Euler Hermes Economic Research

Weekly Export Risk Outlook

15 February 2017

FIGURE OF THE WEEK

+1.7%

Eurozone GDP growth in 2016

In the Headlines

Italy: Still one of the slowest in the region

Real GDP growth slowed down slightly in Q4, to +0.2% q/q, in line with our forecast but below consensus expectations of +0.3%. The preliminary estimates indicate that domestic demand continued to drive growth while the contribution from external trade is expected to have remained negative for the second consecutive quarter. Annual 2016 GDP growth came in at +1%, after +0.6% in 2015. Although better, it is just slightly above half of the Eurozone average (+1.7%) and, more importantly, it is the second slowest performance in the region after Greece. At the start of 2017, data shows relative stability. The Manufacturing PMI remained stable at 53.0 in January (53.2 in December). Good news came from the rise in orders from abroad and the strongest job creation in nine months as companies foresee to expand productive capacity. The Services PMI remained also stable at 52.4 in January (52.3 in December). Consumer confidence deteriorated slightly to 108.8 from 111.1 in December while the majority of households do not intend to increase spending on durable goods. Inflation increased further on the back of the base effects from higher oil prices, to +0.7% y/y in January from +0.5% in December.

Netherlands: Robust economy despite political uncertainty

Q4 real GDP increased by +0.5% q/q, bringing full-year 2016 growth to +2.1%, in line with Euler Hermes' expectations. Although investment in fixed assets declined by -1.6% q/q, there seems to be no reason for concern as business confidence reached its highest level in almost nine years. The strong growth in 2016 was mainly driven by household consumption (+2.5%) and dynamic exports (+3.2%). Long-term unemployment and consumer confidence are also improving. Despite the good news, uncertainty surrounds the upcoming general elections on 15 March, as the nationalist and populist Party for Freedom (PVV) led by Geert Wilders tops the volatile polls (around 30 seats out of 150) ahead of PM Rutte's party (around 24 seats). Reaching a majority is likely to be challenging as five parties would have to form a coalition against the PVV, given that most of his opponents have excluded an alliance with Wilders. Still, GDP growth should remain close to but just below +2% in 2017.

U.S.: Energy prices jump, but business remains optimistic, and the Fed is on hold

Producer prices rose a sharp +0.6% m/m in January as energy prices rose +4.7% m/m. After stripping out food and energy, core prices still gained +0.4% m/m vs. expectations of only +0.2% m/m. Inflationary pressures are becoming evident in the headline which is now up +1.6% y/y vs. last January when it was -0.1%. But businesses remain exuberant. The NFIB small business optimism survey rose a record amount in December to the highest level in 12 years, so a pullback was expected in January, but instead it gained +0.1 m/m. The percentage of businesses who said now was a good time to expand also surged a record amount last month and gained +0.2 m/m this month, also to the highest level in 12 years. Janet Yellen's testimony before Congress gave no indication that the Fed would hike rates in March, but she said every meeting is "live" and "waiting too long…would be unwise." Her comments and those of other Fed officials recently are meant to keep markets aware, yet at present markets see only a 13% chance of a March hike. But the chances of a June hike are now 70%.

Emerging Markets: Let's get it started…with laggards

Manufacturing in Emerging Markets (EM) continued to improve somewhat in January. According to our proprietary EM aggregate Manufacturing PMI, industrial output accelerated for a fifth month in a row. In January, the index traded at 50.6 points (not far from its two-year high of 50.9 registered last November). The acceleration was particularly strong in some exporting nations, especially in Eastern Europe and in some places in Asia (best PMI since November 2014 in Singapore, at 51.0, and a high level of 55.6 in Taiwan). In Russia, the recovery is gaining traction, reflected in a PMI of 54.7 (best PMI since March 2011). The laggards are the most unbalanced key EMs, with an average PMI of 47.0 points. Among them, two economies are in a rebalancing mode which weighs on growth (Brazil and South Africa). Countries where imbalances have deteriorated (Mexico and Turkey) are the most prone to disruptions after potential external shocks (such as, for example, a more protectionist mood in the U.S. or a more hawkish Fed).

Countries in Focus

Americas

Ecuador: Changes are taking place

Ecuadorians will head to the polls on 19 February to elect a new President and National Assembly that could change the course of politics. Incumbent President Rafael Correa, who has served for the last decade, is not eligible for re-election. Opinion polls suggest that former left-wing Vice President Lenín Moreno could face center-right candidate Guillermo Lasso in a second round on 2 April. The new government will take the baton of an economy that has been in recession for almost two years and is forecast to remain there for at least another year. Despite public spending cuts and tax increases, Ecuador has run considerable budget deficits since the drop in global oil prices which has curtailed fiscal revenues. Moreover, the appreciation of the USD has diminished export competitiveness as the country is fully dollarized. The authorities implemented measures such as import restrictions and capital controls in order to contain the current account deficit.

Europe

Central & Eastern Europe: Growth slowed but still robust in 2016

First estimates indicate that real GDP growth in the group of 11 EU members in the CEE region picked up in Q4, reaching about +2.8% y/y (+2.6% in Q3), taking full-year 2016 growth to an estimated +2.9%, which is down from the 7-year high of +3.6% in 2015. **Romania** outperformed the region with growth surging to +4.8% in 2016 (+4.8% y/y in Q4). **Bulgaria** with 3.4% (+3.4% y/y) and the **Slovak Republic** with +3.3% (+2.9% y/y) maintained robust growth in 2016. In contrast, **Poland** with +2.8% (+3.1% y/y), the **Czech Republic** with +2.3% (+1.7% y/y) and **Hungary** with +1.8% (+1.5% y/y) all experienced a marked slowdown in 2016. Consumer spending and exports were key growth drivers in the region while investment was weak in 2016, in particular in the Baltic states where full-year growth remained subdued (estimated at +2.3% in **Lithuania**, +1.6% in **Latvia** and +1.2% in **Estonia**). Euler Hermes expects regional growth of the 11 EU members in CEE will stabilize at around +3% in 2017.

Africa & Middle East

Egypt: Rebalancing is ongoing

In Egypt, the short-term impact of key reform measures adopted last November (see also WERO 9 November 2016) is materializing. Among the bad news is that urban prices surged by 28.2% y/y in January, as a result of EGP depreciation (by about -50%) and subsidy cuts. We revise our inflation expectations from 20% to 26% on average in 2017. Another bad news, though to be expected, is the harsh contraction of the Manufacturing PMI for a fourth month in a row, to 43.3 points in January. We maintain our 0% GDP growth forecast for 2017 (which would be the worst performance since 1967). But there is also good news. The trade balance improved to -USD2.3bn in November (from -USD4.3bn a year ago) despite unfavorable price effects related to the currency depreciation. This rebalancing along with IMF loans and bond issuances have helped the foreign exchange reserves to increase significantly, to USD26.4bn in January (providing seven months of import cover).

Asia Pacific

Japan: Shifting gears

Real GDP growth slowed to +0.2% q/q in Q4 2016 (from +0.3% q/q in Q3) according to preliminary estimates, taking the full-year 2016 increase to +1%, with balanced contributions of both domestic and external demand (+0.5pp each). While in the beginning of the year growth was mainly determined by private consumption, a recovery in exports, which in turn supported a rise in investment, became the driving force in H2. A weaker JPY and a gradual increase in global demand were the main reasons behind this “shifting of gears”. Looking ahead, advanced indicators such as the manufacturing PMI point to stronger growth in the short term. Supportive macroeconomic policies, the weaker JPY and a continued moderate rise in global demand should boost both trade and investment while accelerating inflation might hamper private consumption. Against this backdrop, Euler Hermes expects GDP growth to edge up to +1.1% in 2017.

What to watch

- February 16 – France Q4 ILO unemployment rate
- February 16 – Italy December current account balance
- February 16 – Russia January industrial production
- February 16 – U.S. January housing starts and permits
- February 17 – Singapore January foreign trade
- February 17 – UK January retail sales
- February 20 – Eurozone Febr. consumer confidence
- February 20 – Turkey February consumer confidence
- February 21 – Eurozone February PMIs (flash)
- February 21 – France, Germany February PMIs (flash)
- February 22 – Germany February Ifo Business Climate
- February 22 – Turkey February business confidence
- February 22 – Colombia Q4 GDP
- February 22 – Mexico Q4 GDP
- February 22 – UK Q4 GDP with breakdown (2nd est.)