

## Investec Economics

### The week ahead: Monday 23 January 2017

- Next week will start with a new President of the United States residing in the White House following Donald Trump's inauguration tomorrow (Friday 20<sup>th</sup> January). After numerous policy suggestions from the President-elect, markets will be watching out for some hard policy proposals from Mr Trump once he is in office. Currency markets in particular will be watching out for whether Mr Trump does label China a 'currency manipulator' on his first day in the Oval Office as previously promised.
- Away from the Presidency, another key question for 2017 will be when the Federal Reserve tightens policy again. Last night saw Fed Chair Janet Yellen take a slightly more hawkish stance. Although Chair Yellen would not be drawn on the timing of the next hike, she did warn of the risks of waiting too long. As ever the key to this will be the evolution of the US economy, with next week providing a number of data points. Top among them will be Friday's release of Q4 GDP. Additionally a number of housing market releases will be due, as well as Michigan consumer sentiment and durable goods.
- On this side of the Atlantic there are a number of important political events. Domestically the focus will be on the Supreme Court on Tuesday morning. The Court is set to announce its ruling on the Government's appeal of the High Court decision, which ruled that Parliamentary approval was required for triggering Article 50. Should the Supreme Court uphold the original decision the Government will need to seek Parliamentary consent. Reportedly this will be in the form of a tightly worded, very short Bill, which will be sent to both the House of Commons and Lords. The hope is that there will be few or no attempts to amend it, thus allowing Article 50 to be triggered by the end of March, as planned. Away from politics, BoE Governor Mark Carney is set to speak from Germany mid-week, perhaps giving some final monetary policy clues ahead of the February Inflation Report.
- Aside from the Supreme Court ruling, the ONS is set to publish a number of key data releases including Q4 GDP, which we expect to have slowed very marginally to +0.5% (q/q) from the +0.6% witnessed in Q3. Additional publications will include the public finances and housing related figures (BBA mortgage approvals and Nationwide house prices).
- Elsewhere in Europe another Court in action next week will be the Italian Constitutional Court which will hold a hearing on Italy's new electoral law. The importance of this is that it could have a bearing on the timing of a potential early election.
- Within the Eurozone several key surveys will be released including the Composite PMI, which we expect to show a small rise, and Germany's Ifo. Additionally the Eurogroup of Finance ministers is set to meet, with Greece high on the agenda.
- Finally, OPEC will meet in Vienna (Saturday 21 January) to evaluate the adherence to the output cut, whilst China will begin its Lunar New Year holiday on Friday. **RD**

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## Weekly Key Indicators

Indicator			Comment
<b>EU19 'flash' Composite PMI (Jan)</b> 09:00 Tuesday 24 January			<ul style="list-style-type: none"> <li>Euro area activity ended 2016 on a high note in December, with the Composite PMI rising to 54.4, its highest level since May-11, a 67-month high.</li> <li>Manufacturing featured prominently in December's pick up in activity, with stronger new orders and a weaker euro helping the index to its highest level since December 2015. Services meanwhile remained relatively steady at 53.7, although business confidence firmed to an 11-month high.</li> <li>Overall Markit have suggested that the Q4 Composite PMI average points to growth of +0.4% q/q, in line with our own Q4 forecast and should mean that 2016 Euro area growth will be recorded at 1.7%.</li> <li>We expect 2017 to begin as 2016 ended with a relatively firm PMI in January. Our forecast stands at 54.6, supported by the positive developments in corporate confidence and new order flows. <b>RD</b></li> </ul>
Composite	Forecast 54.6	Last 54.4	
<b>Public finances (Dec)</b> 09:30 Tuesday 24 January			<ul style="list-style-type: none"> <li>Last month's outturn for PSNBx means that, so far in 2016/17, the deficit has narrowed by £7.7bn, relative to the same period the previous year. Meanwhile the OBR's projection for this year stands at £68.2bn, a £7.2bn reduction from last year's total of £75.4bn. Hence as things stand, the remaining fourth months' data only need to match those from a year earlier for the OBR's forecast to be undershot.</li> <li>This though might be a tough ask. Corporation tax receipts have been more buoyant than expected so far this year, rising by 9.7% on a year ago – there seems to be a good chance that this growth will slow down or go into reverse for a while. Also, debt interest spending will be subject to upward pressures given the rise in RPI inflation, the yardstick used to measure index linked gilt payments.</li> <li>Overall we are pencilling a deficit of £7.2bn for December, the same level of borrowing as in December 2015. While it looks as though this year's PSNBx will come down compared with last year, the margin may not be quite as great as recent data have implied. <b>PS</b></li> </ul>
PSNBx PSNB	Forecast +£7.2bn +£6.8bn	Last +£12.65bn +£12.21bn	
<b>GDP (Q1, 1<sup>st</sup> estimate)</b> 09:30 Thursday 26 January			<ul style="list-style-type: none"> <li>The UK economy has held up remarkably well after last June's vote to leave the EU. Businesses and households have largely shrugged off the political and economic uncertainties relating to Brexit, keeping the economy running at a decent pace. In terms of GDP, the economy grew by +0.6% in the third quarter of last year – in line with historic averages and a far cry from the immediate slump predicted by many commentators.</li> <li>Looking forward, we do anticipate a slowdown in economic growth, principally because we see the post-referendum fall in the pound pushing up on import prices, in turn raising the CPI inflation rate to more than 3% later this year. That will squeeze household spending power.</li> <li>However, the inflation squeeze has yet to come through in earnest and much of the momentum in the indicators has continued into Q4. Indeed, the all-important service sector – worth nearly 80% of the economy – continued to grow (by +0.2% m/m) in October.</li> <li>However, we do suspect that a slight slowdown in services growth took place towards the end of the quarter and that GDP growth will edge downwards this time, to a (still healthy) +0.5% q/q. <b>CH</b></li> </ul>
GDP	Forecast +0.5% (2.1% yoy)	Last +0.6% (2.2% yoy)	
<b>BBA mortgage data (Dec)</b> 09:30 Thursday 26 January			<ul style="list-style-type: none"> <li>Over the past couple of months, BBA mortgage approvals stood above the 40k mark, having lingered below this since May 2016; net mortgage approvals stood at 40.8k and 40.7k in October and November respectively.</li> <li>At these levels, mortgages approved still stand well down on levels a year earlier; the November reading was 9% lower.</li> <li>We expect some recovery in net approvals to continue over the coming months continuing the claw back from, what to a large part, appears to be period of drag following the tax hike on second property purchases last spring.</li> <li>Turning to the final figures for 2016, we are pencilling in 41k for the December reading. Over the full year 2016, that would be enough to see approvals some 5% lower than the year earlier. <b>VC</b></li> </ul>
BBA approvals (for house purchase)	Forecast 41.0k	Last 40.66k	

**Nationwide house price index (Jan)**

Expected during the week

	<b>Forecast</b>	<b>Last</b>
Nationwide	unch (4.2% yoy)	+0.8% (4.5% yoy)

- The final figures on UK house price growth for 2016 showed a year-on-year price increase of 4.5%, the same as in 2015. We also note that, after the shock of the Brexit vote which weighed on the London market in particular, 2016 was the first year since 2008 in which national price growth exceeded that of the capital.
- Turning to the early part of 2017, our anticipation is that the late 2016 story, which was one of low supply of properties for sale, remains a continuing theme. With demand holding up relatively well, we expect this to support steady price growth going into 2017.
- Our expectation for the January numbers however is that we will see prices having stood flat on the month, primarily because we suspect another big month to month rise would be tough after December's solid 0.8% rise. On a year over basis that would see prices up by 4.2% y/y, from 4.5% in December. **VC**

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## The Week Ahead

Date	Venue	GMT	Indicator/event	For	Investec Forecast	Previous
Sat 21	OPEC		◆ OPEC meeting, Vienna (Day1 of 2)			
Sun 22	EU19	23:00	ECB's Draghi speaks in Turin, Italy			
Mon 23	JA	04:30	All industry activity index	Nov		+0.2%
		05:00	Leading index (final)	Nov		+102.7 (p)
	EU19	15:00	Consumer confidence (prel.)	Jan		-5.1
Tue 24	UK	09:30	◆ PSNB ex-banking groups	Dec	+£7.2bn	+£12.65bn
		09:30	PSNB	Dec	+£6.8bn	+£12.21bn
		09:30	◆ UK Supreme Court ruling on Article 50 trigger requiring parliamentary approval			
	JA	00:30	Manufacturing PMI (prel.)	Jan		52.4
	EU19	09:00	◆ Composite PMI (prel.)	Feb	54.6	54.4
		09:00	Manufacturing PMI (prel.)	Jan		54.9
		09:00	Services PMI (prel.)	Mar		53.7
	GE	08:30	Manufacturing PMI (prel.)	Apr		55.6
		08:30	Services PMI (prel.)	May		54.3
	FR	08:00	Manufacturing PMI (prel.)	Jun		53.5
		08:00	Services PMI (prel.)	Jul		52.9
	IT		Italian Constitutional Court hearing on electoral law			
	US	14:45	Manufacturing PMI (prel.)	Aug		54.3
		15:00	Existing home sales	Dec		+5.61m (saar)
Wed 25	UK	11:00	CBI Industrial Trends Survey	Jan		+21 (output expectations)
		11:00	CBI Industrial Trends Survey (quarterly)	Jan		-8 (business optimism)
		16:00	◆ BoE's Carney speaks at in Wiesbaden, Germany			
	JA	(23:50)	Trade balance	Dec		+¥150.8bn
	GE	09:00	◆ IFO business climate index	Jan		111.0
	FR	07:45	Manufacturing confidence	Jan		106
	US	14:00	FHFA house price index	Nov		+0.4%
			House and Senate Republicans joint retreat to Philadelphia (day 1 of 3)			
Thu 26	UK	09:30	◆ GDP (prel.)	Q4	+0.5% (2.1% yoy)	+0.6% (2.2% yoy)
		09:30	Index of services	Nov		+0.3% (3.2% yoy)
		09:30	BBA mortgage approvals	Dec	41.0k	40.66k
		11:00	CBI Distributive Trades survey	Jan		+35 (retail sales balance)
	CH	01:30	Industrial profits	Dec		+14.5% (yoy)
	EU19		◆ Eurogroup meeting of finance ministers			
	SP	08:00	Unemployment rate	Q4		+18.9%
	US	13:30	Wholesale inventories (prel.)	Dec		+1%
		13:30	Weekly jobless claims	Jan 21		(-15k) 235k
		13:30	Goods trade balance	Dec		-65.304bn
		14:45	Services PMI (prel.)	Jan		53.9
		15:00	Leading index	Dec		unch
		15:00	New home sales	Dec		592k (saar)
Fri 27	UK		UK sovereign debt to be rated by Fitch			
	JA	(23:30)	CPI	Dec		+0.5% (yoy)
		(23:30)	National 'core' CPI	Dec		-0.4% (yoy)
	CH		Holiday: China Lunar New Year 27 Jan – 2 Feb			
	EU19	09:00	M3 money supply	Dec		+4.8% (yoy)
			◆ ECOFIN - meeting of EU28 finance ministers			
	FR	07:45	Insée consumer confidence	Jan		99
	IT	09:00	ISTAT business confidence	Jan		103.5
		09:00	ISTAT consumer confidence	Jan		109.5
	US	13:30	◆ GDP (prel.)	Q4		+3.5% (saar)
		13:30	Final sales (prel.)	Q4		+3.0% (saar)
		13:30	Core PCE price index (prel.)	Q4		+1.7% (saar)
		13:30	Durable goods orders (prel.)	Dec		-4.5%
		13:30	- ex transportation (prel.)	Dec		+0.6%
		15:00	Michigan consumer sentiment (final)	Jan		98.1 (p)
<b>Expected during the week</b>						
Sat 28	UK		Nationwide house price index	Jan	unch (4.2% yoy)	+0.8% (4.5% yoy)
	CH		Property prices			+12.6% y/y

### Further ahead

1 Feb	US	FOMC announcement
2 Feb	UK	MPC announcement
9 Mar	EU19	ECB announcement

### Key

◆ Key event indicator