



Weekly Observatory

August 31, 2009

Week Ahead

ISM Manufacturing Index (August, Tuesday 10:00 ET)

F: 52.8 C: 50.5 P: 48.9

Amid signs from regional manufacturing indices that activity expanded in August, the ISM manufacturing index is expected to surpass the benchmark of fifty to indicate expansion in the industry for the first time since January 2008. Furthermore, August will be the third month that the index maintains a level consistent with overall economic expansion. These results would be in line with our expectations of modest economic growth in the third quarter.

Motor Vehicle Sales (August, Tuesday, time unavailable)

F: 11.9M C: 13.2M P: 11.2M

Auto sales are expected to receive an additional boost from the Cash for Clunkers program in August as buyers rush to take advantage before the program closes. Although the Clunkers plan is succeeding in providing a boost for auto suppliers and could result in a near-term increase in manufacturing to replenish inventories, the effects are most likely transitory. As a result, we expect to see a decline in auto sales in September once the program finishes.

Minutes of August 12th FOMC Meeting (Wednesday 14:00 ET)

We expect the economic assessment from the FOMC members to have improved in comparison to the previous meeting, along with little disagreement on inflationary risks and monetary easing. It is likely that the committee revised up its GDP growth forecast. Furthermore, the members most likely focused on the evolution of existing liquidity measures and possible exit strategies. We continue to expect the Fed funds rate to remain low for a prolonged period of time.

ISM Non-Manufacturing Index (August, Thursday 10:00 ET)

F: 47.5 C: 48.0 P: 46.4

The ISM Non-Manufacturing Index is expected to illustrate contraction in the sector for the eleventh month in a row, which could indicate that a sense of uncertainty about business conditions remains. Nevertheless, the pace of decline is slowing, implying that the largest adjustments are behind us. While the manufacturing sector is beginning to show signs of life, the non-manufacturing sector, which covers industries such as construction, services and finance, continues to face challenges. As a result, these industries could limit GDP growth in the third quarter.

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

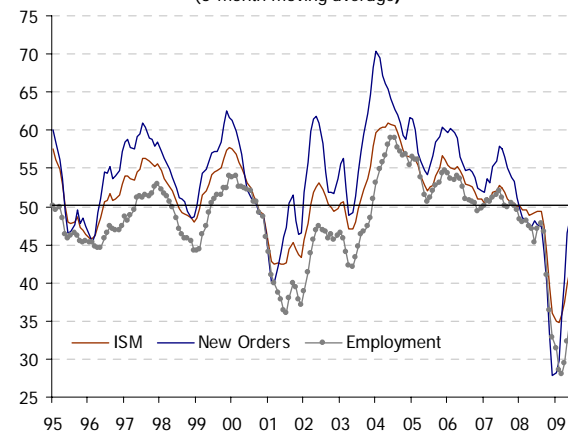
F: -247K C: -228K P: -443K

The change in non-farm payrolls is expected to indicate that weakness remains in the labor markets. Total payroll is anticipated to contract for the nineteenth month in a row, but at a slower pace as companies continue to be battered by feeble demand. In total, 6.5M jobs have been destroyed since the beginning of the recession. The depth of the crisis in the labor market will pose a challenge to the consumption component of GDP as the economy will take a long time to recover the jobs that were lost.

Kristin Lomicka

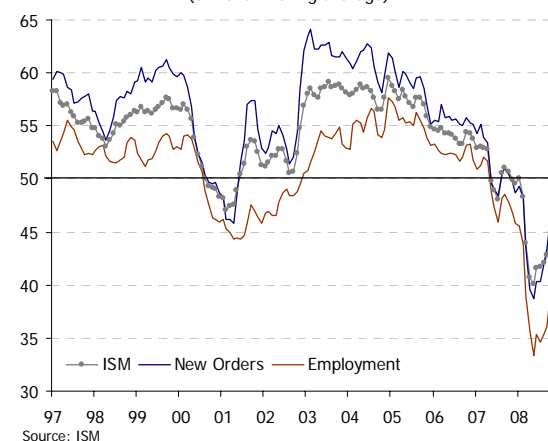
kristin.lomicka@bbvacompass.com

ISM Manufacturing Index
(3-month moving average)



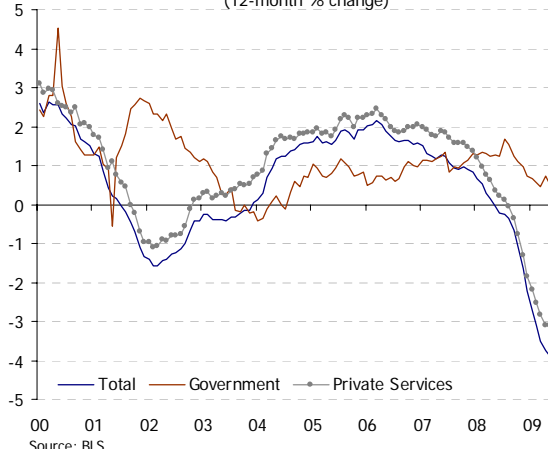
Source: ISM

ISM Non-Manufacturing Index
(3-month moving average)



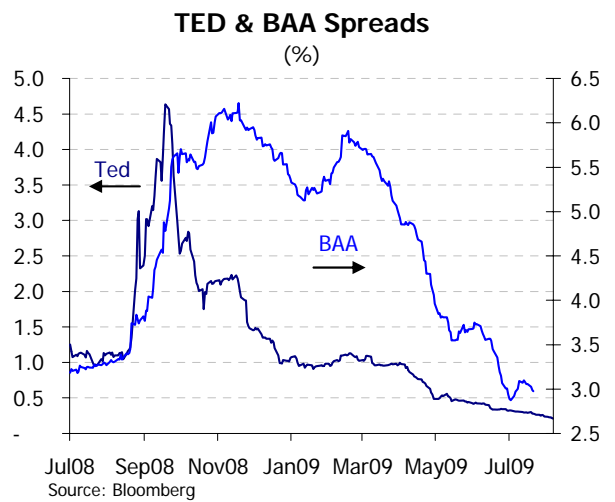
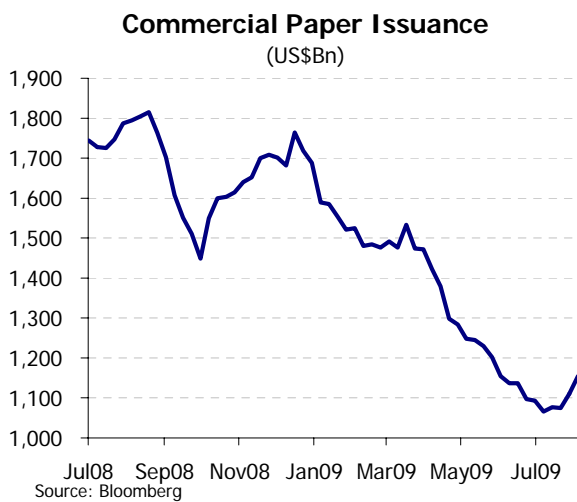
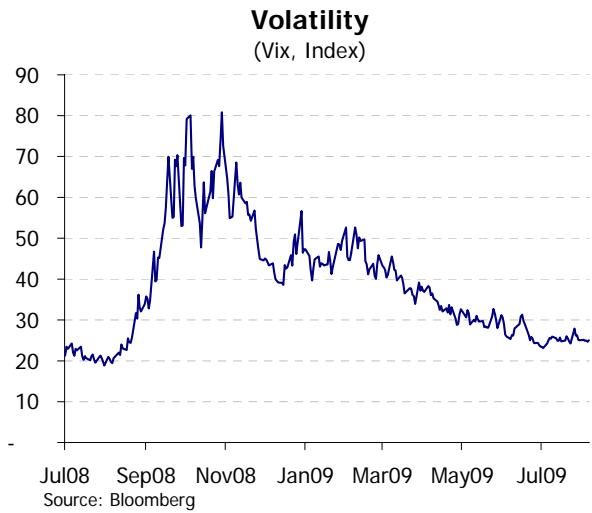
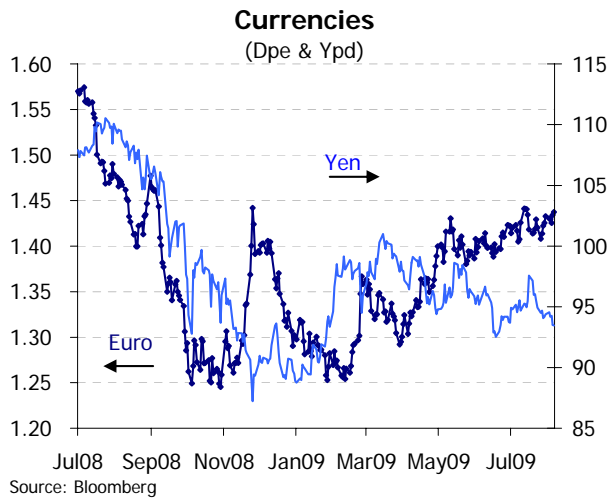
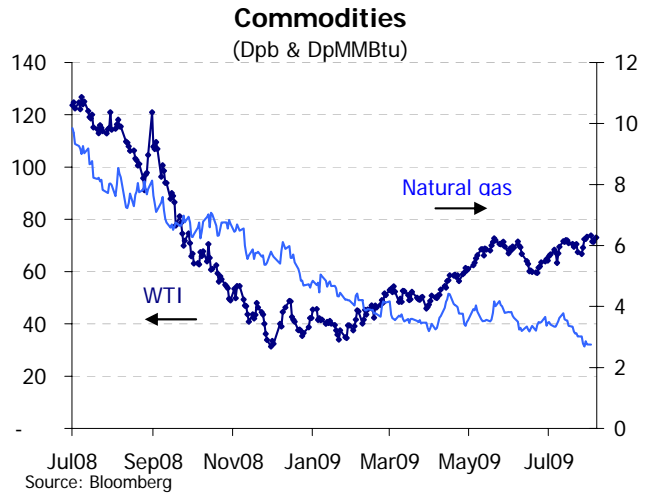
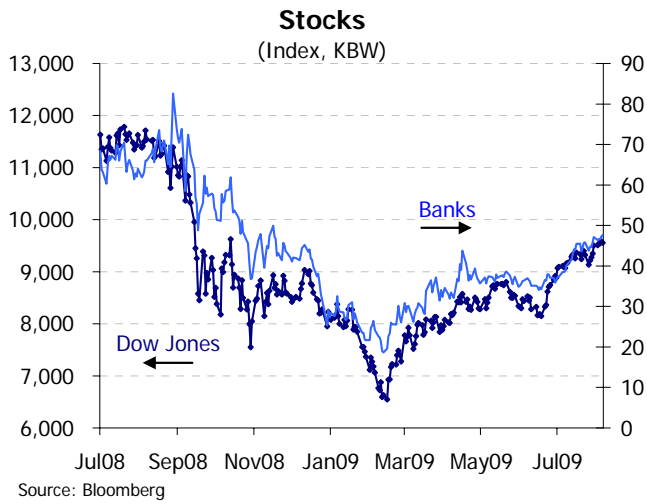
Source: ISM

Total Nonfarm Payrolls
(12-month % change)



Source: BLS

Financial Markets



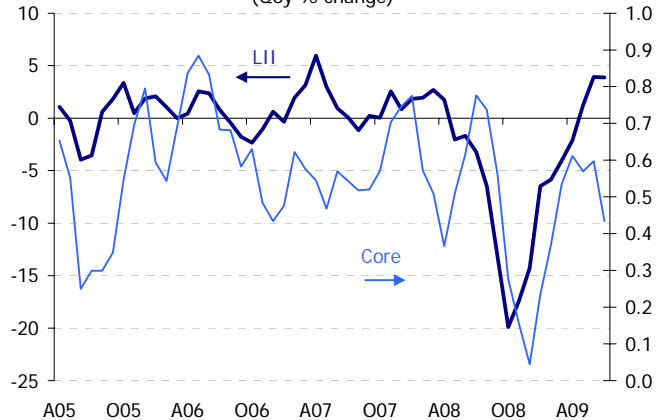
Economic Trends

BBVA US Weekly Activity Index
(Yoy % change)



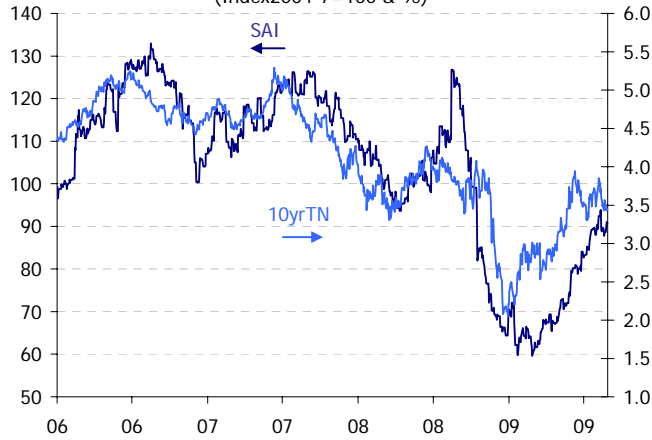
Source: BBVA ERD

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



Source: BBVA ERD

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



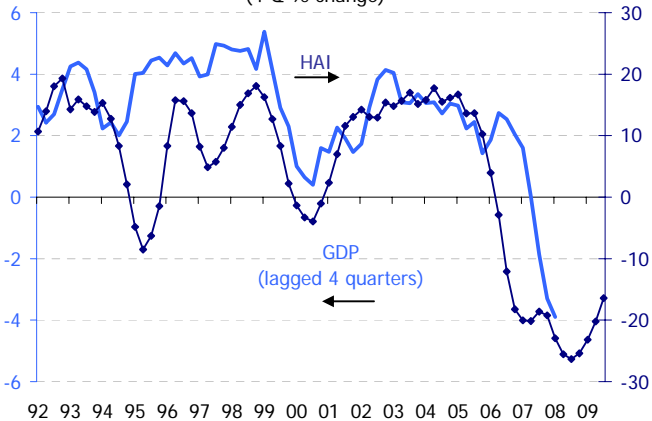
Source: BBVA ERD

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



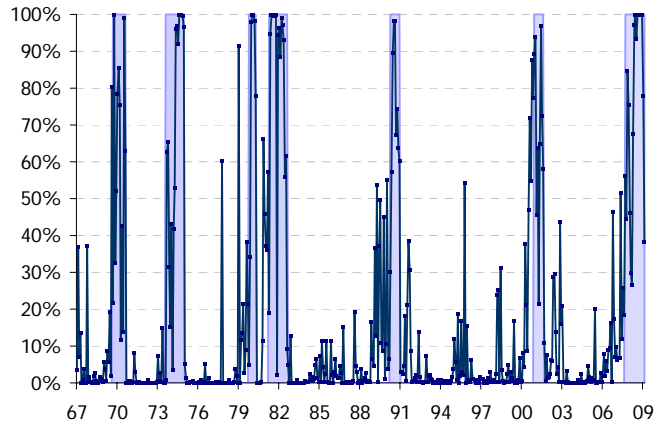
Source: BBVA ERD

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



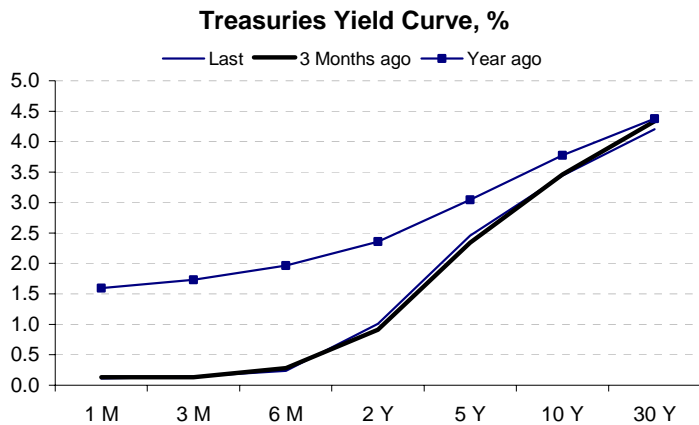
Source: BBVA ERD & BEA

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) | 11.28 | 11.16 | 11.16 | 11.57 |
| New Auto (36-months) | 7.22 | 7.12 | 7.09 | 6.72 |
| Heloc Loan 30K | 5.80 | 5.82 | 5.78 | 5.58 |
| 30-year Fixed Mortgage * | 5.14 | 5.12 | 6.37 | 6.71 |
| Money Market | 1.17 | 1.17 | 1.21 | 2.49 |
| 2-year CD | 1.91 | 1.91 | 1.95 | 3.88 |
| 5-year CD | 2.66 | 2.64 | 2.64 | 4.23 |

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

FDIC Chairman Sheila Bair: Statement at the Quarterly Banking Profile Press Conference
August 27, 2009

"Deteriorating loan quality is having the greatest impact on industry earnings as insured institutions continue to set aside reserves to cover loan losses. Of all the major earnings components, the amount that insured institutions added to their reserves for loan losses was, by far, the largest drag on industry earnings compared to a year ago."

Economic Calendar

| Date | Indicator | Period | Forecast | Consensus | Previous |
|--------|---------------------------------|--------|----------|-----------|----------|
| 31-Aug | Chicago Purchasing Manager | AUG | 48.2 | 48 | 43.4 |
| 1-Sep | ISM Manufacturing | AUG | 52.1 | 50.5 | 48.9 |
| 1-Sep | ISM Prices Paid | AUG | 59 | 57.8 | 55 |
| 1-Sep | Construction Spending MoM | JUL | 0.10% | -0.10% | 0.30% |
| 1-Sep | Pending Home Sales MoM | JUL | 1.50% | 1.50% | 3.60% |
| 1-Sep | ABC Consumer Confidence | 30-Aug | -45 | -44 | -45 |
| 1-Sep | Total Vehicle Sales | AUG | 11.9M | 13.2M | 11.3M |
| 1-Sep | Domestic Vehicle Sales | AUG | 9.4M | 9.4M | 8.4M |
| 2-Sep | MBA Mortgage Applications | 28-Aug | -- | -- | 7.50% |
| 2-Sep | ADP Employment Change | AUG | -285K | -250K | -371K |
| 2-Sep | Nonfarm Productivity | 2Q F | 6.40% | 6.40% | 6.40% |
| 2-Sep | Unit Labor Costs | 2Q F | -5.80% | -5.80% | -5.80% |
| 2-Sep | Factory Orders | JUL | 1.00% | 2.20% | 0.40% |
| 2-Sep | Minutes of Aug. 12 FOMC Meeting | 2-Sep | | | |
| 2-Sep | Initial Jobless Claims | 29-Aug | 555K | 560K | 570K |
| 3-Sep | Continuing Claims | 22-Aug | 6099K | 6115K | 6133K |
| 3-Sep | ISM Non-Manf. Composite | AUG | 47.5 | 48 | 46.4 |
| 4-Sep | Change in Nonfarm Payrolls | AUG | -205K | -228K | -247K |
| 4-Sep | Unemployment Rate | AUG | 9.50% | 9.50% | 9.40% |
| 4-Sep | Change in Manuf. Payrolls | AUG | -64K | -60K | -52K |
| 4-Sep | Average Hourly Earnings MoM | AUG | 0.20% | 0.10% | 0.20% |
| 4-Sep | Average Weekly Hours | AUG | 33.1 | 33.1 | 33.1 |