

Euler Hermes Economic Research

Weekly Export Risk Outlook

19 February 2014

FIGURE OF THE WEEK

+0.3%

Eurozone's q/q GDP growth in Q4 2013

In the Headlines

Eurozone: On the road to recovery, but prosperity remains distant

GDP increased for the third consecutive quarter in Q4 2013, by +0.3% q/q. The recovery was broad-based in that period, with the exception of **Finland** (-0.8% q/q), **Estonia** (-0.1%) and **Cyprus** (-1%). GDP growth continued to strengthen in the five largest economies: **Germany** (+0.4% q/q), **France** (+0.3%), **Italy** (+0.1%), **Spain** (+0.3%) and **Netherlands** (+0.7%) although **Italy** remains one of the region's laggards. In **France**, all GDP components posted positive surprises, notably private investment (+0.6% q/q) - the first increase after seven consecutive quarters of decline - and net exports (+0.2pps, with a strong rebound in exports and slowdown in imports). In **Germany**, first estimates suggest that growth was mainly driven by foreign trade (notably exports). Fixed investment is also expected to have increased, while private consumption is expected to have weakened. Going forward, EH expects the zone's GDP growth will remain in positive territory, but downside risks to the recovery remain: spare industrial capacity, disinflationary pressures, high public and private indebtedness and contraction in bank credit. Overall, EH expects GDP growth of +0.9% in 2014 and +1.3% in 2015.

Japan: Loss of momentum

GDP growth decelerated in H2 2013. In December, Q3 GDP growth was revised down by -0.2pps to +0.3% and Q4 data (+0.3% q/q) confirm that growth drivers lost momentum. While domestic demand continued to prove resilient, providing +0.7pps to overall GDP growth, external demand weakened, partly reflecting relatively slower demand in China and capacity constraints. Indeed, companies appear reluctant to invest in capacity because of short-term uncertainties relating to the effect on the economy of the VAT increase and the long-term effects of Abenomics. In this regard, the BOJ plans to ease monetary conditions further. In particular, the authorities extended by one year two programmes to boost credit, the "Fund-provisioning Measure to Stimulate Bank Lending" and the "Fund-provision Measure to Support Strengthening the Foundations for Economic Growth". EH expects economic growth to ease to +1.3% in 2014 (from +1.6% in 2013) in line with an anticipated deceleration in private consumption because of the VAT hike.

US: Snow-capped

Unusually harsh winter weather is continuing to weigh on the economy. Snow in January kept buyers away from car lots, dragging retail sales for autos down a further -2.3% m/m, after falling -2% in December 2013. Retail sales (excluding autos) were flat, with the real growth rate registering only +0.6% y/y. Two months of weakness in auto sales spilled over into auto industrial production, which fell by a marked -5% in January; even ex-auto, manufacturing fell -0.5%. However, utility production increased +4.1% m/m because of the cold weather, offsetting manufacturing and keeping total industrial production at a still negative -0.3%. The February Housing Market Index fell a record 10 points to 46, driven down by the "foot traffic" component (people actually walking through potential homes), which fell 11 points to a very low 31, clearly affected by snowfall. Moreover, business inventories increased by an unwelcome 0.5% in December. Against this background of generally negative data, EH expects Q1 GDP will be rather weak.

Italy: Third government within a year

The head of the government, Enrico Letta, resigned last Friday after losing a vote of confidence within his party, the Partito Democratico (136 votes to 16), in favour of Matteo Renzi, the mayor of Florence. The latter proposes an accelerated reform agenda for the next four months to improve the business environment, focusing on deregulation of the labour market, simplification of tax administration, altering the structure of regional governments and changing the electoral law in order to make it easier to form government coalitions. Renzi is discussing with coalition partners a reform agenda to put before both houses of parliament. If implemented, the reforms should prove positive. However, the timeframe appears challenging, while the political framework remains difficult as the coalition has only a 30-seat majority in parliament. Political stability is likely to remain weak, especially if the opposition calls for early elections. Currently, polls suggest that a majority of Italians support Renzi. However, reforms could prove painful and unpopular in the short-term. Currently, the business environment and economy remain weak. [For EH's analysis of corporate non-payments in 2013 click here .]

Countries in Focus

Americas



Brazil: Activity contracted in Q4 2013

The central bank's activity index for December 2013 contracted by -1.3 % m/m in seasonally-adjusted terms, resulting in a decline of -0.2 % q/q for Q4, reflecting still fragile domestic demand. Industrial production fell sharply in December 2013 (-3.5% m/m in seasonally-adjusted terms) and data for October and November were revised downwards, resulting in a contraction of -0.8% for the whole of Q4 2013. After six consecutive months of decline, industrial activity appears to have settled around 6% below its latest peak reached at the beginning of 2011. On the demand side of the economy, retail sales declined in December 2013, for the first time in nine months (-0.2% m/m and +1.1% q/q). These indicators suggest that the slowdown in activity is more marked than expected. Real GDP may have contracted slightly in Q4 2013; final data will be released on 27 February. EH expects activity to remain relatively weak in 2014.

Europe



Central Europe: Flash estimates of GDP growth point to ongoing recovery

Advance estimates of Q4 2013 real GDP indicate strengthening economic momentum in the group of 11 EU members in the CEE region, with a combined growth of +2.3% y/y (+1.4% in Q3), taking full year growth to around +1.1% (+0.6% in 2012). **Romania** was the leader, with export-led growth rising to +5.2% y/y in Q4, resulting in +3.5% for 2013. Net exports also pushed Q4 y/y growth to +2.7% in both **Poland** and **Hungary**, taking the full year growth to +1.6% and +1.1%, respectively. **Slovakia** picked up to +1.5% y/y in Q4, but the full year outcome was a moderate +0.9%. The recovery in **Bulgaria** remained modest, with growth of +1% y/y in Q4 and +0.6% in 2013. The **Czech Republic** moved out of recession in Q4, with GDP up by +0.8% y/y, although full year GDP still contracted by -1.1%. A flash estimate for **Austria** shows Q4 growth accelerating to +0.9% y/y, but the full year 2013 result is a weak +0.3%. EH expects the recovery to continue in all these economies in 2014.

Africa & Middle East



Lebanon: A new government (at last) but little cheer

It is not unusual for cabinet formation and installation of a working government to take a long time. In March 2013, PM Najib Mikati resigned and was replaced by Tammam Salam in a caretaker role that produced a government prohibited under the constitution from making decisions of consequence. Last week, the two key rival political groups – the March 8 (Hezbollah and allies) and March 15 (mainly Sunni Moslem) movements - reached a compromise agreement on a new cabinet. However, as a result of the intervening period of relative political stasis, both security and the economy deteriorated and the new government has significant challenges to manage. EH expects the new coalition government will be fragile and the sectarian divides, heightened by events in Syria, will continue to impact negatively on domestic stability and consumption and investment decisions. Indeed, today's bomb attacks in Beirut testify to the strength of underlying fractures.

Asia Pacific



ASEAN: Tough headwinds

GDP data continue to show a mixed outlook for the ASEAN-5. Although **Singapore** and **Philippines** registered growth of +3.7% and +7.2%, respectively, in 2013, the other three lost momentum. Growth in **Indonesia** and **Malaysia** decelerated by -0.4pps to +5.8% and -1.0pps to +4.7%, respectively, their slowest pace in four years, reflecting weaker Chinese demand. As expected, **Thailand** registered the strongest decline, at +2.9% in 2013 after 6.5% in 2012, dampened by political instability. These differences in growth patterns are set to remain in 2014. Indeed, most of these economies are expected to experience tough headwinds because of FED tapering in the US (particularly **Indonesia**) and the slowdown in Chinese demand (mainly **Indonesia** and **Malaysia**). In addition, domestic issues (elections in **Indonesia** and potential for political instability in **Thailand**) may limit growth. EH expects GDP growth for the ASEAN-5 to be +4.7% in 2014, after +5% in 2013.



What to watch

- February 20 – Brazil January unemployment
- February 20 – Eurozone February PMI (flash estimates)
- February 20 – France January CPI
- February 20 – US January PPI
- February 20 – Portugal 11th review Troika aid programme
- February 20 – US January leading indicator
- February 21 – G20 meeting
- February 21 – Ireland & Spain rating agency updates
- February 21 – UK January retail sales
- February 21 – US January existing home sales
- February 25 – South Africa Q4 2013 GDP
- February 24 – Germany Feb. IFO business climate survey
- February 25 – Germany Q4 2013 GDP (details)
- February 26 – UK Q4 2013 GDP (breakdown)

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