EM Growth Tracker
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- EM Growth Tracker at 3.6% 3m/3m sa ar in April.
- Hard data variables behind the improvement.
- EM Europe & Africa trackers with important gains.

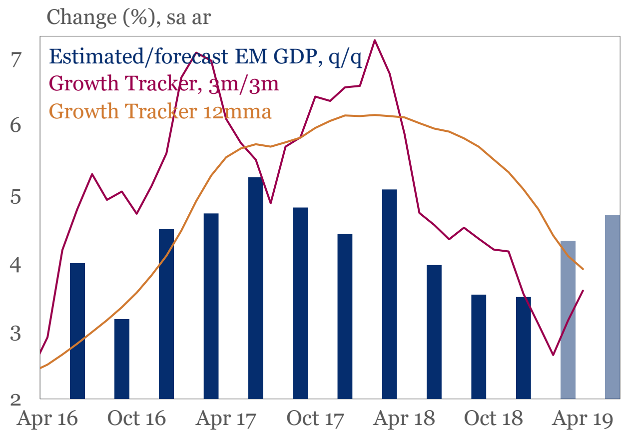
TRACKER CONTINUES TO CLIMB

Our EM Growth Tracker came in at 3.6% (3m/3m sa ar) in April, 0.4pp higher than the month prior (Exhibit 1). This was the first consecutive uptick in our tracker in fourteen months. Revisions show the tracker improved by 0.5 pp in March. The latest result was due to the largest positive contribution from hard data (0.4pp) since February 2018. Adding to the uptick were marginal increments in financial variables and business survey data (Exhibit 2).

We revised down our 2019 EM forecast to 4.4% due to slower growth in EM Asia and EM Europe. For 2019Q2, EM growth is expected to improve to 4.7%. Solid improvements in Mexico and Brazil, with Argentina coming out of recession, should boost regional growth to 2.8%. However, weakness in Russia and Ukraine will offset improvements in Turkey to drag EM Europe growth down to 1.9%. Otherwise, China will benefit (6.5%) from improved trade talks, as the rest of Asia should see slower growth (3.9%). Lastly, we forecast a weker expansion in MENA region for 2019Q2 relative to Q1.

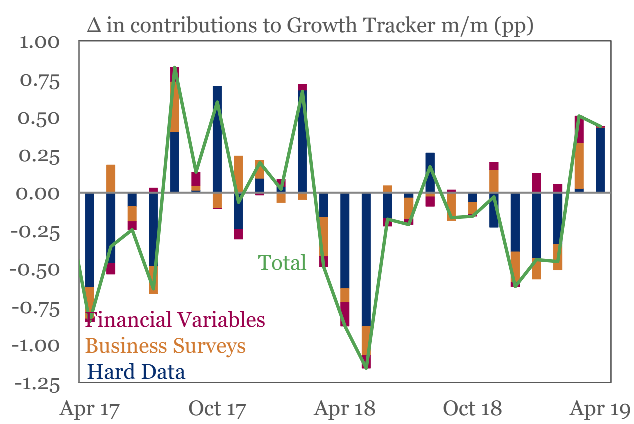
Our outlook is supported by improving business survey data. This, in addition to a more dovish Fed – leading the global easing in financial conditions – sets our global forecast at a modest 2.9% for 2019. One lesson from the 2018 EM sell-off is that global capital markets have grown unwilling to fund heavily credit-dependent growth models. However our recent findings show that Colombia, Russia, Indonesia, Brazil and Poland have growth heavily linked to credit, while the recent credit expansion in Turkey has undone a lot of progress made last year in reducing the current account deficit and external vulnerability. In China, we think activity will pick up in coming months but stimulus measures will take some time to work their way through the system. Lastly, despite significant adjustment, Argentina remains exposed to reserve losses in downside scenarios.[1]

Exhibit 1. Tracker continues to climb.



Source: IIF

Exhibit 2. Hard data behind the uptick.



Source: IIF

[1] Our Global Macro Views, in depth country reports and data contain detailed estimations and forecasts for EMs.

PMI with mixed signals

Our high frequency PMI tracking of global growth points to an improving picture. Activity in China's services sector further improved in April, with export sales rising at a record pace. In general, China's economy looked resilient in April, especially in the services sector. However, pressure on costs across the services sector remained relatively high, limiting companies' profit growth potential. In India, although the private sector economy looks to be settling into a weaker growth phase, much of the slowdown was linked to disruptions arising from the elections and we foresee improvements once a government is formed.

IP growth surges in China

China's latest data points to a recovery with stronger-than-expected first-quarter performance including rapid growth in real estate and fixed-asset investment and a striking rise in industrial production, up 8.5% y/y in March compared with growth of just 5.3% in January and February. A breakdown of the data showed manufacturing output reported year-on-year growth of 9% in March, the fastest among the three major sectors and accelerating 3.4pp from the January-February period. If sustained, the improvement in business conditions could indicate that manufacturing is on a path to recovery, easing fears that China could slip into a sharper economic downturn. We remain cautious, since distortions due to the long lunar New Year break in February could have affected the reading. Moreover, construction work starting at the beginning of the year has led to strong domestic demand, but external demand is still weak, and the outlook on imports and exports is still buoyant.

Singapore's industrial production in March fell from a year earlier as expected due to a plunge in electronics output. Industrial production in Taiwan fell year-on-year in March for the fourth consecutive month as the electronics industry was the sector most heavily affected in March by the drop in global demand. In general, manufacturing is affected as the tech cycle weakens and the US-China trade conflict seems to have disrupted some supply chains (Exhibit 3). Some of the negative impact on trade may be offset by the relocation of production to S.E. Asia, which may benefit manufacturers in Singapore and Taiwan.

Official figures show that EM trade volumes contracted once again (Exhibit 4). However, our [high frequency tracker of trade activity] points to a clear improvement in trade activity. Nevertheless, previously enacted tariffs may be hurting the global supply chain and have decreased the demand for goods around the world. Overall, only four countries whose exports factor into our model expanded.

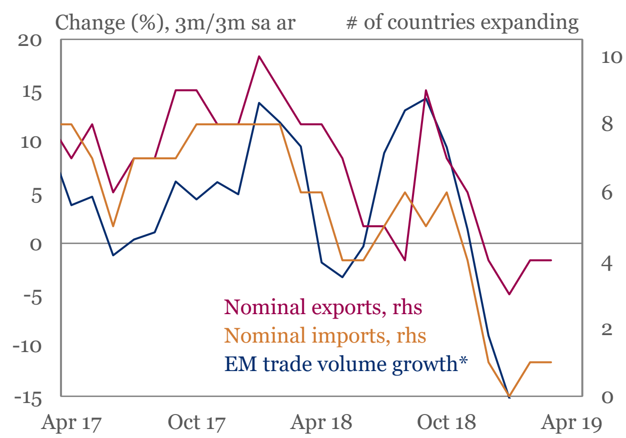
Regional trackers mixed

The regional tracker for EMEA shows an important recovery, mainly driven by Eastern European countries, Asia inched higher, while that for Latam displays contraction of activity.

Exhibit 3. IP growth surges in China.

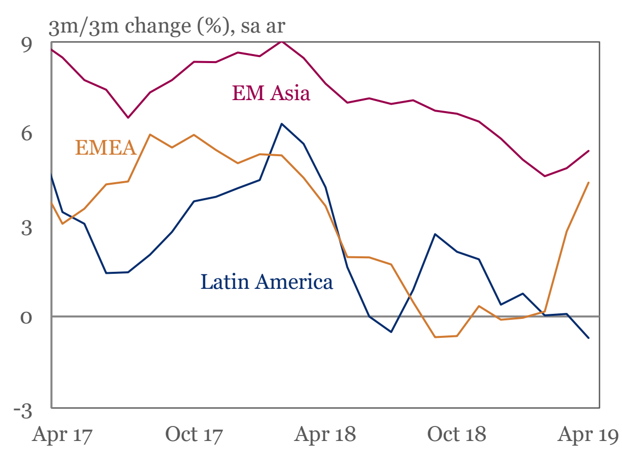
Source: IIF. BR, KO, PL, SG, TW, RU (GDP-weighted)
**Due to lagged IP release, we use Mar. figures.*

Exhibit 4. EM trade volume contracts further.



Source: CPB Trade Monitor, Haver, IIF.
**Due to lagged Trade data release, we use Feb. figures.*

Exhibit 5. Latam growth contracting.



Source: IIF