Atradius
Managing risk, enabling trade

Economic Update

January 2016

Summary

2 **Global** – The world economy is expected to have grown 2.6% in 2015, led by Asia. Oil prices continued to fall while international trade growth disappointed again.

3 **Eurozone** – The eurozone closed 2015 with steady growth but low inflation. Weak employment data forced the ECB to expand its monetary stimulus programme in December.

4 **Advanced Markets** – Consumer spending continued to drive the steady economic growth in the US and UK.

5 **Emerging Markets** – China's slowdown remains a major concern for the 2016 growth outlook, but Asia-Pacific will remain the driver of global economic growth.

6 **Credit and insolvencies** – Easing credit conditions in Europe are improving the insolvency environment but the opposite is occurring in emerging markets.

7 **Table: Macroeconomic indicators for key markets**

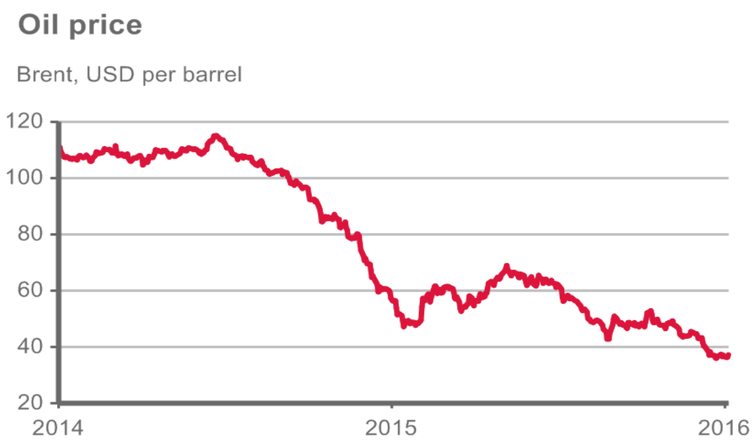
Global

Moderate growth expected in 2016 with rising uncertainties

Global growth in 2015 was 2.6%, led by Asia-Pacific. Overall, however, emerging markets as a whole performed disappointingly in 2015. In contrast, estimates suggest that advanced markets – the Eurozone, the US and the UK – all finished off 2015 relatively strongly. Domestic demand and consumer spending have driven growth in these markets. The global economy is forecast to expand 2.8% in 2016.

The oil price has dropped to below USD 35 for a barrel of Brent crude, and prices are expected stay low in 2016: the US Energy Information Administration (EIA) forecasts it to reach USD 57 by year-end, but this may turn out to be too optimistic. On the supply side, the potential reintroduction of Iranian oil in the world market could keep prices even lower in 2016. On the demand side, persistent low demand from China will also drag on prices.

Global trade growth disappointed again: the CPB (Netherlands Bureau for Economic Policy Analysis) recorded 2.7% growth y-o-y in October 2015 in trade volumes, down from 3.1% in 2014. While progress is being made on regional trade deals like TPP, the stalled Doha Round of global trade negotiations was effectively ended at the WTO’s December meeting.



Source: IHS

Eurozone

Economic growth forecasts

	2015	2016
Eurozone	1.5	1.7
Germany	1.7	1.8
Austria	0.8	1.4
Ireland	5.9	4.0
Belgium	1.3	1.4
Finland	0.0	0.7
France	1.1	1.4
Netherlands	2.0	1.8
Italy	0.8	1.3
Spain	3.2	2.7
Portugal	1.5	1.6
Greece	-0.5	-1.2

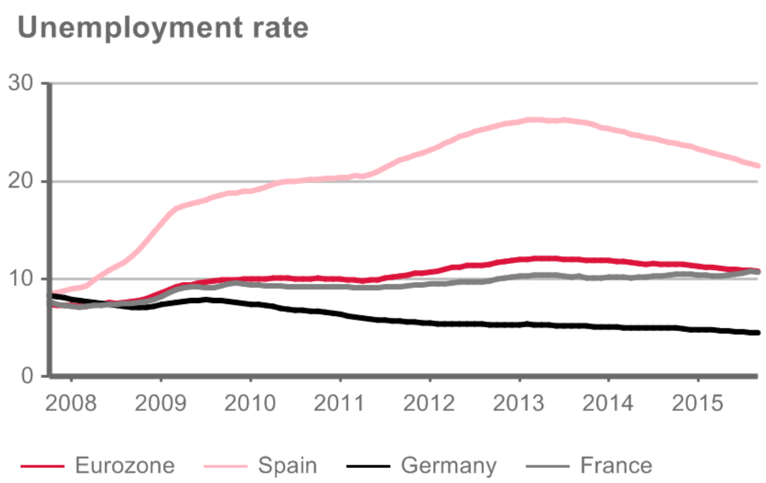
Source: Consensus Economics, December 2015

Eurozone recovery on track

The eurozone expanded 1.6% year-on-year in Q3 of 2015, steady with Q2 expansion, mainly driven by rising inventories and household spending. Although down slightly, the Markit's PMI for the eurozone was 54, solidly above the 50 growth-threshold. In Q4 of 2015 the highest quarterly growth since more than four years was recorded, with both services and manufacturing growth speeding up.

The eurozone is expected to have grown 1.5% in 2015, with Ireland, Germany, the Netherlands and Spain recording robust growth rates. While aggregate unemployment remains high (10.7%) hiring is finally picking up, indicating growing business confidence. With 1.7% the eurozone economy is expected to expand at a slightly higher pace in 2016.

Euro area inflation increased in November 2015 to 0.2% year-on-year, up from 0.1% the previous month, but remains well below the 2% target set by the European Central Bank (ECB). With inflation and employment data continuing to disappoint, the ECB cut its key interest rate further and extended the length of its bond-buying programme in its December meeting.



Source: IHS

Advanced Markets

Economic growth forecasts

	2015	2016
United States	2.5	2.5
United Kingdom	2.4	2.3

Source: Consensus Economics, December 2015

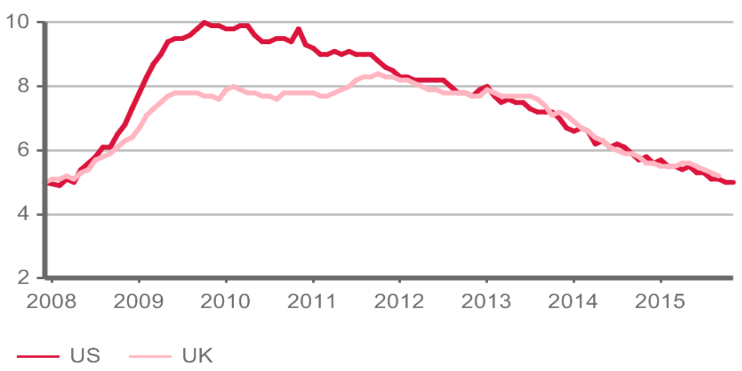
US and UK expansions led by consumers in 2015

Annualised US GDP growth estimates for Q3 of 2015 have been revised up, from 1.5% to 2%. This trend is expected to have continued into Q4 of 2015, driven by consumer demand as employment is rising steadily and wages finally showing signs of growth. However, the strong US dollar and weak external demand are weighing on net exports, restraining higher GDP growth. Economic growth is expected to increase 2.5% in 2016, still driven by domestic consumption.

In December 2015, the US Federal Reserve (Fed) finally raised interest rates - for the first time in nearly a decade. This was motivated by consistently strong employment data which the Fed predicts will translate into rising inflation and wages. The big question now is the pace of further rate rises: a Financial Times poll of top economists predicts rates to increase from the current 0.25% to 1% by the end of 2016.

The UK appears to not have finished the year off as strongly as the US did. Markit's December manufacturing PMI fell to 51.9. While still indicating expansion in the sector, this is disappointingly low and suggests 2016 will be another difficult year for the British manufacturing. The sector is also negatively affected by a strong pound, weakening export competitiveness. Despite weaker manufacturing output and the widening trade deficit, the UK's economic expansion remains steady, also driven by household consumption.

Unemployment rate



Source: IHS

Emerging Markets

Economic growth forecasts	2015	2016
Asia (excl. Japan)	5.8	5.7
Latin America	-1.0	-0.1
Eastern Europe	-0.1	1.7

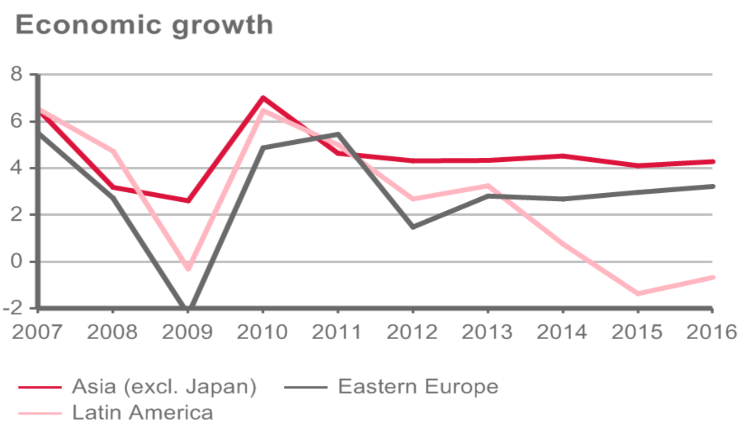
Source: Consensus Economics, December 2015

China causes uncertainty, but 2016 looks better for emerging markets

In 2015, currency volatility was felt in many emerging markets as a result of US monetary policy, weak commodity prices and devaluations of the Chinese renminbi. While most of the impact has already been absorbed, many firms in emerging markets will continue to struggle in 2016 to pay back foreign-currency debts.

China's economy remains a major concern and source of uncertainty for the global economy in 2016. For the tenth straight month in a row, China's December PMI was below 50, indicating a contraction in activity. As concerns mount regarding the country's economic outlook and currency, the Chinese stock market plummeted twice already in January 2016.

Despite China's slowdown, the Asia-Pacific region still led global growth. Latin American headline figures were weighed down by recessions in Brazil and Venezuela, while recessions in Ukraine and Russia brought down the Eastern European aggregate. In 2016 Eastern Europe is forecast to return to growth, with Ukraine finally rebounding while Russia's economy stagnates. With an expected 5.7% expansion emerging Asia will continue to drive global GDP growth in 2016, with India leading the bunch.



Source: IHS

Credit and insolvencies

European credit easing continues, insolvencies to fall further in 2016

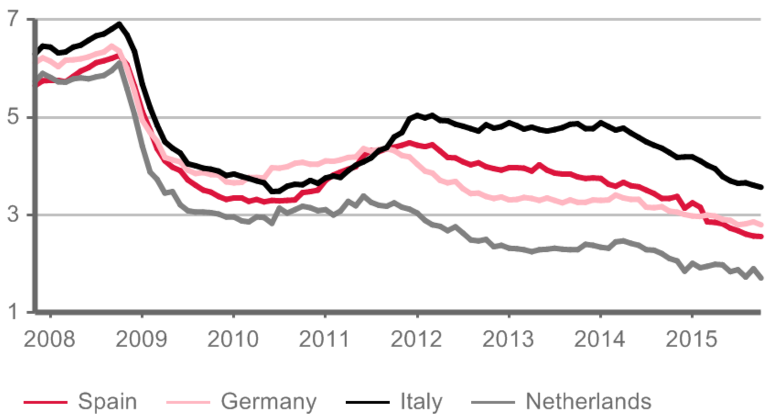
Interest rates charged by European banks on company loans continued to decrease in Q3 of 2015, especially in Spain and Italy. Credit conditions have eased further following the European Central Bank's (ECB) decision in early December 2015 to expand its asset-buying programme. The pace of annual credit growth to the private sector increased in November 2015 compared to October, and grew 1.2% year-on-year.

In Q3 of 2015 business insolvencies in the eurozone decreased 10% year-on-year. Italy and the Netherlands recorded the largest decreases, with 27% and 32% respectively. However, Portugal saw a large rise in business failures. Atradius forecasts a continuation of improving business conditions, with an aggregate 5% decrease in insolvencies in 2016.

Despite the beginning of the monetary tightening cycle US business insolvencies are expected to decline further in 2016, but only by 4%. The UK should also see a very modest improvement of 2% in 2016.

In many emerging markets bank lending conditions tightened and non-performing loans increased in Q3 of 2015, a trend that likely continued in Q4. In 2016, uncertainty about the timing and size of additional US interest rate hikes may drive further tightening. Compounded by poor economic performance, insolvencies are expected to increase significantly in Brazil, Russia and South Africa.

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]	
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016		
Western markets														
Austria	0.4	0.7	1.7	-2.6	-2.0	-2.6	2.0	2.4	2.6	2.1	2.9	5.6	2	POSITIVE
Belgium	1.3	1.4	1.6	-3.2	-2.7	-2.2	0.0	0.4	0.6	2.7	1.8	6.4	2	NEGATIVE
Finland	-0.4	-0.1	0.9	-3.3	-3.0	-2.8	-1.0	-1.2	-0.5	-1.5	-1.8	4.1	2	POSITIVE
France	0.2	1.1	1.2	-4.0	-3.7	-3.3	-0.9	-0.3	-0.6	1.4	6.3	4.6	2	NEGATIVE
Germany	1.6	1.5	2.0	0.3	0.5	0.1	7.5	8.6	8.9	3.7	6.6	5.9	2	POSITIVE
Greece	0.7	-0.2	-0.2	-4.4	-3.2	-2.8	-2.1	-0.7	0.3	7.0	-4.1	-1.1	7	POSITIVE
Ireland	5.2	6.2	3.9	-4.0	-1.7	-1.1	3.7	5.3	3.7	12.5	10.3	4.2	4	POSITIVE
Italy	-0.4	0.7	1.0	-3.0	-2.8	-2.7	2.2	2.4	1.8	2.1	3.4	3.2	4	POSITIVE
Netherlands	1.0	1.9	1.7	-2.2	-2.0	-1.6	10.8	10.4	10.8	2.2	1.5	5.8	2	POSITIVE
Portugal	0.9	1.5	1.4	-4.5	-3.1	-3.0	0.5	0.8	0.4	3.0	3.8	4.3	5	POSITIVE
Spain	1.4	3.2	2.7	-5.9	-4.7	-3.3	0.9	1.2	1.3	2.4	5.9	5.9	4	POSITIVE
Eurozone	0.9	1.5	1.7	-2.5	-2.1	-1.9	3.6	3.7	3.7	4.0	4.9	3.8		
Australia	2.6	2.3	2.1	-2.5	-2.3	-1.8	-3.0	-3.6	-3.4	2.8	-2.7	5.4	2	POSITIVE
Canada	2.5	1.2	1.7	-0.5	-1.3	-0.2	-2.3	-3.3	-2.2	9.2	-1.2	6.8	2	POSITIVE
Denmark	1.3	1.3	1.4	1.2	-2.6	-1.7	7.8	9.0	8.9	0.4	4.0	6.0	2	POSITIVE
Norway	2.2	2.0	1.1	9.1	6.5	6.4	8.5	7.0	9.0	1.2	-2.9	6.2	1	
Sweden	2.4	3.3	2.3	-1.9	-1.0	-0.5	6.3	7.1	6.8	5.7	6.0	4.3	2	POSITIVE
Switzerland	1.9	0.7	1.1	0.2	0.2	0.0	7.3	10.1	9.3	2.1	-2.4	3.5	1	
UK	2.9	2.4	2.4	-5.4	-3.8	-2.7	-5.1	-4.4	-4.4	-1.7	1.8	5.4	2	STABLE
USA	2.4	2.5	2.7	-3.8	-3.3	-3.6	-2.2	-2.6	-2.3	3.5	-2.5	4.7	2	POSITIVE
Central and Eastern Europe														
Czech republic	2.0	4.4	2.7	-2.0	-1.8	-1.5	0.6	1.1	0.0	13.4	7.5	5.4	3	STABLE
Hungary	3.6	2.7	2.4	-2.5	-2.7	-2.6	2.3	4.7	4.4	9.7	6.5	9.8	5	POSITIVE
Poland	3.3	3.5	3.8	-1.7	-3.0	-2.8	-2.0	-0.9	-2.0	5.8	5.8	5.6	3	NEGATIVE
Russia	0.6	-4.0	-0.5	-0.9	-5.6	-3.2	3.0	5.0	2.6	13.0	16.6	-9.1	5	POSITIVE
Slovakia	2.5	3.4	3.4	-2.8	-2.7	-1.9	0.1	-1.0	-0.2	1.1	4.3	6.3	3	STABLE
Turkey	2.9	2.5	2.2	-1.3	-2.2	-3.1	-5.8	-4.4	-5.5	21.0	9.5	9.9	5	STABLE
Asia														
China	7.3	6.9	6.3	-1.8	-1.4	-1.4	2.1	3.9	3.9	4.4	4.1	14.5	3	STABLE
India	7.3	7.3	7.6	-6.9	-8.1	-5.8	-1.3	-1.4	-2.2	2.2	6.3	12.9	4	NEGATIVE
Japan	-0.1	0.7	1.0	-4.7	-5.5	-5.6	0.6	3.1	2.9	11.4	5.3	8.8	3	POSITIVE
Latin America														
Brazil	0.1	-3.6	-2.4	-6.0	-9.3	-8.0	-4.3	-3.6	-3.1	2.6	28.9	7.1	4	NEGATIVE
Mexico	2.3	2.4	2.3	-3.3	-3.0	-2.7	-1.9	-2.8	-2.2	9.1	10.8	7.9	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: IHS, National accounts, Atradius Economic Research

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