

FIGURE  
OF THE WEEK

+7.1%

Q3 2016 y/y  
GDP growth  
in the  
Philippines

## In the Headlines



### Mexico: Eyes on trade

The outcome of the U.S. elections has brought Mexico into focus. The MXN depreciated by -22% in the first three days after the election. Banxico raised its key interest rate last week by 50bps to 5.25%, the upper limit of market expectations, and will move forward the timing of tightening in response to the new scenario. An increase in long-term interest rates looms as upcoming price pressures may push inflation over the target range. Private consumption and investment will bear the brunt of diminishing purchasing power and restricted access to credit. With regard to trade, Mexican exports play a key role in U.S. value chains, most notably in the automobile industry. This in turn lowers production costs and increases the competitiveness of final products. Mexico is the third largest import partner of the U.S. and 81% of Mexican exports went to the U.S. in 2015, representing 27% of Mexican GDP in relative terms. Vice versa, U.S. exports to Mexico have increased by +5.6pps since NAFTA entered into force in 1994. Changes in trade relations between the two partners would need to be carried out within NAFTA and would require ratification from all member parliaments.



### Philippines: Defying gravity?

Real GDP surged by +7.1% y/y in Q3 after +7% in Q2. The strong performance was driven by solid growth of private consumption and a continued increase in investment while government consumption growth slowed to +3.1% y/y from +13.5% in Q2. The contribution of net exports was less negative in Q3 thanks to both lower growth of imports and resilient export expansion. Euler Hermes expects real GDP to increase by +6.7% this year before moderating to a still strong +6.3% in 2017. The economic policy mix is supportive with a low policy interest rate and a favorable fiscal stance. And there is still some leeway to support growth further if needed. Private consumption and investment are expected to remain strong growth drivers but downside risks have risen. These include the risk of a withdrawal of foreign investors (through capital outflows) if the authorities fail to reinsure the markets over their ambitions. Another risk could stem from a new U.S. presidency, especially from policies on immigration (impacting remittances) and trade (affecting Philippine exports).



### Eurozone: A mild cyclical recovery

The November Eurozone Composite PMI rose to 54.1, the highest level since the end of 2015, exceeding consensus forecasts. Both the Services and the Manufacturing PMI increased, to 54.1 and 53.7, respectively. Domestic and export orders continued to expand which supported higher employment growth. Companies raised their prices for the first time in more than one year. Indeed, the input prices have outpaced output prices since July, notably in the manufacturing sector due to the recent pick-up in oil prices, which has been an increasing burden on companies' profitability. If confidence does not deteriorate by year-end – which, however, is at risk given the Italian referendum on 4 December and the risk of a political transition following a potential 'No' vote – Eurozone GDP growth should accelerate in Q4 (to between +0.4% and +0.5% q/q). This would confirm our growth forecast of +1.6% in full-year 2016. For next year, Euler Hermes expects a stabilization of growth (+1.6%) with risks being more on the downside given the busy political calendar and the looming risks from the Brexit vote.



### World trade: Mind the price and exchange rates

World trade is still sluggish but recovered in nominal (USD value) terms. Data from the CPB Netherlands Bureau for Economic Policy Analysis still points to q/q stagnation of global export volumes in Q3, after a -0.7% q/q decline in Q2. However, in nominal terms, world exports posted positive growth for a second quarter in a row, by about +1% q/q in Q3, after +2.4% in Q2. This ended a period of seven consecutive quarters of export recession (-16% loss in export value). As we noted, the recovery in some Emerging Markets is not driven by foreign demand (see also [WERO 9 November 2016 - Emerging Markets: big is beautiful](#)). But as deflation in some places and "noflation" in others are currently ending (see also [WERO 16 November 2016 - Global Economy: Hush-hush, reflation?](#)) export prices have recovered (+3.1% q/q in Q2 and about +1% Q3). Unfortunately, the outlier is the Eurozone where export prices did not rise in Q3 (burdened by a +2% appreciation of the EUR) and nominal exports declined by -0.3% q/q.

# Countries in Focus

## Americas



### Canada: Government measures slow overheating housing market

The government tightened mortgage lending rules in October to cool a potentially overheating housing market. The first reliable data on housing prices since then shows that those measures have indeed been effective. The Teranet and National Bank of Canada House Price Index showed that housing prices in 11 major cities rose only +0.3% m/m, the slowest increase since January. Prices in Toronto gained only +1.2% m/m, the slowest pace since March. Still the y/y rate is a steep +17.4%. Perhaps most importantly though, prices in Vancouver dropped for the first time in 23 months, falling -0.6% m/m, after the BC government imposed a 15% tax on foreign buyers in August. Those buyers had contributed to an extraordinary +22.5% price increase in the last year. The effort to slow price increases is welcome; overly-inflated asset bubbles can wreak havoc if they burst, and it is now the single biggest risk to the Canadian economy.

## Europe



### Hungary: Will fiscal stimulus revive growth?

According to first estimates of the Central Statistical Office (CSO), Q3 real GDP growth decelerated to +0.2% q/q (from +1% in Q2) and +2% y/y (from +2.8% in Q2), taking the average of the first three quarters of 2016 to +2% y/y. The GDP breakdown has not been published as yet, but the CSO indicated that agriculture and services contributed positively to Q3 growth while industry stagnated and construction contracted. In order to revive economic activity, the government has proposed a number of stimulus measures. It intends to cut the corporate income tax to 9% in 2017 (from currently 10% for smaller firms with profits below HUF500mn and 19% for bigger ones) and social security taxes paid by businesses from 27% of gross wages to 23% in 2017 and 21% in 2018. It further proposed increases of 15-25% in minimum wages. Euler Hermes expects full-year GDP growth to slow from +2.9% in 2015 to +1.9% in 2016 before recovering to about +2.4% in 2017.

## Africa & Middle East



### Nigeria: Landed in recession

Q3 real GDP contracted by -2.2% y/y, slightly down from -2.1% y/y in Q2. Non-oil GDP exited recession for the first time in 2016, growing at +0.03%, while the oil sector contracted by a stunning -22%. Euler Hermes forecasts -2% GDP growth in 2016 and +0.5% in 2017. Since September 2016, capital controls have allowed a stabilization of the official NGN/USD exchange rate (currently at 315.9) but the black market exchange rate has moved to 465 NGN/USD, a 35% difference, raising a credibility issue and fueling inflation (expected to average about 15% in both 2016 and 2017). Moreover, low capital inflows and low payment terms are still weighing on USD availability. Corporates have difficulties to pay their imports and to finance some current operations (e.g. airlines). Since the global financial conditions recently tightened as a result of higher inflation expectations in key economies (U.S. and China) USD shortages remain likely in Nigeria.

## Asia Pacific



### Thailand: Fragile growth

Real GDP growth slowed to +3.2% y/y in Q3 from +3.5% in Q2. Economic activity in Q3 was supported by firm private consumption (+3.5% y/y) and a rise in exports of goods and services (+3.4% y/y). In contrast, investment growth slowed markedly to +1.4% y/y from +3.2% in Q2 and government consumption contracted by -5.8% y/y. On the production side, agriculture posted a small improvement in Q3, rising by +0.9% y/y after -1.2% in Q2, while non-agricultural production (+3.2% y/y) proved resilient thanks to solid growth in services. Short-term indicators point to slower growth ahead: the Nikkei manufacturing PMI was at 48.8 in October and consumer confidence is low. In 2016 as a whole, real GDP growth is expected to accelerate to +3.2% from +2.8% in 2015, thanks to a strong first semester. 2017 will be a challenging year with continued political uncertainties and modest growth in external demand. Euler Hermes forecasts growth to slow down to +2.9% in 2017.

## What to watch

- November 24 – France November business confidence
- November 24 – Germany and Spain Q3 GDP details
- November 24 – Germany Nov. GfK cons. confidence
- November 24 – Germany Nov. Ifo business climate
- November 24 – Singapore Q3 GDP (2<sup>nd</sup> estimate)
- November 24 – South Africa interest rate decision
- November 25 – France November consumer confidence
- November 25 – UK and Taiwan Q3 GDP (2<sup>nd</sup> estimates)
- November 25 – U.S. October external trade
- November 28 – Germany October retail sales
- November 29 – France and U.S. Q3 GDP (2<sup>nd</sup> estimates)
- November 29 – Greece Q3 GDP (2<sup>nd</sup> estimate)
- November 29 – U.S. Q3 corporate profits
- November 29 – U.S. November consumer confidence
- November 30 – Brazil and Canada Q3 GDP
- November 30 – Argentina October industrial production
- November 30 – UK November consumer confidence

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