Euler Hermes Economic Research

Weekly Export Risk Outlook

20 January 2016

In the Headlines

FIGURE OF THE WEEK

+6.9%

China's 2015 GDP growth

China: Soft landing?

GDP growth decelerated to +6.8% y/y in Q4 2015 (from +6.9% y/y in Q3). Services slowed to +8.2% y/y (from +8.6%) and growth of secondary industries accelerated moderately (+6.1%y/y, from +5.8%). After a slight improvement in November 2015, activity indicators point to weaker momentum in December. Growth in retail sales decreased slightly to +11.1% y/y (from +11.2%) and urban fixed asset investment growth slowed to +10% y/y (+10.2% in November). Real industrial production growth weakened to +5.9% y/y in December (+6.2% y/y in November). In 2015, overall GDP growth slowed to +6.9% (from +7.3% in 2014), slightly below the +7% government target. The rebalancing process is ongoing; tertiary industry accounted for 50.5% of GDP (48.1% in 2014) and industry for 40.5% (42.7%). Domestic consumption showed signs of improvement, with nominal retail sales of consumer goods up +10.7% y/y. Going forward, a soft landing still appears likely (+6.5% in 2016). Although weak short-term indicators and financial volatility point to fragility in Q1, economic activity should stabilise thereafter, supported by further macro-economic policies and a gradual increase in private consumption.

Poland: Recent legislative measures – a threat to growth?

Last week, S&P downgraded Poland's long-term foreign currency sovereign rating to BBB+ from A- and assigned a negative outlook to the new rating, reflecting perceptions that a number of measures taken by the new PiS government have fundamentally weakened the independence and effectiveness of key state institutions, such as the constitutional court, public broadcasting, the civil service and, potentially, the central bank. Moreover, PiS announced lower taxes for individuals and SMEs and a number of expensive new social policies, the financing of which is uncertain. New taxes on banks, insurers and supermarkets will not be sufficient while, critically, they seem to be more focused on predominantly foreign-owned sectors, thereby risking a negative impact on future FDI inflows. In the short term, fiscal loosening may indeed support consumption and growth. In the medium term (perhaps already by 2017), a negative impact on growth is possible because: (i) more selective 'penalty' taxes may be imposed and (ii) investment may decline as investor confidence deteriorates.

Iran: Sanctions relief

On 16 January, the IAEA verified that Tehran is keeping to its terms of the July 2015 nuclear/sanctions agreement (including shipping enriched uranium to Russia and deactivating the Arak heavy water reactor) and now international sanctions relating to the nuclear programme can be rolled back (more specifically they are frozen and can be reapplied if terms of the agreement are broken). Sanctions relating to Iran's ballistic missile programme and to individuals and groups categorised as sponsoring terrorism will still be subject to U.S. sanctions – with potential impact for non-U.S. companies. Financial assets (perhaps a minimum USD25bn) that were frozen will become available to Tehran, consumption and investment decisions will be given a boost and economic growth will be released from the restraint of sanctions, although structural rigidities limit the speed of the incipient improvement. Meanwhile, oil markets had largely factored in an increase in Iranian supply but will remain volatile, with downside price pressures, and deteriorating relations with Saudi Arabia heighten already tense regional fissures.

UK: Status quo for the BoE until at least H2

The rate of inflation ended 2015 at 0.2% and is expected to remain below 1% in 2016, reflecting lower oil prices compared with 2015 and slower wage growth (+2% y/y in November 2015, from +2.4% y/y in the previous month and compared with +2.8% average growth since 2002). Core inflation came in at +1.4%, a low reading, as weaker oil prices translated into lower prices in the supply chain and GBP appreciation also played a role in dampening price growth. We expect the BoE will delay its first interest rate hike to H2 2016, with a risk of further push back depending on the external environment and the outlook for oil prices. The deceleration in economic growth will continue in 2016 (GDP expansion of +2.1% after +2.4% in 2015) and in 2017 (+1.9%) as a result of a slowdown in private consumption and corporate investment because of negative business confidence related to Brexit fears, as well as slower growth in exports.

Countries in Focus

Americas

U.S.: Pervasive weakness

Retail sales fell -0.1% m/m in December 2015 and to +2.2% y/y, the slowest of the recovery. The weakness is likely to reflect the decision of Wal-Mart, the country's largest private employer, to announce the closure of 154 stores, eliminating 10,000 jobs. Globally, the company is closing 269 stores and cutting 16,000 jobs. Manufacturing industrial production fell -0.1% m/m in December, the fourth decline in five months, down to an anaemic y/y rate of +0.8%. Similarly, the Fed's January Empire State (New York) manufacturing index plummeted to -19.4 from -6.2, the sixth consecutive month of contraction and down to its lowest point during the recovery. Producer price inflation, driven by a sharp -3.4% drop in energy prices, fell -0.2% m/m in December to a -1.1% y/y rate. After stripping out volatile energy and food prices, the core rate gained +0.1% m/m and only +0.3% y/y. Business inventories fell -0.2% m/m in November, a drag on Q4 2015 GDP.

Europe

Cyprus: Looking ahead

The 8th and last review of the economic reform programme implemented in 2013 with the Troika is underway, with the programme expected to end in March. On 14 January, the Eurogroup praised Cyprus for success in state deleveraging and in spurring economic recovery, particularly through a healthier financial sector. Even so, some issues remain outstanding before completion of the whole programme and final disbursement of around EUR300mn. One of these is the reduction in NPLs; a law to facilitate the sale of loans was recently adopted and the review team is expected to scrutinise the enforcement and effectiveness of this new regulation. There are also calls to nationalise the telecoms authority. Meanwhile, economic indicators suggest that confidence is returning and the economy is recovering; the economic sentiment indicator was 107.3 in December 2015 (from 65.7 in the corresponding month in 2014). GDP growth is estimated at +1.5% in 2015 and is forecast at +2% in 2016.

Africa & Middle East

Burkina Faso: Security challenge

Last week, newly-elected President Roch Marc Christian Kaboré (see also WERO 3 December 2015) unveiled his cabinet government, which includes himself as minister of defence. Kaboré's close control of this portfolio is not surprising, given the country's history of coups and of the military's previous role in politics. Additionally, border and internal security will remain challenging, given uncertain regional stability. Indeed, this week's terrorist attack in the capital, Ouagadougou, which targeted Western nationals, indicates a growing risk that the lower Sahel is increasingly used as a theatre of operations for al-Qaida-related forces and other militant groups. Burkina Faso and Mali pledged to work together to counter the growing threat of Islamist militancy through intelligence sharing and joint security patrols. However, with an extensive and porous border, further periodic attacks appear likely, with associated negative effects on domestic and external commercial transactions.

Asia Pacific

Indonesia & Singapore: Growth led by domestic demand

In December 2015, **Indonesia's** USD-denominated exports contracted by -17.7% y/y and **Singapore's** SGD-denominated non-oil domestic exports decreased by -7.2%. However, domestic demand shows some resilience in both countries. Retail sales growth was +4.7% y/y in December (+2.6% in November) in **Singapore** and +10.2% y/y in November (+8.7% in October) in **Indonesia**. Economic surveys indicate a mixed picture as consumer confidence is improving but manufacturing PMIs still show contraction. On the policy front, **Indonesia** lowered its key interest rate by -25bps to 7.25%, reflecting weaker inflationary pressures (3.35% y/y in December, 4.89% in November), difficult credit conditions and below-trend growth. In the short term, domestic demand is likely to remain the main growth drivers for both countries, supported by efficient labour markets and pro-growth policies. External demand will reflect slowing growth in China and only a modest upturn in high-income economies.

What to watch

- January 21 – Eurozone ECB monetary policy meeting
- January 21 – France Jan. Insee business confidence
- January 21 – U.S. Jan. Phil. Fed manufacturing index
- January 21 – Ukraine December industrial production
- January 22 – Eurozone January PMI
- January 22 – U.S. December existing home sales
- January 22 – Canada December consumer inflation
- January 22 – Canada November retail sales
- January 25 – Mexico December unemployment
- January 25 – Greece pension reform vote (from 20th)
- January 25 – Germany January Ifo business climate
- January 25 – Japan December trade balance
- January 26 – Brazil December FDI
- January 26 – U.S. January consumer confidence
- January 26 – Hungary interest rate decision
- January 27 – Italy Jan. sentiment/confidence indicators
- January 27 – France December total jobseekers
- January 27 – U.S. December new home sales
- January 27 – U.S. Federal Reserve policy decision
- January 27 – Russia December IP & retail sales
- January 27 – Poland 2015 GDP growth
- January 27 – Germany January GfK cons. confidence

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