

# Weekly Export Risk Outlook

29 November 2017

FIGURE  
OF THE WEEK

57.5

Composite  
PMI for the  
Eurozone  
in November

## In the Headlines



### World economy: Let's grow the nominal one

Global economic growth came in at +3.6% in Q3, in q/q annualized terms, following +3.8% in Q2. The two quarters were the best consecutive ones in terms of growth since 2010 and reflect a marked improvement of confidence indicators in Advanced Economies. Growth was synchronized in the U.S., China and the Eurozone and was particularly booming in open economies such as Germany (+0.8% q/q, non-annualized) and South Korea (+1.4% q/q, non-annualized). Even currently weaker economies such as the UK (+0.4% q/q, non-annualized) posted solid growth. The strong performance was fueled by strengthening trade flows. Euler Hermes has revised upward its trade growth forecasts in USD value terms, to +7.5% in 2017 and +6.3% in 2018, a revision driven by stronger price increases. The nominal uptick in trade should now also become visible in the domestic economy of some countries since capacity utilization rates have returned to 2007 levels in Q4 2017 (e.g. 87.1% in Germany and 84.9% in France). Expect stronger price pressures in the months to come as well as booming investment.



### Eurozone: The economy is growing and growing

In November, the composite purchasing managers' index for the Eurozone climbed to 57.5 points, the highest level in more than 6 ½ years. Overall, the survey results show that resource utilization – capacity utilization and employment – is increasing steadily. The new PMIs suggest that sequential growth in the Eurozone in the final quarter of 2017 will be at least just as strong as in the third quarter. This provides a sound launching pad for next year. The expansion is on a broad footing, in terms of both GDP components as well as individual countries. Private consumption is benefiting from the positive development on the labor market and investment is being lifted by favorable financial conditions. France and Italy are no longer a drag on Eurozone growth, rather it is mutually reinforcing among the member states. All in all, after a +2.3% increase in GDP this year, we now expect 2018 Eurozone growth to top +2% again – since 2015 that would be the fourth year running with above-potential growth.



### France: So corporate!

The French corporate sector is in a frenzy behavior. The manufacturing sector confidence index improved to 112.5 points in November, the highest value since February 2001. Another advanced indicator of a good cyclical momentum was building construction confidence, with an index improving to 107.0, +3 points above the September value (and a level not seen since September 2008). Moreover, confidence in the service sector also increased (to 109.0 in November, the best index since April 2011). Such a synchronization shows that growth is broadening. The overall better economic momentum is explained by a surge in private investment (+5.2% for residential investment and +4.1% for corporate investment are forecast in 2017) and improving growth prospects in the Eurozone (+2.3% forecast in 2017). The laggard in 2017 is household consumption (+1.2% only). But with the implementation of President Macron's first budget, households will benefit from several measures that should speed up consumption growth to around +2.2% in 2018, for example the reduction of housing taxes and the progressive overhaul of social contributions (on health and unemployment).



### Singapore: As trade improves, so does the economy

Q3 real GDP rose by +5.2% y/y, up from +2.9 in Q2, according to final estimates. The economy benefited from a jump in manufacturing activity growth to +18.4% y/y, after +8.4% in Q2. However, the construction sector contracted by -7.6% y/y. Services rose by a robust +3% y/y in Q3. On the expenditures side, exports were the main growth driver with an increase by +4.6% y/y, along with sustained expansion in domestic demand. In particular, private consumption edged up to +3% y/y, supported by improving labor conditions. The economic outlook has improved somewhat for the small export-oriented economy on the back of higher external demand from the U.S., the Eurozone, China and ASEAN. Looking ahead, the economy is expected to remain firm but moderate somewhat. Notably export growth may decelerate as tighter financing conditions in China will likely result in weakening demand. Domestic growth drivers should remain robust, driven by supportive and targeted policies (*smart nation initiatives*) and a favorable credit cycle. Against this background, GDP growth is forecast at +3.3% in 2017 before slowing to +2.9% in 2018.



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# Countries in Focus

## Americas

### Mexico: Slowing momentum

Q3 GDP growth was revised down to -0.3% q/q from a flash estimate of -0.2% q/q, confirming the contraction of the economy after natural disasters took a toll on industry. The y/y GDP growth rate decelerated markedly to +1.6% in Q3, the slowest pace since Q1 2014. Combined with a number of high-frequency data that does not point to a burst of activity due to reconstruction efforts, this alters the growth picture for 2017. The manufacturing PMI fell to its lowest level ever recorded in October (49.2), indicating a contraction of the sector. And the unemployment rate has deteriorated for three straight months to 3.4% in October, up from the historical low of 3.2% in July. Moreover, inflation accelerated again to 6.4% y/y in October, which may trigger a new policy rate hike, potentially further constraining credit. Uncertainty related to NAFTA negotiations and elections should also weigh on investment in 2018. We revise down our GDP growth forecasts to +2.1% in 2017 and +2% in 2018.

## Europe

### Ukraine: Strengthening consumption, weak production

Recently released official flash estimates show that Q3 real GDP growth slowed down to +2.1% y/y (from +2.3% in Q2) and +0.2% q/q (from +0.6% in Q2), in line with our expectations. Details for Q3 GDP are not available as yet, but a strong increase in real retail trade turnover by +8.2% y/y in Q3 (after an average +7.3% in H1) indicates that consumer spending should have held up well in Q3, after it had gained momentum with a +6.7% y/y rise in Q2. However, base effects played a role in this acceleration as retail trade was still weak in 2016. These base effects have started to wane in October 2017 when retail turnover growth moderated to +4.2% y/y. We expect this to continue and forecast real retail trade growth of +4% to +5% in 2018, which would broadly translate into a +2% to +3% expansion of consumer spending. Industrial production remains the weak spot as it declined by -0.2% y/y in the first 10 months of 2017. Real GDP is forecast to grow by +2.1% in full year 2017 and +2.2% in 2018.

## Africa & Middle East

### Nigeria: Growth in slow motion

Q3 real GDP grew by +1.4% y/y, the second quarter of positive growth after six consecutive quarters of decline. However, the growth figure is somewhat deceptive as it was only oil-driven, while the non-oil sector (90% of the economy) was down by -0.8% y/y. Recent monetary evolutions show that despite the disappearance of the black market premium (no remaining difference between the official and parallel exchange rates), inflation pressures are still alive (+15.8 y/y in October) and should persist in 2018 (forecast at +12.9% on average), weighing down on households' purchasing power. Moreover, new depreciation pressures on the NGN may occur if the oil price falls again from its current level – the benchmark Brent oil price has recently approached USD64/bbl, the highest since mid-2015, but EH expects an average USD57/bbl in 2018. Overall, we forecast GDP growth of +0.8% in 2017 and +2.5% in 2018. Positively, public debt is low (22% of GDP in 2017) and the current account is fairly balanced (we expect a surplus of +1.5% of GDP in 2017).

## Asia Pacific

### Japan: Manufacturing purring nicely

Conditions in the manufacturing sector remain favorable. The flash manufacturing purchasing managers' index (PMI) for November improved a full point from the final October print to 53.8. The changes in the subcomponents were also quite convincing. In particular, the combination of rising new orders and declining inventories suggests continued positive momentum for near-term output growth. Moreover, the overall better assessment of new orders was underpinned by rising export orders. The signals from the PMI data bode well for a further increase in export growth in the final quarter of this year. October trade data already showed a rebound in real goods exports of +2.6% m/m, following a tangible drop in September. Demand from Asian trading partners remains solid and, after some softness in August and September, real goods exports to the EU also recovered tangibly. And a view on the trade data by goods category suggests that exporters continue to benefit from the global investment cycle.

## What to watch

- November 30 – Estonia, Serbia, Slovenia Q3 GDP
- November 30 – Poland Q3 GDP (with details)
- November 30 – Spain Q3 GDP (with details)
- November 30 – Eurozone November CPI
- November 30 – France and Italy November CPI
- November 30 – Germany October retail turnover
- December 1 – Brazil Q3 GDP
- December 1 – Croatia Q3 GDP (flash estimate)
- December 1 – South Korea Q3 GDP (final estimate)
- December 4 – Turkey November CPI
- December 4-5 – Poland Central Bank meeting
- December 5 – Eurozone October retail sales
- December 5 – South Africa Q3 GDP
- December 6 – Brazil monetary policy meeting
- December 6 – Germany October factory orders

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