

Investec Economics

The week ahead: Monday 27 February 2017

- This week's Fed news has tended to support our June call for the next FOMC hike. The line from this month's minutes, talking about support for a tightening 'fairly soon' did not convey to us the impression of a central bank in a tearing hurry to raise interest rates again. Next week's data flow will contain further clues to the dynamics of economic activity. First revisions to Q4 GDP, the Conference Board consumer confidence index and the manufacturing and non-manufacturing ISM indices are the key releases. Note that February's jobs data will NOT be out. Instead the next employment report is scheduled for Friday 10th. But among a long list of senior Fed officials, Chair Janet Yellen speaks on Friday evening.
- Centre stage in the eurozone will be Tuesday's 'flash' HICP data for February. The headline inflation rate currently stands at 1.8%, more or less at the ECB's target of 'below, but close to 2%'. But its emergence from negative territory last spring owes largely to moves in energy and food prices, which could have a temporary effect. Indeed so far there has been little progress in underlying inflation pushing up from low levels. In fact, the 'core' HICP measure currently stands at +0.9%, exactly where it was a year ago. Any signs of firmer core inflation would be likely to support the euro, on the perception that the ECB would be closer to winding up its QE programme. Final composite PMI data for February are also due. Of course the 'flash' estimates have already been released but markets should get a reminder that this key piece of survey evidence is at a near 6-year high.
- Investors will remain nervous over the run-up to the French Presidential elections. The news that centrist François Bayrou is supporting former Economy Minister Emmanuel Macron, rather than standing, reduces the risk that the centre and centre-right votes fragment in the first round. In turn this cuts the chances of a 'hard left' v 'Front National' run-off, which might propel Marine Le Pen to the Elysée. But both French CDS prices and bond spreads remain at elevated levels. By contrast we note that Dutch bonds spreads are relatively contained, despite the generally good showing of the populist right wing PVV party in the polls. The election in the Netherlands takes place on 15 March.
- In the UK, the Article 50 bill looks set to continue its journey through Parliament. It moves to the committee stage of the House of Lords on Monday. As signalled previously, we see no reason why the bill cannot gain Royal Assent early next month, allowing the PM to invoke Article 50 by the end of March at the very latest. On the data side the various PMIs will help markets to gauge the tone of the manufacturing, construction and services sectors. Meanwhile Wednesday's mortgage data (for January) will take the temperature of activity in the housing market. But we would also look at the strength (or perhaps the lack of it) in the consumer credit numbers. Last month's figures showed a sudden drop in net lending to +£1.0bn from +£1.9bn, asking questions as to whether consumer spending may be slowing. We are pencilling in an outturn of +£1.4bn.
- Elsewhere we get the run of February's PMI data, both official and 'Caixin', from China. We expect the economy to remain sufficiently robust to enable the authorities to maintain their new found primary focus on financial stability. But data at around the time of the Lunar New Year can be unreliable and should be considered as such. Last, the Bank of Canada announces its monetary policy decision on Wednesday. **PS**

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Weekly Key Indicators

Indicator			Comment
GfK consumer confidence (Feb)			
00:01 Tuesday 28 February			
	Forecast	Last	
Main index	-5	-5	<ul style="list-style-type: none"> January's reading moved upwards by two points to -5. However January often witnesses increases in the index, so we suspect that there might well have been a seasonal element to last month's move. Evidence from a number of sources shows that the pace of price increases in the high street is beginning to gather steam and that households are beginning to respond by slowing the pace of spending. But the economy as a whole remains relatively robust and we do not see that there is a major trend in consumer confidence in either direction. Accordingly we are pencilling in the index remaining steady at -5. PS
Household lending (Jan)			
09:30 Wednesday 1 March			
	Forecast	Last	
Mortgage lending	+£3.5bn	+£3.8bn	<ul style="list-style-type: none"> Mortgage approvals for house purchase held more or less steady in December as they did in November, after the October recovery that followed the soft patch after the rise in Stamp Duty Land Tax on buy to let properties last April. The December approvals print came in at 67.9k from 67.5k in November. This time we are pencilling in a small edging up in approvals to 68.4k, not a sharp step up. The December release provided evidence that the pick-up in approvals over the past few months has passed through into net mortgage lending, which climbed to £3.8bn, the highest reading since March 2016 (i.e. before the April tax duty change). We expect this pass through to continue into the January numbers; we are pencilling in £3.5bn which would be the second highest reading since March 2016, after December's. Note that re-mortgaging activity was very strong in December too – in value terms, seasonally adjusted, lending here rose by £0.3bn in December to £8.2bn, the strongest number since October 2008. Here the 25bp cut in Bank rate in the summer may well be a supportive factor. On the consumer side, net consumer credit figures were seen weakening in December to the lowest reading since May 2015 at £1.0bn. At this stage it is unclear whether this is the start of new softer run or a blip in the series; our forecast is for something of a correction in January to £1.4bn, but not a full step up to the trend of the 3 months prior to December (i.e. £1.7bn). VC
Mortgage approvals	68.4k	67.9k	
Consumer credit	£1.4bn	+£1.0bn	
Manufacturing PMI (Feb)			
09:30 Wednesday 1 March			
	Forecast	Last	
Overall index	55.8	55.9	<ul style="list-style-type: none"> The UK manufacturing PMI edged down marginally in January, to 55.9 from December's 56.1. This is still a healthy reading, materially above the long run average. Aside from the December outturn, this is the strongest print seen since June 2014. Within the details of the survey, the output balance hit a 32-month high and new orders remained robust; domestic orders in particular. Once again, UK businesses are appearing to shrug off Brexit related uncertainty. On a less positive note, the export orders index dropped on the month, suggesting that the competitiveness boost from post-EU referendum falls in sterling might be starting to wane. And the index for input cost inflation surged to a record high, reflecting the continued impact of the weaker pound on import prices. Looking to February, we expect the PMI to remain elevated, particularly because we think that the boost to exporters from the weaker pound has further to run. We will be watching out, though, for any adverse impact from building price pressures. We expect a small downtick to 55.8. CH
Services PMI (Feb)			
09:30 Friday 3 March			
	Forecast	Last	
Business activity	54.0	54.5	<ul style="list-style-type: none"> The services activity index dropped by 1.7 points in January, from the 17-month higher seen in December, to 54.5. This reading still suggests above-average economic growth as businesses continue to shrug off Brexit-related economic uncertainty. But price pressures do appear to be rising, which might be starting to harm profit margins and domestic demand conditions. The service sector should see less of a competitiveness boost from the weaker pound than the manufacturing sector as it is less export oriented. And, as sterling effects push up further on costs and begin to squeeze household incomes and spending, we think that services output will slow. Across a range of indicators, household spending does now appear to be softening, which should weigh on consumer-facing sectors in particular.

- Consistent with that view, we expect the activity index to decline by another half-point in February, to 54.5. **CH**

Nationwide house price index (Feb)

27 Feb – 3 Mar

	Forecast	Last
Main index	+0.2% (4.1% yoy)	+0.2% (4.3% yoy)

- Amid some talk of a stalling housing market, we would note that the Nationwide house price index has not posted a month-on-month decline for over 18 months. Furthermore the RICS reported price balance has been locked in a range between +23% to +28% over the past four months, consistent with a moderate pace of price increases.
- We are forecasting a +0.2% increase on the month in February's Nationwide measure, which would be consistent with the annual rate of house price inflation remaining broadly steady at +4.1%. **PS**

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The Week Ahead

Date	Venue	GMT	Indicator/event	For	Investec Forecast	Previous
Mon 27	EU19	09:00	M3 money supply	Jan		+5.0% (yoy)
	SP	08:00	HICP (prel.)	Feb		-1.0% (+2.9% yoy)
	US	13:30	Durable goods orders (prel.)	Jan		-0.5%
		15:00	Pending home sales	Jan		+1.6% (-2.0% yoy)
Tue 28	UK	00:01	◆ GfK consumer confidence	Feb	-5	-5
	JA	(23:50)	Industrial production (prel.)	Jan		+0.7% (+3.2% yoy)
	EU19	10:00	◆ CPI 'flash' estimate	Feb		+1.8% (yoy)
		10:00	- core (ex food, energy, alcohol & tobacco)	Feb		+0.9% (yoy)
	FR	07:45	GDP (final)	Q4		+0.4% (+1.1% yoy) (p)
		07:45	HICP (prel.)	Feb		-0.3% (+1.6% yoy)
	IT	10:00	HICP (prel.)	Feb		+1.0% (yoy)
	US	13:30	◆ GDP (2 nd estimate)	Q4		+1.9% (saar) (p)
		13:30	Core PCE price index	Q4		+1.3% (saar) (p)
		13:30	Goods trade balance	Jan		-\$64.4bn (r)
		14:00	Case-Shiller house price index (20 cities)	Dec		+0.88% (+5.27% yoy)
		14:45	Chicago PMI	Feb		50.3
		15:00	◆ Conference Board consumer confidence	Feb		111.8
Wed 1	UK	09:30	◆ Mortgage approvals	Jan	68.4k	67.9k
		09:30	Net mortgage lending	Jan	+£3.5bn	+£3.8bn
		09:30	Consumer credit	Jan	+£1.4bn	+£1.0bn
		09:30	◆ Manufacturing PMI	Feb	55.8	55.9
	JA	00:30	Manufacturing PMI (final)	Feb		53.5 (p)
	CH	01:00	◆ Official manufacturing PMI	Feb		51.3
		01:00	Official non-manufacturing PMI	Feb		54.6
		01:45	Caixin Manufacturing PMI	Feb		51.0
	EU19	09:00	Manufacturing PMI (final)	Feb		55.5 (p)
	GE	08:55	Manufacturing PMI (final)	Feb		57.0
		08:55	Unemployment	Feb		-26k (5.9%)
		13:00	HICP (prel.)	Feb		-0.8% (+1.9% yoy)
		13:00	CPI (prel.)	Feb		-0.6% (+1.9% yoy)
		FR	08:50	Manufacturing PMI (final)	Feb	
	IT	08:45	Manufacturing PMI	Feb		53.0
	SP	08:15	Manufacturing PMI	Feb		55.6
	US	13:30	PCE price index	Jan		+0.2% (+1.6% yoy)
		13:30	Personal income & spending	Jan		+0.3% & +0.5%
		14:45	Manufacturing PMI (final)	Feb		54.3
		15:00	◆ ISM manufacturing index	Feb		56.0
		19:00	Fed publishes Beige Book			
	CA	15:00	Bank of Canada monetary policy decision			unch (0.50%)
	Thu 2	UK	09:30	Construction PMI	Feb	
EU19		10:00	Unemployment	Jan		9.6%
SP		08:00	GDP (final)	Q4		+0.7% (+3.0% yoy) (p)
US		13:30	Weekly jobless claims	25-Feb		+6k (244k)
Fri 3	UK	09:30	◆ Services PMI	Feb	54.0	54.5
	JA	(23:30)	National 'core' CPI	Jan		-0.2% (yoy)
	CH	01:45	Caixin Services PMI	Feb		53.1
	EU19	09:00	Composite PMI (final)	Feb		56.0 (p)
		09:00	Services PMI (final)	Feb		55.6 (p)
	GE	08:55	Services PMI (final)	Feb		54.4 (p)
	FR	08:50	Services PMI (final)	Feb		56.7 (p)
	IT	08:45	Services PMI	Feb		52.4
		09:00	GDP (final)	Q4		+0.2% (+1.1% yoy) (p)
	SP	08:15	Services PMI	Feb		54.2
	US	14:45	Services PMI (final)	Feb		53.9 (p)
		15:00	◆ ISM non-mfg index	Feb		56.5
		18:00	◆ Yellen speaks in Chicago			

Expected during the week

UK	Nationwide house price index	Feb	+0.2% (4.1% yoy)	+0.2% (+4.3% yoy)
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Further ahead

9 Mar	EU19	ECB announcement (& press conference)
15 Mar	US	FOMC announcement (& press conference)
16 Mar	UK	MPC announcement