Euler Hermes Economic Research

Weekly Export Risk Outlook

27 November 2013

In the headlines

FIGURE OF THE WEEK

+0.3%

Germany's q/q Q3 GDP growth

Germany: GDP growth slowdown likely to be temporary

Detailed official data confirmed that real GDP growth moderated to +0.3% q/q in Q3, down from +0.7% in Q2. External trade lost momentum in Q3, with exports up only +0.1% q/q and imports +0.8%, so net exports subtracted -0.4pps from overall Q3 growth. In contrast, strengthening domestic demand was a key growth driver, with private consumption up by +0.1% q/q, public consumption +0.5% and fixed investment +1.6%, the latter spurred by a +2.4% q/q increase in construction investment. Inventories added +0.2pps to Q3 growth. The overall slowdown in Q3 is likely to prove temporary, influenced by the strong rebound in Q2 after a long winter that caused stagnation in Q1. Leading indicators including the PMI, Ifo business climate index and ZEW economic expectations index have rebounded in recent months and point to a strengthening economic recovery. EH expects real GDP growth of around +0.6% q/q in Q4, supported by a recovery in exports, resulting in full-year growth of +0.5% in 2013, followed by +1.6% in 2014. On the political front, Angela Merkel's centre-right CDU/CSU and the centre-left SPD agreed this morning the terms for a 'grand coalition'.

UK: Domestic sector is the main brick in the economy

Q3 GDP growth was confirmed at +0.8% q/q, with the data breakdown revealing a positive contribution from domestic demand. As expected, given strong retail sales data and rising consumer confidence, private consumption in Q3 was a key growth driver, increasing by +0.8% q/q, the highest rate in three years. Private investment increased for the third consecutive quarter, by +1.7% q/q, reflecting strong growth in both equipment and construction. The contribution of inventories was the strongest in two years (+0.8 pps), suggesting an anticipated further improvement in domestic demand. On the negative side, exports fell sharply (-2.4% q/q), the largest fall since mid-2011, while imports increased slightly (+0.4% q/q), so external trade had a strong negative influence on growth (-0.9pps). Going forward, GDP growth is likely to continue to be supported by domestic demand and exports should recover as the eurozone exits recession. EH expects GDP growth of +1.3% in 2013 and +2.1% in 2014, slightly below consensus.

Greece: Muddling through?

The IMF mission chief for Greece, Poul Thomsen, gave some preliminary conclusions of the ongoing Troika work in Greece. The IMF sees the recession bottoming out and expects GDP growth to turn positive in 2014 (EH expects -0.3%), although the recovery is seen as fragile. The banking system is judged to be in good health and fully recapitalised. On the fiscal side, the IMF is confident that a primary surplus will be reached this year. Despite important steps to restore fiscal sustainability (the fiscal deficit was reduced by 9 points of GDP, to 6.5% in 2013), the IMF points out the need for further adjustment (the 2014-15 financing gap is expected at EUR11 billion). European Member States will need to agree further measures to help reduce Greece's unsustainable debt (expected to reach 175% of GDP in 2013), possibly through an extension of maturities and further reduction in interest rates. EH does not exclude a third bailout programme. On structural reforms, the IMF expects the local authorities to complete the liberalisation of closed professions (the OECD identified over 300 legal restrictions in four key sectors – retail, tourism, food processing and building materials) and to increase flexibility in the labour market by changing the rules for collective dismissals.

Iran: One step at a time

The first step agreement reached between Iran and the P5+1 group is just that – an interim stage that may lead to a comprehensive settlement of long-term differences. The initial step has a time frame of six months but a clause in the agreement allows for it to be renewed, so a final agreement (if reached) may be as late as 2015. The Iranians agreed to dilute some uranium enriched to 20%, to freeze advanced activities at Natanz, Fordow and Arak reactors for six months and to enhance international monitoring of its nuclear programme. Iran did not agree to curtail its nuclear programme. In return, the international community agreed not to increase attempts to reduce Iranian oil export sales, to unfreeze some Iranian overseas assets and suspend for six months EU and US sanctions on the petrochemicals and gold and precious metals sectors and the US will suspend its unilateral sanctions on the autos industry. The P5+1 group did not suspend sanctions on the oil and gas and financial sectors and it did not exclude further non-nuclear sanctions.

Countries in Focus

Americas

Mexico & Peru: GDP growth slows in 2013, with a rebound in 2014

In **Mexico**, GDP increased by +1.3% y/y in Q3, slightly slower than in Q2 (+1.6%). The slowdown was driven by weaker activity in the secondary sector (-0.6% y/y, after -0.3% in Q2), particularly in construction (-6.9%) and mining (-1.8%) while output expanded in manufacturing (+2.9%) and utilities (+0.9%). Agriculture and services contributed positively to GDP growth in Q3, but both recorded a slowdown. EH expects economic activity to be subdued in 2013 (+2.8% after +3.9% in 2012) but to gain momentum in 2014 (+3.6%). GDP growth was also weaker in **Peru** in Q3, recording +4.4% after +5.6% in Q2. Activity expanded in almost all sectors (except fishing, -1% y/y) but at a slower pace. A stronger contribution to overall economic growth came from services, while the most significant slowdowns were in the construction and the manufacturing sectors. EH expects GDP growth to slow to +4.5% in 2013 (+6.3% in 2012) and improve to +5.2% in 2014.

Europe

Bulgaria: Q3 GDP growth picks up & current account in strong surplus

The economy avoided falling into recession in Q3 as flash estimates put seasonally adjusted real GDP growth at +0.6% q/q, up from a small contraction of -0.1% in Q2. In y/y terms, Q3 GDP growth accelerated to +0.8%, after +0.2% in Q2 and +0.4% in Q1. Private consumption contracted by -1% y/y in Q3, marking the third consecutive quarter of decline, but this was more than offset by increases in public consumption (+2.1% y/y) and fixed investment (+1.2%). Net exports also made a positive contribution to Q3 growth as the expansion of exports and imports picked up to +6.7% y/y and +5%, respectively. EH expects full-year GDP growth of around +0.5% in 2013, increasing to +1.3% in 2014. Meanwhile, headline CPI inflation picked up to 0.5% m/m in October but remained in negative territory on a y/y basis, at -1.4%, and stronger export growth compared with imports resulted in a current account surplus of EUR1.4 billion in the first three quarters of 2013 (3.4% of GDP).

Africa & Middle East

South Africa: Relatively weak GDP growth

GDP growth in Q3 was the slowest in more than four years at +0.7% q/q annualised, after +0.8% in Q1 and +3.2% in Q2. The main driver of growth in Q3 was mining, with +11.4% q/q, which provided 0.6pps to overall economic expansion, while the manufacturing sector contracted by -6.6%, reflecting industrial action in the autos sector. In y/y terms, GDP increased by +1.8% in Q3, after +2.3% in Q2. GDP growth in 2012 was +2.5% and in 2011 was +3.6% (revised upwards). Last week, the central bank (SARB) cut its 2013 growth forecast to +1.9% (from +2%) and, in an attempt to spur consumer spending, kept its key policy interest rate (repo) at its lowest level in more than three decades. Inflation is expected to remain within the official target range but SARB is increasingly concerned about upside risks to price growth. EH expects GDP growth of +2.1% in 2013 and +3.5% in 2014 but the outlook is subject to uncertain domestic (elections in 2014) and global (Fed tapering) events.

Asia Pacific

China and India: Convergence of the dragon and elephant?

The latest indicators for the two largest economies in developing Asia point to a converging trend as **China** is growing at a more moderate pace and **India** is recovering slowly. Indeed, the conference board leading economic index for **India** increased by +0.9 % m/m in October, after negative data was registered in August (-1.9%) and September (-0.9%). This relatively good overall performance was supported by strengthening in seven of the eight components of the index, particularly an improved outlook for exports, as well as by appropriate monetary policy measures. Meanwhile, **China's** HSBC flash PMI decreased slightly to 50.4 in November (from 50.9 the previous month) signalling positive economic growth but at a lower rate than was evident in October's data. The components that contributed most markedly to the slowdown were the decline in new orders for exports, at a three-month low, employment, output prices and stock of purchases.

What to watch

- November 28 – Canada Q3 current account
- November 28 – Switzerland Q3 GDP (first estimate)
- November 28 – Spain Q3 GDP (breakdown)
- November 28 – Japan October industrial production
- November 29 – Canada Q3 GDP
- November 29 – Croatia Q3 GDP
- November 29 – Slovenia Q3 GDP and November CPI
- November 29 – Denmark & Sweden Q3 GDP (first estimates)
- November 29 – India Q3 GDP
- December 2 – EU-27 business confidence (PMI index)
- December 3 – Australia Q3 GDP
- December 4 – Czech Republic, Hungary, Romania & Slovak Republic Q3 GDP growth (breakdown)
- December 5 – ECB and BoE meetings

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