Euler Hermes Economic Research

Weekly Export Risk Outlook

9 December 2015

FIGURE OF THE WEEK

USD40.5

Barrel price of benchmark Brent crude oil (-41.6% y/y)

In the Headlines

Poland: Robust growth for now, watch out for fiscal reforms

Q3 real GDP growth picked up to +0.9% q/q (+0.8% in Q2) and +3.5% y/y (+3.3% in Q2). Growth remained broad-based, with private consumption continuing to rise by a robust +3.1% y/y in Q3 and public spending up by +2.7% y/y (+2.5% in Q2) while fixed investment eased to a still healthy +4.6% y/y after it surged by an average +8.8% in H1. External trade activity moderated somewhat, with exports rising by +3.9% y/y (+4.8% in Q2) and imports by +3.1% (+4.5% in Q2), so that net exports contributed +0.4pps to Q3 growth. Euler Hermes expects the momentum will continue and forecasts full-year growth of around +3.5% this year and next. Potential downside risks to growth could arise from a change in economic policy direction. The newly-elected conservative PiS government, the first single-party administration since 1989, announced expensive increases in welfare spending. The funding is still unclear, although some tax increases have also been proposed. If the PiS chooses a path of rapid fiscal loosening, the budget deficit, which has just fallen below -3% of GDP this year, may soon rise again, with potential negative effects on investor confidence and economic growth beyond 2016.

U.S.: Strength in job creation, construction & services

The November employment report was strong with +211,000 jobs created, above expectations of +190,000 and with revisions to the previous two months of +35,000. Job gains were widespread, with notable strength in construction. Unemployment remained at 5%, the participation rate increased for the first time since May, gaining +0.1pps to 62.5%, and wages were up +2.2% y/y. Combined with Fed Chair Yellen's Congressional testimony, the employment report suggests that interest rates will now be edged up next week rather than in 2016. Meanwhile, the November ISM non-manufacturing index, at 55.9, remained above the level signalling expansion, despite falling -3.2 points; 12 of 18 industries improved and nine of ten components are above 50. The October trade deficit (goods and services) deteriorated by -3.4% m/m as exports fell -1.4% (-6.9% y/y) and weak oil prices held down imports (–0.6%, -5.2% y/y). Factory orders gained +1.5% m/m in October, but an important component and close proxy for business spending gained +1.3% (+0.4% y/y), the first positive reading in nine months.

UK: No happy days for the manufacturing sector

Manufacturing output has contracted since Q1 2015 and remains -7% below the Q1 2008 peak. The first Q4 reading does not point to a much better outlook as output contracted by -0.1% y/y in October. Indeed, although above the long-term average since 2014, capacity utilisation rates fell in Q4 2015 (to 80.4 from 82.6). Although financing conditions remain accommodative, anticipation of a rise in BoE key interest rates in Q2-Q3 2016 is exerting upside pressure on the GBP and remains an important drag on competitiveness (notably compared with the EUR). The Manufacturing PMI deteriorated in November, but remained in expansionary territory. The survey shows continuing downside pressures on selling prices and this is putting pressure on company turnover and profitability. In contrast, the services sector (80% of value added) is recovering strongly, mainly financial services (+15% above the pre-crisis peak). We expect GDP growth will slow to +2.1% in 2016 (+2.4% in 2015) and to +1.9% in 2017. Brexit fears weigh on growth prospects as investment decisions may be delayed by increasing uncertainties.

Sub-Saharan Africa: Cherry-picking required

The Africa Rising story is closely correlated to that of China; the latter is the region's largest bilateral trade partner. The current economic slowdown in China is therefore having an impact on the region and the main channels are through direct trade, investment and, more markedly, through partly-associated lower international commodity prices. So far, Chinese imports of African-sourced goods appear to be holding up in volume terms, although not in value. Next year is likely to reveal a similar pattern. However, while the region as a whole is negatively affected, there are marked differences at a country level. Not all resource-rich African countries are severely affected; oil and base metal exporters including **Angola**, **Nigeria**, **Sierra Leone**, **South Africa** and **Zambia** face challenging times but soft-commodity exporters (and some oil importers) including **Côte d'Ivoire**, **Ethiopia** and **Mozambique** appear less exposed. Beijing pledged USD60bn in investment at the recent 6th Forum on China-Africa Co-operation. So Africa is still rising but those seeking commercial interests need to be ever selective.

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Countries in Focus

Americas

Venezuela: As in Argentina, the prospect of change

An air of change may be evident following legislative elections last Sunday. With 112 out of 167 seats won by the coalition MUD (Mesa de la Unidad Democrática), this is the first time for 17 years and since the ascent of Hugo Chavez that the opposition will control the National Assembly. The two-thirds Assembly majority enables MUD to approve or modify organic laws, invoke a referendum, rescind the appointment of some Supreme Court judges and even change the 1999 constitution. President Nicolas Maduro, who was elected in 2013 after the death of Chavez and whose term runs until early 2019, demanded the resignation of the government. Fixing the economy will not be easy. Against a background of recession, a protracted period of low oil prices, high inflation, shortages of some basic goods and multiple exchange rates, there are numerous areas requiring reform. Moreover, discord within the MUD, which encompasses parties from the extreme left and right, also heightens risk.

Europe

Iceland: Strong growth in 2015, robust outlook for 2016

Q3 real GDP growth slowed to +0.7% q/q (+3.7% in Q2) and +2.6% y/y (+6.8% in Q2). However, quarterly growth rates are quite volatile. A look at the first three quarters provides a better perspective. In Q1-Q3 2015, GDP growth accelerated to an average +4.5% y/y, up from +1.8% in full-year 2014, fuelled by soaring fixed investment (+15.8% y/y) and a contribution of +0.7pps from inventories – both in part reflecting increased FDI inflows. Private consumption also increased strongly, by +4.4% y/y, because of large wage rises while government consumption increased more moderately, by +0.9% y/y. Net exports made a negative contribution to Q1-Q3 growth as imports (+10.9% y/y) outpaced exports (+7.4%). Euler Hermes expects full-year GDP will rise by +4.5% in 2015. Growth is forecast to slow to +3% in 2016 due to economic policy tightening and wage hikes dampening employment expansion, although the planned capital control liberalisation, if pushed through, provides for upside risks.

Africa & Middle East

Oman: Oh Man, twin deficits!

Oil accounts for around 50% of GDP directly and 80% of government receipts and export earnings. As a result, current weak oil prices are strongly negative; indicative Brent prices are down by -40% y/y and by -64% from 2014's high. State spending will remain relatively high to maintain social stability but government revenues are significantly down. Fiscal deficits (perhaps -15% of GDP in 2015) will be managed by increasing public debt. At the same time, the current account (surplus of +5% of GDP in 2014) will also move into sizeable deficit (-12% of GDP in 2015). Annual average GDP growth in the ten-year period to end-2014 was +4.6% and even though government spending will remain a key growth driver scope for further significant increases in state expenditure is now limited by the constraint on revenue streams. We expect GDP growth will be capped at +4% in the period 2015-17, with perhaps +3.5% in 2016, and commercial opportunities are likely to be somewhat restricted.

Asia Pacific

China: Moderate improvement?

The trade surplus in November decreased to +USD54.1bn from +USD61.6bn. In USD terms, exports decreased for the fifth consecutive month (-6.8% y/y) with declines in demand from the EU (-9%) and the U.S. (-5.3%). Imports continued to contract (-8.7% y/y) but at a slower pace than in October (-18.8%) suggesting that demand is stabilising. Foreign exchange reserves declined by -USD87bn to USD3.43tn. Consumer prices gained some traction (1.5% y/y from 1.3%) but producer prices continued to contract, for the 45th consecutive month. Going forward, recent business surveys suggest a moderate improvement in the short term. The Caixin composite output index (services and manufacturing) edged up to 50.5 in November (49.9 in October), above the 50-expansion threshold for the first time in four months. Against this background, expect further policy easing and, in particular, direct government expenditure will probably be the main tool to keep growth close to the +7% target.

What to watch

- December 10 – France November CPI
- December 10 – France October industrial production
- December 10 – Turkey Q3 GDP & Oct. current account
- December 11 – India October industrial production
- December 11 – Eurozone October industrial production
- December 11 – U.S. November retail sales
- December 11 – U.S. November PPI
- December 11 – Romania November CPI
- December 11 – Russia interest rate decision
- December 11 – Russia October trade balance
- December 12 – UK BoE rate decision
- December 15 – U.S. November CPI
- December 15 – Canada Oct. manufacturing
- December 15 – Hungary interest rate decision
- December 15 – Germany December ZEW survey
- December 15 – Russia November IP
- December 16 – U.S. November housing starts
- December 16 – U.S. November industrial production
- December 16 – U.S. Fed policy announcement
- December 16 – Eurozone December PMI (prelim.)

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