

## ECONOMIC ANALYSIS

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## Next week

The ECB will hold its monetary policy meeting, at which we expect the ECB to ease monetary policy. Furthermore, investor will focus on the eurozone preliminary inflation figures for May. The EU will also be releasing country-specific recommendations. In the US, economic publications will include May's change in non-farm payrolls, the AD employment report and the Manufacturing and Services ISM. Additionally, the Fed will release the Beige Book, while several Fed members will speak (Evans, George and Kocherlakota). In China, May's PMI and export figures will be published. Lastly, the G-7 countries will hold a meeting in Brussels; the situation in Ukraine and the relations with Russia will be on the agenda, as will the global economy, trade, energy security, climate change and development.

## Calendar: Indicators

## Eurozone: HICP inflation Flash (May, 3 June)

Forecast: +0.7% YoY

Consensus: +0.7% YoY

Previous: +0.7% YoY

Eurozone inflation increased to 0.7% YoY in April, slightly lower than anticipated and mainly due to a larger fall in energy prices. In May, inflation is projected to remain stable (at 0.7% YoY), as energy prices should return to positive territory offsetting the slowdown in core inflation (to 0.9% YoY from 1.1% YoY) due to the moderation of service inflation after the Easter effect. Still, we see some downside risks in our forecast, as panellists in the PMI survey reported the steepest decline in rates charged for services since November. Looking beyond May, headline inflation is expected to remain almost unchanged until the last quarter of the year, when it could return to rates above 1% YoY. Core inflation is also projected to remain broadly stable at around 1.1% YoY for the remainder of the year.

## Eurozone: second GDP estimate (1Q14, 4 June)

Forecast: +0.2% QoQ

Consensus: +0.2% QoQ

Previous: +0.2% QoQ

After the stable, but lower than expected, growth in the eurozone in 1Q14, the second GDP growth estimate will be released next week, including the detail by components. Our forecasts suggest that growth has been sustained by domestic demand (investment and, to a lesser extent, private consumption), while the contribution of net exports will have disappeared or may even be slightly negative, in line with national data (Germany and France). All in all, we continue to expect relatively stable growth for the remainder of the year, so we are still forecasting average annual growth of around 1% for the whole of 2014.

## International Trade Balance (April, 4 June)

Forecast: -\$40.0bn

Consensus: -\$41.0bn

Previous: -\$40.4bn

As global demand continues gradually to pick up, we expect the trade deficit to narrow slightly but remain essentially unchanged for April. In March, imports rose by 1.1% while exports increased 2.1%, due to a jump in overseas demand. Domestic demand has picked up rapidly in 2014, and is expected to boost import activity moving forward. We expect that an equivalent increase in global economic demand will likely offset a large share of import activity. However, a slowdown abroad, particularly in China, remains the biggest threat to U.S. exports. With regards to economic growth, the widening of the trade deficit over the first three months of the year brought GDP down, but in the future we forecast that increased energy production will boost exports and provide an upward bias. Overall, we expect oil exports to be the main catalyst in steadily narrowing the trade gap through 2014.

### Non-farm Payrolls and Unemployment Rate (May, 6 June)

**Forecast: 205K, 6.4%****Consensus: 218K, 6.4%****Previous: 288K, 6.3%**

As the labour market continues to gain momentum, we expect non-farm payrolls to add over 200K jobs for the fourth consecutive month. Jobless claims data continue to remain at post-recession lows, with the monthly average in May falling just under April's level. Healthcare jobs have been a catalyst of late, averaging 27K job additions per month over the last three months, and we expect this to become an ongoing trend as the baby-boomer generation enters retirement. The housing data for April showed signs of life in the sector, so we expect a pickup in activity to boost construction payrolls moving into the summer months. Though the unemployment rate dropped from 6.7% to 6.3% in May, the dip was largely attributed to workers exiting the labour force, and as workers re-enter the force, we project that unemployment will tick up slightly. Looking ahead to the coming months, we expect that non-farm payrolls will continue to add about 200K per month backed by stable economic growth.

### China: Exports growth (May, 8 June)

**Forecast: 8.5% YoY****Consensus: n/a****Previous: 0.9%**

Exports are expected to improve further in May, thanks to the recovery in the developed economies; meanwhile, the currency in the past months has been weighed down by economic slowdown, which nevertheless will also help to boost exports. Indeed, the HSBC flash PMI for May, surveying smaller and export-oriented firms, has risen significantly and surprised the market to the upside, pointing to an improving external sector. Furthermore, the favourable low base due to the crackdown on the over-invoicing of exports a year ago will also help headline YoY growth. Looking ahead, we expect exports to continue their current recovery, which will help to stabilise the economy.

## Last Week

Week 19 May – 23 May

Indicator	Period	Cons. E	Prior	Observed *	
<b>United States</b>					
Durable Goods Orders	Apr	-0.70%	3.60%	0.80%	▲
Durables Ex Transportation	Apr	0.00%	2.90%	0.10%	▲
S&P/CS Composite-20 YoY	Mar	11.80%	12.86%	12.37%	▲
Consumer Confidence Index	May	83	81.7	83	—
Richmond Fed Manuf. Index	May	8	7	7	▼
Dallas Fed Manf. Activity	May	9.5	11.7	8	▼
GDP Annualized QoQ	1Q S	-0.50%	0.10%	-1.0%	▼
Personal Consumption	1Q S	3.10%	3.00%	3.10%	—
GDP Price Index	1Q S	1.30%	1.30%	1.30%	—
Initial Jobless Claims	May-24	318K	327K	300K	▼
Pending Home Sales YoY	Apr	-8.80%	-7.50%	-9.40%	▼
Personal Income	Apr	0.30%	0.50%	0.30%	—
Personal Spending	Apr	0.20%	0.90%	-0.10%	▼
Chicago Purchasing Manager	May	61	63	65.5	▲
Univ. of Michigan Confidence	May F	82.5	81.8	81.9	▼
<b>Eurozone</b>					
M3 Money Supply YoY	Apr	1.10%	1.10%	0.80%	▼
Economic Confidence	May	102.2	102	102.7	▲
Industrial Confidence	May	-4	-3.6	-3	▲
Consumer Confidence	May F	-7.1	-7.1	-7.1	—
Services Confidence	May	3.7	3.5	3.8	▲
Business Climate Indicator	May	0.3	0.27	0.37	▲
<b>Germany</b>					
GfK Consumer Confidence	Jun	8.5	8.5	8.5	—
Import Price Index YoY	Apr	-2.20%	-3.30%	-2.40%	▼
Unemployment Change (000's)	May	-15K	-25K	24K	▲
Unemployment Rate	May	6.70%	6.70%	6.70%	—
Retail Sales YoY	Apr	1.50%	-1.90%	3.40%	▲
<b>France</b>					
Consumer Confidence	May	85	85	85	—
Consumer Spending YoY	Apr	0.10%	-1.20%	-0.50%	▼
PPI YoY	Apr	-0.90%	-2.00%	-0.90%	—
<b>Italy</b>					
Consumer Confidence Index	May	104.9	105.4	106.3	▲
Business Confidence	May	99.6	99.9	99.7	▲
CPI EU Harmonized YoY	May P	0.50%	0.50%	0.40%	▼
<b>China</b>					
Industrial Profits YTD YoY	Apr	--	10.10%	10.00%	
<b>Japan</b>					
Retail Trade YoY	Apr	-3.30%	11.00%	-4.40%	▼
Jobless Rate	Apr	3.60%	3.60%	3.60%	—
Overall Household Spending YoY	Apr	-3.40%	7.20%	-4.60%	▼
Natl CPI YoY	Apr	3.40%	1.60%	3.40%	—
Industrial Production YoY	Apr P	4.50%	7.40%	4.10%	▼
<b>Mexico</b>					
Trade Balance	Apr P	-433.0M	1026.6M	509.6M	▲
Budget Balance YTD	Apr	-80.2B	-61.9B	--	

**Brazil**

<b>Tax Collections</b>	Apr	105500M	86621M	105884M	▲
<b>PPI Manufacturing YoY</b>	Apr	--	7.96%	7.14%	
<b>FGV Inflation IGPM MoM</b>	May	-0.02%	0.78%	-0.30%	
<b>FGV Inflation IGPM YoY</b>	May	7.93%	7.98%	7.84%	
<b>GDP QoQ</b>	1Q	0.20%	0.70%	0.20%	—
<b>GDP YoY</b>	1Q	2.00%	1.90%	1.90%	▼

**Chile**

<b>Manufacturing Index YoY</b>	Apr	-2.50%	0.80%	-4.20%	▼
<b>Unemployment Rate</b>	Apr	6.70%	6.50%	6.10%	▼
<b>Retail Sales YoY</b>	Apr	4.50%	5.20%		

**Colombia**

<b>National Unemployment Rate</b>	Apr	--	9.70%	--	
<b>Urban Unemployment Rate</b>	Apr	10.10%	10.50%	--	

**Peru**

<b>GDP YoY</b>	1Q	4.80%	5.20%	4.80%	—
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Forecast/ \* Magenta- Below nsensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.  
 Source: Bloomberg and BBVA Research

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