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DECISION ECONOMICS, INC.

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New York: 212 884 9440
London: 011 44 20 7959 3045
Boston: 617 994 0500

The Morning Briefing

Monday, November 25, 2013
6:00 EST; 11:00 GMT
Allen Sinai, Chief Global Economist

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

United States: Where will home sales settle? The only formally scheduled item today is the October **pending existing-home sales report.** Home sales numbers showed a flurry of hurry-up purchases as rates were rising and buyers tried to lock in rates, but the sales peak has now passed, and what is probably a bit of a payback is underway. An upturn in pending sales today could signal the bottom of the payback phase.

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

The only formally scheduled item today is the October pending existing-home sales report, at 10:00 EST/15:00 GMT.

Pending existing-home sales are registered at the signing of initial sales contracts, so they give a very quick reading on activity—in the biggest part of the housing market.

At issue now is the underlying rate of sales at the new level of mortgage rates established since the early-summer run-up. Both the pending-sales and actual existing-home sales numbers showed a flurry of hurry-up purchases as rates were rising and buyers tried to lock in rates, but the sales peak has now passed, and what is probably a bit of a payback for the pulled-forward transactions is underway.

The pending-sales index ran up 5.8% between April and the May peak, and had fallen back 8.7% by September, while the existing-home sales count, which tracks the subsequent closings, rose 6.5% between June and the July-August peak level, but had fallen back only 5.0% by October.

The uncomfortable hint is that existing-home sales have further to fall, as the drop in contract-signings feeds through to a reduction in closings. Eventually, of course, the payback will conclude, and sales will bounce up to the new sustainable pace. At that point, markets and the Fed will be able to determine how much damage the rate increase has, in itself, done.

An upturn in pending sales today could signal the bottom of the payback phase, and might even suggest that the closed-sales count need not fall much further, or at all. A meaningful decline in the pending-sales number would be read negatively—hinting that the new sustainable sales rate is a big step down from the pre-flurry pace.

Forecasts are mixed, in a relatively narrow range (Consensus: +1.1%; Decision Economics: -1.5%)—suggesting that a bottom is being found.

DE Forecasts:

Pending Existing-Home Sales (October): -1.5%.

WESTERN HEMISPHERE ANALYSIS

CANADA – Thomas Lee, New York

(Friday) CPI woes continue, drops below the BoC's target range. October CPI rose 0.7% Y/Y after recording a gain of 1.1% Y/Y in September. The slowdown, which dropped total CPI growth to below the BoC's 1%-to-3% target range, was greater than what was expected by consensus

(+0.8% Y/Y) and DE (+1% Y/Y). Leading the decline was gasoline prices which fell 4.3% Y/Y in October following a 0.3% drop in September. Also declining were energy (-1.6% Y/Y) and clothing and footwear prices (-0.7%). On the flipside, shelter costs rose 1.3% Y/Y on higher property taxes while consumers paid more (+1.7%) for passenger vehicles. The core index advanced in-line with expectations at 1.2% Y/Y, a slight tick down from the 1.3% Y/Y seen in September.

Canada's rate of inflation continues to remain soft and below the BoC's 2% target mark. The softness is consistent with the excess material capacity that exists within the economy magnified due to the one-time disruptions that occurred in Alberta and Quebec. With the disinflation largely driven by lower gasoline prices however, Money saved at the pumps gives more room for consumers to spend elsewhere, important particularly as we approach the holiday season. Looking forward, inflation is expected to gradually, as excess capacity dissipates, until it reaches the 2% mark sometime in 2015.

(Friday) Retail sales surprises to the upside on higher auto sales. Retail sales rose 1% M/M to C$40.7 billion in September marking a third consecutive monthly increase and recording a faster pace of sales than 0.1% M/M in August (Consensus:+0.3% M/M; Decision Economics: +0.4% M/M). The gain was largely due to higher sales at motor vehicle and parts dealerships which advanced 5% on a monthly basis, the largest monthly gain since January 2009 according to Statistics Canada. Encouragingly, the gain was largely attributable to a higher volume of sales. Offsetting the increase however, were sales at food and beverage stores (-0.3% M/M) and clothing and clothing accessories stores (-0.6% M/M). In chained dollar terms, a measure for volume of sales, sales also advanced 1%.

Canadian consumers are showing no signs of slowing down even as consumer credit growth decelerates. Consumers have been driving growth and it seems likely that they will continue to do so in the near term particularly as income and labor growth seems to be a supporting factor. The September figure gives the final look at retail activity in Q3 and is supportive of an acceleration of overall growth in the quarter (DE's forecast: 2.6% Q/Q (SAAR)), up from 1.7% recorded in Q2.

WESTERN EUROPE – Andrew Wroblewski, London

FRANCE – Business Sentiment Stabilizes. Slightly exceeding expectations this time around, the November INSEE industry confidence remained at 98, matching the 17-month high first seen in August. The breakdown showed the latest result came from generally better results including domestic order-books and past production, the main negative being a fall back in he production outlook.

Overall, however, the business climate index (which aggregates services, manufacturing, construction and retail sectors) was unchanged (at 95), thereby matching the October and September reading.

DE View: The main message is the failure of these INSEE-compiled business survey numbers to echo the more downbeat message seen in the most up-to-date PMI readings.

NETHERLANDS – Business Confidence Steadies. Producer confidence rose to -0.4 in November from -0.5, the highest in two years.

OTHER WESTERN EUROPE

UNITED KINGDOM – Mortgage Approvals Stabilize. According to the British Bankers' Association, net mortgage lending in October was down £ 0.2 bln, a slightly smaller fall than in the previous month. However, and more notably, there was a small M/M dip in the number of house purchase loan approvals, albeit down from a September reading that was the highest since December 2009.

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

CZECH REPUBLIC – Confidence Improves Further. The Czech Statistical Office's measure of business confidence (a weighted average of industry, construction, trade and services confidence) rose further to 7.9 in November from 7.0 in the previous month, a fresh cycle-high and boosted by a clear bounce in industry (actually outweighing stable or weaker outcomes in all other sectors). Consumer confidence, meanwhile, turned less negative at -9.3 from -13.5 in October, also hitting a cycle-high. As a result, the composite index (a weighted average of the business and consumer confidence) moved further into positive territory to 4.5 from 2.9 in October.

ASIA PACIFIC ANALYSIS – Chang Liu, London

SINGAPORE – Inflation Rises. Coming in below expectations this time around, consumer price inflation still rose by 0.4 percentage point to 2.0% Y/Y in October, the sixth increase in the past seven months and moving further above the 39-month low seen in April (of 1.5%). Meanwhile, in M/M terms, prices increased 0.2% last month, as rises in clothing and transport costs outweighed falls for housing.

The Y/Y breakdown, meanwhile, showed the latest outcome to be a reflection of increases in price pressures for food (2.5% from 2.4%) and transport (2.3% from -1.5%), outweighing falls for housing (1.1% from 2.3%) and health care (3.7% from 4.0%).

Notably, the swings in inflation seen over the past year are largely the result of increasing curbs placed on vehicle and property purchases by the Government.

TAIWAN – Output Rises Further. Surprising to the downside this time around, October industrial production still showed a 0.78% Y/Y gain following a 0.60% increase in the previous month. The breakdown showed the latest outcome to be the result of further rises in manufacturing (0.49% from 0.32%) and construction (15.42% from 12.99%) coming alongside a less steep fall in mining (-6.43% from -7.84%).

Notably, the latest outcome adds to the evidence of an underlying trend of gradual improvement seen in the data over recent months—likely boosted by developments in Mainland China, which may be showing signs of stabilization.