

Euler Hermes Economic Research

Weekly Export Risk Outlook

19 November 2014

In the Headlines

FIGURE OF THE WEEK

+0.2%

Eurozone Q3 q/q GDP growth (above expectations)

Eurozone: A (small) positive, but don't expect a lot more!

In Q3, **eurozone** GDP was up by +0.2% q/q, above consensus expectations of +0.1%. In **Germany**, GDP increased by only +0.1% driven mainly by consumption and supported by net exports. Investment is expected to have decreased, with lower equipment spending the main drag. In **France**, the positive surprise (+0.3% q/q, compared with an expected +0.1%) is somewhat mitigated as, excluding inventories, GDP growth was 0%. Public spending growth was unusually strong (+0.8% q/q). Total investment continued to contract (-0.8% q/q) but non-financial corporate investment is starting to be less of a drag (-0.1% q/q). Consumer spending increased by +0.2% q/q. Exports rebounded +0.5% q/q but the increase in imports was much stronger (+1.1% q/q). In **Italy**, GDP decreased by -0.1% q/q, in line with expectations. The downturn was mainly driven by domestic demand, while net exports only partly offset this fall. In **Spain**, real GDP slowed slightly in Q3, to +0.5% q/q, in line with our expectations and after +0.6% q/q in Q2. High frequency indicators suggest that private consumption continued to be an important engine of growth, with real retail sales up by +0.6% q/q in seasonally adjusted terms, driven by a continued fall in prices and further improvement in labour market conditions. For other economies in the region, GDP increased slightly in **Netherlands** (+0.2% q/q), **Belgium** (+0.2%) and **Portugal** (+0.2%), stagnated in **Austria** and rebounded in **Greece** (+0.7%). Overall, exports are likely to have been a growth driver, notably towards the end of the quarter as shown by the widening in the eurozone trade surplus to a new record in September. This is indeed an encouraging sign that exporters are beginning to benefit from the weaker euro (eurozone exports increased by +0.7% q/q in Q3 and imports by +0.2%). Overall, we expect GDP growth of +0.7% in 2014 and a moderate further improvement in 2015 (+1%). Downside risks remain elevated and relate mainly to deflationary pressures. The ECB is expected to implement further measures in Q1 2015 that may help restore confidence, increase asset prices and boost lending to the real economy.

Japan: Second quarter of contraction

Preliminary estimates show that GDP unexpectedly decreased by -0.4% q/q in Q3 after -1.9% in Q2, so the economy was in a technical recession. The Q3 outcome appears to contradict advanced indicators, including the PMI and Tankan, which suggested a moderate recovery. A breakdown of the data reveals that the negative performance was a result largely of private inventories, which cut GDP growth by -0.6pps, and private investment (-1.3%). Private consumption rebounded (+0.4% q/q) and public sector expenditures were supportive (+0.7% q/q). Exports increased by +1.3% (after -0.5%). Second estimates are scheduled for 8 December. Against this data background, the PM decided to postpone the increase in sales tax to April 2017 (from October 2015) and call a snap election in early December in an attempt to strengthen his mandate. A stimulus package of around +0.5% of GDP is expected and the Central Bank will maintain its aggressive monetary easing. Going forward, a favourable policy mix coupled with improving corporate sentiment suggests an exit from recession in Q4.

U.S.: Manufacturing and housing up, energy prices down

Recent data have been mostly positive. Retail sales increased by +0.3% m/m in October as auto sales rebounded, gaining +0.5%. Gasoline sales fell for the third consecutive month, losing -1.5% as prices have fallen by 20% since June. Stripping out the more volatile components, retail sales increased by +0.6% m/m, putting the y/y rate at a historic average of +4.4%. Industrial production slipped -0.1% m/m in October as both mining and utilities fell sharply, but manufacturing gained +0.2%, putting it at a strong +3.3% y/y. Manufacturing of machinery increased by +1.3% m/m and by a very strong +5.6% y/y. The Housing Market Index (which shows average market conditions at 50) improved by 4 to 58 in November, the second highest reading in the recovery, as all three components gained ground. Producer price inflation increased more than expected in October, at 0.2% m/m and 1.5% y/y. After stripping out volatile food and energy prices, producer price inflation is running at 1.8% y/y, which is low enough to keep the Fed on track for a mid-2015 interest rate increase.

Israel: Upward data revisions, but headwinds

Q1 and Q2 GDP growth were revised upwards to +2.9% q/q annualised (previously +2.7%) and +1.9% (+1.5%), respectively, resulting in +2.5% y/y in H1, after +3.4% in full-year 2013. Q3 data are likely to reveal a slowdown because of conflict with some Palestinian groups, which had a negative influence on tourism, exports and consumption. EH retains its GDP growth forecasts of +2.5% for full-year 2014 and +3.5% for 2015 but there are significant economic, political and regional downside pressures.

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Countries in Focus

Americas



Canada: Encouraging data, enviable finances

Existing home sales increased by +0.7% m/m in October, to a strong +7% y/y. The MLS Home Price Index recorded a +5.5% y/y increase, the fastest in three years, but the gains came mostly in Calgary at +9.5% y/y, Toronto +8.3% y/y and Vancouver +6% y/y. The market remains balanced at the ten-year average sales/new listing ratio of 55.7%. Manufacturing sales in September gained +2.1% m/m, partly offsetting a fall of -3.5% in the previous month. Much of the increase came in transportation, which increased by +9.5% m/m; ex-transportation sales were up by a more modest +0.6% m/m, dragged down by petroleum and coal, which fell -5.7% m/m. However, new orders increased by +4.6%, promising a period of positive monthly data ahead. The government announced that it will run a budget surplus in 2015 and, combined with a relatively low and falling debt/GDP ratio of 50%, Canada's finances remain among the best in the developed world.

Europe



Central & Eastern Europe: Regional growth surprisingly resilient in Q3

Advance estimates indicate that growth in the region was robust in Q3, weathering the weaker than expected eurozone recovery and geo-political tensions. **Poland** was strongest in Q3, with growth of +3.3% y/y (+3.5% in Q2), although this was largely a result of improving net exports as import expansion slowed sharply. In **Hungary**, GDP growth eased to a still strong +3.2% y/y in Q3 (+3.9% in Q2), with manufacturing and agriculture being key drivers. A good harvest also helped **Romania**'s Q3 growth to accelerate to +3.2% y/y (+1.4% in Q2). Q3 growth edged down slightly in both the **Czech Republic**, to +2.3% y/y, and **Slovakia**, to +2.4% y/y (both were +2.5% in Q2). In **Bulgaria**, Q3 growth moderated to +1.6% y/y (+1.8% in Q2), mainly as a result of a decline in exports. Euler Hermes forecasts full-year growth in the group of 11 EU members in the CEE region at +2.5% in 2014 and in 2015. In **Russia**, Q3 GDP growth edged down to +0.7% y/y (+0.8% in Q2).

Africa & Middle East



Algeria: Not a good time for political uncertainties

President Abdelaziz Bouteflika was again in hospital last week, reportedly in a cardiology unit in France. He suffered a stroke last year and in his infrequent public appearances since then he has been in a wheelchair. The succession process is opaque and there are perceptions that the largest political party, the FLN, is in disarray partly for this reason. Political manoeuvring and leadership disputes are likely to intensify. Meanwhile, in an economy largely dependent on hydrocarbons (oil 61% and gas 38% of exports) and that requires an estimated oil price of USD120/barrel to balance its fiscal accounts, the current relatively low oil price (USD78/b) suggests fiscal consolidation is required. However, state spending is high to alleviate potential social pressures (Arab Spring effect) and to limit terrorist activity (as in the attack on the In Amenas gas installation in January 2013). Large FX reserves (USD194 billion at end-2013) provide a cushion but lack of leadership clarity is ill-timed.

Asia Pacific



Indonesia: Time for a change

The new government kept to its commitment and decreased fuel subsidies, with the reform effective from 18 November. Accordingly, gasoline prices are expected to rise by 31% to IDR8500 and diesel prices by 36% to IDR7500. This is expected to lead to a temporary acceleration of 2pps in inflation, to around 7% y/y in December. However, it is also likely to enable the government to save more than USD8 billion in 2015, leaving more fiscal scope for infrastructure spending. In order to support this move and curb anticipated inflationary pressures, the Central Bank increased its policy interest rate by 25bps to 7.75%. In the short term, the impact of these policies will probably be negative on growth as they will dampen private consumption and investment, at a time when exports are weak. However, in the longer term, they will foster growth potential by reducing the twin deficits and improving the attractiveness of investment.



What to watch

- November 20 – China November manufacturing PMI
- November 20 – Eurozone November PMIs (preliminary)
- November 20 – U.S. October existing home sales
- November 20 – South Africa SARB interest rate decision
- November 24 – Iran and P5+1 negotiations deadline
- November 24 – Germany Nov. IFO business climate
- November 25 – U.S. Q3 GDP
- November 25 – U.S. Sept. Case-Shiller home price index
- November 25 – U.S. November consumer confidence
- November 25 – Germany Q3 GDP (details)
- November 25 – Hungary monetary policy meeting
- November 25 – France Nov. Insee confidence indicators
- November 25 – South Africa Q3 GDP
- November 25 – Canada September retail sales
- November 26 – UK Q3 GDP (2nd estimate & details)
- November 27 – OPEC meeting
- November 27 – U.S. markets closed for Thanksgiving
- November 28 – Canada Q3 GDP

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