



# Weekly Export Risk Outlook



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## In the Headlines

**FIGURE OF THE WEEK: -0.1% > US Q4 2012 GDP, Q/Q ANNUALISED BASIS**

### ▶ US: Q4 2012 GDP contraction

Q4 2012 GDP was much worse than general expectations, contracting by -0.1% q/q sa annualised after +3.1% in Q3. The contraction resulted largely from a record -22% q/q fall in defence spending, reflecting the winding-down of operations in Afghanistan and also, perhaps, expectations of automatic budget cuts. However, even the best-performing sub-component of GDP, consumption, was weak at +2.2% q/q growth. Real disposable personal income accelerated markedly in December 2012, by +2.7% mo/mo, partly as a means of avoiding higher tax rates starting in January 2013. Similarly, the increase in payroll taxes resulted in consumer confidence falling sharply, by 8.1pps. Meanwhile, the January jobs report showed large upward revisions in data for 2012, but the three-month trend was down and weak, while the rate of unemployment increased to 7.9%. On a positive note, the latest Case-Shiller home price index showed an increase of +5.6% y/y—the tenth consecutive increase. Against this economic background, the Federal Reserve left key policy interest rates unchanged.

### ▶ Eurozone: Composite PMI

The Composite Output Index for January 2013 improved by +1.4pps, to 48.6 (slightly above the preliminary data), but continued to indicate overall contraction in economic activity, although at a slower pace than in December 2012. The manufacturing component of the index increased by +1.8pps, while that for services improved by +0.8pps. A breakdown by country continues to point to diverging trends, with Germany recording a rise in activity (Composite PMI at 54.4 from 50.3 in December 2012, above the world PMI at 53.3), France and Italy on a downward trend (from 44.6 to 42.7 and from 45.7 to 45.4, respectively) and continuing contraction in Spain, although there was some improvement there (from 43.9 to 46.5).

### ▶ Russia: GDP growth in 2012 weakened

Preliminary estimates indicate that real GDP growth slowed to +3.4% in 2012, from +4.3% in 2011. Data are not yet available for Q4, but the full-year figure for 2012 suggests that growth must have decelerated markedly in the final quarter unless the data for Q1-Q3—showing average growth of +3.9% y/y—were revised downwards. Private consumption remained strong in 2012, expanding by +6.6% (+6.4% in 2011), but public consumption was flat (+1.2% in 2011) and fixed investment growth declined to +6% (+10.2% in 2011). Moreover, inventories declined in 2012 after two years of increasing sharply. Net exports also weighed negatively on overall 2012 growth as export expansion remained weak at +1.8% (+0.3% in 2011) and was outpaced by imports, which increased by +8.7% (+20.3% in 2011). Expect GDP growth to remain weak in H1 2013 before picking up in H2, resulting in full-year growth of around +3.8%.

### ▶ Argentina: Awkward IMF relations

At recent legal hearings in the US, the Argentine government has continued to argue that it should not pay USD1.33 billion to the debt “hold-outs”, as this would weaken its FX position (despite reserves of USD42.7 billion) although it could consider a re-opening of the original debt swap. While reportedly some creditors could be open to such an option the focus remains on the Appeal Court ruling on payments scheduled for end-February. Meanwhile, the IMF has censured Argentina because of its continuing low quality inflation and GDP data, despite previous criticisms. End-September has been set as a deadline for remedial measures and the IMF Board will consider Argentina’s position again in mid-November, when it could take stronger action, including possible ineligibility (suspension of access and voting rights). Argentina repaid all its debt to the Fund in 2006.

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### ► Mediterranean, Africa & Middle East – *Saudi Arabia: Politics*

Succession issues are keenly observed outside the kingdom as potential guides to its future stability. Accordingly, more transparency was afforded at the beginning of February when King Abdullah appointed Prince Muqrin bin Abdulaziz al-Saud as deputy prime minister. Both the king and Crown Prince Salman are elderly and ailing, so a clear statement that Prince Muqrin is the heir apparent takes away some uncertainties. Prince Muqrin (67) is reportedly in good health and will act as a bridgehead to a younger generation of princes who already hold some senior roles, including interior minister and governor of the Eastern Province. Expect other younger members of the extended royal family to be elevated to key positions but the leadership to remain cautious and conservative.



### ► Americas – *Ecuador: Presidential election update*

The incumbent president, Rafael Correa (first elected in 2006), remains the front runner to win elections to be held mid-month (17 February). Latest opinion polls put his support at 40-50% of the vote and that of his nearest rival, Guillermo Lasso, at less than 20%. There are seven candidates standing against the president. President Correa will require 50% or 40% with a 10pps margin over the next candidate for a first round win (if necessary a second-round run-off will be held in April). Legislative elections will be held on the same day, in which the president's AP movement will seek to secure an absolute majority, which it does not have currently. Expect the president to continue his populist/interventionist "citizens' revolution" if he wins.



### ► Asia-Pacific – *Philippines: Strong 2012 GDP growth*

Real GDP continued to grow strongly in Q4 2012, at +6.8% y/y and +1.5% q/q sa, taking full-year 2012 growth to an above-trend +6.6% (average +4.9% in 2002-11). The marked rebound from an overall lacklustre 2011 (+3.9%), despite the global headwinds, was driven by both domestic and external demand. While robust private consumption expanded by +6.1% in 2012 (+6.3% in 2011), infrastructure projects propelled government consumption growth to +11.8% (+1% in 2011) and construction activity boosted fixed investment by +8.7% (+0.2% in 2011). Export growth recovered to +8.7% in 2012 from the -4.2% slump in 2011, outpacing import expansion of +4.2% (+0.2% in 2011). Expect GDP growth to retain momentum in 2013, but ease to around +5% as a result of the high 2012 base.



### ► Europe – *Poland: GDP growth slowed markedly in 2012*

Preliminary estimates show that real GDP growth moderated to +2% in 2012 from +4.3% in 2011. Demand side details are only partly available as yet but suggest that net exports kept the economy growing in 2012 as the domestic contribution was just +0.1%. Private consumption expanded by +0.5%, down from +2.5% in 2011, and fixed investment growth decelerated to +0.6% (+9% in 2011). Moreover, a decline in inventories brought overall investment down by -1% in 2012. Data for Q4 2012 are not yet available, but the full-year figure suggests that Q4 growth decelerated to around +0.8% y/y from +1.4% in Q3 and +2.9% in H1. As inflation has eased considerably, to 2.4% y/y at end-2012, the central bank may continue the cycle of interest rate easing that started in November 2012.

## Worth knowing

### ► Canada

GDP increased by +0.3% mo/mo in November 2012 but the economy remained relatively weak, expanding by +1.1% y/y in that month. This is shown in weak construction data, reflecting a cooling housing market, which is likely to continue.

### ► Other GDP data

**Indonesia:** +6.1% y/y in Q4, +6.2% in 2012 as a whole. **Lithuania:** +4% y/y and +1% q/q sa in Q4, +3.6% in 2012 as a whole. **Serbia:** -1.5% y/y in Q4. **South Korea:** +1.5% y/y and +0.4% q/q sa in Q4, +2% in 2012 as a whole. **Taiwan:** +3.4% y/y and +1.5% q/q sa in Q4, +1.3% in 2012 as a whole. **Ukraine:** -2.7% y/y and -0.9% q/q sa in Q4, +0.2% in 2012 as a whole.

### ► Croatia

Last week, Moody's downgraded its sovereign rating to Ba1 (stable outlook) from Baa3, becoming the second major rating agency to include Croatia in speculative grades, citing poor growth prospects, insufficient fiscal reforms and high external debt.

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