Atradius
Managing risk, enabling trade

Economic Update

November 2019

Summary

Global

Real GDP growth forecasts

	2018	2019f
World	3.2	2.5

Sources: Oxford Economics, Atradius

Global growth is softening

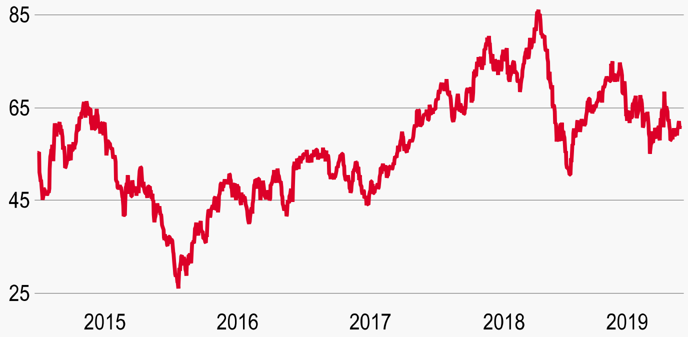
Global growth is expected to decrease this year to 2.5% amid weak global manufacturing activity, with the broadening of tariffs between the US and China as the main culprit. The US administration recently announced another tariffs hike: from 25% to 30% on USD 250 billion of imports already taxed effective October 15 and a 15% tariff on the remaining USD 300 billion worth of Chinese imports coming into effect in September (with delays on some consumer goods until mid-December in order to minimise disruption to the Christmas shopping season). While an agreement was reached in mid-October to pause further tariff escalations, the risks of the US-China rivalry increasingly spilling over into other domains, such as finance and technology, continues to rise.

World trade growth continues to decelerate, and the outlook remains bleak. The volume of trade expanded 3.4% in 2018, just above GDP growth, but as of August 2019 this had already dropped to 0.4%. Trade momentum, measured as trade in May to July 2019 compared to the previous three months (February 2019 to April 2019), was negative for the third month in a row. While trade tensions between China and the US continue to simmer, the risk of an escalation in trade tensions between the US and EU still looms. Following a WTO ruling on government support to Airbus, the US administration has announced tariffs on USD 7.5 billion worth of imports from the EU.

There have been several swings in the oil price thus far in 2019 within a relatively large corridor of USD 55 to USD 75. The oil price breached USD 70 per barrel Brent in April and May, as heightened tensions in the Persian Gulf raised fears about oil supply disruption. However, over the summer raising concerns about the global economy and larger-than-expected crude inventories in the US drove down the oil price to below USD 60 per barrel. Rising tensions in the Persian Gulf following attacks on major oil refining facilities in Saudi Arabia caused the oil price to spike in September, but only temporarily. An upward price shock due to political tensions continues to pose a significant risk to the global economy.

Oil price

Daily spot price, USD per barrel Brent



Sources: Macrobond, Atradius Economic Research

Eurozone

Real GDP growth forecasts

	2018	2019f
Austria	2.3	1.6
Belgium	1.4	1.2
France	1.7	1.3
Germany	1.5	0.6
Greece	1.9	1.7
Ireland	8.3	4.5
Italy	0.7	0.1
Netherlands	2.5	1.6
Portugal	2.4	2.0
Spain	2.4	2.0
Eurozone	**1.9**	**1.1**

Sources: Oxford Economics, Atradius

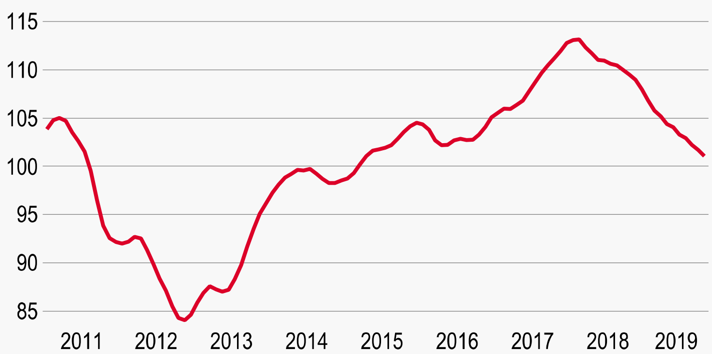
Eurozone: weakness in manufacturig weighing on GDP growth

The eurozone economy is slowing considerably this year. GDP is expected to expand by 1.1% this year, compared to 1.9% in 2018. This slowdown reflects the prevailing weakness of international trade and global uncertainties, which are weighing on the manufacturing sector, particularly in Germany. The German car industry is still struggling with the revised emission standards, but the manufacturing sector is also struggling more broadly with the slowdown in global trade. Sentiment indicators for the eurozone point to a continuation of subdued growth. The European Sentiment Indicator (ESI) deteriorated further to 101.7 in September, which is significantly below the January figure of 106.3.

Due to a significant weakening of export growth there will be a lower contribution of net trade to eurozone GDP growth compared to last year. Thus far the spill over from weakness in the export-driven manufacturing sector to the services sector has been limited. Domestic demand is likely to remain fairly resilient in 2019. The labour market is showing no signs of weakening, with the unemployment rate down to 7.4%, the lowest figure since the 2008 financial crisis. Wage growth remained strong in Q2 of 2019 at 2.5% y-o-y – one of the highest growth rates since 2009 and well above inflation (0.8% in September). Higher wage growth is contributing to consumer purchasing power and will eventually feed into higher consumer prices. That said, inflation is expected to average 1.2% this year, falling short of the ECB target of just under 2%. In response, the ECB reversed course by announcing a new monetary stimulus package after its latest policy meeting in September. The stimulus package, which included a further (though minor) cut of the deposit rate, generated fierce opposition from several central bank governors, including Klaas Knot from the Dutch Central Bank and Jens Weidmann from the Bundesbank.

Economic Sentiment Indicator - eurozone

Seasonally-adjusted, 3-month moving average



Sources: Macrobond, European Commission

Advanced Markets

Real GDP growth forecasts

	2018	2019f
United States	2.9	2.2
United Kingdom	1.4	1.3

Sources: Oxford Economics, Atradius

US and UK outlook dependent on consumer resilience

With more than a decade now of steady recovery from the Great Recession, the US economy is losing steam. The economy grew 1.9% y-o-y in Q3, continuing the downward trend from a remarkable 3.1% expansion in Q1 but surpassing market expectations. The industrial sector has been increasingly strained by the trade war, lower external demand and the strong US dollar. But private consumption, which accounts for two-thirds of US economic activity, is holding up relatively strong. The labour market is historically tight and the financial position of households has improved over the past decade. The outlook for consumers remains relatively benign but there are some signs of slowing gains. On top of ongoing uncertainty related to the US-China trade war and policy volatility, slowing improvements in the labour market appear to be weighing on consumer confidence. Inflation remains below target (1.8% in August) and consumer inflation expectations fell to their lowest level since 2013. Due to persistent weak inflation and in order to stymie and protracted fall in spending appetites, the Fed cut interest rates again in its October meeting to a range of 1.5% to 1.75%. With this cut, the Fed announced its intent to place policy easing on hold as risks related to the US-China trade war and Brexit have eased.

Economic growth in the UK has been volatile this year but the underlying trend is still slowing. Precautionary stock building in anticipation of Brexit deadlines inflated GDP growth in Q1 (ahead of 31 March deadline) and Q3 (ahead of 31 October deadline). On the other hand, as these milestones passed without departing the EU, winding down of these inventories contributed to a contraction in growth in Q2 and possibly again in Q4. Beneath this noise, there are increasing signs of a broader slowdown though. The manufacturing sector in particular is in recession. Heightened political and economic uncertainty continues to weigh on the business environment. The outlook for private consumption on the other hand remains resilient, supported by historically low unemployment and rising incomes. This on top of higher fiscal support and further potential help from a dovish Bank of England should help the UK avoid a recession in the coming year. From 1.3% this year, the economy is forecast to slow to only 1.1% in 2020. This outlook is based on the UK leaving the EU in early 2020 with a transition arrangement in place.

Emerging Markets

Real GDP growth forecasts

	2018	2019f
Emerging Asia	6.0	5.3
Latin America	0.7	-0.3
Eastern Europe	3.4	2.6
Emerging Markets	**4.7**	**4.0**

Sources: Oxford Economics, Atradius

Emerging markets also facing a slowdown

As trade tensions rise and developed markets lose steam, growth in emerging market economies (EMEs) is also slowing. After a 4.7% GDP expansion in 2018, EMEs are forecast to grow only 4.0% this year. While this expansion is still considerable, the external environment is becoming more challenging, as the risk of spill-overs from the US-China trade war has increased. At least the risk that US monetary tightening will trigger a slowdown among EMEs has all but vanished, now that Fed has begun cutting its policy rate.

Despite being vulnerable to the US-China trade dispute, Emerging Asia remains the main engine of the world economy. GDP growth is expected to remain robust at 5.3% this year. In China the effects of escalating tariffs and weaker global growth exacerbate the underlying slowdown in domestic demand. However, with fiscal stimulus measures expected to continue supporting activity, growth is forecast at 6.1% in 2019. India's growth prospects have eased to 5.6% in 2019 following a 7.4% expansion in 2018. The slowdown reflects policymaking challenges and a weaker-than-expected outlook for domestic demand. Growth will be supported next year by the lagged effects of monetary policy easing and a reduction in corporate income tax rates.

Growth in Latin America is forecast expand slightly (0.6%) in 2019, following a 1.3% expansion in 2018. Argentina is expected to remain in recession in 2019 due to lower confidence and tighter external financing conditions. Brazil's economy is struggling domestically with mining supply disruptions (causing a recession in H1 of 2019), softening domestic demand and lower export growth as a result of the slowdown in world trade and the economic troubles in Argentina. Some recovery is expected in the second half of the year thanks to the long-awaited passing of pension reforms, but the economy is expected to attain a growth rate of only 0.8%.

Eastern Europe is likely to see 2019 growth declining to 2.1%, from 3.3% in 2018. Russian GDP growth is set to slow sharply from 2.2% in 2018 to 0.9% this year, as Western sanctions weigh on sentiment and continue to hamper the recovery of the economy. Growth in export-oriented EU member states will remain reasonably strong, although the external environment is becoming more challenging. Turkey's growth outlook for 2019 remains weak (0.1%). Companies are deleveraging as a weaker lira has inflated the external debt burden. The outlook is clouded further by US sanctions following its incursion into Syria, weighing on sentiment and investment.

Credit and insolvencies

Insolvency outlook deteriorating

In line with the more subdued economic performance expectations, the insolvency outlook has deteriorated further. Compared to a 2% increase in 2019 expected last quarter, corporate insolvencies across developed markets are now forecast to rise 2.8% – the first annual increase in a decade. The larger-than-expected rise is primarily driven by the negative impact of trade policy uncertainty on US businesses and Brexit-related issues on UK companies. Most other upward revisions are also triggered by the worsening global trade environment.

Western Europe is facing a 2.7% increase in insolvencies in 2019. The United Kingdom is leading the upward trend (+10%) amid rising labour costs and Brexit-related uncertainty. Looking to the eurozone, business failures are forecast to increase 1.2% this year as growth decelerates due to political uncertainty and the weaker external environment. The industrial sector downturn is mainly straining economic growth and putting the brakes on the downward insolvency trend seen since the end of the crisis. While the slowdown in Germany's manufacturing sector (especially in automotive), has a negative impact on the region as a whole, German firms are proving rather resilient for the time being, with only a 1% increase in business failures expected this year. France is forecast to see a 3% increase, largely due to slowing global trade. While Italy has returned to growth in Q1, policy uncertainty and the weaker external environment are driving an expected 4% increase in business failures. In contrast, Spain is forecast to see a 5% decline this year, despite high external risks and a less dynamic investment environment. The ECB's accommodative stance contributes to easing credit standards for business loans, which should help mitigate downside risks.

Following a 4% decline in 2018, the number of US firms filing for bankruptcy is set to reverse its positive trend, and to increase by 3% in 2019. The unwinding of fiscal stimulus, a strong US dollar, and particularly trade policy uncertainty are straining the US business environment. Despite the Fed's shift to a more dovish stance, financing conditions are slightly tighter than last year, following four rate hikes in 2018.

The insolvency outlook for emerging markets is rather negative. The outlook is increasingly challenged by the escalation of China-US trade tensions. The broader slowdown in the global economy and ongoing uncertainty surrounding trade policy as well as busy electoral calendars (such as in Argentina, South Africa) are increasing risks to businesses. Some good news came from the latest EM bank lending survey (Q1 2019) from the IIF which indicated a slowdown in tightening and expected easing in Q2 of 2019. EME firms benefit particularly from the Fed's dovish pivot.

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% GDP)			Current account balance (% GDP)			Export growth (%)			Political risk Rating[1]
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	
Western markets													
Austria	2.3	1.6	1.2	0.0	0.0	0.0	2.3	2.2	1.8	5.6	2.1	0.5	2 POSITIVE
Belgium	1.4	1.2	1.1	-0.7	-1.3	-1.4	-1.3	1.2	1.4	3.6	2.9	1.4	2 STABLE
Finland	1.7	1.1	1.0	-0.8	-1.4	-1.1	-1.4	-2.4	-0.3	2.2	3.9	0.7	2 POSITIVE
France	1.7	1.3	1.3	-2.5	-3.3	-2.4	-0.7	-0.4	-0.4	3.5	2.3	1.8	2 STABLE
Germany	1.6	0.6	0.7	1.9	1.5	0.6	7.5	7.4	6.5	2.3	0.7	0.8	1
Greece	1.9	1.7	2.0	1.1	0.5	0.7	-2.9	-1.9	-1.9	8.7	4.9	4.5	6 POSITIVE
Ireland	8.4	4.6	2.7	0.0	0.2	0.3	10.6	-2.9	3.8	10.4	6.8	1.9	3 POSITIVE
Italy	0.7	0.1	0.2	-2.2	-2.2	-2.5	2.6	2.8	2.7	1.3	2.2	0.8	4 STABLE
Netherlands	2.5	1.6	1.2	1.5	1.4	0.9	10.9	8.0	8.6	3.7	1.8	1.3	1
Portugal	2.4	2.0	1.4	-0.5	-0.1	-0.4	-0.4	-0.5	-0.4	3.8	3.2	1.9	4 NEGATIVE
Spain	2.4	2.0	1.7	-2.5	-2.3	-1.9	1.9	1.6	1.2	2.2	2.3	2.3	3 NEGATIVE
Eurozone	1.9	1.1	1.0	-0.5	-0.7	-0.8	3.1	2.6	2.6	3.5	2.1	1.4	-
Australia	2.7	1.8	2.3	-0.9	0.4	0.3	-2.1	-0.3	-2.1	5.0	3.2	2.2	1
Canada	1.9	1.4	1.1	0.3	0.1	0.0	-2.6	-2.1	-2.0	3.2	2.2	0.9	1
Denmark	1.5	2.0	1.2	0.5	0.3	0.0	5.7	7.4	6.9	0.4	4.1	1.4	1
Norway	1.6	1.3	1.9	10.0	9.2	7.8	7.2	4.8	3.2	0.1	1.8	1.6	1
Sweden	2.4	1.3	1.3	0.9	0.0	0.2	1.7	3.9	4.0	3.3	4.0	1.2	1
Switzerland	2.8	0.7	1.3	1.4	1.1	0.8	9.0	11.0	10.9	4.5	2.5	1.2	1
United Kingdom	1.4	1.3	1.1	-2.2	-2.2	-2.4	-4.3	-4.4	-3.4	-0.9	-1.1	0.3	2 STABLE
United States	2.9	2.2	1.6	-6.5	-6.7	-6.5	-2.4	-2.5	-2.7	3.0	0.2	1.0	1
Central and Eastern Europe													
Czech Republic	2.9	2.6	1.9	0.1	-0.2	0.0	0.3	1.2	0.2	4.4	1.7	2.3	2 NEGATIVE
Hungary	5.0	4.7	3.1	-2.2	-1.8	-1.6	-0.5	-0.3	-0.6	4.7	4.3	2.2	4 NEGATIVE
Poland	5.2	4.0	3.2	-0.5	-0.5	-1.3	-1.0	-0.1	-1.1	6.3	4.4	2.6	3 NEGATIVE
Russia	2.2	0.9	1.5	3.0	2.5	1.3	6.8	3.7	2.5	5.5	-2.6	2.0	4 NEGATIVE
Slovakia	4.1	2.6	2.4	-1.3	-1.2	-1.4	-2.5	-1.8	-1.6	4.8	2.1	3.9	3 POSITIVE
Turkey	3.1	0.0	2.8	-2.0	-2.9	-2.3	-3.2	0.1	-0.9	7.8	5.6	2.9	5 NEGATIVE
Asia													
China	6.6	6.1	5.7	-3.9	-4.2	-4.6	0.3	1.2	1.1	4.3	1.5	1.7	3 STABLE
India	7.4	5.6	6.8	-3.6	-3.5	-3.4	-2.4	-1.6	-2.0	10.6	4.2	5.3	4 NEGATIVE
Japan	0.8	0.8	0.2	-2.5	-2.8	-3.2	3.5	3.3	3.1	3.4	-2.0	0.9	3 POSITIVE
Latin America													
Brazil	1.1	0.8	1.7	-7.1	-6.1	-5.7	-1.2	-1.4	-1.5	3.4	0.7	1.9	5 POSITIVE
Mexico	2.0	0.3	1.1	-2.0	-2.0	-2.4	-1.8	-1.1	-1.7	5.6	3.1	1.6	4 NEGATIVE

[1] Note: STAR is Atradius' in-house political risk rating. The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk. In addition to the 10-point scale there are rating modifiers associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

Sources: Oxford Economics, Atradius Economic Research

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