



Economic Update

February 2017

Summary

- 2 **Global** – Global economic growth is forecast to expand 2.8% in 2017, up from 2.5% last year.
- 3 **Eurozone** – Eurozone GDP growth is forecast to moderate slightly this year, held back by structural issues and increasing political uncertainty.
- 4 **Advanced Markets** – President Donald Trump’s envisaged fiscal stimulus is likely to increase US GDP growth in 2017, but political uncertainty is likely to dampen 2017 growth in the UK.
- 5 **Emerging Markets** – A number of key emerging markets are expected to emerge from recession in 2017. However, the Trump presidency poses significant downward risks to some emerging markets through trade and tighter financing.
- 6 **Credit and insolvencies** – The corporate insolvency environment is forecast to remain subdued in 2017, especially in the UK and the Eurozone, triggered by rising uncertainty surrounding Brexit. Political uncertainty and US monetary policy tightening will weigh on the business environment in many emerging markets.
- 7 **Table: Macroeconomic indicators for key markets**

Global

Political uncertainty in advanced markets on the radar for 2017

The global economy is forecast to expand 2.8% in 2017, up from the 2.5% estimated in 2016. The acceleration is as a result of an anticipated emergence of large emerging markets such as Brazil, Argentina and Russia from recession. Developed markets are facing a mixed outlook for 2017 though. GDP growth is forecast to pick up in the US, and the eurozone is forecast to see another year of weak recovery while the UK slows. Political uncertainty has increased across advanced markets due to the Brexit decision, the election of Donald Trump and the outcome of the Italian constitutional referendum. More tests will come this year with elections in several European countries. The net effect of this heightened uncertainty is negative for global GDP growth as business investment is postponed and international trade could slow down further.

Protectionism and anti-trade policies are a major concern amidst this political uncertainty, making the outlook for international trade in 2017 very uncertain. To highlight this, the World Trade Organisation (WTO) forecasts trade growth in 2017 to fall in a range of 1.8% to 3.1%.

Oil prices on the other hand have largely stabilised around USD 55 per barrel of Brent. This has been supported by the implementation of a production cut by OPEC and 11 other non-OPEC producers including Russia. The US Energy Information Administration (EIA) forecasts the oil price to hold steady in 2017, averaging USD 53 per barrel.

Oil price

Brent, USD per barrel



Source: IHS

Eurozone

Economic growth forecasts

	2017	2018
Austria	1.4	1.4
Belgium	1.4	1.6
Finland	1.3	1.3
France	1.3	1.4
Germany	1.3	1.5
Greece	1.7	1.9
Ireland	3.3	3.1
Italy	0.7	0.9
Netherlands	1.7	1.6
Portugal	1.5	1.3
Spain	2.4	2.0
Eurozone	1.4	1.5

Source: Consensus Forecasts (Jan 2017)

Eurozone recovery still very weak

The economic recovery in the eurozone remains very fragile – slowing down slightly to 1.4% in 2017 from 1.6% in 2016. Political uncertainty is expected to weaken investor confidence and GDP growth due to upcoming elections in the Netherlands, France and Germany, and potentially a snap election in Italy. Negotiations between the UK and the EU should also begin this year, which further heightens uncertainty. Structural issues like a very weak banking sector, debt overhang and low productivity growth also continue to suppress the growth outlook. In spite of this, business and consumer confidence have risen to levels unseen since Spring 2011, just before the eurozone debt crisis. Consumer sentiment continues to be supported by low oil prices, monetary policy easing and employment growth. Industry has also become more optimistic due to increasing global GDP prospects which support a recovery in manufacturing. Uncertainty surrounding protectionist trade policies and Brexit negotiations, however, threaten to weigh on exports and investment weighing on sentiment so it is likely that this confidence boost may wane through the year.

Inflation in the eurozone has reached the central bank’s (ECB) target of just below 2%. The January reading showed prices rose 1.8% compared to January 2016, the highest year-on-year jump since early 2013. However, this is not likely to be sustained since it is primarily due to energy base effects. Price pressure in the eurozone remains quite weak. While domestic demand has been increasing, unemployment is still at 9.6% and higher inflation and elevated uncertainty could dampen spending in the coming months. At this point, it does not appear likely that the ECB will shorten its stimulus programme that is scheduled to continue until the end of 2017.

European Sentiment Index



Sources: IHS, Eurostat

Advanced Markets

US and UK: diverging outlooks for consumers

Economic growth forecasts		
	2017	2018
United Kingdom	1.4	1.4
United States	2.3	2.3

Source: Consensus Forecasts (Jan 2017)

Economic growth in the United States is expected to pick up to 2.3% in 2017 compared to 1.6% last year. 2016 growth was lower than initially expected as a result of the drag on investment due to lower energy prices, the appreciation of the US dollar, and declines in inventories. These effects however will mostly phase out this year. The US growth forecast for 2017 has increased further due to the expected fiscal stimulus and tax cuts proposed by the new president, Donald Trump. The US market remains one of the most dynamic in the world with robust private consumption, which accounts for more than two-thirds of economic activity. This will be supported again in 2017 thanks to a tightening labour market. The participation rate is more or less unchanged at 62.7% while unemployment is low at only 4.7% and wages grew 2.9% y-o-y in December, the fastest pace since 2009. This supports the Federal Reserve's monetary tightening schedule and we expect to see another two to three additional rate hikes in 2017.

The outlook for the British economy has become more uncertain following the vote on the Brexit referendum in June 2016. The economy has been more resilient than expected with 2% growth experienced in 2016, only a modest slowdown from the 2.2% expansion in 2015. Consumer spending has been the engine of growth in the UK, supported by relatively high employment as well. The outlook for 2017 is however weaker. The weak British pound is putting upward pressure on prices and uncertainty surrounding the UK's future relationship with the EU is weighing on investment spending. These developments will likely cause firms to slow hiring and wage growth while inflation makes consumer goods relatively more expensive, both hurting constraining consumer spending and weighing on GDP growth.

Unemployment rate



Source: IHS

Emerging Markets

Emerging markets to see modest recovery in 2017

Economic growth forecasts		
	2017	2018
Asia (excl. Japan)	5.6	5.5
Latin America	1.8	2.7
Eastern Europe	2.2	2.5

Source: Consensus Forecasts (Jan 2017)

In 2017, modest recoveries are expected for most emerging markets, though prospects remain diverse across countries and regions. Latin America and Eastern Europe are expected to see improving growth figures this year, as a number of major markets (Russia, Brazil, Argentina) emerge from recession.

Emerging Asia is expected to uphold its growth rate, fuelled by high growth in India in particular, despite slowdowns in other markets. China's economy is forecast to grow 6.4% this year, down from 6.7% in 2016. GDP growth is expected to slow further in the medium-term due to decelerating investment and industrial activity. A hard landing is still not likely, at least in the short-term, as the Chinese authorities have gained credibility in using monetary and fiscal policy to maintain growth within a 6% to 6.5% range. However, with debt continuing to rise rapidly and significant excess capacity in heavy industries, the risks surrounding this baseline scenario are considerable.

In Latin America, Brazil and Argentina will exit recession (1.2% and 3.1% GDP growth respectively) thanks to a return to orthodox and market-friendly policies. Venezuela will continue to suffer from a deep economic crisis and domestic political turmoil. Its economy is forecast to contract by 3.2% this year after a plunge of 10.3% in 2016.

In Eastern Europe, the outlook for Russia has improved due to a recovery in oil prices. GDP growth is expected to reach 1.1% in 2017 after a contraction of 0.6% last year. However, the medium-term outlook for Russia is still subdued due to structural weaknesses and the negative impact of sanctions on productivity and investment.

US President Trump's plans to boost infrastructure spending could be beneficial for countries exporting commodities, especially construction inputs like iron and steel. However, the expected shift in economic policy under the new US administration is likely to be negative for emerging markets. Especially a quicker-than-expected monetary policy tightening cycle accompanying fiscal stimulus in the US could hurt emerging markets in 2017, particularly those countries with high external vulnerabilities. Protectionist policies could also weigh on growth in countries that send a large share of their exports to the US (especially in Central and Latin America, especially Mexico).

Credit and insolvencies

Subdued insolvency outlook

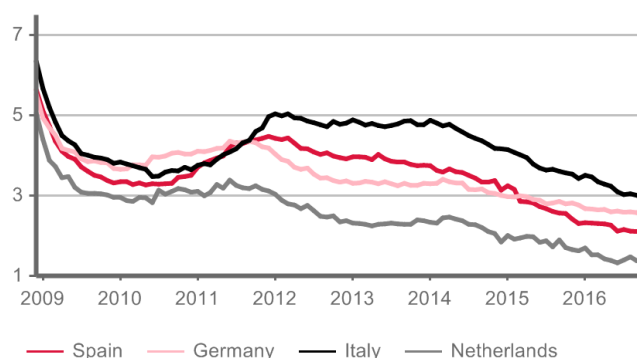
Credit standards for corporate loans in the eurozone tightened slightly in Q4 of 2016, the first tightening since Q4 of 2013. Banks have gotten more risk-wary especially as very low interest rates eat into bank profits. The outlook for Q1 of 2017 however is another net easing in credit standards, supported by strengthening capital positions in most banks. Demand for loans continues to grow, supported by lower interest rates. Thus, credit conditions should support the European business environment in 2017.

The 2017 outlook for insolvencies in the eurozone remains stable. We forecast only a -0.5% change in corporate bankruptcies. Insolvencies are expected to be flat in Germany, Austria and Portugal. The Netherlands is forecast to see only a 3% drop in insolvencies after several years of double-digit declines and France is expected to see a 2% increase. Elsewhere in Europe, higher uncertainty is contributing to rising insolvency forecasts. The UK is expected to experience a 4% uptick in business failures as the outlook weakens which will likely spillover into Ireland due to close economic ties.

A stronger outlook for commodity prices is improving the insolvency outlook for many economies with large natural resource sectors. Across developed markets, this will aid businesses in the US, Norway, and Canada. It is also a positive development for many emerging markets which depend more strongly on commodity prices. However, 2017 is likely to be another difficult year for business in emerging markets.

Credit conditions have continued to worsen in Q4 of 2016 according to the Institute of International Finance's latest EM Bank Lending Conditions Survey. This is driven by heightened political uncertainty this year and the prospect of tighter monetary policy in the US. Thus, despite the emergence from recession in some countries, we expect insolvencies to increase again in 2017 in emerging markets.

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	
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018		
Western markets														
Austria	1.5	1.4	1.4	-1.6	-1.2	-0.8	2.9	2.7	3.1	2.2	4.2	4.4	2	POSITIVE
Belgium	1.3	1.4	1.6	-2.7	-2.4	-2.2	0.8	0.2	0.1	2.4	4.1	4.6	2	STABLE
Finland	1.2	1.3	1.3	-2.4	-2.5	-2.9	-0.5	-0.1	-0.3	2.2	3.6	2.9	2	POSITIVE
France	1.2	1.3	1.4	-3.3	-3.0	-2.9	-1.0	-1.1	-1.1	-0.6	1.9	3.7	2	STABLE
Germany	1.8	1.3	1.5	0.6	0.5	0.5	9.0	9.0	8.8	2.0	3.3	3.8	1	
Greece	0.1	1.7	1.9	-0.6	-2.1	-0.8	-0.8	-0.9	-0.7	-8.6	3.3	4.8	7	POSITIVE
Ireland	3.8	3.3	3.1	-1.0	-0.8	-0.1	11.6	11.6	8.7	5.8	6.9	6.8	3	NEGATIVE
Italy	0.9	0.7	0.9	-2.5	-3.8	-2.7	0.7	1.2	1.1	0.8	3.2	3.4	4	STABLE
Netherlands	2.1	1.7	1.6	-1.0	-1.3	-1.3	8.3	11.6	15.8	2.6	7.8	6.3	1	
Portugal	1.2	1.5	1.3	-2.5	-1.6	-1.6	0.3	0.0	-0.3	1.7	5.5	4.5	5	POSITIVE
Spain	3.2	2.4	2.0	-4.7	-3.7	-3.3	1.6	1.2	1.3	4.7	4.7	5.2	4	POSITIVE
Eurozone	1.6	1.4	1.5	-1.8	-1.9	-1.6	3.3	3.5	3.8	2.7	2.5	2.9		
Australia	2.4	2.5	2.8	-1.6	-0.8	-0.4	-3.1	-2.7	-3.6	2.0	6.6	2.1	1	
Canada	1.3	2.0	2.0	-1.7	-1.5	-1.2	-3.3	-2.1	-2.2	-0.5	4.4	2.7	1	
Denmark	1.0	1.4	1.4	-1.2	-0.9	-0.9	7.5	7.0	6.5	2.4	9.8	7.2	1	
Norway	0.7	1.5	1.9	2.6	4.1	5.2	5.1	8.0	8.6	-6.2	6.7	4.0	1	
Sweden	3.2	2.3	2.1	-0.2	-0.5	-0.2	4.6	4.8	3.9	-1.2	3.0	4.0	1	
Switzerland	1.4	1.5	1.7	0.3	-0.2	-0.1	8.5	7.2	6.9	3.6	3.0	3.9	1	
United Kingdom	2.0	1.4	1.4	-3.7	-3.6	-2.7	-5.6	-4.0	-3.5	2.5	6.0	4.9	2	STABLE
USA	1.6	2.3	2.3	-3.9	-3.5	-4.0	-2.6	-2.1	-2.3	-1.9	5.2	5.6	1	
Central and Eastern Europe														
Czech Republic	2.4	2.5	2.6	0.0	-1.0	-0.8	1.7	-0.3	-1.3	3.7	4.6	4.9	3	POSITIVE
Hungary	2.0	2.9	2.9	-2.0	-2.5	-2.8	4.6	4.0	3.5	9.1	10.1	8.7	5	POSITIVE
Poland	2.7	3.0	3.2	-3.0	-3.4	-3.6	-1.0	-2.2	-3.1	9.4	4.6	5.4	3	NEGATIVE
Russia	-0.6	1.1	1.5	-4.0	-3.4	-2.7	2.0	3.0	2.8	-4.0	15.5	-2.8	5	POSITIVE
Slovakia	3.4	3.1	3.4	-2.1	-2.0	-1.5	-0.6	0.0	0.7	4.0	4.9	6.7	3	POSITIVE
Turkey	2.3	2.3	3.0	-3.4	-5.8	-5.6	-4.0	-5.1	-5.3	5.3	15.8	10.4	5	STABLE
Asia														
China	6.7	6.4	6.1	-4.2	-4.2	-4.0	3.0	4.9	3.4	5.1	8.4	9.1	3	STABLE
India	6.8	7.5	7.7	-6.3	-6.0	-5.5	-0.6	-1.0	-1.8	12.9	8.6	19.6	4	NEGATIVE
Japan	0.9	1.1	0.9	-4.9	-4.9	-5.0	3.8	4.0	4.0	-10.5	1.9	8.9	3	POSITIVE
Latin America														
Brazil	-3.4	0.8	0.0	-8.7	-8.8	-6.5	-1.1	-1.5	-1.4	11.5	8.6	8.2	5	POSITIVE
Mexico	2.0	1.7	0.0	-3.3	-2.6	-2.0	-2.3	0.7	0.2	10.6	-1.1	0.7	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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