

US Weekly Flash

Highlights

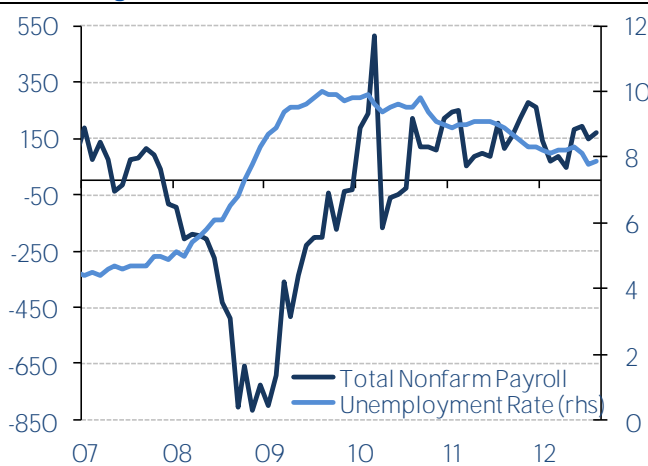
- **Unemployment Rate at 7.9% Despite Upward Payroll Revisions**

- The employment report for October imparts some better-than-expected growth, with nonfarm payrolls up 171K for the month after an upwardly revised 148K gain in September. Total payrolls in August were also revised up significantly, from 142K to 192K. Private payrolls rose by 184K, the highest rate since February, with continued hiring in professional & business services, retail trade, and healthcare. Manufacturing made a turn around after two months of negative figures, gaining 13K jobs, along with construction which added 17K, reflecting the gaining momentum we have seen in housing activity. After a third quarter full of hiring in the public sector, government payrolls declined 13K in October for the first time since June. Mining payrolls also fell by 9K.
- October's figures have been the revision people were waiting for in the sense of whether or not the astounding fall to 7.8% unemployment could be legitimate or whether there was a statistical detail that caused it to show bolstered results. Behind the tenth of a percent rise is good news, as more people enter into the workforce and payrolls increase dramatically. As we enter the fourth quarter, employment data fall in line with our forecast for slow but steady growth throughout the coming months. Ultimately, businesses remain hesitant to make longer-term decisions on hiring and capital expenditures as risks on tax levels and other policy changes still loom.

- **Personal Income & Spending Rise, Ending 3Q on a High Note**

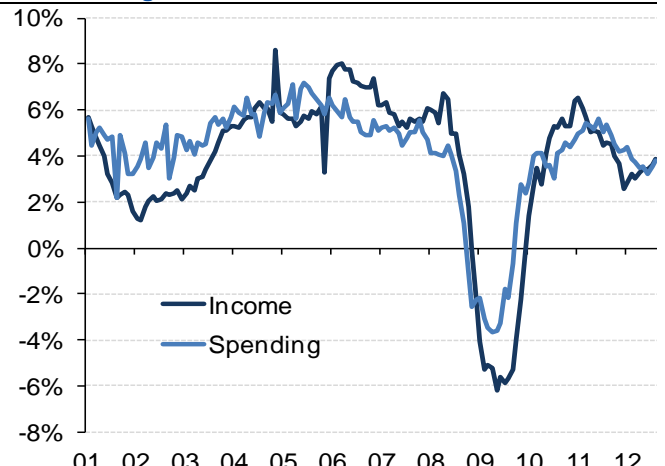
- Personal income and spending accelerated in September on better economic performance and the consumer's continued willingness to purchases big-ticket items. On par with the consensus, income rose 0.4% for the month, its strongest pace in six months, following a modest 0.1% rise in August. The rise in income and a third consecutive decline for personal savings helped boost consumption, which jumped 0.8% to mark the highest growth rate in nearly three years. Throughout the third quarter, monthly spending averaged just under 0.3% in real terms, the strongest pace in more than a year.
- For the fourth quarter, we expect that only some of this momentum from the consumer will carry over. While end-of-the-year outlays are always a bit stronger due to holiday shopping, it is unlikely that this significant rate of spending can persist if personal income and attitudes do not hold up. Furthermore, we do not expect that the personal savings rate will continue to decline significantly as it did throughout the entire third quarter..

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



Source: Bureau of Economic Analysis & BBVA Research

Graph 2
Personal Income and Spending
YoY % Change



Source: U.S. Census Bureau & BBVA Research

Week Ahead

ISM Non-Manufacturing Index (October, Monday 10:00 ET)

Forecast: 55.0

Consensus: 54.5

Previous: 55.1

The ISM Non-Manufacturing Index is expected to remain near a similar level in October as most evidencing indicators have moved slightly to the upside but without enough momentum to cause much optimism for the month. In September, activity in the services sector expanded for the 38th consecutive month, and we do not expect that trends will shift into contracting territory anytime soon. The business activity component has been a strong contributor to gains in the overall index, but downward pressures are still active. The Chicago PMI, which measures both the manufacturing and services sectors, continues to suggest a decline in activity for October. While businesses may be slightly more optimistic about the short-term future, looming uncertainties remain a burden. However, for October, indicators point to growth in a majority of the queried sectors and a general optimism about business conditions.

Consumer Credit (September, Wednesday 15:00 ET)

Forecast: \$11.2B

Consensus: \$10.0B

Previous: \$18.1B

Consumer credit is forecasted to rise again as consumption helps to boost revolving credit and continued growth in auto and student loans lead non-revolving growth. Following two months of declines, revolving credit rebounded in August and should remain similar in September, consistent with the increase in consumer spending we have witnessed throughout the period. On the other hand, a surge in student and vehicle loans drove the nonrevolving component, though we don't expect that growth will accelerate much for September. As has been the trend throughout the past six months, nonrevolving consumer credit excluding government-issued loans remains relatively flat. However, it is likely that revolving credit may contribute further to the total outstanding figure with the upcoming holiday season expected to encourage increased consumer spending.

International Trade Balance (September, Thursday 8:30 ET)

Forecast: -\$45.4B

Consensus: -\$45.0B

Previous: -\$44.2B

The trade balance is expected to increase again as economic fears dampen exports and the weaker dollar does little to bolster imports for September. The largest trading partners for the U.S. are still not performing well enough to significantly drive exports, although we do not expect export growth to accelerate any further in a negative direction. According to the ISM surveys, new orders for exports decelerated in September, with continued gains in export prices discouraging for slowing economies. Imports look to be a further burden as prices increased for the second straight month. The only positive marker for the forecast is the weaker dollar which could tempt exports higher, although not enough to drive the MoM change positive. Ultimately, we expect that the trade deficit will close out the third quarter at its largest balance in months.

Wholesale Inventories (September, Friday 10:00 ET)

Forecast: 0.4%

Consensus: 0.4%

Previous: 0.5%

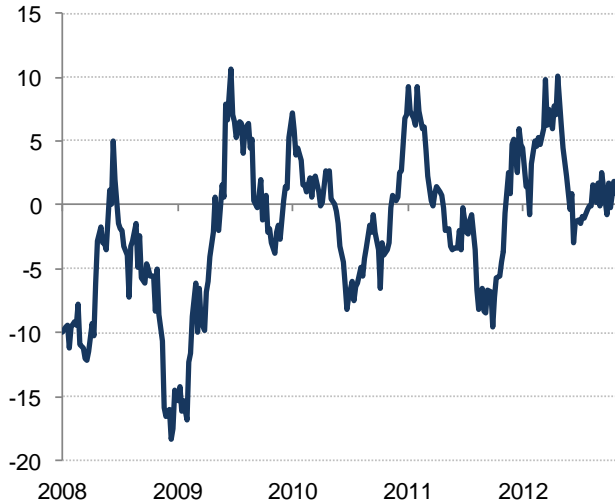
Wholesale inventories in September are expected to grow at a similar pace as in the prior two months, rounding out the third quarter at a higher level compared to 2Q12. New orders for durable goods have been extremely volatile in recent months, so it is not surprising that durable goods inventory growth has decelerated somewhat. Inventories of nondurable goods jumped significantly in August, the fastest pace since February, and are likely to slow only slightly in September. Various manufacturing indicators noted only a modest inventory build for September, with businesses maintaining lean inventory management due to uncertain future demand conditions. Given the latest increase in consumer activity and expected sales, the inventory/sales ratio should therefore remain stable in September.

Market Impact

The markets focus will most likely revolve around the upcoming election on the 6th and then processing what that means for the rest of the year, absorbing the rest of the data as it comes throughout the week. Monday's ISM figures will be a good insight as to whether the increase from the prior months will proceed. The other important release will be the trade deficits level on Thursday that we expect to increase as exports are likely to remain weak.

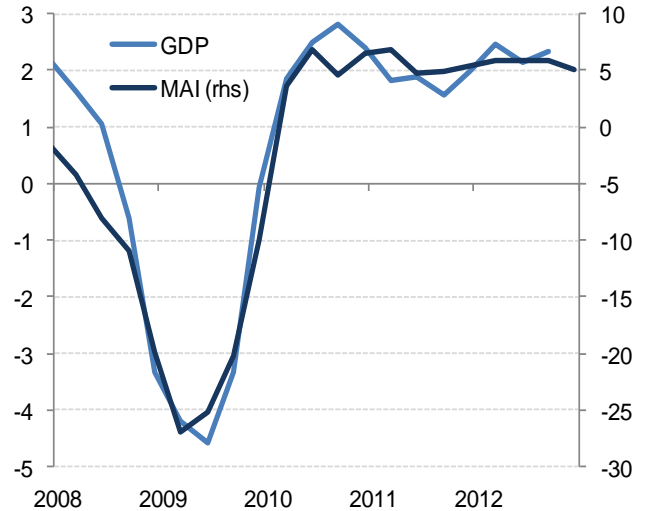
Economic Trends

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



Source: BBVA Research

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



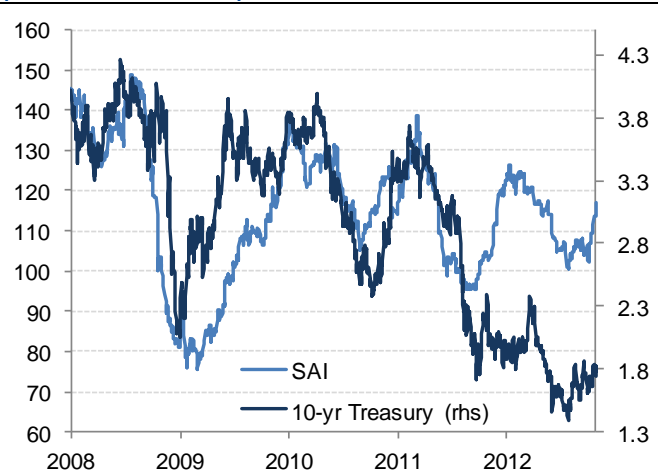
Source: BBVA Research & BEA

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



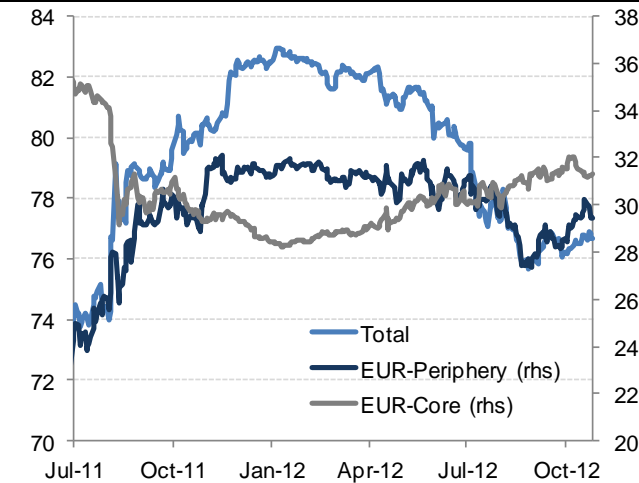
Source: BBVA Research

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



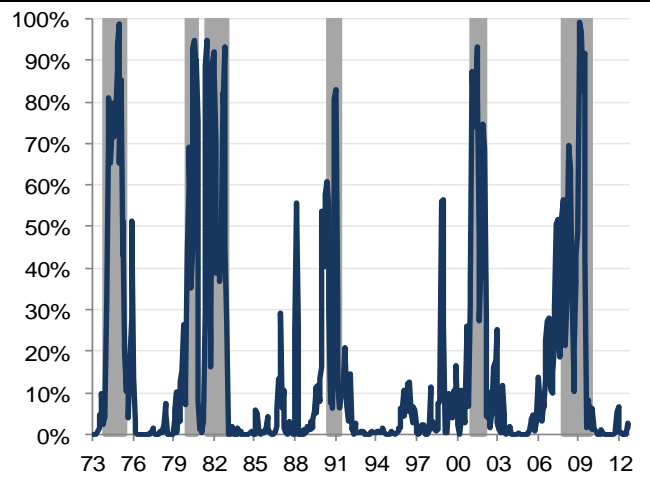
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

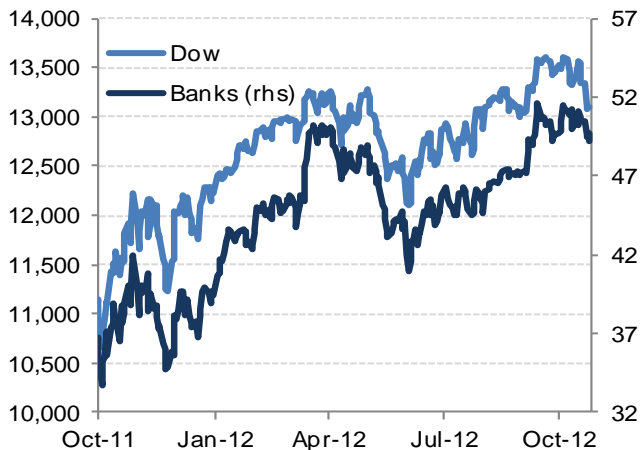
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

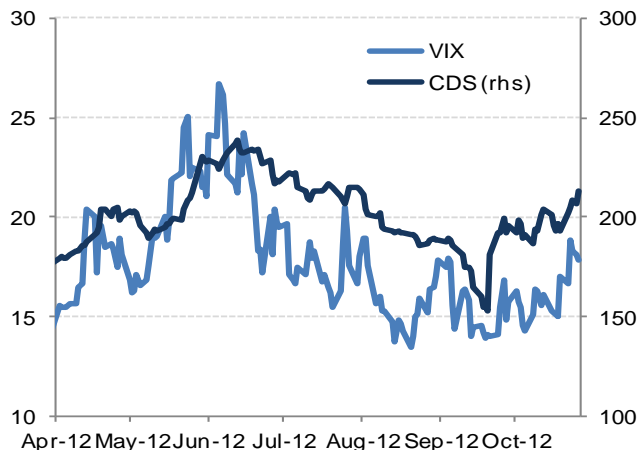
Financial Markets

Graph 9
Stocks
(Index, KBW)



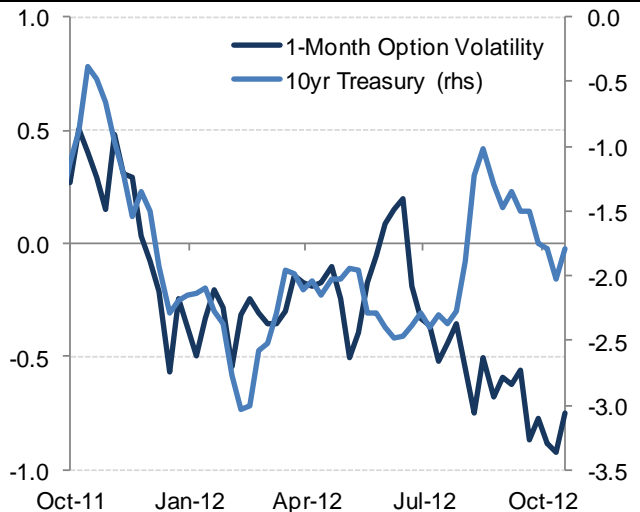
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



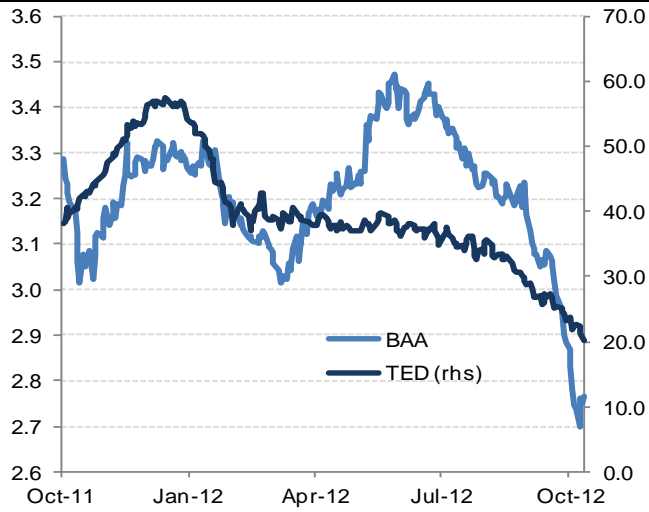
Source: Bloomberg & BBVA Research

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



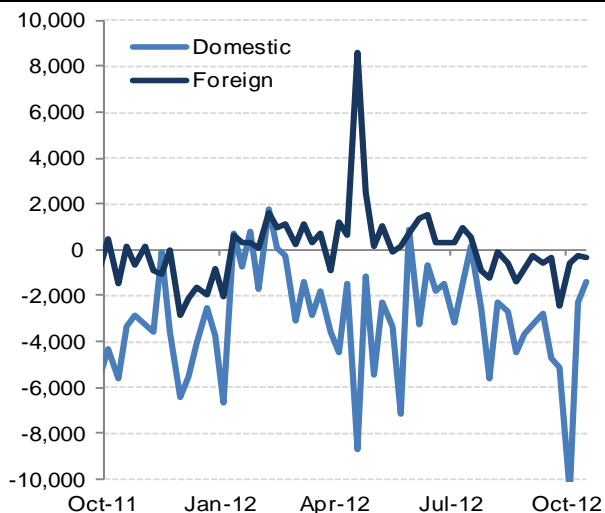
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



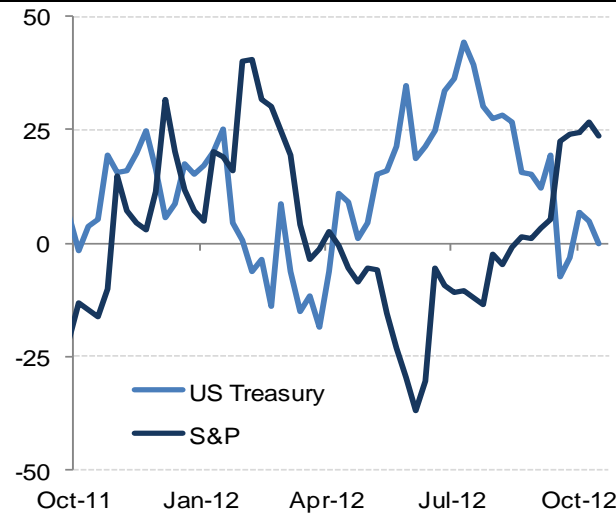
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

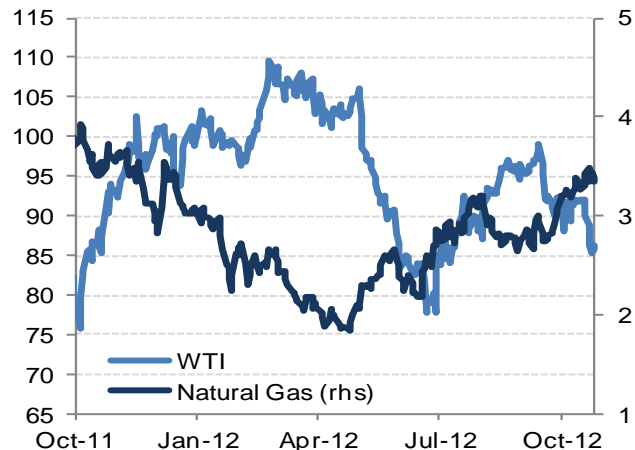
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

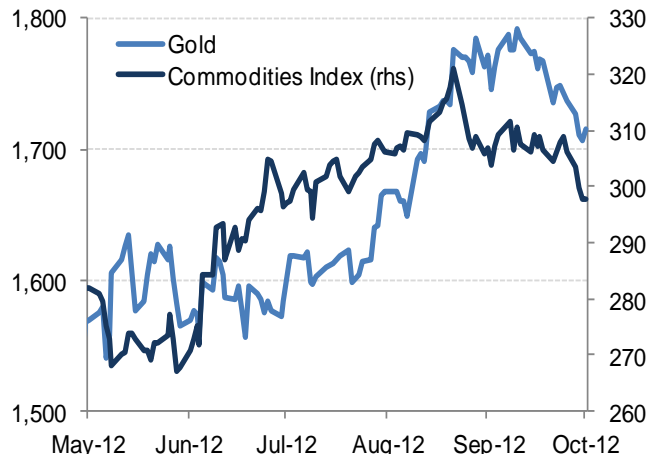
Financial Markets

Graph 15
Commodities
 (Dpb & DpMMBtu)



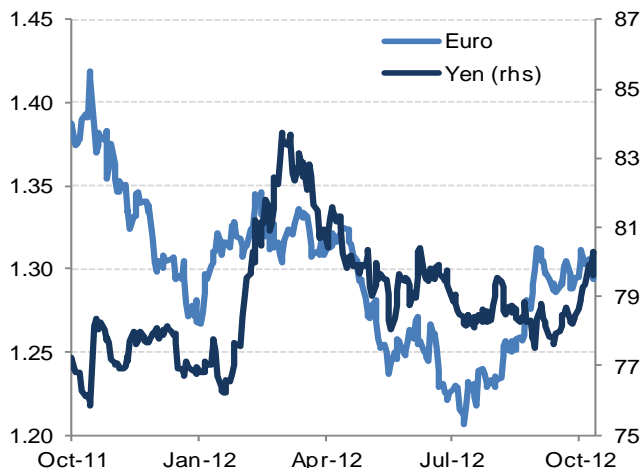
Source: Bloomberg & BBVA Research

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



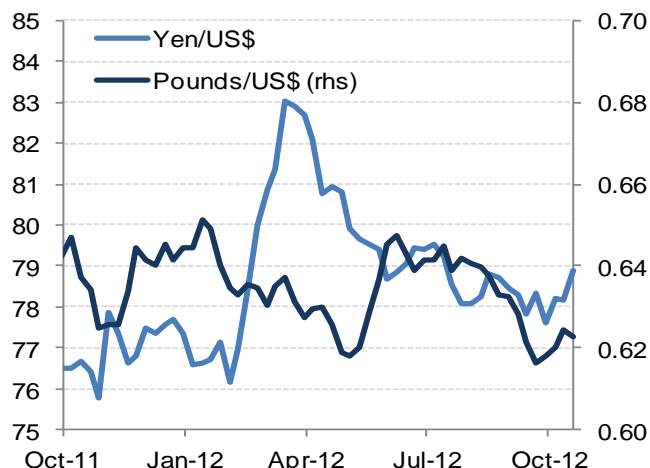
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
 (Dpe & Ypd)



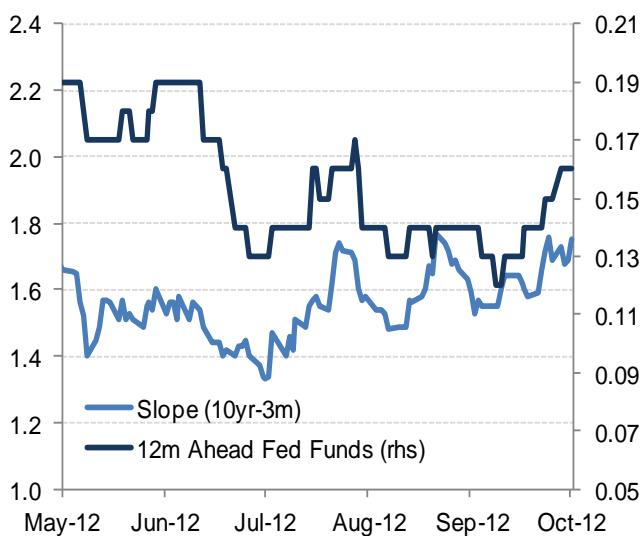
Source: Bloomberg & BBVA Research

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



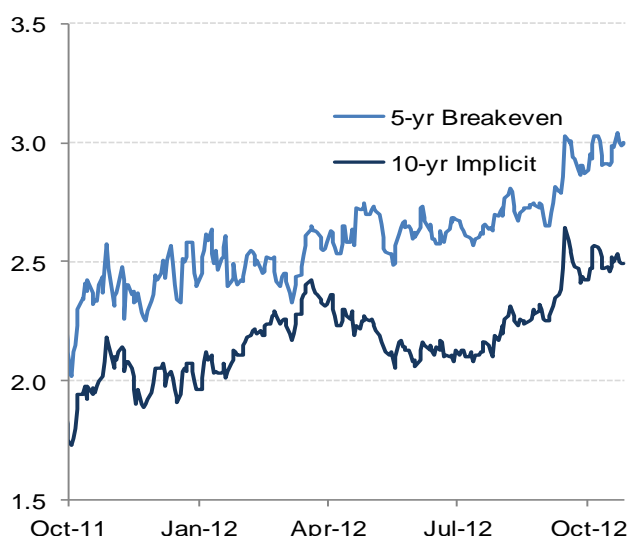
Source: Haver Analytics & BBVA Research

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)	14.12	14.12	14.10	13.96
New Auto (36-months)	3.14	3.14	3.14	4.09
Heloc Loan 30K	5.45	5.46	5.46	5.49
5/1 ARM*	2.75	2.75	2.71	3.08
15-year Fixed Mortgage*	2.72	2.66	2.73	3.38
30-year Fixed Mortgage*	3.41	3.37	3.40	4.10
Money Market	0.51	0.51	0.51	0.52
2-year CD	0.84	0.86	0.87	0.83

*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	0.16	0.16	0.09	0.07
3M Libor	0.31	0.32	0.36	0.43
6M Libor	0.54	0.57	0.64	0.62
12M Libor	0.88	0.90	0.98	0.93
2yr Sw ap	0.40	0.40	0.37	0.60
5yr Sw ap	0.86	0.86	0.76	1.42
10Yr Sw ap	1.79	1.79	1.70	2.47
30yr Sw ap	2.66	2.69	2.61	3.13
7day CP	0.16	0.32	0.24	0.53
30day CP	0.21	0.27	0.34	0.47
60day CP	0.24	0.34	0.46	0.40
90day CP	0.26	0.38	0.53	0.40

Source: Bloomberg & BBVA Research

Quote of the Week

John Ryding
Chief Economist at RDQ Economics
2 November 2012

"If we can do this kind of job growth with all the uncertainty out there, imagine if we were to clear up those tax issues and hold back the majority of tax increases that are pending at the end of the year...we could do much better in 2013, well maybe as well as we appeared to be doing earlier this year."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
5-Nov	ISM Non-Manufacturing Index	OCT	55.0	54.5	55.1
7-Nov	Consumer Credit	SEPT	\$11.2B	\$10.0B	\$18.1B
8-Nov	International Trade Balance	SEPT	\$45.4B	-\$45.0B	-\$44.2B
8-Nov	Initial Jobless Claims	3-Nov	359K	365K	369K
8-Nov	Continuing Claims	27-Oct	3259.00	3260.00	3263.00
9-Nov	Import Prices (MoM)	OCT	0.5%	0.2%	1.1%

Forecasts

	2011	2012	2013	2014
Real GDP (% SAAR)	1.8	2.1	1.8	2.3
CPI (YoY %)	3.2	2.0	2.1	2.4
CPI Core (YoY %)	1.7	2.1	1.9	2.0
Unemployment Rate (%)	9.0	8.2	8.1	7.6
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25
10Yr Treasury (eop, % Yield)	2.0	1.7	2.4	2.7
US Dollar/ Euro (eop)	1.32	1.25	1.31	1.31

Note: Bold numbers reflect actual data

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