

Economic Watch

US

Houston, February 5, 2013
Economic Analysis

Monthly US Outlook: February Some Promising Economic News as 2013 Gets Underway

US

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The New Year is shaping up to be stronger than many expected, at least throughout the first few months thus far. There were plenty of fiscal and economic concerns heading into 2013, but the most recent data have shown signs of underlying strength. The fiscal cliff debacle feels like ages ago now that the dust has settled, and Washington's decision to delay deadlines has opened up some room for market relief. However, the impact of negotiations on consumer activity and business investment was clear in December, and it is likely we could see a similar situation in March and April when the new limits approach once again. The GDP report for the fourth quarter revealed a significant slowdown in inventory growth and government spending as both public and private firms scaled back in anticipation of increasing taxes and the expected sequester. In 4Q12, the economy shrank 0.1% on a quarter-over-quarter seasonally-adjusted annualized basis, with national defense spending down 22.2%, exports down 5.7%, and imports down 3.2% as businesses became more hesitant of future consumer demand and purchasing power. On the bright side, personal consumption expenditures accelerated to 2.2% while residential investment posted a 15.3% gain. Given that this was only the advanced report, there is still a chance we could see a reversal in the overall GDP estimate as the figure is revised with more complete data from December.

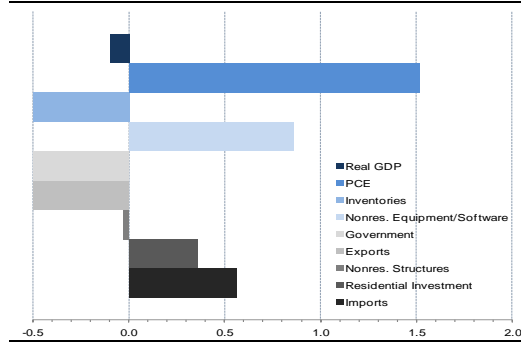
The employment report for January was enough to offset the disappointing GDP release and downplay the fiscal cliff's impact on job growth. Nonfarm payrolls increased 157K to start the year off on a strong foot, with 166K in private sector hiring. Consistent sub-200K gains are just enough to keep pace with a growing labor force and are therefore not likely to lead to genuine declines in the unemployment rate without some help from other factors. However, upward revisions to 2012 data helped bolster labor market sentiments: November's gains were revised from 161K to 247K while December increased from 155K to 196K, in turn adding 127K to the two months leading up to 2013. Furthermore, according to new BLS calculations adjusted by tax records, the economy added an additional 424K jobs between April 2011 and March 2012. The BLS also adjusted the number of those counted in the labor force, which increased 136K and put upward pressure on the unemployment rate for the month.

Other economic indicators point to relatively healthy activity in 2013 thus far. Manufacturing conditions appear to have avoided a major impact from fiscal uncertainty, with the ISM hinting at a more optimistic outlook for the sector despite some declines in regional surveys. Inflationary pressures continue to be minimal and support the Federal Reserve's decision to maintain low target rates for a prolonged period. As we move forward into 2013, we expect core prices to remain soft and energy prices to continue to exert downward pressure on the headline figure. International headwinds appear to softening as global growth is resuming.

The latest FOMC statement lived up to our expectations for unchanged monetary policy accommodation to start 2013 and does not change our outlook for possible slowing of asset purchases by mid-2013. Data during the intermeeting period were not strong enough to shift FOMC policy decisions one way or the other, but more positive employment reports have the potential to encourage a quicker end to QE3. The meeting minutes will likely provide more details on the specific timing for slowing or stopping purchases, but we expect that views have not changed much from December. It is interesting to note that there was no mention of policy uncertainty or the fiscal situation after such topics dominated the discussions toward the end of 2012. While we may see more details in the meeting minutes as to whether or not the January 1st deal in Congress was worse than what the committee had been expecting, the lack of mention in the statement is a sign that the committee is satisfied for the time being and that they will not be reactionary when it comes to fiscal concerns.

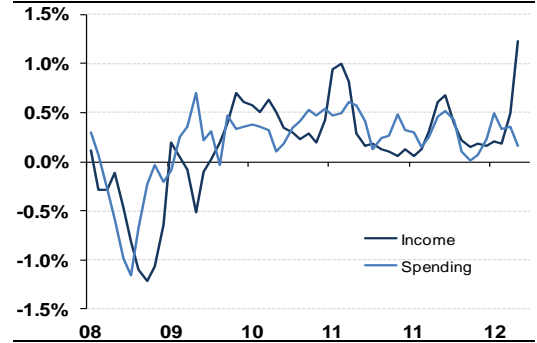
Economic Indicators

Graph 1
Contributions to Real GDP Growth
(4Q12 Advance, SAAR Percentage Points)



Source: BEA and BBVA Research

Graph 2
Personal Income and Expenditures
(3MMA, MoM % Change)



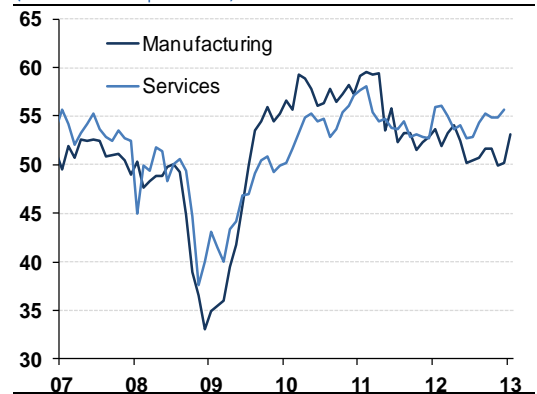
Source: BEA and BBVA Research

Graph 3
Consumer Confidence
(SA, Index 1985=100)



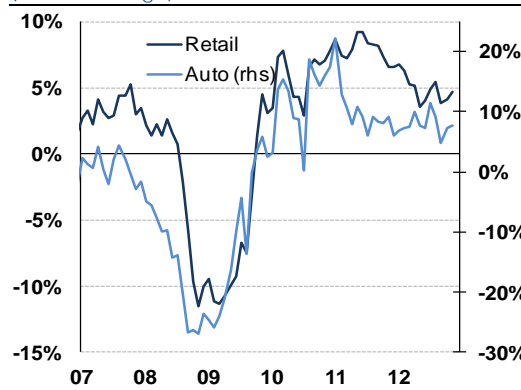
Source: Conference Board and BBVA Research

Graph 4
ISM Indices
(SA, 50+ = Expansion)



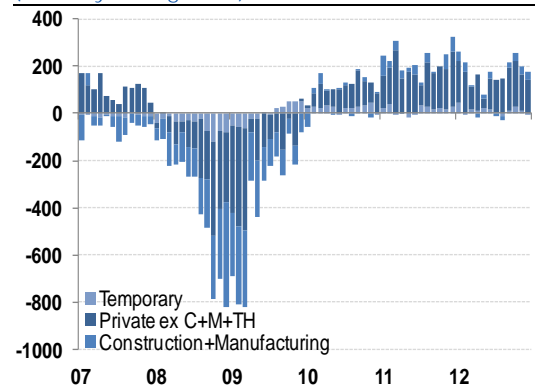
Source: ISM and BBVA Research

Graph 5
Retail and Auto Sales
(YoY % Change)



Source: US Census Bureau and BBVA Research

Graph 6
Private Nonfarm Payrolls
(Monthly Change in K)



Source: BLS and BBVA Research

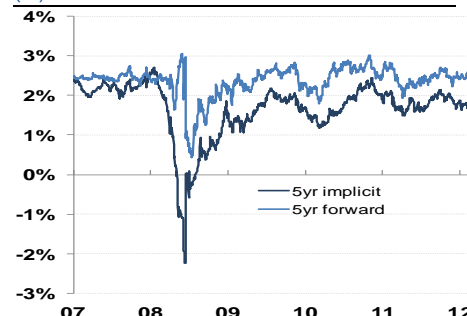
Economic Indicators

Graph 7
Consumer Price Index
(NSA, YoY % Change, 1982-84=100)



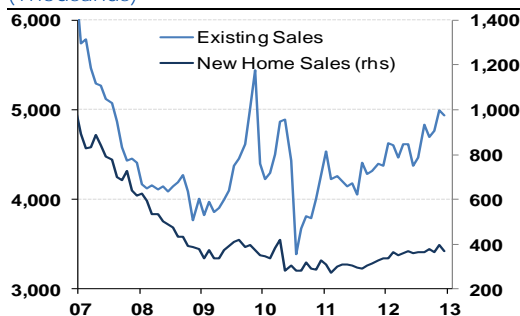
Source: BLS and BBVA Research

Graph 8
Inflation Expectations
(%)



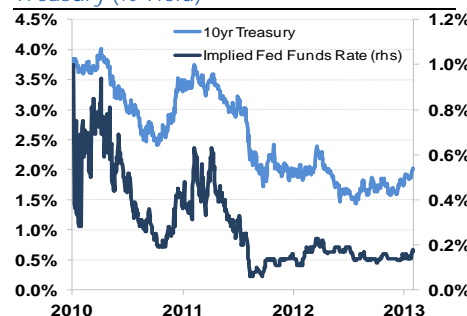
Source: Federal Reserve Board and BBVA Research

Graph 9
New and Existing Home Sales
(Thousands)



Source: US Census Bureau, NAR, and BBVA Research

Graph 10
12-Month Implied Fed Funds Rate & 10-Yr Treasury
(% Yield)



Source: Federal Reserve Board and BBVA Research

Table 1
Forecasts (BOLD=FORECASTS)

	1Q12	2Q12	3Q12	4Q12	2011	2012	2013	2014	2015
Real GDP (% SAAR)	2.0	1.3	3.1	-0.1	1.8	2.2	1.8	2.3	2.5
Real GDP (Contribution, pp)									
PCE	1.7	1.1	1.1	1.5	1.8	1.3	1.2	1.4	1.5
Gross Investment	0.8	0.1	0.9	-0.1	0.6	1.2	0.7	1.0	1.1
Non Residential	0.7	0.4	-0.2	0.8	0.8	0.8	0.6	0.8	0.9
Residential	0.4	0.2	0.3	0.4	0.0	0.3	0.3	0.2	0.2
Exports	0.6	0.7	0.3	-0.8	0.9	0.4	0.5	1.0	1.0
Imports	-0.5	-0.5	0.1	0.6	-0.8	-0.4	-0.5	-1.2	-1.3
Government	-0.6	-0.1	0.8	-1.3	-0.7	-0.3	-0.1	0.1	0.1
Unemployment Rate (%)	8.3	8.2	8.0	7.8	8.9	8.1	7.8	7.2	6.7
Average Monthly Nonfarm Payroll (K)	262	108	152	201	175	181	147	170	192
CPI (YoY %)	2.8	1.9	1.7	1.9	3.1	2.1	2.1	2.2	2.3
Core CPI (YoY %)	2.2	2.3	2.0	1.9	1.7	2.1	1.9	2.0	2.1
Fiscal Balance (% GDP)	-	-	-	-	-8.7	-7.3	-5.9	-4.3	-3.7
Current Account (bop, % GDP)	-3.5	-3.0	-2.7	-	-3.1	-3.1	-3.1	-3.8	-4.4
Fed Target Rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
S&P Case-Shiller Index (YoY %)	-1.28	1.55	3.64	-	-4.30	2.30	3.74	3.79	3.97
10-Yr Treasury (% Yield, eop)	2.17	1.62	1.72	1.72	1.98	1.72	2.35	2.70	3.37
U.S. Dollar / Euro (eop)	1.32	1.25	1.29	1.31	1.32	1.31	1.32	1.33	1.34
Brent Oil Prices (dps, average)	118.4	108.5	109.7	110.3	111.3	111.7	109.1	112.9	119.0

Source: BBVA Research

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