

3 June 2013

Bad performance or high expectations?

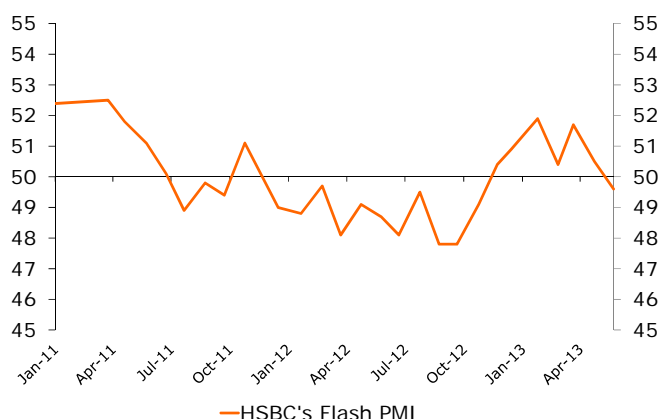
Real GDP growth

	'12	'13	'14
World	3.2	3.3	4.0
US	2.2	1.9	3.0
Euro area	-0.6	-0.3	1.1
CEE	1.6	2.2	2.8
CIS	3.4	3.4	4.0
Developing Asia	6.6	7.1	7.3
China	7.8	8.0	8.2
Latin America	3.0	3.4	3.9
MENA	4.7	3.1	3.7
SSA	4.8	5.6	6.1

Source: IMF April WEO update

If being disappointed is worse than being angry, then the World economy is in a terrible shape. One can read two things into disappointment. Either the economic performance is really bad or that consensus expectations were too high. In case of China, analysts' expectations are particularly high, as that country is perceived to be the global ticket out of the quagmire. On the other hand, after a glorious year in 2010, Brazil has not been able to hit its stride again, remaining far away from its potential growth of 3-4% yoy. And as the same goes for South Africa, disappointment in Chile's number seems due to oversized expectations. For Mexico, the jury is still out as data is hard to interpret.

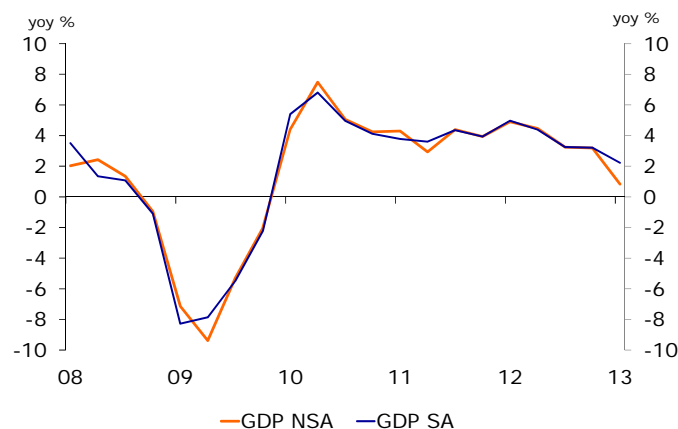
China – Hardening soft patch



Source: EIU

After the reported growth deceleration in 13Q1, signs in China have not improved during May. Although April's data compare favourably to March's. The acceleration of industrial production (IP) growth to 9.3% y-o-y from 8.9% and pick-up of export growth to 14.7% y-o-y from 10% look good. However, this uptick was largely due to April having two more working days compared to the previous year. HSBC's flash PMI dropped below 50 for the first time in seven months. Unsurprisingly perhaps, investment growth is 5%-points off its long-term average at 20.6% y-o-y in April. Government stimulus remains unlikely, as lower growth remains acceptable as long as unemployment does not pick up.

Mexico – Confusing statistics



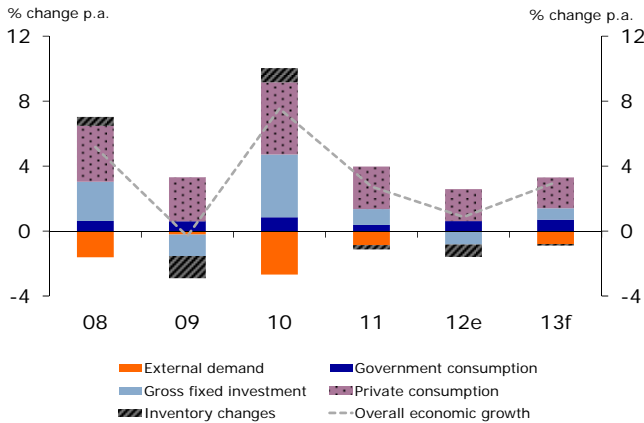
Source: INEGI

Economic growth in Mexico slowed down from 3.2% y-o-y in 12Q4 to 0.8% y-o-y in 13Q1, unadjusted for calendar days. If corrected for it, growth amounted to 2.2%. In the media there was a lot of attention for the 0.8% figure. The fall in growth in calendar unadjusted terms was presented as a significant setback for the new government of President Pena Nieto. However, we note the difference between the two figures is explained by the lower number of working days in 13Q1 this year, as Easter fell in March, while it fell in April last year. Nevertheless, IP growth number supports the picture of subdued growth, shrinking by 4.9% y-o-y in March. The bright spot is the construction sector, which is growing on a monthly basis.

Economic Update Emerging Markets

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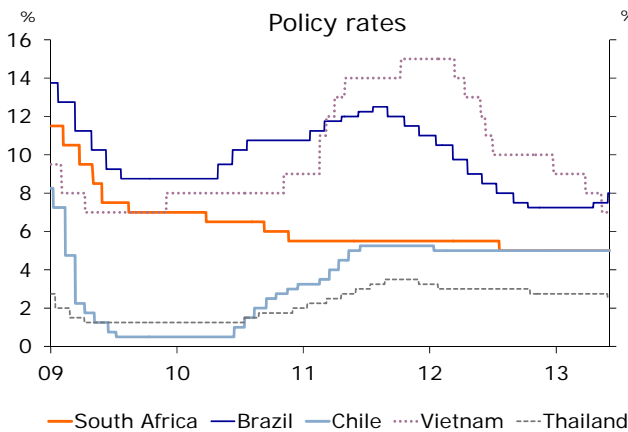
Brazil – Still not firing up



The growth data for Brazil released last week were disappointing, again. In 13Q1, economic growth was 0.55% q-o-q (seasonally adjusted, sa), against 0.64% in 12Q4. Fixed investment looked extremely strong, as it grew 4.6% q-o-q (sa), the highest rate in 3 years. However, almost two-thirds of this growth may be accounted for by the construction of trucks. Net exports made a negative contribution (1.8%-points) to the headline figure. Bad news in particular was that inventory growth contributed 1.4%-points to growth. Such a rapid expansion of inventory formation does not bode well for growth in the coming quarters because it is highly volatile.

Source: EIU

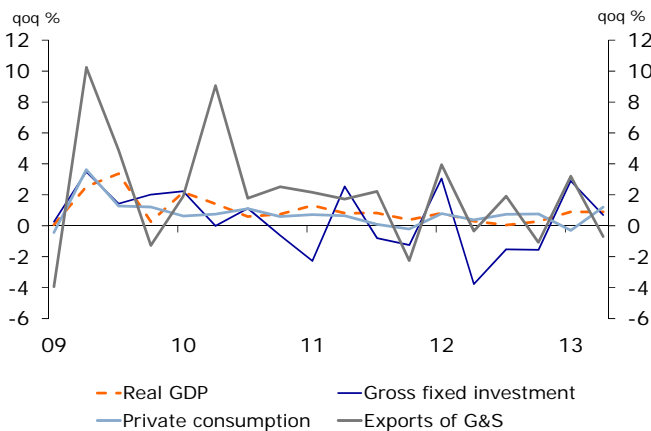
Other emerging countries – Disappointment all-round



In Malaysia and South Africa, annual growth dropped to 2009-levels in 2012 (4.1% and 1.9%, respectively). Especially in South Africa, the disappointment is the result of underperformance. Chile on the other hand, has also disappointed analysts with its 4.1% y-o-y growth in 13Q1. We would argue, however, that this has more to do with higher expectations rather than a genuinely poor performance. For a rather well-developed country such as Chile, this is a fair result given global conditions. Many countries have been disappointed enough to take monetary action on the back of lower inflation expectations. These include both Vietnam and Thailand, where growth dropped to 5.3% in 13Q1.

Source: Reuters EcoWin

South Korea – Growth and momentum



South Korea's economy expanded by 0.9% q-o-q in 13Q1, the fastest pace in two years, amid a rebound in construction, investment and exports. Exports climbed 3.2% q-o-q, offsetting a fall in private consumption (-0.3%). Meanwhile, President Park unveiled a USD 15bn extra budget and property stimulus package in April as the economy struggles with yen's depreciation, record household debt and a flat housing market. The Bank of Korea added to stimulus by cutting the benchmark rate in a bid to weaken the won. As Japan has embarked on an aggressive monetary easing policy, and other regional competitors are also lowering their policy rates, South Korea is following suit, but from a better growth position.

Source: EIU

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