

# Weekly Watch

U.S.

## Highlights

19 September 2011  
Economic Analysis

U.S.

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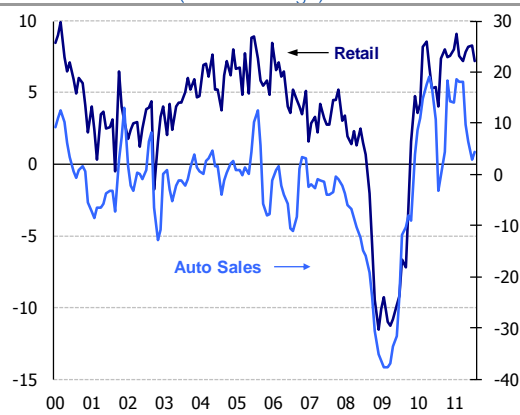
### Headline retail sales flat in August, YoY growth still robust

August retail sales were unchanged from July, failing to meet consensus expectations for 0.2% MoM growth. Apparel and auto sales dragged down headline figures, declining 0.7% and 0.3%, respectively, while gasoline and merchandise sales increased slightly. Retail sales excluding autos increased 0.1%, mostly due to contributions from sporting goods, electronics, non-store retail, and building materials. The discouraging monthly figures are in line with recent declines in business and consumer confidence, in addition to various weather-related issues that have dampened economic activity across the country. Furthermore, the modest 2.1% annualized growth seen throughout the past three months is much lower than the double-digit growth seen in 4Q10 and 1Q11. Despite this obvious weakness, total retail sales remain strong at 7.2% on a YoY basis. Overall, it appears that weak economic activity may continue to weigh on the recovery in the coming months.

### Consumer price index higher-than-expected for second consecutive month

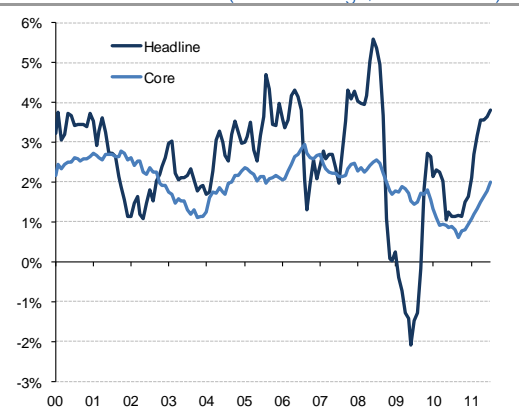
The consumer price index (CPI) increased more than expected for the second consecutive month, up 0.4% MoM in August following a 0.5% jump in July. Total energy and gasoline prices continued to grow, at 1.2% and 1.9%, respectively, however both indices reflect a slower MoM pace than in the previous month. In addition, food prices continued to accelerate, up 0.5% after a 0.4% rise in July. On a YoY non-seasonally-adjusted basis, headline CPI accelerated to 3.8%, the highest rate since September 2008. Energy prices have jumped 18.4% in the past 12 months, while food prices have increased 4.6% YoY. Despite the rise in headline inflation, core CPI remained steady at 0.2% MoM growth. The main contributors to core inflation were apparel and shelter, which increased 1.1% and 0.2%, respectively. Prices also increased for used cars and trucks, medical care, household furnishings and operations, recreation, tobacco, and personal care, while new vehicle prices did not change. The non-seasonally-adjusted core index jumped to 2.0% on a YoY basis, hitting the Fed's maximum rate in the implicit inflation target range of 1.5-2.0%. Ultimately, inflation data for August suggest that deflationary risks have declined. Looking forward to next week's two-day FOMC meeting, today's report could have significant implications for Fed action as members discuss strategies to boost growth.

Graph 1  
Retail & Auto Sales (YoY % Change)



Source: US Census Bureau

Graph 2  
Consumer Price Inflation (YoY % Change, 1982-84=100)



Source: US Bureau of Labor Statistics

## Week Ahead

### Housing Starts (August, Tuesday 8:30 ET)

Forecast: 602K	Consensus: 590K	Previous: 604K
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Housing starts are likely to be flat in August as home builders remain uncertain about a stronger recovery. Despite an increase in prospective buyers, weakness in the labor market continues to drag down overall demand for new homes. Furthermore, the future sales index declined for the month, indicating prolonged weakness in housing market conditions.

### Existing Home Sales (August, Wednesday 10:00 ET)

Forecast: 4.55M	Consensus: 4.75M	Previous: 4.67M
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Existing home sales are expected to decline in August for the third consecutive month as demand conditions remain weak. The housing market outlook has deteriorated throughout the summer months, with low employment growth and weak consumer activity weighing on the economic recovery. Furthermore, tight credit conditions make it difficult for consumers to take advantage of extremely low interest rates. In general, it is unclear whether the recovery will strengthen in the coming months, and negative housing prospects are likely to prevail.

### FOMC Meeting Announcement (September, Wednesday 14:15 ET)

Forecast: 0.0%-0.25%	Consensus: 0.0%-0.25%	Previous: 0.0%-0.25%
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The Fed has committed to keeping interest rates low through mid-2013, however additional policy tools are available and on the table. The decision to extend the September FOMC meeting could suggest Fed action and the potential for an "Operation Twist" announcement in this meeting. Strong language surrounding balance sheet adjustments and Bernanke's personal bias suggests further impetus for expanding the longer-term Treasuries holdings. However, stable inflation, grounded inflation expectations, abating deflationary pressures, and growing dissent among FOMC members provide a strong counterpoint to any argument for further quantitative easing in the form of balance sheet growth. In addition, there is no indication the Fed will announce plans to explicitly target inflation, switch to nominal GDP targeting regime, or adjust interest paid on excessive reserves.

### Jobless Claims (September 16, Thursday 8:30 ET)

Forecast: 420K	Consensus: 420K	Previous: 428K
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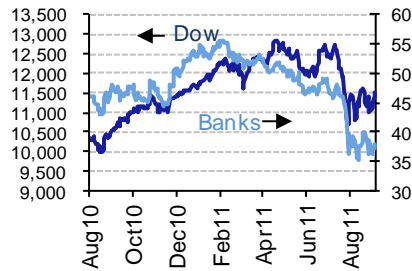
Initial jobless claims for the week ending September 16<sup>th</sup> are expected to show little improvement after weeks of disappointing reports. The employment situation remains discouraging, with no growth in nonfarm payrolls and steady increases in initial claims since mid-August. Despite a holiday-shortened week, which often skews the numbers down, last week's figure was the highest since June. Furthermore, the 4-week moving average was 15K higher compared to one month ago. Looking forward, we expect jobless claims to stay in line with the average at 420K.

### Market Impact

This week markets will watch the FOMC meeting closely as future Fed action could have significant implications for a stronger recovery. Slowdowns in economic activity are widely known, so continued weakness in the housing market should warrant little reaction from markets. However, better-than-expected figures could indirectly stimulate economic activity and strengthen market confidence.

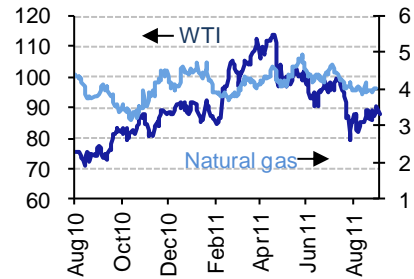
## Financial Markets

Graph 3  
Stocks (Index, KBW)



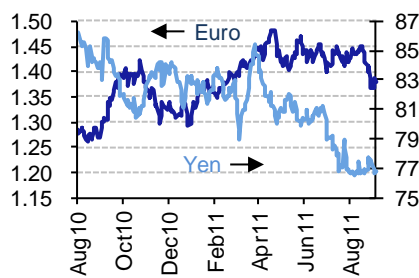
Source: Bloomberg & BBVA Research

Graph 4  
Commodities (Dpb & DpMMBtu)



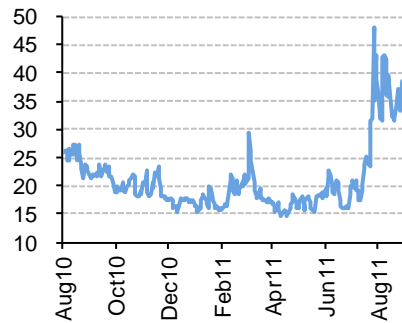
Source: Bloomberg & BBVA Research

Graph 5  
Currencies (Dpe & Ypd)



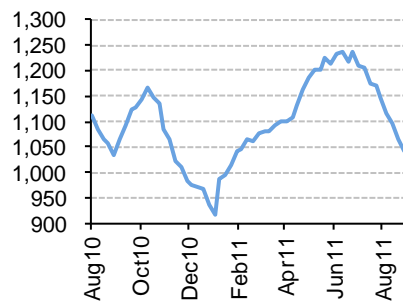
Source: Bloomberg & BBVA Research

Graph 6  
Volatility (Vix, Index)



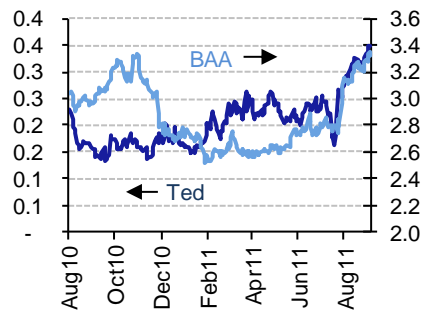
Source: Bloomberg & BBVA Research

Graph 7  
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

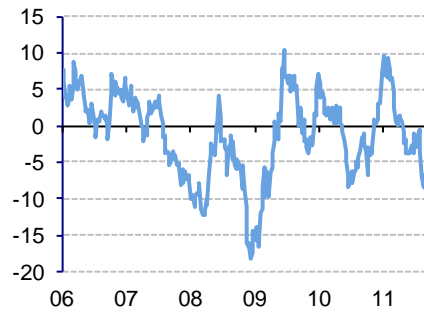
Graph 8  
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

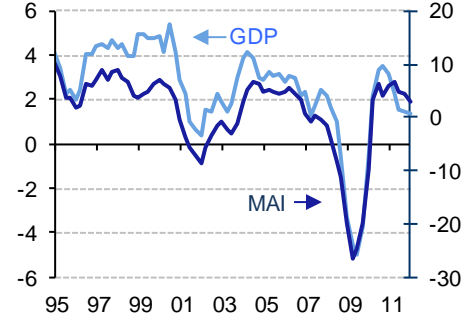
## Economic Trends

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



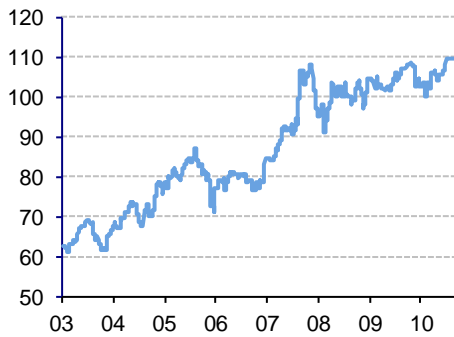
Source: BBVA Research

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



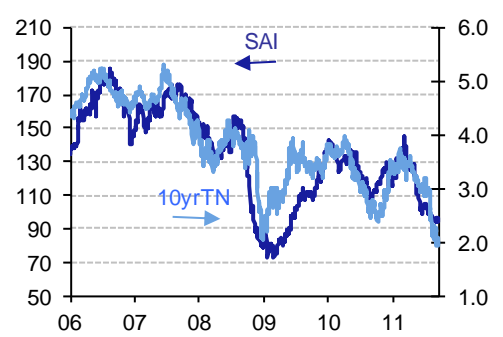
Source: BBVA Research & BEA

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



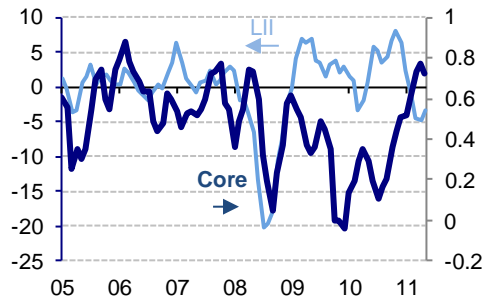
Source: BBVA Research

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



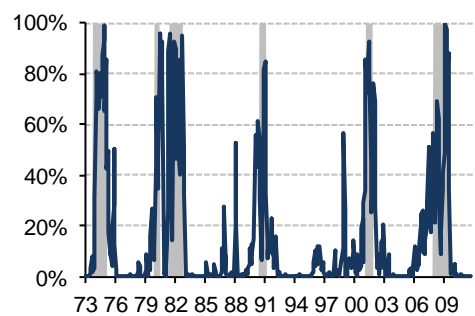
Source: Bloomberg & BBVA Research

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, %)



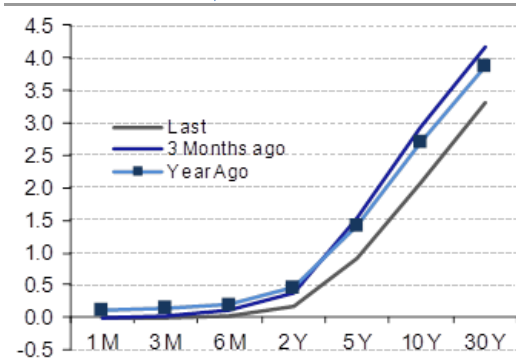
Source: BBVA Research

## 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)	13.95	13.78	13.73	13.58
New Auto (36-months)	4.22	4.22	3.87	5.90
Heloc Loan 30K	5.47	5.49	5.52	5.52
30-year Fixed Mortgage	4.09	4.12	4.15	4.37
Money Market	0.56	0.56	0.57	0.98
2-year CD	0.98	0.99	1.00	1.40
5-year CD	1.78	1.78	1.90	2.33

Graph 15  
Treasury's Yield Curve, %



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

Source: Bloomberg

## Quote of the Week

Timothy Geithner, U.S. Treasury Secretary  
Geithner presses EU to act; meet resistance  
16 September 2011

*"What is very damaging (in Europe) from the outside is not the divisiveness about the broader debate, about strategy, but about the ongoing conflict between governments and the central bank, and you need both to work together to do what is essential to the resolution of any crisis."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
19-Sep	NAHB Housing Market Index	SEPT	15.00	15.00	15.00
20-Sep	Housing Starts	AUG	602K	590K	604K
20-Sep	Housing Starts (MoM)	AUG	-0.33%	-2.30%	-1.50%
20-Sep	Building Permits	AUG	595K	590K	601K
20-Sep	Building Permits (MoM)	AUG	-0.34%	-1.80%	-3.20%
21-Sep	Existing Home Sales	AUG	4.55M	4.75M	4.67M
21-Sep	Existing Home Sales (MoM)	AUG	-2.57%	1.70%	-3.50%
21-Sep	FOMC Meeting Announcement	SEPT	0.25%	0.25%	0.25%
22-Sep	Initial Jobless Claims	17-Sep	420K	420K	428K
22-Sep	Continuing Claims	10-Sep	3730K	3720K	3726K
22-Sep	FHFA House Price Index	JUL	-0.20%	0.20%	0.90%

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