Euler Hermes Economic Research

Weekly Export Risk Outlook

17 July 2013

FIGURE OF THE WEEK

+7.5%

China's y/y Q2 GDP growth

In the headlines

China: Second quarter of deceleration

In Q2, GDP growth slowed for a second consecutive quarter, to +7.5% y/y from +7.7% y/y in Q1 but it accelerated on a q/q basis, to +1.7% from +1.6% in Q1. Several output indicators suggest economic resilience, with industrial production increasing by +0.7% m/m in June, investment increasing by +1.5% and retail sales of consumer goods increasing by +1.3%. Less encouraging signs, however, came from external trade data as the total values of both exports and imports were down, by -5% m/m in June (-2% in May) and by -9% m/m (-4% in May), respectively. Meanwhile, Finance Minister Lou Jiwei announced that China can withstand a growth slowdown to around +6.5% as part of its new overall strategy that is rebalancing growth towards private consumption, fostering sustainable growth in the long term.

Eurozone: Industrial output contracted in May

In May, industrial production (excluding construction) declined by -0.3% m/m (in line with consensus expectations) after increasing by +0.4% in April. Industrial production contracted in France and Germany (-0.5% m/m and -0.8%, respectively) while increases were registered in southern European countries, including Italy (+0.1% m/m), Spain (+0.3%) and Portugal (+6.1%). Base effects linked to bad weather conditions in May could trigger a rebound in the June data, with industrial production growth increasing by around +1% q/q in Q2. If confirmed, this would be the highest increase since the start of 2011. In this context, EH does not exclude a positive surprise in eurozone Q2 GDP growth, statistics for which will be released on 14 August. Even so, weak business confidence (Eurozone Manufacturing PMI at 48.8 in June) and contraction in credit to non-financial corporations (-5% y/y in May) continue to suggest negative GDP growth in Q2, before a return to positive, but moderate, growth in H2 2013.

Germany: Exports still disappoint

The first provisional data for May released by Destatis, the federal statistical office, suggest that foreign trade continues to be affected by weak external demand. Exports of goods in that month totalled EUR88.2 billion, a decline of -2.4% m/m and -4.8% y/y, while imports of goods amounted to EUR75.2 billion, up +1.7% m/m (-2.6% y/y). In May, there was a particularly steep slump in exports to other eurozone members, down by -9.6% y/y, while deliveries to other EU countries (-2.4%) and to countries outside the EU (-1.6%) declined at a slower rate. In the period January-May, exports totalled EUR454.3 billion, down slightly on a y/y basis, by -0.3%, with exports to eurozone members down markedly, by -3.6% y/y, while shipments to other EU countries (+0.9%) and to non-EU countries (+2.2%) recorded increases over the period.

US: Mostly positive indicators

Recent economic data releases have been generally positive. Manufacturing industrial production increased for the second consecutive month in June, after falling in three of the previous four months. The New York Fed's regional (Empire State) manufacturing survey also increased, for the second consecutive month, and June auto sales were strong for the third month in a row, rising by a sharp +1.8% m/m. However, retail sales excluding autos and gasoline fell -0.1% m/m. Increased gasoline sales were a result of a rapid price spike, which is expected to continue for several weeks, driven by unrest in the Middle East and by inventory drawdowns. The jump in energy prices pushed consumer and producer prices higher, yet their core rates remain at a relatively subdued rate of +1.6% y/y. Finally among the latest data, the housing market index continued on its steep recovery, improving from 41 in April to 57 in July, which is the highest since January 2006.

Countries in Focus

America

Emerging Americas: Differing stances on monetary policy

Last week, the central bank in **Brazil** increased the benchmark policy interest rate for a third time since April, by 50 bps to 8.5%, and indicated that increases may be extended through to the end of the year as it battles inflation. Consumer prices increased by 6.7% y/y in June, which is the largest monthly rise since October 2011 and is above the upper range of the central bank's inflation target. Also of concern, the economic activity index declined by -1.4% m/m in May (+1.2% in April), to the weakest level since end-2008. Meanwhile, **Mexico's** central bank left its key policy interest rate at 4% for July, even though inflation in June was 4.09% y/y and therefore slightly above ceiling (target of 3%, +/- 1%). Inflationary pressures have eased after a surge in fresh food prices earlier in the year. **Chile** also maintained its policy rate, at 5%, despite some signs of weakening economic activity.

Europe

Malta: Weak economic outlook

Real GDP increased by +1.6% y/y in Q1, slightly down from an upwardly revised +1.7% in Q4 2012. Notably, all demand-side components of GDP posted declines in Q1, except for imports, which increased by just +0.2% y/y, and gross capital formation, which surged by +75% y/y. Private consumption contracted by -2.1% y/y, government consumption by -3%, fixed investment by -5.6% and exports by -3.4%. This indicates that inventory restocking was the sole growth driver in Q1. This is unlikely to continue during the remainder of the year. High frequency indicators suggest that both domestic and external demand remained weak in Q2. EH expects full year GDP growth of just +0.5% in 2013. The slowdown in economic activity led to reduced tax income and an increase in the fiscal deficit to -6.2% of GDP in Q1 2013, up from -5% in Q1 2012 and -3.3% in full year 2012.

Africa & Middle East

Kenya: Monetary policy on hold

Last week, the Monetary Policy Committee of the central bank left the key policy interest rate unchanged at 8.5%, citing currently moderate price pressures as inflation is comfortably within the 2.5% band around the 5% medium-term official target. Headline inflation was 4.9% y/y in June and core inflation remains steady. In addition, the KES is stable and Q1 GDP growth was a robust +5.2% y/y. However, the monetary authorities remain wary of potential external risks stemming from, among other things, political uncertainties in Egypt and therefore on key export sectors, particularly tea. EH expects monetary policy to be on hold through the course of H2 2013, but much depends, as the central bank identifies, on the impact on the economy of previous interest rate changes and on those external uncertainties.

Asia Pacific

Singapore: GDP growth picked up in Q2

Advance estimates (based on data for two months) indicate that Q2 real GDP growth accelerated to +3.7% y/y (+0.2% in Q1) and +15.2% on a q/q seasonally-adjusted annualised (saa) basis (+1.8% in Q1), largely reflecting a recovery in manufacturing, which increased by +1.1% y/y (-6.9% in Q1) and +37.6% q/q saa (-12.7% in Q1). However, this strong rebound is unlikely to continue as it mainly reflects a surge in the output of the biomedical and electronics sub-sectors, which are known as major sources of growth volatility. Construction growth moderated somewhat in Q2 but remained robust at +5.6% y/y and +9% q/q saa. Growth in services picked up to +5% y/y and +9% q/q saa, indicating continued resilience in domestic demand and financial services. EH expects full year 2013 growth of just above +2%.

What to watch

- July 18 – UK June retail sales
- July 18 – US June leading indicator
- July 19 – Canada June CPI
- July 19 – Japan May All industry activity index
- July 21 – Japan parliamentary elections
- July 24 – Eurozone July manufacturing & services PMI
- July 24 – France July Jobseekers
- July 24 – Eurozone quarterly bank lending survey

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