Euler Hermes Economic Research

Weekly Export Risk Outlook

10 December 2014

FIGURE OF THE WEEK

-38%

Price fall of a barrel of Brent crude oil, year to date

In the Headlines

Turkey: Mixed Q3 GDP data but recovery expected in 2015

Real GDP growth decelerated further in y/y terms in Q3, to +1.7%, down from +2.2% in Q2 and +4.8% in Q1. Private consumption and investment, as well as imports, remained soft compared with 2013, dampened by the weaker exchange rate (the average TRY/USD rate is around -15% lower in 2014) and higher interest rates. However, in q/q seasonally-adjusted terms, real GDP growth recovered to +0.4% in Q3, after contracting by -0.5% in Q2, reflecting a rebound in domestic demand, which had declined in H1 as a result of monetary tightening (which has been relaxed somewhat since May). Private consumption expanded by +1.7% q/q in Q3, government consumption by +2.1% and fixed investment by +1.9%. Net exports also made a positive contribution to Q3 growth as imports contracted markedly, by -3.1% q/q, while exports increased by +0.6%. Going forward, a more stable exchange rate and lower global oil prices should support economic activity. Euler Hermes forecasts full-year GDP growth of +2.8% in 2014, followed by around +4% in 2015.

Greece: Dealing with uncertainty, again!

The Eurogroup proposed a two-month extension to the existing bailout as the current review of the Troika cannot be finalised before the original programme end of December 2014. It is still in favour of granting a precautionary credit line (ECCL) afterwards – our base case scenario. Following the Eurogroup meeting, the Greek government announced early presidential elections. The market reaction was strongly negative. As many as three votes could be needed to elect a president: the first is 17 December (200 out of 300 seats required for a majority), if there is no clear majority a second vote will be on 23 December (same majority required) and the third and final on 29 December (180/300 seats). If a president is not elected after all 3 rounds, the government will be dissolved within 10 days and early elections will take place within one month. Although this is not our base case scenario, risks remain on the downside. Indeed, the government seems confident of winning the required majority for the proposed candidate (Stavros Dimas, former EU Commissioner). The government has only 153 seats in parliament but could obtain votes from some 36 deputies (Independent, Independent Greeks and Independent Democratic). If achieved, this could eliminate the political uncertainty and set better terms for negotiations with the Troika.

China: Policy and strategy meeting

The November trade figures give mixed signals. The trade surplus increased more than consensus expectations (USD41 billion) to USD54.5 billion, following USD45.4 billion in October. However, export growth slowed (+4.7% from +11.6% in October) and imports fell (-6.7% y/y, after +4.6% in October) suggesting that domestic demand continues to lack momentum. Meanwhile, the Shanghai Composite recorded a strong correction (-5.4%) after the authorities released more stringent regulations to ban higher risk bonds from being used as collateral for bond repurchase agreements. These economic developments come at a time when officials meet for the annual Central Economic Work Conference. Such meetings over 2-3 days aim at setting the national economic agenda for the next year. Official announcements are usually made in March but non-official sources suggest that state-run think-tanks will advise the government to reduce the official 2015 GDP growth target to +7%. However, we expect the government will keep targets above 7% and we forecast GDP growth of +7.3% in 2015.

U.S.: The economy continues to improve

The November employment report was strong, with 321,000 job created - substantially above expectations - and upward revisions of 44,000 for the previous two months. Increases were widespread, with manufacturing up for the 16th consecutive month, gaining 28,000 jobs. Average weekly hours, hourly earnings and weekly earnings increased by +0.3% m/m, +0.4% and +0.7%, respectively. The trade deficit improved moderately in October to USD43.4 billion (from USD43.6 billion), with exports up +1.2%, partially reversing September's decline of -1.8%, while imports increased by +0.9%. Petroleum exports fell a sharp -11% on lower crude prices. The NFIB Small Business Optimism survey improved +2.0 points to 98.1, just above the historic average of 98.0. The net percentage of firms expecting the economy to improve in the next six months was the first positive reading in 26 months and the highest in 45 months.

NOTE: WERO is taking a break. The next issue will be 7 January 2015.

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Countries in Focus

Americas

Chile: Weak copper prices weigh on growth

Real GDP growth slowed to +0.8% y/y in Q3 (+1.4% q/q), with investment contracting for the fourth consecutive quarter. To sustain growth, the Central Bank loosened monetary policy (rate cuts of 100bps since June, to 3% in November). However, short-term data suggest that the economic recovery is limited by the copper industry (20% of GDP), which is adversely affected by the fall in copper prices (-5.2% y/y in November) and output (-2.5% y/y in October). The economic activity index (a proxy for GDP) expanded by +1.8% y/y in October, a disappointing rate (+4.4% on average in 2013), while industrial production, industrial sales and business confidence continued to fall. Additionally, inflationary pressures are apparent, with consumer price growth accelerating to 5.4% y/y in October (from 2.8% in January), markedly above the upper limit of the target range (3% +/-1pps). Given this subdued outlook, we forecast real GDP growth of below +2% in 2014.

Europe

Nordics: Fragile economic momentum

In **Denmark,** GDP picked up in Q3 (+0.5% q/q) but the breakdown suggests fragilities: consumer spending fell -0.5% q/q, public consumption increased by only +0.1% and exports fell by -0.2%. GDP growth is expected at +0.8% in 2014 and +1% in 2015. In **Finland,** Q3 GDP increased by +0.2% q/q, with strong private (+0.7%) and public (+0.9%) consumption. Exports fell -0.1%, partly reflecting a weaker Russia. GDP is expected to contract by -0.3% in 2014 and pick-up in 2015 (+0.3%). Q3 GDP increased by +0.3% q/q in **Sweden**, with a rebound in total investment (+1.9%) and increase in public spending (+0.4%). Consumption remained flat. Expect GDP growth of +1.8% in 2014 and +2% in 2015. In **Norway,** Q3 GDP increased by +0.5% q/q, with exports (+2.1%), public spending (+0.6%) and stocks (+0.3pps). Consumption and investment fell by -0.1% and -0.2%, respectively. GDP growth is expected to reach +2.1% in 2014 and to slow to +1.9% in 2015, reflecting lower oil prices.

Africa & Middle East

Saudi Arabia: Change but no change

This week, by royal order, personnel in eight positions on the Council of Ministers (cabinet) were changed. This high rate of turnover is unusual but does not appear to reflect the kingdom's reaction to falling oil prices (the oil and finance ministers retained their positions). It seems to be a response to perceptions of increasing domestic discontent and potential for terrorist activity in the country, particularly from IS-related forces. The royal family wants to keep firm control of the key power bases so it may also reflect a closing of ranks ahead of a change in overall leadership – King Abdullah is 90 years of age and frail. We expect the state budget – always released at the end of the year – to acknowledge the changing dynamics imposed by weakening oil revenues but we do not expect a significant change in policy direction and the kingdom will use its large financial reserves to maintain social spending next year and support GDP growth of around +4% in 2015.

Asia Pacific

Japan: Weak Q3 but a moderate pick up in Q4

Q3 GDP declined by -0.5% q/q (after -1.7% in Q2), compared with an initial estimate of -0.4%. The main negatives came from private inventories, which shaved -0.6pps off headline GDP growth, and private investment (-1.5% q/q). Private consumption recovered and government expenditure remained supportive. In the short term, economic activity is set to recover gradually. Trade figures were encouraging in October (-JPY977 billion, compared with –JPY1067 billion in September) and a pick up in global demand should support exports. Domestic demand is expected to recover progressively. Other data are broadly positive, with rising industrial production (+0.2% m/m in October, after +2.9% in September) but confidence surveys showed some weakness (economic watchers and Tankan). Private consumption remains the most fragile component, reflecting decreasing real wages. EH expects a limited pick up in Q4 bringing overall GDP growth to +0.1% in 2014.

What to watch

- December 11 – Hungary & Romania November CPI
- December 11 – France, Germany & Sweden Nov. CPI
- December 11 – U.S. November retail sales
- December 11 – Ireland Q3 GDP (preliminary)
- December 11 – Italy October industrial production
- December 12 – China November industrial production
- December 12 – Eurozone October ind. production
- December 12 – India November CPI
- December 12 – Spain November CPI
- December 12 – Brazil October retail sales
- December 12 – Mexico October industrial production
- December 12 – Japan October industrial production
- December 15 – U.S. November industrial production
- December 15 – U.S. December housing market index
- December 15 – Colombia October industrial production
- December 16 – U.S. November housing starts and permits
- December 16 – Eurozone December PMI
- December 16 – Germany ZEW survey
- December 17 – U.S. Federal reserve meeting
- December 17 – UK BoE minutes
- December 18 – Germany December IFO business climate