Economic Update

January 2020

Summary

Global

Real GDP growth forecasts

	2019e	2020f
World	2.5	2.5

Sources: Oxford Economics, Atradius

Global economic growth to level off

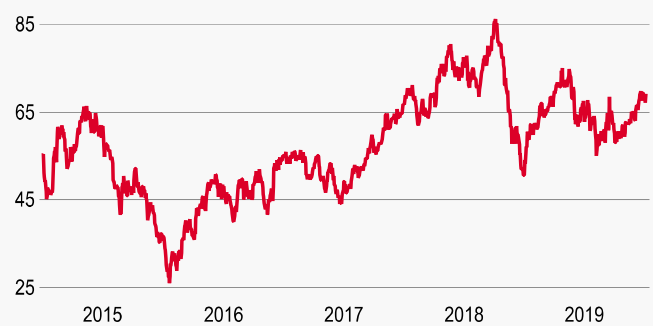
Global growth decreased from 3.2% in 2018 to 2.5% in 2019, as geopolitical uncertainty and a slowing Chinese economy combined to trigger a global manufacturing downturn. The first-phase trade deal reached between the US and China which is expected to be signed on 15 January seems to be a first step down from the escalation ladder. As part of that deal, China pledges to buy US agricultural goods worth USD 40 billion annually. It also involves Chinese commitments to avoid competitive devaluations of its currency and measures to improve market access. The US agreed to scrap threatened tariffs on consumer goods and roll back part of its existing tariffs (it will cut tariffs on USD 120 billion of Chinese imports from 15% to 7.5%). However, deeper structural issues persist, such as intellectual property rights and technology transfer that are straining the US-China relationship.

While trade tensions between China and the US have eased somewhat, the risk of an escalation in the trade dispute between the US and EU still looms. Following a WTO ruling on government support to Airbus, the US administration has announced tariffs on imports from the EU worth USD 7.5 billion. World trade growth continues to decelerate though and the outlook remains bleak. The volume of trade contracted 0.5% year-on-year in the 12 months leading to October 2019. We expect to see a meagre recovery of 1.5% in 2020, barring a return to escalating trade tensions.

There have been several swings in the oil price in 2019, within a relatively large corridor of USD 55 to USD 75. The oil price breached USD 70 per barrel Brent again in early January 2020 amid an escalation of tensions between the US and Iran. We don't expect to see prices staying above USD 70 though as the global oil market remains oversupplied. According to the latest EIA Energy Outlook the oil price is expected to average USD 61 in 2020, down slightly from USD 64 in 2019.

Oil price

Daily spot price, USD per barrel Brent



Sources: Macrobond, Atradius Economic Research

Eurozone

Real GDP growth forecasts

	2019e	2020f
Austria	1.5	1.0
Belgium	1.3	1.2
France	1.3	1.2
Germany	0.6	0.7
Greece	1.7	2.0
Ireland	4.5	2.7
Italy	0.2	0.3
Netherlands	1.7	1.3
Portugal	1.9	1.3
Spain	2.0	1.6
Eurozone	**1.2**	**1.0**

Sources: Oxford Economics, Atradius

Eurozone: downturn in industrial production persists

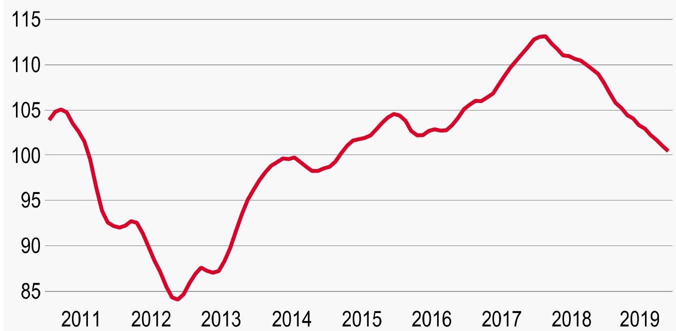
Weak manufacturing performance continues to drag on GDP growth in the eurozone. GDP expanded by 0.3% q-o-q in Q3 of 2019, in line with Q2 growth. A breakdown of Q3 GDP data revealed that growth was mainly driven by a solid expansion in consumer spending, while fixed investment growth was subdued. Weakness in international trade and global uncertainties continue to weigh on the manufacturing sector, particularly in Germany. Sentiment indicators for the eurozone point to a continuation of subdued growth. The Purchasing Managers Index (PMI) of the manufacturing industry fell to 45.9 in December, down from 46.9 in November. The European Sentiment Indicator (ESI) improved slightly, to 101.3 in November from 100.8 in October, but remains only slightly above the neutral score of 100. So far, services sector performance has been rather resistant to the weaker global outlook, but it seems just a matter of time before it will be affected as well.

In 2019 we expect economic activity in the eurozone to increase 1.2%, followed by 1.0% growth in 2020. Domestic demand is likely to remain fairly resilient in 2019. Although the labour market is still doing well, the pace of job creation is cooling, and the unemployment rate seems to be bottoming out at around 7.5%. Wage growth remained strong in Q3 of 2019 at 2.6% y-o-y – one of the highest growth rates since 2009 and well above inflation (1.0% in November). 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%.

Christine Lagarde, who took over the position as President of the ECB from Mario Draghi in November, faces a daunting task of restoring unity within the top echelons of the central bank. The latest stimulus package launched in September generated fierce opposition from several central bank governors who are worried about the negative side-effects of the current ultra-loose monetary policy.

Economic Sentiment Indicator - eurozone

Seasonally-adjusted, 3-month moving average



Sources: Macrobond, European Commission

Advanced Markets

Real GDP growth forecasts

	2019e	2020f
United States	2.3	1.6
United Kingdom	1.3	1.0

Sources: Oxford Economics, Atradius

Despite progress, policy uncertainty will continue to weigh on 2020 outlooks for the US and the UK

US economic growth surpassed expectations in Q3 of 2019, accelerating to 2.1% y-o-y after a 2.0% expansion in Q2. Robust private consumption continues to fuel the US economy, underpinned by historically low unemployment (3.5%) and increasing wage growth (3.8% y-o-y). Inflation rates remain modest at 1.4% due to subdued energy prices.

However, the business side of things is less rosy as firms have been absorbing much of the cost of rising import tariffs. Business investment contracted for the second consecutive quarter in Q3, declining 2.7% y-o-y, due to trade policy uncertainty, rising import and labour costs, and weaker external demand. Looking forward, the US economy is continuing to lose momentum. GDP growth is forecast to slow down to 1.6% in 2020 compared to an expected 2.3% in 2019. Private consumption should continue to perform strongly, especially as looming tariffs on consumer goods were scrapped as part of the first-phase trade agreement between the US and China. However, the business environment will remain weak as the surface-level agreement fails to offer significant clarity on future trade policy.

The UK economy is facing stagnation as lower external demand compounds domestic political uncertainty. Annual GDP growth reached an eight-year low of 0.8% in October. Political uncertainty surrounding the Brexit process should ease slightly in the aftermath of the landslide victory of the Conservative Party in the December general elections. With a 78-seat majority the Brexit withdrawal agreement should be easily ratified, allowing for an orderly exit from the EU on 31 January 2020. A transition period will follow, in which business as usual continues, but uncertainty will remain elevated as the EU and UK have to negotiate a new trade deal. The current timeline envisions this new trading relationship coming into force at the end of this year, but this is not very realistic.

Economic growth is expected to remain flat in Q4 but to begin picking up in 2020, bringing full-year growth to a modest 1.0%. Without trade certainty, we expect to see business investment contract another 0.4%. Consumer spending, on the other hand, should remain strong, supported by sterling appreciation and the end of the four-year freeze on welfare benefits. Fiscal policy should be supportive of growth and the Bank of England has taken a more dovish shift, likely keeping rates at 0.75% for the year.

Emerging Markets

Emerging markets facing a benign outlook in 2020

Real GDP growth forecasts

	2019e	2020f
Emerging Asia	5.2	5.2
Latin America	-0.4	1.1
Eastern Europe	2.8	2.5
Emerging Markets	**4.0**	**4.3**

Sources: Oxford Economics, Atradius

Across emerging market economies (EMEs) growth is forecast to increase slightly this year, by 4.3% after a 4.0% expansion in 2019. The bilateral tariff measures introduced by the US and China will continue to exert a significant drag on global activity and trade. The first-phase trade deal between the US and China is a step in the right direction, but surely not the end of trade tensions. The risk that US monetary tightening will trigger a slowdown among EMEs has all but vanished, now that the Fed has started to cut its policy rate.

Despite being vulnerable to the US-China trade dispute, Emerging Asia will remain the region with the highest growth rate 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 is likely to improve to 6.0% in 2020 following a 5.0% expansion in 2019. Growth will be supported by the lagged effects of monetary policy easing and further expected fiscal stimulus.

Latin America will continue to underperform, but growth is projected to strengthen to 1.1%, up from a 0.4% contraction last year. Growth in Brazil disappointed in 2019 due to lower household consumption, shrinking investments and the transitory drag from a mining disaster. Some economic recovery is expected in 2020, driven by higher business investment after the long-awaited passing of pension reforms and somewhat higher consumption. In Argentina the election of centre-left Peronist Alberto Fernandez as next president prompted a large confidence shock across the economy. This is likely to keep the Argentinean economy in recession in 2020.

Eastern Europe is likely to grow at roughly the same rate in 2020 as last year. Russian GDP growth slowed markedly in 2019, to 1.2%, but we expect an acceleration to 1.7% in 2020 as policy easing and fiscal spending feeds into stronger domestic demand. Growth in export-oriented EU member states will remain reasonably strong, although the external environment is becoming more challenging. Turkey is likely to see some recovery in 2020, after the economy came almost to a standstill in 2019. Domestic demand is getting a boost from lower inflation and sharp monetary easing since July 2019, while confidence has improved somewhat. However, the outlook remains clouded by geopolitical uncertainty, while the threat of harsher US penalties continues to weigh on the lira.

Credit and insolvencies

Another gloomy year for insolvencies

The global insolvency outlook is increasingly cloudy. This is to be expected in line with the maturing business cycle, especially in advanced economies. The global industrial downturn and US-China trade war are compounding challenges for businesses. The bleaker world trade outlook and trade policy uncertainty are weighing on business sentiment and investment growth, increasing financial risks. We predict that corporate insolvencies increased 3% in 2019, with insolvencies on the rise across nearly all regions, including emerging market economies (EMEs), while North America is leading the upward trend. We forecast another 2.6% rise in business failures worldwide in 2020.

Due to weaker economic growth the number of Western European businesses insolvencies is expected to have increased 2.3% in 2019. This marks the first annual increase in the region since 2013. In 2020, a lower increase of 1.3% is forecast.

The slowdown in economic growth reflects prevailing weakness of international trade and global uncertainties, which are weighing on the manufacturing sector, particularly in Germany. Germany's domestic sector has been resilient thus far, keeping the level of insolvencies flat. In Spain, external weakness is beginning to strain consumer spending translating to an expected 2% decline in insolvencies this year. The UK is still leading the region's uptick: British business failures are forecast to rise at least 7% in 2020.

After a decade of annual decreases in the United States, insolvencies have started to rise again. Business failures already increased 4% in the first three quarters of 2019, and this trend is expected to have continued in Q4. Companies have been facing higher financing costs compared to 2018 (following the previous Fed tightening path before its U-turn earlier in 2019), a strong dollar, and the unwinding of pro-cyclical fiscal policy. On top of this, trade policy uncertainty is also increasingly weighing on business investment, as higher import costs eat into profits. Therefore, we expect the number of corporate failures to increase 4% annually in 2019 and 2020.

The insolvency outlook for emerging markets is rather negative. The latest EM bank lending survey (Q2 2019) from the IIF indicated a broad-based tightening of conditions in Q2 of 2019. EME businesses benefit particularly from the Fed's dovish pivot, but the outlook is challenged by higher risk perceptions; especially ongoing uncertainty surrounding trade policy and rising political risks, mainly in Latin America.

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	1.5	1.0	0.0	0.0	0.0	2.3	2.1	1.7	5.6	3.1	0.1	2 POSITIVE
Belgium	1.5	1.3	1.2	-0.7	-1.4	-1.4	-1.0	-1.2	-0.5	1.2	0.9	1.6	2 STABLE
Finland	1.7	1.6	1.1	-0.8	-1.3	-1.3	-1.4	-0.7	0.0	2.2	4.2	0.8	2 POSITIVE
France	1.7	1.3	1.2	-2.5	-3.0	-2.4	-0.7	-0.8	-0.6	3.5	1.9	1.4	2 STABLE
Germany	1.6	0.6	0.7	1.9	1.6	0.6	7.5	7.7	6.8	2.3	1.1	1.1	1
Greece	1.9	1.7	2.0	1.0	0.6	0.6	-2.9	-2.1	-2.0	8.7	4.7	4.4	6 STABLE
Ireland	8.5	5.4	2.4	0.1	0.2	0.3	10.6	-0.6	3.7	10.4	9.0	-0.6	3 POSITIVE
Italy	0.7	0.2	0.3	-2.2	-2.2	-2.5	2.6	3.0	2.7	1.3	1.7	1.4	4 STABLE
Netherlands	2.5	1.7	1.3	1.5	1.4	0.9	10.9	7.6	8.2	3.7	2.4	2.1	1
Portugal	2.4	1.9	1.3	-0.5	-0.1	-0.4	0.4	-0.6	-0.4	3.8	2.6	1.6	4 STABLE
Spain	2.4	2.0	1.7	-2.5	-2.3	-1.9	1.9	1.7	1.2	2.2	1.9	2.3	3 STABLE
Eurozone	1.9	1.2	1.0	-0.5	-0.6	-0.8	3.1	2.6	2.5	3.3	2.3	1.3	-
Australia	2.7	1.8	2.2	-0.9	0.3	0.3	-2.1	0.6	-0.1	5.1	3.5	3.9	1
Canada	2.0	1.7	1.4	0.3	0.0	-0.1	-2.5	-2.1	-2.6	3.1	2.0	0.9	1
Denmark	2.4	2.0	1.3	0.6	2.0	0.3	7.0	8.3	6.9	2.4	3.3	2.5	1
Norway	1.5	1.0	1.9	10.0	9.8	7.8	7.2	3.7	1.9	0.1	0.5	0.1	1
Sweden	2.3	1.2	1.2	0.8	0.2	0.3	1.7	4.1	3.5	3.3	4.8	1.8	1
Switzerland	2.8	0.8	1.5	1.4	1.0	0.8	9.0	8.3	10.0	4.5	2.9	1.7	1
United Kingdom	1.4	1.3	1.0	-2.2	-2.0	-2.1	-4.3	-4.3	-3.9	1.1	2.1	-2.3	2 STABLE
United States	2.9	2.3	1.6	-6.5	-7.0	-6.7	-2.4	-2.4	-2.4	3.0	-0.2	0.6	1
Central and Eastern Europe													
Czech Republic	2.9	2.5	1.8	0.1	-0.3	0.0	0.3	1.2	0.2	4.4	1.5	2.1	2 NEGATIVE
Hungary	5.1	4.9	3.3	-2.2	-1.3	-1.4	-0.5	-0.7	-0.7	4.3	6.0	3.6	4 NEGATIVE
Poland	5.1	4.2	3.1	-0.4	-0.5	-1.3	-1.0	0.0	-1.0	7.0	4.5	2.7	3 NEGATIVE
Russia	2.2	1.2	1.7	3.0	2.7	1.3	6.8	4.6	4.3	5.5	-2.0	1.2	5 POSITIVE
Slovakia	4.0	2.3	2.4	-1.3	-1.1	-1.4	-2.6	-2.7	-1.6	5.4	1.8	3.6	3 POSITIVE
Turkey	3.1	0.2	2.8	-2.0	-2.7	-2.4	-3.2	0.3	-0.9	7.8	7.1	5.6	5 STABLE
Asia													
China	6.6	6.1	5.7	-3.9	-4.3	-4.7	0.3	1.2	0.7	4.3	1.5	1.5	3 STABLE
India	7.4	5.0	6.0	-3.6	-3.9	-3.6	-2.4	-1.4	-1.6	10.6	3.4	4.0	4 NEGATIVE
Japan	0.3	1.1	0.3	-2.4	-2.7	-3.2	3.5	3.5	3.3	3.4	-1.9	0.9	3 POSITIVE
Latin America													
Brazil	1.3	1.1	2.0	-7.1	-6.1	-5.6	-2.2	-3.0	-3.0	3.3	-3.9	-1.4	5 POSITIVE
Mexico	2.1	0.0	0.9	-2.0	-2.0	-2.4	-1.8	0.0	-0.9	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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