

# Weekly Export Risk Outlook

15 October 2014

FIGURE  
OF THE WEEK  
Eurozone  
industrial  
production is  
12%  
below Q1 2008  
peak

## In the Headlines



### China: Growth remains at a crossroads

External trade figures continue to provide encouraging signals in September. The trade surplus remains healthy at USD30.9 bn with exports accelerating to 15.3% y/y (from 9.4% in August) and import recovered to 7.2% (from -2.3%). On a quarterly basis, the figures confirm our scenario which is that external trade acted as a cushion in Q3 and helped maintain GDP growth close to 7.3%. In particular, exports rose by 13.1% y/y from 5.1% in Q1. There are two main reasons for restraining our optimism. First, mismatch between data reported by China (export to Hong Kong) and Hong Kong (import from China) authorities raised concerns about over invoicing trade activities and raise doubt about the quality of the recovery. Second, the rise in imports is explained by processed and re-export activities, which nuance the recovery in domestic demand. Indeed, the last inflation release (+1.6%) coupled with decreasing property prices indicate that domestic demand is struggling to accelerate. This suggests that authorities will need to provide further accommodative policies if they want to achieve the 7.5% growth target.



### Spain: Challenges remain important

The Spanish economy is recovering but Euler Hermes does not expect it to accelerate significantly in 2015. Whereas a less austere fiscal policy and a continued strengthening of investment should support growth, private consumption should moderate as consumer confidence softens. Also, export growth will be capped by the subdued outlook of Spain's main trading partners. Euler Hermes expects Spain to grow by +1.2% in 2014 and by +1.3% in 2015. Several bottlenecks persist and prevent true acceleration of activity. Notably, deflationary pressures are still very high, in particular financing conditions for corporations are stretched. While the November 9th secession vote appears to have been cancelled, a less binding consultation vote is still being considered for the same day. The current political risk related to Catalonia's independence needs to be reduced if Spain wants to retrieve a growth pace firmly above 1% in the medium-term (For more details, see our last Economic Insight [Spain: Cautiously taking the bull by the horns](#) published on 8 October).



### Eurozone: Russian crisis vs deflationary pressures – which one hurts the most?

Worries about sluggish eurozone activity resurfaced given the soft business confidence indexes and the weakness of the hard data. Indeed, eurozone industrial production index fell below the Q2 average (100.6 in August vs 101.2 in the previous quarter) and declined by -1.9% y/y (-1.8% m/m). Industrial production remains 12% below the Q1 2008 peak. Excluding non-durable goods, industrial production on a yoy basis saw all sub-sections contract with the highest falls in energy (-3.5% y/y) and capital goods (-3.7% y/y). The two readings of the Q3 suggest that the eurozone growth will fall back into negative territory, notably given the rapidly deteriorating economic prospects in Germany. While this is very much attributable to the weak global demand (fourth consecutive year of below 3% global GDP growth) and high deflationary pressures (inflation expected to reach 0.5% on average in 2014), the impact of the Russian crisis cannot be denied. In this respect, the EU countries that are the most exposed to Russia (i.e. Estonia, Lithuania, Czech Republic, Hungary, Poland, Finland and Germany) have seen the highest drops in industrial production.



### U.S.: Small business sector remains reluctant to invest

Small business owners continued to take a somewhat negative view of the economy in September. The National Federation of Independent Business (NFIB) Survey of Small Business Optimism slipped 0.8 points to 104.4, putting it 5 points below the long-term pre-recession average. The fall in the Index was driven by (i) a 5 point drop in firms with plans for capital expenditures over the next 6 months, and (ii) a 5 point drop in firms having difficulty filling jobs, indicating continued slack in the labor market. According to the NFIB report the two declines are "Unfortunately... directly relevant to GDP growth and hiring." The data suggests that small businesses, which often account for the bulk of new job growth, still remain cautious about the outlook and are reluctant to invest in either people or equipment without solid evidence of improvement in the economy. Notes from the September Federal Reserve meeting revealed similar concerns among Fed members about a slowing global economy, and a rising dollar hurting U.S. exports.

# Countries in Focus

## Americas



### Bolivia's election: Firm growth to continue after Morales' third election

**victory** Last Sunday, Evo Morales was re-elected for a third-term, thanks in part to the continued economic strength since his election in 2006 (yearly economic growth reaches +5%). The key economic aims of the newly elected President remain further infrastructure investment, particularly in the transportation and mining industry, and continued reduction of poverty through social programs. In the last 8 years Bolivia saw large nationalization, notably in the hydrocarbons, the electricity and the telecommunication sectors and required companies to pay an additional 32% in taxes and royalties. He conducted a prudent policy during the boom in commodity prices and safeguarded a sizeable share of export revenues, improving its capacity to weather external shocks (reserves cover over 13 months of imports). Euler Hermes expects the economy to slow to +5.2% in 2014 and to +5% in 2015. The economic growth of Bolivia should however continue to outperform the regional average (for more details, see our last [Country Report on Bolivia](#) published on 15 September).

## Europe



### Finland: Notable impact from the Russian crisis

The current account balance deficit narrowed further in August to EUR-4.2bn over the past 12 months and in 2014 has the potential to worsen than expected (EH: EUR-5.0bn at the end of the year, -2.5% of GDP). The loss in competitiveness over recent years and the weakness of eurozone activity has impacted exports performance, but the Russian crisis has been the main drag on exports, notably since June as exports to Russia account for 10% of Finland's total exports. Consequently, total exports fell by -6% y/y in August (and by -10% to non-EU countries). Going forward, Finland will continue to feel the repercussions of the Russian crisis and we expect GDP to fall by -0.5% in 2014, the third consecutive year of recession. The outlook is not much better with a meagre +0.3% increase expected in 2015. In this context, Finland's recent downgrade by Standard and Poor's from AAA to AA+ is not a surprise. For more details, see [EH's Country Report](#) published in September.

## Africa & Middle East



### Morocco: Non-agricultural sectors to the fore

Q2 GDP increased by +2.3% y/y, up from +1.9% in Q1 but markedly below the +5.1% growth recorded in Q2 2013. In Q2 2014, agriculture continued to contract (-2.6% y/y after -1.6% in Q1) but the non-agricultural sectors expanded by +3.1% (+2.1% in Q1). The government's economic diversification strategy (into sectors including autos, aeronautics and chemicals) means that agricultural output (still dependent on rain-fed harvests) is not as critical as it once was, but agriculture (15% of GDP) remains significant for employment and rural incomes. As a result, overall growth remains volatile and this year's outcome is looking similar to 2012 (+2.7%), particularly because of the ongoing weakness in the Eurozone (>50% of exports). Even so, with a recent loosening in monetary policy and non-agricultural output expected to remain buoyant and agricultural output to recover in H2, EH expects overall GDP growth of +3% in 2014 and +4.5% in 2015.

## Asia Pacific



### Singapore: Rebounding, modestly

Advanced estimates for Q3 GDP suggest that economic activity rose +1.2 q/q on an annualized basis, up from -0.1% in Q2. Looking at the breakdown, the recovery was led by a firm rebound of the manufacturing sector (+1.2% from -15.1% in Q2) and the continued resilience of the services (+1.3% from +4.8%). Construction contracted further (-2.7% from -2.4%). Going forward, rising global demand coupled with strong domestic fundamentals (low unemployment rate, solid household income) will support a progressive pick up in Q4 and thereafter. Economic activity is set to accelerate +3.1% in 2014 and +3.6% in 2015 but performance will remain below the long term average (6%). In particular the Central Bank will maintain its 'hawkish' policy stance. Gradual and modest tightening will continue to limit inflationary pressures and restrain overheating risk. We do not see a change in monetary policy stance in the next meeting also (April 2015) as the probable tightening of the US monetary policy in H1 2015 will likely lead to further tightening.

## What to watch

- October 16 – Eurozone August trade balance
- October 16 – U.S. September Industrial Production
- October 16 – U.S. October Housing Market Index
- October 17 – Eurozone GDP first estimates under new methodology
- October 17 – Canada September CPI
- October 17 – U.S. September Housing Starts
- October 20 – Eurozone August current account balance
- October 21 – China Q3 GDP
- October 21 – U.S. September Existing Home Sales
- October 21 – Brazil October CPI
- October 21 – Eurozone public debt/GDP ratios in 2013
- October 22 – BoE Minutes
- October 22 – Bank of Canada meeting
- October 22 – Mexico August retail sales
- October 23 – European Council

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