

FIGURE
OF THE WEEK

34.6

Average
weekly hours
worked in the
U.S.

In the Headlines



Russia: Deep recession in 2015 as domestic demand slumps

Preliminary estimates indicate that real GDP declined by -3.8% y/y in Q4 2015, taking the full-year contraction to -3.7%, as expected. The strongest downturn came in gross capital formation (-18.3%), reflecting a -7.6% fall in fixed investment and a sharp drop in inventories, which subtracted -3.3pps from full-year growth as companies sold off stocks in the wake of diminishing demand for their products. Private consumption contracted by -10.1% as households were hit by the sharp RUB depreciation, falling real wages and a reduction in working hours. Government consumption was down by -1.8%. Net exports somewhat mitigated the overall contraction, making a positive contribution of +6.7pps as real exports grew by +3.1% in 2015, as a result of the weakened RUB, while real imports fell by a marked -25.6%. The outlook for 2016 remains poor against a backdrop of renewed falls in oil prices and the RUB at the start of the year, although annual GDP is likely to decline at a more moderate pace because of base effects. Euler Hermes projects a contraction of -0.5% in 2016, but the possibility of very low global oil prices for longer poses a considerable downside risk to this forecast.



U.S.: Mixed labour market, weak trade and productivity

January's employment report was mixed. Job creation of +151,000 was disappointing, lowering fears of a Fed interest rate hike but raising fears of a slowing economy. Conversely, a combination of falling unemployment, -0.1pps to 4.9%, and participation rate increasing +0.1pps showed strength, increasing fears of a Fed hike and lowering concerns of a slowing economy. EH expects one or two rate hikes in 2016, at most. Wages increased strongly, by +0.5% m/m in January but the y/y rate was consistent with the +2.5% average of the past six months. Manufacturing finally provided some good news, with an increase of +29,000 jobs, the most in 15 months. Meanwhile, the trade deficit widened to -USD43.4bn in December 2015 from -USD42.2bn in November. Exports, pressured by a strong USD and tepid global demand, fell by -0.3% m/m and -6.9% y/y to USD181bn and imports increased by +0.3% m/m to USD225bn, the first gain in four months, but still down -6.5% y/y. Weakness in Q4 2015 GDP was explained in part by productivity, which fell -3% q/q annualised (+0.3% y/y).



Canada: Fragmented jobs market, improved trade

The job market was soft in January as unemployment increased to 7.2% (from 7.1%), a gap of +2.3pps above the U.S., the largest since 2002. The economy lost -5,700 jobs and the details demonstrated that Canada actually has two economies. For example, services-heavy Ontario gained +19,800 jobs, while oil-heavy Alberta lost -10,000. Over the past year, the economy gained +125,000 jobs, but services gained +169,200 and goods lost -43,200. For all of 2015, only three of the ten provinces recorded significant job growth: Ontario +100,200, British Columbia +48,400 and Quebec +30,500. Alberta lost -35,000, while the other six provinces added a total of only +18,600. Meanwhile, the merchandise trade deficit in December 2015 improved significantly to -CAD585mn from -CAD1,587mn, as nominal exports increased by +3.9% m/m and imports gained only +1.6%, providing a boost to Q4 GDP. In real terms, exports increased by +3.2% y/y, with energy exports gaining +5.3% and non-energy exports +2.6%. However, as a result of weak oil prices, exports in nominal terms fell by -27% y/y.



Algeria: Who leads?

Plans for constitutional amendments include stricter limitation on presidential terms, increased consultations over the appointment of the premier and adoption of the Berber dialect as an official language. A presidential decree at the end of January dissolved the DRS, the military intelligence organisation, previously seen as a key power broker. A complication with these changes, in addition to whether they will be implemented, arises through the continuing health concerns relating to President Abdelaziz Bouteflika. Indeed, Bouteflika has not been seen in public for two years (see also [WERO 19 November 2014](#)). Political uncertainty is compounded by current significantly reduced oil earnings and heightened security concerns. However, international reserves remain around USD160bn (down from almost USD200bn in mid-2014) and these provide import cover of over 28 months. This financial cushion provides a degree of comfort in relation to repayment obligations and commercial transactions but large fiscal and current account deficits and succession concerns require careful management.

Countries in Focus

Americas

Haiti: Political uncertainty

A contested election organised to replace incumbent President Michel Martelly sparked political unrest and social tensions, which have now been ongoing for several weeks. Martelly's term came to an end and he left office without a successor, exacerbating the political impasse. However, last weekend, an agreement was reached that allows for a transitional government to oversee a period that will lead to new second-round elections for a president to be installed before 14 May. In addition to these political uncertainties, severe security threats are having negative effects on the economy, which is still fragile and recovering from an earthquake in 2010. Against this background, the outlook for GDP growth and economic development is uncertain. The economy expanded by +4.2% in 2013 but growth decelerated to +2.7% in 2014. We estimate that growth slowed further in 2015, to +2.3%, and we forecast only a moderate rebound to +3% in 2016.

France: External trade in 2015, glass half full or half empty?

External trade statistics for 2015 were both good and bad. The half-full glass was the large -EUR12.2bn reduction to -EUR45.7bn in the goods balance, reflecting a +4.3% y/y increase in exports (+0.1% in 2014). Recovery in Europe helped exports to the EU grow by +2.2% and the lower EUR boosted export growth to the rest of the world (+7.4%, including +19.5% to the U.S.). The half-empty glass was that the deficit in manufactured goods (excluding refined products) widened by +EUR2.6bn. Moreover, the aeronautics sector was the main positive contributor, with exports rising +11.4% y/y, boosting the sector's trade surplus by +EUR1.6bn to +EUR22.2bn. Pharmaceutical products and agrifood were the only other sectors to record a marked improvement in their trade balance, providing further evidence of the country's export reliance on just a few key sectors. Will Airbus, which accounts for half of aeronautics exports, experience another record year (EUR28.9bn in 2015 sales) in 2016?

Kenya: A pocket of African high growth

Official statements announced a downward revision in the FY2015/16 budget deficit (including grants) to -8.1% of GDP, from -8.7%. The lower estimate reflects cuts in both expenditure and domestic borrowing. For FY2016/17, the government targets a budget deficit of -6.9% of GDP, with net external financing projected to cover 62% of the shortfall. Meanwhile, the IMF granted an extension of the USD687mn credit facility until March 2016, with the additional time granted to allow for implementation of structural measures under the programme. The IMF facility is essentially a "precautionary" measure, rather than a fund to be drawn down, and the Fund indicates that it is broadly supportive of the government's use of policy tools to stabilise the economy. The government claims that fiscal plans will not interrupt the nation's "still strong" economic growth, driven by expansion in the construction and agricultural sectors and by a recovery in tourism. EH expects GDP growth of around +6% in 2016 and 2017.

Indonesia: Solid growth in 2015, despite faltering external trade

Real GDP growth picked up to +5% y/y in Q4 2015, following three consecutive quarters of +4.7% y/y expansion, taking full-year growth to +4.8%. The latter is down from +5% in 2014 and the slowest pace in six years. Full-year 2015 growth was driven by domestic demand, with robust private consumption expanding by +5% (+5.2% in 2014), government consumption accelerating to +5.4% (+1.2% in 2014) and fixed investment up by +5.1% (+4.6% in 2014). External trade activity weakened further in 2015, with exports impacted by slowing demand from key trade partners in the region, notably China, and imports affected by the depreciation of the IDR (down by an average -13% against the USD). Nonetheless, net exports made a positive contribution of +0.8pps to growth in 2015 (-0.3pps in 2014) as imports (-5.8%) decreased much stronger than exports (-2%). Euler Hermes expects domestic demand will remain robust, with full-year growth of around +5% in 2016.

What to watch

- | | |
|--|---|
| ■ February 11-12 – Eurozone finance minister meeting | ■ February 15 – Russia January IP |
| ■ February 11 – Turkey December current account | ■ February 15 – Ukraine Q4 GDP growth |
| ■ February 12 – Eurozone Q4 GDP (prelim. estimates) | ■ February 16 – Brazil December retail sales |
| ■ February 12 – Eurozone December IP | ■ February 16 – UK January CPI and PPI |
| ■ February 12 – U.S. January retail sales | ■ February 16 – Germany February ZEW survey |
| ■ February 12 – India December IP | ■ February 17 – U.S. January Fed minutes |
| ■ February 12 – Spain January CPI | ■ February 17 – U.S. January IP and PPI |
| ■ February 12 – Germany January CPI | ■ February 17 – U.S. January housing starts & permits |
| ■ February 12 – Canada January home price index | ■ February 17 – Poland January IP |
| | ■ February 18 – France January CPI |
| | ■ February 18-19 – European Council meeting |

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.