Euler Hermes Economic Research

Weekly Export Risk Outlook

9 January 2019

FIGURE OF THE WEEK

+3.3%

Singapore's 2018 GDP growth (flash estimate)

In the Headlines


China and U.S.: A positive outcome matters

China-U.S. trade talks got off to a good start on Monday. Vice Premier Liu He unexpectedly participated in the talks that were supposed to gather low ranking officials. While there is no clear information filtering, both sides reported a positive development so far. Note that the two countries have time until March to find an agreement. Otherwise, the Trump administration would likely proceed with raising tariffs to 25% on USD200bn worth of Chinese imports. Such a rise would undermine the already weakening economic performance in China. Industrial profits growth softened to +11.8% y/y in January-November (after +13.6% in January-October). And vehicle sales decreased by -13.9% y/y in November. The official Manufacturing PMI fell below the 50 thresholds (to 49.4) in December, signaling contraction. So far, our scenario assumes a positive outcome of the trade talks. This would translate into slower but still resilient Chinese economic growth of +6.3% in 2019. If the two countries fail to agree, China's GDP growth would be cut by -0.3pp within the next two years.

Brazil: A honeymoon before the vows

Newly sworn-in president Bolsonaro benefits from a honeymoon with financial markets and recovering business activity; the Manufacturing PMI ended the year close to an eight-month high. Consumers (making up two thirds of GDP) are the most confident since early 2014; a poll shows 64% of respondents believe the government will be "good" or "great". Indeed, it has pledged to implement 50 "quick wins" in the first 100 days (decrees or bills that don't need a constitutional majority in Congress). They aim to slash bureaucracy, enhance the business environment and combat fraud. So what's the catch? An unstable policy platform, as we had warned last fall. Scratch the surface, and you will find internal disagreements. Bolsonaro backs a watered-down pension reform, while his economy minister prefers a "deep" one. Bolsonaro announced a financial transaction tax, before being contradicted by his chief of staff. Investors should wait for true reform vows before taking off to their honeymoon. The sword of Damocles of the pension overhaul continues to hang over Brazil's borrowing costs.

Saudi Arabia: Gradual uptrend in growth continues

Real GDP growth accelerated to +2.5% y/y in Q3 from +1.6% in Q2 thanks to higher oil prices and increased oil production, taking the increase in the first three quarters of 2018 to +1.7% y/y. Supply-side data show that the oil and gas sector rose by +3.7% y/y in Q3, up from +1.3% in Q2, while the expansion in the non-hydrocarbon sector eased to +2.1% y/y from +2.4%. Meanwhile, the government approved an expansionary budget for 2019, with spending to be boosted by +7.3% vs. 2018. This reflects a prioritization of growth over deficit reduction notwithstanding the recent fall in oil prices and the decision by OPEC (and Russia and some other oil producers) in early December to renew oil output cuts in 2019. Overall, for 2019 we forecast full-year GDP growth of +2.5% (after +2% in 2018) and the fiscal deficit to widen to -5% of GDP (from -4.7% in 2018). On the political front, King Salman announced significant changes to the cabinet at end-December in response to the killing of the journalist Khashoggi in the Saudi consulate in Turkey in October 2018 which shook up relations with the West. However, Crown Prince Mohammed bin Salman, the country's de facto leader, retained all his posts.

Africa: At polls

The election season has started in Africa with polls in late December in Togo, Madagascar and Congo DR. The latter still has to deliver its result, but each was contested in some way. During the year, other polls may be raising more questions than answers, with elections to come no later than February in Nigeria and Senegal. Algeria (April), South Africa (May) and Tunisia (expected in December) are other key polls to be organized this year, while the Côte d'Ivoire 2020 presidential election is already tomorrow. Given the current low growth period in major economies (Nigeria, South Africa and Algeria) and increasing social protests, these elections could generate tensions. And in countries with long-standing leaders or less democratic forms of government, social tensions have also risen, particularly in oil exporters (Sudan, Libya, Gabon…). The rise of violence is also worrisome, particularly those involving Boko Haram or the Islamic State in Central or North Africa. More than ever, good governance will be crucial to stick with high growth (Morocco, Kenya and Rwanda are among the best pupils).

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Countries in Focus

Americas

U.S.: Strong jobs report, but tepid otherwise

The economy created a very strong +312k jobs vs. expectations of +170k, and the prior two months were revised up +58k. On a y/y basis job growth rose from +1.70% to +1.79%, the most in over two years. The unemployment rate rose +0.2pp to 3.9%, driven by a surge in the labor force of +419k, bringing the 2018 total to +2.6 million, the most of the recovery. Wages held steady at +3.2% y/y. Fed Chair Powell gave yet another dovish speech, boosting financial markets. But data from early in the week continued a string of tepid reports. The ISM manufacturing index dropped a sharp -5.2 points to 54.1, the biggest decline in over 10 years. It's still above 50 indicating expansion but the critical new orders component fell -11.1 points to 51.1. Separately, construction spending fell for the third consecutive month. The shutdown of one-quarter of the government entered its 18th day, for now putting a very minor drag on the economy.

Europe

Russia: Advanced indicators give a mixed picture

Industrial production increased by +2.4% y/y in November, down from +3.7% in October. The deceleration was mainly due to a stagnation in the manufacturing sector which was a result of a sharp drop in the automotive sector (-37.3% y/y) and a marked slowdown in metals (+7.2%, after +19.6% in October). In contrast, retail sales growth accelerated to +3% y/y in November from +2% in October, reflecting increased consumer activity ahead of the VAT rise at the start of this year. Meanwhile, the Composite Output index fell to 53.9 points in December (from 55.0 in November) as both the Manufacturing PMI (to 51.7 from 52.6) and the Services PMI (to 54.4 from 55.6) eased. However, the declines were mainly a result of weaker current business and increased cost burdens whereas the sub-components for new (domestic and export) orders rose and remained strong. This bodes well for sustained, albeit moderate growth in the first months of 2019. For the year as a whole, we forecast real GDP growth of +1.5%, slightly down from an expected +1.6% in 2018.

Africa & Middle East

Qatar: OPEC exit provides room to boost growth in 2019

Initial estimates indicate that real GDP growth picked up to +2.2% y/y in Q3 from +1.7% in Q2. However, the latter was sharply revised downwards from a previous estimate of +2.5% y/y. As a result, we have lowered our estimate for full-year growth in 2018 to +2% (from +2.6%). The acceleration in Q3 was mainly due to a narrowing of the contraction in the hydrocarbon sector to -0.1% (from -3.8% in Q2) while growth in the non-hydrocarbon sector moderated to +4.3% (from +7.2% in Q2). Notably the manufacturing sector dropped by -2% (from +20.6% in Q2) while the construction sector continued to expand strongly (+12.1%, after +15% in Q2). At the start of this year, Qatar withdrew from OPEC, highlighting the policy rift with its neighbors as well as its gas-focused growth strategy. In the near term, this will allow it to raise oil production in 2019 as it will not have to comply with the renewed output cuts agreed by OPEC in December. We forecast full-year growth of +2.7% in 2019.

Asia Pacific

Singapore: Soft patch?

Economic growth edged down to +2.2% y/y in Q4 2018 (after +2.3% y/y in Q3) according to advance estimates. The manufacturing sector posted a growth acceleration to +5.5% y/y (after +3.7%), services activity growth slowed to +1.9% y/y (after +2.6%) and construction continued to contract but at a slower pace (-2.2% y/y after -2.5%). While the expenditures breakdown has not been communicated yet, there are signs that the slowdown was due to a weaker expansion in exports: SGD-denominated non-oil domestic exports contracted in November (-2.6% y/y after +8.2% in October). Overall, real GDP rose by +3.3% in 2018 (after +3.6% in 2017). Advanced indicators point to weaker growth ahead. The SIPMM Manufacturing PMI softened to 51.1 points in December (from 51.5 in November) with slower expansion in new export orders. In that context, we expect real GDP growth to decelerate to +2.4% in 2019.

What to watch

- January 10 – France November industrial production
- January 10 – U.S.: Powell and six other Fed officials speak
- January 11 – Brazil December inflation
- January 11 – Mexico November industrial production
- January 11 – Spain November industrial production
- January 11 – Turkey November balance of payments
- January 11 – U.S. December consumer prices
- January 15 – Argentina December inflation
- January 15 – Brazil November retail sales
- January 15 – Germany 2018 GDP (1st estimate)
- January 15 – U.S. December producer prices
- January 16 – Turkey monetary policy meeting
- January 16 – U.S. December retail sales
- January 16 – U.S. Fed Beige book

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