Euler Hermes Economic Research

Weekly Export Risk Outlook

11 December 2013

FIGURE OF THE WEEK

+4.4%

Turkey's y/y Q3 GDP growth

In the headlines

US & Canada: Mixed employment reports

The November jobs report in the **US** exceeded expectations, with a gain of 203,000, including 27,000 in manufacturing, the fourth consecutive increase and the largest in 21 months. Combined with October's 200,000 gain, the labour market is showing enough signs of improvement that the Fed may start tapering quantitative easing next week, although it seems more likely to happen in early 2014. Q3 GDP was much weaker than the headline +3.6% q/q annualised suggests, as almost half of it was driven by the largest inventory build in 15 years, boding poorly for Q4 GDP. Consumption was a mere +1.4% and real disposable personal income fell -0.2% in November. The ISM non-manufacturing index slipped in November but still indicates expansion (53.9), while the new orders component remains strong (56.4). Meanwhile, in **Canada**, a stronger than expected 21,600 jobs were created in November, with 24,900 in manufacturing, the largest increase in 18 months. However, there is a structural weakness in the labour market as 20,000 additional jobs are part time. Year-to-date, 46% of all jobs created are classified as part-time, compared with only 1% last year. Meanwhile, while wage growth picked up, overall inflation was only 0.7% y/y in October, causing the Bank of Canada to announce concern about downside risks to inflation, signalling the possibility of monetary easing and driving the CAD down. The CAD has fallen 4.9% against the USD in the past twelve months and, in October, helped create the first trade surplus in 22 months.

Eurozone: Tough times ahead for the banking union

The latest Ecofin meeting failed to deliver unanimity on the two remaining pillars of the banking union: the Single Resolution Mechanism (SRM) and the common deposit guarantee. The Ecofin and the European Council will meet next week with the aim of finding agreement by year-end so that due processes can be completed ahead of elections in May 2014. The remaining issues concern the governance of the SRM (given to the national authorities under the proposed directive after consultation with the Commission and the Ecofin), including setting up a common resolution fund that will be used in the case of bank failure. The resolution measures used before using the common fund will be: (i) sale of part of a business; (ii) temporary transfer of 'good' assets to a public entity; (iii) transfer of 'bad' assets to an asset management vehicle and (iv) bail-in measures - losses imposed to shareholders, unsecured/non-preferred creditors and depositors from large corporations. The aim is to give more protection to individual and SME depositors and to avoid bailout from the States. Under the current Ecofin proposal, the European Parliament considers an inter-governmental approach will weaken its democratic-control rights while Germany continues to oppose a centrally-controlled bank-resolution fund under the Commission. No meaningful details were given about the Common Deposit Guarantee Scheme.

Turkey: Q3 GDP growth surprises on the upside

Q3 real GDP growth eased to +0.9% q/q (+2% in Q2) but remained robust at +4.4% in y/y terms (+4.5% in Q2), as domestic demand remained sound but external demand was weak, defying the impact of capital outflows, currency depreciation and monetary tightening. Moderation in the expansion of private consumption and public consumption, to +4.8% and +0. 6% y/y (down from +6.5% and +7.8% in Q2), respectively, compensated for a pick-up in fixed investment growth to +6% y/y (+4% in Q2) and a shift to a positive contribution from inventories. Exports contracted by -2.2% y/y in Q3 (+0.1% in Q2) while imports increased by +6% y/y (12.1% in Q2), so that net exports made a large negative contribution to Q3 growth. Monthly current account deficits have been reduced since August, but the cumulative deficit in January-October reached USD52 billion, a +31% y/y increase. For 2013 as a whole, EH revises its full year growth forecast to +4% and expects a current account deficit of 7.5% of GDP.

Eurozone: Need for alternative funding sources for corporates

Credit to non-financial corporations stabilised recently, albeit at low levels (EUR4,427 billion in October, EUR450 billion down on the pre-crisis peak) but there remains divergence among the major countries. Belgium and the Netherlands continue to show resilience, while southern countries continue to experience a credit crunch mainly because of difficulties in accessing credit: Spain (-19.3% y/y), Portugal (-6.6%) and Italy (-5.7%). The situation in France and Germany is different, with credit contracting (-1.6% y/y and -1.5%, respectively) mainly because of demand issues and firms' reluctance to invest. Several options to support a credit recovery include: (i) a new ECB VLTRO similar to the BoE's Funding for Lending Scheme; (ii) creation of structures able to help corporates finance more on the bond markets; (iii) enhancement of credit insurance direct financing of corporates and (iv) strengthening of the securitisation of existing and new corporate loans. An agreement on the proposed EIB-European Commission joint instruments for SMEs is expected by year-end.

Countries in Focus

Americas

Chile: Slightly weaker prospects for 2014

Last week, the central bank released the minutes of the Monetary Policy meeting held on 19 November at which it was decided to cut the key policy interest rate by 25bps to 4.5%. Monetary policy is now expansionary and this latest decision was driven by weakening inflationary pressures and slowing GDP growth. Indeed, Q3 GDP growth contracted by -0.4% q/q, driven by a fall in all sectors except mining. On the expenditure side, the contraction extended to all components and, in particular, to a sharp depletion in inventories. Advanced indicators for Q4 show no sign of improvement, as economic activity in October decreased by -0.1% m/m (after -0.8% in September). Reflecting recent data releases, the central bank revised downwards its 2014 forecasts and now expects GDP growth in 2014 to fall within a range of +3.75% to +4.75%, compared with a September forecast of +4% to +5%. For 2013, the central bank expects economic growth to register +4.2% (after +5.5% in 2012), broadly in line with EH forecasts (+4.3%).

Europe

Slovenia: Pace of GDP contraction is moderating

Q3 real GDP fell by -0.6% y/y (-1.5% in Q2), marking the eighth consecutive quarter of decline, and was flat in q/q terms (-0.1% in Q2). External demand made a positive contribution of +1.9pps to Q3 growth as exports increased by +4.9% y/y (+2.2% in Q2) and imports by +2.6% (-0.3%). Domestic demand remained weak, with private consumption falling by -3% y/y (-2.4% in Q2), public consumption -3.4% (-2.8%) and fixed investment -4.4% (-2.9%). However, inventories made a turnaround, adding +0.6pps to Q3 growth, after seven quarters of subtraction, thereby being the main reason for the improvement. At the Eurogroup meeting on 9 December, Slovenia provided reassurances that it will be able to recapitalise its ailing banking sector without an international bailout as the government set aside EUR4.7 billion for that purpose. The result of bank stress tests to be released at the end of this week will show if this is enough.

Africa & Middle East

Central African Republic: Military intervention

Last week, France increased its military deployment in the capital, Bangui, in an attempt to improve security, following armed conflict between ex-Séléka members (a loose alliance of rebels that overran much of the country in January) and loyalists of former president François Bozizé (ousted in March). The UN and AU support France's involvement to prevent a widespread sectarian massacre and the collapse of the transitional government under Michel Djotodia, who distanced himself from Séléka and thereby lost its support. The landlocked country has a history of coups and rebellions and its economic development—natural resources include timber, gold, uranium and diamonds—has yet to meet potential. In addition to the domestic economic and humanitarian concerns there is a wider security risk as CAR's central position (borders include Chad, the two Congos and both Sudans) make it pivotal for potential regional flows of terrorists, drug traffic and criminal gangs.

Asia Pacific

China & India: It's the economy in China, but politics in India

In **China**, annual headline inflation slowed to 3% y/y in November, down from 3.2% in October. Inflation for the first 11 months of the year came in at 2.6%, which is markedly below the government's full-year target of 3.5%. This positive data eased market fears of an imminent policy tightening. Meanwhile, in November, the trade surplus reached its highest level since January 2009, widening to USD33.8 billion as a result of export growth of 12.7% y/y (USD202.2 billion), compared with +5.4% for imports (USD168.2 billion). In **India**, the centre-left Congress party's main political opponent (BJP) was the clear winner in state elections held on 4 December, underlining widespread concerns relating to perceptions of corruption in government at all levels and to high inflation. EH expects the Congress party, which has ruled (sometimes in coalition with other parties) for most of the 66 years since independence, to struggle to regain a majority in national elections scheduled for May 2014.

What to watch

- December 12 – India October IP
- December 12 – US November retail sales
- December 13 – Brazil October GDP proxy
- December 13 – Japan October IP
- December 15 – Turkmenistan parliamentary elections
- December 15 – Chile presidential elections (2nd round)
- December 16 – Eurozone December PMI (preliminary)
- December 17 – Ireland Q3 GDP (first estimate)
- December 17-18 – Eurogroup/Ecofin meetings
- December 18 – US Fed monetary policy announcement
- December 18 – Germany December IFO business survey
- December 18 – UK October unemployment
- December 19-20 – European summit

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