



# Weekly Observatory

March 1, 2010

## Week Ahead

### Personal Income & Expenditures (January, Monday 8:30 ET)

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

Personal income is expected to climb for the seventh month in a row. However, as in the previous month, growth will be driven by proprietors' income and government transfers rather than by wages. While employee compensation is no longer declining, the weak labor market will keep wage inflation subdued. PCE is also expected to grow, illustrating strengthening in consumer demand. Nevertheless, uncertainty in the employment situation and household deleveraging could keep consumption growth subdued.

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

Forecast: 59.3 Consensus: 57.8 Previous: 58.4

The manufacturing sector has emerged as one of the leaders of the recovery. The ISM manufacturing index is expected to illustrate expansion in the sector for the seventh consecutive month as presaged by upward trends in durable goods orders. With the increase in manufacturing activity, we anticipate that industrial production and capacity utilization will rise as well. Furthermore, the ISM is a reliable indicator for economic growth and its upward trend illustrates that the U.S. is still on the path of recovery in 1Q10.

### Pending Home Sales (January, Thursday 10:00 ET)

Forecast: 1.1% Consensus: 1.5% Previous: 1.0%

Pending home sales are expected to show further stabilization in housing demand by rising for the second month in a row. While pending sales have dropped from the high levels experienced early in the second half of 2009, the level remains above that of a year ago. Existing home sales have slipped in winter months, but another modest rise in pending sales could indicate that the recent data is not a trend.

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

Forecast: -30K Consensus: -50K Previous: -20K

Lay-offs in the labor market have stabilized, but the employment situation still remains weak. This point will be illustrated by the non-farm payroll data. While job losses have slowed significantly from 2009's average of 398K, they will continue in February. The transition to net job creation will be slow because businesses are currently increasing productivity of existing employees in order to meet new demand. The labor market could remain one of the main challenges to recovery in 2010.

### Consumer Credit (January, Friday 10:00 ET)

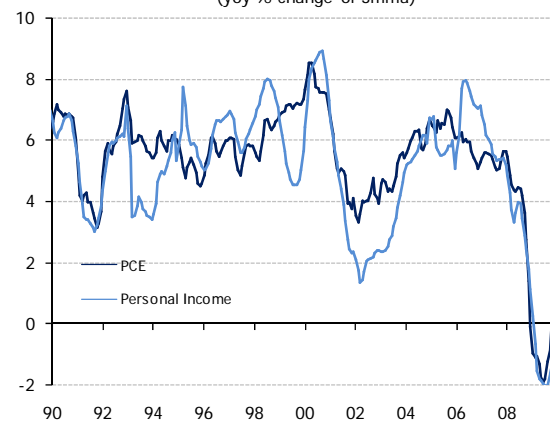
Forecast: -\$4.6B Consensus: -\$3.8B Previous: -\$1.7B

Consumer credit outstanding is expected to shrink for the eighteenth consecutive month as consumers continue to whittle down their debt and lenders maintain tighter credit standards than before the crisis. Non-revolving credit has begun to stabilize, but the ongoing decline in revolving credit indicates that households are limiting the use of credit cards. Household deleveraging could be one of the primary drivers behind the slow recovery of PCE in 2010.

**Kristin Lomicka**

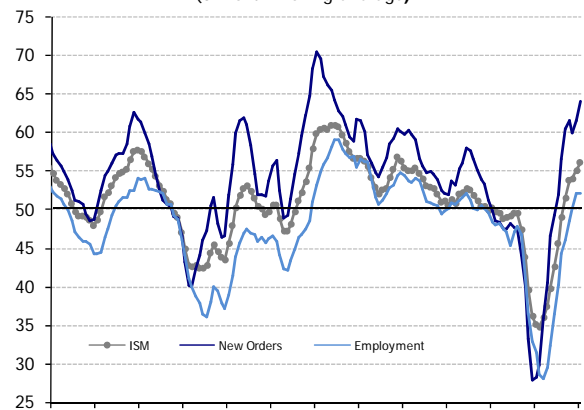
Kristin.Lomicka@bbvacompass.com

### Personal Consumption Expenditures and Personal Income (yoy % change of 3mma)



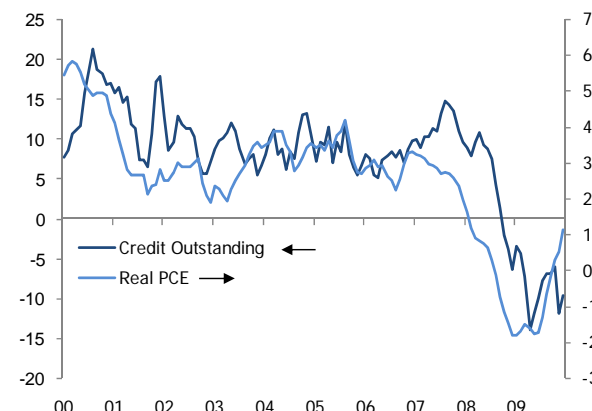
Source: BEA

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



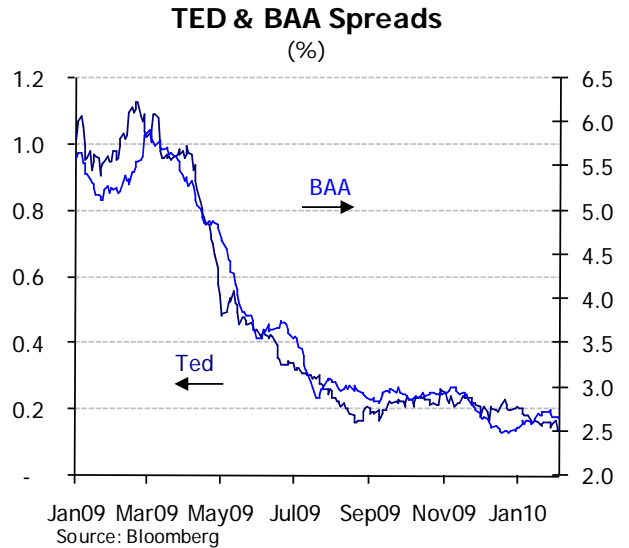
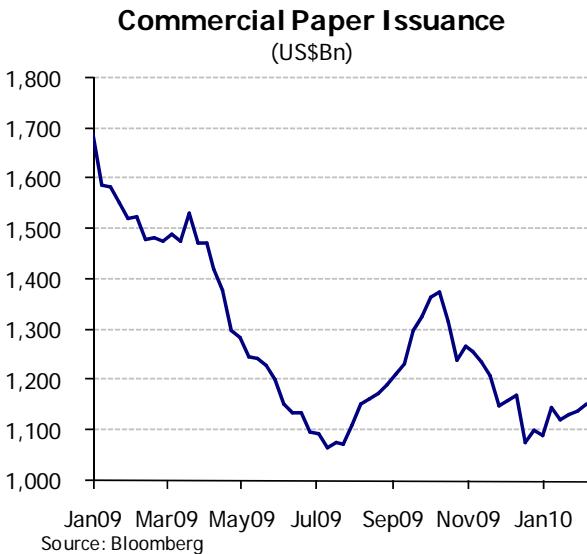
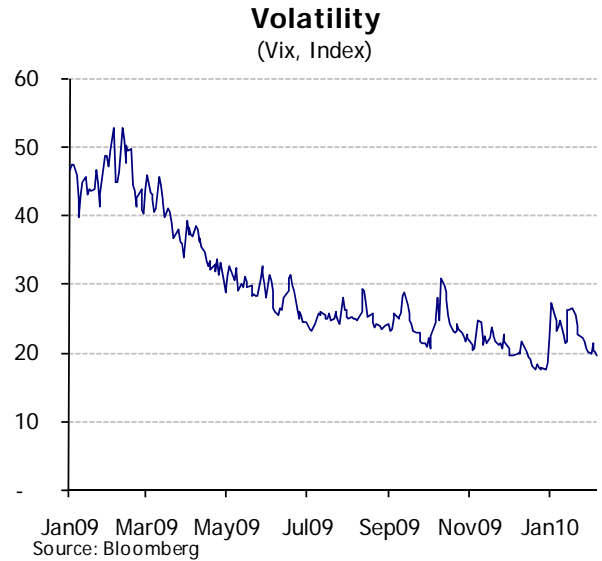
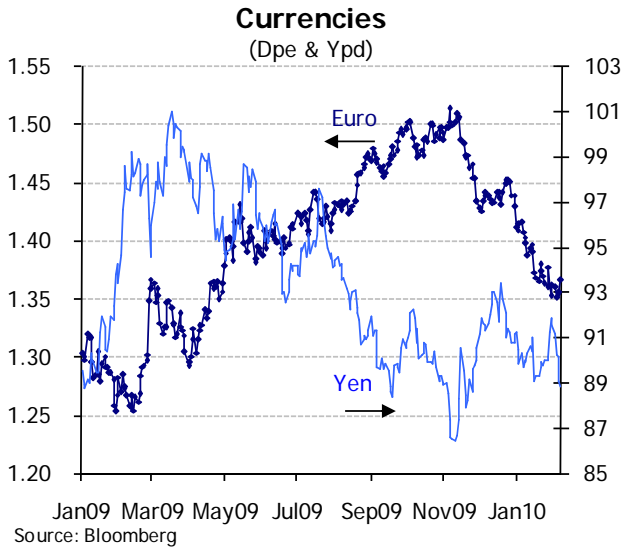
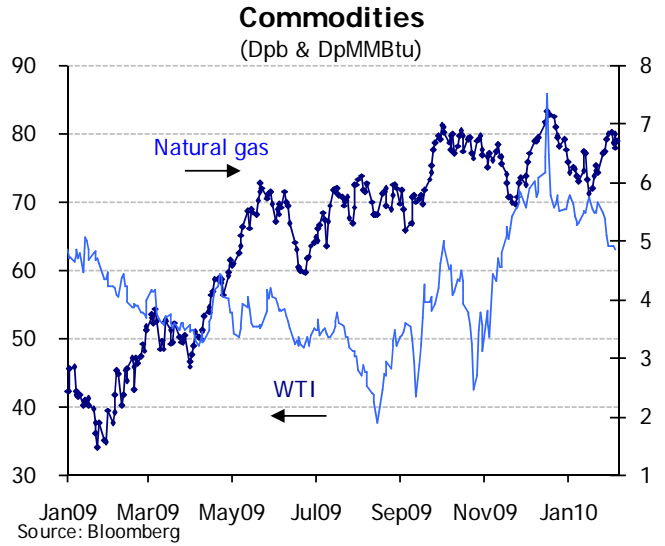
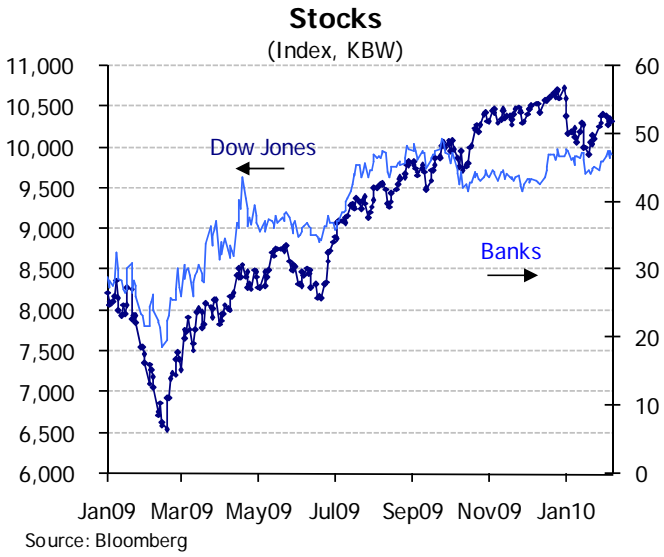
Source: ISM

### Consumer Credit Outstanding & Real PCE (3mma of total net change in billions of \$, 3mma yoy % change)



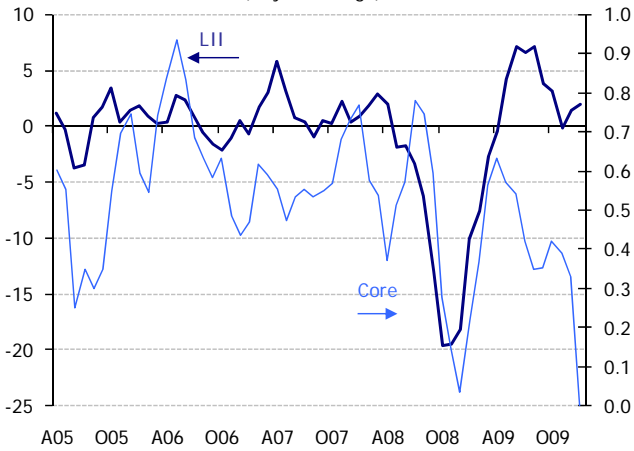
Source: Federal Reserve Bank and BEA

Financial Markets



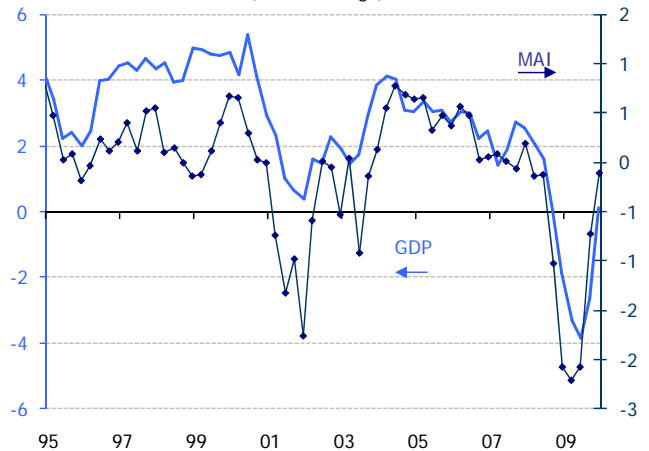
Economic Trends

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



Source: BBVA ERD

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



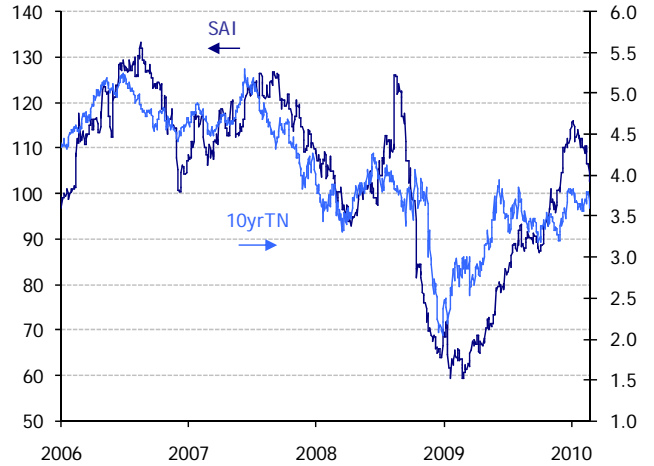
Source: BBVA ERD & BEA

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



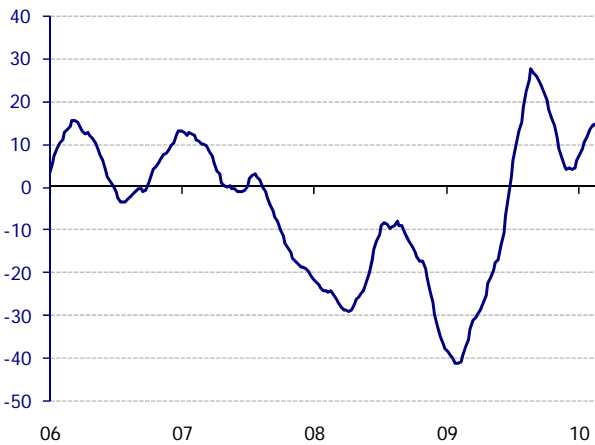
Source: BBVA ERD

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



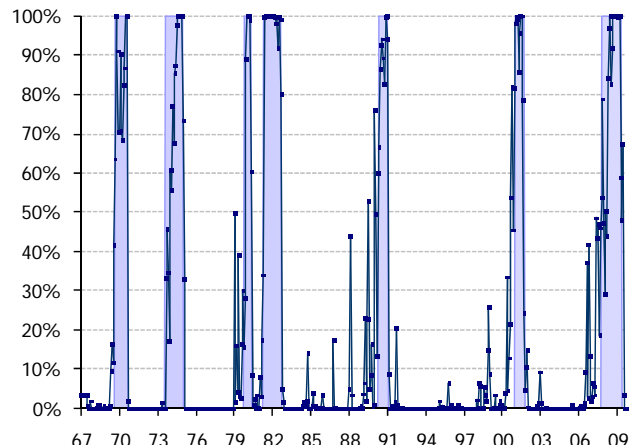
Source: BBVA ERD

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



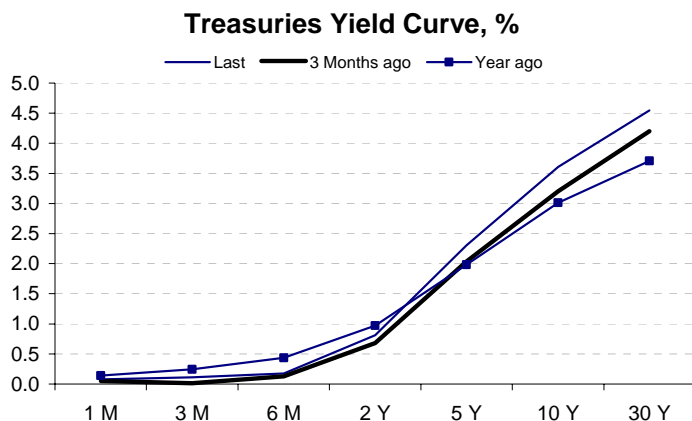
Source: BBVA ERD

**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	3.25
Credit Card (variable)	12.45	12.53	12.34	10.84
New Auto (36-months)	6.28	6.27	6.44	6.90
Heloc Loan 30K	5.71	5.71	5.68	5.10
30-year Fixed Mortgage *	5.05	4.93	6.37	5.07
Money Market	0.84	0.85	0.88	1.51
2-year CD	1.73	1.73	1.78	2.29
5-year CD	2.65	2.65	2.66	2.72

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Federal Reserve President Ben Bernanke  
Remarks on the federal deficit before the Senate Banking Committee  
As quoted by the Wall Street Journal

"I'm not anticipating anything in the near term, but it is conceivable that it could lead to a loss of confidence in aspects of the U.S. economy," Mr. Bernanke told the Senate Banking Committee on Thursday. "It could affect interest rates. It could affect the value of the dollar. And those things could directly or indirectly affect the state of the economy."

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
1-Mar	Personal Income	JAN	0.30%	0.40%	0.40%
1-Mar	Personal Spending	JAN	0.30%	0.40%	0.20%
1-Mar	PCE Core (MoM)	JAN	0.10%	0.00%	0.10%
1-Mar	ISM Manufacturing	FEB	59.3	57.8	58.4
1-Mar	ISM Prices Paid	FEB	71.7	68.1	70
1-Mar	Construction Spending MoM	JAN	-0.70%	-0.50%	-1.20%
2-Mar	Total Vehicle Sales	FEB	10.58M	10.50M	10.82M
3-Mar	ADP Employment Change	FEB	-15K	-10K	-22K
3-Mar	ISM Non-Manf. Composite	FEB	51.2	51	50.5
3-Mar	Fed's Beige Book	2-Mar			
4-Mar	Nonfarm Productivity	4Q F	6.20%	6.20%	6.20%
4-Mar	Unit Labor Costs	4Q F	-4.40%	-4.40%	-4.40%
4-Mar	Initial Jobless Claims	27-Feb	476K	475K	496K
4-Mar	Continuing Claims	20-Feb	4568K	--	4617K
4-Mar	Factory Orders	JAN	1.00%	1.20%	1.00%
4-Mar	Pending Home Sales MoM	JAN	1.10%	1.50%	1.00%
5-Mar	Change in Nonfarm Payrolls	FEB	-30K	-50K	-20K
5-Mar	Unemployment Rate	FEB	9.80%	9.80%	9.70%
5-Mar	Change in Manufact. Payrolls	FEB	-5K	-20K	11K
5-Mar	Avg Hourly Earning MOM All Emp	FEB	0.20%	0.20%	0.20%
5-Mar	Avg Weekly Hours All Employees	FEB	33.9	33.7	33.9
5-Mar	Consumer Credit	JAN	-\$4.6B	-\$3.8B	-\$1.7B