

ECONOMIC ANALYSIS

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Next week

The ECB will hold its monthly monetary meeting. The economic releases will include the preliminary CPI figures for June, May's M3, unemployment and retail sales and June's manufacturing and services PMI final figures. In the US, Janet Yellen will deliver a lecture at IMF and John Williams will hold a press conference. The main economic indicator will be June's non-farm payrolls, ADP employment report, ISM and Chicago PMI and May's factory orders. In China, NBS PMI and final figures for HSBC PMI will be released.

Calendar: Indicators

Eurozone: HCPI inflation Flash (Jun, 30 Jun)

Forecast: +0.5% YoY

Consensus: +0.5% YoY

Previous: +0.5% YoY

After May's figures showed further evidence of the weakness of inflation, due to a larger-than-expected moderation in the process of services, we expect inflation to remain low and relatively stable in the coming months, and to increase slightly from year end. Our forecasts suggest that inflation will remain stable in June (around 0.5% YoY), and will pick up to annual rates of around 1% by the year end. In fact, we expect core inflation to remain broadly stable at around 0.9% YoY for the remainder of the year. The surprises in recent months imply clear downward biases to our forecast for average annual inflation, which now points to an average figure of around 0.6-0.7%. We continue to see downside risks around this projection, mainly arising from the strong euro.

Eurozone: Retail sales (May, 3 Jul)

Forecast: +0.2% MoM

Consensus: +0.2% MoM

Previous: +0.4% MoM

Retail sales surprised to the upside in April (0.4% MoM) after the recovery observed in the first quarter of the year. In May, we expect retail sales to have slightly moderated (down to +0.2% MoM), but the mean of sales for 2Q14 would still remain above the figures observed during the first quarter of 2014 (around 1%). The retail sales survey conducted by Markit Economics suggests that the retail sector remains broadly stable, with higher sales in Germany and France and a notable contraction in Italy. The data thus far point to a slight improvement in eurozone consumer spending in Q2.

US: Non-farm payrolls and unemployment rate (June, 3 July)

Forecast: 195K, 6.4%

Consensus: 210K, 6.3%

Previous: 217K, 6.3%

Non-farm payroll growth has held above 200K throughout the past four months, a feat that had previously yet to occur during the recovery period. For June, we expect that monthly payroll gains will continue to hover around that pivotal mark, as business and consumer confidence edge up gradually. Also, jobless claims remain at recovery lows but the data do not necessarily hint at significant improvement in job growth for the month. Unemployment has been a trickier issue in 2014 so far, with the rate dropping to 6.3% as labour force participation continues to fall. We expect that individuals will come back into the workforce as more jobs become available, putting upward pressure on the unemployment rate temporarily until job growth truly gains speed.

US: International trade (May, 3 July)

Forecast: -\$46.9bn

Consensus: -\$45.0bn

Previous: -\$47.2bn

The international trade balance took a big step backward in April, with downward revisions pushing the deficit to the worst level in two years. Unfortunately, we do not expect to see much improvement in May, given that slow global demand continues to weigh on U.S. exports. Export growth has been particularly weak throughout 2014 thus far, with monthly declines in January, February, and April. March's modest gain was just enough to offset the losses to the start of the year, but export levels still remain well below the recovery peak reached in November 2013. On a positive note, import growth has reached a new recovery high, with recent monthly gains suggesting stronger domestic demand to support the ongoing rebound in economic activity. For May, we expect to see another increase in imports as well as a modest recovery in exports, though not quite at the pace seen in March.

China: NBS PMI (June, 1 July)

Forecast: 51.3**Consensus: 51.1****Previous: 50.8**

China's economy is showing more signs of stabilisation, mainly due to the government's mini-stimulus policies and improving external environment. The HSBC flash manufacturing PMI has surged to 50.8 in June from 49.4 in the previous month, reaching a seven-month high. The improvement is broad-based, with all the major components (including output, new orders and new export orders indices) rising above 50 into expansionary territory. The forthcoming NBS PMI is likely to follow suit. Notably, the Chinese government's supportive policies, such as the cuts in the targeted Required Reserve Ratio in April and June, have started to take effect. In the meantime, China's export sector also started to gain momentum in May after its disappointing performance in the first quarter. We expect the above two benign factors to continue to sustain growth momentum in the coming months.

Last Week

Week 23 June – 27 June

| Indicator | Period | Cons. E | Prior | Observed * | |
|---|--------|---------|---------|------------|---|
| United States | | | | | |
| Existing Home Sales SAAR (million) | May | 4.74 | 4.66 | 4.89 | ▲ |
| Existing Home Sales MoM SAAR | May | 1.94% | 1.31% | 4.90% | ▲ |
| Case-Shiller Comp. 20-City Home Price MoM | Apr | 0.80% | 1.24% | 0.19% | ▼ |
| Consumer Confidence | Jun | 83.500 | 83.000 | 85.200 | ▲ |
| New Home Sales ('000) | May | 439.00 | 425.00 | 504.00 | ▲ |
| Durable Goods Orders MoM | May | 0.00% | 0.80% | -1.00% | ▼ |
| Durable Goods Orders ex. Transp MoM | May | 0.30% | 0.40% | -0.10% | ▼ |
| GDP QoQ SAAR | 1Q T | -1.80% | -1.00% | -2.90% | ▼ |
| GDP Personal Consumption QoQ | 1Q T | 2.40% | 3.10% | 1.00% | ▼ |
| GDP Price Index QoQ SAAR | 1Q T | 1.30% | 1.30% | 1.30% | — |
| Initial Jobless Claims | Jun 21 | 311.00 | 314.00 | 312.00 | — |
| Personal Income MoM | May | 0.40% | 0.30% | 0.40% | — |
| Personal Consumption Expenditures MoM | May | 0.40% | 0.00% | 0.20% | ▼ |
| Univ.Michigan Consumer Confidence Sentiment | Jun F | 82.00 | 81.20 | 82.50 | ▲ |
| Eurozone | | | | | |
| Composite PMI | Jun P | 53.40 | 53.50 | 52.80 | ▼ |
| Manufacturing PMI | Jun P | 52.20 | 52.20 | 51.90 | ▼ |
| Services PMI | Jun P | 53.30 | 53.20 | 52.80 | ▼ |
| Germany | | | | | |
| Composite PMI | Jun P | 55.50 | 55.60 | 54.20 | ▼ |
| Manufacturing PMI | Jun P | 52.50 | 52.30 | 52.40 | ▼ |
| Services PMI | Jun P | 55.80 | 56.00 | 54.80 | ▼ |
| IFO Business Climate | Jun | 110.30 | 110.40 | 109.70 | ▼ |
| IFO Current Assessment | Jun | 115.00 | 114.80 | 114.80 | ▼ |
| IFO Expectations | Jun | 106.00 | 106.20 | 104.80 | ▼ |
| GfK Consumer Confidence | Jul | 8.60 | 8.60 | 8.90 | ▼ |
| France | | | | | |
| Composite PMI | Jun P | 49.30 | 49.30 | 48.00 | ▼ |
| Manufacturing PMI | Jun P | 49.50 | 49.60 | 47.80 | ▼ |
| Services PMI | Jun P | 49.40 | 49.10 | 48.20 | ▼ |
| Manufacturing Confidence | Jun | 99.00 | 99.00 | 98.00 | ▼ |
| Business Confidence | Jun | 94.00 | 94.00 | 92.00 | ▼ |
| Consumer Confidence | Jun | 85.00 | 85.00 | 86.00 | ▲ |
| Italy | | | | | |
| Retail Sales MoM | Apr | 0.00% | -0.20% | 0.40% | ▲ |
| Consumer Confidence | Jun | 106.40 | 106.20 | 105.70 | ▼ |
| Japan | | | | | |
| Markit/JMMA PMI Manufacturing | Jun P | 50.10 | 49.90 | 51.10 | — |
| Jobless Rate | May | 3.60% | 3.60% | 3.50% | ▼ |
| Natl. CPI Ex. Fresh Food | May | 3.40% | 3.20% | 3.40% | — |
| China | | | | | |
| HSBC PMI Manufacturing | June | 49.70 | 49.40 | 50.80 | ▲ |
| Brazil | | | | | |
| Formal Job Creation Total | May | 95000 | 105384 | 58836 | ▼ |
| Current Account Balance (USD Bn) | May | -6.60 | -8.29 | -6.64 | ▼ |
| Colombia | | | | | |
| Industrial Confidence | May | -- | 4.10 | 2.9 | |
| Retail Confidence | May | -- | 26.20 | 22.6 | |
| Trade Balance (USD Mn) | Apr | -500.00 | -276.20 | -905.60 | ▼ |
| Mexico | | | | | |
| Unemployment Rate SA | May | 4.84% | 4.90% | 5.00% | ▲ |
| Economic Activity IGAE YoY | Apr | 0.35% | 3.24% | 0.50% | ▲ |
| Trade Balance (USD Mn) | May | 492.0 | 509.6 | 131.8 | ▼ |

Forecast/ * Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

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