Euler Hermes Economic Research

# Weekly Export Risk Outlook

1 February 2017

## In the Headlines

FIGURE OF THE WEEK

+1.6%

**U.S. 2016 GDP growth**

### France: Commencing countdown, engines on

Growth accelerated as expected to +0.4% q/q in Q4, after two quarters of near-stagnation (-0.1% in Q2 and +0.2% in Q3). Private consumption growth recovered to +0.6% q/q and corporate investment to +1.5% q/q, after stagnating in Q2 and Q3. Household investment continued its gradual acceleration (+0.9% q/q). Moreover, the main laggard of 2016 showed life in Q4: exports grew by +1.1% q/q. Overall, 2016 was still a year of subpar growth, at +1.1 % (even below the +1.2% in 2015), but there were many exceptional factors weighing on the overall figure (e.g. the bad weather impact on agriculture cut -0.2pp from annual growth). Meanwhile, 2017 had a good start, with consumer and business confidence improving at the same time by magnitudes not seen since September 2015. Moreover, corporate sales prices returned to growth and foreign demand has recovered. This is consistent with our forecast that turnover and export volume growth will accelerate in 2017, to +1.4% and +3.7%, respectively. Euler Hermes expects annual GDP growth to pick up to +1.4%. Elections pose a moderate downside risk, if they generate more uncertainty than answers.

### Eurozone: 2016 ended on a positive note

Preliminary estimates indicate that Q4 real GDP grew by +0.5% q/q, in line with expectations, following +0.4% q/q in Q3. The pick-up is expected to have resulted from a boost to new export orders thanks to a weaker EUR, increasing prices which supported firms' turnover, and a recovery in employment which supported private consumption. Confidence in the manufacturing sector registered its highest quarterly performance of the year which suggests that private investment continued to improve in Q4. Details by countries will be available on 14 February but advance estimates show accelerating growth in France (+0.4% q/q) and Belgium (+0.4%) and steady growth in Austria (+0.5%) and Spain (+0.7%). In 2017, we expect Eurozone GDP growth to remain relatively stable at +1.6%. Despite high uncertainty due to the Brexit process and upcoming elections, the ECB safety net should help maintain resilience. We estimate that elections could cut up to -0.1pp from growth in France and Germany, -0.2pp in the Netherlands and -0.3pp in Italy.

### U.S.: Q4 GDP weak, but also sets the stage for a better 2017

Q4 GDP increased at a weak annualized rate of +1.9% q/q, putting full-year growth at +1.6% as we had forecasted. Unfortunately that ties 2011 for the weakest year of the recovery. Net exports took a full -1.7pp off from total growth, and after stripping out a boost in inventories, real final sales was a very weak +0.9%. Most disappointing though was that consumption only grew +2.5% as consumers are still not spending, despite soaring optimism. Consumer Confidence slipped a bit in January, losing -1.5 points, but it was still just below December's 113.3 which was a 15-year high. Weak real income growth did not help, gaining only +2.1% y/y, the lowest in three years. Investment grew, however, gaining +10.7% q/q annualized, the second straight gain after three quarters of losses. Similarly core capital goods orders from a separate report rose +0.8%, the third consecutive gain, taking the y/y rate to +2.8%, the first positive in 15 months. Good news in investment will help set the stage for a better 2017 with a forecast GDP growth rate of +2.4%.

### Greece: All eyes on the IMF participation in the bailout

The Eurogroup meeting held last Thursday has (i) announced the formal adoption of the short-term debt relief measures that should help reduce Greek debt by 20pp by 2060 from 186% of GDP in 2016; (ii) concluded that there are enough positive drivers (positive growth in 2016, higher fiscal revenues) for a finalization of the second Troika review that will allow the disbursement of the next aid tranche. However, an agreement on the policy reform package and the medium-term targets between the Europeans and the IMF is still needed. On 6 February, the IMF Board will conclude the Article IV consultation with Greece and should make a decision on its participation in the third bailout. This is important for the EU countries that continue to judge the IMF participation as "non-negotiable" and will allow the ECB to buy Greek bonds through its QE program. Markets have stressed the importance of the IMF being on board (10-year bond yields up by more than 80bp since the Eurogroup meeting) as a matter of restoring sufficient confidence for Greece's return to the bond markets post 2018 when the bailout will end. The next Eurogroup meeting is on 20 February.

# Countries in Focus

Americas

## Chile: By the warmth of copper

The Central Bank lowered its key policy interest rate by 25bp to 3.25% in January and markets anticipate a further cut of the same magnitude during the first semester in order to spur growth. Inflation continued to moderate after the short-lived rebound that took place in November. Consumer prices changed -0.2% m/m and +2.7% y/y in December, bringing down inflation below the 3% target. Copper prices increased by +22% since September, after five years in negative territory driven by abating demand from China, and could catalyze Chilean production to gain momentum. Euler Hermes forecasts real GDP to increase by +2.1% in 2017, slightly better than the +1.7% estimate for 2016 but well below the +3.8% average recorded in the previous decade. The sluggish economy has deteriorated confidence in the government and fueled rising social discontent that could be decisive in the presidential and parliamentary elections that are scheduled to be held on 19 November.

Europe

## Poland: Slowdown in 2016. Stabilization in 2017?

Preliminary estimates show that real GDP growth decelerated markedly to +2.8% in 2016 from +3.9% in 2015, in line with our forecast. Demand-side details are only partly available as yet but indicate that growth was almost entirely driven by domestic uses (+2.7pp) while net exports made only a tiny positive contribution (+0.1pp). Private consumption grew by +3.6%, up from +3.2% in 2015. However, fixed investment dropped by -5.5% in 2016, after it had increased by +6.1% in 2015. But a strong rise in inventories reduced the decline in overall investment to -0.3% in 2016. Data for Q4 are not provided as yet, but the full-year figure suggests that Q4 growth was similar to the +2.5% y/y posted in Q3. Euler Hermes expects a stabilization in 2017 and forecasts full-year growth of +2.9% as domestic consumption should remain robust while investment activity should gradually recover thanks to an increased utilization of EU funds.

Africa & Middle East

## Saudi Arabia: Tepid growth to continue in 2017

Preliminary data indicate that the economy expanded by just +1.4% in 2016, down from +4.1% in 2015 and the lowest since 2009. Non-oil growth was particularly weak in 2016 due to government spending cuts and payment arrears to domestic contractors and service providers. However, there are signals pointing to a gradual rebound at the end of the year. The PMI for the non-oil private sector rose to a four-month high of 55.5 in December, perhaps reflecting that the government has begun to reduce its payment arrears. And the oil sector has benefitted from rising prices. EH expects the non-oil sector to continue to recover moderately in 2017 while output in the oil sector will be curtailed by the OPEC-agreed production cuts, which Saudi Arabia is expected to comply with. Overall, we forecast GDP growth to remain tepid at +1.5% in 2017. Meanwhile, inflation has fallen to a more than 10-year low of 1.7% y/y in December on the back of dropping food prices, but it should soon rise again as base effects fade.

Asia Pacific

## Philippines: Standing out?

Real GDP rose by +6.6% in Q4 2016, driven by services (+7.4% y/y) and industry (+7.6%). On the expenditure side, domestic demand was the main driver with strong consumption and investment growth. Full-year GDP growth accelerated to +6.8% in 2016 (from +5.9% in 2015) in line with government expectations (+6% to +7%). The annual performance was among the strongest in Asia, slightly above Vietnam (+6.2%) and China (+6.7%). Over the past two years, Philippine economic growth has been relatively immune to global trade shocks and EH expects it to remain robust in 2017 (+6.3%). Firm private consumption and favorable fiscal policy that focuses on infrastructure should boost domestic demand while exports are expected to continue to grow at a modest pace. Downside risks include (i) a loss of investor confidence due to perceived policy instability under the current administration, (ii) a tightening of financing conditions, and (iii) a deterioration of U.S.-Philippine relations.


# What to watch

- February 2 – Czech Republic Central Bank meeting
- February 2 – UK BoE meeting
- February 3 – Informal EU Council meeting
- February 3 – Russia 2016 GDP (flash estimate)
- February 3 – Turkey January CPI
- February 3 – U.S. December factory orders
- February 3 – U.S. January employment report
- February 3 – U.S. January ISM non-manufacturing
- February 4 – Columbia January CPI
- February 4 – Argentina Central Bank meeting
- February 6 – Germany December factory orders
- February 7 – Germany December industrial production
- February 7 – U.S. December international trade
- February 8 – Brazil January CPI
- February 8 – Spain December industrial production



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