Euler Hermes Economic Research

Weekly Export Risk Outlook

28 September 2016

FIGURE OF THE WEEK

52.6

Eurozone September PMI Composite Output index

In the Headlines

Eurozone: Rising selling prices for the first time in a year

The flash estimate of the Eurozone PMI Composite Output Index for September 2016 was down to 52.6 from 52.9 in August, slightly below expectations. This is the lowest level in 20 months, mainly triggered by slowing activity in the services sector (the flash Services PMI Activity Index fell to 52.1, the lowest since January 2015). In contrast, the manufacturing sector surprised positively, with the flash Manufacturing PMI increasing to 52.6 (from 51.7 in August) a 3-month high. Growth has picked up for new orders (3-month high) and new export orders while selling prices have increased for the first time in a year. France surprised positively, notably in the services sector with 54.1, a 15-month high. Germany came out below expectations due to a sharp slowdown in the services sector, to 50.6, while the manufacturing sector increased more than expected, to 54.3. However, this is in part contrasting with the Ifo Business Climate surveys for Germany which show improvements for both services (to 32.2, a 9-month high) and industry (to 109.5, a 28-month high). For Q3, the PMIs suggest that Eurozone GDP will grow at about the same pace as in Q2 (+0.3% q/q).

France: Down the road? No longer

The weakness in the manufacturing sector appears to be over. The Business Confidence survey indicated more resilience in September as it rose to 103 points from 101 in August. The latter was the weakest print since March 2015 which was related to food products, beverages, accommodation (services) and food services activities, as a result of the impact of the Nice terrorist attack on tourism. These sectors are now recovering from very low levels, but activity has remained well below the long-term average. Unemployment figures in August also show an impact (+1.4% m/m) related to these sectors. Moreover, business insolvencies show some sectoral and regional patterns which can be explained, in part, by the impact of the attacks. In June, insolvencies rose by +3.3% in Ile-de-France (Paris region) – with construction up by +3.1%, accommodation & catering +3.7% and transportation +22.5% – while decreasing elsewhere (-3.1% in France overall). The economy as a whole, however, continues to improve. Euler Hermes forecasts annual GDP growth of +1.5% in both 2016 and 2017.

Turkey: Back to speculative grade

Last Friday, Moody's downgraded Turkey's sovereign rating by one notch from Baa3 to Ba1 (Stable outlook) moving it back into speculative grade, citing large external funding requirements, weakening growth and deteriorating institutional strength. Only one of the three major rating agencies, Fitch, still has Turkey as investment grade, but it revised the outlook to Negative in August. The initial financial market reaction was relatively contained: the ISE-100 index fell by -3.8% on Monday but has since recovered in part while the TRY fell by just over -1% against the USD and the EUR. Looking ahead, it needs to be monitored if this downgrade will undermine capital flows, especially if Fitch follows at some stage, and thus contribute to currency instability and, potentially, monetary tightening. For now, monetary policy has remained in easing mode. Also last week, the Central Bank trimmed its overnight lending rate for a seventh straight month, by 25bps to 8.25%, while the overnight borrowing rate remained fixed the whole time at 7.25%. Hence the interest rate band around the benchmark one-week repo rate (also unchanged at 7.5%) has shrunk from 350bps points in February to just 100bps.

U.S.: Housing disappoints, consumer confidence mixed

The housing market disappointed in August. Unit sales of existing homes fell for the second straight month, dropping by -0.9% m/m to a mere +0.8% y/y. Volatile new home sales also fell by a sharp -7.6% m/m, partially reversing last month's +13.8% gain, but the y/y rate is still strong at +20.6%. Prices for both existing and new homes fell for the second month in a row, losing -1.3% m/m and -3.1% m/m, respectively. On a y/y basis existing home prices are up by +5.3% but prices for new homes have fallen -5.4%. The combination of low supply and falling prices suggests weak demand in the housing market. Consumer confidence rose by +2.3 points in August to a strong 104.1 level. The increase was driven by the current situation component which gained +3.2 points to 128.5. And while the future expectations component gained +1.7 points, it is still weak at 87.8, and the gap between the two components grew to 40.7 points, the most since the 2009 recession, suggesting consumers are still uneasy about the future and may continue to restrain spending.

Countries in Focus

Americas

Canada: Falling prices

Nominal retail sales fell -0.3% m/m in July to a +2.3% y/y rate, but the headline was not as bad as it looked. After stripping out falling prices, the volume of sales actually rose +0.3% m/m to +2% y/y. Gasoline sales, driven down by price declines, weighed heavily on the headline, losing -3% m/m and -8.9% y/y. Similarly, on an economy-wide basis, overall price inflation appears to be waning. The consumer price index fell -0.2% m/m in August, for the second straight month, taking annual inflation to +1.1% y/y (+1.3% in July), the slowest in 11 months. The core inflation rate declined as well to +1.8% y/y in August, down from +2.1% in July and the lowest figure in nearly two years. The weakness in inflation and still tepid retail sales increase the odds that the Bank of Canada's next move might actually be a rate cut, putting further downward pressure on the CAD. Euler Hermes maintains its GDP growth forecast of +1.3% for 2016 and +2.2% for 2017.

Europe

UK: Pressures on selling prices due to higher input costs

The first indicator of business confidence in the manufacturing industry (Confederation of British Industries, CBI) for September suggested a mixed outlook. The manufacturing PMI for September will be published on October 3. The CBI survey showed that there are still more businesses that report total orders below normal, namely 22% versus 18% which see orders above normal, resulting in a (rounded) balance of -5%, unchanged from August. The export orders balance deteriorated to -10% in September from -6% in August with chemical firms experiencing the sharpest drop in overseas demand, contrasting with the motor vehicle and transport sectors which reported the strongest improvements. On the back of rising import prices given the GBP depreciation, average selling prices are expected to increase slightly in Q4, with 15% of companies expecting to raise prices and 9% expecting to cut prices, giving a balance of +5%.

Africa & Middle East

Qatar: Slowdown

Recently published data by the Ministry of Development Planning and Statistics put Q1 2016 real GDP growth at just +1.1% y/y, the lowest increase since quarterly records began in 2012, which compares to +1.9% y/y in Q1 2015, +3.9% y/y in Q4 2015 and +3.6% in full-year 2015. The weak outcome in Q1 2016 reflects a -3% y/y decline in mining and quarrying (mostly oil and gas) after +0.3% y/y in Q4 as well as a slowdown in the non-hydrocarbon sectors. Manufacturing expanded by +1.1% y/y in Q1 (+2.3% in Q4), wholesale and retail trade by +4.4% y/y (+7.9% in Q4) and construction by a still strong +13.1% y/y (+18.5% in Q4). As oil prices have recovered somewhat from the low in Q1, Qatari growth should also pick up in the next quarters. But overall the economy should underperform during 2016 as the average global oil price – forecast at USD44/b Brent – will be lower than in 2015 (USD53/b). Euler Hermes expects real GDP growth of around +3% in 2016 as a whole.

Asia Pacific

Indonesia: Central Bank in easing mode

The Central Bank lowered its key policy interest rate by 25bps to 5% last week, aimed at supporting economic growth. Both the lending facility rate and the deposit rate were also reduced by the same magnitude, to 5.75% and 4.25%, respectively. The decision was based on low inflationary pressures (2.8% y/y in August), relative exchange rate stability and improving macroeconomic conditions. GDP growth is gradually picking up (+5.2% y/y in Q2, after +4.9% in Q1) while short term indicators suggest a mixed outlook. On the one hand, consumer and business confidence are improving. On the other hand, low commodity prices, subdued export expansion and declining credit growth (bank lending to the private sector has grown below +10% y/y since the beginning of the year) do not suggest very strong growth in the short run. On the whole, Euler Hermes expects real GDP growth to pick up slightly to +5% in 2016 and +5.2% in 2017 (from +4.8% in 2015).

What to watch

- September 29 – Brazil September inflation
- September 29 – Germany September inflation
- September 29 – Spain August retail sales
- September 29 – Spain September inflation
- September 29 – U.S. Q2 corporate profits
- September 29 – U.S. August international trade
- September 30 – Canada July GDP
- September 30 – Morocco Q2 GDP
- September 30 – France September inflation
- September 30 – Germany August retail sales
- September 30 – UK September consumer confidence
- September 30 – U.S. Sept. personal income and outlays
- October 3 – Spain September PMI manufacturing
- October 3 – UK September PMI manufacturing
- October 3 – U.S. August construction spending
- October 3 – U.S. Sept. ISM manufacturing index
- October 4 – Brazil August industrial production

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