Economic Update

August 2016

Summary

Global

Global growth expectations subdued

Global economic growth is expected to moderate slightly to 2.4% this year from 2.6% in 2015. The lukewarm growth environment continues to be held back by low commodity prices, the lack of consumer demand in developed markets, concerns over China's cooling off, as well as by uncertainty about global monetary policy. These issues will persist in the near future as uncertainty surrounding the UK's decision to leave the EU will weigh further on 2017 global growth, which is now forecast at 2.7%.

World trade growth remains anaemic. After a 0.3% contraction in April 2016, the volume of world trade declined another 0.4% in May, according to most recent data from the Netherlands Bureau for Economic Policy Analysis. The WTO forecasts 2.8% trade growth in 2016, but Atradius expects a more modest 2.5% expansion. The main reason for this is our more bearish assessment of the impact of China's transition from an industrial to a services-based economy as well as political uncertainty in terms of increasing protectionist policies in advanced markets.

As expected, the oil price rally seen through H1 2016 has lost steam since mid-June, stabilising below USD 50 per barrel of crude. We expect the price to drop slightly in H2 as previously-disrupted production resumes and demand to remain muted in China and emerging Asia. The US EIA forecasts the price of oil to average USD 44 per barrel this year.

Oil price

Brent, USD per barrel

Source: IHS

Eurozone

Economic growth forecasts

	2016	2017
Austria	1.4	1.4
Belgium	1.3	1.4
Finland	1.2	1.2
France	1.5	1.3
Germany	1.6	1.3
Greece	-1.0	1.0
Ireland	4.7	2.9
Italy	0.9	0.9
Netherlands	1.6	1.6
Portugal	1.1	1.3
Spain	2.8	2.1
Eurozone	1.5	1.3

Source: Consensus Forecasts (Jul 2016)

Fragile eurozone recovery facing more challenges

The fragility of the eurozone recovery has been highlighted in the past month as financial shockwaves from the Brexit vote and worsening business sentiment have motivated another revision downward in growth expectations. Eurozone-wide GDP growth for 2016 is now forecast at 1.5%, only one-tenth of a percentage point lower than last month's forecast. This comes despite a better-than-expected performance in the first quarter as domestic demand and investment appeared to begin rebounding.

Challenges will continue in 2017 and we expect a slowdown to 1.3% (compared to a previously expected 1.6%) as the negative effects from Brexit spill over to the rest of the eurozone. Beyond the uncertainty surrounding the impact on consumer and business confidence, legacy problems in the banking sector are also holding back potential growth and may result in further downward revisions. Problems are especially acute in Italy, where banks are under pressure from low profitability and a very high rate of non-performing loans. According to the ECB though, the eurozone financial sector as a whole demonstrates further signs of recovery as increasing competitiveness drives the easing of credit standards.

In this increasingly uncertain environment, the ECB decided to keep its current monetary stance unchanged in its July meeting. New ECB inflation and growth forecasts, taking into account the impact of the UK referendum outcome, will be released in September. This should provide a more certain picture of Europe's strength and macroeconomic conditions which may motivate another stimulus. Inflation remains low at 0.1% year-on-year in June 2016 and long-term inflation expectations (as measured by the five-year, five-year breakeven forward, the ECB's favoured indicator of the market's inflation expectations) hit a record low of 1.25%, well below the ECB's 2% target rate.

Advanced Markets

Economic growth forecasts

	2016	2017
United Kingdom	1.6	0.7
United States	1.9	2.2

Source: Consensus Forecasts (Jul 2016)

US and UK outlooks dimmed by uncertainty

The UK economy grew at a slower rate of 0.4% q-o-q in Q1 2016, largely due to weak international trade and global financial market volatility. While this was a respectable growth rate in the lead-up to the June 23rd referendum vote, the vote's outcome has sparked a wave of downward revisions for the UK's outlook. The July PMI (purchasing managers' index, 50 = neutral) has fallen to 47.7, the lowest level since April 2009. Heightened uncertainty has caused domestic demand to weaken resulting in output and orders in both the manufacturing and services sectors to decline. On the flipside, the weaker pound has benefited UK exporters. Overall, growth forecasts have been revised down to 1.6% in 2016 (0.3 percentage points lower than last month's forecast) and to 0.7% in 2017 (1.4 percentage points lower).

The UK referendum will have limited impact on the US economy but it plays further into the global headwinds that have been holding back American economic growth. Lower energy sector investment and the strong USD have been the main challenges. The dollar is set to remain strong which will continue to weigh on US export growth. Global financial volatility and uncertainty will also harm US consumer and business confidence. Heightened global uncertainty will also likely motivate the Federal Reserve to postpone any further hikes in the interest rate until 2017. Meanwhile, the US labour market continues to improve, with July's job growth (+287,000 jobs) well exceeding expectations. However, wage growth remains limited to 2.6% year-on-year.

Source: IHS

Emerging Markets

Economic growth forecasts

	2016	2017
Asia (excl. Japan)	5.6	5.5
Latin America	-0.5	2.0
Eastern Europe	1.3	2.4

Source: Consensus Forecasts (Jul 2016)

Emerging markets remain vulnerable

Emerging markets are still facing obstacles to growth in the form of low commodity prices, US monetary policy uncertainty, (geo-)political risk and concerns about domestic policymaking. The near-term outlook for emerging markets is increasingly diverse.

Emerging Asia will outpace other world regions in terms of GDP growth again this year with 5.6% growth forecast. India's economy is leading this figure with 7.6% growth expected. The Chinese economy is forecast to grow 6.5%, compared to 6.9% in 2015. The slowdown is driven by a rebalancing toward services and consumption-led growth. The impact of Brexit on these markets is expected to be muted, however the magnitude could increase if the situation in the eurozone sharply deteriorates.

Oil exporters have experienced some relief from the modest recovery in oil prices. The recession in Russia is now forecast to be slightly more mild (-0.9% now forecast for 2016 instead of -1.2%). In the Middle East, some oil-dependent economies are benefiting from the slight rebound in oil prices and domestic fiscal reforms addressing the structural vulnerability to low oil revenues like Saudi Arabia and Oman. The 2017 outlook for the Middle East remains weak largely due to geopolitical tensions and terrorism.

Latin American GDP is still forecast to contract 0.5% in 2016. While slightly higher commodity prices may have relieved some pressure on the region's commodity exporters, political uncertainties continue to cloud the outlook. The headline GDP figure is weighed down by Venezuela (-8.7%) and Brazil (-3.4%). Recession is also still forecast for Argentina (-1.2%) and Ecuador (-2.2%).

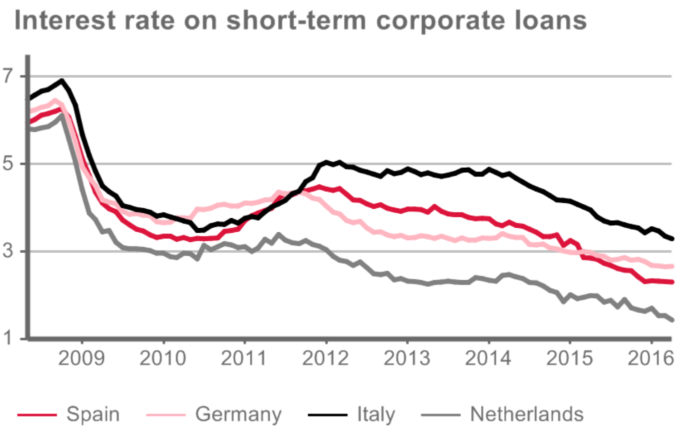
Credit and insolvencies

Insolvency outlook is increasingly cloudy

Credit conditions for enterprises in the eurozone continue to ease, as evidenced by the latest bank lending survey from the ECB. Lending conditions eased furthest in Germany, Italy and France while they remained unchanged in the Netherlands and Spain. Survey results from before the UK referendum and afterwards have not shown any impact on credit supply or demand but it is likely too early to assess these effects.

In line with the recent downward revisions to GDP forecasts in many advanced countries, in part due to the Brexit vote, the insolvency outlook for 2016 has worsened. Despite more favourable credit conditions, aggregate insolvencies across the eurozone are only expected to decrease 2% in 2016 and see no improvement in 2017. The financial volatility and heightened uncertainty is weighing on business sentiment in advanced markets. Atradius has flagged the Netherlands (forecast for 2016: -6% change in insolvencies compared to last year), Belgium (-5%) and Ireland (-3%) as the most vulnerable to these developments due to the close trade and investment ties with the British market. However, business environments in more countries, like Sweden (+1%), Finland (+5%) and Denmark (+4%) are also struggling indirectly with the economic slowdowns and loss of demand in other European markets.

Credit conditions across most emerging markets (except for Asia-Pacific) continue to tighten in response to elevated global financial market uncertainty. Corporate bankruptcies will likely rise in many emerging markets, especially in those that depend on trade with China and/or commodities.



Source: IHS

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% of GDP)			Current account balance (% of GDP)			Export growth (%)			Political risk Rating[1]	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017		
Western markets														
Austria	0.9	1.4	1.4	-1.2	-1.6	-1.2	2.4	2.3	2.7	3.3	5.0	4.8	2	POSITIVE
Belgium	1.4	1.3	1.4	-2.6	-2.0	-1.8	0.7	1.5	1.1	1.7	4.2	6.0	2	STABLE
Finland	0.5	1.2	1.2	-2.8	-2.2	-2.0	-0.6	0.4	0.3	-2.5	4.8	3.4	2	POSITIVE
France	1.2	1.5	1.3	-3.8	-2.8	-2.3	0.1	-1.1	-0.9	6.2	3.2	4.8	2	STABLE
Germany	1.7	1.6	1.3	0.7	0.4	0.3	8.5	8.3	7.9	6.1	3.3	4.5	1	
Greece	-0.2	-1.0	1.0	-7.2	-2.9	-2.7	-0.1	1.6	1.4	-6.9	-4.2	5.2	7	POSITIVE
Ireland	7.8	4.7	2.9	-2.3	-1.0	-0.4	4.5	2.3	4.6	18.3	5.4	6.0	3	NEGATIVE
Italy	0.8	0.9	0.9	-2.6	-2.6	-2.2	2.5	1.5	0.8	3.5	2.8	4.0	4	POSITIVE
Netherlands	2.0	1.6	1.6	-1.8	-2.2	-1.9	9.2	9.7	9.6	1.7	4.0	6.5	1	
Portugal	1.5	1.1	1.3	-3.0	-2.8	-2.2	0.5	0.3	0.4	4.0	1.7	4.9	5	POSITIVE
Spain	3.2	2.8	2.1	-5.1	-4.3	-3.7	1.4	0.2	-0.2	5.8	5.6	5.9	4	POSITIVE
Eurozone	1.6	1.5	1.3	-2.1	-1.8	-1.5	4.0	3.5	3.2	5.2	3.3	3.7		
Australia	2.5	2.9	2.8	-1.7	-2.0	-2.3	-4.8	-4.3	-4.2	-2.2	3.5	5.1	1	
Canada	1.1	1.3	2.1	-1.3	-1.4	-1.0	-3.2	-2.2	-0.8	-0.3	1.5	2.2	1	
Denmark	1.2	1.2	1.6	-1.6	-1.4	-1.1	7.0	9.5	10.3	2.3	4.3	5.6	1	
Norway	1.0	0.8	1.6	5.2	3.7	4.2	8.0	5.6	6.8	-4.0	-4.0	5.8	1	
Sweden	4.2	3.5	2.4	0.0	-0.7	-0.4	6.0	6.8	5.9	7.8	6.5	4.9	1	
Switzerland	0.9	1.0	1.3	-0.2	-0.3	-0.2	11.4	9.3	8.5	-3.2	3.4	4.4	1	
United Kingdom	2.2	1.6	0.7	-4.3	-3.1	-2.4	-5.2	-5.0	-4.1	-0.4	1.8	6.9	2	STABLE
USA	2.4	1.9	2.2	-3.4	-3.5	-3.2	-2.7	-2.8	-2.7	-3.8	-0.2	6.8	1	
Central and Eastern Europe														
Czech Republic	4.2	2.5	2.7	-0.4	-0.6	-0.9	0.9	0.8	-0.2	5.8	5.3	6.0	3	STABLE
Hungary	2.9	2.0	2.7	-1.9	-2.6	-2.7	4.4	4.5	3.9	8.1	7.3	8.6	5	POSITIVE
Poland	3.6	3.4	3.5	-2.6	-3.2	-3.3	-0.2	-1.0	-1.3	9.2	5.5	5.3	3	NEGATIVE
Russia	-3.7	-0.9	1.2	-3.9	-3.8	-3.4	5.2	1.3	0.2	16.7	16.5	3.4	5	POSITIVE
Slovakia	3.6	3.2	3.3	-3.0	-1.9	-1.5	-1.3	-0.4	0.1	6.2	5.3	6.1	3	POSITIVE
Turkey	4.0	3.5	3.5	-1.8	-2.7	-2.2	-4.5	-5.0	-5.2	11.0	8.0	10.7	5	STABLE
Asia														
China	6.9	6.5	6.3	-3.5	-4.2	-4.2	3.1	3.4	4.0	1.7	8.4	8.2	3	STABLE
India	7.5	7.6	7.6	-7.4	-5.8	-4.5	-1.1	-1.2	-1.7	-6.2	10.8	10.9	4	NEGATIVE
Japan	0.6	0.5	0.8	-5.3	-6.8	-6.9	3.3	3.1	2.9	3.4	-4.2	8.1	3	POSITIVE
Latin America														
Brazil	-3.8	-3.4	0.8	-10.3	-10.1	-8.9	-3.4	-1.0	-1.4	19.4	12.3	5.6	5	POSITIVE
Mexico	2.5	2.4	2.8	-3.5	-2.9	-2.8	-2.8	-2.2	-2.4	9.3	6.1	5.9	4	POSITIVE

[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: Consensus Economics, IHS, National accounts, Atradius Economic Research

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