Euler Hermes Economic Research

Weekly Export Risk Outlook

15 June 2016

FIGURE OF THE WEEK

+5.77mn

Urban job growth in China in January-May

In the Headlines

Turkey: Q1 GDP growth boosted by consumption

Q1 real GDP increased by +4.8% y/y, down from the dynamic +5.7% y/y in Q4 2015, but still strong compared with +4% in full-year 2015. The breakdown of GDP shows that Q1 growth was entirely driven by vigorous consumer spending (+6.9% y/y) and soaring public spending (+10.9%). Investment came to a standstill (-0.1% y/y). Real export growth recovered somewhat (+2.4% y/y) but was outpaced by strengthening real import growth (+7.5%), so that net exports subtracted -1.6pps from Q1 growth. As base effects supported the strong Q1 performance (GDP was up by just +2.5% y/y in Q1 2015), EH expects the momentum will fade gradually in the coming quarters. Nonetheless, our growth forecast for full-year 2016 was revised to +3.6% (from +3.3% previously). In January-April and in nominal USD terms, imports (-10% y/y) declined more than exports (-8%), so the current account deficit narrowed by -25% y/y to -USD10.8bn. A deteriorating services surplus (down -USD1.6bn) reflecting a sharp drop in tourism was more than offset by an improving trade deficit (up +USD3.6bn) as a result of lower commodity prices. EH expects an annual current account shortfall of -4.5% of GDP in 2016.

China: Encouraging signs but…

The latest indicators point to growth stabilisation in May. Real industrial production increased by +6% y/y (as in April) with an improvement in manufacturing output (+7.2 y/y from +6.9% in April). Nominal retail sales increased by +10% (+10.1% in April) and, in real terms, showed an acceleration (+9.7% y/y from +9.3%). The government reported that +5.77mn urban jobs were created in January-May, indicating that 57% of the annual target has already been reached. However, growth in private investment was lower. Looking ahead, a 'soft landing' (gradual growth deceleration) remains on track. Domestic demand is resilient, with robust private consumption and a supportive fiscal policy, and revival in industrial output is further boosted by easing deflationary pressures. Even so, volatility risk remains elevated as the external environment (weak demand) is not supportive and the rebalancing drivers are not yet secure. Economic growth is still heavily reliant on macro-policies, with limited increase in private spending. In that context, GDP growth is set to decelerate to +6.5% in 2016.

U.S.: Consumers on track, but labour market is not

Retail sales increased by a further +0.5% m/m in May (above expectations of +0.3%) after a strong +1.3% gain in April. This boosts the outlook for consumption and for overall GDP growth in Q2. Gains in sales were widespread except for building materials, which fell for the third consecutive period (-1.8% m/m). In a continuing trend, department store sales fell -0.9% m/m and -5.8% y/y, while non-store retail sales gained +1.3% m/m and a very strong +12.2% y/y. Gasoline sales were up +2.1% m/m on higher prices and autos increased by +0.5% m/m but, even without these items, sales were up by +0.3% m/m and +4.1% y/y. Meanwhile, the Labor Department's April JOLTS survey continued to show that the job openings rate, which improved by +0.1pps to +3.9%, exceeded the hiring rate, which fell -0.2pps to +3.5%, a situation that had never appeared until a few months ago. The 0.4pps gap is the largest ever, suggesting that employers have job openings but cannot find workers with the right skills to fill them – a headwind for growth.

Greece: Time for some fresh money

The Euro Working Group validated the pending measures the Greek government had to adopt to obtain disbursement of a new tranche of the bailout (EUR7.5bn) that is expected to be officially signed-off by Eurozone Finance Ministers on 16 June. These funds will allow Greece to repay maturing bonds of EUR4.3bn in July (including EUR2.3bn to the ECB on 20 July), reimburse the IMF (EUR0.75bn in July) and pay interest charges (EUR0.7bn). Moreover, the government is likely to start to clear its arrears (EUR5.5bn at end-April). A second tranche of EUR2.8bn is expected to be disbursed in September but this is conditional on implementation of new reforms. We also expect on 21 July at the next ECB meeting that the ECB Emergency Liquidity Assistance to Greek banks will be suspended in favour of the normal repo operations with Greek bonds used by banks as guarantee. This will allow a reduction in the funding costs of banks. Capital controls remain an outstanding issue as they do not allow optimal financing in the economy. However, if all remains on track, we expect some relief in early Q4.

Countries in Focus

Americas

Colombia: Disappointing Q1

Real GDP growth in Q1 slowed to +0.2% q/q, after +0.8% in Q4 2015. In y/y terms, growth was +2.5% - the lowest since Q3 2009 - after +3.4% y/y in Q4 2015 and +3.1% in full-year 2015. The carry-over for 2016 stands at +1.4%. Growth was dragged down by underperforming primary sectors; mining activity contracted for the fourth consecutive period, by -0.9% q/q, and agriculture, which had been picking up in mid-2015, contracted by -3.1% q/q, reflecting inclement weather (El Niño phenomenon). The services and manufacturing sectors, which were the main engines of growth throughout 2015, slowed markedly, to +0.2% q/q (after +0.6% in Q4 2015 and +1.5% in Q3 2015) and to +0.5% q/q (after +1.1% and +2.3%), respectively. Construction was the strongest sector, accelerating to +2.7% q/q growth (+1.2% in Q4 2015). Against this background, we expect GDP growth will moderate to +2.3% in 2016, after +3.1% in 2015.

Europe

Eurozone: Inflation keeps the ECB awake

Inflation is expected to be confirmed at -0.1% y/y in May (-0.2% in April) with core inflation (excluding food and energy prices) at +0.8% y/y. The latter is expected to remain at low levels, given the absence of upside pressures on wages (except Germany) and contraction in producer prices. By component, the services sector is likely to register the highest annual rate of increase (+1% y/y) followed by food (+0.8%) and non-energy industrial goods (+0.5%). Energy prices continued to contribute negatively in May (-8.1% y/y) although to a lesser extent than before, given the recent revival in oil prices (+11% m/m in May, to average USD47.5/barrel for Brent, and almost +50% compared with the January average of USD31.7). We expect a positive contribution from energy prices in H2 2016 and inflation to pick-up to +1.3% in 2017 (+0.2% in 2016). The ECB is likely to announce further easing measures in Q4, including extending its programme beyond March 2017 and widening corporate bond purchases.

Africa & Middle East

Kenya: Rocking the boat?

Stability risks are being re-appraised after a wave of politically-initiated protests. In particular, a repeat of the violence in 2008 that followed elections in 2007 is a concern ahead of the next polls in 2017. It is too early to suggest that the recent demonstrations portend a full-blown recurrence of 2008 (elections in 2013 were relatively peaceful) although political opposition forces appear divided and may vent frustrations violently rather than through the ballot box. Meanwhile, the World Bank will provide USD1.1bn in funding to support infrastructure projects in the north of the country and, in particular, for road building, improvements in water and energy supply and assistance in livestock keeping. The economy is performing relatively well, benefiting from strong domestic demand and current low oil prices (oil and oil products account for 22% of the total import bill). EH expects GDP growth will remain robust at around +6% in 2016 and 2017 but much depends on stability being maintained.

Asia Pacific

Japan: Feeling the pressure?

Industrial production contracted by -3.3% y/y in April, capacity utilisation decreased by -1% m/m (after a brief improvement in March) and machinery orders fell strongly (-8.2% y/y). Moreover, producer prices continued to contract (-4.2% y/y in May) and the strong JPY suggests further downward pressures in the short term. Business surveys provide mixed signals: (i) the manufacturing sector is beset with low new orders and deterioration in price competitiveness (strong JPY) but (ii) sentiment in the services sector appears to be recovering (Nikkei Service PMI at 50.4 in May from 49.3 in April). Looking ahead, private consumption is likely to remain the main growth driver as a result of higher purchasing power (low inflation and moderate wage growth). Business investment is set to weaken further due to the strong JPY and weak profit growth. Expect the authorities to deliver additional support to maintain the growth momentum; EH expects GDP growth of +0.7% in 2016.

What to watch

- June 16 – Eurozone May inflation
- June 16 – UK May retail sales
- June 16 – U.S. May CPI
- June 16 – U.S. Q1 current acount
- June 16 – Austria May inflation
- June 16 – Russia May industrial production
- June 16 – Israel Q1 GDP (2nd est.) & Q1 current account
- June 16 – U.S. May housing starts & permits
- June 17 – Eurozone Q1 labour costs
- June 17 – Poland May retail sales
- June 20 – Ireland Q1 GDP
- June 20 – Spain April trade balance
- June 20 – Russia May retail sales
- June 20 – Mexico Q1 aggregate supply & demand
- June 21 – Brazil June IBGE inflation IPCA-15
- June 21 – Germany June ZEW survey
- June 21 – Hungary & Turkey interest rate decisions
- June 22 – Eurozone June consumer confidence

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Contact Euler Hermes Economic Research Team
research@eulerhermes.com

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