

Investec Economics

The week ahead: Monday 10 April 2017

- The week ahead will be a shortened one in the US, UK and wider EU; markets are closed on Friday 14th April for the start of the Easter break, though we note that this is not a Federal Holiday in the States so data will still be released. In the run up to Easter, we suspect we will see a relatively quiet period for political news, with few top tier political events. Note that the week will commence on the heels of President Trump's meeting with Chinese President Xi Jinping (6-7 April), which has come at a crucial time, given recent developments between the US and North Korea.
- In the US, the Senate and the House are not in session over the next fortnight and we suspect that behind the scenes talks on advancing President Trump's tax reform, healthcare and infrastructure plans will continue to move forward, only slowly. Risk sentiment has been soured further over the past week after the US House of Representatives Speaker Paul Ryan said that the White House, Congress and the Senate were not on the same page with tax reform.
- With fewer political happenings, data will likely move to the fore next week with several top-tier releases due from the US. On Friday 14th advance retail sales and CPI inflation numbers for March are due. The day before, we will see producer input price data published and preliminary Michigan consumer sentiment numbers for April; one question on the latter is the extent to which sentiment has suffered after the US President's failed attempt to repeal and replace Obamacare.
- In the UK, data is likely to take centre stage too. CPI inflation figures for March are due out Tuesday morning; we expect to see inflation edging up from 2.3% to 2.4% although the 'core' rate should drop back to 1.9% from 2.0%, albeit temporarily; this is a month in which there are a number of drivers in both directions, discussed in the indicator boxes below. Labour market data, the RICS housing market survey and the BRC Retail Sales Monitor are also due, providing another spot check on the health of the UK economy as it edges further towards Brexit. With the Easter holidays approaching and with UK Parliament in recess, there is likely to be little by the way of major developments in Brexit talks over the coming week.
- In the Euro area, the week will open in the wake of the Eurogroup discussions on Greece, amongst other things. We would be very surprised to see Greece's latest bailout review signed off this weekend however. On the data front next week, key releases to watch out for will be EU19 industrial production for February, Germany's ZEW survey for April and final German inflation figures for March.
- Finally, on the global stage, note that we have Chinese trade figures for March due, providing the first 'clean' (post Chinese New Year affected) print. The March lending figures are also due out, including total social financing and new yuan loans. **VC**

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Weekly Key Indicators

Indicator			Comment
Consumer Price Index (Mar) 09:30 Tuesday 11 April			<ul style="list-style-type: none"> CPI inflation shot past the Bank of England's 2% target in February, rising from +1.8% to +2.3% y/y. That was 0.2pp higher than consensus and our own forecasts. The 'core' inflation measure (excluding food, energy, alcohol and tobacco) also picked up, from +1.6% to +2.0%. While some of the upward move reflects the impact of past rises in oil prices, the increase was fairly broad-based. Food price inflation moved into positive territory for the first time in almost three years, while there were also material positive contributions from transport costs and recreational goods prices (including books and TVs). We do think, however, that these rising prices do not reflect rising domestic costs pressures – if anything, wage growth is softening. We think that the main driver of higher inflation is rising imported costs as a result of last year's falls in the pound. We expect the inflation rate to rise by another 0.1pp in March. We anticipate further upward pressures from food, clothing and utilities – the latter reflecting the fact that two major utility companies raised prices (electricity prices in particular) on the month. The ONS has also flagged that rises in alcohol and tobacco duties will add around 0.1pp to the headline rate in March. But there are two factors that should pull in the other direction. First, petrol and diesel prices dropped by around 1% on the month, versus an increase of more than 1% m/m in March last year. Second, with Easter taking place in April this year, rather than in March last year, we expect monthly air fares inflation to be much more muted than the 22.9% m/m increase seen the previous March. All told, we see these factors pushing the CPI inflation rate up to +2.4% y/y. But we actually expect 'core' inflation to edge back by 0.1pp, to +1.9%. For 'core' inflation, our expectation of a slight softening reflects the absence of upward pressure from food, utility, alcohol and tobacco price rises such that the drag from air fares (which are included in 'core' CPI) pulls the 'core' inflation rate down. So broadly speaking, March should see inflation taking a very small step towards the 3%-plus headline rate we expect to see towards the back end of this year. CH
	Forecast	Last	
CPI	+0.5% (+2.4% yoy)	+0.7% (+2.3% yoy)	
'core' CPI	+0.5% (+1.9% yoy)	+0.8% (+2.0% yoy)	
RPI	+0.5% (+3.3% yoy)	+1.1% (+3.2% yoy)	
RPIX	+0.5% (+3.6% yoy)	+1.1% (+3.5% yoy)	
Producer Price Index (Mar) 09:30 Tuesday 11 April			<ul style="list-style-type: none"> Last month's official data provided a bit of relief to what has been quite a sharp build-up in producer price pressures. Producer input price inflation moderated from its January high of +20.5% y/y to a still very robust +19.1%. The main driver was not a retreat from the effects of post-EU referendum falls in the pound, which has driven up import costs, but rather it reflected a moderation in oil prices. We expect that story to continue through to the March factory input price data too, with sterling oil prices down a further 5% over the month, whilst some additional drag likely comes in this time from a month to month decline in soft commodity prices. Overall, we expect these to drive input prices down by around 0.3% month to month, bringing the annual growth pace down to 16.8%, close to where it stood at the end of last year. At the factory gate, the annual pace of output price inflation was close to steady at 3.7% in February. After a couple of months of slightly less rampant input price inflation we expect to see an increase in the monthly output price index of just 0.1% with the annual pace of output price rises easing back to 3.3%. We see the 'core' measure, however, holding steadier, with PPI output price inflation, excluding food, beverages, tobacco and petroleum, of 0.2% m/m, delivering a repeat of last month's 2.4% y/y. VC
	Forecast	Last	
PPI output (nsa)	+0.1% (+3.3% yoy)	+0.2% (+3.7% yoy)	
PPI output '-core' (nsa)	+0.2% (+2.4% yoy)	unch (+2.4% yoy)	
PPI input (nsa)	-0.3% (+16.8% yoy)	-0.4% (+19.1% yoy)	
Unemployment (Feb) 09:30 Wednesday 12 April			<ul style="list-style-type: none"> The headline measure of earnings growth softened noticeably last month, easing back to 2.2% (3m yoy) in January from December's 2.6%, its softest reading since April last year. Data at this time of year can be distorted by bonus payments, but stripping these out does not alter the profile appreciably – the increase in regular pay came down to 2.3% (3m yoy) from

	Forecast	Last	
Unemployment rate	4.7%	4.7%	<ul style="list-style-type: none"> 2.6%. The dip in last month's numbers specifically reflected a soft January outturn – for example the straight 'year-on-year' ex-bonus figures fell to 1.9% from 2.3% (the 3m yoy figures smooth such fluctuations). In terms of the forthcoming numbers, we are treating January as an outlier and are factoring in a rebound in February. Of course, the headline figures will still contain the weak January data for another couple of months and our forecast for the headline measure comes out at 2.0% (3m yoy), and the ex-bonus series at 2.3%. Unemployment dropped by 31k in the three months to January, taking the jobless rate down to an 11-year low of 4.7%. Although our forecasts for softer GDP growth in H1 this year imply a modest increase in unemployment in due course, we do not expect this to occur just yet. Our prediction for February is that the rate will remain steady at 4.7% More broadly we do not subscribe to the view that wage deals will be weaker this year than last. Rather the question is whether pay rates accelerate to compensate for higher inflation in recent months and in the period ahead. This is an open question, but pay research conducted by XpertHR concludes that settlements so far this year are running close to 2%, little changed from 2016. To us the dangers of a wage/price spiral that results in the MPC raising interest rates this year are relatively modest. PS
Employment	+92k (3m/3m change)		
Headline earnings	2.0% (3m yoy)	+2.2% (3m yoy)	

RICS Housing Survey (Mar)

00:01 Thursday 13 April

	Forecast	Last	
House price balance	+22%	+24%	<ul style="list-style-type: none"> The RICS house price balance held steady in February, at +24%. On the demand front, there were some signs of a softening in activity, with the new buyer enquiries balance falling from +3% to zero. And outside of the RICS report, Bank of England mortgage approval numbers were also seen tailing off a touch in February, following their 1.5k rise in January, putting on pause hopes that 2017 might have marked the start of new move up in activity. However one key support of prices over recent months has been a weakness in the supply of properties for sale. Indeed, this continued into February with the balance for new instructions to sell edging down from -12% to -14%. We see little sign that this set to change soon, so this should continue to underpin prices over the months ahead. Our forecast for the March prices balance is for +22%, underpinned by soft supply but with a further edging back in buyer activity. VC

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The Week Ahead

Date	Venue	BST	Indicator/event	For	Investec Forecast	Previous
Mon 10	G7		G7 foreign ministers' meeting (day 1 of 2) – Lucca, Italy			
	EU		Southern EU member states to discuss tactics on Brexit negotiations			
	JA	00:50	Trade balance	Feb		-¥853.4bn
		00:50	Current account balance	Feb		+¥65.5bn
			Economy Watchers' Survey	Mar		48.6
	IT	09:00	Industrial production	Feb		-2.3% (-0.5% yoy)
US	15:00	Labour Market Conditions index	Mar		+1.3%	
Tue 11	UK	00:01	BRC Retail Sales monitor	Mar		-0.4% I-f-I; +0.4% tot (yoy)
		09:30	◆ CPI	Mar	+0.5% (+2.4% yoy)	+0.7% (+2.3% yoy)
		09:30	◆ - core	Mar	+0.5% (+1.9% yoy)	+0.8% (+2.0% yoy)
		09:30	CPIH	Mar		+0.6% (+2.3% yoy)
		09:30	RPI	Mar	+0.5% (+3.3% yoy)	+1.1% (+3.2% yoy)
		09:30	RPIX	Mar	+0.5% (+3.6% yoy)	+1.1% (+3.5% yoy)
		09:30	PPI input	Mar	-0.3% (+16.8% yoy)	-0.4% (+19.1% yoy)
		09:30	PPI output	Mar	+0.1% (+3.3% yoy)	+0.2% (+3.7% yoy)
		09:30	PPI output 'core'	Mar	+0.2% (+2.4% yoy)	unch (+2.4% yoy)
	EU19	10:00	◆ Industrial production	Feb		+0.9% (+0.6% yoy)
	GE	10:00	ZEW survey: current situation	Apr		+77.3
		10:00	ZEW Survey: economic expectations	Apr		+12.8
	US	11:00	◆ NFIB small business optimism	Mar		105.3
	Wed 12	UK	09:30	◆ Unemployment (ILO)	Feb	4.7%
		09:30	Employment	Feb		+92k (3m/3m change)
		09:30	◆ Average earnings	Feb	+2.0% (3m yoy)	+2.2% (3m yoy)
JA		00:50	Private 'core' machinery orders	Feb		-3.2% (-8.2% yoy)
CH		02:30	CPI	Mar		+0.8% (yoy)
SP		08:00	HICP	Mar		+1.1% (+2.1% yoy)
CA		15:00	Bank of Canada monetary policy decision			unch (0.50%)
Thu 13	UK	00:01	◆ RICS Housing Survey	Mar	+22%	+24% (house price balance)
		09:30	BoE Credit Conditions Survey	Q1		
	CH		◆ Trade balance	Mar		-CNY60.36bn
			Exports	Mar		+4.2% (yoy, CNY)
			Imports	Mar		+44.7% (yoy, CNY)
	GE	07:00	HICP (final)	Mar		+0.1% (+1.5% yoy) (p)
		07:00	CPI (final)	Mar		+0.2% (+1.6% yoy) (p)
	FR	07:45	HICP (final)	Mar		+0.7% (+1.4% yoy) (p)
	IT	09:00	HICP (final)	Mar		+1.3% (yoy) (p)
	US	13:30	Weekly jobless claims	8-Apr		(-15k) 234k
		13:30	PPI	Mar		+0.3% (+2.2% yoy)
		13:30	- ex food and energy	Mar		+0.3% (+1.5% yoy)
		15:00	◆ Michigan consumer sentiment (prel.)	Apr		96.9
Fri 14	UK/EU/US		Good Friday bank holiday			
	JA	05:30	Industrial production (final)	Feb		+2.0% (+4.8% yoy)
	US	13:30	◆ CPI	Mar		+0.1% (+2.7% yoy)
		13:30	- ex food & energy	Mar		+0.2% (+2.2% yoy)
		13:30	◆ Retail sales	Mar		+0.1%
		13:30	-ex autos	Mar		+0.2%
	15:00	Business inventories	Feb		+0.3%	
Expected during the week						
	CH		Money supply - M2	Mar		+11.1% (yoy)
			New yuan loans	Mar		+CNY1170bn
			Total social financing	Mar		+CNY1147.9bn (r)

Further ahead

23 Apr	FR	French Presidential Election – 1 st round
27 Apr	EU19	ECB announcement
3 May	US	FOMC announcement
7 May	FR	French Presidential Election – 2 nd round
11 May	UK	MPC announcement and Inflation Report

Key

◆ Key event indicator