



# Economic Update

November 2016

## Summary

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- 3 **Eurozone** – The economic recovery in the eurozone remains steady but subdued, largely held back by structural issues and crisis legacies.
- 4 **Advanced Markets** – Lower inventories and strong USD are weighing on US growth but 2017 outlook is strong. UK economy resilient in 2016 but uncertainty to weigh on investment next year.
- 5 **Emerging Markets** – Emerging markets continue to struggle with low commodity prices and tighter financing conditions. Some key markets to emerge from recession in 2017.
- 6 **Credit and insolvencies** – The insolvency outlook for 2016 is weakened in line with more subdued GDP forecasts; 2017 to remain subdued, especially in the UK and eurozone by rising uncertainty surrounding Brexit.
- 7 **Table: Macroeconomic indicators for key markets**

## Global

## Global GDP and trade growth slowing

The global economy is on track to grow 2.5% in 2016, a disappointing follow-up to the 2.9% expansion experienced in 2015. Key factors that continue to restrain growth are low commodity prices, subdued recoveries in developed markets marked by insufficient consumer demand, China's economic rebalancing, and uncertainty surrounding US monetary policy. Political uncertainty is also playing an increasing role in key advanced markets as demonstrated by the Brexit referendum outcome, anti-establishment rhetoric throughout the US presidential election cycle, and elections in key eurozone markets in 2017. Risks to the financial system have also increased, with share prices of one of the world's largest banks, Deutsche Bank, falling amidst concerns over poor profitability and weak capitalisation. These headwinds are expected to continue through 2017 as reflected in the 2.8% expansion of GDP forecast.

The growth outlook for 2017 is partly supported by the expected continuation in the gradual recovery in oil prices, which is expected to help calm financial markets. The price of a barrel of Brent crude oil has risen more than 10% to above USD 50 since the end of September, following an agreement by OPEC to cut production. However, there remains considerable uncertainty around the outlook for oil prices such as the actual implementation of the OPEC deal. The US Energy Information Administration foresees prices rising only steadily rising to USD 56 per barrel Brent by the end of 2017.

International trade remains a pessimistic story: 2016 will likely be the first year in 15 years in which the pace of trade growth fails to match the pace of GDP growth. Global trade growth has slowed to 0.2% in July (change in past 12 months compared to previous 12 months). Atradius now forecasts global trade to grow only 0.4% in 2016.

### Oil price

Brent, USD per barrel



Source: IHS

## Eurozone

Economic growth forecasts		
	2016	2017
Austria	1.3	1.2
Belgium	1.4	1.3
Finland	0.9	1.1
France	1.3	1.2
Germany	1.8	1.3
Greece	-0.6	1.1
Ireland	3.7	3.0
Italy	0.8	0.7
Netherlands	1.6	1.5
Portugal	1.0	1.2
Spain	3.1	2.1
<b>Eurozone</b>	<b>1.6</b>	<b>1.3</b>

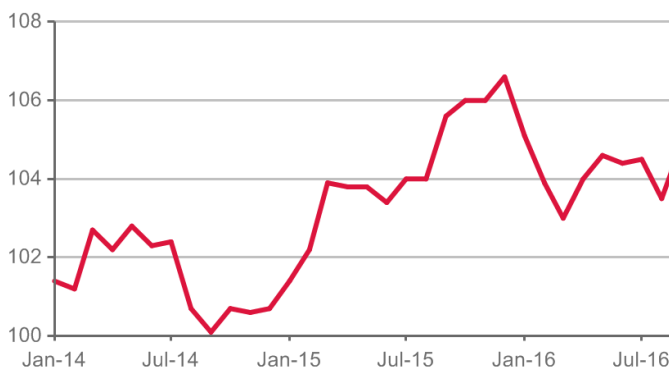
Source: Consensus Forecasts (Oct 2016)

## Eurozone recovery on track but restrained

The short-term economic effects of the Brexit vote are limited, as is reflected by the recovery in the European Sentiment Indicator to January levels. Aggregate GDP growth is forecast to remain low at 1.6% in 2016, compared to 1.9% last year. Domestically, the economic recovery is underpinned by an improving labour market and ultra-loose monetary policy, boosting domestic demand. But there remain external headwinds in the form of a strong euro and low international demand for European exports. Moreover, structural issues continue to hold back growth potential such as a weak banking sector, debt overhang and low productivity growth. Uncertainty is also set to rise next year as Brexit negotiations get underway and elections occur in France and Germany. Eurozone GDP is forecast to rise only 1.3% in 2017, down from the 1.6% expansion predicted before the Brexit referendum.

There remains a divergence in performances in individual countries through the euro area. The largest economy, Germany, is losing some momentum as lower foreign demand curbs new business investment and output. However, this is partially offset by increased household consumption amid record-high employment, rising real wages and low inflation. Growth in Italy is stagnating as confidence decreases, especially due to banking sector instability and political uncertainty surrounding the upcoming constitutional referendum. Political uncertainty is also a rising concern across the eurozone due to the ongoing failure to form a governing majority in Spain and the rise of populist parties in many countries across the continent.

European Sentiment Indicator



Sources: IHS, Eurostat

## Advanced Markets

### US and UK: steady growth but political uncertainty remains

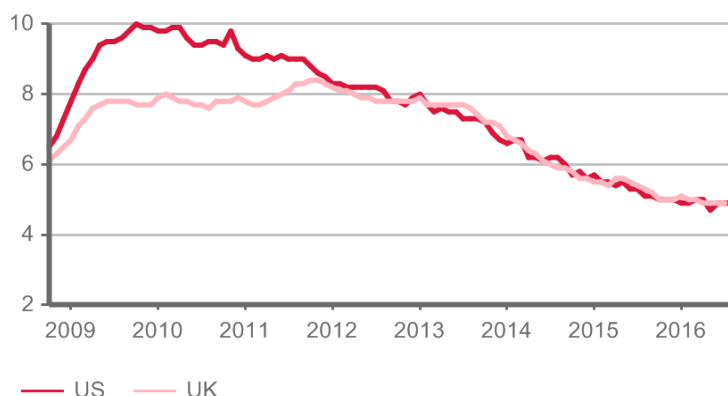
Economic growth forecasts		
	2016	2017
United Kingdom	1.9	0.9
United States	1.5	2.2

Source: Consensus Forecasts (Oct 2016)

Economic growth forecasts for the United States for 2016 have been lowered to a mere 1.5% on the back of a disappointing H1 performance. However, the growth slowdown is primarily attributed to lower inventory investments. Overall investment growth is also disappointing, particularly in the oil sector. The strong USD is also holding back the manufacturing sector, with net exports contributing negatively to GDP growth. Growth is set to pick up again in 2017 though due to other strengthening trends in the domestic market. Unemployment stands at 5% and the labour force participation rate is slowly increasing. The improving labour market combined with low inflation is driving robust private consumption, which accounts for more than two-thirds of US GDP. With unemployment trending downwards and inflation being low, but stable, an interest rate hike is increasingly likely in the December 2016 monetary policy setting meeting.

The United Kingdom's economy has proven resilient to any shocks from the Brexit vote this year. Following the vote to leave, 2016 GDP growth forecasts were cut 0.3 percentage points to only 1.6%. However, the UK economy is now forecast to grow 1.9% this year, in line with pre-Brexit forecasts. This is attributable to a robust H1 and benefits wrought on by a weak pound sterling. The 2017 outlook is not as bright: at 0.9% the forecast is 1.2 percentage points lower than June forecasts. While not as severe a slowdown as initially expected – thanks to a smooth and swift move to a new government and effective monetary policy – it is still clouded by Brexit-related political and economic uncertainty which will continue to weigh on business investment.

Unemployment rate



Source: IHS

## Emerging Markets

### Emerging markets set to see modest recovery in 2017

Economic growth forecasts		
	2016	2017
Asia (excl. Japan)	5.7	5.6
Latin America	-0.3	2.1
Eastern Europe	1.5	2.3

*Source: Consensus Forecasts (Oct 2016)*

While growth figures for Emerging Asia remain robust, supported by strong growth in India, other emerging markets are struggling. 2016 has been marked by low commodity prices, US monetary policy uncertainty, and (geo-) political risks which are damaging the business environments and financial positions of many emerging economies. Regional aggregate figures for Latin America and Eastern Europe are largely weighed down by recessions in key markets like Brazil and Russia respectively.

China's economy is forecast to grow 6.6% in 2016 and to slow further to 6.3% in 2017. A hard landing is still not likely, at least in the short term, as the Chinese authorities have gained credibility in using monetary and fiscal policy to maintain 6%-6.5% growth. Credit-fuelled growth does provide a significant risk for the Chinese economy, as it is building on an already enormous base of outstanding debt.

In 2017, mild recoveries are in store for most emerging markets. In Latin America, Brazil and Argentina will exit recession (1.2% and 3.2% GDP growth respectively) thanks to a return to orthodox and market friendly policies. Unfortunately there still does not seem to be a light at the end of the tunnel for Venezuela whose economy is forecast to contract 10.3% this year and another 3.5% next. Looking at Eastern Europe, Russia is also forecast to emerge from recession next year with a modest 1.2% expansion (-0.6% in 2016). GDP growth will be supported by higher commodity prices that will lead to a recovery in consumption and investment. Structural weaknesses though, like weak competition and a declining workforce, will weigh on potential growth.

## Credit and insolvencies

### Insolvency outlook weak

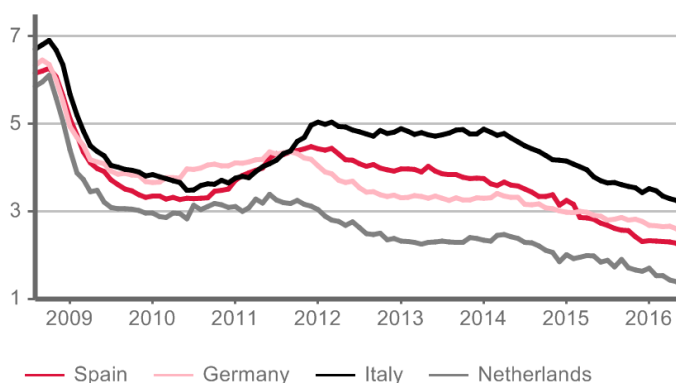
According to the most recent bank lending survey of the ECB, credit standards for loans to enterprises were unchanged over Q3. Very low interest rates on short-term corporate loans though are contributing to increase demand for loans to enterprises. Looking forward, eurozone banks are expected to tighten access to corporate credit for the first time in two and a half years. The ECB's negative deposit rate is eating into European bank profits and banks are becoming more risk-wary.

The corporate insolvency outlook has also worsened for 2016, relative to 2015. Looking at Western Europe as a whole, insolvencies are forecast to fall 2% this year, led by Spain (-10%) and the Netherlands (-6%), but several countries like Finland, Switzerland and Denmark are expected to see moderate increases in corporate bankruptcies. The business environment in these countries continues to be held back by stronger currencies relative to the euro, which hurts their own exports' competitiveness while external demand remains low.

The 2017 outlook also remains weak for major developed markets. Heightened uncertainty, largely related to Brexit, will weigh on investment and particularly affect the United Kingdom (+3%) and Ireland (0%) in 2017. On the positive side, alongside the gradual recovery in commodity prices, the increasing trend in insolvencies will taper off in economies with large natural resources sectors like the US, Canada and Norway.

In line with weak 2016 GDP expectations, insolvencies are rising this year in many emerging markets like China, Brazil and Russia. Credit conditions continue to tighten across emerging markets, reflected in the IIF's Q3 bank lending survey, while demand for loans is decreasing due to increasing perceptions of risk and uncertainty. The outlook for 2017 is slightly more positive with Brazil's insolvency level stabilising, but the business environment is set to remain subdued in Russia and China.

Interest rate on short-term corporate loans



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 <sup>1</sup>	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017		
<b>Western markets</b>														
Austria	1.0	1.3	1.2	-1.2	-1.6	-1.2	2.6	2.3	2.3	2.9	2.2	4.2	2	POSITIVE
Belgium	1.4	1.4	1.3	-2.6	-2.7	-2.2	-0.8	2.4	2.8	2.7	2.4	4.1	2	STABLE
Finland	0.2	0.9	1.1	-2.7	-2.5	-2.8	0.2	0.1	1.2	-1.0	2.2	3.6	2	POSITIVE
France	1.2	1.3	1.2	-3.6	-3.2	-3.0	-0.2	-0.9	-1.2	5.5	-0.6	1.9	2	STABLE
Germany	1.7	1.8	1.3	0.7	0.5	0.6	8.5	7.9	7.5	5.7	2.0	3.3	1	
Greece	-0.2	-0.6	1.1	-7.2	-2.2	-1.5	0.0	0.2	0.4	-8.5	-8.6	3.3	7	POSITIVE
Ireland	26.3	3.7	3.0	-1.8	-1.2	-1.0	10.2	8.2	9.3	44.4	5.8	6.9	3	NEGATIVE
Italy	0.7	0.8	0.7	-2.6	-2.5	-2.9	3.0	0.9	1.2	3.7	0.8	3.2	4	STABLE
Netherlands	2.0	1.6	1.5	-1.9	-1.8	-1.5	8.6	8.4	11.5	1.9	2.6	7.8	1	
Portugal	1.6	1.0	1.2	-7.7	-2.6	-2.0	0.5	0.6	-0.1	4.2	1.7	5.5	5	POSITIVE
Spain	3.2	3.1	2.1	-5.1	-4.2	-3.3	1.4	1.2	0.7	5.8	4.7	4.7	4	POSITIVE
Eurozone	1.9	1.6	1.3	-2.1	-1.8	-1.6	4.0	3.3	3.6	6.2	2.3	2.5		
Australia	2.5	3.0	2.8	-1.7	-1.6	-0.7	-4.8	-3.0	-3.0	-3.2	2.0	6.6	1	
Canada	1.1	1.2	2.0	-1.3	-1.9	-1.3	-3.2	-3.2	-2.3	0.1	-0.5	4.4	1	
Denmark	1.0	1.0	1.6	-1.4	-1.3	-1.1	7.1	8.2	9.6	2.3	2.4	9.8	1	
Norway	1.1	0.8	1.7	5.7	2.5	3.9	8.0	5.6	7.5	-4.2	-6.2	6.7	1	
Sweden	4.1	3.3	2.3	0.0	-0.4	-0.5	5.9	6.6	6.4	7.2	-1.2	3.0	1	
Switzerland	0.8	1.5	1.4	-0.2	-0.2	-0.1	11.1	8.5	8.3	-2.1	3.6	3.0	1	
United Kingdom	2.2	1.9	0.9	-4.2	-3.7	-4.0	-5.4	-5.9	-3.7	-0.3	2.5	6.0	2	STABLE
USA	2.6	1.5	2.2	-3.5	-4.0	-3.6	-2.6	-2.6	-2.1	-4.7	-1.9	5.2	1	
<b>Central and Eastern Europe</b>														
Czech Republic	4.6	2.5	2.5	-0.6	-0.6	-1.2	0.9	1.1	0.3	6.3	3.7	4.6	3	POSITIVE
Hungary	2.9	2.0	2.6	-1.6	-2.0	-2.5	4.4	4.1	3.4	8.1	9.1	10.1	5	POSITIVE
Poland	3.6	3.1	3.3	-2.6	-3.1	-3.3	-0.6	-1.2	-1.6	8.3	9.4	4.6	3	NEGATIVE
Russia	-3.7	-0.6	1.2	-3.8	-4.2	-3.3	5.2	2.1	1.8	11.5	-4.0	15.5	5	POSITIVE
Slovakia	3.6	3.3	3.1	-3.0	-2.4	-2.0	-1.3	-0.5	0.2	5.5	4.0	4.9	3	POSITIVE
Turkey	4.0	3.0	3.0	-1.2	-2.1	-3.1	-4.5	-4.4	-4.0	11.7	5.3	15.8	5	STABLE
<b>Asia</b>														
China	6.9	6.6	6.3	-3.5	-4.2	-4.2	3.1	3.4	4.9	0.3	5.1	8.4	3	STABLE
India	7.6	7.6	7.7	-7.2	-6.0	-4.9	-1.1	-1.0	-1.9	-5.4	12.9	8.6	4	NEGATIVE
Japan	0.6	0.6	0.9	-5.3	-6.6	-7.0	3.3	3.6	3.2	3.5	-10.5	1.9	3	POSITIVE
<b>Latin America</b>														
Brazil	-3.8	-3.2	1.2	-10.3	-9.8	-9.4	-3.3	-1.1	-1.6	20.3	11.5	8.6	5	POSITIVE
Mexico	2.5	2.1	2.2	-3.5	-3.3	-3.0	-2.8	-2.5	-1.3	15.0	10.6	-1.1	4	POSITIVE

<sup>1</sup> 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.



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