Euler Hermes Economic Research

Weekly Export Risk Outlook

19 April 2017

FIGURE OF THE WEEK

+3.5%

IMF's revised global GDP growth forecast 2017

In the Headlines

World: IMF nudges up global growth forecasts

The International Monetary Fund struck a positive tone when it revised GDP growth forecasts. In its World Economic Outlook, the IMF sees the world economy gaining momentum with +3.5% growth in 2017 (up from +3.4% in the previous forecast) and +3.6% in 2018.
After six difficult years, the clear positive signals are not limited to GDP growth. Buoyant financial markets and a cyclical recovery in manufacturing and trade hold out the promise of more jobs, higher incomes and greater prosperity in both developed and emerging economies.
This assessment adds up to latest WTO estimation that trade flows would rise by +2.4% this year, up from +1.3% in 2016.
However, persistent structural problems—such as low productivity growth and high-income inequality—impede a stronger recovery. These are explained by crisis legacies, such as investment lags in education, infrastructure, and innovation. According to the IMF, the balance of risks to the growth scenario is skewed to the downside. Political uncertainty in Europe and protectionism in the US are the by-now usual suspects.

Italy: Emergency cuts to lower the 2017 fiscal deficit

Italy has approved emergency deficit cuts for 2017 as promised to the European Commission. The extra cuts amount to EUR3.4bn, the equivalent of 0.2% of GDP. Thus GDP growth forecasts have been revised slightly upwards from +1.0% to +1.1%, but are lowered for next year: +1.0% (down from +1.3%).
These measures should allow this year's budget deficit target to be lowered to -2.1% of GDP from -2.3%. In 2016, fiscal deficit fell to -2.4% of GDP (from -2.7% in 2015), mostly due to lower interest expenditures.
We estimate that the ECB's Quantitative Easing Program has helped the Italian Government save EUR5bn per year in interest expenditures. Primary fiscal surplus increased slightly to +1.5% of GDP in 2016 after +1.4% in 2015. The fiscal target for 2018 has been confirmed at +1.2% of GDP. Given the prevailing risks, such as fragile banking sector, possible early elections, and weak expected GDP growth (+0.9% in both 2017-18), the 2018 fiscal target seems ambitious.

The UK: Loan demand fell and rates tightened in Q1

The Bank of England published its Bank Lending Survey results for the first quarter of 2017. Banks reported that demand for secured lending for house purchases decreased in Q1. Falls in "Buy-to-let" lending were the sharpest.
Banks expect demand, especially for prime lending, to pick up in Q2. Demand for corporate lending from both small and medium-sized businesses continued to fall in Q1, following significant declines at the end of 2016. Demand for lending from large companies remained unchanged.
While lower capital investment and inventory finance have been significant drags, increased M&A activity has pushed demand up.
In terms of financing costs, banks reported a widening in Q1 for small companies after unchanged conditions for five consecutive months. Banks' expectations point to a further tightening in rates on loans to SMEs in Q2. On the supply side, credit to households (secured) and companies remained broadly unchanged in Q1. It is set to increase in the next 3 months.

China: A strong first quarter

The Chinese economy started the year on a strong note. Real GDP accelerated to +6.9% y/y from (+6.8% in Q4 2016) driven by higher expansion in industry and solid growth in services. Continued fiscal support, increased growth of credit and sustained growth in real estate activity were key drivers. Short-term activity indicators were also positive with higher growth in retail sales (+10.9% y/y), industrial production (+7.6% y/y) and investment (+9.2 YTD y/y) in March. Exports recovered in March, but strong growth in imports weighed on net trade performance.
In Q2, continued fiscal stimulus should keep growth in the high range. In the second semester, measures to curb financial risks and corporate debt, such as the tightening of the property market and more selective credit conditions, would lead to a growth close to +6.5%.

Countries in Focus

Americas

Canada: Economy strong, housing market too strong?

Manufacturing is showing strength as sales volumes rose for the fourth straight month to a 4.1% y/y rate, the fastest in 27 months, while new orders are running at a steep 6.7% y/y rate. Housing data continues to be red hot in March: home sales rose to a 6.6% y/y rate, starts increased to the highest level in almost 10 years, nationwide prices rose to a 14.7% y/y rate, and Toronto prices hit a record 23% y/y pace. The market clearly appears to be overheated, driven by both speculation and a strong economy. Bank of Canada (BoC) Governor Poloz called the price increases “unsustainable”, and it seems likely the government will have to take further cooling measures.
In the meantime, the BoC sharply increased its 2017 GDP forecast from 2.1% to 2.6% as the economy has recently produced a lengthy string of upside surprises.
However the BoC left the policy rate unchanged with a “decidedly neutral” stance, noting that the recent improvement was due to temporary factors, inflation remained low, and there was still slack in the economy.

Europe

Serbia: Solid growth to continue in 2017

Q4 real GDP grew by +2.5% y/y, slightly down from +2.8% in Q3, taking full-year 2016 GDP growth to +2.8%. The marked acceleration from +0.7% in 2015 was spurred by strengthening net exports which contributed +1.7pp to 2016 growth (-0.5% in 2015) thanks to the strong real export growth of +11.9% (10.2% in 2015), well above real imports at +6.8% (+9.3% in 2015). Domestic demand contributed +1.1pp to 2016 growth, driven by a rebound in government consumption which increased by +2.3% (-1.5% in 2015) and robust fixed investment which rose by +4.9% (+5.6% in 2015).
However, inventories subtracted -0.7pp from 2016 growth (+0.1pp in 2015). Private consumption was still subdued in 2016, expanding by just +0.8% (+0.5% in 2015). Going forward, consumer spending should pick up thanks to declining unemployment and rising wages. This will support import growth, narrowing the gap to export growth. Overall, we forecast GDP growth to ease slightly to +2.5% in 2017.

Africa & Middle East

Morocco: The Dirham to be liberalized

The Central Bank announced it will start liberalizing the local currency by June. Currently, the Dirham is tightly pegged to a two-currency basket (60% euro/40% dollar). As a first step, the currency would likely be allowed to move within a defined range. This could be set as +/-2.5% around a pivot rate. The full transition may take 15 years, according to the Central Bank governor. Liberalization was supposed to begin in 2016 but was postponed due to poor economic performance (+1.1% GDP growth in 2016) and the delay in the formation of a new government. The situation has since stabilized. Q1 GDP growth climbed to +4.3% y/y and EH expects +4.5% in 2017. A plentiful harvest and a sharp rise in agricultural output (+12.9% y/y in Q1) are contributing factors. Moreover, a government led by S.E. el-Othmani (PJD) was formed in April. S&P’s sovereign rating remained at BBB- despite an unexpected slight increase in public debt, which stood at 65% of GDP in 2016.

Asia Pacific

Singapore: GDP supported by exports

GDP growth slowed down to +2.5% y/y in Q1 (from +2.9% in Q4 2016). Manufacturing activity decelerated to +6.6% y/y (from +11.5), while services were slightly up (+1.5% y/y from +1.0%). From an expenditures point of view, growth has been supported by a continued rise in exports. Non-oil domestic exports expanded by +16.5% y/y in March supported by strong demand from China, Taiwan, Hong Kong, and the EU. In the near term, advanced indicators point to a sustained momentum. The Singapore Manufacturing PMI increased to 51.2 in March (from 50.9) with an increase in new orders, new exports, and production. As an export-oriented economy, risks are mainly external. These stem from growth moderation in China and a surge in protectionism. EH expects GDP growth to rise by +2.5% in 2017.

What to watch

- April 21 – US March existing home sales
- April 21 – Japan Nikkei Manufacturing PMI
- April 21 – Canada March consumer prices
- April 21 – Eurozone April PMI
- April 21 – UK March Retail sales
- April 24 – Germany April IFO business climate
- April 25 – France April manufacturing and business confidence
- April 25 – Eurozone ECB bank lending survey
- April 25 – US March new home sales
- April 25 – US April consumer confidence
- April 26 – France consumer confidence