

FIGURE
OF THE WEEK

+0.3%

Eurozone's q/q
GDP growth in
Q2

In the headlines



Eurozone: Cautious recovery

Q2 GDP growth (+0.3% q/q) surprised on the upside, with better-than-expected outcomes in Germany (+0.7% q/q), France (+0.5%), Austria (+0.2%), Finland (+0.7%) and some southern countries, including Spain (-0.1% q/q), Portugal (+1.1%) and Greece (-4.6%). Positive overall GDP growth follows six consecutive quarterly declines but partly reflects a rebound from weak weather-related GDP data in Q4 2012 and in Q1, with construction increasing by +2.8% q/q in June and energy consumption unusually strong (+2.4% q/q in France, for example). Accordingly, a negative carry-over into Q3 is not excluded. EH continues to expect a gradual and moderate recovery in GDP growth, mainly driven by strong export performances by Germany and parts of the south. This trend is confirmed by business surveys, with the Composite PMI up to 51.7 in August (+1.2pts from July, the largest monthly increase for over two years) while order books (notably for exports) show signs of improvement. Nevertheless, a more sustained recovery remains unlikely in the short term because of prevailing structural weaknesses, including private deleveraging, tight credit conditions and ongoing fiscal consolidation.



US: Housing cracks?

Some cracks may be appearing in the housing market recovery. New home sales fell sharply in July, by -13.4% m/m annualised, with downward revisions to data for the preceding two months, while median prices fell for the third consecutive month. Applications for purchase mortgages have fallen -13% since the first hint of Quantitative Easing (QE) tapering in May (-59% for re-financings). The percentage of consumers planning to buy a home in the next six months fell sharply in August to 5.1% from 6.9%. While existing home sales increased, the National Association of Realtors attributed this partly to buyers who "panicked" at the +100bps rise in mortgage rates since May. Meanwhile, minutes from the Fed's June meeting indicated broad consensus that QE tapering is likely to happen this year, but the Fed conference in Jackson Hole, Wyoming, gave little hint as to exactly when the tapering will begin, and exposed a divergence of opinion among Fed members.



Emerging Markets: Currency pressures

Pressures on Emerging Market (EM) currencies—which started in May as concerns about the impact of Fed tapering triggered capital outflows—increased further in August. Countries that have benefited markedly from the Fed's earlier QE and built up current account deficits have been hit hard, with the Indian INR losing 11% against the USD in August to date (25% since end-April), the Indonesian IDR 10% (16%), the Turkish TRY 5% (13%), the South African ZAR 6% (15%) and the Brazilian BRL 6% (20%). Emerging Europe, which has not attracted substantial net capital inflows in recent years, has avoided the worst of the recent currency sell-off. It is too early to talk about an EM currency crisis and it appears more of a cyclical currency decline for those countries affected. Foreign currency debt burdens are much lower than in previous crises and most EMs have built up substantial FX reserve buffers that can be used to avert excessive currency movements. However, corporate non-payment risk has increased for buyers that have not sufficiently hedged against exchange rate risk.



South Africa: Higher Q2 GDP growth

GDP growth in Q2 accelerated to +3% q/q seasonally-adjusted and annualised (+0.9% in Q1), spurred by a recovery in manufacturing output (+11.5%) after a sharp fall in output in that sector in Q1. Encouragingly, both wholesale and retail trade and financial services also registered sound growth (+3.2% and +3.5%, respectively). The overall picture suggests that consumer demand is holding up reasonably well, despite market volatility (see above). However, mining output contracted by -5.8% in Q2, following a sharp rebound in the previous quarter, and further industrial disputes during the wage-bargaining season are likely to restrict production in H2. Overall, EH expects GDP growth of around +2.5% in 2013, with acceleration to +3.5% in 2014, subject to an expected global economic recovery and accompanying growth in demand for commodity-based imports.



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Countries in focus

Americas

Latin America: FTA

On 26 August, Mexico, Colombia, Peru and Chile concluded a free-trade agreement (FTA), aiming to remove all customs duties within the grouping. In April, these four countries, representing approximately one-third of the overall Latin American economy, came together to form the "Pacific Alliance" in a bid to strengthen their business relations and compete with the Asian market. According to the FTA, 92% of customs duties on goods and services will immediately disappear and the remaining part will be removed over the course of the next few years. Only agricultural products, which are equivalent to around 1.4% of commercial trade of the group, are excluded from the initial terms of the FTA, with customs duties on these products remaining in place until at least 2030.

Europe

Eurozone: Credit channels in need of refreshing

In July, total loans to the private sector continued to deteriorate, reflecting more rapid deterioration in loans to non-financial corporations (NFC, -0.6% m/m, the 12th consecutive monthly contraction) while loans to households were close to stable (-0.1% m/m). The sharpest falls in loans to NFC in July were registered in Spain (-1.3% m/m), Portugal (-0.9%), Greece (-0.9%), Netherlands (-0.8%), Ireland (-0.7%) and France (-0.6%), whereas the decrease remained contained in Germany (-0.3%), Austria (-0.1%) and Belgium (-0.1%). Italy surprised on the upside with credit to NFC up by +0.3% m/m. Credit conditions are likely to remain tight in coming months for several reasons: (i) anaemic supply resulting from the rise in non-performing loans and banks' conservative strategies; (ii) flagging demand and (iii) cost of credit, reflecting dysfunctional monetary policy transmissions. The risk of a credit crunch is particularly high for SMEs as bank credit is a key source of funding for their investment spending. Restoring credit channels would bring the recovery forward by several quarters.

Africa & Middle East

Israel, Morocco & Tunisia: Growth caveats

Despite global and, particularly, regional negative pressures, GDP growth in all three countries was higher in Q2 than Q1. **Israel** surprised on the upside, with +5.1% q/q seasonally-adjusted and annualised expansion (+2.7% in Q1). The impetus to Q2 growth came from private consumption (+6.7%) but some of this is likely to be expenditures brought forward before austerity measures (tax increases and price rises) come into force. Notably, investment in Q2 contracted by -6.3%. EH expects +2.7% GDP growth in full-year 2013. In **Morocco**, Q2 GDP growth, at +4.3% y/y (+3.8% in Q1), continued to reflect a bounce back from drought-affected weakness in 2012 but non-agricultural sectors were lacklustre and business investment remains weak. EH expects +4.5% GDP growth in 2013. Meanwhile, in **Tunisia**, Q2 GDP growth was +3.5% y/y (+2.6% in Q1) but recent political turmoil and unrest suggests a higher growth path remains illusory. EH expects +3% GDP growth in 2013.

Asia Pacific

Thailand: Q2 GDP growth slows markedly y/y

Real GDP contracted by -0.3% q/q in Q2 following a decline of -1.7% in Q1, putting the economy into a technical recession. In y/y terms, GDP growth decelerated to +2.8% in Q2 from +5.4% in Q1, largely as a result of weakening consumer spending and exports. Private consumption expanded by +2.4% y/y in Q2 (+4.4% in Q1), public consumption accelerated to +5.8% (+2.9%) and fixed investment increased by +4.5% (+5.8%). Export growth slowed sharply, to +2.8% y/y (+8.3% in Q1), while the moderation in imports was less pronounced, to +4.1% (+8.1%), so that net exports subtracted -0.4pps from overall Q2 growth (+1.4pps in Q1). EH expects +3.5% GDP growth in full-year 2013.

What to watch

- August 29 – Philippines Q2 GDP
- August 29 – US Q2 GDP annualised (second estimate)
- August 29 – French investment survey (industry)
- August 30 – Poland Q2 GDP details
- August 30 – India Q2 GDP
- August 30 – Croatia Q2 GDP
- August 30 – Brazil Q2 GDP
- August 30 – Canada Q2 and June GDP
- August 30 – Eurozone business and consumer survey
- August 30 – Jamaica Q2 GDP
- September 2 – Brazil August external trade data
- September 2 – EU-27 August PMI data
- September 3 – Australia Q2 GDP
- September 4 – Eurozone Q2 GDP (second estimate)
- September 5 – ECB meeting

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