

# Weekly Export Risk Outlook

16 January 2020

FIGURE  
OF THE WEEK

+0.6%

Germany's  
2019 GDP  
growth

## In the Headlines



### Germany: After a year to forget, 2020 won't bring much relief

At +0.6% in 2019 the German economy recorded its weakest GDP growth rate since the Eurozone sovereign debt crisis. Only thanks to solid growth contributions from consumption as well as investment in construction a recession was avoided. The worst is probably behind us now, but the German economy has yet to enter into a clear recovery mode. The meagre Q4 GDP growth performance – we expect +0.1% q/q – suggests that German economic momentum for now has at best stabilized at low levels. Going forward we expect the pick-up in momentum to unfold in a gradual manner. For one, ongoing structural headwinds will hold back German GDP growth, including the subdued global trade outlook as well as regulatory and technological challenges for the German car sector. Secondly, even though the negative inventory drag should start to fade and base effects will become more favorable as industry embarks on a gradual recovery, the acceleration in momentum will prove too weak to prop up fixed investment growth. As a result, the latter should come to a standstill in 2020. Meanwhile, consumption will remain the key pillar of the German economy, but a further acceleration in spending is unlikely. Overall we expect 2020 German GDP growth to come in at a seasonally-adjusted +0.6%.



### France: I did it my way

Exports faced a sudden stop during the last months (see [WERO 8 January](#)) but a partial recovery should be expected in key export champions as latest output, orders and inventories data was reassuring for them. First, transport equipment benefited from an additional month of orders just during the last two months. As a result, the output of the sector and inventories of finished goods increased in the preparation of shipments to come. Pharmaceuticals, another key export performer, also experienced a steady performance with a +11% y/y output increase in the last quarter. However, cars, textiles and intermediate goods exhibited a different profile. Their output is shrinking and exports are still expected to contract in the near future. The car exports drop increased pace during the last months and plastics and metals followed suit. All in all, overall export growth should turn out smaller in 2020 (+EUR8bn, after +EUR16bn in 2019) and be more concentrated in a few sectors while hiding export losses in others.



### U.S.: Labor market weaker than expected, and slowing

The economy created +145k jobs in December, softer than expectations of +160k, and the prior two months were revised down a total of -14k. As a result the y/y rate of job growth fell to +1.4% from 1.82% last year. The labor market may be tight but it is surely slowing. Growth in hourly wages unexpectedly fell from +3.1% y/y to +2.9%, well off of the +3.4% peak set in February 2019. Temporary jobs, which are the first to be eliminated in a slowdown, are now shrinking at a -0.5% y/y rate. Manufacturing employment fell -12k, confirming all of the other contractionary manufacturing measures including the ISM, industrial production, and durable goods orders and shipments. Similarly, transportation, normally a leading sector of the economy, lost -10k jobs, confirming all of the other falling transportation indicators. More encouraging data showed that the unemployment rate was unchanged at 3.5%, the broader U-6 measure of unemployment hit a record (25-year) low of 6.7%, and the participation rate was unchanged at 63.2%.



### Emerging Markets: Secular stagnation in key countries

Manufacturing activity in Emerging Markets (EM) remained in contraction mode for the eighth month in a row. The December aggregate PMI came in at 49.7 points, with 48.7 for the sub-index of open economies (16<sup>th</sup> consecutive month below the 50.0 mark indicating output decrease: the longest contraction period ever for open economies) signaling how deep trade policy concerns are. At the same time, more closed EM, which include larger economies such as India, Brazil and Russia, also exhibited a weak index (49.8). More importantly, these economies also experienced an average PMI of just 50.1 since the 2013 Fed tapering, qualifying these countries for a secular stagnation hypothesis or, in other terms, a middle income trap. Their development is going on slowly and with a limited growth in the manufacturing sector. Moreover, the rebalancing they had to implement to cope with the Fed tapering shock has scarced growth drivers. In our view, growth is not likely to recover to pre-tapering levels in the next years.



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# Countries in Focus

## Americas



## Canada: Labor market stronger than expected, and slowing

The economy created +35.2k jobs in December, stronger than expectations of +25k, and recovering half of November's -71.2k plunge (the fourth worst on record). Manufacturing finally scored a victory, gaining +3.5k vs. massive losses of -50.6k jobs in the prior two months. The unemployment rate recovered as well, dropping back to 5.6% from last month's 5.9%. But while the headline numbers were firm, some of the details were softer. Job growth appears to be slowing as +247.5k jobs were created in H1 while only +72.8k were created in H2. Wage growth fell sharply in December from +4.5% y/y to +3.6% y/y. Hours worked fell for the third time in four months and are now growing at a mere +0.3% y/y compared to an average of +1.2% over the past decade. The report was mixed, but the headline is probably enough to relieve the Bank of Canada, which clings to an unchanged policy rate while the rest of the developed world eases.

## Europe



## Central Europe: Inflation higher than expected at the end of 2019

Whilst the European Central Bank is struggling to fuel inflation in the Eurozone, consumer price growth surprised on the upside in December in Poland (up to 3.4% from 2.6% in November), Hungary (to 4.0% from 3.4%), Czechia (to 3.2% from 3.1%) and Romania (to 4.0% from 3.8%). In the latter two countries, inflation was above the upper end of the respective central bank's target ranges for the second consecutive month while Hungary's upper band was hit in December. Strong rises in food and fuel prices were the main trigger for the surge in inflation, boosting calls for interest rate hikes, even though the price rises may be temporary. Czechia may indeed tighten monetary policy as it did from mid-2017 to mid-2019 amid rising inflation. Romania which also hiked in 2018 may be more reluctant this time, fearing that raising rates could attract speculative capital inflows and thus further widen already imbalanced external accounts. Meanwhile Poland and Hungary – although posting the largest inflation shocks in the region in December – are likely to maintain their long lasting very low policy rates (1.5% and 0.9%, respectively).

## Africa & Middle East



## Oman: Smooth transition of power

Oman's monarch, Sultan Qaboos bin Said, died on 10 January. He was succeeded by his cousin Haitham bin Tariq, whose designation came through a sealed letter of Qaboos rather than by Royal Family Council consensus. Yet, Haitham is unlikely to face an open challenge from within the royal family – even though two of his brothers were also seen as succession candidates – as the Omani army is loyal to the sultan rather than royal family members. Oman's bonds were lifted at the start of the week after the apparently peaceful transition of power. Haitham has widespread foreign policy experience and we expect policy continuity, including foreign policy neutrality and a policy of balancing relations with the U. S., Iran, and other GCC states. On the domestic front, policy challenges include public discontent over high unemployment (17%), perceived corruption and economic mismanagement. Markedly lower global oil prices since 2014 have caused persistently huge fiscal and current account deficits as well as rapidly rising public and external debt levels, raising concerns over fiscal sustainability in the medium term.

## Asia Pacific



## Taiwan: Election reveals decoupling from China remains top of mind

Tsai Ing-wen was reelected as president of Taiwan on 11 January, and her party (the DPP) managed to keep its majority in the Legislative Yuan. These results should ensure policy continuity from Tsai's first term: willingness to decouple from China, reshoring of Taiwanese businesses, and prudent spending in energy, infrastructure and childcare. This could benefit the technology and green energy sectors. The relations between Taiwan and China are likely to remain choppy. Tourism should be the main victim, creating further downside risks for tourism and retail in Taiwan. However, a significant disruption in relations is unlikely in the short to medium term, in our view. In a downside scenario, Taiwanese sectors vulnerable to an intensification of tensions could be metals, food, vehicles and energy. We keep our economic outlook of a moderate rebound into 2021 unchanged, with GDP growth at +1.5% in 2020 and +1.9% in 2021, after +2.2% in 2019. We expect insolvencies to rise by +2% in 2020.

## What to watch

- January 15 – Indonesia December balance of trade
- January 15 – India December balance of trade
- January 16 – Turkey interest rate decision
- January 16 – U.S. December retail sales
- January 17 – South Korea interest rate decision
- January 17 – China Q4 GDP, December industrial production, investment and retail sales
- January 17 – U.S. Dec. housing starts and permits
- January 17 – U.S. December industrial production
- January 20 – China Loan Prime Rate
- January 21 – Japan interest rate decision
- January 21 – Poland December industrial production
- January 22 – France Q4 manufacturing survey
- January 22 – Malaysia December inflation
- January 22 – Malaysia interest rate decision
- January 22 – South Korea Q4 GDP
- January 22 – Thailand December balance of trade

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