Economic Update

March 2019

Summary

Global

Real GDP growth forecasts

	2018	2019
World	3.0	2.7

Source: Oxford Economics

Global growth losing steam in 2019

The current economic cycle appears to have peaked in 2018 at 3.0%, supported by still-loose financing conditions and significant fiscal stimulus in the US. Since late 2018 the global economy has been losing steam as the effects of US tax reform fade and financial markets have become more volatile due to Fed tightening (December) and trade uncertainty. Growth is expected to slow to a still solid 2.7%, but risks lean to the downside, mainly due to trade policy uncertainty.

The most dire risk for the world economy is the unfolding trade war between the US and China, but this is showing signs of receding. In late February, President Trump announced a delay of the planned increase in tariffs to 25% from 10% on USD 200 billion of Chinese imports, citing progress in negotiations between the countries. However, it is not clear yet how long the increase will be delayed. While there is now more optimism on the trade front, a comprehensive agreement leading to an end of the US-China trade war remains uncertain. After a remarkable 4.7% expansion in 2017 (in 12-month rolling terms), world trade growth slowed to 3.3% in 2018. Trade growth is expected to continue losing steam this year, especially if the trade conflict between the US and China escalates and/or an expansion of US import tariffs on Europe.

On top of trade tensions, oil price volatility is also adding uncertainty to the global outlook. In the face of current geopolitical tensions and the re-imposition of US sanctions on Iran, the price of oil gained 25% between August and October 2018. Since then, increased production from Saudi Arabia followed by the US decision to grant temporary waivers from US sanctions to several large importers of Iranian oil contributed to a sharp price decrease. More recently OPEC-led production cuts and US sanctions on Venezuela have fuelled some price recovery to above USD 60 per barrel. The US Energy Information Administration forecasts the price of Brent to average USD 61 in 2019.

Oil price

Daily spot price, USD per barrel Brent

Sources: Macrobond, Atradius Economic Research

Eurozone

Real GDP growth forecasts

	2018	2019
Austria	2.7	1.7
Belgium	1.4	1.4
France	1.5	1.5
Germany	1.5	1.3
Greece	2.2	1.9
Ireland	6.6	2.7
Italy	0.8	0.0
Netherlands	2.6	1.8
Portugal	2.1	1.7
Spain	2.5	2.3
Euro Area	1.8	1.4

Source: Oxford Economics

Eurozone: weak momentum continues

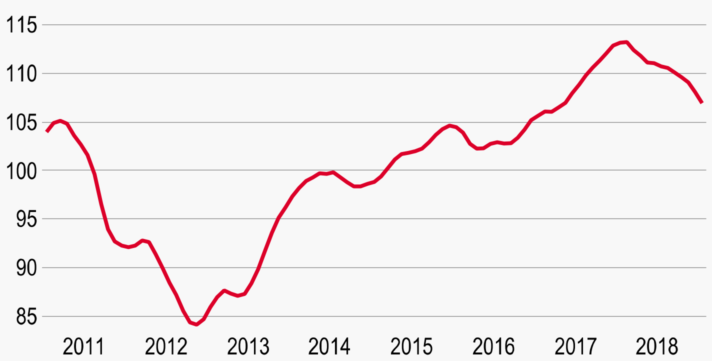
The eurozone economy has slowed down in H2 of 2018. Real GDP increased by 0.2% q-o-q in Q4, the same rate as in Q3, but lower than the average 0.4% in H1 of 2018. The slowdown is in line with a decline in confidence indicators. The European Sentiment Indicator (ESI) continued to decrease in January 2019 to 105.4, down from 106.6 in December. While the economic weakness is in part explained by transitory factors, the decline in confidence also shows the growth momentum is unlikely to rebound. After a GDP expansion of 1.8% in 2018, eurozone growth is expected to decelerate to 1.4% this year. Stronger import growth will result in a negative contribution from net trade.

Italy continues to constitute a risk to eurozone recovery as its economy slipped into recession in the H2 of 2018, and a zero GDP growth rate is forecast this year. The outlook continues to be clouded by political volatility, undermining confidence in public finances and banking sector recovery. Another downward risk for the eurozone is uncertainty surrounding trade policies, as the ongoing Sino-US trade war clouds the outlook. Trade tensions between the EU and the US have eased for the time being after a visit by EU Commission President Juncker to the White House in July last year. However, a report issued by the US commerce department to President Trump on the impact of automotive imports to US security could flare up trade tensions again, especially if US tariffs on cars become a serious option.

The ECB is facing an increasingly challenging outlook amid a weakening of growth and inflation expectations. Inflation has decreased again in recent months, from 1.9% in November 2018 to 1.5% in December and 1.4% in January 2019. As a result, the central bank will be cautious about withdrawing monetary support. The first rate hike is not expected to occur before the beginning of 2020.

Economic Sentiment Indicator - eurozone

Seasonally-adjusted, 3-month moving average



Sources: Macrobond, European Commission

Advanced Markets

Real GDP growth forecasts

	2018	2019
United Kingdom	1.4	1.4
United States	2.9	2.5

Sources: Oxford Economics, Atradius

US and UK vulnerable to policy uncertainty

The US economy remains solid at the beginning of 2019 despite domestic and external risks. After a remarkable 2.9% expansion in 2018, GDP is forecast to grow another 2.5% in 2019. Progress in trade talks with China and the Federal Reserve's shift to a more dovish stance have helped to alleviate recession fears. Private consumption continues to drive the expansion, supported by a maturing labour market, with unemployment at 4.0% and sturdy wage growth of 3.0% y-o-y. Business investment is set to cool down in 2019 as the fiscal stimulus fades, energy sector activity eases, and global growth slows down. Business investment and overall economic growth are facing increasing challenges as trade protectionism has led to higher input costs while borrowing costs have increased. The Federal Reserve increased interest rates again in December to a range of 2.25% to 2.5%, reflecting the ongoing strength of the domestic economy. However, with increasing headwinds, particularly due to external uncertainty, monetary normalisation has been put on hold. The Fed's next moves will be dependent on upcoming data, but the chairman has set a very dovish tone.

Our outlook for the UK has worsened since last quarter and remains highly uncertain. GDP growth in Q4 of 2018 is estimated to have slowed sharply, to 0.2% from 0.6% in Q3. The slowdown is driven by increasing Brexit-related risk aversion, strained household finances, and a weaker global backdrop. With lower momentum entering 2019, this year's growth forecast has been revised down to 1.4%. The Bank of England has also slashed its growth outlook for the UK economy to 1.2% this year, and will accordingly keep rates flat at 0.75%. Both forecasts are still based on the assumption that a last-minute deal will be reached, allowing for an orderly Brexit and a subsequent acceleration of growth in H2, supported by stronger household spending power and looser fiscal policy. A hard Brexit would immediately lead to a downside revision of the forecast. With March 29th, Brexit day, quickly approaching, PM May has announced a meaningful vote on a revised deal on March 12th and the opportunity for Parliament to vote for an extension of Article 50 in order to avoid a no-deal scenario.

Emerging Markets

Emerging markets outlook remains stable

Real GDP growth forecasts

	2018	2019
Emerging Asia	6.0	5.6
Eastern Europe	3.2	2.5
Latin America	1.0	1.6
Emerging Markets	4.5	4.2

Source: Oxford Economics

Emerging market economies (EME) as a whole are expected to grow 4.2% this year, following 4.5% growth in 2018. The expansion is supported by solid global demand, relatively loose financial conditions and improving domestic policymaking in some markets. Additionally the risk that US monetary tightening will trigger a slowdown among EMEs has all but vanished now that Fed has paused rate increases. Tensions surrounding the Sino-US trade war have eased somewhat given positive signals from the US-China trade negotiations. However, uncertainty surrounding trade policy issues continue to cloud the outlook.

Economic growth in China continued to slow towards the end of 2018, due to weaker exports and softer investment growth. This is also weighing on growth of smaller Asian markets dependent on exports to China. China´s gradual economic slowdown is likely to continue in 2019, with an expected GDP growth of 6.1%. Along regions, 2019 growth will be highest again in Emerging Asia with 5.6%, down from 6.0% in 2018. India will become Asia-Pacific's fastest growing economy, with a 7.3% expansion expected in 2019. Strong domestic demand and supportive macroeconomic policies are boosting growth as well as capital inflows.

Growth in Latin America is forecast to rise to 1.6% in 2019, from 1.0% in 2018. Brazil's new president Jair Bolsonaro is likely to continue the sounder, market-oriented policies started by the fomer government. Among the structural reforms needed, one of the most urgent is a shake-up of the unsustainable pension system. In Argentina, an economic crisis emerged in 2018 after several poorly communicated policy steps and concerns about its ability to cover its high financing needs. Argentina agreed on a USD 56 billion IMF programme in an attempt to stabilise the economy and to bolster investor confidence. The economic contraction is likely to continue in 2019.

Eastern Europe is likely to see 2019 growth declining to 2.5%, from 3.2% in 2018, with very diverse individual country growth rates. Russian GDP growth is set to slow from 1.6% in 2018 to 1.4% 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, supported by external demand and high investment. Turkey is likely to enter recession in 2019 after last year´s Lira sell-off, triggered by the country´s vulnerable external balance and doubts about the macroeconomic policy framework. Turkey's central bank hiked the policy rate to 24% in September 2018 in an attempt to contain rising inflation.

Credit and insolvencies

Insolvencies start to rise again

In line with easing GDP growth, we expect rising corporate insolvencies in advanced economies. After nine straight years of decrease, recovering from the sharp increase in the wake of the 2008 global crisis, we forecast a 1% increase this year, following a 2% decline in 2018. While the break in monetary tightening (especially in the US) should help soften this landing, risks to our insolvency outlook continue to lean to the downside. Ongoing uncertainty related to Brexit and US trade policy in particular could trigger even more business failures than currently expected.

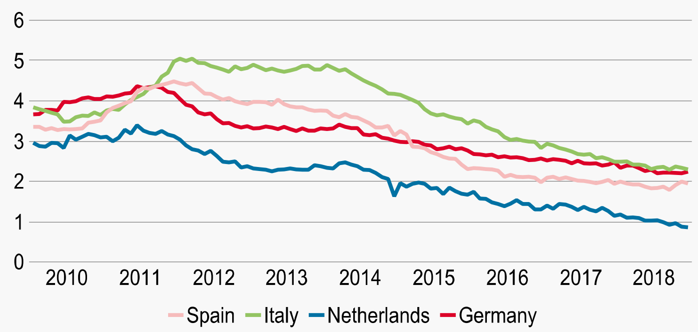
Insolvencies in Western Europe are forecast to increase 2%. For the UK we predict a 7% increase in business failures due to Brexit uncertainty and weaker consumer purchasing power. However, this projection is based on an orderly departure from the EU, and as such subject to upward revision in case the process does not go smoothly. Italy is also expected to see a strong increase of 6% in insolvencies as its economy stagnates, strained by political uncertainty and a weaker external environment. Germany (+2%), the Netherlands (+2%), and France (+1%) are forecast to see small increases as well. The overall business outlook for Europe is weakening as global trade slows.

The corporate sector in the US continues to benefit from high confidence, some fiscal stimulus, easy financial conditions, and high domestic demand. The number of US companies declaring bankruptcy decreased 4% in 2018, but is forecast to level off in 2019. While the Fed has paused its monetary tightening and overall financial conditions remain accommodative, the Fed's latest Senior Loan Officer Survey from Q4 of 2018 point to tightening credit conditions for both large and small firms. Risks to businesses in 2019 remain elevated due to a cloudier economic outlook and increasing risk aversion amid policy uncertainty.

In emerging markets, the insolvency outlook is worsening. In 2018 the situation was still benign thanks to a strong global economy and still-loose financing conditions. However, ongoing policy uncertainty both externally and domestically are expected to cause more business failures in 2019.

Corporate interest rates

Interest rates on short-term corporate loans, %



Sources: Macrobond, ECB

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	2.7	1.7	2.0	-0.3	-0.2	-0.2	2.3	1.8	1.8	4.2	2.9	2.6	2 POSITIVE
Belgium	1.4	1.4	1.5	-0.8	-1.3	-1.4	0.5	1.0	1.0	3.6	3.5	3.1	2 STABLE
Finland	2.3	1.9	1.7	-0.9	-0.7	-0.5	-1.4	0.0	0.1	0.6	1.4	3.0	2 POSITIVE
France	1.5	1.5	1.6	-2.9	-3.4	-3.0	-0.6	-0.3	-0.3	3.1	2.3	2.3	2 STABLE
Germany	1.5	1.3	1.6	2.0	0.9	0.5	7.5	6.9	6.4	2.1	2.9	3.2	1
Greece	2.2	1.9	2.2	0.6	0.1	0.2	-3.3	-2.2	-1.5	8.9	7.5	5.2	6 STABLE
Ireland	6.6	2.7	2.3	-0.3	0.0	0.3	9.7	4.0	3.9	6.6	1.7	2.5	3 POSITIVE
Italy	0.8	0.0	0.8	-1.9	-2.5	-2.3	2.6	2.6	2.7	0.8	2.1	2.9	4 STABLE
Netherlands	2.6	1.8	1.7	1.9	1.3	1.3	10.2	9.0	8.8	3.1	2.8	3.0	1
Portugal	2.1	1.7	1.4	0.3	0.1	-0.3	0.0	0.1	0.2	4.1	3.5	3.3	4 NEGATIVE
Spain	2.5	2.3	2.0	-2.7	-2.2	-1.7	0.9	0.8	0.8	2.2	2.6	3.0	3 NEGATIVE
Eurozone	1.8	1.4	1.6	-0.4	-0.9	-0.9	3.0	2.7	2.6	3.0	2.7	3.0	-
Australia	3.0	2.5	2.5	-0.9	-0.3	-0.3	-2.2	-2.3	-2.7	5.9	6.2	3.9	1
Canada	2.1	1.4	1.2	0.1	-0.6	-0.8	-2.6	-2.2	-2.0	3.0	1.1	0.7	1
Denmark	1.1	1.9	2.0	-0.2	0.0	0.3	5.8	6.7	5.8	0.4	2.6	1.8	1
Norway	1.7	2.2	2.0	6.9	6.3	5.9	8.6	7.0	5.8	0.4	2.6	2.5	1
Sweden	2.2	1.8	2.1	0.9	0.8	0.5	2.0	3.7	4.1	2.5	2.5	2.8	1
Switzerland	2.6	1.2	1.7	0.8	0.5	0.4	7.7	8.4	9.1	1.9	2.3	3.5	1
United Kingdom	1.4	1.4	2.0	-1.4	-1.5	-1.3	-4.1	-3.6	-3.0	-0.1	2.8	3.1	2 STABLE
United States	2.9	2.5	1.9	-6.4	-6.5	-6.8	-2.3	-2.7	-2.8	3.9	1.8	2.7	1
Central and Eastern Europe													
Czech Republic	2.8	2.3	2.5	0.1	0.0	-0.2	0.5	0.3	0.2	4.2	2.9	3.7	2 NEGATIVE
Hungary	4.9	3.4	2.4	-2.0	-1.9	-1.7	1.3	1.3	1.8	5.1	4.4	3.3	4 NEGATIVE
Poland	5.3	3.5	2.9	-0.9	-1.5	-1.9	-0.8	-1.1	-1.2	5.2	4.6	4.7	3 NEGATIVE
Russia	1.8	1.6	1.6	1.8	1.6	1.1	7.0	5.9	5.7	5.9	2.1	1.9	5 POSITIVE
Slovakia	4.2	3.6	2.7	-1.3	-0.7	-1.1	-2.3	-1.6	-1.7	4.7	5.6	3.9	3 POSITIVE
Turkey	3.1	-1.5	3.8	-2.0	-2.1	-2.1	-3.4	-0.3	-0.8	7.2	7.1	3.5	5 STABLE
Asia													
China	6.6	6.1	5.8	-3.9	-4.1	-3.9	0.4	0.4	0.3	4.7	2.8	4.4	3 STABLE
India	7.4	7.3	7.0	-3.7	-3.4	-3.5	-2.4	-1.8	-2.2	10.5	5.2	6.2	4 NEGATIVE
Japan	0.8	0.9	0.3	-3.4	-3.5	-3.2	3.4	3.1	3.2	3.1	1.7	3.1	3 POSITIVE
Latin America													
Brazil	1.2	2.3	2.6	-8.1	-7.1	-6.3	-0.9	-0.5	-0.9	2.7	6.5	3.5	5 POSITIVE
Mexico	2.1	2.0	2.0	-2.3	-2.8	-3.2	-1.7	-1.5	-1.5	6.6	4.2	1.8	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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