



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: -0.6% > GERMANY'S Q/Q Q4 2012 GDP

▶ Eurozone: Renewed uncertainty

Fiscal consolidation is far from over. This was re-affirmed recently by the European Commission economic forecasts, as the worse-than-expected GDP contraction will continue to weigh on public debt/GDP ratios, still expected to be on the rise in 2013, and structural fiscal deficits will adjust at a slower pace than in 2012. Spain and France were noted as countries that will not be able to reach the 3% of GDP threshold in the next two years with current budget plans and they will have to present their adjustment plans to the Commission by April. More generally, political uncertainty that could affect decision making in the eurozone has increased, notably with last weekend's Italian legislative election results, but also fragile political and social stability in Spain and upcoming German legislative elections in September. Although this is likely to put downward pressure on economic activity in the coming months, we do not expect sovereign tensions to return to 2012 summer levels (with the potential backstop of the ECB/ESM in the wings) and we continue to forecast a gradual stabilisation in activity in the eurozone towards the end of the year.

▶ Germany: Q4 2012 GDP contraction

Weakness in the export sector (-2.0% q/q), mainly caused by the eurozone recession, had a considerable impact on overall growth at the end of 2012, with quarterly GDP contracting for the second time since 2009, at -0.6% q/q in Q4 (-0.1% in Q4 2011). Official data show that net exports had a negative effect on growth equivalent to -0.8pps in Q4. In contrast, there was a positive contribution from domestic demand, which contributed +0.2pps to overall GDP growth. However, there were marked differences within the demand components, with household consumption slightly up (+0.1% q/q), investment in construction slightly down (-0.1%) and investment in equipment recording a further marked decline, of -2% (having contracted for five consecutive months). There was a positive contribution of +0.2pps to overall growth resulting from a rise in inventories.

▶ US: Buoyant housing market

The housing market continues to demonstrate strength. January data include increases in housing permits (+35% y/y), starts (+24%), sales of existing homes (+8.5%) and sales of new homes (+16% mo/mo and +29% y/y). Prices of existing homes were up +11% y/y and of new homes +14%. Housing supply is very tight, with availability of existing homes down to 4.5 months at current rate of sales and new homes down to 4.8 months, both the lowest since 2008. Indeed, housing is currently the brightest spot in the economy. Meanwhile, Fed Chairman Bernanke defended the stance on monetary policy to the Senate Banking Committee, which suggests that there will not be a change in the near-term. With automatic budget cuts due in two days, politics remains divisive, although the cuts amount only to 2.5% of overall spending.

▶ Eurozone: Positive signals, weak prospects

The Economic Sentiment Indicator (ESI) for February was positive overall, indicating increasing confidence for a fourth consecutive month (91.1 from 89.5 in January), contrary to the Composite Output Markit PMI (47.3 in February, down from 48.6). All the components of the ESI, except construction and retail trade, improved, including the industrial sector (by +1.2 to -10.8) and services (by +0.9 to -6.0) and all the big four economies (Germany, France, Italy and Spain) registered a rise in sentiment, particularly Germany (+2.5 to 102). The ESI suggests that activity is likely to stabilise in the eurozone in the ST, although still at weak levels. However, the immediate outlook is clouded by potential political stresses, including in post-election Italy, where recent polls did not deliver a clear verdict.

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► Mediterranean, Africa & Middle East – *Cyprus: Update*

The centre-right DISY candidate, Anastasiades, won the second round run-off in presidential elections last Sunday, securing 57.5% of the vote, against the left-of-centre AKEL candidate, Malas. With Anastasiades as president, the likelihood of a near-term conclusion of the bailout negotiations with the IMF/EU—which were delayed by the outgoing AKEL president, Christofias—has increased. However, the Anastasiades DISY-DIKO alliance in parliament has only a one-seat majority. On the economic front, the country's downturn continued in Q4 2012, with real GDP contracting by -3.1% y/y and -1% q/q. Details have yet to be published, but the statistical office noted that declines were recorded in major sectors such as construction, manufacturing, trade and transport.



► Americas – *Peru: Strong growth*

GDP growth slowed in Q4 2012, to a still robust +5.9% y/y (+6.8% Q3), taking full year growth to +6.3% (+6.9% 2011). Growth in 2012 was led by domestic demand, as investment (particularly public sector) and public consumption accelerated, partially offsetting a moderate slowdown in private consumption. Export growth slowed while that of imports accelerated. With headline inflation within target range and core inflation slightly above in January 2013 interest rates are likely to remain unchanged in the near-term. The fiscal surplus increased in 2012 and the external balance is not under pressure. The current account deficit widened to -3.6% of GDP in 2012 but net FDI flows more than covered the deficit and FX reserves increased. Expect GDP growth of around +6% in 2013 and 2014.



► Asia-Pacific – *Malaysia: Robust 2012 growth*

Real GDP growth accelerated to +6.4% y/y in Q4 2012 (+5.3% in Q3), taking full-year growth to +5.6%, up from +5.1% in 2011. The robust performance in 2012 was entirely led by domestic demand, particularly fixed investment (+19.9%). Private consumption expanded by +7.7% and government consumption by +5%. Net exports made a negative contribution to 2012 growth as annual exports were almost flat (+0.1%) after contracting in H2, while imports maintained modest growth of +4.5%. The annual current account surplus narrowed to 6.4% of GDP in 2012 from 11% in the two previous years. Average annual inflation fell to just 1.6% in 2012 from 3.2% in 2011. In 2013, expect GDP growth to ease to +4.5% as investment is likely to moderate and the global economy remains weak.



► Europe – *Bulgaria: Modest 2012 growth*

Flash estimates put Q4 2012 real GDP growth at +0.1% q/q and +0.5% y/y, both unchanged from Q3. As external demand weakened sharply in 2012, domestic demand took the lead. In Q4, growth of both private consumption and fixed investment picked up, to +3.5% and +2.7% y/y (from +3% and +1% in Q3), respectively. Public consumption contracted by -1.4% y/y (-0.2% in Q3) because of continued fiscal constraint. Imports declined by -0.8% y/y in Q4 (+4% in Q3) while exports retained modest growth of +1.8% (+3.3% in Q3). Full year growth is estimated at +0.8% in 2012, down from +1.7% in 2011, and should maintain that pace in 2013. On the political front, the government's surprising resignation last week is likely to lead to an early election within two months.

Worth knowing

► **Argentina**

The closely watched US appeals court hearing on payments to the “debt holdouts” is scheduled for 27 February. The court will then decide on whether to uphold an earlier ruling that Argentina should make payments to the “holdouts” whenever it makes payments to other bondholders.

► **Tunisia**

A former minister of the interior, Ali Laarayedh, was appointed prime minister on 22 February and now has 15 days to form a government, probably a coalition involving the moderate Islamist party al-Nahda, opposition politicians and technocrats.

► **Kenya**

Presidential and parliamentary elections are scheduled for 4 March. President Mwai Kibaki will step down and opinion polls show a tight contest for the leadership between PM Raila Odinga and Deputy PM Uhuru Kenyatta, which may lead to a second round of voting. Following the last elections (December 2007) there was widespread violence and protracted economic disruption.

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