Euler Hermes Economic Research

Weekly Export Risk Outlook

11 February 2015

In the Headlines

FIGURE OF THE WEEK

-5.5%

Russian GDP contraction in 2015 (EH forecast)

Russia: Modest growth in 2014, deep recession inevitable in 2015

A preliminary estimate by RosStat indicates that real GDP increased by +0.6% in 2014, down from +1.3% in 2013. Support for the modest growth came mainly from moderate private consumption (+1.9%) and from net exports (+1pps), although the latter is due to a fall in imports (-6.8%) while exports fell less markedly (-2%). Public consumption edged up by just +0.5% while fixed investment declined by -2.5% and inventories subtracted -1pps from overall growth. No data are provided for Q4 2014 as yet but, given that GDP increased by +0.8% y/y in Q1-Q3 and was flat in q/q terms in each of the first three quarters, it is likely that the economy entered recession at the end of the year. Economic sentiment continued to fall in January, with the manufacturing PMI down to 47.6 (from 48.9 in December 2014) and the service sector PMI down to 43.9 (from 45.8 in December), lows not seen since mid-2009. Euler Hermes expects a deep recession in 2015 (-5.5%) as the impact of the sharp falls in oil prices and the RUB, as well as existing economic sanctions, will take full effect. If the high-level summit between Russia, Ukraine, France and Germany on a new ceasefire in eastern Ukraine, scheduled for today in Minsk, fail and the EU imposes new sanctions against Russia, downside risks to our forecast will increase.

U.S.: Improving labour market

The January employment report was quite strong, with 257,000 jobs created, upward revisions of 86,000 to the previous two months and hourly and weekly earnings both rising +0.5% m/m. More workers returned to the labour force, increasing the participation rate +0.2pps but increasing the rate of unemployment by +0.1pps to 5.7%. Almost all the jobs created were full-time, unlike in Canada, where all the jobs created were part-time. The JOLTS survey for December 2014 also reported labour market strength, with five million job openings and a 3.5% openings rate, both the highest in 14 years. The January ISM non-manufacturing index edged up +0.2 to 56.7, above the 50 level indicating expansion, and the new orders component gained +0.3 to 59.5. Elsewhere, there was some disappointing news as the trade deficit unexpectedly widened in December 2014, to USD46.6 bn from USD39 bn the previous month, driven by a strengthening USD, a sharp +2.2% increase in imports and a -0.8% fall in exports. Productivity fell in Q4 2014 bringing the y/y rate to 0%, and driving up unit labour costs to +1.9% y/y. The NFIB small business optimism survey fell -2.5 to 97.9.

France: A slow awakening?

In December 2014, manufacturing output bounced back, increasing by +1.2% m/m following a disappointing –0.5% in November. The rebound was broad-based, but was particularly evident in the manufacture of coke and refined petroleum products (+3.4%) and transport equipment (+2.9%), probably against a backdrop of lower oil prices. On a quarterly basis, output remained almost stable in the manufacturing sector (+0.1% q/q). All in all, this seems coherent with a weak Q4 2014 GDP. We expect around +0.15%. However, the latest data are disappointing as industrial production is still down -1.3% y/y, with manufacturing (-0.5%) and construction (-3.6%). IP remains around 17% below pre-crisis levels. Trade data also show a slowly improving picture. In 2014, the trade deficit in goods narrowed to -EUR53.8 bn, from -EUR60.8 bn. This narrowing stems from a -EUR10.9 bn reduction in energy imports (-12.7%); excluding energy, the deficit increased by around EUR3 bn. Aeronautics continued to perform well (+2.5%), reaching a new record trade surplus of EUR23.6 bn. Following two negative years, automotive exports finally picked up, increasing by +4.6%. Even so, at -EUR6.9 bn, the deficit remains large.

China: Downward pressures are increasing

Data for January continue to suggest weakening economic activity. The trade surplus was USD60 bn but this was driven by a fall in imports (-19.9% y/y) reflecting lower commodity prices and sluggish domestic demand. Exports were down by -3.3%, dampened by weak demand in Europe, Hong Kong, South Korea and Japan. The latest data add pressure on industrial activity in a context of limited financing conditions, ongoing reduction in overcapacity and downward pressure on prices. With regard to the latter, consumer price inflation decreased to a five-year low in January (0.8% y/y from 1.5% in December 2014) and producer prices declined (-4.3% y/y) for the 34th consecutive month. Interest rate cuts (benchmark and RRR) will help to limit these downward pressures in coming months but further support is likely to be necessary, and delivered. We maintain our growth forecast of +7.3% for 2015 and expect continuation of the carefully-managed refocusing of the economy towards greater domestic consumption-driven expansion.

Countries in Focus

Americas

Mexico: Oil price fall does not prevent strong export performance

International oil prices fell by more than -50% in the past five months and Mexican exports of petroleum products (11% of total exports) contracted by -44% y/y in December 2014. Overall in 2014, such exports fell by -13%. However, this sharp decline was more than completely offset by non-oil exports, which surged by +7.3% on average in 2014, mainly driven by the ongoing economic recovery in the U.S., which absorbs 79% of total Mexican exports. Indeed, exports to the country's northern neighbour increased by +6.5% in 2014. Overall, the value of total exports increased by +4.6%, to around USD400 bn or 36% above the pre-crisis level of 2008. Despite this strong export performance, imports increased by +5% last year, so that a trade deficit continued to be recorded, reaching -USD2.4 bn (double the deficit recorded in 2013). The widening trade deficit therefore results from import dynamism rather than weaker exports because of falling oil prices.

Europe

Poland: GDP growth will remain robust in 2015 after a rebound in 2014

Preliminary estimates show that real GDP growth accelerated to +3.3% in 2014 from +1.7% in 2013. Demand side details are only partly available, as yet, but indicate that growth was driven by a rebound in domestic uses (up by +4.6%) while net exports made a negative contribution. Private consumption increased by +3%, up from +1.3% in 2013, while fixed investment surged by +9.4% (+0.9%). Moreover, an increase in inventories lifted overall investment by +11.6% in 2014. Data for Q4 are not available yet, but the full-year figure suggests that Q4 growth eased slightly, to around +3% y/y from an average +3.4% y/y in Q1-Q3. Euler Hermes expects full year growth of around +3% in 2015 as domestic demand is likely to remain robust, supported by lower energy prices, which will more than offset any limited impact of the sharp appreciation of the CHF against the PLN in January, which raised the debt service cost on CHF-denominated external debt (around EUR35 bn).

Africa & Middle East

Nigeria: High risk

Presidential elections scheduled for 14 February were postponed until 28 March. The official reason is security concerns, given that voter safety could not be guaranteed because the military is currently deployed in a campaign against Boko Haram. Additionally, however, it is estimated that around one third of the electorate has yet to receive a biometric voting card. Attempts to stem the Boko Haram insurgency are now receiving help from Chad and Cameroon but it appears unlikely that security will improve markedly within six weeks. As a result, there are allegations that the postponement is a strategy of the incumbent regime to cling to power against an electoral background in which the vote looks very close. Expect the conflict with Boko Haram to intensify and tribal, ethnic and regional schisms to come to the fore as clashes between supporters of the two main political parties intensify. Against an uncertain background, commercial opportunities are likely to be higher risk.

Asia Pacific

India: Puzzling GDP figures

After recent official revisions, GDP data are now based on 2011-12, rather than 2004-05. Using the new methodology, the statistical office's short-term projections suggests that GDP will increase by +7.4% in FY2014/15 (from +6.9% in FY2013/14). Although China's economy remains several times larger, under this new methodology it would appear that quarterly growth in India is outpacing that of China. Economists are questioning the growth surge following these revisions, which increase last year's expansion to +6.9% from +4.7%, suggesting that India experienced a striking "V shaped" recovery during this time. However, this is not consistent with last year's economic developments, particularly large capital outflows, fiscal consolidation and monetary tightening. This is all the more sensitive as it may have a non-negligible impact on the current monetary policy stance, which has been eased on the assumption that inflation was easing and GDP growth was weak.

What to watch

- February 12 – Eurozone December 2014 IP
- February 12 – Germany & the Netherlands January CPI
- February 12 – UK BoE inflation report
- February 12 – India January CPI
- February 12 – India December 2014 IP
- February 12 – U.S. January retail sales
- February 13 – EU Q4 2014 GDP (preliminary)
- February 13 – UK December 2014 construction output
- February 16 – Eurogroup meeting
- February 17 – Ecofin meeting
- February 17 – U.S. February housing market index
- February 17 – Germany February ZEW survey
- February 17 – UK January inflation
- February 18 – U.S. January housing starts
- February 18 – U.S. January industrial production
- February 18 – UK December 2014 unemployment

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