Euler Hermes Economic Research

Weekly Export Risk Outlook

31 May 2017

FIGURE OF THE WEEK

+4%

Q1 2017 y/y GDP growth in Poland

In the Headlines

U.S.: Despite exuberance, real data is weak

Q1 GDP growth was revised up from +0.7% to a still weak +1.2% q/q annualized rate, as consumption was revised from +0.3% to +0.6%, along with other minor improvements across the board. In April consumption gained +0.2% m/m, but it was still not enough to overcome declines in January and February, consequently y/y consumption fell from +3.1% to +2.6%. Disposable income gained +0.2% m/m but the y/y rate slipped from +2% to +1.9%. Despite weak spending, consumers continue to express exuberance. Consumer confidence fell from 119.4 to 117.9 points, but aside from the previous two months' highs, 117.9 is still the highest in 16 years. Lack of progress in Washington probably drove the future expectations component down to 102.6 from 112.3 two months ago. Inflation as measured by the PCE core rate gained +0.2% m/m but the y/y rate fell from +1.6% to +1.5%. Durable goods orders paused the manufacturing recovery, falling -0.7% m/m, while shipments of core goods, which feed into GDP, fell -0.1% m/m. In short, there just has not been much to like recently. But the minutes from the Fed are forward-looking and indicate a hike in June, and we expect one more after that in 2017.

UK: Softer Q1 GDP growth

Q1 real GDP growth was revised down to +0.2% q/q (-0.1pp compared to the first estimate). Excluding stocks, GDP contracted by -0.7% q/q. Sectoral downward revisions were broad-based but mainly in the services sector, notably in consumer-related industries such as retail and accommodation owing to rising prices and slowing private consumption. The latter grew by +0.3% q/q after +0.7% in Q4, the slowest pace of expansion since Q4 2014. Net trade subtracted -1.4pp from Q1 growth as exports fell by -1.6% q/q while imports increased by +2.7% q/q. A positive surprise came from gross fixed capital formation which rose by +1.2% q/q thanks to an acceleration in investment of public corporations, private sector dwellings and, to a lesser extent, private businesses. Going forward, we expect GDP growth to remain at +0.2% q/q on average. Our forecasts of +1.4% in full-year 2017 and +1% in 2018 remain unchanged. Private consumption is expected to be the main contributor to the slowdown, easing to +1.9% in 2017 from +2.8% in 2016 on the back of higher inflation (2.6%) and lower wage growth (+1.6%).

Sweden: Robust growth outlook, despite slowdown in Q1

Q1 real GDP grew by +0.4% q/q, below expectations and down from +0.7% in Q4. The main growth driver in Q1 was private domestic demand, with consumer spending rising by +0.5% q/q, slightly up from Q4, while the increase in fixed investment accelerated to +3.4% q/q, mainly thanks to the construction sector where permits and prices picked up. Monetary policy should continue to be very accommodative until H2 2018 as inflation is set to remain close to but below 2%. In addition, wage growth remains at almost +3% y/y and employment expands steadily. Business confidence has reached high levels while capacity utilization rates stand above the long-term average. Net trade disappointed in Q1 (-0.4pp contribution to growth after two positive quarters) as exports fell by -0.2% q/q, reflecting the krona appreciation in Q1, while import growth picked up to +0.9% q/q. We expect GDP growth to average +0.5% q/q in 2017, a similar pace as last year, and to reach +2.2% in the year as a whole, down from +2.9% in 2016 (which was revised downwards from +3.1%).

Philippines: Slower but still firm growth in Q1

Real GDP growth moderated to +6.4% y/y in Q1 from +6.6% in Q4 2016. Exports of goods and services surged by +20.3% y/y. Domestic demand growth remained firm with sound increases in both private consumption (+5.7% y/y) and investment (+11.8% y/y). After a surge last year related to the presidential election, government expenditures growth decelerated significantly to just +0.2% y/y in Q1. On the production side, the services sector (+6.8% y/y) was the main growth driver, followed by manufacturing (+6.1% y/y). Going forward, Euler Hermes expects economic growth to remain strong but below the government forecast of +6.5% to +7%. While fundamentals are strong, a more limited rise in government expenditures compared to last year is forecast to result in still robust GDP growth of +6.1% in 2017 (down from +6.9% in 2016). However, recently intensified terrorist activities in the south of the country, if not brought under control, pose a downside risk to this forecast via potentially lower tourism revenues.

Countries in Focus

Americas

Mexico: Strong growth in Q1

Mexico posted steady growth in Q1, in line with our expectations and beating general fears related to the election of Trump as U.S. president. Real GDP expanded by +2.6% y/y (+0.7% q/q), accelerating from +2.3% in Q4 2016. With +3.8% y/y growth, the services sector performed well despite the surge in consumer prices due to (i) the increase in gasoline prices and (ii) the delayed effect of the MXN depreciation recorded in H2 2016. Consumer price inflation reached 5.8% y/y in April (versus 2.5% y/y a year ago), far above the Central Bank's target range of 3% +/-1pp. The agricultural sector accelerated to +6.3% y/y growth, but industrial output fell by -1.1% y/y, thus completing five consecutive quarters of contraction. We expect the economy to remain robust in 2017 despite internal and external political and policy uncertainties. Consequently, we maintain our full-year growth forecasts of +1.9% in 2017 and +2.2% in 2018, after +2.3% in 2016.

Europe

Poland: Improved outlook after strong rebound in Q1

Q1 real GDP growth accelerated to +4% y/y from +2.5% in Q4 2016. The demand-side breakdown reveals a shift from relatively broad-based, balanced growth in 2016 to growth that is almost entirely driven by domestic spending and inventories in early 2017. The latter added +1.1pp to Q1 growth, unchanged from Q4. Fixed investment declined by -0.4% y/y in Q1 but this was a marked improvement from the -9.8% drop in Q4 (and -7.9% in full-year 2016). Last year's investment weakness was largely related to a slowdown in the use of EU funds for investment which we expect to recover in 2017. Private consumption rose by +4.7% y/y in Q1 (+4.5% in Q4) and public spending by +1% (-0.2% in Q4). External trade activity remained robust in Q1, with export expansion slightly down to +8.3% y/y (+9.3% in Q4) and imports up to +8.7% (+8.2% in Q4) so that net exports added only +0.1pp to Q1 growth (+0.8pp in Q4). We forecast full-year GDP growth to pick up to +3.4% in 2017 from +2.7% in 2016.

Africa & Middle East

Gulf Cooperation Council: Oil production cuts extended

Last week, OPEC member countries and 10 oil-producing, non-OPEC countries decided to extend their oil production cuts, which were agreed at the end of 2016 and began on 1 January 2017 for an initial six months, for a further nine months until end-March 2018. Reportedly, compliance with the agreement has been good so far, and we expect this to continue. For the member states of the Gulf Cooperation Council (GCC) this means an approximately 5% production cutback which will ease real oil sector growth in 2017. However, the increase in oil prices – the average price of a barrel of benchmark Brent stands at USD54 in 2017 YTD, up from USD45 in full-year 2016 – will more than compensate for that with regard to nominal oil revenues. Moreover, growth in the GCC non-oil sectors is set to gain momentum in 2017, as reflected in strong non-oil private sector PMIs for Saudi Arabia and the UAE. We expect real GDP in the GCC region to grow by just under +2% in 2017, unchanged from 2016.

Asia Pacific

Taiwan: Growth improved in Q1 but foundations remain fragile

Q1 real GDP grew by +0.9% q/q, up from +0.4% in Q4 2016. Private consumption was the main growth driver, rising by +0.5% q/q. Both government spending and investment contracted. Net trade contributed positively to Q1 growth due to a sharp contraction of imports (-3.0% q/q) compared to exports (-0.8% q/q). In Q2, there is room for continued expansion but the pace will likely be slower. Export orders growth remained firm at +7.4% y/y in April but slowed from +12.3% in March. The April Manufacturing PMI eased to 54.4 from 56.2 in March, signaling sustained but slightly moderating growth. Private consumption will likely remain a key growth engine, underpinned by a strong labor market, low inflation and rising consumer confidence. Economic policy support will be limited as the government prioritizes fiscal stability over growth and the Central Bank focuses on getting Taiwan off the U.S. watch list of possible currency manipulators. We expects GDP to expand by +2% in 2017, after +1.5% in 2016.

What to watch

- June 1 – China May Caixin Manufacturing PMI
- June 1 – Eurozone May Markit Manufacturing PMI
- June 1 – U.S. May ISM manufacturing index
- June 1 – Brazil Q1 GDP
- June 1 – Italy Q1 GDP (second estimate)
- June 2 – Greece Q1 GDP (second estimate)
- June 2 – U.S. May employment report
- June 5 – China May Caixin Services PMI
- June 5 – Turkey May inflation
- June 5 – U.S. April factory orders
- June 5 – U.S. May ISM non-manufacturing index
- June 6 – Eurozone April retail sales
- June 6 – Eurozone May Services and Composite PMI
- June 6 – South Africa Q1 GDP
- June 7 – Eurozone Q1 GDP (second estimate)
- June 7 – Germany April factory orders