

# Weekly Export Risk Outlook

8 October 2014

FIGURE  
OF THE WEEK

-4%

Germany's m/m  
fall in industrial  
output in August



## World Economy: What ails thee?

IMF forecasts for global economic growth were revised down to +3.3% in 2014 and +3.8% in 2015. The weaker outlook reflects re-assessments of the rate of economic activity in both the emerging world (+4.4% and +5% in 2014 and 2015, respectively; lacklustre domestic demand and geo-political tensions) and the advanced economies (+1.8% and +2.3%; high debt burdens and weak job growth). The latest forecasts (not strictly comparable) from Euler Hermes show a similar picture but at lower levels; global growth of +2.5% and +2.9% in 2014 and 2015, respectively. EH earlier revised down its forecasts for some key emerging markets; these include Russia (-0.6% in 2014 and +1% in 2015), Brazil (+0.3% and +0.8%) and South Africa (+1.5% and +2.5%). EH is less optimistic than the IMF about growth in 2015 in the U.S. (+2.6% compared with +3.1%) and Eurozone (+1.1% and +1.3%) but is more optimistic in relation to China (+7.4% and +7.1%). EH also sees world trade in 2015 expanding below its long-term average as both demand and prices are expected to remain subdued. In turn, company turnover and profit growth will be limited and trading conditions, while improving, will remain challenging.



## Germany: Deteriorating outlook

Industrial production and new orders in manufacturing fell more than expected in August, after both increased in July. On a price-, seasonally- and working day-adjusted basis, industrial production declined by -4% m/m (+1.6% in July) and new orders by -5.7% m/m (+4.9% in July), the largest falls since January 2009. Annual comparisons, which are less subject to cyclical effects, confirm a downtrend. Average industrial production growth moderated from +4.6% y/y in Q1 to 0% in Q2 and -1.6% in July-August. Similarly, new orders slowed from +5.5% y/y in Q1 to +2.5% in Q2 and +0.9% in July-August. The economy is losing momentum as sluggish growth in the Eurozone, the main export market, and rising tensions with Russia weigh on exports and confidence. The Ifo business climate survey fell for the fifth consecutive month in September, to its lowest level since April 2013, although the level of 104.7 is still above the long-term average of 101.3. The ZEW Economic Sentiment Expectations Index fell for the ninth month in a row in September, reflecting growing uncertainty about the future. Euler Hermes recently revised downward its full-year growth forecasts to +1.5% for 2014 and +1.7% for 2015, but downside risks to these projections are increasing.



## UK: No need to tighten before Q1 2015

The BoE Monetary Policy Committee will meet tomorrow. Euler Hermes expects the status quo on both interest rates and the asset purchase programme will be maintained (split 7-2 in the MPC in favour of keeping the status quo). Interest rates could remain at a record low level of 0.5% at least until Q1 2015 but there is risk that the decision to change drifts to Q2, given the weak inflation outlook (expected to remain below 2% by end-2015) and wage growth (significantly below the LT average). Activity in services is likely to remain strong (surveys suggest buoyant new business growth), but industrial recovery lacks momentum. Manufacturing production increased by only +0.1% m/m in August and business confidence suggests weakening prospects (new orders fell to a 19-month low). Private consumption could be supported by savings adjustment and the ongoing labour market recovery, but corporate profitability remains fragile, with margins down 3pps since 2007 (and now at 32% of value added). The housing market should be addressed by macro-prudential measures and EH believes the market is too optimistic on UK growth, given the persistent weaknesses in the Eurozone. EH expects GDP growth of +2.9% in 2014 and +2.5% in 2015, slightly below consensus.



## U.S.: More mixed signals

The September jobs report was yet another in a string of mixed data. Job creation was relatively strong at +248K and the previous two months were revised up by a sharp +69K. Unemployment fell to 5.9%, the lowest in the recovery, but the decrease was driven by the number of people leaving the work force, with the participation rate down to 62.7%, the lowest since February 1978. Furthermore, average hourly earnings fell -1 cent, the first drop in 14 months, putting the y/y growth rate of average weekly earnings only 0.5% above inflation. In a sense, it was a perfect report for the Fed, showing job growth without inflation. Meanwhile, the ISM manufacturing index slid -2.4 points in September, to 56.6, but is well entrenched above the expansionary 50 level. New orders weakened but remained at a very strong 60. The ISM non-manufacturing index also lost -1 point but to a still robust 58.6 and with new orders at 61.0. The trade deficit improved in August to -USD40.1 bn from -USD40.3 bn in July.

# Countries in Focus

## Americas



### Brazil: Element of surprise

The first round of presidential elections on Sunday resulted in a surprise. Current President Dilma Rousseff (Workers' Party) won most votes (41.6%) but Marina Silva (Brazilian Socialist Party), who was ahead in opinion polls a month ago, gained fewer votes than the centre-right challenger Aécio Neves (33.5%) who will now contest the second round with Rousseff on 26 October. The election period and the possible outcome have increased investor uncertainty as shown by the BRL's -10% depreciation against the USD over the past month. The final election result is significant because it could trigger a re-orientation in economic policy; Rousseff pledges to expand social programmes but Neves is seen as more business friendly, promising less government intervention and greater openness to trade. Marina Silva is likely to ask her supporters to vote for Neves, but EH expects a close vote. (See also EH's Country Report [Economic Activity Constrained by Significant Bottlenecks](#)).

## Europe



### Poland: Monetary easing to support recovery

The Monetary Policy Council today lowered its key policy interest rate by 50bps to 2% as it expects a deceleration in economic growth while inflation has remained in negative territory. Headline CPI inflation was -0.4% m/m and -0.3% y/y in August, following -0.2% y/y in July, mainly a result of lower food and transport costs. Real GDP growth remained robust at +3.3% y/y in Q2 (+3.4% in Q1), driven by soaring fixed investment (+19.7% y/y) and a large positive contribution from inventories (+1.7pps). Private and public consumption also increased (+2.8% and +0.8% y/y, respectively) while net exports subtracted -1.6pps from Q2 growth as the increase in exports (+5.9% y/y) was outpaced by imports (+9.8% y/y). However, early indicators for Q3 point to a moderation in growth, signalled by slowing expansion in industrial production, construction and retail sales. Euler Hermes forecasts full-year growth of around +3% in both 2014 and 2015.

## Africa & Middle East

### Africa: Ebola update

In addition to bilateral pledges of financial, medical and other assistance to counter the outbreak of the Ebola virus, the AfDB is providing a further USD152 mn in loans and grants to support public finances, the IMF is providing USD127 mn and the World Bank's latest emergency package totals USD200 mn. The AfDB package is predominantly for the three worst affected countries - **Sierra Leone, Liberia and Guinea** - but also includes precautionary support for neighbouring **Côte d'Ivoire**. To date, contagion has been limited to **Senegal and Nigeria** but isolated cases have been reported in Spain, the UK and the U.S. The risk of a global pandemic, while real, remains low but the economic impact in Africa is mounting, with unconfirmed reports of some tourist and conference business cancellations in distant **South Africa**. At a time when commodity prices are weak and export markets largely lacklustre, a crisis of external confidence could have a continent-wide detrimental impact.

## Asia Pacific



### Japan: No further monetary stimulus, for now

The BoJ kept monetary policy on hold at its last meeting. The current asset buying programme was maintained, with an increase of JPY60-70 tn per year. It also maintained its positive outlook, indicating that domestic demand will recover moderately and that the 2% inflation target for next year is likely to be achieved under the current framework. Inflation accelerated to 2.3% in August (2.1% in July) and the core inflation (excluding food and energy) increased to 1% (0.9%). Policymakers now acknowledge higher risks to the central scenario as output deteriorated recently and export performance remains weak. EH does not expect the BoJ will change its stance in the short-term as economic signals remain mixed; favourable business surveys point to a rise in investment but decreasing real wages suggest sluggish private consumption. However, a change could occur in early 2015 as a response to weak private consumption growth (below +0.2% q/q).

## What to watch

- October 8 – Ghana Q2 GDP
- October 9 – UK BoE interest rates & asset purchases
- October 9 – G20 meeting of Finance Ministers
- October 9 – G20 meeting of Central Bank Governors
- October 9 – Czech Republic September CPI
- October 9 – U.S. September jobless claims
- October 9 – Canada September unemployment
- October 10 – World Bank/IMF annual meetings
- October 10 – France & Italy August IP & Manufg. Production
- October 10 – Hungary & Poland September CPI
- October 10 – Canada September jobs report
- October 13 – Kenya Q2 GDP
- October 14 – Germany October ZEW business climate
- October 14 – EU finance ministers discuss 2015 budgets
- October 14 – UK September CPI
- October 14 – Eurozone August industrial production
- October 15 – Germany September CPI

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