Euler Hermes Economic Research

Weekly Export Risk Outlook

16 September 2015

In the Headlines

FIGURE OF THE WEEK

+3.8%

Turkey's y/y Q2 GDP growth (+2.5% in Q1)

Turkey: Q2 GDP surprises but outlook remains subdued

Real GDP growth surprised on the upside in Q2, accelerating to +3.8% y/y from +2.5% in Q1, despite declining exports and a sharp drop in inventories. Private consumption increased by a strong +5.6% y/y in Q2 while pre-election-related fiscal stimulus measures led to surging government consumption (+7.2%) and fixed investment (+9.7%). Both inventories (-2pps) and net exports (-1.1pps) made negative contributions to Q2 growth. The latter reflected import growth of +1.6% y/y and export contraction of -2.1%, despite low oil prices, a weaker currency, modest interest rates and some trade liberalisation. These potential export growth boosters were apparently outweighed by rising political uncertainty and the accelerating TRY depreciation (-30% down against the USD year-to-date) that have weighed against economic sentiment. Early indicators for Q3 suggest that business confidence (manufacturing PMI) has deteriorated further and economic activity (including industrial production and retail sales) is again slowing. We expect that the recovery from just +2.9% real GDP growth in 2014 will remain modest and forecast +3.2% in 2015 and +3.6% in 2016. However, downside risks prevail.

China: Loss of momentum

The latest data continue to point to slower growth in August. Fixed asset investment decelerated further (+10.9% y/y year-to-date from 11.2% in July) and industrial production stabilised at a low level (+6.1% y/y). Retail sales continue to show resilience, with a small increase compared with last month (+10.8% y/y from +10.5%). Government expenditure expanded more rapidly (+25.9% y/y, from +21.1%). Financial sentiment remains volatile, with market players anticipating further supportive measures. Going forward, economic activity is set to lose momentum in September. Export orders are still sluggish and slower investment is acting as a drag on the economy, while private consumption, although still solid, will not boost growth appreciably. RRR cuts become effective this month and will probably be reflected in data next quarter. A further policy rate cut is expected in Q4 (-50bps) as Q3 GDP growth will probably fall below the +7% target. Public spending is likely to accelerate as the government will push ahead with infrastructure projects. EH expects GDP growth will decelerate to +6.8% in 2015.

U.S.: JOLTS to the system

Despite a fall in sentiment in the second half of August, consumption increased, as retail sales gained +0.2% m/m. Over the past three months, sales increased by a strong +5.3% annualised rate and, after excluding the volatile auto and gasoline components, sales were still up +5.1%. The latest JOLTS survey of labour conditions was mixed, with job openings climbing +0.3pps m/m to a record high (data from December 2000) of 3.9%, while the hiring rate fell -0.2pps to 3.5% and the rate of those voluntarily leaving work remained unchanged for the third consecutive month, at 1.8%. Manufacturing, however, continued to struggle as industrial production fell -0.4% m/m, with the manufacturing component falling -0.5% and mining (which includes oil and gas production) falling -0.6%. The year/year rates were weak at +0.9%, +1.4%, and -3.2%, respectively. Capacity utilisation fell for the eighth time in nine months, to 77.6%, markedly below the low- to mid-80% range recorded during expansionary periods. Reflecting that unused capacity, producer inflation was unchanged in August (-0.8% y/y).

Nigeria: Oil-based afflictions

Although elections were held in March, President Muhammadu Buhari has yet to appoint his full cabinet (expected this month). This measured political transition may suggest a period of policy drift at a time when the country needs to bolster both internal and external confidence in its economic management – it was recently removed from a leading index of emerging market government bonds. Africa's largest economy is also its biggest oil producer and weak crude prices (currently down -50% y/y) are widening the fiscal deficit, increasing debt, moving the current account from surplus to deficit and reducing GDP growth. NPN depreciation is increasing inflationary pressures. The Central Bank appears to be using monetary policy to anchor the wider economy and some recent measures have increased uncertainty. Meanwhile, President Buhari is moving ahead with his pledge to root out corruption and part of this strategy is to renegotiate production-sharing contracts with oil majors. In the short term, this will further increase uncertainties. EH expects GDP growth will ease to +4.5% in 2015 (>+7% in 2012-13).

Countries in Focus

Americas

Brazil: A cold (Brazilian) summer is coming

Although in early September the government eased its fiscal target for 2016 to a deficit of -0.2% of GDP, new austerity measures were announced on Monday in an attempt to return to a primary surplus next year. The government announced spending cuts of BRL26 bn, together with tax increases and a reduction in tax breaks that will yield around BRL45.8 bn. Among the main proposed measures are the reintroduction of the unpopular Financial Transactions Tax at a rate of 0.2% for up to 4 years and a reduction in spending in the public sector through postponement of a scheduled wage increase and imposition of a hiring freeze. Implementation of these proposals requires legislative assent, given the low popularity of the government and its lack of support within the Congress, so most of them could be watered down. Austerity measures come at a difficult time for the economy, which we forecast will contract by -2.4% in 2015.

Europe

Ireland: The (little) star of the Eurozone

The recovery continues, with GDP increasing by +1.9% q/q in Q2, a little slower than in Q1 (+2.1%) but still above expectations. The largest contribution came from investment (+3.7pps), which rebounded after a negative quarter. Investment in machinery and equipment stands +10% above the 2008 high, a very rare situation in Western Europe in which only the UK and, to a lesser extent, Germany performed similarly. Private consumption growth slowed (+0.4% q/q) but had already recovered and is now only -3% below the 2008 high - a better performance than in Spain, Italy and Portugal, countries where domestic demand contracted significantly during the crisis. Unemployment fell below 10% in April, for the first time since the start of 2009, and continues to moderate (9.5% in August). Ireland is a primary beneficiary from a lower EUR, with strong export growth since mid-2014 (+5.4% q/q in Q2 2015). EH expects above-average GDP growth in 2015 (>+5%), for the second consecutive year.

Africa & Middle East

Bahrain: Full oil effect still to feed through

Q2 GDP growth was +3.7% y/y (+3.3% q/q), compared with +2.8% in Q1 (-0.8%). Despite current weak oil prices, the hydrocarbons sector was a growth driver in Q2; crude oil and natural gas output was up +1.4% y/y, compared with a decline of -5.6% in Q1, probably reflecting a similar policy to that of Saudi Arabia of increasing output in an attempt to limit potential revenue losses. The financial sector was also buoyant in Q2 (+2.1% y/y). However, the Q2 2015 growth figure was markedly below the +5.7% recorded in Q2 2014 and other sectors began to show evidence of recent government measures of fiscal consolidation to slow potential growth in the budget deficit. EH sees little scope for further increases in oil output and fiscal measures (including plans to abolish meat subsidies) will weigh against growth. As a result, EH expects GDP growth will be around +3% in 2015 and +3.5% in 2016, compared with an annual average growth of +5.1% in the ten-year period to end-2014.

Asia Pacific

S.E. Asia: Time for action?

ASEAN economies are confronted with external headwinds, including moderate demand growth in advanced economies, lower growth in China, lower commodity prices and volatile financing conditions ahead of Fed tightening. This week, the **Malaysian** government revealed a stimulus package, including an injection of MYR20 bn in ValueCap, a government equity investment company, to buy undervalued stocks and revive stock markets. In parallel, the government announced a cut in import duties for selected manufacturing sectors (not yet defined) as these face large cost increases following MYR depreciation. Elsewhere, **Indonesia** announced a deregulation package to foster investment. The government plans to simplify procedures and regulations to attract foreign investment and to provide basic goods such as beef and rice at affordable prices. Meanwhile, **Thailand** approved a stimulus package of THB200 bn (from Q4 onwards) to support low-income earners and SMEs.

What to watch

- September 17 – Russia August retail sales
- September 17 – UK August retail sales
- September 17 – U.S. Q2 current account
- September 17 – U.S. Fed policy announcement
- September 17 – U.S. Aug. housing starts & permits
- September 17 – Israel Q2 GDP
- September 18 – Ukraine August industrial production
- September 18 – Canada August CPI
- September 18 – Eurozone July current account
- September 21 – U.S. August existing home sales
- September 21 – Nigeria interest rate announcement
- September 22 – Hungary monetary policy meeting
- September 22 – Turkey monetary policy meeting
- September 23 – South Africa interest rate decision

DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.
This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.
© Copyright 2015 Euler Hermes. All rights reserved.

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com