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Developed Markets
Western Europe

Euro Economics Weekly

How Much Will the Weaker Euro Boost Eurozone Growth?

- The euro has fallen by around 5% in trade-weighted terms (both nominal and real) since March 2014 and further depreciation seems likely, perhaps bringing the total depreciation to around 10% over the next 12 months. A 10% depreciation has historically been associated with a 5% increase in exports and up to 1% higher real GDP over three years.
- However, we think that the actual boost to exports will likely be smaller. This is because a rising import content of exports and non-price factors limit the competitiveness benefits of a weaker exchange rate and because subdued global growth and uncertain demand for exports may lead firms to raise margins rather than increase production, as in Japan recently.
- The ECB has talked down the euro and actual and expected ECB actions are a major driver of the euro weakening. But we stress that the benefits from the weaker euro will likely be small, and at least in part be offset by weaker global growth and the potential for tightening financial conditions, should recent market turbulence persist, putting pressure on the ECB to deliver further easing in coming months.

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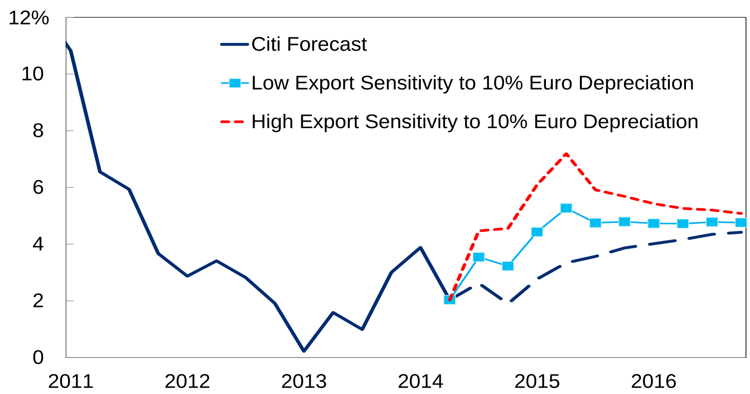
Figure 1. Citi Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.21	0.05	0.75	0.76	0.50	177
2Q 15	1.15	0.05	1.25	0.73	1.00	178

Source: Citi Research

Figure 2. Euro Area — Export Volume Growth (%YY), 2011-2016F



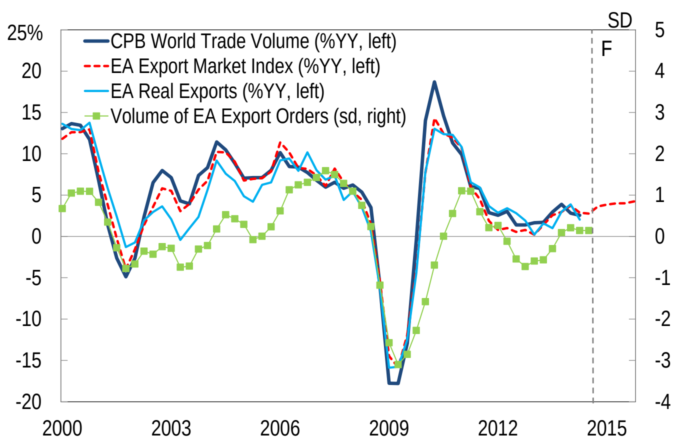
Note: Exports of goods and services in constant euros. Actual data up to Q2 2014. 'Low' and 'High' export sensitivity assume a long-run elasticity of exports to the REER of 0.28 and 0.56, respectively. Sources: Eurostat and Citi Research

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

The Growth Boost From A Weaker Euro

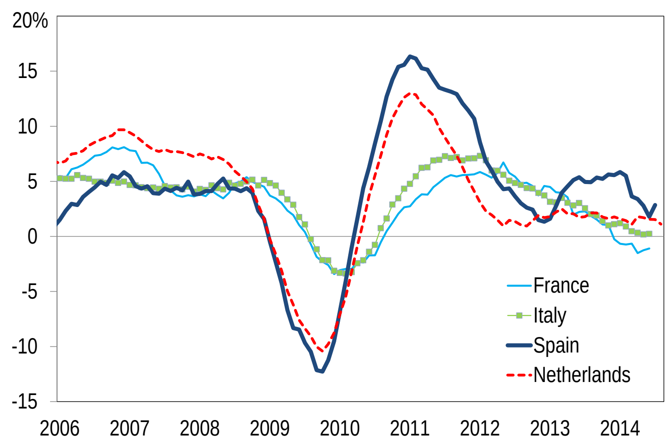
The ECB seems to have (finally) succeeded in 'talking down' the euro, as it has depreciated by roughly 5% in trade-weighted terms (both nominal and real) since March 2014. Here, we discuss the potential for the weaker euro to boost growth in the Eurozone in the context of a soft world economy. We conclude that the euro will moderately boost Eurozone exports and perhaps (by raising the profits and share prices of companies) even domestic demand somewhat. Actual ECB easing and expectations of further ECB easing have been a major driver of the weaker euro. Weaker global growth, financial market weakness and turbulence will raise pressure on the ECB to ease further.

Figure 3. Selected Regions — World Trade Volume Growth (%YY), EA Export Market Index (%YY), EA Real Exports of Goods and Services (%YY) and EA Export Orders (sd from LT Average), 2000-2015F



Note: CPB data are for manufacturing exports only. EA export market index is the weighted average growth of real imports by the EA's main trading partners (Citi Forecasts).
Sources: CPB, Eurostat and Citi Research.

Figure 4. Selected EA Countries — Real Exports of Goods (%YY), 2006-2014



Note: All series deflated by export price indices and expressed as 12M sum.
Sources: National sources and Citi Research.

Flagging export momentum

Export growth has been slowing in the euro area recently and leading indicators suggest that export momentum will probably remain subdued in coming months. In Q2 2014, real growth of Eurozone exports of goods and services was roughly 2%YY, compared to 3-4%YY growth in Q4/Q1 (see Figure 3). Survey export orders have also weakened somewhat of late, suggesting that export growth in Q3 and Q4 will likely remain relatively subdued. The moderation in export momentum has been quite broad-based across Eurozone countries (see Figure 4).

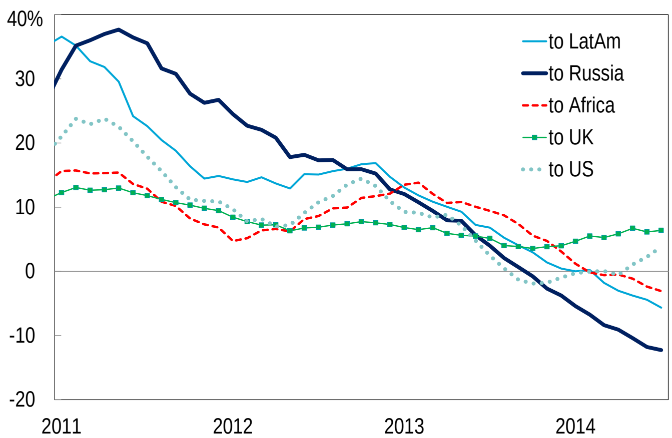
Both intra-EA trade and exports from the EA to the rest of the world have been sluggish. We focus here on extra-EA trade. There are two main potential explanations for slowing Eurozone export growth: weak world trade or a deteriorating competitive position of Eurozone exporters. World trade has indeed been sluggish, with growth in world trade in goods at 2.6%YY in Q2 in volume terms, similar to growth in 2012 and 2013 (and sharply below pre-crisis growth rates). Eurozone exports to a number of emerging market countries are particularly weak, with Eurozone goods exports to Russia 12%YY lower in euro terms than a year ago in July (with weakness in exports to Russia preceding Ukraine-related tensions and sanctions), exports to Latin America at -10%YY, and at -5%YY to Africa (while exports to the US and UK grew by 10%YY and 7%YY, see Figure 5).[1]

[1] UK data are for Q2.

The euro area's competitive position may also have been hurt, in part by its appreciating exchange rate.[2] Between mid-2012 and the spring of 2014, the euro appreciated by roughly 12% in nominal effective (trade-weighted) terms. In real effective terms, the appreciation was 11% (based on relative consumer prices) or 10% (based on relative unit labour costs). EA export growth has indeed slightly underperformed relative to the growth of its export market (a weighted average of the imports of its main trading partners), which grew by 3.2%YY in H1 2014.

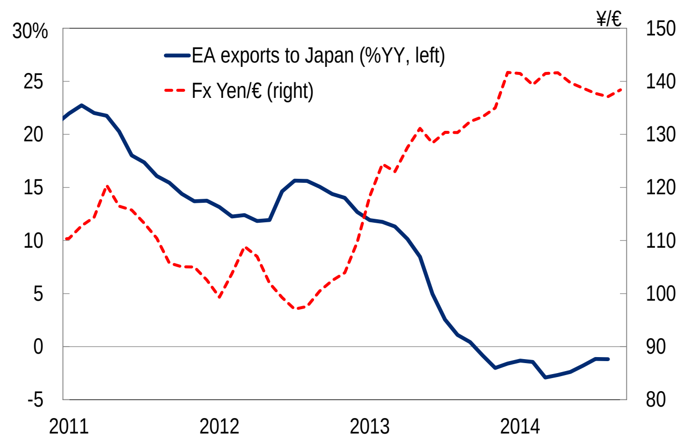
The appreciation of the euro relative to the yen was particularly sharp (by 46% in nominal terms and by 45% in real, CPI-adjusted, terms). There is indeed some evidence that the yen depreciation has had some impact on Eurozone exports. For example, the growth of Eurozone exports to Japan (in value terms) decelerated quite sharply since the yen started to depreciate in mid-2012 (see Figure 6). Individual Eurozone countries that compete more with Japan (proxied by Japan's weight in each country's effective exchange rate provided by the BIS) have, on average, experienced lower export growth (in volume and value terms) since mid-2012 (the correlation coefficient is -0.7). But on the other hand, growth of Eurozone exports to individual countries since late 2012 is *positively correlated* with the growth of Japanese exports to those same countries.

Figure 5. Euro Area — Goods Exports to Various Regions (%YY), 2011-2014



Note: 12 month sums in euros. LatAM is Latin America.
Sources: Eurostat and Citi Research

Figure 6. Euro Area and Japan — Euro Area Exports to Japan (%YY) and Yen/Euro Exchange Rate (¥/€), 2011-2014



Note: Euro area exports are 12M sums in euros.
Sources: ECB, Eurostat and Citi Research

The turnaround in the euro

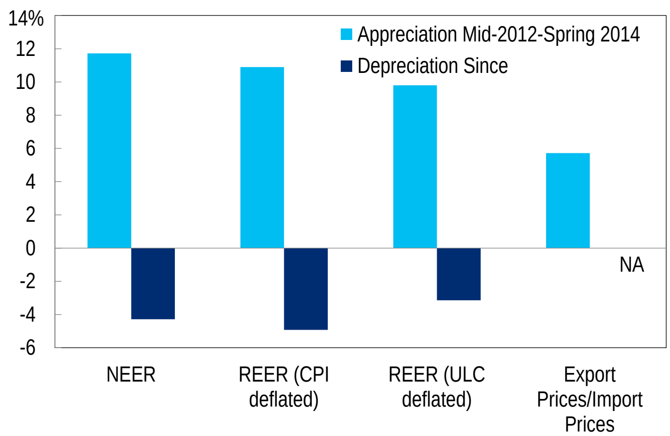
From its peak in the spring of 2014, the euro has depreciated by 5% in nominal trade-weighted terms and by 4-6% in real (CPI or unit-labour-cost-deflated) trade-weighted terms (see Figure 7). Our colleagues in Global Macro Strategy expect the euro to continue weakening (implying a further effective deprecation of 3-4% nominal terms and, combined with our forecasts for relative inflation, 6-7% in real terms until mid-2015). Compared to 2013, the euro would then still be around 1.5% higher in nominal terms and roughly unchanged in real terms in 2014, whereas it would be 4% (nominal) and 6-7% (real) weaker in 2015 than in 2013.

Figure 8 shows that even the further depreciation we expect would leave the trade-weighted euro still at a relative high level compared to its average since 2000 in

[2] See Euro Economics Weekly - Why the ECB Should Worry About the Strong Euro. 1 November 2013, Ebrahim Rahbari et al, Citi Research

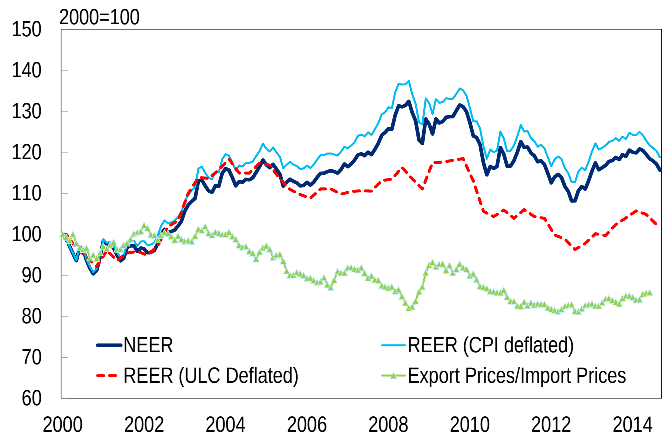
nominal or CPI-deflated terms (but less so, adjusted by unit labour costs). But the weaker euro should still provide a boost to exports. Our estimates suggest that historically euro depreciation boosts export growth prospects with a long-run elasticity of volumes of around 0.5, meaning that a 10% (real) euro depreciation raises EA export volumes by about 5% in the long-run (see Figure 2 on the Front Page).[3] These estimates are quantitatively similar to those published by the ECB in 2008, where they also suggested an overall effect on EA GDP of up to 1% cumulatively over three years. As it is, the expected depreciation of the euro we just discussed is around 10%, which implies that applying these estimates suggests that the weaker euro may boost exports by around 5% and GDP by up to 1% over the next three years.

Figure 7. Euro — Appreciation of the Nominal and Real Trade-Weighted Exchange Rate (%), Mid-2012-2014



Note: Latest data correspond to Sep 2014. For the ratio of export-to-import prices, latest data available was for June (which still showed an appreciation of 2% since Q1-14). NEER and REER are nominal and real effective exchange rate. CPI and ULC are consumer price index and unit labour costs.
Sources: Eurostat, OECD and Citi Research

Figure 8. Euro — Nominal and Real Trade-Weighted Exchange Rate (2000=100), 2000-2014

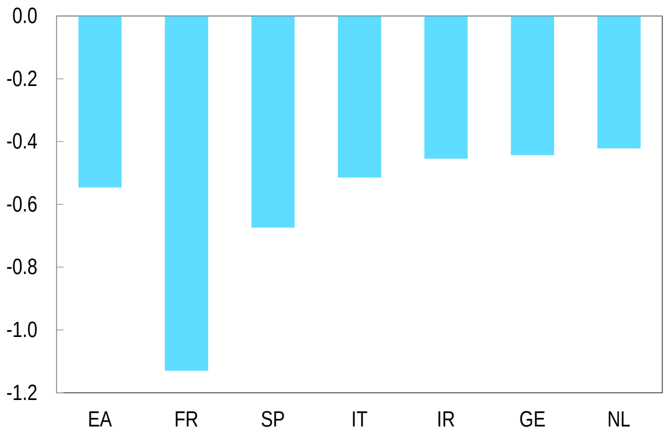


Note: NEER and REER are nominal and real effective exchange rate. CPI and ULC are consumer price index and unit labour costs.
Sources: Eurostat and Citi Research

Across the EA, the countries that are likely to have the most to gain from euro depreciation on the export side are those that are i) more open ii) have a high sensitivity of exports to the exchange rate, and iii) are more reliant on export growth (or conversely, where domestic demand is weakest). Ireland, the Netherlands and Belgium (and Germany among the larger economies) are the most open countries in the EA, measured by total exports or exports to non-EA countries relative to GDP, while France, Portugal, Spain, Greece and Italy do not export much to the non-EA world (see Figure 10). But many of the latter countries have disproportionately relied on (net) exports to support GDP growth in recent years (even though domestic demand has been the main driver of growth in Portugal and Spain recently). Export volumes appear to be fairly sensitive to real (effective ULC-deflated) exchange rate movements in all EA countries we consider (France stands out in our estimations, but this result is fairly sensitive to the specification chosen).

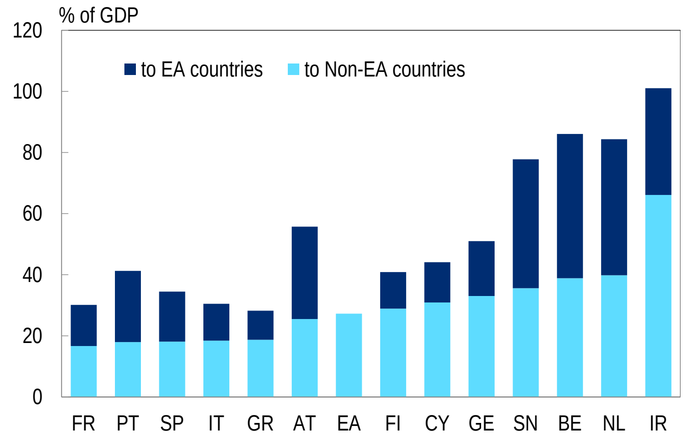
[3] We estimate the elasticity of real exports to the ULC-deflated REER through an error correction model which includes the EA export market (weighted import growth of the main export destinations) on data from Q1 1997 to Q2 2013. See also Di Mauro et al (2008), “The Changing Role of the Exchange Rate in a Globalised Economy”, ECB Occasional Paper 94.

Figure 9. Selected EA Countries — Estimated Long-Run Elasticity of Export Volumes with Respect to the Real (ULC-deflated) Effective Exchange Rate, 1997-2013



Note: Long-run elasticity of export volumes to the real effective (ULC-deflated) exchange rate estimated through an error correction regression of export volumes on the REER, a weighted average for foreign import growth and a trend on quarterly data from Q1 1997 to Q2 2013. A higher REER implies an appreciation.
Sources: ECB, Eurostat and Citi Research

Figure 10. EA Countries — Exports of Goods and Services (% of GDP), 2014 Q1

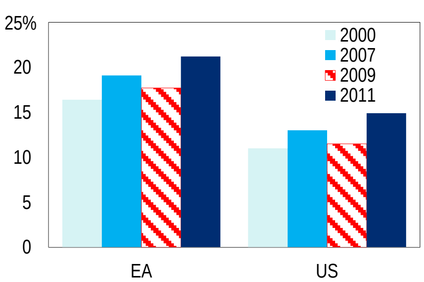


Note: Ratio of 4Q sums of exports of goods and services and GDP in nominal euros. Data for Finland, Ireland, and Belgium correspond to Q4 13.
Sources: Eurostat and Citi Research

Why the exchange rate may not deliver much export growth

A potential 1% boost to GDP in the Eurozone over the next three years does not transform its outlook – in fact it is of a similar magnitude to the cumulative downward revisions to real GDP growth for 2014-16 we have made for the Eurozone over the last few months – but it would certainly be helpful. However, there are a number of factors that could moderate the boost to growth from the weaker euro.

Figure 11. EA and US — Foreign Value Added in Exports (% of Total), 2000-11



Source: Amador et al (2014), "Global value chains: a view from the euro area", Bank of Portugal

First, the import content of exports has been rising in the euro area (from around 15% in 2000 to more than 20% in 2011) and is higher than in other advanced economies (where it has also risen over time, see Figure 11).[4] The larger the import content of exports, the smaller is the potential competitive benefit from a weaker exchange rate.

Second, to the extent that non-price competitiveness rather than price competitiveness is important in export demand, a weaker euro may be of limited help.[5]

Third, capacity constraints may make it difficult or costly for firms to raise production in response to a weaker exchange rate. Other things equal, the more spare capacity there is, the easier and cheaper it is to increase production. By contrast, if firms need to invest in new capacity, which both usually involves a fixed cost and is at least partly irreversible, firms may be more hesitant to do, for a variety of reasons,

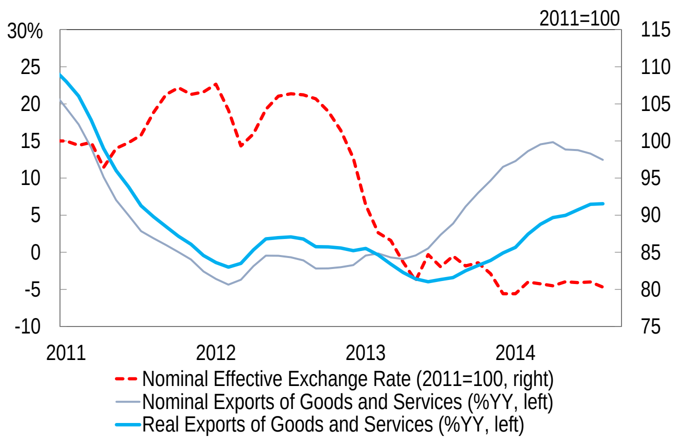
[4] See e.g. Amador et al (2014), "Global value chains: a view from the euro area", Bank of Portugal Working Paper

[5] Our colleagues in Japan have cited poor non-price competitiveness as one of the major reasons why Japanese export growth has remained subdued despite the sharp weakening of the yen since mid-2012. For evidence on the importance of non-price competitiveness for euro area exports, see e.g. Tressel, T. and S. Wang (2014), "Rebalancing in the euro area and the cyclicality of current account adjustments", IMF Working Paper

including limited access to funding and uncertainty about the persistence of the exchange rate change. In the euro area, the output gap is estimated to be large, survey evidence suggests capacity utilization to be low and unemployment remains high, so the presumption is that capacity is not the main constraint, even though it is unclear how much "effective capacity" there is in the export sectors (that is not obsolete, etc).

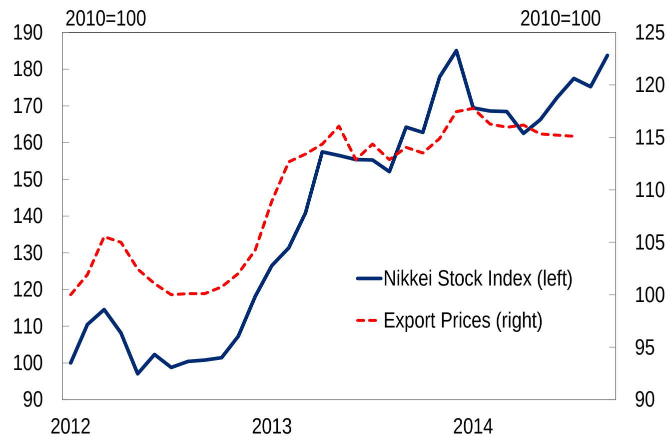
Fourth, firms may also be limited by a weakness of demand. We have revised our forecasts for global growth downwards repeatedly in recent months, from 3.3% in Jan-14 to 2.8% (at market exchange rates) for 2014 most recently, barely more than the 2.6% of global growth in 2013. In an environment where global growth is uncertainty and potentially disappointing, firms may be quite reluctant to increase production.

Figure 12. Japan — Nominal and Real Exports (%YY) and Nominal Effective Exchange Rate (2011=100), 2011-2014



Sources: Bank of Japan and Citi Research

Figure 13. Japan — Nikkei TSE 225 Stock Average and Export Prices (2010=100) , 2012-2014



Sources: Bank of Japan and Citi Research

One alternative may be to raise margins instead of increasing exports. Indeed, recent examples from other advanced economies suggest that even significant depreciations may not lead to higher export growth, at least in the near-term. In Japan, export growth has started to pick up over the course of 2014, but it was essentially zero for the 12 months following the sharp yen depreciation in mid-to-late 2012 (see Figure 12). The UK, which had a 30% real depreciation between 2007 and 2009 showed little signs of a meaningful export boost from the weaker pound (UK export growth did pick up in 2010, but it generally remained weaker than the growth of exports in the euro area, which had not had a depreciation). In both Japan and the UK, there are special factors that probably limited a larger export response (limited non-price competitiveness and limited spare capacity in Japan, a reliance on the Eurozone and financial services for exports in the UK), but the two examples still suggest to us that the response of export growth to the weaker euro may be smaller than suggested by historical sensitivities.[6]

However, it should be noted that growth in exports may not be the only boost to GDP growth from a weaker exchange rate. In the case of Japan, firms indeed raised margins (and prices) rather than increasing export volumes, which increased profits and share prices (see Figure 13). Somewhat counterintuitively, the weaker euro may therefore have boosted growth in Japan more through a rise in domestic

[6] Our US colleagues argue the reverse for the US, namely that the exchange rate may affect US growth more so than in the past, based on both greater trade openness and financial market effects.

demand (based on higher dividends and the wealth effects from falling share prices) than through a rise in exports, even though we suspect that the overall boost to growth had still been weaker than if it had come through an increase in export volumes.

A weaker exchange rate can also hurt some sources of demand. For example, a weaker exchange rate can lead to increases in import prices which would lower the purchasing power of households and businesses. Just as Japan, the euro area is a net energy importer, implying that the weaker euro could in principle lead to a hit from a higher bill for energy imports. However, world prices of energy remain very benign and if anything seem to continue to fall, which limits the negative potential impact on the energy-importing euro area from a weaker exchange rate.

How will the ECB respond to a weaker euro?

We noted that the weaker euro will probably provide a modest boost to EA growth. Given the weakening momentum in the EA over the course of 2014, such a boost is very welcome. But it will not really lower the pressure on the ECB to ease further, in our view, for two reasons. First, actual ECB easing and expectations of further easing have been a major driver of the weaker euro. Second, the euro depreciation is occurring in an environment where global growth prospects have weakened noticeably (and along with them, market-based measures of inflation expectations in a number of advanced economies) and where financial markets have become more nervous. Further financial market weakness or turbulence or a further weakening of global growth prospects would in fact raise the pressure for the ECB to ease more, and earlier. We have long expected the ECB to announce a large-scale asset purchase programme, focused mainly on government bonds, in December 2014 or Q1 2015. Intensifying financial market turbulence and further declines in sentiment and market-based measures of inflation expectations would increase the likelihood that the ECB will take action at the time of the December meeting and also open up the possibility that the ECB could already announce further easing measures at its next Governing Council Meeting on November 6.

Figure 14. Key Economic Indicators (20 October – 24 October 2014)

		Forecast	Last
Monday 20 October		Forecast	Last
07:00	Germany: Producer Prices, Sep	0.2% MM, -0.8% YY	-0.1% MM, -0.8% YY
08:30	Netherlands: Consumer Confidence, Oct		
09:00	Euro Area: Monthly Balance of Payments, Aug		
09:00	Italy: Industrial Orders, Aug		
14:00	Belgium: Consumer Confidence, Oct		
Tuesday 21 October		Forecast	Last
07:00	Switzerland: Trade Balance, Sep		
08:30	Netherlands: Consumer Spending, Aug		
09:30	UK: Public Sector Net Borrowing, Sep	£10.5 Billion	Year Ago: £10.4 Billion
	Fiscal Year To Date, Apr-Sep	£55.9 Billion	Year Ago: £53.1 Billion
10:00	Euro Area: General Government Deficit and Debt, 2013 (2nd Notification)		
	Greece: Current Account, Aug		
Wednesday 22 October		Forecast	Last
09:30	UK: Bank of England Minutes of Oct 9 Meeting		
09:30	UK: Bank of England Agents' Summary of Business Conditions, Oct		
11:00	Ireland: Residential Property Prices, Sep		
15:00	Canada: Bank of Canada Monetary Policy Outcome		
Thursday 23 October		Forecast	Last
	EU: European Council, Brussels		
07:45	France: Manufacturing Confidence, Oct	97	96
	Own-Company Production Outlook, Oct	2	-5
08:00	Spain: LFS Unemployment Rate, 3Q	23.8%	24.5%
08:30	Sweden: LFS Unemployment Rate, Sep	7.6% NSA, 8.0% SA	7.4% NSA, 8.0% SA
09:00	Norway: Norges Bank Decision on Sight Deposit Rate	Unchanged at 1.50%	1.50%
09:00	Euro Area: Manufacturing PMI, Oct Flash	49.9	50.3
	Services PMI, Oct Flash	51.5	52.4
	Composite PMI, Oct Flash	51.4	52.0
09:30	UK: Retail Sales Volumes, Sep	0.4% MM, 3.4% YY	0.4% MM, 3.9% YY
09:03	UK: BBA Mortgage Advances, Sep		
10:00	Euro Area: Quarterly Data on Gen. Govt. Deficit and Debt, 2Q		
11:00	UK: CBI Quarterly Industrial Trends Survey: Industrial Confidence, Oct	+10%	Jul: +19%
	CBI Monthly Output Expectations, Oct	+20%	Sep: +27%
	CBI Order Books, Oct	-14%	Sep: -4%
	CBI Selling Prices, Oct	0%	Sep: +1%
15:00	Euro Area: Consumer Confidence, Oct Flash	-12.5	-11.4
Friday 24 October		Forecast	Last
	EU: European Council, Brussels		
07:00	Germany: GfK Consumer Confidence, Nov		
08:00	Spain: Producer Prices, Sep		
09:00	Italy: Retail Sales, Aug		
09:30	UK: Service Sector Output, Aug	0.3% MM, 3.4% YY	0.3% MM, 3.4% YY
09:30	UK: GDP, 3Q Preliminary Estimate	0.8% QQ, 3.1% YY	0.9% QQ, 3.2% YY
10:0	Italy: Contractual Wages, Sep		
11:00	Italy: Consumer Confidence, Oct	101.8	102.0
14:00	Belgium: Business Confidence, Oct		
17:00	France: Job Seekers – Net Change, Sep	14K	-11.1K
	Jobseekers – Total, Sep	3,427.3K	3,413.3K
During The Weekend			
	Europe & UK: Clocks go back one hour (night of Oct 25/26)		
11:00	Euro Area: ECB releases final results of Comprehensive Assessment of 130 Banks		

Sources: National statistical offices, central banks and Citi Research

Figure 15. Economic Indicators – Comments: Euro Area, Germany, France, Italy and Spain

Euro Area

Oct 23	*Manufacturing PMI, Oct Flash*	Forecast: 49.9	Prior: 50.3
09:00	*Services PMI, Oct Flash*	Forecast: 51.5	Prior: 52.4
London Time	*Composite PMI, Oct Flash*	Forecast: 51.4	Prior: 52.0

The manufacturing PMI index likely weakened further in October, falling below the 50.0 level for the first time since Jun-13, pointing to a very small contraction in industrial activity, with the index at 0.3 SD below its long-term average. For services, we envisage a more pronounced drop of 0.9 points to 51.5, implying a -0.3 SD reading. For the composite PMI, we expect that the rate of expansion of activity in the private sector also slowed in October. This would correspond to a 15-month low. These lower PMI readings would underscore some risks of a more disappointing GDP performance in Q4 and, if confirmed in November, would likely suggest that the euro area could be on the cusp of a triple-dip recession.

Oct 23 15:00 London Time	*Consumer Confidence, Oct Flash*	Forecast: -12.5	Prior: -11.4

We look for a fifth successive decline in consumer confidence in November, likely taking the flash estimate to its long-term average for the first time since Feb-14. The recent weakening in equity indices will probably affect confidence in some member states where fluctuations in asset prices have a bearing on financial wealth, while the debates about fiscal stimulus could further dampen confidence in member states that are strong advocates of fiscal rectitude. We anticipate that the expectations sub-components likely weakened the most in November, signalling some downside risks to our baseline of a modest recovery in consumer spending.

Germany

Oct 20 07:00 London Time	*Producer Prices, Sep*	Forecast: 0.2% MM, -0.8% YY	Prior: -0.1% MM, -0.8% YY

We expect German year-on-year producer price inflation in September to be unchanged compared to August at -0.8% YY and to see a MM increase in producer prices of 0.2%. German PPI inflation has been negative since August 2013, but rates of PPI deflation have been pretty stable at just below -1% YY since the beginning of the year.

France

Oct 23	*Manufacturing Confidence Indicator, Oct*	Forecast: 97	Prior: 96
07:45 London Time	*Own-Company Production Outlook, Oct*	Forecast: 2	Prior: -5

We look for a one-point increase in manufacturing confidence in October to 97. Although this move would go against the trend of recent months, we believe that the large number of positive signals in the past few weeks – ranging from a rebound in the manufacturing PMI, improvement in INSEE's turning point indicator, continued decline in the euro and the government's focus on improving business competitiveness – could have helped. The own-company production measure is likely to have rebounded in October from the 12-month low of -5 recorded in September. What will need watching is whether the very large decline in personal output expectations to an 11-year low of -17 in September is being reversed.

Oct 24	*Jobseekers – Net Change, Sep (000s)*	Forecast: 14K	Prior: -11.1K
17:00 London Time	*Jobseekers, Sep (000s)*	Forecast: 3,427.3K	Prior: 3,413.3K

We look for a 14K increase in the total number of registered jobseekers in September, more than unwinding the surprise 11.1K drop in August coinciding with an abnormally large number of exits. We note that private sector employment expectations have continued to deteriorate in recent months, losing about 0.1 point of standard deviation since June, painting a challenging picture in terms of hiring. For unemployment to start falling on a consistent basis, we argue that business confidence will need to move above its long-run average, probably as a consequence of the government embarking on a more aggressive structural reform programme. We continue to expect the jobless rate to peak at 10% in 4Q-14.

Italy

Oct 24 09:00 London Time	*Consumer Confidence, Oct*	Forecast: 101.8	Prior: 102

The recent sequence of negative economic data and discussions about new austerity measures possibly necessary to reach the 2015 Budget targets have likely led to a further decline in consumer sentiment in October, to 0.3SD below its long-term average.

Spain

Oct 23 08:00 London Time	*Unemployment Rate, 3Q*	Forecast: 23.8%	Prior: 24.5%

Monthly data on affiliations to the social security system suggest employment (non-seasonally adjusted) may have posted a quarterly gain in 3Q (by 0.9% QQ), partly driven by seasonal factors (due to the labour-intensive summer season) but also due to a continuation of the improvement in the underlying trend (we estimate employment posted a gain of 0.4% QQ in seasonally adjusted terms). At the same time the labour force has probably continued to decline (by around 1%YY, partly driven by discouraged workers and partly by falling working-age population). We expect the unemployment rate (NSA) to fall to 23.8% in 3Q (24.2% in seasonal adjusted terms, lowest since 1Q 2012) from 24.5% in 2Q.

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

Figure 16. Economic Indicators – Comments: Sweden, Norway and United Kingdom

Sweden			
Oct 23 08:30 London Time	*LFS Unemployment Rate, Sep*	Forecast: 7.6% NSA, 8.0% SA	Prior: 7.4% NSA, 8.0% SA
	Unemployment on the LFS measure continues to be sticky, but another strong reading for employment (2.0% YY) points to underlying strength in the Swedish labour market. Ongoing gains in the labour force explain the diverging trends. These gains are driven by strong growth for the working age population, due to high immigration. Given accelerating population growth, we reckon the decline in unemployment most likely will be very gradual. With the downward trend in registered unemployment according to the unemployment offices' statistics, we continue to expect -unemployment on the LFS measure to start trending lower in the near-term as well.		
Norway			
Oct 23 09:00 London Time	*Norges Bank Decision on Sight Deposit Rate*	Forecast: Unchanged at 1.50%	Prior: 1.50%
	Norges Bank's conditional interest rate path in the September Monetary Policy Report effectively closed the door on a near-term interest rate cut. The upward revision of the path in the short term was explained by a combination of higher capacity utilization (fuelled by upside surprises in domestic growth and labour market indicators), higher inflation and a weaker-than-expected krone exchange rate. Low interest rates abroad, meanwhile, remain a constraint and we expect policy rates to remain unchanged until 2016 when higher US and UK key policy rates should enable Norges Bank to hike without putting too much appreciation pressure on the Norwegian krone.		
United Kingdom			
Oct 21 09:30 London Time	*Public Sector Net Borrowing (Sep)* *(Ex Public Sector Banks)*	Forecast: £10.5bn deficit, £55.9 billion deficit fiscal year to date Year Ago: £10.4bn deficit, £53.1 billion deficit fiscal year to date	
	The fiscal deficit in the first five months of the fiscal year was a little above last year's levels, in contrast to the OBR's forecast that the deficit will fall by £12.7bn this year, with revenue growth running well below target. We expect revenues will remain soft this month, with the deficit likely to overshoot by about £10bn versus the OBR's forecast over the full fiscal year.		
Oct 23 09:30 London Time	*Retail Sales Volumes, Sep*	Forecast: 0.4% MM, 3.4% YY	Prior: 0.4% MM, 3.9% YY
	Surveys suggest that retail sales continue to grow at a fairly solid pace, and we anticipate another gain. Such a figure would leave Q3 volumes up 0.5% QQ, the seventh consecutive quarterly gain.		
Oct 23 11:00 London Time	*CBI Quarterly Industrial Trends Survey, Oct*		
	Quarterly Business Confidence, Oct	Forecast: +10%	Prior (Jul): +19%
	Monthly Output Expectations, Oct	Forecast: +20%	Prior (Sep): +27%
	Monthly Order Books, Oct	Forecast: -14%	Prior (Sep): -4%
	Monthly Selling Prices, Oct	Forecast: 0%	Prior (Sep): +1%
	The October CBI survey has often shown weakness, with an average deterioration in the monthly order books of 10 percentage points between the September and October surveys over the last 10 years. The average deterioration in the quarterly business index is four points from July to October. Given those trends, plus the likelihood that there is a genuine slowdown in manufacturing underway, this survey is likely to show a fairly sizeable deterioration in the main activity gauges.		
Oct 24 09:30 London Time	*Service Sector Output, Aug*	Forecast: 0.3% MM, 3.4% YY	Prior: 0.3% MM, 3.4% YY
	Surveys suggest that service sector output is growing strongly and we expect these figures will show continued solid growth. Note that the ONS will revise previous data as part of the shift to the ESA system.		
Oct 24 09:30 London Time	*GDP, 3Q Preliminary Estimate*	Forecast: 0.8% QQ, 3.1% YY	Prior: 0.9% QQ, 3.2% YY
	The available data show modest growth in industrial production and flat construction in July-August, with a modest gain in service sector output for July. Our forecast assumes a further gain in services output in August (data released at the same time), and we are torn between forecasting a gain of 0.7% and 0.8% QQ. We expect that the ONS will, as usual, revise up recent GDP growth rates at some stage.		

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

Figure 17. Key Economic Indicators (27 October – 31 October 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Sep (by Oct 28)	0.0% MM, -1.9% YY	-0.1% MM, -1.9% YY
07:00	Germany: Retail Sales, Sep (by Oct 31)		
07:00	UK: Nationwide House Prices, Oct		
Monday 27 October		Forecast	Last
08:30	Netherlands: Producer Confidence, Oct		
08:30	Sweden: Household Lending, Sep		
09:00	Germany: ifo Business Climate, Oct		
09:00	Euro Area: M3, Sep		
11:00	UK: CBI Retail Survey, Oct		
Tuesday 28 October		Forecast	Last
08:30	Sweden: Riksbank Interest Rate Decision		
08:30	Sweden: Producer Prices, Sep		
08:30	Sweden: Trade Balance, Sep		
08:30	Sweden: Retail Sales, Sep		
09:00	Italy: Business Confidence, Oct		
	Spain: Budget Balance, Sep		
Wednesday 29 October		Forecast	Last
07:45	France: Consumer Confidence, Oct		
08:00	Spain: Retail Sales, Sep		
08:00	Sweden: Business & Consumer Surveys, Oct		
09:00	Norway: Retail Sales, Sep		
09:00	Norway: LFS Unemployment, Sep		
09;30	UK: Mortgage Approvals, Sep	64.5K MM, -3.6% YY	64.2K MM, 1.0% YY
09:30	UK: Insolvency Statistics, 3Q		
14:00	Belgium: GDP, 3Q Flash		
18:00	US: FOMC Outcome		
Thursday 30 October		Forecast	Last
08:00	Switzerland: KOF Economic Barometer, Oct		
08:00	Spain: GDP, 3Q Flash		
08:00	Spain: HICP, Oct Flash		
08:55	Germany: Unemployment, Oct		
10:00	Euro Area: Business & Consumer Surveys, Oct		
13:00	Germany: Consumer Prices, Oct Flash		
Friday 31 October		Forecast	Last
00:01	UK: GfK Consumer Confidence, Oct		
07:45	France: Consumer Spending, Sep		
07:45	France: Producer Prices, Sep		
09;00	Norway: Unemployment, Oct		
09:00	Norway: Credit Indicator C2, Sep		
09:00	Norway: Norges Bank Daily FX Purchases, Nov		
09:00	Italy: Unemployment, Sep		
09:30	UK: National Accounts Blue Book, 2014		
09:30	UK: Balance of Payments Pink Book, 2014		
10:00	Italy: Consumer Prices, Oct Flash		
10:00	Greece: Retail Sales, Aug		
10:00	Euro Area: HICP, Oct Flash		
10:00	Euro Area: Unemployment, Sep		
	Spain: Current Account, Aug		
During The Weekend			
	North America: Clocks go back one hour (at 2am on Nov 2)		

Sources: National statistical offices, central banks and Citi Research

Figure 18. Recent Research

Euro Area - Sovereign Debt Update		
ECB To Sign Off on Covered Bonds Law	European Economics Team	Oct 17, 2014
Italian Government Unveils Expansionary 2015 Budget	European Economics Team	Oct 16, 2014
ECJ Opinion on OMT Case by Jan 14, 2015	European Economics Team	Oct 15, 2014
ECJ Hearing on OMT Today	European Economics Team	Oct 14, 2014
ECB's Draghi and Weidmann Clash over Monetary Policy	European Economics Team	Oct 13, 2014
Euro Area		
Spain - Catalonia Referendum: Will it Happen? If So, What?	Antonio Montilla	Oct 10, 2014
ECB - ECB: 'Let's See' First, But Leaves Door Open To QE	Ebrahim Rahbari	Oct 2, 2014
Global Economic Forecasts - September 2014	Michael Saunders	Oct 1, 2014
Euro Area - ECB Preview: Will all be revealed on Oct 2?	Guillaume Menuet	Sep 25, 2014
European Economic Forecast Highlights, September 2014	Ann O'Kelly	Sep 25, 2014
Italy - Growth and Inflation keep undershooting expectations	Giada Giani	Sep 25, 2014
Euro Area - ECB Cuts Rates and Announces Asset Purchase Programme	Guillaume Menuet	Sep 4, 2014
Euro Area - Euro Area: What Are The Prospects For Fiscal Easing?	Ebrahim Rahbari	Sep 3, 2014
Euro Area - Inflation Hit a New 5-Year Low	Giada Giani	Aug 29, 2014
Euro Area - ECB Preview: Will Draghi Highlight Downside Risks to Inflation?	Guillaume Menuet	Aug 28, 2014
Euro Area - ECB Draghi Notes Fall in Inflation Expectations	Guillaume Menuet	Aug 26, 2014
Euro Area - PMIs Suggest Very Little Room for Economic Rebound in H2 14	Giada Giani	Aug 21, 2014
Euro Area - SPF Survey: Downward Drift In 2014-15 Inflation Expectations	Guillaume Menuet	Aug 14, 2014
Euro Area: NFC Net Borrowing Falling More Slowly	Antonio Montilla	Aug 12, 2014
Euro Economics Weekly		
France: Rejecting Austerity, For Now	Guillaume Menuet	Oct 10, 2014
Greece — Six Crucial Months Ahead	Giada Giani	Oct 3, 2014
Focus On The ECB's Balance Sheet	Ebrahim Rahbari	Sep 26, 2014
H2 GDP Uptick Too Small to Stop ECB QE	Guillaume Menuet	Sep 19, 2014
Euro Area: Housing Sector Close to a Turnaround	Antonio Montilla	Sep 12, 2014
Low-flation Is Here To Stay	Giada Giani	Sep 5, 2014
Is the Period of German Outperformance Over?	Ebrahim Rahbari	Aug 29, 2014
ECB QE: Why, When and How?	Guillaume Menuet	Aug 22, 2014
What's Behind the Periphery Growth Outperformance?	Giada Giani	Aug 15, 2014
How Might Russia Developments Affect The Eurozone Economy?	Ebrahim Rahbari	Aug 1, 2014
France: More Reforms to Jump Start Confidence?	Guillaume Menuet	Jul 25, 2014
Public Debt Sustainability: Has It Really Been Restored?	Giada Giani	Jul 18, 2014
Why Banking Union Matters: Then and Now	Ebrahim Rahbari	Jul 11, 2014
Is The Euro Area Recovery at Risk of Faltering?	Guillaume Menuet	Jul 4, 2014
Weak Pay Trends Imply Further Inflation Undershoot	Giada Giani	Jun 27, 2014
A Great Rotation towards Eurozone Portfolio Assets?	Ebrahim Rahbari	Jun 20, 2014
Labour Market Slack	Giada Giani	Jun 13, 2014
Chief Economist Publications		
Global Economic Outlook and Strategy - September 2014	Willem Buiter	Sep 24, 2014
Scandi and Swiss		
Scandi Economics Update	Tina Mortensen	Oct 17, 2014
Norway - Bank Lending Survey: Lower Lending Margins	Tina Mortensen	Oct 16, 2014
Sweden - Marked Inflation Undershoot, October Rate Cut Our Base Case	Tina Mortensen	Oct 14, 2014
UK		
UK - Labour Market Data	Michael Saunders	Oct 15, 2014
UK - CPI Inflation Tumbles	Michael Saunders	Oct 14, 2014
UK - Treasury Survey On Economy	Michael Saunders	Oct 10, 2014
UK Economics Weekly		
	Michael Saunders	Oct 17, 2014
Persistent Political Uncertainties Likely	Michael Saunders	Oct 10, 2014
Still Bullish on UK Growth	Michael Saunders	Oct 3, 2014
Stubborn Fiscal Red Ink	Michael Saunders	Sep 26, 2014

Source: Citi Research

Appendix A-1

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