Euler Hermes Economic Research

Weekly Export Risk Outlook

28 November 2019

FIGURE OF THE WEEK

+0.4%

Q3 2019 q/q GDP growth in Switzerland

In the Headlines

World Economy: Industrial recession confirmed in Q3

As expected, global trade of goods in volume terms fell by -1.3% m/m in September after +0.5% in August. However, global trade has bottomed out in Q3 (+0.5% q/q) after being in recession since Q4 2018. The worst could be behind us as we do not expect any further escalation in the U.S.-China trade dispute but we expect global trade of goods and services to remain in a low-growth regime in 2020 (+1.7%, see our report). Noteworthy, companies continued to cut export prices amid low global demand and high inventories. Meanwhile, the global recession in industrial production has been confirmed in Q3 (-0.1% q/q) after no growth in Q2. The Eurozone has remained in recession (-0.8% q/q in both Q2 and Q3), the U.S. has bottomed out (+0.4 q/q after two consecutive quarters of contraction) while emerging markets have remained in no growth territory. Central and Eastern Europe showed resilience, but Latin America, the Middle East and Africa were in recession while Asia registered a sharp slowdown. In China, industrial production has grown by +0.5% q/q in Q3 after similar growth in Q2, three times less compared to the end of 2018. Overall, we expect further monetary easing by a majority of central banks to continue boosting confidence and credit growth and help the global economy bottom out in Q2 2020.

Switzerland: Resilient exports prop up Q3 GDP growth

In the third quarter of 2019, Swiss GDP growth accelerated to +0.4% q/q after +0.3% q/q in the previous quarter. While private consumption (+0.2%) and investment in construction (+0.2%) registered only modest growth, the momentum around public consumption (+0.5%) and investment in equipment (+0.7%) proved more dynamic. However the main driver behind the solid Q3 performance was exports. While overall the Swiss export sector clearly is not immune to ongoing headwinds from the slowdown in global momentum and elevated trade uncertainty, some sectors that are less sensitive to the business cycle – including chemical and pharmaceutical products as well as energy exports – recorded remarkable growth rates and helped prop up the Swiss industry. However, the Q3 GDP release is likely a case of "as good as it gets". Going forward this rate of GDP expansion is hardly sustainable as external headwinds will persist in 2020 while domestic demand – and in particular the consumer – are showing increasing signs of fatigue.

Nigeria: In search of lost growth

Economic growth showed no sign of an acceleration in Q3, reaching +2.3% y/y which results in approximately zero growth per capita and which is well below the +6% growth rates registered until 2014. In Q3, as during the last two years, growth was achieved in only about three sectors: Agriculture (non-processed agrifood which accounts for only 4% of Nigerian GDP), crude oil (non-refined oil which represents just 0.1% of GDP) and telecoms. Informality can be one reason, but this is obviously not the only one since manufacturing and construction output are stagnating. For the time being, the relaxation of credit constraints implemented during last summer has failed to translate into more credit demand. The cash crunch experienced in 2016 is not long ago yet, and corporates still have a high preference for cash hoarding. Without enough resources (the tax to GDP ratio is about 5%) the government still has no fiscal leeway in order to stimulate the economy. Against this background, we expect economic growth to stay within a narrow band, between +1.5% and +2% during next quarters.

Romania: Take a (second) chance on me

Incumbent centrist President Klaus Iohannis won a second term last Sunday, gaining about two thirds of the vote in the presidential election runoff against his center-left challenger Viorica Dancila, who had been prime minister until October when her government collapsed. Iohannis has pledged to resume judicial reforms slowed down by successive Social Democrat governments. The recently updated 'Worldwide Governance Indicators 2019' survey of the World Bank discloses considerable weaknesses for Romania with regard to Regulatory Quality (rank 69 out of 209 economies, down from rank 62 in 2017), Rule of Law (rank 77) and Control of Corruption (rank 100, down from rank 90 in 2017). And in the also recently published 'Ease of Doing Business 2020' survey of the World Bank, Romania is ranked comparatively well with regard to Resolving Insolvency (56th out of 190; score 59.1 out of 100), but has deteriorated from rank 52 (score 59.9) last year. It remains to be seen if the re-elected President and the new government can live up to their pledges.

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Countries in Focus

Americas

U.S.: Slowdown still likely

Recent data continues to suggest a slowdown in 2020. Real personal consumption, 70% of the economy, gained only +0.1% m/m in October as the y/y rate fell to +2.3% from +3.2% last October. Real disposable income fell -0.3% m/m, the most in over four years, to +2.8% y/y, down from +3.8% a year ago. The index of leading indicators fell for the third straight month and on a y/y basis it's the lowest since the recession. Weekly jobless claims fell, but on a four-week basis are +9% above the April low, suggesting a slowing labor market. Consumer confidence fell for the fourth straight month to 126.5 points, below the recent high of 135.8 set in July. Corporate profits gained +1.3% q/q, but the y/y rate is only +0.4%. Durable goods orders gained +0.6% m/m but the y/y rate is -0.7%. Core orders gained +1.2% m/m but the y/y rate is -0.8%. Shipments, a component of GDP, rose for the first time in four months, gaining +0.8, but to only +0.4% y/y.

Europe

Turkey: Export gains to discontinue in 2020

Turkey's 12-month rolling current account balance moved into surplus in June 2019 – for the first time since November 2011 – and widened to +USD5.9bn in September. This reflects the strong economic rebalancing in the wake of the 2018/2019 currency crisis (the TRY lost on average -33% vs. the USD in 2018 and -17% in 2019 YTD). In the first three quarters of 2019, exports of goods and services gained +USD10bn y/y while imports lost -USD23bn. However, we do not expect further significant export gains in 2020 (just +USD0.1bn) as the rebalancing should gradually fade next year. Instead Turkish exporters will be affected by lower external demand from the rest of the world. Notably exports to the EU and China will decline while shipments to the Gulf countries will see a moderate uptick. With regard to sectors, transport services (-USD2bn) as well as machinery & equipment, household equipment and chemicals (each about -USD1bn) will be the main losers, while metals (+USD2bn), textiles (+USD2bn) and energy (+USD1bn) should experience export gains in 2020.

Africa & Middle East

Africa: Addicted to debt

Emerging and frontier markets are currently benefitting from a new wave of capital inflows, after having been exposed to a more negative environment in May and August when protectionist moves by U.S. President Trump took their toll on financial markets. Overall, global monetary conditions are now easing and a large amount of bonds is again returning negative yields in advanced economies. As in 2016, frontier markets are benefiting from risk appetite and are issuing more bonds. Angola, for example, added a USD3bn Eurobond to its already quite hefty debt level (around 100% of GDP) despite its speculative grade status (B- by S&P) and a freely falling currency. As previously seen in the case of Zambia, such Eurobond issuances can become too hard to cope with (the current yield is about 20%). Overall, however, debt appears more sustainable, for example in Morocco which issued a EUR1bn Eurobond. Yet, African governments should prioritize other forms of financing, for instance using their own fiscal resources to fund growing spending needs in a more sustainable way.

Asia Pacific

China: Upwards revision in 2018 GDP

Last Friday, the National Bureau of Statistics (NBS) revised last year's nominal GDP up by 2.1%, to RMB91.93tn (USD13.08tn). According to the NBS, the increase was mostly explained by the services sector, and should not significantly influence the calculation for the 2019 growth rate. It's not unusual for GDP numbers to be revised (in any country). That said, the timing of this upwards revision may be interesting. Indeed, it may relieve a little the pressure on the policy mix in the coming year to aggressively support growth. As a reminder, in 2012 the Chinese leadership announced the economy should double in size between 2010 and 2020. Assuming an upwards revision to 2018 real GDP will follow and our forecast of +6.2% for 2019 real growth, China will need to grow by around +6.0% in 2020 (vs. around +6.2% previously). This should allow authorities to continue easing the policy mix in a measured way. Euler Hermes expects China's GDP to grow by +6.1% in 2020, with downside risks outweighing upside ones.

What to watch

- November 29 – Canada Q3 and September GDP
- November 29 – Croatia, Estonia, Slovenia Q3 GDP
- November 29 – India Q3 GDP
- November 29 – Poland Q3 GDP (2nd estimate)
- November 30 – China November official PMIs
- December 2 – Serbia, Turkey Q3 GDP
- December 2 – China (Caixin), Japan, South Korea, India November manufacturing PMI
- December 2 – Czechia, Poland, Russia, Turkey November manufacturing PMI
- December 2 – U.S. Nov. ISM manufacturing index
- December 3 – South Korea Q3 GDP (final)
- December 3-4 – Poland monetary policy meeting
- December 4 – China November Caixin services PMI
- December 4 – Bank of Canada meeting
- December 4 – South Africa Q3 GDP
- December 4 – U.S. Nov. ISM non-manufacturing index

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