

Weekly Export Risk Outlook

15 January 2014

FIGURE
OF THE WEEK

+0.4%

Germany's 2013
GDP growth (first
estimate)

In the headlines



Germany: Moderate growth and near-balanced budget in 2013

First official estimates indicate that real GDP increased by +0.4% in price-adjusted terms in 2013, following +0.7% in 2012 and +3.3% in 2011. Domestic demand was the growth driver in 2013, contributing +0.7pps, in contrast to 2012 (-0.3pps). Private consumption expanded by +0.9% and government consumption by +1.1%. Fixed investment continued to contract, by -0.8%, with machinery and equipment down by -2.2% and construction by -0.3%. External demand provided a negative contribution of -0.3pps to 2013 growth (+0.9pps in 2012) as export expansion slowed to +0.6% as a result of the difficult global environment and continued weakness in some European markets, while import expansion remained stable at +1.3%. In price- and calendar-adjusted terms, growth in 2013 was slightly higher at +0.5%, as there were fewer working days than in 2012. Preliminary estimates of public finances show a small fiscal deficit of -0.1% of GDP in 2013, following a small surplus of +0.1% in 2012. EH forecasts GDP growth will accelerate to +1.6% in 2014 as the global economy will gain momentum and government investment will pick up. The national budget is likely to remain close to balance in 2014.



US: Weak labour market may weigh on Fed policy

The December 2013 employment report was a disappointment, showing only 74,000 jobs created, compared with expectations of around 200,000 and November gains of 241,000. It was the smallest monthly job growth in three years. Average weekly earnings fell 0.2% m/m, putting the y/y rate at a mere 0.1% over inflation. Unemployment fell from 7% to 6.7%, but once again not for a positive reason as 347,000 people left the labour force, sending the participation rate down to 62.8%, the same as in November (a level not seen since 1978). Weather may have been a factor as it was the coldest December in four years, with nationwide snowfall 21% above normal (much higher in some populous areas), which may have prevented people getting to work. The employment report makes the Fed's decision on tapering more difficult at Chairman Ben Bernanke's last meeting at the end of January. Meanwhile, December retail sales increased by 0.2% m/m, held back by a 1.9% fall in auto sales, also attributed to bad weather. Excluding autos, the real growth rate in retail sales was a modest 2.3% y/y.



France: Further measures to restore company competitiveness

President François Hollande yesterday announced a 'Responsibility Pact' of further fiscal measures aimed at reducing the tax burden on corporates through the removal by 2017 of the employer family welfare payroll contributions (5.4% of total labour costs). The Pact is estimated to cost around EUR10-15 billion and Hollande announced that it will be financed entirely from (and depending on) the realised spending cuts (estimated at EUR15 billion this year and EUR50 billion over the next three years). More details will follow but, as it was presented, the Pact will add to the EUR20 billion CICE tax break (through lower employers' social contributions) announced in November 2012. Half of the CICE is financed through increased VAT and environmental taxes and the remainder will be financed through spending cuts. While the CICE is estimated to have a bigger impact on the services sector than on industry, given that it applies only to salaries up to 2.5 times the minimum salary, the 'Responsibility Pact' will encompass all sectors. The gap between average labour costs in France and Germany was 12% at end-2012 but these measures, if implemented, will decrease it by two-thirds by 2017. Indeed, the key issue outstanding is finding funding resources without compromising fiscal targets.



Egypt: Transition edges forward

This week's referendum on a new constitution is one step forward in the political transition, which remains fragile. Nevertheless, it is important as a guide to presidential and parliamentary elections that are scheduled to follow later this year. Official results are not yet available but EH expects the constitution will be approved, particularly as the Moslem Brotherhood is now officially designated a terrorist group, some opposition groups boycotted the election and the virtues of a "yes" vote were extolled widely in the mass media. Subject to a resounding "yes" vote, General Abdel Fattah al-Sisi, army leader and defence minister, is likely to run for the presidency. Among other things, the new constitution seeks to safeguard the military's privileges and its independence from political control, partly through its veto powers over who will head the defence ministry. EH expects the transition to remain difficult, but economic activity is improving slowly.

Countries in Focus

Americas



Brazil & Mexico: Weak industrial output

In **Mexico**, industrial production increased by +0.1% m/m in November 2013, following +0.4% in October. Output in November was driven by a strong improvement in construction (+1.8% m/m, after -0.6% in October) and moderate increases in mining (+0.1%, after +0.8%) and in utilities (+0.1%, after 0%). However, manufacturing output fell by -1%, after increasing by +0.8% in October. These data are consistent with a slow recovery in the economy and EH expects GDP growth, which was subdued at around +1.5% in 2013, will gain momentum and register +3.3% in 2014. In **Brazil**, industrial production recorded a slight decrease in November 2013, -0.2% m/m, after three consecutive monthly increases. The main driver of the overall contraction was a -3.2% fall in vehicle production. EH expects GDP growth to reach +2.4% in 2013 and to grow at an almost similar rate in 2014 (+2.5%).

Europe



Romania: Monetary policy remains accommodating

Last week, the National Bank of Romania (NBR, the central bank) lowered its key policy interest rate by 25bps to 3.75%, the fifth rate cut since July 2013, and also lowered minimum reserve requirements of banks. Headline inflation continued to fall, from 1.9% y/y in October 2013 to 1.8% in November and 1.6% in December, and is now close to the lower end of the NBR's 1.5-3.5% target range. The NBR expects further disinflation in H1 2014, while some high frequency indicators point to a moderation in the economic recovery. The annual rate of change in credit to the private sector has been in negative territory since March 2013 and accelerated to -4.1% y/y in November 2013, holding back investment. The NBR's business survey of December 2013 indicates a slowdown in activity in manufacturing and construction. EH expects continued accommodating monetary policy and real GDP growth of around +2.5% in 2014, similar to the estimated outcome in 2013.

Africa & Middle East



Madagascar: Election result

The logistics of holding an election in this island country that is larger than France in area are challenging, particularly given infrastructural impediments and a chequered recent political history. However, the election commission announced that the second round of presidential voting in December 2013 resulted in victory for Hery Rajaonarimampianina (53.5% of the vote) even though his challenger, Jean Louis Robinson (46.5%), won the first round. This is potentially a key step in restoring political legitimacy (a transitional body, HTA, has been in power since a military-backed coup in March 2009) and regaining full access to assistance from the international community, including preferential trade benefits under the US AGOA. EH expects Andry Rajoelina, leader of the HTA, to retain significant political influence, directly or indirectly, and that suggests that interventionist economic policies may persist, perhaps with contract renegotiations in the mining and energy sectors.

Asia Pacific



India: Still below potential

Industrial production fell for the second consecutive month in November 2013 (-2.1% y/y after -1.6% in October). The decline was mainly driven by a fall in manufacturing output (-3.5% y/y). However, a more positive outlook is provided in terms of external trade. The value of exports continued to increase in December, but at a lower rate (+3.5% y/y compared with +5.9% in November) while imports remained on a downward trend (-15.2% y/y). Overall, however, advanced indicators continue to point to a fragile outlook. The December 2013 HSBC/Markit Manufacturing PMI, at 50.7, signalled only a slow industrial recovery in the short term, while the HSBC/Markit Service PMI indicated a contraction (46.7, a three-month low) reflecting a weak new order book. As a result, EH expects GDP growth in 2014, at +5.3%, will remain below potential as measured by the long-term growth average of +7.5%.



What to watch

- January 16 – US December 2013 CPI
- January 16 – Austria & Germany December 2013 CPI
- January 17 – Japan Dec. 2013 consumer confidence
- January 17 – UK December 2013 retail sales
- January 17 – US December 2013 housing starts
- January 17 – US December 2013 industrial production
- January 21 – Eurozone Jan. ZEW investor sentiment
- January 21 – IMF revisions to World Economic Outlook
- January 21 – Germany January ZEW survey
- January 21 – Hungary monetary policy decision
- January 22 – South Africa December 2013 CPI
- January 22 – Ghana Q3 2013 GDP

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