Investec Economics

The week ahead: Monday 19 December 2016

- The calendar for the week ahead is looking thinner than usual in the pre-Christmas week. But markets have not quietened yet with the USD on the up on the idea that the Fed is moving onto a faster path of normalisation. The trigger was the Fed adding an extra 25bp rate hike to its 'dot plot' of the appropriate path for rates (so it has three hikes in total in 2017) at its policy gathering this week.

- Our view is that the shift in the 'dot plot' reflected the view of a few FOMC members and not the Fed chief herself. A Dr Yellen led Fed is not likely to rush into a re-write of its monetary policy plans before it has further detail on how much of Donald Trump's fiscal easing can be passed through Congress. We don't expect clarity until well into 2017 such that the Fed could struggle to factor in three 2017 increases; our forecast is for two. Furthermore, the Fed has overestimated the pace of tightening in recent 'dot plots'; it had four increases for 2016 at this point last year whilst we have had just one. From 2018, the policy path looks more open with Dr Yellen likely to be replaced when her term ends at the start of that year. But even then it would take a brave Fed chief to go all guns blazing on policy tightening, taking the steam out of 'Trumponomics'. We continue to forecast three rate rises in 2018, taking the Fed funds target rate range to 1.75-2.00%.

- Staying with the US, there is a string of pre-Christmas economic releases due out including the 'final' Q3 GDP estimate, personal income and spending data for November and various housing market releases too (FHFA, new home sales, existing home sales).

- UK economic releases feature heavily in the week ahead calendar, with the 3rd estimate of UK GDP, Q3 current account numbers, public finances for November and December's GfK consumer confidence readings all due. The ONS has made numerous revisions to its trade numbers over recent weeks, which are likely to impact the so-called expenditure contributions to GDP, though not growth itself. In terms of the latest Q3 estimate, we look for no change on the second estimate with GDP still estimated to have expanded by 0.5% on the quarter. Finally in the UK, note that PM Theresa May is set to be questioned by Parliament's Liaison Committee on Tuesday afternoon on Brexit. Any policy steers including how much importance the PM is placing on maintaining single market access, could be important for the pound.

- In the Eurozone, data releases are much thinner on the ground next week with Germany's IfO survey on Monday morning the highlight, providing a useful update on the health of the Eurozone's largest economy, whilst 'final' French GDP numbers for Q3 are due too. Even as we move towards Christmas we expect the focus on Italy to remain, with Monti dei Paschi di Siena (MPS) attempting to recapitalise before its year-end deadline, whilst sources quoted on Reuters are saying that the Italian government is ready to intervene with €15bn to recapitalise ailing banks, including MPS.

- Finally, note that we have little broader global data due out. Japan is set for a shortened week with a public holiday on Friday.

- On the central bank announcements front, the Bank of Japan is due to deliver its policy decision on Tuesday morning, with talk of an upgrade to its economic assessment. Sweden's Riksbank is due to make its latest policy announcement on Wednesday morning. **VC**

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Weekly Key Indicators

Indicator	Comment
Public finances (Nov) 09:30 Wednesday 21 December | | **Forecast** | **Last** | PSNBx: +£12.4bn / +£4.8bn PSNB: +£11.9bn / +£4.3bn	• Public borrowing in October, on the main 'PSNBx' basis, was estimated at £4.8bn. That was less than October last year to the tune of £1.6bn. The main driver of the narrowing in the deficit from a year ago was the strength of corporation tax receipts, which were 23.6% above the same month last year. • So far this fiscal year, the average monthly deficit has been running £0.8bn lower than last year. If that rate continues for the rest of this year, the 2016/17 would come in at £66.4bn, comfortably below the £76.0bn seen in 2015/16 and also below the £68.2bn pencilled into the OBR's latest (November) projections. However, we note that the OBR's deficit forecast for this year assumes that a Brexit-related slowdown in growth will hit the public finances in the coming months (as a partial offset, the OBR also expects self-assessment receipts to step up towards the end of this financial year). • We broadly concur with the OBR's view that the economy will slow in the coming months, particularly as the prospect of higher inflation begins to weigh on household spending and economic growth more generally. But scant evidence of a slowdown has materialised so far, so the November data should see recent momentum in the public finances numbers continuing. • Two factors complicate the picture. First, the ONS has decided that central bank reserves created by the Bank of England's Term Funding Scheme (TFS) will make a material addition to public sector net debt (PSND). But there will be a slight reduction in borrowing (PSNBx), as loan fees paid by TFS participants to the Bank of England will be recorded as government revenue in the form of interest payments. But we suspect that this is unlikely to have a major effect on the monthly numbers. Second, the ONS is set to implement two classification changes to PSNBx, relating to the treatment of (i) corporation tax (ii) housing associations in devolved administrations. However, these changes will not be implemented until early next year. • Our November PSNBx, therefore, largely ignores these complicating factors. Meanwhile, we assume that recent momentum in the public finances will broadly continue. Our expectation is for PSNBx to come in at £12.4bn, £0.7bn lower than last November. **CH**
GfK consumer confidence (Dec) 00:01 Thursday 22 December **Forecast** / **Last** Main index: -9 / -8	• UK consumer confidence was seen slumping by 5 points overall in November to -8, its weakest reading since July. • The deterioration was seen across all sub-indices, with the biggest drop one of 9 points in the 'Major Purchase Index'. Consumers were also gloomier about the general economic situation over the past 12 months and year ahead and about their own financial situation. • Our suspicion is that the prospect of squeezes to real household income ahead, as inflation rises, is now feeding into the mind set of consumers. • Given the likely persistence of such concerns into December, we see the upcoming GfK consumer confidence reading failing to show improvement, slipping again, to -9. **VC**
GDP 3rd estimate (Q3) 09:30 Thursday 22 December **Forecast** / **Last** GDP: +0.5% (2.3% yoy) / +0.5% (2.3% yoy) (p)	• The second estimate of Q3 GDP saw growth unrevised, as expected, at +0.5% q/q (+2.3% y/y). Information on the sectoral breakdown of growth released since the second GDP estimate, points to growth being recorded at +0.5% q/q again in the 3rd estimate. • The latest sectoral numbers show the industrial sector having shrunk by marginally less over the quarter (now -0.4% q/q, was -0.5%) and construction by a bit less too (-0.8% q/q, was -1.1%). But these revisions are not enough to lead to a change in the overall GDP estimate, provided we do not see a major re-write of the service sector estimate (+0.8% q/q). • Of course, next week we will see an update to the expenditure breakdown too which so far shows household consumption growing at a healthy 0.7% rate in the post-Brexit vote quarter. And even business investment was seen expanding by 0.9% q/q. • One final issue to note is that the ONS has published widespread revisions

to the trade data (see Current Account) and we will be on the lookout for the ramifications of these revisions to the run of GDP expenditure estimates next week, though note overall growth will not be affected. The revisions will likely see the contributions to GDP of 'acquisitions less disposals of valuables' and the trade category revised. In the earlier Q3 estimate 'acquisitions less disposals of valuables' curiously detracted 0.95pp from the Q3 growth rate (though with offset in the trade numbers); typically it leaves only a small mark on overall numbers. **VC**

Current Account (Q3)
09:30 Friday 23 December

	Forecast	Last
Current account	-£27.9bn	-£24.2bn (latest estimate)

- The backdrop is the *ONS's* significant revisions to the trade data, conducted due to a data processing error relating to so-called 'erratic' items, possibly on trade in non-monetary gold. These changes have no effect on GDP growth, although they will affect the expenditure components in the forthcoming revisions (see above).
- The revisions change the shape of the current account numbers dating back to 2015. Indeed last year's overall deficit has been revised down from £100.2bn to a still considerable £93.4bn. For 2016 so far the changes are mixed, but on average the trade shortfall in goods and services has been revised upwards. This applies visibly to Q3 figures where this version of the deficit is now recorded at £14.893bn (the figures have been revised further since the changes discussed above!).
- Looking at more fundamental factors, the big drag on the current account in recent years has been an adverse swing in investment income, particularly direct investment, which in net terms is now negative as well as portfolio earnings. However investment income inflows should have been supported by the weakness of the pound since the referendum. Indeed over Q3, sterling's trade weighted index fell back by 8% compared with Q2. Revaluing Q2's (gross) income flows from overseas by this factor implies a boost to net income by £3bn to -£7.0bn. We are assuming that net transfers continue to run at a shortfall of £6.0bn. Altogether this would result in a current account deficit of £27.9bn in Q3, a widening from Q2's £24.2bn (using the latest data) and a huge 5.7% of GDP. If this is correct, the rather obvious conclusion would be that UK exports of goods and services still need to do a lot of work to rebalance the economy towards a position which is vaguely sustainable. **PS**

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The Week Ahead

Date	Venue	GMT		Indicator/event	For	Investec Forecast	Previous
Mon 19	GE	09:00	♦	IfO business climate index	Dec		110.4
	US	14:45		Services PMI (prel.)	Dec		54.6
				Electoral College votes on Donald Trump's nomination			
Tue 20	UK	11:00		CBI Distributive Trades survey	Dec		+26 (retail sales balance)
		14:00	♦	PM May to appear before House of Commons Liaison Committee on Brexit			
	JA		♦	BoJ announcement		unch	unch
	GE	07:00		PPI	Nov		+0.7% (-0.4% yoy)
Wed 21	UK	09:30	♦	PSNB ex-banking groups	Nov	+£12.4bn	+£4.8bn
		09:30		PSNB	Nov	+£11.9bn	+£4.3bn
	JA	04:30		All industry activity index	Oct		+0.2%
	EU19	15:00		Consumer confidence (prel.)	Dec		-6.1
	US	15:00		Existing home sales	Nov		5.6m (saar)
	SW	08:30		Riksbank announcement			unch (-0.50% repo rate)
Thu 22	UK	00:01		GfK consumer confidence	Dec	-9	-8
	EU19			ECB publishes Economic Bulletin			
	US	13:30		Weekly jobless claims	17-Dec		-4k (254k)
		13:30	♦	Durable goods orders (prel.)	Nov		+4.6%
		13:30		- ex transportation (prel.)	Nov		+0.8%
		13:30	♦	GDP (final)	Q3		+3.2% (saar) (p)
		13:30		Final sales (final)	Q3		+2.3% |saar) (p)
		13:30		Core PCE price index	Q3		+1.7% (saar)
		14:00		FHFA house price index	Oct		+0.6%
		15:00		Leading index	Nov		+0.1%
		15:00		PCE price index	Nov		+0.2% (+1.4% yoy)
		15:00		Core PCE price index	Nov		+0.1% (+1.7% (yoy)
		15:00		Personal income	Nov		+0.6%
		15:00		Personal spending	Nov		+0.3%
Fri 23	UK	09:30	♦	GDP (3rd estimate)	Q3	+0.5% (2.3% yoy)	+0.5% (+2.3% yoy) (p)
		09:30		Index of services	Oct		+0.2% (+2.9% yoy)
		09:30		Business investment (final)	Q3		+0.9% (-1.6% yoy) (p)
		09:30		Current account	Q3	-£27.9bn	-£24.2bn (latest estimate)
		09:30		BBA mortgage approvals	Nov		40.9k
	JA			Public holiday: Emperor's Birthday			
	FR	07:45		GDP (final)	Q3		+0.2% (+1.1% yoy) (p)
		07:45		Consumer spending	Nov		+0.9% (+1.5% yoy)
	US	15:00		Michigan consumer sentiment (final)	Dec		98.0 (p)
		15:00		New home sales	Nov		563k (saar)

Further ahead

19 Jan	EU19	ECB announcement (& press conference)
1 Feb	US	FOMC announcement
2 Feb	UK	MPC announcement

♦ Key event indicator