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### United States

Recent data suggest that consumer spending will remain robust in 2017Q1, given the continued improvement in the labor market (positive job creations, increase in labor force participation rate). Conversely, investment contribution would decline in Q1, considering the deceleration in the manufacturing sector, before a rebound in the second part of 2017, mostly explained by the upcoming Trump's fiscal stimulus. In this context, we expect further Fed Funds rate hike to be postponed to May, strongly dependent to market expectations.

- Recent US cyclical data show signs of cooling, with a PMI in the manufacturing sector slightly decelerating at 54.3 in February (from 55.0 in January), core durable goods orders declining by -0.2% m/m in January and industrial production decelerating at -0.3% m/m in January. But we expect this deceleration in manufacturing activity to be temporary, and a positive rebound will follow given the strong labor market and the upcoming fiscal boost.
- The recent improvement in the labor market seems to validate our "Trump in heaven" scenario (see the Dec.16 Quarterly Cyclical Outlook for more details). Indeed, in January, job creations remained strong at +227K and labor force participation also slightly increased at 62.9%, even if involuntary part-time workers increased by +4.3% m/m in January. In line with this scenario, overall wage growth increased more gradually and January figures suggest a slight deceleration in wage growth at +3.2% y/y according to the Atlanta Fed tracker (from +3.9 and +3.5 in Nov. and Dec. 16).
- The observed absorption of the available labor supply will support disposable income and consumer spending in the first quarter of 2017, albeit the CPI inflation jump at +2.5% y/y in January (the first time above +2.0% in two years). Moreover, core retail sales show a +0.8% m/m increase in January while consumer surveys remain at historical high levels, albeit Michigan indicator decelerating in February at 96.3 (from 98.5 in January).
- February FOMC minutes suggested a hike would occur "fairly soon" in line with continued improvement of economic performances, and along with the acceleration of inflation. However, a Fed Funds rate increase in March meeting is unlikely, as market expectations are central in FOMC decisions and only 31% of investors expect a move in March (according to the evolution of Fed Fund future prices). Then, our EWS indicates a strong US bond yield increase over the coming months suggesting a probable increase in Fed Funds rate announced next May.

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### Euro Zone

EZ GDP growth is likely to pick up in 2017Q1 (close to 3.0%-4.0% q/q saar) according to recent cyclical data, particularly related to industrial sentiment indicators which are at the highest level since 2011. Downward risks are mostly concentrated on political uncertainties and potential US bond yield transmission. Finally, the inflation acceleration should be temporary and potential "tapering" market expectations may be over-estimated in the short-term.

- According to the second estimates, Euro zone GDP increased by +1.6% q/q saar in the fourth quarter of 2016, close to the previous quarter (+1.8% q/q saar), but lower than the first estimate of +2.2% q/q saar published last month.
- However, a number of recent data, particularly on industrial sentiment, reached early-2017 their highest level since 2011, suggesting an upcoming pick-up in investment spending and an acceleration of economic growth in the first quarter of 2017. Indeed, manufacturing PMI continued on its positive path, with February flash PMI at 55.5 (from 55.2 in Jan.17). Similar trend is observable on the Euro zone business and consumer survey, reaching high level at 108.0 in February. Finally, the Eurozone industrial sentiment switched in positive territory in January and February 2017 (respectively +0.8 and +1.0) for the first time since 2011.
- Combining such cyclical surveys, our nowcasting GDP model estimates a GDP growth in the range +3.0%-4.0% q/q saar for 2017Q1 (or +2.0%-2.5% y/y). However, large political uncertainties (particularly the path for the UK's exit from the Union and coming elections) still limit GDP growth acceleration for the whole year 2017 and maintain our GDP growth scenario close to 1.8% in 2017.
- Headline inflation accelerated at +1.8% y/y in January (compared to +1.1% y/y in Dec.16), mainly driven by base year effects, while core inflation remains subdued, at +0.9% y/y in January. According to our models, no major inflation risk is expected for 2017 and "tapering" market expectations may be over-estimated in the short-term (expected to be announced in 2017H2).

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## United-Kingdom

*As noted by the BoE, the UK economy is balanced between upward pressures on inflation and higher than expected economic resilience. However, cyclical data indicated that inflationary pressures increased, with potential (albeit not materialized) squeeze in household's real income and domestic demand.*

- 2016Q4 GDP was revised up by +2.8% q/q saar, driven primarily by private consumption (despite marginal deceleration from 2016Q3) while fixed investment was stagnant. As noted by ONS, trade contribution data (exports grew by +17.4% q/q saar) were offset by non-significant components suggesting that we cannot state whether exports surge (+17.4% q/q saar) is the result of past GBP weakness.
- Our scenario of resilience for some months ahead before GDP deceleration in mid-2017 seems to materialize. Despite expansion in UK services sector, PMI pace of growth moderated in Feb. (from 56.2 to 54.5), investment intentions surveys remain at low level, suggesting weakness in investment in 2017. Deceleration in consumption is consistent with recent indicators slowdown such as retail sales (-0.3% m/m in Jan.) and GfK Consumer Survey Index (drop by one point to -6 in Feb.). Furthermore, inflationary pressures continued to build, as reflected in subcomponents surveys (PMI Manufacturing prices, Agent's Score price component, retail sales deflator) and CPI data (from 1.6% y/y in Dec.16 to 1.8% y/y in Jan.17).
- On Feb. 1<sup>st</sup>, the BoE maintained its neutral stance. The MPC stated that "such exceptional circumstances" require balance between the inflation trend and the support of monetary policy to jobs and activity. In this context, the BoE should keep its monetary policy on hold, especially as the triggering of Article 50 (expected by end March 2017) may deliver subsequent drop in confidence over 2017H1.

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## Japan

*Despite above than expected GDP increase in 2016Q4, continued increase in economic activity may prove difficult to achieve given household consumption weakness and medium term exports sustainability.*

- 2016Q4 GDP growth increased by +1.0% q/q saar (compared to +1.4% q/q saar in 2016Q3). The economy expansion is mainly export-driven (+11.0% q/q saar) supported by JPY weakness and Asia broad demand recovery, while domestic demand was neutral (+0.0% q/q saar). By components, private consumption was stagnant (down from +1.3% q/q saar in 2016Q3)

reflecting a decrease in households spending, held back by the drop in real wage growth (+0.1% in Q4 compared to +1.2% in Q3), while private investment increased by 3.8% q/q saar, in line with recent growth in capital good shipments and machinery orders. Due to the economic package adopted in August 2016, government consumption also increased (from +1.0% q/q saar in Q3 to 1.6% q/q saar in Q4).

- Despite upward GDP revision in the "BoJ Quaterly Outlook" (from +1.3% to +1.5% in 2017 fiscal year), risks remain tilted to the downside. Recent indicators suggest that the upward GDP trend may not be sustainable in the coming months, despite support from private investment, given the surge in Feb. PMI Manufacturing survey (+0.8 point to 53.5). Corporate sector strength has not spread into private consumption. Weakness in consumption (60% of GDP) will not resume as long as wage growth remains sluggish. Early indications of 2017 "Shunto" process (collective wages negotiations) suggest pay rises may be similar to 2016. Furthermore, increased dependence on exports will be a concern given the growing risk of global trade tensions related to D. Trump's policies. It may limit capital spending as US is Japan's biggest export market after China.
- In the short term, the BoJ may keep its QE unchanged (while changing communication, especially removing JGB buying target), despite growing concern of bond scarcity (with BoJ holding 40% of outstanding JGB). The timing for a target hike may be determined by firm anchoring of core CPI above 1% (around the summer given energy based effects).

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## Exchange rates and oil prices

*Relative stabilization of EURUSD expected in 2017Q1, close to 1.05, related to gradual increase in both US and German bond yield. Inflation risks and uncertainties regarding policy decisions will remain the key driver of major markets.*

- The narrowing in bond spreads since early Jan.17 has induced a rough stabilization around EURUSD 1.05. EURUSD short- to medium-term valuation remains largely driven by the US/German yield spread. Our scenario suggests a US bond yield appreciation at the short-term horizon higher than the one on the Bund, suggesting EURUSD in-between 1.0-1.05 in 2017H1.
- No major change on oil price outlook, our models show Brent crude price in a large range capped at or just above 60\$/bl for most of 2017, as very high level of inventories and prospects of increasing tight-oil production in the US would create larger immediate supplies at prices above 60\$/bl.



# Mature Economies

## Monthly Cyclical Update – February 2017

### Economic Indicators Dashboard

Short term data for the United States, Euro Zone, United Kingdom and Japan

#### United States

##### Monthly economic data

	2016 M05	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01
Industrial Production (y/y, %)	-1.3	-0.6	-0.9	-1.1	-1.1	-0.7	-0.3	0.7	0.0
Consumer prices (y/y, %)	1.0	1.0	0.8	1.1	1.5	1.6	1.7	2.1	2.5
Producer Prices* (y/y, %)	0.0	0.2	0.0	0.0	0.6	0.8	1.3	1.6	1.6
Interest Rate - ST (Fed Funds, %)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.7
Interest Rate - LT (10 years, %)	1.8	1.6	1.5	1.6	1.6	1.8	2.1	2.5	2.4
M2 (y/y, %)	6.8	6.9	7.0	7.2	7.2	7.6	7.3	7.1	6.6

\* PPI for finished goods

Sources: BLS, FRB

##### Survey data

	2016 M05	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01
ISM - Manufacturing PMI	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5	56.0
ISM - Employment (% positive)	49.3	50.0	49.3	48.7	50.0	51.8	52.5	52.8	56.1
ISM - Production (% positive)	52.7	54.8	54.8	49.3	53.3	54.4	55.6	59.4	61.4
ISM - Prices (% positive)	63.5	60.5	55.0	53.0	53.0	54.5	54.5	65.5	69.0
ISM - New Orders (% positive)	54.8	55.6	56.1	48.9	55.0	54.1	54.8	60.3	60.4

Source: ISM (Institute for Supply Management)

#### Euro Zone

##### Monthly economic data

	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01
Industrial Production (y/y, %)	0.7	0.3	2.8	1.5	1.2	2.3	--	--
Industrial Production excl. construction (y/y, %)	0.8	-0.3	2.5	1.4	1.0	3.0	1.8	--
Consumer Prices (y/y, %)	0.1	0.2	0.2	0.4	0.5	0.6	1.1	1.8
Producer prices* (y/y, %)	-2.3	-2.0	-1.3	-0.7	0.3	0.5	2.3	--
Interest Rate - ST (EURIBOR 3 months, %)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Interest Rate - LT (Euroland aggr. 10 years, %)	0.9	0.6	0.6	0.7	0.8	1.2	1.3	1.3
Interest Rate - LT (Germany Gvt Bond 10 year, %)	0.0	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.2
M2 (y/y, %)	5.1	5.1	5.0	5.0	4.6	4.9	4.8	4.7

\* PPI for manufactured goods

Sources: ECB

##### Survey data

	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01	2017 M02
ECS – Consumer Confidence	-7.2	-7.9	-8.5	-8.2	-8.0	-6.2	-5.1	-4.8	-6.2
ECS – Industrial Confidence	-2.8	-2.6	-4.3	-1.8	-0.7	-1.1	0.0	0.8	1.3
ECS - Employment	-1.7	-1.4	-0.9	-0.3	1.9	2.5	2.3	3.4	3.7
ECS - Production	8.3	7.4	7.2	9.4	10.8	10.7	11.7	13.9	13.0
ECS - Prices	0.6	0.2	-0.8	-0.1	3.5	4.9	5.4	8.3	9.0
ECS – New Orders	-10.7	-9.3	-14.2	-9.6	-8.6	-9.0	-7.6	-7.3	-4.5

Source: European Commission (ECS: European Commission Survey)



# Mature Economies

## Monthly Cyclical Update – February 2017

### United-Kingdom

#### Monthly economic data

	2016 M05	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01
Industrial Production (y/y, %)	1.3	1.4	2.1	0.9	0.5	-0.8	2.1	4.3	--
Consumer Prices (y/y, %)	0.3	0.5	0.6	0.6	1.0	0.9	1.2	1.6	1.8
Producer Prices* (y/y, %)	-0.5	-0.2	0.2	0.8	1.2	2.1	2.4	2.8	3.5
Interest Rate - ST (3 months, %)	0.5	0.4	0.4	0.4	0.4	0.3	0.1	0.1	0.1
Interest Rate - LT (10 years, %)	1.5	1.3	0.9	0.7	0.8	1.1	1.4	1.5	1.4
M4 (y/y, %)	1.7	3.7	4.0	5.6	6.2	6.8	6.5	6.1	--

\* PPI for manufactured goods

Sources: Bank of England, UK Office for National Statistics

#### Survey data

	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01	2017 M02
ECS – Consumer Confidence	-1.2	-9.2	-7.5	-1.7	-3.3	-6.9	-4.6	-5.1	-4.3
ECS – Industrial Confidence	1.3	-2.6	-1.8	-2.4	-0.4	5.7	4.1	7.7	9.9
ECS - Employment	6.9	-5.6	0.3	-4.3	-9.6	1.4	0.5	-3.5	10.0
ECS - Production	19.2	6.3	8.7	17.5	18.5	30.2	28.8	26.2	30.5
ECS - Prices	1.8	8.4	11.8	9.0	13.1	19.5	21.6	24.3	26.5
ECS – New Orders	-5.8	-4.7	-10.2	-8.6	-10.2	-6.2	-5.2	4.7	5.3

Source: European Commission (ECS: European Commission Survey)

### Japan

#### Monthly economic data

	2016 M05	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01
Industrial Production (y/y, %)	-2.1	-1.4	-0.9	1.1	1.4	0.2	2.9	4.9	1.5
Consumer Prices (y/y, %)	-0.4	-0.3	-0.5	-0.5	-0.5	0.2	0.5	0.3	--
Producer Prices* (y/y, %)	-4.6	-4.5	-4.2	-3.8	-3.3	-2.7	-2.3	-1.2	0.5
Interest Rate - ST (3 months, %)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest Rate - LT (10 years, %)	-0.1	-0.2	-0.3	-0.1	0.0	-0.1	0.0	0.1	0.1
M2 (y/y, %)	3.4	3.5	3.4	3.3	3.5	3.7	3.9	4.0	4.1

\* PPI for manufactured goods

Sources: Bank of Japan, Statistics Bureau

#### Survey data

	2016 M06	2016 M07	2016 M08	2016 M09	2016 M10	2016 M11	2016 M12	2017 M01	2017 M02
Consumer Confidence	41.8	41.3	42.0	43.0	42.3	40.9	43.1	43.2	--
Industrial Confidence (Nikkei PMI)	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.5
Industrial Conf. (Reuters Tankan)	3.0	3.0	1.0	5.0	10.0	14.0	16.0	18.0	20.0

Source: Statistics Bureau