

Weekly Export Risk Outlook

24 October 2019

FIGURE
OF THE WEEK

+6%

Q3 2019 y/y
GDP growth
in China

In the Headlines



Chile: Widespread protests, contained risks so far

Since 18 October 2019, Chile has experienced its most violent protests in 30 years. While the trigger of the protests was a metro fare hike in Santiago, the root causes lie in the high income inequality (the highest in OECD member countries) and a middle class struggling to escape precariousness, despite robust economic growth (+3.1% on average over the past decade). In the coming weeks, looting risks will remain high and major transport and supply chain disruptions are likely. Small companies in specific sectors such as public transportation, supermarkets and retailers may face financing problems. The government has hence put forward a “new social agenda”, pledging for instance to raise the minimum pension by 20%, cut prices of medicines for the poor, and guarantee a monthly minimum wage of USD480. To finance such an agenda, President Piñera announced he would raise the income tax from 35% to 40% for those earning more than USD11,000 a month and a cut in public officials’ wages. We see little sizable impact on national economic activity so far. Yet, protests have not stopped, and if strikes continue, especially at the country’s largest copper mine, we could see a stronger negative impact on growth, just like in 2017.



Germany: Weak start to Q4

In October, the German composite PMI registered below the 50 no-change level for the second time in a row, signaling a further contraction in economic activity. The slight improvement in the manufacturing PMI is a welcome development, but clearly too weak to even hint at a tentative turnaround. In addition, there are increasing signs that the pronounced industrial weakness is spreading to other sectors with the services PMI falling to the lowest level since 2016. Particularly worrying in this context is the decline in total employment – the first in six years. As a result, the most important pillar of the German economy – private consumption – could soon start to wobble. 2019 has already been confirmed as a difficult year for the German economy. However, the coming year is unlikely to bring a more positive development judging by the renewed setback in business expectations, which in October reached the lowest level since November 2012. For both 2019 and 2020, German GDP looks set to expand by only +0.6% and hence only about half as fast as for the eurozone as a whole.



France: Mind the credit cycle

France has experienced a deterioration of manufacturing confidence (to the weakest level since March 2015) as well as of the total turnover of companies that went insolvent. The weakening of business confidence since a year ago was first driven by lower order books; then inventories increased during spring (particularly in the car value chain). Yet, manufacturing output avoided a recession in Q2 2019 thanks to strong export growth driven by aeronautics (+EUR6.8bn y/y YTD) and chemicals (+EUR3.3 bn). As this effect has vanished, manufacturing output is likely to have contracted in Q3. The latest confidence survey suggested that the decline gathered pace in October. At the same time, the total turnover of failed companies rose to EUR20.9bn in September (+EUR1bn m/m as well as y/y) with 147 additional insolvencies of firms with a turnover above EUR1mn (severity aspect). Notably in the car sector, 22% of the corporates now signal cash shortages (that ratio was higher only in 2009 and 2013) according to Insee. We expect further insolvencies in the months to come.



Turkey: Appropriate rate cut, but uneven recovery ahead

As expected, the Monetary Policy Committee today lowered its key policy one-week repo rate – by 250bp to 14%, arguing that the moderate economic recovery continues and the inflation outlook improves. The size of the rate cut appears appropriate – we had argued that a too bold cut (by 350bp or more) could raise risks of TRY instability again. Headline inflation fell to 9.3% y/y in September due to strong base effects but we forecast it to return to double digits by the end of the year. Advanced indicators indeed suggest that the recession has bottomed out but also that the recovery will be bumpy. Industrial production dropped again by -3.6% y/y in August after the decline had eased to -1.1% in July. Likewise, the decline in real retail sales accelerated to -4.3% y/y in August (-0.8% in June). Moreover, there are considerable downside risks to the recovery of the still [vulnerable economy](#), including ongoing political uncertainties. The TRY has been volatile in October, losing -5% vs. the USD in the first half of the month, of which it has recovered half as of today.



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Countries in Focus

Americas

U.S.: Manufacturing and housing both continue to weaken

The manufacturing sector appears to be sliding deeper into contraction. Headline orders for durable goods fell -1.1% m/m, and after the previous month's weak +0.3% m/m increase, the y/y rate fell to an alarming -5.4%. While at least part of the decline was due to the grounding of the Boeing 737 Max and the GM strike, even after stripping those items out, core orders fell, losing -0.5% m/m, the second straight decline, to -0.8% y/y. Shipments of core durable goods, which are a direct input into GDP, fell -0.7% m/m to a very weak +0.4% y/y rate. The housing market continues to struggle despite lower mortgage rates. Housing starts, permits, existing home sales, and new home sales all fell in September, respectively losing -9.4% m/m, -2.4% m/m, -0.7% m/m, and -2.2% m/m. However, as the data is volatile, all four measures remain positive on a y/y basis.

UK: "In principle" there is a Brexit deal

PM Boris Johnson managed to get a majority on his Brexit deal on 22 October. However, as expected, he didn't get support for a fast ratification process allowing the UK to leave on 31 October, calling for a technical extension until 31 January 2020, that EU heads of state are expected to grant shortly (maybe under some conditions). The next steps for us continue to be general elections by year-end (possibly accompanied by a second referendum). The Brexit bill will soon be sent to the House of Lords which is likely to ask for a series of amendments as 85% of them are pro-EU. While the Brexit uncertainty is a bit lower, the probability of views switching in the opposite direction after the elections is not negligible. Moreover, the targeted FTA (UK out of the EU Single Market, zero tariffs on goods and no more passporting rights for the services sector) and the feasibility of the proposed dual customs union system for Northern Ireland remain big question marks. We expect UK real GDP to increase by +0.8% in 2020, at best.

Lebanon: Dire straits

Protests against perceived failed government economic policies, ongoing dollar shortages, new taxes, corruption and poor services that began in moderate numbers at the end of September have intensified into large-scale, partly violent, nationwide rallies (in a country where political movements are normally divided on sectarian lines and struggle to draw widespread appeal) by mid-October. This week, the government responded with an emergency reform package, including the halving of the salaries of ministers and lawmakers, the banking sector contributing USD3.4bn to deficit reduction, abolishing or merging some public institutions. The long-delayed reform of the state-run, loss-making power sector shall also be accelerated. But this will not be enough and protestors are likely to stay in the streets. On the economic front, recurrent dollar shortages are likely, raising the risks of devaluation of the LBP, bank runs, currency and capital controls, shortages of basic goods, and non-payment risks for imports. Financial help from the GCC and Europe could help, but potential donors will also request for more substantial reforms.

China: The slowdown continues

China's GDP growth came in below expectations in Q3, declining to +6% y/y from +6.2% in Q2. Monthly data also suggest that the slowdown of the Chinese economy is not over yet. Industrial production in September rebounded more than expected (to +5.8% y/y from +4.4%) but is below the pace of growth in H1. Fixed assets investment disappointed, slowing to +5.4% y/y YTD in September (from +5.5% in August), due to the private sector. Retail sales rebounded slightly in September, to +7.8% y/y from +7.5%, but may have been supported mainly by higher inflation. Chinese leaders seem to be comfortable with the ongoing slowdown. The policy mix is accommodative, but a fully-fledged stimulus plan seems unlikely in the near term. Illustratively, the Loan Prime Rate (LPR) updated on 21 October remained unchanged (for now), against consensus expectations of a c.5bp decline. Euler Hermes expects China's GDP to grow by +6.2% in 2019 and +6.1% in 2020, with downside risk for next year.

What to watch

- October 25 – Germany October ifo business climate
- October 25 – Russia monetary policy meeting
- October 25 – Turkey October business confidence
- October 30 – Canada BoC policy announcement
- October 30 – France and U.S. Q3 GDP
- October 30 – Germany October inflation (1st estimate)
- October 30 – U.S. Fed policy announcement
- October 31 – China October official PMIs
- October 31 – Eurozone Q3 GDP
- October 31 – Eurozone October inflation
- October 31 – Germany September retail sales
- October 31 – Japan September Industrial Production
- October 31 – Japan BoJ monetary policy meeting
- October 31 – Japan October consumer confidence
- October 31 – Hong Kong and Taiwan Q3 GDP

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