

FIGURE  
OF THE WEEK  
**USD45.75**  
Barrel price of  
benchmark  
Brent crude oil  
(+24% since  
start of 2016)

## In the Headlines



### U.S. & Canada: Strengths and weaknesses

New home sales in the **U.S.** fell -1.5% m/m in March, the third consecutive decline, with median prices falling -3.2%, the third decline in four months. Although existing home sales increased by +5.1% m/m in March, it was not enough to offset February's -7.3% decline, and the y/y rate is a weak +1.5% despite a +5.7% y/y price gain. Consumer confidence slipped two points to 94.2 in April and the expectations component fell to 79.3, the lowest in 27 months, perhaps reflecting concerns about the presidential elections. Manufacturing data are discouraging; durable goods orders gained only +0.8% m/m in March (expectations of +1.6%) and the y/y rate was -2.5%. Both the Philadelphia and Dallas Fed manufacturing surveys showed contraction in April, the 16<sup>th</sup> consecutive month for Dallas. Meanwhile, in **Canada**, the economy continues to improve. February retail sales increased by +0.4% m/m, compared with expectations of +0.2%, after +2% in January; gains were widespread. Q1 GDP is likely to be as high as +3% q/q annualised. Consumer price inflation in March was 0.2% m/m and 1.3% y/y but the core rate increased to 0.7% m/m and 2.1% y/y. The CAD has risen over +10% this year, so inflationary pressures may lessen in the coming months.



### UK: Reality check

Q1 GDP growth estimates of +0.4% q/q suggest that economic activity remains subdued. Services increased by +0.6% (down from +0.8% in Q4 2015) and were the only positive contributor to growth. Manufacturing, construction and agriculture all contracted, by -0.4% q/q, -0.9% and -0.1%, respectively. Earlier indicators already pointed to a decreasing growth momentum, with industry capacity utilisation falling below its long-term average of 80.4%, to 79.7% in Q1, retail sales decreasing by -1.3% m/m in March and weaker business confidence amidst Brexit fears (the quarterly average of the Manufacturing PMI stands at its lowest level since 2013). The economy's exposure to the U.S. and to China may explain part of the slowdown. Uncertainty around the 23 June referendum on EU membership will accelerate the slowdown in growth in Q2. Overall, we expect 2016 growth will decelerate to +1.9% (from +2.3% in 2015). In this context, the BoE is likely to remain dovish, at least until the end of the year, as inflation is expected to remain below 1% in 2016. The depreciation of the GBP (-7% since December 2015) will boost UK corporate competitiveness only moderately.



### Emerging Markets: Some respite, for now

Commodity prices and exchange rates have recovered from their January historic lows and are now trading around their Q3 2015 levels. A debt-driven pick-up is coming from construction and property in China, where steel mills are adding new output and metal prices are on the rise. China is the world's largest consumer of industrial metals (around 50% of the market) and remains the largest contributor to global oil consumption growth. This recovery has spread to other commodities, including oil, and partly explains current easing conditions for commodity exporters' exchange rates. Indeed, some of the strongest recent appreciations, 10-20%, have been recorded by previous worst performers, including Brazil, Russia and South Africa. While China's cyclical mood provides some forewarning of fluctuations in commodity prices and currencies, the structural outlook has not changed, with these asset classes providing limited upward momentum because key commodities (including oil, iron ore and coal) remain oversupplied and key emerging markets (including China) still need to rebalance their economies.



### Sweden: Actively navigating headwinds

The Central Bank expanded its asset purchasing programme for H2 2016 by a further +SEK45bn in order to tame the appreciation of the SEK and to boost inflation. In March, consumer prices increased by 0.8% y/y, higher than in previous months but not enough to reach the 2% target. The government recently presented its Spring Fiscal Budget for 2016-2017, with plans to increase spending in order to integrate the ever-growing influx of refugees (more than +160,000 were registered in 2015). The projected +4.6% increase in public spending is to be financed by strong growth (+3.5% in 2016) and associated higher tax receipts of +SEK22bn in 2016 (0.5% of GDP) and further budget consolidation through taxes will generate an additional +SEK26bn in 2017 (0.6% of GDP). The fiscal deficit is forecast to widen to -0.7% of GDP in 2017, before moving back to equilibrium by the end of 2018.

# Countries in Focus

## Americas



### Ecuador: Earthquake compounds woes

A 7.8 magnitude earthquake resulted in many fatalities and much destruction (including ports and tourist areas) and is exacerbating an already challenging economic situation. Oil generates >50% of export receipts and around 30% of government earnings, so low oil prices widened fiscal and external deficits last year. The earthquake will add to the severity of the expected recession; we expect GDP will contract by -4.5% in 2016, at least. Multilateral lenders have already pledged over USD600mn in emergency relief but the first official estimates suggest that reconstruction will cost up to USD3bn, equivalent to around 3% of GDP. Without access to global capital markets because of default in 2008, the government announced exceptional measures, including a +2pps increase in VAT, to 14%, citizens earning in excess of USD1,000 each month will sacrifice one day of pay and a 0.9% tax will be levied on those whose wealth exceeds USD1mn. Against this background, social tensions are likely to increase.

## Europe



### Serbia: Election result paves way for policy continuity

The ruling pro-EU SNS clearly won Sunday's parliamentary election with 48% of the vote. PM Vučić called the snap election two years early to capitalise on his favourable approval rating and to seek a new four-year mandate. Although gaining an absolute majority, with approximately 131 out of 250 seats, Vučić is likely to renew the incumbent coalition with the SPS (in second place with 11% of the vote and 29 seats) as a junior partner in order to achieve wider endorsement of his policies. Even so, the coalition lost around 42 seats as five parties previously not represented in parliament gained a combined 54 seats. Among these is the ultranationalist, pro-Russia SRS, which returned to parliament with 8% of the vote (22 seats). Overall, however, the opposition will remain weak and unable to act as a brake on the next SNS-led government. Expect continuation of IMF-agreed fiscal policies and EU integration. However, the aim of completing EU membership talks by 2019 appears unrealistic.

## Africa & Middle East



### Saudi Arabia: Visionary?

The launch of the 'Vision 2030' programme reaffirms previous reform announcements (see also [WERO 6 April 2016](#) and [WERO 14 January 2016](#)) aiming at limiting the adverse effects of a protracted period of low oil prices. Among the reforms are the partial privatisation of state assets (including 5% of Saudi Aramco), further cuts to subsidies and other state benefits, taxation measures and promotion of non-oil sectors (including mining, tourism, defence, solar power and digital and e-commerce). In addition, financial assets will be centralised in one very large SWF that will be used to support the transition away from dependence on oil and towards the promotion of the private sector. 'Vision 2030' is being led by the Deputy Crown Prince but it is uncertain how much support he will receive from the wider royal family, the clerical establishment, vested business interests and the population at large. Risks are high but the vision is realistic in terms of the current and future economic and social requirements.

## Asia Pacific



### South Korea: Weaker growth calls for a policy response

GDP growth slowed to +0.4% q/q in Q1, from +0.7% in Q4 2015. External trade contributed positively as imports (-3.5% q/q) contracted more than exports (-1.7%). Domestic demand showed signs of weakness, with lower private consumption (-0.3% q/q), although public consumption expanded as a result of front-loaded fiscal expenditure. Investment recovered, supported by higher construction expenditure. However, contraction in facilities investment (machinery and transport equipment) casts some doubt in relation to the sustainability of the recovery. A GDP breakdown reveals a contraction in the manufacturing sector (-0.2% q/q) and weaker growth in services. Looking ahead, increased public support will be pivotal to support growth. New export orders are weak, high household debt still acts as a drag on demand and deflationary pressures persist. Against this background, expect further policy interest rate cuts and additional fiscal support to keep growth around +2.5% in 2016.



## What to watch

- April 28 – U.S. Q1 GDP
- April 28 – Germany April CPI
- April 28 – Japan March industrial production
- April 28 – Eurozone April business climate
- April 28 – Brazil interest rate decision
- April 28 – Spain Q1 unemployment
- April 29 – U.S. March personal income & consumption
- April 29 – Russia interest rate decision
- April 29 – Germany March retail sales
- April 29 – France April inflation
- April 29 – Eurozone Q1 GDP (preliminary estimates)
- April 29 – Mexico Q1 GDP
- May 02 – U.S. April ISM manufacturing
- May 02 – U.S. March construction spending
- May 02 – Eurozone April manufacturing PMI
- May 03 – U.S. April auto sales
- May 03 – Turkey April CPI

### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.