Euler Hermes Economic Research

Weekly Export Risk Outlook

3 May 2017

FIGURE OF THE WEEK

+0.5%

Q1 2017 GDP growth in the Eurozone (q/q, flash estimate)

In the Headlines

UK: Markedly slower services output dragged down Q1 GDP

Q1 real GDP grew by +0.3% q/q, after +0.7% in Q4, in line with our forecast but below the consensus of +0.4% and half of what the Bank of England had expected. On the supply side, growth of services decelerated markedly, to +0.3% (+0.23pp contribution to growth), the slowest pace since the start of 2015 and down from +0.8% in Q4. The slowdown was mainly driven by consumer-related industries such as retail and accommodation services where activity contracted. Moreover, industrial output (incl. manufacturing) increased by +0.3% q/q and construction output by just +0.2% q/q (after +1% in Q4). And agricultural output expanded by +0.3% q/q (+1% in Q4). Demand-side details will be released on 25 May. Consumer spending is likely to have decelerated markedly as indicated by the fall in retail sales, the slowdown in wages and the rise in inflation (+2.3% y/y in March 2017). In addition, the savings rate fell further in Q4, to 5.2% of gross disposable income from +6% in Q3. The contraction in business investment is likely to have continued while nominal exports disappointed in the first two months of Q1. We forecast full-year GDP growth of +1.4% in 2017 and +1% in 2018.

U.S.: Q1 GDP very weak, but March and April look better

GDP was feeble in Q1, growing by only +0.7% q/q annualized. Some of the weakness may be due to seasonal adjustment issues, but the main culprit was consumption which grew a mere +0.3%, the weakest since Q4 2009. Autos, clothing, gasoline, and utilities consumption all fell. But in a hopeful sign, investment rose for the third consecutive quarter. And on a monthly basis, the last month of the quarter was by far the best. Spending rose +0.3% m/m in March, pushing the y/y rate up from +2.5% to +2.8%, while disposable personal income gained a sharp +0.5% m/m, sending the y/y rate up from +2.2% to +2.4%. In addition, consumer price inflation fell to 1.8% y/y in March (from 2.1%) while the core rate slipped to 1.6% from +1.8%. Manufacturing continues its rebound as the April ISM report was better than suggested by the fall in the headline index from 57.2 to 54.8 points. New orders fell 7 points but remained solid at 57.5. Nine of the ten components were above 50 for the first time in 31 months, 16 of 18 industries reported growth, and comments from survey participants were very positive.

France: Steady as she goes

Real GDP grew by +0.3% q/q in Q1, confirming the growth comeback registered in Q4 2016 (+0.45%) and supporting our forecast that full-year growth will accelerate somewhat to +1.4% in 2017, from +1.1% in 2016. Growth drivers are broadening. Corporate investment grew by +1.2% q/q in Q1, partly explained by policy stimulus ("over-amortization"). Household investment increased by +0.9% q/q and is on track to become the best performing demand driver in 2017 (we expect +3.6%). However, two factors dampened the Q1 performance. Exports surprised again on the downside (-0.7% q/q) explained by aeronautics. But energy was the most negative factor, with energy consumption falling by -3.8% q/q, weighing down on private consumption (+0.1% q/q). Moreover, as some nuclear power plants were closed for maintenance, the power produced with hydrocarbon resources surged, driving a steady rise in imports (+1.5% q/q) and inventories. Overall, energy probably cut Q1 growth by -0.2pp, preventing the economy from expanding at full potential (currently +0.5% q/q growth per quarter).

Russia: Monetary easing continues as inflation falls

The Central Bank of Russia (CBR) lowered its key policy interest rate by 50bp to 9.25% last week, continuing its latest round of monetary easing that began with a 25bp cut in March, noting that inflation expectations are still decreasing while the recovery in economic activity continues. Indeed, consumer price inflation eased further to 4.3% y/y in March from 4.6% in February and is on course to meet the CBR's end-2017 inflation target of 4% in good time. However, the recovery in industrial production appears to have lost some momentum in recent months. The Manufacturing PMI has fallen from a near six-year high of 54.7 in January to an eight-month low of 50.8 in April while industrial output growth decelerated to just +0.2% y/y in Q1 after increasing by more than +1% y/y in each quarter of 2016 (+1.7% in Q4). At the same time, consumer confidence and retail sales have improved but remained in contraction mode. RosStat's Consumer Confidence indicator came in at -15.0 in Q1, up from -18.0 in Q4, while retail sales declined by -1.5% y/y in January-February, after -4% in Q4. We forecast full-year GDP growth of +1.3% in 2017 (after -0.2% in 2016).

Countries in Focus

Americas

Argentina: Economic activity cooled down in Q1

Argentina officially excited recession in late 2016 as real GDP expanded by +0.5% q/q in Q4, driven up notably by buoyant exports. However, economic activity appears to have cooled down in Q1 2017. The INDEC's monthly estimator of economic activity index, a proxy for GDP, contracted by -0.3% m/m in January and by -1.9% m/m in February. Overall output growth continues to be particularly restrained by a fragile industry. Industrial output fell by -0.4% y/y in March, making it the 18th consecutive month of contraction. As a result, its level is almost -6% below the last peak in August 2015 and -20% below the average in 2012. Moreover, although moderating, consumer price inflation has remained high at 30% y/y in April, weighing down on the recovery of private consumption. The target of the government to bring down inflation to 12%-17% in 2017 and 8%-12% in 2018 appears optimistic.

Europe

Spain: Still strong Q1

According to first estimates, real GDP grew by +0.8% q/q in Q1 2017, after +0.7% q/q in Q4 2016. In y/y terms, the economy expanded by +3% (unchanged from Q4), slightly beating market expectation (+2.9%). On the demand side, resilient consumer confidence was backed by the steady improvement in the labor market. The unemployment rate fell to 18% in February, with five million job seekers in March 2017, 500,000 less than a year ago. However, retail sales growth has decelerated somewhat to +0.8% y/y in March, from +4.4% y/y a year ago, on the back of a surge in consumer prices. Driven up by energy prices, inflation has jumped since last November, to +2.6% y/y in April, after three years of continued deflation. On the supply side, industrial activity continues to be robust, increasing by +2.6% y/y in February, and business confidence remains strong as the manufacturing PMI has improved continuously for 41 months, to 54.5 points in April.

Africa & Middle East

Nigeria: Dollars and cents

Exchange rate regimes are evolving rapidly in major African economies. Nigeria's decision to ease its capital controls in February 2017 has delivered positive results. Freeing up more USD for the banking system, it eased cash constraints for corporates and helped to narrow the premium between the black market and the official exchange rates from +40% in mid-February to +18% at end-April. A flexible exchange rate introduced for financial transactions (loan and interest repayments, remittances, capital repatriation) last week converged rapidly to the black market valuation, but the official rate has remained stable near 315 NGN per USD. Liquidity constraints should ease further once the government approves new loans of up to USD7bn to be drawn from China (for infrastructure projects) and the World Bank (for social expenditure). Less USD scarcity should then help GDP growth to recover from -1.5% in 2016 to around +1% in 2017.

Asia Pacific

Taiwan: Robust but imbalanced economic momentum

Q1 real GDP growth picked up to +0.7% q/q from +0.5% q/q in Q4 2016, however, it decelerated in annual terms to +2.6% y/y, following +2.9% y/y in Q4. The Q1 slowdown in y/y terms reflects continued subdued private consumption (+1.6% y/y, unchanged from Q4) and a sharp -4.7% y/y drop in government consumption (after +1% y/y in Q4). Meanwhile, fixed investment soared by +8.1% y/y in Q1, continuing the impressive expansion that began in Q4 which is related to a strong rebound in electronic exports. The latter contributed to a +8.6% y/y surge in real exports of goods in Q1. However, an ongoing plunge in tourist arrivals from China (-42% y/y in Q1) dragged down services exports, so that overall exports of goods and services grew by +7% y/y in Q1 (after +8% y/y in Q4). Imports rose by a robust +7.1% y/y in Q1 (+9.6% y/y in Q4) driven by the strong investment demand. We expect full-year real GDP growth to pick up from +1.5% in 2016 to around +2% in 2017.

What to watch

- May 4 – Czech Republic Central Bank meeting
- May 4 – EU countries April Services & Composite PMI
- May 4 – Eurozone March retail sales
- May 4 – Russia April Services & Composite PMI
- May 4 – U.S. March international trade
- May 5 – Spain March industrial production
- May 7 – France 2nd round presidential election
- May 8 – Germany March factory orders
- May 8 – Turkey March industrial production
- May 9 – Germany March industrial production
- May 9 – Germany March current account balance
- May 9 – Mexico April CPI
- May 10 – Argentina and Brazil April CPI
- May 10 – France March industrial production
- May 10 – France March current account balance
- May 10 – Italy March industrial production

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