Euler Hermes Economic Research

Weekly Export Risk Outlook

28 February 2018

In the Headlines

FIGURE OF THE WEEK

+5.0%

Slovenia's GDP growth in 2017

Germany: The labor market continues to be robust

The strong upturn in the German labor market continues unabated. Seasonally adjusted, the number of unemployed fell by -22,000 in February compared with the previous month. Since September 2017, labor market dynamics have noticeably increased. Between September 2017 and February 2018, the cumulative number of unemployed fell by -134,000. By way of comparison: in the previous six-month period, the decline amounted to just -66,000. We interpret the recent setback in sentiment surveys such as the Ifo Business Climate Index as a normalization, which was already overdue in view of increasing euphoria. In our view, this is not the beginning of an economic downturn. For the rest of the year, we anticipate a sustained upward trend in the labor market. However, employment growth is likely to slow down somewhat as a result of a slower expansion of labor supply and increasing bottlenecks in various sectors. We expect the average number of employees to increase by almost +600,000 in 2018, compared with more than +650,000 last year. The decline in the number of unemployed, which amounted to almost -160,000 in 2017, is expected to continue at about the same magnitude in 2018.

South Africa: Words should turn into deeds

The appointment of C. Ramaphosa to the presidency already had some positive effects on financial conditions. The ZAR has appreciated by +18% from its November low. Last year, political uncertainty delayed the recovery that improving external conditions should have triggered (e.g. rising metal prices and global capital flows). South Africa's fundamentals also improved. The current account deficit has narrowed from -5.9% of GDP in 2013 and is forecast at -2% in 2018. Core inflation eased to +4.1% y/y in January, the lowest level in six years. There is now some confidence that public debt will be stabilized sooner or later. The announced increase in the sales tax from 14% to 15% is a first step to reduce the fiscal deficit (forecast at -4.5% of GDP in 2018). The new fiscal approach is welcomed and should trigger more easing from the Central Bank. We expect the policy interest rate to be reduced by -100bp from currently 6.75% until year-end. The restructuring of indebted SOEs is another angle to limit the increase of public debt. On this topic, words should also be followed by deeds.

Poland: Domestic demand continues to drive growth

Second estimates by the Central Statistical Office confirmed that Q4 real GDP rose by +1% q/q (+1.2% in Q3) and +5.1% y/y (+4.9% in Q3), taking full-year 2017 growth to +4.6% (which was up from +2.9% in 2015). Growth in Q4 was driven by domestic demand, with consumer spending up by +4.9% y/y, government spending by +5.4% y/y, and fixed investment accelerating to +11.3% y/y (bringing the full-year increase to +5.2%, a solid rebound from -7.9% in 2016) thanks to much improved utilization of EU funding for eligible projects. Meanwhile, inventories subtracted -0.4pp and net exports -0.8pp from Q4 growth. The latter was a result of real imports expanding faster (+9.2% y/y) than exports (+6.8% y/y). Early indicators suggest continued momentum in Q1 2018. In January, non-seasonally adjusted industrial production rose by +8.6% y/y, construction output by +34.6% y/y and real retail sales by +7.7% y/y, indicating continued strong domestic consumption at the start of the year. In 2018 as a whole, investment growth should remain strong but slow down somewhat due to base effects. Euler Hermes expects annual GDP growth to moderate slightly to +4% in 2018.

Nigeria: The paradox of growth

GDP growth edged up to +1.9% y/y in Q4 2017. Crude oil output was the main driver, with +8.4% y/y growth. But non-oil output also grew, by +1.5%, a major improvement from previous quarters. It shows that growth is broadening in terms of sectors. The financial situation has stabilized. Foreign exchange reserves surged to USD42.8bn in February (+USD15bn from a year earlier) or 13 months of import cover, driven by Eurobond issuances and more generally by increasing capital inflows. The good momentum helped to stabilize the official naira exchange rate to the level of the black market rate. The overall macroeconomic stabilization should help full-year growth to recover further to +2.5% in 2018 (from +0.8% in 2017). But such a growth rate is still below potential, since the public sector is broadly missing to organize an adequate provision of public goods. Indeed, while public spending has almost doubled since 2015, to expected NGN8,600bn in 2018, it is still a mere 6% of GDP as cumulated inflation was about +55% during that period.

Countries in Focus

Americas

U.S.: Powell testimony shows strong economy, more hawkish bias

In his first testimony to Congress, new Fed Chair Jerome Powell cited strength in the labor market and in the domestic and global economies, as well as simulative fiscal policy which give him “confidence… that inflation is moving up to target” – a slightly more hawkish bias. Three rate hikes in 2018 is a virtual certainty with a fourth quite likely. Consumer confidence took a sharp +6.5 point jump to a 17-year high, with the present situation component also reaching a 17-year high. Other data was less positive. Core durable goods orders slipped for a second straight month sending the y/y rate down sharply, but to a still solid +6.3% y/y rate. The report contrasts with strong regional Fed and ISM reports. Cold weather hurt housing sales and prices in December and January, but much needed supply came on the market for the spring selling season. The advance estimate of the trade deficit widened from -USD72.3bn to -USD74.4bn in January.

Europe

Slovenia: Investment and export boom in 2017

Real GDP growth surged to +2% q/q and +6% y/y in Q4 2017, taking the full-year 2017 expansion to +5%, a marked acceleration from +3.1% in 2016. Growth in 2017 was broad-based, though investment and exports were outstanding drivers. Consumer spending expanded by +3.2% in 2017 (+3.3% y/y in Q4) and government spending by +2.3% (+5.6% y/y in Q4). Fixed investment rebounded from a -3.6% decline in 2016 to a +10.3% increase in 2017 (+11.9% y/y in Q4). Investment in machinery and equipment rose by +8.2% y/y in Q4 while construction investment surged by +18.2% y/y. External trade activity gained strong momentum in 2017, with exports rising by +10.6% (+12.3% y/y in Q4) and imports by +10.1% (+11.1% y/y in Q4), so that net exports contributed +1.3pp to full-year growth. Business sentiment has remained favorable in early 2018 but fixed investment growth should ease from its peak in 2017 due to base effects. We forecast full-year GDP growth of +4% in 2018.

Africa & Middle East

Ghana: The new growth powerhouse

In 2017, Ghana was the second-best growth performer in Africa with +7.9% (just behind Ethiopia). The main growth driver was investment in the oil sector as Ghana increased its production capacity (and should be able to repeat this in 2018). Other projects also helped to attract more foreign investment and to increase the overall capital stock, particularly those related to power generation. Moreover, cocoa production recovered, even if a part of the reported +25% increase in output is likely related to imports for re-exports from Côte d’Ivoire (where the price for cocoa is lower). All these positive developments also helped to attract bond financing and to ease the fiscal deficit more than expected, to -5.6% of GDP in 2017 from -9% in 2016. In 2018, growth is forecast to accelerate further to +8.5% as financial conditions are also quite supportive: inflation should fall to an average 10% in 2018, the lowest since 2012, and the import cover of foreign exchange reserves has increased to five months.

Asia Pacific

Japan: Industrial production starts on a weak note in 2018

After a series of recently more mixed data, industrial production is now also likely to show a more volatile pattern. Following steady gains during Q4 2017, output declined a hefty -6.6% m/m (+2.7% y/y) in January. By major goods groups, the drop was broad-based. Only the production of non-durable consumer goods recorded further growth. The nosedive is in line with manufacturers’ previous output projections. At the same time, the updated projections for February (+9% m/m) and first-time figures for March (-2.7% m/m) confirm that production will – on balance – pick up again. Fundamentally, the continued robust exports argue against sustained weak production. Despite the January setback, industrial production will likely grow modestly in Q1 2018. Retail sales also turned out be weak in January (-1.8% m/m). To a large degree this probably reflects a pullback from brisk growth in Q4 2017 as well as bad weather. Overall, the economy is expected to continue its expansion at a moderate pace.

What to watch

- March 1 – Eurozone February manufacturing PMI
- March 1 – Brazil, Poland, Russia, Turkey February manufacturing PMI
- March 1 – U.S. January construction spending
- March 1 – U.S. January personal income and spending
- March 1 – U.S. February ISM manufacturing index
- March 2 – Canada Q4 2017 GDP
- March 2 – Germany January retail sales
- March 5 – Brazil, Russia February services PMI
- March 5 – Eurozone February Composite PMI
- March 5 – Turkey February inflation
- March 5 – U.S. February ISM non-manufacturing index
- March 6 – South Africa Q4 2017 GDP
- March 7 – France January trade balance
- March 7 – Poland monetary policy decision

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