Euler Hermes Economic Research

Weekly Export Risk Outlook

1 March 2017

FIGURE OF THE WEEK

25

Years without recession in Australia

In the Headlines

U.S.: Consumer confidence continues to climb

Consumer confidence rose +3.2 points in February to 114.8, the highest in over 15 years. Details were strong as the assessment of the current situation rose to the highest level in over nine years while the expectations component gained +3.4, putting it back above the 100 level at 102.4. Revisions to Q4 GDP left the headline unchanged at +1.9% q/q annualized, but consumption was revised up +0.5pp to +3%, while both investment and government spending were revised down. The trade deficit widened sharply in January from –USD64.4bn to –USD69.2bn as imports rose +2.3% m/m, driven by a +2.9% m/m increase in autos, while exports fell -0.3% m/m. Manufacturing struggled to maintain momentum as new orders for core durable goods slipped -0.4% m/m, the first decline in four months, but the y/y rate stayed positive at +0.5%. Recent comments from Fed officials have raised the probability of a March rate hike. We maintain our forecast of two to three hikes this year, and the first one is indeed possible, if not probable, this month.

India: GDP – unscathed by demonetization?

Real GDP growth surprised on the upside. While most analysts had expected growth to slip markedly below +7% y/y in Q4 2016 due to the demonetization shock in mid-November, it actually slowed down only slightly to exactly +7% from +7.4% in Q3 2016. The demand side breakdown suggests that the economy was broadly unscathed. Particularly unexpected, private consumption growth accelerated to +10.1% y/y (from +5.1% in Q3) despite the cash disruption while investment rebounded from contraction (+3.5% y/y). Some technical reasons could explain these upside surprises: (i) favorable base effect due to revisions of previous quarters, especially Q4 2015 was revised down markedly; (ii) inability of official statistics to capture the negative growth effects in the informal sector as the official numbers are based largely on formal sector data; (iii) accounting effects as demonetization has probably “encouraged” companies operating in the informal sector to declare their revenues; or (iv) companies showed their (“black money”) cash in hand after demonetization as sales. Looking ahead, recent high frequency indicators (PMIs, exports) point to an upturn of activity in early 2017. Euler Hermes expects GDP growth of around +7% in FY2016-17 (ending March 2017).

Germany: Domestic demand continues to drive growth

Q4 2016 real GDP grew by +0.4% q/q, up from +0.1%% in Q3 (revised down from +0.2% previously) which was the weakest quarter in the year after an average +0.6% during H1. Growth in Q4 was driven by domestic demand, notably government spending and fixed investment which both were up by +0.8% q/q, with the latter spurred by a +1.6% q/q rise in construction investment. R&D investment was up by +0.3% q/q while investment in equipment edged down by -0.1%. Inventories added +0.3pp to Q4 q/q growth. Private consumption grew by a solid +0.3% q/q. External trade activity rebounded in Q4, with exports rising by +1.8% q/q but being outpaced by imports surging at +3.1% q/q so that net exports subtracted -0.4pp from Q4 q/q growth. Euler Hermes expects domestic demand to continue to drive growth in 2017, with slightly moderating consumption but strengthening equipment investment. External trade should further pick up, in line with stronger global trade activity. We forecast calendar-adjusted full-year GDP growth of around +1.7% in both 2017 and 2018, slightly down from +1.8% in 2016.

Belgium: Growth benefiting from improving global trade

Real GDP growth rebounded to +0.5% q/q in Q4 from +0.2% in Q3, taking full-year growth to a still moderate +1.2%, well below the Eurozone average of +1.7%. The recovery in the Eurozone has had a positive impact on Belgium’s exports which expanded by +2% q/q in Q4, after +0.6% in Q3. On the domestic side, the pick-up in firms’ profitability in 2016 by +1.4pp to 42.8% (measured as share of operating surplus in value added) has allowed a rebound in fixed investment growth to +1.7% q/q. The bad news is that private consumption growth slowed down to +0.2% q/q in Q4 from +0.4% in Q3 on the back of weak wage growth (below +1% y/y) given the temporary end of the wage indexation to inflation. The latter reached 2.7% y/y in January as a result of hikes in indirect taxes in 2016. Overall, Euler Hermes forecasts full-year GDP to expand by +1.3% in 2017 and +1.4% in 2018.

Countries in Focus

Americas

Mexico: Perseverance

Governor Agustin Carstens has postponed his departure and will continue to head Banxico until the end of November. The Central Bank tightened monetary policy earlier in February, raising its key policy interest rate by 50bp to 6.25%. The economy is facing a surge in headline inflation which is already above the 3% +/-1pp target range, bloated by the rise in energy prices. Consumer prices soared by +4.7% y/y during the first two weeks of February, after +1.5% m/m and +4.7% y/y in January and +0.3% m/m and +3.4% y/y in December. In response to the depreciation of the MXN by -11% since November, Banxico announced the implementation of a forex hedge program of up to USD20bn set aside for Mexican banks in order to support the local currency in the exchange market. Meanwhile, real GDP grew by +0.7% q/q and +2.4% y/y in Q4 2016, exceeding preliminary estimates. Hence, annual GDP increased by +2.3% in 2016, close to the +2.4% average recorded in the previous decade.

Europe

Sweden: Back to normal?

Q4 real GDP increased by a remarkable +1% q/q, bringing annual growth to +3.1% which ranks Sweden among the best performers in Europe in 2016. Net trade contributed positively to GDP growth (+0.9pp) given the strong performance of exports (+1.8% q/q) the main driver of Q4 GDP growth and the import contraction (-0.2% q/q). Government spending growth was at an 18-year high in 2016 after a rebound in Q4 (+0.3% q/q after -0.1% in Q3) reflecting an increase in spending to integrate the 160,000 asylum seekers who arrived in 2015. Looking ahead, private consumption is likely to slow down as inflation is picking up (+1% in 2016) while wages expand constantly. Accommodative monetary policy (to reach 2% inflation) and pro-business measures should positively impact investment. However, given the recent SEK appreciation and the loss of purchasing power in the UK, the export performance should weaken somewhat. Hence we expect GDP growth to normalize at around +2.4% in 2017.

Africa & Middle East

Nigeria: When it rains, it pours

The decline in real GDP eased to -1.2% y/y in Q4 2016 from -2.3% y/y in Q3. Statistical information on Nigeria is not very good, but these figures indicate that the economy plausibly exited from technical recession (i.e. real GDP was higher in Q4 than in Q3). The improvement in the oil sector was the likely driver of the tentative recovery. As a result, full-year 2016 GDP growth came in at -1.5%, slightly better than our forecast of -2%, and we revise our 2017 growth forecast from +0.5% to +1%. But, the manufacturing and the service sectors are still set to show tepid performances. Cash constraints remain, even as new foreign exchange rules were introduced on 22 February in order to ease somewhat the strict capital controls introduced last year. For now, it has helped to close only a small part of the gap between the black market and the official exchange rates (from 40% to 30%). As a result, we expect inflation to remain high at about 15% in 2017.

Asia Pacific

Australia: Twenty-five is not the limit

In 2016, the economy recorded its 25th year without recession as real GDP rebounded to growth of +1.1% q/q in Q4, after it had contracted by -0.5% q/q in Q3. This took full-year real GDP growth to +2.5%, slightly up from +2.4% in 2015. In Q4, private consumption accelerated (+0.9% q/q) while both public (+7.7% q/q) and private (+1.5% q/q) investment recovered from contraction. Export growth picked up speed as well (+2.2% q/q). The reasons for the Q4 upturn include a supportive economic policy mix, low inflation, strengthening external demand and the better commodity prices environment. Going forward, signals of a continued cyclical upturn have built up in the first two months of 2017. In particular, solid demand growth from China, rising commodity prices and the improved manufacturing sector confidence (manufacturing PMI at 59.3) suggest robust growth in the near term. Euler Hermes expects GDP growth to rise by +2.7% in 2017.

What to watch

- March 2 – Canada Q4 GDP (1st estimate)
- March 2 – Ukraine Central Bank meeting
- March 3 – U.S. February ISM non-manufacturing
- March 3 – China February Caixin-Markit Services PMI
- March 3 – Czech Rep., Italy Q4 GDP (2nd estimates)
- March 3 – Germany January retail sales
- March 3 – Turkey February inflation
- March 6 – Mexico February consumer confidence
- March 6 – U.S. January factory orders
- March 7 – Eurozone, Bulgaria, Croatia, Hungary, Slovakia Q4 GDP (2nd estimates)
- March 7 – Germany January factory orders
- March 7 – Brazil, South Africa Q4 GDP (1st estimates)
- March 7 – U.S. January international trade
- March 8 – Brazil January industrial production
- March 8 – Germany January industrial production

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