Euler Hermes Economic Research

Weekly Export Risk Outlook

14 December 2017

In the Headlines

FIGURE OF THE WEEK

+11.1%

Turkey's Q3 2017 y/y GDP growth

U.S.: Fed hikes as expected, sees stronger growth in 2018

As expected the Federal Reserve raised the Fed Funds rate +0.25% to a range of 1.25% to 1.50%. The Fed also revised its economic forecasts upward to indicate a generally stronger economy than previously estimated, raising its 2018 GDP forecast sharply from +2.1% to +2.5%, and lowering the unemployment rate from 4.1% to 3.9%. However it left its forecast for inflation unchanged at 1.9%, and described inflation measures as having "declined" vs. the previous statement's description as merely "soft". In addition, the Fed had written in November that labor market conditions "will strengthen somewhat further" but has now switched that description to "remain strong", suggesting the Fed believes there is little room for the labor market to accelerate. The Fed's "dot plot" indicated that Fed members expect to raise rates three times in 2018 to a range of 2% to 2.25%. Two dovish members dissented, but neither votes next year, and two other voters who are more hawkish will be added, supporting the case for at least three rate hikes in 2018. The Fed's view on inflation was mirrored by November's core CPI measure which fell from a y/y rate of 1.8% to 1.7%.

Turkey: Surging, but for how long?

According to official estimates, Q3 real GDP surged by +11.1% y/y, exceeding our already high expectations. Moreover, upward revisions were made for the real growth rates in Q2 (from +5.1% to +5.4% y/y) and Q1 (from +5.2% to +5.3% y/y). Q3 y/y growth was driven by private consumption (+11.7%), fixed investment (+12.4%) and real exports (+17.2%). Imports rose also strongly at +14.5% y/y in Q3. However, since strong base effects due to the GDP contraction in Q3 2016 in the wake of the failed coup bias the y/y rates, GDP growth in q/q terms provides a better picture of the economic outlook: it slowed down to +1.2% q/q in Q3 from +2.2% in Q2. Private consumption grew by +1.7% q/q (+2.2% in Q2), fixed investment by +4% q/q (+4.8% in Q2), and government consumption contracted by -2.1% q/q (+0.8% in Q2). Exports declined as well, by -0.6% q/q (+0.6% in Q2), while imports rose by +3.9% q/q (after +4.6% in Q2), so that net exports made a negative contribution to q/q growth. Overall, we revise upwards our full-year GDP growth forecast to +6.7% in 2017. Since the dynamics of q/q growth is losing momentum and base effects will fade already in Q4, we project a slowdown to +4% in 2018.

Germany: Industry continues to grow, but at a slower pace

Despite a further drop in industrial production in October (-1.4% from the previous month on a price, seasonally and working day adjusted basis), prospects for the German industrial sector remain favorable. A major driver behind the latest decline was the automotive sector, where production contracted by another -5.8% on the previous month (September: -6.6%, August: +11.1%). The strong fluctuation in monthly data was due to the fact that plant holidays in the automotive sector happened to be in July rather than in August this year, so the figures overstated the situation in August. The decline in industrial production is no signal for a trend reversal. New orders in manufacturing clearly remain on an upward trend, rising by +0.5% on the previous month in October (September: +1.2%), The full order books clearly speak in favor of an overall expansion in the industrial sector in Q4, albeit at a slower pace than in the previous quarters. The latest data supports our view of a somewhat less dynamic real GDP growth in Q4. We have penciled in +0.6% q/q, following +0.8% in Q3.

China: Financial tightening weighs on growth

Value-added industrial production increased by +6.1% y/y in November, falling from +6.2% y/y in October and +6.6% y/y in September. Likewise, fixed asset investment has been slowing to +7.2% y/y, the weakest rise since the beginning of the year. Capital-intensive sectors have been growing at a slower pace, mainly due to tighter lending to non-bank financial institutions in an effort to rein in financial risk, which has driven up borrowing cost. Retail sales rose by +10.2% y/y in November, 0.2 percentage points higher than last month. Imports expanded by +17.7% y/y outperforming export growth of +12.3% y/y, which was supported by higher demand for commodities. The reflation trend consolidated further with continued rise in producer prices (+5.8% y/y). After real GDP growth peaked in the first half of the year (+6.9% y/y), EH expects growth to total +6.8% in 2017 amid subdued growth in property investment and credit extension in the second half of the year.

Countries in Focus

Americas

Brazil: End-year easing of financial conditions

Inflation has started to increase in September and reached 2.8% y/y in November, after having fallen for 13 straight months to +2.5% y/y in August (down from +9% a year earlier). Nonetheless, the Brazilian Central Bank cut its key policy rate again by 50bp in December, reaching a historical low of 7%. It was the 10th cut in this accommodative cycle which started in October 2016 with a cut from 14.25% to 14%. This move testifies for the continuous support of Banco do Brazil to the economy, in an attempt to foster consumption and investment. The Central Bank signaled that it would aim a "moderate reduction of the pace of easing" at its next meeting, as the economy has undeniably emerged from recession and inflation reversed its previous downtrend. Corporates are still deleveraging but consumer credit growth show signs of acceleration (+4.4% y/y in July, up from +3.3% six months earlier). Moreover, employment growth has driven down the unemployment rate to 12.2% in October, down from a high of 13.7% in March.

Europe

Croatia: The recovery is gaining momentum

Q3 real GDP grew by +3.3% y/y (seasonally adjusted by +0.9% q/q and +3.2% y/y), up from +3% y/y in Q2, taking the average growth in the first three quarters of 2017 to +3% y/y. Growth in Q3 was driven by domestic demand. Consumer spending grew by +3.7% y/y, despite ongoing troubles at Agrokor, the major power in retail trade that accounts for an estimated 7-8% of GDP. Public spending increased by +2.3% and fixed investment by +3.4%. Exports of goods and services expanded by +5.7% y/y in Q3, down from an average +8% in H1. Surprisingly, growth of services exports slowed down to +3.2% y/y, despite a reportedly strong tourism season as reflected in a +9% y/y increase in tourist arrivals in Q3. Fueled by sustained domestic demand growth, imports of goods and services rose by +9.5% y/y, so that net exports subtracted -1.6pp to Q3 growth. Euler Hermes expects full-year real GDP growth of +3% in 2017, followed by +2.7% in 2018.

Africa & Middle East

Ghana: Growth on a tightrope

Ghana benefits from a positive momentum and will leverage it in order to issue USD1bn of Eurobonds next year. Thus, funding the twin deficits will not be difficult. EH expects -5% of GDP and -4.5% of GDP in 2018 for the fiscal and the current account deficits, respectively. Despite an unfavorable price evolution, particularly for cocoa and coffee (global oversupply), increasing output is currently driving Ghanaian exports. Moreover, the country is benefitting from investment in its oil sector in order to increase output. Declining inflation is also good for the consumer. EH expects 10% in 2018 (the lowest rate since 2012) and the Central Bank cut its policy rate to 20% (-600bp in one year). These positive factors, as well as access to IMF financing, are expected to boost economic growth to +8.5% in 2018 (+7.5% in 2017). However, corporate foreign currency debt and the low level of FX reserves (about 3 months of import cover) expose the exchange rate to volatility, as e.g. seen in November.

Asia Pacific

Taiwan: Riding on the export wave

Taiwan's exports amounted to USD28.88bn in November, a growth of +14% y/y. The rise occurred on the back of a strong increase in electronic components (+16% y/y), base metals (+17.4% y/y), plastic products (+20.4% y/y), as well as machinery (+17.6% y/y). In terms of export destinations, Taiwan's main trading partners China (+18.3%) and the US (+14.6% y/y) contributed the most to the rise. Taiwan's imports stood at USD22.92bn in November, recording a rise of +9.0% y/y, driven mainly by the electronic components sector (+16.8%) and raw materials such as petroleum (+30.5% y/y) and copper (+34.1% y/y). As to main trading partners, strong import growth was due to China (+18.6% y/y) and Germany (+13.8% y/y). Overall, the economy registered a trade surplus of USD5.96bn last month, a rise of USD1.65bn relative to November last year.

What to watch

- December 15 – Croatia November inflation
- December 15 – Germany Dec. Ifo business climate
- December 15 – Kazakhstan Nov. industrial production
- December 15 – Russia Central Bank meeting
- December 15 – U.S. November industrial production
- December 17 – Chile presidential election runoff
- December 18 – Russia Nov. industrial production
- December 19 – Hungary Central Bank meeting
- December 19 – Poland Nov. industrial production
- December 19 – U.S. Nov. housing starts and permits
- December 20 – Argentina Q3 GDP
- December 20 – Mexico October retail sales

View all Euler Hermes Economic Research online
http://www.eulerhermes.com/economic-research

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

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