

US Weekly Flash

Highlights

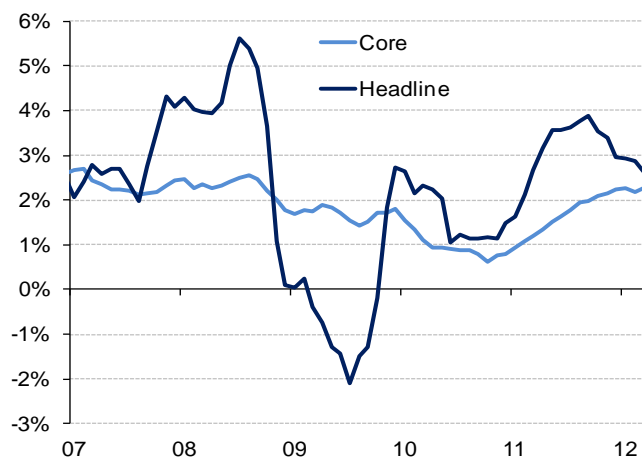
• March CPI in line with expectations, energy prices drive the headline figure

- Consumer price inflation matched consensus expectations in March, increasing 0.3% and 0.2% at the headline and core levels, respectively. On a YoY basis, headline inflation dropped from 2.9% in February to 2.7% in March, while core increased slightly from 2.2% to 2.3%.
- Energy prices increased 0.9% in March following a 3.2% jump in February and a 0.2% rise in January. As expected, gasoline prices led the energy components, increasing 1.7% but at a much slower pace compared to the 6.0% increase in the previous month. While the risk of a further oil price shock has not yet disappeared, the data do support our expectations for easing energy prices in the coming months. Food inflation also helped lift the headline figure, up 0.2% following no change in February. Among the core components, used cars and trucks increased 1.3%, followed by apparel (0.5%) and medical care services (0.3%). Rent prices, which have been somewhat of a concern, have held steady at 0.2% for the past 5 months. Stable inflation expectations and elevated slack will limit second-round effects.
- For 2012, our baseline scenario assumes 2.5% headline CPI. We have not revised our core inflation forecast and it remains at 1.9% for the year, although with some upside risk. The recent increase in inflation has limited the Fed's efforts to support the economy. However, unseasonably warm weather and the decline in natural gas prices appear to have limited the impact of high oil prices on headline inflation. The FOMC is steadfast in their assertion that they expect inflation to be around their mandate and that the recent increase in inflation is temporary. Looking ahead to the Fed's meeting in April, we do not expect that the latest inflation data will cause any immediate policy actions.

• Trade balance for February surprises to the upside

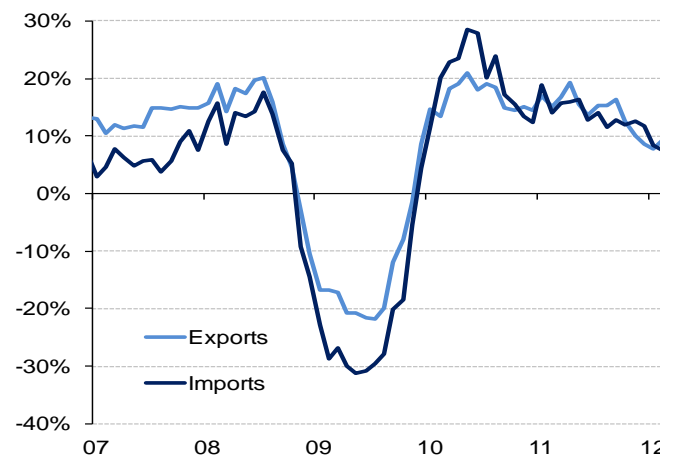
- The international trade deficit narrowed in February to -\$46.0bn, a significant improvement following two consecutive months of deterioration. January's trade gap, at -\$52.5bn, was the worst balance since October 2008. Despite higher oil prices, the petroleum goods balance actually narrowed slightly after widening in the previous month.
- Exports increased for the third consecutive month, up a modest 0.1% compared to the 1.5% gain in January. The better trade balance was mostly due to a drop in imports, which primarily reflected a decline in capital and consumer goods. On the downside, this may be an indication that businesses have become less optimistic regarding future consumer demand.

Graph 1
Consumer Price Inflation
 (YoY % Change)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
US Exports and Imports
 (YoY % Change)



Source: US Census Bureau & BBVA Research

Week Ahead

Retail Sales, Ex Auto (March, Monday 8:30 ET)

Forecast: 0.6%, 0.7%

Consensus: 0.4%, 0.6%

Previous: 1.1%, 0.9%

Rising gas prices drove nominal retail sales in February and are expected to do the same in March. Weekly retail surveys suggest that seasonal factors are also at play, including a warmer-than-usual winter which likely influenced sales throughout the month. Although vehicle sales declined in March and will likely weigh on the headline figure, strength in truck sales may limit any weakness in nominal terms. Despite the fact that high gas prices present some risk to discretionary spending, consumers continue to report steady activity.

Empire State Manufacturing Survey (April, Monday 8:30 ET)

Forecast: 19.5

Consensus: 18.0

Previous: 20.21

Manufacturing has been driving the economic recovery thus far, yet the momentum may be slowing slightly. The Empire State index has increased throughout the past six months, with particular strength in the employment and average workweek components. However, recent slowing in labor market improvements suggests that these factors will likely be weaker in the next few reports. The survey has also noted declines in new orders during the past two months, which reflects a slowdown in demand conditions. Thus, we expect the index to decline slightly in April but remain above January's level to indicate continued expansion in the sector.

Housing Starts and Building Permits (March, Tuesday 8:30 ET)

Forecast: 700K, 710K

Consensus: 705K, 710K

Previous: 698K, 717K

Housing starts and building permits are expected to change only slightly in March. The homebuilder confidence index was unchanged for the month but remains near the highest level of the recovery, suggesting that conditions are not necessarily deteriorating any further. Warmer-than-usual winter weather was likely more favorable for home builders, though deterioration in the employment situation may have limited demand on the consumer side. Building permits have increased in the past two months, pointing toward an increase in future activity, however, we expect that permit demand will be slightly lower in March.

Industrial Production (March, Tuesday 9:15 ET)

Forecast: 0.2%

Consensus: 0.3%

Previous: 0.0%

Industrial production is expected to increase only slightly in March following disappointing figures in the prior month. The mining and utilities components have dragged down output, while the manufacturing sector has been relatively strong. In particular, the warmer weather has hurt utilities output. Although the latest regional Federal Reserve surveys have noted increasing manufacturing activity, the shipments components actually declined, supporting the idea that total industrial production has been relatively weak. In addition, the production component of the ISM Manufacturing Index increased in March, confirming the relative strength of the sector.

Market Impact

This week markets will gain a better understanding of consumer and business activity for the end of 1Q12. Retail sales growth should not surprise markets due to the well-known rising gas prices, yet a lower-than-expected estimate could incite some worry. Better-than-expected housing data may relieve some pressures, but markets will likely show little response given that conditions in the housing sector still remain extremely weak. Markets may be more sensitive to jobless claims data given the unexpected increase in the previous week. Even still, we expect that U.S. data will cause little market anxiety for the week.

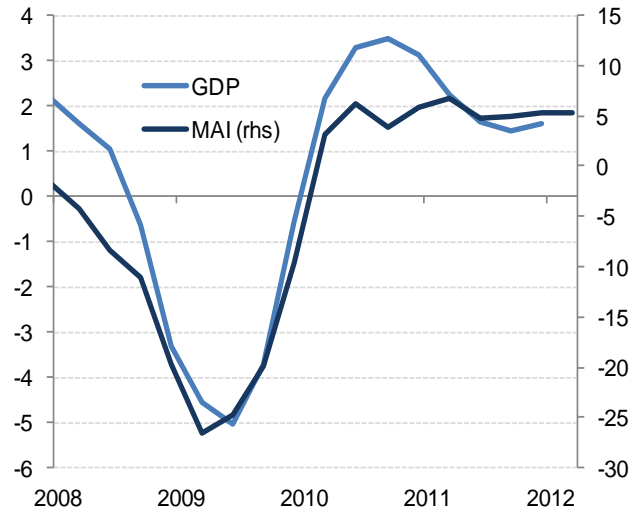
Economic Trends

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



Source: BBVA Research

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



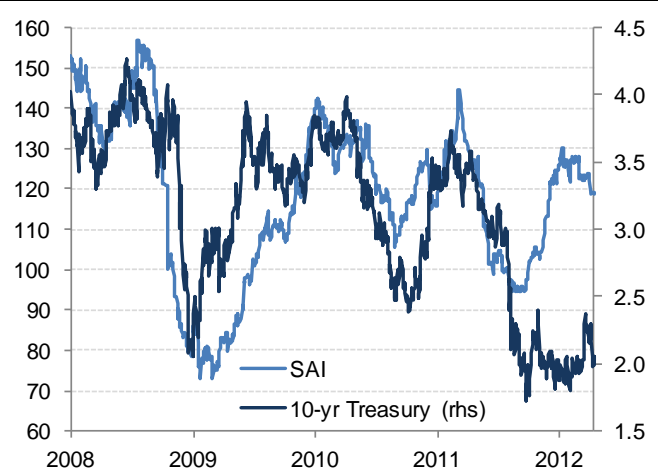
Source: BBVA Research & BEA

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



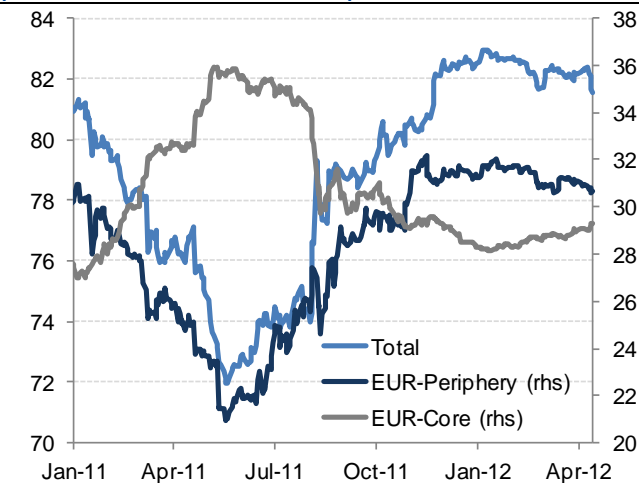
Source: BBVA Research

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



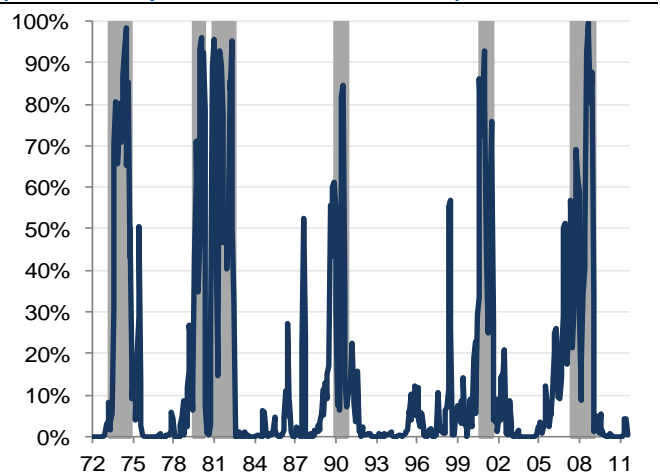
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

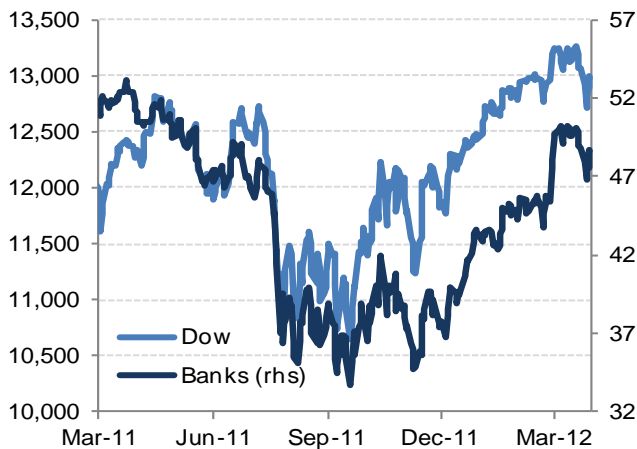
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

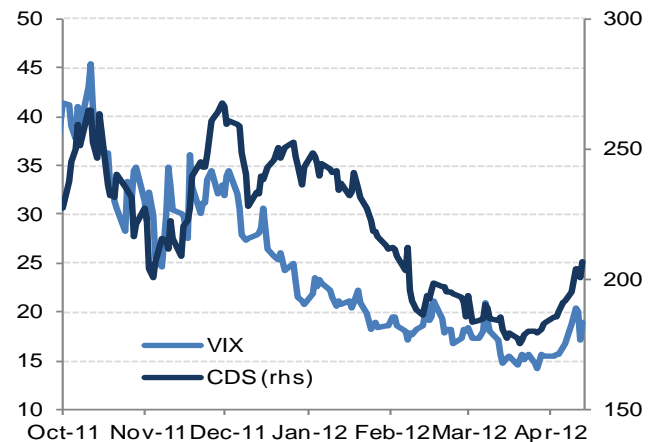
Financial Markets

Graph 9
Stocks
(Index, KBW)



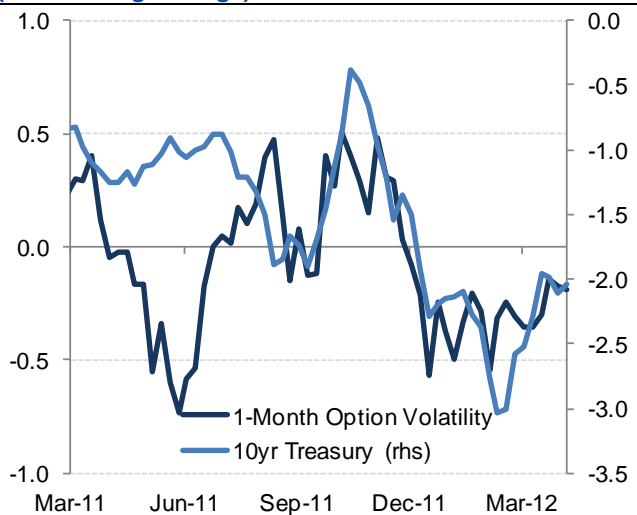
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



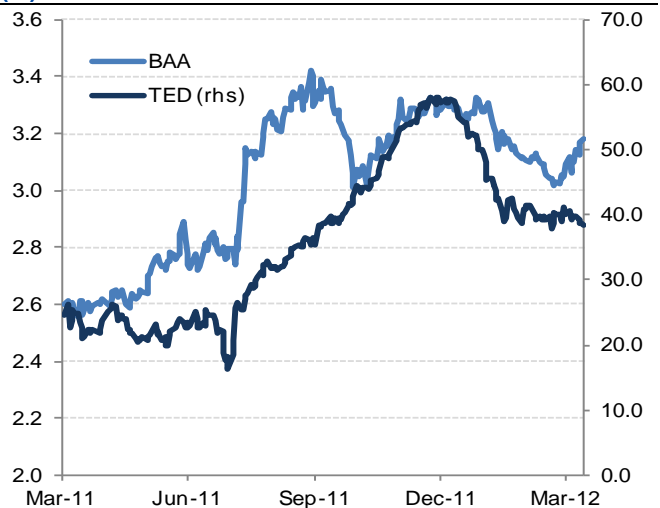
Source: Bloomberg & BBVA Research

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



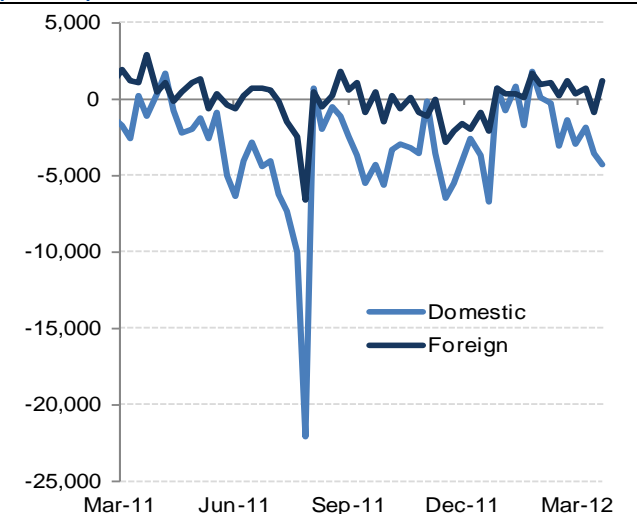
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



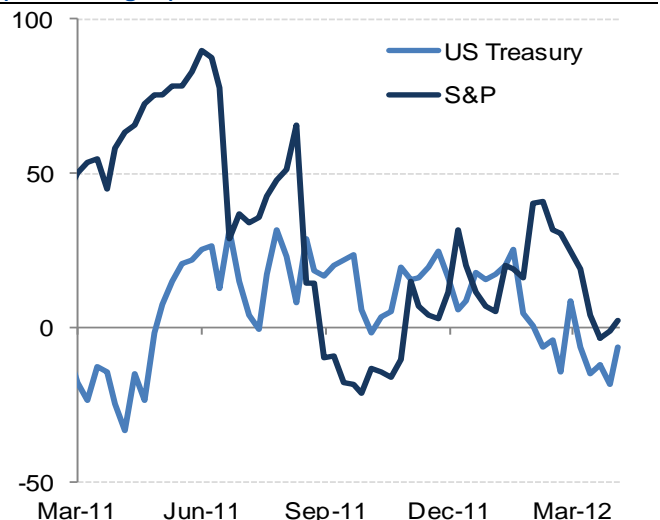
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

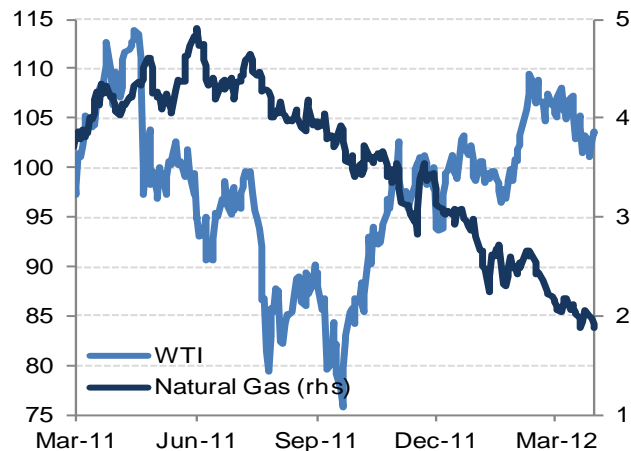
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

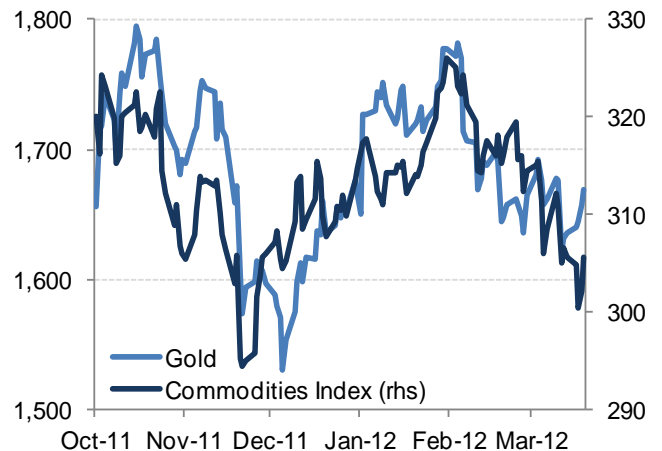
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



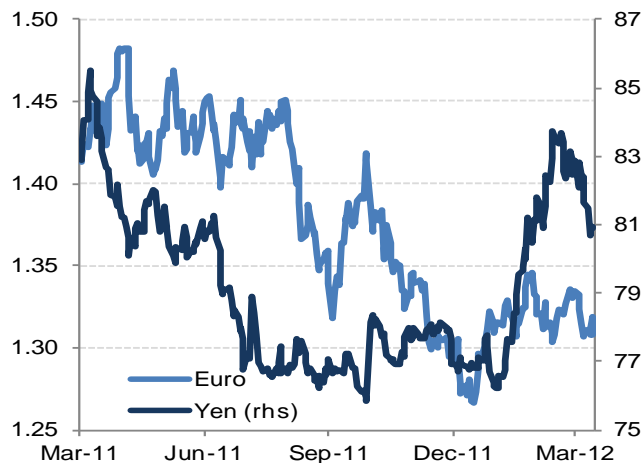
Source: Bloomberg & BBVA Research

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



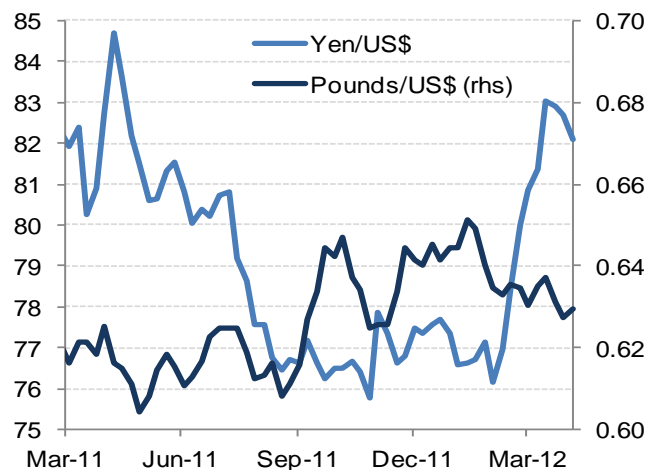
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



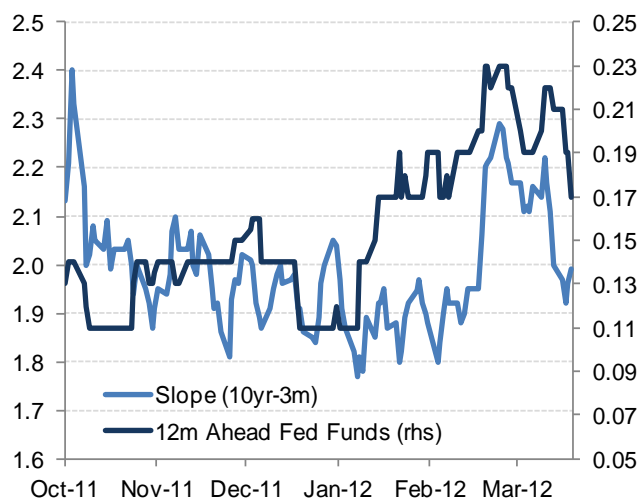
Source: Bloomberg & BBVA Research

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



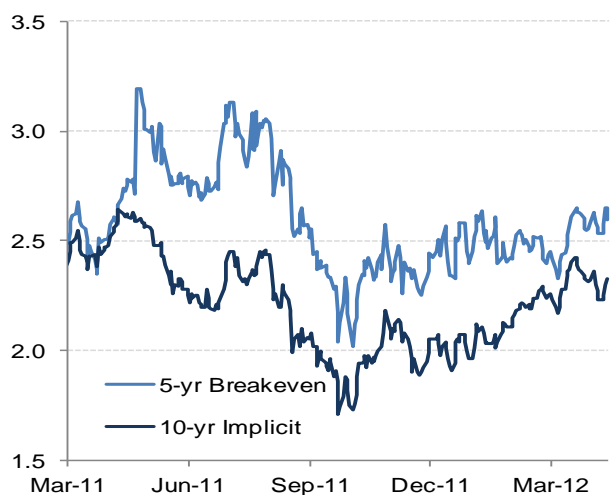
Source: Haver Analytics & BBVA Research

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	3.13	3.18	4.21
Heloc Loan 30K	5.42	5.42	5.54	5.48
5/1 ARM*	2.86	2.86	2.83	3.78
15-year Fixed Mortgage*	3.21	3.21	3.16	4.13
30-year Fixed Mortgage*	3.98	3.98	3.92	4.91
Money Market	0.73	0.73	0.73	0.63
2-year CD	0.90	0.90	0.90	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	0.12	0.15	0.12
3M Libor	0.47	0.47	0.47	0.27
6M Libor	0.73	0.73	0.74	0.44
12M Libor	1.05	1.05	1.05	0.77
2yr Sw ap	0.61	0.61	0.62	0.87
5yr Sw ap	1.17	1.17	1.35	2.32
10Yr Sw ap	2.14	2.14	2.35	3.50
30yr Sw ap	3.02	2.91	3.10	4.24
7day CP	0.23	0.23	0.24	0.23
30day CP	0.24	0.24	0.33	0.24
60day CP	0.25	0.25	0.40	0.26
90day CP	0.32	0.32	0.45	0.26

Source: Bloomberg & BBVA Research

Quote of the Week

William C. Dudley, Federal Reserve Bank of New York President
Jobs Report Damps Upbeat Economic Data
12 April 2012

"Once we normalize interest rates the debt service cost to the U.S. will go up significantly. We're not going to keep interest rates low to solve fiscal problems."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
16-Apr	Advance Retail Sales	MAR	0.60%	0.40%	1.10%
16-Apr	Retail Sales Less Autos	MAR	0.70%	0.60%	0.90%
16-Apr	Empire State Manufacturing Survey	APR	19.50	18.00	20.21
16-Apr	Business Inventories	FEB	0.60%	0.60%	0.70%
16-Apr	NAHB Housing Market Index	APR	28.00	28.00	28.00
17-Apr	Housing Starts	MAR	700K	705K	698K
17-Apr	Housing Starts (MoM)	MAR	0.30%	1.00%	-1.10%
17-Apr	Building Permits	MAR	710K	710K	717K
17-Apr	Building Permits (MoM)	MAR	-0.70%	-0.70%	5.10%
17-Apr	Industrial Production	MAR	0.20%	0.30%	0.00%
17-Apr	Capacity Utilization	MAR	78.50%	78.60%	78.40%
19-Apr	Initial Jobless Claims	14-Apr	375K	366K	380K
19-Apr	Continuing Claims	7-Apr	3300K	3300K	3251K
19-Apr	Existing Home Sales	MAR	4.65M	4.61M	4.59M
19-Apr	Existing Home Sales (MoM)	MAR	1.31%	0.40%	-0.90%
19-Apr	Philadelphia Fed Survey	APR	12.00	12.00	12.50
19-Apr	Leading Indicators	MAR	0.40%	0.20%	0.70%

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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