EDMOND DE ROTHSCHILD

WEEKLY ECONOMIC INSIGHTS

26 FEBRUARY 2018 – THE WEEKLY OF THE ECONOMIC RESEARCH TEAM

Editorial director: **Mathilde Lemoine** – Group chief economist

HIGHLIGHTS OF THE WEEK

Economist insights: The FOMC minutes confirmed the continuation of the gradual monetary tightening, euro zone PMIs edged lower (p.1)

› In the US, the minutes of the Federal Reserve meeting indicated that the FOMC members anticipate an acceleration in GDP growth and a gradual rise in inflation...

› ...which supports our scenario according to which the Fed will make three 25bp hikes in its fed funds rate in 2018, bringing it to 2.25%

› In the euro zone, the purchasing managers index, despite remaining at a high level, indicated a dip in confidence in February, suggesting a slowdown in GDP growth at the start of 2018

Focus US: Despite unemployment at 4.1%, the US labour market is not yet saturated (p.3)

› While the unemployment rate has reached historically low levels, the participation rate of the 25-54 age bracket is still low and there is still a large number of involuntary part-time workers

› Slack in certain variables of the US labour market backs our analysis according to which the acceleration in wages should be moderate in 2018

› One of the risks on the upside in terms of wages would be the rapid expansion of the construction sector, where wage growth is already high despite a significant unemployment rate

THE FOMC MINUTES CONFIRMED THE CONTINUATION OF THE GRADUAL MONETARY TIGHTENING, EURO ZONE PMIS EDGED LOWER

UNITED STATES – FOMC MEMBERS EXPECT AN ACCELERATION IN GROWTH IN THE SHORT TERM, BUT DO NOT SEEM TO FEAR AN OVERLY SHARP RISE IN INFLATION

With concerns regarding the inflation risk in the US resurfacing over the past few weeks, notably following the January employment report, which had signalled an acceleration in growth in the hourly wage to 2.9% y-o-y (see our Weekly of 12 February 2018), the publication of the minutes of the 31 January meeting of the Federal Reserve was highly awaited. The minutes of the meeting of the Federal Open Market Committee (FOMC) confirmed that, although its members believe that growth could accelerate in the coming months and help bring inflation closer to its target of 2.0%, they do not seem to be worried about it accelerating too sharply.

The minutes revealed that the FOMC members consider that the latest economic data points in the direction of GDP growth continuing at a pace above its potential. Moreover, some members indicated having revised their short-term growth forecasts slightly upward, notably due to the fact that the US Administration's stimulus measures appeared to be boosting activity more than initially expected.

According to the FOMC members, this growth momentum, the robust labour market and the drop of the dollar are set to contribute to bringing inflation close to its target of 2.0%. They nevertheless do not appear to be worried about an overly sharp rise in inflation, and continue to expect inflation growth to be “gradual”. Thus, the FOMC members consider that, although the economic outlook increases the probability of further hikes in the fed funds rate, the most suitable approach would be for this to be done at a gradual pace.

Analysis and implications:

- The FOMC minutes confirmed that the Fed is confident in the economic outlook and a gradual rise of inflation, and as a result should continue to raise its fed funds rate at a gradual pace.
- Although the implementation of the stimulus plan has led several FOMC members to revise their growth forecasts upwards, they did not indicate that they expect stronger inflation. This tends to confirm that they remain cautious in their estimate of the effects of the stimulus plan, which could reduce the inflationary risk if these effects include a rise in production capacity, as Mathilde Lemoine analysed[1].
- Overall, the minutes of the FOMC meeting backs our scenario of three 25bp hikes in the fed funds rate in 2018, bringing it to 2.25% by the end of the year.

EURO ZONE - PURCHASING MANAGER SURVEYS INDICATE SLIGHTLY LOWER CONFIDENCE

GDP growth in the euro zone, which saw a strong acceleration in 2017 – from 1.9% y-o-y in Q4 2016 to 2.8% in Q3 2017 before stabilising at 2.7% in Q4, for annual growth of 2.5% following 1.8% in 2016 – could slow at the start of 2018. This is what the February PMI surveys suggest.

Euro zone PMIs were down in February, and dropped more sharply than expected by the consensus. The manufacturing PMI thus fell from 59.6 to 58.5 (vs. 59.2 expected), while the services index was down from 58.0 to 56.7 (vs. 57.6 expected) and the composite index, which combines the business trends in both of these sectors, dropped from 58.8 to 57.5 (whereas consensus was expecting 58.4).

[1] See the monthly analysis by Mathilde Lemoine: “Greater production capacity in the United States economy thanks to the tax cuts?” 23 February 2018

In detail, most of the components of these surveys lost ground, but input prices and new orders fell most sharply, which could indicate that the effects of the rise of the euro since April 2017 are materialising. The input price component of the composite index was down from 61.8 to 60.0 in February, while the new orders component fell from 57.9 to 56.5. In the manufacturing sector, new orders were down by 1.5 points to 58.1 and new export orders down 1.6 points to 56.8. In services, the incoming new business component shed 1.3 points to 55.9.

Moreover, PMIs were down across euro zone countries. In Germany, both the manufacturing and services indices lost ground (down from 61.1 to 60.3 and from 57.3 to 55.3, respectively) while the composite index came in at 57.4 vs. 59.0. In France, the composite index dropped more sharply (from 59.6 to 57.8), while the manufacturing index fell from 58.4 to 56.1 and the services index from 59.2 to 57.9.

Analysis and implications:

- After hitting a 12-year high in January, the euro zone composite PMI was down in February, which tends to indicate that GDP growth could decelerate slightly, as we expect.

- According to our analysis, GDP growth in the euro zone, which benefited from a catch-up effect in 2017 in a context of stronger world growth, could slow, as GDP would return to its natural level, i.e. the level it would have reached if there had not been a crisis.

- Moreover, while in 2017 the euro zone's external trade benefited from the effects of the decline in the euro between mid-2014 and March 2017, it could now suffer from the close to 9.0% appreciation in the euro's nominal effective exchange rate since April 2017 and, in particular, the 16% increase against the dollar.

- According to our scenario, this slowdown in growth and the very limited rise in inflation, due notably to the appreciation of the euro, should lead the European Central Bank to maintain an accommodative monetary policy. As a result, we maintain our scenario according to which the ECB would end its asset purchase programme in September 2018, but would keep its key rates unchanged and continue to reinvest the amounts it receives when the securities it holds mature in 2018 and 2019.

Sophie Casanova - Economist, Central banks, s.casanova@edr.com

Our loyal readers know that the acceleration in the US is at the heart of our scenario for 2018. There is intense debate between those who consider that the US economy is in great shape and those who believe there is still potential for an acceleration in non-inflationary GDP growth. The stakes are crucial, as the evaluation of the impact of President Trump's economic policy depends on this. This is why we decided to present you the results of our in-depth macroeconomic research on the US economy and its drivers. This work will be the subject of a series of eight issues published over the course of 2018. We will propose an intermediate conclusion before the summer and a final conclusion in November.

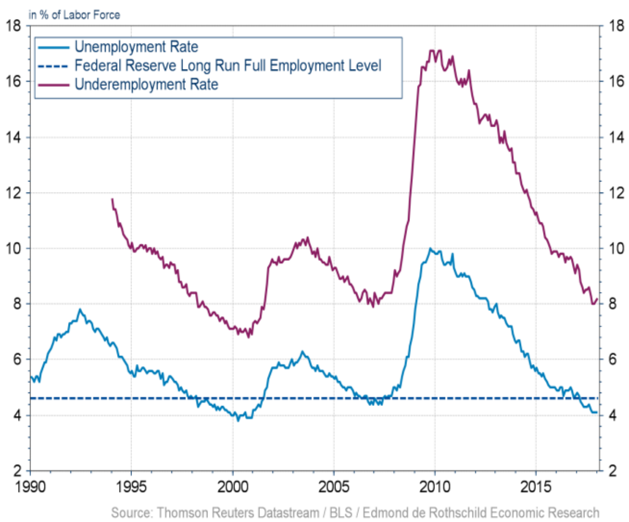
This **first issue** focuses on the **labour market**. Has Jerome Powell inherited a mature labour market from Janet Yellen? This is the question we will answer this week.

ISSUE NO. 1: DESPITE UNEMPLOYMENT AT 4.1%, THE US LABOUR MARKET IS NOT YET SATURATED

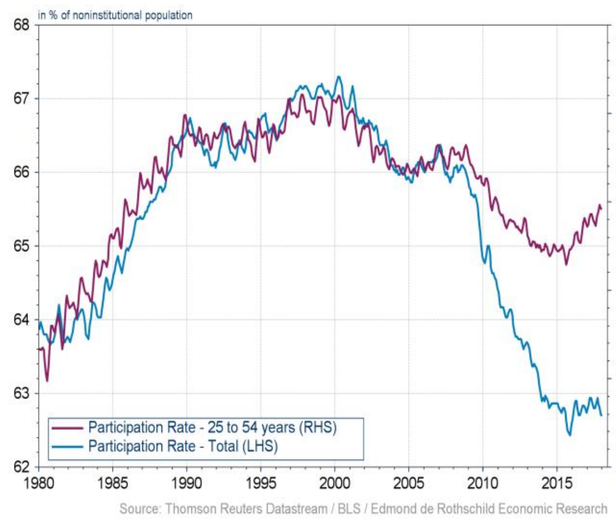
Lisa Turk - Economist, United States, l.turk@edr.com

Although the Fed takes into account the unemployment rate to assess the tightness of the labour market, it is not an absolute indicator. What interests FOMC members most is the overall tightness of the labour market that could affect inflation. It was in this perspective that the Fed created the Labour Market Conditions Index (LMCI) in 2014, based on the trends of 19 labour market indicators. In August 2017, it nevertheless abandoned this index, which had become less relevant, notably due to its high sensitivity to the detrending method[2]. At present, the analysis of indicators other than the unemployment rate shows us that the resources available on the labour market are not yet depleted, which backs our analysis by which the acceleration in wages should remain modest in 2018.

Unemployment and under-employment have dropped sharply since 2010...



...but the participation rate of the 25-54 age bracket remains low



The unemployment rate has dropped sharply since 2010...

The US labour market, known for its flexibility, deteriorated very rapidly following the 2007 financial crisis. The number of long-term unemployed notably reached unprecedented levels, exceeding 2.5 million, of which 1.2 million discouraged workers (excluded from unemployment figures). In an initial approach, the situation appears to have improved significantly over the past eight years: unemployment went from 9.6% in 2010 to 4.1% in January 2018, below the long-term unemployment rate estimated at 4.6% by the Fed, and the number of discouraged workers dropped from 1.2 million to 451,000 over the same period, close to the lows of 2007 (369,000) and 2000 (262,000) (see left-hand chart p.4 and chart 1 in the appendix). Moreover, employment

[2] "*We decided to stop updating the LMCI because we believe it no longer provides a good summary of changes in U.S. labor market conditions. Specifically, model estimates turned out to be more sensitive to the detrending procedure than we had expected, the measurement of some indicators in recent years has changed in ways that significantly degraded their signal content, and including average hourly earnings as an indicator did not provide a meaningful link between labor market conditions and wage growth*." Federal Reserve note, https://www.federalreserve.gov/econresdata/notes/feds-notes/2014/updating-the-labor-market-conditions-index-20141001.html

growth began to slow from 2015, along with the closing of the output gap, which is the difference between actual production and the potential production of the US economy (see chart 2 in appendix). In some sectors wages thus started to accelerate moderately, such as, for example, the technology and financial services sectors, signalling a tightening of some sub-segments of the labour market. However, the improvement in the labour market has not been uniform, and, on average, growth in hourly earnings in current prices remained stable at 2.6% in 2017.

…but the unemployment rate imperfectly captures imbalances in the labour market

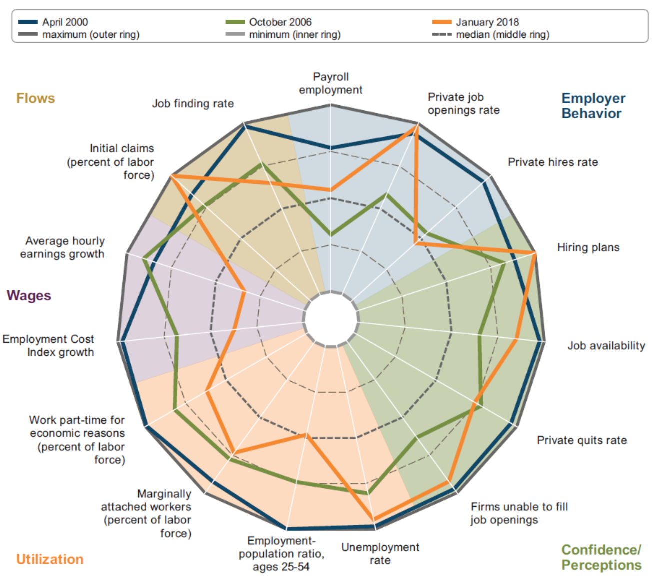
An analysis of several indicators shows us that the labour market is not as tight as in the past, which explains, among other things, why wages are likely to accelerate only moderately in 2018.

- The participation rate of the labour market has not increased since the crisis. In January 2018, it was at 62.7% vs. 67.3% in 2000. The ageing of the population and later arrival of young people on the job market due to longer studies are of course structural factors that weigh on the overall participation rate. But even disregarding these two groups, the participation rate of 25-54 year-olds still remains well below pre-crisis levels (see right-hand chart, p.4). Up from 80.5% in July 2015 to 81.7% in January 2018, the participation rate of this age category could continue to rise over the coming quarters. In addition, the employment rate is still very low on a historical basis (charts 5-6 in appendix 1).
- The number of part-time workers for economic reasons has not yet returned to pre-crisis levels. There are currently five million involuntary part-time workers vs. 4.2 million in 2006 and 3.2 million in 2000. As a percentage of the active population this represented 3.1% in January 2018 vs. 2.7% in 2006 and 2.3% in 2000 (see chart 3 in appendix). These people are thus still available on the market for full-time jobs.
- The duration of unemployment is still very long, at 25 weeks on average per person in 2017. In 2006, the average duration was 16.8 weeks, and in 2000 it was 12.7 weeks. Moreover, in 2017, only 34.8% of laid-off persons found a new job in less than five weeks, vs. 45.4% in 2000, and 36.7% of those who had resigned found a job in five weeks, vs. 50% in 2000.
- The average number of hours worked is still low. Across all industries, 38.6 working hours per week per person were recorded in 2017, vs. 39.2 hours in 2006 and 39.7 hours in 2000. In the production sector, 33.6 hours per week were worked in 2017 vs. 34.3 hours in 2000 (see chart 4 in appendix). The low number of hours worked indicates that some slack remains in the labour market.

These factors are very well summarised in the Federal Reserve of Atlanta's spider chart presented below. The orange line, which represents data for January 2018, only reaches the maximum limits for four of the 15 indicators shown. Thus, despite a historically high number of job openings and despite the difficulty for companies to fill positions, notably due to the growing mismatch between the qualifications of jobseekers and company needs, the acceleration in wages is set to remain modest in 2018. The slack in certain labour market variables - the low participation rate of the 25-54 age bracket, high number of part-time workers, low number of working hours – should prevent an overheating of wages.

In some sectors where the unemployment rate is still high, there is even greater slack. For example, the construction sector had an average unemployment rate of 6% in 2017, much higher than the market average. The implementation of the USD1,000

Labor Market Distribution Spider Chart



Source: Federal Reserve Bank of Atlanta billion infrastructure investment plan presented by Donald Trump in the 2019 budget could lead to an expansion of this sector. In this scenario, absorption of the available workforce in the construction sector could then stimulate overall wage growth. Not only are wages in the construction sector already high, at USD 29.3/hour vs. USD26.7/hour on average in the private sector, but the increase in hiring could lead to wage demands.

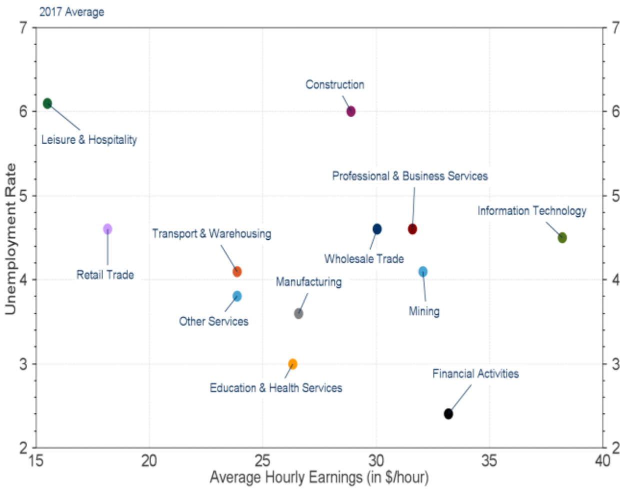
Implications:

- Despite the sharp drop in the unemployment rate and the number of discouraged workers, some indicators show that all of the resources of the US labour market have not yet been used. Many workers are still part-time for economic reasons and many people aged between 25 and 54 are still excluded from the working population.

- The lack of significant tightness in the US labour market backs our analysis according to which the acceleration in wages should be moderate in 2018. One source of wage growth could be the construction sector.

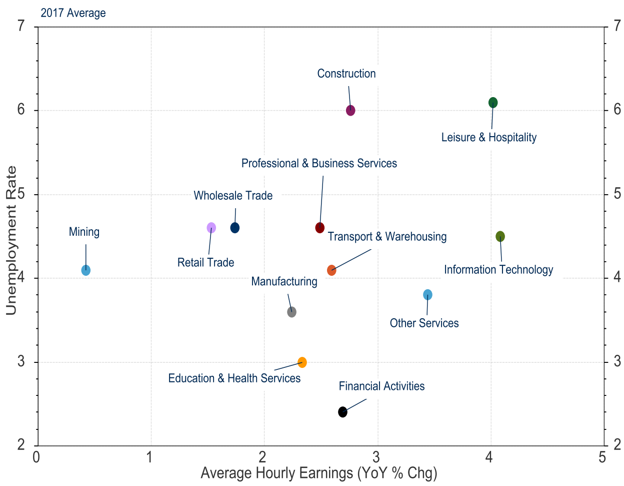
- Regarding monetary policy, the lack of significant tension on wages and inflation is in line with our expectation of further gradual hikes in the fed funds rate in 2018.

Unemployment rate versus wages by sector



Source: Thomson Reuters Datastream / BLS / Edmond de Rothschild Economic Research

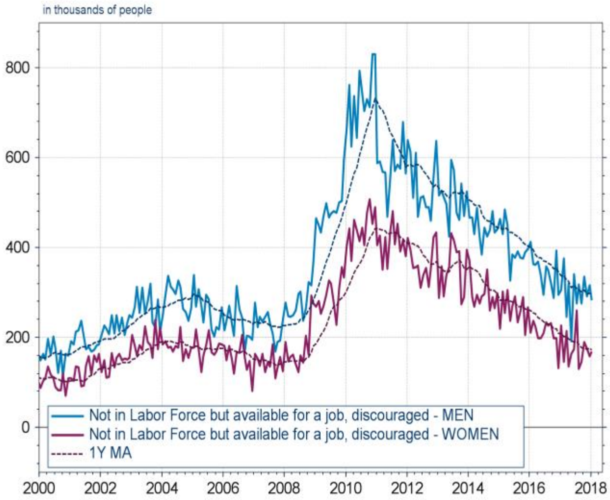
Unemployment rate versus YoY hourly earnings growth by sector



Source: Thomson Reuters Datastream / BLS / Edmond de Rothschild Economic Research

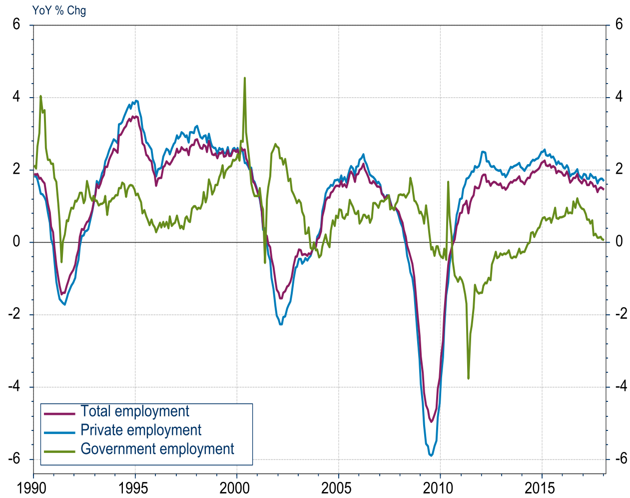
APPENDIX 1 - CHARTS

Chart 1: The number of discouraged unemployed has fallen sharply since the crisis



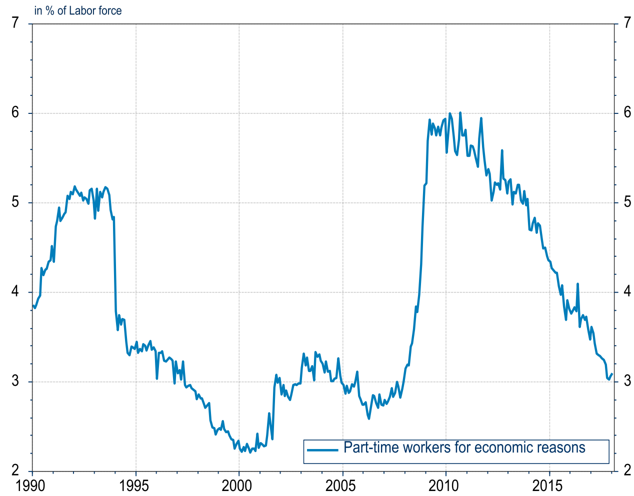
Source: Thomson Reuters Datastream / BLS / Edmond de Rothschild Economic Research

Chart 2: Employment growth has slowed since 2015



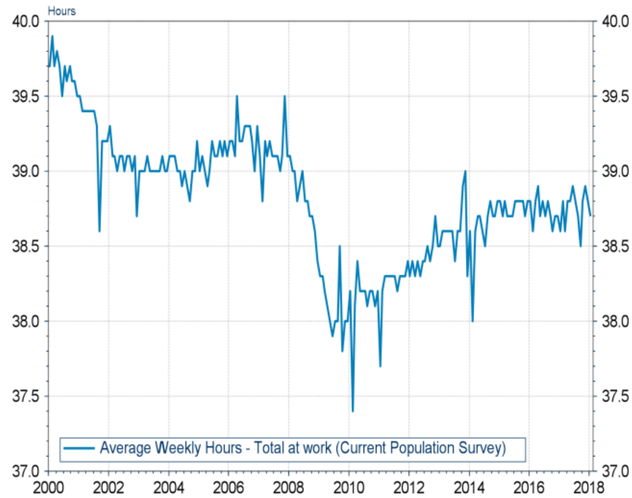
Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

Chart 3: The rate of part-time employment for economic reasons remains above pre-crisis levels



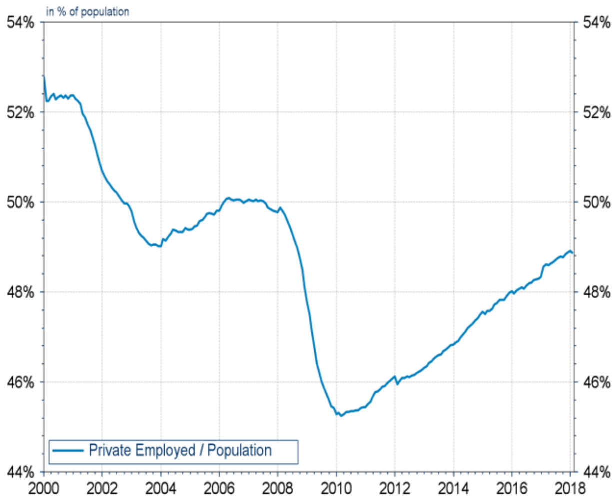
Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

Chart 4: The number of hours worked is still low compared to 2000 and 2006



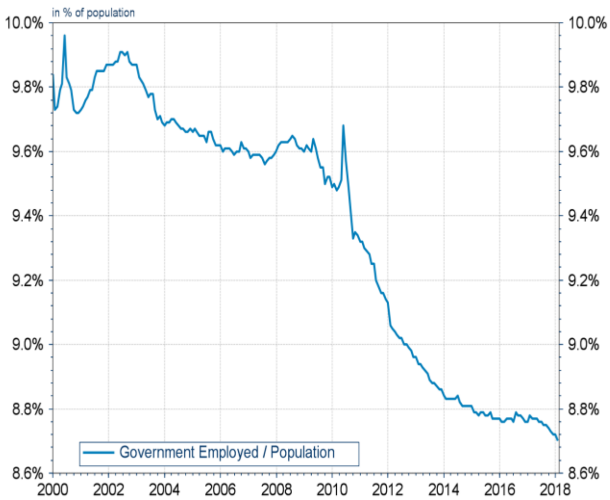
Source: Thomson Reuters Datastream / BLS / Edmond de Rothschild Economic Research

Chart 5: The private employment rate is still far from its pre-crisis levels



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

Chart 6: The public employment rate has fallen sharply since the 2000s



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

APPENDIX 1 – LATEST CHANGES ON FINANCIAL MARKETS

PERFORMANCE IN LOCAL CURRENCY	LAST PRICE	WEEKLY CHANGE	MONTHLY CHANGE	YEAR-TO-DATE CHANGE	1-YEAR CHANGE
Equities *(total return)*					
World (MSCI)	524	0.3%	-3.7%	2.4%	20.2%
United States (S&P 500)	2'747	0.6%	-3.0%	3.0%	18.5%
Eurozone (Euro Stoxx)	385	0.3%	-5.3%	-0.5%	10.4%
Germany (DAX)	12'554	0.3%	-7.9%	-3.4%	4.5%
France (CAC 40)	5'348	0.7%	-3.9%	0.1%	12.0%
Spain (IBEX 35)	9'856	-0.1%	-7.2%	-1.8%	7.1%
Italy (FTSE MIB)	22'736	-0.6%	-4.9%	4.0%	24.0%
Portugal (PSI 20)	5'507	-0.6%	-5.6%	1.5%	22.3%
United Kingdom (FTSE 100)	7'270	-0.4%	-5.7%	-5.1%	3.5%
Switzerland (SMI)	8'974	-0.4%	-6.3%	-4.6%	7.8%
Japan (Nikkei)	22'154	0.8%	-9.2%	-3.8%	15.1%
Emerging Markets (MSCI)	1'216	1.4%	-2.8%	5.1%	31.0%
Sovereign Bonds, 10Y *(change in basis point)*					
United States	2.86%	-1.6	19.9	45.3	54.7
Eurozone	0.66%	-7.1	3.6	23.8	47.8
Germany	0.66%	-7.1	3.6	23.8	47.8
France	0.94%	-5.4	2.6	15.6	1.4
Spain	1.56%	6.0	15.5	0.0	-13.0
Italy	2.02%	-2.0	1.6	1.1	-17.1
Portugal	1.99%	-2.2	5.7	7.8	-192.1
United Kingdom	1.53%	-7.3	8.4	33.9	45.3
Switzerland	0.08%	-6.6	3.3	25.8	32.3
Japan	0.04%	-1.5	-3.0	-0.1	-2.1
Emerging Markets (local currency)	4.92%	-3.6	7.7	8.0	-16.5
Corporate Bonds *(change in basis point)*					
United States (IG Corp.)	3.69%	0.8	28.6	42.8	44.6
Eurozone (IG Corp.)	0.84%	-3.0	3.8	8.1	3.7
Emerging Markets	4.85%	-1.1	28.7	33.0	40.1
High-Yield Bonds *(change in basis point)*					
United States (HY Corp.)	6.18%	-5.7	50.5	39.5	49.3
Eurozone (HY Corp.)	3.22%	4.8	28.1	23.4	-39.7
Convertible Bonds *(price change)*					
United States (Convert. Barclays)	52	1.2%	-2.0%	3.1%	13.6%
Eurozone (Convert. Exane)	7'685	0.6%	-1.7%	-0.6%	1.8%
Commodities					
Commodities (TR)	429	0.8%	0.4%	1.9%	0.2%
Gold	1'342	-1.1%	-1.1%	2.1%	5.1%
Crude Oil (Brent)	67	3.6%	-3.6%	0.4%	19.4%
Currencies					
Dollar Index	89.5	0.5%	0.5%	-2.8%	-11.4%
EURUSD	1.23	-0.5%	-0.7%	2.8%	16.6%
GBPUSD	1.41	0.4%	-0.7%	4.0%	13.0%
USDCHF	1.07	0.4%	-0.1%	-4.2%	-7.5%
USDJPY	106.6	0.0%	-1.8%	-5.4%	-5.4%

Source : Bloomberg

APPENDIX 2 – LEADING ECONOMIC INDICATORS

Main Economic Indicators - Released (19 - 23 February) and to be released (26 February - 2 March)

Date	Indicator	Period	Consensus	Actual	Prior	Revised
US						
Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/02	Existing Home Sales, month	Janv.	5.60m	5.38m	5.57m	5.56m
21/02	FOMC Meeting Minutes		-	-	-	-
26/02	New Home Sales, month	Janv.	642k	-	625k	-
27/02	Durable Goods Orders, MoM	Janv. P	-2.0%	-	2.8%	-
27/02	Case-Shiller 20-City Home Price index, YoY	Dec.	-	-	6.4%	-
28/02	GDP, QoQ annualized	Q4 S	2.6%	-	2.6%	-
28/02	GDP, YoY	Q4 S	-	-	2.5%	-
01/03	ISM Manufacturing, month	fév.	58.6	-	59.1	-
Euro zone						
Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/02	Manufacturing PMI, month	fév. P	59.2	58.5	59.6	-
21/02	Services PMI, month	fév. P	57.6	56.7	58.0	-
21/02	Composite PMI, month	fév. P	58.4	57.5	58.8	-
23/02	Core HICP, YoY	Janv. F	1.0%	1.0%	1.0%	-
23/02	HICP, YoY	Janv. F	1.3%	1.3%	1.4%	-
27/02	M3 Money Supply, YoY	Janv.	-	-	4.6%	-
27/02	Loans to non-financial corporations, YoY	Janv.	-	-	2.9%	-
27/02	Loans to households, YoY	Janv.	-	-	2.8%	-
27/02	Economic Confidence, month	fév.	-	-	114.7	-
28/02	Core HICP, YoY	fév. A	-	-	-	-
28/02	HICP, YoY	fév.	-	-	1.3%	-
01/03	Manufacturing PMI, month	fév. F	-	-	-	-
Germany						
Date	Indicator	Period	Consensus	Actual	Prior	Revised
20/02	ZEW Survey Current Situation, month	fév.	-	92.3	95.2	-
20/02	ZEW Survey Expectations, month	fév.	-	17.8	20.4	-
21/02	Manufacturing PMI, month	fév. P	60.5	60.3	61.1	-
21/02	Services PMI, month	fév. P	57.0	55.3	57.3	-
21/02	Composite PMI, month	fév. P	58.5	57.4	59.0	-
22/02	IFO Business Climate, month	fév.	-	115.4	117.6	-
23/02	GDP, QoQ	Q4 F	-	0.6%	0.6%	-
23/02	GDP, YoY	Q4 F	-	2.9%	2.9%	-
27/02	HICP, YoY	fév. P	-	-	1.4%	-
01/03	Manufacturing PMI, month	fév. F	-	-	-	-
France						
Date	Indicator	Period	Consensus	Actual	Prior	Revised
21/02	Manufacturing PMI, month	fév. P	58.0	56.1	58.4	-
21/02	Services PMI, month	fév. P	59.0	57.9	59.2	-
21/02	Composite PMI, month	fév. P	59.2	57.8	59.6	-
22/02	INSEE Business Confidence, month	fév.	-	109.0	110.0	111.0
22/02	HICP, YoY	Janv. F	1.5%	1.5%	1.5%	-
28/02	GDP, QoQ	Q4 P	-	-	0.6%	-
28/02	GDP, YoY	Q4 P	-	-	2.4%	-
28/02	HICP, YoY	fév. P	-	-	-	-
01/03	Manufacturing PMI, month	fév. F	-	-	-	-
Switzerland						
Date	Indicator	Period	Consensus	Actual	Prior	Revised
20/02	Exports Real, MoM	Janv.	-	-5.1%	2.8%	-
20/02	Imports Real, MoM	Janv.	-	3.8%	0.6%	-
21/02	Money Supply M3, YoY	Janv.	-	4.1%	3.2%	3.6%
22/02	Industry & Construction Output, YoY	Q4	-	8.5%	7.4%	8.0%
22/02	Industrial Output, YoY	Q4	-	8.7%	8.6%	9.2%
28/02	KOF Leading Indicator	fév.	-	-	106.9	-
01/03	GDP QoQ	Q4	-	-	0.6%	-
01/03	GDP YoY	Q4	-	-	1.2%	-
01/03	PMI Manufacturing	fév.	-	-	65.3	-

Main Economic Indicators - Released (19 - 23 February) and to be released (26 February - 2 March)

UK

Date	Indicator	Period	Consensus	Actual	Prior	Revised
19/02	**Rightmove House Price Index, MoM**	**fév.**	**-**	**0.8%**	**0.7%**	**-**
19/02	**Rightmove House Price Index, YoY**	**fév.**	**-**	**1.5%**	**1.1%**	**-**
21/02	**ILO Unemployment Rate, month**	**Dec.**	**-**	**4.4%**	**4.3%**	**-**
22/02	**GDP, QoQ**	**Q4 P**	**-**	**0.4%**	**0.5%**	**-**
22/02	**GDP, YoY**	**Q4 P**	**-**	**1.4%**	**1.5%**	**1.4%**
28/02	*Nationwide House Price Index, MoM*	*fév.*	*-*	*-*	*0.6%*	*-*
28/02	*Nationwide House Price Index, YoY*	*fév.*	*-*	*-*	*3.2%*	*-*
01/03	*Manufacturing PMI, month*	*fév.*	*-*	*-*	*55.3*	*-*

Japan

Date	Indicator	Period	Consensus	Actual	Prior	Revised
23/02	**CPI, YoY**	**Janv.**	**-**	**1.4%**	**1.0%**	**-**
01/03	*Manufacturing PMI, month*	*fév. F*	*-*	*-*	*-*	*-*
02/03	*Monetary Base, YoY*	*fév.*	*-*	*-*	*9.7%*	*-*
02/03	*Monetary Base, End of previous month*	*fév.*	*-*	*-*	*¥476.7t*	*-*

China

Date	Indicator	Period	Consensus	Actual	Prior	Revised
28/02	*PMI non-manufacturier national, mens.*	*fév.*	*-*	*-*	*55.3*	*-*
28/02	*PMI manufacturier national, mens.*	*fév.*	*-*	*-*	*51.3*	*-*
28/02	*PMI composite, mens.*	*fév.*	*-*	*-*	*54.6*	*-*
01/03	*PMI manufacturier Caixin, mens.*	*fév.*	*-*	*-*	*51.5*	*-*

APPENDIX 3 – OUR GROWTH AND INFLATION FORECASTS

GDP GROWTH IN VOLUME (%)	2014	2015	2016	Q4 17f	2017f	Consensus	Q4 18f	2018f	Consensus	2019f	Consensus
United States	2.6	2.9	1.5	2.4	2.2	2.2	2.3	2.5	2.4	2.1	2.1
Japan	0.4	1.1	1.0	1.4	1.5	1.5	1.1	1.2	1.3	0.9	0.9
Eurozone	1.4	2.0	1.8	2.2	2.2	2.2	1.8	1.8	1.9	1.6	1.6
Germany	1.9	1.7	1.9	2.5	2.2	2.2	1.8	1.8	2.0	1.8	1.7
France	0.9	1.1	1.2	2.1	1.7	1.7	1.7	1.8	1.8	1.6	1.6
Italy	0.1	1.0	0.9	1.6	1.5	1.5	1.5	1.5	1.3	1.0	1.1
Spain	1.4	3.4	3.3	3.1	3.1	3.1	2.3	2.4	2.5	2.4	2.2
Portugal	0.9	1.8	1.5	2.2	2.6	2.6	1.9	2.0	1.9	1.7	1.6
Luxembourg	5.7	2.9	3.1	4.0	3.3	3.5	3.1	3.3	3.5	3.0	2.5
Europe ex-Eurozone											
United Kingdom	3.1	2.3	1.8	1.4	1.5	1.5	1.0	1.2	1.4	1.0	1.6
Switzerland	2.5	1.2	1.4	1.6	0.8	0.9	1.7	1.8	1.7	1.7	1.7
Israel	3.5	2.6	4.0	3.1	3.3	3.2	3.3	3.3	3.3	3.4	3.0
Emerging countries	4.8	4.0	4.1	5.2	4.9	4.5	4.7	5.0	4.9	4.7	5.0
China	7.3	6.9	6.7	6.7	6.8	6.8	6.3	6.4	6.4	6.0	6.2
Brazil	0.5	-3.8	-3.6	1.3	0.6	0.7	2.5	2.1	2.4	2.3	2.5
India	7.0	7.5	7.9	6.9	6.3	6.4	7.8	7.6	6.7	7.7	7.4

CONSUMER PRICE INDEX (%)	2014	2015	2016	Q4 17f	2017f	Consensus	Q4 18f	2018f	Consensus	2019f	Consensus
United States	1.6	0.1	1.3	2.2	2.1	2.1	2.3	2.3	2.1	2.3	2.2
Japan	2.7	0.8	-0.1	0.7	0.5	0.5	0.9	0.8	0.9	1.3	1.6
Eurozone (HCPI)	0.4	0.0	0.2	1.4	1.6	1.5	1.6	1.5	1.4	1.6	1.6
Germany	0.8	0.1	0.4	1.6	1.8	1.7	1.7	1.6	1.6	1.7	1.8
France	0.6	0.1	0.3	1.2	1.2	1.1	1.4	1.3	1.2	1.4	1.5
Italy	0.2	0.1	-0.1	1.2	1.4	1.4	1.1	1.2	1.1	1.4	1.4
Spain	-0.2	-0.6	-0.4	1.6	2.1	2.0	1.4	1.5	1.4	1.7	1.8
Portugal	-0.2	0.5	0.6	1.5	1.5	1.5	1.4	1.5	1.4	1.5	1.4
Luxembourg	0.7	0.1	0.0	2.0	2.1	2.2	1.9	2.0	1.7	1.9	2.0
Europe ex-Eurozone											
United Kingdom	1.5	0.0	0.6	2.9	2.7	2.7	3.3	3.0	2.5	3.0	2.5
Switzerland	0.0	-1.1	-0.4	0.7	0.5	0.5	0.9	0.7	0.6	1.0	0.9
Israel	0.5	-0.6	-0.5	0.2	0.8	0.4	1.0	0.7	0.8	1.1	1.1
Emerging countries	4.2	4.3	3.8	3.0	3.0	3.0	3.2	3.3	3.3	3.1	3.3
China	2.0	1.4	2.0	1.8	1.6	1.6	2.0	2.2	2.2	2.0	2.2
Brazil	6.3	9.0	8.8	2.9	3.5	3.5	4.0	3.6	4.0	4.0	4.2
India	6.7	4.9	5.0	4.1	3.2	3.2	5.0	4.8	3.5	5.3	4.5

APPENDIX 4 – OUR RATE AND CURRENCY FORECASTS

KEY INTEREST RATES (%)*	2014	2015	2016	2017	Q1 18f	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	2019f	Consensus
United States												
Policy rate	0.25	0.50	0.75	1.50	1.75	1.75	2.00	2.25	2.25	2.10	2.75	2.52
2-year yield	0.46	0.68	0.83	1.39	1.90	1.95	2.25	2.45	2.14	1.99	2.65	2.54
10-year yield	2.53	2.13	1.83	2.33	2.60	2.90	3.00	3.05	2.89	2.63	3.20	3.12
Japan												
Policy rate	0.10	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	0.00
2-year yield	0.07	0.01	-0.21	-0.17	-0.15	-0.10	-0.10	-0.05	-0.10	-0.09	0.00	-0.04
10-year yield	0.55	0.36	-0.04	0.06	0.10	0.12	0.14	0.15	0.13	0.08	0.20	0.09
Eurozone												
Policy rate	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.45
2-year Schatz yield	0.05	-0.25	-0.59	-0.72	-0.60	-0.55	-0.45	-0.35	-0.49	-0.43	0.00	0.18
10-year Bund yield	1.24	0.54	0.14	0.37	0.55	0.70	0.85	1.00	0.78	0.84	1.40	1.47
2-year OAT yield	0.13	-0.18	-0.51	-0.48	-0.45	-0.40	-0.30	-0.20	-0.34	-0.22	0.15	-
10-year OAT yield	1.68	0.86	0.48	0.81	0.90	1.05	1.20	1.35	1.13	1.23	1.75	1.67
United Kingdom												
Policy rate	0.50	0.50	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.70	0.50	1.07
2-year yield	0.68	0.54	0.29	0.25	0.75	0.85	0.80	0.75	0.79	0.63	0.45	1.17
10-year yield	2.51	1.82	1.22	1.20	1.55	1.75	1.92	2.10	1.83	1.54	2.20	2.00
Switzerland												
Policy rate	-0.25	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.45
2-year yield	-0.33	-0.89	-0.91	-0.85	-0.70	-0.65	-0.55	-0.45	-0.59	-0.49	-0.20	0.10
10-year yield	0.31	-0.09	-0.35	-0.09	0.05	0.20	0.35	0.50	0.28	0.23	0.90	0.65
Emerging countries - Policy rates												
China	5.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	-
Brazil	11.75	14.25	13.75	7.00	6.50	6.50	6.50	7.00	7.00	7.00	7.50	-
India	8.00	6.75	6.25	6.00	5.75	5.75	6.00	6.00	6.00	5.95	6.50	-

* data at end of period for trimestrial values and period average for annual values

EXCHANGE RATE**	2014	2015	2016	2017	Q1 18f	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	2019f	Consensus
Dollar												
EUR/USD	1.20	1.08	1.11	1.13	1.15	1.11	1.12	1.14	1.13	1.20	1.18	1.25
USD/JPY	120	120	109	112	114	116	117	118	116	113	120	114
GBP/USD	1.56	1.47	1.36	1.29	1.29	1.27	1.25	1.22	1.26	1.31	1.22	1.35
USD/CHF	0.99	1.00	0.98	0.98	0.99	1.03	1.03	1.01	1.01	0.97	0.97	0.94
USD/CNY	6.16	6.28	6.65	6.76	6.75	6.80	6.95	6.95	6.86	6.65	7.00	6.50
Euro												
EUR/JPY	144	130	120	127	131	129	131	135	131	136	142	143
EUR/GBP	0.77	0.73	0.81	0.88	0.89	0.87	0.90	0.93	0.90	0.92	0.97	0.93
EUR/CHF	1.20	1.09	1.09	1.11	1.14	1.14	1.15	1.15	1.15	1.17	1.15	1.18
EUR/SEK	9.44	9.17	9.47	9.64	9.55	9.40	9.35	9.25	9.39	9.24	9.15	9.10

**period average

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EDMOND DE ROTHSCHILD (Suisse) S.A.
Rue de Hesse 18 – 1204 Genève - T. +41 58 818 91 91 |
Rue de Morat 11 – 1700 Fribourg - T. +41 26 347 24 24
Avenue Agassiz 2 – 1003 Lausanne - T. +41 21 318 88 88
Via Ginevra 2 – 6900 Lugano - T. +41 91 913 45 00
Beethovenstrasse 9 – 8002 Zürich - T. +41 44 818 81 11

EDMOND DE ROTHSCHILD (Europe)
Luxembourg – Boulevard Emmanuel Servais, 20 – 2535 Luxembourg – T. +352 24 88 1
Belgique – Avenue Louise – Louizalaan 480/ Boite 16A – 1050 Bruxelles – T. +32 2 645 5757
Espagne – Paseo de la Castellana, 55 – 28046 – Madrid – T. +34 91 364 6600
Portugal – Rua D.Pedro V, 130 – 1250-095 Lisboa – T. +351 21 045 4660

EDMOND DE ROTHSCHILD (France)
47 Rue du Faubourg Saint-Honoré – 75008 Paris – T. +33 1 40 17 25 25
116 rue de Jemmapes – 59800 Lille – T. +33 3 62 53 75 00
27 rue Auguste Comte – 69006 Lyon – T+33 4 72 82 35 25
Hôtel de Saige 23 cours du Chapeau Rouge – 33000 Bordeaux – T+33 5 56 44 20 66
165 avenue du Prado – 13008 Marseille – T+33 4 91 29 90 80
11 rue La Fayette – 44000 Nantes – T+33 2 53 59 10 00
6 avenue de la Marseillaise – 67000 Strasbourg – T+33 3 68 33 90 00
22 rue Croix Baragnon – 31000 Toulouse – T+33 5 67 20 49 00

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