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The Morning Briefing

Wednesday, January 29, 2014
6:00 BST; 11:00 GMT
Allen Sinai, Chief Global Economist

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

United States: Fed stays on plan. Odds are, most **FOMC** voters would generally prefer to stick with Chairman Bernanke's schedule of meeting-by-meeting tapering increments. Reasonable predictability is the goal of policy transparency.

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

The only important scheduled item today is the announcement of the **FOMC decision**, at 14:00 EST/19:00 GMT.

Odds are, most **FOMC** voters would generally prefer to stick with Chairman Bernanke's schedule of meeting-by-meeting tapering increments. Reasonable predictability is the goal of policy transparency

However, the nervousness evident in the December Minutes suggests that more-dovish players will have taken some fright at any significant adverse change in the perceived balance between upside and downside risks.

The unexpectedly poor December payroll employment numbers would probably be dismissed, because of the solid upward trends evident in many other economic indicators. Likewise for the volatile, and revision-prone, new home sales and durable goods orders results.

But, the sudden new explosion of market turmoil could be another matter, if it were perceived as threatening to damage domestic consumer wealth, business investment, or exports.

Under bad-enough conditions, Committee doves would argue that a pause in tapering would carry no risks, and might help. Hawks might resist the idea of being dictated-to by markets, but would be outvoted.

But, conditions so far seem to have stabilized markedly, and, barring a new explosion, the Fed is most likely to stay on-plan.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Pierre Ellis, New York

December **durable goods orders** fell unexpectedly, dropping 4.3% (Consensus: +1.7%; Decision Economics: +2.0%), from a November level revised down by 0.8%. Even apart from normally volatile sectors, the tone was soft, but not disastrously so, and will not change minds at the Fed.

The big forecast miss was in commercial aircraft, where strong industry-reported orders showed up in a 53.8% unadjusted jump in the official report—but punishing year-end seasonal adjustment translated that to an 18.6% drop.

The seasonal adjustment is attempting to correct for the normal sales practice of pulling bookings forward into the closing year, in order to make targets or boost commissions.

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Evidently, that practice was not as effective in December as would "normally" be the case—though with the mega-orders common in the aircraft sector, and the huge volatility they introduce, it is hard to tell what normal is.

In any case, the overall decline of 4.3% would have been 3.7% with volatile defense orders removed, and 2.4% with the commercial aircraft orders excluded too. That still-weak number incorporated a 5.8% drop in motor-vehicle-industry orders—where normal volatility was the issue, rather than seasonal adjustment.

With motor vehicles stripped off too, remaining orders, still 70% of the overall total, were down 1.4%, after a 2.7% jump last month. Moving in line, non-defense capital goods orders ex aircraft fell 1.3%, after a 2.6% rise last month (revised from +4.1%)

Obviously, even those "core" results are soft, but they are not weak in a way that suggests a genuine change in direction. Fed observers will conclude that the burst of optimism seen in the data last month was an overestimate, but what was genuinely there was still not offset this time around.

Confidence continues to build only slowly, and there is no exponential takeoff in sight--nothing new for this expansion. "Tapering" is a bigger-picture matter, and will not be disturbed by minor fluctuations in growth.

Meanwhile, the 20-city **Case-Shiller House Price Index** met expectations in November, showing a 13.7% increase year-on-year (Consensus: +13.7%; Decision Economics: +13.8%).

On the more interesting seasonally adjusted basis, prices were up 0.9% from October, slowing from a 1.1% rise in that month. That is a good performance, given that existing-home sales—tracking closed transactions, just as the Case-Shiller survey does—dropped 5.9% in November.

Seasonally adjusted movements were mixed across cities, though localities showing a speedup in prices generally had slowdowns the month before. November also saw some isolated very-sharp slowdowns—Phoenix (+0.4%, versus +1.1% in October), Los Angeles (+0.4%, versus +1.5%), Detroit (+1.3%, versus +1.9%), Minneapolis (+0.8%, versus +1.6%), Charlotte (+0.5%, versus +1.2%)—but those, with the sole exception of Phoenix, followed big accelerations last time.

Thus, the broad picture remained one of steady increase at about a 12% annual rate—down from earlier in the year, but obviously still healthy. Even at that rate, price increases are almost surely—and should be—unsustainable over the long run.

Notably, there is a huge range of year-on-year performances, ranging from +27.3% in Los Vegas, and +21.6% even in mega-market Los Angeles, down to +6.0% in New York and Cleveland. Chances are, the more-difficult affordability conditions imposed by higher mortgage rates will bite a bit quicker in the zooming markets, slowing price increases faster there than elsewhere.

Also yesterday, the January **Conference Board Consumer Confidence Survey** surprised to the upside, with the headline index rising 3.2 points (Consensus: +0.1 point; Decision Economics: -1.8 points), on relatively balanced increases of 3.8 points in the present-situation component and 2.8 points in the expectations component.

But, notably, the headline index has only just now recovered to the September level, after an autumn drop of 8.2 points.

Perhaps healthily, the present-situation reading showed almost continuous progress, as it has throughout the recovery, with that index up 5.6 points from the September level—and touching a high not seen since springtime 2008.

It is the expectations index which, not surprisingly, has imparted most of the month-to-month volatility to the index. That reading is still down 2.9 points from September--and still down 15.7 from a not-too-flighty reading in February 2011.

It is hard to imagine that the results today are disruptive for consumer spending—though true believers might wonder if the lagging expectations reading is favorable for auto or house purchases. Most Fed officials are not true believers.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE – Money Growth Slumps Back? While producing somewhat mixed results in regard to (still clearly weak) lending, the December ECB monetary update showed much softer money growth signals.

Indeed, showing a weaker-than-expected outcome, December M3 money supply growth fell back 0.5 percentage point to 1.0%, the lowest since late-2010, largely a result of a sharp drop in the adjusted M/M figure. Much of this was due to a drop back in overnight deposits, this also causing the narrower (M1) money supply gauge to fall back clearly, as its Y/Y growth rate fell from 6.5% to 5.8%, a 15-month low.

Monetary Weakness in Perspective

Given the apparent threat of deflation, or at least protracted disinflation, signs of soft, if not softer, monetary growth are important. Notably, the soft money growth backdrop in this data is less to do with base effects, the question being the extent to which the 0.5% M/M drop is merely an aberration related to volatile overnight deposits. Regardless, narrow money growth rates are still holding up relatively, something that is all the more notable as the ECB has acknowledged that the leading indicator properties of M1 growth for turning points in real GDP growth are significant.

Lending Backdrop Mixed?

Meanwhile, and perhaps more notably, there was continued weakness in private sector lending last month. Indeed, the Y/Y pace of growth remained at a record-low of 2.3%, while the M/M figure actually showed a ninth successive drop. On a downbeat note, mortgage lending fell for the first time in four months. Even so, the (adjusted) growth rates for both consumer and corporate lending were (again) little changed, with the Y/Y rate for the former staying at 0.3% Y/Y while that for corporations was slightly less negative at -2.9%. Notably, however, there were glimpses of some improvement in aspects in the corporate lending data.

DE View: Despite it being something of a lagging indicator, the fact that overall lending is still falling will be yet more reason why the ECB will continue to be (justifiably) cautious despite the better signs emerging regarding real activity, most notably evident in business and consumer surveys. Even so, stable policy still seems to be on the cards for foreseeable future. Meanwhile, in gauging the risks from the monetary backdrop, the ECB may place as much emphasis on the Bank Lending Survey due for release tomorrow, especially given the better signs that the last two such surveys pointed to.

GERMANY – Consumer Confidence Hits Yet Another High. The GfK measure of the consumer confidence outlook for February rose 0.5 point to 8.2, the highest since mid-2007. The detailed backdrop (for January) revealed largely better messages, including an increased willingness to spend alongside still weak price expectations.

ITALY – Manufacturing Confidence Rises Further. Undershooting expectations, the January ISAE manufacturing confidence fell 0.5 point to 97.7, down from a cycle-high.

SPAIN – Sales Weaken afresh. Real retail sales (seasonally and working day adjusted) fell 1.0% Y/Y in December, a contrast to the 1.8% rise of the month before, albeit continuing a volatile trend seen of late. The swing was only partly a result of base effects. Notably, the adjusted M/M figure fell 3.5%, more than reversing the 1.9% November jump.

OTHER WESTERN EUROPE

UNITED KINGDOM – House Prices Rise Further and Faster. According to Nationwide, seasonally adjusted house prices in January rose 0.7% M/M, a thirteenth successive rise and thereby continuing, if not accentuating, the recent uptrend. The data have thus become less volatile

with the more positive trend evident as the three-month rate which remained at 2.9%, while that for the Y/Y rate increased back to 8.8%, afresh cycle-high.

NORWAY – Employment Rises Further. The seasonally adjusted unemployment increased 0.1 percentage point to 3.5% in the three months to November, back towards the July reading of 3.6% which was the highest since March. However, much of that latter rise seemingly reflected an on-going increase in the labor force with employment figures picking up continually through recent months. Indeed, the Y/Y rate for the latter picked up to 1.2%, but with a third of that rise coming in the last three months.

SWEDEN – Household Lending Growth Holds Up. Overall household lending growth remained at 4.9% in December, still a 19-month high and still up from the cycle-low of 4.5% last set in January. The growth rate for lending to non-financial corporations was down a little further, however, at 1.1%.

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

HUNGARY – Better Messages in Labor Market Data. The unemployment rate, in the three months to December, fell to 9.1% from 10.7% in the same period in 2012. Meanwhile, and on a further upbeat note, the employment rate picked up by 1.6 percentage points to 52.7% from the same quarter of 2012.

ASIA PACIFIC ANALYSIS – Chang Liu, London

MALAYSIA – Rates Unchanged. As was almost universally expected, Bank Negara Malaysia (BNM) kept its benchmark interest rate, the Overnight Policy Rate (OPR), unchanged at 3.00% following its January meeting. This follows fifteen similar decisions in previous months, with the last change in rates coming in the form of a 25 bp hike in May 2011.

In the accompanying monetary policy statement, the Committee began by noting continued moderate improvement in the global economy, while the assessment of the domestic economy remained fairly upbeat; with growth still supported by firm investment and exports. However, and new this month, domestic demand is expected to moderate going forward, reflecting public sector consolidation and slower consumption. Inflation, meanwhile, was noted to have picked up to 3.2% in December, albeit averaging 2.1% through the year. However, and notably, domestic costs factors are expected to drive inflation price pressures higher going forward, and with the Bank no longer promising that these will remain contained.

The major development since the last meeting is clearly the recent jump in price pressures, and with the Bank consequently also clearly more focused on the inflation front—now promising to ensure "medium-term price stability". However, with a slightly more subdued economic outlook, the BNM will not be in a hurry to take any action in the near-term future. A slight tightening bias, meanwhile, will now likely be in place for at least the remainder of the year.

SINGAPORE – Jobless Rate Stable. Preliminary labor market data showed the seasonally adjusted unemployment rate unchanged at 1.8% in Q4 from the previous quarter, still a joint cycle-low. Meanwhile, employment rose by 39 200, a larger gain than the 33 100 rise in Q3.

SOUTH KOREA – Output Recovers. Confounding expectations of a further deterioration, December industrial production instead jumped 3.4% M/M in seasonally adjusted terms, adding to the 0.1% increase seen in the previous month and tempering the recent volatility seen in the series as well as being the fastest pace since 2009. On a Y/Y basis, meanwhile, output bounced 2.6% after a 0.8% fall in November. Elsewhere, shipments also improved, bouncing 2.2% Y/Y in December following a 0.2% decline in the preceding month.

However, services sector output growth moderated to 1.1% in Y/Y terms from 2.0% in November, sliding further away from the cycle-high seen in October. The latest bounce was a reflection of broad based deterioration across components, led by steeper falls in wholesale, finance and a fresh drop in real estate, outweighing a bounce in transport.

Overall, the recent trend of recovery seen in the economy, helped by the additional budget/stimulus package announced by the Government early last year, is set to continue: allowing the BoK to

remain on hold at least for the near-term future. However, especially encouraging this month was a 7.3% jump in semiconductor-related products, perhaps signaling expectations of strong trade conditions this year.

Leading Index Rises Further. The December leading index rose by 0.8% M/M, the thirty-first gain in the past 32 months and accentuating same sized increased in the two preceding months. The coincident index, meanwhile, rose by 0.5% in December following a 0.4% gain in the previous month.

AUSTRALIA – Leading Index Bounces Slightly. The leading index compiled by Westpac rose by 0.1% in M/M in December following a same sized fall in the previous month. The 6-month annualized growth rate, however, still slowed to 1.06% from 1.12% in November.

This is only the third release of the "new" leading index figures which no longer seems to contain information on trend growth or a coincidence counterpart. However, the new measure is released a month earlier (the previous index figures due this month would have been for November). More notably, the compilers remain resilient (and now nearly alone) in expecting a further rate by the RBA in August this year. This has been delayed as a result of the upside surprise in Q4 inflation data, but with Westpac still judging that challenges to growth and downward pressures on wages will justify a move later this year.