

FIGURE  
OF THE WEEK

15.4 mn

Votes for  
Nigeria's new  
president-elect  
Muhammadu  
Buhari

## In the Headlines



### Brazil: Economic deterioration hits employment

Real GDP expanded by +0.3% q/q in Q4 2014, bringing growth for the year to +0.1%, after +2.7% in 2013. Public and private consumption decelerated sharply, while investment contracted by -4.3%. Amid sluggish domestic demand, imports declined by -1%. However, this only offset the fall in exports, reflecting persistent competitiveness shortcomings, and net exports did not have an impact on overall growth. Short-term indicators suggest that the economy continued to deteriorate in early 2015, with overall activity (-1.3% y/y), industrial production (-4.7% y/y) and retail sales (-0.1% y/y) all contracting in February. At the same time, inflationary pressures continue to strengthen, recording a 12-year high of +7.7% y/y in February. Consumer confidence reached a new low in March and business confidence fell close to its 2009 record low. Against this background, social tensions are likely to intensify, particularly as the economic deterioration is starting to have an impact on the labour market. Indeed, employment levels have contracted since November 2014 (-1% y/y in February) and unemployment reached 5.9% in February, a three-year high.



### Greece: Roadblock takes longer to clear

Stumbling blocks in negotiations with European officials include perceptions that the government's proposed reform list is not concrete enough and does not address some issues (namely labour laws and the pension system). However, the banking environment is less tight compared with January; deposit outflows slowed to EUR8 bn in February - but remained high. In total, EUR24 bn of domestic deposits and EUR2 bn of government deposits have been taken out of Greek banks since December 2014. The ECB raised the amount banks can borrow through the ELA to EUR71.1 bn from EUR69.8 bn and this could be increased further, in need. A solution allowing disbursement of the remaining EUR7.2 bn from the previous bailout will be needed by mid-May in light of repayments to the IMF (EUR0.45 bn in April and EUR1.4 bn in May). Another bailout extension is increasingly likely (perhaps 4-6 months), taking us to December and allowing more time for negotiations for a new programme (a precautionary credit line, ECCL with maturity of at least 12 months) and accompanied by further debt relief.



### Turkey: GDP growth soft in 2014, to rebound in 2015

Q4 2014 real GDP growth picked up to +2.6% y/y (+1.9% in Q3) and +0.7% q/q (+0.5% in Q3), taking full-year 2014 growth to +2.9% (down from +4.1% in 2013), slightly above the Euler Hermes forecast (+2.8%). External demand was the main growth driver as exports increased by +6.8% while imports declined by -0.2% so that net exports contributed +2pps to full-year 2014 growth. Domestic demand was soft as a result of tighter monetary policy and a weaker TRY in 2014, with private consumption expanding by +1.3% and fixed investment contracting by -1.3%. Public consumption held up well because of election-related spending, rising by +4.6%. In 2015, real GDP growth is forecast to rebound to +4.3% as lower oil prices and monetary easing will result in strengthening domestic demand. However, a downside risk is evident in the current pace of monetary easing, which appears too rapid, leading to exchange rate weakness (TRY down -9% against USD in Q1), and the 2014 slowdown will continue to have some lagged impact on companies, boosting business failures by +17% in 2015.



### France: Consumption a shining star...what about turnover?

In March, household confidence improved by +1pt to 93, with the index up 7pts over the past five months, the fastest rise since October 2013, but starting from a higher level. Unemployment fears receded significantly; the corresponding balance dropped by 13pts in March, thereby reaching its lowest value since May 2012. Furthermore, the "major purchases intentions over the next 12m" sub-component increased above its long-run average of -14. However, households continue to expect prices to trend lower. As such, this "priceless" recovery prevents turnover from rebounding too quickly. In January, it fell in most sectors, including wholesale trade (-0.2%), transport (-0.5%), business services (-0.8%) and manufacturing (-0.9%). Overall, turnover in manufacturing is now -0.8% below end-2011 levels. On a more positive note, the public deficit in 2014 (-4% of GDP) was better than expected, although only slightly improved on -4.1% in 2013. Receipts increased to 53.2% of GDP from 52.9% (+1.6% growth, compared with +1.8% in 2013) whereas outlays increased to 57.2% (57%).

# Countries in Focus

## Americas

### U.S.: Higher confidence, lower spending

A leading index of consumer confidence gained +2.4 in March, to a strong 101.3. The expectations component gained +6.1 but the current situation element of the index fell -3.0, suggesting weak current consumption. Indeed, real personal consumption expenditures (PCE) fell -0.07% m/m in February, despite a pickup of +0.4% in nominal personal income. Over the past three months, real PCE (a key driver of GDP) increased by only +2.7% q/q annualised (+4.4% in Q4 2014). Durable goods orders fell -1.4% in February, the third decline in four months, while orders for non-defence capital goods (excluding aircraft), a proxy for business investment sentiment, fell for the sixth consecutive month, to -7.6% annualised over the past three months. Corporate profits fell -1.4% q/q and -0.2% y/y in Q4 2014. Meanwhile, pending home sales, a leading indicator of existing home sales, increased by +3.1% m/m and +12% y/y in February.



## Europe

### Ukraine: Deep recession will continue in 2015

The recession deepened sharply in Q4 2014 as real GDP fell by -14.8% y/y (-5.4% in Q3) and -3.8% q/q (-2.1% in Q3), taking the full-year 2014 contraction to -6.8% (flat in 2013). The political conflict in east Ukraine and the (at least partially related) intensified balance-of-payments crisis took a heavy toll on all sectors and all components on the demand side. Private consumption contracted by -9.6% in 2014 as a whole, fixed investment by a marked -23%, exports by -14.5% and imports by -22.1%. Public consumption edged up by a modest +0.6%, which led to an increase in the fiscal deficit to around -10% of GDP (-6.7% in 2013). Against a backdrop of the ongoing political crisis, the plunging exchange rate (UAH down -33% against USD since end-2014 and -65% since end-2013) and rapidly rising inflation (34.4% y/y in February), Euler Hermes expects the economic downtrend will continue in 2015 and forecasts a contraction of GDP of around -8%.



## Africa & Middle East

### Middle East & North Africa: Confrontational dynamics

An Arab League summit announced plans to form a joint military force that could be used to intervene in armed insurgencies in regional conflicts. This is a belated unified response to Arab Spring uprisings and was given more immediacy by the military action of a 10-nation coalition (Arab and non-Arab) in **Yemen**. However, it could also be interpreted as a Sunni response to a perceived Shia zone of influence stretching from **Iran** through **Iraq** and **Syria** to **Lebanon** and **Yemen**. While intended to engender greater regional stability, the joint force may exacerbate regional divides and heighten political and security risks. Meanwhile, fragile political transitions in **Egypt** and **Tunisia** and multidimensional conflicts in **Iraq**, **Libya** and **Syria** are ongoing and the P5+1 negotiations with **Iran** are yet to resolve the complex sanctions/nuclear programme trade-off. Overall, there is an intensification of an already challenging regional trading environment, requiring informed and careful commercial decisions.



## Asia Pacific

### Japan: Recovery continues to lag

Industrial production fell -3.4% m/m in February (+3.7% in January) reflecting seasonal effects because of the Chinese New Year and weak recovery in external and domestic demand. A data breakdown indicates that the main influences were general machinery, autos and the electronic sectors, while output increased in the petroleum and coal sectors. Meanwhile, exports fell sharply (-7% m/m) in February (+2% in January). Business sentiment remains subdued, with the Tankan survey's Overall Diffusion Index +7 in March from +6 in December 2014 (and expected to drop to +5 in June), while the Manufacturing Diffusion Index remained flat at +5 (and is expected to fall to +3 in June). Going forward, the recovery is expected to be at a moderate pace, supported by further macro-stimulus (additional to the current JPY3.1 tn fiscal package) and improvement in external demand, particularly from advanced economies. Accordingly, GDP will increase by +1% in 2015 (from -0.1% in 2014).



## What to watch

- April 02 – U.S. February international trade
- April 03 – U.S. March jobs report
- April 03 – Turkey March inflation
- April 03 – Russia March composite PMI
- April 05 – Egypt, Saudi Arabia & U.A.E. March PMI
- April 06 – Kenya & Uganda Q4 2014 GDP
- April 06 – Russia & Ukraine March inflation
- April 06 – U.S. March ISM non-manufacturing PMI
- April 06 – Chile & Peru Feb economic activity index
- April 07 – EZ & UK March composite & services PMI
- April 07 – Romania Q4 2014 GDP
- April 07 – South Africa March PMI
- April 07 – Eurozone March retail PMI
- April 08 – Hungary & Turkey February IP
- April 08 – Germany March construction PMI
- April 08 – Japan February current account
- April 08 – Germany February factory orders
- April 08 – Brazil & Chile March CPI

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