

FIGURE  
OF THE WEEK

+4.8%

Q2 2017 y/y  
GDP growth  
in Morocco

## In the Headlines



### Germany: Strong growth momentum in Q2

Industrial production was up by +1.2% m/m (seasonally and working day adjusted) in May, following +0.7% m/m in April (revised from +0.8%). Within industry, the production of capital goods increased by +2.6% m/m and that of consumer goods by +1.4% m/m, while the production of intermediate goods decreased by -0.2% m/m. Energy production rose by +2.9% m/m in May 2017 while construction fell by -1% m/m. In the period April-May, industrial production was +1.8% higher than the average level seen in Q1 2017, resulting in a carry-over of +2% q/q for Q2. Meanwhile, new orders in manufacturing expanded by +1% m/m (price-, seasonally and working day adjusted) in May, after the -2.2% m/m decline in April. The recovery in May was driven by foreign orders which rose by +3.1% m/m while domestic orders decreased by -1.9% m/m. New orders from the Eurozone were up +1.7% m/m while new orders from other countries increased by +4% m/m. The latter supports our general expectation of a pick-up in global trade in 2017. Overall, the new data fits well into our picture of a strong growth momentum in Germany. We expect working day-adjusted real GDP to grow by +1.9% in 2017.



### UK: Q2 is set to confirm soft GDP growth

Advanced indicators point to GDP growth of +0.2% q/q, the same pace as in Q1 and down from +0.5% q/q on average in 2016 (a preliminary estimate of Q2 GDP will be out on 26 July). Consumers remain the main driver of this soft growth. The VISA consumer spending index fell for the second consecutive month in June and saw its worst quarter since Q3 2013. Half of the categories registered lower expenditures, with transport & communication and household goods noting the strongest falls. This comes after another strong adjustment in the savings rate of households to a new record low of 1.7% of gross disposable income in Q1, down from 3.3% in Q4, a level registered in the U.S. in 2008, for example. In addition, regular earnings adjusted by inflation fell by -0.6% y/y in May. Scarcity for qualified jobs on the labor market has increased, with unfilled job vacancies +24,000 higher in April compared to one year before. This may put some limited upside pressure on wages in the coming months. However, this should not prevent the Bank of England to raise its key interest rate by +25bp in H2 in order to stabilize the GBP and to avoid a strong slowdown in residential house prices.



### U.S.: Strength in the labor market and services sector

The June employment report was quite strong, as the economy created +222,000 jobs, the most in five months, exceeding expectations of +170,000. Other details were also positive. The prior two months were revised up a total of +47,000, and the labor force grew by +361,000, erasing most of last month's decline, and pushing the participation rate up +0.1pp to 62.8%. And while the unemployment rate inched up +0.1pp to 4.4%, it is still quite low. The one weakness in the report is a recurring one – wage growth is still tepid at only +2.5% y/y. The ISM services (non-manufacturing) index also demonstrated strength, gaining +0.5 in June to 57.4, well above the 50 level indicating expansion, as new orders rose +2.8 to a robust 60.5. Seven of the ten components rose and all ten are above 50. The NFIB's Small Business Optimism survey remains near highs last seen 11 years ago, but the index slipped for the fourth time in five months, reflecting eroding confidence in the Administration's progress in implementing its pro-growth agenda.



### China: A strong first semester

Recently published economic indicators sent encouraging signals. Corporates' financial performance improved further in May, reflected by profits of large industrial enterprises which rose by +22.7% y/y in the first five months of 2017. Price figures exhibited further evidence of a broad deflation in the economy albeit the underlying trend still remained fragile. Consumer prices rose by +1.5% y/y in June, still curtailed by food inflation (-1.2% y/y). Producer prices continued to increase (+5.5% y/y) but moderating raw material prices may result in a slowdown in the near future. On the external front, foreign exchange reserves increased further in June, by +USD3bn to USD3,057bn. Overall, the first half of 2017 has appeared relatively positive for the Chinese economy with improved activity and confidence. The remainder of the year will probably be less favorable as monetary authorities step up efforts to reduce financial risks mainly through tougher regulation. We expect real GDP to rise by +6.7% in 2017 before slowing to +6.3% in 2018.

# Countries in Focus

## Americas



### Canada: Strong labor market forces BoC to tighten

The Canadian economy continues to show surprising strength, creating +45,200 jobs in June after +54,500 in May. The one weakness in the report was wage growth which remains at only +1.3% y/y. Over the past twelve months the economy has created +350,700 jobs, a blistering pace. And job growth has also been accelerating to a +1.9% y/y rate compared to only +0.6% last June. Job gains were widespread across industries, and over the past year, Newfoundland & Labrador is the only province which has lost any significant portion of jobs. The unemployment rate fell -0.1pp to 6.5%, tying with April for the lowest of the recovery. The labor market is very strong, and combined with Q1 GDP growth of +3.7% q/q annualized, the Canadian economy is among the best in the developed world. As a result, the Bank of Canada raised its overnight policy rate for the first time in almost seven years from +0.5% to +0.75%, and we expect a total of two hikes this year.

## Europe



### Russia: Domestic demand rebounded in Q1

Second official estimates confirmed that the economy grew by +0.5% y/y in Q1, up from +0.3% y/y in Q4 2016 which followed seven consecutive quarters of decline. The demand side breakdown was also published, showing a shift to domestic demand-led growth in Q1, with all components increasing again after eight or more subsequent quarters of decrease. Consumer spending was up by +2.7% y/y in Q1 (-3.2% in Q4) mainly thanks to strong real wage growth, government spending by +0.4% y/y (-0.5% in Q4) and fixed investment by +2.3% y/y (-0.3% in Q4) on the back of looser monetary policy and improving sentiment. Real export growth picked up markedly to +7.1% y/y in Q1 (+3.7% in Q4) but real imports accelerated even more strongly to +16.5% y/y (+0.3% in Q4) so that net exports made a negative contribution of -1.4pp to Q1 growth (+1pp in Q4). We expect growth to pick up in the coming quarters – as external trade should become more balanced – and full-year growth of +1.3% in 2017.

## Africa & Middle East



### Morocco: Growth is not enough, as reforms lag

Economic growth accelerated from +3.8% y/y in Q1 to +4.8% in Q2. Agricultural output was the main driver in Q2 (+17.4% y/y) recovering from very poor crops last year. The non-agricultural output accelerated more gradually, with +2.5% y/y in Q2, up from +2% in 2016 as a whole. On the expenditure side, private consumption contributed +2.4pp or half to the overall growth performance in Q2. Overall, we expect +4.5% GDP growth in 2017. Along with this favorable cyclical evolution, the transition to a more market-based economy had two adverse consequences. First, the failed transition towards a more flexible exchange rate regime weighed on foreign exchange reserves, with their import cover falling from 7 months at end-2016 to 6 months in mid-2017. This is not alarming per se but indicates the cost related to uncertainty caused by delayed reforms. Second, more business creation drives more business insolvencies (we expect +12% in 2017). Higher insolvencies and the failed exchange rate reform point to the same issue: the lack of market-based solutions to hedge the risks in the Moroccan economy.

## Asia Pacific



### Malaysia: Supported by exports

MYR-denominated exports surged by +32.5% y/y in May. The strong performance was driven by increasing demand from China (exports to China up by +51.5% y/y), the EU (+29.7% y/y) and the U.S. (+16.3% y/y). The sectoral breakdown shows that electrical and electronic products were the main export driver (+31.3% y/y). Consistent with this, industrial production increased by +4.6% y/y in May (up from +4.2% in April). Going forward, Euler Hermes expects economic growth to remain firm albeit probably falling below the rate reached in Q1 (+5.6% y/y). Lower commodity prices in Q2 (as compared to Q1), slower demand growth from China as a result of tightened credit conditions may act as a drag on the economic performance in Malaysia in the short run. Against this backdrop, Euler Hermes expects Malaysian GDP to grow by +5% in 2017 as a whole.

## What to watch

- July 13 – Turkey May balance of payments
- July 13 – UK Q2 BoE credit conditions survey
- July 13 – U.S. June PPI
- July 14 – Italy May foreign trade
- July 14 – Singapore Q2 GDP growth (flash estimate)
- July 14 – U.S. June CPI
- July 14 – U.S. June industrial production
- July 14 – U.S. June retail sales
- July 17 – China Q2 GDP growth (flash estimate)
- July 18 – Eurozone Q2 ECB bank lending survey
- July 18 – Germany April insolvencies
- July 18 – Hungary Central Bank meeting
- July 18 – Russia June industrial production
- July 18 – UK June CPI
- July 19 – Poland June industrial production
- July 19 – South Africa May retail sales

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