



# Weekly Observatory

April 13th, 2009

## Week Ahead

### Headline and Core Producer Price Index (March, Tuesday 8:30 ET)

F: 0.6%, 0.3%      C: 0.0%, 0.1%      P: 0.1%, 0.2%

Core producer prices are expected to continue to increase steadily, but at a low rate. Even though there is evidence that weakening demand could be putting downward pressure on the prices of crude and intermediate goods, the prices of final goods are expected to remain steady because wages, the producer's primary cost, are still rising. Headline producer prices, however, are expected to jump by 0.6% due to a large increase in the cost of energy, which will more than compensate for the expected decline in food prices.

### Retail Sales and Retail Sales Excl. Autos (March, Tuesday 8:30 ET)

F: 0.7%, 0.6%      C: 0.3%, 0.1%      P: -0.1%, 0.7%

Total retail sales are expected to increase in March after falling 0.1% in February. Auto sales for the month rose, which will help to boost total sales. In addition, retail sales excluding autos are also expected to rise, driven by widespread increases across most components. Even though the month is expected to yield positive retail sales results, there is still downward pressure on personal consumption due to ongoing job losses and weak consumer confidence.

### Headline and Core Consumer Price Index (March, Wednesday 8:30 ET)

F: 0.3%, 0.1%      C: 0.1%, 0.1%      P: 0.4%, 0.2%

Core inflation is expected to remain steady but low at 0.1% in March, which would be consistent with our baseline scenario of low, but positive inflation for 2009. Although there are downside risks to core inflation due to the declining economic environment, we expect them to remain contained. Furthermore, the Fed's expansionary monetary policy will help to limit downward price pressure. In addition, headline consumer prices are expected to increase for the third month in a row, being positively influenced by rising energy prices.

### Industrial Production (March, Wednesday 9:15 ET)

F: -1.5%      C: -0.9%      P: -1.5%

Industrial production is expected to drop for the fifth month in a row as demand remains weak. The manufacturing sector, according to March's ISM results, is continuing to contract, however, we could see an additional increase in the production of motor vehicles and parts due to the rise in auto sales. Of particular concern is the high tech industry's accelerating decline in production due to businesses' lack of investment capital. The continued decline could indicate that non-residential investment will shrink further in 1Q09.

### Housing Starts and Building Permits (March, Thursday 8:30 ET)

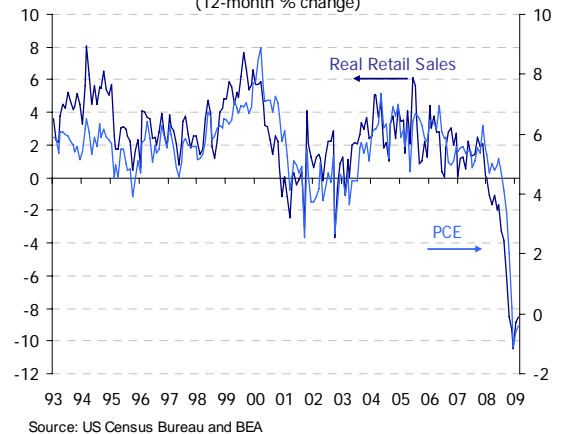
F: 608M, 569M      C: 540K, 549K      P: 583M, 564M

Housing starts and building permits are expected to increase again in March, after rising for the first time in eight months in February. The increase is anticipated to be primarily due to construction of condominiums because rental demand has jumped as the economy has deteriorated. However, building permits for single family homes increased slightly in February, which could foreshadow a greater number of housing starts in that sector in the upcoming months.

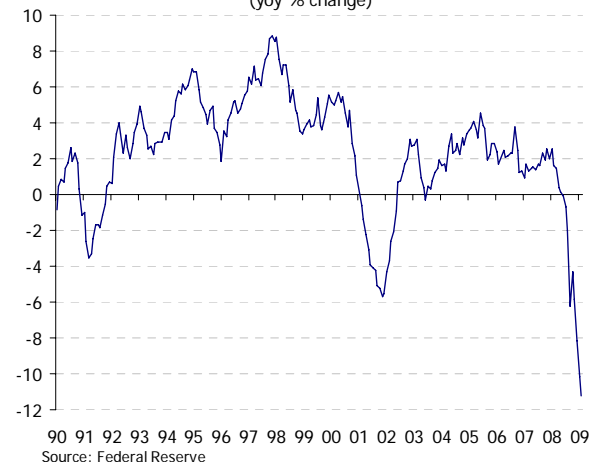
Kristin Lomicka

[Kristin.Lomicka@compassbank.com](mailto:Kristin.Lomicka@compassbank.com)

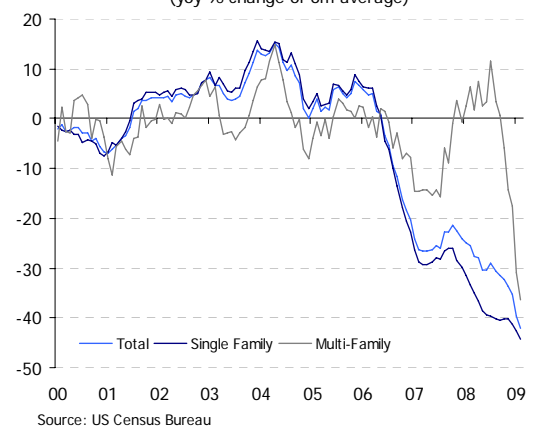
**Real Retail Sales & PCE**  
(12-month % change)



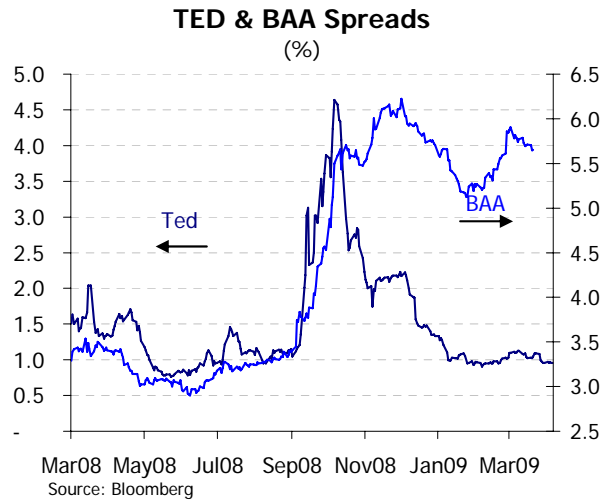
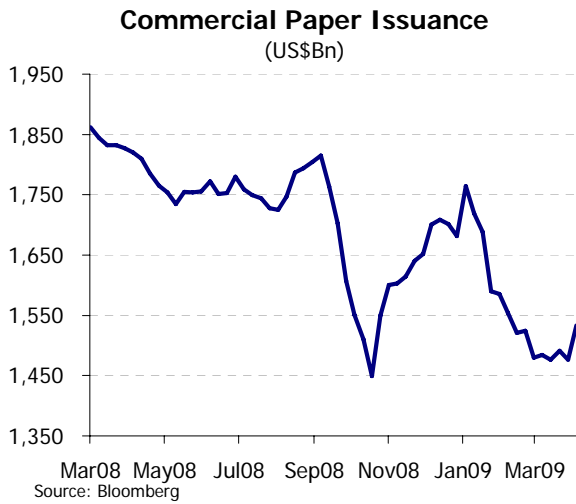
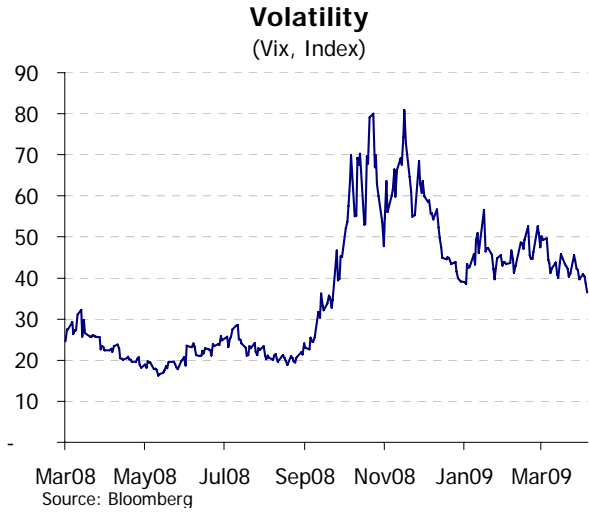
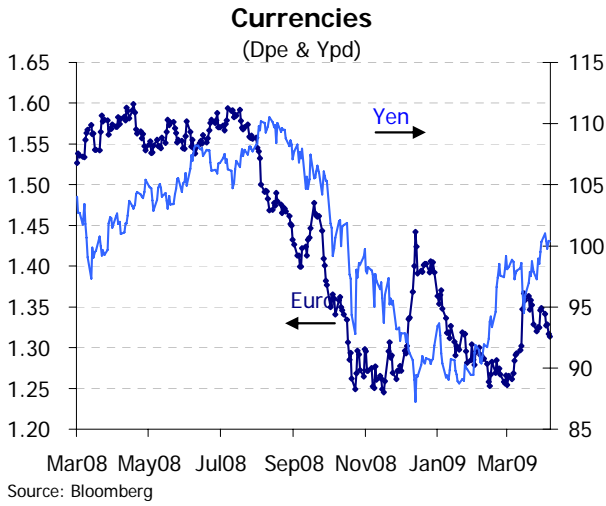
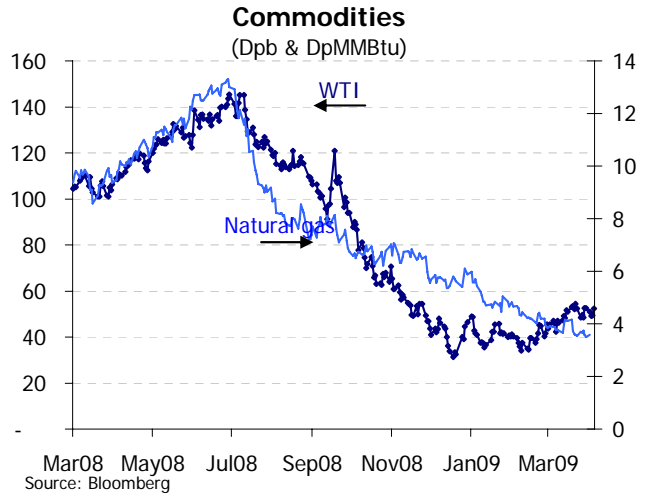
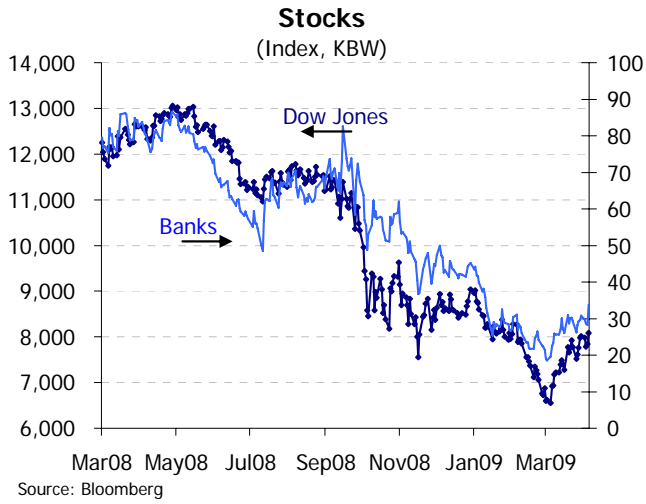
**Total Industrial Production**  
(yoy % change)



**Housing Starts**  
(yoy % change of 6m average)

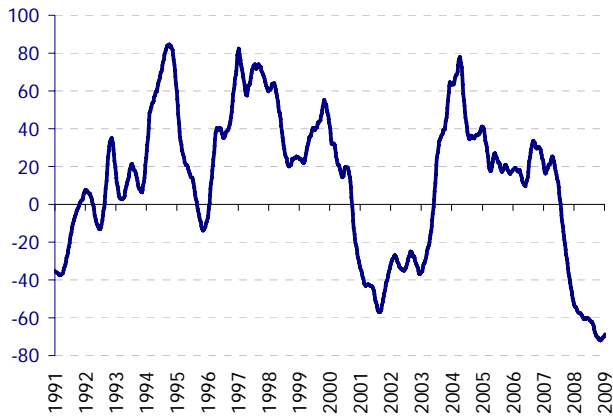


Financial Markets



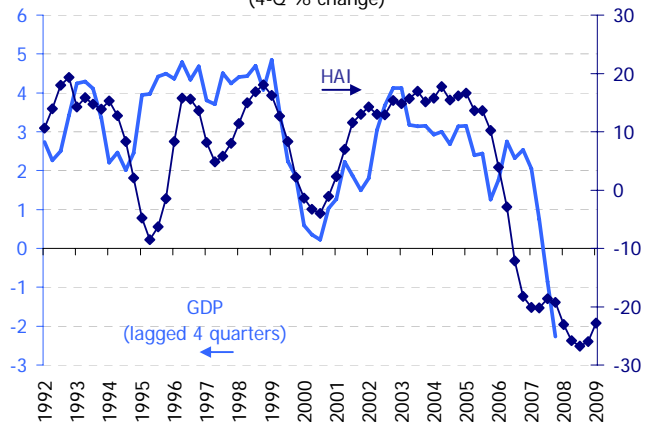
Economic Trends

**BBVA US Weekly Activity Index**  
(Yoy % change)



Source: BBVA ERD

**BBVA Housing Activity Index & Real Gross Domestic Product**  
(4-Q % change)



Source: BBVA ERD & BEA

**BBVA US Surprise Activity Index**  
(Index2004-7=100)



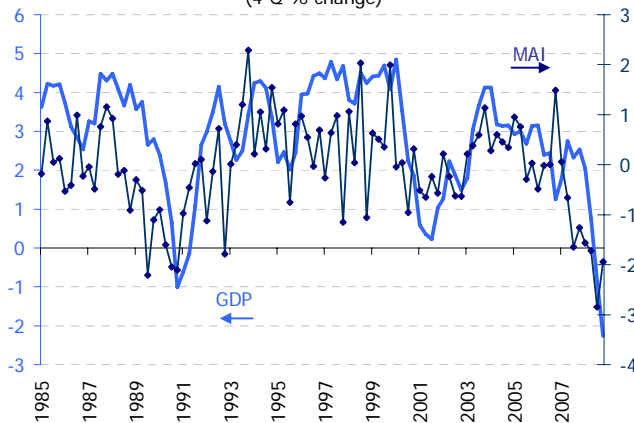
Source: BBVA ERD

**BBVA US Surprise Inflation Index**  
(Index2004-7=100)



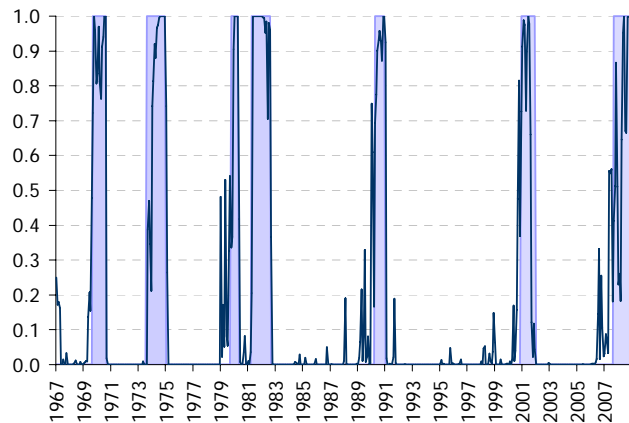
Source: BBVA ERD

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



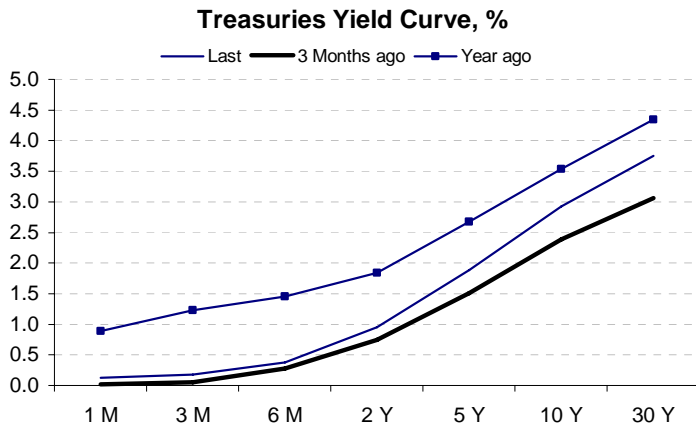
Source: BBVA ERD & BEA

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



Source: BBVA ERD

## Yield Curve and Interest Rates



### Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	5.25
Credit Card (variable)	10.73	10.73	10.80	12.64
New Auto (36-months)	7.21	6.88	6.89	6.66
Heloc Loan 30K	5.09	5.10	5.14	4.90
30-year Fixed Mortgage *	4.87	4.78	6.37	6.71
Money Market	1.31	1.33	1.40	2.25
2-year CD	2.16	2.15	2.20	2.94
5-year CD	2.66	2.65	2.68	3.29

\* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

## Quote of the Week

Thomas M. Hoenig, President of the Federal Reserve Bank of Kansas City: *Success Depends on Failure*  
Tulsa Metro Chamber of Commerce, Tulsa, OK, Thursday, April 9, 2009

*For a free market system to be successful, firms must be allowed to fail based upon a predefined set of rules and principles that market participants can rely on when determining their strategies and making decisions. This is particularly important for problem financial institutions. These key principles should apply if we are talking about a small bank in Tulsa or a large international financial conglomerate in New York City.*

## Economic Calendar

Date	Indicator	Period	Forecast	Consensus	Previous
14-Apr	Producer Price Index (MoM)	MAR	0.60%	0.00%	0.10%
14-Apr	PPI Ex Food & Energy (MoM)	MAR	0.30%	0.10%	0.20%
14-Apr	Advance Retail Sales	MAR	0.70%	0.30%	-0.10%
14-Apr	Retail Sales Less Autos	MAR	0.60%	0.10%	0.70%
14-Apr	Business Inventories	FEB	-1.10%	-1.20%	-1.10%
14-Apr	ABC Consumer Confidence	12-Apr	-50	--	-50
15-Apr	MBA Mortgage Applications	9-Apr	--	--	4.70%
15-Apr	Consumer Price Index (MoM)	MAR	0.30%	0.10%	0.40%
15-Apr	CPI Ex Food & Energy (MoM)	MAR	0.10%	0.10%	0.20%
15-Apr	Consumer Price Index (YoY)	MAR	0.10%	-0.10%	0.20%
15-Apr	CPI Ex Food & Energy (YoY)	MAR	1.80%	1.70%	1.80%
15-Apr	Empire Manufacturing	APR	-36.2	-35	-38.23
15-Apr	Industrial Production	MAR	-1.50%	-0.90%	-1.40%
15-Apr	Capacity Utilization	MAR	70.30%	69.70%	70.90%
15-Apr	NAHB Housing Market Index	APR	10	10	9
15-Apr	Fed's Beige Book	16-Apr	--	--	--
16-Apr	Housing Starts	MAR	608K	540K	583K
16-Apr	Building Permits	MAR	569K	549K	547K
16-Apr	Initial Jobless Claims	11-Apr	668K	660K	654K
16-Apr	Continuing Claims	4-Apr	5906K	5858K	5840K
16-Apr	Philadelphia Fed.	APR	-38.5	-32.3	-35
17-Apr	U. of Michigan Confidence	APR P	57.3	58	57.3