

FIGURE
OF THE WEEK

+5.1%

Q2 2017 y/y
GDP growth
in Turkey

In the Headlines



Turkey: GDP growth maintains strong momentum

Real GDP rose again strongly in Q2, by +2.1% q/q (up from +1.3% in Q1) and +5.1% y/y (after +5.2% in Q1 which was revised upwards from +5%). The breakdown of Q2 GDP growth in y/y terms shows that it was driven by solid consumer spending (+3.2%), sharply accelerating investment (+9.5%) and strong expansion of exports (+10.5%) which benefited from the TRY depreciation. Since imports grew only modestly (+2.3%), net exports contributed +1.7pp to Q2 y/y growth. In contrast, public spending contracted -4.3% y/y in Q2, the first such decline after 8 quarters of strong increases. Still, fiscal stimulus has continued to play an important role as it has driven the investment boom, which largely reflects surging construction investment (+25% y/y in Q2) while investment in machinery & equipment continued to shrink (-8.6% y/y). Construction is strongly supported by the Turkey Wealth Fund initiative, a major economic stimulus formed in August 2016 to finance the government's large-scale infrastructure investments. We forecast full-year GDP growth of +5.2% in 2017 and a moderation to +3.5% in 2018.



U.S.: Two major hurricanes cause record damage

The U.S. has been hit by two major hurricanes recently. In August Hurricane Hugo devastated the Houston, Texas area, which accounts for 3% of U.S. GDP. Damage estimates range from USD100bn to USD190bn. The storm drove national retail gasoline prices up from USD2.30/gal to over USD2.60/gal. Refineries are coming back on line but 13% of the US's refining capacity is still shut down. Hugo is likely to shave -0.2pp to -0.4pp off from H2 GDP. Hurricane Irma made landfall Sunday and travelled up the entire state of Florida, knocking out power to about two-thirds of the state's residents, or almost 7 million people, and has caused major damage across the state. The storm continued into Georgia, cutting power to more than a million people there, and has caused flooding in South Carolina, Alabama, and Tennessee. Losses are currently unknown, but Irma could reduce GDP by a similar amount as Hugo. Total property damage from Hugo and Irma will likely be worse than Katrina and Sandy combined. Rebuilding efforts will boost GDP growth in coming quarters, but monetary/property losses will be more permanent.



Japan: Q2 GDP growth solid, not spectacular

According to the second official estimate, real GDP grew by +0.6% q/q. While this was less spectacular than reported in the first estimate (+1% q/q), it was clearly higher than average growth in the past few quarters. The expansion was driven by domestic demand, with private consumption (+0.8% q/q) and public investment (+6% q/q) the key contributors. Net exports were actually a drag on growth as exports contracted slightly (-0.5%) while import expansion remained almost unchanged from the previous quarter's pace (+1.4%). Going forward, economic momentum will likely ease as fiscal support will fade and the strength of growth in private consumption is unlikely to be sustained. July trade data, however, suggest that exports will pick up again. Moreover, business investment spending appears to be firming. Core machinery orders, a leading indicator for domestic equipment investment, rose strongly in July (+8% m/m) to a level that is 5.3% above the Q2 average. Overall, the Japanese economy appears on track for average annual growth of +1.5% in 2017.



Guatemala: What goes around comes around?

On 11 September, the Guatemalan Congress overwhelmingly voted against the lifting of President Morales' immunity (104 vs. 25, with 29 abstentions) in yet another twist of the country's second major political crisis in two years. An ad hoc congressional committee had indeed advocated for the lifting of the President's immunity to investigate him over suspected irregularities in the financing of his 2015 election campaign which he ran under the slogan "no more corruption, no more thieves." By protecting Morales' immunity, the congress obstructs the efforts of the UN-backed International Commission against Impunity in Guatemala (CICIG). The CICIG had previously forced former president Molina to resign with an investigation on a graft case that eventually led to his imprisonment. The Central Bank warned earlier this month that a prolonged political crisis could weigh on economic growth by deterring investment. The economy stayed dynamic in 2015 (+4.1% growth) during the previous political crisis; yet the current crisis, if it persists, combined with the U.S. trade policy uncertainty and tighter migration rules could tilt the balance of risks to the downside.

Countries in Focus

Americas



Canada: The Bank of Canada gets aggressive

The strength of the Canadian economy caused the Bank of Canada (BoC) to raise the Overnight rate by 0.25pp to 1.0%, the second increase in less than two months, noting that “Recent economic data have been stronger than expected...” Indeed real GDP grew +4.5% q/q annualized in Q2, the best in the G-7. The y/y rate is now +3.7%, with consumption rising +3.8%. The BoC also noted that inflation is weak but creeping up, stating that “While inflation remains below the 2 per cent target... there has been a slight increase in both total CPI and the Bank’s core measures of inflation...” The BoC also tried to ease worries over a housing market bubble, saying “...the housing sector appears to be cooling in some markets...” but also noted that “... given elevated household indebtedness, close attention will be paid to the sensitivity to higher interest rates.” Financial markets are currently pricing in at least one more hike this year.

Europe



Hungary: GDP growth eases in Q2 but remains robust

Real GDP growth slowed down to a still solid +3.2% y/y (unadjusted) and +0.9% q/q (seasonally adjusted) in Q2, following a very strong rebound of economic activity in Q1 (+4.2% y/y and +1.4% q/q, respectively). The main growth driver in Q2 was again soaring fixed investment (+21.2% y/y, after +28.4% in Q1) as EU co-financed investment activity has finally gained momentum under the 2014-2020 programming period. Private consumption increased by +3.3% y/y in Q2 (Q1: +2.6%) while public spending contracted by -1.8% y/y (Q1: -6%). Export expansion eases to +3.5% y/y in Q2 (Q1: +9.4%), outpaced by imports at +5.1% y/y (Q1: +10%), so that net exports subtracted -1pp from Q2 growth (+0.5pp in Q1). The dynamics of both investment and exports moderated from Q1 to Q2 and we expect this to continue in H2 while the growth pattern should broadly continue otherwise, resulting in full-year growth of +3.3% in 2017 (up from just +2% in 2016) followed by +3% in 2018.

Africa & Middle East



Israel: Slightly slower but more balanced growth in 2017

Recently revised GDP data indicate somewhat stronger growth in Q1 and Q2 2017 (+3.7% and +3.9%, respectively) than initial estimates. This followed full-year GDP growth of +4% in 2016. The breakdown of H1 2017 GDP indicates that consumer spending grew by an average +2.7% y/y in H1, down from a vigorous +6.1% in full-year 2016. Reflation in 2017-2018 will curb purchasing power and real wage growth so some extent – hence we expect more moderate but still robust annual consumer spending growth of +3% to +3.5%. Public spending increased by +3.4% y/y in H1 2017 (down from +3.9% in 2016) and should maintain this pace until the end of 2018. Fixed investment growth decelerated to +1.8% y/y in H1 2017, after it had surged by +11.3% in 2016, driven by one-off projects. Both exports and imports increased by about +4% y/y in H1 so that net exports were broadly balanced, after subtracting -1.9pp from growth in 2016. We forecast annual growth of about +3.5% in both 2017 and 2018.

Asia Pacific



Australia: Q2 GDP – back on track?

Real GDP growth accelerated to +0.8% q/q in Q2, up from +0.3% in Q1, driven by a surge in public investment (+11.9% q/q, adding +0.6pp), robust government consumption (+1.2% q/q) and an increase in household consumption (+0.7% q/q). Regarding the latter, a lower savings rate (4.6%, down from 5.3% in Q1) and subdued wage growth suggest that households had to tap their savings to spend. Exports advanced by +2.7% q/q in Q2 (+0.6pp), rebounding from the weather disruption in Q1. Yet, the momentum was partly offset by imports (+1.2%, subtracting -0.2pp). Going forward, EH expects higher exports and strong policy support to drive growth. Exports are set to pick up speed thanks to higher demand from major economies. Public expenditures will remain strong, especially infrastructure investment. Private consumption acceleration will be limited by high household debt (190% of disposable income). Full-year GDP growth is forecast at +2.3% in 2017 (down from +2.5% in 2016).

What to watch

- September 14 – South Africa Q2 current account bal.
- September 14 – Turkey monetary policy decision
- September 14 – Ukraine monetary policy decision
- September 14 – UK monetary policy decision
- September 14 – U.S. August consumer prices
- September 15 – Colombia July retail sales
- September 15 – Russia monetary policy decision
- September 15 – Turkey July balance of payments
- September 15 – U.S. August industrial production
- September 15 – U.S. August retail sales
- September 18 – Ukraine Q2 GDP (second estimate)
- September 19 – Germany September ZEW survey
- September 19 – Hungary monetary policy decision
- September 20 – U.S. Fed policy statement
- September 21 – Argentina Q2 GDP
- September 21 – Mexico July retail sales

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