Euler Hermes Economic Research

Weekly Export Risk Outlook

7 August 2013

FIGURE OF THE WEEK

-0.2%

Italy's q/q GDP contraction in Q2

In the headlines

Italy: Contraction slowed in Q2

GDP continued to contract in Q2, by -0.2% q/q, and this was the eighth consecutive quarterly contraction. The GDP outcome is in line with EH forecasts but above the consensus of -0.4%. Investment growth is likely to have remained negative in Q2 as industrial production decreased by -0.9% q/q. However, business confidence improved recently, with the PMI service index gaining 2.9 points in July (to 48.7) and the PMI manufacturing index reaching 50.4, which puts it in expansionary territory for the first time since July 2011. On the demand side, prospects remain weak, with retail sales down -1.1% m/m in May, after -2.9% in April, and the rate of unemployment was 12.1% in June. Overall, EH expects economic growth to stabilise in late-2013 and return to a positive (if moderate) trend in 2014 (+0.3%), mainly export driven. The GDP breakdown for Q2 is scheduled to be released on 9 September.

Australia: Monetary policy eased

The Reserve Bank of Australia (RBA, central bank) cut its key policy interest rate to a new record low of 2.5% (previously 2.75%). This 25bps cut follows some signs of weak activity overall. GDP increased by +0.6% q/q in Q1, slightly below consensus and the government recently revised down its growth forecast for 2013 from 2.75% y/y to 2.5% y/y. The latest accommodative change in monetary policy, which came just after the PM called for a general election on 7 September, is expected to rebalance economic growth by encouraging borrowing and by strengthening the rate of currency depreciation. Meanwhile, inflationary pressures remain under control at 2.7% y/y in July (within the RBA target range of 2-3%) and provide scope for further monetary easing in the coming months.

UK: Advent of explicit guidance

The BoE left its key policy interest rate unchanged, at 0.5%, and broke with tradition by announcing that it will maintain its accommodative monetary policy as long as economic activity remains weak and unemployment remains above 7%. This form of communication is consistent with the arrival of a new governor, Mark Carney (previously governor of the Bank of Canada), who is a strong advocate of forward guidance, which is a more explicit direction regarding the future conduct of monetary policy. The Monetary Policy Committee gave more details, including that asset purchases will not be reduced until unemployment reaches the threshold and that the guidance linking Bank Rate and asset sales to the unemployment threshold will continue as long as (i) inflation remains under control (specifically, below the 2% target) and (ii) the financial policy committee judges that the monetary stance is not dangerous for the economy. Official GDP growth forecasts were raised to +1.5% in 2013 (previously +1.2%) and +2.7% in 2014 (previously +1.9%), compared with EH expectations of +1.1% and +1.6%, respectively.

Germany: Insolvencies falling

Despite relatively weak overall levels of economic activity in Q1, with GDP growth close to stagnation (+0.1% q/q), the number of corporate insolvencies continued to decline. According to the latest provisional figures from the Federal Statistical Office, Destatis, 6,608 business failures were recorded in Q1, representing a decline of -11.7% y/y (compared with Q1 2012) and of -8.8% as a 12-month floating rate (April 2012 to March 2013, compared with April 2011 to March 2012). On a q/q basis, the number of insolvencies in Q1 increased slightly, by +1.8%. Insolvency figures in Q1 on a monthly basis were subject to volatility, with 2,313 insolvencies registered in March, which was down by -17.7% y/y but up by +11.7% m/m.

NOTE: WERO is taking a break. The next issue will be 28 August 2013.

Countries in focus

Americas

US: Mixed data

Q2 real GDP increased by +1.7% q/q annualised and, after stripping out inventories, real final sales grew by only +1.3%. The long term average for both is +3.3%. Also, Q1 GDP growth was revised down sharply to +1.1% q/q. Moreover, the July employment report was a disappointment, with job growth of 162,000 below expectations and markedly short of a level signifying robust recovery. Hourly wages and weekly hours both fell, pushing earnings below inflation over the past year. Additionally, unemployment fell to 7.4% but this reflected the fact that discouraged people left the workforce, driving down the participation rate. Nevertheless, the week's data were not all bad as indices from the Institute for Supply Management improved in July, continuing to suggest expansion, with the manufacturing index at 55.4 from 50.9 in June and the non-manufacturing index was 56.0 from 52.2.

Europe

Ukraine: Recession and financial difficulties

Q2 real GDP contracted by -1.1% y/y, marking the fourth consecutive quarter of decline. Demand-side details have yet to be revealed, but supply-side data suggest that decreasing investment and faltering external demand were the major causes for the contraction, while private consumption continued to grow, albeit at a slower pace. Industrial and construction output declined by -5.7% y/y and -24.6% in Q2, respectively. Nominal goods exports fell by -5.5% y/y in April-May, although imports also contracted, by -6%. Retail trade expanded by +9% y/y in Q2, down from +13.4% y/y in Q1. Meanwhile, the IMF announced last week that Ukraine is expected to participate in post-programme monitoring, indicating concerns over its ability to meet debt repayments. The country's outstanding debt to the IMF is around USD8 billion, of which USD3 billion is due by end-2013.

Africa & Middle East

Morocco: Taking precautions

The IMF reaffirmed its support through continuation of a two-year USD6.2 billion Precautionary Liquidity Line (PLL) facility. At this stage, the PLL is unlikely to be used but it acts as insurance against external shocks on the balance of payments and as a form of approval of the government's general policy stance. It is therefore a useful signal to markets, investors and donors that recent economic performance has been relatively sound. However, the Fund again stressed the need for structural reforms, including improvements in tax collection and reductions in subsidy expenditures. These reforms are likely to be introduced slowly and progressively, given the sensitive nature of the impact on incomes at a time when unemployment is high (8.8% at a national level in Q2 but 20.2% for those aged 25-34 years living in urban areas) and regional uncertainties heighten political and social risks.

Asia Pacific

Indonesia: Growth eased in Q2

Real GDP growth moderated to +5.8% y/y in Q2 from +6% in Q1, but remained robust overall as a result of an improved net trade balance. Growth in private consumption remained relatively stable at +5.1%, public consumption accelerated to +2.1% (+0.4% in Q1) while fixed investment slowed to +4.7% (+5.8% in Q1). Both exports and imports picked up in Q2, to +4.8% and +0.6% (+3.6% and -0.1% in Q1), respectively, so net exports contributed +2pps to overall Q2 growth. Headline inflation increased sharply in July, to 8.6% y/y (5.9% in June), as a result of the reduction in fuel subsidies in late June. Higher inflation will weigh on households' purchasing power, but still buoyant consumer confidence and strong wage growth suggest that private consumption may hold up relatively well. EH expects +6% GDP growth in full-year 2012.

What to watch

- August 9 – China July CPI, PPI, IP, retail sales
- August 9 – Latvia Q2 GDP
- August 9 – France June IP, manufacturing output
- August 10 – SADC heads of state summit
- August 11 – Mali presidential election run-off
- August 12 – Estonia Q2 GDP
- August 14 – EU & Eurozone Q2 GDP
- August 15 – Indonesia monetary policy meeting
- August 19 – Thailand Q2 GDP

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