Euler Hermes Economic Research

Weekly Export Risk Outlook

8 February 2017

In the Headlines

FIGURE OF THE WEEK

-0.2%

Russia's GDP contraction in 2016

Russia: Inventories and net exports curtailed 2016 recession

Preliminary estimates by RosStat indicate that real GDP declined by only -0.2% in 2016, compared with Consensus expectations of -0.6%, after the economy had decreased by -0.7% y/y in Q1-Q3. However, data revisions are likely to have played a role. RosStat also provided a significant revision for 2015 which brought the contraction in headline GDP for that year to -2.8% from an earlier estimate of -3.7%. Revisions of quarterly data are not available as yet. The breakdown of GDP shows that private consumption declined by -5% in 2016, government consumption by -0.3% and fixed investment by -1.4%. However, inventory restocking added about +1.1pp to 2016 growth. Further, net exports contributed +1.7pp to overall growth as real exports increased by +2.3% while imports fell by -5%. High frequency data suggest that industrial production and confidence in the manufacturing sector (PMI) seem to be firmly back into growth mode while consumer confidence and retail sales are still in contraction mode. Euler Hermes forecasts full-year GDP growth of +1% or so in 2017.

UK: Brexit means a new customized agreement with the EU

Requested by the Parliament, the government published its Brexit plans based on the 12 principles previously presented by PM May. On those that relate to the new commercial relationships with the EU and third countries, a new customized agreement (FTA) that will provide the freest possible trade in goods and services with the EU is targeted. We believe that an exit with a Limited FTA on goods and some services, equivalent to an average 5% tariff, is the most likely scenario for 2019. The strategic sectors identified by the government are automotive, energy, foodstuff, chemicals, pharmaceuticals and agriculture. On standards, compliance with the EU product law is targeted while the UK will try to replicate as much as possible the current WTO position as an EU member. China, Brazil, the Gulf States, Australia, New Zeeland, India and the U.S. have already said to be interested in negotiating a new FTA with the UK. Lastly, the government aims to secure an orderly EU exit which targets a phased process of implementation to give time to businesses to adapt. The approval process in both Houses of Parliament should end on 7 March while the European Council is scheduled to meet on 9 March. Despite possible amendments to parts of the Brexit plan, the overall process should not be delayed.

U.S.: Strong job gains, but wages falter

The January employment report came out stronger than expected, showing job growth of +227,000 vs. expectations of +175,000. Gains were widespread across industries with manufacturing eking out a +5,000 gain, the second consecutive increase. The unemployment rate ticked up +0.1pp to 4.8% as 76,000 people entered the labor force, driving the participation rate up from 62.7% to 62.9%. Wages, however, were the bigger story as average hourly earnings gained only +0.1% vs. expectations of +0.3% while December was revised down from +0.4% to +0.2%, and the y/y rate fell from +2.9% last month (before revisions) to only +2.5% this month. Wage inflation has wavered back and forth, but overall there seems to be a slight uptick in inflationary pressures in the broader economy. The ISM non-manufacturing index slipped a bit but remained well into expansionary territory at 56.5 points. The new orders component fell -2.1 points but is still a strong 58.6. Only four of the ten components fell and eight of the ten components are at 50.0 or above.

Indonesia: Cautious optimism

Real GDP growth slowed to +4.9% y/y in Q4 2016 (from +5% in Q3) taking full-year growth to +5% (up from +4.9% in 2015). The slight deceleration in Q4 was mainly due to lower government expenditures. Private consumption proved resilient, investment gained some traction and exports recovered from contraction. Domestic demand has benefited from low inflation and an accommodative monetary policy, while improvements in global demand and commodity prices supported the rise in exports at the end of the year. Going forward, short-term indicators allow for cautious optimism. Retail sales grew by a solid +10.5% y/y in December. Moreover, both consumer confidence and business sentiment were encouraging in January. Domestic investment is set to strengthen thanks to low interest rates and a pick-up in commodity prices. Private consumption should remain resilient thanks to positive job growth and moderate inflation. Downside risks remain elevated though, with rising uncertainties about global trade and a potential tightening of global financing conditions.

Countries in Focus

Americas

Mexico: Gasolinazo

Inflation rose to +1.5% during the first two weeks of January compared to the second half of December, the largest increase in 17 years. Consumer prices and inflation expectations soared as a result of the rise in gasoline prices, a major component of households' expenses, as the government eliminated fuel subsidies. The so-called gasolinazo prompted protests and cut the approval rating of President Peña Nieto to record lows. Consumer confidence plummeted -17.9% m/m in January after a calm quarter, the largest fall on record. Banxico has little room to maneuver in order to support the continuously depreciating MXN and contain inflation if it does not want to imperil production. Markets revised upwards the forecast for the year-end key policy interest rate by 50bp to 7.00%. Meanwhile, preliminary estimates of real GDP anticipated an increase by +0.6% q/q and +2.2% y/y in Q4 2016. If confirmed, annual growth last year would meet our forecast of +2%.

Europe

Austria: Continued recovery in 2016. Stabilization in 2017?

First official estimates indicate that real GDP in Q4 2016 grew by +1.8% y/y (+1.3% in Q3) and by +0.5% q/q, the same as in the previous quarter. Q4 growth was driven by domestic demand, with private consumption up by +0.5% q/q (unchanged from Q3) and public consumption by +0.3% q/q (+0.2% in Q3) while fixed investment slowed down to just +0.1% q/q (+0.4% in Q3). External trade activity gained some momentum in Q4, with exports up by +0.4% q/q (+0.2% in Q3) and imports by +0.5% q/q (+0.4% in Q3) so that net exports made a neutral contribution to Q4 GDP growth (the level of exports is slightly higher than the one of imports). Full-year 2016 GDP growth (not calendar-adjusted) was estimated at +1.5%, up from +1% in 2015. Meanwhile, the manufacturing PMI rose to a 70-month high of 57.3 in January, pointing to strong industrial expansion in early 2017. Euler Hermes forecasts full-year GDP growth to stabilize at around +1.5% in 2017.

Africa & Middle East

Israel: Sound growth in 2016. Modest slowdown in 2017?

Preliminary estimates indicate that real GDP growth accelerated to +3.8% in 2016 from +2.5% in 2015, driven by strong domestic demand. Notably fixed investment surged by +11% in 2016, after being flat in the previous two years, boosted by jumps in transport investment (+48.6%) and machinery investment (+20.8%). Private consumption grew also strongly by +6.1%, up from +4.3% in 2015, while government consumption picked up to +3.8% (+3.3% in 2015). Meanwhile, net exports made a negative contribution to growth in 2016 as the increase in real exports by +3% was clearly outpaced by real imports which rose +9.2%. Looking ahead, the investment boom is unlikely to persist at this pace, but consumer spending should remain firm. Euler Hermes forecasts full-year growth to moderate somewhat to +3.2% in 2017. Meanwhile, consumer prices were flat y/y in December, taking the average inflation to -0.2% in 2016. We expect a slight acceleration to an average +0.6% in 2017.

Asia Pacific

China: Good start but…

Activity growth was robust in January, supported by strong services and a resilient manufacturing sector. The Caixin – Markit PMI continued to signal economic expansion with readings above the 50.0-mark in January: the services PMI was at 53.1 and the manufacturing PMI at 51.0. However, the outlook appears challenging. Exports may face a potential rise in trade barriers from the U.S. And domestically, the PBoC's recent raising of repo rates (7 days, 14 days and 28 days by 10bp each) is another indication that it is moving away from its easing bias. High corporate debt, continued capital outflows and downward pressures on the currency are among the reasons calling for a cautious monetary stance. In that context, Euler Hermes expects real GDP growth to slow further to +6.2% in 2017 from +6.7% in 2016. Domestic demand is set to remain the main growth driver, sustained by supportive fiscal policy and a continued improvement in private consumption.

What to watch

- February 9 – Argentina, Mexico & Ukraine Jan. CPI
- February 10 – Canada January employment report
- February 10 – China January foreign trade
- February 10 – France & UK Dec. manufacturing prod.
- February 10 – Slovakia Dec. industrial production
- February 14 – EU December industrial production
- February 14 – EU Q4 GDP (with country breakdown)
- February 14 – Germany, Hungary & UK January CPI
- February 14 – Turkey December BOP
- February 14 – U.S. January PPI
- February 15 – Peru Q4 GDP
- February 15 – Bulgaria, Romania & Slovakia Jan. CPI
- February 15 – South Africa, Spain & U.S. January CPI
- February 15 – U.S. January industrial production
- February 15 – U.S. January retail sales

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Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com