

FIGURE
OF THE WEEK

+3.7%

Q2 2017 q/q
annualized
world GDP
growth



World economy: Growth is back to school

World growth accelerated to +3.7% in Q2 (q/q annualized, up from +3% in Q1), the highest rate since Q3 2013. Stars were aligned as growth picked up at the same time in the U.S. (+2.6% q/q annualized), in China (+1.7% q/q non-annualized), in the Eurozone (+0.6% q/q non-annualized) and in Japan (+1% q/q non-annualized). Growth was broad-based as a diffusion index (measuring the proportion of economies with accelerating growth) raised to 65%, a level surpassed only three times since 2003 (Q4 2003, Q4 2007, Q3 2009). Overall, it seems that there was a rational inattention to the numerous political nudges that have paved 2017's way to date. The recovery was also visible in Emerging Markets – e.g. Russia grew by +2.5% y/y in Q2. This growth recovery went also hand-in-hand with improving trade figures. We expect trade to grow by +5.7% in 2017 in value (-1.9% in 2016). Regarding prices, the new juncture is neither deflation nor inflation. Prices are growing at a reasonable pace, fueling corporate turnovers without engineering too many wage pressures – a dovish environment for Central Bankers.



U.S.: Hurricane Harvey wreaks havoc, affects oil refining

Hurricane Harvey continues to bring devastating rains and record floods to the Houston Texas area. The city is the nation's fourth largest and accounts for over 3% of the nation's entire economic output. The storm is expected to linger through Thursday and continue to bring heavy rain and flooding to as many as seven states. About 15% of the nation's oil refining capacity has been knocked off-line by the storm, sending gasoline prices up +10% since last Friday. It's too early to estimate total economic damage although it is expected to be less severe than either Hurricanes Katrina or Sandy. However over 70% of the losses are expected to be uninsured. Business interruption is likely to be significant and will increase slow payments and bankruptcies over the next few months. Other economic news was mixed. Consumer confidence unexpectedly rose in August to the second highest level since December 2000. Orders for core durable goods rose +0.4% m/m in July vs. expectations of 0%, while core shipments, which are counted in GDP, rose an unexpectedly strong +1% m/m. Housing activity slipped in July even as prices rose. Realtors report that a lack of inventory is hurting sales.



Germany: Buoyant economic growth likely to continue

Real GDP expanded by +0.6% q/q in Q2 2017 (Q1: +0.7% q/q). All components of domestic demand made an appreciable contribution to growth. Private consumption rose by a seasonally-adjusted +0.8% q/q, machinery investment was up by +1.2%. This illustrates the breadth of the upswing. It is to be hoped that the upward trend in investment activity, which overall is still subdued, is maintained. On this condition – which looks plausible given now fairly high industrial capacity utilization – buoyant economic growth is likely to continue well into next year. This view is supported by the latest Ifo survey. Having climbed from one all-time high to another in recent months, the Ifo business climate index slipped only marginally in August. The good news: Whereas businesses viewed their current situation slightly less favorably than before, they have become even more upbeat with regard to the coming six months. Over the rest of the year we expect the economy to continue to purr, with growth rates of around +0.5% each quarter. We are now penciling in full-year growth of +2.2% in calendar-adjusted terms in 2017.



Russia: Recovery gained momentum in Q2

A flash estimate by RosStat indicates that Q2 real GDP rose by +2.5% y/y, following a modest +0.5% in Q1. Notably, the recovery has become more broad-based. Industrial production grew by +3.8% y/y in Q2, up from a mere +0.2% in Q1. Construction output rebounded to growth of +2.9% y/y from a -4.5% drop in Q1. Moreover, retail sales finally increased again, by +1.2% y/y in real terms, after nine consecutive quarters of decrease, supported by the stabilized exchange rate of the RUB, decelerating inflation (3.9% y/y in July), rising nominal and real wages and declining unemployment. However, base effects also played a role in the growth acceleration in Q2, and as these will wane, the recovery is expected to lose some steam in H2. July data for industrial production (just +1.1% y/y) and retail sales (+1% y/y) show that activity eased in early Q3. We have slightly revised up our forecasts for full-year GDP growth to +1.5% in 2017 and +1.9% in 2018. Economic activity will somewhat benefit from one-off factors such as pre-election spending and the 2018 FIFA World Cup.



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Countries in Focus

Americas

Mexico: Trumping expectations?

The economy proved more resilient than expected in H1, recording +0.6% q/q real GDP growth in Q2 (+3% y/y) after +0.7% in Q1 (+2.6% y/y). In Q2, the services sector grew by +0.8% q/q (+4.1% y/y) and was the main driver of growth. The agricultural sector contracted by -1.9% q/q (but grew by +0.9% y/y) while industry remained flat (but grew by +0.5% y/y). Meanwhile, the peso has appreciated by +14% since January, after falling by -18% in 2016, and corporate confidence now exceeds pre-Trump election levels. Hence, although growth should ease somewhat in H2, our full-year 2017 forecast is likely to be revised upwards from currently +2.3%. After seven consecutive policy interest rate hikes, Banxico (the central bank) halted monetary tightening in August as inflation peaked at 6.4% in July. Yet, despite the overall rather positive picture, the renegotiation of NAFTA and the July 2018 presidential elections are sources of uncertainty that are likely to weigh on economic outcomes in 2018.

Europe

Spain: The economic “remontada”

Nominal GDP is expected to exceed its 2008 peak this year, making a comeback after strong growth in Q2. The release of the detailed national accounts confirmed that real GDP grew by +0.9% q/q (+3.1% y/y), up from +0.8% q/q (+3% y/y) in Q1. Private consumption was the main driver of growth, contributing +0.4pp as rapid employment growth in a still low-interest rate environment has boosted household spending. Gross capital formation contributed +0.2pp to growth, driven by construction investment (almost entirely residential). Export growth decelerated but imports contracted slightly q/q so that net exports contributed +0.3pp to q/q growth. As a consequence, real GDP growth should reach +3% in full-year 2017. Going forward, we expect private consumption to begin to slow down as the effect of low oil prices on household spending is fading and annual inflation will turn positive. We forecast real GDP growth to moderate to +2.3% in 2018.

Africa & Middle East

Kenya: The politics of policies

General elections held on 8 August have put Kenya in the spotlight. Yet, GDP growth already decelerated somewhat in Q1 (+4.7% y/y) as poor rainfall weighed on agricultural output, and advanced economic indicators for Q2 are still relatively mild. However, the financial situation is not alarming. The structural current account deficit (-6% of GDP is expected for 2017) is well financed (FDI is covering more than 65% of the shortfall) and the import cover of FX reserves recently increased to 7 months. The exchange rate was fairly stable following the elections as, after some problems, the opposition chose a peaceful way to contest the results. The main risk for Kenya is a protracted period of sub-potential growth led by weak leadership and policy slippages – noteworthy, the country's improvement in the World Bank's *Doing Business* survey by 37 places in two years to rank 92 in 2017 (out of 190 economies) was a key growth driver. We expect growth of +4.7% in 2017 (the average in 2013-2016 was +5.7%).

Asia Pacific

Malaysia: Strong private demand and exports boosted Q2 growth

Real GDP increased by +5.8% y/y in Q2 (slightly up from +5.6% y/y in Q1). On the upside, private consumption growth was firm (+7.1% y/y) driven by improved wages and better job creation. Private investment moderated somewhat but remained relatively strong (+7.4% y/y). Export growth (+9.6% y/y) was broad-based with a solid demand for manufactured goods and commodities from advanced economies and China. Imports also rose strongly (+10.7% y/y) reflecting the sound domestic demand. On the downside, public spending growth underperformed (+0.2% y/y). Looking ahead, GDP growth is expected to moderate in the second half of the year. Lower demand growth from China due to tighter credit condition is projected to act as a drag on Malaysian exports and thus on private investment growth. Against this background, overall GDP growth is forecast to rise by +5.5% in 2017 (up from +4.2% in 2016).

What to watch

- August 31 – Canada Q2 GDP
- August 31 – Estonia and Slovenia Q2 GDP
- August 31 – Eurozone August inflation
- August 31 – Germany July retail sales
- August 31 – Portugal Q2 GDP (with details)
- August 31 – Serbia Q2 GDP
- August 31 – U.S. July personal income & consumption
- September 1 – Brazil Q2 GDP
- September 1 – China August Caixin manufacturing PMI
- September 1 – Croatia Q2 GDP
- September 1 – Eurozone August manufacturing PMI
- September 1 – UK August manufacturing PMI
- September 1 – U.S. August employment situation
- September 1 – U.S. August ISM manufacturing index
- September 4 – Nigeria Q2 GDP
- September 5 – South Africa Q2 GDP

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