Investec
Investec Bank plc (UK)

Week commencing Monday 27 March 2017

Economics

Investec Economics

The week ahead: Monday 27 March 2017

- This week saw a wobble in the 'Trump reflation trade'. On Tuesday (21 March) the S&P 500 saw its biggest daily fall (1.2%) since October. Bonds rallied such that the 10-year Treasury yield has dropped to around 2.4%, 10bps below Monday's levels and 20bps below levels seen before the FOMC's 'dovish hike' the previous week. Meanwhile, the greenback fell to, and remains around, multi-week lows.

- The immediate trigger appears to have been the rocky introduction of the Administration's plans to 'repeal and replace' Obamacare. At the time of writing (Thursday 23), President Trump's American Health Care Act is set for a vote in the House of Representatives amid opposition from both moderate and conservative wings of the Republican Party. There is a real chance that President Trump will lose the vote and, even if he wins, a Senate vote (which would likely be held next week) will see even stronger resistance. Lengthy legislative battles on healthcare might start to raise serious questions about the possibility of passing much in the way of fiscal stimulus, on which the Trump trade hinges.

- The Trump trade has certainly not unravelled though. While the S&P 500 now sits 2% below its 1 March (record) closing level, it is still 11% up on its early November level. Further wrangling on healthcare over the coming week might turn out to be a big driver of market sentiment. We also note a couple of US data releases to watch out for – the 3rd estimates of Q4 GDP will be published on Thursday and inflation numbers are published on Friday.

- In Europe, Brexit will take centre stage next week. Following an EU Summit to celebrate the 60th anniversary of the Treaty of Rome (essentially, the foundation of the EU), the UK government will trigger Article 50 via a letter to the European Council President, Donald Tusk. Mr Tusk has promised to respond to the UK government and to send a letter to EU27 countries outlining a 'draft Brexit framework' by Friday 31st. The tone of this process might have implications for sterling markets, as might a Scottish Parliament vote on Tuesday (postponed from Wednesday 22) on whether to support a second independence referendum. On the data front, we expect third estimates of Q4 GDP to confirm the UK's surprising economic resilience towards the end of last year. In fact, sectoral data revisions mean that we expect the Q4 GDP growth estimate to be nudged up from +0.7% to +0.8% q/q. But we think the real challenge lies ahead, as rising inflation over the course of this year will, in our view, lead to a slowdown in growth. Timelier indicators such as mortgage approvals (Tuesday) and Nationwide house prices (expected during the week) might provide evidence of this.

- In the Eurozone, the focus might centre on official responses to the UK's triggering of Article 50. Also on the political front, a German state election (for Saarland) will take place. Just like the Federal government, Saarland is governed by a 'grand coalition' led by the centre-right CDU, supported by the centre-left SPD. The Saarland vote might provide a microcosmic insight of how the national mood might be shifting towards the SPD who, led by the popular Martin Schulz, might stand a chance of beating Angela Merkel to the Chancellorship at the 24 September Federal election. The key Eurozone data release will be the March CPI data. Although the headline inflation rate has now reached 2%, the 'core' rate still sits below 1% - a pickup here is a key condition that needs to be met before the ECB considers tightening monetary policy.

- Finally, we note that the official Chinese PMI data will be published in the early hours of Friday. Indicators from the Chinese economy, including the PMIs, have been fairly buoyant of late. With the big political events taking place on both sides of the Atlantic, it would take a major shock here to rattle markets. **CH**

Click here for diary

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

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

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

Weekly Key Indicators

Indicator	Comment
Household lending (Feb) 09:30 Wednesday 29 March **Forecast** / **Latest** Mortgage approvals: 70k / 69.9k Mortgage lending: +£3.6bn / +£3.4bn Consumer credit: +£1.4bn / +£1.4bn	• A steady pick-up since in September has resulted in January's number of mortgage approvals for house purchase reaching 69.9k, the firmest outturn since February last year. Although there are few signs that the strengthening in housing market conditions nationally is going into reverse, we wonder whether the inflation headwinds facing households will begin to dampen housing demand. We suspect that it might, and are forecasting that approvals level out at 70k. Note that British Bankers' Association figures are due tomorrow (Friday 24th) which will provide a steer on latest developments. • Meanwhile net mortgage lending should pick-up further, reflecting recent trends in approvals. We are pencilling in +£3.6bn, up from +£3.4bn in January. Note that mortgage lending is not rising rapidly - the outstanding stock of mortgages rose by 3.1% in the year to January. • January's net consumer credit rebounded to +£1.4bn from December's +£1.0bn, which was the lowest outturn since May 2015. Even so this lies a touch below 2016's average of +£1.6bn. Historically consumer credit figures have not been a great pointer towards the strength of consumers' expenditure. However anecdotal evidence suggests that the relative buoyancy of the series recently is related to the strength of car sales, which one might expect to slow over the coming months, in line with discretionary consumer spending more widely. Our forecast for February is +£1.4bn. **PS**
GfK consumer confidence (Mar) 00:01 Friday 31 March **Forecast** / **Latest** Main index: -8 / -6	• The GfK measure of consumer confidence edged down by one point in February, to -6. Granted, this is only a modest tick down and the index is still running at above-average levels. But the anecdote from the survey report corroborates fears that rising inflation is beginning to weigh on household spending power. • Indeed, with the headline rate of CPI inflation having reached 2.3% in February, annual growth in real income per person has ground to a halt at best, while real retail sales fell by 1.4% in the three months to February. • The worsening backdrop for households seems to be gaining increasing prominence in the press, so we expect confidence measures to drop a little further in the near term. Our March forecast for the GfK measure stands at -8. **CH**
GDP 3rd estimate (Q4) 09:30 Friday 31 March **Forecast** / **Last** GDP: +0.8% (+2.1% yoy) / +0.7% (p) (+2.0% yoy) (p)	• Last month's estimate of Q4 GDP growth was revised up to +0.7% from +0.6% on the quarter. We are predicting that this release will see a further upward revision. • Estimates of output growth in key sectors have been pushed up again since the previous GDP figures - construction is now estimated at +1.0% (from +0.2%) and industrial production +0.4% (from +0.3%). On the basis that services growth is held at +0.8%, this could push GDP growth up to +0.8%, the strongest pace of quarterly growth since Q4 2014 and on balance, this is our forecast. We would stress though that there are more concrete signs of a deceleration in Q1. • The full national accounts will be released alongside the GDP data. One feature to watch will be the household saving ratio. In Q4 this was estimated to be 5.6%, its lowest level since Q3 2008. The importance in this context is that in terms of supporting spending, there is relatively little room for saving rates to fall if and when real incomes take a hit. According to the latest BoE forecasts for example, GDP growth of 2.0% this year and 1.6% in 2018 and 2019 are achieved by the help of the saving ratio declining by over 2% (ppts) to 3.25% in 2019. If new estimates of the ratio are lower this time, the scope for achieving this would be correspondingly less. **PS**
Current Account (Q4) 09:30 Friday 31 March **Forecast** / **Last** **Current account**: -£15.5bn / -£25.5bn	• According to the latest data, the UK's external deficit widened by £3.4bn in Q3 such that the current account reached a balance of -£25.5bn. As a proportion of GDP (5.2%), that is the fourth largest shortfall on record. Admittedly, the trade data appear to have been adversely affected by one-off cross-border gold flows, but the £6.0bn deterioration on the quarter is discouraging news, given the weakness in the pound seen since the UK's vote to leave the EU. On a brighter note though, net investment income from

abroad improved for the third quarter running, this time by £3.7bn to a balance of -£5.0bn.

- We expect the picture to improve materially in Q4. ONS estimates of Q4 imports and exports show that the trade balance improved by £8.7bn on the quarter, buoyed by a 6.6% quarterly increase in exports. One caveat is that part of that export strength probably includes the unwinding of the drag from gold transfers in Q3. But there does also now seem to be some underlying improvement in net trade as a result of the weaker pound. We also anticipate a modest further improvement in net investment income in Q4, alongside a marginal narrowing in the 'secondary income' shortfall (this balance mostly reflects government transfers such as EU contributions and international aid).
- Taken together, we expect the current account deficit to narrow by a hefty £10bn in Q4 to reach a balance of -£15.5bn. As a proportion of GDP, that would be the third largest quarterly current account upswing on record. And, as a proportion of GDP, that would deliver the smallest deficit (3.1%) seen since 2012 Q1. While some of this improvement might prove temporary, given the 'erratic' factors affecting exports, such an outturn would provide encouragement to those hoping for a more 'balanced' economic outlook, with net trade driving growth as household spending slows down. **CH**

Nationwide House Price Index (Mar)
28 Mar – 3 Apr

	Forecast	Last
Main index	+0.1% (+3.9% yoy)	+0.6% (+4.5% yoy)

- House prices continued to rise at a decent pace in February. The Nationwide index saw monthly house price growth of +0.6%. That helped deliver 3m/3m growth of 1.1% and y/y growth of 4.5%. If there has been a slowdown in house price growth since the UK's vote to leave the EU last June, it has been a very modest one. It is possible underlying demand conditions have weakened, given Brexit-related economic uncertainty and the inflation squeeze on households, which is now beginning to bite. But activity has likely been propped up by ultra-low interest rates and prices are, we think, seeing continued support from persistently weak supply.
- Especially given the possibility that rising inflation is beginning to weigh on the household sector, and in turn on the housing market, we expect March to see much softer house price growth than in February. But we find it difficult to see a pronounced drop-off in prices any time soon, particularly in view of anaemic supply conditions. Our March forecast is for monthly price growth of +0.1%, which would see y/y growth moving down to +3.9%. **CH**

Economics

Investec Economics

The Week Ahead

Date	Venue	BST		Indicator/event	For	Investec Forecast	Previous
Sat 25	EU27	09:00		EU Summit, Rome – 60th anniversary of the Treaty of Rome			
Sun 26	EU28			UK/EU clocks change (go forward one hour)			
	GE			German state election: Saarland			
Mon 27	UK	09:30		Statement from BoE Financial Policy Committee meeting			
	CH	02:30		Industrial profits	Feb		+2.3% (yoy)
	EU19	09:00		M3 money supply	Feb		+4.9% (yoy)
	GE	09:00		IFO business climate index	Mar		111.0
Tue 28	UK			Scottish Parliament vote on holding independence referendum			
	US	13:30		Wholesale inventories (prel.)	Feb		-0.2%
		13:30		Goods trade balance	Feb		-$68.8bn (r)
		14:00		Case-Shiller house price index (20 cities)	Jan		+0.9% (+5.6% yoy)
		14:45		Services PMI (prel.)	Mar		53.8
		15:00		Conference Board consumer confidence	Mar		114.8
Wed 29	UK		♦	Government to trigger Article 50 of the Lisbon Treaty			
		09:30	♦	Mortgage approvals	Feb	70k	69.9k
		09:30		Net mortgage lending	Feb	+£3.6bn	+£3.4bn
		09:30		Consumer credit	Feb	+£1.4bn	+£1.4bn
		09:30		M4 money supply	Feb		+0.9% (+7.0% yoy)
	FR	07:45		Insée consumer confidence	Mar		100
	US	15:00		Pending home sales	Feb		-2.8% (+2.7% yoy)
Thu 30	EU19	10:00		Industrial confidence	Mar		+1.3
	GE	13:00		HICP (prel.)	Mar		+0.7% (+2.2% yoy)
		13:00		CPI (prel.)	Mar		+0.6% (+2.2% yoy)
	SP	08:00		HICP (prel.)	Mar		-0.3% (+3.0% yoy)
	US	13:30		Weekly jobless claims	25-Mar		+17k (258k)
		13:30	♦	GDP (3rd estimate)	Q4		+1.9% (saar) (p)
		13:30		Final sales (3rd estimate)	Q4		+0.9% (saar) (p)
		13:30		Core PCE price index (3rd estimate)	Q4		+1.2% (saar) (p)
Fri 31	UK	00:01	♦	GfK consumer confidence	Mar	-8	-6
		09:30	♦	GDP (3rd estimate)	Q4	+0.8% (+2.1% yoy)	+0.7% (+2.0% yoy) (p)
		09:30		Business investment (2nd estimate)	Q4		-1.0% (-0.9% yoy) (p)
		09:30		Current account	Q4	-£15.5bn	-£25.5bn
		09:30		Index of services	Jan		+0.2% (+2.8% yoy)
	UK/EU		♦	European Council President Donald Tusk to send draft “Brexit guidelines” to EU27 Member States			
	JA	00:30		National 'core' CPI	Feb		+0.1% (yoy)
		00:50		Industrial production (prel.)	Feb		-0.4% (+3.7% yoy)
	CH	02:00	♦	Official manufacturing PMI	Mar		51.6
		02:00	♦	Official non-manufacturing PMI	Mar		54.2
	EU19	10:00	♦	CPI 'flash' estimate	Mar		+2.0% (yoy)
		10:00		- ex food, energy, alcohol & tobacco (prel.)	Mar		+0.9% (yoy)
	GE	08:55		Unemployment	Mar		-15k (5.9%)
	FR	07:45		HICP (prel.)	Mar		+0.2% (+1.4% yoy)
		07:45		Consumer spending	Feb		+0.6% (+1.4% yoy)
	IT	10:00		HICP (prel.)	Mar		+0.2% (+1.6% yoy)
	US	13:30		PCE price index	Feb		+0.4% (+1.9% yoy)
		13:30	♦	Core PCE price index	Feb		+0.3% (+1.7% yoy)
		13:30		Personal income	Feb		+0.4%
		13:30		Personal spending	Feb		+0.2%
		14:45		Chicago PMI	Mar		57.4
		15:00		Michigan consumer sentiment (final)	Mar		97.6 (p)

Expected during the week

	Venue			Indicator/event	For	Investec Forecast	Previous
	UK			Nationwide House Price Index	Mar	+0.1 (+3.9% yoy)	+0.6% (+4.5% yoy)
	US			Possible Senate vote on Trump healthcare reforms			

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

♦ Key event indicator