

Weekly Export Risk Outlook



10 April 2013

In the Headlines

FIGURE OF THE WEEK: **2.1%** > CHINA'S MARCH CONSUMER PRICE INFLATION

▶ Portugal: Fiscal ruling

On 5 April, the Supreme Court rejected a series of austerity measures amounting to EUR1.35 billion, equivalent to 0.8% of GDP. The ruling comes as Portugal looks to receive the next EUR2 billion tranche of its EUR78 billion bail-out package and negotiate an extension of its loan maturity. The European Commission reaffirmed Lisbon's commitment to the adjustment programme, yet the ruling makes full implementation even more challenging. The issue is likely to be discussed during the EcoFin meeting to be held this weekend and the Troika mission scheduled in April-May 2013 will be crucial as it assesses the evolution of the adjustment programme. The next steps must also be placed in the context of the return to the bond markets in mid-2013 envisaged in the programme, which will depend on market confidence, and without which there will be a financing shortfall. Portugal has around EUR15 billion in total refinancing needs by end-2013 of which only EUR6 billion is covered in the existing bailout programme. A key date is 23 September, when around EUR5.8 billion of Portuguese bonds will mature.

▶ US & Canada: Labour markets and growth

The **US** employment report for March was a disappointment, as it shows that only 88,000 jobs were created, markedly below expectations of around 190,000. Average hourly earnings were flat for the third consecutive month in March and inflation-adjusted wages contracted by -0.5% over a twelve month period. Although unemployment continues to edge down, the fall is driven largely by people leaving the workforce, rather than job gains, and the result is the lowest labour force participation rate since 1979, a significant impediment to recovery. Nevertheless, a shrinking trade deficit and resilient consumption, perhaps boosted by the wealth effect from the rising stock market, could push Q1 GDP growth above +3% q/q annualised. Meanwhile, the **Canadian** labour market is even weaker, shedding 54,500 jobs in March and suggesting that Q1 GDP growth in that country will be less than +2% q/q annualised.

▶ China: Inflation and foreign trade

Consumer price inflation eased to 2.1% y/y in March from 3.2% in February. However, the fall was largely the result of movements in food prices after the New Year and the non-food index was up 1.8% y/y (1.9% February). Although the low inflation rate does not pressure the authorities to tighten monetary policy it is also unlikely to encourage further monetary loosening at this point. March trade data showed a record monthly deficit, with imports up +14.1% y/y and exports up +10.0%. Export growth returned to pre-New Year levels, although it was led by emerging economies as exports to the EU and US both fell, while stronger domestic demand appears to have boosted import growth above expectations. Meanwhile, Fitch lowered its local currency debt rating, reflecting concerns over the growth of domestic credit, including the rise of shadow banking, although the rating is still A+.

▶ Germany: Labour costs above the EU average

Employers in the private sector paid an average EUR31 per working hour in 2012, which was up +2.8% y/y. German labour costs in the private sector, as a result, ranked eighth in an international comparison among EU countries and exceeded the EU-average of EUR23.5 by 32%. France ranked fourth with EUR34.9 (49% higher than the EU-average), while the UK ranked twelfth with EUR21.9 (7% below average). Within the EU, Sweden recorded the highest level with EUR41.9 and Bulgaria the lowest (EUR3.7). Relative positions in the manufacturing sector were Sweden still at the top (EUR43.8 per working hour), followed by France (fourth, EUR36.3), Germany (fifth, EUR35.2) and UK (twelfth, EUR22.7), while the EU-average was EUR24.

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► Mediterranean, Africa & Middle East – *Burkina Faso: Update*

The landlocked economy is vulnerable to exogenous factors, including climate, commodity prices (particularly gold) and uncertain regional stability. However, a relatively effective electoral system and generally sound economic policies provide an enabling environment that resulted in annual average GDP growth of +4.4% in 2000-08. Foreign debt obligations are low but fiscal and current account deficits are large and require careful management. However, membership of a regional economic union (UEMOA), with a joint central Bank (BCEAO) and common currency (CFA franc), mitigates against transfer and convertibility risks. EH expects GDP growth of +5.5% and +6% in 2013 and 2014, respectively, subject to improved security to the north (particularly in Mali) and recovery in external markets.



► Americas – *Venezuela & Paraguay: Election update*

Ahead of Sunday's presidential election (14 April) in **Venezuela**, opinion polls give vice-president and Hugo Chavez' chosen successor Nicolas Maduro a large lead over opposition candidate Henrique Capriles. Maduro looks set to win, but following Chavez will not be an easy task. Maduro lacks Chavez' charisma and is unlikely to have the same control of the ruling party. He also seems intent on continuing unbalanced policies, but will find it hard to sustain recent spending increases and control inflation. **Paraguay** will hold presidential and legislative elections on 21 April. Political newcomer, but candidate of the former long-time ruling Colorado party, Horacio Cortes leads in opinion polls, followed by Efraim Alegre (Liberal Party). Both are to the right of ousted former president Fernando Lugo.



► Asia-Pacific – *Vietnam: Q1 real GDP growth*

Q1 real GDP growth decelerated to +4.9% y/y from +5.4% in Q4 2012. Agriculture, forestry and fishing expanded by just +2.2% in Q1, while industry and construction matched the overall growth rate (+4.9%) as manufacturing has gained momentum (+5.4%). Services grew by a robust +5.7% y/y in Q1, with wholesale and retail trade increasing by +5%, transport and storage by +5.6% and financial services by +6.3%. Growth deceleration in Q1 is not unusual in Vietnam, so expect an improving performance over the course of 2013, resulting in full year growth of around +5.3%, compared with a government target of +5.5%. The trade balance posted a surplus for the third consecutive quarter in Q1, at USD481 million, as nominal export growth of +25.1% outpaced import growth of +20.4%.



► Europe – *Hungary: Recession likely to continue*

Revised estimates from the Statistical Office confirm that real GDP decreased by -2.7% y/y and -0.9% q/q in Q4, marking the fourth consecutive quarter of decline. Full year GDP contracted by -1.7% in 2012. Domestic demand was particularly weak last year, with private consumption down by -2%, government consumption up by +0.5% and fixed investment down by -3.8%. Exports managed to grow by +2% while imports were flat (+0.1%), so that external demand limited the overall fall in GDP. Early indicators for 2013 suggest that the recession will continue for some time. In January-February, industrial production declined by -3.4%, retail sales by -2%, nominal exports in HUF by -1.1% and imports by -0.4%. Expect little growth of real GDP, if any, in full year 2013.

Worth knowing

► Other GDP

Albania: +1.7% y/y in Q4 (+2.9% in Q3) and +0.1% q/q, +1.6% in full year 2012 (+2.8% in 2011). **Jamaica:** -0.9% y/y in Q4 2012 (-0.3% in Q3) and by -0.3% for full year 2012. **Botswana:** + 3.2% y/y in Q4 2012 and by +3.7% for full year 2012 (agriculture +6.4% and construction +14.4% but mining—including diamonds—contracted by -8.1%).

► Lithuania

Last week, Fitch upgraded its LT sovereign rating by one notch to BBB+ (stable outlook), citing the continuing economic recovery and robust growth prospects, as well as progress on fiscal consolidation.

► Kenya

Uhuru Kenyatta, who won presidential elections in March, was sworn into office this week. While the elections and immediate post-poll period were relatively peaceful (compared with 2007-08), there are uncertainties relating to Kenyatta's indictment by the ICC in The Hague for crimes against humanity and how the international community deals with this fact.

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