Euler Hermes Economic Research

Weekly Export Risk Outlook

10 June 2015

FIGURE OF THE WEEK

-24.1%

China's y/y decline in imports from the EU in May

In the Headlines

Turkey: Surprise election result and modest Q1 growth

The ruling AKP won the legislative election last Sunday (41%, 258 out of 550 seats) but it lost its parliamentary majority for the first time since 2002 as three other parties passed the 10% threshold: the main opposition CHP (25%, 132 seats), the nationalist MHP (16%, 80 seats) and the pro-Kurdish HDP (13%, 80 seats). The outcome deals a blow to President Erdogan who had been seeking a two-thirds majority for the AKP to turn Turkey into a presidential republic. There are three possibilities now: (i) a minority government; (ii) a coalition government (with AKP/MHP the most likely option); and (iii) early elections if no government is formed within 45 days. Markets reacted negatively at the increased political uncertainty (the TRY lost -4% against the USD on Monday) and are likely to remain volatile in the coming weeks. A weakening economy may have contributed to the AKP's loss of 9pps of the vote since the last general election in 2011. Real GDP growth slowed to +2.3% y/y in Q1, down from +2.6% y/y in Q4 2014 and +2.9% in 2014 as a whole. Domestic demand held up well but exports fell by -0.3% y/y, despite a weakened TRY in 2015. Euler Hermes forecasts full-year growth of around +3% in 2015.

China: Q2 GDP growth will be below +7%

Trade figures continue to signal relatively weak activity. In May, exports in USD terms fell (-2.5% y/y) for the third consecutive month. Exports to the EU fell (-6.9% y/y), to ASEAN stabilised (-0.1%) and to the U.S increased (+7.8%). Imports contracted for the seventh consecutive month (-17.6% y/y), with a sharp decrease in imports from the EU (-24.1%). After a small improvement in April, consumer price inflation slowed in May (+1.2% y/y from +1.5% in April) and producer prices remained in negative territory (-4.6%) for the 39th month. Going forward, business surveys are mixed, with the official manufacturing PMI showing an improvement in activity (50.2) but the HSBC/Markit manufacturing review indicating contraction (49.2). We expect the government will continue with pro-growth measures to improve stability. The policy interest rate has been cut by -50bps since January, public expenditure increased by +13.8% y/y in the first four months and specific measures adopted to boost domestic consumption. We expect GDP growth will be below target in Q2 but will stabilise at +7% by Q4.

Nordics: Finland continues to be the outsider

GDP continued to contract in **Finland** in Q1 (-0.1% q/q), for the third consecutive quarter. Exports were the main drag (-1.1%, the largest fall since 2013) as a consequence of the recession in Russia, while imports rebounded strongly (+2.4%). Net exports contributed -1.4pps to growth. Private consumption returned to positive territory (+1% q/q). We expect GDP will contract by -0.3% in 2015. In **Denmark**, GDP continued to expand at a weak pace (+0.4% q/q), with private consumption (+0.7%), public consumption (+0.6%) and net exports (+0.9pps). We expect GDP growth of +1.4% in 2015. In **Norway,** GDP growth was +0.2% q/q but investment continued to contract (-0.3%) as did exports (-3.8%) reflecting prevailing low oil prices. Private consumption increased by +0.6% q/q. However, stocks contributed +2.3pps to GDP growth. Overall, GDP growth will slow to +1.6% in 2015. In **Sweden**, GDP expanded by +0.4% q/q in Q1, with consumer and public spending both up by +0.1%, investment by +1.3% and with a positive contribution from net exports (+0.3pps). GDP will expand by +2.1% in 2015.

U.S.: Indications of expansion

Job creation in May (+280,000) was much stronger than expectations (+220,000) and the previous two months were revised up +32,000. The rate of unemployment increased by +0.1pps to 5.5% but this reflected more people entering the labour force. Hourly earnings increased by +0.3% m/m (+2.3% y/y), the highest since September 2009. Similar strength is also indicated in the JOLTS survey, with a job openings rate of 3.7%, the second highest since 2000, and the total number of job openings, 5.4 million, is a record high. Meanwhile, the NFIB's Small Business Optimism survey improved to 98.3 in May (96.9 in April), the April trade deficit contracted sharply to -USD40.9 bn from -USD50.6 bn as imports fell -3.3%, a result of clearing the backlog at West Coast ports in March, and revolving consumer credit posted the largest two-month gain in seven years in April, strongly suggesting a pickup in consumption. The ISM non-manufacturing index slipped -2.1 but remained solidly in expansionary territory at 55.7. Such data support EH's expectation of a rebound and GDP growth of +2.5% in 2015.

Countries in Focus

Americas

Mexico: Structural reforms to continue

The preliminary results of the mid-term elections held last Sunday suggest that President Enrique Pena Nieto won a congressional majority. The president's Institutional Revolutionary Party (PRI) received around 40% of the votes cast. With Mexico's mixed system of direct and proportional elections, the PRI should control from 245 to 263 of the 500 Congressional seats, enabling the president to resume his reform agenda and, in particular, to continue with fiscal consolidation policies implemented to offset weaker oil revenues. Meanwhile, the economic environment remains subdued, with real GDP growth slowing to +0.4% q/q in Q1 (after +0.7% in Q4 2014). The services and agricultural sectors contributed positively to overall growth (+0.5% q/q and +3% q/q, respectively) but the industrial sector, which accounts for 30% of total GDP, contracted by -0.2%. Relatively weaker oil prices and disappointing Q1 growth in the U.S. have also weighed against stronger activity levels.

Europe

Austria: Lacklustre Q1 GDP growth

Q1 real GDP edged up by +0.1% q/q, after stagnating in the two preceding quarters. Modest expansion in private consumption (+0.1% q/q) and public spending (+0.3% q/q), both unchanged from Q4 2014, were partly offset by contraction in fixed investment (-0.4% q/q) although that decline eased from -1% q/q in Q4. External trade activity picked up, with exports increasing by +0.8% q/q (+0.6% in Q4) and imports by +0.9% q/q (flat in Q4 2014), resulting in a neutral impact of net trade on Q1 GDP growth. Advanced indicators for Q2 suggest economic activity will remain subdued in the near term. Eurostat's Economic Sentiment Indicator for Austria, which was broadly in line with the Eurozone average from 2008-13, has sharply deteriorated since early 2014 and remains at a low level. Moreover, loans to NFCs have declined since December 2014, suggesting that investment is likely to contract in 2015. Euler Hermes forecasts modest growth of +0.7% for 2015 as a whole (+0.4% in 2014).

Africa & Middle East

Kenya: Policy tightening

The central bank increased the key policy interest rate by +150bps to 10%, the highest since December 2012. The meeting of the Monetary Policy Committee was brought forward by a month, so a hike had been expected, although not by such a magnitude. The strength of the monetary tightening results partially from inflation, which remains elevated at close to the upper range of the official target range of +/-2.5% of 5% (6.9% y/y in May, albeit down from 7.1% in April) and because broad money growth is above target. The tightening is probably also an attempt to stem weakening pressures on the KES. However, a wide current account deficit of around -10% of GDP and continuing requirements for imports of capital goods suggest that the KES depreciation will slow rather than abate. EH expects GDP growth of +6% in 2015 and +6.5% in 2016 and commercial prospects are likely to be particularly favourable in infrastructure-related projects (including railway construction work).

Asia Pacific

Japan: Noise or signal?

GDP growth in Q1 was revised markedly, to +1% q/q (+3.9% annualised) compared with a previous estimate of +0.6%. Other indicators also suggest a more optimistic outlook for the economy: private machinery orders increased by +3.8% m/m in April (+2.9% in March); monthly wages paid to workers in April increased in real terms for the first time in two years (+0.1% y/y); and industry confidence is recovering, with the manufacturing PMI up to 50.9 in May. However, downside risks remain as the positive wage growth is marginal and not necessarily indicative of real self-sustaining growth. Moreover, GDP expansion in Q1 benefited significantly from an increase in inventories (+0.6pps contribution), so much depends on the strength and depth of domestic demand. Against this background, we expect higher investment growth and strengthening domestic demand will result in 2015 GDP growth of +1.2%.

What to watch

- June 11 – U.S. May retail sales
- June 11 – China May retail sales & IP
- June 11 – France May CPI
- June 11 – Russia April foreign trade
- June 11 – Turkey April current account
- June 11 – Mexico April industrial production
- June 12 – Eurozone April industrial production
- June 12 – India April industrial production
- June 12 – Colombia Q1 GDP
- June 12 – Spain May inflation
- June 15 – Italy May inflation
- June 15 – U.S. May industrial production
- June 15 – Russia monetary policy meeting
- June 15 – Panama Q1 GDP
- June 15 – Ireland Q1 GDP (1st estimate)
- June 16 – Russia May industrial production
- June 16 – U.S. May housing starts and permits
- June 16 – Germany June ZEW survey
- June 16 – Israel Q1 GDP
- June 16 – Brazil April retail sales
- June 16 – UK May inflation
- June 17 – U.S. Federal Reserve meeting
- June 17 – Brazil April economic activity