Investec Economics

The week ahead: Monday 6 March 2017

- The recent market mood has been one of optimism over the US economic outlook. Following Donald Trump's Congressional address on Tuesday evening, equity markets rallied. Although the speech contained few policy details, markets appeared to cheer the more measured, even presidential, tone from the President. Meanwhile, FOMC members have been talking up the prospect of an interest rate hike as early as the 15 March policy meeting. Rate expectations have firmed; two-year Treasury yields have reached their highest level since 2009 and markets are pricing in a three-in-four chance of a March hike. Equity markets seem relaxed, though; at the time of writing, the S&P 500 index sits at a record high, up nearly 1.5% since the start of the week.

- As the 15 March FOMC meeting nears, two events will be under the spotlight. First, Fed Chair Janet Yellen will give a speech this Friday (3 March). And next Friday (10 March), the payrolls data will be published. Our forecast is that the Fed will wait until June before its next rate hike. But that expectation is at risk. If we see Chair Yellen hint at an imminent rate rise, and if the payrolls data show decent wage gains, a March move will look increasingly likely. Besides these events, there will be little 'Fedspeak' to watch out for as the FOMC enters its pre-meeting 'blackout period' from Saturday 4th.

- The ECB will also be in focus next week with its policy decision on Thursday. President Mario Draghi is likely to fend off calls for any policy tightening in the face of rising headline rates of inflation (the inflation rate in Germany has reached 2.2%, a 4½-year high). Instead, President Draghi is likely to point out that underlying price pressures remain weak, with 'core' Eurozone inflation remaining stubbornly bound between +0.7% and +0.9% y/y for the past eleven months (see our preview, 'ECB to remain on hold…' for full details).

- Other news from the Continent is likely to be political. We are drawing closer to the 15 March Dutch election, where the far-right PVV has a shot at becoming the largest party in parliament (although is very unlikely to be able to form a government). In France, the election campaign of the centre-right candidate, Francois Fillon, limps on as he faces a formal investigation over allegedly paying his wife for a 'fake job'. The campaign might start looking like a two-horse race between the far-right Marine Le Pen and centrist Emmanuel Macron. M. Macron would be firm favourite to win in a run-off against Mme. Le Pen, but if his campaign stutters, the chance of a Le Pen presidency might rise. Such a prospect might push up on French bond yields and down on the Euro.

- In the UK, Chancellor Philip Hammond will deliver the Budget on Wednesday (full preview forthcoming). We expect few fireworks though. Mr Hammond will benefit from a firmer economic outlook than at November's Autumn Statement, but will likely err on the side of fiscal caution, so we expect few giveaways. Meanwhile, the passage of the Article 50 bill continues. The Lords have passed an amendment to guarantee the rights of EU citizens in the UK. That amendment now needs to be voted on by the Commons next week. While we still see the bill passing fairly smoothly, further legislative 'ping-pong' might threaten the government's March deadline for triggering Article 50. On the data front, the big day is Friday with manufacturing, trade and construction numbers due. These data will inform our view on whether growth momentum is being sustained.

- Finally, we note that China's annual National People's Congress kicks off on Sunday. It will probably be more low-key than last year, where a five-year plan was tabled. But we might get an update of the authorities' economic targets. Any hints of tolerance for sub-6½% GDP growth would provide a further signal that the authorities are comfortable with some slowing in the economy as they look to tackle financial stability risks. **CH**

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Weekly Key Indicators

Indicator	Comment
BRC Retail Sales Monitor (Feb) 00:01 Tuesday 7 March **Last** Total +0.1% (yoy) Like-for-like -0.6% (yoy)	• January's survey pointed to a slowdown in retail activity, with like-for-like values growth back in negative territory for the first time since August last year. We recognise that the figures can be volatile and affected by special factors. However two consecutive month-on-month declines in the official measure of retail sales supports the argument that the buoyancy recorded over most of 2016 may now be behind us. • As macroeconomists, we tend to look at variables in real rather than nominal (i.e. value) terms. Indeed our assessment is that the fall in sterling is causing the turn in retail activity, with higher prices resulting in downward pressure on discretionary spending. But the BRC figures are expressed in values and these should be slowing more gradually than real spending. Indeed we suspect that nominal expenditure is holding up better than last month's BRC figures suggested. • Furthermore January's BRC figures seemed to be held back by tough comparatives (i.e. a firm January 2016). Hence our feeling is that February's figures will probably show an upturn although this should not detract from our broader conclusion on consumer spending. **PS**
RICS Housing Survey (Feb) 00:01 Thursday 9 March **Forecast** / **Last** House price balance +26 / +25	• The RICS house price balance edged up two points in January, to +25, following a five point dip in December. We see the January rise as part of a gradual upward trend in prices, which has been apparent ever since a short slump in the immediate aftermath of the UK's vote to leave the EU. • Granted, there are headwinds to housing demand, ranging from Brexit-related uncertainty, an impending inflation squeeze on household incomes, to high levels of stamp duty for second homes and for prime London property. But the supply side remains weak – not enough homes are being built to keep up with household formation. This supply-demand imbalance should see house prices continuing to rise. Our forecast for the February RICS house price balance is for another uptick, to +26. **CH**
Industrial production (Jan) **Manufacturing output (Jan)** 09:30 Friday 10 March **Forecast** / **Last** Industrial production -0.1% (+3.4% yoy) / (+1.1%) (+4.3% yoy) Manufacturing output -0.5% (+3.0% yoy) / (+2.1%) (+4.0% yoy)	• The latest monthly estimate of industrial output showed production having risen by 1.1% in December 2016 which, following a 2.0% November rise, lifted the annual growth pace from 2.1% to 4.3%. The increase in total production was due to the manufacturing sector which recorded a 2.0% monthly rise, whilst all the other main sub-sectors either recorded a fall or remained flat month to month. • Manufacturing output was lifted most substantially by the (typically volatile) pharmaceutical industry, which saw growth of 8.3% m/m; the contribution to overall IP was some 0.49ppts of the 1.1% move. Turning to the January numbers, one key question is whether we see some reversion in pharmaceuticals; on the expectation that we will, we look for a decline in manufacturing output of 0.5% month to month (3.0% yoy). • Note that in terms of the wider measure of industrial output, the electricity, gas, steam and air conditioning sector provided the largest downward contribution in December because of the unseasonably warm December, so some correction looks likely here. Overall we expect a 0.1% month to month drop in IP, with the year on year growth pace at 3.4%. **VC**
Trade in goods & services (Jan) 09:30 Friday 10 March **Forecast** / **Last** Trade in goods -£11.1bn / -£10.9bn - ex oil & erratics -£11.6bn / -£12.2bn Goods & services trade -£3.6bn / -£3.3bn	• December's deficit in trade in goods narrowed to £10.9bn from £11.6bn in November. Indeed the trend over Q4 as whole was ostensibly one of a clear improvement – Q4's shortfall was recorded at £32.5bn against Q3's £39.2bn. • We would point out that so-called 'erratic' items, particularly gold, are distorting the figures. Excluding both erratics and oil reveals a more stable picture with this measure posting a deficit of £33.5bn in Q4 against £32.6bn the previous quarter. These figures may be affected by special factors as well but, if so, we are not aware of it. • Our forecast for the headline number is a deficit of £11.1.bn. Implicitly this encompasses a degree of export buoyancy from the weak pound, which we hope will help drive economic growth forward over 2017 as a whole. **PS**

Construction output (Jan)
09:30 Friday 10 March

	Last
Construction output	+1.8% (+0.6% yoy)

- Construction output grew by a solid +1.8% m/m in December. That helped push 3m/3m growth into positive territory (+0.2%) for the first time since June.
- The construction sector appears on a somewhat firmer footing than it did six months ago. Private sector output has continued on a steady, if unspectacular, growth path. But what has changed is that public sector output appears to have stabilised following a period of weakness seen over the first half of last year. For example, after declining by 14% in the six months to June last year, infrastructure output expanded by 5% in the six months to December.
- The January construction data will be important because, as these data feed into the official GDP estimates, they might provide an early steer on Q1 GDP growth. It is possible that we see output declining a little in January as payback from the strong growth seen in December. But if growth does remain solid, that might pose an upside risk to our current Q1 GDP growth forecast of +0.5% q/q. **CH**

US Non-farm payrolls (Feb)
13:30 Friday 10 March

	Forecast	Last
Change in payrolls	+230k	+227k
Unemployment rate	4.8%	4.8%

- The headline non-farm payroll gain in February came in at 227k, the firmest reading since September. However, the report was a bit more mixed overall as the headline unemployment rate ticked up to 4.8% from 4.7% and the wider ‘U6’ measure of unemployment, which captures those ‘marginally attached’ to the labour force, rose to 9.4% from 9.2%.
- In broad terms we see sentiment holding up well as we move further into 2017. Jobless claims actually fell to 223k for the week ended Feb. 25, the lowest level since March 1973, whilst survey indicators of the employment picture continued to show the labour situation remaining robust. And in terms of small firms, NFIB hiring intentions firmed to +18 in January, the strongest reading since 2006; this is crucial in that small firms account 99.7% of employer firms.
- Expecting this backdrop to translate to another solid labour situation report, we are pencilling in another 200k-plus reading; we look for +230k next week.
- In terms of the unemployment rate, it has been in a range between 4.6% and 4.9% since last May and we expect it to remain there in the upcoming numbers; we look for an unchanged 4.8%.
- Note that one final element of the jobs report that will be worth watching closely ahead of the critical FOMC decision on 15th March is the pay growth position. In January pay growth slipped back to 2.5% y/y from 2.8% y/y in December, despite reports of substantial rises in minimum wages across a number of States. **VC**

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The Week Ahead

Date	Venue	GMT		Indicator/event	For	Investec Forecast	Previous
Sun 5	CH		♦	National People's Congress (day 1 of 6)			
Mon 6	UK	09:00		New car registrations	Feb		+2.9% (yoy)
		11:30		BoE's Charlotte Hogg speaks in Lincoln			
	US	15:00		Durable goods orders (final)	Jan		+1.8% (p)
		15:00		- ex transportation (final)	Jan		-0.2% (p)
		15:00		Factory orders	Jan		+1.3%
Tue 7	UK	00:01		BRC Retail Sales monitor	Feb		-0.6% l-f-l, +0.1% tot (yoy)
		08:30		Halifax house prices	Feb	+0.2% (+5.2% 3m yoy)	-0.9% (+5.7% 3m yoy)
	CH			Foreign exchange reserves	Feb		-CNY12.3bn (CNY2998.2bn)
	AU	03:30		RBA announcement (cash rate)			unch (1.50%)
	EU19	10:00		GDP (final)	Q4		+0.4% (+1.7% yoy) (p)
	GE	07:00		New manufacturing orders	Jan		+5.2% (+8.1% yoy)
	US	13:30		Trade balance	Jan		-$44.3bn
Wed 8	UK	12:30	♦	UK Budget Statement			
	JA	(23:50)		Trade balance	Jan		+¥806.8bn
		(23:50)		Current account balance	Jan		+¥1112.2bn
		(23:50)		GDP (final)	Q4		+0.2% (+1.6% yoy) (p)
		05:00		Leading index (prel.)	Jan		104.8
				Eco Watchers' survey (current activity)	Feb		49.8
	CH			Trade balance	Feb		+CNY354.5bn
				Exports	Feb		+15.9% (yoy) (CNY)
				Imports	Feb		+25.2% (yoy) (CNY)
	GE	07:00		Industrial production	Jan		-3.0% (-0.7% yoy)
	SP	08:00		Industrial production	Jan		-0.5% (+1.9% yoy)
	US	13:15	♦	ADP employment survey	Feb		+246k
		13:30		Non-farm productivity (final)	Q4		+1.3% (p)
		13:30		Unit labor costs (final)	Q4		+1.7% (p)
		15:00		Wholesale inventories (final)	Jan		-0.1% (p)
Thu 9	UK	00:01		RICS Housing Survey	Feb	+26	+25 (house price balance)
	CH	01:30	♦	CPI	Feb		+2.5% (yoy)
		01:30		PPI	Feb		+6.9% (yoy)
	EU28			EU Council Leaders' Meeting (day 1 of 2)			
	EU19	12:45	♦	ECB announcement (& press conference)		QE unch, rates unch	QE unch, rates unch
	US	13:30		Weekly jobless claims	4-Mar		-21k (223k)
Fri 10	UK	09:30	♦	Industrial production	Jan	-0.1% (+3.4% yoy)	+1.1% (+4.3% yoy)
		09:30		Manufacturing output	Jan	-0.5% (+3.0% yoy)	+2.1% (+4.0% yoy)
		09:30	♦	Trade in goods	Jan	-£11.1bn	-£10.9bn
		09:30		- ex oil and erratics	Jan	-£11.6bn	-£12.2bn
		09:30		Trade in goods and services	Jan	-£3.6bn	-£3.3bn
		09:30	♦	Construction output	Jan		+1.8% (+0.6% yoy)
	GE	07:00		Current account	Jan		+€24.0bn
		07:00		Trade balance	Jan		+€18.7bn
	FR	07:45		Industrial production	Jan		-0.9% (+1.3% yoy)
	US	13:30	♦	Non-farm payrolls	Feb	+230k	+227k
		13:30		Unemployment	Feb	4.8%	4.8%
		13:30		Average earnings	Feb		+0.1% (+2.5% yoy)
		13:30		Average weekly hours	Feb		34.4hrs

Expected during the week

	CH			Money supply - M2	Feb		+11.3% (yoy)
				New yuan loans	Feb		+CNY2030bn
				Total social financing	Feb		+CNY3737.7bn

Further ahead

15 Mar	US	FOMC announcement
15 Mar	US	Suspension of the debt ceiling expires
15 Mar	NL	Dutch elections
16 Mar	UK	MPC announcement and minutes

Key

♦ Key event indicator