

Global Weekly Indicators

Economic Analysis • Financial Scenarios Unit

Madrid, 21 February 2014

Next week

Economic releases in the eurozone will include the Preliminary CPI estimates for February, and Germany's IFO, the final GDP reading for 4Q13, and jobs data. Also Moody's is due to publish on Germany's credit rating. The European Commission will publish its winter economic forecasts. In the US will be published the second reading of the 4Q13 GDP.

Calendar: Indicators

Eurozone: HCPI inflation Flash (February, February 28th)

Forecast: 0.6% y/y

Consensus: 0.7%

Previous: 0.7% y/y

The ECB maintains a cautious stance on the recovery, and appears to be prepared to take action to prevent deflation, which in any case we view as very unlikely. According to our estimates, the probability of deflation is low (less than 10%), and a detailed analysis of inflation dynamics (quarterly rates of the inflation series corrected from tax effects) indicates that the actual disinflationary trend was more in 2012 rather than 2013. Annual inflation is projected to slow slightly over 1Q14 (the bottom should be reached in March) to increase again afterwards, especially at the end of the year to around 1.3% y/y. Although we will update our models with the final figures of January HICP flash estimate (to be released on 24th February), we see inflation declining slightly by 0.1pp to 0.6% y/y in February, partly reflecting a lower base effect of energy prices and lower food prices.

Eurozone: Unemployment rate (January, February 28th)

Forecast: 12%

Consensus: 12%

Previous: 12%

The unemployment rate should have remained stable in January. Nevertheless, there are upside risks to this forecast as the last PMI survey indicates that companies are experiencing ongoing pressures to keep headcounts down to reduce costs and boost competitiveness, so the rising new orders may take time to translate into higher employment in the first quarter. Our scenario envisages that this would be the trend for the whole year with the unemployment rate close to 12% mainly because we expect that the labour force will be growing at the same pace as job creation.

US: New Homes Sales (January, February 26th)

Forecast: 390K

Consensus: 410K

Previous: 414K

After hitting a recovery peak in October of last year, new home sales disappointed to close out 2013, declining in both November and December on a MoM basis. Still, the housing market has experienced positive YoY growth since September 2011, so the recent dip should not be taken as a sign of a serious slowdown in the housing recovery. As has been the story thus far this year, we expect the extreme weather conditions across the country to play a significant role in the housing market for 1Q14. Median prices have quietly been trending upwards, hurting the affordability of new homes and discouraging potential buyers. Furthermore, the increase in mortgage rates during the latter portion of the year also makes homes less affordable and is likely dampening housing activity, at least temporarily. After dismal housing data thus far for January, we expect a notable decline in new home sales for the month. However, we believe the drop is attributed to seasonal factors, and we expect the housing market to bounce back throughout most of 2014.

US: GDP, Preliminary (4Q13, February 28th)

Forecast: 2.9%

Consensus: 2.6%

Previous: 3.2%

The advanced reading for 4Q13 real GDP showed the economy expanded at a rate of 3.2% on a QoQ seasonally-adjusted annualized basis (SAAR). Growth was led largely by an increase in consumer spending, which is a positive sign that the increase in economic activity over 2H13 was likely robust and not a mirage. However, data since the initial release suggest a downward revision for the second estimate. The trade gap widened more-than-expected in December as exports declined 1.8% on a MoM basis, which could push down the GDP figure. Furthermore, construction spending and other forms of housing activity slowed significantly at the end of 2013, suggesting additional drag from residential investment. On the consumer front, consumer credit was higher-than-expected but retail sales were revised down for December, leading us to believe that consumption may receive a slight downgrade from the original reading. On the upside, business inventory growth was stronger-than-expected for December, so this may provide a boost to the advanced GDP figure. Overall, as most data changed only slightly for 4Q13, we are not expecting the estimate to revise significantly from the advanced reading. For these reasons, we are not predicting a major revision, but rather a slight reduction in the GDP estimate for 4Q13.

China: official manufacturing PMI (February, March 1st)

Forecast: 50.3

Consensus: 50.1

Previous: 50.5

After a disappointing HSBC flash PMI outturn for February (48.3; prior: 49.5), activity indicators will be closely watched for signs of an economic slowdown in China. Although production at smaller firms (which take up a relatively large share of the HSBC PMI) appears to be struggling, we expect activity at larger firms to continue performing well; meanwhile, improving exports and robust credit data in January suggest that growth remains on track. It is also worth noting that PMIs and other activity indicators are heavily influenced by distortions from the lunar Chinese New Year holiday (which took place two weeks earlier than last year). We therefore expect only a small decline in the February official PMI.

Last Week

Week February, 17 - February, 21

Indicator	Period	Cons. E	Prior	Observed *	
United States					
Empire State Manufacturing Index	Feb	8.50	12.51	4.48	▼
Housing Starts ('000)	Jan	950	999	880	▼
Building Permits ('000)	Jan	986	991	937	▼
Producer Price Index MoM	Jan	0.10%	0.10%	0.20%	▲
Producer Price Index, Core MoM	Jan	0.10%	0.10%	0.20%	▲
Consumer Price Index MoM	Jan	0.10%	0.30%	0.10%	—
Consumer Price Index, Core MoM	Jan	0.10%	0.10%	0.10%	—
Initial Jobless Claims	14 Feb	335	339	336	—
Leading Indicators	Jan	0.30%	0.10%	0.30%	—
Philly Fed Business Index	Feb	8.00	9.40	-6.30	▼
Eurozone					
Construction Output YoY	Dec	-	-1.70%	-0.20%	
PMI Manufacturing	Feb A	54.00	54.00	53.00	▼
PMI Services	Feb A	51.90	51.60	51.70	▼
PMI Composite	Feb A	53.10	52.90	52.70	▼
Germany					
ZEW Survey Current Situation	Feb	44.00	41.20	50.00	▲
ZEW Survey Expectations	Feb	61.50	61.70	55.70	▼
PMI Manufacturing	Feb A	56.30	56.50	54.70	▼
PMI Services	Feb A	53.40	53.10	55.40	▲
France					
CPI EU Harmonized MoM	Jan	-0.50%	0.40%	-0.60%	▼
CPI EU Harmonized YoY	Jan	0.90%	0.80%	0.80%	▼
PMI Manufacturing	Feb P	49.50	49.30	48.50	▼
PMI Services	Feb P	49.40	48.90	46.90	▼
Italy					
Industrial Orders MoM	Dec	-	2.30%	-4.90%	
CPI EU Harmonized YoY	Jan F	0.60%	0.60%	0.60%	—
China					
Foreign Direct Investment YoY	Jan	2.50%	3.30%	16.10%	▲
HSBC/Markit Manufacturing PMI	Feb	49.50	49.50	48.30	▼
Japan					
GDP QoQ	4Q P	0.70%	0.30%	0.30%	▼
GDP QoQ Annualized	4Q P	2.80%	1.10%	1.00%	▼
GDP Deflator	4Q P	-0.20%	-0.30%	-0.40%	▼
Industrial Production MoM	Dec F	-	1.10%	0.90%	
All Industry Activity Index MoM	Dec	0.10%	0.30%	-0.10%	▼
Colombia					
Retail Sales YoY	Dec	5.05%	5.30%	4.10%	▼
Industrial Production YoY	Dec	0.80%	-0.60%	1.50%	▲
Brazil					
FGV Inflation IGP-10 MoM	Feb	0.34%	0.58%	0.30%	—
Unemployment Rate	Jan	5.10%	4.30%	4.80%	▼

Forecast/ * Magenta- Below nsensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

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