Euler Hermes Economic Research

Weekly Export Risk Outlook

20 November 2019

FIGURE OF THE WEEK

+0.4%

Q3 2019 q/q GDP growth in the Netherlands

In the Headlines

U.S.: Housing rebounding but retail and manufacturing weak

Retail sales rose +0.3% m/m in October, but on a y/y basis, sales growth eased from +4.1% to +3.1%. Gasoline sales rose a sharp +1.1% m/m and auto sales were up +0.5%. However other major categories fell significantly, and as a result, sales ex-gas and auto were up only +0.1% m/m. And after stripping out other volatile items, core sales, which are an input to GDP, gained only a modest +0.3% m/m, dropping the y/y rate from +5.1% just two months ago to +4.2%. Separately, industrial production suffered from the GM strike and fell a sharp -0.8% m/m to -1.1% y/y. The manufacturing component fell -0.5% m/m to -1.5% y/y, and even excluding the GM strike, manufacturing fell -0.1% m/m to -0.6% y/y. Fourteen of 19 manufacturing industries are down y/y. Clearly manufacturing remains in contraction. However the housing market is rebounding, as starts and permits both rose sharply in October, gaining +3.8% m/m and +5.0% m/m. The data is volatile but the three-month trend shows starts rising +6.1% y/y and permits rising +11.5% y/y. It was the highest level of permits in over 12 years. Finally a survey of homebuilders fell one point to 70 but is still clearly in expansion territory over 50.

Eurozone: Export substitution mainly with the U.S.

Data for September confirms that the uptick in Chinese imports from the U.S. registered in August was only temporary and was mainly driven by the anticipation of new U.S. import tariffs in September. Overall, Chinese imports from the U.S. fell by -13% y/y in September while U.S. imports from China fell by -19% y/y. The export losses YTD amount to -EUR50bn for China and to -EUR13bn for the U.S. Europe continues to benefit from the substitution effect, with additional U.S. imports of +EUR35bn from the EU YTD (compared to +EUR18bn last year) while momentum for Chinese imports from the EU is weaker (additional +EUR8bn YTD vs. +EUR10bn last year). While positive for Europe, this is not enough to make up for the overall lower trade flows between the U.S., China and the EU which amount to close to -EUR20bn YTD. Overall we expect global trade of goods and services to fall by -1.7% in 2019 in value terms as the USD has remained strong and adjustments in high levels of inventories have started to put downside pressures on prices. Global trade growth in volume terms should remain at its lowest since 2009 (+1.5%).

Chile: First impacts of protests, uncertainty remains

Real GDP grew +0.7% q/q in Q3 2019, the same as in Q2. Compared to the same quarter last year, it grew at a solid +3.3%. The good news is that exports recovered (+2.9% q/q after -1.6% in Q2); the bad news is that investment slowed (+1.4% q/q after +3.2% in Q2). In addition, non-mining activity took a hit in September. Yet, figures do not account for ongoing social protests, which started late October. Data for that month provide us with first impacts of the protests: First, consumer sentiment was at its lowest level in three years. Then, vehicle sales dropped -26% compared to September and -24% y/y, the largest drop in four years. Imports of consumer and capital goods saw significant declines as well. Finally, the Chilean peso's volatility has not abated, despite the fact that Chilean lawmakers recently agreed on a mechanism to change the constitution, and despite the fact that the president condemned police abuses. Continued currency volatility (-12% against the USD since mid-October, and the threshold of CLP800 per USD1 crossed) reflects the uncertainty surrounding the content of the constitution. We also expect weak activity data for October and November.

Netherlands: Resilience against general slowdown

Real GDP increased by +0.4% q/q in Q3, in line with previous quarterly performances. However, Q3 growth was mainly driven by stocks (+0.3pp) as net exports did not contribute to it and domestic demand was weak. Public spending growth accelerated to +0.5% q/q while consumer spending growth slowed down to +0.2% q/q and gross fixed capital formation fell by -0.2% q/q. Households have become pessimistic on balance since February 2019 as consumer prices have increased more than expected (+2.8% y/y in Q3) and more than wage growth (+2.4% y/y in Q3). In addition, employment growth slowed down and the unemployment rate increased to 4.4% in September 2019. The capacity utilization rate for companies has remained above the long-term average but the slowdown in global trade has had an impact on business confidence and investment decisions. The construction sector entered an adjustment period in Q2 and house price increases have slowed down from a peak of close to +10% y/y in Q4 2018. We expect GDP growth to slow down further to +1.4% in 2020 from +1.7% in 2019.

Countries in Focus

Americas

Colombia: Outperforming in Q3, but mind the external sector

Real GDP grew +0.6% q/q in Q3, slowing from +1.3% in Q2 and +0.9% in Q1. However, compared to last year, it grew a solid +3.3% (after +3.4% in Q2) mostly owing to internal demand. Private consumption grew +1.2% q/q (and +4.4% y/y) and investment rose +2.8% q/q (+4.8% y/y). From a sector point of view, growth was broad-based, with best performances seen in retail, finance and government services. The latter can be explained by higher public sector spending ahead of local elections in October. The tax reform currently in negotiations in Congress could also help prolong the investment cycle. Overall, the outlook remains positive for 2020, although we expect a deceleration. However, such results should not hide the fact that exports fell -1.2% q/q, while imports grew +1.9% q/q. This could widen the current account deficit which is already at a high level in Colombia (-4.2% of GDP in Q2), potentially increasing financing risks.

Europe

Hungary: Nothing new from the monetary policy front

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. Headline consumer price inflation edged up to 2.9% y/y in October (from 2.8% in September) but was down from the 76-month highs of 3.9% in April and May. However, core inflation rose to 4% in October (the same as in May and up from 3.9% in September) though the MC noted that indirect tax effects contributed 0.3pp to that rate. The MC also noted that “buoyant domestic demand is boosting” inflation but seems to continue to ignore that overheating concerns remain on the agenda. Hungary’s real GDP rose by +5% y/y in Q3, well above peers in the CEE region, while the unemployment rate remained close to its historical low, at 3.5% in Q3 2019. Nonetheless, we expect average headline inflation to remain close to the center of the MC’s 3% ± 1pp target range until end-2020, though some volatility due to fuel price fluctuations is likely.

Africa & Middle East

Saudi Arabia: Aramco price range lowered and roadshow curtailed

Saudi Aramco has valued its IPO at USD1.2-1.8tn. This is well below the government’s expectations but now realistic with regards to the market. We think that the deal can possibly achieve the USD1.5tn mark but would be surprised to see more. The listing size has also been reduced to 1.5% as opposed to originally 3% and later 2%. Reportedly international demand is weak to a point that the company has scaled back its roadshow. This unsurprising and weak interest by global institutions had transpired before but cutting out the U.S., home to world’s most important investment institutions, is extremely surprising. While the low break even cost of production and the deal sweeteners such as the dividend have made it more attractive, there are issues of trust and governance. To this adds a short term and structural oil price outlook that is less than attractive. As we have been expecting, it will most likely be domestic demand and a few sovereign wealth funds that will fill the book. Pricing is on 5 December.

Asia Pacific

Malaysia: Gradually losing momentum

Real GDP growth moderated to +4.4% y/y in Q3 from +4.9% in Q2, taking the average expansion in the first three quarters of this year to +4.6% y/y. The expansion in Q3 was mainly driven by consumer spending (up +7% y/y, after +7.8% in Q2) on the back of modest price growth. Headline inflation was 1.1% y/y in October, unchanged from September’s four-month low. Meanwhile, government spending increased by a moderate +1% y/y in Q3 (after +0.3% in Q2) while the decline in fixed investment accelerated to -3.7% (after -0.6% in Q2). At the same time, external trade activity weakened further in Q3 as a result of ongoing global trade tensions. Yet, net exports made a positive contribution to Q3 growth as real imports decreased at a faster rate (-3.3% y/y, after -2.1% in Q2) than real exports (-1.4%, after +0.1% in Q2). The Q3 data are broadly in line with our expectations and we expect a further slowdown in Q4. Hence we maintain our full-year GDP growth forecast of +4.3% in 2019 for the time being.

What to watch

- November 21 – U.S. October existing home sales
- November 22 – Colombia Central Bank meeting
- November 22 – Eurozone, France, Germany, UK, US, Japan November Composite PMIs (flash estimates)
- November 22 – Lithuania Oct. industrial production
- November 25 – Czechia Nov. economic sentiment
- November 25 – Germany Nov. ifo business climate
- November 25 – Poland October retail sales
- November 25 – Poland Nov. business confidence
- November 25 – Turkey Nov. business confidence
- November 26 – Argentina September economic activity
- November 26 – Mexico September economic activity
- November 26 – U.S. October new home sales
- November 26 – U.S. November consumer confidence
- November 28 – Eurozone November consumer and business confidence

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