Global Weekly Economic Monitor

NOMURA GLOBAL ECONOMICS

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Super Committee comes up blank

The US failure to agree on a deficit reduction plan is disappointing. But it may speak more to the difficulty of the process than to the likely eventual outcome.

25 November 2011

Note to readers:

US team

We are pleased to announce some changes in our US Economics team. After 25 years at the helm, David Resler recenty decided to take on a new role as Chief Economic Advisor. We are delighted to welcome Lewis Alexander as Nomura's new US Chief Economist. We are confident that our US Economics lineup of Lewis, David, Ellen Zentner, Aichi Amemiya and Jeffrey Greenberg will enable us to fully serve our clients' needs and look forward to doing so.

Annual outlook

We will not be publishing the *Global Weekly Economic Monitor* next Friday 2 December. Instead, watch out for the *2012 Global Economic Outlook* to be published at the start of the following week. To tide readers over to the next scheduled issue of the *Monitor* on Friday 16 December, this issue contains a three-week data calendar and three weeks of country and regional data previews.

Forecast Summary

	Real GDP (% y-o-y)			Consumer Prices (% y-o-y)			Policy Rate (% end of period)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Global	3.8	4.1	4.2	4.5	3.5 ↓	3.3	3.32	3.47 ↓	3.81 ↓
Developed	1.5	2.1	2.1	2.7	1.6	1.4	0.57	0.61	0.65
Emerging Markets	6.6	6.4 ↓	6.6 ↑	6.6	5.8	5.3 ↓	6.65 ↓	6.81	7.33 ↓
Americas	2.5 ↑	2.7 ↓	2.9 ↑	4.6	3.5	2.9 ↓	2.37	2.42	2.88
United States*	1.8	2.5	2.5	3.2	1.6	1.2	0.13	0.13	0.13
Canada	2.3	1.9	2.2	2.8	2.1	2.0	1.00	1.50	2.50
Latin America††	4.3 ↑	3.5 ↓	4.1 ↑	8.8	8.7 ↓	7.6 ↓	8.69	8.67	10.16
Argentina	8.0	4.0	3.5	24.4	25.4	18.0	12.00	11.00	14.00
Brazil	3.2 ↑	3.3 ↓	4.7 ↑	6.6	5.3 ↓	5.5 ↓	11.00	11.00	12.00
Chile	6.3	4.8	6.0	3.8	3.0	3.0	5.00	4.50	6.00
Colombia	5.0	4.5	4.5	3.5	3.7	3.7	4.50	5.00	7.00
Mexico	4.1 ↑	3.0	3.2	3.9	4.0	3.7	4.50	5.00	6.50
Venezuela	3.7	4.0	3.0	27.0	33.0	30.0	15.00	14.50	16.00
Asia/Pacific	6.0	6.7	6.5	5.0	4.1	4.1	5.11 ↓	5.31 ↓	5.58 ↓
Japan†	-0.3	2.3	1.4	-0.3	-0.1	0.1	0.05	0.05	0.05
Australia	2.2	4.6	3.1	3.5	3.6	3.8	4.50	5.00	5.25
New Zealand	2.0	3.5	3.6	4.2	1.9	2.3	2.50	4.00	4.00
Asia ex Japan, Aust, NZ	7.5	7.6	7.5	6.2	5.0	4.9	6.20 ↓	6.36	6.62 ↓
China	9.2	8.6	8.4	5.6	4.8	4.5	6.56	6.81	7.06
Hong Kong***	5.4	4.5	4.2	5.3	4.7	4.4	0.28	0.28	0.28
India**	7.3	7.9	8.1	9.4	6.8	7.1	8.50	8.50	8.50
Indonesia	6.5	7.0	7.0	5.6	5.8	5.3	5.75	5.50	6.00
Malaysia	4.7	5.1	5.0	3.1	3.2	3.1	3.00	3.50	3.75
Philippines	4.5	5.7	6.5	4.9	5.0	5.0	4.50	5.00	6.00
Singapore***	4.8	5.3	5.5	5.0	3.2	3.0	0.35	0.35	0.63
South Korea	3.5	5.0	4.0	4.2	3.5	3.0	3.25	3.50	4.00
Taiwan	4.3	4.7	5.2	1.4	1.2	1.4	1.88	2.26 ↑	2.76 ↑
Thailand	2.2	4.7	4.8	3.8	3.7	3.6	3.25 ↓	3.75 ↓	3.75 ↓
Vietnam	5.9	6.4	6.6	18.3	10.0	9.0	14.00	10.00	10.00
Western Europe	1.4	1.1	1.6	3.0	2.0	1.6	0.92	0.92	0.91
Euro area	1.6	1.0	1.5	2.7	1.8	1.5	1.00	1.00	1.00
Austria	3.3	1.7	2.1	3.6	1.8	1.6	1.00	1.00	1.00
France	1.6	1.0	1.3	2.2	1.6	1.5	1.00	1.00	1.00
Germany	3.1	1.6	1.7	2.5	1.4	1.3	1.00	1.00	1.00
Greece	-6.2	-3.9	0.3	2.9	0.8	0.4	1.00	1.00	1.00
Ireland	1.5	-0.6	1.8	1.0	0.9	1.0	1.00	1.00	1.00
Italy	0.5	0.0	0.6	2.9	2.6	1.7	1.00	1.00	1.00
Netherlands	1.4	0.9	1.8	2.5	1.7	1.7	1.00	1.00	1.00
Portugal	-1.3	-3.5 ↓	-2.0 ↓	3.3	2.0	1.3	1.00	1.00	1.00
Spain	0.7	0.7	1.6	3.0	1.9	1.7	1.00	1.00	1.00
United Kingdom	0.9	1.5	2.0	4.5	3.1	2.1	0.50	0.50	0.50
EEMEA	4.2	3.3	3.9	5.2	5.4	4.7	4.81	5.32	6.01
Czech Republic	1.9	2.1	2.7	1.8	3.8	1.9	0.75	1.00	2.00
Hungary	1.9	0.9	1.5	3.8	4.8	3.7	6.00	6.00	6.00
Israel	4.2	3.3	3.5	3.3	3.0	3.3	2.50	2.75	3.25
Poland	4.2	3.9	4.0	4.1	3.4	2.8	4.50	4.50	4.00
Romania	1.5	1.7	2.5	6.4	3.5	3.0	6.00	6.00	6.50
South Africa	3.1	3.4	4.0	5.0	5.8	5.7	5.50	6.00	8.00
Turkey	6.7	4.0	5.0	7.5	8.3	7.1	5.75	7.00	8.00

Note: From this week, the following countries have been omitted from the set of countries for which we maintain formal economic forecasting coverage: Egypt, Kazakhstan, Norway, Qatar, Russia, Saudi Arabia, Sweden, Switzerland, Ukraine and United Arab Emirates. Aggregates calculated using purchasing power parity (PPP) adjusted shares of world GDP (table covers about 84% of world GDP on a PPP basis); our forecasts incorporate assumptions on the future path of oil prices based on oil price futures, consensus forecasts and Nomura in-house analysis. Currently assumed average Brent oil prices for 2011, 2012 and 2013 are $110, $102 and $98 respectively, after $80 in 2010. *2011 and 2012 policy rate forecasts are midpoints of 0-0.25% target federal funds rate range. **Inflation refers to wholesale prices. ***For Hong Kong and Singapore, the policy rate refers to 3M Hibor and 3M Sibor, respectively. †Policy rate forecasts in 2011, 2012 and 2013 are midpoints of BOJ's 0-0.10% target unsecured overnight call rate range. ††CPI forecasts for Latin America are year-on-year changes for Q4. The ↑↓ arrows signify changes from last week.

Source: Nomura Global Economics.

Our View in a Nutshell *(changes from last week highlighted)*

Global

- We do not expect the global economy to return to recession or slow sharply, although the risks of that are uncomfortably high.
- Eurozone woes are set to be long-lived but our base case remains policy doing enough to prevent breakup or full-blown crisis.
- We see a Japan V-shaped recovery, a subpar US recovery continuing, but euro-area growth turning negative by year-end.
- We see headline inflation in the developed world continuing to trend down and inflation expectations remaining well anchored.
- We expect strong growth in China and India to hold up, rather than policy tightening derailing growth.
- Downside risks predominate: a worsening euro-area crisis; fiscal gridlock fallout in the US; an investment pullback in China.
- The eurozone sovereign debt crisis is set to keep the euro under increasing pressure, and the dollar is set to gain.

United States

- Recent data show the resilience of the recovery and seasonal factors point to somewhat stronger data in coming months.
- But an erosion of confidence and continued household de-leveraging should limit the upside growth potential in the medium term.
- We expect an extension of the payroll tax "holiday" to only partly mitigate a moderate fiscal drag in 2012.
- Ample unused capacity – evident in the high jobless rate – should restrain core inflation and contain inflation expectations.
- We see the Fed, facing doggedly high unemployment but moderating inflation, doing more (likely MBS-focused) QE in 1H12.

Europe

- We see the euro staying intact, with fiscal consolidation and debt restructuring, aided by official financing, restoring solvency.
- We expect euro-area growth in the second half to be near zero and then to pick up in 2012 to just above 1%.
- We expect a continued gradual recovery in UK growth despite the damping effect of deleveraging and fiscal consolidation.
- We expect inflation to stay over double the target in 2011 in the UK and in the euro area to fall, after peaking in September.
- We expect the ECB to cut rates by another 25bp in December and the BoE to expand its asset purchases again in February.

Japan

- *Reconstruction is set to spur growth in 2012 even with eurozone instability, slowing overseas economies and yen strength.*
- *We expect the negative impact from temporary tax increases to fund reconstruction spending to be very limited.*
- *With upward pressure on the yen set to persist,* we expect the BOJ to lift its asset purchases by ¥5trn by end-March 2012.
- The main risks are power shortages in Japan, yen appreciation, *a worsening European debt problem*, US/China slowing.

Asia

- Asia has not decoupled: there is a tipping point where the economies could get hit hard if euro area/US sink into recession.
- China: Slower growth in housing investment and exports raises the downside risk to GDP growth in Q1 2012.
- Korea: We expect the BOK's next move to be a 25bp hike in July 2012, when we see real policy rates turning positive.
- India: The rate hike cycle has likely ended with clear signs of an economic slowdown, as signalled by the central bank.
- Australia: We see GDP growth recovering from natural disasters assisted by much stronger capex in the resource sector.
- Indonesia: BI is likely to keep cutting, given high external risks to growth and inflation expected to be within its 2012 target.

EEMEA (Emerging Europe, Middle East and Africa) and Latin America

- South Africa: With a very fragile domestic recovery the risks are skewed towards the SARB cutting rates in Q1.
- Hungary's commitment to lower debt and fiscal consolidation is clear but ultimately unsustainable, financial stability is at risk.
- Poland's growth should slow slightly but still outperform. We now see rates on hold through the end of next year.
- Turkey: We see strong domestic demand and bigger imbalances, resulting in core inflation and current account pressures.
- Economic growth in Brazil is set to slow below potential this year, despite two 50bp policy rate cuts by the central bank.
- Mexico: As exports slow, consumption is increasingly supporting growth. A weak MXN will keep monetary conditions loose.
- With the output gap closed, Argentina's strong growth is likely to keep inflation high in 2011.

Economic Data Calendar

The Week of 28 November at a Glance

For more detail see country and regional data previews

Previous, Nomura, Consensus

	Mon 28 Nov	Tue 29 Nov	Wed 30 Nov	Thu 1 Dec	Fri 2 Dec
Global	**EU-US Summit in Washington D.C.**				
North America	**US** **New home sales** (Oct) k 313, 310, 310 **US** **New home sales** (Oct) % m-o-m 5.7, -1.0, -1.0	**US Case-Shiller house prices** (Sep) % y-o-y -3.8, -3.5, -3.0 **US CB consumer confidence** (Nov) Index 39.8, 44.8, 44.4	**US ADP private employment** (Nov) k 110, 150, 130 **US** **Chicago PMI** (Nov) Index 58.4, 59.6, 58.5 **Canada** **GDP** (Q3) % q-o-q saar -0.4, 3.3, 3.0	**US** **ISM manufacturing** (Nov) Index 50.8, 51.2, 51.5 **US** **Total vehicle sales** (Nov) mn, saar 13.2, 13.4, 13.4	**US** **Nonfarm payrolls** (Nov) k 80, 140, 120 **US** **Unemployment rate** (Nov) % 9.0 9.0 9.0 **Canada** **Employment** (Nov) k -54.0, 22.0, 12.0
Europe (ex-UK)	**Euro area** **M3** (Oct) % y-o-y, sa 3.1, n.a., 3.4 **Germany** **HICP inflation** (Nov-1st) % y-o-y 2.9, 2.6, 2.7	**Eurogroup meeting** **Euro area** **Economic sentiment** (Nov) Index 94.8, n.a., 93.9 **Spain** **HICP inflation** (Nov-flash) % y-o-y 3.0, 2.8, 2.8	**Ecofin Council meeting** **Euro area** **HICP inflation** (Nov-flash) % y-o-y 3.0, 2.9, 3.0 **Germany Unemployment change** (Nov) k 10.0, 4.0, -5.0	**Euro area** **PMI mfg** (Nov-fin) Index 46.4, 46.4, 46.4	
UK		**OBR releases economic and fiscal forecasts** **Mortgage approvals** (Oct) k 51.0, n.a., 51.4	**PMI manufacturing** (Nov) Index 47.4, 47.5, 47.0		
Japan		**Retail sales** (Oct) % y-o-y -1.1, 1.8, 0.7 **Unemployment rate** (Oct) % 4.1, 4.0, 4.2 **Consumer spending** (Oct) % y-o-y -1.9, -1.6, -1.5	**PMI** (Nov) Index 50.6, n.a., n.a. **Industrial production** (Oct) % m-o-m -3.3, 1.6, 1.1 **Housing starts** (Oct) % y-o-y -10.8, -6.5, -6.3		**Investment in plant and equipment** (Q3) % y-o-y -8.2, n.a, -3.0
Asia	**Philippines** **GDP** (Q3) % y-o-y 0.6, 4.5, 4.1	**South Korea** **Current account** (Oct) US$bn 3.1, 4.0, n.a.	**India** **GDP** (Q3) % y-o-y 7.7, 6.9, 6.8	**Australia** **Retail sales** (Oct) % m-o-m, sa 0.4, 0.5, 0.4 **China** **Official PMI** (Nov) Index 50.4, 49.0, 49.8	**Australia Home building approvals** (Oct) % m-o-m -13.6, 7.0, 3.3
Emerging Markets	**Hungary** **Unemployment rate** (Oct) % 10.7, 10.7, 10.7 **Israel** **BOI policy meeting** (Nov) % 3.00, 2.75, 2.75 **Peru** **GDP** (Q3) % y-o-y 6.6, 6.6, n.a.	**South Africa** **GDP** (Q3) % y-o-y 3.0, 3.2, 3.2 **South Africa** **PSCE** (Oct) % y-o-y 5.5, 5.6, 5.6 **Hungary** **MNB MPC meeting** (Nov) % 6.00, 6.00, 6.00	**Hungary** **Producer prices** (Oct) % y-o-y 4.1, 8.0, 7.3 **Poland** **GDP** (Q3) % y-o-y 4.3, 4.1, 4.1 **Brazil** **Selic policy rate** (Nov) % 11.50, 11.00, 11.00	**Poland** **PMI** (Nov) Index 51.7, 51.0, n.a. **Hungary** **PMI** (Nov) Index 48.2, 47.6, n.a. **Peru** **CPI** (Nov) % y-o-y 4.2, n.a., 4.5	**Hungary** **Trade balance** (Sep-fin) €mn 501, 750, 742 **South Africa NAAMSA vehicle sales** (Nov) % y-o-y 18.9, 16.2, n.a. **Mexico** **Policy rate** (Dec) % 4.50, 4.50, 4.50

Sources for consensus forecasts: Bloomberg.

Economic Data Calendar

The Week of 5 December at a Glance

For more detail see country and regional data previews

Previous, Nomura, Consensus

	Mon 5 Dec	Tue 6 Dec	Wed 7 Dec	Thu 8 Dec	Fri 9 Dec
North America	**US ISM non-manufacturing** (Nov) Index 52.9, 53.5, 53.5 **US** **Factory orders** (Oct) % m-o-m 0.3, -0.3, n.a.	**Canada** **BoC policy meeting** (Dec) % 1.00, 1.00, n.a.	**US** **Consumer credit** (Oct) $bn 7.4, n.a., n.a.	**US** **Initial jobless claims** k n.a., n.a., n.a.	**US** **Foreign trade** (Oct) $bn -43.1, -42.5, -44.0 **US U of M consumer sentiment** (Dec-pre) Index 64.1, n.a., n.a.
Europe (ex-UK)	**Euro area** PMI services (Nov-fin) Index 47.8, 47.8, n.a.	**Euro area** **GDP** (Q3-2nd) % q-o-q, sa 0.2, 0.2, n.a. **Germany** **Factory orders** (Oct) % m-o-m, sa -4.3, -0.5, n.a.	**Germany** **Industrial production** (Oct) % m-o-m, sa -2.7, -0.7, n.a. **Italy** **Industrial production** (Oct) % m-o-m, sa -4.8, -0.9, n.a.	**ECB Governing Council meeting** (Dec) % 1.25, 1.00, n.a.	**European Council meeting** **Germany** **Exports** (Oct) % m-o-m, sa 0.9, n.a., n.a. **France** **Industrial production** (Oct) % m-o-m, sa -1.7, -0.6, n.a.
UK	**PMI services** (Nov) Index 51.3, n.a., n.a.	**Record of Financial Policy Committee mtg** (23 Nov)	**Industrial production** (Oct) % m-o-m, sa 0.0, n.a., n.a. **Manufacturing production** (Oct) % m-o-m, sa 0.2, n.a., n.a.	**BoE MPC meeting** (Dec) QE: £bn 275, 275, n.a.	**PPI output** (Nov) % m-o-m 0.0, n.a., n.a. **Global goods trade balance** (Oct) £mn -9814, n.a., n.a.
Japan			**Reuters Tankan (Manufactures)** (Dec) Index 1, n.a., n.a. **Economic coincident CI** (Oct) Index 88.9, n.a., n.a.	**Machinery orders** (Oct) % m-o-m -8.2, n.a., -7.1 **Current account** (Oct) ¥bn 1584.8, 479.3, 1452.2 **Current economic conditions** (Nov) Index 45.9, n.a., 46.5	**GDP** (Q3-2nd) % q-o-q, saar -1.3, n.a., n.a. **M2** (Nov) % y-o-y 2.7, 2.7, .2.7 **Business Survey Index** (Q4) % balance 6.6, n.a., n.a.
Asia	**Taiwan** **CPI** (Nov) % y-o-y 1.2, 1.2, n.a.	**Australia** **Current account** (Q3) A$bn, sa -7.4, -4.0, n.a. **Australia** **RBA cash rate** (Dec) % 4.50, 4.50, 4.50	**Australia** **GDP** (Q3) % y-o-y 1.4, 4.5, n.a.	**Australia** **Unemployment rate** (Nov) % sa 5.2, 5.2, n.a. **Malaysia** **Industrial production** (Oct) % y-o-y 2.5, 1.6, n.a	**China** **Industrial production** (Nov) % y-o-y 13.2, 12.8, n.a.
Emerging Markets	**Turkey** **CPI** (Nov) % y-o-y 7.7, n.a., n.a. **Turkey** **PPI** (Nov) % y-o-y 12.6, n.a., n.a.	**Czech Republic** **Retail sales** (Oct) % y-o-y -0.5, -0.7, n.a. **Brazil** **GDP** (Q3) % y-o-y 3.1, 3.5, n.a.	**Hungary** **Central bank minutes** **Peru** **Reference rate** (Dec) % 4.25, 4.25, n.a. **Poland** **NBP MPC meeting** (Dec) % 4.50, 4.50, n.a.	**Czech Republic** **Unemployment rate** (Nov) % 7.9, 8.0, n.a. **South Africa** **Mfg production** (Oct) % y-o-y 7.7, 4.8, n.a. **Brazil** **Inflation IPCA** (Nov) % m-o-m 0.4, 0.5, 0.5	**Czech Republic** **GDP** (Q3-fin) % y-o-y 1.5, 1.5, n.a. **Hungary** **GDP** (Q3-fin) % y-o-y 1.4, 1.4, n.a. **Colombia** **Central bank minutes**

Sources for consensus forecasts: Bloomberg.

Economic Data Calendar

The Week of 12 December at a Glance

For more detail see country and regional data previews

Previous, Nomura, Consensus

	Mon 12 Dec	Tue 13 Dec	Wed 14 Dec	Thu 15 Dec	Fri 16 Dec
North America	**US** **Budget statement** (Nov) $bn -150.4, -145.0, n.a.	**FOMC meeting** **US** **Retail sales** (Nov) % m-o-m 0.5, 0.4, n.a.	**US** **Import prices** (Nov) % m-o-m -0.6, 0.0, n.a.	**US** **Producer prices** (Nov) % m-o-m -0.3, 0.2, n.a. **US** **Empire State survey** (Dec) Index 0.6, 1.0, n.a. **US** **Philly Fed survey** (Dec) Index 3.6, 7.1, n.a.	**US** **Consumer prices** (Nov) % m-o-m -0.1, 0.1, n.a. **US** **CPI core** (Nov) % m-o-m 0.1, 0.0, n.a.
Europe (ex-UK)		**Germany** **ZEW index** (Dec) Index -55.2, -60.5, n.a. **France** **HICP inflation** (Nov) % y-o-y 2.5, n.a., n.a.	**Euro area** **HICP inflation core** (Nov) % y-o-y 1.6, n.a., n.a. **Euro area** **Industrial production** (Oct) % m-o-m, sa -2.2, -0.8, n.a.	**ECB Monthly bulletin**	
UK		**CPI** (Nov) % y-o-y 5.0, n.a., n.a. **RPI** (Nov) % y-o-y 5.4, n.a., n.a.	**Jobless claims change** (Nov) k 5.3, n.a., n.a. **Average weekly earnings (ex-bonus)** (Oct) % y-o-y, 3mma 1.7, n.a., n.a.	**Retail sales (ex-auto fuel)** (Nov) % m-o-m, sa 0.6, n.a., n.a. **Retail sales (inc-auto fuel)** (Nov) % m-o-m, sa 0.6, n.a., n.a.	
Japan	**CGPI** (Nov) % y-o-y 1.7, n.a., 2.2 **Consumer confidence** (Nov) Index 38.6, n.a., 39.0	**Tertiary industry activity index** (Oct) % m-o-m -0.7, 0.5, -0.5		**Business Conditions in TANKAN** (Dec) Index 2, n.a, n.a.	**TANKAN (Figures by Industry)**
Asia	**Australia** **Trade balance** (Oct) A$bn 2.6, 1.7, n.a. **India** **Industrial production** (Oct) % y-o-y 1.9, 2.3, n.a.	**Australia** **Dwelling starts** (Q3) % q-o-q, sa -4.7, 1.5, n.a.	**South Korea** **Unemployment rate** (Nov) % sa 3.1, 3.2, n.a. **India Wholesale price index** (Nov) % y-o-y 9.7, 9.3, n.a.	**Philippines Remittance from aboard** (Oct) % y-o-y 8.4, 7.5, n.a.	**Singapore Non-oil domestic exports** (Nov) % y-o-y -16.2, -7.7, n.a. **India** **Central bank mtg** (Dec) repo rate % 8.50, 8.50, n.a.
Emerging Markets	**Turkey** **Current account** (Oct) US$bn -6.8, n.a., n.a. **Turkey** **GDP** (Q3) % y-o-y 8.8, n.a., n.a. **Israel** **Trade balance** (Nov) US$mn -1467, n.a., n.a.	**Hungary** **CPI** (Nov) % y-o-y 3.9, 4.3, n.a. **Poland** **CPI** (Nov) % y-o-y 4.3, 4.5, n.a. **Chile Nominal overnight rate target** (Dec) % 5.25, 5.00, n.a.	**South Africa** **CPI** (Nov) % y-o-y 6.0, 6.3, n.a. **Israel** **Current account** (Q3) US$mn -560, n.a., n.a.	**Czech Republic** **PPI** (Nov) % y-o-y 5.6, n.a, n.a. **South Africa** **PPI** (Nov) % y-o-y 10.6, 10.4, 11.0 **Peru** **GDP** (Oct) % y-o-y 5.8, n.a., n.a.	**Hungary Average gross wages** (Oct) % y-o-y 5.2, 5.3, n.a. **Poland** **Employment** (Nov) % y-o-y 2.5, 2.4, n.a. **Colombia Overnight lending rate** (Dec) % 4.50, 4.50, n.a.

Sources for consensus forecasts: Bloomberg.

Super turkey? Maybe not

The Super Committee failed to agree, but the wheels of US fiscal politics will continue to turn.

Perhaps it was because it was a quiet Thanksgiving week in the US, perhaps it was because the result was already widely expected and discounted, or perhaps it was because the market always understood that it was part of a much longer process and that the do-or-die nature of the 23 November deadline was always contrived. Whatever the reason, the failure of the so-called “Super Committee” (Joint Select Committee on Deficit Reduction) to agree on the necessary (at least $1.2trn of) long-term cuts in the (rising) US budget deficit to avoid “automatic” draconian budget cuts (so-called “sequestration”) from the beginning of 2013 passed without much ado (see US Roundup: “Super flop”). The “bad cop” of US debt ratings, Standard & Poor’s, for one was not fazed: it immediately announced that the ratings and outlook on the US would not be affected, the inability of the Super Committee to reach agreement already being deemed consistent with its 5 August shock decision to lower its rating on the US (from AAA to AA+).

Under the US system of divided government and complicated legislative procedures, to the outside (particularly non-US) observer, policymaking in the US is opaque and confusing at the best of times. But the Super Committee and sequestration process would seem to take the cake in the convolutedness department. Politics and policymaking is all about staking out positions and trying to advance them, and then negotiating, compromising and cutting deals to reach agreement. Nowhere is this more so than in the bicameral US Congress, with its 435 member House of Representatives, up for full election on a two-year cycle, and its 100 member Senate, elected for six-year terms at staggered two-year intervals. Deadlines, either externally- or self-imposed, can be highly effective in getting legislators to move from asserting non-negotiables – a stance that if widely adopted is certain to stymie policymaking – to getting things done.

To reach agreement on a long-term deficit reduction plan after the debt ceiling impasse came to a head at the start of August, Congress and the administration came up with a unique solution for simplifying the negotiation process and for using deadlines to motivate decision-making (which was enshrined in the Budget Control Act of 2011): if both sides, left to their own devices, could not agree on measures to reduce the deficit, better to hand the problem over to a small number of legislators (six from each house, split evenly between Democrats and Republicans) to come up with a solution and set up a “doomsday” mechanism to give them the incentives to do so (Congress, within a month, would then have to give the proposals an “up or down” vote). The doomsday mechanism is sequestration: if the Super Committee, and then Congress, could not agree, the $1.2trn cuts would kick in automatically from the beginning of 2013 (conveniently after the November 2012 presidential and congressional elections) with the “pain” supposedly equally divided between Republicans (cuts to defense spending) and Democrats (cuts to non-defense spending, including Medicare but excluding Social Security).

The agreement seemed to kill two birds with one stone: it defused (until after the 2012 elections at least) the impasse over raising the debt ceiling – some, including the US Treasury, reckoned a failure to raise the ceiling had the potential ultimately to trigger a default by the US government – and it gave hope that a long-term deficit reduction plan could soon be agreed and put into effect. Metaphorically, the Super Committee/sequestration arrangement is akin to a Congress that is unable to reach a decision holding a gun to its head to force it to do so; the only problem is that Congress itself can take the gun away, so, in the end, the incentive mechanism is a bit a sham. If it looked too good to be true, it probably was.

But despite the elaborate choreography, everyone involved, including market participants, seemed to understand the process for what it was: part of an ongoing political process for solving a set of long-term fiscal problems, not a silver bullet. For our part, we continue to take a “glass half full” view, viewing it as positive that restoring the fiscal finances to long-term health is the central issue in US politics and that both sides agree on this, disagreeing only on the means. The immediate wake of the worst financial crisis and recession since the Great Depression, while the private sector is deleveraging, is not the time for fiscal zeal and slamming on the fiscal brakes. A mix of policies that secure both near-term growth and longer-term entitlement and tax reform is needed. As messy as the US fiscal policymaking process may appear to be, a reasonable case can be made that this is more or less the direction in which the body politic is travelling. With US ten-year treasury yields hovering around 2%, markets would seem to agree.

A super flop

The Super Committee has failed, implying that sequestration will be triggered at the start of 2013. But, we expect that Congress will act to avert its potentially crippling fiscal drag.

The Super Committee failed to agree on a deficit-cutting plan…

Members of the Joint Select Committee on Deficit Reduction (JSCDR) failed to meet the requirement of the Budget Control Act (BCA) of 2011 directing this so-called "Super Committee" to agree on (by 23 November) and then present to Congress (for passage by 23 December) a plan to cut $1.2 trillion from the projected 10-year budget deficit. Under another provision of the BCA this failure will trigger the "sequestration" (automatic reduction) of scheduled spending on both defense and non-defense discretionary programs beginning in January 2013 (see US Special Comment: "'Super Committee' admits defeat", 21 November 2011).

…but this has little effect on the outlook

This legislative failure has little direct effect on our forecast for the US economy. We had not expected the JSCDR to propose substantive changes that would affect the 2012 outlook, and we continue to believe that fiscal policies for 2013 will not be set before late next year. The immediate aftermath of the 2012 presidential and congressional elections should be an opportune time to strike a long-run budget compromise that would incorporate significant reforms to both taxes and spending. It is important to recognize that, under current law, very large automatic tax increases and spending cuts will take effect at the beginning of 2013. Like a sword of Damocles hanging over the US government, the prospect of such a severe fiscal restraint seems likely to, eventually, compel action.

This summer's BCA largely set the 2012 budget outlook…

As noted, the JSCDR's failure to act will likely have no direct effect on fiscal measures in the year ahead. The Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) estimate that under current law a combination of BCA spending caps, the partial withdrawal from military operations in Iraq and Afghanistan, and other expiring tax provisions amount to $69 billion in 2012 – a "drag" of just 0.4% of the CBO's estimate of fiscal 2012 GDP. However, we continue to believe that Congress will act soon to counteract all of that drag – and to provide some modest net stimulus to 2012 growth.

…and we expect Congress to extend the late 2010 stimulus

Despite the latest "process failure," we expect a bi-partisan majority to agree to take action before year-end to prevent the scheduled expiration of the two percentage point (pp) cut in payroll taxes enacted a year ago as a "temporary" fiscal boost. We judge that, with the economy still faltering, policymakers will deem it ill-advised to risk the effects of a sizeable tax increase of roughly $120bn that would result from the restoration of the usual payroll tax rates. Moreover, we think that Congress will also act to extend the life of the emergency unemployment compensation (EUC) program. Congress must enact, by mid-December, legislation (the "omnibus" spending bill) to authorize on-going government operations for fiscal 2012. That "must-pass" legislation would likely be the most suitable vehicle for extending the payroll tax cut

Figure 1. Budgetary effects of selected policy alternatives

	2011	2012	2013	2014	2011	2012	2013	2014
		(Billions of dollars)				(Percent of GDP)		
Spending Initiatives								
Extension of UI Benefits (Dec-2010)	56	--	--	--	0.4	--	--	--
BCA								
Caps	0	-27	-49	-62	0.0	-0.2	-0.3	-0.4
Sequester	0	0	-111	-111	0.0	0.0	-0.7	-0.7
Troop drawdown overseas[a]	0	-18	-53	-86	0.0	-0.1	-0.3	-0.5
Total spending cuts		**45**	**214**	**259**		**0.3**	**1.3**	**1.5**
Revenues								
Payroll Tax Holiday (Dec-2010)	-112	--	--	--	-0.7	--	--	--
Extend Bush Tax cuts and Index AMT	0	11	238	340	0.0	0.1	1.5	2.0
Extend Other Expiring Tax Provisions	0	13	77	113	0.0	0.1	0.5	0.7
Total Revenues		**24**	**314**	**453**		**0.2**	**1.9**	**2.7**
Total fiscal drag		**69**	**528**	**712**		**0.4**	**3.3**	**4.2**

a. Reduce the number of troops deployed for certain types of overseas military operations to 45,000 by 2015. This assumes funding for operations in Afghanistan, Iraq, or elsewhere would total $118bn in 2012, $82bn in 2013, $54bn in 2014, and about $35bn a year from 2015 on—for a total of $493bn over fiscal years 2012–21.

Source: Congressional Budget Office; Joint Committee on Taxation; Nomura Global Economics.

and the EUC program. Both are subject to "pay-go" rules requiring tax or spending offsets over a 10-year time horizon, but these rules could be waived as they were last year. However, the politics surrounding the "Super Committee's" failure will make enactment of these measures more contentious.

Sequestration would amplify fiscal drag in 2013…

The looming sequestration would greatly magnify the 2013 tightening of fiscal policy that is embedded in current law. Beyond a modest fiscal drag in 2012, the fiscal drag in 2013 under current policy grows substantially. The spending caps enacted in the BCA would reduce projected discretionary spending in 2013 by about $49bn but the sequestration now set to be triggered in January 2013 would add cuts of more than twice that amount -- roughly $111bn. In addition, CBO estimates that reductions in troop deployment would shave about $53bn more from outlays – for total spending cuts of $214bn, or 1.3% of GDP. On the revenue side, the expiration of the Bush-era tax cuts, failure to index the AMT (alternative minimum tax) for inflation, and other expiring tax provisions total approximately $314 billion, or 1.9% of GDP. The combined spending cuts and revenue from expiring tax provisions create a total fiscal drag of about 3.3% of GDP in 2013 (Figure 1).

…with equal cuts in defense and non-defense spending

With the failure of the JSCDR, the BCA mandates a "sequestration" procedure that results in automatic cuts in both defense and non-defense discretionary spending. The BCA directs the Office of Management and Budget (OMB) to impose cuts through a specific formula and to be spread evenly over FY2013-21. They would also be divided evenly between the defense and non-defense programs, including entitlements. However, cuts to Medicare and certain health care programs would be capped at 2% for each fiscal year.

But Congress will likely seek ways to avoid such severe cuts

Sequestration would shave more than 7% from planned defense spending over the decade ahead but other defense spending cuts associated with reductions in troop deployment would cut another 6% from defense outlays over the 10-year budget horizon. Defense Secretary Leon Panetta and Senator John McCain have warned of dire national security consequences resulting from such deep cuts. Resistance to the mandated cuts in non-defense programs is likely to be equally intense. In our view, averting sequestration's deep cuts will become a priority for many in Congress but doing so will require the sort of sober realignment of budgetary priorities that eluded the Super Committee. The debt ratings agencies, which have indicated that the Committee's failure will not lead to a quick downgrade of US debt, may recognize this prospect.

"Super" failure does not change our 2013 fiscal drag forecast

Our baseline forecast of the US economy in 2013 assumes that Congress acts to offset most, but not all, of these automatic changes after the presidential election in November 2012. While we retain the assumption that fiscal drag in 2013 will be greater than in 2012, we remain confident that it will be substantially less than current law would require (see US Roundup: "Time for a reset", 18 November 2011).

The high cost of inaction makes reforms more likely

The economic cost of procrastination creates a powerful incentive to finally take up the sorts of tax and entitlement reforms that will ultimately be needed to set US fiscal policy on a sustainable path. The sequestration process triggered by the failure of the Super Committee magnifies the incentive to act. Both this summer's debt ceiling debate and now the failure of the Super Committee may seem to reveal a dysfunctional government. But behind it all, a consensus now appears to recognize the necessity for reform. We believe that consensus will eventually produce significant progress toward these long-overdue reforms shortly after the 2012 election in order to avert the frightening consequences of sequestration and other current-law budget changes scheduled to take effect early in 2013.

Signs of recession

Growth concerns continue to linger and high-frequency economic indicators signal that the euro area is heading for a recession. So far, the growth slowdown appears less severe than in 2008.

The euro area is caught in a negative feedback loop...

The euro area continues to be caught in a negative feedback loop where low growth increases worries about the solvency of European governments and banks. Governments respond by tightening fiscal policy further. Banks are forced to deleverage and tighten their credit standards. Both responses have negative implications for growth. Add to the mix uncertainty about resolution of the euro-area debt crisis, and households and companies are more likely to postpone some of their investment and consumption decisions.

ECB President Mario Draghi made his view clear at the ECB's November press conference that the euro area is heading towards a "mild recession by the end of the year". We do not yet forecast a technical recession but, along with our colleagues, we are in the process of revising our outlook and growth forecasts.

...as suggested by high-frequency economic data

Any forecast update involves a reassessment of how the near-term outlook is shaping up. So what are the data telling us about the prospects of a euro-area recession? High-frequency economic indicators show clear signs that growth is slowing sharply in some regions of the euro area. But the deceleration appears less severe than in October 2008.

Taking stock of the near-term growth outlook

Many survey indicators...

Survey indicators such as euro-area PMIs point to activity slowing in recent months: the manufacturing PMI slipped below 50 in August and has continued its downward trend since then. The November report did stabilise a bit, but we think temporary factors are at play. In fact, the forward-looking components suggest that activity will probably contract further in December in both the manufacturing and the services sectors.

Other survey data such as consumer confidence and the European Commission Economic Sentiment Indicator (ESI) are now at levels consistent with a recession. Specifically, the most recent readings from these two surveys are much weaker now than at the start of previous recessions (i.e. Q1 1992 and Q2 2008) (Figure 1). Low consumer confidence will hit household consumption hard and poor business sentiment will make business managers more likely to delay their investment plans. However, it is worth noting that weak survey data in Q3 did not imply negative Q3 GDP growth (the actual print was 0.2% q-o-q). And the OECD cyclical leading indicator (CLI) seems to have been holding up well by end of Q3 2011, and is now only slightly below its long-run average.

...and hard data have reached or will reach the edge of the cliff

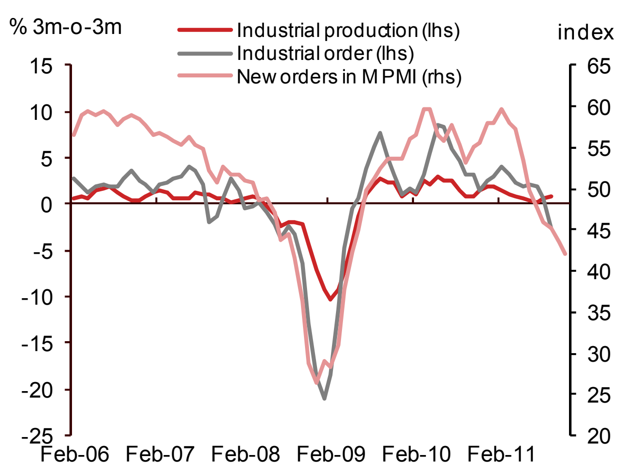
More worryingly, there are signs that the manufacturing cycle, which has been driving euro-area growth during the recent recovery, is set for a sharp slowdown. The forward-looking industrial orders – usually a good leading indicator for industrial production – declined by 6.4% m-o-m in September (Figure 2). In addition, the more timely new orders component in the manufacturing

Figure 1. Current survey data and in previous recessions

	Consumer confidence	ESI	M PMI	M new orders	Services PMI	OECD CLI	GDP growth
	index	index	index	index	index	index	% q-o-q
LTA	-12.5	99.3	51.8	52.3	53.7	100.0	0.5
1Q92	-17.47	98.9	-	-	-	99.2	-0.8
1Q92: 4Q92	-23.0	97.1	-	-	-	98.4	-0.5
1Q03	-19.3	91.1	49.3	50.1	48.9	99.1	0.0
2Q08	-13.9	99.2	50.2	48.2	50.6	99.5	-0.4
2Q08: 2Q09	-24.2	83.7	41.5	38.6	45.5	97.7	-1.1
Average	*-23.2*	*89.8*	*42.8*	*40.5*	*46.1*	*98.1*	*-0.8*
3Q11	-15.6	98.8	49.3	46.3	50.6	99.6	0.2
4Q11*	-20.2	94.8	46.7	42.8	47.1	-	***-0.2***

Note: *OECD CLI is available till September 2011. Others are the average of available data in the quarter.
Source: Datastream, Nomura Global Economics.

Figure 2. Industrial activity indicator



Source: Datastream and Nomura Global Economics.

PMI has declined, signalling darker clouds ahead for the euro-area industrial sector in Q4.

The slowdown seems to be broad-based

Not only is growth slowing in the periphery countries, but there are now signs that the core countries are not immune to the contraction. In Germany, the latest manufacturing PMI number is now 2.6 standard deviations below its February peak.

Consumer confidence has also taken a hit, with households now expressing more concerns about job security: consumer optimism in the core countries has faded rapidly since August (Figure 3). But the situations elsewhere in the periphery appear even worse, with the index even below its level reached in 2008.

Will external demand save the day again?

Unlike previously, external demand may not save the day

The 2010 euro-area recovery benefited from a strong pick-up in global trade. The key question is whether trade can save the day again. In fact, euro-area exports have already shown signs of losing their growth momentum (Figure 4). We are sceptical about a near-term trade boost since the two main drivers of the 2010 euro-area external demand boost, namely a major euro depreciation and rapid economic growth in emerging markets, are not likely to persist into 2012.

The euro's real effective exchange rate (REER) is now 3% stronger than at the beginning of the year. And the latest FX forecast from our colleagues in FX strategy is not calling for a significant effective euro depreciation in 2012. In addition, world trade is slowing down: the 3m-on-3m growth in world trade – using the series provided by the Netherlands Bureau of Economic Policy Analysis (CPB) – has slowed to 0.9% in September from 11% in H1 2011. And according to forecasts by the same institute, the annual growth of world trade is projected to be around 3.5% in 2012, well below the historical average of 5% since 1971. So unless global trade surprises on the upside or the euro weakens significantly, the euro area is unlikely to benefit from a net trade boost at least in the near term.

The signs are pointing to a recession

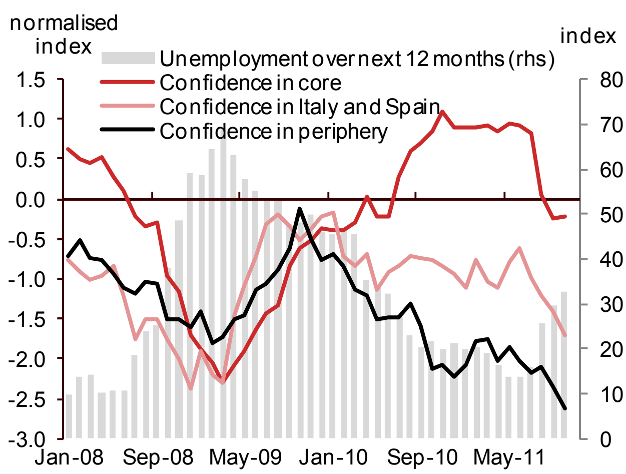
Hence, despite it looks less severe than in 2008-09...

The data suggest the euro area is heading for a recession. The key question is whether the recession will be a mild "technical" one or a serious protracted downturn, perhaps mirroring the 2008-09 episode. For now, the growth slowdown appears less severe than in October 2008. But it all depends on how the European debt crisis plays out.

...a deeper recession is possible if the debt crisis persists

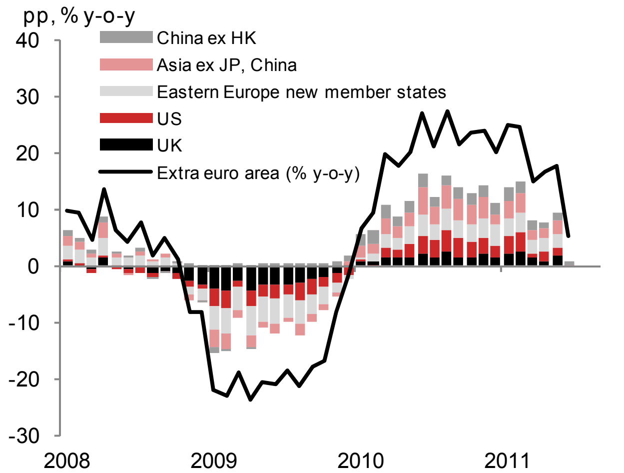
The longer the European debt crisis lingers, the greater the risks of a deeper recession. We have argued that any resolution of the debt crisis may have to involve significant ECB bond buying communicated as proper quantitative easing (QE) operations. The ECB meeting on 8 December will be carefully scrutinised for signs that the Bank is moving in that direction. But as we argued last week (see Europe Roundup: Contagion fears, 18 November 2011) we think economic conditions need to deteriorate further before the ECB takes the QE route. The best we can hope for at the December meeting is another rate cut and more liquidity injections into the European banking system.

Figure 3. Euro area consumer sentiment



Source: Datastream, Nomura Global Economics.

Figure 4. Breakdown of extra-euro-area trade



Source: Datastream, Nomura Global Economics.

Ryota Takemoto

Structural unemployment may have declined

The unemployment rate fell to 4.1% in September, the lowest level since November 2008. However, a decline in structural factors may have contributed.

Employment conditions are gradually improving

The Q3 2011 unemployment rate (nationwide, excluding Iwate, Miyagi and Fukushima prefectures) was 4.4%, a 0.2pp improvement from 4.6% in Q2. The results of the survey covering the whole of Japan, including these three prefectures, which was resumed with effect from the September survey, revealed an unemployment rate of 4.1% for September. This is substantially lower than the 4.6% in February, just before the survey for the whole of Japan was suspended. With the job-openings-to-applicants ratio rising after bottoming at 0.61x in April, the September BOJ Tankan employment conditions DI (all companies, all industries) showed an easing in the sense of excessive employment, and we anticipate a further modest improvement. We think the employment situation overall is on a gradual improving trend, albeit driven by the welfare and nursing industry, where demand for labor remains strong.

But this reflect lower "structural unemployment",...

We think the decline in the unemployment rate also stems in no small part from factors other than an improvement in labor supply-demand. Specifically, we think structural unemployment, which stands apart from changes in the unemployment rate, may have fallen. However, structural unemployment is only a theoretical indicator. Actual figures cannot be observed directly from published data. We have therefore attempted to draw up rough estimates of structural unemployment using a Beveridge Curve.

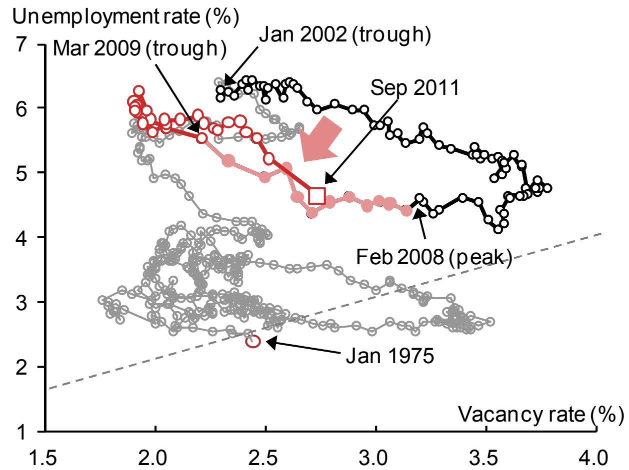
...as indicated by the shift in the so-called Beveridge Curve

The Beveridge Curve plots the vacancy rate on the horizontal axis against the unemployment rate on the vertical axis (the vacancy rate is defined as the number of unfilled jobs, that is, the number of job openings minus number in employment, as a percentage of the number of employed people). As Figure 1 shows, compared with the previous recovery phase beginning in January 2002, the Beveridge Curve in Japan has shifted down and to the left during the current recovery phase, which started in March 2009. This suggests that the structural unemployment rate has declined, as a shift in the Beveridge Curve down and to the left means a lower unemployment rate even if the vacancy rate is the same. In September 2011, the unemployment rate was 4.7% versus a vacancy rate of 2.7%. In the last economic recovery, in August 2003, when the vacancy rate was roughly the same, the unemployment rate was 6.0%, 1.3pp higher. This, too, suggests that the unemployment rate is now lower relative to the demand for labor.

We estimated structural unemployment

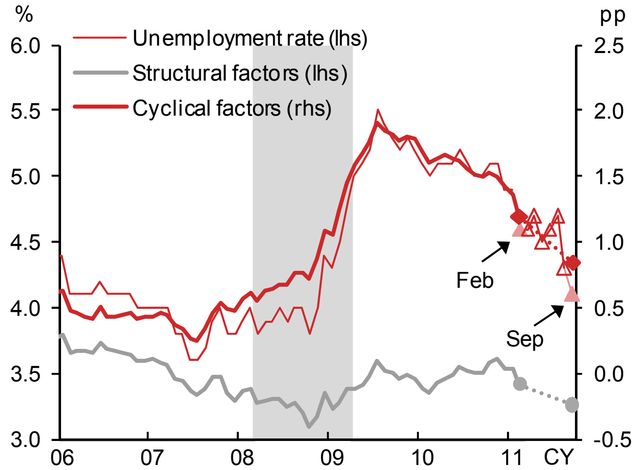
We estimated structural unemployment using the following methodology. For each month, we regarded the intersection of a perpendicular line dropped from that month's point on the Beveridge Curve with the 45° line as representing a balanced labor market in which the unemployment rate (additional labor supply) matched the vacancy rate (additional labor demand). We then estimated the structural unemployment rate from the number of unemployed

Figure 1. Downward shift in Beveridge Curve



Note: (1) Vacancy rate = no. of unfilled jobs (number of job openings – no. in employment) as % of number of employed. (2) Unemployment rate = no. of unemployed as % of total employed + total unemployed. (3) Dotted line indicates 45° line.
Source: Ministry of Internal Affairs and Communications (MIAC), Ministry of Health, Labor, and Welfare (MHLW), Cabinet Office, Nomura Global Economics.

Figure 2. Unemployment rate: factor analysis



Note: (1) Dotted line represents linearly interpolated figures for period from March through August 2011, when all-Japan unemployment rate data excluded Iwate, Miyagi, and Fukushima prefectures. (2) Impact of structural unemployment and demand deficient unemployment are Nomura estimates. (3) Shaded areas show periods of economic recession.
Source: MIAC, MHLW, Cabinet Office, Nomura Global Economics.

corresponding to this point of intersection. In addition, we defined the remainder after subtracting structural factors from the actual unemployment rate as cyclical factors.

It has been declining since the last recovery phase

We estimate that of the unemployment rate of 4.1% recorded for September, structural factors accounted for 3.3pp, while cyclical factors accounted for 0.8pp (Figure 2). In the previous economic recovery (February 2006) when the unemployment rate also fell to 4.1%, we estimate that structural factors accounted for 3.6pp while cyclical factors accounted for 0.5pp. Structural unemployment thus appears to have declined. Recently, of the 0.5pp decline in the unemployment rate between February and September, the decline in structural unemployment contributed -0.16pp.

The correction of job mismatches may have helped

This decline in the structural unemployment rate might be attributable to an ongoing correction of the mismatch between supply and demand on the labor market. Indeed, if we look at the employment mismatch from several angles, we can see a pronounced easing, particularly in the geographical mismatch between job openings and job seekers (Figure 3). Up until the financial crisis, there were substantial regional differences in terms of labor supply/demand. In some areas such as the Tokai region, for example, the job openings-to-applicants ratio exceeded 1.0x, indicating excess labor demand, while in Hokkaido it was around 0.6x, indicating excess labor supply. After the financial crisis, these regional disparities in the job openings-to-applicants ratio narrowed, and the employment mismatch due to a geographical mismatch between job openings and job seekers, may have corrected.

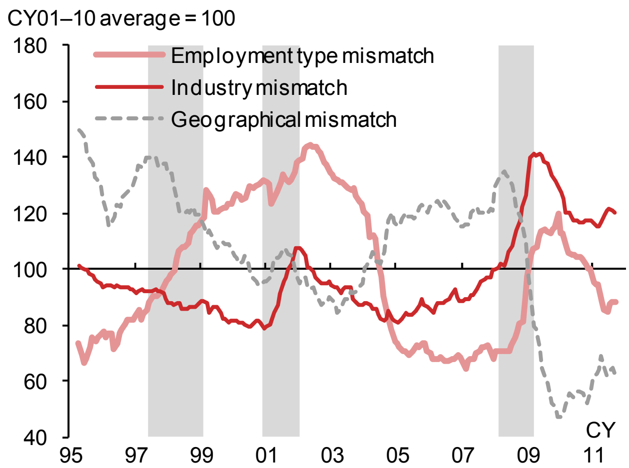
A decline in labor market liquidity may be a factor too

Another possible explanation for the decline in structural unemployment is that the labor market has lost liquidity. Our estimated structural unemployment rate is closely correlated with labor market turnover (defined as the percentage of people among the labor force – both working and unemployed – in both the previous and current months for whom their employment situation has reversed from the previous month). Labor market turnover is currently close to its lowest level for 10 years (Figure 4). Taking a long-term view, as labor market turnover rose and working methods became increasingly diversified, structural unemployment might have been boosted by an increase in frictional unemployment as job applicants and those changing jobs waited to take up new posts and were thus temporarily unemployed.

A better employment picture should be seen from mid-2012

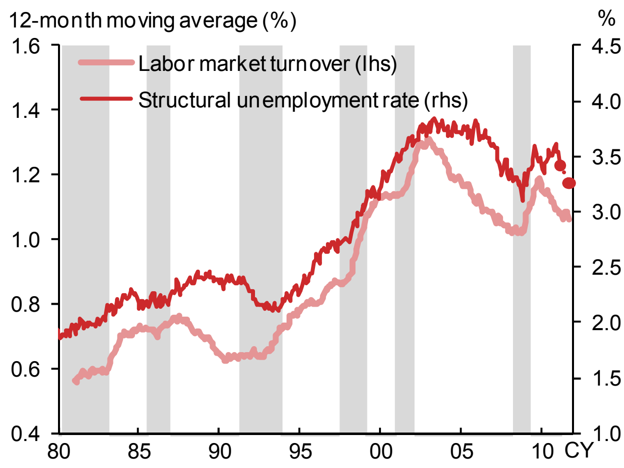
We think the decline in the unemployment rate can therefore be attributed partly to a fall in structural unemployment, but the rate of unemployment due to insufficient demand for labor (cyclical factors in Figure 2) has also declined, resulting in a better labor supply-demand balance. The government estimates that around 700,000 new jobs will be created as a result of the ¥12trn or so third supplementary budget for FY11 passed on 21 November. An increase in labor demand as a result of post-earthquake reconstruction demand and a rise in auto production can also expected. As long as the labor surplus remains, employment is likely to improve at only a gradual pace in the near term. However, we think the improvement in the employment situation will become clearer from mid-2012, when we expect the labor surplus to be eliminated.

Figure 3. Employment mismatch indicators



Note: (1) Uses Cabinet Office (2010) method (∑|Oi/O-Ai/A|). Oi = no. of job openings in segment i, O = total no. of job openings, Ai = no. of job seekers in segment i, A = total no. of job seekers. (2) Prior to March 2000 old industrial sectors are used. (3) Adjustments for seasonal factors by Nomura. (4) Shaded areas show periods of economic recession.
Source: MHLW, Cabinet Office, Nomura Global Economics.

Figure 4. Labor market turnover and structural unemployment rate



Note: (1) Labor market turnover is defined as the percentage of people among the labor force (both working and unemployed) in both the previous and current months for whom their employment situation has reversed from the previous month). (2) Structural unemployment rate estimated by Nomura. (3) Shaded areas show periods of recession.
Source: MIAC, MHLW, Cabinet Office, Nomura Global Economics.

Taking Asia's pulse

Asia's growth slowdown is deepening and growth divergences within the region are emerging.

Along with our colleagues in other regions, we are in the process of reassessing our outlook, and have a bias to lower our Asian GDP growth forecasts. A useful starting point in this exercise is to assess Asia's current growth momentum using eight of our preferred timely or forward-looking indicators. The results confirm that, at this juncture, Asia's growth is cooling but not collapsing; the results also highlight varying growth performance within the region.

Our export leading index is pointing south…

1. Nomura's leading index of Asian exports. Our composite leading index is comprised of the OECD leading economic index, the US ISM index and its import sub-component index, China's imports, the Baltic Dry Freight index, US semiconductor global sales, US manufacturers' new orders of electronic products and the US semi-conductor equipment book-to-bill ratio. While most Asian countries have yet to release October trade data, our leading index provides an indication of Asian export growth through to December (Figure 1). It currently points to a continued slowdown in the growth of Asian exports in coming months. But, reassuringly, unlike September 2008, it is not pointing to an imminent plunge.

… as are composite leading indexes but with variations

2. Composite leading economic indexes. The OECD constructs leading economic indexes for China, India and Indonesia, while we used each country's official leading index for Malaysia, Korea, Singapore, Taiwan and Thailand. Since different methodologies are used to construct the leading indexes, we standardised them by computing Z-scores. From June to September 2011, all eight indexes have fallen, pointing to weaker GDP growth in the next 3-6 months. However, there are some notable differences in: 1) the rate of decline; and 2) the September level (Figure 2). The leading economic indexes for India, Thailand and Singapore have fallen the most since June, which suggests that these countries are losing growth momentum most rapidly. The level in September, however, is still well above the December 2008 low point (represented by the diamonds in Figure 2) for all countries except India, which is already below its December 2008 level. This suggests that India's GDP growth could possibly slow below the 5.9% y-o-y rate recorded in Q1 2009.

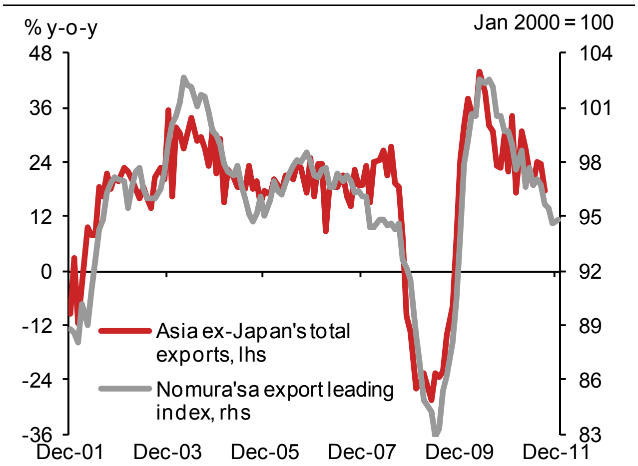
PMIs are mostly below 50, but well above the 2008 lows

3. Purchasing managers indexes. The PMIs compiled by Markit Economics provide a timely gauge of business conditions for five Asian countries. Save India, the PMIs for October (the first number in brackets) are all below 50 signalling that economic activity is cooling, but still well above the nadir reached in late 2008/early 2009 (the second number in brackets): Hong Kong (49.0, 39.6), India (50.6, 44.9), Korea (48.0, 39.7), Singapore (49.5, 44.8) and Taiwan (43.7. 22.9). Judging from the OECD's leading economic index, India's PMI could soon fall abruptly, while Taiwan's PMI is currently the lowest in Asia, albeit still well above its December 2008 low. China's official PMI declined from 51.2 in September to 50.4 in October, staying slightly above 50 and well above 38.8, the low recorded in December 2008.

Confidence is holding up fairly well

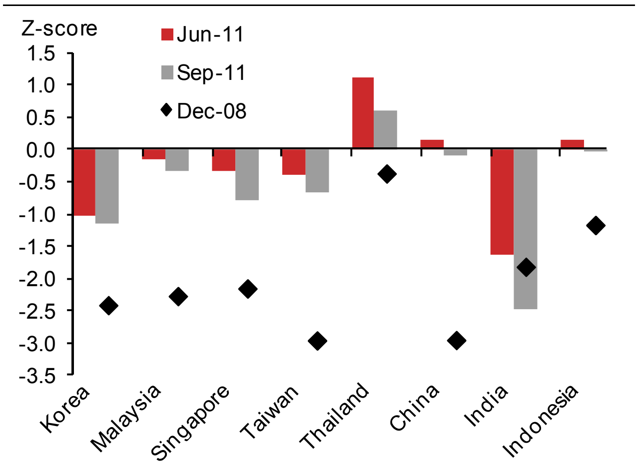
4. Consumer confidence surveys. All bar one of Asia's nine major economies have reputable surveys of consumer confidence. They generally show that confidence is holding up well despite the sell-off in equity markets. In recent months, consumer confidence has risen in Indonesia and

Figure 1. Nomura's leading index of Asian exports



Source: OECD; Bloomberg; CEIC and Nomura Global Economics.

Figure 2. Composite leading economic indexes



Source: CEIC and Nomura Global Economics.

the Philippines; held relatively stable in Korea, Malaysia and Taiwan; and fallen slightly in China and more notably in Hong Kong and Thailand, the latter likely influenced by the flooding disaster. In all countries, consumer confidence remains well above the lows in late 2008/early 2009.

Motor vehicle sales are starting to fall sharply

5. Domestic motor vehicle sales. This is a timely indicator. All countries have released data for October except Hong Kong, the Philippines and Singapore. In contrast to consumer confidence, year-on-year growth in the volume of local motor vehicle sales fell sharply from September to October in China (5.7% to -0.9%), India (19.4% to -1.1%), Korea (3.8% to -8.8%) and especially Thailand (27.5% to -40.5%). The growth rates are low but positive in Malaysia (2.2% to 2.6%) and Taiwan (12.9% to 3.5%), with only Indonesia still posting a high growth rate in October of 24.8% y-o-y. The weakness in motor vehicle sales may be exaggerated by temporary shortages of car parts and components caused by Thailand's severe floods. Even so, apart from Thailand the growth rates remain well above the lows in late 2008/early 2009.

Inventories do not look overly bloated at this stage

6. Industrial inventory-to-shipment ratios. An unanticipated decline in firms' shipments can result in a build up of inventories, and so a sharp rise in the ratio of inventories to shipments is often followed by a pullback in production. Only three Asian countries have timely data on industrial inventory-to-shipment ratios, and indeed, in all three, ratios surged at the height of the global financial crisis, peaking in late 2008/early 2009 at 1.27 in Korea, 1.61 in Taiwan and 1.48 in Thailand. So far this year, the inventory-to-shipment ratios have risen only slightly, and the latest data for September for Korea, Taiwan and Thailand, at 1.04, 0.98 and 0.94 respectively, are still well below the late 2008/early 2009 peaks.

Our export pulse measures point to weakness ahead…

7. Export pulse. In Asia, it is common to express export growth in year-on-year terms, but base effects can distort these numbers. To get a better feel for the pulse of Asian exports, we calculate the annualised percentage change in the sum of the last 3 months on the previous 3 months (% 3m-o-3m) and the % month on month (% m-o-m) change using official seasonally adjusted data or, if not available, data we seasonally adjust ourselves (Figure 3). Our pulse measures suggest that the year-on-year growth rates of Asian exports will continue declining, and possibly more steeply than that suggested by our leading index of Asian exports. The outlook seems most stark for the Philippines, Singapore and Taiwan, three of Asia's largest exporters of electronic items. Aggregating the export data for the four countries that have released data for October (China, Korea, Singapore, Taiwan), export growth in year-on-year terms was weakest to the EU (1.1%), followed by the US (8.0%) and Asia (15.4%).

… as do our pulse measures of industrial output

8. Industrial output pulse. Our pulse measures of industrial output point to a slowdown in year-on-year growth, but not to the same extent as exports. Domestic demand is likely providing some resilience (Figure 4). We are sceptical of Singapore's latest rebound as it was driven by the volatile biomed sector. The outlook for industrial output seems weakest in India and Taiwan.

These indicators point to increasing growth divergences

Overall, our assessment is that, while Asia's growth is slowing and looks set to continue to do so, the situation and outlook is nowhere near as dire as it was in late 2008. Still, we are cognizant that a tipping point could be reached such that non-linear effects suddenly kicked in. Within the region, growth divergences are becoming more apparent. China and Indonesia look most resilient, while growth momentum seems to be flagging most in India, Singapore, Taiwan and Thailand; the rest fall between these two groupings.

Figure 3. The growth pulse of exports

	% y-o-y			% 3m-o-3m			% m-o-m		
	Aug	Sep	Oct	Aug	Sep	Oct	Aug	Sep	Oct
China	24.4	17.0	15.8	0.9	-2.7	-5.7	1.8	-5.2	0.7
HK	6.8	-3.0	n.a.	2.6	3.0	n.a.	2.4	-9.9	n.a.
India	44.3	36.4	n.a.	15.4	2.8	n.a.	-6.4	0.6	n.a.
Indonesia	35.9	46.3	n.a.	18.7	8.6	n.a.	1.6	5.2	n.a.
Korea	25.5	18.1	8.0	-9.0	6.4	5.0	3.4	-4.8	0.1
Malaysia	10.9	16.6	n.a.	-8.8	-6.6	n.a.	2.3	0.4	n.a.
Philippines	-13.7	-27.0	n.a.	-26.1	-23.9	n.a.	-10.3	-6.1	n.a.
Singapore	3.8	-4.6	-16.2	-1.3	-6.2	-16.5	7.1	-9.3	-5.9
Taiwan	7.2	9.9	11.7	-21.8	-17.0	-18.0	-8.5	-0.2	5.0
Thailand	21.5	12.6	n.a.	7.7	6.2	n.a.	-1.5	-5.3	n.a.

Note: % m-o-m and % 3m-on-3m data are seasonally adjusted.
Source: CEIC and Nomura Global Economics.

Figure 4. The growth pulse of industrial output

	% y-o-y			% 3m-o-3m			% m-o-m		
	Aug	Sep	Oct	Aug	Sep	Oct	Aug	Sep	Oct
China	13.5	13.8	13.2	7.1	10.4	11.4	0.9	1.3	0.9
India	3.6	1.8	n.a.	-5.5	-6.3	n.a.	-0.8	-1.3	n.a.
Indonesia	1.6	10.1	n.a.	-0.8	-0.3	n.a.	-3.2	2.7	n.a.
Korea	4.7	6.8	n.a.	2.3	-0.6	n.a.	-1.9	1.1	n.a.
Malaysia	3.6	2.5	n.a.	-2.1	2.6	n.a.	4.0	0.3	n.a.
Philippines	2.6	n.a.	n.a.	-12.0	n.a	n.a.	-0.1	n.a.	n.a.
Singapore	22.1	11.3	24.4	-18.9	14.0	42.2	4.3	-1.5	14.2
Taiwan	4.0	1.8	1.4	-14.9	-8.3	-8.1	-1.8	-2.3	2.5
Thailand	6.8	-0.5	n.a.	24.5	8.5	n.a.	3.7	-3.1	n.a.

Note: % m-o-m and % 3m-on-3m data are seasonally adjusted.
Source: CEIC and Nomura Global Economics.

EEMEA sovereign ratings outlook

The outlook for EEMEA sovereign ratings is mixed heading into 2012, with Hungary and (to a lesser extent) Poland both perceived by markets as overrated and Turkey as underrated.

EEMEA countries face a mixed ratings outlook

With external risks mounting from a eurozone recession, rhetoric from ratings agencies on the EEMEA region has gone into overdrive in the last few months. However with 2012 budget season upon us the agencies have also provided a timely reminder that there are also many idiosyncratic risks in EEMEA that are often forgotten in the whirlwind of the eurozone crisis. Two of the countries we cover seem to be facing downgrades – South Africa and Hungary, while two are likely to receive upgrades in the medium run – Poland and Turkey. Markets may currently be ignoring underlying credit stories because of external contagion and risk aversion, but through 2012, when fundamental risks may come back into vogue with rising risks of a eurozone breakup, ratings and these underlying credit stories will likely be more important.

In Figures 1 and 2 we look at the current ratings vs market pricing of risk and debt-to-GDP ratios. Using this method Hungary appears overrated and Turkey underrated. However, as the outlook on the ratings suggests Poland looks overrated, even though its policy outlook looks more positive, and South Africa looks underrated, even though ratings agencies are now rightly highlighting political risks. We provide detail on the idiosyncrasies below.

Poland

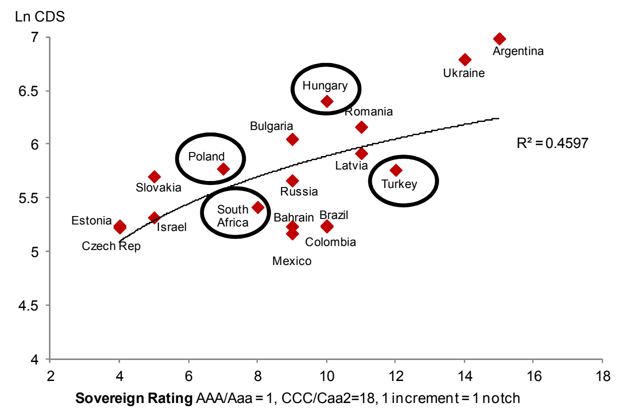
Polish reforms have alleviated pressure on its ratings

The likelihood of ratings agency downgrades had risen markedly after the recent elections. The agencies commented about downgrades because of Poland's highly counter-cyclical fiscal policy through the crisis and how the government could wrestle its deficit back to less than 3% of GDP. The previous budget for 2012, set out before the elections, did not seem credible to us, with the government pencilling in a 3% deficit as forecasters started to look for lower growth. There were also wider concerns that budget consolidation was targeted at easy, 'headline', measures and not structural reforms that would last and improve competitiveness. That said, the agencies and markets gave the government the benefit of the doubt before the elections, but made clear they expected to see real progress afterwards. However, the government, feeling pressure from the agencies and the markets, managed to deliver a credible set of real, structural, reforms last Friday with Prime Minister Donald Tusk's speech laying out the legislative programme for the new parliament. With pensions, rural, benefits and tax changes we think the budget for next year now looks much more secure even with lower growth. On top of that, further measures are now expected in the second draft of the 2012 budget to be published in two weeks. All this has alleviated pressure on Poland's ratings and the agencies have been quick to come out and say that with proper implementation its rating is now secure.

But policy implementation risks remain

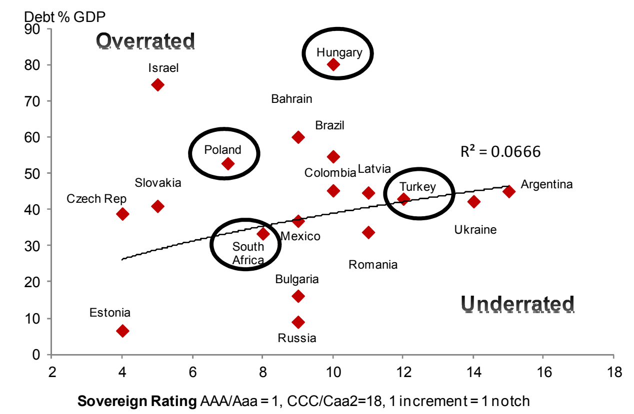
We would caution against getting too optimistic on the rating from here however – and we think some local policymakers are expecting upgrades to happen too quickly. The agencies remain more pessimistic on the banking sector and on policy implementation than we are (perhaps because of the limited success in the last parliament) and the political constraints of the new parliament are still not totally known. As such while we are still bullish on Poland with its strong underlying credit position, we see an upgrade on the A- rating as more likely to happen in 2013.

Figure 1. CDS markets and sovereign debt ratings



Source: Bloomberg, Nomura Global Economics.

Figure 2. Debt-to-GDP ratios and sovereign debt ratings



Source: Bloomberg, Nomura Global Economics.

Turkey

Turkey's likelihood of reaching investment grade is rising fast

Turkey now has a positive outlook from two of the three ratings agencies. Turkey's policy mix has moved in the right direction lately following the Medium Term Program and the TCMB's success in changing its monetary policy stance. Turkey has moved away from the "impossible trinity risk" we recently highlighted in TCMB's mission impossible (20 October 2011). **Rebalancing has started and we think the likelihood of Turkey achieving investment grade in 2012 is rising very fast** with a healthier growth profile and BOP funding quality**.** We think the trade and current account balance and the reversal in FX reserves (if it happens) should be watched very closely for hints as to timing and rebalancing speed. Thus far, rebalancing does not look to be happening very fast, but the global backdrop suggests it could accelerate. We are not yet confident enough to shift our portfolio to 10-year government bonds on this theme, but downside risks to our GDP forecasts are slowly making us more constructive. Ironically, a deteriorating global backdrop may be a boon for Turkey. In our view, the fiscal picture has satisfied the **necessary conditions** for Turkey's investment grade. The current account and turnaround in central bank reserve losses appear to be **sufficient conditions**.

South Africa

South Africa could be facing a downgrade from Moody's

Moody's recent downgrade of the outlook on South Africa to negative caused shockwaves locally and confusion as to why it was warranted. However we fully agreed with the move, especially as Moody's was a notch above the other agencies at A3. Moody's talked in particular about the risks to the fiscal outlook as South Africa undertakes countercyclical fiscal policy and the political pressures that will come to bear on this as growth slows. This is exactly the politico-fiscal whirlwind we have been talking about that will likely last through to the ANC's elective conference at the end of next year. The ANC needs to show it is keeping job creation high and the private sector cannot do that, as such costly developmental state projects are needed to boost jobs. Equally taxes cannot be increased as the ANC seems to have a less sure-footed standing nationally. A downgrade may well come after the budget in February. However, we would not expect the other agencies to take ratings actions unless there was a meaningful deterioration in the political climate, and they may well wait until 2013 before more fundamentally re-assessing the rating under, potentially, a new ANC leadership. While portfolio flows remain largely unaffected by these issues in the short term (save for perhaps some curve steepening), these issues are already strongly affecting FDI and the attitudes of longer-term investors in South Africa. These attitudes and those of the rating agencies could only be turned around in our view by a meaningful shift in a large number of non-fiscal areas of policy.

Hungary

Further downgrades to "junk status" are likely for Hungary

Hungary balances on the investment grade/junk boundary with a negative outlook with two agencies, and with Moody's last night becoming the first (perhaps surprisingly) of the agencies to cut its rating to junk. The answer as to whether Hungary is worthy of junk status is highly dependent on how one looks at the rating. In terms of default risk Hungary probably does have the highest jump-to-default risk in the region: the recent auction take-up has been poor and external financing requirements are high. In terms of policy predictability and credibility Hungary also scores amongst the lowest in the region. In terms of growth too it looks poor. Some point to the current account and fiscal surpluses this year. However, ratings are about much more than what is going on now; the current fiscal position is not sustainable and in any case is being achieved by distortionary measures. Although further downgrades may seem to rest on the government's recent decision to turn back to the IMF (either for real or simply to play the "Turkey card" as we put it in keeping markets onside with the hope of a deal), we think the hurdle to not cutting is very high. The agencies will need to see a turnaround in a wide range of areas and confidence that policy predictability and credibility had returned – this cannot be achieved simply by going to IMF. Indeed last night's downgrade by Moody's suggests the request for an IMF deal was seen as a sign of weakness and underlined funding issues, rather than as a backstop. As such we think further downgrades from Fitch and S&P are likely, even if an IMF package is agreed. Interestingly, local commentators seem to believe that the return to the IMF was timed, and decided very suddenly, to avoid a downgrade and also to postpone a rate hike.

Overall, in the short term we expect further reductions in Hungary's rating to junk status unless there is a meaningful turnaround in fiscal policy and less unorthodox measures are taken. However, in the medium run the ultimate unsustainability of current policies should lead to that turnaround happening when there is no growth, and with it the rating could be secured. That time is not yet however.

United States | Economic Outlook

David Resler | Ellen Zentner | Aichi Amemiya

Finishing stronger

The US economy has remained surprisingly resilient despite the confidence-shaking turmoil in the financial markets. Incoming data point to faster fourth quarter growth.

Activity: Despite threats to the recovery from tumultuous financial markets and slowing growth in Europe, the pace of US growth has quickened in the second half of 2011. Specifically, we look for a robust 3.0% GDP growth rate in Q4 following an estimated 2.0% growth rate in Q3. Although lingering uncertainty about the outlook may delay some future projects, demand for new plant and equipment remains buoyant. The labor market remains soft, but the drop in the jobless rate to 9.0% in October alongside upward revisions to recent gains in private payrolls and a downward trend in jobless claims suggests condtions are improving. While consumer sentiment has fallen sharply, much of the decline appears to reflect a loss of confidence in policymaking rather than a deterioration in individuals' financial circumstances. Despite low confidence, consumer spending continues to grow at a moderate, but steady pace.

Inflation: As oil and commodity prices have retreated after a first half upsurge, headline inflation is subsiding. Inflation in the "core" CPI moderated in September and October as earlier supply-induced pressures on vehicle prices lessened. However, tight supplies of rental properties continue to pressure housing costs.

Policy: Although we expect little progress on long-term fiscal challenges, a likely extension of the payroll tax "holiday" and emergency unemployment compensation program should mitigate some of the contractionary effects of other fiscal measures in 2012. Against a backdrop of high unemployment and slowing inflation, we expect the Federal Reserve to endorse some further easing of monetary policy by mid-2012. An eventual "normalization" of policy remains far off.

Risks: Powerful headwinds during a prolonged period of deleveraging continue to keep risks skewed to the downside. In addition, fiscal restraint in the US and a looming European recession magnify the downside risks. However, new policy initiatives could counter some of those risks.

Details of the forecast

%	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**0.4**	**1.3**	**2.0**	3.0	2.1	2.6	2.4	2.6	1.8	2.5	2.5
Personal consumption	**2.1**	**0.7**	**2.3**	2.8	2.4	2.5	2.4	2.6	2.3	2.4	2.7
Non residential fixed invest	**2.1**	**10.3**	**14.8**	3.9	5.1	7.7	6.1	4.3	8.6	6.9	4.5
Residential fixed invest	**-2.5**	**4.2**	**1.6**	3.7	9.0	6.6	8.9	9.2	-1.8	6.3	10.2
Government expenditure	**-5.9**	**-0.9**	**-0.1**	-1.1	-2.1	-2.7	-2.2	-1.7	-1.9	-1.7	-1.9
Exports	**7.9**	**3.6**	**4.3**	5.7	5.2	6.4	7.1	7.0	6.8	5.7	6.1
Imports	**8.3**	**1.4**	**0.5**	3.4	4.5	4.1	4.5	4.0	4.8	3.5	4.0
Contributions to GDP:											
Domestic final sales	**0.4**	**1.4**	**3.1**	2.3	2.0	2.2	2.1	2.2	2.0	2.3	2.3
Inventories	**0.3**	**-0.3**	**-1.6**	0.5	0.1	0.2	0.1	0.2	-0.3	0.0	0.1
Net trade	**-0.3**	**0.2**	**0.5**	0.2	-0.1	0.2	0.2	0.3	0.1	0.2	0.1
Unemployment rate	**8.9**	**9.1**	**9.1**	9.0	8.9	8.8	8.7	8.6	9.0	8.8	8.3
Nonfarm payrolls, 000	**166**	**97**	**96**	120	100	150	150	150	120	138	180
Housing starts, 000 saar	**582**	**572**	**615**	630	654	682	755	773	600	716	815
Consumer prices	**2.2**	**3.3**	**3.8**	3.4	2.4	1.6	1.2	1.2	3.2	1.6	1.2
Core CPI	**1.1**	**1.5**	**1.9**	2.1	2.1	1.7	1.4	1.5	1.7	1.7	1.5
Federal budget (% GDP)									-9.2	-8.3	-7.2
Current account balance (% GDP)									-3.1	-3.1	-3.4
Fed securities portfolio ($trn)	**2.40**	**2.64**	**2.64**	2.64	2.64	2.64	2.75	3.00	2.64	3.00	3.00
Fed funds	**0-0.25**	**0-0.25**	**0-0.25**	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
3-month LIBOR	**0.30**	**0.25**	**0.48**	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60
TSY 2-year note	**0.80**	**0.45**	**0.24**	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40
TSY 5-year note	**2.24**	**1.76**	**0.95**	1.10	1.10	1.20	1.35	1.35	1.10	1.35	1.60
TSY 10-year note	**3.47**	**3.18**	**1.92**	2.25	2.10	2.25	2.40	2.50	2.25	2.50	2.75
30-year mortgage	**4.86**	**4.51**	**4.03**	4.10	4.00	4.10	4.15	4.25	4.10	4.25	4.35

Notes: Quarterly real GDP and its contributions are seasonally adjusted annualized rates (saar). The unemployment rate is a quarterly average as a percentage of the labor force. Nonfarm payrolls are average monthly changes during the period. Inflation measures and calendar year GDP are year-over-year percent changes. Interest rate forecasts are end of period. Housing starts are period averages. Numbers in bold are actual values. Table reflects data available as of 25 November 2011 but does not incorporate the effects (if any) on the forecast that might result from folding in the newly released second estimate of Q3 real GDP.
Source: Nomura Global Economics.

United States | Data Preview Ellen Zentner | Aichi Amemiya | Jeffrey Greenberg

The week ahead

Early in the week, weekly chain store reports should provide an early gauge of the strength of the holiday shopping season. The key November jobs report on Friday caps a busy week.

New home sales (Monday): New home sales rose 5.7% in September to 313k annual rate. We expect sales rate to slow in October to an annual rate of 310k units (-1.0%), foreshadowed by a decline in mortgage application volume for new purchases over the month.

Weekly chain store sales (Tuesday): October retail sales came in strong and retailers have seen sales momentum build gradually leading up to the traditional "Black Friday" (the day after Thanksgiving) start of the of the holiday sales season.

Case-Shiller house prices (Tuesday): We expect the Case-Shiller 20-city home price index to show a 3.5% decline on a year-over-year basis in September. Taking into account variations in other home price indices over the July-September period, which have already been reported by private research firms such as Zillow.com and Core Logic, the year-over-year change rate of the index likely improved in September from -3.8% in August.

Consumer confidence (Tuesday): Hard data on the US economy continues to improve, but consumer confidence has been slow to react. Nevertheless, improved labor market conditions have led to an increase in other measures of confidence published earlier in the month so we expect consumer confidence to increase by 5.0 points to 44.8 in November.

ADP employment (Wednesday): ADP data will guide market expectations for November private payrolls. The consensus forecasts an increase of 130k, less than our forecast for 150k.

Productivity (Wednesday): Revised GDP data show non-farm output grew about 0.5% faster in Q3 than previously estimated. Consequently, we expect productivity growth to be revised from 3.1% to about 3.6%.

Chicago PMI (Wednesday): Regional manufacturing surveys conducted in early November have shown solid improvement. We expect the Chicago PMI to reflect better sentiment as well with the index rising to 59.6 from 58.4 in October (consensus: 58.5).

Fed Beige Book (Wednesday): The content of the Beige Book published since the 1-2 November FOMC meeting will be based on information collected and compiled by 18 November.

Monday 28 November		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
10.00	New home sales	000s	Oct	297	296	313	310	310
10.00	New home sales	% m-o-m	Oct	-2.0	-0.3	5.7	-1.0	-1.0
Tuesday 29 November								
9.00	Case-Shiller house prices	% y-o-y	Sep	-4.5	-4.2	-3.8	-3.5	-3.0
10.00	CB consumer confidence	Index	Nov	45.2	46.4	39.8	44.8	44.4
Wednesday 30 November								
7.00	Mortgage applications	% w-o-w	25-Nov	10.3	-10.0	-1.2	n.a.	n.a.
8.15	ADP private employment	000s	Nov	85	116	110	150	130
8.30	Nonfarm productivity	% q-o-q ar	Q3-Fin	-0.6	-0.1	3.1	3.6	2.6
10.00	Chicago PMI	Index	Nov	56.5	60.4	58.4	59.6	58.5
14.00	Fed Beige Book		Oct-Nov					
Thursday 1 December								
8.30	Initial jobless claims	000s	26-Nov	393	391	393	n.a.	n.a.
10.00	ISM manufacturing	Index	Nov	50.6	51.6	50.8	51.2	51.5
10.00	ISM prices paid	Index	Nov	55.5	56.0	41.0	43.6	45.0
10.00	Constructions spending	% m-o-m	Oct	-3.3	1.6	0.2	n.a.	0.4
17.00	Total vehicle sales	mn saar	Nov	12.1	13.0	13.2	13.4	13.4
17.00	Domestic vehicle sales	mn saar	Nov	9.5	10.2	10.3	10.4	10.4
Friday 2 December								
8.30	Nonfarm payrolls	000s	Nov	104	158	80	140	120
8.30	Private payrolls	000s	Nov	72	191	104	150	145
8.30	Manufacturing payrolls	000s	Nov	-1	-3	5	15	9
8.30	Unemployment rate	%	Nov	9.1	9.1	9.0	9.0	9.0
8.30	Average hourly earnings	% m-o-m	Nov	-0.2	0.3	0.2	0.2	0.2
8.30	Average weekly hours	Level	Nov	34.2	34.3	34.3	34.4	34.3

Note: Eastern Standard Time (EST).
Source: Bloomberg, Haver Analytics, Nomura Global Economics.

The tone of the report should be less pessimistic because it will reflect the more positive data on the labor market and regional manufacturing reported since then. Anecdotal reports of pockets of strength in housing investment may also begin to surface while reports on holiday retail sales momentum will be especially interesting.

Jobless claims (Thursday): Initial jobless claims increased slightly to 393,000 in the week ending 19 November, but the 4-week moving average continued to trend downward suggesting the job market continues to improve.

ISM manufacturing (Thursday): Based on the results of regional manufacturing surveys covering earlier periods of the month, business confidence appears to have improved a bit in November. We forecast an increase to 51.2 for the ISM compared with 50.8 in October (Consensus: 51.7).

Construction spending (Thursday): Construction spending increased by 0.2% in September and the consensus is looking for a similar gain of 0.3% in October. Single-family homes under construction decreased by 1.3% over the month, indicating that residential construction may have once again been weaker compared with non-residential construction in October.

Vehicle sales (Thursday): We expect auto dealers to report that vehicle sales improved to a 13.4 million annual rate in November, up from October's 13.2mn pace, underpinned by strong pent-up demand.

Employment report (Friday): We forecast that total nonfarm payrolls rose by 140k in November with private payrolls up by 150k and manufacturing payrolls rising by 15k. Data conforming to this forecast would raise the 3-month average job gain to 126k, an improvement over October, but sharply slower compared than the 2011 high 215k in April. Job gains have improved since the summertime lull and data point to an economy that is on stronger footing. Nevertheless, fears of European contagion and stock market volatility continue to provide powerful headwinds for the labor market recovery. Elsewhere, we believe the average workweek ticked up to 34.4 hours and average hourly earnings increased by 0.2% on top of an increase of 0.2% in October. We also forecast that the unemployment rate remained at 9.0% in November.

United States | Data Preview

Ellen Zentner | Aichi Amemiya | Jeffrey Greenberg

The week of 5 December

In a fairly quiet week of data, households will tell us if sentiment improved in early December, while trade and inventory data should solidify expectations for Q4 GDP.

ISM non-manufacturing (Monday): The ISM nonmanufacturing index fell slightly to 52.9 in October. In November, we expect an increase to 53.5.

Factory orders (Monday): Orders declined in the advanced notification of durable goods orders in October, dragged down by the transportation sector (excluding transportation: +0.7%), and sets the tone for factory orders. We forecast a decrease of -0.3% in October factory orders, with an increase of 0.5% in inventories

Weekly chain store sales (Tuesday): This weekly report will help us gauge the strength of the holiday shopping season.

Consumer credit (Wednesday): We expect motor vehicle demand and student loans to power an increase in non-revolving credit while revolving credit (primarily credit cards) remains sluggish.

Jobless claims (Thursday): The down-trend in initial jobless claims suggests the job market continues to improve.

Wholesale inventories (Thursday): Wholesale inventory building slowed sharply late in Q3, but the low inventory-to-sales ratio suggests inventory building will pickup in Q4.

Trade balance (Friday): The trade deficit narrowed in September, to $43.1 billion, as exports rebounded by 1.4% and imports grew just 0.3%. For October, we expect a decline in exports (-0.5%) and imports (-0.6%) to narrow the trade deficit to $42.5 billion.

Consumer sentiment (Friday): Consumer sentiment in November increased 3.2 points to a reading of 64.1. The increase in household attitudes was concentrated in the index of expectations and probably reflects the improvement in jobs gains since this summer and net gain in the stock market in October and November.

Monday 5 December		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
10.00	ISM non-manufacturing	Index	Nov	53.3	53.0	52.9	53.5	53.5
10.00	Factory orders	% m-o-m	Oct	2.1	0.1	0.3	-0.3	n.a.
Tuesday 6 December								
	No indicators will be released							
Wednesday 7 December								
7.00	Mortgage applications	% w-o-w	2-Dec	n.a.	n.a.	n.a.	n.a.	n.a.
15.00	Consumer credit	$bn	Oct	11.8	-9.7	7.4	n.a.	n.a.
Thursday 8 December								
8.30	Initial jobless claims	000s	3-Dec	391	393	n.a.	n.a.	n.a.
10.00	Wholesale inventories	% m-o-m	Oct	0.8	0.1	-0.1	n.a.	n.a.
12.00	Flow of funds		Q3					
Friday 9 December								
8.30	Foreign trade balance	$bn	Oct	-45.6	-44.9	-43.1	-42.5	-44.0
9.55	U of M consumer sentiment	Index	Dec-Pre	59.4	60.9	64.1	n.a.	n.a.

Note: Eastern Standard Time (EST).
Source: Bloomberg, Haver Analytics, Nomura Global Economics.

Ellen Zentner | Aichi Amemiya | Jeffrey Greenberg

The week of 12 December

At its final meeting of the year, the FOMC is likely to extend its wait-and-see posture while important data on inflation and retail sales may point to higher growth among lower inflation.

US budget (Monday): We estimate a monthly budget deficit of $145.0bn in November compared with $150.4bn in November 2010.

Weekly chain store sales (Tuesday): This weekly report will help us gauge the strength of the holiday shopping season.

Retail sales (Tuesday): Stronger sales in October set the tone for Q4 spending and weekly retail sales data point to continued strength in November. An increase in gasoline prices and a likely increase in motor vehicles sales will contribute to headline growth in November retail sales of 0.4% (excluding autos, +0.3%).

Business inventories (Tuesday): Inventory building has slowed from a torrid pace earlier in the year, remaining flat in September, and shaving more than 1.5 percentage points from economic growth in Q3. However, a low inventory-to-sales ratio points to inventory building in Q4.

FOMC meeting (Tuesday): We expect no new policy initiatives to be announced at the December FOMC meeting. Barring a meltdown in Europe, the better tone to the economic data since the November meeting should persuade the FOMC to keep policy unchanged.

Import prices (Wednesday): A decline in the trade-weighted value of the US dollar and increase in oil prices should increase the import price index by about 0.2% in November.

Jobless claims (Thursday): A continuing down-trend in jobless claims would be especially welcome news ahead of the holidays.

PPI (Thursday): Higher wholesale prices for energy and food in November support our forecast that the PPI rose 0.2% in November after declining by 0.3% in October. Stripping out the effects of food and energy we expect core prices to increase by 0.1%.

Empire state survey (Thursday): The sentiment among New York manufacturers continues to slowly recover after a jolt to confidence over the summer months. We expect the sentiment headline Empire State index from the NY FRB's survey to show a 1.0-point gain in December.

Current account (Thursday): The trade deficit narrowed by nearly $37 billion in Q3, which should lead to a narrowing in the current account deficit as well.

Monday 12 December		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
10.00	Budget statement	$bn	Nov			-150.4	-145.0	n.a.
Tuesday 13 December								
8.30	Retail sales	% m-o-m	Nov	0.3	1.1	0.5	0.4	n.a.
8.30	Retails sales ex-autos	% m-o-m	Nov	0.5	0.5	0.6	0.3	n.a.
10.00	Business inventories	% m-o-m	Nov	0.5	0.4	0.0	n.a.	n.a.
14.15	FOMC meeting							
Wednesday 14 December								
7.00	Mortgage applications	% w-o-w	9-Dec	n.a.	n.a.	n.a.	n.a.	n.a.
8.30	Import prices	% m-o-m	Nov	-0.4	0.0	-0.6	0.0	n.a.
10.00	Import prices ex-petroleum	% m-o-m	Nov	0.3	0.3	-0.4	0.2	n.a.
Thursday 15 December								
8.30	Initial jobless claims	000s	10-Dec	n.a.	n.a.	n.a.	n.a.	n.a.
8.30	Producer prices	% m-o-m	Nov	0.0	0.8	-0.3	0.2	n.a.
8.30	Core PPI	% m-o-m	Nov	0.1	0.2	0.0	0.1	n.a.
8.30	Current account balance	$bn	Q3	-112.2	-119.6	-118.0	n.a.	n.a.
8.30	Empire State survey	Index	Dec	-8.8	-8.5	0.6	1.0	n.a.
9.00	TIC data	$bn	Oct	9.1	58.0	68.5	n.a.	n.a.
9.15	Industrial production	% m-o-m	Nov	0.0	-0.1	0.7	0.3	n.a.
9.15	Capacity utilization	%	Nov	77.4	77.3	77.8	77.9	n.a.
10.00	Philly Fed survey	Index	Dec	-17.5	8.7	3.6	7.1	n.a.
Friday 16 December								
8.30	Consumer prices	% m-o-m	Nov	0.4	0.3	-0.1	0.1	n.a.
8.30	Core CPI	% m-o-m	Nov	0.2	0.1	0.1	0.0	n.a.

Note: Eastern Standard Time (EST).
Source: Bloomberg, Haver Analytics, Nomura Global Economics.

Industrial Production (Thursday): Underpinned by our forecast for payrolls, we expect November industrial production to show a gain of by 0.3%. A rebound in utility output following prolonged power outages in the Northeast in October will also support an increase in overall industrial output.

Philly Fed survey (Thursday): The Philly Fed survey showed manufacturing conditions expanded more slowly in November than in October, but the forward-looking indicators were stronger. We expect an increase in the headline figure from 3.6 to 7.1 in December.

CPI (Friday): Consumer prices have moderated and we expect November price indicators to be benign as well. We are looking for a headline increase in the CPI of 0.1% with flat core prices.

Looking beyond the Q2 pothole

Growth should recover in H2, following an avalanche of temporary negative shocks in Q2. But a weaker global economy and high consumer debt will likely hold back growth.

Activity: The economy contracted by 0.4% q-o-q ar. in Q2 as a result of temporary factors. The supply-chain disruptions and temporary shutdowns in the oil industry have sharply reduced exports, while high oil prices and bad weather have held back consumption. However, this weakness should be quickly reversed and business investment in machinery and equipment is expected to remain robust over the forecast period, supported by the need to rebuild capital after almost two years of weak investment. However, slower global growth and weaker commodity prices are likely to be a small drag on growth over the forecast period. In addition, weak income growth and levels of high debt will also likely hold back consumer spending.

Inflation: Higher commodity prices in recent months, especially oil and food, have pushed headline inflation higher, reaching more than 3% in June. However, the recent decline in commodity prices should bring total inflation gradually closer to target. Sizeable spare capacity in the economy and the strong Canadian dollar will likely keep inflationary pressures well contained. We expect core inflation to remain below the Bank of Canada (BoC)'s target over the next few quarters before gradually converging to 2%.

Policy: There is considerable monetary stimulus in place, but with modest growth and significant downside risk over the forecast period, we expect that the BoC to remain on hold until mid-2012. We forecast the BoC to be cautious in tightening monetary policy and to bring rates to 1.50% by the end of 2012. With the housing market in Canada showing increasing signs of overheating and the BoC reluctant to hike rates in the current context, we expect the government to intervene by tightening the mortgage rules again and rein in household debt and prevent further imbalances in the housing market. On fiscal policy, we expect some spending cuts to be announced in the 2013 budget.

Risks: Most of the downside risks are linked to external factors and to increased uncertainty. The risks from a disorderly resolution of the European debt crisis, a slower US and global economy are the most important, because of their impact on exports and commodity prices. Another big risk is the current imbalances in the household sector and the housing market. There is a risk of a disorderly resolution to these imbalances having a disruptive impact on domestic demand. On the positive side, global growth could surprise on the upside, and consumer spending and residential construction may prove more resilient than expected.

Details of the forecast

%	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2010	2011	2012	2013
Real GDP	**3.6**	**-0.4**	2.4	1.9	1.9	2.0	2.2	2.3	**3.2**	2.3	1.9	2.2
Personal consumption	**-0.1**	**1.6**	1.6	1.8	1.8	1.9	2.0	2.0	**3.3**	1.8	1.8	1.9
Non residential fixed invest	**12.9**	**15.5**	8.0	7.2	7.0	6.8	7.0	7.0	**7.3**	14.0	7.6	6.7
Residential fixed invest	**7.5**	**0.7**	2.0	2.0	2.0	2.0	4.0	4.0	**10.2**	1.5	2.3	4.5
Government expenditure	**0.1**	**1.6**	0.3	0.3	0.3	0.0	0.0	0.0	**4.7**	1.7	0.3	-0.2
Exports	**7.7**	**-8.3**	7.0	5.0	4.7	4.2	4.0	4.2	**6.4**	3.6	4.0	4.2
Imports	**9.5**	**10.0**	4.8	4.8	4.5	4.2	4.0	4.0	**13.1**	7.3	4.8	4.1
Contributions to GDP:												
Domestic final sales	**1.8**	**3.0**	2.0	2.0	2.0	2.0	2.2	2.2	**4.6**	3.0	2.1	2.1
Inventories	**2.4**	**2.3**	-0.3	-0.1	-0.1	0.0	0.0	0.0	**0.6**	0.4	0.1	0.0
Net trade	**-0.6**	**-5.7**	0.6	0.0	0.1	0.0	0.0	0.1	**-1.9**	-1.2	-0.3	0.0
Unemployment rate	**7.8**	**7.5**	7.2	7.2	7.2	7.2	7.2	7.1	**8.0**	7.4	7.2	7.2
Employment, 000	**101**	**87**	50	40	50	50	60	60	**70**	69	55	58
Consumer prices	**2.6**	**3.4**	3.0	2.9	2.6	1.8	2.1	2.1	**1.8**	2.8	2.1	2.0
Core CPI	**1.3**	**1.6**	1.8	1.9	2.2	1.9	2.1	2.0	**1.7**	1.6	2.0	2.0
Fiscal balance (% GDP)									**-5.6**	-2.0	-1.7	-1.2
Current account balance (% GDP)									**-3.1**	-2.3	-2.0	-1.8
Overnight target rate	**1.00**	**1.00**	**1.00**	1.00	1.00	1.25	1.50	1.50	**1.00**	1.00	1.50	2.50
3-month T-Bill	**0.93**	**0.93**	**0.80**	0.95	1.00	1.30	1.55	1.80	**0.97**	0.95	1.80	2.05
2-year government bond	**1.82**	**1.59**	**0.88**	1.20	1.50	1.70	1.90	2.10	**1.67**	1.20	2.10	2.40
5-year government bond	**2.71**	**2.30**	**1.39**	1.70	2.10	2.30	2.40	2.60	**2.45**	1.80	2.60	2.90
10-year government bond	**3.35**	**3.11**	**2.15**	2.50	2.80	3.00	3.20	3.30	**3.11**	2.50	3.30	3.60
USD/CAD	**0.97**	**0.96**	**1.05**	0.95	0.95	0.95	0.96	0.96	**0.99**	0.95	0.96	0.97

Notes: Quarterly real GDP and its contributions are seasonally adjusted annualized rates (saar). The unemployment rate is a quarterly average as a percentage of the labour force. Employment is the average monthly change during the period. Inflation measures and calendar year GDP are year-over-year percent changes. Interest rate forecasts are end of period. Numbers in bold are actual values. Table reflects data available as of 25 November 2011.

Source: Bank of Canada, Statistics Canada, Nomura Global Economics.

Euro area | Economic Outlook Jens Sondergaard | Stella Wang

In the eye of the storm

Financial markets remain unsettled by uncertainty and the lack of a credible policy response. We expect the ECB to cut rates again in December amid high risks of a technical recession.

Activity: Financial market turmoil and signs that credit conditions are tightening have made us more pessimistic about the near-term economic outlook. The Q4 survey data signals that activity is slowing rapidly in both the services and the manufacturing sector. With Italy heading for technical recession, risks of a euro-area-wide recession are clearly increasing. The policy challenge remains how to contain the sovereign debt crisis, minimise the spillover effects to the banking sector (including maintaining financial stability) and hopefully minimise the collateral damage already done to the real economy. Investment remains cyclically low and once confidence is restored, investment growth should pick up. By contrast, we now see greater fiscal headwinds in 2012 even in the larger economies, reflecting announcements of more fiscal tightening in Italy and France.

Inflation: We expect HICP inflation to gradually fall below the ECB's "close-to-but-below" 2% target from H2 2012 and remain below its target throughout 2013. There is a risk that the sharper-than-expected slowdown in economic activity will significantly diminish inflationary pressures and cause inflation to persistently undershoot the ECB's target. But without a large collapse in commodity prices, we believe the risk of outright deflation as small.

Policy: There are indications that the European debt crisis is spiralling out of control. We expect the ECB to cut policy rates to 1% in December and keep rates on hold throughout 2013. We also look for the ECB to tweak its liquidity provision policies and possibly its collateral rules (for details, see Euro area Comment – Forecast change: ECB cut of 25bp in December; on hold throughout 2013, 21 November 2011). But the only credible policy backstop remains further bond purchases from the ECB. We think the ECB will continue with its bond-buying programme (SMP), but for now it will resist calls to expand its SMP significantly.

Risks: The risks to the growth forecast are on the downside, mainly stemming from the ongoing sovereign debt crisis and the resulting negative banking sector feedback effects, as well as further fiscal tightening measures. Risks around the inflation outlook are skewed to the downside.

Details of the forecast

%	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**3.1**	**0.6**	**0.6**	-0.7	1.3	2.3	1.6	1.6	1.6	1.0	1.5
Household consumption	**0.6**	**-0.9**	1.0	0.0	1.2	1.6	1.4	1.4	0.5	0.9	1.4
Fixed investment	**7.8**	**0.6**	-1.8	-2.5	0.7	5.5	6.2	5.5	1.9	1.6	4.9
Government consumption	**1.7**	**-0.5**	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	0.4	-0.4	-0.1
Exports of goods and services	**5.3**	**3.1**	2.2	3.1	4.9	7.7	5.0	5.0	5.2	4.6	5.3
Imports of goods and services	**6.5**	**0.9**	2.0	1.3	3.7	7.1	5.8	5.6	4.6	3.9	5.7
Contributions to GDP:											
Domestic final sales	**2.2**	**-0.5**	0.2	-0.6	0.7	1.9	1.9	1.7	0.7	0.6	1.6
Inventories	**1.4**	**0.2**	0.3	-1.0	0.0	0.0	0.0	-0.1	0.5	0.1	0.0
Net trade	**-0.4**	**1.0**	0.1	0.8	0.6	0.4	-0.2	-0.1	0.3	0.4	-0.1
Unemployment rate	**10.0**	**10.0**	**10.1**	10.2	10.2	10.1	10.0	9.9	10.1	10.1	9.7
Compensation per employee	**2.3**	**2.3**	2.8	2.7	2.2	2.1	2.1	2.3	2.5	2.2	2.6
Labour productivity	**2.1**	**1.3**	0.8	0.7	0.2	0.6	0.9	1.1	1.2	0.7	1.0
Unit labour costs	**0.2**	**1.2**	2.1	2.1	2.1	1.4	1.2	1.2	1.4	1.5	1.7
Fiscal balance (% GDP)									-4.3	-3.3	-2.5
Current account balance (% GDP)									-0.6	-0.3	-0.2
Consumer prices	**2.5**	**2.8**	**2.7**	2.9	2.2	1.8	1.7	1.3	2.7	1.8	1.5
ECB main refi. rate	**1.00**	**1.25**	**1.50**	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month rates	**1.24**	**1.55**	**1.55**	0.95	0.94	0.94	0.94	0.94	0.95	0.94	1.03
10-yr bund yields	**3.35**	**3.01**	**1.90**	1.75	1.60	1.50	1.50	1.75	1.75	1.75	2.50
$/euro	**1.40**	**1.44**	**1.38**	1.30	1.30	1.32	1.34	1.35	1.30	1.35	1.35

Notes: Quarterly real GDP and its contributions are seasonally adjusted annualised rates. Unemployment rate is a quarterly average as a percentage of the labour force. Compensation per employee, labour productivity, unit labour costs and inflation are y-o-y percent changes. Interest rate and exchange rate forecasts are end of period levels. Numbers in bold are actual values, others forecast. Table reflects data available as of 25 November 2011.
Source: Eurostat, ECB, DataStream and Nomura Global Economics.

Philip Rush

Inflation nation in a state

Intensification of the euro-area crisis has made activity take another turn for the worse and prompted the MPC to launch QE2, despite persistently high inflation. We expect more to come.

Activity: Underlying growth (excluding the volatile construction sector) has slowed in Q3 from weak rates, albeit ones that were probably better than the headlines suggested – e.g. output was depressed by unseasonably bad weather in Q4 2010, and an extra bank holiday for the Royal Wedding curbed activity in April. Loose monetary policy and the persistent weakness of sterling continue to provide stimulus throughout our forecast horizon. Headwinds come from the euro area crisis, fiscal consolidation programme, poor credit availability, a deterioration of real wages and a shaky housing market, but we think the tailwinds will win out. Together, these considerable offsetting gales should provide an environment conducive to rebalancing.

Inflation: Inflation has been, and should continue to be, boosted by "one-off" shocks such as changes to VAT and energy prices. In October, CPI inflation slowed by 0.2pp to 5.0% owing to supermarket price cuts and base effects. We forecast it to slow slightly further in November before base effects prompt a sharp fall around the turn of the year. Notwithstanding that, inflation's persistent elevation looks set to continue through at least 2012, in our view.

Policy: Weaker global growth and subdued domestic demand caused the MPC to launch QE2 in October with £75bn more gilt purchases. These will carry it through until February when we expect it to announce another £50bn. We then expect a further £25bn expansion in May to last until August and for no rate hikes to occur until 2014. Unlike the MPC, we still fear that this approach may be too aggressively loose for inflation to return to target in the medium term. Fiscal consolidation plans were broadly unchanged in Budget 2011 and remain consistent with aims to take the current structural deficit into surplus by 2014-15. We expect fiscal policy to subtract 1.5% from GDP in fiscal year 2011-12.

Risks: Although the risks to our growth forecasts lie to the downside, we think that they lie to the upside for our inflation forecasts. The risks to our BoE call are skewed toward more easing.

For full details of our UK view, please see UK Monthly Macro, November 2011.

Details of the forecast

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**1.6**	**0.4**	1.6	0.6	1.8	1.6	3.0	1.1	0.9	1.5	2.0
Private consumption	**-2.5**	**-2.4**	0.2	0.3	1.8	2.0	4.0	1.8	-1.0	1.4	2.6
Fixed investment	**-10.6**	**6.9**	0.9	0.7	3.9	6.7	4.8	3.3	-1.8	3.7	3.2
Government consumption	**3.2**	**4.6**	-0.4	-1.1	-1.6	-1.6	-1.6	-1.6	1.6	-1.0	-1.8
Exports of goods and services	**6.2**	**-5.2**	3.7	2.3	3.9	6.1	7.5	4.6	5.1	3.9	5.2
Imports of goods and services	**-11.3**	**-1.3**	1.4	1.3	4.3	7.1	6.4	3.2	0.2	3.7	3.6
Contributions to GDP:											
Domestic final sales	**-2.6**	**0.5**	0.2	0.1	1.4	1.9	2.8	1.3	-0.5	1.2	1.7
Inventories	**-1.6**	**1.1**	0.8	0.3	0.6	0.1	-0.1	-0.6	0.0	0.3	-0.2
Net trade	**5.8**	**-1.2**	0.7	0.3	-0.2	-0.4	0.3	0.4	1.4	0.0	0.5
Unemployment rate	**7.7**	**7.9**	8.2	8.4	8.4	8.4	8.3	8.2	8.0	8.3	7.8
Fiscal balance (% GDP)									-8.3	-7.4	-6.2
Current account balance (% GDP)									-0.7	-0.9	-1.1
Consumer prices (CPI)	**4.1**	**4.4**	**4.7**	4.9	3.8	3.4	3.0	2.3	4.5	3.1	2.1
Retail prices (RPI)	**5.3**	**5.1**	**5.2**	5.4	4.1	3.8	3.6	3.0	5.3	3.6	2.9
Official Bank rate	**0.50**	**0.50**	**0.50**	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10-year gilt	**3.69**	**3.38**	**2.48**	2.65	2.70	2.75	2.85	2.95	2.65	2.95	3.80
£ per euro	**0.84**	**0.89**	**0.87**	0.85	0.84	0.83	0.83	0.82	0.85	0.82	0.80
$ per £	**1.55**	**1.62**	**1.56**	1.53	1.55	1.58	1.61	1.65	1.53	1.65	1.69

Notes: Quarterly figures are % q-o-q changes at a seasonally adjusted annualised rate. Annual figures are % y-o-y changes. Inventories include statistical discrepancy. Inflation is % y-o-y. Interest rates and currencies are end-of-period levels. The fiscal deficit is based on the PSNB measure for the calendar year. Numbers in bold are actual values; others forecast. Table reflects data available as of 25 November 2011.

Source: ONS, Bank of England, DataStream, Nomura Global Economics.

The week ahead

Manufacturing PMIs across Europe and inflation releases for many euro-area nations are key themes this week. Fiscal focus may switch toward the UK and its autumn fiscal statement.

Sometime in the week			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
28-30	UK	Mortgage equity withdrawal	£bn	Q2	-6.6	-7.1	-5.8	n.a.	-6.0
01-07	Ireland	Unemployment rate	%	Nov	14.5	14.3	14.4	n.a.	n.a.
01-08	UK	Halifax house prices	%m-o-m, sa	Nov	-1.1	-0.3	1.2	n.a.	n.a.
Monday 28 November			**Units**	**Period**	**Prev 2**	**Prev 1**	**Last**	**Nomura**	**Consensus**
	Global	EU-US Summit in Washington D.C.							
	Germany	HICP inflation	%m-o-m, nsa	Nov-1st	0.0	0.2	0.1	-0.1	-0.1
	Germany	HICP inflation	%y-o-y	Nov-1st	2.5	2.9	2.9	2.6	2.7
	Germany	Consumer price index	%m-o-m	Nov-1st	0.0	0.1	0.0	n.a.	0.0
	Germany	Consumer price index	%y-o-y	Nov-1st	2.4	2.6	2.5	n.a.	2.4
7.00	Germany	GfK consumer confidence	Index	Dec	5.2	5.2	5.3	n.a.	5.2
9.00	Euro area	Bank loans to private sector	%y-o-y	Oct	1.1	1.4	1.7	n.a.	n.a.
9.00	Euro area	M3 money supply	%y-o-y, sa	Oct	2.1	2.7	3.1	n.a.	3.4
9.00	Italy	Business confidence	Index	Nov	98.6	94.5	94.0	n.a.	93.0
10.00	Global	OECD Economic outlook release							
Tuesday 29 November									
	Euro area	Eurogroup meeting							
	UK	OBR releases economic and fiscal forecasts							
	UK	BoE Trends in lending							
28-30	UK	Nationwide house prices	%m-o-m	Sep	-0.6	0.1	0.4	n.a.	0.0
8.00	Spain	HICP inflation	%y-o-y	Nov-flash	2.7	3.0	3.0	2.8	2.8
9.00	Italy	Hourly wages	%y-o-y	Oct	1.7	1.7	1.7	n.a.	n.a.
9.00	UK	M4 (ex-OFCs)	%q-o-q, ar	Oct	3.9	3.8	4.9	n.a.	n.a.
9.00	UK	Mortgage approvals	k	Oct	49.6	52.3	51.0	n.a.	51.4
9.00	UK	Net consumer credit	£bn	Oct	0.3	0.5	0.6	n.a.	0.5
9.00	UK	Net lending secured on dwellings	£bn	Oct	0.7	0.5	0.3	n.a.	0.6
10.00	Euro area	Economic sentiment	Index	Nov	98.4	95.0	94.8	n.a.	93.9
10.00	Euro area	Industrial confidence	Index	Nov	-2.7	-5.9	-6.6	n.a.	-7.6
10.00	Euro area	Consumer confidence	Index	Nov-fin	-19.1	-19.9	-20.4	-20.4	-20.4
12.30	UK	Chancellor of the Exchecquer Osborne makes autumn economic statement to the House of Commons							
Wednesday 30 November									
	European Union	Ecofin Council meeting							
0.01	UK	GfK consumer confidence	Index	Nov	-31	-30	-32	n.a.	-33
0.30	Euro area	ECB Stark speaks in Dallas							
7.00	Germany	Retail sales	%m-o-m, sa	Oct	0.3	-0.7	0.3	n.a.	0.2
7.45	France	Consumption of manufactured goods	%m-o-m, sa	Oct	-0.3	0.2	-0.5	n.a.	0.3
8.00	Euro area	ECB Draghi speaks in Rome							
8.55	Germany	Unemployment change	k	Nov	-7	-22	10	4	-5
8.55	Germany	Unemployment rate	%sa	Nov	7.0	6.9	7.0	7.0	7.0
9.00	Italy	Unemployment rate	%sa	Oct	8.0	8.0	8.3	n.a.	8.4
10.00	Euro area	HICP inflation flash estimate	%y-o-y	Nov-flash	2.5	3.0	3.0	2.9	3.0
10.00	Euro area	Unemployment rate	%	Oct	10.1	10.1	10.2	10.2	10.2
10.00	Italy	HICP inflation	%m-o-m, nsa	Nov	0.4	2.0	0.9	0.0	0.0
10.00	Italy	HICP inflation	%y-o-y	Nov	2.3	3.6	3.8	3.7	3.4
10.00	Italy	Consumer price index	%m-o-m, nsa	Nov	0.3	0.0	0.6	n.a.	0.0
10.00	Italy	Consumer price index	%y-o-y	Nov	2.8	3.0	3.4	n.a.	3.8
11.00	Italy	Producer prices	%y-o-y	Oct	4.9	4.8	4.7	n.a.	5.0
Thursday 1 December									
	UK	BoE Financial Stability Report							
1.00	Netherlands	PMI manufacturing	Index	Nov	50.7	48.9	48.0	47.7	n.a.
6.30	France	ILO unemployment rate	%	Q3	9.7	9.7	9.6	n.a.	9.7
7.00	Ireland	PMI manufacturing	Index	Nov	49.7	47.3	50.1	n.a.	n.a.
8.00	Euro area	ECB Draghi presents ECB annual report at the European Parliament Plenary							
8.15	Spain	PMI manufacturing	Index	Nov	45.3	43.7	43.9	43.5	n.a.
8.45	Italy	PMI manufacturing	Index	Nov	47.0	48.3	43.3	43.6	43.3
8.50	France	PMI manufacturing	Index	Nov-fin	48.2	48.5	47.6	47.6	47.6
8.55	Germany	PMI manufacturing	Index	Nov-fin	50.3	49.1	47.9	47.9	47.9
9.00	Euro area	PMI manufacturing	Index	Nov-fin	48.5	47.1	46.4	46.4	46.4
9.00	Greece	PMI manufacturing	Index	Nov	43.3	43.2	40.5	n.a.	n.a.
9.30	UK	PMI manufacturing	Index	Nov	49.4	50.8	47.4	47.5	47.0
18.00	Italy	Budget balance (ytd)	EURbn	Nov	-46.8	-58.8	-60.8	n.a.	n.a.
18.00	European Union	EU Van Rompuy speaks at ELEC dinner							
Friday 2 December									
8.00	Spain	Unemployment change (net)	k m-o-m, nsa	Nov	51.2	95.8	134.2	n.a.	n.a.
9.30	UK	PMI construction	Index	Nov	52.6	50.1	53.9	n.a.	52.0
10.00	Euro area	Producer prices	%y-o-y	Oct	6.1	5.8	5.8	n.a.	5.6
14.00	Germany	Chancellor Merkel speaks at CDU headquarter in Berlin							
17.30	Euro area	ECB Stark speaks on 'The economic situation and fiscal chanllenges' in New York							

Note: London time.
Source: Bloomberg, Reuters and Nomura Global Economics.

UK autumn fiscal statement (Tuesday): Despite disappointing growth, borrowing in 2011-12 is broadly on track. So we expect only a £4bn upward revision to debt issuance this year and £5bn of that is assigned to the credit-easing scheme. Short-term implications for gilt issuance are probably limited by a lack of changes to the broad funding strategy. However, because the output gap appears to have narrowed toward 3%, the current structural deficit is larger. Combining that with the £60bn cumulative upward revision to borrowing that we expect from the weaker growth outlook means satisfying the fiscal mandate is likely to be stretched near to breaking point in 2016-17 (two years later than previously planned).

Euro-area manufacturing PMIs (Thursday): The final release is likely to confirm the continuing downward spiral in the euro-area manufacturing sector. We expect the PMIs of the euro area, Germany and France to print at levels suggested by flash estimates. For the rest of the countries, we expect the index to remain low, rising marginally in Italy from 43.3 to 43.6 and declining slightly in Spain (from 43.9 to 43.5) and the Netherlands (from 48.0 to 47.7).

UK manufacturing PMI (Thursday): We expect the manufacturing PMI to tick up by 0.1 points to 47.5 in November, driven by output and new orders stabilising from their spuriously large fall in October. This move may be supported by the fading of the sharp August declines from recent memory. Offsetting this is employment, which remains strong relative to real activity.

Philip Rush | Jens Sondergaard | Stella Wang

The week of 5 December

Central bank meetings overshadow other releases, with the ECB expected to cut rates and the BoE already in the midst of QE2. Services PMIs and IP across Europe are other highlights.

Euro-area services PMIs (Monday): Although the euro-area services sector showed some stabilisation in November, forward-looking components seem to signal that it is likely to be temporary. We expect the final release to confirm a rebound of services PMIs in the whole region, Germany and France. In Italy and Spain, we look for a smaller decline in November than previously, with PMIs coming in at 43.3 (from 43.9) and 40.9 (from 41.8) respectively.

Monday 5 December			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
7.00	Ireland	PMI services	Index	Nov	51.1	51.3	51.5	n.a.	n.a.
8.00	Spain	Industrial production	%y-o-y, wda	Oct	-2.4	0.0	-1.8	n.a.	n.a.
8.15	Spain	PMI services	Index	Nov	45.2	44.8	41.8	40.9	n.a.
8.45	Italy	PMI services	Index	Nov	48.4	45.8	43.9	43.3	n.a.
8.50	France	PMI services	Index	Nov-fin	51.5	44.6	49.3	49.3	n.a.
8.55	Germany	PMI services	Index	Nov-fin	49.7	50.6	51.4	51.4	n.a.
9.00	Euro area	PMI services	Index	Nov-fin	48.8	46.4	47.8	47.8	n.a.
9.30	UK	PMI services	Index	Nov	51.1	52.9	51.3	n.a.	n.a.
10.00	Euro area	Retail sales	%m-o-m, sa	Oct	0.2	0.2	-0.7	n.a.	n.a.
Tuesday 6 December									
	UK	Record of Financial Policy Committee meeting on 23 Nov							
10.00	Euro area	GDP	%q-o-q, sa	Q3-2nd	0.8	0.2	0.2	0.2	n.a.
10.00	Euro area	GDP	%y-o-y, sa	Q3-2nd	2.4	1.6	1.4	1.4	n.a.
11.00	Germany	Factory orders	%m-o-m, sa	Oct	-2.4	-1.4	-4.3	-0.5	n.a.
Wednesday 7 December									
9.00	Italy	Industrial production	%m-o-m, sa	Oct	-0.6	3.9	-4.8	-0.9	n.a.
9.30	UK	Industrial production	%m-o-m, sa	Oct	-0.4	0.3	0.0	n.a.	n.a.
9.30	UK	Industrial production	%y-o-y	Oct	-0.9	-0.9	-0.7	n.a.	n.a.
9.30	UK	Manufacturing production	%m-o-m, sa	Oct	-0.1	-0.3	0.2	n.a.	n.a.
9.30	UK	Manufacturing production	%y-o-y	Oct	2.7	1.6	2.0	n.a.	n.a.
11.00	Germany	Industrial production	%m-o-m, sa	Oct	3.2	-0.4	-2.7	-0.7	n.a.
14.00	Belgium	GDP	%q-o-q, sa, wda	Q3-2nd	0.9	0.4	0.0	0.0	n.a.
Thursday 8 December									
	Greece	HICP inflation	%y-o-y	Nov	1.4	2.9	2.9	n.a.	n.a.
	Greece	Industrial production	%y-o-y	Oct	-2.8	-11.7	-1.7	n.a.	n.a.
	Greece	Unemployment rate	%	Sep	16.0	16.5	18.4	n.a.	n.a.
	Ireland	Industrial production	%m-o-m, sa	Oct	1.5	4.9	-3.5	n.a.	n.a.
6.30	France	Nonfarm payrolls	%q-o-q	Q3-fin	0.5	0.2	0.0	n.a.	n.a.
8.30	Netherlands	HICP inflation	%m-o-m, nsa	Nov	0.1	0.9	0.0	n.a.	n.a.
8.30	Netherlands	HICP inflation	%y-o-y	Nov	2.8	3.0	2.8	n.a.	n.a.
12.00	UK	BoE MPC meeting - policy rate	%	Dec	0.50	0.50	0.50	0.50	0.50
12.00	UK	BoE MPC meeting - QE	£bn	Dec	200	275	275	275	n.a.
12.45	Euro area	ECB Governing Council meeting	%	Dec	1.25	1.25	1.25	1.00	n.a.
Friday 9 December									
	European Union	European Council meeting							
	Portugal	GDP	%q-o-q, sa	Q3-2nd	-0.6	-0.1	-0.4	n.a.	n.a.
	Greece	GDP	%q-o-q, sa	Q3-2nd	-1.6	-2.8	0.2	n.a.	n.a.
7.00	Germany	HICP inflation	%m-o-m, nsa	Nov-fin	0.0	0.2	0.1*	n.a.	n.a.
7.00	Germany	HICP inflation	%y-o-y	Nov-fin	2.5	2.9	2.9*	n.a.	n.a.
7.00	Germany	Consumer price index	%m-o-m	Nov-fin	0.0	0.1	0.0*	n.a.	n.a.
7.00	Germany	Consumer price index	%y-o-y	Nov-fin	2.4	2.6	2.5*	n.a.	n.a.
7.00	Germany	Exports	%m-o-m, sa	Oct	-1.0	3.2	0.9	n.a.	n.a.
7.00	Germany	Trade balance	EURbn, nsa	Oct	10.5	11.8	17.4	n.a.	n.a.
7.45	France	Industrial production	%m-o-m, sa	Oct	1.5	0.5	-1.7	-0.6	n.a.
7.45	France	Manufacturing production	%m-o-m, sa	Oct	1.5	0.6	-1.6	n.a.	n.a.
8.30	Netherlands	Industrial production	%m-o-m, sa	Oct	0.1	-0.5	-0.2	-1.0	n.a.
9.30	UK	PPI input	%m-o-m	Nov	-1.9	1.8	-0.8	n.a.	n.a.
9.30	UK	PPI input	%y-o-y	Nov	16.2	17.7	14.1	n.a.	n.a.
9.30	UK	PPI output	%m-o-m	Nov	0.0	0.3	0.0	n.a.	n.a.
9.30	UK	PPI output	%y-o-y	Nov	6.0	6.3	5.7	n.a.	n.a.
9.30	UK	PPI output core	%m-o-m	Nov	0.2	0.3	-0.1	n.a.	n.a.
9.30	UK	PPI output core	%y-o-y	Nov	3.6	3.8	3.4	n.a.	n.a.
9.30	UK	Global goods trade balance	£mn	Oct	-8743	-8617	-9814	n.a.	n.a.
9.30	UK	Total trade balance	£mn	Oct	-2862	-2726	-3940	n.a.	n.a.

Note: London time. *The inflation figures are of October finals (not of November flash releases').
Source: Bloomberg, Reuters and Nomura Global Economics.

Euro-area GDP Q3 - second (Tuesday): We look for the second release of euro-area GDP to confirm 0.2% q-o-q growth in Q3. Similar to the core economy, the expenditure breakdown is likely to show a rebound of household consumption and a decline in investment. External trade seems to have stalled.

Germany factory orders (Tuesday): There are few signs of an end to the downward trend in German factory orders. The new low registered by the new orders component in the manufacturing PMI suggests that factory orders declined by 0.5% m-o-m in October after falling for three consecutive months from July to September.

Germany industrial production (Wednesday): We expect industrial production (including construction) to decline by 0.7% m-o-m in October, mainly reflecting weak factory orders in Q2 and declining capacity utilisation.

BoE decision (Thursday): We expect no change in policy at this meeting from the Bank of England, although there is a risk that it announces an extension to its quantitative easing programme. But that would more likely be to lengthen them, rather than to expand the current rate of weekly purchases, which are constrained by market conditions.

ECB Governing Council meeting (Thursday): Thursday 8 December seems a very long way away at the time of writing and a lot can happen between now and then. We expect the ECB to lower its policy rate by 25bp to 1%. We believe the ECB may provide longer-term funding to the market via the provision of 24-month and 36-month LTROs. We also think the ECB may relax its collateral rules and accept lower quality assets and/or lower collateral haircuts. We continue to think that the ECB will, for now, resist calls to expand its SMP significantly. However, with policy rates now at their effective lower bound, the question of when and how the ECB might take the QE route is clearly relevant. We expect the tone of the statement and the press conference to be markedly more dovish than last month but not sufficiently dovish to signal that a QE launch is imminent. Finally, we expect the ECB to sound more downbeat about the 2012 economic outlook and the ECB staff forecast (both HICP and GDP) to be revised down for 2012. We see the mid-range GDP growth projections as follows: 1.6% (2011), 0.3% (2012) and 1.2% (2013). We see the HICP as 2.7% (2011), 1.6% (2012) and 1.7% (2013).

France industrial production (Friday): Weak survey data, such as the manufacturing PMI and order book from the Bank of France, suggest that industrial production continued to fall – by 0.6% m-o-m in October after declining 1.7% in September.

The week of 12 December

Germany's ZEW will provide a first look at December sentiment. HICP inflation and IP are the main euro-area data. In the UK, retail sales, inflation and labour data will command attention.

Germany ZEW index (Tuesday): Market sentiment looks unlikely to improve in the near term due to the lack of a credible policy response. Data flow since the last data release has also been disappointing. We therefore expect the ZEW index, which tracks German investors' perceptions of market sentiment, to decline to -60.5 from -55.2 in November.

Euro-area industrial production (Wednesday): We forecast euro-area industrial production to decline by 0.8% m-o-m in October. This, together with the weak carry-over from September, would confirm our view of a contraction in economic activity for the whole Q4.

Monday 12 December			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
No major indicators to be released									
Tuesday 13 December									
0.01	UK	RICS house price balance	%	Nov	-23	-23	-24	n.a.	n.a.
6.30	France	HICP inflation	%m-o-m, nsa	Nov	0.6	0.0	0.3	n.a.	n.a.
6.30	France	HICP inflation	%y-o-y	Nov	2.4	2.4	2.5	n.a.	n.a.
6.30	France	Consumer price index	%m-o-m	Nov	0.5	-0.1	0.2	n.a.	n.a.
6.30	France	Consumer price index	%y-o-y	Nov	2.2	2.2	2.3	n.a.	n.a.
6.30	France	CPI ex-tobacco	Index	Nov	122.59	122.49	122.73	n.a.	n.a.
9.30	UK	Consumer price index	%m-o-m	Nov	0.6	0.6	0.1	n.a.	n.a.
9.30	UK	Consumer price index	%y-o-y	Nov	4.5	5.2	5.0	n.a.	n.a.
9.30	UK	Retail price index	%m-o-m	Nov	0.6	0.8	0.0	n.a.	n.a.
9.30	UK	Retail price index	%y-o-y	Nov	5.2	5.6	5.4	n.a.	n.a.
9.30	UK	RPI ex mortgage interests payments	%y-o-y	Nov	5.3	5.7	5.6	n.a.	n.a.
9.30	UK	CLG house prices	%y-o-y	Sep	-1.4	-1.3	-1.4	n.a.	n.a.
10.00	Germany	ZEW index (economic sentiment)	Index	Dec	-43.3	-48.3	-55.2	-60.5	n.a.
Wednesday 14 December									
8.00	Spain	HICP inflation	%y-o-y	Nov-fin	2.7	3.0	3.0*	n.a.	n.a.
9.30	UK	Claimant count rate	%	Nov	4.9	5.0	5.0	n.a.	n.a.
9.30	UK	Jobless claims change	k	Nov	19.1	13.4	5.3	n.a.	n.a.
9.30	UK	LFS unemployment rate (ILO)	%3mma	Oct	8.3	8.4	8.3	n.a.	n.a.
9.30	UK	Average weekly earnings ex-bonus	%y-o-y, 3mma	Oct	2.1	1.8	1.7	n.a.	n.a.
9.30	UK	Average weekly earnings inc-bonus	%y-o-y, 3mma	Oct	2.8	2.7	2.3	n.a.	n.a.
10.00	Euro area	HICP inflation	%m-o-m, nsa	Nov	0.2	0.8	0.3	n.a.	n.a.
10.00	Euro area	HICP inflation	%y-o-y	Nov-fin	2.5	3.0	3.0*	n.a.	n.a.
10.00	Euro area	HICP inflation - core	%y-o-y	Nov	1.2	1.6	1.6	n.a.	n.a.
10.00	Euro area	HICP ex-tobacco	Index	Nov	112.23	113.08	113.44	n.a.	n.a.
10.00	Euro area	Industrial production	%m-o-m, sa	Oct	1.0	1.5	-2.2	-0.8	n.a.
10.00	Portugal	HICP inflation	%y-o-y	Nov	2.8	3.5	4.0	n.a.	n.a.
Thursday 15 December									
	Euro area	ECB Monthly bulletin							
	UK	BoE Inflation attitude survey							
	Belgium	Trade balance	EURmn	Oct	-54.8	-1835.7	-540.1	n.a.	n.a.
8.30	Netherlands	Unemployment rate	%	Nov	5.4	5.6	5.8	n.a.	n.a.
8.30	Switzerland	SNB rate decision	%	Dec	0.00	0.00	0.00	n.a.	n.a.
10.00	Italy	HICP inflation	%m-o-m, nsa	Nov-fin	0.4	2.0	0.9*	n.a.	n.a.
10.00	Italy	HICP inflation	%y-o-y	Nov-fin	2.3	3.6	3.8*	n.a.	n.a.
10.00	Italy	Consumer price index	%m-o-m, nsa	Nov-fin	0.3	0.0	0.6*	n.a.	n.a.
10.00	Italy	Consumer price index	%y-o-y	Nov-fin	2.8	3.0	3.4*	n.a.	n.a.
9.00	Austria	Consumer price index	%y-o-y	Nov	3.5	3.6	3.4	n.a.	n.a.
9.30	UK	Retail sales (ex-auto fuel)	%m-o-m, sa	Nov	-0.4	0.6	0.6	n.a.	n.a.
9.30	UK	Retail sales (ex-auto fuel)	%y-o-y	Nov	-1.1	0.3	0.8	n.a.	n.a.
9.30	UK	Retail sales (inc-auto fuel)	%m-o-m, sa	Nov	-0.5	0.5	0.6	n.a.	n.a.
9.30	UK	Retail sales (inc-auto fuel)	%y-o-y	Nov	-0.7	0.5	0.9	n.a.	n.a.
10.00	Euro area	Employment	%q-o-q, sa	Q3	0.1	0.1	0.3	n.a.	n.a.
10.00	Italy	Bank of Italy releases public finance supplement		Oct					
Friday 16 December									
8.00	Europe	ECB Draghi, Bini-Smaghi, BoE King et al speak at Rome conference							
10.00	Euro area	Labour costs	%y-o-y	Q3	1.7	2.7	3.6	n.a.	n.a.
10.00	Euro area	Trade balance	EURbn, sa	Oct	-3.1	-1.2	2.1	n.a.	n.a.

Note: London time. *The inflation figures are of October finals (not of November flash releases').
Source: Bloomberg, Reuters and Nomura Global Economics.

Recovery to be driven by reconstruction demand

We expect the economic recovery to continue to be underpinned by post-earthquake reconstruction policies, though the export environment is likely to deteriorate.

Activity: External conditions worsened just as production was returning to normal following the earthquake, and we believe there is an increased possibility for the Japanese economy to enter a soft patch, marked by a slight slowdown through the end of the year. However, we see little evidence of economic conditions rapidly deteriorating, and expect a sustained economic recovery in 2012 supported by post-quake reconstruction spending totaling ¥18trn.

Inflation: The core CPI rose 0.2% y-o-y in Jul-Sep 2011, its first rise in about two years. However, the rise was largely due to higher international commodity prices and policy changes, and we expect a return to deflation when these effects dissipate. We project consistent y-o-y growth in the core CPI from mid-2013.

Policy: The third supplementary budget passed in November amounted to about ¥9trn, including spending to counter yen strength. We expect the budget to boost real GDP growth in FY12 by about 1.2ppt. With respect to yen appreciation, the Bank of Japan has indicated that it will take additional easing measures in coordination with government forex intervention. Considering strong upward market pressures on the yen because of the European sovereign debt situation and a clouded outlook for the US economy, we think the BOJ is likely to expand its asset purchasing program by around ¥3-5trn as early as Jan-Mar 2012. To enhance the impact of easing, the Bank could also extend the maturities of JGBs in its purchases.

Risks: Overseas developments constitute the main risks for the economy, in our opinion. In particular, we are concerned about the European sovereign debt crisis deepening and becoming more protracted, waning confidence in US politics and the slowing global economy, all of which could have a negative impact on the Japanese economy by way of financial market turbulence (yen appreciation, stock market losses). A more appreciable slowdown in the US, China and other major overseas economies may put the Japanese economy at risk of falling into recession.

Details of the forecast

%	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**-2.7**	**-1.3**	**6.0**	1.1	3.1	2.5	1.6	0.6	-0.3	2.3	1.4
Private consumption	**-1.8**	**0.7**	**3.9**	-0.6	1.1	0.8	1.0	1.0	-0.2	1.0	1.0
Private non res fixed invest	**-4.5**	**-1.9**	**4.4**	6.9	7.8	6.8	5.5	5.1	0.4	5.9	5.4
Residential fixed invest	**5.6**	**-4.2**	**21.7**	7.0	0.4	1.2	3.1	3.5	5.8	4.3	4.3
Government consumption	**3.6**	**2.7**	**1.6**	4.2	3.4	-0.9	1.6	-2.3	2.6	1.9	0.6
Public investment	**-4.5**	**15.7**	**-10.8**	15.6	22.6	17.4	-15.4	-14.8	-5.4	7.0	-14.2
Exports	**1.0**	**-18.4**	**27.4**	-3.2	2.5	4.9	5.7	6.0	0.6	3.7	6.2
Imports	**6.8**	**0.4**	**14.5**	0.1	4.6	2.4	4.9	7.9	5.5	4.5	6.3
Contributions to GDP:											
Domestic final sales	**-1.1**	**1.1**	**3.6**	2.3	3.1	1.9	1.1	0.4	0.1	2.1	0.9
Inventories	**-0.8**	**0.8**	**0.8**	-0.7	0.1	0.1	0.2	0.1	0.1	0.1	0.2
Net trade	**-0.8**	**-3.2**	**1.6**	-0.5	-0.1	0.5	0.3	0.1	-0.5	0.1	0.3
Unemployment rate	**4.7**	**4.6**	**4.4**	4.1	4.1	4.0	4.0	3.9	4.4	4.0	3.8
Consumer prices	**-0.5**	**-0.5**	**0.1**	-0.2	-0.3	-0.1	-0.2	0.0	-0.3	-0.1	0.1
Core CPI	**-0.8**	**-0.3**	**0.2**	0.0	-0.2	-0.3	-0.3	-0.1	-0.2	-0.2	0.1
Fiscal balance (fiscal yr, % GDP)									-10.2	-9.5	-10.1
Current account balance (% GDP)									2.0	2.4	3.6
Unsecured overnight call rate	**0-0.10**	**0-0.10**	**0-0.10**	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10	0-0.10
JGB 5-year yield	**0.49**	**0.42**	**0.37**	0.35	0.40	0.45	0.50	0.50	0.35	0.50	0.55
JGB 10-year yield	**1.26**	**1.13**	**1.02**	1.10	1.20	1.25	1.30	1.35	1.10	1.35	1.45
JPY/USD	**83.1**	**80.6**	**77.1**	79.0	80.0	80.0	82.5	85.0	79.0	85.0	90.0

Note: Quarterly real GDP and its contributions are seasonally adjusted annualized rates. Unemployment rate is as a percentage of the labor force. Inflation measures and CY GDP are y-o-y percent changes. Interest rate forecasts are end of period. Fiscal balances are for fiscal year and based on general account. Table reflects data available as of 25 November. All forecasts are modal forecasts (i.e., the single most likely outcome). Numbers in bold are actual values, others forecast.

Source: Cabinet Office, Ministry of Finance, Statistics Bureau, BOJ, and Nomura Global Economics.

The week ahead

We expect the industrial production indices in October to have started to rise on an m-o-m basis, by 1.6%, driven by growth in production of transportation machinery.

October Labour Force Survey (Tuesday): Among the employment-related statistics for October, we expect the unemployment (nationwide) rate to fall slightly to 4.0% and the job-offers-to-applicants ratio to improve to 0.69x. The number of employed persons fell 0.5% q-o-q in Jul–Sep, while the number of unemployed persons fell 5.3%, a decline in labor force participation was for the main cause of the improvement in the unemployment rate. Looking at labor flows over the past three months, 2.78mn persons rejoined the labor force, while 3.17mn persons left it, resulting in a net rise in the number of persons not part of the labor force, with the result that the unemployment rate in October could represent an improvement that is not accompanied by a rise in employment.

October Household survey (Tuesday): We forecast that real spending by all households fell by 1.6% y-o-y (having fallen by 1.9% in September) and by 0.3% m-o-m (having risen by 0.9% in September) in October. Although we think sales of consumer electronics remained sluggish—domestic shipment volume of flat-panel TVs fell by 73.7% y-o-y in October—department store and supermarket sales were comparatively firm. The household activity-related DI in the October Economy Watchers Survey was 39.7 (versus 37.6 in September), the first rise for three months, and there were also rises in the retailing, eating/drinking and services DIs. These data may suggest that although concerns about the economic outlook have increased, spending on goods and services other than recreational durable goods has not weakened.

October's industrial production index (Wednesday): We forecast a 1.6% m-o-m rise in the production index for October. Based on production plans, we previously forecast a 2.3% rise in production in October. As the production index in the Japanese manufacturing PMI for October recovered to 52.8 (up 3.8pt m-o-m), we think the industrial production index will also confirm that production has increased. However, looking at individual sectors, growth in transportation machinery production drove the overall increase, and we think that production in the electronic parts and devices and basic materials segments remained weak. The actual figures could come in higher than market forecasts, however. The realization ratio over the last three months has been relatively large on the downside, in a range of -1%–-2%. However, the spreads between plans and actual production have been getting narrower over the past three months, and this wide spread is likely to have been due to power shortages in the summer. Taking these factors into consideration, we think the industrial production index for October could come in above expectations.

Jul–Sep Financial Statements Statistics of Corporations by Industry (Friday): In Apr–Jun, supply-side statistics (capital goods shipments and core machinery orders) indicated that capex was firm. Despite this, financial statements statistics of corporations by industry were down sharply, by 8.2% y-o-y, leading to a downward revision to real GDP. There are a number of differences between supply-side statistics and financial statements statistics of corporations by industry, including (1) a time lag between when the two surveys are conducted, (2) differing standards for booking items, and (3) methods used to make seasonal adjustments. We think that disparities arose between supply and demand-side statistics for Apr–Jun due to these differences. Looking at Jul–Sep data, supply-side statistics declined slightly compared with Apr–Jun but remained firm. Capex plans in the BOJ Tankan (September survey) and elsewhere did not indicate a pessimistic view on capex, and as such, we expect an upturn in capex in the latest financial statements statistics of corporations by industry.

Monday 28 November		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
	No indicators							
Tuesday 29 November								
8.50	Retail sales	% y-o-y	Oct	0.6	-2.6	-1.1	1.8	0.7
8.30	Unemployment rate	%	Oct	4.7	4.3	4.1	4.0	4.2
8.30	Consumer spending	% y-o-y	Oct	-2.1	-4.1	-1.9	-1.6	-1.5
Wednesday 30 November								
8.15	PMI	Index	Nov	51.9	49.3	50.6	n.a.	n.a.
8.50	Industrial production	% m-o-m	Oct	0.4	0.6	-3.3	1.6	1.1
10.30	Total cash earnings	% y-o-y	Oct	-0.2	-0.4	-0.4	n.a.	-0.2
14.00	Housing starts	% y-o-y	Oct	21.2	14.0	-10.8	-6.5	-6.3
Thursday 1 December								
	No indicators							
Friday 2 December								
8.50	Investment in plant and equipment	% y-o-y	Q3	4.8	3.4	-8.2	n.a.	-3.0

Note: Tokyo time.
Source: Cabinet Office, Ministry of Economy, Trade, and Industry, BOJ, and Nomura Global Economics.

The week of 5 December

With no change in the yen's rise against the dollar, measures to stimulate consumer spending, and the European debt crisis—we think the Reuters Tankan will show business sentiment weakening.

December Reuters Tankan (Wednesday): The statistics are strongly correlated with the BOJ's business conditions DI. As such the release of the Reuters Tankan for December on 7 December is likely to attract attention as a weathervane for the BOJ's December Tankan, which is due to be released 15 December. After being hard hit by the earthquake in March, business sentiment improved to peak at 8pt in the manufacturing sector in September, and at 7pt in the nonmanufacturing sector in August, before easing in the most recent November Reuters Tankan. Based on the Economy Watchers Survey, corporate business sentiment appears to have been hit by a triple whammy, the yen's relentless upsurge to postwar highs against the dollar, a dearth of measures to stimulate consumer spending through the fall and winter months, and Europe's sovereign debt woes. As there has been no change in those three uncertain elements as of end-November, we think that the December Reuter's Tankan will show business sentiment continued to weaken.

November Economy Watchers Survey (Thursday): In the November survey we look for an improvement in both the current conditions DI (45.9 in October) and the future conditions DI. The floods in Thailand triggered cuts in production associated with a shortage in automotive and other parts, but on a more positive note appear to have resulted in increased production at Japanese domestic production facilities. We think this factor might have bolstered corporate business sentiment, because of the high weighting of SMEs among survey respondents. Taking into account the progress made in the post-earthquake reconstruction process, we also look for an improvement in current conditions DIs in the corporate- and employment-related spheres. Meanwhile because of recent reports of shortages of some products such as digital cameras at retail outlets, we think that the Thai floods may dent the household activity-related current conditions DI. However, we look for an improvement in the household activity-related future conditions DI. The revival of the housing eco-point scheme and the run-up to the end of the eco-car tax breaks are likely to be a boon for corporate business sentiment. Despite lingering uncertainty over yen appreciation, we think a further deterioration in corporate activity-related DIs are unlikely, as the repeated postwar highs scaled by the Japanese currency in October did not continue into November.

Second preliminary GDP estimates for 2011 Q3 (Friday): The second preliminary GDP estimates include not only the estimates of the financial statements statistics of corporations by industry (FSSC), but also statistics that were not incorporated in the first preliminary estimates (September statistics and final figures). Owing to the change in the base year (from 2000 to 2005) with the release of FY10 confirmed figures, we expect to see changes across a broad range of past series. The forthcoming change in the base year will result not only in changes to the national census and input-output tables, but also the expansion and improvement of asset projections and Government Finance Statistics, and the introduction of financial intermediation services indirectly measures (FISIM). Thus it will be difficult to interpret the data (note that these changes will not all necessarily directly impact 2011 Q3 real GDP).

Monday 5 December		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
	No indicators							
Tuesday 6 December								
	No indicators							
Wednesday 7 December								
	Reuters Tankan(Manufactures)	Index	Dec	8	6	1	n.a.	n.a.
14.00	Economic coincident index	Index	Oct	90.4	90.3	88.9	n.a.	n.a.
Thursday 8 December								
8.50	Machinery orders	% m-o-m	Oct	-8.2	11	-8.2	n.a.	-7.1
8.50	Current account	¥bn	Oct	990.2	407.5	1584.8	479.3	343.3
14.00	Current economic conditions	Index	Nov	47.3	45.3	45.9	n.a.	46.5
Friday 9 December								
8.50	Real GDP	% q-o-q, saar	Q3-sec	-2.7	-2.7	-1.3	n.a.	n.a.
8.50	M2	% y-o-y	Nov	2.7	2.7	2.7	2.7	2.7
8.50	Business Survey Index	% balance	Q4	-1.1	-22	6.6	n.a.	n.a.

Note: Tokyo time.
Source: Cabinet Office, Ministry of Economy, Trade, and Industry, BOJ, and Nomura Global Economics.

The week of 12 December

We expect the business conditions DI in the BOJ Tankan to show a small deterioration. We think the upward revision to capex plans will be smaller than in a typical year, owing to the earthquake.

October tertiary industry activity index (Tuesday): We forecast that the October index of tertiary industry activity will be up 0.5% m-o-m and flat y-o-y. However, we think these forecasts should be viewed with caution, as some related data have yet to be released. Looking at monthly trends by sector, we expect the index to rise on gains in the information and communications sector (+3.2% m-o-m) and in wholesale and retail trade (+0.8%). This would mark the first rise in the index for wholesale and retail trade in three months, suggesting that the fallback after a period of rushed demand for LCD TVs is now starting to have a smaller impact. The finance and insurance sector is among the sector indices likely to decline. We expect a flat start on a quarterly comparison basis, with the October reading largely unchanged from the Jul-Sep average.

December BOJ Tankan (Thursday/Friday): The BOJ Tankan business conditions DIs tend to be closely correlated with Reuters Tankan readings. From September through November, the Reuters Tankan has pointed to deteriorating business conditions for both manufacturers and nonmanufacturers, in view of which we expect the business conditions DIs of the BOJ Tankan (December survey, conducted from mid-November through mid-December each year) to be down on their readings as of the September survey. We also think companies are likely to show more restraint in their capex plans than in a typical year. The December survey usually shows upward revisions to capex plans. In the current fiscal year, however, we think a considerable amount of capex has been postponed as a result of the earthquake, and that a number of companies will likely be quick to push capex plans out to the following fiscal year (in a normal year, downward revisions to capex forecasts as a result of capital outlays being pushed into the next fiscal year tend not to show up until the March survey). Even if upward revisions to capex forecasts are not as large as in a normal year, we would not be excessively concerned about capex.

Monday 12 December		Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
8.50	CGPI	% y-o-y	Nov	2.6	2.5	1.7	n.a.	2.2
14.00	Consumer confidence index	Index	Nov	37	38.6	38.6	n.a.	39.0
Tuesday 13 December								
8.50	Index of tertiary industry activity	% m-o-m	Oct	-0.2	0	-0.7	0.5	-0.5
Wednesday 14 December								
	No indicators							
Thursday 15 December								
8.50	Business Conditions in TANKAN	Index	Dec	6	-9	2	n.a.	n.a.
Friday 16 December								
8.50	TANKAN (Figures by Industry)							

Note: Tokyo time.
Source: Cabinet Office, Ministry of Economy, Trade, and Industry, BOJ, and Nomura Global Economics.

One and done

The RBA's 25bp cash rate cut in November tweaked monetary conditions to a neutral setting. Barring much weaker global growth, the RBA's stance will likely remain neutral until H2 2012.

Activity: We expect 2011 GDP growth of 2.2% following the firm Q2 GDP report, and what we believe will be quite strong Q3 and Q4 reports. Growth should accelerate strongly in 2012 (4.6%), partly on a rebound in mining and rural output after the severe weather-related output disruption affecting much of 2011, before settling back to near its long-term trend in 2013 (3.1%). We expect spending by the leveraged household sector to remain relatively cautious, even with borrowing interest rates back to their long-term average through H1 2012 after the RBA's November rate cut. An exponential rise in resource investment underpins our strong base-case GDP growth forecast for 2012.

Inflation: Q3 CPI inflation was a touch lower than our 0.7% q-o-q forecast at 0.6%, reducing annual headline inflation marginally to 3.5% y-o-y from 3.6% in Q2. The Q3 underlying inflation readings were low at 0.3% q-o-q, but are subject to revision (average Q2 underlying inflation was revised up to 0.8% q-o-q from 0.6%). The RBA lowered its 2012 and 2013 inflation forecasts, which is more in line with its 2-3% target. We are less convinced that inflation will remain lower in 2013 given that strong 2012 growth should renew capacity pressures.

Policy: We believe policymakers cannot entirely ignore medium-term inflation risks, even after the financial market turmoil of late. On our base-case GDP growth forecasts, the government will maintain its mildly restrictive budget course, although there is ample room to adopt expansionary policy if a worse-case global growth scenario develops. As the stronger 2012 growth outlook firms up, we now expect the RBA to reverse the November 25bp rate cut in Q3 2012 and add a 25bp hike to 5.00% in Q4 2012. We see one further 25bp rate hike to 5.25% in 2013. Only if our worse-case global growth view starts to develop would we see a case for the RBA to cut rates further, and even then, further rate cuts would likely be limited given that inflation is forecast to be persistently above the RBA's 2-3% target band. The free-floating Australian dollar also provides a buffer to global shocks.

Risks: The current global financial risk flare-up could become much worse, increasing bank funding costs and intensifying deleveraging in Australia's heavily indebted household sector. Any major setback in Chinese growth beyond our current forecasts would also present a downside risk, as would a worsening La Niña. A major and persistent improvement in risk asset sentiment and a renewed surge in commodity prices represent upside risks to growth.

Details of the forecast

% y-o-y growth unless otherwise stated	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP (sa, % q-o-q, annualized)	**-3.5**	**4.7**	6.0	8.0	3.2	4.2	2.7	1.9			
- % q-o-q, sa	**-0.9**	**1.2**	1.5	2.0	0.8	1.1	0.7	0.5			
- % y-o-y	**1.0**	**1.4**	2.6	3.8	5.6	5.4	4.6	3.0	2.2	4.6	3.1
Household consumption	**3.5**	**3.2**	3.3	3.4	3.3	3.0	2.8	2.9	3.3	3.0	3.3
Government (total spending)	**2.0**	**1.2**	1.0	0.5	0.2	0.6	0.9	1.0	1.2	0.7	1.5
Investment (private)	**6.7**	**6.4**	11.5	17.6	19.4	23.7	22.2	21.3	10.6	21.7	6.5
Exports	**-4.4**	**-3.7**	1.3	2.0	13.2	13.9	12.3	10.3	-1.2	12.4	9.5
imports	**9.4**	**10.5**	9.4	10.3	12.8	11.8	15.8	16.5	9.9	14.3	10.5
Contributions to GDP growth (% points):											
Domestic final sales	**3.9**	**3.4**	4.6	5.8	6.3	7.3	7.1	7.1	4.5	7.0	3.7
Inventories and statistical discrepancy	**0.3**	**1.4**	-0.1	0.0	-0.4	-2.0	-1.3	-2.3	0.1	-1.7	0.0
Net trade	**-3.2**	**-3.4**	-1.9	-2.0	-0.3	0.1	-1.2	-1.8	-2.6	-0.7	-0.6
Unemployment rate	**5.0**	**5.0**	**5.2**	5.1	4.9	4.7	4.5	4.4	5.1	4.6	4.3
Employment, 000	**15.0**	**-5.2**	**2.4**	15.0	33.0	33.0	33.0	33.0	6.8	33.0	27.0
Consumer prices	**3.3**	**3.6**	**3.5**	3.6	3.0	3.2	3.7	4.3	3.5	3.6	3.8
Trimmed mean	**2.2**	**2.6**	**2.3**	2.6	2.7	2.7	3.5	3.8	2.4	3.2	3.5
Weighted median	**2.6**	**2.9**	**2.6**	2.8	3.0	3.1	3.9	4.2	2.7	3.6	3.6
Federal deficit (% of GDP) FY end-June									-3.4	-1.5	0.2
Current account deficit (% GDP)									-1.8	-2.3	-2.8
Cash rate	**4.75**	**4.75**	**4.75**	4.50	4.50	4.50	4.75	5.00	4.50	5.00	5.25
90-day bank bill	**4.89**	**4.96**	**4.78**	4.55	4.60	4.60	4.90	5.25	4.55	5.25	5.35
3-year bond	**5.04**	**4.76**	**3.63**	3.80	4.20	4.50	5.00	5.20	3.80	5.20	5.45
10-year bond	**5.50**	**5.21**	**4.25**	4.30	4.70	5.00	5.20	5.30	4.30	5.30	5.60
AUD/USD	**1.03**	**1.07**	**0.98**	0.98	0.98	1.00	1.02	1.05	0.98	1.05	1.00

Note: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 25 November 2011.
Source: Australian Bureau of Statistics, Reserve Bank of Australia and Nomura Global Economics.

Zhiwei Zhang | Wendy Chen

Near-term downside risks are rising

Housing investment and exports are likely to slow quickly in Q4 2011 and Q1 2012.

Activity: Real GDP growth moderated to 9.1% y-o-y in Q3 from 9.5% in Q2. We expect GDP growth to ease further in Q4 to 8.6%, with export growth dropping to 8% y-o-y. The growth rates for industrial production and retail sales dropped to 13.2% and 17.2%, respectively, in October, from 13.8% and 17.7% in September, while growth of urban fixed asset investment remained flat at 24.9%. Leading indicators such as the PMI, the OECD leading index, and steel output suggest a further slowdown ahead. In particular, housing investment looks set to drop faster in coming months, as new floor space starts and sales fell sharply in October.

Inflation: CPI inflation fell from 6.1% y-o-y in September to 5.5% in October, mainly on base effects and lower food prices, while PPI inflation fell sharply to 5.0% from 6.5% over the same period. We expect CPI inflation to trend down through Q4 and drop to below 5% in November, largely reflecting continued base effects. Over the medium term, we expect CPI inflation to remain structurally high, at 4.8% in 2012 and 4.5% in 2013, driven by rising input costs and wages, utility price deregulation, and loose global liquidity.

Policy: We believe the People's Bank of China (PBC) will continue to fine tune its policy through open market operations for the rest of 2011, and cut the reserve requirement in Q1 when the economy slows further and a trade deficit emerges. The Q3 Monetary Policy Report shows that PBC does not think aggressive policy loosening is urgently needed, as "growth slowdown was guided by policies" and "because potential output is slowing, keeping growth at a reasonable level is good for controlling inflation and for structural adjustments and sustainable growth in the long term." The Central Economic Working Conference in early December will decide the tone for fiscal and monetary policies in 2012.

Risks: Risks in housing investments have heightened, as the private housing market cooled quickly in October and new starts for public housing are set to drop sharply in Q4 2011 and Q1 2012. Signs of weakness have emerged in related sectors such as steel, where both output and prices have dropped in recent weeks. We also expect export growth to slide. We see risks for Q4 2011 and Q1 2012 being predominantly on the downside. Beyond Q1 2012, we expect public housing to pick up again and policy may be loosened to support growth.

Details of the forecast

% y-o-y growth unless otherwise stated	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**9.7**	**9.5**	**9.1**	8.6	8.2	8.5	8.7	8.7	9.2	8.6	8.4
Consumer prices	**5.1**	**5.7**	**6.3**	5.4	4.2	4.4	5.0	5.4	5.6	4.8	4.5
Core CPI (excl. food & energy)	**2.2**	**2.4**	**2.4**	2.2	2.0	2.8	2.9	3.0	2.3	2.7	2.6
Retail sales (nominal)	**16.3**	**17.0**	**17.3**	16.8	17.3	17.9	18.4	18.9	16.9	18.1	18.8
Urban Fixed-asset investment (nominal, ytd)	**25.0**	**25.6**	**24.9**	23.8	21.0	22.0	23.0	22.0	23.8	22.0	20.1
Industrial production (real)	**14.4**	**13.9**	**13.8**	13.3	12.0	12.7	13.4	13.4	13.9	12.9	12.5
Exports (value)	**26.5**	**22.1**	**20.6**	8.0	8.0	12.0	14.0	15.0	18.6	12.5	11.0
Imports (value)	**32.6**	**23.1**	**24.9**	15.0	15.0	16.0	17.0	17.0	23.4	16.3	16.0
Trade surplus (US$bn)	**-1.0**	**46.7**	**63.8**	41.5	-28.8	35.2	59.1	39.0	151.3	104.5	16.0
Current account (% of GDP)									4.5	4.0	3.5
Fiscal balance (% of GDP)									-1.3	-1.0	-1.2
Net increase in RMB loans (RMBtrn)									7.3	8.0	9.0
1-yr bank lending rate (%)	**6.06**	**6.31**	**6.56**	6.56	6.56	6.56	6.56	6.81	6.56	6.81	7.06
1-yr bank deposit rate (%)	**3.00**	**3.25**	**3.50**	3.50	3.50	3.50	3.75	4.00	3.50	4.00	4.50
Reserve requirement ratio (%)	**20.00**	**21.50**	**21.50**	21.50	21.00	21.00	21.00	21.00	21.50	21.00	21.00
Exchange rate (CNY/USD)	**6.50**	**6.47**	**6.40**	6.33	6.25	6.16	6.10	6.08	6.33	6.08	5.88

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data available as of 25 November 2011. Source: CEIC and Nomura Global Economics.

Further signs of an economic slowdown

We expect real GDP growth to remain below potential and inflation to moderate as tight monetary policy and weaker global growth cap demand.

Activity: Industrial production growth slowed further to 1.9% y-o-y in September from 3.6% in August. The moderation is largely due to a 6.8% y-o-y contraction in capital goods production. We expect real GDP growth in Q3 to slow to 6.9% y-o-y from 7.7% in Q2 due to slower growth in both private consumption and fixed investment. Persistently high inflation has been a primary cause of weakness in private consumption, while monetary polcy tightening should have exerted downward pressures on investment growth. As export growth is likely to slow in the near term, reflecting weak growth in advanced economies, we expect sub-7% y-o-y growth in H2 2011. GDP growth should rebound only slightly in H1 2012, supported by higher fixed investment. Although we expect GDP growth to rise from 7.3% in 2011 to 7.9% in 2012, the downside risk to the economy has risen, due mainly to prolonged turbulence in global financial markets.

Inflation: Headline WPI inflation in October remained high at 9.7% y-o-y, unchanged on September. Although we expect WPI inflation to stay above 9% in November, it is likely to moderate to around 8% in December on base effects, lower commodity prices and weaker growth. We expect WPI inflation to fall further to below 7% by March 2012. Our expectation of a slightly negative output gap in 2011-12 and lower commodity prices should keep inflation at around 6-7% y-o-y in 2012-13.

Policy: The Reserve Bank of India (RBI) hiked the repo rate by 25bp to 8.50% on 25 October. Further, its statement indicated that a hike in December is unlikely and that it will stay on hold as long as inflation continues to come down, as the RBI expects. We expect the RBI to be on hold as we also expect inflationary pressures to wane and the growth slowdown to broaden in the coming months. On the fiscal front, rising subsidies and lower revenue should result in a higher fiscal deficit of 5.5% of GDP in FY12 versus the budget estimate of 4.6%. We expect a budget deficit of 4.9% of GDP in FY13 and FY14, above the medium-term target of 4.1% and 3.5%, respectively, leaving very little room for any fiscal policy boost even if external conditions worsen.

Risks: If global conditions continue to deteriorate, we believe exports will be hit badly, and corporate investments will slow on weaker demand expectations. Further depreciation of INR due to capital outflows, would mitigate any positive effects on inflation from falling commodity prices. Other key downside risks include further rate hikes (which are not associated with stronger domestic demand), while a revival of the reform process is the key upside risk.

Details of the forecast

% y-o-y growth unless otherwise stated	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP (sa, % q-o-q, annualized)	**8.1**	**7.3**	5.2	5.7	9.8	9.0	7.2	6.7			
Real GDP	**7.8**	**7.7**	6.9	6.7	7.5	8.1	7.8	8.2	7.3	7.9	8.1
Private consumption	**8.0**	**6.3**	6.2	6.3	7.0	5.1	5.7	6.9	6.5	6.2	7.0
Government consumption	**4.9**	**2.1**	5.1	2.7	3.7	4.1	4.9	3.2	3.1	3.9	6.2
Fixed investment	**0.4**	**7.9**	2.9	8.4	8.6	9.7	9.7	10.0	5.3	9.5	11.1
Exports (goods & services)	**25.0**	**24.3**	24.1	12.0	10.2	7.2	8.9	11.3	21.0	9.4	14.7
Imports (goods & services)	**10.3**	**23.6**	20.1	24.7	11.8	4.6	11.8	12.4	19.9	10.1	13.6
Contributions to GDP (% points)											
Domestic final sales	**5.3**	**9.2**	7.4	10.2	8.1	6.9	8.5	8.4	8.1	8.0	8.2
Inventories	**0.2**	**0.2**	0.2	0.2	0.2	1.0	1.0	0.9	0.2	0.8	0.6
Net trade	**2.3**	**-1.7**	-0.7	-3.7	-0.8	0.2	-1.7	-1.1	-1.0	-0.9	-0.7
Wholesale price index	**9.6**	**9.6**	**9.6**	8.8	7.0	6.2	6.8	7.2	9.4	6.8	7.1
Consumer price index	**8.6**	**8.9**	**9.2**	9.4	8.6	9.2	7.7	9.2	9.4	8.7	8.4
Current account balance (% GDP)									-2.8	-2.4	-2.6
Fiscal balance (% GDP)									-5.5	-4.9	-4.9
Repo rate (%)	**6.75**	**7.50**	**8.25**	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Reverse repo rate (%)	**5.75**	**6.50**	**7.25**	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Cash reserve ratio (%)	**6.00**	**6.00**	**6.00**	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
10-year bond yield (%)	**8.02**	**8.33**	**8.41**	8.65	8.50	8.40	8.40	8.40	8.65	8.40	8.40
Exchange rate (INR/USD)	**44.7**	**44.7**	**49.2**	49.8	49.0	48.3	47.8	47.2	49.8	47.2	45.6

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. CPI is for industrial workers. Fiscal deficit is for the central government and for fiscal year, eg, 2011 is for the year ending March 2012. Table reflects data available as of 25 November 2011.
Source: CEIC and Nomura Global Economics.

A more aggressive central bank

Bank Indonesia (BI) has room to cut rates further given the high external risks to growth and our expectation for inflation to stay within its 2012 target.

Activity: GDP growth held up well at 6.5% y-o-y in Q3 driven by strong domestic demand, particularly private consumption and investment spending. In addition, and perhaps somewhat surprisingly, net exports contributed 3.3 percentage points to headline growth, with exports rising 18.5% y-o-y, the fastest rate in nearly two years. This helped the current account balance remain positive in Q3, but, in line with robust domestic demand conditions, it has already dropped to USD0.2bn from USD2.1bn in Q1. 2011 GDP growth remains on track for our 6.5% forecast, but, given the external risks, our 7.0% forecast for 2012 looks increasingly optimistic.

Inflation and monetary policy: Bank Indonesia (BI) unexpectedly cut its policy rate by 25bp to 6.5% at its 11 October meeting, and followed it with another 50bp cut on 10 November. The two main reasons behind the more aggressive move were: 1) CPI and core inflation surprised to the downside in October, leaving the real policy rate above the BI's estimate for the neutral level of 0.5-1%, and 2) the bigger cut was deemed warranted given the increased downside risks. CPI inflation unexpectedly eased to 4.4% y-o-y in October from 4.6% in September, while core inflation moderated more significantly from 4.9% to 4.4% over the same period, despite sustained growth in domestic demand. Looking ahead, the manageable inflation environment allows BI to focus on supporting growth amid rising global uncertainty. We think there is scope for another 50bp of easing in the near term, so we expect two more 25bp cuts, one in December and one in Q1 2012. Even then, the policy stance would still not be too accommodative relative to where the BI sees the neutral level of the real policy rate at 0.5-1.0% and the risks to the growth outlook. Moreover, BI will likely maintain a highly interventionist stance in FX and bond markets, which are sensitive to a risk-off environment. This should reduce risks of financial market instability and mitigate potential weakening of the IDR from further policy easing.

Fiscal policy: The fiscal outturn in 2011 looks likely to disappoint our expectations of more fiscal tailwinds this year. In January-September, the fiscal deficit was 0.7% of GDP versus the budgeted 2.1% as expenditures have again underperformed. Next year, the 2012 budget reduces the deficit to 1.5% of GDP from a revised deficit of 2.1% of GDP this year, which reflects a 16% increase in tax revenues, a 12% reduction in subsidies and a 19% rise in capital spending. There is a heavy emphasis on infrastructure projects, and we think this should accelerate once parliament enacts the land acquisition bill.

Risks: In a worst case of another global recession, Indonesia is likely to be the most resilient among ASEAN given the government's fiscal firepower, ample room to cut the policy rate, and robust domestic demand. Large foreign holdings of Indonesian bonds and equities leave bond and stock prices vulnerable, but the bond stabilization framework and FX reserves of USD114bn (as at October) will likely be continuously utilized to buffer against capital reversals.

Details of the forecast

% y-o-y growth unless otherwise stated	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**6.5**	**6.5**	**6.5**	6.6	6.5	6.8	7.1	7.5	6.5	7.0	7.0
Private consumption	**4.5**	**4.6**	**4.8**	5.0	5.3	5.3	5.3	5.3	4.7	5.3	5.7
Government consumption	**2.8**	**4.5**	**2.5**	3.0	6.0	5.0	4.5	4.5	3.2	4.9	10.0
Gross fixed capital formation	**7.3**	**9.4**	**7.1**	11.0	11.7	12.0	11.9	12.0	8.7	11.9	10.7
Exports (goods & services)	**12.5**	**17.5**	**18.5**	10.7	10.7	11.0	11.5	11.5	14.7	11.2	11.0
Imports (goods & services)	**14.4**	**15.3**	**14.2**	12.4	12.6	12.6	12.6	12.6	14.0	12.6	16.2
Contributions to GDP (% points):											
Domestic final sales	**4.5**	**5.1**	**4.6**	5.9	6.1	6.2	6.2	6.6	5.0	6.3	6.7
Inventories	**0.8**	**1.4**	**0.3**	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0
Net trade (goods & services)	**0.6**	**2.4**	**3.3**	0.6	0.4	0.6	1.0	0.9	1.8	0.7	-0.9
Consumer prices index	**6.8**	**5.9**	**4.7**	5.0	4.8	6.2	6.2	5.9	5.6	5.8	5.3
Exports	**30.6**	**38.3**	**32.8**	13.0	13.0	12.8	3.2	14.6	27.9	10.8	18.2
Imports	**32.0**	**37.8**	**34.5**	20.2	15.6	13.9	7.2	16.7	30.6	13.3	22.3
Merchandise trade balance (US$bn)	**8.7**	**9.6**	**9.6**	7.8	8.8	10.4	8.2	8.0	35.7	35.3	34.1
Current account balance (% of GDP)	**1.1**	**0.2**	**0.1**	-0.2	0.9	0.4	-0.5	-0.1	0.3	0.2	0.0
Fiscal Balance (% of GDP)									-1.7	-1.6	-1.4
Bank Indonesia rate (%)	**6.75**	**6.75**	**6.75**	5.75	5.50	5.50	5.50	5.50	5.75	5.50	6.00
Exchange rate (IDR/USD)	**8708**	**8591**	**8950**	9050	8900	8750	8650	8500	9050	8500	8200

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal (i.e., the single most likely outcome). Table reflects data available as of 25 November 2011.
Source: CEIC and Nomura Global Economics.

High beta

We expect GDP growth to outperform the global average in 2012 as a weaker KRW/JPY and decent election-related domestic demand should help partly offset weaker global demand.

Activity: GDP growth slowed from 0.9% (sa) q-o-q in Q2 to 0.7% in Q3 as solid exports and construction investment failed to offset weaker consumption, business investment and inventory run-down. Going forward, the negative impact from the August-September global market sell-off will likely impact Q4 GDP, and we expect a mere 0.4% q-o-q gain. In 2012, we expect very modest global demand and a sizable fiscal stimulus (ahead of the general election in April and the presidential election in December). Also, the weaker KRW/JPY will likely boost Korean exporters' global market share through export price competitiveness. All in all, we expect Korea's GDP growth to slow to 3.5% (versus global GDP growth of 3.8%) in 2011 before rising to 5.0% (versus global GDP growth of 4.1%) in 2012.

Inflation: We expect CPI inflation to slow modestly in Q4 and 2012 as negative wage growth, lower oil prices and KRW movements (which should continue to weaken in Q4, but strengthen from Q1 2012 onward) will likely put downward pressure on inflation. We forecast CPI inflation to slow to 3.5% in 2012 from 4.2% in 2011.

Policy: We expect the BOK's next move to be a 25bp hike in July 2012. We believe the BOK is likely to pause ahead of the presidential election in December 2012 and deliver a total of 50bp of hikes in 2013.

Risks: Korea's economy is still very open: exports made up 52% of GDP in 2010; the external debt to GDP ratio has fallen (from 48% in 2009 to 37% in 2010) but is still relatively high; and it is one of Asia's largest net importers of oil (6.3% of GDP in 2010). As such, the economy is vulnerable to sudden changes in global economic conditions and financial markets. The deepening European sovereign debt crisis and the potential negative European banking sector feedback effects add substantial downside risks to our growth forecast. We believe that large FX reserves (USD311bn in October 2011), a flexible exchange rate regime, room to cut rates and a sound fiscal position should provide a buffer to further external deterioration. On North Korea, we view a major escalation of geopolitical tensions as a low probability for now, but that could rise as the presidential election in December 2012 approaches.

Details of the forecast

% y-o-y growth unless otherwise stated	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP (sa, % q-o-q, annualized)	**5.4**	**3.6**	**3.0**	1.6	6.1	6.1	7.0	5.7			
Real GDP (sa, % q-o-q)	**1.3**	**0.9**	**0.7**	0.4	1.5	1.8	1.7	1.4			
Real GDP	**4.2**	**3.4**	**3.4**	3.4	3.6	4.5	5.5	6.6	3.5	5.0	4.0
Private consumption	**2.8**	**3.0**	**2.2**	2.3	2.9	4.0	4.5	4.6	2.6	4.0	3.1
Government consumption	**1.7**	**2.1**	**3.4**	5.1	5.0	6.3	6.4	6.1	3.0	6.0	4.6
Business investment	**11.7**	**7.5**	**1.4**	2.8	5.0	2.1	5.6	9.3	5.6	5.5	7.4
Construction investment	**-11.9**	**-6.8**	**-4.2**	-2.7	5.4	5.8	4.6	4.9	-6.6	5.2	4.1
Exports (goods & services)	**16.8**	**9.6**	**9.4**	7.7	7.0	8.8	8.8	10.9	10.7	8.9	9.3
Imports (goods & services)	**10.8**	**7.9**	**6.4**	7.5	8.9	8.6	9.3	10.9	8.1	9.4	10.9
Contributions to GDP growth (% points):											
Domestic final sales	**1.2**	**1.2**	**1.1**	2.0	4.9	4.3	4.7	5.1	0.8	4.5	3.9
Inventories	**-0.1**	**0.7**	**0.5**	0.6	-1.0	-0.7	0.2	0.5	0.9	0.0	0.0
Net trade (goods & services)	**3.1**	**1.4**	**1.8**	0.8	-0.3	0.9	0.5	1.0	1.9	0.5	0.1
Unemployment rate (sa, %)	**3.9**	**3.6**	**3.5**	3.4	3.4	3.4	3.4	3.4	3.6	3.4	3.4
Consumer prices	**4.5**	**4.2**	**4.8**	4.4	3.9	4.2	3.5	3.3	4.2	3.5	3.0
Current account balance (% of GDP)									2.0	1.3	0.3
Fiscal balance (% of GDP)									0.1	-0.3	0.2
Fiscal balance ex-social security (% of GDP)									-1.0	-1.5	-1.0
Money supply (M2)	**5.3**	**5.0**	6.0	6.5	7.0	7.5	8.0	8.5	5.7	8.0	7.0
House prices (% q-o-q)	**2.3**	**2.0**	**1.5**	0.2	1.0	1.0	0.5	0.5	6.0	3.0	2.0
BOK official base rate (%)	**3.00**	**3.25**	**3.25**	3.25	3.25	3.25	3.50	3.50	3.25	3.50	4.00
3-year T-bond yield (%)	**3.74**	**3.77**	**3.56**	3.50	3.50	3.50	3.75	3.75	3.50	3.75	4.00
5-year T-bond yield (%)	**4.12**	**4.01**	**3.67**	3.75	3.75	3.75	4.00	4.00	3.75	4.00	4.00
Exchange rate (KRW/USD)*	**1097**	**1068**	**1178**	1195	1160	1140	1120	1100	1195	1100	1050

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table reflects data as of 25 November 2011.
Source: Bank of Korea, CEIC and Nomura Global Economics.

The week ahead

We expect weaker economic activity in India, Thailand and Korea, while CPI inflation should ease in Indonesia but rise in Thailand and Korea. The Bank of Thailand is expected to cut rates.

Activity: We expect India's Q3 GDP growth to moderate due to weaker fixed investment and private consumption, while the Philippines's Q3 GDP growth likely improved from a catch up in government spending. We expect industrial production in Thailand and Korea to fall in October due to the severe flooding and an inventory adjustment, respectively.

Inflation and Monetary policy: Base effects should make lower Indonesia's CPI inflation and higher Korea's CPI inflation in November, while Thailand's CPI inflation is likely to rise due to higher food prices. We expect Bangko Sentral ng Pilipinas to keep the policy rate unchanged, as inflation remains elevated, while we believe that the Bank of Thailand will cut its policy rate by 25bp to 3.25% given the severity of the floods.

External: Korea's export growth will likely remain weak in November as global demand cools. Similarly, Indonesia's trade surplus in October should narrow as export growth slows further.

Australia: We expect that private capex rose strongly in Q3, driven mostly by spending in the mining sector. We also expect a big lift in multi-occupancy home building approvals in October, from council approvals in Brisbane and Sydney in particular. Lastly, we believe retail sales accelerated in October, as retailers reported firmer retail trading conditions.

Sometime in the week			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
	Thailand	Manufacturing production	% y-o-y	Oct	-0.7	6.8	-0.5	-18.0	-13.0
Monday 28 November									
05.00	S. Korea	Business confidence index	Index	Dec	86.0	86.0	82.0	80.0	n.a.
08.00	New Zealand	NBNZ business confidence	% m-o-m	Nov	34.4	30.3	13.2	n.a.	n.a.
10.00	Philippines	Real GDP	% q-o-q, sa	Q3	0.5	1.9	0.6	1.3	1.0
10.00	Philippines	Real GDP	% y-o-y	Q3	6.1	4.6	3.4	4.5	4.1
Tuesday 29 November									
07.00	S. Korea	Current account balance	US$bn	Oct	3.8	0.3	3.1	4.0	n.a.
Wednesday 30 November									
	India	Consumer price index, industrial workers,	% y-o-y	Nov	8.4	9.0	10.1	9.6	n.a.
05.45	New Zealand	Home building permits	% m-o-m	Oct	13.6	16.7	-17.1	6.0	n.a.
07.00	S. Korea	Industrial production	% m-o-m, sa	Oct	-0.3	-1.9	1.1	-1.0	0.2
07.00	S. Korea	Industrial production	% y-o-y	Oct	4.0	4.7	6.8	7.2	5.0
07.00	S. Korea	Service industry output volume	% y-o-y	Oct	3.8	4.9	3.8	3.0	n.a.
08.30	Australia	Private sector credit	% m-o-m	Oct	0.3	0.2	0.5	0.5	0.4
08.30	Australia	Private capital expenditure	% q-o-q	Q3	1.5	7.7	4.9	5.5	8.0
13.30	India	Real GDP	% y-o-y	Q3	8.3	7.8	7.7	6.9	6.8
15.30	Thailand	Central bank meeting, 1-day repo rate, %		Nov	3.25	3.50	3.50	3.25	3.00
15.30	Thailand	Current account balance	US$bn	Oct	3.7	-0.7	0.4	-0.6	-0.5
Thursday 1 December									
05.45	New Zealand	Terms of trade	% q-o-q	Q3	0.8	0.8	2.3	1.5	n.a.
06.00	Philippines	Central bank meeting, overnight borrowing rate, %		Dec	4.50	4.50	4.50	4.50	4.50
07.00	S. Korea	Consumer price index	% y-o-y	Nov	5.3	4.3	3.9	4.3	4.4
08.30	Australia	Retail sales	% m-o-m, sa	Oct	0.8	0.6	0.4	0.5	0.4
09.00	China	Official purchasing manager's index	Index	Nov	50.9	51.2	50.4	49.0	49.9
09.00	S. Korea	Exports	% y-o-y	Nov	25.5	18.1	8.0	9.2	11.6
09.00	S. Korea	Trade balance	US$bn	Nov	0.4	1.3	4.1	1.2	2.9
12.00	Indonesia	Consumer price index	% y-o-y	Nov	4.8	4.6	4.4	4.2	n.a.
12.00	Indonesia	Exports	% y-o-y	Oct	39.5	35.9	46.3	29.6	n.a.
12.00	Indonesia	Trade balance	US$bn	Oct	1.2	3.6	2.7	1.8	n.a.
12.00	Thailand	Consumer price index	% y-o-y	Nov	4.3	4.0	4.2	4.1	4.4
13.30	India	Exports	% y-o-y	Oct	81.8	44.3	36.4	10.7	n.a.
13.30	India	Trade balance	US$bn	Oct	-11.1	-14.0	-9.8	-19.6	n.a.
16.30	Hong Kong	Retail sales (volume)	% y-o-y	Oct	22.4	20.7	15.2	13.0	n.a.
Friday 2 December									
08.30	Australia	Home building approvals	% m-o-m	Oct	1.2	10.7	-13.6	7.0	3.3

Note: Hong Kong times.
Source: Bloomberg, Reuters and Nomura Global Economics.

The week of 5 December

We expect Q3 GDP growth to rebound in Australia. China's CPI inflation and export growth likely slowed. We expect Bank Indonesia to cut rates, but RBA and BOK should stay on hold.

Activity: In Australia, we expect a relatively strong growth in Q3 GDP, driven mostly by firmer household consumption and a very strong lift in business investment. In China, we see industrial production growth to slow in November, due to weakness in housing investment and exports.

Inflation: We expect China's CPI inflation to ease further to 4.5% y-o-y in November, both due to base effects and falling food prices. Taiwan's CPI inflation likely remained low, unchanged from October, on lower imported commodity prices and a slowdown in economic growth. In the Philippines, we expect headline CPI inflation to ease marginally, as increases in food price from weather-related problems are partly offset by lower retail fuel prices.

Policy: We expect the Bank Indonesia to cut by another 25bp as headline inflation continues to fall. We expect the RBA to leave the cash rate on hold at 4.50% after several senior RBA officers have pointed to the policy setting being close to neutral, which is appropriate absent a marked deterioration in the global growth outlook. The Bank of Korea is most likely to keep rates unchanged in December, as the economic growth is slowing but CPI inflation remains still high.

Trade: We believe that export growth in China, Taiwan and Malaysia will slow sharply in November, due to the weaker overseas demand, especially in the electronics sector.

Monday 5 December			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
08.30	Australia	Inventories	% q-o-q, sa	Q3	0.8	0.7	2.5	1.0	n.a.
16.00	Taiwan	Consumer price index	% y-o-y	Nov	1.3	1.4	1.2	1.2	n.a.
Tuesday 6 December									
07.00	S. Korea	Real GDP (revised)	% q-o-q, sa	Q3	0.5	1.3	0.9	0.7	n.a.
07.00	S. Korea	Real GDP (revised)	% y-o-y	Q3	4.7	4.2	3.4	3.4	n.a.
08.30	Australia	Current account balance	A$bn, sa	Q3	-8.1	-11.1	-7.4	-4.0	n.a.
09.00	Philippines	Consumer price index	% y-o-y	Nov	4.7	4.8	5.2	5.1	n.a.
11.30	Australia	Reserve Bank's cash rate	%	Dec	4.75	4.75	4.50	4.50	4.50
Wednesday 7 December									
08.30	Australia	Real GDP	% q-o-q, sa	Q3	0.8	-0.9	1.2	1.5	n.a.
08.30	Australia	Real GDP	% y-o-y	Q3	2.7	1.0	1.4	2.6	n.a.
11.00	S. Korea	Money supply, M2	% y-o-y	Oct	3.2	4.0	4.2	4.5	n.a.
Thursday 8 December									
	Indonesia	Central bank policy meeting, policy rate, %		Dec	6.75	6.50	6.00	5.75	n.a.
04.00	New Zealand	Reserve bank's official cash rate	%	Dec	2.50	2.50	2.50	2.50	2.50
08.30	Australia	Employment change, '000	m-o-m, sa	Nov	-10.8	22.5	10.1	10.0	n.a.
08.30	Australia	Unemployment rate	% sa	Nov	5.3	5.3	5.2	5.2	n.a.
09.00	S. Korea	Central bank policy meeting, base rate, %		Dec	3.25	3.25	3.25	3.25	n.a.
12.01	Malaysia	Industrial production	% y-o-y	Oct	-0.5	3.7	2.5	1.6	n.a.
16.00	Taiwan	Exports	% y-o-y	Nov	7.2	9.9	11.7	8.8	n.a.
16.00	Taiwan	Imports	% y-o-y	Nov	6.3	10.8	11.8	2.7	n.a.
16.00	Taiwan	Trade balance	US$bn	Nov	2.6	1.8	3.3	1.9	n.a.
Friday 9 December									
	China	Industrial production	% y-o-y	Nov	13.5	13.8	13.2	12.8	n.a.
	China	Urban fixed-asset investment (ytd)	% y-o-y	Nov	25.0	24.9	24.9	24.8	n.a.
	China	Retail sales	% y-o-y	Nov	17.0	17.7	17.2	17.0	n.a.
10.00	China	Producer price index	% y-o-y	Nov	7.3	6.5	5.0	3.4	n.a.
10.00	China	Consumer price index	% y-o-y	Nov	6.2	6.1	5.5	4.5	n.a.
18.01	Malaysia	Exports	% y-o-y	Oct	7.1	10.9	16.6	7.6	n.a.
18.01	Malaysia	Trade balance	RMbn	Oct	9.5	11.0	9.6	8.5	n.a.
Saturday 10 December									
	China	Trade balance	US$bn	Nov	17.8	14.5	17.0	16.1	n.a.
	China	Exports	% y-o-y	Nov	24.5	17.1	15.9	10.0	n.a.
	China	Imports	% y-o-y	Nov	30.2	20.9	28.7	17.0	n.a.

Note: Hong Kong times.
Source: Bloomberg, Reuters and Nomura Global Economics.

The week of 12 December

We expect industrial production in India to remain weak and inflation to moderate slightly. We expect the RBI to keep its policy rates unchanged in such circumstances.

India: We expect industrial production growth to remain subdued in October owing to a broad-based slowdown in private consumption, investment and export demand in addition to production disruptions due to power outages in some areas. WPI Inflation is likely to ease slightly in November owing to base effects and a moderation in food prices, in our view. We expect the Reserve Bank of India (RBI) to keep its policy rates unchanged because of moderating inflation and a broad-based slowdown in activity.

ASEAN: In the Philippines, we expect exports to decline further owing to the ongoing down cycle in the global electronics market. By contrast, we expect overseas workers' remittances to grow robustly given strong worker deployment earlier this year. In Singapore, we expect non-oil domestic goods exports to contract again largely due to base effects and strong non-electronics shipments offsetting some of the large decline in electronics exports.

China: We expect M2 money supply growth to rise modestly in November, as loan supply likely loosened slightly during this period.

Australia: We expect home loans to rise for a seventh consecutive month in October assisted by the likelihood that the RBA would cut the cash rate in November, in our view. By contrast, the trade surplus likely contracted in October as weaker export commodity prices held down the value of exports even as imports continued to rise, in our view.

Sometime in the week			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
	China	New RMB loans	RMBbn	Nov	548.5	470.0	586.8	550.0	n.a.
	China	Money supply, M2	% y-o-y	Nov	13.6	13.0	12.9	13.0	n.a.
	S. Korea	Department store sales	% y-o-y	Nov	8.3	6.5	3.1	7.0	n.a.
Monday 12 December									
08.30	Australia	Home loans	% m-o-m, sa	Oct	1.4	1.2	2.2	2.0	n.a.
08.30	Australia	Trade balance	A$bn	Oct	1.8	3.0	2.6	1.7	n.a.
13.30	India	Industrial production	% y-o-y	Oct	3.8	3.6	1.9	2.3	n.a.
Tuesday 13 December									
05.00	S. Korea	Export price	% y-o-y	Nov	1.8	5.8	9.2	8.0	n.a.
05.00	S. Korea	Import price	% y-o-y	Nov	10.0	14.0	16.0	15.0	n.a.
08.30	Australia	Dwelling starts	% q-o-q, sa	Q3	-4.2	3.3	-4.7	1.5	n.a.
08.30	Australia	NAB business confidence	Index	Nov	-9.0	-1.0	2.0	n.a.	n.a.
09.00	Philippines	Exports	% y-o-y	Oct	-1.7	-13.7	-27.4	-22.5	n.a.
Wednesday 14 December									
07.00	S. Korea	Unemployment rate	% sa	Nov	3.1	3.2	3.1	3.2	n.a.
14.30	India	Wholesale price index	% y-o-y	Nov	9.8	9.7	9.7	9.3	n.a.
Thursday 15 December									
	Philippines	Remittance from aboard	% y-o-y	Oct	6.1	11.1	8.4	7.5	n.a.
13.00	Singapore	Retail sales (value)	% y-o-y	Oct	11.0	3.5	-0.1	-0.1	n.a.
Friday 16 December									
08.30	Singapore	Non-oil domestic exports	% y-o-y	Nov	3.9	-4.6	-16.2	-7.7	n.a.
14.30	India	Central bank meeting, repo rate, %		Dec	8.00	8.25	8.50	8.50	n.a.
14.30	India	Central bank meeting, cash reserve rate, %		Dec	6.00	6.00	6.00	6.00	n.a.
14.30	India	Central bank meeting, reverse repo rate, %		Dec	7.00	7.25	7.50	7.50	n.a.

Note: Hong Kong times.
Source: Bloomberg, Reuters and Nomura Global Economics.

A new policy regime

Policymakers are aiming to target growth, inflation and the exchange rate simultaneously. The new framework will likely lead to lower growth potential, higher inflation and a weaker currency.

Activity: After posting 7.5% growth in 2010, the Brazilian economy is experiencing a broad-based slowdown, and we expect it to expand by only 3.1% this year. After raising rates at the beginning of the year, fearing a greater growth slowdown, the central bank surprised markets and slashed the Selic policy rate by 50bp in August, with another 50bp cut in October. We expect more cuts ahead with Selic reaching 9.5% by Q2 2012, as policymakers, with a very negative view of the global outlook, are determined to boost economic growth, even at the cost of higher inflation. We expect the easing of monetary policy to boost growth to 3.6% in 2012,. As inflation threatens to go above the top of the current band, we think policy rates will have to rise back to the 11.00% region.

Inflation: Inflation has been elevated throughout 2011, running at 7.31% y-o-y as of September, above the 6.5% upper bound of the target range for six straight months. Non-tradable goods inflation is running close to 8%, owing partly to the buoyant labor market as unemployment has been hitting several record lows this year. Commodity prices, especially food prices, have remained high, adding further pressure to inflation. As policymakers appear to be targeting inflation below the top of the band (6.5%), instead of the centre (4.5%), inflation expectations should gradually drift up towards the 6-6.5% range. In the light of recent pressure on food and transport prices, we revised our end-2011 inflation forecasts to 6.55% from 6.25%. Our end-2012 inflation projection, taking into account a de-anchoring of inflation expectations from the centre of the current target, rises to 6.15%.

Policy: In our view, policymakers are attempting to operate a new economic regime with three targets – keeping growth above 3.5%, keeping inflation below the top of the current band (6.5%), and keeping the exchange rate from appreciating further. More discretion and non-market-based measures will be employed in the course of policy execution, leading to less transparency and more uncertainty for overall policymaking, which will lower potential growth.

Risks: Given a more complex and discretionary policy framework that seems to have multiple targets, policy uncertainty is today higher in Brazil. We believe the multiple-targeting framework will lead to a "stop-and-go" monetary policy, with inflation risks higher.

Details of the forecast

% y-o-y change unless noted	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**4.2**	**3.1**	3.5	1.9	2.6	2.9	4.0	3.5	3.2	3.3	4.7
Personal consumption	**5.9**	**5.5**	5.7	3.2	3.3	3.5	4.2	3.7	5.1	3.2	5.3
Fixed investment	**8.8**	**5.9**	2.0	2.3	2.6	3.9	5.4	4.3	4.6	4.1	5.6
Government expenditure	**2.1**	**2.5**	3.5	3.0	1.3	4.3	3.3	1.4	2.8	3.8	2.2
Exports	**4.3**	**6.0**	3.3	-1.3	6.5	2.0	1.4	1.9	3.0	2.6	1.9
Imports	**13.1**	**14.6**	6.4	5.5	8.1	4.6	5.6	4.6	9.0	5.5	5.0
Growth of GDP components:											
Industry	**3.5**	**1.7**	3.1	3.4	2.3	2.0	2.0	1.3	2.9	1.9	3.1
Agriculture	**3.1**	**0.1**	6.7	11.9	8.7	6.6	-11.2	-13.2	4.6	-1.2	3.2
Services	**4.0**	**3.5**	3.6	3.5	3.7	4.1	3.7	3.6	3.6	4.4	5.1
IPCA (consumer prices)	**6.30**	**6.71**	**7.31**	6.55	6.10	6.05	5.62	5.30	6.55	5.30	5.50
IGPM (wholesale prices)	**10.95**	**8.65**	**7.46**	6.85	7.41	7.12	6.80	6.49	6.85	6.49	6.00
Trade balance (US$ billion)	**22**	**25**	**31**	27	23	20	18	15	27	15	25
Current account (% GDP)									-2.5	-3.0	-3.0
Fiscal balance (% GDP)									-2.0	-2.0	-2.0
Net public debt (% GDP)									39.0	36.0	35.0
Selic %	**11.75**	**12.25**	**12.00**	11.00	10.00	9.00	9.50	11.00	11.00	11.00	12.00
BRL/USD	**1.63**	**1.56**	**1.88**	1.75	1.85	1.90	1.80	1.65	1.75	1.65	1.55

Notes: Annual forecasts for GDP and its components are year-over-year average growth rates. Annual CPI forecasts are year-on-year changes for Q4. Trade data are a 12-month sum. Interest rate and currency forecasts are end of period. GDP components do not include taxes. Numbers in bold are actual values, others forecast. Table reflects data available as of 25 November 2011.
Source: Nomura Global Economics.

Growth supported by domestic demand

With exports to the US decelerating, growth is increasingly supported by domestic demand. A weaker MXN has relaxed monetary conditions. We expect the first rate hike in Q4 2012.

Activity: The Mexican economy is on track to expand at potential, which we estimate at 3.0%, in the remainder of the year and in 2012. However, there are significant risks to growth associated with an outlook of decelerating economic activity in the US and in the eurozone, which are Mexico's largest trade partners. On the positive side, domestic demand in Mexico has finally started to pick up, evidenced by strong private consumption and investment. Consumption has been supported by credit and a stabilization of remittances from workers in the US. In addition, the turbulence in manufacturing activity, due to the supply-chain disruptions after the earthquake in Japan dissipated by Q3 2011.

Inflation: We expect inflation to be above the 3.0% target but below the 4% upper bound of the target band throughout 2012. While the labor market continues to indicate that there is slack in the economy, our estimation is that the output gap has already closed. The combination of MXN weakness and a positive, albeit small, output gap, will put upward pressure on inflation. Gasoline prices, expanding at 10% y-o-y will be another source of inflation pressure.

Policy: Under our base case scenario, we expect the central bank of Mexico (Banxico) to initiate a very gradual and short monetary policy tightening cycle sometime in H2 2012. However, if the US enters a severe recession then Banxico could cut its policy rate. The MXN depreciation has eased monetary conditions, allowing Banxico to avoid a policy rate cut from the current 4.5% level, a historical low. In fact, we forecast the MXN to remain under pressure and above 13 throughout 2012 due to a complicated external backdrop. Unlike monetary policy, there is little degree of freedom in fiscal policy, as economic contraction and falling oil prices would severely limit government revenues. Therefore, similar to 2008, we would expect the government to limit spending and the fiscal deficit to widen to 2.5% of GDP, which is in line with the approved 2012 budget.

Risks: The main risk to Mexico is a double-dip recession in the US economy. In terms of inflation, we see the following risks to our call: (1) rising commodity prices; (2) increases in gasoline prices; and (3) a sizable depreciation of the exchange rate.

Details of the forecast

% y-o-y change unless noted	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	2011	2012	2013
Real GDP	**4.5**	**3.2**	**4.5**	3.9	3.3	3.0	2.9	3.0	4.1	3.0	3.2
Personal consumption	**4.9**	**4.3**	4.5	3.3	2.9	2.0	2.4	2.8	3.9	2.5	3.5
Fixed investment	**7.7**	**7.4**	5.2	4.5	4.6	5.2	4.5	3.9	6.1	4.5	4.0
Government expenditure	**1.3**	**-2.1**	2.3	3.5	3.8	3.5	3.4	3.3	2.0	3.5	2.8
Exports	**14.1**	**8.1**	12.6	13.8	11.7	9.7	10.5	11.2	13.1	10.8	5.0
Imports	**10.9**	**6.8**	11.4	16.5	15.6	13.1	11.5	10.4	12.6	12.5	5.0
Contributions to GDP (pp):											
Industry	**1.3**	**0.9**	1.3	1.2	1.0	0.9	0.8	0.9	1.2	0.9	0.9
Agriculture	**0.2**	**-0.1**	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Services	**2.9**	**2.3**	2.9	2.5	2.1	1.9	1.8	1.9	2.6	1.9	2.0
CPI	**3.04**	**3.28**	3.79	3.89	3.95	3.90	3.94	3.97	3.89	3.97	3.70
Trade balance (US$ billion)	**1.9**	**1.4**	-5.0	-5.0	-4.0	-4.0	-4.1	-3.9	-18.0	-12.0	-15.0
Current account (% GDP)									-0.9	-1.5	-1.5
Fiscal balance (% GDP)									-2.5	-2.0	-2.0
Gross public debt (% GDP)									34.0	34.0	32.0
Overnight Rate %	**4.50**	**4.50**	**4.50**	4.50	4.50	4.50	4.50	5.00	4.50	5.00	6.50
USD/MXN	**11.90**	**11.71**	**13.90**	13.50	13.45	13.30	13.15	13.00	13.50	13.00	12.80

Notes: Annual forecasts for GDP and its components are year-over-year average growth rates. Annual CPI forecasts are year-over-year changes for Q4. Trade data are period sums. Interest rate and currency forecasts are end of period. Contributions to GDP do not include taxes. Numbers in bold are actual values, others forecast. Table reflects data available as of 25 November 2011.
Source: Nomura Global Economics.

More fragile than expected

The domestic recovery has proved to be much more fragile than expected and is threatened further by weakening export demand. Rate hikes now look unlikely before end-2012.

Activity: South Africa is having a surprisingly fragile, spluttering recovery. We look for growth of 3.1% in 2011 and 3.4% in 2012 after 2.8% in 2010. The spurt in exports in the past year, led by Asian demand, is petering out as momentum slows in Asia and is being augmented by a wider global slump, though the manufacturing sector has remained robust despite the currency being 25% overvalued. The sector has been helped by a positive terms of trade shock. We do not expect a recession mainly due to a renewed spurt in infrastructure investment, government spending on its jobs agenda and some pent up demand. Corporates are still deleveraging and not investing and household balance sheets remain constrained by high leverage. Households will also be constrained by a still weak labour market – jobs growth is recovering slowly as productivity increases and businesses continue to lay off staff and this is countering high real wage growth. Overall we see the output gap only being closed by mid-2012.

Currency: The government took action to weaken the rand, relaxing exchange controls and accumulating FX deposits. Risk aversion and some portfolio outflows are now serving to weaker the currency further, but the prospect of further G7 easing means we see strength into year end.

Inflation and rates: More fragile domestic demand suggests second-round and demand-led inflationary pressures are unlikely to materialise until H2 next year. Add to this lower commodity prices and that the rand could maintain its strength (it has been remarkably well behaved recently), and overall inflationary pressures look less concerning. We still see inflation breaching target in December this year but then coming back deeper within target before moving up and oscillating around the 6% level through H2 next year, but not meaningfully breaching. In this environment with increasing growth concerns internally and external growth risks, as well as lower commodity prices and the reduced threat of inflationary pressures we believe the MPC will keep rates on hold until Q4 next year. Although in our opinion they *should* cut rates in this environment, we believe they will be cautious about over stimulating the economy, about expectations and feel happy keep rates at current record lows.

Politics and fiscal: At the local elections in May the ANC lost ground to the DA. Although the proportion of votes lost was small it has greatly concerned the ANC. We now expect the party to concentrate on its developmental state agenda, which will require additional spending. National Health Insurance, recently announced, is the most costly in short term and uncertain in the long run. As such we think the government's "long-run deficit" comfort zone has moved from 3% to 3.5% of GDP to 4% to 4.5% GDP. Currently, policy risk is key, in particular the formation of a new politicised FDI process under Minister Patel. Also mine and bank nationalisation and land redistribution are a major focus owing to pressure from the ANC Youth League. Although we strongly believe this pressure will not turn into policy, we are concerned about potential increased government involvement in these areas. The major sovereign risk event comes next year, with the ANC's elective conference at which Jacob Zuma may be forced out.

Figure 1. Details of the forecast

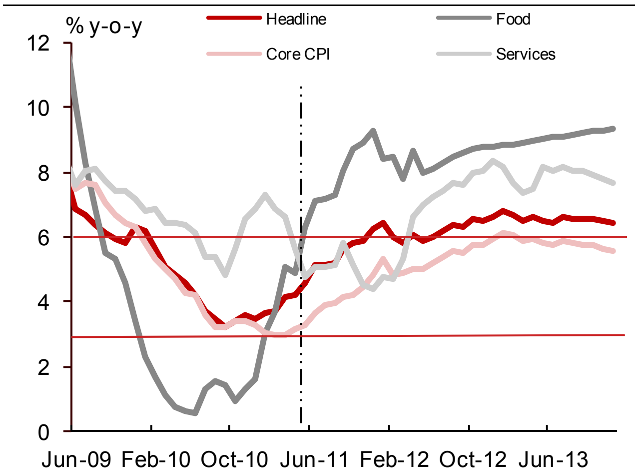
	2010	2011	2012	2013
Real GDP % y-o-y	**2.8**	3.2	2.8	3.4
Current account % GDP	**-2.8**	-2.8	-4.3	-4.8
PSCE % y-o-y*	**5.5**	5.3	3.5	7.9
Fiscal balance % GDP	**-4.9**	-5.6	-6.1	-5.4
FX reserves, gross USD bn*	**43.8**	50.7	54.6	58.3
CPI % y-o-y *	**3.5**	6.4	5.6	5.7
CPI % y-o-y **	**4.3**	5.0	5.9	5.5
Manufacturing output % y-o-y	**4.9**	2.9	3.3	4.5
Retail sales output % y-o-y	**5.1**	5.7	2.4	2.6
SARB policy rate %*	**5.50**	5.50	6.00	7.50
EURZAR*	**9.0**	11.1	9.5	10.5
USDZAR*	**6.82**	8.50	7.00	7.75

*End of period, **Period average, Bold is actual data

PSCE- Private sector credit extensions

Source: Nomura Global Economics.

Figure 2. CPI and underlying components



Source: Nomura Global Economics.

Olgay Buyukkayali

Rebalancing has started

Loose monetary and fiscal policy has supported the continuation of domestic demand-led growth. Decelerating global activity is not necessarily bad for Turkey, which has started its rebalancing.

Activity: According to our forecasts Turkey came out of recession with relatively strong growth of 8.9% in 2010. We expect 2011 growth to remain above-potential at 6.7% (2 percentage points lower than we initially expected), driven largely by continued double-digit growth in private investment. Private consumption's contribution should moderate reducing net imports' negative contribution to GDP. We think risks are on the upside owing to the strong policy response from construction and public investment ahead of the elections. Furthermore, our scenarios do not assume significant stock building, another upside risk for our base case. Our calculations suggest the output gap probably closed during Q4 2010. Strong upside surprises in Q1 and Q2 growth (11.6% and 8.8% y-o-y respectively) suggest that the Turkish economy was overheating. We expect a deceleration in activity in Q3 and Q4.

Inflation: Food, energy and core inflation are likely to move higher in 2011 which would still leave headline inflation above the 5.5% target at around 7.5% y-o-y. With pricing power rising, real wages together with lower unemployment all point to risks on the upside for core inflation. There are signs of pricing power in service price inflation. Currently, six of the nine core series are at or above 7% y-o-y.

Policy: Monetary policy remains loose and fiscal policy has tightened. The postmodern approach of policy rate cuts and macro prudential hikes have paused and the TCMB is reversing quantitative tightening through reducing reserve requirements. The TCMB has still not signalled a return to orthodoxy yet. Nevertheless, because of the widening divergence between core inflation and the inflation target, the latest 50bp cut was probably the last one with rates currently standing at 5.75%. Concerns about the health of the global economy appear to be the main reason behind the latest move. Fiscal policy is starting to help the monetary authorities, as the government has decided to utilise recent outperformance on the revenue side as a buffer for rainy days. The risks are for stronger fiscal performance.

Risks: Faster growth and terms-of-trade shocks (oil prices) are no longer the main risks as the global economy is showing signs of slowing. The bigger risk is sudden stops of capital inflows, and the TCMB's recent efforts to counter currency weakness are proving ineffective. In that scenario, inflation could easily reach double digits with unwarranted currency weakness resulting in a sharp fall in consumer confidence. This is, however, not our base case. The political climate looks stable. We think the risks of capital controls being implemented, should the currency appreciate rapidly, are extremely low.

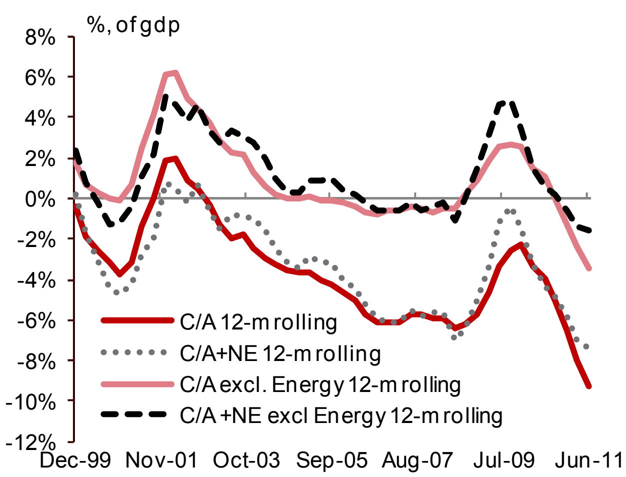
Figure 1. Details of the forecast

	2010	2011	2012	2013
Real GDP % y-o-y	**8.9**	6.7	4.0	5.0
CPI % y-o-y *	**6.4**	9.0	7.7	6.5
CPI % y-o-y **	**8.6**	7.5	8.3	7.1
Budget balance % GDP	**-3.6**	-1.0	-2.5	-3.5
Current account % GDP	-6.1	-8.8	-7.0	-6.0
TCMB policy rate %*	**6.50**	5.75	7.00	8.00
USDTRY*	**1.54**	1.70	1.60	1.55

*End of period; **Period average; Bold is actual data

Source: Nomura Global Economics.

Figure 2. Current account



Source: TCMB, Nomura Global Economics.

Hungary: Government sacrificing growth for aggressive fiscal consolidation

We believe the 2011-13 policy mix will not encourage growth and is ultimately politically unsustainable

	2010	2011	2012	2013
Real GDP % y-o-y	**1.2**	1.6	0.0	1.1
Nominal GDP USD bn	**130.5**	122.0	141.1	149.9
Current account % GDP	**0.5**	1.7	2.0	1.0
Fiscal balance % GDP	**-4.2**	3.7	-3.5	-3.2
CPI % y-o-y *	**4.7**	4.0	3.7	3.4
CPI % y-o-y **	**4.9**	3.9	4.2	3.3
Core CPI ex VAT % y-o-y **	**-0.4**	2.8	2.8	3.2
Population mn	**9.99**	9.96	9.94	9.92
Unemployment rate %	**10.8**	10.9	11.5	11.0
Reserves EUR bn ***	**32.3**	32.4	30.8	28.1
External debt % GDP***	**139.8**	139.6	131.6	130.6
Public debt % GDP	**80.9**	73.7	72.3	70.7
MNB policy rate %*	**5.75**	6.00	6.00	6.00
EURHUF*	**279**	310	290	285

*End of period, **Period average, Bold is actual data

***Includes IMF/EU funds

Source: CSO, CNB, Nomura Global Economics.

- The economic recovery has almost entirely been driven by exports. Domestic demand has remained lacklustre owing to the overhang from FX loans, a lack of bank lending because of the banking tax and policy uncertainty leading to subdued FDI. As the external dynamic becomes weaker growth should fall back.
- We think the government will continue to implement aggressively its reform plan despite lower growth in 2012. Although many of the core policies are good, many are dependent on growth having a full effect. Because of pension reforms, the government should achieve a fiscal surplus in 2011 and reduce debt over the next two years, but we do not see this as politically sustainable over the medium run.
- Inflation is under control because of the lack of core inflation pressures. However, the MPC believes it cannot cut, because of risk premia concerns. As such we see rates are on hold through end-2013.

Poland: Slower growth but still outperforming

Fiscal policy can remain on track but hikes now look unlikely with the next move probably a cut.

	2010	2011	2012	2013
Real GDP % y-o-y	**3.8**	4.1	2.9	3.8
Nominal GDP USD bn	**447.0**	424.7	493.2	574.7
Current account % GDP	**-1.8**	-4.8	-4.2	-5.0
Fiscal balance % GDP	**-7.8**	-5.0	-3.5	-2.7
CPI % y-o-y *	**3.1**	4.5	3.1	3.1
CPI % y-o-y **	**2.6**	4.2	3.8	3.0
Core CPI ex VAT % y-o-y **	**1.4**	1.7	2.7	2.8
Population mn	**38.2**	38.2	38.0	37.8
Unemployment rate %	**12.3**	12.0	12.5	11.8
Reserves EUR bn **	**70.0**	72.8	71.2	71.9
External debt % GDP	**67.2**	65.6	65.6	65.0
Public debt % GDP	**53.3**	54.3	53.5	53.1
NBP policy rate %*	**3.50**	4.50	4.50	4.00
EURPLN*	**3.96**	4.45	4.25	3.90

*End of period, **Period average, Bold is actual data

Source: CSOP, NBP, Nomura Global Economics

- Poland should maintain its growth momentum through 2012 despite the weaker external dynamic as it does not suffer the same household balance sheet impairment, its economy is more closed, disposable income has grown and loose policy should continue to stimulate.
- Demand pressures could keep core inflationary pressures elevated into Q1 2012, but as non-core pressures fall back we see inflation returning to target by end-2012. As such we think the MPC will look to this longer term, be more concerned about potential growth contagion and keep rates on hold. Hikes are possible if the currency weakens much further from here.
- Politics and complacency on growth have led to fiscal slippage in 2009 and 2010, though the threat of breaching the 55% of GDP public debt limit has abated with pension reforms. After October's parliamentary elections more meaningful steps on fiscal consolidation may occur, and we see Poland returning to a sustainable -3% of GDP by 2013.

Czech Republic: Fiscal drag, political drag

The fiscally hawkish coalition has been politicking; the CNB shouldn't hike till end next year

	2010	2011	2012	2013
Real GDP % y-o-y	**2.3**	1.9	1.2	2.0
Nominal GDP USD bn	**191.7**	192.0	213.9	226.8
Current account % GDP	**-3.8**	-3.5	-2.5	-2.8
Fiscal balance % GDP	**-5.0**	-4.2	-3.8	-3.5
CPI % y-o-y *	**2.3**	2.1	3.3	1.8
CPI % y-o-y **	**1.5**	1.9	3.9	1.9
Core CPI ex VAT % y-o-y **	**1.3**	0.8	1.3	1.1
Population mn	**10.5**	10.5	10.4	10.4
Unemployment rate %	**9.6**	8.5	9.0	8.5
Reserves EUR bn **	**31.8**	30.0	29.6	29.2
External debt % GDP	**46.7**	50.8	49.2	47.8
Public debt % GDP	**41.3**	43.8	45.2	47.0
CNB policy rate %*	**0.75**	0.75	1.00	2.00
EURCZK*	**25.0**	25.50	25.00	24.50

*End of period, **Period average, Bold is actual data

Source: CSO, CNB, Nomura Global Economics.

- We expect lower growth in 2011 thanks to fiscal drag and lower external demand. Internal demand should not kick in until mid-2012. This open economy's recovery is delayed by a weaker external dynamic.
- The fiscal drag and a strong CZK suggest there are no meaningful core inflation pressures. Thus we believe the CNB will keep rates on hold until Q4 next year.
- Although the coalition got off to a strong, fiscally hawkish start, scandal and politicking have bogged the government down. Most short to medium run consolidation reforms are now in place though – and concern is more focused on difficult long-run reforms, the pace of which should now slow.

Romania: A challenging road ahead

Twin deficits leave little room for supporting growth in a challenging external demand environment

	2010	2011	2012	2013
Real GDP % y-o-y	**-1.2**	2.8	1.0	2.3
Current account % GDP	**-4.2**	-4.5	-4.0	-5.0
Fiscal balance % GDP	**-6.5**	-4.5	-3.5	-3.2
CPI % y-o-y *	**8.0**	4.9	4.7	3.4
CPI % y-o-y **	**6.1**	5.9	4.0	3.5
External debt % GDP	**73.0**	70.0	70.0	72.0
Public debt % GDP	**35.2**	36.5	38.0	36.0
NBR policy rate %*	**6.25**	6.00	5.50	5.50
EURRON*	**4.28**	4.37	4.30	4.20

*End of period; **Period average; Bold is actual data

Source: Ministry of Statistics, Nomura Global Economics.

- The political background has improved with a less united opposition and the failure of the opposition's no-confidence votes. There appears to be commitment to sustainable public finances, but risks on exposure to periphery Europe remain a concern for the banking system.
- Romania has now come out of recession with positive growth in Q1 2011, but the outlook is weak. Ongoing fiscal consolidation and weaker trade may knock the recovery off course and will certainly lead to softer growth this year and next.
- Inflation should ease given excess capacity and the expected fall from the 5% VAT increase a year ago. However, commodity price pressures suggest inflation may remain high and sticky throughout the year. The central bank appears to be using FX strength to control inflationary pressures, as policy rates rises are unlikely owing to weak domestic demand.

Israel: Growth continues to advance

Israel's output gap has closed, inflation pressures are rising

	2010	2011	2012	2013
Real GDP % y-o-y	**4.5**	4.2	3.3	3.5
Consumption % y-o-y	**3.0**	3.5	3.0	3.0
Gross investment % y-o-y	**2.5**	3.2	3.8	3.7
Exports % y-o-y	**2.5**	3.8	4.5	3.5
Imports % y-o-y	**3.3**	4.0	3.9	3.8
CPI % y-o-y *	**2.7**	3.3	3.4	3.3
CPI % y-o-y **	**2.7**	3.3	3.0	3.3
Budget balance % GDP	**-3.8**	-3.0	-3.0	-3.5
Current account % GDP	**3.0**	2.0	1.2	1.0
Policy rate %*	**2.00**	2.50	2.75	3.25
USDILS*	**3.52**	3.45	3.25	3.25

*End of period, **Period average, Bold is actual data

Source: BOI, Nomura Global Economics.

- Israel's export-driven economy outperformed the region in the post-crisis environment thanks to an aggressive monetary policy response resulting in a healthy domestic demand.
- Inflationary pressures appear to have subsided and inflation expectations are well anchored. The outcome of local protests on rent prices represents a key issue that could influence inflation levels further.
- Strong domestic demand could still risks inflation moving higher, but also shrinks the current account surplus. We expect BoI to cut twice more (25 bp) each over the next three meetings.

Rest of Latin America | Economic Outlook Boris Segura | Tony Volpon | Benito Berber

Argentina: More moderate growth, but still high inflation

High inflation is likely to remain the main macroeconomic policy challenge for the authorities.

	2010	2011	2012	2013
Real GDP % y-o-y	**9.2**	8.0	4.0	3.5
Consumption % y-o-y	**9.0**	8.6	5.8	3.5
Gross Investment % y-o-y	**21.2**	17.1	9.3	5.0
Exports % y-o-y	**14.6**	7.9	9.0	4.4
Imports % y-o-y	**34.0**	5.5	9.0	7.0
CPI % y-o-y *	**10.9**	10.9	10.8	10.0
CPI % y-o-y **	**25.9**	24.4	25.4	18.0
Budget balance % GDP ***	**1.7**	-0.5	1.0	1.5
Current account % GDP	**1.8**	1.3	1.0	1.0
Policy Rate %	**10.81**	12.0	11.0	14.0
USDARS	**3.98**	4.40	4.50	5.00

* Official data, ** Private estimate, ***Primary budget balance, Bold is actual data

Note: Table reflects data available as of 25 November 2011.
Source: Nomura Global Economics.

- Inflation has become the most challenging policy issue, as the economy shows signs of overheating
- Fiscal and monetary policies are lax and are likely to remain so until at least the general elections in October 2011.
- The trade surplus is shrinking and, along with incipient capital flight, is putting pressure on international reserves.
- Will President Fernandez de Kirchner address the main vulnerabilities of "the model" in her second term?

Chile: Robust economic growth to continue amid global uncertainties

Growth should remain strong as long as China stays on track. Global turmoil should put rates on hold, for longer.

	2010	2011	2012	2013
Real GDP % y-o-y	**5.2**	6.3	4.8	6.0
Consumption % y-o-y	**9.3**	8.8	5.5	6.5
Gross Investment % y-o-y	**18.8**	13.0	11.0	16.0
Exports % y-o-y	**1.9**	8.0	6.5	7.0
Imports % y-o-y	**29.5**	12.0	11.0	10.0
CPI % y-o-y *	**3.0**	3.8	3.0	3.0
CPI % y-o-y **	**1.4**	3.2	3.0	3.0
Budget balance % GDP	**-0.3**	-1.0	1.0	1.0
Current account % GDP	**1.9**	1.5	1.0	1.0
Policy Rate % *	**3.25**	5.00	4.50	6.00
USDCLP *	**468.00**	485.00	480.00	465.00

* End of period, ** Period average, Bold is actual data

Note: Table reflects data available as of 25 November 2011.
Source: Nomura Global Economics.

- Chile's economy continues to grow above potential, on the back of hot domestic demand and strong exports. As long as growth in China remains on track and copper prices do not plunge, we see fairly limited downside risks to growth.
- 2011 inflation will likely be close to the 4% target upper bound. Prices of non-tradable goods should stay elevated, given the heated labor market; while falling oil prices would probably provide some relief.
- The Central Bank of Chile (BCCh) has turned more dovish recently, as a result of global uncertainties, slowing domestic growth and stable inflation. We expect the BCCh to cut the policy rate (TPM) by 25bp in the coming months, taking TPM to 5% by end-2011 and 4.5% by end-2012.

Colombia: Well balanced recovery

Economic recovery will likely continue in 2011 & 2012 with robust FDI inflows supporting the currency.

	2010	2011	2012	2013
Real GDP % y-o-y	**4.3**	5.0	4.5	4.5
Consumption % y-o-y	**4.5**	5.0	4.5	4.4
Gross Investment % y-o-y	**10.6**	8.0	9.0	9.2
Exports % y-o-y	**2.2**	6.0	7.0	6.5
Imports % y-o-y	**15.5**	8.0	9.0	8.0
CPI % y-o-y *	**3.2**	3.5	3.7	3.7
CPI % y-o-y **	**2.3**	3.5	3.7	3.7
Budget balance % GDP	**-3.8**	-3.4	-3.0	-2.5
Current account % GDP	**-3.1**	-3.0	-3.5	-3.0
Policy Rate % *	**3.00**	4.50	5.00	7.00
USDCOP *	**1907.70**	1875.00	1800.00	1700.00

* End of period, ** Period average, Bold is actual data

Note: Table reflects data available as of 25 November 2011.
Source: Nomura Global Economics.

- We forecast 2011 GDP to expand by 5.0% on the back of strong domestic demand and to converge to potential growth of 4.5% in 2012 and 2013. The policy rate should stay at 4.5% until year-end. We now forecast a small increase to 5.0% in the policy rate by the end of 2012.
- Congress passed a fiscal rule to address some of the weaknesses on the fiscal front. As a result the three major rating agencies upgraded the country's credit rating to investment grade and the Ministry of Finance issued US$2bn in global bonds.
- We revised our COP target to 1875 for end-2011 and 1800 for end-2012, from 1760 and 1750 respectively, as a result of mounting global uncertainties.

The week ahead

The central banks of Israel, Hungary, Brazil and Mexico will decide on their policy rates. GDP figures will be released for South Africa and Poland. November's PMI figures will be released.

Israel, BOI policy rate (Monday): Local inflation, local leading indicators of growth and global growth all make a 25bp cut very likely

Hungary, Policy Rate (Tuesday): We look for rates to remain unchanged at this meeting, at 6.00%. However, we see a significant chance of a hike – we would split the probabilities 52:48 for unchanged vs a hike. With a downgrade to junk by Moody's, a sharp sell-off in the bond market and increasing funding difficulties, we think it would make sense for the MPC to hike. However, the currency still has not broken through its recent peak earlier this month of 317.92 and the balance of payments remains functioning even with reduced liquidity. We think the new MPC members will still be in wait-and-see mode and give the government the benefit of the doubt around the application for IMF support. As such, even if the governor and his two deputies vote for a hike, at least one new member needs to join them. Whether this happens will be very currency dependent. If the T-bill auctions on Monday and Tuesday go badly that may well force a hike.

South Africa, GDP (Tuesday): We look for GDP to have bounced back in Q3 from 3.1% to 3.2% y-o-y and quarter-on-quarter saar to move up to 2.6%. The economy showed surprising strength in the quarter, bouncing back from strike action during the wage round over the summer. Net trade held strong, with export strength underlying it, and both retail and manufacturing showed decent growth – 2.4% y-o-y average vs 0.7% in the previous quarter for manufacturing and 6.1% vs 4.5% previously for retail. Mining will have been softer, however. Overall an underlying sluggish recovery in the labour market combined with high real wage growth and still supportive external environment is the key. However, all this should change going into next year with a eurozone recession hitting home and lower growth in other areas too. Growth will likely therefore be particularly weak in H1 before recovering slowly in H2.

Poland, GDP (Wednesday): We look for still strong growth of 4.1% in Q3 thanks to consumption demand remaining very strong on the back of strong household balance sheets and still loose monetary and fiscal policy. Private sector investments should weaken slightly on lower external sentiment but should still record a fairly strong growth rate given local corporate profitability and the availability of credit. A stabilisation of net trade in the quarter will also mean

Monday 28 November				Period	Prev 2	Prev 1	Last	Nomura	Survey
08.00	Hungary	Unemployment rate	%	Oct	10.8	10.8	10.7	10.7	10.7
15.30	Israel	BOI rate announcement	%, policy rate	Nov	3.25	3.00	3.00	2.75	2.75
	Peru	GDP	% y-o-y	Q3	9.2	8.7	6.6	6.6	n.a.
Tuesday 29 November									
06.00	South Africa	PSCE	% y-o-y	Oct	5.7	6.1	5.5	5.6	5.6
06.00	South Africa	M3	% y-o-y	Oct	5.6	6.2	6.8	n.a.	6.4
09.30	South Africa	GDP	% y-o-y	Q3	3.8	3.5	3.0	3.2	3.2
13.00	Hungary	MNB MPC meeting	%, policy rate	Nov	6.00	6.00	6.00	6.00	6.25
Wednesday 30 November									
08.00	Hungary	Producer prices	% y-o-y	Oct	-1.0	-0.1	4.1	8.0	7.0
08.00	Turkey	Trade balance	USD bn	Oct	-9.0	-8.2	-10.4	n.a.	n.a.
09.00	Poland	GDP	% y-o-y	Q3	4.4	4.4	4.3	4.1	4.1
12.00	South Africa	Budget balance	ZAR bn	Oct	-44.1	-5.4	-17.0	n.a.	n.a.
12.00	South Africa	Trade balance	ZAR bn	Oct	-3.9	-3.7	2.5	-2.5	-2.0
	Israel	Unemployment rate	%	Q3	6.5	6.0	5.5	n.a.	n.a.
	Brazil	Selic policy rate	%, policy rate	Nov	12.50	12.00	11.50	11.00	11.00
Thursday 1 December									
08.00	Poland	PMI	Index	Nov	51.8	50.2	51.7	51.0	n.a.
08.00	Turkey	PMI	Index	Nov	48.8	51.5	53.3	n.a.	n.a.
08.30	Czech Republic	PMI	Index	Nov	53.4	52.3	51.7	50.8	n.a.
09.00	South Africa	PMI	Index	Nov	48.2	50.2	50.5	50.1	n.a.
	Czech Republic	Budget balance, ytd	CZK bn	Nov	-87.3	-105.1	-91.5	n.a.	n.a.
	Hungary	PMI	Index	Nov	49.9	50.7	48.2	47.6	n.a.
	Peru	CPI	% y-o-y	Nov	3.4	3.7	4.2	n.a.	n.a.
Friday 2 December									
08.00	Hungary	Trade balance	EUR mn	Sep-Fin	355	492	501	750	742
09.00	South Africa	NAAMSA vehicle sales	% y-o-y	Nov	11.1	30.0	18.9	16.2	n.a.
15.00	Mexico	Policy rate	%, policy rate	Dec	4.50	4.50	4.50	4.50	4.50

Source: Bloomberg, National Statistics Offices, Nomura Global Economics.

trade no longer provides any additional drag. Fiscal too should be neutral given no tightening occurring in the quarter.

Brazil, Selic policy rate (Wednesday): We expect the central bank of Brazil (BCB) to continue the easing cycle and cut its Selic policy rate by another 50bp to 11%, amid increasing signs of growth deceleration at home and fear of financial contagion from abroad. We continue to believe the current easing cycle will not end until Selic hits single digits, forecast to occur by Q2 2012.

Mexico, Policy rate (Friday): We expect the central bank of Mexico (Banxico) to keep rates unchanged at 4.5%. We think a cut to the policy rate is unlikely because: (1) the bulk of the easing has been done via the exchange rate, therefore reducing the need to use the policy rate to ease conditions; (2) we expect inflation to close 2011 between 3.5% and 3.9%, above consensus expectations of 3.3%, due to sticky inflation pressures and the possibility of FX pass-through; and (3) GDP growth is actually accelerating due, mainly, to strong domestic consumption.

The week of 5 December

Brazil will release its Q3 GDP and central bank meeting minutes, while Poland's and Peru's central banks will decide on their policy rates.

Brazil, Q3 GDP (Tuesday): We expect Q3 GDP to grow by 3.5% y-o-y, or 0.2% q-o-q in seasonally adjusted terms. Consumption should continue to grow at a brisk pace of 5.7% y-o-y, while investment growth is expected to slow down to merely 2% y-o-y.

Peru, Reference rate (Wednesday): We continue to expect the central bank (BCRP) to keep its reference rate unchanged at 4.5%, amid international uncertainties. We believe that changes to monetary policy, if any, would be a function of the exchange rate and capital flows. If commodity prices decrease in tandem with lower global growth, but there are no significant capital outflows, the BCRP should opt to cut the policy rate. If there are capital outflows that can cause the currency to depreciate significantly, the BCRP will likely keep the rate unchanged but would relax reserve requirements.

Poland, Policy Rate (Wednesday): We look for unchanged rates but increased hawkishness from the MPC at this meeting compared with a slightly more dovish (or perhaps more accurately, less hawkish) tone at the November meeting. A weaker currency should keep the MPC members on their toes, and with a broadly soft hawkish bias at the median of the MPC, we think concerns about Q2 CPI being sticky and not falling back to target should remain centre stage even given a weaker growth outlook. We see a small chance that a major sell-off in the currency between now and the meeting could lead to a hike – if say EURPLN were accelerating up through 4.75, but we do not have that as our baseline as we expect increasingly aggressive intervention into year-end in order to prevent debt exceeding 55% of GDP.

Monday 5 December				Period	Prev 2	Prev 1	Last	Nomura	Survey
08.00	Turkey	CPI	% y-o-y	Nov	6.7	6.2	7.7	n.a.	n.a.
08.00	Turkey	PPI	% y-o-y	Nov	11.0	12.2	12.6	n.a.	n.a.
Tuesday 6 December									
08.00	Czech Republic	Retail sales	% y-o-y	Oct	-1.7	2.3	-0.5	-0.7	n.a.
11.00	Brazil	GDP	% y-o-y	Q3	5.0	4.2	3.1	3.5	n.a.
Wednesday 7 December									
06.00	South Africa	Gross Reserves	USD bn	Nov	51.5	49.7	50.4	50.5	n.a.
08.00	Czech Republic	Trade balance	CZK bn	Oct	13.2	3.1	21.0	n.a.	n.a.
08.00	Czech Republic	Industrial production	% y-o-y	Oct	4.4	5.9	2.5	1.4	n.a.
08.00	Hungary	Industrial production	% y-o-y	Oct	2.7	-0.4	3.0	1.5	n.a.
11.00	South Africa	Retail sales	% y-o-y	Oct	3.0	7.7	8.3	6.6	n.a.
11.00	Chile	CPI	% y-o-y	Nov	3.2	3.3	3.7	n.a.	n.a.
13.00	Hungary	Central bank's minutes							
14.00	Mexico	CPI	% y-o-y	Nov	3.4	3.1	3.2	3.3	n.a.
15.00	Mexico	CPI Core	% m-o-m	Nov	0.1	0.3	0.3	0.3	n.a.
15.00	Hungary	Budget balance, YTD	HUF bn	Nov	-1545	-1571	-1328	n.a.	n.a.
23.00	Peru	Reference rate	%, policy rate	Dec	4.25	4.25	4.25	4.25	n.a.
	Poland	NBP MPC meeting	%, policy rate	Dec	4.50	4.50	4.50	4.50	n.a.
Thursday 8 December									
08.00	Czech Republic	Unemployment	%	Nov	8.2	8.0	7.9	8.0	n.a.
08.00	Turkey	Industrial production, NSA	% y-o-y	Oct	6.9	3.7	12.0	n.a.	n.a.
10.30	Brazil	COPOM mintutes							
11.00	South Africa	Manufacturing production	% y-o-y	Oct	-6.1	5.9	7.7	4.8	n.a.
11.00	Brazil	Inflation IPCA	% m-o-m	Nov	0.4	0.5	0.4	0.5	n.a.
Friday 9 December									
05.00	South Africa	Current account	%GDP	Q3	-1.0	-3.1	-3.3	-3.2	n.a.
08.00	Czech Republic	CPI	% y-o-y	Nov	1.7	1.8	2.3	2.3	n.a.
08.00	Czech Republic	GDP	% y-o-y	Q3-Fin	2.7	2.8	2.2	1.5	1.5
08.00	Hungary	GDP	% y-o-y	Q3-Fin	1.9	2.5	1.5	1.4	1.4
08.00	Hungary	Trade balance	EUR mn	Oct	501	742	n.a.	650	n.a.
	Colombia	Central bank's minutes							

Source: Bloomberg, National Statistics Offices, Nomura Global Economics.

The week of 12 December

The central banks of Colombia and Chile will decide on their respective policy rates. Their Peruvian counterpart will release its inflation report.

Chile, Policy rate (Tuesday): We expect the central bank (BCCh) to cut its policy rate by 25bp to 5%, though recognizing that the still dynamic domestic demand might lead the BCCh to further delay the start of its easing cycle. Given that the European situation remains highly fluid and our more pessimistic view of developments in Europe, we believe the BCCh will cut rates, if not in December then early next year, as concrete signs of external contagion manifest themselves in the Chilean economy.

Colombia, Policy rate (Friday): We expect the central bank of Colombia (BanRep) to keep its policy rate constant at 4.5%. Although domestic demand remains fairly strong, prevailing uncertainties in the external economies should keep BanRep from hiking.

Sometime this week				Period	Prev 2	Prev 1	Last	Nomura	Survey
	Poland	Budget balance, ytd	EUR mn	Nov	-20681	-21889	-22537	n.a.	n.a.
	Israel	Unemployment rate	%	Oct	5.7	5.7	5.6	n.a.	n.a.
Monday 12 December				**Period**	**Prev 2**	**Prev 1**	**Last**	**Nomura**	**Survey**
08.00	Turkey	Current account	USD bn	Oct	-5.4	-4.1	-6.8	n.a.	n.a.
08.00	Romania	CPI	% y-o-y	Nov	4.3	3.5	3.6	3.8	n.a.
08.00	Turkey	GDP	% y-o-y	Q3	9.2	11.6	8.8	n.a.	n.a.
	Israel	Trade balance	USD mn	Nov	-1642	-1723	-1467	n.a.	n.a.
Tuesday 13 December									
08.00	Hungary	CPI	% y-o-y	Nov	3.6	3.6	3.9	4.3	n.a.
09.00	Czech Republic	Current account	CZK bn	Oct	-12.5	-33.7	5.2	n.a.	n.a.
13.00	Poland	CPI	% y-o-y	Nov	4.3	3.9	4.3	4.5	n.a.
13.00	Poland	Current account	EUR mn	Oct	-2044	-2017	-1901	n.a.	n.a.
21.00	Chile	Nominal overnight rate target	%, policy rate	Dec	5.25	5.25	5.25	5.00	n.a.
Wednesday 14 December									
08.00	South Africa	CPI	% y-o-y	Nov	5.3	5.7	6.0	6.3	n.a.
	Israel	Current account	USD mn	Q3	548	362	-560	n.a.	n.a.
Thursday 15 December									
08.00	Czech Republic	PPI	% y-o-y	Nov	5.7	5.6	5.6	n.a.	n.a.
08.00	Turkey	Unemployment rate	%	Sep	9.2	9.1	9.2	n.a.	n.a.
08.00	Hungary	Industrial production	% y-o-y	Oct-Fin	2.7	-0.4	3.0	n.a.	n.a.
09.30	South Africa	PPI	% y-o-y	Nov	9.6	10.5	10.6	10.4	11.0
16.30	Israel	CPI	% y-o-y	Nov	3.4	2.9	2.7	n.a.	n.a.
	Peru	GDP	% y-o-y	Oct	6.4	7.6	5.8	n.a.	n.a.
Friday 16 December									
08.00	Hungary	Average gross wages	% y-o-y	Oct	6.3	6.5	5.2	5.3	n.a.
13.00	Poland	Employment	% y-o-y	Nov	3.1	2.8	2.5	2.4	n.a.
13.00	Poland	Average gross wages	% y-o-y	Nov	5.4	5.2	5.1	5.3	n.a.
	Colombia	Overnight lending rate	%, policy rate	Dec	4.50	4.50	4.50	4.50	n.a.
	Peru	CB quarterly inflation report							

Source: Bloomberg, National Statistics Offices, Nomura Global Economics.

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