Euler Hermes Economic Research

Weekly Export Risk Outlook

13 February 2019

FIGURE OF THE WEEK

+1.4%

The UK's GDP growth in 2018

In the Headlines

Spain: Towards early elections

After leaving the negotiating table with Catalan authorities last week, rejecting demands for an independence referendum, the Spanish government reaffirmed it would not discuss the "right of self-determination". In a tense political context – the trial of twelve Catalan separatist leaders started yesterday in the Supreme Court – the vote of the 2019 budget was hence rejected by more than the majority of parliament as separatist parties refused to withdraw their amendments, along those of center-right Partido Popular (PP) and other regionalist parties. We expect PM Sánchez to call for early elections either in late April, May or in the fall. The Socialist party still tops polls; yet on average in 2019 polls give a slight majority to the center and right-wing parties PP, Ciudadanos (Cs) and Vox (51% together) which could form a coalition. It is not Spain's first episode of such political uncertainty, and the impact on the economy should remain limited. A coalition of PP, Cs and Vox would advocate for further fiscal discipline (in contrast to the socialists), pro-business and pro-European reforms. Yet their harsh stance over the Catalonia issue could potentially re-ignite tensions over independence.

UK: Rock Around The Clock

GDP growth slowed down markedly to +0.2 q/q in Q4, below the +0.3% expected by consensus but in line with our expectations. Consumer spending proved resilient, albeit weak, growing by +0.4% q/q, unchanged from Q3. Public spending growth rebounded to +1.4% q/q. Business investment contracted for the fourth quarter in a row (-1.4% q/q) something that didn't occur since 2009. Stocks contributed +0.5pp to growth, positive for the third consecutive quarter as companies accelerated contingency stockpiling. The main increases came from wholesale goods and manufacturing goods. This triggered a rebound in imports to +1.3% q/q. Hence, excl. stocks GDP contracted by -0.3% after 0% in Q3 and +0.1% in Q2. We expect Brexit-related uncertainty to cap growth to +0.2% q/q in Q1 2019 and to +1.2% annually. However, the more the uncertainty prevails the higher the downside risks. The UK Parliament vote on the Brexit deal has been delayed to 27 February. We continue to expect a last-minute agreement through (i) a Brexit deal ratification or (ii) an extension of Article 50 (read more here).

France: Exports held the line

Exports of goods registered steady growth in 2018 (+18.2bn EUR, after +20.5bn in 2017). The EU accounted for +12.3bn EUR, but the U.S. (+4.4bn) and China (+2bn) were the two top country gains. Transport equipment (+2.3bn, mainly boats) and chemicals (+1.2bn, mainly pharmaceuticals) were the two top sectors towards the U.S., and transport equipment (aeronautics) posted the most gains towards China. In Europe, the main gains came from Spain (+1.9bn), Belgium (+1.8bn) and Germany (+1.6bn), but Italy disappointed (rank 8 with gains of +1bn, after rank 1 in 2017 with +2.9bn). Looking at France's top 10 export markets, transport equipment gained the most (+5.4bn EUR), ahead of chemicals (+2.9 bn) while the main disappointment was agrifood (+0.4bn) a sector also affected by stalling domestic turnover. The number of exporting firms was quite stable in 2018 (125k, +1.2%) but with less new exporters (+22%, vs. +30% ten years ago). Overall, there was more stability in 2018's export gains (level, destinations, exporters) but also more concentration (stability or losses outside the EU, US and China).

Russia: Prepared for new sanctions?

According to latest reports, the U.S. and the EU are close to agreeing to new sanctions on Russia in response to Russian aggression towards Ukraine in the Sea of Azov in November 2018 (see WERO 28 November 2018). Two and a half months after the incident, 24 Ukrainian sailors are still held in Russian custody despite EU negotiations to release them. Next week the EU will discuss the new sanctions which could be directed at Russian individuals and companies involved in the capture of the three Ukrainian ships. It remains to be seen whether the measures will be largely symbolic with limited economic impact or will go beyond that. Our current growth forecast of +1.5% in 2019 takes into account new sanctions with a moderate impact. Meanwhile, the Central Bank of Russia (CBR) kept its key policy interest rate unchanged at 7.75% last week. Consumer price inflation rose to 5% y/y in January from 4.3% in December, driven by faster growth of food prices (+5.5%), the VAT hike from 18% to 20% at the start of this year, and the ongoing impact of the weakened RUB in H2 2018. We forecast average inflation of 5% and one interest rate hike in 2019.

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Countries in Focus

Americas

Canada: Labor market surges

The economy created +66.8k jobs in January, far greater than expectations, despite headwinds of delayed investment from NAFTA negotiations, the drag of the B20 mortgage rules, and plummeting prices for Canadian oil. On a y/y basis, jobs grew at a stiff +1.8%, the fastest in over a year. Of the ten provinces, only Saskatchewan and the oil-producing province of Alberta had job losses, but on a y/y basis, jobs increased in every province. The labor force surged by +103.7k, the second highest of the entire recovery, driving the participation rate up +0.2pp to 65.6%, and raising the unemployment rate to 5.8%, just above last month's record low 5.6%. Wage growth for all workers remained steady at +2% y/y in January, right at the Bank of Canada's inflation target, although wages for full time workers rose from +1.5% y/y to +1.8% y/y. Despite some recent softness in the overall economy, the strong labor market suggests that the Bank of Canada may raise rates at least once this year.

Europe

Central Europe: Monetary policy on hold in the largest economies

The Monetary Policy Council (MPC) of **Poland** kept its key interest policy rate at 1.5% last week, unchanged since March 2015. CPI inflation fell to a two-year low of 1.1% y/y in December, well below the MPC's 2.5% target, and core inflation eased to 0.6%. The National Bank of the **Czech Republic** (CNB) left its policy rate at 1.75%. CPI inflation had fallen to 2.0% y/y at end-2018, right at the CNB's target. However, it rose to 2.5% in January, mainly driven by accelerating prices for housing and utilities. The National Bank of **Romania** (NBR) held its policy rate unchanged at 2.5% as CPI inflation remained constant at 3.3% y/y in January, just below the upper bound of the NBR's 2.5% ± 1pp target range. The NBR thus argued that it is maintaining price stability. As economic growth is forecast to moderate in the region, inflationary pressures should remain in check, by and large. In 2019, we expect at most one policy rate hike in **Poland** and at most two in the **Czech Republic** and **Romania**.

Africa & Middle East

Nigeria: Time to make the most out of the mobile moment

Just before the 16 February election, Q4 2018 recorded the highest growth since Q3 2015, at +2.4% y/y. Telecoms (+16.7% y/y in Q4) made the bulk of this growth (about 60% in Q4, and 50% of the +1.9% growth for all of 2018). The increasing penetration rate of mobile phones can be useful for bancarization purposes (37% of the Nigerians do not have a banking account). A tectonic move was just decided, since mobile operators are now allowed to propose mobile banking (in the past, Nigerians needed to have a bank account in order to have an access), with the potential to increase the mobile banking penetration rate from the current very low 1% (80% of the population have mobiles, half of which have a smartphone). The low access to banking services is one bottleneck among others that weigh on Nigeria's growth potential. In 2018, a good crop made another 25% of the growth performance. So, excluding telecoms and agriculture, the Nigerian economy was near stagnation. In 2019, we expect GDP growth to stabilize at +2.2%.

Asia Pacific

India: A pre-election stimulus

The Reserve Bank of India unexpectedly cut its policy rate by -25bp to 6.25% on 7 February as inflation (+2% y/y in January) remained at the lower bound of the Central Bank's 4% ± 2pp target range and economic growth shows signs of weaknesses. Industrial production growth slowed in November-December (+1.3% y/y on average) after a growth rate generally above +4% y/y in the first ten months of 2018. USD-denominated exports rose by a modest +0.3% y/y in December. The rate cut came after the government announced a range of expansionary measures including handouts for farmers and tax cuts for the lower middle class. We expect economic growth to remain firm in the near term and to reach +7.4% in FY2018-19 (after +6.7% in FY2017-18). In the longer term, risks to the outlook are rising though, because (i) deteriorating public finances could hamper investors' confidence and (ii) trade-related risks are increasing with signs of growth moderation in China and advanced economies.

What to watch

- February 14 – Argentina January inflation
- February 14 – Egypt monetary policy meeting
- February 14 – EU, Eurozone Q4 GDP (2nd estimates)
- February 14 – EU countries (several) Q4 GDP (flash estimates)
- February 14 – France Q4 unemployment rate
- February 14 – Turkey December balance of payments
- February 14 – Turkey December industrial production
- February 14 – U.S. December retail sales
- February 14 – U.S. January producer prices
- February 15 – China January CPI and PPI
- February 15 – Eurozone December trade in goods
- February 15 – UK January retail sales
- February 15 – U.S. January industrial production
- February 19 – U.S. February housing market index

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