

## Investec Economics

### The week ahead: Monday 20 February 2017

- Optimism about the US economy has been a key theme this week. The optimism came on three fronts. First, markets likely saw some carry-over from Donald Trump's recent comments promising something 'phenomenal' on tax in the coming weeks. Second, the US data this week have been strong, ranging from the consolidation of a post-election surge in NFIB small business optimism to a material upside surprise for retail sales. Third, Fed Chair Janet Yellen's Congressional testimony pointed to a buoyant outlook, leaving the prospect of a rate hike as early as March on the table. Equity markets shrugged off fears about the Fed becoming unduly hawkish though – at the time of writing, all four of the main US equity indices were sitting close to record highs, with the S&P 500 index up over a per cent this week.
- Looking to the week ahead, the US data flow will be lighter, as will the flow of high profile Fed speak. Any key drivers of risk sentiment from across the pond will likely relate to pronouncements from the Trump Administration, particularly those relating to fiscal policy.
- Developments in Europe will likely be in the spotlight in the coming week. A key event will be Monday's Eurogroup meeting of eurozone finance ministers. Previously, the intention had been for this meeting to see the signing of a deal for Greece to secure further cash disbursements under its bailout programme. But, given a significant divergence of views among the key players (the Greek government, the European creditors and the IMF) such a deal now looks impossible. With large Greek debt repayments due in July, the best we can hope for at this stage is at least a little more clarity on the way forward (see our note ['Greece still pushing a Sisyphian boulder'](#) for a full report).
- On the eurozone data front, the key release will be the 'flash' PMIs for February, due out on Tuesday. These much-watched surveys have pointed to a fairly robust pace of activity of late and we expect that to continue. On Wednesday, final inflation estimates for January should confirm CPI inflation moving northwards. But we note that the ECB is still sticking to its pre-announced policy plans (i.e. a continuation of the QE programme until December, with the monthly purchase pace stepping down from €80bn to €60bn in April).
- As the UK Parliament returns from a week-long recess, we should see more Brexit-related developments. In particular, the Article 50 bill, which passed resoundingly and un-amended through the House of Commons last week, finds its way into the Lords. We would not rule out some political to-ing and fro-ing over the bill at this stage, but our central case is for a fairly smooth process, with the government on course to trigger Article 50 by the end of March.
- Another key UK political date for the diary is on Thursday, with by-elections for the Copeland and Stoke-on-Trent Central by-elections – two Labour seats. The bookies firmly expect the Tories to snatch Copeland, while Labour might be given a run for its money by UKIP leader Paul Nuttall in Stoke. If Labour loses both, that might have profound implications for the leadership of Jeremy Corbyn.
- Finally in the UK, we note that the key piece of data will come in the form of the second estimate of Q4 GDP. Our expectation is that Q4 growth will be revised up from +0.6% to +0.7% q/q – that would provide further confirmation of the much stronger-than-expected performance of the UK economy following the EU referendum. **CH**

[Click here for diary](#)

**Victoria Clarke**  
+44 (0) 20 7597 5154  
[victoria.clarke@investec.co.uk](mailto:victoria.clarke@investec.co.uk)

**Ryan Djasaputra**  
+44 (0) 20 7597 4039  
[ryan.djasaputra@investec.co.uk](mailto:ryan.djasaputra@investec.co.uk)

**Chris Hare**  
+44 (0) 20 7597 4360  
[chris.hare@investec.co.uk](mailto:chris.hare@investec.co.uk)

## Weekly Key Indicators

Indicator			Comment
<b>EU19 composite PMI 'flash' estimate (Feb)</b> 09:00 Tuesday 21 February			<ul style="list-style-type: none"> <li>January's Euro area Composite PMI held steady at 54.4, its highest level since May 2011. Within that, manufacturing continued its recent recovery run having gained 3.5pts in the last 5 months, with the PMI now indicating a faster pace of growth than the services sector. We suspect the weakness of the euro has played a part here, with new export orders reaching a three year high.</li> <li>Other points to note within last month's survey included; i) further positive news on the labour market with employment growth at its fastest pace since February 2008; ii) new business remaining robust, near 14-month highs; iii) further signs of inflationary pressure, with average selling prices holding at a 65-month high.</li> <li>We remain optimistic on the euro area's prospects over 2017 and anticipate the PMI remaining around January's level, with a small up-tick to 54.5. <b>RD</b></li> </ul>
Composite PMI	<b>Forecast</b> 54.5	<b>Last</b> 54.4	
<b>Public finances (Jan)</b> 09:30 Tuesday 21 February			<ul style="list-style-type: none"> <li>UK Public Sector net borrowing figures (ex-banks), the main borrowing measure, came in at £6.9bn in December. Although that is only a little (£0.4bn) below the borrowing level seen the previous December, the government still appears well on track to come in below the OBR's £68.2bn forecast for the 16/17 fiscal year, with room to spare.</li> <li>January is an important month for the public finances, given that this is the big month for the exchequer receiving self-assessment income tax revenues. It is also a big month for corporation tax receipts. So January tends to be a month that sees large budget surpluses.</li> <li>The key question for our January forecast is how the public finances compare with the £12.6bn budget surplus seen in January 2016. Positive factors this month mainly relate to self-assessment (SA) receipts. These were depressed last year because: (1) The 31 Jan SA deadline fell on a Sunday last year, which would have pushed a portion of receipts collection in to February. With the deadline falling on a Tuesday this year, all the collection should come through in January. (2) Last year, a chunk of SA business owners paid themselves higher dividends and less cash last year in anticipation of last April's rise in dividend tax. As this 'forestalling' effect unwinds, the OBR reckons that could boost income tax receipts by around £2.5bn this year. Pushing in the other direction, relative to last year, a key influence should be higher debt interest spending as a result of the higher rate of RPI inflation.</li> <li>Alongside these effects, the economy has continued to surprise to the upside in recent months, which should be good news to the public purse.</li> <li>Taking these factors together, our forecast is for a budget surplus of £14.2bn in January; £1.6bn higher than last January. That would keep the Chancellor well on track to beat OBR expectations. <b>CH</b></li> </ul>
PSNB-ex banking groups	<b>Forecast</b> -£14.2bn	<b>Last</b> +£6.858bn	
PSNB	-£14.6bn	+£6.421bn	
<b>Q4 GDP (2<sup>nd</sup> estimate)</b> 09:30 Wednesday 22 February			<ul style="list-style-type: none"> <li>The preliminary estimate for Q4 GDP recorded a 0.6% increase on the quarter, the third consecutive rise of such a magnitude and putting the UK's annual growth rate for 2016 at 2.1%, such that the UK outperformed the US and Eurozone economies in the year it voted to Brexit.</li> <li>The first thing which markets will turn to next week is whether the Q4 outturn is revised. Since the preliminary GDP report we have received updated monthly figures on two sectors which both, all other elements equal, point towards the prospect of an upgrade to the early GDP estimate. Indeed, the ONS had provisioned for Manufacturing output of +0.7% over the quarter whilst the most recent outturn suggested an upgrade to +1.2%. For the industrial sector overall, the latest figures pointed to growth of +0.4% against a flat early estimate. Estimates for the construction sector have also been upgraded to +0.2% from a +0.1% initial estimate.</li> <li>Building in these revisions, our forecast is for an upgrade to Q4 GDP to +0.7%. Note however that we have few clues over the prospect for a revision to the service sector numbers which, bearing in mind the sector's 80% weight in output, is a sizeable risk to the forecast; the current early estimate shows the sector expanded by +0.8%. <b>VC</b></li> </ul>
GDP	<b>Forecast</b> +0.7% (+2.2% yoy)	<b>Last</b> +0.6% (p) (+2.2% yoy) (p)	

# Investec Economics

Economics

## The Week Ahead

Date	Venue	GMT	Indicator/event	For	Investec Forecast	Previous
Mon 20	UK	11:00	CBI Industrial Trends Survey	Feb		+26 (output expectations)
	JA	(23:50)	◆ Parliament returns from recess – Lords to consider 'Article 50' Bill	Jan		+¥641.433bn
	EU19	15:00	Trade balance	Jan		-4.9
	EU19	15:00	◆ Consumer confidence (prel.)	Feb		-4.9
	EU19	15:00	◆ Eurogroup meeting of finance ministers	Feb		-4.9
Mon 20	GE	07:00	PPI	Jan		+0.4% (1.0% yoy)
	US		Public holiday: Presidents' Day			
Tue 21	UK	09:30	◆ PSNB ex-banking groups	Jan	-£14.2bn	+£6.858bn
	UK	09:30	PSNB	Jan	-£14.6bn	+£6.421bn
	UK	10:00	BoE Governor Carney testifies to Treasury Committee			
	JA	00:30	Manufacturing PMI	Feb		52.7
	EU28	04:30	All industry activity index	Dec		+0.3%
	EU19	09:00	◆ ECOFIN meeting - EU28 finance ministers			
	EU19	09:00	◆ Composite PMI (prel.)	Feb	54.5	54.4
	EU19	09:00	Manufacturing PMI (prel.)	Feb		55.2
	EU19	09:00	Services PMI (prel.)	Feb		53.7
	GE	08:30	Manufacturing PMI (prel.)	Feb		56.4
	GE	08:30	Services PMI (prel.)	Feb		53.4
	FR	07:45	HICP (final)	Jan		-0.2% (+1.6% yoy) (p)
	FR	08:00	Manufacturing PMI (prel.)	Feb		53.6
	FR	08:00	Services PMI (prel.)	Feb		54.1
	US	14:45	◆ Manufacturing PMI (prel.)	Feb		55.0
US	14:45	◆ Services PMI (prel.)	Feb		55.6	
Wed 22	UK	09:30	◆ GDP (2nd estimate)	Q4	+0.7% (+2.2% yoy)	+0.6% (+2.2% yoy) (p)
	UK	09:30	Index of services	Dec		+0.3% (+3.2% yoy)
	UK	09:30	Business investment (prel.)	Q4		+0.5% (-2.2% yoy)
	EU19	10:00	◆ CPI (final)	Jan		+1.8% (yoy) (p)
	EU19	10:00	◆ - ex food, energy, alcohol & tobacco (final)	Jan		+0.9% (yoy) (p)
	GE	09:00	◆ IFO business climate index	Feb		109.8
	IT	09:00	HICP (final)	Jan		+0.7% (yoy) (p)
US	15:00	Existing home sales	Jan		+5.49m (saar)	
Thu 23	UK	11:00	CBI Distributive Trades survey	Feb		-8 (retail sales balance)
	UK		By-elections: Stoke-on-Trent Central; Copeland			
	JA	05:00	Leading index (final)	Dec		105.2 (p)
	FR	07:45	Manufacturing confidence	Feb		+106
	US	13:30	Weekly jobless claims	18 Feb		(+5k) 239k
	US	14:00	FHFA house price index	Dec		+0.5%
Fri 24	UK	19:00	FOMC minutes			
	UK	09:30	BBA mortgage approvals	Jan		43.228k
	GE		Moody's announces ratings decision on Germany's sovereign debt			
	FR	07:45	Insée consumer confidence	Feb		100
	IT	10:00	ISTAT manufacturing confidence	Feb		104.8
	IT	10:00	ISTAT consumer confidence	Feb		108.8
	US	15:00	New home sales	Jan		536k (saar)
US	15:00	Michigan consumer sentiment (final)	Feb		95.7 (p)	

### Further ahead

8 Mar	UK	UK Budget
9 Mar	EU19	ECB announcement
15 Mar	US	FOMC announcement
15 Mar	NL	Dutch elections
16 Mar	UK	BoE announcement and minutes

### Key

◆ Key event indicator