

Weekly Export Risk Outlook

5 February 2014

FIGURE
OF THE WEEK

+1.3%

Russia's 2013
GDP growth
(preliminary
estimate)

In the Headlines



Russia: Weak 2013 GDP growth dampens outlook

Preliminary estimates indicate that real GDP growth slowed to +1.3% in 2013 from +3.4% in 2012, marking the third consecutive year of economic deceleration. No data are provided for Q4 as yet, but the full-year figure suggests that growth did not gain any clear momentum from the +1.2% y/y posted in both Q2 and Q3. Private consumption was the only growth driver in 2013, expanding by +4.7%, but this reflects moderation from +7.9% in 2012. Both government consumption and fixed investment contracted in 2013, declining by -0.1% and -0.3%, respectively (+4.2% and +6.4% in 2012), reflecting a cutback from election-related spending in 2012. Moreover, inventories continued to decline in 2013. Net exports also weighed negatively on overall growth in 2013, although less than in 2012, as export expansion of +3.8% (+1.4% in 2012) was outpaced by imports (+5.9%, down from +8.8% in 2012). EH revised its forecast for full year 2014 GDP growth to +2.6%. Economic weakness explains most of the recent slide in the RUB – by 10% in 2013 and by 6% in 2014 ytd against a 55%USD+45%EUR basket – while ample FX reserves and a current account surplus limit vulnerability to external events, for now.



Eurozone: The worst outlook for inflation should be avoided

Preliminary estimates – full details will be available on 20 February – show that inflation was 0.7% y/y in January, slightly lower than in the previous month (0.8%). Inflation in Germany and Spain remained stable at 1.2% y/y and 0.3%, respectively, and moderated slightly in Italy (-0.1pps to 0.6% y/y). Preliminary data for the zone show that prices in the services sector increased by 1.1% y/y (1% in December 2013) and they continued to slow for non-energy industrial goods (0.2% y/y, compared with 0.3% in the previous month). These two sectors account for two-thirds of overall inflation. For the energy and the food and drink sectors, the fall in prices in the former accelerated (by -1.2% y/y) and price growth in the latter remained resilient (1.7% y/y). Going forward, EH expects inflation will remain low in most countries, at least through 2014. Downside risks remain in Spain, Italy, Portugal and Greece because of high unemployment rates, still decelerating labour costs, contracting credit growth, weak domestic demand and capacity utilisation rates in industry. Raw material prices, notably energy, will continue to be a drag on prices in the short-term. If disinflation accelerates, the ECB and other European authorities (including the EU Commission and ESM) will intervene to maintain debt sustainability and protect corporate profitability.



US: Recent data are poor, but perhaps weather-related

Economic data in the last week took a decidedly negative turn, with perhaps record cold weather and snow largely to blame. Auto sales fell -6% m/m in December 2013 and by -1% in January, putting the y/y rate at only +0.1%. The ISM manufacturing index fell 5.2 points to a still expansionary 51.3, but it was the largest decline in the current recovery. The fall was led by a marked 13.2 points deterioration in new orders, the largest in 33 years. Personal spending gained 0.4% m/m in December 2013, but personal income was flat. Inflation-adjusted personal spending increased by only 2.5% y/y, while disposable personal income actually declined in two of the past three months, putting the y/y rate at -2.7%. Other data are also of concern, with the Pending Home Sales Index declining from 101.2 to 92.4 in December 2013, January consumer sentiment slipping from 82.5 to 81.2 and factory orders hinting at an inventory build similar to that found in GDP data for Q3-Q4 2013. However, as so many reports showed weakness, perhaps it was weather-related, with potential for a rebound in February.



Spain: Recovery continues, but a long road ahead

First official estimates for Q4 2013 GDP – final detailed data will be released on 27 February – show real growth for the second consecutive quarter (+0.3% q/q in seasonally-adjusted terms) and after nine uninterrupted quarters of contraction before Q3 (+0.1%). However, GDP contracted by -1.2% in the full year 2013. The economic recovery in H2 2013 reflected strengthening in domestic demand and, to a lesser extent, a positive contribution from net exports. The manufacturing PMI improved further in January, reaching 52.2, indicating further strengthening in activity in the coming months. Despite this improvement, the economy remains relatively weak, with GDP still 7% below the pre-crisis peak reached in Q1 2008. Meanwhile, after improvements in the three preceding quarters, unemployment increased again in Q4 2013, to above 26% of the working population. In 2014, EH expects GDP growth to remain sluggish (+0.5%) with weak domestic demand because of continuing high unemployment and fragility in the banking sector that weighs on credit availability.

Countries in Focus

Americas

Costa Rica & El Salvador: First round of presidential elections

In **Costa Rica**, preliminary results of the first round in the presidential elections provided a surprise, as José María Villalta (left) was outdistanced by Luis Guillermo Solís (centre-left), contrary to evidence from opinion polls. Accordingly, the second round poll (scheduled for April) will be between Johnny Araya (candidate of the right-wing party in power) and Solís, who both received around 30% of the vote. Meanwhile, in **El Salvador**, Salvador Sánchez Cerén (left) won in the first round of elections, with more than 49% of the votes, according to preliminary results. He will challenge Norman Quijano (conservative right) in the second round (scheduled for 3 March) who obtained around 39% of the votes. The latter based his political campaign on combatting violence and crime, largely associated with gang activity in the country, while his opponent focused more on expanding welfare programmes and benefits put in place by incumbent President Mauricio Funes.

Poland: 2013 GDP figures hint at solid recovery

Preliminary estimates show that real GDP growth moderated to +1.6% in 2013 from +1.9% in 2012. Demand side details are only partly available as yet but suggest that net exports kept the economy growing in 2013 as domestic demand decreased by -0.2%. Private consumption grew by +0.8%, down from +1.2% in 2012, while fixed investment contracted by -0.4% (-1.7% in 2012). Moreover, a decline in inventories brought overall investment down by -5% in 2013. Data for Q4 are not provided as yet, but the full-year figure suggests that Q4 growth accelerated to a surprisingly strong +3% y/y, up from +1.9% in Q3 and +0.7% in H1. EH expects the recovery to continue, resulting in full year growth of around +3% in 2014. Although inflation edged up from 0.6% y/y in November 2013 to 0.7% in December, it remained well below the central bank's target of 2.5% ± 1pps. Today, the central bank kept its key policy interest rate unchanged at 2.5%.

South Africa: Domestic issues heighten external vulnerability

The economy is one identified as vulnerable in an emerging market sell-off and is one that has already been subject to a bout of rapid currency weakening. Partly in response, the independent central bank last week increased the key policy interest rate by 50bps, the first monetary tightening by such means since June 2008. Reforms necessary to limit fiscal and current account deficits, moderate inflation, promote growth and employment and attract inward investment are difficult to implement when elections are so close; parliamentary elections are scheduled for April/May. Political uncertainties, even though the ANC is likely to win, particularly following recent confusion over the leadership of the main opposition party, concern investors who are also wary of fall-out from problematic labour relations, including strikes in the platinum sector. Given the country's structural rigidities and political environment that combine to limit remedial policy action, expect further market turbulence.

Thailand: Political uncertainty taints economic outlook

GDP growth decelerated sharply in 2013 (estimated at +2.9% after +6.5% in 2012) reflecting the end of post-flood stimulus measures, lower demand from China and rising political tensions that started in November 2013 after the government tried to pass an amnesty bill allowing former PM Thaksin Shinawatra to re-enter the country without imprisonment. Since then, the country has faced significant unrest, with protesters seeking the resignation of Yingluck Shinawatra, current PM and sister of Thaksin, and the formation of an unelected "people's council". Early elections on 2 February were boycotted by the main opposition party and protesters disrupted electoral registration and voting. Political uncertainty is expected to constrain the economy in the short term, adversely affecting domestic demand as well as foreign investment and tourism. Assuming political stability improves by mid-2014, EH expects GDP growth of +3.5% in 2014, remaining below potential (+6%).

What to watch

- February 6 – ECB February interest rate decision
- February 6 – UK February BoE interest rate decision
- February 7 – Belgium January inflation
- February 7 – Japan December 2013 leading indicator
- February 7 – UK December 2013 industrial production
- February 7 – Spain December 2013 industrial production
- February 7 – US January employment reports
- February 7 – US January unemployment
- February 10 – Latvia Q4 2013 GDP flash estimate
- February 10 – Greece & Ireland January inflation
- February 11 – Estonia Q4 2013 GDP flash estimate
- February 12 – Spain 5th review of banks

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