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The Morning Briefing

Thursday, February 6, 2014
6:15 EST; 11:15 GMT
Allen Sinai, Chief Global Economist

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

Czech Republic: Rate Hold Continues onto the New Year. The Czech National Bank made no changes to interest rates in 2013 and the trend seems like it will continue onto the New Year. Both DE and Consensus are anticipating a hold at 0.05% in the rate announcement today.

Eurozone: ECB Unchanged. Amidst conflicting speculation, the ECB is likely to remain on hold when it gives it latest policy verdict later today, probably playing down any deflation risk by pointing to an upturn in inflation in 2015.

United Kingdom: Steady BoE. No-one expects the BoE to change policy after the end of the MPC meeting later today, albeit with the MPC likely to discuss both an improvement in the demand and supply side of the economy.

United States: Is the February Labor Market Improving? The **initial claims** report, a very fresh reading on labor market conditions, might be the most closely watched data today, but, barring a surprise there, December **international trade** numbers will be most important, for the impact they can have on the still very fluid fourth-quarter GDP picture.

Canada: Can't escape deficit territory. December merchandise **trade balance**, released today, is expected to show a narrowing from the –C$0.9 billion deficit recorded in November as exports edge higher. The balance however, will still firmly be entrenched in deficit territory.

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

On tap today are the December international trade report, the weekly unemployment insurance data (initial claims), and fourth-quarter productivity and costs, all at 8:30 EST/13:30 GMT, plus appearances by Fed Governor Tarullo, at 10:00 EST/15:00 GMT, and by Boston Fed President Rosengren, at 17:50 EST/22:50 GMT.

The **initial claims** report, a very fresh reading on labor market conditions, might be the most closely watched data today, but, barring a surprise there, the **international trade** numbers will be most important, for the impact they can have on the still very fluid fourth-quarter GDP picture. **Productivity** results are mainly of technical interest—certainly until numerous revisions play out, over a period of years.

Both **Tarullo** and **Rosengren** represent the dovish end of the FOMC spectrum, but even the latter, perhaps marking the absolute extreme, seemed to have come to terms with tapering by the January meeting—after having dissented from the December decision. Whether he is still comfortable today, given recent mixed data and market volatility, is unclear—Fed officials, of all stripes, speaking lately have tended to hang together in using some form of "high hurdle" imagery in discussing any pause in tapering.

The **initial claims** figure today will cover the second week past the January payroll employment survey period, so direct implications for the data tomorrow would follow only from big revisions to earlier data.

The prime candidate would be the January survey-week continuing claims count, which first appeared last week—showing a week-to-week decline of 16,000. A revision making that drop steeper would be a strengthening change—implying that the net rise in benefit recipients over the course of January was smaller.

The freshly arriving initial claims figure, covering the second of four weeks in payroll February, will be read for clues on the trend in the new month. The first-week number showed a steep 19,000 jump, and the result today will tell whether that was a seasonal-adjustment blip, after several low numbers, or marked the beginning of a new problem.

Forecasts tend to favor the blip view, taking new claims back to the earlier running average **(Consensus and Decision Economics: -13,000, to 335,000).**

The **international trade report** can have a reasonably powerful effect on the GDP at this early stage in the revision process.

The first-round GDP report showed a very strong upturn in exports, giving the net export component much more of an upward kick in GDP growth than had generally been assumed. December trade results that showed a gross miss in the GDP assumptions about the month could alter the picture substantially.

As it happens, forecasts point to an overall December **trade deficit** close to the assumed GDP number **(Consensus: widen $1.7 billion, to $36.0 billion; Decision Economics: widen $0.5 billion).**

Productivity numbers are expected to come in close to the +3.0% growth seen in the third quarter **(Consensus: +2.5%; Decision Economics: +3.3%)**—strong results, given that GDP growth slowed from quarter to quarter. **Unit labor costs** are seen tracking third quarter results too, with a result not too far from the -1.5% seen then **(Consensus: -0.5%; Decision Economics: -1.6%).**

Tarullo will be testifying before the Senate Banking Committee, along with other senior financial regulators, on the subject of "Oversight of Financial Stability and Data Security," while **Rosengren** will discuss the outlook before an audience at the New College of Florida, in Sarasota.

DE Forecasts:

Initial Claims (Week Ended February 1): -13,000, to 335,000.

International Trade Balance (December): widen $0.5 billion, to -$34.8 billion.

Productivity and Costs (Fourth Quarter):

Productivity: +3.3%.

Compensation per Hour: +1.6%.

Unit Labor Costs: -1.6%.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Pierre Ellis, New York

The **ISM Non-Manufacturing Survey** was modestly firmer than stale forecasts suggested, but notably steadier than might have been feared after the weak Manufacturing-Survey results.

In a way, however, the results reinforce doubts that the January manufacturing weakness was weather related, since the non-manufacturing group includes some industries—construction the prime example—where weather should have done visible damage.

The headline non-manufacturing index rose 1.0 point (Consensus: +0.7 point, Decision Economics: unch) to 54.0—offsetting a 1.1-point decline last month.

Messages from subcomponents were mixed, but modestly upbeat on net. The orders index rose a modest 0.5 point, to 50.9—failing to significantly offset the 5.3-point drop suffered in December—but the employment index rose 0.8 point, to 56.4, extending the 1.1-point rise seen last month.

The hint of stable manager confidence conveyed by the employment gain was enhanced by a 2.0-point rise in the pure-sentiment "business activity" index, to 56.3, more than reversing a 1.0-point decline in December. And, the backlog index rebounded, exactly, from a 3.0-point December loss, despite the relatively mild new orders result this month.

All of this looks like a mildly bumpy, but basically stable, upward trend for non-manufacturing activity—with the headline index sticking in the mid-50s over the last year.

That, of course, increases the mystery surrounding the manufacturing-survey results. For the moment—in the absence of any other indication of a wholesale flattening-out in manufacturing activity—the presumption should probably be that the ISM results in that sector, while genuinely poor, reflected transitory influences.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE

GERMANY – Orders Uptrend Continues. Surprising to the downside this time around, manufacturing orders slipped back in December. Indeed, orders fell 0.5% M/M, the downside surprise partly tempered by an upward revision to November, now showing a jump of 2.4%.

DE View: Regardless, this latest update merely continues the sharp volatility seen in recent months, the latter very much accentuated by swings in the highly volatile bulk order component, but with an uptrend still evident, the latter highlighted by (adjusted) Y/Y growth of 5.5%.

FRANCE – Better Capex Outlook. According to the latest (January) INSEE quarterly survey, French manufacturing industry envisages investment spending rising 3% this year, a much improved outlook compared to the 2% drop envisaged back in October.

OTHER WESTERN EUROPE

UNITED KINGDOM – House Prices Uptrend Continues. There was a 1.1% M/M bounce in house prices according to the latest data from HBOS, more than repairing the 0.6% drop seen in December. In Q/Q terms, prices still rose by 1.9%, similar to previous quarters while the smoothed Y/Y rate was little changed at 7.3%.

SWITZERLAND – More Upbeat Consumer. According to the latest (January) confidence survey, consumers are much more upbeat. The headline index jumped 7 points to 2, the highest in three years, boosted in particular by a much improved economic outlook.

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

CZECH REPUBLIC – Faster Growth in Output. Data for December showed industrial production rising 9.3% Y/Y, picking up from the 6.2% gain seen in the previous month. The latest outcome reflected faster growth in manufacturing (11.8% from 6.8%), motor vehicles (17.8% from 13.7%) and a bounce in mining (1.8% from -8.2%), outweighing a contraction in utilities (-0.5% from 7.6%).

Industrial orders growth, meanwhile, jumped to 20.5% after a 12.2% gain in December; while construction output bounced 1.4% following a 9.3% decline in the previous month.

ASIA PACIFIC ANALYSIS – Chang Liu, London

PHILIPPINES – Benchmark Rate Unchanged. Surprising few, the Bangko Sentral ng Pilipinas (BSP) kept its benchmark interest rate at 3.50% at its February meeting. This comes after similar decisions in the previous ten months, but with rate cuts in October, July, March and January 2012 having reduced the benchmark rate by a cumulative 100 bp. The Bank also left the Special Deposit

Account (SDA) facility rate unchanged at 2.00% this month following three successive reductions last year.

Inflation No Longer Benign

The accompanying statement revealed the latest decision to be motivated by the Board's assessment that the inflation environment remains "manageable" (albeit no longer benign as was the case through much of 2013). While inflation was noted to have risen slightly due to food prices and the adverse weather, the projected inflation path still showed price pressures likely to stay within the target ranges of 3%-to-5% through this year and 2%-to-4% through 2015. The outlook for domestic activity, meanwhile, was seen as staying firm on the back of buoyant domestic demand and favorable consumer and business sentiment; even as the global economy becomes more challenging on the back of Fed tapering (the peso depreciated to the lowest in three years again the dollar after the latest decision last week) and general concerns about the sustainability of emerging market growth.

DE View: *After super typhoon Haiyan/Yolanda hit the nation late last year there has been constant speculation that the BSP would need to react, first to counter damages to GDP and more recently to the rises in inflation caused by disruptions. Indeed, after January CPI inflation hit a two-year high, Governor Tetangco noted that while there was still room to keep policy unchanged, that room was narrowing. A further promise by the Governor to reassess the situation based on the latest Bank forecasts on the inflation path led many analysts to expect at least a more hawkish rhetoric in the statement today. However, there was actually little change in the document today from the previous month, with risks to the inflation outlook still "slightly weighted toward the upside" on the back of possible utility hikes and further increases in food prices. As such, it seems the Bank remains fairly comfortable to keep rates unchanged for the time being, albeit with a rate increase later this year now no longer an impossibility.*

SINGAPORE (Wednesday) – Faster Expansion in Manufacturing. The January manufacturing PMI rose by 0.8 point to 50.5, albeit unable to unwind all of the 1.1 point decline seen in the previous month. The latest outcome reflected faster growth in new orders and a swing into expansion for production, all outweighing a steeper fall in employment.

Elsewhere, the electronics sector PMI rose by 1.9 point to 52.0 in January, actually hitting a cycle-high.

TAIWAN – Consumer Price Inflation Rises. After falling to 0.34% Y/Y in December, CPI inflation bounced clearly to 0.76% last month, the second-highest outcome in the cycle. The Y/Y breakdown revealed the January outcome to be a refection of higher prices pressures for health, clothing, education and a sizeable jump in the miscellaneous component.

Elsewhere, wholesale prices swung into positive territory for the first time in the cycle at 0.42% from -0.01% in December, while import price deflation turned less negative to -0.39% last month from -0.86%.

Notably, both the Singaporean and Taiwanese data will have been influenced by the timing of the Lunar New Year holidays (which were in early-February last year but fell in late-January this year).

AUSTRALIA – Trade Surplus Widens. Confounding expectations for a larger deficit, December seasonally adjusted trade data actually showed the trade surplus widening sharply to AUD 468 mln from AUD 83 mln in the previous month, albeit only being a second positive reading after twenty-three straight shortfalls.

Solid Growth in Retail Sales. Matching expectations this time around, retail sales data for December showed sales rising 0.5% in M/M terms following a 0.7% gain in November. The latest increase was the result of improvements for food and department store, albeit with weakness seen in household goods and apparels. Meanwhile, Q4 data regarding real retail sales saw a further pick up in growth to 0.9% Q/Q from 0.8% in Q3.

Notably, these figures are largely in line with the RBA statement released two days ago in which it noted firmer consumer demand that foreshadows a solid expansion in the housing construction.

Business Confidence Improves. The quarterly National Australia Bank measure of business confidence rose in the quarter to December to 8 from 5 in Q3, a new cycle-high. The business conditions index, meanwhile, turned less negative to -3 from -7 in September, swinging from a four-year low to a five-quarter high. The latest improvement reflected better conditions in trading, profitability, orders and even less weakness in employment.

Notably, while the quarterly survey may be a bit outdated, it is also more broad-based than its monthly counterpart—with a 33%-to-200% larger sample size. The messages of the two surveys are similar, however, both showing a clear bounce in confidence towards the end of last year.