Euler Hermes Economic Research

Weekly Export Risk Outlook

10 January 2018

In the Headlines

FIGURE OF THE WEEK

+3.5%

Singapore's 2017 GDP growth

Singapore: Robust growth in 2017, modest slowdown in 2018

Preliminary estimates indicate that real GDP grew by +3.1% y/y in Q4 2017, a slower pace than in Q3 (+5.4% y/y). Construction continued to contract in Q4 (-8.5% y/y), manufacturing decelerated (+6.2% y/y, down from +19.2% in Q3) and services remained broadly resilient (+3%, after +3.2% in Q3). In 2017 as a whole, the economy grew by +3.5%, a noteworthy acceleration from +2% in 2016. Business surveys suggest that economic activity will continue to expand in the near term, albeit at a slower pace. In particular the Nikkei Singapore PMI (covering the private sector) decreased to 52.1 points in December (from 55.4 in November) as the increase in both output and new orders moderated. In that context, we pencil in slower but still firm economic growth of +2.9% in 2018, thus remaining well above the average annual +2% recorded in 2015-2016. Export growth is set to moderate as tighter financing conditions in China are likely to lead to slower demand growth. Moreover, the economic policy mix is expected to tighten, with a potential hike of the GST tax rate and tighter monetary policy by the MAS in the wake of higher inflation.

U.S.: Payroll headline soft, but no worries

Jobs rose by +148,000 in December, short of expectations of +200,000, but it was still a solid report. Construction and manufacturing jobs both rose for the fifth straight month, gaining +30,000 and +25,000, respectively. Retail jobs shrank again, losing -20,000 in December, taking the total in 2017 to -67,000 jobs. By contrast retail jobs grew +203,000 in 2016. The unemployment and labor force participation rates were both unchanged for the third straight month at 4.1% and 62.7%, respectively. Wages rose +0.3% m/m in December, putting the y/y rate back to +2.5%, right in the middle of the three-year range. The ISM manufacturing survey gained +1.5 points to 59.7 in December, with new orders increasing +5.4 points to a very strong 69.4, the highest in 14 years. Eight of the ten components were above 50 and eight rose last month. The services report fell -1.5 points to 55.9, but all 10 components remained above 50. The trade deficit in goods and services widened from USD48.9bn in October to USD50.5bn in November. Core orders for durable goods slipped -0.2% m/m but remained at a very strong +7.9% y/y. We maintain our forecast of 3-4 Fed interest rate hikes this year.

Angola: Doors opened to a strong devaluation

After the announcement that the peg to the USD will be abandoned, Angola let its currency, the kwanza (AOA), depreciate by -12% on 10 January. Speculative pressures on the exchange rate and debt redemptions have put Angola's foreign exchange (FX) reserves under pressure. The black market exchange rate is currently above 400 AOA per USD (-58% weaker than the former official rate). The import cover by FX reserves fell to 5.4 months in November from 8 months in January 2017. Public debt increased from 29% of GDP in 2013 to 76% in 2017, and external debt rose from 24% to 45% of GDP. A sensitivity analysis shows that a -20% depreciation of the AOA would raise public debt to 82% and external debt to 52% of GDP. This exchange rate/debt conundrum took its toll on economic growth (-0.7% in 2016 and +1% in 2017) despite fiscal policy support (the fiscal deficit was -7% of GDP in 2017) as credit constraints and high inflation (+32% in 2017) weighed on it.

Emerging Markets: Alice in Wonderland

The growth momentum improved a little further in Emerging Markets (EM). The EH aggregate manufacturing PMI for EM edged up to a new high of 52.3 points in December, from a revised 52.2 in November. A sub-index for oil importing economies rose to 54.6, the best figure since May 2011, reflecting that current oil prices are benign for large industrial producers. But it also shows that an unexpected rise in oil prices is a key downside risk to the current 'Alice in Wonderland' environment. Looking at regions, Emerging Europe is taking the lead (for example, the PMI improved from 52.9 to 54.9 in Turkey and from 58.7 to 59.8 in the Czech Republic) in accordance with a good cyclical momentum in the Eurozone. Asia exhibited also strong indexes, with Singapore's manufacturing PMI hitting a new high (54.6) since November 2006 and India's PMI increasing to 54.7 (best index since 2012) from 52.6. Latin America is showing indexes coherent with growth, albeit at a slower pace: 52.4 in Brazil in December (after 53.5 in November) and 51.7 in Mexico (after 52.4). In a nutshell, growth is everywhere.

Countries in Focus

Americas

Canada: In 2017 most jobs created in 15 years

The economy continues to surprise to the upside, gaining +78,600 jobs in December after +79,500 in November. Expectations had been for 0. For all of 2017, the economy created +423,000 jobs, the most in 15 years and the most of any year during the recovery – the next closest was +312,000 in 2012. The growth rate in jobs is actually accelerating even in this tight market, rising to +2.3% y/y from +2.1% last month, the fastest in over 10 years. The unemployment rate was widely expected to be 6.0% after last month's 5.9%, but instead it dropped to a record low of 5.7%. Jobs rose in every province for only the sixth time in 42 years. Full time wages are now growing +2.9% y/y vs. a recent low of +0.5% in April 2017. It had been anticipated that the Bank of Canada would raise interest rates later in Q1, but it now appears possible that the increase may come next week instead.

Europe

Russia: Forecast to remain on a moderate growth path

Detailed data from Rosstat confirmed that the economy grew by +1.8% y/y in Q3, down from +2.5% in Q2 but marking the fourth consecutive quarter of increase after two years in recession. The demand-side breakdown reveals that consumer spending rose by +5.2% y/y in Q3, the fastest pace since Q4 2012, boosted by an improving labor market and record low inflation (2.5% y/y in December, unchanged from November). Fixed investment growth remained solid at +3.9% y/y, supported by lower interest rates, though it lost momentum from +6.3% in Q2 as declining housing prices are likely to have dampened real estate investment. Export expansion picked up to +4.5% y/y in Q3 thanks to higher commodity prices and the improving global trade environment while import growth moderated somewhat to +16.3% y/y. We expect full-year growth of +1.6% in 2017 and a pick-up to +1.9% in 2018 thanks to some one-off factors such as pre-election spending and the 2018 FIFA World Cup.

Africa & Middle East

Israel: Slower but more balanced growth in 2017

Preliminary estimates indicate that real GDP growth decelerated to +3% in 2017 from +4% in 2016, mainly a result of weaker domestic demand. Notably fixed investment growth slowed down to +2.7% in 2017, after it had surged by +11.3% in 2016 due to one-off effects in transport investment and machinery investment. Private consumption growth halved to +3% from +6.1% in 2016, while government consumption eased to +2.8% (+3.9% in 2016). Weaker domestic demand caused import expansion to drop to +3.9% in 2017 (from +9.4% in 2016) while exports remained fairly stable (+2.3%, after +2.5% in 2016) so that the negative contribution of net exports to growth fell to -0.4pp in 2017 (-1.9pp in 2016). Euler Hermes forecasts GDP growth to pick up to +3.6% in 2018 as consumer confidence is currently high and the unemployment rate low (4.3% in November) while exports should benefit from strengthening global demand.

Asia Pacific

Japan: Export performance still convincing

Recent data suggest that the so far firm economic expansion has carried over into Q4 2017. Industrial production continued to increase in November (+0.6% m/m) and manufacturers' output projections for December point to another healthy gain that would seal a clear acceleration in industrial output growth in Q4. Manufacturing activity continues to be supported by strong global demand. Real goods exports advanced by +5.1% m/m in November after an already strong +2.6% increase in October. As a result, the October-November average of the real goods exports index was +2.4% above the Q3 average. Moreover, consumption appears to have regained some momentum after weakness in Q3. The solid growth backdrop is obviously helping a firming in core inflation which was up +0.3% y/y in November, compared to 0% around midyear. It remains to be seen, whether wage negotiations in spring will reinforce the slow recovery now that the government has proposed a new tax credit for companies that raise hourly wages.

What to watch

- January 11 – Germany 2017 GDP (1st estimate)
- January 11 – Spain November industrial production
- January 11 – U.S. December producer prices
- January 12 – Italy November industrial production
- January 12 – Spain December inflation
- January 12 – Turkey November BOP
- January 12 – Hungary December consumer prices
- January 12 – Romania December consumer prices
- January 12 – U.S. December consumer prices
- January 12 – U.S. December retail sales
- January 15 – Brazil December federal debt total
- January 15 – Eurozone November trade balance
- January 15 – Poland December consumer prices
- January 16 – Nigeria December consumer prices
- January 17 – U.S. December industrial production

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