



Weekly Export Risk Outlook



16 January 2013

In the Headlines

FIGURE OF THE WEEK: +4% >EH FORECAST FOR 2013 GLOBAL INSOLVENCIES

▶ World Economy: Upturn, but only gradual

World GDP growth is expected to increase by +2.5% in 2013 (after +2.4% in 2012) before accelerating to +3.2% in 2014, led by an improvement in the eurozone, according to EH's latest forecasts. The eurozone will experience another year of contraction (-0.1%) in 2013 but from H2 this year should gain momentum into 2014 (+1.4%). The US will record a slight slowdown (+1.9%) in 2013 before advancing (+2.5%) in 2014. Much of global growth will continue to be attributable to emerging economies, which will contribute nearly 1.9pps in 2013 (75% of the total) and 2.1pps in 2014 (60% of the total). The EH Global insolvency index is projected to rise by +4% in 2013 (after +1% in 2012) with another strong increase in southern Europe (+19%) led by Spain and Greece.

▶ Germany: Full-year GDP data suggest Q4 contraction

First official estimates indicate that GDP increased by +0.7% in 2012, following +3% in 2011. Significantly, the full-year rate of growth in 2012 suggests that the economy contracted in Q4, the first quarterly fall since the 2009 crisis, as the rate of expansion in Q1-Q3 had been more positive. Exports (+4.1%) were the main growth driver in 2012, despite the difficult international environment, and imports increased by only +2.3%, so net exports contributed 1.1pps to overall growth. Consumption was up +0.8% in 2012 but capital investment contracted, with machinery and equipment down by -4.4% and construction by -1.1%. The initial estimates of 2012 GDP are in price-adjusted terms. In calendar-adjusted terms, GDP growth in 2012 was slightly higher at +0.9%, as there were three working days less in 2012, compared to 2011.

▶ China: Latest data releases

December trade data showed export growth of +14.1% y/y (+2.9% y/y November), higher than expected. Importantly, export growth to developed markets strengthened, particularly to the EU. Import growth also accelerated, to +6% y/y (0% November), mainly reflecting imports for domestic use. December consumer price inflation accelerated to 2.5% y/y (2% November) but this was driven by food prices, particularly vegetable prices following cold weather. Non-food prices increased only 1.7% y/y (1.6% y/y in November). December credit growth showed weaker loan demand, but the broader "total social financing" measure—increasingly the focus of policymakers—increased, although its growth is levelling off. Overall, data continue to point to a modest pick-up in activity and EH expects growth in 2013 of +8% (Q4 GDP data will be released later this week).

▶ US: End-year data

Recent data offer little definitive guidance to the state of the economy. Despite the holiday period, which fell short of expectations, retail sales grew +0.5% mo/mo in December 2012 (+0.4% mo/mo in November), finishing the year up +5% y/y, compared with a long-term average of +6.4%. By contrast, the trade deficit was up sharply in November, to USD48.7 billion from USD42.1 billion the previous month, suggesting a weak contribution by net exports to Q4 GDP. Consumer credit increased markedly in November 2012, partly reflecting student debt. Meanwhile, it is likely that many Americans were surprised to see how much their first paychecks of the year had been reduced by the 2% increase in Social Security taxes resulting from the partial fiscal cliff deal. Political positions are hardening over the impending debt ceiling and spending cut debate. Expect this to come to a head towards the middle of February.

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► **Mediterranean, Africa & Middle East – Mali: Stability threat**

French military jets launched airstrikes against militant Islamist rebels in central and northern areas to prevent anti-government forces advancing on the capital, Bamako. France will also deploy a landforce to protect its locally-based citizens but also to provide support before the home army and ECOWAS troops attempt to recapture the large area of the country outside the government's control since early 2012. French airstrikes appear to have been successful in halting the rebel advance but a decisive defeat of al-Qaida and other Islamic forces that are heavily armed, relatively well trained and who can retreat into large desert areas and then regroup is likely to be hard to achieve. Largely porous borders make this a regional issue, with international ramifications for anti-terrorist campaigns.



► **Americas – Peru & Mexico: Output and inflation**

Peru's economy grew +6.8% y/y in November 2012, according to data released last week, maintaining the strong performance evident earlier. Construction led the way—up +16.8% y/y—with services and utilities also expanding strongly. The central bank last week, unsurprisingly given the growth momentum and inflation within target (2.65% y/y in December) left the policy interest rate at 4.25%. Expect growth of +6% in 2013. In **Mexico**, the October monthly activity indicator (GDP proxy) released last week recovered from September's dip, increasing +4.3% y/y and +0.2% q/q, supported by a strong pace in the services sector, and November industrial production was up +0.9% mo/mo, which suggests that Q4 y/y growth picked up. Expect full year 2012 GDP growth of +4% and +3.5% in 2013.



► **Asia-Pacific – India: Monetary policy**

At a time of weakening growth, economic policy-making has been hampered by inflationary pressures that have limited remedial action through interest rates. Relief may now be in prospect as wholesale prices—still the official inflation gauge—increased by 7.18% y/y in December 2012, down from 7.24% in November. However, consumer price inflation increased to 10.6% y/y in December (9.9% in November) so the central bank may remain conservative in relation to monetary easing in the ST, even though it would help the government, which has limited scope to use fiscal policy because of budgetary pressures. Expect policy interest rates to be cut in 2013—but not yet and to be subject to further easing in inflationary pressures. Also, expect GDP growth of around +6.5% in FY2013/14.



► **Europe – France: Labour market reform**

After protracted negotiations, the government and the unions appear to have forged a consensus regarding labour market reforms. The planned measures involve more flexibility for company employment procedures in exchange for additional rights for workers. Companies will be encouraged to avoid layoffs by being able to negotiate temporary cuts in pay and working hours during periods of slow activity. Companies employing young workers (less than 26 years of age) will receive temporary tax cuts, while higher taxes on short-term contracts will be imposed. These reforms will be put before parliament fairly soon but, if implemented, their effectiveness will depend on how the existing rigid labour market can adapt and also on the system of negotiations between companies and unions.

Worth knowing

► **Eurozone**

The first Eurogroup/Ecofin meeting under the EU presidency of Ireland will take place on 21-22 January. The key topics for discussion will be the banking system bailout for Cyprus (EUR17 billion, equivalent to 100% of GDP), the disbursement of the next tranche of financial aid for Greece (EUR7 billion for the remaining bank recapitalisation funds) and discussions on the operational framework of the future single banking supervisory mechanism (SSM).

► **Jordan**

Q3 2012 GDP growth was +2.6% y/y, down from +2.9% y/y in Q2, and nominal GDP was USD8.4 billion.

► **South Africa**

Fitch Ratings agency downgraded its long-term, foreign-currency rating to BBB from BBB+, with a stable outlook.

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