

FIGURE
OF THE WEEK

+6.5%

China's annual
GDP growth
target for the
next 5 years

In the Headlines



China: Turning point?

Business surveys suggest stabilisation; although still in contraction territory (below 50), the Caixin manufacturing PMI improved to 48.3 (from 47.2), with a rebound in new export orders, and the services index increased to 52 (50.5 in September). This positive news came as the government unveiled proposals for the next five-year plan (2016-20). The authorities expect a doubling in GDP per capita by 2020 (from 2010), with annual GDP growth of at least +6.5% over the next five years. Economic rebalancing will continue, with private consumption becoming the major growth driver as social welfare will be reinforced (including improved access to social insurance and to supplementary health insurance). The manufacturing sector will be upgraded, with a strong focus on innovation and high-tech and green industries, aided by tax incentives and green financing funds. In the financial sector, capital markets will be developed and expect further progress on RMB convertibility. The final detailed plan is likely to be unveiled in March next year.



Turkey: Surprise return to single-party government

The AKP won elections last Sunday and regained the parliamentary majority it lost in the inconclusive poll in June. The AKP won an unexpected 49% of the vote, which gives it 317 seats out of a total of 550. The result came as a surprise as pre-election opinion polls predicted a similar result as in June, when the AKP got just 41%. Three other parties gained parliamentary seats (CHP 134, HDP 59 and MHP 40) so that the AKP fell short of the 330 seats needed to call a referendum on changing the constitution, which will make it more difficult for the AKP to turn Turkey into a presidential republic, although it is unlikely that President Erdogan will forgo this target altogether. Markets reacted positively to the outcome, which has reduced political uncertainty in the short term. The TRY gained 4% on Monday. In the longer term, it remains to be seen whether the AKP is able to regain its economic policymaking credibility, which has eroded gradually in recent years. Growth has been weak since 2012 as the economy is struggling against the backdrop of large external financing requirements, loss of investor confidence and concerns about the business environment.



Spain: Solid growth in Q3

As expected, preliminary figures released by the INE suggest that the economy continues its recovery, although at a slower pace. GDP expanded by +0.8% q/q in Q3, after +1% q/q in Q2 and +0.9% q/q in Q1. The carry-over for 2015 is +3%. Detailed figures will be released towards the end of the month but short-term indicators suggest that domestic demand continued to drive activity. Retail sales continue to grow steadily, expanding by +4.3% y/y in September, supported by: (i) increased purchasing power as a result of low oil prices and negative inflation (-0.7% y/y in September); (ii) loose fiscal policy ahead of the general elections in December; (iii) improvements in the labour market, with a further decrease in unemployment (21.6% in September) and recovery in employment (+3.2% y/y in September). We expect private consumption will continue to grow in 2016 but at a slower pace as the positive effect of the fall in oil prices will reduce progressively and fiscal support will lessen. The recent deterioration in consumer confidence points in this direction.



France: Rebound in Q3 GDP?

Household confidence pared back from its September high of 97 (the highest since October 2007). It shed -1 point overall, with a fall of -6pts in households envisioning major purchases (still above its long-term average) and renewed fears regarding unemployment (+15pts). The latter thus remains the main impediment to residential investment by households. Meanwhile, household consumption expenditures stagnated in September, despite a strong increase in purchases of durable goods (+1.4% m/m, +5.3% y/y), buoyed by car purchases (+2.3%). Even so, household consumption bounced back strongly in Q3 (+0.7%) after a disappointing Q2 (+0.1%). This translates into strong sales volumes in the retail sector; +0.3% m/m and +3.5% y/y. Consumption is likely to remain the main driver of GDP growth this quarter. Less encouragingly, turnover in manufacturing fell for the second month (-0.5%) – still up +0.2% over the quarter, but only +0.6% y/y. The rebound is slowly feeding through to companies, given that deflationary pressures remain pervasive and nominal growth insufficient.

Countries in Focus

Americas



Mexico: Launch of preliminary estimates for quarterly GDP

For the first time, the institute of statistics (INEGI) released flash estimates of GDP and such data will now be published 30 days after the end of the reference quarter. Real GDP expanded by +0.6% q/q (+2.3% y/y) in Q3, faster than previous quarters but slightly below expectations. The carry-over for 2015 is +2.1%. The primary sector (+2.8% q/q) showed more dynamism than the industrial (+0.7%) and services sectors (+0.5%), which are highly correlated to the U.S. economic cycle. Despite a sharp depreciation of the MXN (-19% y/y against the USD), consumer prices continue to moderate, with 3.2% inflation in September remaining within the target range of 3% +/-1pps. Against this background, the Central Bank decided in October to maintain its key interest rate at 3% for the 17th consecutive month. In its accompanying statement, the Bank asserted that the decision of the U.S. Fed is the main risk to inflation via the exchange rate. Synchronisation with the Fed on rate hikes is highly likely.

Europe



Austria, Latvia & Lithuania: Moderate growth continues in Q3

Austria's economy continues its gradual recovery. Q3 real GDP increased by +1% y/y (+0.7% in Q2) and by +0.3% q/q, the same as in Q1. Domestic demand growth in Q3 was unchanged from Q2, with private consumption stagnating, public consumption up by +0.2% q/q and fixed investment by +0.5% q/q. External trade activity gained momentum, with exports rising by +1.4% q/q (+1% in Q2) and imports by +1.6% q/q (+0.9%) so that net exports made a neutral contribution to Q3 GDP growth. Euler Hermes retains its full-year GDP growth forecasts of +0.7% in 2015 and +1.4% in 2016. In **Lithuania**, Q3 real GDP growth picked up to +1.8% y/y (+1.4% in Q2) and +0.5% q/q (+0.4%) while **Latvia's** Q3 growth eased to +2.5% y/y (+2.7% in Q2) and +0.4% q/q (+1.2%). Euler Hermes forecasts full-year 2015 GDP growth of +1.5% in Lithuania and +2.2% in Latvia, a marked slowdown from the average annual +4% achieved in 2011-14, reflecting weaker export demand from Russia.

Africa & Middle East



Tanzania: Map reading

Presidential and parliamentary elections were relatively orderly, with the exception of the semi-autonomous island archipelago of Zanzibar, often the scene of political unrest, where the poll results were annulled. Positively in relation to attempts elsewhere for African leaders to extend their leadership terms beyond constitutional limits, Jakaya Kikwete stepped down from the presidency. John Magufuli, the ruling Chama Cha Mapinduzi party's candidate, was elected to that post and overall policy continuity appears likely. However, in addition to stability in Zanzibar, other challenges remain significant, including retaining foreign budgetary support (restored in March after suspension because of a power sector corruption scandal), infrastructure shortfalls (including periodic power shortages), large fiscal and current account deficits and management of the oil and gas sector. Large offshore gasfields will drive GDP growth and hold commercial prospects, particularly for suppliers to support sectors.

Asia Pacific



Taiwan: Q3 GDP held back by exports

Technical recession was avoided in Q3, with GDP growth of +0.1% q/q (-1.7% in Q2). However, the trend is still downward (GDP -1% y/y). Exports were the main detractor (-2.9% y/y, -1.3% in Q2) followed by investment (-1.3% y/y, +5.5%). Domestic demand remained in positive territory. On the supply side, the manufacturing sector, mostly export-oriented, contracted sharply (-3.1%) because of a fall in output in electronics while only some services (including accommodation and food services) showed resilience. Going forward, a strong upturn is unlikely; external demand growth is modest and China (main partner) is struggling to achieve its growth target. The Nikkei manufacturing PMI showed some improvement in October (47.8 from 46.9) but still signals contraction as new orders remain weak. Deterioration in the labour market is likely to act as a drag on private consumption. Despite better financing conditions (after monetary easing), investment growth remains weak.



What to watch

- November 05 – Russia October CPI
- November 05 – UK BoE base rate
- November 05 – Eurozone October retail PMI
- November 05 – Romania interest rate decision
- November 06 – Canada October unemployment
- November 06 – Germany Sept. industrial production
- November 05 – Ukraine October CPI
- November 06 – South Africa Oct. international reserves
- November 06 – UK September industrial production
- November 06 – U.S. Oct. payrolls & unemployment
- November 08 – Egypt October CPI
- November 09 – Turkey Sept. industrial production
- November 09 – France October business sentiment
- November 09 – EU November investor confidence
- November 10 – France Sept. industrial production
- November 10 – Italy Sept. industrial production
- November 11 – Estonia Q3 GDP (1st estimate)
- November 11 – Turkey Sept. current account

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