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The Morning Briefing

Thursday, December 19, 2013
6:30 EST; 11:30 GMT
Allen Sinai, Chief Global Economist

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

United States: First Inputs to January Taper Decision. Among the indicators scheduled today, the **existing home sales** figure and the **initial claims** count stand out, because they give more-or-less reliable information on two areas of Fed preoccupation, housing and the labor markets. After Chairman Bernanke's comment yesterday that further "measured" tapering steps could occur meeting by meeting, betting is on for January

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

Today features a speech by Dallas Fed President Fisher and the weekly unemployment insurance report (initial claims), both at 8:30 EST/13:30 GMT, plus, November existing home sales, the December Philadelphia Fed Survey, and the November leading indicators, all at 10:00 EST/15:00 GMT.

In principle, **Fisher**, who will vote on the FOMC next year, should not say anything substantive about monetary policy, since the post-FOMC blackout will be in force until Friday morning. He will discuss the Texas economy at a meeting of the Dallas Breakfast Group.

Among the indicators, the **existing home sales** figure and the **initial claims** count stand out, because they give more-or-less reliable information on two areas of Fed preoccupation, housing and the labor markets. After Chairman Bernanke's comment yesterday that further "measured" tapering steps could occur meeting by meeting, betting is on for January.

The Philadelphia Fed Survey, while very up to date, has lately been too detached from national developments to be depended on as an early guide to them. The leading indicators seem to have dropped off the radar for markets in recent years—they will surely come back when they turn weak and are watched for a recession signal.

Existing home sales are a tier-one housing indicator, tracking completed sales in the vastly biggest part of the market. The fact that the count registers closings means that it gives a modestly lagged reading on buying decisions, and the November figure today is effectively reflecting market conditions in the September/October period.

That was probably a phase of sales payback for the accelerated activity which accompanied the spring/summer runup in mortgage rates. The focus today will be on how deep the payback decline turns out to have been. Forecasts point to relatively little further decline beyond the 3.2% seen in **October (Consensus: -2.0%, to 5.02 million; Decision Economics: -0.4%).**

The **initial claims** figure today will cover the December payroll-survey week, closing out the four-week payroll month—giving the number great interest for payroll employment forecasters.

Though the gross volatility caused by the early September California processing problem seems to have thoroughly washed out, the numbers are still afflicted with routine seasonal adjustment glitches, and one that seems to be operating now is confusing assessment of the December situation.

The issue is the Veterans Day through Thanksgiving period. Claims took a big step down in the Veterans Day week (-18,000), another smaller one in the subsequent week (-5,000), and a second big

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one in the Thanksgiving week (-21,000). The week after that, in data reported last Thursday, initial claims jumped back by more than the total extent of the declines (+68,000).

The question is where claims will wind up, now that the seasonal issue seems to have more-or-less averaged out. Forecasts put the new level almost exactly on the average of the previous three weeks (Consensus and Decision Economics: -38,000, to 330,000). The December payroll-month would average out to about that same level, down a decent notch from the 341,000 average in the November payroll month—and hinting at a payroll employment gain as good, or better, than the November one.

Forecasts for the headline **Philadelphia Fed Survey** index point to a partial rebound from the 13.3-point November decline (Consensus: +3.5 points, to 10.0; Decision Economics: +7.5 points). That sort of outcome would be reassuring in establishing that the Philadelphia region is not veering away from the generally upward national trend—and would add a small bit to confidence that the national trend is not shaky.

Leading indicator forecasts, meanwhile, favor a relatively solid increase (Consensus: +0.7%; Decision Economics: +0.8%), restoring a picture of strong growth following a slowdown to +0.2% in October from +0.9% in September.

DE Forecasts:

Initial Claims (Week ended December 14): -38,000, to 330,000.

Existing Home Sales (November): -0.4%, to 5.10 million.

Philadelphia Fed Survey (December, Headline Index): up 7.5 points, to 14.0.

Leading Indicators (November): +0.8%.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES– Pierre Ellis, New York

The **FOMC** tapered its asset purchases, with monthly buying of Treasuries and Agency mortgage-related securities curtailed by $5 billion apiece, and puts a further "easing" twist in its rate guidance, strengthening it to say that "The Committee now anticipates...that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%..."

The statement also specified that "If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings."

In press-conference answers, Bernanke hints that cuts could well come at every coming meeting—though, of course, not necessarily—and be of roughly the same $10 billion size, and equally split between Treasuries and mortgage-related securities.

In making the changes, the Committee brought ultra-hawkish former dissenter George on board with the decision, but lost ultra-dove Rosengren, who dissented.

Key economic-assessment changes motivating the decision were that new information "indicates" that activity is "expanding at a moderate pace, rather than just "generally suggests" it, as was the case at the October meeting, and that "labor market conditions have shown further improvement," rather than "indicators of labor market conditions" showing just "some further improvement."

On the latter issue, the unemployment rate is still given at-face-value treatment, with the full reference to it changed from "but the unemployment rate remains elevated," to "the unemployment rate has declined but remains elevated." Perhaps whatever exaggerated downward movement has appeared in the data has been factored into the definition of "elevated."

And, an assessment change not to be underestimated in importance relates to fiscal drag, with the former flat statement that "Fiscal policy is restraining economic growth" appended with a new clause "although the extent of restraint may be diminishing." Notably, in press conference remarks, Bernanke blamed some of the failure of extreme monetary policy moves to stimulate more growth, or prevent the inflation slowdown, on the directly opposing recent direction of fiscal policy.

Bottom line, with the new assessment the Committee "...sees the risks to the outlook for the economy and the labor market as having become more nearly balanced." The previous text was "...sees the downside risks...as having diminished."

Future changes in those words may be the single most important determinant of further tapering steps—with each incoming indicator, and fiscal development, assessed for its effect on the balance.

Before the meeting. November **housing starts** turned out to be much stronger than expected, coming in 23.6% higher (Consensus: +7.6%; Decision Economics: +5.3%) than the latest previously available reading, for August. The increase was as evenly spread as could be expected between single family (+17.3% from August) and multi-family (+38.4) starts.

The November-month results stand out, with the single-family total up 20.8% from the newly available October figure, following on a 3.8% gain that month and a 6.5% decline in September (after a 5.6% rise in August).

This is in the period of the year when unusually warm weather can sometimes exaggerate the strength of seasonally adjusted activity—but there was no strong expectation of any such distortion going in.

Evidently, builders in the field are genuinely confident about the outlook for sales of new single-family houses, despite the rise in mortgage rates this year. Multi-family activity also appears to be running healthy—with considerable help from the investment incentive represented by the Fed's low rates.

WESTERN EUROPE – Chang Liu, London

EUROZONE

NETHERLANDS – Consumer Sentiment Rises Further. Consumer confidence increased 2 additional points to -16 in November, a new cycle-high; albeit a result that saw the willingness to make major purchases being stable. Indeed, confidence has surged 19 points in the last three months alone.

Jobless Rate Drop Continues. The seasonally adjusted unemployment rate fell a further 0.3 percentage point in the three months to November to 8.2%, the third drop in the last four readings and down further from the cycle-high in July. *Such data underscores that the jobless rise in the Eurozone may actually be on the turn.*

OTHER WESTERN EUROPE

UNITED KINGDOM – Sales Uptrend Continues? Largely meeting expectations this time around, real retail sales (including fuels) rose by 0.3% M/M in November, albeit unable to unwind all of the little-revised 0.7% decline seen in October. Colder weather may have been behind the latest increase as it was supported by a 3.8% M/M improvement in clothing sales.

Momentum Less Clear

However, despite this November rise, the recent uptrend is less discernible, not least from the fact that the three-month average growth rate is now flat compare to the preceding period—suggesting that household spending may not be able to provide as much of a boost to Q4 GDP as it did in the third quarter.

DE View: This seems largely in line with the slight pick-up in growth that the BoE penciled in for this and the next few quarters. Regardless, numbers such as these sales figures underscore that the 4%-plus annualized growth backdrop signaled by business survey data looks too optimistic.

JAPAN – Chang Liu, London

Output Falls Afresh. The all industries index decreased 0.2% M/M in October, unable to unwind all of the 0.5% September gain but only the second fall in the last nine months. Partly as a result, the Y/Y rate fell to 1.9% from 2.3%.

ASIA PACIFIC ANALYSIS – Chang Liu, London

NEW ZEALAND – GDP Growth Jumps. Surprising clearly to the upside, national accounts data for Q3 showed GDP jumping 1.4% Q/Q, more than quadruple the 0.3% gain seen in the previous quarter and hitting a four-year high. Meanwhile, Y/Y GDP growth increased to 3.5% last quarter from 2.3% in Q2, the highest in six years.

The expenditure side breakdown actually showed a clear slowing in private consumption growth (0.4% Q/Q from 1.1% in Q2) coming alongside notable improvements in both government expenditure (2.2% from 0.1%) and investment (7.9% from 7.6%). Elsewhere, net trade provided a further drag on growth, with a 0.7% decline in exports coming in sharp contrast to a 4.5% jump in imports.

Meanwhile, the industry breakdown revealed improvements in the primary (9.6% Q/Q from -3.5%) and secondary sectors (0.4% from -0.1%), the latter coming as a bounce in manufacturing (1.5% from -0.4%) and less weakness in utilities (-0.3% from -3.8%) outweighed fresh deterioration in construction (-1.0% from 2.2%). Tertiary industry growth, however, saw a slowing to 0.4% from 1.0% in Q2, dragged down by deterioration in transport, retail and science & technology.

DE View: *Notably, the latest outcome surprised both markets and the RBNZ (who were predicting a 1.1% Q/Q expansion); with increasing speculation that the Bank may now undertake a more dramatic hiking cycle. However, the NZD remains elevated and a persistent worry of the RBNZ. As a result, the latest reading may not be enough to prompt any major change in thinking at the Bank, except to increase the likelihood that it sticks to its latest rate path projections—which showed the first hike coming in the early months of 2014. Looking ahead, much of the exact timing regarding what appears to be the start of an imminent hiking cycle still dependents on development in the currency.*

Trade Deficit Narrows Clearly. Data for November showed the trade deficit narrowing clearly to NZ$ 183 mln from a deficit of NZ$ 587 mln in the same period of 2012. This came on the back of a 16.9% Y/Y rise in exports, coming in clear contrast to the 2.8% fall seen in imports. Elsewhere, the 12-month cumulative trade deficit saw an even sharper narrowing, closing the gap to NZ$ 248 mln compared to NZ$ 1 393 mln in November 2012.