

Weekly Export Risk Outlook



9 January 2013

In the Headlines

FIGURE OF THE WEEK: **11.1%** >EZ UNEMPLOYMENT IN NOVEMBER 2012

▶ Eurozone: Mixed signals

The latest EZ indicators give mixed signals, with a deteriorating labour market but improving retail sales and confidence. The rate of unemployment increased by 0.1pps between October and November 2012 and reached a new record high of 11.1%. With the exception of Germany, where unemployment stabilised at 5.4%, all the leading economies registered an increase, most notably Spain (from 26.2% to 26.6%). However, retail sales in the EZ increased by +0.1% mo/mo in November after three consecutive months of decline. Moreover, the Economic Sentiment Index (ESI) in December increased for the second successive month, by +1.3pps after +1.4pps in November, in line with the trend signalled by the PMI. The ESI improved for all the leading economies, particularly Italy (+2.0pps) and Germany (+1.0pps). In terms of sectors, all except retail recorded improved confidence, which was especially marked in industry and in services. The decline in the retail sector was moderate (-0.9pps) and followed a large increase in November (+7.2pps).

▶ US: Fiscal cliff

Resolution of the "fiscal cliff" came at the last minute and did not address spending. In effect, the negotiations focused on less than 1% of the population, those earning over USD400,000, for whom taxes will rise on both income and investments. To fund "Obamacare", an additional 3.8% tax on investment income was implemented for those earning over USD200,000. However, 77% of Americans will be affected by an increase in the payroll tax from 4.2% to 6.2%, removing significant income and consumption from the economy. Expect negotiations on spending cuts to continue into March, when the debt ceiling will be reached. Since Republicans were defeated on taxes, it is expected that they will demand significant spending cuts, perhaps through scheduled automatic cuts, by holding the debt ceiling hostage.

▶ Switzerland: Uncertain outlook

Following surprisingly robust GDP growth of +0.6% q/q in Q3 2012, the outlook has deteriorated markedly against a background of global economic uncertainties, which are likely to limit capital spending and exports, in particular. EH forecasts capital spending will grow by +0.6% in 2013, after +0.4% and +4% in 2012 and 2011 respectively. Exports are forecast to rebound only moderately in 2013 (+1.7%) after contracting by -0.2% in 2012. Meanwhile, the leading indicators are not providing a clear outlook, with the PMI index continuing to increase in December (the third consecutive month) but the downtrend in the KOF sentiment index accelerating in December. However, it should be noted that the two indicators are not fully comparable, with the PMI focus on medium- and large-sized enterprises and the KOF on small- and medium-sized companies.

▶ Venezuela: Inauguration postponed

With President Chavez unable to attend his inauguration scheduled for 10 January, as he remains under treatment in Cuba after surgery for cancer, the National Assembly voted to postpone the inauguration and allow him to be sworn in by the Supreme Court at a later date (unspecified). While the opposition maintains that failure to attend the scheduled inauguration is unconstitutional, the government argues that as Chavez is a re-elected, not new, president the postponement does meet constitutional requirements. The Supreme Court has not ruled on the constitutional position, but, as it is strongly pro-Chavez, could be expected to be supportive. The opposition does not seem to have the ability to change the situation but, while the question of President Chavez' recovery remains open, considerable uncertainty over the future will persist.

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► Mediterranean, Africa & Middle East – *Central African Republic*

A loose alliance of rebels, Seleka, has overrun a large part of the country and its forces are within close proximity of the capital, Bangui. The rebels claim that the government under President François Bozizé has not kept to the terms of peace deals signed in 2007 and 2008, including power sharing and integration of rebel factions into the national army. Some regional countries are offering limited military support but France, already with concerns relating to security in Mali, will not use troops. The landlocked country has a history of coups and rebellions and its economic development—natural resources include timber, gold, uranium and diamonds—has yet to meet potential. Expect economic growth to be limited by the current instability, with GDP expansion of around 3%, subject to crisis resolution.



► Americas – *Ecuador: Presidential elections*

Presidential (and legislative) elections will be held on 17 February, in which the incumbent Rafael Correa will be standing for another term (first elected November 2006). At the start of the formal campaign, President Correa is well ahead of the other seven declared candidates, with 60.6% of the vote compared with just 11.2% for his nearest rival, Guillermo Lasso, according to the most recent opinion poll (Perfiles). This is comfortably above the 50% or 40% with a 10pps margin over the nearest rival required for a first round win (if necessary there will be a second-round run-off in April). With the opposition divided and President Correa's core support seemingly solid, another term seems likely, in which he can be expected to continue his populist "citizens' revolution".



► Asia-Pacific – *Vietnam: Slow 2012 growth*

Q4 GDP growth picked up slightly to +5.4% y/y, but left full-year 2012 growth at just +5.03%, the slowest since 1999. Manufacturing increased by just +4.03% and construction growth was particularly weak at +2.09%. There are some positive indicators—inflation ended 2012 at 6.8% y/y and credit growth was moderate, which allowed the central bank to cut interest rates, the trade balance was probably in small surplus (based on customs data) and FX reserves increased, to USD20.4 billion in July 2012 (latest available data). However, problems remain in the banking sector and the improved trade balance results partly from the weakness of imports, limiting the scope for expansionary government policies. There is little to suggest a strong recovery in 2013 (EH expects +5.3% GDP growth).



► Europe – *Poland: Monetary policy*

The central bank cut the key policy interest rate by 25bps today, to 4% (in line with expectations) and the lowest level since May 2011. The economic slowdown (from +4.3% GDP growth in 2011 to +2% in 2012) and lower inflationary pressures (consumer prices at 2.7% y/y in November 2012, 1.5pps below a June peak) allowed the central bank to pursue its easing cycle started in November, which followed a rate increase in April and then six months of no change. Inflation is likely to decrease further in H1 and to fall below the central bank's 2.5% target. This will allow further monetary policy easing, with the aim of supporting economic expansion. However, EH expects GDP growth to remain at around +2% in 2013 before recovering to +2.7% in 2014.

Worth knowing

► Q3 GDP growth

Colombia: -0.7% q/q (+1.3% Q2) and +2.1% y/y (+4.9% Q2). **Mauritius:** +1.3% q/q (+1.1% Q2) and +3.7% y/y (+2.9% Q2). **Morocco:** +2.9% y/y (+2.3% Q2). **Tanzania:** +6.5% y/y (+6.9% Q2).

► Czech Republic

Presidential elections will be held on 11-12 January. This will be the first direct vote for the position as, under the old system, parliaments used to elect the head of state. If an absolute majority is not reached, a run-off will be held on 25-26 January.

► Italy

Legislative elections were brought forward from mid-April, to 24-25 February, following the decision in December 2012 of PM Mario Monti to step down. Monti will now campaign for a centrist alliance, while Pier Luigi Bersani will lead a centre-left coalition group (current poll favourite) and Silvio Berlusconi will be part of the leadership of a centre-right coalition.

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