

Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: 7.5%[>]US APRIL UNEMPLOYMENT

▶ France: Economy on probation

One year after his electoral success, President François Hollande faces a major credibility challenge. In a recent poll, only 31% indicated confidence in his economic policies—an endorsement that has halved since the beginning of his mandate—and his rating is likely to deteriorate further following more weak data, including consumer confidence, industrial output and trade. Moreover, record high unemployment (12% in February), weakening corporate competitiveness (strong EUR and fiscal adjustments) and high public debt (95% of GDP in 2014) are making the deficit adjustments even more painful. As a result, European Commissioner Olli Rehn suggested that France may need an additional two years to reach its fiscal deficit target of -3% of GDP (by 2015), subject to further action in relation to structural reforms, including labour markets and social security provision. While the impact on growth of austerity measures should soften in the ST, the need for fiscal revenue generation and budget cuts remains significant, amounting to around EUR20-30 billion.

▶ US: Labour market

Non-farm payrolls increased by 165,000 in April, markedly above expectations, data for the previous two months were revised sharply upward and unemployment fell to 7.5%. However, the Fed unexpectedly announced that it might increase its future asset purchases. This may reflect other labour market conditions. Indeed, a broader measure of unemployment (including marginally-attached workers) deteriorated to 13.9%, the workweek fell -0.6%, temporary employment increased, the participation rate remained at the lowest since 1979 and the median duration of unemployment was 17.5 weeks, well above the peak (12.3 weeks) of any previous recession. Meanwhile, the April ISM manufacturing index barely remained in expansionary territory, falling from 51.3 to 50.7, while non-manufacturing slipped from 54.4 to 53.1. March construction spending fell -1.7% mo/mo.

▶ India: Interest rate cut

Last week, the Reserve Bank of India (RBI, central bank) again cut the key policy interest rate (repo) by 25bps. This was the third cut of 25bps so far this year. The RBI's action reflects an easing in headline and core inflationary pressures against a background of weaker economic growth in 2012 and indications of that trend continuing into H1 2013. Wholesale price inflation fell to 5.96% y/y in March (6.84% in February) and is now within the RBI's target 5-6% range for the first time in over three years. However, the RBI is likely to remain cautious in its monetary stance, particularly as the current account deficit remains large. Expect GDP growth to regain some momentum but not to return to annual rates of +9% before 2015 (around +7% in 2014).

▶ Eurozone: New high debt/GDP ratio in 2012

In 2012, government deficit ratios in many countries decreased moderately but in some countries, including Greece and Spain, they increased, despite attempts to address the shortfalls. The overall government deficit/GDP ratio in the eurozone declined from -4.2% in 2011 to -3.7% in 2012. The highest deficits last year were recorded in Spain (-10.6%), Greece (-10%), Ireland (-7.6%), Portugal (-6.4%) and Cyprus (-6.3%), while France recorded -4.8%. Germany was the only country with a surplus (+0.2%). The consolidated gross debt/GDP ratio for the eurozone increased from 87.3% in 2011 to a new high of 90.6% at end-2012, reflecting increasing debt levels—EUR 8,225.8 billion in 2011 to EUR 8,601 billion in 2012—and weak economic growth. At a disaggregated level, the highest debt ratios in 2012 were registered in Greece (156.9%), Italy (127%), Portugal (123.6%) and Ireland (117.6%), while France recorded 90.2% and Germany 81.9%.

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► Mediterranean, Africa & Middle East – *Namibia: Update*

In government, the previously Marxist independence movement SWAPO has promoted national reconciliation, democracy, good governance and a mixed economy. However, poverty remains pervasive (despite middle-income status), unemployment is high and economic diversification away from diamond mining is limited. Twin deficits are now recorded in the fiscal and current accounts but some relief is gained through a close association with South Africa and the regional customs and monetary unions. However, the NAD is pegged to the ZAR and inflationary pressures (consumer prices were up 6.2% y/y at end-2012) are likely to continue to be imported from that source. EH expects GDP growth of just over +4% in 2013 and 2014, compared with an annual average +4.5% in 2000-12.



► Americas – *Chile: Growth slowing*

The March monthly economic activity indicator (GDP proxy) was up +3.1% y/y—lower than expected—and unchanged mo/mo. Nonetheless, in Q1 the index increased by a still relatively robust +4.4% y/y. With growth easing from the fast pace of 2012, April inflation is likely to be still below the bottom end of the 2-4% target and, with a Q1 fiscal surplus, the central bank is likely to leave interest rates unchanged as overheating concerns recede. EH expects GDP growth of 4-4.5% in 2013. Meanwhile, Laurence Goldborne, seen as the strongest potential candidate for the ruling centre-right coalition, withdrew from November's presidential elections. The coalition faces an uphill struggle against former president Michelle Bachelet, the most likely candidate of the centre-left Concertacion.



► Asia-Pacific – *Malaysia: Election result*

In the general elections on 5 May, the ruling Barisan Nasional (BN, National Front) coalition led by PM Najib Razak won, but with a reduced majority. The BN won 133 out of 222 seats in the House of Representatives (down from 140 in 2008), with the Pakatan Rakyat (PR, People's Alliance) 89 (82). Moreover, for the first time, the BN lost the popular vote (5.22 million to the PR's 5.49 million). The election campaign featured widespread dissatisfaction over the country's power-sharing model, with indications that voting patterns are now more ethnically based. Market reaction to the election result was generally positive on the assumption that continuity of policies will prevail but, with Najib's position now weaker, some uncertainties in relation to the reform agenda may resurface.



► Europe – *Czech Republic: Outlook*

Revised data show that seasonally-adjusted real GDP declined by -0.2% q/q and -1.7% y/y in Q4 2012, marking the fourth consecutive quarter of contraction and taking full-year GDP down by -1.2%. The main reason for the unfavourable performance in 2012 was decreasing domestic demand, especially private consumption (-3.5%) and fixed investment (-1.6%). External trade, although moderating, was the only positive influence on growth as exports increased by +4.1% in 2012, outpacing import expansion of +2.1%. Early indicators suggest that the weakness in the economy will continue in H1 2013 but EH expects growth to pick up gradually in H2 as the global economy gathers some momentum. Full-year real GDP is forecast to grow marginally, at +0.2% in 2013, before picking up to around +2% in 2014.

Worth knowing

► China

Export growth was stronger than expected in April (+14.7% y/y). Imports also increased strongly (+16.8%) but the trade balance returned to surplus after a deficit in March.

► Pakistan

General elections (11 May) have been preceded by some violence and political assassinations, perhaps orchestrated by militant Islamists and the Taliban. Expect former PM Nawaz Sharif and his PML-N party to do well but stability and security will remain fragile whatever the electoral outcome.

► Libya

The General National Congress (parliamentary body) voted in favour of the Political Isolation Law, which will bar from office any individual with connections to the former regime. Strict adherence to the law will result in the removal from office of many civil servants and other officials at a time when experience is required to negotiate a difficult political transition.

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