

Euler Hermes Economic Research

Weekly Export Risk Outlook

28 May 2014

FIGURE OF THE WEEK

+0.8%

Germany's Q1 q/q GDP growth

In the Headlines

Germany: GDP growth is gaining momentum

Real GDP growth picked up to +0.8% q/q in Q1 from +0.4% in Q4 2013. Details show a shift back to domestic demand-led expansion in Q1, supported by a sharp increase in inventories (+0.7pps), after exports had temporarily driven growth in Q4. Private consumption was up by +0.7% q/q in Q1 and public spending by +0.4%, while fixed investment in equipment (+3.3%) and construction (+3.6%) surged. Exports grew by a lacklustre +0.2% q/q while imports were up by +2.2% so that net exports contributed -0.9pps to Q1 growth. In y/y terms, GDP growth accelerated to +2.5% in Q1, after +1.3% in Q4. The "flash" PMI, the Ifo business climate survey and the GfK consumer confidence survey for May all indicate continued expectations of positive economic advances. EH expects the momentum to continue in the next quarters, resulting in full-year growth of just below +2% in 2014, up from +0.5% in 2013. However, the Ukraine-Russia crisis poses a key downside risk to this forecast.

Ukraine: Presidential election produces new leader

Businessman and politician Petro Poroshenko won the presidential election on 25 May, gaining 54.7% of the vote, so that no run-off is needed. Former prime minister Yulia Tymoshenko came a distant second with 12.8%. Overall turnout was around 60% but, because of activities of pro-Russian separatists that severely disrupted voting, it was only 10% in the Donetsk and Luhansk regions in eastern Ukraine, which declared independence on 12 May. Turnout was also lower in the Kharkiv and Odessa regions, at around 48%. Russia indicated that it will respect the election outcome and is prepared to engage in dialogue with the new Ukrainian president, although it requested the end of Ukrainian military action against separatists in the east. For now, violent unrest is continuing in the east and Poroshenko signalled that he will adopt a tough stance against armed separatists. Regarding domestic politics, he said that he will re-appoint the current prime minister, Arseniy Yatsenyuk, and suggested early parliamentary elections by the end of the year. In the meantime, forming a parliamentary coalition will be a challenge as he, as an independent, does not have a party base.

Northern Europe: Solid GDP growth in Q1

A detailed breakdown of GDP data for Q1 confirmed that **UK** growth was driven by domestic demand, with both private consumption and total investment up by +0.7% q/q. Net exports did not contribute to GDP growth in Q1, with exports down by -1% q/q reflecting the appreciation of the GBP. Unemployment reached its lowest level since Q1 2009 (at 6.8% in Q1 2014) while real wages increased by 0.7% q/q. Capacity utilisation rates are at high levels (81%) and financial conditions remain accommodative, with the BoE expected to maintain record low interest rates until 2015. EH revised slightly upwards (by +0.1pps) its 2014 and 2015 GDP growth forecasts, to +2.5% and +2.6%, respectively. In **Denmark**, Q1 GDP growth (+0.9% q/q) was mainly a result of strong domestic demand (+2% private consumption and +3.5% total investment). EH forecasts +1.2% GDP growth for 2014 and +1.4% for 2015. In **Norway**, GDP growth in Q1 increased by +1.6% q/q excluding stocks (and by +0.3% in total). Private consumption increased by +0.8% and net exports contributed +1.4% to overall growth, while total investment continued to fall (-1.8%) for the third consecutive quarter. EH forecasts GDP growth will improve to +1.9% in 2014 and +2.2% in 2015.

US: Springier?

The housing market is showing further signs of a spring rebound as mortgage rates have unexpectedly fallen from 4.5% in March to under 4.3% currently. New home prices fell -2.1% m/m in April, driving a sharp +6.4% increase in sales, with significant upward revision to data for the two previous months. Existing home sales increased for the first time in four months, gaining 1.3% m/m in April and supply of such homes increased from 5.1 to 5.9 months, the highest since August 2012. Consumer confidence increased to 83.0 in May from 81.7 in April, the second highest reading in the current recovery, although this is still notably below the 90-100 levels that would signify a moderately-strong economy. The percentage of respondents who said that jobs were plentiful increased from 13% to 14.1%, the highest in the recovery. Meanwhile, the minutes from the Fed's April meeting showed a highly significant change, revealing that, perhaps for the first time, members had a substantive discussion regarding exit strategies from the current highly accommodative monetary policy stance. The last time the Fed started to tighten policy was ten years ago.

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Countries in Focus

Americas



Colombia: Prudent policies to prevail regardless of election outcome

Last Sunday, presidential elections gave a slight advantage to Óscar Iván Zuluaga (29.3% of the vote) over the current president, Juan Manuel Santos, (25.7%). A second round of voting is now required and is scheduled for 15 June. The outcome remains unclear, partly reflecting the close first round but also because the turnout was low, with 60% of the electorate not voting. The main factor differentiating the two candidates relates to their attitudes towards peace talks with the FARC, given that insecurity in the country remains a popular concern. However, they share a common platform in relation to economic policy and, accordingly, prudent macro-economic policy should prevail, regardless of the election result. Such policies have resulted in low inflation (2.3% in 2013), a restrained fiscal deficit (-1% of GDP) and manageable level of public debt (32% of GDP). EH expects GDP growth of +4.3% in 2014 and +4.4% in 2015, among the fastest rates of expansion in the region.

Europe



EU Elections: Solid majority gained by pro-European parties

Pro-European parties won a comfortable majority of seats in the new European Parliament (69% of the 751 seats). The centre-right European People's Party won the highest number (214) followed by the Group of the Progressive Alliance of Socialist and Democrats (189), the Alliance of Liberals and Democrats for Europe (66) and the Greens (52). More than 50% of seats are allotted to Germany (96 seats), France (74), UK (73), Italy (73), Spain (54) and Poland (51). Newly-elected MPs will set up offices in Brussels and Strasbourg in June while nominations for the next Commission President will be proposed by each Member State at the 26-27 June European Council. The president's election is scheduled during two Plenary Sessions in the European Parliament in July and the overall process of nominations and selections of European Commissioners will end in October. All in all, the solid majority of pro-European parties should insure adoption of legislation currently on the table.

Africa & Middle East



South Africa: Minefield

Q1 GDP contracted by a seasonally-adjusted -0.6% q/q, compared with +3.8% in Q4 2013, the first contraction since 2009 and largely reflecting lost output in the mining industry (-24.7% q/q) as strikes in the platinum sector (mining's largest employer) continue to be unresolved. Manufacturing output also contracted (-4.4%), partly because of knock-on effects from the mining sector, but activity in finance and related services (+2%) and trade and communication (+2.1%) showed growth. In y/y terms, overall GDP increased by +1.6% in Q1, compared with +2% in Q4 2013. The latest data come against a background of continuing labour disputes and, to date, perceptions of a lack of government resolve to address structural reforms. A newly-appointed cabinet, with changes at ministerial level in finance and mineral resources, faces a challenging period. EH revised downwards its forecasts for GDP and now expects +2% in 2014 as a whole (with a downside bias), followed by +3% in 2015.

Asia Pacific



China: Improving confidence, strengthening demand

The HSBC flash manufacturing PMI improved to 49.7 in May (from 48.1 in April) signalling improving economic conditions in the industrial sector as a whole. New orders, particularly on the export side, and rising output were the main drivers behind this change. The employment sub index deteriorated to 47.3 but this does not necessarily suggest an area of concern as overall job market figures point to an improvement. Indeed, for the first four months of 2014, China recorded a gain of 4.73 million jobs, which represents a creation of 30,000 additional jobs compared with the same period of last year. According to Chinese officials, the service sector was responsible for much of this pick up in employment. All in all, May's indicators suggest that the economy is stabilising, with a strengthening in demand fundamentals. EH maintains its forecast of GDP growth of +7.5% in 2014.



What to watch

- May 29 – Japan April retail sales
- May 29 – US Q1 GDP (2nd estimate)
- May 29 – US April pending home sales
- May 30 – Canada Q1 GDP
- May 30 – India Q1 GDP
- May 30 – Brazil Q1 GDP
- May 30 – Poland Q1 GDP (details)
- May 30 – Slovenia Q1 GDP (first estimates)
- May 30 – Sweden Q1 GDP
- May 30 – Japan April industrial production
- May 30 – Japan April unemployment
- May 30 – US April personal income & expenditure
- May 30 – Colombia monetary policy decision
- May 30 – Chile April industrial production
- June 2 – US May ISM manufacturing index
- June 3 – Eurozone May CPI (preliminary)
- June 4 – Czech Republic, Hungary & Slovakia Q1 GDP
- June 5 – ECB meeting

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