

Weekly Export Risk Outlook

27 August 2014

FIGURE
OF THE WEEK

+0.4%

EH forecast of
French GDP
growth in
2014

In the Headlines



France: Montebourg, "Ce n'est qu'un au revoir"?

Q2 real GDP growth came in flat and below expectations, finally leading the government to revise its 2014 forecast downwards to +0.5%. EH also revised its own forecast, but to +0.4% as we see nominal growth remaining below +2% at least until end-2015. Investment continued to be the main factor behind such anaemic growth figures; it fell again in Q2, by -1.1% q/q, following -1% in Q1. As expected, household investment remained weak, falling -2.4% q/q (after -2.9%). Furthermore, latest data for housing permits do not bode well for the end of the year. More worrying, company investment fell again, by -0.8% q/q, thereby underlining weak corporate prospects. Consumption rebounded (+0.5% q/q) after a weak Q1, driven by rising energy consumption. Exports were flat whereas imports increased by +0.4% and, as a result, net exports detracted -0.1 pps from overall growth. The generally weak data triggered fierce protests by some left-wingers, led by the economy minister Arnaud Montebourg, who called for an end to austerity measures. The prime minister presented the government's resignation on Monday. This will be the second government reshuffle in less than six months.



Eurozone: Business activity remains in expansionary territory

After a slight increase in July (53.8), the flash composite PMI index softened to 52.8 in August. The PMI for both manufacturing (50.8) and services (53.5) remained in expansionary territory, signalling that, despite disappointing Q2 GDP figures in major economies ([see last week's WERO](#)), business activity continued to strengthen. Nonetheless, the manufacturing PMI reached its lowest level in 12 months. Divergences between the manufacturing and the service sectors are evident when looking at France. In that country, manufacturing PMI contracted again, reaching a low of 46.5 in August (compared with 47.8 in July) while the services PMI was in expansionary territory for the second consecutive month at 51.1 compared with 50.4 in July and 48.2 in June. In Germany, the composite index edged down to 54.9 in August (compared with 55.7 in July), the manufacturing PMI decreased slightly to 52.0 (52.4 in July) and the services PMI dropped to 56.4 (56.7 in July). These figures confirm EH's forecast that eurozone growth is likely to be below +1% this year.



U.S.: Mixed data

Data continue to show an overall improvement. Consumer confidence increased by +2.1 points in August to a recent high of 92.4, just above the 90 level indicating a stable economy, but still below 100 indicating strength. In part, the gain was driven by an increase (to 18.2% from 15.6%) in the number of consumers reporting that jobs are now plentiful, reflecting gains in the labour market. New orders for durable goods increased by a record +22.6% m/m in July, but this figure is distorted by a surge in aircraft orders. Orders for non-defence capital goods (excluding aircraft), a proxy for future business spending, actually fell -0.5% m/m, but over the past three months (May-July) increased at a rapid +11.6% annualised rate. Despite these positives, the housing market continues to send conflicting messages. New home sales fell in July for the second consecutive month, losing -2.4% m/m (-7% in June). Prices also fell for the second month, by -3.7% m/m. However, existing home sales increased for the fourth straight month, gaining +2.7% m/m, and prices increased for the fifth consecutive month, rising +0.2%.



South Africa: The rainbow fades, for now

In Q2, growth in Africa's second largest economy was +0.6% q/q annualised (-0.6% in Q1), thereby avoiding a technical recession. Growth was led by construction (+5% q/q) and transport, storage and communication (+4%) but mining (-9.4% after -24.7% in Q1) and manufacturing (-2.1% after -4.4%) continued to detract from growth. In y/y unadjusted terms, Q2 growth was +1% (+1.6% in Q1) and in H1 GDP increased by +1.3%. Labour unrest and electricity supply constraints were key factors limiting growth in H1 but perceptions of policy drift may also be reducing the attractiveness of South Africa relative to higher-growth regional economies. The recent central bank rescue plan to bail out the country's largest institution involved in unsecured lending, although not a systemic risk to the financial system, adds a further negative influence. EH expects GDP to increase by around +1.7% y/y in H2 (the strike in the platinum sector ended on 25 June) and by around +1.5% overall in 2014, before a moderate rebound to +2.5% in 2015. Such growth rates remain markedly below those required to generate sufficient new jobs to aid in the reduction of poverty and income inequalities.

Countries in Focus

Americas

Mexico: Activity strengthens, reflecting close ties with the U.S.

The second largest economy in Latin America is gaining momentum. After a disappointing +0.4% q/q (+0.7% y/y) growth in Q1, GDP increased by +1% q/q (+1.7% y/y) in Q2, mainly driven by expansion in the manufacturing and service sectors. Despite a slight decrease in industrial production in June (-0.2% m/m, +1.8% y/y), EH expects industrial output will regain an upward trend in H2, mainly reflecting the recovery anticipated in the U.S., which is Mexico's leading trade partner and source of investment. The recovery in domestic demand may be more gradual, however, as the tax hikes implemented in January continue to weigh against private consumption. Consumer confidence decreased in July, reaching a five-month low, while unemployment surprised on the upside (5.5% in July, compared with 4.6% in February). Overall, EH expects the economy will grow by +2.7% this year, which is above the regional average.

Europe

Ukraine: Outlook remains precarious

President Poroshenko dissolved parliament on 25 August and called early elections for end-October, as a new government had not been formed within 30 days after the previous coalition collapsed on 24 July. The move could pave the way for the passage of crucial reforms linked to the USD17 billion programme loan with the IMF, in place since May, which has been blocked by opposition parties. Meanwhile, government forces continue to fight separatist forces in eastern Ukraine, with no end in sight in the near term. That conflict has taken a toll on economic activity. Real GDP declined by -4.7% y/y in Q2, after -1.1% y/y in Q1. EH forecasts full-year 2014 GDP will contract by nearly -7%. After stabilising in May to mid-July, the UAH has since fallen by another 17% against the USD, bringing the year-to-date depreciation to 68%. Driven by the currency weakening and sharply rising energy prices, inflation accelerated to 12.6% y/y in July and is expected to rise further.

Africa & Middle East

Ghana: Still rising?

An official approach to the IMF earlier this month is likely to lead to financial assistance to support an economic programme aimed at stabilising the GHS (cedi) and narrowing macro-economic imbalances, including a large fiscal deficit. The GHS depreciated by over 50% from the beginning of the year to the end of July, inflation is in double digits and FX reserves now provide less than three months of import cover. However, Ghana's favourable track record will now serve it well, with the IMF likely to provide short-term financing, perhaps through a Rapid Credit Facility, in exchange for strict policy and structural reform monitoring. In turn, this support will provide some reassurances to investors and underpin the government's ability to tap international capital markets. Given the adjustment measures and reforms required, EH expects GDP growth of +5% in 2014 and +6% in 2015 (annual average +7.5% in the ten-year period to end-2013) keeping Ghana as part of Africa Rising.

Asia Pacific

Japan: Sunshine after rain?

In an August report, the government acknowledged that the April tax hike (to 8% from 5%) had a stronger impact on economic activity than first projected. In Q2, GDP contracted by -1.7% q/q, the sharpest decline since the earthquake in Q1 2011. Consumer spending contracted sharply, by -5% q/q, after increasing by +2% in Q1. The business sector was severely affected by the slowdown in consumer spending and industrial output fell by -3.4% q/q in June. However, the flash manufacturing PMI suggests an improved outlook for Q3; the manufacturing PMI increased to 52.4 in August from 50.5 in July and the manufacturing output index increased sharply, to 53.2 in August from 49.8 in July, and was back in expansionary territory. Despite relatively slow growth in real wage and labour force participation rates, EH expects private consumption will improve in Q3, leading to positive real GDP growth.

What to watch

- August 28 – Germany August CPI (preliminary)
- August 28 – Germany August unemployment
- August 28 – Austria August manufacturing PMI
- August 28 – U.S. Q2 GDP (2nd estimate)
- August 28 – U.S. July pending home sales
- August 28 – Philippines Q2 GDP
- August 29 – Eurozone August CPI (estimates)
- August 29 – Germany July retail sales
- August 29 – Japan July industrial production (prelim.)
- August 29 – Japan July retail sales
- August 29 – Denmark Q2 GDP
- August 29 – India Q2 GDP
- August 29 – U.S. July personal income & spending
- August 29 – Canada Q2 GDP
- August 29 – Croatia & Slovenia Q2 GDP
- September 1 – Germany Q2 GDP (details)
- September 1 – South Korea August manufacturing PMI
- September 3 – Australia Q2 GDP

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