

FIGURE
OF THE WEEK

+1.8%

Germany's 2016
GDP growth
(calendar-
adjusted)

In the Headlines

Germany: GDP growth reaches 5-year high in 2016

First official estimates indicate that real GDP increased by +1.9% in 2016 and by +1.8% in calendar-adjusted terms (2016 had more working days than 2015), in line with our forecast. Domestic demand was the sole growth driver in 2016, with private consumption expanding by +2% and government consumption by +4.2%, fueled by additional public sector spending related to the refugee influx. Fixed investment growth picked up to +2.5%, driven by construction investment surging to +3.1% while investment in machinery and equipment eased to +1.7%. However, inventories subtracted -0.4pps from GDP growth in 2016. Net exports of goods and services, too, had a slightly negative effect of -0.1pps on growth in 2016 (+0.2pps in 2015) as exports slowed down to +2.5% (+5.2% in 2015) while imports moderated less strongly, to +3.4% (+5.5% in 2015). Euler Hermes expects a slight deceleration in full-year growth to +1.7% in 2017, mainly because public spending is likely to ease somewhat. Meanwhile, deflationary pressures, and associated downside risks to growth, are fading. Headline inflation rose to 1.7% y/y in December (0.8% in November), taking the full-year 2016 average to 0.5% (0.3% in 2015).

UK: A first vision of what Brexit means

PM Theresa May revealed on 17 January the first insights on her Brexit plan, confirming that there will be no "half in, half out", i.e. the UK will be out of the Single Market and will not obey to the EU's "four freedoms" anymore. Immigration control, tariffs on trade with the EU, return to national laws and limitation of UK contribution to the EU budget are on the agenda. However, the PM insisted on seeking a flexible Brexit with a transition phase post 2019 when the EU exit negotiation procedure is targeted for finalization. In particular, she plans a transitional arrangement for financial services. Free trade agreements will also be negotiated with non-EU countries. The U.S. (10% of UK exports), Australia (1%) and India (1%) are likely to be on the priority list. EH estimates that UK exports of goods to the EU will decline by close to GBP9bn (about 3% of total goods exports) in the first year of the introduction of tariffs. The new variable is that the UK parliament will get a final vote on the Brexit plan which rises the probability of a further postponement of the activation of Article 50 from March (currently scheduled) to after the German elections (scheduled for September), in order to not lose time for negotiations.

U.S.: Retail sales show consumer still cautious

Despite very strong confidence, the consumer just isn't following through with discretionary purchases. Retail sales rose +0.6% m/m in December as expected, to a +4.1% y/y rate. However much of the gain was driven by a sharp +2.4% m/m increase in auto sales (+6.8% y/y) and a +2% m/m increase in gasoline sales (+6.3% y/y). After stripping out those components, growth was flat m/m (+3.1% y/y). Similarly, reports on holiday sales in November and December appeared positive on the headline, growing +4% y/y, stronger than forecasts of +3.6% y/y. But ex-auto and gas, sales grew only +3.5% y/y. Non-store (mostly online) sales grew a very strong +12.8% y/y, but department store sales were dismal, falling -7.7%. The consumer remains cautious, but we maintain our 2017 forecast for +2.4% GDP growth. Inflation is accelerating, with producer prices rising +0.3% m/m in December to +1.6% y/y; a year ago that measure was -1.1% y/y. Energy prices rose +2.6% m/m and are surging at a +6.1% y/y rate. Even excluding food and energy, prices are rising +1.6% y/y; a year ago it was +0.2%.

China: A call against protectionism

President Xi Jinping made a strong case for globalization at the Davos World Economic Forum, saying that globalization is not the cause of all problems in the world. Yet, he believes that the global economy is faced with three critical problems: a lack of robust growth driving forces (global trade, e.g.); inadequate global economic governance which is not consistent with the weight of emerging markets in the global economy; and uneven global economic development. To address these issues, the Chinese leader proposed to reinforce innovation efforts, develop win-win cooperation, move towards more equitable global governance, and promote more balanced, equitable and inclusive growth. The speech was delivered a few days after China released disappointing trade figures: USD-denominated exports dropped by -6.1% y/y in December, taking the full-year contraction to -7.7%, making 2016 the second consecutive year of export decline. In a context of globally rising anti-trade rhetoric, China wants to position itself as the main defender of trade freedom.

Countries in Focus

Americas

Brazil: Sliding back?

Banco Central do Brasil lowered its key policy interest rate by 75bps to 13.0% last week, 25bps more than what markets anticipated a month ago. The Central Bank is expected to extend the easing cycle with an additional cut in February by 25bps. The move came in response to the rapid fall in consumer prices as headline inflation fell to 6.3% y/y in December, down from the temporary peak of 10.7% y/y at the end of last year. Euler Hermes estimates that Brazil lowered its large fiscal deficit by -0.5pps to -10.3% of GDP in 2016 and also reduced its current account shortfall by -2.1pps to -1.2% of GDP. Yet, Brazil has not emerged from a two-year long recession, the worst on record. Optimism about a vigorous rebound in production is taking an increasingly dim view. Business confidence is falling and consumer confidence weakened for the second consecutive month in December, following a semester in positive territory after hitting rock bottom in early 2016.



Europe

Bulgaria: Growth eases slightly but should remain robust

Real GDP growth eased to +3.2% y/y in Q3, from +3.5% in Q2, taking the average of Q1-Q3 2016 to +3.4% y/y. The GDP breakdown reveals that 2016 growth was (so far) mostly driven by net external demand and inventories, a shift from 2015 when domestic demand was the key growth driver. Consumer spending growth decelerated to +1.8% y/y in Q1-Q3 2016 from +4.5% in 2015 while public spending even fell by -1.8% y/y (+1.3% in 2015). Fixed investment declined by -1.9% in Q1-Q3 (+2.7% y/y in 2015) owing to the slowdown in EU funds absorption following the completion of the 2007-2013 programming period. However, inventories added +1.4pps to growth in Q1-Q3. Exports remained robust, up by +5.2% in Q1-Q3 (+5.7% in 2015) while imports slowed to +2.8% (+5.4% in 2015) thanks to low oil and energy prices, so that net exports contributed +1.5pps to growth in Q1-Q3 (+0.2pps in 2015). EH expects growth to moderate from +3.6% in 2015 to +3.3% in 2016 and +2.8% in 2017.



Africa & Middle East

South Africa: Growth remains subdued

South Africa has benefited from an improvement in global conditions. In particular, Chinese demand for metals and industrial metal prices have recovered somewhat. As a result, the ZAR appreciated by +20% from a year ago, reducing inflationary pressures. Moreover, even with a more hawkish U.S. Fed, 10-year interest rates on South African sovereign bonds remained roughly unaffected, decreasing by about 100bps from a year ago, to 8.7%. However, in contrast to the supportive external environment, the domestic landscape is still very weak. The business confidence measured by SACCI is low (93.8 in December) and vehicle sales were still on the downside in December (-15.3% y/y). As a result, Euler Hermes expects a weak start for 2017 and a subdued recovery (to +1.5% GDP growth) in the year as a whole, since the political and social situation remains difficult and should weigh on the private sector, as well as a still possible sovereign rating downgrade to speculative grade.



Asia Pacific

Singapore: Relieved?

Since the beginning of this year, Singapore has released some encouraging figures. The preliminary estimate for Q4 2016 GDP growth was very positive (+9.1% q/q saar, after -1.9% in Q3) with the country avoiding recession. High frequency figures suggest that growth has been driven by resilient domestic activity (retail sales up +1.1% y/y in November) and strong growth in exports (non-oil domestic exports up +9.4% y/y in December). Business surveys also point to a continued recovery in the short run with the SIPMM Manufacturing PMI rising to 50.6 points in December. Going forward, it is perhaps too early to conclude that the economy has turned the corner. Global economic growth is recovering at a moderate pace and uncertainties surrounding trade prospects (due to the rise of populism and global anti-trade rhetoric) call for caution. Euler Hermes expects GDP growth to remain below +2% in 2017.



What to watch

- January 19 – Eurozone monetary policy meeting
- January 19 – Poland December industrial production
- January 19 – U.S. Dec. housing starts and permits
- January 20 – China Q4 and 2016 GDP growth
- January 23 – Eurozone January consumer confidence
- January 23 – Turkey January consumer confidence
- January 24 – Colombia November trade balance
- January 24 – Mexico November economic activity
- January 24 – Russia December industrial production
- January 24 – South Africa monetary policy meeting
- January 24 – Turkey monetary policy meeting
- January 24 – U.S. December existing home sales
- January 25 – Germany January Ifo business climate
- January 25 – Poland December retail sales
- January 25 – Turkey January business confidence



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