

U.S. Weekly Watch

January 3, 2011

Economic Analysis

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Highlights

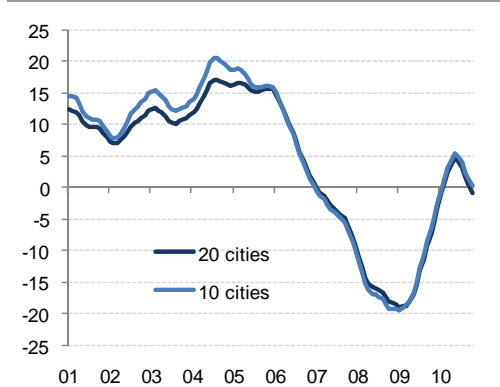
U.S. home prices dropped in October

The Case-Shiller 20-City Composite Index came below expectations, falling 0.8% year-over-year in October. This was the first year-over-year fall since January 2010. Only four out of 20 MSAs registered price increases relative to the previous year (Washington, San Diego, San Francisco and Los Angeles). On a monthly basis, though, home prices declined in all 20 MSAs. Prices decreased by more than 1% in fifteen cities. Trends in home prices suggest that the residential market remains weak. This is confirmed by both housing starts and home sales, which remain at historical lows, probably close to a bottom. As the rest of the economy improves, we expect the housing market to resurge in the following years; however, higher long-term interest rates and ongoing deleveraging in the mortgage market could delay the process.

Consumer confidence declined slightly in December

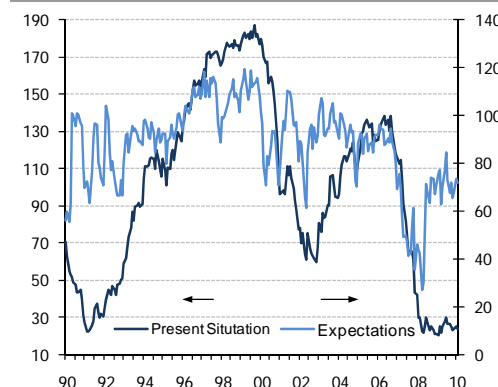
In December, the Conference Board's Consumer Confidence Index decreased slightly to 52.5 from 54.3 in December. Since mid-2009, the index has remained stable, reflecting consumers' cautiousness about the current and future state of the economy. The Present Situation Index declined to 23.5 from 25.4 in December; while the Expectations Index slipped to 71.9 from 73.6. Consumers' assessments on the labor market eased as the percentage of participants that described jobs as "hard to get" rose from 46.3 to 46.8, whereas the share of those declaring jobs as "plentiful" went down to 3.9 from 4.3. December's moderation in consumers' optimism is consistent with our baseline scenario of a moderate economic expansion.

Graph 1
Case-Shiller Home Price Index (YoY % change)



Source: S&P

Graph 2
Consumer Confidence (Index)



Source: Conference Board

Week Ahead

ISM Index (December, Monday 10:00 ET)

Forecast: 58.0	Consensus: 57.0	Previous: 56.6
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Institute for Supply Management (ISM) manufacturing index remained above 50 in the last 16 months indicating increase in economic activity in manufacturing industry. In November, industrial production increased by 0.4%, more than market expected and we expect that the positive trend in industrial production will continue in December. Furthermore, New York Fed Empire State Manufacturing Survey indicates that conditions improved in December for New York State manufacturers. Therefore, we expect that ISM manufacturing index will continue to remain above 55 in the next couple of months.

FOMC Minutes (Dec-14, Tuesday 14:00 ET)

Forecast: ---	Consensus: ---	Previous: ---
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The Federal Open Market Committee (FOMC) held its final monetary policy meeting in 2010 on December 14, 2010. The statement indicated no major changes to the current monetary policy stance. As a result of the slow progress towards achieving its dual mandate, the FOMC decided to continue its November decision to purchase an additional \$600bn in Treasury securities by the end of 2011Q2 and to hold the Fed Funds rate at 0 to .25 percent. Although the minutes would give more detail about the FOMC's decision, we do not expect any surprises in the minutes.

Nonfarm Payrolls (December, Friday 08:30 ET)

Forecast: 130K	Consensus: 140K	Previous: 39K
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In November, the U.S. nonfarm payroll rose 39K in November following a 172K increase in the previous month. Private nonfarm payroll also increased slightly by 50K. In 2010, private sector created 106K additional jobs on average but total non-payroll employment has increased by 86K per month on average since December 2009 which is lower compared to historical average in recovery periods. The unemployment rate jumped 0.2pp and reached 9.8% in November. This is the highest unemployment rate since April 2010. We expect that the unemployment rate will remain elevated both in the short- and mid-terms due to moderate recovery, weak real estate markets and increase in participation rate in the coming months.

Consumer Credit (November, Friday 15:00 ET)

Forecast: \$1.7bn	Consensus: \$0.3bn	Previous: \$3.4bn
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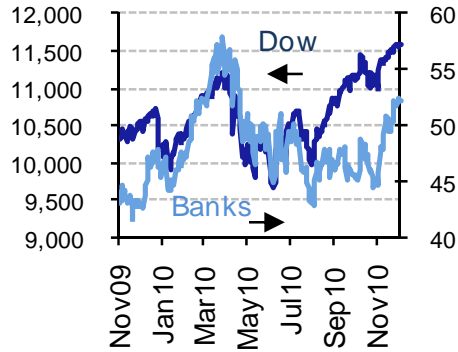
Consumer credit increased slowly in the last two months after declining 7 consecutive months. In October, although non-revolving consumer credits increased more than \$9bn, revolving credits continue to decline by \$5.6bn. Revolving credits declined in the last 26 months due to both tighter credit standards (supply) and less consumer willingness (demand) to apply for credits. We expect that this positive trend in consumer credits will continue at a very slow pace in November.

Market Impact

Current labor market conditions indicate that the unemployment rate will not drop to pre-crisis level anytime soon. Even better-than-expected nonfarm payrolls in December would not change market expectation. Furthermore, although we do not expect any surprises in the minutes of the FOMC meeting, anything indicating that the Fed would change its current monetary policy would definitely increase volatility in financial markets.

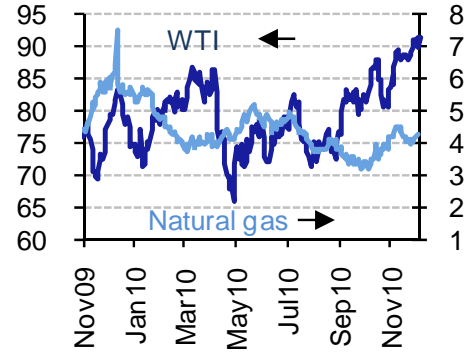
Financial Markets

Graph 3
Stocks (Index, KBW)



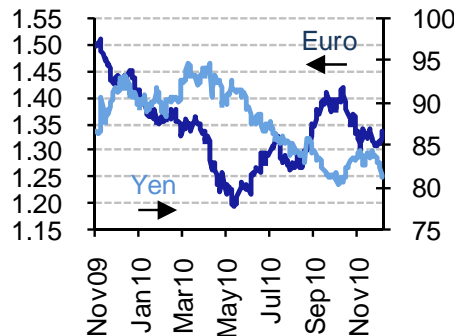
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



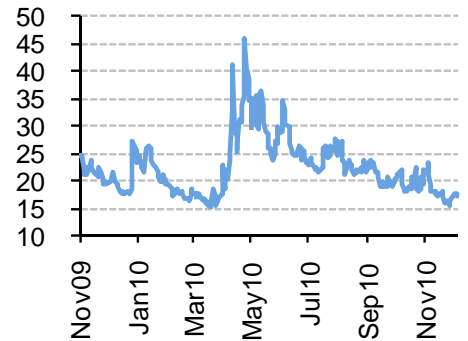
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



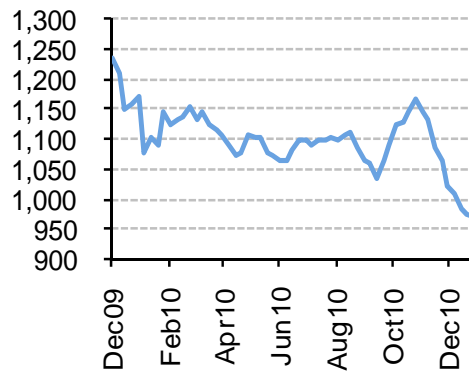
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



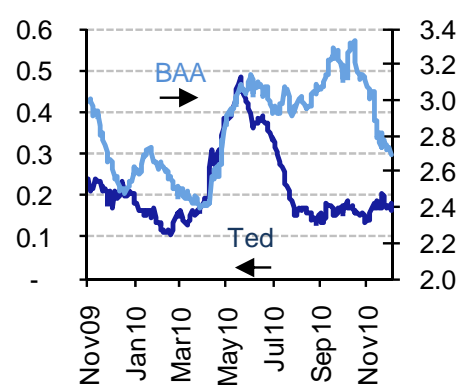
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

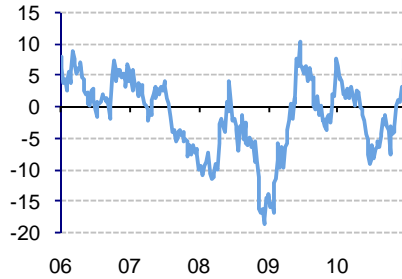
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

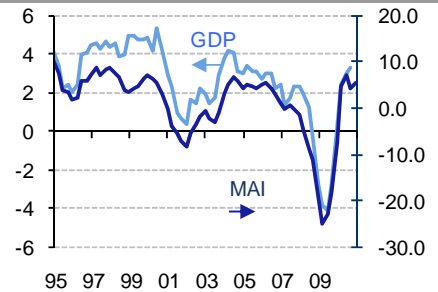
Economic Trends

Graph 9
BBVA US Weekly Activity Index (3 month % change)



Source: BBVA Research

Graph 10
BBVA US Monthly Activity Index & Real Gross Domestic Product (4Q % change)



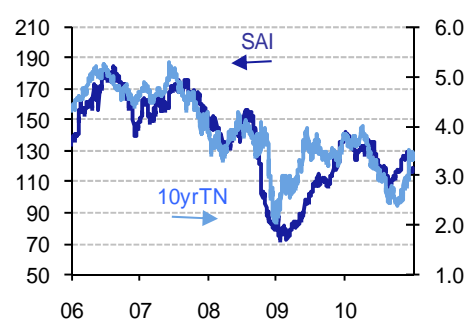
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index (Index 2009=100)



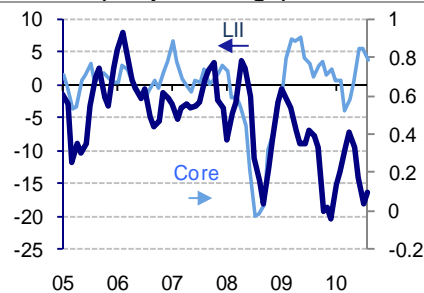
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



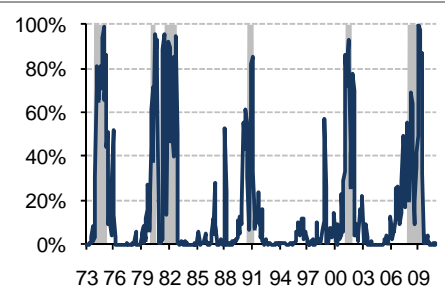
Source: Bloomberg & BBVA Research

Graph 13
BBVA US Leading Inflation Index & Core Inflation (QoQ % change)



Source: BLS & BBVA Research

Graph 14
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

Yield Curve and Interest Rates

Table 1

Key Interest Rates, %

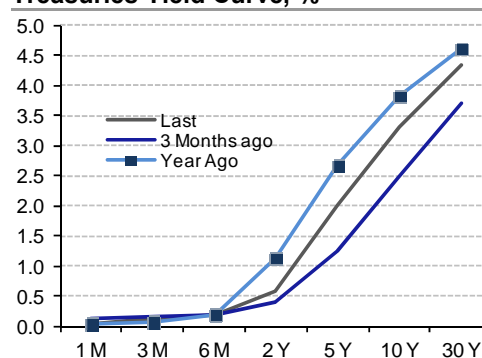
	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.68	13.68	13.86	11.54
New Auto (36-months)	5.35	5.35	5.37	6.66
Heloc Loan 30K	5.50	5.49	5.50	5.67
30-year Fixed Mortgage *	4.86	4.81	4.46	5.14
Money Market	0.71	0.71	0.71	0.92
2-year CD	1.23	1.23	1.23	1.81
5-year CD	2.07	2.06	2.03	2.61

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

Source: Bloomberg and BBVA Research

Graph 15

Treasuries Yield Curve, %



Source: Bloomberg

Quote of the Week

Michael K. Farr
December 30, 2010
CNBC

"... while the [S&P Case-Shiller Index of 20 major metropolitan areas] is still 4.4 percent above the April 2009 low, the new trend suggests that we may easily test those lows in the months to come."

Economic Calendar

Date	Event		Forecast	Survey	Previous
3-Jan	ISM Manufacturing	DEC	58.0	57.0	56.6
3-Jan	ISM Prices Paid	DEC	70.3	71.3	69.5
3-Jan	Construction Spending MoM	NOV	0.4%	0.2%	0.7%
4-Jan	Factory Orders	NOV	0.0%	-0.2%	-0.9%
4-Jan	Minutes of FOMC Meeting	14-Dec	---	---	---
4-Jan	Domestic Vehicle Sales	DEC	9.21M	9.20M	9.27M
4-Jan	Total Vehicle Sales	DEC	12.29M	12.30M	12.26M
5-Jan	ADP Employment Change	DEC	110K	100K	93K
5-Jan	ISM Non-Manf. Composite	DEC	55.0	55.6	55.0
6-Jan	Initial Jobless Claims	1-Jan	392K	404K	388K
6-Jan	Continuing Claims	25-Dec	4085K	4090K	4128K
7-Jan	Change in Private Payrolls	DEC	145K	155K	50K
7-Jan	Change in Nonfarm Payrolls	DEC	130K	140K	39K
7-Jan	Change in Manuf. Payrolls	DEC	0K	0K	-13K
7-Jan	Unemployment Rate	DEC	9.7%	9.7%	9.8%
7-Jan	Avg Hourly Earning MOM All Emp	DEC	0.1%	0.2%	0.0%
7-Jan	Avg Weekly Hours All Employees	DEC	34.3	34.3	34.3
7-Jan	Consumer Credit	NOV	\$1.7B	\$0.3B	\$3.4B

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