Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: -6.1%>H1 BUSINESS START-UPS IN GERMANY

Eurozone: Weak sentiment indicator

September's Eurostat Sentiment Indicator Index (ESI) points to the economic downturn gathering momentum through Q3. Both the EU-27 and EZ ESIs fell for the seventh consecutive month—respectively by -0.9pps and -1.1 pps—to their lowest levels since August 2009 and well below the long-term average. In the EZ, the September ESI continued to lose ground significantly in Germany (-1.1pps) and France (-1.6pps), while the stabilisation/small rebound registered by a few countries, such as Spain or Belgium, remained limited. Moreover, all countries registered a sharp fall in Q3 as a whole, except for Greece, which was flat, but at a low level. All sectors posted another monthly fall, returning them to the 2009 lows, while in Q3 retail was down -2.4 pps, construction -2.6pps, industry -4.5pps and services -5.4pps. Overall, 88% of the indicators monitored (for EU-27) in the survey were on the "red side", against 81% in August and 72% in June, suggesting that GDP will contract again in Q3 and the area slipped back into technical recession. Against this background, tough political decisions are looming, including in Spain over the budget and formal application for EZ support, as well as in Greece over the "Troika" economic programme.

US: Housing market optimism?

Recent housing market data indicate an undeniable improvement but it is probably too early to call a bottom to the sector's downturn. Prices as measured by the Case-Shiller (existing) home price index increased for the sixth consecutive month in July and were up +1.1% yr/yr. For new single-family homes, prices increased by +17% yr/yr and are now within 2% of the peak of the housing bubble, sales were up +28% yr/yr and supply was down to 4.5 months, compared with a long-term average of 6.2. For existing single-family homes, sales were up +10% yr/yr while supply was down to 6.2 months, compared with a long-term average of 7.3. Starts and permits were mixed over the last few months, but were up +29% yr/yr and +25% yr/yr, respectively.

Germany: Start-ups decreased in H1

Almost 70,000 businesses of some economic significance were established in H1 but the number of such start-ups was -6.1% less than in the corresponding period of 2011. Also in H1 2012, the total number of small businesses newly founded was 128,000, representing a decline of -14.2% yr/yr. In contrast, the number of new part-time farmers increased moderately, by +0.8% to 123,000. In the first half of this year, plant closures included 62,000 businesses of some economic importance—+0.8% more than in H1 2011—147,000 small businesses (-1.4%) and 74,000 part-time farms (+0.9%).

Argentina: Downturn

Earlier indications of a downturn in the economy were confirmed with release of Q2 GDP data. Output fell -0.8% qtr/qtr sa (+0.6% Q1) and was unchanged (0%) yr/yr (+5.2% Q1), as investment fell -9.3% qtr/qtr and -15% yr/yr. Exports also contracted sharply, but imports continued to fall as well. August industrial production showed a small upturn on July but the eight months to August were down -0.8% on the same period a year earlier. The economy has been hit by stringent import and capital controls imposed earlier this year to maintain FX reserves, although high soya prices (a key export) and stronger growth in Brazil should provide some cushion in H2. Nonetheless, relatively high inflation and uncertainty generated by policymaking point to a sustained period of weaker performance.

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Countries in Focus

Mediterranean, Africa & Middle East – *Uganda: Oil future*

President Yoweri Museveni and the National Resistance Movement control most levers of power. At times, the international community (including key donors) criticise Museveni's manoeuvres to extend his period in office and alleged authoritarian tendencies, but is likely to remain supportive. Uganda adopted an IMF-backed reform agenda and, over a ten-year period, annual average GDP growth was over +7%, with improving real per capita incomes boosting private consumption. Agriculture accounts for around 23% of GDP and coffee is the principal export crop (16% of total earnings) but commercial production of oil is expected by 2016 and current investment in the energy sector is already driving the growth momentum. Expect GDP growth of around +5% in 2012 and in 2013.

Americas – *Colombia: Q2 growth*

Q2 GDP growth was stronger than expected at +1.6% qtr/qtr sa (+0.2% Q1) and +4.9% yr/yr (+4.6% Q1). Domestic demand was the main driver, led by fixed investment (+15.5% yr/yr) as private consumption growth eased slightly. Both export and import growth also slowed. Construction led on the supply-side (+18.4% yr/yr) helped by government infrastructure spending. However, in other key sectors—mining & quarrying and manufacturing—expansion eased. Strong construction growth notwithstanding, a slower pace of GDP growth is likely in H2 (yr/yr) than in H1, but +4% for 2012 overall looks attainable—a good performance in the current global environment. The latest data probably, on balance, shift the likelihood towards no change at this week's policy interest rate setting meeting.

Asia-Pacific – *South Korea: Signs of slowdown in Q3*

Industrial production declined by -1.6% mo/mo sa in July, after -0.6% in June. In contrast, retail sales expanded by +3.4% mo/mo sa, after -0.5% in June. In yr/yr terms, industrial production increased by only +0.3% in July, following an average +1.5% in Q2, and retail sales by +2.7%, after an average +1% in Q2. The Business Survey Index (BSI) for the manufacturing sector fell sharply to an average 71 in Q3, from 84 in Q2. The Consumer Sentiment Index (CSI) eased to an average 99 in Q3 from 103 in Q2. The Economic Sentiment Index, a composite of selected BSI and CSI components highly correlated with and responsive to GDP, declined to an average 92 in Q3 from 96 in Q2. Together, this suggests that growth is likely to lose further momentum in Q3.

Europe – *Czech Republic: Deepening recession*

Revised estimates by the Statistical Office confirm that the economy remains firmly in recession as Q2 real GDP contracted by -1.7% yr/yr (-0.2% in Q1) and -0.2% qtr/qtr sa (-0.6% in Q1). Domestic demand weakened further, with private consumption declining by -3.6% yr/yr, government consumption by -0.9% and fixed investment by -0.5%. Moreover, the decrease in gross capital formation of -6.5% yr/yr suggests that inventories continued to fall markedly. External trade activity slowed as well. However, net exports made a positive contribution of around +2pps to annual GDP growth in Q2 as exports expanded by +2.4% yr/yr while imports contracted by -1%. Expect full-year 2012 GDP to contract by around -1% amid ongoing austerity measures and weak external demand from the EZ.

Worth knowing

Hungary

The Monetary Council this week reduced the key policy interest rate by 25bps to 6.5%, following a similar cut in August in order to support the faltering economy, even though inflation, at 6% yr/yr in August, has remained well above the 3%±1pp target.

UK

Q2 GDP data were revised to show a contraction of -0.4% qtr/qtr, from earlier estimates of -0.5% and -0.7%.

Belarus

Supporters of President Lukashenka won all the seats in parliamentary elections last Sunday, as the two strongest opposition parties boycotted the poll, which was deemed as unfair by Western observers.