Atradius
Managing risk, enabling trade

Economic Update

October 2016

Summary

Global

Lower for longer, still the case

The global economy is set to expand 2.4% in 2016, steady with the 2.6% growth seen in 2015. Global growth continues to be held back by low commodity prices, insufficient consumer demand in advanced markets, China's economic rebalancing, and uncertainty surrounding global monetary policy. Additionally, increasing political risk plays a role, e.g. the Brexit decision and the possible outcomes of the US presidential election next month and of the key elections in 2017 in other large developed markets. 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. All of these headwinds are expected to continue in 2017, leading to just a slight acceleration of growth to 2.8%.

The growth outlook for 2017 is partly supported by an expected gradual recovery in oil prices. Most recent forecasts from the US Energy Information Administration predict prices to stay steady at USD 45 per barrel of Brent until the end of 2016 and to rise through 2017 to USD 60 by the end of the year. A glimmer of hope comes from the announcement that OPEC members agree that they need to cut oil output to reduce the global supply glut. Prices rose 6% to nearly USD 49 in reaction to this news, but the outlook remains muted and uncertain, especially since the deal is not official: the difficult task of determining who will cut production and by how much will only be discussed in their next meeting on 30 November.

International trade also paints a rather gloomy picture. According to Netherlands Bureau of Policy Analysis (CPB) figures, the volume of global trade fell 0.8% in Q2 of 2016. Atradius now forecasts global trade to grow only 0.4% in 2016, and the outlook for 2017 is even more uncertain, given downside risks such as increasing protectionist measures, increasing trade policy uncertainty triggered by the Brexit decision and the outcome of the US presidential elections, and a slowdown in global value chain expansion.

Oil price

Brent, USD per barrel

Source: IHS

Eurozone

Economic growth forecasts

	2016	2017
Austria	1.3	1.2
Belgium	1.3	1.3
Finland	1.0	1.1
France	1.4	1.2
Germany	1.8	1.2
Greece	-0.7	0.9
Ireland	3.8	2.8
Italy	0.8	0.8
Netherlands	1.6	1.5
Portugal	1.0	1.2
Spain	3.0	2.1
Eurozone	1.5	1.3

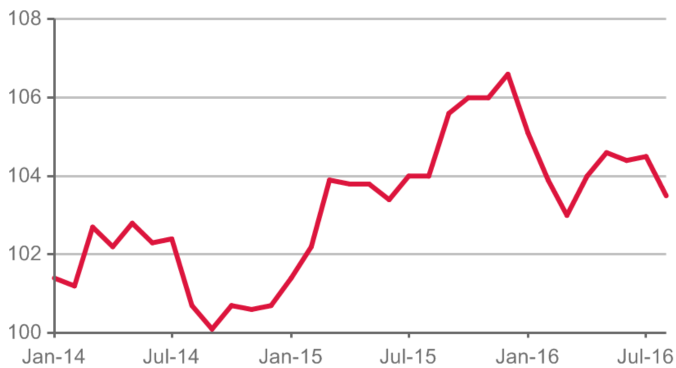
Source: Consensus Forecasts (Sep 2016)

Eurozone recovery steady but sentiment deteriorates

Loose monetary policy and an improving labour market are providing strong fundamentals for the economic recovery in the eurozone. However, the resilience of the rebound is showing signs of faltering. Last month, confidence in all sectors (except for construction) saw decreases in sentiment, according to the European Sentiment Index. New orders fell the fastest since February 2009, due to rising concerns of the Brexit impact and geopolitical developments at EU borders. Annual economic growth will stay muted at 1.5% and inflation remains stubbornly low (0.2%).

Across the monetary union, there remains divergence in performance. The largest economy, Germany, is losing some momentum as lower foreign demand is curbing 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 an upcoming referendum on major constitutional changes. 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, with key elections due to be held in in France and Germany next year.

European Sentiment Index



Sources: IHS, Eurostat

Advanced Markets

Economic growth forecasts

	2016	2017
United Kingdom	1.7	0.7
United States	1.5	2.3

Source: Consensus Forecasts (Sep 2016)

US and UK: steady growth but political uncertainty still on horizon

The US economy continues its path of steady but uneven growth. GDP expansion disappointed in H1 of 2016, weighed down by declines in investment (especially in the oil sector) as well as lower government spending and private inventories. Full year growth is forecast at a moderate 1.5%, but should pick up in 2017 due to many strengthening underlying trends. The labour market continues to tighten – unemployment stands below 5% and participation is increasing. Wage growth may have disappointed in August but this is likely due to seasonal factors. The improving labour market coupled with low inflation is still driving consumer spending, the main driver of the US economy. In this light, an interest rate hike is increasingly likely by the end of 2016. However, it will most likely come after the presidential elections in November, which could have negative effects on investment and policy stability.

In the United Kingdom, the economy has broadly stabilised after an initial post-referendum shock. Purchasing managers' indices have rebounded into optimistic territory. The manufacturing sector is seeing a boom in activity with rising output and new orders. According to CBI's September survey, manufacturers expect production to accelerate rapidly in the remainder of 2016. However, Brexit-related political and economic uncertainty will hamper business investment, especially from abroad, pulling down growth in 2017. Consumer spending is also expected to slow due to the lower purchasing power the weaker pound offers. A modest 0.7% GDP expansion is currently forecast for 2017.

Source: IHS

Emerging Markets

Economic growth forecasts

	2016	2017
Asia (excl. Japan)	5.7	5.6
Latin America	-0.3	2.2
Eastern Europe	1.3	2.3

Source: Consensus Forecasts (Sep 2016)

Emerging markets remain vulnerable

Emerging markets are still facing obstacles to growth in the form of low commodity prices, US monetary policy uncertainty, (geo-) political risk and concerns about domestic policymaking. The near-term outlook for emerging markets is increasingly diverse.

Emerging Asia will outpace other world regions in terms of GDP growth again this year, with 5.7% growth forecast. India's economy is leading this figure with 7.5% growth expected. The Chinese economy is forecast to grow 6.6%, compared to 6.9% in 2015. The slowdown is driven by a rebalancing toward services and consumption-led growth. The impact of Brexit on these markets is expected to be muted; however, the magnitude could increase if the situation in the eurozone sharply deteriorates. There is still the option of more monetary stimulus in Asian markets, but it seems that most countries want to keep their powder dry in the absence of a severe negative shock.

Oil exporters have experienced some relief from the modest recovery in oil prices. The recession in Russia is now forecast to be slightly lower(-0.8% currently forecast for 2016 instead of -1.2%). In the Middle East, some oil-dependent economies like Saudi Arabia and Oman are benefiting from the slight rebound in oil prices and domestic fiscal reforms addressing the structural vulnerability to low oil revenues. The 2017 outlook for the Middle East remains subdued largely due to ongoing geopolitical tensions and terrorism.

Latin American GDP is still forecast to contract 0.5% in 2016. While slightly higher commodity prices may have relieved some pressure on the region's commodity exporters, political uncertainties continue to cloud the outlook. The headline GDP figure is weighed down by Venezuela (-10.1%) and Brazil (-3.2%). Recessions are also still forecast for Argentina (-1.5%) and Ecuador (-2.3%).

Credit and insolvencies

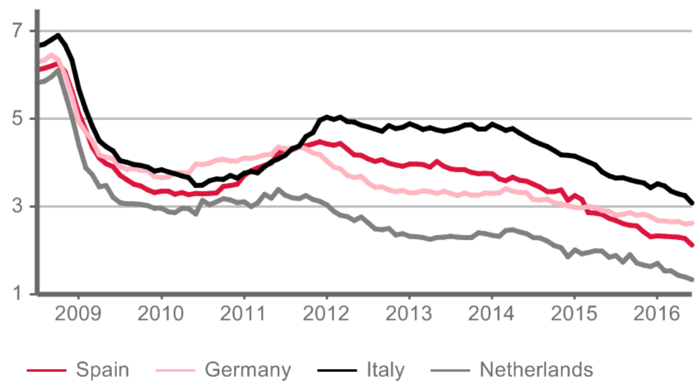
Insolvency outlook is increasingly cloudy

Credit conditions for businesses in the eurozone continue to ease, as evidenced by the latest bank lending survey from the ECB. Lending conditions eased most in Germany, Italy and France, while they remained unchanged in the Netherlands and Spain. However, lending to non-financial businesses has stagnated in August 2016, demonstrating the limited impact of the ECB's quantitative easing policy. Eurozone business are particularly worried about low productivity growth. Most of the increased bank lending is therefore directed at the household sector in the form of mortgage loans.

The insolvency outlook for 2016 has worsened, in line with the downward revisions of GDP forecasts in many advanced countries. Despite more favourable credit conditions, aggregate insolvencies across the eurozone are expected to decrease only 2% in 2016 and to see no improvement in 2017. Financial markets volatility and heightened uncertainty, partially related to Brexit, is weighing on business sentiment in many advanced markets. Atradius has flagged the Netherlands (forecast for 2016: -6% change in insolvencies compared to last year), Belgium (-5%) and Ireland (-3%) as the most vulnerable to those adverse developments, due to their close trade and investment ties with the UK. However, business environments and insolvency developments in other countries like Sweden (+1%), Finland (+5%) and Denmark (+4%) are also affected by the economic slowdown and lower demand from other European markets.

Credit conditions across most emerging markets (except for Asia-Pacific) continue to tighten as a result of increased global financial market uncertainty. Corporate bankruptcies will likely rise in many emerging markets, especially in those that depend on trade with China and/or commodity exports.

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[1]	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017		
Western markets														
Austria	0.9	1.3	1.2	-1.2	-1.6	-1.4	2.6	2.4	2.3	3.1	3.4	3.8	2	POSITIVE
Belgium	1.4	1.2	1.3	-2.6	-2.5	-2.6	0.0	1.2	1.1	2.7	4.5	5.1	2	STABLE
Finland	0.5	1.0	1.1	-2.7	-2.3	-2.8	0.3	0.6	2.5	-0.4	3.6	3.3	2	POSITIVE
France	1.2	1.4	1.2	-3.6	-2.8	-2.3	-0.2	-1.0	-1.1	5.5	1.8	4.2	2	STABLE
Germany	1.7	1.6	1.2	0.7	0.5	0.5	8.5	7.8	8.0	5.9	1.0	1.9	1	
Greece	-0.2	-1.0	0.7	-7.2	-2.2	-1.5	0.0	0.2	0.4	-8.6	-8.2	3.5	7	POSITIVE
Ireland	26.3	4.1	2.9	-1.8	-1.4	-1.1	10.2	10.5	8.5	21.2	6.2	4.1	3	NEGATIVE
Italy	0.8	0.8	0.8	-2.6	-2.5	-2.9	3.0	0.9	1.3	3.7	-0.4	2.7	4	STABLE
Netherlands	2.0	1.5	1.6	-1.9	-2.0	-1.5	8.6	8.3	11.2	2.2	2.8	6.5	1	
Portugal	1.5	1.0	1.2	-4.3	-2.6	-1.9	0.5	0.5	0.2	4.2	1.1	4.5	5	POSITIVE
Spain	3.2	2.9	2.0	-5.1	-4.3	-3.5	1.4	1.2	0.7	5.8	4.3	5.2	4	POSITIVE
Eurozone	1.6	1.5	1.2	-2.0	-1.7	-1.5	4.0	3.3	3.6	6.2	2.3	2.5		
Australia	2.5	2.9	2.7	-3.2	-3.3	-1.0	-4.6	-3.5	-3.0	-3.3	1.3	4.9	1	
Canada	1.1	1.2	2.1	-1.3	-1.8	-1.2	-3.2	-3.0	-2.1	0.1	-1.6	3.9	1	
Denmark	1.2	1.1	1.6	-1.4	-1.4	-1.3	7.1	7.6	8.4	2.0	3.0	8.7	1	
Norway	1.0	0.8	1.6	5.7	2.5	3.9	8.0	5.6	7.4	-4.2	-6.2	7.4	1	
Sweden	4.2	3.5	2.3	0.0	-0.4	-0.6	5.9	6.6	6.1	7.2	1.9	4.3	1	
Switzerland	0.9	1.0	1.4	-0.2	-0.3	-0.2	11.3	9.2	8.4	-3.4	4.9	3.9	1	
United Kingdom	2.2	1.6	0.6	-4.7	-4.0	-4.3	-5.4	-5.8	-3.9	-0.4	3.1	8.0	2	STABLE
USA	2.6	1.5	2.3	-3.5	-3.9	-3.5	-2.6	-2.4	-2.2	-3.8	-1.7	5.1	1	
Central and Eastern Europe														
Czech Republic	4.3	2.4	2.5	-0.4	-0.7	-1.2	0.9	0.8	-0.1	6.0	3.7	5.0	3	STABLE
Hungary	2.9	1.9	2.5	-2.0	-2.1	-2.5	4.4	4.4	3.5	8.2	2.1	7.8	5	POSITIVE
Poland	3.6	3.3	3.3	-2.6	-3.1	-3.3	-0.3	-1.0	-1.3	8.3	4.3	4.0	3	NEGATIVE
Russia	-3.7	-0.8	1.2	-3.9	-4.6	-4.3	5.2	2.3	2.4	11.4	9.7	3.4	5	POSITIVE
Slovakia	3.6	3.1	3.0	-3.0	-2.4	-2.0	-1.3	-0.5	0.2	5.5	2.0	5.1	3	POSITIVE
Turkey	4.0	3.3	3.2	-1.2	-2.3	-3.4	-4.5	-5.3	-4.8	11.7	6.4	8.7	5	STABLE
Asia														
China	6.9	6.6	6.3	-3.5	-4.2	-4.2	3.1	3.4	4.9	1.8	7.5	6.5	3	STABLE
India	7.6	7.5	7.6	-7.2	-6.0	-4.9	-1.1	-1.3	-1.8	-4.2	10.2	8.9	4	NEGATIVE
Japan	0.6	0.5	0.8	-5.3	-6.6	-6.9	3.3	3.6	3.2	3.5	-9.8	4.3	3	POSITIVE
Latin America														
Brazil	-3.8	-3.2	1.0	-10.3	-9.8	-9.4	-3.3	-1.3	-2.1	20.3	18.4	9.6	5	POSITIVE
Mexico	2.5	2.2	2.6	-3.5	-3.3	-3.0	-2.8	-2.2	-2.1	14.9	10.2	-0.1	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.

Sources: Consensus Economics, IHS, National accounts, Atradius Economic Research

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