

# US Weekly Flash

## Highlights

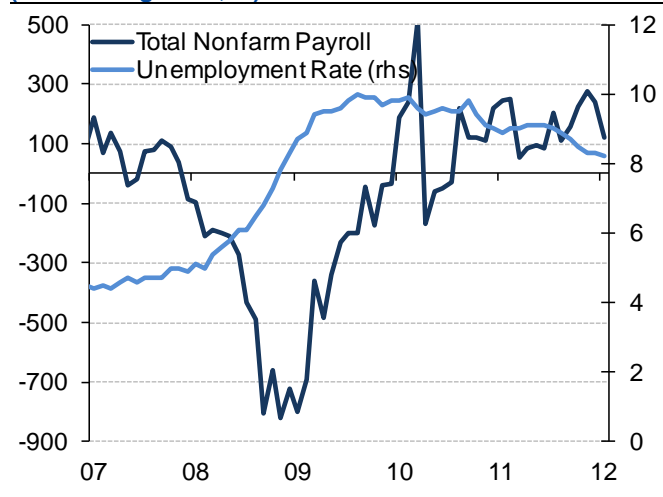
### • Disappointing Employment Report for March

- Nonfarm payrolls increased 120K in March, much less than the survey consensus for 201K, with private payrolls up only 121K. Despite the weak total payroll report, manufacturing payrolls were stronger than expected, while construction employment declined for the second consecutive month.
- Despite the weakness in nonfarm payroll growth, the unemployment rate dropped to 8.2% in March. However, this was likely due to a simultaneous decline in the participation rate, as the labor force decreased 164K following two consecutive months of gains. The number of long-term unemployed declined slightly, and it is likely that these individuals were forced out of the labor market after experiencing difficulty finding a job for such an extended period of time.
- Recent remarks from the Federal Reserve have highlighted concerns that the latest improvements in the labor market appear “out of sync” with the rest of the recovery. Ben Bernanke has stressed that the data were not yet suggestive of a strong and lasting trend, a concern that has been validated with the disappointing employment report for March. In another speech, William Dudley discussed the seasonal impact of the warmer-than-usual winter and how this may have shifted some of the usual spring gains to the earlier winter months. Looking ahead to the next Fed meeting in April, we do not expect that this data will cause any immediate policy actions. However, the data do intensify the current debate, and the Fed may be more inclined to act if we see deterioration in upcoming reports.

### • Consumer Credit Easing After Three Months of Strong Gains

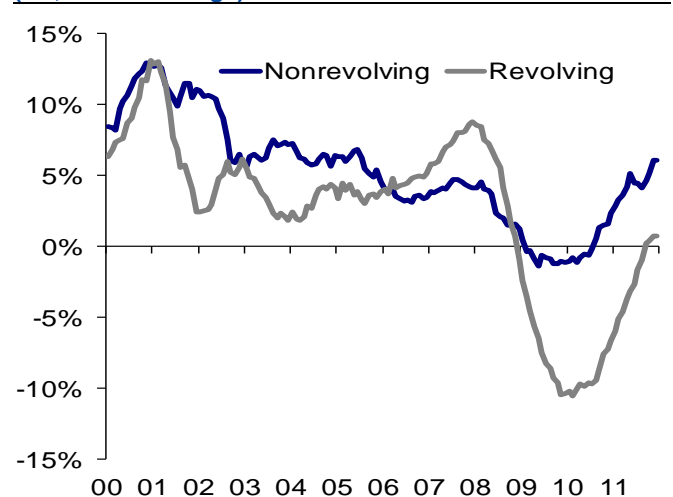
- Consumer credit increased \$8.7bn on a seasonally-adjusted basis in February, a much slower pace compared to the average \$18.0bn increase in the prior three months. Nonrevolving credit grew \$11.0bn, while revolving declined \$2.2bn for the second consecutive month.
- Gains in nonrevolving credit are beginning to dwindle, an expected trend given rising gas prices and the related drop in auto demand. On the revolving side, consumers may hold back on additional debt until personal finances rally. Upward revisions to real personal consumption expenditures for 1Q12 suggest that consumer spending is less conservative, however, slowing improvements in the job market may put a stop to this activity.

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



Source: Bureau of Labor Statistics & BBVA Research

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



Source: Federal Reserve & BBVA Research

## Week Ahead

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

Forecast: 0.4%	Consensus: 0.5%	Previous: 0.4%
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Modest stock increases in recent months suggest that inventory levels are balanced, and we expect this trend to continue in February. Manufacturing surveys for the month have provided mixed reports, with only some indicating a depletion of current inventories and the need for future buildup. However, the wholesale inventory-to-sales ratio, which has been flat for nearly four months, highlights steady demand conditions that are not quite strong enough to significantly boost production in the near term. While nondurable goods inventories have slowed, consumer demand for durable goods should continue, particularly given recent strength in the auto sector.

### International Trade Balance (February, Thursday 8:30 ET)

Forecast: -\$53.0B	Consensus: -\$52.0B	Previous: -\$52.6B
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The international trade balance is expected to remain relatively unchanged in February following three consecutive months of widening. Higher oil prices have contributed to deterioration in the petroleum goods balance, details that will likely be reflected in trade data throughout the first quarter. Exports rebounded slightly in January after slowing in 4Q11, with demand for nonpetroleum goods holding steady. Recent data from the manufacturing sector indicate increasing demand for new export orders in February, outweighing orders for imports. Still, we expect that the price effect will offset any improvements stemming from stronger demand.

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

Forecast: 0.3%, 0.2%	Consensus: 0.3%, 0.2%	Previous: 0.4%, 0.1%
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Energy prices have been driving consumer price inflation throughout the past few months, increasing 3.2% in February for the first time in nearly 12 months. Gasoline prices jumped 6.0% in the previous month and more than offset a decline in the household energy index. Food prices have decelerated significantly, with no growth in February, though are unlikely to offset gains in the energy index for March. In regards to the core components, medical care and rent prices continue to increase at a steady rate. The Federal Reserve has acknowledged that high oil prices will increase inflation, but only temporarily, and that inflation expectations remain stable. As such, we expect the headline index to increase for the fifth consecutive month, though with little additional pass-through to core prices.

### Consumer Sentiment (April, Friday 9:55 ET)

Forecast: 75.5	Consensus: 76.5	Previous: 76.2
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Consumer sentiment increased in March due mostly to improvements in current conditions, with the index level approaching the highest of the recovery period. Recent increases in sentiment highlight improvements in the job market, however, slowdowns in initial jobless claims declines will likely be reflected in the next report. Consumer inflation expectations have increased slightly but not enough to cause concern, although another month of rising gas prices may weigh on confidence.

### Market Impact

The lighter economic calendar this week should keep market anxiety under control. Inflation data will likely be a focus, though reactions should be modest given familiarity with already high gas prices. Another month of widening in the trade balance could spark concerns for GDP growth in 1Q12. Finally, the worse-than-expected employment report for March will likely cause markets to be more sensitive to jobless claims data, with further slowdowns in declines inciting some worry.

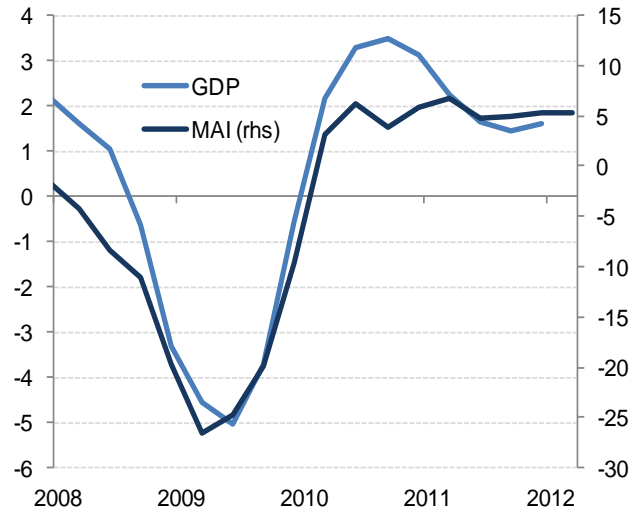
# Economic Trends

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



Source: BBVA Research

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



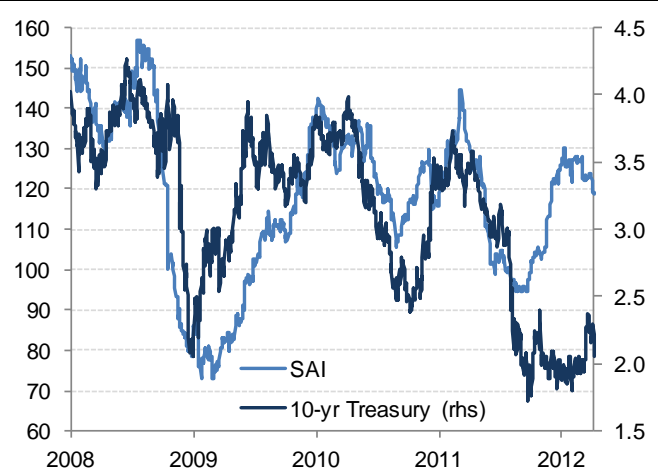
Source: BBVA Research & BEA

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



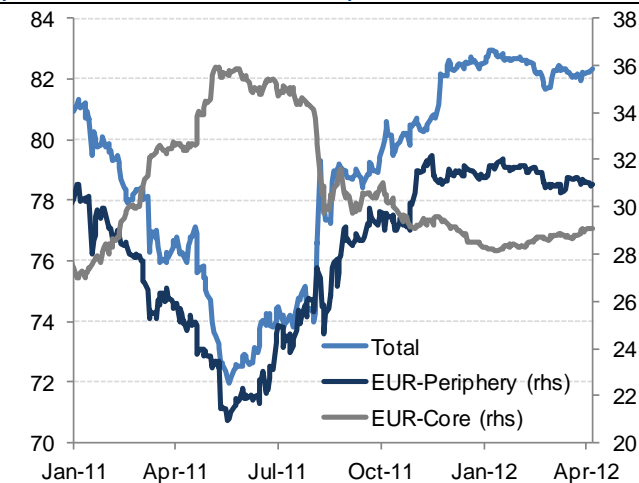
Source: BBVA Research

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



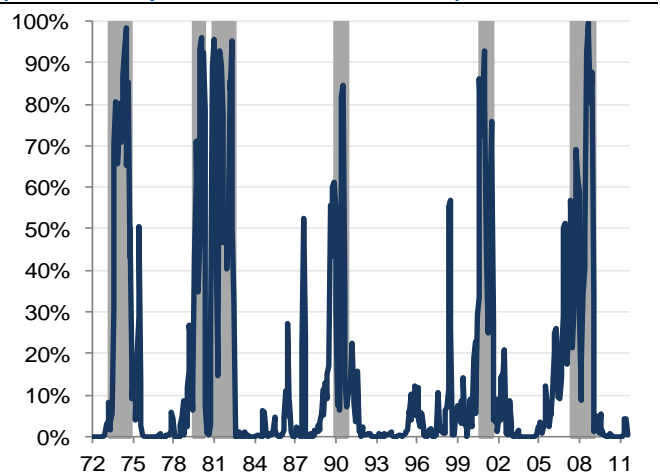
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

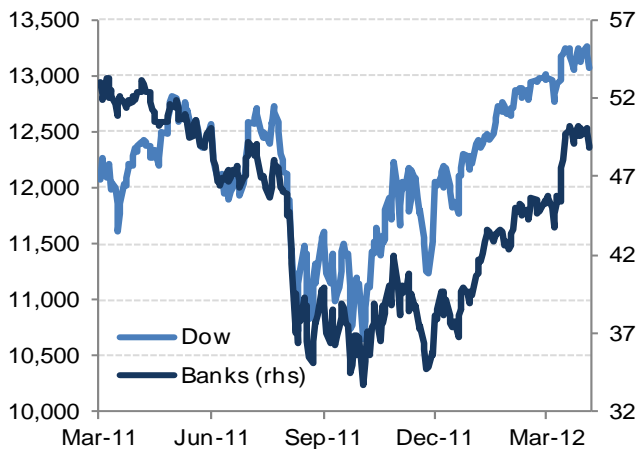
Graph 8  
**BBVA US Recession Probability Model**  
 (Recession episodes in shaded areas, %)



Source: BBVA Research

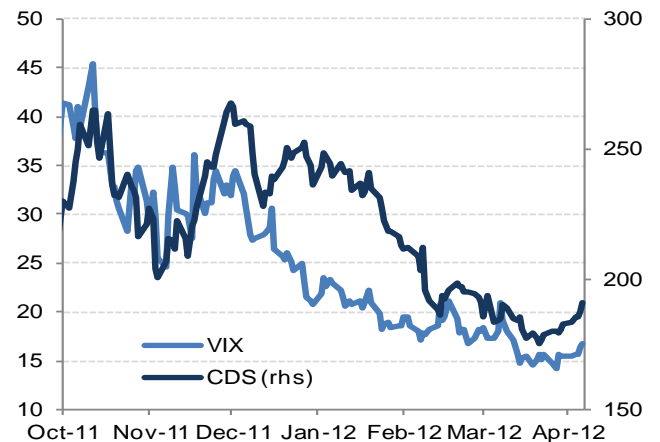
# Financial Markets

Graph 9  
**Stocks**  
**(Index, KBW)**



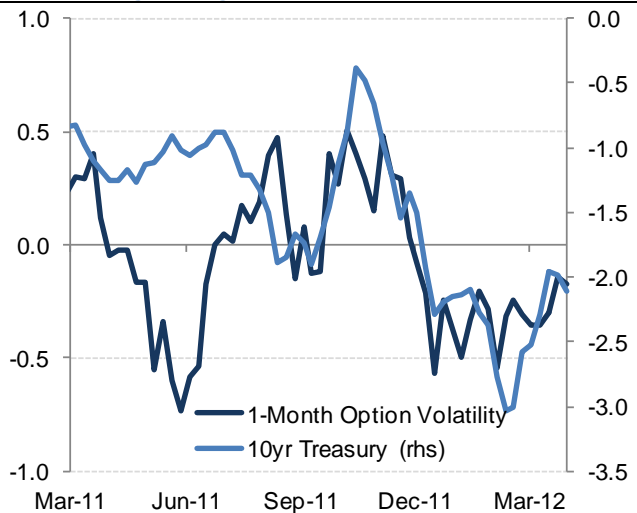
Source: Bloomberg & BBVA Research

Graph 10  
**Volatility & High-Volatility CDS**  
**(Indices)**



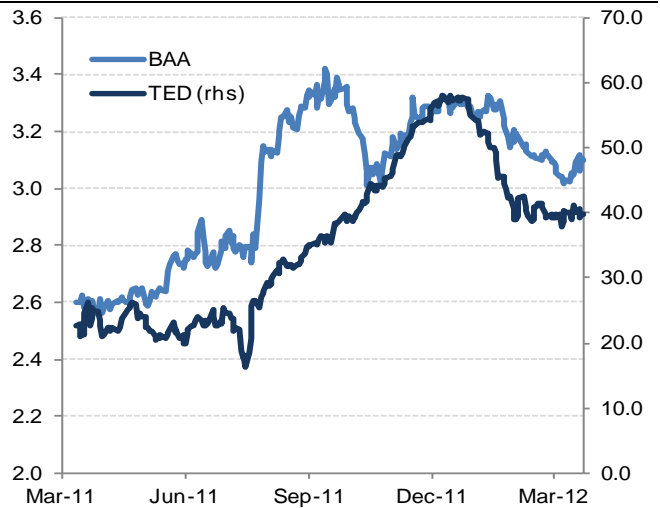
Source: Bloomberg & BBVA Research

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



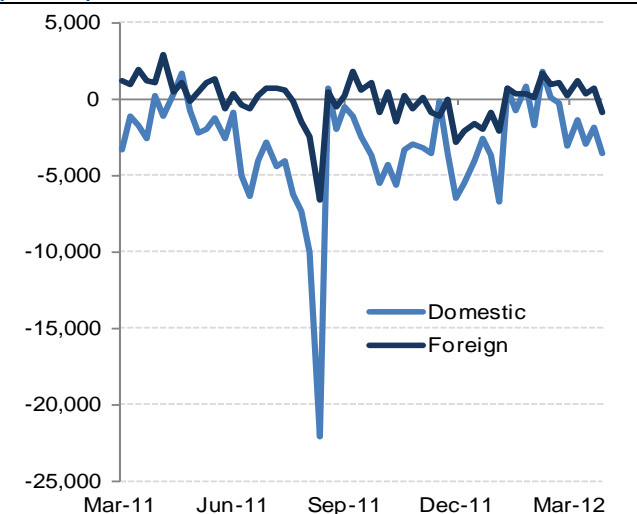
Source: Haver Analytics & BBVA Research

Graph 12  
**TED & BAA Spreads**  
**(%)**



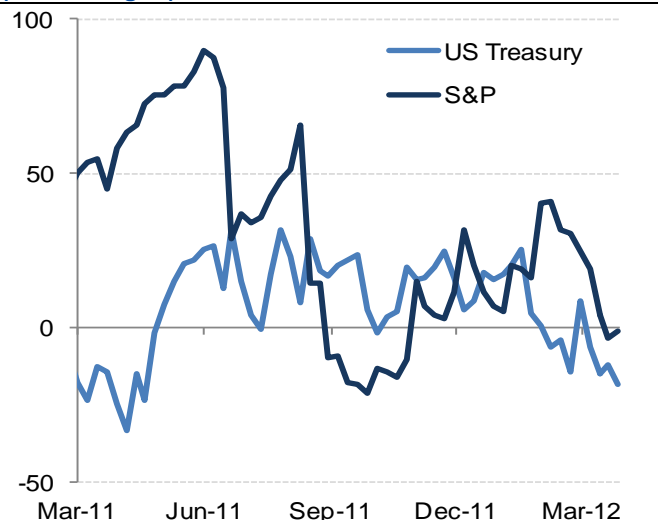
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

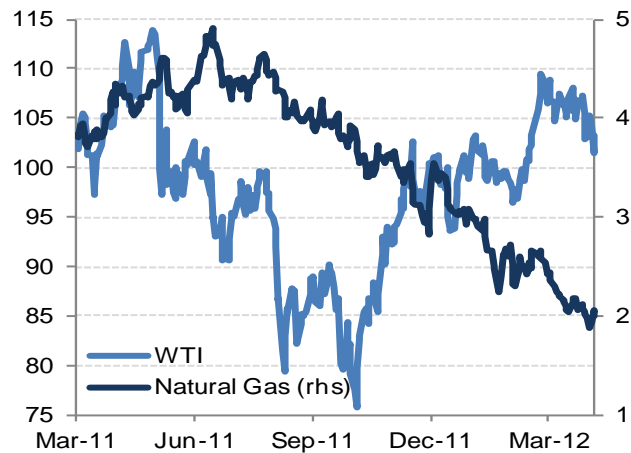
Graph 14  
**Total Reportable Short & Long Positions**  
**(Short-Long, K)**



Source: Haver Analytics & BBVA Research

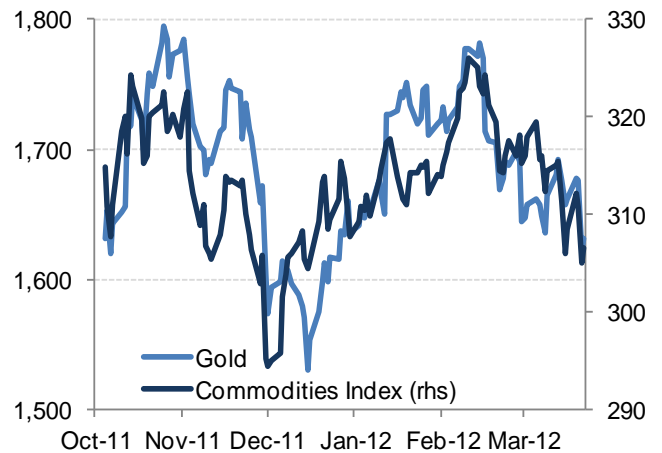
# Financial Markets

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



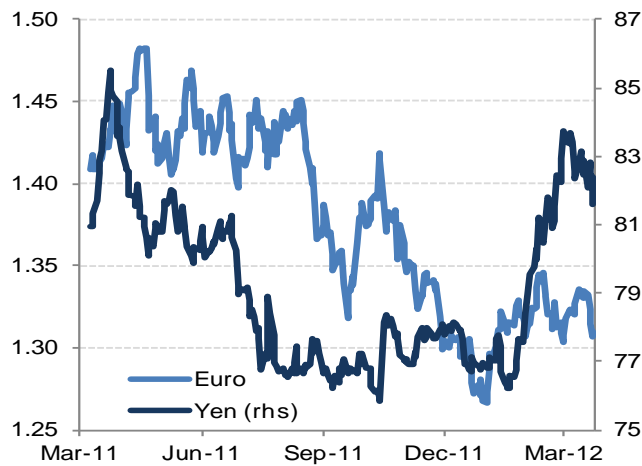
Source: Bloomberg & BBVA Research

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



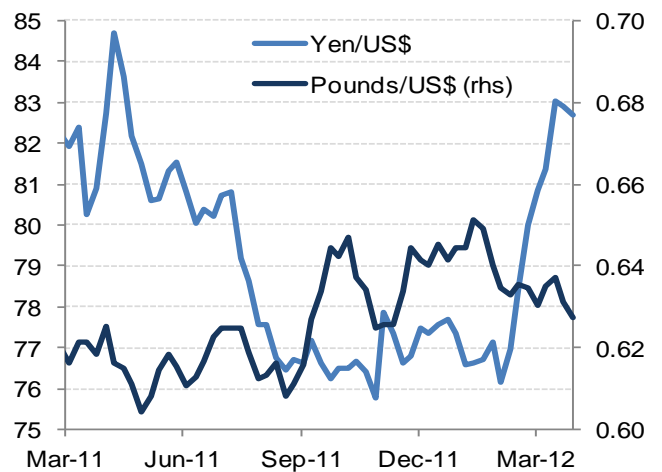
Source: Haver Analytics & BBVA Research

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



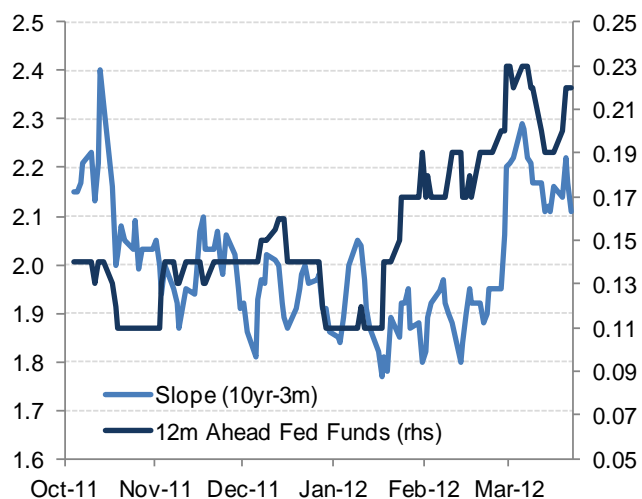
Source: Bloomberg & BBVA Research

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



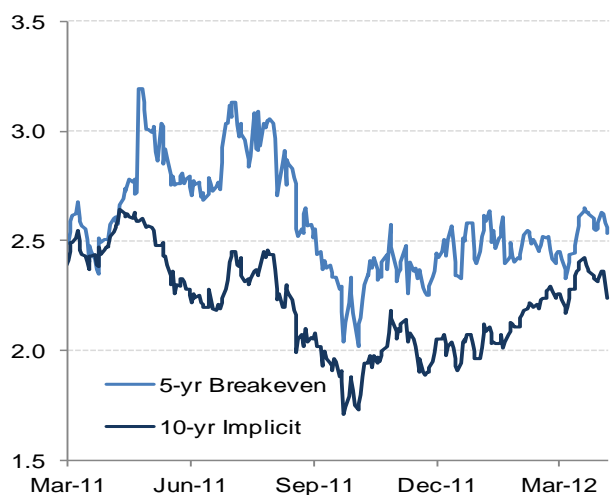
Source: Haver Analytics & BBVA Research

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



Source: Haver Analytics & 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)	3.13	3.12	2.97	4.26
Heloc Loan 30K	5.42	5.52	5.53	5.47
5/1 ARM*	2.86	2.90	2.81	3.72
15-year Fixed Mortgage*	3.21	3.23	3.13	4.10
30-year Fixed Mortgage*	3.98	3.99	3.88	4.87
Money Market	0.73	0.73	0.76	0.60
2-year CD	0.90	0.90	0.91	1.25

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

Table 1  
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.15	0.09	0.12	0.09
3M Libor	0.47	0.47	0.47	0.29
6M Libor	0.73	0.73	0.74	0.45
12M Libor	1.05	1.05	1.06	0.78
2yr Sw ap	0.61	0.58	0.58	0.99
5yr Sw ap	1.17	1.27	1.14	2.51
10Yr Sw ap	2.14	2.29	2.11	3.68
30yr Sw ap	3.02	3.04	2.85	4.40
7day CP	0.23	0.21	0.24	0.13
30day CP	0.24	0.32	0.35	0.22
60day CP	0.25	0.41	0.41	0.26
90day CP	0.32	0.48	0.45	0.27

Source: Bloomberg & BBVA Research

## Quote of the Week

John Williams, Federal Reserve Bank of San Francisco President  
Essential to Keep Strong Monetary Stimulus in Place  
3 April 2012

*"The Fed has acted vigorously to boost the economy. It's critical that we keep doing so in order to achieve our statutory mandate. It's essential that we keep strong monetary stimulus in place. The kind of moderate economic growth I expect won't sustain such rapid [labor market] progress. In my view, the nation remains far from the Fed's goal of maximum sustainable employment."*

## Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
10-Apr	Wholesale inventories	FEB	0.4%	0.5%	0.4%
11-Apr	Import Prices (MoM)	MAR	0.80%	0.90%	0.40%
11-Apr	Export Prices (MoM)	MAR	0.50%	--	0.40%
12-Apr	International Trade Balance	FEB	-\$53.0B	-\$52.0B	-\$52.6B
12-Apr	Initial Jobless Claims	7-Apr	350K	355K	357K
12-Apr	Continuing Claims	31-Mar	3350K	3328K	3338K
12-Apr	Producer Price Index (MoM)	MAR	0.30%	0.30%	0.40%
12-Apr	PPI Ex Food & Energy (MoM)	MAR	0.20%	0.20%	0.20%
13-Apr	Consumer Price Index (MoM)	MAR	0.30%	0.30%	0.40%
13-Apr	CPI Ex Food & Energy (MoM)	MAR	0.20%	0.20%	0.10%
13-Apr	U. Michigan Consumer Sentiment	APR	75.50	76.50	76.20

# Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.7	2.3	2.2	2.5
CPI (YoY %)	3.2	2.5	2.2	2.4
CPI Core (YoY %)	1.7	1.9	1.8	1.9
Unemployment Rate (%)	9.0	8.3	7.9	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.5	2.7	3.1
US Dollar/ Euro (eop)	1.31	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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