

Weekly Watch

U.S.

Highlights

12 December 2011
Economic Analysis

U.S.

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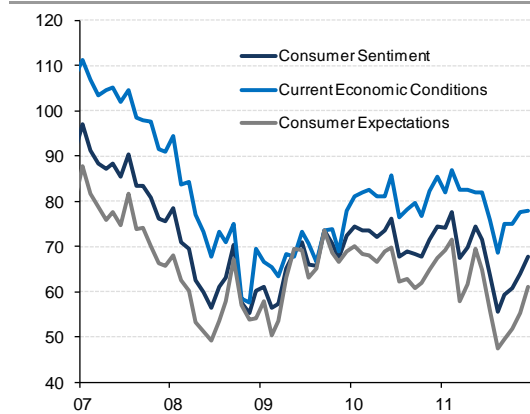
Improvements in consumer-related data drive the brighter outlook for 4Q11

Recently released economic data support expectations for a steady recovery. Consumer sentiment increased in December for the fourth consecutive month, marking a large gain in the expectations component. Attitudes toward job availability and future income continue to improve and will likely be reflected by increased spending in upcoming retail sales data for November. For the first week in December, initial jobless claims declined to the lowest level since February, pointing to positive employment growth moving forward. Although claims surpassed the 400K level during the last week in November, figures have trended downward since September. Total outstanding consumer credit, which increased by \$7.7bn MoM in October on a seasonally-adjusted basis, signaling increased willingness among consumers to take on more debt in anticipation of the holiday shopping season.

Data on contributing factors to GDP continue to improve, suggesting that 4Q11 growth will be similar to 3Q11. Wholesale inventories, which often make a significant contribution to GDP growth, jumped in October, hinting at increasing total inventories for the quarter. In addition, further narrowing of the international trade balance should have a positive impact on GDP. The underlying data reflect a larger-than-expected decline in imports that more than offset a slight decline in exports. In general, decreased trade in October may represent the beginning of slowing demand stemming from the European debt crisis. Sustained export growth is necessary in order to achieve stronger GDP, however, the increasing intensity of the crisis may limit expansion in the coming quarters.

On the downside, factory orders in October fell 0.4% due to declines in both durable and nondurable goods orders. The ISM Non-Manufacturing Index for November also fell slightly to its lowest level since January 2010, but remains above 50 to indicate continued expansion in the services sector. While business activity and demand for new orders have improved, the employment index fell below 50 for the second time in three months. Regardless, the underlying data suggest that the recovery is likely to continue at a steady pace.

Graph 1
Consumer Sentiment (NSA, Q1-1966 = 100)



Source: University of Michigan

Graph 2
US Exports & Imports (Annual % change)



Source: US Census Bureau

Week Ahead

Retail Sales, Ex Auto (November, Tuesday 8:30 ET)

Forecast: 0.5%, 0.4% Consensus: 0.6%, 0.4% Previous: 0.5%, 0.6%

Retail sales are expected to grow again in November for the sixth consecutive month. Motor vehicle sales, which make up close to 20% of total retail sales, jumped 2.8% in November due to growth in both the auto and truck components. Demand for seasonal goods has increased, and strength in holiday shopping likely boosted the ex-auto figure toward the end of the month. While the weak jobs market and high gas prices continue to weigh on consumer activity, we expect that holiday-related promotions should encourage spending throughout the next few months.

Empire State Manufacturing Survey (December, Thursday 8:30 ET)

Forecast: 2.00 Consensus: 3.00 Previous: 0.61

The Empire State Manufacturing Index is likely to signal continued growth in the manufacturing sector for December. Last month's index was positive for the first time since May, reflecting significant improvements in the 6-month outlook. Business sentiment and activity is picking up, pointing to growth in new orders for the upcoming months. Minimal growth in manufacturing employment may weigh on the sector, however, a rebound in inventories and increasing new orders should lift the index for December.

Industrial Production (November, Thursday 9:15 ET)

Forecast: 0.4% Consensus: 0.2% Previous: 0.7%

Strength in autos and other durable goods is expected to drive industrial production again in November, although at a slightly slower pace than in the previous month. October marked the strongest month since July, led mostly by a rebound in the mining sector. Manufacturing production expanded for the fourth consecutive month and is likely to continue growing at a modest pace. Increasing new orders and business activity, as indicated by regional Federal Reserve surveys, should contribute to further growth in industrial production for the month.

Consumer Price Index, Core (November, Friday 8:30 ET)

Forecast: 0.2%, 0.1% Consensus: 0.1%, 0.1% Previous: -0.1%, 0.1%

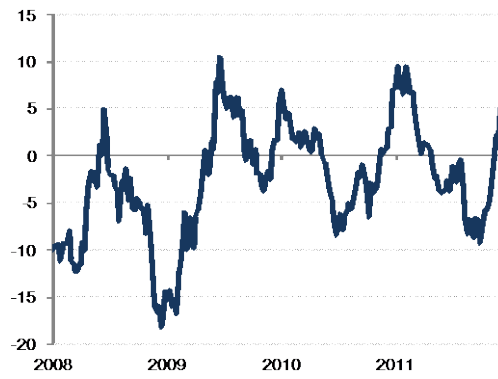
Headline consumer prices are likely to increase in November following a slight decline in October. Energy prices fell sharply in the previous month but have picked up again in November, with crude oil prices rising more than expected. Although food inflation has decelerated since August, it is likely to continue on a positive trend. Excluding food and energy, core inflation is likely to stabilize in line with the Fed's expectations.

Market Impact

Consumer activity will be a major focus this week as markets look for confirmation of a strong holiday shopping season. Manufacturing and production data will hint at continued improvements in demand conditions, which should boost market sentiment regarding a stronger recovery. Finally, continued price stabilization for both producers and consumers will warrant little reaction from markets given the increased focus on Europe.

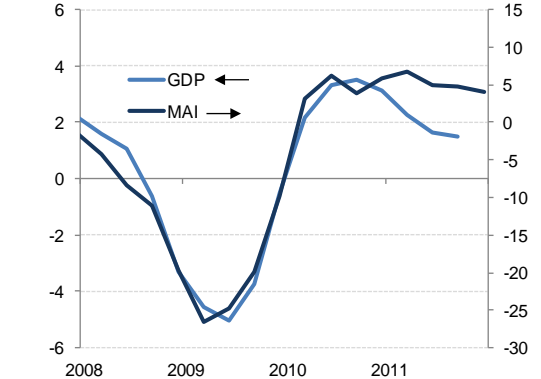
Economic Trends

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



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP
(4Q % change)



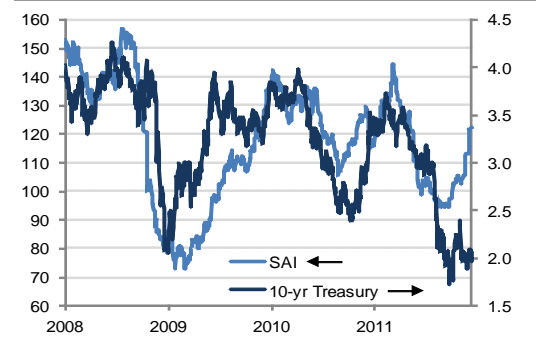
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index
(Index 2009=100)



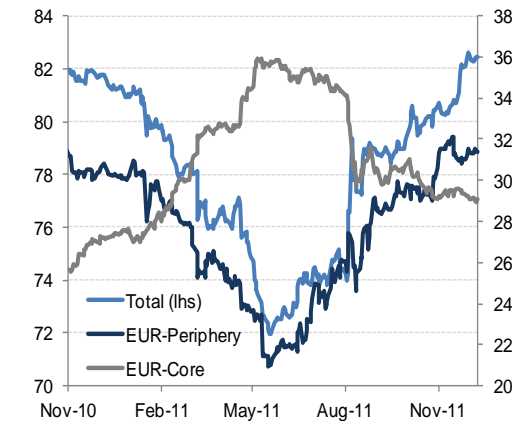
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury
(Index 2009=100 & %)



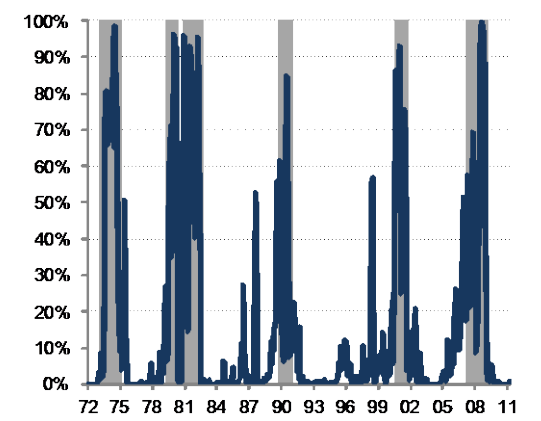
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US
(% Real Return Co-Movements)



Source: BBVA Research

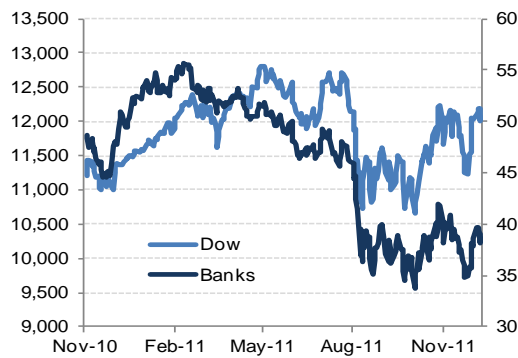
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

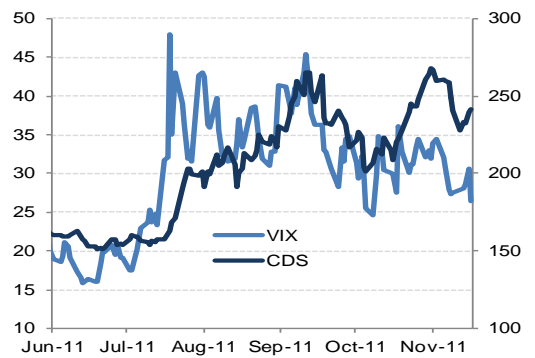
Financial Markets

Graph 9
Stocks (Index, KBW)



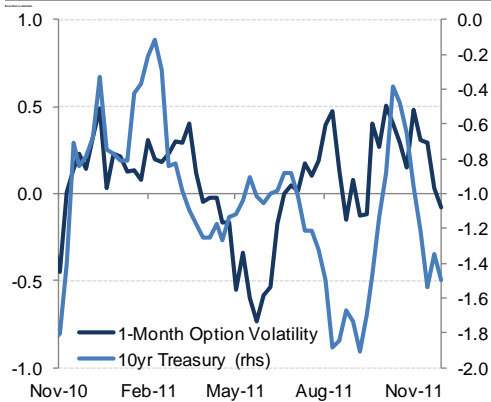
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



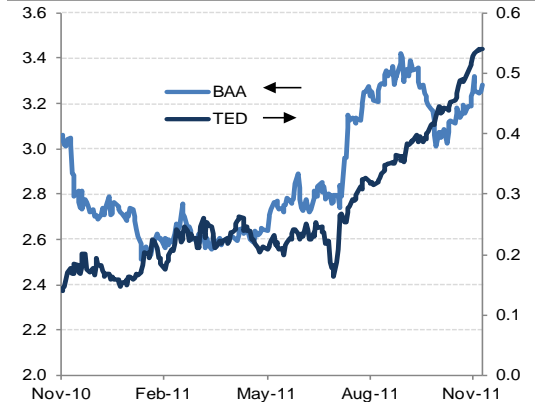
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury (52-week avg. change)



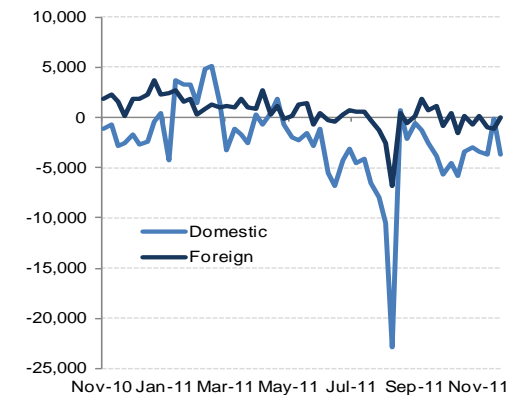
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows (US\$Mn)



Source: Bloomberg & BBVA Research

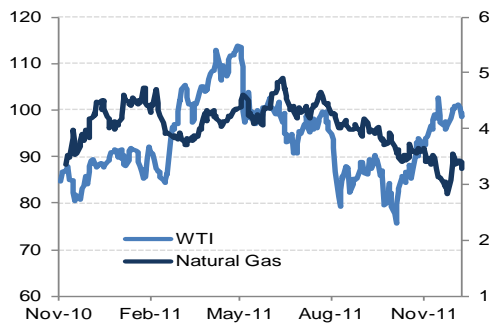
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

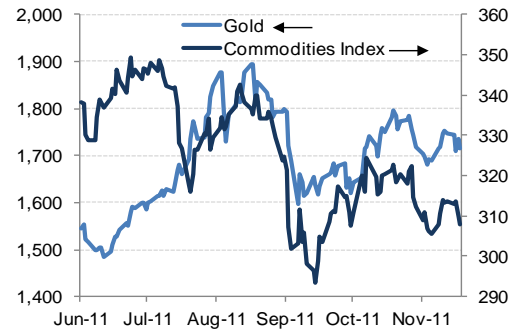
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



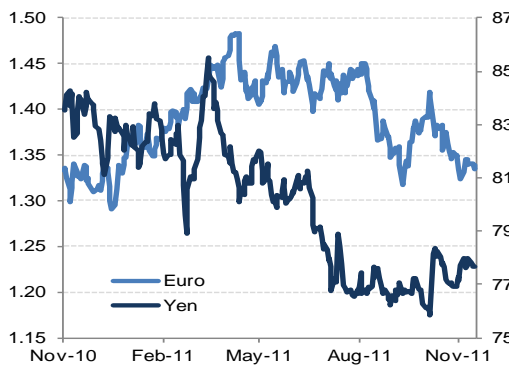
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



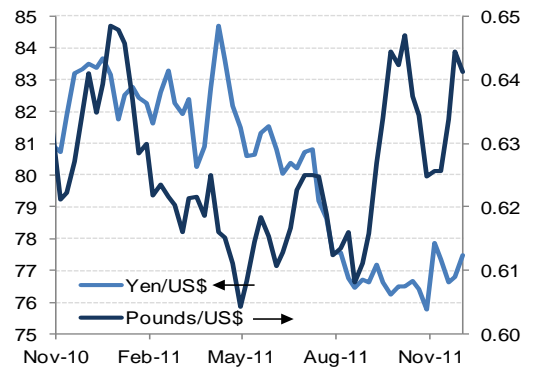
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



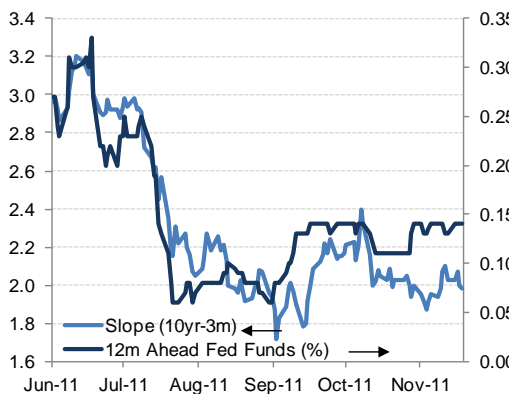
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



Source: BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

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)	13.94	13.96	13.96	13.68
New Auto (36-months)	3.76	3.79	4.12	5.34
Heloc Loan 30K	5.52	5.53	5.53	5.51
5/1 ARM*	2.93	2.90	2.98	3.60
15-year Fixed Mortgage*	3.27	3.30	3.30	3.96
30-year Fixed Mortgage*	3.99	4.00	3.99	4.61
Money Market	0.51	0.51	0.53	0.71
2-year CD	0.95	0.95	0.96	1.23

* Freddie Mac National Mortgage Homeowner Commitment US
 Source: Bloomberg & BBVA Research

 Table 2
 Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.07	0.08	0.08	0.16
3M Libor	0.54	0.53	0.46	0.30
6M Libor	0.76	0.75	0.66	0.46
12M Libor	1.08	1.07	0.98	0.78
2yr Sw ap	0.65	0.70	0.71	0.87
5yr Sw ap	1.26	1.33	1.30	2.19
10Yr Sw ap	2.19	2.21	2.21	3.43
30yr Sw ap	2.78	2.74	2.86	4.12
7day CP	0.82	0.73	0.55	0.23
30day CP	0.58	0.56	0.45	0.26
60day CP	0.47	0.43	0.40	0.27
90day CP	0.49	0.44	0.42	0.31

Source: Bloomberg & BBVA Research

Quote of the Week

President Barack Obama
 Obama Very Concerned About Europe Debt Crisis
 8 December 2011

"I think they now recognize the urgency of doing something serious and bold. The question is whether they can muster the political will to get it done."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
12-Dec	Treasury Budget	NOV	-\$125.0B	-\$139.0B	-\$98.5B
13-Dec	Advance Retail Sales	NOV	0.50%	0.60%	0.50%
13-Dec	Retail Sales Less Autos	NOV	0.40%	0.40%	0.60%
13-Dec	Business Inventories	OCT	1.00%	0.80%	0.00%
14-Dec	Import Prices (MoM)	NOV	0.20%	0.10%	-0.60%
14-Dec	Export Prices (MoM)	NOV	0.10%	--	-2.10%
15-Dec	Initial Jobless Claims	10-Dec	385K	390K	381K
15-Dec	Continuing Claims	3-Dec	3700K	3630K	3740K
15-Dec	Producer Price Index (MoM)	NOV	0.10%	0.20%	-0.30%
15-Dec	PPI Ex Food & Energy (MoM)	NOV	0.10%	0.20%	0.00%
15-Dec	Empire State Manufacturing Survey	DEC	2.00	3.00	0.61
15-Dec	Industrial Production	NOV	0.40%	0.20%	0.70%
15-Dec	Capacity Utilization	NOV	77.90%	77.90%	77.80%
15-Dec	Philadelphia Fed Survey	DEC	4.50	5.00	3.60
16-Dec	Consumer Price Index (MoM)	NOV	0.20%	0.10%	-0.10%
16-Dec	CPI Ex Food & Energy (MoM)	NOV	0.10%	0.10%	0.10%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.60	2.30	2.20	2.50
CPI (YoY %)	2.90	2.20	2.30	2.40
CPI Core (YoY %)	1.60	1.70	1.80	1.90
Unemployment Rate (%)	9.00	8.90	8.40	7.90
Fed Target Rate, EOP (%)	0.25	0.25	1.00	2.00
10Yr Treasury (% Yield)	2.21	2.64	3.17	3.60
US Dollar/ Euro	1.37	1.33	1.36	1.34

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