

Weekly Export Risk Outlook

14 November 2013

FIGURE
OF THE WEEK

+0.5%

Japan's q/q
GDP growth in
Q3 (+0.9% in
Q2)

In the headlines



Eurozone: Recovering but at a snail's pace

GDP growth remained positive in Q3, for the second consecutive quarter, but decelerated to +0.1% q/q (+0.3% in Q2). Two of the largest economies contributed negatively, with **France** returning to contraction (-0.1% q/q, see below) and **Italy** contracting further, -0.1% q/q (-0.3% in Q2), in line with consensus. Q3 GDP growth slowed in **Germany**, to +0.3% q/q (+0.7% in Q2) but improved in **Spain**, to +0.1% q/q (-0.1% in Q2), which was the first increase after nine consecutive quarterly decreases. **Netherlands'** GDP recorded a slight increase (+0.1% after stagnation in Q2) and **Belgium** registered growth of +0.3% (from +0.2%). Overall, the near-stagnation in GDP growth confirms EH's concerns about the fragility of the recovery. Returning business confidence, pick-up in new export orders, reduction in internal imbalances and slower fiscal consolidation in most countries should be positive for growth in coming quarters. However, downside risks remain, given ongoing disinflation, still tight credit conditions and record high unemployment that could hamper the (modest) domestic demand recovery next year. EH maintains a below-consensus overall GDP growth forecast of +0.9% in 2014 (-0.5% in 2013).



North America: Weak job growth both sides of the border

In the **US**, 204,000 jobs were created in October, with upward revisions of 60,000 in the previous two months. The data were stronger than expected but still below the level of 250,000 associated with a strong recovery. Moreover, many of the job gains were seasonal and temporary, with 44,000 in retail and 53,000 in leisure and hospitality. Unemployment edged up 0.1pps to 7.3% and the participation rate fell to 62.8%, the lowest since March 1978, but these figures were distorted by the government shutdown in October. The jobs data appear inconsistent with other economic indicators and, as such, may be revised down in the coming months. For example, confidence surveys continue to be gloomy as Consumer Sentiment edged down from 73.2 to 72 and Small Business Optimism fell 2.3%, the second consecutive drop. Meanwhile, the **Canadian** jobs report was volatile again in October, with private job losses and public gains, the opposite of September. Overall, the labour market is weak, gaining only 12,600 jobs each month on average this year, compared with 25,900 last year.



China: A new vision, strategy to follow

On 12 November, the communiqué of the third Plenum Meeting of the 18th Party Congress was issued, which sets out a roadmap forged by the new leadership. Included among a wide range of topics covered by the communiqué were reaffirmation of the need to (i) strengthen the military (ii) deepen structural economic reforms and enhance innovation (iii) pursue international integration (iv) further open the economy through fewer restrictions on foreign investment and easier access to domestic markets and (v) strengthen the role of markets in the financial sector. The latter is perhaps the most important element in the document as it represents a major shift in the Chinese model for financing. Previously, markets were considered as a 'basic' method of distributing resources but now the government plans to ensure that they will play a decisive role in resource allocation. The document provides a broad vision on these subjects rather than a clear strategy on how they will be achieved. More details are expected within the next few weeks.



France: Towards a low-growth environment

Q3 GDP growth was below expectations at -0.1% q/q, after a relatively strong increase of +0.5% in Q2. The contraction was largely a result of the impact of net exports (-0.7% from GDP growth), with weak exports (-1.5% q/q) but rising imports (+1%). Private consumption growth slowed in Q3, to +0.2% q/q, while the fall in fixed investment accelerated (-0.6%), so that the contribution to overall growth from private demand was nil. Inventories registered a strong increase in Q3 adding +0.5% to growth (after +0.1% in Q2). EH's central scenario remains unchanged, with stabilisation in GDP at low levels in coming quarters and a gradual pick-up starting in mid-2014. Growth is expected to reach +0.2% in 2013 and +0.6% in 2014 reflecting resilient private consumption, stabilising investment and increasing export orders. However, the fiscal environment is likely to remain a drag on domestic demand, particularly for households, as budget targets appear optimistic; a fiscal deficit target of -2.8% of GDP in 2015 compared with EH's forecast of a deficit of -4.1% in 2013.

Countries in Focus

Americas

Latin America: Differing inflationary environments

Inflationary pressures are subdued in **Ecuador** and **Colombia**, with the October CPI in the former increasing by 2.04% y/y (1.71% in September and around 2.3% in July and June) and decreasing to 2.66% in the latter (around 2.8% in the preceding five months). In **Mexico**, the rate of inflation is relatively stable (around 3.4% since June) and with a downward bias. In contrast, the rate of inflation is increasing markedly in **Venezuela**. It was already high at end-2012, at 20% y/y, but increased sharply this year, reaching 54% in October. In **Brazil**, consumer price inflation remained stable in October relative to the previous month, at 5.8%, confirming the decrease evident since March, when it was 6.6%. In recent months, the central bank in Brazil has been increasing gradually its Selic repo rate, the key policy interest rate, in an attempt to curb inflationary pressures, with the Selic at 9.5% in October, compared with 7.25% in April.



Europe

Central & Eastern Europe: Flash estimates of Q3 GDP growth

Advance estimates of Q3 real GDP indicate a continued moderate recovery in the group of 11 EU members in the CEE region, which together reached an estimated growth of +1.3% y/y (+0.5% in Q2). **Latvia** and **Romania** were the leaders, with broadly-based y/y growth accelerating to +4.2% and +4.1%, respectively. Strengthening industrial production and good harvests resulted in better y/y growth rates in **Poland** (+1.9%) and **Hungary** (+1.7%). Growth in **Bulgaria** picked up to +0.8% y/y as a result of modest but robust expansion in exports and investment, while the decline in private consumption eased. **Slovakia's** growth increased by +0.9% y/y, almost unchanged from Q2. Growth in **Estonia** decelerated to +0.4% reflecting a downtrend in construction activity. The **Czech Republic** remains in recession, with GDP contraction of -0.7% y/y in Q3. A flash estimate for **Russia** shows disappointing Q3 growth of +1.2% y/y, the same as in Q2, as exports and investment remain weak.



Africa & Middle East

Iran: No deal, yet

Discussions relating to a partial freeze of Iran's nuclear programme in return for moderate easing in international sanctions against the country did not end in agreement, although further talks will resume at the end of the month. An interim settlement had seemed achievable and much groundwork was undertaken. However, it needs to be noted that an agreement would be preliminary before a greater challenge of final status talks at some future stage. Moreover, some key players in the prospects for effective rapprochement have shown their antipathy to any accord and these include the Revolutionary Guards and hardliners within the regime in Tehran and the House of Representatives in Washington, which passed a bill to tighten sanctions. In addition, Israel and Saudi Arabia are deeply concerned about Iran's potential re-emergence in the international community. Do not expect commercial opportunities to increase significantly in the short term.



Asia Pacific

Indonesia: Q3 GDP and monetary policy

Real GDP growth continued to moderate in Q3, to +5.6% y/y from +5.8% in Q2. Private consumption expanded by +5.5% (+5.1% in Q2), public consumption surged to +8.8% (+2.1%) while fixed investment eased slightly to +4.5% (+4.7%). Exports and imports both picked up in Q3, to +5.3% and +3.8% (+4.8% and +0.6% in Q2), respectively, with the stronger acceleration in imports resulting in a contribution to overall Q3 growth from net exports of +1.1pps (+2pps in Q2). EH expects +5.7% GDP growth in full-year 2013. This week, Bank Indonesia raised its key policy interest rate by 25bps to 7.5%, aimed at reducing the current account deficit from an estimated 3.6% of GDP in the first three quarters of 2013 to a more sound level, as well as attempting to bring inflation back within the target range of 4.5±1% in 2014. Headline inflation increased sharply in July as a result of a reduction in fuel subsidies in late June and remains high (at 8.3% y/y in October).



What to watch

- November 15 – India October WPI
- November 15 – US October industrial production
- November 15 – Hong Kong Q3 GDP
- November 15 – Austria October CPI
- November 15 – Hungary Sept. industrial production
- November 17 – Israel Q3 GDP growth (annualised)
- November 17 – Chile presidential & plmtry. elections
- November 17 – Thailand Q3 GDP
- November 19 – Nigeria budget speech in parliament
- November 20 – Malaysia October CPI
- November 20 – UK BoE minutes
- November 20 – US October FOMC meeting minutes



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