

# Weekly Export Risk Outlook

24 September 2014

FIGURE  
OF THE WEEK  
**EUR82.6bn**  
First tranche  
of ECB TLTRO

## In the Headlines



### Eurozone: No wind on the horizon

Following the weak uptake of the first tranche of cheap liquidity offered by the ECB to banks last week (TLTRO of EUR82.6bn taken compared to EUR150bn expected and EUR400bn available), business confidence remained lackluster in September. Still in expansionary territory, the composite PMI index inched down to 52.3 (from 52.5 in August). Service activity declined to 52.8 (from 53.1 in August) while manufacturing output stagnated (at 51.0). New orders in the manufacturing sector contracted for the first time since June 2013 (with German new orders down to 48.8 from 51.1 in August) while new business growth fell to a 6-month low in the service sector. Employment growth remained unchanged in both sectors. The French slowdown continued with September's Composite Output index down -0.4 to 49.1. Similarly in September the Services Sector also saw activity drop, this time by -0.9 point to 49.4, but at least the decline in manufacturing slowed somewhat, rising +2.1 points to 47.9, but still firmly in contractionary territory. By comparison, German private sector output growth was led by services (55.4), while manufacturing data was weak (51.1, 15-month low). The overall German Composite Output Index rose +0.3 point to 54.0 in September accompanied by slightly more job creation. These readings suggest that Eurozone GDP growth will remain weak in Q3 (at best 0.2% q/q after 0.0% in Q2).



### U.S.: Housing market still on shaky foundations

The U.S. housing market continues to struggle as three major indicators declined in August. Housing starts fell a steep -14.4% m/m, while permits dropped -5.6% m/m, both showing losses three out of four months. Both the multi-family and single family components fell. Existing home sales declined in August for the first time in five months, dropping -1.8% m/m, driving the y/y rate down to -5.3%. The median price for an existing home also dropped, losing -0.8% q/q, the second consecutive fall. Supply held steady at 5.5 months but is still below the long-term average of 6.3 months. A lack of first-time buyers is constraining growth as renting has become an attractive option. The residential rental vacancy rate plummeted in the second quarter from +8.3% to +7.5%, and the home ownership rate fell for the third consecutive time in the second quarter to 64.7%. The weakness and volatility in the housing market continues to be a significant impediment to a more robust recovery.



### Switzerland: Losing momentum

Q2 real GDP growth decelerated markedly to +0.6% y/y (+2.1% y/y in Q1) and 0.0% in q/q seasonally adjusted terms (+0.5% in Q1) as domestic demand remained weak and external demand subsided. Private consumption growth picked up to a still modest +0.2% q/q (Q1: +0.1%), public spending continued to contract by -0.3% q/q (Q1: -0.7%) and fixed investment came to a standstill (Q1: +0.2%) – investment in construction dropped by -0.7% q/q while equipment investment increased by +0.7% q/q. Inventories subtracted -0.1pp from Q2 q/q growth. Export growth slowed to +0.6% q/q (Q1: +2.3%) while imports increased by +0.9% q/q (Q1: -1%) meaning net exports made a small negative contribution to Q2 growth. Euler Hermes has reduced its full-year GDP growth forecasts to +1.4% in 2014 and +1.8% in 2015. Downside risks to this forecast could come from deflation – annual inflation was just +0.07% in August and has averaged +0.01% over the past 12 months – and the strength of the CHF.



### China & Japan's September PMI: Encouraging signals

After a run of bad news, the latest flash PMI data gives some encouragement. HSBC/Markit preliminary September PMI estimates point to a slight improvement of the situation both in China and Japan. In **China**, the manufacturing PMI increased from 50.2 in August to 50.5 in September for the fourth consecutive month of improvement. This modest rise sends a balanced picture with new orders and new export orders increasing while the employment index and prices (output and input) declined. This confirms Euler Hermes view that domestic demand will gain traction in Q4 while exports will act as cushion in Q3. EH forecast **China** GDP to reach +7.5% in 2014 and +7.3% in 2015. In **Japan**, the manufacturing PMI remains in expansion, decreasing slightly to 52.2 in August from 51.7. The persistent expansion since June 2014 is a positive sign, signaling that the manufacturing industry is recovering from the April tax hike. We take more comfort from the details, with output rising to highest point in six months (53.4 in September from 52.9) and new orders ticking up. Continued JPY weakness should favor exporters. EH expects GDP to grow by a limited +1.1% in 2014 before picking up to +1.3% in 2015.

# Countries in Focus

## Americas



### Latin America: Accommodative policies despite an increase in inflation

Consumer prices accelerated in Mexico, Chile and Peru to +4.1% y/y, +4.5% y/y and +2.7% y/y respectively, thus reaching the upper limit of the inflation target range. This acceleration reflects temporary supply shocks or increases in taxes, rather than the looser monetary policy of the past few months. Greater accommodation has been warranted since activity has shown signs of weakness since the beginning of the year. The key interest was cut in Chile by -0.25pps in July and in August to 3.25%, by -0.25pps in Peru to 3.75% in July, while it stands at 3% in Mexico, a record low, after a cut of -0.25pps in April. Brazilian inflation continues to edge higher in the top half of the target range (4.5% +/-2pps), at +5.0% y/y in August. While this is the consequence of structural issues, with Brazil being plagued by chronic underinvestment over past years despite buoyant domestic demand, a monetary policy tightening is unlikely as Brazil slipped into recession in Q2. The SELIC, at 11% since April, is expected to remain at this level until the end of the year

## Europe



### Croatia: And the recession goes on and on ...

Q2 marked the 11th consecutive quarter of contraction as real GDP declined by -0.8% y/y, after -0.6% y/y in Q1 and -0.9% in full year 2013. Domestic demand remained particularly weak, with private consumption down by -0.5% y/y in Q2 (as in Q1), government consumption by -3.4% (Q1: -2.1%) and fixed investment by -5.2% (Q1: -3.6%). Exports increased by +7.9% y/y (Q1: +11.4%), outpacing import growth of +2.2% y/y (Q1: +7.6%) thus a positive contribution from net exports mitigated the impact of dried-up domestic demand. Going forward, the decline of retail sales by -2.1% y/y in July, after an average +0.2% y/y in H1, suggests that the end of the recession is unlikely to come in Q3, even though industrial production growth edged up to +1.4% y/y in July from an average +0.8% y/y in H1. Deflation risk continues to loom as well, with CPI declining -0.3% y/y in August. EH forecasts full-year GDP to shrink by -0.5% this year, making 2014 the sixth full year of contraction.

## Africa & Middle East

### Yemen: Saudi in the middle

Last weekend, Houthi rebels attacked targets (including government buildings and military bases) in Sana'a, the capital, providing further evidence that the country's political transition and security remain fragile. The PM resigned but President Abd-Rabbu Mansour Hadi announced a ceasefire ahead of creation of a new "technocratic national government." Formation of that government will not be easy, given the recent inroads achieved by the Houthi, a Shia offshoot, but also because the government is confronted by the local al-Qaida franchise (AQAP) and by demands for greater independence for the south. To an extent, Yemen represents another zone of contention between Shia and Sunni factions. With a long and porous border with Saudi Arabia, the latter kingdom finds itself increasingly exposed on its southern edges at a time of heightened unrest to the north (Iraq and Syria), as well as perceptions of a simmering regional power struggle with Iran to the east.

## Asia Pacific



### New-Zealand Q2 GDP: +0.5% Q/Q supported by strong domestic demand

A weak performance from external trade saw Q2 growth in New-Zealand decelerate to +0.5% q/q from +1.4% in Q1. Exports fell by -2.9% q/q (+2.8% q/q in Q1) while imports accelerated (+2.9 from +1.8% previously) supported by strong domestic demand. Private consumption accelerated (+1.2% q/q from 0.1%) and investment showed resilience (+1.5% q/q). General government expenditure continue to support growth (+0.5% q/q) but at a slower pace than in Q1 (+1.4% q/q). In recent quarters, government expenditure has been driven by the earthquake reconstruction activity (construction increased by +12.5% q/q in Q1 and by +2.3% q/q in Q2), a recovery from drought conditions and incoming elections (last Sunday saw PM John Key elected for a third term). In 2014, EH expects GDP growth to remain robust (+3.0%) driven by improving labor condition (unemployment rate at 5 year low -5.6% in Q2).

## What to watch

- September 25 – US August durable goods orders
- September 26 – US Q2 GDP third estimate
- September 26 – Mexico August Trade balance
- September 27 – China August industrial profit
- September 29 – Spain August Retail sales
- September 29 – Spain September Inflation rate
- September 29 – Spain September Business confidence
- September 29 – Eurostat Economic Confidence
- September 30 – UK Q2 GDP breakdown
- September 30 – UK September consumer confidence
- September 30 – Eurozone September CPI
- September 30 – Eurozone August unemployment rate
- September 30 – US July Case-Shiller home price index
- September 30 – US September Consumer confidence
- October 1 – EU Manufacturing PMIs
- October 1 – Japan Q3 Tankan survey

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