

FIGURE
OF THE WEEK

+7.5%

Philippine's y/y
Q2 GDP
growth

In the headlines



Eurozone: Return in confidence confirmed

Eurostat surveys in August confirmed that there is a growing level of confidence in managers in industry, services and retail sectors. The construction sector was the only one to experience weaker confidence and the two most important sectors (industry and services) improved markedly, by +5.1 points (the highest increase since Q3 2009) and +5.5 (the highest since Q1 2010), respectively. Expectations for production and for order books in the next three months improved significantly, although the latter remain below normal levels. For the services sector, and for the first time in 15 months, the survey shows that managers expect demand to increase in the next three months, although they consider that the business climate remains weak. Confidence within the industrial and services sectors in all of the four largest economies improved (with the exception of services in France), with the strongest increases registered in Germany (see below). Order books are set to recover sharply in Spain and Italy, in line with EH's scenario of an export-driven moderate recovery in these countries in 2014.



Germany: Regaining momentum

After a weak start to 2013 (GDP growth in Q1 was 0%), the economy regained momentum in Q2 (+0.7% q/q), mainly driven by domestic demand. According to results from Destatis, positive contributions were made particularly by both consumer spending (+0.5% q/q) and capital formation in construction (+2.6%), with the latter also probably influenced by some catch-up effects following the long winter. There was also a recovery in investment in machinery and equipment, which registered an increase again (+0.9%) after a long period of decline. Exports increased by +2.2% despite the challenging global environment. With imports increasing at a somewhat slower pace than exports (+2%), net exports contributed +0.2pps to overall GDP growth, while a decline in inventories resulted in a slightly negative contribution of -0.1pps.



India: Weakening, but not yet a crisis

Last week's GDP figures and recent PMI data suggest that the weakness in the economy was evident before the recent rapid depreciation in the INR and capital outflows. In turn, this suggests that domestic factors (including policy inertia and structural impediments), as well as international concerns (prospects of Fed tapering), explain the downturn. GDP growth in April-June (Q1 of FY2013/14) was +4.4% y/y, compared with +4.8% in the previous quarter and an annual average +7.1% in 2000-11. Meanwhile, data for manufacturing in August indicate the first contraction since early 2009. Currency weakness (INR depreciation of around 10% in August) and associated loss of confidence are likely to result in worse data to come, although export performance should improve. Monetary policy will now tend towards tightening (limiting growth potential), import costs are higher and government finances will deteriorate. EH revised downwards its GDP forecasts, to +4.7% in 2013 and +5.5% in 2014, but does not expect a full-blown financial crisis, although corporate insolvencies and NPLs will increase.



Poland: GDP growth may have bottomed out in Q2

Q2 real GDP growth picked up slightly to +0.8% y/y (+0.5% in Q1) and +0.4% q/q (+0.2% in Q1) as a result of fiscal stimulus and strengthening exports. Government consumption increased by +3.9% y/y in Q2 (-0.5% in Q1), private consumption by +0.2% (flat in Q1) while fixed investment contracted by -3.8% (-2% in Q1). Moreover, inventories subtracted -1.9pps from Q2 growth (-0.5pps in Q1). Export growth accelerated to +5.1% y/y (+1.3% in Q1) while imports continued to decline, by -0.6% (-1.7% in Q1), so that net exports contributed +2.5pps to overall Q2 growth (+1.4pps in Q1). Against a background of recent budget revisions with the aim of stimulating the economy, EH expects economic activity to gain further momentum in H2, resulting in full year growth of around +1% in 2013. However, the fiscal slippage could be a concern if it damages the government's credibility. Today, the Monetary Policy Council kept the key policy interest rate unchanged at 2.5% today.

Countries in Focus

America

US: Sub-par growth

Q2 GDP growth was a sub-par +2.5% q/q annualised, with much of the gain driven by investment (+9.9%) and consumption (+1.8%). In the 16 quarters since the recession officially ended in Q2 2009, there have only been four quarters in which GDP growth was above the long-term average of +3.3%, highlighting the continued weakness in the recovery. In July, real personal consumption expenditure and real disposable personal income barely moved, rising only +0.05% m/m and +0.08%, respectively, suggesting continued weakness into Q3. The Case-Shiller home price index increased by +0.9% m/m in June, the slowest pace since December 2012. On a brighter note, the August ISM manufacturing index showed continued recovery from earlier in the year, rising to a firm 55.7 (>50 indicates expansion), with the gain driven by a sharp increase in the new orders sub-component, from 58.3 to a very strong 63.2.

Europe

France: Investment expectations

According to company managers in the manufacturing sector (as reported in the July INSEE survey, issued on 29 August), investments will be down by -6% y/y in 2013. In April, they expected investments to be down by -4% and this downward revision applied across all sectors. The overall decrease in investment expectations was mainly driven by a fall in the automobile sector (-25% y/y) but is evident elsewhere, including in 'other industries' (-6%) and in equipment (-1%). Only investment in agricultural industry is seen as remaining stable in 2013. However, the business climate went on improving in August (+3 points to 90) in all sectors except services. Overall, EH expects total investment to decrease by -2.3% y/y in 2013 and to increase only moderately in 2014.

Africa & Middle East

Nigeria: Political manoeuvres

Last weekend, eight members of the ruling party (including seven state governors) broke away from the PDP, which has been in power since multi-party democracy was installed in 1998, and may form a new political organisation. In February, the previously-splintered existing opposition parties merged to form the APC, so a new political landscape may be developing. EH does not expect a significant change in the direction of economic policy if a new government emerges after (or before) elections in 2015 but a political realignment may encourage attempts to address some structural rigidities, including transport bottlenecks and religious divides, and may prompt further negotiations with the rebel Boko Haram movement in the north and with southern regional groups disputing oil-revenue sharing arrangements. Despite a very challenging business environment, particularly in relation to security of personnel and assets, EH expects robust GDP growth exceeding +6% in 2013 and 2014.

Asia Pacific

Philippines: Strong momentum in Q2

Q2 real GDP growth remained strong at +1.4% q/q sa (+2.3% in Q1) and +7.5% y/y (+7.7% in Q1) as rapid domestic demand continued to offset weak exports. Robust private consumption expanded by +5.2% y/y in Q2 (+5.5% in Q1), infrastructure projects further boosted government consumption growth to +17% (+13.2% in Q1) and construction activity kept fixed investment growing, by +9.7% (+15.6% in Q1). However, external trade activity remained lacklustre. Exports contracted by -6.5% y/y in Q2 (-7.6% in Q1) and imports fell by -3% (+2% in Q1). EH expects domestic demand to retain momentum amid an on-going weak global environment in 2013, resulting in full year GDP growth of around +7%. Base effects related to exceptionally strong government spending and investment in 2013 should lead to a moderation in growth to around +5% in 2014.

What to watch

- September 5 – ECB interest rate decision
- September 5 – France Q2 unemployment
- September 5 – UK BoE interest rate decision
- September 5-6 – G-20 summit
- September 6 – UK July IP
- September 6 – Germany current account & IP
- September 6 – US August unemployment
- September 6 – Russia Q2 GDP (second estimate)
- September 7 – Maldives presidential elections
- September 7 – Australia parliamentary elections
- September 9 – Norway parliamentary elections

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