

US Weekly Flash

Highlights

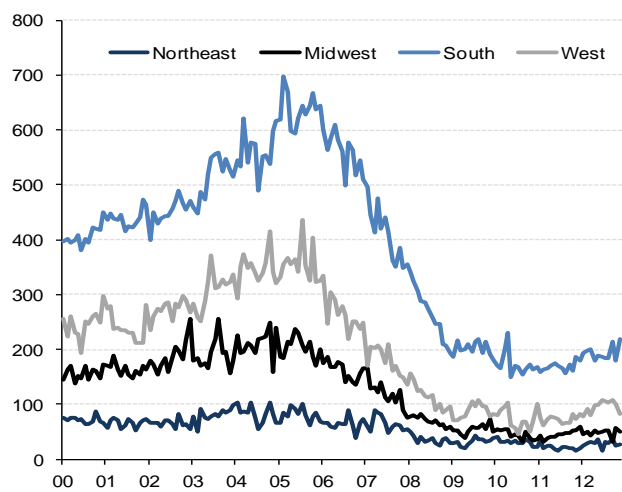
- **New Homes Sales grew 4.4% in November as the Northeast recovers and South grows**

- The New Home Sales report for November shows continued strength, growing to 377K from its 339K level at the start of the year. Lead primarily by the South, which saw a 21.1% increase from October, new homes are helping to offset the low supply that exists now that a larger portion of distressed homes have been picked up by those looking for discounted prices. In the Northeast, modest gains in new homes sales point out the recovery afoot as those who were anxious to buy, before Sandy made landfall, are now able to get back into the market. This is good news for the housing market as the overall sentiment is still positive about the industry and new home sales have continued to show that there is demand. Although the demand is there the supply is weary, falling to 4.7 months of supply as the recovery has prompted more people to reenter the market. Home prices have shown the effect of low supply and growing demand, increasing 14.9% YoY according to the median sales price.
- Overall we expect the upward trend in prices and sales to continue into 2013 as more and more people are choosing to leave the rental market and into homes that appear to be increasing in value. The threat of the fiscal cliff still looms however and might cause some potential buyers to hold off until the New Year brings word of what their fiscal situation will be.

- **Consumer confidence dips as fiscal cliff weighs heavily on expectations**

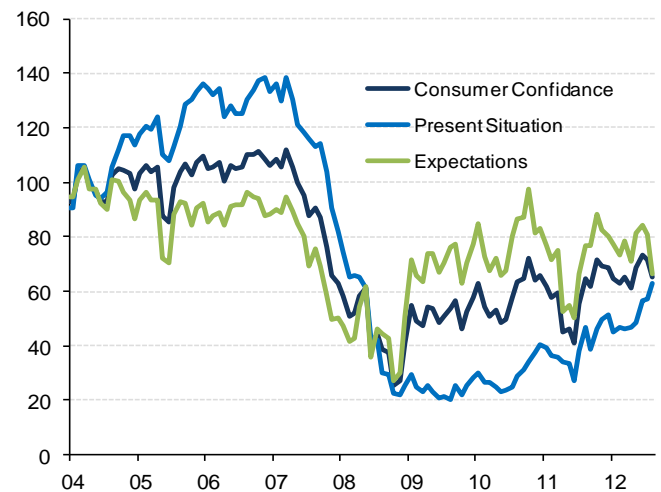
- Consumer confidence fell in December to 65.1 as the fiscal cliff decision has everyone on edge, waiting to hear whether taxes will be affected next year. Although not its lowest level for 2012, the almost 9.0% plummet from 71.5 does suggest that the problem in Washington is being assessed by the nation and both consumers and firms alike are on edge. However, the survey also polls how participants gauge the current situation and that figure rose for December by 9.4% despite the fiscal cliff situation. This at least shows a bit of optimism as consumers feel their situation is actually getting better, for now.
- Expectations are axiomatically grim as the sentiment for the 6 months ahead is wrought with fears of slower employment growth and lower incomes. A majority of respondents replied that business conditions would remain the same while the category for worsening conditions grew. Employment expectations were also lower than November and the income facet has continued to show higher responses about decreases in income rather than increases.

Graph 1
**New Home Sales by Region
Level (Thousands)**



Source: US Census Bureau & BBVA Research

Graph 2
**Consumer Confidence
Level**



Source: Conference Board & BBVA Research

Week Ahead

ISM Manufacturing Index (December, Wednesday 10:00 ET)

Forecast: 49.8

Consensus: 50.2

Previous: 49.5

The ISM manufacturing index is expected to remain in contractionary territory as production withdraws due to economic uncertainty and lethargic global demand. Now that Sandy's effects can be assessed, the downward pressure in manufacturing will come from the manufacturers themselves rather than exogenous variables. Due to the fiscal uncertainty regarding taxes in 2013, firms have been reclusive and opted to reduce hiring and stem production until their capital expenses can be more firmly accounted. The Philly Fed survey for December shows some signs of growth as it rises 8.1%. However, the Empire State survey weakened in December while industrial production showed gains in November. This mixed bag of manufacturing and production results further evidences the uncertainty plaguing the industry. We therefore do not expect the ISM index to emerge into expansionary territory but remain just below and remain there until fiscal clarity comes about and firms become more comfortable with business conditions.

Construction Spending (November, Wednesday 10:00 ET)

Forecast: 0.8%

Consensus: 0.6%

Previous: 1.4%

Construction spending is expected to increase in November as the construction of new homes continues to propel the housing market. With the fiscal cliff around the corner, states and private firms alike have reduced their expected projects so that they may assess the gravity of tax increases in 2013 on their bottom line. Although new homes are on the rise, public projects such as infrastructure spending have slowed down over the past months due to speculation of rising costs in the new year. This, paired with adverse weather in the Northeast, should drive the rate of construction spending slightly below the pace of growth seen in October.

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

Forecast: 151K

Consensus: 150K

Previous: 146K

As the end of the year figures have seen an encouraging drop in the unemployment rate, the looming fiscal cliff may dampen hiring in December as businesses reel back in light of uncertainty. November's unemployment figures were encouraging for businesses and consumers alike, falling to 7.7%. However, as the figures have shown for manufacturing, production, and services, the fiscal uncertainty surrounding tax rates have negatively impacted the economy and will likely do so in the month leading up to the decision. However, the falling unemployment rate has been aided by a concurrent drop in the participation rate. If participation continues to fall, despite the fiscal uncertainty, we may still see the unemployment rate fall even though conditions are not getting any better.

Factory Orders (November, Friday 10:00 ET)

Forecast: 0.6%

Consensus: 0.5%

Previous: 0.8%

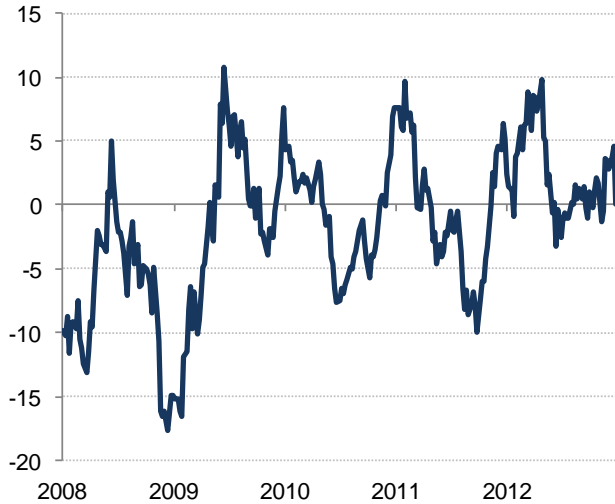
Both durable and non-durable goods orders rose in October, a positive sign for factory orders. Coupled with growth in goods orders were the regional Fed surveys that, on average, had positive outlooks for new orders in the next 6 months along with some, like the New York Fed, that had 3% growth in new orders for November. The ISM index also remained in positive territory for new orders, further indicating a potential rise in factory orders for November after a moderate 0.8% rise in October. The only potential hindrance for factory orders would be the underlying fear from firms about the fiscal cliff situation. Firms have begun to halt projects and scale back production until their 2013 fiscal situation is clarified. This, in turn, may cause orders to decrease for November and even into December as a deal has yet to be struck. Overall we do expect there to be growth in factory orders, evidenced by the sentiments from other surveys and durable goods figure, but probably less than would be realized had the fiscal situation not arisen.

Market Impact:

This week will focus primarily on the fiscal cliff situation as both the decision and effects will be compacted into a week's worth of market data and sentiment. Although few indicators announced this week will have any immediate fluctuation from the verdict, it is apparent that the fiscal cliff has and will weigh on the weeks to come in terms of its impact on indicators. This week however, the primary focus will be on the employment situation: with Sandy's effects now over, the participation rate and overall unemployment rate are in the limelight. Other indicators worth mentioning are factory orders and construction spending, indicators that should shed light on the manufacturing and housing market and how they are fairing in the recent lack of fiscal clarity.

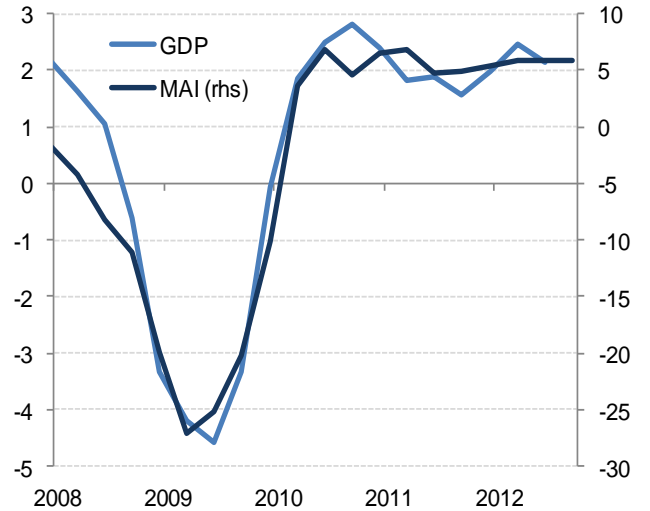
Economic Trends

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



Source: BBVA Research

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



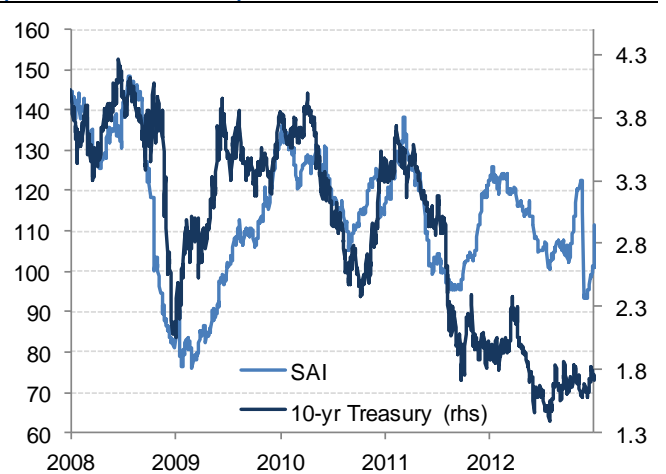
Source: BBVA Research & BEA

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



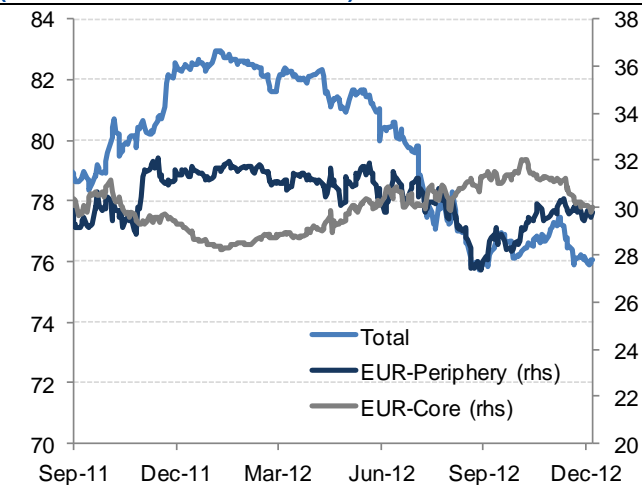
Source: BBVA Research

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



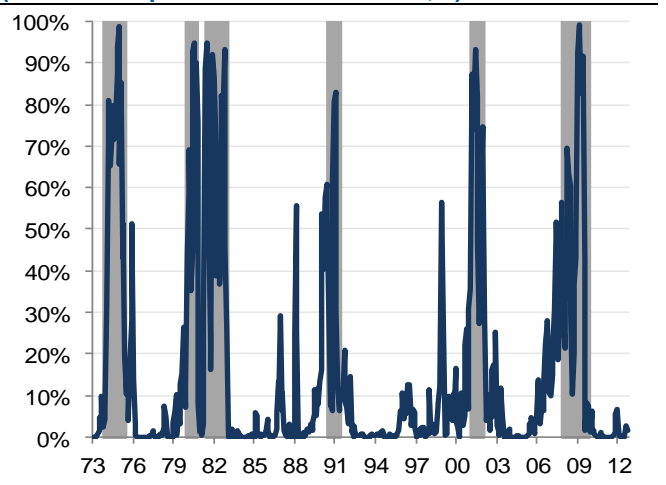
Source: Bloomberg & BBVA Research

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



Source: BBVA Research

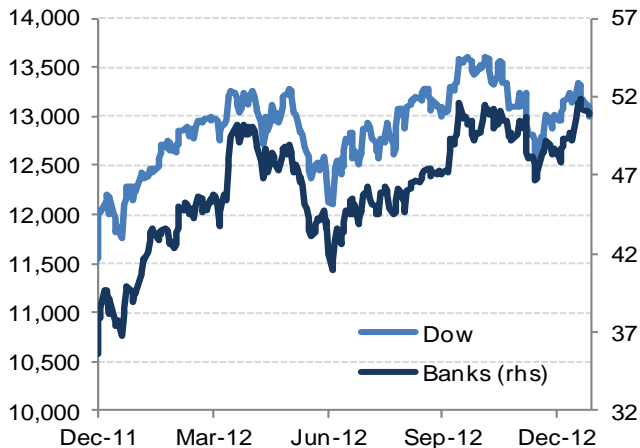
Graph 8
BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)



Source: BBVA Research

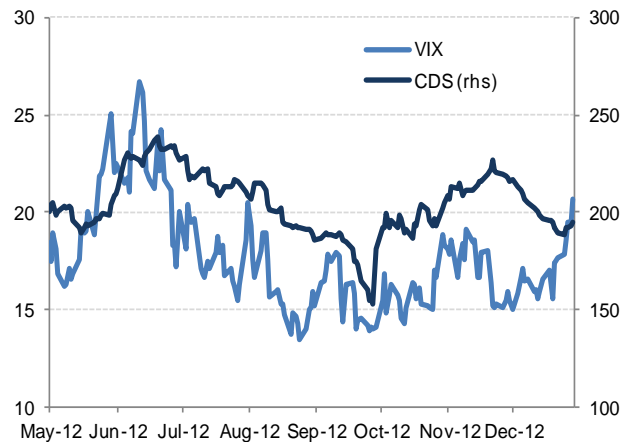
Financial Markets

Graph 9
Stocks
(Index, KBW)



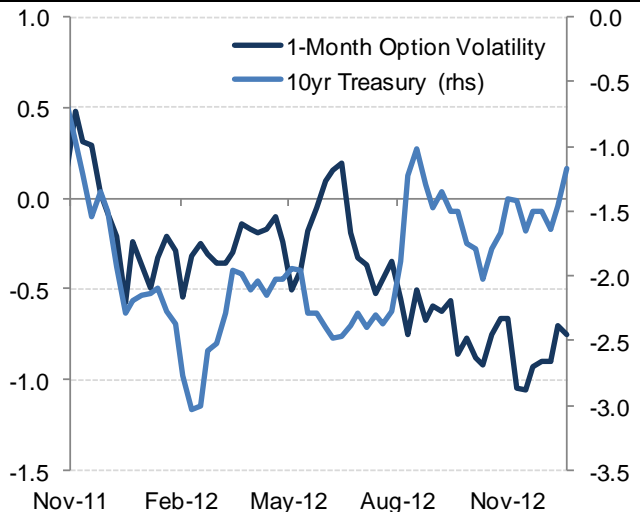
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



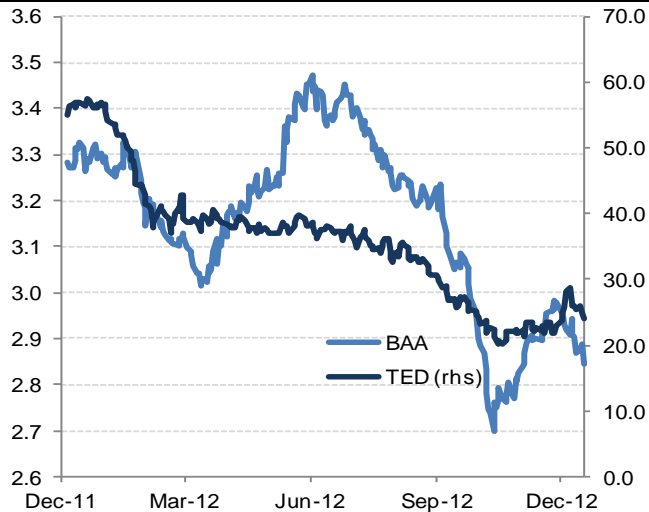
Source: Bloomberg & BBVA Research

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



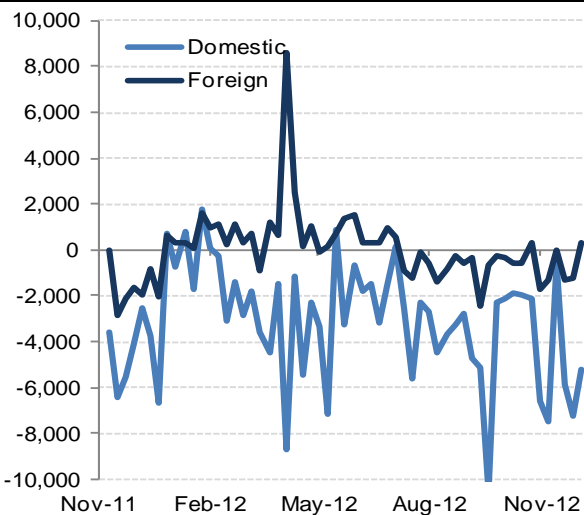
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



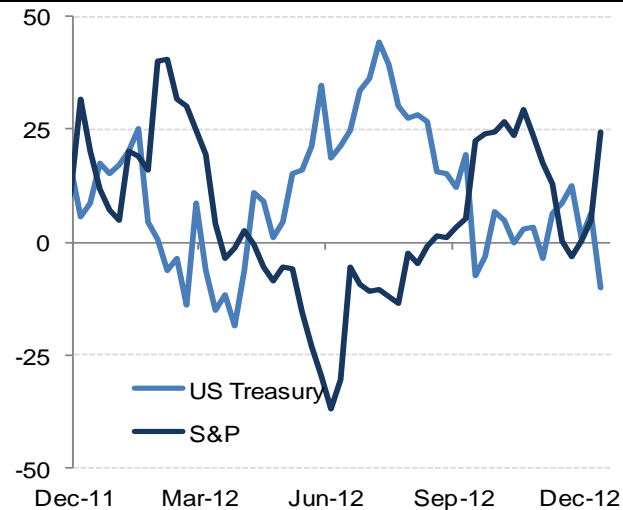
Source: Bloomberg & BBVA Research

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



Source: Haver Analytics & BBVA Research

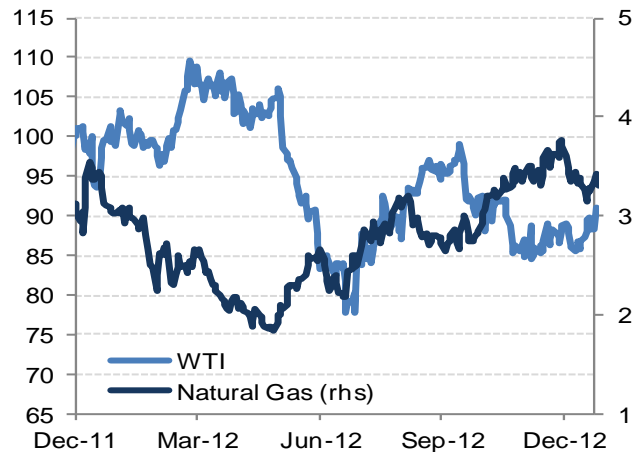
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

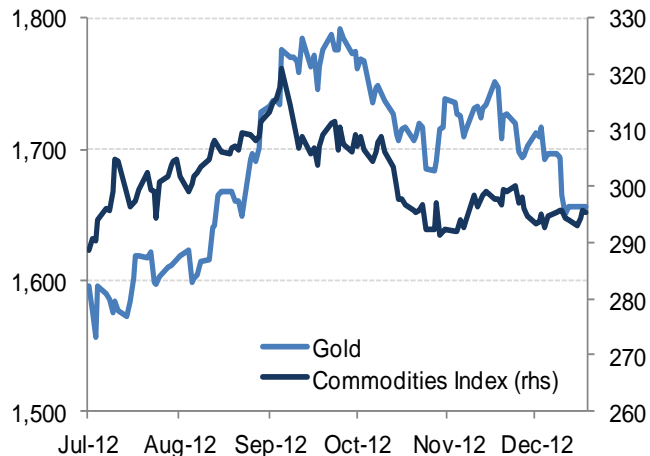
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



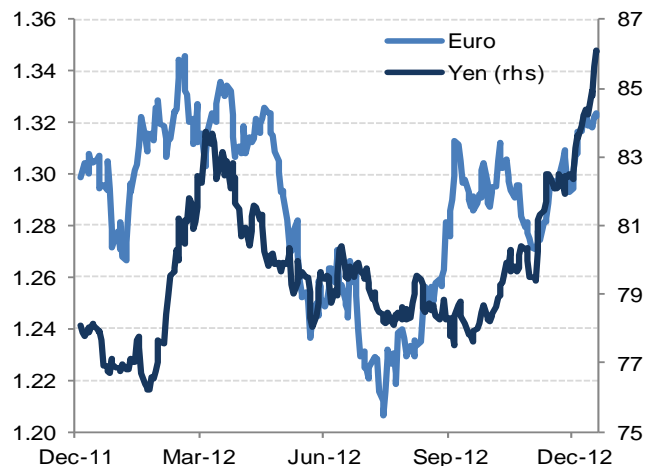
Source: Bloomberg & BBVA Research

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



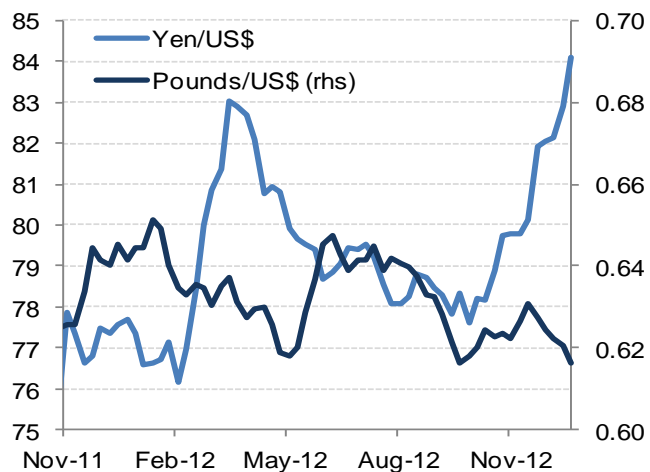
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



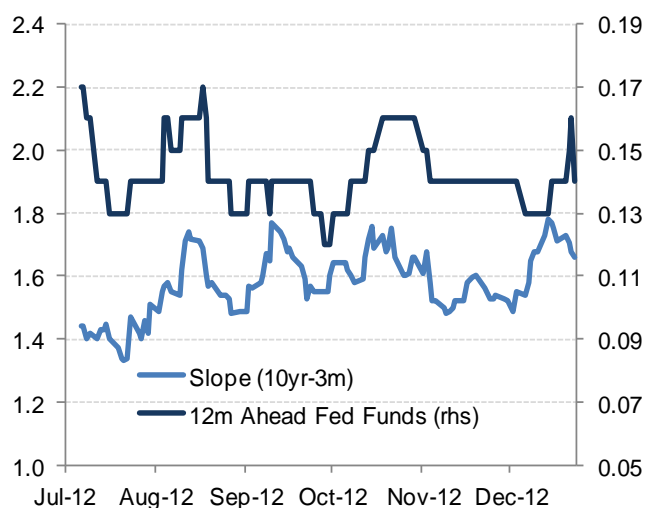
Source: Bloomberg & BBVA Research

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



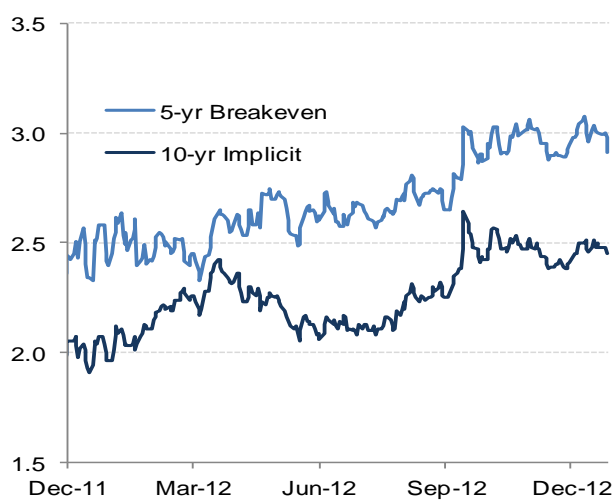
Source: Haver Analytics & BBVA Research

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)	13.98	13.98	13.98	13.94
New Auto (36-months)	2.76	2.76	2.78	3.74
Heloc Loan 30K	5.45	5.44	5.39	5.54
5/1 ARM*	2.70	2.71	2.72	2.88
15-year Fixed Mortgage*	2.65	2.65	2.64	3.24
30-year Fixed Mortgage*	3.35	3.37	3.32	3.95
Money Market	0.51	0.51	0.51	0.49
2-year CD	0.83	0.83	0.87	0.94

*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	0.17	0.17	0.16	0.04
3M Libor	0.31	0.31	0.31	0.58
6M Libor	0.51	0.51	0.53	0.81
12M Libor	0.84	0.84	0.86	1.13
2yr Sw ap	0.40	0.41	0.37	0.73
5yr Sw ap	0.84	0.88	0.75	1.22
10Yr Sw ap	1.77	1.82	1.66	2.03
30yr Sw ap	2.72	2.75	2.58	2.62
7day CP	0.19	0.32	0.21	0.76
30day CP	0.20	0.17	0.15	0.52
60day CP	0.17	0.18	0.19	0.49
90day CP	0.19	0.19	0.22	0.59

Source: Bloomberg & BBVA Research

Quote of the Week

Ben Nelson United States Senator D. Nebraska
U.S. Senate House
30 December 2012

"America is very functional, but Washington has become dysfunctional."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
31-Dec	Dallas Fed Mfg Survey	DEC	1.2	1.0	-2.8
2-Jan	Motor Vehicle Sales	DEC	15.1M	15.2M	12.01M
2-Jan	ISM Mfg Index	DEC	49.8	50.2	49.5
2-Jan	Construction Spending	NOV	0.8%	0.6%	1.4%
3-Jan	ADP Employment Report	DEC	126K	137K	118K
3-Jan	Jobless Claims	29-Dec	345K	355K	350K
3-Jan	Continued Claims	22-Dec	3210K	3223K	3206K
4-Jan	Unemployment Rate	DEC	7.8%	7.7%	7.7%
4-Jan	Non-farm Payrolls	DEC	151K	150K	146K
4-Jan	Factor Orders	NOV	0.6%	0.5%	0.8%
4-Jan	ISM Non-Mfg Index	DEC	54.1	54.3	54.7

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	8.1	8.0	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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