

US Weekly Flash

Highlights

ISM Manufacturing Index Holds Steady to Close out 2013

- Manufacturing activity is certainly picking up ground as we move into the new year. The ISM Manufacturing Index in December hit 57.0, on par with November's 57.3 and ending 2013 near the highest level since mid-2011. According to the index, the sector has been expanding since hitting a four-year low back in May, when the outlook for demand was much gloomier. December's reading came on the back of an acceleration in new orders, with the subcomponent reaching a multi-year high of 64.2 for the month. The production index also remained strong at 62.2, while employment in the sector continued to increase.
- With the ISM report for December, it is much more apparent that manufacturing activity has recovered from weakness in the first half of 2013. More importantly, increasing demand for manufactured goods suggests that this momentum will carry over into the first part of 2014 as production expands to meet consumer needs. Although the index is not a direct contributor to GDP growth, it is a good leading indicator for industrial production, which we expect will follow the ISM's increasing trend in December. The fact that manufacturing activity is gaining momentum at a healthy pace surely adds to our upward bias for economic growth in 2014.

Consumer Confidence On the Rise Again in December as Expectations Surge

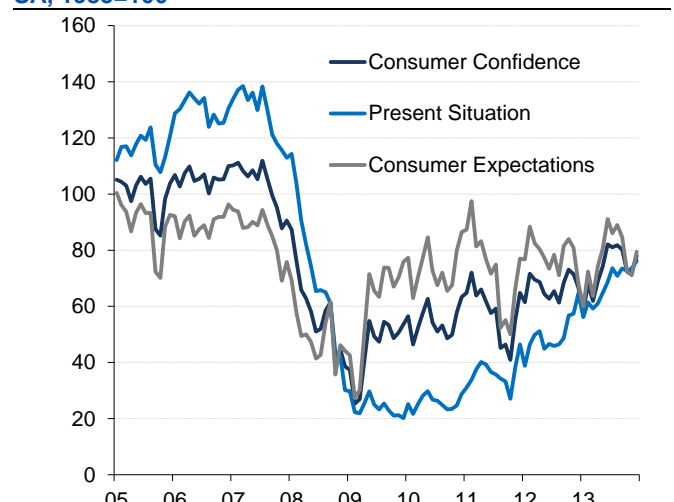
- Consumers have certainly felt their fair share of economic pressure throughout 2013, stemming from a weak employment outlook alongside uncertainty from Congress and the Fed. Moving off of a sharp drop in confidence in October and November, consumers finally felt a bit more optimistic in December, whether that came from a resolution in Washington, strong purchasing power, or simply higher holiday spirits. Still, consumer confidence remains far below pre-recession levels at 78.1 in December, compared to 111.9 in July 2007.
- December's increase in confidence reflected improvement in both expectations and views on the present situation. According to the source, consumers feel much more confident regarding labor market conditions and job prospects, although future income and earning potential remain a concern. Views on the present situation have increased at a relatively gradual but stable pace throughout the recovery, yet expectations are much more volatile. In December, the monthly improvement in the expectations component slightly outpaced that of the present situation. This is a positive signal for personal consumption in 4Q13, and we expect that this momentum will carry over into 2014 as a strong contributor to growth.

Graph 1
ISM Manufacturing Index
SA, 50+ = Increasing



Source: ISM & BBVA Research

Graph 2
Consumer Confidence
SA, 1985=100



Source: Conference Board & BBVA Research

Week Ahead

ISM Non-Manufacturing Index (December, Monday 10:00 ET)

Forecast: 54.0

Consensus: 54.5

Previous: 53.9

The ISM Non-Manufacturing Index is expected to hold well above the 50 mark in December and remain mostly in line with November's reading. Unlike its manufacturing counterpart, services activity has continued to expand throughout the entire recovery period, and the upward trend has been a bit more stable. In November, the services index noted increasing activity in the sector but a minor slowdown in employment, new orders, and output. Consequently, we do not expect to see significant acceleration in December's reading. Still, other economic indicators have noted strong demand for the holiday season, so this will certainly have a positive impact on the ISM index for the month.

International Trade Balance (November, Tuesday 8:30 ET)

Forecast: -\$39.0B

Consensus: -\$40.0B

Previous: -\$40.6B

The trade balance is expected to improve only slightly in November as global activity picks up for the holiday season. Export growth finally started to recover in October after three months of a downward trend, suggesting an improvement in external demand. Import growth, on the other hand, has been positive since July as domestic consumers began to loosen their purse strings for the end-of-year shopping sprees. For November, various economic indicators suggest a pickup in new export orders and steady imports, so we expect that external demand may outweigh the internal side for the month. While we should see a slight narrowing of the trade balance in November, we don't expect the change to have a major impact on our overall growth forecast for the quarter.

Consumer Credit (November, Wednesday 15:00 ET)

Forecast: \$14.50B

Consensus: \$13.75B

Previous: \$18.19B

Monthly consumer credit has been increasing at a double-digit pace throughout the past few years, and we expect that this trend will continue for some time. Revolving credit has been a weak spot, but we expect that consumers were much more willing to take on additional debt as the holiday shopping season intensified in November. Nonrevolving credit, on the other hand, has been very strong but mostly fueled by outstanding student loan debt, which is not expected to subside anytime soon. Given the usual surge in consumer spending in the fourth quarter, we expect to see an increase in both revolving and nonrevolving credit at a similar pace as in October. These gains in consumer credit should continue as consumer confidence rises and the labor market outlook improves.

Nonfarm Payrolls and Unemployment Rate (December, Friday 8:30 ET)

Forecast: 195K, 7.1%

Consensus: 193K, 7.0%

Previous: 203K, 7.0%

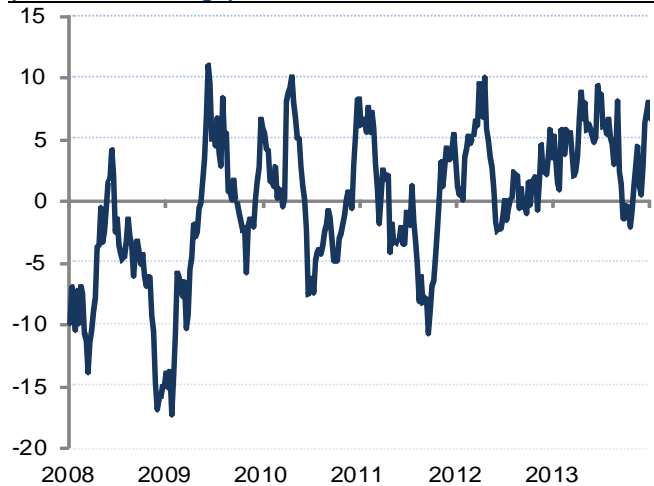
Nonfarm payroll growth is expected to hold steady in December, closing out 2013 on a positive note. The employment situation strengthened throughout the latter part of 3Q13 and into 4Q13 as many vital sectors rebounded from a weak first half of the year. In particular, job growth in manufacturing and construction accelerated throughout the past few months. For December, we expect that these sectors will continue to gain momentum as new home demand boosts construction and new orders and production of manufactured goods hold strong. Although jobless claims data for December do not point to much improvement in hiring for the month, we expect that much of the increase was due to holiday disruptions and therefore take the data with a grain of salt. As the employment outlook continues to improve and we approach the start of a new year, we expect that many unemployed individuals will rejoin the job hunt, putting slight upward pressure on the unemployment rate for the time being.

Market Impact

The first full week of 2014 will be enlightening for markets, with most of the focus on the release of the FOMC meeting minutes and Friday's employment report. Now that economic data appear to be in the Fed's favor, it might not take long for markets to realize that the stimulus will be gone sometime this year. However, strong economic news have so far overshadowed this realization, so another positive employment release on Friday could again send markets to new historical highs.

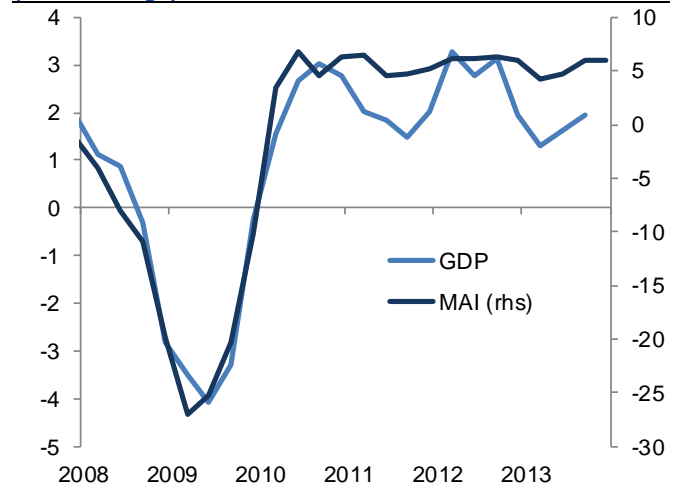
Economic Trends

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



Source: BBVA Research

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



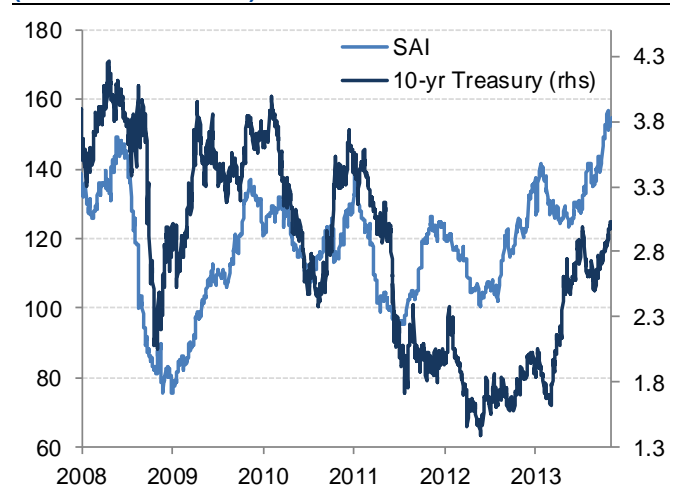
Source: BBVA Research & BEA

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



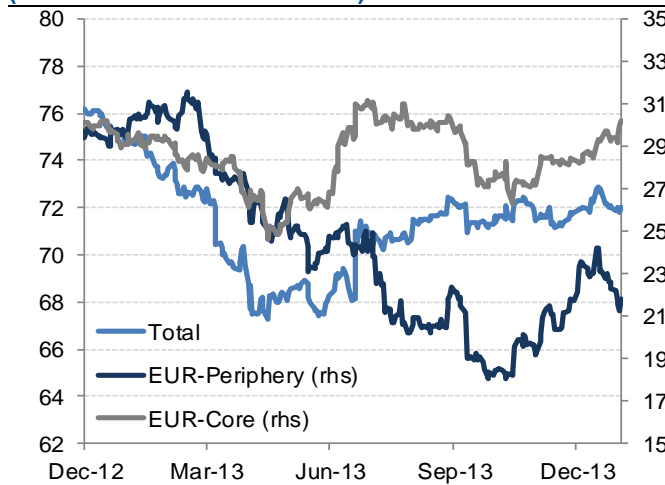
Source: BBVA Research

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



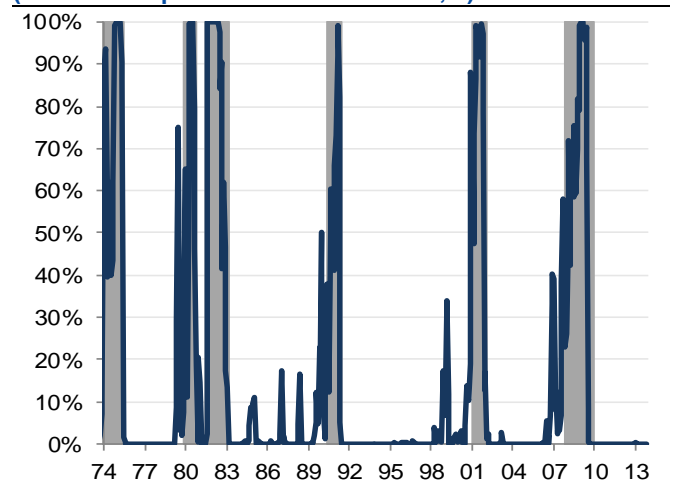
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

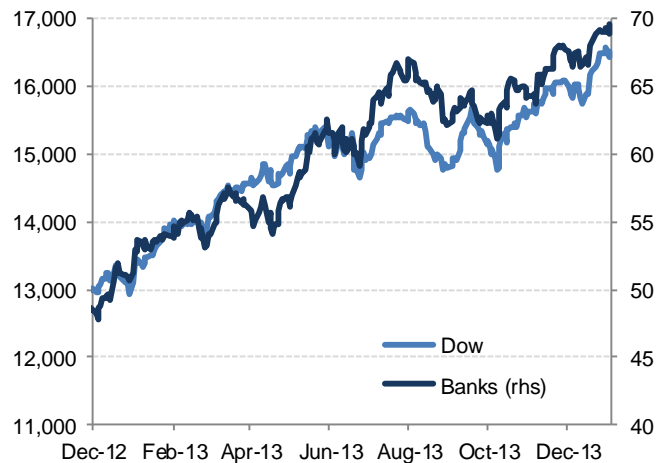
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

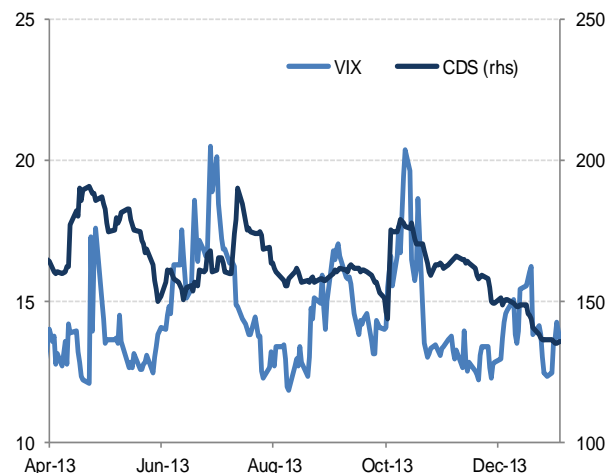
Financial Markets

Graph 9
Stocks
(Index, KBW)



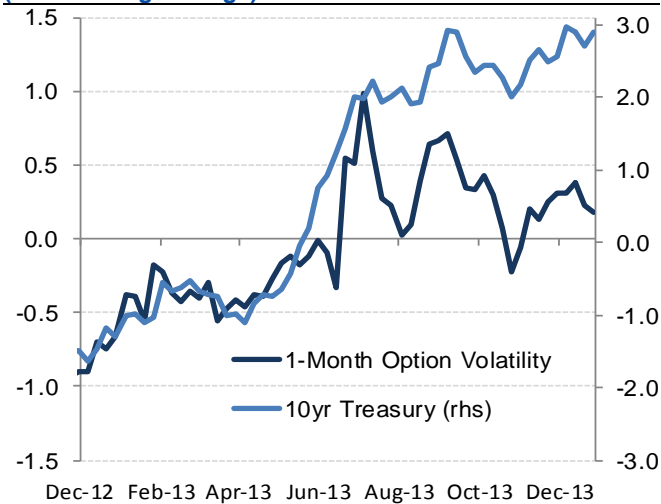
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



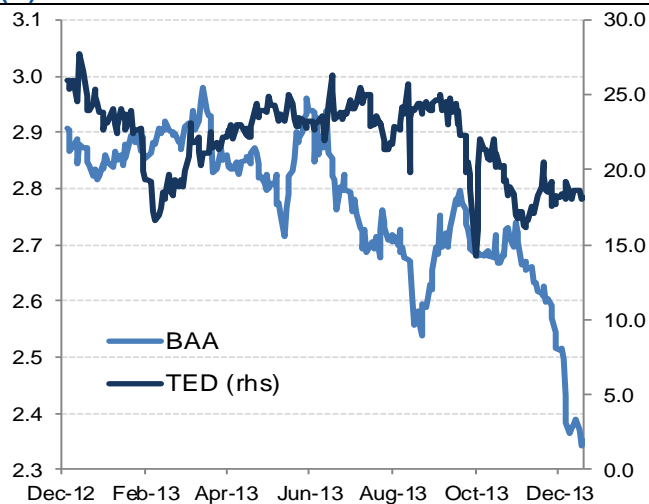
Source: Bloomberg & BBVA Research

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



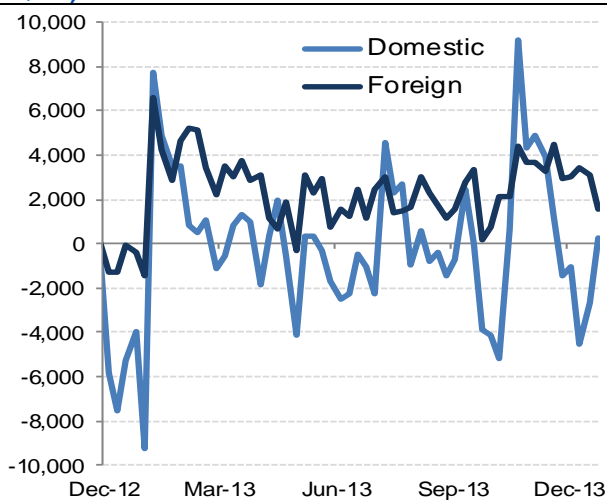
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



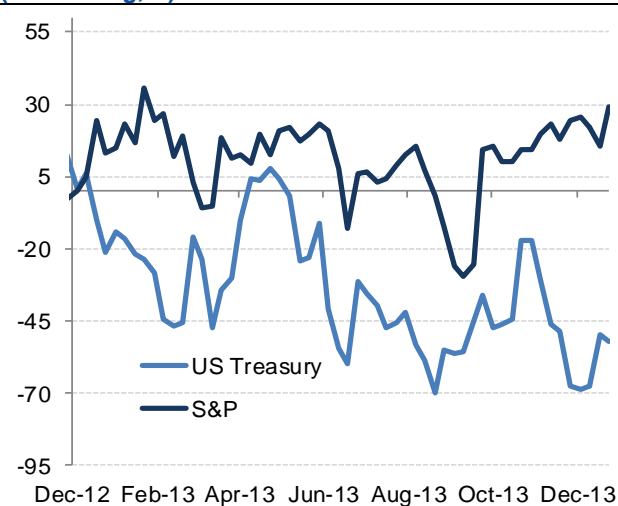
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

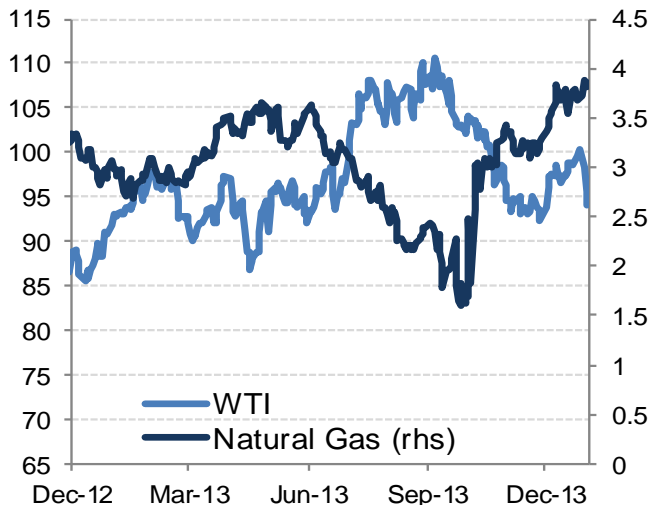
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

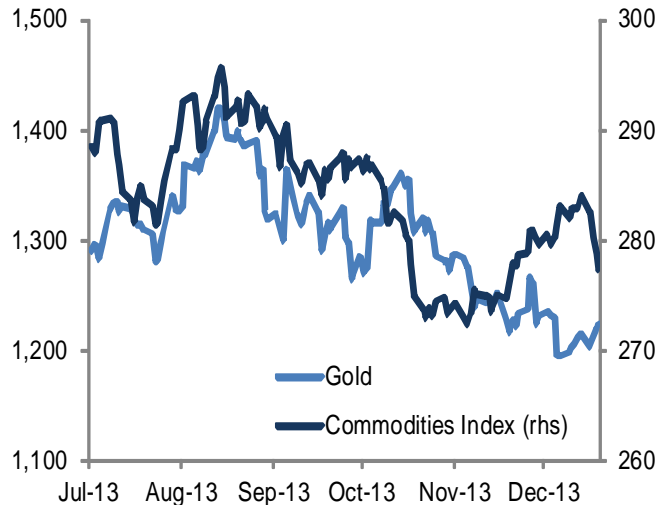
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



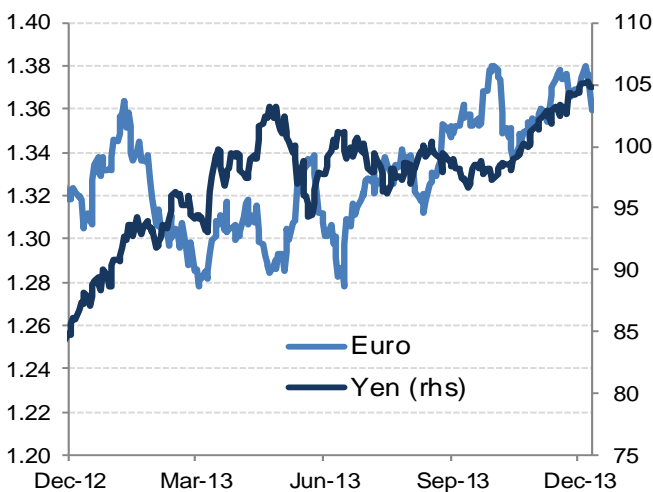
Source: Bloomberg & BBVA Research

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



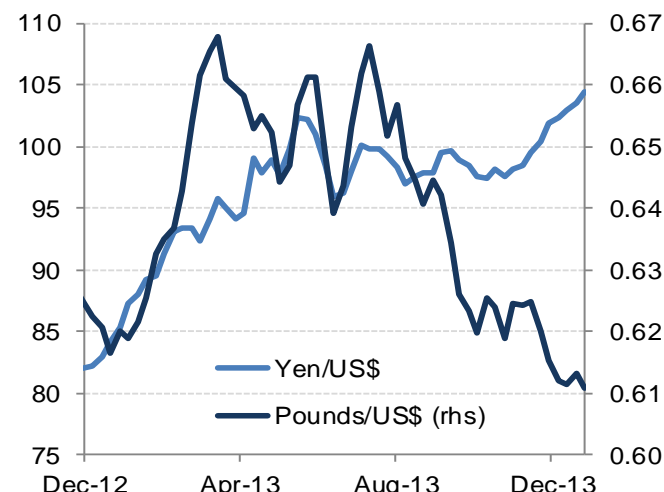
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



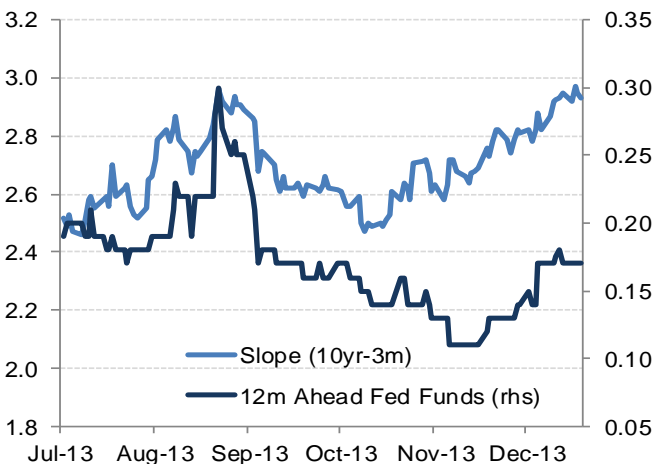
Source: Bloomberg & BBVA Research

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



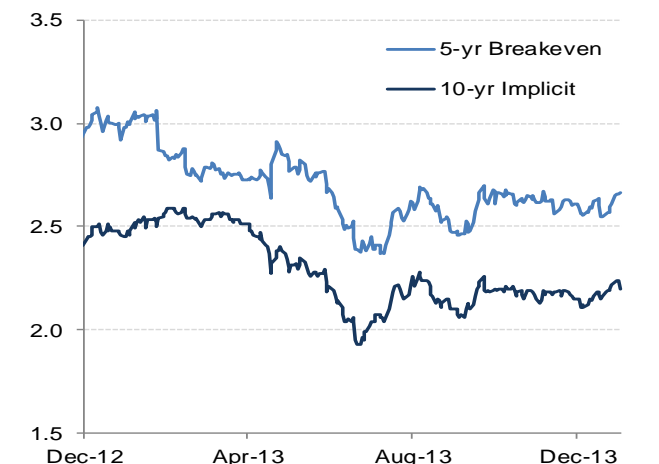
Source: Haver Analytics & BBVA Research

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)	14.23	14.23	14.23	14.10
New Auto (36-months)	2.44	2.66	2.67	2.76
Heloc Loan 30K	5.32	5.33	5.28	5.42
5/1 ARM*	3.05	3.00	2.99	2.90
15-year Fixed Mortgage*	3.55	3.52	3.47	3.23
30-year Fixed Mortgage*	4.53	4.48	4.46	3.99
Money Market	0.43	0.43	0.42	0.51
2-year CD	0.82	0.82	0.83	0.83

*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	0.08	0.09	0.16
3M Libor	0.24	0.25	0.24	0.31
6M Libor	0.35	0.35	0.34	0.50
12M Libor	0.58	0.58	0.58	0.83
2yr Sw ap	0.51	0.49	0.40	0.39
5yr Sw ap	1.79	1.78	1.57	0.89
10Yr Sw ap	3.06	3.06	2.92	1.89
30yr Sw ap	3.90	3.89	3.81	2.86
30day CP	0.15	0.12	0.11	0.17
60day CP	0.13	0.15	0.11	0.19
90day CP	0.13	0.13	0.13	0.20

Source: Bloomberg & BBVA Research

Quote of the Week

Chairman Ben S. Bernanke
Annual Meeting of the American Economic Association
3 January 2014

"Whatever the Fed may have achieved in recent years reflects the efforts of many people who are committed, individually and collectively, to pursuing the public interest. Although the Fed undoubtedly will face some difficult challenges in the years ahead, our people and our values make me confident that our institution will meet those challenges successfully."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
6-Jan	Factory Orders (MoM)	NOV	2.10%	1.70%	-0.90%
6-Jan	ISM Non-Manufacturing Index	DEC	54.00	54.50	53.90
7-Jan	International Trade Balance	NOV	-\$39.0B	-\$40.0B	-\$40.6B
8-Jan	ADP Employment Report	DEC	200K	200K	215K
8-Jan	FOMC Meeting Minutes	DEC	--	--	--
8-Jan	Consumer Credit (MoM)	NOV	\$14.50B	\$13.75B	\$18.19B
9-Jan	Initial Jobless Claims	4-Jan	330K	335K	339K
9-Jan	Continuing Claims	28-Dec	2820K	2870K	2833K
10-Jan	Nonfarm Payrolls	DEC	195K	193K	203K
10-Jan	Private Payrolls	DEC	190K	195K	196K
10-Jan	Manufacturing Payrolls	DEC	10K	15K	27K
10-Jan	Unemployment Rate	DEC	7.1%	7.0%	7.0%
10-Jan	Average Hourly Earnings (MoM)	DEC	0.20%	0.20%	0.20%
10-Jan	Wholesale Inventories	NOV	0.20%	0.40%	1.40%

Forecasts

	2011	2012	2013	2014	2015	2016
Real GDP (% SAAR)	1.8	2.8	1.6	2.3	2.5	2.8
CPI (YoY %)	3.1	2.1	1.7	2.2	2.4	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3
Unemployment Rate (%)	8.9	8.1	7.4	7.0	6.4	5.9
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50
10Yr Treasury (eop, % Yield)	1.98	1.72	3.03	3.37	3.64	4.05
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.30	1.38	1.36

Note: Bold numbers reflect actual data. Forecast revisions pending.



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