Euler Hermes Economic Research

Weekly Export Risk Outlook

18 November 2015

FIGURE OF THE WEEK

+0.3%

Eurozone Q3 q/q GDP growth

In the Headlines

Eurozone: Need to exit the steady moderate growth phase

GDP growth slowed to +0.3% q/q in Q3, below consensus expectations of +0.4%, with a mixed picture by country. Growth is likely to have been balanced through consumer spending, company investment and exports, although the latter is expected to be outpaced by stronger imports. Data for **Germany** (+0.3% q/q), **France** (+0.3%) and **Spain** (+0.8%) are in line with expectations but surprised slightly on the downside for **the Netherlands** (+0.1%), **Italy** (+0.2%), **Belgium** (+0.2%), **Portugal** (0%) and **Finland** (-0.6%). **Greece** was the only positive surprise as GDP contracted much less than anticipated (-0.5%), suggesting a weaker-than-expected recession this year but higher next year, given base effects. Against this background, it is now more likely that the ECB will announce further QE measures in December, particularly as the positive effects from lower oil prices and weaker EUR start to fade. We expect an increase in the pace of monthly asset purchases to at least EUR80bn (from EUR60bn) and an extension of the duration of the QE programme to mid-2017 (from September 2016). A cut in the deposit rate - further into negative territory - is also likely. This should help the EUR to move lower (close to parity with the USD) and therefore offset the negative impact from lower external demand from emerging markets. Our forecasts of +1.4% in 2015 and +1.6% in 2016 remain unchanged.

Japan: Tightrope walking?

GDP decreased -0.2% q/q in Q3 (-0.2% in Q2). Domestic demand weakened (-0.3%) reflecting lower non-residential investment and a decrease in inventories (-0.5pps from growth). Private consumption was resilient (+0.5%) and net exports added +0.1pps. Demand fundamentals showed positive signals in September and October but further policy support will be needed. Wage indicators improved recently, with cash earnings up in September (+0.6% y/y, +0.4% in August). Surveys point to a gradual improvement. The Nikkei Markit Manufacturing PMI increased to 52.4 in October (51 in September) with improvement in both employment and new order components. Consumer confidence is recovering from weak levels (41.5 from 40.6). However, downside risks remain through weak external demand and deflationary pressures. Real exports contracted -3.9% y/y in September and consumer and producer prices (-3.8% y/y in October) remain weak. Policy support will gain traction in the short term through an extra-budget (equivalent to around 0.6% of GDP) and further monetary policy easing.

U.S.: Housing and manufacturing positive, inflation subdued

Consumer price inflation (CPI) was 0.2% m/m in October, as expected. As energy prices fell -17% y/y, CPI on a y/y basis is also only 0.2%. After stripping out volatile food and energy prices, core CPI was up 0.2% m/m and 1.9% y/y, around the rate for seven of the past eight months. Meanwhile, the NAHB Housing Market Index fell for the first time in six months, to 62 in November (from 65), but still markedly above the 50-level signifying expansion. While both the current and expected sales components fell they are still at strong levels of 67 and 70, respectively. The foot traffic component still lags but gained +1 to 48. Manufacturing output increased in October after falling the previous two months (down four of the past six months), gaining +0.4% m/m. Capacity utilisation continued to hover around 76%, below the long-term average of 78.4% that has not been seen since the recession. Total industrial output fell -0.2% m/m in October, due to a sharp -2.5% decline in utilities as a result of warm weather.

Russia: GDP decline eased slightly but remained steep in Q3

A flash estimate by RosStat indicates that Q3 real GDP contracted by -4.1% y/y, following -4.6% in Q2 and -2.2% in Q1. A full breakdown by GDP sub-components is not available as yet but accelerating declines in Q3 of retail sales (-9.5% y/y, after -9.2% in Q2) and expenditure on fixed investment (-7% y/y, after -6.5% in Q2) suggest that domestic demand remained weak. The only impetus to the economy is coming from net exports as real exports have managed to grow slowly while real imports have slumped. On the supply side, a modest reduction in the decline in industrial production to -4.2% y/y in Q3 (-4.9% in Q2) and growing agricultural output (+1.5% y/y, after +2.5% in Q2) have helped to ease the recession slightly. But early indicators for Q4 do not bode well. In October, the decline in industrial production (-4.1% y/y) was steeper than in September (-3.8%), led by a deterioration in the manufacturing sector (down to -5.9% y/y from -5.4%). Euler Hermes expects full-year GDP will contract by -3.7% in 2015, followed by -0.3% in 2016. A return to modest growth of +1% is forecast in 2017.

Countries in Focus

Americas

Canada: Manufacturing weaker, housing stronger

Manufacturing sales, which had been doing well from March to July, fell in August and by a further -2.9% y/y in September. Motor vehicle sales, in particular, had been quite strong, rising in five of the previous six months, before a sharp fall of -10.3% m/m in September, taking the y/y rate to +4%. Nonetheless, for all of Q3, real growth in manufacturing sales was running at a +3.9% annual rate, supporting Q3 GDP. Meanwhile, existing home sales in October increased for the first time in five months, gaining +1.8% m/m, with a y/y rate of just +0.1%, while prices are up a marked +8.3% y/y. However, activity in Vancouver is very strong, with sales volumes up +19.3% y/y and prices up +15.6% y/y. Prices in Toronto are also up by a sharp +7.4% y/y, while sales volume is a more normal +2.9% y/y. The housing sector in areas more dependent on the oil sector is less positive, with Calgary the worst as sales have fallen -36.4% y/y with prices down -4.4%.

Europe

Central & Eastern Europe: Growth remains robust

Advance estimates indicate that real GDP growth in the group of 11 EU members in the CEE region remained stable at around +3.2% y/y in Q3. In particular, the central European countries continued to perform soundly, with the **Czech Republic** (+4.3% y/y) retaining the lead, followed by **Romania** (+3.6% y/y), **Slovak Republic** (+3.6% y/y), **Poland** (+3.4% y/y), **Bulgaria** (+2.9% y/y) and **Hungary** (+2.3% y/y). Domestic demand was the key growth driver while external demand is also improving as the ongoing Eurozone recovery is more than compensating for the export losses to Russia. In contrast, the Baltic states are more impacted by the Russian crisis due to closer trade relations. Compared with previous years, Q3 GDP growth was moderate in **Latvia** (+2.5% y/y) and **Lithuania** (+1.8% y/y) and weak in **Estonia** (+0.5% y/y). Euler Hermes expects regional growth of the 11 EU members in CEE to reach +3.2% in 2015 before easing slightly to +3% in 2016.

Africa & Middle East

Israel: Growth despite regional uncertainties

GDP growth in Q3 was +2.5% q/q annualised and +2.5% y/y. Moreover, Q2 growth was revised upwards to +0.2% q/q (previously estimated at +0.1%) and Q1 was left unchanged at +2%. The relatively strong rebound in Q3 reflected growth in exports and fixed investment, respectively +4.4% and +0.7%, after contraction in the two previous quarters. Going forward, low energy prices (petroleum and products account for around 20% of the import bill) and near-zero interest rates will continue to support consumer demand, which is further sustained by relatively low unemployment and wage growth. We expect growth of +2.5% in 2015 as a whole and then around +3.5% in 2016, with a continuing boost from private consumption and with net exports, fixed investment and government consumption remaining supportive. However, such rates of GDP growth compare unfavourably with the ten-year annual average up to end-2014 of +4.2% and regional uncertainties provide downside risks.

Asia Pacific

Thailand & Malaysia: Diverging

GDP growth in **Malaysia** decelerated to +4.7% y/y in Q3 (+4.9% in Q2). Lower domestic consumption (private and public) was the underlying cause as investment and exports accelerated. In **Thailand**, GDP growth improved to +2.9% y/y in Q3 (+2.8% in Q2) reflecting solid private consumption, strong government investment and a positive contribution from net exports. Private investment contracted. In the short term, the economies will continue to diverge. The export boost is likely to be limited for both by weak external conditions, with growth set to decelerate in China and accelerate only moderately in the U.S. and Eurozone. We see gradual improvement in domestic demand in **Thailand** (fiscal and monetary stimulus) but downward pressures will prevail in **Malaysia**. Lower consumer confidence and purchasing power are likely to act as a drag on household expenditure. Policy support will be restricted as the Central Bank will remain cautious ahead of the upcoming U.S. Fed interest rate hike.

What to watch

- November 19 – UK October retail sales
- November 19 – U.S. November Philadelphia Fed survey
- November 19 – South Africa interest rate decision
- November 20 – Eurozone Nov. consumer confidence
- November 20 – Canada October CPI
- November 20 – Canada September retail sales
- November 23 – U.S. October existing home sales
- November 23 – Eurozone November PMI (prelim.)
- November 24 – Germany Q3 GDP (final estimate)
- November 24 – Germany Nov. IFO business climate
- November 24 – U.S. Q3 GDP (preliminary)
- November 24 – U.S. Nov. consumer confidence
- November 24 – France Nov. bus./manuf. confidence
- November 24 – Turkey interest rate decision
- November 24 – South Africa Q3 GDP
- November 25 – France Nov. consumer confidence
- November 25 – Italy September retail sales
- November 25 – Austria September IP

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