Euler Hermes Economic Research

Weekly Export Risk Outlook

6 February 2019

In the Headlines

FIGURE OF THE WEEK

+2.3%

Russia's GDP growth in 2018

Russia: Surprise jump in annual GDP growth

According to preliminary estimates by Rosstat, GDP growth accelerated to a six-year high of +2.3% in 2018 (from +1.6% in 2017). The figure surprised markets and raised doubts about Russian economic data among analysts as the average GDP increase in Q1-Q3 2018 had been reported at +1.6% y/y previously and Q4 was the weakest quarter in 2018 with regard to growth of industrial production (+2.7% y/y) and retail sales (+2.4%). Rosstat explained the surprise figure with a sharp upward revision of construction output growth from +0.5% y/y for the first 11 months of 2018 to +5.3% for the full year after receiving last-minute data from a large LNG project in north Siberia. On the demand side, the 2018 growth acceleration was driven by a better external sector. Exports rose +6.3% (+5% in 2017) thanks to higher oil output while import expansion dropped to +3.8% (+17.4% in 2017) impacted by the RUB depreciation. Meanwhile, domestic demand softened as a result of faltering consumer sentiment (hike in retirement age, VAT increase), fiscal consolidation and new sanctions. Looking ahead, the fall in the Manufacturing PMI to 50.9 in January (from 51.7) and higher inflation expectations due to the VAT hike point to a weak start to the year. We forecast real GDP growth of +1.5% in full-year 2019.

Germany: Waiting for GDP data release on 14 February

The interpretation of the latest economic data on the German economy is more difficult than usual. Seasonally adjusted retail sales in December showed a clear minus of 4.3% compared to the previous month. However, the Federal Statistical Office points out, that the poor December reading could be related to a preference among German consumers for Christmas gift vouchers, which only show up in the data once they are spent. In general, the consumer climate remains very positive and has even improved again recently. Latest data on new orders in manufacturing raises questions, too. Based on provisional data, price-adjusted new orders decreased in December a seasonally and calendar adjusted -1.6% on the previous month. However, new orders without major orders increased a seasonally and calendar adjusted +3.5%. November data was revised upwards from -1.0% to -0.2% m/m after including major orders that were reported subsequently. More clarity on the situation of the German economy in late 2018 is likely to be provided by the Q4 GDP release on 14 February.

Poland: Strong growth in 2018, but slowdown ahead

Preliminary estimates show that real GDP growth picked up to +5.1% in 2018 from +4.8% in 2017. Demand-side details are only partly available as yet but indicate that growth was entirely driven by domestic uses (+5.1pp) while net exports made a zero contribution. Private consumption grew by +4.5%, down from +4.9% in 2017. Thanks to an increased utilization of EU funding for eligible projects, fixed investment rose by +7.3% in 2018 (+3.9% in 2017). GDP data for Q4 are not provided as yet but slowdowns in industrial production (to +4.3% y/y in Q4 from +5.9% in Q3) and retail sales (to +4.5% from +5.5%) point to a weakening in the final quarter. Moreover, the Manufacturing PMI remained below 50.0 for the third month in a row in January (48.2), reflecting mainly declining new orders, notably new export orders. As a result, we expect a weaker start to the year and a slowdown of full-year GDP growth to +3.5% in 2019. Meanwhile, headline inflation dropped to 1.1% y/y at end-2018. Consequently, the Monetary Policy Council today decided to keep its key policy interest rate at 1.5%.

Nigeria: Time to unlock untapped national savings

The presidential election will be organized in just 10 days, but we already know that growth in 2019 will disappoint (forecast at +2.2%). Low FDI inflows and low public investment are key constraints. Togo's Lomé port has overtaken Lagos in terms of container traffic in 2018. Lagos activity decreased by -30% during the last five years, burdened by many bottlenecks. This is just one infrastructure gap among many in Nigeria. The overall weak infrastructure investment is pervasive. Euler Hermes calculated that Nigeria would need to spend USD500bn by 2030 to close its road equipment gap with South Africa. Financing it is an issue. Nigeria was hit by a -36% drop in FDI inflows (USD 2.2bn) in 2018. Overall, the country accounts for 20% of regional GDP but attracts just 6% of FDI flows to Africa. Since fiscal revenues (8% of GDP) are quite low, mobilizing private savings would be a solution. The government just approved a scheme enabling to tap private companies to build federal roads and selected projects; in return they will benefit from tax credits.

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Countries in Focus

Americas

U.S.: Labor market very strong, other data mixed

The January employment report posted huge job gains of +304k, about twice as much as were expected, though the previous two months were revised down a total of -70k. Job gains were not affected by the government shutdown, but the unemployment rate, calculated differently, ticked up from 3.9% to 4.0%. Wage growth remained steady at +3.2% y/y. Other news has been mixed. Volatile new home sales rose +16.9% m/m in November but they were still down -7.7% y/y. An index of pending home sales, which are more forward-looking, fell -2.2% m/m in December to the lowest level in almost five years. Construction spending rose a sharp +0.8% m/m to +3.4% y/y in November. The Institute of Supply Management's (ISM) manufacturing report bounced back from a two-year low, gaining +2.3 points to 56.6, but the ISM services index fell -1.3 points to 56.7. Reflecting the effects of tariffs, both indexes showed declines in new export orders, and within services it fell a very steep -9.0 points to 50.5.

Europe

UK: The BoE could delay the next rate hike to late in H2

The high level of Brexit-related uncertainty has shaved growth by about -0.3pp in 2018 through a multitude of channels to the real economy (household real purchasing power, household savings rate, corporate margins, business investment, tightness of labor market, real estate prices and UK attractiveness, to name a few). Worsening business and consumer confidence coupled with higher risk aversion could trigger tighter loan availability by banks. We continue to expect a last-minute agreement that could take the form of (i) a ratification of a revised Brexit deal by the UK Parliament on 14 February or slightly later, and (ii) an extension of Article 50 to July or December 2019. However, this suggests that the prevailing uncertainty could push the Bank of England to delay its rate hike currently expected in Q2 (+25bp to 1%) to late in H2. We forecast the economy to expand by +1.2 % in 2019. Inflation should benefit from lower oil prices in H1 and a rebound in the GBP (projected at 1.15-1.20 vs. the EUR by year-end).

Africa & Middle East

Lebanon: A government, at last

Lebanon announced the formation of a new government at the end of last week, ending nine months of quarreling between rival political factions which has increased concerns about one of the world's most indebted economies (public debt is around 150% of GDP). The news promptly boosted Lebanese bonds and restored some confidence in the role of the national currency in savings. But the relieved pressure over the economy could prove short-lived. The new cabinet will comprise most Lebanese political factions, including three posts for Hezbollah, an Iran-backed Shia group subject to U.S. sanctions. There is a high risk that this relatively unchanged system of power sharing will continue to encourage patronage and limit the effectiveness of policymaking. This in turn may put at risk aid and loans worth up to USD11bn pledged to Lebanon last year by the international community if the country will implement vital reforms to fend off an economic crisis. The most needed reforms include cutting public spending, revamping the electricity sector and fighting corruption.

Asia Pacific

South Korea: Is winter coming?

South Korean economic data are usually seen as leading indicators of the global economic cycle. USD-denominated exports contracted by -5.8% y/y in January (after -1.3% in December) due to a decline in exports to China and lower demand for memory chips. The Manufacturing PMI dropped to 48.3 points in January (after 49.8 in December) owing to a decrease in output and new domestic and exports orders. Looking ahead, we see limited room for improvement in both February and March as (i) U.S.-China trade related uncertainties remain and (ii) China's demand growth will likely continue to slow. Trade is expected to get some traction from April, assuming (i) a positive outcome of U.S.-China's trade talks and (ii) China's stimulus starting to have a greater impact on the economy from Q2 onwards. We expect economic growth to rise by +2.5% in 2019 (after +2.7% in 2018).

What to watch

- February 7 – Czechia Central Bank meeting
- February 7 – France December trade balance
- February 7 – Germany Dec. industrial production
- February 7 – Romania Central Bank meeting
- February 8 – Brazil, Ukraine January inflation
- February 8 – France December industrial production
- February 8 – Russia Central Bank meeting
- February 11 – UK Q4 GDP (first estimate)
- February 11 – Eurogroup meeting
- February 12 – China January vehicle sales
- February 12 – Hungary January inflation
- February 13 – Czechia, Romania, UK January inflation
- February 13 – Eurozone December industrial production
- February 13 – Hungary December industrial production
- February 13 – Romania December industrial production

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