



# Weekly Observatory

July 20, 2009

## Week Ahead

### Leading Economic Index LEI (June, Wednesday 8:30 ET)

F: 0.8%      C: 0.5%      P: 1.2%

In June, the LEI is expected to rise for the third month in a row, but at a slower pace. Even though two of the index's previous drivers of growth, the S&P500 and consumer expectations, have dropped in June, the decline in initial jobless claims and the rise in manufacturers new orders and building permits will help to offset those components. A rise in the index will support the outlook that economic contraction is slowing and is in line with our expectation of slower GDP contraction in 2Q09 than 1Q09.

### Bernanke's Testimony on Monetary Policy (Tuesday 10:00 ET)

In his testimony before Congress, Bernanke is expected to cite improvements and further stabilization of economic activity in the second quarter compared to the first. However, he will stress that many risks remain, especially pertaining to the labor markets, consumer spending and fixed investment. Given the ongoing economic slack, we expect that he will view inflation as remaining low for a prolonged period. In light of the current situation, his views on monetary policy should be in line with our expectation that the Fed will maintain its current expansionary policy with the asset limits set forth in the March FOMC meeting.

### Initial and Continuing Jobless Claims (July 17<sup>th</sup> and 10<sup>th</sup>, Thurs 8:30 ET)

F: 545K, 6330K      C: 555K, 6330K      P: 522K, 6273K

Initial unemployment insurance claims are expected to rise this week, but will remain below 600K, bringing the four week moving average to the lowest point since the week of January 3, 2009. Initial claims hit their peak in April and have since exhibited a declining trend. The most significant declines have been in the past three weeks with claims falling to 522K in week ending July 10, 2009. Although this trend indicates that layoffs are slowing, the high number of claims is a testimony to the ongoing weakness in the labor market. In addition, companies are implementing reduced work weeks and unpaid furloughs as alternatives to layoffs. These measures, along with the continuing layoffs could present risks to consumption in the third quarter as consumers react to the extended uncertainty in the labor market.

### Existing Home Sales (June, Thursday 10:00 ET)

F: 4.83M      C: 4.8M      P: 4.77M

Existing home sales are expected to rise for the third month in a row, marking further improvement in the sector. Increasing affordability has sparked renewed interest in the market as home prices continue to fall. Nevertheless, inventory levels remain well above the average and foreclosures are ongoing, so prices could fall further. Even though stabilization in existing home sales is positive news for residential investment, the high inventory and ongoing decline in prices could delay a pick-up in housing starts as the attractive prices and plentiful supply of existing homes keep buyers away from the new home market.

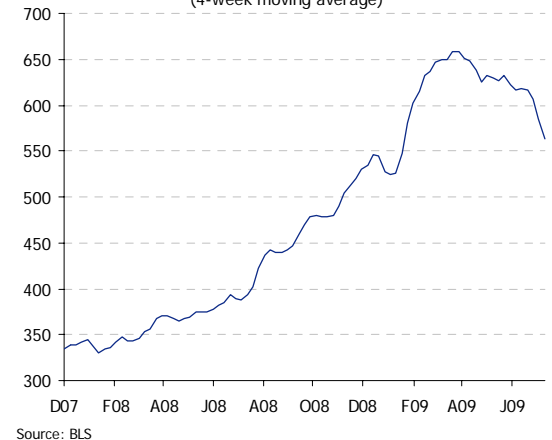
Kristin Lomicka

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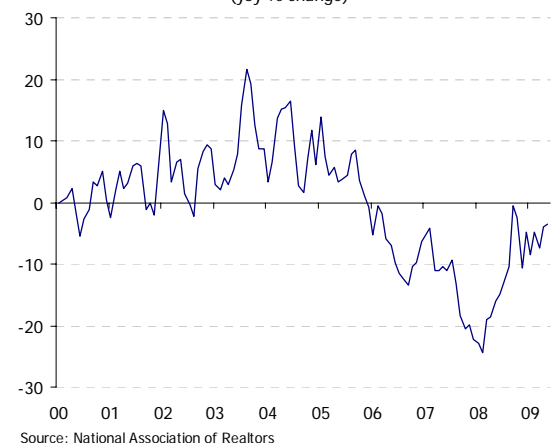
**Leading Indicators Index**  
(yoy % change)



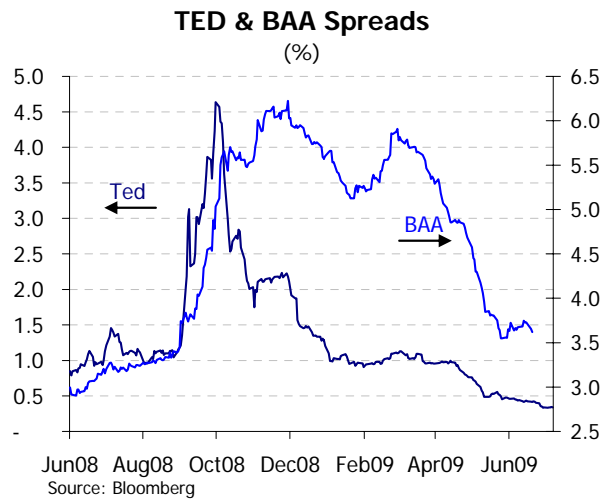
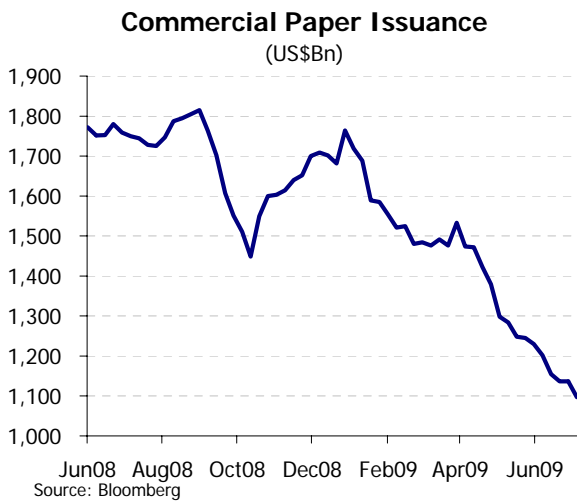
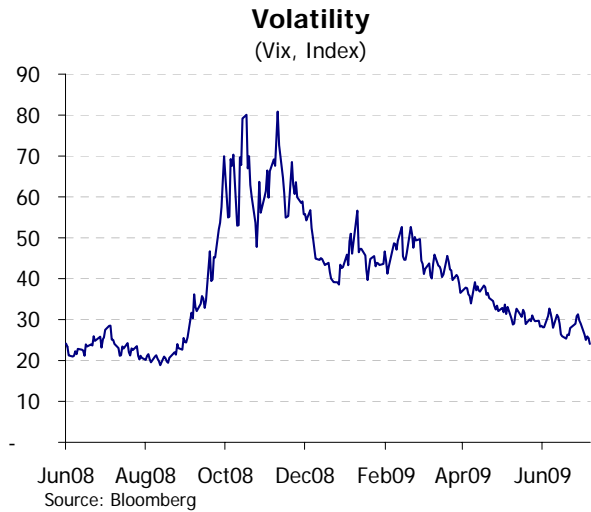
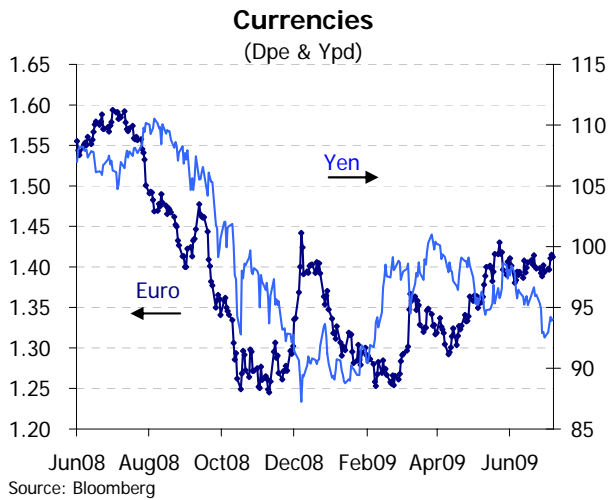
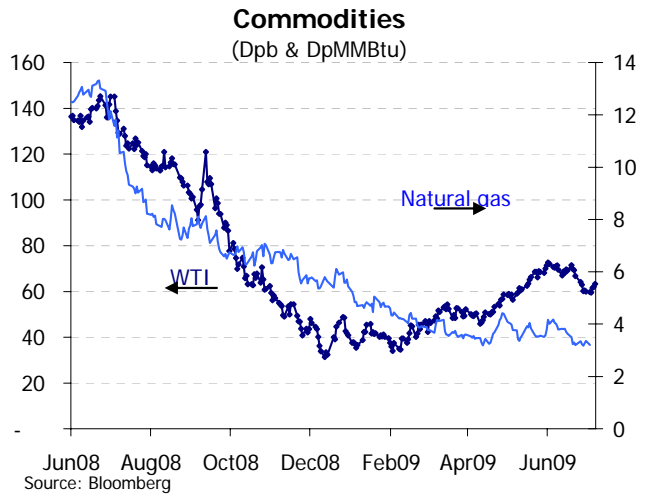
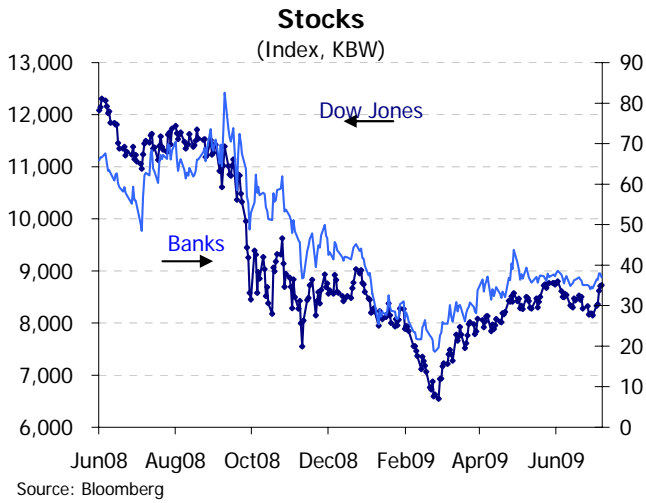
**Initial Jobless Claims**  
(4-week moving average)



**Existing Home Sales**  
(yoy % change)



Financial Markets



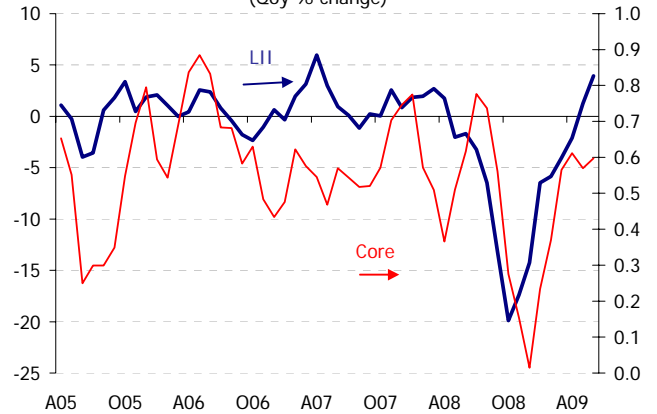
Economic Trends

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



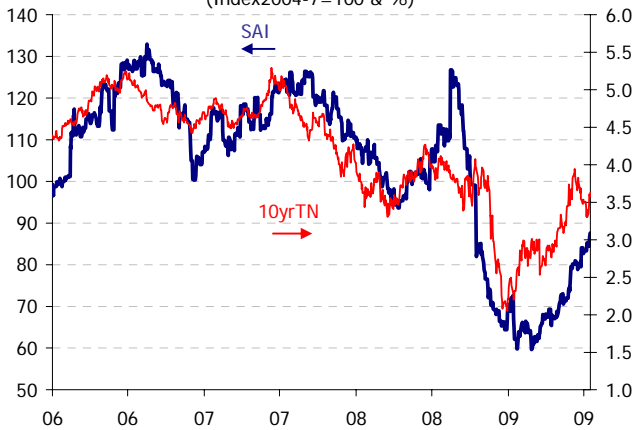
Source: BBVA ERD

**BBVA US Leading Inflation Index & Core Inflation**  
(Qoy % change)



Source: BBVA ERD

**BBVA US Surprise Activity Index & 10-yr Treasury**  
(Index2004-7=100 & %)



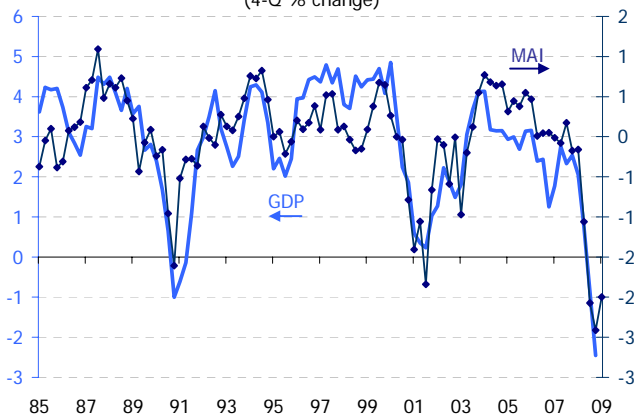
Source: BBVA ERD

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



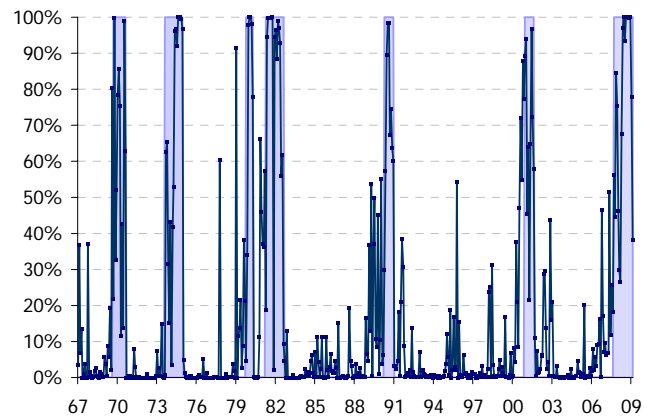
Source: BBVA ERD

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



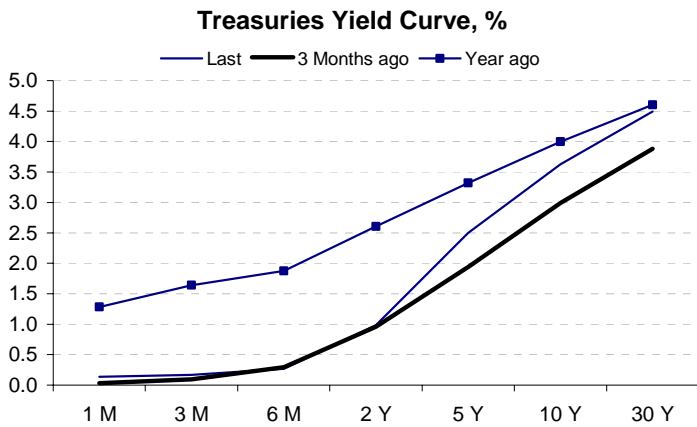
Source: BBVA ERD & BEA

**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)	11.08	11.08	10.80	11.66
New Auto (36-months)	7.10	7.13	7.21	6.81
Heloc Loan 30K	5.76	5.76	5.29	4.72
30-year Fixed Mortgage *	5.14	5.20	6.37	6.71
Money Market	1.23	1.24	1.30	2.46
2-year CD	1.96	1.99	1.98	3.70
5-year CD	2.61	2.60	2.62	4.10

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

California State Treasurer Bill Lockyer on California's Budget Crisis  
July 16, 2009

*"I call on the governor and Legislature to focus exclusively on what it takes to bring this year's budget back in balance, honestly and immediately. I urge them to narrow, not expand, the list of their disputes, to quit adding or resurrecting endless ideological debating points, and to stop using budget negotiations to score points with political allies or against partisan opponents. I ask them to stop devoting energy to any issue that does not directly relate to closing this year's budget gap without adding to out-year liabilities."*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
20-Jul	Leading Indicators	JUN	0.80%	0.50%	1.20%
21-Jul	Chicago Fed Nat Activity Index	JUN	--	--	-2.3
21-Jul	ABC Consumer Confidence	19-Jul	--	--	-51
22-Jul	MBA Mortgage Applications	17-Jul	--	--	4.30%
23-Jul	Initial Jobless Claims	18-Jul	545K	555K	522K
23-Jul	Continuing Claims	11-Jul	6330K	6330K	6273K
23-Jul	RPX Composite 28dy YoY	MAY	--	--	-19.69%
23-Jul	RPX Composite 28dy Index	MAY	--	--	188.52
23-Jul	Existing Home Sales	JUN	4.83M	4.80M	4.77M
23-Jul	Existing Home Sales MoM	JUN	1.30%	0.60%	2.40%
24-Jul	U. of Michigan Confidence	JUL F	65	65	64.6