Euler Hermes Economic Research

Weekly Export Risk Outlook

27 May 2015

FIGURE OF THE WEEK

+0.6%

Japanese Q1 q/q GDP growth (+0.3% Q4 2014)

In the Headlines

Germany: Moderate recovery to continue

Q1 real GDP growth was confirmed at +0.3% q/q, with domestic demand remaining the key growth driver. Private consumption was up by +0.6% q/q (+0.7% in Q4 2014), government consumption accelerated to +0.7% q/q (+0.3%) and fixed investment to +1.5% q/q (+0.8%), with both investment in equipment (+1.5% q/q) and construction (+1.7% q/q) performing well. However, inventories subtracted -0.3pps (+0.4pps in Q4) from Q1 growth, thereby largely explaining the slightly stronger-than-expected slowdown from growth in Q4 2014 (+0.7% q/q). External trade activity eased somewhat in Q1, with exports up by +0.8% q/q (+1% in Q4) and imports by +1.5% q/q (+1.9% in Q4). As a result, net exports subtracted -0.2pps from Q1 growth (-0.3pps in Q4). As de-stocking should discontinue over the coming quarters, Euler Hermes maintains its full-year growth forecast of +1.7% for 2015. The outlook for a continued moderate recovery is also supported by the Ifo Business Climate Index, which edged down to 108.5 points in May (108.6 points in April) and the GfK Consumer Climate Indicator, which increased slightly to 10.1 in May (from 10.0) and is forecast at 10.2 in June.

China: Further policy action will be needed

Recent data suggest a mixed outlook. In April, industrial profits of enterprises with revenues from their principal business above RMB20 mn recovered moderately (+2.6% y/y from -0.4% in March), with mining and energy-related activities contracting sharply while non-commodity industries showed resilience. Monetary and fiscal stimulus was supportive but ongoing disinflationary pressures and moderate growth in global demand acted as a drag. The HSBC flash manufacturing PMI was 49.1 in May, below the 50-mark and signalling a contraction in industrial activity for the fifth consecutive month. Companies continue to face headwinds through weak orders and falling prices and manufacturing employment remains on a downward trend. Q2 GDP growth will probably disappoint, falling below +7% y/y. Accordingly, we expect an increase in fiscal support through infrastructure spending and tax breaks to encourage private consumption and investment in sectors targeted in the 12th five-year plan and monetary stimulus through cuts in interest rates (-25bps) and Reserve Requirement Ratios (-50bps).

U.S.: Finally, consistent housing market data

In April, the housing market provided some consistent and encouraging data, with permits increasing by +10.1% m/m and starts by a marked +20.2%, although the latter is likely to reflect a rebound from the -16.7% fall in February. New home sales gained a solid +6.8% m/m, while prices increased +4.1%. Prices for existing homes were up +4.3%, but the one negative in the April housing data was a fall in existing home sales of -3.7%. More consistent readings such as these will be a long-overdue and encouraging sign in the housing market. Meanwhile, consumer confidence improved in May, to 95.4 from 94.3, suggesting a stable economy. Durable goods orders slipped -0.5% m/m in April after a steep increase of +5.1% in March, but new orders for non-defence capital goods (excluding aircraft), a proxy for business spending, increased strongly (+1%). Consumer prices gained +0.1% in April but, excluding food and energy (down -1.3%), the core rate was +0.3% m/m and 1.8% y/y. Taken together the data suggest a stable economy and that the remainder of the year will outperform the weakness in Q1.

The Netherlands: Rebuilding

Q1 GDP growth remained positive (+0.4% q/q) for the fourth consecutive quarter. Consumer spending increased by +0.3% q/q (+0.7% in Q4 2014) driven by a recovery in the labour market (creation of +6,000 jobs in Q1, especially for young people), improvements in disposable household income and pick-up in the housing market. Investment in the construction sector also showed signs of recovery (+2% q/q) and public spending picked-up after three consecutive quarters of contraction (+0.7%). House prices are +4.4% above their lowest level (June 2013) - but still 18% below the record reached in August 2008 - and house sales increased by +19% y/y in Q1. The manufacturing sector also provided positive signs, with fixed investment up by (+1.6% q/q) and capacity utilisation rates in Q2 at the highest level since end-2008. Net exports also contributed to Q1 GDP growth (+0.6pps) even though performance was negative for both exports (-0.1% q/q) and imports (-1.1%). We expect GDP growth will be +1.9% in 2015 and +2% in 2016, above the Eurozone averages of +1.4% and +1.6%.

Countries in Focus

Americas

Peru: The economy recovers in Q1

In Q1, real GDP expanded by +1.7% y/y after the four-year record low +1% in Q4 2014. The dynamism of private consumption (+5% y/y) partly offset the continued fall in investment (-7.1% y/y) and in exports (-3.1% y/y). Exports were particularly affected by the fall in sales of copper, one of the country's main exports. As a result, the trade deficit – a shortfall has been registered since mid-2014 after 10 years of surplus - widened in March to -USD0.5 bn, at an annual rate. Against a background of weakening economic activity, a fiscal stimulus package will be implemented including tax cuts and increases in fiscal spending, aimed particularly at supporting investment. Moreover, the Central Bank decided to leave the key policy interest rate unchanged at 3% (in place since January), which is a six-year low. Further loosening in monetary policy is likely in coming months if activity levels remain weak, particularly as inflation continues to remain around the Central Bank target of 3%.

Europe

Eurozone: Don't rest on your laurels

The Composite PMI softened for the second month in May, but remained in expansionary territory at 53.4 (53.9 in April). The Manufacturing PMI remained positive (52.3 in May, 52.0 in April) as the sector reported the largest inflow of new orders in one year (partly reflecting a lower euro). This improvement was offset by the Services PMI (53.3 in May, 54.1 in April) because of weaker order books. The PMIs are consistent with positive but still weak GDP growth in Q2 (+0.4% q/q). In **Germany,** May data indicate a further slowing in private sector output growth, as the Composite PMI was 52.8 (54.1 in April), with weakness in both manufacturing and services. **France's** Composite PMI was up for the fourth consecutive month (51.0, 50.6 in April) with growth focused in the services sector. **Elsewhere in the region**, PMIs continued to improve in May, suggesting acceleration in growth and job creation. EH expects the zone's outlook will strengthen over the year, resulting in GDP growth of +1.4% in 2015.

Africa & Middle East

South Africa: Slow cooker?

In Q1, GDP growth was +1.3% q/q (seasonally adjusted and annualised), compared with +4.2% in Q4 2014, and by +2.1% y/y. Manufacturing, adversely affected by strikes, contracted by -2.4% y/y in Q1 and agriculture, subject to drought, by -16.6%. There was expansion in mining and quarrying sector (+10.2%, adding +0.8pps to overall growth) and in financial services (+3.8%, +0.7pps). Labour union action (job shedding resulted in unemployment increasing to 26.4% in Q1, the highest since 2005), power shortages and policy uncertainties (domestic and global) are likely to limit short-term growth dynamics. A recent composite leading business economic indicator (including residential building plans passed and a USD-based export commodity price index) fell by -1.6% y/y in March (after -2.3% in February), with five out of ten components showing deterioration. For now, we leave our GDP growth forecasts unchanged at +2% in 2015 and +3% in 2016 but risks are skewed to the downside.

Asia Pacific

Japan: Positive start

Real GDP in Q1 increased at the most rapid rate for one year, expanding by +0.6% q/q (+0.3% in Q4 2014) supported by private consumption (+0.4%) and private investment (non-residential investment up by +0.4%). Net exports contributed negatively overall, although export growth remained positive (+2.4% q/q). After improving in March, the trade balance deteriorated in April (-JPY208.6 bn from +JPY5 bn in March) again because import growth, boosted by strong domestic demand, exceeded that of exports. Going forward, we expect this trend will reverse progressively and the trade deficit will decline over the year as exports benefit from a weaker JPY and improving global demand, particularly in advanced economies. Business confidence is improving (manufacturing PMI back in expansionary territory in May at 50.9 from 49.9 in April) and monetary policy is accommodative, so we expect higher investment growth and strengthening domestic demand to result in 2015 GDP growth of +1%.

What to watch

- May 28 – UK Q1 GDP (2nd estimate)
- May 28 – Eurozone May economic confidence
- May 28 – Japan April retail sales
- May 29 – India Q1 GDP
- May 29 – Japan April industrial production
- May 29 – Japan April unemployment
- May 29 – Germany April retail sales
- May 29 – Austria, Czech Rep & Poland Q1 GDP
- May 29 – Brazil Q1 GDP
- May 29 – Croatia Q1 GDP flash estimate
- May 29 – U.S. Q1 GDP (2nd estimate)
- May 29 – U.S. May consumer sentiment
- May 29 – Nigeria President Buhari takes office
- June 01 – South Africa May manufacturing PMI
- June 01 – Brazil & Mexico May manufg. PMI
- June 01 – Belgium Q1 GDP (2nd estimate)
- June 01 – Germany May CPI
- June 01 – U.S. May ISM manufacturing index
- June 02 – U.S. April factory orders
- June 02 – Brazil April industrial production
- June 03 – UAE, Saudi Arabia & Lebanon May PMI
- June 03 – Poland monetary policy meeting
- June 03 – Eurozone April retail sales

View all Euler Hermes Economic Research online
http://www.eulerhermes.com/economic-research

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com