

Weekly Export Risk Outlook

August 2, 2017

FIGURE
OF THE WEEK

+0.6%

Q2 2017 GDP
growth in the
Eurozone (q/q,
flash estimate)

In the Headlines



U.S.: Q2 GDP growth improves, consumption still weak

Q2 GDP growth met consensus expectations at +2.6% q/q annualized. Business investment rose +5.2%, the fifth consecutive gain, offsetting residential investment which fell -6.8%. Government expenditures added +0.1pp while net exports contributed +0.2pp. Q1 GDP growth was revised down from +1.4% to only +1.2% and 2016 growth was revised down from +1.6% to +1.5%, making it the weakest year of the recovery. Personal consumption rose +2.8% in Q2 but the monthly details were weak. Real personal consumption expenditures (PCE) were flat in June, putting the y/y rate at +2.4%, the slowest in 16 months. Real disposable personal income fell -0.1% m/m to an anemic +1.2% y/y rate. The PCE core inflation measure slipped from +1.8% y/y to +1.5%, making the Fed's +2% goal ever more elusive. Separately the July ISM non-manufacturing index fell -1.5 points to a solid 56.3, driven by a decline in new orders to a still strong 60.4. Details of the report were mixed. Seven of the ten components fell, raw materials prices increased at a faster rate, but 15 of 18 industries reported growth.



Eurozone: One positive indicator after the other

The provisional estimate from Eurostat indicates that Q2 real GDP grew by +0.6% q/q. The pace of expansion thus accelerated slightly compared with Q1 (+0.5% q/q). The latest GDP numbers are part of a series of upbeat numbers for the Eurozone economy that, overall, have topped expectations. Sentiment indicators, for instance, are still flagging up humming activity. Industrial capacity utilization rose again in Q3 (to 83.2%), in the services sector it climbed to an all-time high of 90.2%. And the decline in unemployment is continuing surprisingly swiftly. In all, the latest data point to a likely upward revision of our current full-year 2017 growth forecast to just over +2%. While forecasts for Eurozone growth are generally tending to be revised upwards of late, inflation forecasts are in the main being trimmed back slightly, partly because of the strength of the EUR (to be seen in part also as a weakness of the USD). In the wake of this week's figures, we see annual average inflation this year at 1.5%.



France: Sun is up

Real GDP grew by +0.5% q/q and by +1.8% y/y in Q2, the highest growth since Q3 2011. Overall, this good performance was widely expected as private sector confidence (business as well as consumer) was very high during Q2. The main surprise on the upside was export growth (+3.1% q/q). This good performance in Q2 gives traction to our overall export forecast: gains of +EUR25.3bn in nominal exports of goods in 2017. Private investment should be the main growth driver in 2017. Corporate investment (+0.5% q/q in Q2) is set to grow by +3.5% and household investment growth (+1% q/q in Q2) should reach +4.2% in full-year 2017. As households are giving priority to their investment spending, private consumption was the main laggard (+0.3% q/q in Q2, after +0.1% in Q1); hence the expected growth rate for 2017 is revised down to +1.3% (from +2%). Overall, risks to our previous growth forecast (+1.5% for both 2017 and 2018) are tilted to the upside as the carry-over for 2017 is already at +1.4%. Taking this into account, a fair estimate for both 2017 and 2018 is now +1.7%.



Sweden: Booming GDP growth in Q2

The Swedish economy grew by +1.7% q/q in Q2 after +0.6% in Q1, largely exceeding expectations. This is the strongest pace of growth since Q4 2010. The upturn was driven by a sharp increase in fixed investment (+3.8% q/q) which contributed +0.6pp to Q2 q/q GDP growth. Private domestic demand remained a robust driver, as consumer spending increased by +1.1% q/q, nearly doubling the Q1 pace. The krona depreciation helped exports to gain momentum (+0.7% q/q) while the strong investment growth resulted in an equally strong increase in imports so that net exports made a neutral contribution to Q2 growth. Despite the rebound in inflation (we forecast +1.7% on average in 2017) coupled with the strong growth and employment momentum, we expect monetary policy to continue to be very accommodative until H2 2018. We forecast real GDP growth to exceed +3% in 2017.

Note: WERO is taking a break. The next issue will be 30 August 2017.

Countries in Focus

Americas

Canada: May GDP exceeds expectations

The Canadian economy continues to surprise to the upside. Real GDP growth in May was +0.6% m/m (non-annualized), which by far exceeded expectations of +0.2% m/m, and sent the y/y rate to a very strong +4.6%, the fastest in over 17 years. The report adds to a growing body of evidence that Canada is perhaps the strongest of the major developed economies. The energy industry has certainly helped, rebounding at a startling +25.2% y/y rate, but even ex-energy the economy is growing +2.7% y/y. However the white-hot housing market remains a concern as valuations approach bubble territory. The quarterly GDP data, which comes from a separate report, showed that residential construction grew at a +15.2% q/q annualized rate in Q1; ex-residential construction, Q1 GDP growth drops from +3.7% to a still strong +2.9% q/q annualized rate.

Spain: Q2 augurs well for 2017 growth

Q2 real GDP growth came in at +0.9% q/q (after +0.8% in Q1) and +3.1% y/y. The carry-over for 2017 now stands at +2.6%. Regarding households, consumer confidence continues to recover thanks to the sustained improvement in the labor market; Q2 unemployment fell to an 8-year low of 17.2% (from over 20% in Q2 2016). Real retail sales reached their highest level since 2012 and continue to grow, in line with Eurozone figures. Finally, inflation slowed down in June and stabilized in July, at 1.5% (down from 1.9% in May and 3% in February), reflecting a lower contribution from commodity prices. Regarding companies, goods exports remained very dynamic, posting +5.3% 12m/12m growth in May. And the upbeat Manufacturing PMI (54.7 in June and 54.0 in July) shows optimism among businesses. We now expect full-year 2017 GDP growth of close to +3% (after +3.2% in 2016), ranking Spain among the best performers in the EU.

Jordan: Regional uncertainties continue to curtail growth

Real GDP growth slowed to +2% in 2016, down from an annual average +2.7% in 2011-2015 and +6.3% in the decade before that. On the home front, growth in recent years has been held back by remedial policies to limit the twin deficits in the fiscal and current accounts to maintain IMF support. In June, the IMF Board completed the first review of Jordan's current 3-year program under the Extended Fund Facility (running until mid-2019). Externally, a relatively weak global economy and a highly uncertain regional outlook (including an influx of Syrian refugees) have slowed economic activity. However, growth edged up to +2.2% y/y in Q1 2017, driven by strong rises in mining (+14.7%) and agriculture (+8.2%). We expect full-year growth to accelerate gradually to +2.3% in 2017 and +2.5% in 2018 on the back of some export routes being reestablished, growing infrastructure spending and a modest recovery in tourism. However, downside risks remain significant, subject to regional stability issues.

Kazakhstan: Gradual recovery on the back of rising oil output

Real GDP increased by +3.6% y/y in Q1 2017, marking the fourth consecutive quarter of accelerating growth after economic activity had decreased by -0.2% y/y in Q1 2016. The recovery is driven by increased oil output volumes (rising oil production at the Kashagan oil field) and values (higher oil prices), the improved external economic environment, and government-led infrastructure investment. Consequently, the industrial sector (including mining) grew by +6.3% y/y in Q1 (after a -1.1% fall in full-year 2016) and construction rose by +7.1% y/y (though slightly slower than the +7.9% in 2016). Expansion of agricultural output moderated to +2.6% y/y in Q1 (+5.5% in 2016). The services sector grew by a modest +2.1% y/y in Q1, however, this was up from just +0.8% in 2016 as a whole. We expect the industrial sector to remain the key growth driver in 2017, though quarterly increases should ease somewhat due to base effects. We forecast full-year growth of around +3% in 2017, after just +1% in 2016.

What to watch

- August 3 – U.S. July ISM non-manufacturing index
- August 3 – Turkey July CPI
- August 4 – U.S. July employment report
- August 4 – Canada July employment report
- August 7 – Russia July CPI
- August 11 – Russia Q2 GDP growth (flash estimate)
- August 14 – Eurozone June industrial production
- August 14 – Greece and Portugal Q2 GDP growth
- August 16 – Eurozone and EU Q2 GDP growth
- August 16 – Italy Q2 GDP growth
- August 17 – Netherlands Q2 GDP growth
- August 17 – Eurozone July CPI
- August 24 – Eurozone August Composite PMI
- August 24 – France August Business Confidence
- August 24 – Spain Q2 GDP growth (with details)
- August 25 – Germany Q2 GDP growth (with details)
- August 25 – Germany August Ifo Business Climate

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