

U.S. Weekly Watch

March 7, 2011

Economic Analysis

Hakan Danış
Hakan.Danis@bbvacompass.com

Jeffrey O. Herzog
Jeff.Herzog@bbvacompass.com

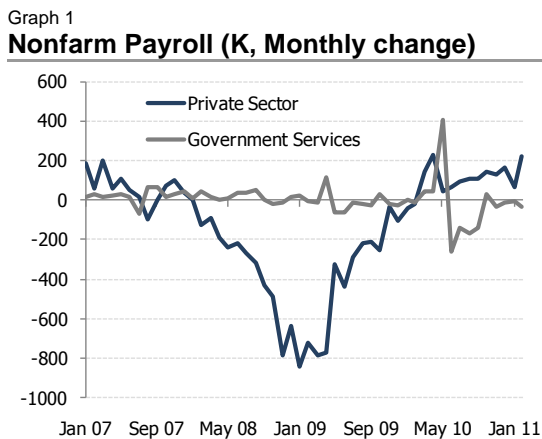
Highlights

Fed's Beige Book signals price pressures

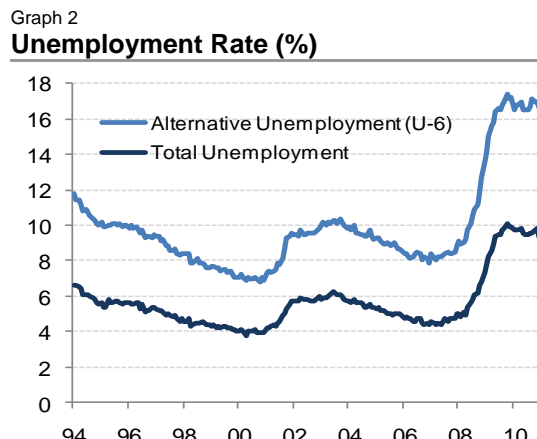
Current Economic Conditions, also known as the Beige Book, released by the Federal Reserve Bank of Kansas City is based on information collected on or before February 22, 2010. The report indicates that economic activity continued to improve at a “modest to moderate pace” since the beginning of 2011 till early February. Labor market conditions continued to improve in all Districts. However, the report warns about increasing price pressure due to an increase in input prices. Residential real estate sales and construction remained weak across all Districts while commercial real estate activity showed signs of stabilizing but remained feeble. In sum, the report supports other recent macroeconomic indicators suggesting that the economic recovery is gaining strength but prices started to increase mainly due to increase in input prices.

The unemployment rate continued to decline in February

The Bureau of Labor Statistics (BLS) announced that in February, total nonfarm payroll rose 192K while private sector created 222K new jobs. Government sector lost 30K jobs last month. Due to bad weather in January we were expecting strong employment creation in February. Moreover, strong ADP employment data in the last three months and significant declines in initial and continuing claims were positive signs for today's release. The unemployment rate continued to decline for the third month in a row to 8.9%, the lowest level since March 2009. The labor force participation rate remained at 64.2%, which is the lowest level since March 1984. The employment level increased in manufacturing and construction sectors but declined in retail and government sectors in February. This is the first monthly increase in the construction sector since August 2010. Furthermore, the alternative unemployment rate, which includes those marginally attached to the workforce and working part-time for economic reasons, also declined to 15.9%. The median number of weeks unemployed declined to 21.2 and 43.8% of those without jobs have been unemployed for 27 weeks or more. The nonfarm payroll data indicate that the U.S. labor market is improving and recent indicators such as initial and continuing claims also point to better labor market conditions. We expect that labor market conditions will continue to improve in 1Q11 but the unemployment rate will remain elevated in 2011 and 2012.



Source: BLS



Source: BLS

Week Ahead

Consumer Credit (January, Monday 15:00 ET)

Forecast: \$4.95bn	Consensus: \$3.40bn	Previous: \$6.10bn
---------------------------	----------------------------	---------------------------

We expect total outstanding consumer credit to increase MoM by \$4.95bn in January to \$2415.4bn seasonally-adjusted, which represents a -1.31% YoY decline. One issue with this month's data is the divestment of \$25bn in consumer credit from banks to nonbanks in December. We believe that this shift within the total outstanding may affect the seasonality adjustments made within individual categories, so the risk of substantial data revisions is high. Regardless of these data revisions, total consumer credit is growing gingerly MoM for the past few months, but we do not anticipate YoY growth until mid-2011.

International Trade Balance (January, Thursday 08:30 ET)

Forecast: -\$41.0bn	Consensus: -\$41.5bn	Previous: -\$40.6bn
----------------------------	-----------------------------	----------------------------

In December, imports increased by \$5.1bn to \$203.5bn while exports rose \$2.8bn to \$163.0bn. All of the increase in imports came from goods imports and services imports declined by \$14mn. In January, demand for both imports and exports is expected to increase as domestic consumers continue to increase their spending. However, import prices rose 1.5% MoM in January partly due to increase in oil prices, which could inflate the value of imports. As a result, we could see the trade balance widen in January.

Retail Sales (February, Friday 08:30 ET)

Forecast: 0.6%	Consensus: 1.0%	Previous: 0.3%
-----------------------	------------------------	-----------------------

Retail sales climbed 0.3% MoM in January and 0.8% MoM on average in the last seven months. Recent increases in consumer prices and moderate growth in auto sales would support an upward trend in retail sales. With better economic prospects and strong consumer expectations, we expect retail sales to continue increasing in February. Moreover, possible improvements in labor market conditions would also support retail sales in 2011.

Consumer Sentiment (March, Friday 09:55 ET)

Forecast: 77.0	Consensus: 76.5	Previous: 77.5
-----------------------	------------------------	-----------------------

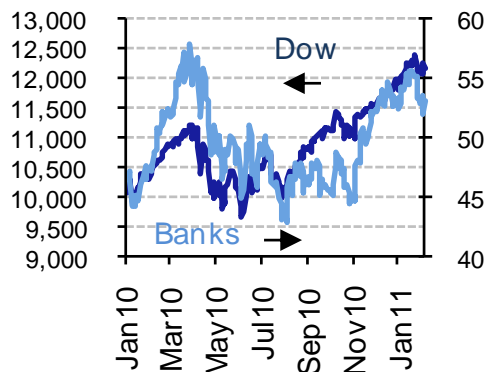
In February, consumer confidence measured by the University of Michigan's Consumer Sentiment Index reached 77.5, the highest level since January 2008. Due to strong economic activity, relative improvement in labor market conditions and financial markets, consumers' confidence has grown considerably. However, increase in oil and energy prices is expected to limit consumers' optimism in March. We expect consumer sentiment to decline slightly to 77.0.

Market Impact

Although consumer credit is not closely followed in the financial markets, the trend of credit growth would help us understand financial market conditions better. Strong consumer credit growth would signal better financial conditions and would support consumer spending in 2011. Therefore, markets would react positively to a better-than-expected consumer credit report. Strong real retail sales and a smaller trade balance would be a sign of strong personal consumption and would support economic recovery in 1Q11 and therefore support an upward trend in stock markets.

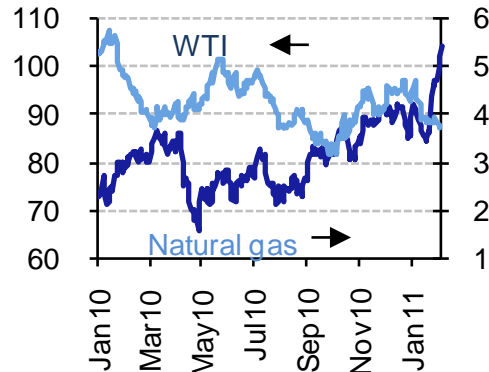
Financial Markets

Graph 3
Stocks (Index, KBW)



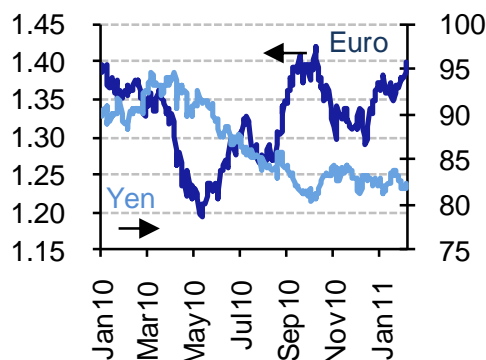
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



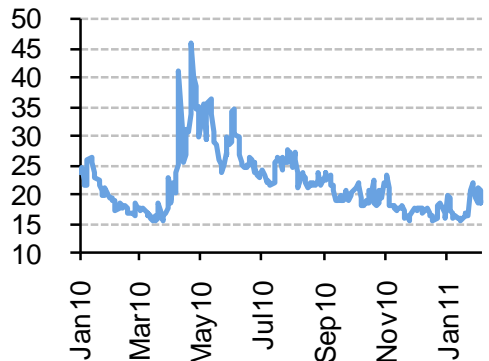
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



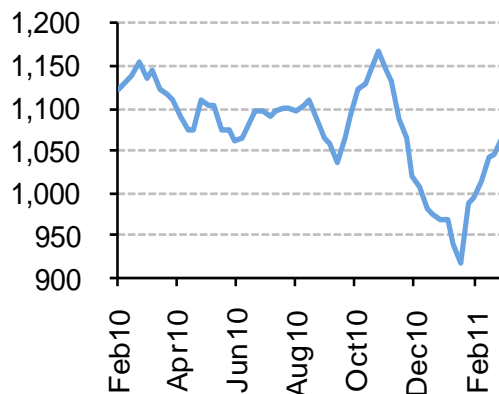
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



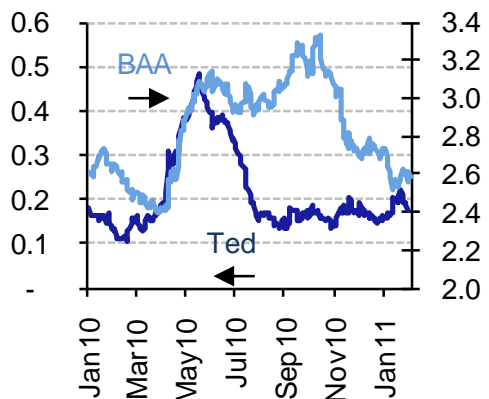
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

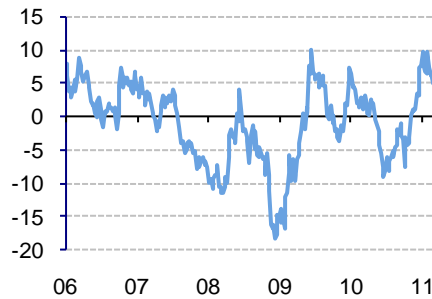
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

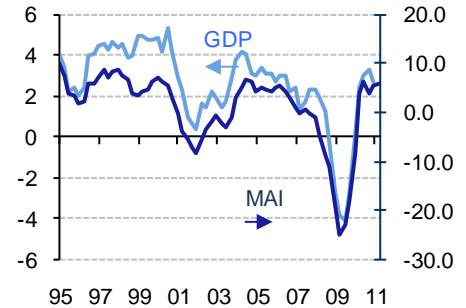
Economic Trends

Graph 9
BBVA US Weekly Activity Index (3 month % change)



Source: BBVA Research

Graph 10
BBVA US Monthly Activity Index & Real Gross Domestic Product (4Q % change)



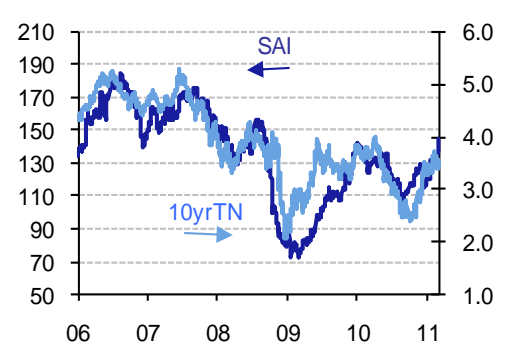
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index (Index 2009=100)



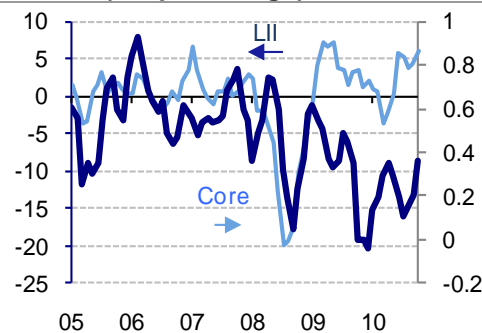
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



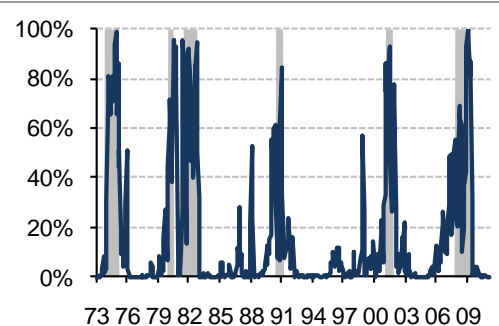
Source: Bloomberg & BBVA Research

Graph 13
BBVA US Leading Inflation Index & Core Inflation (QoQ % change)



Source: BLS & BBVA Research

Graph 14
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

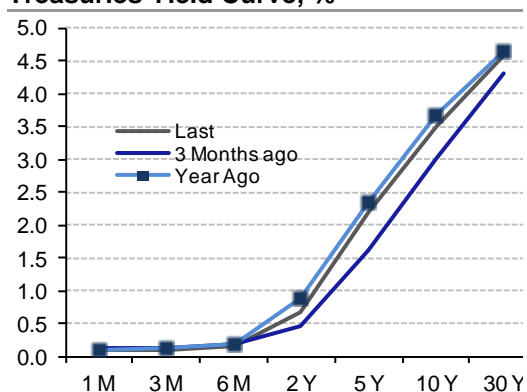
Yield Curve and Interest Rates

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)	13.73	13.73	13.68	12.55
New Auto (36-months)	5.02	5.04	5.10	6.70
Heloc Loan 30K	5.53	5.54	5.55	5.70
30-year Fixed Mortgage *	4.87	4.95	4.81	4.97
Money Market	0.63	0.61	0.62	0.82
2-year CD	1.28	1.29	1.31	1.72
5-year CD	2.06	2.06	2.06	2.64

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasury's Yield Curve, %



Source: Bloomberg

Quote of the Week

Federal Reserve Bank Chairman Ben S. Bernanke

March 2, 2011

Before the Committee on Financial Services, U.S. House of Representatives
Washington, D.C.

"Governments may wish to revisit their criteria for accumulating and using fiscal reserves. Building an adequate reserve fund during good times may not be politically popular, but doing so can pay off during bad times as well as lessen the tendency to overspend when times are good."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
7-Mar	Consumer Credit	JAN	\$4.95B	\$3.400B	\$6.099B
8-Mar	NFIB Small Business Optimism	FEB	96.0	95.0	94.1
9-Mar	Wholesale Inventories	JAN	0.8%	0.9%	1.0%
10-Mar	Initial Jobless Claims	5-Mar	370K	378K	368K
10-Mar	Continuing Claims	26-Feb	3740K	3750K	3774K
10-Mar	Trade Balance	JAN	-\$41.0B	-\$41.5B	-\$40.6B
10-Mar	Monthly Budget Statement	FEB	-\$227.5B	-\$227.5B	-
11-Mar	Advance Retail Sales	FEB	0.6%	1.0%	0.3%
11-Mar	Retail Sales Less Autos	FEB	0.4%	0.7%	0.3%
11-Mar	U. of Michigan Confidence	MAR P	77.0	76.5	77.5
11-Mar	Business Inventories	JAN	0.7%	0.8%	0.8%

Chief Economist for US

Nathaniel Karp

Nathaniel.karp@bbvacompass.com

Ignacio San Martin

Ignacio.SanMartin@bbvacompass.com

Jeffrey Owen Herzog

Jeff.Herzog@bbvacompass.com

Marcial Nava

Marcial.Nava@bbvacompass.com

Hakan Danis

Hakan.Danis@bbvacompass.com

Jason Frederick

Jason.Frederick@bbvacompass.com

Contact details

BBVA Research

5 Riverway Drive
Houston, Texas 77056

BBVA Research reports are available in English and Spanish

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".