



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **6.1%** > INDIA'S YR/YR GDP GROWTH IN OCT-DEC 2011

▶ India: Further evidence of slowdown

GDP growth slowed to 6.1% yr/yr in Q4 2011 (Q3 of FY 2011/12—the weakest quarterly rate in three years and after 6.9% in Q2 and 7.7% in Q1)—providing further evidence of the combined effects of a tight monetary policy 2010-11, weak global environment and partial policy paralysis resulting from a divisive political system. In Q4, growth in the manufacturing sector slowed to 0.4% qtr/qtr, down from 2.7% in Q3, reflecting increased input costs and higher borrowing charges. Official targets for growth are likely to be lowered again from a current 7%+ for FY2011/12, which now appears optimistic. Nevertheless, the latest GDP data, combined with further easing in inflationary pressures, will allow the central bank to consider a cut in interest rates earlier than previously expected. Expect GDP growth in FY2011/12 of 6.5-7% and FY2012/13 of around 7.5%.

▶ Europe: Sentiment edges up

The Economic Sentiment Indicator (ESI), a European Commission gauge of business cycle activity, increased for the second month in February, by 1.0 to 94.4. With the exception of services, where confidence fell, all the other components within the ESI strengthened. In terms of countries, the main improvements were registered by France, Netherlands and Italy. The outlook for Germany remained unchanged and that for Spain deteriorated. The overall positive news from the latest ESI needs qualification as other indicators provide contrary evidence (the PMI decreased in February) and the ESI remains below its long-term level.

▶ US: Mixed data

The report on new orders for durable goods is often volatile and, in January, it dropped a significant 4%, after increasing by 3.2% in December and 4.2% in November last year. The expiration of a tax incentive allowing full depreciation of equipment contributed to the increase late last year and to the drop off in January and, over the past year, orders of durables are still up a marked 8.1%. Meanwhile, the index of consumer confidence leapt in February, to 70.8 from 61.5, far exceeding expectations as an improving labour market and a strong stock market bolstered support. However, the housing market still lags as prices are lower than last year and remain more than 30% below the 2006 peak. Starts, permits, and sales also remain weak.

▶ South Africa: GDP growth to slow

GDP increased by 3.2% qtr/qtr and 2.9% yr/yr in Q4 2011, following an upwardly-revised 1.7% qtr/qtr and downwardly-revised 3% yr/yr in Q3. Growth in Q4 was driven by manufacturing—recovering after strikes in H1 last year—mining and consumer spending, which was boosted by low interest rates. Preliminary estimates for the whole of 2011 suggest GDP growth of 3.1%, compared with 2.9% in 2010. However, expect growth to ease in 2012, to 2.5-3%, reflecting uncertainties in Europe, which accounts for over 30% of export revenues. Against this growth perspective and with inflation likely to breach the official target range of 3-6% on the upside, expect monetary policy to remain largely on hold in H1. Meanwhile, there were few surprises in the annual budget (22 February), suggesting that fiscal consolidation announced in the Medium-Term Budget Policy Statement will continue and that economic management—despite some recent political rhetoric and debate—will remain generally sound.

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► **Mediterranean, Africa & Middle East – Senegal: Elections**

Incumbent Abdoulaye Wade acknowledged that a second-round poll may be required after provisional results suggested he would obtain 32% of the vote in presidential elections on 26 February. A run-off with Macky Sall (25% of the vote), a former prime minister, is likely to be held in March or April. Wade is standing for a third seven-year term, despite a constitutional two-term limit. Following the constitutional court's approval of Wade's candidacy there were protests and violence, which may be repeated before and after the run-off. Senegal's previous reputation for political stability and workable democracy are now being tested. Wade's position is now seriously challenged, particularly if the M23 opposition coalition remains united. Stability depends largely on the run-off result and the reaction to it of Wade.



► **Americas – Haiti: PM resignation**

Last week's resignation (24 February) of PM Garry Conille will leave a political vacuum of uncertain duration. Although he will remain in office until a successor is appointed, it is likely that there will be a period of partial policy paralysis at a time when reconstruction work following the 2010 earthquake requires careful management. Moreover, the regional and international donor community will remain wary of potential weaker governance. Conille's stance appeared to balance that of President Michel Martelly, who may now push his own agenda. The political hiatus may also spill over into the preparations for (and conduct of) local and partial legislative elections scheduled for later in 2012. Expect a fragile political environment that will have a negative impact on donor and investor confidence.



► **Asia-Pacific – Thailand: Flood toll on growth**

The severe floods in Q4 2011 affected the economy more than expected, with Q4 real GDP contracting by 9% yr/yr and 10.7% qtr/qtr sa, curbing full-year 2011 growth to just 0.1%. The annual declines in private consumption (3%) and fixed investment (3.6%) in Q4 were anticipated but the 3.6% fall in government consumption came as a negative surprise—emergency relief spending was probably offset by decline in traditional spending areas (public services and procurement), possibly because of infrastructure damage. Net exports subtracted 6.1pps from Q4 growth—exports contracted by 6.5% yr/yr but imports increased by 2.9%. On the supply side, manufacturing fell by 21.8% yr/yr in Q4, while agriculture managed 0.7% growth. Expect base effects to push 2012 GDP growth to around 5%.



► **Europe – Kazakhstan: Oil-supported 2011 growth**

Latest official data from the Agency of Statistics show that real GDP grew by 7.5% in 2011 as a whole, slightly up from a revised 7.3% in 2010. The data also suggest some strengthening in economic output in Q4 2011, given that Q1-Q3 growth was earlier reported at 7.2% yr/yr. On the supply side, services expanded robustly, by 7.7% in 2011, and agriculture rebounded by 26.7% after a 12% contraction in 2010. However, industry grew by just 3.3% and, in particular, the important mining and quarrying sector increased by only 1.3%—despite the 40% increase in global average oil prices (Brent) in 2011. Indeed, Kazakh oil output increased by just 0.4% in 2011. Assuming that oil prices remain elevated—although not rising by the rate seen in 2011—expect GDP growth to slow to around 5% in 2012.

Worth knowing

► **GDP growth**

UK: -0.2% qtr/qtr in Q4 2011—the first contraction since Q4 2010—and +0.7% yr/yr, with +0.8% yr/yr in 2011 as a whole (+2.1% in 2010). **Israel:** 3.2% qtr/qtr in Q4 2011, after 3.8% in Q3 and 7.7% in Q4 2010.

► **Greece**

S&P downgraded its long-term sovereign rating from CC to "selective default". This follows Greece's decision last week to insert retroactive clauses in bonds issued under its domestic law. Meanwhile, the International Swaps and Derivatives Association meets tomorrow to determine whether credit default swaps on Greece should be paid.

► **African inflation**

Kenya: Headline inflation was largely unchanged on a mo/mo basis in February but declined to 16.7% yr/yr, from 18.3% yr/yr in January. **Zambia:** The key inflation rate slowed to its lowest in ten years, 6% yr/yr in February from 6.4% in January. **Nigeria:** Consumer price inflation increased to 12.6% yr/yr in January, after 10.3% in December 2011.

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