



# Weekly Observatory

May 10, 2010

## Week Ahead

### International Trade Balance (March, Wednesday 8:30 ET)

Forecast: -\$41.7B      Consensus: -\$40.0B      Previous: -\$39.7B

Both domestic and foreign demand is picking up, but it's the relative pace that will push the trade deficit to one of the highest levels since the end of 2008. The recovery of exports to Asia, LATAM and Canada will continue to strengthen as these regions pull themselves out of the recession. Moreover, an improvement in imports would be consistent with recent data indicating that private demand is resuming. Although net exports will likely subtract from GDP growth again in 2Q10, strength in imports is actually a positive sign for the recovery.

### Retail Sales (April, Friday 8:30 ET)

Forecast: 0.3%      Consensus: 0.2%      Previous: 1.6%

With the increase in consumer confidence and the improvement in the labor market, retail sales are expected to rise for the fifth time in six months, illustrating that consumer demand is strengthening. While the slow in auto sales will weigh on the total, the impact will be limited because fewer price discounts were offered. This result would support our expectation that consumer spending will again be an essential driver of economic expansion in the second quarter.

### Industrial Production (April, Friday 9:15 ET)

Forecast: 0.5%      Consensus: 0.6%      Previous: 0.1%

Robust manufacturing activity in April will drive industrial production (IP) to expand for the ninth consecutive month. Along with internal demand, exports and the inventory restocking process are stimulating IP. Furthermore, the high tech sub-index, a leading indicator for non-residential investment, is forecasted to rise 1.7%, indicating that the equipment and software component of non-residential investment will remain supportive of economic growth in 1Q10.

### U. of MI Consumer Sentiment (May, Friday 9:55 ET)

Forecast: 73.0      Consensus: 73.5      Previous: 72.2

After slipping in April, consumer sentiment is expected to rise in May prompted by the improvement in the employment situation. Private non-farm payrolls added 405K jobs over the past two months. Other economic data has been pointing to growth since mid 2009, but the labor market usually adjusts with a lag. The beginning signs of job growth will improve consumers' outlook of both the present and the future and translate into greater consumer spending. This result would be consistent with our expectation that consumption will be the primary driver of GDP growth in 2Q10.

### Business Inventories (March, Friday 10:00 ET)

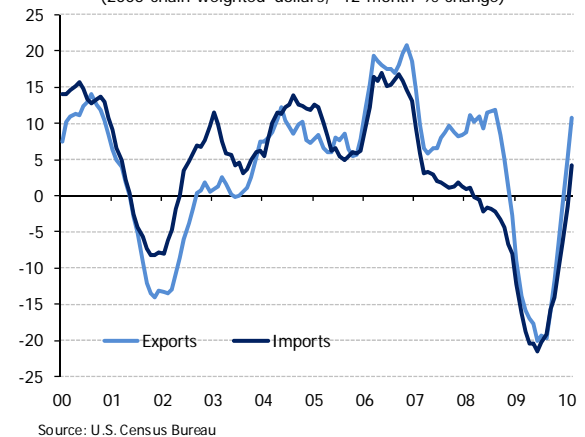
Forecast: 0.3%      Consensus: 0.4%      Previous: 0.5%

Businesses are still working to bring inventories in line with sales but the trend has about-faced. Following the drastic thirteen month long inventory reduction process, businesses are now restocking to meet renewed demand. This process has positively impacted industrial production and contributed 1.6pp to 1Q10 GDP growth according to preliminary estimates. Businesses are likely to continue to add to inventories in 2Q10, but the impact on GDP will soften.

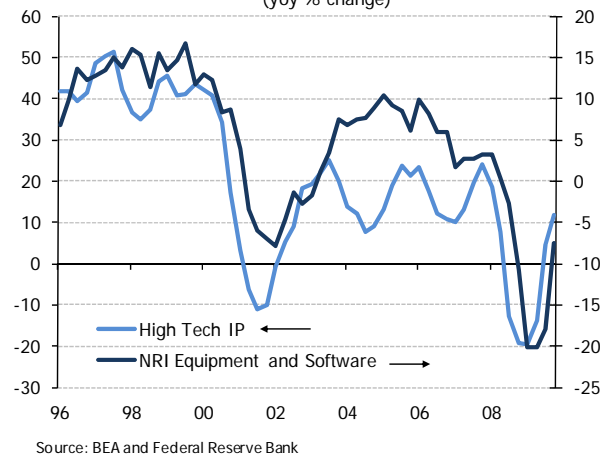
**Kristin Lomicka**

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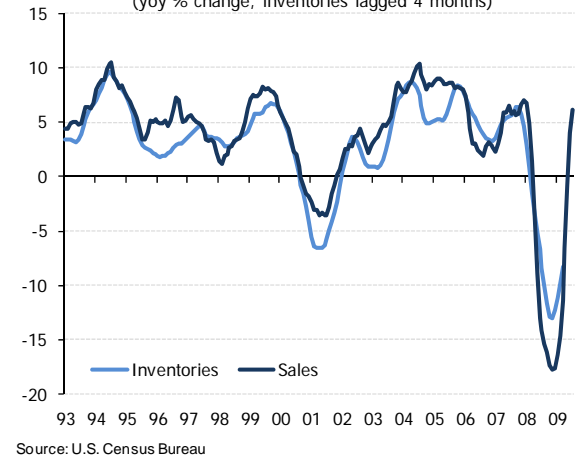
**Exports & Imports of Goods**  
(2005-chain-weighted dollars, 12-month % change)



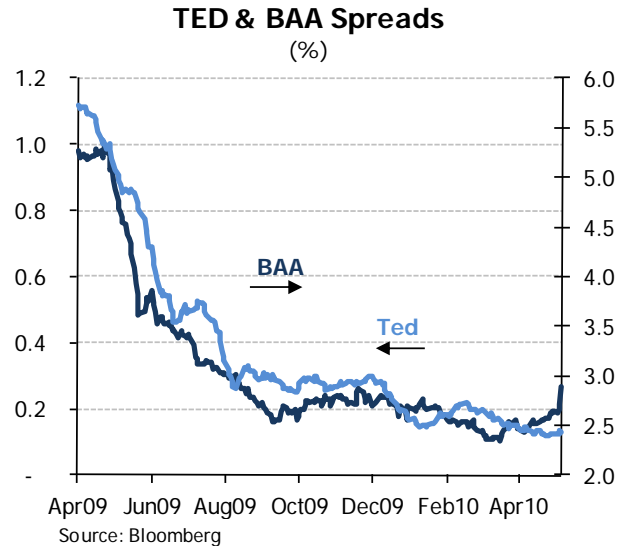
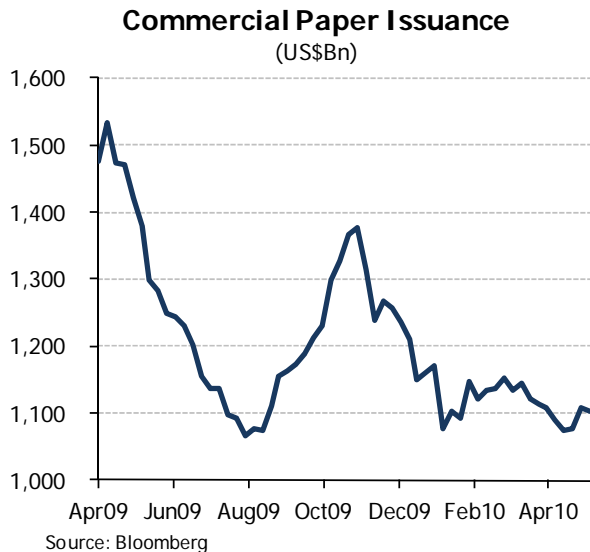
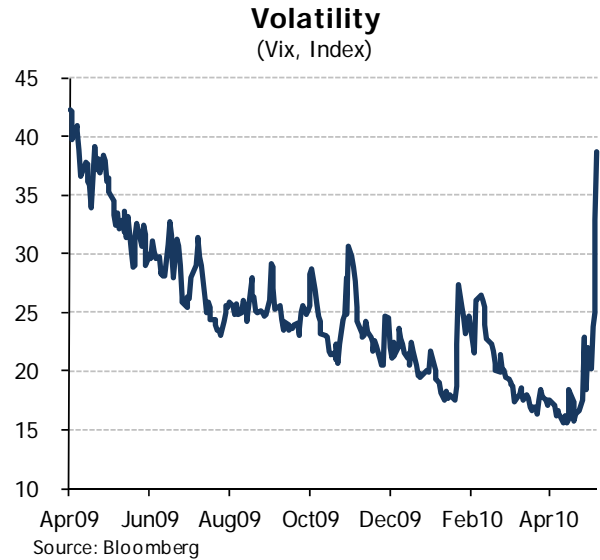
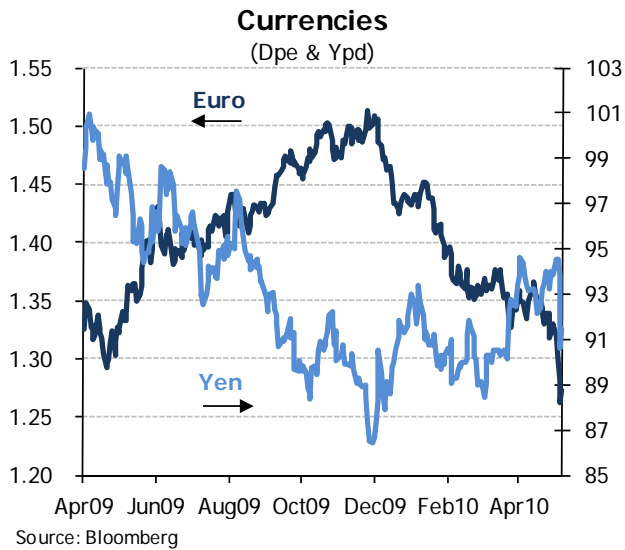
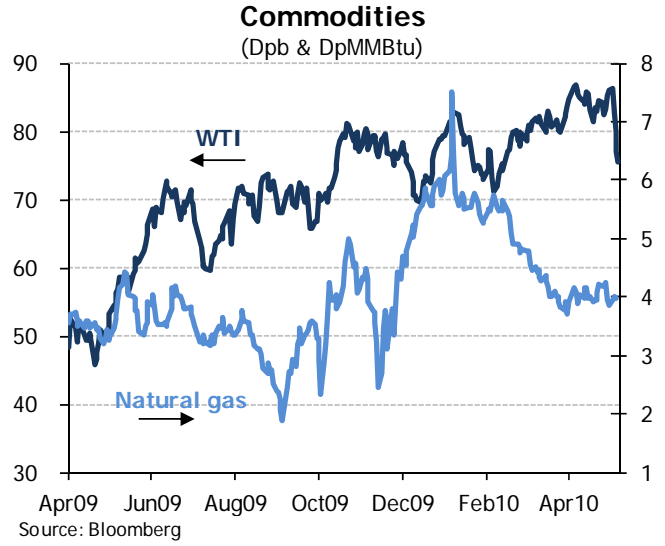
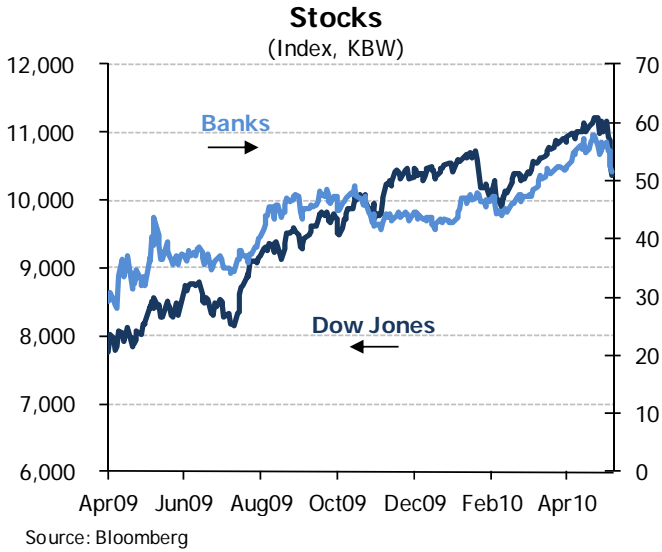
**Industrial Production and Non-Residential Investment**  
(yoy % change)



**Business Inventories and Sales**  
(yoy % change, inventories lagged 4 months)



Financial Markets



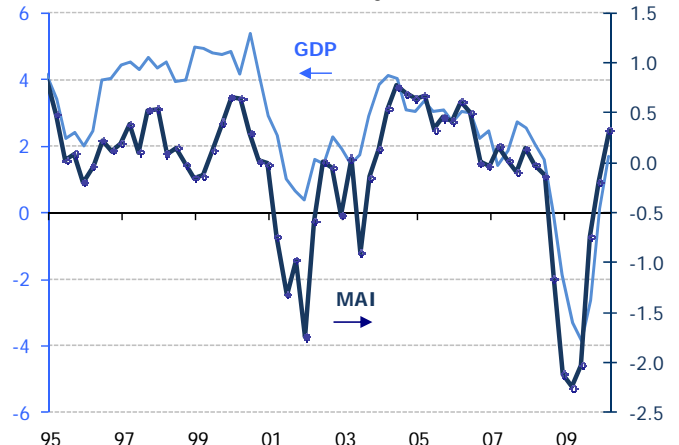
Economic Trends

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



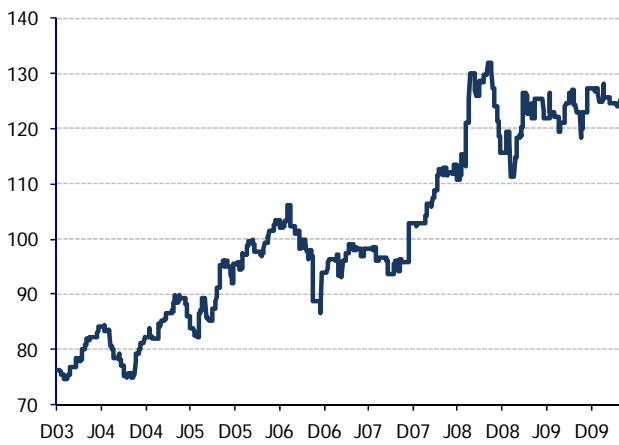
Source: BBVA ERD

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



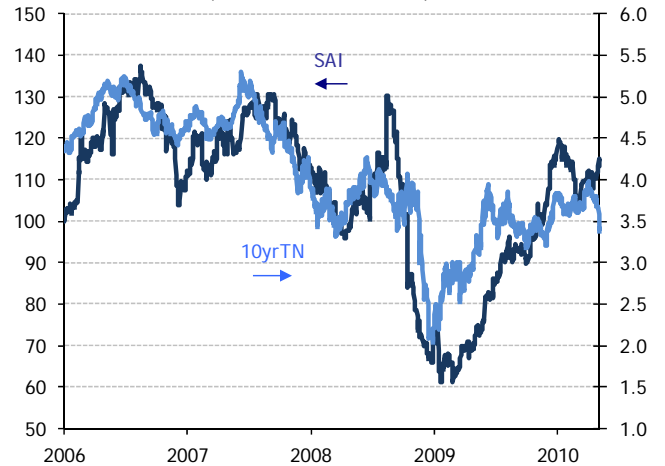
Source: BBVA ERD & BEA

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



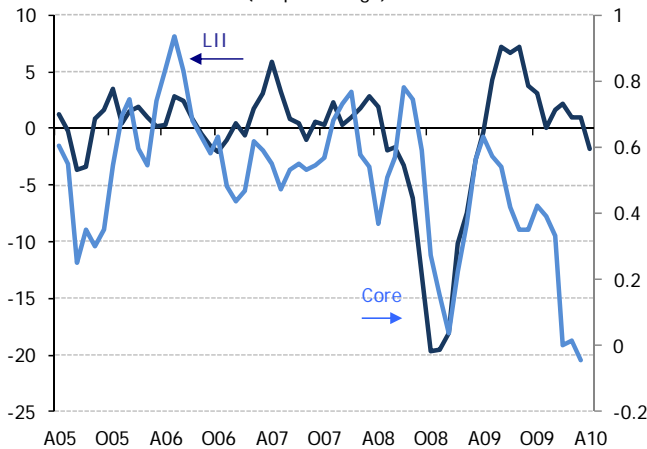
Source: BBVA ERD

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



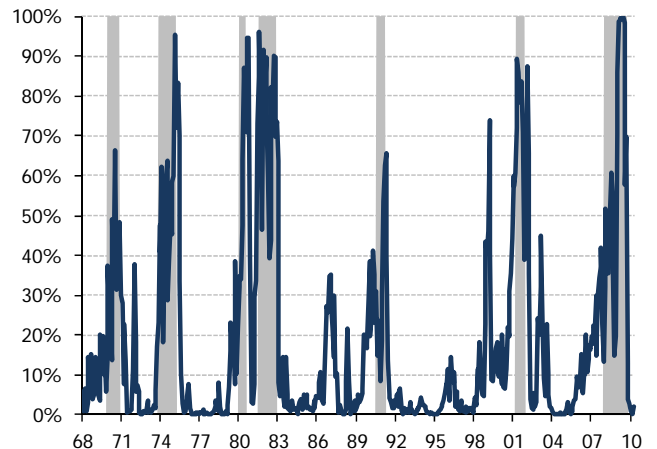
Source: BBVA ERD

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



Source: BBVA ERD

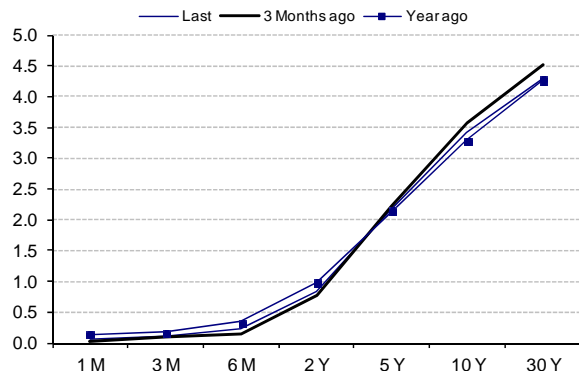
**BBVA US Recession Probability Model**  
(Recession episodes in shaded areas, %)



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)	13.00	13.00	12.97	10.75
New Auto (36-months)	6.46	6.46	6.50	7.19
Heloc Loan 30K	5.61	5.61	5.66	5.15
30-year Fixed Mortgage *	5.00	5.06	6.37	4.84
Money Market	0.76	0.78	0.79	1.37
2-year CD	1.63	1.63	1.63	2.18
5-year CD	2.64	2.64	2.58	2.76

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Philadelphia Federal Reserve Bank President Charles Plosser  
May 7, 2010

“The challenges that Greece pose are at the moment primarily for Europe more broadly.... that can spill over to us in the form of a weaker market for our exports. The more direct danger is of course concerns about the financial markets and how they will behave.”

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
11-May	Wholesale Inventories	MAR	0.40%	0.50%	0.60%
11-May	ABC Consumer Confidence	9-May	-	-	-47
12-May	MBA Mortgage Applications	7-May	-	-	4.00%
12-May	Trade Balance	MAR	-\$41.7B	-\$40.0B	-\$39.7B
12-May	Monthly Budget Statement	APR	\$44.1B	-\$20.0B	-\$20.9B
13-May	Import Price Index (MoM)	APR	0.70%	0.80%	0.70%
13-May	Initial Jobless Claims	8-May	432K	439K	444K
13-May	Continuing Claims	1-May	4568K	4585K	4594K
14-May	Advance Retail Sales	APR	0.30%	0.20%	1.60%
14-May	Retail Sales Less Autos	APR	0.50%	0.40%	0.60%
14-May	Industrial Production	APR	0.50%	0.60%	0.10%
14-May	Capacity Utilization	APR	73.40%	73.70%	73.20%
14-May	U. of Michigan Confidence	MAY P	73.0	73.5	72.2
14-May	Business Inventories	MAR	0.30%	0.40%	0.50%