Citi Research

Economics

14 March 2014 | 16 pages

Developed Markets
Western Europe

Euro Economics Weekly

The Eurozone Investment Recovery

- Equipment investment in the Eurozone is set to grow robustly in our view, at 3.5%pa in 2014 and 2015 (after falling by 1.6% in 2013), in line with the 2000-07 average. Much of that is catching up: equipment investment is still 15% below its pre-crisis peak. In addition, three main factors are supporting a recovery: i) firm profits are rising again as demand is improving, at least in part driven by rising exports, ii) both internal and external funding conditions for non-financial corporates have become more supportive, and iii) major uncertainties are receding, particularly those related to the Eurozone crisis.

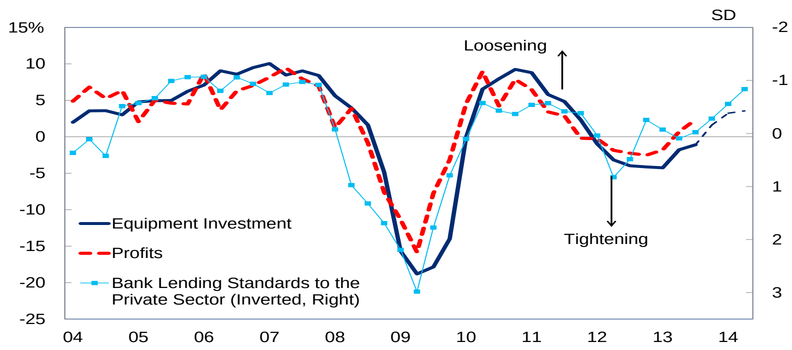
- In our view, the increase in equipment investment is likely to be quite broad-based across Eurozone countries in the next 1-2 years, but there are still differences. We expect increases of 4-6% in 2014 in Germany, Italy, Portugal and Spain, due to a varying mix of pent-up demand, high profit margins, rising exports and easy funding conditions. In France, we only expect a modest increase of around 1% pa in 2014-15, as profits remain low. Equipment investment should contribute roughly a quarter of EA growth in 2014-15 and could be a source of (modest) upside risk. But in all countries, the increase in equipment would primarily be cyclical and would be at risk if external conditions worsened.

Figure 1. Citi 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	1.38	0.10	1.65	0.80	0.50	137	8.92	0.75	8.18	1.50	1.24	0.00	-67
4Q 14	1.40	0.10	1.80	0.79	0.75	163	8.80	0.75	7.97	1.50	1.25	0.00	-75

Sources: Citi Research

Figure 2. Euro Area — Real Equipment Investment (%YY), Non-Financial Corporate Profits (%YY) and Bank Lending Standards to the Private Sector (sd), 2004–2014F



Note: Real Equipment Investment is real gross fixed capital formation minus construction. Profits are Gross operating surplus and mixed income. Sources: ECB, Eurostat and Citi Research

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Ebrahim Rahbari

The Eurozone Investment Recovery

We expect equipment investment in the Eurozone to grow by 3.5% in 2014 and 2015, driven by:

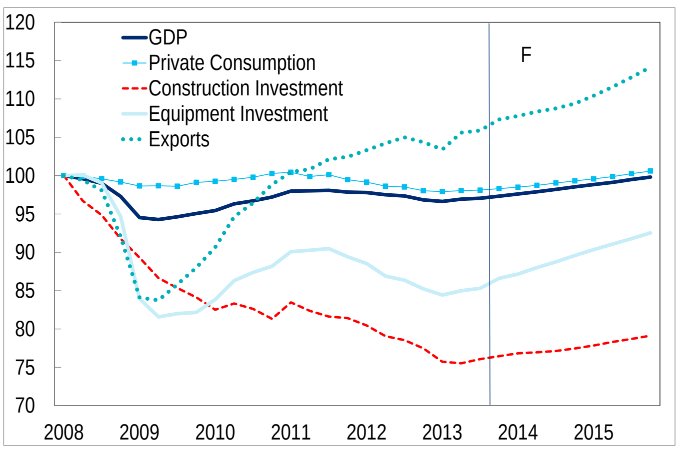
- **i) growing profits,**
- **ii) improving funding conditions, and**
- **iii) receding uncertainties**

Investment ex-construction (which we will henceforth refer to as equipment investment) has been one of the underperformers of the Eurozone economy in recent years.[1] In Q3 2013, it was still 15% below the pre-crisis (Q4-2007) peak (vs 3% below for GDP) and has deducted almost a combined 0.5pp from GDP in 2012-3. The weakness in equipment investment is particularly important, as investment does not only contribute to growth currently, but by increasing and upgrading the capital stock, it also increases potential growth of output and productivity in the future. There is no shortage of explanations for why equipment investment has been so weak: a weak demand situation and outlook amid fiscal consolidation, high private debt, tight financial conditions, substantial uncertainties and potential incentives for capital-labour substitution.

The recovery in investment is likely to be quite broad-based across Eurozone countries, with the largest increases expected in Germany, Italy, Portugal, and Spain

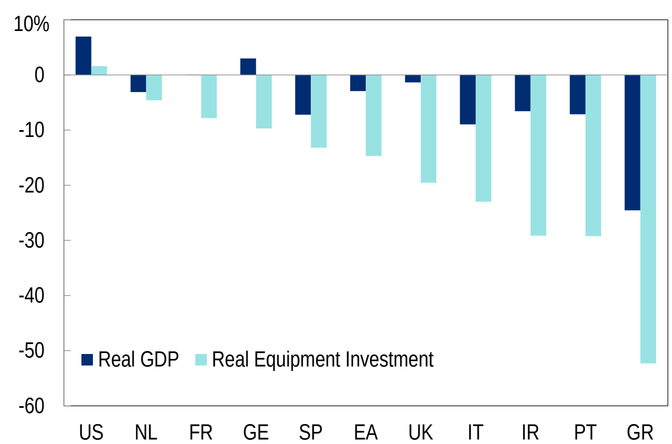
Nevertheless, Eurozone equipment investment in Q4 2013 probably grew by close to 1.5%QQ, its third consecutive quarterly increase.[2] We expect the recovery in equipment investment to continue, expecting growth of 3.5% pa in 2014-15, and probably contributing to our above-consensus expectations of 2.6% growth in Eurozone gross fixed investment in 2014 (vs 1.5% for the consensus, which does not break out the equipment component). In addition to years of under-investment, three main factors are driving the recovery in investment, in our view: i) an increase in firm profits, as demand, exports and capacity utilization are rising, while labour costs remain low, ii) more supportive internal and external financial conditions, and iii) receding uncertainties.[3] While the increase in investment is broadening across Eurozone countries, it is by no means uniform, but in all countries we see the increase as primarily cyclical.

Figure 3. Euro Area — Real GDP and Components (2008 Q1 = 100), 2008–2015F



Note: Equipment investment is gross fixed capital formation excluding construction.
Sources: Eurostat and Citi Research

Figure 4. Selected Countries — Real GDP and Real Equipment Investment (pp change from Q1 2008)



Note: Equipment investment is gross fixed capital formation excluding construction.
Sources: Eurostat and Citi Research

[1] We define equipment investment as the difference between gross fixed capital formation and construction (housing and non-housing construction) investment. It inlcudes machinery and equipment investment, transport investment and other investment, including in software and intangibles. It includes non-construction investment by households, non-profit organisations, the public sector, and financial businesses, but it is largely investment by non-financial businesses on which we focus here.

[2] Eurostat has not yet released the Q4 data for the components of investment spending, but most major countries have reported these by now, which allow us to estimate the increase.

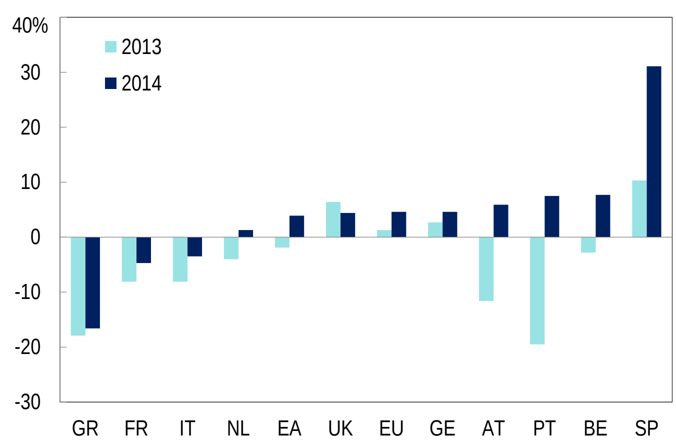
[3] Unlike in the UK, we do not see a major case for upward revisions to past investment (see UK Economics Weekly - Still Bullish on UK Growth), while explicit investment-focused government initiatives probably also played only a minor role, even though plans by several Eurozone governments to lower corporate taxes may also help a little.

The Investment Collapse

Investment equipment is still 15% below its pre-crisis level in real terms in the euro area and below pre-crisis levels in all individual EA countries

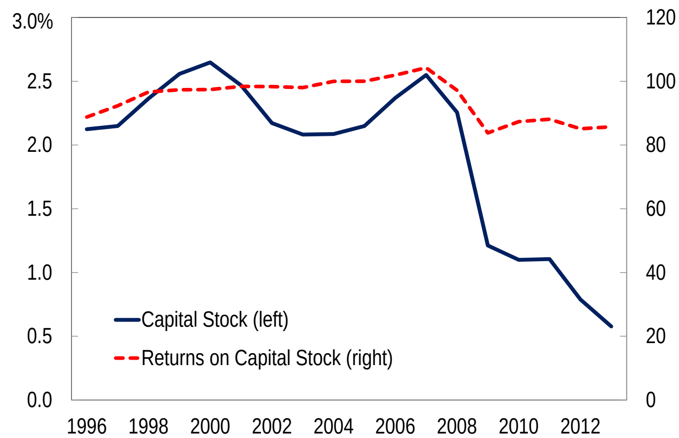
The decline in equipment investment in the EA has been both broad and deep. Equipment investment was still 15% below its pre-crisis peak in real terms in Q3 13 (12% in nominal terms), and it was below the pre-crisis peak in every single EA country. The magnitudes vary quite drastically across EA countries — in Ireland, equipment investment was 34% (40% in nominal terms) below the peak in Q3 13 and in Greece 58% (see Figure 4), while it was a mere 4% (2%) below the peak in Austria. Relative to GDP, EA equipment investment is close to 10-year lows in real terms at 8.2% (compared to 9.5% before the crisis), and it is at the low relative to GDP in nominal terms at 7.4%. Among the four subcomponents of equipment investment that Eurostat distinguishes, the largest declines relative to the pre-crisis peak are in transport equipment (-28%), agriculture, fishing and forestry (-23%, but a tiny share of the total) and the largest component, metal products and machinery equipment (-15%), while 'other investment' (e.g. intangibles) is close to its pre-crisis peak. Eurostat's business investment rate (NFC gross fixed capital formation, which includes construction investment, relative to nominal gross value added), remains close to series (post-99) lows at 19%, and growth of the real net (i.e. net of depreciation) capital stock (again, including both equipment and structures) continues to fall and is at its post-95 low (see Figure 6). In a number of countries (Cyprus, Greece, Italy, Greece, Portugal, and Slovakia), the real net capital stock probably fell in 2013 according to the European Commission. Among the other 32 countries listed in the EC's AMECO database which begins in 1995, the only other countries that have ever seen declines in the net capital stock are Iceland in 2009-13, Japan in 2009-11 and a number of transition economies in the mid-90s.[4]

Figure 5. Selected Countries — Real Investment Intentions (%YY), October 2013



Note: Volume measure.
Sources: European Commission Investment Survey and Citi Research

Figure 6. Euro Area — Real Capital Stock Growth (%YY) and Net Returns on Real Net Capital Stock (2005=100), 1995-2013



Sources: Eurostat and Citi Research

The incipient investment rebound

Equipment investment probably grew by 1.5%QQ in Q4 2013, the third consecutive quarterly increase

Q4 was the third consecutive quarter during which EA equipment investment rose, and our estimate of 1.5%QQ would be the highest growth rate since Q1 2011 and imply positive YY growth for the first time since Q4 2011. The Q4 increase was broad-based in the Eurozone, with increases in 9 out of the 12 countries for which

[4] Eurostat and the OECD provides data on gross capital stocks for construction vs equipment capital, but the data are very incomplete and the latest available data are for 2012 and only for very few countries. The available data suggest that growth rates in the stock of construction and non-construction capital had been similar in recent years.

we have data so far (the exceptions being Estonia, Finland, and Greece), very large increases in the Netherlands (9.3%QQ), Portugal (8.7%QQ) and Slovakia (7.1%QQ), increases in the five largest EA countries, and the first rise (by 0.6%QQ) in France since Q4 2011. In Q3, 9 out of 15 countries had registered increases.

Surveys suggest that firms plan to invest 4% more in 2014 than in 2013 in volume terms

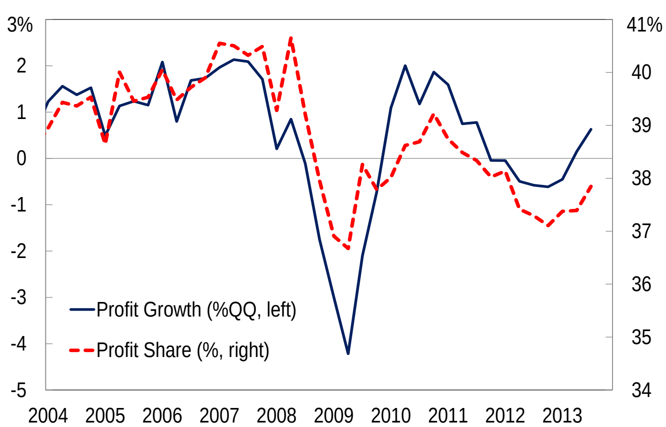
According to the European Commission's Investment Survey, the increase in investment should continue. In the latest survey published in November (the next one is due in April), Eurozone businesses expected to increase their investment (of equipment as well as structures) in 2014 by 4% after a 2% estimated decline in 2013. While the survey readings can be volatile (including from survey to survey, and for individual countries), they affirm our expectation that investment spending will likely rise this year and next (by 3.5%pa and adding 0.3pp to GDP growth in each year), with sizable increases to be expected in Germany, Portugal and Spain in particular (see Figure 5).

Business is better

A major driver of the recovery in investment have been rising profits

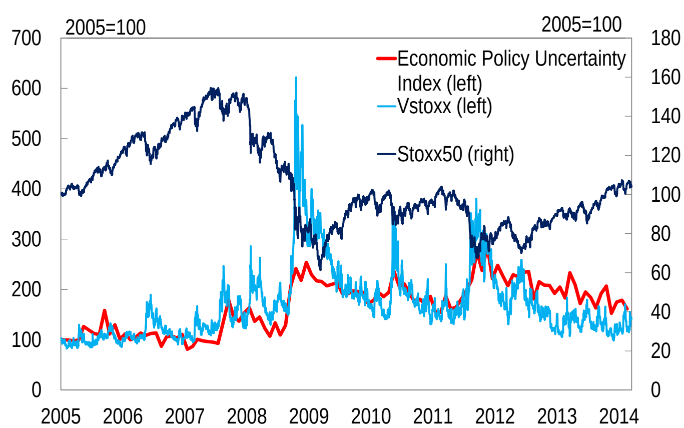
A major reason for a recovery in equipment investment is that business activity and profits are continuing to improve in the Eurozone. Year-on-year profit (gross operating profit and mixed surplus) growth for Eurozone non-financial corporates turned positive in Q2 2013 (see Figure 7) — the same quarter business equipment investment first increased, which continues the historically close relationship between profits and business investment (see Figure 2 on the Front Page). The NFC profit *share* (gross operating surplus relative to gross value added) also began to tick up in late 2012 after falling quite consistently for two years. Even now profit shares remain quite low compared to historical averages and profit growth also remains subdued, but that has not stopped Eurozone stock markets from rallying quite sharply over the last two years (see Figure 8), raising the 'Tobin's Q' motive for more investment.

Figure 7. Euro Area — Non-Financial Corporate Profit Growth (%QQ) and Profit Share (% of Gross Value Added), 2004-2013



Note: Profits are gross operating surplus and mixed income.
Sources: Eurostat and Citi Research

Figure 8. Euro Area — Economic Policy Uncertainty Index, Vstoxx and Euro Stoxx 50 (2005=100), 2005-2014



Note: Economic Policy Uncertainty Index is GDP-weighted average of indices for Germany, France, Italy and Spain.
Sources: Bloomberg and Citi Research

Export growth probably had a major impact on the return to profit growth

Part of the improvement in profitability was probably externally driven. Survey assessments of order books and export volume expectations by Eurozone industrial firms have steadily improved after reaching a trough in late 2012 and are now above their long-term averages. Real exports of goods and services (including intra-EA exports) rose by 2.6%YY in Q4. PMIs, order books, new orders assessments and a range of business sentiment indicators have also trended up and are now

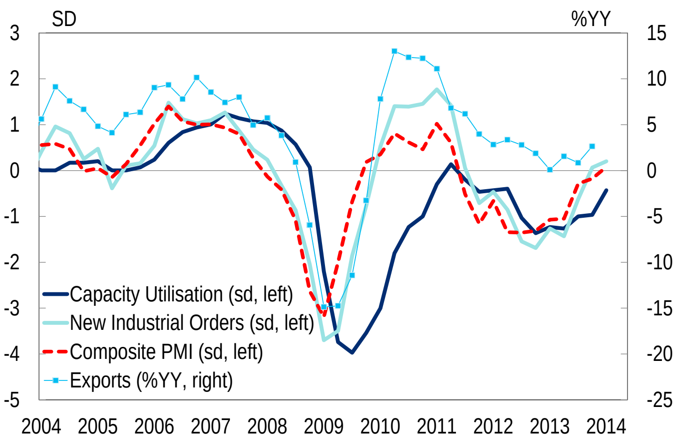
often above their long-term averages, too (see Figure 9). Brisker business (and low investment) has meant that capacity utilization has also crept up. It still remains below its long-term average in the EA as well as most EA countries, but, in our view, that does not preclude an increase in investment, as capacity shortages may still exist in some sectors (the capital stock is not fungible), higher investment may be needed simply to maintain existing capital. Moreover, historically, investment often rose *before* capacity utilization in recoveries in some EA countries.[5] Low energy and labour costs have also helped to support profits recently (unit labour costs are growing at 1%YY for the Eurozone as a whole and falling in a number of countries). But lower labour costs have probably had mixed effects on corporate investment incentives, as cheap labour sometimes might be substituted for increases in capital.

Financial factors have become more supportive

EA firms have built up larger cash buffers and are generating small financial surpluses currently

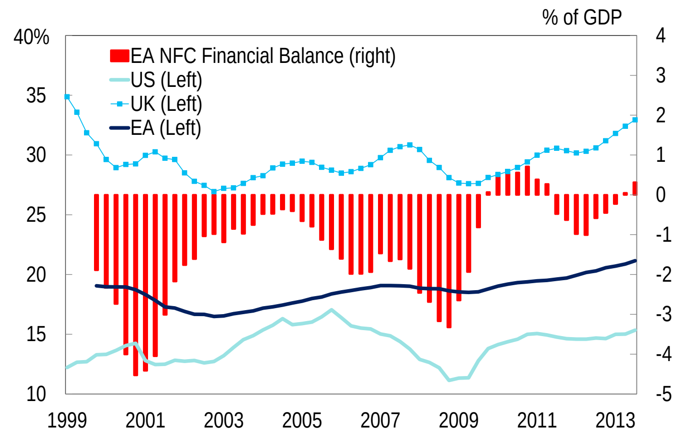
The second major driver of a recovery in equipment investment, in our view, is that the financial position of firms has improved. Two aspects are relevant here. The first is that the internal funding ability of Eurozone NFCs and their ability to absorb liquidity shocks have improved. As noted, profits are growing again and NFCs are generating very modest financial surpluses according to the latest Flow of Funds data (see Figure 10), even though that's partly the result of not investing. Meanwhile, cash buffers have increased. At 21%, the ratio of currency and deposits to debt (loans and securities debt) of Eurozone NFCs is at a post-99 high, having risen for 17 quarters in a row up to Q3 2013 (latest data).

Figure 9. Euro Area — Capacity Utilisation, Industrial Orders, Composite PMI (All sd from LT Average) and Real Exports (%YY), 2004-2014



Note: Exports are real exports of goods and services.
Sources: Markit, Eurostat and Citi Research

Figure 10. Selected Countries — Non-Financial Corporate Ratio of Currency and Deposits to Debt (%) and Financial Balance (% of GDP), 1999-2013



Note: Debt includes loans and debt securities.
Sources: Eurostat and Citi Research

Bank lending standards are closely related to EA investment and have improved for much of the last two years

External funding conditions have also improved. Bank lending standards to the private sector have loosened for the past year (see Figure 2 on the Front Page) which has also historically been associated with a rise in equipment investment.[6] In addition, the equity market has re-opened for IPOs and other equity issuance and Eurozone firms are increasingly funding themselves on debt markets.[7]

[5] See also INSEE (2014), "Will corporate investment take off again in France in 2014".

[6] See also "Recovery Watch: SME Lending is Key", *Euro Economics Weekly*, 15 November 2014, Citi

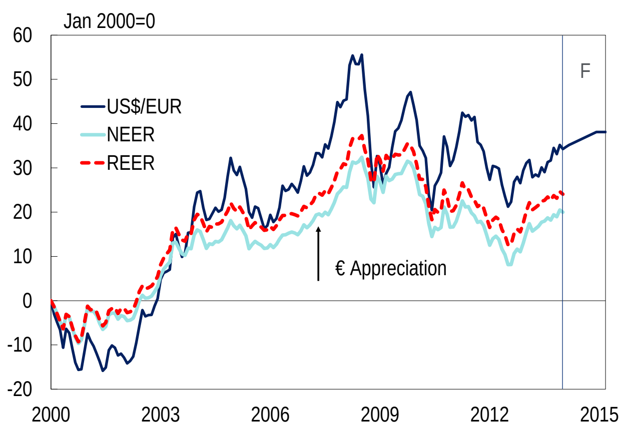
[7] See Euro Area - Bank Credit Data Understate Credit Flows to Non-Financial Firms.

Major uncertainties have receded

Major uncertainties have receded, particularly related to the Eurozone crisis

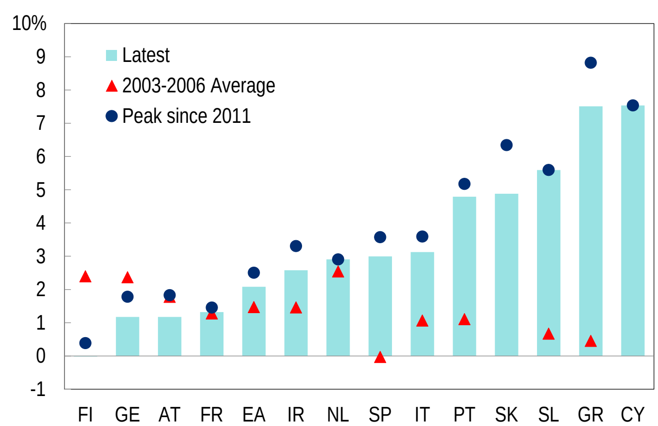
A third factor supporting the upturn in investment in our view is that major uncertainties have receded, as indicated by so-called 'Economic Policy Uncertainty Indices' or financial market measures of uncertainty, such as the Vstoxx or other stress indicators (see Figure 8). The most relevant uncertainties for Eurozone businesses related to the Eurozone crises, and probably affected firms' outlooks in both debtor countries and creditor ((which also tend to be exporter) countries. Other relevant uncertainties, such as those related to the 'fiscal cliff' in the US may also have receded, even though strains in many EMs have probably caused new headaches recently.[8]

Figure 11. Euro — Nominal and Real Effective and USD/EUR Exchange Rate (2000=0), 2000-2015F



Note: NEER and REER are nominal and real effective exchange rate. REER is CPI-deflated. Sources: ECB and Citi Research

Figure 12. Selected Countries — Real Lending Rates for Non-Financial Corporate Loans above €1m (%), 2003-2014



Note: CPI-deflated. Maturity is between 1 and 5 years.
Sources: ECB and Citi Research

Headwinds from strong euro, high debt and external risks

The euro has appreciated by more than 10% in nominal terms and 5% in real terms, which could hinder export growth, or profit growth or both

Firm funding costs are still quite high in the Eurozone average and variable across Eurozone countries, while debt levels also remain high

We have focused mainly on the positive drivers of investment. But of course that does not mean that the well-known headwinds have disappeared. Two are worth highlighting, in particular. First, external conditions could become more adverse, which is particularly relevant as we noted that external demand probably contributed substantially to profits and activity over the last few years. The euro's nominal effective (trade-weighted) exchange rate, as computed by the ECB, is at its highest value since September 2011, having risen more than 10% since mid-2012 (see Figure 11). Since the appreciation of the real (unit labour cost-deflated) exchange rate has been closer to 5%, the damage to export prospects has probably not been fatal so far, but even that depreciation might have cut export growth in the next couple of years by 2-3%pp.[9] Further EM strains and weakness could also hinder the Eurozone investment recovery.

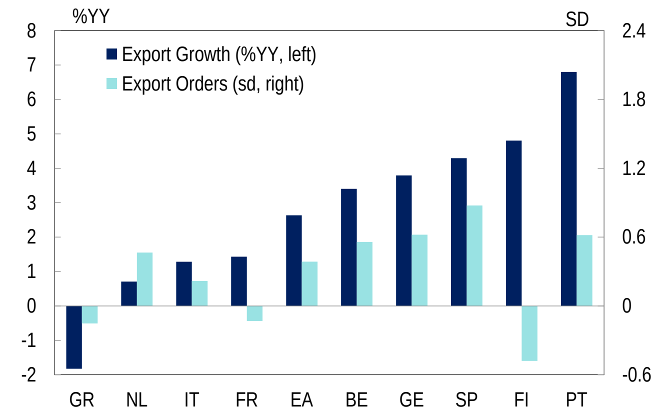
The second key headwind is that, while funding conditions have improved, funding costs and private debt are still quite high. The real (CPI-deflated) borrowing rate for NFCs in the euro area is more than 50bp above its pre-crisis average, and multiples of the pre-crisis averages in virtually all of the EA periphery (see Figure 12). Falling inflation has meant that real borrowing rates have hardly fallen recently and neither has the fragmentation across countries. It also aggravated the burden of debt for EA NFCs (which at around 100% of GDP is hardly down from its peak and 20pp of

[8] See Global Economic Outlook and Strategy - February 2014, Willem Buiter et al, 26 February 2014

[9] See "Why the ECB Should Worry About the Strong Euro", *Euro Economics Weekly*, 1 November 2014.

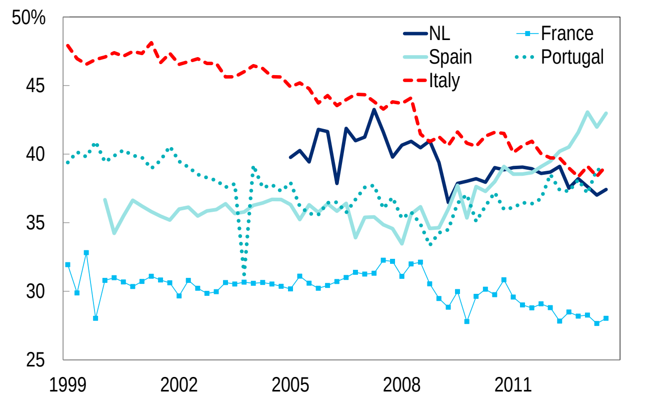
GDP higher than in the US and 10pp higher than in the UK). These headwinds and incomplete structural reforms and competitive adjustment in many EA countries suggest to us that the drivers of the investment upturn are mostly cyclical.[10]

Figure 13. Selected Countries — Real Export Growth (%YY) and Export Orders (sd from LT Average), Latest



Note: For EA, exports are of goods and services.
Sources: Eurostat, European Commission and Citi Research

Figure 14. Selected Countries — Non-Financial Corporate Profit Rates (% of Gross Value Added),1999–2013



Note: Profit is gross operating surplus and mixed income.
Sources: Eurostat and Citi Research

Investment should rebound in most Eurozone countries

The investment recovery is likely to be quite broad-based — we expect growth in equipment investment in most EA countries, except in Greece and perhaps Finland

We expect investment growth of 4-6% in 2014 in Germany, Italy, Portugal and Spain, but only around 1% growth in France

We expect the upturn in equipment investment across Eurozone countries to be quite broad-based. That does not mean that we expect investment recoveries to be equally strong everywhere, as the drivers of the upturn and the headwinds apply to different degrees in Eurozone countries. We already noted above that the depth of the preceding investment fall varied across Eurozone countries. In Portugal and Spain, the fall in investment in recent years was large (even though Spain in particular has already made up some ground), export growth has been buoyant (5% and 6%, respectively in 2013) and order books well-filled (see Figure 13) and the profit shares of businesses have increased sharply (see Figure 14). In Germany, credit constraints are at record-lows according to the ifo credit constraints survey and the economy is growing robustly. In these three countries, we expect equipment investment to rise by 4-6% in 2014, and to continue to grow robustly in 2015 at least in Germany and Spain. In France and Italy on the other hand, NFC profits are falling and profit shares have been falling for a long time. In both countries, export growth in 2013 lagged that in the euro area once more (real exports of goods and services grew by 0.6% in France and were flat in Italy vs 1.3% growth in the Eurozone).

Yet we think that even in these two countries, business investment is likely to grow in 2014-15. At least external demand is beginning to recover a little, with continued improvements in export orders over the last 12 months and growth in Q4 quarterly real exports of 1.2% in both countries, exactly in line with the Eurozone average. In Italy, survey assessments of export orders are in fact now above their long-term average, while they remain below in France. Given the government initiative to speed up paying arrears amounting to 1.5pp of GDP (and thereby easing liquidity constraints of some firms) and the very large fall in equipment investment in recent years in Italy, we expect a more substantial rebound there (of almost 4% pa in 2014-15).[11] In France, we only expect an increase of slightly above 1% pa. Among the few countries where continued falls in investment still appear likely for some time are Greece and perhaps Finland.

[10] See also "Internal Devaluation in the Periphery", *Euro Economics Weekly*, 7 March 2014, Citi

[11] See also Italy - Renzi Ready to Embark on Expansionary Fiscal Policy

Key Economic Indicators (17 March – 21 March 2014)

		Forecast	Last
Monday 17 March		Forecast	Last
09:00	Norway: Trade Balance, Feb		
10:00	Euro Area: HICP, Feb Final	0.7% YY	0.8% YY
Tuesday 18 March		Forecast	Last
06:45	Switzerland: SECO Quarterly Economic Forecasts, Mar		
07:00	EU-27: New Car Registrations, Feb		
08:00	Spain: Labour Costs, 4Q		
09:00	Italy: Trade Balance, Jan		
10:00	Germany: ZEW Economic Sentiment, Mar	57.7	55.7
	ZEW Current Situation, Mar	53.0	50.0
10:00	Euro Area: Trade Balance, Jan		
Wednesday 19 March		Forecast	Last
07:45	France: Current Account, Jan		
09:30	UK: LFS Unemployment 3-M Average, Nov-Jan	-54,000 QQ, 7.2% Rate	-125,000 QQ, 7.2% Rate
	LFS Unemployment Rate – Single Month, Jan	6.9% Rate	7.2% Rate
09:30	UK: Claimant Count Unemployment, Feb	-25,000 MM, 3.5% Rate	-27,600 MM, 3.6% Rate
09:30	UK: MPC Minutes		
09:30	UK: BoE Agents' Summary of Business Conditions, Mar		
10:00	Euro Area: Labour Cost Index, 4Q		
10:00	Euro Area: Construction Output, Jan		
11:00	Ireland: Trade Balance, Jan		
c. 12:30	UK: 2014 Budget presented to Parliament by Chancellor Osborne		
18:00	US: FOMC Outcome		
Thursday 20 March		Forecast	Last
	European Council of Heads of State and Government, Brussels (Mar 20-21)		
07:00	Germany: Producer Prices, Feb	-0.1% MM, -1.0% YY	-0.1% MM, -1.1% YY
08:30	Switzerland: Swiss National Bank Monetary Policy Assessment		
08:30	Netherlands: Consumer Confidence, Mar		
08:30	Netherlands: Unemployment, Feb		
10:00	Italy: Current Account, Jan		
11:00	UK: CBI Output Expectations, Mar	+30%	+28%
	CBI Order Books, Mar	+5%	+3%
	CBI Selling Prices, Mar	+12%	+17%
14:00	Belgium: Consumer Confidence, Mar		
Friday 21 March		Forecast	Last
	European Council continued		
09:00	Italy: Industrial Orders, Jan		
09:00	Euro Area: Balance of Payments, Jan		
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Intervention), Feb	£8.5 Billion Deficit	Year Ago: £9.0 Billion Deficit
	Fiscal Year to Date, Apr-Feb	Apr13-Feb14: £99.2 Billion Deficit	Apr12-Feb13: £103.6 Billion Deficit
10:00	Italy: Contractual Wages, Feb		
15:00	Euro Area: Consumer Confidence, Mar Flash	-11.5	-12.7
During The Weekend			
Mar 23	France: Municipal Elections – First Round		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
Mar 17 10:00 London Time	*HICP, Feb Final*	Forecast: 0.7% YY	Prior: 0.8% YY
	With most of the country inflation data for February now available, we think there are good chances that the euro area annual flash estimate is revised lower to 0.7% YY, from 0.8% previously reportedly (the unrounded flash estimate was 0.77% YY). HICP core inflation (ex-unprocessed food and energy) is likely to rise back to 1.1% YY, from 1.0% YY in January, mainly driven by a change in the seasonal pattern in clothing prices, as well as some delayed pass-through of the French VAT rate hike. We expect the headline and core rates to decline again in March, as a later timing of Easter this year relative to 2013 should create favourable base effects in holiday-related prices.		
Mar 21 15:00 London Time	*Consumer Confidence, Mar Flash*	Forecast: -11.5	Prior: -12.7
	We expect March consumer sentiment to reverse the small decline (by 0.1sd) recorded in February. The index remains just about in line with its long-run average and we think there is still room for further cyclical improvement. The unemployment rate prospects deteriorated slightly in the past three months but we expect the improvement in final demand to reverse this trend in coming months.		
Germany			
Mar 18 10:00 London Time	*ZEW Economic Sentiment, Mar*	Forecast: 57.7	Prior: 55.7
	ZEW Current Situation, Mar	Forecast: 53.0	Prior: 50.0
	After two large increases in the current conditions components and two declines in the expectations indicator, we expect increases in both components of the ZEW survey of financial analysts in March, as German data have generally been surprising on the upside and markets have shaken off the turmoil in the Ukraine and Russia quite quickly. The increase would leave the current conditions indicator at 1.3 std above its long-term average (and at the highest level since August 2011) and the expectations index 1.5 std above its LT average		
Mar 20 07:00 London Time	*Producer Price Index, Feb*	Forecast: -0.1% MM, -1.0% YY	Prior: -0.1% MM, -1.1% YY
	We expect producer prices to tick down on a monthly basis and remain roughly 1% lower than a year before. As in previous months, we suspect energy prices to be the main driver of the downward pressure on prices.		
United Kingdom			
Mar 19 09:30 London Time	*LFS Unemployment, 3-Mo Avg, Nov-Jan*	Forecast: -54,000 QQ, 7.2% Rate	Prior: -125,000 QQ, 7.2% Rate
	LFS Unemployment, Single Month, Jan	Forecast: 6.9% Rate	Prior: 7.2% Rate
	Claimant Count Unemployment, Feb	Forecast: -25,000 MM, 3.5% Rate	Prior: -27,600 MM, 3.6% Rate
	The single month jobless rate was 7.0% in October, 7.4% in November and 7.2% in December. The January figure will be largely the same group of people as surveyed in October and we look for the single month figure to fall only slightly to 6.9%, which would be the lowest since early 2009. Such a figure would leave the three-month average at 7.2% but pave the way for this three-month average to fall next month.		
Mar 20 22:00 London Time	*CBI Industrial Trends Survey, Mar*		
	Monthly Output Expectations Net Balance, Mar	Forecast: +30%	Prior: +28%
	Monthly Order Books Net Balance, Mar	Forecast: +5%	Prior: +3%
	Monthly Selling Prices Net Balance, Mar	Forecast: +12%	Prior: +17%
	The last month's CBI survey showed broad-based strength in output, orders and export orders and we expect similar strength this month. All the signs are that manufacturing output is growing strongly.		
Mar 21 09:30 London Time	*Public Sector Net Borrowing, Feb (Ex RM, APF and Financial Intervention)*	Forecast: £8.5 Billion Deficit, £99.2 Billion Deficit Fiscal Year To Date	Year Ago: £9.0 Billion Deficit, £103.6 Billion Deficit Fiscal Year To Date
	Over the first ten months of the fiscal year, the fiscal deficit fell by £4.0bn from the same period a year earlier. We expect a further modest improvement in the February data, aided perhaps by the drift of some self-assessment income tax receipts into the February data from January.		

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

Key Economic Indicators (24 March – 28 March 2014)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Feb (by Mar 28)		
07:00	UK: Nationwide House Prices, Mar		
07:00	Germany: Retail Sales, Feb (by Mar 31)		
Monday 24 March		**Forecast**	**Last**
09:00	Euro Area: Flash PMIs, Mar		
	Greece: Current Account, Jan		
	Portugal: Current Account, Jan		
Tuesday 25 March		**Forecast**	**Last**
07:45	France: Business Confidence, Mar		
08:00	Spain: Producer Prices, Feb		
08:30	Netherlands: Consumer Spending, Jan		
08:30	Netherlands: Producer Confidence, Mar		
08:30	Sweden: Producer Prices, Feb		
09:00	Germany: ifo Business Climate, Mar		
09:30	UK: Consumer Prices, Feb		
	Retail Prices, Feb		
09:30	UK: Producer Input Prices, Feb		
09:30	UK: Producer Output Prices, Feb		
11:00	UK: CBI Retail Survey, Mar		
Wednesday 26 March		**Forecast**	**Last**
07:00	Germany: GfK Consumer Survey, Apr		
08:00	Sweden: Business and Consumer Surveys, Mar		
08:30	Sweden: Trade Balance, Feb		
09:00	Italy: Retail Sales, Jan		
10:00	Italy: Consumer Confidence, Mar		
17:00	France: Jobseekers, Feb		
Thursday 27 March		**Forecast**	**Last**
07:45	France: Consumer Confidence, Mar		
08:30	Sweden: Household Lending, Feb		
09:00	Norway: Norges Bank Monetary Policy Outcome & Monetary Policy Report		
09:00	Italy: Business Confidence, Mar		
09:00	Euro Area: M3, Feb		
09:30	UK: Retail Sales Volumes, Feb		
Friday 28 March		**Forecast**	**Last**
07:45	France: Consumer Spending, Feb		
07:45	France: Producer Prices, Feb		
08:00	Spain: HICP Flash, Mar		
08:00	Spain: Retail Sales, Feb		
08:30	Sweden: Retail Sales, Feb		
09:00	Norway: Unemployment, Mar		
09:30	UK: Balance of Payments, 3Q		
09:30	UK: GDP, 4Q (Third Release)		
09:30	UK: Service Sector Output, Jan		
10:00	Euro Area: Business and Consumer Surveys, Mar		
13:00	Germany: Consumer Prices, Mar Flash		
During The Weekend		**Forecast**	**Last**
Mar 30	France: Municipal Elections, Second Round		

Sources: National statistical offices, central banks and Citi Research

Title	Author	Date
Euro Area – Sovereign Debt Update		
ECB Begins Verbal Intervention Against Strong Euro	European Economics Team	Mar 14, 2014
Italian PM Presents Expansionary Fiscal Plans	European Economics Team	Mar 13, 2014
ECB's Constancio on More Precise Forward Guidance	European Economics Team	Mar 12, 2014
ECB to Unveil Details of AQR Methodology	European Economics Team	Mar 11, 2014
Ecofin Meeting Aims for Revised Agreement on SRM	European Economics Team	Mar 10, 2014
Euro Area		
Italy - Renzi Ready to Embark on Expansionary Fiscal Policy	Giada Giani	Mar 13, 2014
ECB - Happy to Stay Put, but Keeps Bias to Ease	Guillaume Menuet	Mar 6, 2014
Ireland – After the Programme	Michael Saunders	Mar 4, 2014
Euro Area - A Higher-Than-Expected HICP Inflation Print	Giada Giani	Feb 28, 2014
European Economic Forecast Highlights - February 2014	Ann O'Kelly	Feb 27, 2014
Euro Area - Bank Credit Data Understate Credit Flows to Non-Financial Firms	Ebrahim Rahbari/Antonio Montilla	Feb 27, 2014
Euro Area - German Constitutional Court Leaves OMT in Limbo	Ebrahim Rahbari	Feb 7, 2014
ECB: No Change, But Action Likely In March -	Ebrahim Rahbari	Feb 6, 2014
Euro Economics Weekly		
Internal Devaluation in the Periphery	Giada Giani	Feb 7, 2014
ECB to Cut: Beware the (Early) Ides of March	Guillaume Menuet	Feb 28, 2014
German Inflation: Lower For a Little Longer	Ebrahim Rahbari	Feb 21, 2014
Could Eurozone Politics Return to the Fore?	Giada Giani	Feb 14, 2014
ERS: An Alternative Solution to OMT?	Guillaume Menuet	Feb 7, 2014
The Euro Area Now and Japan Then: Separated by One Large Shock	Ebrahim Rahbari	Jan 31, 2014
Spain Is Becoming More German	Giada Giani	Jan 24, 2014
Belgium: Politics the Likely Main Wild Card in 2014	Guillaume Menuet	Jan 17, 2014
Germany 2014 Outlook: Recovery And Rebalancing	Ebrahim Rahbari	Jan 10, 2014
2014 Outlook: GDP Risks, Credit Dynamics and Inflation Update	European Economics Team	Jan 6, 2014
Spain: 2014 Outperformer?	Giada Giani	Dec 13, 2013
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
Chief Economist Publications		
Global Economic Outlook and Strategy - February 2014	Willem Buiter	Feb 26, 2014
Scandi		
Scandi Economics Update	Tina Mortensen	Mar 14, 2014
Sweden - Inflation Undershoot Narrows, Riksbank Likely On Hold In April	Tina Mortensen	Mar 11, 2014
Norway - Core Inflation Stabilizes Nearer to Norges Bank's Forecast	Tina Mortensen	Mar 10, 2014
UK		
UK - Services PMI Points to Continued Strong Growth	Michael Saunders	Mar 5, 2014
UK - More Bullish Growth Indicators	Michael Saunders	Mar 3, 2014
UK - UK ECI Highest Since Late 1980s	Michael Saunders	Feb 27, 2014
UK - YouGov Reports Lower Inflation Expectations	Michael Saunders	Feb 27, 2014
UK Economics Weekly		
UK — Scottish Independence: Will It Happen? What Would Be The Implications? -	Michael Saunders	Mar 7, 2014
Budget Preview — Building Towards the Election	Michael Saunders	Feb 28, 2014
Still Bullish on UK Growth	Michael Saunders	Feb 21, 2014
What Does the "Next Phase of Forward Guidance" Amount To?	Michael Saunders	Feb 14, 2014
How Vulnerable Is the UK to EM Strains?	Michael Saunders	Feb 7, 2014
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Notes

Appendix A-1

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