Euler Hermes Economic Research

Weekly Export Risk Outlook

24 May 2019

FIGURE OF THE WEEK

+1.2%

Q1 q/q rise in private consumption in Germany

In the Headlines

Germany: Strong start to the year, subdued outlook

The German economy's strong start to the year (Q1 real GDP rose +0.4% q/q) can largely be attributed to economic impulses coming from the domestic economy. Private consumption grew by a whopping +1.2% q/q in real terms – the highest growth rate observed since 2011. However, positive special effects probably helped beautify the Q1 result. Construction activity, for example, is likely to have profited from the relatively mild weather conditions, while private consumption benefited both from car catch-up purchases and expansive fiscal measures supportive of consumption that came into force at the beginning of the year. As these special effects fade out, the growth dynamics of the German economy will prove more subdued. As the ifo and PMI results for the month of May confirm, Germany's export-oriented growth model, which specializes in capital goods, continues to be under pressure in the face of cooling global GDP growth, lingering auto sector problems and growing risks for world trade. Moreover there are initial signs that the industrial weakness is slowly spreading to the service sector. Overall, we continue to expect German GDP growth to come in at +1% in 2019.

U.S.: Housing, manufacturing, consumption all weak

In April, existing home sales fell for the ninth time in 12 months, losing -0.4% m/m and -4.4% y/y. One of the culprits was rising prices, which gained +2.9% m/m, the third straight increase, to +3.6% y/y. Housing permits rose +0.6% m/m in April, but it was only the first increase in four months, and the y/y rate is still down -5%. Starts rose +5.7% m/m, but again it was not enough to offset earlier losses which put the y/y rate at -2.5%. Other recent reports have also been soft. Manufacturing industrial production fell for the third time in three months, losing -0.5% m/m. The resulting y/y rate of -0.2% was the weakest in 32 months. Retail sales were also disappointing, falling -0.2% m/m to +3.1% y/y, less than half of what they were last April. After stripping out volatile items, core sales, which are direct input into the GDP calculation, were flat, putting the y/y rate to +2.9% as compared to +4.6% last April. The Administration lifted tariffs on steel and aluminum imports from Canada and Mexico, who in turn dropped retaliatory tariffs on certain U.S. imports.

France: Spring buds

Manufacturing confidence recovered in May to 104 points from the low reached in April (101, lowest level since June 2015). The first improvement came from better domestic order books in a signal that growth of domestic demand eventually started to benefit from the fiscal stimulus implemented since the beginning of the year. The second one was about lower inventories in the car value chain. As a result, carmakers expect now to stabilize their output after about two quarters of contraction, even if inventories are still above the long-term average. Car suppliers' indicators are following quite the same pattern. However, other sectors involved in the car value chain such as metals and plastics did not benefit from the same improvement in order books (including domestic ones). The main overall weakness is now driven by still weak export order books, in particular for car makers, metals and chemicals. At the same time, car suppliers showed improved export order books in connection with stabilizing conditions for German car makers.

Morocco: A growth slowdown is underway

The "war of the worlds" between the U.S. and China has suddenly hit a new threshold, with the implementation of new tariffs by the U.S. administration. Yet, the new trade regime has already impacted Moroccan growth. Lower export growth should cut about -1pp from GDP growth, compared to previous expectations. Obviously, this was not the only reason to explain the relatively weak growth figure of +2.3% y/y experienced in Q1. This performance was quite meager since Q1 2018 was already a weak quarter (with unusually low consumption growth). This year, one of the main disappointments came from agricultural production (-4.8%) as a result of poor rains. Against this background, corporates will probably not avoid a new deterioration of payment behavior, after DSO increased to 84 days in 2018 (+2 days vs. 2017). Insolvencies are expected to increase by +3% in 2019. Monetary easing can be an option since inflation disappeared in Q1 (-0.2% y/y on average). We expect GDP growth to slow to +2% in 2019 after +2.9% in 2018.

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Countries in Focus

Americas

Chile: Slowdown in Q1 due to temporary factors

Preliminary GDP figures indicate that the economy stagnated in Q1 2019 in q/q terms, after growing +1.3% q/q in Q4 2018. In y/y terms, GDP grew +1.6%, slowing down from +3.6% in Q4. On the production side, this marked deceleration was due to temporary weather disruptions as well as mining maintenance shutdowns hurting growth in the mining sector (-3.6% y/y). On the demand side, private consumption was the main driver of growth helped by low inflation and a still accommodative monetary policy. External demand was a drag, as export growth fell with mining production (-1.8% y/y) and imports followed domestic demand (+2.3% y/y). Stable copper prices, an unchanged monetary policy (after one rate hike in January) and pro-business reforms are good news for growth which will slow but still be around +3% in the next two years. The main risk to the outlook is the escalation of the U.S.-China trade feud and its impact on Chinese activity, as China is Chile's major export and import partner.

Europe

Central & Eastern Europe: Some positive growth surprises

Flash estimates indicate that real GDP growth in the group of 11 EU members in the CEE region retained momentum in Q1, coming in at around +4% y/y, the same as in Q4 2018. Looking at seasonally adjusted, y/y real GDP growth, there were some upside surprises, notably among large automotive producers. **Hungary** became the frontrunner in Q1 with +5.2% (5% in Q4), followed by **Romania** with +5.1% (sharp acceleration from +4% in Q4), **Poland** with +4.6% and **Slovakia** with +3.8% (both unchanged). Only **Czechia**, also a large auto producer, posted a more modest +2.5% growth in Q1, and the country's weakened manufacturing PMI (46.6 in April) points to a soft Q2 as well. Meanwhile, Q1 growth remained also robust in **Bulgaria** (+3.4%) and **Lithuania** (+3.8%) but weakened markedly in **Latvia** (+3%, after +5.3% in Q4). The Q1 estimates pose some upside risk to our current average full-year 2019 growth forecast of +3.4% for the 11 EU members in CEE (after +4.3% in 2018). On the other hand, ongoing political risks including Brexit and global trade tensions pose downside risks.

Africa & Middle East

Zambia: Blind run

Zambia came back on the radar during the last few days, but not for good reasons. The ZMK depreciated again (-28% during the last 12 months). This weakness also translated into increasing sovereign risk, with the yield on the USD bond due in 2024 rising to 18.7% (about +1000bp during the last year). Zambian growth was increasingly debt-intensive in recent years. Public debt should reach 81% of GDP in 2019 (from 36% in 2014). However, growth did not accelerate enough to balance this debt accumulation (+3.7% in 2018), particularly in the agricultural and metal sectors. Currently, drought is affecting both the agricultural output and power supply. It should weigh on mining activities and, as liquidity conditions are very poor (the import cover of FX reserves is just 1.5 months), time is running out. The government reacted through a threat to foreign interests in the copper sector (Vedanta), but showed no intention to rebalance the fiscal deficit which is expected at -11% of GDP in 2019. Cash constraints should also weigh on growth which we forecast at +1.5% this year.

Asia Pacific

Japan: Q1 GDP – an illusion

Preliminary estimates show that Q1 real GDP rose by +0.5% q/q after +0.4% q/q in Q4 2018. Yet this acceleration was an illusion as it resulted from an unhealthy positive contribution of net exports (+0.4pp). The latter was due to a stronger contraction of imports (-4.6 % q/q) than exports (-2.4% q/q). Domestic demand was weak. Private consumption decreased by -0.1% q/q. Private non-residential investment dropped by -0.3% q/q. Going forward, domestic demand is set to gain some traction, helped by a rise in both private consumption and investment. In particular, we see a frontloading of household spending in Q2 and Q3 ahead of the planned sales tax hike (from 8% to 10%) in October 2019, before a contraction in Q4 after its implementation. Investment will pick up speed gradually, helped by favorable monetary conditions, rising expenditure for automation due to labor shortages and construction projects for the 2020 Olympics. We expect full-year growth of +0.8% in 2019 (after +0.7% in 2018).

What to watch

- May 24 – Czechia May economic sentiment
- May 24 – Mexico Q1 GDP growth (final estimate)
- May 24 – U.S. April durable goods orders
- May 28 – Hungary Central Bank meeting
- May 28 – U.S. May consumer confidence
- May 29 – France April consumer spending
- May 29 – France May CPI
- May 30 – Brazil Q1 GDP growth
- May 31 – Croatia Q1 GDP
- May 31 – Czechia Q1 GDP (with details)
- May 31 – Estonia Q1 GDP (preliminary)
- May 31 – Hungary Q1 GDP (with details)
- May 31 – Poland Q1 GDP (with details)
- May 31 – Slovenia Q1 GDP
- May 31 – Turkey Q1 GDP

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