

Euler Hermes Economic Research

Weekly Export Risk Outlook

4 June 2014

FIGURE OF THE WEEK

+3.4%

Poland's Q1 y/y GDP growth

In the Headlines

Spain: Stimulus package aims to strengthen economic recovery

Q1 GDP growth was positive for the third consecutive quarter, reaching +0.4% q/q. However, the GDP breakdown shows a mixed picture as the rebound is mainly driven by public consumption (contributing +0.9pps to real GDP growth in Q1) while private consumption remains weak (+0.2pps in Q1) and investment continues to fall (-0.1pps). Net exports contributed negatively to growth in Q1 (-0.6pps), as exports fell by -0.4% q/q while imports expanded by +1.5% q/q. As domestic demand remains weak, downside pressures on prices continue, with inflation of 0.2% y/y in May, down from 0.3% in April. Against this background and to support economic recovery, the government announced a new EUR6.3billion (0.6% of GDP) stimulus package, coupled with tax cuts. Notably, the rate of corporate tax will be lowered from 30% to 25% to improve the country's competitiveness. However, financing this package heightens concerns about public finances as the fiscal deficit is expected to remain large (-6.1% of GDP in 2014, compared with a target of -5.8%) and public debt will rise to over 100% of GDP in 2014.

Poland: GDP growth continues to rebound

Q1 real GDP growth picked up to +1.1% q/q (+0.7% in Q4 2013) and +3.4% y/y (+2.7%). Details show a continued gradual shift from external demand-driven to domestic demand-driven growth that started in mid-2013. Q1 growth was propelled by a strong rebound in fixed investment (+10.7% y/y) and robust increases in private and public consumption (+2.6% and +0.7% y/y, respectively). Net exports made a smaller contribution to Q1 growth (+0.5pps) than in previous quarters as strengthening domestic demand led to rapid import expansion of +6.9% y/y (+4.2% in Q4 2013) while export growth also picked up, to +7.6% y/y, although less vigorously (+6.4% in Q4). EH expects the growth momentum will continue and forecasts full-year expansion of +3% in 2014 and +3.2% in 2015. Headline consumer price inflation fell to 0.3% y/y in April, markedly below the Monetary Policy Council's (MPC) target range of 2.5%±1pps. Nonetheless, the MPC refrained from monetary easing at its meeting this week and indicated that it will keep the key policy interest rate at 2.5% until the end of Q3, at least. EH expects inflation will pick up gradually to around 2% at end-2014, in line with the ongoing economic rebound.

Benelux: Soft momentum

In **Belgium**, GDP expanded by +0.4% q/q in Q1, which was the fourth consecutive quarter of positive growth, mainly driven by a recovery in domestic demand. Private and government consumption increased by +0.4% q/q and investment increased by +1.6% q/q, reflecting a pick-up in the equipment category. However, an unfavourable terms of trade effect weakened economic activity as exports fell by -1.5% while imports decreased by -1.3%, thereby illustrating the country's loss of competitiveness - high tax rates and wages are increasing faster than productivity. EH expects GDP growth will accelerate to +1.2% in 2014 (after +0.2% in 2013) and to +1.4% in 2015. In the **Netherlands**, GDP growth (excluding stocks) contracted by -0.5% in Q1 2014 compared with Q4 (and by -1.4% including stocks) but the data reflect the impact of unusually warm weather in that period, which lifted construction activity but contributed negatively to growth through lower consumption, production and exports of energy, particularly natural gas. Exports were up +0.4% q/q but by nearly +3% if natural gas exports are excluded. Household consumption fell by -0.9% in Q1 and investment contracted by -3.5%. However, from H2 onwards, the Netherlands should benefit from the recovery in global trade, mainly driven by the eurozone. EH expects GDP will grow by +0.7% in 2014 and by +1.2% in 2015.

U.S.: Weak data ahead of a rebound

GDP contracted by -1% q/q annualised in Q1; a disappointing setback reflecting adverse winter weather and a large inventory build. Government, investment, net exports and inventories all subtracted from growth. The only positive contribution was a +3% increase in consumption. However, in the first month of Q2, consumption fell -0.3% m/m while the disposable income needed to drive that consumption increased by only +0.15% (half the long-term rate). After-tax corporate profits fell by a marked -13.7% in Q1, the fourth largest decline since 1947 (-45% annualised), held back by unseasonal winter weather and an increase in taxes. However, the weakness in Q1 GDP and corporate profits may set the stage for a rebound. Indeed, the Pending Home Sales Index increased for a second consecutive month in April, after falling for eight months, and the Institute of Supply Management's Manufacturing Index for May improved for the fourth month, gaining 0.5 to 54.5, thereby indicating expansion, with the New Orders Index up by 1.8 to 56.9, while the Production Index increased strongly, by 5.3 to 61.0.

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Americas



Chile: Weak Q1 GDP growth

Real GDP in Q1 increased by +2.6% y/y and +0.7% q/q in seasonally-adjusted terms, following contraction of -0.1% q/q in Q4 2013. Private consumption was weak in Q1 (+0.5% q/q, down from +1.4% in Q4 2013) while investment increased by +3.8% q/q, following a sharp decrease of -10.8% in Q4 2013. Net exports added +1.7pps to real GDP growth. Depreciation of the CLP in H2 2013 weighed against imports (-1.3% q/q) for the third consecutive quarter but boosted exports by +3% q/q in Q1 after two quarters of decline. As a consequence of the delayed impact of CLP depreciation on consumer prices, the rate of inflation increased to 4.3% y/y in April (compared with 2.8% at the beginning of the year), exceeding the central bank's inflation target (3% +/-1pps). However, the monetary authorities decided to maintain the key interest rate at 4%, as the surge in inflation is considered transitory and domestic demand is showing signs of weakness.

Europe



Switzerland: GDP growth remains robust

Q1 real GDP growth accelerated to +2% y/y (+1.7% in Q4 2013) and +0.5% in q/q seasonally-adjusted terms (+0.2% in Q4 2013), driven by a rebound in net exports (+2.1pps q/q). Export growth picked up to +2.2% q/q (+1% in Q4 2013) while imports contracted by -1.6% q/q (+3.1%). Domestic demand weakened in Q1, with private consumption up by just +0.1% q/q (+0.7% in Q4 2013), fixed investment by +0.5% q/q (+1.8%) and public spending down by -0.8% q/q (+0.3%). Moreover, inventories subtracted a large -1.7pps from Q1 q/q growth. EH expects domestic demand and inventories will recover and forecasts full-year growth of +2.2% in 2014 (after +2% in 2013). Downside risks to this forecast include deflation – annual inflation was just 0.04% in April and the average since the start of 2012 is -0.39% – and a strong CHF. EH expects the central bank will remain highly accommodative and will continue to prevent the CHF from appreciating beyond EUR1.20.

Africa & Middle East



Malawi: New president

On 31 May, the electoral commission finally announced the results of the 20 May elections. Peter Mutharika's opposition DPP party won 36.4% of the vote, the MCP won 27.8% and the PP of the incumbent president, Joyce Banda, gained only 20.2%. Banda's regime had been embroiled in corruption scandals that resulted in some international donors withholding budgetary support. Mutharika, who was sworn in as president on 31 May, is the brother of a former president, Bingu wa Mutharika, who died in office in 2012. A potential return to policies under that presidency suggests that Malawi may become less open to foreign investment from the west and that foreign aid and budgetary support is likely to remain limited. Moreover, contracts awarded under the Banda regime may be at risk of cancellation or subject to renewal proceedings. Even so, EH expects GDP growth of +5.5% in 2014 and +6% in 2015 (+5.6% annual average in the ten-year period to end-2013).

Asia Pacific



China & India: Moving in synchronisation?

In **China**, the official public manufacturing PMI increased to 50.8 in May (up from 50.4 in April) while the official public non-manufacturing PMI increased to 55.5 in May from 54.8 in April. The new orders sub-index, representing domestic and external demand, improved to 52.3 in May. These data confirm the ongoing rebalancing towards a service economy led by stronger domestic demand. In **India**, the economy is stabilising and Q1 2014 GDP growth (at factor cost) was +4.6% y/y for the second consecutive quarter. Indeed, the manufacturing PMI improved to 51.4 in May (up from 51.3 in April and March), signalling increased confidence about the coming months. The new orders sub-index (reflecting domestic demand and orders from abroad) increased to 53.2 in May (from 52.5 in April). Against this background, EH expects GDP growth will pick up gradually to +5.3% in FY 2014/2015 and +6% in FY 2015/2016.



What to watch

- June 5 – ECB & BoE monetary policies
- June 5 – France Q1 unemployment
- June 5 – Finland Q1 GDP
- June 6 – Germany & The Netherlands April IP
- June 6 – Austria Q1 GDP (final)
- June 6 – Greece Q1 GDP
- June 6 – Spain April industrial production
- June 6 – Brazil May CPI
- June 6 – Japan April leading indicator
- June 6 – US May employment report
- June 8 – China May exports and imports
- June 9 – Portugal Q1 GDP
- June 9 – Mexico May CPI
- June 10 – Croatia Q1 GDP (details)
- June 10 – France April industrial production
- June 10 – Italy Q1 GDP
- June 11 – Hungary May inflation
- **June 12 – Brazil FIFA Football World Cup**

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