

# The Week Ahead, March 14 - 18

**China:** Bracing for the continued slowdown

**Sweden:** Higher inflation and unchanged unemployment rate in February

**Norway:** Norges Bank to cut its policy rate



China: Industrial production, fixed-asset investment, and retail sales in Jan-Feb (Saturday, March 12)

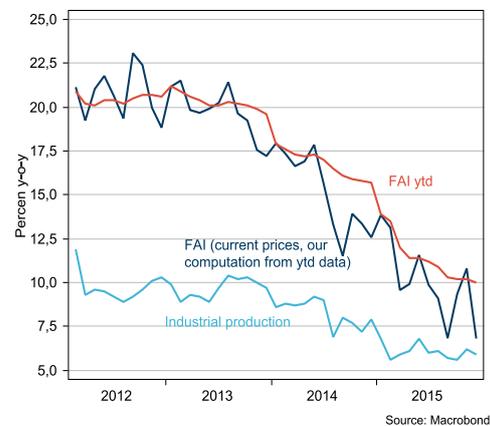
## Bracing for the continued slowdown

Given the shifting date of the Chinese New Year, the monthly activity data for January and February are usually consolidated. The important figures to watch are industrial production, urban fixed-asset investment, and retail sales. Consensus expects industrial production to slow down further to 5.6 percent y-o-y from 5.9 percent in December. Fixed-asset investment activity is reported only in year-to-date terms, and in this case consensus anticipates a decrease in the y-o-y growth rate to 9.5 percent from 10.0 percent. However, if we use the year-to-date data to calculate the implied data for individual months, the December growth rate only lands at 6.8 percent. Although this calculation is useful, especially for months late in the year, we caution that the December year-to-date numbers may reflect revisions for months earlier in the year rather than just the activity in December.

The retail data are reported in real and nominal terms, but consensus estimates are collected for the nominal data only. However, the difference between the two has been unimportant in recent months due to the low inflation. In contrast to the production and investment data, retail growth has held up quite well and is expected to show growth of 10.9 percent y-o-y in January-February, up slightly from 10.7 percent in December. This difference is consistent with the gradual transition in the Chinese economy from investment-driven to consumption-driven growth.

Nevertheless, we caution that the consensus data were collected before the publication of the February data for foreign trade, which showed steep drops for exports and imports. As such, the markets should brace for weaker data than indicated by the consensus surveys.

China: Industry and Fixed Asset Investment



China: Retail trade



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Sweden: Consumer prices (CPI, CPIF) (Tuesday)

## Inflation expected to increase in February

February estimates: CPI at 0.3/0.4 percent m-o-m/y-o-y  
CPIF at 0.4/1.1 percent m-o-m/y-o-y

We expect inflation to increase in February. Clothing and shoes and "Other" are expected to demonstrate the largest positive contribution, adding 0.2 percentage points to February inflation. The unusually warm weather in February is expected to contribute to electricity prices subtracting 0.1 percentage point. A similar large negative contribution is expected from petrol prices. On the other hand, we expect Food and Package tours to increase inflation.

<b>Group</b>	<b>Forecast m-o-m (%)</b>	<b>Weight (%)</b>	<b>Contribution %points</b>
Food	0.8	12.5	0.1
Clothing	3.9	5.3	0.2
Petrol	-3.2	3.4	-0.1
Communication	-0.3	3.5	0.0
Audio	-0.2	1.5	0.0
Package tours	5.4	1.3	0.1
Rent	0.1	11.7	0.0
Mortgage interest costs	-1.0	4.2	0.0
Electricity	-3.5	3.9	-0.1
Other	0.4	52.6	0.2
Total above*		100	0.3

Source: Handelsbanken Capital Markets

### Comparison: February estimates

<b>February</b>	<b>CPI (mom/yoy)</b>	<b>CPIF (mom/yoy)</b>	<b>CPI (index)</b>	<b>CPIF (index)</b>
<b>SHB</b>	0.29/0.36	0.35/1.13	314.05	204.76
<b>Riksbank</b>	-/0.16	-/0.95	313.43	204.40

Source: Handelsbanken Capital Markets

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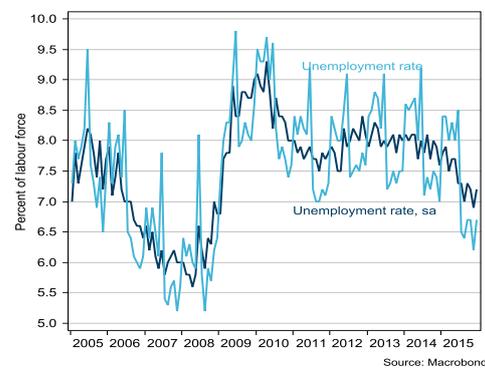
Sweden: LFS unemployment (Labour Force Survey, AKU) (Thursday)

## Unchanged unemployment rate in February

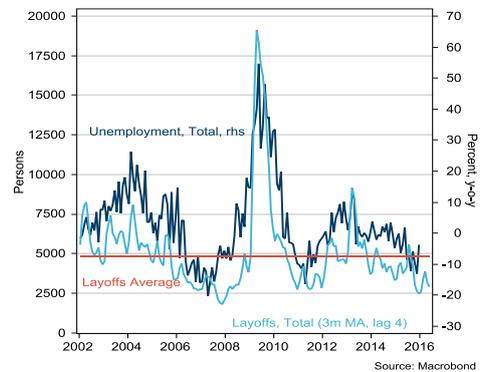
We forecast an unemployment rate for February of 7.0/7.4 percent (seasonally adjusted/non-seasonally adjusted). February is typically a month with a sideways trend in the non-seasonally adjusted unemployment rate. In January 2016, the unemployment rate was 7.0/7.5 percent. In February 2015, the unemployment rate was 7.9/8.4 percent.

The trend toward a lower unemployment rate is set to continue in the next couple of months, but we believe the decrease will slow during the year compared to the surprisingly rapid decrease last year. Unemployment has decreased to low levels, which gradually are expected to increase pressure on wages. However, labour market data continues to be of lesser interest for the Riksbank, as it is heavily focused on the Swedish krona, inflation and inflation expectations.

### Unemployment rates – SA and UNSA data



### Lay-offs and unemployment



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Norway: Interest rate decision and Monetary Policy report, 1/2016 (Thursday)

## Norges Bank to cut its policy rate

In December Norges Bank expected to cut the policy rate to 0.5 percent by June. New information since December overwhelmingly suggests that the interest rate cut will take place at the upcoming meeting. We also believe Norges Bank will revise down the path for the policy rate, indicating a probability of the rate hitting zero by year-end.

Mainland growth in Q4 of last year was 0.1 percent, and economic growth was revised down for all of the first three quarters in 2015, leaving annual growth at 1.0 percent. Norges Bank had forecast 1.4 percent. This alone is enough for a sizeable downward adjustment to the output gap and thus the policy rate path. Furthermore, the growth outlook seems considerably weaker than Norges Bank expected. Here we emphasise the still-weak signals from Norges Bank's Regional Network.

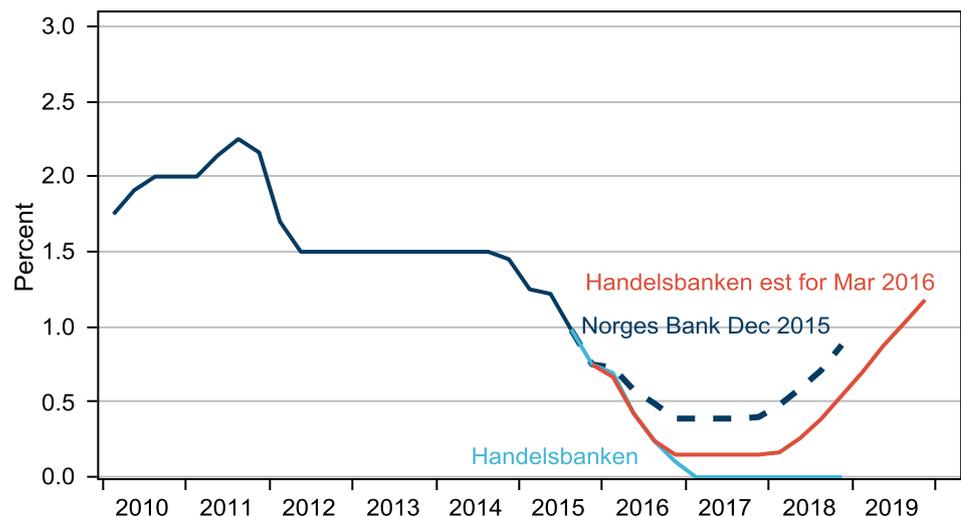
International interest rates have fallen further; seen in isolation this tends to lead to NOK appreciation and, consequently, falling imported inflation. Therefore lower international interest rates pull the path for the key policy rate down.

In addition, money market spreads have been higher than Norges Bank expected. In isolation, this contributes to higher funding costs for banks, which again pulls in the direction of a lower path for the key policy rate.

The average for the NOK so far in Q1, as measured by the I-44, is about 1 percent weaker than Norges Bank's Q1 expectation, which by itself pulls the interest rate path up. The current spot rate is stronger, however.

Overall, not much is pulling in the direction of a higher interest rate path. If we were a little generous, we could say that the NOK is the only such factor. However, given Norges Bank's preference for moving slowly, we believe the downward revision will be moderate, maybe around 30bp at the most. We expect the Bank to cut the policy rate by 25bp, and signal a probability of around 40 percent for a cut all the way to zero by year-end 2016.

### Policy rate forecasts



Source: Macrobond

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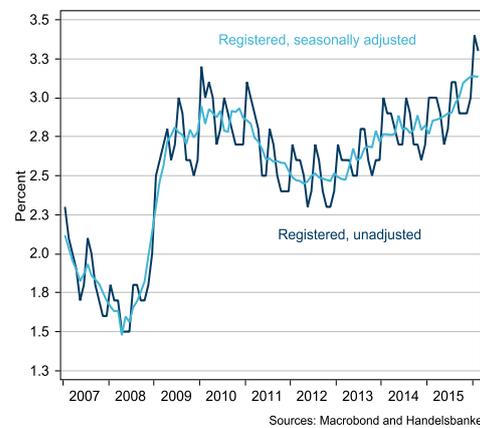
Norway: Registered unemployment in March (Friday)

## Probably another modest rise in unemployment

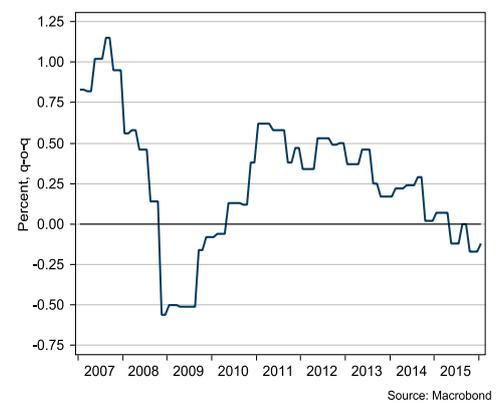
We expect the non-seasonally adjusted registered unemployment rate to be 3.3 percent in March, unchanged from February. Taking seasonal variations into account, our estimate implies 3.14 percent, up marginally from 3.13 percent in February. This is in line with the slow uptrend observed throughout 2015 and extending into 2016. But we do expect a more pronounced uptick in the *number* of people registered as unemployed relative to February, where the level of gross unemployment was virtually unchanged.

However, we need to stress that the headline registered unemployment rate in any case is a really slow-moving variable. We expect a similar slow uptrend this year, as the growth outlook (in q-o-q terms) for 2016 is about the same as for last year. And according to the Norges Banks Regional Network report, overall employment growth will continue to be slightly negative; again, as was observed last year.

**Registered unemployment**



**Regional Network, employment growth, next 3 months**



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# Economic calendar, March 12 - 18

Please check our live calendar as well, [here](#).

	CET	Country	Indicator	Period	Cons. fc	Our fc	Previous
<b>Sat, Mar 12</b>							
	06:30	China	Real Estate Transactions	January			34 / 1.6
	06:30	China	Construction Investment	January			0
	06:30	China	Fixed Asset Investments	January	9.3		/ 9.9
	06:30	China	Industrial Production	January	5.6		5.9
	06:30	China	Retail Sales	January			/ 11
	06:30	China	Retail Sales y-o-y	January	11.0		11.1
<b>Mon, Mar 14</b>							
	08:00	Finland	CPI	February			-0.4 / 0.1
	08:00	Finland	Retail Trade ex auto	January			-1.4
	09:00	Sweden	HOX, Flat prices	February			2.1 / 16.2
	09:00	Sweden	HOX, House and flat prices total	February			3.2 / 14.5
	09:00	Sweden	HOX, House prices	February			3.9 / 13.6
<b>Tue, Mar 15</b>							
	05:30	Japan	Industrial Production, sa	January			3.7
	09:30	Sweden	CPI	February	0.3/0.4	0.3/0.4	-0.3 / 0.8
	09:30	Sweden	CPIF	February	0.4/1.1	0.4/1.1	-0.4 / 1.6
	14:30	US	Retail Sales less autos	February	-0.2		0.1
	14:30	US	Empire Manufacturing	March	-10		-16.6
	14:30	US	Retail Sales Advance	February			0.2
	16:00	US	NAHB-Wells Fargo Housing Market	March	59		58
<b>Wed, Mar 16</b>							
	08:00	Finland	GDP, sa	Q4			0.1
	08:00	Finland	GDP Monthly Indicator	January			0.6
	08:00	Sweden	Prospera inflation expectations				
	10:30	UK	ILO Unemployment Rate, sa	December	5.1		5.1
	13:00	US	MBA Mortgage Applications, sa	W10			/ 0.2
	14:30	US	Housing Starts	February	1.15M		1.1M
	14:30	US	Building Permits	February	1.2M		1.2M
	14:30	US	CPI, less food and energy	February	0.1/2.2		0.3 / 2.2
	14:30	US	CPI	February	-0.2/0.9		0 / 1.3
	15:15	US	Industrial Production, sa	February	-0.2		0.9
	20:00	US	FOMC target rate, upper band	3/16/2016	0.5		0.5
	20:00	US	FOMC rate decision	3/16/2016			0.5
	20:00	US	FOMC target rate, lower band	3/16/2016	0.25		0.2
<b>Thu, Mar 17</b>							
	09:30	Sweden	Unemployment Rate, sa	February			7
	09:30	Sweden	Unemployment Rate	February	7.4	7.4	7.5
	10:00	Norway	Norway, Policy Rates, Overnight Lending Rate	3/18/2016			-22.2
	10:00	Norway	Norway Policy Rate decision	3/18/2016	0.5	0.5	0.8
	11:00	Eurozone	HICP Flash y-o-y	February			/ 0.7
	13:00	UK	Bank of England decision	2/1/2016	0.5		0.5
	14:30	US	Philly Fed	March	-1.2		-2.8
	16:00	US	Leading Index	February	0.2		-0.2

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**Fri, Mar 18**

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02:30	China	Building 70 Cities Price Index	February		123.7
10:00	Norway	Unemployment Rate (NAV)	March	3.3	3.3
16:00	US	U. of Mich. Sentiment		92.2	91.7

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Figures are reported in percent month-on-month/year-on-year if not otherwise stated

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Sources: Handelsbanken Capital Markets and Bloomberg

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