

FIGURE  
OF THE WEEK

+2.1%

U.S. Q3 q/q  
annualised GDP  
growth (revised  
from +1.5%)

## In the Headlines



### Germany: Steady growth in 2015, positive outlook for 2016

Q3 real GDP growth was confirmed at +0.3% q/q, after +0.4% in Q2. The Q3 expenditure breakdown reveals a reversal of Q2 developments, with domestic demand regaining the role as key growth driver. Private consumption increased by +0.6% q/q (+0.1% in Q2) and government consumption surged by +1.3% q/q (+0.7% in Q2). However, fixed investment remained disappointing, declining by -0.3% q/q (-0.4% in Q2), but inventories added +0.2pps to Q3 growth (-0.3pps in Q2). Exports grew by just +0.2% q/q (+1.8% in Q2) while imports picked up to +1.1% q/q (+0.5% in Q2) so that net exports subtracted -0.4pps from Q3 growth (+0.6pps in Q2). Meanwhile, the Ifo Business Climate Index improved to a 17-month high of 109.0 in November (108.2 in October), driven by increases in both the current situation and the expectation components. The Ifo Index's improvement is accompanied by advances in other leading indicators such as the manufacturing PMI and the ZEW Index in November, indicating a robust outlook. Euler Hermes expects full-year GDP growth of +1.5% in 2015 and acceleration to +1.8% in 2016, supported by additional public sector spending related to the refugee influx.



### Argentina: A new era

Mauricio Macri of the centre-right 'Cambiamos' party and mayor of Buenos Aires won the presidential elections last Sunday, with 51.6% of the vote. This marks a significant political development after 12 years of a 'Kirchnerismo'. The new president, who will assume office on 10 December, vows to lift trade restrictions and capital controls, consolidate public finances and build a better framework for inflation management. He is generally perceived by investors as more business-friendly and better able to negotiate with the debt holdouts. The economic policy adjustments that are necessary will have short-term negative consequences, with a strong ARS (peso) depreciation and less public and monetary support, which could lead to a fall in output in 2016. Moreover, President-in-waiting Macri's coalition does not command an absolute majority in Congress (it holds only 20% of seats in the Senate and less than 40% in the Chamber of Deputies). As a result, legislating some of the most ambitious reforms is likely to prove challenging.



### Eurozone: PMI confirms growth trends

The November composite PMI surprised positively, surging +0.5pts to 54.4, powered by expansion both in services and manufacturing. Services showed the strongest increase in new business since May 2011. Growth in new orders fuelled the expansion in industrial production, whereas employment growth accelerated in both sectors. In **Germany**, new business supported growth in the composite PMI, which accelerated to a three-month high and the services index reached a 14-month high after increasing +1.1pts. An improving manufacturing PMI is consistent with the latest IFO survey and bodes well for the remainder of the year. In **France**, the manufacturing PMI deteriorated, with contraction in new export orders (see also below). Meanwhile, growth in **Spain** and **Italy** is set to increase markedly. For the Eurozone, the higher average composite PMI in October and November compared with Q3 (52.4 against 52.2) confirms our Q4 GDP growth forecast of +0.3% q/q. We expect an increase in the ECB QE programme at the turn of the year, which will provide more support to this still timid recovery.



### South Africa: Stuck in a low growth environment?

Recession was avoided in Q3, with GDP increasing +0.7% q/q annualised, after contracting by -1.3% in Q2. However, the rebound was below expectations and masks a general economic deterioration, buffeted by industrial disputes, power shortages, reduced hard currency earnings because of weak commodity prices (platinum, copper and coal, as well as gold) and negative emerging market sentiment in general. SARB, the Central Bank, forecasts +1.4% GDP growth for the full year, which would be the lowest since the 2009 recession. Last week, SARB increased the key policy interest rate by +25bps to 6.25%, thereby signalling its commitment to inflation targeting and price stability, rather than growth concerns. Moreover, fiscal spending is relatively restrained, partly in an attempt to keep the country's investment status. With structural bottlenecks, a generally weak external environment and little scope for policy boosts, EH expects annual GDP growth of +1.5% or below in 2015 and with a cap at around +2% up to end-2017, compared with an annual average +3% in the ten-year period to end-2014.

# Countries in Focus

## Americas

### U.S.: Fed approaching lift-off, but recent data mixed

Minutes of the Fed's October meeting show "most participants" believe that December "could well be" the time to increase interest rates. Recent positive data supporting that view include Q3 GDP, which was revised up to +2.1% q/q annualised from +1.5%, reflecting a larger increase in inventories than previously estimated. Business and residential investment were strong but consumption increased only +3%, -0.2pps less than previously estimated and below the +3.3% long-term average. Recent negative data include corporate profits, which fell for the third time in four quarters, -1.1% q/q and -4.7% y/y in Q3. Consumer confidence, driven by concerns about employment prospects, fell a sharp -8.7 points to 90.4 in November, the lowest in 14 months. In October, existing home sales fell -3.4% m/m as prices fell for the fourth consecutive period (-0.9% m/m). Similarly, housing starts have fallen in three of the past four months (-11%, the lowest level since March), although permits did gain +4.1%.



## Europe

### France: Confidence likely to be dimmed, not extinguished

The business climate in November remains favourable, with the composite indicator at 102, above its long-term average (100) and the global turning-point indicator remaining in the area indicating a favourable short-term economic outlook. The business climate improved in wholesale & retail trade (+1pt) and in building construction (but still 9pts below its long-run average), is stable in services and is down one point in manufacturing but still indicating acceleration. Meanwhile, consumer confidence is stable at 96, below its long-term average. However, the number of households envisioning major purchases declined again (-2pts) and is back to its long-term level. The impact of the terrorist attacks in Paris is not built in to these assessments as less than 10% of respondents answered after 13 November. EH expects a short-term blip in December, but probably no long-lasting impact. Our forecast of +1.2% GDP growth for 2015 is now moderately at risk but we continue to expect +1.5% in 2016.



## Africa & Middle East

### Tunisia: Struggling to gain traction

Yesterday's explosion that killed several presidential guards was the latest in a series of violent attacks that threaten to derail the political transition and prevent commercial activity achieving its potential. GDP contracted by -0.1% y/y in Q3, following expansion of +0.7% in Q2 and +1.5% in Q1. The downturn in Q3 reflects weak activity in services (-0.9%, tourism affected by security threats and terrorist activity) and non-manufacturing industries (-3.9%, sluggish external demand and slow pace of the reform agenda). The contraction in Q3 would have been more sizeable without another good performance by agriculture (+5.9%, record olive oil exports). The domestic political environment is also not helping, with deep divisions within Nidaa Tounes, the largest party in the ruling coalition. Against this background of political infighting, regional security issues and uncertain economic outlook, EH expects GDP growth of +1.5% in 2015 and +3% in 2016 but with significant downside risks.



## Asia Pacific

### Hong Kong, Singapore & Taiwan: Domestic demand will be pivotal

Q3 GDP growth was revised up in **Singapore** (+1.9% y/y from the first estimate of +1.4%) as service industries performed better than initially projected (+3.6% y/y from +3%). Growth was led by domestic consumption and exports of services. In **Hong Kong** and **Taiwan**, Q3 GDP figures point to resilience as domestic demand cushioned a weak external environment. Going forward, Q4 advanced indicators continue to show mixed signals. In particular, October's export figures were weak for **Singapore** (non-oil domestic exports down -0.5% y/y) and **Taiwan** (exports -11% y/y). New export orders remain fragile as the main trade partner, China, is undertaking a difficult rebalancing. Against this background, the three trade hubs have to rely more on their domestically-oriented industries. While there are some signs of resilience in **Singapore**, with firm investment and solid retail sales, the trend is mixed for **Hong Kong** and **Taiwan** (where both investment and retail sales are weak).



## What to watch

- November 26 – Germany Nov. GfK cons. confidence
- November 26 – Spain Q3 GDP (final)
- November 26 – Japan October CPI
- November 26 – Japan October unemployment
- November 26 – France October total jobseekers
- November 26 – Saudi Arabia October net foreign assets
- November 27 – Eurozone November sentiment indices
- November 27 – France October PPI
- November 27 – France October consumer spending
- November 27 – Germany October retail sales
- November 27 – UK Q3 GDP (final)
- November 27 – UK Nov. GfK consumer confidence
- November 27 – Croatia Q3 GDP (flash estimate)
- November 27 – Austria, Czech Rep & Lith. Q3 GDP
- November 30 – Slovenia Q3 GDP (first estimate)
- November 30 – Germany & Poland November CPI
- November 30 – Latvia & Poland Q3 GDP (final)
- December 01 – EU November manufacturing PMIs
- December 01 – U.S. November ISM manufacturing
- December 01 – Canada Q3 GDP
- December 02 – Poland interest rate decision

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