Investec Economics

The week ahead: Monday 20 March 2017

- Next week opens in the aftermath of the G20 Finance Ministers' Summit in Baden-Baden, Germany. Whilst these events have had little impact on markets in recent years, a little more attention may be paid this time given it will be the first meeting attended by new US Treasury Secretary Steven Mnuchin. Much of the discussion will likely be on trade and currencies, particularly in light of reports that the communiqué will drop pledges to avoid competitive FX devaluations and resisting all forms of protectionism.
- Politics is again likely to feature heavily during the week. The Dutch election provided a bellwether of populist party support; the preliminary results have shown Geert Wilders' (anti-EU) PVV party coming up short of expectations, but the final result will be confirmed on Tuesday. With one election down, interest will now focus on France and Marine Le Pen's chances of winning the Presidency.
- Domestically there is also likely to be a political angle. With the Queen having given Royal Assent to the EU (Notification of Withdrawal) Bill today (16 March), the government is now free to trigger Article 50. Although the opportunity is there to do this next week, the government is reportedly going to wait until the week of the 27th March, partly to avoid the EU celebration of the 60th Anniversary of the Treaty of Rome (25 March). One new unwanted headache for the government is Nicola Sturgeon's demand for a second Scottish independence referendum. Indeed Nicola Sturgeon will go before the Scottish Parliament next week to request the authority for a second vote, although the UK government is not obliged to grant one.
- UK economic data will also feature heavily. Key releases will include the public finances, inflation and retail sales figures. With regards to inflation we expect the recent rise to continue, with our own forecast for headline CPI inflation to rise to 2.1%, the first reading above target since November 2013. The February retail sales figures will also be carefully watched for any further signs that consumers are starting to feel the pinch from higher inflation.
- Within the Euro area data is pretty thin on the ground, but the one number we highlight is the Euro area composite PMI due on Friday. Over the last few months we have witnessed a resurgence in the widely watched survey, with February's print the highest since April 2011. We suspect that the index will remain unchanged this month given its already elevated level, which if taken at face value suggests Euro area GDP growth firming to +0.6% q/q in Q1. Away from the data Greece is set to be a major focus at Monday's Eurogorup meeting. An agreement over the second review (of the third bailout) is unlikely next week given reported issues that still require bridging, although we suspect a deal will be agreed in the coming weeks.
- After this week's excitement around the FOMC decision, the US calendar is quiet next week. Fed Chair Yellen is set to speak again on Thursday, but she is unlikely to deviate far from her press conference comments. Meanwhile economic data releases are limited to new and existing home sales, as well as durable goods.
- On the monetary policy front, the Reserve Bank of New Zealand is the sole major central bank to announce its latest decision on policy (Wednesday).
- Finally note that Japanese markets will be closed on Monday for the Vernal Equinox Day. **RD**

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Weekly Key Indicators

Indicator	Comment

Public sector finances (Feb)
09:30 Tuesday 21 March

	Forecast	Last
PSNBx	+£2.1bn	-£9.387bn
PSNB	+£1.7bn	-£9.824bn

- The January public finances figures included changes to the methodology (accounting) for Corporation Tax (CT) receipts, the Bank Levy and also on the classification of Housing Associations. The CT adjustments meant that the headline borrowing measure, the PSNBx came out in surplus to the tune of £9.4bn against a market consensus borrowing balance of -£14.0bn (i.e. surplus). Under the old methodology, January used to be a big month for CT revenues, but the move away from cash accounting to the accruals based numbers spread these revenues according to when the activity took place, dragging the January receipts numbers down by almost £6bn.
- Having become accustomed to the lumpy quarterly profile for CT receipts, we now have to judge when CT receipts will be likely be 'banked' by the ONS, presenting a new forecasting challenge; the new profile over the past few years is far from smooth month to month. Other challenges for the February forecast include trying to get a grasp on the level of self-assessment tax receipts that will be recorded, with receipts expected to be boosted again by forestalling ahead of the April 2016 rise in dividend taxation.
- Note that the OBR's March forecast update appears to be assuming a big late surge in receipts for the final two months of the 2016/17 fiscal year. It projects that public sector net borrowing (PSNBx) will come out at £51.7bn, with some robust revenue assumptions for February and March. A straight 'back-out' of the OBR's full fiscal year numbers would suggest a marked year-over-year undershoot of 2015/16's February and March PSNBx readings; we suspect it will be a stretch to achieve the extent of the undershoot the OBR 'back-out' would imply. However, whilst not looking for as strong a receipts print as OBR projections, we are still allowing for a robust end to the year. Hence we are pencilling in a February PSNBx print of £2.1bn; this would be £2.4bn less than borrowing in the same month a year earlier. **VC**

Consumer Price Index (Feb)
09:30 Tuesday 21 March

	Forecast	Last
CPI	+0.5%	-0.5%
(harmonised)	(2.1% yoy)	(1.8% yoy)
'core' CPI	+0.5%	-1.0%
	(1.7% yoy)	(1.6% yoy)
RPI	+0.8%	-0.6%
	(2.9% yoy)	(2.6% yoy)
RPIX	+0.9%	-0.6%
	(3.2% yoy)	(2.9% yoy)

- Inflation has risen sharply in recent months. As recently as May last year, the targeted CPI measure stood at +0.3%; last month it reached +1.8%. The biggest single contributor over this period has been petrol prices, reflecting the dropping out of base effects when prices were falling, but also of course since then the rise in the cost of fuel itself. More widely the impact of the fall in the pound has become clearer too.
- This time we are expecting a broad range of factors to push inflation up again. Petrol prices rose by a modest 0.5% in February, but set against a 1.0% decline on the month last February, the net effect on the CPI rate is +0.05%. We expect a continued uptrend in non-seasonal food costs compared with a decline a year ago, while clothing prices fell unexpectedly sharply last month, which may well herald a strong rebound this time.
- Overall we are forecasting a rise in CPI inflation in February to 2.1%. If so, this would represent the first time that inflation has been above the 2% target since November 2013.
- Thereafter our long-term projections remain in the same ballpark as previously, in the sense that we still expect inflation to surpass 3% over the summer. But we do not expect the MPC to respond by raising rates unless there is a material acceleration in pay rates, a scenario which data earlier this week suggest is unlikely for now. **PS**

Producer Price Index (Feb)
09:30 Tuesday 21 March

	Forecast	Last
PPI	+0.3%	+0.6%
output (nsa)	(+3.7% yoy)	(3.5% yoy)
PPI output	+0.1%	+0.5%
-ex food etc (nsa)	(+2.5% yoy)	(2.4% yoy)
PPI input (nsa)	+0.1%	+1.7%
	(+20.1% yoy)	(+20.5% yoy)

- Last month's official data provided further evidence of a build-up in producer price pressures. Given the effect of post-EU referendum falls in the pound and recent rises in the oil price, annual producer input price inflation rose to +20.5% in January – the highest rate since September 2008. PPI output prices, or 'factory gate' prices, climbed to 3.5% while 'core' producer price inflation rose to +2.4% y/y – for each of these two measures, that is the highest since December 2011.
- Input price pressures were fairly muted in February. In particular, we note that the pound rose by 0.8% on the month, in trade-weighted terms. So on a month-on-month basis, our forecast is for input price inflation of +0.1%. In

year-on-year terms, that would see inflation edge down to +20.1%. But, given past rises in input prices, we see annual output price inflation moving up a little further in February. We see PPI output price inflation of +3.7% y/y, with the 'core' measure rising to +2.5% y/y. **CH**

Retail sales (Feb)
09:30 Thursday 23 March

	Forecast	Last
Retail sales	+0.4% (+2.6% yoy)	-0.3% (+1.5% yoy)
-excluding fuel	+0.4% (+3.1% yoy)	-0.2% (+2.6% yoy)

- Last month's retail sales numbers were weak. The headline sales measure (including fuel) fell by 0.3% m/m, following a 2.1% decline the previous month. Three-month on three-month was -0.5% - the first negative reading since December 2013. There is strong evidence to suggest that rising inflation is beginning to weigh on household spending power and hence retail sales. This consumer squeeze is the main reason why we see the economy slowing down this year.
- Even so, the extent of the decline in retail sales over the past couple of months is somewhat surprising. Our forecast is for a partial correction in February – we see month-on-month growth of +0.4% (including and excluding fuel). But that will not prevent three-month on three-month sales from dipping further into negative territory (our forecast implies a 1.7% 3m/3m decline in headline sales). **CH**

Euro area 'flash' PMIs (Mar)
09:00 Friday 24 March

	Forecast	Last
Composite	56.0	56.0
Manufacturing		55.4
Services		55.5

- The Euro Area Composite PMI recorded an accelerated pace of economic activity in February, seeing its biggest month on month jump since July 2013. February's index rose to 56.0 – its highest level since April 2011.
- The upturn in economic activity was also encouragingly widespread across the major Eurozone countries, with all of the 'core 4' (Germany, France, Italy and Spain) registering multi-month highs.
- Driving February's pick-up was a further strengthening in the output, new orders/new business and employment indices (the latter reached a 9 year high). This in turn lifted business confidence to new record highs, supporting ECB President Mario Draghi's recent assessment of strengthening Euro area fundamentals.
- The Composite PMI clearly points to an improving Euro area outlook, although we would be hesitant to forecast another big jump this month given the survey's already elevated level, which indicates GDP growth picking up to 0.6% q/q in Q1. Also, a little nervousness ahead of the major European elections may provide a small drag. As such, we look for an unchanged 56.0 this month. **RD**

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The Week Ahead

Date	Venue	GMT		Indicator/event	For	Investec Forecast	Previous
Sat 18	G20		♦	G20 Finance Ministers meeting (day 1 of 2)			
	CN	01:30		Property prices	Feb		+12.2% (yoy)
Mon 20	JA			Bank holiday: Vernal Equinox Day			
	UK	11:00		BoE Deputy Governor Sam Woods speaks on regulating insurers			
		19:20		BoE's Haldane speaks at the LSE			
				Nicola Sturgeon to seek the authority of the Scottish Parliament for a second independence referendum			
	GE	07:00		PPI	Feb		+0.7% (+2.4% yoy)
	EU19		♦	Eurogroup finance ministers meeting			
Tue 21	UK	09:30	♦	PSNB ex-banking groups	Feb	+£2.1bn	-£9.4bn
		09:30		PSNB	Feb	+£1.7bn	-£9.8bn
		09:30	♦	CPI	Feb	+0.5% (2.1% yoy)	-0.5% (+1.8% yoy)
		09:30		- core	Feb	+0.5% (1.7% yoy)	-1.0% (+1.6% yoy)
		09:30		CPIH	Feb		-0.4% (1.9% yoy)
		09:30		RPI	Feb	+0.8% (2.9% yoy)	-0.6% (+2.6% yoy)
		09:30		RPIX	Feb	+0.9% (3.2% yoy)	-0.6% (+2.9% yoy)
		09:30		PPI output	Feb	+0.3% (3.7% yoy)	+0.6% (+3.5% yoy)
		09:30		PPI output 'core'	Feb	+0.1% (2.5% yoy)	+0.5% (+2.4% yoy)
		09:30		PPI input	Feb	+0.1% (20.1% yoy)	+1.7% (+20.5% yoy)
		09:30		ONS house price index	Jan		+7.2% (yoy)
		11:00		CBI Industrial Trends Survey	Mar		+33 (output expectations)
	EU28			Ecofin			
	NL			Final Dutch election result to be announced			
	US	12:30		Current account balance	Q4		-$113.0bn
Wed 22	JA	(23:50)		Trade balance	Feb		-¥1087.6bn (r)
		04:30		All industry activity index	Jan		-0.3%
	EU19			ECB non-rate meeting			No announcement
	NZ	20:00		RBNZ announcement			unch (1.75% cash rate)
	US	13:00		FHFA house price index	Jan		+0.4%
		14:00	♦	Existing home sales	Feb		+5.69m (saar)
Thu 23	UK	09:30	♦	Retail sales	Feb	+0.4% (2.6% yoy)	-0.3% (+1.5% yoy)
		09:30		- ex petrol	Feb	+0.4% (3.1% yoy)	-0.2% (+2.6% yoy)
		11:00		CBI Distributive Trades survey	Mar		+9 (retail sales balance)
	EU19	09:00		ECB publishes Economic Bulletin			
				Allotment of final TLTRO II operation			
		15:00		Consumer confidence (prel.)	Mar		-6.2
	FR	07:45		Manufacturing confidence	Mar		+107
	US	12:00	♦	Fed's Yellen speaks at Community Development Conference			
		12:30		Weekly jobless claims	18-Mar		-2k (241k)
		14:00		New home sales	Feb		555k (saar)
Fri 24	UK	09:30		BBA mortgage approvals	Feb		44.7k
	JA	00:30		Manufacturing PMI (prel.)	Mar		53.3
		05:00		Leading index (final)	Jan		105.5
	EU19	09:00	♦	Composite PMI 'flash' estimate	Mar	56.0	56.0
		09:00		Manufacturing PMI 'flash' estimate	Mar		55.4
		09:00		Services PMI 'flash' estimate	Mar		55.5
	GE	08:30		Manufacturing PMI 'flash' estimate	Mar		56.8
		08:30		Services PMI 'flash' estimate	Mar		54.4
	FR	07:45		GDP (final)	Q4		+0.4% (+1.2% yoy) (p)
		08:00		Manufacturing PMI 'flash' estimate	Mar		52.2
		08:00		Services PMI 'flash' estimate	Mar		56.4
	US	12:30	♦	Durable goods orders (prel.)	Feb		+2.0%
		12:30		- ex transportation (prel.)	Feb		+0.0%
		13:45		Manufacturing PMI (prel.)	Mar		54.2
Sat 25	EU28	09:00		EU Summit, Rome- 60th anniversary of the Treaty of Rome			
Sun 26				UK/EU clocks change (go forward one hour)			

Further ahead

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

♦ Key event indicator