



Weekly Observatory

May 11th, 2009

Week Ahead

Trade Balance (March, Tuesday 8:30 ET)

F: -\$30.0bn C: -\$29.2bn P: -\$26.0bn

In March, the trade balance is expected to widen after contracting for the past seven months. Demand for both imports and exports is expected to remain weak as domestic consumers continue to reduce spending in response to the ongoing weak economy and demand falters abroad as the recession spreads throughout the world. However, import prices rose in March due to a 22.6% spike in oil prices, which could translate into an increase in the value of imports. As a result, we could see the trade balance widen in light of a rise in the value of imports compared to exports.

Federal Budget (April, Tuesday 2:00 ET)

F: -\$81.5bn C: -\$63.0B P: \$159.3bn

We are expecting a budget deficit of \$81.5bn in April, in contrast to last year's surplus of \$159.3bn. Government spending is still well above last year's levels due to the fiscal stimulus package. In addition, income and corporate tax revenues have suffered due to the economic downturn, further widening the deficit. Overall, the government has already accumulated a deficit of \$956.8bn since the 2009 fiscal year began in October, which is more than three times deficit at this time last year. These trends are in line with our forecast that the 2009 budget deficit with amount to 12.7% of GDP.

Retail Sales (April, Wednesday 8:30 ET)

F: 0.8% C: -0.1% P: -1.2%

Retail sales are expected to increase in April as consumer confidence surged in response to stabilization in the number of job losses. Nevertheless, there are still a high number of lay-offs each month and personal income has been declining, which could continue to inhibit spending. Given this backdrop, consumption in 2Q09 could increase compared to the previous quarter, but it is expected to remain below last year's levels.

Consumer Price Index (Headline, Core) (April, Friday 8:30 ET)

F: -0.1%, 0.2% C: -0.1%, 0.2% P: -0.1%, 0.2%

Core inflation is expected to remain steady at 0.2% in April. On a year-over-year basis, it is expected to come in at 1.7%, which would be consistent with our baseline scenario of low, but positive inflation for 2009. Although there are downside risks to core inflation due to the declining economic environment, we expect them to remain contained. In addition, headline consumer prices are expected to fall for the second month in a row, due to falling food prices.

Industrial Production (April, Friday 9:15 ET)

F: -0.5% C: -0.5% P: -1.5%

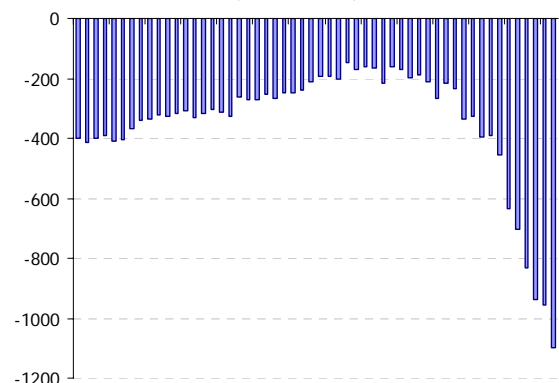
Industrial production is expected to decline for the eighth month in a row as weak demand due to the economic downturn continues to cause plants to reduce output. April's ISM results reflected that the manufacturing industry is still contracting, but at a slower pace, so we could see the rate of decline in industrial production ease as well. The accelerating decline of IP in the high tech industry due to businesses' lack of investment capital remains a concern. The continued decrease could indicate that non-residential investment will shrink further in 2Q09.

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Federal Budget Deficit

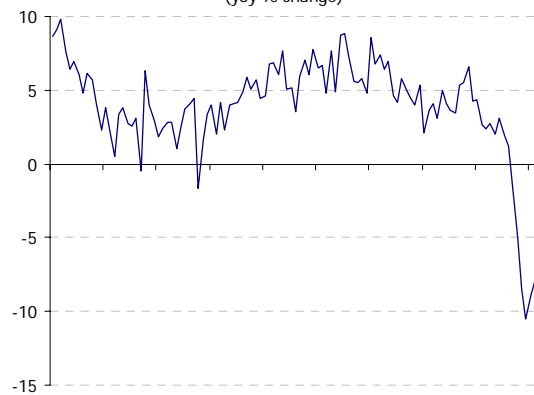
(12 month sum)



Source: Department of the Treasury

Retail Sales

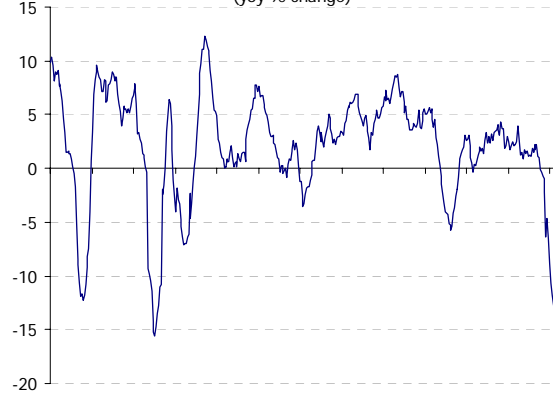
(yoy % change)



Source: US Census Bureau

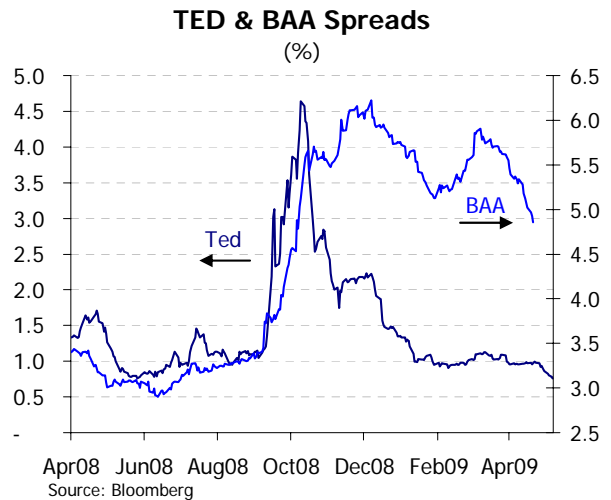
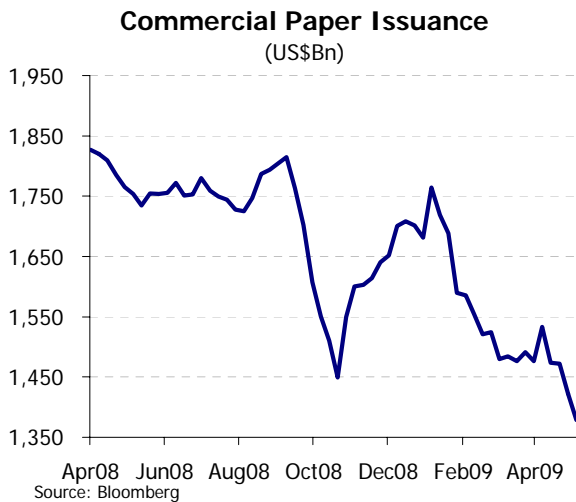
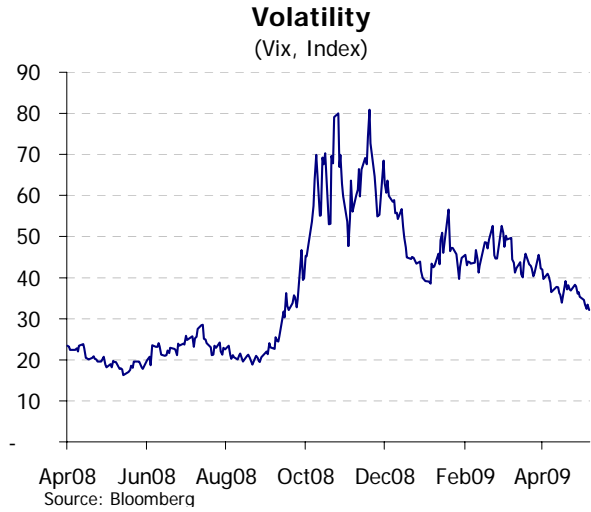
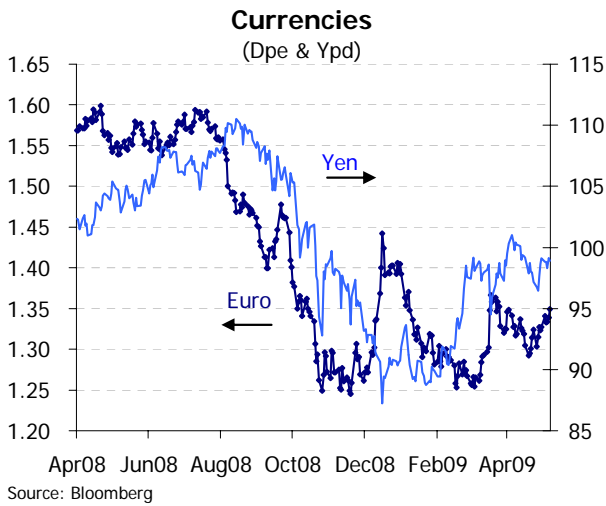
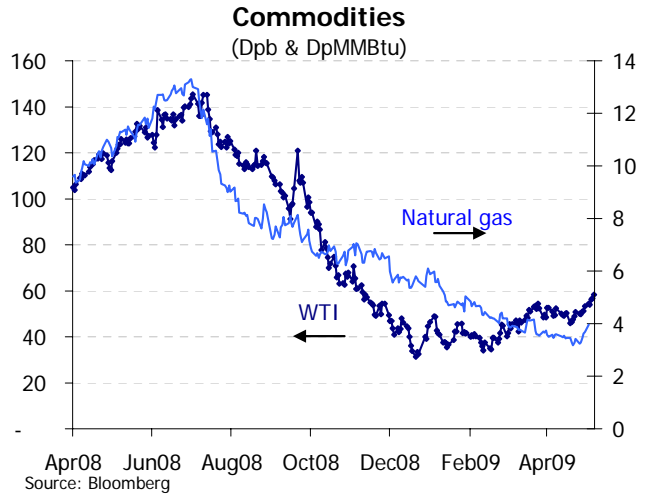
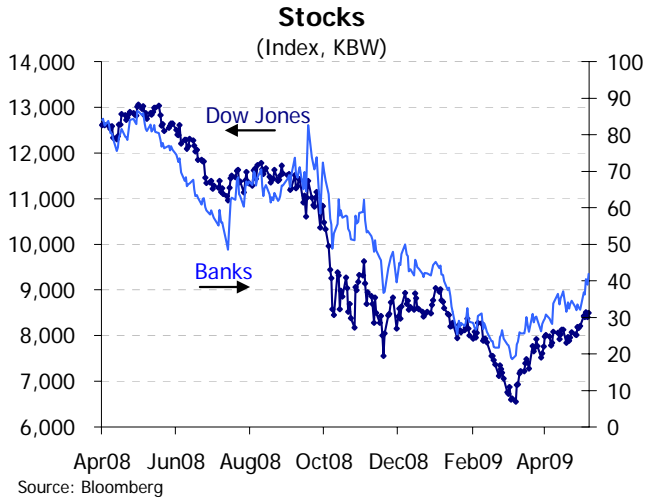
Industrial Production

(yoy % change)



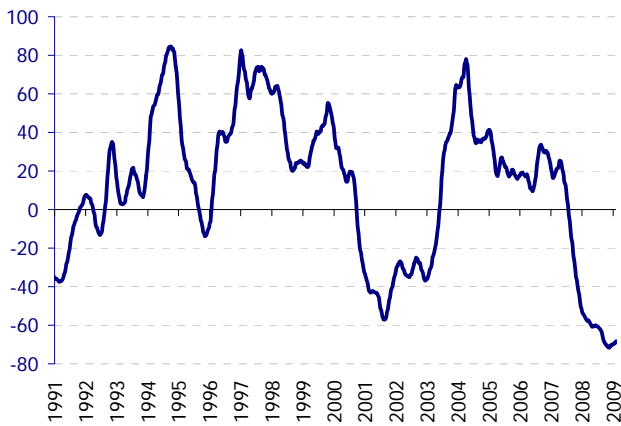
Source: Federal Reserve

Financial Markets



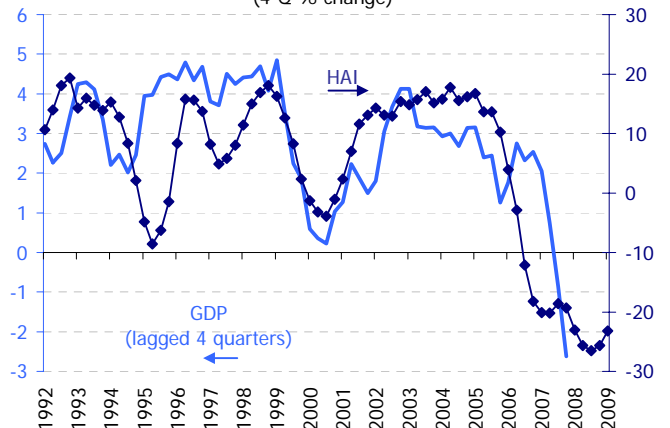
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



Source: BBVA ERD

BBVA Housing Activity Index & Real Gross Domestic Product
(4-Q % change)



Source: BBVA ERD & BEA

BBVA US Surprise Activity Index
(Index2004-7=100)



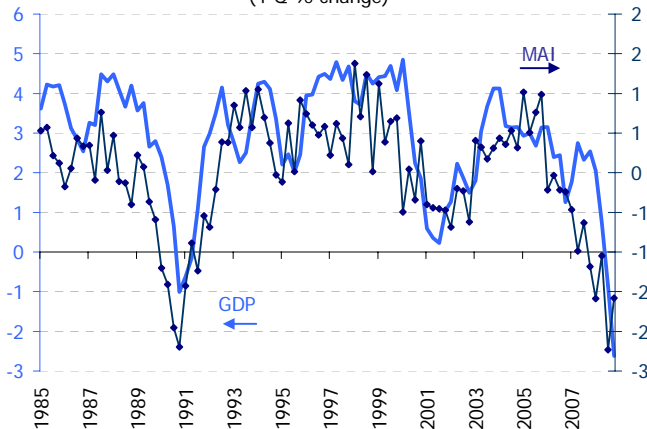
Source: BBVA ERD

BBVA US Surprise Inflation Index
(Index2004-7=100)



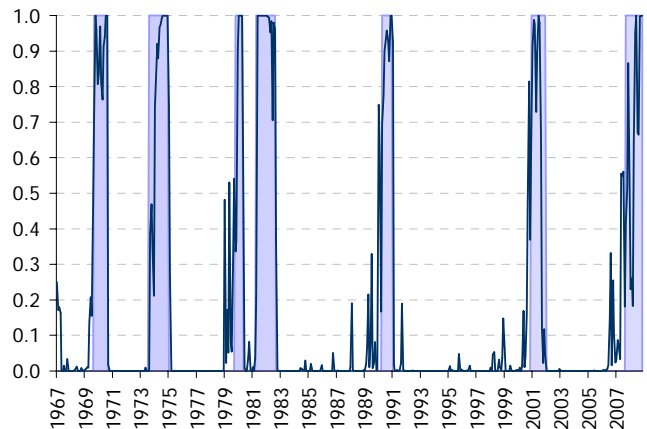
Source: BBVA ERD

BBVA US Monthly Activity Index & Real Gross Domestic Product
(4-Q % change)



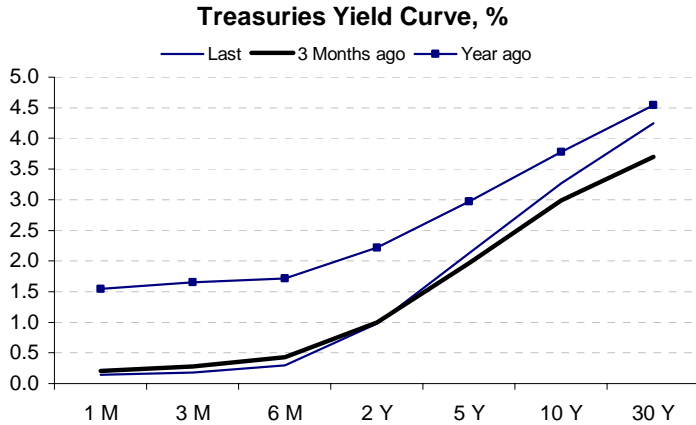
Source: BBVA ERD & BEA

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



Source: BBVA ERD

Yield Curve and Interest Rates



Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	5.00
Credit Card (variable)	10.75	10.75	10.73	11.91
New Auto (36-months)	7.17	7.17	7.21	6.65
Heloc Loan 30K	5.17	5.14	5.09	4.76
30-year Fixed Mortgage *	4.84	4.78	6.37	6.71
Money Market	1.36	1.34	1.31	2.38
2-year CD	2.18	2.19	2.16	3.11
5-year CD	2.76	2.76	2.66	3.56

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Treasury Secretary Tim Geithner: Remarks Regarding the Treasury Capital Assistance Program and the Supervisory Capital Assessment Program
May 7, 2009

"Even with the recent signs of stabilization in economic activity, the economy still faces significant risks and challenges. The cost of credit remains exceptionally high. We have more work to do, and recovery will take time. But we are starting to see some signs of progress toward financial repair, and we will continue to work to expand the availability of credit and improve the impact our new set of credit and lending programs."

Economic Calendar

Indicator	Period	Forecast	Consensus	Previous
Trade Balance	MAR	-\$30.0B	-\$29.2B	-\$26.0B
Monthly Budget Statement	APR	-\$81.5B	-\$63.0B	\$159.3B
ABC Consumer Confidence	10-May	--	--	-43
MBA Mortgage Applications	8-May	--	--	2.00%
Import Price Index (MoM)	APR	0.60%	0.40%	0.50%
Advance Retail Sales	APR	0.80%	-0.10%	-1.10%
Retail Sales Less Autos	APR	1.00%	0.00%	-0.90%
Business Inventories	MAR	-1.20%	-1.20%	-1.30%
Producer Price Index (MoM)	APR	0.20%	0.10%	-1.20%
PPI Ex Food & Energy (MoM)	APR	0.10%	0.10%	0.00%
Initial Jobless Claims	9-May	615K	--	601K
Continuing Claims	2-May	6380K	--	6351K
Consumer Price Index (MoM)	APR	-0.10%	0.00%	-0.10%
CPI Ex Food & Energy (MoM)	APR	0.20%	0.10%	0.20%
Consumer Price Index (YoY)	APR	-0.70%	-0.60%	-0.40%
CPI Ex Food & Energy (YoY)	APR	1.80%	1.80%	1.80%
Empire Manufacturing	MAY	-19.7	-14	-14.65
Net Long-term TIC Flows	MAR	--	--	\$22.0B
Total Net TIC Flows	MAR	--	--	-\$97.0B
Industrial Production	APR	-0.50%	-0.50%	-1.50%
Capacity Utilization	APR	68.40%	68.90%	69.30%
U. of Michigan Confidence	MAY P	65.6	65	65.1