8 February 2013 | 16 pages **Europe**

Euro Economics Weekly

Spain — It's All About The Lack of Growth

- The controversy of the past week related to corruption allegations against members of Spain's ruling party Partido Popular, which shifted market attention back to Spain after a prolonged *"no-news-is-good-news"* phase since last summer. Beyond the corruption allegations, we still think that record-high unemployment and continued recession will likely be key factors potentially threatening government stability in coming quarters.

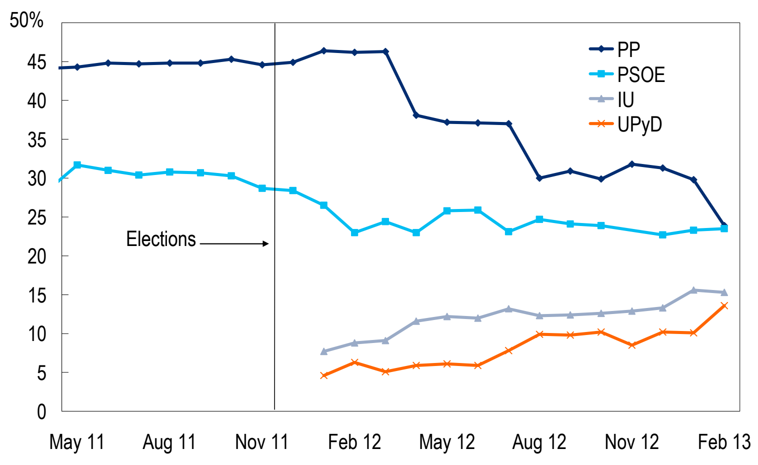
- The rebalancing of the Spanish economy has definitely started but we think the process is going to be long and major headwinds are likely to prevent growth from returning any time soon. We think the likely lack of growth will be a critical factor for Spain in the next few years as it would impede stabilization of the unemployment rate. It will probably also cause persistent fiscal overshooting, possibly higher financial support costs for the government due to rising NPL ratios, and raise further concerns about public debt sustainability (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
1Q 13	1.35	0.75	1.55	0.84	0.50	36	8.67	0.75	7.47	2.30	1.24	0.00	-95
1Q 14	1.31	0.25	1.25	0.81	0.50	41	8.46	0.75	7.31	2.35	1.24	0.00	-81

Source: Citi Research

Figure 2. Spain – Voting Intentions (%), May-11–Feb 13



Sources: Metroscopia, El Pais and Citi Research

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Spain — It's All About The Lack of Growth

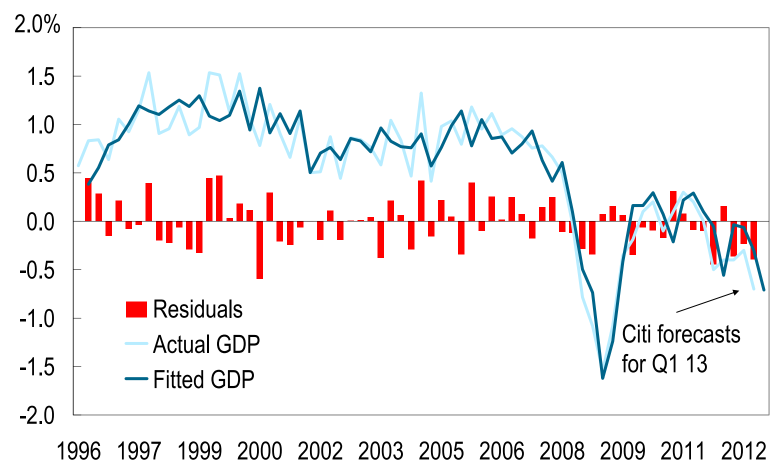
Corruption allegations may reinforce a trend of increasing dissatisfaction with the government

The controversy of the past week related to corruption allegations against members of Spain's ruling party Partido Popular (PP), including PM Mariano Rajoy, has shifted market attention back on Spain after a prolonged *"no-news-is-good-news"* phase since last summer. Austerity, among other factors, had already caused PP to lose 15pp in the polls since the November 2011 election; some polls now suggest PP is running neck-and-neck with the Socialists (see Figure 2 on the Front Page). While the authenticity of the allegations remains unclear at this stage, uncertainty around the matter is unlikely to be resolved quickly and we think this may compromise the government's effectiveness in implementing further painful reforms in the near-term. Even beyond the corruption allegations, we still think that record-high unemployment and continued recession will be key factors threatening government stability. We think the lack of growth will be a critical factor for Spain in the next few years as it would impede the much-hoped for stabilization in the unemployment rate, probably cause persistent fiscal overshooting, possibly increase financial support costs for the government due to rising NPL ratios, and raise further concerns about public debt sustainability.

The economy has behaved poorly amid improved market sentiment

There is a striking contrast between the improvement in market sentiment towards Spain since the summer and the renewed sharp deceleration of the Spanish economy over the same period. GDP fell by 0.7% QQ in Q4 — the steepest decline since Q1 09; if we take the Bank of Spain's estimate (official figures on GDP details will be published on 28 Feb), domestic demand fell by 1.9% QQ in Q4 12 — the worst quarterly contraction (except for Q1 09) since the series began in 1995. Other indicators also suggest the economy is doing worse than six months ago: employment, as measured by people registered with the social security, dropped by 1.4% QQ in Q4 — the worst rate of contraction since Q2 09 — and house price declines widened to -10% YY in Q4 12 (based on the Ministry of Housing data), the fastest pace of contraction since the bubble burst.

Figure 3. Spain — GDP Quarterly Growth: Actual, Forecast and Model Residuals, 1996-Q1 13F



Note: Forecasts based on one-quarter ahead GDP model
Sources: INE and Citi Research

Recent data suggest Q1 13 may not look much better than Q4 12

Survey-based indicators have been somewhat more mixed, with the EU Commission Economic Sentiment Indicator failing to show similar improvements as in other euro area countries, while PMIs — especially the services PMI — up to January showed more substantial gains, despite remaining well below the 50-mark and its long-run average. Q1 private consumption is likely to remain very weak, as December retail sales dropped by around 2% MM (based on our computation of

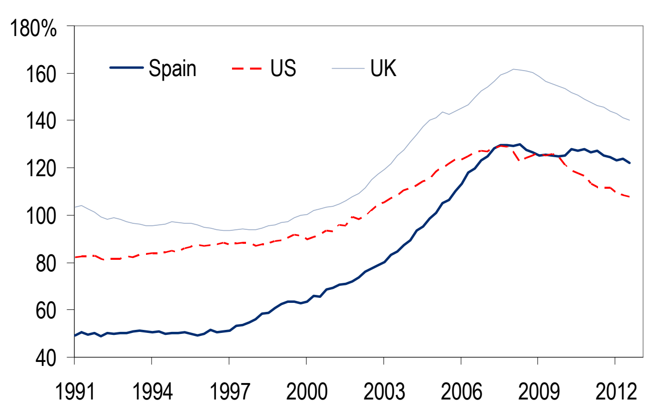
seasonal factors), generating a negative carry-over effect for Q1. While industrial output was up slightly in December (+0.5% MM, after a 2.1% MM drop in November), industrial business confidence dropped again in January. Housing demand — and perhaps prices too — may show further deceleration in Q1 13, reflecting the scrapping of tax rebates on mortgage interest and the hike in the VAT rate on new houses (from 4% to 10%). The Bank Lending Survey showed Spanish banks are expecting a large fall in housing loan demand in Q1 13. Taking all the information available, our one-quarter ahead model suggests that Q1 13 GDP growth may not be much better than Q4 12 (-0.7% QQ) (see Figure 3).

Admittedly, significant policy steps have been taken since the summer to address Spanish economic imbalances, among which the restructuring of the banking sector via the creation of a "bad bank" (SAREB) and the recapitalization of the banking sector with around 4pp of GDP is probably the most important and anticipated one. The step-up of fiscal consolidation efforts via the two-year fiscal package approved in July is another noticeable measure. However, we still see several major headwinds which, in our view, will prevent Spain from returning to positive growth any time soon. While the government forecast for 2013 GDP (-0.5%) is probably going to be revised lower in the near future, we reckon also the consensus for 2013 Spanish growth (-1.6%) remains somewhat optimistic. We expect GDP to fall by 2.2% this year and another decline by 2.0% next year (partly due to the negative implications of a Greek exit from the euro area, which we still anticipate in 2014).

Private deleveraging is likely to remain the dominant theme in the Spanish economy

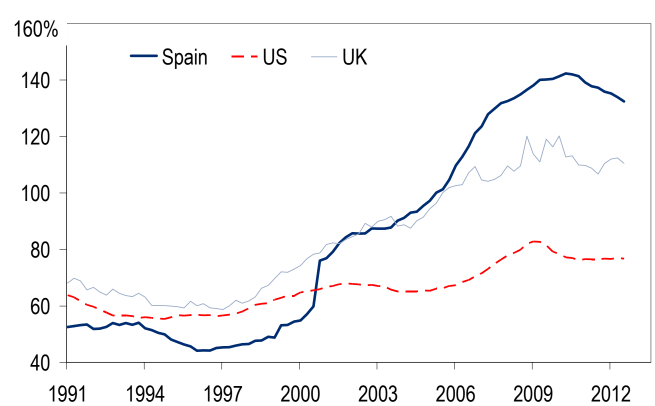
Private deleveraging, we think, will remain the major driving force of economic developments in Spain. Although some meaningful progress has been achieved in the past three years in corporate sector rebalancing, the private debt burden remains exceptionally high in historical and cross-country comparisons. Household debt as a percentage of disposable income as of Q3 12 was only marginally lower relative to the peak in mid-2010 (122.2% versus 128% in Q3 10). The same ratio in the UK and US has fallen by about 20pp from the peak (see Figure 4). Corporate debt has fallen more — by about 30pp in terms of value added, about 10pp in terms of GDP — but it remains at extraordinarily high levels (see Figure 5). The creation of the bad bank may speed up the write-off of bad debts, but we reckon the road towards a more sustainable private sector balance sheet is still long.

Figure 4. Selected Countries — Household Debt As Pct. of Disposable Income, 1991-Q3 12



Sources: Eurostat, Haver Analytics and Citi Research

Figure 5. Selected Countries — Corporate Debt As Pct. of GDP, 1991-Q3 12

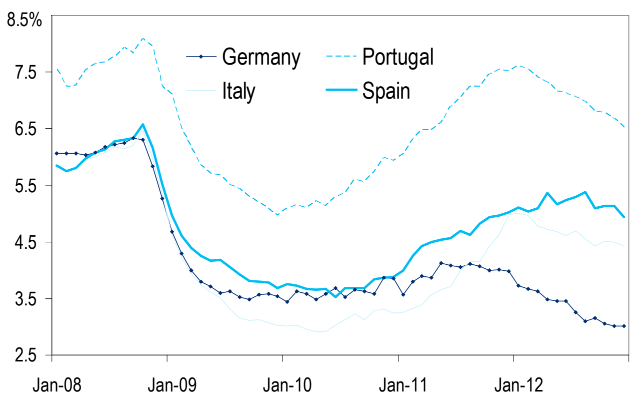


Sources: Eurostat, Haver Analytics and Citi Research

Financing conditions remain a headwind to recovery

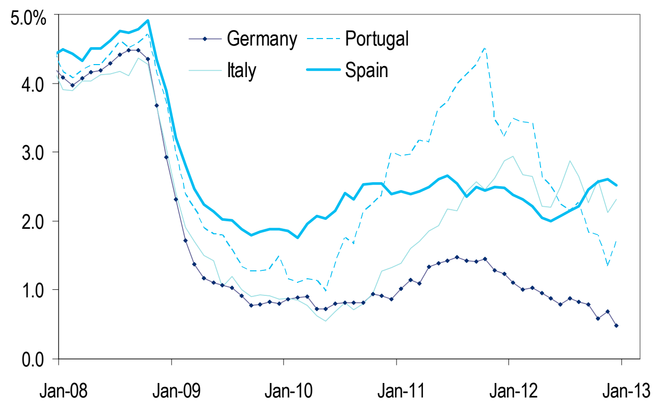
Moreover, we think financing conditions will remain tight, increasing risks of a bumpy deleveraging. There are few signs so far that the improved funding costs for the sovereign are being transmitted to the private sector, especially to SMEs. As of December, bank lending rates on new loans up to €1 million had just stabilized around the summer peak (see Figure 6), although some easing has emerged on larger loans. Mortgage rates have come off more substantially (around 80bp since the peak in early 2012), but mortgage demand will likely keep shrinking on the back of still-falling housing prices. Moreover, in contrast with other peripheral countries, bank deposit rates (on new deposits with agreed maturity) have actually risen by around 50-60bp since the summer, reflecting a renewed "deposit war" for market share in a shrinking domestic market and probably creating additional funding stresses for the smallest institutions (see Figure 7).

Figure 6. Selected Euro Area Countries — Bank Lending Rates to Non-Financial Corporations (New Loans, Below €1 million), 2008-Dec 2012



Sources: ECB and Citi Research

Figure 7. Selected Euro Area Countries — Bank Deposit Rates (New Deposits with Agreed Maturity), 2008-Dec 2012



Sources: ECB and Citi Research

Fiscal policy will stay tight even if deficit targets are revised upwards

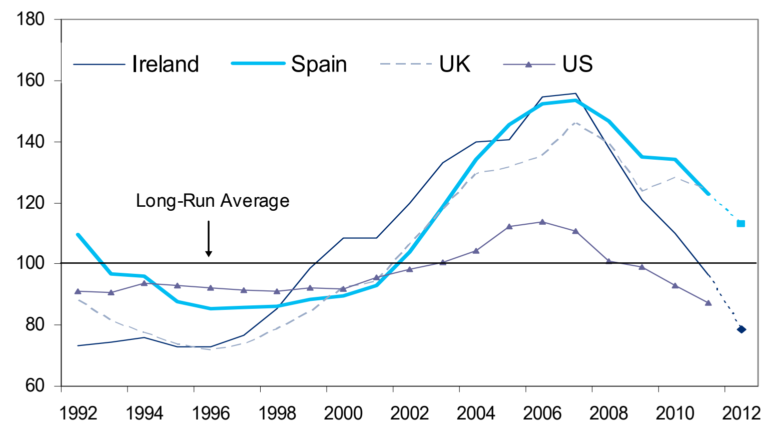
Admittedly, recent economic weakness largely reflects the sizable fiscal tightening package introduced last summer, worth about 5pp of GDP over a 2½ year period, including a 3pp VAT rate hike and the elimination of the public sector Christmas bonus, which both took effect in Q4 12. Fiscal consolidation efforts have clearly been stepped up since the bank bailout agreement last summer. The EU Commission (in the November 2012 forecasts) sees the structural deficit falling from 7.5% in 2011 to 6.3% at the end of 2012 — still the second widest in the Eurozone after Ireland. This suggests additional fiscal consolidation efforts are likely to be required from Spain over the next couple of years, even if it is agreed — likely in our view — that the 2013 deficit target (4.5% of GDP) is revised upward. The estimated fiscal adjustment in 2013, based on the government's estimates, will be similar to the one adopted in 2012 — i.e., about 2.5pp of GDP. With the household saving rate already well below its long-run average (at 7.7% in Q4 12, versus a pre-crisis average of 11%), we think the scope for the private sector to continue to absorb a tighter fiscal stance through a decline in the saving rate is becoming increasingly limited. We expect tight fiscal policy to remain a major headwind for economic growth in 2013 and in 2014.

Housing adjustment far from being completed

Finally, the housing adjustment is far from completed, in our view, and should continue to create negative wealth effects, increasing NPL ratios, and falling construction investment and output in the next couple of years. Mortgage approvals continue to shrink at a fast pace: at a rate of around 19k per month, the pace of mortgage approvals is now less than 1/5 of what it used to be in pre-crisis times.

Yet, supply and demand for housing remains highly out of sync as the stock of unsold houses is still large and housing approval figures point to at least another 18-24 months before completions could hit bottom. Despite the 30% drop from the peak, prices relative to incomes and to rents are still well above their long-run averages (by about 23-25% at the end of 2011 according to the OECD indicators; see Figure 8). We estimate the house price adjustment may take another two-three years to complete, assuming the pace of price declines remains similar to the recent trend (6-7% annually).

Figure 8. Spain, Ireland UK and US — House Prices to Income Ratios (Long-Run Average = 100), 1992- 2012F



Note: 2012 data for Spain and Ireland are Citi estimates based on national data for house prices and incomes.
Sources: OECD and Citi Research

Exports will be the brightest spot, thanks to improved competitiveness…

On a positive note, Spanish exports are increasingly benefiting from improved competitiveness. Unit labor costs (ULC) have been on a downward trend since Q1 2010 (-7.2% according to ECB data). The improvement is broad-based across the main economic sectors and somewhat more marked in manufacturing (-11%), the most relevant sector for exports. True, ULC improvements have been so far achieved via a sharp reduction in employment and gains in "apparent productivity"; wage growth has abated, but outright wage declines have been recorded only in the public sector and in real estate. Compensation per employee in manufacturing grew by 2.1% YoY in 2012. Nevertheless we expect wage growth to continue moderating, supporting the competitive position of Spanish firms, especially relative to their closest competitors in the euro area (predominantly Italy and France) where the ULC dynamic remains much less favorable.

…although still not large enough to offset falling domestic demand

Indeed, our recent analysis on export prospects finds that Spain is among one of the best placed countries in the euro area to experience export outperformance in coming quarters[1]. However, Spain is a large and relatively closed economy, as its share of exports in GDP is around 27% of GDP, which compares, for example, with 48% in Germany and above 100% in Ireland. The rebalancing of the Spanish economy in our view has to go through a structurally higher level of exports and structurally lower imports, in line with a more sustainable consumption and investment path. Net exports will therefore likely continue to provide a positive contribution to GDP growth. But we doubt the export sector, at least for the next couple of years, will be large enough to offset the weakness in domestic demand.

[1] See "Euro Economics Weekly: Global Export Bounce: Greece, Ireland & Spain Set to Outperform, 25 January 2013, Citi"

A bleak growth outlook is a major impediment to the stabilization of public debt

Weak growth prospects are crucial for the assessment of public debt sustainability. General government debt likely rose to 88% of GDP at the end of 2012, from a trough of 36.3% in 2007. Based on our estimates for nominal GDP growth and fiscal balances (and assuming some additional costs for financial support of the banking system), we expect the debt ratio to keep rising to about 110% by 2014. Although the recent bank recapitalization reduces the uncertainty around the cost of additional government financial support, at least in the near term, we reckon that concerns about the ability of the Spanish government to deliver the required fiscal adjustment needed to stabilize the debt ratio will resurface at some point. We estimate that Spain may need to achieve a primary surplus of around 1% of GDP (from a deficit of around 4% of GDP, net of bank financial support costs in 2012) to stabilize the debt ratio just above the 110% mark.

With rising political risks, leading to a possible further weakening of Rajoy's government, the economy likely continuing to underperform, and budget data likely to overshoot, we still expect markets to force Spain to enter a precautionary ESM program — making the country also eligible for OMT — in the course of 2013. Over the medium term, probably in 2015 or 2016, we believe some form of sovereign debt restructuring — perhaps via a combination of maturity lengthening and coupon reductions — may still be likely, once it becomes clear to European policymakers that fiscal austerity alone may not be able to restore fiscal sustainability — unless more willingness for debt burden sharing across the eurozone countries has emerged by then.

Key Economic Indicators (11 February – 15 February 2013)

Monday 11 February		**Forecast**	**Last**
07:45	France: Industrial Production, Dec	0.0% MM, -1.8% YY	0.5% MM, -3.6% YY
	Manufacturing Production, Dec	0.2% MM, -2.5% YY	0.2% MM, -4.6% YY
09:00	Norway: Consumer Prices, Jan	-0.5% MM, 1.0% YY	0.3% MM, 1.4% YY
	CPI-ATE, Jan	-0.6% MM, 1.0% YY	-0.1% MM, 1.1% YY
16:00	Euro Area: Eurogroup Meeting (Brussels)		
Tuesday 12 February		**Forecast**	**Last**
00:01	UK: RICS House Price Survey, Jan		
	EU: EcoFin Meeting (Brussels)		
07:45	France: Balance of Payments, Dec		
08:15	Switzerland: Consumer Prices, Jan		
09:30	UK: Producer Input Prices, Jan	0.9% MM, 1.1% YY	-0.2% MM, 0.3% YY
09:30	UK: Producer Output Prices, Jan	0.2% MM, 2.0% YY	-0.1% MM, 2.2% YY
	Excluding Food, Drink, Tobacco, Energy, Jan	0.1% MM, 1.3% YY	0.0% MM, 1.5% YY
09:30	UK: Consumer Prices, Jan	-0.3% MM, 2.9% YY	0.5% MM, 2.7% YY
	CPI Ex Food, Drink, Tobacco, Energy, Jan	0.5% MM, 2.5% YY	0.5% MM, 2.4% YY
09:30	UK: Retail Prices, Jan	-0.6% MM, 3.1% YY	0.5% MM, 3.1% YY
	RPIX – Excludes Mortgages, Jan	-0.6% MM, 3.0% YY	0.4% MM, 3.0% YY
Wednesday 13 February		**Forecast**	**Last**
08:15	Switzerland: Producer & Import Prices, Jan		
08:30	Sweden: Riksbank Monetary Policy Outcome	25bp Rate Cut to 0.75%	1.0%
08:30	Netherlands: Consumer Prices, Jan		
08:30	Netherlands: Retail Sales, Dec		
09:00	Norway: Mainland GDP, 4Q	0.3% QQ	0.7% QQ
10:00	Euro Area: Industrial Production, Dec	0.2% MM, -2.4% YY	-0.4% MM, -3.5% YY
10:30	UK: Bank of England *Inflation Report*		
11:00	Ireland: Trade Balance, Dec		
Thursday 14 February		**Forecast**	**Last**
06:30	France: GDP, 4Q Flash	-0.2% QQ, -0.3% YY	0.1% QQ, 0.0% YY
07:00	Germany: GDP, 4Q Flash	-0.5% QQ	0.2% QQ
07:45	France: Nonfarm Payrolls, 4Q	-0.1% QQ, -0.5% YY	-0.3% QQ, -0.4% YY
08:00	Slovakia: GDP, 4Q Flash		
08:00	Austria: GDP, 4Q Flash		
08:30	Netherlands: GDP, 4Q Flash	-0.9% QQ	-0.9% QQ
08:30	Netherlands: Trade Balance, Dec		
09:00	Italy: GDP, 4Q Flash	-0.7% QQ, -2.3% YY	-0.2% QQ, -2.4% YY
09:00	Euro Area: ECB Bulletin		
10:00	Cyprus: GDP, 4Q Flash		
10:00	Portugal: GDP, 4Q Flash	-1.3% QQ, -3.3% YY	-0.9% QQ, -3.5% YY
10:00	Euro Area: GDP, 4Q Flash	-0.6% QQ	-0.1% QQ
	Greece: GDP, 4Q Flash		
	Greece: Unemployment, Nov		
Friday 15 February			
08:00	Spain: HICP, Jan Final	-1.9% MM, 2.8% YY	0.0% MM, 3.0% YY
09:00	Italy: Trade Balance, Dec		
09:00	Norway: Trade Balance, Dec		
09:30	UK: Retail Sales Volumes, Jan	0.4% MM, 0.8% YY	-0.1% MM, 0.3% YY
09:30	Italy: General Government Debt, Dec		
10:00	Euro Area: Trade Balance, Dec	€12.3 Billion Surplus	€11.0 Billion Surplus
10:00	Italy: Current Account, Dec		
	Greece: Consumer Prices, Jan		
Sunday 17 February			
	Cyprus: Presidential Election		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area			
Feb 13 10:00 London Time	***Industrial Production, Dec***	**Forecast: +0.2% MM, -2.4% YY**	**Prior: -0.4% MM, -3.5% YY**
	With a rebound in non-construction industrial activity in Germany, we expect an increase in euro area IP in December. This would be the first increase since August 2012. However, in 4Q on average industrial production probably was down by 2.4% QQ.		
Feb 14 10:00 London Time	***GDP, 4Q Flash***	**Forecast: -0.6% QQ**	**Prior: -0.1% QQ**
	With more disappointing activity data reported for 4Q, the contraction in GDP seems to be even somewhat larger than we expected so far. Based on the available monthly indicators, we expect a contraction of 0.6% QQ, a third consecutive fall in GDP.		
Feb 15 10:00 London Time	***Trade Balance, Dec***	**Forecast: €12.3 Billion**	**Prior: €11.0 Billion**
	With more upbeat signs in respect of foreign demand, we expect a second consecutive increase in goods exports (+0.6% MM) in December. However, poor domestic demand probably will contribute to a second consecutive decline in imports (-0.2% MM) in December. As a result, the trade surplus is likely to increase to €12.3bn, a new record high since the introduction of the euro.		
Germany			
Feb 14 07:00 London Time	***GDP, 4Q Flash***	**Forecast: -0.5% QQ**	**Prior: +0.2% QQ**
	In line with earlier comments by the statistical office, we expect a contraction in GDP by 0.5% QQ in 4Q, the largest contraction since 1Q 2009. However, the latest available data suggest that there is a downside risk to that estimate. The rebound in sentiment indicators and also in orders in recent months suggests that GDP will rebound in 1Q, so Germany is unlikely to move into recession.		
Netherlands			
Feb 14 08:30 London Time	***GDP, 4Q Flash***	**Forecast: -0.9% QQ**	**Prior: -0.9% QQ**
	We expect that the Dutch economy fell back into recession. In addition to an ongoing contraction in fixed capital formation, we expect that the October VAT rate hike led to a substantial fall in household consumption.		
France			
Feb 11 07:45 London Time	***Industrial Production, Dec*** ***Manufacturing Production, Dec***	**Forecast: 0.0% MM, -1.8% YY** **Forecast: 0.2% MM, -2.5% YY**	**Prior: 0.5% MM, -3.6% YY** **Prior: 0.2% MM, -4.6% YY**
	We forecast that industrial production was flat in December, while manufacturing production likely increased modestly for the second successive month. Sentiment improved in December according to the various surveys, although industrialists continue to paint a picture of weak activity. A slight rebound in the various orders measures together with indications of a slow decline in the stock of finished goods argues in favour of a muted production schedule. We estimate that industrial production likely contracted for the fifth successive quarter, down 1.6% QQ in Q4.		
Feb 14 06:30 London Time	***Gross Domestic Product, 4Q Preliminary***	**Forecast: -0.2% QQ, -0.3% YY**	**Prior: 0.1% QQ, 0.0% YY**
	The French economy is likely to have contracted in 4Q. While private and public consumption is expected to have remained largely unchanged, investment likely declined further and the drawdown in inventories is expected to have continued, pointing to a second successive drop in domestic demand. The -0.3% YY rate would be the worst reading since 4Q 2009. Looking ahead to 1Q 2013, the persistence of weak confidence and negative surprises in the composite PMI for January largely support our baseline of another modest decline in GDP.		
Feb 14 07:45 London Time	***Non-Farm Payrolls, 4Q Preliminary***	**Forecast:-0.1% QQ, -0.5% YY**	**Prior: -0.3% QQ, -0.4% YY**
	We look for a third successive fall in non-farm employment, expecting a 25k decline in the fourth quarter. If anything, the cumulative decline of around 75k for the whole of 2012 is relatively modest, suggesting a fall in productivity that will work against the necessary improvement in French unit labour costs. We forecast that every sector of the economy contributed to the fall in employment in 4Q. On a more positive note, employment expectations have stabilised in 4Q, pointing to a slight improvement in labour market dynamics in 2H 2013 if confidence were to rebound.		
Italy			
Feb 14 09:00 London Time	***GDP, 4Q Flash***	**Forecast: -0.7% QQ, -2.3% YY**	**Prior: -0.2% QQ, -2.4% YY**
	The recession likely deepened again at the end of last year, after GDP contracted by *"only"* 0.2% QQ in 3Q. The renewed weakness was broad-based across most of the euro area countries, reflecting a drop in export demand within the eurozone itself as well as weak global trade flows. We expect domestic demand in Italy to have continued to reduce at the same pace as in the prior two quarters – by about 1% QQ non-annualised – as tight fiscal policy and monetary conditions are still heavily affecting consumption and investment.		
Spain			
Feb 15 08:00 London Time	***HICP Final, Jan***	**Forecast: -1.9% MM, 2.8% YY**	**Prior: 0.0% MM, 3.0% YY**
	HICP inflation dropped to 2.8% YY in January according to the flash estimate, surprising general expectations (looking for an increase to 3.1%) to the downside. A large drop in the inflation rate of the energy component contributed the most to the overall decline, together possibly with some price swings reflecting winter sales which are likely to be reversed in coming months. We expect core CPI inflation to continue softening, from 2.1% to 2.0% YY.		
Portugal			
Feb 14 10:00 London Time	***GDP, 4Q Flash***	**Forecast: -1.3% QQ, -3.3% YY**	**Prior: -0.9% QQ, -3.5% YY**
	GDP likely contracted for the ninth consecutive quarter at the end of 2012, reflecting the still deep adjustment in domestic demand (we estimate it fell by 2.1% QQ in 4Q) and the weak external environment – especially in the euro area towards which most of Portuguese exports are directed. With fiscal tightening remaining very severe in 2013 – around 3.2pp of GDP implicit in the 2013 Budget – we see GDP growth remaining negative for the rest of this year.		

Economic Indicators

Sweden			
Feb 13 08:30 London Time	***Riksbank Interest Rate Decision***	**Forecast: 0.75%**	**Prior: 1.0%**
	The Riksbank interest rate decision is again going to be a fairly close call, in our view, especially following the improvement in confidence indicators and risk sentiment since the start of the year. Nevertheless, we still see several factors supporting an early rate reduction, i.e. very low domestic core inflation (CPIF), poor capacity utilization, rapidly deteriorating labour market prospects, discussions of a 50bp rate cut at the December meeting and indications from the conditional interest rate path of a small possibility of a February cut. On top of that, the Central Bank's 2014 economic forecasts appear very optimistic, in particular on the outlook for the labour market, which should prompt downward revisions, in our view. We acknowledge, however, that the Bank might equally well prefer to postpone the rate cut to April, pending further clarification regarding the strength of the recovery in sentiment indicators and risk appetite.		
Norway			
Feb 11 09:00 London Time	***CPI, Jan*** ***CPI-ATE, Jan***	**Forecast: -0.5% MM, 1.0% YY** **Forecast: -0.6% MM, 1.0% YY**	**Prior: 0.3% MM, 1.4% YY** **Prior: -0.1% MM, 1.1% YY**
	The December inflation data confirmed the overall picture of very low inflation in Norway with inflation markedly undershooting the Norges Bank's 2.5% inflation target (for CPI). Inflation has continued to undershoot the Central Bank's forecast, and at the October policy meeting, the Bank lowered its inflation path and, in turn, its conditional interest rate path. Still, inflation continued to undershoot in October, November and December, albeit by a small margin, and the Central Bank turned more fuzzy over the timing of the first rate hike. For comparison, Norges Bank forecasts CPI at 1.4% YY and CPI-ATE at 1.3%.		
Feb 13 09:00 London Time	***Mainland GDP, 4Q***	**Forecast: 0.3% QQ**	**Prior: 0.7% QQ**
	Monthly economic activity data has been mixed in the fourth quarter; the consumption of goods indicator – which is a broader measure than retail sales (includes autos and electricity) and mirrors private goods consumption in the national accounts better – has stalled, following very strong growth in the first half of the year. This, however, does not necessarily suggest weak private consumption in 4Q as we might get a boost from service consumption and consumption abroad, as in 3Q. Goods export also recovered somewhat in 4Q after having fallen in the two previous quarters, housing starts continue to rise, although the pace moderated slightly in 4Q, and the investment cycle in the oil sector remains strong. Meanwhile, manufacturing production has been weak, and electricity production fell substantially in the final quarter of 2012, pointing to weak mainland GDP growth of 0.3% QQ in 4Q.		
United Kingdom			
Feb 12 09:30 London Time	***Producer Input Prices, Jan***	**Forecast: 0.9% MM, 1.1% YY**	**Prior: -0.2% MM, 0.3% YY**
	These figures may well show a fairly sizeable gain in input prices (a figure in line with our forecast would be the biggest MM gain since Aug-12), reflecting recent gains in commodity prices and the weaker pound. Such a figure would leave input prices 3.1% up from six months earlier, the biggest gain since early-2012.		
Feb 12 09:30 London Time	***Producer Output Prices, Jan*** ***Output Prices Ex Tax, Jan*** ***Excluding Food, Drink, Tobacco, Energy, Jan***	**Forecast: 0.2% MM, 2.0% YY** **Forecast: 0.2% MM, 1.8% YY** **Forecast: 0.1% MM, 1.3% YY**	**Prior: -0.1% MM, 2.2% YY** **Prior: -0.1% MM, 1.9% YY** **Prior: 0.0% MM, 1.5% YY**
	The underlying path of output price inflation remains weak, with prices ex food, drink, tobacco and energy rising at an annualised pace of just 0.5% over the last six months. Helped by base effects from the relatively strong gain in output prices a year ago (0.4% MM), the YY rate may edge a little lower this month.		
Feb 12 09:30 London Time	***Consumer Prices, Jan*** ***CPI Ex Food, Drink, Tobacco, Energy, Jan*** ***Retail Prices, Jan*** ***RPIX – Excludes Mortgages, Jan***	**Forecast: -0.3% MM, 2.9% YY** **Forecast: 0.5% MM, 2.5% YY** **Forecast: -0.6% MM, 3.1% YY** **Forecast: -0.6% MM, 3.0% YY**	**Prior: 0.5% MM, 2.7% YY** **Prior: 0.5% MM, 2.4% YY** **Prior: 0.5% MM, 3.1% YY** **Prior: 0.4% MM, 3.0% YY**
	Gains in rail fares and food prices may well cause the YY CPI inflation rate to edge slightly higher, with a further rise in prospect to a probable peak above 3% YY around midyear. CPI inflation has been above the 2% target in 76 of the past 90 months and probably will stay above the 2% target for the next couple of years at least.		
Feb 15 09:30 London Time	***Retail Sales Volumes, Jan***	**Forecast: 0.4% MM, 0.8% YY**	**Prior: -0.1% MM, 0.3% YY**
	Retail sales volumes have been fairly flat for the last few years, with volumes in December little changed from Feb-2008. After slight declines in October and December, we expect that volumes in January will rise slightly, but such a figure would still leave volumes on a roughly flat trend.		

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

Key Economic Indicators (18 February – 22 February 2013)

Monday 18 February		**Forecast**	**Last**
10:00	Euro Area: Balance of Payments, Dec		
	US: Presidents' Day Holiday		
Tuesday 19 February		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Jan		
08:30	Sweden: Consumer Prices, Jan		
08:30	Sweden: Unemployment, Jan		
10:00	Germany: ZEW Economic Expectations, Feb		
10:00	Euro Area: Construction Output, Dec		
	Greece: Current Account, Dec		
14:00	Belgium: Consumer Confidence, Feb		
Wednesday 20 February		**Forecast**	**Last**
07:00	Germany: Consumer Prices, Jan Final		
07:00	Germany: Producer Prices, Jan		
07:45	France: Consumer Prices, Jan		
07:45	France: Business Confidence, Feb		
09:00	Italy: Industrial Orders, Dec		
09:30	UK: Claimant Count Unemployment, Jan	Unch MM, 4.8% Rate	-12,100 MM, 4.8% Rate
	LFS Unemployment, Oct-Dec	-24K QQ, 7.7% Rate	-37K QQ, 7.7% Rate
09:30	UK: MPC Minutes (Feb 7)		
09:30	UK: Bank of England Agents' Summary of Business Conditions, Feb		
15:00	Euro Area: Consumer Confidence, Feb Flash		
Thursday 21 February		**Forecast**	**Last**
07:00	Switzerland: Trade Balance, Jan		
08:30	Netherlands: Consumer Confidence, Feb		
08:30	Netherlands: Unemployment, Jan		
09:00	Euro Area: Flash PMIs, Feb		
09:30	UK: Public Sector Net Borrowing – PSNB ex, Jan	£18.0 Billion Surplus	£6.4 Billion Surplus
	Fiscal Year To Date, Apr-Jan	£60.5 Billion Deficit	£92.9 Billion Deficit
11:00	UK: CBI Industrial Survey – Output Expectations, Feb	+6%	+8%
	Order Books, Feb	-18%	-20%
	Selling Prices, Feb	+15%	+21%
Friday 22 February			
07:00	Germany: GDP Details, 4Q		
08:15	Sweden: Business & Consumer Confidence, Feb		
08:30	Netherlands: Consumer Spending, Dec		
08:30	Netherlands: Producer Confidence, Feb		
09:00	Germany: ifo Business Climate, Feb		
09:00	Italy: Consumer Prices, Jan		
10:00	Euro Area: Consumer Prices, Jan Final		
10:00	Euro Area: EU Commission releases Spring Economic Forecasts		
10:00	Italy: Consumer Confidence, Feb		
11:00	Italy: Retail Sales, Dec		
14:00	Belgium: Business Confidence, Feb		
Sunday 24 February			
	Italy: General Election (Feb 24-25)		

Sources: National statistical offices, central banks and Citi Research

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Jürgen Michels	Feb 8, 2013
ECB - Against Premature Tightening in Monetary Conditions	Jürgen Michels	Feb 7, 2013
European Economic Forecast Highlights - January 2013	Ann O'Kelly	Jan 28, 2013
ECB - 1Q Rate Cut No Longer Likely	Jürgen Michels	Jan 10, 2013
Euro Economics Weekly		
Global Export Bounce: Greece, Ireland & Spain Set to Outperform	Guillaume Menuet	Jan 25, 2013
Germany: Economy and Politics Matter in 2013	Jürgen Michels	Jan 18, 2013
Cyprus – Some Form of Debt Restructuring Looks Increasingly Likely	Giada Giani	Jan 11, 2013
ECB — No Action in January, But More to Come in 2013	Jürgen Michels	Jan 4, 2013
Chief Economist Publications		
Global Economics View - New and old risks in the Euro Area	Willem Buiter and Ebrahim Rahbari	Feb 6, 2013
Global Economic Outlook and Strategy - January 2013	Willem Buiter	Jan 23, 2013
Italy		
Italy - Positive Fiscal Dynamics, But Debt Ratio Still Set to Rise	Giada Giani	Jan 9, 2013
Greece		
The Greek Deal -	Giada Giani	Nov 27, 2012
Ireland		
Ireland - Better Data, Mostly	Michael Saunders	Feb 5, 2013
Norway		
Scandi Economics Update	Tina Mortensen	Feb 8, 2013
Norway - Lending Survey: Tighter Lending Standards for Households	Tina Mortensen	Jan 17, 2013
Sweden		
Sweden - Additional Near-Term Easing, but Timing Uncertain	Tina Mortensen	Feb 4, 2013
Sweden - Industry Sector Weakens Further in November	Tina Mortensen	Jan 10, 2013
Denmark		
Denmark, Finland, Norway and Sweden - Scandis: Exceptions to Europe's Fiscal Woes	Tina Mortensen	Dec 10, 2012
Switzerland		
Switzerland - Economy Continues to Outperform EMU	Michael Saunders	Nov 29, 2012
UK		
UK - MPC Statement	Michael Saunders	Feb 7, 2013
UK - Carney at the TSC	Michael Saunders	Feb 7, 2013
UK - Services PMI Rises, Still Sub-Par	Michael Saunders	Feb 5, 2013
UK - MPC Meeting Day – Plenty to Watch For	Michael Saunders	Feb 4, 2013
UK Economics Weekly		
Grey Britain: Population Ageing and the Economy	Michael Saunders	Feb 1, 2013
Triple Dip and Stagflation	Michael Saunders	Jan 25, 2013
"Brexit" – Could It Happen? Would it Matter?	Michael Saunders	Jan 18, 2013
The "Great Stagnation" Continues	Michael Saunders	Jan 11, 2013
2013 Outlook: Stagnation and Stimulus	Michael Saunders	Jan 4, 2013

Source: Citi Research

Notes

Appendix A-1

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