Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: +1% >JAPAN'S REVISED Q/Q Q1 GDP GROWTH

Japan: BoJ policy statement and GDP revision

In its latest monthly statement, the Bank of Japan (BoJ, central bank) pledged to pursue both quantitative and qualitative monetary easing until its inflation target of 2% is achieved. According to the BoJ, the monetary base will increase at an annual pace of JPY60-70 trillion and the target for asset purchases remains unchanged. Also included in the statement is the latest economic outlook, with the BoJ now more confident about growth in the short term. Q1 GDP data have been revised upwards, with growth now put at +1% q/q from an earlier projection of +0.9%. EH expects GDP growth to accelerate to +1.6% in 2013 (and to remain relatively stable at +1.4% in 2014), driven by stronger domestic demand, especially public expenditure. However, excessive public debt is likely to remain a drag on growth.

US: Policy signals

May's employment report was lacklustre. Although job growth of 175,000 slightly exceeded expectations, data for the previous two months were revised down 12,000, unemployment ticked back up 0.1pps to 7.6% and both hourly earnings and weekly hours worked were unchanged. The Fed needs to see the labour market "improved substantially" before it starts to taper its programme of quantitative easing (QE) and there is widespread speculation that this could occur at the September meeting. However, there are only three more employment reports before then and it is unlikely that these will all be very strong, so it appears more likely that the tapering will not begin until later in the year, at the earliest. Moreover, the ISM non-manufacturing report, although mostly positive, showed employment falling from 52 to 50.1—barely in expansionary territory.

China: Still moderate growth

A raft of economic data for May released last weekend continued to point to at best moderate growth, with risks tilted to the downside. Industrial production was up +9.2% y/y, slightly down on April's +9.3%, led by light industry. Fixed asset investment in January-May increased +20.4% y/y, slightly down on January-April and slightly below 2012. Retail sales growth continued to improve slightly, however, up +12.9% y/y. Both exports (+1% y/y) and imports (-0.3%) weakened markedly, but monthly data has been erratic, clouded by possible over-invoicing and, in May, base effects. The trade balance remained in surplus. Credit expansion also slowed, although it has been strong so far in 2013. Inflation (CPI) eased to 2.1% (2.4% in April)—against expectations. Overall, growth expectations are being revised downwards. EH now forecasts +7.7% in 2013 with the risks to the downside.

Austria: Stagnation

GDP stagnated in Q1, following a contraction of -0.1% q/q in Q4 2012. Positive contributions were provided exclusively by public spending, growing by +0.5% after +0.2% in the previous quarter. Despite a moderate increase in foreign trade, with exports and imports both rising by +0.3%, the net export balance did not provide support for growth (contributing 0.0pps). While consumer spending remained flat (0%) for the fifth consecutive quarter, investment spending continued to fall, with investment in machinery and equipment contracting by -1% and construction spending down by -0.1%.

Countries in Focus

Mediterranean, Africa & Middle East – *Senegal: Update*

Following a decisive electoral victory in 2012, Macky Sall took over the presidency from long-serving Abdoulaye Wade. Sall has a clear popular mandate to govern but his presidential term will be challenging, given macro-economic imbalances, structural deficiencies and need to improve perceptions of a generally weak business environment. Large fiscal and current account deficits (-6.8% and -8.5% of GDP in 2012, respectively) are unsustainable in the long term and currently managed through inflows of financial aid. Membership of the CFA franc zone offers some limitation on exchange rate and transfer risk. Despite inefficient and erratic energy and power supplies, EH expects GDP growth of +4% in 2013 and +4.5% in 2014, compared with a long-term annual average of +4%.

Americas – *Venezuela: Growth slows sharply*

The economy slowed sharply in Q1 as GDP increased by just +0.7% y/y after an annual increase of +5.5% in 2012. Petroleum sector output increased (+0.9% y/y) but construction (-1%), manufacturing (-3.7%) and mining (-25.5%) all contracted. Inflation in May accelerated sharply, to 35.1% y/y. The Q1 current account surplus was USD1.7 billion (USD7.5 billion in Q1 2012). Lower oil prices impacted export earnings but non-oil exports also fell as companies struggle to source raw material inputs. Exchange controls and other government intervention limit inputs to production and create consumer shortages, so inflation is likely to stay high and growth low. Oil prices remain crucial. Meanwhile, the audit by the National Electoral Commission confirmed President Maduro’s election win.

Asia-Pacific – *Philippines: Highest regional GDP growth*

Q1 GDP growth accelerated to +2.2% q/q (+1.9% in Q4 2012) and +7.8% y/y (+7.1% in Q4), making the Philippines the fastest growing economy in the region, as surging domestic demand offset weakening exports. Robust private consumption expanded by +5.1% y/y in Q1 (+6.2% in Q4), infrastructure projects boosted government consumption growth to +13.2% (+9.5% in Q4) and strong construction activity propelled fixed investment growth of +16.8% (+19.7% in Q4). However, exports collapsed, falling by -7% y/y in Q1 (+8.6% in Q4), while imports retained modest growth of +1.6% (+8% in Q4). EH expects domestic demand to retain momentum amid an ongoing weak global environment in 2013, resulting in full year GDP growth of around +6%.

Europe – *Latvia: Good news (at last)*

Last week, the European Commission and the ECB recommended that Latvia should be allowed to adopt the EUR at the start of 2014. The final decision will be made by the European Council of Ministers, scheduled for 9 July. As a consequence, S&P this week raised its rating of Latvia by one notch to BBB+, with a stable outlook. Meanwhile, according to the Central Statistical Bureau, Q1 GDP growth was revised upwards to +3.6% y/y (from a +3.1% flash estimate) and +1.4% q/q (from +1.2%), making Latvia the fastest growing economy in Europe in Q1. Strong private consumption contributed +3.4pps to Q1 y/y growth and government consumption added +0.2pps, while fixed investment subtracted -2.5pps. Net exports added +1.1pps, with expansion of exports clearly outpacing imports.

Worth Knowing

Iran

The winner of the presidential elections on 14 June is now difficult to predict, given that some leading candidates were barred from standing, others withdrew themselves and pre-poll alliances are moving support towards particular individuals in both the hardline and reformist camps. It remains likely that the successor to President Mahamoud Ahmadi-Nejad (who will step down under a constitutional ruling) will be closer to Supreme leader Ayatollah Ali Khamenei than the incumbent, so do not expect the elections to presage significant policy changes.

North and South Korea

Tensions on the Korean peninsula appear to be easing—after rising sharply in early 2013—as North and South Korea agreed to hold high-level inter-governmental talks this week. A key point on the agenda is expected to be restoration of suspended commercial links. The North also intends to reconnect a Red Cross hotline that was cut in March, which will reduce the risk of an accidental military escalation.