



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **2.8%** >US Q4 ANNUALISED QTR/QTR GDP GROWTH

▶ US: Q4 growth, the Fed and employment

Q4 GDP disappointed somewhat, growing on an annualized qtr/qtr basis only 2.8%. Unfortunately, 1.9pps of that growth came from an increase in inventories, boding poorly for growth in Q1 2012. Consumption grew by an anaemic 2.0%, but it was still better than 1.7% in Q3 and 0.7% in Q2. The Federal Reserve left the overnight Fed Funds rate unchanged near 0%, announced that it is likely to keep that rate “exceptionally low” until late 2014, and gave hints that a third round of quantitative easing might be possible. The Fed also described the economy as expanding “moderately”, but at the same time downgraded its forecast for future growth. Similarly, hopes are high that Friday’s employment report will show “moderately” strong job growth.

▶ Germany: Differing growth indicators

The latest IMF economic forecast in January 2012 gives a pessimistic outlook for the global economy. The decisive factor in this, according to the Fund, is the negative trend in the EZ, where the economy is projected to pass through a mild recession in 2012, contracting by 0.5%. For Germany, the IMF predicts a downturn, with growth of only 0.3% in 2012. Euler Hermes GDP growth projection is a little less pessimistic for Germany at 0.8% in 2012 and EZ at 0.0%. Both assume no escalation in the euro crisis. Latest indicators, however, are mixed. The latest result of the Ifo Business Climate for industry in Germany showed a clear improvement of 0.9% in January (mo/mo) and has risen now for the third month running. Against that, retail turnover decreased 1.4% in December in real terms (mo/mo) falling for the second month in a row.

▶ Taiwan: Second quarterly GDP contraction

The economy contracted qtr/qtr (sa) for the second successive quarter in Q4 2011 by -0.25% (-0.21% Q3) with yr/yr growth easing to 1.9% (3.4% Q3)—below market expectations. On a yr/yr basis export growth was barely positive, hit by the Euro-zone crisis, but imports fell even more noticeably than in Q3. Gross fixed investment also fell sharply for the second consecutive quarter, as global economic prospects weakened, but private consumption retained some, if slowing, momentum, expanding by 0.86%. Private consumption should continue to be helped by low interest rates and low unemployment, which fell to 4.22% in December, according to data released this week. The government has revised down its official forecast for 2012 to 3.91% (after 4.03% in 2011) but this looks optimistic. Even prior to the latest data EH forecasts were for growth of 3.5% in 2012.

▶ South Korea: Q4 GDP growth maintained

Advance estimates put Q4 2011 real GDP growth at 3.4% yr/yr, maintaining the pace of the two previous quarters. This took full year 2011 growth to 3.6%, mainly driven by robust export demand (+10%) and the ensuing increase in manufacturing output (+7.1%). However, qtr/qtr (sa) data show a deceleration of growth to 0.4% in Q4 from 0.8-0.9% in the two previous quarters. Moreover, demand side details reveal that basically all components of GDP fell qtr/qtr—private consumption by 0.4%, government spending 1.7%, fixed investment 2.1%, exports 1.5% and imports 3.1%—after they had all increased in Q3. The data indicate that inventories must have contributed significantly to Q4 growth. Potential inventory disinvestment and softening consumer sentiment and business survey indices suggest weak growth in H1 2012. Expect full-year 2012 growth of 3% or less.

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► **Mediterranean, Africa & Middle East – Ghana: Oil shortfall**

The offshore Jubilee oil field will not achieve its projected output target of 120,000 barrels per day (bpd) in 2012. Projections are now for 70,000-90,000 bpd (similar to 2011, which was the first full year of production), largely because of operational factors, including remedial work on the oil well. Even so, the government approved the next phase of field development, beginning in March. In the ST, lower-than-expected oil output will have negative consequences on revenue generation and therefore the overall fiscal position and associated planned infrastructure and development expenditures. Expect these to be scaled back. Annual GDP growth averaged over 6% in 2005-10 and was 12-13% in 2011. Expect the growth momentum to slow this year but still be around 7-8% in 2012 overall.



► **Americas – Uruguay: Well placed?**

Growth will moderate in 2012 to around 3.5%. Inflation is relatively high but should ease. Previously strong credit growth is slowing as monetary policy was tightened from early 2011. The fiscal deficit in 2011 was just 0.7% of GDP, though the public debt-GDP ratio is 61%. The external balance is relatively sound. Regarding public debt, the authorities have taken the precaution of building government deposits at the central bank, and have contingent credit lines with external agencies. The main risks are close dependency on larger neighbours, Brazil and Argentina, and high commodity export dependence. Uruguay has been a stable democracy since returning to civilian rule in 1985. The current president, though having strong left-wing roots, has aligned himself with the region's "pragmatic-left".



► **Asia-Pacific – Papua New Guinea: Political tensions**

A mutiny in the military aimed at restoring ousted PM Samore seems to have ended. However, the political impasse stemming from a constitutional crisis—in which PM Samore was removed from office on the grounds of ill-health and replaced as PM by O'Neil, a move subsequently ruled unconstitutional by the Supreme Court, but ignored by O'Neil who has ruled as de facto PM with support of the military and a majority of parliament—remains, as Samore continues to seek restitution. A general election, already called for June, may be brought forward, which could ease the situation. In the meantime, political stability is likely to remain fragile. Moreover, if there is no resolution of the impasse, capital outflows and a pause in FDI and possibly other inflows could become a problem.



► **Europe – Lithuania: Recovery loses momentum**

Advance estimates of the statistics office show that Q4 2011 real GDP contracted by 0.9% qtr/qtr sa, the first such decline in two years. In unadjusted, yr/yr terms Q4 real growth slowed to 4.3% from the 6.7% peak of the recovery in Q3. Detailed demand-side data have not been released yet, but high frequency indicators for Q4 suggested that the earlier observed shift in the structure of growth has continued, with domestic demand now being the main growth driver. Retail trade turnover continued to rise rapidly at 18.6% yr/yr in Q4 (20% in Q3) while industrial output shrank by 0.8% (+7% in Q3). Export-oriented, energy-related sectors performed particularly poorly in Q4. Amid worsened prospects for Europe generally, expect full-year growth to decelerate from 5.8% in 2011 to around 2% in 2012.

Worth knowing

► **Euro-zone**

January confidence indicators showed signs of stabilisation, with Markit-PMI composite index back into positive territory (first time in 5 months) and Eurostat Economic Sentiment Index monthly up (after 10 successive months decline), but this improvement mainly reflects Germany, with other countries lagging. Meanwhile, the latest EU Summit made progress on the "fiscal pact" but the Greek negotiations with private creditors are still ongoing.

► **Thailand**

Key policy interest rate cut last week by 25bps to 3%, the second cut since widespread flooding in Q4 2011.

► **Other Q4 GDP**

Philippines: 3.7% yr/yr and 0.9% qtr/qtr sa in Q4, 3.7% in 2011 full year. **Poland:** 4.3% in 2011 full year. **Russia:** 4.3% in 2011 full year. **Ukraine:** 4.6% yr/yr and 0.6% qtr/qtr sa in Q4, 5.2% in 2011 full year.

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