15 November 2013 | 16 pages

Developed Markets
Western Europe

Euro Economics Weekly

Recovery Watch: SME Lending is Key

- **SMEs Matter** — It is very difficult to argue that a euro area recovery can build a strong base without SMEs feeling more confident about their funding, investment and hiring prospects. The overwhelming dependence of these firms on the banking system suggests that progress towards banking union will be essential to improve their performance, as well as overall economic prospects, in coming years.

- **Obtaining bank funding remains difficult, for some** — Although the supply side of the equation is improving significantly, demand for loans continues to lag. Yet, the long-term relationship between lending standards, demand for loans and investment growth points to some recovery in corporate borrowing in the coming quarters.

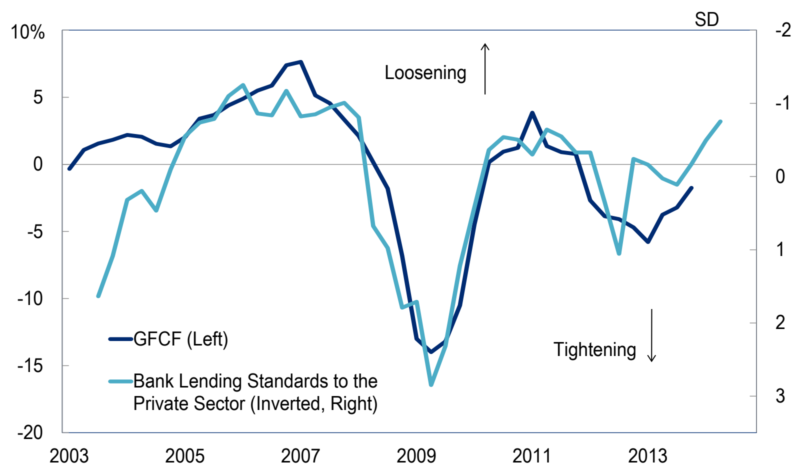
- **Alternative sources of finance** — With the banking system still in fragile health, it is likely that constraints on SME lending will persist for some time. The quicker alternative funding sources can be set up, the more likely firms will be able to invest. The EIB/EU initiative, among others, is expected to help, from January 2014.

Figure 1. Citi Market Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vsBunds
4Q 13	1.38	0.25	1.80	0.83	0.50	102	8.87	1.00	8.08	1.50	1.25	0.00	-82
2Q 14	1.40	0.25	1.80	0.82	0.50	127	8.94	1.00	8.01	1.50	1.25	0.00	-78

Source: Citi Research

Figure 2. Euro Area — Bank Lending Standards to the Private Sector (2Q Lead) and Gross Fixed Capital Formation (YoY), 1Q-2003 to Q4-2013



Note: Lending standards are computed as an average of the actual and expected series.
Sources: Eurostat, European Central Bank and Citi Research

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Recovery Watch: SME Lending is Key

Paying more attention to small- and medium-sized firms is a necessity given their importance to the economy. Unless constraints in the availability and pricing of loans are lifted, the recovery will likely disappoint

Small- and medium-sized enterprises (SMEs) account for the lion's share of the employment and value added across the euro area. As a result, particular attention should be paid to their difficulties in obtaining financing, and adequate responses need to be engineered to allow them to contribute to recovery in economic activity. This note reviews the importance of SMEs across the euro area, investigates the difficulties that SMEs experience to obtain credit and reviews some of the solutions that could improve their access to external financing. We conclude that it is very difficult to argue that a euro area recovery can build a strong base without SMEs feeling more confident about their funding, investment and hiring prospects. As these firms often need relatively high cash buffers, external financing access is crucial to their investment plans. The overwhelming dependence of these firms on the banking system suggests that progress towards banking union — contributing to the return of the practice of cross-border lending, but also improving domestic lending — will be essential to improve their performance, as well as to the overall economic prospects, in coming years.

What does the SME sector represent?

SMEs matter more in the euro area than in the US

In its July 2013 monthly bulletin, the European Central Bank (ECB) reviewed the economic importance of SMEs and their financing conditions in the euro area[1]. This often overlooked group of firms with less than 250 employees represents 99.8% of enterprises and accounts for 70% of employment and 60% of value added in the euro area (see Figure 3). Statistics from the European Commission compiled in 2012 show that the single largest number of euro area enterprises are 'micro firms', characterized as having less than 10 employees. They represent 92% of all firms, account for 31% of employment and 22% of value added. Compared to the US[2] where SMEs typically account for 50% of employment and value added, the euro area SMEs represent a much larger part of the corporate sector, with 70% and 60% shares, respectively. The ECB estimates that SMEs make up around 50% of total business investment.

Figure 3. Euro Area — Importance of SMEs in the Economy, % of Total Business Economy; Average for 2008-13

Category	No. of Employees	Percent of firms	Employmt	Value Added	Productivity
Large firms	≥ 250	0.2	30	40	131
SMEs	< 250	99.8	70	60	87
Medium-Sized	50 - 249	1.0	17	18	110
Small	10 - 49	6.7	22	20	91
Micro	0 - 9	92.0	31	22	71

Note: Productivity is measured as value added in nominal terms per employees and 100 is equal to the average total productivity of the economy
Sources: European Commission and Citi Research

Figure 4. Selected Countries — Importance of SMEs in the Economy, % of Total Business Economy; Average for 2008-13

	EA	BE	DE	IE	GR	ES	FR	IT	CY	NL	AT	PT	FI
SME employment	70	67	62	70	85	76	64	80	82	65	68	79	62
SME value added	60	61	54	52	70	66	59	69	76	63	61	68	57
% of micro firms (MF)	92	94	83	89	97	94	93	95	92	91	87	94	92
Productivity of MFs	71	69	79	69	61	70	94	64	75	79	75	59	86

Sources: European Commission and Citi Research

Geographical bias towards SME dependency is stronger in the periphery, particularly with respect to micro firms

The countries with the highest share of SME employment (see Figure 4) are Greece (85%), Cyprus (82%), Italy (80%) and Portugal (79%), while those with the smallest shares are Germany (62%), Finland (62%) and France (64%). In terms of value added, Cyprus (76%) Greece (70%) and Italy (69%) also score highly, while Ireland (52%), Germany (54%) and France (59%) are at the other end of the spectrum. The periphery also scores highly for the share of micro firms.

[1] http://www.ecb.europa.eu/pub/pdf/mobu/mb201307en.pdf, Box 6, pp 41-47
[2] Empirical & Thematic Perspectives - Does Size Really Matter?: The Evolving Role of Small Firms in the U.S. Economy, Nathan Sheets, 18 December 2012

Renewed focus on SME support should benefit the periphery more than the core

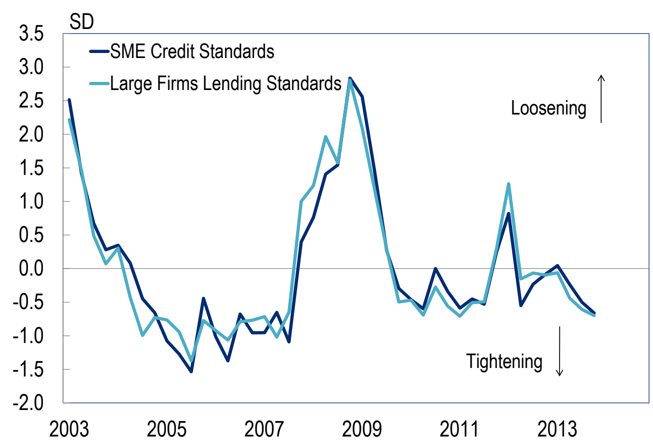
Hence, any broad-based improvement in the financing conditions for those firms should have a significant impact on the economic performance of the member states in which they are located. However, given their heterogeneity, and their frequent integration in the supply chain alongside larger corporations, it must be noted that the role of SMEs in aggregate fluctuations is often smaller than entailed by their share of employment or value added[3].

What are the banks saying about SME lending?

Banks are expecting to loosen lending standards to firms

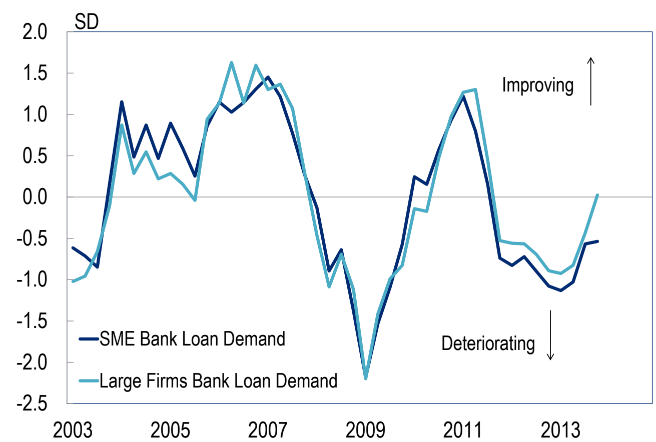
The October euro area bank lending survey showed that both the supply and demand for loans had continued to improve compared to July. On aggregate, the net proportion of banks tightening lending standards had fallen by 2ppt to an eleven-quarter low of 4%. Importantly, the measure related to expected lending standards showed a net easing of 3%, the most positive reading for 30 quarters. In terms of lending to firms, the net proportion of banks tightening lending standards fell by 2ppt to a nine-quarter low of 5%, and the expected lending standards measure recorded a 6ppt fall to a 26-quarter low of -5%. Turning to the SME segment of the survey, it is apparent that there is not much difference between lending standards applied to SME lending compared to those applied to large firms (see Figure 5). However, when analyzing recent trends in demand dynamics (using an aggregate of past and expected series), it is apparent that the SME segment is lagging the improvement seen for large firms (see Figure 6).

Figure 5. Euro Area — Composite Measure of Bank Lending Standards Applied to Firms, Standard Deviations, 2003-2013



Sources: European Central Bank and Citi Research

Figure 6. Euro Area — Composite Measure of Loan Demand from Firms, Standard Deviations, 2003-2013



Sources: European Central Bank and Citi Research

SME lending standards are all below long-term averages, but demand for loans is lagging

We believe that banks are more relaxed about their lending standards due to the efforts made on improving their capital buffers and the confirmation of a gradual recovery in economic activity. With the exception of the Netherlands, all SME lending standard series are below their long-term averages, suggesting that from a supply side standpoint, banks are more willing to extend credit to SMEs. Turning to the demand picture, none of the national surveys suggest that the situation has improved sufficiently for the aggregate measure to rise above the respective historical averages, apart from Portugal.

[3] "Corporate finance and economic activity in the euro area: Structural Issues Report 2013", Occasional Paper Series, ECB, www.ecb.europa.eu/pub/pdf/scpops/ecbocp151.pdf

Where could the demand for loans increase the most?

As we expect that the current gap between credit demand and lending standards series will close, we can identify banking systems where the demand for loans is the most likely to improve for an unchanged supply situation (see Figure 7). The smallest gaps calculated over the last four quarters are in France (-0.5pt), Spain and the Netherlands (-0.7) and Germany (-0.8). The largest gaps are in Portugal (-0.9) and Italy (-1.3): these are two potential outperformers.

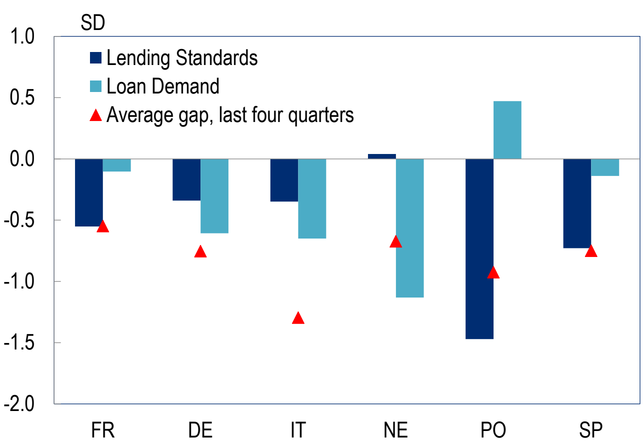
Portugal has probably reached a turning point, with banks taking a more constructive approach to lending

The situation in Portugal is interesting for two reasons: first, because banks have reported a net loosening of their lending standards to SMEs in three of the last four surveys (the October print was zero, implying no change); second, because a net percentage of banks have been reporting an increase in demand for SME loans in five of the last seven surveys. As the surveys indicate a change from one quarter to the next, the lower the starting point the more likely the series is to improve. From a flow perspective, however, the annual rate of contraction remains strongly negative (-6.3% YY and -12.3% 3M annualized in Sep-13). This is consistent with a sustained deleveraging story as the non-financial balance remains negative.

Portugal is performing remarkably well compared to some of its periphery peers

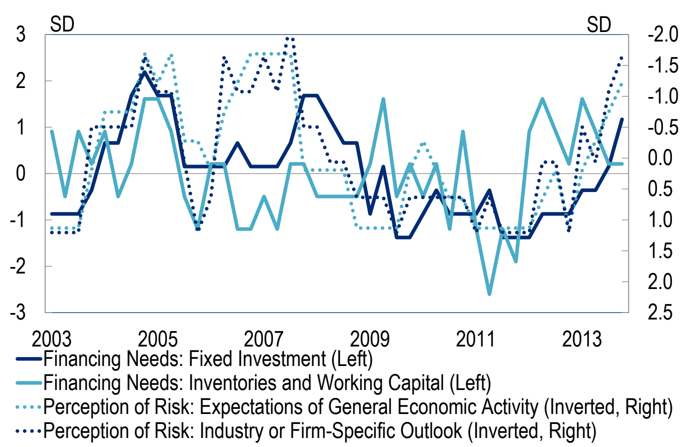
Nevertheless, this clear improvement in Portuguese lending standards is consistent with the rapid improvement in business confidence (1.4sd) in the last twelve months. Similarly, Portuguese banks' perception of risk, both in terms of general economic activity or with respect to the outlook for industry or specific firms, is the lowest of all euro area banks (see Figure 8: -1.4sd vs. -0.7sd for the euro area average). Hence, we argue that there are upside risks to our Portugal recovery baseline, assuming that the cost at which banks extend credit to the private sector were to decline in line with sovereign spreads.

Figure 7. Selected Countries — SME Lending Standards and Loan Demand, Standard Deviations, Oct-2013



Sources: European Central Bank and Citi Research

Figure 8. Portugal — Financing Needs and Perception of Risk, Standard Deviations, Jan-2003 to Oct-2013



Sources: European Central Bank and Citi Research

What are SMEs saying about access to bank financing?

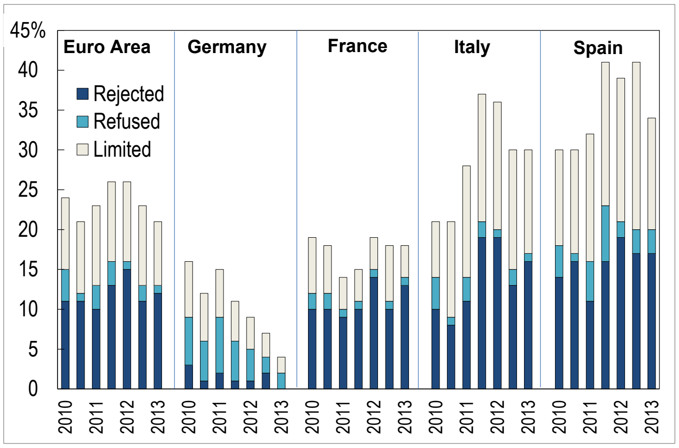
Financial constraints are limiting production, particularly in Italy

While the net proportion of banks tightening lending standards to SMEs continued to diminish in October, we turn to firms to gauge whether their financing difficulties are easing. According to the European Commission's quarterly survey of the industrial sector, financial constrains as a factor limiting production remains relatively high across the euro area. The Q4-13 survey showed that 7.2% of firms had experienced difficulties in this segment, an outcome similar to that in the previous three quarters. Member states where the situation has improved compared to the last six months are France, Spain and Portugal. For Italy, however, financing difficulties have increased, hitting an all-time high of 10.1%.

Difficulties in obtaining bank loans are easing slightly in the latest euro area survey on SME access to finance

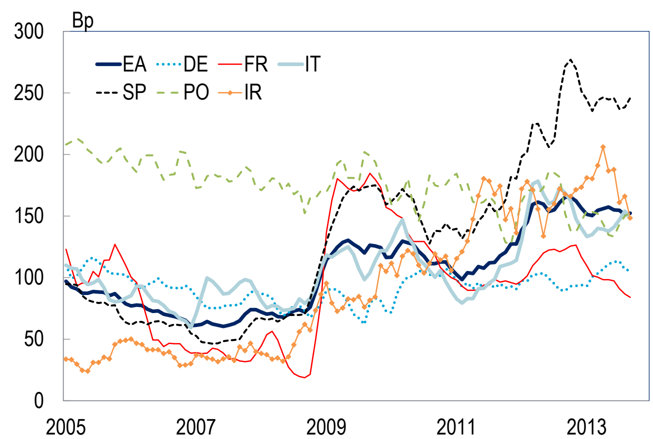
The latest survey on SME access to finance covering April to September 2013 (see Figure 9) showed that this issue remains a problem for euro area SMEs (16%, unchanged), but was not as significant for large euro area firms (10%, down from 11%). When looking at the outcome of bank loan applications by SMEs, some deterioration is visible at the euro area level, with 12% of firms reporting their application had been rejected (up from 11%), but that 8% had only received part of the requested amount (down from 10%), while only 1% refused the loan because the cost was too high. Although the data set is only partial, the overall percentage of SMEs experiencing obstacles in obtaining bank credit is falling slightly, particularly in Spain where a smaller proportion of SMEs only obtained a limited part of their loan application (14% from 21% in the previous survey).

Figure 9. Selected Countries — Obstacles Experienced by SMEs in Obtaining Bank Loans, % of Responses, H1-2010 to H1-2013



Sources: European Central Bank and Citi Research

Figure 10. Selected Countries, Interest Spread between SME and Large Firm Loans, Basis Points, Three-Month Averages, Jan-05 to Sep-13



Sources: European Central Bank and Citi Research

The cost of borrowing has gone up a lot in Spain and Portugal, particularly compared to the ECB refi rate

We turn to the cost of borrowing by SMEs, selecting the series related to the interest rate charged for new loans of less than €1mn for all maturities. The data shows that the spread (to the ECB refinancing rate) at which the average SME could borrow has risen from 181bp in the 2005-07 period to 316bp in 2013 to date. Spain and Portugal are the two countries where the increase has been the most significant, with upticks of 300bp to 460bp and 240bp to 590bp, respectively.

Discrimination against SMEs is the largest in Spain

Interest spreads on SME loans compared to those for large non-financial companies have widened by an average of 50bp compared to pre-crisis levels (2004-07). If anything, the spread has begun to narrow slightly in 2013, averaging 154bp year-to-date, compared to 159bp in 2012, but remaining much wider than the 114bp recorded in 2011 (see Figure 10). The premium to SME lending is the highest in Spain (245bp), closely followed by Ireland and the Netherlands (155bp each).

What could be done to restart lending to SMEs?

More transparency and broadening the investor base are the two avenues to explore

In an extensive survey of the SME sector, the Institute for International Finance (IIF) and Bain & Company list four sets of impediments[4] and how to overcome them. The report titled "Restoring financing and growth to Europe's SMEs" calls for progress on two fronts: improving SMEs' financial health and transparency, and broadening

[4] The first impediment is related to the fact that information about SME creditworthiness is potentially too costly and difficult to obtain. The second impediment is that SMEs face many disincentives to achieving greater scale to be competitive and financially healthy. The third impediment is that banks are able to shoulder less credit risk than before the crisis. The fourth impediment is that alternative funding providers face many barriers to financing SMEs.

the base of financial institutions able to identify and fund promising SME activities. We focus our attention on the third impediment, which is how to improve banks' ability to take on new credit risk.

What could EU policymakers do? EIB and EC credit insurance and guarantees would help

Banks having more capital is obviously a key aspect of the process, and the ECB's comprehensive assessment (see "Will the ECB's Comprehensive Assessment' of Banks be the Euro Area's TARP Moment?") will play an important part. But since the process will take some time (capital shortfalls for each financial institution will be communicated in the autumn of 2014 once the balance sheet assessment, Asset Quality Review and EBA stress tests are completed), it will perhaps become necessary for the European policymakers to investigate schemes offering credit insurance or credit guarantees. The IIF/Bain report notes that credit insurance is only used by 10% to 20% of SMEs, although 30% of trade receivables are insured. An "alternative private guarantee" scheme, insuring banks against losses from SME loans or loan portfolios, could make lending decisions more attractive, as would "capital relief" for insured portfolios of SME loans sold to nonbank investors.

Alternative solutions

Alternative solutions could take the form of government-backed development banks, such as ICO in Spain, SME Invest and SME Growth lines in Portugal, public investment banks such as BPI in France, Italy's Central Guarantee Fund[5], or Spain's plan to allow banks to issue covered bonds backed by SME loans[6]. Devising ways of fostering SME loan securitization should also probably be explored. The EU Commission also noted as part of its Annual Growth Survey that one of its priorities to restore lending to the economy would be to develop alternatives to bank financing, including options for venture capital, development of SME bonds and alternative stock markets.

Public sector support is probably necessary for an extended period, at least into 2015 as banking union gets underway

Restoring credit provision through the improvement of market structures is something that the ECB has been concerned about for some time. The ECB is participating in discussions with the European Investment Bank and the European Commission to examine the constraints hindering the development of securitization instruments for SME loans and the revival of the ABS market[7]. In a speech[8] on 11 July 2013, ECB's Benoit Coeuré noted that he welcomes the "*the on-going work by the Commission and the EIB on joint risk-sharing instruments to support SME lending, which would combine the EU budget resources with the EIB and the EIF lending capacity*". Mr. Coeuré notes that ECB support to the ABS market is one avenue for the central bank to explore, "*provided that the risk to the Eurosystem is controllable, and the underlying instruments are simple and transparent*". A tentative timetable for the EIB/EC initiative is January 2014, based on the target set by the European Council in June 2013.

Securitising SME loans: the Banque de France initiative

Banque de France's initiative to re-start the securitised SME loan market is coming to fruition according to French business daily Les Echos (22 October edition), with large French banks expected to be on board in the next three months. The initiative would allow each bank to bring its SME loans to an SPV in exchange for an asset

[5] In the first nine months of 2013, Italy's central guarantee fund for SMEs accepted around 51,000 applications in relation to loans worth €7.2bn (up from €6.0bn for the same period in 2012). In 2012 Cassa Depositi e Prestiti launched a new SME fund accessible to banks at moderate interest rates to grant business loans. By June 2013, only €2bn of the €8bn available had been utilised, suggesting that banks' funding difficulties do not represent the main obstacle to the supply of credit to firms.
[6] See "ECB's Praet Says Asset Purchases Part of the Arsenal ", *Europe Sovereign Debt Update*, 14 November 2013, Citi
[7] On 9 September 2013, the ECB modified the eligibility requirements for RMBS and SME ABS to temporarily accept as eligible collateral non-compliant RMBS and SME ABS on a case-by-case basis.
[8] Reviving credit growth in the euro area.
https://www.ecb.europa.eu/press/key/date/2013/html/sp130711.en.html

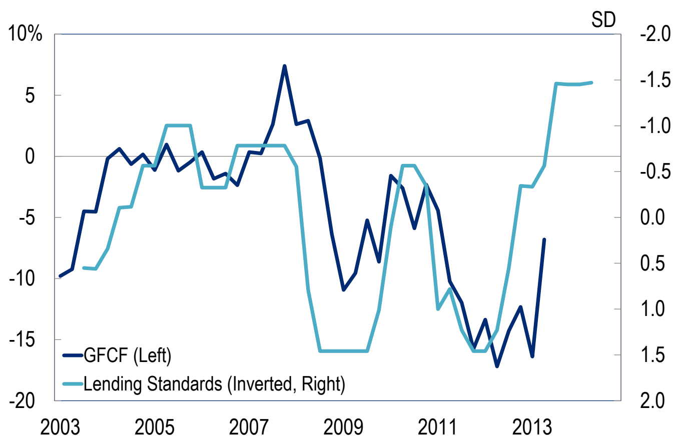
that can then be used as collateral in refinancing operations with the ECB or the bank-to-bank repo market. The focus will be on transparency so as to incentivise the final investor.

Will it work? Perhaps

Will it help? Probably

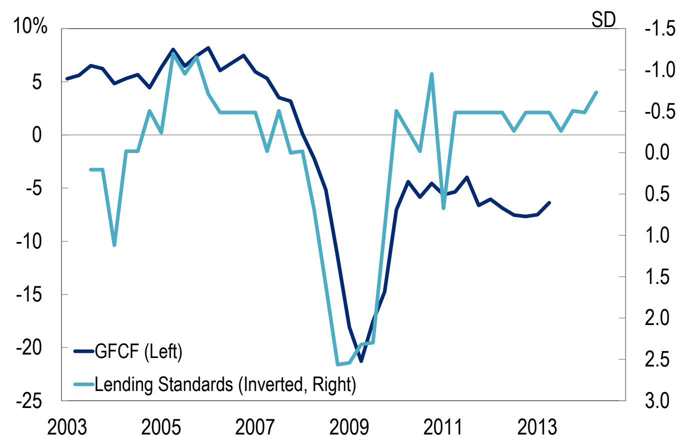
While this initiative could help some banks release more capital and make additional loans to SMEs, it remains doubtful to what extent the system will really support loan volumes beyond a likely institutional investor preference for the larger and more robust "*intermediate sized firms*". The fact that French bank loans to the private sector are still increasing suggests that the impact on the availability of financing of the economy would likely be limited. But if replicated, this would likely be more beneficial in other euro area banking systems when the supply of credit has been more challenging, notwithstanding the level of SME.

Figure 11. Portugal — Bank Lending Standards to SMEs (2Q Lead) and Gross Fixed Capital Formation (YoY), 1Q-2003 to Q4-2013



Sources: European Central Bank, Eurostat and Citi Research

Figure 12. Spain — Bank Lending Standards to SMEs (2Q Lead) and Gross Fixed Capital Formation (YoY), 1Q-2003 to Q4-2013



Sources: European Central Bank, Eurostat and Citi Research

Conclusions

Difficult to do, but essential for euro area SMEs to be in a position to participate fully in the recovery

Because of their size, SMEs tend to be more likely to experience difficulties in obtaining funding than large institutions. Banks, in periods of uncertainty and under pressure to increase their capital ratios, often seem more cautious when deciding whether to lend to SMEs given their relative opacity, relatively limited credit history, and elevated subsequent cost of monitoring. With the banking system still in fragile health, it is likely that constraints to SME lending will persist for some time, a situation that will hinder firms' recovery. The quicker alternative sources of SME financing can be set up, the more likely that firms will be able to invest assuming that the gradual recovery of their order books continues.

But worth tacking, since the availability of SME funding will be a key driver of investment

With business confidence improving gradually and some indications of lending standards being loosened for loans to firms, we would expect SMEs to participate in the investment upswing, albeit less than before the financial crisis (see Figure 2, front page). The solid long-term relationship between lending standards, demand for loans and investment growth points to some recovery in corporate borrowing in the next few quarters. We believe that the recovery could surprise in member states where pent-up demand appears to be the largest. In this case, both Portugal and Spain spring to mind (see Figures 11 and 12). Note, however, that the rebound is likely to be more muted than in previous episodes, given the strong focus on private sector deleveraging where indebtedness is already high. Many firms would be more likely to use some of their earnings to pay back outstanding debt than to contract new loans to finance new investment projects, at least initially.

Key Economic Indicators (18 November – 22 November 2013)

		Forecast	Last
Monday 18 November		**Forecast**	**Last**
09:00	Euro Area: Current Account, Sep		
10:00	Euro Area: Trade Balance, Sep		
Tuesday 19 November		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Oct		
09:00	Italy: Industrial Orders, Sep		
09:00	Norway: Mainland GDP, 3Q Flash	0.5% QQ	0.2% QQ
10:00	Germany: ZEW Current Situation, Nov	27.7	29.7
	ZEW Economic Sentiment, Nov	53.8	52.8
10:00	Euro Area: Construction Output, Sep		
10:00	OECD releases *Economic Outlook, Nov 2013*		
Wednesday 20 November		**Forecast**	**Last**
07:00	Germany: Producer Prices, Oct	0.1% MM, -0.4% YY	0.3% MM, -0.5% YY
08:30	Netherlands: Consumer Confidence, Nov		
09:30	UK: MPC Minutes		
	Spain: Trade Balance, Sep		
14:00	Belgium: Consumer Confidence, Nov		
Thursday 21 November		**Forecast**	**Last**
07:00	Switzerland: Trade Balance, Oct		
08:30	Netherlands: Consumer Spending, Sep		
08:30	Netherlands: Unemployment, Oct		
09:00	Italy: Contractual Wages, Oct		
09:00	Euro Area: Manufacturing PMI, Nov Flash	51.7	51.3
	Services PMI, Nov Flash	51.2	50.9
	Composite PMI, Nov Flash	51.8	51.5
09:30	UK: Public Sector Net Borrowing (Ex RM, APF, Fin. Intervention), Oct	£8.0 Billion Deficit	Year Ago: £8.3 Billion Deficit
	Fiscal Year To Date, Apr-Oct	£64.7 Billion Deficit	Year Ago: £70.9 Billion Deficit
11:00	UK: CBI Industrial Trends Survey – Output Expectations, Nov	+12%	+0%
	CBI Order Books, Nov	0%	-4%
	CBI Selling Prices, Nov	-4%	-2%
15:00	Euro Area: Consumer Confidence, Nov Flash	-13.8	-14.5
Friday 22 November		**Forecast**	**Last**
07:00	Germany: GDP Details, 3Q	0.3% QQ, 0.6% YY	0.7% QQ, 0.5% YY
08:15	Sweden: Consumer Confidence, Nov	102.8	102.0
	Manufacturing Confidence, Nov	99.6	101.2
09:00	Germany: ifo Business Climate, Nov	107.0	107.4
09:00	Italy: Retail Sales, Sep		
14:00	Belgium: Business Confidence, Nov		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Nov 21	***Manufacturing PMI, Nov Flash***	**Forecast: 51.7**	**Prior: 51.3**
09:00	***Services PMI, Nov Flash***	**Forecast: 51.2**	**Prior: 50.9**
London Time	***Composite PMI, Nov Flash***	**Forecast: 51.8**	**Prior: 51.5**

PMIs likely continued to increase in November, although at a likely slower pace than in previous months. All indices are expected to increase by 0.3-0.4 points in November, as the recent weakening of the euro and the ECB rate cut should have helped to support the expectation sub-components. However, at these levels (51.5-52.0, broadly similar to 3Q average) the composite PMI is still consistent with quite feeble GDP quarterly growth (in the order of 0.2%-0.3% QQ).

Nov 21 15:00 London Time	***Consumer Confidence, Nov Flash***	**Forecast: -13.8**	**Prior: -14.5**

With households' unemployment expectations in September at their lowest level since mid-2011, we expect further gains for aggregate consumer sentiment in the euro area. Reduced fiscal austerity and falling inflation have contributed to the improvement in consumer confidence.

Germany

Nov 19	***ZEW Current Situation, Nov***	**Forecast: 27.7**	**Prior: 29.7**
10:00	***ZEW Economic Sentiment, Nov***	**Forecast: 53.8**	**Prior: 52.8**
London Time			

After a small decline in October, we expect the current situation index of the ZEW survey of German financial analysts to show another decrease in November. Recent data have been mixed, leaning marginally on the weaker side, particularly for retail sales and exports, though even after the decrease the index would be almost one standard deviation above its long-term average. Forward-looking indicators look more positive and we expect the economic sentiment component to mark another increase (the fourth in a row), even though we expect it to be small this month.

Nov 20 07:00 London Time	***Producer Prices, Oct***	**Forecast: 0.1% MM, -0.4% YY**	**Prior: 0.3% MM, -0.5% YY**

Import prices rose in September for the first time in eight months and we expect another small increase in October, leaving the yearly price level to fall by 0.4%. Unit labour costs are rising, but the strong euro, low energy prices and still-weak external conditions (weakening the price of intermediate goods imports) continue to resist upward price pressures for producers.

Nov 22 07:00 London Time	***GDP Details, 3Q***	**Forecast: 0.3% QQ, 0.6% YY**	**Prior: 0.7% QQ, 0.5% YY**

We expect the first detailed reading of German Q3 GDP to confirm the flash estimate of a 0.3% QQ increase. The release will contain the composition of GDP for the first time and we expect domestic demand to have accounted for all of the increase in GDP, with net exports a slight drag.

Nov 22 09:00 London Time	***Ifo Business Climate, Nov***	**Forecast: 107.0**	**Prior: 107.4**

We expect a slightly weaker reading for the ifo business climate in November after an already slightly weaker October reading. German sentiment readings continue generally to be robust, but the hard data have been mixed and further improvements in the sentiment readings are no longer the norm. However, the outlook still suggests that growth will gradually and moderately strengthen and the index remains comfortably above its long-term average.

Sweden

Nov 22 08:15 London Time	***Consumer Confidence, Nov***	**Forecast: 102.8**	**Prior: 102.0**

Consumer sentiment rose by a stronger-than-expected 3.9 points in October, and is now two points above its long-term average. House prices have recovered in recent quarters – having climbed by 2.6%, so far, this year – and some house price indicators suggest slight upward pressure in the housing market also ahead. At the same time, car sales were up 4.7% YY in October, the third consecutive gain, and the labour market continues to develop slightly more strongly than expected (both unemployment and employment, though, are still rising). Finally, the equity market has, on average, moved slightly higher, so far, in November and, hence, is moving closer to the Oct-07 highs. On balance, this points to further improvement in consumer confidence in November. Inflation expectations are expected to stay around current levels of 1.5% Y/Y.

Nov 22 08:15 London Time	***Manufacturing Confidence, Nov***	**Forecast: 99.6**	**Prior: 101.2**

The outlook for the manufacturing sector is mixed and shaky international PMIs suggest that manufacturing confidence may suffer a set-back in the near term. Still, both the NIER survey and the PMI indicate that industrial production and goods exports should increase again after trending lower for most of this year.

Norway

Nov 19 9:00 London Time	***Mainland GDP, 3Q***	**Forecast: 0.5% QQ**	**Prior: 0.2% QQ**

Although manufacturing production posted strong growth again in 3Q (strongest in five years), demand-side indicators released thus far suggest that momentum in mainland GDP, i.e. excluding oil, gas and shipping, has peaked and the economy is heading towards a more moderate growth phase with below-trend mainland GDP growth. Following a very weak 2Q, we expect growth to accelerate moderately in 3Q. For comparison, Norges Bank forecasts a 0.6% QQ gain in 3Q.

Economic Indicators

United Kingdom

Nov 21 09:30 London Time	***Public Sector Net Borrowing, Oct*** ***(Ex RM, APF and Financial Intervention)***	**Forecast: £8.0 Billion Deficit, £64.7 Billion Deficit Fiscal Year To Date** **Year Ago: £8.3 Billion Deficit, £70.9 Billion Deficit Fiscal Year To Date**	
	The fiscal deficit is likely to continue to come in a little below last year's levels, keeping the government on course for a major deficit undershoot (about £11bn, we expect) over the whole fiscal year, led by a growth-generated revenue overshoot. This is a major month for Corporation Tax receipts and so the trend in these will be a major focus in the detail.		
Nov 21	***CBI Industrial Trends Survey, Nov***		
11:00	***Monthly Output Expectations Net Balance, Nov***	**Forecast: +12%**	**Prior: +9%**
London Time	***Monthly Order Books Net Balance, Nov***	**Forecast: +0%**	**Prior: -4%**
	Monthly Selling Prices Net Balance, Nov	**Forecast: -4%**	**Prior: -2%**
	The order books series slipped markedly in the October survey, but there is a curious pattern of relatively soft October readings for order books in recent years and we look for a slight improvement in the November survey. A reading of zero for order books, in line with our forecast, would be about one standard deviation better than average.		

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

Key Economic Indicators (25 November – 29 November 2013)

During The Week		Forecast	Last
07:00	Germany: Import Prices, Oct (by Nov 28)		
07:00	Germany: Retail Sales, Oct (by Nov 29)		
07:00	UK: Nationwide House Prices, Nov		
Monday 25 November		**Forecast**	**Last**
07:45	France: Business Confidence, Nov		
08:00	Spain: Producer Prices, Oct		
08:30	Netherlands: Producer Confidence, Nov		
09:30	UK: BBA Mortgage Advances, Oct		
Tuesday 26 November		**Forecast**	**Last**
08:090	UK: Government White Paper on Scottish Independence		
08:30	Sweden: Producer Prices, Oct		
09:00	Italy: Consumer Confidence, Nov		
	Spain: Budget Balance, Oct		
Wednesday 27 November		**Forecast**	**Last**
07:45	France: Consumer Confidence, Nov		
08:00	Spain: Retail Sales, Oct		
08:30	Sweden: Trade Balance, Oct		
08:30	Sweden: Household Lending, Oct		
09:00	Norway: Unemployment, Sep		
09:00	Germany: GfK Consumer Confidence, Dec		
09:30	UK: GDP Details, 3Q (2nd Release)	0.8% QQ, 1.5% YY	2Q: 0.7% QQ, 1.3% YY
09:30	UK: Services Output, Sep		
11:00	UK: CBI Reported Sales, Nov		
Thursday 28 November		**Forecast**	**Last**
06:45	Switzerland: GDP, 3Q		
08:00	Spain: GDP Details, 3Q		
08:00	Spain: HICP, Nov Flash		
08:30	Sweden: Retail Sales, Oct		
08:55	Germany: Unemployment, Nov		
09:00	Italy: Business Confidence, Nov		
09:00	Euro Area: M3, Oct		
09:30	Slovenia: GDP, 3Q		
09:30	UK: Migration Statistics, Jul-Sep		
10:00	Euro Area: Business & Consumer Surveys, Nov		
13:00	Germany: Consumer Prices, Nov Flash		
17:00	France: Jobseekers, Oct		
Friday 29 November		**Forecast**	**Last**
00:01	UK: GfK Consumer Confidence, Nov		
07:45	France: Consumer Spending, Oct		
07:45	France: Producer Prices, Oct		
08:00	Switzerland: KOF Economic Barometer, Nov		
08:00	Denmark: GDP, 3Q		
08:30	Sweden: GDP Details, 3Q		
09:00	Norway: Retail Sales, Oct		
09:00	Norway: Unemployment, Nof		
09:00	Italy: Unemployment, Oct		
09:30	UK: Personal Borrowing, Oct		
10:00	Italy: HICP, Nov Flash		
10:00	Euro Area: Unemployment, Oct		
10:00	Euro Area: HICP, Nov Flash		
11:00	Italy: Producer Prices, Oct		
	Spain: Current Account, Sep		
	Greece: Retail Sales, Sep		

Sources: National statistical offices, central banks and Citi Research

Title	Author	Date
Euro Area – Sovereign Debt Crisis Update		
Ireland and Spain to Exit Bailouts at Year-End	European Economics Team	Nov 15, 2013
ECB's Praet Says Asset Purchases Part of the Arsenal	European Economics Team	Nov 14, 2013
ECB Alludes to Risks of Stagnation, Not Inflation	European Economics Team	Nov 13, 2013
Weidmann's Renewed Calls for Fiscal Discipline	European Economics Team	Nov 12, 2013
Growing Split in ECB Governing Council	European Economics Team	Nov 11, 2013
Euro Area		
ECB - Aiming for Low Real Rates	Guillaume Menuet	Nov 7, 2013
ECB Preview - Expect Dovish Tone, Leaving Door Open to a Cut in December	Guillaume Menuet	Nov 5, 2013
Euro Area - ECB AQR: More Detail, but not on Public Backstop	Ebrahim Rahbari	Oct 23, 2013
Euro Area - Under No Pressure to Act, ECB Stays Put and Gives Little Away	Guillaume Menuet	Oct 2, 2013
European Economic Forecast Highlights - October 2013	Ann O'Kelly	Sep 27, 2013
Big Merkel Win, Grand Coalition Government Most Likely	Ebrahim Rahbari et al	Sep 23, 2013
German elections - Four More Years – A Multi-Asset View	Ebrahim Rahbari et al	Sep 12, 2013
Euro Area - ECB Reiterates Forward Guidance, with Some Dovish Hints	Giada Giani	Sep 5, 2013
Euro Economics Weekly		
One Shock Away from Deflation	Giada Giani	Nov 8, 2013
Why the ECB Should Worry About the Strong Euro	Ebrahim Rahbari	Nov 1, 2013
Italy and Spain Look Well Positioned For Job Growth	Guillaume Menuet	Oct 25, 2013
Portugal – What After June 2014?	Giada Giani	Oct 18, 2013
Will the ECB's Comprehensive Assessment of Banks be the Euro Area's TARP Moment?	Ebrahim Rahbari	Oct 11, 2013
Italy – Political and Banking Fragility	Giada Giani	Oct 4, 2013
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Housing Not Yet Turning Around	Ebrahim Rahbari	Sep 20, 2013
Loan Dynamics: Renaissance by Year-End	Guillaume Menuet	Sep 13, 2013
Germany — Four More Years	Ebrahim Rahbari	Sep 6, 2013
Greece — More Drama, Fewer Systemic Risks	Giada Giani	Aug 30, 2013
Enhanced Forward Guidance, ECB-Style	Guillaume Menuet	Aug 23, 2013
Euro Area Recovery? Not Strong Enough	Giada Giani	Aug 16, 2013
What do the US Pickup and China Slowdown Mean for Euro Area Growth?	Ebrahim Rahbari	Aug 9, 2013
Chief Economist Publications		
Global Economic Outlook and Strategy - October 2013	Willem Buiter	Oct 23, 2013
Scandi		
Scandi Economics Update	Tina Mortensen	Nov 15, 2013
Sweden - Another Inflation Undershoot Vs. Riksbank Forecast	Tina Mortensen	Nov 12, 2013
Norway - Inflation Undershoot Unlikely to Impact Rate Path Much	Tina Mortensen	Nov 11, 2013
Switzerland		
Switzerland - Economy Continues to Grow Solidly	Michael Saunders	Sep 3, 2013
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UK - Retail Sales Fall Back, Probably Hit By Weather	Michael Saunders	Nov 14, 2013
UK - BoE Inflation Report	Michael Saunders	Nov 13, 2013
UK - Jobless Rate Falls Again	Michael Saunders	Nov 13, 2013
UK - Inflation Undershoots Consensus and MPC Forecasts	Michael Saunders	Nov 12, 2013
UK - RICS Survey Highlights Housing Boom	Michael Saunders	Nov 12, 2013
UK Economics Weekly		
The Opposite of Stagflation	Michael Saunders	Nov 8, 2013
UK Economics Weekly - Leaders and Laggards in the Recovery	Michael Saunders	Nov 1, 2013
Growth Dividend For The Public Finances	Michael Saunders	Oct 25, 2013
We Stick to 3% Growth Forecast for 2014	Michael Saunders	Oct 18, 2013
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