



Economic Update

June 2016

Summary

- 2 **Global** – World GDP is forecast to grow only 2.4% in 2016, weighed down by emerging market weakness and increasing uncertainty.
- 3 **Eurozone** – The modest eurozone recovery is expected to continue with 1.6% growth this year, but risks are increasing, stemming from geopolitical events and weakening external environment.
- 4 **Advanced Markets** – Momentum is waning in both the US and UK, driven by weaker external conditions and deteriorating economic sentiment. 1.8% and 1.9% growth respectively is forecast for 2016.
- 5 **Emerging Markets** – The effects of low oil prices, the slowdown in China and tighter financing conditions continue to weigh on prospects for many emerging markets this year.
- 6 **Credit and insolvencies** – Credit conditions are loosening further in most advanced economies while tightening in emerging economies. The insolvency outlook for 2016 has weakened for advanced markets while remaining poor for major emerging markets.
- 7 **Table: Macroeconomic indicators for key markets**

Global

Global growth weakening

The world economy is now forecast to expand only 2.4% this year, down from a moderate 2.6% seen in 2015. The protracted fall in commodity prices, slowdown of China's economy, and most importantly US monetary policy uncertainty have fuelled a recent bout of volatility in the international financial markets. Though the latter has abated, uncertainty is up, increasingly weighing on the previously more robust recoveries in advanced markets across Europe and North America.

Oil prices have continued a gradual recovery through May, reaching USD 50 per barrel Brent. It appeared as though the global supply glut may finally be reducing: North American production is declining, supply from Iraq and Nigeria has been disrupted, and, Russia and Saudi Arabia had previously been rumoured to have agreed to freeze output. But it is unlikely that the rally will continue and we expect lower for longer prices still. More US shale producers find it profitable to produce at these current prices and, as demonstrated in the most recent OPEC meeting in Doha, there is still significant risk of oversupply as major oil producers seek to retain market share.

World trade growth is expected to remain muted. The WTO has revised down its forecast for growth in the volume of trade in 2015 to 2.8%. Atradius forecasts a more modest 2.5% expansion. The main reason for this is our assessment of the impact of the transition of China from an industrial to a services-based economy while growth slows.

Oil price

Brent, USD per barrel



Source: IHS

Eurozone

Economic growth forecasts		
	2016	2017
Austria	1.3	1.5
Belgium	1.3	1.6
Finland		
France	1.3	1.5
Germany	1.6	1.5
Greece	-1.0	1.2
Ireland	4.9	3.7
Italy	1.1	1.2
Netherlands	1.5	1.7
Portugal	1.3	1.6
Spain	2.7	2.3
Eurozone	1.6	1.6

Source: Consensus Forecasts (May 2016)

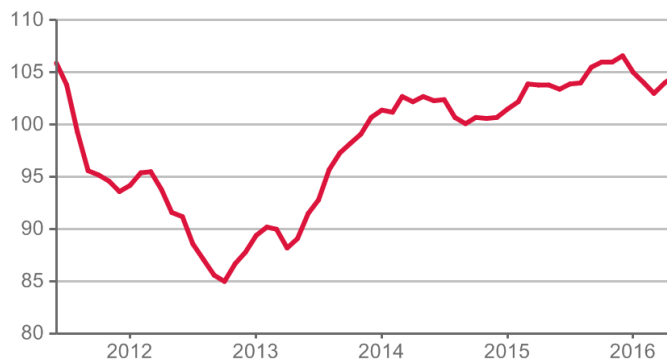
Eurozone recovery remains fragile but sentiment improving

2016 has proven how fragile the eurozone recovery remains. GDP growth for the region rose 1.5% last year, thanks to the improving labour market, low oil prices, and ultra-loose monetary policy, all contributing to rising business investment and domestic demand. The soft euro also helped boost foreign demand. But global risks – as well as domestic risks stemming from rising uncertainty surrounding the UK’s EU membership referendum and increasing security concerns related to Middle East tensions – have risen. Economic growth is now expected to stay relatively flat at 1.6% in 2016.

In order to address the waning economic outlook and avert deflation, the European Central Bank (ECB) cut interest rates to zero and expanded its expansionary monetary policy. Inflation fell to -0.2% year-on-year in April 2016. The ECB has indicated that it will put further stimulus on hold as it works on implementing the existing stimulus.

Expectations, however, are still increasing, be it gradually. The European Commission’s economic sentiment index rose again in May to 104.7, with consumers and business managers becoming more optimistic over the general future of the eurozone economy.

Economic sentiment index



Source: IHS, European Commission

Advanced Markets

Economic growth forecasts		
	2016	2017
United Kingdom	1.9	2.2
United States	1.8	2.3

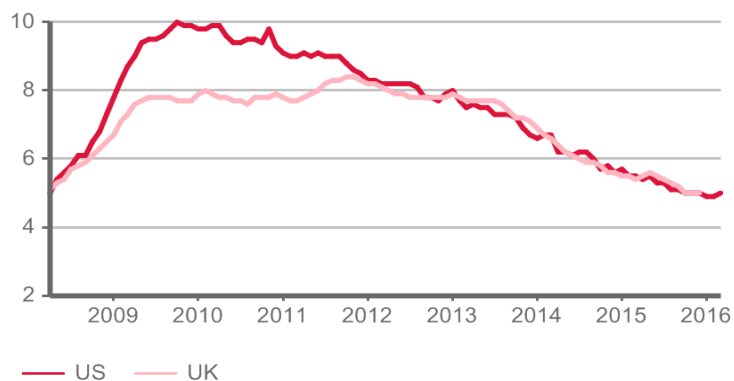
Source: Consensus Forecasts (May 2016)

US and UK exports weighing on 2016 growth

The buoyant, consumer-driven recovery in the United States has disappointed in 2016. The labour market is increasingly strong, however: unemployment is low at 5% and the participation rate and wage growth are finally ticking up. So is inflation, at 1.1% y-o-y in April. But uncertainty surrounding the impact of financial turbulence and slowing emerging market growth has increasingly clouded the 2016 outlook. The volume of exports fell 5% in March 2016 compared to March 2015 due to the relatively strong US dollar and waning external demand. In the current environment, the Fed will most likely continue to hold off on tightening monetary policy in 2016H1.

Across the pond, the UK's outlook is broadly similar to that of the US. Consumer spending is still fuelling the economic expansion but weak external demand is weighing on economic growth and manufacturing activity. Uncertainty surrounding the 'Brexit' referendum coming up on June 23rd, has already had a demonstrable negative impact on the UK economy. A poll taken by Markit and the UK Recruitment and Employment Confederation indicate that companies are putting hiring and investment decisions on hold ahead of the referendum. Loss of confidence has also caused the pound to depreciate more than 10% in trade-weighted terms since November 2015. Annual growth is forecast at 1.9% for 2016 but a vote to leave the EU would bring this figure further down.

Unemployment rate



Source: IHS

Emerging Markets

Economic growth forecasts		
	2016	2017
Asia (excl. Japan)	5.6	5.6
Latin America	-0.6	2.0
Eastern Europe	1.2	2.3

Source: Consensus Forecasts (May 2016)

Another difficult year for emerging markets

Aggregate growth across emerging market economies (EMEs) is forecast to rise 4% in 2016, the slowest pace since the onset of the global crisis. Headwinds that have been growing through 2015 will persist this year. Growth continues to be weighed down by low commodity prices, uncertainty regarding the pace of US monetary policy normalisation, rising (geo-)political risk, and concerns about domestic policy measures.

Emerging Asia will remain the fastest growing world region by far with 5.6% growth forecast. India's economy is forecast to grow 7.6% leading this figure. But headline Asian growth is 0.2 percentage points lower than in 2015 due to China's economic slowdown amidst a rebalancing toward services and consumption-led growth. The performance of China has a large impact on many other countries. Lower import demand in China, in combination with declining commodity prices, affects many economies in the region and commodity-exporting countries around the world. The situation is increasingly dire in emerging economies in Europe and Central Asia (Russia, Kazakhstan, Azerbaijan), the Middle East (Saudi Arabia, Oman) and Latin America (Brazil, Venezuela).

Latin America is forecast to experience another GDP contraction in 2016 of -0.6%, suffering from low commodity prices as well as political scandals. The overall figure is weighed down by Venezuela (-8.2%) and Brazil (-3.7%). Recessions are also expected to continue in Argentina and Ecuador.

On the other hand, the situation in Eastern Europe is expected to improve. After a meagre 0.2% expansion in 2015, regional GDP is forecast to rise 1.1% in 2016. The recession in Russia will continue (be it at a slower pace: -1.2%) but Ukraine's economy is forecast to grow 1.3% as the economy stabilises from a very low starting point.

Credit and insolvencies

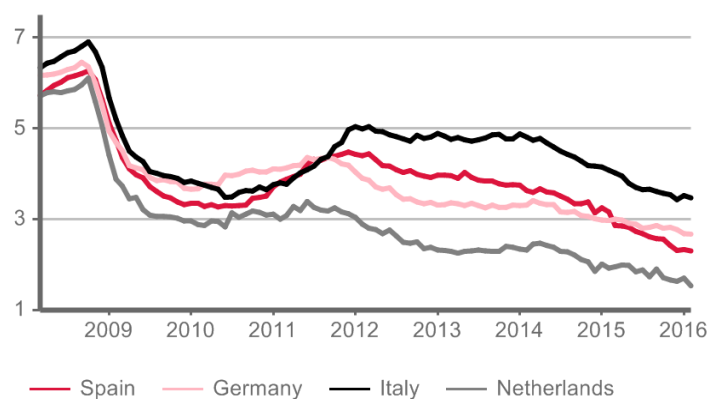
Business environment worsening

Credit conditions in the eurozone remain very loose and it appears that ECB policy is having some of its intended impact. Interest rates charged by banks on company loans have continued their downward trend since 2012. The 2016 Q1 ECB Bank Lending Survey shows that negative deposit rates are effectively boosting lending (though they are further hurting bank profitability).

Despite improving credit conditions, the insolvency outlook has deteriorated amid rising global uncertainty. Atradius now forecasts aggregate insolvency growth across the 22 advanced markets assessed to be unchanged in 2016, the first year of no improvement since the 30% global rise in business failures experienced in 2009. Low commodity prices are a major factor in rising insolvencies in Australia (+6%), Canada (+4%) and to a lesser extent the United States (+2%) who is suffering a sharp rise in insolvencies in its oil sector. Lower external demand for exports is another issue weighing on the business environment in the US as well as in many advanced countries including the UK (+2%; further hurt by Brexit-related uncertainty), New Zealand (+2%) and Japan (-1%).

In emerging markets, credit conditions are still tightening, largely in response to increased global financial market uncertainty. Many emerging markets, particularly commodity-exporters and those dependent on China, are forecast to see a rise in insolvencies. The economic slowdown in China is expected to lead to a sharp increase in insolvencies there while recessions in Brazil and Russia will also lead to rising bankruptcies.

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	1.5	-1.2	-1.7	-1.3	2.4	2.6	3.0	3.3	5.0	4.8	2	POSITIVE
Belgium	1.4	1.3	1.6	-2.6	-2.0	-1.8	0.7	1.6	1.1	1.7	4.2	6.0	1	STABLE
Finland	0.5	0.8	1.3	-2.8	-2.7	-2.7	-0.5	0.9	1.0	-2.5	4.8	3.4	2	POSITIVE
France	1.2	1.3	1.5	-3.5	-3.2	-3.0	0.1	-0.5	-0.7	6.2	3.2	4.8	2	STABLE
Germany	1.7	1.6	1.5	0.6	0.1	0.1	8.5	7.7	7.7	6.1	3.3	4.5	1	
Greece	-0.2	-1.0	1.2	-3.7	-2.4	-1.8	-0.1	1.6	1.4	-6.9	-4.2	5.2	7	POSITIVE
Ireland	7.8	4.9	3.7	-1.5	-0.9	-0.4	4.5	2.5	4.5	18.3	5.4	6.0	3	NEGATIVE
Italy	0.8	1.1	1.2	-2.6	-2.6	-2.3	2.4	1.6	1.1	3.5	2.8	4.0	4	POSITIVE
Netherlands	2.0	1.5	1.7	-2.0	-1.6	-1.2	10.4	10.8	11.0	1.7	4.0	6.5	1	
Portugal	1.5	1.3	1.6	-3.0	-2.7	-2.2	0.8	0.4	0.4	4.0	1.7	4.9	5	POSITIVE
Spain	3.2	2.7	2.3	-4.8	-3.8	-3.6	2.0	0.4	0.1	5.8	5.6	5.9	4	POSITIVE
Eurozone	1.5	1.6	1.6	-2.0	-1.9	-1.7	3.8	3.5	3.3	4.8	3.0	3.8		
Australia	2.5	2.6	2.9	-1.2	-1.8	-2.3	-4.3	-3.6	-3.2	-2.2	3.5	5.1	1	
Canada	1.2	1.7	2.2	-1.7	-1.3	-1.0	-3.3	-1.7	-0.6	-0.3	1.5	2.2	1	
Denmark	1.2	1.4	1.8	-2.4	-1.5	-1.2	8.7	9.2	9.3	2.3	4.3	5.6	1	
Norway	1.0	1.1	1.8	5.2	3.7	4.2	8.1	9.1	10.0	-4.0	-4.0	5.8	1	
Sweden	4.1	3.5	2.5	-0.8	-0.4	0.1	6.3	7.2	6.8	7.8	6.5	4.9	1	
Switzerland	0.9	1.1	1.5	-0.1	-0.4	-0.4	11.4	9.4	8.5	-3.2	3.4	4.4	1	
United Kingdom	2.3	1.9	2.2	-4.0	-3.2	-2.1	-5.2	-4.0	-3.6	-0.4	1.8	6.9	2	STABLE
USA	2.4	1.8	2.3	-3.4	-3.6	-3.3	-2.7	-2.3	-2.1	-3.8	-0.2	6.8	1	
Central and Eastern Europe														
Czech Republic	4.3	2.4	2.7	-0.4	-0.6	-0.8	0.9	0.5	-0.5	5.8	5.3	6.0	3	STABLE
Hungary	2.9	2.3	2.7	-1.2	-2.2	-2.7	4.4	3.6	3.0	8.1	7.3	8.6	5	POSITIVE
Poland	3.6	3.5	3.4	-3.0	-2.8	-2.7	-0.2	-1.1	-1.5	9.2	5.5	5.3	3	NEGATIVE
Russia	-3.7	-1.2	1.0	-4.2	-4.3	-3.2	5.4	3.2	4.6	16.7	16.5	3.4	5	POSITIVE
Slovakia	3.6	3.2	3.3	-2.7	-2.2	-1.5	-1.3	-0.5	-0.2	6.2	5.3	6.1	3	POSITIVE
Turkey	3.6	3.4	3.5	-1.2	-2.3	-2.0	-4.4	-5.7	-5.5	11.0	8.0	10.7	5	STABLE
Asia														
China	6.9	6.5	6.3	-3.5	-4.2	-4.3	2.7	3.1	3.6	1.7	8.4	8.2	3	STABLE
India	7.5	7.6	7.7	-7.9	-5.8	-5.6	-1.1	-1.2	-1.2	-6.2	10.8	10.9	4	NEGATIVE
Japan	0.5	0.5	0.5	-5.3	-6.3	-6.2	3.3	3.2	3.1	3.4	-4.2	8.1	3	POSITIVE
Latin America														
Brazil	-3.8	-3.7	0.7	-10.3	-10.6	-8.9	-3.3	-2.0	-2.0	19.4	12.3	5.6	5	POSITIVE
Mexico	2.5	2.4	2.8	-3.2	-3.0	-2.5	-2.9	-2.3	-2.4	9.3	6.1	5.9	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.

If you've found this economic update useful, why not visit our website www.atradius.com where you'll find many more Atradius publications focusing on the global economy, including country reports, industry analysis, advice on credit management and essays on current business issues.

Connect with Atradius on social media



Disclaimer

This report is provided for information purposes only and is not intended as a recommendation or advice as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to insure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Copyright Atradius Credit Insurance N.V. 2016

Atradius
David Ricardostraat 1- 1066 JS Amsterdam
Postbus 8982 - 1006 JD Amsterdam
The Netherlands
Tel. 020 553 9111
info@atradius.com
www.atradius.com