

The Week Ahead: US labour and PCE inflation data in focus

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

► **US: Non-farm payrolls to have remained strong in March**

US labour data will be the key releases of this week, with the focus magnified by the hawkish policy comments by Fed members last week. Consensus forecasts that a solid 208K jobs were created in March, albeit down from the 242K in February. Average hourly earnings growth is forecast to have strengthened to 0.2% m-o-m, reversing the -0.1% m-o-m contraction in February. Signs of a continued tightening in the labour market and a rise in wages in monthly terms will be critical for the inflation outlook. Nevertheless, in annual terms wage growth should remain at 2.2% y-o-y, whilst the unemployment rate is estimated to have held steady at 4.9%.

► **US: PCE inflation also important for Fed rate decision**

The other key focus of US data will be personal spending data and personal consumption expenditure (PCE) inflation numbers for February, released on 28 March. Personal spending is forecast (consensus) to moderate to 0.1% m-o-m for February, after the strong rise of 0.5% in January. Arguably of greater interest for the Fed policy outlook will be the core PCE readings for February and beyond. At the March FOMC press conference, Fed Chair Janet Yellen indicated that the recent pickup in core price inflation may prove temporary. The PCE deflator rose to 1.7% y-o-y in January, above the Fed's forecast of 1.6% for 2016. Consensus expects a further acceleration to 1.8% y-o-y in February, in line with the higher core CPI number. Even if the consensus forecast is missed, core PCE growth is unlikely to fall below 1.7% y-o-y. A reading of 1.7% y-o-y or above would point to a building of price pressure. Signs of a pickup in non-service inflation, as in the CPI data, would be particularly notable, and indicate a weaker drag from USD strength.

► **Japan: 1Q Tankan survey to reflect domestic and EM weakness**

The upcoming week will also be important for Japanese data, including consumer related (labour market, household spending and retail sales) and industrial production. Consensus is looking for another yearly contraction in household spending in February, which would make it the fifth consecutive month of decline. Initial indications from the spring wage negotiations suggest weaker growth in 2016 than the previous year. The market is also expecting a fall in industrial production in February, in both monthly and annual terms. The soft domestic and external backdrop is expected to feed into the BoJ's 1Q Tankan survey. Most key areas of the survey are expected to moderate, including for large corporates (manufacturing and non-manufacturing). The stronger JPY is also likely to be reflected in the more cautious stance. Weak data and indications of moderating corporate inflation expectations (Tankan report) would raise pressure for further easing by the BoJ, likely as early as its 28 April meeting.

The next issue of Global Data Watch will be published on Monday 18 April.

I. Recent Events and Data

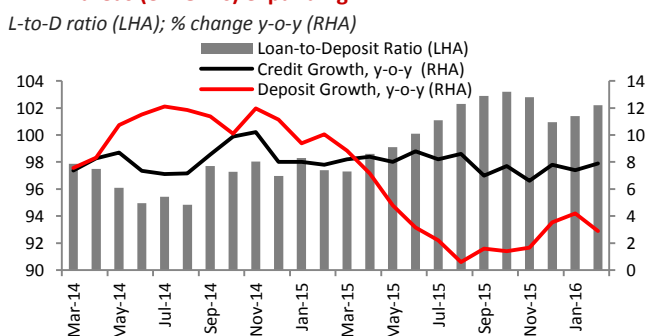
A. MENA Economies

UAE: Loan growth continues to outstrip deposit growth

Central bank data for January pointed to ongoing tightening pressure on banking sector liquidity, with system wide loan growth continuing to outstrip deposit growth. Total deposits in the banking sector remained flat (i.e. 0% m-o-m) in February, resulting in yearly deposit growth moderating to 2.9% y-o-y. This was down from 0.2% m-o-m and 4.9% y-o-y in January. Resident deposits remained steady m-o-m in February; private sector and government deposits rose a respective 1.1% and 0.6% m-o-m, compensating for a -5.8% fall in GRE deposits.

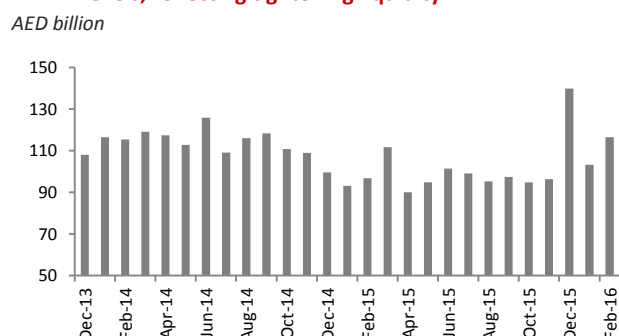
Deposits flat m-o-m in February

Fig. 1. UAE: Credit growth accelerates in February, with most areas (ex. GREs) expanding



Source: Central Bank of the UAE

Fig. 2. UAE: CDs held by banks moderate from December 2015 levels, reflecting tightening liquidity



Source: Central Bank of the UAE

Meanwhile, total credit growth accelerated to 0.8% m-o-m (7.9% y-o-y) in February, up from 0.4% m-o-m (7.4% y-o-y) in January. Most sectors saw credit growth in February, with the exception of GREs, where credit fell -0.2% m-o-m. Government borrowing grew 1.3% m-o-m, whilst private sector credit growth expanded 0.8% (8.2% y-o-y). We expect total credit growth to moderate somewhat in 2016, with market rates forecast to rise, and corporate and retail spending plans reduced. Moreover, we see credit conditions tightening in 2016. As a result, we expect credit growth to decelerate to the mid-single digits in 2016. The L-to-D ratio rose to 102.2% in February (from 101.4% in January), reflecting the stronger credit growth. While we expect credit growth to decelerate overall, we see a risk that banking sector liquidity will tighten further.

Credit growth accelerates to 0.8% m-o-m

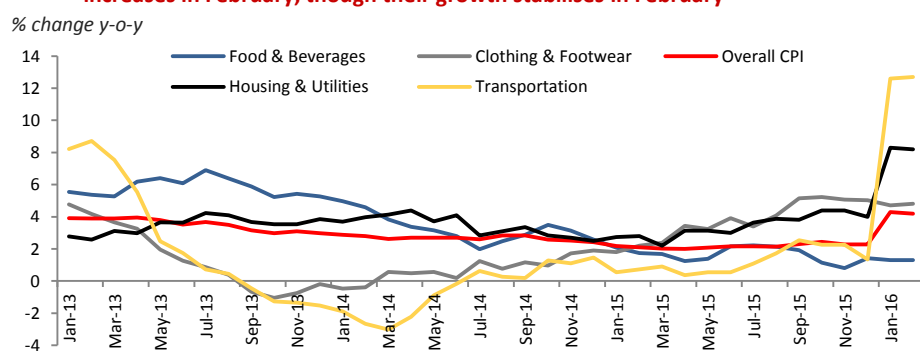
Saudi Arabia: Looking to improve business environment

The Saudi Arabian General Investment Authority (SAGIA) has made 133 recommendations aimed at improving the country's competitiveness. These measures were subsequently approved by the Council of Economic and Development Affairs (CEDA), Saudi Arabia's most influential economic policy-making body, and will be announced within the next six months. They are likely to be part of the National Transformation Plan (NTP), which provides a roadmap for reforms and highlights key government objectives. We believe that the NTP will also likely include further fiscal

Regulation to support private sector as government continues to pull back on spending

reforms. The private sector is also expected to be a focus of government policy, especially as government spending will need to retrench. Strengthening the regulatory and business environment will thus be vital. The private sector will need to play a strong role in implementing investment strategies, including in housing. Moreover, the private sector will be required to be the main engine of job creation for Saudi nationals. The regulations will likely look both to support the domestic private sector and to increase foreign investment.

Fig. 3. Saudi Arabia: Transportation and utilities components again see strongest yearly price increases in February, though their growth stabilises in February



Source: General Authority for Statistics

Saudi Arabia: Inflation moderates marginally in February to 4.2% y-o-y

Saudi inflation moderated marginally to 4.2% y-o-y in February, with a monthly contraction of -0.1% m-o-m. This was down from 4.3% y-o-y and 1.9% m-o-m in January, as the impact of fiscal reforms fed into prices. We believe that the February inflation data indicate limited secondary inflation from the fiscal reforms thus far. The reforms have included raising fuel and electricity prices for individuals; gasoline prices increased 50-67% (depending on the grade) in December 2015. On a yearly basis, the two components with the strongest price increase were again transportation at 12.7% y-o-y and housing & utilities at 8.2% y-o-y. This reflected the fiscal reforms; however, with no further reforms announced, monthly prices in these categories were virtually steady in February. There was no indication of the higher transportation prices feeding into other areas of the inflation basket. The deceleration in headline inflation in February was due largely to lower house furnishing and maintenance prices. Moreover, food price inflation was steady in February, at 1.3% y-o-y.

Limited signs of subsidy reforms leading to secondary inflation

B. G4 Economies

US: Fed members signal early rate hike

A number of FOMC members spoke last week, highlighting the possibility of an interest rate hike sooner rather than later. This was a departure from the highly dovish tone of the FOMC's 15-16 March meeting. Atlanta Fed President Dennis Lockhart noted that there was sufficient economic momentum to justify a further rate hike "possibly as early as the meeting scheduled for end of April". He said that the decision at the March meeting to hold rates was more about ensuring that recent global financial volatility had settled. San Francisco Fed President John Williams said that April or June would be

Comments by Fed members suggest June rate hike still on

“potential times for a rate hike”. Meanwhile, Chicago Fed President Charles Evans indicated that he expects two rate hikes in 2016. Evans is viewed as one of the most dovish members of the FOMC. His expectation is based on economic growth of 2-2.5% and unemployment falling further to 4.75% by the end of 2016. Finally, St. Louis Fed President James Bullard indicated that another interest rate hike "may not be far off". Bullard noted that the decision to pause in March was largely due to global and US growth downgrades. However, given that the downgrades were minor and the continued improvement in the labour market, the rate hike may come soon if the economy evolves as expected.

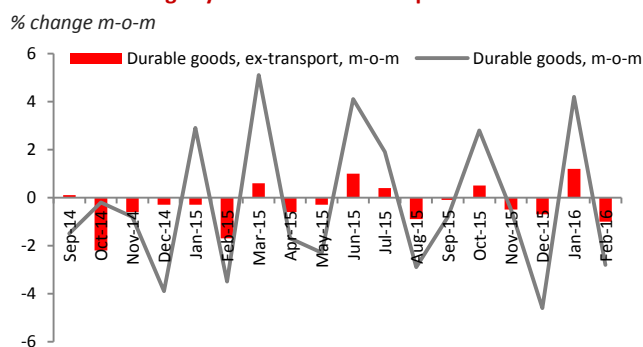
These comments support our outlook for a June interest rate hike of 25 bps and we foresee a further hike of the same magnitude in December. However, the speeches make it clear that this is contingent on both stability in global markets and continued build up in US growth momentum. Moreover, many of the speakers last week were non-voting members or hawks on the committee. Thus, we do not expect an April rate hike as the Fed has not prepared the market given the very bearish tone of the March meeting. Moreover, we believe the Fed will look to see further signs of improvement in the labour market and a rise in inflationary pressure. At the March FOMC press conference, Fed Chair Janet Yellen indicated that the recent pickup in core price inflation may prove temporary. A more stable USD, despite the interest rate outlook still diverging from that of other major central banks, also supports the inflation outlook and the ability of the Fed to raise interest rates, in our view. The likely more limited appreciation of the USD in 2016 should help to reduce the further drag on the economy, including for external orders, from the previous strengthening.

Stability in global markets and continued momentum in the US economy vital

Durable goods orders: Durable goods orders fell in February by -2.8% m-o-m, slightly below the consensus expectation of -3%. The decline was widely expected due to the strong growth in orders in January of 4.2% m-o-m, though the rate of expansion was revised down from 4.7%. Much of the February decline was due to a contraction in volatile aircraft orders. Nevertheless, core capital goods orders (non-defense and excluding aircraft), which is closely watched as a proxy for business spending plans, fell -1.8% m-o-m after advancing by a downwardly revised 3.1% the previous month. Despite the drop in durable goods orders, there are signs the downward trend in manufacturing is moderating. The solid domestic demand environment is helping to offset some of the impact from the weak global consumption.

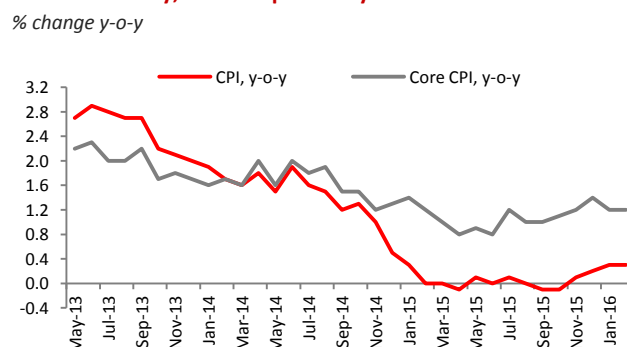
Core capital goods orders fall by 1.8% m-o-m

Fig. 4. US: Durable goods sales fall by -2.8% m-o-m in February, albeit slightly less than market expected



Source: Bloomberg

Fig. 5. UK: Headline and core inflation growth steady in February, albeit impacted by volatile airfares



Source: Bloomberg

4Q GDP: The third (and final) reading for GDP growth was revised up to 1.4% q-o-q saar in 4Q2016, from 1% in the second reading. The first estimate was half the final outcome at 0.7%. Stronger personal spending was a key factor for the upward revision; personal consumption grew 2.4% q-o-q saar, up from a 2% gain in the second reading, and supported by the strengthening labour market. The US economy expanded by 2.4% in 2015, the same pace as in 2014.

Upward revision in private consumption

UK: Limited signs of inflationary pressure building up

Headline inflation remained steady at 0.3% y-o-y in February, below the market expectation of 0.4%. This was due partly to core inflation remaining at 1.2% y-o-y in February, the same level as in January. A key factor behind core and headline inflation remaining steady was airfares falling -1.5% y-o-y in February (though airfares are likely to rise in March given the timing of Easter). However, there were signs of a weaker drag on inflation from the GBP and lower fuel prices. Moreover, food price deflation eased.

Lower airfares central to inflation remaining steady in February

Despite these tentative developments, inflationary pressure remains contained thus far, and is building up more weakly than the market had expected. We still expect inflation to pick up in 2H16 on the back of the weaker GBP, fading base effects in energy prices, and rising wage pressure. We expect the BoE's first rate hike to be in November 2016, but with the risk firmly skewed to a delay until 1Q2017. The key risk factor will remain political, namely the Brexit vote. Meanwhile, retail data shows that personal spending is holding up despite the Brexit concerns. Retail sales fell less than consensus had expected in February, after an exceptionally strong January. The data so far points to a relatively contained moderation in private consumption in 1Q2016.

Inflation expected to pick up in 2H

C. Emerging Market Economies

Turkey: Surprises market by cutting overnight lending rate

The CBRT surprised markets by cutting the benchmark overnight lending rate by 25 bps to 10.5%. We and consensus were looking for the overnight lending rate to remain unchanged. Meanwhile, the benchmark one-week repo and overnight borrowing rates remained unchanged at 7.5% and 7.25%, respectively. We see the cut in the overnight lending rate as supported by an improved external backdrop, including greater TRY stability, the lower oil price and the Fed's slow rate hiking cycle.

CBRT looking to simplify the interest rate framework

The CBRT indicated that the rate cut is a step towards a simplification in monetary policy. With the improvement in global volatility and wider CBRT monetary policy tools the interest rate corridor could be reduced. Critical for upcoming monetary policy will be the changes to the Monetary Policy Committee (MPC), including Governor Erdem Basci's term ending on 19 April. Moreover, the terms of four other members (out of seven in total) will also end by November. Nevertheless, the bias of the CBRT is expected to remain dovish.

CBRT to remain dovish, despite changes to the MPC committee

II. Economic Calendar

Fig. 6. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Monday 28 Mar					
16:30	US	Personal Income	Feb	0.5%	0.1%
16:30	US	Personal Spending	Feb	0.5%	0.1%
16:30	US	PCE Deflator, m-o-m	Feb	0.1%	-0.1%
16:30	US	PCE Deflator, y-o-y	Feb	1.3%	1%
16:30	US	PCE Core, m-o-m	Feb	0.3%	0.2%
16:30	US	PCE Core, y-o-y	Feb	1.7%	1.8%
Tuesday 29 Mar					
3:30	Japan	Jobless Rate	Feb	3.2%	3.2%
3:30	Japan	Overall Household Spending, y-o-y	Feb	-3.1%	-2%
3:50	Japan	Retail Trade, y-o-y	Feb	-0.1%	-0.2%
3:50	Japan	Retail Sales, m-o-m	Feb	-1.1%	-0.4%
13:15	US	Fed's Williams Speaks in Singapore on 'Turbulent' Economy			
18:00	US	Consumer Confidence Index	Mar	92.2	94
19:30	US	Fed Chair Yellen Speaks to Economic Club of New York			
21:00	US	Fed's Kaplan Speaks in Austin			
Wednesday 30 Mar					
0:00	US	Fed's Kaplan Speaks at University of Texas at Austin			
3:50	Japan	Industrial Production, m-o-m	Feb P	3.7%	-6.0%
3:50	Japan	Industrial Production, y-o-y	Feb P	-3.8%	-1.7%
13:00	Eurozone	Economic Confidence	Mar	103.8	103.8
13:00	Eurozone	Consumer Confidence	Mar F	-9.7	-9.7
15:00	US	MBA Mortgage Applications	25-Mar	-3.3%	--
16:15	US	ADP Employment Change	Mar	214K	195K
21:00	US	Fed's Evans Speaks on Economy and Policy			
Thursday 31 Mar					
3:05	UK	GfK Consumer Confidence	Mar	0	-1
11:00	UK	BOE Governor Mark Carney Speaks at FSB Briefing in Tokyo			
12:30	UK	Mortgage Approvals	Feb	74.6K	73.5K
12:30	UK	GDP, q-o-q	4Q F	0.5%	0.5%
12:30	UK	GDP, y-o-y	4Q F	1.9%	1.9%
16:30	US	Initial Jobless Claims	26-Mar	265K	265K
23:00	US	Fed's Evans Interviewed by Bloomberg Radio			
Friday 1 Apr					
1:00	US	Fed's Dudley Speaks on Financial Crises in Lexington, VA			
3:50	Japan	Tankan Large Mfg Index	1Q	12	8
3:50	Japan	Tankan Large Mfg Outlook	1Q	7	7
3:50	Japan	Tankan Large Non-Mfg Index	1Q	25	23
3:50	Japan	Tankan Large Non-Mfg Outlook	1Q	18	20
3:50	Japan	Tankan Large All Industry Capex	1Q	10.8%	9.4%
5:00	China	Manufacturing PMI	Mar	49	49.3
6:00	Japan	Nikkei Japan PMI Mfg	Mar F	49.1	--
13:00	Eurozone	Unemployment Rate	Feb	10.3%	10.3%
16:30	US	Change in Nonfarm Payrolls	Mar	242K	208K
16:30	US	Unemployment Rate	Mar	4.9%	4.9%
16:30	US	Average Hourly Earnings, m-om	Mar	-0.1%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Mar	2.2%	2.2%
16:30	US	Labor Force Participation Rate	Mar	62.9%	--
18:00	US	ISM Manufacturing	Mar	49.5	50.7
20:00	US	Fed's Mester Speaks in New York			

* UAE time

Source: Bloomberg

Fig. 7. Last week's data

Time*	Country	Data point	Period	Prior	Consensus	Actual
Monday 21 Mar						
4:01	UK	Rightmove House Prices, m-o-m	Mar	2.9%	--	1.3%
4:01	UK	Rightmove House Prices, y-o-y	Mar	7.3%	--	7.6%
16:30	US	Chicago Fed Nat Activity Index	Feb	0.41	0.25	-0.29
18:00	US	Existing Home Sales	Feb	5.47M	5.314M	5.08M
18:00	US	Existing Home Sales, m-o-m	Feb	0.4%	-3%	-7.1%
Tuesday 22 Mar						
6:00	Japan	Nikkei Japan PMI Mfg	Mar P	50.1	50.5	49.1
8:30	Japan	All Industry Activity Index, m-o-m	Jan	-0.9%	1.9%	2%
13:00	Germany	IFO Business Climate	Mar	105.7	106	106.7
13:00	Germany	IFO Current Assessment	Mar	112.9	112.7	113.8
13:00	Germany	IFO Expectations	Mar	98.9	99.5	100
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Mar P	51.2	51.4	51.4
13:00	Eurozone	Markit Eurozone Services PMI	Mar P	53.3	53.3	54
13:00	Eurozone	Markit Eurozone Composite PMI	Mar P	53	53	53.7
13:30	UK	CPI, m-o-m	Feb	-0.8%	0.4%	0.2%
13:30	UK	CPI, y-o-y	Feb	0.3%	0.4%	0.3%
13:30	UK	CPI Core, y-o-y	Feb	1.2%	1.2%	1.2%
13:30	UK	Retail Price Index	Feb	258.8	260.2	260
13:30	UK	RPI, m-o-m	Feb	-0.7%	0.5%	0.5%
13:30	UK	RPI, y-o-y	Feb	1.3%	1.3%	1.3%
14:00	Germany	ZEW Survey Current Situation	Mar	52.3	53	50.7
14:00	Germany	ZEW Survey Expectations	Mar	1	5.4	4.3
14:00	Eurozone	ZEW Survey Expectations	Mar	13.6	--	10.6
17:45	US	Markit US Manufacturing PMI	Mar P	51.3	51.9	51.4
18:00	US	Richmond Fed Manufact. Index	Mar	-4	0	22
Wednesday 23 Mar						
15:00	US	MBA Mortgage Applications	18-Mar	-3.3%	--	-3.3%
18:00	US	New Home Sales	Feb	502K	510K	512K
18:00	US	New Home Sales, m-o-m	Feb	-7%	3.2%	-2%
Thursday 24 Mar						
13:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Feb	2.3%	-1%	-0.2%
13:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Feb	5.1%	3.5%	4.1%
13:30	UK	Retail Sales, inc Auto Fuel, m-o-m	Feb	2.3%	-0.7%	-0.4%
13:30	UK	Retail Sales, inc Auto Fuel, y-o-y	Feb	5.4%	3.9%	3.8%
16:30	US	Initial Jobless Claims	19-Mar	259K	269K	265K
16:30	US	Continuing Claims	12-Mar	2218K	2235K	2279K
16:30	US	Durable Goods Orders	Feb P	4.2%	-3%	-2.8%
16:30	US	Durables, ex-Transportation	Feb P	1.2%	-0.3%	-1%
16:30	US	Cap Goods Orders, Nondef ex-Air	Feb P	3.1%	-0.5%	-1.8%
Friday 25 Mar						
3:30	Japan	Natl CPI, y-o-y	Feb	0%	0.3%	0.3%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Feb	0%	0%	0%
3:30	Japan	Natl CPI, ex- Food, Energy, y-o-y	Feb	0.7%	0.8%	0.8%
16:30	US	GDP Annualized, q-o-q	4Q T	1%	1%	1.4%
16:30	US	Personal Consumption	4Q T	2%	2%	2.4%
16:30	US	GDP Price Index	4Q T	0.9%	0.9%	0.9%
16:30	US	Core PCE, q-o-q	4Q T	1.3%	1.3%	1.3%

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.