

# Weekly Export Risk Outlook



11 April 2012

## In the Headlines

FIGURE OF THE WEEK: **2.6%** >EH FORECAST WORLD GROWTH 2012

### ▶ Global & Insolvency Outlooks: Slowdown evident

EH latest global outlook expects world economic growth to decelerate to 2.6% in 2012, after 4.3% in 2010 and 2.9% in 2011, with the emerging economies as the main drivers. The US economy is forecast to register a moderate improvement, at 2% growth in 2012 (1.7% in 2011), barring further austerity measures. The EZ is projected to fall into mild recession (-0.3%) as prospects for southern EZ countries have weakened significantly. Although some encouraging signs are emerging in 2012 (including Greek PSI and improvement in EZ fiscal governance), downside risks remain significant (high levels of unemployment and need for deleveraging in many advanced economies). The change in the EH Global Insolvency Index (GII) for 2011 was revised slightly to -4% (against a previous -3%) as insolvencies decreased more than expected, particularly in North America. The forecast for 2012, however, is revised up to +5% (previously +3%) reflecting developments in southern EZ countries.

### ▶ Germany: Weak indicators in February

In February, overall production (including manufacturing, energy and construction) declined by 1.3% mo/mo, following +1.2% in January. This largely resulted from a slump in construction (-17.1%) that, in turn, reflected a period of severe cold weather. Contrary to expectations, industrial production also declined, by 0.3% mo/mo, with consumer goods significantly down and capital goods slightly up. In addition, new orders received by industry in February also proved disappointing, although slightly positive at +0.3% mo/mo, after -1.8% in January, providing evidence of weak demand from the EZ (-3.2% mo/mo), although orders from outside the EZ climbed strongly, by 5.0%. Overall, the latest data suggest a weakening in Q1 economic activity.

### ▶ China: Trade and inflation

The trade balance returned to surplus in March, as export growth exceeded expectations at 8.9% yr/yr (6.9% average in the first two months of 2012) while import growth fell below expectations at 5.3% yr/yr (7.7% average in the first two months). Export growth suggests that global demand is not as big a drag on economic growth as might have been feared, but the import slowdown, nonetheless, reinforces expectations of slower GDP growth in H1. March consumer price inflation picked up to 3.6% yr/yr (3.2% February), slightly higher than expected, although the non-food element was unchanged at 1.4% yr/yr. Both sets of data tend to support moderate policy easing in coming months. Q1 real GDP figures will be released later this week. Expect a moderate slowdown to 8-8.5% yr/yr.

### ▶ US: Weaker labour market

The March jobs report was a significant disappointment and broke a string of six good employment releases. Instead of creating 200,000 jobs, as expected, the economy only created 120,000, markedly below even the most pessimistic forecasts. The rate of unemployment moderated by a further 0.1pps to 8.2% but this more probably reflected people leaving the workforce rather than job creation. It is possible that the unusually warm weather earlier in the year pushed hiring forward and "borrowed" jobs from March, and any one month's data contains random noise. Even so, the jobs news caused a sharp sell-off in global equity markets. Meanwhile, gasoline prices are continuing to squeeze the consumer, inching higher to a nationwide average of USD3.92/gallon, compared with the 2008 record of USD4.06.

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► **Mediterranean, Africa & Middle East – Malawi: New president**

President Bingu wa Mutharika died unexpectedly on 5 April and, despite some initial confusion, the vice-president, Joyce Banda, was inaugurated as head of state for the remainder of Mutharika's term (to 2014), in accordance with constitutional regulations. However, Banda is currently the leader of an opposition movement, after disagreements with Mutharika and her departure from the ruling party, so her tenure is not necessarily secure. Nevertheless, there is an opportunity now to improve relations with the international donor community—some budgetary aid was suspended in 2011—and the IMF and to foster higher economic growth. Meanwhile, popular expectations will be high and investors and businesses will await clarity in relation to policy direction.



► **Americas – Brazil: Supporting growth**

Last week, the government announced further measures to support the economy as part of its Brasil Maior (Bigger Brazil) Plan. Measures include a 20% reduction in payroll taxes for 15 economic sectors, offset partly by a tax of 1-2.5% on corporate revenues, extension of the reduction of taxes on household appliances, an increase in some import taxes and a widening in the definition of an exporting company to broaden the qualification for tax deductions. The national development bank (BNDES) will also receive a government capital injection to support new credit lines, the government's export financing programme is to be expanded and the government will increase purchases of domestically-produced goods. As monetary policy continues to be loosened, expect GDP to increase by 3% in 2012.



► **Asia-Pacific – South Korea: Mixed Q1 data**

Industrial production growth moderated to 0.8% mo/mo sa in February from a strong 3.2% in January. In contrast, retail sales expanded by 2.6% mo/mo sa in February, after 0.6% in January. Industrial production and retail sales increased by an average 6% and 2.8%, respectively yr/yr in January-February, both higher than the respective averages for Q4 2011 but lower than for full-year 2011. The seasonally-adjusted Business Survey Index for the manufacturing sector was 82 in March, down from 85 in February and 83 in January. The Consumer Sentiment Index was 101 in March, up from 100 in February and 98 in January. Meanwhile, headline inflation fell to a 20-month low of 2.6% yr/yr in March, well within the central bank's 2-4% target range for 2012. Expect GDP growth of 3% in 2012 (3.6% 2011).



► **Europe – Bosnia and Herzegovina: Weakening prospects**

Last week, Moody's lowered its government bond rating to B3 from B2 and will continue to review for a possible further downgrade. The agency cited three key drivers. Firstly, fiscal deterioration of the general government—a current IMF programme has been off track since early-2011 and access to LT external financing is limited. Secondly, weakened government effectiveness, illustrated by the 16-month delay in establishing new state-level institutions following 2010 general elections and by brief interruptions of payments to several multilateral financial institutions and one commercial bank. Thirdly, poor growth prospects, which could further aggravate the fiscal position. Expect 2012 real GDP growth of 1.5%, similar to 2011, although well below the 2002-08 annual average 5.3%, and underlying stresses to continue.

**Worth knowing**

► **Egypt**

The committee mandated to draft a new constitution was suspended following its boycott by liberals, secularists, Coptic Christians, the al-Azhar mosque (a leading Sunni Moslem university) and even the Supreme Constitutional Court, all objecting to perceptions of the committee's dominance by representatives aligned with the Moslem Brotherhood and Nour. The suspension will slow the political transition at a time when economic deterioration requires evidence of positive political momentum.

► **South Africa**

Gross international reserves declined by 2.3% mo/mo to USD50.7bn in March, the largest decline in six months. However, the fall reflected SARB's liquidity management operations and negative valuation adjustments, including lower gold prices.

► **Sri Lanka**

The benchmark lending rate was increased by 75bps to 9.75%—the second increase in two months—in an attempt to check growth in domestic credit (reflecting strong GDP expansion) and inflation (5.5% yr/yr in March from 2.7% in February).

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