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Research

Weekly Export Risk Outlook

14 February 2018

In the Headlines

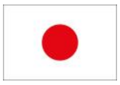
FIGURE
OF THE WEEK

+1.5%

Italy's GDP growth in 2017 (flash estimate)

U.S.: Stock market falls, but fundamentals remain solid

U.S. stock markets have been whipsawed recently, dipping into correction territory on Feb 8 as the benchmark S&P 500 fell -10.2% from the high of Jan 26 in just 10 trading days. Large losses started on Feb 2 when the January employment report showed wages growing +2.9% y/y, the fastest of the nine-year recovery. The increase in wages raised the specter of a Fed accelerating its rate hikes to fend off inflation, and it drove up long-term interest rates which are sensitive to inflation. Rising yields pressure asset prices lower, and the 10-year Treasury note has recently risen to 2.9%, the highest in four years. Caution is warranted as rising yields either from increasing inflation or increasing Treasury issuance will have to be offset by either higher stock prices or lower valuations. However, some perspective is also required. The worst day of this correction saw a drop of -4.2%, but over the past 20 years, the market has fallen more than that on 42 occasions. And -10% corrections are not unusual – the last time was a mere two years ago. Finally, the stock market is a poor indicator of the economy – the fundamentals remain solid and we maintain our forecast of +2.6% GDP growth in 2018.



Japan: Moderate growth thanks to private domestic demand

The Japanese economy continued its upward trend in the final quarter of 2017, albeit at a more moderate pace. As a result, economic activity rose on a sequential basis in the eighth consecutive quarter, the longest unbroken string in 28 years. According to the first preliminary estimate, real GDP increased by +0.1% q/q (+1.5% y/y). As expected, the further expansion was driven by private final domestic demand, while public demand declined again. Private consumption clearly recovered (+0.5% q/q) after weakness in Q3 and the moderate upward trend in business fixed investment (+0.7% q/q) continued. The slowdown in inventory investment should not be alarming but rather seen as payback following the sharp build-up in Q3. On a quarterly comparison, net exports did not contribute to growth, as the persistently strong increase in exports (+2.4% q/q) was offset by a sharp rebound in import growth (+2.9% q/q). In 2017 as a whole, real GDP expanded by +1.6%, with exports being the key driving force (+6.8%). The economy should maintain above-potential growth of +1.2% in 2018.

Italy: 2017 GDP growth highest since 2010

Economic momentum proved somewhat weaker than expected in Q4 2017, with GDP growth slowing to +0.3% q/q from +0.4% q/q in Q3. While no detailed breakdown is available as yet, the positive performance was driven by domestic demand as well as exports, according to Italy's statistics bureau. In 2017 as a whole the economy grew by +1.5% on a working-day adjusted basis – the strongest growth reading since 2010 – after +1.1% in the previous year. The brightening of the economic growth outlook – the average annual growth registered since joining the Eurozone is below +0.3% – has been driven by the broad-based cyclical upswing in Europe, the ECB's expansive monetary policy and improving competitiveness with structural reforms bearing fruit. However, compared to its Eurozone peers Italy is still struggling to keep up. In 2018 we expect the economy to expand by +1.3% as the cyclical upswing in Europe gradually starts to lose steam, putting Italy at the bottom of the EU growth table.

Central & Eastern Europe: Regional growth at 10-year high

First estimates indicate that real GDP growth in the group of 11 EU members in the CEE region eased slightly to +4.8% y/y in Q4 from +5% in Q3, taking full-year 2017 growth to an estimated +4.6%. The latter is up from +3% in 2016 and marks a 10-year high. **Romania** outperformed the region again with growth surging to +7% in 2017, even though Q4 growth slowed to +6.9% y/y from +8.8% in Q3. And since inflation surged to 4.3% y/y in January (from 3.3% in December), concerns of an overheating of the Romanian economy are likely to remain on the agenda. Annual GDP growth accelerated also markedly in **Poland** (to +4.6% from +2.7%), **Hungary** (to +4% from +2.2%), **Lithuania** (to +3.8% from +2.3%) and **Latvia** (to +4.6% from +2%). Growth edged up slightly in the **Slovak Republic** (to +3.4% from +3.3%) while it eased in **Bulgaria** (to +3.7% from an already high +3.9% in 2016). A strong rebound in fixed investment, thanks to much improved absorption of EU funds, together with strengthening consumer spending and robust exports were the key drivers of the growth acceleration in the region. As the investment boom will slow due to base effects, we expect regional growth of the 11 EU members in CEE to moderate to around +3.8% in 2018.

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Countries in Focus

Americas

Mexico and Brazil: Two diverging central banks

The end of last week saw Banxico and Banco Central do Brasil make contrary monetary policy moves. The Brazilian central bank cut its policy rate by 25bp to 6.75% while the Mexican rate was hiked by 25bps to 7.50%. In **Brazil**, it is the eleventh cut since the beginning of the easing cycle (October 2016) with the aim to support the recovery amid lower inflationary pressures. Inflation has sunk below the target (4.5% ± 1pp) and struggles to climb back; it stood at 2.9% in January. The central bank signaled a probable end of the easing cycle but intends to monitor the progress of structural reforms. In **Mexico**, the policy rate stands at a nine-year high. After reaching a sixteen-year high last December (+6.8%) inflation moderated to +5.5% in January. Yet it remains above target (+3% ± 1pp) and wages are accelerating as the slack in the labor market has faded. Banxico remains cautious as further volatility in the peso is expected in the context of NAFTA renegotiations and presidential elections in July.

Europe

Netherlands: Heading towards another year of strong growth

Q4 GDP grew by +0.8% q/q, twice the growth in the previous quarter and above expectations of +0.6%. Overall, GDP increased by +3.2% in 2017, the highest pace since 2007 and a top performance among the largest Eurozone countries. More than two thirds of 2017 growth was driven by net exports and fixed investment and we expect this trend to continue into 2018 in light of the ongoing positive momentum of global trade (forecast to rise by +3.9% in volume in 2018) and strong business confidence. In January, the Manufacturing PMI reached its highest level since 2000 and the capacity utilization rate stands at 83.5%, the highest since 2007. The slack absorption should improve companies' pricing power. We expect company turnover in the manufacturing sector to continue to strengthen (+7.8% annual growth in Q3 2017) while margins have stabilized at 42% of the value added, which is above the Eurozone average. This coupled with still favorable financing conditions suggest continued investment momentum. Overall, we expect GDP growth to reach +2.8% in 2018 and +2.4% in 2019.

Africa & Middle East

Qatar: Showing resilience

The economy appears to weather the ongoing political tensions with the other Arab states fairly well. Real GDP growth maintained solid growth momentum in 2017 despite the continued Saudi Arabia-led embargo that began in June last year. Growth recovered to +1.9% y/y in Q3 2017 (after dropping to +0.3% in Q2), thanks to a rebound in manufacturing (+5.1% y/y) and continued strong expansion in the construction sector (+14.7% y/y), despite the suspension of Qatar's land border with Saudi Arabia which initially affected the imports of construction materials. And recently the Ministry of Economy and Commerce estimated growth to have reached around +2% in 2017 as a whole, suggesting that economic activity continued to recover in Q4. We forecast growth to pick up to +2.5% in 2018 on the back of rising gas production (oil production will remain curtailed due to the extension of the OPEC deal through year-end) and increased infrastructure investment for the FIFA World Cup in 2022.

Asia Pacific

Malaysia: Towards a gradual slowdown

In Q4 2017, Malaysian GDP rose by +5.9% y/y (down from +6.2% in Q3). Private sector demand continued to be the main growth driver (+7.4% y/y after +7.3% in Q3). Private consumption expansion remained robust at +7% y/y while investment accelerated to +9.2% y/y (from +7.9% in Q3). Public expenditures increased at a slower pace (+3.4% y/y) undermined by lower capital spending (-1.4% y/y). Exports growth moderated to +7.1% y/y in Q4 (from +11.8% in Q3). Meanwhile, inflation edged down to +3.5% y/y in Q4 from +3.6% in Q3. Looking ahead, we expect economic growth to remain robust but to lose some speed. Slower demand growth from China (accounting for 13.5% of Malaysian exports) is set to act as a drag on export revenues. Investment is set to lose some momentum due to tighter monetary policy. Against this background, we forecast full-year growth to decelerate to +5% in 2018 (from +5.9% in 2017).

What to watch

- February 15 – Colombia Q4 2017 GDP
- February 15 – Italy December trade balance
- February 15 – Peru Q4 2017 GDP
- February 15 – Bulgaria January consumer prices
- February 15 – Poland January consumer prices
- February 15 – Slovakia January consumer prices
- February 15 – Spain January consumer prices
- February 15 – U.S. January producer prices
- February 15 – U.S. January industrial production
- February 16 – Czech Republic Q4 2017 GDP
- February 16 – U.S. January housing starts and permits
- February 19 – Thailand Q4 2017 GDP
- February 20 – Poland January industrial production
- February 20 – Turkey February consumer confidence
- February 22 – Turkey February business confidence

Contact Euler Hermes
Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com