

FIGURE
OF THE WEEK

+0.5%

Better than
expected q/q Q1
Eurozone GDP
growth

In the Headlines



Brazil: Bottoming out? Not yet

Although we await the latest quarterly GDP statistics, recent high-frequency data suggest a fifth consecutive quarter of recession, as the political noise drives private sector confidence to new lows (see our Economic Insight [Brazil Did Not Need More Drama Right Now](#)). President Dilma Rousseff was suspended for a period of up to 180 days after the Senate voted to put her on trial and Vice President Michel Temer assumed the role of acting head of state last week. The uncertainty surrounding the impeachment procedure is detrimental to economic activity. Indeed, the growth indicator calculated by the Central Bank showed -6.3% y/y in March, as retail sales surprised on the downside. Our central scenario is materialising (see our Country Report [Still in Deep Recession in 2016](#)). After a surge of +25% in 2015, business insolvencies are expected to increase strongly again, by +22% in 2016 (the world's worst performer) and the trend for large companies is of particular concern, at +92% y/y over the 12 months to March 2016. Our GDP forecast is -3.5% in 2016 but risks are on the downside as unemployment was 8.2% in February, compared with 5.8% a year earlier.



Central & Eastern Europe: Mixed Q1 GDP growth

First estimates indicate that real GDP growth in the group of 11 EU members in the CEE region lost momentum, falling to around +3% y/y in Q1 (+3.8% in Q4 2015). **Hungary** surprised markedly on the downside as Q1 growth fell to just +0.7% y/y, while **Poland** (+2.5% y/y) and **Latvia** (+1.3% y/y) also performed below expectations. These three countries experienced much reduced construction activity. The Q1 growth slowdown in the **Czech Republic** (+3.1% y/y) was expected after the marked rebound in 2015, while **Bulgaria** (+2.9% y/y) showed robustness. Q1 growth in **Slovakia** (+3.6% y/y) fell slightly but remained strong as a result of robust construction activity and automotive sales. **Romania** surprised again on the upside, with strong domestic demand pushing growth to +4.2% y/y. Euler Hermes expects regional growth of the 11 EU members in the CEE will ease to around +3% in 2016 (+3.4% in 2015). Meanwhile, the contraction of GDP in **Russia** slowed to -1.2% y/y in Q1, mainly as a result of base effects, as expected. We expect full-year GDP will fall by -0.9% in 2016 (-3.7% in 2015).



Japan: Q1 GDP better than expected?

GDP growth in Q1 was +0.4% q/q (-0.4% in Q4 2015) supported by a rebound in private consumption and an acceleration in public expenditure (both government consumption and public investment). Private investment contracted for the second consecutive quarter, with a decline in both non-residential and residential sub-components. External trade supported growth, with rising exports. Advanced indicators point to sluggish growth; the Bank of Japan Tankan survey and the Markit/Nikkei survey both suggest weaker business conditions in Q2 (low new orders). Consumer confidence is at a low level. Against this background, the authorities are considering further supportive measures. In addition to the relief package for the region affected by the recent earthquake, an additional fiscal package (equivalent to 1% of GDP) is likely. This will support domestic demand growth and help alleviate the adverse effects of the JPY appreciation, including reduced price competitiveness, weaker overseas investment and increased deflationary pressures. Expect GDP growth of +0.7% in 2016 (+0.6% in 2015).



The Netherlands: Building up

GDP increased by +0.5% q/q in Q1, an improvement on the previous quarter (+0.3% q/q) and the highest since Q1 2015. The main contributor to growth was investment in construction, which increased by +1.4% q/q, confirming a durable recovery in the sector. Consumer spending picked up (+0.4% q/q) after two quarters of stagnation, particularly for durable goods and services. For industry, most sectors registered an increase, with the exception of mining production, which contracted by -20.4% y/y as a result of the decision in early 2015 to reduce natural gas extraction. Net exports contributed positively to GDP growth (+0.1pps) mainly a result of acceleration in exports of transport equipment but also exports of services. Weakness in the energy sector had a negative impact on exports of machinery and equipment, which contracted. In total, goods exports increased less rapidly than re-exports. Going forward, we expect GDP growth will be +1.5% in 2016 (after +2% in 2015), with domestic demand acting as the main growth driver, notably investment in construction.

Countries in Focus

Americas

U.S.: Consumption recovers, but gasoline prices are a drag

Retail sales gained a strong +1.3% m/m in April, driven by a +2.2% m/m increase in gasoline sales and a +3.2% m/m recovery in auto sales. Core sales increased by +0.9% m/m and +3.6% y/y, boding well for Q2. However, the increase in gasoline sales reflects a sharp +27% price increase since February, which is likely to reduce future overall consumption. Inflation was otherwise subdued as consumer prices increased by +0.4% m/m and +1.1% y/y in April, while core prices were up +0.2% m/m and +2.1% y/y. The data alone will not induce the Fed to increase interest rates in June, but some Fed members still say 2-3 hikes are possible in 2016; we think one is more likely. Meanwhile, housing starts and permits increased in April, by +6.6% m/m and +3.6%, respectively, but both were negative at -1.7% and -5.3% on a y/y basis. Manufacturing output increased by +0.3% m/m and +0.4% y/y. The Empire State survey also reflected manufacturing weakness as it slipped into negative territory in April.



Europe

Eurozone: A temporary boost?

Good economic performances by **France** and **Germany** in Q1 are reflected in better-than-expected Eurozone growth of +0.5% q/q, above earlier estimates of +0.4% and the +0.3% recorded in Q4 2015. Other countries that contributed to this positive surprise include **Spain** (+0.8% q/q) and **The Netherlands** (+0.5%) but **Italian** growth remained weak and in line with expectations (+0.3%). Domestic demand, particularly private consumption, replaced exports as the main driver of regional growth. Likewise, construction investment picked up in several countries, including **Germany**, reflecting milder weather, while corporate investment surprised on the upside in **France**. Going forward, we expect GDP growth will slow moderately in Q2 (+0.4% q/q), particularly as tailwinds from a weaker EUR and low oil prices are progressively diminishing. PMI indicators for April, both services and manufacturing, also suggest that growth in the Eurozone will plateau, reaching +1.6% in 2016.



Africa & Middle East

Nigeria: Further economic woes

Daily crude oil output has fallen by around -800,000 barrels (-40%) to 1.4 million barrels per day as a result of renewed attacks by militants on oil company facilities in the Niger Delta area. The oil-producing region has a track record of political activists and criminal gangs disrupting oil output and the federal government's commitment to reduce corruption has targeted powerful individuals in that region and led to this resurgence of militancy. Loss of oil output is compounding the fiscal and current account problems associated with low oil prices. In turn, reduced oil earnings recently prompted the government to increase petrol prices by +67%, thereby causing some demonstrations and labour union strikes. Meanwhile, consumer price inflation increased to 13.7% y/y in April (12.8% in March) and the hike in petrol prices will exacerbate these price pressures. The government remains adamant that it will not devalue the NGN but a currency adjustment is becoming more probable - at some stage.



Asia Pacific

Thailand: GDP edging up

GDP growth accelerated to +3.2% y/y in Q1 (+2.8% in Q4 2015), with expansion driven by strong growth in domestic demand. Private consumption and investment growth was underpinned by favourable government measures, including easier loan conditions for low-income rural individuals, farmers and SMEs. Exports recovered, reflecting strong growth in services. On the supply side, the improvement was led by: (i) strong expansion in hotels & restaurants and in construction and (ii) robust growth in transportation and wholesale trade. Manufacturing and agriculture declined. GDP growth for 2016 is forecast at around +3.2% (+2.8% in 2015), remaining below its long-term average of +4%. Economic activity will be supported by pro-growth macro-policies (fiscal and monetary). However, forward-looking indicators suggest weak consumer and business confidence and export growth will be subdued by weak demand growth in main trade partners, including China and the U.S.



What to watch

- May 19 – France Q1 ILO unemployment
- May 19 – UK April retail sales
- May 19 – South Africa monetary policy decision
- May 19 – U.S. May Philadelphia Fed survey
- May 20 – U.S. April existing home sales
- May 20 – Canada March retail sales
- May 23 – Eurozone May Markit sector & composite PMI
- May 23 – Russia April retail sales
- May 23 – Japan April trade balance
- May 24 – France May bus./manufacturing confidence
- May 24 – Germany Q1 GDP (second estimate/details)
- May 24 – Germany May ZEW survey
- May 24 – Eurogroup meeting (Greece on the agenda)
- May 24 – Brazil May FGV consumer confidence
- May 24 – Hungary & Turkey interest rate decisions
- May 24 – U.S. April new home sales
- May 25 – Canada BoC meeting
- May 25 – Germany May GfK consumer confidence
- May 25 – Germany May Ifo business climate



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