Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: +2.5% >US Q/Q ANNUALISED Q1 GDP GROWTH

World Economy: Still a bumpy road

World trade decreased further in February (-0.7% mo/mo). Total exports decreased for most regions except the US (+0.3% mo/mo) and Africa and the Middle East (+1.2% mo/mo). A significant drop was posted by Japan (-2.4% mo/mo) and Central and Eastern Europe (-1.8% mo/mo). If global trade remains at the same level in March, growth in world trade in Q1 2013 will reach +0.5% q/q (+0.5% for advanced economies and +0.4% for emerging economies). EH expects global trade to post moderate growth in 2013 (+3.6% after +2.1% in 2012). Global industrial momentum recovered slightly in February (+0.5% mo/mo) from flat in January, led by the US (+1.1% mo/mo) in the advanced economies and by Asia and Africa/Middle East in the emerging economies. If world industrial production remains at the same level in March, Q1 2013 production will increase by +0.8% q/q (+0.7% q/q in advanced economies and +1.1% q/q in emerging economies).

US: Latest economic indicators

Real GDP growth in Q1 was weaker than expected at +2.5% q/q annualised. Consumption was positive but growth in final sales (after change in inventories) was weak at +1.5%. Investment contributed positively but net exports and government spending both acted as a drag on growth. Real disposable personal income fell -5.3% q/q, largely reflecting a correction from the rapid increase in Q4 2012 (+6.2%) to avoid tax measures. Spending cuts, taxes, budget uncertainty and anaemic employment reports suggest the weakness will continue. April consumer confidence recovered from a disappointing March but remains markedly below average. Housing data continue to be positive, with prices in the Case-Shiller Index increasing for the 13th consecutive month in February, at +9.4% y/y. However, half of the 20 cities in the sample show double digit annual growth, a rate which may not be sustainable.

Spain: Reduction in the pace of austerity

The European Commission endorsed—a formal approval is expected by end-May—the plan of the Spanish cabinet to delay the reduction in the country's fiscal deficit to -3% of GDP (from the current -10.6%) by two years, to 2016, given the weak economic environment. This is a positive development as it shows that the European fiscal framework is becoming more flexible (also in Portugal and France) to limit the potential adverse consequences of corrective policies. Indeed, the severe recession registered in 2012 (-1.4%), together with the increase in interest expenditures, triggered a significant slippage in the 2012 fiscal target of -6.3%, which is now this year's target. Even so, this is likely to prove challenging, given the second consecutive year of recession expected in 2013 (EH forecasts GDP will contract by -1.5%) and the banking sector bailout (EUR40 billion, equivalent to 4% of GDP) that weighs on interest expenditures.

Taiwan: Lower than expected Q1 growth

Q1 growth slowed by more than expected, according to the official advance estimate. Real GDP increased by +1.5% y/y, after +3.7% in Q4 2012, although this was still above the full year 2012 pace of +1.2%, and contracted by -0.8% q/q (+1.8% in Q4 2012). The main factor in the slowdown was a negative net export contribution. Export growth held up (+4.8% y/y) but there was a very strong surge in imports (+6.9%), partly the result of increasing imports of capital goods. Personal consumption growth was also markedly lower but a positive feature was fixed investment, which continued the upturn from Q4 2012 (+10.6% y/y). The economy is still likely to strengthen through the year, but full year growth of GDP may now be closer to +3% than +3.5%.

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Countries in Focus

Mediterranean, Africa & Middle East – *Rwanda: Eurobond*

Last week's issue of a 10-year USD400 million debut sovereign Eurobond followed international bonds from Zambia, Nigeria, Tanzania and Angola. Orders received are put at around USD3 billion—7.5 times oversubscribed—suggesting continued appetite for African debt at a time when high-yield investment opportunities are limited elsewhere. For Rwanda, the financial injection will be used partly to retire ST financing for ongoing projects, including a hydropower plant. Despite Rwanda's recent record in terms of stability, GDP growth (annual average +7.8% in 2000-12) and improved business-friendly environment, the country remains aid-dependent and there are regional uncertainties. Even so, EH expects GDP growth of +6% in 2013 and +7% in 2014, with associated business/trading prospects.

Americas – *Colombia: Unchanged interest rates*

The central bank left the policy interest rate unchanged at 3.25% at its policy meeting last week. Previously, the rate had been lowered steadily from a recent cycle peak of 5.25% in February 2012 and was cut by 50bps in March. Inflation edged up slightly in March but, at 1.9% y/y, was comfortably within target. Expectations suggest that it will remain within bounds and so is not posing a significant threat. Expected Q1 growth of +2.8% is also not strong but the central bank believes that previous rate cuts have now passed through into the economy and, along with fiscal measures, these should encourage stronger growth through the year, justifying a pause. EH expects GDP to increase by +3.6% in 2013 with a stronger H2 than H1.

Asia-Pacific – *South Korea: Solid Q1 GDP growth*

According to advance estimates, Q1 real GDP growth accelerated to +0.9% q/q from +0.3% in Q4 2012. The rebound was largely driven by external demand, although this appears to be partly a correction to the decline in the previous quarter. Exports expanded by +3.2% q/q in Q1 (-1.1% in Q4), outpacing import growth of +2.5% (-0.8% in Q4), so that net exports made a large contribution to Q1 growth. Government spending (+1.3% q/q in Q1 after -0.6% in Q4) and fixed investment (+2.9% in Q1 after -1.6% in Q4) also made a turnaround in q/q terms, while private consumption disappointed, falling by -0.3% q/q after +0.8% in Q4. In y/y terms, Q1 GDP growth was stable at +1.5%. All components grew solidly except for investment, which declined by -4.5%. EH expects full year 2013 growth of around +2.5%.

Europe – *Hungary: Monetary & fiscal policy*

The Monetary Council (MC) last week lowered the key policy interest rate by 25bps to 4.75%. This was the ninth consecutive rate cut since August 2012, resulting in a cumulative reduction of 225bps. Inflation eased recently, from 6.6% y/y in September 2012 to 2.2% in March 2013, to be at the lower end of the 3%±1pps target range. The MC expects the disinflationary impact of ongoing weak domestic demand to continue and may consider further interest rate cuts to support the still declining economy. However, exchange rate volatility—as observed in March when the HUF/EUR rate fell by 5% in a few weeks—poses upside risks to inflation. On the fiscal front, concerns were raised by the budget deficit in Q1 as it amounted to 56% of the full-year 2013 target.

Worth knowing

Other GDP

UK: Q1 GDP increased by +0.3% q/q and +0.6% y/y, led by the services sector. **Lithuania:** Q1 real GDP growth decelerated to +3.4% y/y from +4.1% in Q4 2012, although it picked up to +1.3% q/q from +0.7% in Q4. All major sectors contributed to growth in Q1, except construction. **Ghana:** Latest revisions upgrade GDP growth in 2011, to +15% (previously +14.4%), and 2012, to +7.9% (+7.1%). **Mauritius:** Q4 2012 +0.2% q/q and +3.1% y/y (+1.2% and +3.6% in Q3, respectively). Overall, GDP increased by +3.3% in 2012 (+3.5% in 2011).

European Central Bank

The ECB lowered its key benchmark rate by 25bps to 0.5% and the rate on the marginal lending facility by 50bps to 1%, while keeping the rate on the deposit facility unchanged at 0%.