

MACRO MUSINGS: U.K.'s Undecideds Moving Against Brexit

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By Michael McDonough, Jamie Murray and Dan Hanson

(Bloomberg Intelligence) -- Undecided voters were always going to be crucial in determining the outcome of Britain's June

23 referendum on EU membership. The standard hypothesis is that they'll be more likely to vote to stay because the alternatives are risky. That seems to be borne out in the chart below, which illustrates a tight relationship between undecided voters making up their minds and the share of those intending to vote remain.

Made-Up Minds in Britain Are Tilting to Remain

The latest developments suggest the gap in the polls has widened not just because voters are abandoning the leave campaign, but because undecided voters are making up their minds against Brexit. As the lead for remain widens, the key uncertainty on the day will be turnout -- recently undecided voters may feel less compelled to show up at the polls (read more analysis of the potential impact of Brexit from Jamie Murray, Dan Hanson and Carl Riccadonna).

In China, early indicators in May show growth holding steady, with few signs of renewed momentum. A recent front-page article in the Communist mouthpiece People's Daily predicted a 'L'-shaped recovery. So far in May, that's just what is happening. As ever, it's important to note that the ratio of noise to content in early indicators is high. PMI data, slated for publication on June 1, will provide a more reliable guide to what happened in May. That said, the first signs suggest that while China's economy is holding steady, stimulus has failed to generate any momentum. The People's Daily Article also called for policy makers to pay more attention to deleveraging. With the recovery lackluster, that could be tough to do (analysis by Tom Orlik).

For BI Economic Analysis: BI ECON<GO>.

Looking Ahead

U.S.

* Jobless Claims, 8:30 a.m. New York time on Thursday, May 26:

Jobless claims have receded from elevated levels that were largely driven by the Verizon strike and the unusual timing of spring recess at New York schools. The pullback followed three consecutive weekly gains. Additional volatility may occur in coming weeks due to these seasonality and strike issues. Weekly initial claims fell -16k to 278k during the week ended May 14, matching the average for all of 2015 and reflecting labor-market conditions consistent with solid job creation.

* Durable Goods, 8:30 a.m. on Thursday, May 26: New orders for durable goods have whipsawed over the past 15 months, failing to register a consistent direction or trend. Economists polled by Bloomberg anticipate a 0.3% increase in April, which follows a 1.3% gain in March. If realized, this would be the first back- to-back increase since June-July 2015. The orders components of the Fed PMIs were mixed, with only Kansas City signaling contracting conditions in April. Also, a depreciating U.S.

dollar should help boost demand for U.S. durables.

* Pending Home Sales, 10 a.m. on Thursday, May 26: A strong U.S.

labor market continues to increase demand for housing as the spring buying season unfolds. Pending home sales have increased for two months in a row and reached their highest level in almost a year. Low mortgage rates help alleviate some affordability pressures facing potential buyers given that home prices are still rising faster than wages. Mortgage applications for purchase have been strong, pointing to persistently robust housing demand.

* Fed Governor Powell Speaks, 12 p.m. on Thursday, May 26: Fed Governor Jerome Powell is scheduled to speak about recent economic developments and monetary policy. Powell, a centrist on the Committee, may consider that aggressive remarks from various Fed officials have already sufficiently shifted market sentiment about midyear hikes. He may instead be able to steer his speech toward qualifying the thresholds necessary to act in June vs.

July. Earlier this year, he defended the utility of the Fed's dot plot, so he may give clues about other signals regarding forward guidance, including whether analysts should expect a neutral balance of risks to return to the FOMC statement in advance of the next interest rate move, as BI Economics expects.

Europe

* Spain GDP (Second Estimate, 1Q), May 26: Growth in Spain has been the strongest among the euro area's four largest economies, at a consistent 0.8% in the past three quarters. The figures released

on May 26 could refine the headline rate in 1Q but will also be accompanied by information on the composition of growth.

Spain's recovery remains very labor-intensive, with unemployment continuing to fall fast into 2016. Expect a decent showing from household spending.

* U.K. GDP (Second Estimate, 1Q), May 26: The second estimate of U.K. GDP growth will provide a first look at the expenditure breakdown across 1Q. Expect the consumer to have made the biggest contribution to the 0.4% pace recorded in 1Q. Running the other way, the most recent goods trade figures raise the possibility that trade as a whole will drag on growth. It will be worth keeping an eye on the investment numbers -- that's the element of demand most likely to be affected by heightened uncertainty around the June 23 referendum. The data flow since the preliminary estimate of GDP growth has done little to suggest it will be revised, although much depends on whether the services sector grew as the Office for National Statistics expected in March. Those data will be released alongside the GDP figures.

Asia Pacific

* Australia Private Capex (1Q) - Thursday, May 26: Private new capital expenditure in Australia rose a seasonally-adjusted 0.8% in 4Q. That followed an 8.4% fall in 3Q, the worst quarterly performance since at least 1987. Further recovery in 1Q and 2Q would suggest a bottom in the current capex cycle. Corporate profits overall and in mining have started to stabilize. Still, an investment revival in construction and services is needed for a sustained turnaround; these sectors account for 47% of investment after inflation, the same as mining.

Recently Published

U.S.

* REACT: New U.S. Home Sales Surge Amid Spring Buying

Season New U.S. home sales surged to the highest level in eight years as the spring buying season continues to unfold. Despite the latest spike, however, new home sales remain below prerecessionary levels. At such low levels of activity, abrupt month-to-month changes are not rare. (Yelena Shulyatyeva and Carl Riccadonna)

Europe

* INSIGHT: Euro 2016 Soccer Championship Already Over for

FranceThe European soccer championship will be held in France starting this June, and the hosts are among the favorites to win. Will the economy win as well? Only very marginally. The direct boost to GDP from ticket sales was small and has already been recorded in past quarters -- it's as if the competition has already happened. The investment needed to prepare for the games has also already been registered, so a meaningful GDP boost this summer depends on bumper spending during the tournament.

Evidence from other countries suggests the lift is likely to be small and short lived. (Maxime Sbaihi and Jamie Murray)

* REACT: German Ifo Joins Surveys Arriving Late to 1Q

Party The main components of the German Ifo survey rose more than expected in May. The improvement has been visible in other recent surveys but is difficult to interpret since all of them failed to capture the acceleration in activity in 1Q.

Ironically, the brighter soft data in 2Q comes at a time when the pace of GDP growth is set to slow. (Maxime Sbaihi)

Asia Pacific

* INSIGHT: China Financial Stability Gauge Strengthens

Again in 1Q The chances of an imminent financial crisis in China retreated slightly in 1Q, according to Bloomberg Intelligence Economics' Financial Stability Index. Tailwinds from slowing capital outflows, a recovering housing sector and firmer inflation have offset headwinds from continued rapid expansion in lending. With the ratio of debt to GDP continuing to rise, China has yet to address the challenge of deleveraging. Even so, the improvement in the Financial Stability Index demonstrates policy makers' capacity to manage stresses in the short term.

(Tom Orlik)

Latin America

* INSIGHT: Temer Confronts Brazil's Fiscal Crisis to Calm Markets Michel Temer is betting that more transparency about Brazil's fiscal crisis will help calm nervous investors. In one of his first steps as acting president, Temer revised the previous government's targeted budget surplus of 24 billion reais (\$6.8 billion) to a deficit of 170.5 billion reais. This is a dangerous game, because Brazil's financial markets may grow more volatile as the magnitude of the country's challenges becomes clearer. Temer's administration must act rapidly to move a fiscal agenda through Congress that reduces spending while still helping to foster a sustainable economic turnaround.

(Marco Maciel)

* REACT: Brazil's External Surplus Improving as Recession Deepens The significant improvement in Brazil's current account in April was mostly because of the expansion of exports and the structural

decline in imports of goods and services, reflecting the deepening recession. This trend should continue over the next 18 months, and the country's external financing needs -- the difference between the current-account deficit and foreign direct investment -- are likely to reach -3.5% of GDP this year, compared with -0.9% of GDP in 2015 and 0.3% in 2014. External surpluses are a sign of stability and should help contain potential pressure on the exchange rate, such as from the deterioration of the government's fiscal stance. (Marco Maciel)

Across the Wires

Rio Olympics May Help Zika Virus Spread to U.S.

Zika may spread further across North America and Europe this summer, partly driven by travel and the Olympics. Vaccines are a long-term prospect, though incentives such as the FDA's priority review vouchers may help. In the meantime, travel, leisure and logistics companies may suffer as the virus spreads, potentially more from the impact on sentiment than actual risk. Recent mosquito-borne viral outbreaks, such as West Nile, haven't had a lasting economic impact and their spread is often self-limiting.

Japan Auto Industry Consolidation May Hit Tipping Point in

2016

Japan may have reached a tipping point of industry consolidation after fuel-efficiency and testing scandals at Mitsubishi and Suzuki involving mostly mini-cars. Toyota is buying the rest of mini-car maker Daihatsu, while Nissan will take a 34% stake in Mitsubishi. The events may have sparked a justified trend of M&A, or exits from the less-profitable mini-car business. The effects of consolidation go beyond Japan, given Toyota and Nissan will gain a bigger market share in Southeast Asia.

Diesel Scandal Spread Beyond VW May Mean Billions More Losses Fines and recalls on diesel vehicles in Europe would have a much larger base to affect, given the technology had 51% penetration in the region compared with 1% in the U.S. Diesel vehicles represented more than half the 10.4 million sales in the top five European countries (Germany, the U.K., France, Italy and

Spain) in 2015. Volkswagen has made headlines with its diesel test cheating scandal, yet additional carmakers have been named as governments scrutinize reported compliance with emissions and mileage tests.

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