

US Weekly Flash

Highlights

• Home Sales Increase Gradually, Median Prices on the Rise

- Existing home sales increased to an annual rate of 4.62M in April after declining in the prior two months. New home sales also increased to 343K following slight upward revisions to nine of the previous 13 months. Overall, new and existing home sales have rebounded 25% and 36%, respectively, since the low points of the recovery. Pending home sales for March, which translate into sales through May, jumped 4.1% and suggest that the data will continue to show gradual improvements.
- Median home prices of existing homes jumped 7.7% from March, marking a 10.1% increase from 12 months ago. Prices of new homes were mixed, with the median up slightly but the average down for the month. On a YoY basis, price increases have moderated to near 5% in April compared to an average rate of 9.6% in March.

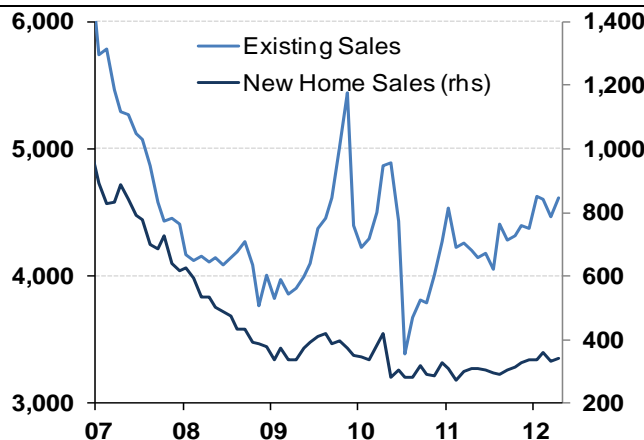
• Modest Growth in Durable Goods Orders Confirm Slowing in Manufacturing

- Durable goods orders increased a modest 0.2% in April following a revised 3.7% decline in the previous month. Most of the monthly growth was led by the transportation component, which jumped 3.1% despite a significant decline in defense aircraft.
- Excluding transportation, durable goods orders declined for the second consecutive month, down 0.6%, with weakness in new orders for nondefense capital goods. While the data for this indicator is often volatile month to month, the report confirms the recent slowdowns in the manufacturing sector as we ease into the second quarter.

• Falling Gas Prices Lift Consumer Sentiment

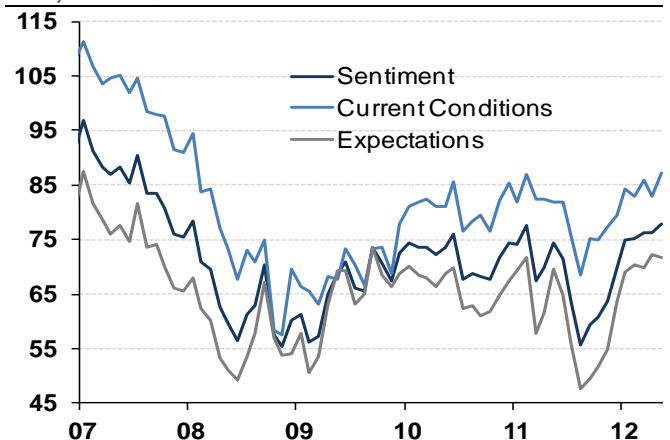
- Consumer sentiment increased to 79.3 in May from 77.8 in the beginning of the month and 76.4 in April. The index has reached a recovery high but still remains far below the historical peak. Most of the report's strength comes from the latest decline in gas prices, which has lifted consumer spirits regarding their future spending power. As such, both the current and expectations components increased for the second consecutive month.
- The latest weakness in employment conditions and market uncertainties stemming from the situation in Europe appear to have had little impact on consumer sentiment. However, another month of discouraging nonfarm payroll data could be more transparent in the index if consumers become wary of income prospects.

Graph 1
New and Existing Home Sales
Thousands



Source: U.S. Census Bureau & BBVA Research

Graph 2
Consumer Sentiment
NSA, Index Q1-1966=100



Source: University of Michigan & BBVA Research

Week Ahead

GDP (1Q12 Second Estimate, Thursday 8:30 ET)

Forecast: 2.0%

Consensus: 1.9%

Previous: 2.2%

The second estimate for first quarter GDP growth is expected to be slightly lower compared to the first estimate on account of weaker-than-expected data in March. In particular, the trade balance widened significantly despite accelerating export growth. Furthermore, the latest construction spending data noted a decline in public outlays for the fourth consecutive month, a component that will likely drag down government spending for 1Q12. Business inventories increased only slightly in March, although the total build for the quarter appears stronger than that in 4Q11. Consumption data arrived as expected at the end of the quarter and were likely already accounted for in the advance GDP figure.

Nonfarm Payrolls and Unemployment Rate (May, Friday 8:30 ET)

Forecast: 150K, 8.1%

Consensus: 150K, 8.1%

Previous: 115K, 8.1%

Employment conditions weakened significantly throughout the past few months, with nonfarm payroll growth dropping well below the 200K level. Total payrolls in May are expected to increase at a slightly faster pace than in April but remain much lower than the stronger improvements seen in early 2012. Initial jobless claims have declined slightly since April but the monthly average is still higher compared to February and March. Regional manufacturing surveys continue to suggest strong employment gains despite mixed reports of slowing in overall activity. However, the sector's payrolls account for only a small portion of total employment growth. The declining participation rate, which in April reached a 30-year low, highlights the potential for an increase in the unemployment rate if individuals enter (or re-enter) the labor force.

Personal Income and Outlays (April, Friday 8:30 ET)

Forecast: 0.2%, 0.2%

Consensus: 0.3%, 0.3%

Previous: 0.4%, 0.3%

Personal income and spending are expected to increase at a moderate pace in April. The wages and salaries component of personal income has increased for four consecutive months, but flat average earnings from the employment report suggest that this trend may soften. Consumer confidence reports indicate continued concerns regarding future income. On the contrary, the reports do note that consumers have become more willing to spend, though retail sales data suggest only a slight uptick in April. Therefore, we expect personal consumption expenditures to increase at a slightly slower pace compared to the previous month.

ISM Manufacturing Index (May, Friday 10:00 ET)

Forecast: 55.0

Consensus: 53.8

Previous: 54.8

The ISM Manufacturing Index is expected to increase only slightly in May, remaining above the 50-mark to indicate continued expansion in the sector. Regional Federal Reserve manufacturing surveys have been mixed, with some suggesting a significant acceleration in activity while others indicate slowing, or even contracting, growth. New orders and production appear to be rebounding from slowdowns in prior months, and employment growth is still positive for the sector.

Market Impact

The second estimate for 1Q12 GDP growth will be a major focus this week, particularly with markets expecting a downward revision to the data. Better-than-expected consumer spending for April may offset some market anxiety with expectations of improving growth trends in the second quarter. However, another month of less than 200K growth in nonfarm payrolls will surely contribute to increased uncertainty in market sentiments. As in the previous weeks, markets will remain sensitive to news out of Europe.

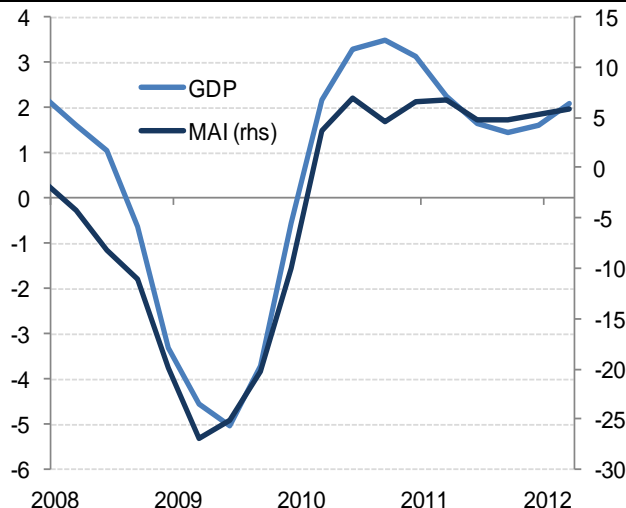
Economic Trends

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



Source: BBVA Research

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



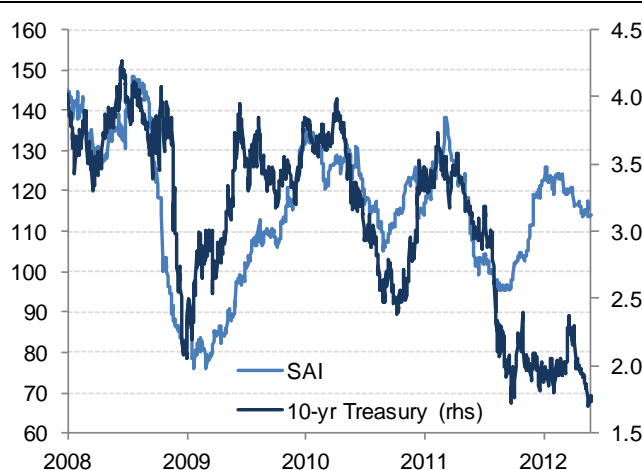
Source: BBVA Research & BEA

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



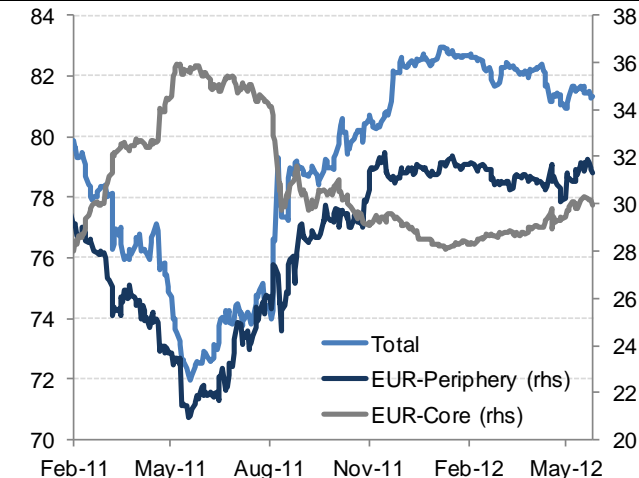
Source: BBVA Research

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



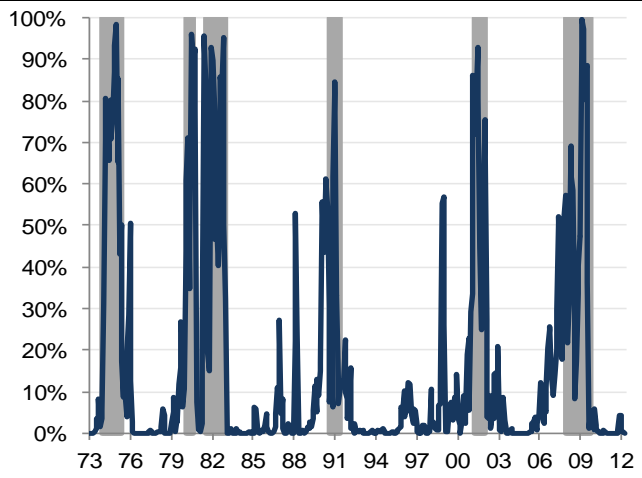
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

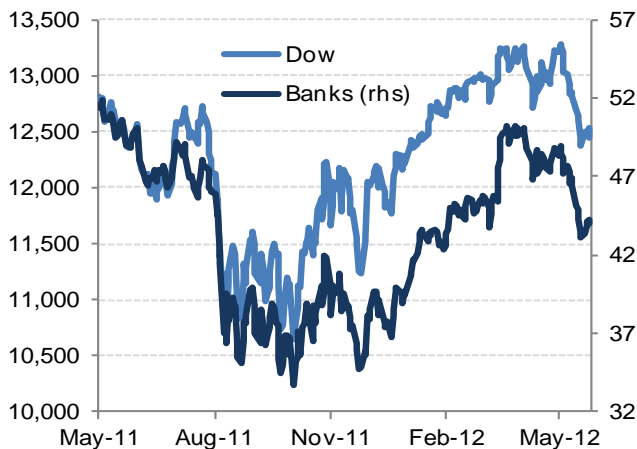
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

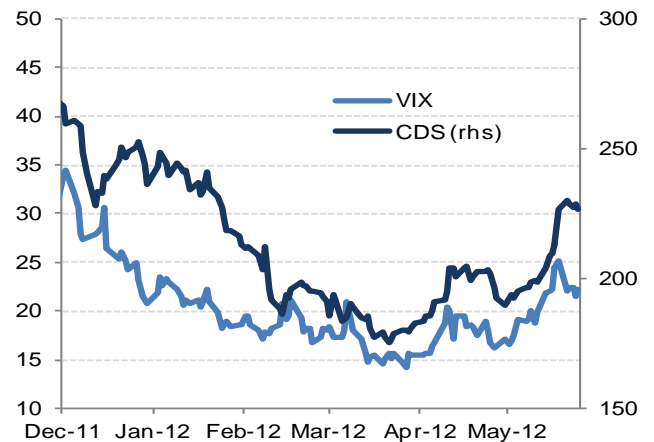
Financial Markets

Graph 9
Stocks
(Index, KBW)



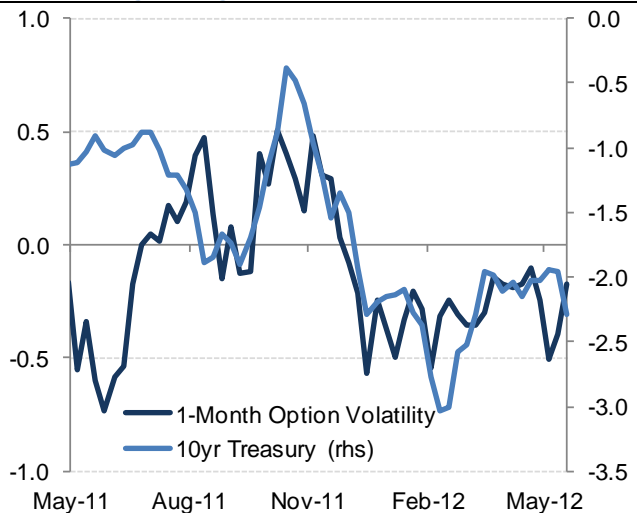
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



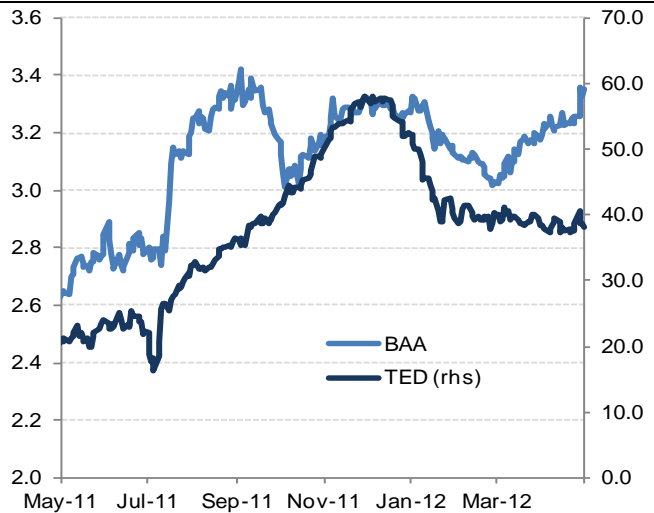
Source: Bloomberg & BBVA Research

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



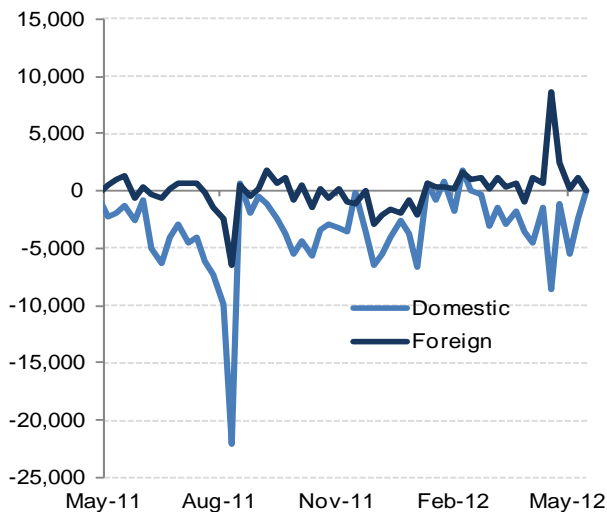
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



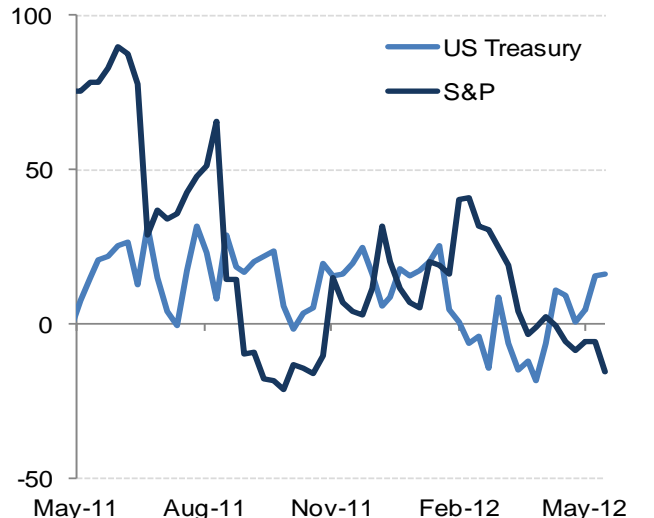
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

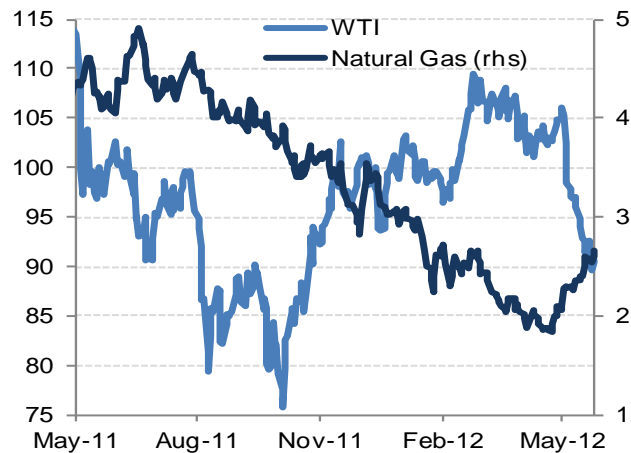
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

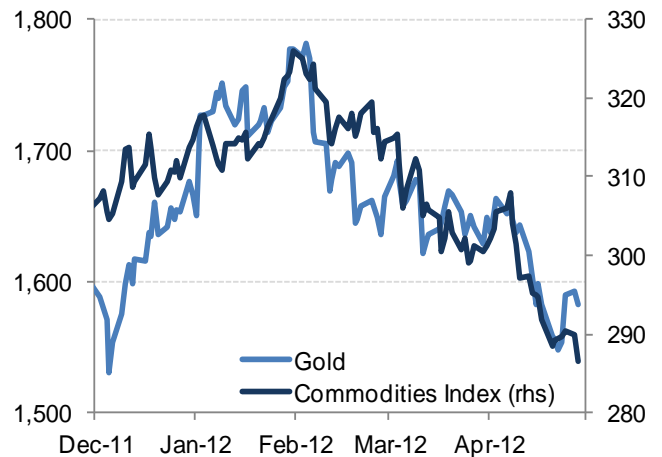
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



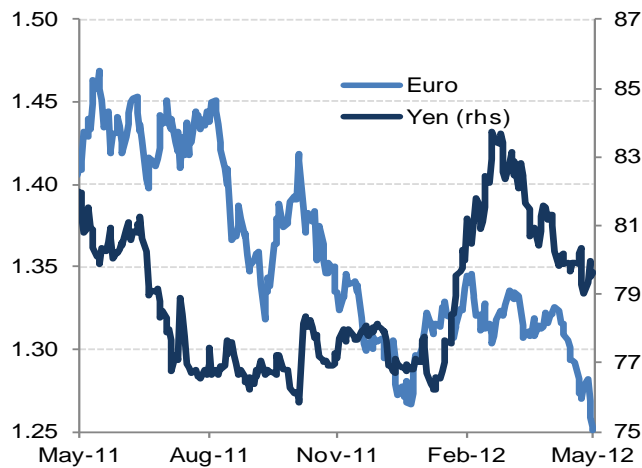
Source: Bloomberg & BBVA Research

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



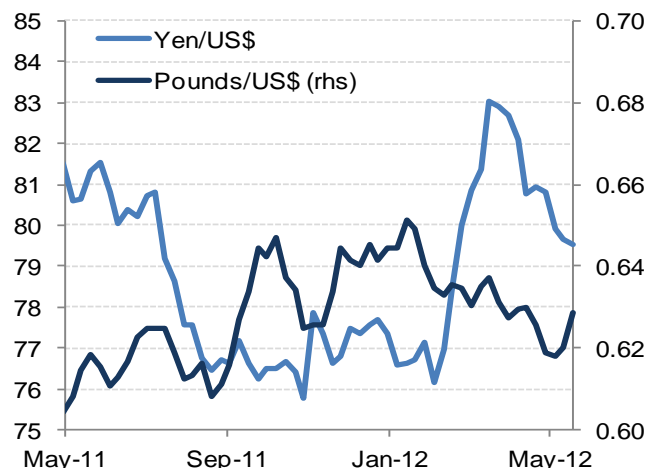
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



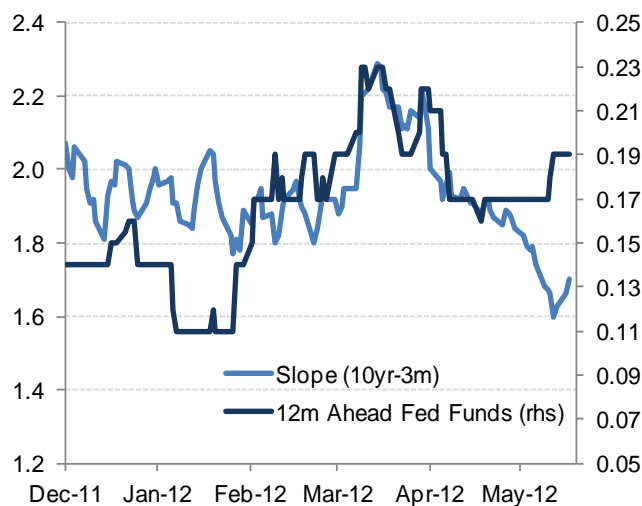
Source: Bloomberg & BBVA Research

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



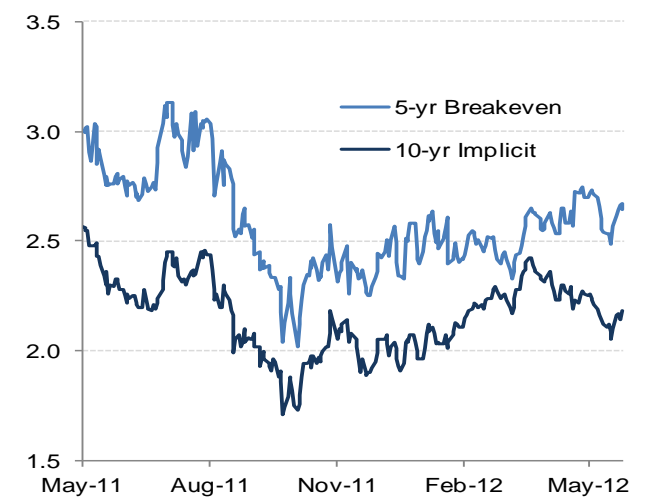
Source: Haver Analytics & BBVA Research

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)	3.11	3.13	3.16	3.82
Heloc Loan 30K	5.53	5.52	5.45	5.47
5/1 ARM*	2.83	2.83	2.85	3.41
15-year Fixed Mortgage*	3.04	3.04	3.12	3.78
30-year Fixed Mortgage*	3.78	3.79	3.88	4.60
Money Market	0.72	0.72	0.72	0.63
2-year CD	0.90	0.90	0.90	1.12

*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	0.16	0.13	0.10
3M Libor	0.47	0.47	0.47	0.25
6M Libor	0.74	0.74	0.73	0.40
12M Libor	1.07	1.07	1.05	0.73
2yr Sw ap	0.64	0.67	0.55	0.68
5yr Sw ap	1.09	1.10	1.12	1.94
10Yr Sw ap	1.89	1.85	2.07	3.16
30yr Sw ap	2.57	2.49	2.84	3.99
7day CP	0.20	0.19	0.18	0.12
30day CP	0.35	0.34	0.25	0.16
60day CP	0.44	0.42	0.33	0.18
90day CP	0.48	0.46	0.42	0.24

Source: Bloomberg & BBVA Research

Quote of the Week

William Dudley, Federal Reserve Bank of New York President and CEO
Fed's Dudley Says He Doesn't See Need for More Easing Now
24 May 2012

"My view is that, if we continue to see improvement in the economy, in terms of using up the slack in available resources, then I think it's hard to argue that we absolutely must do something more in terms of the monetary policy front. But if the economy were to slow, if employment gains were to falter, if inflation were to turn down-- if downside risks from, say, Europe or the U.S. fiscal cliff were to really intensify, then I think you'd absolutely have to consider further monetary policy moves."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
29-May	S&P Case-Shiller HPI (YoY)	MAR	-3.00%	-2.60%	-3.49%
29-May	Consumer Confidence	MAY	70.00	69.50	69.20
29-May	Dallas Fed Manufacturing Survey	MAY	0.50	1.50	-3.40
30-May	Pending Home Sales (MoM)	APR	-0.50%	0.00%	4.10%
31-May	ADP Employment	MAY	160K	147K	119K
31-May	GDP QoQ Annualized	1Q12 P	2.00%	1.90%	2.20%
31-May	Personal Consumption	1Q12 P	2.90%	2.90%	2.90%
31-May	GDP Price Index	1Q12 P	1.50%	1.50%	1.50%
31-May	Core PCE QoQ	1Q12 P	2.10%	2.10%	2.10%
31-May	Initial Jobless Claims	26-May	367K	370K	370K
31-May	Continuing Claims	19-May	3250K	3255K	3260K
31-May	Chicago PMI	MAY	56.50	56.90	56.20
1-Jun	Total Vehicle Sales	MAY	14.50M	14.41M	14.38M
1-Jun	Domestic Vehicle Sales	MAY	11.10M	11.20M	11.12M
1-Jun	Change in Nonfarm Payrolls	MAY	150K	150K	115K
1-Jun	Change in Private Payrolls	MAY	160K	160K	130K
1-Jun	Change in Manufacturing Payrolls	MAY	10K	16K	16K
1-Jun	Unemployment Rate	MAY	8.1%	8.1%	8.1%
1-Jun	Average Hourly Earning (MoM)	MAY	0.2%	0.2%	0.0%
1-Jun	Personal Income (MoM)	APR	0.20%	0.30%	0.40%
1-Jun	Personal Spending (MoM)	APR	0.20%	0.30%	0.30%
1-Jun	ISM Manufacturing Index	MAY	55.0	53.8	54.8
1-Jun	Construction Spending (MoM)	APR	0.5%	0.4%	0.1%

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	8.2	7.8	7.4
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.50
10Yr Treasury (eop, % Yield)	2.0	2.2	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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