Week Ahead January 23-27th: Highlights include US PCE and GDP, BoC, Flash PMIs, Aus and NZ CPI

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- **MON:** BoJ Minutes (Dec); Australian Flash PMIs (Jan).
- **TUE:** Australian NAB Business Confidence (Dec), German GfK (Feb), EZ, UK & US Flash PMIs (Jan), New Zealand CPI (Q4), UK CBI Trends (Jan).
- **WED:** BoC Policy Announcement; Australian CPI (Dec/Q4), German Ifo (Jan).
- **THU:** CBRT Minutes & Inflation Report (Jan), US Durable Goods (Dec), GDP Advance (Q4), PCE Prices Advance (Q4), IJC (w/e 16th Jan), National Activity Index (Dec), New Home Sales (Dec).
- **FRI:** Australian PPI (Q4), Export/Import Prices (Q4), Chinese Industrial Profit (Dec), EZ M3 (Dec), US PCE Price Index (Dec), University of Michigan Final (Jan), Pending Home Sales (Dec), German CPI Prelim. (Jan).

NOTE: Previews are listed in day-order

EZ FLASH PMI (TUE): Expectations are for the Eurozone-wide manufacturing PMI to rise to 48.5 from 47.8, and for the Services PMI to move back into expansionary territory at 50.2 from the previous 49.8; that would leave the composite gauge at 49.8 (vs. prev. 49.3). The prior report stated that “the Eurozone economy continued to deteriorate, but the strength of the downturn moderated for a second successive month, tentatively pointing to a contraction in the economy that may be milder than was initially anticipated." For the upcoming release, Capital Economics agrees with the consensus view for the composite reading, noting that “the ZEW and Sentix measures of investor sentiment rose strongly in January, and they have sometimes been good leading indicators of the PMI in the past.” The consultancy adds that the recent declines in energy prices will have provided a boost to activity, particularly in energy-intensive industrial sectors, and it therefore looks for a bigger advance in manufacturing measure vs the services. From a policy perspective, the upcoming release is unlikely to have much bearing on the February ECB meeting, which is essentially locked in for a 50bps rate hike. Moving forward, if PMI releases surprise to the upside, this could give policymakers confidence to proceed with a more aggressive path for rates, and therefore dispel speculation that the ECB could step down to a 25bps hike by March; however, the upcoming report may come too early to have any meaningful impact on that debate.

UK FLASH PMI (TUE): Expectations are for UK services PMI to hold steady at 49.9, manufacturing to tick higher to 45.7 from 45.3, leaving the composite at 49.3 (prev. 49.3). The prior report was characterised by both services and manufacturing recording falls in new business, resulting in a fifth successive monthly reduction in new work, whilst costs and output prices continued to increase at elevated rates. This time around, analysts at Investec view it as “reasonable” for the improvement in supply chains to have carried over into January, whilst more clarity on energy costs via the Energy Bill Relief Scheme for businesses may also have helped. Accordingly, Investec forecasts that both the manufacturing and services indices will increase, leaving the composite reading just below the 50 mark. That said, Investec cautions that business will still be in a difficult environment with the UK economy in a recession for the whole of this year. From a policy perspective, the latest jobs and inflation metrics from the UK saw expectations for the February meeting swing further towards a 50bps move. A stronger-than-forecast release will likely cement these calls, whilst a miss on expectations will be unlikely to swing pricing in favour of a smaller 25bps move.

NEW ZEALAND CPI (TUE): The street sees Q4 CPI cooling to 6.6% Y/Y from 7.2%, while the monthly measure is expected to ease to 1.6% M/M from 2.2%. Analysts at ASB are going against market consensus, and say that their research “suggests inflation ended 2022 at a 7.4% annual rate, the highest since 1990” – in line with the RBNZ’s target. The bank posits that inflation would be closer to 8% were it not for the sharp decline in retail fuel prices. “Q4 inflation data should also highlight a changing in the baton for the inflation process, with easing annual tradable inflation, but rising annual non-tradable inflation”, ASB says. Its analysts are sceptical about whether the return to the RBNZ’s 1-3% target is assured, highlighting the higher housing costs, a Q4 rise in food prices despite a sharp fall in petrol prices, and easing supply chain issues. ASB sees another 125bps of total OCR hikes in the coming months – including 75bps at the Feb 22nd meeting.

BOC POLICY ANNOUNCEMENT (WED): After lifting its Bank Rate by 50bps in December, to 4.50%, the BoC said it "will be considering whether the policy interest rate needs to rise further" as it "continues to assess how tighter monetary policy is working..." and "how inflation and inflation expectations are responding." Analysts have taken this as a sign that the central bank is on the cusp of downshifting the pace of its hikes, with many now expecting a 25bps move in January. That said, the central bank has kept its policy options open, meaning that an unchanged outcome, 25bps hike and even another 50bps hike are all possibilities. Canadian bank RBC is modelling a 70% chance that the BoC raises by 25bps, a 20% probability of a larger 50bps move, and assigns a 10% chance of an unchanged decision. Explaining its thinking behind 25bps, RBC notes that recent data has been close to neutral; "we have seen some slowing on the activity side, especially forward-looking activity in the Business Outlook Survey, but underlying inflation is uncomfortably high and inflation expectations remain lofty," RBC writes, "the labour market remains very tight," and it adds that "this is not an environment where data has softened enough to warrant a pause, nor has it been strong enough to continue at a 50bps clip." Indeed, Governor Macklem in December remarked that elevated inflation means the BoC had to be more concerned about under-tightening. Elsewhere, many are arguing that the BoC's January rate hike could be the last of the cycle. The question becomes how the BoC could communicate this. RBC suggests that consistent with the optionality that the central bank has retained in its communications, it looks for the January statement to use similar language to the December version; RBC says "this means making it clear that it could be the last hike, but not committing to it and leaving the data to determine the near-term rate path."

AUSTRALIA CPI (WED): The annual measure of CPI is seen ticking higher in Q4 to 7.5% Y/Y from 7.3% in Q3; the quarterly measure is seen cooling to 1.6% Q/Q from 1.8%. In terms of the accompanying metrics, the Trimmed Mean gauge is seen at 6.5% Y/Y (prev. 6.1%), and at 1.5% Q/Q (prev. 1.8%), while the Weighted Mean measure is expected at 5.5% Y/Y (prev. 5.0%), and 1.4% Q/Q (prev. 1.4%). In its November projections, the RBA had pencilled in a 8.0% Y/Y rise in Q4, but analysts will be looking out for a rise in the Trimmed Mean metric for signs of how much more tightening the RBA has to do. Desks suggest that monthly CPI metrics showed little change across October and November vs Q3, with the December metrics set to be released alongside the quarterly figures. The government rebates in Q3 cushioned the +15% rise in electricity tariffs. Capital Economics is looking for a 10% Q/Q rise in utility tariffs, whilst monthly indicators pointed to a smaller rise in the Trimmed metric Q/Q, and forecasts a 1.6% Q/Q and a 7.4% Y/Y increase in headline CPI for Q4.

US GDP (THU): Advanced GDP data for Q4 is expected to show growth of 2.8% (prev. 3.2%). That consensus view is more pessimistic than the Atlanta Fed's GDPnow forecast, which is tracking Q4 growth a 3.5%. Moody's analysts are expecting that growth will have remained strong in Q4, north of 3% on an annualised basis, driven by the favourable trade balance, which continues to provide a tailwind to growth. Ahead, the growth dynamic in the US is expected to worsen significantly, with many analysts projecting the economy will enter a recession. While policymakers have generally given constructive updates on the prospects for growth this year, arguing that a recession can be averted, and the US can achieve a soft landing, the Fed is still forecasting growth of just 0.5% in 2023.

US PERSONAL INCOME, SPENDING (FRI): Analysts expect personal income to have risen 0.2% M/M in December (prev. +0.4%), while adjusted personal consumption is expected to decline by 0.1% M/M (prev. +0.1%). For colour, US retail sales disappointed expectations in December, adding to survey evidence of the economy rapidly losing momentum towards the end of last year, Capital Economics said. The decline was driven by a further drop in vehicle sales, a sign that higher rates were weighing on big-ticket spending. "The weakness of sales echoes the sharp deterioration in the service-sector activity surveys over the past couple of months and the ongoing weakness of consumer confidence and suggests that, despite the still-solid labour market, the surge in interest rates over the past year is taking its toll," Capital Economics said, "strong gains back in September and October mean that real consumption is still likely to have risen by close to 3.0% annualised in Q4 overall, but it looks to have fallen in December specifically, which sets the stage for a marked slowdown in growth in Q1."

US PCE (FRI): Core PCE is expected to rise 0.2% M/M in December, matching the rate seen in the November data. Analysts at Credit Suisse are looking for a rise of 0.3% M/M, which would still be enough to see the annual measure of core PCE pare back to 4.5% Y/Y from 4.7% previously; if the bank is correct, then the annual core measure will fall to the lowest since Q4 2021. "Core inflation remained subdued in December," CS writes, "there has been a broad deceleration in core goods and services, with the main upward pressure on core PCE from shelter, which is likely to show stubbornly high inflation for at least the first half of 2023." As a comparison, the consumer prices data for December showed core CPI rising 0.3% M/M, picking up slightly from the 0.2% pace in November; the annual rate pared back to 5.7% Y/Y from 6.0%, with the largest contributions to the upside from rents and hospital services; on the other side, used vehicle prices moderated strongly. It is worth noting that these data will be released during the Fed's blackout window ahead of the January 31-February 1st FOMC meeting; the current base case implied by both market pricing and analyst forecasts is that the central bank will lift rates by 25bps. However, many have caveated that view around incoming data, suggesting that if there is an upside surprise within the PCE data, then pricing for 50bps could pick up once again.

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