



# Weekly Observatory

January 4, 2010

## Week Ahead

### ISM Manufacturing Index (December, Monday 10:00 ET)

Forecast: 55.4      Consensus: 54.3      Previous: 53.6

Manufacturing activity is expected to increase at a faster rate in December than in the previous month as the ISM Manufacturing Index is forecasted to rise to 55.4 from 53.6. This will mark the fifth month that the manufacturing sector has expanded, which is an indication that demand is picking-up. Furthermore, since the index's results reflect the performance of the overall economy, it can be inferred that GDP will rise in 4Q09, which is in line with our baseline scenario.

### Auto Sales (December, Tuesday, time n.a.)

Forecast: 11.1M      Consensus: 11.0M      Previous: 10.9M

Auto sales are expected to rise further in December, which would bring them above the previous year's level for the second month in a row. The rising demand for autos will continue to support the durable goods component of PCE and contribute to the anticipated increase in total PCE in 4Q09. Nevertheless, auto sales remain low compared to the historical average of 14.5M, reflecting the ongoing weakness in consumer demand.

### ISM Non-Manufacturing Index (December, Wednesday 10:00 ET)

Forecast: 49.8      Consensus: 50.5      Previous: 48.7

The ISM Non-Manufacturing Index is expected to rise in December illustrating further stabilization in the non-manufacturing sector. Improvement in this sector is lagging that of the manufacturing industry as the index has been hovering close to the benchmark of fifty for the past four months, but has yet to steadily rise above it. We expect to see ongoing improvement in this sector, but at a slow pace.

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

Forecast: -20K      Consensus: -1K      Previous: -11K

Non-farm payrolls are expected to drop 20K jobs in December after shedding 11K in November. Although job losses are still occurring, the pace of decline has slowed significantly. Much of the improvement has come from job creation in the professional business services sector, which could be a good signal for the economy. While there are positive signs, labor market recovery is expected to be slow given the ongoing weakness in the overall economy.

### Wholesale Inventories (October, Friday 10:00 ET)

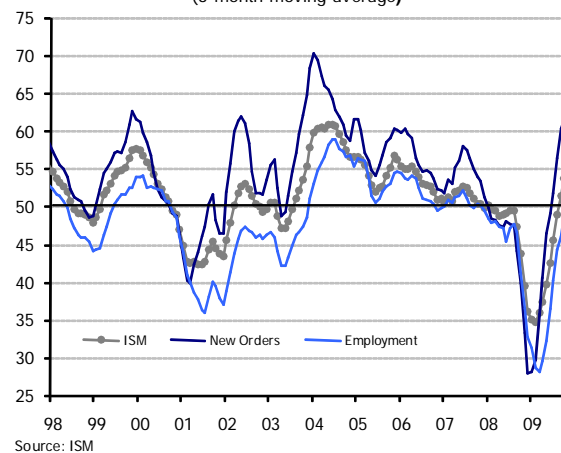
Forecast: 0.4%      Consensus: -0.2%      Previous: 0.3%

After declining for thirteen months, wholesale inventories are more in line with sales and are expected to rise for the second consecutive month. This indicates that the steep inventory adjustment may be over. As a result, companies are beginning to restock, which will help to support further increases in industrial production.

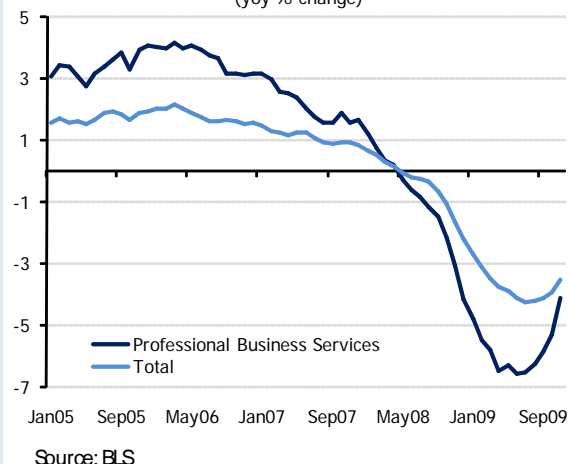
**Kristin Lomicka**

Kristin.Lomicka@bbvacompass.com

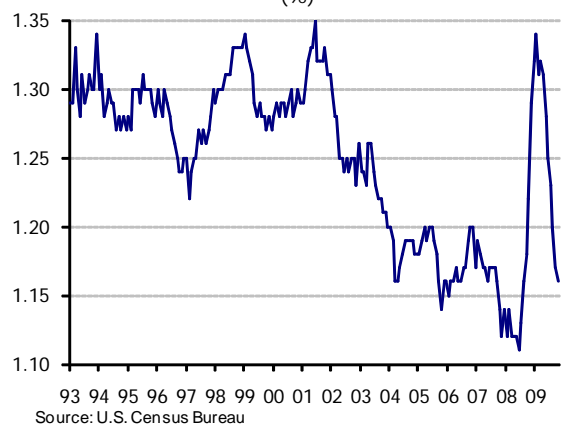
**ISM Manufacturing Index**  
(3-month moving average)



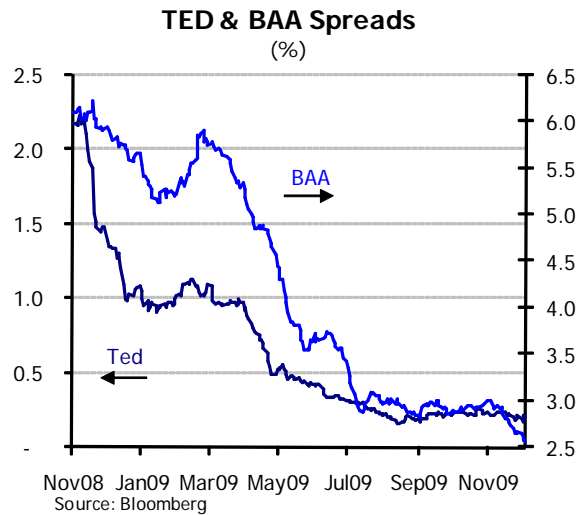
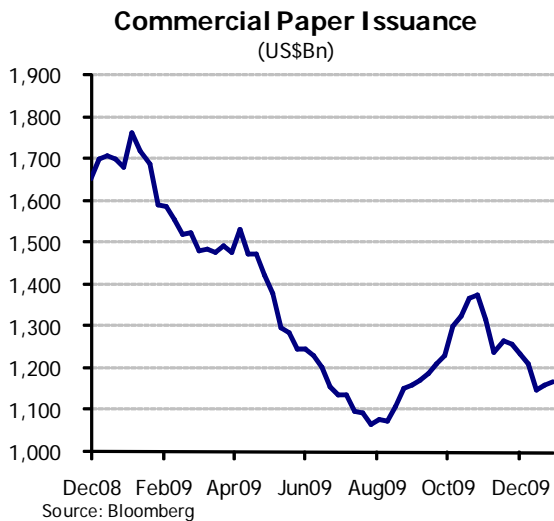
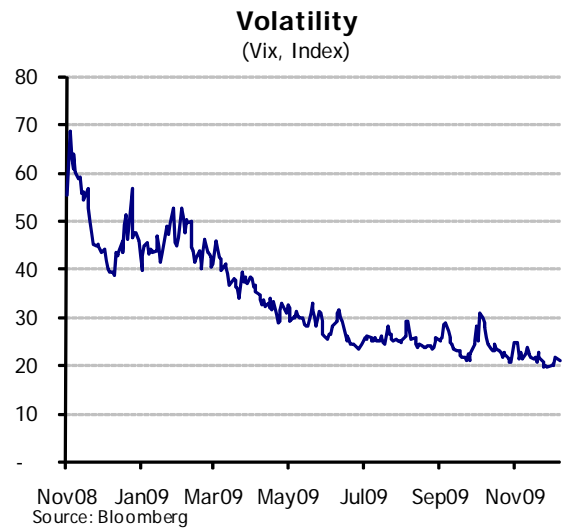
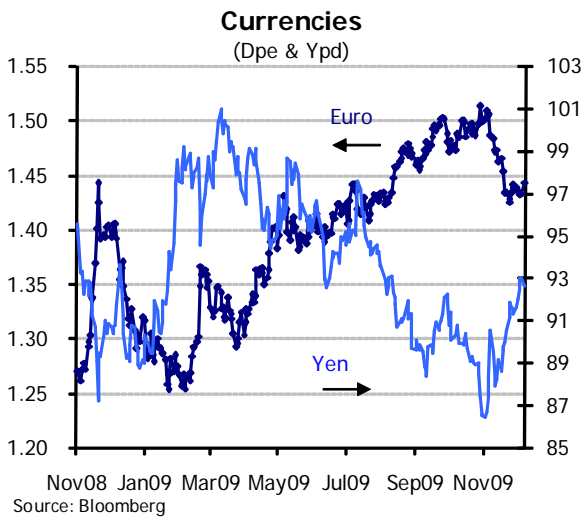
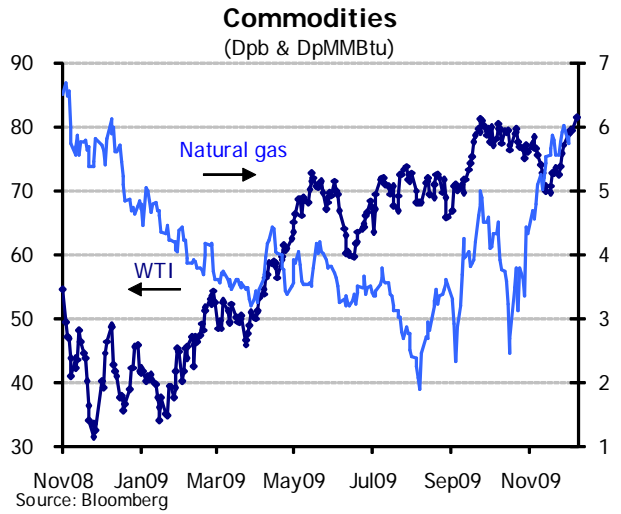
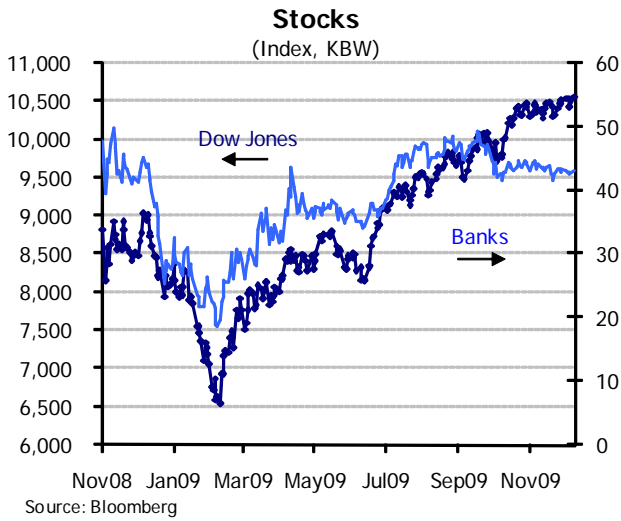
**Non-Farm Payrolls**  
(yoy % change)



**Wholesale Inventory to Sales Ratio**  
(%)

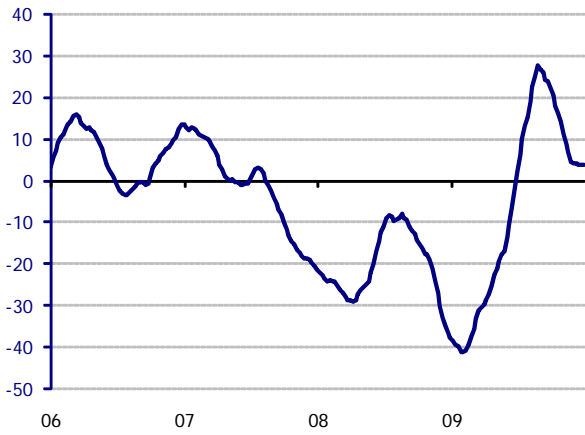


**Financial Markets**



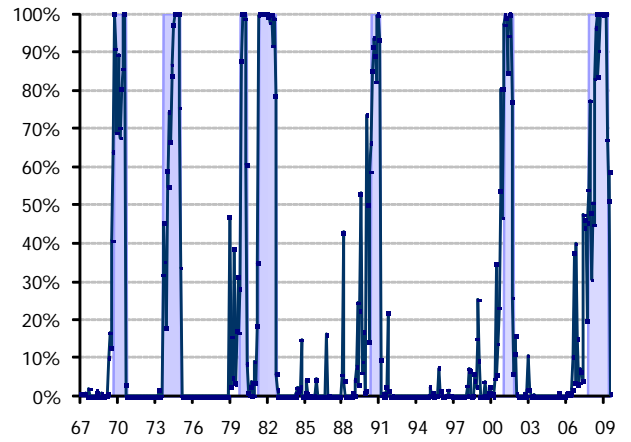
**Economic Trends**

**BBVA US Weekly Activity Index**  
(3 month % change)



Source: BBVA ERD

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



Source: BBVA ERD

**BBVA US Surprise Inflation Index**  
(Index 2004-7=100)



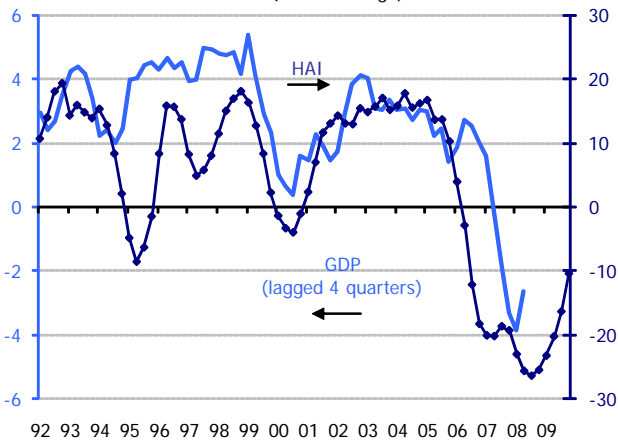
Source: BBVA ERD

**BBVA US Surprise Activity Index & 10-yr Treasury**  
(Index 2004-7=100 & %)



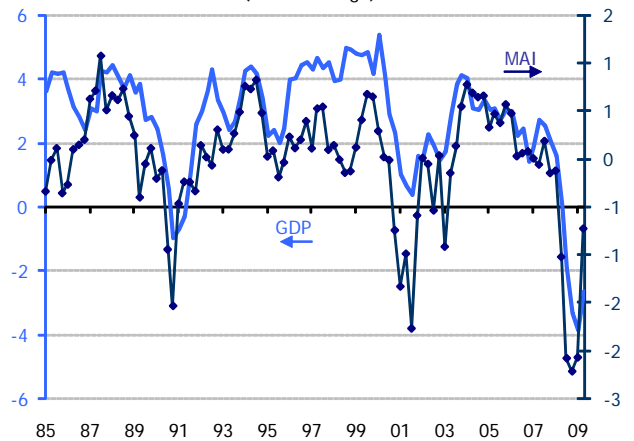
Source: BBVA ERD

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



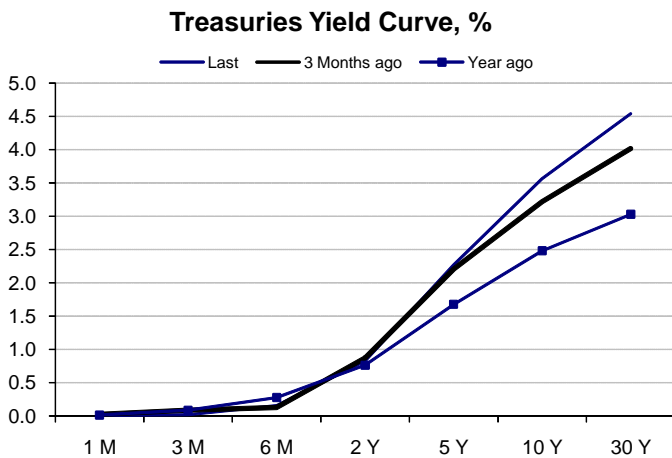
Source: BBVA ERD & BEA

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



Source: BBVA ERD & BEA

## Yield Curve and Interest Rates



### Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	11.54	11.48	11.48	10.96
New Auto (36-months)	6.66	6.70	6.67	6.73
Heloc Loan 30K	5.67	5.65	5.68	4.98
30-year Fixed Mortgage *	5.14	5.05	6.37	6.71
Money Market	0.92	0.90	0.96	2.10
2-year CD	1.81	1.81	1.88	2.78
5-year CD	2.61	2.59	2.59	3.13

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Federal Reserve Vice Chairman Donald Kohn  
As quoted by the Wall Street Journal on January 4, 2010

*"We will need to begin withdrawing extraordinary monetary stimulus well before the economy returns to high levels of resource utilization," Federal Reserve Vice Chairman Donald Kohn said. The interest-rate-setting Federal Open Market Committee "has been clear that its expectations for the stance of monetary policy depend on economic conditions, including resource utilization, inflation and inflation expectations."*

## Economic Calendar

Date Time	Event	Period	Forecast	Survey	Previous
4-Jan	ISM Manufacturing	DEC	55.4	54	53.6
4-Jan	ISM Prices Paid	DEC	56.9	58.8	55
4-Jan	Construction Spending MoM	NOV	-0.70%	-0.50%	0.00%
5-Jan	Factory Orders	NOV	0.80%	0.50%	0.60%
5-Jan	Pending Home Sales MoM	NOV	3.90%	-3.00%	3.70%
5-Jan	ABC Consumer Confidence	3-Jan	--	--	-44
5-Jan	Total Vehicle Sales	DEC	11.1	11.00M	10.92M
6-Jan	ADP Employment Change	DEC	-91K	-75K	-169K
6-Jan	ISM Non-Manf. Composite	DEC	49.8	50.5	48.7
7-Jan	Initial Jobless Claims	2-Jan	447K	445K	432K
7-Jan	Continuing Claims	26-Dec	5080K	5040K	4981K
8-Jan	Change in Nonfarm Payrolls	DEC	-20K	-1K	-11K
8-Jan	Unemployment Rate	DEC	10.00%	10.10%	10.00%
8-Jan	Change in Manufact. Payrolls	DEC	-37K	-35K	-41K
8-Jan	Average Hourly Earnings MoM	DEC	0.10%	0.20%	0.10%
8-Jan	Average Weekly Hours	DEC	33.2	33.2	33.2
8-Jan	Wholesale Inventories	NOV	0.40%	-0.30%	0.30%
8-Jan	Consumer Credit	NOV	-\$6.2B	-\$5.0B	-\$3.5B

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