Euler Hermes Economic Research

Weekly Export Risk Outlook

30 November 2016

In the Headlines

FIGURE OF THE WEEK

+3.2%

Q3 2016 q/q annualized GDP growth in the U.S.

U.S.: Consumers, online shopping help boost economy

The economy appears to be firming. GDP grew at a relatively strong annualized rate of +3.2% q/q in Q3, the fastest in two years. Consumption grew +2.8%, net exports contributed +0.9pps, the second consecutive gain, and after three consecutive quarters of losses, even investment rose, gaining +2.1%. After tax corporate profits rose to +5.2% y/y in Q3, the first positive reading in seven quarters, a good sign for the economy. Consumer confidence rose sharply after the election, gaining 6.3 points to 107.1 as the present situation component rose 7.2 to a very strong 130.3, both the highest levels since August 2007. The future expectations component gained 5.7 to 91.7, the highest in 18 months. But that optimism was only partially visible over the Thanksgiving/Black Friday weekend. Online sales were positive, gaining 18% y/y to USD5.3bn, and spending on Monday rose 12% y/y to USD3.5bn, according to Adobe Systems. But sales in physical stores, typically about 10 times the volume of e-commerce, suffered. The National Retail Federation estimated that store sales fell -3.5% y/y over the weekend, while RetailNext reported y/y declines of -11% in store shoppers and -10% in sales on Black Friday.

Germany: Q3 GDP growth eased but outlook remains solid

Q3 real GDP growth was confirmed at +0.2% q/q, down from +0.4% in Q2 and the very strong +0.7% in Q1. The GDP breakdown reveals that domestic demand re-took the position as the key growth driver. Private consumption growth picked up to +0.4% q/q (+0.2% in Q2) while government consumption remained strong at +1.0% q/q (+1.2% in Q2). Fixed investment was flat in Q3 (but up from -1.6% q/q in Q2) while inventories were neutral (-0.2pps in Q2). Exports fell by -0.4% q/q (+1.2% in Q2) while import growth remained modest at +0.2% q/q (+0.1% in Q2) so that net exports contributed -0.3pps to Q3 growth (+0.5pps in Q2). Meanwhile, economic sentiment remained robust after the U.S. elections. The Ifo Business Climate Index was unchanged at a strong 110.4 in November, the flash PMI Composite Output Index eased slightly to a still sound 54.9 in November (55.1 in October) and the GfK Consumer Climate Index is forecast to inch up to 9.8 in December (9.7 in November). Euler Hermes expects full-year GDP growth of +1.8% in 2016 and +1.7% in 2017.

France: The four seasons of GDP growth

The GDP growth picture has been unrelated to seasons in 2016: hot in winter (+0.6% q/q in Q1), freezing in spring (-0.1% in Q2), cold during summer (+0.2% in Q3) and is…burgeoning in fall. The weakness in Q3 was driven by stagnating private consumption for a second quarter in a row and decreasing corporate investment (-0.6% in Q3, after -0.2% in Q2 and +1.9% in Q1). Much spending was front-loaded in Q1 (+1.1% and +1.9% q/q for private consumption and corporate investment, respectively) and Q3 was hit by some hurdles (new terrorist attacks, end of deflationary pressures on consumer prices, Brexit). However, household investment accelerated to +0.6% q/q. The business confidence survey on construction shows an improvement by +3 points to 99 in November, suggesting an accelerating activity in Q4. Moreover, consumer spending began the quarter with a strong recovery (+0.9% m/m in October, after -0.4% in September). Euler Hermes forecasts real GDP growth of +0.5% q/q in Q4 and +1.3% for 2016 as a whole.

Italy: In dire need of positive confidence

Although slightly better than in 2015, GDP growth has remained modest throughout this year, mainly due to weaker export performance while domestic demand was also subdued. Moreover, Brexit has brought back concerns regarding the high stock of non-performing loans held by Italian banks. The outcome of the Constitutional referendum on 4 December will thus be a key element for restoring confidence, a necessary variable for the ongoing bank restructuring and the continuation of the reform agenda. The economic impact of previous serious political crises in Italy has been relatively strong. In 2012, for example, GDP fell by -2.9% and political instability is estimated to have accounted for -1.7pps of this fall. Should a similar political scenario emerge now, the impact could amount to -0.6pps of GDP in 2017, curbing growth to just +0.3% (instead of +0.9% in our baseline scenario). The good news is that the ECB remains the savior as it has the means to compensate for an eventual loss of investor appetite for Italian sovereign debt while the European institutional framework is better established than it was back in 2012.

Countries in Focus

Americas

Latin America: Q3 GDP on the rise on the shores of the Pacific

In **Chile**, real GDP growth scored +0.6% q/q and +1.5% y/y in Q3, thus leaving the negative territory it fell into in Q2 and avoiding a recession. Real GDP growth in **Colombia** picked up to +0.3% q/q in Q3, after four quarters of q/q deceleration, though it continued to ease in y/y terms, to +1.2% y/y. **Mexico**'s real GDP grew by +1.0% q/q and +2.0% y/y, the strongest increases since Q3 2013, following a disappointing +0.1% q/q in Q2. **Peru** proved once again to be one of the best performers in Latin America and registered growth of +1.4% q/q and +4.4% y/y, better than expected so far this year. Euler Hermes currently forecasts full-year GDP growth of +1.5% for **Chile**, +2.1% for **Colombia**, +1.7% for **Mexico** and +3.5% for **Peru** in 2016. The gradual recovery of oil and mining commodity prices in 2017 should help to correct the economic imbalances that resulted from the declines in 2015 and to create a better environment for the main exports of these economies.

Europe

Turkey: New headwinds

Last week, the European Parliament voted to suspend EU membership talks with Turkey. While the vote is non-binding for European governments, it sends a strong political signal to EU leaders amid mounting concerns over the Turkish government's course of action against the opposition and the press. The direct political impact will be limited as Turkey was unlikely to join the EU in the foreseeable future while Turkish polls have shown a growing rejection of membership in recent years anyway. But the TRY – which had sharply depreciated following the U.S. elections but was just in recovery mode – fell back to record lows after the EU vote and is currently down -18% YTD against the USD. Also last week, the Central Bank raised its key policy interest rate by 50bps to 8%, the first hike in almost three years, citing rising inflationary pressures in the wake of the recent TRY slump. More hikes may be needed to stabilize financial markets but that may also curb already weakening economic activity further.

Africa & Middle East

Africa: Riders on the storm

Expectations on future Fed interest rate hikes increased and the USD appreciated by +4% in nominal effective terms after the U.S. elections. As a result, the USD should become scarcer globally and USD shortages may arise in credit constrained economies, especially in Africa. The main drivers behind such shortages are financial (Fed stance) or trade related (export values). Fortunately, commodity prices were not hit by reflation expectations since reflation would mean higher demand. Moreover, some prices already rose, for example industrial metal prices by +12.5% as a result of infrastructure spending plans in the U.S. and China. But shortages may arise from capital outflows in financially vulnerable economies with low foreign exchange reserves (import cover below five months, e.g. Egypt, Gabon, Ghana, Tunisia) or high/rising public debt (Angola, Mozambique). The former just need liquidity and the IMF can help (already active in several places) while the latter need tougher "medicine".

Asia Pacific

South Korea: Sinking or swimming?

Economic activity continues to struggle. USD denominated exports (-3.2% y/y) and industrial production (-1.6% y/y) declined in October. Retail sales showed some stamina (+2.3% y/y in October) but the pace is still fragile. Moreover, forward looking indicators suggest weaker economic growth in the near term. Consumer confidence slumped to 95.8 in November (from 101.9 in October). The Bank of Korea's Business Sentiment index for manufacturers remained at a low level of 72 points in November. The country is going through a wave of political scandals and a difficult economic situation at home and abroad. Faced with corruption scandals, President Park has seen her popularity falling rapidly and it is likely that she will not be able to complete her mandate. This would add to existing economic issues, especially a high level of household debt and a tough export environment. Euler Hermes expects GDP growth to slow to +2.3% in 2017 from +2.7% in 2016.

What to watch

- December 1 – China Nov. official manufacturing PMI
- December 1 – EU November manufacturing PMI
- December 1 – Italy Q3 GDP (with details)
- December 1 – U.S. November ISM manufacturing index
- December 1 – U.S. October construction spending
- December 2 – Canada November employment report
- December 2 – South Korea Q3 GDP (final estimate)
- December 2 – U.S. November employment report
- December 5 – EU November services PMI
- December 5 – Colombia and Turkey November inflation
- December 5 – U.S. Nov. ISM non-manufacturing report
- December 6 – Germany and U.S. October factory orders
- December 6 – U.S. October trade
- December 6 – U.S. Q3 productivity
- December 7 – Germany October industrial production
- December 7 – Poland interest rate decision
- December 7 – UK October industrial production

View all Euler Hermes Economic Research online
http://www.eulerhermes.com/economic-research

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

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