

Weekly Export Risk Outlook

22 November 2017

FIGURE
OF THE WEEK

+8.8%

Q3 2017 y/y
GDP growth
in Romania
(flash estimate)

In the Headlines



U.S.: Continued broad strength

Recent data paint a picture of a very solid economy. The Index of Leading Economic Indicators rebounded from the hurricanes and rose by +1.2% m/m in October, the most in four years. Industrial production gained +0.9% m/m to +2.9% y/y, the highest in 34 months. The manufacturing component gained +1.3% m/m to 2.5% y/y, the fastest in 40 months; a year ago it was -0.1%. On the consumer side, retail sales rose +0.2% m/m despite a -1.2% m/m drop in sales of building materials and gasoline. Core retail sales increased +0.3% m/m, putting the y/y rate at a respectable +3.4%. The retail industry is expecting a robust holiday season. Housing starts, permits, and existing home sales all rose in October. Even core consumer price inflation is showing signs of life, gaining +0.2% m/m, pushing the y/y rate up from 1.7% where it had been stuck for five months to 1.8%. Only headline inflation is a bit disappointing; despite gaining +0.1% m/m, the y/y rate fell from 2.2% to 2.0%. While tax reform still faces significant hurdles, we maintain our GDP forecast of +2.5% for 2018, an improvement over 2017's expected +2.2%.



Malaysia: Q3 GDP – gaining momentum

Real GDP growth accelerated to +6.2% y/y in Q3 from +5.8% in Q2. Domestic demand rose by a robust +6.6% y/y, driven by strong growth in private sector expenditures (+7.3% y/y). Private consumption expanded by +7.2% y/y, benefiting from higher wages and improving job creation. Private investment increased by +7.9% y/y, up from +7.4% in Q2, underpinned by solid demand growth from the domestic market but also from abroad. Exports expanded by +11.8% y/y, after +9.6% in Q2. Going forward, advanced indicators point to solid but somewhat slower expansion. Hard data for September show that growth of both industrial production (+4.7% y/y, down from +6.8% in August) and retail sales (+9.6% y/y, after +12.9%) moderated. Moreover, the Manufacturing PMI decreased for the second consecutive month in October, to 48.6 points, from 49.9 in September. Against this background, we expect economic growth to lose some traction in Q4, heading for +5.8% in 2017 as a whole.



Romania: Overheating?

According to official first estimates, real GDP growth surged to +8.8% y/y and to +2.6% q/q in Q3, up from +6.1% y/y and +2% q/q in Q2 and taking the average growth in the first three quarters of 2017 to +7% y/y. Along with sharply accelerating inflation, rapidly widening external accounts and a rising fiscal deficit, concerns over an overheating of the economy have increased. Consumer price inflation rose by 1.3% m/m in October, taking the y/y rate to 2.6%, the highest in over four years and just above the 2.5% inflation target of the Central Bank. As imports grow faster than exports, the current account deficit has widened to -EUR4.2bn in Q1-Q3 2017, up by +45% from the same period in 2016. And the fiscal deficit rose by -RON3.1bn (approx. -EUR0.7bn) y/y in Q1-Q3 2017. Euler Hermes has revised its full-year growth forecast to +6.7% for 2017. We also forecast both the fiscal and the current account deficits to increase to about -3.2% of GDP this year, up from -3% and -2.3% in 2016, respectively. The Central Bank has kept its key policy interest rate unchanged at 1.75% since May 2015 but should start hiking at its next meeting in January 2018 in order to rein in potential overheating.



Chile: Reforms needed to scale up the recovery

Real GDP growth continued to accelerate to +2.2% y/y (+1.5% q/q) in Q3, from +1.4% y/y in Q2 and +0.2% y/y in Q1. The rebound was due to exports (+6.4% q/q in Q3) which had severely contracted before owing to strikes in the country's largest copper mine. Accommodative monetary policy and higher spending on health and education also support domestic consumption (+0.8% q/q). Yet annual growth has averaged less than +2% since 2014 compared to +5% in 2010-2013. After last Sunday's general election, center-right candidate Piñera will face center-left Guillier in a runoff for the presidency in December. The winner needs to address three key challenges: (i) Diversification of the economy as commodity exports account for 24% of Chilean GDP, the highest share among Latin America's major economies; (ii) revive investment which has subtracted an average -0.5pp from y/y growth since incumbent President Bachelet took office in March 2014; (iii) address inequality and the demands of the middle class. The latter is crucial for Chile, one of the OECD's most unequal societies, in order to achieve its target to become a "developed country".



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Countries in Focus

Americas



Canada: Inflation on hold, a delicate balance in housing

Consumer prices gained +0.1% m/m in October, but the y/y inflation rate dropped from +1.6% to +1.4%. Energy prices fell by -1.8% m/m after hurricanes raised prices +2.7% m/m in September. The average of the Bank of Canada's (BoC) three inflation measures remained at +1.6% y/y for the third straight month, suggesting that the BoC will be on hold for some months to come. Government measures to cool the overheated housing market have successfully straddled the fine line between a soft and a hard landing, so far. Housing prices are falling but still remain high, while unit sales fell over the summer and are now slowly rebounding. For example, Toronto housing prices fell a sharp -2.8% m/m, driving the y/y rate down to a hot +13.4% vs. an unsustainable +28% in June. Similarly, nationwide unit sales fell every month from April through July, but have now crept back up over the past three months.

Europe



Central and Eastern Europe: Still accelerating

First estimates indicate that real GDP growth in the group of 11 EU members in the CEE region gathered further momentum in Q3, accelerating to around +5% y/y from +4.1% in Q2. The front runner was once again **Romania** with +8.8% y/y, raising overheating concerns (see page 1 for details). Elsewhere, Q3 seasonally adjusted real GDP growth picked up to +5% y/y in both **Poland** (from +4.2% in Q2) and the **Czech Republic** (from +4.7%), to +3.8% y/y in **Hungary** (from +3.6%) and remained stable at +3.4% y/y in **Slovakia**. In **Bulgaria**, Q3 GDP growth edged up to +3.9% y/y (from +3.7%), driven by robust domestic consumption (+4.6% y/y), accelerating fixed investment (+4.2% y/y) and inventories which contributed approximately +0.5pp to growth. Solid export growth (+4.4% y/y) was outpaced by imports (+6.2% y/y) so that net exports subtracted -0.9pp from Q3 growth. We expect average full-year growth of the 11 EU members in CEE to speed up to +4.4% in 2017 (from +3% in 2016).

Africa & Middle East



Qatar: Blockade impact

Real GDP growth decelerated to +0.6% y/y in Q2 from +2.4% in Q1. The hydrocarbon sector posted a strong decrease of -2.7% y/y in Q2, after -0.4% in Q1, which can be explained by the impact of the OPEC-agreed oil output cuts (currently to be in force until March 2018). Moreover, growth in the non-hydrocarbon sector decelerated to +3.9% y/y in Q2, down from +5.2% in Q1 and the weakest growth on record since Qatar's statistical authority began reporting quarterly GDP in 2011. The non-hydrocarbon sector's slowdown was largely a result of weaker activity in the financial, transportation and construction industries, which have been impacted by the economic blockade imposed on Qatar by Saudi Arabia, the UAE, Bahrain and Egypt in June (see also [WERO 5 June 2017](#)). Meanwhile, the contraction of imports has moderated from more than -35% y/y in both June and July to -7.8% in August and -2.8% in September, indicating that the blockade impact may have started to fade. Euler Hermes forecasts full-year GDP growth of +1.4% in 2017 and +2.5% in 2018.

Asia Pacific



Philippines: Q3 GDP – Pilipinas Got Talent

Real GDP posted strong growth of +6.9% y/y in Q3, up from +6.7% in Q2. On the production side, both industry (+7.5% y/y) and services (+7.1% y/y) rose at a fast pace in Q3. On the expenditures side, government spending surged by +8.3% y/y, investment increased by +7.1% y/y, consumer spending expanded more moderately by +4.5% and exports continued to rise briskly (+17% y/y). The short-term outlook is well-oriented. The Manufacturing PMI indicates continued expansion, with a reading of 53.7 points in October, as both output and new orders increased at faster paces. The policy mix is clearly accommodative for now, with the monetary policy rate at a record low and aggressive fiscal stimulus measures as the government is implementing its "Build, Build, Build" infrastructure program. In that context, economic growth is forecast to rise by +6.6% in 2017 as a whole.



What to watch

- November 23 – Canada September retail sales
- November 23 – France Nov. business confidence
- November 23 – ECB monetary policy meeting
- November 23 – Eurozone Manufacturing PMI
- November 23 – Germany Q3 GDP (with details)
- November 24 – Colombia monetary policy meeting
- November 24 – Germany Nov. Ifo business climate
- November 24 – Mexico Q3 GDP (final)
- November 24 – Mexico Q3 current account balance
- November 27 – China October YTD industrial profits
- November 27 – U.S. October new home sales
- November 28 – U.S. October international trade
- November 28 – U.S. Nov. consumer confidence
- November 29 – Germany and Spain Nov. CPI (prelim.)
- November 29 – U.S. Q3 preliminary GDP

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