Global Data Watch

- **Global lift sees US and Japan pulling away from a struggling Europe**
- **Fed open to tapering QE if forecast tracks while downward revisions to European outlook to bring additional easing throughout the region**
- **Kuroda confirms material easing in BoJ policy is in the offing**
- **Rise in China March PMI a relief on heels of softening February trade data in rest of Asia**

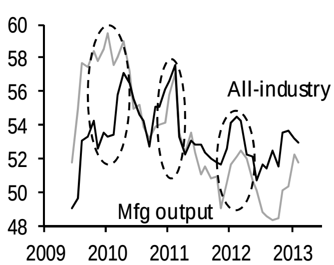
Divergence in the global economy

In the past three years, the month of March has marked a turning point when improving economic conditions at the turn of the year gave way to renewed financial market stress and business caution. Our call that this time is different—embodied in the theme of "more growth, less fear"—is based in part on policy actions that have curtailed downside risks and bolstered an improving foundation for private sector growth. Still, the path to faster growth has had some bumps, and recent developments highlight both the two-sided risks surrounding our global outlook and sharp divergences in regional performance. The contrast between the surprising resilience of the US economy and the disappointingly limited improvement in the Euro area is especially striking. In this regard, while we see a touch of upside risk to our call for a modest deceleration in the US next quarter, we are lowering our sights this week for GDP across most of Europe. Though we still anticipate a move to above-trend global GDP growth after midyear, the forecast has been trimmed by roughly 0.2%-pt for the next few quarters.

The upside surprises this year have been concentrated in two places: the US and Japan. Key to the US call has been a business sector that is willing to look through any softening in consumer spending growth in response to the 2%-pt hike in the payroll tax that took effect in January. This challenge increased with a surprising jump in gasoline prices in February and further reductions in government spending that took effect with the sequestration on March 1. While this week's passage of funding for the remainder of FY2013 is welcome news, it leaves in place a total fiscal drag of about 1.7%-pts on GDP growth this year. And yet, despite these headwinds, March has delivered mostly upside surprises, starting with a strong payroll report followed by resilient auto and retail sales reports and ending this week with a string of upbeat housing data, a strong PMI report, and an expansion low on the four-week

Global PMI

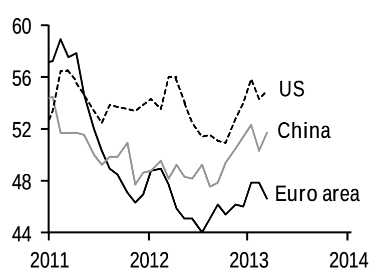
DI, sa



Source: J.P. Morgan, Markit

Manufacturing PMIs

DI, sa; last value Mar13 flash reading



Source: Markit

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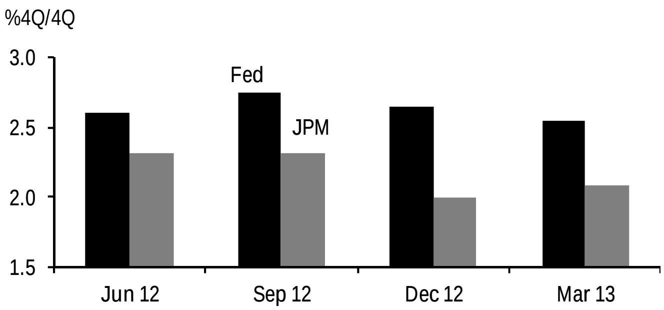
US 2013 GDP by forecast date



Source: J.P. Morgan, FRB

average of unemployment insurance claims. In Japan, this week's disappointing export data along with a still-depressed Reuters Tankan reading pose just a bit of downside risk to our very strong GDP call this quarter, but next week's IP report and business surveys should show that the underlying story of a robust expansion is on track.

In contrast to the US and Japan, the Euro area has largely disappointed this year. This week we are downgrading our expectations for the Euro area economy for the rest of this year, reflecting both softer data and the increased uncertainty surrounding recent events in Italy and Cyprus. The OMT has brought less relief than expected to private-sector borrowers in the periphery, which has limited the support provided to the real economy. Meanwhile, in France, it looks like the increased fiscal austerity this year is weighing heavily on the economy (note that France is the only Euro area economy experiencing more austerity this year than last year). In Italy, news this week that €20 billion in arrears will be paid out this year could add as much as 0.7%-pt to GDP this year. But on balance, we now see a later exit from the region's recession and a softer growth trajectory in the second half of the year.

While a weaker Euro area will directly impact our estimate of global growth, of more concern is how this spills over into the rest of the world. A weaker Euro area implies a weaker Europe more broadly, and so we also have marked down GDP growth in the UK—despite improving domestic conditions—and across Central and Eastern Europe, including Russia. For the weakness to spread further, one would need to see a deterioration in global financial conditions. It has been encouraging that despite an unsettling election outcome in Italy, turmoil in Cyprus, and the US government's inability to find an alternative to the sequester, financial markets have been largely unfazed. In particular, the containment mechanisms put in place by the ECB (LTROs, OMT) appear to be working.

Cyprus hanging in the balance

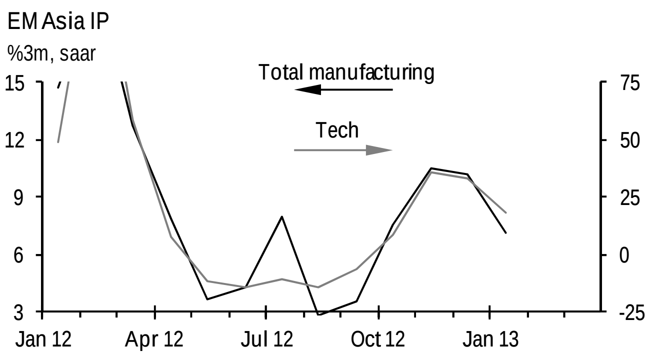
At the time of this writing, the fate of the Cypriot bailout package remains unclear, but the matter should be resolved by the time banks reopen on Monday night. Under the terms of last weekend's agreement, Cyprus is required to contribute €5.8 billion from a levy on bank deposits. Having voted down a particular proposal on this levy this week, the Cypriots remain locked in negotiations with the Troika that center on a package that would involve the winding-down of Laiki Bank and some form of amended levy on deposits above €100,000. Regardless of the outcome, the parliament is expected to pass capital controls (permissible *in extremis* under Article 65 of the European Treaty) to constrain deposit flight once banks reopen (likely Tuesday). Assuming an agreement is reached and that the crisis simmers down, the largest risk, though still manageable, is for Russia. A large deposit tax on the estimated €10-20 billion of Russian deposits in Cyprus is bearable, but capital controls could impact corporate transactions using funds that have been parked in Cyprus for tax purposes.

Less growth, more easing

The expected underperformance of the European economies will likely come as a disappointment to policymakers. Given the ECB's reluctance this month to provide further monetary stimulus despite inflation projected to be well below target and a record high rate of unemployment, this week's slump in the March PMI may not be enough to trigger a rate move in April. However, if our revised economic outlook is correct, a modest 25bp cut now looks in the offing by June. Clearly more could be done, including easing collateral requirements.

The downward revision to our Euro area forecast ripples into our forecast for the UK, with growth now expected to average below a 1% annualized pace through midyear, prompting renewed easing from the MPC. While the fiscal side of this week's budget played to script, the Chancellor moved faster than we expected in changing the remit for the MPC. In large part, those changes simply rubber stamp the flexibility the MPC has shown in implementing its inflation target to date. But by requesting that the MPC deliver an assessment of the rate guidance and the use of numerical thresholds in August, the central bank is being led in the direction the incoming governor has suggested he wants to go. We expect the MPC to adopt explicit guidance on the future path of rates, and in the light of our weaker growth forecast, we see an extension of QE of £25 billion in both May and August.

In the US and Japan, the improving outlook owes partly to the existing and expected policy mix. The Fed delivered a policy statement this week that was little changed; Bernanke sounded pleased with recent labor market developments and ex-



Source: J.P. Morgan

pressed openness to eventually tapering off asset purchases. We think this won't occur until late in the year, however, particularly since we see growth (and the pace of labor market improvements) stepping back a bit in coming quarter. In Japan, this week's first press conference for incoming Governor Kuroda also brought few surprises, and we maintain that a material shift toward policy easing will come at the April 4 meeting.

As Euro area goes, so goes CEE

A weaker Euro area will weigh on activity in Central Europe, largely via diminished trade. More than half of CE-3 exports are destined for the Euro area, with 27% going to Germany alone. The forecast still assumes that the worst of the downturn is over, but the recovery is likely to be more gradual than previously expected. A slower recovery is likely to keep the region's central banks dovish, and the risks point to even more easing than is in our forecast. The NBH's ability to respond to weaker growth with aggressive cuts is constrained by the economy's relatively high exposure to FX debt and the related negative feedback loop from HUF weakness. We thus expect rate cuts to remain gradual near term. In the Czech Republic, where the policy rate already is set to near zero, koruna depreciation is helping to ease monetary conditions. The National Bank of Poland has scope to cut rates further as it is not constrained by the zloty and real policy rates are still comfortably positive. But, as our revised GDP forecast is only marginally below the NBP's, our base case is for rates to remain on hold, with a 40% probability of one more cut by July.

Japan's upswing is strong but uneven

Growth is picking up sharply in Japan amid a rally in financial markets and confidence. Nonetheless, this week's mixed data showed that the advance remains uneven, with February department sales and imports surging amid an unexpected pullback in exports. Next week's focus will be on February industrial production, which we think expanded at a robust 2%m/m pace, and on manufacturers' production plans for March/April. If the economy's momentum is to be maintained, policymakers will need to deliver. On fiscal policy, PM Abe is doing his part as fiscal stimulus will likely kick in starting next quarter, while last Friday's announcement of Japan's participation in the Trans-Pacific Partnership is also a positive development. On monetary policy, Governor Kuroda vowed this week to do everything possible to beat deflation, and will implement bold easing in quality (type of assets the Bank purchases) and quantity (volume of asset purchases).

Politics overshadow RBI cut in India

This week the RBI cut policy rates by 25bp as expected but refrained from cutting the reserve ratio to alleviate tight interbank liquidity. While the central bank vowed to manage liquidity actively through more open market operations, conditions are tight enough to impede transmission of policy rates. The RBI noted limited space for more cuts, suggesting that government action and a moderation in inflation and the trade deficit would be prerequisites for a cut at the May review. The calculus was complicated this week by a rise in political uncertainty, with a key ally pulling out of the ruling coalition. While the government will likely hold together, it will be more beholden to outside support, which could slow economic reform and require an earlier election, perhaps by later this year.

Elsewhere in EM Asia, the data this week delivered mixed messages on the momentum in economic activity, with Taiwan's February export orders disappointing and a more positive read from China's March flash PMI. It is hard to know whether these divergences reflect the impact of the Lunar New Year or differences in the relative strength of demand growth. Taiwan and Korea each report February IP next week and March PMIs on April 1.

FX policy outliers in Latam under pressure

Given their focus on controlling capital outflow rather than inflows, Venezuela and Argentina have been outliers in the regional discussion about the most effective response to the so-called global "currency wars." While controls to limit fleeing capital initially provided a one-off stimulus to domestic demand, the result has been a sharp rise in inflation. This is also being amplified by the inevitable decline in capital inflows, which is adding to the downward pressure on the currency. In light of declining competitiveness, Venezuela—where the official bolivar was adjusted by nearly 50% last month—unveiled new measures this week that might evolve over time into a dual FX rate regime with the second rate more akin to the Argentine-style crawling peg. After accelerating the pace of the peso's crawl over the past year, Argentina has stayed focused on narrowing loopholes in controls. However, the benefits are dwindling and the costs are rising.

Global economic outlook summary

	Real GDP				Real GDP							Consumer prices			
	% over a year ago				% over previous period, saar							% over a year ago			
	2011	2012	2013	2014	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	3Q12	4Q12	2Q13	4Q13
The Americas															
United States	1.8	2.2	1.8	2.3	3.1	0.1	2.3	1.5	2.0	2.5	2.0	1.7	1.9	1.9	1.7
Canada	2.6	1.8	1.4	2.1	0.7	0.6	1.6	1.6	2.0	2.1	1.9	1.2	0.9	1.4	2.0
Latin America	4.2	2.6↑	3.4	3.8↓	2.0	3.4↑	3.0	4.0↓	4.2	3.7	3.9	4.7	4.7	5.0↑	4.7↑
Argentina	8.9	1.9	3.0	1.5	3.2↑	5.2↓	3.5	3.0	1.6	1.5	1.5	10.0	10.6↑	10.0	11.0
Brazil	2.7	0.9	3.0	4.0	1.5	2.2	2.7	3.7	4.4	3.9	4.2	5.2	5.6	6.4↑	5.9↑
Chile	5.9↓	5.6	5.5	4.5	5.0↓	6.1↑	6.0↓	5.1↓	4.8↑	4.5↑	4.5↓	2.6	2.2	2.2	3.1
Colombia	6.6↑	4.0↑	4.5↑	5.0	-2.9↓	7.4↑	4.2	5.5↓	5.5↓	5.1↓	4.5	3.1	2.8	2.0	2.4
Ecuador	8.0	5.0	4.0	4.5	6.3	5.5	5.0	3.0	3.0	4.0	5.0	5.1	4.6	5.4	4.7
Mexico	3.9	3.9	3.6	3.6	1.5	3.1	3.9	4.5	4.6	4.0	3.5	4.6	4.1	4.0	3.4
Peru	6.9	6.3	6.0	6.5	6.9	2.5	5.0	7.0	7.5	6.0	6.5	3.5	2.9	2.3	2.5
Uruguay	5.7	3.5	3.7	4.0	7.8	2.3	4.0	3.0	5.0	5.0	4.0	8.0	8.9	8.4	7.7
Venezuela	4.2	5.6	2.0	3.0	5.2	5.7	-4.0	2.0	2.0	2.0	4.0	19.0	18.7	31.0	35.7
Asia/Pacific	4.7	4.8	4.8	4.8	2.9	5.1	5.3	5.5	5.3	5.4	5.4	2.1	2.2	2.6	3.0
Japan	-0.5	2.0	1.3	1.2	-3.7	0.2	3.0	3.2	2.5	2.9	3.4	-0.4	-0.2	0.0	0.5
Australia	2.4	3.6	2.7	3.2	2.6	2.4	2.4	2.7	3.7	2.6	4.3	2.0	2.2	2.8	2.7
New Zealand	1.4	2.5↑	2.5↓	2.9↑	0.7↓	6.1↑	2.1↓	3.5↓	-2.0↓	4.4↑	4.3↑	0.8	0.9↓	1.1↓	2.2↓
Asia ex Japan	7.4	6.2	6.7	6.7	5.9	7.7	6.7	6.9	6.9	6.9	7.0	3.2	3.4	3.7	4.2
China	9.3	7.8	8.2	8.0	8.0	9.4	8.0	8.2	8.2	8.2	8.0	1.9	2.1	3.0	3.6
Hong Kong	4.9	1.4	3.8	3.6	3.2	4.9	3.5	3.5	5.0	5.0	2.0	3.1	3.8	3.5	3.7
India	6.2	5.0	5.8	6.5	3.5	4.7	6.4	6.5	5.3	5.6	7.6	9.8	10.1	9.0	8.5
Indonesia	6.5	6.2	5.7	5.3	5.3	6.9	5.0	6.0	6.0	5.5	5.5	4.5	4.4	3.9	4.6
Korea	3.6	2.0	2.8	3.9	0.2	1.5	3.1	4.0	4.5	4.5	4.0	1.6	1.7	1.8	2.6
Malaysia	5.1	5.6	5.1	5.4	5.2	7.9	5.0	4.5	4.5	5.0	6.3	1.4	1.3	2.3	2.6
Philippines	3.9	6.6	5.3	5.3	7.0	6.1	4.5	4.9	5.3	5.3	5.3	3.5	3.0	3.1	3.4
Singapore	5.2	1.3	2.2	3.6	-4.6	3.3	4.5	2.0	3.6	4.1	6.1	4.2	4.0	3.5	3.8
Taiwan	4.1	1.3	4.2	3.9	3.9	7.3	4.0	4.0	4.2	4.3	3.4	2.9	1.8	1.3	2.3
Thailand	0.1	6.4	5.4	4.5	6.1	15.0	4.5	4.5	5.0	5.0	4.5	2.9	3.2	4.2	4.0
Africa/Middle East															
Israel	4.6	3.1	3.1	3.3	2.7	2.4	3.2	2.8	3.6	3.6	3.2	1.8	1.6	1.9	2.2
South Africa	3.5	2.5	2.6↓	3.6↓	1.2	2.1	2.7↓	2.8↓	3.4↓	3.6↓	3.8	5.1	5.6	6.2↑	5.7↑
Europe	2.0↓	0.1	0.1↓	1.7↓	0.5	-1.6	-0.3↓	0.3↓	1.2↓	1.5↓	1.8↓	3.2	3.0	2.5	2.4
Euro area	1.5	-0.5	-0.6↓	1.2↓	-0.3	-2.3	-0.5↓	-0.5↓	0.5↓	1.0↓	1.5	2.5	2.3	1.6	1.5
Germany	3.1	0.9	0.6↓	2.1↓	0.9	-2.3	1.5↓	1.0↓	1.8↓	2.0↓	2.5	2.1	2.0	1.6	1.6
France	1.7	0.0	-0.7↓	1.0↓	0.6	-1.1	-1.3↓	-1.3↓	0.0↓	0.5↓	1.5	2.3	1.7	1.1	1.2
Italy	0.5	-2.4	-1.6↓	0.7↓	-0.8	-3.7	-1.5	-1.5↓	0.0↓	0.5↓	1.0	3.4	2.6	1.7	1.8
Spain	0.4	-1.4	-1.7↓	0.5↓	-1.3	-3.1	-1.8	-1.8↓	-0.8↓	-0.8↓	0.0↓	1.9	3.2	2.6	2.6
United Kingdom	0.9	0.2	0.8↓	1.9↓	3.9	-1.0	0.5↓	1.0↓	1.5↓	2.0	2.0	2.4	2.7	2.8	2.9
Emerging Europe	4.8	2.4	2.3↓	3.4↓	1.3	1.5↓	0.2↓	3.1↑	3.9↑	3.1	3.0↓	6.1	5.7	5.5↓	4.8↓
Bulgaria	1.8↑	0.8↑	1.2↓	1.7↓	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	1.9	-1.3	-0.2↓	1.9↓	-1.8	-0.7	-0.1↓	0.5↓	1.0↓	1.0	2.0↑	3.3	2.8	2.2	2.4
Hungary	1.6	-1.7	-0.7↓	1.4↓	-1.4	-3.4	-0.3↓	0.3↓	1.2↓	1.5↓	1.5	6.1	5.4	2.9	2.8
Poland	4.3	2.0	1.3↓	2.6	1.2	0.8	1.1↓	1.6↓	2.3↓	2.8↓	2.8↓	3.9	2.9	1.0	1.8
Romania	2.2↓	0.3↑	1.9↑	2.3	-1.0↑	0.3↓	0.8	3.9↑	5.9↑	2.8↑	1.6↓	4.1	4.8	6.3	5.1
Russia	4.3	3.4	2.5↓	3.6↓	2.2	2.5	0.0↓	4.0↑	4.8↑	3.5	3.5↓	6.0	6.5	6.8↓	5.5↓
Turkey	8.5	2.6	3.7	4.5	...	...	...	...	...	...	...	9.0	6.8	6.7	6.3
Global	3.1	2.4	2.4↓	3.1	2.1	1.6	2.6↓	2.7↓	3.0↓	3.3↓	3.3↓	2.5	2.5	2.6	2.6
Developed markets	1.4	1.2	0.9↓	1.8	0.9	-0.6	1.4↓	1.1↓	1.6↓	2.0↓	2.1	1.7	1.7	1.6	1.6
Emerging markets	6.1	4.7↑	5.1	5.4	4.2	5.7↑	4.8↓	5.5	5.7	5.5	5.6	4.0	4.1	4.3	4.4
Memo:															
Global — PPP weighted	3.8	3.0	3.0↓	3.6↓	2.7	2.5	3.2↓	3.3↓	3.6↓	3.6↓	3.6↓	2.9	3.0	3.0	3.0

Note: For some emerging economies, 2012-2014 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by J.P. Morgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Latin America CPI aggregate now includes only those countries where central banks actively target inflation (excluding Argentina, Ecuador and Venezuela).

G-3 economic outlook detail

Percent change over previous period; seasonally adjusted annual rate unless noted

					2012		2013				2014	
	2011	2012	2013	2014	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
United States												
Real GDP	1.8	2.2	1.8	2.3	3.1	0.1	2.3	1.5	2.0	2.5	2.0	2.5
Private consumption	2.5	1.9	1.8	1.9	1.6	2.1	2.3	1.0	1.8	2.2	1.5	2.0
Equipment investment	11.0	6.9	5.0	7.1	-2.6	11.3	2.7	5.5	7.0	7.0	8.0	7.0
Non-residential construction	2.8	10.1	2.1	8.3	0.0	5.7	-5.0	4.0	8.0	9.0	9.0	9.0
Residential construction	-1.4	12.1	16.7	21.7	13.6	17.4	9.0	23.0	25.0	25.0	20.0	20.0
Inventory change ($ bn saar)	31.0	42.7	40.9	34.2	60.3	12.0	45.0	45.3	39.7	33.5	29.3	30.5
Government spending	-3.1	-1.7	-1.6	-1.1	3.9	-6.9	-0.6	-1.4	-1.6	-1.6	-1.0	-0.8
Exports of goods and services	6.7	3.3	2.7	5.1	1.9	-3.9	4.0	5.0	5.0	5.0	5.0	5.0
Imports of goods and services	4.8	2.4	2.8	5.9	-0.6	-4.5	6.5	5.0	6.0	5.0	6.0	6.0
Domestic final sales contribution	1.7	2.0	1.8	2.6	2.0	1.6	1.8	1.6	2.4	2.8	2.4	2.7
Inventories contribution	-0.2	0.1	0.1	-0.1	0.7	-1.3	1.0	0.0	-0.2	-0.2	-0.1	0.0
Net trade contribution	0.2	0.1	-0.1	-0.2	0.4	-0.3	-0.5	-0.1	-0.2	-0.1	-0.2	-0.2
Consumer prices (%oya)	3.1	2.1	1.8	1.7	1.7	1.9	1.7	1.9	1.8	1.7	1.7	1.7
Excluding food and energy (%oya)	1.7	2.1	1.8	1.6	2.0	1.9	1.9	1.7	1.7	1.7	1.6	1.6
Federal budget balance (% of GDP, FY)	-8.6	-6.9	-5.4	-4.3								
Personal saving rate (%)	4.3	3.9	2.7	3.3	3.6	4.7	2.4	2.7	2.9	3.0	3.1	3.3
Unemployment rate (%)	8.9	8.1	7.7	7.4	8.0	7.8	7.8	7.7	7.6	7.5	7.4	7.4
Industrial production, manufacturing	3.4	3.9	3.5	2.9	-0.5	2.4	7.0	3.0	4.0	4.0	2.0	2.0
Euro area												
Real GDP	1.5	-0.5	-0.6	1.2	-0.3	-2.3	-0.5	-0.5	0.5	1.0	1.5	1.5
Private consumption	0.1	-1.2	-0.9	0.7	-0.4	-1.6	-1.0	-1.0	-0.5	0.5	1.3	1.3
Capital investment	1.6	-3.9	-3.0	0.9	-3.0	-4.4	-3.0	-3.0	-1.0	1.0	2.0	1.5
Government consumption	-0.1	-0.1	-0.5	0.7	-0.4	-0.3	-1.0	-0.5	0.0	0.5	1.0	1.0
Exports of goods and services	6.5	2.9	2.5	4.0	4.1	-3.5	3.5	3.5	4.0	4.0	4.0	4.0
Imports of goods and services	4.3	-0.9	0.9	3.7	0.4	-3.5	1.5	2.0	3.5	3.5	4.0	4.0
Domestic final sales contribution	0.3	-1.4	-1.2	0.7	-0.9	-1.8	-1.3	-1.2	-0.5	0.6	1.3	1.2
Inventories contribution	0.2	-0.7	-0.2	0.1	-1.1	-0.4	-0.1	-0.1	0.6	0.0	0.0	0.1
Net trade contribution	1.0	1.6	0.8	0.3	1.6	-0.2	1.0	0.8	0.4	0.4	0.2	0.2
Consumer prices (HICP, %oya)	2.7	2.5	1.6	1.5	2.5	2.3	1.8	1.6	1.6	1.5	1.5	1.5
ex unprocessed food and energy	1.7	1.8	1.4	1.4	1.7	1.6	1.4	1.3	1.4	1.4	1.5	1.5
General govt. budget balance (% of GDP, FY)	-4.1	-3.8	-2.8	-2.2								
Unemployment rate (%)	10.2	11.4	12.1	12.3	11.5	11.8	11.9	12.1	12.2	12.3	12.3	12.3
Industrial production	3.2	-2.3	-1.6	2.0	0.4	-8.1	-0.5	-0.5	1.0	2.0	2.5	2.5
Japan												
Real GDP	-0.5	2.0	1.3	1.2	-3.7	0.2	3.0	3.2	2.5	2.9	3.4	-3.6
Private consumption	0.5	2.4	1.5	0.1	-1.9	2.0	3.5	1.2	0.7	2.7	4.8	-8.0
Business investment	3.3	2.0	0.7	4.9	-12.5	-5.7	4.0	8.0	6.0	5.0	5.0	3.5
Residential construction	5.5	2.9	9.4	3.3	6.8	14.9	8.0	8.0	10.0	8.0	8.0	-5.0
Public investment	-6.9	12.5	12.3	0.9	10.7	7.2	5.0	20.0	20.0	10.0	-5.0	-10.0
Government consumption	1.4	2.7	1.8	1.4	1.6	2.7	1.6	1.8	1.5	1.5	1.5	1.2
Exports of goods and services	-0.4	-0.2	-1.4	5.1	-19.0	-14.0	9.0	5.2	5.6	5.6	5.2	4.7
Imports of goods and services	5.9	5.3	2.7	4.7	-1.9	-9.0	10.0	5.6	5.0	4.2	10.0	-1.5
Domestic final sales contribution	0.8	2.7	2.1	1.1	-0.5	1.0	3.3	3.1	2.6	2.9	4.1	-4.5
Inventories contribution	-0.5	0.0	-0.2	0.0	-0.1	0.1	-0.2	0.1	-0.3	-0.3	-0.1	-0.1
Net trade contribution	-0.8	-0.8	-0.6	0.1	-3.0	-1.0	0.0	0.0	0.1	0.3	-0.6	0.9
Consumer prices (%oya)	-0.3	0.0	0.1	1.9	-0.4	-0.2	-0.4	0.0	0.4	0.5	0.4	2.4
General govt. net lending (% of GDP, CY)	-9.7	-10.0	-10.6	-8.9								
Unemployment rate (%)	4.6	4.4	4.1	3.9	4.3	4.2	4.1	4.1	4.1	4.0	4.0	3.9
Industrial production	-2.3	-1.0	2.4	5.1	-15.8	-7.2	15.0	10.0	6.0	8.0	5.0	-2.0
Memo: Global industrial production	3.9	1.7	2.8	4.1	-0.3	0.1	5.4	3.9	4.4	4.9	4.0	3.0
%oya					1.0	0.9	0.9	2.1	3.4	4.6	4.3	4.0

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site

Global Central Bank Watch

	Official rate	Current rate (%pa)	Change since (bp)			Last change	Next mtg	Forecast next change	Forecast (%pa)				
			05-07 avg	Trough[1]	Jul 11				Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
Global		2.20	-218	36	-52				2.20	2.13	2.16	2.16	2.22
excluding US		2.88	-145	40	-62				2.87	2.79	2.82	2.83	2.90
Developed		0.50	-299	0	-31				0.50	0.41	0.41	0.41	0.43
Emerging		5.40	-169	50	-88				5.39	5.38	5.45	5.46	5.58
Latin America		5.88	-489	0	-315				5.88	6.00	6.59	6.64	6.73
EMEA EM		4.69	-177	74	34				4.66	4.54	4.31	4.31	4.34
EM Asia		5.47	-39	96	-51				5.47	5.45	5.45	5.45	5.60
The Americas		1.40	-392	23	-64				1.40	1.42	1.54	1.55	1.59
United States	Fed funds	0.125	-438	0	0	16 Dec 08 (-87.5bp)	1 May 13	On hold	0.125	0.125	0.125	0.125	0.125
Canada	O/N rate	1.00	-273	75	0	8 Sep 10 (+25bp)	17 Apr 13	1Q 14 (+25bp)	1.00	1.00	1.00	1.00	1.25
Brazil	SELIC O/N	7.25	-800	0	-525	10 Oct 12 (-25bp)	17 Apr 13	May 13 (+25bp)	7.25	7.50	8.50	8.50	8.50
Mexico	Repo rate	4.00	-387	-10	-50	8 Mar 13 (-50bp)	26 Apr 13	2Q 14 (+25bp)	4.00	4.00	4.00	4.00	4.00
Chile	Disc rate	5.00	31	450	-25	12 Jan 12 (-25bp)	11 Apr 13	Jul 13 (+25bp)	5.00	5.00	5.50	5.75	6.00
Colombia	Repo rate	3.25	-406	25	-125	**22 Mar 13 (-50bp)**	26 Apr 13	**26 Apr 13 (-25bp)**	3.25	3.00	3.00	3.50	4.50
Peru	Reference	4.25	19	300	0	12 May 11 (+25bp)	11 Apr 13	On hold	4.25	4.25	4.25	4.25	4.25
Uruguay	Reference	9.25	200	300	125	28 Dec 12 (+25bp)	26 Mar 13	26 Mar 13 (+25bp)	9.50	9.50	9.50	9.50	9.50
Europe/Africa		1.58	-228	3	-38				1.57	1.38	1.33	1.33	1.34
Euro area	Refi rate	0.75	-223	0	-75	5 Jul 12 (-25bp)	4 Apr 13	**Jun 13 (-25bp)**	0.75	0.50	0.50	0.50	0.50
United Kingdom	Bank rate	0.50	-444	0	0	5 Mar 09 (-50bp)	4 Apr 13	On hold	0.50	0.50	0.50	0.50	0.50
Czech Republic	2-wk repo	0.05	-235	0	-70	1 Nov 12 (-20bp)	28 Mar 13	On hold	0.05	0.05	0.05	0.05	0.05
Hungary	2-wk dep	5.25	-188	0	-75	26 Feb 13 (-25bp)	26 Mar 13	26 Mar 13 (-25bp)	5.00	4.50	4.50	4.50	4.50
Israel	Base rate	1.75	-250	125	-150	24 Dec 12 (-25bp)	24 Mar 13	On hold	1.75	1.75	1.75	1.75	1.75
Poland	7-day interv	3.25	-127	0	-125	6 Mar 13 (-50bp)	10 Apr 13	On hold	3.25	3.25	3.25	3.25	3.25
Romania	Base rate	5.25	-294	0	-100	29 Mar 12 (-25bp)	28 Mar 13	On hold	5.25	5.25	5.25	5.25	5.25
Russia	Repo rate	5.50	N/A	N/A	N/A	13 Sep 12 (+25bp)	Apr 13	2Q 13 (-25bp)	5.50	5.25	4.75	4.75	4.75
South Africa	Repo rate	5.00	-329	0	-50	19 Jul 12 (-50bp)	23 May 13	On hold	5.00	5.00	5.00	5.00	5.00
Turkey	Effctve rate	5.52	-1042	0	-73	N/A[2]	26 Mar 13	N/A[2]	5.40	5.40	5.35	5.35	5.50
Asia/Pacific		3.66	-3	76	-47				3.66	3.63	3.63	3.63	3.75
Australia	Cash rate	3.00	-294	0	-175	4 Dec 12 (-25bp)	2 Apr 13	May 13 (-25bp)	3.00	2.75	2.75	2.75	3.00
New Zealand	Cash rate	2.50	-488	0	0	10 Mar 11 (-50bp)	24 Apr 13	Sep 13 (+25bp)	2.50	2.50	2.75	2.75	3.00
Japan	O/N call rate	0.05	-17	0	0	5 Oct 10 (-5bp)	4 Apr 13	On hold	0.05	0.05	0.05	0.05	0.05
Hong Kong	Disc. wndw	0.50	-548	0	0	17 Dec 08 (-100bp)	2 May 13	On hold	0.50	0.50	0.50	0.50	0.50
China	1-yr working	6.00	-14	69	-56	7 Jul 12 (-31bp)	-	1Q 14 (+25bp)	6.00	6.00	6.00	6.00	6.25
Korea	Base rate	2.75	-140	75	-50	11 Oct 12 (-25bp)	11 Apr 13	11 Apr 13 (-25bp)	2.75	2.50	2.50	2.50	2.50
Indonesia	BI rate	5.75	-412	0	-100	9 Feb 12 (-25bp)	11 Apr 13	On hold	5.75	5.75	5.75	5.75	5.75
India	Repo rate	7.50	63	275	-50	**19 Mar 13 (-25bp)**	3 May 13	On hold	7.50	7.50	7.50	7.50	7.50
Malaysia	O/N rate	3.00	-24	100	0	5 May 11 (+25bp)	9 May 13	On hold	3.00	3.00	3.00	3.00	3.00
Philippines	Rev repo	3.50	-356	0	-100	25 Oct 12 (-25bp)	25 Apr 13	On hold	3.50	3.50	3.50	3.50	3.50
Thailand	1-day repo	2.75	-108	150	-50	17 Oct 12 (-25bp)	3 Apr 13	On hold	2.75	2.75	2.75	2.75	2.75
Taiwan	Official disc.	1.875	-71	62.5	0	30 Jun 11 (+12.5bp)	28 Mar 13	1Q 14 (+12.5bp)	1.875	1.875	1.875	1.875	2.00

1 Refers to trough end-quarter rate from 2009-present ² Effective rate adjusted on daily basis

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages.

Nowcast global growth: 1Q13 Tracking 1Q as eyes turn to 2Q

- The official bottom-up J.P. Morgan projection for global GDP growth in the current quarter is unrevised this week, but—as discussed in the cover essay—the outlook for the coming quarters has been pared back some while the composition of growth is becoming more divergent across countries, with the US and Japan holding up and most of Europe disappointing. The rounded bottom-up projection continues to see global GDP expanding 2.7% ar this quarter, while our sights have been lowered 0.2%-pt in each of the year's remaining quarters (average 3.0%).

- Our top-down nowcaster of global GDP growth in 1Q13 inched up a rounded 0.1%-pt this week but should be viewed as essentially unchanged. The nowcast remains about 0.5%-pt stronger than our bottom-up J.P. Morgan forecast and thus highlights upside risk. Given the composition of the global aggregate data flow to date, the upside risks are arguably in the US and Asia, although this is not the message coming from our country economists.

- The news this week from the perspective of our global aggregates came with the flash March manufacturing PMIs for the US, Euro area, and China. Based on our estimate using these early reports, the global March PMI—out on April 2—will remain steady at 51.8 this month, a level consistent with a solid gain of 2.9% annualized in global factory output. In the event, this would be roughly 1%-pt stronger then implied by the bottom-up global GDP forecast, again highlighting some upside risk.

- While the three flash March PMIs this week yielded no expected change for the global output aggregate on net, the composition of the national indexes varied considerably. The US and China flash PMIs both surprised to the upside. The China reading in particular was a relief given the previous month's decline. By contrast, the sharp drop in the Euro area PMI points to weaker GDP this quarter. These divergent trends are not captured by our global aggregates but it is unclear whether this averaging across country dispersion is desirable or a shortcoming in terms of tracking the global cycle.

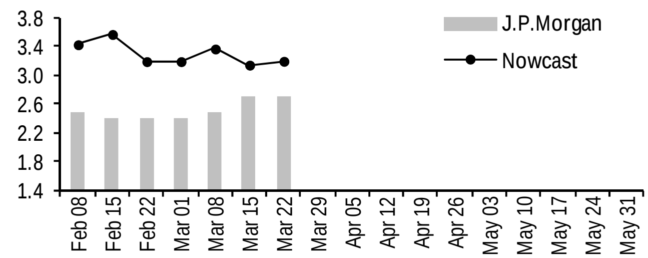
- The monthly profile of our nowcaster continues to underscore that the upside risk to the current quarter owes to a strong trajectory coming into the New Year while momentum has been waning since January. Indeed, the March nowcaster (admittedly still an estimate based on judgmental assessments of the data other than this week's mfg PMI) is at a rate exactly on par with our bottom-up J.P. Morgan forecast for 2Q13 global GDP growth: 2.7%.

Global real GDP
%q/q, saar (current forecast shaded)

	4Q12	1Q13		
		Current	Last week	4 weeks ago
J.P. Morgan	1.6	2.7	2.7	2.4
Nowcaster (DFM-Eco)	1.7	3.2	3.1	3.2
Global PMI model	2.6	2.6	2.6	2.6

Source: J.P. Morgan

Nowcasting global real GDP by forecast date, 1Q2013
%q/q, saar



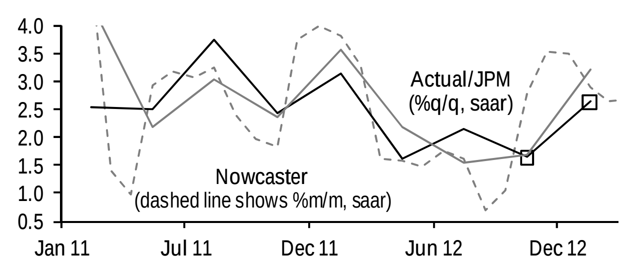
Source:J.P.Morgan

J.P. Morgan global aggregates
Quarters are %3m/3m,saar (PMIs avg level); months are %m/m (PMIs level)

	4Q12	1Q13	Jan 13	Feb 13	Mar 13
PMI, mfg	49.7	52.0	52.3	51.8	51.8
PMI, serv	54.0	53.3	53.4	53.3	53.0
IP	-0.6	3.4	0.0	0.2	0.2
Retail sales	1.9	2.5	0.3	0.0	0.0
Auto sales	4.8	-0.5	-0.2	-1.1	0.0
Cap. orders	17.2	17.3	3.2	0.3	0.3
Nowcast	1.7	3.2	3.5	2.9	2.7

Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment.
Source: J.P. Morgan, Markit, and national statistical agencies

Global real GDP
%q/q, saar; Box shows J.P. Morgan projection for 4Q12 and 1Q13



Source:J.P.Morgan

Selected recent research[1] from J.P. Morgan Economics

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1. Research notes listed have been published in *GDW; Special Reports* and *Global Issues* are stand-alone features, but may also have appeared in some form in *GDW*.

The J.P. Morgan View: Markets

Watch the growth gaps

- **Asset allocation:** With little movement in global growth projections or tail risk perceptions, strategy has become more bottom up, focused on assets with best value (stocks), and countries with better growth momentum (US and Japan).
- **Economics:** Euro area recession exit is pushed back to midyear. Combined with downgrades for UK and EM Europe, this lowers 2013 European GDP growth to 0.1%, from 0.4% before.
- **Fixed income:** Barring a Cypriot accident, yields will struggle to break the bottom of the range.
- **Equities:** The improvement in global PMIs for March is not large enough. Exit overweight in Cyclical vs. Defensive equity sectors. Within regions stay OW Japanese equities and UW Euro area equities.
- **Credit:** We prefer EM corporates over sovereigns.
- **Currencies:** Dollar to gain further against GBP and JPY.
- **Commodities:** We buy Brent as it now looks cheap to our price target.

Equity markets pulled back slightly from the new cycle highs they reached at the end of last week, as negative economic and political news has been hitting the wires since last weekend. Commodities fell back also, and bonds rallied, but credit is largely unchanged.

The rejection by the **Cyprus** parliament a week ago of the Troika bailout proposal brought EMU event risk back to markets, pushing risk prices down and bond prices up early this week. Since then, most investors and we have concluded that the numbers at hand are small enough relative to the risks to both sides that some form of a compromise is likely by Monday. Our guess is that Cyprus will decide it is better off (or less bad) staying in the Community rather than going it alone. But it will likely be forced to bail in large deposits, putting a damper on its off-shore banking business.

But we cannot discount Cyprus exit risk, and it is likely higher than it ever was for Greece. If Cyprus decides it is better off outside, risk assets would suffer badly, but the impact would be tempered by EU messaging that the country was an off-shore banking system that never belonged in EMU, and that this event has no implication for other periphery members.

But even if Cyprus does decide to stay in EMU, the **saga will not be over** and could have a nasty tail risk. It is quite possible Cyprus will have to instate capital controls and/or deposit freezes after its banks open next week. And the sudden willingness of the EU to bail in private depositors risks broader capital flight from other EMU members, even those with more solid banks.

This week's *Flows & Liquidity* reviews the potential impact on EMU capital flows. It estimates that large and uninsured deposits could make up about half of euro bank deposits. We will need to monitor closely bank borrowings from the ECB in coming weeks to gauge any capital flight, in particular by smaller countries with large banking sectors, such as Luxemburg and Malta.

We have argued here repeatedly that 2013 is so far not turning into a repeat of last year's risk-on asset reflation, driven by fading tail risk and easy money, and pushing up all positive yield asset classes versus cash. Neither are we so far seeing a growth story, as our global growth projections for 2013 are unchanged YTD, and growth-sensitive sectors and countries have not moved.

Instead, our argument has been, and remains, that we are in **a more idiosyncratic world, without powerful global drivers, where local risk and value factors determine relative performance**. Wide differences in investor positions and risk premia across asset classes, with equities standing out as the main underpriced asset class, help explain why credit, commodities, and EM currencies have not followed the equity rally. And with investors no longer driven purely by downside fears, events in China, Europe, and the US no longer have the same global impact they had last year, aside from short-term disturbances that do not last more than a week.

One differentiating factor across markets we have not focused on yet is the diverging outlook **for growth and economic policies** across countries. This week alone, we received an upside surprise on US data and in China's PMI and a downside one for the Euro area. We raised US growth last week, but accept that there remains upside risk here. We feel comfortable about our Chinese outlook, but were forced to cut 2013 growth for the Euro area, UK, and EM Europe, bringing full European 2013 growth down from 0.4% to 0.1%.

YTD changes in our G-4 growth projections are lining up nicely with YTD returns in their respective equity markets (charts next page). The same is true for the BRICs, except that growth-upside countries have had poorer equity returns as investors are focusing on the implications of higher growth for higher inflation and tighter monetary policy.

Fixed income

Bonds rallied on the Cypriot shock. The initial decision to impose losses on insured depositors, even if ultimately reversed, sets a dangerous precedent for the Euro area. Attention will now focus on whether this sparks **renewed deposit outflows** elsewhere in the periphery, which will likely show up first in increased ECB borrowing. We take some comfort from the fact that Italian and Spanish banks have quite a low proportion of foreign and corporate deposits, which tend to be more prone to flight than domestic and household deposits.

Making predictions on a Friday about what will happen over the weekend has been a fraught business these past few years. Even so, our base case is for a **solution to emerge in Cyprus**, pushing up risk assets and government yields on Monday. Global government yields are near the lows for the year. We have been playing the range in Treasuries for a while, and would look to cover our long with yields around the bottom of the range. We also close our tactical long in German Bunds. We retain a medium-term positive view on Euro area peripherals, which held in quite well this week, and close our UW in Italy, with a resolution of the post-election standoff seemingly closer.

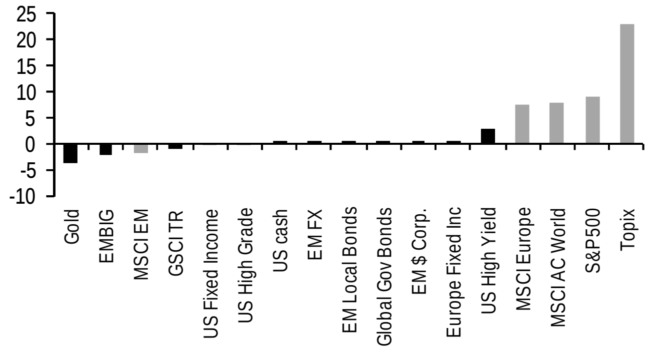
We see a subtle shift in the prospects for **relative monetary policy**, opening the door to greater divergences in long-term yields over time. This week, we penciled in a June rate cut from the ECB, and more QE from the BoE, in the wake of very disappointing Euro area PMI data, while Japan remains on the cusp of its newly aggressive monetary easing. On the other hand, the next move from the Fed is set to be a downward tapering in the pace of asset purchases, to be signaled around year-end if our labor market forecast (monthly payroll growth around 175,000) pans out, but earlier if growth and jobs surprise us on the upside.

Equities

The equity rally paused due to the Cyprus crisis. Both consensus and we view Cyprus as a local problem, which we address by **underweighting Euro stocks** in our global equity portfolio. This week's flash PMI reports reminded us of the economic challenges the Euro area economy faces, which could get worse by the uncertainty arising from the Italian election and the Cyprus crisis.

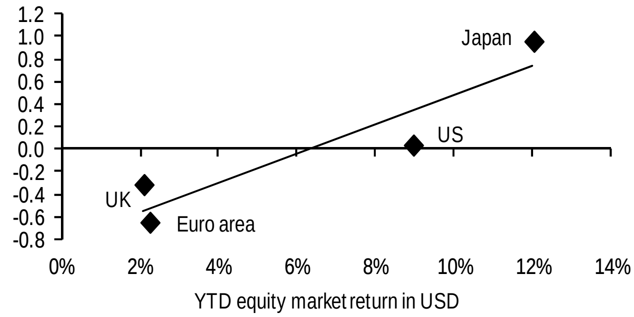
Looking at all three flash PMIs together—from the US, Euro area, and China—the overall message was more positive, due to increases in China and the US. On net, we look for the global manufacturing PMI to rise 0.4pt this month to 51.2 when the final figure is out Monday, April 1. However, such a rise is not big enough to keep our preferred signal, the 2-month change in the global manufacturing PMI, in positive territory. Mechanically this signal now suggests an underweight in Cyclical vs. Defensive sectors. We have the opposite trade in our model portfolio, i.e., we **overweight Cyclical vs. Defensive sectors which we now prefer to exit**.

YTD returns through: 21-Mar
%, equities in lighter color.



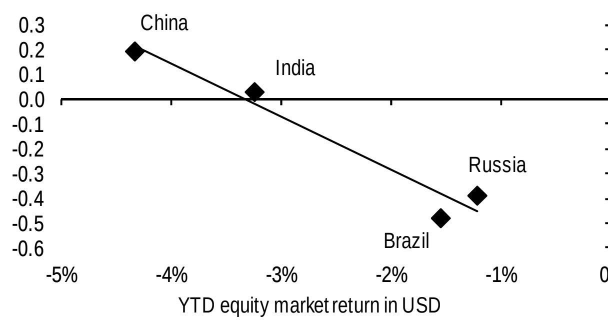
Source: J.P. Morgan, Bloomberg

Changes in GDP forecast and equity returns
YTD %-pt chg in J.P.Morgan 2013 real GDP fcst



Source: J.P. Morgan, DataStream

Changes in GDP forecast and equity returns
YTD %-pt chg in J.P.Morgan 2013 real GDP fcst



Source: J.P. Morgan, DataStream

Japan remains our preferred region. Our overweight in Nikkei vs. Taiwan and Nikkei vs. Korea, FX hedged, is performing very strongly. Our objective is to capture growing optimism about Japan's economy and competitiveness divergences within Asia. The optimism about the Japanese economy is likely to accelerate as the government unveils structural economic reforms in 2Q.

The long in **Russell 2000 vs. S&P500** is nicely adding beta to our equity portfolio. We like this trade also because we believe small caps are immune to modest market corrections, as equity investors tend to sell their more liquid large stocks first. Our **overweight in Value stocks** aims at capturing increasing focus on value by investors. Medium-term momentum favors this trade now. Value stocks have been outperforming significantly since last June, raising the chance that a 5-year old previous underperformance has ended.

The US housing recovery theme remains on track despite a disappointing NAHB survey. The February report on housing starts and permits, including upward revisions, offsets the negative message from the NAHB survey. Stay long DJ US Home Construction index and BKX vs. S&P500.

Credit

US HG spreads widened some 3bp this week, driven by UST yields, which declined about 6bp across the curve on the back of renewed European fears. However, spreads remain in the narrow range they have held YTD. We see few catalysts for spread tightening near term but demand for corporate bonds remains strong. This is evidenced by still **strong supply**, although we do expect this to weaken as the year progresses due to lower financial and EM issuance (see *CMOS*, Beinstein et al., Mar 22).

In **Europe**, lower growth expectations led us to expect slightly wider HG than we previously thought. Our Euro GDP forecast has declined from a 1% increase to almost zero over the last few months, which means wider HG spreads by 20bp, according to our European credit strategy team. This is somewhat offset by lower expected Bund yields, giving us a marginally higher expected total return on European HG credit of 3% vs. the previous expectation of 2.4% for the year (see *Breaking out (of Recession) Is Hard to Do*, Lamy et al., Mar 22).

Last week, we turned neutral on EMBIG, from OW as investors rotated out of EM$ sovereigns and into local markets and corporates. Since then EMBIG and CEMBI spreads have widened by 13bp and 10bp, respectively. We expect this recent outperformance by EM corporates to continue and **within CEMBI, we prefer HY issuers**.

Foreign exchange

This week's **Key Currency Views** outlines our forecast rationales across markets. 1Q delivered broad USD strength. This trade-weighted trend should persist in early spring but not for all of 2Q. Targets continue to reflect country-specific factors that have been dominating currency markets this year, rather than a top-down view on the dollar. 2Q forecasts are EUR/USD 1.32, USD/JPY 97, GBP/USD 1.47, AUD/USD 1.05, USD/CAD 1.01, USD/MXN 12.30, USD/BRL 1.90, USD/KRW 1060, USD/INR 55.5, and USD/ZAR 8.90.

This year's **USD rally** has been extraordinary on some measures and ordinary on others. The currency has been positively correlated with equity performance, which is a rare occurrence. But this move has little to do with equity flows into the US. On a gross basis, foreign buying of US stocks is no stronger than foreign buying of European ones, and on a net basis, the US actually experienced a net equity outflow based on the most recent TIC data. Cross-border M&A has also been negligible (about $20 billion) even though intra-US deals have revived. The US energy independence theme is also overstated: what the US has gained through a lower energy trade deficit it has given back through a wider non-energy deficit (see *American energy independence and the dollar*, Normand, Mar 14).

Instead, this year has been mostly about the most ordinary of FX drivers: **falling interest rates in the rest of the world** versus the US, whether due to growth disappointment (EUR), expectations of more easing (JPY, GBP, RUB, HUF), dovish central banks (CAD, NOK), or yen contagion (KRW, TWD). From this perspective, 2Q should deliver further USD strength versus those currencies like JPY and GBP, where central bank balance sheets could expand the most (Japan and UK). Damage to the euro from ECB easing should be minor since eonia rates are already near zero and balance sheet expansion through an LTRO3 is very unlikely. The case for further easing from most other major and EM central banks is weak (just Hungary, Russia, and Korea), so this rate influence on FX should diminish in 2Q and stabilize the trade-weighted dollar. Given the prevalence of local factors, risks are more pair-specific than around the trade-weighted dollar. On the major currencies, risks around the forecasts are balanced on USD/JPY, to the downside on EUR/USD and to the upside on GBP/USD.

Commodities

Commodities are down 1% this week with all sectors but precious metals suffering losses. Energy led the way lower and Brent has now fallen to around $107/bbl. Our oil strategists believe supply and demand fundamentals imply Brent prices around $112/bbl, and we think the 10% correction in Brent prices over the past few weeks has gone too far. Brent has been in a range from around $105/bbl to $120/bbl over the past year and our approach is to tactically position around this range. This means being short when prices are close to $120/bbl and long when prices get close to $105/bbl. **We thus open a tactical long in Brent.** This trade also has positive slide given the downward sloping forward curve; this is currently around 40bp per month.

Interest rates		Current	Jun 13	Sep 13	Dec 13	Mar 14	YTD Return*
United States	Fed funds rate	0.125	0.125	0.125	0.125	0.125	
	10-year yields	1.91	2.00	2.10	2.25	2.35	-0.5%
Euro area	Refi rate	0.75	0.50	0.50	0.50	0.50	
	10-year yields	1.38	1.55	1.70	1.80	1.90	0.0%
United Kingdom	Repo rate	0.50	0.50	0.50	0.50	0.50	
	10-year yields	1.85	2.40	2.50	2.55	2.60	-0.1%
Japan	Overnight call rate	0.05	0.05	0.05	0.05	0.05	
	10-year yields	0.56	0.65	0.65	0.70	0.80	2.0%
GBI-EM hedged in $	Yield - Global Diversified	5.59				5.70	0.1%

Credit markets	Current	Index	YTD Return*
US high grade (bp over UST)	159	JPMorgan JULI Portfolio Spread to Treasury	-0.1%
Euro high grade (bp over Euro gov)	165	iBoxx Euro Corporate Index	0.6%
USD high yield (bp vs. UST)	496	JPMorgan Global High Yield Index STW	2.9%
Euro high yield (bp over Euro gov)	633	iBoxx Euro HY Index	1.6%
EMBIG (bp vs. UST)	299	EMBI Global	-2.3%
EM Corporates (bp vs. UST)	322	JPM EM Corporates (CEMBI)	0.5%

		Quarterly averages					
Commodities	Current	1Q13	2Q13	3Q13	4Q13	GSCI Index	YTD Return*
Brent ($/bbl)	107	112	108	120	120	Energy	-0.1%
Gold ($/oz)	1608	1750	1775	1800	1775	Precious Metals	-3.8%
Copper ($/metric ton)	7548	8500	8700	9000	9200	Industrial Metals	-6.1%
Corn ($/Bu)	7.26	7.75	8.00	6.50	6.00	Agriculture	0.0%

Foreign exchange	Current	Mar 13	Jun 13	Sep 13	Dec 13	3m Cash	YTD Return* CCY vs. USD
EUR/USD	1.30	1.32	1.32	1.34	1.34	EUR	-1.9%
USD/JPY	94.4	94	97	97	96	JPY	-9.0%
GBP/USD	1.52	1.50	1.47	1.51	1.51	GBP	-6.5%
AUD/USD	1.05	1.04	1.05	1.06	1.07	AUD	1.3%
USD/BRL	2.01	1.92	1.90	1.92	1.95	BRL	3.7%
USD/CNY	6.2	6.28	6.25	6.2	6.15	CNY	0.7%
USD/KRW	1119	1070	1060	1040	1020	KRW	-3.6%
USD/TRY	1.8	1.8	1.8	1.75	1.75	TRY	-0.5%

Equities	Current	YTD Return (local ccy)
S&P	1546	8.9%
Nasdaq	3244	8.1%
Topix	1039	23.1%
FTSE 100	6389	9.4%
MSCI Eurozone*	158	4.3%
MSCI Europe*	1226	7.6%
MSCI EM $*	1022	-2.8%
Brazil Bovespa	55502	-9.7%
Hang Seng	22115	-2.2%
Shanghai SE	2328	4.7%

*Levels/returns as of Mar 21, 2013

Local currency except MSCI EM $

Sector performance *	US YTD	Europe YTD	Japan YTD	EM YTD ($)
Energy	8.6%	3.6%	13.9%	-5.2%
Materials	4.2%	0.0%	19.5%	-10.2%
Industrials	9.6%	9.3%	19.1%	-2.4%
Discretionary	10.0%	5.9%	26.4%	-3.7%
Staples	12.2%	13.3%	25.6%	0.2%
Healthcare	12.3%	13.6%	32.6%	1.6%
Financials	10.7%	6.4%	26.2%	0.2%
Information Tech.	3.5%	8.8%	17.8%	-1.2%
Telecommunications	8.2%	8.8%	19.8%	-6.1%
Utilities	10.1%	1.4%	8.1%	0.2%
Overall	8.9%	7.6%	23.1%	-2.8%

Economic Research Note

UK: are inflation expectations behaving differently?

- **High inflation is creating the risk that longer-term expectations will start to drift higher**
- **There is little evidence of this so far, but expectations may have become more sensitive to price shocks**
- **Although market expectations and pay growth are contained, these are the key variables to focus on**

Inflation has spent most of the past eight years above the BoE's target and is set to continue to do so well into 2014. So far there are few signs that this has materially fed through into higher inflation expectations. But a number of events have recently added to the risk of those expectations becoming destabilized. The BoE has this year shown greater tolerance of high inflation, while the government has altered the central bank's remit to emphasize the scope for using new policy tools, while also lining up a new BoE governor minded to use those tools. Though the move up in various measures of inflation expectations has been fairly modest to date, we find some evidence that longer-term expectations have become more responsive to shorter-term measures. This creates two potential problems. First, changes in longer-term expectations may have greater macroeconomic significance by influencing wage and price setting. Second, longer-term expectations may be slower to normalize even as inflation itself falls, reflecting the perceived likelihood of future overshoots from the target. It is too early to know how significant these issues will prove to be. But we continue to monitor the wage and expectations data for signs of a stronger response.

Modest rise in LR expectations to date

Tracking movements in inflation expectations is difficult. Despite the importance of expectations in the theory, there is no accepted single measure, nor a consensus on whose expectations matter most. In response to this uncertainty, some time ago we developed a composite measure of inflation expectations. The measure incorporates data from market sources, household and business surveys, and professional forecasts. This analysis has continued to show relative stability in medium-term measures (greater than one year) despite large fluctuations in shorter-term (a year or less) expectations. Our analysis shows a slight drift up in medium-term expectations in recent years. Although this has been modest, it is difficult to exclude the possibility that the drift above 2% is related to the UK's recent history of high inflation, or that the rise will be sustained even as near-term inflation pressures moderate.

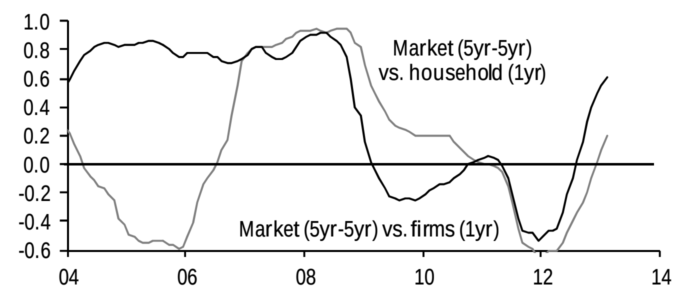
Composite measures of inflation expectations

%, normalized to average the CPI from 1997-2006

Source: J.P. Morgan, BoE, EC survey, BCC survey, YouGov

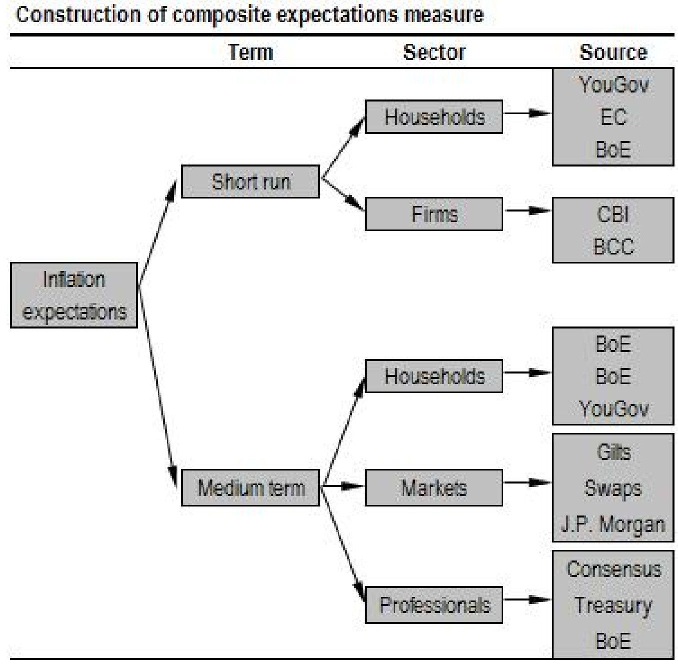
Inflation expectations rolling correlations

3 year window, market expectations is average of linkers and swaps



Source: J.P. Morgan, BCC, CBI, BoE, YouGov, EC survey

Construction of composite expectations measure



Source: J.P. Morgan

Signs of higher sensitivity to SR changes

One way of investigating the point above is to look for signs that medium-term expectations have become more closely correlated with high expectations for near-term inflation. It is difficult to use our composite measures to answer this question. Although the composite contains 13 different time series, only four of these are available prior to 2006. This makes it harder to identify clear relationships between short- and long-run expectations over time. Bearing this constraint in mind, we do find some rise in the correlation between medium-term measures (derived from market-based data) and the one-year-ahead measures (from surveys of households and firms) over the past year or so. However, these correlations remain within the range seen over recent years (third chart previous page).

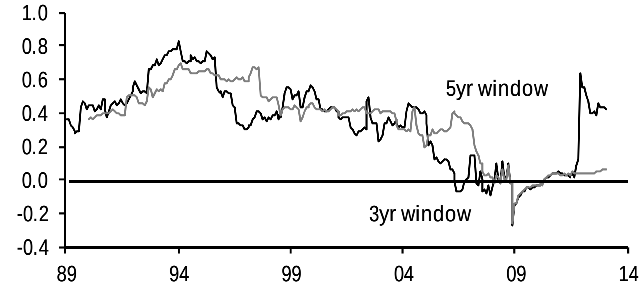
We can take an alternative approach of exploiting the information in a more complete and continuous dataset of inflation expectations from market-based instruments—i.e., from government (RPI) linked bonds and inflation swaps. There are problems with these measures, too, as one-year-ahead expectations are volatile, where the market is less liquid, while uncertainty about methodological changes to the measurement of RPI inflation has recently created further large movements in these measures. But if we attempt to adjust for these distortions and look at a rolling regression of 10-year-ahead expectations on the four-year-ahead, there are clearer signs of a more unusual shift higher in the correlations in recent years (first chart).

There is, however, no clear evidence that longer-term inflation expectations have been bumped meaningfully higher by persistently high near-term inflation outturns. For example, the level of the forward curve for breakevens (from index-linked bonds) at longer-term maturities looks low compared to prior years (second chart). Moreover, the flattening in the curve more recently indicates that the higher correlation between shorter- and longer-term expectations evident in our rolling regression analysis above has not extended into 2013. Data from options pricing also indicate that while uncertainty about future inflation outturns has increased, its expected rate has not changed materially.

Wage growth behaving as expected

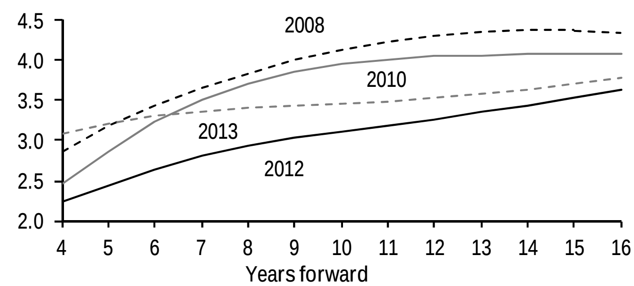
Market-based measures provide a timely and rich source of data that could have macroeconomic significance via the currency, and as a broader measure of confidence. While these measures are contained, however, rising expectations may manifest themselves in other channels of equal importance. Corporate pricing and wage setting are two clear examples. Forward-looking information from the former is difficult to identify. But the data on pay growth are smoother and easier to model. We can explain a significant proportion (74%) of private sector regular average weekly earnings by looking at productivity growth, average hours worked, and labor market slack. We can use the residual in this model as an alternative means of identifying deviations in inflation expectations from normal. Although the wage bargaining process has been greatly diminished, the residual from pay growth models may help to provide an indirect window on changes in firms' expectations, too. Our model of pay growth indicates that the slowing in pay can be explained by productivity changes and spare capacity within the labor market. Putting this information together with the market-based data suggests price-setting behavior has yet to respond to high inflation outturns. But we would focus on these variables looking forward for signs that something is changing.

Correlation between inflation expectations from index linked gilts
Beta from OLS rolling regression of 10yr m/m change on 4yr m/m change



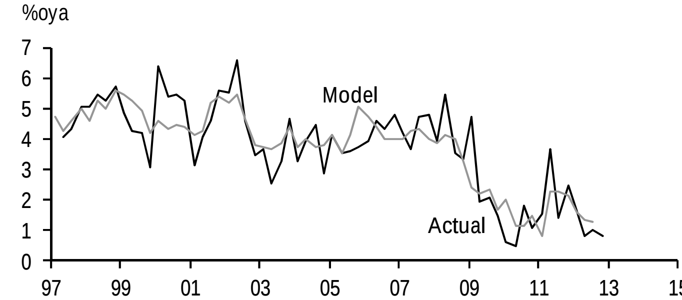
Source: BoE

Index linked gilt forward curve: implied inflation expectations
%, instantaneous



Source: BoE

Model of hourly pay growth
%oya



Source: ONS and J.P. Morgan

Economic Research Note

The next BoC governor

- **There will be a new Bank of Canada governor on June 1**
- **Senior Deputy Governor Macklem is the frontrunner**
- **But an "outsider" remains possible**
- **Lower interest rates and weaker CAD likely if market is surprised**

Bank of Canada Governor Mark Carney will leave the Bank at the end of May to assume the position of Governor of the Bank of England. Canadian Finance Minister Flaherty has said that he would name Carney's replacement by mid-April, but some in the market look for an announcement as early as next week. We think there is a 50%-60% probability that current Senior Deputy Governor Tiff Macklem is named governor. Yet this decision is not a lock, in our view, and the market may be underestimating the possibility of a surprise. It is possible that the recent deterioration in both the performance of the economy and inflation may influence the choice. Headline CPI inflation is well below the Bank's 2% target and still falling while the pace of GDP growth is the slowest of this expansion and slowed markedly in 2H12.

The BoC's selection process

The BoC's Board launched the search on Nov 26 by forming a committee of independent directors to oversee the recruitment process. By Jan 7 an executive search firm had been retained and ads placed in major newspapers and magazines. The Conservative Government is pushing for an exhaustive search and is determined to look in every nook and cranny, both internally and externally, to find the ideal candidate.

What criteria will be used by the BoC's conclave? Aside from the obvious (a strong background in monetary policy), the ideal candidate would have experience at the BoC and/or Department of Finance, know "how Ottawa works," and be a bilingual Canadian citizen. Further, Finance Minister Flaherty has stated that an understanding of capital markets is important. Considerable experience with financial markets and institutions is especially pertinent given Canada's housing market froth, and the unprecedented risks associated with the G-4's QE policies. While all sensible enough, this creates quite a high bar for vetting potential candidates and injects considerable uncertainty into the search process.

The search committee will use these criteria to recommend a roster of qualified candidates for the finance minister (FM) to interview (presumably this has already started). Although the Bank's Board makes the formal appointment, ultimately the FM has the final say, subject to Cabinet approval.

Canadian GDP and CPI inflation

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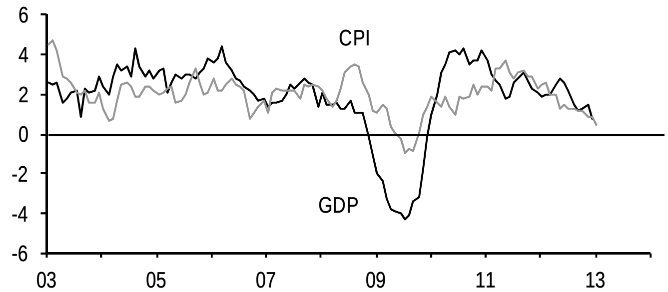


Source: Statistics Canada

The pool of potential candidates is naturally limited, given that the job requires such a unique set of skills and attributes. This has led to a building consensus that Senior Deputy Governor Richard Tiffany ("Tiff") Macklem is the clear frontrunner. However, the previous two selections passed over the senior deputies who had been seen as favorites, suggesting the market may be underestimating the possibility of a surprise.

Neither Carney nor Dodge was frontrunner

The first governor of the BoC, Graham Towers, was appointed directly by the prime minister in 1934. The next five governors were all deputy governors, handpicked by their predecessors, with their elevation representing endorsements of the status quo and votes for continuity. However, this amiable pattern appears to have collapsed with the selection of the last two governors.

Carney was appointed governor on Oct 4, 2007, roughly four months before his term began (Feb 1, 2008). He had been a deputy governor at the Bank from 2003-04, but was then seconded to the Department of Finance from 2004 until 2007. Conventional wisdom had it that the frontrunner for the top job was then Senior Deputy Governor Paul Jenkins. However, FM Flaherty went against form by picking Carney, who had a senior role in his ministry at the time.

Carney's predecessor, David Dodge, was also not the frontrunner. Although he had enjoyed a brilliant career as an academic (teaching at Queen's and Johns Hopkins) and in Canada's civil service (he was Deputy Minister of Finance from 1992 and Deputy Minister of Health from 1998), he is only the second BoC head not to have previously been Deputy Governor (the other was Towers). Then-Senior Deputy Governor Malcolm Knight was outgoing Governor Gordon Thiessen's choice as successor and the clear frontrunner. However, he was passed over in favor of Dodge, who had a long list of impressive accomplishments and extremely strong connections with the Liberal Government under which he had served.

Still, it is not clear whether the 2001 and 2008 precedents are particularly applicable to the current situation. Frontrunner Macklem is well-liked and supported within the Bank, and we think has the qualifications to be Governor.

Tiff appears to be the ideal candidate

Tiff Macklem is the near-unanimous choice of economists and other pundits when asked about the appointment. He has been Senior Deputy Governor since July 2010. He also chairs the FSB's Standing Committee on Standards Implementation. Altogether, this excellent launching pad has allowed him to become the leading choice for the job among economists and pundits.

Macklem has had a long and productive career at the BoC, although most of it was spent in the research department. This may lead some to question the extent of his hands-on knowledge, especially regarding global financial markets. According to the *Globe and Mail*, "The one knock on Mr. Macklem is that he doesn't have private sector experience in financial markets."

Similar to most of his predecessors, Macklem also has considerable experience at the Department of Finance, including a stint as Associate Deputy Minister, where he replaced Carney as Canada's Finance Deputy at the G-7, G-20, and the Financial Stability Forum.

Macklem is typically referred to as a bookish macroeconomist, who represents stability and continuity at the BoC. His low-key competence and humility offer a sharp contrast to Carney's outsized personality and media magnetism, as well as Dodge's overwhelming intellect and "force of nature" personality. Although it is difficult to know what type of personality the FM wants to run the BoC, in our view it is hard to argue that Macklem does not fall short with reference to Flaherty's "someone who understands capital markets" criterion.

Who are the potential dark horses?

From our perspective, there appear to be three other plausible internal candidates: Timothy Lane, who has been Deputy Governor since 2009, following a 20-year stretch at the IMF; Agathe Côté, who was appointed Deputy Governor in 2010; and Jean Boivin, who was Deputy Governor from 2010, but left the Bank last year to become FM Flaherty's advisor on G-20 matters (the position previously occupied by Carney and Macklem). As an aside, there has never been a francophone governor, nor has there been a female one. However, it is difficult to envision one of these other internal candidates being selected over Macklem. He is equally, if not more, qualified and has more experience. Moreover, whatever reason that could be given not to select Macklem would also likely apply to any one of these other three internal candidates.

There are three particularly interesting possible external contenders. First is Steve Poloz, who is currently CEO of Export Development Canada. Previously, he was at the BoC for 14 years, has spent time at the IMF, and worked for five years at Montreal-based BCA Research. Moreover, he was purportedly also a contender to replace Dodge in the process that selected Carney, so he has risen to near the top of the candidate list previously. Next is Kevin Lynch, who has been Vice Chair at the Bank of Montreal since 2010. Previously he was at the BoC, then Deputy Minister of Finance, Executive Director at the IMF and, most impressively (but to non-Canadians, most esoterically), Clerk of the Privy Council. Finally, Julie Dickson is often referred to as the most powerful woman in Canadian banking and since 2007 has headed the Office of the Superintendent of Financial Institutions, the country's top banking regulator, which reports directly to FM Flaherty.

It seems that the two leading candidates are Macklem and Poloz—with Macklem the frontrunner. Poloz, though he is well-known among BoC watchers, appears to be running under the market's radar a bit. So, we think his selection would have the most market impact.

What does this mean for BoC policy and CAD?

Choosing Macklem would represent an endorsement of existing BoC policy, which has been to maintain a tightening bias in the face of deteriorating economic conditions, even as central bank policymakers in other G-7 countries add stimulus. We think a surprise announcement would likely be interpreted dovishly, opening the door for an even less imminent rate hike than currently being expected, and sending USD/CAD higher, at least temporarily.

That said, while decision making at the BoC is not particularly transparent, it appears to be broadly consensual. There are no minutes published or any tally of votes behind policy decisions. So, it is not possible to identify individual positions that may be taken by various governors to determine their hawk/dove-like tendencies. It seems to us that Carney is more a pragmatist than an ideologue and that this pragmatism has been supported by the other governors. Consequently, we do not look for any meaningful change in the course of Canadian monetary policy. Moreover, the Bank is guided in setting policy by its commitment to achieve its 2% inflation target—and we think this remit will not be changed with the arrival of new leadership.

United States

- **Economic reports still show little effect of fiscal tightening so far; initial jobless claims continue to trend lower**
- **The sharp increase in February housing permits confirms that the housing rebound remains on track**
- **And the PMI suggests solid manufacturing growth continued in March**

Real GDP growth is expected to moderate to a 1.5% saar growth pace next quarter as the effects of the January tax hikes and the March sequestration start to bite. Incoming data, however, show little or no sign of slowing yet. Initial jobless claims, our favorite high-frequency indicator, continued to trend lower through mid-March, hinting that March payroll growth probably at least matched its average 191,000 pace over the past three months. The best trend indicator of new home construction, single-family permits, posted a solid 2.7% samr gain in February and confirms that the strong upturn in homebuilding is still on track. The first March national manufacturing survey, the PMI, posted an increase in both the headline reading and its key leading indicator, new orders.

The news is not uniformly upbeat. It rarely is. The national Homebuilders survey slipped in March to its lowest level since October, and the Philadelphia Fed's factory survey improved in March but to a level consistent with only modest growth of manufacturing output. These reports on housing and manufacturing look like low-side outliers relative to the other incoming data, however.

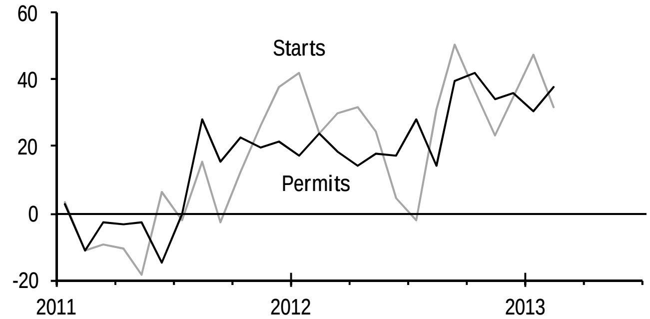
Upcoming reports on real consumer spending for February, two consumer confidence readings for March, and early industry guidance on March auto sales will provide new information on consumer spending. The February durables report and three more March regional Fed surveys will help condition views on manufacturing. There will be special interest in the core capital goods detail of the durables report. The forecast looks for new orders to decline 3.0% samr, giving back part of the January surge. Core capital goods shipments are forecast to rise 2.5%, finally responding to the rebound in orders over the past few months.

Further gains for housing activity

Increases in February housing starts and permits confirm that the housing recovery is still alive. Single-family permits are probably the best measure of the trend in housing activity, especially in the winter, and these increased another 2.7% samr to a level nearly 25% at an annual rate above the 4Q12 average. Multifamily permits increased an even larger 8.1% on the month to a level 31.1% at an annual rate above the prior quarter average.

Single-family housing permits and starts

%ch saar over 6 months



Source: Census Bureau

Months' supply of existing single-family homes for sale, house prices

Sa by J.P. Morgan

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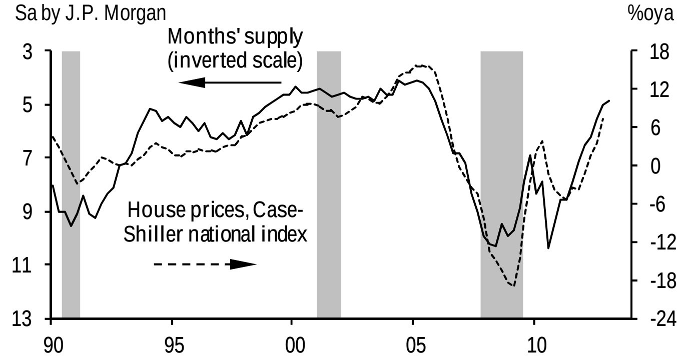


Source: NAR, Case-Shiller, J.P. Morgan

Increases in February housing starts were more subdued. Total starts rose 0.8% samr and single-family starts were up 0.5%. The recent slowing is probably to be expected after the outsized gains last quarter. Single-family starts are up 32.0% saar over the past six months and permits are up 37.9%. Multifamily activity has been increasing even faster.

To be sure, the Homebuilders survey has stalled since December, and its measure of single-family sales dropped 4pts in March. Details of the March report are more mixed. The two other components (future sales and prospective traffic) increased, and commentary accompanying the report indicates that temporary supply-side constraints are limiting sales.

There was also positive news for nonresidential construction activity this past week. The Architectural Billings Index, an indicator that leads nonresidential construction activity by 9-12 months, has lifted from sub-50 readings through the middle of last year to 54.9 in February, a new high for the expansion. The relationship between the index and construction spending is not terribly tight. The latest reading, if sustained, looks consistent with nominal spending growth reaching about 15% saar toward the end of this year.

House prices are rising, too

January readings show continued increases in house prices early this year. The FHFA house price index increased 0.6% samr to a level 6.5% oya. The CoreLogic measure, reported earlier, was up even more, 1.4% samr (as sa by J.P. Morgan) and 9.7%oya. The Case-Shiller house price index for January (out Tuesday) is expected to rise 1.1% samr and 8.2% oya.

Existing home sales rose another 0.8% samr in February to be up 10.2%oya. Probably more important, the report shows that inventories of unsold homes remain relatively lean, an important support for house prices. In February, the inventory of unsold homes edged up slightly to 4.9 months' supply (sa by J.P. Morgan). This is still at a level consistent with a relatively tight supply/demand balance and also consistent with price increases in the 5% to 10% range. January's 4.9 months' supply on the market compares with 6.9 months in January 2012 and 8.5 months in January 2011.

Downside break for initial jobless claims

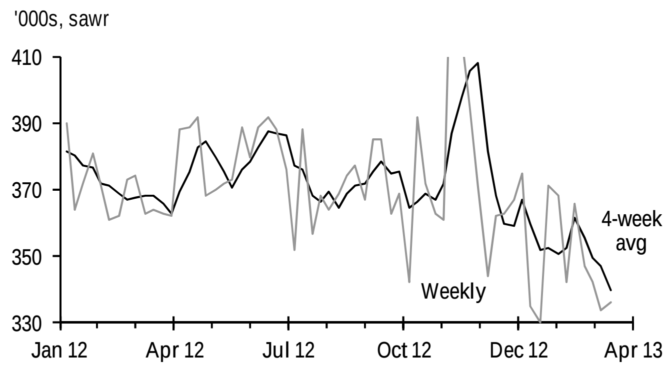
Initial jobless claims continue to trend lower, indicating that the fiscal policy restraint from January tax hikes and March sequestrations is not yet leading to noticeable labor market weakening. The latest reading for initial jobless claims is for the week of March 16, the week of the March labor market survey. The weekly reading, 336,000, is 30,000 below its level during the week of the February labor market survey. The latest four-week average, 340,000, is 22,000 lower than in the week of the February survey. Weekly readings on initial jobless claims have not been terribly reliable guides to monthly payroll growth. The readings on jobless claims suggest that the trend in job growth has improved since 4Q12.

Initial jobless claims are low relative to other labor market indicators, an indication of the small amount of labor market churn (few new hires and few layoffs) compared with the previous expansion. Initial jobless claims are not a pure measure of job losses. Not all persons who lose jobs file for unemployment benefits. The latest January report of the independent JOLTS survey shows that the layoff and discharge rate reached a new low for the history of the series dating back to December 2000.

PMI moves a little higher in March

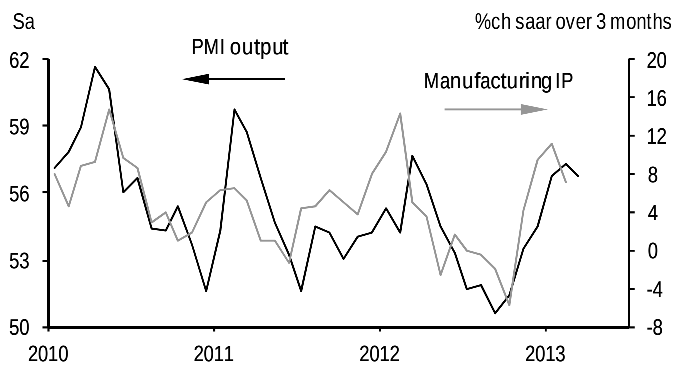
The flash PMI, the first national manufacturing survey for March, posted a roughly half-point increase in both the headline reading (54.9) and new orders (54.3). The March result leaves the average index for 1Q13 at 55.0, well ahead of the

Initial jobless claims, 4-week average and weekly



Source: Department of Labor

PMI measure of factory output and manufacturing IP



Source: Markit, Federal Reserve Board

4Q12 level (52.6), and consistent with the acceleration in manufacturing output this quarter.

The measure of output declined to a still-healthy 56.8 in March. There is not a tight relationship between this survey's measure of output and factory IP, but, based on the relationship over the history of the PMI, the latest reading looks roughly consistent with IP growth in the 5.5% to 6.0% range. The forecast looks for manufacturing output to moderate from an estimated 7% growth in 1Q13 to 3.0% in 2Q13. So the March survey looks like it is tracking on the high side of that forecast. New orders increased to 55.9 and, significantly, the measure of export orders rose from 48.5 in February to 51.2 in March. Export orders have been volatile lately, but the latest reading is consistent with some improvement in export growth over the next few months.

The Philadelphia Fed regional survey increased in March, but the headline reading of 2.0 was barely in positive territory. New orders of only 0.5 and a derived composite slightly below 50.0 are consistent with no better than anemic growth. It is not clear why this survey has been running so weak relative to other surveys recently, but this trend continues.

Data releases and forecasts

Tue
Mar 26
8:30am

Durable goods

%m/m sa

	Nov	Dec	Jan	Feb
New orders	0.6	3.6	-4.9	1.2
Ex transportation	1.2	0.8	2.3	-2.2
Nondef cap. gds ex air	3.3	-0.8	7.2	-3.0
Shipments	1.8	0.6	-1.2	1.1
Nondef cap. gds ex air	2.2	0.1	-1.1	2.5
Inventories	0.1	-0.1	0.2	

We forecast that new orders for durable goods increased 1.2% in February while related shipments increased 1.1%. In the January report, large drops in the volatile defense and civilian aircraft categories dragged down the overall orders figure, but the other main details looked much more favorable. Qualitatively, we expect this story from January to be reversed in February with increases in orders related to aircraft and defense boosting the headline figure but softer details away from these components. We estimate that new orders for core capital goods fell 3.0% in February after surging 7.2% the prior month. The January increase was primarily due to large increases in orders for construction machinery (+57% samr) and turbines and related equipment (+43% samr), which will likely be at least partially reversed in the February report. The January surge related to turbines was especially unusual because the data are not fully seasonally adjusted and increases of any magnitude in January are very rare. We forecast an increase of 2.5% for the important core capital goods shipments data, which are used by the BEA to estimate equipment spending in the GDP accounts. The recent strength in related orders points to strong growth in the shipments figures.

Tue
Mar 26
9:00am

S&P/Case-Shiller home price index

%oya, unless noted

	Oct	Nov	Dec	Jan
20-city composite	4.2	5.4	6.8	8.2
%m/m sa	0.6	0.7	0.9	1.1
10-city composite	3.2	4.4	5.9	

We estimate that the Case-Shiller house price index increased 1.1% samr in January (+8.2% oya). Most measures of house prices have been firming lately while the housing market has been recovering, and we expect the increases in the housing data to continue. The Case-Shiller index, the FHFA index, and the CoreLogic index typically show similar trends in house prices although there are some differences between these measures. When seasonally adjusted, the FHFA index rose 0.6% in January and the CoreLogic index increased 1.4%; we believe the January increase in the Case-Shiller index will be somewhere in between the gains reported in these other measures, which has frequently been the case in recent months.

Tue
Mar 26
10:00am

New home sales

	Nov	Dec	Jan	Feb
Total (000s,saar)	393	378	437	415
%m/m	8.0	-3.8	15.6	-5.0
%oya nsa	21.7	12.5	34.8	13.4
Months' supply	4.5	4.8	4.1	
Median price (%oya)	14.1	14.3	2.1	

We forecast that new single-family home sales declined 5.0% to 415,000 saar in February. New home sales have been on an uptrend lately as the housing market has been recovering, and this rising trend in home sales will likely continue (though levels of sales should remain quite weak by historical standards for a while). However, we look for some pullback in sales in February after the 15.6% jump reported for January. This January increase was the largest monthly percent change since 1993 and likely overstates the upward trajectory for the data. The West region looks especially poised for some payback in February after sales jumped 45% in January. Recent data from the NAHB survey also suggest that sales have softened somewhat lately.

Tue
Mar 26
10:00am

Consumer confidence

Sa

	Dec	Jan	Feb	Mar
Conference Bd index	66.7	58.4	69.6	68.0
Present situation	64.6	56.2	63.3	
Jobs plentiful	10.8	8.5	10.5	
Jobs hard to get	36.1	36.6	37.0	
Labor mkt diff	-25.3	-28.1	-26.5	
Expectations	68.1	59.9	73.8	

We forecast that the Conference Board consumer confidence survey's headline declined 1.6pts to 68.0 in March. The various consumer indicators that we track have sent mixed signals in recent months, making it difficult to gauge the underlying trend in consumer attitudes. Most recently, the headline for the University of Michigan consumer sentiment survey dropped 5.8pts in the preliminary March report, signaling weakening in sentiment during the month. The separate daily Rasmussen Consumer Index dropped off sharply between the middle of February and early March but has since rebounded. Because these measures typically move in similar manners, we expect some decline in the Conference Board index in March. However, the Conference Board survey emphasizes the labor market more than the Michigan survey, so we look for less of a decline in the Conference Board index because most recent labor market indicators have been relatively upbeat.

Wed
Mar 27
10:00am

Pending home sales

Sa, unless noted

	Nov	Dec	Jan	Feb
Total (mn, ar)	103.3	101.3	105.9	104.3
%ch m/m	-0.4	-2.0	4.5	-1.5
%oya (nsa)	8.8	4.7	10.4	4.0

We look for the pending home sales index to decline 1.5% samr in February. The index has been trending higher while the housing market has been recovering, and this upward trend will likely continue. However, we look for some pullback in the index in February as a little payback for the solid 4.5% increase reported for January.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Federal Reserve Board, ISM, J.P. Morgan, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Thu
Mar 28
8:30am

Jobless claims

000s, sa

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless,%
Jan 12[1]	335	360	3175	3202	2.5
Jan 19	330	352	3216	3197	2.5
Jan 26	371	353	3244	3216	2.5
Feb 2	368	351	3137	3193	2.4
Feb 9	342	353	3165	3191	2.5
Feb 16[1]	366	362	3091	3159	2.4
Feb 23	347	356	3113	3127	2.4
Mar 2	342	349	3048	3104	2.4
Mar 9	334	347	3053	3076	2.4
Mar 16[1]	336	340			
Mar 23	340	338			

1. Payroll survey week

We forecast that initial jobless claims increased 4,000 to 340,000 during the week ending March 23. We are entering the period of the year when the varied timing of Good Friday, Easter, and Passover as well as school spring breaks can generate volatility and uncertainty in the claims data because of issues related to seasonal adjustment. The seasonal factors for this year expect three straight declines in not seasonally adjusted claims through the week ending March 23, which is an unusual pattern for this time of year (in recent years, the seasonal factors have anticipated two straight declines in claims followed by an increase around the comparable weeks). If the seasonal factors are incorrectly expecting a decline in claims this week, then the seasonally adjusted data should increase. We look for only a modest increase in the upcoming report because the magnitude of the expected changes is relatively small.

The upcoming claims report will also contain revisions to the claims data back to 2008 as well as the publication of seasonal factors for all of 2013.

Thu
Mar 28
8:30am

Gross domestic product

%ch, q/q saar, unless noted

	3Q12	Adv 4Q12	Sec 4Q12	Thi 4Q12
Real GDP	3.1	-0.1	0.1	0.7
Final sales	2.4	1.1	1.7	2.1
Domestic final sales	1.9	1.3	1.4	1.8
Consumption	1.6	2.2	2.1	2.0
Equip. and software	-2.6	12.5	11.3	11.6
Nonres. structures	0.0	-1.1	5.7	17.2
Residential investment	13.6	15.3	17.4	18.0
Government	3.9	-6.6	-6.9	-6.8
Net exports (%-pt cont.)	0.4	-0.2	0.2	0.3
Inventories (%-pt cont.)	0.7	-1.3	-1.6	-1.4
Core PCE price index	1.1	0.9	0.9	
(%oya)	1.6	1.5	1.5	
GDP chain price index	2.7	0.6	0.9	
(%oya)	1.6	1.7	1.8	
Adj. corporate profits	2.4			-5.5
(%oya)	7.5			-4.8

We estimate that 4Q real GDP growth will be revised up to 0.7% saar in the BEA's third report for the period. This would be a very soft pace of expansion, but it would be an improvement relative to the BEA's earlier reports on growth (-0.1% in the advance report revised up to +0.1% in the second report). It also reflects large temporary drags on growth from inventories and defense spending with the underlying growth momentum stronger than the headline implies.

Data released since the BEA's second report on GDP generally point to upward revisions to the major GDP components. We think the largest revision will come from nonresidential structures investment (from 5.7% to 17.2%), and we look for more modest upward revisions to equipment and software spending (11.3% to 11.6%), residential investment (17.4% to 18.0%), government spending (-6.9% to -6.8%), net exports (-$388 billion to -$386 billion), and the change in private inventories ($12 billion to $20 billion). On the downside, the most recent retail sales report points to a small downward revision to growth in personal consumption expenditures from 2.1% to 2.0%.

The upcoming GDP report will also provide the BEA's first estimate of corporate profits in 4Q12. Weak GDP growth implies that national income growth should be soft as well and that 4Q should be a weak period for profits. We estimate that corporate pretax profits declined 5.5% saqr.

Fri
Mar 29
8:30am

Personal income

%m/m sa, unless noted

	Nov	Dec	Jan	Feb
Personal income	1.0	2.6	-3.6	1.1
Wages & salaries	1.1	0.7	-0.6	0.8
Consumption	0.4	0.1	0.2	0.6
Real consumption	0.5	0.1	0.1	0.2
PCE price index	-0.2	0.0	0.0	0.4
Core	0.07	0.03	0.15	0.11
Mkt-based Core	0.0	0.0	0.2	
Core (%oya)	1.5	1.4	1.3	1.3
Mkt-based Core (%oya)	1.6	1.4	1.4	
Saving rate	4.0	6.4	2.4	2.9

We forecast that personal income increased 1.1% in February while disposable income rose 1.2%. The income data have been very volatile lately as there was a rush to realize income late in 2012 ahead of tax increases implemented at the start of 2013, and then the expiration of the payroll tax holiday was a large drag on income in January. We think most of these distorting factors are behind us and look for "cleaner" figures to be reported for February. Data in the February employment report signal solid growth in wages and salaries in the private sector during the month, and we forecast an increase in overall wages and salaries of 0.8%. There will also likely be strong growth in dividend income because the related decline reported for January brought the level of income much lower than the trend that had existed prior to the year-end distortions. With our anticipated gains in income, the saving rate should move up from 2.4% in January to 2.9% in February.

Available figures on auto sales, utilities consumption, and other retail sales signal increases in consumer spending in February. We forecast that nominal spending increased 0.6% during the month while real spending increased 0.2%; this divergence is mainly due to a large jump in gasoline prices in February.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Federal Reserve Board, ISM, J.P. Morgan, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Data from the February CPI and PPI point to the PCE price index increasing 0.4% samr in February (+1.3% oya) largely due to a surge in energy prices during the month. The core PCE price index—which excludes food and energy prices and is the Fed's preferred measure of underlying inflation—should continue to be pretty soft in February, and we forecast an increase of 0.11% samr (+1.3% oya).

Fri
Mar 29
9:55am

Consumer sentiment

	Jan	Feb	Pre Mar	Fin Mar
Univ. of Mich. Index (nsa)	73.8	77.6	71.8	73.0
Current conditions	85.0	89.0	87.5	
Expectations	66.6	70.2	61.7	
Inflation expectations				
Short term	3.3	3.3	3.3	
Long term	2.9	3.0	2.9	
Home buying conditions	164	154	160	

We look for the University of Michigan consumer sentiment index to be revised up from 71.8 to 73.0 between the preliminary and final reports for March, which would represent a 4.6pt decline relative to February. Upward revisions to the index have been common over the past few years. And the daily Rasmussen Consumer Index shows a solid rebound in confidence since the first week of March, which could have been picked up in the later sampling period used for the final Michigan survey for the month.

Review of past week's data

Homebuilders survey (Mar 18)
Sa

	Jan	Feb	Mar	
Housing market	47	46	~~48~~	44
Present sales	52	51		47
Prospective buyer traffic	36	32		35

The NAHB survey's headline declined 2pts to 44. It had improved significantly and steadily between September 2011 (14) and December 2012 (47) once the housing market started to gain momentum, but some of this improvement has been undone since then. However, most other housing indicators point to continued improvement in the housing market.

Housing starts (Mar 19)
Mn units, saar

	Dec		Jan		Feb	
Starts	~~0.97~~	0.98	~~0.89~~	0.91	~~0.90~~	0.92
Single-family starts	~~0.61~~	0.62	~~0.61~~	0.62	~~0.61~~	0.62
Multifamily starts	0.36		~~0.28~~	0.30	~~0.29~~	0.30
Permits	0.91		0.90		~~0.92~~	0.95

Housing starts rose 0.8% to 917,000 saar in February, and data reported for January and December were revised up. Starts have jumped about 50% saar over the latest six months, and the continued improvement in the permits data points to more increases in starts to come.

Markit manufacturing PMI (flash)(Mar 21)
Index, sa

	Jan	Feb	Mar	
Composite[1]	55.8	54.3	~~54.0~~	54.9
New orders (30%)	57.4	55.4		55.9
Output (25%)	56.8	57.3		56.8
Employment (20%)	55.6	53.5		54.6
Sup. del., (15%, inv.)	45.7	48.5		46.6
Stks of purch (10%)	51.5	49.5		50.2
New export orders	51.5	48.5		51.2
Backlogs of work	50.3	49.9		50.1
Output prices	53.3	53.5		52.9
Input prices	59.0	58.2		55.2
Stocks of fin. goods	50.4	50.7		49.4
Quantity of purchases	53.7	53.6		53.0
ISM-weighted comp.[2]	55.1	53.4		54.2

1. Weights in parentheses
2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

Philadelphia Fed survey (Mar 21)
Diffusion indices, sa

	Jan	Feb	Mar	
General bus. conditions	-5.8	-12.5	2.0	
New orders	-4.3	-7.8		0.5
Shipments	0.4	2.4		3.5
Inventories	-6.5	-10.0		0.0
Prices paid	14.7	8.9		8.5
Prices received	-1.1	-0.5		-0.8

The first few manufacturing surveys reported for March have been mixed, but generally are consistent with continued decent growth in the manufacturing sector. There has not been much indication in the manufacturing data of any adverse reaction to the various types of fiscal tightening implemented throughout the year so far.

The national Markit PMI increased from 54.3 in February to 54.9 in the flash March report. Most of the underlying details also improved modestly between February and March, including gains in the indexes for new orders (+0.5pt to 55.9) and employment (+1.1pts to 54.6). One exception was the output index, which edged down 0.5pt to 56.8 during the month, but this is still one of the strongest readings from the past 12 months. The separate Philadelphia Fed survey improved more significantly between February and March, but it continued to look pretty soft. Its headline popped up 14.5pts to 2.0 in March while the ISM-weighted composite for the survey rose 1.3pts to 49.9. It is unclear why this survey has been so much weaker than most of the related measures in recent months, but it is a positive signal to see the improvement reported in March.

Existing home sales (Mar 21)

	Dec	Jan		Feb	
Total (mn, saar)	4.90	~~4.92~~	4.94	~~5.00~~	4.98
%m/m	-1.2	~~0.4~~	0.8	~~1.6~~	0.8
%oya nsa	7.2	11.9		~~10.6~~	6.3
Months' supply (nsa)	4.5	~~4.2~~	4.3		4.7
Single-family	4.5	4.3			4.6
Median price (%oya)	11.1	~~12.3~~	10.3		11.6

Existing home sales edged up 0.8% to 4.98 million saar in February and increased 5.9% saar over the six months through February. Other parts of the existing home sales report also are consistent with improvement in the housing market. Inventories of homes available for sale remained lean despite increasing modestly in February, which could keep upward pressure on prices and generate new home construction.

FHFA home price indexes (Mar 21)
Purchase only

	Nov		Dec		Jan	
%oya	5.5		~~5.9~~	5.6	~~6.0~~	6.5
%m/m sa	~~0.4~~	0.5	~~0.6~~	0.5	~~1.0~~	0.6

The FHFA house price index rose 0.6% samr in January and 6.5% on a year-ago basis, with increasing trends spread across regions. Other related measures have shown similar firming recently.

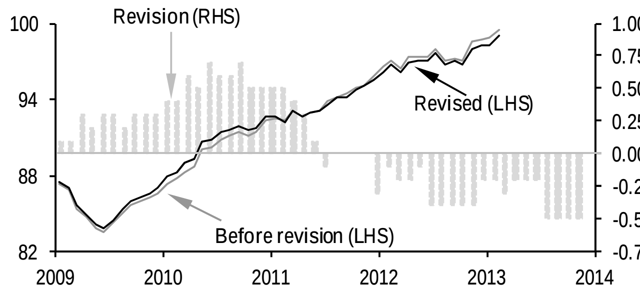
Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Federal Reserve Board, ISM, J.P. Morgan, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Focus: revisions to IP

- The Fed's annual revision to the industrial production data reflects revised seasonal factors as well as benchmarking to, and incorporation of, new source data. The revisions were basically offsetting overall, and show a clear break, with upward revisions from mid-2007 through 2010 and downward revisions since the start of 2011. The trough for production in 2009 is now 0.4% above what had been previously reported and production in the most recent report (February) is now 0.5% below the previously reported figure. Overall IP increased 18.1% from the most recent trough to peak, a bit softer than the 19.2% increase that had previously been reported.
- Like the headline figure, the revised data on manufacturing production show a modestly higher trough during the recession but less rebound since then. Manufacturing production increased 19.3% from trough to peak, less than the prior estimate of 20.6%. Growth in manufacturing production was revised down for the most recent few months, but still looks decent: manufacturing IP increased 5.6% saar over the three months through February, which is 1.8%-pts below what had previously been shown in the IP data. There were modest downward revisions to the recent data on production of business equipment and consumer goods (not shown).
- The manufacturing surveys that have been reported for March so far signal continued solid growth in the sector and do not show signs of a pullback in activity in response to the various forms of fiscal tightening implemented during the year so far. The composite indexes from the Markit PMI, Empire State survey (ISM-weighted), and Philadelphia Fed survey (ISM-weighted) averaged 52.0 in March, which is a modest step up from the average from the prior three months (51.2).
- Away from the manufacturing sector, the revised IP data show mining production increasing 3.2%oya in February, just a touch below the prior report of a 3.3% increase. However, the revised data show a smoother upward trajectory for the data. Most recently, mining production now looks flat over the three months through February after previously being reported down 7.0% saar.
- Revisions to the data on utilities production were also mixed. The data were typically revised higher in the winter and spring months and lower in the summer and fall months during the past few years (not shown).

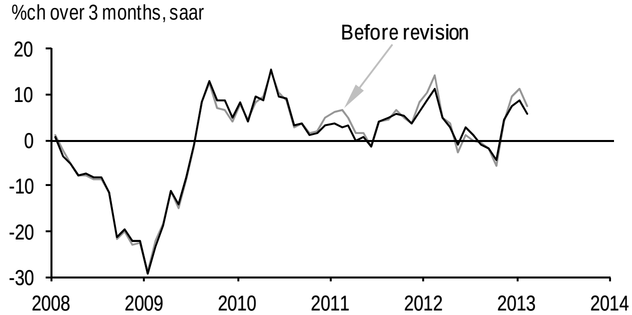
Industrial production
Index, sa

Pts, sa



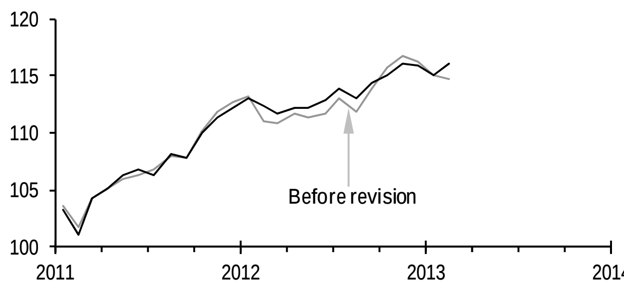
Source: Federal Reserve Board

Manufacturing production
%ch over 3 months, saar



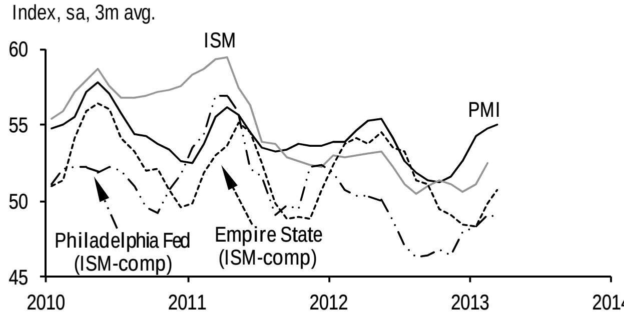
Source: Federal Reserve Board

Mining production
Index, sa



Source: Federal Reserve Board

Manufacturing survey composite indexes
Index, sa, 3m avg.



Source: Markit, ISM, New York Fed, Philadelphia Fed

Euro area

- **Euro area PMI disappoints in March, showing weaker conditions even before Cyprus first rejected its bailout**
- **We revise down our GDP forecast for the rest of 2013**
- **German economy is still growing, but momentum is slowing**
- **France and the periphery downturns intensify**

The situation in Cyprus remains very fluid. But, even before Cyprus rejected the initial bailout proposal, the news about the Euro area economy disappointed. In particular, the output index of the flash composite Euro area PMI declined sharply in March (-1.4pts to 46.5). This survey will mostly reflect conditions before the troubles in Cyprus broke out. As a result, almost all of the improvement seen since last October has now been unwound. This weakness was also broad-based across the region—the German PMI is signaling less growth than at the start of the year, the French PMI slipped to a new cycle low, pointing to ongoing contraction, and the composite output index moved back below 45 in the periphery. There may be some encouraging policy initiatives (e.g., on paying arrears, loosening deficit targets, etc.), but the negatives are clearly outweighing this. Due to the lack of any upward momentum in the PMI, ongoing problems with the bank lending channel, and new policy uncertainties, we have revised down our GDP forecast for this year. We also think that the ECB will respond, although political issues are complicating this.

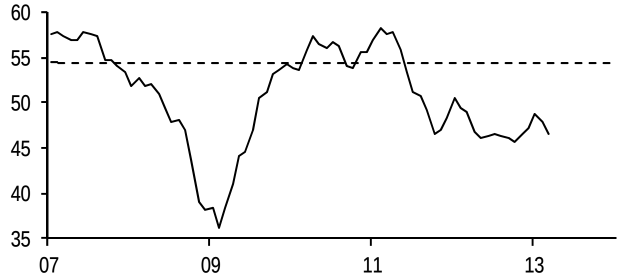
Weak PMI prompts growth revision

As noted, the output index of the Euro area composite PMI fell sharply to 46.5 in March, leaving it only 0.8pt above October's low. Apart from the employment index, which rose another 1.2pts to 48.0, all other details were weak. Composite orders fell 1.5pts to a very depressed 45.0. Services activity (-1.4pts to 46.5) and manufacturing output (-1.3pts to 46.5) went down together. And as orders fell much more sharply in manufacturing (-2.8pts to 45.1) than the inventory indices, the orders/inventory ratio also deteriorated.

By country, Germany is still growing, but the momentum is changing after a strong start to the year. The German composite PMI fell sharply in March (-2.3pts to 51.0), while the IFO expectations index fell less (-1pt to 103.6). The March level of the German PMI points to growth slowing to just below a 1% ar pace, while the IFO expectations index is signaling a faster pace of around 1.5% ar. Hence, the German surveys are still signaling trend-like growth overall. But, it does look as if the economy and capital spending by corporates will recover less strongly than previously thought.

Euro area composite PMI output index

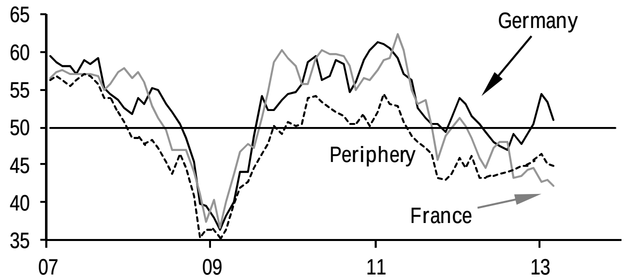
DI, sa, dotted line shows average from 2000 to 2007



Source: Markit, J.P.Morgan

Euro area composite PMI

DI, sa



Source: Markit, J.P. Morgan

Euro area GDP

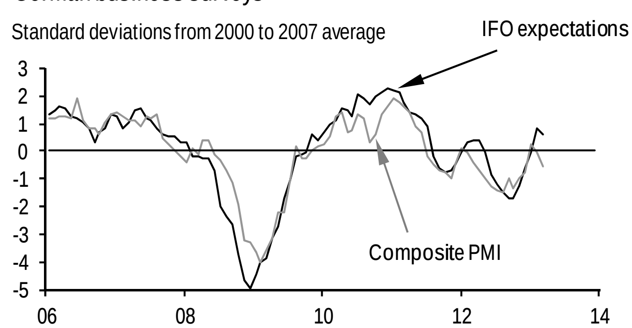
%q/q saar

	4Q12	1Q13f	2Q13f	3Q13f	4Q13f
Euro area					
Old	-2.3	-0.25	0.50	1.25	1.50
New	-2.3	-0.50	-0.50	0.50	1.00
Germany	-2.3	1.50	1.00	1.75	2.00
France	-1.1	-1.25	-1.25	0.00	0.50
Italy	-3.7	-1.50	-1.50	0.00	0.50
Spain	-3.1	-1.75	-1.75	-0.75	0.00

Source: Eurostat, J.P. Morgan

German business surveys

Standard deviations from 2000 to 2007 average



Source: IFO, Markit, J.P.Morgan

A bigger worry is France, where the PMI dropped 1pt to a new cycle low of just 42.1. The Markit press release again mentioned domestic spending in France being held back by uncertainty (about domestic policy, competitiveness, etc.). In addition, the INSEE survey declined 1pt to 86 on an all-industry basis. What do these and other data currently imply for French GDP? If we take the correlations over the 1999 to 2007 period, then the current level of the composite PMI points to a contraction of 1%q/q saar in 1Q13 and a slightly faster -1.3% ar pace if we take the March level of the PMI. The INSEE survey points to a slightly slower pace of contraction of 0.6%q/q saar in 1Q13 (and -0.8% ar if we take the March level), but the correlation with GDP is slightly weaker than that of the PMI. A larger contraction of 2%q/q saar is currently suggested by our tracking tool that also uses official activity data on IP, construction output, consumption spending. These activity data are only available through January and they may overstate the likely declines in the first quarter. Nevertheless, taking all approaches together, it looks as if the French economy is contracting at a 1%-1.5% ar pace. The PMI does not suggest an improvement in the near term.

Finally, the flash results imply a smaller decline in the periphery of three to four tenths, but this comes after a larger 1.3pt fall in February, with the level now back below 45. A policy change, at least in Italy, may help later this year. In particular, the Italian government has announced that arrears (commercial debt owed to small and medium-sized enterprises) will be paid amounting to €20 billion this year and €20 billion next year. This could have a large impact on the macro economy by improving conditions for liquidity- and credit-constrained small and medium-sized enterprises. This has not yet been included in our forecast as it has not yet been approved by the Italian parliament, but if it goes through it could add 0.7%-pt to Italian GDP both this year and next year.

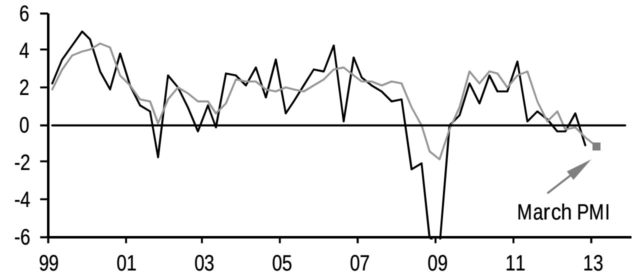
Due to the combination of weak PMIs, ongoing disappointments about bank lending, and new uncertainties created by the situation in Cyprus, we now think that the Euro area recession will last a bit longer and that the recovery will be slower. As a result, we nudge down our 1Q13 GDP forecast for the Euro area from -0.25%q/q saar to -0.5%q/q saar. And, more significantly, we now also expect a 0.5%q/q saar contraction in 2Q13, followed by more modest growth in the second half (+0.5%q/q saar in 3Q13 and 1.0%q/q saar in 4Q13). The average quarterly growth rate in our forecast is now just 0.1%-pt annualized (compared to 0.8%-pt before) and the level of GDP will be 0.6%oya below last year's level. We also think that activity will be weaker across the region. Hence, we have made roughly the same change in most countries (a bit more in France and a bit less in Spain).

Expecting an ECB policy response

How will the ECB respond? In our view, the ECB should have done more already, given that it made a huge downgrade of its macro forecasts in September and December last year. That it has decided not to do anything in recent months suggests that

French GDP and composite PMI

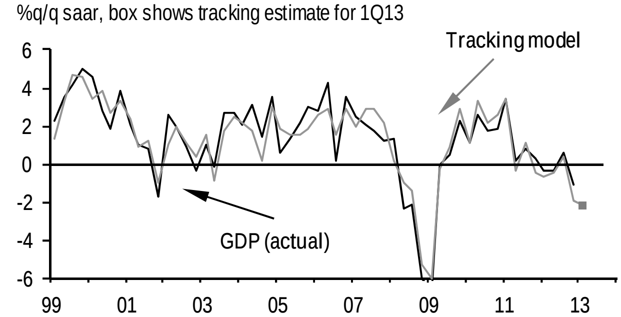
%q/q saar, relationship estimated over 1998 to 2007 period



Source: Markit, INSEE, J.P. Morgan

Tracking French GDP

%q/q saar, box shows tracking estimate for 1Q13



Source: Markit, INSEE, and J.P. Morgan

the ECB's tolerance of low growth and inflation has increased significantly since the middle of last year. This could be because it wants to keep some conventional bullets, because it wants to keep pressure on politicians, or because it doubts the effectiveness of further policy easing.

We were clearly wrong earlier this month, when we thought that the data were already weak enough to overcome the ECB's reluctance to do more. However, our new GDP forecast is now below the -0.5%oya of the ECB staff (and even though the currency has weakened since they finalized their March projections), and the direction of the PMIs is an added concern. As before, fixing problems with policy transmission would be the most meaningful policy move, and ECB policymakers frequently mention the option of doing more to support SME loans via easier collateral requirements. But, it remains unclear whether the Governing Council can agree on collateral changes and new liquidity measures, given that these are more balance-sheet intensive and therefore more controversial. As a result, a cut of the main refinancing rate (with a narrower corridor) could be delivered instead as a second-best option. Given the situation in Cyprus, the ECB may be unwilling to move quickly. Therefore, we are penciling in a rate cut for the June meeting, when updated staff forecasts will also be available. We think that the economic case for doing more is strong.

Data releases and forecasts

Week of March 25 - 29

Output and surveys

European Commission survey

		Dec	Jan	Feb	Mar
Wed	Euro area				
Mar 27	% balance of responses, sa				
11:00am	Industrial confidence	-14	-14	-11	
	Economic confidence	88.0	89.5	91.1	90.0
	Recent production trend	-17	-17	-12	
	Production expectations	-5	-5	-1	
	Export order books	-27	-29	-25	
	Stocks of finished products	6	5	5	
	Selling-price expectations	3	2	1	
	Construction confidence	-33	-29	-30	
	Retail confidence	-16	-16	-16	
	Service confidence	-8.6	-7.7	-5.4	
	Consumer confidence	-26.3	-23.9	-23.6	-23.5

Euro area economic sentiment is likely to have fallen in March, even before Cyprus first rejected the bailout. Consumer confidence is already reported to have barely increased in March, while the German IFO declined. A decline in the EC survey would reinforce the message of the PMI that momentum is deteriorating again in the economy.

Demand and labor markets

Retail sales

		Nov	Dec	Jan	Feb
During	Germany				
the	Sales ex autos and petroleum, volumes				
week	%m/m sa	1.0	-2.1	3.1	
	%oya sa	0.0	-2.9	1.9	

Domestic consumption

		Nov	Dec	Jan	Feb
Fri	France				
Mar 29	Consumption of manufactured products, real terms				
8:45am	%m/m sa	0.1	0.2	-0.8	
	%oya sa	-0.2	0.2	-0.2	

German retail sales made a very strong start to the year, with the January level over 8% ar above the 4Q12 average. This did come after declines of around 3.5%q/q saar in 3Q12 and 4Q12, so that the trend was still soft. Nevertheless, the February report will be important for gauging whether there is an improvement at the start of the year. In contrast, French consumption was weak in January (the level was 2.3% ar below 4Q12), and it will be important to see whether it improved in February.

Unemployment

		Dec	Jan	Feb	Mar
Thu	Germany				
Mar 28	Registered (ch m/m, 000s, sa)	-1	-14	-3	-8
9:55am	000s, nsa	2840	3138	3156	
	Unempl. rate (%, sa)	6.9	6.9	6.9	6.9

Employment

		Nov	Dec	Jan	Feb
Thu	Germany				
Mar 28	Change m/m, 000s, sa	21	24	25	15
9:55am					

German labor market data were strong last month, with unemployment falling and employment rising. We expect more of the same in March. The wage round is also delivering pay growth of close to 3% so far, although hours and nonwage income were softer last year, which weighed on consumer spending.

Inflation

Consumer prices

		Dec	Jan	Feb	Mar
Wed	Euro area (flash)				
Mar 27	HICP (%oya nsa)	2.2	2.0	1.8	1.6
11:00am					
Fri	Italy (prelim)				
Mar 29	%m/m nsa	0.2	0.2	0.1	0.2
11:00	%oya nsa	2.3	2.2	1.9	1.6
	HICP (%oya nsa)	2.6	2.4	2.0	1.8
Wed	Spain (flash)				
Mar 27	HICP (%oya nsa)	3.0	2.8	2.9	2.7
9:00am					
Thu	Belgium CPI				
Mar 28	%m/m nsa	0.0	0.0	0.3	
11:15	%oya nsa	2.2	1.5	1.2	

Euro area headline inflation started to decline last year as energy price inflation dropped sharply. This year, the decline in energy price was reinforced by a move down in core inflation, which we expect to continue in the coming months. In our view, headline inflation thus will likely decline by another two tenths in March to reach 1.6%oya. This move down would be spread across the main countries of the region, including Italy and Spain.

Source: Eurostat, European Commission, FSO, IFO, INSEE, Istat, INE, BNB, Markit, and J.P. Morgan

Financial activity and public finance

Money and credit data

		Nov	Dec	Jan	Feb
Thu	Euro area				
Mar 28	M3 (%m/m sa)	-0.1	-0.4	0.3	
10:00am	M3 (%oya)	3.8	3.4	3.5	
	M3 (%oya 3mma)	3.4	3.7	3.6	
	Loans (%oya)[1.]	-0.5	-0.2	-0.4	
	Loans (m/m, € bn)[1.]	-12.4	3.6	-10.9	

1. Loans to nonbank private sector, adjusted for securitization

The money and credit data have been mixed recently. The news on bank funding remains constructive, while loan growth continues to be very weak. The February report will precede the problems in Cyprus.

Review of past week's data

Output and surveys

National business surveys

	Jan		Feb		Mar	
German IFO survey						
2000=100, sa						
Business climate	104.3		107.4		~~107.4~~	*106.7*
Business exp.	~~100.6~~	*100.7*	104.6		~~104.6~~	*103.6*
Current cond.	108.1		110.2		~~110.2~~	*109.9*
French (INSEE survey - manufacturing)						
Index						
Composite index	87		90			*90*
Index past prod.	-24		-24			*-17*
Exp. output – personal	-13		~~3~~	*5*		*0*
general	-35.0		~~-36.0~~	*-37.0*		*-42.0*
Belgium (BNB survey)						
% balance of responses, sa						
Overall	-13.2		-11.0			*-15.0*
Manufacturing	-17.3		-14.5			*-18.4*
Commerce	-10.3		-11.5			*-15.7*
Construction	-8.9		-10.7			*-9.7*

German IFO declined somewhat in March, but given the large increases in prior months, it continues to signal decent growth. In contrast, the French INSEE remained weak, especially on an all-industry basis (due a large fall in services).

Industrial production

	Nov		Dec		Jan
Italy					
Ind prod					
%m/m sa	-1.1		~~0.4~~	*-0.2*	*0.8*
%oya sa	~~-7.2~~	*-7.0*	~~-7.0~~	*-7.3*	*-4.1*

Italian IP made a decent start to 1Q13, with the January level 1% ar above the 4Q12 average. In 4Q12, it has slumped 8.6%q/q saar. Unfortunately, the business surveys remain weak, so further declines are likely in the near term.

Purchasing managers index flash (manufacturing)

	Jan	Feb	Mar	
Euro area				
Overall region	47.9	47.9	~~49.0~~	*46.6*
Germany	49.8	50.3		*48.9*
France	42.9	43.9		*43.9*

Purchasing managers index flash (services)

	Jan	Feb	Mar	
Euro area				
Overall region	48.6	47.9	~~49.0~~	*46.5*
Germany	55.7	54.7		*51.6*
France	43.6	43.7		*41.9*

Purchasing managers index flash (composite)

	Jan	Feb	Mar	
Euro area				
Overall region	48.6	47.9	~~49.0~~	*46.5*
Germany	54.4	53.3	~~54.0~~	*51.0*
France	42.7	43.1	~~45.0~~	*42.1*

Please see the Euro area essay for details.

Demand and labor markets

Consumer confidence (prelim)

	Jan	Feb	Mar
Euro area (European Commission survey)			
% bal of response			
Consumer conf.	-23.9	-23.6	*-23.5*

After January's gain, Euro area consumer confidence has failed to improve much further in February and March, with the level very depressed.

External trade and payments

Foreign trade

	Nov		Dec		Jan
Euro area					
€ bn, sa					
Trade balance	~~10.5~~	*10.0*	~~12.0~~	*10.3*	*9.0*
year earlier	3.4		~~6.3~~	*6.2*	*4.3*
Exports	~~156.5~~	*156.8*	~~153.6~~	*153.7*	*156.8*
%m/m sa	~~0.6~~	*0.9*	~~-1.8~~	*-2.0*	*2.0*
Imports	~~146.0~~	*146.8*	~~141.7~~	*143.4*	*147.8*
%m/m sa	~~-1.7~~	*-1.5*	~~-3.0~~	*-2.3*	*3.1*

Euro area trade flows ticked up in January, with nominal exports of goods up 4% ar on the 4Q12 average. While this is a decent start to 1Q13, the recent trend in the data does not yet show a very clear improvement.

Source: Eurostat, ECB, European Commission, FSO, IFO, INSEE, Istat, INE, BNB, Markit, and J.P. Morgan

Japan

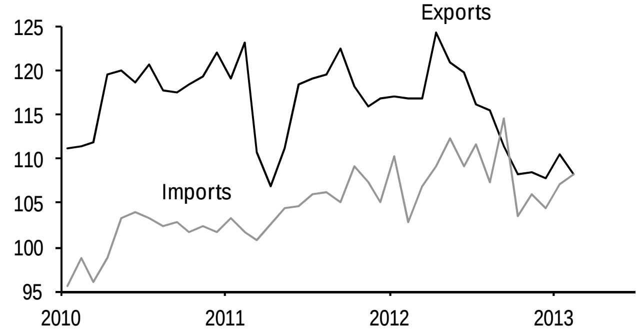
- **February exports unexpectedly declined, posing some downside risk to our 1Q real GDP forecast of 3.0% ar**
- **Large firms' business sentiment improved again in March but with some negative comments**
- **Still, the firms' expectations for 2Q remained upbeat**
- **New BoJ Governor Kuroda vows to pursue bold easing both quantitatively and qualitatively**

February real exports unexpectedly declined, mainly due to soft demand from China. With some negative comments from large firms in the March Reuters Tankan, the unexpected weakness in exports and somewhat stronger imports pose some downside risk to our 1Q GDP forecast of 3.0%q/q saar. But, elevated expectations for 2Q among large firms in the Reuters Tankan support our view that the economy continues to pick up. Consumers have been upbeat, and the direct impact from the fiscal stimulus (the supplementary budget for FY2012) will likely kick in from 2Q. Still, the softness in exports and capex so far reminds us that manufacturers are not facing a clear rise in demand and remain cautious about the medium and long term. The current positive momentum is driven by stronger financial markets, which appear to have a much larger impact on households (consumption).

In this regard, the roles new BoJ Governor Kuroda and Prime Minister Abe play will be critical in the effort not to disappoint the markets and the public about the long term. Regarding fiscal policy, PM Abe is doing his part as fiscal stimulus (the supplementary budget for FY2012) will likely kick in starting next quarter, while last Friday's announcement of Japan's intention to participate in the negotiation for joining the Trans-Pacific Partnership (TPP) is also a positive development as it is viewed as a breakthrough for structural reforms that Japan desperately needs. Regarding monetary policy, in their inaugural press conference, Governor Kuroda and the two new deputies reiterated what they had said previously, so there were no surprises, but they still vowed to do everything possible to beat deflation, and to implement bold easing in quality (the type of assets the Bank purchases) and quantity (the volume of asset purchases). It should be noted, however, that Kuroda and even Iwata mentioned the need to include the rest of the policy board as well as the staff in their discussions on the specific easing measures. This may suggest that the measures on which they can agree at their first policy meeting scheduled for April 3-4 will fall short of the high expectations of market participants, especially foreigners.

Real exports and imports

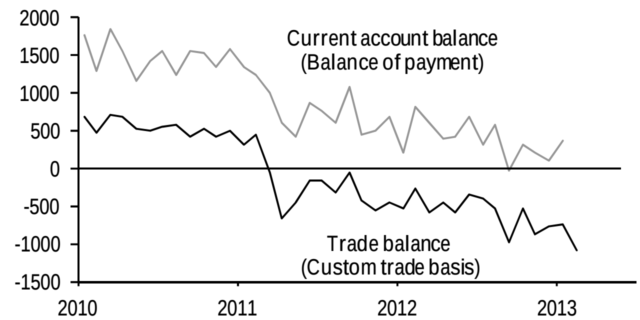
2005=100, sa



Source: BoJ

Trade balance and current account balance

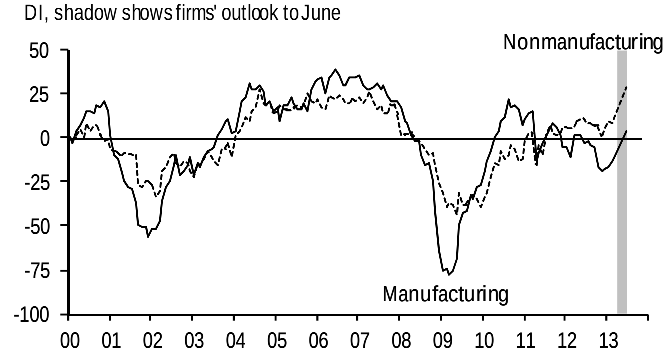
Yen bn, sa



Source: MoF

Large firms business sentiment

DI, shadow shows firms' outlook to June



Source: Reuters

Real exports were weak in February

The BoJ real export index fell 1.9%m/m sa in February after the solid 2.3% rise in January. The current 1Q trajectory of the index is up 5.5%q/q saar, a relatively modest rebound from the plunge in 2H of last year (around -20% ar). This reading poses some downside risk to our forecast for 1Q GDP-based real exports, which looks for +9.0%q/q saar after a 14.0% decline in 4Q.

Looking at the details of the customs trade data, which are in yen nominal terms, exports to China were soft, with some payback for the January jump (marking -1.3%m/m sa after +5.6%) leaving its 3m/3m sequential change at a mere 0.1% annualized rise. Meanwhile, exports to the US, EU countries, and Asia ex. China showed solid rising trends (3m/3m saar changes marked +37.2%, +33.7%, and +21.6%, respectively). Note, however, that respondents to the Reuters Tankan reported softness in demand not only from China but also from Europe (see below).

Downside risk to our 1Q GDP forecast was raised also by imports. The BoJ real import index for February rose +1.0%m/m sa on top of +2.5% the previous month, and was tracking a robust rebound of +23.5%q/q saar this quarter after -21.7% in 4Q. The rise was broadly based across goods with a double-digit m/m rise in nominal imports of apparel.

As for the yen value of the trade balance, February saw a historically large deficit at -¥1,087 billion yen sa, compared to -¥737 billion in January and -¥729 billion in the 4Q12 average. The relative strength in imports was reinforced by a larger boost from yen depreciation than for nominal exports (which is because of the smaller share of yen-denominated transactions). In the longer term, our view is that an increase in export volumes prompted by a weaker yen will not be enough to change the tide of the rising trade deficit in Japan. Still, the current account balance should remain in surplus during the forecast period through 2014, due to an offset from the rise in the income account.

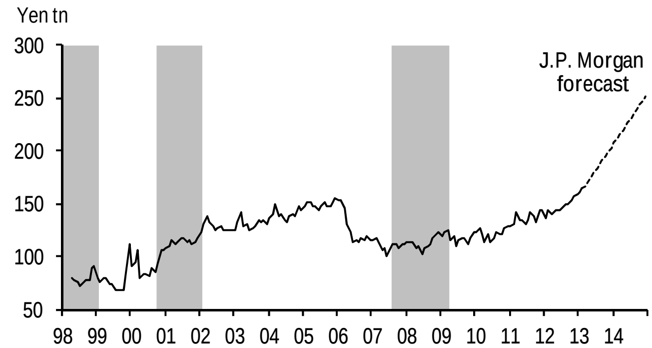
Large manufacturers' sentiment improved in March, but not much

The Reuters Tankan large manufacturing DI posted its fourth consecutive rise in March, but by a relatively small 2pts. It stayed well below the neutral zero at -11 (after -13 in February and -17 in January) with only three out of the nine subsectors showing m/m rises. The report confirms that economic activity is now picking up, but raises the risk that the pace of recovery is more modest than we have been expecting.

Looking at the details, respondents continued to note a favorable effect from a weaker yen, the fiscal stimulus, and reconstruction activity following the Tohoku earthquake. However, the latest report also contains negative comments on a slow recovery in domestic demand (including capital investment demand), softness in overseas shipments to Europe and China, and a drag from high input prices. Particular weakness was shown by automakers, whose business conditions DI fell back to a negative reading at -6 after February marked +6, the first positive reading in five months.

However, large firms' outlook as a whole for 2Q remained upbeat. While automakers are not expecting any improvement

BoJ's total assets



Source: BoJ, J.P. Morgan

in their business conditions in the near future, the overall outlook DI—which represents respondents' prospects three months ahead—rose to +4 from current -11. The electric machinery, chemical, and petroleum/ceramic sectors look for an impressive recovery from negative to positive.

On the other hand, nonmanufacturers were much more upbeat, as the nonmanufacturing DI rose a larger 5pts to 12, the highest level since December 2007, while the nonmanufacturing outlook DI marked 29, which, if realized, would be the highest since the survey started in June 1998. What is notable is the rapid improvement in sentiment in retail trade (which supports our view that consumer spending is gaining momentum amid higher equity prices and weaker yen) and the very positive prospects for real estate/construction, which likely reflect anticipation of a boost from fiscal stimulus, which was introduced at the beginning of this year.

Shirakawa vs. Kuroda: Kuroda's turn now

This week, the old and new BoJ governors each held press conferences and delivered their views on monetary policy. While it was not surprising, former Governor Shirakawa reiterated that the 2% inflation target is achievable only with efforts from a wide range of entities to strengthen the competitiveness and growth potential of Japan's economy; he also raised concern over Japan's fiscal health. In contrast, Kuroda and Iwata emphasized the importance of the BoJ's role in defeating deflation expectations, and that the concern over fiscal health should be set aside for now. This highlights the difference in philosophical views on monetary policy and the central bank. While we cannot judge which view is correct for the long term, it seems clear that Kuroda needs to deliver action more than words in the coming months and years. In our view, the BoJ will continue to expand its base money and balance sheet by purchasing assets, mainly JGBs, until the 2% inflation target is firmly in sight. But, we still think that reaching 2% inflation in two years is an extraordinary challenge.

Data releases and forecasts

Week of March 25 – 29

Tue
Mar 26
8:50am

Corporate service prices

%oya

	Nov	Dec	Jan	Feb
Overall	-0.5	-0.4	-0.2	0.0
Ex international transport	-0.5	-0.4	-0.4	

The underlying trend in corporate services prices remains soft, though the overall index has recently been boosted by an FX-led rise in international transportation prices.

Tue
Mar 26
2:00pm

Shoko Chukin small firm survey

Diffusion index

	Dec	Jan	Feb	Mar
Sentiment index	43.8	44.3	46.0	48.0
Manufacturing	40.7	41.1	44.8	
Nonmanufacturing	46.4	46.9	46.9	

In the previous February report, respondents to this survey predicted that their business conditions would rise to a post-earthquake high (the outlook DI looks for a 3.3pt rise to 49.3, the highest level since March 2011). However, this week's Reuters Tankan large firm survey for the month points to a more modest pickup than had been anticipated. Thus, we expect a smaller-than-predicted rise in the February index.

Thu
Mar 28
8:50am

Commercial sales

%oya

	Nov	Dec	Jan	Feb
Wholesale sales	-1.6	-2.5	0.1	
Total retail sales	0.9	0.2	-1.1	-2.5
%m/m sa	0.5	0.0	-0.2	1.2

Sentiment indicators for both consumer-oriented businesses and consumers, as well as some activity indices have been indicating a strong response from Japanese consumers to the marked policy shift and the rises in asset prices triggered by that shift. Retail sales in this survey and spending data in the Household survey will probably provide additional support for this.

Fri
Mar 29
8:15am

Purchasing managers survey (manufacturing)

Diffusion index

	Dec	Jan	Feb	Mar
Overall index	45.0	47.7	48.5	49.0

The March index will probably rise further, in line with the overall tone of other manufacturing indicators.

Fri
Mar 29
8:30am

Consumer prices

%oya

	Dec	Jan	Feb	Mar
Tokyo				
Overall	-0.6	-0.5	-0.9	-0.7
Core (ex fresh food)	-0.6	-0.5	-0.6	-0.5
Ex food and energy	-1.0	-0.9	-1.0	-0.9
Nationwide				
Overall		-0.1	-0.3	-0.4
Core (ex fresh food)		-0.2	-0.2	-0.1
Ex food and energy		-0.6	-0.7	-0.6

The message from the report will likely be unchanged; the underlying pace of exit from consumer price deflation remains very gradual. Note, though, that higher import prices related to the recent yen depreciation will likely be passed through, and electric power companies intend to raise their household rates starting in April.

Fri
Mar 29
8:30am

Labor force survey

%m/m sa

	Nov	Dec	Jan	Feb
Unemployment rate (% sa)	4.2	4.3	4.2	4.1
Labor force (%m/m sa)	-0.1	-0.3	0.6	
Total employment (%m/m sa)	-0.1	-0.4	0.5	
Unemployed (%m/m sa)	-0.4	1.8	0.4	
Job offers ratio (sa)	0.82	0.83	0.85	0.86

We believe that the labor market resumed improving amid the pickup in the overall economy, after pausing in late 2012. This view is consistent with the latest February report for the Economy Watchers survey, where the Employment DI increased markedly, with respondents' comments indicating the relative strength of employment in the construction and the medical service sectors.

Fri
Mar 29
8:30am

Household survey of expenditures

%m/m sa, incl. agricultural worker households

	Nov	Dec	Jan	Feb
All households				
Real spending	0.1	-0.1	1.9	0.3
%oya	0.2	-0.7	2.4	-0.5
Core	-0.2	0.6	1.8	
%oya	0.5	0.1	2.2	
Worker households				
Real disposable income	-0.5	-0.4	-0.4	
Propensity to spend (%)	74.7	75.0	76.7	

Fri
Mar 29
8:50am

Industrial production-preliminary

%m/m sa

	Nov	Dec	Jan	Feb
Production	-1.4	2.4	0.3	2.0
Shipments	-0.8	4.0	-0.3	
Inventories	-1.2	-1.2	-0.4	
Inventory/shipments ratio	-0.3	-0.6	-3.2	

Manufacturers' predictions for their February output included in the January report (+5.3%m/m sa) appear to have been too optimistic. The recent news on manufacturing activity has been somewhat disappointing; the latest January machinery orders report showed meaningful declines in both domestic core and foreign orders, as of February the 1Q trajectory for the BoJ's real export index showed a relatively modest rebound from the 2H12 plunge, and improvement in manufacturers' assessment of their business conditions slowed in the March Reuters Tankan.

Sources: BoJ, Shoko Chukin bank, METI, Markit, Statistics Office

Fri Mar 29 2:00pm

Housing starts

	Nov	Dec	Jan	Feb
Housing units %oya	10.3	10.0	5.0	-1.8
%m/m sa	-6.4	-2.9	-1.9	4.2
Mn units saar	0.91	0.88	0.86	0.90

In the January report, unit starts fell for the third consecutive month, but measured by floor space, housing starts recovered part of their previous drop. Also, business surveys have been showing upbeat sentiment in the housing and the construction sectors. We continue to think that housing construction is being boosted by reconstruction in the earthquake-affected areas, low interest rates, and front-loading ahead of the expected hike in the consumption tax.

Review of past week's data

Public works contracts (Mar 15)

	Dec		Jan	Feb
%oya nsa	15.6		6.7	*-4.8*
%m/m sa by J.P. Morgan	1.5		-0.8	*-0.1*
%m/m sa, 6mma	~~0.2~~	*0.1*	-0.1	*-1.0*

Construction spending (Mar 18)

%oya

	Nov		Dec		Jan
Public	17.9		16.6		*15.2*
Private	1.6		2.9		*3.3*
Residential	7.3		~~9.2~~	*9.3*	*9.4*
Nonresidential	~~-5.0~~	*-5.1*	~~-4.1~~	*-4.2*	*-3.5*

The oya growth of public construction spending in January slowed to a pace slower than in each month of 4Q12, while public work contracts continued to level off in the February report, after a solid uptrend from late-2011 to mid-2012. The result points to the end of the boost to public works from reconstruction from the earthquake. Note, though, that the fiscal stimulus proposed by the Abe administration will likely lead to a reacceleration of public works in the next quarter.

Nationwide department store sales (Mar 19)

	Dec	Jan	Feb	
Overall, %oya	-2.1	-1.0	~~0.5~~	*-0.3*
%m/m sa by J.P. Morgan	-0.7	-1.3	~~4.1~~	*3.2*
Same store, %oya	-1.3	0.2		*0.3*

Department store sales are now tracking +4.1%q/q saar for this quarter, after posting the first quarterly rise in four quarters at +5.0% in 4Q12. This supports our view that consumer spending has gained momentum as sentiment is being boosted by higher equity prices and a weaker yen.

The JDSA continued to note solid sales of luxury goods, such as high-grade watches and imported personal belongings. Also worth noting is the recent recovery in department store sales to foreign visitors, which rose 115.2%oya in February, or +39.7%oya on average in Jan-Feb, after earlier softness related to the Japan/China dispute.

Reuters Tankan survey (Mar 21)

Diffusion index

	Jan	Feb	Mar
Manufacturing	-17	-13	*-11*
Nonmanufacturing	10	8	*12*

The report indicates that economic activity is now picking up, but that the pace of the pickup may be more modest than we had thought.

The manufacturing DI improved further, but at a slower pace, with respondents reiterating the favorable impact of a weaker yen, fiscal stimulus, and reconstruction activity from the earthquake, but also noting a slow recovery in domestic demand (including capital investment demand), softness in overseas shipments to Europe and China, and a drag from high input prices. Looking ahead, the outlook DI for the overall large manufacturing sector remains quite positive, looking for a solid rise to +4 three months ahead.

Sentiment among nonmanufacturers was much more upbeat, as the nonmanufacturing DI rose 5pts to 12, the highest level since December 2007, while the outlook DI marked 29, which, if realized, would be the highest since the survey started in June 1998. What is notable is the rapid improvement in sentiment in retail trading (which supports our view that consumer spending is gaining momentum amid higher equity prices and a weaker yen) and very positive prospects by real estate/construction, which likely reflects anticipation of a boost from the fiscal stimulus by the Abe government.

Customs-cleared international trade (Mar 21)

%m/m sa, unless noted

	Dec		Jan		Feb	
Balance (¥ bn sa)	~~-784~~	*-768*	~~-679~~	*-679*	~~-1096~~	*-1087*
Exports	3.4		~~3.6~~	*3.3*	~~-1.4~~	*1.3*
Imports	~~1.2~~	*1.1*	~~1.4~~	*2.4*	~~5.6~~	*6.8*
Balance (¥ bn nsa)	-646		-1631		~~-625~~	*-777*
BoJ real export index	-0.5		~~2.2~~	*2.3*		*-1.9*
BoJ real import index	-1.4		~~2.6~~	*2.5*		*1.0*

The current 1Q trajectory for the BoJ's real export index is +5.5%q/q saar, a relatively modest rebound from the plunge in 2H of last year (-19.9%q/q saar in 4Q and -22.0% in 3Q). Together with manufacturers' concern on external demand shown in this week's March Reuters Tankan, the result poses some downside risk to our forecast for 1Q real GDP exports, which looks for +9.0%q/q saar after -14.0% in 4Q and -19.0% in 3Q.

The import side also poses a downside risk to our 1Q GDP forecast. The BoJ real import index is tracking a robust rebound of +23.5%q/q saar in this quarter after -21.7% in 4Q. The rise was broadly based across imported goods, with a double-digit m/m rise in nominal imports of apparel providing additional support to our view of upward momentum in domestic consumption.

Sources: MLIT, East Japan Construction Surety, Statistics Office, The Japan Department Stores Association, Reuters, MOF

Canada

- **Activity in 1Q off to an OK start**
- **Key source data point to a 0.2%m/m increase in January GDP**
- **Budget 2013 was not news-breaking; return to balance one year earlier than estimated in November**

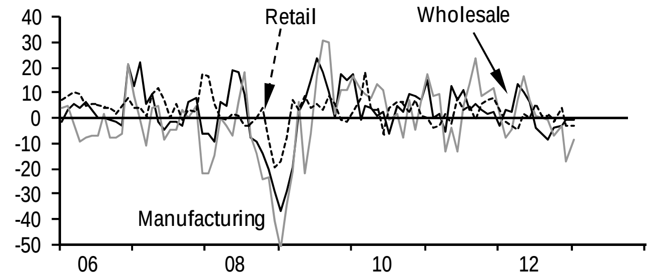
Key activity data releases this week pointed to an OK start to 1Q13. Manufacturing shipments unexpectedly fell in January on top of an outsized decline in December, but this was due mostly to weakness in the transportation equipment sector. Wholesale sales rose in January and retail sales rebounded in January from their December collapse though the rebound in retail sales was due mostly to higher prices. With these three key releases, we can assemble an estimate for January GDP (released Mar 28). They point to a 0.2%m/m rise in GDP in January after a 0.2%m/m decline in December. While this would be a good start for 1Q, the economy needs to post similar-sized monthly gains in February and March to reach our expected 1.6%q/q ar increase for all of 1Q. Finance Minister Flaherty released the Budget for 2013/14. It was not news-breaking but did estimate a return to balance one year earlier than estimated in November. Foreign interest in Canadian financial assets rebounded in January with net foreign purchases of Canadian securities rising C$13.3 billion after an odd C$1.9 billion net outflow in December. The general foreign investment theme of this expansion remains intact—the relative security of Canadian asset markets and stable fiscal environment continues to attract foreign investors thereby restraining longer-term Canadian yields and supporting CAD.

Manufacturing sales edged down 0.2%m/m in January, the fourth decline in five months. Sales in January were down in the transportation equipment industry as well as the petroleum and coal product industry. However, excluding transportation equipment, shipments were up 0.5%m/m in January. Durable goods sales declined 0.7%m/m, while nondurable goods sales rose 0.3%. Constant dollar sales fell 0.4% in January on top of a 3.9% plunge in December.

Behind the weak headline figure, the details were more upbeat. The decline was narrowly based as 14 of 21 industries posted higher sales in January. And production was significantly stronger than shipments in January with inventories rising 1.7%m/m. Moreover, the forward-looking components were also constructive. Unfilled orders jumped 5.8%m/m in January on top of an impressive 4.9%q/q rise in 4Q. And new orders rebounded in January, surging 5.1% to nearly offset their 5.3%m/m decline in January. Compared to a year ago, orders are up 6.9%, their largest annual increase in nine months.

Real manufacturing, wholesale, and retail sales

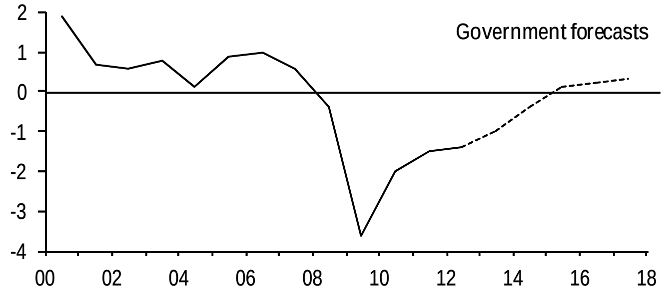
%ch over 3 months saar



Source: Statistics Canada

Canadian federal government budget position

% of GDP



Source: Department of Finance

Wholesale sales rose by 0.3% in January following a 1.1%m/m decline in December. The increase was mainly a result of higher sales in the computer and communications equipment and supplies industry. In volume terms, wholesale sales were up 0.5%m/m in January.

Sales in the machinery, equipment, and supplies subsector increased 3.2%m/m, almost offsetting the decline observed in December. January's advance also reflects an 8.0% increase in the sales of the computer and communications equipment and supplies industry, which posted its largest monthly gain since April 2008. For the third consecutive month, this industry was the main contributor to the wholesale sales movement at the national level. Inventories rose 1.2%m/m in January after having declined in both November and December.

Retail sales rose 1.0%m/m in January, only partially offsetting the 2.3% decline in December. Gains were reported in 7 of 11 subsectors. The increase was led by higher sales at motor vehicle and parts dealers. After removing the effects of price changes, particularly higher prices at new car dealers, retail sales in volume terms were flat.

Sales at motor vehicle and parts dealers rose 2.8%m/m in January, partially offsetting the 6.5% decline in December. General merchandise stores reported a 2.8% increase.

Department stores sales advanced 11.5%. Despite this gain, sales in this store type have been on a downward trend since the middle of 2012. Sales at other general merchandise stores declined 3.5%. Sales at clothing and clothing accessories stores rose 1.2%, a second consecutive monthly gain. The largest decline occurred at gasoline stations (-1.4%), where sales decreased for a third consecutive month, owing mostly to lower prices. Food and beverage store sales decreased 0.4%, mainly reflecting lower sales at supermarkets and other grocery stores (-0.8%).

The Budget did not contain any breaking news. As widely expected, despite a slower economy than envisaged in the November 2012 update, the Finance Minister closed a few tax loopholes, tightened up tax compliance at bit, lowered the economic risks associated with the path for revenues, and employed some cost cutting on program expenditures in order to balance the budget in 2015/16, a year earlier than he had estimated in November. The Budget was light on new programs, especially in the near term. The C$1.4 billion per year increase in spending was concentrated in three areas: improving labor market conditions, offering support for manufacturing, and a new infrastructure program to replace the seven-year plan in the 2007 Budget that is slated to expire in FY2013/14. Combining all these features, the budget is expected to achieve a modest C$100 million surplus in FY2015/16. However, given the dependence on increased tax collections and lower program spending, we believe this estimate should be looked at with a healthy dose of skepticism. All in all, the paths for both spending and revenues are not much different from those estimated in November.

Data releases and forecasts

Week of March 25 – 29

Wed
Mar 27
8:30am

Consumer price index
%m/m nsa, unless noted

	Nov	Dec	Jan	Feb
Total CPI	-0.2	-0.6	0.1	0.8
%oya	0.8	0.8	0.5	0.9
BoC core CPI	0.0	-0.6	0.1	0.5
%oya	1.2	1.1	1.0	1.1
Ex food & energy	0.0	-0.6	-0.1	0.5
%oya	0.9	0.9	0.6	0.8
CPI-XFET (%oya)	0.8	0.7	0.5	

Headline inflation is expected to jump 0.8%m/m in February as gasoline prices were sharply higher in the month. The core is also expected to increase a relatively large 0.5%m/m (compared to recent months) as seasonal strength in clothing and footwear and recreation prices is likely to provide some lift. The February report is still expected to leave oya rates for both the headline and the core CPI well below the Bank of Canada's target.

Thu
Mar 28
8:30am

Industrial PPI
%m/m nsa, unless noted

	Nov	Dec	Jan	Feb
Total	-0.2	0.0	0.0	0.5
%oya	-0.5	0.3	-0.2	0.1
Ex energy	0.2	0.1	-0.1	0.3
%oya	-0.2	0.3	0.0	0.2

Thu
Mar 28
8:30am

Monthly GDP
Sa

	Oct	Nov	Dec	Jan
Total, %m/m	0.1	0.3	-0.2	0.2
%oya	1.2	1.5	0.8	1.0

Review of past week's data

Manufacturing report (Mar 19)
%m/m sa, unless noted

	Nov		Dec		Jan	
Sales	~~1.9~~	*2.3*	~~-3.1~~	*-3.3*	~~0.6~~	*-0.2*
New orders	~~7.7~~	*8.0*	~~-4.4~~	*-5.3*	~~0.0~~	*5.1*
Unfilled orders	~~3.9~~	*3.8*	~~2.6~~	*1.8*	~~1.0~~	*5.8*
Inventories	~~-0.8~~	*-0.6*	~~-1.0~~	*-1.5*	~~1.0~~	*1.7*
Inventory-shipments ratio	~~1.32~~	*1.31*	1.34		~~1.34~~	*1.36*

Wholesale sales (Mar 19)
Sa

	Nov		Dec		Jan	
Total, %m/m	0.7		~~-0.9~~	*-1.1*	*0.3*	
%oya	~~3.0~~	*2.8*	~~1.6~~	*1.2*	~~2.9~~	*2.6*

Retail sales (Mar 21)
%m/m sa, unless noted

	Nov		Dec		Jan	
Total	0.3		~~-2.1~~	*-2.3*	~~1.2~~	*1.0*
%oya	1.4		~~-0.7~~	*-0.9*	~~0.3~~	*-0.1*
Ex autos	-0.2		~~-0.9~~	*-1.0*	~~0.2~~	*0.5*
%oya	0.7		~~-0.5~~	*-0.7*	~~0.5~~	*0.6*
Ex autos & gasoline	~~0.2~~	*0.3*	~~-1.0~~	*-1.2*	~~0.3~~	*0.8*
%oya	0.8		~~-0.7~~	*-0.9*	~~0.3~~	*0.6*
Real retail sales	~~1.0~~	*0.9*	~~-1.6~~	*-1.8*	~~1.0~~	*0.0*
%oya	~~1.2~~	*1.1*	~~-1.2~~	*-1.5*	~~0.3~~	*-0.9*

Source: Statistics Canada

United Kingdom

- **Activity data show improvement, with a strengthening in retail sales, employment, and the CBI industry survey**
- **But a large downgrade to our 2013 Euro area GDP forecast prompts a revision to our UK view, too**
- **Budget 2013 was fiscally neutral, with some subtle changes to the BoE remit**
- **Next week's Jan index of services will give a steer on 1Q GDP**

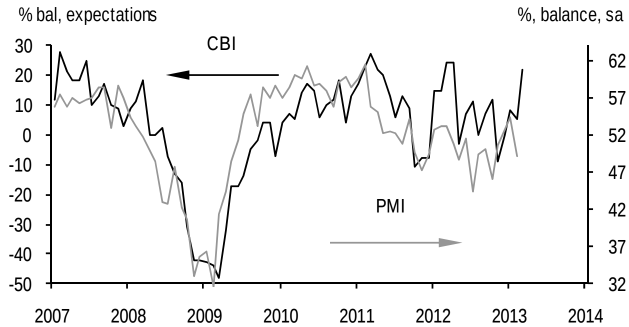
UK GDP forecast revisions

% q/q saar, % oya for full years

	2012	2013	2014	1Q13	2Q13	3Q13	4Q13
Old	0.2	1.0	2.0	0.8	1.5	2.0	2.0
New	0.2	0.8	1.9	0.5	1.0	1.5	2.0

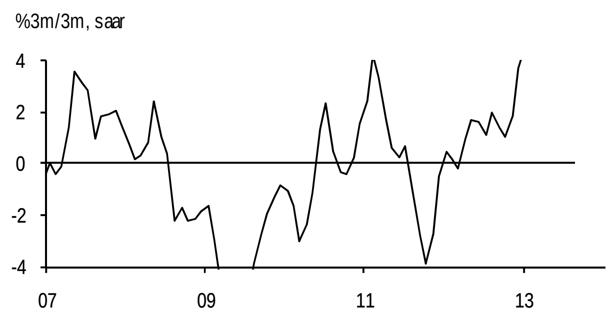
Source: J.P. Morgan

CBI vs. PMI manufacturing output



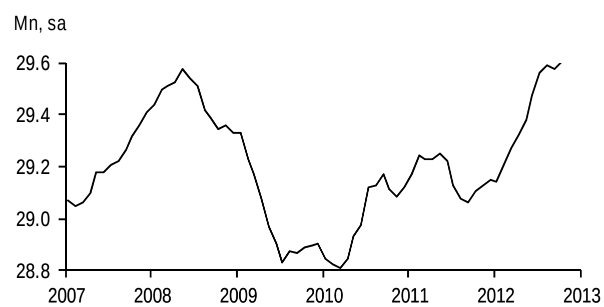
Source: Markit, CBI

LFS employment: full-time, excluding self-employment



Source: ONS

LFS employment



Source: ONS

Following this week's PMI data, our colleagues have made some significant downward revisions to forecasts for GDP in the Euro area. We are making smaller revisions in the same direction for the UK. The motivation for doing so lies in the effects that a weaker Euro area forecast has not just through direct trade linkages, but also through linkages via financial markets and corporate behavior more generally. Though indicators related to the UK consumer are beginning to improve—including a large gain in retail sales this week on top of a rise in consumer confidence and higher mortgage approvals—the drop in the exchange rate is likely to drag via higher inflation and lower real incomes before it delivers benefits in terms of export performance. Meanwhile, direct indicators of output growth have been mixed of late. Despite this week's strong gain in the output expectations and export orders readings of the CBI industry survey, the integration of manufacturing chains and the persistent weakening in the Euro area manufacturing PMI is a worry to us. The forecast revisions we have made (see table) take the full-year GDP forecasts for 2012 down from 1.0% to 0.8%, with the av. annualized growth rate over the four quarters of the year now 1.3% rather than 1.6%.

Up until now, we had thought there would be enough of a pickup in activity to keep the MPC on hold, with a shift toward rate guidance seen as providing some very small amount of further stimulus in the summer. The shift down in our growth forecast is enough for us to think that the MPC will want to deliver more than that, and we are penciling in QE of £25 billion at each of the May and August MPC meetings as a result (so a £50 billion increment taking QE up to £425 billion). These calls remain close, and we expect that decisions to extend stimulus will be split.

The changes in the MPC remit announced in the Budget this week (see section below) came a little earlier than we thought, but are not a substantive driver of that view. We have been anticipating a shift toward rate guidance from the MPC, a view the remit changes reinforce. But a key question is whether guidance will be primarily about clarifying the BoE's reaction function, or about using numerical thresholds to create constraints on the MPC's actions such that policy stays easier for longer than would otherwise be the case. We think Carney will find it difficult to persuade the majority of the MPC to implement numerical thresholds in a manner that meaningfully extends market expectations for low rates, or that may encourage a rise in inflation expectations. As a result, we expect the rate guidance will be more about clarity than a means of providing stimulus and that, as it is implemented in August, it will also be accompanied by additional QE.

Monetary policy the focus in the budget

We had thought that the Chancellor would not announce a change to the remit in the Budget, but would announce a review with changes to follow in June. The Chancellor has taken the more assertive path of simply giving the MPC a new remit and explicitly linking that change to his approach of monetary activism alongside fiscal repair. The context will no doubt inform perceptions of what the change in remit is designed to achieve. We make four observations:

- While the target remains a 2% CPI inflation rate at all times, the line in the remit that states the MPC is accountable for the delivery of that inflation rate has been dropped. And the remit is now much more explicit in emphasizing the flexibility of policy in the face of shocks, and that the speed of returning inflation to target is a policy choice that may vary according to circumstances.
- The letter-writing framework has been tweaked such that letters will now be published alongside releases of MPC minutes (rather than Inflation Report releases) and there is a more explicit requirement to discuss the trade-offs involved in returning inflation to target. The intent is to promote “a more meaningful exchange” of views between the Chancellor and the MPC about the monetary policy strategy.
- The remit is now explicit that unconventional tools are part of the kit, that liaison with the Government is needed where these have implication for credit risk and allocation, and that forward guidance with intermediate thresholds may be part of the kit.
- The MPC has been explicitly tasked to produce an assessment of the merits of intermediate thresholds in general, and the possible use of specific indicators of thresholds, in the August Inflation Report.

The fact that the remit has not gone in the direction of a nominal GDP target, or made an explicit shift to a dual mandate, is not a surprise to us. The idea of emphasizing flexibility around the existing inflation target always appeared the most likely. Where we are surprised is in the extent to which the revised remit explicitly leans on the MPC to consider the question of rate guidance and numerical thresholds. It is no coincidence that this is an approach that Carney has indicated he favors. While the MPC has been configured as “one member one vote,” it appears clear that with these changes in the remit the Chancellor is trying to lead the committee in the direction Carney wants to go.

For some time we have been expecting that the MPC would move to rate guidance in the second half of this year. The fact that the remit makes the move in this direction so overt may generate pushback from some on the MPC, but our best guess is that will not be enough to stop at least some elements of the guidance approach being adopted. The big question in our minds is whether guidance will be about clarifying the reaction function, or constraining it.

One means of delivering stimulus when policy rates are at the lower bound is to set numerical thresholds that act as a constraint on expectations of future tightening as the economy begins to turn. It remains to be seen how far the MPC will ultimately go in that direction, or whether it will set thresholds that do little more than simply clarify the sort of conditions it would expect to be in place as it starts to tighten.

OBR fiscal projections

% of GDP, unless stated, ex. financial ints.

	12/13	13/14	14/15	15/16	16/17	17/18
Overall deficit (£bn)	86	108	97	87	61	42
APF transfers	6	12	11	8	6	1
Royal Mail transfer	28	0	0	0	0	0
Ex transf.	121	120	108	95	67	43
Overall deficit (% GDP)	5.6	6.8	5.9	5.0	3.4	2.2
APF transfers	0.4	0.8	0.7	0.5	0.3	0.0
Royal Mail transfer	1.8	0.0	0.0	0.0	0.0	0.0
Ex transf.	7.8	7.5	6.5	5.5	3.7	2.3
Primary deficit	3.5	4.8	3.8	2.6	0.6	-0.9
Interest payments	2.1	2.0	2.1	2.4	2.8	3.1
Current deficit	6.0	5.2	4.3	3.5	1.9	0.9
Net investment	-0.4	1.5	1.6	1.5	1.4	1.4
Cyclically adjusted	3.6	4.3	3.3	2.7	1.3	0.6
Primary deficit	1.5	2.3	1.2	0.3	-1.5	-2.5
Underlying	3.7	3.1	1.9	0.8	-1.2	-2.5
Change	0.6	-0.7	-1.2	-1.1	-1.9	-1.3
Adj. for pot. GDP	-0.6	-1.2	-1.4	-1.1	-2.0	-1.3
Current deficit	4.0	2.8	1.7	1.2	-0.1	-0.8
Net investment	-0.4	1.5	1.6	1.5	1.4	1.4
Debt to GDP ratios						
Gross	90.7	94.9	98.6	100.8	100.8	99.4
Net	75.9	79.2	82.6	85.1	85.6	84.8
Economy						
GDP	0.2	0.8	2.0	2.4	2.7	2.8
Potential GDP	0.4	1.6	1.9	2.1	2.1	2.2
Output gap	-2.9	-3.7	-3.6	-3.3	-2.7	-2.1

Source: OBR and J.P. Morgan

The fiscal forecasts and announcements

The OBR revised down the growth forecast for 2013 from 1.2% to 0.6%. This was a larger downgrade than we thought likely, and is a little hard to explain given that the OBR is not expecting a contraction in GDP in 1Q13. The Chancellor stated that the OBR expects the Euro area to remain in recession throughout 2013. Given the large drag from net trade last year, it appears as though the OBR has put weight on the external drag it views as likely and has marked down the forecast for the second half of the year. We (and the BoE) think growth will turn out to be closer to 1% this year.

The OBR also made a downgrade to its view on potential GDP growth in 2013, but by less than the revision to actual growth (a 0.2%-pt downgrade). This means the output gap is shown troughing at a lower level than before. But with potential GDP in 2012 also being revised upward, the downward revision to the output gap is fairly modest—now shown at -3.7% instead of -3.5%. The output gap then reduces to -2.1% by the end of the forecast horizon. As much as growth has been revised down, the fact that the OBR has allocated most of this to cyclical (rather than structural) weakness gave Osborne a little room to maneuver while meeting his fiscal mandate.

Against this growth backdrop, the deficit was revised up by £1 billion for 2012/13, to £121 billion (excluding APF and Royal Mail transfers). This is a much smaller revision than can be explained on the basis of recent growth disappointments, which according to media reports and the IFS is due to the Chancellor pushing some spending into the next fiscal year, which begins in April. The large downside surprise in the February public finances this week reinforces this point. Beyond the current fiscal year, borrowing was revised up more in line with what the growth downgrades would suggest, with the deficit for next year taken up from £111.6 billion to £119.8 billion (7.5% of GDP). At the end of the forecast horizon, the deficit is at 2.3% (previously 1.6%). The net debt to GDP ratio was also revised up by more than expected (6.4% of GDP) to show a peak of 85.6% of GDP in 2016/17.

The Budget was described as fiscally neutral overall, compared to what was in the plans prior to this week's announcement. As we have pointed out before, changes to potential GDP growth make it difficult to use the change in the structural budget to gauge the underlying fiscal drag. But as best as we can tell, those plans are consistent with a tightening this year of 1.0%-1.5% of GDP. That pace of tightening fades a little toward the end of the forecast horizon. And although this week's Budget was fiscally neutral overall, there is a modest easing in 2014/15 equivalent to £1.7 billion, which rises to £2.8 billion in 2015/16. The easing comes in the form of a reduction in employers' national insurance contributions, a more rapid move to a personal allowance of £10,000, and a cut in corporation tax to 20% in 2014. This is clawed back in 2016/17 and 2017/18 by pre-announced changes to pension contributions. Other smaller changes included increased revenues from clampdowns on tax avoidance from 2014/15, a 1p cut in duty on beer, and a cancellation of fuel duty that had been planned for this September.

One area where policy initiatives have more scale than expected is in the extension of the government's mortgage indemnity scheme. This allows borrowers with relatively small deposits to seek partial guarantees from the government that allow them to access better mortgage rates on their borrowing. The scheme has been expanded to include both remortgaging and purchases of existing homes (rather than just new homes as previously). And some £13 billion of guarantees is to be made available over the next three years. The extent to which banks will make cheap products available that take advantage of the scheme remains to be seen, but this change should add to the improvement in mortgage availability that is already in train.

Data releases and forecasts

Week of March 25 – 29

During the week

Nationwide house price index

Sa

	Dec	Jan	Feb	Mar
%m/m	0.0	0.5	0.2	
%oya	-0.9	0.0	-0.1	
%3m/3m saar	2.9	1.7	2.3	

Mon Mar 25 9:30am

BBA lending

Sa

	Nov	Dec	Jan	Feb
Secured lending (ch £ bn, sa)	0.1	0.4	-0.4	
Loan approvals (000s sa)1	33.4	33.4	32.3	

1. For house purchase.

Tue Mar 26 11:00am

CBI survey of distributive trades

% balance

	Dec	Jan	Feb	Mar
Volume of retailer sales	19	17	8	

Wed Mar 27 9:30am

Real GDP (national accounts)

Sa

	2Q12	3Q12	4Q12[1]	4Q12
Total GDP (%q/q sa)	-0.4	1.0	-0.3	-0.3
%oya sa	-0.2	0.2	0.3	0.3
%q/q saar	-1.4	3.9	-1.0	-1.0
Breakdown (%q/q sa):				
Private consumption	0.5	0.3	0.2	
Public consumption	-1.6	0.5	0.6	
Fixed investment	2.0	-0.6	-0.4	
Exports	-1.3	1.7	-1.5	
Imports	1.3	0.3	-1.2	

1. Preliminary outcome

Wed
Mar 27
9:30am

Balance of payments (quarterly report)

£ bn, sa

	1Q12	2Q12	3Q12	4Q12
Trade in goods and services	-7.9	-10.6	-8.3	
Income	1.5	-1.0	1.2	
Current transfers	-5.3	-5.4	-5.7	
Current balance	-11.8	-17.4	-12.8	

Wed
Mar 27
9:30am

Business investment (final)

2000=100, sa

	1Q12	2Q12	3Q12	4Q12
%q/q	-0.6	1.7	0.5	
%oya	9.3	6.2	4.3	

Thu
Mar 28
12:01am

GFK consumer confidence

Sa

	Dec	Jan	Feb	Mar
% balance	-29	-26	-26	

Thu
Mar 28
9:30am

Index of services

Sa

	Oct	Nov	Dec	Jan
%m/m	0.1	0.1	-0.4	0.3
%oya	1.8	1.2	0.7	0.9
%3m/3m saar	4.2	2.3	-0.3	-0.8

We assume a significant part of the December decline in output will be reversed in January. Even with this assumption and further small gains in February and March, likely declines in IP and construction in 1Q point to a very small GDP gain of 0.1%q/q—with risks of a flat outturn.

Review of past week's data

Retail prices

%oya

	Dec	Jan	Feb	
CPI	2.7	2.7	2.7	*2.8*
Core CPI[1]	2.4	2.3	2.1	*2.3*
RPI (1987=100)	246.8	245.8	247.0	*247.6*
RPI	3.1	3.3	*3.2*	
RPIX	3.0	3.3	*3.2*	

1. CPI ex food, energy, alcohol, and tobacco.

Producer prices

Nsa

	Dec		Jan		Feb	
Input prices						
%m/m nsa	0.0	*0.1*	1.3			*3.2*
%oya nsa	0.5	*0.6*	1.8	*1.9*		*2.5*
Output prices						
%m/m nsa	-0.1		0.2			*0.8*
%oya nsa	2.2		2.0	*2.1*		*2.3*
Core output prices[1]						
%m/m nsa	0.0		0.2	*0.3*		*0.3*
%oya nsa	1.5		1.4			*1.3*

1. PPI output ex food, beverages, tobacco, and petroleum products.

Labor market statistics

Sa

	Dec		Jan		Feb	
Claimant count						
000s ch m/m	-15.8		-12.5	*-10.0*	-8.0	*-1.5*
Rate (%)	4.7		4.7			*4.7*

	Nov		Dec		Jan	
Average weekly earnings (3mma %oya sa)						
Headline	1.5		1.4	*1.3*		*1.2*
Ex bonuses	1.4		1.3			*1.2*
Priv sec ex bonus	1.5		1.4			*1.2*

Three months to:	Nov		Dec		Jan	
Labor force survey (all percentage rates, sa)						
Activity rate	63.5	*63.6*	63.6			*63.6*
Employment rate	58.6		58.7			*58.6*
Unemployment rate	7.7		7.8		7.7	*7.8*

	Nov		Dec		Jan	
Change over three months						
Employment (000s)	91.0	*110.0*	154.0	*175.0*	120.0	*131.0*

BoE's minutes of MPC meeting

The vote was 6-3 in favor of an unchanged asset purchase target, with Miles, King, and Fisher voting for a £25 billion increase.

Public sector finances

£ bn, nsa

	Dec		Jan		Feb	
PSNCR	~~2.0~~	*17.0*	~~-35.6~~	*-20.7*		*-1.5*
PSNB	~~12.4~~	*12.6*	~~-9.9~~	*-10.3*		*4.4*
ex. fin. int.	~~14.6~~	*14.8*	~~-11.4~~	*-11.9*	~~6.2~~	*2.8*
Current budget (ex. fin. int.)	~~-11.5~~	*-12.0*	~~12.8~~	*12.6*		*-3.7*
Net debt to GDP	~~140.3~~	*139.1*	~~138.9~~	*137.6*		*137.6*
ex fin it. (%)	~~75.2~~	*75.1*	~~73.8~~	*73.5*		*73.5*

Retail sales

Volumes, sa

	Dec		Jan		Feb	
Including auto fuel (%m/m)	~~-0.2~~	*-0.1*	~~-0.6~~	*-0.7*		*2.0*
Ex auto fuel						
(%m/m)	~~-0.5~~	*-0.4*	~~-0.5~~	*-0.4*		*2.0*
(%oya)	~~0.8~~	*1.0*	~~0.1~~	*0.5*		*3.3*
(%3m/3m saar)	~~-1.8~~	*-1.0*	~~-2.3~~	*-1.3*		*0.0*

CBI industrial trends

% balance

	Jan	Feb	Mar	
Total order book	-20	-14		*-15*
Output expect.	8	5		*22*
Output prices	21	20		*5*

Source: Nationwide, BBA, CBI, ONS, Gfk, Rightmove, Bank of England, and J.P. Morgan

Australia and New Zealand

- **Latest RBA commentary consistent with current policy pause, but easing bias remains**
- **New Zealand's quarterly GDP and current account prints the only data of note**
- **NZ economy grew an unexpectedly strong 1.5%q/q in 4Q12, but headwinds are mounting for 2013**
- **Next week will be unusually quiet in the Antipodean economies**

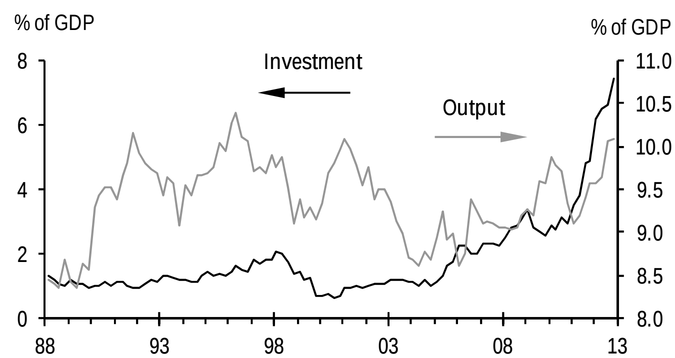
The only data released in Australia this week were second tier, but there was a torrent of RBA commentary, most of which landed on the same day. The minutes from the March Board meeting and speeches by two senior officials indicated that while the RBA retains an implied bias to ease policy, tactically, officials are in no rush to act on this. Indeed, the speech by the deputy governor implied that the Bank is content that earlier rate cuts finally are getting some traction in the real economy, and not just in housing. Also, Deputy Governor Lowe reiterated familiar themes (explored by Governor Stevens last year) that high AUD, while causing pain in some parts of the economy, also has its benefits. He explained that the rise in AUD, in addition to the higher savings rate, helped smooth the path of structural adjustment in the economy in the midst of the largest rise in mining investment ever seen.

The data flow this week was more impressive in New Zealand. The 4Q GDP report showed the economy expanding at an unexpectedly rapid clip last quarter on the back of firmer household consumption and business investment, and a surprisingly large contribution from net exports. The kiwi current account narrowed, albeit by less than we had anticipated. Next week is deathly quiet for data releases in Australia, with only the RBA's latest credit aggregates (for February) and the official job vacancies data due for release. The more significant release in New Zealand next week is the ANZ business confidence survey for March, which will likely show the first signs of pain in the agriculture sector from dry conditions that have played out over the last several months.

RBA officials in no rush to ease again

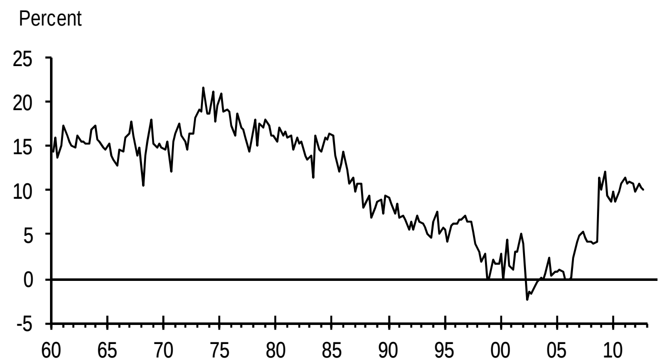
The RBA talk-fest kicked off early Tuesday with the assistant and deputy governors delivering speeches at separate events in Sydney, closely followed by the release of the March Board minutes. As is usual, the comments reflected a mix of musings on structural themes and contemporary observations on the cyclical state of affairs. These perspectives are seeing officials apparently comfortable with the current policy settings, such that the near-term imperative for further easing is low. But, the commentary reveals that the easing bias remains

Australia: mining output and investment



Source: ABS, J.P. Morgan.

Australia: household savings ratio



Source: ABS.

in play, and in our view the tentative signs of "traction" the Board is seeing from low rates ultimately will prove insufficient to see it tip-toe away from that bias.

The March minutes reiterated the mantra from the February and March decisions that there is "scope to cut the cash rate further…should that be necessary." And there was even a slight embellishment of that guidance in the (new) admission that "while further reductions may be required, on the information currently to hand it was appropriate to hold rates steady." Having already acknowledged in prior statements that there is scope to do more, the Board had already conceded there is a reasonable chance it will have to. But the new detail this week does consolidate the fact that the Board still views itself as operating within an easing cycle, albeit an increasingly gradual and drawn-out one.

With few new themes beyond the updated guidance on show in the minutes, Lowe's speech offered the most contemporary insights as to how officials are surveying the lay of the land. At the outset, Lowe updated many of the observations made in the governor's "glass half full" speech from last year, in emphasizing the importance of currency strength and a higher saving rate in allowing the economy to "digest a huge investment boom" without generating an inflation problem or requiring sacrifices in real household consumption.

The less obvious benefits of high AUD

The maintenance of "internal balance" amid these cross-currents undoubtedly has played out "pretty well," but structural shifts create winners and losers, meaning there is always pressure from those on the wrong side of the transition for policy to do more. Lowe did not want to sound cold-hearted to those feeling the burden of adjustment, acknowledging that the process "is often painful." Having argued that the Bank already has "responded" in recalibrating rates to the realities of currency strength, it appears that maintenance of high AUD of itself will not be a trigger for more rate cuts: a move to new highs on the TWI, or disappointment on the domestic demand front are the more likely catalysts.

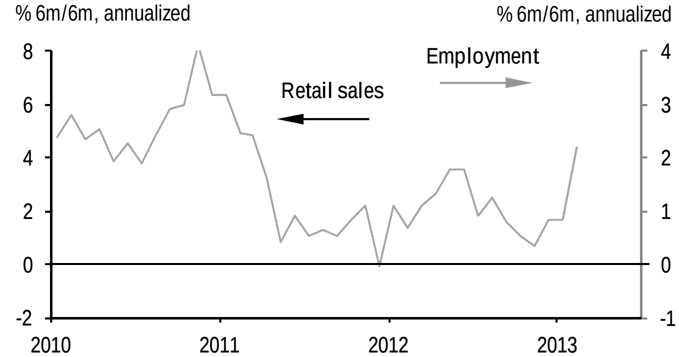
On this front, the deputy governor's reiteration of the first law of central banking, that "demand and supply remain in broad balance," has softer implications as we get deeper into the structural adjustment, as the supply side begins to respond. Lowe is seeing clear signs of this in the productivity data, which in 2012 was "better than it has been for quite some time," as firms now have "greater recognition that the high exchange rate is likely to be quite persistent." This shift to a more relaxed attitude on supply-side developments has been clearly evident in recent rate decisions and in this week's minutes, which motivates the guidance that there is "scope" to support demand.

For now, the RBA chatter reveals confidence that "lower interest rates are doing their work broadly as expected," which shows that while the flexibility is there on the inflation front to allow lower rates, there is nothing forcing such a move from a tactical perspective. This is particularly so in that the minutes, in explaining the rate decision of early March, do not capture the incredible 70,000 surge in employment in February. Lowe's speech downplayed this, noting that the labor market indicators of late were only "slightly firmer," but that data would surely leave officials comfortable that they are a little ahead of the game here.

RBA policy on a "tactical pause"

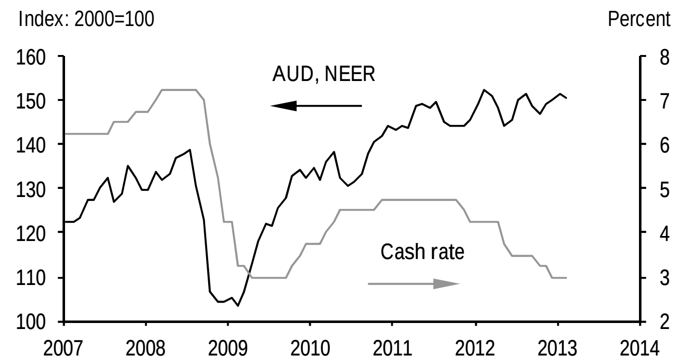
We continue to think that this tactical pause will prove just that, in that more easing will have to be delivered eventually. In particular, the arithmetic looks challenging in terms of the growth rotation the economy is supposed to undertake this year. It seems likely that dwelling and non-mining construction activity will prove insufficient in growth contribution terms as a substitute for mining capex. Lowe noted last week that "the big question" is whether better dwelling construction and consumer spending can kick-start non-mining business investment, and they will "need to monitor (these) things very closely." That underlying sense of doubt likely motivated the guidance in the minutes that the easing cycle is not yet over.

Australia: retail sales and employment



Source: RBA, J.P. Morgan.

Australia: cash rate and AUD



Source: RBA, J.P. Morgan.

To round up this week's commentary, Assistant Governor (Financial Markets) Guy Debelle spoke on debt market trends; his remarks did not stray far into the conventional policy space. However, Debelle did admonish the banks for their apparent deposit fetish, noting that the banks "are currently paying about the same price for a 3-month term deposit as they are for a 5-year debt issue." He would seem to prefer a situation where the banks observe the price signal and take up that cheap offshore term issuance, which would relieve some of the funding pressure that has biased the RBA's neutral policy rate lower. Bank funding and mortgage pricing behavior is another channel worth watching in terms of the transmission from easier global financial conditions into domestic monetary policy.

NZ GDP growth firm at 1.5%q/q in 4Q

The Kiwi economy finished 2012 with a bang, registering a 1.5%q/q surge in the official production measure of GDP, the strongest result since the last housing boom in mid-2005. This was a significant upside surprise relative to already lofty expectations, with the outperformance relative to our forecast driven by the export sector. The large net export contribution of +0.9%-pt was above what we had penciled in from the quarterly trade and balance of payments data, but more importantly, it came with much less of an inventories offset than expected. There is an inclination to dismiss any tailwinds in this report driven by agriculture, given that conditions clearly are more challenging this year. Nevertheless, the strength of domestic demand in 4Q shouldn't be brushed aside, and the result vindicates the view that the slowdown registered in the middle of 2012 was just a temporary air pocket.

The elements of domestic demand were as expected in 4Q, with consumers having their strongest quarter in six years (up 1.5%q/q, close to our forecast and adding 0.9%-pt to growth), with durable goods outlays particularly robust, while capex lifted over 2%q/q, with a neat split of residential work (+2%q/q) and "other" spending (+2.2%q/q). Growth in plant and equipment spending (+7.6%q/q) and other construction (+9.6%q/q) easily outstripped that of residential work, demonstrating that the impulse to activity from earthquake reconstruction is not as narrow as often imagined.

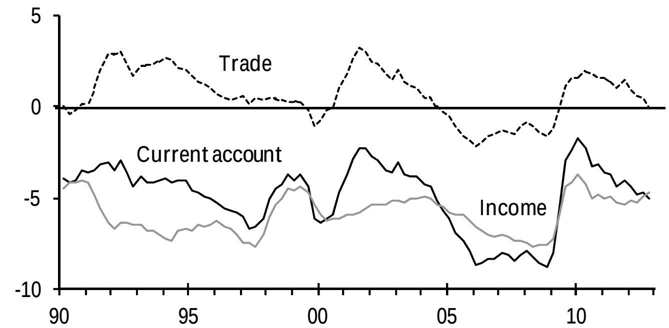
Government, inventories dragged on GDP

The negatives were as expected, with government spending down 0.7%q/q, clipping a tenth off growth, and the other drag of note was inventories, which clawed back well over 1%-pt from growth, but this was tempered by the (in this case upward) tax and seasonality adjustment Stats NZ undertakes to align the expenditure and production measures of GDP. The production-side data similarly showcase the broad-based lift in activity witnessed in 4Q. Fifteen of sixteen industry sectors saw output expand in 4Q. The most significant gains were in mining (+5.6%q/q), agriculture (+2.6%q/q), retail trade and accommodation (+2.3%q/q) and wholesale trade (+2.1%q/q). Matching the strength in consumer spending, output growth in the retail sector saw its best result since 1Q07.

This week's result adds an exclamation point to an already solid run of data over the last few months. The New Zealand economy now is growing at 3%oya, which is around double its potential growth rate. As such, RBNZ Governor Wheeler, who took the helm at the beginning of 4Q, may now look less hawkish than prescient, as the goal posts on the economy's cyclical performance have shifted. Wheeler's intense focus on housing as a key upside risk channel similarly seems more justified in light of this week's result as the economy shows it is capable of hitting the growth rates seen during the last housing boom of the mid-2000s.

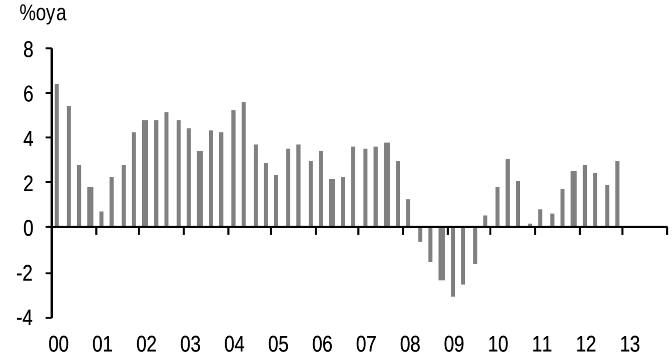
Unfortunately, though, the dry conditions experienced in the farm sector so far this year leave a sense that demand-side momentum is much less relevant than usual for the outlook. So, despite this bumper result having come just after the governor

New Zealand: current account balance



Source: Stats NZ.

New Zealand: GDP



Source: Stats NZ

toned down his hawkishness in the March MPS, he still shouldn't feel like he's been wrong-footed by the data, and is likely to keep the newly added language on downside risks in his guidance for now. With the demand side looking healthy, the big question is the extent of the hit to agriculture supply and output from the drought, and when this will be registered in the data.

Lowering our sights for 2013

Netting off the better momentum at the end of 2012 against the meaningful downside risks to exports this year, we are lowering our GDP growth forecasts for 2013 slightly, from 2.8% to 2.5%. It seems likely that the froth from 4Q12, particularly in coming with a smaller-than-expected inventory drawdown, sucks a little activity out of 1H13. Also, we are chiseling out a new profile for export activity this year, as an (admittedly preliminary) attempt to account for the drought. As slaughter is brought forward, livestock output lifts in 2Q, but that leaves a vacuum of activity, particularly in the dairy sector, in 3Q. With the pace of fiscal consolidation accelerating through 2013, a stall in real exports in the second half of the year will lay bare the drags on real output that are playing out outside of construction activity. Even with continuing strength in residential investment activity, this confluence of events makes a contraction in output in 3Q look like a distinct possibility. Of course, purely from a GDP perspective, that news will not be delivered until Christmas.

As to whether or not the RBNZ hikes the cash rate this year then, the relevant question is the extent to which export weakness transmits to broader demand activity in the higher frequency data. If in six months' time the dwelling investment story still is playing to script, housing credit has continued to firm, and there are no broader signs of stress in the consumer spending data from weaker farm income, then housing market trends will have to again take precedence from a policy perspective. Looking into 2014, though, drought effects likely will cast a shadow even after exports stabilize. In incorporating the longer-lived effects of dry conditions on future farm yields, we have also penciled in a more moderate rebound in export activity through next year.

NZ current account narrowed

New Zealand's current account deficit narrowed at the end of 2012, but by less than expected, with both the goods and services trade balances falling short of expectations. The CAD came in from NZ$4.4 billion to NZ$3.3 billion, driven mostly by the improvement in net trade revenues, which is very close to a "normal" result for 4Q, as demonstrated by the stability of the seasonally adjusted balance at around -NZ$2.7 billion.

Most of that disappointment was contained in travel services, which improved by NZ$300 million, but fell in seasonally adjusted terms. Net trade in goods improved by NZ$770 million—again, though, less than is usual for that time of year, mostly due to the fall in seasonally adjusted dairy export volumes over the quarter. As shown in the monthly trade data, the trajectory of dairy shipments improved into the New Year, up 14%oya in real terms in December. That momentum appears to have flowed through to January, though drought conditions loom as a potentially large spanner in the works for agricultural exports from 2Q and beyond.

On the income side, the expected payback in outflows was registered, following the decline in profit repatriation by foreign-owned domestic banks in 3Q. Dividend payments on inbound portfolio investment (mostly on equity instruments) accounted for the deterioration. Despite this week's narrowing, the current account still is widening in four-quarter terms, and now sits at 5% of GDP, from 4.7% in 3Q.

Australia

Data releases and forecasts

Week of March 25 – 29

	Private sector credit	Nov	Dec	Jan	Feb
Thu Mar 28 11:30am	%m/m	0.0	0.4	0.2	0.2
	%oya	3.5	3.6	3.6	3.6

Review of prior week's data

New motor vehicles sales

	Dec	Jan		Feb
%m/m	-2.7	~~-2.4~~	*-2.2*	*0.0*

New Zealand

Data releases and forecasts

Week of March 25 – 29

	International merchandise trade	Nov	Dec	Jan	Feb
Tue Mar 26 8:45am	NZ$ mn	-588	534	-305	-22

Review of prior week's data

Current account balance

	2Q12	3Q12	4Q12	
NZ$ bn	-1.8	-4.4	~~-2.3~~	*-3.2*
% of GDP	4.8	4.7	~~4.6~~	*5.0*

Real GDP

	2Q12	3Q12	4Q12	
%q/q	0.3	0.2	~~0.8~~	*1.5*

Source: ABS, RBA, Stats NZ .

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US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar Dallas Fed survey (10:30am) Mar New York Fed President Dudley speaks in New York (12:15pm) Fed Chairman Bernanke speaks in London (2:15pm)	26 Mar Durable goods (8:30am) Feb 1.2% Ex transportation -2.2% S&P/Case-Shiller HPI (9:00am) Jan 1.1% (8.2%oya) New home sales (10:00am) Feb 415,000 Consumer confidence (10:00am) Mar 68.0 Richmond Fed survey (10:00am) Mar Auction 2-year note$35 bn Dallas Fed President Fisher speaks in Abu Dhabi (1:10am)	27 Mar Pending home sales (10:00am) Feb -1.5% Auction 5-year note$35 bn Boston Fed President Rosengren speaks in New Hampshire (11:30am) Cleveland Fed President Pianalto speaks in Cleveland (12:15pm) Minneapolis Fed President Kocherlakota speaks in Minnesota (1:00pm)	28 Mar Initial claims (8:30am) w/e Mar 23 340,000 Real GDP (8:30am) 4Q final 0.7% Chicago PMI (9:45am) Mar KC Fed survey (11:00am) Mar Auction 7-year note$29 bn	29 Mar Personal income (8:30am) Feb 1.1% Real consumption 0.2% Core PCE deflator 0.11% (1.3%oya) Consumer sentiment (9:55am) Mar final 73.0 Good Friday, markets closed
1 Apr Manufacturing PMI (8:58am) Mar final ISM manufacturing (10:00am) Mar Construction spending (10:00am) Feb	2 Apr Factory orders (10:00am) Feb Light vehicle sales Mar Minneapolis Fed President Kocherlakota speaks in North Dakota (1:00pm) Atlanta Fed President Lockhart speaks in Alabama (1:30pm) Chicago Fed President Evans and Richmond Fed President Lacker speak in Richmond (7:30pm)	3 Apr ADP employment (8:15am) Mar ISM nonmanufacturing (10:00am) Mar San Francisco Fed President Williams speaks on economy in Los Angeles, CA (3:30pm)	4 Apr Initial claims (8:30am) w/e Mar 30 Chain store sales Mar Announce 3-year note $32 bn Announce 10-year note (r) $21 bn Announce 30-year bond (r) $13 bn Chicago Fed President Evans and Atlanta Fed President Lockhart speak in Ohio (8:45am) Kansas City Fed President George speaks on economy in Oklahoma (12:30pm) Fed Vice Chair Yellen speaks in Washington DC (5:00pm)	5 Apr Employment (8:30am) Mar International trade (8:30am) Feb Consumer credit (3:00pm) Feb
8 Apr Cleveland Fed President Pianalto speaks in Florida (8:30am) Fed Chairman Bernanke speaks in at conference in Georgia (7:15pm)	9 Apr NFIB survey (7:30am) Mar Wholesale trade (10:00am) Feb JOLTS (10:00am) Feb Auction 3-year note $32 bn Richmond Fed President Lacker speaks in Richmond (9:30am) Atlanta Fed President Lockhart speaks in Georgia (1:00pm)	10 Apr Federal budget (2:00pm) Mar Auction 10-year note (r) $21 bn Atlanta Fed President Lockhart speaks in Georgia (8:20am) Minneapolis Fed President Kocherlakota moderates panel in Georgia (8:30am) Dallas Fed President Fisher speaks in Texas (5:00pm) FOMC minutes	11 Apr Initial claims (8:30am) w/e Apr 6 Import prices (8:30am) Mar Auction 30-year bond (r) $13 bn Announce 5 year TIPS $17 bn Philadelphia Fed President Plosser speaks in Hong Kong (6:00am)	12 Apr Retail sales (8:30am) Mar PPI (8:30am) Mar Consumer sentiment (9:55am) Apr preliminary Business inventories (10:00am) Feb
15 Apr Empire State survey (8:30am) Apr TIC data (9:00am) Feb NAHB survey (10:00am) Apr	16 Apr CPI (8:30am) Mar Housing starts (8:30am) Mar Industrial production (9:15am) Mar Minneapolis Fed President Kocherlakota speaks in Minneapolis (3:30pm)	17 Apr Beige book (2:00pm) St Louis Fed President Bullard speaks in New York (9:30am) Boston Fed President Rosengren speaks in New York (12:00pm)	18 Apr Initial claims (8:30am) w/e Apr 13 Philadelphia Fed survey (10:00am) Apr Leading indicators (10:00am) Mar Auction 5 year TIPS $17 bn Announce 2 year note $35 bn Announce 5 year note $35 bn Announce 7 year note $29 bn Minneapolis Fed President Kocherlakota speaks in New York (9:00am) Fed Governor Raskin speaks in New York (12:00pm)	19 Apr

Times shown are local.

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar Germany: Import prices (9:30am) Feb Retail sales (9:30am) Feb Italy: ISAE cons. conf. (10:00am) Mar ECB's Mersch speaks in Madrid	26 Mar France: INSEE cons. conf. (8:45am) Mar	27 Mar Euro area: EC bus. conf. (11:00am) Mar Economic sent: 90.0 Index EC cons. conf. final (11:00am) Mar -23.5% bal, sa HICP flash (11:00am) Mar 1.6%oya France: GDP final (8:45am) 4Q Spain: CPI prelim (9:00am) Mar 2.7%oya	28 Mar Euro area: M3 (10:00am) Feb Germany: Employment (9:55am) Feb 15k ch m/m, sa Unemployment (9:55am) Mar -8k ch m/m, sa 6.9%, sa Italy: ISAE bus. conf. (10:00am) Mar Belgium: CPI (10:00am) Mar	29 Mar France: Cons. of mfg goods (8:45am) Feb PPI (8:45am) Feb Italy: PPI (10:00am) Feb CPI prelim (11:00am) Mar 1.6%oya *Holiday: Good Friday*
1 Apr *Holiday: Easter Monday*	2 Apr Euro area: PMI Mfg (10:00am) Mar Unemployment rate (11:00am) Feb Germany: CPI 6 states and prelim (8:00am) Mar PMI Mfg (9:55am) Mar France: PMI Mfg (9:50am) Mar Italy: PMI Mfg (9:45am) Mar Spain: PMI Mfg (9:15am) Mar	3 Apr	4 Apr Euro area: MFI interest rates (9:30am) Mar PMI services and composite (10:00am) Mar PPI (11:00am) Feb ECB rate announcement (1:45pm) no change expected Germany: PMI services and composite (9:55am) Mar France: PMI services and composite (9:50am) Mar Italy: PMI services and composite (9:45am) Mar Spain: PMI services and composite (9:15am) Mar	5 Apr Euro area: Retail sales (11:00am) Feb Germany: Mfg orders (12:00pm) Feb
8 Apr Germany: Industrial production (12:00pm) Feb	9 Apr Germany: Foreign trade (8:00am) Feb France: Foreign trade (8:45am) Feb Monthly budget situation (8:45am) Feb Netherlands: CPI (9:30am) Mar	10 Apr France: Industrial production (8:45am) Feb Italy: Industrial production (10:00am) Feb	11 Apr Euro area: ECB monthly bulletin (10:00am) Apr Germany: CPI final (8:00am) Mar France: CPI final (8:45am) Mar	12 Apr Euro area: Industrial production (11:00am) Feb Italy: CPI final (10:00am) Mar Spain: CPI final (9:00am) Mar
15 Apr Euro area: Foreign trade (11:00am) Feb	16 Apr Euro area: HICP final (11:00am) Mar Germany: ZEW bus. survey (11:00am) Apr Italy: Foreign trade (10:00am) Feb	17 Apr Euro area: New car regs (8:00am) Apr	18 Apr	19 Apr Euro area: Balance of payments (10:00am) Feb Germany: PPI (8:00am) Mar Belgium: BNB cons. conf. (3:00pm) Apr Netherlands: CBS cons. conf. (9:30am) Apr

Highlighted data are scheduled for release on or after the date shown. Times shown are local.

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar Flow of funds (8:50 am) 4Q	26 Mar Corporate service prices (8:50 am) Feb 0.0%oya Shoko Chukin small firm sentiment (2:00 pm) Mar 48.0, DI Auction 3-month bill	27 Mar	28 Mar Total retail sales (8:50 am) Feb -2.5%oya Auction 2-year note	29 Mar PMI manufacturing (8:15 am) Mar 49.0, DI All household spending (8:30 am) Feb 0.3%m/m, sa Unemployment rate (8:30 am) Feb 4.1%, sa Job offers to applicants ratio (8:30 am) Feb 0.86, sa Nationwide core CPI (8:30 am) Feb -0.1%oya IP preliminary (8:50 am) Feb 2.0%m/m, sa Housing starts (2:00 pm) Feb -1.8%oya
1 Apr BoJ Tankan (8:50 am) 1Q Auto registrations (2:00 am) Mar	2 Apr Nominal wages (10:30 am) Feb Auction 10-year bond	3 Apr PMI services/composite (8:15 am) Mar BoJ Monetary Policy Meeting Auction 3-year note	4 Apr BoJ Monetary Policy Meeting and statement BoJ Governor Kuroda's press conference (3:00pm)	5 Apr BoJ monthly economic report (2:00 pm)
8 Apr Current account (8:50 am) Feb Economy Watchers survey (2:00 pm) Mar Auction 6-month bill	9 Apr Minutes of Mar 6-7 BoJ Monetary Policy Meeting (8:50 am)	10 Apr Bank lending (8:50 am) Mar Auction 2-month bill	11 Apr Money stock (8:50 am) Mar Corporate goods prices (8:50 am) Mar Private machinery orders (8:50 am) Feb Auction 3-month bill Auction 30-year bond	12 Apr Tertiary sector activity index (8:50 am) Feb
15 Apr IP final (8:50 am) Feb BoJ Governor Kuroda's address at branch managers' meeting	16 Apr Auction 5-year note	17 Apr Consumer sentiment (2:00 pm) Mar Auction 1-year note	18 Apr Reuters Tankan (8:30 am) Apr Trade balance (8:50 am) Mar Auction 3-month bill Auction 20-year bond	19 Apr
During the week: Department store sales Mar, Construction spending Feb, BoJ bank loan officers survey 1Q				

Highlighted data are scheduled for release on or after the date shown. Times shown are local.

Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar	26 Mar BoC Deputy Governor Agathe Cote speaks at AFP of Canada in Montreal (12:45pm)	27 Mar CPI (8:30am) Feb 0.8% (0.9%oya) Core 0.5% (1.1%oya) Payroll employment (8:30am) Jan	28 Mar CFIB Business Barometer Index (6:00am) Mar Monthly GDP (8:30am) Jan 0.2% IPPI (8:30am) Feb 0.5% Ex energy 0.3%	29 Mar *Good Friday* *Markets Closed*
1 Apr RBC manufacturing PMI (9:30am) Mar	2 Apr BoC Deputy Governor John Murray speaks at the Peterson Institute for International Economics, Washington, D.C. (12:20pm)	3 Apr	4 Apr	5 Apr Labor force survey (8:30am) Mar International trade (8:30am) Feb Ivey PMI (10:00am) Mar
8 Apr BoC Business Outlook Survey (10:30am) 1Q BoC Senior Loan Officer Survey (10:30am) 1Q	9 Apr Housing starts (8:15am) Mar Building permits (8:30am) Feb	10 Apr	11 Apr New housing price index (8:30am) Feb	12 Apr
15 Apr New vehicle sales (8:30am) Feb Existing home sales (9:00am) Mar	16 Apr Manufacturing sales (8:30am) Feb	17 Apr Teranet/National Bank HP Index (9:00am) Feb Bank of Canada rate announcement/Monetary Policy Report (10:00am)	18 Apr Nonresidential construction (8:30am) 1Q	19 Apr CPI (8:30am) Mar Wholesale sales (8:30am) Feb

All existing home sales are tentative. Times shown are local.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar Brazil: Consumer confidence Mar Mexico: IGAE (GDP proxy) Jan 2.5%oya	26 Mar Brazil: Fipe CPI Mar 23 BCB credit report Feb Colombia: Current account 4Q Mexico: Central bank reserves (Prior week) Uruguay: Central bank meeting	27 Mar Brazil: IGP-M Mar 0.17% m/m nsa Central government budget Feb BRL 6.4bn Colombia: Unemployment rate Feb Central government budget Feb Mexico: Trade balance Feb –US$1,424	28 Mar Brazil: Unemployment rate Feb 5.8% nsa Primary budget balance Feb BRL 9.0bn Net debt as % of GDP Feb 35.4% Chile: Retail sales Feb +7.5%oya Manufacturing index Feb +0.8%oya Unemployment rate Feb 5.9% *Holiday: Mexico*	29 Mar *Holiday: Brazil, Mexico*
During the week: Brazil: BCB Inflation Report 1Q13				
1 Apr Brazil: PMI Manufacturing Mar Trade balance Mar Chile: Central bank meeting minutes Peru: CPI Mar WPI Mar Mexico: Banxico survey Family remittances Feb Manufacturing PMI Mar Non manufacturing PMI Mar	2 Apr Brazil: IP Feb Mexico: Central bank reserves (Prior week)	3 Apr Brazil: Fipe CPI Mar PMI Services Mar	4 Apr Colombia: PPI Mar Mexico: Consumer confidence Mar	5 Apr Chile: Economic activity index Feb Colombia: CPI Mar BanRep minutes Mexico: Banamex survey of economic expectations
During the week: Argentina: Govt tax revenue Brazil: Commodity price index Mar Vehicle production (ANFAVEA) Mar Colombia: Vehicle sales Mar				
8 Apr Chile: CPI Mar Trade balance Mar Mexico: Gross fixed investment Jan	9 Apr Brazil: IGP-DI Apr Colombia: Trade balance Feb Mexico: Central bank reserves (Prior week) CPI Mar	10 Apr Brazil: IPCA Mar Peru: Trade balance Feb	11 Apr Brazil: IGP-M 1st release Apr Retail sales Feb Chile: BCCh meeting Peru: BCRP meeting Mexico: Industrial production Feb	12 Apr
During the week: Argentina: Budget balance Feb Brazil: Economic activity index Feb				
15 Apr Peru: Monthly GDP Feb Unemployment rate Mar	16 Apr Brazil: IGP-10 Apr Mexico: Central bank reserves (Prior week)	17 Apr Brazil: COPOM meeting	18 Apr Brazil: IGP-M 2nd release Apr Colombia: Trade balance Feb	19 Apr Brazil: IPCA-15 Apr Colombia: IP Feb Retail sales Feb Mexico: Unemployment Mar
During the week: Argentina: Budget balance Mar Brazil: Caged formal job creation Mar Tax collections Mar Mexico: Pension funds report Mar				

UK economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar BBA mortgage lending (9:30am) Feb	26 Mar CBI distributive trades (11:00am) Mar	27 Mar BoP (9:30am) 4Q Business investment (9:30am) 4Q Real GDP final (9:30am) 4Q -1.0%q/q, saar	28 Mar Gfk cons. conf. (12:01am) Mar Index of services (9:30am) Jan 0.3%m/m, sa	29 Mar *Holiday: Good Friday*
During the week: Nationwide HPI (25-29 Mar)				
1 Apr *Holiday: Easter Monday*	2 Apr BCC economic survey (9:30am) 1Q M4 & M4 lending final (9:30am) Feb Net lending to individuals (9:30am) Feb PMI Mfg (9:30am) Mar	3 Apr BoE credit conditions survey (9:30am) 1Q BoE housing equity withdrawal (9:30am) 4Q PMI Construction (9:30am) Mar	4 Apr PMI Services (9:30am) Mar MPC rate announcement and asset purchase target (12:00pm) no change expected	5 Apr New car regs (8:00am) Mar
During the week: Halifax HPI (2-5 Apr)				
8 Apr	9 Apr BRC retail sales monitor (12:01am) Mar Markit jobs report (12:01am) Mar RICS HPI (12:01am) Mar Industrial production (9:30am) Feb Trade balance (9:30am) Feb	10 Apr Quoted mortgage interest rates (9:30am) Mar	11 Apr	12 Apr Construction output (9:30am) Feb
15 Apr Rightmove HPI (12:01am) Apr	16 Apr CPI (9:30am) Mar ONS HPI (9:30am) Feb PPI (9:30am) Mar	17 Apr MPC minutes (12:09am) Apr Labor market report (9:30am) Apr	18 Apr Retail sales (9:30am) Mar	19 Apr
During the week: CBI industrial trends 2Q and Apr (20-25 Apr)				

Times shown are local.

Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar	26 Mar Hungary: NBH rate decision (2:00pm) -25bp Turkey: CBRT rate decision (2:00pm) no change *Holiday: Israel*	27 Mar	28 Mar Czech Republic: CNB rate decision (1:00pm) Hungary: Current account (8:30am) 4Q €215mn Unemployment (9:00am) Feb Poland: Current account (2:00pm) 4Q Romania: NBR rate decision South Africa: Private sector credit (8:00am) Feb PPI (11:30am) Feb Budget (2:00pm) Feb Trade balance (2:00pm) Feb	29 Mar Hungary: PPI (9:00am) Feb Poland: NBP inflation expectations (2:00pm) Mar Russia: Current account final 4Q Turkey: Foreign trade (2:00pm) Feb -$7.7bn *Holiday: South Africa*
During the week:				
1 Apr Czech Republic: PMI (9:30am) Mar Hungary: PMI (9:00am) Mar Poland: PMI (9:00am) Mar Russia: Manuf. PMI (11:00am) Mar 51.0 Turkey: GDP (10:00am) 4Q 2.4%y/y PMI (10:00am) Mar *Holiday: Czech Republic, Poland, Hungary, Israel, South Africa*	2 Apr Romania: Retail sales (10:00am) Feb South Africa: Kagiso PMI (11:00am) Mar Vehicle sales (11:00am) Mar	3 Apr Romania: GDP (10:00am) 4Q Turkey: CPI (10:00am) Mar 0.4%m/m PPI (10:00am) Mar 1.1%m/m	4 Apr Czech Republic: Retail sales (9:00am) Feb Hungary: Retail sales (9:00am) Feb	5 Apr Hungary: Industrial output prelim (9:00am) Feb
During the week: Russia: Current account 1Q (1-5 Apr), CBR rate decision (1-10 Apr), GDP 1Q (1-5 Apr), CPI Mar (5-6 Apr)				
8 Apr Czech Republic: Industrial output (9:00am) Feb Trade balance (9:00am) Feb Hungary: Trade balance (9:00am) Feb Turkey: Industrial output (10:00am) Feb South Africa: Gross reserves (8:00am) Mar	9 Apr Czech Republic: CPI (9:00am) Mar Romania: Industrial output (10:00am) Feb	10 Apr Hungary: NBH minutes (2:00pm) Poland: NBP rate decision Romania: CPI (10:00am) Mar	11 Apr Hungary: CPI (9:00am) Mar Turkey: Current account (10:00am) Feb	12 Apr
During the week: South Africa: Manufacturing output Feb (8-12 Apr), Retail sales Feb (9-16 Apr) Russia: Foreign trade Feb (9-10 Apr)				
15 Apr Czech Republic: PPI (9:00am) Mar Current account (10:00am) Feb Poland: CPI (2:00pm) Mar Current account (2:00pm) Feb Budget balance (3:00pm) Mar Romania: Current Account Feb Israel: CPI (6:30pm) Mar	16 Apr Poland: Core inflation (2:00pm) Mar Turkey: CBRT rate decision (2:00pm) *Holiday: Israel*	17 Apr Poland: Average gross wages and Employment (2:00pm) Mar South Africa: CPI (10:00am) Mar Israel: GDP final 4Q	18 Apr Hungary: Average gross wages (9:00am) Feb Poland: Industrial output (2:00pm) Mar PPI (2:00pm) Mar	19 Apr
During the week: Russia: PPI Mar (15-16 Apr), Industrial output Mar (15-16 Apr), Retail sales, unemployment & investment Mar (17-18 Apr)				

Times shown are local.

Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
25 Mar Singapore: CPI (1:00pm) Feb 4.6%oya Taiwan: IP (4:00pm) Feb -10.8%oya	26 Mar New Zealand: Trade balance (10:45am) Feb -NZ$20mn Hong Kong: Trade balance (4:30pm) Feb -HK$29.4bn Korea: GDP final (8:00am) 4Q 1.5%oya Philippines: Imports (9:00am) Jan 8.7%oya Singapore: IP (1:00pm) Feb -6.5%oya	27 Mar New Zealand: NBNZ business confidence (1:00pm) Mar 25.0 Index Korea: Consumer survey (6:00am) Mar 102.5 Index Taiwan: Leading index (4:00pm) Feb *Holiday: India*	28 Mar Australia: Pvt. sector credit (11:30am) Feb 0.2%m/m New Zealand: Building permits (10:45am) Feb India: Current account balance (5:00pm) 4Q -US$31.6bn Korea: Current account balance (8:00am) Feb US$1.8bn Taiwan: CBC monetary policy meeting (5:00pm) No change Thailand: Mfg. production Feb 5.4%oya *Holiday: Philippines*	29 Mar Korea: FKI business survey (12:00pm) Mar 99.0 Index IP (8:00am) Feb -6.5%oya Leading Index (8:00am) Feb 110.0 Index Service sector activity (8:00am) Feb -0.3%oya Thailand: PCI (2:30pm) 5.0%oya PII (2:30pm) 13.2%oya Trade balance (2:30pm) Feb US$1.8bn *Holiday: Australia, New Zealand, Hong Kong, India, Indonesia, Philippines, Singapore*
During the week:	Philippines: Budget balance Jan (25-29 Mar) -PHP22.7bn	Vietnam: Trade balance Mar (25-31 Mar) US$0.4bn	GDP 1Q (25-31 Mar) 6.0%oya	
1 Apr China: PMI mfg. (NBS) (9:00am) Mar PMI mfg. (Markit) (9:45am) Mar India: PMI Mfg. (10:30am) Mar Indonesia: CPI (11:00am) Mar Trade balance (11:00am) Feb Korea: CPI (8:00am) Mar PMI mfg. (9:00am) Mar Trade balance (9:00am) Mar Taiwan: PMI mfg. (10:00am) Mar Thailand: CPI Mar *Holiday: Australia, New Zealand, Hong Kong*	2 Apr Australia: RBA official rate announcement (2:30pm) New Zealand: ANZ commodity price (1:00pm) Mar Hong Kong: Retail sales (4:30pm) Feb	3 Apr Australia: Trade balance (11:30am) Feb Singapore: PMI (9:30pm) Mar Thailand: BoT monetary policy meeting (2:30pm)	4 Apr Australia: Building approvals (11:30am) Feb Retail sales (11:30am) Feb *Holiday: China, Hong Kong*	5 Apr Malaysia: Trade balance (12:00pm) Feb Philippines: CPI (9:00am) Mar *Holiday: China*
During the week:	Korea: Foreign exchange reserves Mar (1-5 Apr)	Philippines: Budget balance Feb (1-5 Apr)	Singapore: GDP flash 1Q (5-13 Apr)	
8 Apr Australia: ANZ job advertisements (11:30am) Mar Taiwan: CPI (8:30am) Mar Trade balance (4:00pm) Mar *Holiday: Thailand*	9 Apr Australia: NAB business confidence (11:30am) Mar China: CPI (9:30am) Mar PPI (9:30am) Mar	10 Apr China: Trade balance Mar Korea: Trade price index (6:00am) Mar Unemployment rate (8:00am) Mar Money supply (12:00pm) Feb Philippines: Exports (9:00am) Feb	11 Apr Australia: Unemployment rate (11:30am) Mar Indonesia: BI monetary policy meeting Korea: BoK monetary policy meeting Malaysia: IP (12:00pm) Feb	12 Apr India: CPI Mar IP (11:00am) Feb
During the week:	India: Trade balance Feb (10-15 Apr)	China: Money supply Mar (10-15 Apr)	Singapore: NODX Mar (11-17 Apr), Retail sales Feb (13-17 Apr)	
15 Apr Australia: Housing finance (11:30am) Feb China: GDP (10:00am) 1Q FAI, IP, Retail sales (10:00am) Mar India: WPI (12:00pm) Mar Philippines: OFW remittances Feb	16 Apr Australia: New motor vehicle sales (11:30am) Mar	17 Apr Korea: PPI (6:00am) Mar Malaysia: CPI (5:00pm) Mar	18 Apr Hong Kong: Unemployment rate (4:30pm) Mar	19 Apr

Times shown are local.

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
23 - 29 March	**25 March**	**26 March**	**27 March**	**28 March**	**29 March**
Brazil • BCB inflation report **Israel** • BoI mtg: no chg* * March 24	**Italy** • ISAE cons conf (Mar) **Taiwan** • IP (Feb) **United States** • Bernanke speech	**Brazil** • BCB credit report **France** • INSEE cons conf (Mar) **Hungary** • NBH mtg: -25bp **Japan** • Shoko Chukin surv (Mar) **Turkey** • CBRT mtg: no chg **United States** • Durable goods (Feb) • Case-Shiller HPI (Jan) • New home sales (Feb) • CB cons conf (Mar) **Uruguay** • BCU mtg: +25bp	**Canada** • CPI (Feb) **Euro area** • EC cons conf final (Mar) • EC bus conf (Mar) • HICP flash (Mar) **United States** • Pending home sales (Feb)	**Czech Republic** • CNB mtg: no chg **Euro area** • M3 (Feb) **Germany** • Labor mkt report (Feb/Mar) **Italy** • ISAE bus conf (Mar) **Japan** • Total retail sales (Feb) **Romania** • NBR mtg: no chg **Taiwan** • CBC mtg: no chg **United Kingdom** • Gfk cons conf (Mar) **United States** • GDP revision (4Q)	**Japan** • PMI mfg (Mar) • All hhold spending (Feb) • Labor mkt report (Feb) • CPI (Feb) • IP prelim (Feb) **Korea** • IP (Feb) **United States** • Personal income (Feb) • UMich cons snt fnl (Mar) • Good Friday; markets closed
30 Mar - 5 Apr	**1 April**	**2 April**	**3 April**	**4 April**	**5 April**
Brazil • Auto sales (Mar) **Russia** • GDP (4Q) • CBR mtg: no chg* * To meet no later than Apr 10	**China** • PMI mfg final (Mar) **Japan** • BoJ Tankan (1Q) • Auto registrations (Mar) **Korea** • Trade report (Mar) **United States** • ISM mfg (Mar) • Markit PMI mfg final (Mar)	**Australia** • RBA mtg: no chg **Brazil** • IP (Feb) **Euro area** • Unemployment rate (Feb) • PMI mfg final (Mar) **Germany** • CPI prelim (Mar) **United States** • Factory orders (Feb) • Auto sales (Mar) **Global** • PMI mfg (Mar)	**Thailand** • BoT mtg: no chg **United Kingdom** • BoE cred conds surv (1Q) **United States** • ADP employment (Mar)	**Euro area** • MFI interest rates (Mar) • ECB mtg: no chg **Japan** • BoJ MPM: Extend APP holding maturity, pull forward unlimited QE, strengthen language • Kuroda press conference **United Kingdom** • BoE MPC mtg: no chg **Global** • PMI srv & all-ind (Mar)	**Canada** • Labor force survey (Mar) **Euro area** • Retail sales (Feb) **Germany** • Mfg orders (Feb) **United Kingdom** • Auto regs (Mar) **United States** • Employment (Mar) • Trade report (Feb)