Weekly Export Risk Outlook

EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: 27% > FALL IN US EXISTING HOME SALES IN JULY

US: Housing market

Total sales of existing homes fell 27% in July, to the lowest level since data provision began in 1999. However, data on the largest segment of the market, single family homes, goes back to 1968, and last month's level in that sub-sector wasn't nearly the worst ever. The expiration of the USD8,000 tax credit in April was expected to cause distortions for several months, making it difficult to gauge the actual state of the housing market. So while this month's year/year growth rate was the lowest ever, the highest ever was just last November. The 12month/12month measure offers greater perspective still—10.5% in July compared with a long term average of 3.3%. This month's report was much worse than expected, but some perspective is due.

Thailand: Resilient Q2 GDP

The economy proved resilient to the political unrest in April-May as real GDP continued to expand in Q2, by a relatively modest 0.2% qtr/qtr sa, but 9.1% yr/yr—off a low base, but better than expected. Export growth held up well but, importantly, consumer spending and private sector investment were also meaningful contributors to growth, signalling little immediate impact from the unrest. Although growth can be expected to slow through the remainder of 2010 and into 2011 as external demand cools, momentum remains positive, and the latest data led to a general upgrade of full year 2010 forecasts to around the 7% mark. The central bank raised interest rates again this week for the second time, and it may not be the last.

Australia: Hung parliament

The general election called by PM Julia Gillard has not proved decisive, with neither the ruling Labor Party or the opposition likely to have sufficient seats to form a government without support from independents. It may take some time to form a government and in any event the political balance will be fragile, with fresh elections likely sooner rather than later. Nonetheless, the economy was resilient through the global crisis, with a relatively modest fiscal deficit and low net public debt and the main parties do not have radically different policies, so the more important factor for the economy may well be the strength of demand for key commodities, particularly elsewhere in the Asian region, which has been strongly supportive of growth so far.

Pakistan: Flood relief

As the economic impact of the floods becomes more acute, the IMF is assessing whether to change the terms of its existing loans or to grant a new facility. The terms of a three-year lending programme of USD10.7bn agreed in 2008 and subsequently enlarged in 2009 were already proving difficult, particularly in relation to fiscal targets. The floods have displaced an estimated 20mn people and badly disrupted agriculture—early estimates suggest that at least 15% of the cotton crop was destroyed—so that GDP growth will be limited and inflationary pressures will intensify. The Asian Development Bank has offered an emergency loan of USD2bn to help repair infrastructure, the World Bank has pledged USD900mn to assist rebuilding work and the ECB and others are contributing humanitarian aid. Expect the IMF to be accommodating, despite previously missed programme targets.

Countries in Focus

Mediterranean countries & Africa – *South Africa: Growth*

Q2 GDP expanded by 3.2% qtr/qtr (after 4.6% in Q1) and 3% yr/yr (after 1.6%). Strong growth in the trade, finance and transport sectors probably reflect a World Cup boost and this may now ease. Nevertheless, expect GDP growth of around 3% in 2010. The rate of growth next year depends on the state of the global economy but also on investors' and traders' perceptions. In this respect, the recent strike led by public sector unions—most of the 1.3mn civil servants stopped work while demanding pay increases of 8.6%, which is double the rate of inflation—and the impending Protection of Information Bill do not augur well. If business faces heightened labour activity and the independence of the press is curtailed then expect some foreign investment and trade flows to seek alternative markets.

Americas – *Venezuela: FX controls to persist*

Real GDP was down 1.9% yr/yr in Q2 after -5.2% in Q1 and will probably contract in 2010 as a whole by 2-3% (-3.3% 2009). A further decline is likely in 2011. Inflation is above 30% and on an upward trend. The fiscal deficit should narrow in 2010 (5.1% of GDP 2009) as exchange rate devaluation and higher oil prices boost revenues, although spending growth should be constrained compared with earlier years. Policies can be expected to remain strongly interventionist behind foreign exchange controls and a multiple exchange rate system, which is likely to dampen investment. The economy also remains highly vulnerable to oil prices (90-95% of exports). Legislative elections are due in September, in which the opposition should make gains, but expect the Chavez administration to remain in control.

Asia-Pacific – *Taiwan: Strong Q2 GDP*

Q2 real GDP increased by 12.5% yr/r (13.7% Q1) and 1.8% qtr/qtr sa (2.6% Q1). The main qtr/qtr driver was net exports, as import growth slowed sharply while export growth moderated. Domestic demand's contribution was negative as solid private consumption growth failed to offset a fall in private investment. A noticeably slower pace of growth will be evident, especially yr/yr, in H2, as export growth slows, relatively high unemployment and higher interest rates weigh on domestic demand and the investment boost from the trade agreement with China takes time to work through—although full year growth will still be 8.5-9% and momentum should be sufficient to maintain growth of 4% in 2011. July export orders—up 18.2% yr/yr after 22.5% in June—underscore the moderating pace.

Europe – *Germany: Business surveys*

After a strong rebound in July, business confidence recorded a further increase in August, to a three-year high, according to the Ifo Institute. Assessment of the overall business situation improved again in the manufacturing, retail and services sectors, suggesting that Europe's largest economy remained buoyant up to August. This was confirmed by the unexpected Q2 GDP growth of +2.2% qtr/qtr—the fastest quarterly increase since reunification. However, business expectations for the coming six months decreased slightly because of a less optimistic outlook in construction, wholesale trade and manufacturing, reflecting concerns relating to a slowing global recovery that would dampen export growth. Even so, expect the good H1 performance to result in an upward revision of 2010 GDP data.

Worth knowing

Middle East

A new round of peace talks will start on 2 September, with Israeli PM Binyamin Netanyahu and Mahmoud Abbas, leader of the Palestinian Authority, due to meet in Washington for the first direct talks between the two parties in almost two years. President Hosni Mubarak of Egypt and King Abdullah II of Jordan will provide regional input and perspectives. However, the negotiations could break down over several contentious issues, not least of which is if Israel does not renew its partial freeze on settlement building in the West Bank, which is scheduled to expire on 26 September.

Other Q2 GDP

Israel: 4.7% yr/yr (after 3.6% in Q1), the strongest such data for two years. **Malaysia**: 8.9% yr/yr (after 10.1% in Q1). **Mexico:** 7.5% yr/yr (after 4.3% in Q1).

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