

## Investec Economics

### The week ahead: Monday 24 April 2017

- It is a case of another year, another vote in Britain, following parliamentary confirmation of Theresa May's decision to ask for a snap General Election in seven weeks' time (see our note: [UK election on 8 June? A likely mandate not a mad date...](#)). And this of course will remain centre stage until polling day. The Conservatives' have a huge lead in the opinion polls – a YouGov poll in *The Times* today showed the Tories' margin over Labour at 24%. This can and will vary and of course there is widespread scepticism over polling accuracy. Even so it seems sensible to adopt at least a comfortable Conservative overall majority after 8 June as a central case, if not a complete landslide.
- We see no reason to change our economic and policy forecasts at this stage. The same holds for our end-year sterling targets - for example, our cable call of \$1.35. However the new election timetable should reduce the pressure on the British government to reach rushed settlements in its EU exit negotiations with the European Council. On this basis, markets may consider the tail risks to the UK to be smaller, which could add to this week's upward pressure on the pound and bring \$1.35 within sight at an earlier stage.
- Despite a likely preoccupation with politics, other interesting UK events take place as well. March's public finances are set to confirm the progress made in reducing borrowing. The deficit for 2016/17 as a whole should have fallen to 2.5% of GDP, albeit with modest help from temporary factors such as the timing of dividend payments. Also, we expect Q1 GDP to show a slowdown in the pace of growth, thanks to sluggish monthly data, not least consumer activity. On Friday S&P may review the UK's credit rating, which has been at AA- with a negative outlook since the week after the EU referendum last June.
- France of course faces more immediate political events, starting with the first round of Presidential voting on Sunday. According to the latest polls, centrist Emmanuel Macron and far-right Marine Le Pen remain poised to progress to the second round on 7 May. But the gap between the four main candidates (which also include centre-right François Fillon and far-left Jean-Luc Mélenchon) remains small, in the order of 4%-6%. Hence surprises could be on the cards if and when exit polls are released later on Sunday.
- The ECB meets on Thursday. We expect the outturn to be very much 'steady as she goes', both in terms of policy itself and the message conveyed by the Governing Council (see our note: [ECB in holding mode as it waits for signs of a sustained move in inflation](#)). Euro area flash HICP estimates are published on Friday, the day after the latest German data, while preliminary French Q1 GDP figures are also out at the end of the week.
- First estimates of Q1 GDP are also out on Friday for the US. There has been a yawning gap between very buoyant surveys and more subdued official numbers over the quarter. To us it looks likely that the GDP data will be relatively soft (as Q1 figures often are), a little below the 1.0% (annualised) mark. The US continuing resolution, which has served to avoid a government shutdown, expires on Friday. We expect it to be rolled over. However the Administration's woes over reforming healthcare and how to fund its tax plans generally, seem set to remain.
- Elsewhere there are announcements from the BoJ and the Riksbank. And we can probably expect a number of comments from international figures over this weekend, given the Washington IMF/World Bank/G20 meetings. **PS**

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

**Philip Shaw**  
+44 (0) 20 7597 4302  
philip.shaw@investec.co.uk

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

**Ryan Djajasaputra**  
+44 (0) 20 7597 4039  
ryan.djajasaputra@investec.co.uk

[Click here for diary](#)

## Weekly Key Indicators

Indicator			Comment
<b>Public finances (Mar)</b> 09:30 Tuesday 25 April			<ul style="list-style-type: none"> <li>February's deficit was recorded at £1.8bn, below market expectations and £2.8bn below the equivalent reading in 2016. The figures were flattered by several somewhat technical factors, such as the forestalling of dividend tax income and lower transfers to the EU. Nonetheless there has still been a clear reduction in borrowing over 2016/17 so far, equating to a monthly average of £1.8bn.</li> <li>Our forecast for the final month of the financial year is for a deficit of £2.1bn, an improvement of £2.1bn over March 2016. This would take the PSNBx total for the year as a whole to £49.9bn, modestly below the OBR's forecast of £51.7bn in last month's Budget. It would also be equivalent to a deficit of 2.5% of GDP, its lowest since 2006/07 and a level not too far off longer-term sustainability.</li> <li>We have a couple of election related points to make. First, the government's fiscal policy objective is to <i>'return the public finances to balance at the earliest possible date in the next Parliament'</i>. Given that the next General Election has been brought forward to 8 June this year, the final (full) year of the next Parliament would now be 2021/22, when the public finances are officially still expected to be in the red to the tune of £18bn. Presumably this aim will be reworded at the next major fiscal event to suggest a date in the <i>subsequent</i> parliament. Second, Chancellor Philip Hammond has signalled his intention to hold a post-election Budget (providing of course, the Conservatives are re-elected). This being the case, it would be reasonable to suggest that the government will replace the planned Budget towards the end of the year with an 'Autumn Statement'-type event. Otherwise this would mean that there would be three Budgets in one year, a frequency not seen at any time during the past 100 years. <b>PS</b></li> </ul>
	<b>Forecast</b>	<b>Last</b>	
PSNBx	+£2.1bn	+£1.8bn	
PSNB	+£1.4bn	+£1.1bn	
<b>GfK consumer confidence (Apr)</b> 00:01 Friday 28 April			<ul style="list-style-type: none"> <li>The GfK consumer confidence index pointed to UK consumer sentiment holding steady in April with the headline index at -6, having sat in a range of -5 to -8 since November. Previously we had not seen any material sign of consumer sentiment being hit materially by the squeeze to household's real spending power that now appears to be underway, as inflation tracks higher and looks set to surpass the pace of pay growth.</li> <li>Our suspicion is that households will feel this more and more over coming months, as inflation rises towards 3%. Hence, we expect to see GfK consumer confidence edging back month to month as households move a step further forward in assessing the impact of inflation's rise on their personal finances and as households look again at some of their major purchases. Our forecast for the April reading is -7. <b>VC</b></li> </ul>
	<b>Forecast</b>	<b>Last</b>	
Main index	-7	-6	
<b>GDP (Q1, 1<sup>st</sup> estimate)</b> 09:30 Friday 28 April			<ul style="list-style-type: none"> <li>After the UK's vote to leave the EU last June, the economy remained surprisingly resilient. By and large, businesses and households shrugged off Brexit related uncertainty, helping GDP grow by a solid 0.5% in Q3 last year and an even more solid 0.7% the following quarter.</li> <li>But we think that the economy began to slow materially in the first three months of this year. In terms of economic drivers, the strengthening headwind has been the effect of last year's falls in sterling. While the weaker pound is probably beginning to provide some boost to net exports, the negative impact on household spending power via higher imported inflation is beginning to bite discernibly. Indeed, the inflation squeeze is material – as an average over the quarter, CPI inflation climbed to +2.1% y/y in Q1, versus +1.2% in Q4.</li> <li>The output data so far this year are consistent with this higher inflation weighing on consumer spending. Most notably, services output fell by 0.1% m/m in January and, within that, retail trade declined by 0.5% m/m. Meanwhile, other sectors have seen weakness – industrial production fell by 0.3% and 0.7% m/m in January and February, respectively. Although the volatile extraction and utilities sectors have been a drag here, factory output is also in decline. In addition, output in the construction industry fell by 1.8% in February.</li> <li>Because these monthly output data feed into the GDP statistics, we can</li> </ul>
	<b>Forecast</b>	<b>Last</b>	
GDP	+0.4% (+2.2% yoy)	+0.7% (+1.9% yoy)	

already say with a fairly high degree of confidence that quarterly GDP growth in Q1 will be softer than the 0.7% quarterly rise seen in Q4. In fact, even with monthly output growth in the main sectors returning comfortably to positive territory in February and March, our forecast envisages a slowdown in GDP growth in Q4, to +0.4% q/q. **CH**

**Nationwide House Price Index (Apr)**

27-28 April

	<b>Forecast</b>	<b>Last</b>
House Price Index	+0.1%	-0.3%
	(+3.3% yoy)	(+3.5% yoy)

- According to the Nationwide index, UK house prices fell for the first time since mid-2015 in March, declining by 0.3% month to month. This drop pushed the annual pace of price increases down to 3.5% y/y from 4.5%; that was the smallest year-over-year growth pace since August 2015.
- The slower pace of price rises in the Nationwide survey fits with the broader picture whereby the market appears to be lacking momentum. New supply to the market has been subdued for some time, but it now appears that demand is tailing off too, as we have seen in the past few RICS housing market surveys.
- Our expectation for the upcoming report is that we will see a minor 0.1% rise after the 0.3% decline in March; that would bring the year on year pace down to 3.3%, continuing the moderation. **VC**

# Investec Economics

Economics

## The Week Ahead

Date	Venue	BST	Indicator/event	For	Investec Forecast	Previous
Fri 21	IMF/WB		IMF/World Bank annual spring meetings (day 1 of 3), Washington DC			
Sun 23	FR		◆ French Presidential Election (1 <sup>st</sup> round)			
Mon 24	UK	11:00	CBI Industrial Trends Survey	Apr		+36 (output expectations)
		11:00	CBI Industrial Trends Survey (quarterly)	Q1		+15 (business optimism)
	EU19	09:00	ECB Bank Lending Survey	Q1		
	GE	09:00	IFO business climate index	Apr		112.3
Tue 25	UK	09:30	◆ PSNB ex-banking groups	Mar	+£2.1bn	+£1.80bn
		09:30	PSNB	Mar	+£1.4bn	+£1.08bn
	FR	07:45	Manufacturing confidence	Apr		+104
	US	14:00	Case-Shiller house price index (20 cities)	Feb		+0.9% (+5.7% yoy)
		14:00	FHFA house price index	Feb		unch
		15:00	Conference Board consumer confidence	Apr		+125.6
		15:00	New home sales	Mar		592k (saar)
Wed 26	JA	05:30	All industry activity index	Feb		+0.1%
	FR	07:45	Insée consumer confidence	Apr		100
Thu 27	UK	11:00	CBI Distributive Trades survey	Apr		+9 (retail sales balance)
	JA		◆ Bank of Japan announcement			QE unch, rates unch
	CH	02:30	Industrial profits	Mar		+2.3% (yoy)
	SW	08:30	Riksbank announcement			unch (-0.50% repo rate)
	EU19	10:00	Industrial confidence	Apr		+1.2
		12:45	◆ ECB announcement (& press conference)		QE unch, rates unch	QE unch, rates unch
	GE	13:00	◆ HICP (prel.)	Apr		+0.1% (+1.5% yoy)
		13:00	CPI (prel.)	Apr		+0.2% (+1.6% yoy)
	SP	08:00	HICP (prel.)	Apr		+1.1% (+2.1% yoy)
	US	13:30	Wholesale inventories (prel.)	Mar		+0.4%
		13:30	Goods trade balance	Mar		-\$63.9bn (r)
		13:30	◆ Durable goods orders (prel.)	Mar		+1.8%
		13:30	- ex transportation (prel.)	Mar		+0.5%
		13:30	Weekly jobless claims	22-Apr		+10k (244k)
		15:00	Pending home sales	Mar		+5.5% (-2.4% yoy)
Fri 28	UK	00:01	◆ GfK consumer confidence	Apr	-7	-6
		09:30	◆ GDP (1st estimate)	Q1	+0.4% (+2.2% yoy)	+0.7% (+1.9% yoy)
		09:30	Index of services	Feb		-0.1% (+2.4% yoy)
		09:30	BBA mortgage approvals	Mar		42.6k
			S&P to review UK's credit rating			
	JA	00:30	National 'core' CPI	Mar		+0.2% (yoy)
		00:50	Industrial production (prel.)	Mar		+3.2% (+4.7% yoy)
	EU19	09:00	M3 money supply	Mar		+4.7% (yoy)
		10:00	◆ CPI 'flash' estimate	Apr		+1.5% (yoy)
		10:00	- ex food, energy, alcohol & tobacco	Apr		+0.7% (yoy)
	FR	06:30	GDP (prel.)	Q1		+0.4% (+1.1% yoy)
		07:45	HICP (prel.)	Apr		+0.7% (+1.4% yoy)
		07:45	Consumer spending	Mar		-0.8% (+0.5% yoy)
	IT	10:00	HICP (prel.)	Apr		+1.9% (+1.4% yoy)
	SP	08:00	GDP (prel.)	Q1		+0.7% (+3.0% yoy)
	US		◆ Continuing Resolution end date			
		13:30	◆ GDP (prel.)	Q1		+2.1% (saar)
		13:30	Final sales (prel.)	Q1		+1.1% (saar)
		13:30	Core PCE price index (prel.)	Q1		+1.3% (saar)
		13:30	Employment Cost Index	Q1		+0.5%
		14:45	Chicago PMI	Apr		57.7
		15:00	Michigan consumer sentiment (final)	Apr		98 (p)
Sat 29	EU27		Special EU27 Summit to discuss Brexit negotiation guidelines			

### Expected during the week

UK	Nationwide House Price Index	Apr	+0.1% (+3.3% yoy)	-0.3% (+3.5% yoy)
----	------------------------------	-----	-------------------	-------------------

### Further ahead

3 May	US	FOMC announcement
4 May	UK	Local and mayoral elections
7 May	FR	French Presidential Election (2 <sup>nd</sup> round)
11 May	UK	BoE announcement (and Inflation Report)
8 June	UK	General Election

◆ Key event indicator