



Economic Update

July 2017

Summary

- 2 **Global** – Global GDP growth is forecast to accelerate to 2.9% in 2017 and to maintain at 3.0% in 2018.
- 3 **Eurozone** – Eurozone growth accelerates, but the medium-term outlook remains subdued with several structural issues unresolved.
- 4 **Advanced Markets** –The US is enjoying broad-based growth, supported by consumers and increasingly by business investment. Higher inflation and political uncertainty are increasingly feeding into lower growth in the UK.
- 5 **Emerging Markets** – Emerging market growth is strengthening amidst receding fears over the potential fallout of the Trump presidency.
- 6 **Credit and insolvencies** – The corporate insolvency environment is expected to remain relatively stable in 2017, but is still subject to downside risks, mainly due to the impact of political uncertainty on investment and credit conditions.
- 7 **Table: Macroeconomic indicators for key markets**

Global

Global economy picking up steam but oil price falters

Global GDP growth is forecast to pick up to 2.9% in 2017 from 2.5% in 2016. Growth is supported by a strong US economy as well as recoveries in large emerging markets, offering better prospects for global demand. Confidence has increased in the US and the eurozone since H2 of 2016 and trade momentum has picked up. Global oil prices may find some support towards the end of this year from the OPEC agreement to extend production cuts into 2018. However, downside risks remain. Political uncertainty is still a downside risk for growth that could cause investment to be postponed or cancelled, but it has eased through 2017.

World trade growth has accelerated since Q3 of 2016. In the 12 months leading up to April 2017 the volume of trade growth expanded 2.4% compared to the previous 12 months. While the increase has eased to only 0.4% in April 2017 compared to 2.7% in February (rolling three-month percentage change over preceding three months), this marks eight consecutive months of positive momentum. Atradius forecasts full-year global trade growth to reach 3.2% in 2017, compared to 1.3% in 2016. However, policy uncertainty, mainly related to potential protectionism, remains a concern for the positive outlook.

In May, OPEC and some non-OPEC countries (including Russia) have agreed to extend production cuts into 2018. However, the cuts appear insufficient to ease the global supply glut as the oil price has declined 17% since May, to USD 44 per barrel Brent. However, in the coming months the production cuts are likely to provide support to oil prices, which are expected to remain within a corridor of USD 50 to USD 60. The US Energy Information Administration expects an average price of USD 53 in 2017, before rising to USD 56 in 2018.

Oil price weakens as concerns remain of supply glut

Brent crude oil, USD per barrel



Sources: Macrobond, EIA

Eurozone

| Economic growth forecasts | | |
|---------------------------|------------|------------|
| | 2017 | 2018 |
| Austria | 1.8 | 1.6 |
| Belgium | 1.5 | 1.6 |
| Finland | 1.9 | 1.5 |
| France | 1.4 | 1.5 |
| Germany | 1.6 | 1.7 |
| Greece | 1.1 | 1.9 |
| Ireland | 4.0 | 2.7 |
| Italy | 1.1 | 1.0 |
| Netherlands | 2.2 | 1.8 |
| Portugal | 2.1 | 1.6 |
| Spain | 3.0 | 2.4 |
| Eurozone | 1.8 | 1.6 |

Source: Consensus Forecasts (Jun 2017)

Eurozone growth accelerates

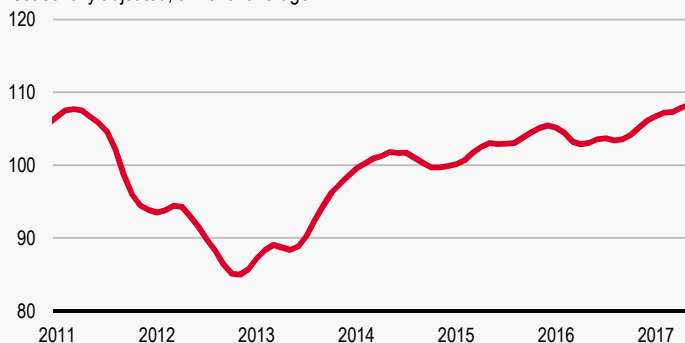
The outlook for the eurozone is strengthening, supported by low oil prices, monetary easing and employment growth. In 2017, GDP growth is estimated at 1.8%, which is higher than was expected at the beginning of this year. Emmanuel Macron's sweeping victory in both the French presidential and parliamentary elections has reduced political risk in the eurozone. Macron now faces the challenging task of reforming the French economy and reinvigorating the Franco-German axis. The recent failing of two mid-sized Italian banks shows that some pressing structural issues in the eurozone remain unresolved.

The eurozone economy is expected to benefit in 2017 from a pick-up in global activity, driven largely by emerging markets and some advanced markets. Monetary policy in the eurozone remains supportive, creating a policy divergence with the US. Interest rates are very low, and are expected to remain so beyond the end of the asset-purchasing programme. Foreign exchange markets are believed to have largely priced in the yield differentials between the US and eurozone, which is supported by an appreciation of the EUR against the USD in recent months.

Despite the pick-up in global activity, 2017 eurozone growth will largely have to come from domestic demand. Confidence indicators are pointing to accelerating economic activity. The European Sentiment Indicator (ESI) decreased slightly in May compared to April, but remained at the very high level of 109.2. Private consumption growth is expected to remain robust in 2017. While the expected higher inflation rate may dampen household consumption growth somewhat, employment and nominal wage growth are likely to remain supportive. Q1 of 2017 results from the ECB Bank Lending Survey point to higher demand for credit among businesses and households. We expect investment to continue to grow at a moderate rate as it remains constrained by both crisis legacy issues and low productivity growth.

Eurozone economic sentiment in an upswing

seasonally adjusted, 3-month average



Source: European Commission

Advanced Markets

Economic growth forecasts

| | 2017 | 2018 |
|----------------|------|------|
| United Kingdom | 1.6 | 1.4 |
| United States | 2.2 | 2.4 |

Source: Consensus Forecasts (Jun 2017)

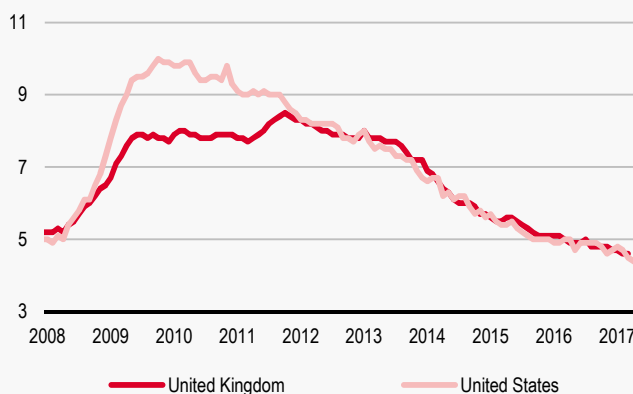
US outlook is stable while the UK's becomes more uncertain

The US economy has been off to a relatively weak start in 2017, but mainly due to one-off factors. US GDP growth slowed to 1.2% y-o-y in Q1 due to seasonal factors as well as higher inflation and unusually late tax returns, which put pressure on consumer demand. Since then, unemployment has fallen to 4.3%, the lowest level since 2001, but wage pressure remains limited. Inflation has eased slightly too: personal consumption expenditures excluding food and energy, the Fed's preferred measure, fell to 1.5% y-o-y in April from 1.8% in February. However the Fed remains confident that inflation will stabilise around the 2% target in 2017. In its June policy meeting the Fed increased its main policy rate by 25 basis points for the second time in three months, to a range between 1% to 1.25%. The growth outlook for the United States remains strong, as a tightening labour market and low interest rates continue to support household spending. Full-year GDP growth is forecast to accelerate to 2.2%.

Following a robust growth rate of 1.8% in 2016, economic momentum is beginning to ease in the UK. The depreciation of the pound, which is about 13% lower against the USD and the euro compared to June 2016, is feeding into higher inflation. Consumer prices rose 2.9% y-o-y in May, as wage growth eased to only 2.1% in April. The June 2017 general elections led to a hung parliament, adding uncertainty ahead of the Brexit negotiations, which further weighs on consumer confidence and household spending. 2017 GDP growth is expected to ease to 1.6% from 1.8% in 2016.

US and UK labour markets tightening

Unemployment rate, %



Source: Macrobond

Emerging Markets

Economic growth forecasts

| | 2017 | 2018 |
|--------------------|------|------|
| Asia (excl. Japan) | 5.8 | 5.6 |
| Latin America | 1.6 | 2.5 |
| Eastern Europe | 2.7 | 2.7 |

Source: Consensus Forecasts (Jun 2017)

Emerging market growth is strengthening in 2017

Growth prospects for emerging markets in 2017 have improved slightly. Several key players (Russia, Brazil, and Argentina) are emerging from recessions, while many emerging markets benefit from the gradual increase in commodity prices. Financial markets' perception of emerging economies is shifting to a positive direction, but countries with high external liabilities remain vulnerable.

Emerging Asia is expected to maintain its high growth rate in 2017 and 2018, particularly driven by India. Chinese growth is expected to slow only slightly compared to last year, with GDP expanding 6.6% (6.7% in 2016). China's authorities continue to rely on rapidly expanding credit in order to boost economic growth, despite clear evidence of state inefficiencies and property bubbles in some cities. Reform progress is slow, but may pick-up after president Xi Jinping has consolidated his power at a party conference later this year. Chinese GDP growth is expected to slow in the medium-term, after authorities have taken steps to rein in credit growth. While we do not expect a hard landing of the Chinese economy in the short-term, the risks remain considerable.

In Latin America, Brazil and Argentina are exiting recession in 2017, with a 0.5% and 2.6% growth forecast respectively. However, Brazil's return to orthodox market-friendly policies is under threat due to allegations of corruption and conspiracy against President Michel Temer. Mexico's 2017 growth prospects have improved in recent months, amidst receding uncertainty over the potential fallout from the Trump presidency in the US and a strong Q1 of 2017 GDP turnout.

In Eastern Europe, the outlook for Russia has improved along with the modest recovery in oil prices. GDP growth is expected to reach 1.3% in 2017 and to rise to 1.7% in 2018. However, structural weaknesses and the negative impact of sanctions on productivity and investment will continue to weigh on growth.

After the initial negative reaction to the protectionist rhetoric of the Trump administration, financial markets' perception of emerging economies is shifting in a positive direction. It appears that the US administration is taking a more pragmatic approach towards trade. However, in the medium-term considerable downside risks remain from protectionist trade policies and restrictions on immigration. The US Supreme Court has permitted a scaled-back version of president Trump's ban on travellers from six Muslim-majority countries. Additionally, emerging economies remain vulnerable to US monetary policy tightening, which could hurt the growth prospects of countries with high external liabilities.

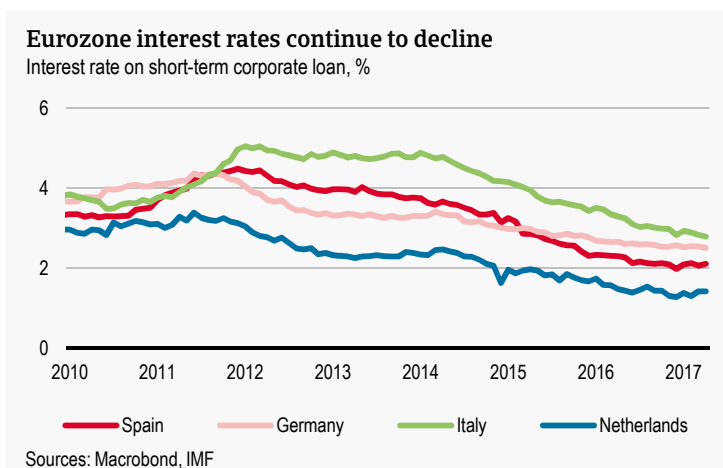
Credit and insolvencies

Insolvency outlook stable, but downside risks on the horizon

Credit conditions in the eurozone are supportive and are expected to remain so in 2017. According to the ECB's Q1 bank lending survey, lending standards for corporate loans in the eurozone eased slightly in Q1 of 2017. While banks may slightly tighten standards for business loans in Q2, lending growth is expected to hold up, supported by very low interest rates set by the ECB, which are eroding bank profitability. The 2017 insolvency outlook for the eurozone is relatively positive. We forecast a 4% decrease in corporate bankruptcies, with relatively balanced outlooks for individual countries. Insolvencies are expected to be stable in Germany, Greece and Belgium (within a +/- 2% range), while forecast to increase in Austria and to improve significantly in the Netherlands and the eurozone periphery (Ireland, Italy, Portugal, and Spain). Political uncertainty remains a downside risk for the insolvency development in the eurozone, but thus far it appears momentum toward populist policies is easing.

US business insolvencies are forecast to increase 2%, which is within the boundary of a stable outlook. Policy uncertainty could additionally weigh on the business environment, but this is not our baseline scenario for the time being. Business confidence is very high and the new administration's policy proposals are largely business-friendly. Tax cuts should encourage higher capital spending and risk appetite, but the most capital-intensive industries like energy and utilities are also the most debt-riddled, which could prove a downside risk for the insolvency outlook in the coming years. Insolvencies have started to pick up again in the UK, and we expect this trend to continue, with a 6% insolvency increase forecast in 2017, as the weak pound weighs on household purchasing power.

In emerging markets credit conditions have continued to tighten in Q1 of 2017, according to the Institute of International Finance's latest EM Bank Lending Conditions Survey. Demand for loans has also decreased. This is driven in part by expectations of rising political risk. Therefore, despite the emergence from recession of some key countries, we expect insolvencies in emerging markets to increase again in 2017.



Macroeconomic indicators for key markets

| | GDP growth (% of GDP) | | | Budget balance (% GDP) | | | Current account balance (% GDP) | | | Export growth (%) | | | Political risk Rating ¹ |
|-----------------------------------|--------------------------|------|------|---------------------------|------|------|------------------------------------|------|------|----------------------|------|------|---------------------------------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | |
| Western markets | | | | | | | | | | | | | |
| Austria | 1.5 | 1.8 | 1.6 | -1.5 | -1.3 | -0.9 | 1.7 | 2.1 | 2.0 | 1.4 | 3.6 | 3.2 | 2 POSITIVE |
| Belgium | 1.2 | 1.5 | 1.6 | -2.6 | -2.3 | -2.1 | -0.4 | 0.3 | 1.0 | 6.0 | 4.1 | 3.5 | 2 STABLE |
| Finland | 1.4 | 1.9 | 1.5 | -1.9 | -1.6 | -1.3 | -1.1 | -0.7 | -1.1 | 1.5 | 3.6 | 2.1 | 2 POSITIVE |
| France | 1.1 | 1.4 | 1.5 | -3.4 | -3.1 | -3.0 | -0.9 | -1.1 | -1.2 | 1.9 | 3.0 | 3.2 | 2 STABLE |
| Germany | 1.9 | 1.6 | 1.7 | 0.8 | 0.5 | 0.5 | 8.4 | 7.9 | 7.2 | 2.5 | 3.8 | 3.6 | 1 |
| Greece | 0.0 | 1.1 | 1.9 | 0.7 | -1.3 | -1.2 | -0.6 | -1.1 | -1.3 | -1.7 | 1.9 | 2.1 | 7 POSITIVE |
| Ireland | 5.2 | 4.0 | 2.7 | -0.6 | -0.8 | -1.3 | 4.9 | 4.4 | 3.9 | 2.4 | 3.8 | 2.5 | 3 NEGATIVE |
| Italy | 0.9 | 1.1 | 1.0 | -2.4 | -2.3 | -2.3 | 2.6 | 2.4 | 2.2 | 2.6 | 2.9 | 2.7 | 4 STABLE |
| Netherlands | 2.2 | 2.2 | 1.8 | 0.4 | 0.7 | 0.5 | 8.4 | 8.6 | 8.3 | 3.3 | 3.5 | 3.2 | 1 |
| Portugal | 1.4 | 2.1 | 1.6 | -2.0 | -1.8 | -1.6 | 0.8 | 0.1 | -0.2 | 4.4 | 8.2 | 3.0 | 5 POSITIVE |
| Spain | 3.2 | 3.0 | 2.4 | -4.5 | -3.3 | -2.4 | 2.0 | 1.8 | 1.7 | 4.4 | 4.5 | 3.5 | 4 POSITIVE |
| Eurozone | 1.7 | 1.8 | 1.6 | -1.5 | -1.4 | -1.3 | 3.6 | 3.5 | 3.2 | 2.9 | 3.6 | 3.3 | |
| Other Western markets | | | | | | | | | | | | | |
| Australia | 2.5 | 2.2 | 2.8 | -2.5 | -2.0 | -2.3 | -2.6 | -2.4 | -3.9 | 7.6 | 6.5 | 4.3 | 1 |
| Canada | 1.5 | 2.5 | 2.0 | -2.1 | -2.7 | -2.7 | -3.3 | -3.2 | -3.2 | 1.1 | 2.4 | 2.3 | 1 |
| Denmark | 1.3 | 1.7 | 1.6 | -0.9 | -0.6 | -0.4 | 8.1 | 7.9 | 7.9 | 1.7 | 3.2 | 2.4 | 1 |
| Norway | 0.8 | 1.7 | 1.9 | 3.1 | 4.1 | 3.9 | 4.9 | 5.5 | 5.9 | -0.6 | 2.0 | 2.5 | 1 |
| Sweden | 3.2 | 2.7 | 2.4 | 0.9 | 0.3 | 0.8 | 4.6 | 4.7 | 4.5 | 3.0 | 2.6 | 2.2 | 1 |
| Switzerland | 1.3 | 1.4 | 1.7 | 0.7 | 0.2 | 0.3 | 10.7 | 10.8 | 10.8 | 4.6 | 4.1 | 3.4 | 1 |
| United Kingdom | 1.8 | 1.6 | 1.4 | -3.0 | -3.6 | -3.5 | -4.4 | -4.3 | -4.1 | 1.8 | 3.2 | 3.0 | 2 STABLE |
| United States | 1.6 | 2.2 | 2.4 | -3.2 | -3.5 | -3.9 | -2.6 | -3.1 | -2.9 | 0.4 | 2.0 | 1.6 | 1 |
| Central and Eastern Europe | | | | | | | | | | | | | |
| Czech Republic | 2.3 | 2.8 | 2.6 | 0.6 | -0.5 | -1.0 | 1.1 | 0.9 | 0.4 | 4.0 | 4.7 | 4.3 | 3 POSITIVE |
| Hungary | 2.0 | 3.5 | 3.3 | -1.9 | -2.5 | -2.7 | 4.9 | 3.7 | 2.5 | 5.8 | 5.9 | 4.8 | 5 POSITIVE |
| Poland | 2.7 | 3.7 | 3.3 | -2.5 | -2.8 | -2.7 | -0.3 | -0.8 | -1.2 | 9.0 | 8.6 | 7.1 | 3 NEGATIVE |
| Russia | -0.2 | 1.3 | 1.7 | -3.4 | -2.2 | -1.4 | 2.0 | 3.2 | 2.7 | 3.1 | 1.9 | 1.8 | 5 NEGATIVE |
| Slovakia | 3.3 | 3.3 | 3.5 | -1.7 | -1.6 | -1.3 | -0.7 | -0.8 | 0.1 | 4.8 | 5.4 | 4.8 | 3 POSITIVE |
| Turkey | 2.9 | 3.7 | 3.2 | -1.1 | -2.4 | -2.3 | -3.8 | -4.2 | -4.2 | -1.9 | 3.0 | 2.9 | 5 STABLE |
| Asia | | | | | | | | | | | | | |
| China | 6.7 | 6.6 | 6.2 | -3.8 | -4.0 | -4.4 | 1.7 | 1.6 | 2.0 | 1.1 | 2.5 | 2.7 | 3 STABLE |
| India | 7.1 | 7.3 | 7.6 | -3.5 | -3.2 | -3.1 | -0.5 | -0.9 | -1.1 | 4.4 | 3.4 | 3.9 | 4 NEGATIVE |
| Japan | 1.0 | 1.4 | 1.1 | -5.2 | -5.1 | -5.6 | 3.8 | 4.1 | 4.8 | 1.1 | 5.1 | 3.5 | 3 POSITIVE |
| Latin America | | | | | | | | | | | | | |
| Brazil | -3.6 | 0.5 | 2.2 | -6.4 | -7.7 | -6.1 | -1.3 | -1.5 | -2.4 | 1.9 | 1.2 | 1.7 | 5 POSITIVE |
| Mexico | 2.3 | 2.0 | 2.2 | -2.6 | -2.3 | -2.4 | -2.1 | -2.2 | -2.4 | 1.2 | 1.7 | 2.2 | 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.

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