



The Week Ahead

March 13th, 2008

FOMC Policy Announcement (March 18, 14:15)

Fed Funds Forecast: 2.50% C: 2.50% P: 3.00%

The next FOMC meeting is scheduled for Tuesday, March 18th. Once again, the Board of Governors will face a bleak outlook, confirmed by the continuous release of deteriorating economic data. Since their last scheduled meeting in January 31st, the housing sector has shown no signs of recovery. Instead it has worsened further as evidenced by the continuing reduction of home prices (the recently released Case Schiller index of home prices fell 9.1% in December). Moreover, consumer spending, which constitutes two thirds of total demand, is yielding under the pressure. The latest signal is today's report by the Commerce Department announcing that retail sales shrunk 0.6% m-o-m on February (compared to a low but still positive growth of 0.3% on January). On the labor market there are also some ominous signs. On March 7th, the BLS announced that private nonfarm payroll fell 101,000 jobs, the sharpest reduction in the past five years.

Inflationary pressures have remained contained, with expectations and core indices under control. But a weak US dollar, combined with record highs in gold and crude oil, are increasingly challenging. Although recent readings of core inflation are showing an incipient upsurge, the Fed has stressed their confidence that the economic slowdown will hamper inflationary pressures. Facing downside risks to growth on the one hand and contained inflation on the other, we expect the Fed to reduce its target rate 50 bp to 2.5%. We don't expect a larger reduction because of three problems currently troubling the Fed: the realization that the effectiveness of traditional monetary policy is diminishing (as exposed by the non-traditional 200 billion dollar injection announced this week), the proximity to the psychological lower bound of 2%, and the inflationary impact of the ever-weakening value of the dollar with respect to other currencies.

Empire State & Philadelphia Indices (March, Monday & Thursday, 8:30 & 10:00 am respectively)

F: -13.0, -30.0 C: -5.0, -18.0 P: -11.7, -24.0

We expect the Empire State and Philadelphia indices to decrease further in March, suggesting a nation-wide deterioration of manufacturing output in the month. Currently, the Philly Fed Index is close to the levels of previous economic recessions. Industrial production seems to be suffering the effects of a slower demand. In fact, business inventories increased significantly early in the first quarter. Higher inventories could lead firms to scale back production in the near term. This is in line with our prospect of sluggish economic growth in 2008.

Housing Starts & Building Permits (Feb, Tuesday 8:30 am)

F: 980, 1000K C: 995, 1020K P: 1012, 1061K

The outlook for residential investment remains dark. Housing construction continues its downward trend due to excessive supply. Problems in the housing market have intensified due to a significant deceleration of mortgages loans -a consequence of the current financial turmoil. We expect residential investment to contract around 20% in 2008.

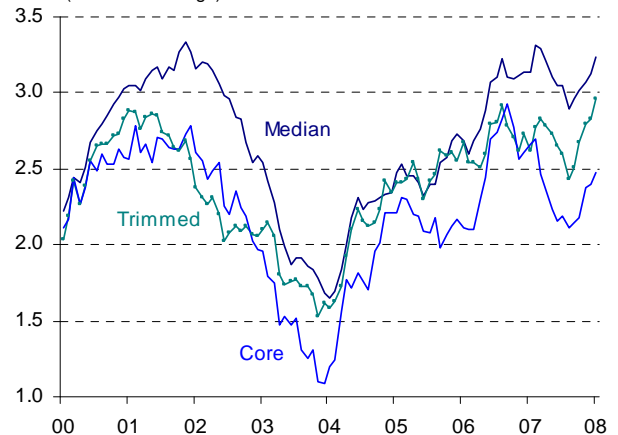
Fed Funds Rate Forecasts

	1Q08	2Q08	3Q08	4Q08
Analysts*				
Feb 08				
Median	2.75	2.50	2.50	2.50
High	3.00	3.00	3.50	4.00
Low	2.50	1.75	1.50	1.00
Mar 08				
Median	2.50	2.00	2.00	2.00
High	3.00	3.00	3.50	4.00
Low	2.25	1.00	1.00	1.00
BBVA	2.50	2.00	2.00	2.00

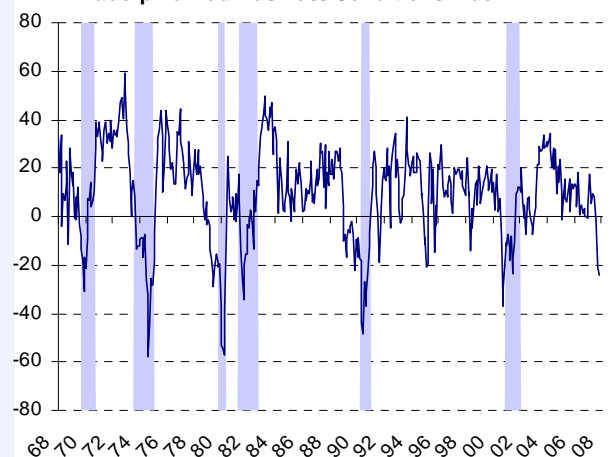
* Bloomberg Survey

CPI, Core, Median & Trimmed Inflation

(Annual % change)



Philadelphia Fed Business Conditions Index



Economic Calendar

March/April

(Forecasts in bold. All times are EST)

Monday 10	Tuesday 11	Wednesday 12	Thursday 13	Friday 14
10:00 Wholesale inventories (Jan) Dec 1.1% (m-o-m) Jan 0.8%	8:30 Trade Balance (Jan) Dec -\$58.8 B Jan -\$57.5 B	8:00 MBA Purchase Application (Mar 7) Feb 29 1.4% Mar 7 1.6%	8:30 Import price index (Feb) Jan 1.7% (m-o-m) Feb 0.2% 8:30 Retail sales & Excl. Autos (Feb) Jan 0.3, 0.3% (m-o-m) Feb -0.6, -0.2% 8:30 Initial Jobless Claims (Mar 8) Mar 1 353K Mar 8 353K 10:00 Business inventories (Jan) Dec 0.6 % Jan 0.8 %	8:30 Headline CPI & Core (Feb) Jan 0.4, 0.3% (m-o-m) Feb 0.3, 0.2% 10:00 U. of Michigan Confidence (Mar) Feb 70.8 Mar 67.0
8:30 Empire State Index (Mar) Feb -11.7 Mar -13.0 9:15 Industrial production (Feb) Jan 0.1% (m-o-m) Feb 0.0% 9:15 Capacity Utilization (Feb) Jan 81.5% Feb 81.3% 13:00 NAHB Housing Index (Mar) Feb 20 Mar 20	8:30 Headline PPI & Core (Feb) Jan 1.0, 0.4% Feb 0.4, 0.2% 8:30 Housing Starts & Building Permits (Feb) Jan 1012, 1061K Feb 980, 1000K 14:15 FOMC Announcement Fed Funds Rate Forecast: Jan 31: 3.00% Mar 18: 2.50%	7:00 MBA Purchase Application	8:30 Initial Jobless Claims (Mar 15) 10:00 Philadelphia Fed (Mar) Feb -24 Mar -30 10:00 Leading Indicators (Feb) Jan -0.1% (m-o-m) Feb -0.3%	
10:00 Existing Home Sales (Feb) Jan 4.89M Feb 4.70M	10:00 Consumer Confidence Index (Mar) Feb 75 Mar 72	7:00 MBA Purchase Application 8:30 Durable Goods Orders (Feb) Jan -5.3% (m-o-m) Feb 4.2% 10:00 New Home Sales (Feb) Jan 588K Feb 600K	8:30 GDP Annualized (4Q) 3QF 0.6% (q-o-q) 4QF 0.6% 8:30 Personal Consumption (4Q) 3QF 1.9% (q-o-q) 4QF 1.9% 8:30 Initial Jobless Claims (Mar 22)	8:30 Personal income & Spending (Feb) Jan 0.3, 0.4% (m-o-m) Feb 0.3, 0.2% 8:30 Headline PCE Inflation & Core (Feb) Jan 0.3, 0.3% (m-o-m) Feb 0.3, 0.2%
9.45 NPAM-Chigago Index (Mar) Feb 44.5 Mar 44.0	10:00 ISM Manufacturing Index (Mar) Feb 48.3 Mar 47.8 10:00 Construction Spending (Feb) Jan -1.7% m-o-m Feb -1.0	7:00 MBA Purchase Applications 8:15 ADP Employment Report (Mar) Feb -23K Mar -80K	8:30 Initial Jobless Claims (Mar 29) 10:00 Nonmanufacturing ISM Index (Mar) Feb 49.3 Mar 48.0	8:30 Nonfarm Payroll & U rate (Mar) Feb -63K 4.9% Mar -100K 5.1% 8:30 Average Hourly Earnings (Mar) Feb 0.3% (m-o-m) Mar 0.3% 8:30 Average Weekly Hours (Mar) Feb 33.7 Mar 33.7

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