10 May 2013 | 16 pages

Europe

Euro Economics Weekly

Euro Area Disinflationary Pressures

- The sharp drop in euro area inflation in April, from 1.7% to 1.2% YY, is likely to be partly reversed in May due to the volatility of holiday-related prices around Easter. Yet, euro area inflation will probably fall again by the end of the year, due to the further pass-through of recent oil price declines, favourable base effects and ongoing deceleration in core inflation, reflecting a large amount of spare capacity.

- Moreover, disinflationary wage pressures are building across several periphery countries, as part of the internal devaluation process to make these economies more competitive. The sharp drop in wages and unit labour costs in Spain, Greece and Portugal has yet to feed through into significantly lower HICP inflation rates in these countries. After adding several tenths to euro area average inflation in pre-crisis years, peripheral euro members will structurally subtract from euro area average inflation in the coming years. This shift will keep euro area inflation lower than in the past, unless offset by an unlikely inflation pick-up in core countries. Hence, monetary policy will have to remain accommodative for a long period if the ECB intends to deliver a headline inflation rate as close as possible to its *"less but close to 2%"* target.

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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
2Q 13	1.31	0.50	1.40	0.86	0.50	51	8.35	1.00	7.51	1.50	1.23	0.00	-76
2Q 14	1.23	0.25	1.40	0.87	0.50	91	8.38	0.75	7.31	1.75	1.26	0.00	-76

Source: Citi Research

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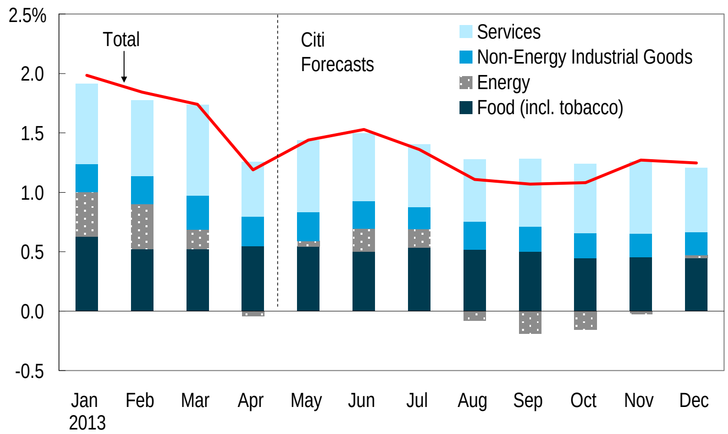
Figure 2. Euro Area HICP — Contributions to YY Headline Rate, Jan-Dec 2013



Sources: Haver Analytics and Citi Research

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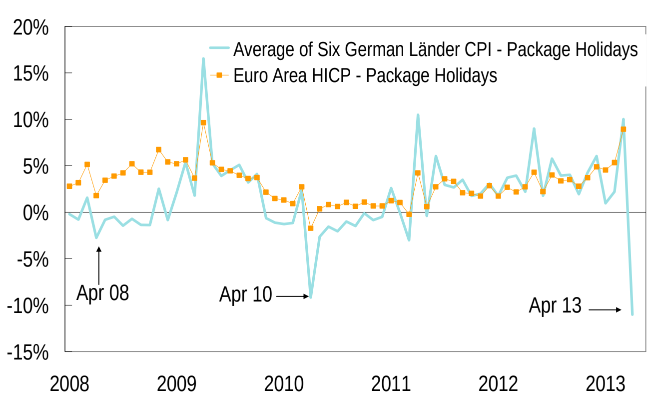
See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Euro Area Disinflationary Pressures

While some payback in inflation is likely in May, the underlying trend is down

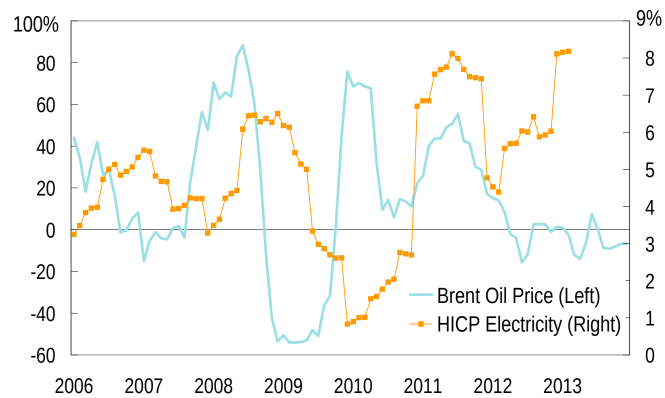
Euro area inflation fell quite sharply, and unexpectedly, to 1.2% YY in April, from 1.7% in March. The final reading to be published next week should confirm this. However, we reckon the large April drop is likely to be partly reversed in May due to the usual volatility of holiday prices around spring holidays. Yet, we think the underlying trend remains certainly to the downside. First, recent declines in oil prices still have to work their way into a lower energy HICP reading. Second, several indirect tax hikes will drop off the year-on-year comparison in the next few months, pushing the headline HICP inflation rate lower. Third, and more structurally, a large amount of spare capacity will continue to exert downward pressure on core inflation dynamics. Finally, significant disinflationary wage pressures are building across several peripheral countries. While historically wages in Europe have usually followed rather than anticipated HICP inflation, the sharp drop in wages and unit labour costs in several peripheral members will eventually translate into significantly lower inflation rates in these countries. In our view, this poses risks of a persistent undershooting of the ECB inflation target.

Figure 3. Euro Area and Germany — Package Holiday Prices (YY), 2008-Apr 2013



Sources: Haver Analytics and Citi Research

Figure 4. Euro Area — Brent Oil Prices (YY) and HICP Electricity (YY), 2006-Mar 2013



Note: Brent oil in USD based in future prices from June 2013 onwards.
Sources: Haver Analytics and Citi Research

The early timing relative to 2012 distorts the YY inflation rate in March/April/May

We expect the HICP breakdown details to be released next week to show that about half of the 0.5pp drop in the headline rate in April was due to temporary price swings in holiday-related items, namely package holidays and accommodation services (1.6% and 1.5% weight in the HICP basket, respectively). The early timing of Easter (27 March in 2013 compared to 8 April in 2012) led to a sharp fall in the annual rate for these HICP items in the aftermath of Easter, after an above-trend rise in the pre-Easter period. This is a typical pattern in holiday-related prices — a similar, albeit smaller, swing in the annual inflation rate was notable in 2008 and 2010 when Easter also occurred in March (or very early April). The breakdown details of the German Länder CPIs provides a useful guide for the large swing in the annual rate of package holiday prices at the euro area aggregate level (see Figure 3). Evidence from 2008 and 2010 shows that a payback usually occurs in May, when holiday prices move back to more normal levels. We estimate holiday-related price inflation may add some 0.15pp back to headline HICP rate in May.

But falling oil prices will continue to push the headline rate lower in coming months

Falling energy prices also contributed to push inflation lower in April, with the energy HICP YY rate falling from +1.7% to -0.4% (-0.2pp effect on headline rate). Favorable base effects helped to lower the YY rate (last year energy prices rose by 1.1% in April), together with a 1% MM fall in April this year. The monthly decline reflected falling fuel prices, but also the first signs of pass-through of previous oil price

declines into lower household electricity bills (weight in the HICP basket: 2.6%). In most euro countries utility prices are adjusted (usually on a three or six-month basis) based on oil price changes in the previous six/twelve months. Brent prices in euros in April were down by some 14% relative to one year ago. The pass-through into lower electricity prices has just started and it is likely to continue over the next few months (see Figure 4). Base effects in May and June will probably offset this trend and push again the YY rate of the energy component higher, but from July we expect the energy component to add very little pressure to the headline HICP YY rate.

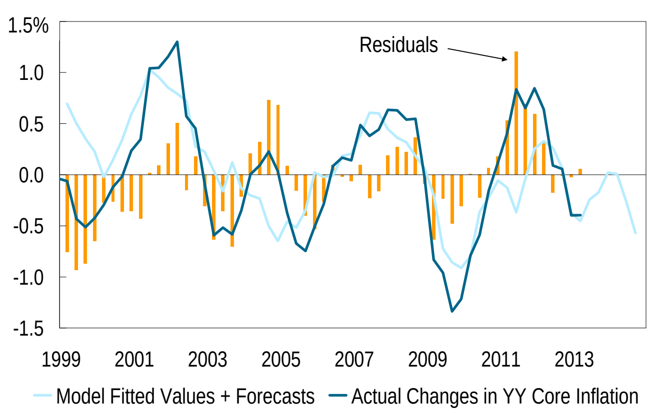
Base effects from VAT rate hike in 2012 will also support the downtrend

Some help to bring inflation lower in coming months will also stem from favourable base effects due to last year's indirect tax hikes. In particular, the 3pp VAT rate hike in Spain in September 2012 added some 0.15pp to the euro area headline HICP rate, according to our calculations; the opposite effect should occur in September/October 2013[1]. Also, the Italian 1pp VAT rate hike planned for July seems likely to be scrapped.

A wide and widening output gap and less weak EUR will still exert downward pressures on core inflation

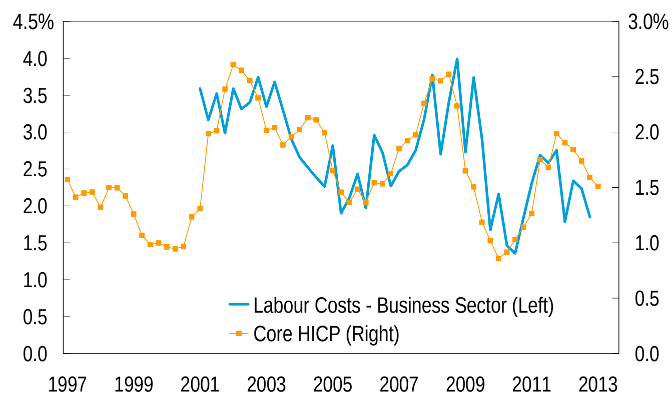
But aside from technical, temporary or tax-related effects, we believe the trend in euro area core inflation is still weakening. A simple Phillips curve model — which explains the annual changes in the YY HICP core inflation rate by the output gap and the lagged changes in the euro effective exchange rate — suggests that core inflation is likely to continue declining in coming quarters, albeit at a slow pace, to reach 1% YY at some point in mid-2014. This is based on our estimates for the euro area output gap — which we project to remain negative at around 4% in 2013 and 2014 — and on the fading of the euro depreciation of the last two years (see Figure 5)[2].

Figure 5. Euro Area — Change (pp) in Core HICP Inflation Rate (Relative to Previous Year), 1999-2013



Sources: Haver Analytics and Citi Research

Figure 6. Euro Area — Private Sector Labour Costs and Core HICP (YY), 1997-2013



Sources: Haver Analytics and Citi Research

Euro area wages and ULC are not particularly weak but usually they lag, not lead, euro area HICP inflation

Admittedly, price pressures from labour costs at the euro area aggregate level have not eased substantially, despite the sharp rise in the unemployment rate. Unit labour cost growth at the euro area aggregate level has moved from negative territory in 2010 to 1.6% YY in Q4 12. Private wage growth has rebounded from 1% YY in 2010 to 2.2% on average in 2012 (see Figure 6). However, historically wage

[1] The 2pp VAT rate hike in the Netherlands in October 2012 also contributed to lift the euro area aggregate inflation rate at the end of last year.

[2] This is based on our estimates for the euro area output gap – which we project to remain negative at around 4% in 2013 and 2014 – and on previous annual changes in the nominal effective exchange rate (lagged by six quarters).

dynamics in the euro area have usually lagged (rather than anticipated) consumer price inflation, probably due to the large degree of wage indexation across many countries. Therefore, wages or unit labour costs are poor leading indicators for future HICP inflation.

All in all, we see euro area inflation bouncing back to 1.5%-1.6% YY in May-June but declining again towards 1.1%-1.2% by the end of the year (see Figure 2 on the front page).

Disinflationary trends in the euro periphery

Inflation in euro peripheral countries is easing across the board…

The inflation developments in the euro periphery are worth a closer look at present. The process of internal devaluation that has really just started in several peripheral countries will, in our view, eventually have a considerable impact on euro area aggregate inflation[3]. In the pre-crisis period, Greece, Ireland, Portugal and Spain (GIPS) had experienced well above-average inflation rates — on average of 3.2% YY in the 2002-2007 period, against 2.1% YY in the other euro area members (simple average). Despite their relatively small size (less than 20% of the HICP basket), the GIPS added around 0.6pp on average to the euro area annual HICP rate in the 2002-2007 period. By contrast, in the first three months of 2013 HICP-measured inflation stood at 2.8% YY in Spain, 1.1% in Ireland, 0.4% in Portugal and 0.0% in Greece, adding a total of 0.32pp to overall euro area inflation. Spanish HICP inflation fell to 1.5% YY in April and would have been much lower if the impact of the 3pp VAT rate hike (around 1pp on the annual rate, based on our estimates) had been stripped out[4].

…driven by large declines in unit labour costs

The internal devaluation process is the key adjustment mechanism for euro peripheral countries to regain competitiveness, rebalance their economies and eventually return to a sustainable growth model. A reduction in the price and wage levels will be necessary for exports to become more competitive on foreign markets and for domestically-produced goods to become more competitive against imports on domestic markets. Downward adjustments in prices of non-tradable goods/services will also be necessary to reduce firms' non-labour costs. Consistently across GIPS, the initial phase of the internal price adjustment has been driven by wage declines, in most cases kicked-started by large cuts in public sector salaries. There has also been some contagion to private sector wages (or lower private sector wage growth). At the same time, sizable increases in productivity growth, caused by extensive job layoffs, have contributed to bring unit labour cost growth well into negative territory: Q4 12 ULC growth was -8.0% YY in Greece, -5.9% YY in Spain and -1.1% YY in Portugal[5] (see Figures 7-10).

The process has likely just started in Spain, Greece and Portugal

While, as we argued before, wage and unit labour costs usually lag rather than lead inflation gyrations, we reckon the current unprecedented disinflationary pressures stemming from labour costs will eventually translate into significantly lower consumer prices dynamics in Spain, Portugal and Greece (even if inflation has already fallen into negative territory in Greece). Firms' pricing power remains very restrained given the large and still rising degree of spare capacity in product and labour markets in these countries. Although the available measures of output gaps are subject to large errors, especially in countries that are rebalancing from a

[3] With the exception of Ireland where the disinflationary process started already in 2009, much earlier than elsewhere.

[4] HICP at constant tax rates as published by Eurostat estimates a much larger impact (2.1pp) of the 3pp VAT rate on the Spanish HICP inflation. We think the actual pass-through was much smaller, implying a knock-on effect on Spanish inflation of around 1pp.

[5] Greece is an exception in that the fall in unit labour costs has been largely driven by wage declines rather than by productivity gains.

domestic-driven to an export-led growth model, the IMF recently estimated that the output gap in Spain and Portugal is negative and around 5%-5.5% in 2013 and it is above 10% in Greece (1.8% in Ireland). In the case of Ireland, consumer prices have adjusted already quite significantly in 2009-2011 (by some 11% relative to the euro area average price level, according to Eurostat data), but recent indications suggest that negative cost pressures are far less severe than they used to be two or three years ago. With Irish GDP growth outperforming all the other peripheral countries and the output gap already narrowing, we do not expect Ireland to experience further disinflation.

Figure 7. Spain — ULC and Core HICP Inflation (YY), 1997-2012

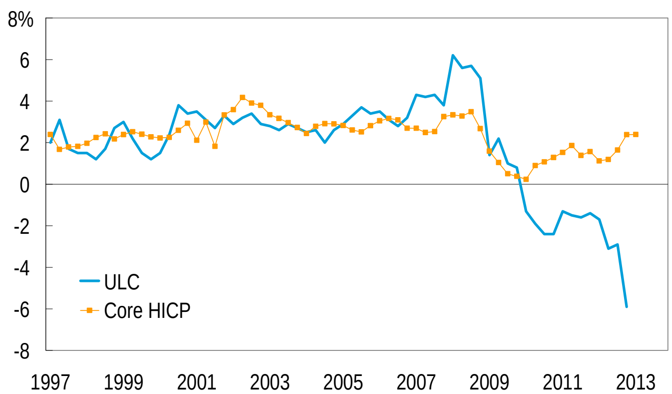


Figure 8. Portugal — ULC and Core HICP Inflation (YY), 1997-2012

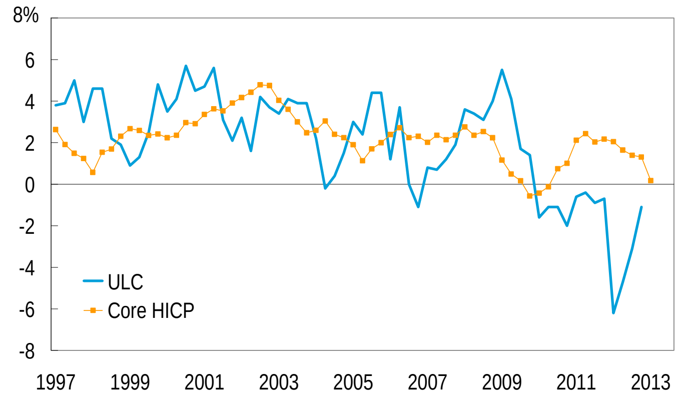


Figure 9. Greece — ULC and Core HICP Inflation (YY), 1997-2012

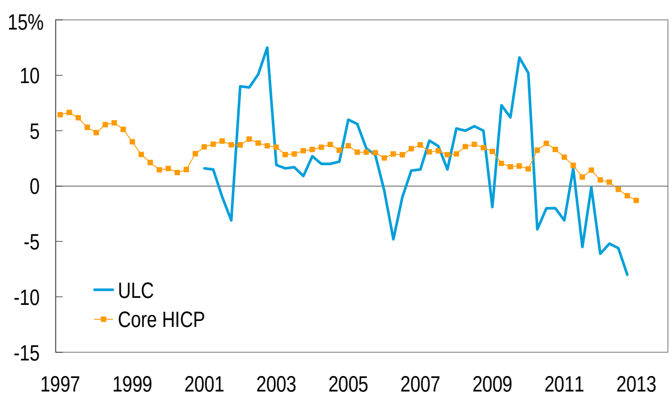
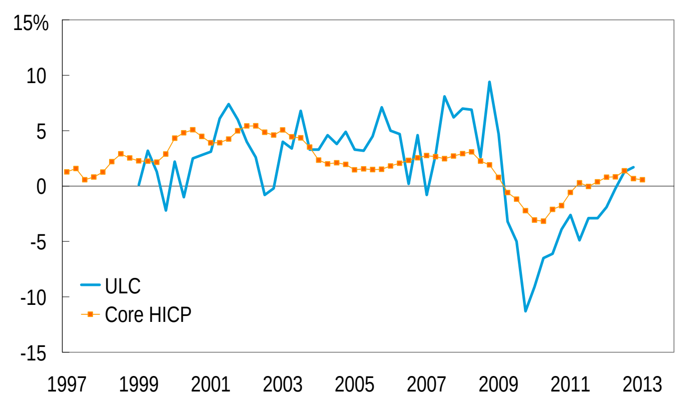


Figure 10. Ireland— ULC and Core HICP Inflation (YY), 1997-2012



Sources: Haver Analytics, Eurostat and Citi Research

Large and diffused indirect tax hikes prevented inflation falling earlier, but less likely to do so in the future

We think that two main obstacles that in the recent past prevented inflation in Spain, Portugal or Greece from falling more substantially could fade in the future. Indirect tax hikes were extensively used in the past couple of years as deficit-cutting measures, but in our view they will be probably smaller than in the recent past. VAT tax rates in peripheral countries have already converged to the upper-end of the euro area range: the standard VAT rate in Spain has been raised from 16% in 2010 to 21% at present, in Greece from 19% to 23%, in Portugal from 20% to 23% and in Ireland from 21% to 23% (see Figure 11). Similarly, excise duties on fuel prices have been raised considerably in Greece (and Italy) in past three years to the highest levels in the euro area[6]. Some higher indirect taxes on energy prices and

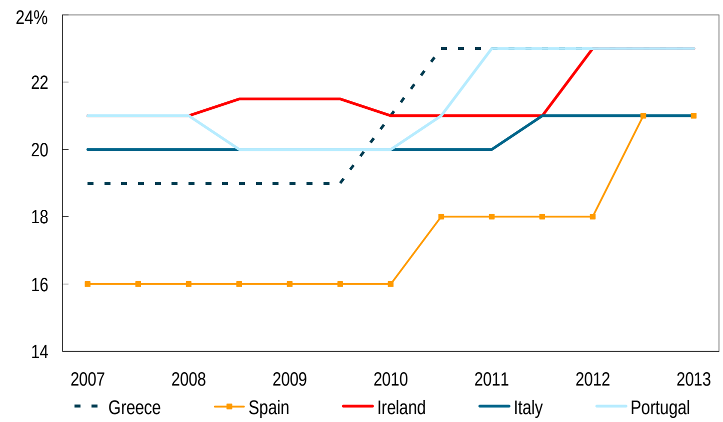
[6] In the case of Spain, taxes on fuel prices are still comparably lower than in many other euro area countries, leaving some possibility for additional hikes in the future. However, even if this happens, it

perhaps also another VAT rate hike are still likely in Spain — given the low Spanish level of revenues on GDP — but we think their effects on inflation are going to be more limited than in the recent past.

Structural reforms, especially liberalization of service sectors, also likely to steer inflation lower, also in Italy

Moreover, ongoing liberalization and de-regulation of non-tradable sectors will likely help lower services prices in several euro periphery countries. Empirical evidence suggests that the most highly regulated sectors (eg, professional services, transportation, energy) usually display the widest profit margins. The problem seems to be particularly acute in Italy and Spain[7]. While Italy does not face major internal devaluation pressures to the same extent as Spain, we reckon some structural decline in services prices and some wage disinflation are likely to happen also in Italy at some point in the next few years as a necessary adjustment to improve its competitiveness.

Figure 11. Selected Euro Area Countries — Standard VAT Rates, 2007-2013



Sources: EU Commission and Citi Research

Inevitable internal devaluation in the periphery will structurally reduce inflation at the euro area level

Overall, downward consumer price pressures are likely to become more prominent in peripheral euro countries — especially Spain, Greece and Portugal — in coming quarters/years: it is a real possibility that their inflation rates turn into negative territory on a sustained basis. This would represent quite a substantial drag on the euro area aggregate inflation rate, unless an opposite effect materializes in other euro members to offset this. We assess as quite low the probability of inflation in core countries deviating considerably from its recent subdued trend. A negative inflation rate to the tune of -1% per annum in Spain, Greece and Portugal would subtract some 0.15pp structurally from euro area average inflation, after these three countries had added some 0.6pp to the euro area aggregate in the pre-crisis period. The internal devaluation process in peripheral countries is likely to represent a significant factor affecting euro area inflation and ECB monetary policy decisions in coming years. We believe that additional monetary stimulus will be required if the ECB has to continue delivering its *"less but close to 2%"* inflation target. Were deflation risks to materialize at the euro area level, we think the ECB may become less reluctant to consider some form of quantitative easing as an adequate policy response.

will have a much smaller effect than the standard VAT rate hikes that lifted headline Spanish inflation in the past three years.

[7] See "Assessing the Macroeconomic Impact of Structural Reforms: The Case of Italy", IMF Working Paper WP/13/22, January 2013.

Key Economic Indicators (13 May – 17 May 2013)

Monday 13 May		Forecast	Last
07:30	France: Bank of France Business Sentiment, Apr	91	93
08:15	Switzerland: Retail Sales, Mar		
14:00	Euro Area: Eurogroup Meeting of Finance Ministers, Brussels		
Tuesday 14 May		**Forecast**	**Last**
00:01	UK: RICS House Price Survey, Apr		
	EU: EcoFin Meeting of Finance Ministers, Brussels		
07:00	Germany: HICP, Apr Final	-0.5% MM, 1.1% YY	0.4% MM, 1.8% YY
	National CPI, Apr Final	-0.5% MM, 1.2% YY	0.5% MM, 1.4% YY
07:45	France: Current Account, Mar		
08:00	Spain: HICP, Apr Final	1.5% YY	2.6% YY
08:30	Netherlands: Retail Sales, Mar		
08:30	Sweden: Consumer Prices, Apr	0.1% MM, -0.2% YY	0.4% MM, 0.0% YY
	CPIF, Apr	0.1% MM, 0.8% YY	0.5% MM, 0.9% YY
09:00	Italy: Consumer Prices, Apr Final		
10:00	Germany: ZEW Current Situation. May	4.0	9.2
	ZEW Economic Sentiment, May	33.0	36.3
10:00	Euro Area: Industrial Production, Mar	0.4% MM, -2.0% YY	0.4% MM, -2.7% YY
Wednesday 15 May		**Forecast**	**Last**
06:30	France: GDP, 1Q Flash Estimate	-0.1% QQ, -0.4% YY	-0.3% QQ, -0.3% YY
07:00	Germany: GDP 1Q Flash Estimate	0.5% QQ, 0.4% YY	-0.6% QQ, 0.4% YY
07:00	Sweden: Registered Unemployment Rate, Apr	4.2%	4.5%
07:45	France: HICP, Apr	0.0% MM, 0.9% YY	0.8% MM, 1.1% YY
	National CPI, Apr	0.0% MM, 0.8% YY	0.8% MM, 1.0% YY
	CPI ex Tobacco Index, Mar	125.65	125.69
08:15	Switzerland: Producer & Import Prices, Apr		
08:30	Netherlands: GDP, 1Q First Estimate		
08:30	Netherlands: Trade Balance, Mar		
08:30	Netherlands: Unemployment, Apr		
09:00	Norway: Trade Balance, Apr		
09:00	Italy: GDP, 1Q Flash Estimate	-0.3% QQ, -2.1% YY	-0.9% QQ, -2.8% YY
09:30	UK: Claimant Count Unemployment, Apr	+1,000 MM, 4.6% Rate	-7,000 MM, 4.6% Rate
	LFS Unemployment, Jan-Mar	+92,000 QQ, 8.0% Rate	+70,000 QQ, 7.9% Rate
10:00	Portugal: GDP, 1Q Flash Estimate		
10:00	Cyprus: GDP, 1Q Flash Estimate		
10:00	Euro Area: GDP, 1Q Flash Estimate	0.0% QQ, -0.6% YY	-0.9% QQ, -0.8% YY
10:30	UK: Bank of England *Inflation Report*		
	Greece: GDP, 1Q Flash Estimate (NSA)		
Thursday 16 May		**Forecast**	**Last**
07:45	France: Investment in Industry, Apr		
07:45	France: Non-Farm Payrolls, 1Q Preliminary	-0.3% QQ, -1.0% YY	-0.3% QQ, -0.6% YY
09:00	Norway: Mainland GDP, 1Q	0.8% QQ	0.3% QQ
09:00	Italy: Trade Balance, Mar		
10:00	Euro Area: Trade Balance, Mar		
10:00	Euro Area: HICP, Apr Final	1.2% YY	1.7% YY
11:00	Ireland: Trade in Goods, Mar		
Friday 17 May		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Apr		
07:45	France: Company Start-Ups, Apr		
10:00	Euro Area: Construction Output, Mar		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
May 14 10:00 London Time	*Industrial Production, Mar*	Forecast: 0.4% MM, -2.0% YY	Prior: 0.4% MM, -2.7% YY
	Industrial activity slowed in March across some of the largest euro area countries except for Germany (+1.7% MM) and Spain (+2.4% MM). These countries contributed to keep the monthly growth rate positive at the aggregate euro area level. The recent deterioration in survey-based activity indicators suggests some further slowdown in euro area industrial output in coming months.		
May 15 10:00 London Time	*GDP, 1Q Flash Estimate*	Forecast: 0.0% QQ, -0.6% YY	Prior: -0.9% QQ, -0.8% YY
	Euro area growth dynamic at the beginning of 2013 likely remained very muted, with GDP expected to flat-line relative to the previous quarter, after falling by 0.4% QQ in 4Q12. Moreover, the only strength was probably concentrated just in Germany, with the rest of the major euro area countries reporting another fall in GDP. The rebound in export performance in the first two months of 2013 is probably behind the less negative GDP reading than in the previous quarter, while domestic demand probably still contracted. Recent survey-based indicators suggest the pace of growth remained close to zero, if not negative, in 2Q also.		
May 16 10:00 London Time	*HICP, Apr Final*	Forecast: 1.2% YY	Prior: 1.7% YY
	The surprisingly low flash HICP inflation numbers for April are likely to be confirmed in the final reading. Breakdown details are likely to show that falling fuel and energy prices together with some seasonal price distortions in holiday prices in the aftermath of Easter accounted for the large decline. We think some of the April weakness is likely to be reversed in May, although the underlying trend will likely stay weak.		
Germany			
May 14 07:00 London Time	*CPI – EU Harmonised, Apr Final* *Consumer Price Index, Apr Final*	Forecast: -0.5% MM, 1.1% YY Forecast: -0.5% MM, 1.2% YY	Prior: 0.4% MM, 1.8% YY Prior: 0.5% MM, 1.4% YY
	We expect the final annual inflation readings to be confirmed, marking the lowest headline inflation rates since August and September 2010 for the EU and national measures, respectively. On a core basis, we do not see much risk of a significant increase in the remainder of the year, although the labour market situation points to some acceleration in 2014.		
May 14 10:00 London Time	*ZEW Survey – Current Situation, May* *ZEW Survey – Economic Sentiment, May*	Forecast: 4.0 Forecast: 33.0	Prior: 9.2 Prior: 36.3
	The Sentix survey for Germany worsened in May, suggesting that a similar trend will be mirrored in the ZEW survey covering the euro area's largest economy. We look for some erosion in analysts' perception of the German current situation, and a slight drop in the expectations component. Both readings would remain above their respective long-term averages. The composite measure should fall only slightly to 18.8.		
May 15 07:00 London Time	*GDP, 1Q Flash Estimate*	Forecast: 0.5% QQ, 0.4% YY	Prior: -0.6% QQ, 0.4% YY
	We forecast a 0.5% quarterly gain in German GDP, almost unwinding the 0.6% QQ contraction in the final quarter of 2012. The annualised 2% gain in economic activity is expected to stem mainly from a sizeable uptick in private consumption and a 0.1pp contribution from net trade, together with a continuation of a modest gain in public spending. Note that capex dynamics likely remained weak in the first quarter, when we look for a fifth successive albeit modest decline.		
France			
May 13 07:30 London Time	*Bank of France Business Sentiment, Apr*	Forecast: 91	Prior: 93
	Business sentiment is expected to weaken at the start of the second quarter, when we anticipate a two-point drop in the headline industry measure to a six-month low of 91. While confidence in the industrial sector (-0.9 sd) remains higher than in services (-1.2 sd), there is a risk of additional erosion in coming months. We expect that the BdF will probably revise down its 1Q GDP estimate (currently +0.1% QQ) and will signal that the economy has no momentum going into the second quarter.		
May 15 06:30 London Time	*GDP, 1Q Flash Estimate*	Forecast: -0.1% QQ, -0.4% YY	Prior:-0.3% QQ, -0.3% YY
	French GDP growth is expected to have declined by 0.1% QQ in the first quarter of 2013. Although the decline in industrial production moderated and energy spending is likely to have rebounded, construction activity deteriorated markedly, the composite PMI weakened significantly and net exports likely contributed negatively to activity. Investment spending is likely to have contracted for the third successive quarter. On balance, we still see downside risks to our forecast, particularly compared to our scenario of a flat GDP reading in 2Q 2013.		
May 15 07:45 London Time	*CPI – EU Harmonised, Apr* *Consumer Price Index, Apr* *CPI Ex Tobacco Index, Mar*	Forecast: 0.0% MM, 0.9% YY Forecast: 0.0% MM, 0.8% YY Forecast: 125.65	Prior: 0.8% MM, 1.1% YY Prior: 0.8% MM, 1.0% YY Prior: 125.69
	Lower food and energy prices have contributed to nearly three-quarters of the 0.36pp drop in headline inflation since December. While a partial reversal of these dynamics is expected in April, a change in the timing of Easter ought to lead to falling price pressures this month, pushing the headline rate to its lowest level since November 2009. We anticipate French headline inflation to bottom out in 2Q and 3Q, averaging 1.0% YY. A VAT-induced rebound should become apparent as early as 1Q 2014, pushing the annual average up to 1.6% from 1.0% in 2013.		
May 16 06:30 London Time	*Non-Farm Payrolls, 1Q Preliminary*	Forecast: -0.3% QQ, -1.0% YY	Prior: -0.3% QQ, -0.6% YY
	We look for a broad-based contraction in employment during the first quarter, with the largest number of job losses coming from the services sector. The main risk is that the deterioration will continue for a little longer than we are currently expecting, even if increased flexibility from the labour market reform should make hiring decisions easier once businesses feel more confident about an upturn. INSEE and BdF stood in April 2013 at their lowest levels for 37 and 42 months, respectively.		

Economic Indicators

Italy			
May 15 09:00 London Time	*GDP, 1Q Flash Estimate*	Forecast: -0.3% QQ, -2.1% YY	Prior: -0.9% QQ, -2.8% YY
	GDP growth likely remained in negative territory at the start of 2013, although the GDP contraction should have been smaller than in 4Q12. Exports have been slightly more lively in Jan-Feb than in the last part of last year, although they have probably slowed down again recently, and consumption indicators suggest the contraction in domestic demand was also less severe. However, survey-based indicators have eased again in March-April, indicating the recession may have worsened again in Q2 13.		
Spain			
May 14 08:00 London Time	*HICP, Apr Final*	Forecast: 1.5% YY	Prior: 2.6% YY
	The final HICP reading will confirm the sharp drop in headline inflation reported by the advanced estimate to the lowest level since Feb-10. The breakdown details will likely show falling fuel and electricity prices were the main drivers of the decline in inflation. A temporary fall in holiday-related prices after Easter also contributed to the drop in the headline rate. We expect the HICP annual rate to bounce back somewhat in May to 1.7% YY.		
Sweden			
May 14 08:30 London Time	*Consumer Price Inflation, Apr* *CPIF, Apr*	Forecast: 0.1% MM; -0.2% YY Forecast: 0.1% MM; 0.8% YY	Prior: 0.4% MM; 0.0% YY Prior: 0.5% MM; 0.9% YY
	Our model suggests that headline inflation will return to negative territory in April. Lower petrol prices and falling mortgage rates are likely to weigh on inflation in April. Our forecasts are in line with those of the Riksbank.		
May 15 08:15 London Time	*Registered Unemployment Rate, Apr*	Forecast: 4.2%	Prior: 4.5%
	In line with the seasonal pattern, registered unemployment is seen down in April. In trend terms, however, unemployment has now been trending upwards since mid-2012, largely driven by an increasing labour supply. The upward momentum in registered unemployment suggests this trend will continue. Meanwhile, short-term indicators for employment have improved in recent months and current levels indicate stable or slightly rising employment in the near term.		
Norway			
May 16 09:00 London Time	*Mainland GDP, 1Q*	Forecast: 0.8% QQ	Prior: 0.3% QQ
	Recent economic activity indicators have come out on the strong side, erasing previous signs of weakness and, in turn, confirming Norges Bank's rather strong view on private consumption, GDP growth and the labour market. Manufacturing production firmed further in February following a weak end to 2012. Absent any sharp correction in March (might have been affected by Easter), this suggests that manufacturing provided a boost to mainland GDP (excl. oil/gas and shipping) in 1Q. Similar indications are emerging from the demand side, where private consumption too has come off a strong start this year – at the same time, the ongoing increase in housing starts and completions should underpin residential investment growth. In turn, our model points to mainland GDP growth of 0.8% QQ in 1Q, up from a sluggish 0.3% QQ gain in 4Q 2012.		
United Kingdom			
May 15 09:30 London Time	*Claimant Count Unemployment, Apr* *LFS Unemployment, Jan-Mar*	Forecast: +1,000 MM, 4.6% Rate Forecast: +92,000 QQ, 8.0% Rate	Prior: -7,000 MM, 4.6% Rate Prior: +70,000 QQ, 7.9% Rate
	The single month LFS figures already have shown the jobless rate at 8.1% in January and 8.0% in February, after 7.8% in December and 7.5% in November. As the lower figures for 4Q12 drop out of the three-month average, it is likely to rise again this month. The claimant count has been falling in recent months, probably in part reflecting tightening criteria for benefit eligibility. But this effect may stall amidst the very cold weather and possible disruption to construction in March.		

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

Key Economic Indicators (20 May – 24 May 2013)

Monday 20 May		Forecast	Last
09:00	Italy: Industrial Orders, Mar		
Tuesday 21 May		Forecast	Last
07:00	Germany: Producer Prices, Apr		
08:30	Sweden: Unemployment Rate, Apr		
09:30	UK: Consumer Prices, Apr	0.4% MM, 2.6% YY	0.3% MM, 2.8% YY
	CPI ex Food, Drink, Tobacco, Energy, Apr	0.5% MM, 2.3% YY	0.5% MM, 2.4% YY
	Retail Prices, Apr	0.5% MM, 3.1% YY	0.4% MM, 3.3% YY
	RPIX – Excludes Mortgages, Apr	0.5% MM, 3.0% YY	0.4% MM, 3.2% YY
09:30	UK: Producer Input Prices, Apr	-1.1% MM, 0.7% YY	-0.1% MM, 0.4% YY
09:30	UK: Producer Output Prices, Apr	0.3% MM, 1.6% YY	0.3% MM, 2.0% YY
	Output Prices Ex Food, Drink, Tobacco, Energy, Apr	0.1% MM, 0.8% YY	0.1% MM, 1.3% YY
Wednesday 22 May		Forecast	Last
	EU: European Council, starting 12 Noon (London Time)		
08:30	Netherlands: Consumer Confidence, May		
08:30	Netherlands: Consumer Spending, Mar		
09:00	Euro Area: Balance of Payments, Mar		
09:30	UK: Retail Sales Volumes, Apr	0.5% MM, 2.5% YY	-0.7% MM, -0.5% YY
09:30	UK: Public Sector Net Borrowing – PSNB ex, Apr	£8.0 Billion Deficit	Year Ago: £19.6 Billion Surplus
09:30	UK: MPC Minutes		
11:00	UK: CBI Industrial Trends Survey – Output Expectations, May	+15%	+23%
	CBI Order Books, May	-22%	-25%
	CBI Selling Prices, May	+5%	+8%
	Greece Current Account, Mar		
Thursday 23 May		Forecast	Last
09:00	Italy: Retail Sales, Mar		
09:00	Euro Area: Flash PMIs, May		
09:30	UK: GDP, 1Q (2nd Release)	Provisional: 0.3% QQ, 0.6% YY	4Q: -0.3% QQ, 0.3% YY
09:30	UK: Service Sector Output, Mar	-0.2% MM, 1.3% YY	0.8% MM, 2.2% YY
15:00	Euro Area: Consumer Confidence, May Flash		
Friday 24 May		Forecast	Last
07:00	Germany: GDP Details, 1Q		
07:45	France: Business Confidence, Mar		
08:00	Spain: Producer Prices, Apr		
08:15	Sweden: Business and Consumer Surveys, May		
09:00	Germany: ifo Business Climate, May		
09:00	Italy: Consumer Confidence, May		
10:00	Italy: Contractual Wages, Apr		

Sources: National statistical offices, central banks and Citi Research

Recent Research Publications	Author	Date
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Giada Giani	May 10, 2013
Euro Area - ECB Cuts Refi Rate By 25bp, Does Not Rule Out More To Come	Giada Giani	May 2, 2013
European Economic Forecast Highlights - April 2013	Ann O'Kelly	Apr 18, 2013
ECB - Rate Cut Likely in May or June	Jürgen Michels	Apr 4, 2013
Euro Economics Weekly		
Italy and Spain — "We Will Die of Austerity Alone"	Giada Giani	May 3 2013
Muted Profits Dynamics Point to Sub-Par Recovery Prospects	Guillaume Menuet	Apr 26, 2013
ECB to Cut Rates First, SME Support Later	Jürgen Michels	Apr 19, 2013
Italy's Credit Crunch	Giada Giani	Apr 12, 2013
France: Could Low Popularity Slow the Structural Reform Drive?	Guillaume Menuet	Apr 5, 2013
Chief Economist Publications		
Global Economic Outlook and Strategy - April 2013	Willem Buiter	Apr 17,2 013
Global Economics View - Cyprus is systemically important – it changed the rules of the game	Willem Buiter	Apr 10,2 013
Spain		
Spain - Registered Unemployment and Sector Accounts Data	Giada Giani	Apr 2, 2013
Norway		
Scandi Economics Update	Tina Mortensen	May 10, 2013
Norway - Stable Interest Rate at 1.50%, No Change to Outlook	Tina Mortensen	May 8, 2013
Sweden		
Sweden - Neutral Minutes	Tina Mortensen	Apr 29, 2013
UK		
UK - Carney Speech: Implications for the UK	Michael Saunders	May 2, 2013
UK - Little Fuel for Recovery in Money and Credit	Michael Saunders	Apr 30, 2013
UK - YouGov Reports Lower Inflation Expectations	Michael Saunders	Apr 29, 2013
UK Economics Weekly		
Upside Inflation Risks Receding	Michael Saunders	May 3 2013
Reinhart and Rogoff Were (Partly) Right	Michael Saunders	Apr 26, 2013
Will the BoE Do a BoJ?	Michael Saunders	Apr 19, 2013
Economy Still Flat-Lining	Michael Saunders	Apr 12, 2013
Why Is Investment So Weak?	Michael Saunders	Apr 5, 2013

Source: Citi Research

Notes

Appendix A-1

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