Week commencing Monday 13 February 2017

Investec
Investec Bank plc (UK)

Economics

Investec Economics

The week ahead: Monday 13 February 2017

- UK parliament is in recess throughout next week and so there will be a pause in the process towards the triggering of Article 50. By contrast economic indicators will be plentiful. CPI figures (Tuesday) look set to confirm the upward trend in inflation. We are forecasting an increase to 1.8% from 1.6%. As well as the effect of energy prices, the CPI will be affected by seasonal airfare movements and technicalities of changes in weights, which this month may put some modest downward pressure on the annual CPI rate. Also, cold weather in parts of continental Europe appears to have restricted the supply of various vegetables, pushing up prices, including courgettes and certain lettuces. With respect to the latter this may mean that UK households face a choice between 'Romaine' and 'Leaf'…

- Labour market data follow on Wednesday. Last month's data showed a seemingly contradictory picture of a fall in employment and accelerating pay rates. For the upcoming numbers we are expecting a small tick up in the unemployment rate to 4.9% and a steadying in headline earnings growth at 2.8%. These figures are for December though and perhaps next month's pay figures will be more important, given that January tends to be one of the more significant months for private sector wage deals.

- Also of note will be Friday's retail sales data for January. December's release saw sales volumes crater by 1.9% on the month. Of course this series can be very volatile, especially at the turn of the year as seasonal factors become difficult to adjust for. But January's British Retail Consortium survey was far from convincing, showing just a marginal rise on the year (in value terms) and we are forecasting a very modest rebound in the official measure by 0.3%. If so, markets may conclude that this marks the start of the slowdown in consumer spending, which could neutralise any talk of higher interest rates. Our baseline case is still that the next move in rates is up, but not until 2019.

- Moving globally, Fed Chair Janet Yellen gives her first Congressional testimony under the Trump Presidency to the Senate Banking Committee on Tuesday. The recent FOMC statement did not convey the impression that the committee is in a hurry to raise rates again. Moreover indicators of wage pressures released recently (the employment cost index and average weekly earnings) have been modest. We stand by our June call for the next hike. Dr Yellen repeats her testimony to the House Financial Services Committee the following day, which will coincide with the releases of CPI, retail sales and industrial production.

- Eurozone-wise we get preliminary Q4 GDP from Italy as well as final estimates from Germany and the Euro area as a whole. But what we are watching with increasing curiosity is the way that the second Greek review is running into the buffers, with few chances of an agreement by the next Eurogroup meeting on 20 February. The biting political constraint after that is the string of elections in the eurozone over 2017, beginning with those in the Netherlands on 15 March (note that Eurogroup head Dijsselbloem is also the Dutch Finance Minister). Such concerns resulted in short-dated (July 2017) Greek government bond yields climbing above 13% today.

- Elsewhere we will see Q4 Japanese GDP first thing on Monday morning, against a background of the authorities upgrading their view of the economic outlook. Chinese CPI figures are scheduled for early Tuesday morning, while the Riksbank makes its latest policy announcement on Wednesday. **PS**

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Weekly Key Indicators

Indicator	Comment
Consumer Price Index (Jan) 09:30 Tuesday 14 February Forecast / Last CPI: -0.6% (+1.8% yoy) / +0.5% (+1.6% yoy) 'core' CPI: -1.0% (+1.6% yoy) / +0.5% (+1.6% yoy) RPI: -0.5% (+2.7% yoy) / +0.6% (+2.5% yoy) RPIX: -0.5% (3.0% yoy) / +0.6% (+2.7% yoy)	• UK inflation is climbing fairly rapidly. The headline rate of CPI inflation languished around zero for much of 2015 as oil price falls weighed on energy price inflation. Wage inflation remained muted, too. And as recently as August last year the headline rate was down at +0.6% y/y. But over the subsequent four months, the CPI rate rose by 1ppt, to reach +1.6% y/y, in December. • There are a range of forces that can account for the rising inflation rate. For one, the drag from energy prices has 'dropped out', while there are signs that last year's falls in sterling are beginning to feed through to higher rates of imported inflation. Meanwhile, with the economy continuing to run at, we think, close to full capacity, domestic inflationary pressures might be starting to build. • Over and above these underlying forces, we note that airfares had a positive effect. Although the monthly rate of airfare inflation in December was similar to that seen the previous year, this category now has a larger weight in the basket – this effect accounted for an uplift to the annual inflation rate worth 0.1pp. • We anticipate a further rise in the headline inflation rate in January. This forecast accounts for the fact that oil prices have been rising in recent months, helping petrol prices increase by 4.4p/litre on the month in January. We also anticipate small positive contributions from a range of other components, including food, as sterling effects feed through. • Pulling in the other direction, we expect airfares to drag on the inflation rate this month. Although we expect airfares to fall by a similar amount to the previous January, the effect of the higher weight still applies (negatively). We also expect clothing and footwear prices to fall by more than they did last year, where pricing in this category was surprisingly buoyant. • All told, these judgements deliver a headline inflation forecast of +1.8% y/y in January, +0.2pp higher than the December rate. But the uplift here is largely energy related – the drags from airfares and clothing should keep the 'core' rate in check for this month – we anticipate an unchanged annual 'core' rate of +1.6%. **CH**
Producer prices (Jan) 09:30 Tuesday 14 February Forecast / Last PPI output (nsa): +0.5% (3.3% yoy) / +0.1% (+2.7% yoy) PPI output -ex food, energy (nsa): +0.4%% (2.3% yoy) / unch (+2.1% yoy) PPI input (nsa): +1.2% (18.8% yoy) / +1.8% (+15.8% yoy)	• Input prices surged by 1.8% on the month in December. This series is a prime example of the extent to which inflation pressures are rising in specific areas. The year-on-year rate now stands at 15.8% and the index has risen by close to 6% in the past three months alone. • January saw a general rise in external cost pressures. Most commodity prices firmed, while sterling slipped back by around 1½% in trade weighted terms. This is a fairly clear signal that a further increase in input prices is on the way and we are forecasting a 1.2% increase on the month. This would equate to an annual increase of 18.8%, its fastest pace of growth since Sept 2008. • Indicators on the output, or factory gate, price side are rising too. The 'headline' rate is 2.7% up on the year, while the equivalent figure for the 'core' series is 2.1%. For this month's data we consider that the dynamics of higher input cost pressures and weak figures from a year ago dropping out of the index spells another rise. We are pencilling in year-on-year increases of 3.3% and 2.3%, respectively. **PS**
Unemployment (Dec/Jan) **Average earnings (Dec)** 09:30 Wednesday 15 February Forecast / Last Unemployment (claimant count mom): +2k / -10.1k (ILO 3m-3m): 2.3% +20k (4.9%) / 2.3% -52k (4.8%) Headline earnings: 2.8% (3m yoy) / 2.8% (3m yoy)	• The last official labour market release pointed to a flattening out of what has been a robust period of jobs growth. Covering the 3 months to November, the report showed a 9k contraction in employment, following a 6k decline in the three months to October. The headline unemployment rate held steady at 4.8%, where it has sat for the past three months. • Ahead of any Brexit related headwinds ahead, for instance the sterling led inflation squeeze that will intensify later this year, we expect the labour market to remain in relatively neutral mode with little clear momentum in any direction. We anticipate only a 2k rise in the claimant count in the latest numbers and a tick-up in the unemployment rate to 4.9%.

- Note that pay growth has had more momentum of late. Headline wage growth came in at +2.8% (3m yoy) in the 3 months to November, up from lows of 2.0% earlier in 2016 and the highest reading since September 2015. Meanwhile, private sector wage growth (excluding bonuses) was more robust still at +3.0% (3m yoy); that was the first 3%-plus reading since August 2015. We expect to see headline pay growth holding its ground in the upcoming numbers; we are pencilling in 2.8% (3m yoy). **VC**

Retail sales (Jan)
09:30 Friday 17 February

	Forecast	Last
Retail sales	+0.3%	-1.9%
	(2.7% yoy)	(+4.3% yoy)
- ex petrol	+0.3%	-2.0%
	(3.5% yoy)	(+4.9% yoy)

- UK retail sales (volumes) were surprisingly weak in December, with a -1.9% m/m growth outturn (-2.0% excluding fuel). This represented the sharpest monthly fall since April 2012, moving the year-on-year rate of sales growth down to +4.3% from 5.7%.
- Note that the decline was broad-based, with all store types except for ‘other stores’ and household goods stores seeing falls in sales volumes on the month.
- Although the year-on-year rate of sales growth remains at a solid +4.3%, the sharp broad based deterioration poses the questions as to whether the weaker print marks the start of things to come as household incomes and spending get squeezed by higher inflation.
- The January BRC retail sales report provided further clues of a spending squeeze ahead – sales values fell by 0.6% yoy in January on a like for like basis (on a total sales basis growth came in at +0.1%). Looking at January specifically it was non-food sales that were most sluggish whilst food sales held up better, perhaps a clue that as inflation pressures build consumers are focusing on the essentials more than discretionary spending whilst they are also shopping around for cheaper alternatives.
- For the upcoming ONS numbers, our expectation is that we will see a 0.3% monthly rise in sales, such that the annual rise in sales volumes edges down again to 2.7% y/y. **VC**

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The Week Ahead

Date	Venue	GMT		Indicator/event	For	Investec Forecast	Previous
Sun 12	SZ			Swiss referendum on corporation tax reforms (increases)			
	GE			Special Assembly elects Germany's Federal President			
	IT			Ex-Premier Renzi Meets Party Leadership on Early Elections			
Mon 13	JA	(23:50)		GDP (2nd estimate)	Q4		+0.3% (1.3% saar) (p)
Tue 14	UK	09:30	♦	CPI	Jan	-0.6% (+1.8% yoy)	+0.5% (+1.6% yoy)
		09:30		- ex food and energy	Jan	-1.0% (+1.6% yoy)	+0.5% (+1.6% yoy)
		09:30		RPI	Jan	-0.5% (+2.7% yoy)	+0.6% (+2.5% yoy)
		09:30		RPIX	Jan	-0.5% (+3.0% yoy)	+0.6% (+2.7% yoy)
		09:30	♦	PPI input	Jan	+1.2% (+18.8% yoy)	+1.8% (+15.8% yoy)
		09:30		PPI output	Jan	+0.5% (+3.3% yoy)	+0.1% (+2.7% yoy)
		09:30		PPI output 'core'	Jan	+0.4% (+2.3% yoy)	unch (+2.1% yoy)
	JA	04:30		Industrial production (final)	Dec		+0.5% (+3.0% yoy) (p)
	CH	01:30	♦	CPI	Jan		+2.1% (yoy)
	EU19	10:00	♦	GDP (2nd estimate)	Q4		+0.5% (+1.8% yoy) (p)
		10:00		Industrial production	Dec		+1.5% (+3.2% yoy)
	GE	07:00	♦	HICP (final)	Jan		-0.8% (+1.9% yoy) (p)
		07:00		CPI (final)	Jan		-0.6% (+1.9% yoy) (p)
		07:00		GDP (2nd estimate)	Q4		+0.2% (+1.7% yoy) (p)
		10:00		ZEW survey: current situation	Feb		+77.3
		10:00		ZEW Survey: economic expectations	Feb		+16.6
	IT	09:00		GDP (1st estimate)	Q4		+0.3% (+1.0% yoy)
	US	11:00	♦	NFIB small business optimism	Jan		105.8
		13:30		PPI	Jan		+0.3% (+1.6% yoy)
		13:30		- ex food and energy	Jan		+0.2% (+1.6% yoy)
		15:00	♦	Janet Yellen appears before Senate Banking Committee			
Wed 15	UK	09:30		Unemployment (claimant count)	Jan	+2k (2.3%)	-10.1k (2.3%)
		09:30	♦	Unemployment (ILO)	Dec	+20k (4.9% 3m/3m)	-52k (4.8% 3m/3m)
		09:30	♦	Average earnings	Dec	+2.8% (3m yoy)	+2.8% (3m yoy)
				- ex bonuses	Dec	+2.7% (3m yoy)	+2.7% (3m yoy)
	EU19			ECB non-rate meeting (no scheduled announcement)			
	SP	08:00		HICP (final)	Jan		-0.9% (+3.0% yoy) (p)
	SW	08:30		Riksbank policy rate			unch (-0.50%)
	US	13:30		Empire State manufacturing survey	Feb		+6.5
		13:30	♦	CPI	Jan		+0.3% (+2.1% yoy)
		13:30		- ex food & energy	Jan		+0.2% (+2.2% yoy)
		13:30	♦	Retail sales	Jan		+0.6%
		13:30		-ex autos	Jan		+0.2%
		14:15		Industrial production	Jan		+0.8%
		15:00	♦	Janet Yellen delivers testimony to House Financial Services Committee			
		15:00		NAHB housing market index	Feb		+67
		15:00		Business inventories	Dec		+0.7%
		21:00		Long-term investment flows (TIC data)	Dec		$30.8bn
Thu 16	FR	06:30		ILO unemployment rate	Q4		+10.0%
	US	13:30		Weekly jobless claims	11 Feb		(-12k) 234k
		13:30		Philadelphia Fed index	Feb		+23.6
		13:30		Building permits	Jan		+1228k (saar) (r)
		13:30		Housing starts	Jan		+1226k (saar)
Fri 17	UK	09:30	♦	Retail sales	Jan	+0.3% (2.7% yoy)	-1.9% (4.3% yoy)
		09:30		- ex petrol	Jan	+0.3% (3.5% yoy)	-2.0% (4.9% yoy)
	SP			Spain's debt to be rated by Moody's			
	US	15:00		Leading index	Jan		+0.5%
				US debt to be rated by Moody's			

Further ahead

23 Feb	UK	Stoke-on-Trent Central & Copeland by-elections
8 Mar	UK	UK Budget
9 Mar	EU19	ECB announcement
15 Mar	US	FOMC announcement
16 Mar	UK	BoE announcement and minutes

Key

♦ Key event indicator