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The Morning Briefing

Tuesday, February 18, 2014
6:00 EST; 11:00 GMT
Allen Sinai, Chief Global Economist

MONDAY/TUESDAY BRIEFING POINTS – Andrew Wroblewski, London/Pierre Ellis, New York/Francisco Larios, Miami

Turkey: Interest rate hold expected following sharp interest rate increase. The Turkish Central Bank meets today to decide on **interest rates**. Following the sharp interest rate increase approved recently in an extraordinary emergency meeting, plus the gains posted by the lira in the aftermath of such decision, a *hold* decision is nearly certain this time around.

United States: More weather-impacted data. February readings from the Empire State Manufacturing Survey and the NAHB Housing Market Survey due today will be watched for weather impacts—after neither showed much January disruption.

U.S. DATA AND EVENTS OUTLOOK – Pierre Ellis, New York

U.S. markets were closed Monday, for the President's Day holiday.

Today brings the February Empire State Manufacturing Survey, and normal annual historical revisions to the consumer price index, both at 8:30 EST/13:30 GMT, December TICs data on U.S. international capital flows, at 9:15 EST/14:15 GMT, and the February NAHB Housing Market Index, at 10:00 EST/15:00 GMT.

The **CPI** revision will be of technical interest—reflecting, for data extending up through December, the annual redoing of seasonal adjustment. Recent history may change very slightly on a month-to-month basis—but the general trend should not be affected. **TICs** data will also be of purely specialist interest.

The **Empire State Manufacturing Survey** is generally too idiosyncratic to say much about national manufacturing activity, particularly in periods of generally sideways movement, like now. Still, big upside or downside movements in the survey can never be absolutely ignored—because they might be reflecting a national shock.

As it happens, though, the only national-level shock thought to have occurred in January was rough weather—and the Empire State Survey actually strengthened that month.

Given the early appearance of the monthly survey, the coverage clearly spans a period overlapping the previous and current month—so maybe the worst January weather problem was not reflected fully reflected in the last report.

Some may be reflected this time, as well as early-February damage, but forecasts are not looking for any major setback from the +12.5 January headline reading **(Consensus: +9.0; Decision Economics: +8.3).**

Clearly, a seriously weak reading—which might not even have reflected the bad weather last week—would be a signal that real damage was occurring. Of course, there might be underlying problems too.

The **NAHB Survey** is a very "soft" sort of housing market indicator, but it does reflect the experience of builders on the ground—and gives indications on prospective buyer traffic not available anywhere else.

Perhaps because of its “soft” nature, and because the survey period, as with the Empire State Survey, straddles the turn-of-the month period, the NAHB is also moving contrary to easy weather analysis—with the headline index rising 3 points in December and slipping by only 1 in January. The prospective-buyer-traffic reading might have been a bit more sensitive, it rose 2 points in December, and fell back 3 in January.

Forecasts this month, like the Empire State ones, are non-committal on the headline index **(Consensus and Decision Economics: unch, at 56).**

DE Forecasts:

Empire State Manufacturing Survey (January, Headline Index): down 4.2 points, to. +8.3.

NAHB Housing Market Survey (January, Headline Index): unch, at 56.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Pierre Ellis, New York

January **industrial production** unexpectedly fell 0.3% (Consensus: +0.2%; Decision Economics: +0.5%) from a December level revised down by 0.4%. The December revision was preceded by a 0.5% downward revision to November production.

The overall January decline reflected a 0.8% drop in manufacturing production and a 0.9% decline in mining activity, offset by a 4.1% jump in utility output. The motor vehicle sector was hard hit, with output dropping 5.0%--excluding that, manufacturing output still fell 0.5%.

The manufacturing and utility moves were both largely attributed to the rough January weather—so conclusions about the underlying trend in activity cannot really be drawn. Certainly, Fed officials will draw none.

CANADA – Ethan Ward, Boston

Manufacturing Sales Decline. December manufacturing sales surprisingly decreased by 0.9% M/M to C$49.9 billion (Consensus: unch). This decrease comes after November manufacturing sales increased a revised 0.5% M/M. The decline comes after increases in six of the past eight months, leading to 2.7% Y/Y increase despite the decrease this month. The overall decline came from a 19.4% M/M loss in aerospace with sales of motor vehicles also down 1.5%. Constant dollar sales also declined 1.9% M/M, indicating lower volumes of manufactured goods were sold.

Despite the Y/Y increase in manufacturing sales, the December report suggest that Canadian manufacturing continues to be a drag on the economy. Since 2011 manufacturing sales have struggled to achieve continued long-term growth in real terms. Factory sales, in chained dollar terms, which can be a better indication of economic growth from the manufacturing industry, were notably down 1.9% M/M.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE – Car Sales Still Trending Higher. Car registrations rose by 4.0% Y/Y in January, down a cycle-high reading of over 11% growth posted in the previous month. The data still showed some mixed readings on a geographical basis, but with the numbers for some of the peripheral countries having turned much more positive, Spain in particular showing marked strength as a result of repeated sales incentives.

GERMANY – ZEW Corrects Further Coming in lower than expected for a second successive month, the February headline ZEW (expectations) index slipped back a e further and more clearly so, dropping 6.0 points to 55.7, ie moving further back from the seven-year high posted in December, but still recording a reading over twice the long-term average.

However, on a much more unambiguous upbeat note, the assessment of the current situation index rose further and more clearly, surging another 8.8 points to 50.0, the highest in 29 months.

DE View: The compilers of the ZEW numbers noted that the latest result shows experts showing some caution, albeit still highlighting the surge in the current assessment.

ITALY – Exports Jump Back Clearly. The (unadjusted) December trade balance showed a surplus of € 3 618 mln, a clear improvement from the € 2 314 mln surplus seen in the same month of 2012. In seasonally adjusted terms, moreover, the trade surplus was also higher at € 3 617 mln in December, as a marked jump in exports (of 5.1%) came alongside an almost-as large increase in imports.

Export levels are still holding up, albeit superimposed over a volatile pattern in recent months.

OTHER WESTERN EUROPE

UNITED KINGDOM – Inflation Slips Further. Undershooting most expectations yet again, January consumer price inflation fell a little further, easing a further 0.1 percentage point to 1.9% Y/Y, still a four-year low and (now) a notch below the BoE target.

As before, the overall drop was not that broad-based, this time reflecting lower furniture prices and some falls in recreational goods. As a result, the main core rate, which excludes energy, food, alcohol and tobacco edged down another 0.1 percentage point to 1.6% Y/Y, the lowest since mid-2009.

Otherwise, these CPI numbers continue to suggest that the economy is keeping some degree of downward pressure on prices given the softness in many more discretionary areas of consumer prices, this time recreational goods and furniture inflation. Moreover, a still reassuring price backdrop is discernible in the latest set of PPI numbers released alongside these CPI figures, which points to a continued fall in input costs.

Matching (Lower) BoE Inflation Projections

These overall CPI numbers are in line with the profile painted by the BoE in its very recent Inflation Report. Indeed, the data very much corroborates the more benign inflation backdrop (and outlook) that the BoE referred to.

DE View: Regardless, the much lower BoE inflation projection (which envisaged a clearly below target outcome three years hence) does suggest that the rate hikes that markets are pricing in from early next year may be premature as far as the MPC is concerned, the qualification being that the BoE implicitly accepting it is far less confident in its projections than hitherto.

Factory Costs Soften Further. Exceeding expectations this time around, producer output prices for January rose 0.3% M/M, the first rise since last August. Moreover, the core rate was clearly less soft than hitherto, rising back 0.5. Even so, the overall Y/Y rate of change for the PPI slipped 0.1 percentage point to 0.9%, just a notch above the recent cycle-low, while that for the core fell similarly but to 1.0%.

Meanwhile, headline input prices in January fell afresh and clearly so, dropping 0.9% M/M, reflecting a sixth successive fall in the adjusted core reading.

Stable House Price Inflation. According to Government numbers, seasonally adjusted house prices in December rose 0.9% in M/M terms, up from the 0.5% outcome seen in November. Even so, the Y/Y rate rose just a notch back to the three-year high of 5.5% seen in October, but with the strength still largely emanating from in and around London. Indeed, the ex-London Y/Y figure softened to 3.3%.

(Monday) House Prices Surge Back. February Rightmove house price numbers showed prices surging back, with a 5.2% M/M leap largely repairing the softness seen in the three previous reports. Highlighting that the rise was largely seasonal, the Y/Y rate, meanwhile, was little changed at 6.9%.

SWEDEN – Softer Inflation. Coming in below expectations this time around, January headline CPI inflation turned negative, swinging from 0.1% Y/Y, back down to -0.2%, an eight month low as prices dropped 1.2% in M/M terms last month.

Notably, the long-standing core measure (CPIX, which excludes mortgage costs and taxes) fell 0.2 percentage point to 0.1% Y/Y while the underlying measure (CPIF, which the Riksbank now puts more emphasis on and which holds mortgage interest expenditure constant) fell back 0.4 percentage point to 0.4%, a fresh cycle-low.

DE View: The headline and core rates are a now (around 0.2 percentage points) below the projections made by the Riksbank in early December. More importantly, however, clearly better business survey data point to the Riksbank remaining on hold for the foreseeable future.

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

TURKEY (Monday) – Labor Market Conditions Weaker. The unemployment rate in the three months through November rose to 9.9% from 9.4% in the same period of 2012. On a seasonally adjusted basis, however, the unemployment rate was stable at 9.9% in November.

Meanwhile, also on an adjusted basis, the November employment rate actually rose slightly to 45.7% from 45.6 in October, while on an unadjusted basis, the rate declined to 45.5% from 45.9% in the same period of 2012. It is also notable that all of this came on the back of a decline in the participation rate to 50.5% from 50.7% on an unadjusted basis; while the adjusted rate rose to 50.7% from 50.6%.

JAPAN – Andrew Wroblewski, London

BoJ Supports Lending. The BoJ (yet again) decided by a unanimous vote to leave the policy target unchanged, still saying it will conduct money market operations so that the monetary base will increase at an annual pace of about ¥ 60 to 70 trillion. The board also decided unanimously to double the scale of its program to make low-interest loans to financial institutions that are lending to or investing in growth-oriented sectors and projects. The maximum amount of the loans will be raised to ¥ 7 trillion from ¥ 3.5 trillion.

In its economic assessment, the BoJ largely maintained its assessment that Japan's economy has continued to recover moderately, also largely maintaining its risk assessment. However, in remarks after the meeting, Governor Kuroda repeated that the BoJ would not hesitate to take necessary action to counter heightened downside risk to growth and inflation.

(Monday) GDP Growth Stays Muted. Surprising to the upside once again, Q3 GDP expanded 0.3% Q/Q (1.0% annualized), matching the outcome of the previous quarter. It was the fourth straight quarter of growth, supported strength in imports. The change in the deflator stayed at -0.4%.

ASIA PACIFIC ANALYSIS – Chang Liu, London

CHINA (Monday) – Lending Rises Strongly. Surprising to the upside this time around, data for January showed new yuan loans rising clearly to 1320.0 bln from 1070.0 bln in the same period of 2013. Yuan loans growth, meanwhile, picked up to 14.3% Y/Y from 14.1%, albeit still the third-lowest outcome in the cycle. Total lending was 78.12 trn yuan in January, up from the 76.63 trn outcome in the preceding month, but with yuan deposits growth falling to 11.3% Y/Y from 13.8% in December.

Elsewhere, money supply growth saw mixed messages, with moderately slower growth seen in the the broadest M2 (13.2% from 13.6%) measure, while the clear slump in M1 growth (1.2% from 9.3%) came in clear contrast to the sharp jump in M0 growth (22.5% from 7.1%).

It is notable that the latest increase was achieved despite the Big 4 state banks lending less than they did over the same period in the preceding year. Moreover, the PBoC's calm reaction to the latest figures and announcement last month that it would give liquidity support to city and rural commercial banks as needed has led many analysts to conclude that the Central Bank has now officially switched to a neutral policy stance. This is likely partly due to fresh worries about slowing growth but may have also been helped by data showing that trust loans (often viewed as part of China's "shadow banking" sector) issued in January nearly halved to 106.8 trn yuan from 210.8 trn in 2013, alleviating concerns of booming credit growth in the informal sectors.

HONG KONG – Unemployment Rate Falls Further. The seasonally adjusted unemployment rate slid to 3.1% in January from 3.2% in the previous month, hitting a fresh 14-year low. The level of unemployment, however, fell by 5 500 to 113 000 last month, while employment picked up by 4 400 to 3.88 mln.

SINGAPORE (Monday) – Exports Fall. Seasonally adjusted non-oil exports fell 5.0% M/M in January, albeit unable to unwind all of the 6.3% gain seen in the previous month and continuing the volatility seen recently. In Y/Y terms, meanwhile, non-oil exports also fell afresh, but by 3.3% in January following a 6.0% increase in the previous month. The breakdown revealed the latest outcome to have come on the back of a much steeper fall for electronics (-17.0% from -3.1%), albeit with non-electronics exports also slowing to 3.5% from 10.6%.

Meanwhile, total export growth slowed to 4.2% Y/Y in January after an 8.9% rise in the previous month, while imports fell afresh and by 0.9% following a 3.4% gain in December.

Notably, the geographical breakdown showed weakness to nearly all regions of the world, with the only exception being an improvement to Europe.

TAIWAN – GDP Growth Picks Up. Surprising to the upside this time around, final national accounts data showed GDP expanding in Q4 by 2.95% Y/Y after a gain of 1.31% in Q3, upwardly revised from a preliminary reading of 2.92%. Meanwhile, the data also showed a rise of 1.77% in Q4 on a seasonally adjusted Q/Q basis (actually reduced from 2.43% in the advance estimate), adding to the 0.07% gain seen in the previous quarter.

The expenditure breakdown (all in Y/Y terms), meanwhile, showed an increase in private consumption growth (3.28% from 1.45%) coming alongside a modest bounce in government spending (0.35% from -1.18%). Stronger messages were also seen in capex, with investment growth picking up clearly to 8.89% after a 0.57% gain in Q3. However, and on a slightly downbeat note, net trade likely provided a drag on growth, with the latest rise in exports (4.03%) being outpaced by that seen in imports (6.10%).

On the output side, the data showed broadly better messages in the secondary sector boosted by faster growth in manufacturing and a much less steep fall in mining; while the tertiary sector saw stronger growth across nearly all components, led by wholesale & retail, transport and financial services. Elsewhere, primary sector output actually saw a fresh, albeit very modest, contraction.

Notably, the Government's official GDP projection for 2014 was raised to 2.82% after today's release from 2.59% in November—supported by a better exports outlook. Inflation forecasts, meanwhile, were reduced to 1.07% Y/Y from 1.21%. Elsewhere, annual growth for 2013 was adjusted to 2.11% from 2.19% to reflect the latest revisions.

THAILAND – Slower Expansion in Economy. Coming in ahead of expectations this time around, national accounts data showed GDP rising by a seasonally adjusted 0.6% Q/Q in Q4 following the (upwardly revised) 1.4% gain in the previous quarter. Meanwhile, on a Y/Y basis, GDP growth slowed last quarter to 0.6% from 2.7% in Q3, edging further away from the 19.1% surge seen in Q4 last year which was the largest-gain since records began in 1993.

The Y/Y expenditure side breakdown showed the latest outcome to be a reflection of a steeper fall in private consumption (-4.5% from -1.2%) coming alongside slower government spending growth (0.9% from 7.3%). Capex, meanwhile, saw a steeper fall of 11.3% last quarter following a 6.3% drop in Q3. However, net trade provided some boost to growth, with a 2.0% increase in exports coming in clear contrast to the 5.3% drop seen in imports.

On the output side, meanwhile, the breakdown revealed slower expansion for the secondary and tertiary sectors (0.4% Y/Y from 3.0% in Q3), as further deterioration in manufacturing (-2.9% from -0.5%) and construction (-7.7% from -2.2%) came alongside slower growth in finance (9.1% from 11.3%) and transport (7.0% from 8.6%). Primary sector output, meanwhile, rose afresh and by 2.3% after a 0.3% drop in Q3.

It is notable that following today's release, the State Agency reduced its full-year growth forecast for GDP to 3.0%-to-4.0% from 4.0%-to-5.0% previously. The latest slowdown was largely blamed on anti-government demonstrations in the nation as well as the uncertainty surrounding elections *held earlier this month (results are yet to be announced). As a result, current quarter GDP is likely to see an even more pronounced impact from these factors, with the Bank of Thailand now more likely to ease policy afresh in coming months should these effects become prolonged.*

AUSTRALIA – Currency Still in the Spolight. The minutes from the Reserve Bank of Australia (RBA) meeting on 4 February provided few new insights beyond that revealed in the statement by Governor Stevens following the actual meeting (and the subsequently released Statement on Monetary Policy). More specifically, the Board began its assessment of the global economy by noting that latest forecasts still show growth in its major trading partners to be around their respective long-term averages; and with inflation remaining low.

Still Weak Domestic Backdrop

In terms of the domestic economy, the RBA noted a further weakening in the labor market, with unemployment edging higher while the participation fell further (largely due to an aging population). As for growth, Board members underlined that they were informed that Q4 GDP figures due for release the day after its meeting were expected to show growth continuing to be below trend through the end of 2013 as stronger exports were tempered by still weak consumption growth and non-mining investment. The housing market, however, was noted to have seen further price rises and a pick-up in turnover as a result of prevailing low interest rates; also noting that there was labor available to support the strong growth of dwelling construction and that growth in housing credit was seeing a gradual pick-up.

Inflation Contained

On the inflation front, the RBA offered a short discussion regarding the possible causes of the upside surprise in Q4 price pressures, but ultimately concluded that the figure reflected both noise and some signal about the inflationary pressures. In terms of a longer-term outlook, the Bank did not appear to be overly worried, noting that upside pressures stemming from the recent depreciation of the AUD could be offset somewhat by still slow wage growth.

DE View: *Overall, there was little new in these Minutes that was not already clearly conveyed through both the statement by Governor Stevens and the quarterly Statement on Monetary Policy, largely reiterating a clear shift to a neutral policy stance by noting that "if the economy evolved broadly as expected, the most prudent course would likely be a period of stability in interest rates". That being said, it is worth highlighting once again that the only major development between December (when the RBA's easing bias was maintained) and this month was the depreciation of the currency. Indeed, the RBA signaled its easing worries over the AUD by stating that if the currently lower exchange rate was sustained, it would be "expansionary for economic activity and assist in achieving balanced growth of the economy". However, this is clearly a highly volatile and unpredictable variable to hinge any policy stance on, with sharp and sudden shifts thus possible going forward.*

NEW ZEALAND (Monday) – Retail Sales Growth Picks Up. Seasonally adjusted real retail sales rose by 1.2% Q/Q in Q4 following a 0.2% increase in Q3, the third-strongest outcome in the cycle. The breakdown, meanwhile, showed mixed messages across components, with improving sales for core industries (0.7% from -0.2%), fuel (5.7% from -0.9%) and department stores (2.3% from -2.2%), outweighing slower growth in vehicle sales (0.8% from 3.3%).

The strength seen in recent quarters have been boosted by improved income, low interest rates and the continuing rise seen in real house prices (as well as possibly the increase in spending power stemming from the strength in the NZD); all of which should continue to support consumers going forward. More noteworthy will be whether this latest strength will spill over into inflation pressures, ultimately influencing the scale and speed of the hiking cycle the RBNZ is now all but certain to embark on at its meeting in March.

(Monday) Faster Expansion in Services. The January Performance of Services Index rose by 0.5 point to 58.1, adding to the 1.1 point gain seen in the previous month and hitting a new cycle high. The breakdown showed the latest outcome to be a reflection of faster growth in activity, employment and new orders.