Euler Hermes Economic Research

Weekly Export Risk Outlook

29 May 2019

FIGURE OF THE WEEK

51%

Voter turnout in EU Parliament elections

In the Headlines

EU elections: Ruling by consensus even more necessary

The European elections held between 23 and 26 May did not reveal a much stronger populist wave compared to 2014. Eurosceptic parties won +2pp more, but fell short of the blocking minority of 33.33%. The Green party obtained a stronger than expected result. However, the outcome points to a fragmented EU Parliament and at least three parties are needed to form a coalition, for the first time in 40 years, opening up a new political cycle. We think pro-European parties (EPP, S&D, ALDE&R, Greens) will have to cooperate much more closely to avoid a policy standstill in the years to come. The political consensus is likely to prove easier on topics such as purchasing power, social security, defense and climate change, and a bit slower on a common industrial policy and an unemployment insurance scheme. In our view it will be difficult to find a consensus during the next mandate on new free trade agreements as well as further financial and fiscal integration (Capital Markets Union, Common Deposit Insurance Scheme, Eurozone Central Budget) and EU enlargement (read more here). The next steps comprise appointing the EU Commission President and Commissioners, planned to be in office on 1 November.

U.S.: Consumer confidence not helping manufacturing

Consumer confidence rose +4.9 points to a strong 134.1 in May. Consumers' assessments of the current situation gained +6.2 points to 175.2, the highest in over 18 years. Expectations rose as well, gaining +3.9 to 106.6, but the difference between the current and future assessments widened from -66.3 to -68.6, a strong indicator of a future recession. In fact that difference is lower than the level in five of the past six recessions. And consumer confidence did not spill over into either the manufacturing or housing sectors. New orders for durable goods fell -2.1% m/m in April to a 0% y/y rate. Orders for autos led the decline, dropping -3.4% m/m to +2.9% y/y – just three months ago the y/y rate was +10.6%. After stripping out autos and other volatile components, "core" orders were just as disappointing, losing -0.9% m/m to only +1.3% y/y as compared to the long-term average of +2.9%. Similarly, new home sales fell -6.9% m/m, driven in part by a sharp +11.9% m/m increase in prices.

France: The comeback

In France, the consumer may well make his comeback soon, after two difficult years. In May, goods consumption remained subdued (+0.2% m/m excluding energy) but the household confidence index recovered to 99 points, a level last observed one year ago. It went in conjunction with early signs of improving domestic order books in the manufacturing sector (see WERO 24 May 2019). The recovery of household confidence was triggered by fast improving expectations on the future financial situation to a level close to highs reached in mid-2017. Purchasing power expectations (+2.7% in 2019) and the current low level of interest rates are the major triggers. The main consequences are better durable goods purchases and investment prospects: 9.5% of households now plan to buy a new home in the next two years (+1.5pp compared to January, and +2pp above the last 10-year average). It means that residential investment should grow again (+0.5% in 2019 and +2.2% in 2020) after eroding in the last two quarters. These evolutions support our forecast of a gradual GDP growth acceleration from +1.2% in 2019 to +1.5% in 2020.

Tunisia: Living on the edge

Tunisia faced several blows during the last weeks, from a sudden stop in agricultural production in Q1 to a record trade deficit in April and a vanishing recovery of foreign reserves. In Q1, GDP growth fell back to the lowest rate in the last three years (+1.1% y/y). Agricultural output suddenly stabilized in Q1 after +9.5% growth in 2018, and manufacturing production declined (-0.6% y/y), worsening from already weak dynamics (+0.5% on average p.a. during the last five years). This meager performance of export-oriented sectors contributed to the worst trade deficit in history in April (-TND2.4bn), not boding well for the overall rebalancing of the economy after an already record -11.2% of GDP current account deficit in 2018. As a result, the import cover of foreign reserves faltered again to 74 days in April (after a stabilization allowed by foreign loans). Overall, with GDP growth forecast at +1.5% and public debt at 82% of GDP in 2019 (the latter up from 77% in 2018), we expect exchange rate pressures to persist.

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Countries in Focus

Americas

Argentina: Two sides of the same coin

Argentina's trade surplus reached a four-year high of +USD1.13bn in April, compared to a -USD887mn deficit a year ago, boding well for the current account balance – a key vulnerability of the country. Yet, this adjustment comes at a price. The monthly economic activity index posted another fall in March (-1.3% m/m and -6.9% y/y) after two months of expansion, signaling the economy is not back on track yet. Except for agriculture (as 2018 was a bad year), most sectors were down, such as construction (-7.1% y/y), manufacturing (-13.2%) and mining (-1.8%). Thus we estimate that Argentina's real GDP has contracted for the fifth straight quarter, by -0.2% q/q in Q1 2019. Going forward, there are few encouraging signs. Inflation reached yet another high at 55.1% y/y in April and, as a result, policy interest rates spiked at around 70%, up from 50% or so in February. Industrial production continues to contract y/y and the capacity utilization rate is still 15pp below its long-term average.

Europe

Hungary: Inflation on the rise but monetary policy remains loose

The Monetary Council (MC) of Hungary kept its key policy interest rate (3-month deposit rate; +0.9% since May 2016) and the overnight deposit rate (-0.05%) unchanged this week, even though headline inflation rose to a 76-month high of 3.9% y/y in April, approaching the upper limit of the MC's 3% ± 1pp target range. Moreover, core inflation remained unchanged at an elevated 3.8% y/y in April, though the MC noted that indirect tax effects contributed +0.4pp to that rate. However, the MC seems to ignore that overheating concerns remain on the agenda. Real GDP rose by a whopping +5.3% y/y in Q1 while the unemployment rate fell to a low of 3.5% in February-April 2019 and nominal wage growth accelerated again to +12.1% y/y in February from +10.2% in December 2018, according to the Hungarian Central Statistical Office. We expect inflationary pressures to continue for some time and will monitor closely if the MC is prepared to tighten monetary policy when needed.

Africa & Middle East

Nigeria: Missing

Nigeria is still trapped in a low growth regime where GDP expands slower than the population and remains quasi entirely driven by agriculture and telecoms. GDP growth was estimated at +2% in Q1 (population growth is +2.7%), meaning a negative growth per capita for the 14th quarter in a row, a poor performance that holds as well for non-oil GDP. Telecoms growth has basically contributed half (about +1pp) to non-oil GDP growth since Q2 2018 when the sector began to expand rapidly. Agriculture is adding another +0.8pp to growth (on average). A major setback is oil exports. Oil output has never recovered to the 2.1mn bbl/day last observed in 2012 and is currently hovering around 1.7mn bbl/day, since Nigeria has lost one of its main export destination as a result of shale oil development in the U.S. (which consumed half of Nigerian exports ten year ago and more or less nothing today). Overall, we expect Nigerian GDP growth to remain quite muted at +2.6% in 2019.

Asia Pacific

India: Landslide victory for PM Modi

PM Narendra Modi was overwhelmingly re-elected for a second term. His Bharatiya Janata Party secured a majority in the parliamentary lower house with 303 out of 543 seats, up from the 282 seats it got in 2014 when it became the first party since 1984 to independently cross the simple majority mark. The Indian National Congress party which had dominated politics for decades after independence suffered another electoral humiliation, gaining just 52 seats (44 in 2014). It will lead the opposition but its small representation will limit its capacity to block Modi's legislative agenda. Economic policy is expected to continue to focus on maintaining strong economic growth and job creation through fiscal stimulus measures including infrastructure investment and tax reforms. This poses some risk to fiscal stability as India has posted annual fiscal deficits of more than -7% of GDP over the past decade and public debt stands around 70% of GDP. Modi may also seek tighter control over the Central Bank which, if going too far, could reduce foreign investor confidence in India.

What to watch

- May 30 – Brazil Q1 GDP growth
- May 31 – Canada March and Q1 GDP
- May 31 – Croatia Q1 GDP
- May 31 – Czechia Q1 GDP (with details)
- May 31 – Estonia Q1 GDP (preliminary)
- May 31 – Hungary Q1 GDP (with details)
- May 31 – Poland Q1 GDP (with details)
- May 31 – Slovenia Q1 GDP
- May 31 – Turkey Q1 GDP
- May 31 – U.S. April personal income and spending
- June 3 – Brazil, Mexico May manufacturing PMI
- June 3 – Czechia, Poland, Russia May manufact. PMI
- June 3 – Turkey May inflation and manufacturing PMI
- June 3 – U.S. May ISM manufacturing index
- June 4 – South Africa Q1 GDP

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Contact Euler Hermes Economic Research Team
research@eulerhermes.com

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