

# Weekly Export Risk Outlook

July 19, 2017

FIGURE  
OF THE WEEK

-0.7%

Department  
stores sales  
in the U.S.  
June (m/m)

## In the Headlines



### China: Time to focus on financial risks

Economic growth rose by +6.9% y/y in Q2, a pace similar to the previous quarter, in line with the government GDP growth target of "around +6.5%". Primary industry growth accelerated to +3.8% y/y (from 3%). Secondary industry performance stabilized at +6.4%. Tertiary industry growth slowed to +7.6% (from +7.7%). Within the quarter, monthly indicators point that performance relies on an acceleration of activity in June. Retail sales and industrial production rose faster and private investment picked up pace on the back of a rise of credit flows (+RMB1.78tn in June). Looking ahead, the economy is set to decelerate gradually. With the achievement of GDP growth target almost secured, authorities will likely focus on reining in financial risks stemming from high corporate debt, a bubbly property markets and shadow banking activities. Regulation has already tightened with closer banking supervision and some limitations on home-buying conditions. The impact of these measures should be reflected in real GDP numbers through weaker growth in domestic investment. Economic growth is set to rise by +6.7% in 2017.



### U.S.: Consumption and inflation remain dormant

Retail sales fell -0.2% m/m in June vs. expectations of +0.1%. It was the second straight decline and drove the y/y rate to a mere +2.8%, half of what it had been at the beginning of the year. Losses were widespread across industries, with department stores in particular reflecting chronic troubles, losing -0.7% m/m after -0.8% in May, setting the y/y rate to -3.9%. Core sales, which feed into the GDP calculation, fell -0.1% m/m to +2.4% y/y. It had reached +3.8% y/y at the beginning of the year. One reason for the retail sales weakness may have been the erosion in the U. Michigan Consumer Sentiment survey which fell 2 points to 93.1 in July. More importantly, the expectations component fell 3.8 points to 80.2, the lowest since before the election, reflection growing concern that Trump's pro-growth agenda is at risk. Consumer prices were flat in June while the y/y rate fell from +1.9% to +1.6%, making the Fed's 2% goal increasingly elusive. Finally the industrial side of the economy continued to show some firmness as manufacturing industrial production gained +0.2% m/m.



### South Africa: A soft landing, despite political woes

Consumer confidence in South Africa stalled in Q2 2017 at a very weak level (-9). The intensifying political crisis is the culprit in this case. Calls for President Zuma's resignation before the end of term (May 2019) are stronger than ever, fueled by bribery accusations. As a result, growth will not likely recover in 2017. EH expects +0.6% in 2017, a modest rise from +0.3% in 2016. Yet as South Africa has already lost its investment grade ([WERO, April 5th](#)) and after the sharp depreciation of the rand between 2011 and 2015 (-60%), there is little room for market impact. The currency continues its trend appreciation (+30% since the 2015 low). As inflation moderated further (+5.1% y/y in June), monetary easing is likely. Despite political uncertainty, the case for a soft landing is supported by decreasing insolvencies. EH forecasts a -5% decrease in 2017, down from already quite-low levels and back to eighties lows.



### Ireland: Consumers to drive growth this year

Real GDP fell by -2.6% q/q in Q2 2017. This comes after three consecutive quarters of strong growth, with Q4 2016 leading the pack with +5.8% q/q. Consumers remained the highest contributors to growth with spending up by +1.2% q/q. Total fixed capital investment formation fell by -38.1% q/q after +11.8% in Q4. Yet the fall seems less sharp (-15.7% q/q) if one excludes activities which might distort the data, such as the on-shoring of some multinationals, intellectual property assets, and aircraft leasing. Thus, the modified domestic demand, including private consumption, public consumption, building investment, and machinery and equipment investment, was stable (-0.1% q/q). High-frequency indicators show that the recovery is broad based while the reflationary trend remains moderate given the sterling depreciation and the net importer Irish position. Overall, we expect GDP growth to reach +5.5% in 2017 after +5.1% last year.



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# Countries in Focus

## Americas



## Brazil: Politics and growth - much ado about nothing?

Judicial problems continue to afflict the already-embattled Brazilian politicians. The latest case affects former President Lula, who, after convicted on corruption charges, was sentenced to nearly 10 years in prison. At the same time, there is no major improvement in public finance as the fiscal deficit deteriorated to -9% of GDP. The private sector was responsible for the bulk of the adjustment, with net savings (savings minus investment) at about +7.5% of GDP.

The Brazilian economy benefited from a strong re-balancing. Exports growth (+15% y/y in Q2 2017) should further drive GDP growth recovery, as imports stalled. Moreover, the manufacturing sector is improving. Industrial production grew by +4% y/y in May, its best performance since February 2014. As a result, there was job creation in Q2 (+104k) for the first time in almost three years. Moreover, as inflation (+3% y/y in July) and monetary policy (-400 bp) ease, retail sales are back to growth territory (by +2.4% y/y in May), the first time in two years.

## Europe



## Eurozone: Lending figures give green light for ECB exit

Results from the ECB's bank lending survey were positive on various levels. First, banks continued to ease credit standards for enterprises in Q2 2017. Demand for loans to enterprises rose again and banks expect the increase to continue. Second, credit standards allocated to households for house purchases were also eased further. While credit standards remain well below the historical average, a further easing is expected in Q3. Demand for housing loans has increased and banks expect it to grow further.

These signals point toward an exit from ultra-loose monetary policy. Some observers consider tapering as overdue in light of the healthy eurozone economy. Yet the euro exchange rate and EMU bond market are sensitive to small tweaks in ECB messages on policies. The main objective will be to steer expectations towards the announcement of a reduction in monthly bond purchases which is likely during the September meeting.

## Africa & Middle East



## Congo DR: Feels like it only go backwards

Stagflation is set to continue in Congo DR. Political instability made a comeback after the postponement of the elections planned for December 2016, and the financial situation worsened. With less than one month of import cover, foreign reserves are at rock bottom and the currency depreciated by -40% to date. Since Days Sales Outstanding (DSO) is generally very low (cash payments are the standard), dollar shortages are hindering the basic functioning of the economy. The Cash crunch pushed the country to request IMF assistance.

Yet the political situation doesn't allow for multilateral support to ease the sudden liquidity shortage. The main risk is for growth to plummet further (+2.4% in 2016) and inflation to climb above the 2016 rate of +22.4%. The poor economic landscape implies income losses. GDP per capita was 60% of the regional average in 1983. It now stands at a meager 20% and is set to deteriorate further ([See Country Report](#)).

## Asia Pacific



## Singapore: Surfing the trade momentum

The first GDP estimate points to a rise of +2.5% y/y in Q2 2017, a pace unchanged from the first quarter. Growth was driven by a strong performance of the manufacturing sector (+8% y/y) especially the electronics and engineering clusters. Services posted decent growth (+1.7% y/y), while construction continued to contract (-5.6% y/y). On the expenditures front, hard frequency indicators suggest that exports remained a strong driver of the economy. Non-oil domestic exports increased by +8.2% y/y (after +0.4% y/y) in June.

Overall, performance in the first semester was relatively firm (+2.5% y/y) driven by higher external demand. Yet there is limited room for growth acceleration in the near term. In particular, the exports outlook remains uncertain as China could intensify its efforts to reduce domestic financial risks. Growth is set to rise by +2.5% in 2017.

## What to watch

- July 20 – ECB meeting
- July 20 – UK June retail sales
- July 20 – South Africa, Monetary policy meeting
- July 21 – Canada June consumer prices
- July 24 – US June existing home sales
- July 24 – July Manufacturing and Services PMIs for eurozone, Germany, France (preliminary estimates)
- July 24 – Japan July Flash Nikkei Manufacturing PMI
- July 25 – July Germany IFO business survey
- July 25 – Brazil, July Consumer Confidence
- July 25 – Q2 UK GDP (preliminary estimate)
- July 25 – US July consumer confidence
- July 26 – US June new home sales
- July 26 – US Federal Reserve meeting

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