



# Weekly Observatory

June 8, 2009

## Week Ahead

### International Trade Balance (April, Wednesday 8:30 ET)

F: -\$29.4      C: -\$28.7      P: -\$27.6

The trade balance is expected to widen for the second month in a row in April. Even though demand for both imports and exports is expected to remain weak due to feeble economic activity at home and abroad, import prices rose 1.6% in April, which could translate into an increase in the value of imports. As a result, we could see the trade balance widen in response to a rise in the value of imports compared to exports.

### Federal Budget (April, Wednesday 14:00 ET)

F: -\$170.0      C: -\$180.0      P: -\$165.9

The budget deficit is expected to increase to -\$170B, compared to -\$165.9B last year. Government spending is still rising as a result of the fiscal stimulus package. In addition, income and corporate tax revenues have suffered due to the economic downturn, further widening the deficit. To date, the FY2009 deficit is -\$802.3B, which is almost twice that of FY2008. These expectations are in line with our forecast that the budget deficit will amount to 12.7% of GDP in 2009.

### Retail Sales, Excl. Autos (May, Thursday 8:30 ET)

F: 0.5%, 0.3%      C: 0.4%, 0.2%      P: -0.4%, -0.5%

The surge in consumer confidence over the past two months is expected to translate into a boost in retail sales excluding autos in May. When autos are included, sales are expected to increase as well due to the jump in auto sales to 9.9 million units in May from 9.3 million in April. The increases, however, are expected to be moderate as the job market remains weak and the savings rate is increasing. Given this backdrop, consumption expenditures in 2Q09 are expected to remain low at levels below those of last year.

### Business Inventories (April, Thursday 10:00 ET)

F: -1.1%      C: -1.0%      P: -1.0%

Business inventories are expected to fall for the eighth month in a row as companies continue to trim their inventory levels in response to weak demand. This strong reduction in inventories could actually have a positive effect on the economy because once inventories reach a certain threshold, we could see an uptick in industrial production as companies need to maintain a particular level in order to do business.

### University of Michigan Consumer Sentiment (June, Friday 9:55 ET)

F: 69.8      C: 69.5      P: 68.7

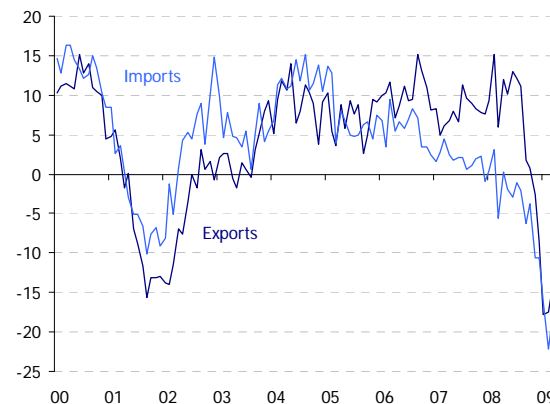
Consumer sentiment is expected to improve in June for the third month in a row as people react positively to the recent slowdown in job destruction and pick-up in home sales. Nevertheless, the index is expected to remain well below the historical average of 86.6, indicating that consumer confidence is still low. Ongoing rising consumer sentiment could be a good sign for the consumption component of GDP because people will start to spend more money as they feel more secure with the economic outlook.

Kristin Lomicka

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### Exports & Imports of Goods

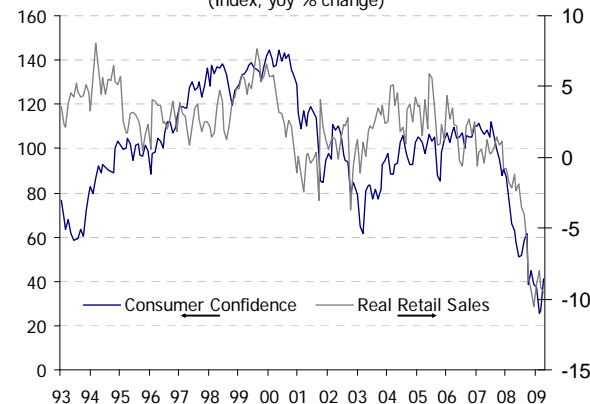
(2000-chain-weighted dollars, annual % change)



Source: US Census Bureau

### Consumer Confidence and Real Retail Sales

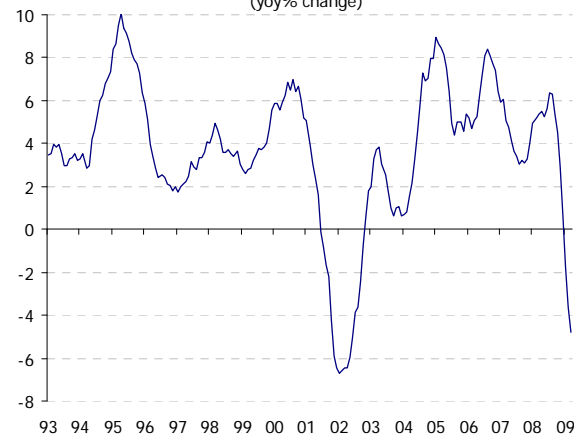
(Index, yoy % change)



Source: The Conference Board and US Census Bureau

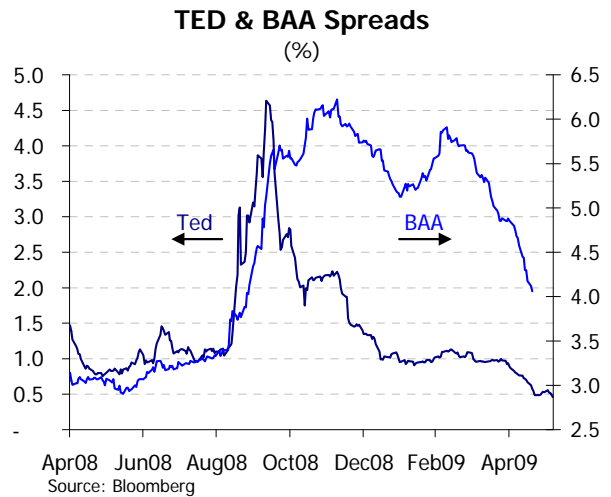
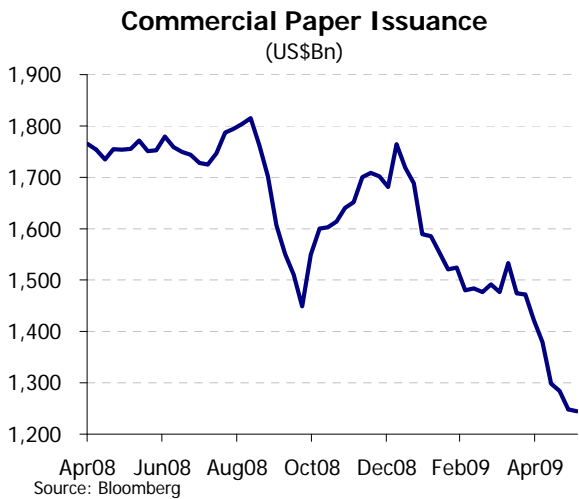
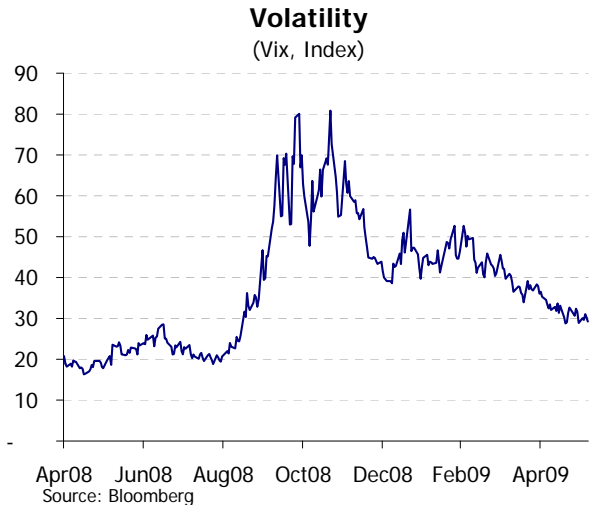
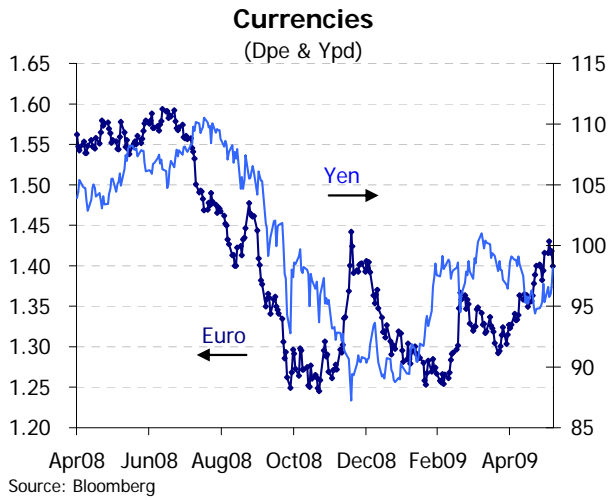
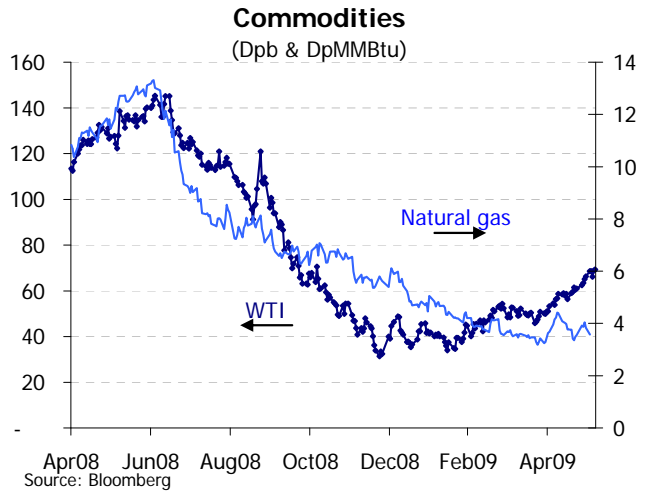
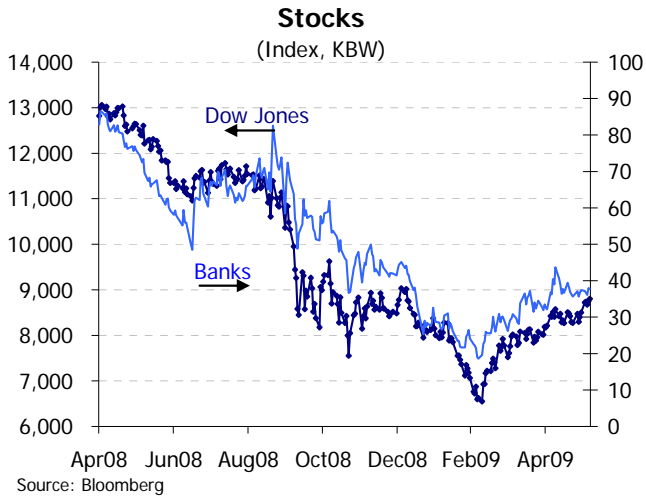
### Total Business Inventories

(yoy% change)



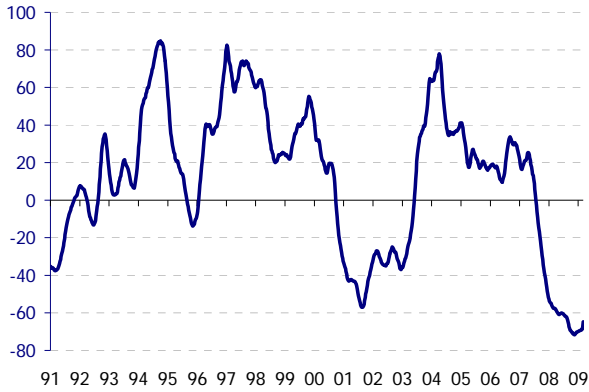
Source: US Census Bureau

Financial Markets



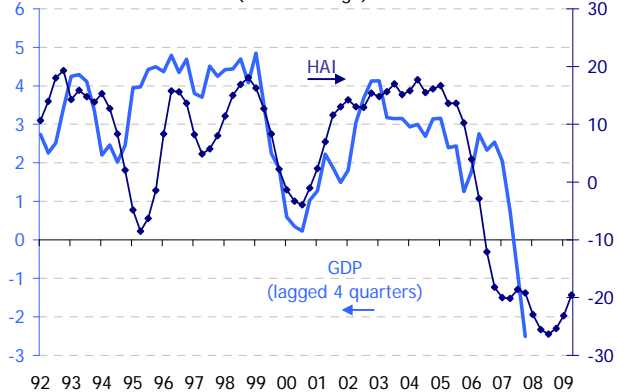
Economic Trends

**BBVA US Weekly Activity Index**  
(Yoy % change)



Source: BBVA ERD

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



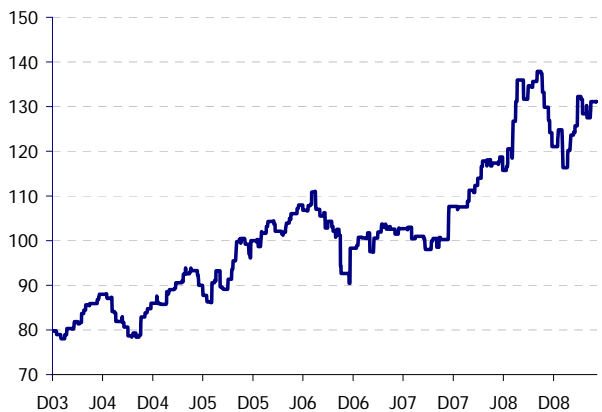
Source: BBVA ERD & BEA

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



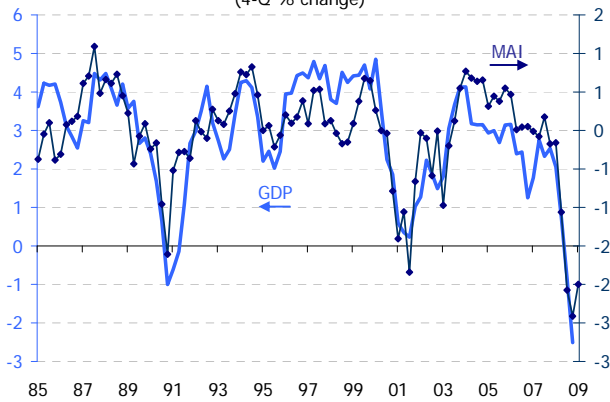
Source: BBVA ERD

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



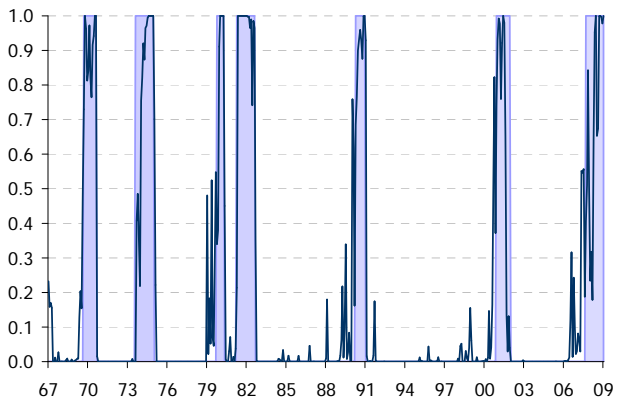
Source: BBVA ERD

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



Source: BBVA ERD & BEA

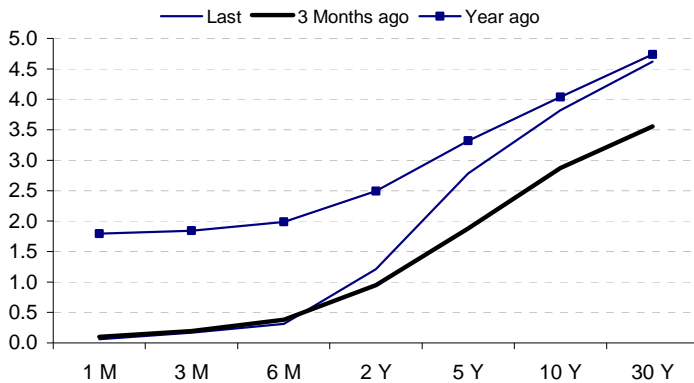
**BBVA US Recession Probability Model**  
(Recession episodes in shaded areas, %)



Source: BBVA ERD

## Yield Curve and Interest Rates

Treasuries Yield Curve, %



Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	5.00
Credit Card (variable)	10.78	10.76	10.75	11.76
New Auto (36-months)	7.33	7.38	7.17	6.52
Heloc Loan 30K	5.27	5.26	5.17	4.96
30-year Fixed Mortgage *	5.29	4.91	6.37	6.71
Money Market	1.34	1.35	1.36	2.35
2-year CD	2.02	2.13	2.18	3.31
5-year CD	2.66	2.78	2.76	3.66

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Chairman Ben S. Bernanke, Testimony before the Committee on the Budget  
US House of Representatives, Washington, DC, June 3, 2009

*"Clearly, the Congress and the Administration face formidable near-term challenges that must be addressed. But those near-term challenges must not be allowed to hinder timely consideration of the steps needed to address fiscal imbalances. Unless we demonstrate a strong commitment to fiscal sustainability in the longer term, we will have neither financial stability nor healthy economic growth."*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
9-Jun	Wholesale Inventories	APR	-1.50%	-1.00%	-1.60%
9-Jun	IBD/TIPP Economic Optimism	JUN	--	--	48.6
9-Jun	ABC Consumer Confidence	7-Jun	--	--	-49
10-Jun	Bloomberg Global Confidence	JUN	--	--	38.72
10-Jun	MBA Mortgage Applications	5-Jun	--	--	-16.20%
10-Jun	Trade Balance	APR	-\$29.4B	-\$28.7B	-\$27.6B
10-Jun	Monthly Budget Statement	MAY	-\$170.0B	-\$180.0B	-\$165.9B
10-Jun	Fed's Beige Book	11-Jun	--	--	--
11-Jun	Advance Retail Sales	MAY	0.50%	0.40%	-0.40%
11-Jun	Retail Sales Less Autos	MAY	0.30%	0.20%	-0.50%
11-Jun	Initial Jobless Claims	6-Jun	615K	615K	621K
11-Jun	Continuing Claims	30-May	6747K	6750K	6735K
11-Jun	Business Inventories	APR	-1.10%	-1.00%	-1.00%
12-Jun	Import Price Index (MoM)	MAY	2.50%	1.40%	1.60%
12-Jun	U. of Michigan Confidence	JUN P	69.8	69.5	68.7