

Investec Economics

The Fortnight Ahead: Monday 26 December 2016

- This 'weekly' covers the fortnight ahead over the Christmas and New Year period, with most of the top-tier economic releases clustered in the days after the New Year.
- One of the more eye-catching events of the fortnight is likely to be the US jobs report on Friday 6 January. With the Federal Reserve's December hike seen re-starting the normalisation process, the upcoming December jobs numbers will be watched for evidence of anything that sets alarm bells ringing at the Fed on the tightness of the labour market, pushing the Fed into its next policy move sooner rather than later. We look for a non-farm payroll gain of around 180k and expect the unemployment rate to hold steady at 4.6%. Other key US releases over the fortnight will include the ISM for the manufacturing and non-manufacturing sectors, Conference Board consumer confidence and November's trade balance. Note that US markets will be closed on 26 December and 2 January.
- In the UK, there will be closures on 26 and 27 December and 2 January too. And the London Stock Exchange begins its markets closing process from 12:30pm on 30 December. Over the fortnight the main economic releases will take the shape of the December PMIs for the services, manufacturing and construction sectors, whilst the latest mortgage approval and net mortgage lending numbers from the Bank of England are set for release.
- In the Eurozone, it appears that Monte dei Paschi di Siena is headed for a state bailout over the Christmas period after its capital raise failed to raise the required funds. The Italian government approved a potential €20bn rescue package earlier this week in preparation for the rescue, providing potential funds for other under pressure Italian lenders too. In terms of the economic releases likely to garner market focus, we flag the 'flash' December inflation figures due 4 January and the final Eurozone PMIs for December in the second week of the period. Note that Eurozone exchanges will be closed on 26 December and 2 January.
- Further afield, Chinese releases continue on as normal with the Chinese PMIs for the manufacturing and services sectors due. From Japan, the first week will see the publication of the latest Japanese inflation, industrial production and unemployment numbers whilst later in the period the manufacturing PMI is also set for release.
- Finally, and most importantly, the London Economics Team wishes its readers a very Merry Christmas and a happy and prosperous 2017! For those wishing to hear our thoughts on next year, don't forget to check out our year-ahead note: [2017 - The Birth of Reflation?](#)

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Key Indicators

Indicator			Comment
Nationwide house price index (Dec) 28 Dec – 01 Dec			<ul style="list-style-type: none"> Nationwide house prices increased by 0.1% in November with the annual pace of house price growth slowing slightly to 4.4% from 4.6% in October. Recent mortgage approvals numbers point to something of a strengthening in buyer activity of late. We expect this to support prices over the months ahead, particularly whilst supply of homes for sale remains restrained. Looking at the December numbers specifically, we expect to see prices rising by 0.2% on the month such that on, a year over year basis, Nationwide house prices will stand 3.8% higher. VC
Main index	Forecast +0.2% (+3.8% yoy)	Last +0.1% (+4.4% yoy)	
Manufacturing PMI (Dec) 09:30 Tuesday 3 January			<ul style="list-style-type: none"> The UK manufacturing PMI dropped unexpectedly in November to 53.4 from October's (revised) 54.2. Markets had been expecting a slight rise in the index on the month. November's print marked the second consecutive decline from September's post-EU referendum peak of 55.4. The decline on the month is no cause for panic though – the index still remains above levels that prevailed in the months before the UK's vote to leave the EU and is also still above its long run average level. Indeed, we expect the read from the manufacturing sector to remain fairly elevated over the coming months – exporters should continue to benefit from post-referendum falls in the pound. Over time, that should more than offset the adverse effect of higher import costs. Meanwhile, we would note that businesses have largely shrugged off the economic uncertainty associated with the post-Brexit vote environment. With this in mind, our forecast is for the PMI to see a slight uptick in December, to a healthy 53.6. CH
Overall index	Forecast 53.6	Last 53.4	
Household lending (Nov) 09:30 Wednesday 4 January			<ul style="list-style-type: none"> The number of mortgage approvals for house purchase, a decent proxy for housing market turnover, rose strongly to 67.5k in October from September's 63.6k. This is the strongest outturn since March and points to housing activity gaining momentum. We do not yet have a steer on November's data from the British Bankers' Association figures, which had not been released at the time of writing. However our feeling is that the direction of travel will be maintained, albeit at a slower pace. We are forecasting a modest increase to 68.5k. Net mortgage lending posted a positive outturn of £3.3bn in October, broadly the same as in September. On the basis that approvals have been on an upward trend in recent months we see a strengthening in November to +£3.8bn. We are pencilling in net consumer credit at +£1.6bn in November. We note that this is the most buoyant area of personal borrowing, with annual growth in the level outstanding running at 10.5%. Our best guess is for another +£1.6bn. Total outstanding personal borrowing now exceeds £1.5trn. While this is a material number it might be worth making the point that as a proportion of net household incomes, it stands at 113%, compared with a peak of 129% in 2008. Also the annual growth rate of household borrowing stands at a relatively modest 4.0%, driven principally by the buoyancy of unsecured consumer credit, as noted above. PS
Mortgage approvals	Forecast 68.5k	Last 67.52k	
Mortgage lending	+£3.8bn	+£3.28bn	
Consumer credit	+£1.6bn	+£1.62bn	
Services PMI (Dec) 09:30 Thursday 5 January			<ul style="list-style-type: none"> November's activity index rose again to 55.2. This marks the firmest reading since January and is close to eight points higher than the post-referendum trough recorded in July. The ONS currently estimates that service sector output rose by +0.8% over Q3, a relative strength which we attributed partly to temporary effects from the movie industry. But PMIs are signalling that there may be stronger underlying momentum in Q4. This hypothesis may be put to the test on Friday 23 December when official estimates of October's service sector figures are released. We are sceptical that Q4's official figures will match the strength of that in Q3. For December, we forecast a modest retracement to 54.5, although this
Activity index	Forecast 54.5	Last 55.2	

is a level which is consistent with solid growth in the sector. **PS**

US labour situation report (Dec)

13:30 Friday 6 January

	Forecast	Last
Change in payrolls	180k	+178k
Unemployment	4.6%	4.6%

- The pace of job creation has remained relatively solid, with non-farm payroll gains averaging 205k over the past 6 months. Our suspicion is that the November +178k reading was lifted a bit by some 'catch-up' from some Hurricane Matthew drag which slightly dampened the October reading; October stood at +142k.
- Our expectation is that the US jobs market has remained solid through to year end. Indeed, the December Services PMI survey pointed to acceleration in jobs growth for the third month running. Jobless claims remained in a relatively similar range to that seen in November in the early part of the month, though did move higher in the latest week.
- Overall, we anticipate that the pace of job creation will be enough to see non-farm payrolls rise by around 180k in December.
- The unemployment rate stood at 4.6% in November, its lowest reading since August 2007; we expect it to hold at this level. **VC**

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The Fortnight Ahead

Date	Venue	GMT	Indicator/event	For	Investec Forecast	Previous
Mon 26	UK/EU/US		Public holiday: Boxing Day/Christmas holiday			
Tue 27	UK		Public holiday: Christmas Day (substitute)	Nov		
	JA	05:00	Leading index (final)	Oct		101.0 (p)
		(23:30)	National 'core' CPI	Nov		+0.1% (yoy), -0.4% (yoy)
		(23:30)	Unemployment	Nov		3.0%
	US	14:00	Case-Shiller house price index (20 cities)	Oct		+0.37% (+5.08% yoy)
		15:00	Conference Board consumer confidence	Dec		+107.1
Wed 28	UK	09:30	BBA mortgage approvals	Nov		40.851k
	JA	(23:30)	Industrial production (prel.)	Nov		unch (-1.4% yoy)
	US	15:00	Pending home sales	Nov		+0.1% (+0.2% yoy)
Thu 29	US	13:30	Weekly jobless claims	Dec 24		(+21k) 275k
Fri 30	IT		◆ ECB deadline for addressing Monte dei Paschi di Siena capital issues			
	SP	08:00	HICP (prel.)	Dec		+0.2% (+0.5% yoy)
	US	14:45	Chicago PMI	Dec		57.6
Sun 1	CH	01:00	◆ Official manufacturing PMI	Dec		51.7
		01:00	Official non-manufacturing PMI	Dec		54.7
Mon 2	UK/EU/US		Public holiday: New Year's Day			
		01:45	◆ Caixin Manufacturing PMI	Dec		50.9
	EU19	09:00	Manufacturing PMI (final)	Dec		54.9 (p)
	GE	08:55	Manufacturing PMI (final)	Dec		55.5 (p)
	FR	08:50	Manufacturing PMI (final)	Dec		53.5 (p)
	IT	08:45	Manufacturing PMI	Dec		52.2
	SP	08:15	Manufacturing PMI	Dec		54.5
Tue 3	UK	09:30	◆ Manufacturing PMI	Dec	53.6	53.4
	JA	00:30	Manufacturing PMI (final)	Dec		51.9 (p)
	GE	08:55	Unemployment	Dec		-5k (6.0%)
		13:00	HICP (prel.)	Dec		unch (+0.7% yoy)
		13:00	CPI (prel.)	Dec		+0.1% (+0.8% yoy)
	FR	07:45	HICP (prel.)	Dec		unch (+0.7% yoy)
	US	14:45	Manufacturing PMI (final)	Dec		54.2 (p)
		15:00	◆ ISM index	Dec		53.2
Wed 4	UK	09:30	◆ Mortgage approvals	Nov	68.5k	67.52k
		09:30	◆ Net mortgage lending	Nov	+£3.8bn	+£3.28bn
		09:30	◆ Consumer credit	Nov	+£1.6bn	+£1.62bn
		09:30	Construction PMI	Dec		52.8
	CH	01:45	Services PMI (Caixin)	Dec		53.1
	EU19	09:00	◆ Composite PMI (final)	Dec		53.9 (p)
		09:00	◆ Services PMI (final)	Dec		53.1 (p)
		10:00	◆ CPI 'flash' estimate	Dec		+0.6% (yoy)
		10:00	◆ - ex food, energy, alcohol & tobacco	Dec		+0.8% (yoy)
	GE	08:55	Services PMI (final)	Dec		53.8 (p)
	FR	07:45	Insée consumer confidence	Dec		98
		08:50	Services PMI (final)	Dec		52.6 (p)
	IT	08:45	Services PMI	Dec		53.3
	SP	08:15	Services PMI	Dec		55.1
Thu 5	UK	09:00	New car registrations	Dec		+2.9% (yoy)
		09:30	◆ Services PMI	Dec	54.5	55.2
	EU19	10:00	PPI	Nov		+0.8% (-0.4% yoy)
	US	13:15	ADP employment change	Dec		+216k
		13:30	Weekly jobless claims	Dec 31		
		15:00	ISM non-mfg index	Dec		57.2
Fri 6	EU19	10:00	Industrial confidence	Dec		-1.1
	GE	07:00	◆ New manufacturing orders	Nov		+4.9% (+6.3% yoy)
	US	13:30	◆ Non-farm payrolls	Dec	+180k	+178k
		13:30	◆ Unemployment	Dec	4.6%	4.6%
		13:30	Average earnings	Dec		-0.1% (+2.5% yoy)
		13:30	Trade balance	Nov		-\$42.601bn
		15:00	Factory orders	Nov		+2.7%
Expected during the fortnight						
	UK		Nationwide house price index	Dec	+0.2% (+3.8% yoy)	+0.1% (+4.4% yoy)
Further ahead						
19 Jan	EU19		ECB announcement (& press conference)			
Jan	UK		Supreme court ruling on holding a parliamentary vote on triggering 'Article 50'			
1 Feb	US		FOMC announcement			
2 Feb	UK		MPC announcement			

Key

◆ Key event indicator