



# Economic Update

September 2019

## Summary

- 2 **Global** – Global economic growth is forecast to slow to 2.6% in 2019 from 3.2% in 2018, amid ongoing trade tensions and oil price volatility.
- 3 **Eurozone** – Despite GDP growth shifting down a gear this year, the labour market continues to recover and wage growth is firming.
- 4 **Advanced Markets** – The US economy is still strong, but trade policy is increasingly dragging on the outlook. Brexit uncertainty continues to weigh on UK growth.
- 5 **Emerging Markets** – Growth edging slightly lower in 2019, with trade tensions between the US and China continuing to cloud the outlook.
- 6 **Credit and insolvencies** – The global insolvency outlook has deteriorated further, with a 2.8% increase currently expected in 2019.
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Global

## Trade war increasingly clouds global outlook

Real GDP growth forecasts

	2018	2019
World	3.2	2.6

Source: Oxford Economics

As headwinds mount, global GDP growth is forecast to slow to 2.6% in 2019, with the escalation of the US-China trade war as the main culprit. The US administration recently announced another tariffs hike: from 25% to 30% on USD 250 billion of imports already taxed effective October 1 and a 15% tariff on the remaining USD 300 billion worth of Chinese imports coming into effect in September (with delays on some consumer goods until mid-December in order to minimise disruption to the Christmas shopping season). Additionally geopolitical tensions, especially the current conflict between the US and Iran, pose a significant risk to the global economy, particularly through oil price volatility. Looser monetary policy in advanced markets is helping to ease the slowdown, but risks are to the downside.

World trade growth continues to decelerate, and the outlook remains bleak. The volume of trade expanded 3.4% in 2018, just above GDP growth, but as of May 2019, this figure has already dropped to 1.7%. Trade momentum, measured as trade in March to May 2019 compared to the previous three months (December 2018 to February 2019), was negative for the seventh month in a row. While trade tensions between China and the US continue to simmer, the risk of an escalation in trade tensions between the US and EU still looms. The US administration has threatened tariffs on EU vehicles as a matter of national security and USD 11 billion worth of imports to contest EU subsidies for Airbus.

There have been several swings in the oil price thus far in 2019 within a relatively large corridor of USD 55 to USD 75. The oil price breached USD 70 per barrel Brent in April and May, as heightened tensions in the Persian Gulf raised fears about oil supply disruption. However, with larger-than-expected crude inventories in the US and rising concerns of a global downturn amid the escalating Sino-US trade dispute, the price of oil has been driven downward this summer (currently below USD 60 per barrel). The US Energy Information Administration has revised its average 2019 and 2020 forecast down to USD 65 per barrel.

### Oil price

Daily spot price, USD per barrel Brent



Sources: Macrobond, Atradius Economic Research

## Eurozone

Real GDP growth forecasts

	2018	2019
Austria	2.6	1.5
Belgium	1.4	1.2
France	1.7	1.3
Germany	1.6	0.6
Greece	1.9	1.7
Ireland	8.5	4.0
Italy	0.7	0.1
Netherlands	2.5	1.5
Portugal	2.2	1.7
Spain	2.6	2.3
<b>Euro Area</b>	1.9	1.2

Source: Oxford Economics

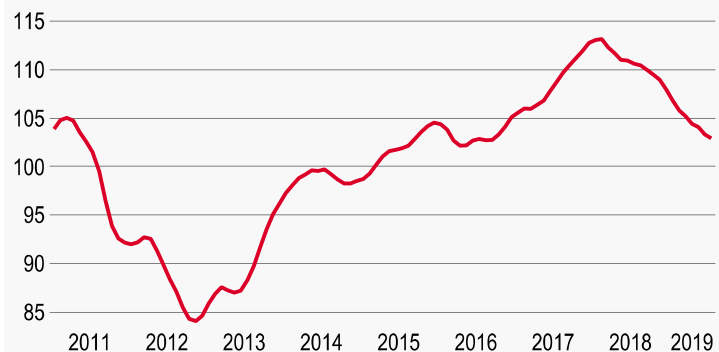
## Eurozone: modest growth supported by strengthening labour market

Growth of the eurozone economy is expected to cool to 1.2% this year, compared to 1.8% in 2018. The European Sentiment Indicator (ESI) has been on a downward trend thus far in 2019, decreasing from 107.4 in December to 102.7 in July. Eurozone growth declined somewhat in Q2 of 2019, to 0.2% q-o-q from 0.4% in Q1. Germany's economy contracted by 0.1% in Q2 and is likely to contract again in Q3, but this is not likely to trigger a eurozone recession, as the services sector across the area continues to outperform. The rate of economic expansion is likely to remain modest in the second half of 2019. Stronger import growth will result in a neutral contribution from net trade this year, with domestic demand contributing as much to GDP growth as previous year. Several risks threaten the outlook: the trade dispute between the US and Europe could flare up again in the coming months, a Brexit deal has not yet been passed through the British parliament, while political and budgetary uncertainty in Italy continues.

The eurozone labour market continues to rebound, with the unemployment rate down to 7.5% in June 2019, the lowest figure since the 2008 financial crisis. Employment will continue to expand throughout the rest of 2019, albeit at a lower rate than last year. Wage growth continued to rise in Q1 of 2019, reaching 2.5% y-o-y – its fastest pace since 2009 and well above inflation (1.1% in July). Higher wage growth is contributing to consumer purchasing power and will eventually feed into higher consumer prices. That said, inflation is expected to average 1.3% this year, falling short of the ECB target of just under 2%. In response, the ECB signalled in June preparations for another round of monetary stimulus.

### 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	1.2
United States	2.9	2.3

Source: Oxford Economics

## US and UK slowing down in the face of political uncertainty

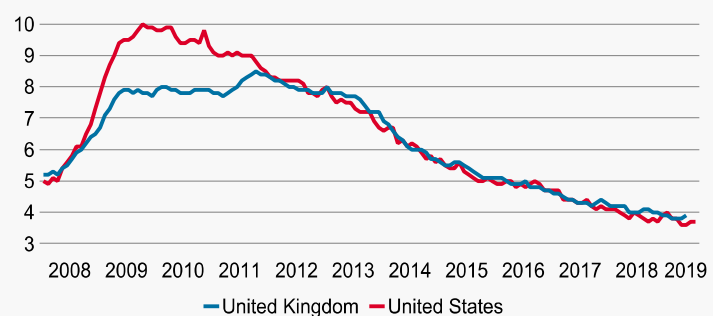
The US economy has been steadily growing over the last 10 years, exceeding the longest expansion on record. With unemployment near a 50-year low at 3.7%, employment growth rebounded in June with 224,000 jobs added. Consumer confidence remains elevated thanks to the low jobless rate and relatively stable wage growth (3.1%). It has nevertheless decreased to its lowest level since September 2017, mainly due to the rising headwinds that trade policy poses to the economy. Washington's decision in May 2019 to impose additional tariffs on Chinese imports and the recent announcement to raise tariffs on the remaining USD 300 billion of Chinese imports is causing the US economy to cool off more quickly than expected. Business investment is slowing from 6.9% y-o-y in 2018 to an expected 3.1% in 2019. In response to increasing economic uncertainties and on top of persistently below-target inflation (1.5% in May), the Federal Reserve has cut its policy rate by 25 basis points in August 2019, bringing the target range to 2.00%-2.25%. The market expects another rate cut in September and December.

The UK economy is forecast to grow 1.2% in 2019, slightly down from 1.4% in 2018. The outlook has deteriorated because of the ongoing Brexit-related uncertainty. The economy's strong Q1 performance was inflated by precautionary stock building, which unravelled in Q2, leading to a 0.2% contraction. Accordingly, renewed inventory growth ahead of the October 31 Brexit deadline should inflate GDP growth in Q3. Uncertainty is straining business investment, expected to contract 1.4% this year after a 0.4% decline in 2018. With Brexit delayed until end-October at least and the associated slump in investment, the pound sterling is set to remain weaker for a longer period.

With Boris Johnson's adversarial start as Britain's new Prime Minister, the Brexit process has entered a new phase now that the government has shown strong commitment to leaving the EU on October 31, with or without a deal. This has raised the risk of leaving the EU with no deal significantly, particularly now that Parliament will be suspended until October 17. Still, due to the lack of parliamentary support for a no-deal exit this is not our baseline scenario. It is not unlikely that another extension will be granted, as PM Johnson will find it hard to gain concessions from Brussels, while the probability that he can submit any deal that a majority of Parliament would support is very low.

### Unemployment rate

% of total workforce



Sources: Macrobond, national sources

## Emerging Markets

Real GDP growth forecasts

	2018	2019
Emerging Asia	6.0	5.5
Eastern Europe	3.4	2.6
Latin America	0.7	-0.1
<b>Emerging Markets</b>	4.7	4.1

Source: Oxford Economics

## Emerging markets also facing a slowdown

As trade tensions rise and developed markets lose steam, growth in emerging market economies (EMEs) is also slowing. After a 4.7% GDP expansion in 2018, EMEs are forecast to grow only 4.1% this year. While this expansion is still considerable, the external environment is becoming more challenging, as the risk of spill-overs from the US-China trade war has increased. At least the risk that US monetary tightening will trigger a slowdown among EMEs has all but vanished, now that Fed has begun cutting its policy rate.

While Emerging Asia is the most vulnerable region to the US-China trade dispute, GDP growth is expected to remain robust at 5.5% this year. Fiscal stimulus in China is helping to support regional growth, keeping China's GDP expansion at 6.2%. However, China's gradual slowdown is reducing demand for imports, particularly weighing on the economic outlooks of smaller Asian economies dependent on exports to the Middle Kingdom. India's growth prospects have eased to 6.8% in 2019, following a 7.4% expansion in 2018. Lower-than-expected domestic demand and policymaking challenges caused a disappointing performance in Q1 of 2019. However, with the re-election of Prime Minister Modi pro-business policies should remain a priority, offering a stronger outlook for H2 of 2019 and in 2020.

Growth in Latin America is forecast to contract slightly (-0.1%) in 2019, following a meagre 0.7% expansion in 2018. However, a large part of the weak 2019 figure can be attributed to Venezuela, where GDP is forecast to shrink 40% this year. Furthermore, Argentina is expected to remain in recession, despite the USD 56 billion IMF programme to stabilise the economy and to bolster investor confidence. Brazil's economy contracted in H1, due to disappointing private consumption, the Vale dam disaster, while exports are suffering from the slowdown in world trade and the economic troubles in Argentina. Some recovery is expected in the second half of the year, but this expansion is expected to reach only 0.5%.

Eastern Europe is likely to see 2019 growth declining to 2.6%, from 3.4% in 2018. Russian GDP growth is set to slow sharply from 2.2% in 2018 to 0.9% 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, although the external environment is becoming more challenging. Turkey has faced its first recession in a decade following last year's lira sell-off, triggered by the country's vulnerable external balance and doubts about the macroeconomic policy framework. The country emerged from recession in Q1 thanks to pre-election stimulus, but a 1.5% contraction is still expected in 2019.

## Credit and insolvencies

### Insolvency outlook deteriorating

In line with the more subdued economic performance expectations, the insolvency outlook has deteriorated further. Compared to a 2% increase in 2019 expected last quarter, corporate insolvencies across developed markets are now forecast to rise 2.8% – the first annual increase in a decade. The larger-than-expected rise is primarily driven by the negative impact of trade policy uncertainty on US businesses and Brexit-related issues on UK companies. Most other upward revisions are also triggered by the worsening global trade environment.

Western Europe is facing a 2.7% increase in insolvencies in 2019. The United Kingdom is leading the upward trend (+10%) amid rising labour costs and Brexit-related uncertainty. Looking to the eurozone, business failures are forecast to increase 1.2% this year as growth decelerates due to political uncertainty and the weaker external environment. The industrial sector downturn is mainly straining economic growth and putting the brakes on the downward insolvency trend seen since the end of the crisis. While the slowdown in Germany's manufacturing sector (especially in automotive), has a negative impact on the region as a whole, German firms are proving rather resilient for the time being, with only a 1% increase in business failures expected this year. France is forecast to see a 3% increase, largely due to slowing global trade. While Italy has returned to growth in Q1, policy uncertainty and the weaker external environment are driving an expected 4% increase in business failures. In contrast, Spain is forecast to see a 5% decline this year, despite high external risks and a less dynamic investment environment. The ECB's accommodative stance contributes to easing credit standards for business loans, which should help mitigate downside risks.

Following a 4% decline in 2018, the number of US firms filing for bankruptcy is set to reverse its positive trend, and to increase by 3% in 2019. The unwinding of fiscal stimulus, a strong US dollar, and particularly trade policy uncertainty are straining the US business environment. Despite the Fed's shift to a more dovish stance, financing conditions are slightly tighter than last year, following four rate hikes in 2018. With corporate debt at 73% of GDP, close to its pre-crisis peak, corporate vulnerability to tighter conditions remains high.

The insolvency outlook for emerging markets is rather negative. The outlook is increasingly challenged by the escalation of China-US trade tensions. The broader slowdown in the global economy and ongoing uncertainty surrounding trade policy as well as busy electoral calendars are increasing risks to businesses. Some good news came from the latest EM bank lending survey (Q1 2019) from the IIF which indicated a slowdown in tightening and expected easing in Q2 of 2019. EME firms benefit particularly from the Fed's dovish pivot.

## Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% GDP)			Current account balance (% GDP)			Export growth (%)			Political risk Rating <sup>1</sup>
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	
<b>Western markets</b>													
Austria	2.6	1.5	1.3	0.0	0.0	0.0	2.3	2.7	1.8	4.1	2.9	0.6	2 POSITIVE
Belgium	1.4	1.2	1.1	-0.7	-1.3	-1.4	-1.3	1.5	1.6	3.6	2.9	1.7	2 STABLE
Finland	1.7	1.4	1.3	-0.7	-0.9	-0.8	-1.6	1.2	0.0	1.1	4.3	1.2	2 POSITIVE
France	1.7	1.3	1.4	-2.5	-3.3	-2.9	-0.6	-0.5	-0.4	3.5	2.4	2.0	2 STABLE
Germany	1.6	0.6	0.9	1.7	1.5	0.6	7.5	7.4	6.7	2.2	0.6	1.5	1
Greece	1.9	1.7	2.1	1.1	0.4	0.6	-2.9	-2.0	-2.0	8.7	4.7	5.1	6 STABLE
Ireland	8.5	4.0	2.2	0.0	0.2	0.3	10.6	5.8	3.9	10.5	6.0	2.2	3 POSITIVE
Italy	0.7	0.1	0.4	-2.1	-2.2	-2.7	2.5	2.6	2.7	1.4	2.5	1.6	4 STABLE
Netherlands	2.5	1.5	1.4	1.6	1.3	1.3	10.9	9.7	9.7	3.7	1.4	1.7	1
Portugal	2.2	1.7	1.4	-0.5	-0.3	-0.4	-0.4	-0.4	-0.1	3.7	2.9	2.1	4 NEGATIVE
Spain	2.6	2.3	1.9	-2.5	-2.3	-1.9	0.9	0.5	0.6	2.3	1.8	2.7	3 NEGATIVE
Eurozone	1.9	1.2	1.2	-0.5	-0.7	-0.9	2.9	2.9	2.7	3.4	2.1	1.8	-
<b>Other key markets</b>													
Australia	2.8	1.7	2.6	-0.9	0.8	0.4	-2.1	-0.5	-2.5	5.0	3.7	2.9	1
Canada	1.9	1.3	1.2	0.3	0.1	0.0	-2.6	-3.1	-2.9	3.2	1.0	0.8	1
Denmark	1.5	1.6	1.5	0.5	0.3	0.0	5.7	5.8	5.8	0.4	1.3	1.3	1
Norway	1.8	1.9	2.1	9.2	9.0	7.6	8.0	7.4	6.6	-0.4	2.1	1.6	1
Sweden	2.5	1.6	1.9	0.9	0.6	0.4	1.7	4.0	4.1	4.0	3.4	1.6	1
Switzerland	2.6	1.3	1.6	0.9	0.7	0.5	8.0	8.5	10.1	3.8	3.8	2.0	1
United Kingdom	1.4	1.2	1.3	-1.6	-1.7	-1.5	-3.9	-3.9	-3.3	0.1	0.3	0.8	2 STABLE
United States	2.9	2.3	1.8	-6.4	-6.8	-6.9	-2.4	-2.6	-2.7	3.0	0.1	1.5	1
<b>Central and Eastern Europe</b>													
Czech Republic	2.9	2.4	1.8	0.1	-0.3	0.1	0.3	0.4	0.2	4.4	2.1	2.6	2 NEGATIVE
Hungary	5.0	4.7	3.0	-2.2	-1.9	-1.8	0.4	0.7	0.4	4.7	7.3	3.6	4 NEGATIVE
Poland	5.2	4.3	3.2	-0.5	-0.5	-1.3	-0.6	-0.4	-1.2	6.3	4.3	3.3	3 NEGATIVE
Russia	2.2	0.9	1.8	3.0	2.6	1.5	6.8	4.3	3.8	5.5	-0.1	2.5	4 NEGATIVE
Slovakia	4.1	3.5	3.2	-1.3	-1.2	-1.4	-2.5	-1.6	-1.5	4.8	5.5	3.6	3 POSITIVE
Turkey	2.9	-1.5	2.6	-2.0	-3.3	-2.4	-3.3	-0.9	-1.6	7.5	3.0	4.2	5 STABLE
<b>Asia</b>													
China	6.6	6.2	5.9	-3.9	-4.3	-4.1	0.3	0.7	0.4	4.3	1.5	2.5	3 STABLE
India	7.4	6.5	7.1	-3.6	-3.2	-3.5	-2.4	-1.8	-2.2	10.6	3.8	6.0	4 NEGATIVE
Japan	0.8	1.0	0.2	-2.5	-2.8	-3.2	3.5	3.2	3.0	3.4	-2.1	1.9	3 POSITIVE
<b>Latin America</b>													
Brazil	1.1	0.5	1.9	-7.1	-6.8	-6.3	-0.8	-0.7	-0.4	3.4	2.6	2.7	5 POSITIVE
Mexico	2.0	0.5	1.6	-2.0	-2.2	-2.4	-1.8	-1.3	-1.6	5.6	1.0	1.5	4 NEGATIVE

<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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