

# Weekly Flash

U.S.

## Highlights

12 March 2012  
Economic Analysis

U.S.

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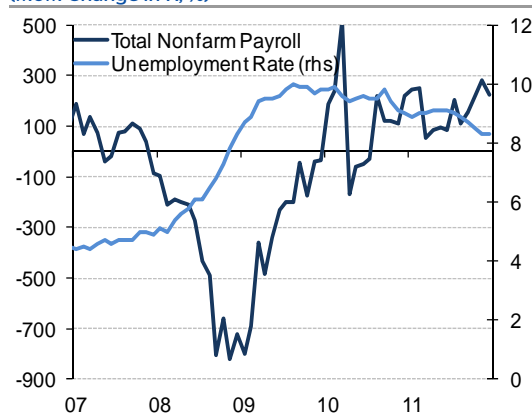
### Nonfarm Payrolls Above 200K in February, Consumer Credit Jumps Again

The employment report for February was better than expected, with nonfarm payrolls up 227K to mark the third consecutive month of more than 200K growth. Total nonfarm payroll growth in January was revised up from 243K to 284K, reflecting a 28K increase in private payrolls and marking the largest total gain since May 2010. The unemployment rate is much lower, holding steady at 8.3% in February compared to 9.0% last year. While the latest news adds positively to expectations for improving labor market conditions, we continue to see underlying weaknesses that hint at structural unemployment. For instance, the number of long-term unemployed (27+ weeks) declined only slightly and still accounts for more than 40% of total unemployment. The number of involuntary part-time workers is showing signs of a downward trend, however, the number of discouraged workers is relatively unchanged from 12 months ago. The participation rate increased slightly to 63.9% from 63.7% but remains far below the historical trend of the past few decades (peak of 67.3%). The question remains whether this trend is sustainable for businesses. Still, the data do not change our expectations for the Fed's future actions, and we continue to expect the FOMC to be on hold in anticipation of the upcoming meeting.

Consumer credit also surprised to the upside for the third consecutive month, up \$17.8bn in January on a seasonally-adjusted basis. Nonrevolving credit jumped \$20.7bn, offsetting a \$2.9bn decline on the revolving side. Gradual improvements in labor market conditions, gains in consumer confidence, and strong auto demand are helping to boost consumer lending. However, our suspicions of seasonal effects are becoming clearer as we see bigger discrepancies between SA and NSA data. Excluding government, NSA nonrevolving credit has increased only \$3.0bn since March 2011, furthering our concerns that the consumer credit situation is not yet out of the woods. Despite the monthly drop in revolving credit, YoY growth has accelerated slightly into positive territory. We expect that this modest trend will continue throughout 2012, an encouraging sign for consumer activity. Nonrevolving credit growth has reached the highest YoY rate since September 2005, yet we remain cautious of the strong government influences.

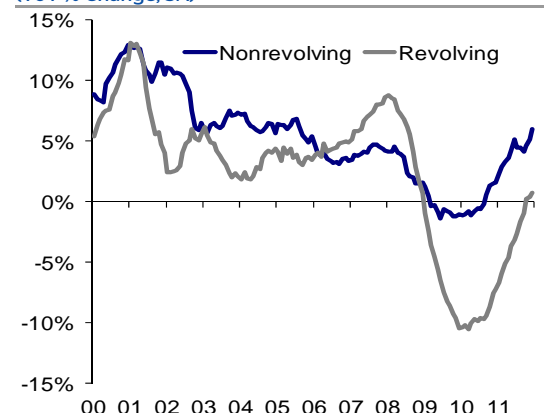
On the downside, trade data for January was disappointing, widening to -\$52.6bn and marking the biggest deficit since October 2008. Downward revision to December's data, from -\$48.8bn to -\$50.4bn, may have a slight impact on the final GDP estimate for 4Q11.

Graph 1  
Nonfarm Payrolls & Unemployment Rate  
(MoM Change in K, %)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2  
Outstanding Consumer Credit  
(YoY % Change, SA)



Source: Federal Reserve & BBVA Research

## Week Ahead

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

Forecast: 0.9%, 0.5%      Consensus: 1.0%, 0.7%      Previous: 0.4%, 0.7%

Retail sales have been underwhelming throughout the past few months, and recent data suggest that similar trends should continue in February. Rising gas prices most likely lifted nominal sales but may have discouraged consumers from big spending. Weekly retail sales reports have been mixed due to weather-related disruptions, particularly as February often stands as a transition month from sales of winter to spring goods. Still, we expect that nominal headline sales will grow at a slightly faster pace compared to January.

### Empire State Manufacturing (March, Thursday 8:30 ET)

Forecast: 18.0      Consensus: 17.4      Previous: 19.5

The Empire State Manufacturing Index is expected to decline slightly in March but will continue to suggest increasing month-to-month activity in the manufacturing sector. February's estimate was the highest since June 2010, showing particular strength in shipments in addition to steady employment growth. New orders dropped for the first time in a few months, although we do not expect declining trends to continue. In general, manufacturing has been holding strong in the region, with the 6-month outlook dropping only slightly in February.

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

Forecast: 0.3%, 0.2%      Consensus: 0.4%, 0.2%      Previous: 0.2%, 0.2%

Energy prices are likely to drive headline inflation in February after increasing in January for the first time since September. Despite rising oil and gas prices, the household energy index declined in January for the fourth consecutive month, a trend that is likely to continue. Rent, food, and medical care prices continue to increase, but at a relatively steady pace, and we expect that commodity price pressures will decline in the coming quarters. In general, inflation trends are still unfolding in line with the Fed's projections, and well-anchored inflation expectations limit potential upward pressure to core prices. However, any significant increase in oil prices would push inflation higher as it happened last year.

### Industrial Production (February, Friday 9:15 ET)

Forecast: 0.4%      Consensus: 0.4%      Previous: 0.0%

Significant declines in mining and utilities output weighed on overall industrial production in January, offsetting a 0.7% increase from the manufacturing sector. We expect that production will rebound in February given the momentum in manufacturing, despite the declining ISM index suggesting a slower pace of economic expansion. Nonfarm payrolls grew in February for mining, utilities, and manufacturing, suggesting that activity likely increased for the month in all production-related components. Furthermore, increasing demand for autos should continue to drive production in the coming months.

### Market Impact

Markets should be relatively calm next week following the better-than-expected employment report for February. A rebound in industrial production would partially ease worries of a slowdown in 1Q12 activity. Much attention will be focused on inflation data and whether the Federal Reserve will hint at more immediate action.

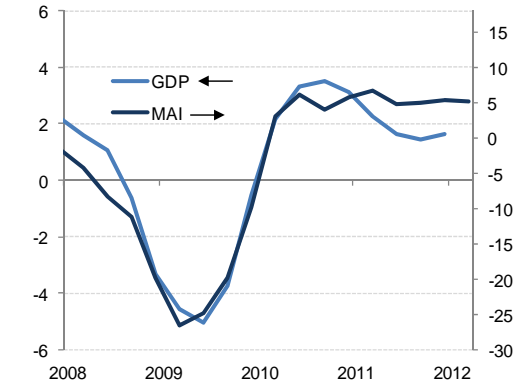
## Economic Trends

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



Source: BBVA Research

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



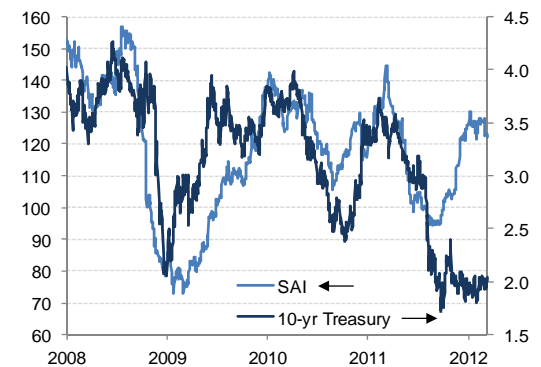
Source: BBVA Research & BEA

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



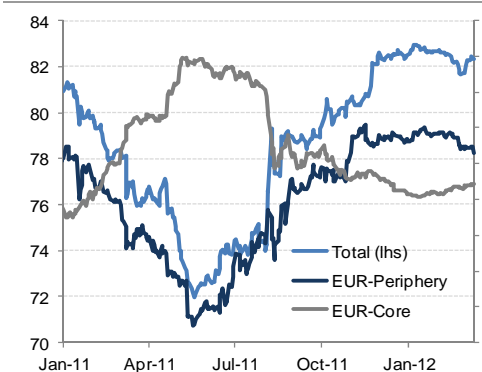
Source: BBVA Research

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



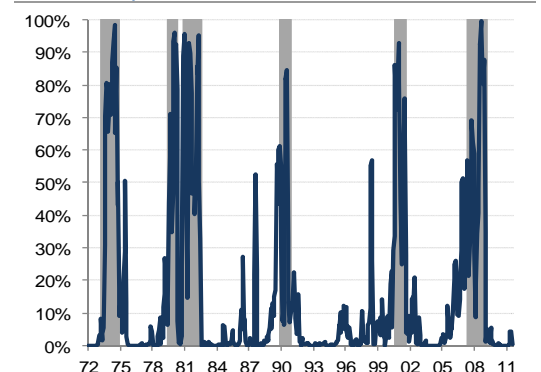
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

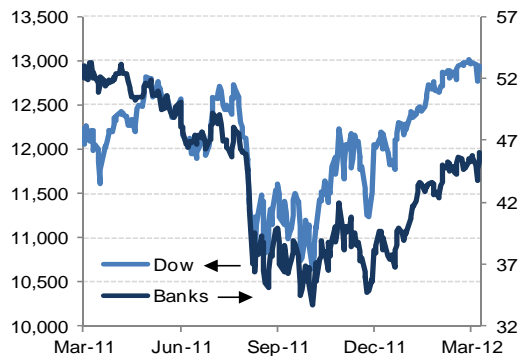
Graph 8  
**BBVA US Recession Probability Model (Recession episodes in shaded areas, %)**



Source: BBVA Research

## Financial Markets

Graph 9  
Stocks (Index, KBW)



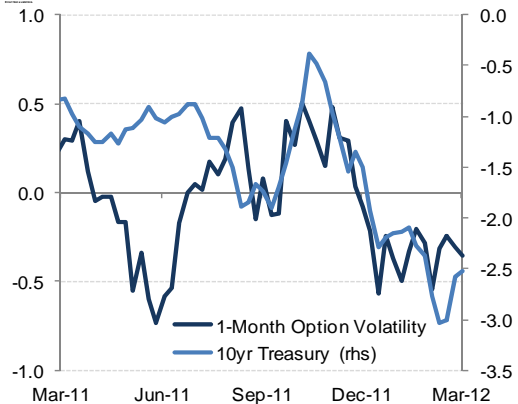
Source: Bloomberg & BBVA Research

Graph 10  
Volatility & High-Volatility CDS (Indices)



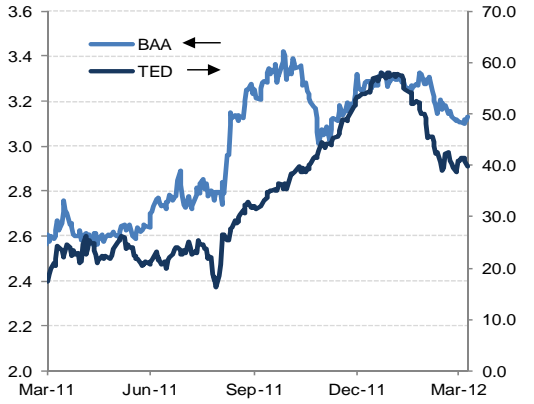
Source: Bloomberg & BBVA Research

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



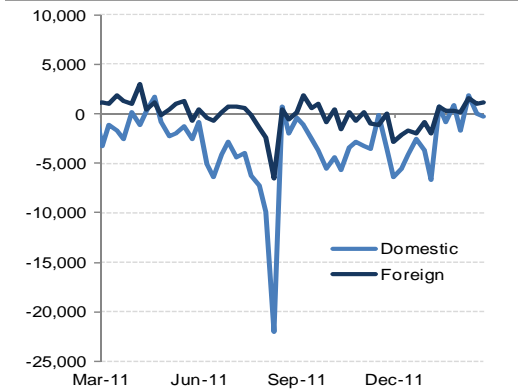
Source: Haver Analytics & BBVA Research

Graph 12  
TED & BAA Spreads (%)



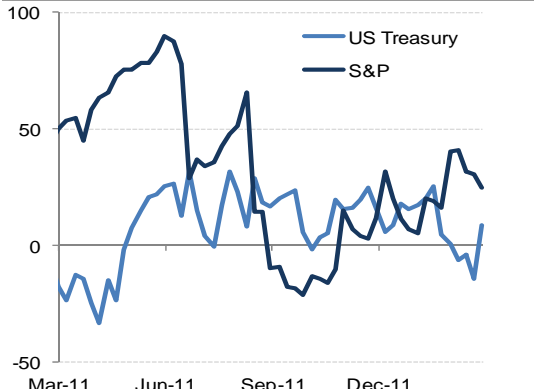
Source: Bloomberg & BBVA Research

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



Source: Bloomberg & BBVA Research

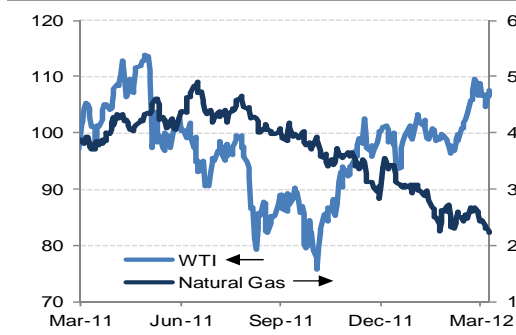
Graph 14  
Total Reportable Short & Long Positions (Short-Long, K)



Source: Bloomberg & BBVA Research

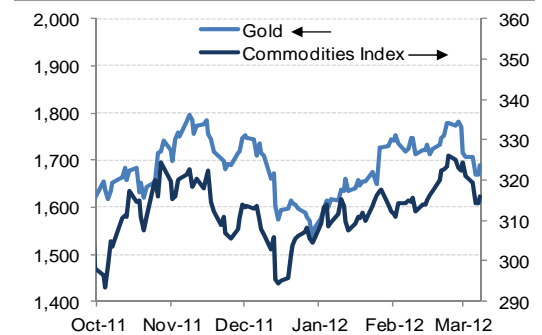
## Financial Markets

Graph 15  
**Commodities**  
(Dpb & DpMMBtu)



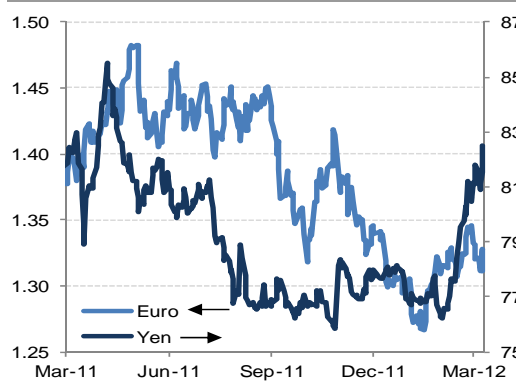
Source: Bloomberg & BBVA Research

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



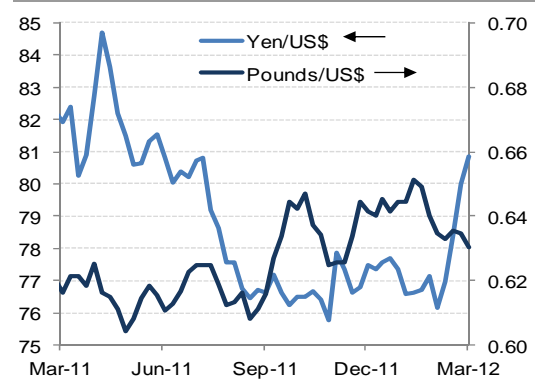
Source: BBVA Research

Graph 17  
**Currencies**  
(Dpe & Ypd)



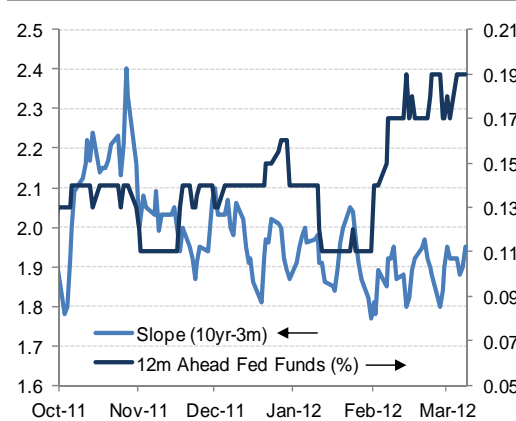
Source: Bloomberg & BBVA Research

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



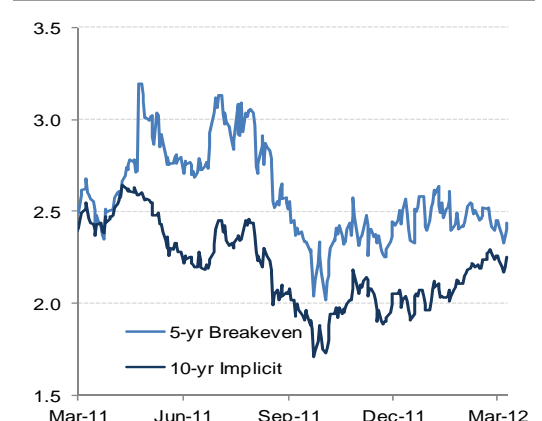
Source: BBVA Research

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	14.10	13.73
New Auto (36-months)	2.99	3.54	3.51	4.80
Hblcc Loan 30K	5.53	5.54	5.53	5.48
5/1 ARM*	2.81	2.83	2.83	3.73
15-year Fixed Mortgage*	3.13	3.17	3.16	4.15
30-year Fixed Mortgage*	3.88	3.90	3.87	4.88
Money Market	0.76	0.76	0.47	0.61
2-year CD	0.91	0.91	0.91	1.28

\* 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	0.11	0.11	0.12	0.13
3M Libor	0.47	0.48	0.51	0.31
6M Libor	0.74	0.75	0.76	0.46
12M Libor	1.06	1.06	1.07	0.78
2yr Sw ap	0.57	0.52	0.55	0.83
5yr Sw ap	1.16	1.10	1.11	2.27
10Yr Sw ap	2.12	2.06	2.07	3.52
30yr Sw ap	2.89	2.80	2.81	4.32
7day CP	0.24	0.25	0.26	0.25
30day CP	0.35	0.37	0.46	0.24
60day CP	0.41	0.44	0.51	0.26
90day CP	0.45	0.48	0.50	0.30

Source: Bloomberg & BBVA Research

## Quote of the Week

Timothy Geithner, US Treasury Secretary  
 Important to Finance Larger Infrastructure Investment  
 8 March 2012

*"We've got an economy that's gradually getting stronger, and the strength very broad based. One of the biggest risks we face still is that politics get in the way of sensible, pragmatic changes to the economy."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
13-Mar	Advance Retail Sales	FEB	0.90%	1.00%	0.40%
13-Mar	Retail Sales Less Autos	FEB	0.50%	0.70%	0.70%
13-Mar	Business Inventories	JAN	0.50%	0.60%	0.40%
14-Mar	Import Prices (MoM)	FEB	0.30%	0.60%	0.30%
14-Mar	Export Prices (MoM)	FEB	0.20%	--	0.20%
15-Mar	Initial Jobless Claims	10-Mar	355K	355K	362K
15-Mar	Continuing Claims	3-Mar	3410K	3400K	3416K
15-Mar	Producer Price Index (MoM)	FEB	0.30%	0.50%	0.10%
15-Mar	PPI Ex Food & Energy (MoM)	FEB	0.20%	0.20%	0.40%
15-Mar	Empire State Manufacturing Survey	MAR	19.00	17.40	19.53
15-Mar	Philadelphia Fed Survey	MAR	11.00	11.00	10.20
16-Mar	Consumer Price Index (MoM)	FEB	0.30%	0.40%	0.20%
16-Mar	CPI Ex Food & Energy (MoM)	FEB	0.20%	0.20%	0.20%
16-Mar	Industrial Production	FEB	0.30%	0.40%	0.00%
16-Mar	Capacity Utilization	FEB	78.60%	78.80%	78.50%
16-Mar	Consumer Sentiment	MAR	76.00	75.60	75.30

## 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

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