

# Euro Economics Weekly

## Credit And The Eurozone Malaise

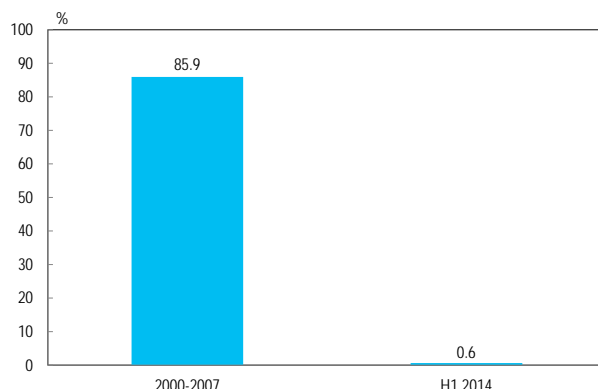
- We expect credit growth to only play a small role in the Eurozone recovery, even as the ECB's Comprehensive Assessment has ended, and even taking into account the improvements in recent credit and lending survey data. We do expect financial conditions to continue to improve, but only modestly and gradually, with high private debt, fragile business sentiment and an uncertain overall growth outlook persistent headwinds for credit growth.
- We also highlight that the relationship between credit growth and economic growth has weakened in the Eurozone in recent years. Countries with large FDI inflows (like Ireland) or where the private sector has strong liquidity positions (e.g. in Germany, Spain or the UK) seem to grow fine without credit growth. But credit availability still matters, in particular in countries that do not benefit from FDI inflows and strong liquidity positions, such as in France and Italy. Boosting credit availability is therefore still necessary for the Eurozone to grow, in our view, even if – given the weakness in aggregate demand – improving credit availability alone is not sufficient to improve Eurozone growth prospects.

Figure 1. Citi Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.22	0.05	0.65	0.77	0.50	161
2Q 15	1.16	0.05	1.00	0.76	0.75	187

Source: Citi Research

Figure 2. Euro Area – Correlation Across Eurozone Countries Between Real GDP Growth (%YY) and Nominal Growth in Bank Lending to Households and Non-Financial Businesses (%YY), 2000-07 and H1 2014



Sources: ECB, Eurostat and Citi Research

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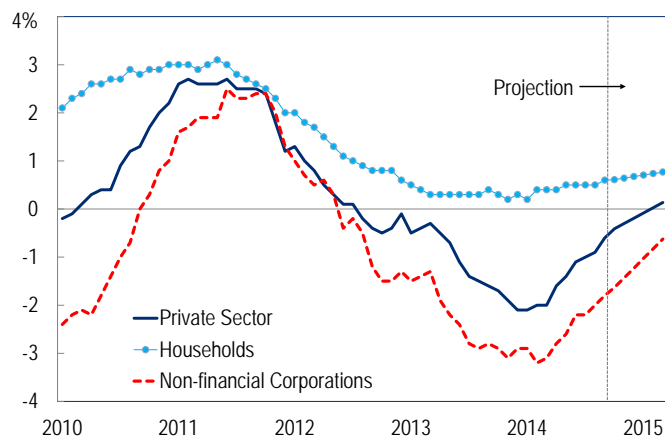
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## Credit and the Eurozone Malaise

In this weekly, we review the latest trends in Eurozone credit growth, lending standards, and lending rates and the prospects for the end of the ECB's Comprehensive Assessment (CA) to boost financial conditions and economic growth prospects. Overall, we expect the fall in credit growth to continue to moderate and for credit conditions to gradually improve from restrictive levels, with a modest boost from the end of the CA. However, we expect credit conditions to remain subdued. This is because private sector debt in many Eurozone continues to be very high, business sentiment is falling and the outlook remains very uncertain, which will continue to weigh on credit demand, while some pockets of credit supply constraints will probably persist even after the CA.

Credit availability matters, and particularly so in countries that do not benefit from strong FDI inflows and strong private liquidity positions. But the relationship between credit growth and GDP growth has weakened in the post-financial crisis period (See Figure 2 on the Front Page) and we therefore caution against using historical and in particular pre-crisis relationships between credit growth and GDP growth as good lead guides in the Eurozone. We also stress that the Eurozone malaise is unlikely to be resolved by improving credit conditions alone. Stronger aggregate demand is needed, and fixing credit supply is only one of many required steps. Additional measures required to reinvigorate the Eurozone economy include further monetary easing (including through large-scale asset purchases by the ECB), a looser fiscal stance, a restructuring of the debt of excessively indebted households and businesses as well as structural reforms to boost animal spirits.

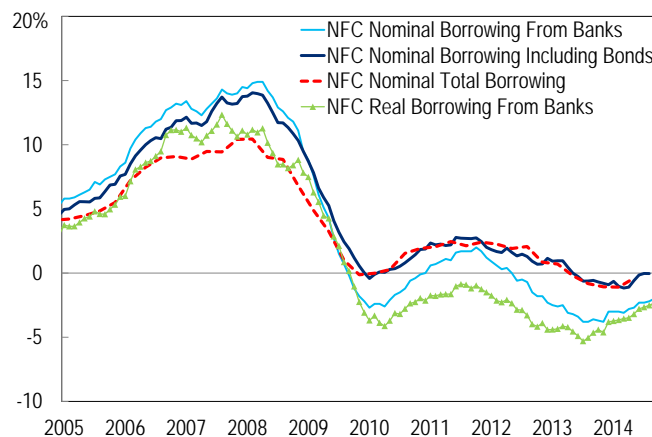
Figure 3. Euro Area – Bank Lending (%YY), 2010- Mar 2015F



Note: Private sector is the sum of households and non-financial corporations. Lending is adjusted for sales and securitisations. Projection based on extrapolating average YY change in monthly lending flows over six months up until September 2014.

Sources: ECB and Citi Research

Figure 4. Euro Area – Non-Financial Corporate Borrowing (%YY), 2005-2014



Note: Nominal Borrowing Including Bonds includes debt securities issuance. Total Borrowing corresponds to total loans and securities other than shares from NFC liabilities in Flow of Funds data.

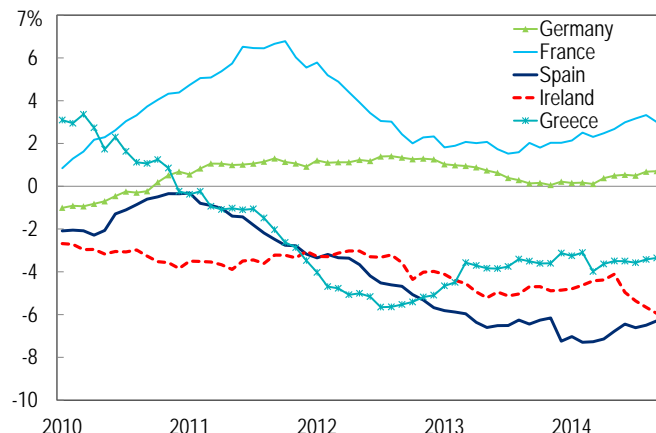
Sources: ECB, Eurostat and Citi Research

### The decline in private sector lending is moderating

The latest ECB credit data for September confirmed the trend of recent months, with the contraction in credit growth gradually moderating. Private sector (the sum of households and non-financial corporations) lending by Eurozone banks in September fell by 0.6%YY in nominal terms (adjusted for sales and securitisations), the ninth consecutive month for the contraction in private sector lending to moderate (in January, private sector lending still fell by 2.1%YY, see Figure 3). The fall in

private sector lending is accounted for entirely by a fall in lending to non-financial corporations (NFCs) which still fell by 1.8%YY in September (but also less than previously), whereas lending to households grew by 0.6%YY, the highest growth rate since December 2012. In real (HICP-deflated) terms, the fall in private sector lending is somewhat larger (-0.9%YY in September), but the trend is similar – in December 2012, private sector lending still fell by 2.9%YY.

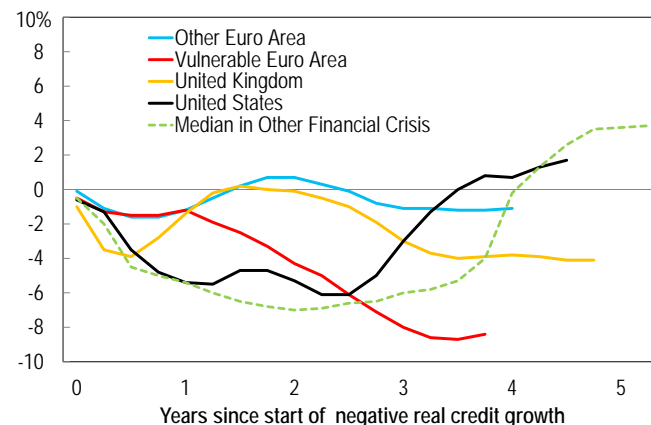
Figure 5. Euro Area – Bank Lending to Households and Non-Financial Corporations (%YY), 2010-2014



Note: Lending is adjusted for sales and securitisations.

Sources: ECB and Citi Research

Figure 6. Bank Lending Growth Relative to Past Crises (0=Year when real credit growth turned negative)



Note: The green line correspond to median of past crisis in advanced and emerging economies from the late 1980s to the period before the global financial crisis. Vulnerable euro area (as defined by IMF): Greece, Ireland, Italy, Portugal, and Spain. Other euro area: Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands.

Sources: IMF and Citi Research

If we take non-bank lending into account, the credit picture is slightly more benign, as debt issuance by Eurozone NFCs on capital markets is rising (it was up by 8%YY in August, the latest available data). Combined NFC new borrowing from banks and capital markets in August was roughly zero in nominal terms (see Figure 4), suggesting that it may have been marginally positive in September for the first time since May 2013. Flow of Funds data (which also include intercompany loans) show that NFC debt fell by 0.5%YY in Q2 (Q3 data are only available on January 27, 2015), suggesting that NFC debt grew marginally in Q3 based on trends in bank lending and NFC securities issue.

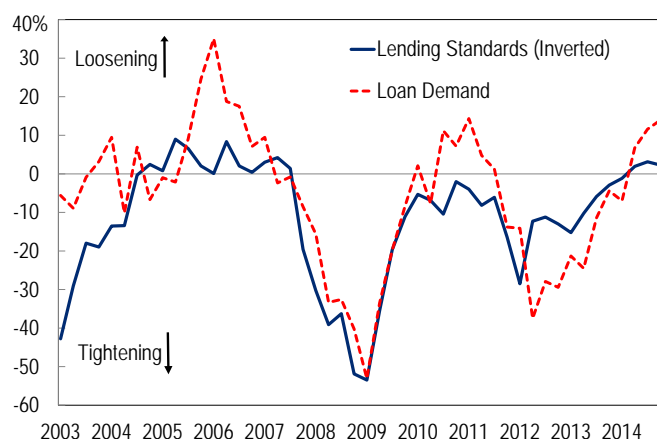
Extrapolating current trends implies that private bank lending growth will probably turn positive in nominal terms in Q1 2015, and similarly for NFC borrowing once we include non-bank borrowing, leaving borrowing growth including debt issuance on capital markets at slightly more positive (but still subdued) levels.

Across countries, differences in credit growth remain large, with private sector borrowing still falling quite sharply in Greece, Ireland and Spain whereas it is growing at around 3%YY in France (Figure 5). Overall, however, credit trends remain very subdued in the Eurozone, both in historical comparison (growth in private sector borrowing in the Eurozone was 9% pa in 2003-07 and 7% pa in real terms) and relative to GDP growth (nominal private credit growth is running at 3pp below nominal GDP growth, whereas it was 4-5pp higher than GDP growth in 2003-07).

The question is why credit growth is so weak? ECB President Draghi has highlighted on various occasions that credit growth tends to lag GDP growth in recoveries and that the Eurozone's current experience fits this pattern. By contrast, the IMF recently argued in its Global Financial Stability Reports that at least in stressed Eurozone countries credit growth is lagging behind the average experience in historical countries (see Figure 6). Whether the current experience in the Eurozone is in line with the historical evidence or not, that still leaves open the question of what holds back credit growth.

## Lending survey improves but interest rates are still high

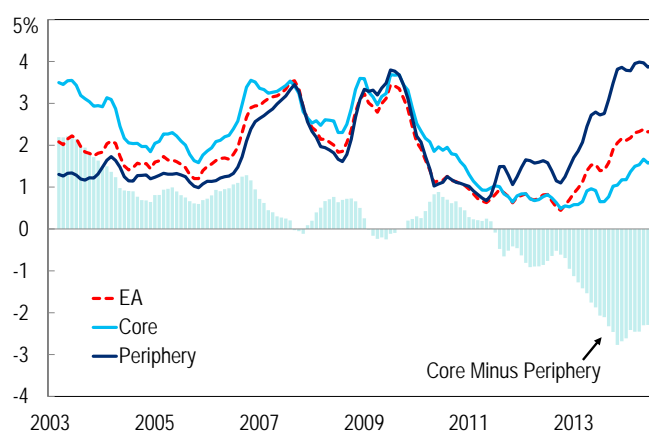
Figure 7. Euro Area – Bank Lending Standards and Perceived Loan Demand (% Balance), 2003-2014



Note: Lending standards and loan demand are net % balance of banks reporting tightening their lending standards and seeing an increase in loan demand, respectively, calculated as a weighted average (by loans outstanding) of lending to non-financial business, mortgage lending and consumer credit, averaged over the actual and expected series.

Sources: ECB and Citi Research

Figure 8. EA – Non-financial Corporations Real Cost of Bank Borrowing (%), 2003-2014



Note: Core is GDP-weighted average of Austria, Belgium, France, Germany and Netherlands. Periphery is GDP-weighted average of Greece, Ireland, Italy, Portugal, and Spain. Borrowing rates are HICP-deflated.

Sources: ECB and Citi Research

Indeed, bank lending standards in the Eurozone have tightened for most of the period between 2007 and 2014. However, there seems to be some light at the end of this tunnel: the ECB's quarterly Bank Lending Survey published on 29 October showed that Eurozone banks' lending standards in Q3 eased for all loan categories for the second survey in a row (see Figure 7). Nevertheless, the *level* of lending standards is probably still very tight, at least in comparison with the pre-crisis period, given that lending standards tightened 26 quarters in a row until Q2 this year. Banks also recorded growing loan demand for all loan categories, for the third survey in a row, and banks expect credit standards to ease further and demand to rise further in the coming three months. But, again, having fallen 10 quarters in a row including Q1, the *level* of credit demand is probably still very low.

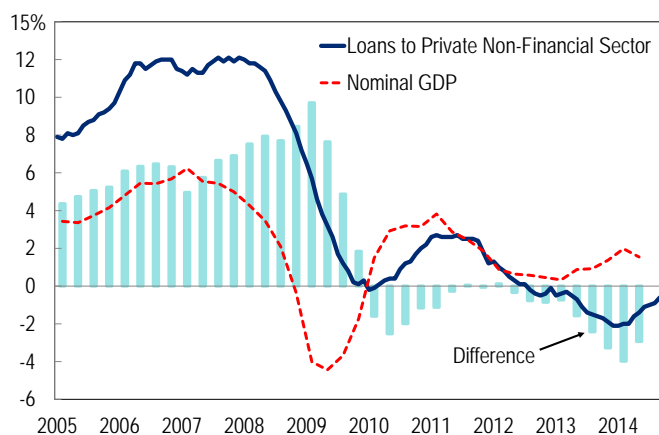
Interest rates are also still high, at least in some countries and in real terms. The ECB's composite cost of bank borrowing measure for Eurozone NFCs was at 2.7% in August. This is roughly 150bp below the 2003-07 average in nominal terms and 100bp lower than in 2011. However, in real (CPI-adjusted) terms, NFC borrowing costs are in fact 20bp *above* the pre-crisis average and have not fallen much at all recently, as Eurozone inflation has fallen faster than nominal borrowing rates (see Figure 8). Cross-country divergences in real borrowing costs are also very high, with borrowing costs of 0-1% in Austria, Finland or Germany vs 5-6% in Cyprus, Greece or Portugal. The ECB's Coefficient of Cross-Country Variation in bank

borrowing costs of NFCs across Eurozone countries remains near all-time highs. In the periphery countries, the fall in inflation rates has meant that real borrowing costs have in fact risen in the last 12 months.

## The ECB's AQR & stress test ended with a whimper

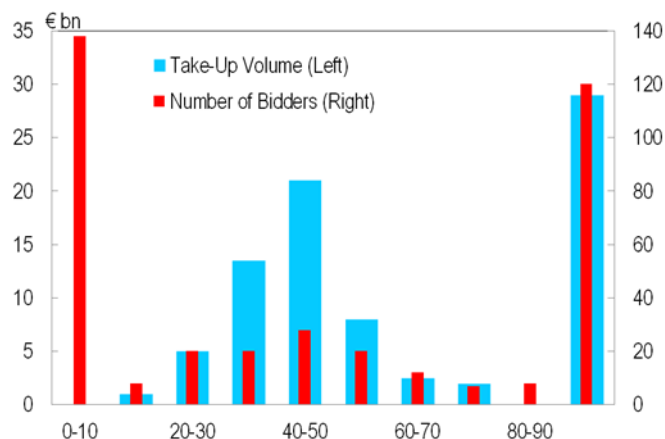
Given still-tight lending standards, that the level and divergence in lending rates is high and that credit growth is low, one question is how the situation can be improved. Some hopes are pinned on the ECB's CA, which ended on October 26 (see [Euro Area - Comprehensive Assessment Ends With A Whimper](#)), with very small capital shortfalls of between €4-6.5bn, once existing restructuring plans and capital raised in 2014 are taken into account. In our view, there are two ways in which the CA could potentially help to stimulate credit growth in the near-term: by increasing banks' willingness to lend and by lowering the cost of capital for banks, which could potentially lead them to lower their lending costs.

Figure 9. Euro Area — Nominal GDP (%YY) and Bank Loans to the Private Sector (%YY), 2005-14



Note: Loans to private non-financial sector (i.e. households and non-financial corporations) adjusted by securitization and sales.  
Sources: ECB, Eurostat and Citi Research

Figure 10. Euro Area – TLTRO Take-up Volume By Banks (€bn and Share of Allowance) and Number of Bidders, September 2014



Note: TLTRO is targeted long-term refinancing operation.  
Sources: ECB and Citi Research

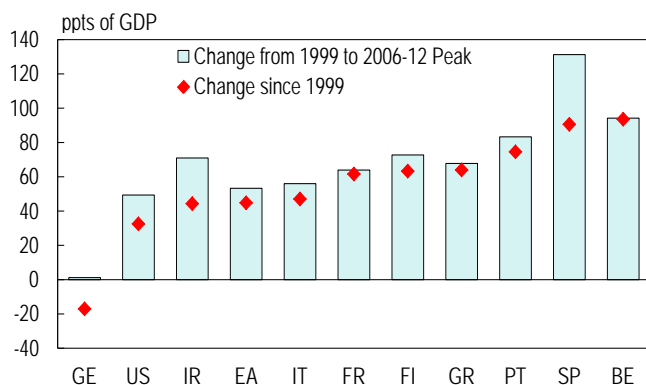
In the ECB's February press conference, ECB President Draghi said that "...so the short-term consequences of the AQR are that banks have to clean up their balance sheets...and this has a negative effect on credit." We are not aware of any evidence that banks have reacted to the CA by cutting back lending, but we consider it plausible that the CA may have had *some* negative effect on bank willingness to lend. The fact that credit growth diverged somewhat from GDP growth around the time when the CA was announced in mid-2013 (see Figure 9) and that bank lending standards tightened then, too, is consistent with this view, even though it is by no means definite evidence of how much the CA may have hit lending (and correspondingly how much its end may now boost lending). As regards a lack of capital as a constraint to lending, the small revealed capital shortfalls suggest that at least the ECB thinks that bank capital is no longer a major constraint to lending.

Bank funding costs have fallen sharply over the last two years. Bloomberg data show that average spreads on senior unsecured bonds of a sample of banks from 'core' Eurozone countries (Austria, Belgium, France, Germany and the Netherlands) have fallen by 130bp and of periphery (Irish, Italian, Greek, Portuguese, and Spanish) banks by almost 400bp since mid-2012. The difference in the average

spread between core and periphery banks is now down to just 20bp, whereas it was almost 300bp in mid-2012. Deposit rates have also fallen and converged across Eurozone countries. ECB data show that average deposit rates for Eurozone banks have fallen from a post-2009 peak of 3.4% to January 2012 to 1.1% in August 2014 with the spread between deposit rates of 'core' Eurozone banks falling from 150bp to less than 50bp. This is not to say that rates and spreads could not fall further. *Some* credit supply and bank funding constraints probably remain, particularly in Italy and perhaps a number of other periphery countries. This is also indicated by the fact that there is a large tail of banks that already took up their full TLTRO allotment in the first instalment (see Figure 10) and Bloomberg data on unsecured bank funding spreads that shows that even within periphery banks market funding costs can still vary by 150bp. In the medium-term, the CA and Banking Union efforts increase economies of scale and scope and lead to more consolidation and competition across the Eurozone and thereby boost financing conditions. But in the near-term we expect the effect of the CA on funding conditions and bank willingness to lend to be somewhat limited.

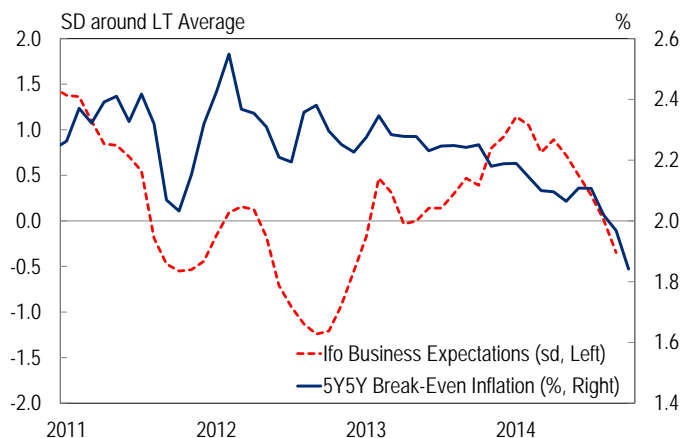
### Continued headwinds for credit demand and supply

Figure 11. Selected Countries – Change in Private Non-Financial Sector Gross Debt (ppt of GDP), 1999 – Q1 2014



Note: Private non-financial sector includes households and non-financial corporations. For Greece and Ireland 1999 data corresponds to 2001. For Ireland, we show only the change in the household debt/GDP ratio.  
Sources: Eurostat, National Sources, and Citi Research

Figure 12. Euro Area and Germany – Eurozone 5y5y Break-even Inflation Expectations (%) and German Ifo Expectations Measure (SD from Long-Term Average), 2010 – 2014



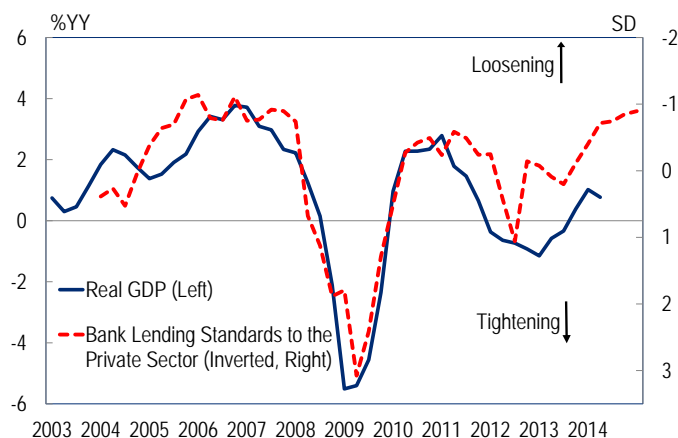
Sources: Bloomberg, ifo and Citi Research

Overall, credit demand is the more binding constraint for credit growth currently than credit supply in most Eurozone countries, in our view, even taking into account the small recent increases in credit demand implied by the last three ECB bank lending surveys. The headwinds for credit demand remain quite strong. Private sector debt levels are still high in many Eurozone countries and there has only been meaningful private deleveraging in recent years in a few countries (e.g. Spain, see Figure 11). In addition, the weak economic outlook weighs on credit demand (and also credit supply). Business sentiment in the Eurozone has fallen quite sharply in recent months. The German ifo business climate survey for October featured the sixth consecutive monthly decline and its forward-looking expectations component is now noticeably below its long-term (1990-2014) average. Inflation expectations have also slid quite markedly (see Figure 12).

## The role of credit is not what it used to be

We therefore expect credit growth in the Eurozone to remain subdued for the foreseeable future. Credit availability clearly matters for the growth outlook. But we also stress that the role of credit growth as a driver or indicator for economic growth has probably diminished in recent years. In general, the links between credit growth and economic growth are complex. The causality can run both ways (easier credit conditions can boost spending and growth prospects, and expectations of higher growth can boost current aggregate demand and credit demand). But growth need not be credit-financed: it can be funded from own funds or by raising external equity, and these sources of funds have grown in importance in the aftermath of the global financial crisis, which left households and businesses with high debt levels in many countries and often lower credit availability (and higher credit costs). The UK is currently growing at 5% nominally and 3% in real terms without any growth in private sector lending. In the Eurozone, Spain and Ireland are growing while private sector lending is still contracting quite sharply (see Figure 5 on page 3), and growth in private credit in Germany would be negative if it was not for rising mortgage borrowing.

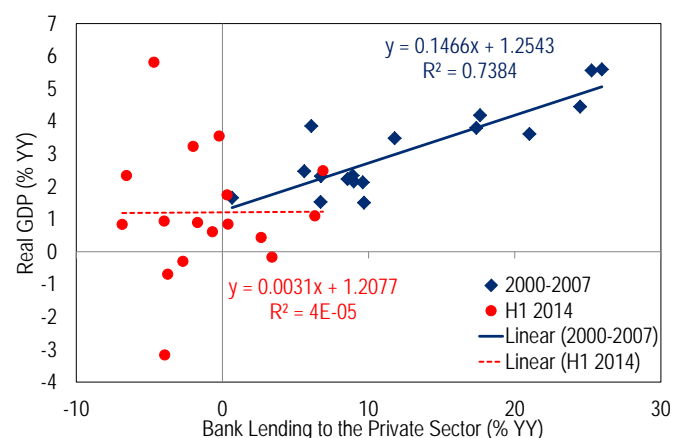
Figure 13. Euro Area – Bank Lending Standards to the Private Sector (2Q Lead, SD from mean) and Real GDP (%YY), 2003- Q3 2014



Note: Lending standards to the private sector calculated as a weighted average (by loans outstanding) of lending standards to loans to non-financial business, mortgage lending and consumer credit, averaged over the actual and expected series.

Sources: Eurostat, ECB, and Citi Research

Figure 14. Euro Area – Real GDP Growth (%) and Nominal Bank lending growth to the Private Sector (%), 2000-07 and H1 2014



Sources: Eurostat, ECB and Citi Research

The link between credit growth and economic growth may even at times be negative: in France, credit growth remains fairly high, while the economy is stagnant, suggesting that credit may be needed to even sustain current spending in the absence of economic or income growth. On the other hand, rising credit growth may also not contribute (much) to economic growth: in the US, non-financial corporations are increasing their borrowing quite sharply, but often to fund equity buybacks rather than capital spending, with probably little first-order effect on growth prospects (even though the buybacks can still have second-order effects on asset prices and GDP growth).

This does not mean that credit availability does not matter for growth prospects. It certainly does. The ability to be able to grow without credit growth is not automatic: the countries that grow fast without a rise in borrowing tend to have large inflows of FDI (such as in Ireland) or benefit from strong ability to generate liquidity or an usually strong liquidity position (e.g. in Germany, Spain and in the UK). But not all



countries in the Eurozone are in such a benign position and in the countries where FDI is lacking and the liquidity position of the private sector is only moderate (e.g. in France or Italy), it may be difficult to generate material economic growth if credit is not readily available or only at high cost. Improving credit availability therefore still remains necessary to avoid “Japanification” in the Eurozone and initiatives such as Banking Union (see [Global Economics View - Stumbling Towards Banking Union](#)) are therefore significant and much needed.

On average, however, the usefulness of credit indicators as lead guides for economic growth has declined. Historically, the link between credit growth and economic growth has been very close in the Eurozone. For instance, the correlation between real GDP growth in the Eurozone and changes in bank lending standards has been quite close (see Figure 13). The correlation between real GDP growth and credit growth across Eurozone countries also used to be very high (0.8 in 2003-2007, see Figure 13 and Figure 2 on the Front Page). But the link between credit indicators and economic growth has weakened quite markedly in recent years (see Figure 14), to the extent that cross-country differences in real GDP growth across Eurozone countries are currently uncorrelated with cross-country differences in credit growth.

### **What else is needed to boost the Eurozone recovery?**

Fixing remaining credit supply constraints remains absolutely necessary to improve Eurozone growth prospects and addressing potential supply constraints is particularly important in countries where supply constraints are probably still fairly common (e.g. Italy), FDI and corporate liquidity fairly low and in light of a possible increase in credit demand. Improving credit supply by restructuring and recapitalising the banking sector may also be useful as a signal that banks and policymakers in the Eurozone are willing and able to address challenges they face and move forward.

However, resolving credit supply constraints is not sufficient to improve Eurozone growth prospects and avoid „Japanification“ of the Eurozone, in our view. Weak aggregate demand appears to be the major constraint for growth in most Eurozone countries and additional policy measures are needed to boost demand. These include the need for additional monetary easing by the ECB and we continue to expect the ECB to announce a large-scale asset purchase programme, focused on government bonds, in December 2014 or early 2015. Additional monetary easing is necessary but probably still not sufficient to transform the Eurozone growth outlook. A looser fiscal stance at the Eurozone level (funded by countries with fiscal space and the ECB but mostly spent in stressed countries) would be desirable, as would be the orderly restructuring of the debt of excessively indebted households and businesses. Unfortunately we currently still see little appetite for such measures or at least for measures which are decisive enough. As many countries in the Eurozone also continue to be held back by poor competitiveness, structural reforms – through their effect on animal spirits and investment prospects – should also play their role in boosting demand (as well as boosting supply, of course).



**Figure 15. Key Economic Indicators (3 November – 7 November)**

During The Week		Forecast	Last
08:00	UK: Halifax House Prices, Oct		
<b>Monday 3 November</b>		<b>Forecast</b>	<b>Last</b>
07:30	Sweden: Manufacturing PMI, Oct	52.9	53.4
08:00	Norway: Manufacturing PMI, Oct	50.2	49.4
09:00	Euro Area: Manufacturing PMI, Oct Final	50.7	50.3
09:30	UK: Manufacturing PMI, Oct	51.0	51.6
	Italy: Budget Balance, Oct		
<b>Tuesday 4 November</b>		<b>Forecast</b>	<b>Last</b>
08:00	Spain: Registered Unemployment, Oct	81.8K MM	19.7K MM
09:30	UK: Construction PMI, Oct		
10:00	EU: European Commission's Autumn Economic Forecasts		
10:00	Euro Area: Industrial Producer Prices, Sep		
	US: Mid-Term Elections		
<b>Wednesday 5 November</b>		<b>Forecast</b>	<b>Last</b>
07:30	Sweden: Services PMI, Oct	55.3	55.6
08:15	Switzerland: Consumer Prices, Oct		
08:30	Sweden: Services Production, Sep	0.2% MM	0.7% MM
08:30	Sweden: Industrial Production, Sep	0.2% MM	-0.2% MM
09:00	Euro Area: Services PMI, Oct Final	52.4	52.4
	Composite PMI, Oct Final	52.2	52.2
09:30	UK: Services PMI, Oct	58.0	58.7
10:00	Euro Area: Retail Sales, Sep	-2.2% MM, 0.0% YY	1.2% MM, 1.9% YY
11:00	Ireland: Unemployment Rate, Oct		
<b>Thursday 6 November</b>		<b>Forecast</b>	<b>Last</b>
06:45	Switzerland: Consumer Confidence, Oct		
07:00	Germany: Incoming Orders, Sep	1.8% MM, -1.2% YY	-5.7% MM, -1.0% YY
08:30	Netherlands: Consumer Prices, Oct		
08:30	Sweden: Average House Prices, Oct		
09:30	UK: Industrial Production, Sep	0.2% MM, 2.0% YY	0.0% MM, 2.5% YY
	Manufacturing Output, Sep	0.4% MM, 2.9% YY	0.1% MM, 3.9% YY
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome – Press Conference at 13:30		
	Euro Area: Eurogroup Meeting (Brussels)		
<b>Friday 7 November</b>		<b>Forecast</b>	<b>Last</b>
	EU: EcoFin Meeting (Brussels)		
00:01	UK: KPMG/REC Report on Jobs, Oct		
06:45	Switzerland: Unemployment, Oct		
07:00	Germany: Industrial Production incl. Construction, Sep	2.7% MM, -0.1% YY	-4.0% MM, 0.0% YY
07:00	Germany: Trade Balance, Sep		
07:30	France: Bank of France Business Sentiment, Oct	95	96
07:45	France: Industrial Production, Sep	-0.9% MM, -1.1% YY	0.0% MM, -0.3% YY
	Manufacturing Production, Sep	-0.7% MM, -1.0% YY	-0.2% MM, -0.6% YY
07:45	France: Industrial Investment Survey, Oct		
07:45	France: Trade Balance, Sep		
07:45	France: Budget Balance, Sep		
08:00	Spain: Industrial Production, Sep	1.6% YY	0.5% YY
08:15	Switzerland: Retail Sales, Sep		
08:30	Netherlands: Industrial Production, Sep		
09:00	Norway: Manufacturing Production, Sep	-0.4% MM	1.0% MM
09:30	UK: Trade Balance – Goods & Services, Sep	£-2.5 Billion	£-1.9 Billion

Source: Citi Research

Figure 16. Economic Indicators – Comments: Euro Area, Germany, France and Spain

Euro Area			
Nov 3 09:00 London Time	<b>Manufacturing PMI, Oct Final</b>	Forecast: 50.7	Prior: 50.3
	The manufacturing PMI is expected to show a modest uptick in October, matching the gain seen in the flash estimate. Despite the small expected gain in October, the underlying tone of manufacturing surveys continues to disappoint, as illustrated by the latest signals from the German Ifo survey last week. We look for some slight improvement in the Italian and Spanish manufacturing PMI estimates in October.		
Nov 5 09:00 London Time	<b>Services PMI, Oct Final</b>	Forecast: 52.4	Prior: 52.4
	<b>Composite PMI, Oct Final</b>	Forecast: 52.2	Prior: 52.0
	Although the flash composite PMI pointed to a very slight acceleration in the pace of private sector activity in October, the entry point for Q4 would be consistent with the slowest pace of expansion in four quarters. For services, the unchanged pace of activity suggested by the level of the flash estimate also highlights some risks of disappointment with respect to a gradual recovery scenario. Based on the flash estimates from Germany and France, activity readings in the periphery likely have improved a little in October.		
Nov 5 10:00 London Time	<b>Retail Sales, Sep</b>	Forecast: -2.2% MM, 0.0% YY	Prior: 1.2% MM, 1.9% YY
	We forecast a 2.2% contraction in retail spending in September, after an unusually large drop in German retail sales on Friday. If confirmed, retail sales' contribution to Q3 GDP is likely to be zero. The picture for the fourth quarter does not look much more encouraging in light of the sizeable deterioration in retail business expectations since the spring and a similar signal from the retail PMI (the 3m average hit a 7-quarter low in Oct).		
Germany			
Nov 6 07:00 London Time	<b>Incoming Orders, Sep</b>	Forecast: 1.8% MM, -1.2% YY	Prior: -5.7% MM, -1.0% YY
	August saw the largest monthly drop in German industrial orders since January 2009, driven in part by unusually weak large orders and a large decline in foreign (in particular non-Eurozone) orders for investment goods. The large decline was in part a payback to a substantial rise in orders in July, but the trend in industrial orders has weakened noticeably in recent months (in August YY growth in industrial orders was -1% vs +6.8% YY growth in Dec 2013-Feb 2014). In September, survey order assessments improved somewhat and we expect industrial orders also to increase. But even with this moderately large increase, industrial orders in 3Q would still be 0.5%-1% below the level in 2Q.		
Nov 7 07:00 London Time	<b>Industrial Production Incl Construction, Sep</b>	Forecast: 2.7% MM, -0.1% YY	Prior: -4.0% MM, 0.0% YY
	August also had the largest decline in industrial production (including construction) since January 2009. The large decline in August was in part due to a payback from the sizable increase in July, which was in part driven by a different calendar for summer holidays in Germany this year, which implied that fewer workers took holidays in July (and correspondingly more in August). However, the underlying momentum in industrial data for Germany is still weakening. In September, we expect a rebound as the calendar effects unwind (e.g. for car production, the decline in August was by 48% and the increase in September 96%, implying that the level of car production in September was merely 1.5% below the level in July). But even with a moderate increase in September, IP would still be lower in 3Q than in 1Q (by around 0.5%).		
France			
Nov 7 07:30 London Time	<b>Bank of France Business Sentiment, Oct</b>	Forecast: 95	Prior: 96
	We look for another small drop in business sentiment in October, pencilling a one-point decline to a 17-month low of 95. Although the INSEE manufacturing confidence survey improved a little in October, the sizeable drop in the flash manufacturing PMI to an eight-month low and the deterioration in expectations contained in the September BoF survey (particularly those related to production forecasts against a backdrop of persistently low prices) do not suggest that the outlook will improve much in the short term.		
Nov 7 07:45 London Time	<b>Industrial Production, Sep</b>	Forecast: -0.9% MM, -1.1% YY	Prior: 0.0% MM, -0.3% YY
	<b>Manufacturing Production, Sep</b>	Forecast: -0.7% MM, -1.0% YY	Prior: -0.2% MM, -0.6% YY
	Our models have been underestimating IP dynamics in the past few months, but we believe that the turning point they have identified is gradually coming through. We look for a sizeable drop in output in September, with producers reacting with a lag to the drop in the ratio of orders versus stocks of finished goods to a 15-month low in August. Yet, the third quarter is likely to witness a modest gain in industrial production worth around 0.3% QQ after falls of 0.6% QQ in both Q1 and Q2-14.		
Spain			
Nov 4 08:00 London Time	<b>Registered Unemployment, Oct</b>	Forecast: 81.8K MM	Prior: 19.7K MM
	We expect the number of jobless claimants to rise by 81.8K in October, mainly affected by seasonal factors due to the end of the labour-intensive summer season. The seasonally-adjusted series should still show ongoing improvement in registered unemployment (we estimate falling by -0.4% MM in October in SA terms), as observed since August 2013. While the improvements in the labour market have been quite sizable in the past year, the drop in jobless claimants is probably overestimating the gains (compared, for example, with the labour force survey), due to fewer unemployed being able to access unemployment benefits.		
Nov 7 08:00 London Time	<b>Industrial Production, Sep</b>	Forecast: 1.6% YY	Prior: 0.5% YY
	Still buoyant survey data (manufacturing PMI stood at 52.6 in Sept, 0.5 sd above its long-term average) suggest industrial production continued to expand in Sept – we project by 1.2% MM after rising by 0.2% MM in August and 0.1% MM in July. We expect this will translate into a YY figure (WDA) in Sept of +1.6% (vs. +0.5% in August). If confirmed, this will still leave industrial output remaining broadly flat QQ in 3Q, after rising by 0.6% QQ in 2Q.		

Sources: National statistical offices, national central banks, Bloomberg and Citi Research forecasts.

Figure 17. Economic Indicators – Comments: Sweden, Norway and United Kingdom

Sweden			
Nov 3 07:30 London Time	Manufacturing PMI, Oct	Forecast: 52.9	Prior: 53.4
	Manufacturing PMI rose 2.4 points to 53.4 in September, but continues to stand below its long-term average of 54.4, signalling a weak recovery for the industry. For comparison, NIER manufacturing sentiment fell 3.7 to 102.8 in September, hence standing slightly above its long-term average. Despite the increase in German and euro area PMI, we expect Swedish PMI to decline slightly in October following the larger-than-expected gain in September. The trend in hard data remains weak compared to sentiment indicators; industrial production slipped by 1.2% QQ in 4Q-13, by 0.3% QQ in 1Q-14, and by 0.7% in 2Q.		
Nov 5 07:30 London Time	Services PMI, Oct	Forecast: 55.3	Prior: 55.6
	Services sector PMI gained 1.4 points to 55.6 in September, indicating healthy momentum in the sector. The series, though, is very volatile and one gets a more precise picture by looking at three-month moving averages. On this basis, the services PMI ticked higher, to 56.6 in 3Q from 56.3 in the three-month period June-Aug, hence staying above the long-term average (55.0). Service sector sentiment, according to NIER, has been mixed, with sentiment in private services having ticked gradually lower since the outset of the year to stand below the long-term average (97.8 in Sep), while retail trade confidence remains well above the historical average (107.8 in Sep).		
Nov 5 08:30 London Time	Services Production, Sep	Forecast: 0.2% MM	Prior: 0.7% MM
	Momentum in the service sector is moderating: services production slipped 0.3% in July and August combined vs the 2Q average, and compares with a 1.8% QQ gain in 1Q-14 and a 0.2% QQ gain in 2Q-14. This is well in line with indications from NIER service sector sentiment (below average reading of 97.8 in Sep), but contrasts with indications from the services PMI (55.6 in Sep). Ahead, we expect momentum in service sector production to recover – strong domestic demand with signs of accelerating retail trade support this view. We note, though, that production data has not been a reliable indicator for GDP over the last year or so.		
Nov 5 08:30 London Time	Industrial Production, Sep	Forecast: 0.2% MM	Prior: -0.2% MM
	Manufacturing production data has been extremely volatile in recent months with an increase in one month followed by a decrease the next month. On balance, average production in July and August combined was 1.3% below the 2Q average, and compares with a 1.4% QQ decline in 4Q-13, a 0.2% QQ drop in 1Q-14 and a 0.6% QQ decrease in 2Q-14. In other words, the trend in manufacturing production remains weak and we lack signs of recovery. The downtrend in production, meanwhile, contrasts with developments in sentiment indicators, which signal at least a very moderate recovery.		
Nov 6 08:30 London Time	Average House Prices, Oct		
	Real estate prices for one- or two- dwelling buildings increased by more than 3% QQ in 3Q and by 7% YY. House prices have increased gradually since 2013, and the uptrend has continued this year. Short-term indicators suggest the uptrend will continue into next year. The Swedish Bankers' Association has announced stricter guidelines for amortization, suggesting amortization on all new mortgages with a loan-to-value ratio above 50% (after lowering this to 70% from 75% in March). On a longer term horizon, this could help dampen the rise in home prices. With the focus back on inflation, we do not expect a continued increase in housing (and lending) will have immediate implications for monetary policy.		
Norway			
Nov 3 08:00 London Time	Manufacturing PMI, Oct	Forecast: 50.2	Prior: 49.4
	In line with the development seen in German and euro area manufacturing PMIs, we expect the Norwegian PMI to improve in October. We note, though, that PMI tends to be very volatile, and is not closely watched by Norges Bank as there often are problems with the seasonal adjustment procedure (especially around holidays). The PMI also covers a very small sample compared to e.g. Norges Bank's own Regional Network Report (RNR) and the quarterly BTS, and has little value in predicting actual production.		
Nov 7 09:00 London Time	Manufacturing Production, Sep	Forecast: -0.4% MM	Prior: 1.0% MM
	Momentum in manufacturing production has been rather steady so far this year; the Jul-Aug average was 1.7% above the 2Q average and follows a 1.2% QQ gain in 1Q and a 1.4% QQ rise in 2Q. Hence, developments are well in line with indications from the latest Business Tendency Survey from Statistics Norway, showing that solid demand from abroad is making up for stagnating overall domestic orders, which are being dented by the downshifting investment cycle in the petroleum sector. Following strong growth in recent months, we expect to see some payback in September.		
United Kingdom			
Nov 3 09:30 London Time	Manufacturing PMI, Oct	Forecast: 51.0	Prior: 51.6
	After three consecutive declines – and with continued weakness in euro area guides – we look for another soft reading this month. A figure in line with our forecast would bring this index to the lowest since early 2013, and put it a little below its longrun average.		
Nov 5 09:30 London Time	Services PMI, Oct	Forecast: 58.0	Prior: 58.7
	The services PMI has oscillated around an average level of 58-59 so far this year and we expect a figure close to that level this time. Such a reading is consistent with service sector output growth that is well above its longrun average.		
Nov 6 07:45 London Time	Industrial Production, Sep	Forecast: 0.2% MM, 2.0% YY	Prior: 0.0% MM, 2.5% YY
	Manufacturing Production, Sep	Forecast: 0.4% MM, 2.9% YY	Prior: 0.1% MM, 3.9% YY
	Surveys suggest that manufacturing output growth is slowing, but we suspect that recent data have overstated the slowdown and look for a stronger figure this month. Such a figure would leave 2Q manufacturing output up 0.5% QQ, the fifth consecutive quarter of growth.		
Nov 7 09:30 London Time	Trade Balance – Goods & Services, Sep	Forecast: £-2.5 Billion	Prior: £-1.9 Billion
	The trade deficit fell sharply in August because of a marked decline in imports of aircraft, and we look for a higher deficit this month. Levels of both imports and exports have been depressed in recent months by the unwinding of transactions related to VAT fraud.		

Sources: National statistical offices, national central banks, Bloomberg and Citi Research forecasts.

**Figure 18. Key Economic Indicators (10 November – 14 November)**

During The Week		Forecast	Last
07:00	Germany: Insolvencies, Aug (by 18 Nov)		
Monday 10 November		Forecast	Last
09:00	Italy: Industrial Production, Sep		
09:00	Norway: Consumer Prices, Oct		
09:30	Euro Area: Sentix Investor Confidence, Nov		
10:00	Greece: Industrial Production, Sep		
10:00	Greece: Consumer Prices, Oct		
Tuesday 11 November		Forecast	Last
07:00	Sweden: PES Unemployment Rate, Oct		
08:30	Sweden: Consumer Prices, Oct		
08:30	Sweden: Riksbank Minutes of Oct 27 Monetary Policy Meeting		
Wednesday 12 November		Forecast	Last
09:30	UK: LFS Unemployment, Jul-Sep	-138,000 QQ, 5.9% Rate	-154,000 QQ, 6.0% Rate
	LFS Unemployment, Single Month, Sep	5.9% Rate	5.9% Rate
	Claimant Count Unemployment, Oct	-20,000 MM, 2.8% Rate	-18,600 MM, 2.9% Rate
	Average Earnings Ex Bonus, 3-Month Average, Sep	1.0% YY	0.9% YY
10:00	Euro Area: Industrial Production, Sep		
10:30	UK: Bank of England <i>Inflation Report</i>		
Thursday 13 November		Forecast	Last
00:01	UK: RICS House Price Survey, Oct		
07:00	Germany: Consumer Prices, Oct Final		
07:45	France: Consumer Prices, Oct		
07:45	France: Balance of Payments, Sep		
08:00	Spain: HICP, Oct Final		
08:15	Switzerland: Producer & Import Prices, Oct		
08:30	Sweden: Unemployment, Oct		
08:30	Netherlands: Retail Sales, Sep		
09:00	Italy: HICP, Oct Final		
09:00	Euro Area: ECB Monthly Bulletin		
09:00	Euro Area: ECB Survey of Professional Forecasters		
10:00	Greece: Unemployment, Aug		
Friday 14 November		Forecast	Last
	EU: EcoFin Meeting – Budget		
06:30	France: GDP, 3Q Flash		
07:00	Germany: GDP, 3Q Flash		
07:45	France: Nonfarm Payrolls, 3Q Flash		
08:30	Netherlands: GDP, 3Q Flash		
08:30	Netherlands: Trade Balance, Sep		
09:00	Norway: Trade Balance, Oct		
09:00	Italy: GDP, 3Q Flash		
09:30	Italy: General Government Debt, Sep		
09:30	UK: Construction Output, Sep		
09:30	UK: Profitability of UK Companies, 2Q		
09:30	Portugal: GDP, 3Q Flash		
10:00	Greece: GDP, (NSA, YY), 3Q Flash		
10:00	Cyprus: GDP, 3Q Flash		
10:00	Euro Area: GDP, 3Q Flash		
10:00	Euro Area: HICP, Oct Final		

Sources: National statistical offices, central banks and Citi Research

Figure 19. Recent Research

<b>Euro Area - Sovereign Debt Update</b>		
Solid Spanish Q3 GDP But Still Negative Inflation	European Economics Team	Oct 30, 2014
EC Not Issuing Negative Opinion On French Italian Budgets;	European Economics Team	Oct 29, 2014
ECB Sources Suggest More Stimulus Possible in Dec-14	European Economics Team	Oct 28, 2014
ECB's AQR and Stress Test Ends with Small Capital Needs	European Economics Team	Oct 27, 2014
<b>Euro Area</b>		
European Economic Forecast Highlights, October 2014	Ann O'Kelly	Oct 30, 2014
Euro Area - Comprehensive Assessment Ends With A Whimper	Ebrahim Rahbari	Oct 26, 2014
Spain - Catalonia Referendum: Will it Happen? If So, What?	Antonio Montilla	Oct 10, 2014
ECB - ECB: 'Let's See' First, But Leaves Door Open To QE	Ebrahim Rahbari	Oct 2, 2014
Global Economic Forecasts - September 2014	Michael Saunders	Oct 1, 2014
Euro Area - ECB Preview: Will all be revealed on Oct 2?	Guillaume Mennet	Sep 25, 2014
Italy - Growth and Inflation keep undershooting expectations	Giada Giani	Sep 25, 2014
Euro Area - ECB Cuts Rates and Announces Asset Purchase Programme	Guillaume Mennet	Sep 4, 2014
Euro Area - Euro Area: What Are The Prospects For Fiscal Easing?	Ebrahim Rahbari	Sep 3, 2014
Euro Area - Inflation Hit a New 5-Year Low	Giada Giani	Aug 29, 2014
Euro Area - ECB Preview: Will Draghi Highlight Downside Risks to Inflation?	Guillaume Mennet	Aug 28, 2014
Euro Area - ECB Draghi Notes Fall in Inflation Expectations	Guillaume Mennet	Aug 26, 2014
Euro Area - PMIs Suggest Very Little Room for Economic Rebound in H2 14	Giada Giani	Aug 21, 2014
Euro Area - SPF Survey: Downward Drift In 2014-15 Inflation Expectations	Guillaume Mennet	Aug 14, 2014
Euro Area: NFC Net Borrowing Falling More Slowly	Antonio Montilla	Aug 12, 2014
<b>Euro Economics Weekly</b>		
Will the Euro Area Suffer from Oil Blues?	Guillaume Mennet	Oct 24, 2014
How Much Will the Weaker Euro Boost Eurozone Growth?	Ebrahim Rahbari	Oct 17, 2014
France: Rejecting Austerity, For Now	Guillaume Mennet	Oct 10, 2014
Greece — Six Crucial Months Ahead	Giada Giani	Oct 3, 2014
Focus On The ECB's Balance Sheet	Ebrahim Rahbari	Sep 26, 2014
H2 GDP Uptick Too Small to Stop ECB QE	Guillaume Mennet	Sep 19, 2014
Euro Area: Housing Sector Close to a Turnaround	Antonio Montilla	Sep 12, 2014
Low-flation Is Here To Stay	Giada Giani	Sep 5, 2014
Is the Period of German Outperformance Over?	Ebrahim Rahbari	Aug 29, 2014
ECB QE: Why, When and How?	Guillaume Mennet	Aug 22, 2014
What's Behind the Periphery Growth Outperformance?	Giada Giani	Aug 15, 2014
How Might Russia Developments Affect The Eurozone Economy?	Ebrahim Rahbari	Aug 1, 2014
France: More Reforms to Jump Start Confidence?	Guillaume Mennet	Jul 25, 2014
Public Debt Sustainability: Has It Really Been Restored?	Giada Giani	Jul 18, 2014
Why Banking Union Matters: Then and Now	Ebrahim Rahbari	Jul 11, 2014
Is The Euro Area Recovery at Risk of Faltering?	Guillaume Mennet	Jul 4, 2014
Weak Pay Trends Imply Further Inflation Undershoot	Giada Giani	Jun 27, 2014
A Great Rotation towards Eurozone Portfolio Assets?	Ebrahim Rahbari	Jun 20, 2014
Labour Market Slack	Giada Giani	Jun 13, 2014
<b>Chief Economist Publications</b>		
Global Economic Outlook and Strategy — October 2014	Willem Buiter	Oct 29, 2014
<b>Scandi and Swiss</b>		
Scandi Economics Update	Tina Mortensen	Oct 29, 2014
Sweden - Time to Think Unconventional Thoughts	Tina Mortensen	Oct 29, 2014
Sweden - Riksbank Cuts to Zero, Initial Tightening Postponed to Mid-2016	Tina Mortensen	Oct 28, 2014
<b>UK</b>		
UK - YouGov Survey Suggests Inflation Expectations Remain Weak	Michael Saunders	Oct 29, 2014
UK - Labour Market Data	Michael Saunders	Oct 15, 2014
UK - CPI Inflation Tumbles	Michael Saunders	Oct 14, 2014
UK - Treasury Survey On Economy	Michael Saunders	Oct 10, 2014
<b>UK Economics Weekly</b>		
Will "Low-flation" Persist?	Michael Saunders	Oct 17, 2014
Persistent Political Uncertainties Likely	Michael Saunders	Oct 10, 2014
Still Bullish on UK Growth	Michael Saunders	Oct 3, 2014
Stubborn Fiscal Red Ink	Michael Saunders	Sep 26, 2014

Source: Citi Research









## Appendix A-1

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