

FIGURE
OF THE WEEK

54.1

Eurozone
March
composite PMI.
Highest since
May 2011



Eurozone: Positive start to the year

The **Eurozone** PMIs for March revealed a brighter outlook than expected. The quarterly average of the composite PMI was the highest since Q2 2014 as it reached levels unrecorded since May 2011 (54.1 in March) reflecting improvements in both services and manufacturing PMIs. For the latter, the new orders component showed significant improvement, with new orders for goods at an eight-month peak and employment growth picked up to the fastest since August 2011. These latest PMIs are in line with our forecast of +0.3% q/q GDP growth for the region in Q1. **Germany** was a major contributor to the overall improvement, with the services PMI at a six-month high of 55.3 and manufacturing PMI at an eight-month high of 52.4. All in all, the survey suggests +0.4% q/q GDP growth in Q1, in line with our expectations. However, in **France**, the composite PMI dropped to a two-month low but stayed in expansionary territory (at 51.7). In the **rest of the region**, business activity increased at the fastest rate since last July, with new order growth accelerating at the most rapid rate since July 2007. EH expects the Eurozone's outlook will strengthen over the year, resulting in GDP growth of +1.3% in 2015.



U.S.: Fed and housing on hold

As expected, the Fed dropped the word "patient" from its recent policy statement but pushed expectations of an increase in interest rates further out, probably to September, at the earliest. The Fed lowered its forecasts for GDP growth and inflation and made a critical change in wording, with "growth has moderated somewhat" compared with the previous "growth has been expanding at a solid pace..." The Fed also moved its forecast for the Fed Funds rate at year end down to 0.625% from 1.125%. Meanwhile, housing market data have been mixed. New home sales increased +7.8% m/m in February - the highest level in seven years - but sales of existing single family homes edged up only +1.4%, to a still modest level. Prices of new homes fell -4.8% (the third consecutive contraction), but prices for existing homes gained +2.8%. Supply of new homes fell to 4.7 from 5.1 months. After three consecutive months of decline, consumer price inflation finally gained +0.2% m/m in February as gasoline prices increased, putting the y/y rate at -0.1% (the core rate increased +0.1pps to 1.7% y/y).



UK: Inflation outlook suggests record-low rates until H1 2016

Inflation continued to moderate in February, reflecting declining prices for energy, food, transportation, household equipment and recreation. It reached a record low of 0% y/y from 0.3% in January, below expectations. Furthermore, core inflation (excluding energy, food, alcohol and tobacco prices) moderated to 1.2% y/y (1.4% in January). However, prices for clothing and rents accelerated. We expect inflation will remain far below the BoE 2% target, at 0.3% and 1.2% on average in 2015 and 2016, respectively, postponing the start of a monetary tightening cycle to late Q1 2016, with drift into Q2 an increased risk. Given the downside price pressures, growth in company turnover is expected to slow to +2% in 2015 (+3% expected in 2016, similar to 2014). Lower oil prices are expected to feed into slightly higher corporate margins by year-end (+0.4pps, to 32% of value added) and should support real disposable income. The labour market recovery will continue to boost private consumption, which is expected to be the main driver of GDP growth of +2.5% in 2015 and +2.2% in 2016.



Nigeria: Headwinds for the largest African economy?

Presidential and legislative elections are scheduled for 28 March, after being postponed by six weeks because of security concerns relating to the activities of Boko Haram, particularly in the north east. Recent military advances, partly with regional assistance, have checked (but not defeated) that militant Islamist movement. The presidential election is a contest between the incumbent President Goodluck Jonathan (from the south) and Muhammadu Buhari (a former president and from the Moslem north) and therefore has some regional and religious overtones. The poll outcome is a close call. In terms of policy direction, Euler Hermes does not expect a significant change following the elections but much depends on the conduct of the polls and the political and social aftermath. If the polls are relatively peaceful and the results generally acceptable to political leaders and the population at large then we expect GDP growth - constrained by current weakness in oil markets but supported by robust non-oil developments - of +4.5% in 2015 and +6% in 2016, with strong upside as well as downside risks.

Countries in Focus

Americas



Chile: GDP growth in 2014 at five-year low

GDP increased by only +1.9% in 2014, a five-year low, despite a rebound in Q4 (+0.9% q/q after +0.4% in Q3). Domestic demand remained weak in 2014, with private consumption growth down to +2.2% (+5.9% in 2013) while investment contracted markedly, by -6%, shaving growth by -1.6pps. Net exports contributed positively in 2014 but that reflected a -7% contraction in imports as exports broadly stagnated. The slowdown in China (main export market), still sluggish demand in developed markets (albeit recovering in the U.S.) and weakness in Latin America (notably Brazil and Argentina) weighed significantly on export volumes. Additionally, ongoing weakness in copper prices (-20% y/y in February) negatively affects export receipts (mining accounts for over 50% of total exports and 20% of GDP). Against this background, the Central Bank cut its key interest rate to 3% in October 2014 but further cuts are constrained by the recent strong CLP depreciation (around 10% against the USD since October 2014).

Europe



Germany: Sentiment continues to improve

The Ifo Business Climate Index for March (released today) climbed for the fifth consecutive month, to 107.9 (from 106.8 in February) with both the current (to 112.0 from 111.3) and expectations components (to 103.9 from 102.5) rising markedly. Moreover, the March Composite Output PMI (also released this week) increased to 55.3 (from 53.8 in February) as a result of increases in the Manufacturing Output Index (to 52.4 from 51.1) and the Services Activity Index (to 55.3 from 54.7). This is consistent with the earlier released improvements in March of the ZEW Economic Sentiment Expectations Index to 54.8 (from 53.0 in February) and the GfK Consumer Climate Indicator to a preliminary 9.7 points (up from 9.3). All in all, these surveys indicate a solid rebound from the low in economic sentiment in October/November 2014 and are in line with Euler Hermes' forecast of +1.7% real GDP growth in 2015 (after +1.6% in 2014) that will be driven by private consumption (+1.9%).

Africa & Middle East



Yemen: Multi-layered instability concerns

Reports of descent towards outright civil war serve to emphasise a protracted, fragile and faltering political transition. Large areas of the country have been under tribal control for many years, a local franchise of al-Qaida (AQAP) operates in the country, there is a separatist movement in the south and a Houthi rebellion in the north spread southwards and that movement now controls Sana'a, the capital. In addition, there is uncertainty as to the intentions of former president Ali Abdullah Saleh, still a key influencer. Concerns relating to Yemen's statehood are accompanied by risks that lack of a strong central authority will provide scope for heightened regional terrorism, including IS activity. Moreover, Saudi Arabia, with a long and porous border, is wary of instability to the south, particularly as the Houthi movement is a Shia offshoot, perhaps with Iranian support. Yemen is strategically important, with direct access to the Gulf of Aden and therefore to Suez Canal traffic.

Asia Pacific



China & Japan: Need for further policy action?

The flash March HSBC/Markit Manufacturing PMI for **China** shows the sharpest slowdown in activity in 11 months, falling to 49.2 (50.7 in February). A breakdown of the data suggests a slowdown in output and a fall in new orders, both domestically and in the export sector. Negative pressures are ongoing for both output and input prices, suggesting most businesses prefer passing on savings (bolstered by the fall in oil prices) in an attempt to retain market share, in lieu of increased margins. For **Japan**, the latest PMI survey also indicates a weakening in domestic activity, with the manufacturing PMI decreasing to a 10-month low (50.4 from 51.6 in February). Similarly to China, the survey highlights ongoing pressures on the demand side, with weaker export orders and negative price pressures. Going forward, we expect further macro-stimulus from the authorities with low inflation allowing additional monetary easing. EH forecasts GDP growth in 2015 of +7.1% in China and +1% in Japan.



What to watch

- March 26 – Brazil February unemployment
- March 26 – France Q4 2014 GDP (final)
- March 26 – Japan February retail sales
- March 26 – UK February retail sales
- March 26 – South Africa interest rate decision
- March 27 – Italy January retail sales
- March 27 – Brazil Q4 2014 GDP
- March 27 – U.S. Q4 2014 GDP (3rd estimate)
- March 30 – U.S. Feb. personal income & outlays
- March 30 – Eurozone March inflation (preliminary)
- March 30 – Eurostat March confidence indicators
- March 31 – U.S. Jan. Case-Shiller home price index
- March 31 – U.S. March consumer confidence
- March 31 – Turkey Q4 2014 GDP
- March 31 – Framework for Iran nuclear deal
- April 01 – EU-27 March PMIs

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