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Developed Markets
Western Europe

Euro Economics Weekly

Spain: 2014 Outperformer?

- Spain has outperformed our forecasts (and the consensus) more than other major euro area economies in 2013, and optimism on the economic outlook has increased markedly in recent months. While Spain is more advanced than other countries with its reform agenda and its exports have become more competitive, we reckon the scope for further upside surprises in 2014 is rather limited.
- Private deleveraging is progressing mainly through debt repayments, while private debt remains very high. Households' poor financial position will likely cap the pickup in consumption, while the housing adjustment and negative population growth will provide further headwinds. The fiscal drag will probably diminish in 2014, but reducing the structural fiscal deficit remains one of Spain's key medium-term challenges.
- We wish all our readers a Merry Christmas and a Happy New Year. The next edition of Euro Economics Weekly will be published week commencing 6 January 2014.

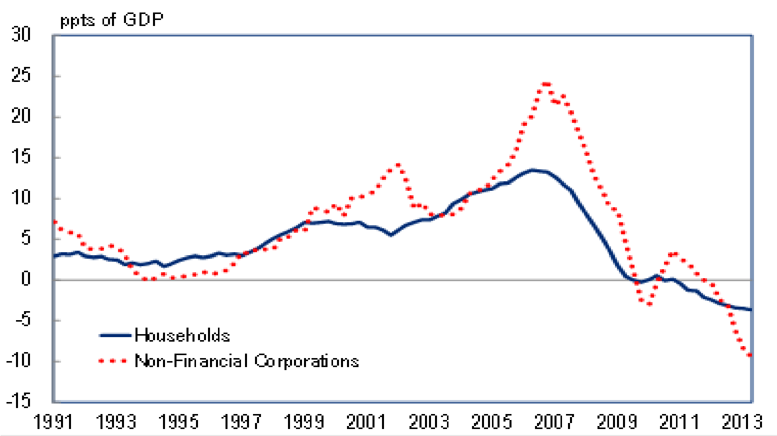
Figure 1. Citi Market Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vsBunds
2Q 14	1.39	0.00	1.70	0.80	0.50	137	9.10	0.75	8.05	1.50	1.25	0.00	-68
4Q 14	1.40	0.00	1.80	0.80	0.50	153	9.00	0.75	7.86	1.50	1.26	0.00	-73

Source: Citi Research

Sources: Citi Research

Figure 2. Spain — Debt Flows (Q4 Sum, Pct. of GDP), 1991-Q2 2013



Sources: INE, Haver Analytics and Citi Research

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Spain: 2014 Outperformer?

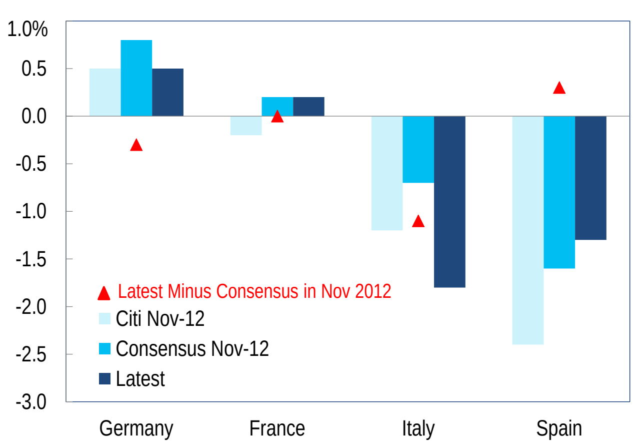
Spanish GDP growth unlikely to surprise again on the upside in 2014, inflation likely to undershoot expectations

Spain has outperformed our forecasts (and the consensus) more than other major euro area economies in 2013, with 2013 GDP now projected to fall by 1.3%, whereas we expected a decline of 2.4% in November 2012. Better economic data, falling government bond yields, progress in reform implementation, strong export growth and a fairly stable political situation have led to increased optimism on the Spanish economy. As a result, rating agencies have recently revised the rating outlook to stable. However, we reckon the scope for further upside surprises in 2014 is rather limited. This is mainly because (i) private deleveraging is progressing, but likely remains a major drag on domestic demand (ii) the housing adjustment probably still faces at least another couple of years to complete and (iii) negative population growth limits the scope for a domestic demand pick-up. Moreover, Spain's budgetary position remains fragile, although fiscal policy may not be tightened much in the next couple of years. On the other hand, we think inflation could undershoot the consensus again in 2014, as implemented structural reforms should continue to increase wage and price sensitivity to still ample economic slack.

2013 GDP has surprised both us and the consensus on the upside, unlike in many other euro area countries

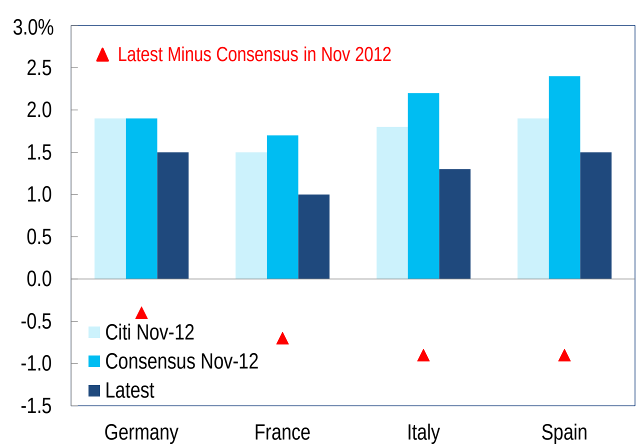
The Spanish economy has indeed delivered most of the positive surprises among the main euro area countries this year (Portugal and Greece also delivered better than expected GDP growth relative to the consensus in November 2012, both by 0.5%). Our Spanish GDP growth forecast in November 2012 has turned out too pessimistic by more than 1pp, but GDP growth has surprised the consensus on the upside also by 0.3pp. In contrast, 2013 GDP growth will probably turn out broadly in line with the Nov-12 consensus in France, slightly below consensus in Germany (by -0.3pp) and well below consensus in Italy (by 1.1pp) (see Figure 3). As major drivers of our forecasts in November 2012, we had expected an intensification of euro area debt crisis this year (with Greece expected to leave the euro) and a much tighter fiscal policy. The absence of both scenarios materializing has been the main source of upside surprise, allowing the decline in Spanish GDP to slow relative to 2012 and to move back to around zero from Q2 13. On the other hand, 2013 inflation has surprised both us and (to a greater extent) the consensus to the downside. The error relative to consensus was particularly large for Italy and Spain (0.9pp in both cases), and somewhat smaller for Germany and France (-0.4pp and -0.7pp, respectively) (see Figure 4).

Figure 3. Selected Euro Area Countries — 2013 Real GDP Forecasts



Sources: Consensus Forecast and Citi Research

Figure 4. Selected Euro Area Countries — 2013 Inflation Forecasts



Sources: Consensus Forecast and Citi Research

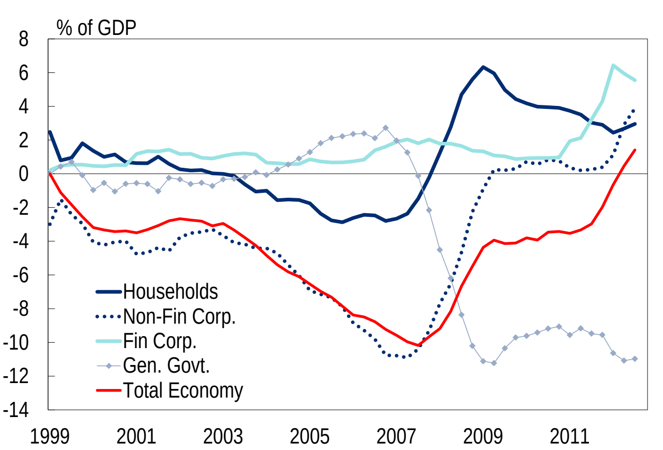
Can Spain continue to surprise on the upside in 2014? We currently project GDP to barely expand next year by 0.2%, somewhat below the consensus (looking for a 0.5% rise) and the government forecast (0.7%). We also expect inflation to be well below consensus and below the government projection (at -0.4%, against +1.1% for the consensus and 0.9% for the government). Surely, Spain is at more advanced stage than other countries (eg, Italy) in the process of rebalancing its economy, implementing structural reforms and regaining competitiveness. Hence, in relative terms Spain is probably better placed than Italy to potentially deliver upside surprises. However, we argue, 2014 is probably still too early for a meaningful improvement in the economy to materialise.

Strengths…

The corporate sector has rebalanced, but its debt stock remains very high

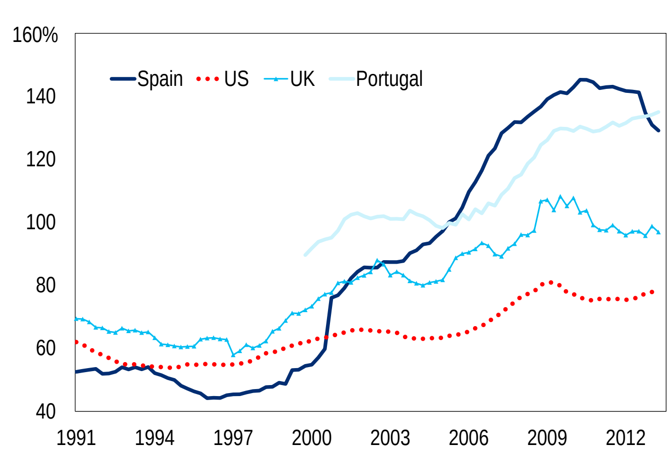
The arguments in favour of stronger Spanish growth usually rest on the evidence that (i) the economic/financial adjustment of Spanish firms is at a fairly advanced stage, (ii) the banking sector has been largely restructured, (iii) exports are growing fast and hence (iv) firms should accelerate their investment plans and start hiring soon. Admittedly, the balance sheet adjustment of the corporate sector has been substantial over the past year: non-financial corporations in the four quarters ending in Q2 recorded a financial surplus of nearly 4.0% of GDP, significantly up from 0.3% of GDP Q2 12 and representing a massive shift relative to a deficit in excess of 10% of GDP in 2007 (see Figure 5). Moreover, unit labour costs have adjusted noticeably, down by around 7% from the peak in 2009, initially via hefty job shedding, but since 2012 also via moderately negative wage growth. As a result, the corporate debt-to-GDP ratio has fallen by some 16pp from the peak in 2010. However, at 130% of GDP, corporate debt remains very high by historical and international standards (see Figure 6). Moreover, while the banking sector has gone through a quite deep restructuring process, this has not yet translated into looser financing conditions for the private economy. Bank lending rates for businesses remain more than 200bp higher than in Germany.

Figure 5. Spain – Financial Balances (4Q Sum, Pct. of GDP), 1999-13 Q2



Sources: INE, Haver Analytics and Citi Research

Figure 6. Selected Countries — Non-Financial Corporation Debt As Pct. of GDP, 1991-13 Q2



Sources: INE, Haver Analytics and Citi Research

Exports are the brightest spot of the economy, but are still too small to lift overall GDP growth

The restructuring of the corporate sector is surely supporting Spain's positive performance on external markets, with exports continuing to outperform almost any other euro area country and the current account balance finally in positive territory. However, as we argued previously, Spanish exports still account for too small a share of GDP (32.3% in Q3 13). Moreover, despite us having upgraded our 2013 GDP forecasts sizably over the past months, exports have actually underperformed our Nov-12 forecast. We expect Spanish exports to power along at an annual growth rate of 5% in 2014 and 2015, already somewhat above the projected growth rate for global trade (4 ¾%), leaving not much potential for upside surprises on the export front. On the other hand, imports may be weaker than we currently expect, hence lifting GDP growth, if the improvement in domestic demand is less import-intensive than currently expected (in other words, if import substitution is larger). Some import substitution is detectable, but we think that any near term recovery in domestic demand will likely result in an stronger pickup in imports, limiting the positive contribution of net exports to GDP growth (as Q3 GDP details have already shown).[1]

Structural reforms of the past two years are starting to bear some fruit

Although GDP growth just turned positive in Q3 13 with a 0.1% QQ gain, employment posted two consecutive quarterly gains in Q2 and Q3 (albeit small ones in seasonally adjusted terms), possibly indicating an improved elasticity of employment to GDP growth, thanks to labour market reforms and ensuing wage moderation. Yet, for the corporate sector of a large and still fairly closed economy like Spain to start investing and hiring on a meaningful scale, it would need clearly better prospects for domestic demand. We reckon this is unlikely to happen soon, as negative drags will persist on domestic demand stemming mainly from (i) private sector deleveraging and tight financing conditions, (ii) housing adjustment (iii) negative population growth and (iv) a still fragile budgetary position which at some point will have to be addressed.

…still outweighed by a heavy debt burden

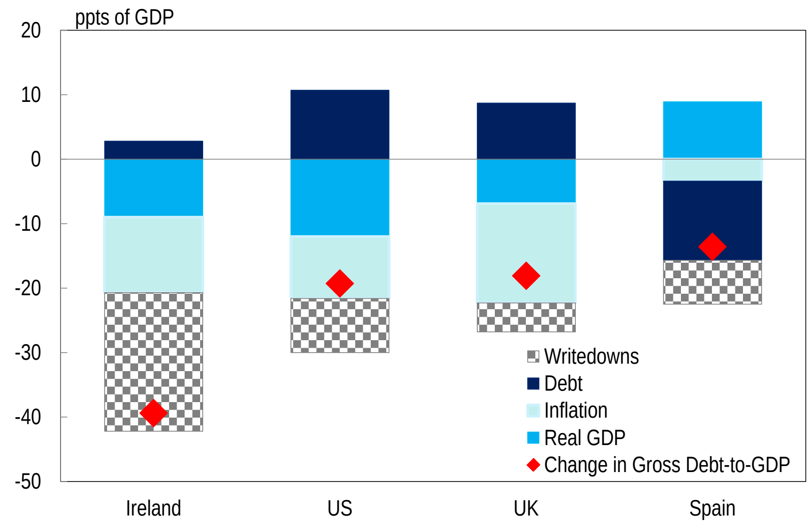
Private deleveraging has started, but remains slow relative to other highly-indebted countries

There is little doubt that the Spanish private sector is still highly leveraged by historical and international standards: corporate debt as a percentage of GDP stood at 130% and household debt at 120% of disposable income in Q2 13. Deleveraging has started, but its pace has been extremely slow, especially when compared with other recent episodes. A recent paper from the Bank of Spain shows that countries that have recently gone through private deleveraging (namely, UK, US and Ireland) have done so through a combination of higher GDP growth, higher inflation and/or larger debt write-offs, which have allowed for much bigger drops in the private debt ratios relative to Spain (see Figure 7).[2] In Spain the large bulk of debt reduction is happening through a contraction in the net financing (i.e., debt repayments) and, to a smaller extent, via debt write offs (mainly through transferring bad corporate loans to the bad bank, Sareb). The four quarter sum of the net reduction in households and corporate debt reached 9.7% of GDP in Q2 13, from 2.6% in Q2 12 (see Figure 2 on the Front Page). A declining GDP and a slowing inflation rate have prevented a deeper adjustment in the debt ratios in Spain.

[1] See "*Euro Economics Weekly - Spain's External Rebalancing*", Citi Research, 14 June 2013.

[2] Banco de España "Private Sector Deleveraging Channels: An International Comparison", Economic Bulletin November 2013.

Figure 7. Selected Countries — Change in Private Debt-to-GDP From Peak and Contributions (2009-2012)



Note: In the case of Spain, falling real GDP has caused the private debt-to-GDP ratio to increase since the peak.
Source: Banco de España "Private Sector Deleveraging Channels: An International Comparison", Economic Bulletin November 2013.

The balance sheet adjustment of Spanish households is far less advanced than that of businesses

In contrast to non-financial corporations, households' financial balance has been steadily deteriorating since 2009, although it remains in surplus (3.0% of GDP) and it has shown some signs of stabilisation over the last couple of quarters (see Figure 5). The household gross saving rate has declined to record low levels seen in the 2005-2007 period. Bank of Spain data show that the saving rate net of debt servicing (i.e., including principal repayments) has been hovering around zero since mid-2012. Flow of funds data show that households have been reducing financial assets, including bank deposits, probably to finance consumption and pay back debts.

In our view this leaves very little room for further declines in the saving rate and it means that a recovery in private consumption can only rest on gains in real disposable income (still falling to the tune of 3.5% YY in H1 13). The sharp decline in real income will likely ease off in coming quarters thanks to falling inflation, a reduced fiscal drag, moderate growth in non-wage income and a smaller contraction in employment. But wage moderation should limit the room for any sizable pickup in real incomes. Actually, recent research from the Bank of Spain suggests that given the extremely fragile financial situation of households, a stabilisation in incomes could first result in an increase in the saving rate, to bring it back in line to its long-term average, before a pick-up in spending can materialise.[3] All this implies that private consumption growth will remain very subdued, in our view, even in the absence of the sizable fiscal drag seen in 2011-12.

High private debt could be subtracting between 0.5% and 1.0% from annual GDP growth

Quantifying the negative effects of private deleveraging on growth is difficult, as they depend on many other variables, including the fiscal and monetary policy stance during the process. Recent empirical findings by the IMF on a sample of 18 countries over the past 30 years show that the effects of high private debts on growth are most negative when the public sector is also highly indebted.[4] In the cross-country study the IMF finds that a 10 pct increase in the corporate debt-to-

[3] Banco de Espana "Changes in household saving and consumption in Spain during the crisis", Economic Bulletin September 2013.

[4] IMF "Indebtedness and deleveraging in the euro area", in IMF Country Report No 13/232, July 2013.

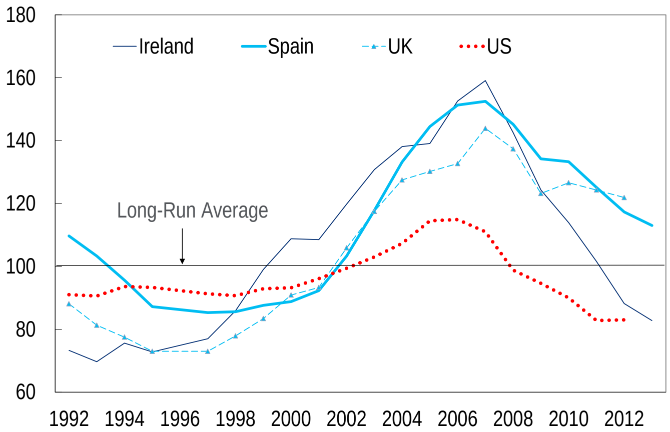
GDP ratio beyond a certain threshold (identified at 98%) is associated with a subsequent reduction in annual average growth between 7-11 basis points. The threshold for household debt-to-GDP ratio is much lower at 48%, but the effect of an additional 10pct debt ratio on growth is similar. Applying these estimated coefficients to Spain (where household debt-to-GDP exceeds the IMF threshold by 37ppt and corporate debt by 75ppt), we can compute a negative effect on annual GDP growth from private deleveraging ranging between 0.5%-1.0%.

Housing adjustment and falling population

We project house prices to fall by a further 15-20% in the next two to three years

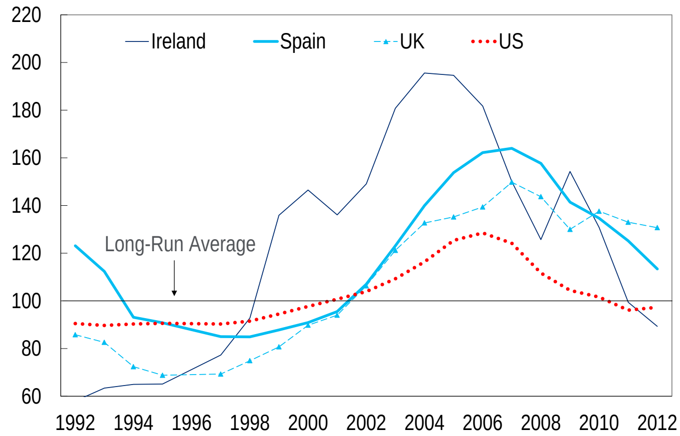
Two additional problems are likely to make the private deleveraging process in Spain more complicated. First, the housing adjustment is still on-going and unlikely to end in the next two or three years, in our view. House prices are down by some 30-35% in nominal terms and 35-45% in real terms. But when measured against household income or housing rents, they remain some 10-15% above their long-run average. Both the US and Ireland have seen these ratios falling well below their historical norms (by 15%-20%) before house prices started to stabilise (the UK however looks more similar to Spain) (see Figure 8 and Figure 9). While income stabilisation may help speed up the adjustment, we reckon another 15-20% house price drop is probably on the cards. At the current speed of adjustment (7-10% per year), it would take another two to three years for prices to reach the bottom. The end of the contraction in construction/real estate activity and investment is probably closer, but with a large stock of unsold houses (estimates still put it at around 1 million), a pickup is not to be expected for few years.

Figure 8. Selected Countries — House Prices to Income Ratio (Long-Term Avg = 100), 1992-2013F



Sources: OECD and Citi Research

Figure 9. Selected Countries — House Prices to Rents Ratio (Long-Term Avg = 100), 1992-2013F

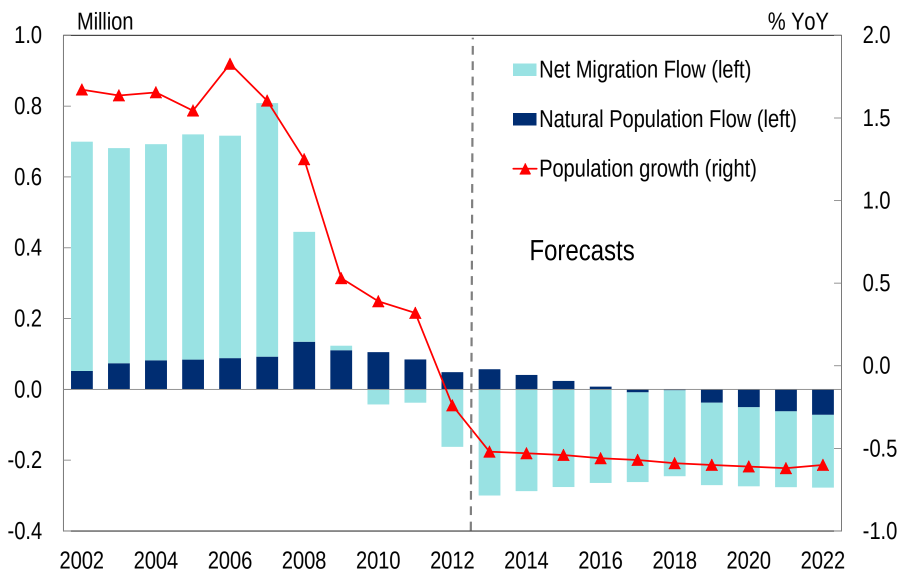


Sources: OECD and Citi Research

Population growth has turned negative and it is projected to remain so over the next decade

A second important factor weighing on future growth is demographics. Recently released projections by the national statistical office show that the Spanish population will likely shrink by 0.5% in 2013, after falling by 0.25% last year, and will continue shrinking at this year's pace (or slightly above) over the next decade (see Figure 10). This is in stark contrast with a hefty population growth rate in boom years (2002-2007), by an average of 1.7% per annum. Net immigration has been replaced by net emigration; furthermore, the dynamic of the native population is turning from slightly positive to slightly negative from 2017 onwards. Even assuming a decently positive per capita GDP growth, a shrinking population would clearly pose a cap on overall GDP growth in the next decade.

Figure 10. Spain — Population Growth, 2002-2022F



Sources: INE and Citi Research

The structural government deficit is still large, and will have to be addressed at some point, if not in 2014

A final note on Spain's still-fragile fiscal position: While the 2014 Budget envisages a broadly neutral fiscal stance, we have recently highlighted Spain's underlying fiscal weaknesses, mainly stemming from a much lower level of tax revenues as pct. of GDP compared to pre-crisis years.[5] Spain's structural fiscal deficit is still seen at around 6% of GDP in 2015 by the EU Commission — something that is likely to keep the pressure high on the Spanish government to raise tax revenues. A fiscal reform is expected to be unveiled in Q1 2014, while the government is pledging to cut taxes before the end of its mandate. In our view, fiscal policy may not be tightened much over the next two years (both election years, 2014 for European elections, 2015 for national elections), but equally it is unlikely to move into outright expansionary territory given the poor budgetary position. We reckon the scope of a boost to growth from further shifts in the fiscal stance is rather limited.

Conclusions

Spain unlikely to replicate the UK outperformance seen in 2013

Some could argue that Spain could deliver stronger-than-expected growth in 2014-15 similarly to the upside surprise seen in the UK in 2013. Our 2014 Spain forecast is indeed similar to what we expected a year ago for 2013 UK GDP, and arguments behind the projected UK weakness were similar to those we now put forward for Spain. However, we think the two countries differ in several respects. First, as we showed above, the UK household sector has deleveraged much more than Spain between 2008 and 2012, and the UK corporate sector was always much less indebted than in Spain. Second, the real exchange rate is significantly lower than the pre-crisis norm in the UK, while it is still above pre-crisis average in Spain. Third, population growth in the UK is stronger than in Spain (+0.6% YoY vs. -0.24% in 2012, according to latest Eurostat data) and, finally, policy actions in the UK (QE, FLS and Help to Buy Scheme) have been much more effective in easing financing conditions for the private sector than in Spain.

[5] See *"Euro Economics Weekly: Is This the End of Austerity?"*, 22 November 2013, Citi Research..

Structural reforms may show their benefits earlier than we expect, but private consumption still remains a source of downside surprises

True, Spain has reformed more than other main euro area countries, like Italy or France, in the past couple of years and the recent improvements in the economy may in part already reflect some benefits of these reforms. Recent wage moderation likely reflects increased labour market flexibility and may be behind the early stabilisation in employment in Q2 and Q3, and behind the positive export performance. Increased competition in product and service markets should contribute to the downward adjustment in consumer prices, hence supporting real incomes and private consumption. However, we reckon the heavy burden of private sector debt will continue to constrain domestic demand, limiting the scope for further upside surprises from the Spanish economy. We see the risks around our forecasts as broadly balanced: employment could fare somewhat better than our expectations if the effects of labour reforms materialise quicker than expected and wages continue to decline. But risks on private consumption remain on the downside, in our view, mainly due to a possible pickup in the saving rate towards long-term average and/or to fiscal policy being forced again into tightening mode.

Figure 11. Spain – Economic Forecasts, 2013-15F

		History	Forecast		History				Forecast							
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	-1.3	0.2	0.8	-2.1	-1.7	-1.2	-0.3	0.2	0.2	0.3	0.3	0.4	0.7	0.9	1.2
	QQ SAAR				-1.6	-0.4	0.4	0.4	0.3	0.1	0.2	0.4	1.0	1.0	1.1	1.5
Final Domestic Demand	YY	-3.2	-0.6	0.1	-4.7	-3.7	-3.2	-1.3	-0.9	-0.7	-0.4	-0.5	-0.2	0.0	0.2	0.4
	QQ SAAR				-2.4	-1.1	-2.1	0.1	-0.6	-0.4	-0.5	-0.4	0.4	0.5	0.3	0.3
Private Consumption	YY	-2.5	0.5	1.0	-4.2	-3.1	-2.3	-0.3	0.3	0.5	0.5	0.6	0.7	0.9	1.0	1.2
	QQ SAAR				-1.8	-0.1	0.5	0.3	0.5	0.8	0.5	0.6	1.1	1.3	1.1	1.2
Government Consumption	YY	-1.6	-1.2	-1.5	-3.3	-2.4	-0.4	-0.1	-0.4	-1.6	-1.2	-1.7	-1.6	-1.6	-1.4	-1.1
	QQ SAAR				-0.2	3.6	-3.8	0.5	-1.6	-1.6	-2.0	-1.6	-1.4	-1.4	-1.4	-0.4
Fixed Investment	YY	-7.0	-3.2	-0.8	-7.5	-6.4	-8.6	-5.6	-4.9	-3.5	-2.0	-2.3	-1.5	-0.8	-0.5	-0.4
	QQ SAAR				-6.0	-8.3	-7.5	-1.0	-2.8	-2.6	-1.7	-2.2	0.6	0.0	-0.3	-1.8
-- Business Equipment	YY	1.1	3.7	3.0	-3.0	1.0	0.4	6.1	5.5	3.6	2.5	3.2	3.1	3.1	3.0	2.7
	QQ SAAR				8.1	9.6	8.1	-1.2	5.7	1.9	3.8	1.3	5.4	1.9	3.6	0.0
-- Construction	YY	-10.3	-5.0	-3.3	-10.2	-10.6	-10.3	-9.9	-7.5	-4.0	-4.2	-4.5	-4.1	-3.4	-3.0	-2.7
	QQ SAAR				-13.9	-17.6	-3.8	-3.3	-4.5	-4.5	-4.5	-4.4	-2.9	-1.5	-3.2	-3.2
Exports of Goods and Services	YY	5.6	5.7	4.0	3.1	9.1	4.7	5.4	11.1	5.0	3.5	3.2	3.3	3.7	4.1	4.7
	QQ SAAR				-16.2	28.3	9.0	5.4	3.4	2.2	3.1	4.1	3.8	3.8	4.8	6.2
Imports of Goods and Services	YY	0.6	4.6	2.5	-4.7	2.5	0.7	3.9	9.5	4.3	2.3	2.1	2.1	2.4	2.6	2.8
	QQ SAAR				-16.7	22.5	11.5	2.3	2.8	1.1	2.2	2.4	2.7	2.5	2.9	3.0
Net Exports (Contrib. to YY GDP Growth)		1.5	0.6	0.6	2.3	2.0	1.3	0.6	0.8	0.4	0.6	0.5	0.5	0.5	0.6	0.8
Consumer Prices	YY	1.5	-0.4	-0.2	2.8	1.8	1.3	0.0	-0.4	-0.2	-0.5	-0.4	-0.2	-0.3	-0.2	-0.1
Compensation per Employee	YY	-1.0	-0.7	-0.2	-1.8	-0.6	-0.7	-0.8	-0.6	-0.4	-0.8	-0.9	-0.5	-0.2	-0.1	-0.1
Employment Growth	YY	-3.3	-1.5	-0.1	-4.6	-3.7	-2.9	-2.1	-1.6	-1.5	-1.5	-1.2	-0.8	-0.4	0.1	0.7
Unemployment Rate	%	26.6	27.0	26.6	27.2	26.3	26.0	26.7	27.6	27.0	26.5	27.1	27.7	26.8	25.9	26.1
Current Account Balance	€ bn	11.7	22.0	26.7												
	% GDP	1.1	2.1	2.6												
General Government Balance	€ bn	-70.7	-63.8	-56.3												
	% GDP	-6.9	-6.2	-5.4												
Primary Balance	% GDP	-3.4	-2.5	-1.5												
General Government Debt	€ bn	963.5	1,036.6	1,092.9												
	% GDP	93.9	100.7	105.4												

Note: For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€11.6bn). Percentage changes unless indicated. Annual data are period averages. Sources: Bank of Spain, ECB, Eurostat, INE and Citi Research forecasts

Key Economic Indicators (16 December – 20 December 2013)

Time	Monday 16 December	Forecast	Last
09:00	Euro Area: Manufacturing PMI, Dec Flash	51.3	51.6
	Services PMI, Dec Flash	51.4	51.2
	Composite PMI, Dec Flash	51.6	51.7
10:00	Euro Area: Trade Balance, Oct		
	Tuesday 17 December	**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Nov		
08:30	Sweden: Riksbank Monetary Policy Decision	25bp cut to 0.75%	1.0%
09:30	UK: Consumer Prices, Nov	0.1% MM, 2.1% YY	0.1% MM, 2.2% YY
	CPI Ex Food, Drink, Tobacco, Energy	0.1% MM, 1.7% YY	0.2% MM, 1.7% YY
	Retail Prices, Nov	0.1% MM, 2.6% YY	0.0% MM, 2.6% YY
	RPIX – Excludes Mortgages, Nov	0.1% MM, 2.7% YY	0.0% MM, 2.7% YY
09:30	UK: Producer Input Prices, Nov	-0.6% MM, -1.2% YY	-0.6% MM, -0.3% YY
09:30	UK: Producer Output Prices, Nov	0.0% MM, 0.3% YY	-0.3% MM, 0.8% YY
	Ex Food, Drink, Tobacco, Energy, Nov	-0.1% MM, 0.9% YY	0.1% MM, 0.9% YY
10:00	Euro Area: HICP, Nov Final	0.9% YY	0.7% YY
10:00	Euro Area: Labour Cost Index, 3Q		
10:00	Germany: ZEW Economic Sentiment, Dec	54.6	54.6
	ZEW Current Situation, Dec	27.7	28.7
11:00	UK: CBI Industrial Trends Survey – Output Expectations, Dec	+30%	+24%
	CBI Order Books, Dec	+10%	+11%
	CBI Selling Prices, Dec	+5%	-2%
	Wednesday 18 December	**Forecast**	**Last**
07:00	Sweden: PES Unemployment Rate, Nov	4.5%	4.5%
08:00	Sweden: Manufacturing Confidence, Dec	105.9	105.8
	Consumer Confidence, Dec	104.9	104.9
09:00	Germany: ifo Business Climate, Dec	108.3	109.3
09:30	UK: LFS Unemployment, Aug-Oct	-42,000 QQ, 7.5% Rate	-48,000 QQ, 7.6% Rate
	Claimant Count Unemployment, Nov	-40,000 MM, 3.8% Rate	-41,700 MM, 3.9% Rate
09:30	UK: MPC Minutes		
10:00	Euro Area: Construction Output, Oct		
11:00	UK: CBI Reported Sales, Dec		
19:00	US: FOMC outcome		
	Thursday 19 December	**Forecast**	**Last**
06:45	Switzerland: SECO Economic Forecasts, Dec		
08:30	Netherlands: Consumer Confidence, Dec		
08:30	Netherlands: Unemployment, Nov		
09:00	Italy: Contractual Wages, Nov		
09:30	UK: Retail Sales Volumes, Nov	0.9% MM, 2.8% YY	-0.7% MM, 1.8% YY
10:00	Greece: Unemployment Rate, 3Q		
11:00	Ireland: GDP, 3Q	0.1% QQ, -0.2% YY	0.4% QQ, -1.1% YY
	Friday 20 December	**Forecast**	**Last**
00:01	UK: GfK Consumer Confidence, Dec		
07:00	Germany: GfK Consumer Confidence, Jan		
07:00	Germany: Producer Prices, Nov	-0.2% MM, -0.9% YY	-0.2% MM, -0.7% YY
07:45	France: Business Confidence, Dec	98	98
	Own-Company Production Outlook, Dec	5	1
08:30	Netherlands: Consumer Spending, Oct		
09:00	Norway: Registered Unemployment Rate, Dec	2.7%	2.6%
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Intervention), Nov	£15.0 Billion Deficit	Year Ago: £15.5 Billion Deficit
	Fiscal Year To Date, Apr-Nov	£108.7 Billion Deficit	Year Ago: £121.9 Billion Deficit
09:30	UK: Balance of Payments, 3Q	£-13.0 Billion	£-13.0 Billion
09:30	UK: GDP Details, 3Q (3rd Release)	0.8% QQ, 1.5% YY	2Q: 0.7% QQ, 1.3% YY
09:30	UK: Service Sector Output, Oct	0.3% MM, 2.4% YY	0.2% MM, 2.2% YY
10:00	Italy: Retail Sales, Oct		
10:00	Greece: Current Account, Oct		
15:00	Euro Area: Consumer Confidence, Dec Flash	-14.7	-15.4

Sources: National statistical offices, central banks and Citi Research

Key Economic Indicators (23 December 2013 – 3 January 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Nov (by Dec 30)	-0.2% MM, -3.2% YY	-0.7% MM, -3.0% YY
08:30	Sweden: Household Lending, Nov (23-28 Dec)	5.0% YY	4.9% YY
Monday 23 December		**Forecast**	**Last**
08:00	Spain: Producer Prices, Nov		
09:00	Italy: Consumer Confidence, Dec	98.8	98.3
09:00	Norway: LFS Unemployment Rate, Oct	3.5%	3.4%
14:00	Belgium: Business Confidence, Dec		
	Spain: Budget Balance, Nov YTD	€-38.4 Billion	Jan-Nov 12: €-36.9 Billion
Tuesday 24 December		**Forecast**	**Last**
07:45	France: GDP Details, 3Q	-0.1% QQ, 0.2% YY	0.5% QQ, 0.5% YY
07:45	France: Consumer Spending, Nov	0.8% MM, 0.5% YY	-0.2% MM, -0.1% YY
08:30	Netherlands: GDP Details, 3Q		
08:30	Netherlands: Producer Confidence, Dec		
09;30	UK: BBA Mortgage Advances for House Purchase, Nov		
Wednesday 25 December		**Forecast**	**Last**
	Christmas Day Holiday		
Thursday 26 December		**Forecast**	**Last**
	UK: Boxing Day Holiday		
17:00	France: Jobseekers – Net Change, Nov	-5.0K	-20.5K
	Total Jobseekers, Nov	3,270.2K	3,275.2K
Friday 27 December		**Forecast**	**Last**
07:45	France: Producer Prices, Nov		
	Spain: Current Account, Oct		
During The Week		**Forecast**	**Last**
07:00	UK: Nationwide House Prices, Dec		
Monday 30 December		**Forecast**	**Last**
08:00	Spain: Retail Sales, Nov	-0.3% YY	-0.6% YY
08:30	Sweden: Retail Sales, Nov	0.4% MM	0.0% MM
09:00	Italy: Business Confidence, Dec	97.6	98.1
10:00	Italy: Producer Prices, Nov		
Tuesday 31 December		**Forecast**	**Last**
10:00	Greece: Retail Sales, Oct		
Wednesday 1 January 2014		**Forecast**	**Last**
	New Year's Day Holiday		
Thursday 2 January		**Forecast**	**Last**
	EU: Lithuanian Presidency ends, Greek Presidency starts (until June 2014)		
07:30	Sweden: Manufacturing PMI, Dec	54.6	56.0
09:00	Euro Area: Manufacturing PMI, Dec Final		
09:30	UK: Manufacturing PMI, Dec		
17:00	Italy: State Sector Borrowing Needs, Dec YTD	€84.0 Billion	Jan-Dec 12: €49.4 Billion
Friday 3 January		**Forecast**	**Last**
08:00	Spain: HICP Flash, Dec	0.3% YY	0.3% YY
08:00	Switzerland: KOF Economic Barometer, Dec		
09:00	Euro Area: M3, Nov	1.0% YY, 1.5% 3-M YY	1.4% YY, 1.9% 3-M YY
09:30	UK: Personal Borrowing, Nov		
10:00	Italy: HICP Flash, Dec		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
Dec 16 09:00 London Time	*Manufacturing PMI, Dec Flash* *Services PMI, Dec Flash* *Composite PMI, Dec Flash*	Forecast: 51.3 Forecast: 51.4 Forecast: 51.6	Prior: 51.6 Prior: 51.2 Prior: 51.7
	The PMI reports will likely be again on the soft side, with the manufacturing PMI probably edging lower after two consecutive gains, while the services sector possibly will post a small gain. The composite PMI probably remained broadly unchanged in Dec, at around 51.5. This will also be the average for the composite PMI in Q4, showing a sideways move relative to 3Q. This confirms that there is little room for GDP dynamic to accelerate in 4Q relative to a muted 0.1% QQ gain in 3Q 13.		
Dec 17 10:00 London Time	*HICP, Nov Final*	Forecast: 0.9% YY	Prior: 0.7% YY
	A 0.2pp rebound in the headline rate in November, albeit to a still very subdued reading of 0.9% YY, was mainly driven by some unusual, likely temporary, price increases in holiday-related prices (primarily in Germany), which are probably going to be reversed in Dec. This will push the core HICP rate up from 0.8% YY to 1.0% YY. Adverse base effects in the energy component also contributed to a higher YY headline rate in Nov, but we expect headline inflation to drop again to 0.7% YY in Dec. In general price pressures will likely remain muted, with core inflation continuing subsiding in coming months.		
Dec 20 15:00 London Time	*Consumer Confidence, Dec*	Forecast: -14.7	Prior: -15.4
	With households' unemployment expectations in Nov at their lowest level since mid-2011, and a better outlook on their own financial situation, we expect the drop in consumer confidence recorded in November to be reversed in December. Reduced fiscal austerity and falling inflation have contributed to the improvement in consumer confidence in recent months.		
Jan 3, 2014 09:00 London Time	*M3, Nov*	Forecast: 1.0% YY, 1.5% 3-M YY	Prior: 1.4% YY, 1.9% 3-M YY
	On-going bank balance sheet deleveraging ahead of the year-end snapshot for the ECB's AQR is likely to result in a further slowdown in the pace of growth in broad money (M3) in November, probably down to 1.0% YY – the slowest pace since Sep-10. The October pace of decline in credit flows to the private sector should have remained broadly unchanged at around -0.2% MM, in line with the previous three months, amid pressures on banks and on the non-financial private sector to continue deleveraging. The annual rate of decline in the stock of loans to the private sector likely dropped further from -2.1% YY to -2.4% YY in Oct. We expect the repayments of private sector debts to continue in coming months, keeping credit flows in negative territory, especially in the euro periphery.		
Germany			
Dec 17 09:00 London Time	*ZEW Economic Sentiment, Dec* *ZEW Current Situation, Dec*	Forecast: 54.6 Forecast: 27.7	Prior: 54.6 28.7
	After two consecutive small declines in October, we expect the current situation index of the ZEW survey of German financial analysts to register another small decline in November. For the sentiment indicator, we expect a flat reading. Recent data have been mixed, with industrial production and industrial orders quite weak, while survey indicators continued to be quite robust. Both indices remain almost one standard deviation above their long-term averages.		
Dec 18 09:00 London Time	*Ifo Business Climate, Dec*	Forecast: 108.3	Prior: 109.3
	We expect a slightly weaker reading for the ifo business climate in December. German sentiment readings continue to generally be robust, but are no longer uniformly so. The hard data have also been mixed. However, the outlook still suggests that growth will gradually and moderately strengthen and the index remains comfortably above its long-term average.		
Dec 20 07:00 London Time	*Producer Prices, Nov*	Forecast: -0.2% MM, -0.9% YY	Prior: -0.2% MM, -0.7% YY
	We expect producer prices to tick down in November, leaving the yearly price level to fall at almost 1%. Unit labour costs are rising, but the strong euro, low energy prices and still-weak external conditions (weakening the price of intermediate goods imports) continue to resist upward price pressures for producers.		
By Dec 30 07:00 London Time	*Import Prices, Nov*	Forecast: -0.2% MM, -3.2% YY	Prior: -0.7% MM, -3.0% YY
	We expect German import prices to fall slightly in November, mostly on seasonal grounds. German import prices would then be 3% lower than a year ago, as the euro remains strong, and export prices of other euro area countries and commodity prices weak.		
Jan 6, 2014 13:00 London Time	*HICP, Dec Flash* *National CPI, Dec Flash*	Forecast: 0.3% MM, 1.0% YY Forecast: 0.3% MM, 1.3% YY	Prior: 0.2% MM, 1.6% YY Prior: 0.2% MM, 1.3% YY
	We expect the flash readings for German inflation in November to be stable at 1.3% YY for the national definition. Due to an effect of changing the sample of prices (notably for holiday accommodation and budget holidays), the EU-harmonised definition will once again diverge from the national definition, reversing the discrepancy observed in November. Overall, core inflation remains pretty stable, but the contributions of commodity prices continue to trend down.		
Jan 7 08:55 London Time	*Unemployment, Dec*	Forecast: 10K MM SA, 97K MM NSA	Prior: 10K MM SA, 5K MM NSA
	German unemployment is very stable at low levels and we expect that to be reflected in the December numbers where seasonally-adjusted unemployment is likely to tick up slightly and non-seasonally-adjusted figures should show a larger increase, but still leaving the unemployment rate at 6.9% according to the domestic definition.		

Economic Indicators

France			
Dec 20 07:45 London Time	*Business Confidence Indicator, Dec* *Own-Company Production Outlook, Dec*	Forecast: 98 Forecast: 5	Prior: 98 Prior: 1
	Business confidence is expected to have remained largely unchanged in December. Despite some evidence of weak performances in the manufacturing PMI recently, we believe that the general improvement in the business climate reported by Banque de France will translate into a modest uptick in the personal production outlook, as well as in businesses' perception of economic prospects. As the government struggles to communicate on its fiscal policy objectives, including its ambitious tax reform, we believe that confidence will continue to suffer.		
Dec 24 07:45 London Time	*Gross Domestic Product, 3Q F*	Forecast: -0.1% QQ, 0.2% YY	Prior: 0.5% QQ, 0.5% YY
	We expect the final estimate to confirm that economic activity contracted slightly, but it remains a close call whether the final reading could be revised down given the -0.149% QQ preliminary estimate. The most significant negative contributions to 3Q GDP came from investment and exports, with modest upticks in government and household expenditure leaving domestic demand barely increasing, up 0.1% QQ (0.4% YY). Looking ahead to 4Q, hard data available to date point to a weak start, highlighting some downside risks to our 0.4% QQ forecast.		
Dec 24 07:45 London Time	*Consumer Spending, Nov*	Forecast: 0.8% MM, 0.5% YY	Prior: -0.2% MM, -0.1% YY
	We look for a first increase in consumer spending in four months, but expect that much of it will come from a rebound in energy spending. Spending on manufactured goods, including autos and furniture is expected to weaken a little in light of the poor dynamics in new passenger car registrations and weaker housing market. Note that consumer confidence fell in November for the first time since May-13 and retail confidence dropped to a four-month low. We still expect some pent-up demand to be released ahead of the January 2014 VAT rate hike, suggesting that the fourth quarter will show expansion in consumer spending (+0.3% QQ after +0.2% QQ in Q3).		
Dec 26 17:00 London Timer	*Jobseekers – Net Change, Nov (000s)* *Jobseekers, Nov (000s)*	Forecast: -5.0K Forecast: 3,270.2K	Prior: -20.5K Prior: 3,275.2K
	The improvement in unemployment metrics stems primarily from the government's sponsored schemes that the administration has been pushing aggressively in order to meet its objective of inflecting the unemployment curve by year-end. We expect another small drop in the total number of registered jobseekers in November. Note that private sector expectations of employment are recovering steadily, albeit slowly, and are almost in line with their long-term averages. This situation is consistent with our forecast of modest net job creation next year, helping generate a peak in the jobless rate by the end of 1H-2014.		
Jan 7 07:45 London Time	*Consumer Confidence Indicator, Dec*	Forecast: 85	Prior: 84
	The one-point drop in household confidence in November was related to some deterioration in consumers' opinion about their standards of living, as well as significant increase in unemployment worries after a jump in jobless claims in October. We believe that some improvement in the jobs market in November, together with the very modest inflation picture and some tentative stabilisation in the government's popularity ratings will be enough to unwind last month's drop. With fiscal pressure on households increasing in 2014, with a 1 Jan 2014 VAT rate hike in the pipeline, and a well below average level of confidence, consumer spending is likely to be muted in coming quarters.		
Jan 9-10 07:30 London Time	*Bank of France Business Sentiment, Dec*	Forecast: 100	Prior: 101
	Industrial confidence rose markedly in November, according to the last BdF survey, recording a two-point increase to a 30-month high. The splits showed a broad-based improvement. We see some room for a small correction in December to 100, after four months of successive gains, taking into account the weak performance of the manufacturing PMI and still depressed confidence in the services sector. We expect that the strengthening of the euro effective exchange rate since the spring will continue to limit the recovery in manufacturing order books, making further gains in confidence harder in 1Q 2014, unless the government were to make more noise about more generous payroll tax credits for 2015.		
Jan 10 07:45 London Timer	*Industrial Production, Nov* *Manufacturing Production, Nov*	Forecast: 1.1% MM, 1.5% YY Forecast: 0.5% MM, 2.0% YY	Prior: -0.3% MM, 0.0% YY Prior: 0.4% MM, 0.7% YY
	Capacity utilisation has risen by two and a half points since the August lows and the order books assessment is improving steadily, having climbed to a 34-month high according to the latest BdF survey. The INSEE survey is also reporting an increase in the stock of finished goods, suggesting that industrialists must have been ramping up production. Yet, manufacturing output has been flat 3M/3M in October. Hence, we believe that the November report will show a sizeable increase in output.		
Italy			
Dec 23 09:00 London Time	*Consumer Confidence, Dec*	Forecast: 98.8	Prior: 98.3
	Consumer sentiment showed a sharp decline (-3.5 points) in October followed by a partial payback in November (+1.0point). We expect the mild uptrend to have continued in December, although the on-going political debate on the budget law and the changes to a much-hated property tax are likely to still weigh on consumer sentiment.		
Dec 30 09:00 London Time	*Business Confidence*	Forecast: 97.6	Prior: 98.1
	Business sentiment probably edged lower in December, with the pace of improvement in the business climate clearly slowing in the last few months. The level remains some 0.3 standard deviations below its long-run average, suggesting very little room for a pick-up in GDP growth in Q4.		
Jan 2, 2014 17:00 London Time	*State Sector Borrowing Needs, Dec YTD*	Forecast: €84.0 Billion	Prior (Jan-Dec 12): €49.4 Billion
	The state cash budget balance likely ended 2013 recording a deficit equal to 5.4% of GDP (around €84bn), the largest since 2009. The repayment of a large part of government arrears has contributed to lift the state sector's cash needs, together with a revenue shortfall following the abolition of the property tax. While the comparison with 2012 may be particularly unfavourable, because of several one-off deficit-reducing measures adopted in 2012 at the peak of the sovereign debt crisis, the 2013 cash deficit suggests upside risks to the general government deficit target of 3.0% of GDP for 2013.		

Economic Indicators

Spain			
Dec 23	*Budget Balance, Nov YTD*	Forecast: €-38.4 Billion	Prior (Jan-Nov 12): €-36.9 Billion
	We project the YTD central government budget deficit in November to rise to €-38.4bn (3.8% of GDP), 4% above the same period of last year. On a monthly basis, we expect the central government to post a deficit of around €1.3bn in Nov 13, overall still suggesting a marked slowdown in the pace of deficit reduction relative to last year. Although it remains very difficult to extrapolate the general government year-end deficit projection from these numbers, we think they suggest the government is likely to marginally overshoot (by 0.1ppts of GDP) the deficit target (of 6.5% of GDP, excluding financial sector support).		
Dec 30 08:00 London Time	*Retail Sales, Nov*	Forecast: -0.3% YY	Prior: -0.6% YY
	We expect real retail sales to bounce back marginally in November (by 0.5% MM) after strong declines of 1.8% MM and 2.4% MM in October and September, respectively. On an annual basis, we expect retail sales (WDA) to remain in negative territory (-0.3% YY vs. -0.6% YY in October), partly affected by negative base effects. Falling inflation may provide some boost to real disposable income and hence real spending. We expect private consumption to post positive QQ growth in 4Q.		
Jan 3, 2014 08:00 London Time	*HICP, Dec Flash*	Forecast: 0.3% YY	Prior: 0.3% YY
	We expect the annual HICP inflation rate to remain at 0.3% YY in Dec. A new increase in fuel prices likely pushed the annual inflation rate in the energy component higher (posting positive YY growth for the first time since Sep), adding some 0.1pp to the headline rate. On the other hand, we expect further easing in food price inflation as well as on-going weakness in core prices, both of which are likely to offset the energy effect on headline inflation. Still ample spare capacity however will probably push core inflation lower in coming months. This 2013 average annual HICP inflation rate is likely to come in at 1.5%, lowest reading since 2009. We project inflation to keep easing in 2014.		
Jan 10 08:00 London Time	*Industrial Production, Nov*	Forecast: 2.2% YY	Prior: -0.7% YY
	Relatively feeble survey data (manufacturing PMI stood at 48.6 in Nov, lowest since May-13) suggest industrial production probably rose only marginally (we project by 0.2% MM) in November, showing only a limited payback after the strong decline of 0.8% MM in October. We expect the YY figure (WDA) to pick up to 2.2% in November, after a decline of 0.7% YY in October, largely affected by positive base effects. Overall, we expect output to post positive growth in 4Q, in line with our forecast for a marginal rise in real GDP (of 0.1% QQ).		
Ireland			
Dec 19 11:00 London Time	*GDP, 3Q*	Forecast: 0.1% QQ, -0.2% YY	Prior: 0.4% QQ, -1.1% YY
	Recent data paint a mixed picture for 3Q, with strong gains in house prices and retail sales volumes, but a marked decline (2.4% QQ) in industrial production (and IP weakened further in October). On balance we expect a small QQ gain in GDP, but such a figure would (unless recent data are revised significantly) still put the 2013 annual total on track for a small decline. Note that Ireland's GDP data are often revised significantly over time.		
Sweden			
Dec 17 08:30 London Time	*Interest Rate Decision*	Forecast: 25bp Cut to 0.75%	Prior: 1.0%
	Our base case is a 25bp interest rate cut to 0.75%, driven by an expected downward revision of the Riksbank's inflation forecasts (inflation undershoot vs. Riksbank's forecast amounted to 0.4pp in Oct). Comments from an increasing number of board members suggest that they are getting increasingly concerned about stubbornly low inflation, though the majority board remains of the view that monetary policy has a role to play in safeguarding financial stability.		
Dec 18 07:00 London Time	*Registered Unemployment Rate, Nov*	Forecast: 4.5%	Prior: 4.5%
	Unemployment is basically trending sideways (in seasonally-adjusted terms), while employment continues to increase, which is a bit of a puzzle given weak GDP growth in recent quarters. The weekly data point to about a stable registered jobless rate in November.		
Dec 18 08:00 London Time	*Manufacturing Confidence, Dec*	Forecast: 105.9	Prior: 105.8
	Following strong gains in recent months (confidence at highest level since Jun-11), we expect manufacturing confidence to be broadly stable in December. Higher PMI in November, though, is an upside risk for the manufacturing sector, while European PMIs have been largely stable at a relatively low level. We note that ongoing disappointments for exports and industrial production are at odds with increasing capacity utilization and sentiment.		
Dec 18 08:00 London Time	*Consumer Confidence, Dec*	Forecast: 104.9	Prior: 104.9
	Consumer confidence is now at highest levels since June 2011, and although short-term indicators point to further upward pressure on the housing market, we expect a consolidation in December. Further ahead, rising home prices and an improving labour market should continue to support confidence. Current levels of consumer confidence suggest that private consumption will accelerate going into 2014.		
Dec 23-28 08:30 London Time	*Household Lending, Nov*	Forecast: 5.0% YY	Prior: 4.9% YY
	Lending to households picked up to 4.9% YY in October (up 0.1pp), and remains above the growth pace a year ago (4.5% YY). The largest part of households' loans consists of housing loans (63%), which in October had an annual growth rate of 5.2% (4.6% YY a year ago and down from 10.5% YY in early 2010). Given the rebound on the housing market (house prices have increased slightly over the last seven months), we see a clear risk that household lending could pick up further in the remainder of the year. Although this is well in line with the Riksbank's expectations (forecasting a pick-up to around 5%-5.5% YY), we reckon the board would be more comfortable with a slowdown in lending growth.		
Dec 30 08:30 London Time	*Retail Sales, Nov*	Forecast: 0.4% MM	Prior: 0.0% M/M
	Retail sales disappointed again in October as it failed to show an expected rebound; activity in October was 0.3% above the 3Q level (3Q: 0.3% QQ, 2Q: 0.6% QQ, 1Q: 1.4% QQ). Current levels of consumer and retail confidence support an upward trend in private consumption, and fiscal policy measures are expected to support spending going into 2014.		

Economic Indicators

Sweden continued

Jan 2 8:30 London Time	*Manufacturing PMI, Dec*	Forecast: 54.6	Prior: 56.0

PMI jumped 4.0 points in November to 56.0, well above the long-term average and the strongest reading since May 2011 (with Sep-13 being an exception). Ahead, we expect the manufacturing sector to gradually recover, supporting economic recovery. Hard data (production and exports), though, have been weak so far this year, and ongoing export weakness poses downside risks to GDP growth in the final quarter of the year.

Jan 7 7:30 London Time	*Services PMI, Dec*	Forecast: 54.6	Prior: 57.0

Services sector PMI jumped 3.3 points to 57.0 in November. The series, however, is very volatile and one gets a more precise picture by looking at three-month moving averages. On this basis, the services PMI has been hovering around 50 for the past year, but moved up to 54.6 in Sep-Nov – the highest since mid-2011. Service sector sentiment according to NIER has increased steadily since late 2012, with sentiment both in private services and retail trade above the historic average. Meanwhile, just as for the manufacturing sector, production data is lagging sentiment indicators in the service sector (actual service production was up 0.5% QQ in 3Q, only about offsetting the 0.5% QQ decline in the previous quarter). Meanwhile, we expect the service sector to recover ahead.

Jan 10 8:30 London Time	*Service Production, Nov*	Forecast: 0.4%	Prior: 0.2% M/M

The trend in service production has been weak during the past year, and although we are seeing signs of improvement, growth remains sluggish. In Sep, service production printed a weaker-than-expected 0.4% MM decline, but with strong growth in Aug combined with upward revisions to historic data, service production gained 0.5% QQ in 3Q – offsetting the 0.5% QQ drop in the previous quarter. The outlook for the service sector is improving with both services PMI and the NIER survey pointing to ongoing recovery.

Norway

Dec 20 9:00 London Time	*Registered Unemployment Rate, Dec*	Forecast: 2.7%	Prior: 2.6%

In line with the trend, registered unemployment increased by slightly above 1,000 persons in November. Norges Bank forecasts an increase in unemployment from 2012 to 2013 and, so far, current developments are well in line with the Bank's forecast.

Dec 23 9:00 London Time	*LFS Unemployment Rate, Oct*	Forecast: 3.5%	Prior: 3.4%

The Norwegian labour market continues to weaken as unemployment is creeping higher. This largely reflects an increasing labour force, which increased by an above-trend 0.7% in the most recent three-month period from the previous one, the strongest since Feb-12, to be up 1.3% YY. Meanwhile, employment also grew at a relatively healthy clip (0.6% YY) – somewhat above the pace in 2Q. We expect the labour market to remain stable with the jobless rate staying around current levels in the final quarter of the year. This is basically in line with Norges Bank's view.

Jan 6, 2014 8:00 London Time	*Manufacturing PMI, Dec*	Forecast: 53.2	Prior: 56.0

We expect the Norwegian PMI to correct slightly lower in December. This would be better in line with indications from other business surveys, which on average signal slightly around trend-pace growth ahead (RNR points to below-trend growth while the BTS signals slightly above trend growth). 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.

United Kingdom

Dec 17	*Consumer Prices, Nov*	Forecast: 0.1% MM, 2.1% YY	Prior: 0.1% MM, 2.2% YY
09:30	*CPI Ex Food, Drink, Tobacco, Energy, Nov*	Forecast: 0.1% MM, 1.7% YY	Prior: 0.2% MM, 1.7% YY
London Time	*Retail Prices, Nov*	Forecast: 0.1% MM, 2.6% YY	Prior: 0.0% MM, 2.6% YY
	RPIX – Excludes Mortgages, Nov	Forecast: 0.1% MM, 2.7% YY	Prior: 0.0% MM, 2.7% YY

There are slightly conflicting effects for this month, with the initial part of the recently-announced hikes in home energy prices but also a further slight drop in petrol prices. On balance we expect that CPI inflation will edge down, reaching the lowest since late-2009. Inflation is likely to fall a little further in the December data.

Dec 17 09:30 London Time	*Producer Input Prices, Nov*	Forecast: -0.6% MM, -1.2% YY	Prior: -0.6% MM, -0.3% YY

We expect input prices to fall for the fourth consecutive month, and for the seventh month out of the past eight. Global commodity prices have continued to drift lower, while the pound has continued to appreciate. All this provides a helpful disinflationary backdrop for 2014.

Dec 17	*Producer Output Prices, Nov*	Forecast: 0.0% MM, 0.3% YY	Prior: -0.3% MM, 0.8% YY
09:30	*Output Prices Ex Tax, Nov*	Forecast: -0.1% MM, 1.0% YY	Prior: -0.2% MM, 1.1% YY
London Time	*Excluding Food, Drink, Tobacco, Energy, Nov*	Forecast: -0.1% MM, 0.9% YY	Prior: 0.1% MM, 0.9% YY

With continued weakness in global commodity prices, and subdued trends in surveys of firms' pricing intentions, we expect that output price inflation will remain weak.

Dec 17	*CBI Industrial Trends Survey, Dec*		
11:00	*Monthly Output Expectations Net Balance, Dec*	Forecast: +30%	Prior: +24%
London Time	*Monthly Order Books Net Balance, Dec*	Forecast: +10%	Prior: +11%
	Monthly Selling Prices Net Balance, Dec	Forecast: +5%	Prior: -2%

After the weaker October survey (a regular pattern of recent years), the November CBI survey bounced back to show broadbased strength – with order books at the highest since the mid-90s. We expect similar strength in the December survey, and recent IP data suggest that the official data are broadly validating the bullish message from recent surveys.

Economic Indicators

United Kingdom continued			
Dec 18 09:30 London Time	*LFS Unemployment, Aug-Oct* *Claimant Count Unemployment, Nov*	Forecast: -42,000 QQ, 7.5% Rate Forecast: -40,000 MM, 3.8% Rate	Prior: -48,000 QQ, 7.6% Rate Prior: -41,700 MM, 3.9% Rate
	The single month data for September showed the jobless total falling by 63K relative to three months earlier, and we expect a similar decline in the October single month figures, hence leaving the three-month average decline at 42K and bringing the jobless rate down to 7.5% -- the lowest since early 2009.		
Dec 19 09:30 London Time	*Retail Sales Volumes, Nov*	Forecast: 0.9% MM, 2.8% YY	Prior: -0.7% MM, 1.8% YY
	We expect these data to show a snap back in retail sales growth, as the adverse effect on sales of the relatively warm October fades. The average daily temperature in November fell below average, and indeed it was the biggest drop between October and November since 2006. This is likely to boost sales of winter clothing, reversing the weakness in clothing sales in the October data.		
Dec 20 09:30 London Time	*Public Sector Net Borrowing, Nov* *(Ex RM, APF and Financial Intervention)*	Forecast: £15.0 Billion Deficit, £108.7 Billion Deficit Fiscal Year To Date Year Ago: £15.5 Billion Deficit, £121.9 Billion Deficit Fiscal Year To Date	
	We expect the underlying deficit will continue to fall slightly, keeping the UK on course for a slight undershoot even compared to the OBR's updated forecast (£111.2bn).		
Dec 20 09:30 London Time	*Balance of Payments, 3Q*	Forecast: £-13.0 Billion	Prior: £-13.0 Billion
	Recent figures already have shown that the deficit on goods and services trade widened slightly in 3Q, but we expect this will be balanced by a slight drop in transfer payments after a high figure in 3Q. Such a figure would keep the full-year total deficit on course for about £60bn, 3.7% of GDP, a record high in cash terms and as a share of GDP similar to the 22-year high seen in 2012.		
Dec 20 09:30 London Time	*GDP, 3Q, 3rd Release*	Provisional: 0.8% QQ, 1.5% YY	Prior (2Q): 0.7% QQ, 1.3% YY
	It is possible that the ONS will revise 3Q growth up by a tenth following the upward revision to the 3Q construction output data. The split is likely to show a slight drop in the savings rate to about 5.1% from 5.9% in 2Q.		
Dec 20 09:30 London Time	*Service Sector Output, Oct*	Forecast: 0.3% MM, 2.4% YY	Prior: 0.2% MM, 2.2% YY
	Surveys suggest that service sector output is growing rapidly, and we expect these figures will show another solid gain. A figure in line with our forecast would put output already 0.6% above the 3Q average, hence setting the stage for a strong 4Q GDP reading.		

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

Key Economic Indicators (6 January –10 January 2014)

During The Week		Forecast	Last
08:00	UK: Halifax House Prices, Dec		
Monday 6 January		**Forecast**	**Last**
08:00	Norway: Manufacturing PMI, Dec	53.2	56.0
09:00	Euro Area: Services PMI, Dec Final		
	Composite PMI, Dec Final		
09:30	UK: Services PMI, Dec		
09:30	Euro Area: Sentix Investor Confidence, Jan		
13:00	Germany: HICP, Dec Flash	0.3% MM, 1.0% YY	0.2% MM, 1.6% YY
	National CPI, Dec Flash	0.3% MM, 1.3% YY	0.2% MM, 1.3% YY
Tuesday 7 January		**Forecast**	**Last**
07:30	Sweden: Services PMI, Dec	54.6	57.0
07:45	France: Consumer Confidence, Dec	85	84
08:55	Germany: Unemployment, Dec	10K MM SA (97K MM NSA)	10K MM SA (5K MM NSA)
10:00	Euro Area: HICP Flash, Dec		
10:00	Euro Area: Industrial Producer Prices, Nov		
Wednesday 8 January		**Forecast**	**Last**
07:00	Germany: Trade Balance, Nov		
09:00	Norway: Industrial Production, Nov		
09:00	Italy: Unemployment, Nov		
10:00	Euro Area: Retail Sales, Nov		
10:00	Euro Area: Unemployment Rate, Nov		
11:00	Germany: Incoming Orders, Nov		
Thursday 9 January		**Forecast**	**Last**
07:30	France: Bank of France Business Sentiment, Dec	100	101
07:45	France: Trade Balance, Nov		
08:30	Netherlands: Consumer Prices, Dec		
09:00	Norway: Credit Indicator C2, Nov		
09:00	Norway: Retail Sales, Nov		
09:00	Italy: Deficit to GDP, 3Q		
09:30	UK: Trade Balance – Goods & Services, Nov		
09:30	UK: Profitability of UK Companies, 3Q		
10:00	Greece: Industrial Production, Nov		
10:00	Greece: Unemployment, Oct		
10:00	Euro Area: Business and Consumer Surveys, Dec		
11:00	Germany: Industrial Production, Nov		
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome – Press Conference at 13:30		
Friday 10 January		**Forecast**	**Last**
06:45	Switzerland: Unemployment, Dec		
07:45	France: Industrial Production, Nov	1.1% MM, 1.5% YY	-0.3% MM, 0.0% YY
	Manufacturing Output, Nov	0.5% MM, 2.0% YY	0.4% MM, 0.7% YY
08:00	Spain: Industrial Production, Nov	2.2% YY	-0.7% YY
08:15	Switzerland: Consumer Prices, Dec		
08:30	Sweden: Services Production, Nov	0.4% MM	0.2% MM
08:30	Sweden: Industrial Production, Nov		
08:30	Netherlands: Industrial Production, Nov		
09:00	Norway: Consumer Prices, Dec		
09:30	UK: Industrial Production, Nov		
09:30	UK: Construction Output, Nov		

Sources: National statistical offices, central banks and Citi Research

Title	Author	Date
Euro Area – Sovereign Debt Crisis Update		
Catalonia to Hold Independence Referendum in Nov 2014	European Economics Team	Dec 13, 2013
ECB's Praet Suggests Risk Weights on Sovereign Bonds	European Economics Team	Dec 12, 2013
Ecofin Strikes Minimal Deal on Bank Resolution	European Economics Team	Dec 11, 2013
Ecofin – Still Searching For Agreement on SRM	European Economics Team	Dec 10, 2013
Italy – Renzi Elected New Centre-Left Leader	European Economics Team	Dec 9, 2013
Euro Area		
ECB - Ready to Act, But Likely Conditional on Lower Inflation Path	Guillaume Menuet	Dec 5, 2013
European Economic Forecast Highlights - December 2013	Ann O'Kelly	Dec 5, 2013
ECB - Seen on Hold in December, but More Easing Likely in 2014	Guillaume Menuet	Nov 28, 2013
Germany - What if Grand Coalition negotiations fail?	Ebrahim Rahbari	Nov 25, 2013
ECB - Aiming for Low Real Rates	Guillaume Menuet	Nov 7, 2013
ECB Preview - Expect Dovish Tone, Leaving Door Open to a Cut in December	Guillaume Menuet	Nov 5, 2013
Euro Area - ECB AQR: More Detail, but not on Public Backstop	Ebrahim Rahbari	Oct 23, 2013
Euro Area - Under No Pressure to Act, ECB Stays Put and Gives Little Away	Guillaume Menuet	Oct 2, 2013
German Elections Outcome - Big Merkel Win, Grand Coalition Government Most Likely	Ebrahim Rahbari et al	Sep 23, 2013
German elections - Four More Years – A Multi-Asset View	Ebrahim Rahbari et al	Sep 12, 2013
Euro Area - ECB Reiterates Forward Guidance, with Some Dovish Hints	Giada Giani	Sep 5, 2013
Euro Economics Weekly		
Why Is France Underperforming? And How To Fix It	Guillaume Menuet	Dec 6, 2013
Is Deflation Good or Bad for the Eurozone Periphery?	Ebrahim Rahbari	Nov 29, 2013
Is This the End of Austerity?	Giada Giani	Nov 22, 2013
Recovery Watch: SME Lending is Key	Guillaume Menuet	Nov 15, 2013
One Shock Away from Deflation	Giada Giani	Nov 8, 2013
Why the ECB Should Worry About the Strong Euro	Ebrahim Rahbari	Nov 1, 2013
Italy and Spain Look Well Positioned For Job Growth	Guillaume Menuet	Oct 25, 2013
Portugal – What After June 2014?	Giada Giani	Oct 18, 2013
Will the ECB's Comprehensive Assessment of Banks be the Euro Area's TARP Moment?	Ebrahim Rahbari	Oct 11, 2013
Italy – Political and Banking Fragility	Giada Giani	Oct 4, 2013
New ECB LTRO? Not Like Waiting for Godot	Guillaume Menuet	Sep 27, 2013
Housing Not Yet Turning Around	Ebrahim Rahbari	Sep 20, 2013
Loan Dynamics: Renaissance by Year-End	Guillaume Menuet	Sep 13, 2013
Germany — Four More Years	Ebrahim Rahbari	Sep 6, 2013
Chief Economist Publications		
Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2014 and Beyond	Willem Buiter	Dec 2, 2013
Scandi		
Scandi Economics Update	Tina Mortensen	Dec 13, 2013
Norway - Government Sets Countercyclical Capital Buffer At 1%	Tina Mortensen	Dec 12, 2013
Sweden - Ongoing Low Inflation Supports December Rate Cut	Tina Mortensen	Dec 12, 2013
UK		
UK - RICS Survey and Carney Speech	Michael Saunders	Dec 10, 2013
UK - IP and Trade Data	Michael Saunders	Dec 10, 2013
UK - Autumn Statement: Steady as She Goes	Michael Saunders	Dec 5, 2013
UK - Services PMI Still Points to Strong Growth	Michael Saunders	Dec 4, 2013
UK - YouGov Report Inflation Expectations Edge Down	Michael Saunders	Dec 2, 2013
UK - PMI and FLS Data	Michael Saunders	Dec 2, 2013
UK - FLS Support For Mortgages Scaled Back	Michael Saunders	Nov 28 2013
UK Economics Weekly		
Balancing Prudence, Politics and Growth	Michael Saunders	Dec 6, 2013
Policy Post-Guidance	Michael Saunders	Nov 29, 2013
Will Weak Investment Scupper the Recovery?	Michael Saunders	Nov 22, 2013
The Recovery and Unemployment	Michael Saunders	Nov 15, 2013
The Opposite of Stagflation	Michael Saunders	Nov 8, 2013
UK Economics Weekly - Leaders and Laggards in the Recovery	Michael Saunders	Nov 1, 2013
Growth Dividend For The Public Finances	Michael Saunders	Oct 25, 2013

Source: Citi Research

Notes

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Appendix A-1

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