



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **EUR1,060BN** >GERMAN GOODS EXPORTS IN 2011

▶ Euro-zone: 2011 GDP growth 1.5% yr/yr

After nine consecutive quarters of recovery, Euro-zone output contracted in Q4 2011 (-0.3% qtr/qtr). The largest economies in the zone registered differing trends, with a surprising resilience in France (+0.2% qtr/qtr), a perceived pause in Germany (-0.2%) but a more significant fall in Spain (-0.3%) and, in particular, Italy (-0.7%). All other members—except Finland—posted contractions ranging from -0.1% in Austria to -0.7% in Netherlands, -1.3% in Portugal and probably even higher in Greece (Q4 was -7% yr/yr). For the EZ as a whole, another negative quarter remains possible, as the outlook continues to be undermined by the combination of fiscal measures and the trend in unemployment, combined with high uncertainties relating to Greece and to the overall debt crisis. Even a gradual recovery in H2 2012 is unlikely to generate much more than flat Euro-zone GDP for the full year 2012.

▶ Germany: Record highs in foreign trade

Last year's foreign trade performance was good. According to the latest provisional official results by Destatis, exports of goods reached a new record value of EUR1,060bn in 2011, an increase of 11.4% on 2010 and exceeding one trillion EUR for the first time. Imports, too, hit a new high of EUR902bn, climbing by 13.2%. However, in December 2011 alone, unsurprisingly, foreign trade weakened in the wake of the global slowdown and exports within the EZ, in particular, dropped markedly, by around 16%. It is worth noting in this context that the European market accounts for around 70% of exports. In 2011, Germany was the second largest exporting nation in the world, behind China but above the US (based on provisional data in EUR terms).

▶ China: Inflation and trade

January data released last week were distorted by the lunar New Year holiday, which fell in January this year. January inflation accelerated to 4.5% yr/yr (4.1% December) but this was the result of food prices, as non-food inflation eased. Producer price increases also continue to ease. February data should be lower for headline CPI, although distortions will carry through into February as well. Both exports and imports contracted in January compared with a year earlier. Again, the holiday had a significant impact, but export and import demand have undoubtedly slowed. Bank lending growth was also slower than expected, which, although distorted, may indicate that monetary policy is only slowly being loosened. PM Wen Jiabao, however, has reiterated the need for policy "fine tuning" this quarter.

▶ US: Sales and job market

January retail sales were mostly positive. After stripping out the volatile auto and gasoline components, retail sales increased by 0.6% mo/mo and, after inflation, sales were up 2.0% yr/yr. The significance of the data is that the increase in sales is equivalent to the long-term average. Weekly jobless claims continue to surprise on the upside and, as a result, the four-week moving average dropped to the lowest level in almost four years—366,000, which also happens to be the long-term average. If claims continue to fall into the 300,000—350,000 range, and remain there, it will bode well for the employment market and the economy as a whole.

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► Mediterranean, Africa & Middle East – *Turkey: Update*

The annual current account deficit soared by 65% to USD77bn in 2011, equivalent to an estimated 10% of GDP. Nominal exports and imports of goods and services increased by 17.3% and 29%, respectively, in 2011, but both slowed towards year-end and, in Q4, growth of exports (9.7% yr/yr) overtook imports (8%). The expansion of industrial output fell to 3.7% yr/yr in December from an average 7.7% in the previous eight months. These developments may signal—although it is not conclusive—that the two-year overheating of the economy could be coming to an end. The TRY depreciated by around 18% against the EUR and 22% against the USD during 2011 but has regained some 5% so far in 2012. The depreciation has pushed inflation back to double digits (10.6% yr/yr in January).



► Americas – *Venezuela: Presidential election*

The opposition MUD alliance primary elections last weekend produced an overwhelming win for Henrique Capriles, 39 year-old governor of central Miranda state, with 62% of the vote. This puts him in a strong position to mount a serious challenge to President Chavez in the October presidential elections, following opposition gains in the 2010 legislative elections. Capriles (seen as broadly centre-right) has youth and energy on his side, which could be important given lingering concerns over Chavez' health, although the latter has declared himself fit. Chavez also has the advantage of incumbency, strong grass-roots support and organization, media control and, probably, the support of the military. Chavez will be tough to unseat, although this is the opposition's best opportunity yet. Expect a polarised campaign.



► Asia-Pacific – *Japan: Reconstruction yet to boost growth*

GDP growth in Q4 2011 contracted for the third time in the year, by 2.3% qtr/qtr annualised, and fell much more than expected by the consensus (-1.3% qtr/qtr). Net trade undermined the economy, subtracting 2.6pps of growth because of slumping exports (-11.9% qtr/qtr), hit by floods in Thailand, a stronger JPY and weakness in overseas demand. Domestic demand continued a modest recovery, with positive contributions from consumption and private investment outweighing negative effects from inventories and public investment. Full year growth in 2011 was -0.9% yr/yr, despite upward revisions in the first three quarters. With post-earthquake reconstruction work, fading disruptions from floods in Thailand and signs of improvements in the US, expect a gradual recovery in 2012 (+1.7%, latest IMF estimate).



► Europe – *Estonia: Recovery loses steam*

Preliminary estimates from the statistics office show that Q4 2011 real GDP contracted by 0.8% qtr/qtr sa, the first such decline since Q1 2010. In unadjusted yr/yr terms, Q4 real GDP growth slowed to 4% from 8.5% in Q3. Full-year 2011 GDP increased by 7.5%, after 2.3% in 2010, but was still some 9% below the pre-crisis level in 2007. Detailed demand-side data have not been released yet but high frequency indicators for Q4 suggest that external demand has lost momentum, while domestic demand has remained fairly robust. Growth in nominal exports slowed to 17% yr/yr in Q4 from 30% in Q3 and 42% in H1. In line with that, industrial output expansion fell to just 0.2% yr/yr in Q4 from 18% in Q3 and 29% in H1. In contrast, real retail sales growth remained stable at around 4.5% yr/yr in Q4.

Worth knowing

► Euro-zone debt crisis

The Greek parliament passed the austerity plan last weekend, but today's Brussels meeting of EZ FMs was postponed until Monday, as the EZ, among other things, still seeks assurances from Greek political leaders on implementation of the programme beyond the elections. Political distrust is likely to be an ongoing concern.

► India

The wholesale price index—primary official inflation tracker—increased by 6.55% yr/yr in January, after 7.47% in December 2011. This suggests that inflationary pressures are easing and that the central bank will cut policy interest rates in H1.

► Other Q4 2011 GDP

Czech Republic: 0.5% yr/yr sa and -0.3% qtr/qtr sa in Q4, 1.7% in 2011 full year. **Bulgaria:** 1.5 yr/yr sa and 0.4% qtr/qtr sa in Q4, 1.6% in 2011 full year. **Hungary:** 1.4 yr/yr and 0.3% qtr/qtr sa in Q4, 1.7% in 2011 full year. **Latvia:** 5% yr/yr and 0.8% qtr/qtr sa in Q4, 5.2% in 2011 full year. **Romania:** 1.9 yr/yr and -0.2% qtr/qtr sa in Q4, 2.5% in 2011 full year.

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