Euler Hermes Economic Research

# Weekly Export Risk Outlook

2 November 2017

## In the Headlines

FIGURE OF THE WEEK

+3.0%

**Q3 2017 GDP growth in the U.S. (q/q annualized)**

### U.S.: Economy on solid footing

As expected the Fed left interest rates unchanged, but the statement suggested that a December hike is likely noting that "economic activity has been rising at a solid rate despite hurricane-related disruptions… the unemployment rate declined further." Third quarter GDP surprised to the upside, growing at an annualized rate of +3.0% q/q vs. expectations of around +2.5%. Despite the negative impacts of Hurricanes Harvey and Irma, it was the first time in three years that GDP grew +3% or more in two consecutive quarters. While consumption grew +2.4% q/q annualized, income grew only +0.6%, meaning consumers are spending out of savings, driving the savings rate down to 3.1%, the lowest in almost 10 years, an unsustainable path. Consumer confidence rose +5.3 points to the highest level in almost 17 years, driven in part by optimism over jobs and income. The ISM manufacturing index slipped -2.1 points to 58.7, but that's still well within expansionary territory. Eight of the ten components remain above 50, and 16 of 18 industries reported expansion. The economy is on solid ground.

### Eurozone: Robust economic recovery continues in Q3

According to a preliminary Eurostat flash estimate Eurozone GDP expanded by +0.6% q/q in the third quarter of 2017. While economic growth was slightly down from an upwards revised +0.7% q/q recorded in the previous quarter, the Q3 growth reading exceeded the consensus estimate of +0.5% q/q. On an annual basis Eurozone GDP growth now stands at +2.5% y/y. More positive growth surprises might be in store with economic confidence in the currency area reaching a 17-year high and in light of better-than-expected employment data – the unemployment rate fell to 8.9% in September, the lowest rate since January 2009. As a result, risks to our GDP forecasts – +2.1% in 2017 and +1.8% in 2018 – are now tilted to the upside. Meanwhile inflation unexpectedly cooled in October. While the moderation in headline inflation to +1.4% y/y from +1.5% in the previous month was not a big surprise as the impact of the rebound in oil prices is dropping out of annual calculations, core inflation surprised by slowing to +0.9% y/y from +1.1% in September – the lowest level since March 2017.

### France: The Fantastic Four

First official estimates put Q3 GDP growth at +0.5% q/q, as expected. This is the fourth quarter in a row with growth of around +0.5%. Moreover, the currently high level of business confidence suggests more quarters of positive growth to come. France is in a period of growth acceleration with regard to both magnitude and durability. The positive performance is largely driven by investment. It was the main growth driver in Q3 and upward revisions for previous quarters have raised our overall investment growth forecast to +3.5% in full-year 2017 (+5.2% for households and +4.1% for corporates). The upswing reflects a catch-up effect as corporate investment in volume terms was only marginally higher in Q4 2016 as compared to its pre-crisis level. Moreover, it has come at a cost: the prioritization of investment spending by households has weighed down on consumer spending which we expect to expand by +1.2% in 2017. Based on the sound GDP performance over the past quarters, we have revised our growth forecasts to +1.8% in 2017 and +1.9% in 2018 (both up from +1.7 previously).

### Spain: Pace of growth is sustained in Q3

Preliminary estimates show that GDP growth reached +0.8% q/q in Q3, slightly above our expectations (+0.7%), after registering +0.9% in Q2. On a year-on-year basis, GDP grew by +3.1% (the same as in Q2). Continued improvements in labor market data should have supported consumer spending: the unemployment rate fell to 16.4% in Q3, its lowest level since Q4 2008, while employment continued to grow (+2.8% y/y). Moreover, consumer credit increased by +3.4% y/y on average in Q3, potentially also supporting private consumption. External demand is likely to have contributed to growth as well: on a 12m/12m basis, exports of goods and services in August 2017 grew at their fastest pace in five years (+7%). Going forward, GDP growth is forecast to reach +3% in full-year 2017, while political uncertainty should be restricted to Q4 of this year. Yet, retail sales has started decelerating and consumer confidence contracted for the third straight month in October. Combined with inflation outpacing wage growth, we expect a slowdown in consumer spending driving down GDP growth to +2.3% in 2018.

# Countries in Focus

Americas

## Mexico: A temporary air pocket

In Q3, Mexico registered its first quarterly contraction in GDP since 2013. Activity declined by -0.2% q/q according to preliminary estimates, adversely affected by the natural disasters hitting the region in September (namely hurricanes and earthquakes). Industry was the largest contributor to this contraction (-0.5% q/q), followed by services (-0.1% q/q). Oil production in September dropped to a historically low level (1.73 million barrels a day against 1.93 in August). Yet, reconstruction efforts in Q4 should compensate for the Q3 contraction; the cost of reconstruction is estimated at USD2.5bn (around 0.25% of GDP); and faster job creation is expected. And a better-than-expected performance of the U.S. in Q3 may trigger positive spillovers. For now, we maintain our current growth forecast for 2017 (+2.4%), pending the release of the final Q3 national accounts and October indicators. In 2018, we expect the deceleration in consumer spending and NAFTA uncertainty to slow down GDP growth to +2.2%.

Europe

## Russia & Ukraine: Diverging monetary policies

The Central Bank of **Russia** (CBR) lowered its key policy interest rate by 25bp to 8.25% last week, continuing this year's monetary easing cycle (the cumulative rate cut since March is now 175bp). Consumer price inflation fell to a record low of 3% y/y in September and is forecast to remain below the CBR's inflation target of 4% until the end of the year, before rising wages, food and energy prices should lift it to an average 4.3% in 2018. We expect another policy rate cut to 8.0% by end-2017. In contrast, the National Bank of **Ukraine** (NBU) raised its key policy interest rate by 100bp to 13.5% last week, the first hike since March 2015, citing deteriorated inflation expectations in recent months. Headline inflation accelerated for the fifth month in a row to 16.4% y/y in September, well above the NBU's inflation target range of 8% ± 2pp as well as the temporary low of 6.9% y/y posted in mid-2016. We expect inflation to begin to ease in 2018, reaching an average 10% or so.

Africa & Middle East

## Kenya & Angola: Sowing the seeds of uncertainty

Kenya's presidential election and Angola's debt are in the news this week, driving some uncertainty around these two key African economies. In **Kenya**, the re-election of President U. Kenyatta in a re-run election boycotted by supporters of his main opponent, R. Odinga, raises concerns over the government's legitimacy and its ability to sustain the momentum of reforms that helped economic growth to accelerate in recent years. The ensuing weak policy environment as well as the poor crops in H1 should weigh on growth in 2017 which Euler Hermes expects at +4.5% (after +6% in 2016) followed by a gradual recovery in 2018 (+5%). In **Angola**, after the downgrade of the sovereign debt rating by Moody's from B1 to B2 (5 notches below investment grade), there were renewed doubts about the ability of state-owned enterprises (SOE) to manage their high debt burden. This debt of SOE has led to a substantial increase of total public debt from 41% of GDP in 2014 to 78% in 2017, clouding the overall economic outlook. Euler Hermes expects growth of just +0.5% in 2017.

Asia Pacific

## Taiwan: An export-driven acceleration

Real GDP growth accelerated to +3.1 y/y in Q3 (from +2.1% in Q2) according to preliminary estimates. Exports led the increase (+11.2% y/y, up from +5%) while domestic demand weakened due to lower investment (-7.8% y/y). Both private (+1.9% y/y) and government (+0.7% y/y) consumption remained resilient. On the supply side, the expansion was driven by the manufacturing sector (+4.3% y/y) reflecting solid growth in semiconductor as well as machinery and equipment production. Wholesale and retail trade, finance and insurance also performed well. The construction sector was the main laggard (0%). In the short-run, economic growth is expected to remain firm though the pace is likely to soften somewhat. Although still signaling expansion, the Manufacturing PMI decreased to 53.6 points in October (from 54.2 in September) on the back of lower growth in new orders. Against this backdrop, economic growth is expected at around +2.5% in 2017.

# What to watch


- November 3 – Turkey October inflation
- November 3 – Canada October employment report
- November 3 – U.S. September factory orders
- November 3 – U.S. September international trade
- November 3 – U.S. October employment report
- November 3 – U.S. Oct. ISM non-manufacturing index
- November 6 – Czech Rep. Sept. industrial production
- November 6 – Germany September factory orders
- November 6 – Indonesia Q3 GDP
- November 7 – Germany Sept. industrial production
- November 7 – Romania Central Bank meeting
- November 8 – China October foreign trade
- November 8 – Hungary September industrial production
- November 8 – Poland Central Bank meeting
- November 8 – Russia October inflation
- November 8 – Turkey September industrial production





Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com