

Investec Economics

The week ahead: Monday 3 April 2017

- This week's story in the UK has centred on Brexit, both in terms of the PM triggering Article 50 and Brexit Secretary David Davis launching the White Paper ahead of Great Repeal Bill. The latter is set to lead into the Act of Parliament that moves the relevant parts of EU law onto the UK Statute Book, when the UK leaves the EU on 30 March 2019. To help readers to identify the relevant events over the coming weeks and months, we include a timeline, below.
- A run of British indicators next week should yield some clues as to whether the pace of activity is slowing on the back of rising inflation, following the 13% depreciation in sterling after last June's referendum. These include all three sector PMIs, plus official data on industrial production and construction. Trade numbers will also shed some light on the extent to which exports are benefitting from the more competitive pound. Although we do expect a run of softer GDP figures through 2017, the adjustment is unlikely to be a severe one.
- In the US we note increased use of the word 'four'. The context here is the number of Fed rate hikes this year. In speeches until recently, and in the FOMC's 'dot plot' on 15 March, most senior Fed officials were referring to the likelihood of three increases. Latterly we have heard a little more on the possibility of four moves. Data over the course of the week will help to guide the direction of this debate, in particular Friday's jobs report for March. February's data showed a buoyant pace of jobs growth, as well as the jobless rate nudging down to the bottom of the Fed's sustainable unemployment range of 4.7%-5.0%. Moreover average weekly wage growth was recorded at 2.8%. Further signs of labour market tightening could prompt a further hawkish turn by Fed members, especially if pay growth is strong. There are a number of other economic indicators earlier in the week, but it is the employment numbers which matter most.
- Market views on a decent start to the year in the Euro area will be influenced by both February's industrial production data in three of the 'big 4' economies (Germany, France and Spain), plus final PMIs for March. Flash estimates were robust, the composite hitting 56.7, a level unseen for nigh on six years. The account (i.e. minutes) from the 9 March ECB meeting will help to clarify some of the tightening of the language in the ECB's introductory statement (e.g. removing the word 'lower' in terms of its expectation of rates remaining at '*present or lower levels*'). Newswire reports suggest that Governing Council members were not signalling a move towards exiting QE, but a reduction in 'tail' risks. This stance may be explained more fully in the account.
- Eurogroup finance ministers meet on Friday in Malta. Greek bond markets have reacted positively to stories that the various parties are close to an agreement on the second review of the (third) bailout. We should find out whether this is a true reflection of the situation next week.
- Chinese markets are closed for the Tomb Sweeping Day holiday on Monday and Tuesday, but we should see the Caixin (unofficial) manufacturing PMI Monday and the services equivalent two days later. Reserves data are scheduled for Friday.
- Last the Reserve Bank of Australia is expected to keep its Official Cash Rate unchanged at 1.5% on Tuesday. **PS**

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Brexit Forward Look

- The past week has been an important one for the British history books with the UK government triggering Article 50 of the Lisbon Treaty, 9 months after the UK's EU exit referendum. That started the clock ticking on the UK's two year negotiating window before Britain formally leaves the EU on 30 March 2019. During that time, the UK will need to agree the terms of its withdrawal agreement whilst also aiming to agree its future trading arrangements with the remainder of the EU.
- We now move into the early stages of the negotiations. Initially these are likely to focus on setting a framework for negotiating and prioritising issues for talks. We do not expect to reach the meat of the talks until later in the year, although the government looks set to press to discuss trade arrangements as early as possible, with some push-back from Brussels. One early focal point will be the EU Summit on 29 April which will take place without the UK present.
- In the UK, the government has a very large burden of work to undertake beyond preparing for and engaging in the Brexit negotiations themselves. The UK's Great Repeal Bill will be presented at the start of the next parliamentary session (likely in May), following the publication of the White Paper. The Bill, which will transfer existing EU laws onto the UK statute book at the time of Brexit, will need to find its passage through the UK Parliament over the next year or so. This will no doubt create a lively debate amongst Members of Parliament within and between the UK's upper and lower houses.
- A timeline detailing some of the key events is below:

Date	Event	Comment
29 Mar 2017	Article 50 of the Lisbon Treaty invoked	PM Theresa May invoked Article 50 of the Lisbon Treaty, starting a two year process before the UK leaves the EU.
30 Mar 2017	White Paper presented ahead of Great Repeal Bill	The UK government presented its White paper on legislating for the United Kingdom's withdrawal from the EU ahead of the 'Great Repeal Bill' (GRB). The statutory instruments in the GRB (secondary legislation) will transfer the EU's existing laws onto the UK statute book so legislation is in place at the point of the UK's exit from the EU. The government is likely to include a "Henry VIII" clause to circumvent the problem that the terms of the post-Brexit deal will not be known by the time the legislation is introduced. This clause is likely to face some significant push back from several corners within Parliament and the House of Lords as being un-democratic. The devolved administrations in Scotland, Wales and Northern Ireland will have the opportunity to make changes to EU laws that fall under their responsibility.
7-8 Apr 2017	Euro area/EU finance ministers meet	Euro area and EU wide finance ministers meet in Malta. This might be an initial discussion on finance minister implications of Brexit with some planning.
Mar/Apr 2017	EU response and framework	The European Parliament's (leaked) negotiating resolution suggests that Brussels will pursue a three point approach to Brexit talks, whilst the Council looks set to spend time determining its precise position. The three separate topics under consideration appear to be: disentangling past ties and commitments; setting goals for future relations; and arranging transition terms to avoid unnecessary disruption. The first phase is likely to focus on issues such as the UK's exit charges, citizens' rights and Ireland/Northern Ireland. Phase 2 will consider 'level playing field' issues such as regulations, taxes and financial services. Phase 3 is likely to concentrate on the transitional arrangements including immigration and jurisdiction of the European Court of Justice; Brexit minister David Davis has said that UK courts will have the power to overturn ECJ case law. Note that European leaders may look to delay discussions over UK trade arrangements until the above are resolved, whilst British PM May will push for these issues to be taken earlier.
10 April 2017	Southern EU member states discuss tactics	Spain hosts southern European Union nations to discuss British negotiations to leave EU.
29 Apr 2017	EU27 (non-UK) EU Summit	Leaders of the non-UK EU countries (EU27) are due to meet at a Summit to discuss Brexit related issues. This gathering is expected to flesh out the EU27's negotiating strategy further and should provide greater clarity on the EU's tactics.
7 May 2017	Second round of French Presidential election	The second round of the French Presidential election (the first round is on 23 April) will determine who is at the helm of the French administration at the time of the Brexit negotiations. The key question is whether the new President swings negotiations towards, or away from, the UK's favour.
May 2017?		The Great Repeal Bill will be introduced at the start of the next parliamentary session which is typically mid-May.
May-Jun 2017	Formal negotiations over UK's withdrawal commence	At this point we would expect the EU to move into the meat of the early phase of the negotiating talks. However it is likely that in these early months there will be little further clarity over the likely outcomes. It may be that the rhetoric from certain administrations, particularly Germany ahead of the Federal Election, is particularly tough at this point; this being the nature of EU negotiations.

18 Jun 2017	French parliamentary election	This is the second round of French parliamentary elections (first round on 11 Jun).
23 Jun 2017	1 year since the Brexit referendum	We would expect this 1 year point will be marked with much focus in the media.
24 Sept 2017	German Bundestag Elections	German Bundestag elections (to elect Federal Chancellor). As with the French election, the winner of this election will shape expectations over the malleability of key member states in Brexit talks. Chancellor Merkel is running neck-to-neck with the SPD's Martin Schulz in the latest polling.
May-Jun 2018	Great Repeal Bill Royal Assent	This is the timeline discussed for the government having completed the process of passing the GRB through parliament and achieving Royal Assent, though clearly this is subject to movement.
Sept-Oct 2018	Negotiations draw to a close	Formal negotiations between the UK and the EU are likely to draw to a close around this time to allow ratification of separation and post-Brexit deals. It is unclear whether EU national parliaments need to ratify some or all of the agreements, but this would be a significant task if required, and an added complication in achieving a final agreement in the already challenging two year time frame.
30 Mar 2019	UK leaves the EU	This is the point at which the UK departs the EU. The UK would clearly hope to have any transitional arrangement in place by this point to avoid a Brexit 'cliff edge'.
Mar 2019 onwards	Formal non-EU trade negotiations	Formal trade negotiations with other countries/trading blocs can begin. They are unable to commence before this date whilst the UK remains an EU member, although there has been discussion over whether the EU would turn a blind eye to informal talks earlier.
Mar 2019 onwards	UK trade negotiations with the EU continue	Although PM May's ambition is to finalise UK-EU trading arrangements as part of the withdrawal agreement, if this proves too challenging these could continue on post-2019. The challenge is that any stand-alone trade agreement would need sign off in national parliaments.
Mar 2019 onwards	Scottish independence referendum	PM Theresa May looks set to delay Scottish momentum to hold a second independence referendum until after the UK has left the EU.
Mar 2019 to 2024?	Transitional arrangement?	UK and EU officials expect that a transitional agreement (currently termed 'phased implementation') to be in place, given that a two year window is relatively short. This is expected to sort out the 'fine print' of broad agreements.
May 2019	EU Parliamentary elections	EU Parliamentary elections to be held (without the UK).
7 May 2020	UK General Election	This will be Theresa May's first nationwide test of support following the UK's EU exit.

Weekly Key Indicators

Indicator			Comment
Manufacturing PMI (Mar) 09:30 Monday 3 April			<ul style="list-style-type: none"> February's index fell by just over a point to 54.6 from 55.7 in January. Nevertheless this still represents a level three points above the survey's long-term average and one that is consistent with a decent level of manufacturing growth. The sector appears to be in a sweet spot right now. Although the ONS numbers showed a monthly contraction of 0.9% in January, manufacturing output grew by 2.1% on a three month on three month basis. In brief both the PMI and the official numbers are signalling the same broad message. Even so we suspect that the PMI is enjoying a touch of over exuberance at current levels and we judge that we may see a further modest correction this time. We are pencilling in a level of 54.0. We would also watch the survey's response on input prices. Last month's reading moderated to 81.0 from 87.9, but this is still pointing towards a rapid rate of input price inflation. If maintained for much longer, the implication would be that the general level of inflation could remain higher for longer with the consequent negative impact on household purchasing power. PS
	Forecast	Last	
Overall index	54.0	54.6	
Services PMI (Mar) 09:30 Wednesday 5 April			<ul style="list-style-type: none"> February's UK services PMI witnessed a bigger than expected fall, declining over a 1pt to a five month low of 53.3. The latest reading indicated the slowest expansion of overall business activity since last September, albeit still well into expansionary territory for the dominant UK sector, holding well above the 50 mark. The primary drag came from rising input costs which rose at the fastest pace since August 2008 and resulted in the biggest rise in service provider costs in nearly eight and a half years, according to the survey provider, Markit/CIPS. That price squeeze appeared to have led to a softening in new business growth, with some firms linking the slowdown to more cautious spending by consumers. Note that we do not see further steep declines in the PMI ahead and indeed the February PMI report pointed to firms maintaining strong optimism about prospects for the year ahead. However input price pressures look set to remain present and if anything increase further over the months ahead. In terms of the March PMI, we look for a steady reading at 53.3. Although March has been a month with a very heavy focus on Brexit ahead of the triggering of Article 50 on 29 March, we do not expect this to have materially heightened concerns over the outlook, with the Brexit trigger point well publicised in advance. VC
	Forecast	Last	
Business activity	53.3	53.3	
Manufacturing output (Feb) Industrial production (Feb) 09:30 Friday 7 April			<ul style="list-style-type: none"> Manufacturing output fell by 0.9% m/m in January. This came as no surprise though, given increases of 1.4% and 2.2% in the preceding two months. Meanwhile, the broader measure of industrial production saw a 0.4% m/m decline, as the fall in manufacturing output was offset by decent growth in mining and quarrying output (+1.4% m/m) and utilities output (+1.6% m/m). The broader recent trend in manufacturing output has been strong. On a three-month on three-month basis, this sector expanded by 2.1% in January – the highest growth rate seen since May 2010. Exporters of manufactured goods appear to be feeling the competitiveness boost delivered by last year's falls in sterling. We expect factory output to revert to a slightly-above-average 0.2% m/m growth rate in February, as the sterling boost continues to come through. We expect growth in overall industrial production to follow suit. CH
	Forecast	Last	
Manufacturing output	+0.2% (+3.7% yoy)	-0.9% (+2.7% yoy)	
Industrial production	+0.2% (+3.7% yoy)	-0.4% (+3.2% yoy)	
Trade in goods & services (Feb) 09:30 Friday 7 April			<ul style="list-style-type: none"> The UK's monthly deficit in goods and services trade held steady in January, at £2.0bn. The goods only shortfall narrowed very marginally, from £10.9bn to £10.8bn. However, the headline numbers were worsened by a sharp rise (+21.1% m/m) in oil imports, which can be volatile. More encouragingly, the 'core' goods trade deficit – excluding oil and 'erratic' items – narrowed from -£12.0bn to -£11.2bn. A closer look at the goods trade volumes data offers some further encouragement. 'Core' export volumes rose by +6.8% in the three months to January – the highest rate seen since March 2011, well in excess of the 3.2% 3m/3m 'core' imports growth seen in January.
	Forecast	Last	
Goods & services	-£1.3bn	-£2.0bn	
Visible trade	-£10.2bn	-£10.8bn	
-ex-oil & erratics	-£10.8bn	-£11.2bn	

- One caveat, though, is that export prices are currently growing more quickly than import prices. While we are seeing an export volumes boost from past falls in the pound, the price movements we are currently observing might be a sign that exporters are increasing their margins rather than building their capacity. If so, that might limit the overall export volumes boost from the weaker pound.
- In February, we expect the 'core' goods trade deficit to narrow somewhat, to -£10.8bn. We also expect January's oil import surge to unwind, which will help the total goods deficit narrow to -£10.2bn. Meanwhile, we expect the balance of services trade to hold fairly steady, such that our forecast for the overall balance of trade in goods and services stands at -£1.3bn. **CH**

Construction output (Feb)

09:30 Friday 7 April

	Last
Construction output	-0.4% (+2.5% yoy)

- We would remind readers that although we do not formally forecast it, this indicator should not be forgotten. It is volatile, difficult to predict and subject to heavy revisions – these are key reasons to monitor it given that it accounts for 5.9% of GDP!
- January's outturn was -0.4%. However positive back revisions resulted in the estimate for Q4 firming to +1.0% from +0.2% previously.
- On the current set of data, were output to remain unchanged in both February and March, the sector would post another quarterly rise of 1.0% in Q1. But as we have mentioned there is a strong possibility that the series will be revised in due course. **PS**

US Non-farm payrolls (Mar)

13:30 Friday 7 April

	Forecast	Last
Change in payrolls	190k	235k
Unemployment	4.7%	4.7%

- March's US employment report saw 235k jobs added, with the highest number of payrolls gained in the goods producing sector since March 2000. The production sector appears to be benefiting from rising construction job gains and from the rollover in the squeeze on capex (particularly in oil) over recent years fading and starting to reverse out.
- We expect this underlying picture to remain more or less intact. However one dampener for March could be the weather, with severe storms hitting parts of the US around the time of the payroll survey week (12th of the month). Although these were not US wide, we note that jobless claims did rise that week and it is possible that the weather took the shine off the March payroll reading. Allowing for a weather related hit, albeit not a huge one, we look for a payroll print of around 190k.
- Turning to the unemployment rate we expect to see a steady 4.7% rate as participation in the workforce continues to expand as it has done in over the past three months, offsetting downward pressure to the unemployment rate.
- Finally, we remind readers to watch out for the wage print in next week's report which will be a key metric in guiding the Fed on the pace of policy tightening over the coming months. February saw average hourly earnings stand at +2.8% (y/y), steady on the upward revised January estimate; if pay growth heads up beyond 3% the Fed may start actively talking about four hikes this year. **VC**

Investec Economics

Economics

The Week Ahead

Date	Venue	BST	Indicator/event	For	Investec Forecast	Previous
Sat 1	UK		BoE's Haldane speaks in San Francisco			
Mon 3	UK	09:30	◆ Manufacturing PMI	Mar	54.0	54.6
	JA	00:30	Manufacturing PMI (final)	Mar		52.6 (p)
		00:50	Tankan large manufacturers' index	Q1		+10
	CH	02:45	◆ Caixin Manufacturing PMI	Mar		51.7
			Public holiday: Tomb sweeping day (day 1 of 3)			
	EU19	09:00	Manufacturing PMI (final)	Mar		56.2 (p)
		10:00	Unemployment	Feb		9.6%
		10:00	PPI	Feb		+0.7% (+3.5% yoy)
	GE	08:55	Manufacturing PMI (final)	Mar		58.3 (p)
	FR	08:50	Manufacturing PMI (final)	Mar		53.4 (p)
	IT	08:45	Manufacturing PMI	Mar		55.0
	SP	08:15	Manufacturing PMI	Mar		54.8
	US	14:45	Manufacturing PMI (final)	Mar		53.4
		15:00	◆ ISM index	Mar		57.7
	15:00	Construction spending	Feb		-1.0%	
Tue 4	UK	09:30	Construction PMI	Mar		52.5
		09:30	Record of BoE FPC meeting held on 22 March			
	AU	05:30	RBA announcement			unch (1.50%)
	US	13:30	Trade balance	Feb		-\$48.5bn
		15:00	Factory orders	Feb		+1.2%
Wed 5	UK	09:00	New car registrations	Mar		-0.3% (yoy)
		09:30	◆ Services PMI	Mar	53.3	53.3
	EU19	09:00	Composite PMI (final)	Mar		56.7 (p)
		09:00	Services PMI (final)	Mar		56.5 (p)
	GE	08:55	Services PMI (final)	Mar		55.6 (p)
	FR	08:50	Services PMI (final)	Mar		58.5 (p)
	IT	08:45	Services PMI	Mar		54.1
	SP	08:15	Services PMI	Mar		57.7
	US	13:15	ADP employment change	Mar		298k
		14:45	Services PMI (final)	Mar		52.9 (p)
	15:00	◆ ISM non-mfg index	Mar		57.6	
	19:00	FOMC minutes (14/15 March)				
Thu 6	JA	06:00	Consumer confidence	Mar		43.1
	CH	02:45	Services PMI	Mar		52.6
	EU19	12:30	◆ Account of ECB meeting	9 Mar		
	GE	07:00	New manufacturing orders	Feb		-7.4% (-0.8% yoy)
	US	13:30	Weekly jobless claims	1-Apr		-3k (258k)
Fri 7	UK	08:30	Halifax house prices	Mar	+0.4% (3.8% 3m yoy)	+0.1% (5.1% 3m yoy)
		09:30	◆ Industrial production	Feb	+0.2% (3.7% yoy)	-0.4% (+3.2% (yoy)
		09:30	Manufacturing output	Feb	+0.2% (3.7% yoy)	-0.9% (+2.7% yoy)
		09:30	Trade in goods and services	Feb	-\$1.3bn	-\$1.966bn
		09:30	Trade in goods	Feb	-\$10.2bn	-\$10.833bn
		09:30	ex oil and erratics	Feb	-\$10.8bn	-\$11.159m
		09:30	Construction output	Feb		-0.4% (+2.0% yoy)
	JA	06:00	Leading index (prel.)	Feb		104.9
	CH		Foreign exchange reserves	Mar		+\$6.9bn (\$3005.12bn)
	EU19		Eurogroup and Ecofin meetings, Malta (day 1 of 2)			
	GE	07:00	Industrial production	Feb		+2.8% (0.0% yoy)
		07:00	Current account	Feb		+€12.8bn
		07:00	Trade balance	Feb		+€14.9bn (r)
	FR	07:45	Industrial production	Feb		-0.3% (-0.4% yoy)
	SP	08:00	Industrial production	Feb		+0.3% (+2.5% yoy)
	US	13:30	◆ Non-farm payrolls	Mar	+190k	+235k
		13:30	Unemployment	Mar	4.7%	4.7%
		13:30	Average earnings	Mar		+0.2% (+2.8% yoy)
		13:30	Average weekly hours	Mar		34.4hrs

Further ahead

27 Apr	EU19	ECB announcement
3 May	US	FOMC announcement
11 May	UK	MPC announcement and Inflation Report

◆ Key event indicator