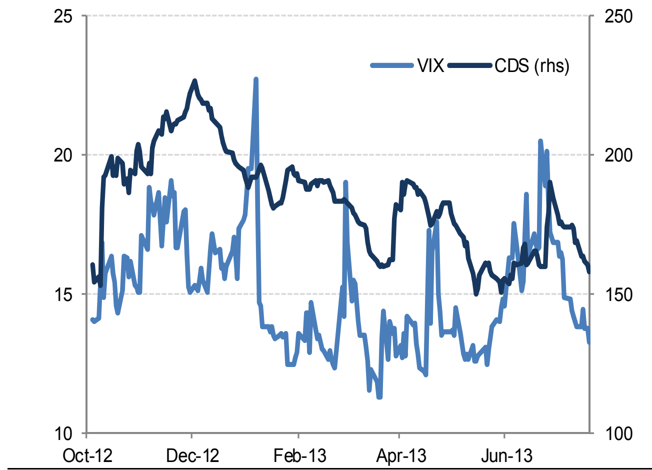
Financial Markets

Graph 9
Stocks
(Index, KBW)



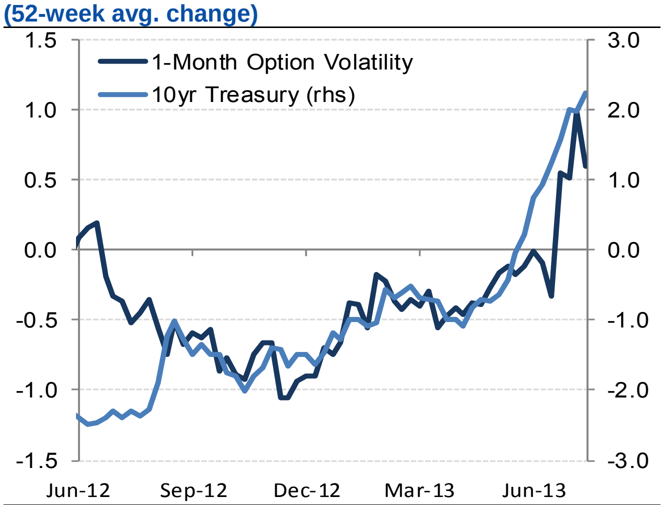
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



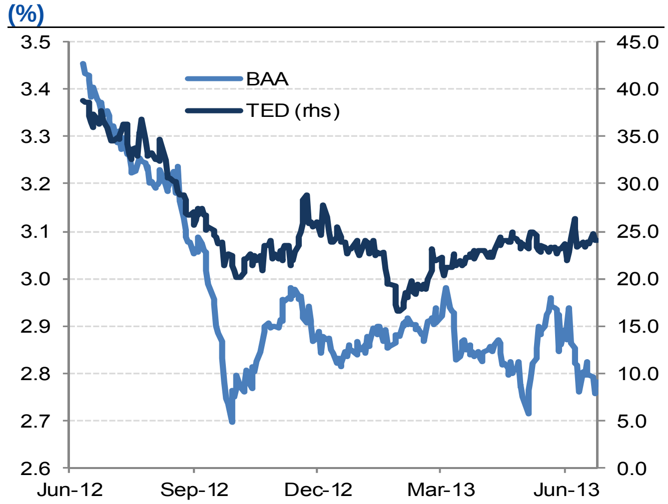
Source: Bloomberg & BBVA Research

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



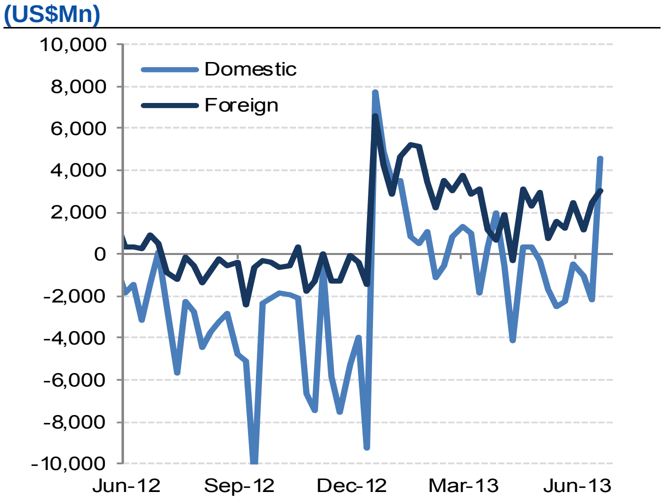
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



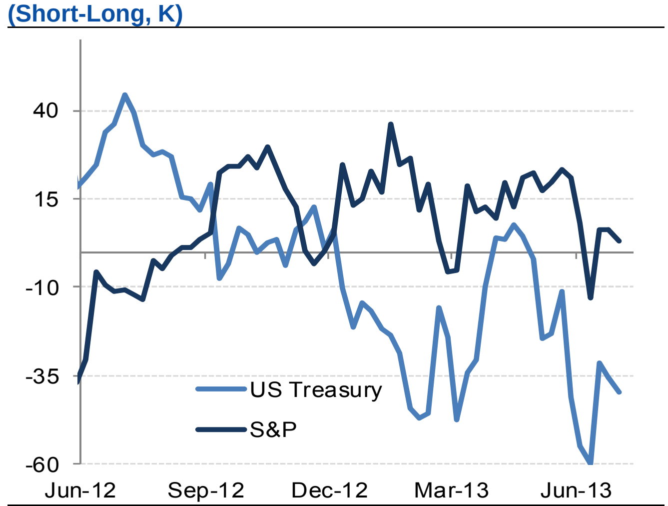
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

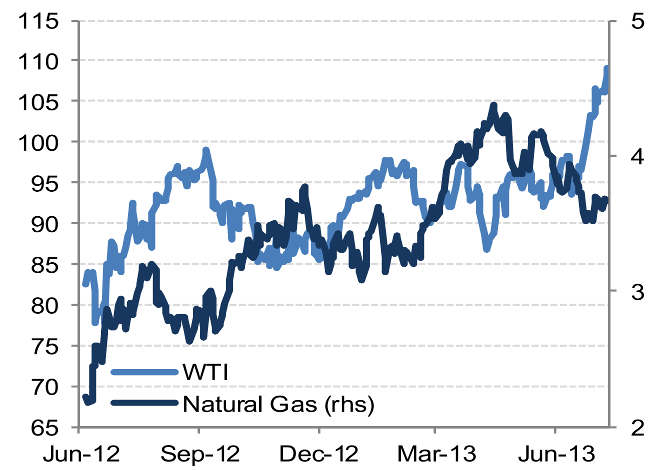
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

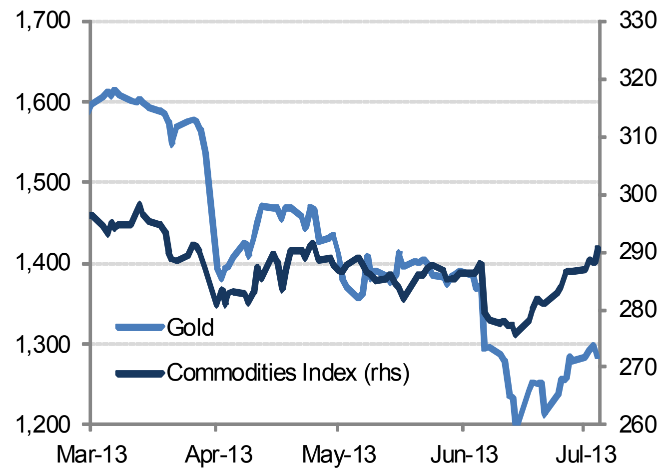
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



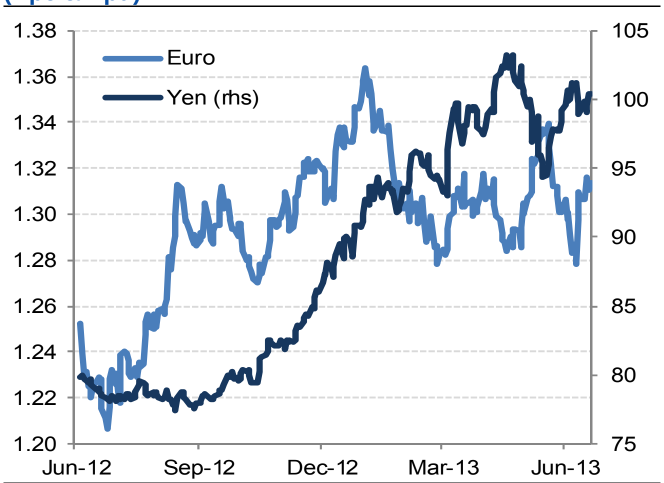
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US$ & Index)



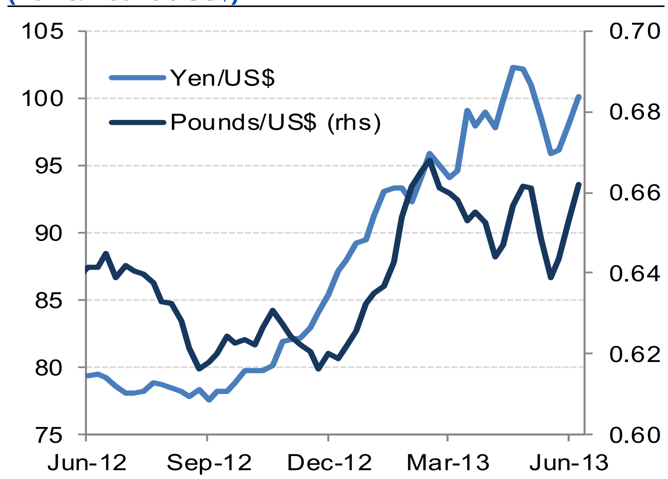
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



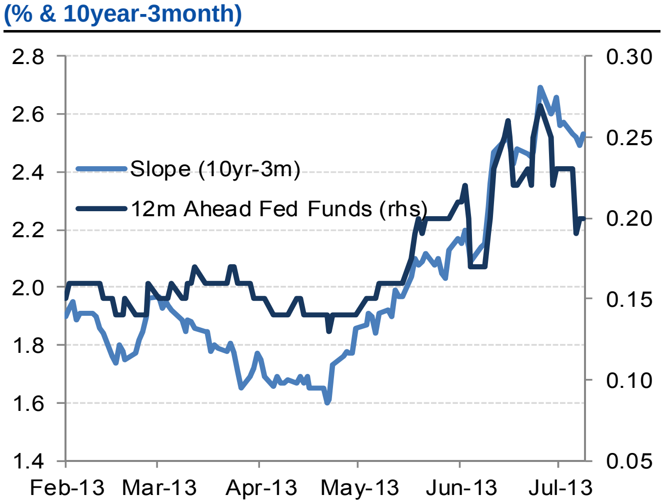
Source: Bloomberg & BBVA Research

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



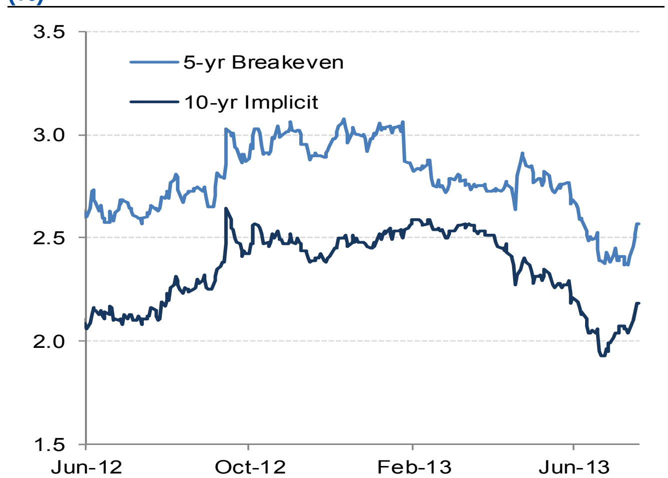
Source: Haver Analytics & BBVA Research

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)	14.16	14.16	14.12	14.10
New Auto (36-months)	2.51	2.45	2.39	3.01
Heloc Loan 30K	5.29	5.29	5.34	5.44
5/1 ARM *	3.17	2.68	2.79	2.90
15-year Fixed Mortgage *	3.41	2.76	3.10	3.23
30-year Fixed Mortgage *	4.37	3.57	3.98	3.99
Money Market	0.44	0.44	0.45	0.51
2-year CD	0.74	0.73	0.70	0.85

*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	0.09	0.09	0.10	0.13
3M Libor	0.26	0.27	0.45	0.45
6M Libor	0.40	0.41	0.65	0.00
12M Libor	0.68	0.69	0.98	1.06
2yr Sw ap	0.48	0.53	0.57	0.44
5yr Sw ap	1.49	1.61	1.65	0.81
10Yr Sw ap	2.69	2.81	2.76	1.59
30yr Sw ap	3.55	3.61	3.49	2.32
30day CP	0.12	0.12	0.12	0.41
60day CP	0.15	0.15	0.14	0.40
90day CP	0.18	0.16	0.15	0.43

Source: Bloomberg & BBVA Research

Quote of the Week

Treasury Secretary Jack Lew
Interview with Bloomberg TV
17 July 2013

"The president has been clear we will not and cannot negotiate over this question of whether or not there should be the option of defaulting. Congress just has to raise the debt limit because all that does is pays the bills that we've committed to."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
22-Jul	Existing Home Sales	JUN	5.21M	5.25M	5.18M
23-Jul	FHFA House Price Index	MAY	0.8%	0.8%	0.7%
24-Jul	New Home Sales	JUN	484K	484K	476K
25-Jul	Initial Jobless Claims	19-Jul	320K	340K	334K
25-Jul	Continued Claims	13-Jul	2990K	2980K	3114K
25-Jul	Durable Goods Orders	JUN	1.8%	1.1%	3.6%
25-Jul	Durable Goods Ex. Transport	JUN	0.6%	0.5%	0.7%
26-Jul	Consumer Sentiment	JUL F	84.3	84	83.9

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**	1.6	2.3	2.4
CPI Core (YoY %)	**1.7**	**2.1**	1.9	2.0	2.1
Unemployment Rate (%)	**8.9**	**8.1**	7.6	7.0	6.4
Fed Target Rate (eop, %)	**0.25**	**0.25**	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	**1.98**	**1.72**	2.90	3.28	3.64
US Dollar/ Euro (eop)	**1.32**	**1.31**	1.31	1.30	1.35

Note: Bold numbers reflect actual data

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