

# Weekly Watch

U.S.

## Highlights

May 9<sup>th</sup>, 2011  
Economic Analysis

U.S.

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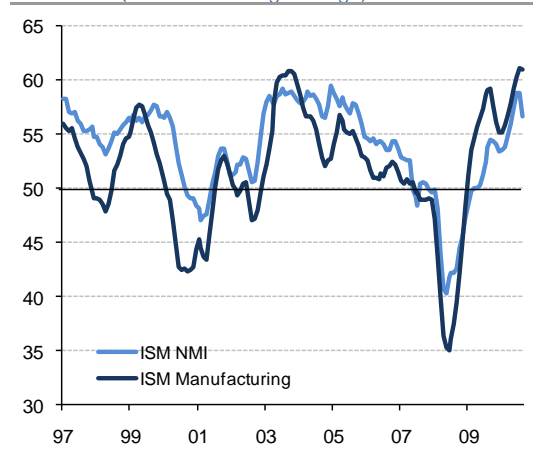
### Manufacturing & services sectors continued to expand in April

The ISM manufacturing index declined slightly in April but remained above 60 percent for the fourth consecutive month. The ISM Non-Manufacturing Index (NMI) also declined to 52.8. Both indices are above the benchmark of 50 at least in the last 17 months, illustrating that demand is strong in both the manufacturing and services sectors. Business activity in services sector continued to improve. ISM Prices Index increased for the fifth consecutive month, consistent with an increase in consumer prices and energy prices.

### US nonfarm payrolls rose by 244K in April

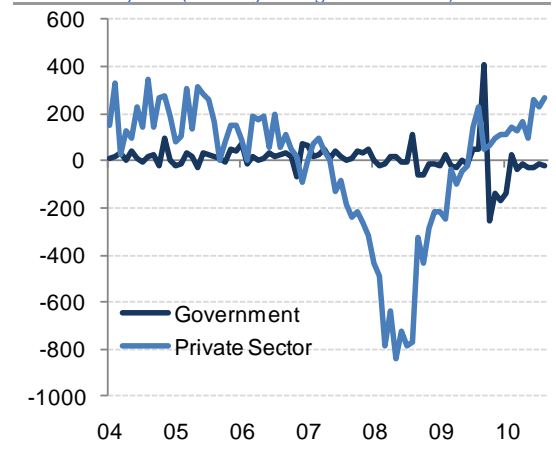
The Bureau of Labor statistics (BLS) announced that nonfarm payrolls increased by 244K in April but the unemployment rate jumped to 9.0%. The private sector continued to create new jobs by adding 268K to payrolls in April. Most of the service-providing industries, manufacturing, and mining sectors saw an increase in employment. Private sector employment has increased by 2.1mn since February 2010, while total nonfarm payrolls have increased by only 1.8mn due to layoffs in the government sector. Of the 268K jobs created in the private sector, 224K came from private service-providing sectors. Temporary help services declined for the third time since September 2009, illustrating that some private companies could become more willing to commit to hiring permanent employees. However, more data is needed to be sure. On the goods-producing side, the construction sector created only 5K jobs, highlighting that the construction sector is still weak. The manufacturing sector added 29K jobs, which is in line with recent data from the ISM Index. Although nonfarm payrolls increased significantly, the number of unemployed people increased by 205K on a seasonally adjusted basis and pushed the unemployment rate up, which is also consistent with recent increase in initial jobless claims. The share of long-term unemployment (27 weeks and over) dropped to 43.4% and the labor force participation rate remained at 64.2%. In sum, April's nonfarm payroll data have bad and goods news but indicate ongoing weakness in labor market conditions. We expect the employment situation to improve, but the unemployment rate will remain elevated over the next two years.

Graph 1  
ISM Indices (3-month moving average)



Source: ISM, Bloomberg and BBVA Research

Graph 2  
Nonfarm Payrolls (Monthly change, Thousands)



Source: BLS, Bloomberg and BBVA Research

## Week Ahead

### Wholesale Inventories (March, Tuesday 10:00 ET)

Forecast: 1.1%	Consensus: 1.0%	Previous: 1.0%
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The Bureau of Economic Analysis (BEA) estimated that private sector inventories increased by \$43.8bn in real terms in 1Q11. Wholesale inventories have increased since the start of 2010 and we expect them to follow their current positive trend. We forecast a 1.1% MoM increase in wholesale inventories in March, consistent with BEA's 1Q11 change in private inventories estimate.

### Retail Sales (April, Thursday 08:30 ET)

Forecast: 0.8%	Consensus: 0.6%	Previous: 0.4%
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Consumer demand remained robust during the economic recovery despite weak labor market conditions. Retail sales have increased 0.8% MoM on average in the past nine months. However, a significant portion of the recent upward trend in retail sales is related to higher oil and consumer prices. We expect retail sales to increase 0.8% MoM, partially due to higher consumer prices.

### Consumer Price Index, Core (April, Friday 08:30 ET)

Forecast: 0.5%, 0.2%	Consensus: 0.4%, 0.2%	Previous: 0.5%, 0.1%
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Consumer prices increased by 0.5% MoM in March on a seasonally adjusted basis. Consumer price inflation was 1.1% MoM in November 2010 and the current inflation rate is at 2.7%, the second highest level since October 2008. The main drivers of the March increase were food and energy prices, which accounted for roughly 75% of the increase. The energy index jumped 3.5% MoM, driven by the gasoline index, which has increased 14.4% over the last three months. The energy index soared 15.5% in the last 12 months, while the gasoline index jumped 27.5%. On the other hand, the pass-through effect from high oil and food prices to core prices remained limited. Core consumer prices (all items less food and energy) rose only by 0.1% MoM in March. We expect that high energy and food prices continued to push consumer prices higher but the pass-through effect on underlying prices remained limited in April.

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

Forecast: 71.0	Consensus: 70.0	Previous: 69.8
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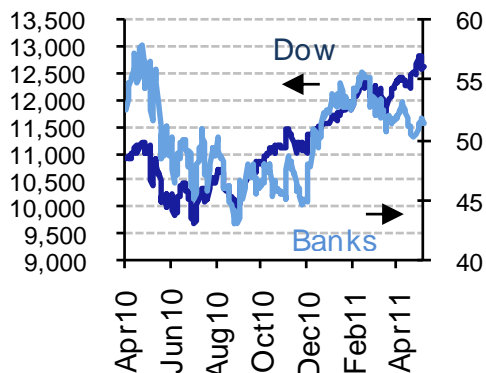
The Reuters/University of Michigan Consumer Sentiment index is expected to increase slightly in May. Although an increase in gasoline prices and the unemployment rate could negatively affect consumer sentiment, gradual improvement in labor market conditions such as the strong increase in April nonfarm payrolls would increase consumer sentiment in May.

### Market Impact

This week the market will be focused consumer prices. A significant jump in core consumer prices could be a signal of a high pass-through effect from high oil prices to underlying inflation and increase uncertainty and volatility in financial markets. Furthermore, a better-than-expected trade balance and inventories data would cause market participants to revise up their 1Q11 GDP growth and push stock prices up.

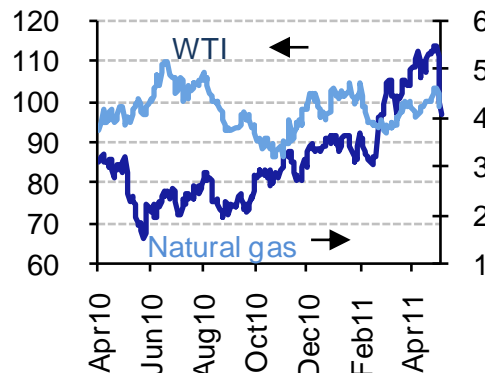
## Financial Markets

Graph 3  
Stocks (Index, KBW)



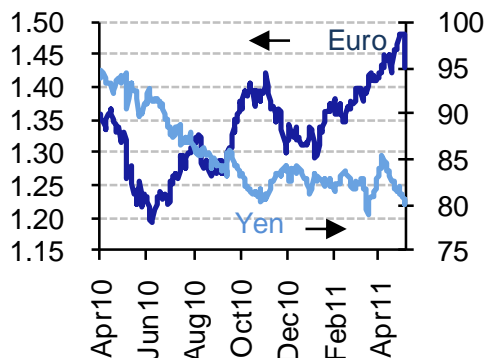
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



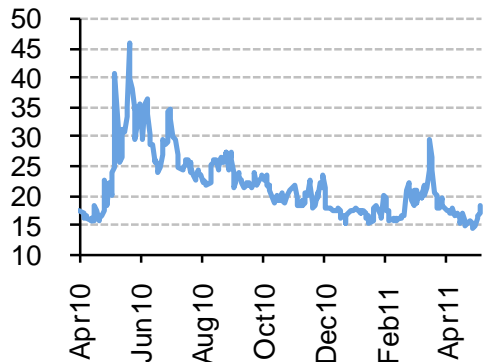
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



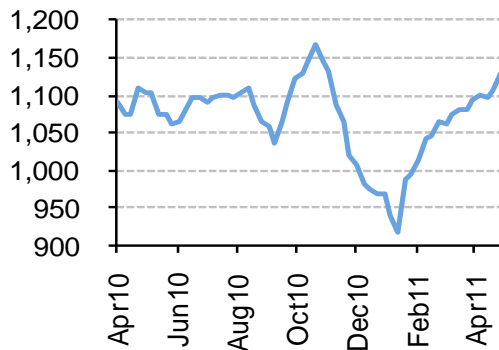
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



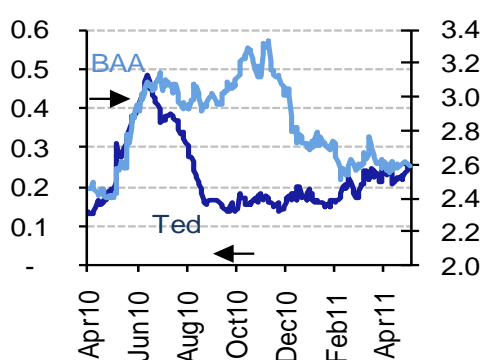
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

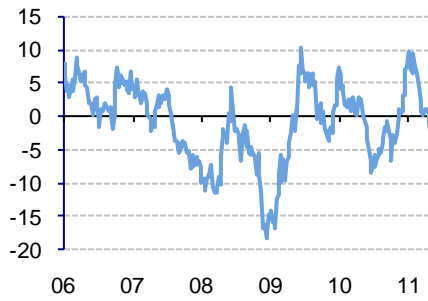
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

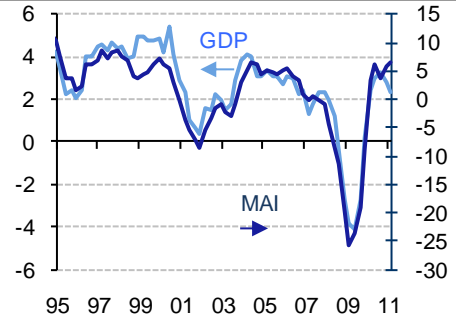
## Economic Trends

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)



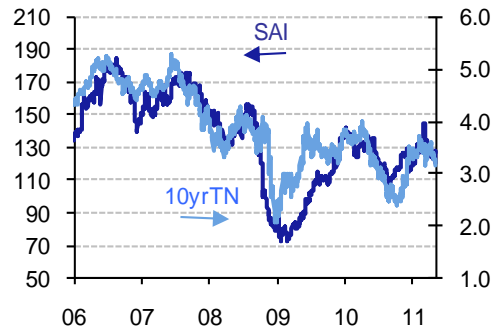
Source: BBVA Research & BEA

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



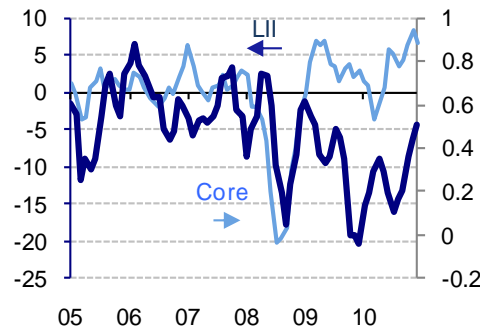
Source: BBVA Research

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



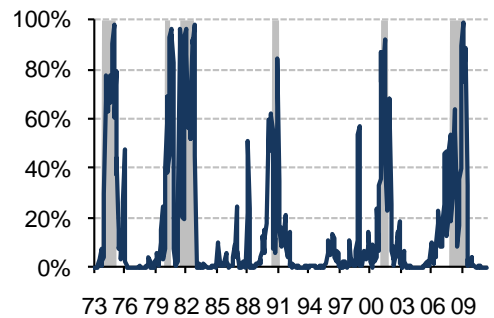
Source: Bloomberg & BBVA Research

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

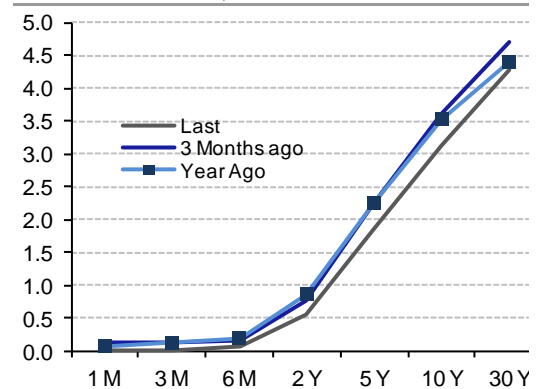
## Yield Curve and Interest Rates

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)	3.81	4.11	4.26	6.46
Heloc Loan 30K	5.48	5.48	5.47	5.61
30-year Fixed Mortgage *	4.71	4.78	4.87	5.00
Money Market	0.62	0.65	0.62	0.76
2-year CD	1.25	1.25	1.25	1.63
5-year CD	2.09	2.09	2.07	2.64

\* 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

Federal Reserve Chairman Ben Bernanke  
May 5, 2011  
The Chicago Fed's Annual Conference on Bank Structure and Competition  
Chicago, IL

*"No one's interests are served by the imposition of ineffective or burdensome rules that lead to excessive increases in costs or unnecessary restrictions in the supply of credit ... Regulators must aim to avoid stifling reasonable risk-taking and innovation in financial markets, as these factors play an important role in fostering broader productivity gains, economic growth, and job creation."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-May	Import Price Index (MoM)	APR	2.0%	1.8%	2.7%
10-May	Wholesale Inventories	MAR	1.1%	1.0%	1.0%
11-May	Trade Balance	MAR	-\$45.3B	-\$47.0B	-\$45.8B
11-May	Monthly Budget Statement	APR	-\$45.0B	-\$65.0B	-\$188.2B
12-May	Initial Jobless Claims	7-May	420K	430K	474K
12-May	Continuing Claims	30-Apr	3715K	3685K	3733K
12-May	Producer Price Index (MoM)	APR	0.7%	0.7%	0.7%
12-May	PPI Ex Food & Energy (MoM)	APR	0.3%	0.2%	0.3%
12-May	Advance Retail Sales	APR	0.8%	0.6%	0.4%
12-May	Retail Sales Less Autos	APR	0.8%	0.6%	0.8%
12-May	Business Inventories	MAR	1.0%	0.9%	0.5%
13-May	Consumer Price Index (MoM)	APR	0.5%	0.4%	0.5%
13-May	CPI Ex Food & Energy (MoM)	APR	0.2%	0.2%	0.1%
13-May	Consumer Price Index (YoY)	APR	3.0%	3.1%	2.7%
13-May	CPI Ex Food & Energy (YoY)	APR	1.3%	1.3%	1.2%
13-May	U. of Michigan Confidence	MAY P	71.0	70.0	69.8

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