

FIGURE
OF THE WEEK

+0.6%

Q2 2017 q/q
GDP growth in
South Africa



Emerging markets: Growth, one year on

Emerging Markets' (EM) manufacturing sectors have exhibited growth for 12 consecutive months. The EH propriety aggregate EM Manufacturing PMI reached 51.5 points in August, well above the 50-threshold. Moreover, the momentum is not fading, particularly in core countries such as in China (official PMI is 51.7). As growth surprised on the upside in many advanced economies (driving world growth to 3.7% q/q annualized in Q2; see also [WERO 30 August 2017](#)), the expected recovery in global trade is also proving true (EH expects +5.7% growth of trade in value in 2017, subject to upside risks). Moreover, financial evolutions are still favorable, particularly for the most vulnerable key EM (Turkey, Brazil, South Africa, Mexico, and Russia), i.e. that capital flows to these markets are back, searching for yield and driving exchange rate appreciation pressures. As a result, inflation is under control (except for Turkey) and allows for some monetary easing. Growth is now everywhere and it helped to end recession in many places (Nigeria, Brazil and South Africa; more details in this WERO edition). As a result, EH expects growth in EM to reach +4.4% in 2017 and +4.5% in 2018.



U.S.: Harvey's destruction, recovery underway

The damage from Hurricane Harvey may be the greatest in recent memory, perhaps even exceeding that of Katrina, although estimates vary widely at this stage. Gasoline prices spiked as much as +15% nationwide, but now infrastructure such as refineries, pipelines and the harbor are starting to come back on line, and gasoline prices have eased. Harvey may reduce Q3 GDP by up to -1% but that will be recovered in Q4 as rebuilding efforts get underway. In the meantime, the August employment report was a slight disappointment with job gains of +156,000 vs. expectations of +180,000, and downward revisions of -41,000 over the previous two months. Wages once again failed to pick up and remained at +2.5% y/y where they have been for five consecutive months. Consumption has improved recently but was still modest in June at +2.7% y/y while disposable income was rising only +1.3% y/y. Nonetheless consumer confidence remains very high, just off a recent 16-year record. The ISM manufacturing index gave more evidence of a manufacturing rebound, gaining 2.5 points in August to a strong 58.8.



Nigeria: Happy ending, but no free lunch

The economy returned to growth in Q2 (GDP grew by +0.55% y/y) after six quarters of recession, broadly in line with our expectations (see [WERO 21 June 2017](#)). The main driver was the end of the sudden stop of capital inflows as well as the easing of domestic liquidity constraints triggered by capital controls enacted last year in response to depreciation pressures on the NGN (caused by a surge in inflation). Currently, Nigeria still works with three exchange rates (official, interbank and black market), but recent reforms (the easing of capital controls in March and a devaluation of the interbank exchange rate in August) helped to narrow markedly the gap between the interbank and the black market rates. Despite this good news EH expects currency pressures to reappear sooner or later, since the exchange rate is not flexible and inflation is still relatively high (16.3% y/y in June, 16.5% expected for 2017 on average and 14% for 2018). As a result, we maintain our subdued growth scenario (+1% in 2017 as a whole and +2.5% in 2018).



Poland: Consumers and inventories continue to drive growth

Q2 real GDP growth remained robust at +3.9% y/y, following +4% in Q1. The demand-side breakdown reveals that the shift to domestic demand-driven growth observed in Q1 has further intensified in Q2. Private consumption continued to surge by +4.9% y/y in Q2 (after +4.7% in Q1), boosted by a declining unemployment rate (7.1% in July 2017, down from 8.5% a year earlier), increased subsidies to large families, and still moderate inflation (preliminary estimates for August indicate +1.8% y/y and -0.2% m/m). Public spending growth picked up to +2.4% y/y in Q2 (+1% in Q1). Fixed investment returned to growth in Q2, after five consecutive quarters of decline, though it was still modest at +0.8% y/y. Inventories were another key growth driver, adding +2pp to Q2 GDP growth (+1pp in Q1). Meanwhile, external trade activity weakened in Q2, especially export expansion dropped to +2.8% y/y (+8.3% in Q1) while imports eased to +6.1% y/y (+8.7% in Q1) so that net exports subtracted -1.5pp from Q2 growth (+0.1pp in Q1). We forecast full-year GDP growth to pick up to +3.8% in 2017 from +2.7% in 2016.



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Countries in Focus

Americas

Brazil: “Temerarious” exit from recession

In Q2, the economy officially exited recession, amid political scandals and popular discontent. Real GDP grew by +0.2% q/q, slightly above our expectations (+0.1%) but down from +1% in Q1. It also increased by +0.2% in y/y seasonally adjusted terms, the first positive performance in more than three years. The main driver of the recovery was private consumption which grew by +1.4% q/q (+0.7% y/y) after 9 quarters of contraction, in part boosted by the government allowing workers to make an early withdrawal from their retirement and severance accounts. Also, the fundamentals underpinning private consumption have improved, with inflation down to 2.7% in July 2017 (from 9% in August 2016) and the unemployment rate down to 12.8% in July. We thus revised our full-year 2017 growth forecast upwards to +0.8% (from +0.6%). Banco do Brasil may cut its key policy rate further today (from 9.25% in July) to support the recovery but also to revive inflation which is now below its 4.5% ±1.5pp target range.

Europe

Portugal: Steady recovery

Q2 real GDP growth decelerated to +0.3% q/q from +1% in Q1. Yet, in y/y terms, it grew at its fastest pace since 2000 (+2.9% vs. +2.8% in Q1). The y/y positive contribution of domestic demand remained significant (+2.8pp), higher than in the previous quarter, driven mostly by the acceleration of gross fixed capital formation (+10.3%). Given a strong H1 performance and buoyant activity in Spain (Portugal's main trade partner) we expect full-year 2017 growth to reach +2.5% (up from our previous forecast of +2.2%). These figures confirm the recovery of Portugal, which also successfully exited the excessive deficit procedure of the European Commission in June 2017. The fiscal deficit may fall to -1.5% of GDP in 2017, and the high public debt-to-GDP ratio should start decreasing (from 130.4% in 2016). Going forward, we also expect dynamic export growth as a result of reforms to improve competitiveness. Still, with the return of inflation, GDP growth is forecast to ease to +1.9% in 2018.

Africa & Middle East

South Africa: (Low) Growth is back

The recession ended in Q2, as expected (see [WERO 8 June 2017](#)). Real GDP grew by +0.6% q/q, led by the primary sector (particularly agriculture, with +7.5% q/q), but the most symbolic evolution was nurtured in the manufacturing sector, growing by +0.4% after three quarters of recession. The inflation surge that triggered the recession ended visibly. At 4.6% y/y in July, inflation is now comfortably within the Central Bank's target range (3% to 6%), having allowed the Bank to begin an easing cycle in July, by -25bp to 6.75% (see [WERO 26 July](#)). EH expects more easing – the policy rate should reach 6% by year-end while the disinflation trend should continue, bringing inflation to around 4% y/y by year-end. The remarkable resilience of the exchange rate to political woes and sovereign rating downgrades is among the contributing factors to disinflation. Overall, given the poor carry-over, we stick to our +0.6% growth forecast for 2017 as a whole and +1.2% for 2018.

Asia Pacific

India: Demonetization and rollout of GST weigh on growth

Real GDP grew by +5.7% y/y in Q2 (which is the first quarter of fiscal year 2017-18), down from +6.1% in the previous quarter. The deceleration was mostly due to private consumption, which slowed to +6.7% y/y from +7.3%, still affected by the 2016 demonetization measures. Strong public spending (+17.2% y/y) partly offset the slow-down in private consumption while fixed investment recovered from contraction though it remained subdued (+1.6% y/y) due to overcapacity and deleveraging in the banking sector. Meanwhile, a widening trade deficit dragged down Q2 growth, with export expansion (+1.2%) clearly outpaced by imports (+13.4%). On the supply-side, a large destocking by manufacturers ahead of the rollout of the *Goods & Sales Tax* (GST) reduced manufacturing growth to +1.2% y/y in Q2 from +5.3%. EH forecasts GDP growth of +6.5% in fiscal year 2017-18, supported by a rebound of investment, a rise in retail sales, and more accommodative fiscal and monetary policies.

What to watch

- September 7 – Mexico August CPI and core CPI
- September 7 – U.S. Q2 productivity
- September 7 – France trade balance
- September 7 – Germany July industrial production
- September 7 – Canada August employment report
- September 8 – Egypt August CPI
- September 8 – France July industrial production
- September 8 – Germany trade balance
- September 8 – Japan Q2 GDP (second estimate)
- September 8 – Turkey July industrial production
- September 11 – Poland August CPI
- September 11 – Russia Q2 GDP (supply-side details)
- September 11 – Turkey Q2 GDP (first estimate)
- September 12 – Argentina August CPI
- September 12 – Brazil July retail sales
- September 13 – Spain August CPI

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