

Weekly Flash

U.S.

Highlights

27 February 2012
Economic Analysis

U.S.

Kim Fraser
kim.fraser@bbvacompass.com

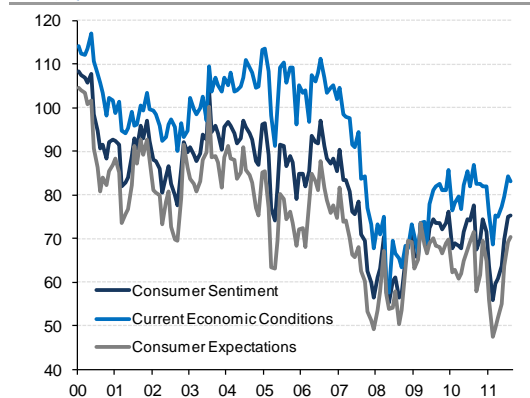
Consumer Sentiment Rebounds, New Home Sales Drag on Housing Recovery

Consumer sentiment rebounded at the end of February from a slight decline in the beginning of the month. The latest index, at 75.3, marks the highest level in 12 months and reflects a more positive 6-month outlook among consumers. However, consumer feelings toward current conditions have deteriorated slightly compared to the previous month, mostly due to rising gas prices. Although fewer consumers noted improvements in personal finances, the report highlights some progress in terms of job availability. This is in line with the continued declines in initial jobless claims, which held steady for the third week in February at 351K, the lowest level since early 2008.

Despite growth in many aspects of the economy, weak housing activity continues to weigh on the recovery. New home sales in January declined to 321K from an upwardly revised 324K in December. Levels remains near historical lows and are more than 75% lower than the pre-recession peak. Median home prices are similar to when the recession ended back in June 2009. On the plus side, supply of new homes on the market has decreased for six consecutive months and this trend could ease downwards pressure on home prices.

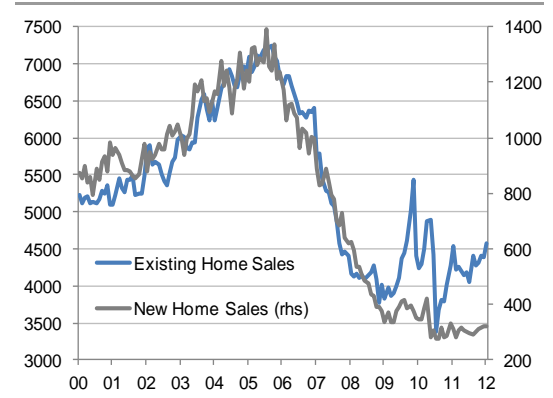
Existing home sales, on the other hand, increased in January and are showing signs of stronger activity compared to earlier in 2011. However, the median price of existing homes fell to the lowest level since November 2001, furthering concerns of weakness in the housing market. While foreclosures continue to weigh on home prices, increased affordability has helped to stimulate buyer demand for existing homes, at least for the time being. The question remains whether or not activity can continue at this pace. The Federal Reserve continues to stress concerns of structural problems in the housing market that are weakening the link between monetary policy and the real economy. The Fed maintains its wait-and-see stance for the near term and will monitor economic data closely to determine if and when appropriate intervention is necessary. Based on various speeches from Fed presidents, it is clear that not all members agree as to the best course for action.

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



Source: University of Michigan & BBVA Research

Graph 2
New and Existing Home Sales
(SAAR, K)



Source: US Census Bureau, NAR, & BBVA Research

Week Ahead

Durable Goods Orders, Ex Transportation (January, Tuesday 8:30 ET)

Forecast: -0.5%, 0.5% Consensus: -1.0%, 0.0% Previous: 3.0%, 2.1%

Durable goods orders are expected to slow in January following relatively strong growth in November and December. Aircraft orders, which are often volatile and have a significant impact on the headline figure, are likely to decline after two months of large gains. Despite some weakness in the auto sector, regional manufacturing surveys and ISM indices have noted increasing new orders for the month. Excluding transportation, durable goods orders have increased in seven of the last eight months, suggesting widespread expansion in the data.

GDP, Preliminary Estimate (4Q11, Wednesday 8:30 ET)

Forecast: 2.8% Consensus: 2.8% Previous: 2.8%

The second estimate for real GDP growth in 4Q11 should be little changed from the advance report. Data released in the past few weeks suggest only a slight change in contributions to GDP given the worse-than-expected deterioration in the trade balance for December. However, we do not expect a significant downward revision given that exports did revert back to positive growth and November's trade data were revised up slightly. Business inventories increased at a modest pace in December in line with expectations, although total build for the fourth quarter appears slightly less than that in 3Q11. Finally, we do not expect any changes to personal consumption expenditures as most of the data had already been accounted for in the first estimate.

Personal Income and Outlays (January, Thursday 8:30 ET)

Forecast: 0.3%, 0.4% Consensus: 0.5%, 0.4% Previous: 0.5%, 0.0%

Personal income and spending are both expected to increase in January. In December, income grew at the fastest pace since early 2011, mostly due to a rebound in the wages and salary component. Average earnings accelerated in January and should help lift the personal income figure. A jump in auto sales should boost outlays from no growth in December, and rising gasoline prices will likely increase nominal spending.

ISM Manufacturing Index (February, Thursday 10:00 ET)

Forecast: 55.0 Consensus: 54.5 Previous: 54.1

The ISM Manufacturing Index is expected to increase for the fourth consecutive month as the sector continues to gain momentum. Regional Federal Reserve surveys have indicated strength in new orders for February which point to increased production in the coming months. Manufacturing activity has been in expansionary territory since July 2009, although January's pace was slower than a year ago. Overall, we expect the index to increase gradually but remain below year-ago levels for February.

Market Impact

Market attention will be centered primarily on the second GDP estimate, where a disappointing downward revision could spark concerns of weaker economic activity moving into 1Q12. A rebound in personal spending and consumer confidence would lift market spirits regarding a stronger recovery.

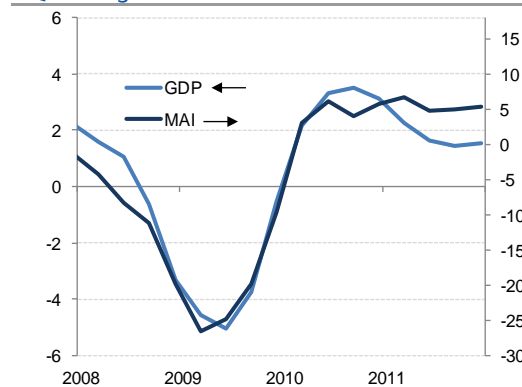
Economic Trends

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



Source: BBVA Research

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



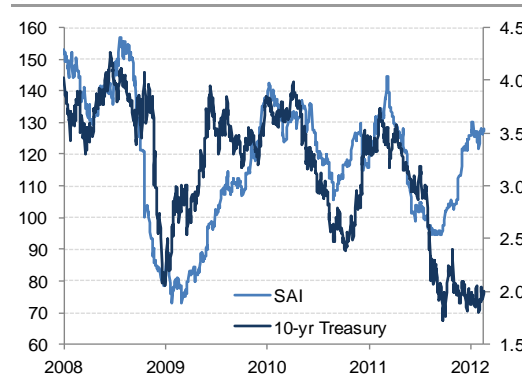
Source: BBVA Research & BEA

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



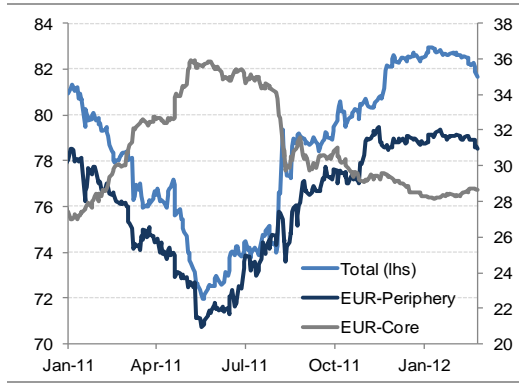
Source: BBVA Research

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



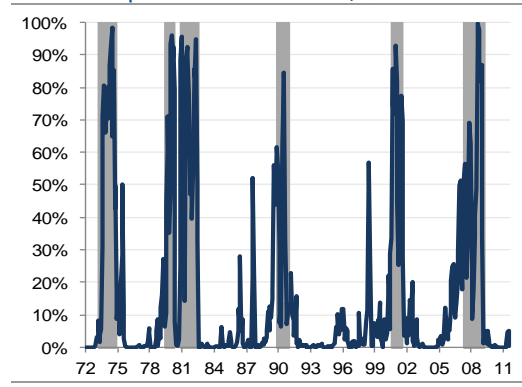
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

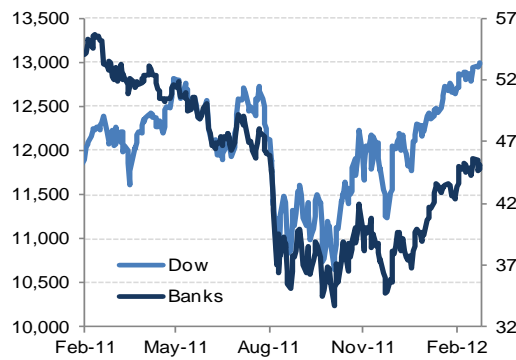
Graph 8
BBVA US Recession Probability Model
(Recession episodes in shaded areas,%)



Source: BBVA Research

Financial Markets

Graph 9
Stocks (Index, KBW)



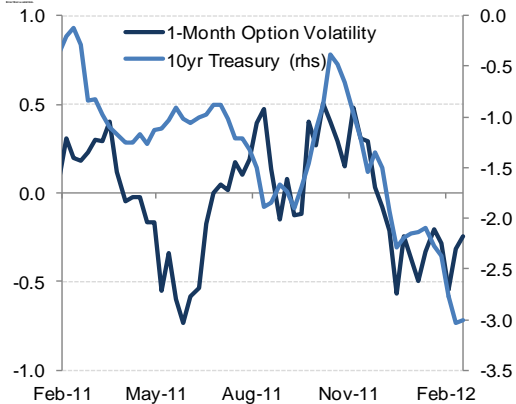
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS (Indices)



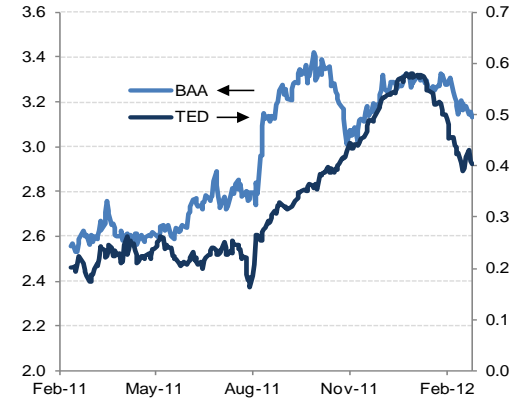
Source: Bloomberg & BBVA Research

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



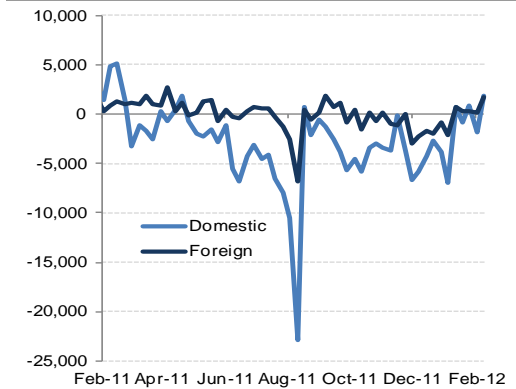
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads (%)



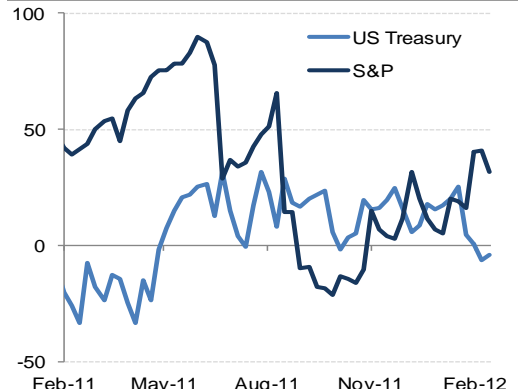
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

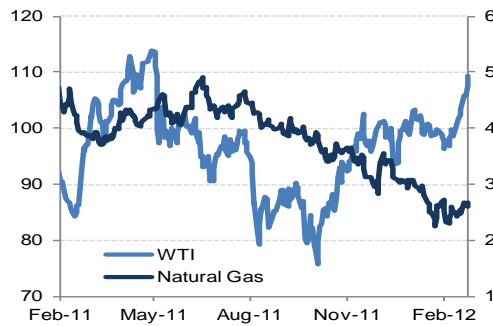
Graph 14
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

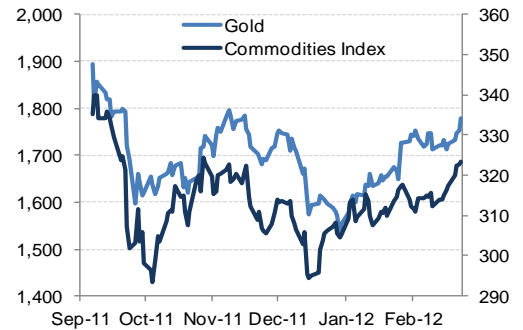
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



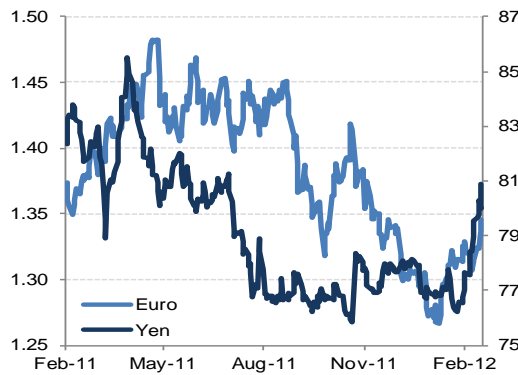
Source: Bloomberg & BBVA Research

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



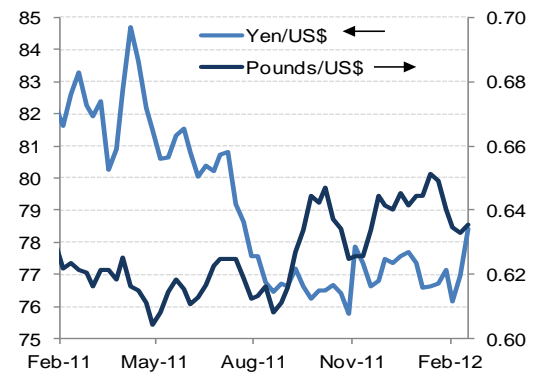
Source: BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



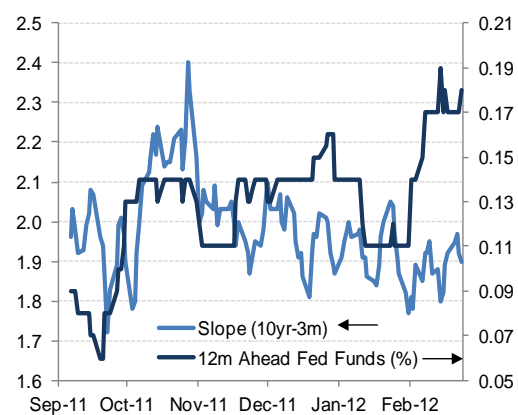
Source: Bloomberg & BBVA Research

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



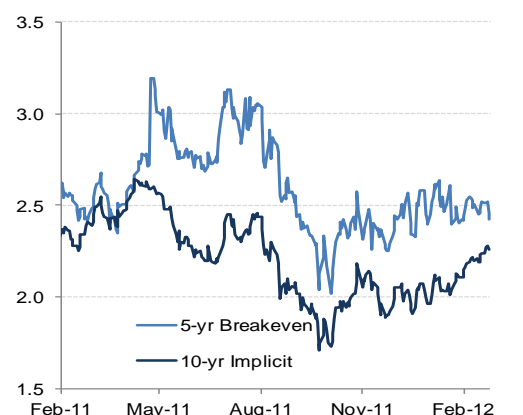
Source: BBVA Research

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)	14.10	14.10	13.94	13.73
New Auto (36-months)	3.73	3.89	3.54	5.04
Heloc Loan 30K	5.53	5.53	5.55	5.54
5/1 ARM*	2.80	2.82	2.85	3.80
15-year Fixed Mortgage*	3.19	3.16	3.24	4.22
30-year Fixed Mortgage*	3.95	3.87	3.98	4.95
Money Market	0.47	0.47	0.51	0.63
2-year CD	0.91	0.91	0.92	1.29

* 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	0.08	0.09	0.09	0.15
3M Libor	0.49	0.49	0.55	0.31
6M Libor	0.75	0.75	0.79	0.46
12M Libor	1.07	1.07	1.10	0.79
2yr Sw ap	0.62	0.58	0.54	0.91
5yr Sw ap	1.17	1.14	1.04	2.37
10Yr Sw ap	2.08	2.08	2.01	3.54
30yr Sw ap	2.79	2.82	2.76	4.28
7day CP	0.22	0.27	0.58	0.22
30day CP	0.36	0.38	0.72	0.25
60day CP	0.44	0.47	0.65	0.28
90day CP	0.48	0.52	0.55	0.30

Source: Bloomberg & BBVA Research

Quote of the Week

John C. Williams, President and CEO, Federal Reserve Bank of San Francisco
 Presentation to the Monetary Policy Forum
 24 February 2012

"But suppose monetary policy is less powerful than usual. That suggests we need to move our monetary instruments even more than usual to achieve our employment and price-stability objectives."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
27-Feb	Pending Home Sales (MoM)	JAN	1.00%	1.00%	-3.50%
27-Feb	Dallas Fed Manufacturing Survey	FEB	15.50	15.50	15.30
28-Feb	Durable Goods Orders	JAN	-0.50%	-1.10%	3.00%
28-Feb	Durable Goods Orders Ex Transportation	JAN	0.50%	0.00%	2.10%
28-Feb	S&P Case-Shiller HPI (YoY)	DEC	-3.50%	-3.60%	-3.67%
28-Feb	Consumer Confidence	FEB	62.00	63.00	61.10
29-Feb	GDP QoQ Annualized	4Q P	2.80%	2.80%	2.80%
29-Feb	Personal Consumption	4Q P	2.00%	2.00%	2.00%
29-Feb	GDP Price Index	4Q P	0.40%	0.40%	0.40%
29-Feb	Core PCE QoQ	4Q P	1.10%	1.10%	1.10%
1-Mar	Total Vehicle Sales	FEB	14.00M	14.00M	14.13M
1-Mar	Domestic Vehicle Sales	FEB	10.90M	11.00M	11.05M
1-Mar	Initial Jobless Claims	25-Feb	350K	355K	351K
1-Mar	Continuing Claims	18-Feb	3450K	3420K	3392K
1-Mar	Personal Income	JAN	0.30%	0.50%	0.50%
1-Mar	Personal Spending	JAN	0.40%	0.40%	0.00%
1-Mar	PCE Core (MoM)	JAN	0.20%	0.20%	0.20%
1-Mar	PCE Core (YoY)	JAN	1.80%	1.80%	1.80%
1-Mar	ISM Manufacturing	FEB	55.0	54.5	54.1
1-Mar	Construction Spending (MoM)	DEC	1.0%	1.0%	1.5%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.3	2.3	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.5	8.1	7.7
Fed Target Rate, EOP (%)	0.25	0.25	0.25	0.50
10Yr Treasury, Avg (% Yield)	2.8	2.3	2.7	3.4
US Dollar/ Euro	1.31	1.27	1.26	1.25

Note: Bold numbers reflect actual data

Chief Economist for US

Nathaniel Karp
Nathaniel.karp@bbvacompass.com

Hakan Danış
Hakan.Danis@bbvacompass.com

Boyd Stacey
Boyd.Stacey@bbvacompass.com

Marcial Nava
Marcial.Nava@bbvacompass.com

Jeffrey Owen Herzog
Jeff.Herzog@bbvacompass.com

Jason Frederick
Jason.Frederick@bbvacompass.com

Kim Fraser
Kim.Fraser@bbvacompass.com

Contact details

BBVA Research
2001 Kirby Drive, Suite 310
Houston, Texas 77019

BBVA Research reports are available in English and Spanish

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.