Weekly Export Risk Outlook

EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: -0.3% >Q4 2011 EURO-ZONE GDP GROWTH

Euro-zone: Latest GDP data

Q3 GDP growth was revised down from 0.2% qtr/qtr to 0.1% and second official estimates confirmed that the zone's economy contracted by 0.3% qtr/qtr in Q4. As expected, domestic demand remained the main drag on growth in the period as investment and public consumption contracted by 0.7% qtr/qtr (after -0.3% in Q3) and 0.2% (-0.2% in Q3), respectively. Following one quarter of positive growth (0.3% in Q3), private consumption fell back into negative territory, at -0.4% qtr/qtr. As the bulk of national cross-border trade is intra-regional, both exports and imports also recorded negative figures, with -0.4% qtr/qtr and -1.2%, respectively.

Germany: Slight dip in Q4 2011 growth

A slowdown in the export sector, largely reflecting EZ sovereign debt concerns and associated policy responses, had a noticeable impact on overall growth at end-2011, with Q4 GDP contracting for the first time since 2009, at -0.2% qtr/qtr. Net exports had a negative contribution equivalent to 0.3pps in Q4. According to the Federal Statistical Office, exports of goods decreased significantly in December, including a contraction of 16% (unadjusted) in shipments within the EZ. There was a positive contribution in Q4 from domestic demand, which contributed 0.1pps to overall GDP growth. However, there were marked differences within the demand components, with investment in construction recording growth of 1.9%, household consumption contracting by 0.2% and investment in equipment stagnating, following earlier periods of growth.

US: Q4 2011 GDP growth revised upwards

The stream of modest but positive data continues, with Q4 GDP growth revised up from 2.8% qtr/qtr to 3.0%, although much of the growth came from an increase in inventories. The four-week moving average of weekly jobless claims continued its steady downward movement, contracting for the 12th time in 13 weeks. Auto sales posted a very strong 6.5% increase in February, reaching an impressive annual rate of 15mn. Both ISM indexes contained strong data. The Fed's "Beige Book" of anecdotal evidence reported modest growth in most of the country, although Fed Chairman Bernanke gave no hint either way of an impending round of quantitative easing. Despite the generally positive news, high oil prices remain a major concern.

Russia: Presidential election result

The outcome of Sunday's presidential election was largely as expected. Official results show that PM Putin, who served two terms as president between 2000 and 2008, won 63.7% of the vote and will return for a third and extended six-year term. Opposition activists—already spurred by allegations of widespread fraud during the December 2011 parliamentary elections in favour of Putin's United Russia party—again took to the streets to dispute the outcome. The OSCE announced that, in particular, the pre-election campaign was skewed in favour of Putin. Despite the weakened support for Putin—he got 71% in 2004 and incumbent President Medvedev got 70% in 2008—and rising public discontent, do not expect significant changes in the ST as the opposition still lacks a coherent political platform and a leadership able to provide a serious challenge. Expect investors to welcome continued relative political stability.

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Countries in Focus

Mediterranean, Africa & Middle East – *Uganda: Rate cut*

The key policy interest rate was cut by a further 100bps, to 21%, at a monetary policy meeting at the beginning of March. Local authorities suggest that, while inflation is still high, monetary aggregates indicate that price pressures are waning, with broad monetary growth of 6% yr/yr in January 2012, compared with 30% at the beginning of the current fiscal year in July 2011. However, headline inflation remains over 25% and high international oil prices are likely to derail attempts to hit the central bank's inflation target of 5%. Nevertheless, official policy is now to stimulate economic activity against a background of downside risks to global economic growth. Expect further monetary easing in 2012 and GDP growth this year of around 6-8% boosted by investments in the nascent oil sector, following 5.2% in 2011.

Americas – *Brazil: Sixth largest economy*

Economic growth accelerated to 0.3% qtr/qtr in Q4 2011 from -0.1% in Q3 but GDP increased by only 2.7% yr/yr in 2011 as a whole, the lowest rate of expansion since 2003. Even so, Brazil is now ranked as the sixth largest national economy. A weak H2 in 2011 reflects Euro-zone concerns, high borrowing costs because of interest rate increases in H1 and a strengthening currency. Official forecasts are for a rebound to 4.5% growth this year resulting from stimulatory policy adjustments, including tax incentives and other measures to spur investment and the manufacturing sector. The latest PMI data support stronger growth this year, with 51.4 posted in February, compared with 50.6 in January, but much will depend on external factors, including internationally-determined commodity prices.

Asia-Pacific – *Philippines: Further monetary easing*

Last week, the central bank cut, by 25bps, its key policy interest rates for the second time this year, to 4% for overnight borrowing and 6% for overnight lending. This reflects a benign inflation outlook that allows some monetary easing to support economic growth and market confidence. Real GDP growth slowed to 3.7% in 2011, from 7.6% in 2010, largely as a result of sharp falls in investment and exports. Private consumption expanded by 6.1% in 2011 (3.4% in 2010), but government consumption declined by 0.7% (+4% in 2010) and fixed investment increased by just 2.7% after 19.5% in 2010. Exports contracted by 3.8% in 2011 (+21% in 2010) while imports expanded by 1.9% (22.5% in 2010). Inflation fell to 2.7% yr/yr in February, below the central bank's 3-5% target range for 2012.

Europe – *Slovenia: Clearly in recession*

Real GDP contracted by 2.8% yr/yr in Q4 2011 and by 0.2% in full-year 2011. In seasonally and working-day adjusted qtr/qtr terms, GDP contracted by 0.7% in Q4, the fourth consecutive decline according to revised data for earlier quarters, implying that Slovenia has been in recession since the start of 2011. Domestic demand was very weak in 2011, with contractions in private consumption, government consumption and investment of 0.2%, 0.9% and 10.7%, respectively. Inventories contributed 1pp to full-year growth and net trade added 1.4pps as the expansion in exports (7.7%) outpaced that in imports (5.7%). Moreover, all domestic demand indicators (including inventories) deteriorated over the course of 2011. Assuming weak external demand from the EU, expect the recession to continue in H1 2012.

Worth knowing

China

At the 11th National People's Congress, the official forecast of GDP growth for 2012 was given as 7.5%, the first time in eight years that the target has moved from 8%. Government expenditure will increase to boost domestic consumption through higher minimum wages, subsidy revisions and loans to encourage small private enterprises.

Peru

GDP growth slowed to 5.5% yr/yr in Q4 2011, after 6.6% in Q3, reflecting the impact on private investment in the mining sector of social unrest and environmental protests. Peru is the third-largest copper producing nation.

Iran

Do not expect the parliamentary elections (2 March) to herald marked changes in governance or policy stance. It appears that parliament will be largely supportive of the Supreme Leader, Ayatollah Ali Khamenei.