Euler Hermes Economic Research

Weekly Export Risk Outlook

6 March 2019

FIGURE OF THE WEEK

+2.9%

GDP growth in the U.S. in 2018

In the Headlines

U.S.: Q4 GDP strong but details grim

Q4 GDP rose +2.6% q/q annualized, beating expectations of around +2.2%. GDP for all of 2018 rose +2.9%, in line with our expectations and tying with 2015 for the highest of the nine-year recovery. But details were grim as consumption grew +2.8% in Q4, a bit of a disappointment, and spending in December actually fell -0.6% m/m, the worst in over nine years. Income also fell -0.2% m/m in January, the most in over six years. Manufacturing data was also weak as new orders for core durable goods fell -1% m/m, the fourth loss in five months, pushing the y/y rate down to +2% from +8.8% five months ago. Similarly the ISM manufacturing index fell from 56.6 to 54.2 points, the lowest level in over two years. In happier news, February Consumer Confidence rose by a sharp +9.7 points, driven by a +14 point leap in future expectations, the biggest gain in over seven years. Consumers evidently felt relief from the end of the government shutdown, a rising stock market, and trade hopes. Fed Chair Powell repeated his patient approach to rate moves in Congressional testimony, and President Trump extended a deadline to raise tariffs on Chinese goods as a result of progress in negotiations.

Brazil: After a weak 2018, expect a reality check for 2019

2018 GDP growth came in at a disappointing +1.1%, the same as in 2017, after a year of financial volatility and a strike that had non-negligible effects on economic activity and confidence. The recovery is exceptionally torpid given that the economy contracted -3.5% in both 2015 and 2016; GDP hence remains below its peak of 2014. Yet 2018 showed an acceleration in private consumption (+1.9% after +1.3% in 2017) and a rebound in investment (+4.1% after -2.6% in 2017), which were matched by soaring imports (+7.6%) negatively contributing to growth. Exports did not keep up (+3.4%) due to an uneven harvest, despite goods exports to China rising again by a third. The outlook for consumption in 2019 is only mildly positive as unemployment is falling slowly. Investment may continue to recover with the return of confidence, supported by privatizations in H2 and a still accommodative monetary policy stance this year. But the pension reform could disappoint, putting pressure on borrowing costs again. We see growth of just around +2% in 2019; a reality check is predictable amid current optimism.

France: Winter sleep

Consumption is not back in town. January still showed cautiousness, after a disappointing year-end. January private consumption of goods (+1.2% m/m) was still -0.4% below the October level and -1.8% below the November 2017 peak. Over the last quarter, the main weakness was in transport equipment (mainly cars), with a -3.1% decrease between October and January. Textile was also pressured since consumption showed no recovery (+0.2% during the last quarter) from a low starting point (-2.8% below November 2017). Overall, households are now a bit worried about food inflation which contributed 36% to the +1.3% y/y inflation in February). Obviously, food inflation has accelerated (+3% y/y in February), driven by higher producer prices (+6.1% y/y in January) and the impact of the new law on processed food prices (which rose by +0.4pp in February). Food consumption exhibited a new decrease in January (-0.9% m/m and -3.4% below the November 2017 peak). This data confirms that consumption growth should recover only gradually (+1% in 2019) despite good purchasing power growth (+1.9%).

Poland: Fiscal stimulus ahead of October 2019 elections

At its party congress at end-February, the ruling PiS announced a new fiscal stimulus package ahead of the forthcoming legislative elections in October this year. As previous actions during the current legislative period, the proposed measures – including increased child benefits, a bonus for pensioners, reduced income taxes – are focused on social spending to boost consumption rather than on structural improvements. If implemented, the package will support growth – or mitigate the expected slowdown stemming from a fading investment boom and moderating external demand – in the short term. Overall, we currently forecast real GDP growth to decelerate from +5.1% in 2018 to +3.5% in 2019 and +3.1% in 2020. Moreover, the new measures are likely to reverse the recent improvement in public finances. The fiscal deficit is forecast to widen from an estimated -0.6% of GDP in 2018 to about -1.9% in 2019 and -2.5% in 2020. This outlook has also reduced the probability of any monetary loosening in the near term as inflation (0.9% y/y in January) may rebound again after mid-2019. Today, the Monetary Policy Council kept its key interest policy rate unchanged at 1.5%.

Countries in Focus

Americas

Canada: Q4 GDP misses big on the downside

Q4 GDP growth came in at only +0.4% q/q annualized, far below already weak consensus estimates of about +1%. It was the slowest pace in 2.5 years, and there was little to like in the report. Household consumption slowed to only +0.7%, the weakest in seven years. Non-residential investment fell -10.9%, the third consecutive loss, while residential investment also fell, losing a sharp -14.7%. Only an increase in inventories saved the day, since without it GDP would have fallen to a -1.1% loss. On a monthly basis, December GDP lost -0.1% m/m, the third decline in four months, while the energy sector lost a sharp -2%, also the third decline in four months. Without the energy sector, the economy would have grown +0.1% m/m in December. Canadian crude oil prices collapsed at the end of 2018 because there wasn't enough pipeline capacity to bring it to market. The first part of the year looks no better as there are forced production shutdowns to lower the over-supply.

Europe

Portugal: Slowdown ahead for the good student

Q4 2018 real GDP grew +0.4% q/q (+1.7% y/y), up from +0.3% in Q3 but lower than the H1 average of +0.55%. Overall in 2018, GDP grew a solid +2.1% (though down from +2.8% in 2017) driven by domestic demand. External demand subtracted -0.7pp from growth (after -0.3pp in 2017) as exports decelerated more markedly than imports. Investment grew +4.4% after soaring +9.2% in 2017. Rising real wages and the effect of social spending measures should continue to support consumption growth this year. Yet, there is limited scope for a further labor market recovery (unemployment is at a 15-year low, below 7%). Exports should slow as economic activity of the main trade partners eases. The drop in the manufacturing capacity utilization rate in Q1 2019 (back to its lowest level since 2014) is a bad sign for investment, but financing conditions should remain favorable in 2019, and there is a busy pipeline of EU co-funded investment projects ahead. We expect Portugal to grow +1.7% this year.

Africa & Middle East

South Africa: Losing ground

Growth in Q4 2018 was published at +0.3% q/q. Key sectors were still on a moderate recovery track from a low starting point (South Africa experienced a recession in H1 2018). Manufacturing output in Q4 2018 was just back to the level in Q4 2017, after a very poor Q1 (-2.2% q/q). The domestic trade sector pattern also showed how weak domestic demand is since the value added in the sector decreased by -0.2% q/q in Q4. Construction activity was quite subdued as well, decreasing by -1.2% in 2018. But the main weakness was the renewed fall in mining and quarrying (-1.7% q/q; now -6.5% below the 2005 output peak). Electricity output (-4.4% below 2011 peak) also showed the bottlenecks that are preventing a genuine recovery in South Africa. GDP growth of +0.8% for all of 2018 is much too low to match population growth; and GDP per capita in 2018 was -2.4% below the 2014 level. Low investment expansion is expected to continue, as a result of problems at SOEs (e.g. Eskom) and GDP growth is likely to remain muted (+1% in 2019).

Asia Pacific

China: NPC – expansionary measures to support growth

On 5 March at the 13th National People's Congress (NPC), China lowered its economic growth target from around +6.5% to a target band from +6.0% to +6.5%. The authorities acknowledged that the economy is facing mounting risks and decisive actions are needed. Externally, the export outlook is hindered by trade uncertainties. Domestically, slower expansion in consumption, a lack of investment dynamics and elevated financial risks act as a drag on growth. Against this background, the government announced a pro-growth budget and raised its fiscal deficit target to -2.8% of GDP in 2019 (from -2.6% last year). The announced measures aim at reducing the tax burden (RMB2tn) and boosting infrastructure spending (RMB2.15tn). On the monetary side, better capital allocation to the private sector and financial prudence will be the main priorities. In that context, we expect economic growth in China to accelerate timidly from +6.2% y/y in the first quarter to +6.4% y/y in the second half of this year.

What to watch

- March 8 – Canada February employment report
- March 8 – China February trade figures
- March 8 – France January industrial production
- March 8 – France January trade balance
- March 8 – Germany January factory orders
- March 8 – U.S. January housing starts
- March 8 – U.S. February employment report
- March 11 – Germany January industrial production
- March 11 – Spain, U.S. January retail sales
- March 11 – Turkey Q4 GDP
- March 11 – Turkey January balance of payments
- March 12 – France Q4 payrolls
- March 12 – Brazil February inflation
- March 12 – U.S. February consumer prices
- March 13 – Brazil, Mexico January industrial production