



Weekly Export Risk Outlook



13 February 2013

In the Headlines

FIGURE OF THE WEEK: -2.4% FALL IN EUROZONE 2012 INDUSTRIAL PRODUCTION

► US: Positive data

The ISM survey of non-manufacturing business came out above 50, indicating expansion for the second consecutive month. The employment component of the survey rose 2.2 points after leaping 5 points in December, and now stands at 57.5, the highest since February 2006. Weekly jobless claims improved and the four week moving average fell to 351,000, down a very sharp 57,000 in just nine weeks and approaching levels which could bring unemployment down more rapidly. Both the ISM and jobless claims reports seem to conflict with January's employment report, perhaps indicating improvements there in February. The December trade deficit narrowed from USD -48.6bn to USD -38.5bn, possibly enough to push the next revision of Q4 GDP into growth territory from its current -0.1%.

► Eurozone: Industrial production

Eurozone industrial production increased by +0.7% m/m in December, slightly above expectations. However, the downward revision in November (to -0.7% m/m vs. -0.3% previously) results in a -0.9% q/q contraction in Q4 2012. Thus, in 2012 eurozone industrial production fell -2.4%, the second consecutive year of contraction. It is now 13% below the pre-crisis peak. The 2012 annual contraction was widespread with -1.1% in Germany, -2.1% in France, -6.9% in Spain, -6.6% in Italy, -4.0% in Portugal and -0.5% in Greece. However, industrial production grew in Ireland and Netherlands, up +1.9% and +2.0% respectively. These data confirm that 2012 ended on a negative tone and suggest a negative GDP growth number in Q4 2012 (EH expects -0.4% q/q). This trend is likely to persist, at least in H1 2013, although business confidence indicators suggest some stabilization at weak levels.

► China: Latest data

Inflation in January fell to 2.0% y/y (2.5% December). This was largely the result of food price rises which usually peak at the time of the Lunar New Year and which fell in January last year. Importantly, non-food price increases were hardly changed and remained low at 1.6% y/y. January trade data were also distorted by the Chinese New Year, as factories work overtime and shipments are brought forward. Exports surged by 25.0% y/y and import growth also accelerated, though both were above expectations which tends to suggest that demand continues to pick up. Bank lending also surged in January and overall credit, as measured by the broader "total social financing" increased strongly. This is likely to be positive for near-term growth of output, but may cause some concern among policymakers, especially if it continues to expand at a similar pace.

► Germany: Labour market resilience

Although latest official quarterly GDP data have yet to be published, the economic contraction in Q4 2012 is expected to have been deeper than initially estimated. However, recently released results from the Ifo Business Climate Index show a strong improvement in January for the third consecutive month, which suggests positive momentum this year. Against a difficult economic background in 2012, the labour market was relatively resilient, with data from the the Federal Statistical Office showing a total of 41.8 million people in employment in December 2012, representing an increase of +0.7% y/y. Moreover, a recent labour force survey shows that the number of people registered as unemployed declined -3.4% y/y, to reach 2.25 million by the end of 2012.

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► Mediterranean, Africa & Middle East – *Tunisia: Politics*

Last week's assassination of an important opposition political leader led to street protests, strikes and security forces on alert. In response the PM proposed an interim cabinet of technocrats to replace the Islamist-led coalition and oversee elections. This move has been rejected by the key coalition parties and discussions continue to try to find a way forward, with the outcome uncertain. This is a set-back in the political transition with downside risks, reflecting underlying tensions within and between Islamist and secularist groups. Meanwhile, a deterioration in the economy reflecting the uncertain transition and weakness in key trading partners have led to an approach for IMF assistance, reportedly a precautionary facility. As elsewhere in the region, political transition is proving challenging.



► Americas – *Venezuela: Devaluation*

An exchange rate devaluation from 4.30 strong bolivars per USD to 6.30 USD (46.9% change, effective from 13 February) was announced by the central bank last week. The exchange rate was also unified as the bond-exchange rate (SITME) was eliminated. Cadivi (responsible for the availability of foreign exchange) will set import priorities. The devaluation was widely expected, as the government needs to alleviate import scarcities and boost government revenues (oil revenues in local currency terms) pressures from both of which have been mounting. The devaluation, however, will boost already high inflation. It may also indicate growing confidence of the government in their position in the continued absence of President Chavez, who remains in Cuba undergoing treatment for cancer.



► Asia-Pacific – *Indonesia: Robust 2012 GDP growth*

Real GDP grew by +6.1% y/y in Q4 2012, maintaining the momentum of the previous three quarters and taking full-year 2012 growth to +6.2%, slightly down from +6.5% in 2011. In contrast to 2011, however, growth in 2012 was entirely driven by domestic demand. Private consumption expanded by +5.3% in 2012, public consumption +1.3% and investment +9.8%. Export growth slowed to +2% (+13.6% in 2011), affected by weakness in global demand, lower commodity prices and the imposition of export restrictions on non-processed minerals in May 2012. Import growth slowed also, but by less, to +6.7% (+13.3% in 2011), such that net trade subtracted -1.5pps from 2012 growth (+1.5pps in 2011). Expect this growth pattern to continue over the coming quarters, resulting in full-year 2013 growth of about +6%.



► Europe – *Baltic states: 2012 growth reflects resilience*

Latvia was the fastest growing economy in CEE in 2012, with Q4 real GDP growth of +5.1% y/y and +1.3% q/q, taking full-year growth to an estimated +5.5%, the same as in 2011. In **Estonia**, Q4 GDP expanded by +3.7% y/y and +0.9% q/q, resulting in full-year growth of +3.2% (+8.3% in 2011). **Lithuania's** Q4 GDP increased by +4.0% y/y and +1.0% q/q, taking full-year growth to +3.6% (+5.9% in 2011). Domestic demand was the key growth driver in all three countries, but external demand also contributed, showing remarkable resilience against Europe's general weakness in 2012. As a result, the Baltic region grew stronger than any other CEE economy and ST country risk has improved. Nonetheless, expect growth to ease to about +2-3% in 2013 as base effects from the earlier deep recession will wane.

Worth knowing

► **Jamaica**

The government has announced plans for another (domestic) debt-exchange with private sector holders in order to reduce debt servicing further, though the positive news is that this is part of negotiations for an IMF financial support programme. A similar debt-swap was undertaken in 2010.

► **Slovenia**

The political crisis deepened last week after a second junior coalition partner, DeSUS, decided to leave the government, shrinking the coalition's minority in parliament even further to 36 seats (out of 90). Early elections are increasingly likely.

► **Interest rates**

Poland: key policy rate cut by 25bps to 3.75% last week. **Serbia:** key policy rate raised by 25bps to 11.75% last week.

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