Euler Hermes Economic Research

Weekly Export Risk Outlook

17 February 2016

FIGURE OF THE WEEK

+1.5%

Eurozone GDP growth in 2015

In the Headlines

Eurozone: Five-year high GDP growth, but still not great

Preliminary GDP data indicate growth of +0.3% q/q in Q4 2015, bringing full-year expansion to +1.5%, which is the highest since 2011 and in line with expectations. The main growth driver was increased household consumption. **Germany's** 2015 GDP increased by +1.4%, reflecting domestic demand growth, particularly government spending related to the refugee crisis. **France's** household consumption maintained its growth at +0.2% q/q in Q4, putting 2015 expansion at +1.1%. Household consumption was also an important contributor to growth in **Italy**. All Eurozone countries expanded more strongly in 2015 than in 2014, with **Spain** (+3.2% in 2015) registering the highest rate after **Ireland**. We expect domestic demand will continue to drive growth, reflecting cheap oil prices and a pick-up in corporate investment. The effects of a weak EUR, already evident in export growth in some countries such as **Italy**, will also continue to boost economic activity, although to a lesser extent than in 2015. Overall, we expect slightly stronger growth in 2016, at +1.7%, with higher growth at a country level ranging from +1.8% in **Germany** to +1.4% and +1.1% in **France** and **Italy,** respectively. In contrast, growth in **Spain** is likely to slow moderately, to +2.7%.

Commodities: Oil platform

It is too early to suggest that the recent agreement by some oil-producing countries to freeze output at January levels will address the current oversupply of crude. The accord involves **Saudi Arabia** (January output 10.2mbpd), **Russia** (10.9mbpd), **Venezuela** (2.4mbpd) and **Qatar** (0.7mbpd). However, the agreement is tentative and dependent on other producers joining the quartet. This may be difficult to achieve as the **U.S.** is unlikely to agree and the timing is bad for both **Iran** (increasing output after gaining sanctions relief) and **Iraq** (requiring oil revenues to finance security against ongoing security threats). Both **Russia** and **Saudi Arabia** have been pumping at, or near, record levels for two years, so a production freeze - rather than a cut - does little to balance the market. An additional factor that may yet derail the agreement is that the two principal actors support opposing sides in the conflict in Syria. This agreement may yet lead to other concerted action to balance the oil market but we do not see it as having a marked effect on prices (Brent currently <USD35/b) in the short term.

Norway: Negative impact from oil prices

GDP in Q4 2015 – excluding oil activity – expanded only slightly (+0.1% q/q) after a stagnant Q3. While domestic consumption increased by +0.6% q/q in Q4, compared with +0.3% in the previous quarter, investment continued to decline, for the third consecutive quarter. Investment was affected by weakness in the oil sector but also by contraction in manufacturing (-1.3% q/q) and general government investment (-2.7%). GDP including oil activities declined by -1.2% q/q in Q4, reflecting the impact of lower oil prices and declining output of the petroleum industries (-5.8% q/q). Mainland GDP growth (excluding oil) was +1.1% in 2015, the weakest annual rate since 2009, and overall growth was +1.7%. To counter the negative consequences of lower oil prices, the government adopted a supportive 2016 budget, which projects a boost equivalent to +0.7% of mainland GDP. Meanwhile, the Central Bank is likely to announce further rate cuts in H1 2016. We expect this year's overall GDP growth will slow further, to +1.2%, as a result of investment contraction and a slowdown in export growth.

Israel: Resilience

On an annualised basis, GDP increased by +3.3% q/q in Q4 2015, following +2.5% (revised upwards) and +0.4% in Q3 and Q2, respectively. It was the strongest quarterly GDP growth since Q4 2014 and was driven by private consumption (+5.8%, after +2.2% in Q3) and investment (+6.8% from -0.1%) but net exports had a negative impact as import growth was +25% while exports increased by +7.6%. For the year as a whole, GDP increased by +2.6%, compared with an earlier official forecast of +2.3%. The economy is showing some resilience despite regional (Middle East turmoil) and global headwinds but, in relation to the latter, weak recoveries in Europe (markets for over 30% of Israeli exports) and uncertainties relating to U.S. (28%) and Chinese growth weigh against external demand for Israeli products and services. Exports were a primary growth driver pre-2012 but private consumption is likely to remain the strongest boost to GDP this year and next. EH expects GDP growth of +3% in 2016.

Countries in Focus

Americas

Chile: Weak 2015 growth

The economic activity index (an advanced indicator for real GDP) improved by +1.5% y/y in December 2015, suggesting that the economy increased by only +2% in the full year, after +1.8% in 2014, a very disappointing rate, compared with an annual average of +5.3% in 2010-13. Last year, economic activity was negatively affected by the fall in the price of copper (accounting for more than 10% of GDP) and the Chinese slowdown (25% of exports). Exports declined by a nominal -16% in 2015 and industrial production contracted by -0.6%. As with other major LatAm currencies, the CLP is under strong downward pressures (-25% against the USD since June 2014). This has translated into higher inflation, 4.3% on average in 2015, slightly above the Central Bank target range of 3% +/- 1pps. Accordingly, since September 2015, the key policy interest rate was hiked by 50bps, to 3.5%. This monetary tightening will weigh against economic activity and we forecast GDP in 2016 will again grow by +2%.

Europe

Central & Eastern Europe: Growth momentum sustained

First estimates indicate that real GDP growth in the group of 11 EU members in the CEE region continued to gain momentum, reaching about +3.5% y/y in Q4 (+3.3% in Q3), taking full-year 2015 growth to an estimated +3.4%, the highest annual increase since 2008. Central European countries performed particularly strongly, with the **Czech Republic** growing most rapidly at +4.3% (+3.9% y/y in Q4), followed by **Romania** with +3.8% (+3.8%), **Poland** with +3.6% (+3.6%), **Slovak Republic** with +3.5% (+4%, the highest growth in Q4), **Hungary** with +2.9% (+3%) and **Bulgaria** with +2.8% (+3.1%). Domestic demand was the key growth driver, more than compensating for modest export losses to Russia. These losses were more pronounced for the Baltic states, however, because of closer trade ties, reducing full-year growth to +2.7% in **Latvia**, +1.6% in **Lithuania** and +1.2% in **Estonia**. Euler Hermes expects regional growth of the 11 EU members in CEE will ease slightly to around +3.1% in 2016.

Africa & Middle East

Uganda: Museveni, vidi, vici?

Tomorrow's presidential, parliamentary and local elections were strongly contested in the run-up, but do not expect them to result in political change. President Yoweri Museveni and his National Resistance Movement (NRM) are set to extend their rule, partly because Museveni remains broadly popular and is credited with bringing stability, economic growth and reduction in poverty levels. Partly though, their likely success reflects their control of the electoral process. Moreover, the presidential campaign of the main challenger, Kizza Besigye of the Forum for Democratic Change (FDC), was hampered by weak funding and there were reports of intimidation of FDC and other opposition supporters. This week, Besigye was arrested on a charge of organising an illegal march. Oil resources and a vibrant market (East African Community) will maintain relatively high GDP growth rates, with Euler Hermes forecasting +5% as a minimum in 2016 and 2017.

Asia Pacific

Thailand: Modest recovery in 2015 will continue in 2016

Real GDP growth eased slightly to +2.9% y/y and +0.8% q/q in Q4, taking growth in 2015 as a whole to +2.8%. The latter is up from just +0.9% in 2014 but markedly below the average +5.2% recorded in 1999-2006 (between the Asian Crisis and the decade of protracted domestic political instability). Full-year 2015 growth was driven by a recovery in domestic demand, while external demand remained weak. Private consumption accelerated to +2.1% (+0.6% in 2014), government consumption expanded by +2.2% (+2.1% in 2014) and fixed investment rebounded to +4.7% growth (-2.4% in 2014). Renewed investment activity also helped imports improve from a decline of -5.3% in 2014 to -0.4% in 2015, while exports were again sluggish (+0.1% after +0.2% in 2014), impacted by slowing demand from key regional trade partners, notably China. As a result, net exports made only a small contribution to overall growth last year. Euler Hermes expects the economy will grow by around +3% in 2016.

What to watch

- February 18 – EC summit starts, Brussels
- February 18 – China January CPI & PPI
- February 19 – Canada January CPI
- February 19 – Germany January PPI
- February 19 – UK January retail sales
- February 19 – U.S. January CPI
- February 22 – EZ PMI
- February 22 – Israel January leading 'S' indicator
- February 23 – Germany Q4 GDP details
- February 23 – Germany February Ifo business climate
- February 23 – Hungary & Turkey interest rates
- February 23 – Brazil January inflation
- February 23 – France Feb. manuf. & bus. confidence
- February 23 – Mexico Q4 GDP
- February 24 – Ukraine January IP
- February 24 – South Africa budget
- February 25 – South Africa Q4 unemployment
- February 25 – Brazil January unemployment
- February 25 – Italy bus. & consumer confidence
- February 25 – UK Q4 GDP components

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