SALOMON SMITH BARNEY

ECONOMIC &
MARKET
ANALYSIS

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International Market Roundup

Global

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Published Forecast	3-mo hence	12-mo hence
US$		
Fed Funds	5.50	6.00
10-yr Bonds	5.30	6.25
DM		
DM/US$	1.85	1.80
Repo	3.30	4.00
10-yr Bonds	4.70	5.25
Yen		
Yen/$	140	140
Call Money	0.40	0.40
10-yr Bonds	1.50	1.90

Stronger Euro — Later

- **Prospects for a "golden EMU childhood" favor a rise of the euro against the dollar in the next couple of years, and may have contributed to recent dollar slippage. However, short-term interest differentials probably will not move in favor of the euro for at least several quarters.**

- **Untamed demand and creeping cost pressures have begun to lay the groundwork for a tightening in U.S. monetary policy. However, the bond market is not forcing the Fed's hand, while the general public appears skeptical that a threat of higher inflation exists.**

- **A near-term German rate rise remains unlikely, and rates will rise only modestly late this year. In contrast, the ECB is likely to hike rates next year by more than markets project.**

- **We have lowered our fiscal 1998 corporate earnings projections in Japan. Given the dim sales outlook, however, firms probably will intensify cost-cutting efforts, setting the stage for a profit pickup next year.**

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Overview: Familiar Themes and the Dollar

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- **Prospects are for a rise of the euro vs. the dollar in the next couple of years, but the dollar's recent slippage may prove temporary**
- **Short-term interest differentials are not likely to move clearly against the dollar over the next year**

Long-term support is building for the euro, but near-term prospects are less attractive...

Many investors believe that the dollar peaked versus the Deutschemark in 1997. In favor of this view, several long-term factors supporting the euro may have contributed to the dollar's recent slippage. Above all, the appointment of a hawkish European Central Bank leadership is lifting confidence in the future single currency. Moreover, the perception is spreading that euro-zone equity markets will continue to outperform U.S. markets. Indeed, our 1998/2000 view of a "golden childhood" for growth and inflation in the euro zone is consistent with euro gains over this horizon, not least because the currency appears undervalued: a simulated euro currently remains more than 5% *below* its inflation-adjusted norm versus the dollar over the past decade (see Figure 1).

...if, as we expect, the Bundesbank remains on hold through the September German elections.

However, the Deutschemark has not departed from the year-old trading range centered near DM1.80/US$, and still faces important near-term risks. Above all, markets continue to discount a German rate hike over the next month or so, in contrast to recent Bundesbank rhetoric. If, as we expect, the Bundesbank remains on hold until after the September elections, the dollar may soon regain its lost ground.

Moreover, the dollar's recent weakness easily can be ascribed to the influence of familiar themes, without resorting to longer-term euro-related explanations. Most notable are the factors that are keeping the Federal Reserve on hold, including the revival of Asian concerns and the sustained low inflation that deprives hawkish Fed officials of a "smoking gun," despite their apprehensions about asset price gains and money growth.

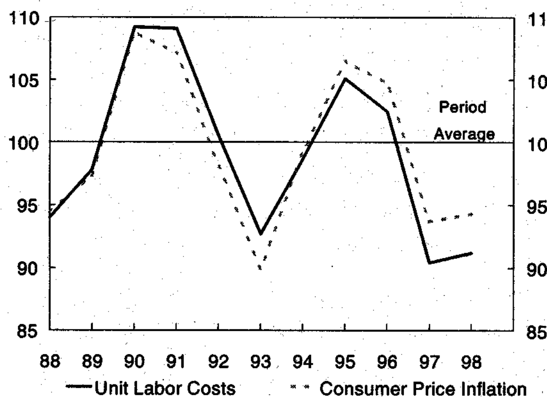
Moreover, despite continued weakness in Asia...

Asian risks — which are likely to persist through much of this year — probably have been the most important factor restraining Fed action since late 1997. Renewed worries about the region already are being reflected in falling Asian equity prices, following early-1998 bounces (see Figure 2). Similarly, regional currencies are slipping again and yield spreads are re-widening. While investors are differentiating increasingly among the region's emerging economies, the threat of corporate bankruptcies remains widespread, with output and employment declines in some countries already very sizable. In addition, the social unrest in Indonesia and the labor dissatisfaction in South Korea are highlighting the challenges of achieving stabilization, let alone renewed growth. Even in China, which has been largely insulated from the turmoil, reports point to increased official concern about the economy's downside risks. And, in the region's economic giant, even optimistic Japanese authorities do not expect a significant rebound before the autumn.

...a revival of strong U.S. growth later this year probably will lead the Fed to start tightening before yearend, if not sooner.

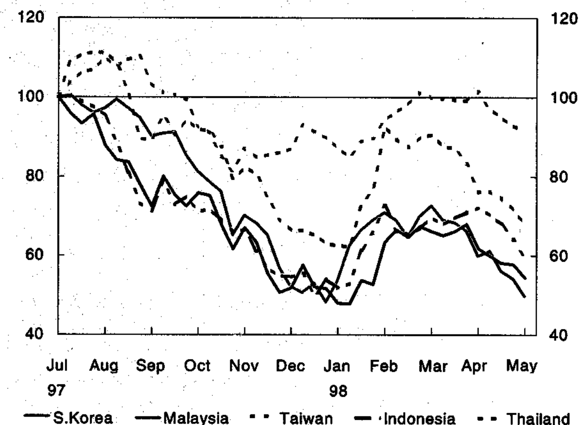
Nonetheless, despite low U.S. inflation, chances remain that the Fed will begin to lift interest rates by late this year, when the economy has revived from a spring slowdown. Underlying financial conditions remain highly stimulative, while the bulk of the Asian drag on the U.S. economy should be complete within a few months. Although many observers still doubt the need for action, Fed officials (other than Chairman Greenspan) already appear to be laying out the case for action if, as we expect, the near-term slowdown proves temporary. If anything, the risk is of earlier Fed action if U.S. economic growth remains above trend in coming months. As a result, short-term interest differentials may not begin to swing clearly in favor of the euro until U.S. rates peak, possibly more than a year away.

Figure 1. Inflation-Adjusted Euro — Percent Deviation from Ten-Year Norm vs. the U.S. Dollar, 1988-98



Note: The final observation is based on currency values as of May 7, 1998.
Sources: OECD, National sources and Smith Barney Inc./Salomon Brothers Inc calculations.

Figure 2. Selected Asian Economies — Equity Indexes (Jul 1997=100), Jul 97-7 May 98



Source: Datastream.

United States: Preconditions for Fed Tightening

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David Hensley

- **Unsustainable strength in hiring and consumer spending points to eventual Fed tightening**
- **Profits and productivity data suggest that cost pressures are rising**
- **The Fed has yet to convince the public that an inflation threat is brewing**

Untamed demand builds a case for tightening that remains incomplete.

A smokescreen of confusing labor market data for April could not hide an underlying story of untamed demand pointing to eventual tightening in monetary policy. We still do not believe that officials have a compelling case (by their ground rules) to raise the Fed funds rate at their meeting on May 19. Inflation is down and the public does not see a threat, while Asia's worsening situation remains a legitimate trouble spot for U.S. factories.. Nonetheless, events, on balance, slowly are steering policymakers toward action to temper demand in the second half of the year.

There are several preconditions...

The preconditions for tightening in current circumstances are difficult to define, but probably include several factors. First, officials must be convinced that demand will remain overpowering in the absence of restraint. Second, profits and cost data must reveal some sign that productivity is not validating rising wage gains. Third, policymakers must make a case to a skeptical public that a legitimate threat of an overheating expansion exists.

Demand Remains on a Roll

...unsustainable demand continues...

The first of these conditions could have triggered action anytime in the past year. To be sure, unsustainable demand in the past often has been a sufficient condition for tightening, but now, Asia's collapse as well as "new era" considerations at home have been in the way. However, the latest data hint that demand remains on a roll. Despite numerous distortions that exaggerate the decline in unemployment and the rise in hourly earnings, hiring needs remain far more intense than population trends can satisfy. As winter-related distortions fade from view, job gains still have averaged 224,000 in the past four months, while hourly earnings (whether published or experimental) continue to creep higher (see Figure 3).

...pushing growth higher.

In addition, data since last week's GDP release suggest that first quarter growth may be bumped up toward 5%. In particular, March inventories came in much higher than anticipated in the first pass at GDP, suggesting that the already-rich rate of inventory investment could breach a $90 billion annual rate. Meanwhile, consumers apparently began the spring with a bang.

Profit Squeeze is Underway

All measures of compensation growth are accelerating...

The upward trend in wage growth is beginning to reflect demand pressures rather than higher productivity that would otherwise alleviate Fed concerns. On a smoothed basis, the Bureau of Labor Statistics' (BLS's) experimental series shows that wages rose 4% over the past 12 months, up a quarter point from the previous year. The acceleration is more dramatic in the employment cost index (ECI): Despite a slight moderation in labor costs in the first quarter, the rate of private-industry compensation growth for the year ended first quarter reached a 5-year high of 3.5% — 0.6 percentage points above the pace a year ago (see Figure 4). The pickup was equally based in wages and benefits and, by industry, was led by a charge in the service sector, which now employs 80% of the workforce. Gains were particularly notable in finance, business services, and retail trade.

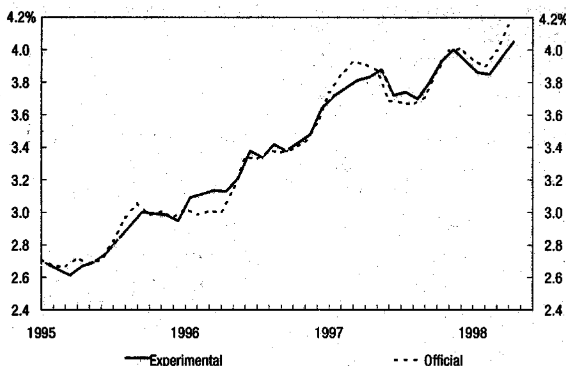
...while productivity gains have fallen behind.

Of course, the upward trend in compensation growth is not inflationary, provided the gains reflect higher productivity. This was the case through much of 1996 and 1997, but official estimates indicate that growth in productivity lagged compensation in the past two quarters, when unit labor costs shot up at a 3.5%-4% rate.[1]

The surge in unit labor costs is confirmed by declining profits.

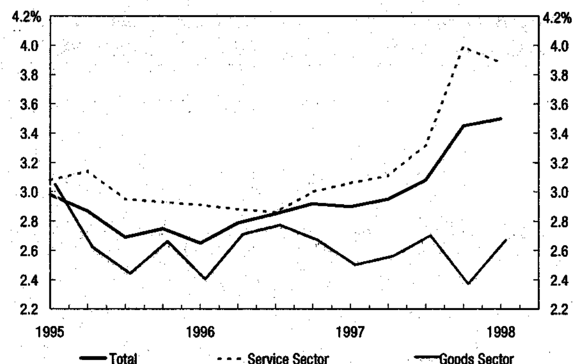
The reported surge in unit labor costs is backed up by the recent performance of profits, which appear to have fallen in the last two quarters. Given widespread skepticism concerning the reliability of the productivity data, Chairman Greenspan has indicated that he views profit margins as a "downstream" barometer of whether rising labor costs represent a genuine inflation threat or merely are a reflection of faster gains in productivity. As he commented last January: "Since price inflation has been minimal *and domestic profit margins firm,* productivity appears to have accelerated

Figure 3. United States — Average Hourly Earnings, Official versus Experimental Series, 1995-Apr 98 (Smoothed Year-to-Year Percentage Change)



Source: Bureau of Labor Statistics.

Figure 4. United States — Private Industry ECI — Total, Services, and Goods-Producing, 1995-1Q 98 (Year-to-Year Percentage Change)



Source: Bureau of Labor Statistics.

[1] Data on productivity and costs will be revised this summer. Recent rates of productivity and compensation growth are expected to be revised up, with little effect on growth in unit labor costs.

sufficiently last year to damp increases in unit labor costs. How long that pattern can continue is still an unresolved issue." Recent data on this score are not encouraging.

Profits should fall further in the months ahead.

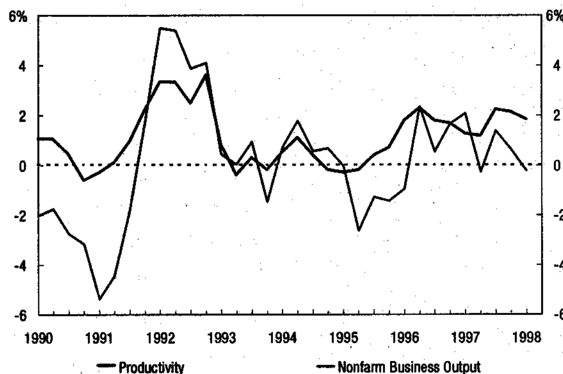
Furthermore, profit margins are likely to come under additional pressure in the months ahead. Even a moderation to trend growth probably would maintain the rate of unemployment near current levels, suggesting that the rate of compensation growth would remain steady or edge higher. In addition, industry surveys and anecdotal evidence point to much higher HMO premiums in 1999. Those increases will tend to boost benefit costs unless the entire burden is borne by employees. On the other hand, the cyclical component of productivity growth should moderate this year unless there is a further acceleration in GDP growth (see Figure 5). This sets up a classic margin squeeze that may already have shown through in recent profits (see Figure 6).

A Political Consensus Is Slowly Emerging

But the Fed has not made its case.

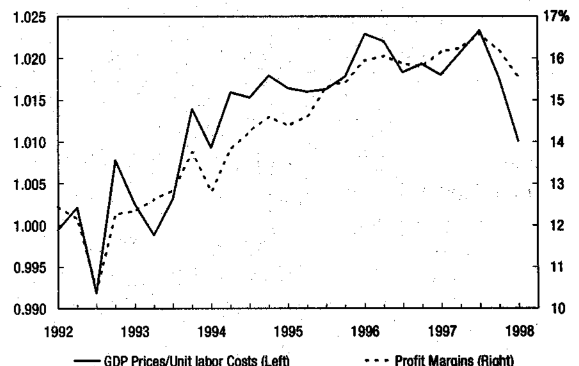
Finally, Chairman Greenspan has passed up opportunities recently to make a public case that some form of financial restraint may be warranted. Surprisingly, however, President Clinton's interview this week hinted that some kind of consensus may be emerging inside the Beltway. The President echoed sentiment that could have been scripted by a Fed speechwriter when he said that "The only reason to tap on the brakes is if you think it will actually prolong the period of growth...[T]he judgment ought to be what are *[sic]* the mix of policies we can adopt that are most likely to keep this period...going for the longest...time." The President's comments could be interpreted as a caution that a surging budget surplus can be a counterweight to continued stable Fed policy. And, in turn, potential tax cuts would implicitly pose a direct threat of rising interest rates.

Figure 5. United States — Nonfarm Business Output (Change in Yr.-to-Yr. Percentage Change) and Labor Productivity (Yr.-to-Yr. Percentage Change), 1990-1Q 98



Sources: Commerce Department and Bureau of Labor Statistics.

Figure 6. United States — Markup Proxy (GDP Price Deflator Relative to Unit Labor Costs) and Profit Margins(E), 1992-1Q 98



E Salomon Smith Barney 1Q 98 estimate.
Sources: Commerce Department and Smith Barney Inc./Salomon Brothers Inc.

EMU-11: Rates — Stable Near Term, But Up Later

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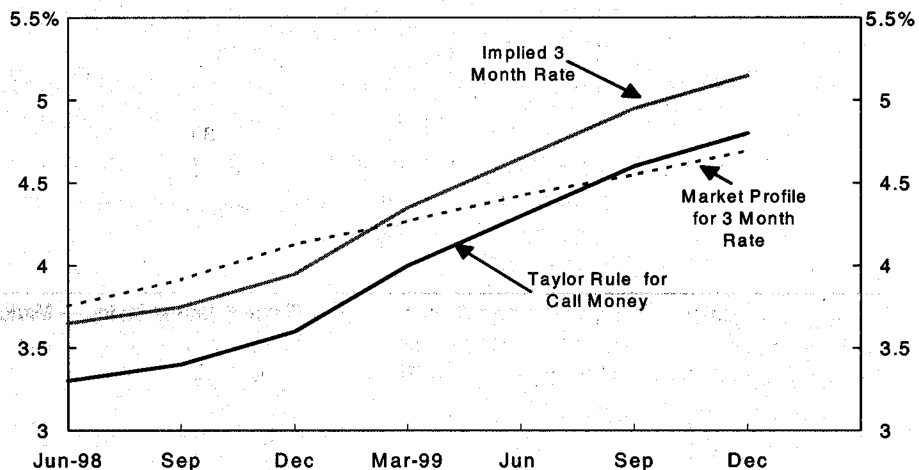
- **Taylor Rule calculations suggest an ECB starting repo rate of about 3.60%**
- **Interest rate convergence in 1998 is likely to be backloaded**
- **Our Taylor Rule calculations indicate a euro interest rate increase of about 100 basis points in 1999**

The EMU starting repo rate probably will be about 3.60%.

Current market expectations of an initial euro repurchase agreement (repo) rate of about 3.60% are justified, but an early Bundesbank move remains unlikely. This repo level is consistent with three-month interbank rates of about 4% in December 1998, because expectations of additional monetary tightening probably will sustain a significant three-month/repo spread over the coming months. At the same time, despite a favorable inflation outlook, the economic upswing and a moderately looser fiscal stance suggest that the euro repo rate will rise slightly above current market expectations during 1999. Thus, the June and September 1998 three-month EuroDM futures contracts appear cheap, the December 1998 and March 1999 contracts look fairly priced and the end-1999 ones probably are expensive (see Figure 7).

Figure 7. EMU-11 — Projected Interest Rate Path Based on Taylor Rule, Jun 98-Dec 99F

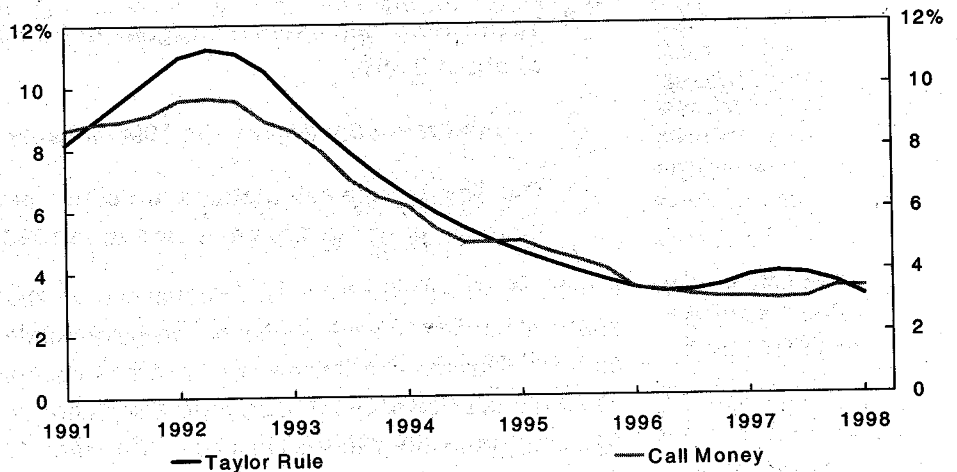


F Smith Barney Inc./Salomon Brothers Inc forecast. Note: The Market Profile is three month EuroDM from Liffe, May 6, 1998. The implied 3 month rate is 35bp higher than the Taylor Rule. Sources: Bloomberg and OECD.

Short-term interest rates remain quite apart in selected countries...

With only eight months to go until the launch of the euro, there still remains a spread of 345 basis points between EMU-11 policy rates. As Bundesbank President Hans Tietmeyer has recently indicated, policy rates will converge in 1998. Two questions arise: where and when will the policy rates meet? Our view — supported by Taylor Rule calculations — is that the EMU starting rate will be about 3.60%. A Taylor Rule is an approximate measure for Bundesbank policy, and hence probably will be a reasonable guide to likely ECB behavior (see Figure 8).

Figure 8. Germany — Taylor Rule versus Call Money Rate, 1991-1Q 98



Sources: Datastream, Statistisches Bundesamt, OECD, and Smith Barney Inc./Salomon Brothers Inc calculations.

...but convergence this year is likely to be backloaded in Germany...

However, the convergence is likely to be backloaded, reflecting different cyclical positions. Inflation in Germany is currently extremely low, about 1 1/4%, and growth remains moderate at about 2 1/2%. Domestic factors do not call for higher rates. An early rate hike in Germany would neither be consistent with domestic economic needs nor would it effectively slow growth in the periphery. As a result, we expect the Bundesbank to remain on hold until the fourth quarter — and to hike its repo rate in November or December by about 20-30 basis points.

...as well as in Ireland, Italy and Portugal.

The Bank of Ireland announced its intention to maintain its official rate at the current 6.75% for as long as possible — presumably to prevent the risk of economic overheating — but will have to slash it at yearend. The Bank of Italy and the Bank of Portugal probably will reduce their repo rates — currently hovering around 5.5% and 4.7%, respectively — gradually in coming months.

The euro repo rate should rise by about 100 basis points next year, reflecting above-trend growth...

The euro repo rate probably will rise slightly above 4½% by end-1999 — consistent with a three month money rate of about 5%. EMU Taylor Rule calculations — using our inflation forecasts and the most recent OECD output gaps — suggest that the repo rate will rise by about 100 basis points next year.[2] Although euro-zone inflation is expected to remain below the ECB's likely goal of 2%, above-trend growth and vanishing economic slack probably will prompt a less accommodating monetary stance.

[2] A critical issue involved in the calculation of Taylor Rules is the choice of the appropriate output gap. We "evaluated" different output gap measures by comparing the implied Taylor Rules with actual call money rates for Germany in recent years. Based on this benchmark, the OECD output gap calculations fared better than those of the European Commission and the IMF. Both the Root Mean Squared Errors and the Sum of Squared Errors gave the same result.

...some loosening of the fiscal stance...

Moreover, recent news on 1999 budgetary plans — albeit still preliminary — suggests that the fiscal stance will turn slightly expansionary next year, compared with a neutral tone this year and a significant tightening in 1996-97. This is the case for three of the big four countries (France, Italy and Spain), while budgetary policy in Germany next year still is uncertain as September elections probably will bring a change in Government.[3]

...and the ECB's likely tough bias.

In addition, a predominantly hawkish ECB Governing Council probably will err on the side of caution in its first year. This aspect is gaining more relevance following the events leading to the nomination of the ECB's Executive Board and the weakening of the latest "Waigel plan" to toughen the Stability Pact for high-debt EMU members.

Upside and downside risks to our end-1999 repo rate projection are finely balanced.

Our rate view is slightly higher than before because pressures from the above factors — shrinking output gaps, potentially looser fiscal policy and ECB's hawkish bias — have increased. Risks to our end-1999 repo rate projection are: Lower than projected inflation, if the euro appreciates unexpectedly sharply, commodity prices weaken or EMU prompts rapid euro-wide competitive pressures. However, risks to EMU bloc domestic demand probably are on the upside, as rising capacity usage could prompt an investment pickup.

Japan: Corporate Earnings — Clouds and Silver Linings

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- **Downward revision of FY98 nonfinancial recurring profit forecast to a 2.1% decline**
- **Corporate restructuring should limit profit deterioration and foster an upturn in FY99**

FY98 corporate profit projections have been revised downward.

We have downgraded our corporate earnings projections for fiscal 1998 (FY98, which started April 1998) following the latest downward revision to our economic forecast. Recurring profits for Tokyo Stock Exchange First Section (TSE-I) nonfinancials declined by an estimated 7.3% in FY97 and are likely to fall by 2.1% in FY98 (see Figure 9). These projections compare with our January forecasts of a 2.8% drop and a 0.2% gain, respectively. In particular, decelerating exports (in response to the Asian crisis) and delayed inventory adjustment have lowered manufacturers' profitability. Assuming no profit contribution from the financial sector, TSE-I earnings per share (EPS) probably fell by more than 30% to ¥10.3 in FY97 (mainly because of extraordinary losses relating to restructuring and balance sheet rebuilding) and are likely to level off, or worsen marginally, in FY98.

[3] See "EMU-11: Loosening the Fiscal Straitjacket," *Euro Weekly*, Salomon Smith Barney, May 8, 1998.

Weak demand and price declines will continue to trim sales.

Sluggish demand and price declines will continue to depress sales through the first half of FY98, and perhaps longer. The demand environment may stabilize late in FY98, following the dramatic deterioration in the second half of FY97. Despite the Government's stimulus package, real GDP growth is likely to edge up by only 0.2% in FY98, following an estimated 0.5% contraction in FY97.[4] Moreover, prices probably will fall outright in FY98 — by 2.9% in the case of domestic wholesale prices. As a result, nominal sales probably will fall — albeit modestly — for the second consecutive year.

Firms probably will step up cost-cutting efforts.

Given the dim sales outlook, firms are likely to intensify cost-cutting efforts in order to limit profit margin deterioration, resulting in further restraint in hiring and capital investment. Efforts to cut fixed costs usually lag demand weakness, but lessons from the early 1990s are likely to prompt a relatively quick response this year, particularly by manufacturers, who need to maintain international competitiveness. The oil price windfall (that is, an expected decline in the average landed oil price in FY98) will moderate the pace of profit margin deterioration. Nonetheless, cost-cutting efforts probably will lead to stagnation of capital outlays and limit upward pressures on long-term interest rates.

Figure 9. Japan — Corporate Earnings Outlook, Fiscal 1996-99E (Yr.-Yr. Pct. Chg. or Otherwise Indicated)

	1996	1997 E	1998 E	1999 E
Recurring Profits for TSE-I Nonfinancials				
Manufacturers (652 Firms)	18.8 %	-8.3 %	-0.3 %	8.9 %
Nonmanufacturers (322 Firms)	1.8	-5.0	-5.7	11.7
Nonfinancials (974 Firms)	12.7	-7.3	-2.1	9.8
Aftertax Net Income for TSE-I Nonfinancials				
Nonfinancials (974 Firms)	16.4 %	-20.8 %	-0.8 %	17.0 %
Note: Consolidated Net Income[a]	24.2	-38.0	-0.8	13.7
Earnings Per Share (EPS)[b]				
TOPIX Nonfinancials	¥19.8	¥15.7	¥15.5	¥18.2
memo: TOPIX[c]	¥15.2	10.3	10.2	11.9
memo: TOPIX Nonfinancials, consolidated	22.8	14.1	14.0	15.9
Macroeconomic Assumptions				
Real Gross Domestic Product	3.4 %	-0.5 %	0.2 %	1.0 %
Domestic Wholesale Prices	-1.5	1.0	-2.9	0.2
Yen/US$ Rate	112.6	122.7	140.6	138.1
Landed Crude Oil Price (US$/barrel)	21.5	19.5	15.6	17.4
Long-Term Prime Rate	3.0 %	2.6 %	2.4 %	2.3 %

E Salomon Smith Barney (Japan) Limited estimate. TSE-I Tokyo Stock Exchange First Section.
[a] The estimates for consolidated net income are roughly calculated based on forecasts of the consolidated/parent ratio. [b] EPS is defined as aggregate earnings divided by the number of shares outstanding. [c] The figures are based on a forecast assumption of zero financial companies' earnings in fiscal 1997-99.
Sources: Nikkei NEEDS and Salomon Smith Barney (Japan) Limited.

[4] For details of our latest macroeconomic forecast, see "Forecast Update: At the Brink," *Issues and Prospects*, Salomon Smith Barney, April 9, 1998.

The corporate profit outlook should begin to improve from late FY98.

During the course of FY98, corporate earnings should bottom, with marked improvement ahead in FY99. Barring new shocks, such as a renewed broadening of the Asian crisis, the implementation of the Government economic package is likely to stabilize demand. At the same time, firms' restructuring efforts should begin to enhance the efficiency of business activity. Moreover, 1999 tax reform points to modest upside risks to growth and corporate earnings, with political momentum toward a permanent income tax cut intensifying.[5] Indeed, chances of an early net corporate tax cut could rise over the course of the tax reform debate.

Emerging Markets: Intra-Regional Dynamics

Mohamed El-Erian

- **East Asia's "open regionalism" served it well during the boom times, but is accentuating the current downturn**
- **Investors will favor markets where intra-regional trade expansion complements, but does not replace, multilateral liberalization efforts**

The challenges in East Asia do not undermine the case for open regionalism.

East Asia's high level of intra-regional trade served the region well during the boom years, but is currently accentuating the region's slowdown. These circumstances complicate the immediate challenge of Asian financial and economic stabilization, but do not undermine the case for "open regionalism" in other emerging economies. Indeed, both theoretical and empirical studies have shown that the greater the degree of economic openness, the more able economies are to bounce back from periodic adverse shocks.

East Asia pursued a desirable approach to the expansion of trade...

East Asian intra-regional economic activities differ in two important ways when compared to other emerging economic regions. First, they are extensive in terms of both trade and finance. Intra-regional trade flows account for 50% of total trade, compared with 11% in Africa and 19% in Latin America. Financial flows among East Asian economies also are high, with intra-regional deposit and lending activities accounting for an important share of the balance sheets of financial institutions. Second, regionalism in East Asia has emerged as the result of the general economic strategies pursued by individual countries, rather than as an outcome of politically-inspired formal regional agreements. As countries reformed their economic systems, they found it beneficial and efficient to trade with each other — thus the concept of "open regionalism."

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[5] See *What Tax Reform Might Look Like*, Jeffrey D. Young and Tomoko Fujii, Salomon Smith Barney, April 27, 1998.

....and the resulting intensification of regional trade served it well during the boom years.

In the boom times, this form of regionalism served East Asia well. Complementarities in production and consumption were exploited, enhancing economic welfare. The result was higher growth and employment and more efficient financial links. Closer integration also enhanced the region's influence at the international level by reinforcing its negotiating clout.

While regional interdependence is complicating Asia's current efforts at stabilization...

In recent months, however, Asia's close interdependence has raised the adjustment hurdles needed to achieve stabilization. Contracting regional demand and newly cautious attitudes toward finance have made it more difficult for these economies to export their way out of the crisis.[6] Effectively, the collective slowdown in economic activity is deeper than would have materialized otherwise; it also is wider, with the list of countries where growth is slowing including those that have avoided currency crises (such as China, Singapore, and Taiwan).

...investors will reward other countries that pursue multilateral trade liberalization, in addition to regional trade expansion.

Other emerging economies that have embarked on regional integration efforts — including those in Latin America (Mercosur), the Middle East (EU association agreements) and Africa — are closely monitoring East Asian developments in order to draw lessons from the crisis. Despite Asia's challenges, however, these observers are not likely to conclude that open regionalism is undesirable. Increased intra-regional activity represents a notable improvement over the inward, import-substituting strategies that have been pursued in many emerging economies, and the political commitment to these efforts appears relatively strong. The challenge, however, will be to ensure that regionalism *expands* trade, rather than *diverts* it. In this sense, investors are likely to favor those markets where policymakers pursue multilateral liberalization simultaneously with regional openness.

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[6] For a related discussion of this issue, see "Emerging Markets: Dramatic Asian External Adjustment, But...," *International Market Roundup*, Salomon Smith Barney, April 24, 1998.

Notable Quotes

Bill Clinton, U.S. President

"I think the only reason to tap on the brakes with high growth and low inflation is if you think it will actually prolong the period of growth." [commenting on U.S. monetary policy]
Interview with *Wall Street Journal* and *CNBC*, May 4, 1998.

Yutaka Yamaguchi, Bank of Japan Deputy Governor

"An interest rate cut would result in the side effect of a decrease in interest income, but positive effects of a rate cut would be larger. Most BoJ Policy Board members would like to assess the effects of the government economic package before making a decision on interest rates." *Jiji Press*, May 7, 1998.

Lee Kyu-sung, South Korean Minister of Finance and Economy

"Without stabilizing labor-management relations, Korea can no longer attract foreign capital, which is badly needed for the country to ride out the current financial crisis." *Korea Herald,* May 1, 1998.

Hsu Kuo-chung, Taiwan's Ministry of Finance Director-General

"It is clear now that the financial turmoil will keep depressing our exports (…). This year exports won't be the driving force of economic growth any more." *Bloomberg*, May 7, 1998.

Wim Duisenberg, European Monetary Institute President

"I do not see a danger of deflation as yet. I see more signs that price stability has not been achieved than the other way around." *Reuters*, May 7, 1998.

Hans Tiemeyer, Bundesbank President

"There will presumably be a further convergence of central bank rates. However, such convergence need not take place at the very beginning of the interim period, (...) Limited interest rate differences and exchange rate movements may well continue to exist for some time."
Reuters, May 7, 1998.

Ernst Welteke, President, Landeszentralbank of Hesse

"In the major economic areas of economic and monetary union (EMU) there is no reason to raise interest rates based on current economic and inflation developments and on money supply in Germany."
Reuters, May 7, 1998.

Otmar Issing, Member of the Bundesbank Directorate

"To my mind it would be far too risky to back our (ECB) policy with a single strategy. We need to have the most comprehensive forecasts of inflation (...) and try to reconcile all factors in the starting phase (of EMU). Price stability is not at the expense of growth or employment."
Testimony to the European Parliament, *Reuters*, May 7, 1998.

International Market Indicators

Currency and Market		Yields/Rates 4 May	5 May	6 May	7 May	8 May [a]	Change Week [b]
Bellwether Bonds[c]							
US$ Govt.[d]	5.5% of 08	5.66 %	5.69 %	5.66 %	5.67 %	5.70 %	3 bp
A$ Govt.[d]	10% of 07	5.69	5.69	5.68	5.65	5.75	8
C$ Govt.[d]	7.25% of 07	5.37	5.42	5.39	5.40	5.44	8
¥ Govt. (Simple)	#182 3% of 05	—	—	1.40	1.36	1.33	-12
¥ Govt. (Compound)[d]	#182 3% of 05	—	—	1.46	1.42	1.39	-12
Bfr Govt.	5.75 of 08	5.12	5.11	5.11	5.14	5.10	-2
Dkr Govt.	7% of 07	5.21	5.31	5.31	5.33	5.32	13
DM Govt *Bund*	5.25% of 08	4.95	4.98	4.98	5.01	4.98	0
Dfl Govt.	5.25% of 08	5.03	5.03	5.03	5.05	5.02	-1
Ecu	OAT 5.25% of 08	5.11	5.10	5.17	5.11	5.09	-2
Fim Govt.	6.0% of 08	5.06	5.08	5.11	5.11	5.09	-6
Ffr Govt.	5.25% of 08	5.04	5.04	5.04	5.06	5.04	0
Itl Govt.	6.0% of 07	5.19	5.22	5.21	5.23	5.22	-2
Pta Govt.	6.0% of 08	5.14	5.15	5.14	5.16	5.14	0
Pte Govt.	6.625% of 07	4.98	5.00	5.02	5.05	5.13	11
Skr Govt.	9.0% of 09	5.30	5.34	5.35	5.35	5.31	-10
£ Govt.[d]	7.25% of 07	—	5.81	5.82	5.89	5.86	11
Representative Money Market Rates							
US$	Federal Funds	5.22 %	5.22 %	5.04 %	5.34 %	5.44 %	-2 bp
US$ Euro	3-Mo. LIBOR	5.63	5.66	5.63	5.63	5.69	6
A$	3-Mo. Deposit	4.68	4.75	4.80	4.78	4.78	10
C$	3-Mo. Tbill	4.76	4.81	4.81	4.80	4.81	4
¥	3-Mo. CDs	—	—	0.63	0.60	0.57	-6
Bfr	3-Mo. Deposit	3.75	3.75	3.76	3.69	3.68	-6
Dkr	3-Mo. CIBOR	3.98	4.45	4.48	5.04	5.04	106
DM	3-Mo. Interbank	3.66	3.66	3.65	3.63	3.65	0
DM	Call Money Rate	3.32	3.32	3.32	3.32	3.41	9
Dfl	3-Mo. Interbank	3.64	3.66	3.75	3.68	3.67	4
Ecu	3-Mo. Interbank	4.25	4.51	4.25	4.54	4.25	0
Fim	3-Mo. HELIBOR	3.70	3.69	3.69	3.74	3.77	12
Ffr	3-Mo. PIBOR	3.61	3.61	3.62	3.62	3.63	1
Itl	3-Mo. Interbank	4.98	4.98	5.01	5.04	5.05	2
Pta	3-Mo. Interbank	4.35	4.32	4.34	4.35	4.32	-5
Pte	3-Mo. Interbank	4.25	4.28	4.27	4.28	4.28	-2
Skr	3-Mo. STIBOR	4.62	4.61	4.61	4.63	4.70	10
Sfr	3-Mo. Interbank	1.56	1.55	1.50	1.79	1.53	-6
£ Sterling	3-Mo. Interbank	7.47	7.45	7.46	7.45	7.50	3
Foreign Exchange Rates (versus U.S. Dollar)							
Australian Dollar[e]		0.646	0.640	0.637	0.637	0.636	-2.0 %
Canadian Dollar		1.434	1.440	1.438	1.438	1.436	-0.1
Japanese Yen		133.1	131.4	133.1	133.2	132.6	0.4
Deutschemark		1.780	1.768	1.767	1.767	1.774	0.3
French Franc		5.970	5.927	5.924	5.925	5.941	0.4
U.K. Sterling[e]		1.666	1.663	1.659	1.649	1.641	-1.6
Ecu[e]		1.109	1.116	1.116	1.115	1.111	0.2
Foreign Exchange Rates (versus DM)							
Belgian Franc		20.628	20.627	20.627	20.627	20.629	0.0 %
Danish Krone		3.815	3.814	3.816	3.812	3.810	0.1
Dutch Guilder		1.1267	1.1268	1.1268	1.1268	1.1269	-0.1
Ecu[f]		1.975	1.973	1.971	1.970	1.970	-0.2
Finnish Markka		3.039	3.039	3.038	3.038	3.037	0.0
French Franc		3.353	3.353	3.353	3.353	3.353	0.0
Italian Lira		986.9	986.6	986.5	986.4	986.1	0.1
Portuguese Escudo		101.2	101.2	101.2	101.2	102.5	-1.2
Spanish Peseta		84.95	84.97	84.97	84.96	84.95	0.0
Swedish Krona		4.311	4.299	4.288	4.294	4.290	0.5
Swiss Franc		0.837	0.836	0.834	0.833	0.834	0.2
U.K. Sterling[f]		2.965	2.941	2.932	2.915	2.908	-2.1
Stock Market Indexes							
U.S. (S&P 500)		1122	1116	1105	1095	1106	-1.3 %
U.S. (DJIA)		9193	9148	9055	8977	9043	-1.1
Australia (All Ordinaries)		2812	2804	2788	2781	2781	-0.8
Canada (TSE 300)		7737	7720	7679	7613	7689	-0.2
Japan (TOPIX)		—	—	1201	1190	1188	-2.4
Japan (Nikkei)		—	—	15244	15143	15149	-2.9
U.K. (FT-SE 100)		—	5987	5992	5938	5911	-1.7
Germany (DAX)		5315	5232	5230	5186	5258	3.0
France (CAC 40)		3974	3945	3947	3906	3906	0.6
Italy MIB-30		34816	34379	34286	33940	34683	4.0
Spain (Madrid)		892	873	871	852	852	-2.2

[a] Rates quoted at 2:00 pm London time except for the Federal funds rate, the U.S. and Canadian bond yields, and stock market indexes, which are quoted at 2:00 pm New York time. [b] Change between closing on previous Friday and preliminary data for Friday of this week. [c] Yields are quoted on an annual basis except where indicated. [d] Yields quoted on a semiannual basis. [e] U.S. dollars per unit of foreign currency. [f] Deutschemarks per unit of foreign currency. bp Basis points. — Data not available due to holiday.

International Bond Markets: Yield Curves

Salomon Brothers Average Market Yields (%)[a] 7 May 98

Currency	Market	3-Month	1-Year	3-Year	5-Year	7-Year	10-Year	Long Bond
Dollar Bloc								
U.S. Dollar	Govt.	5.03 %	5.40 %	5.58 %	5.62 %	5.64 %	5.67 %	5.95 %
	Euro	—	5.43	5.68	5.79	5.84	5.89	—
	Swap	5.63	5.81	5.98	6.04	6.09	6.16	—
Australian Dollar	Govt.	—	4.82	5.11	5.34	5.56	5.71	—
	Swap	4.78	4.70	5.39	5.78	5.97	6.14	—
Canadian Dollar	Govt.	4.80	5.13	5.21	5.29	5.36	5.43	5.70
	Swap	5.25	5.28	5.43	5.49	5.55	5.65	—
Japanese Yen	Govt.	—	0.38 %	0.61 %	1.02 %	1.35 %	1.67 %	2.27 %
	Euro	—	0.38	0.59	0.99	1.35	1.68	—
	Swap	0.59 %	0.56	0.83	1.25	1.63	2.00	2.58
EMS Bloc								
Deutschemark	Govt.	—	3.85 %	4.41 %	4.67 %	4.87 %	5.08 %	5.58 %
	Swap	3.63 %	4.00	4.55	4.83	5.04	5.26	—
U.K. Sterling	Govt.	7.19	6.86	6.29	6.06	5.95	5.87	5.82
	Swap	7.45	7.41	6.75	6.50	6.36	6.28	—
French Franc	Govt.	—	3.80	4.46	4.67	4.86	5.08	5.57
	Swap	3.88	3.99	4.54	4.82	5.03	5.25	—
Dutch Guilder	Govt.	—	3.84	4.45	4.69	4.88	5.08	5.54
	Swap	3.68	3.99	4.55	4.82	5.03	5.26	—
Spanish Peseta	Govt.	—	4.16	4.50	4.75	4.96	5.19	5.70
	Swap	4.35	4.20	4.66	4.91	5.09	5.30	—
Italian Lira	Govt.	—	4.37	4.77	4.91	5.09	5.30	5.77
	Swap	5.04	4.51	4.76	4.97	5.16	5.34	—
Danish Krone	Govt.	4.90	4.82	4.95	5.08	5.20	5.36	5.77
	Swap	5.00	3.98	5.16	5.31	5.42	5.59	—
Non-EMS								
Swiss Franc	Swap	1.79 %	2.16 %	2.40 %	2.85 %	3.22 %	3.57 %	—
Swedish Krona	Govt.	4.10	4.82	4.94	5.08	5.19	5.32	5.48 %
	Swap	4.62	4.90	5.30	5.41	5.52	5.59	—

[a] With the exception of three-month and one-year interest rates — which are quoted on a money market basis — average yields for each market sector are shown using local Government market practice and are based on a sample of prime issues, generally with current coupons. For Japan, semiannual equivalent yields are shown. All Government bond yields are quoted gross of withholding tax.

Note: With the exception of the two major Eurobond markets (U.S. dollar and Japanese yen), we report swap rates as indicative of interest rate levels in non-Government securities markets.

Salomon Brothers World Government Bond Market Performance Index Returns, 1 May 98

	Local Currency Terms		U.S. Dollar Terms	
	April	Year to Date	April	Year to Date
World Government Bond Index	0.37%	2.56%	1.60%	2.40%
Non-U.S. Dollar World Government Bond Index	0.34	2.86	2.20	2.62
G-5 Index	0.47	2.36	1.33	2.11
G-7 Index	0.44	2.45	1.41	2.23
World Government Bond 10 Market Index	0.42	2.42	1.33	2.21
Non-U.S. WGBI-10	0.41	2.73	1.92	2.38
Australia	-0.01	2.87	-1.70	2.93
Austria	0.04	2.77	3.07	2.96
Belgium	0.01	3.13	3.03	3.18
Canada	0.38	3.11	-0.20	3.16
Denmark	-0.28	2.98	2.73	3.04
France	-0.02	3.09	2.94	3.06
Germany	-0.03	2.79	3.03	3.00
Italy	0.18	3.25	3.06	3.03
Japan	0.81	1.64	1.74	0.02
Netherlands	-0.02	3.03	3.16	3.38
Spain	0.07	3.29	3.09	3.29
Sweden	0.20	4.34	3.51	6.98
United Kingdom	0.87	4.99	0.71	6.69
United States	0.44	1.97	0.44	1.97

Key International Economic Indicators

United States

May 13
8:30
New York Time

Retail Sales (Apr) — **Forecast: 1.0%** / **Previous: -0.1%**

Excl. Automobiles (Apr) — **Forecast: 0.9%** / **Previous: 0.1%**

Stepped-up spending on apparel, building materials, furniture, general merchandise and motor vehicles likely fueled the sharp rise in retail sales in three months. The anticipated increase, if realized, would place April's receipts 4.8% annualized above the first-quarter average.

May 13
8:30
New York Time

Producer Prices (Apr) — **Forecast: 0.2%** / **Previous: -0.3%**

Excl. Food & Energy (Apr) — **Forecast: -0.1%** / **Previous: Unchanged**

An El Niño-induced surge in finished consumer food quotes probably triggered the first rise in the Producer Price Index (PPI) in seven months. Yet, aside from grocery costs inflation likely remained subdued at the wholesale level in April. Recent hikes in gasoline prices have lagged well behind seasonal norms, while continued weakness in capital equipment costs points to a modest dip in the core subindex excluding food and energy components. Our projections, if realized, would place the total and core PPIs 1.2% and 0.2% below their respective year-ago levels.

May 14
8:30
New York Time

Jobless Claims (May 9) — **Forecast: 313,000** / **Previous: 308,000**

Initial claims probably edged 5,000 higher during the week ended May 9, and beneficiaries likely gained slightly, by 10,000 to 2.138 million. The number of first time filers remains at a low level, while continuing claims dwindle.

May 14
8:30
New York Time

Consumer Prices (Apr) — **Forecast: 0.2%** / **Previous: Unchanged**

Excluding Food and Energy (Apr) — **Forecast: 0.2%** / **Previous: 0.1%**

Higher grocery prices, along with a shelter- and recreation-led pickup in the core retail inflation rate, likely fueled the largest rise in the Consumer Price Index (CPI) since October. Our estimates would place the overall and core CPIs 1.5% and 2.1% above their respective year-ago levels.

May 14
10:00
New York Time

Business Inventories (Mar) — **Forecast: 0.3%** / **Previous: 0.6%**

Available data on manufacturing and wholesale inventories suggest that stockbuilding probably slowed in March, following a likely-revised 0.7% jump in February. Yet, at $48.1 billion annualized, the projected rise in the nominal value of manufacturing and trade inventories over the January-March span would stand a staggering $17.3 billion above the level assumed by the Bureau of Economic Analysis in the advance report on first-quarter growth.

May 15
9:15
New York Time

Industrial Production (Apr) — **Forecast: 0.4%** / **Previous: 0.2%**

Capacity Utilization (Apr) — **Forecast: 81.5%** / **Previous: 82.2%**

Widespread declines in nonautomotive factory output, reduced mining activity and a partial reversal of March's surge in electricity generation likely triggered the largest decline in industrial production in approximately two years. The anticipated production cutback, if realized, would place the aggregate operating rate at its lowest level since October 1993.

May 15
10:00
New York Time

University of Michigan (May, Preliminary) — **Forecast: 109.5** / **Previous: 108.7**

The improvement in consumers' appraisals of current business activity recorded over the latter half of April probably was sustained in early May, propelling the University of Michigan's confidence gauge to within one point of the all-time high set in February.

Canada

May 14
7:00
New York Time

Consumer Prices (Apr) — **Forecast: 0.0% Mo.-Mo.; 0.9% Yr.-Yr.** / **Previous: 0.1% Mo.-Mo.; 0.9% Yr.-Yr.**

April consumer price data are likely to provide further assurance that January's outsized 0.6% gain was a one-time event, payback for the prior six months' price stability: We look for a no change in the index, following back-to-back gains of 0.1% in February and March. If our expectation proves on the mark, year-to-year inflation will remain at 0.9% during the period, unchanged from March but a modest deceleration from the 1.1% recorded in January.

Key International Economic Indicators

Japan

May 12
8:50
Tokyo Time

Wholesale Prices, Overall (Apr)
Forecast: 0.2% Mo.-Mo.; -2.5% Yr.-Yr.
Previous: -0.3% Mo.-Mo.; -1.1% Yr.-Yr.

Wholesale Prices, Domestic (Apr)
Forecast: -0.1% Mo.-Mo.; -2.1% Yr.-Yr.
Previous: -0.4% Mo.-Mo.; -0.1% Yr.-Yr.

The April domestic wholesale price index likely declined 2.1% year to year, after a drop of 0.1% in March, as the effect of the April 1997 consumption tax hike waned. A depreciation of the yen during the month probably pushed overall domestic wholesale prices up slightly.

May 13
8:50
Tokyo Time

Balance of Payments, Current Account (Mar)
Forecast: ¥1,700 Billion NSA; ¥950 Billion SA
Previous: 1,040.4¥ Billion NSA; ¥1,564.4 Billion SA

The current account surplus remained large. Customs-clearance trade data suggest that the merchandise trade surplus probably expanded to ¥1.4 trillion from ¥1.031 trillion a year ago. The services deficit likely continued to narrow, and net income receipts probably increased because of profit repatriation.

May 14
2:00 pm
Tokyo Time

Machinery Orders (Mar)
(Excluding Ships and Elec. Power)
Forecast: 8.0% Mo.-Mo.; 1.5% Yr.-Yr.
Previous: -14.8% Mo.-Mo.; -17.9 Yr.-Yr.

The trend in business equipment investment demand likely remained weak in March. Core private machinery orders (excluding volatile ships and electric power) probably reversed about half of February's 14.8% month-on-month decline, partly because of firms' efforts to boost bookings just before the fiscal year-end. Still, core private orders probably dipped marginally quarter on quarter in the January-March quarter, the third consecutive negative figure.

France

May 13

Consumer Prices (Apr)
Forecast: 0.1% Mo.-Mo.; 0.9% Yr.-Yr.
Previous: 0.2% Mo.-Mo.; 0.8% Yr.-Yr.

Consumer price inflation probably edged up one tick further in April, suggesting that the cyclical trough in inflation may have been reached (in January, inflation was only 0.5% year to year). At the same time, several factors such as a rebound in fresh food prices, the end of the oil price decline and a rise in doctors' fees probably contributed to the mild upward shift. Prices in the manufacturing sector remain flat, ruling out the risk of a significant near-term core inflation increase. However, inflation rates in other sectors less exposed to global competition (private services, rents) recently have edged slightly up.

Germany

May 11

CPI Inflation, Pan Germany (Apr)
Forecast: 0.2% Mo.-Mo.; 1.3% Yr.-Yr.
Previous: -0.2% Mo.-Mo.; 1.1% Yr.-Yr.

Based on the preliminary west German inflation figure, we expect April pan-German CPI to increase 0.2% month on month and 1.3% year on year, after the drop of 0.2% month on month and the increase of 1.1% year on year in March. The preliminary west German figures were surprisingly low considering the April value added tax (VAT) hike. Much of the VAT effect was compensated by weakening price pressures elsewhere. Inflation has trended down since August 1997, which was the last time that the annual inflation rate was above 2%. Considering that PPI is virtually unchanged since last July, there is currently no serious risk of pipeline inflation.

Italy

May 15
8:00
London Time

Industrial Production Index (Mar, Adjusted)
Forecast: 1.1% Yr.-Yr.
Previous: 2.4% Yr.-Yr.

Preliminary estimates based on energy consumption suggest that March industrial production index seasonally and calendar-adjusted fell by around 1% month on month, similar to February. The contraction — which probably continued in April — reflects the waning impact of last year's tax incentives for the purchase of new cars, slower exports with non-EU countries and lower demand for stocks following last year's surge. However, business surveys suggest that the recent weakening of manufacturing activity will be temporary.

Spain

May 14

Consumer Prices, Overall (Apr)
Forecast: 0.2% Mo.-Mo.; 2.0% Yr.-Yr.
Previous: 0.0% Mo.-Mo.; 1.8% Yr.-Yr.

Ex Food & Energy (Apr)
Forecast: 0.2% Mo.-Mo.; 2.2% Yr.-Yr.
Previous: 0.1% Mo.-Mo.; 2.1% Yr.-Yr.

A seasonal increase in selected manufactured goods prices and in the tourism sector probably boosted the monthly increase in the core index (ex fresh food and energy). Unlike in previous months, a (moderate) rise in gasoline and fresh food prices should have allowed a similar monthly increase in the overall index. In both cases, unfavorable base effects probably raised the year-on-year rate. The risk is that the March slowdown in year-on-year service sector inflation (because of tamed tourism prices) could have reversed in April as a result of this year's late Easter holidays.

Key International Economic Indicators

Spain (Cont)

During the Week

Registered Unemployment (Apr)

Forecast: -46 Thousand
Previous: -28.7 Thousand

The Labor Minister indicated that the decline in April was about 46,000. If confirmed, this figure would imply a seasonally adjusted drop of about 15 thousand, about half the exceptional pace of the first quarter. Nonetheless, the April decline would be consistent with persistent strong GDP growth. Furthermore, the April increase in social security enrollment — the best monthly indicator of labor market trends — suggests that employment creation remained at the same pace as in the first quarter.

United Kingdom

May 11
9:30
London Time

Industrial Production (Mar)

Forecast: 0.6% Mo.-Mo.; 0.2% last 3 Months Yr.-Yr.
Previous: -0.5% Mo.-Mo.; 0.0% last 3 Months Yr.-Yr.

Manufacturing Output (Mar)

Forecast: 0.2% Mo.-Mo.; 0.4% last 3 Months Yr.-Yr.
Previous: 0.0% Mo.-Mo.; 0.3% last 3 Months Yr.-Yr.

Industrial production has trended down in recent months, with month-on-month declines in six of the past seven months. The downtrend has partly reflected weakness in manufacturing output, but has also been exaggerated by declines in oil and gas output and utilities output. The decline in utilities output partly reflects the reversal of the previous, erratically high, readings, but also partly reflects the mild winter. For March, we expect a small gain in manufacturing output, although such a figure would still leave Q1 output slightly down quarter on quarter. With both oil and gas and utilities output now well below recent norms, the risk is that both categories rebound in the latest month, producing a sizable gain in output. A figure in line with our forecast would represent the strongest monthly gain in industrial production since last July, but would still leave first-quarter output down by 0.4% quarter on quarter.

May 11
9:30
London Time

Producer Input Prices (Apr)

Forecast: -1.0% Mo.-Mo.; -8.6% Yr.-Yr.
Previous: -1.0% Mo.-Mo.; -10.1% Yr.-Yr.

Last month's rise in sterling (since largely reversed) and weak global commodity prices are likely to keep input prices falling sharply. A figure in line with our forecast would leave input prices down by 19% over the past two years, and at their lowest level for 10 years. Metals prices remain particularly weak and, while oil prices did not fall further in April, they remain well down from a year ago. The continued weakness of input prices bodes well for the general inflation outlook.

May 11
9:30
London Time

Producer Output Prices (Apr)

Forecast: 0.2% Mo.-Mo.; 1.0% Yr.-Yr.
Previous: 0.2% Mo.-Mo.; 1.0% Yr.-Yr.

Ex Food, Drink, Tobacco and Petroleum (seas adj)

Forecast: 0.0% Mo.-Mo.; 0.4% Yr.-Yr.
Previous: 0.0% Mo.-Mo.; 0.4% Yr.-Yr.

All Items Ex Tax (seas adj)

Forecast: 0.0% Mo.-Mo.; 0.2% Yr.-Yr.
Previous: 0.0% Mo.-Mo.; 0.2% Yr.-Yr.

Output prices have been extremely weak over the past year and are likely to remain very soft in coming months. Business surveys have shown that manufacturers' price expectations are extremely soft, reflecting both the high pound and the backdrop of weak commodity prices. Output prices tend to lead retail goods prices by several months, and thus the weakness of output prices bodes well for the RPI outlook over the coming year.

May 13
9:30
London Time

Claimant Count Unemployment (Apr)

Forecast: -5,000 Mo.-Mo.; 4.9% of the Workforce
Previous: -6,400 Mo.-Mo.; 4.9% of the Workforce

LFS Unemployment (Jan-Mar)

Forecast: -50,000 Qtr.-Qtr.; 6.4% of the Workforce
Previous: -55,000 Qtr.-Qtr.; 6.45% of the Workforce

Both the claimant count and LFS unemployment measures have shown that declines in unemployment have slowed markedly in recent months, which is consistent with the view that the economy has slowed in late 1997 and early 1998. We expect this trend to continue as the recent weakness in exports feeds through to job losses in export industries. On the LFS basis, unemployment in the December-February period fell by only 14,000 from the November-January period (42,000 at a quarterly rate), implying that quarter-on-quarter falls will continue to diminish. On both counts the chances are that unemployment will rise at some stage this year. However, this is likely to be reflected in the claimant count measure earlier than in the LFS measure — the claimant count is more up to date and monthly data are available, whereas only a three-month average is available on the LFS basis.

May 13
9:30
London Time

Average Earnings (Feb)

Forecast: 4.6% Jan-Mar Yr.-Yr.
Previous: 4.5% Dec-Feb Yr.-Yr.

The trend in wage growth has been fairly flat in recent months, but the 4.5% reading for the average of December, January and February reflected a low December reading and average gains of 4.6% in January and February. Thus, we expect the three-month average to edge up to 4.6%. Such a figure would still leave the trend in earnings growth fairly flat: the three-month average was 4.6% in November and 4.5% in December and January, and thus a 4.6% figure for February would still be similar to the recent trend.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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