

Weekly Export Risk Outlook



3 April 2013

In the Headlines

FIGURE OF THE WEEK: **12%** > EUROZONE UNEMPLOYMENT IN FEBRUARY

► France: Confirmation of fiscal slippage

Contrary to government expectations, the fiscal deficit and public debt were both above target at end-2012. The fiscal deficit is estimated at -4.8% of GDP (compared with -4.4% in the Stability Programme) reflecting higher public expenditure (56.6% of GDP, 55.8% projected) as a result of Dexia's recapitalisation in December 2012 and lower public receipts (51.7% of GDP, 52.1% projected) because of weak economic activity. Consequently, public debt increased more than expected (+4.4pps of GDP to 90.2%, compared with an expected 89%). France now has to submit a new Stability Programme by mid-April against a background of European Commission forecasts of fiscal deficits of -3.7% and -3.9% of GDP in 2013 and 2014, respectively, but government forecasts of -3% and -2%, respectively. EH expects economic stagnation to prevail in 2013 (GDP +0.1%) with a moderate rebound in activity in 2014 (+0.9%). In this environment, EH expects the fiscal deficit to decrease to -3.6% of GDP in 2013 and -3.1% of GDP in 2014, while public debt is likely to increase to 95% of GDP in 2014.

► US: Non-housing data are lacklustre

Recent economic data were welcomed by local financial markets but the impact may be temporary. Housing remains a bright spot in the economy as prices increased for the 12th consecutive month in January, by +8.1% y/y. Overall Q4 2012 GDP growth was revised upwards, but only to a weak +0.4% annualised as a sharp fall in government spending and an increase in inventories were barely outweighed by very weak consumption growth of +1.8% annualised. Disposable personal income and expenditures both recovered in February, yet their real y/y rates of +0.9% and +2% are still markedly below average. The March ISM index showed manufacturing activity still expanding (51.3) but it registered a sharp drop from the previous month (54.2).

► Eurozone: Demand capped by record unemployment

Unemployment increased further in February, to a record high 12%, which is +1.1pps above the rate in the corresponding period in 2012. Significant divergence within the Eurozone group of countries continues to be evident, with rates of unemployment in Spain and France continuing to increase, to 26.3% (from 26.2%) and 10.8% (from 10.7%), respectively. In contrast, Italian data show a decrease for the first time in seven months, by -0.1pps to 11.6%, while German unemployment continues to reach new record low levels (5.4%). EH expects this divergence to continue for several months against a background of generally weak economic activity in the Eurozone in H1 2013, with private consumption remaining the main drag on overall growth (-0.1% q/q on average). However, a gradual stabilisation in economic activity is likely in H2, mainly driven by the export sector.

► Turkey: Slowdown in 2012, improving outlook

According to data from the Turkish Statistical Institute, Q4 2012 real GDP growth decelerated further, to +1.4% y/y (+1.6% in Q3) and 0% q/q (+0.1% in Q3). Full-year 2012 growth was +2.2%, sharply down from an upwardly revised +8.8% in 2011. Tight monetary policy, aimed at facilitating a soft landing for the economy (after overheating in 2010-11) curtailed private consumption (-0.7%) and private investment (-4.5%) in 2012. Countervailing fiscal policy—reflected in robust growth in public consumption (+5.7%) and public investment (+8.9%)—and a surge in gold exports to Iran kept the economy growing in 2012. Exports increased by +17.2% in 2012 while imports were flat because of weak domestic demand. Early indicators and sentiment indices suggest an improving outlook for 2013. Expect full year growth to pick up to around +4%.

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► Mediterranean, Africa & Middle East – *Algeria: Strong base*

Hydrocarbons account for around 45% of GDP directly and 98% of export earnings, and state-owned enterprises dominate the energy sector. FX reserves have been built up and at USD180 billion provide import cover of over 35 months. Algeria also manages a Sovereign Wealth Fund. This strong base is enabling the government to increase expenditure on social development (increased subsidies, new job schemes and improved infrastructure), thereby appeasing some popular expectations, as well as boosting growth. Expect government spending (including large infrastructure projects) to continue to underpin growth. Long-term annual average growth is +3.9% and GDP is estimated to have expanded by +4% in 2012 and is forecast to decelerate to +3.5% in 2013, before recovering to +4.5% in 2014.



► Americas – *Argentina: Update*

As required by the US appeals court, Argentina filed a payment plan for debt holders that did not participate in earlier debt exchanges. The plan offers the same terms as accepted by other holders in earlier exchanges. The appeals court ordered the so-called “hold-outs” to respond to the proposed plan by 22 April but, as it does not offer improved terms, it seems unlikely to be accepted by them. It remains to be seen how the US appeals court will rule finally but, in the meantime, uncertainty over whether Argentina will fall into technical default and how it might circumscribe a ruling against it, if at all, is set to persist. Elsewhere, the January monthly activity indicator showed a mild pick up, increasing +3.2% y/y (+1.1% in December 2012).



► Asia-Pacific – *India: Current account deficit*

PMI data for March show that manufacturing output expanded at its weakest rate for 16 months, with the headline index declining to 52 from 54.2 in February, the new orders index weakening to 52.8 from 56.3 and new export orders declining to 50.4 from 53.2. Such data still suggests expansion, but at a much reduced rate. Meanwhile, the current-account deficit hit record highs in October-December 2012 (Q3 of FY2012/13) at -6.7% of GDP (-5.4% in the previous quarter), reflecting an increasing trade deficit (energy accounts for one-third of the import bill and the cost of imported oil is equivalent to 5.9% of GDP, 3.7% average in 1990-2010) and weak FDI inflows. Overall, the balance of payments improved in Q3 FY2012/13 but this was because of volatile equity and bond flows rather than FDI.



► Europe – *Serbia: Mired in recession*

Revised estimates from the Statistical Office show that real GDP contracted by -2% y/y in Q4 2012, marking the fourth consecutive quarter of decline. Full year GDP contracted by -1.7% in 2012 (+1.6% in 2011). Domestic demand was particularly weak in 2012 as government consumption growth of +1.8% was insufficient to offset the declines in private consumption (-2%) and fixed investment (-3.4%). Exports increased by +4.5%, narrowly outpacing import growth of +4.2%. Even so, net exports contributed negatively to 2012 growth, given an unfavourable export/import ratio. In 2013, domestic demand is likely to remain subdued as a result of fiscal consolidation, while exports should be boosted as a Fiat car plant began output in mid-2012. Expect full year growth of around +1% in 2013.

Worth knowing

► North and South Korea

Tensions have risen sharply on the Korean peninsula against a backdrop of a relatively new regime in the North and annual military exercises with the US in the south. It seems unlikely that either side wants a military clash, although the full motives of the North remain obscure, but in a fragile atmosphere all sides will need to tread very carefully.

► Commodities

This year, benchmark all-commodity indices show prices falling consistently on a y/y basis, currently by -3.6%. Crude oil prices (Brent basis) are now around USD110.7/barrel (-11.8% y/y) and average USD112.6/b in the year to date (average for all 2012, USD111.7/b). Natural gas prices are +84% y/y and gold prices -5.6% y/y.

► South Africa

The manufacturing PMI fell below 50 in March (49.3 from 53.6 in February) signalling contraction in activity.

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