



Weekly Report

March 3, 2008

Weekly Recap

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- According to the National Association of Realtors, existing home sales fell to 4.89 million or 0.4 percent in January
- The producer price index for final goods increased by 1.0 percent in January, following a decrease of 0.3 percent in December
- Manufacturing activity contracted for the third consecutive month in February; Also, manufacturers remain less optimistic about overall business activity in the next six months, according to the Richmond Fed
- The Fed Chairman's testimony indicated that the deterioration on economic conditions has intensified significantly since the previous semiannual report to the congress

According to the report released by the National Association of Realtors (NAR), **existing home sales** fell to 4.89 million or 0.4 percent in December, down from the previous month revised estimate. The December reading was revised upwards to 4.91 million. This reading represents a decrease of 23 percent from the approximately 6.44 million sold in January 2007.

This reading is in line with the consensus estimate of 4.8 million for January. The conditions in the housing market are not likely to improve in the short-term; the disappointing January reading follows a sluggish 2007, which was the worst year for existing home sales in almost four decades.

The **Richmond Fed index** for overall activity fell even further in February mostly due to the decrease in new orders and employment. The other indicators included in the survey such as order backlogs, capacity utilization, vendor lead-time, number of employees, average workweek and wages were mixed, and slightly tilted towards the downside.

Looking ahead manufacturers decreased slightly, on average, their expectations about business activity in the next six months; in general, manufacturers were less optimistic about the outlook for the next six months compared to January. Most firms anticipate moderate growth on shipments, new orders, and number of employees in the next six months.

Prices paid for raw materials and finished goods increased moderately in February compared to the previous month.

Currently, most of the respondents expect prices to grow at a slightly higher pace in the first two quarters of 2008.

Hiring plans remain almost unchanged in February following a small increase in January. Overall, hiring plans seem to be a bit less upbeat compared to the previous month.

According to the report released on Tuesday by the Bureau of Labor and Statistics (BLS), the **producer price index** for final goods increased by 1.0 percent in January, after seasonal adjustment, following a 0.3 percent decrease in December.

The prices received by manufacturers of intermediate goods increased 1.4 percent in January, up from 0.2 percent in the previous month. The **crude goods index** rose by 2.5 percent in January, following a 1.1 percent increase in December, consistent with acceleration in crude goods prices.

Overall, producer prices in January continued at a faster pace compared to the previous month.

In his testimony before the Congress last Wednesday, the **Fed** Chairman stated, emphatically, that the deterioration on economic conditions has intensified significantly since the previous semiannual report to the Congress, last July. Most of the downside risks to economic growth in the first half of 2008 stem from the spillover effects of the housing slump on financial markets and wealth effects that weak house prices and equity prices have had on consumer spending.

Mr. Bernanke hinted that the Fed is currently focusing on forestalling the adverse effects of the housing slump on the broader economy via rate cuts as well as offering the term auction facility (TAF), and will continue to do so as long as inflation expectations remain well anchored. Evidence of a change on inflation expectations could end the current **FOMC** growth bias as inflationary pressures could "greatly complicate the task of sustaining price stability and could reduce the flexibility of the FOMC to counter shortfalls in growth in the future."

Bernanke speech suggests that the Fed's economic growth forecast incorporates at least two factors increasing the downside risks: softness in labor markets, and a deeper correction on the housing market. As a result, downside risks to growth continue increasing and are further augmented by strains in financial markets.

ISM Manufacturing index (February, Monday, 9:00 am)
F: 49.5 C: 49.0 P: 50.7

We expect the ISM index to fall a bit below its current level in February, gravitating at around 49. This estimate is consistent with a deceleration in the pace of economic growth; however, it supports relatively healthy levels of manufacturing activity. Our current forecast of 49.5 is slightly above the consensus estimate for the manufacturing index in February.

Productivity (Fourth quarter 2007, Wednesday, 7:30 am)
F: 1.7% C: 1.8% P: 6.3%

We expect the final estimate for productivity growth rate in the fourth quarter of 2007 to be around 1.7 percent, down from 6.3 percent in the previous quarter. Our current estimate is consistent with lower output growth in the fourth quarter of last year. Productivity growth in the third quarter of 2007 represented the largest productivity gain since the third quarter of 2003. In addition, we expect a moderate growth rate for productivity in coming quarters.

ISM non-Manufacturing (February, Wednesday 9:00am)
F: 46.5 C: 48 P: 44.6

We expect the ISM non-manufacturing to rise a bit from its current level in February. Our current forecast for February is 46.5, slightly below the consensus estimate of 48.

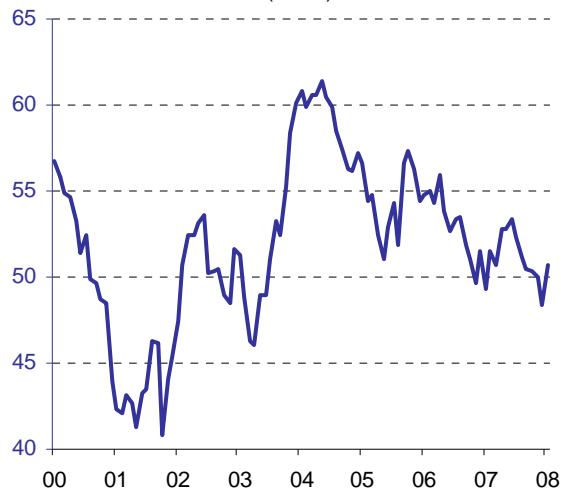
Employment Situation (February, Friday 7:30 am)
F: 35K C: 40K P: -17K

We expect employment to increase from -17K in January to 35K in February, and the unemployment rate to increase from 4.9 to 5.0 percent. We expect health care, food services, and professional and technical services to continue adding jobs to the economy at a lower pace compared to the previous months. Our current forecast is a bit lower than the consensus estimate of 40K for February.

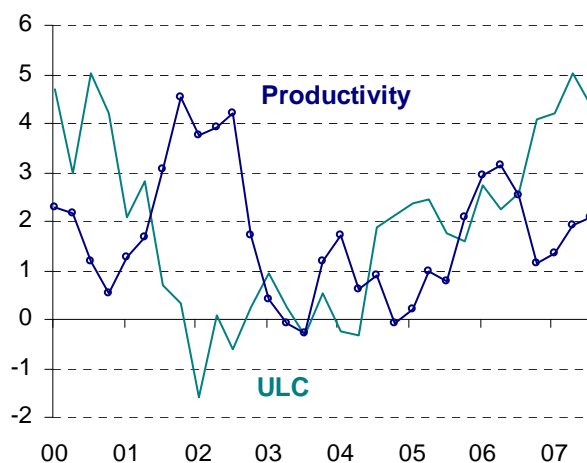
Consumer Credit (January, Friday, 2:00 pm)
F: 7.5 B C: 7.6 B P: 4.5 B

We expect consumer credit to continue growing at a moderate pace in January, reaching 7.5 billion. This estimate is slightly higher than the previous month, when consumer credit increased by 4.5 billion. Our current estimate is a bit lower than the consensus estimate for January and significantly below the average of 9.1 billion for 2007.

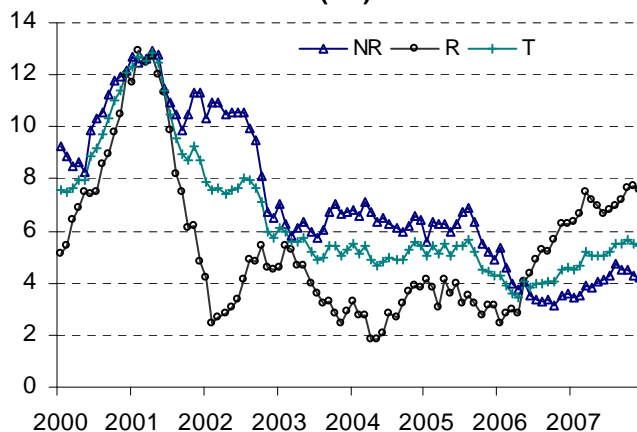
Manufacturing ISM
(Index)



Nonfarm Business Productivity & ULC
(Annual % change)



Consumer Credit Outstanding
(SA)



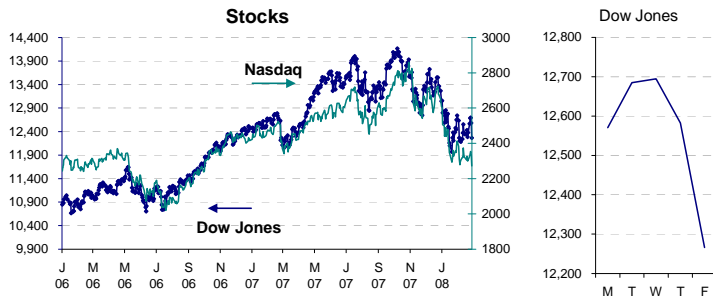
Economic Calendar

February / March

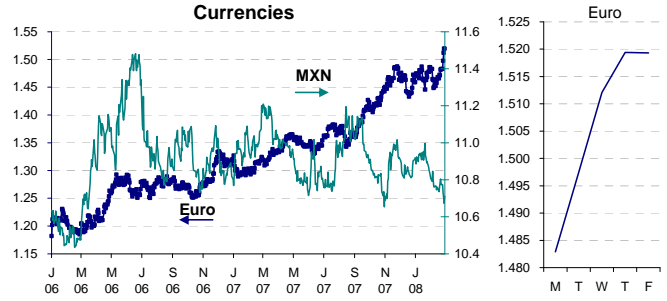
(Forecasts in bold. All times are EST)

Monday 25	Tuesday 26	Wednesday 27	Thursday 28	Friday 29
7:30 Existing home sales Dec -2.2% (m-o-m) Jan -0.4%	7:30 Producer price index Dec -0.3% (m-o-m) Jan 1.0% 9:00 Richmond Fed Manufacturing Jan -8 Feb -5	7:00 MBA Purchase application 7:30 Durable goods orders Dec 4.4% (m-o-m) Jan -5.3% 9:00 New home sales Dec 605 K (level) Jan 588 K	7:30 Personal consumption Dec 2.0% (m-o-m) Jan 1.9%	7:30 Personal income Dec 0.5% (m-o-m) Jan 0.2%
3	4	5	6	7
9:00 ISM Manufacturing Jan 50.7 (level) Feb 49.5		7:00 MBA Purchase application 7:30 Unit labor costs 3Q -2.0% 4Q 2.10% 7:30 Non-farm productivity 3Q 6.3% 4Q 1.7% 9:00 ISM Non-Manufacturing Jan 44.6 (level) Feb 46.5 1:00 Fed Beige Book		7:30 Employment situation Jan -17 K (level) Feb 35K 2:00 Consumer Credit Dec 4.5 B Jan 7.5 B
10	11	12	13	14
9:00 Wholesale inventories Dec 1.10% (m-o-m) Jan 0.8%	7:30 Trade Balance (level) Dec -58.8 B Jan -53.5 B	7:00 MBA Purchase application	7:30 Import price index Jan 1.70% (m-o-m) Feb 1.3 % 7:30 Retail sales Jan 0.3 % (m-o-m) Feb 0.3% 9:00 Business inventories Dec 0.6 % Jan 0.1 %	7:30 Consumer price index Jan 0.4% (m-o-m) Feb 0.3% 9:00 U. of Michigan Confidence
17	18	19	20	21
7:30 Empire Manufacturing Feb -11.7 Mar -9 8:15 Industrial production Jan 0.10% (m-o-m) Feb 0.3% 8:15 Capacity utilization Jan 81.5% Feb 81.0% 8:15 NAHB housing index Feb 20 (level) Mar 20	7:30 Producer price index Jan 1.00% Feb 0.4% 7:30 Housing starts Jan 1012 K Feb 995 K 1:15 FOMC rate decision	7:00 MBA Purchase application	9:00 Philadelphia Fed Feb -24 Mar -15 9:00 Leading indicators Jan -0.10 % (m-o-m) Feb -0.00%	

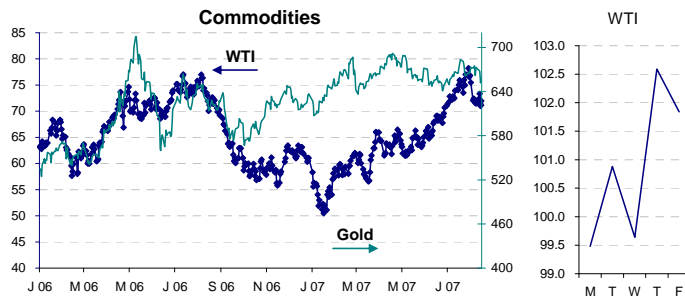
Financial Markets



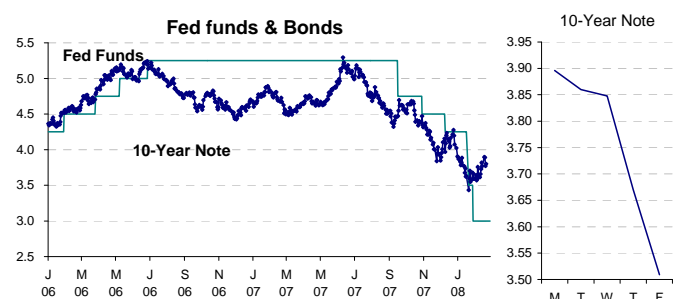
	Last	Week ago	4-Week ago	Year ago
Dow Jones	12266.39	12381.02	12442.83	12114.1
Nasdaq	2271.48	2303.35	2349.00	2368.00
S&P 500	1330.63	1353.11	1355.81	1387.17
Russell 2000	686.18	695.43	695.49	775.44



	Last	Week ago	4-Week ago	Year ago
Euro	1.519	1.483	1.486	1.319
Yen	103.73	107.17	106.27	116.81
Pound	1.99	1.97	1.99	1.94
MXN Peso	10.71	10.77	10.84	11.21



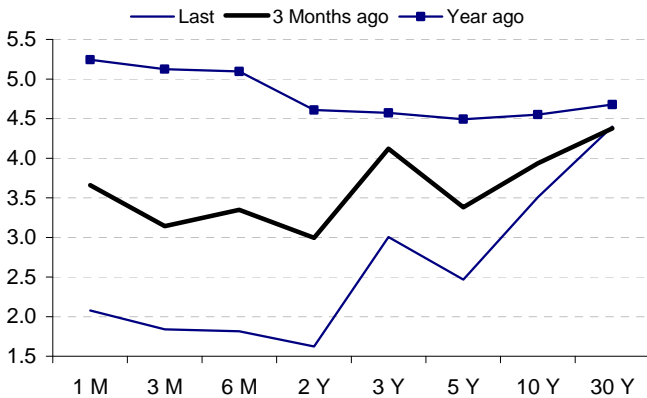
	Last	Week ago	4-Week ago	Year ago
WTI	101.8	99.0	58.4	61.8
Natural Gas	9.09	9.07	7.45	7.23
Gasoline	3.18	3.09	3.03	2.43
Gold	973.9	945.2	929.4	642.5



	Last	Week ago	4-Week ago	Year ago
Fed Funds	3.00	3.00	3.00	5.25
10-year	3.51	3.80	3.67	4.50
10-year TII	1.07	1.45	1.28	2.13
Corporate*	6.27	6.31	6.17	5.75

* Moody's average bond index

Treasuries Yield Curve, %



Key Interest Rates

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	6.00	6.00	6.00	8.25
Credit Card (variable)	13.06	13.30	13.67	14.56
New Auto (36-months)	6.85	6.86	7.02	6.96
Heloc Loan 30K	5.70	5.71	6.41	6.79
30-year Fixed Mortgage *	6.24	6.04	6.37	6.71
Money Market	2.77	2.77	2.96	3.68
2-year CD	3.11	3.10	3.28	4.91
5-year CD	3.45	3.38	3.44	4.92

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US

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