Euler Hermes Economic Research

Weekly Export Risk Outlook

8 March 2017

FIGURE OF THE WEEK

+3.2%

Spain's 2016 GDP growth

In the Headlines

Spain: Leaving behind bad habits

Real GDP grew by +0.7% q/q and +3% y/y in Q4 2016, in line with preliminary estimates. As a result, annual GDP increased by +3.2% in 2016, unchanged from 2015 but below the average +3.9% recorded in the decade preceding the global financial crisis. A growth rate of more than +5% as posted in 2000 seems out of reach in the next few years. However, rebalancing has led to a much healthier composition of GDP. The share of construction in GDP increased from 16% to 22% between 1998 and 2007, before the housing bubble burst in 2008, resulting in construction to shrink by -38% until 2013. Meanwhile, the share of exports in GDP increased from 23% to 32% between 2010 and 2016. Combined with the decline in imports, this has enabled Spain to benefit from a surplus in the trade balance. Euler Hermes estimates both private consumption and exports to increase by +1.3% in 2017 and be the engines of growth again, despite registering a deceleration of -0.6pp and -0.2pp, respectively. Public consumption, investment and imports are expected to change on a similar scale as in 2016. Overall, full-year real GDP growth is predicted to slow down to +2.5% in 2017.

Switzerland: Gradual recovery to continue

Real GDP growth weakened somewhat towards the end of 2016, posting +0.1% q/q in Q4 (unchanged from Q3) and +0.6% y/y (+1.4% in Q3). Still, this took full-year 2016 growth to +1.3%, indicating that the impact of the shock from the strong CHF appreciation after the removal of the CHF:EUR cap in January 2015, which cut growth to just +0.8% in 2015, is gradually waning. This is also reflected in external trade figures which show that real exports grew by +4.6% in 2016 (up from +2.2% in 2015). Imports expanded by +2.7% (+4.3% in 2015) so that net exports made a positive contribution of +1.6pp to 2016 growth (-0.9pp in 2015). However, this was offset by strong inventory destocking which subtracted -1.8pp from growth (+0.5pp in 2015). Meanwhile, fixed investment accelerated to +2.5% in 2016 (+1.5% in 2015) while private and government consumption continued to increase at a solid pace, by +1.2% and +1.9% (+1% and +2.2% in 2015) respectively. Euler Hermes expects the recovery to continue and forecasts full-year GDP to rise by +1.6% in 2017 and +1.7% in 2018.

Poland: Consumer spending remains strong

Second estimates by the Central Statistical Office confirmed that Q4 real GDP growth picked up to +1.7% q/q (+0.4% in Q3) and +2.7% y/y (+2.5% in Q3), taking full-year 2016 growth to +2.8% (which was down from +3.9% in 2015). Growth in Q4 was driven by domestic consumption, notably consumer spending which rose by +4.2% y/y, a multi-year high. Government spending increased by a still solid +2.7% y/y, though this was a five-quarter low. Fixed investment remained the weak spot in Q4, contracting by -5.8% y/y, bringing the full-year decline to -5.5%. However, inventories contributed +1.4pp to Q4 growth. Net exports added another +0.3pp as export expansion (+8.6% y/y) outpaced imports (+8.5%). Euler Hermes forecasts annual growth to stabilize at around +3% in 2017-2018 as domestic consumption should remain robust while investment activity is expected to recover thanks to an increased utilization of EU funds. Meanwhile, consumer price inflation finally moved back into positive territory in December, posting +0.8% y/y, followed by +1.8% in January. Still, the Monetary Policy Council today kept its key policy interest rate at 1.5% (at which it has been for two years now).

Emerging Markets: Trading a recovery

The manufacturing sector output grew for a sixth consecutive month in Emerging Markets (EM) in February. Our proprietary Euler Hermes aggregate EM Manufacturing PMI improved to 50.9 points in February, the best figure since August 2014. The main improvements came from China and Central European economies. In China, the average six-month level of the PMI (51.3) was the strongest since July 2012. Moreover, in export-driven, developed small economies in Asia (Taiwan, Singapore) the PMIs remained also robust, signaling that the trade momentum is good in the region. In the EU, Central European economies exhibited strong performances, in particular the Czech Republic (57.6) and Hungary (59.5). Since these small open economies are included in the German value chain, these improvements indicate that the currently good business cycle in the Eurozone is also beneficial to trade. Euler Hermes expects world trade to grow by +3.5% in 2017 (value terms) after two years of contraction (-10.4% in 2015, -3.2% in 2016).

Countries in Focus

Americas

U.S.: Q1 GDP on track to be weak, Fed on track to hike

Soft data from February ISM surveys reflect continuing business optimism as both the manufacturing and services indexes rose to 57.7 and 57.6, respectively. However, hard data from January suggests that Q1 GDP is on track to be quite weak, a persistent pattern in this recovery. New orders for core durable goods fell -0.1% m/m, the first decline in four months. The trade deficit widened from –USD44.3bn to –USD48.5bn as imports, driven by oil, rose +2.3% m/m while exports rose only +0.6% m/m. Real disposable personal income fell -0.2% m/m, only the second decline in 30 months, pushing the y/y rate down from +2.3% to +2%, the slowest in three years. Consumption fell -0.3% m/m to +2.8% y/y. Core PCE inflation was unchanged at +1.7% y/y, but overall inflation, driven up by energy prices, rose +0.4% m/m, pushing the y/y rate up +0.3pp to +1.9%, the fastest in over four years, making it quite likely that the Fed will raise interest rates next week.

Europe

Greece: False positive alarm

Sharply revised data show that Q4 real GDP contracted by -1.2% q/q (the initial estimate was -0.4%). As a result, the country did not escape recession in 2016 (-0.1%) as initially thought (+0.3%). Private consumption grew by +1.4% in 2016, the fastest pace since 2008, and investment managed to stabilize after eight years of contraction. But public consumption returned significantly into negative territory (-2.1%). Imports remained relatively resilient (+0.5%) despite capital controls while exports fell by -1.5%. Overall, real GDP remains 26% below the 2008 peak. In nominal terms, GDP grew by +0.1%, back in positive territory after seven consecutive years of falls. Going forward, we expect prices to pick up, mainly helped by rising commodity prices, while the weaker EUR should boost Greek exports. We expect GDP growth to reach +1.7% in 2017, assuming a compromise between the Greek government and the international institutions is possible (see also WERO 22 February 2017).

Africa & Middle East

South Africa: One step beyond…there was growth in 2016

Seasonally-adjusted real GDP declined by -0.1% q/q in Q4 2016. As a result, full-year GDP growth decelerated from +1.3% in 2015 to +0.3% in 2016, marking the worst year since the 2009 global economic crisis. On the supply side, the economy exhibited a divergence between weak primary sectors and solid services. Agricultural production decreased for a second year in a row, by -7.8% (after -6.1% in 2015), as a result of a bad harvest. Moreover, mining output contracted by -4.7%, subtracting -0.4pp from overall GDP growth in 2016. Adverse external conditions (low prices, overcapacity) played a role as well as domestic conditions (power shortages, strikes). Service sectors (which account for 63% GDP) grew by +1.4% in 2016, a relatively unchanged performance after +1.6% in 2015, thanks to wage indexation and other growth drivers. In 2017, Euler Hermes expects GDP growth to recover somewhat to +1%.

Asia Pacific

China: Rebalancing priorities

On 5 March, China unveiled a lower GDP growth target of around +6.5% for this year, down from +6.5% to +7% in 2016, and raised expectations on job creation in urban areas to +11mn (from +10mn in 2016). The authorities announced a more balanced policy mix with a still expansionary fiscal stance to support growth and a less dovish monetary policy to contain financial risks. They also committed to accelerate efforts to cut overcapacity, reduce pollution, improve housing conditions and progress on SOEs reforms. On the external front, the Prime Minister reaffirmed that China intends to play an active role in multilateral trade initiatives with the conclusion of RCEP as soon as possible and further integration of the APAC region. Against this background, Euler Hermes expects the Chinese economy to grow by +6.3% in 2017 and +6% in 2018.

What to watch

- March 9 – Argentina & Mexico February CPI
- March 9 – ECB meeting
- March 9 – Ireland Q4 GDP (preliminary estimate)
- March 10 – Brazil February CPI
- March 10 – Canada & U.S. Febr. employment reports
- March 10 – Germany January current account balance
- March 10 – UK January trade balance
- March 13 – Turkey January BOP
- March 14 – China January-February retail sales, industrial production, fixed asset investment
- March 14 – Mexico January industrial production
- March 14 – Bulgaria, Poland & Spain February CPI
- March 15 – Italy January retail sales
- March 15 – U.S. February CPI
- March 15 – U.S. February retail sales
- March 15 – U.S. Federal Reserve policy decision

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