

Weekly Export Risk Outlook



EULER HERMES
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22 May 2013

In the Headlines

FIGURE OF THE WEEK: +8% >EH FORECAST RISE IN 2013 GLOBAL INSOLVENCIES

▶ World Economy: Global insolvency outlook

EH's latest research shows that the decline in global corporate insolvencies in 2010-2011 was short-lived. The number of insolvencies increased by +1% in 2012 but the overall figure encompasses two major and contrasting trends. Insolvencies fell more than expected in the Americas (-15%) and Asia (-5%) but there was a sharper-than-expected increase in Europe, with bankruptcies up in each of the three major sectors (+3% in industry, +9% in construction and +7% in services). The deterioration in Europe was particularly evident in the eurozone (+16%), although Germany (-6%) was a notable exception. EH expects the upturn in insolvencies to gather pace in 2013 (+8%), in line with the downward revision in our macro-economic outlook, particularly for Europe, and EH's initial forecast for 2014 is for the number of insolvencies to increase further, by +2%.

▶ US: Latest indicators

Manufacturing data for April and May were very weak, but more forward looking indicators showed some optimism. In April's Industrial Production report, manufacturing output fell -0.4% mo/mo, with decreases in most industries. Regional Federal Reserve reports on manufacturing from the Empire State (New York), Philadelphia and Chicago were all worse-than-expected and all showed contraction. However, the University of Michigan's Consumer Sentiment survey increased by 7.3pps in May, to the highest level in almost six years—before the recession started—and the April Index of Leading Economic Indicators increased by a better-than-expected 0.6pps, driven by housing permits and a surging stock market, suggesting continued growth six to nine months ahead.

▶ Russia: Growth slows, no monetary easing yet

Flash estimates from RosStat (official statistical office) show Q1 real GDP growth at +1.6% y/y, down from +2.1% in Q4 2012. Retail sales continued to rise, by +11.6% y/y in Q1 (+12.2% in Q4), indicating that robust private consumption was Q1's key growth driver, while flat industrial production (after +1.7% in Q4) and a deterioration in external demand appear to have caused the slowdown. The value of merchandise exports contracted by -4.9% y/y in Q1 (-1.1% in Q4) while imports expanded by +3.4% (+6% in Q4). Despite political pressure for monetary policy easing to support growth, the central bank kept its key policy interest rate unchanged at 8.25% last week as headline inflation, at 7.2% y/y in April, remained markedly above the 5-6% target band for 2013. EH expects full-year 2013 growth of +3.2%, perhaps supported by looser fiscal and monetary policies in H2, if needed.

▶ Germany: GDP growth and the labour market

Growth was relatively weak in Q1, according to the latest data release from the Federal Statistical Office, with GDP increasing by only +0.1% q/q after contraction of -0.7% in Q4 2012 (revised downwards from -0.6%). The weakness in Q1 was partly a result of the impact on economic activity of adverse weather conditions in the period, which also dampened the typical spring revival in the labour market. The weak overall momentum was also confirmed in the latest Ifo Business Climate Index, which showed a further decline in April. Official data show 41.5 million people were employed in Q1, resulting in a comparatively low increase of +0.7% y/y. In March and April, the numbers of people registered as unemployed were down by -1.9% and -2.5% mo/mo, respectively, reaching 3.02 million by the end of the latter month.

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► Mediterranean, Africa & Middle East – *Nigeria: GDP growth*

Despite continuing security concerns in the oil-producing Niger delta and in the north (a state of emergency was declared last week in three NE states), the economy continues to register strong rates of growth. In Q1, GDP increased by +6.6% y/y (+7% in Q4 2012 and +6.6% overall last year). Moreover, Q1 growth was driven by the non-oil sector (+7.9% y/y), particularly telecoms, construction and services, while the oil and gas sector registered a contraction (-0.5%). The latter reflects continuing disruptions to supply from pipeline vandalism and bunkering activities, with average crude oil output in Q1 of 2.29 million barrels per day (2.35mbpd in Q1 2012). The central bank this week left interest rates unchanged. With continuing strong domestic demand, EH expects growth of +6.5% in 2013 and in 2014.



► Americas – *Mexico: Slower pace in Q1*

Q1 growth was just +0.8% y/y—the slowest pace since Q4 2009—and industry contracted. However, the data were affected negatively by having fewer working days in the quarter compared with Q1 2012 because Easter was in March this year. On a q/q basis, which uses seasonally adjusted data, growth was +0.5%, still not strong but slightly above consensus expectations. A detailed demand-side breakdown is not available yet, but indications are that exports were weak, hit by US demand (the US accounts for 80% of exports). Nonetheless, EH still expects full year growth in 2013 to reach +3% and to gather momentum into 2014 as the government's reform programme gains traction, US growth holds up and inflation eases, facilitating lower interest rates.



► Asia-Pacific – *Thailand: Q1 GDP weakens*

GDP contracted by -2.2% q/q in Q1, after +2.8% growth in Q4 2012. All sub-components on the demand side declined, except for imports, which grew by +1% q/q. Exports contracted by -0.1%, private consumption -1.2%, government consumption -4.8% and fixed investment by -1.8%. On the supply side, manufacturing contracted sharply, by -5.9% q/q, while the other major sectors continued to grow only slightly. On a y/y basis, real GDP increased by +5.3% in Q1. However, this figure is somewhat misleading because of base effects—growth of just +0.4% y/y in Q1 2012 was affected by the severe floods in the preceding quarter. With inflation falling to 2.4% y/y in April and price pressures unlikely to be significant in the near term, expect a cut in the key policy interest rate next week.



► Europe – *Emerging Europe: Q1 GDP growth*

According to flash estimates, Q1 GDP growth across the region was mostly lacklustre. **Poland's** economy increased by +0.1% q/q (flat in Q4 2012) and +0.4% y/y (+0.7% Q4). The recession in the **Czech Republic** deepened further as GDP contracted by -0.8% q/q (-0.3% Q4) and by -1.9% y/y (-1.4% Q4). **Hungary** moved to growth of +0.7% q/q in Q1 (-0.4% Q4), although it continued to contract on a y/y basis, by -0.9% (-2.7% Q4). Q1 growth remained weak in **Bulgaria**, at +0.1% q/q (flat in Q4) and +0.4% y/y (+0.3%) and in the **Slovak Republic**, where GDP increased by +0.3% q/q (+0.1% Q4) and +0.6% y/y (+0.7% Q4). Only **Romania** surprised on the upside, as growth was +0.5% q/q (+0.4% Q4) and +2.1% y/y (+0.3% Q4). Expect regional weakness to continue in Q2 and probably in Q3 as well.

Worth knowing

► Turkey

In a further attempt to curb short-term capital inflows, the central bank last week cut its key policy one-week repo rate by 50bps, to 4.5%, as well as both ends of its overnight interest rate, to 3.5% and 6.5%, respectively. Also last week, Moody's upgraded Turkey from Ba1 to Baa3 (stable outlook), joining Fitch in assessing the country as investment grade.

► Other GDP

Cyprus: -4.3% y/y in Q1 (-3.5% in Q4 2012) and -1.3% q/q in Q1 (-1.2% in Q4). **Malaysia:** +4.1% y/y in Q1 (+6.5% in Q4).

► Iran

Former president Akbar Hashemi Rafsanjani and Esfandiar Rahim Mashaei, a protégé of President Mahmoud Ahmadi-Nejad, were barred from contesting elections (14 June). Expect a presidential candidate close to the Supreme Leader, Ayatollah Ali Khamenei, perhaps Iran's chief nuclear negotiator Saeed Jalili, to do well in the polls.

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