Weekly Export Risk Outlook

EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: 2.7% >EH FORECAST WORLD GROWTH 2012

Global outlook: On the edge

World economic growth in 2012 should slow to around 2.7% (after 4.3% in 2010 and 3.0% in 2011), with the emerging economies as the major contributors. The US economy should post growth of less than 2% in 2012 (after 1.7% in 2011), barring further austerity measures. The Euro-zone is headed for nearly zero growth in 2012 (between 0% and 0.5%), after 1.6% in 2011, with a number of countries over 2011-2012 contracting for between one quarter (Germany) and four consecutive quarters (Greece). Downside risks to the outlook remain significant. The Euler Hermes Global Insolvency Index (GII) continued to fall in 2011, but at a slower than expected rate of 3% and we expect it to rise by 3% in 2012, with increases in business insolvencies forecast in 25 of the 33 countries in our sample, with the biggest expected increase in Greece (+26% in 2012).

US: Labour market optimism

The labour market appears to be improving as weekly jobless claims have been falling at a faster pace since September 2011 when the four-week moving average was 422,000 claims. Since then, weekly claims have fallen 12% to 373,000, approaching a level that would be closer to that experienced in a normal expansion. December's employment report was also hopeful because the unemployment rate, which was 9% in September, fell to 8.5%. The report also showed job gains of 200,000, the sixth consecutive month of gains over 100,000. Improvements were also reported in revisions, wages and the average workweek. It remains a slow climb back to the sort of job market typifying a decent recovery, but it looks like the pace is steadily improving. When this overall employment picture is combined with the strong consumer activity recorded in Q4 2011, the economy does seem to be gaining some strength.

China: Slowdown

In trade data released this week, export growth continued to slow in December, to 13.4% yr/yr (13.8% November) and imports grew by just 11.8%, against 22.1% in November. The latest NBS business conditions survey indicates that current and future (next six months) business expectations weakened further in December. Bank lending growth, however, picked up in December, reinforcing the view that the authorities are loosening monetary policy to prevent too sharp a slowdown, a stance that will be helped by the continued, albeit small, decline in yr/yr inflation to 4.1% in December (4.2% November). Q4 real GDP data will be released next week, which should confirm the slowdown. Expectations are that growth slowed to 8-8.5% yr/yr, with the lower end of the range probably the more likely.

Hungary: Country risk

The government rushed through a number of controversial laws in late December, including a central bank bill, which is seen as curbing the bank's independence, and a fiscal stability bill that enshrines a flat income tax rate into basic law. As a result, the EU and the IMF broke off preparatory talks on requested financial support and financial markets, already nervous for some time, tumbled further. The HUF/EUR exchange rate fell to a record low of 321 on 5 January 2012 (down 20% from mid-2011) and yields on government bonds surged. On 6 January, Fitch became the last of the three major rating agencies to downgrade Hungary to speculative grade. Securing new EU/IMF support has now become all the more important and discussions are likely to resume, although they will be tense and lengthy.

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Countries in Focus

Mediterranean countries & Africa – *Nigeria: Goodluck*

Stability and security are once more to the forefront of risk assessments. Firstly, the government stopped fuel subsidies at the beginning of the year and this led to a doubling of petrol prices and concerns relating to a more systemic inflationary impact. Rioting, violence and union-instigated national strikes have ensued. Fuel subsidies cost USD8bn in 2011 (4% of GDP) and savings of around that magnitude could be redirected towards education, health and improved infrastructure. Such pledges are unlikely to appease the protestors in the ST. Secondly, Boko Haram—a militant Islamic faction—is accused of terrorist activities and stoking religious schisms, with bombings and inter-faith killings heightening sectarian divides. Expect a challenging year for the government of President Goodluck Jonathan.

Americas – *Jamaica: Election results and new government*

The opposition People's National Party (PNP) won the election on 29 December 2011, with an unexpectedly large majority—41 seats to the Jamaica Labour Party's (JLP) 22—as opinion polls had pointed to a close race. The generational effect of the new JLP leader, Andrew Holness, was insufficient to recover earlier lost ground. Incoming PM Portia Simpson-Miller appointed a balanced cabinet of experienced PNP figures and younger supporters, which should help stability. The challenges remain daunting, however, with a debt-GDP ratio of 130% and high unemployment, as the new government confirms that it is to renegotiate the IMF programme in place since 2010, but ineffective for much of 2011. The overall policy thrust, however, is likely to remain broadly similar, given macro constraints.

Asia-Pacific – *Iran: Oil market reactions*

With parliamentary elections in Q1, reported divides in the political leadership and a weakening economy, Tehran appears to be deflecting attention to the international environment. Iran continues to develop its nuclear capability and the US and EU are increasing unilateral sanctions, particularly in relation to financial and oil sectors. Tehran's response is to warn of potential closure of the Straits of Hormuz, through which one-third of global oil waterborne shipments are transited. A critical period appears likely at end-January, when the EU may formalise an initial agreement on a boycott of imports of Iranian crude. Accordingly, world oil prices remain firm (Brent USD113/b), despite potential for weak energy demand resulting from Euro-zone concerns and a mild northern hemisphere winter.

Europe – *Serbia: Economic update*

Q3 real GDP growth slowed sharply to 0.5% yr/yr (2.5% in Q2) and was flat qtr/qtr sa (-0.5% in Q2). Growth was mainly driven by information & communications (9.3% yr/yr), construction (9.2%) and utilities (2.5%), while domestic trade (-7.7%) and manufacturing (-1.6%) contracted. Early data for Q4 point to continued weakness. In October-November, manufacturing declined by 4.2% yr/yr, although strong increases in utilities (18.5%) and mining (13%) supported industrial output growth of around 1%. Retail sales continued to contract sharply, by 16.3% in October-November, indicating weak household demand. Inflation moderated to 8.1% yr/yr in November from a recent peak of 14.7% in April, while the current account deficit remained high at around 8.7% of GDP in Q1-Q3 2011.

Worth knowing

Taiwan

Presidential elections will be held this weekend (14 January).

Guinea-Bissau

President Sanha's death after a long illness in a French hospital, just two weeks after a failed coup in his absence, raises further political uncertainty in this country with a history of instability.

Interest rates

The **ECB** and the **Bank of England** both left their respective policy interest rates unchanged at the latest rate setting meetings this week**.**