



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: -0.6% > EUROZONE Q/Q Q4 2012 GDP CONTRACTION

▶ Eurozone: Weak data but signs of stabilisation

The second estimate of EZ Q4 2012 GDP confirms the economic contraction of -0.6% q/q in the flash estimates. Investment was the main driver (-1.1% q/q) and private consumption also continued to contract (-0.4%). On the supply side, the main drag was manufacturing (-1.7% q/q), followed by construction (-0.8%). All of the four largest economies contracted, with -0.9% q/q in Italy, -0.8% in Spain, -0.6% in Germany and -0.3% in France. The latest data suggest a subdued Q1 2013, with unemployment still on an upward trend (a new record high 11.9% in January from 11.8% in the previous month). However, business confidence surveys signal some stabilisation in the coming months. Meanwhile, this week's Eurogroup decisions include a likely adjustment in the maturities of the EFSF and EFSM loans to Portugal and Ireland to facilitate their return to the markets this year, disbursement of the next tranche of Greek aid (EUR2.8 billion) reflecting progress with reform implementation, further discussion on the recapitalisation of banks by the ESM, which should allow a final decision next June, and discussions with the new Cypriot government regarding financial assistance.

▶ US: Spending cuts and other uncertainties

Automatic spending cuts of USD85 billion (<3% of the federal budget) came into effect on 1 March, but expect negotiations to reverse them to continue. Upcoming dates contribute even more uncertainty, including 27 March when Congress must decide to keep funding government operations or not and mid-May when the debt ceiling may need to be raised again. Meanwhile, Q4 2012 GDP was revised up to +0.1% q/q annualised, with only the consumer contributing significantly at +2.2%, still markedly below average. Personal income increased significantly in December 2012, by +2.6% mo/mo, partly to avoid new taxes, and then fell back by even more in January, -3.6%, to a weak annual real rate of 1.8%. Industry is doing better than the consumer as both the manufacturing and non-manufacturing ISM indices increased, to 54.2 and 56.0, respectively, and indicate expansion.

▶ Switzerland: Robust 2012 GDP growth

In the final quarter of last year, the economy proved to be resilient and, indeed, developed slightly better than expected during that period. GDP increased by +0.2% q/q and this followed a similarly strong performance in Q3 (+0.6%). In full year 2012, GDP increased by +1%. Growth in Q4 was driven by ongoing strength in both private consumption (+1.1%) and public consumption (+1.1%), which was accompanied by a more moderate contribution from investment (+0.5%), although the latter followed two consecutive quarters of contraction. Net exports continued to provide a negative contribution to overall growth, of -0.3pps, reflecting difficult global conditions. There was also a reduction in inventories, which had a marked impact equivalent to -1.1pps on overall growth.

▶ Venezuela: President's death

President Hugo Chavez died yesterday. He had been seriously ill with cancer for some time, although he had won another term in office by a comfortable margin in elections held last October. Vice-president Nicolas Maduro, Chavez' chosen successor, will assume temporary office until fresh elections are called, according to initial statements. There are likely to be manoeuvrings within the ruling party but, at this point, Maduro appears favourite to win an election and then try to continue the broad thrust of Chavez' policies. Nonetheless, there are considerable challenges. It will be difficult for Maduro (or anyone) to replace the charismatic leadership of Chavez, which may reduce his popular appeal. It also remains to be seen if Maduro can maintain control of the forces that backed Chavez (including the military) and whether the opposition can mount a united campaign. The coming months will be highly uncertain and the transition could unfold in unpredictable ways.

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► **Mediterranean, Africa & Middle East – Kenya: Elections**

Final results from Monday's elections are not yet available but in the presidential polls Deputy PM Uhuru Kenyatta has edged ahead of PM Raila Odinga. The elections at end-2007 led to inter-tribal fighting, political inertia and severe business/economic disruption in 2008. To date, the most recent polls were relatively well organised and violence limited. Kenya is strategically important as east Africa's largest economy and as a gateway to that region and trade hub. A peaceful political transition will therefore boost a wider area. However, it remains to be seen whether the election results will be widely accepted and there is a further complication in that Kenyatta was indicted by the ICC for alleged crimes during the 2007 polls and, if he is elected president, Kenya may incur international sanctions.



► **Americas – Brazil: Modest Q4 2012 upturn**

GDP data for Q4 2012 shows that the economy continued to pick up at a moderate pace, with q/q growth of +0.6% (+0.4% in Q3) the fastest pace since Q1 2011. Importantly, fixed investment, which has been a major constraint on growth, turned positive after four successive quarters of contraction (+0.5% q/q) and private consumption remained robust. Q4 increased +1.4% y/y (+0.9% in Q3) and full year 2012 growth was +0.9%. With external demand growth muted, domestic demand is likely to be the main driver in 2013, supported by the reduction in interest rates in 2012 and a better outlook for fixed investment, helped by infrastructure development. EH expects growth to pick up to +3% in 2013, followed by +3.8% in 2014. February manufacturing PMIs remained in positive territory.



► **Asia-Pacific – India: Budget and outlook**

The federal budget attempts to chart a path between fiscal consolidation and pre-election spending (parliamentary polls by May 2014). By containing increases in subsidy provision and planned revenue increases, the budget targets a deficit of -5.2% of GDP in FY2012/13 (achievable) and -4.8% in FY2013/14 (challenging, given the electoral timetable and current weaker growth path). Longer-term plans are for deficit reduction to -3% in FY2016/17 (ambitious, given the need for poverty alleviation) and for overall debt/GDP ratios to continue to decline (down to 67% in FY 2012/13 from 75% in FY2006/07). Meanwhile, GDP increased by +4.5% in October-December 2012 (Q3 FY 2012/13). Expect monetary policy to be eased in H1 2013 and the growth momentum to rebuild gradually (GDP +6.5% FY2013/14).



► **Europe – Slovenia: Political & economic crisis**

After two months of government infighting over corruption allegations against PM Janša and mounting public protest, the premier's minority government fell in a no-confidence vote last week. Opposition leader Bratušek was asked to form a new government, but early elections are likely. On the economic front, the country's downturn continued in Q4 2012, with real GDP contracting by -3% y/y and -1% q/q, taking the full year decline to -2.3%. Domestic demand was particularly weak in 2012, with private consumption falling by -2.9%, public consumption -1.6% and fixed investment -9.3%. Moreover, inventories subtracted -1.9pps from overall growth. Imports also contributed negatively (-4.3%) while exports increased only by +0.3%, so net exports (+3.3pps) prevented an even deeper contraction.

Worth knowing

► **South Africa**

Q4 2012 GDP increased by +2.1% q/q (+1.2% in Q3) and +2.3% y/y (+2.5% in Q3), with the key drivers manufacturing, financial services and government sectors, which outweighed a contraction in mining. For calendar year 2012, growth was +2.5%, compared with +3.5% in 2011. Relatively weak growth limited fiscal manoeuvrability in last week's budget, which projects a deficit of -4.6% of GDP in FY2013/14 (overall debt equivalent to 38.6% of GDP), declining to -3.1% of GDP by FY2015/16. South Africa hosts a BRICS summit meeting this month, reflecting changing trade and investment patterns of the country.

► **Other GDP**

Azerbaijan: +2.2% in 2012. **Belarus:** +1.5% in 2012. **Croatia:** -2.3% y/y in Q4 2012, -2% in 2012 as a whole. **Cameroon:** +5% in 2012 (+4% 2011). **Côte d'Ivoire:** +8.5% in 2012 (initial estimate, -4.7% 2011).

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