Euler Hermes Economic Research

Weekly Export Risk Outlook

3 February 2016

FIGURE OF THE WEEK

USD3.5bn

Nigeria's request for WB and AfDB support

In the Headlines

France: Recovery on track…but where to?

Preliminary GDP data for Q4 2015 show growth of +0.2% q/q, compared with +0.3% in Q3. Growth was mainly driven by investment (+0.8% q/q), notably by companies. Private consumption fell as a result of falling energy and clothing expenditures (reflecting a cool but not cold winter). Worryingly, inventories contributed to growth (+0.5pps) for the second quarter in a row. Overall, the economy increased by +1.1% in 2015, in line with our expectations, with private consumption (+1.4%) acting as the main contributor (+0.8pps). A combination of low oil prices, a weak EUR and lower financing costs led to increasing company profitability and turnover, thereby spurring corporate investment. Household investment, picking up in Q4 2015 for the first time since 2013, is likely to increase by +0.4% in 2016. As a result, total investment will contribute positively for the first time since 2012, leading to our +1.4% GDP growth forecast for 2016. Given a +0.35% carry-over, our forecast requires around +0.4% quarterly growth, on average, in 2016.

U.S.: Fed on hold on signs of weakness

The Fed left interest rates unchanged last week, citing "global economic and financial developments" and the fact that "economic growth slowed late last year." It is unlikely that the Fed will hike again in March, suggesting only two rate hikes, at the most, for all of 2016. GDP increased at a weak annualised rate of +0.7% q/q in Q4 2015, putting full-year growth at +2.4% and the forecast for 2016 remains unchanged at +2.3%. Net exports, business investment and inventories acted as drags on Q4 growth, while residential investment and consumption contributed positively. Even so, consumption increased by only +2.2% q/q annualised, despite disposable incomes improving by +3.2%. The manufacturing sector remains weak, with December durable goods orders down -5.1% m/m (-0.6% y/y). The less-volatile core component fell -4.2% m/m and -7.5% y/y, the weakest since December 2009. The ISM manufacturing index inched up +0.2 points to 48.2 in January, but it was the fourth consecutive month below 50, signalling contraction. The report was not entirely gloomy as new orders gained +2.7 to 51.5 with five of the ten components now above 50, compared with only two last month.

Japan: An unexpected move…but more will follow

Disappointing indicators, including wholesale and retail sales decreasing for the fifth consecutive month, to -3% y/y in December 2015, core CPI nearing zero (0.1% y/y in December) and consumer confidence registering 42.5 in January, led the BoJ to supplement its quantitative easing programme by pushing interest rates below zero. A rate of -0.1% will apply only to reserves in excess of the "macro added-on balances" that financial institutions deposit at the Central Bank. The measure is part of the overall aim of boosting consumption and corporate investment, as well as reinforcing the portfolio rebalancing effect, by anchoring the yield curve downwards. However, transmission to the economy may prove inadequate unless expectations of higher nominal growth materialise. This will require further easing from the BoJ in the form of more negative rates, an increased pace of asset purchases and/or expansion of non-government bond purchases. Officially switching to a nominal GDP level targeting regime would also help.

UK: Slowing momentum

Preliminary GDP data for Q4 2015 show an increase of +0.5% q/q, relatively stable compared with Q3 (+0.4%). The GDP breakdown will be available on 25 February but growth was entirely driven by services, particularly the financial sector, while manufacturing and construction continued (for the third consecutive quarter) to provide no stimulus. For the full-year 2015, GDP growth was +2.2%, below expectations, given downward revisions to previous quarters. Going forward, we expect private consumption will continue to be the main driver of GDP growth, but momentum is deteriorating. On the corporate side, capacity utilisation rates signal a slowdown in company investment at a time when overall investment is already markedly lower than in European neighbours. Meanwhile, uncertainty relating to a potential Brexit is still evident, with inward FDI slowing at the end of 2015. All this puts further pressure on the BoE to maintain a dovish stance until late autumn, with an increasing probability of no move this year.

Countries in Focus

Americas

Mexico: GDP growth +2.5% in 2015

Preliminary data for Q4 2015 show that real GDP growth was +0.6% q/q (+2.5% y/y), in line with our expectations. This represents a moderate slowdown from Q3 (+0.8% q/q) because of poor performances in both the primary (-1.7% q/q) and the secondary (+0% q/q) sectors. The tertiary sector, which accounts for 60% of GDP, performed well (+0.9% q/q, +3.5% y/y). Overall, economic growth was +2.5% in 2015, in line with our forecast, following +2.3% in 2014. The carry-over for 2016 is +1%. Challenges this year include a protracted period of low oil prices (negative for external and public balances) and downward currency pressures. The MXN has already depreciated by over 30% against the USD since June 2014 and by 7% since the beginning of the year. Moreover, weaker than expected U.S. industrial activity presents a further risk as the two countries' industrial cycles are highly correlated. We expect GDP growth will accelerate moderately, to +2.6% in 2016, one of the best performances in the region.

Europe

Austria: Gradual recovery continues

First official estimates indicate that real GDP in Q4 2015 increased by +1.1% y/y (+1% in Q3) and by +0.3% q/q, the same as in the two preceding quarters. Q4 growth was driven by domestic demand, with private consumption accelerating to +0.2% y/y (+0.1% in Q3) and public consumption, supported by spending related to the refugee influx, to +0.6% q/q (+0.3% in Q3) while fixed investment slowed to +0.4% q/q (+0.6% in Q3). External trade activity lost momentum in Q4, with exports up by +0.8% q/q (+1.5% in Q3) and imports by +1.1% q/q (+2% in Q3) so that net exports made a small negative contribution of -0.1pps to Q4 GDP growth. Full-year 2015 growth (not calendar-adjusted) is estimated at +0.9%, up from +0.4% in 2014. Meanwhile, the manufacturing PMI rebounded from a four-month low of 50.6 in December to 51.2 in January, pointing to continued industrial expansion. Euler Hermes forecasts full-year GDP growth of +1.4% in 2016.

Africa & Middle East

South Africa: Challenging times

Last week, SARB increased the key policy interest rate by +50bps to 6.75%, citing deterioration in the inflation outlook. A weaker ZAR and drought-induced upward price pressures on food are likely to keep headline inflation above the official 3-6% target range from Q2 2016 to end-2017. SARB also lowered its GDP growth forecasts to +0.9% in 2016 and +1.6% in 2017. Much now depends on the upcoming February state budget and FM Pravin Gordhan pledged to keep the country's investment status with international credit agencies. The risk of downgrade to junk status is real and this would increase funding costs at a time when the economy is displaying stagflationary conditions (unemployment is currently around 25%). However, in an attempt to retain that investment status, fiscal austerity appears likely, which will keep growth capped at levels that do not alleviate structural rigidities and improve living standards. Expect relatively sound policies but the outlook is challenging.

Asia Pacific

Philippines: Domestic demand keeps growth robust

Real GDP growth continued to pick up in Q4, to +6.3% y/y and +2% q/q, the highest quarterly growth for the year, taking growth in 2015 as a whole to +5.8%. The latter is down from +6.1% in 2014 but above the average +5.3% recorded in 2005-14. Full-year 2015 growth was driven by domestic demand, while external demand weakened. Robust private consumption expanded by +6.2% (+5.4% in 2014), government consumption accelerated to +9.4% (+1.7% in 2014) and soaring investment in equipment (+20.3%) boosted overall fixed investment by +14% (+6.8% in 2014). Increased investment activity also pushed up import growth to +11.9% in 2015 from +8.7% in 2014, while export growth decelerated to +5.5% (+11.3% in 2014), impacted by slowing demand from key trade partners in the region, notably China. Euler Hermes expects the economy will grow by close to +6% in 2016. However, political uncertainty in the wake of elections in May and further slowing demand from China pose downside risks.

What to watch

- February 05 – U.S. & Canada January employment
- February 05 – U.S.December international trade
- February 05 – Germany December factory orders
- February 05 – Hungary December IP
- February 05 – Romania interest rate decision
- February 05 – South Africa Jan. international reserves
- February 05 – Brazil & Mexico Jan. cons. confidence
- February 05 – Russia January inflation
- February 07 – Egypt January international reserves
- February 08 – Canada January housing starts
- February 08 – Canada December housing permits
- February 08 – Germany, Spain & Turkey Dec. IP
- February 08 – France January business sentiment
- February 08 – Ukraine January inflation
- February 08 – India Q4 GDP
- February 09 – Mexico January CPI
- February 10 – France Dec. manufg. & ind. output
- February 10 – Italy & UK Dec. industrial output
- February 11 – Mexico Dec. manufg. & industrial output
- February 11 – The Netherlands January CPI

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Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com