Euro Economics Weekly

Spain's External Rebalancing

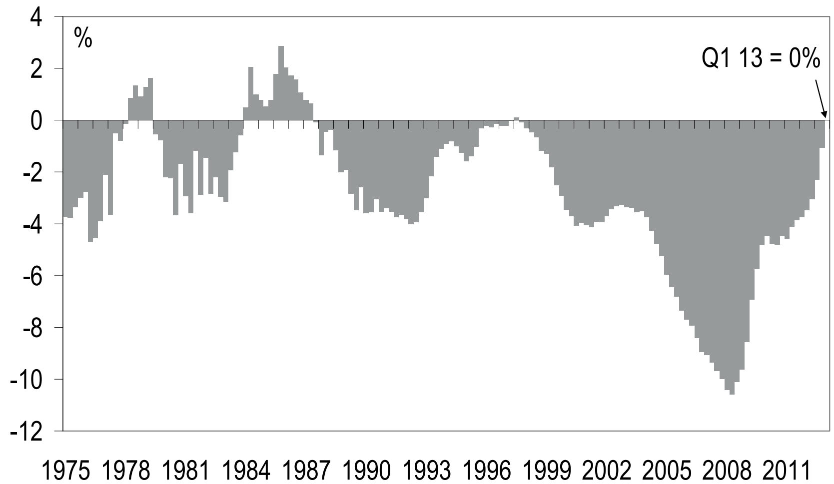
- Spain's recent positive export performance is unlikely to be able to bring Spain back to reasonable real and nominal GDP growth any time soon in our view, as exports still account for too small a share of GDP to offset the drags from domestic demand. Competitiveness gains may well continue, but we do not think they are going to turn Spain into Ireland.
- The collapse in imports – which mirrors the fall in domestic demand – explains a larger share of the improvement in the trade and current account balances in real terms. We find evidence of some ongoing import substitution with domestic products, and some components of domestic demand will probably not recover for years. But a slowdown in the pace of the external rebalancing is to be expected, exposing renewed risks around the sustainability of a still very negative net external position (Giada Giani, see page 2).

Figure 1. Citi Market Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
3Q 13	1.27	0.50	1.40	0.87	0.50	66	8.58	0.75	7.46	1.50	1.26	0.00	-75
3Q 14	1.25	0.25	1.50	0.87	0.50	91	8.53	0.75	7.33	1.75	1.27	0.00	-85

Source: Citi Research

Figure 2. Spain — Current Account Balance (Pct. of GDP), 1975-2013Q1



Sources: Haver Analytics, Bank of Spain, OECD and Citi Research

Giada Giani
+44-20-7986-3281
giada.giani@citi.com

Guillaume Menuet
+44-20-7986-1314
guillaume.menuet@citi.com

Michael Saunders
+44-20-7986-3299
michael.saunders@citi.com

Ebrahim Rahbari
+44-20-7986-6522
ebrahim.rahbari@citi.com

Ann O'Kelly
+44-20-7986-3297
ann.okelly@citi.com

For all distribution enquiries regarding Citi Economics research, including access via Citi websites and via third party distribution channels, please contact michael.saunders@citi.com or jan.maguire@citi.com

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Giada Giani

Spain's External Rebalancing

Spain posts first trade surplus in decades

Recently published data showed that Spain has balanced its current account in the 12-months ending March-13 for the first time since the mid-Nineties (see Figure 2 on the front page). This is a remarkable improvement in Spain's external imbalances since Q2 2008, when the current account reached a deficit of 10.6% of GDP, and an improvement relative to an average current account deficit of 5.2% of GDP since the start of EMU in 1999. The main driver behind this improvement has been a shrinking trade deficit, in particular merchandise trade: the goods trade balance has shrunk by 7pp of GDP since the trough in 2008 and it posted the first monthly surplus in March since records began in 1990. All other components of the current account also improved, albeit by a far smaller extent[1].

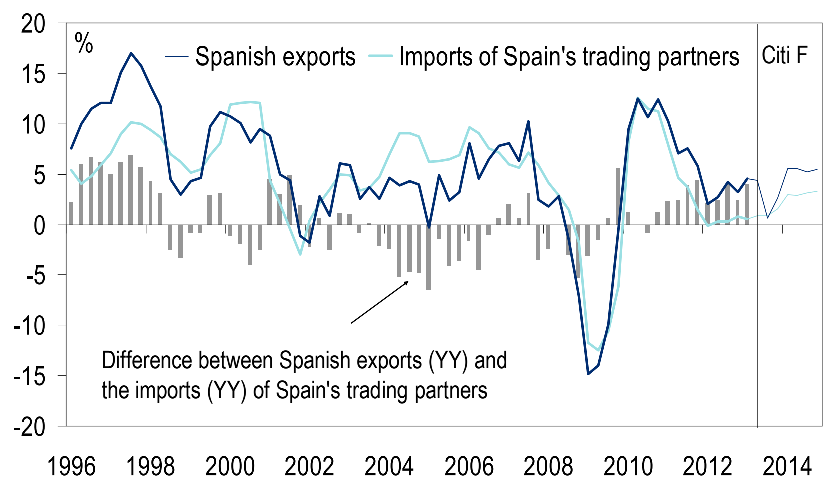
In this piece we address two issues: first, whether Spain's recently positive export performance, which contributed to the closing of the trade balance, is able to drag the economy out of recession in the next few quarters. Second, we try to assess to what extent the fall in imports – the main driver of the trade and current account improvements in real terms over the past five years – is of a structural nature and hence conducive to an effectively more sustainable external financial position.

The Spanish positive export performance

Falling imports accounted for a larger share than exports in the narrowing of the trade balance in real terms

The sharp narrowing of the trade balance since 2008 has been driven both by rising exports and a sharp fall in imports, reflecting the collapse in domestic demand. Taking the national accounts data as the most comprehensive measure of net trade (since they include both goods and services), they show that nominal exports in Q1 13 were 18% higher relative to the widest trade deficit print in Q1 08, while nominal imports were 13% lower. This suggests a fairly similar contribution from exports and imports to the reduction in the nominal trade deficit. However, in real terms exports rose at a much more subdued pace (+10% from Q1 08) and imports fell by a greater extent (-22%), indicating that the fall in import volumes has been by far more important in explaining the reduction in the trade balance than the growth in export volumes.

Figure 3. Spain – Goods and Services Exports and External Demand Growth (YY), 1996-2014F



Sources: Haver Analytics and Citi Research

[1] The services trade balance got marginally better – from an already positive position of 2.2% of GDP in 2008 to 3.7% in Q1 13 – and the income deficit narrowed from -3.3% of GDP in Q4 08 to -1.5% of GDP in Q1 13. Current transfers posted a smaller deficit of -0.3% of GDP in Q1 13 relative to -0.8% of GDP in 2008.

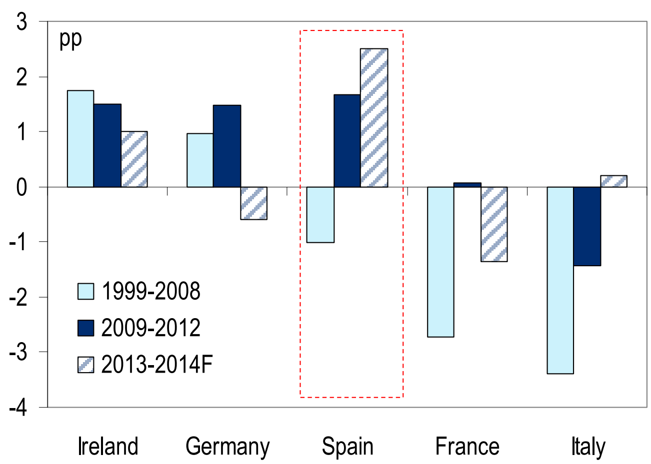
Export performance has improved in the past couple of years, definitely more than in other euro countries like Italy

This statement does not mean to deny the indeed positive export performance of the past couple of years. We use a weighted average of import growth rates of Spain's 12 largest export markets to track external demand[2] and we note that since early 2011 Spanish exports have tended to outgrow its export markets by an average annual rate of around 2% (see Figure 3). This is a clear reversal of the prevailing trend of the period between 1999 and 2009, when exports grew on average by some 0.5pp *less* than imports in the main trading partners. This reversal is particularly noticeable when compared with other euro area economies, most clearly Italy, which continues to lose market shares, although at a somewhat slower pace than in the previous decade. According to this indicator of export performance (as calculated by the OECD for all OECD countries), since 2009 Spanish exports have done at least as well as Germany and Ireland (see Figure 4).

Although Spanish export growth is somewhat capped by slow-growing export markets

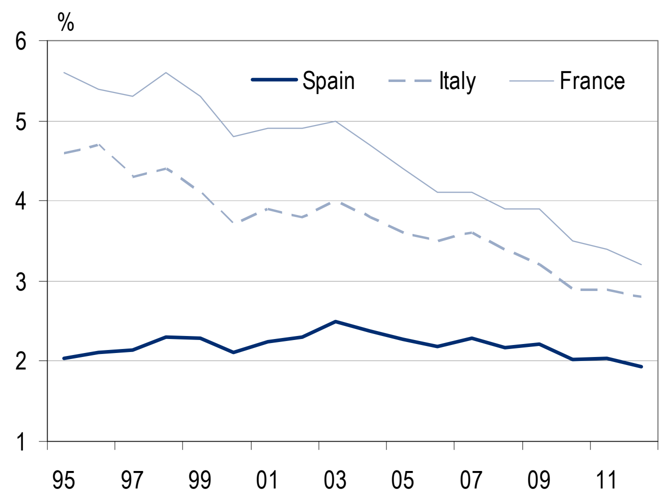
One caveat to mention for this indicator is that Spanish exports have tended to be more oriented towards slow-growing markets compared with other euro area countries, with a higher weight for European markets. According to the OECD measure, Spain's export markets (in real terms) have been growing less fast than Germany's or Italy's (by some 0.5pp per annum in the 2009-2012 period). This is understandable, given that France is the first destination market for Spanish exports, accounting for 17% of total merchandise exports, with another 8% going to Italy and another 7% to Portugal. However, this evidence does not invalidate the general conclusion that Spain has been gaining market share in its exporting markets in the past couple of years and that this stands in contrasts with a still declining trend for Italy or an unchanged position for France (see Figure 4).

Figure 4. Selected Euro Area Countries – Export Performance, 1999-2014F



Note: Export performance is measured as growth in exports relative to the growth of the country's export market.
Sources: Haver Analytics, OECD and Citi Research

Figure 5. Selected Euro Area Countries – Export Share As Pct. of World Exports, 1995-2012



Sources: Haver Analytics, OECD and Citi Research

[2] The 12 largest exporting markets of Spain are France, Germany, Italy, Portugal, UK, US, Netherlands, Belgium, Morocco, Switzerland, Turkey and China, listed in order of their share in total exports. This indicator tracks closely the broader export demand indicator computed by the OECD which is available on an annual basis.

Export performance likely supported by gains in unit labour costs…

The improved export performance likely reflects, at least in part, the relatively larger gains in cost competitiveness. Spanish unit labour costs have fallen by some 8% to 10% since the peak in 2009 in the total economy, with a far larger adjustment in the manufacturing sector, although this has been largely due to gains in productivity, because of massive layoffs, rather than actual wage declines. Yet, Italian and French ULC growth has resumed after the 2009-10 slowdown and it is currently running at 2.5% and 2.0% YY, respectively (average of the past four quarters).

…but also by other non-price competitiveness, which had supported exports also in pre-crisis years

Better Spanish export performance may also have been driven by non-price competitiveness improvements. It is worth mentioning that, despite Spain's significant losses in price competitiveness in the first decade of the euro (ULC outgrew the euro area average by some 1.5pp per annum between 2001 and 2008), competitiveness has never been a major weakness for Spanish exporting firms. In contrast to many other European countries, Spain has managed to maintain its export shares of world exports almost unaltered in the past 20 years (see Figure 5). This feature (sometimes referred to as the "Spanish paradox") has been explained by several factors, including the duality of the production sector, with exporting firms being more flexible and efficient than the domestically-oriented ones, and by a particular geographical and product specialisation.[3] Relatively higher efficiency of exporting firms may also explain why as soon as domestic demand collapsed in 2008, they may have been able to re-direct their efforts towards foreign markets, and this may explain the relatively quick improvement in the overall export performance.

Further competitiveness gains are likely to come…

Overall, we reckon Spain's export competitiveness is likely to continue improving, as the ongoing reduction in ULC is expected to continue and it would add to a probably already good non-price competitive position. Furthermore, falling ULC are likely to feed into a lower level of domestic inflation, reducing Spanish prices relative to the rest of the euro area. This is important for Spain given the large share of the tourism sector in value added and exports.

…but exports remain too small as a share of GDP to offset negative domestic demand

Yet, the strong export performance is unlikely to offset the very negative domestic downside forces and lift Spain back to reasonable real and nominal GDP growth in our view. At 32.2% of GDP (2012), exports (in nominal terms) are simply (still) a too small share of GDP to counteract the negative drag from domestic demand, which we think is likely to continue. The share of exports in GDP is broadly similar to other, similar-sized, European economies like Italy (30.3%) or France (27.4%), but it is significantly smaller than Germany (51.6%) and much smaller than in small open economies like Ireland (108.3%) or Belgium (84.8%) (see Figure 6). Spanish exports could still grow somewhat faster than their export markets as they did in recent quarters, but the impact of any percentage point of extra export growth on GDP growth in Spain would still be significantly smaller than in countries where exports account for a much larger share of the economy. Competitiveness gains are likely to continue, but we do not believe they are going to turn Spain into Ireland.

The import collapse: cyclical or structural?

Import collapse mirrors a mix of structural and cyclical factors

As we noted above, imports have been more important than exports in explaining the significant swing in the trade balance in real terms, causing the contributions of net exports to GDP growth to move from pre-2008 negative readings of 0.3% (2002-2007 average) to recently positive figures (+0.6pp on average since 2009). The import fall has mainly mirrored the collapse in domestic demand after the bursting of the housing and credit bubbles, but to some extent also the cyclical downturn. The extent to which the fall in imports is permanent or will reverse if and when domestic

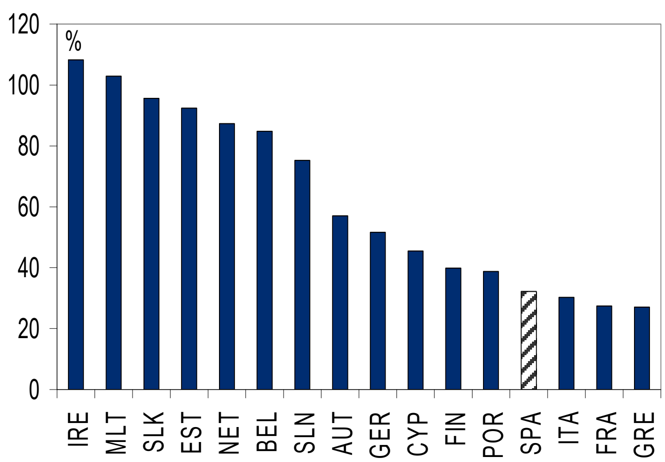
[3] See, for example, "EU Commission Staff Working Document – In-Depth Review of Spain", May 2013.

demand eventually recovers is key for deriving some estimate of the cyclically-adjusted current account. The fall in imports can be permanent either because its determinants – mainly exports and domestic demand – have moved structurally lower or because the import elasticity of these determinants has structurally declined (i.e., import substitution has increased). Increased import substitution would be a sign of better competitiveness of domestic products relative to imports and hence could be considered a structural feature.

Evidence suggests import content of final demand has been falling…

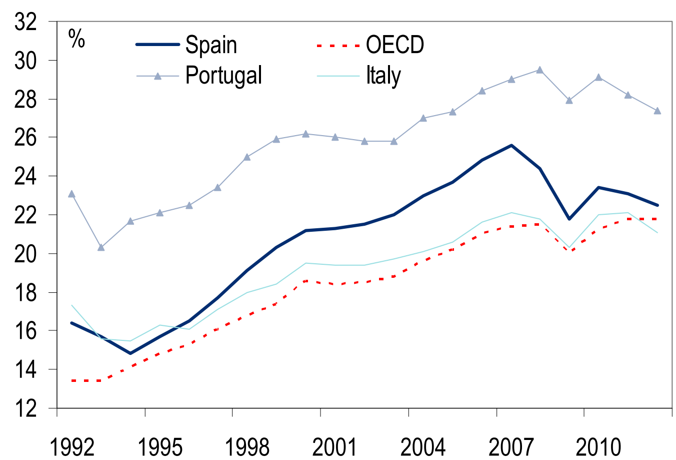
We used our import equation model[4] to assess whether there has been any "unexplained" dynamic in imports over recent quarters relative to the model estimated parameters up to Q4 09. We find some evidence that actual imports have been somewhat weaker than the model projections in the past eight quarters (since Q1 11), suggesting that some (albeit small) import substitution may have been happening over that period[5]. A similar conclusion is suggested by the OECD indicator on import penetration (share of imports in final total expenditure, i.e., domestic demand plus exports). Import penetration fell across all OECD countries during the 2008-09 recession due to the collapse in global trade, but has recovered since then to pre-crisis levels in most countries. In contrast, import penetration has continued to fall from the 2007 peak in Spain and in 2012 it stood 3.1pp lower than the 2007 peak. The fall has been larger than in other euro area countries experiencing a similar domestic-driven recession (-2.1pp in Portugal, -1.4pp in Ireland, -1.0pp in Italy, but -5.4pp in Greece) (see Figure 7).

Figure 6. Euro Area – Nominal Exports as Pct. of Nominal GDP, 2012



Sources: Haver Analytics and Citi Research

Figure 7. Selected OECD Countries – Import Penetration, 1992-2012



Note: import penetration is defined as goods and services import volume as a percentage of total final expenditure, constant prices.
Sources: OECD and Citi Research

…partly suggesting a different composition of domestic demand and partly some import substitution

Part of the reduction in import penetration is certainly related to a different composition of final total expenditure in the post credit and housing bubble era, as final demand is more oriented towards basic goods, like food, which are usually more domestically-sourced rather than durable consumer goods or investment goods. This likely happened also in other periphery countries such as Ireland or

[4] An error-correction equation, in which real import growth is dependent on domestic demand and exports.

[5] The gap between the actual and the fitted values of real imports is on average negative albeit fairly small (some 1.5%-2.0% on average in the past 4 quarters), suggesting that the shift in import substitution may have been rather limited.

Portugal. However, the larger-than-normal decline in import penetration in the case of Spain may suggest that part of it is explained by generally more competitive domestic products versus imported ones – indicating import substitution may indeed be taking place. It can be argued that perhaps half of the decline in import penetration may be considered a structural change in the import content of final demand and expected to last when the recovery eventually materialises.

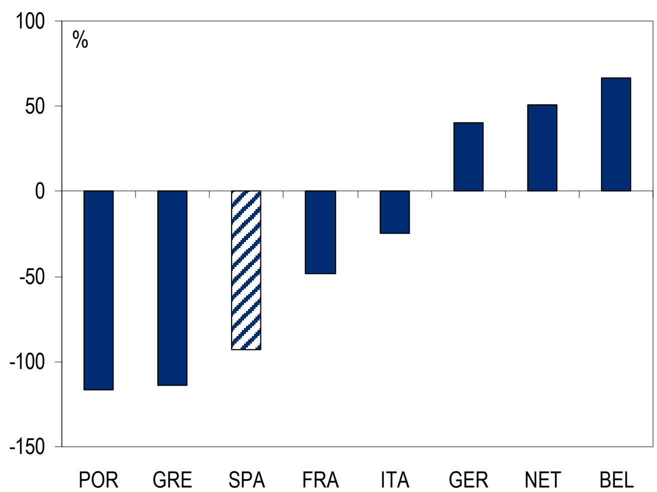
The large part of the import collapse is due to lower domestic demand, especially construction investment

Yet, real imports have collapsed by more than 24% since Q1 08, against a drop in final total expenditure of 11%, implying that a still large chunk of the decline in imports is due to an actually much lower level of final demand, rather than lower import penetration. In particular, domestic demand fell by 16.5% since Q1 08, of which about 9pp were accounted for plummeting construction investment, 5.3pp by falling private consumption and 2.2pp by falling business investment.

A large part of this domestic demand is unlikely to return to positive growth for years, in our view

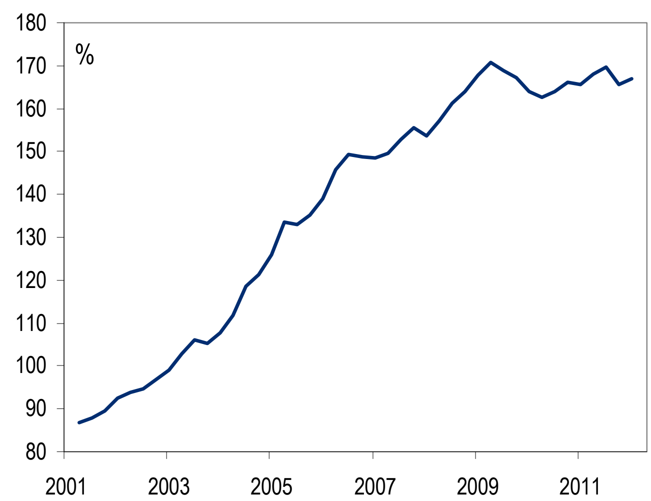
Assessing to what extent the level of domestic demand will eventually recover (or the level at which it will bottom) is difficult, given the significant structural re-adjustment of the economy. In fact, the estimates of Spain's output gap vary considerably, ranging for 2013 from the OECD's estimate of -9.5%, to the IMF's of -5.4% and the EU Commission's estimate of -4.6%. We lean towards a smaller measure of output gap, as we reckon the current re-balancing of the economy entails a significant destruction of production capacity and hence a much lower potential GDP level. Construction investment – the main driver of the fall in imports – still has quite some room for further decline and we reckon it will not show signs of growth for the next few years. Similarly, total private consumption will likely remain structurally lower than pre-crisis levels, especially given a smaller population relative to the boom years.

Figure 8. Selected Euro Area Countries – Net International Investment Position (Pct. of GDP), 2012



Sources: Haver Analytics, Eurostat and Citi Research

Figure 9. Spain – Gross External Debt (Pct. of GDP), 2001-2012



Sources: Haver Analytics, Bank of Spain and Citi Research

But the pace of reduction of the trade and current account balances is likely to slow down in coming quarters…

While import growth is likely to remain subdued (or still negative) for quite some time, we think that the speed of adjustment in domestic demand (and hence in imports) is likely to slow down mainly because of less incremental fiscal tightening. Since the elasticity of imports to domestic demand is about 2.5 times higher than to exports, the pace of improvement in the trade balance – and in the current account

balance – is likely to slow down relative to the recent past and possibly to reverse, when and if some recovery in domestic demand materialises.

…leaving a still very negative net international investment position

The level at which the current account will eventually stabilise is crucial in assessing the overall sustainability of Spain's external position. Despite the amelioration in the "flows", Spain's "stock" position towards the rest of the world is still very negative: the net international investment position (IIP) stood at -93% of GDP in Q4 12 – very high in cross-country comparisons – and the external debt was 167% of GDP (see Figures 8 and 9). The negative net IIP is well beyond the threshold of -35% envisaged by EU macroeconomic imbalances scoreboard. The external debt-to-GDP has recently stabilized but this is partly because the depressed economy has reduced imports so much. If and when domestic demand ever recovers and lifts real and nominal GDP growth enough to stabilise the fiscal position, we suspect the external imbalances may start raising concerns again.

Key Economic Indicators (17 June – 21 June 2013)

Monday 17 June		Forecast	Last
	G-8 Summit, Lough Erne, N. Ireland, to June 18		
09:00	Italy: Trade Balance, Apr		
09:00	Norway: Trade Balance, May		
10:00	Euro Area: Trade Balance, Apr		
10:00	Euro Area: Labour Cost Index, 1Q		
Tuesday 18 June		**Forecast**	**Last**
	G-8 Summit continued		
07:00	EU-27: New Car Registrations, May		
09:30	UK: Consumer Prices, May	0.0% MM, 2.6% YY	0.2% MM, 2.4% YY
	CPI ex Food, Drink, Tobacco, Energy, May	0.1% MM, 2.0% YY	0.1% MM, 2.0% YY
	Retail Prices, May	0.2% MM, 3.2% YY	0.3% MM, 2.9% YY
	RPIX – Ex Mortgages, May	0.2% MM, 3.1% YY	0.3% MM, 2.9% YY
09:30	UK: Producer Input Prices, May	-0.7% MM, 1.8% YY	-2.3% MM, -0.1% YY
09:30	UK Producer Output Prices, May	0.1% MM, 1.5% YY	-0.1% MM, 1.1% YY
	Excluding Food, Drink, Tobacco, Energy, May	0.1% MM, 0.9% YY	0.1%MM, 0.8% YY
10:00	Germany: ZEW Current Situation, Jun	15.0	8.9
	ZEW Economic Sentiment, Jun	41.0	36.4
Wednesday 19 June		**Forecast**	**Last**
08:00	Sweden: Consumer Confidences, Jun	4.2	3.6
	Manufacturing Confidence, Jun	-11	-15
08:30	Sweden: Unemployment Rate, May	8.6% NSA, 8.3% SA	8.7% NSA, 8.4% SA
09:30	UK: MPC Minutes		
09:30	UK: BoE Agents' Summary of Business Conditions, Jun		
10:00	Euro Area: Construction Output, Apr		
14:00	Belgium: Consumer Confidence, Jun		
19:00	US: FOMC Outcome		
Thursday 20 June		**Forecast**	**Last**
07:00	Switzerland: Trade Balance, May		
07:00	Germany: Producer Prices, May	-0.4% MM, 0.0% YY	-0.2% MM, 0.1% YY
08:30	Switzerland: SNB Monetary Policy Assessment & Press Conference		
08:30	Netherlands: Consumer Confidence, Jun		
08:30	Netherlands: Unemployment, May		
09:00	Norway: Norges Bank Interest Rate Decision	Unchanged at 1.50%	1.50%
09:00	Italy: Industrial Orders, Apr		
09:00	Euro Area: Manufacturing PMI, Jun Flash	48.8	48.3
	Services PMI, Jun Flash	47.7	47.2
	Composite PMI, Jun Flash	48.1	47.7
09:30	UK: Retail Sales Volumes, May	1.0% MM, 0.3% YY	-1.3% MM, 0.5% YY
10:00	Italy: Current Account, Apr		
11:00	UK: CBI Industrial Trends Survey – Output Expectations, Jun	+15%	+18%
	CBI Order Books, Jun	-20%	-20%
	CBI Selling Prices, Jun	+3%	+4%
14:00	Euro Area: Eurogroup Meeting of EA Finance Ministers, Luxembourg		
15:00	Euro Area: Consumer Confidence, Jun Flash	-21.5	-21.9
Evening	UK: Annual Mansion House Dinner with speeches from Chancellor Osborne and BoE Governor King		
Friday 21 June		**Forecast**	**Last**
	EU: EcoFin Meeting of EU Finance Ministers, Luxembourg		
08:30	Netherlands: Consumer Spending, Apr		
09:00	Italy: Contractual wages, May		
09:00	Euro Area: Balance of Payments, Apr		
09:30	UK: Public Sector Net Borrowing – PSNB ex, May		
	Fiscal Year to Date, Apr-May		Apr-May 2012: £-3.3bn (Surplus)

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Jun 20	***Manufacturing PM, Jun Flash***	**Forecast: 48.8**	**Prior: 48.3**
09:00	***Services PMI, Jun Flash***	**Forecast: 47.7**	**Prior: 47.2**
London Time	***Composite PMI, Jun Flash***	**Forecast: 48.1**	**Prior: 47.7**

We expect only a modest gain in the manufacturing PMI in June, after a substantial rebound in May. The flooding in central Europe, especially south of Germany, may have had an impact on some production lines, but the underlying positive momentum in global trade may have still provided some support to euro area output. The services PMI was probably flat, confirming a more subdued tone relative to the manufacturing sector due to higher reliance on weak domestic demand. The composite PMI probably edged higher to 48.1. At these levels, the composite PMI is consistent with GDP quarterly growth at around zero.

Jun 20 15:00 London Time	***Consumer Sentiment, Jun Flash***	**Forecast: -21.5**	**Prior: -21.9**

Household sentiment likely improved a little bit more in June, although to still minus 1.2 standard deviations below its long-run average, along the mild upward trend of the past few months. We think this mainly reflects the recent decline in inflation and hence a better assessment of households' future financial situation. Labour market assessment has also improved slightly in the last few months and this trend likely continued in June thanks mainly to positive developments in core countries (primarily Germany). The somewhat less negative fiscal drag in 2013 relative to 2012 is probably also reflected into less negative consumer sentiment figures.

Germany

Jun 18	***ZEW Survey, Current Situation, Jun***	**Forecast: 15.0**	**Prior: 8.9**
10:00	***ZEW Survey, Economic Sentiment, Jun***	**Forecast: 41.0**	**Prior: 36.4**
London Time			

Financial market participants who respond to the German ZEW survey are likely to feel more positive about the euro area's largest economy in June, in light of the better sentiment measures from Ifo and more constructive PMIs, particularly from the manufacturing sector. Note that both measures remain above their longterm averages, a situation that is markedly different from that in both France and Italy or the broader euro area.

Jun 20 07:00 London Time	***Producer Prices, May, SA***	**Forecast: -0.4% MM, 0.0% YY**	**Prior: -0.2% MM, 0.1% YY**

We forecast a fourth successive fall in producer prices in May. With import prices and energy and commodity prices heading lower, it is likely that producer price inflation will ease a little in coming months. With better profitability dynamics than in most of the euro area member states, we expect that German firms will keep factory gate prices competitive given the weak demand environment

Sweden

Jun 19 08:00 London Time	***Consumer Confidence, Jun***	**Forecast: 4.2**	**Prior: 3.6**

Consumer sentiment slipped in May, but is still basically in line with its long-term average (0.1 std. dev. below). House prices have recovered slightly in recent quarters and some house price indicators also suggest slight upward pressure in the housing market ahead. Meanwhile, the equity market has been on a downtrend throughout most of May, and only recovered marginally in early-June. At the same time, car sales fell marginally in May (-0.3% YY). Meanwhile, developments in the labour market are somewhat mixed, with both unemployment and employment rising. On balance, this points to a marginal gain in consumer confidence in June. Inflation expectations are low and are expected to stay low given very low current levels of inflation (1.1% YY in May).

Jun 19 08:00 London Time	***Manufacturing Confidence, Jun***	**Forecast: -11**	**Prior: -15**

Following a marked deterioration in May, we expect sentiment among manufacturers to recover in June. Manufacturing confidence is now 0.9 std. dev below the long term average or in other words, no longer at a level indicating that the sector is expanding. We saw a strong rebound in the Swedish PMI in May, and given that NIER sentiment tends to lag PMI slightly, this supports a stronger reading this month. Overall, we expect the manufacturing sector to gradually recover throughout the year, but it will be a bumpy road and some setbacks should be expected in periods.

Jun 19	***LFS Unemployment Rate, May***	**Forecast: 8.6%**	**Prior: 8.7%**
08:30	***LFS Unemployment Rate, May, SA***	**Forecast: 8.3%**	**Prior: 8.4%**
London Time			

The labour market is generally weakening in line with the Riksbank's assumption; unemployment has been trending upwards since mid-2012, driven by increasing labour supply, and we expect this will continue ahead. Meanwhile, employment is still rising slightly, and short-term indicators suggest that this trend will continue in the near-term. Ahead, the Riksbank expects unemployment to trend sideways this year before turning markedly lower; we believe that this may be too optimistic.

Norway

Jun 20 09:00 London Time	***Interest Rate Decision***	**Forecast: Unchanged at 1.50%**	**Prior: 1.50%**

Recent economic data have on balance suggested some moderation in activity when it comes to short-term momentum in mainland GDP in the current quarter, and indications from the upcoming regional network report – any more slowing in the offing? – will be an important input ahead of the upcoming monetary policy meeting. That said, a 0.4pp overshoot in inflation vs. Norges Bank's forecast in April and May combined with a weaker-than-forecast NOK exchange rate support our call for an unchanged key policy rate.

United Kingdom

Jun 18	***Consumer Prices, May***	**Forecast: 0.0% MM, 2.6% YY**	**Prior: 0.2% MM, 2.4% YY**
09:30	***CPI Ex Food, Drink, Tobacco, Energy, May***	**Forecast: 0.1% MM, 2.0% YY**	**Prior: 0.1% MM, 2.0% YY**
London Time	***Retail Prices, May***	**Forecast: 0.2% MM, 3.2% YY**	**Prior: 0.3% MM, 2.9% YY**
	RPIX – Excludes Mortgages, May	**Forecast: 0.2% MM, 3.1% YY**	**Prior: 0.3% MM, 2.9% YY**

Base effects from the very weak CPI reading of May 2012 (the CPI fell 0.1% MM, the weakest May reading for over 20 years) may well lift the YY rate for CPI inflation slightly. Nevertheless, inflation trends are reasonably subdued, especially given the sizeable impact from regulatory-driven items. The YY rate probably will rise further for the June data (when base effects are again adverse) but then will probably fall back.

United Kingdom continued			
Jun 18 09:30 London Time	***Producer Input Prices, May***	**Forecast: -0.7% MM, 1.8% YY**	**Prior: -2.3% MM, -0.1% YY**
	Input prices fell sharply last month and we expect another (albeit smaller) drop this month, reflecting the slight rise in sterling plus declines in prices for a range of nonoil commodities.		
Jun 18 09:30 London Time	***Producer Output Prices, May*** ***Output Prices Ex Tax, May*** ***Excluding Food, Drink, Tobacco, Energy, May***	**Forecast: 0.1% MM, 1.5% YY** **Forecast: 0.1% MM, 1.6% YY** **Forecast: 0.1% MM, 0.9% YY**	**Prior: -0.1% MM, 1.1% YY** **Prior: -0.2% MM, 1.1% YY** **Prior: 0.1% MM, 0.8% YY**
	Base effects from an unusually sharp drop in output prices a year ago (which was largely caused by a sharp drop in oil prices) probably will lift the YY rates for output price inflation this month. Similar effects may well lift the YY rate further in the June data. Nevertheless, trends in output price inflation remain subdued, and the YY rates for output price inflation are likely to fall back after the June data are past.		
Jun 20 09:30 London Time	***Retail Sales Volumes, May***	**Forecast: 1.0% MM, 0.3% YY**	**Prior: -1.3% MM, 0.5% YY**
	Retail sales volumes have fallen in four of the past five months (although the one exception, in February, showed a strong gain of 2.1% MM). Although the weather remained unusually cold in May (lowest average temperature for May since 1996) we expect some bounce-back in sales for this month. There is potential for a greater bounce back at some point as the drag from colder weather fades. The average temperature in March-May has been the lowest for those months since 1962.		
Jun 20 11:00 London Time	***CBI Industrial Trends Survey, Jun*** ***Monthly Output Expectations Net Balance, Jun*** ***Monthly Order Books Net Balance, Jun*** ***Monthly Selling Prices Net Balance, Jun***	 **Forecast: +15%** **Forecast: -20%** **Forecast: +3%**	 **Prior: +18%** **Prior: -20%** **Prior: +4%**
	The reading for manufacturers' price expectations has fallen back quite sharply in the past couple of months and probably will remain subdued this month as well. Output expectations have improved notably but, with order books more downbeat, we expect that the output index also will fall back a bit this month.		
Jun 21 09:30 London Time	***Public Sector Net Borrowing, May*** ***(Figures Exclude Costs of Financial Intervention)***	**Forecast: £15.8 bn deficit, £22.1 billion deficit fiscal year to date** **Year Ago: £15.8 bn deficit, £-3.3 billion surplus fiscal year to date**	
	The underlying path of the fiscal deficit has been roughly stable in recent months, although the April figures benefited from the transfer of interest income from the APF to the Treasury's accounts.		

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

Key Economic Indicators (24 June – 28 June 2013)

		Forecast	Last
During The Week		**Forecast**	**Last**
07:00	Germany: Retail Sales, May (by 28 June)		
07:00	Germany: Import Prices, May (by 28 June)		
07:00	UK: Nationwide House Prices, Jun		
11:00	Ireland: GDP, 1Q		
Monday 24 June		**Forecast**	**Last**
08:30	Netherlands: Producer Confidence, Jun		
09:00	Germany: ifo Business Climate, Jun		
09:00	Italy: Consumer Confidence, Jun		
14:00	Belgium: Business Confidence, Jun		
Tuesday 25 June		**Forecast**	**Last**
07:45	France: Industrial Confidence, Jun		
08:00	Spain: Producer Prices, May		
08:30	Netherlands: GDP Details, 1Q		
08:30	Sweden: Producer Prices, May		
09:00	Italy: Retail Sales, Apr		
09:30	UK: BBA Mortgage Advances, May		
	Greece: Current Account, Apr		
Wednesday 26 June		**Forecast**	**Last**
07:00	Germany: GfK Consumer Confidence, Jun		
07:45	France: GDP Details, 1Q		
09:00	Norway: AKU Unemployment Rate, Apr		
10:30	UK: Bank of England *Financial Stability Report*		
11:00	UK: CBI Retail Survey, Jun		
17:00	France: Jobless Change, May		
Thursday 27 June		**Forecast**	**Last**
	European Council of EU Heads of State and Government, Brussels		
07:45	France: Consumer Confidence, Jun		
08:00	Spain: Consumer Prices, Jun Preliminary		
08:00	Spain: Retail Sales, May		
08:30	Sweden: Trade Balance, Apr		
08:55	Germany: Unemployment, Jun		
09:00	Euro Area: M3, May		
09:30	UK: Balance of Payments, 1Q		
09:30	UK: GDP Details, 1Q (3rd release)		
10:00	Euro Area: Business & Consumer Surveys, Jun		
Friday 28 June		**Forecast**	**Last**
	European Council, Continued		
00:01	UK: GfK Consumer Confidence, Jun		
	Germany: Consumer Prices, Jun Preliminary		
07:45	France: Consumer Spending, May		
07:45	France: Government Debt, 1Q		
07:45	France: Producer Prices, May		
08:00	Switzerland: KOF Economic Barometer, Jun		
08:30	Sweden: Retail Sales, May		
09:00	Norway: Retail Sales, May		
09:00	Italy: Business Confidence, Jun		
09:30	UK: Service Sector Output, Apr		
10:00	Italy: Consumer Prices, Jun Preliminary		
10:00	Portugal: GDP Details, 1Q		
	Spain: Budget Balance, May		

Sources: National statistical offices, central banks and Citi Research

Notes

Appendix A-1

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