

# Weekly Watch

U.S.

May 2<sup>nd</sup>, 2011  
Economic Analysis

U.S.

Hakan Danış  
Hakan.Danis@bbvacompass.com

Ignacio San Martin  
Ignacio.SanMartin@bbvacompass.com

## Highlights

### US economy slowed down in 1Q11

The Bureau of Economic Analysis (BEA) announced that the US economy grew 1.8% (QoQ, annualized) in 1Q11 on a seasonally adjusted basis compared to 3.1% in the previous quarter. The release indicates that personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment positively contributed to growth, while government spending, residential investment and net exports dragged down the economic recovery in 1Q11. Although the PCE growth slowed, it grew 2.7% QoQ and contributed 1.91 percentage points (pp). Economic activity in the residential sector remained weak, while nonresidential investment slowed down. The change in real private inventories contributed 0.9pp to the 1Q11 growth, after subtracting 3.4pp in the previous quarter. The main driver for the slow GDP growth in 1Q11 was the drop in government consumption expenditures and gross investment which subtracted 1.09pp. Real federal government consumption expenditures and gross investment decreased 7.9% QoQ, mainly due to a sharp decline in national defense spending which dropped 11.7% QoQ in 1Q11. In sum, BEA's estimate indicates that consumer spending continues to be main driver of the recovery but the residential sector remains depressed. We expect the government sector to contribute positively to economic growth in the current quarter. Recent economic trends confirm that substantial economic slack remains and the pace of growth is going to accelerate in 2Q11. However, the average real growth in 2011 could be slightly slower than previously expected.

### Personal spending continues to support economic recovery

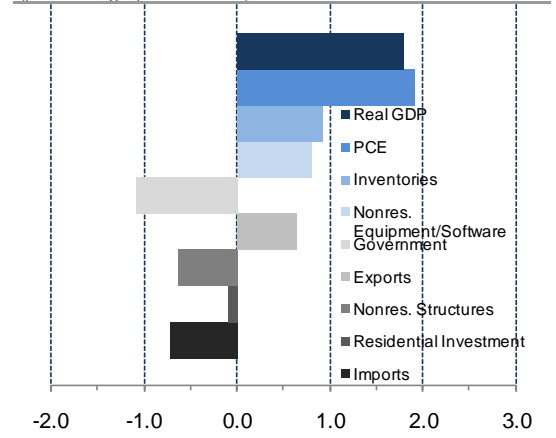
BEA's latest estimate shows that personal income and spending increased 0.5% and 0.6% MoM in March, respectively. However, the increase in consumer prices was the main driver in this increase. After removing price changes, personal spending increased moderately by 0.2% compared with an increase of 0.5% in the previous month. The PCE Price Index rose 0.4% in March, while core PCE, which excludes food and energy prices, increased 0.1%, showing a limited pass through effect.

Graph 1  
Real GDP  
(QoQ % change, SAAR)



Source: BEA, Haver and BBVA Research

Graph 2  
Contribution Real GDP, 1Q11 Advance  
(percentage point, SAAR)



Source: BEA, Haver and BBVA Research

## Week Ahead

### Construction Spending (March, Monday 10:00 ET)

Forecast: 0.8%	Consensus: 0.4%	Previous: -1.4%
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Construction spending will grow 0.8% MoM in March due to a slight increase in public expenditures for infrastructure projects while private nonresidential construction will remain slow even though spending increased 0.9% in February. Residential building may rise as well as housing starts increased in March but non residential building will still remain weak for several months. However, the construction sector continues to be a drag on the economic recovery.

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

Forecast: 60.0	Consensus: 59.5	Previous: 61.2
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The July ISM manufacturing index declined slightly from 61.4 to 61.2, marking the twentieth consecutive month that the index has been above the expansion benchmark of 50. This indicates that the manufacturing industry continues to expand and the current level is the fourth highest level since January 1984. While all sub-indices but inventories point to an expansion, prices show inflationary pressures. Prices rose for the fourth month in a row with the index reaching 85. We expect that ISM Manufacturing index will decline slightly but remain significantly higher than 50.

### Nonfarm Payroll (April, Friday 08:30 ET)

Forecast: 185K	Consensus: 190K	Previous: 216K
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In March nonfarm payrolls increased by 216K and since February 2010 the U.S. economy created 1,492K new jobs. While the private sector added 230K jobs, fiscal problems are urging local governments to lay-off more employees. Since May 2010 the government sector lost 814K jobs. Due to strong employment growth in March, the unemployment rate declined from 8.9% to 8.8%, which is 1.0pp lower than in November 2010. The alternative unemployment rate, which includes those marginally attached to the workforce and working part-time for economic reasons, also declined to 15.7% in March. We expect the current positive trend in nonfarm payrolls to continue at a slower pace and the rising oil prices to be a threat in the short-term.

### Consumer Credit (March, Friday 15:00 ET)

Forecast: \$2.5bn	Consensus: \$5.0bn	Previous: \$7.6bn
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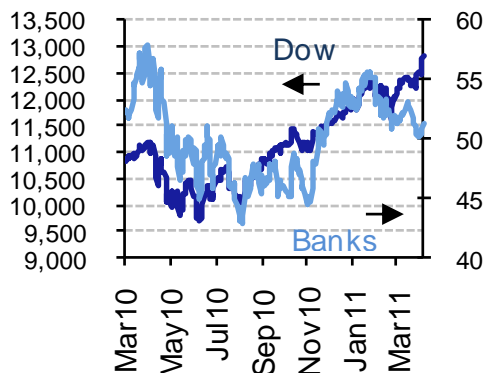
Consumer credit soared by \$7.6bn MoM in February when the market was expecting only a \$2.5bn increase. On a non-seasonally-adjusted basis, only savings institutions and the Federal government increased MoM in February, suggesting that some of the surprise is related to seasonality adjustments. Among consumer credit, non-revolving consumer credit, such as auto and student loans, jumped 0.6% MoM, while revolving consumer credit (i.e. credit cards) dropped -0.3% MoM. The increase in student loans is a reflection of the fact that many people are headed to school as a result of the downturn and the government's ongoing subsidy.

### Market Impact

Lower-than-expected job creation or a significant drop in the ISM index would suggest a moderation of economic activity and check last week's equity gains.

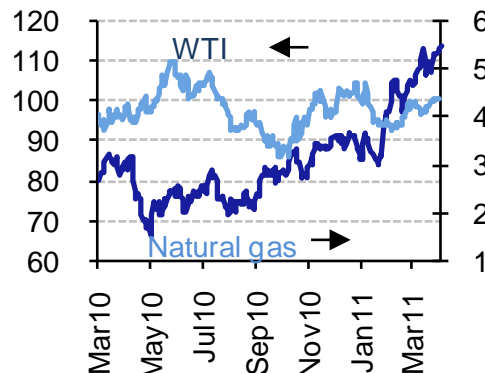
## Financial Markets

Graph 3  
Stocks (Index, KBW)



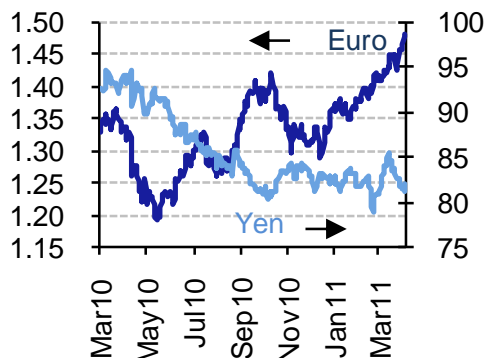
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



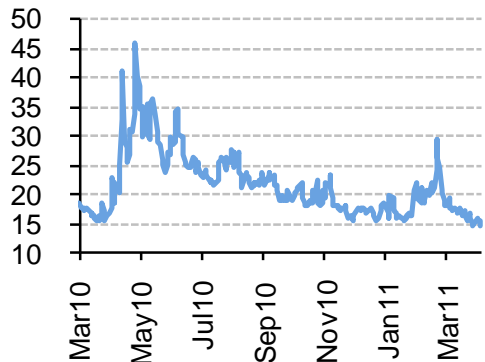
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



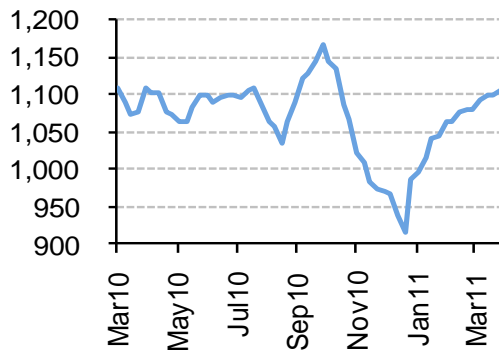
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



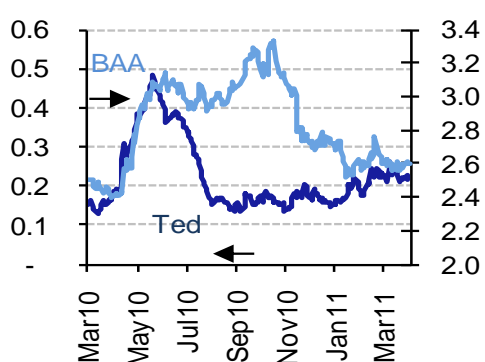
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

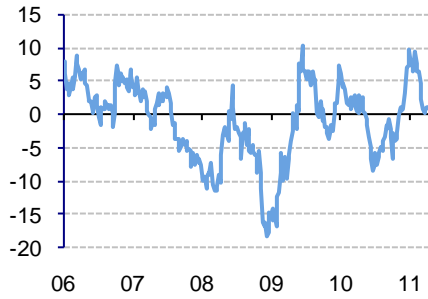
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

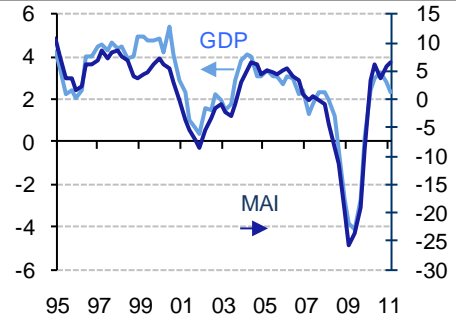
## Economic Trends

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)



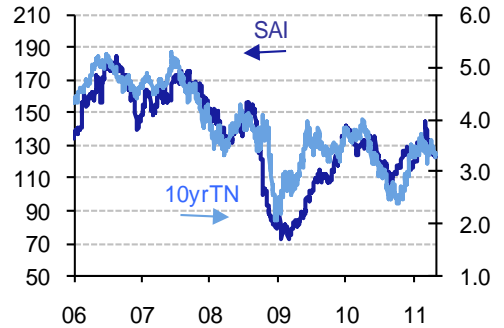
Source: BBVA Research & BEA

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



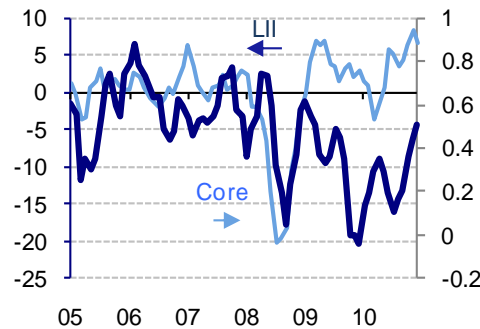
Source: BBVA Research

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



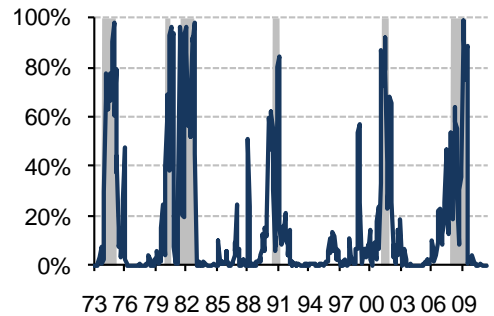
Source: Bloomberg & BBVA Research

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

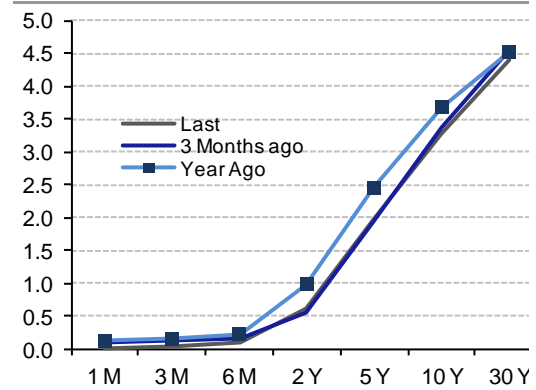
## Yield Curve and Interest Rates

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)	13.73	13.73	13.73	13.00
New Auto (36-months)	4.11	4.17	4.28	6.46
Heloc Loan 30K	5.48	5.47	5.48	5.61
30-year Fixed Mortgage *	4.78	4.80	4.86	5.06
M Money Market	0.65	0.65	0.63	0.78
2-year CD	1.25	1.25	1.25	1.63
5-year CD	2.09	2.09	2.07	2.63

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US  
Source: Bloomberg and BBVA Research

Graph 15  
Treasury's Yield Curve, %



Source: Bloomberg

## Quote of the Week

Paul Krugman  
April 27, 2011  
New York Times Blog

*"If you really think that around 2% inflation is right (I'd prefer 4, but that's a different issue), you're supposed to view 1% inflation as being just as bad as 3%; in a situation in which inflation is below the target rate, you're supposed to see a rise in that rate as a good thing. And correspondingly, if you're where we are now, with below target core inflation and high unemployment, all lights should be flashing green for expansion."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-May	Construction Spending MoM	MAR	0.8%	0.4%	-1.4%
2-May	ISM Manufacturing	APR	60.0	59.5	61.2
3-May	Factory Orders	MAR	1.6%	1.9%	-0.1%
3-May	Total Vehicle Sales	APR	12.9M	13.0M	13.1M
3-May	Domestic Vehicle Sales	APR	9.8M	9.8M	9.9M
4-May	ISM Non-Manf. Composite	APR	58.0	57.5	57.3
5-May	Nonfarm Productivity	1Q P	1.2%	1.0%	2.6%
5-May	Unit Labor Costs	1Q P	0.7%	0.8%	-0.6%
5-May	Initial Jobless Claims	30-Apr	415K	410K	429K
5-May	Continuing Claims	23-Apr	3625K	3649K	3641K
6-May	Change in Nonfarm Payrolls	APR	185K	190K	216K
6-May	Change in Private Payrolls	APR	200K	202K	230K
6-May	Avg Hourly Earning MOM All Emp	APR	0.3%	0.2%	0.0%
6-May	Avg Weekly Hours All Employees	APR	34.3	34.3	34.3
6-May	Unemployment Rate	APR	8.8%	8.8%	8.8%
6-May	Consumer Credit	MAR	\$2.5B	\$5.0B	\$7.6B

*Chief Economist for US*

Nathaniel Karp

Nathaniel.karp@bbvacompass.com

Ignacio San Martin

Ignacio.SanMartin@bbvacompass.com

Jeffrey Owen Herzog

Jeff.Herzog@bbvacompass.com

Marcial Nava

Marcial.Nava@bbvacompass.com

**Hakan Danis**

Hakan.Danis@bbvacompass.com

Jason Frederick

Jason.Frederick@bbvacompass.com

## Contact details

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### **BBVA Research**

5 Riverway Drive

Houston, Texas 77056

BBVA Research reports are available in English and Spanish

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