Euler Hermes Economic Research

Weekly Export Risk Outlook

23 January 2019

FIGURE OF THE WEEK

+6.6%

China's 2018 GDP growth

In the Headlines

China: Stimulus measures start to have tangible impacts

Real economic growth edged down to +6.4% y/y in Q4 2018 (from +6.5% in Q3) as expected. The services sector slowed to +7.4% y/y (from +7.9% in Q3) while the industrial sector picked up speed to +5.8% y/y (after +5.4% in Q3) driven by stronger construction output. In nominal terms, GDP growth slowed to +9.1% y/y in Q4 (from +9.4% in Q3). Monthly data show signs of stabilization in domestic demand while trade fears persist. Nominal retail sales edged up to +8.2% y/y in December (from +8.1% in November). Nominal urban investment stabilized at +5.9% y/y in January-December (up from +5.4% in January-September). Industrial production rose by +5.7% y/y in December (after +5.4% in November). Looking ahead, the authorities' supportive policy measures are starting to have a tangible impact on the economy. Public and infrastructure spending are edging up gradually. On the financing side, easing measures focus rather on quality than quantity. Formal and strongly regulated lending is improving while shadow banking decreases. Against that background, Euler Hermes expects real GDP growth of +6.3% in 2019 (after +6.6% in 2018).

U.S.: Slowing down

Recent data continues to be mostly negative. Manufacturing was the lone bright spot as manufacturing industrial production surged +1.1% m/m to a +3.2% y/y rate, while the Philly Fed's survey also showed an uptick in activity. By contrast the Empire State survey, while still positive, dropped for the second straight month and is at the lowest level since May 2017. And like that survey, the Fed's Beige Book reported widespread slowing. The Housing Market Index rebounded slightly from last month's reading to 58, but that's well below last January's 72 points. The measure of foot traffic remains in contraction territory well below 50 at 44. Existing home sales fell to the lowest level in over three years, losing -6.4% m/m to -10.3% y/y, while prices fell for the fifth time in six months. Consumer sentiment plunged -7.6 points to 90.7, with the expectations component falling almost -9 points to 78.3. Part of the drop in sentiment was likely caused by the government shutdown which is entering its 32nd day, and is estimated to cost 0.2% of GDP growth every month.

France: Twisted nerve

Corporates insolvencies increased by +3.4% y/y in Q4 2018, following a hefty +6.4% in Q3 amid persistent domestic and foreign demand pressures and evidence of renewed strains on selling prices. Major insolvencies were also on the upside, with 20 additional cases in 2018 (compared to 2017) for corporates with turnovers above EUR15bn. Construction exhibited 14 additional cases (+280% compared to 2017). An INSEE survey showed a rise in DSO that may have driven this increased severity, following a decrease in housing starts by -9k in November. Other sectors exhibiting weak business confidence in January are real estate, motor vehicles (supply chain issues driven by new homologation procedures), paper & printing (input price surge) and metals. Accommodation and catering as well as wholesale and retail trade also exhibit weak confidence indices, amid yellow vest consequences on tourism and household consumption. Against this background, the capacity utilization rate was stable at 85.1% in the manufacturing sector in January, showing reasons for a good corporate investment momentum in 2019 (+2.6%) despite the currently low demand environment.

Russia: Large external surplus in 2018, set to narrow in 2019

First estimates indicate that the annual current account surplus increased to +USD115bn in 2018, equivalent to an estimated +7.6% of GDP, up from +USD33bn in 2017 (+2.2% of GDP). Higher oil prices supported the outcome in 2018, boosting oil and gas exports by +35%. Meanwhile, non-oil and gas exports increased by +14%, but a slowdown to +7% y/y in H2 2018 indicates that new U.S. sanctions may have had an impact on the performance. Overall, goods exports reached USD443bn in 2018, up by +USD89bn or +25% y/y, while imports grew by just +USD11bn (+5%) to USD249bn, in part due to the weaker RUB (-7% vs. the USD in 2018). We expect that slightly lower average oil prices in 2019 (we forecast USD69/bbl for benchmark Brent, after USD72/bbl in 2018) combined with the impact of further U.S. sanctions will narrow the current account surplus to about +4% of GDP this year. Meanwhile, net capital outflows amounted to -USD68bn in 2018, a four-year high, though well below the record highs of -USD153bn in 2014 and -USD134bn in 2008.

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Countries in Focus

Americas

Argentina: Rebalancing on track

While still in recession, Argentina is gradually rebalancing. It successfully achieved the IMF primary deficit target of -2.7% of GDP in 2018 (after -3.8% in 2017). Besides, the four-quarter cumulative current account deficit slightly decreased in Q3 although it still rose as a share of GDP (-6.3%); Q4 should be more encouraging as the four-year high trade surplus (+USD1.4bn) will help rebalancing. Indeed, imports on a rolling 12-month basis continued to contract; in December they stood at their lowest level since 2010. And we expect exports to pick up this year. More effort is needed on inflation which is still high. Consumer price growth has started to decelerate, to +2.8% m/m in December down from a high of +6.4% m/m in September. In y/y terms, this translated into the first decline in inflation (to 47%, down from 47.8%) since October 2017. Lastly, FX reserves are being managed more carefully; they stand at USD66.5bn after the second IMF disbursement, i.e. USD20bn above last September's trough.

Europe

Turkey: Recession and rebalancing remain on their way

In November, both industrial production and real retail sales dropped for the third consecutive month, by -6.5% and -6.3% y/y, respectively. Moreover, the Manufacturing PMI remained low at 44.2 in December and the Consumer Confidence Index remained very weak at 58.5 in January, well below the long-term average of 72 points. The data suggests that investment and consumer spending have extended their contractions from Q3 into Q4 2018 and will probably decline further in Q1 2019 (in y/y terms). Meanwhile, the tradable sector continues to rebalance. USD-denominated imports of goods and services plunged by -20% y/y in November as the markedly weaker TRY has caused a strong rise in import costs. In contrast, exports benefited from the more competitive currency and grew by +7% y/y. The monthly current account has been in surplus since August and the 12-month rolling deficit narrowed to -USD34bn in November from a peak of -USD58bn in May 2018.

Africa & Middle East

Tunisia: Tightrope

Growth has accelerated to +2.7% in 2018 from +2% in 2017, driven by tourism revenues (+45%) and agricultural output expansion (+9% in volume). Excluding these two sectors, growth would have been the same in 2017 and 2018 (+1.4%). Moreover, manufacturing output increased by +0.5% in 2018, a stable growth rate compared to the average growth observed during the last five years, but compared to +3.5% per year in the decade prior to that. It explains why overall growth acceleration was not perceived by all the Tunisians (unemployment was still increasing to 15.3% in Q3 2018). The service sector is adding +1pp per year to growth, but is highly dependent on public spending (wages, subsidies and current transfers represent about 70% of public spending). However, rising debt and IMF conditionality put a limit to this kind of spending at a time when inflation has accelerated (7.5% in 2018) as a result of the TND depreciation (-17%). Social protests and uncertainty ahead of parliamentary and presidential elections in Q4 2019 pose a downside risk to our +2.5% growth forecast for this year.

Asia Pacific

South Korea: Saved by stimlus

Real GDP rose by +1% q/q in Q4 2018 (after +0.6% in Q3) supported by solid growth in domestic demand. Both private and government consumption increased in Q4, by +1% q/q (up from +0.5%) and +3.1% (after +1.5% q/q) respectively. Investment growth recovered to +1.8% q/q (from -4.6% in Q3) helped by capital spending in construction and equipment. The contribution of net trade to Q4 growth was negative as exports decreased by -2.2% q/q while imports increased by +0.6%. Going forward, short term indicators such as monthly exports (-1.2% y/y in December) and Manufacturing PMIs point to weaker growth. Export growth will likely moderate in 2019 due to slower global economic growth. However, domestic demand should show resilience thanks to a string of supportive policy measures of the government (e.g. increases in minimum wages and social spending). We expect economic growth to ease to +2.5% in 2019 (from +2.7% in 2018).

What to watch

- January 24 – Eurozone ECB meeting
- January 24 – UK BoE meeting
- January 25 – France January consumer confidence
- January 25 – Germany ifo business climate index
- January 25 – Turkey January business confidence
- January 25 – U.S. December durable goods
- January 25 – U.S. December new home sales
- January 28 – China December industrial profits
- January 29 – France and Spain Q4 unemployment
- January 29 – Hungary Central Bank meeting
- January 29 – U.S. December international trade
- January 30 – France Q4 GDP growth
- January 30 – Latvia and Lithuania Q4 GDP growth
- January 30 – Mexico Q4 GDP growth (preliminary)
- January 30 – Germany January CPI (preliminary)