Euler Hermes Economic Research

Weekly Export Risk Outlook

13 May 2015

FIGURE OF THE WEEK

+0.4%

Eurozone Q1 q/q GDP growth

In the Headlines

Eurozone: Finally getting there?

The first concrete positive signals from the ECB QE programme are visible, with Q1 GDP up by +0.4% q/q, in line with expectations, after +0.3% in Q4 2014. **France** (+0.6% q/q; see below) and **Spain** (+0.9%) account for half this recovery. In Spain, exports remained the bright spot in the wake of competitiveness gains and EUR depreciation. In **Germany**, Q1 GDP growth came in slightly lower than expected at +0.3% q/q, dragged down by net exports as imports increased more rapidly than exports as domestic demand broadly supported growth. **Italy** is out of recession, with GDP expanding by +0.3% q/q, above expectations. Consumer and business confidence entered a positive trend from the start of the year, but domestic demand remains moderate. By contrast, exports benefit from the lower EUR and are likely to remain the main driver of GDP growth in 2015. Elsewhere, GDP continued to expand moderately in **Portugal** (+0.4% q/q), **Belgium** (+0.3%) and **The Netherlands** (+0.4%). Less optimistically, GDP continued to contract in **Finland** (-0.1 q/q) largely reflecting the direct impact from Russia's recession, and **Greece** (-0.2%) given the prevailing high uncertainties and tight financing for companies since the start of the year. Overall, **Eurozone** GDP growth should reach +1.3% in 2015.

France: Finally reaching escape velocity?

Real GDP surprisingly increased by +0.6% q/q in Q1. As expected, private consumption was the main driver of this rebound (+0.8%). Expenditure on energy recovered sharply after soft weather conditions in Q4, but consumption of manufactured goods also accelerated (+1.4% after +0.5%). Investment again declined (-0.2%) but corporate investment increased slightly (+0.1%) and, more surprisingly, public investment was up (+0.3%) for the first time since Q2 2013. However, residential investment remains weak, falling -1.4% (the seventh consecutive quarterly decline). Exports slowed (+0.9% after +2.5%), especially of manufactured goods, primarily because of the marked slowdown in transport equipment (–0.9% after +11.1%), while imports accelerated (+2.3%), mainly energy and transport equipment. Changes in inventories contributed +0.5pps to GDP growth, following -0.3pps. Here again, transport equipment contributed +0.4 points to overall GDP. Some of these movements probably reflect variations in output of the aeronautics sector. All in all, we revised our growth forecasts for 2015 and 2016, to +1.2% and +1.5%, respectively.

U.S.: Labour market continues to firm

Non-farm payrolls increased by a strong +223,000 in April, as expected, although the March outcome was revised down to a tepid +85,000. The construction sector added +45,000 jobs in April after losing -9,000 in March, most likely as a result of weather effects. Unemployment in April remained 5.4% and hourly earnings increased moderately, up +0.1% m/m and +2.2% y/y, just above inflation. A separate report shows that hirings increased +1.1% m/m in March and the rate of jobs opening remained high historically, at +3.4%. In addition, the National Federation of Independent Business survey reported that 27% of businesses had at least one job opening that was hard to fill, again historically high. It also showed small business optimism gaining +1.7 points to a modest 96.9. Unfortunately, weakness in Q1 drove productivity down -1.9% q/q annualised and pushed unit labour costs up +5%. EH expects the weather effects from Q1 will dissipate, as demonstrated by the improvement in the more recent labour market indicators, and that the remainder of the year will show a strong improvement in growth.

Saudi Arabia: Opening times?

The Capital Market Authority (CMA) detailed new regulations governing ownership of shares listed on the Tadawul stock market (capitalisation of around USD576 bn and up +17% this year, despite low oil prices). From mid-June and for the first time, foreigners will be able to own shares directly, albeit through institutional investors of a minimum size and longevity. Moreover, investors are required to gain recognition as Qualified Foreign Investors under CMA rules and the new regulations place limits on the proportion of a single company (maximum 49%) and of the overall market (<10%) that can be foreign owned. Some sectors (including oil, media and real estate in the holy cities of Makkah and Madinah) will remain off limits to foreign ownership. With a new generation of political leadership beginning to shape policy, further reforms are likely, but expect a relatively conservative approach to their adoption.

Countries in Focus

Americas

Chile: Will the reshuffle reinvigorate?

The economic activity index contracted by -0.3% m/m in March, bringing Q1 to a close with only modest preliminary growth of +0.9% q/q and +1.9% y/y. Although the service sector performed strongly, manufacturing and mining outputs continued to decline. The weak outcome in March brings the count to 14 consecutive months of sluggish economic growth. Against this backdrop of economic under-performance and the ongoing differences with the business community, a cabinet reshuffle was implemented in May. This was the country's most profound government reshuffle since the return to democracy 25 years ago. President Bachelet demanded the resignation of every minister, shifting some into new roles but sacking others. The changes are considered to be an attempt to address a series of corruption scandals and improve on record low approval ratings. The reshuffle will position the previously centre-left coalition government more towards the centre of the political spectrum.

Europe

Romania: Another interest rate cut, perhaps the last for now

Last week, the National Bank of Romania (NBR) lowered its key policy interest rate by 25bps to 1.75%, the 13th rate cut since July 2013. It also lowered its lending facility rate by 50bps to 3.25% and cut the minimum reserve requirements ratio on RON-denominated liabilities of banks to 8% from 10%, pursuing adequate liquidity management. Headline inflation eased slightly to 0.7% y/y in April (from 0.8% in March) and has been below the NBR's 2.5%±1pps target range since early 2014, mainly due to declining food prices. Taking into account the lowering in the VAT rate to 9% from 24% for foodstuffs on 1 June 2015, the NBR expects inflation will re-enter its target range only in late 2016. A flash estimate shows real GDP growth accelerated to +4.3% y/y and +1.6% q/q in Q1 (from +2.7% y/y and +1% q/q in Q4 2014), with retail sales data indicating that consumer spending was a key driver. Euler Hermes expects full-year GDP growth of +3% in 2015 and the monetary easing cycle to end soon.

Africa & Middle East

South Africa: DA gets a makeover

It is too early to suggest that the election of Mmusi Maimane as leader of the Democratic Alliance (DA) party is a defining moment in the country's recent political evolution. However, with incumbency weighing on the popularity of the ANC, the DA, which is the main opposition party and secured more than 22% of the vote in elections in 2014, may become more of a challenge to the ANC's hold on power. However, the ANC has an effective and efficient party machinery and its leadership at all levels of governance has vested interests in maintaining control, so the DA has much ground to make up. Moreover, the rise of the Economic Freedom Fighters (6% of the last vote) dilutes electoral opposition to the ANC. Next year's local elections will test the relative party strengths. If the DA can gain support, a broadening of the country's democracy is to be welcomed and positive political developments can heighten investor interest and provide an enabling environment for commercial opportunities.

Asia Pacific

China: Another rate cut to counter the slowdown

Recent disappointing data suggest a further slowdown in Q2. Exports decreased (-6.4% y/y in April) with a contraction in almost all markets, imports fell sharply (-16.2% y/y) and domestic activity remains weak. Retail sales growth slowed to +10% y/y in April (from +10.2% in March) and urban total fixed asset investment growth fell to +12% y/y year-to date (+13.5% in March). Industrial production improved but the acceleration (+5.9% y/y from +5.6% y/y) was very marginal. Downward price pressures remain evident, with PPI in April declining for the 38th consecutive month (-4.6% y/y) suggesting ongoing overcapacity in addition to weak commodity prices. Meanwhile, the Central Bank unveiled new easing measures by cutting its one-year benchmark lending rate by -25bps to 5.1% (the third reduction since November 2014). We expect the Central Bank will ease monetary policy further in Q2 in the form of a policy rate cut (-25bps) and a cut in the Reserve Requirement Ratio (-50bps).

What to watch

- May 14 – South Africa March mining production
- May 14 – Poland April CPI
- May 14 – U.S. April producer prices
- May 15 – U.S. April industrial production
- May 15 – Czech Rep & Poland Q1 GDP flash est.
- May 15 – Russia & Ukraine Q1 GDP flash estimate
- May 17 – Israel Q1 GDP
- May 18 – Ukraine April industrial production
- May 19 – South Africa Q1 unemployment
- May 19 – U.S. April housing starts and permits
- May 20 – Turkey monetary policy meeting
- May 20 – Russia April industrial production

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