Euler Hermes Economic Research

Weekly Export Risk Outlook

4 September 2019

In the Headlines

FIGURE OF THE WEEK

+5.0%

Q2 2019 y/y GDP growth in India

Turkey: Bottomed out, but still contracting year-on-year

Real GDP grew by a seasonally adjusted +1.2% q/q in Q2 2019, after +1.6% in Q1, which followed two quarters of q/q decline in H2 2018. Yet, in y/y terms GDP shrank for the third consecutive quarter, albeit by a smaller than expected -1.5% in Q2, after -2.4% in Q1 and -2.8% in Q4 2018. Consumer spending (-1.1% y/y), fixed investment (-22.8%) and inventories (-2.2pp) continued to contribute negatively to growth in Q2, still impacted by the currency crisis (the average TRY per USD rate in Q2 was down -34% y/y) as well as the political and financial market turmoil in the aftermath of the local elections held at the end of March. Imports dropped by -16.9% y/y in Q2 in line with domestic demand while exports rose by +8.1% as firms gained competitiveness due to the sharp TRY depreciation. As expected, public spending expansion moderated to +3.3% y/y in Q2, after it had been boosted to +6.6% by election-related spending in Q1. Meanwhile, advanced indicators such as retail sales, industrial production and the manufacturing PMI suggest that the recession has bottomed out. We forecast full-year GDP to decline by -0.2% in 2019 and to expand by about +2.3% in 2020. Note that currency risk is not off the agenda: After just losing -3.6% vs. the USD from the start of 2019 to 14 August, the TRY lost -5.7% in the second half of August alone, amid rising global trade tensions and the resurging Argentina crisis.

Greece: Fastest-growing Eurozone economy in Q2 2019

In the second quarter of 2019 Greece was the fastest-growing Eurozone economy with GDP expanding by +0.8% q/q after +0.2% q/q in the previous quarter. The positive performance was largely driven by the external sector – thanks to strong export growth (+3.3% q/q) coupled with a contraction in imports (-0.8% q/q) – and a strong expansion in public consumption (+4.3% q/q). Meanwhile investment (-5.5% q/q) and private consumption (-0.4% q/q) recorded declines. Going forward, prospects for Greek exports are likely to become more subdued as the Eurozone economic momentum remains muted and trade uncertainties are unlikely to go away anytime soon, but strengthening domestic demand will come to save the day. After all, economic sentiment has risen markedly following the business-friendly New Democracy's victory in the 2019 parliamentary elections – with consumer confidence rising to a 19-year high in August. For 2019 as a whole we continue to stick to our GDP growth forecast of +1.6%.

South Africa: No recession, but no free lunch either

The South African economy avoided a recession in Q2 and grew by +0.8% q/q, but its GDP is still below the level in Q3 2018. The main rationale behind this positive performance in Q2 was a recovery of those sectors that were most impacted in Q1 2019. Household consumption recovered (+0.7% q/q in Q2 after -0.1% in Q1) after power cuts affected household spending in Q1. Mining activity was also among the sectors to recover in Q2, after three quarters of contraction. For the months to come, we expect South African growth to experience new short-lived boom-bust cycles and the average to be very weak. Growth for all of 2019 is forecast at +0.5%, not enough to cope with population growth and to change the job market situation (the unemployment rate rose to 29% in Q2). Public finances should remain under pressure as a result of low growth and SOE debt problems. The fiscal deficit is forecast to deteriorate to -5% of GDP in 2019, putting pressure on the ZAR while the risk of a recession risk will persist for a long time.

Emerging Markets: Trade openness, from blessing to curse?

The last time Emerging Markets (EM) experienced a contraction in their manufacturing activity (2016), open economies did not suffer from it, but this time they are the most affected. Our EM aggregate manufacturing PMI was in contraction territory in August for the fourth month in a row, at 49.6 points. Looking at specific countries, our open economies index experienced the twelfth month in contraction area (48.8 in August). Meanwhile, the closed economies (with a low export to GDP ratio) PMI never fell below 50 during the last year (50.6 in August). The protectionist moves in the US-China rivalry has clearly impacted open economies more than others. Difficulties in the car and electronics sectors added to that, also affecting open economies involved in supply chains (Eastern Europe in the German car value chain, Eastern Asia mainly affected through electronics and petrochemicals). In Hong Kong, the PMI dropped heavily to 40.8 in August (now close to the trough experienced in 2008), increasing the risk of a broad recession.

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Countries in Focus

Americas

Brazil: Recession avoided but acceleration still delayed to 2020

Real GDP grew +0.4% q/q (+1% y/y) in line with our expectations, after contracting -0.1% q/q (+0.5% y/y) in Q1. Brazil hence avoided a recession (two straight quarters of q/q contraction) helped by rebounding investment (+3.2% q/q after -1.2% in Q1). However, investment still accounts for just 16.1% of GDP in real terms, around early 2016 levels and much below the last peak of 21% in 2013. Public consumption dropped -1% q/q (-0.7% y/y) as the government continued tightening its belt to boost public savings, lower the fiscal deficit and stabilize the public debt-to-GDP ratio. Yet the aggregate national savings rate declined, despite such efforts, probably reflecting a cautious consumer. We expect real GDP to grow +1% this year after +1.1% in the past two years, as the level of slack in the economy is still high (12% unemployment rate and below-average corporate capacity utilization rate). Growth should finally – but only moderately – accelerate in 2020, as a watered-down pension reform and the first privatizations start to bear fruit, somewhat boosting business and consumer confidence.

Europe

Eurozone: Recession in manufacturing to continue in H2 2019

The balance of opinion of industrials in the Eurozone is in negative territory since the start of 2019, albeit it improved slightly in August. The number of companies in the Eurozone which expect contracting export order books has been slightly lower in August, but the balance remains in negative territory (-13%). The soft demand and the high prevailing global uncertainty keep companies' stocks at "higher levels than usual times". The divergence with the services sector persisted as companies in this sector remain more optimistic, even if the balance of opinion has softened further (below +10% for the first time since July 2015). The financial situation in the next 12 months as judged by consumers has improved in August while their saving intentions decreased. We expect consumers to continue to keep afloat the services and construction sectors while the manufacturing sector will remain in recession, driven by the global trade in goods contraction since the start of 2019.

Africa & Middle East

Nigeria: Easing or not, much ado about nothing?

Nigerian GDP growth disappointed in Q2 (+2% y/y), again…experiencing its 17th quarter below population growth. Such a long goodbye means that Nigeria never really recovered after the oil price shock that interrupted suddenly its growth cycle in 2015, despite a partial rebound of the oil price (59 USD/bbl currently) from the 2016 trough (30 USD/bbl). This low performance also means that the relaxation of credit controls in Q2 did not provide the credit stimulus intended to the economy and that monetary policy may be eased further. However, the transmission of this easing to activity should remain limited. The underdevelopment of the agricultural sector is among the main weaknesses, and the recurrent conflicts between herders and farmers show how deep the missed potential is, implying that Nigeria should continue to import food. Among other weaknesses, Nigeria continues to export crude oil that is refined elsewhere. Moreover, the infrastructure boost that is needed along with urbanization is not materializing. As a result, growth is expected to remain capped (+2% in 2019 and +1.5% in 2020).

Asia Pacific

India: Unexpectedly sharp slowdown

Real GDP growth dropped to a six-year low of +5% y/y in Q2 (April-June 2019), weighed down by a slump in manufacturing (+0.2%) and modest expansion in agriculture (+2%). On the demand side, the deceleration was broad-based, with private consumption growth down to +3.1% y/y (+7.2% in Q1), public consumption to +8.8% (+13.1% in Q1) and real exports of goods and services to +5.7% (+10.6% in Q1). In nominal terms, exports of goods even shrank by -1.7% y/y in Q2 after a +6.7% increase in Q1. Looking ahead, the budget of the fiscal year (FY; running from April to March) 2019-20 as well as a high level of public debt (just under 70% of GDP) leave little room for more stimulus. However, given currently low inflation (3.1% y/y in July) there is policy space for further interest rate cuts (after already four cuts YTD) to lift economic activity, though currency weakening would be a downside risk in that case. We have revised down our GDP growth forecasts to +5.3% in FY2019-20.

What to watch

- September 5 – Bulgaria Q2 GDP (2nd estimate)
- September 5 – Germany July factory orders
- September 5 – Russia August inflation
- September 5 – Ukraine monetary policy meeting
- September 6 – Brazil August inflation
- September 6 – Czechia July industrial production
- September 6 – France July trade balance
- September 6 – Germany July industrial production
- September 6 – Hungary July industrial production
- September 6 – Romania Q2 GDP (2nd estimate)
- September 6 – Russia monetary policy meeting
- September 9 – Mexico August auto production and exports
- September 10 – France July industrial production
- September 11 – Poland monetary policy meeting

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