BBVA Research

U.S.

# Weekly Watch

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**Economic Analysis**


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## Highlights

### Personal Income and Spending

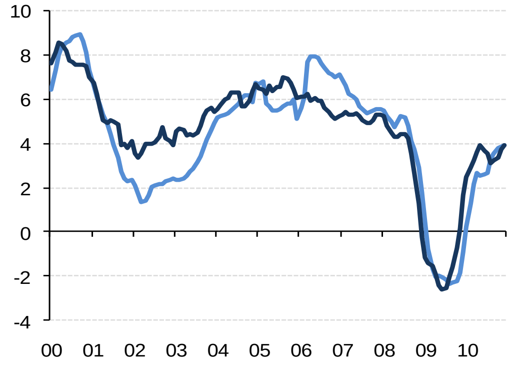
Personal income and spending jumped 0.4% and 0.7%, respectively MoM in December according to Bureau of Economic Analysis (BEA). Real personal consumption expenditures (PCE) also increased by 0.4% in December, compared with an increase of 0.2% in November. The latest revised data show that in the last 8 months, real PCE increased 0.3% on average on a MoM basis. As we underscored in our previous briefs, new tax incentives and political dynamics after the November elections led to a less uncertain tax environment for consumers and boosted their expectations. Although elevated unemployment, reduced housing wealth and tight credit conditions continue to limit the pace of consumption growth, we expect recent trends in income growth, retail sales, and consumer optimism will continue pushing PCE up in 1Q11.

### U.S. unemployment rate declined 0.4pp to 9.0% in January

Last Friday, the Bureau of Labor Statistics (BLS) announced that total and private nonfarm payrolls rose only 36K and 50K, respectively in January. However, the unemployment rate fell significantly from 9.4% to 9.0%, its lowest level since March 2009. However, the release was blurred by significant revision to previous estimates and severe weather in the U.S. The BLS also announced that it revised the establishment survey data due to the annual benchmarking process and the updating of seasonal adjustment factors. The household survey data was also revised due to new population estimates. With these revisions, the total nonfarm employment level for March 2010 was revised downward by 378K and the previously published level for December 2010 by 452K. While the labor force participation rate declined to 64.2% which is the lowest level since March 1984, the number of unemployed dropped about 622K, and 44.8% of those without jobs have been unemployed for 27 weeks or more. The median number of weeks unemployed fell to 21.8 weeks and the average weekly hours for all employees decreased to 34.2 hours. The release indicates that the U.S. labor markets remain weak despite a strong recovery in 4Q10 and 1Q11. However, the severe weather in January might have played a significant role in these disappointing employment numbers. If so, February nonfarm payrolls should be strong.

Graph 1

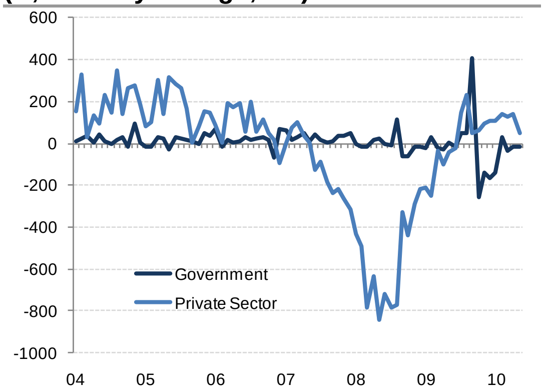
**Personal Income and Spending (3MMA of YoY % change)**




Source: BEA

Graph 2

**Nonfarm Payroll (K, Monthly change, SA)**




Source: BLS

# Week Ahead

## Consumer Credit (December, Monday 15:00 ET)

| Forecast: $2.3bn | Consensus: $2.5bn | Previous: $1.3bn |
|---|---|---|

Consumer credit is expected to increase in December after increasing $1.3bn the previous month. However, the total level of credit outstanding will continue to decline (1.8%) on a year-over-year basis due to an ongoing contraction in revolving consumer credit. Revolving credit is currently 18% lower than its August 2008 level and expected to remain depressed in the short-term. We expect consumer credit to increase by $2.3bn (MoM) in December 2010 to $2405.3bn.

## Wholesale Inventories (December, Thursday 10:00 ET)

| Forecast: 0.5% | Consensus: 0.7% | Previous: -0.2% |
|---|---|---|

Wholesale inventories are likely to increase in December following a decline of 0.2% in the previous month. This is consistent with 4Q10 GDP figures, which showed a relatively small but still positive change in private inventories ($7.2bn vs. $121.4bn in 3Q10). During the recession, firms scaled back production and used inventories to cover existing demand. However, as the recovery proceeded, firms have increased production and re-built stocks again. This process is expected to continue in 2011.

## Trade Balance (December, Friday 08:30 ET)

| Forecast: -$39.0bn | Consensus: -$40.5bn | Previous: -$38.3bn |
|---|---|---|

We expect the trade deficit to widen slightly after contracting for three months in a row. Although exports are expected to increase further due to strong international demand, a surge in oil prices and strong personal consumption in 4Q10 will push imports higher and compensate for some of the increase in exports. President Obama set a goal for the U.S. economy to double its exports within 5 years, created new incentives for exporters and signed new trade agreements with China and South Korea. Therefore, we expect the U.S. trade balance to shrink in 2011.

## Consumer Sentiment (February, Friday 09:55 ET)

| Forecast: 75.5 | Consensus: 75.0 | Previous: 74.2 |
|---|---|---|

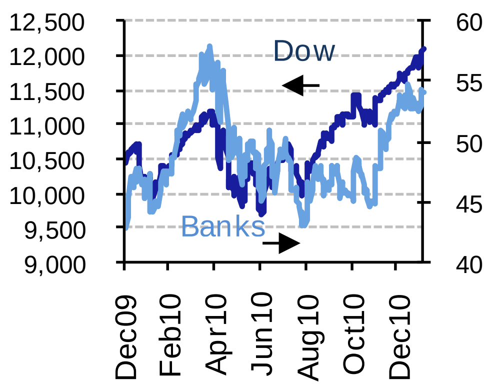
The Consumer Sentiment Index is likely to show a modest improvement in February, yet not enough to modify our assessments of private consumer spending. Overall, consumers' confidence has remained virtually flat since mid-2009, reflecting a sort of wait-and-see attitude towards spending. Indeed, even though private spending has recently gained momentum, consumers are still affected by lack of credit, deleveraging and uncertainty in the labor market.

## Market Impact

This week will be somewhat quiet in terms of data releases. The U.S. trade balance and wholesale inventories for December will be released during the week and they could signal a possible revision, upward or downward, to real GDP growth in 4Q10. Significant contraction in the trade balance would imply bigger contribution of net exports to real GDP growth in 4Q10 and stock markets would welcome the news. Furthermore, although consumer credits are not closely followed by the markets, significant improvement in credit markets would imply a strong economic recovery in the coming quarters.

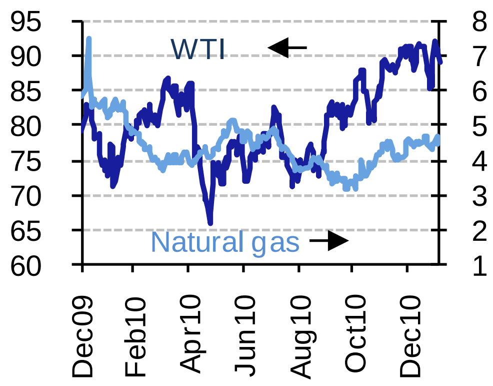
# Financial Markets

Graph 3
**Stocks (Index, KBW)**



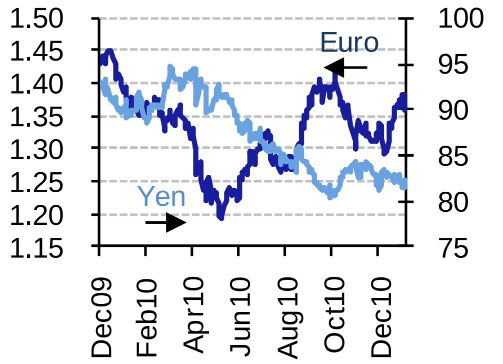

Source: Bloomberg & BBVA Research

Graph 4
**Commodities (Dpb & DpMMBtu)**



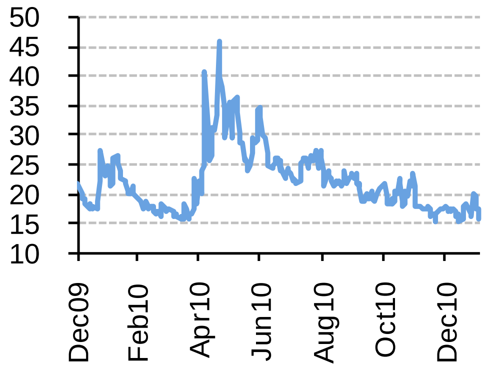

Source: Bloomberg & BBVA Research

Graph 5
**Currencies (Dpe & Ypd)**



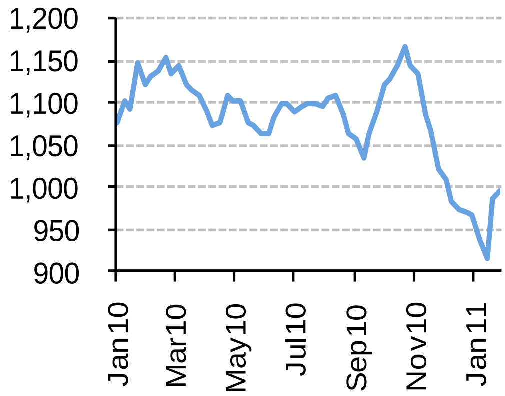

Source: Bloomberg & BBVA Research

Graph 6
**Volatility (Vix, Index)**



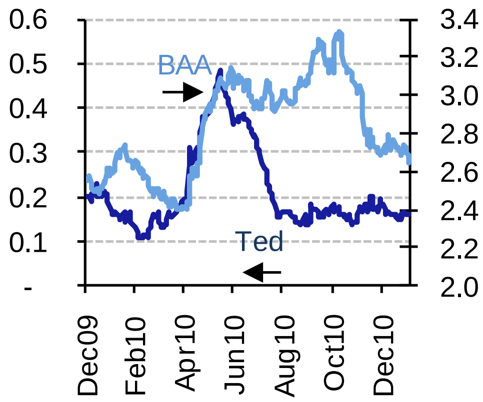

Source: Bloomberg & BBVA Research

Graph 7
**Commercial Paper Issuance (US$Bn)**




Source: Bloomberg & BBVA Research

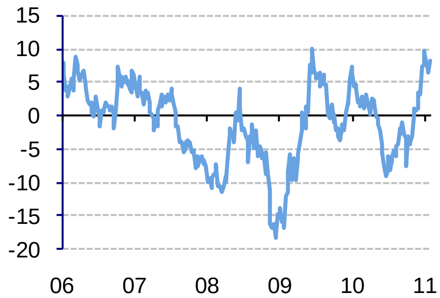
Graph 8
**TED & BAA Spreads (%)**




Source: Bloomberg & BBVA Research

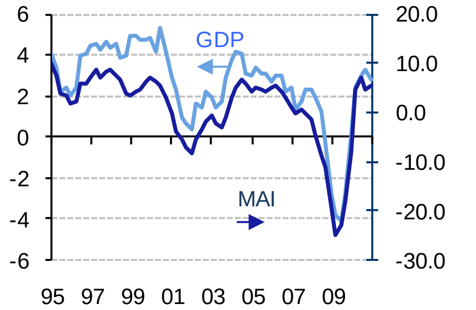
# Economic Trends

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)**

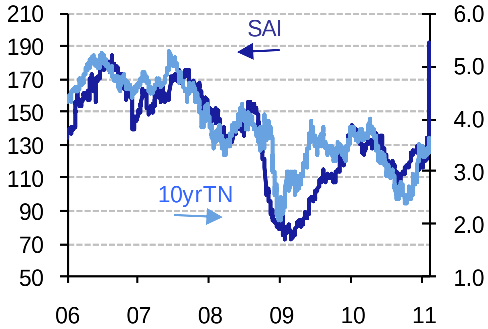



Source: BBVA Research & BEA

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

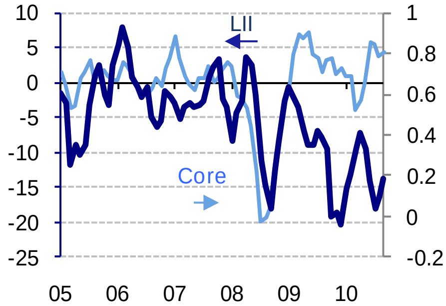

Source: BBVA Research

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



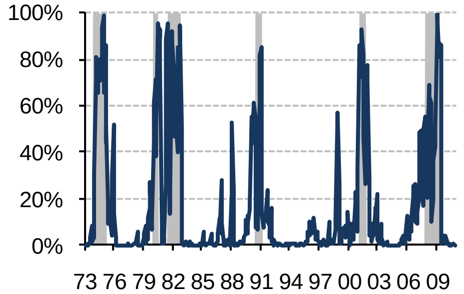

Source: Bloomberg & BBVA Research

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

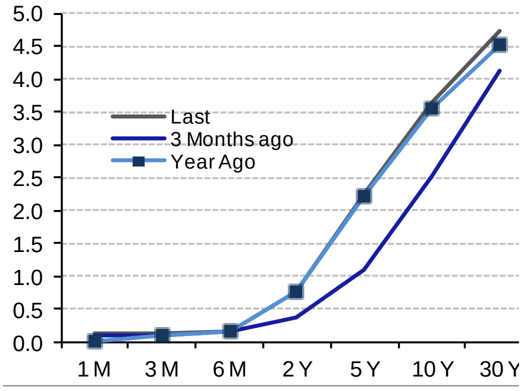
# Yield Curve and Interest Rates

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 | 13.68 | 12.53 |
| New Auto (36-months) | 5.10 | 5.09 | 5.34 | 6.43 |
| Heloc Loan 30K | 5.55 | 5.56 | 5.47 | 5.69 |
| 30-year Fixed Mortgage * | 4.81 | 4.80 | 4.77 | 5.01 |
| Money Market | 0.62 | 0.71 | 0.71 | 0.87 |
| 2-year CD | 131 | 131 | 121 | 175 |
| 5-year CD | 2.06 | 2.00 | 2.07 | 2.66 |

* 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

Federal Reserve Bank of Atlanta President Dennis Lockhart
January 31, 2011
*Functions of the Fed and the Current Economic Situation*
Miami Dade College, Miami, FL

*"Progress is real, but fitful, and support of accommodative Fed policy is still required."*

# Economic Calendar

| Date | Event | Period | Forecast | Survey | Previous |
|---|---|---|---|---|---|
| 7-Feb | Consumer Credit | DEC | $2.3B | $2.5B | $1.3B |
| 8-Feb | NFIB Small Business Optimism | JAN | 94.0 | 93.8 | 92.6 |
| 10-Feb | Initial Jobless Claims | 5-Feb | 405K | 410K | 415K |
| 10-Feb | Continuing Claims | 29-Jan | 3880K | 3900K | 3925K |
| 10-Feb | Wholesale Inventories | DEC | 0.5% | 0.7% | -0.2% |
| 10-Feb | Monthly Budget Statement | JAN | -$60.0B | -$59.5B | - - |
| 11-Feb | Trade Balance | DEC | -$39.0B | -$40.5B | -$38.3B |
| 11-Feb | U. of Michigan Confidence | FEB P | 75.5 | 75.0 | 74.2 |

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