

FIGURE  
OF THE WEEK

+6.3%

India's y/y  
GDP growth  
in Q2 of fiscal  
year 2017-18

## In the Headlines



### South Africa: Make some noise

Q3 real GDP growth came in at +2% in q/q annualized terms, higher than Euler Hermes' expectations (+1.3%). As a result of a stronger carry-over, we revise our full-year growth forecasts up from +0.6% to +0.8% in 2017 and from +1.2% to +1.4% in 2018. In a nutshell, a more positive cyclical momentum is pretty normal since monetary conditions improved after a steady decline of the inflation rate (+4.8% y/y in October) and electricity consumption returned to (weak) growth territory in March after two years of decline. Moreover, South Africa is benefitting from rising metal prices and strong appetite for high yields in the World Economy. However, the deterioration of the fiscal balance (see also [WERO 26 October 2017](#)) and its impact on the debt dynamics nurtured a new wave of sovereign and corporate rating downgrades, sending local currency debt ratings from BBB- to BB+ (junk status). Higher credit costs as well as deteriorated public finances may well affect insolvencies (currently decreasing by -7% y/y) in the near future. Ten-year sovereign bond yields jumped from 8.5% at end-September to 9.2% on 5 December.



### Brazil: The consumer is back

The Brazilian recovery shows signs of strengthening. The national statistics institute revised upwards its figures for real GDP growth in Q1 (from +1% to +1.3% q/q) and Q2 (from +0.2% to +0.7% q/q). Although growth decelerated +0.1% q/q in Q3, it posted the fastest y/y rate since Q1 2014, at +1.4%. Investment growth accelerated to +1.6% q/q, the highest growth in four years. It is still contracting when compared to Q3 2016, albeit at a slower rate. Public consumption remained flat but its contribution to y/y growth was negative (-0.1pp) for the tenth time in the last twelve quarters, in line with the government's efforts to curb the fiscal deficit. But the rising star appears to be the consumer: just as in Q2, activity was driven by consumer spending which contributed +0.8pp to q/q GDP growth. Indeed, the unemployment rate has gradually declined (12.2% in October, down from 13.7% in March), household credit has picked up since January and retail sales posted their sixth month of acceleration. Hence we expect annual growth of +1.1% in 2017, followed by +2.5% in 2018.



### U.S.: Solid data drives 2018 GDP forecast up to +2.6%

Recent data has been quite solid and the forecast for 2018 GDP growth has been revised up to +2.6% from +2.3% just a few months ago. Q3 2017 GDP growth was revised up from a +3% q/q annualized rate to +3.3%. Most of the gain came from a revision in investment from +6% to +7.3%. Both ISM indices slipped but remained well into positive territory at 58.2 for manufacturing and 57.4 for services. Core durable goods orders rose in October to a strong +9.3% y/y rate, the fastest in over five years. The Senate passed its version of tax reform, widely seen as a victory for Trump, but there are still several steps before it becomes law. It must be reconciled with the House version and then must be voted on again in both houses of Congress. The only recent negative was that Q3 consumption was revised down and in October was growing +2.6% y/y. Disposable income growth is very weak at +1.6% y/y, forcing consumers to spend out of savings and driving the savings rate to a very low 3.2%.



### Emerging Markets: Truly, madly, deeply

The Euler Hermes Emerging Markets Manufacturing PMI index improved markedly to 52.6 points in November, the best figure since April 2011. The indicator supports a bullish view that Emerging Markets will continue to benefit from accelerating world growth through trade flows and will be also driven by their own rebalancing. A sub-index on open economies (from Asia Pacific, Eastern Europe and Mexico) increased to 52.9. Singapore, for example, recorded 53.6, its best index since August 2009. And South Korea (51.2) showed the best index since April 2013, following already steady GDP growth in Q3 (+1.4% q/q). The overall improvement is broad-based since Brazil's PMI also showed a strong uptick to 53.5, the best index since February 2011. Brazilian consumers are benefitting from rapid disinflation (inflation was +2.7% y/y in October) and an improving labor market situation. Globally, input prices are ascending as a result of scarcening raw materials, and firms have raised selling prices where they have the strongest pricing power, particularly in Asia (e.g. South Korea, Singapore).

# Countries in Focus

## Americas

### Canada: Hot labor market, slightly cooler GDP

The economy created 79,500 jobs in November, far exceeding expectations of 10-20,000, and the most in 10 years. Job growth on a y/y basis has accelerated from +1.1% last year to +2.2% now, also a 10-year record. The unemployment rate at 5.9% is just above the record low of 5.8%. Average hourly wages grew for the fourth consecutive month, putting the y/y rate at +2.8%. That's twice as fast as a year ago, and four times as fast as the recent low in April. While the employment report was spectacular, Q3 GDP appeared to be less so, growing only +1.7% q/q annualized. But this was largely as expected as a breather from the recent rapid pace of expansion. The resulting +3% y/y rate is substantially stronger than the U.S.' +2.3%. Net exports were a drag on the headline and without them, GDP would have grown +5.2% q/q to a +3.9% y/y rate. Personal consumption gained +4% q/q to a +4% y/y rate, the fastest of the recovery.

### Serbia: Gradually gaining momentum

Second official estimates confirmed that Q3 real GDP growth picked up to +2.1% y/y (from +1.4% in Q2 and +1.1% in Q1), taking average growth in the first three quarters to +1.5% y/y. Demand-side details show that the acceleration was mainly driven by capital formation, with fixed investment rising by +6.2% y/y (up from +2.6% in Q2) and inventories adding +0.3pp to Q3 y/y GDP growth. The expansion of consumer spending (+1.7% y/y) and government spending (+1% y/y) remained modest in Q3, little changed from Q2. The former is still restrained by persistently high unemployment of around 16%. External trade activity remained vibrant in Q3, with export expansion edging up to +11.4% y/y. However, as the rise in imports accelerated to +10.7% y/y (from +9% in Q2), the contribution of net exports to GDP growth was -0.7pp (+0.2pp in Q2). We expect the uptrend to continue in the next few quarters, resulting in full-year growth of about +1.7% in 2017 and +2.5% in 2018.

### Israel: Solid, broad-based growth set to continue

Seasonally adjusted real GDP growth picked up to +1% q/q in Q3 from +0.6% in Q2 and +0.2% in Q1. However, in unadjusted y/y terms, real GDP growth moved in the opposite direction, slowing down to +2.1% in Q3 from +4% in Q2 and +3.9% in Q1, taking the cumulative expansion in the first three quarters of 2017 to +3.3% y/y. The latter was mainly driven by gross capital formation which rose by +5.1% y/y, including inventories which added +0.3pp to GDP growth in Q1-Q3. Both private and government consumption increased by +2.7% y/y in the first nine months. Exports of goods and services grew by +3.3% y/y, slightly outpacing imports at +3% y/y, so that net exports made a positive contribution to growth in Q1-Q3. Euler Hermes expects economic activity to remain fairly healthy in the near term – as consumer confidence is high and unemployment low while exports should benefit from strengthening global demand – and forecasts full-year GDP growth of +3.4% in 2017 and +3.6% in 2018.

### India: Bouncing up

Real GDP expanded by +6.3% y/y in Q2 of the fiscal year 2017-18 compared to +5.7% y/y in the previous quarter. The latter marked a three-year low for the economy due to the impacts of the rollout of GST (disruption in productive activities and drawdown of inventory) and demonetization. The main growth drivers in Q2 were private consumption (+6.5% y/y) and a rebound in fixed-asset investment (+4.7% y/y, compared to +1.6% in Q1) while public spending growth slowed markedly (+4.1% y/y, versus +17.2% in Q1) reflecting a more conservative stance of the government in order to contain the fiscal deficit. Net exports was a smaller drag on growth, with real exports growing by +1.2% y/y and real imports rising by +7.5% y/y. Going forward, advanced indicators point to a continued improvement with the Manufacturing PMI climbing to 52.6 points November (from 50.3 in the previous month). Euler Hermes anticipates real GDP growth of +6.5% for the fiscal year 2017-18, supported by an acceleration of investment and private consumption.

## What to watch

- December 7 – Germany October industrial production
- December 8 – France October industrial production
- December 8 – UK October industrial production
- December 8 – China November foreign trade
- December 8 – U.S. November employment report
- December 11 – Turkey Q3 GDP
- December 11 – Turkey October BOP
- December 12 – Russia Q3 GDP by production
- December 12 – U.S. November producer prices
- December 13 – U.S. November consumer prices
- December 13 – U.S. Fed policy announcement
- December 14 – Eurozone ECB monetary policy meeting
- December 14 – Turkey monetary policy meeting
- December 14 – Ukraine monetary policy meeting
- December 14 – UK monetary policy meeting

## DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorized and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.