



Weekly Observatory

August 3, 2009

Week Ahead

ISM Manufacturing Index (July, Monday 10:00 ET)

F: 46.4 C: 46.5 P: 44.8

The ISM manufacturing index is expected to remain below the benchmark of 50, but will continue on its seven month upward trend in July. These results would indicate that the manufacturing industry is still contracting in the face of feeble demand, but at a slower pace. Nevertheless, the index is expected to come in over 41.2 for the third month in a row. Since data persistently above this benchmark indicates economic expansion, these results would be consistent with our baseline scenario of recovery in late 2009.

Personal Income and Outlays (June, Tuesday 8:30 ET)

F: -1.0%, 0.3% C: -1.0%, 0.3% P: 1.4%, 0.3%

After a two month upward adjustment due to increases in social benefits under the American Recovery and Reinvestment Act, personal income is expected to drop 1% in June. As the economy and job market remain weak, companies continue to implement unpaid furloughs, reduced work weeks and other measures that effectively reduce employee compensations. Nevertheless, consumption is forecasted to increase modestly due to the increase in income in the previous months and prospects of additional stabilization in the economy.

Pending Home Sales (June, Tuesday 10:00 ET)

F: 0.7% C: 0.6% P: 0.1%

Amid renewed demand for existing homes due to favorable home prices and increasing affordability, pending home sales are expected to increase for the fifth consecutive month. An increase would indicate that sales of existing homes would rise further in the upcoming months, which could, in turn, further slow the decline in home prices and decrease inventory levels.

Non-Farm Payrolls (July, Friday 8:30 ET)

F: -395K C: -325K P: -467K

Amid ongoing weakness in the job market, non-farm payrolls are expected to drop for the eighteenth month in a row. The shrinking job market could present risks to economic recovery by limiting consumer spending even further. On a positive note, the worst declines are behind us with the change in non-farm payrolls hitting a peak of -741K in January 2009 and slowing considerably since. In July, average initial unemployment insurance claims have fallen from those reported in June, as have continuing claims. These results indicate that the contraction in the job market has slowed further over the past month and non-farm payroll figures are expected to reflect this improvement by exhibiting a smaller negative change than in June.

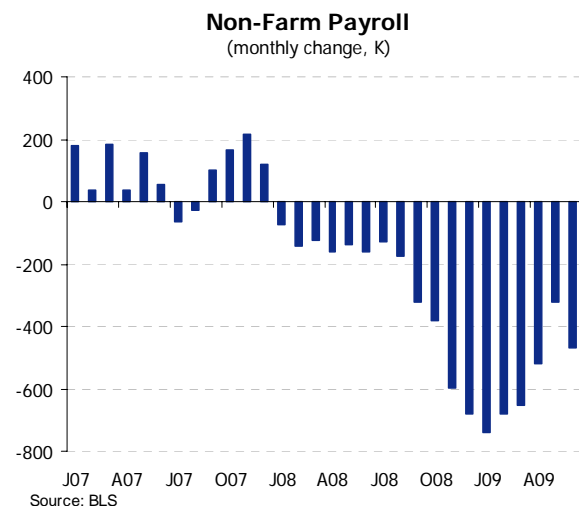
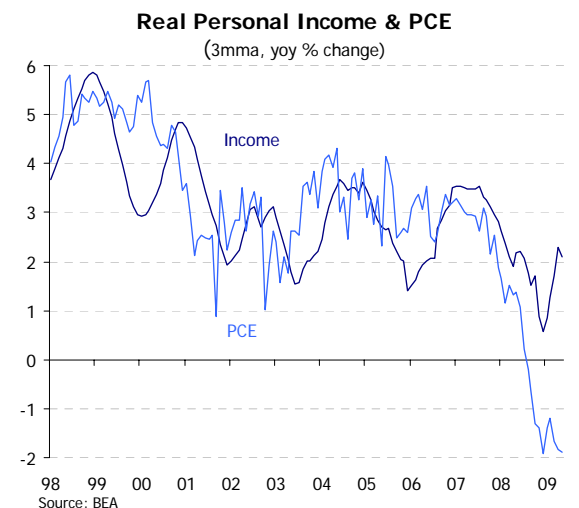
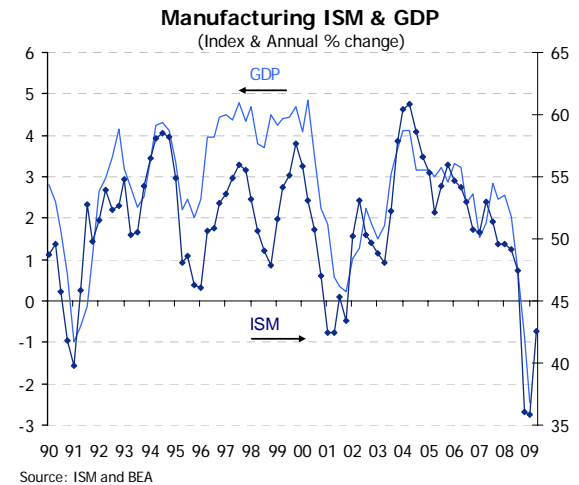
Consumer Credit (June, Friday 3:00 ET)

F: -\$4.7B C: -\$4.2B P: -\$3.23B

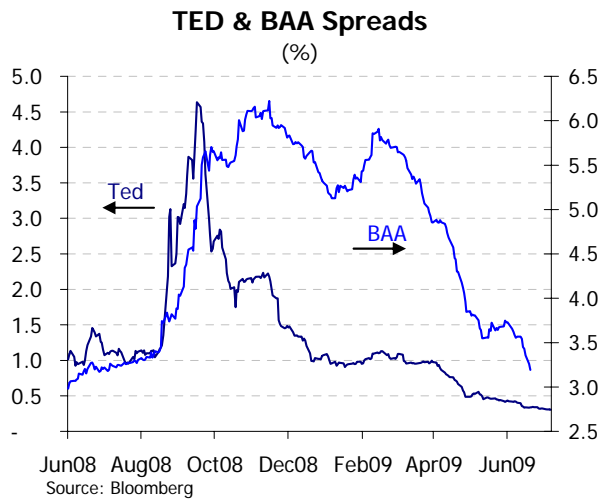
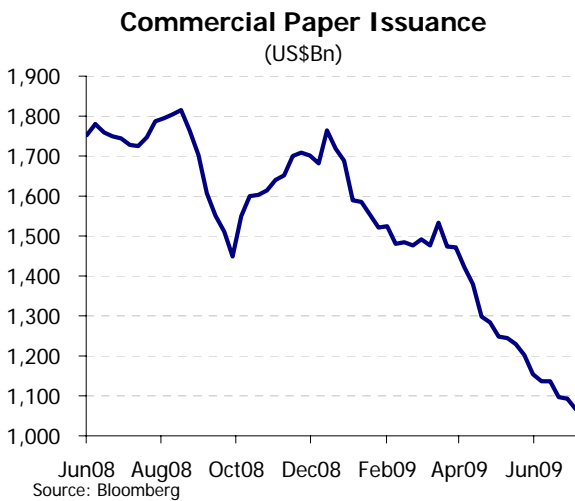
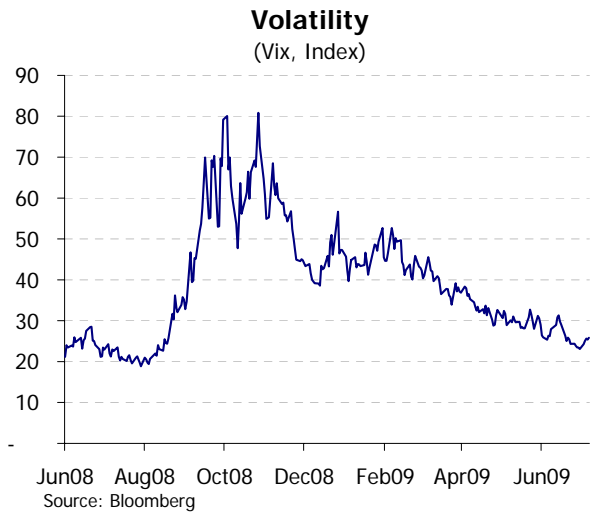
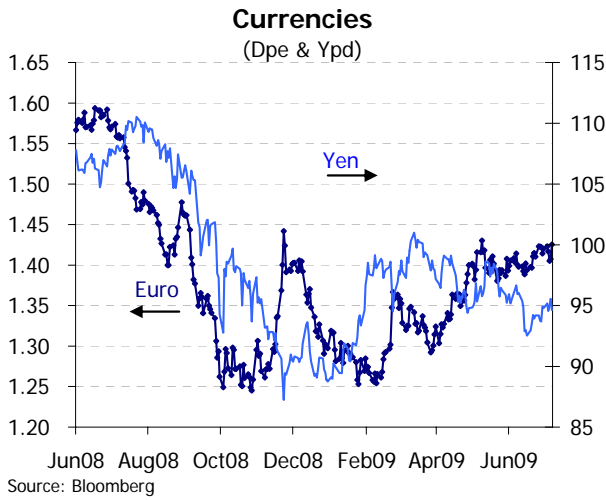
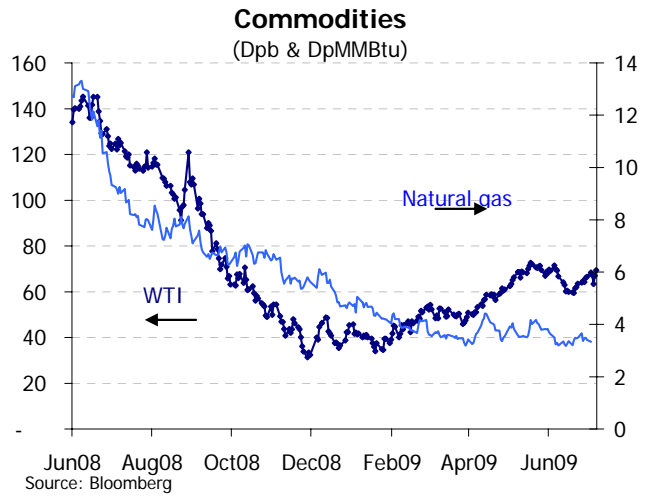
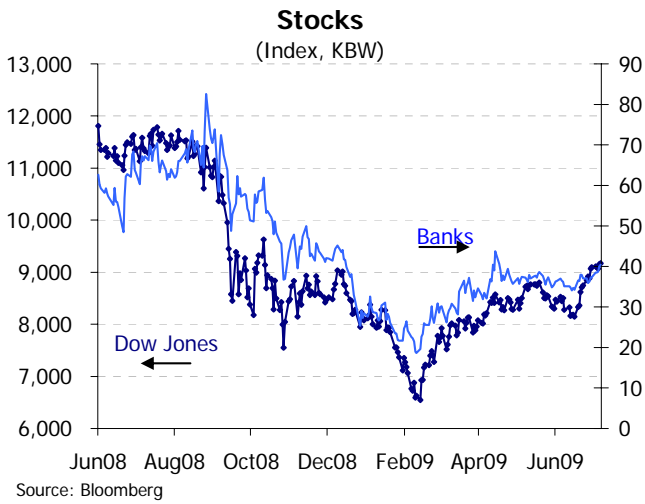
Consumer credit outstanding is expected to drop for the eighth time in nine months as consumers reign in their spending, change their preference to cash over credit and pay-off existing debt. In addition, the most recent Beige Book indicated that lenders are continuing to tighten lending standards, making it more difficult for consumers to access the credit markets. The steep drop outstanding credit could slow the recovery of consumption as the use of credit expands the pool of money that people have available to spend.

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Financial Markets



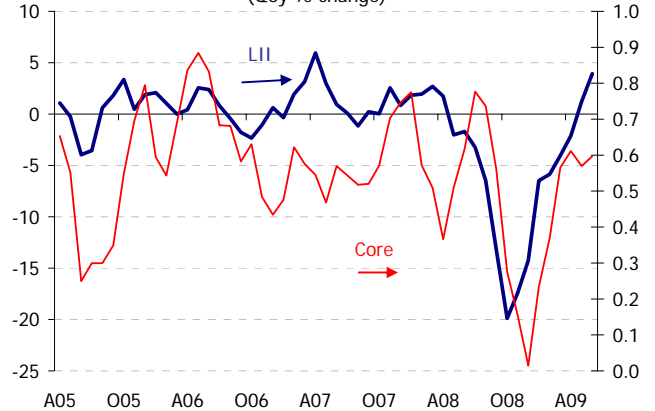
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



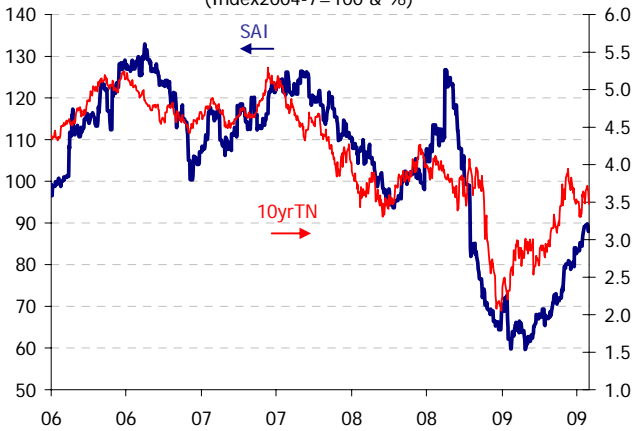
Source: BBVA ERD

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



Source: BBVA ERD

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



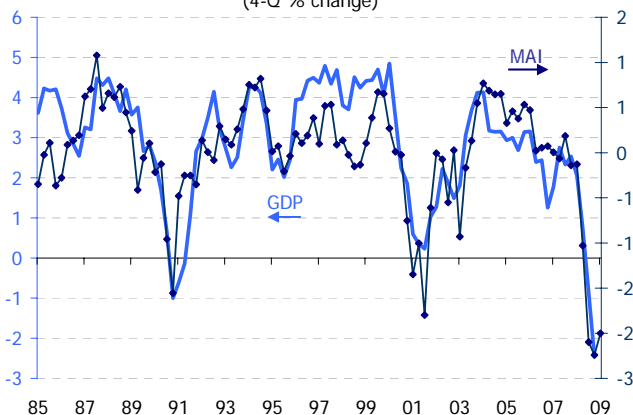
Source: BBVA ERD

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



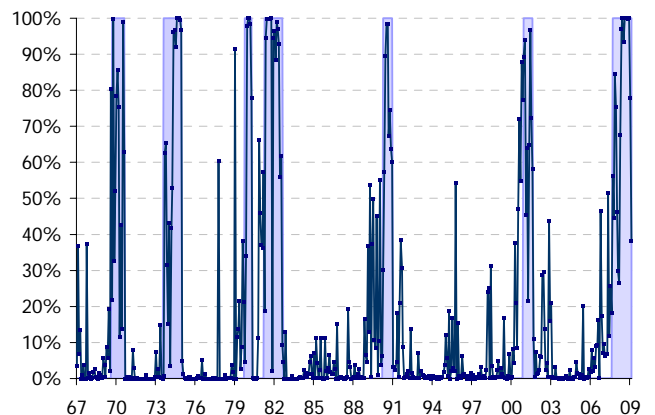
Source: BBVA ERD

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



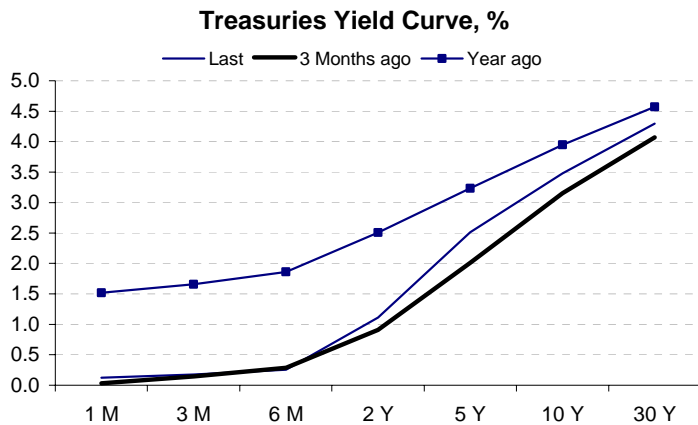
Source: BBVA ERD & BEA

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)	11.16	11.08	11.08	11.62
New Auto (36-months)	7.08	7.10	7.14	6.83
Heloc Loan 30K	5.78	5.76	5.28	5.55
30-year Fixed Mortgage *	5.25	5.20	6.37	6.71
Money Market	1.20	1.20	1.28	2.49
2-year CD	1.96	1.91	2.01	3.82
5-year CD	2.64	2.59	2.61	4.21

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Federal Reserve Bank of New York President William Dudley: The Economic Outlook and the Fed's Balance Sheet: The Issue of "How" versus "When"
July 29, 2009

If the recovery does, in fact, turn out to be lackluster, the unemployment rate is likely to remain elevated and capacity utilization rates unusually low for some time to come. This suggests that inflation will be quiescent. For all these reasons, concern about "when" the Fed will exit from its current accommodative monetary policy stance is, in my view, very premature.

Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
3-Aug	ISM Manufacturing	JUL	46.4	46.5	44.8
3-Aug	ISM Prices Paid	JUL	50.2	51.5	50
3-Aug	Construction Spending MoM	JUN	-0.30%	-0.50%	-0.90%
3-Aug	Total Vehicle Sales	JUL	10M	10.0M	9.7M
3-Aug	Domestic Vehicle Sales	JUL	7.4M	7.4M	7.2M
4-Aug	Personal Income	JUN	-1.00%	-1.00%	1.40%
4-Aug	Personal Spending	JUN	0.30%	0.30%	0.30%
4-Aug	PCE Core (MoM)	JUN	0.10%	0.20%	0.10%
4-Aug	Pending Home Sales MoM	JUN	0.70%	0.60%	0.10%
4-Aug	ABC Consumer Confidence	2-Aug	--	--	-47
5-Aug	MBA Mortgage Applications	31-Jul	--	--	-6.30%
5-Aug	ADP Employment Change	JUL	-353K	-340K	-473K
5-Aug	ISM Non-Manf. Composite	JUL	48.2	48	47
5-Aug	Factory Orders	JUN	1.10%	-0.60%	1.20%
6-Aug	Initial Jobless Claims	1-Aug	564K	580K	584K
6-Aug	Continuing Claims	25-Jul	6186K	6245K	6197K
7-Aug	Change in Nonfarm Payrolls	JUL	-395K	-325K	-467K
7-Aug	Unemployment Rate	JUL	9.70%	9.60%	9.50%
7-Aug	Change in Manufact. Payrolls	JUL	-133K	-105K	-136K
7-Aug	Average Hourly Earnings MoM	JUL	0.20%	0.10%	0.00%
7-Aug	Average Weekly Hours	JUL	33	33	33
7-Aug	Consumer Credit	JUN	-\$4.7B	-\$4.2B	-\$3.2B