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## UK MACRO: ARTICLE 50, DATA FOR THE WEEK AHEAD

### Berenberg Macro Flash

#### UK ON COURSE TO TRIGGER BREXIT IN MARCH

After the prime minister easily won approval – without any amendments – from the House of Commons (lower house) to trigger Brexit by invoking Article 50 of the EU treaties, it seems unlikely that the unelected House of Lords (upper house) will introduce any significant changes to the bill that will enable the government to kick-off Brexit negotiations with the EU27. The House of Lords is set to debate the bill from 20 February onwards.

Reuters report that an amendment to hold a second referendum on the final Brexit deal, put forward by the centre-left Liberal Democrats, has the backing of both Conservative (right-wing) and Labour (left-wing) members of the House of Lords. While May's Conservative Party have a majority in lower house, they do not have a majority in the upper house. This provides a theoretical basis for changes to the bill. However, the risk of a strong political backlash for the unelected upper house from such a move would likely be too severe for it to gain enough support.

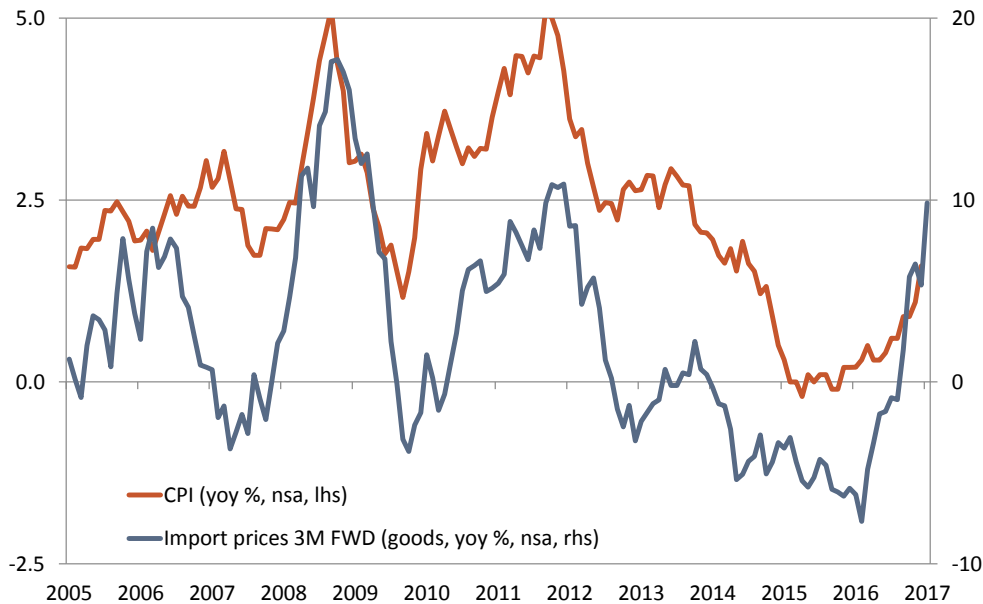
Calls for a second referendum shortly after the June 23 vote were treated with strong opposition by Brexit voters and quickly refuted by the government, even after a public petition forced parliament to debate the issue. While the EU would probably be open to a U-turn by the UK, even after negotiations begin, the result of the referendum has been de facto consecrated by the elected lower house by passing the bill to allow May to trigger Article 50. PM May will likely have a law passed in time for her self-appointed March deadline to trigger Article 50: 9-10 March EU Summit.

#### DATA OUTLOOK FOR THE WEEK AHEAD

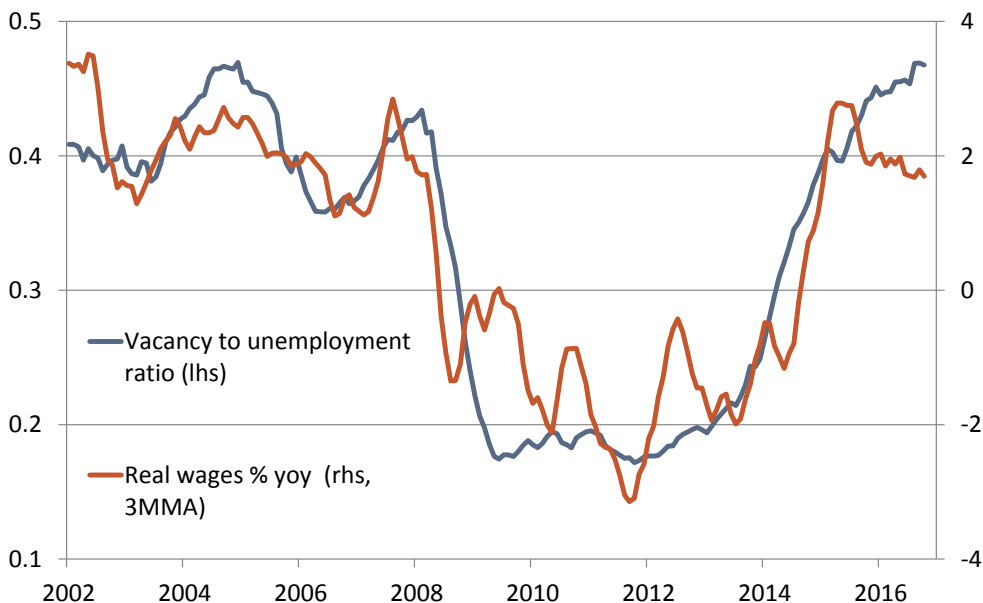
**The price of Brexit:** Data on Tuesday will likely show that headline inflation rose to 1.9% in January, up from 1.7% in December. Headline inflation is set to surge to 2.9% by mid-2019 following the sharp rise in import costs since the Brexit vote. Sterling has fallen by c11% since the EU referendum on June 23. We do not expect the BoE to tighten policy in response to the temporary sterling-driven rise in inflation. But, if January data show that core inflation (headline ex. fuel and energy) ticked up to 1.7% from 1.6% the previous month, this would strengthen the case for rate hikes in late 2017 a little. If GDP growth remains solid in 2017 and core inflation continues to rise toward the BoE's 2% target, a first rate hike could be one of the surprises in the second half of the year – 30% chance. Inflation data published at 9:30am on Tuesday.



## MACRO NEWS



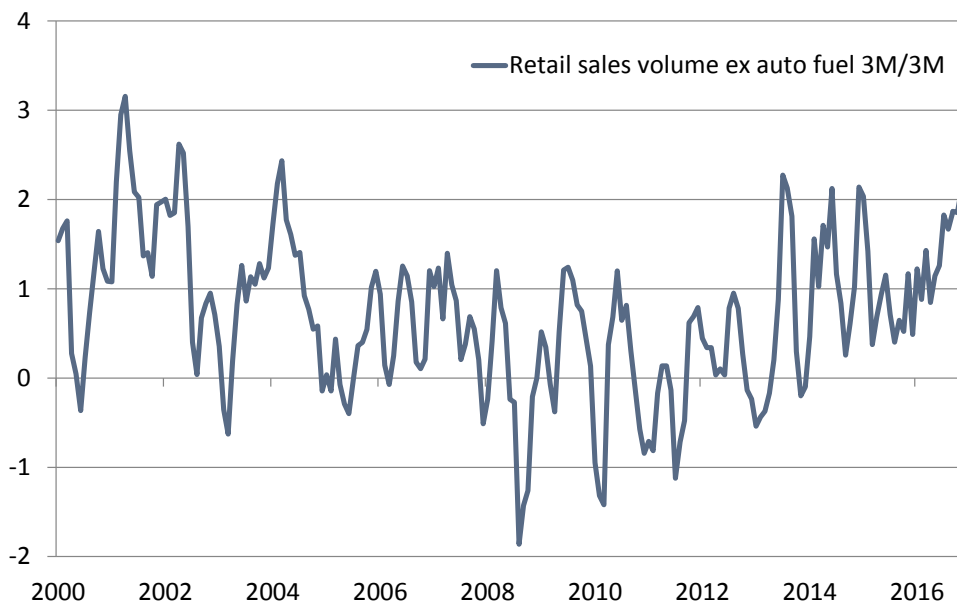
**Can wage growth accelerate?** Now that the labour market has reached full employment – unemployment below 5% with employment at a record high – job gains are starting to slow. The critical question going forward is whether the economy can sustain a sufficient level of real output growth amid Brexit risks so that firms can afford to raise workers' wages as inflation begins to pick up – squeezing real incomes. Overall, we do not expect to see major changes to the headline numbers in the December data for unemployment (consensus exp. 4.8%). But we look for wage growth ex. bonus to accelerate a little to 2.9% yoy from 2.8% yoy in November. Since the Brexit vote we have paid close attention to the more timely vacancies data (January). Since the vote vacancies have remained at close to record levels (c750,000). Labour market data published at 9:30am on Wednesday.





## MACRO NEWS

**Slowdown in retail sales likely as Brexit headwinds pick-up:** Household spending has held up much better than expected since the Brexit vote with the 3M/3M % change in retail sales volumes ex. autos rising to 2.1% in November 2016 from 1.3% in June. In December, the 3M/3M growth rate in retail sales ex. autos eased to 1.5%. Data for January will probably show that the 3M/3M change eased further, closing in on the two-year average of 1.2%. While retail sales account for less than 20% of overall GDP, they provide a timely measure of household demand. Looking ahead, real consumption growth is set to slow from an average growth rate of 2.6% yoy in 2015 and 2016 to 1.7% in 2017 and 2018 as real wage gains slow and employment stabilises now the labour market has reached full employment. Retail sales data published at 9:30am on Friday.



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