

Euro Economics Weekly

Euro Area: Housing Sector Close to a Turnaround

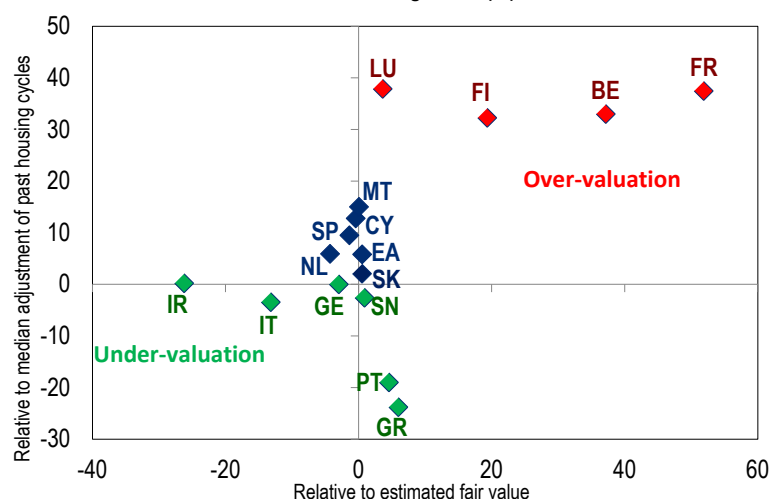
- In Ireland and the UK, the post-recession slide in house prices and housebuilding has given way to strong gains over the last 12-18 months. There are signs now of an upturn in Spain as well. For the euro area as a whole, house prices may be near the trough in real terms, but a strong rebound in house prices and activity (as in Ireland and the UK) is unlikely in our view.
- This piece presents evidence of house price valuations for the euro area – and individual countries – across a range of measures. For the euro area as a whole, house prices appear around fair value of our preferred gauge, although some indicators suggest that prices are still slightly over-valued. Across countries, we find upside potential in real house prices in Portugal, Italy, Greece, and Spain, while in Germany and Ireland house prices probably will continue to rise. Conversely, we see sizeable risks of further corrections in real house prices in Belgium, France, Luxembourg, and Finland. In our view, the housing sector is unlikely to be the spark that could ignite the economic recovery in the EA. We continue to expect the ECB to launch a QE programme later in 2014 or in early 2015.

Figure 1. Citi Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.34	0.05	0.75	0.80	0.50	177
2Q 15	1.33	0.05	1.25	0.79	1.00	177

Source: Citi Research

Figure 2. EA Countries - Real House Prices' Misalignment (%), Q1-14



Sources: ECB, Eurostat, Haver and Citi Research

Antonio Montilla

+44-20-7986-3282
antonio.montilla@citi.com

Guillaume Menuet

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

Ebrahim Rahbari

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

Giada Giani

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

Michael Saunders

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

Ann O'Kelly

+44-20-7986-3297
ann.okelly@citi.com

[Click to play](#)

Antonio Montilla



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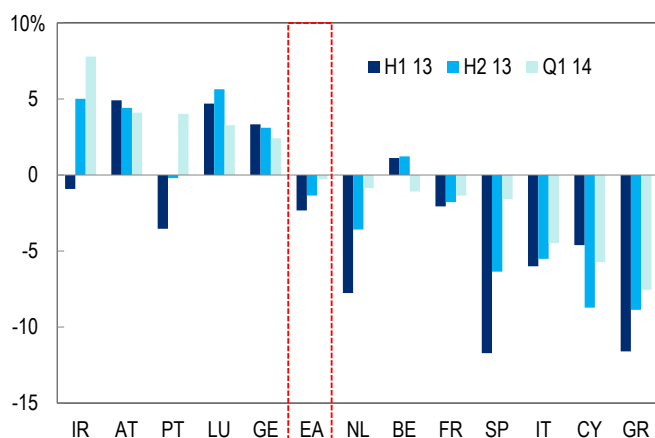
EA Housing Adjustment: Are We There Yet?

After the eruption of the financial crisis in 2007, the housing sector has remained very subdued across advanced economies (AEs). In some countries – notably in the US, UK and Ireland – the sharp decline in house prices and housebuilding has given way to strong gains over the last 12-24 months. By contrast, in the euro area (EA) **house prices have fallen less sharply**, and house prices continue to look over-valued according to some measures.

Against this background, housing-related data in the EA have shown signs of recovery in 2014: house prices (according to the Eurostat definition) fell by ‘only’ 0.3% YY in Q1 (slowest contraction since Q3 11), survey data are picking up, and real housing investment has been rising since Q3 13. These figures suggest that the correction in real house prices may be approaching an end soon.

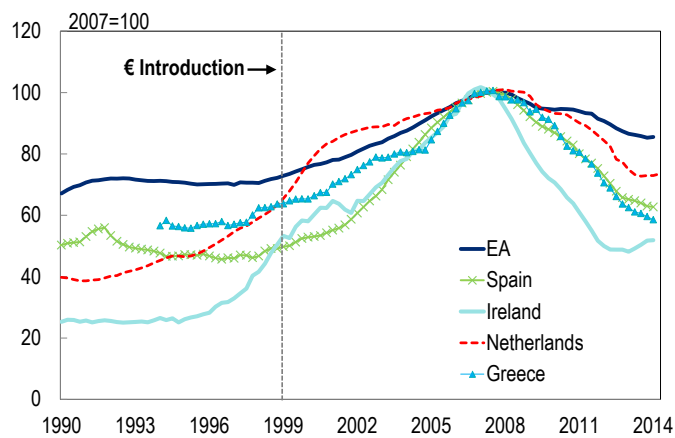
We think the correction in real house prices in the EA aggregate may indeed be ending, based on limited price misalignment (relative to fundamentals) and an already sizeable cyclical correction. However, country divergences remain very high, and poor fundamentals will likely cap real house prices growth in the medium-term at the EA aggregate level. Hence, we doubt that the housing sector will become a significant growth driver in the still weak EA economic recovery.

Figure 3. Selected EA Countries — Nominal House Prices (%YY), 2013-Q1 14



Sources: ECB, Eurostat, and Citi Research

Figure 4. Selected EA Countries — Real House Prices (2007=100), 1990-Q1 14



Note: Real house prices deflated by HICP.
Sources: ECB, Eurostat, Haver, and Citi Research

Is The Euro Area Housing Cycle Bottoming?

The fall in EA house prices has slowed in recent quarters. According to the Eurostat definition, nominal house prices fell by 0.3% YY in Q1, the smallest rate of decline since Q3 11, compared to -1.3% YY in H2 13 and -2.3% YY in H1 13. In some member states, house prices are now rising strongly, not only in Germany and Austria, but also in Ireland, Luxembourg and Portugal (see Figure 3). Official data released by INE this week also showed nominal house prices in Spain rising by 0.8% YY in Q2, the first YY increase since Q1 2008. We expect the YY growth rate of EA nominal house prices to continue improving in coming quarters, even though we do not rule out some temporary payback in Q2, if the mild weather boosted prices in Q1.

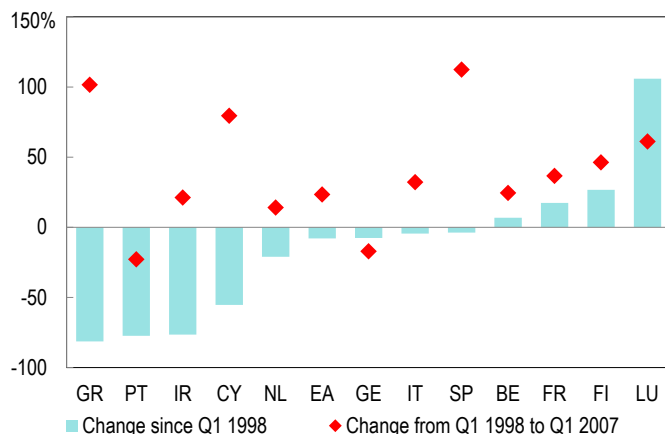
EA house prices have corrected since their 2007 peak, by 5% in nominal terms. Real house prices (deflated by HICP) have fallen by 15.2% since Q3 2007 and are back to their 2004 levels (Figure 4). The fall has been modest when compared to the 43% increase in real house prices recorded in the preceding boom

period (1998-2007), suggesting that some further price decline may still be on the cards.

Country divergences persist. Real house prices are still falling noticeably in Cyprus (-7.3% YY in Q1), Greece (-6.3%), Italy (-5.0%), Spain (-3.8%), and the Netherlands (-2.6%), but are growing by above 2% YY in Ireland, Austria, Malta, and Luxembourg. Real house prices increased the most in Ireland, Spain, Greece, and Cyprus during the expansion period (1998-2007), while only modest gains were seen in Austria and Portugal. Ireland, Greece, and Spain experienced the most severe correction in real house prices. In Belgium, France, and Finland, by contrast, real house prices have fallen by less than 10% since their peak, despite prices increases in excess of 80% in the previous ten years.

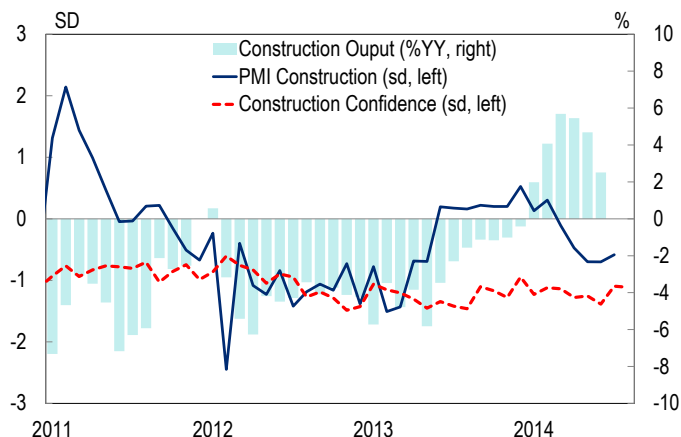
Housing activity indicators are starting to stabilise, with real housing investment expanding in the EA in Q1, despite meagre 0.2% QQ real GDP growth. Real housing investment rose by 1% QQ in Q1, largest QQ increase since Q1 11, after a 0.3% QQ decline in Q4. On annual basis, the 1.2% YY rise in Q1 marks the second positive reading since 2007. Real housing investment has fallen by 25% since its Q1 2007 peak, and even now is 8% lower than Q1 1998 levels (Figure 5). In Q2, housing investment was likely weak (data has not been released yet), however we believe Q2 data should be seen as a payback after the exceptionally strong pickup in construction activity in Q1, boosted by mild weather.

Figure 5. Selected EA Countries — Change in Real Housing Investment (%), 1998-Q1 14



Sources: Eurostat and Citi Research

Figure 6. EA — Short-term Construction Indicators, 2011-2014



Sources: Markit, Eurostat, European Commission and Citi Research

High-frequency construction indicators also point to a less-gloomy backdrop in the housing sector. Construction PMIs for example have already started to show some modest improvement, rising to 43.9 in July (vs. a 43.6 average in Q2) for the EA (see Figure 6). Construction output is up by 4.1% YY in H1 relative to the same period of last year, despite a fall of 0.7% MM in June. Moreover, the European Commission measure of construction confidence rose by 2pp in Jul-Aug relative to the Q2 average – albeit from very low levels (still 1sd below its long-term average) – while the latest building permits data indicates a gain of 3% YY. In our view, these figures suggest that construction activity is likely to recover further in coming months (in MoM or QoQ terms).

In the following sections we provide estimates of the degree of over/undervaluation in the housing markets across EA using different methods. Overall we find that EA

real house prices are slightly over-valued on some measures but broadly in line with fair value on an econometric model.

Real House Price Adjustments: Historical Evidence

A full correction of the pre-crisis boom would suggest a 17% overvaluation for EA real house prices. The simplest measure to use to estimate house price valuation misalignments assumes a full correction of the pre-crisis boom in real house prices. Figure 7 summarises dynamics of real house prices in the previous cycle across EA countries. We begin the cycle in 1998, one year before euro introduction, mainly because real house price growth/appreciation accelerated markedly from 1999, compared to a very subdued uptrend before. Real house prices would need to fall by another 17% in the EA to reach their Q1 1998 levels.

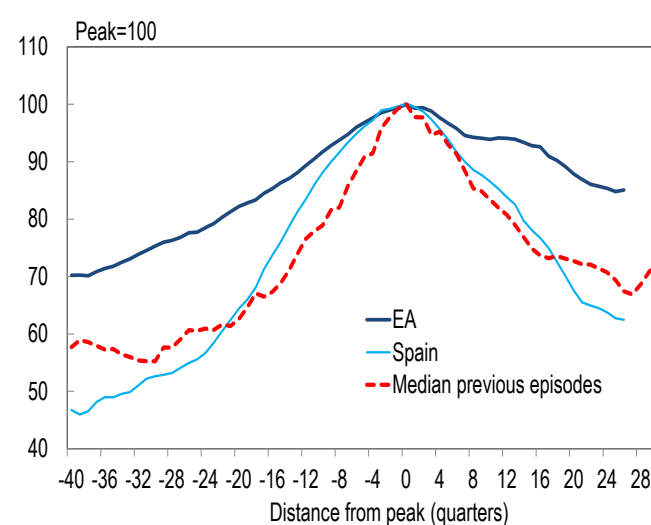
Figure 7. EA Countries — Current Real House Price Cycles and Estimates of Adjustment Needed, 1998-Q1 2014

	Peak	Trough	Durat.	Ampli.	Upturn	Durat.	Ampli.	Adj. needed (1)	Adj. needed (2)
EA	Sep-07	Mar-98	26	-15.2	38	42.6	-17.3	-5.8	
Germany	Jun-95	Mar-10	-	-	-	-	-	-	-
France	Dec-07	Mar-98	25	-9.2	39	113.7	-48.5	-37.5	
Italy	Dec-07	Mar-99	25	-20.5	35	38.5	-9.1	3.5	
Spain	Sep-07	Mar-98	26	-37.5	38	114.9	-25.5	-9.5	
Netherlands	Mar-08	Mar-98	25	-27.9	40	70.9	-18.8	-5.9	
Belgium	Dec-10	Jun-98	12	-1.9	50	79.5	-43.2	-33.0	
Greece	Sep-07	Mar-98	26	-41.8	38	61.3	6.6	23.8	
Portugal	Dec-00	Mar-98	54	-18.1	11	14.4	6.8	19.0	
Ireland	Mar-07	Mar-98	28	-52.7	36	144.7	-13.6	-0.2	
Austria	Sep-13	Mar-04	2	-1.0	38	36.7	-26.1	-16.0	
Finland	Sep-10	Mar-98	15	-3.0	50	79.6	-42.6	-32.3	
Luxembourg	Sep-13	Mar-98	2	-0.7	62	93.4	-47.9	-37.9	
Cyprus	Jun-08	Jun-02	23	-30.6	24	97.9	-27.2	-12.8	
Slovenia	Dec-07	Mar-03	25	-30.7	19	63.8	-11.8	2.6	
Estonia	Mar-07	Sep-03	28	-54.0	14	153.4	-14.1	-18.1	
Slovakia	Jun-08	Mar-05	23	-28.2	13	65.9	-16.0	-2.1	
Malta	Mar-07	Jun-00	28	-19.2	27	57.8	-21.5	-15.0	

Note: Duration (durat.) is measured in quarters, while amplitude (ampli.) corresponds to the accumulated change (%). Adjustment (Adj.) needed (1) corresponds to change needed to return to pre-boom trough. Adjustment needed (2) corresponds to change needed to return to 10pp above pre-boom trough, following median in previous episodes of house price cycles in AEs.

Sources: ECB, Eurostat, Haver and Citi Research

Figure 8. EA and Spain — Real House Prices (Peak=100) vs. Median in Previous Episodes in Advanced Economies



Note: Peak corresponds to Q3 2007 for the EA and Spain. Previous episodes taken from Igan and Loungani (2012) selecting those episodes in advanced economies with upturn duration of at least 30 quarters. See footnote 1 for the list of episodes. Sources: IMF, ECB, Eurostat and Citi Research

But historical evidence for housing cycles in AEs suggests house prices do not fully correct. In the UK for example, real house prices fell by 25% from their Q3 2007 peak before starting to increase again, despite having risen by almost 200% in the preceding boom period. The median real house price increase in 11 previous house cycles in AEs in the 1975-2000 period was around 80%, while the subsequent fall was 'only' 33%.¹ This means that real house prices normally stabilised at 10pp above the pre-boom trough level in the median house price cycle (see Figure 8). EA real house prices have fallen by 15% from the 2007 peak, after rising by 43% in the preceding boom. Applying the median house price cycle to the current phase (i.e. real house price stabilising at 10pp above pre-boom trough)

¹ We take house price cycles as identified in Igan and Loungani (2012), identified with a minimum duration of six quarters of decline (rise) in real house prices as a downturn (upturn). We select those cycles occurring only in AEs over the period 1975-2000 and pick episodes with an upturn duration of at least 30 quarters (in order to resemble the current EA cycle). The list of episodes include: Belgium (peak at Sep-79), Denmark (Jun-86), Finland (Jun-89), Italy (Jun-92), Norway (Dec-86), Spain (Dec-91), Sweden (Mar-90), Switzerland (Dec-89), UK (Sep-89), Austria (Jun-92), and Canada (Mar-89).

would imply a further decline of 6% from current levels, illustrating the possibility of a much less pronounced overvaluation versus the symmetric approach.

Country-wise, this metric proved to be a useful guide for the level at which real house prices stabilised in Ireland (see last column of Figure 7). According to this criterion countries in need of further adjustments include Malta (-15% from current levels), Cyprus (-13%), Spain (-9%), and the Netherlands (-6%). Even taking into account that real house prices exhibit an upward trend over time, Belgium, Finland, Luxembourg, and France would still be at risk of a real price adjustment of at least 30% to fit the median historical experience. By contrast, real house prices in Greece and Portugal might have probably over-corrected, while in Italy and Slovenia, prices are close to having adjusted similarly to historical norms.

Real House Price Adjustments: The Role of Fundamentals

Fundamentals are also likely to be determinant factors. While historical evidence provides us with a benchmark to assess future developments in the housing sector, it does not consider idiosyncratic drivers and their possible influence on the outlook of house prices going forward. These include among others housing finance, population dynamics, income growth, as well as regulation and government support. One may argue that in Ireland and Spain, for example, the surge in real estate prices coincided with a strong improvement in household disposable income coupled with sharp net immigration and overall loose credit conditions, and that these justified the house price boom.

Housing affordability ratios suggest a further correction of around 7% in EA real house prices to return to long-term norms. We first look at house prices relative to income and rent to have a better picture of the potential need for adjustment based on more fundamental grounds.² House price affordability does indeed appear to be useful in assessing real house price outlook: in the US and Ireland, for example, the ratio of house prices to household disposable income fell below its long-term average levels before house prices started to stabilise. In the EA, the ratio of house prices to income remains 7% above its long-term average, although falling from an “overvaluation” of 14% in 2007. Analysis of the ratio of house prices to rents yields a similar conclusion. Across countries, the ratio of house prices to income is still exceeding its long-term average noticeably in Belgium, France, and the Netherlands (see Figure 9).

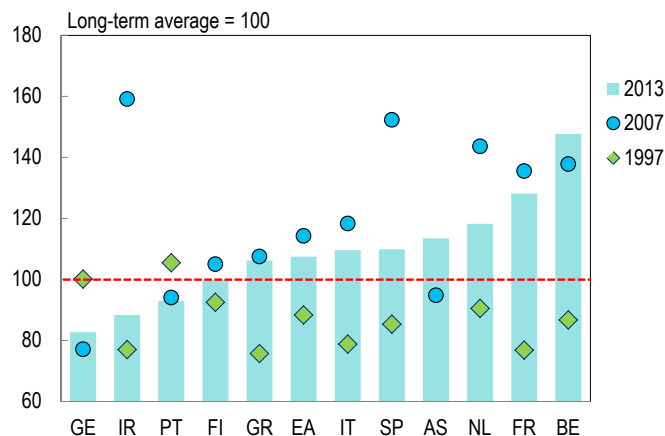
Econometric models suggest real house prices are broadly in line with fundamentals at the EA aggregate level. To take the analysis a step further, we estimate error correction models of real house prices for the period 1980-2013 for all EA countries using real GDP per capita, working-age population, and long-term interest rates as explanatory variables.³ The model thus takes into account that house prices normally increase when both population and income growth pick up, while house prices tend to fall as the cost of lending rises. Our goal is to estimate the deviation of real house prices from equilibrium values implied by a broader set

² Conclusions based on these indicators should be considered with caution due to their simplifying assumptions, and also to the presence of non-stationary properties of affordability ratios.

³ Our general assumption is that house price dynamics are driven by demand side factors while supply factors are broadly constant. We have decided to use individual equations to estimate price misalignment instead of pooling data given the large variation in housing sector dynamics across countries. Following Eagle and Granger (1987) we first estimate the long-term relationship of the variables in levels and use the estimated error series in the short-term equations (variables in log difference). We then calculate the fitted values (in log differences) and construct real house prices estimated levels by taking separately 1998, 1999, and 2000 as starting points. Our final estimated levels corresponded to the average of the constructed series using the three different starting dates.

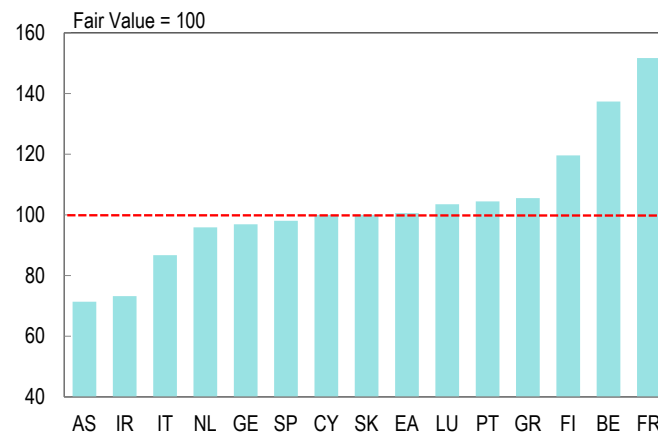
of fundamentals than just looking at housing affordability measures or dividend ratios.

Figure 9. Selected EA Countries — House Price-to-Income (Long-term Average = 100), 2013



Sources: OECD and Citi Research

Figure 10. Selected EA Countries — Real House Prices' Misalignment Relative to Fundamentals (Fair Value = 100), Q1-14



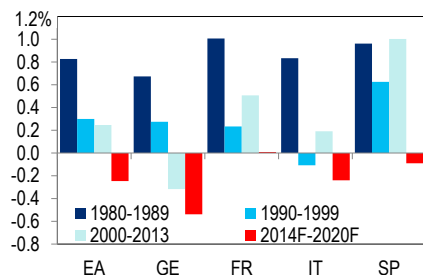
Note: fair values are estimated by individual error correction models in the period 1980-2013 relating real house prices to real GDP per capita, working-age population growth, and 10Y government bond yields.
Sources: ECB, Eurostat and Citi Research

We estimate that real house prices were broadly in line with fundamentals in the EA in Q1 14, standing only 0.6% above the estimated fitted values (see Figure 10). The deviation of EA real house prices from their underlying fundamental valuation has fallen from a 19% "overvaluation" in the Q3 2007 peak, mainly as a result of the sharp price adjustment. Moreover, their estimated '*structural*' (i.e. in line with fundamentals) growth has also slowed from around 2% YY on average in 1999-2007 to only 0.7% YY on average in the last four years, as real GDP per capita growth has slowed significantly (from 1.8% YY on average in 1999-2007 to 0.4% YY since 2010) and working-age population growth has stagnated (easing from 0.4% YY to 0% YY).

The outlook for housing market fundamentals appears feeble, as '*structural*' growth in EA real house prices is likely to remain modest in the medium-term. Taking our forecasts for EA real GDP growth and long-term interest rates, together with projections of working-age population by the United Nations, our model suggests that the '*structural*' growth rate for EA real house prices is likely to pick up to 1.8% YY on average in the 2014-18 period, or half the rate of realised real house price growth on average in 1998-2007 (of 3.6%). As noted above, adverse demographic trends (with working-age population growth already negative in all EA countries except Ireland, Luxembourg, Cyprus, and Austria) together with modest general economic conditions are likely to cap any meaningful pickup in real house prices in the future.

Cyclical headwinds as well as the lack of significant policy actions are likely to constrain real house price growth too. One may argue that real house prices can grow faster than is suggested by their fundamentals for a long period of time. However, we doubt that this outcome is likely in the EA, at least in the near-term, for three reasons:

Figure 11. Selected EA Countries — Average Working-Age Population Growth (%), 1980-2020F



Source: United Nations Population Statistics and Citi Research

- *First*, lending flows have been negligible and are likely to remain so in coming quarters. Overall mortgage lending (12M sum of lending flows divided by the outstanding stock) is still contracting in the EA (to the tune of 0.1% YY in July), although lending surveys suggest that credit standards are easing and credit demand is improving.
- *Second*, both real interest rates and private sector debt-to-GDP ratios remain high by historical standards, especially in the periphery, and while financial fragmentation has diminished somewhat, it remains significant. Fairly high levels of EA household debt (only 2pp of GDP below its 2011 peak) suggest that deleveraging pressures are likely to continue.
- *Third*, there are little signs of meaningful policy actions to support a stronger housing recovery in the EA, as in the case of the UK (i.e. 'Help to Buy' scheme). The recently-announced targeted long-term refinancing operations (TLTRO) are likely to have a positive impact on lending flows in the EA, but they explicitly exclude mortgage lending to households, making any meaningful effect on housing financing quite unlikely. However, some positive effect on mortgage lending may come from [the recent ECB decision](#) to buy residential mortgage-backed security (RMBS) assets.

Real House Price Adjustments: An Overall Assessment

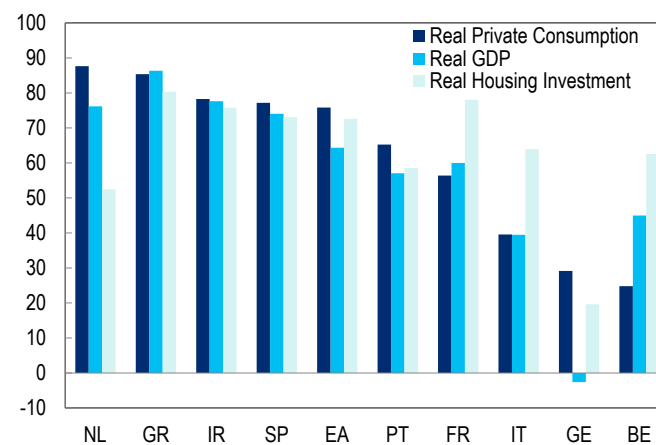
Pooling together the results implied by the different estimation methods, we rank countries in terms of their overall upside growth potential for real house prices going forward (see Figure 12 and Figure 2 on the Front Page).

Figure 12. EA Countries — Real House Prices' Misalignments (%), Q1 14

Country	Current Cycle (% to return to pre-boom trough)	Historical (% to meet adj. in median return to episode)	Price-to-income (% to LT avg)	Price-to-rent (% to LT avg)	Latest vs. implied by fundamentals (%)	Overall assessment
Belgium	-43.2	-33.0	-47.7	-59.0	-37.4	
France	-48.5	-37.5	-28.2	-30.7	-51.7	
Finland	-42.6	-32.3	0.1	-34.7	-19.6	
Luxembourg	-47.9	-37.9	N/A	N/A	-3.5	
Austria	-26.1	-16.0	-13.5	-10.7	28.6	
Malta	-21.5	-15.0	N/A	N/A	0.0	
Spain	-25.5	-9.5	-9.9	-6.3	1.9	
Cyprus	-27.2	-12.8	N/A	N/A	0.0	
Netherlands	-18.8	-5.9	-18.2	-6.7	4.1	
EA	-17.3	-5.8	-7.5	-6.8	-0.6	
Slovakia	-16.0	-2.1	N/A	N/A	0.0	
Slovenia	-11.8	2.6	N/A	N/A	0.0	
Italy	-9.1	3.5	-9.6	5.2	13.3	
Ireland	-13.6	-0.2	11.7	8.7	26.8	
Greece	6.6	23.8	-6.2	16.7	-5.5	
Portugal	6.8	19.0	7.0	13.6	-4.5	
Germany	N/A	N/A	17.3	9.8	3.1	

Note: For real house prices, pink signals overvaluation (i.e. defined as estimated change needed below -10%), orange signals valuation broadly in line with benchmark (i.e. estimated change needed between -10% and 0%), and green signals undervaluation (i.e. estimated change needed greater than 0%).
Sources: ECB, Eurostat, Haver and Citi Research.

Figure 13. Selected EA Countries — Correlation Between YY Change in Real House Prices and Real Economic Variables (%), 1996-13



Note: For Greece and Ireland sample periods start in 2000 and 1998, respectively.
Sources: ECB, Eurostat, Haver and Citi Research

Our results suggest that real house prices in the EA are broadly in line with fundamentals – no longer highly over-valued but also not significantly under-valued. We identify France, Belgium, Finland, and Luxembourg as countries where

we see the largest downside risks as house prices still generally look over-valued. While gradually improving monetary and financial conditions in these countries make a large outright correction of house prices unlikely in the near future, scope for a rebound is very limited in our view.

By contrast, we find that house prices in Greece, Portugal, and Italy have some upside potential, and that prices probably will continue to rise in Germany and Ireland. In Spain, the Netherlands, Slovakia, and Cyprus, we argue that house prices are broadly in line with fundamentals. In these countries, house prices are likely to stabilise in coming quarters, and probably will post positive, albeit modest, growth.

How Important Are House Prices for the EA Recovery?

Real house prices are strongly correlated with real economic variables. Trends in housing and wealth have been a good guide to broad economic prospects for the EA countries. Housing assets, net of mortgage debt, account for about 64% of total household wealth across the EA. Gains/losses in house prices are likely to indirectly impact consumption decisions. We calculate that the correlation between YY growth in house prices and consumer spending (both in real terms) is 80% over the 1996-2013 period in the EA (see Figure 13). In addition, rising house prices are also believed to stimulate housing construction through higher expected profitability, and they could also affect the quality of assets in banks' balance sheets.⁴ Hence, the link between real house prices and real housing investment has been also meaningful across the EA over the last years.

We expect the likely stabilisation in real house prices to continue to be coupled with modest improvements in housing investment. However, as noted above, poor fundamentals in the housing sector are likely to cap any meaningful pickup in real house prices in the medium-term.

The subdued prospects for real house prices in the EA, therefore, supports our baseline scenario of a modest recovery in economic growth. With inflation and real GDP growth expected to remain subdued in 2015, [we expect the ECB to deliver more stimulus soon](#), and policy action to take the form of a large-scale quantitative easing programme later this year or in early 2015.

⁴ See e.g. Claessens, Stijn, M. Ayhan Kose, and Marco E. Terrones, 2008, "What Happens During Recessions, Crunches and Busts?" IMF Working Paper 08/274

Figure 14. Key Economic Indicators (15 September – 19 September 2014)

During The Week		Forecast	Last
07:00	Germany: Insolvencies, Jun (by Sep 17)		
Monday 15 September		Forecast	Last
08:15	Switzerland: Producer & Import Prices, Aug		
08:30	Netherlands: Retail Sales, Jul		
09:00	Norway: Trade Balance, Aug		
10:00	Euro Area: Trade Balance, Jul		
Tuesday 16 September		Forecast	Last
08:00	Spain: Labour Costs, 2Q		
09:30	UK: Consumer Prices, Aug	0.3% MM, 1.4% YY	-0.3% MM, 1.6% YY
	CPI Ex Food, Drink, Tobacco, Energy, Aug	0.4% MM, 1.7% YY	-0.4% MM, 1.8% YY
	Retail Prices, Aug	0.4% MM, 2.4% YY	-0.1% MM, 2.5% YY
	RPIX – Ex Mortgages, Aug	0.4% MM, 2.4% YY	-0.1% MM, 2.6% YY
09:30	UK: Producer Input Prices, Aug	-0.4% MM, -6.8% YY	-1.6% MM, -7.3% YY
09:30	UK: Producer Output Prices, Aug	0.0% MM, -0.2% YY	-0.1% MM, -0.1% YY
	Output Prices Ex Tax, Aug	0.0% MM, 0.1% YY	0.1% MM, 0.2% YY
	Excluding Food, Drink, Tobacco, Energy, Aug	0.0% MM, 0.9% YY	0.0% MM, 0.9% YY
10:00	Germany: ZEW Current Situation, Sep	39.3	44.3
	ZEW Economic Sentiment, Sep	12.6	8.6
10:00	Euro Area: Labour Cost Index, 2Q		
10:00	Euro Area: Job Vacancies, 2Q		
Wednesday 17 September		Forecast	Last
07:00	EU-27: New Car Registrations, Aug		
07:30	Sweden: Riksbank Minutes		
09:00	Italy: Trade Balance, Jul-Aug		
09:30	UK: LFS Unemployment, 3-M Average, May-Jul	-122,000 QQ, 6.3% Rate	-132,000 QQ, 6.4% Rate
	LFS Unemployment, Single Month, Jul	6.0% Rate	6.4% Rate
	Claimant Count Unemployment, Aug	-30,000 MM, 2.9% Rate	-33,600 MM, 3.0% Rate
	Average Earnings Ex Bonus, May-Jul	0.9% YY	0.7% YY
09:30	UK: MPC Minutes of Sep 4 Meeting		
10:00	Euro Area: HICP, Aug Final	0.3% YY	0.4% YY
10:00	Euro Area: Construction Output, Jul		
NA	Spain: Trade Balance, Jul		
19:00	US: FOMC Outcome		
Thursday 18 September		Forecast	Last
	Scotland: Referendum on Independence		
07:00	Switzerland: Trade Balance, Aug		
08:30	Switzerland: SNB Monetary Policy Assessment		
08:30	Sweden: GDP Details, 2Q Final	0.3% QQ	0.2% QQ
08:30	Netherlands: Consumer Confidence, Sep		
08:30	Netherlands: Unemployment, Aug		
09:00	Norway: Norges Bank Interest Rate Decision	Unchanged at 1.50%	1.50%
09:30	UK: Retail Sales Volumes, Aug	1.0% MM, 4.7% YY	0.1% MM, 2.6% YY
10:00	Italy: Current Account, Jul		
10:00	Greece: Unemployment Rate, 2Q		
11:00	UK: CBI Industrial Trends Survey – Output Expectations, Sep	+30%	+31%
	CBI Order Books, Sep	+10%	+11%
	CBI Selling Prices, Sep	-1%	-1%
11:00	Ireland: GDP, 2Q		
11:00	Ireland: Balance of Payments, 2Q		
	Portugal: Current Account, Jul		
Friday 19 September		Forecast	Last
07:00	Germany: Producer Prices, Aug	-0.2% MM, -0.8% YY	-0.1% MM., -0.8% YY
07:45	France: Wages, 2QF		
08:30	Netherlands: Consumer Spending, Jul		
09:00	Euro Area: Balance of Payments, Jul		
14:00	Belgium: Consumer Confidence, Sep		
During the Weekend		Forecast	Last
	G20: Meeting of Finance Ministers and Central Bankers, Cairns, Australia		

Sources: National statistical offices, central banks and Citi Research

Figure 15. Economic Indicators – Comments: Euro Area, Germany and United Kingdom

Euro Area			
Sep 17 10:00 London Time	HICP, Aug Final	Forecast: 0.3% YY	Prior: 0.4% YY
	Headline inflation likely to be confirmed at 0.3% YY in August, but we see some small chances of an upward revision to 0.4% (as the YY rate was estimated at 0.34% in the flash reading). Breakdown details are likely to show that the increase in the core inflation rate in August (ex-energy and food) was mainly driven by calendar effects in summer sales' clothing prices, and hence likely to be reversed in the Sept-Oct readings. We expect headline inflation to remain at 0.3% YY in September, amid persistent weakness in energy prices as well as a generalised subdued dynamic in core inflation.		
Germany			
Sep 16 10:00 London Time	ZEW Current Situation, Sep	Forecast: 39.3	Prior: 44.3
	ZEW Economic Sentiment, Sep	Forecast: 12.6	Prior: 8.6
	We expect the German ZEW index of financial market analysts to show a continued decline in September for the current conditions component and a first rise after eight consecutive declines in the economic sentiment index. After a fairly long string of weak data, the most recent releases, including for industrial orders, IP and exports suggest that the outlook may not be as weak as the latest survey readings suggest. However, it is worth noting that historically very large declines in the ZEW expectations index, as experienced in August when the economic sentiment index fell by 17 points, are often followed by further, and smaller, declines rather than a rebound.		
Sep 19 07:00 London Time	Producer Prices, Aug	Forecast: -0.2% MM, -0.8% YY	Prior: -0.1% MM, -0.8% YY
	We expect YY German producer price inflation in August to be unchanged compared to July and to see a MM decline in producer prices of 0.2%. German PPI inflation has been negative since August 2013, but rates of PPI deflation have been pretty stable at just below -1% YY since the beginning of the year. In coming months we would expect a very slow and gradual uptick in PPI inflation towards zero.		
United Kingdom			
Sep 16 09:30 London Time	Consumer Prices, Aug	Forecast: 0.3% MM, 1.4% YY	Prior: -0.3% MM, 1.6% YY
	Ex Food, Drink, Tobacco, Energy, Aug	Forecast: 0.4% MM, 1.7% YY	Prior: -0.4% MM, 1.8% YY
	Retail Prices, Aug	Forecast: 0.4% MM, 2.4% YY	Prior: -0.1% MM, 2.5% YY
	RPIX – Ex Mortgages, Aug	Forecast: 0.4% MM, 2.4% YY	Prior: -0.1% MM, 2.6% YY
	CPI food price inflation already has weakened sharply, falling from 4.8% YY in Sep-13 to minus 0.6% YY in July this year. With import prices and producer prices for the food sector down by 1.8% YY and 1.5% YY respectively, we look for CPI food price inflation to fall to minus 1.4% YY this month – the sharpest drop since 2003 – hence pulling CPI inflation down a bit further.		
Sep 16 09:30 London Time	Producer Input Prices, Aug	Forecast: -0.4% MM, -6.8% YY	Prior: -1.6% MM, -7.3% YY
	Input prices already have fallen in 13 of the past 16 months and, even though sterling slipped back a little in August, declines in commodity prices probably will produce another decline in input prices this month. All this is likely to help keep CPI inflation subdued in the next couple of quarters.		
Sep 16 09:30 London Time	Producer Output Prices, Aug	Forecast: 0.0% MM, -0.2% YY	Prior: -0.1% MM, -0.1% YY
	Output Prices Ex Tax, Aug	Forecast: 0.0% MM, 0.1% YY	Prior: 0.1% MM, 0.2% YY
	Ex Food, Drink, Tobacco, Energy, Aug	Forecast: 0.0% MM, 0.9% YY	Prior: 0.0% MM, 0.9% YY
	Surveys suggest that manufacturers' expectations for their selling prices have weakened in recent months, and with the disinflationary effects of recent sterling strength, we expect that output price inflation will remain very weak.		
Sep 17 09:30 London Time	LFS Unemployment, 3-M Avg, May-Jul	Forecast: -122,000 QQ, 6.3% Rate	Prior: -132,000 QQ, 6.4% Rate
	LFS Unemploy'm't, Single Month, Jul	Forecast: 6.0% Rate	Prior: 6.4% Rate
	Claimant Count Unemployment, Aug	Forecast: -30,000 MM, 2.9% Rate	Prior: -33,600 MM, 3.0% Rate
	Average Earnings Ex Bonus, May-Jul	Forecast: 0.9% YY	Prior: 0.7% YY
	With surveys suggesting that firms' hiring intentions remaining extremely strong, we expect the jobless rate will continue to fall rapidly, and a figure in line with our forecast would put the jobless rate at the lowest since late 2008, with the biggest six-month drop for more than 40 years. Average earnings growth is likely to remain weak, partly reflecting the composition effects from the expansion of employment in low-pay sectors and low-pay demographics.		
Sep 18 09:30 London Time	Retail Sales Volumes, Aug	Forecast: 1.0% MM, 4.7% YY	Prior: 0.1% MM, 2.6% YY
	Retail sales volumes have been flattish in the last few months, with volumes in July still a little below the April level. Given the strong trends in consumer confidence and the CBI retail survey, we look for a fairly strong rebound in retail sales in August.		
Sep 18 11:00 London Time	CBI Industrial Trends Survey, Sep		
	Output Expectations Net Balance., Sep	Forecast: +30%	Prior: +31%
	Order Books Net Balance, Sep	Forecast: +10%	Prior: +11%
	Selling Prices Net Balance, Sep	Forecast: -1%	Prior: -1%
	Recent months have seen the series for output expectations and order books both roughly one standard deviation above average, but with price expectations close to zero, and we expect a similar figure this time.		

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

Figure 16. Economic Indicators – Comments: Sweden and Norway

Sweden

Sep 17

07:00

London Time

Riksbank Minutes

At the 4 September monetary policy meeting, a unanimous Riksbank left the key policy rate unchanged at 0.25% and lowered its conditional interest rate path from mid-2016 and onwards (by 5-10bp). In other words, the Riksbank maintained its 3bp short-term easing bias and continues to signal a first rate hike late next year. The Riksbank reiterated that extraordinary policy measures will be considered if cutting the repo rate further and lowering the conditional interest rate path does not prove sufficient to bring inflation back to target. The Bank also urged regulators to do more to handle financial risks. With no reservations made of any kind, it will be interesting to see where the different board members stand in terms of additional policy easing. We will also look for any potential discussion on more formal forward guidance.

Sep 18

08:30

London Time

GDP, 2Q Final

Forecast: 0.3% QQ

Prior: 0.2% QQ

The Swedish economy returned to growth in the second quarter, but GDP was up by a weaker-than-expected 0.2% Q/Q. With a 0.1% QQ contraction in 1Q, the economy nearly stagnated in the first half of the year. Meanwhile, the 2Q GDP flash estimate is based on a smaller data set than other quarters at this stage (as is the case every year), and is published early to provide information to assist the government in preparing its autumn bill. We reckon the 2Q flash estimate underestimates the strength of the Swedish economy, and expect it to be revised up. While the 2Q inventories data was basically in line with the flash inventories data in the preliminary 2Q national accounts data, stronger-than-expected household spending growth in June and its strong weight in GDP (50%) clearly supports an upward revision of 2Q GDP growth.

Norway

Sep 18

09:00

London Time

Interest Rate Decision

Forecast: 1.50%

Prior: 1.50%

Despite signalling a 30% probability of near-term easing in the June conditional interest rate path, we expect Norges Bank to confirm its wait-and-see stance at the September monetary policy meeting. Clearly, the surprise cut from the ECB earlier this month will put Norges Bank in a difficult situation: however, we do not believe it will be sufficient to trigger a rate cut given upside surprises in domestic growth, inflation and labour market indicators. Recall that in the June statement, Norges Bank made a rate cut conditional on “further weakening” of domestic growth. Meanwhile, there is little doubt that lower foreign interest rates (and associated NOK strength), in isolation, will lower the conditional interest rate path, but history suggests it primarily will affect the long-end of the rate path. In other words, Norges Bank could well signal an even more gradual pace of monetary tightening ahead, and will probably refrain from appearing hawkish at the September meeting (i.e. maintain its near-term easing bias).

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

Figure 17. Key Economic Indicators (22 September – 26 September 2014)

During The Week		Forecast	Last
07:00	Germany: Retail Sales, Aug (by Sep 30)		
07:00	Germany: Import Prices, Aug (by Sep 30)		
Monday 22 September		Forecast	Last
09:00	Italy: Industrial Orders, Jul-Aug		
15:00	Euro Area: Consumer Confidence, Sep Flash		
	Greece: Current Account, Jul		
Tuesday 23 September		Forecast	Last
07:45	France: GDP Details, 2QF		
07:45	France: Industrial Confidence, Sep		
09:00	Euro Area: Flash PMIs, Sep		
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Intervention), Aug		
09:30	UK: BBA Loans for House Purchase, Aug		
Wednesday 24 September		Forecast	Last
08:00	Sweden: Business & Consumer Surveys, Sep		
08:30	Netherlands: GDP Details, 2Q		
08:30	Netherlands: Producer Confidence, Sep		
09:00	Italy: Consumer Confidence, Sep		
09:00	Germany: ifo Business Climate, Sep		
09:00	Norway: Unemployment, Jul		
14:00	Belgium: Business Confidence, Sep		
17:00	France: Jobseekers, Aug		
Thursday 25 September		Forecast	Last
08:00	Spain: Producer Prices, Aug		
08:30	Sweden: Producer Prices, Aug		
08:30	Sweden: Household Lending, Aug		
09:00	Italy: Contractual Wages, Aug		
09:00	Euro Area: M3, Aug		
10:00	Italy: Retail Sales, Jul		
11:00	UK: CBI Retail Survey, Sep		
Friday 26 September		Forecast	Last
07:00	Germany: GfK Consumer Confidence, Oct		
07:45	France: Consumer Confidence, Aug		
08:30	Sweden: Trade Balance, Aug		
09:00	Italy: Business Confidence, Sep		
	UK: UKIP Party Conference, Doncaster, Sep 26-27		

Sources: National statistical offices, central banks and Citi Research

Figure 18. Recent Research

Euro Area - Sovereign Debt Update		
Draghi Calls for Fiscal and Monetary Policy Joint Actions	European Economics Team	Sep 12, 2014
ECB's Mersch Explains Hurdles To QE	European Economics Team	Sep 11, 2014
France: 2015 Deficit Target Raised to 4.3% of GDP	European Economics Team	Sep 10, 2014
ECB/EBA Stress Tests May Be Published on Oct 24	European Economics Team	Sep 9, 2014
ECB's Stimulus Measures May Amount to €800bn	European Economics Team	Sep 8, 2014
Euro Area		
Euro Area - ECB Cuts Rates and Announces Asset Purchase Programme	Guillaume Menuet	Sep 4, 2014
Euro Area - Euro Area: What Are The Prospects For Fiscal Easing?	Ebrahim Rahbari	Sep 3, 2014
Euro Area - Inflation Hit a New 5-Year Low	Giada Giani	Aug 29, 2014
Euro Area - ECB Preview: Will Draghi Highlight Downside Risks to Inflation?	Guillaume Menuet	Aug 28, 2014
Euro Area - ECB Draghi Notes Fall in Inflation Expectations	Guillaume Menuet	Aug 26, 2014
Global Economic Forecasts – August 2014	Michael Saunders	Aug 26, 2014
Euro Area - PMIs Suggest Very Little Room for Economic Rebound in H2 14	Giada Giani	Aug 21, 2014
Euro Area - SPF Survey: Downward Drift In 2014-15 Inflation Expectations	Guillaume Menuet	Aug 14, 2014
Euro Area: NFC Net Borrowing Falling More Slowly	Antonio Montilla	Aug 12, 2014
European Economic Indicators – Week Ahead	Michael Saunders	Aug 8, 2014
Euro Area - ECB – Happy To Wait And See, For Now	Giada Giani	Aug 7, 2014
Italy - Why is the Economy Underperforming so Badly?	Giada Giani	Aug 6, 2014
Europe: Monthly Inflation Profiles for Selected Countries	Ann O'Kelly	Jul 31, 2014
European Economic Forecast Highlights, July 2014	Ann O'Kelly	Jul 31, 2014
Euro Economics Weekly		
Low-inflation Is Here To Stay	Giada Giani	Sep 5, 2014
Is the Period of German Outperformance Over?	Ebrahim Rahbari	Aug 29, 2014
ECB QE: Why, When and How?	Guillaume Menuet	Aug 22, 2014
What's Behind the Periphery Growth Outperformance?	Giada Giani	Aug 15, 2014
How Might Russia Developments Affect The Eurozone Economy?	Ebrahim Rahbari	Aug 1, 2014
France: More Reforms to Jump Start Confidence?	Guillaume Menuet	Jul 25, 2014
Public Debt Sustainability: Has It Really Been Restored?	Giada Giani	Jul 18, 2014
Why Banking Union Matters: Then and Now	Ebrahim Rahbari	Jul 11, 2014
Is The Euro Area Recovery at Risk of Faltering?	Guillaume Menuet	Jul 4, 2014
Weak Pay Trends Imply Further Inflation Undershoot	Giada Giani	Jun 27, 2014
A Great Rotation towards Eurozone Portfolio Assets?	Ebrahim Rahbari	Jun 20, 2014
Labour Market Slack	Giada Giani	Jun 13, 2014
ECB TLTRO: Ambitious But Probably Not Enough, QE Lies Ahead	Guillaume Menuet	Jun 6, 2014
Negative Deposit Rate: Limiting Risks, Limited Upside	Ebrahim Rahbari	May 30, 2014
Chief Economist Publications		
Global Economic Outlook and Strategy — August 2014	Willem Buiter	Aug 20, 2014
Scandi and Swiss		
Scandi Economics Update		
Norway - RNR Points to Ongoing Moderate Growth, in line with NB Forecast	Tina Mortensen	Sep 12, 2014
Sweden - Temporary Dip in Inflation, Strong Labour Market Trends	Tina Mortensen	Sep 11, 2014
Norway - Reversal in Food Prices Lowers Inflation in August	Tina Mortensen	Sep 10, 2014
UK		
UK - Treasury Survey On Economy	Michael Saunders	Sep 10, 2014
UK - New Scotland Poll Shows Statistical Dead Heat	Michael Saunders	Sep 9, 2014
UK - YouGov Scotland Poll Shows Narrow Lead for "Yes" Vote	Michael Saunders	Sep 8, 2014
UK - REC Survey Suggests Labour Market Remains Buoyant	Michael Saunders	Sep 5, 2014
UK Economics Weekly		
Resolving The Labour Market Puzzles	Michael Saunders	Sep 5, 2014
Rewriting the Economy's Past and Present	Michael Saunders	Aug 29, 2014
Scottish Independence Referendum: Less Than A Month To Go	Michael Saunders	Aug 22, 2014
Change in Rate View	Michael Saunders	Aug 15, 2014
IR to Signal Shift in the MPC's Outlook	Michael Saunders	Aug 8, 2014

Source: Citi Research

Appendix A-1

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