Investec Bank plc (UK)

Economics

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The week ahead: Monday 30 January 2017

- We expect markets to remain heavily focused on developments Stateside next week as President Trump continues to bash quickly through his list of policy priorities in his early days. Globally, markets will be focused on whether he continues to show a high degree of commitment to implementing his pre-election promises and whether he gets onto detailing his fiscal plans. We think that whilst Mr Trump is likely to remain committed to executing his promised fiscal support in the way he has been keen to deliver on wider pledges like withdrawing from the Trans-Pacific Partnership. But delivering on domestic policy issues, such as these, will be more challenging with Congress more involved. This could rein in his ambitions.
- The US focus is also likely to be enhanced by a Fed policy announcement due on Wednesday and with payroll numbers rounding off the week. We anticipate that the Fed will leave policy unchanged, but that it will phrase its statement such that it allows itself another policy move relatively soon, subject to the data. Our full FOMC preview is below. We expect the US jobs report at the end of the week to show a bit of a pick-up in the pace of non-farm payroll gains in January as the economy holds up well in the months after Mr Trump's election victory.
- Aside from the Fed there are two further top-tier central bank meetings taking place next week. The Bank of England will, we expect, announce a 'no change' policy decision next Thursday lunchtime. Governor Carney will give a press conference accompanying the release of the Bank's latest Inflation Report, which markets will be closely tuned in to for any hints that the Bank's stance is moving from neutral to slightly more hawkish, as inflation begins to move up and the economy continues to perform well. Note that our full preview to this meeting will be released shortly. The Bank of Japan announcement is due early Tuesday, though no major policy changes are anticipated.
- For UK focused markets we anticipate that discussions and developments in taking forward the UK's Brexit trigger bill will be important, particularly if they provide any hints that point to the government running into trouble in reaching its end March timeline for triggering 'Article 50', which for now the government still believes it is on track with. The first parliamentary debate has been scheduled for 31 January. On the domestic data front, consumer confidence for January, mortgage approvals and lending data and the UK's services, manufacturing and construction PMIs will be key focal points. The PMIs in particular will be watched for signs that the UK economy is still firing on all cylinders as these surveys suggested it was as 2016 closed.
- From the Eurozone, the release of German and Eurozone inflation figures will be a focus. However we note that ECB President Mario Draghi remained relatively relaxed about upward movements in inflation and unpressured by German calls for tighter policy as German inflation moves higher. Q4 Euro area preliminary GDP figures are also due and will likely be a top level focus, with the early consensus for growth of 0.4% q/q from Q3's 0.3% pace. In political developments next week, we suspect wrangling over what to do about the Italian Constitutional Court ruling that Italy's election system needs a shake-up, will continue. This will likely include debate about when and if Italy should head to early elections.
- Finally, we note that China will be celebrating with its Lunar New Year holiday so Chinese economic news will likely be quieter than normal. However the 'official' and Caixin PMIs are still set for release from Wednesday 1 February. **VC**

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Fed seen on hold in February, likely to ensure all options in play for March meeting.

The Federal Open Market Committee meets next week for its first meeting of 2017. Its policy announcement and statement are due at 19:00 on Wednesday 1 February. We expect no major policy changes to be made with the Federal funds target rate range to be left at 0.50-0.75%, following the 25bp hike announced on 14 December. There will be no press conference so all eyes will be on the policy statement for any additional clues on the Fed's forward plans.

Over recent weeks multiple Fed participants have signalled that they see a steady series of rate rises through 2017 as appropriate, as indeed the Fed's December 'dot plot' signalled; the 'dot plot' pointed to the median view of Fed participants being three rate rises through 2017. Fed Chair Janet Yellen's comments last week appeared to indicate that she also shared that three hike view. However she was also careful to say that it was 'prudent' to adjust the stance of monetary policy gradually and that judging exactly when to act will be difficult given a number of uncertainties, including over Congress's fiscal plans. The annual rotation of voting members which took effect from January is also worth noting, given that the voting contingent seems to be more dovish in tone in their recent comments, than the FOMC overall.

Our expectation is that the Fed will seek to word next week's policy statement in such a way that it puts the possibility of another rate rise at the 15 March meeting on the table, but not put the Fed on a course that would lock in the next move so soon. Whether we see a March move will depend on global market sentiment in the first weeks of President Trump's term; this could turn downwards if the President's protectionist rhetoric dominates, although we note for now sentiment remains robust. Further we note that Q1 data continues to suffer from 'residual seasonality' which the BEA has not yet managed to fully adjust for in its methodology, meaning that there is a decent chance of a soft run of upcoming Q1 data. And of course, there is also the curse of the Q1 weather which could be a further drag on Q1 numbers. Additionally, the March FOMC coincides with the March deadline for Congress to raise or re-suspend the debt ceiling which often ends up in a nasty congressional battle, leaving markets on tenterhooks. Our main case remains one in which the Fed is more likely to push through two rather than three rate increases in 2017; our central view is that the next increase is likely in June. Indeed, the Fed has form in overcooking its 'dot plot' estimates; it overestimated hikes that would in 2015 and 2016 by 75bp each year.

With the Fed still awaiting further detail of Donald Trump's economic policy stance, particularly fiscal policy support, we think it is unlikely to push through any significant forecast changes at this stage. The US economy does not appear to have shifted path markedly since its December meeting so we expect a similar tone of statement to be struck. Indeed we would expect economic activity to be described as 'expanding at a moderate pace' and market based measures of inflation compensation, which still hold around November/December levels, to be described again as low.

Note finally that we expect that 2017 will be the year in which the Fed starts to seriously discuss its plan for halting reinvestment of its $4.2trn QE holdings. We suspect that any actual policy changes though would not be made until next year when the Fed's normalisation of interest rates is more advanced. The meat of this discussion is likely to take place later in 2017, we suspect. **VC**

Weekly Key Indicators

Indicator	Comment
GfK consumer confidence (Jan) 00:01 Tuesday 31 January **Forecast** **Last** Main index -8 -7	• The GfK measure of consumer confidence rose by one point in December, to -7. That is somewhat softer than the levels that prevailed over the two years preceding the EU referendum. But the index still lies above its series average of -9, suggesting that, by and large, consumers are not overly worried about the implications of Brexit. • Over the coming months, however, we see post-referendum falls in sterling pushing up on import prices and ultimately on CPI inflation, which we see exceeding 3% towards the end of this year. That will reduce household spending power. • There are signs that higher inflation is in the early stages of materialising. That might start gradually weighing on consumer confidence. Our forecast is that the GfK index will decline a notch in January, to -8. **CH**
Household lending (Dec) 09:30 Tuesday 31 January **Forecast** **Last** Mortgage lending +£3.3bn +£3.2bn Mortgage approvals 70.0k 67.5k Consumer credit +£1.8bn +£1.9bn	• Last month's BoE approvals lending data were fairly encouraging. Seasonally-adjusted mortgage approvals ticked up in November to 67.5k from October's (revised) 67.4k. That marked a continued gradual improvement from sogginess seen earlier in the year as stamp duty rises and Brexit jitters hit. Net mortgage lending held steady from the previous month, at £3.2bn. But the standout number was for consumer credit, which came in at £1.9bn – the strongest outturn since March 2005. • As households feel the squeeze of higher inflation over the coming months (see above), that might in turn weigh on the housing market. • But the inflation squeeze is nascent and is not likely to have had much of an impact on the December mortgage approvals and lending numbers. In fact, the latest data from the BBA points to a monthly rise in approvals of over 5% in December. Partly based on this, we anticipate a strong pickup in the BoE data, to 70.0k. Meanwhile, we see mortgage lending edging upwards, to £3.3bn. And we are forecasting a slight correction from the November surge in consumer credit – our December forecast is for £1.8bn. **CH**
Manufacturing PMI (Jan) 09:30 Wednesday 1 February **Forecast** **Last** Overall index 56.1 56.1	• December's PMI was recorded at 56.1, a 30-month high. In addition Markit, which compiles the survey, noted that responses for both production and orders were also at 2½ year highs. • Until relatively recently, official numbers were telling a much weaker story, with the manufacturing output having contracted by 0.8% over Q3. However the picture in Q4 seems to have been much brighter, with estimates showing that the sector rebounded by 0.7% during the quarter. • Certainly conditions should be supportive of manufacturing. We expect the global economy to strengthen this year (3.6% growth against 3.1% in 2016), sterling is at highly competitive levels and domestic demand does not appear to have been dampened by the prospect of Brexit (at least so far). Accordingly we judge that the PMI will remain at buoyant levels and are pencilling in an unchanged reading of 56.1. **PS**
Services PMI (Jan) 09:30 Friday 3 February **Forecast** **Last** Business activity 55.5 56.2	• The UK services PMI for December climbed to 56.2 from November's 55.2, marking a 17-month high. And the survey was upbeat, almost across the board, with increases in the new business and 'business expectations' indices, whilst the employment index remained at elevated levels. • However we note that price pressures were increasingly evident and are likely to provide something of a squeeze on the index over the months ahead. In December, input costs resulting from the weakness in sterling were described as rising at the second fastest rate since 2011 and services providers raised their own charges at the sharpest rate since April 2011 too. • We expect to see the January PMI step back a touch from December's strength, for one as price pressures start to bite a bit more, but also reflecting our expectation that some correction from the surprisingly robust December reading seems likely. Our forecast is for a business activity index of 55.5. **VC**

US Non-farm payrolls (Jan)
13:30 Friday 3 February

	Forecast	Last
Change in payrolls	+185k	+156k
Unemployment	4.7%	4.7%

- The December non-farm payrolls report showed payrolls rising by 156k, down from November's 204k print as temporary hiring turned negative and as professional and business services firms eased up on hiring too.
- Our reading of the labour market is that it is not about to lose steam and that hiring in these sectors should recover somewhat in the January numbers. We take the huge December surge in the NFIB small business optimism index and the step up in the employment part of this survey as a positive sign for labour market momentum, with small business employment such a critical part of US employment; they account for 99.7% of paid employment.
- In light of this we judge that payroll gains will pick up to the order of +185k in January and that the unemployment rate will hold at the 4.7% rate seen in December.
- Note that pay growth numbers will be worth watching closely as they approach 3% (2.9% y/y in December). The Fed regards these, and in particular the 3% mark, as an important indicator of inflation pressures in the pipeline. **VC**

Nationwide house price index (Jan)
Expected during the week

	Forecast	Last
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
Mon 30	CH			China Lunar New Year holiday 27 Jan – 2 Feb			
	EU19	10:00		Consumer confidence (final)	Jan		-4.9 (p)
	GE	13:00		HICP (prel.)	Jan		+1.0% (+1.7% yoy)
		13:00		CPI (prel.)	Jan		+0.7% (+1.7% yoy)
	SP	08:00		GDP (prel.)	Q4		+0.7% (+3.2% yoy)
	US	13:30		PCE price index	Dec		unch (+1.4% yoy)
		13:30		Personal income, Personal spending	Dec		unch, +0.2%
		15:00		Pending home sales	Dec		-2.5% (+1.4% yoy)
Tue 31	UK	00:01	♦	GfK consumer confidence	Jan	-8	-7
		09:30	♦	Mortgage approvals	Dec	70.0k	67.5k
		09:30		Net mortgage lending	Dec	+£3.3bn	+£3.2bn
		09:30		Consumer credit	Dec	+£1.8bn	+£1.9bn
			♦	'Article 50' Brexit Bill to be debated in Parliament (day 1 of 2)			
	JA	(23:50)		Industrial production (prel.)	Dec		+1.5% (+4.6% yoy)
			♦	BoJ announcement			unch
	EU19	09:00		Manufacturing PMI (final)	Jan		55.1 (p)
		10:00	♦	CPI 'flash' estimate	Jan		+1.1% (yoy)
		10:00		- ex food, energy, alcohol & tobacco	Jan		+0.9% (yoy)
		10:00	♦	GDP (prel.)	Q4		+0.3% (+1.7% yoy)
		10:00		Unemployment	Dec		9.8%
	GE	08:55		Unemployment	Jan		-17k (6.0%)
		08:55		Manufacturing PMI (final)	Jan		56.5 (p)
	FR	06:30		GDP (prel.)	Q4		+0.2% (+1.0% yoy)
		07:45		HICP (prel.)	Jan		+0.3% (+0.8% yoy)
		08:50		Manufacturing PMI (final)	Jan		53.4 (p)
	US	13:30		Employment Cost Index	Q4		+0.6%
		14:00		Case-Shiller house price index (20 cities)	Nov		+0.63% (+5.1% yoy)
		15:00	♦	Conference Board consumer confidence	Jan		+113.7
Wed 1	UK	09:30	♦	Manufacturing PMI	Jan	56.1	56.1
	JA	00:30		Manufacturing PMI (final)	Jan		56.5 (p)
	CH	01:00	♦	Official manufacturing PMI	Jan		51.4
		01:00		Official non-manufacturing PMI	Jan		54.5
	IT	08:45		Manufacturing PMI	Jan		53.2
	SP	08:15		Manufacturing PMI	Jan		55.3
	US	13:15	♦	ADP employment survey	Jan		+153k
		15:00	♦	ISM index	Jan		54.7
		19:00	♦	FOMC announcement		unch	+0.25% (0.50-0.75%)
Thu 2	UK	09:30		Construction PMI	Jan		54.2
		12:00	♦	MPC announcement & Inflation Report		unch	unch
	US	13:30		Weekly jobless claims			+25k (259k)
Fri 3	UK	09:30		Services PMI	Jan	55.5	56.2
	CH	01:45	♦	Caixin Manufacturing PMI	Jan		51.9
	EU19	09:00		Composite PMI (final)	Jan		54.3 (p)
		09:00		Services PMI (final)	Jan		53.6 (p)
	GE	08:55		Services PMI (final)	Jan		53.2 (p)
	FR	08:50		Services PMI (final)	Jan		53.9 (p)
	IT	08:45		Services PMI	Jan		52.3
	SP	08:15		Services PMI	Jan		55.0
	US	13:30	♦	Non-farm payrolls	Jan	+185k	+156k
		13:30		Unemployment	Jan	4.7%	4.7%
		13:30		Average earnings	Jan		+0.4% (2.9% yoy)
		15:00	♦	ISM non-mfg index	Jan		57.2
		15:00		Factory orders	Dec		-2.4%

Expected during the week

	UK			Nationwide house price index	Jan	unch (4.2% yoy)	+0.8% (4.5% yoy)

Further ahead

9 Mar	EU19	ECB announcement
15 Mar	US	FOMC announcement
16 Mar	UK	BoE announcement and minutes