Euler Hermes Economic Research

Weekly Export Risk Outlook

3 April 2019

FIGURE OF THE WEEK

19.7%

March y/y inflation in Turkey

In the Headlines

Turkey: Wind of change?

Last Sunday's local elections – which President Erdogan had more or less upgraded to a referendum on his leadership – resulted instead in a major setback for him. Preliminary results indicate that his ruling AKP-led alliance won a majority of the constituencies but less than in 2014. Crucially, the AKP lost both Ankara and Istanbul to the opposition CHP, a heavy blow to the President. This reflects voter discontent with Erdogan's economic management, which has resulted in a painful recession, high inflation and surging unemployment (13.5% in December). The AKP announced that it will challenge the results in the two major cities, but this is likely to further deteriorate voter and investor confidence. The latter had already been damaged throughout March as the country's authorities appear to have used strong interventions to prop up the lira ahead of the elections, which obviously worked neither on the political nor on the economic front (see WERO 27 March 2019 on financial market volatility and losses). In the days following the election, markets have remained volatile. Expect continued political and economic turbulences in the next weeks. In the medium term, Turkey has a rare four-year window before the next elections to focus on a serious reform agenda. However, the election result poses an increased risk that the government may miss this chance and instead opt for short-term quick fixes.

UK: Towards a softer Brexit

The UK Parliament voted on Monday night on four alternative Brexit options, all of which once again did not find a majority. However, the permanent Custom Union with the EU lost by only 3 votes (vs. 6 last Friday) so there is clearly a momentum building up in the Parliament around this option. Interestingly, the option which got the largest increase in support was the Norway+ option (Custom Union + Single Market). As a reminder, on 29 March the Parliament rejected by a strong margin the "No deal" scenario on 12 April (160 to 400 votes) which is the deadline set by the EU. Revoking Article 50 was also rejected (184 to 293 votes). As a reminder, PM May has until the next EU Summit on 10 April to come up with an alternative solution in the absence of a majority on her deal (already rejected three times by the UK Parliament). The options are: (i) a longer extension of Article 50 with a clear purpose (i.e. negotiating a softer Brexit); (ii) no deal; (iii) no Brexit (i.e. revoke Article 50 unilaterally). The UK Parliament needs to find a majority on one of these Brexit options or Theresa May's deal and we believe the series of votes will continue in the Parliament in the coming days.

U.S.: Consumers timid, manufacturing mixed

The final estimate of Q4 2018 GDP growth was revised down sharply from +2.6% q/q annualized to +2.2%. For all of 2018, the economy grew +2.9%, tying with 2015 for the fastest year of the recovery. We expect GDP to grow at a slightly cooler pace of +2.5% in 2019. In January, real disposable personal income fell while consumption rose less than expected, to a lukewarm +2.3% y/y. February income rose an estimated +0.2% m/m to a solid +3% y/y, but that's down substantially from +3.9% in December. Inflation in the report remained tame. Consumers were again absent in February as retail sales fell -0.2% m/m to a tepid +2.2% y/y rate. Core sales fell -0.2% to a soft +2.9% y/y rate. Manufacturing data was mixed. The ISM report was positive, gaining +1.1 points to 55.3, as the new orders component rose +1.9 points to 57.4. But durable goods orders were weak, falling for the first time in five months, losing -1.6% m/m to a +1.8% y/y rate, the slowest in 17 months. Core orders fell -0.1% m/m to a soft +2.6% y/y pace.

Ukraine: Comedian or oligarch?

Volodymyr Zelensky, a comedian, won the most votes (30%) in the first round of Sunday's presidential election, trailed by incumbent Petro Poroshenko (16%) and former PM Yulia Tymoshenko (13%). Zelensky and Poroshenko will face each other in a run-off vote on 21 April. The outlook for the next presidential term is not overly promising. President Poroshenko has failed to tackle high levels of perceived corruption, stalling economic reforms and low living standards during his five-year term. And Zelensky, who has benefited from voter discontent over these grievances, has no political experience. The outcome in the run-off is open, despite Zelensky's strong lead in the first round. Poroshenko was written off a year ago but has managed a sort of comeback, campaigning as defender of the nation against Russia. Expect a turbulent campaign for the run-off.

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Countries in Focus

Americas

Canada: GDP starts 2019 on a strong note

The Canadian economy grew +0.3% m/m in January, much faster than expectations of only +0.1%. It was a welcome relief as the economy had shrunk in three of the four prior months. Growth was widespread across 18 of 20 major sectors, and the resulting +1.6% y/y rate starts off Q1 with an unexpected boost. Construction rose a very stiff +1.9% m/m, the first gain in eight months. Manufacturing increased +1.5% m/m, the first increase in three months. However the energy sector fell -0.6% m/m, the third loss in four months, as the industry struggles with mandatory production cuts. Ex-energy, the economy grew +0.4% m/m and +1.8% y/y. We expect the Canadian economy to grow by +1.6% for all of 2019, a bit cooler than 2018's +1.8%, primarily because of a slowing U.S. economy, trade uncertainties, and unstable energy and housing sectors.

Europe

Slovakia: A success for liberalism

On 30 March, Zuzana Caputova won the run-off in the presidential election against Maros Sefcovic, Slovakia's European commissioner, with 58.4% of the vote. Although the president's role in Slovakia is largely ceremonial, the victory of the liberal, pro-European and anti-corruption activist Caputova is remarkable as it also represents a rare victory for liberalism in an age of populism, especially in Central Europe. On the economic front, Slovak real GDP growth accelerated notably to +4.1% in 2018 (from +3.2% in 2017) driven by a strong rebound in gross capital formation (+8.9%, up from +1.1% in 2017) and a solid expansion of consumer spending (+3%) while public spending increased more modestly (+1.9). Exports rose by +4.8% but were outpaced by imports at +5.3%, so that net exports made a negative contribution to 2018 growth. Looking forward, we forecast annual growth to slow down to +3.4% in 2019, mainly as a result of weaker external demand, especially lower imports from the Eurozone (notably from Germany). The automotive industry is likely to be more affected than other sectors.

Africa & Middle East

Morocco: Losing the export mojo?

The Moroccan export-driven growth model lost momentum in 2018. Real GDP growth slowed down to +2.9% from +4% in 2017, with two major weakening demand components. First, in Q4 the export performance continued to lose ground (+4.5% y/y in volume terms), landing from a stellar +12.7% y/y in Q4 2017. Second, investment growth deteriorated to -1% y/y in Q4 2018, taking the full-year performance to +3.5%, compared to +6.6% in 2017. The faded global trade momentum has affected Morocco in two ways: (i) the car industry (the country's major export sector) is facing lower global demand; and (ii) Morocco's main trade partners are experiencing a marked slowdown (e.g. Eurozone growth is forecast to decrease to +1.2% in 2019). Against this backdrop, Moroccan growth should fall further to +2.5% in 2019. Uncertainties related to global trade developments and political evolutions in the Eurozone are already partially priced in into this forecast. Lower income growth is also likely to have an impact on unemployment (again above 10%) and insolvencies (+3% in 2019).

Asia Pacific

China: Spending up?

China's business surveys surprised on the upside in March. In the manufacturing sector, both the official and the Caixin PMI surveys pointed to an expansion in activity (readings above 50.0). The official index rose to 50.5 points (from 49.2 in February) and the private one to 50.8 (from 49.9) supported by an improvement in output and new orders. Outside of the manufacturing sector, the two surveys signaled a strong uptick: 54.8 for the official non-manufacturing PMI survey; 54.4 for the Caixin services PMI. In our view this is another sign that the expansionary measures (tax cuts, infrastructure spending, e.g.) that have been adopted over the past months have begun to have an impact on growth. New export orders are still weak due to low growth in global demand, but domestic orders are picking up. We pencil in relatively slow growth in Q1 (+6.2% y/y) as January and February figures were disappointing, but activity is likely to accelerate from Q2 onwards, bringing full-year growth to +6.4%.

What to watch

- April 4 – Germany February factory orders
- April 5 – Canada March employment report
- April 5 – France February trade balance
- April 5 – Germany February industrial production
- April 5 – Russia Q1 consumer confidence
- April 5 – U.S. March employment report
- April 8 – Canada March housing starts
- April 8 – Czechia February industrial production
- April 8 – Japan February current account balance
- April 8 – U.S. February factory orders
- April 9 – Hungary March consumer prices
- April 9 – Ukraine March consumer prices
- April 10 – EU Emergency Summit on Brexit
- April 10 – France February manufacturing production
- April 10 – UK February GDP

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