

US Weekly Flash

Highlights

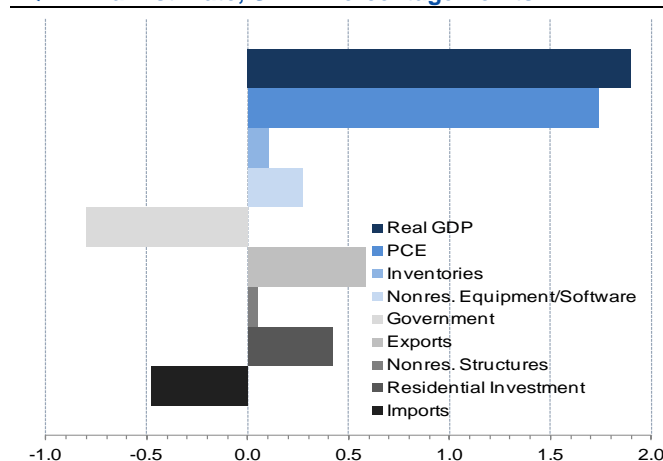
• 1Q12 Real GDP Growth Stands at 1.9%

- Economic growth was unchanged at 1.9% QoQ annualized on a seasonally-adjusted basis, in line with consensus expectations. The final figure reflected downward revisions to personal consumption expenditures and inventory investment which were offset by upward revisions to nonresidential fixed investment, residential investment, and net exports. Nonresidential fixed investment was revised up significantly, from 1.9% to 3.1%, mostly due to a boost in structures to 1.9% from the second estimate of -3.3%. Although export growth was lower than previously expected, the downward revision to import growth was larger.
- Looking ahead to the coming quarters, we expect that growth will be slightly stronger than in 1Q12, averaging at least 2.0% QoQ SAAR for 2Q12 and 3Q12. Despite some slowing in economic activity in the current quarter, industrial production has shown some strength over 1Q12. Compared to the modest 0.2% monthly average increase in the first quarter, output has increased 0.5% on average thus far in 2Q12. Furthermore, the ISM Manufacturing and Services Indices continue to indicate expansion in the respective sectors. Ultimately, these trends point to modest economic growth in 2Q12, although we remain wary of developments in Europe and increasing fiscal uncertainty in the U.S. that could jeopardize the sustainability of the recovery. The latest data influenced the Federal Reserve to downgrade their GDP forecast for the next three years, with the bulk of the revision in the short-term. Our forecast for growth in 2012 remains at 2.3%, with downward bias.

• Consumer Spending Growth Flat in May

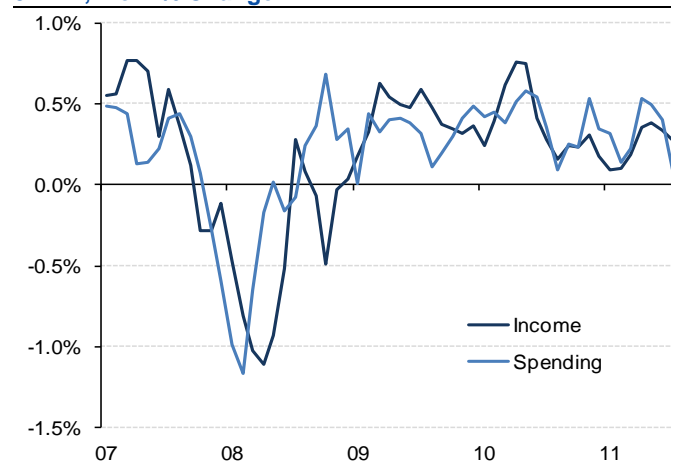
- Personal income increased 0.2% in May, matching the pace set in April and marking the sixth straight month of growth. The wages and salaries component was unchanged for the month, reflecting the latest weakness in the labor market. Consumption was also flat in May following nearly ten months of growth. Most of the drop in spending was due to a decline in motor vehicle sales, a component that has been relatively volatile in recent months.
- On a brighter note, real data were more encouraging, with personal income and outlays up 0.4% and 0.1%, respectively. Real income increased at the fastest pace since January 2011, a likely consequence of the sharp decline in gas prices. Personal consumption expenditures have increased 0.1% on average thus far in 2Q12, slightly lower than the 1Q12 average but still pointing to a positive contribution to GDP.

Graph 1
Contributions to Real GDP Growth
1Q12 Final Estimate, SAAR Percentage Points



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Personal Income and Spending
3MMA, MoM % Change



Source: Bureau of Economic Analysis & BBVA Research

Week Ahead

ISM Manufacturing Index (June, Monday 10:00 ET)

Forecast: 53.0

Consensus: 52.0

Previous: 53.5

The ISM Manufacturing Index is expected to decline slightly in June but remain above 50 to indicate continued economic expansion in the sector. In May, the index dropped on account of weaker production and employment components, however, new orders increased to the highest level since April 2011. Slowing inventories combined with rising new orders suggest the need for future inventory build and production, which will likely keep the index in expansionary territory. However, other manufacturing reports for June were mixed, and new export orders are likely to continue slowing on account of weakening demand from Europe and China.

Construction Spending (May, Monday 10:00 ET)

Forecast: 0.1%

Consensus: 0.2%

Previous: 0.3%

Construction spending has been rising at a modest pace for two consecutive months, driven mostly by gains in the private residential component. May was a relatively positive month for housing data, despite the weaker-than-expected figure for housing starts. Still, we expect that the positive momentum from the private side will continue to increase gradually, with YoY growth rates at a healthy pace thus far in 2012. On the other hand, public outlays remain weak, having declined consistently in the past five months, and we do not expect to see much strength in the near term.

ISM Non-Manufacturing Index (June, Thursday 10:00 ET)

Forecast: 53.1

Consensus: 53.0

Previous: 53.7

Unlike its manufacturing counterpart, the ISM Non-Manufacturing Index increased slightly in May. However, the index remains lower than the strong levels seen in 1Q12, and we expect that conditions will weaken for June. Business activity and new orders are likely to lead the index once again, yet weakness in export orders may be more pronounced compared to previous months. The employment component is likely to be the weak spot again in June, remaining dangerously close to the border of expanding or contracting activity.

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

Forecast: 90K, 8.2%

Consensus: 90K, 8.2%

Previous: 69K, 8.2%

The June employment report is expected to show little improvement over May given that economic activity has remained relatively weak. On average, initial jobless claims have approached 385K in June, the highest monthly average since November 2011 and up from 376K in May. In addition, consumer confidence reports for the month suggest more pessimistic attitudes toward improvements in business conditions, job availability, and income in the next six months. On a positive note, most employment indices from various manufacturing surveys indicate an increase in the sector's number of employees for June, which should give some lift to total payrolls.

Market Impact

June's employment report will be the highlight this week, with markets hoping for a reversal in the data in order to end 2Q12 on a stronger note. Also, markets will be looking for signs from the ISM indices regarding the pace of the slowdown in manufacturing and services activity. With the holiday-shortened week in the U.S., news out of Europe should dominate markets once again.

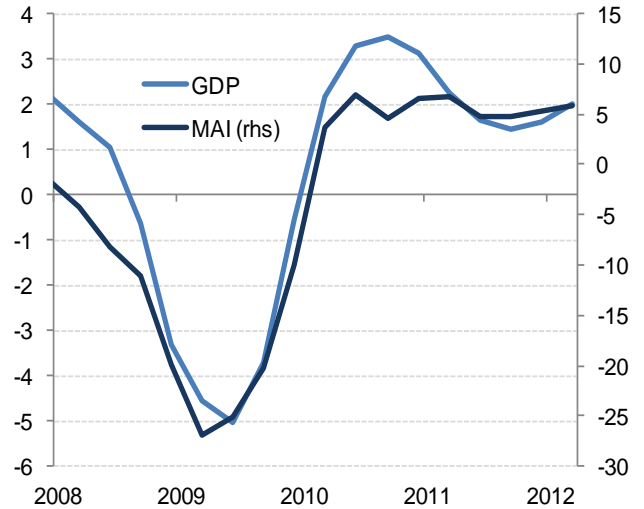
Economic Trends

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



Source: BBVA Research

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



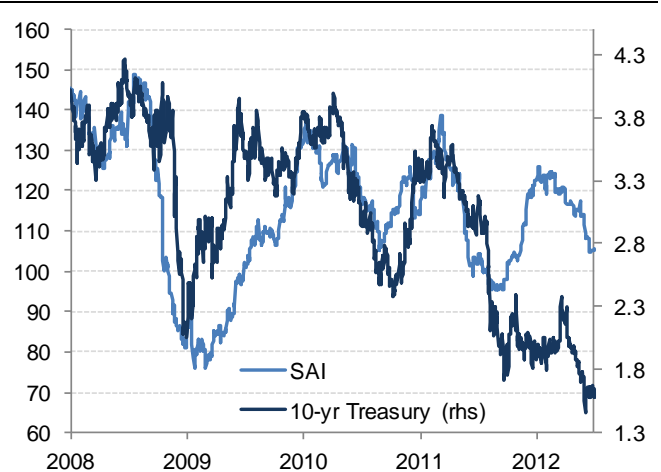
Source: BBVA Research & BEA

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



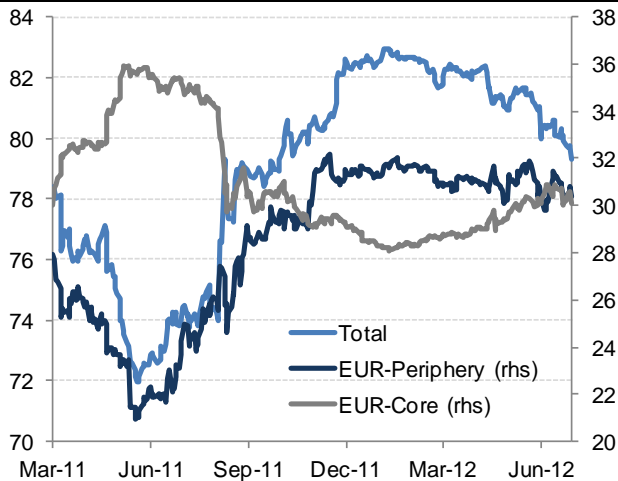
Source: BBVA Research

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



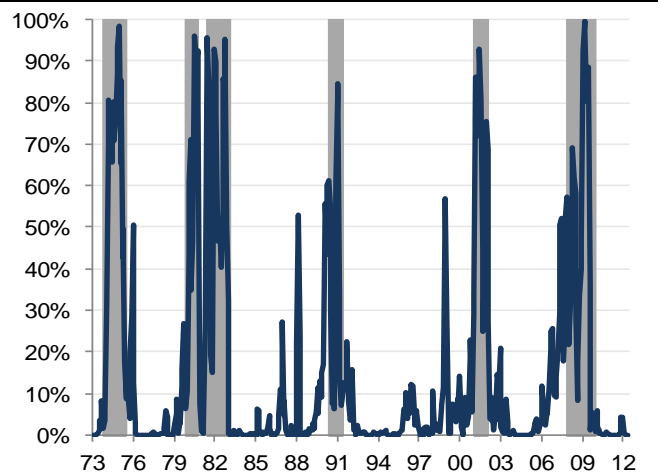
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

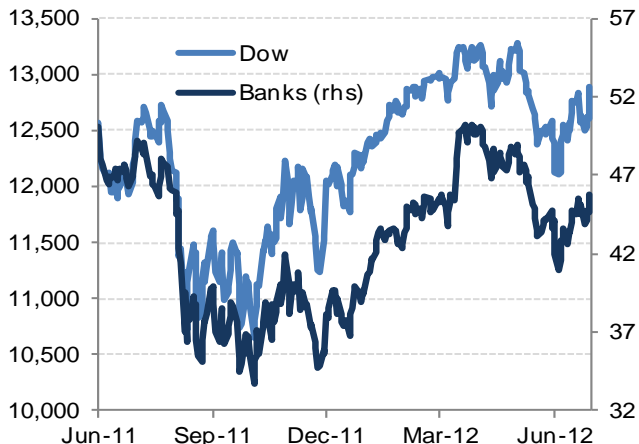
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

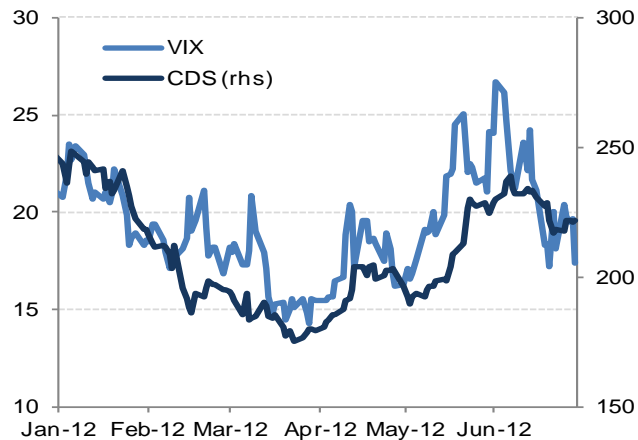
Financial Markets

Graph 9
Stocks
(Index, KBW)



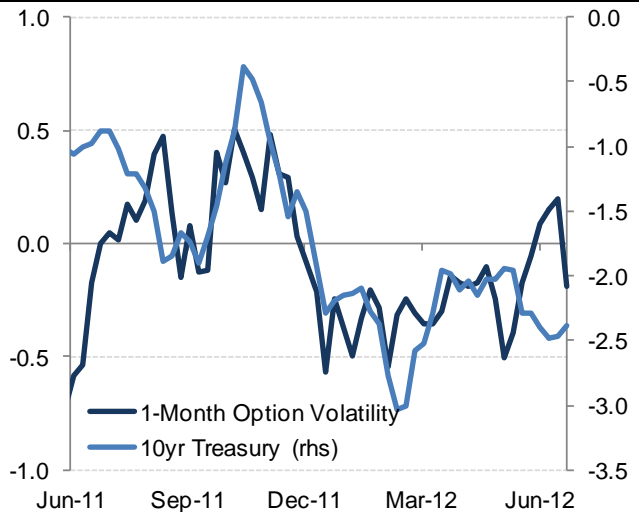
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



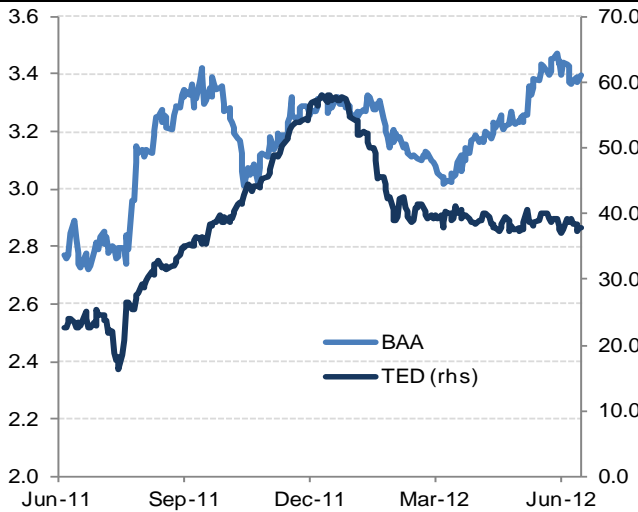
Source: Bloomberg & BBVA Research

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



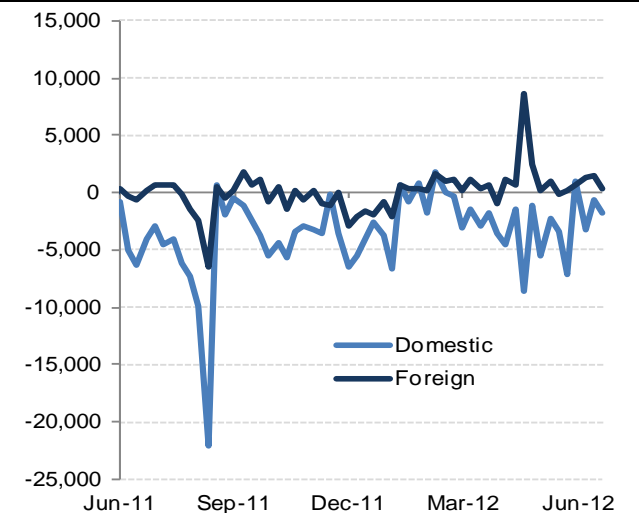
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



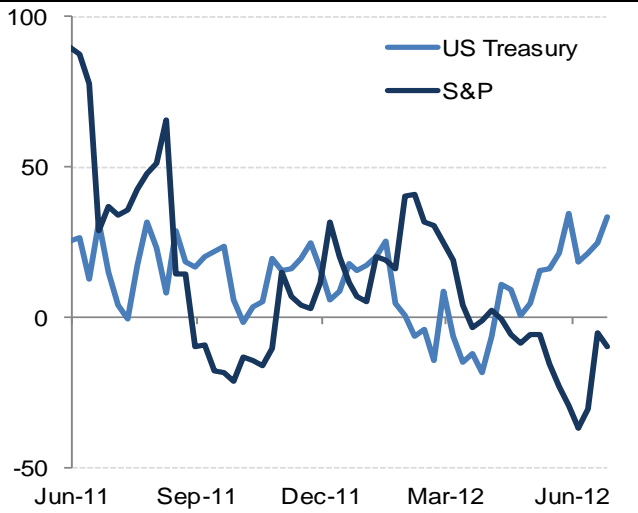
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

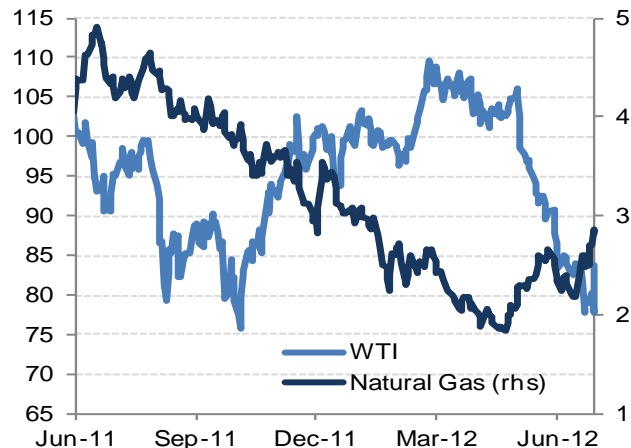
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



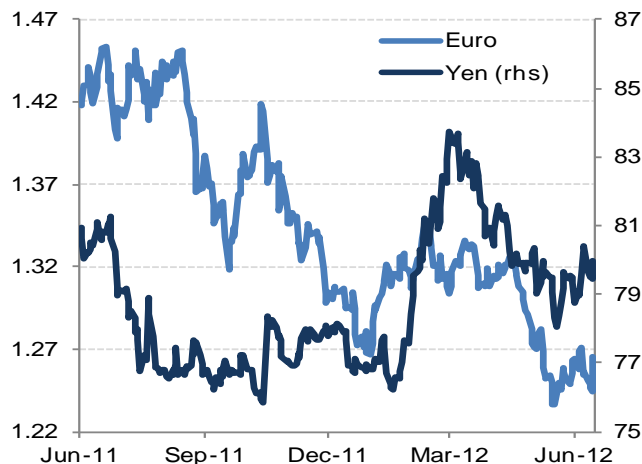
Source: Bloomberg & BBVA Research

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



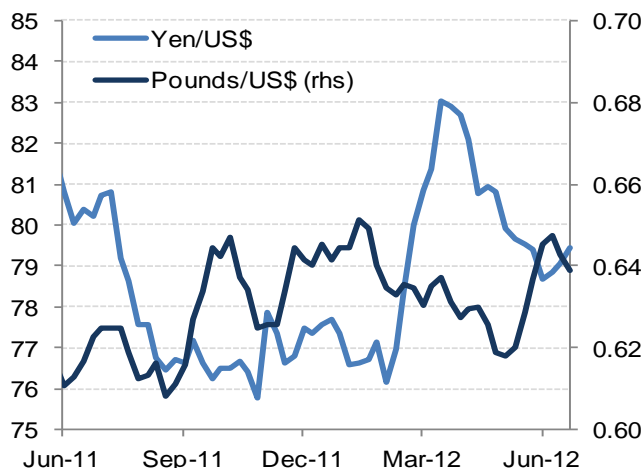
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



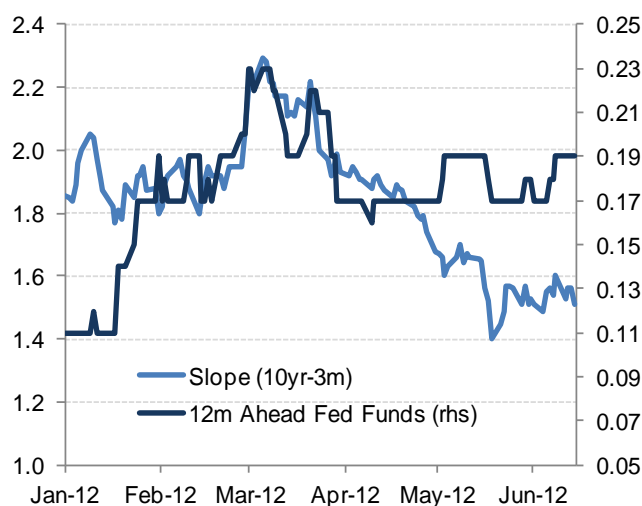
Source: Bloomberg & BBVA Research

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



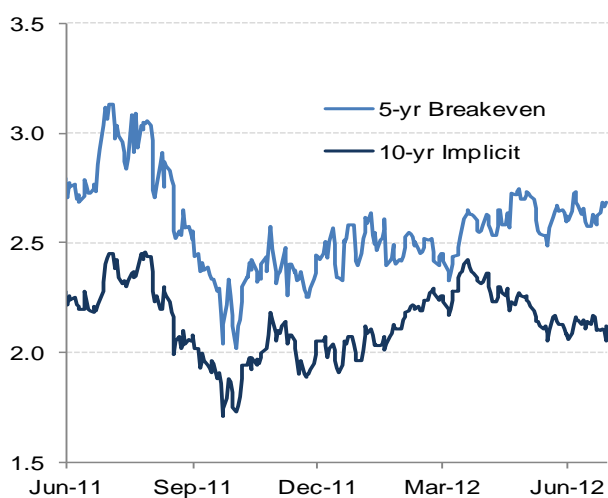
Source: Haver Analytics & BBVA Research

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	3.08	3.09	3.66
Heloc Loan 30K	5.52	5.53	5.53	5.53
5/1 ARM*	2.79	2.77	2.84	3.22
15-year Fixed Mortgage*	2.94	2.95	2.97	3.69
30-year Fixed Mortgage*	3.66	3.66	3.75	4.51
Money Market	0.72	0.72	0.72	0.62
2-year CD	0.90	0.90	0.90	1.07

*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	0.17	0.16	0.08
3M Libor	0.46	0.47	0.47	0.25
6M Libor	0.73	0.74	0.74	0.40
12M Libor	1.07	1.07	1.07	0.73
2yr Sw ap	0.55	0.55	0.63	0.73
5yr Sw ap	0.97	1.01	0.99	2.06
10Yr Sw ap	1.78	1.81	1.67	3.30
30yr Sw ap	2.51	2.50	2.28	4.10
7day CP	0.28	0.34	0.24	0.18
30day CP	0.30	0.29	0.35	0.22
60day CP	0.37	0.31	0.43	0.24
90day CP	0.44	0.38	0.46	0.25

Source: Bloomberg & BBVA Research

Quote of the Week

James Bullard, St. Louis Federal Reserve Bank President and CEO
U.S. Monetary Policy: Still Appropriate
29 June 2012

"The ultra-easy monetary policy has been appropriate so far, but could reignite a 1970s-type experience globally if pursued too aggressively. The lesson was clear: do not let the inflation genie out of the bottle. If anything, the Committee may be trying to do too much with monetary policy, risking monetary instability for the U.S. and the global economy."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
2-Jul	ISM Manufacturing Index	JUN	53.0	52.0	53.5
2-Jul	Construction Spending (MoM)	MAY	0.1%	0.2%	0.3%
3-Jul	Total Vehicle Sales	JUN	13.95M	13.90M	13.73M
3-Jul	Domestic Vehicle Sales	JUN	10.80M	10.89M	10.75M
3-Jul	Factory Orders	MAY	0.4%	0.1%	-0.6%
5-Jul	ADP Employment	JUN	100K	100K	133K
5-Jul	Initial Jobless Claims	30-Jun	383K	385K	386K
5-Jul	Continuing Claims	23-Jun	3290K	3300K	3296K
5-Jul	ISM Non-Manufacturing	JUN	53.1	53.0	53.7
6-Jul	Change in Nonfarm Payrolls	JUN	90K	90K	69K
6-Jul	Change in Private Payrolls	JUN	100K	100K	82K
6-Jul	Change in Manufacturing Payrolls	JUN	8K	8K	12K
6-Jul	Unemployment Rate	JUN	8.2%	8.2%	8.2%
6-Jul	Average Hourly Earning (MoM)	JUN	0.1%	0.2%	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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