Economic Update

Atradius Economic Research – August 2023

Summary

1. **Global** – Past monetary tightening is increasingly feeding into the real economy, dragging on consumer and business confidence. We expect global GDP growth to slow more gradually through the remainder of the year and next

2. **Eurozone** – Sentiment indicators are pointing to a worsening economic climate, with services outperforming manufacturing. For the remainder of the year, we expect subdued GDP growth

3. **US and UK** – As inflation trends downwards in the US and UK, core inflation remains stubborn. This is forcing policymakers to keep rates higher for longer

4. **Emerging markets** – We expect EME growth to stay in lower gear in 2023, with Emerging Asia leading the other regions, while Latin America is lagging

5. **Credit and insolvencies** – For 2023 we predict another increase in the global level of insolvencies as the adjustment to normal insolvency levels continues

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Global

Economic resilience giving way to cloudier outlook

Real GDP growth forecasts

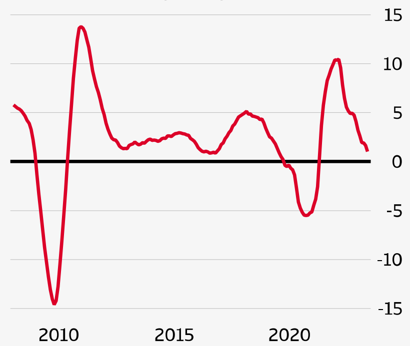
	2022	2023f	2024f
World	3.1	2.4	2.0

Sources: Oxford Economics, Atradius

Oil price
Spot price, USD per barrel Brent

Sources: US EIA, Macrobond

World trade growth
Volume, 1-year moving average, % y-o-y



Sources: CPB, Macrobond

The world economy is gradually losing steam as the effects of past monetary tightening and China's slowdown take hold. We now forecast world GDP to grow 2.4% this year, compared to 1.9% predicted last quarter as consumer spending in advanced economies has been more resilient than expected in H1. Forward-looking indicators point to a more significant slowdown in H2 though. The global services PMI, which has been soaring on the back of post-pandemic demand surplus, has declined in July for the second month in a row. This suggests that businesses expect the increasing bite of higher interest rates to drag on spending on services in the coming months, moving more in line with manufacturing which remains deep in contractionary territory. While inflationary pressures are easing, we do not expect major policy rate cuts until next year and we only expect a gradual normalisation of policy. Therefore our outlook for 2024 has dimmed slightly with 2% forecast, 0.2 percentage points below last quarter's forecast.

The outlook for world trade is similarly weak. Higher interest rates, the rising cost of living and the post-pandemic shift of spending from goods to services have already brought global trade growth to just 1.0% in May 2023. As mentioned, the global manufacturing PMI, a bellwether for trade-intensive manufacturing activity, points to a deterioration in activity. July's reading was 48.7, the eleventh straight month below 50. The decline in new export orders has accelerated and remains below 50 for the 17th consecutive month. This constitutes the worst prolonged period of declining global trade indicators since the global financial crisis.

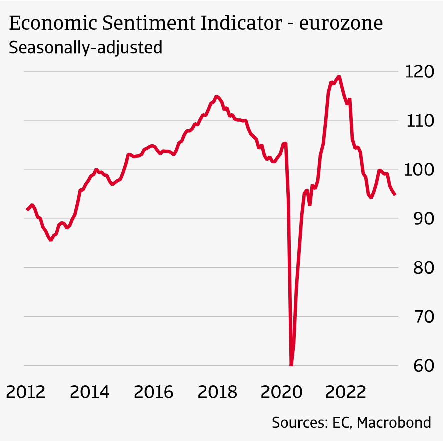
Lower energy prices in H1 have contributed to economic resilience, but they've also been increasing over the summer. While lower private consumption is dragging the demand side, further production cuts from OPEC+ and strong demand growth in emerging Asia will keep oil price elevated, averaging USD 83 per barrel Brent in 2023 and USD 86 in 2024. Natural gas prices in major markets are likely to fall two-thirds from 2022, thanks to weak demand and a surge in LNG supply to Europe reducing the disruption from Russia's war in Ukraine, but they remain elevated by historical standards.

Eurozone

Real GDP growth forecasts

	2022	2023f	2024f
Austria	4.9	0.2	0.5
Belgium	3.2	0.9	0.8
France	2.5	0.7	0.6
Germany	1.9	-0.3	0.7
Greece	6.0	1.5	1.4
Ireland	9.5	2.5	4.1
Italy	3.8	0.8	0.6
Netherlands	4.4	1.1	1.1
Portugal	6.7	2.5	1.6
Spain	5.5	2.3	1.4
Eurozone	**3.4**	**0.7**	**0.9**

Sources: Oxford Economics, Atradius



Eurozone: ECB hikes again in July, but gives no clarity on next move

According to the flash estimate published by Eurostat, eurozone GDP increased by 0.3% in Q2 of 2023. Growth remained flat in Germany, but was positive for France, Spain and Ireland. Growth was negative in Italy and Austria. Sentiment indicators are pointing to a worsening economic climate, with the European Sentiment Indicator (ESI) showing a declining trend since the start of the year. It was equal to 94.5 in July, below the neutral level of 100. The purchasing managers index (PMI) was 48.9 in July, below the neutral level of 50. There is a clear contrast between the services sector, which is still growing, and the manufacturing industry, which is shrinking. For the remainder of the year, we expect subdued GDP growth as a consequence of the lagged impact from tighter financing conditions, leading to 0.7% GDP growth in 2023.

After reaching a peak of 10.6% in October 2022, inflation is on a declining trend in recent months due to a deceleration of energy prices, reaching 5.3% in July. There are still significant contributions to inflation from the components food, services and non-energy industrial goods. Core inflation (excluding food and energy) was 5.5% in July. We see inflation gradually decreasing in the second half of the year to an average of 5.4% in 2023. The ECB council agreed the widely expected 25bps hike to its key policy rates bringing the deposit rate to 3.75%, which was also fully priced in by markets. The council offered no clarity on its next move in September. It left the door open to either a further hike or a pause while highlighting its data dependency. Deteriorating growth prospects were the main reason for the shift in tone. Weak banking lending survey and credit data show that earlier rate hikes are having an effect on financing conditions. On the other hand, the ECB still sees inflation as too high for too long.

Total employment in the eurozone increased by 0.6% on a quarterly basis in Q1 of 2023, following a 0.3% increase in Q4 of 2022. The unemployment rate remained at 6.4% in June. This means the labour market remains relatively tight for European standards. The first signs are appearing of accelerating wage growth: the indicator of negotiated wages increased by 4.3% year-on-year in Q1 of 2023, up from 3.1% in H2 2023. However, with inflation still elevated, real wages remain in negative territory (-3.7% in Q1 of 2023). Given the tight labour market, we still expect further wage pressure in the coming quarters. In combination with declining inflation, this should give support to consumption growth going forward.

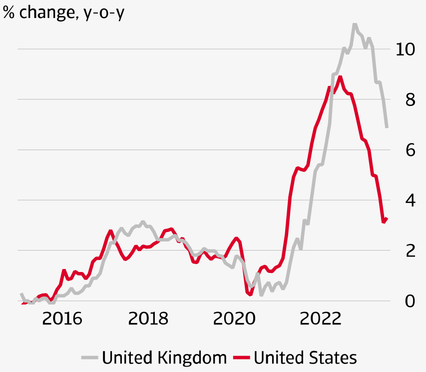
The US and the UK

Real GDP growth forecasts

	2022	2023f	2024f
United States	2.1	2.0	0.1
United Kingdom	4.1	0.4	0.4

Sources: Oxford Economics, Atradius

Consumer Price Index
% change, y-o-y



Sources: US BLS, UK ONS, Macrobond

Higher for longer interest rates weighing on US and UK outlooks

The US economy stayed on track with 2.4% annual growth in Q2 and we expect the slowdown to continue gradually. Consumer spending is the main driver of this economic resilience and we now expect a mild recession to be postponed to Q4. Inflation fell to 3.2% in July – following 3.0% in June, the lowest rate since March 2021 – largely due to base effects from last summer's energy and food price surge. Excluding these volatile elements though, core inflation was still 4.7%. This suggests that further sustained disinflation is not as certain and the risks to its downward trend remain amid resilient growth and higher petrol prices. The labour market is showing some signs of cooling off but unemployment is very low at 3.5% and wage growth has accelerated to 4.4%. The Federal Reserve estimates 3.5% wage growth to be consistent with 2% inflation so we expect this relatively rosy economic picture to motivate the Fed to keep rates higher for longer. We expect the Fed to keep its target rate unchanged between 5.25% and 5.5% for the rest of the year, as they wait and see how the effects of past tightening are absorbed. In terms of GDP growth, we anticipate this to translate to a slowdown to only 0.1% in 2024 from 2.0% in 2023.

The UK's economic outlook remains weaker than other major economies given its overreliance on private consumption and the hit to export competitiveness from Brexit. While consumer resilience helped bolster 0.2% quarterly GDP growth in Q2, this was helped by good weather and one-off live events. Beneath this, persistently high inflation and the prolonged squeeze on household budgets are dragging on demand. Headline inflation has continued to ease to 6.8% in July whereas core inflation was flat at 6.9%. Energy and food prices have contributed to overall disinflation but core inflation is facing upward pressure from services sector activity and wage growth. This has motivated the Bank of England to hike rates again in June by 50 bps and again in August by 25 bps. The policy rate now stands at 5.25%, its highest level since 2008. Given the hot labour market and hawkish tone set by the BoE, we anticipate another 25 bp hike in September which will keep GDP growth very low at just 0.4% both this year and next.

Emerging markets

EMEs staying in lower gear

Real GDP growth forecasts

	2022	2023f	2024f
Emerging Asia	3.8	5.1	4.8
Latin America	3.6	1.4	1.1
Eastern Europe	1.1	1.8	2.2
Emerging Markets	**3.7**	**3.9**	**3.8**

Sources: Oxford Economics, Atradius

The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards. We expect GDP growth to stay in lower gear at 3.9% this year, broadly flat with 2022 due to weak external demand and tightening global financing conditions. Under the headline figure lies substantial heterogeneity. Emerging Asia is set to lead other regions again as China's economy rebounds from Covid-19 lockdowns. Latin America, struggling with structural weaknesses and political uncertainty, will lag other regions.

Growth in Emerging Asia is forecast to increase from 3.8% in 2022 to 5.1% in 2023. We forecast Chinese GDP growth to equal 5.1%, a notch lower than we expected a quarter ago. The abandoning of Covid lockdowns led to a front-loading of private consumption during the reopening process. In Q2 of 2023, however, the consumption boost wound down. Furthermore, weakness across the property sector has re-emerged, with negative spillovers to other segments of the economy. Finally, companies continued their destocking in Q2, which also slowed down growth. In India, the weakening trade environment and a delayed effect of earlier monetary policy tightening weigh on growth. We forecast GDP growth in India to slow from 6.7% in 2022 to 6.0% in 2023.

The economic recovery in Latin America is losing steam, but slowing GDP and lower price pressures is allowing inflation expectations to also decline. Several of the region's major central banks – including Brazil, Chile and the Dominican Republic – have already begun loosening their monetary policy in response, ahead of the rest of the world. This pivot in monetary policy is an example of broader policy improvements that have helped the region improve its resilience to global economic headwinds, signalled by the limited effect so far on exchange rates. But the lagged effects of high domestic interest rates will keep short term growth muted. Brazil's economy for instance is likely to see growth slow to 1.7% this year and 1.1% next year. Argentina's economy is sliding into recession with a 1.1% contraction forecast in 2023 against a backdrop of the worst drought on record, increasingly unorthodox policies and policy failures.

In Eastern Europe, the outlook continues to be dominated in the near term by the Russia-Ukraine war. Despite massive Western sanctions, Russia is still able to export large amounts of oil, which underpins economic growth. GDP growth is forecast to be 2.4% in 2023, after a 2.1% contraction last year. In Turkey, president Recep Tayyip Erdogan was re-elected in May. Since the elections, the lira fell by 26% to a new record low of 27.0 against the USD. This is partly good news, as it shows a willingness by the authorities to bring the currency more in line with its underlying value. Two recent appointments in top positions – Mehmet Simsek as finance minister and Hafize Gaye Erkan as head of the central bank – are signalling that Turkey is willing to return to orthodox policymaking. Our forecast for GDP growth in Turkey is 2.6% in 2023.Further weighing on growth is the slowing of exports as the global backdrop is worsening.

Credit and insolvencies

Insolvencies: increase continues in 2023

ERD is in the process of making a new insolvency forecast. This forecast, to be published in the September Insolvency Outlook, broadly confirms the trend presented here. However, for a number of countries (e.g. Italy, New Zealand, South Korea and the United States) we expect significant revisions. In part, this has to do with the implementation of new data series.

After two years of decline during the pandemic years, global insolvencies increased by 9% y-o-y in 2022. The increase was related to the halting of Covid fiscal support packages and the lifting of temporary changes to insolvency legislation. In some markets, insolvencies have completely normalized or even exceed pre-pandemic levels.

For 2023, we predict an increase of 49% in the global level of insolvencies as the adjustment to normal insolvency levels continues. We expect to see a rise in all region, with North America experiencing a relatively strong increase, while Europe is seeing milder increases. The majority of countries in each region can expect rising insolvencies this year. The highest insolvency growth rates in 2023 are forecast in South Korea (+154% y-o-y), Italy (+90%), Hong Kong (+83%), New Zealand (+82%), Netherlands (+79%) and the United States (+74%).

On the other side of the spectrum, there are also markets with relatively low or negative insolvency growth in 2023. Countries for which we expect a decline in insolvencies in 2023 are Spain (-22% y-o-y) and Switzerland (-13%). In these countries, the insolvency level has increased throughout 2022 to above the normality level. Countries for which we expect relatively mild insolvency growth include several European countries where insolvencies have already normalised in 2022, such as Austria, Finland, Czech Republic and Sweden.

For 2024, the picture is more mixed. On a global level, we predict that insolvencies rise by 12% compared to 2023. We see a rise of insolvencies in a number of countries (New Zealand, South Korea and Singapore) where the normalisation continues. However, we also see that in many markets insolvencies will again start to decline or remain approximately constant. This is because insolvency levels will have largely returned to normal and zombie firms that are not able to survive without support, have gone bankrupt already. Countries with a negative expected insolvency growth in 2024 are, for example, Switzerland and Canada.

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% GDP)			Current account balance (% GDP)			Export growth (%)			Political risk Rating[1]
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	
Western markets													
Austria	4.9	0.2	0.5	-3.2	-4.3	-2.9	0.7	3.0	2.3	13.0	3.1	1.3	2 POSITIVE
Belgium	3.2	0.9	0.8	-3.9	-5.1	-4.1	-3.6	-2.0	-1.1	5.1	-0.8	0.9	2 NEGATIVE
Finland	1.6	0.5	0.8	-0.9	-1.6	-2.2	-3.7	-2.6	-1.6	3.5	0.7	2.4	2 POSITIVE
France	2.5	0.7	0.6	-4.7	-4.7	-4.5	-2.0	-0.7	-1.7	7.3	2.1	2.1	2 STABLE
Germany	1.9	-0.3	0.7	-2.7	-2.2	-1.8	4.2	5.7	5.5	3.5	0.6	2.5	1
Greece	6.0	1.5	1.4	-2.5	-2.1	-1.5	-9.6	-3.8	-3.8	4.9	6.2	2.2	5 STABLE
Ireland	9.5	2.5	4.1	1.6	2.2	1.4	10.8	11.9	12.7	14.2	2.4	2.8	3 POSITIVE
Italy	3.8	0.8	0.6	-8.0	-4.8	-3.6	-1.3	1.7	1.2	10.2	1.4	2.9	4 STABLE
Netherlands	4.4	1.1	1.1	-0.2	-2.0	-2.4	9.2	8.9	8.4	4.6	1.9	2.1	1
Portugal	6.7	2.5	1.6	-0.3	0.2	-0.2	-1.4	1.5	0.5	16.6	7.5	0.4	4 POSITIVE
Spain	5.5	2.3	1.4	-4.8	-3.9	-3.7	0.5	2.5	1.7	14.4	4.1	2.0	3 STABLE
Eurozone	3.4	0.7	0.9	-3.6	-3.2	-2.8	-0.8	2.0	2.0	7.3	1.5	2.2	-
Australia	3.7	1.6	1.5	-0.7	1.7	-1.4	1.1	2.1	0.3	3.4	8.8	6.4	1
Canada	3.4	1.0	-0.2	-0.3	-1.8	-4.0	-0.3	-2.1	-2.6	2.8	4.4	-0.3	1
Denmark	2.7	1.4	1.9	3.4	2.2	1.0	13.4	11.3	11.4	10.8	4.2	0.0	1
Norway	3.2	1.2	0.4	27.4	16.4	7.8	30.1	15.2	16.8	5.5	4.6	1.5	1
Sweden	2.9	-0.8	0.6	0.7	-1.3	-0.4	4.7	4.4	3.8	7.1	2.3	1.7	1
Switzerland	2.1	0.3	1.3	0.9	0.0	0.0	9.3	6.8	7.4	5.9	0.9	2.4	1
United Kingdom	4.1	0.4	0.4	-5.2	-6.1	-5.4	-3.8	-2.6	-3.1	9.9	-1.2	2.5	2 NEGATIVE
United States	2.1	2.0	0.1	-4.5	-6.9	-6.4	-3.8	-3.2	-3.2	7.1	3.5	2.2	1
Central and Eastern Europe													
Czech Republic	2.4	-0.3	0.9	-5.3	-4.2	-1.8	-6.0	1.2	0.3	7.2	4.0	2.0	2 NEGATIVE
Hungary	4.6	-0.8	2.6	-6.0	-4.9	-2.6	-8.1	-1.2	-1.8	11.8	2.8	2.0	4 NEGATIVE
Poland	5.4	0.5	2.1	-3.6	-4.1	-4.9	-3.0	1.1	-0.9	6.2	0.6	3.5	3 NEGATIVE
Russia	-2.1	2.4	1.2	-1.1	-2.8	-1.0	11.0	1.8	5.7	-13.9	-2.2	-1.5	9
Slovakia	1.7	0.5	1.2	-2.0	-5.8	-5.4	-7.9	-0.8	-0.3	2.4	-2.0	3.6	3 STABLE
Turkey	5.6	2.6	1.4	-0.5	-4.6	-3.1	-5.7	-4.4	-2.0	9.1	0.4	2.8	6 STABLE
Asia													
China	3.0	5.1	4.6	-7.3	-7.1	-6.8	2.2	1.9	1.6	-0.3	3.3	2.2	3 STABLE
India	6.7	6.0	6.3	-6.9	-6.6	-5.6	-2.4	-2.0	-2.1	16.1	0.9	1.2	4 NEGATIVE
Japan	1.0	1.0	0.7	-6.2	-5.6	-4.5	1.9	2.7	2.5	5.1	0.3	1.0	3 POSITIVE
Latin America													
Brazil	3.0	1.7	1.1	-4.5	-8.0	-7.7	-3.0	-1.7	-3.6	5.9	3.6	-1.0	5 STABLE
Mexico	3.0	2.6	1.0	-3.3	-3.8	-3.3	-1.3	-1.0	-0.9	7.6	-1.9	2.7	5 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: Oxford Economics, Atradius Economic Research

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