



Weekly Observatory

January 18, 2010

Week Ahead

NAHB Housing Market Index (January, Tuesday 1:00 ET)

Forecast: 16 Consensus: 17 Previous: 16

The NAHB Housing Market Index is expected to remain at 16 in January, which is well below the historical average of 51. The index measures builders' confidence in regards to single-family sales, single-family sales in the next six months and buyers traffic. Such a low level of the index indicates that builders still believe that housing demand is weak. As a result, residential investment could remain low early in 2010.

Producer Price Index (headline, core) (December, Wed 8:30 ET)

Forecast: 0.1%, 0.2% Consensus: 0%, 0.1% Previous: 1.8%, 0.5%

Headline producer price inflation is expected to ease in December to 0.1% after rising 1.8% in November. While core producer price inflation is expected to slow to 0.2% after rising 0.5% in the previous month. Inflationary pressures on producer prices remain balanced. Although wages, a producer's primary cost, are no longer declining, they remain low. Additionally, the cost of intermediate materials is still below that of the previous year. Low cost of inputs, coupled with weak demand, will incentivize producers to keep prices steady.

Housing Starts (December, Wednesday 8:30 ET)

Forecast: 577K Consensus: 575K Previous: 574K

Housing starts are expected to rise modestly to 577K from 574K in December. While starts have improved slightly from their low of 488K in January 2009, they continue to remain at one of the lowest points in the history of the data (beginning in 1959) due to weak demand. Furthermore, housing starts slowed in 4Q09 compared to 3Q09, indicating that residential investment could decline in the fourth quarter.

Leading Economic Index (December, Thursday 10:00 ET)

Forecast: 0.8% Consensus: 0.7% Previous: 0.9%

The Leading Economic Index is expected to foreshadow ongoing improvement in the economy as it rises for the ninth month in a row. Positive contributions are anticipated to come from the S&P 500, initial jobless claims, consumer expectations and average weekly hours. Furthermore, build permits are forecasted to post a modest increase, which will boost the index as well.

Philadelphia Fed Manufacturing Index (January, Thursday 10:00 ET)

Forecast: 24.2 Consensus: 19.4 Previous: 20.4

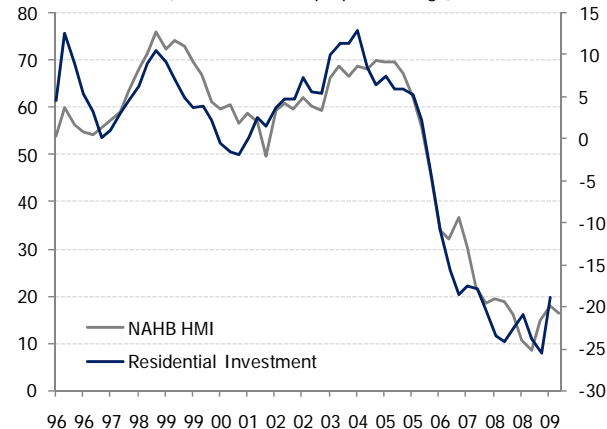
The Philadelphia Fed Manufacturing Index is expected to increase for the sixth consecutive month in January, indicating accelerating growth in the region's manufacturing industry. These results, paired with that of the Empire State Manufacturing Index released last week, could indicate that the ISM Manufacturing Index and industrial production will rise further in January.

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NAHB Housing Market Index & Residential Investment

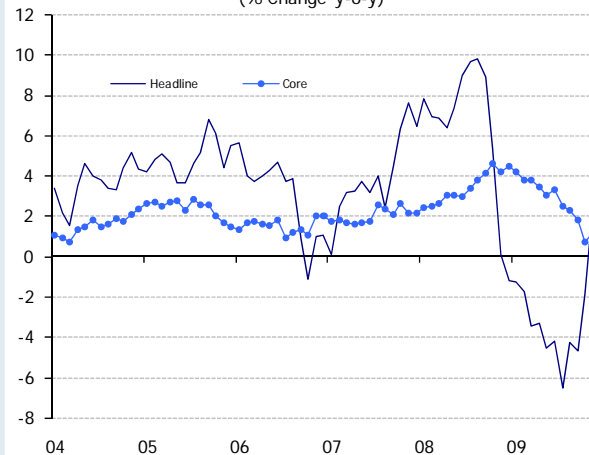
(3mma of index, q4/q4 % change)



Source: NAHB & BEA

Producer Price Index

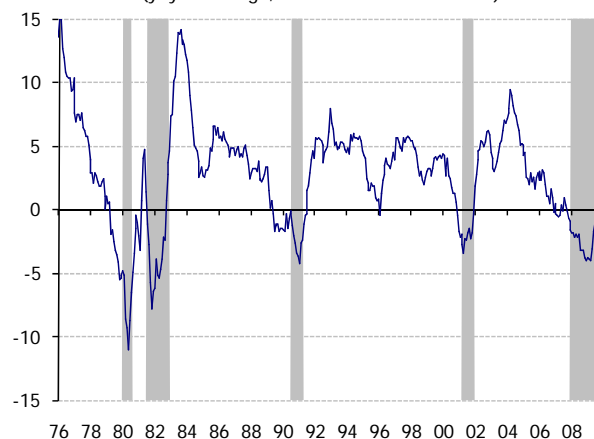
(% Change y-o-y)



Source: BLS

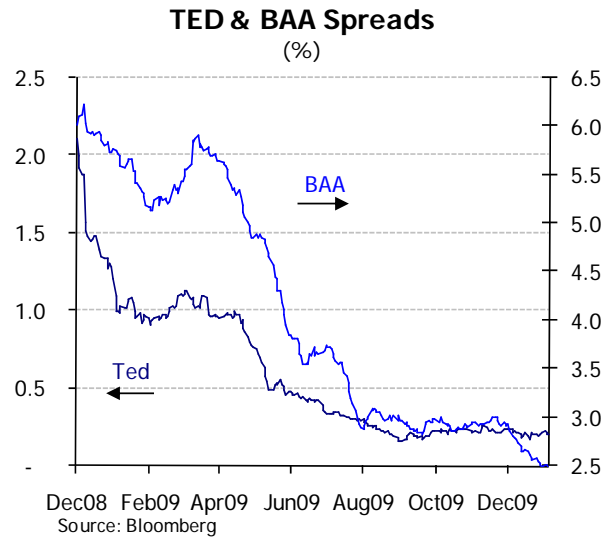
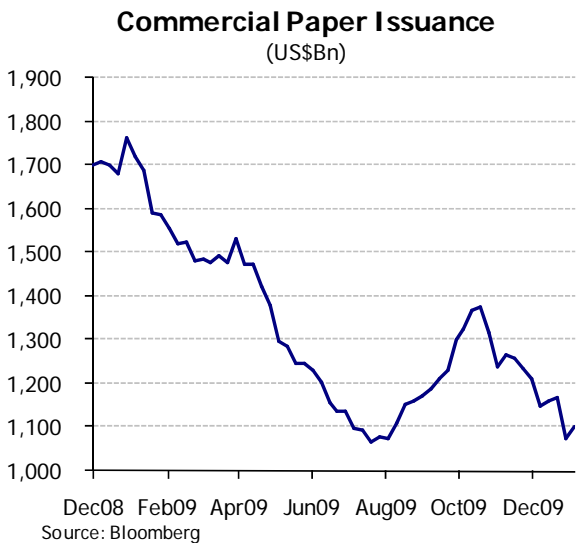
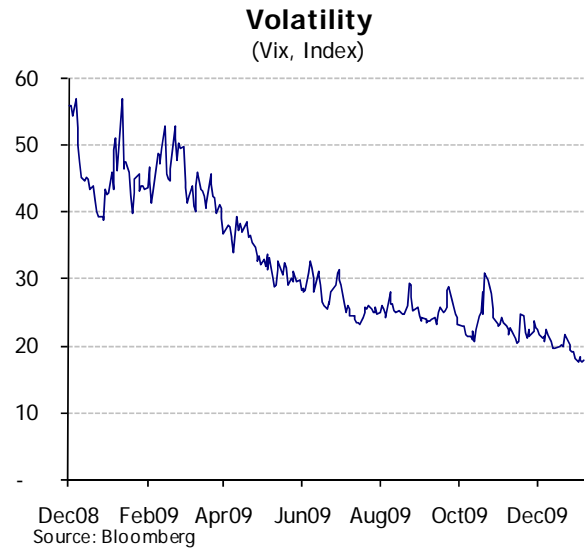
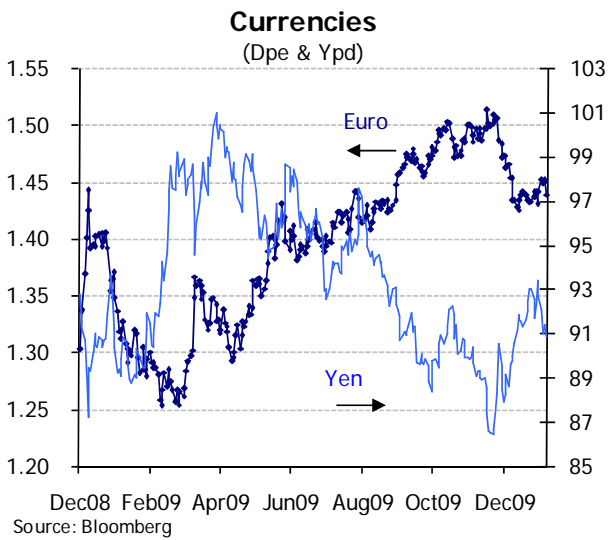
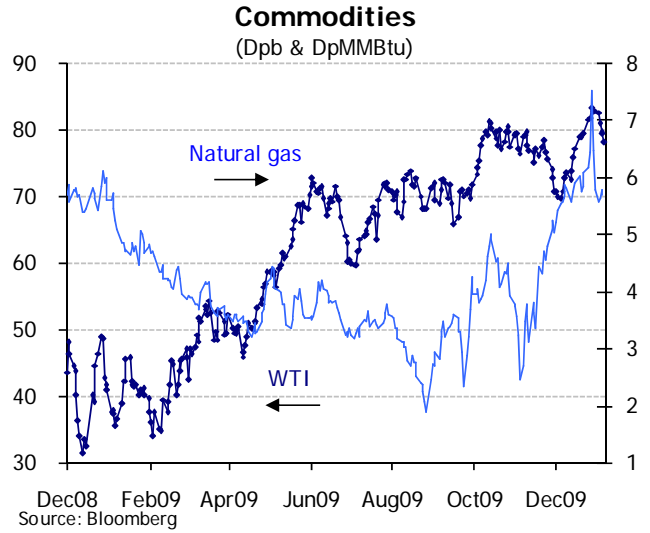
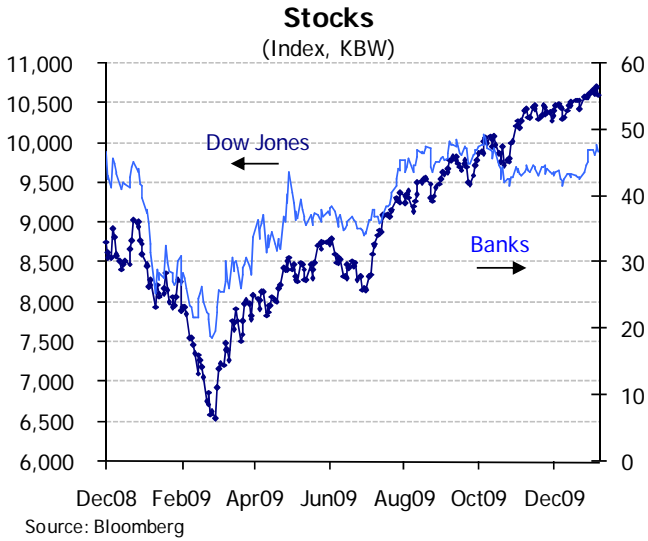
Leading Indicators Index

(yoy % change, shaded area = recession)



Source: Conference Board

Financial Markets



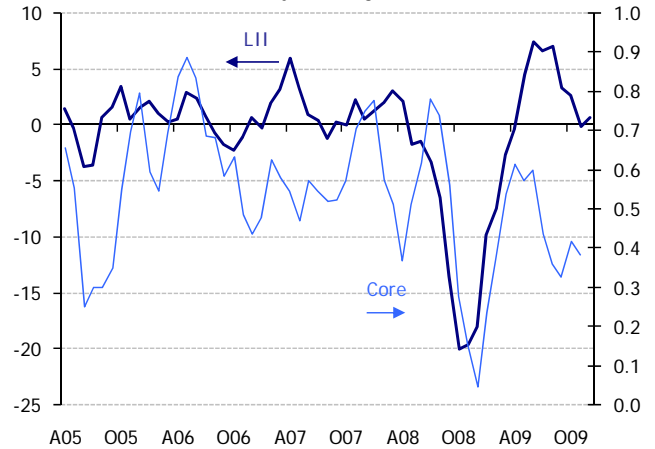
Economic Trends

BBVA US Weekly Activity Index
(3 month % change)



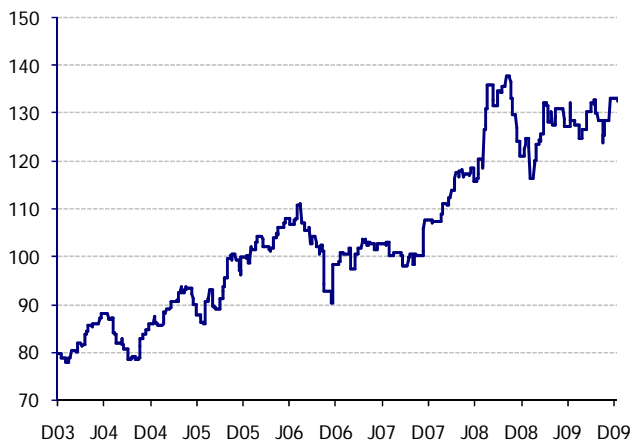
Source: BBVA ERD

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



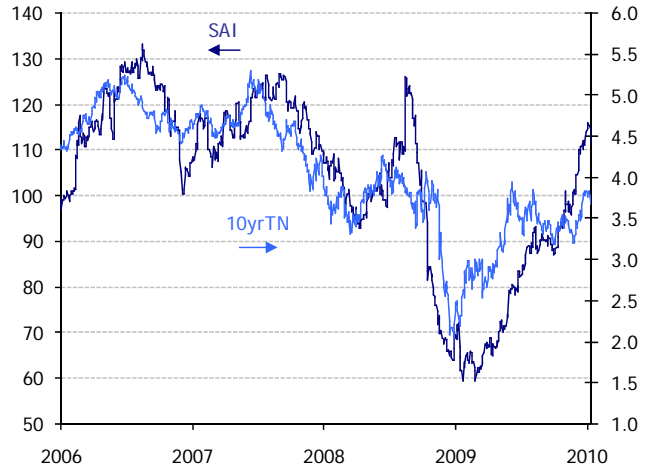
Source: BBVA ERD

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



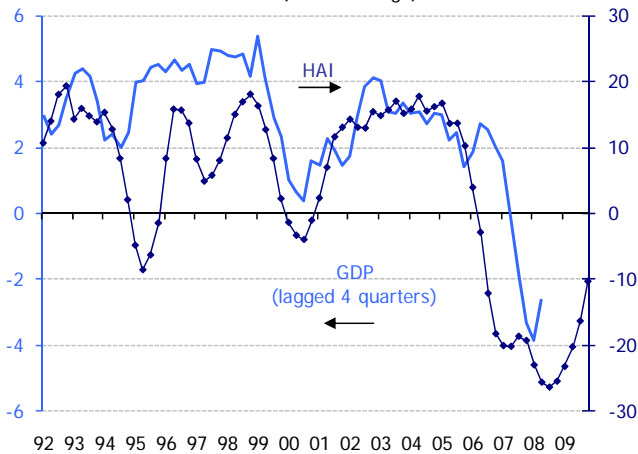
Source: BBVA ERD

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



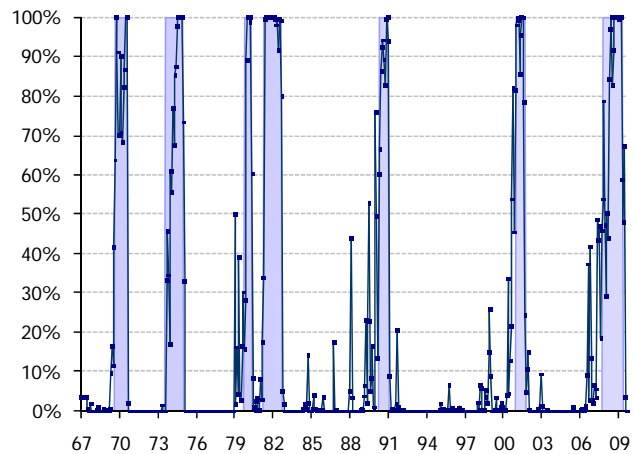
Source: BBVA ERD

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



Source: BBVA ERD & BEA

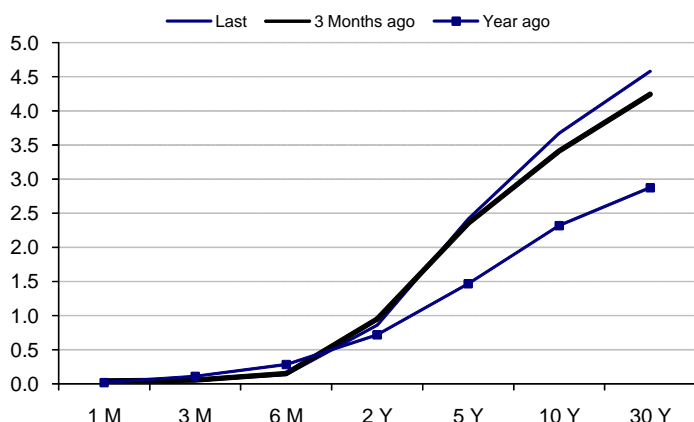
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



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	3.25
Credit Card (variable)	11.61	11.54	11.48	11.02
New Auto (36-months)	6.49	6.53	6.70	7.04
Heloc Loan 30K	5.67	5.68	5.67	4.97
30-year Fixed Mortgage *	5.06	5.09	6.37	4.96
Money Market	0.90	0.95	0.87	1.96
2-year CD	1.79	1.83	1.79	2.60
5-year CD	2.69	2.70	2.56	2.96

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Quote of the Week

Barney Frank on Executive Compensation
 Chairman of the Financial Services Committee in the House of Representatives
 January 13, 2010

There is an argument that says if you limit compensation too much you lose some of the best people. I don't know where people would go for comparable salaries. There may be in some of these financial institutions people capable of playing major league baseball. I'm not aware of any. But absent that, I don't know where they would go to get comparable forms of compensation. I guess perhaps they could star in major motion pictures. But I don't know what else they could do.

Economic Calendar

Date Time	Event	Period	Forecast	Survey	Previous
19-Jan	NAHB Housing Market Index	JAN	16	17	16
20-Jan	MBA Mortgage Applications	15-Jan	--	--	14.30%
20-Jan	Producer Price Index (MoM)	DEC	0.10%	0.00%	1.80%
20-Jan	PPI Ex Food & Energy (MoM)	DEC	0.20%	0.10%	0.50%
20-Jan	Producer Price Index (YoY)	DEC	4.70%	4.50%	2.40%
20-Jan	PPI Ex Food & Energy (YoY)	DEC	1.10%	1.00%	1.20%
20-Jan	Housing Starts	DEC	577K	575K	574K
20-Jan	Building Permits	DEC	595K	580K	584K
21-Jan	Initial Jobless Claims	16-Jan	442K	440K	444K
21-Jan	Continuing Claims	9-Jan	4553K	4600K	4596K
21-Jan	Philadelphia Fed.	JAN	24.2	19.4	20.4
21-Jan	Leading Indicators	DEC	0.80%	0.70%	0.90%