Citi Research

Economics

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Developed Markets
Western Europe

UK Economics Weekly

2014 Outlook — Recovery and the New Normal

- The economy is breaking out of the extended weakness of recent years. We look for strong growth with falling inflation in 2014, plus rapid declines in the jobless rate and fiscal deficit. We reiterate our 3.2% GDP growth forecast for 2014, well above consensus. Monetary policy is very loose, while headwinds from fiscal drag, the EMU crisis and household deleveraging have receded. CPI inflation is likely to undershoot the consensus markedly, falling to — or even a little below — the 2% target in coming months as the boost from regulated prices shrinks.

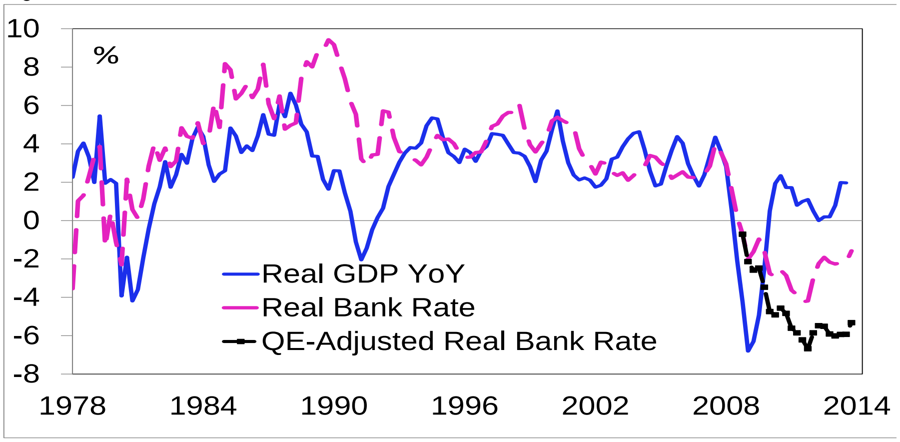
- The BoE's key challenge in 2014-15 will be when and how to withdraw stimulus as the economy recovers. The jobless rate is likely to hit the MPC's 7% threshold by midyear. Rather than reset guidance with a lower threshold (eg 6.5%), we expect the MPC will signal that — with low inflation — tightening is likely to be delayed, gradual and modest. We expect the MPC will begin to hike rates in early 2015 (perhaps late 2014), lifting real rates to roughly zero (ie 2% Bank Rate) in early 2016, followed by the gradual unwind/rolloff of QE. The "new normal" in coming years is likely to be low but generally positive real rates, below precrisis norms, plus rising UK political uncertainties amidst a key series of elections and referendums.

Figure 1. Citi Market Forecasts

	Base Rate	QE Target	10 Year Yield	Spread vs. Bunds	$/£	£/€
End 2014	0.50	£375bn	3.30	153bp	1.75	0.80
Mid 2015	1.00	£375bn	3.50	153bp	1.75	0.80

Source: Citi Research

Figure 2. UK — Real GDP Growth and Real Interest Rates, 1978-2013



Note: We use the BoE's estimate that £100bn of QE is roughly equivalent to a 1% cut in Bank Rate. Real rates calculated using CPI inflation. Sources: BoE, ONS and Citi Research

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Michael Saunders

Recovery and the New Normal

The last few years have generally seen subdued growth with sticky inflation and limited political uncertainty…

It is now roughly 6½ years since the financial crisis erupted. The "new normal" since then in the UK and many other advanced economies has been a mix of generally modest or disappointing growth, high household savings, flat credit growth, and ultra-loose monetary policies (record low interest rates plus QE). In the UK this has been accompanied by persistently sticky inflation and (perhaps surprisingly) by limited political uncertainty — with a relatively stable coalition government embarked on a path of extended fiscal consolidation.

…but the UK is now transitioning to strong growth with low inflation…

The economy is now transitioning back to strong real growth, falling inflation, a shrinking fiscal deficit and falling unemployment. We look for GDP growth of about 3¼% YoY in both 2014 and 2015, well above the consensus (2.4% for 2014), with CPI inflation on average slightly below the 2% target in both 2014 and 2015. Risks probably lie to the upside even of our view. We expect the jobless rate will fall below the MPC's 7% threshold in Q2-14 (although this could come even earlier), reaching about 6½% in Q4. The level of real GDP per head will probably not get back to the precrisis level until about 2016, and we do not expect the economy to regain the precrisis trend path for GDP in coming years. But, the economy can and probably will grow quite strongly for several years to catch up with the lower post-crisis trend. Against this backdrop, we expect the MPC's emphasis will shift during 2014 from emphasizing a "low for longer" message on interest rates to preparing to withdraw stimulus. We look for the first rate hike to occur perhaps in late 2014 or, more likely, H1-2015, with rates then moving up to about 2% within 12 months or so. Such a path would set the stage for a "new normal" in 2016-20 of low — but generally not negative — real interest rates, in contrast to the high real rates of the pre-crisis year and negative real rates in recent years.

…and the return of political uncertainty

However, while economic uncertainties are receding, political uncertainties are likely to rise sharply in 2014 and the next few years, with the EU parliament elections and Scottish referendum in 2014, UK general election in 2015 and possible EU referendum in 2017 or so. At the very least, these events create sizeable uncertainties over the UK's medium-term fiscal outlook. Conceivably, they could hit business confidence and dramatically alter the UK's political structure and global role. The following sections discuss these issues.

Figure 3. UK — Economic Forecasts, 2013-18F

		2013	2014F	2015F	2016F	2017F	2018F
Real GDP	Y/Y	1.9	3.2	3.2	2.9	2.2	2.1
Final Domestic Demand	Y/Y	1.3	3.5	3.4	3.0	1.9	1.9
Private Consumption	Y/Y	2.2	2.9	3.0	3.1	2.2	2.2
Public Consumption	Y/Y	0.7	2.1	-0.3	-0.5	-2.0	-1.6
Fixed Investment	Y/Y	-2.2	8.1	10.8	7.4	5.4	5.0
Business Investment	Y/Y	-3.9	6.5	11.4	8.0	7.3	8.1
Construction of Private Dwellings	Y/Y	4.9	10.5	14.7	8.5	3.7	1.2
Stocks (Contribution to GDP Growth)	Y/Y	0.5	-0.9	0.1	0.0	0.0	0.0
Net Exports (Contribution to Y/Y GDP Growth)	Y/Y	0.1	0.6	-0.3	-0.1	0.3	0.3
CPI	Y/Y	2.6	1.9	1.9	2.1	2.1	2.1
Unemployment Rate	%	7.6	6.8	5.7	4.7	4.5	4.9
Employment Growth	Y/Y	1.3	1.9	2.2	2.3	1.3	0.8
Productivity Growth (GDP Per Hour)	Y/Y	-0.2	1.1	0.9	0.5	0.8	1.3
Current Account Balance	% of GDP	-3.6	-2.8	-3.0	-3.0	-2.7	-2.4
Public Sector Net Borrowing	£bn	107	87	64	34	4	-18
	% of GDP	-6.5	-5.0	-3.5	-1.8	-0.2	0.9
General Government Debt	% of GDP	94.0	96.4	96.4	95.1	93.0	90.0
Gross Non Oil Trading Profits	Y/Y	5.6	7.6	3.7	2.2	1.7	4.1
Bank of England Base Rate(Yearend)	%	0.50	0.50	1.50	2.00	2.00	3.00
APF Asset Purchases (Yearend)	£bn	375	375	375	300	225	150

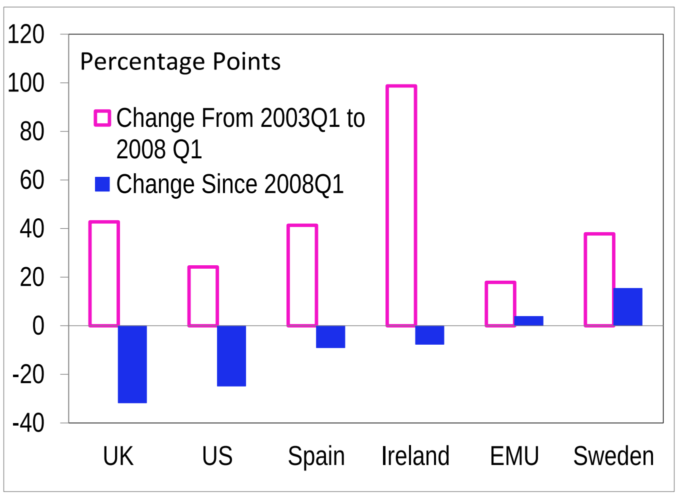
Note: Percentage changes unless indicated. Annual data are period averages. Sources: ONS and Citi Research

Strong Growth — and Perhaps a Hint of the Start of Rebalancing

We expect that – consistent with recent business surveys – growth will markedly exceed consensus

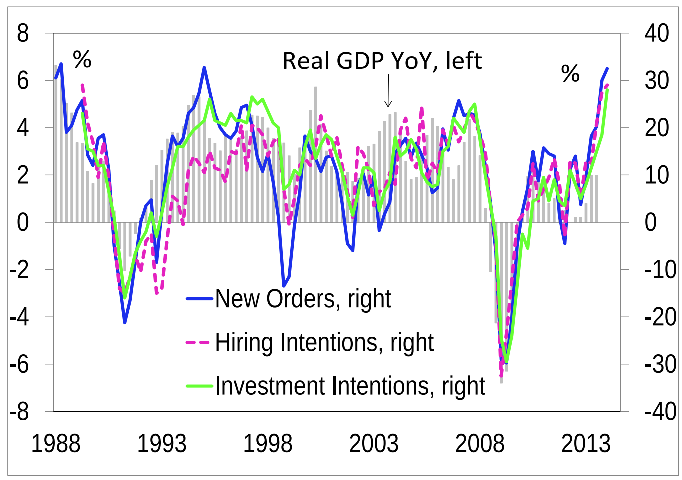
The economy already has grown by 0.7-0.8% QoQ (ie about 3% QoQ annualized) in Q2 and Q3, and recent data suggest that Q4 growth remained at about 0.8% QoQ (2.7% YoY). From there, growth would need to slow to only about 0.5% QoQ during 2014 to match the 2.4% consensus forecast. Such a slowdown is unlikely in our view. Monetary policy remains loose, fiscal drag is fairly mild, and the headwinds from the euro crisis and private deleveraging are easing. Credit availability is improving, corporate liquidity is very strong, and private sector balance sheets have healed substantially. The household debt/income ratio has fallen from 170% in Q1-08 to 138% in Q3-2013, the lowest since 2003. Moreover, business surveys — all of them — remain extremely buoyant, with the British Chambers of Commerce quarterly survey showing widespread strength in orders across manufacturing and services. If anything, we believe that risks lie to the high side of our forecast, with an outside chance that GDP growth could hit 4% YoY during 2014-15, stemming from the possibility of a sharp pick up in business investment and a virtuous circle between gains in incomes, spending, jobs and credit.

Figure 4. Selected Countries — Change in Household Debt/Income Ratios, 2003-2013



Note: Latest data is Q2-2013 for EMU, Spain, Ireland and Sweden, Q3-2013 for UK and US. Sources: BIS, ONS, DataStream and Citi Research

Figure 5. UK — BCC Survey Readings and GDP Growth, 1988-2013



Sources: BCC, ONS and Citi Research

We expect recoveries also in exports and investment, offering hope of more balanced growth further ahead

The coming year will also be crucial in shaping the economy's longer term prospects. So far, there is a major impetus from consumer spending and housebuilding, fuelled by lower personal savings and some pickup in personal borrowing. Investment fell to only about 13.5% of nominal GDP in 2013, the lowest since data began in the 1950s. A continuation of this mix would bring a rapid renewed rise in household debt, high or worsening external deficit and low capital stock growth. Such a recovery would be unlikely to have much staying power and probably would imply dismal longrun trends in productivity and real wage gains. The economy is likely to remain fairly unbalanced in 2014, with a sizeable current account deficit (about £48bn, 2.6% of GDP and low investment/GDP ratio. But we do expect some tentative steps towards rebalancing to emerge during 2014, with solid pickups in exports and business investment. Surveys show a sharp rise in firms' export orders and investment intentions, plus a marked shift towards expansion, investment and hiring among CFO's. Official data show some pickup in business investment in Q3 (up 2.0% QoQ). Nevertheless, the task of rebalancing the economy is likely to remain incomplete for a while, with large current account deficits for several years.

Inflation Heading Back to Target, Perhaps Even Below

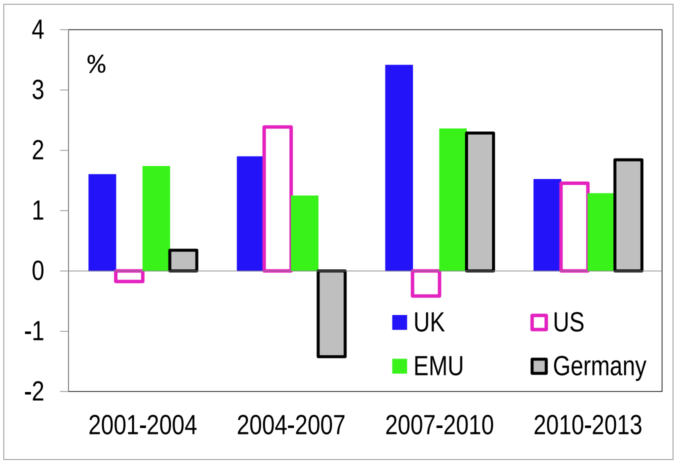
The long period of inflation overshoots is ending

The long period of UK inflation overshoots — versus the 2% target, the MPC's forecasts and the consensus — is probably ending. We expect CPI inflation will hit the 2% target in the Dec-13 data, after overshooting since end-09, and – barring new external shocks — CPI inflation is likely to fall a little below, the 2% target in coming months. After generally warning of upside inflation risks versus the consensus in recent years, our forecasts since mid-13 have been below consensus.

Recent inflation stickiness mainly reflects price increases in utilities and regulated prices, which are now slowing

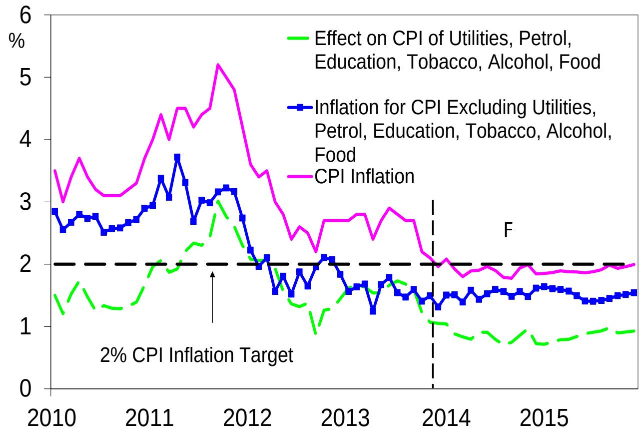
It may seem tempting to regard the mix of weaker-than-expected real growth and higher-than-expected inflation in recent years as a sign of supply-side deterioration — related to weakness in the capital stock and productivity — that will condemn the economy to continued inflation stickiness as activity recovers. The consensus and MPC forecasts seem to incorporate this view into forecasts of further inflation overshoots, whereas we put less emphasis on it. To be sure, the economy's supply side has worsened in recent years, but economic growth has still fallen some way short of potential, creating ample disinflationary slack. In our view, the inflation stickiness of recent years mainly reflects the lagged inflation boost from the sharp drop in sterling of 2007-09 plus, especially in the last 18 months or so, buoyant food prices plus a series of regulatory-driven and tax-driven hikes in prices for petrol, tuition fees, utilities and energy. The UK's core inflation rate (excluding food, drink, tobacco, energy and education) has stayed around 1½% over the last couple of years. Unit labour cost growth has been similar to the subdued pace (also about 1½% YoY) in the US and euro area over the last three years and currently (Q3-2013) is just 1.3% YoY. With food price inflation slowing, and the government acting to cap regulatory- and tax-driven price increases, the headline CPI inflation rate is likely to converge towards the subdued core inflation rate.

Figure 6. UK, US, EMU and Germany — Unit Labour Costs YoY, 2001-13



Note: Figure for 2013 is for Q1-Q3 only. Sources: DataStream and Citi Research

Figure 7. UK — CPI Inflation, 2010-15F



F Forecast. Sources: ONS and Citi Research

Deflation risks are low, but the MPC are likely to err on the side of tolerating inflation risk rather than tighten very pre-emptively

We believe that deflation risks are low, given the sharp pickup in real and nominal GDP growth, and rise in capacity use. Indeed, the emerging recovery will, if sustained, eventually create medium-term upside inflation risks. But, conscious of risks that monetary and fiscal policies would find it hard to provide extra stimulus if the economy suffers a further major adverse shock, we suspect the MPC will err on the side of tolerating some medium-term inflation risks in order to underpin growth. This implies a slight bias for tightening to be delayed and gradual rather than pre-emptive, accepting tradeoffs (consistent with the MPC's remit) that might from time to time leave the MPC's inflation forecast slightly above target as recovery builds.

Labour Market — 7% Threshold Within Sight

The jobless rate is likely to hit the 7% mark in the next couple of quarters

As in 2012, job growth has been surprisingly strong in 2013, with the jobless rate falling by 0.4 percentage points (to 7.4%) over the last year. For 2014, we expect that the mix of strong GDP growth and relatively weak productivity will ensure that the recovery remains employment-rich, so that the jobless rate hits the MPC's 7% threshold in Q2-2014 (and perhaps even Q1) and falls to about 6½% in Q4.

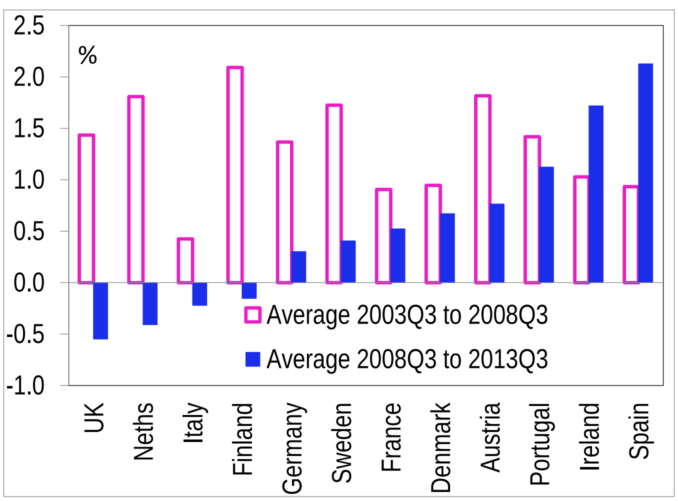
The weakness of UK productivity probably partly reflects lower potential growth…

Much has been written about UK productivity weakness in recent years[1]. Eurostat data suggest that the level of productivity (ie real GDP per hour) fell by nearly 5% from Q3-2007 to Q3-2013 — an unprecedented period of weakness by UK standards and weaker than in any other EU country or the US. In seeking to explain this, we put some weight on structural factors, relating for example to low capital stock growth, the erosion of high value added jobs in mining and financial services and so forth. These factors may well persist for some time, perhaps until investment has recovered substantially or renewed innovation drives total factor productivity.

…but probably also partly reflects the balance between strong labour supply and modest economic growth

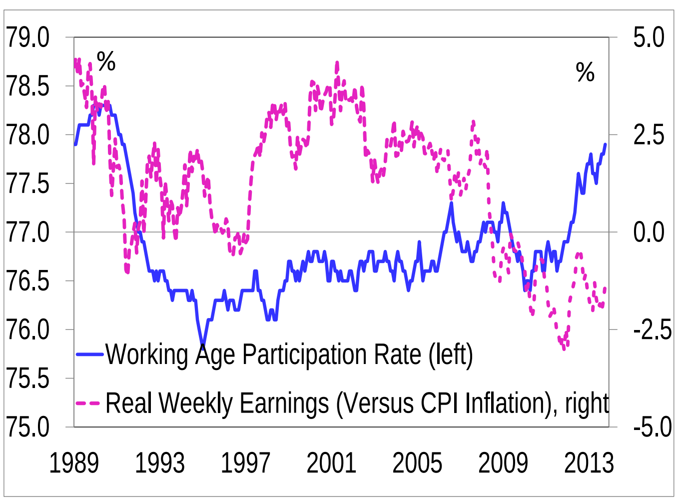
However, we believe a major part of the productivity slowdown also is a relatively benign response to rising labour supply at a time of modest growth, with real wages falling to price people into work. Labour supply has been lifted by the rising participation (highest since 1991) and sizeable inflows of foreign workers. Various factors are at work. The government has tightened benefit eligibility (especially for people on unemployment and disability benefits, plus mothers with young children), while in-work benefits are helping some people to move off benefits and into lower-paid jobs. At the same time, the shift to a service-sector oriented economy and rise in educational attainment probably mean that more people are employable across a wide range of jobs, and are employable at later ages. The share of the population aged 20-64 years with tertiary education (ie university-level) has risen from 24% in 2000 to 38% in 2013, the highest among EU countries apart from Ireland, Cyprus and Luxemburg. In addition, the erosion of pensions and rising life expectancy have probably also helped drive the sharp rise in participation rates among people aged 50+ years. For now, these factors will probably be reflected in relatively low productivity growth and a falling jobless rate, gradually giving way to rising real wages and higher productivity gains as labour market slack erodes in coming years.

Figure 8. UK — Productivity (Real GDP Per Hour) Growth, YoY, 2003-13



Sources: Eurostat and Citi Research

Figure 9. UK — Participation Rate and Real Wage Growth, 1989-2013



Sources: ONS and Citi Research

[1] See, for example "*UK labour productivity since the onset of the crisis — an international and historical perspective*", BoE Quarterly Bulletin, Q2 2012.

Political Risks Return — Four Inter-Related Uncertainties

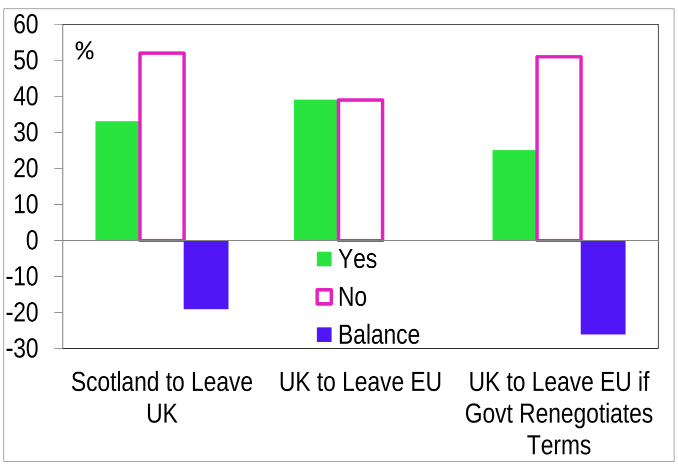
2014 will kick off a major series of UK elections and referendums

UK political uncertainty is likely to rise sharply with four major political challenges: EU parliament elections in May 2014, referendum on Scottish independence in September 2014, UK general election in May 2015 and a possible UK referendum in 2017 or so on whether to leave the EU.

The EU parliament elections are likely to show strong support for UKIP

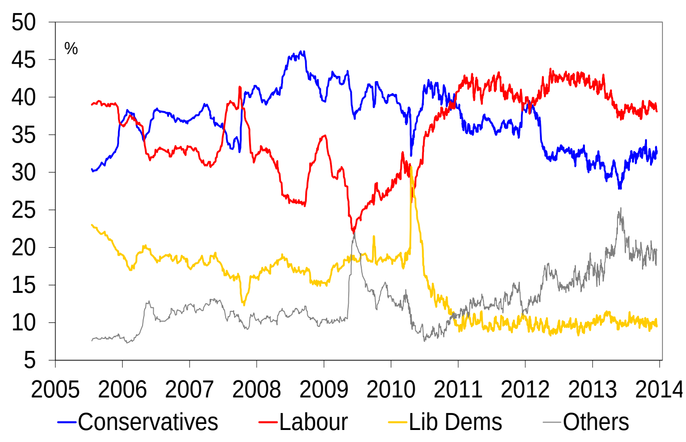
The EU parliament elections will not determine the UK's government, but will have several points of interest. First, if the usual low turnout (34% in 2009) is repeated, plus inevitable focus on EU issues, UKIP may well win the most votes, having been second to the Conservatives in 2009. This would mark the first time for at least 150 years that a party other than the main three (Conservative, Labour, Lib Dems or a coalition of them) has topped a national election — a dramatic signal of the erosion of support for major parties[2] and the rise of NEAPs (New/Extreme/Alternative political parties). Second, a UKIP victory (if this occurs) would raise attention on a possible future EU referendum. Third, the relative standings of the Conservatives, Lib Dems and Labour will sharpen the focus on the 2015 UK election.

Figure 10. UK — Voting Intentions Over Scotland Referendum and EU Referendum, 2013



Sources: UK Polling Report, YouGov and Citi Research

Figure 11. UK — Voting Intentions in General Election, 10-Poll Average, 2005-13



Sources: UK Polling Report and Citi Research

Polls suggest a vote for Scottish independence is unlikely, but a vote for independence would have significant implications

For the Scotland referendum, polls consistently show 30-35% of the population favour independence, with 50-55% opposed. Hence, despite a significant "undecided" vote, we do not expect a majority vote for independence (ie a "Yes" vote). But, in the event of a surprise "Yes" vote, there would be a long period of uncertainty as major issues are resolved (eg the extent of fiscal independence, arrangements over cross-border banks) before a probable move to independence during 2015-20. An independent Scotland would most likely keep sterling as its currency and inherit a share of the UK's public debt (perhaps based on population shares or an estimate of Scotland's accumulated historic deficits)[3]. The terms of existing gilts would probably not be changed: they would stay the liability of the government of the rest of the UK. The new Scottish government would probably start with a large non-marketable debt to the rest of the UK, representing Scotland's share of the gilt market and then issue enough Scottish gilts to cover Scotland's

[2] The Whigs won the 1859 election, but if they are considered predecessors of the Lib Dems then one really has to go back even further to find an election won by a party other than the main three.

[3] See Report by the House of Lords Economics Committee, March 2013, "Devolution and the Implications of Scottish Independence", Report by the UK government of February 2013 and "Scotland's Future", Report by the Scottish government of November 2013.

fiscal deficit and — probably over an extended period — repay the debt to the rest of the UK (hence replacing the inherited debt with Scottish gilts). So the government debt/GDP ratio of the rest of the UK would rise (because GDP would be lower) with a partly offsetting financial asset of a loan to the newly-independent Scotland.

A variety of outcomes are possible for the 2015 election, but at this stage it looks hard for the Conservatives to win an outright majority

For the 2015 election, recent polls give Labour a lead of about 5 points on average, down from 10-11 points a year ago. The Conservatives' ratings may improve further as the economy picks up. However, we believe a Conservative majority is fairly unlikely, given the leakage of Conservatives voters to UKIP, the shift of disaffected Lib Dems to Labour since 2010, and the uneven distribution of votes across individual parliamentary constituencies. The Conservatives' share of votes cast needs to be about 3 percentage points above Labour in order for both parties to get equal numbers of seats in Parliament. The Conservatives need to be about 6pp ahead in votes cast to win a majority of MPs in Parliament. Conversely, Labour's share of the vote only needs to be about 1pp ahead of the Conservatives to get a majority of MPs in Parliament. Given this, in our view the most likely outcomes are quite evenly split between a Labour majority, a Labour-Lib Dem coalition and another Conservative/Lib Dem coalition. However, if Scotland does vote for independence then, Scottish MPs would no longer sit in the House of Commons once independence occurs (most likely during 2015-20), and they probably would abstain from votes of confidence earlier. Hence, they may be out of the reckoning for the post-election parliament arithmetic. Given Labour's high number of Scottish MPs (41 out of 59 seats, with only 1 Conservative MP in Scotland), this would make it much harder for Labour to win a majority in Parliament, hence perhaps making a hung parliament after 2015 more likely (and perhaps even putting a slim Conservative majority in reach).

Further ahead, there are additional uncertainties over the possibility of an EU referendum

It remains uncertain if a referendum on UK membership in the EU will actually take place around 2017 as Prime Minister Cameron has pledged. At present, neither the Lib Dems nor Labour has agreed to hold such a referendum and one or both of them may well be in government after 2015. If there is a referendum, polls at present point to a vote for exit, but suggest there could be a majority to stay in the EU if government recommends the UK to stay in. But, of course, with 3 years or so to go until any such referendum, things might look different at that stage. The Irish case is a reminder that even a campaign featuring government support and cross-party unity (a factor which would not be present in the UK case) plus industry backing is far from guaranteed to produce a pro-EU vote. Hence, while our base case is that Scotland will not leave the UK, and the UK will not leave the EU, it is possible to imagine very alternative scenarios. And the fact that these discussions have entered the policy debate is in itself notable, as is the rising support for a non-mainstream party such as UKIP. There is almost no scenario which implies very low political risk for the UK for coming years: the most likely outcomes in our view are:

All likely scenarios imply considerable political uncertainty for the UK in coming years

- Scenario A: Conservative-Lib Dem coalition with EU referendum, hence producing fiscal clarity but with uncertainties over the referendum outcome and the ability of the coalition to persist after a referendum campaign;
- Scenario B: Conservative-Lib Dem coalition with no EU referendum, hence probably producing a badly-divided Conservative party;
- Scenario C: Labour-led government (either a majority or in coalition with the Lib Dems), with fiscal uncertainties and possibly an EU referendum — and with the prospect that in opposition the Conservatives might become more firmly anti-EU.
- Less likely: a Conservative-led government with EU referendum, producing fiscal clarity policy but great uncertainty over the UK's future EU membership;

Monetary Policy — Looking Beyond Guidance

The strong recovery is likely to make the MPC's guidance programme …

Over the last two-three years, the BoE's key policy challenge has been to boost strong growth and to reassure markets that (unless inflation expectations were destabilised) policy would stay loose or loosen further until a solid recovery is established. This aim is now largely achieved. With the jobless rate likely to hit the 7% threshold by mid-14 or so, the MPC's current forward guidance programme has become largely redundant as an anchor for market rate expectations.

…and we do not expect the MPC will reset guidance with a lower jobless threshold of 6.5% or so…

Before the MPC began forward guidance, we were unsure whether they would pick a jobless threshold of 6.5% or 7%[4]. However, with the MPC having picked 7%, we do not expect the Committee will reissue guidance with a 6.5% or lower threshold. In choosing the 7% threshold, the BoE argued that "*Bank staff estimate that the medium-term equilibrium unemployment rate is presently in the region of 6.5%*" and that to "*ensure that CPI inflation remains on track to return to the 2% target, the Committee will need to withdraw some of the monetary stimulus before the unemployment rate falls back to its medium-term equilibrium*."[5] Estimates of the equilibrium jobless rate are uncertain, but in our view there has not been enough evidence either way since Aug-2013 to change the MPC's views on this. The fact that the jobless rate has fallen faster than the MPC expected does not necessarily imply that the medium-term equilibrium jobless rate has changed.

…given that they believe the equilibrium medium-term jobless rate is 6.5%...

Hence, if the MPC did set a 6.5% jobless threshold, they would probably only anchor market rate expectations for an extra couple of quarters, while expanding uncertainty as to how quickly rates might then have to rise once the 6.5% threshold is hit given that the jobless rate would then be close to where the MPC judge is the medium-term equilibrium jobless rate.

…and some on the Committee may be unwilling to dilute the 2% inflation target by relying too much on the knockouts

In theory, the MPC could set the jobless threshold well below the medium-term equilibrium level (eg 5%) and rely on the knockouts, so that guidance in effect becomes a commitment to not hike rates until MPC members expect inflation to be at least ½% above target 6-8 quarters ahead. This would be roughly akin to a temporary rise in the 2% inflation target. We suspect that one or more MPC members would resist such a dilution of the inflation target, arguing that if the target is to be changed, it is up to the Chancellor rather than the MPC to do this. Hence, such an approach would probably leave the MPC splintered, with a subset of members asserting they are not bound by guidance —- thereby reducing the value of guidance as an anchor for rate expectations. To be sure, the MPC's remit does encourage the Committee to consider tradeoffs between inflation prospects and the economic outlook. But we suspect that some on the MPC would prefer to retain flexibility over how to judge such tradeoffs in light of all the data available at the time rather than formalize the tradeoffs in advance through renewed guidance.

The MPC's focus is likely to shift from expanding stimulus to considering how and when to withdraw stimulus

More broadly, as recovery builds, the BoE's emphasis is likely to shift from seeking new ways to boost growth and amplify stimulus, to considering how and when to withdraw stimulus and, over time, how to rebalance the economy towards investment and exports. Guidance has helped support growth, but its job will probably soon be largely done. The economy is growing strongly and monetary policy is very loose, with highly negative real rates using the BoE estimate that £100bn of QE is akin to an extra 100bp off Bank Rate[6]. Rather than reset guidance, we expect the MPC will aim to use their inflation forecasts and some flexibility in the remit to signal that they will not tighten so promptly as to risk a renewed downturn or

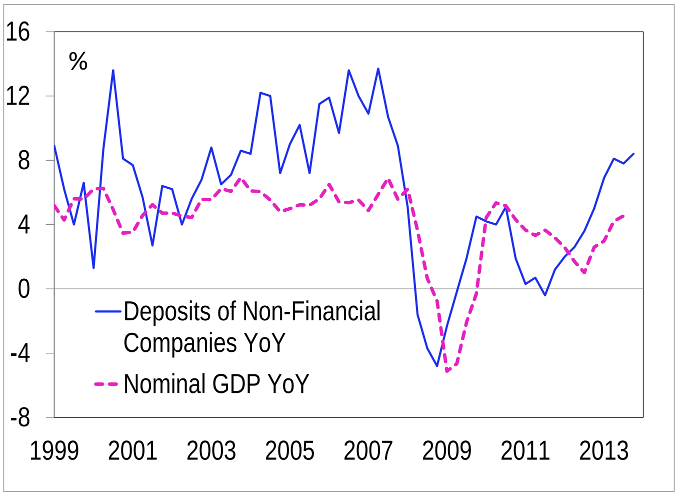
[4] See "*Guidance on Guidance*", Michael Saunders, UK Economics Weekly, 19 July 2013, Citi.

[5] See "*Monetary policy trade-offs and forward guidance*", BoE, August 2013.

[6] See "*The United Kingdom's quantitative easing policy*", BoE Quarterly Bulletin, Q3 2011.

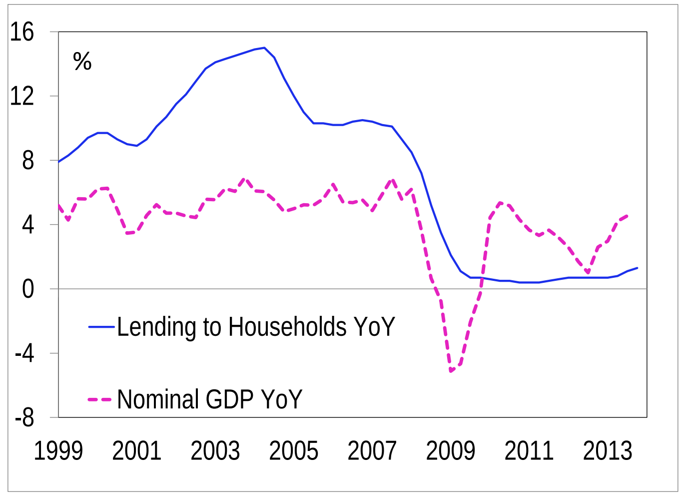
so late as to risk an inflation surge, with a slight willingness to err on the side of keeping policy too loose for too long.

Figure 12. UK – Deposits of Non-Financial Companies and Nominal GDP, YoY, 1999-2013



Sources: BoE, ONS and Citi Research

Figure 13. UK – Lending to Households and Nominal GDP, YoY, 1999-2013



Sources: BoE, ONS and Citi Research

The MPC are likely to tighten via Bank Rate initially, and then QE, rather than use macro-pru policies to keep the economy depressed and interest rates ultra-low

In theory, the BoE could tighten via macro-prudential policies, in effect impeding credit supply to keep Bank Rate ultra-low for longer. We doubt the BoE will take this route. Macro-prudential policy aims to cap booms in credit or asset prices, either at a sectoral or aggregate level. And, although housing is buoyant, there is no sign of broad-based credit excess — indeed, overall credit growth is close to zero. The strength is more in money than credit, a sign perhaps of the stimulus from QE. Moreover, given the BoE's view that poor credit supply is hitting productivity[7], it makes little sense in our view for the BoE to deliberately impede credit supply and keep the economy depressed purely in order to keep ultra-low interest rates more or less indefinitely. Hence, we expect that the first tightening tool will be Bank Rate, with the first hike in early 2015 (or late-2014) and real rates rising back to zero (ie 2% Bank Rate) by mid-2016, followed by the gradual unwind and rolloff of QE. Such a stance would not, we expect, derail growth, but probably would reduce risks of a far more abrupt and destabilising tightening cycle in coming years.

Economic Indicators

Thu 9 Jan	*Trade Balance – Goods & Services (Nov)*	Forecast: £-2.4 billion	Prior: £-2.6 billion
	The trade balance is running a little below the 2012 levels, helped by falling import prices. Surveys suggest that export volumes are likely to pick up and this prompts us to expect a slight drop in the deficit this month.		
Fri 10 Jan	*Industrial Production (Nov)* *Manufacturing Output (Nov)*	Forecast: 0.2% MoM, 2.9% YoY Forecast: 0.3% MoM, 3.2% YoY	Prior: 0.4% MoM, 3.2% YoY Prior: 0.4% MoM, 2.7% YoY
	Surveys suggest that manufacturing output continues to grow at a fairly rapid pace, and a figure in line with our forecast would put output in Oct-Nov 0.7% above the Q3 average – hence setting the stage for a strong Q4 GDP reading.		

[7] See, for example, the speech by Ben Broadbent of the MPC, September 2012.

Economic Calendar, 30 December 2013 — 24 January 2014

30 December	31 December	1 January 2014	2 January	3 January
		New Year's Day Holiday	Manufacturing PMI (Dec) Nov 58.1 Dec 57.3	Nationwide House Prices (Dec, 07:00) Nov 0.7% MoM, 6.5% YoY Dec 1.4% MoM, 8.2% YoY
6 January	**7 January**	**8 January**	**9 January**	**10 January**
Services PMI (Dec) Nov 60.0 Dec 58.8	British Chambers of Commerce Quarterly Economic Survey (Q4) (00:01)	Halifax House Prices (Dec) (08:00) Nov 0.9% MoM, 8.2% YoY Dec -0.6% MoM, 5.7% YoY MPC Meeting Starts	Trade Balance – Goods & Services (Nov) Oct £-2.6bn NovE £-2.4bn Profitability of UK Companies (Q3) MPC Meeting Ends: Outcome at Noon ECB Meeting 12:45 Outcome 13:30 Press Conference	Industrial Production (Nov) Oct 0.4% MoM, 3.2% YoY NovE 0.2% MoM, 2.9% YoY Manufacturing Output (Nov) Oct 0.4% MoM, 2.7% YoY NovE 0.3% MoM, 3.2% YoY Construction Output (Nov)
13 January	**14 January**	**15 January**	**16 January**	**17 January**
	Consumer Prices (Dec) Retail Prices (Dec) Producer Input Prices (Dec) Prod. Output Prices (Dec)			Retail Sales Volumes (Dec)
20 January	**21 January**	**22 January**	**23 January**	**24 January**
	CBI Quarterly Industrial Trends Survey (Jan) (11:00)	LFS Unemployment (Sep-Nov) Claimant Count (Dec) Public Sector Net Borrowing – Ex RM, APF & Fin. Intervent'n (Dec) MPC Minutes		BBA Mortgage Advances (Dec)

E Citi estimate. B Billion. P Provisional. R Revised. Note: All data are released at 9.30 a.m., except those marked otherwise.

Sources: BoE, CBI, ONS, national sources and Citi Research.

Notes

Notes

Appendix A-1

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