

FIGURE
OF THE WEEK

+2.2%

Germany's
Q2 q/q export
growth

In the Headlines



China: Easing fears?

The PBoC eased its stance further to avert panic in financial markets. The one-year benchmark lending rate and the one-year benchmark deposit rate were reduced to 4.60% and 1.75%, respectively, with immediate effect. The reserve requirement ratio (RRR) for large banks was cut by -50bps to 18%, with effect from 6 September. Targeted additional rate cuts were announced for banks (-50bps), focusing on rural sectors and SMEs, and finance companies (-300bps). These moves were supplemented by the abolition of the cap on deposit rates with maturities over one year. As for the change in the exchange rate formation mechanism, the latter represents another step towards a more market-based economy. The impact on financial sentiment is mixed, to date, and China's stock markets will probably remain volatile in the short term. "Policy tools" are showing supportive trends, with lower credit costs, gradual credit acceleration and rise in public expenditures. However, the full impact on the real economy is yet to become more visible and Q3 GDP growth will probably be below target (+7% y/y) as exports and investment are weak and private consumption growth is not strong.



Germany: Exports drive solid Q2 GDP growth

Q2 real GDP growth was confirmed at +0.4% q/q, after +0.3% in Q1. The GDP breakdown reveals that external demand replaced domestic demand as the key growth driver. Exports increased by +2.2% q/q (+1.2% in Q1) and imports by +0.8% q/q (+1.9% in Q1) so that net exports contributed +0.7pps to Q2 growth (-0.2pps in Q1). Private consumption was a little disappointing, up by just +0.2% q/q (+0.4% in Q1), while government consumption slowed to +0.3% q/q (+0.6% in Q1). Fixed investment declined by -0.4% q/q (after a strong +1.7% in Q4), dragged down by construction investment (-1.2% q/q) while investment in equipment was nearly flat (+0.1% q/q). Moreover, inventories subtracted -0.4pps from Q2 growth (-0.1pps in Q1). The GfK Consumer Climate Indicator is forecast at 9.9 points in September, down from 10.1 in August, confirming a slightly dampened consumer sentiment. However, the Ifo Business Climate Index increased to 108.3 in August from 108.0 in July, pointing to continued solid growth. Euler Hermes forecasts full-year GDP growth of +1.6% in 2015 and +1.7% in 2016.



Eurozone: A (business) confident end to the summer

Business confidence improved further in August, with the PMI Composite Index at 54.1 after (moderate) growth for 26 consecutive months. The average of the two Q3 readings stands +0.1 above the Q2 average, suggesting stabilisation in GDP growth. Both manufacturing and services sectors improved and companies report increased output, new export orders and job creation. **Germany's** performance exceeded expectations, with the Composite PMI Index at a four-month high (54.0) driven principally by manufacturing, which reported the sharpest rise in output for five months. Performance in the services sector was less positive as the PMI fell to a three-month low (53.8) and optimism over a 12-month outlook weakened to register its lowest in 2015, to date. **France's** Composite PMI weakened to 51.3, with expansion principally in the services sector (albeit at a slower pace) while manufacturing recorded a decline in output for the second consecutive month resulting in its PMI registering a four-month low. Overall, Q3 GDP growth is likely to reach +0.3% q/q, the same rate as in Q2.



U.S.: Housing market & consumer confidence improving

The housing market is continuing to firm. Demand is robust as sales of new and existing single-family homes both increased m/m in July, gaining +5.4% and +2.7%, respectively. On a y/y basis, sales of new homes were up a very strong +25.8% and sales of existing homes by +11%. Supply is thin in both markets, while prices of new homes are up +2% and prices of existing homes are up +5.8%. Housing starts managed a gain of +0.2% m/m in July for a +10.1% y/y increase. Although housing permits fell a sharp -16.3% m/m, much of this was a result of a change in New York City real estate laws, which pushed permits into previous months, and the y/y increase was +7.5%. Not surprisingly, homebuilders are becoming increasingly optimistic as the Housing Market Index gained +1 to 61 in August, substantially better than 55 in the corresponding period last year. Meanwhile, consumers are apparently also feeling more upbeat as the Conference Board's Consumer Confidence Index increased +10.5 points to 101.5 in August, the second-highest reading in the recovery.

Countries in Focus

Americas



Chile: A chill wind?

Despite fiscal stimulus and key interest rate cuts implemented in recent months, real GDP growth stagnated in Q2, after +1.1% q/q in Q1. Total investment fell by -6.1% q/q, as the slight rebound in investment in construction (+2.3%) was not able to offset the sharp decline in investment in machinery and equipment (-11%). Private consumption stagnated while public consumption fell by -1.2% q/q. Net exports contributed slightly positively to overall growth (+0.1pps) but only because import growth contraction outweighed that of exports. Although Chile has built enough of a financial cushion to avoid liquidity shortages, the coming months look challenging as the external environment will remain adverse. In particular, uncertain developments in China (25% of exports), weak copper prices (-23% y/y) and downward pressure on the local currency (-17% y/y against the USD) will continue to weigh on exports and investment, especially in the mining sector (>10% of GDP).

Europe



Norway & Sweden: Rapidly diverging neighbours

In **Sweden**, Q2 GDP growth surprised positively (+1% q/q, the highest since Q4 2013) and was relatively balanced between domestic (+0.4pps) and external (+0.6pps) demand. Consumer spending was up +0.6% q/q as a result of wealth effects from rising housing and stock markets, supported by an accommodative monetary policy, but investment fell by -0.7%. A no-inflation environment maintains downside pressures on company turnover. GDP growth of +2.7% is expected in 2015. In **Norway**, GDP contracted (-0.1% q/q) for the first time since Q4 2013 (lower oil prices). Household consumption slowed to +0.5% q/q and investment fell for the third consecutive quarter (-1.3%), driven by falling oil-related spending, but also by lower investment in construction. Net exports added +0.4pps to GDP growth, but both exports and imports contracted. The outlook is for further weakness as oil prices are down -26% since July. GDP growth of +1.2% is expected in 2015, almost half that in 2014.

Africa & Middle East



South Africa: Fading rainbow

Q2 GDP contracted by -1.3% q/q annualised, compared with +1.3% in Q1 and +0.5% in Q2 2014, and the deterioration was across the primary and secondary sectors, with mining -6.8% (industrial action and lower coal and iron output), manufacturing -6.3% (intermittent power supply and rising labour costs) and agriculture -17.4% (worst drought since 1992). The overall Q2 contraction was the first since Q1 2014 (-1.6%). Economic deterioration was expected – weak commodity prices, slowing demand in China (leading export market and import source) and anticipation of the U.S. Fed policy tightening are all ZAR negative – but Q2 GDP data were worse than consensus expectations. Meanwhile, inflationary pressures are evident (consumer prices were up 5% in July, compared with 4.7% in June) and this complicates policy responses to the slowing economy. Real GDP growth in H1 2015 was +1.6% y/y and we now expect +2% for 2015 as a whole and +2.5% in 2016, with strong downside risks.

Asia Pacific



Indonesia: Turning point?

Stock markets continue to underperform and the rupiah (IDR) remains on a downward trend, at historic lows. Concerns over China, lower commodity prices, slowing domestic demand, structural weaknesses (including current account deficits and inflationary pressures) and anticipation of U.S. Fed tightening all exacerbate fragilities. Against this background, the authorities issued new measures to contain market volatility. The stock exchange narrowed the daily share price loss limit to 10%, compared with 20-35% previously (gains will be kept in a 20%-35% range) and regulations were eased to encourage share buy-back by listed companies and to limit market fluctuations. The Central Bank shifted its response to the weakening IDR, implying further currency stabilisation through use of FX reserves. President Joko 'Jokowi' Widodo urged the government to use fiscal measures to boost H2 growth. EH expects GDP growth will remain resilient this year (+4.6%) but below potential (+5%).



What to watch

- August 27-29 – U.S. Fed, Jackson Hole meeting
- August 27 – Spain Q2 GDP (2nd estimate)
- August 27 – Germany July retail sales
- August 27 – U.S. Q2 GDP (2nd estimate)
- August 27 – U.S. July pending home sales
- August 28 – Germany August CPI
- August 28 – Austria, Czech Rep & Poland Q2 GDP
- August 28 – Croatia Q2 GDP flash estimate
- August 28 – UK & Greece Q2 GDP (2nd estimate)
- August 28 – U.S. July personal income & outlays
- August 31 – Slovenia Q2 GDP
- August 31 – Belgium Q2 GDP (2nd estimate)
- September 1 – U.S. August ISM manufacturing index
- September 1 – U.S. July construction spending
- September 1 – Italy Q2 GDP (2nd estimate)
- September 1 – Russia & Turkey August PMI
- September 1 – EU August PMI (manufg & services)
- September 2 – Poland monetary policy meeting

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.