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Italy — Fluid Politics

- The abrupt end of the technocrat Monti government suggests Italy will hold snap general elections most likely on 17 or 24 February 2013. No major policy actions would have been taken by the government before the regular end of its mandate in April, in our view, as its reform momentum had waned significantly recently. Yet, although the Monti agenda was incomplete, we judge it achieved quite a few targets in a short period, making it very difficult for any elected government to keep up with the same pace – not to mention with the improved credibility that Monti has brought.

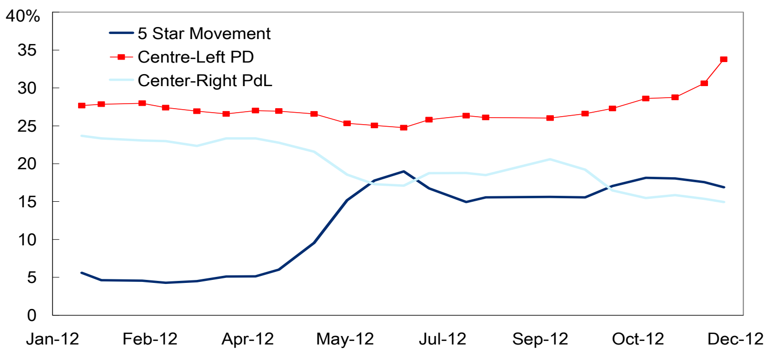
- The electoral outcome remains uncertain as most parties have not yet made clear on which platforms and under which coalitions they intend to run. We think the most likely outcome is a centre-left government led by PD leader Bersani, and we see some small chances of Monti taking a second mandate as PM. However, the ability of any Italian government to deliver on the reform agenda rests in our view on the degree of external pressure: increased markets pressure and an ESM/OMT program will likely occur in 2013 as necessary means to push Italian policymakers to implement further much-needed structural changes (Giada Giani, see page 2).

Figure 1. Citi Market Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
1Q 13	1.23	0.50	1.50	0.79	0.50	36	8.40	0.75	7.26	1.50	1.20	0.00	-85
1Q 14	1.20	0.25	1.25	0.79	0.50	41	8.30	1.00	7.22	2.25	1.20	0.00	-79

Source: Citi Research

Figure 2. Italy — Voting Intentions in Opinion Polls For The Major Political Parties, 2012



Note: 15-day averages of opinion polls from several polling institutions.
Sources: termometropolitico.it and Citi Research

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With thanks to Tina Fordham

We wish our readers a Merry Christmas and a Happy New Year

The next Euro Economics Weekly will be published on 4 January 2013

We will, of course, publish ad hoc notes as needed in the interim

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Italy — Fluid Politics

Political turmoil in Italy prematurely brought down the Monti government

Last week's developments have proven, once again, that one of the main risks for the Italian economy is political. A political crisis accelerated last week when it became clear that the largest party in Parliament, the centre-right Popolo delle Liberta' (PdL), withdrew its support for the Monti government, with most of its MPs abstaining in two confidence votes. At the same time, PdL former Prime Minister, Silvio Berlusconi, announced his return on the political scene as the centre-right's candidate at next year's general election. Two days later Italian PM Monti announced he will step down as PM once the 2013 Budget Law is approved by parliament.

Early elections probably in mid-February

These moves signal most likely the end of the 12-month tenure of the technocratic government and open the way for the start of the electoral campaign. PdL has signaled that they will vote in favour of the budget law ('Legge di Stabilita'), likely to be passed next week, probably on 18 December. After that, the final decision to dissolve parliament and call for snap elections rests with President Giorgio Napolitano. We think he will do so, probably next week, given the clear absence of a parliamentary majority for the government, probably even if a different PM were to be nominated. According to the current electoral law, the new parliament should assemble within 70 days after the old one has been dissolved; general elections should be held at least 45 days after they have been called. Early elections seem now likely on 17 or 24 February 2013, with Mario Monti most likely remaining in place as head of a caretaker government until then.

Important pieces of reform were not going to be approved in the next two months anyway

Despite these abrupt changes, recent developments make only a minor difference, in our view. The Monti government was close to the regular end of its mandate anyway — parliamentary elections had to be held by April 2013 at the latest. Furthermore, its ability to push reform bills through parliament had significantly diminished in the past few months — the last relevant piece of reform legislation was the labour market reform approved in July. We doubt the government would have been able to get any other meaningful reform through, even if it had stayed two more months in charge. On the other hand, holding the election in February gives the parties very little time to prepare, especially for new parties which, by law, have to collect a significant number of signatures to present their candidate lists. Beppe Grillo, the leader of the anti-establishment 5 Star Movement, said this week his party — currently counting 17-18% of the voting preferences in opinion polls — may not be able to run in the elections due to the short time available to collect the signatures.

No agreement between the two main political parties implied elections will be held with the old electoral system

The draft bill on the overhaul of the electoral system — one of the most important pieces of legislation waiting for approval — has been under discussion in parliament for many weeks, due to the two main parties in parliament — the centre-right PdL and the center-left Partito Democratico (PD) — failing to come to an agreement on how to change the current system. We believe the bill was unlikely to be approved even if the government had survived, as the main parties' self-interest to maintain the *status quo* a few weeks ahead of a crucial general election were probably too strong. Other pending laws — like the reduction in the number of provincial governments or the ban on convicted people running as electoral candidates — would have probably come up against similar opposition from one or more of the main parliamentary forces supporting the government, with little chances of seeing an eventual passage in parliament. The "Monti agenda" — whatever it has been able or unable to achieve — was already completed a few months ago, in our view.

12 months of Monti government and its legacy for the next one

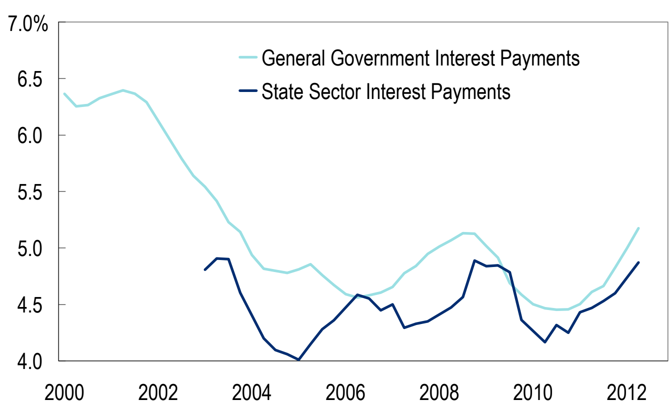
Budget numbers confirm the fiscal adjustment worked mainly through increased taxes…

But what was the “Monti agenda” able to achieve for Italy and what is left for the future government? The technocratic government in the past 12 months has focused on four key policy areas, namely (1) reducing the fiscal deficit primarily via tax increases and reducing tax evasion, (2) pension reform, (3) labour market reform and (4) actions to raise competitiveness in non-tradable sectors. On the fiscal front, data on the central government budget — available up to September, while general government budget data are only available up to 2Q — confirm that higher revenues have been the main source of improvement for the fiscal accounts. They show total central government revenues up by about 1pp of GDP in the 12 months ending in September relative the same period of 2011, while primary spending is down by around 0.3pp of GDP. Interest spending continued to increase to almost 5pp of GDP, close to the local peak recorded in mid-2008 but still well below the 6.3% level in 2000-2001 (see Figure 3). The significant reduction in yields that occurred since the inception of the Monti government at the end of 2011 — 10y government bond yields fell from around 7% to 4.5%-5% at present — prevented the cost of debt from increasing even further, although the ECB’s LTROs and the OTM announcements probably played the biggest part in compressing risk premiums on government bond yields.

… but fiscal deficit likely to fall by much less than originally planned

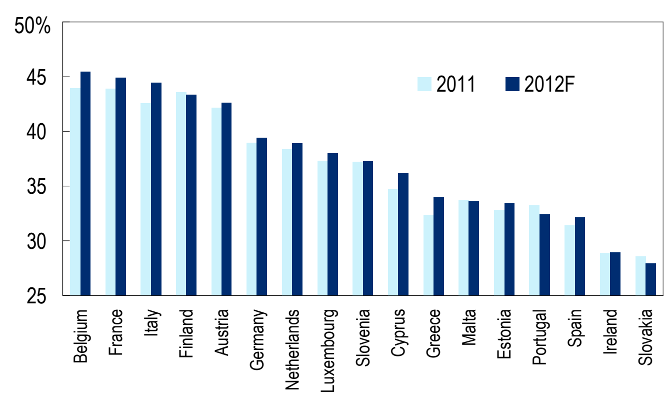
All in all, the government has succeeded in bringing down the fiscal deficit from 3.9% of GDP in 2011, but certainly by less than initially planned: the 2012 target at the beginning of this year was 1.7%, and the current revised target is 2.6%. We think the 2012 deficit is likely to come in below, but very close to 3% (the actual objective agreed within the Excessive Deficit Procedure). As we recently argued[1], undershooting of GDP growth relative to forecasts has resulted in lower than expected tax revenues, especially indirect taxes like VAT (-2% YY in the first ten months of 2012, despite the 1pp hike in the standard VAT rate in September 2011), which have suffered significantly from falling domestic demand.

Figure 3. Italy — Government Interest Spending (Pct. Of GDP), 2000-2012



Sources: Eurostat, Italian Treasury and Citi Research

Figure 4. Euro Area — Total Tax Burden As Pct. of GDP (excl. Imputed Social Security Contributions), 2011-2012F



Sources: EU Commission Forecasts, Haver Analytics and Citi Research

Additional fiscal tightening in 2013-2014 will be responsibility of the new government

Moreover, the government has not done much to ensure that the current achievements in terms of deficit reduction are maintained in the medium term, in our view. Existing legislation envisages the fiscal tightening ending in 2013 (when an additional 1¼ pp of GDP of deficit-cutting measures enter into force), leaving the

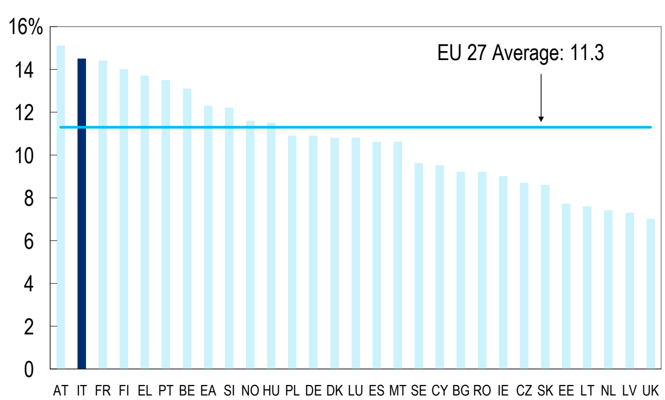
[1] See Euro Economic Weekly: Italy – Economics and Politics of Fiscal Austerity, 26 October 2012.

next elected government entirely responsible for subsequent fiscal tightening. As the OECD recently pointed out[2], under the "no policy change" assumption the fiscal deficit is likely to start rising again in 2014 above the 3% limit. Moreover, the Fiscal Compact requires Italy to reduce its debt ratio every year by 1/20th of the difference between the current level and 60%. In the case of Italy this means reducing the debt-to-GDP ratio by 3.3pp per year. Therefore the pressure will persist on the next government to deliver additional fiscal consolidation measures, albeit perhaps smaller than what has been done so far. More importantly, to do that, it will have to start cutting public expenditure as the room for additional tax increases has become even smaller after the recent moves. The Italian total tax burden (excluding the imputed social security contributions) as computed by the most recent EU Commission estimates is already one of the highest across Europe, at 44.4% of GDP in 2012, rising by almost 2pp since last year — the largest one-year increase among all euro area countries (see Figure 4). The limited success the Monti government achieved in tackling a reduction in public spending indicates how difficult this task will prove for the next administration.

Pension reform is the most far-reaching reform of the Monti government

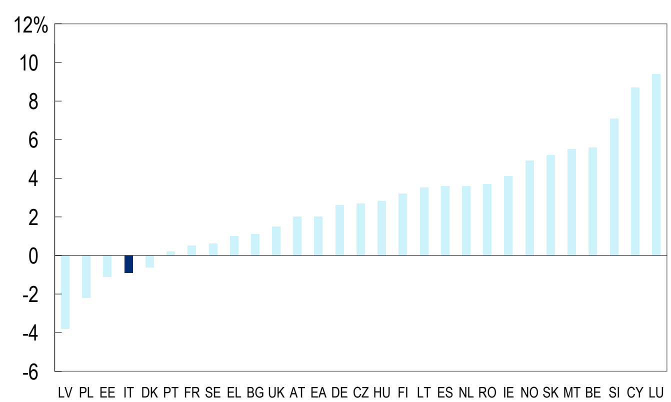
The pension reform is probably seen as the main achievement of the technocratic government and, therefore an area where few immediate actions will be required by future policymakers. Based on the latest projections included in the EU Commission's "Ageing Report", the pension reform will bring the Italian average age of exit from the labour market to the highest level in EU-27 by 2020, at 65.2 years from 60.1 years in 2009. According to the government estimates, the reform will save 1.2pp of GDP in pension public spending per year between 2020 and 2030. That said, even if it is set to decline from 2015 onwards, Italian public expenditure on pensions will remain one of the highest in Europe — estimated at 14.5% of GDP in 2020 by the recent "Ageing Report" — implying that a large part of public spending remains rigidly devoted to the pension system (see Figure 5 and Figure 6).

Figure 5. Italy — Gross Public Pension Expenditure in 2020 (As Pct. Of GDP)



Sources: EU Commission Ageing Report, 2012, and Citi Research

Figure 6. Change in Gross Public Pension Expenditure over 2010-2060 (As Pct. Of GDP)



Sources: EU Commission Ageing Report, 2012, and Citi Research

While the labour market reform has been diluted and its effects will not be seen for quite some time

The labour market reform (the so-called Fornero reform, named after the labour minister who drafted it) is generally believed as less of a success story, since it was diluted significantly relative to its original framework. It primarily aims at reducing the labour market dualism between temporary and permanent employees, at raising the relatively low participation rate and at extending the currently limited schemes for

[2] See OECD Economic Outlook, November 2012.

unemployment benefits. It is obviously too early to detect any impact from these changes — finally approved only in July — in the employment data, especially given the deep recession, which makes new hiring very difficult anyway. Admittedly, participation rates have actually increased since last year — especially for women — but this has been due to more stringent criteria to access retirement (introduced with the pension reform) rather than better incentives to enter the labour market. In fact, this is confirmed by the acceleration in the rise of unemployment rate due to higher growth in the labour force (see Figure 8).

Additional labour market reforms from the next government are unlikely

Although the labour market overhaul is surely incomplete, we reckon that further labour market reforms are unlikely to be at the top of the agenda of any future government. After all, we argue that Italy does not perform that poorly relative to other European countries on various labour market structural indicators. One of the most widely used labour market indicators is the OECD employment protection index, on which Italy performs only slightly worse than the average of the OECD countries (see Figure 9). Subsequent labour market reforms since the mid-Nineties have contributed to a significant improvement in the Italian scoring. Moreover, changes to labour market rules are among the structural changes that deliver the smallest benefits on potential GDP growth, according to various economic studies[3].

Figure 7. Italy — Reforms Scenario — Impact on Real GDP (Pct deviation from baseline)

	5 Year	Long Run
Product Market Reforms	**4.4**	**8.3**
▪ Of which Non-tradables sector	3.3	6.9
Labor Market Reforms	**1.1**	**1.8**
▪ Of which female participation	0.7	1.0
Fiscal Reforms	**3.0**	**9.8**
▪ Switching from direct to indirect taxes	1.3	1.8
▪ Switching from transfers to investment	1.6	7.7

Source: IMF

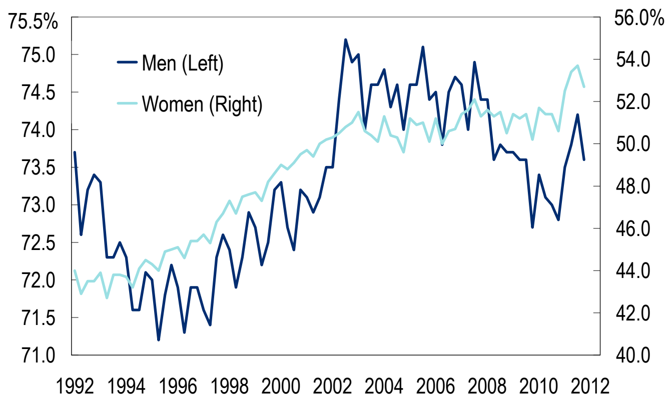
The IMF has recently estimated for Italy that product market reforms instead, especially in non-tradable service sectors, are crucial for lifting GDP levels over a 5-year horizon relative to a baseline scenario (see Figure 7). An appropriate summary indicator to capture deficiencies in this area is the “Doing Business” survey complied by the World Bank, on which Italy still scores second last (only before Greece) among 31 OECD countries in 2012. Numerous bills have been passed in the past 12 months trying to address these issues. Again it might just be too early to assess their impact, but for the time being we cannot detect any meaningful change in the trend of price dynamics in non-tradable sectors suggesting these reforms are starting to compress mark-ups.

Although Monti’s actions could have been bolder, they tackled a wide range of issues. Credibility gain was probably the most important achievement

In sum, we think that while succeeding on some fronts, the Monti government failed in the implementation of laws on other fronts. The large parliamentary majority supporting the Monti’s government, composed of long-established political parties, was probably a hindrance to implementing reforms which were interfering with the most protected, and largely politically influential, sectors of the economy. This has, in our view, delayed or impeded the full delivery of the Monti agenda, especially in the second half of the year. Nevertheless, despite these drawbacks, we think the current technocratic government has been able to deliver a wide range of policy actions in a very limited time horizon — something that probably no elected Italian government had ever been able to achieve. It will be very difficult for any future government to keep up with the same pace, in our view. Moreover, the Monti government has increased the degree of credibility — domestically, but especially at the international level — of Italian politics. Again, we think it will also be very difficult to maintain these high standards by any future administration, if Mr Monti is not part of it.

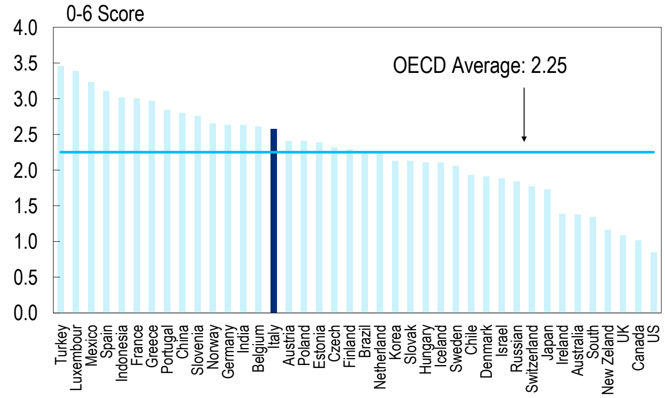
[3] See for example IMF Article IV Report on Italy, July 2012.

Figure 8. Italy — 15-64 Year Participation Rates (Pct. Of Working-Age Population), 1992-2012



Sources: ISTAT and Citi Research

Figure 9. OECD — Employment Protection Index (0-6 score, 0=Least Protected), 2008



Sources: OECD and Citi Research

Electoral Outcome Still Highly Uncertain

High uncertainty around how parties will position themselves ahead of the elections

Whether Monti will be part of the new post-election Italian government is only one of the many uncertainties ahead of the general election in February. While opinion polls suggest a quite comfortable victory for a centre-left coalition, not all political forces have yet positioned themselves. The main uncertainties relate to the composition of possible coalitions — either of centrist parties or of centre-right parties — supporting a second term for Mario Monti as PM. But even if this is not the case, the form and the leader of the centre-right coalition remains uncertain, with the Northern League currently opposing Silvio Berlusconi as leader of the coalition.

Latest opinion polls suggest a victory for the centre-left coalition in the Lower House

The opinion polls at the moment indicate the centre-left PD has around 35% of voting intentions. PD has recently chosen its leader candidate, Pier Luigi Bersani, holding much-followed primary elections, which was probably the biggest drive behind the significant recent improvement in the polls (+10pp in two months). Together with their allies on the left, under the current electoral system PD is likely to win a clear majority of seats in the Lower House (Camera dei Deputati) – 346 out of 630, according to some calculations based on latest polls. The second most supported party is the anti-establishment political movement led by former comedian Beppe Grillo, gathering around 17% of the voting intentions, not too dissimilar from centre-right, Silvio Berlusconi's PdL (see Figure 2 on the front page). Altogether, centrist parties seem able to achieve something around 9%-10% of the votes (see Figure 10).

Figure 10. Italy — Projected Seats in The Lower House of Parliament Based on Opinion Polls, 15-day average on 12 December 2012

	Lower House
Centre Left Coalition (PD+SEL+Other Left-of-Centre Parties)	346
Centre Right Coalition (PdL+La Destra+Others)	106
Five Star Movement (M5S)	92
Centre Coalition (Terzo Polo)	50
Lega	33
Others	3

Sources: termometropolitico.it and Citi Research

However, the centre-left coalition may fall short of a majority of seats in the Upper House, possibly forcing them to enlarge the coalition

However, voting preferences do not get linearly translated into parliamentary seats (see Box on the Italian electoral system). With the current preferences, there is still a possibility that PD does not get as clear-cut a majority of seats in the Senate as in the Lower House. The distribution of seats in the Senate is made on a regional basis, but polls on a regional basis are much less available and less reliable than on a national scale. Hence depending on the electoral results in the largest regions which have traditionally been strongholds of the right — namely Lombardia, Veneto and Sicily — a post-election hung parliament may emerge, with the centre-left coalition failing to win an absolute number of seats in the Senate while having the largest number of seats in the Lower House. Some policy commentators have recently argued that this is the strategy pursued by the centre-right PdL, having realised its small chances of an outright victory. If such a risk were to increase, this could force the centre-left to ally with the centrist parties ahead of the elections or after the ballot — more likely in our view — in order to ensure a more stable majority in both Houses. However, given the recent very poor performance of PdL in the regional election in Sicily, we do not think this to be a likely outcome.

No clarity on the coalitions likely to emerge until January

Second, voting preferences will remain highly fluid until all players have unveiled their plans, which we think will not be until after Christmas. By law, parties (or coalition of parties) have to present their lists, logos and candidates by the 42nd day before the elections, which means by the first or second Sunday of January if the ballots are held on 17 or 24 February.

Further uncertainty stems from Mario Monti possibly deciding to run for a second mandate

A decision by Mario Monti to run for a second term supported by a coalition of centrist parties would probably boost preferences for the centre beyond the current 9-10% — a recent opinion poll suggests such a coalition could reach 15-19% of the votes. Conversely, if Monti accepts the invitation made to him this week by Silvio Berlusconi — that is leading a broader coalition spanning from the centre-right to the centrist parties — this could impact the overall electoral outcome, with the centre-left coalition unlikely to make it as the majority party in parliament. Finally, if a pre-election coalition is formed between the centre-left and the centrist parties to avoid the risks of a hung Senate, Mario Monti may become their most likely candidate, as Bersani may not be seen as appropriate PM by the centrists.

We think it is unlikely that Monti will commit to one specific political party or coalition of parties

Not much better visibility is likely in the short-term. Reportedly, Monti is intending to announce his intentions about a possible candidacy on Friday 21 December, in his speech before the Parliament closes for the Christmas recess. The main risk of Monti running as a candidate for a second term is that if the coalition backing him does not win in the elections, there is little chance for him to play a role in any future governments, as his *super partes*, technocratic, characterisation would be lost by committing to one (or a group of) political party. It could possibly jeopardise his chances to be nominated to the more institutional and less political role of Italian President, next May. With preferences remaining volatile and absent much clarity on the positioning of the centre-right, this suggests to us that Monti is unlikely to commit too soon to one specific political party (or coalition of parties). We see some chance that he is re-elected PM in the next government, but we do not think these are very high. The most likely electoral outcome in our view remains a centre-left government, possibly striking a post-election agreement with centrist parties in case the electoral results in the Senate are mixed. In that scenario we think Mario Monti could be nominated Italian President.

Electoral campaign from some large parties likely to focus on anti-austerity, possibly spooking markets

In the meantime, we see the next couple of months dominated by the electoral campaign in which two of the three largest parties — PdL and the anti-establishment Five Star Movement (*Movimento 5 Stelle*, M5S) — will argue strongly against the deficit-cutting measures introduced by the Monti government and blame Europe and Germany for the Italian economic recession. Even if neither of these

two parties is likely to win an absolute majority, latest polls show that together they account for almost 40% of voting preferences and will get a decent number of MPs sitting in Parliament from next February. On the other hand, the PD electoral pledges will likely stress their intentions to continue with the Monti agenda. Whether they will be able to stick to these promises once in power remains more dubious, in our view. Sure a centre-left government could be more successful in pushing through some labour-related reforms because of its privileged relationship with trade unions. And Bersani himself has gained experience in the field of service sector liberalisations as Minister with the Prodi government in 2006-2007. But social discontent against austerity and further painful reforms continue to rise and the economy is likely to remain in recession over the next couple of years, in our view, making increasingly more difficult for any elected government to stick to the reform agenda.

The next government will be able to continue on the Monti agenda only under external pressure

We believe the ability of any future government to deliver on the fiscal or reform fronts will crucially depend on the degree of external pressure faced by Italy. This is a recurrent lesson learnt from the past and this is also what has broadly happened with the un-elected, technocratic, government led by Monti in the past 12 months. We reckon external pressure could take the form of renewed tensions in the Italian government bond market — we think possible as a response to persistent political uncertainty, weakness in the economy and the realisation that deficit targets are increasingly difficult to achieve. External market pressure could also force Italy to ask for external assistance and a memorandum of understanding to be signed with the European partners in exchange of an activation of an ESM/OMT scheme. Italy asking for international assistance via the activation of an ESM Enhanced Conditions Credit Line (ECCL) and the ECB's OMT is still our base case scenario for 2013. An external enforcement mechanism would probably be the only way for Italy to be able to continue along the difficult road of structural reforms. Yet, we still believe some form of debt restructuring — possibly via coupon reductions and maturity extensions — will become inevitable in the medium term (probably in 2015) to restore Italian financial sustainability.

The Italian Electoral System

The Italian electoral system is a "modified" proportional system that awards a majority premium to the party, or coalition of parties, that wins the majority of votes. Voters cast ballots for the chosen party, rather than for individual candidates. Political parties who intend to form coalitions, have to do so ahead of the ballot, present a coalition programme and choose a coalition leader. As for the election in the Lower House (Camera dei Deputati), 617 out of 630 seats are allocated with a proportional system in 26 constituencies (1 MP is elected with the majority rule in one autonomous region and 12 are elected by overseas residents). Thresholds apply to enter the distribution of seats: that is, 4% for single political parties, 10% for coalitions, and 2% for parties within a coalition. Votes for the coalitions or single-running parties are counted at the national level. If none of the coalitions, or single-running parties, gain 340 seats in the Camera, then a majority premium is awarded so that the most voted coalition (or party) obtains 340 seats (54% of the seats), independently of the share of votes they won. The electoral rules for the 315 MPs in the Upper House (Senato) follow the same "modified proportional" system, but seats and the majority award are allocated on a regional rather than national basis. The Senate has identical powers to the Camera. This leaves a possibility of a different political majority in the two branches of the Parliament, depending on how regionalised voting preferences turn out.
In the most recent general election in 2008, the centre-right coalition led by Silvio Berlusconi won 47% of the votes for a total of 344 seats in the Lower House and 174 seats in the Senate. The centre-left coalition led by Walter Veltroni won 38% of the votes, 247 seats in the Camera and 134 in the Senate.

Key Economic Indicators (17 December – 21 December 2012)

		Forecast	Last
Monday 17 December		**Forecast**	**Last**
09:00	Italy: Trade Balance, Oct		
09:00	Norway: Trade Balance, Nov		
10:00	Euro Area: Trade Balance, Oct	€10.1 Billion	€11.3 Billion
10:00	Euro Area: Labour Cost Index, 3Q		
Tuesday 18 December		**Forecast**	**Last**
08:30	Sweden: Riksbank Interest Rate Outcome	25bp cut to 1.0%	1.25%
09:30	UK: Producer Input Prices, Nov	0.2% MM, -0.1% YY	0.4% MM, 0.1% YY
09:30	UK: Producer Output Prices, Nov	0.1% MM, 2.5% YY	0.1% MM, 2.5% YY
	Ex Food, Drink, Tobacco, Energy, Nov	0.0% MM, 1.4% YY	0.1% MM, 1.4% YY
09:30	UK: Consumer Prices, Nov	0.0% MM, 2.5% YY	0.5% MM, 2.7% YY
	CPI Ex Food, Drink, Tobacco, Energy, Nov	0.0% MM, 2.6% YY	0.7% MM, 2.6% YY
	Retail Prices, Nov	0.0% MM, 3.0% YY	0.6% MM, 3.2% YY
	RPIX – Excludes Mortgages, Nov	0.0% MM, 2.9% YY	0.5% MM, 3.1% YY
10:00	Italy: Current Account, Oct		
11:00	Ireland: GDP, 3Q		
11:00	Ireland: Balance of Payments, 3Q		
Wednesday 19 December		**Forecast**	**Last**
08:15	Sweden: Consumer Confidence, Dec	-7.2	-7.4
	Manufacturing Confidence, Dec	-16	-18
09:00	Italy: Industrial Orders, Oct		
09:00	Germany: ifo Business Climate, Dec	102.0	101.4
09:00	Euro Area: Balance of Payments, Oct		
09:30	UK: MPC Minutes (Dec 6)		
10:00	Euro Area: Construction Output, Oct		
11:00	UK: CBI Reported Sales, Dec		
13:00	Norway: Norges Bank Interest Rate Outcome	Unchanged at 1.50%	1.50%
Thursday 20 December		**Forecast**	**Last**
07:00	Switzerland: Trade Balance, Nov		
07:00	Germany: Producer Prices, Nov	-0.2% MM, 1.3% YY	Unch MM, 1.5% YY
07:00	Germany: Import Prices, Nov	-0.3% MM, 0.8% YY	-0.6% MM, 1.5% YY
08:30	Sweden: Producer Prices, Nov		
08:30	Netherlands: Consumer Confidence, Dec		
08:30	Netherlands: Consumer Spending, Oct		
08:39	Netherlands: Unemployment, Nov		
09:00	Italy: Retail Sales, Oct		
09:30	UK: Retail Sales Volumes, Nov	0.3% MM, 1.4% YY	-0.8% MM, 0.6% YY
10:00	Austria: WIFO forecasts for full-year GDP		
	Greece: Current Account, Oct		
	Spain: Budget Balance, Nov		
14:00	Belgium: Business Confidence, Dec	-12.5	-13.4
15:00	Euro Area: Consumer Confidence, Dec Flash	-27.5	-26.9
Friday 21 December			
00:01	UK: GfK Consumer Confidence, Dec		
07:00	Germany: GfK Consumer Confidence, Jan		
07:45	France: Business Confidence, Dec	87	88
08:00	Spain: Producer Prices, Nov		
08:00	Denmark: GDP, 3Q Final		
08:30	Netherlands: GDP Details, 3Q		
09:00	Norway: Registered Unemployment, Dec	2.3%	2.3%
09:00	Italy: Contractual Wages, Nov	1.3% YY	1.3% YY
09:30	UK: Public Sector Net Borrowing, Ex Costs of Fin. Intervention, Nov	£16.7 Billion Deficit	Year Ago: £16.4 Billion Deficit
	Fiscal Year To Date, Apr-Nov	£62.0 Billion Deficit	Year Ago: £84.7 Billion Deficit
09:30	UK: Balance of Payments, 3Q	£-12.8 Billion, -3.3% of GDP	£-20.8 Billion, -5.4% of GDP
09:30	UK: GDP, 3Q (3rd Release)	Provisional: 1.0% QQ, -0.1% YY	2Q: -0.4% QQ, -0.5% YY
09:30	UK: Service Sector Output, Oct	-0.5% MM, 1.2% YY	-0.5% MM, 1.1% YY
10:00	Italy: Consumer Confidence, Dec	83.3	84.8

Sources: National statistical offices, central banks and Citi Research

Key Economic Indicators (24 December 2012 – 4 January 2013)

During the Week		**Forecast**	**Last**
07:00	UK: Nationwide House Prices, Dec by 4 Jan)		
07:00	Germany: Retail Sales, Nov (by 9 Jan)	0.6% MM	-2.8% MM
Monday 24 December		**Forecast**	**Last**
	Holiday in many European Countries		
Tuesday 25 December		**Forecast**	**Last**
	Christmas Day Holiday in Europe and UK		
Wednesday 26 December		**Forecast**	**Last**
	UK: Boxing Day Holiday		
Thursday 27 December		**Forecast**	**Last**
07:45	France: Consumer Confidence, Dec	82	84
07:45	France: Producer Prices, Nov	-0.1% MM, 2.4% YY	0.5% MM, 2.9% YY
09:00	Italy: Business Confidence, Dec	88.5	88.5
09:30	UK: BBA Mortgage Advances, Nov		
17:00	France: Jobless Change, Nov	+25,000	+45,000
Friday 28 December			
07:45	France: GDP Details, 3Q	0.2% QQ, 0.2% YY	-0.1% QQ, 0.1% YY
07:45	France: Consumer Spending, Nov	-0.9% MM, -1.3% YY	-0.2% MM, -0.5% YY
08:00	Spain: Real Retail Sales, Adj, Nov	-9.4% YY	-9.7% YY
08:30	Sweden: Retail Sales, Nov	1.0% MM SA	-1.7% MM SA
08:30	Netherlands: Producer Confidence, Dec		
08:30	Netherlands: Producer Prices, Dec		
09:00	Italy: Producer Prices, Nov		
	Spain: Current Account, Oct		
Monday 31 December		**Forecast**	**Last**
08:30	Netherlands: GDP, 3Q Final		
09:30	UK: Housing Equity Withdrawal, 3Q		
Tuesday 1 January		**Forecast**	**Last**
	New Year's Day Holiday in Europe and UK		
Wednesday 2 January		**Forecast**	**Last**
	Germany: HICP, Dec Flash	0.7% MM, 1.9% YY	-0.2% MM, 1.9% YY
	National Consumer Prices, Dec Flash	0.7% MM, 1.9% YY	-0.1% MM, 1.9% YY
07:30	Sweden: PMI, Dec	44.3	43.2
08:00	Spain: HICP, Dec Flash	3.0% YY	3.0% YY
09:00	Euro Area: Manufacturing PMI, Dec Final	46.3	46.2
09:30	UK: Manufacturing PMI, Dec	48.0	49.1
17:00	Italy: State Sector Borrowing Requirement, Dec	€11.2 Billion	Year Ago: €6.9 Billion
Thursday 3 January		**Forecast**	**Last**
08:00	Norway: PMI, Dec	50.2	50.1
08:00	Switzerland: KOF Economic Barometer, Dec		
08:00	Spain: Registered Unemployment, Dec	+74K	+74K
08:55	Germany: Unemployment, Dec	+20K	+5K
09:00	Euro Area: M3, Nov	3.8% YY, 3.4% 3-M YY	3.9% YY, 3.1% 3-M YY
09:30	UK: Personal Borrowing, Nov		
Friday 4 January			
07:30	Sweden: Services PMI, Dec	46.9	46.4
09:00	Euro Area: Services PMI, Dec Final	47.8	46.7
	Composite PMI, Dec Final	47.3	46.5
09:30	UK: Services PMI, Dec	50.0	50.2
10:00	Italy: HICP, Dec Flash	2.4% YY	2.6% YY
10:00	Euro Area: HICP, Dec Flash	2.2%	2.2%
10:00	Euro Area: Service Producer Prices, 3Q		
11:00	Ireland: Unemployment Rate, Dec		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
Dec 17 10:00 London Time	***Trade Balance, Oct***	**Forecast: €10.1 Billion**	**Prior: €11.3 Billion**
	Exports and imports have been very volatile in recent months. For October we expect a second consecutive month of falling exports (-1.0% MM) and also a modest decline in imports (-0.3% MM). As a consequence, the trade surplus is likely to shrink somewhat, but is stay close to the record high reported for the euro area in September.		
Dec 20 15:00 London Time	***Consumer Confidence, Dec Flash***	**Forecast: -27.5**	**Prior: -26.9**
	After being more than two standard-deviations below the long-term average in November, we expect a further deterioration in sentiment among euro area consumers in December. The main reason is the further increase in unemployment.		
Jan 2 09:00 London Time	***Manufacturing PMI, Dec Final***	**Forecast: 46.3**	**Prior: 46.2**
	We expect a confirmation of the flash estimate, showing a marginal, but second, consecutive increase in the manufacturing sentiment index.		
Jan 3 09:00 London Time	***M3, Nov***	**Forecast: 3.8% YY, 3.4% 3-M YY**	**Prior: 3.9% YY, 3.1% 3-M YY**
	We expect M3 growth to remain around the same level as in October, when the YY rate jumped by 1.3 points MM to 3.9%. Loans to non-financial companies and also households probably will increase a bit after falling in most recent months.		
Jan 4 09:00 London Time	***Services PMI, Dec Final*** ***Composite PMI, Dec Final***	**Forecast: 47.8** **Forecast: 47.3**	**Prior: 46.7** **Prior: 46.5**
	We expect a confirmation of the flash estimate, showing a second consecutive increase in the services and composite PMIs. However, both readings remain clearly below 50, suggesting that the contraction in euro area GDP continues.		
Jan 4 10:00 London Time	***HICP, Dec Flash***	**Forecast: 2.2% YY**	**Prior: 2.2% YY**
	Following a 0.3 point MM drop in the inflation rate to 2.2% YY in November, the lowest reading since December 2010, we expect an unchanged inflation rate in December. While the economic weakness and lower oil prices contribute to another reduction in the headline inflation rate, we expect that the passing through of recent VAT rate hikes in some member countries will leave the area wide inflation rate roughly unchanged in December.		
Germany			
Dec 19 09:00 London Time	***Ifo Business Climate, Dec***	**Forecast: 102.0**	**Prior: 101.4**
	Following a surprising gain in November, the ifo headline reading is likely to increase for a second consecutive month in December, but probably less strongly than the ZEW index. We expect that an increase in business expectations of 1.8 points to 97.0 will be the driver for the increase in the December headline reading. However, expectations are likely to remain 0.5 standard deviations below the long-term average in December. Partly caused by the early start of the winter, we expect a drop in the assessment of the current business situation by 0.6 points to 107.5, being 0.7 standard deviations above the long-term average.		
Dec 20 07:00 London Time	***Producer Prices, Nov***	**Forecast: -0.2% MM, 1.3% YY**	**Prior: Unch. MM, 1.5% YY**
	The decline in oil prices probably contributed to a small decline in producer prices compared to the previous month. The YY rate is likely to mark the lowest reading since July in November.		
Dec 20 07:00 London Time	***Import Prices, Nov***	**Forecast: -0.3% MM, 0.8% YY**	**Prior: -0.6% MM, 1.5% YY**
	With a renewed fall in oil and other commodity prices, we expect a third consecutive monthly decline in import prices. Benign base effects will also contribute to the expected large drop in the YY rate to the lowest reading since December 2009.		
Jan 2	***HICP, Dec Flash*** ***National Consumer Prices, Dec Flash***	**Forecast: +0.7% MM, 1.9% YY** **Forecast: +0.7% MM, 1.9% YY**	**Prior: -0.2% MM, 1.9% YY** **Prior: -0.1% MM, 1.9 % YY**
	The monthly increase in consumer prices is in line with the seasonal pattern, mainly caused by the increase in prices for tourism-related services during the holiday season. Available data suggest a further fall in data for household energy and fuel prices in December. In contrast, the increase in prices for the main railway operator is larger than usual and there might be a further increase in prices for processed food.		
Jan 3 08:55 London Time	***Unemployment, Dec***	**Forecast: +20K**	**Prior: +5K**
	Unemployment is likely to continue to increase. Although probably distorted on the upside through the early start of the winter, we expect a ninth consecutive increase in seasonally adjusted unemployment in December. Recent surveys show mixed outcomes across sectors, however on average employment plans turned less negative in recent months. We expect that the seasonally adjusted unemployment rate will remain unchanged at 6.9% in December.		
By Jan 9 07:00 London Time	***Retail Sales, Nov***	**Forecast: 0.6% MM**	**Prior: -2.8% MM**
	Retail sales are likely to rebound in November after a surprising sharp fall in October. However, partly because of the timing of the first advent weekend in early December rather than late November, we expect that the increase in retail sales in November will not be able to compensate for the October fall. Consumer sentiment data also suggest a rather modest recovery in November sales.		
Belgium			
Dec 20 14:00 London Time	***Business Confidence, Dec***	**Forecast: -12.5**	**Prior: -13.4**
	Business confidence is expected to improve slightly in December, building on the early signs of stabilisation discernible in the November survey. Signs of an uptick in external trade data, better sentiment signals from the ZEW survey and some progress on the euro area banking union timetable should foster a small improvement in confidence, albeit from low historical standard deviations readings around -0.9sd.		

Economic Indicators

France			
Dec 21 07:45 London Time	***Business Confidence, Dec***	**Forecast: 87**	**Prior: 88**
	Confidence in the industrial sector is expected to remain well below its long-term average in December. Although we do not expect a return to the recent low of 85 printed in October, we see some risk of a small decline in the final month of 2012. Since inventory levels remain above historical averages, a further rebound in confidence will require some improvement in order books, a trend we expect to remain elusive in the short term.		
Dec 27 07:45 London Time	***Consumer Confidence, Dec***	**Forecast: 82**	**Prior: 84**
	While household confidence was essentially stable in the past two months, we believe that the persistence of bad news related to the health of the industrial sector and the increase in fiscal pressure for the average household will have made a negative impression on confidence. We look for a two-point drop in the sentiment index to 82 (or 1.9std below the long-term average), only a point higher than at the same time last year.		
Dec 27 07:45 London Time	***Producer Prices, Nov***	**Forecast: -0.1% MM, 2.4% YY**	**Prior: 0.5% MM, 2.9% YY**
	Price expectations metrics from the Banque de France and the INSEE surveys fell to four- and six-month lows, respectively, suggesting that the gradual deceleration in producer price inflation continued in November. Lower base effects for energy prices should help again in November.		
Dec 27 07:45 London Time	***Jobless Change, Nov***	**Forecast: +25,000**	**Prior: +45,400**
	With an average increase in excess of 45k in the total number of unemployed in both September and October, the French labour market is experiencing the same degree of stress as in the fourth quarter of 2008. At the time, employment expectations were a full one point of standard deviation lower than currently. As a result, we estimate that the increase in the number of job seekers will begin to moderate soon, and forecast that some 25k people were added to jobless registry in November. We expect the mainland ILO rate to hit a 13-year high of 10% in 4Q.		
Dec 28 07:45 London Time	***GDP Details, 3Q***	**Forecast: 0.2% QQ, 0.2% YY**	**Prior: -0.1% QQ, 0.1% YY**
	The third and final release of the 3Q GDP report is unlikely to show many revisions. Domestic demand grew for the fifth successive quarter in 2Q thanks to a rebound in private consumption supported by temporary factors. France experienced a technical recession in the first half of 2012, if one refers to quarterly GDP changes at the second decimal, with falls of -0.03% QQ and -0.06% QQ in 1Q and 2Q, respectively. We look for a 0.2% QQ contraction in 4Q GDP.		
Dec 28 07:45 London Time	***Consumer Spending, Nov***	**Forecast: -0.9% MM, -1.3% YY**	**Prior: -0.2% MM, -0.5% YY**
	We look for a fourth successive decline, forecasting a drop of 0.9% MM in November. Compared to the same month last year, spending would contract by 1.3%, its worst outcome in eight months. While consumer confidence rose by 3 points in November, we believe that this amounted more to a correction after an unusually large five-point drop in October than the start of a new uptrend. In addition, car registrations fell by nearly 7% MM (sa) in November, while the general business outlook in the retail sector fell back to within a point of its October September low. Our November forecast would leave the 4Q average some 0.9% below the 3Q average, implying some clear downside risks to the GDP forecast.		
Italy			
Dec 21 09:00 London Time	***Contractual Wages, Nov***	**Forecast: 1.3% YY**	**Prior: 1.3% YY**
	Negotiated wage growth has fallen to unprecedentedly low levels in the past two years, thanks to generally subdued wage agreements across the private sectors but more importantly to the wage freezing in the public sector. We expect this recent trend to continue, as weak growth in the public sector is progressively reflected in the private sector, together with ongoing downward pressures from the labour market.		
Dec 21 10:00 London Time	***Consumer Confidence, Dec***	**Forecast: 83.3**	**Prior: 84.8**
	Increased political uncertainty around the premature end of the Monti government and the ongoing economic recession has probably pushed confidence of Italian households to new historical lows in December (around 2.8 st. dev. below its long-term average).		
Dec 27 09:00 London Time	***Business Confidence, Dec***	**Forecast: 88.5**	**Prior: 88.5**
	Business sentiment seems to have stabilised in the past few months, albeit still around low levels consistent with a contraction in industrial activity. This stabilisation probably continued in December, as more negative news from the domestic side may have been balanced by somewhat better dynamics in trade flows, especially with non-Euro countries.		
Jan 2 17:00 London Time	***State Sector Borrowing Requirement, Dec***	**Forecast: €11.2 Billion**	**Prior (Dec 2011): €6.9 Billion**
	The State budget balance in December will largely benefit from the payment of the second tranche of the newly introduced property tax (€9.6bn raised in the first tranche in June, 40% of which was paid to the central government). We expect a similar impact in December. This will likely bring the total state sector deficit to €51.6bn in 2012, down from €62.5bn in 2011. We reckon this would be consistent with a general government deficit declining from 3.9% of GDP in 2011 to just below 3% in 2012.		
Jan 4 09:00 London Time	***HICP, Dec Flash***	**Forecast: 2.4% YY**	**Prior: 2.6% YY**
	Inflation probably eased somewhat further in Dec, thanks to favourable base effects in the energy component. Price dynamics in core components continue to soften, although somewhat counterbalanced by higher inflation in the food sectors. Inflation is likely to come down further in 2013.		

Economic Indicators

Spain			
Dec 28 08:00 London Time	***Real Retail Sales Adj., Nov***	**Forecast: -9.4% YY**	**Prior: -9.7% YY**
	Retail spending in real terms likely remained extremely weak towards the end of the year, reflecting the sharp increase in indirect taxes and the more general tightening in fiscal policy. We expect real retail sales to fall by 0.5% MM in November.		
Jan 2 08:00 London Time	***HICP, Dec Flash***	**Forecast: 3.0% YY**	**Prior: 3.0% YY**
	Inflation remained probably unchanged in December, after a large fall in fuel prices mainly pushed it lower from 3.5% to 3.0% in November. We think inflation should remain fairly elevated in Spain until the effects of the 3pp VAT rate hike in September are in the annual computation. In monthly terms, the price dynamics should however moderate to reflect the weakness in economic activity.		
Jan 3 08:00 London Time	***Registered Unemployment, Dec***	**Forecast: +74K**	**Prior: +74K**
	In the past few months registered unemployment increased by an average 1.5% MM in seasonally adjusted terms, based on our estimation of seasonal factors. We think this trend is likely to continue in December. The Spanish labour does not seem close to any sign of stabilisation.		
Sweden			
Dec 18 08:30 London Time	***Riksbank Interest Rate Decision***	**Forecast: 25bp Cut to 1.0%**	**Prior: 1.25%**
	Despite stronger-than-expected 3Q GDP growth and a slightly stronger labour market, our base case is a 25bp rate cut from the Riksbank. Poor economic tendency indicators (sentiment surveys and other forward-looking indicators) combined with ongoing downward revisions to global growth consensus forecasts support this view. Such a move would also be in line with indications from the October conditional interest rate path, which indicated a 28% probability of December easing.		
Dec 19 08:00 London Time	***Consumer Confidence, Dec***	**Forecast: -7.2**	**Prior: -7.4**
	Consumer confidence fell further in October, and now stands well below the long-term average of 5.1. Some house price indicators suggest less downward pressure in the housing market, equity markets improved slightly in December and the contraction in car sales eased slightly in November (-5.7% YY vs. -9.4% YY in Oct). Meanwhile, sentiment in the retail sector weakened further in November and now stands well below its long-term average, and there are more signs of a weakening labour market. On balance, we expect consumer confidence to remain broadly unchanged in December. Inflation expectations should stay around current levels of 1.5% YY.		
Dec 19 08:00 London Time	***Manufacturing Confidence, Dec***	**Forecast: -16**	**Prior: -18**
	Following gradual weakening since May 2012, our model points to a marginal upward correction in manufacturing confidence in December, but for sentiment to stay well in recessionary territory. The manufacturing PMI also stands well below 50 (at the weakest level since April 2009) and the new orders component in PMI is also well below 50 (40.1 in Oct and 40.3 in Nov, the weakest readings in three-and-a-half years).		
Dec 28 08:30 London Time	***Retail Sales, Nov***	**Forecast: 1.0% MM SA**	**Prior: -1.7% MM SA**
	As a reaction to very weak growth in October, retail trade is likely to correct upwards in November. Indicators for retail sales and private consumption are still at decent levels and we expect retail sales to be in a gradual upward trend.		
Jan 2 07:30 London Time	***PMI, Dec***	**Forecast: 44.3**	**Prior: 43.2**
	The well-below-50 reading in the PMI is in line with the NIER manufacturing survey, which reached the weakest level since Sep-2009 in November, suggesting that the manufacturing sector clearly is in a slowdown. We expect sentiment to remain downbeat near-term, which in turn supports our view of negative GDP growth (in quarterly terms) in 4Q.		
Jan 4 07:30 London Time	***Services PMI, Dec***	**Forecast: 46.9**	**Prior: 46.4**
	In November, the service sector PMI dropped 3.8 points to 46.4, the lowest reading since Aug-09. All sub-indices deteriorated, with the largest declines being in new orders and current plus planned business activity. After a temporary recovery in Sep and Oct, the employment index fell below 50 in Nov, once again pointing to sluggish employment in the sector, which stands for 45% of the total employment in the economy. The services PMI, however, still lags any trend; recent outcomes have fluctuated around the 50-mark without any clear upward or downward trend, and we note that service PMI has been a poor indicator of production this year. In other words, one should not read too much into it.		
Norway			
Dec 19 13:00 London Time	***Norges Bank Interest Rate Decision***	**Forecast: Unchanged at 1.50%**	**Prior: 1.50%**
	We expect Norges Bank to leave the key policy rate unchanged at 1.50% in line with its conditional interest rate path from October. Admittedly, inflation is low, but with the economy operating above full capacity and mitigating risks of financial imbalances building (house prices at elevated levels, strong credit growth to households and household indebtedness around 200% of disposable income), we expect the next move in rates is likely to be a hike, possibly in the latter half of 1H 2013.		
Dec 21 09:00 London Time	***Registered Unemployment Rate, Dec***	**Forecast: 2.3%**	**Prior: 2.3%**
	The Norwegian labour market remains firm. In line with the pattern of recent years, we expect the registered jobless rate to remain unchanged at 2.3% in December.		
Jan 3 08:00 London Time	***PMI, Dec***	**Forecast: 50.2**	**Prior: 50.1**
	We expect PMI to remain broadly unchanged in December, hence signalling stagnation in Norwegian industry. The downbeat picture painted in the PMI report is at odds with that from other business surveys, which continue to signal a healthy expansion in manufacturing. We note that the PMI is not closely watched by Norges Bank as there often are problems with the seasonal adjustment procedure. Also, the PMI covers a very small sample compared to e.g. Norges Bank's own Regional Network Report and the quarterly manufacturing survey from Statistics Norway.		

Economic Indicators

United Kingdom

Dec 18 09:30 London Time	***Producer Input Prices, Nov***	**Forecast: 0.2% MM, -0.1% YY**	**Prior: 0.4% MM, 0.1% YY**
	Commodity prices in general did not rise further in November, but lagged effects of previous gains in metals prices may cause a marginal rise in input prices in November. In broad terms, however, the level of input prices has been roughly flat since mid-2011.		
Dec 18 09:30 London Time	***Producer Output Prices, Nov*** ***Output Prices Ex Tax, Nov*** ***Excluding Food, Drink, Tobacco, Energy, Nov***	**Forecast: 0.1% MM, 2.5% YY** **Forecast: 0.0% MM, 2.1% YY** **Forecast: 0.0% MM, 1.4% YY**	**Prior: 0.1% MM, 2.5% YY** **Prior: 0.2% MM, 2.3% YY** **Prior: 0.1% MM, 1.4% YY**
	Output price inflation has slowed markedly from about 6% YY in late-2011 in 2.5% YY in October and probably will remain low in coming months. Demand is weak and surveys suggest that firms' pricing intentions are soft.		
Dec 18 09:30 London Time	***Consumer Prices, Nov*** ***CPI Ex Food, Drink, Tobacco, Energy, Nov*** ***Retail Prices, Nov*** ***RPIX – Excludes Mortgages, Nov***	**Forecast: 0.0% MM, 2.5% YY** **Forecast: 0.0% MM, 2.6% YY** **Forecast: 0.0% MM, 3.0% YY** **Forecast: 0.0% MM, 2.9% YY**	**Prior: 0.5% MM, 2.7% YY** **Prior: 0.7% MM, 2.6% YY** **Prior: 0.6% MM, 3.2% YY** **Prior: 0.5% MM, 3.1% YY**
	A sizeable decline in petrol prices, which fell by 3-4p/litre, probably will help bring CPI inflation a little lower this month, despite gains in some utility prices. Nevertheless, we expect that CPI inflation will stay slightly above the 2% target for some time.		
Dec 20 09:30 London Time	***Retail Sales Volumes, Nov***	**Forecast: 0.3% MM, 1.4% YY**	**Prior: -0.8% MM, 0.6% YY**
	We look for a modest rise in retail sales in November after the sharp drop in October. Nevertheless, a figure in line with our forecast would still leave the volume of retail sales in October-November about 0.3% below the 3Q average and hence pave the way for a soft quarterly reading.		
Dec 21 09:30 London Time	***Public Sector Net Borrowing, Nov*** ***(Figures Exclude Costs of Financial Intervention)***	**Forecast: £16.7 Billion deficit, £62.0 Billion Deficit Fiscal Year To Date** **Year Ago: £16.4 Billion Deficit, £84.7 Billion Deficit Fiscal Year To Date**	
	Over the first seven months of the fiscal year, the deficit fell by £23.0bn from a year earlier, but this implies an underlying deterioration of about £5bn allowing for the one-off effects of the transfer of assets from the state-owned postal service. The OBR assumes that this underlying deterioration will unwind in coming months, with a pick up in revenues and continued undershoot in spending. We are dubious and expect that the deficit will overshoot OBR forecasts over the full year.		
Dec 21 09:30 London Time	***Balance of Payments, 3Q***	**Forecast: £-12.8 Billion, -3.3% of GDP**	**Prior: £-20.8 Billion, -5.4% of GDP**
	The current account deficit has risen sharply in the last couple of quarters, reflecting both a wider deficit on goods and services trade and also a marked deterioration in net FDI earnings. We do expect a slightly smaller deficit for 3Q, but even so (unless the data are revised substantially) the current account deficit is likely to rise to about 4.0% of GDP for 2012 as a whole – the highest since 1989 – from 1.9% of GDP in 2011.		
Dec 21 09:30 London Time	***GDP, 3Q, 3rd Release***	**Provisional: 1.0% QQ, -0.1% YY**	**Prior (2Q): -0.4% QQ, -0.5% YY**
	This release will include revisions to the data for the last couple of years, although we do not have any presumption as to whether revisions will be up or down. The split is likely to show that the household savings rate (which was 6.7% in 2Q) edged down, partly because of spending on Olympics tickets.		
Dec 21 09:30 London Time	***Service Sector Output, Oct***	**Forecast: -0.5% MM, 1.2% YY**	**Prior: -0.5% MM, 1.1% YY**
	We expect that service sector output will continue to fall back as the boost from the Olympics unwinds. Such a figure would leave the level of output 0.5% below the 3Q average, hence setting the stage for a weak QQ reading for GDP in 4Q.		
Jan 2 09:30 London Time	***Manufacturing PMI, Dec***	**Forecast:48.0**	**Prior: 49.1**
	The manufacturing PMI edged higher in November after two months of decline, but we expect renewed weakness this month. Exports are capped by widespread recessions across the euro area, while business investment in the UK is likely to remain sluggish.		
Jan 4 09:30 London Time	***Services PMI, Dec***	**Forecast: 50.0**	**Prior: 50.2**
	The services PMI has worsened for three months in a row, and is hovering at just a fraction above the 50 line (which divides expansion from contraction). We expect another weak reading this month.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Jürgen Michels	Dec 14, 2012
ECB - Below-Target Inflation Outlook Leaves Door Open for Rate Cuts	Jürgen Michels	Dec 6, 2012
European Economic Forecast Highlights - November 2012	Ann O'Kelly	Nov 28, 2012
Euro Area - Greek and Portuguese Recessions Deepened Further in 3Q	Giada Giani	Nov 14, 2012
ECB - Unchanged Rates and No Door Opener For A December Refi Cut	Jürgen Michels	Nov 8, 2012
Euro Area - Another Crucial Week For Greece and the Euro Area	Giada Giani/Jürgen Michels	Nov 5, 2012
Sovereign Ratings Outlook - October 2012	Michael Saunders	Oct 24, 2012
Euro Economics Weekly		
EU Summit: Only a Very Basic EMU Roadmap	Jürgen Michels/Guillaume Menuet	Dec 7, 2012
ECB Unlikely to Play Santa in December 2012	Jürgen Michels	Nov 30, 2012
Greece — Looking For a Semblance of Sustainability	Giada Giani	Nov 23, 2012
France: Downside Risks Still Dominate, Requiring More Reforms	Guillaume Menuet	Nov 16, 2012
Fiscal Austerity Still The Keyword In The Euro Area	Giada Giani	Nov 9, 2012
Chief Economist Publications		
Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2013 and Beyond	Willem Buiter	Nov 26, 2012
France		
France - 2013 Budget: Structurally Austere, But Doubtful Targets	Guillaume Menuet	Oct 1, 2012
Spain		
Spain: 2013 Budget, Structural Reforms and Bank Stress Test -	Ebrahim Rahbari	Oct 1, 2012
Italy		
Italy - Monti Resigns, Early Elections Likely in February	Giada Giani	Dec10, 2012
Greece		
The Greek Deal -	Giada Giani	Nov 27, 2012
Ireland		
Ireland - Industrial Production Hit By "Patent Cliff"	Michael Saunders	Nov 6, 2012
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Scandi Economics Update	Tina Mortensen	Dec 14, 2012
Norway - Norges Bank Regional Network Reports Trend-Like Growth	Tina Mortensen	Dec 14, 2012
Norway - Norges Bank on Hold in December	Tina Mortensen	Dec 10, 2012
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Sweden - Riksbank Forecast: 25bp Rate Cut, Rate Path to Signal Stable Rates throughout 2013	Tina Mortensen	Dec 13, 2012
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Denmark, Finland, Norway and Sweden - Scandis: Exceptions to Europe's Fiscal Woes	Tina Mortensen	Dec 10, 2012
Switzerland		
Switzerland - Economy Continues to Outperform EMU	Michael Saunders	Nov 29, 2012
UK		
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Appendix A-1

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