Euler Hermes Economic Research

Weekly Export Risk Outlook

23 May 2018

FIGURE OF THE WEEK

+5.4%

Q1 2018 y/y GDP growth in Malaysia

In the Headlines

U.S.: Manufacturing vigorous, inflation emerging

The manufacturing sector is displaying broad strength as manufacturing industrial production rose +0.5% m/m. Business and capex production led as machinery production rose +2.3% m/m, computer and electronic parts gained +1.2% m/m and electrical equipment rose +1.5% m/m. Similarly, regional Fed surveys were also robust. The Empire State survey, led by new orders, rebounded sharply in May from a drop over trade fears. A 45-year record in new orders drove the Philly Fed survey up from 23.2 to 34.4, while the prices paid component rose to a 37-year high. And new orders also boosted the Richmond survey up from -3 to +16. Housing starts and permits fell -3.7% m/m and -1.8% m/m, respectively, while single family completions fell -4.0% m/m, the second consecutive drop. More supply is needed to unclog a housing market which is being choked by a combination of rising interest rates and falling affordability; the median existing home price has risen +5.9% y/y, far outpacing wage gains of only +2.6%. In addition to pricing pressure in the Philly Fed survey and the housing market, gasoline prices are also rising, gaining +1.7% over the past week to +18% YTD.

Eurozone: Rising risk of an extended soft-patch?

The Composite PMI for industry and services in the Eurozone posted its fourth consecutive decline in May, falling to 54.1 points. In Germany, the Composite Index fell to 53.1, with both sectors contributing to the slowdown, though the industry index remained at a comfortable level of 56.8. The sharp drop in the French Composite PMI to 54.5 meanwhile should not be overvalued given that the deterioration came solely from the services sector while the industrial sector improved notably. In contrast to the weaker results for the two Eurozone heavyweights, the PMIs for the remaining countries rose in May. Today's survey results are casting further doubt on the expected reacceleration in Eurozone economic momentum after a disappointing start to the year (+0.4% q/q GDP growth in Q1). Downside risks to our +2.3% GDP growth forecast in 2018 have increased, given a weakened external environment (protectionism, geopolitical risks, rising oil prices). Yet, resilient global demand and the weaker EUR should continue to support exports and investment and keep GDP growth at a robust level.

Malaysia: Q1 GDP – holding the line

Real GDP rose by +5.4% y/y in Q1 (after +5.9% in Q4 2017). Domestic demand growth slowed to +4.1% y/y (from +6.5% in Q4) due to a sharp deceleration in private investment (to +0.5% y/y from +9.3% in Q4) and weaker public spending (-0.1% y/y, after +3.4% in Q4). Private consumption remained strong (+6.9% y/y in Q1). Net exports supported economic growth thanks to a stronger increase in exports than imports. Yet it is worth noting that exports decelerated (to +3.7% y/y in Q1 from +9.4% in Q4). Looking ahead, we expect economic growth to continue to slow but remain resilient at +5% or so. Trade will likely remain supportive, yet we foresee a deceleration, mainly due to slower demand growth from China. Domestic demand should remain firm, supported by continued private consumption. First, wages, job creation and consumer confidence are still well oriented. Second, the removal of the GST (Goods and Services Tax) promised by the new political leadership would boost consumption. Investment growth is expected to slow somewhat as foreign investors wait to get more clarity on the new leadership's strategy.

Nigeria: Growth is set to accelerate

Real GDP growth came in below expectations in Q1, showing a slight deceleration to +1.95% y/y from +2.1% in Q4. Oil output was the main growth driver in Q1 (+14.8% y/y), recovering to 2mn bbl/day. But the non-oil sector disappointed (+0.8% y/y in Q1). We attribute this low figure to the delayed process of the 2018 budget which was only approved on 18 May. It gave an unusual seasonality to the Nigerian economy. However, there was a broad recovery of quite cyclical sectors such as cars & assembly (+2.3% y/y), air transport (+10.2%) and cement output (+5.3%) in Q1. Moreover, government spending is expected to grow by around +24% in 2018 and be a genuine growth driver in H2. As a result, we keep our growth forecast unchanged at +2.5% for 2018 (after +0.7% in 2017). The current global environment is supportive for the Nigerian government. Its crude oil output forecast is quite optimistic (2.3mn bbl/d) but the current oil price surprise (80 USD/bbl) should compensate for any slightly lower output, delivering a positive terms of trade shock.

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Countries in Focus

Americas

Argentina: Crisis mode on pause… for now

The Central Bank (BCRA) kept its policy rate on hold at 40% yesterday, after three emergency hikes previously to counter a currency sell-off (see [WERO 9 May 2018]). The BCRA monetary policy committee stated that the rate "must be maintained at high levels to contain the pass-through of the currency depreciation to domestic prices." In 2018 YTD the ARS has lost more than a quarter of its value against the USD. In the first two weeks of May, it depreciated by -16%. Yet it appears to have stabilized since, at below ARS25 per USD, the floor set by the BCRA. One-week historical volatility has moderated to 12%, down from a high of 65%. Is the worst behind Argentina? This tranquility is conditional on (i) the outcome of negotiation with the IMF on a USD30bn stand-by agreement and (ii) the announcement of new fiscal consolidation measures. What we already know is that a tighter fiscal stance and financial conditions as well as policy uncertainty should slow down Argentina's cyclical momentum.

Europe

Russia: Moderate recovery at the start of 2018 set to continue

A flash estimate by RosStat indicates that Q1 real GDP grew by +1.3% y/y. Although slower than expected, it marks a recovery from the slowdown at the end of 2017 (+0.9% y/y in Q4). Details for Q1 are not available as yet. However, early indicators for April suggest that the recovery has continued at the start of Q2. The PMIs for both Manufacturing and Services picked up to 51.3 and 55.5 points (from 50.6 and 53.7 in March), respectively. And industrial production growth increased to +1.3% y/y (from 1% in March) while retail sales growth accelerated to +2.4% y/y (+2% in March). Moreover, construction output expanded by +1.4% y/y in April, a sharp reversal from the -9.7% decline in March. It appears that the financial market turbulences triggered by the imposition of stricter U.S. sanctions in April have had little impact on financial conditions and the real economy, for now. We forecast full-year GDP growth of about +1.9% in 2018.

Africa & Middle East

Qatar: 23-year growth low in 2017 - moderate recovery in 2018

Recently published data put Q4 2017 real GDP growth at +1.8% y/y, slightly down from +1.9% in Q3, taking full-year 2017 growth to just +1.6%, the lowest annual increase since 1994. The weak full-year performance reflected declines of -1.1% in mining and quarrying (accounting for 30% of GDP) – as oil production cuts agreed under the OPEC deal from November 2016 curbed output in the hydrocarbon sector – and -1.3% in wholesale and retail trade. Meanwhile, the construction sector (+15%) and the financial industry (+7.6%) continued to rise rapidly, despite the Saudi Arabia-led embargo of several Arab states against Qatar that began in June last year. However, the latter affected the manufacturing sector initially, which grew by a more modest +2.9% in 2017, although it rebounded to an average +6.1% y/y in H2. We expect growth to pick up to +2.5% in 2018 on the back of rising gas production (oil production will remain curtailed due to the extension of the OPEC deal through year-end) and increased infrastructure investment for the FIFA World Cup in 2022.

Asia Pacific

Thailand: Q1 GDP – a strong start

Real GDP growth accelerated to +4.8% y/y in Q1 (from +4% in Q4 2017). The non-agriculture sector remained strong (+4.7% y/y) supported by a rise in (both external and internal) demand for capital and technology goods and a strong performance of tourism-related services. Agriculture activity rebounded to +6.5% y/y growth from contraction (-1.3% in Q4) driven by favorable weather conditions and higher external demand. On the expenditures side, rising incomes and consumer sentiment in a context of low inflation supported private consumption (+3.6% y/y). Investment growth gained speed (+3.4%, up from +0.3% in Q4) helped by a recovery in public investment. The contribution of net exports to growth was reduced in Q1 due to a slower increase in exports (+6% y/y) than in imports (+9% y/y). Against this background, we expect economic growth to remain firm in 2018 as a whole (around +3.9%, similar to 2017).

What to watch

- May 24 – France May business confidence
- May 24 – Germany Q1 GDP (with details)
- May 24 – South Africa monetary policy meeting
- May 24 – Ukraine Central Bank meeting
- May 24 – U.S. April existing home sales
- May 25 – Germany May Ifo business climate index
- May 25 – Turkey May business confidence
- May 25 – UK Q1 GDP (second estimate)
- May 29 – France May household confidence
- May 29 – U.S. May consumer confidence
- May 30 – Brazil Q1 GDP (first estimate)
- May 30 – Croatia Q1 GDP (preliminary)
- May 30 – Germany April retail sales
- May 30 – Germany May inflation (preliminary)
- May 30 – Poland Q1 GDP (with details)

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