Atradius
Managing risk, enabling trade

Economic Update

Atradius Economic Research – May 2024

Summary

1. **Global** – The global economy is proving resilient but growth remains low by historical standards. Geopolitical tensions and trade fragmentation pose increasing downside risks.

2. **Eurozone** – 2024 Q1 GDP growth was clearly positive after more than a year of economic stagnation. Sentiment indicators are still not great, but there are signs the worst is over. We expect the ECB to implement the first rate cut in June 2024.

3. **US and UK** – Consumer spending continues to fuel growth in the US and UK. Sticky inflation has caused the Fed to delay its first rate cut until after the summer while the monetary pivot in the UK is imminent.

4. **Emerging markets** – We expect EME growth to remain low in 2024 by historical standards. There is considerable heterogeneity across regions, with Emerging Asia leading the other regions, while Latin America is lagging.

5. **Credit and insolvencies** – Global insolvencies continue to rise in 2024 as businesses grapple with the double whammy of sputtering economic activity and the phasing out of pandemic-era support. This is likely to be followed by stabilisation in 2025.

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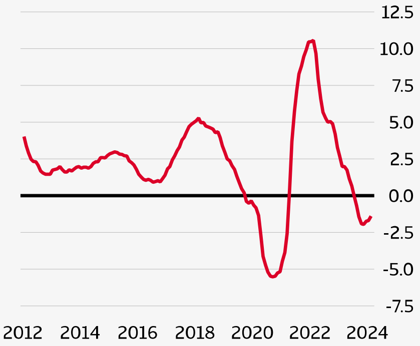
Global

Real GDP growth forecasts

	2023	2024f	2025f
World	2.7	2.6	2.8

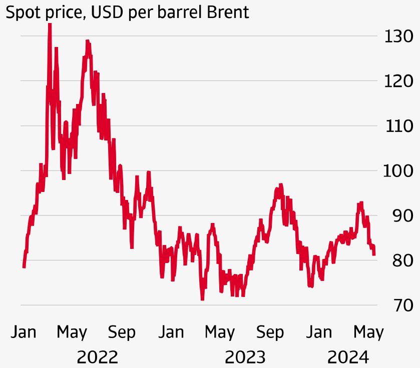
Sources: Oxford Economics, Atradius

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



Sources: CPB, Macrobond

Oil price
Spot price, USD per barrel Brent



Sources: US EIA, Macrobond

Slow and steady global growth

The outlook for the global economic growth this year and next is steady but unremarkable. We expect a moderate expansion of 2.6% this year followed by 2.8% growth next year – stable but tepid by historical standards as past monetary tightening weighs on demand. The threat of conflicts, particularly in the Middle East and Asia, is a cloud over the global outlook but we do not expect any major escalations like that of Russia's invasion in Ukraine over the forecast period. Instead, policymaking and geopolitical uncertainty will continue to contribute to supply-chain diversification and economic fragmentation. This, on top of tight labour markets, will ensure that inflation remains above its target levels. Interest rate cuts are still in the cards in advanced economies this year, but with inflation staying stickier than expected, we anticipate the US Federal Reserve to pivot only after the summer.

This challenging economic backdrop has also dragged on international trade but the downturn appears to have bottomed out. The volume of trade in the 12 months leading to February was 1.4% lower than the year before, up from a low of -1.9% in November 2023. While trade momentum has flatlined, forward-looking indicators bode well for trade growth in 2024. The global manufacturing purchasing managers' index (PMI) finally breached 50, its neutral level, since January after 16 consecutive months in contractionary territory. New export orders turned positive in April with strongly positive momentum. We expect world trade to grow 2.5% y-o-y in 2024, but risks stemming from sticky inflation or geopolitical conflicts could keep that lower.

Oil market volatility has ticked up in recent months. Initially in 2024, supply disruptions and OPEC+ production cuts contributed to an upward price trend. More recently however, weaker economic data, particularly from the US, increased concerns that interest rates would stay higher for longer, putting downward pressure on oil prices. Tighter financing conditions drag on demand for oil as well as investment. Demand for oil and gas has also been lower than expected so far in 2024 due to the mild winter, especially in Europe, and the declining share of diesel cars in advanced economies' vehicle fleets. Still, with inventories and production declining more rapidly, we expect oil prices to stay above USD 80 per barrel Brent in the coming months.

Eurozone

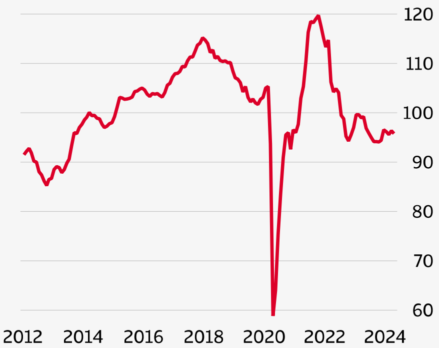
Eurozone economy finally enters recovery

Real GDP growth forecasts

	2023	2024f	2025f
Austria	-0.7	0.3	2.2
Belgium	1.4	1.2	1.5
France	0.9	0.9	2.1
Germany	0.0	0.0	1.3
Greece	2.0	1.7	2.3
Ireland	-3.3	-0.8	4.4
Italy	1.0	0.8	1.1
Netherlands	0.2	1.0	2.0
Portugal	2.3	1.8	1.9
Spain	2.5	2.4	1.8
Eurozone	**0.5**	**0.8**	**1.8**

Sources: Oxford Economics, Atradius

Economic Sentiment Indicator - eurozone
Seasonally-adjusted



Sources: EC, Macrobond

According to the flash estimate published by Eurostat, eurozone GDP increased by 0.3% in Q1 2024, marking the first meaningful growth figure after more than a year of stagnation. Among the largest member states, Spain took the lead, growing by 0.7%, while Germany, France and Italy all grew at about the same speed (0.2-0.3%). While a breakdown of the first quarter GDP figure is not yet available, it is likely that consumption and investment led the way.

Recent survey data suggest the eurozone economy remains weak, but we see signs that the worst is over. For instance, the April purchasing managers index (PMI) signalled that the eurozone has reached a turning point, with the composite index climbing to 51.4. This is above the neutral 50 mark, signalling an expansion. The improvement could clearly be seen in the services sector, while manufacturing remained a weak spot. The April Economic Sentiment Indicator (ESI) was more disappointing with a score of 95.6 (below the neutral level of 100).

Inflation in April remained stable at 2.4%. In recent months inflation is clearly driven by services and no longer by energy and food. Core inflation (CPI excluding food and energy) declined from 2.9% in March to 2.7% in April. As the target of 2% becomes in sight, the inflation picture is also turning muddier. With GDP growing faster than expected in the first quarter, and domestic demand recovering, inflation could turn out to be more stubborn. But sentiment indicators are not convincingly pointing in one direction or the other. We expect that the inflation environment stays sufficiently benign for the ECB to implement one rate cut in June. After that, however, the ECB is likely to make rate cuts data dependent. The ECB's Q1 2024 bank lending survey pointed to a tightening of credit standards on business and consumer loans, which limits the credit availability for companies and supports the disinflationary environment.

The labour market remains tight. The unemployment rate has been at 6.5% in the past four months (latest figure is from February 2024). Employment in the eurozone expanded at a decent rate in Q4 of 2023. Negotiated wage growth increased through 2023, but Q4 marked a slight moderation as wage growth declined to 4.5% compared to 4.7% in Q3. But as inflation fell much more sharply than wage growth, there is again a positive growth in consumers' purchasing power, which is likely to continue well into 2024. This allows for a somewhat higher private consumption growth in 2024 (1.1%) compared to last year (0.6%).

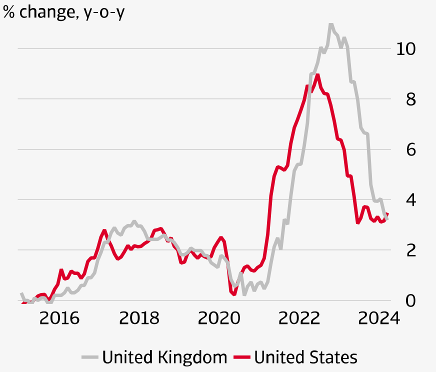
The US and the UK

Real GDP growth forecasts

	2023	2024f	2025f
United States	2.5	2.6	1.9
United Kingdom	0.1	0.9	2.0

Sources: Oxford Economics, Atradius

Consumer Price Index
% change, y-o-y



Sources: US BLS, UK ONS, Macrobond

Consumers underpin resilience in US and UK

Despite a relatively slow start to the year, the US economic outlook for 2024 remains resilient. The government estimates that the economy grew only 1.6% y-o-y in Q1, down from 3.4% in Q4. The weakness was concentrated in volatile inventories and net exports though; domestic demand indicators continued to demonstrate resilience. Real personal consumption expenditure remained healthy at an annualised 2.5% and private investment accelerated. Robust domestic demand is keeping inflation stickier than consumer and Federal Reserve officials would like. Headline CPI inflation stood at 3.4% y-o-y in March, up from 3.1% at the start of the year. Demand-led services inflation was the main driver so the Federal Reserve is not yet confident that inflation is fully under control, delaying the first interest rate cut, previously expected in May. Jobs data have shown some signs of cooling though: unemployment ticked up to 3.9% in April and jobs growth slowed down to 175,000 jobs. This data supports our view that the Fed will start cutting rates in September.

We've revised up our forecast for the UK economy to 0.9% from 0.6%, spurred by a stronger-than-expected Q1 performance that is likely to be sustained in Q2. Preliminary Q1 estimates point to 0.6% quarterly growth, more than offsetting the small contractions in H2 2023. Consumer spending is the main driver of the recovery, with significantly lower inflation boosting spending power. The economic recovery will remain weak though, as headwinds from tight fiscal policy and past interest rate hikes weigh on demand. The Monetary Policy Committee (MPC) kept its policy rate on hold in May but signalled imminent rate cuts this summer which we expect to total 75 basis points worth of cuts by the end of the year. The positive impact of monetary loosening will only be felt in 2025 though as debt interest payments rise this year from previous tightening.

Emerging markets

Real GDP growth forecasts

	2023	2024f	2025f
Emerging Asia	5.5	4.9	4.7
Latin America	1.9	1.0	2.3
Eastern Europe	2.2	3.1	2.9
Emerging Markets	**4.2**	**3.9**	**4.0**

Sources: Oxford Economics, Atradius

EMEs' outlooks diverge

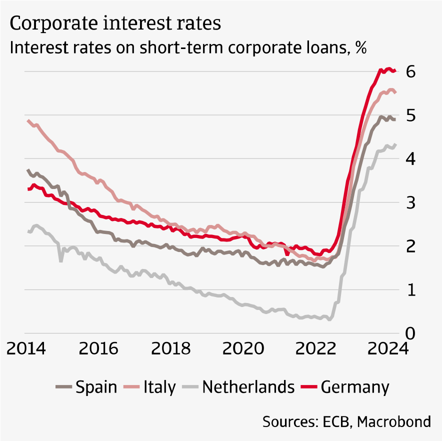
The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards. We expect GDP growth to stay in a lower gear at 3.9% this year and 4.0% in 2025. While they benefit from a rebound in global trade, there are also challenges in the form of a strong USD and high debt servicing costs. Under the headline figures lies substantial heterogeneity. Emerging Asia is set to lead other regions again in terms of GDP, though growth is subdued in a historical perspective. Latin America, struggling with structural weaknesses and political uncertainty, will lag other regions, especially in 2024.

Growth in Emerging Asia is forecast to slow to 4.9% in 2024 and remain muted at 4.7% in 2025. China's 2024 Q1 growth rate positively surprised with 5.3% growth versus market expectations of less than 5%. We expect some slowdown going forward due to destocking pressures, bringing the overall 2024 growth rate to 4.7%. The property sector remains the biggest risk to the Chinese economy and property investments are still in decline. In India, growth is expected to slow to 6.3% in 2024. But risks are to the upside with increasing signs that the economy's resilience from last year continued into the beginning of 2024.

We expect already-weak GDP growth in Latin America to slow to 1.0% in 2024, before rebounding to 2.3% in 2025. Whereas the region continues to lag behind other EME regions in terms of GDP growth, its shock resistance has improved substantially. This is largely thanks to improvements in policymaking, visible in the region's proactive approach in monetary policy tightening. Brazil's GDP is forecast to grow by 1.2% in 2024, which is an upward revision compared to three months ago. Data up to February show a strong rebound in agricultural production. On the other hand, still high interest rates and slower than expected monetary policy easing continue to weigh on growth. Mexico outperformed regional peers last year, but growth is expected to slow to 1.9% in 2024. While there are tailwinds from a strong US economy, private consumption growth is likely to slow in 2024 and non-residential investment also disappointed in the first quarter.

The economic outlook for Eastern Europe remains clouded by the Russia-Ukraine war. Despite massive Western sanctions, Russia managed to keep a positive GDP growth in 2023. For 2024 we expect a 3.6% growth, comparable with last year. Russia still continues to export large amounts of oil, which underpins growth. The central bank continues a very tight monetary policy to prevent a weakening of the rouble. In Turkey, policymaking has shifted to a more orthodox stance following the re-election of President Erdogan. Resurgent inflation and ongoing interest rate hikes are weighing on confidence and domestic demand. We expect a limited GDP growth of 2.5% in 2024.

Credit and insolvencies



Insolvencies still increasing in 2024, but at a lower rate

Global insolvencies are soaring as businesses grapple with the double whammy of sputtering economic activity and the phasing out of pandemic-era support. During the pandemic insolvencies declined massively across all markets as a result of government support. In 2023, there was already a post-pandemic adjustment underway, with insolvencies rising by 32% globally. Insolvencies in most markets are virtually back to their level from 2019. But there is a minority of markets where they have stabilised at a level higher than before the pandemic. For 2024, we project another substantial rise of 16% in global insolvencies, followed by a stabilisation in 2025.

The majority of countries experienced rising insolvencies in 2023. The highest insolvency growth rates could be found in South Korea (65%), the Netherlands (48%), Australia (45%), Canada (41%) and the United States (40%). There were also markets with a negative insolvency growth in 2023. In these countries, the insolvency level has already increased in 2022, sometimes even to above the 2019-level. Countries that experienced a decline in insolvencies in 2023 were Spain (-14%), South Africa (-11%), Czech Republic (-6%), Switzerland (-1%) and Romania (-1%).

The highest insolvency growth rates in 2024 are recorded in Italy (63%), Singapore (47%), the Netherlands (38%), Portugal (34%), Poland (29%) and United States (29%). For all of these countries insolvencies were at the start of 2024 still below the pre-pandemic level. At the other side of the spectrum, for countries with the highest decreases in insolvencies in 2024 are South Korea (-32%), Ireland (-18%), Canada (-7%) and Finland (-7%). These experienced a surge in insolvencies in 2023 reaching levels higher than pre-pandemic.

For yet another group of countries the insolvency growth rate in 2024-2025 is positive, but relatively small. For some of these insolvencies seem to have peaked and the downwards normalisation is expected to take place in 2024-2025 (Japan, Sweden, France, Germany). For the others, insolvencies seem to have stabilised to the post-pandemic normal (Czech Republic, Austria, Belgium, Romania, Norway, United Kingdom) and their evolution is mostly given by the dynamics of the economic environment.

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% GDP)			Current account balance (% GDP)			Export growth (%)			Political risk Rating[1]
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	
Western markets													
Austria	-0.7	0.3	2.2	-2.7	-2.6	-2.4	2.7	4.1	3.2	0.3	1.6	2.2	2 POSITIVE
Belgium	1.4	1.2	1.5	-4.4	-3.9	-2.8	-1.0	1.6	1.9	-3.3	-1.5	4.6	2 NEGATIVE
Finland	-1.0	0.0	1.9	-2.5	-2.5	-1.5	-1.4	0.7	0.0	-1.7	-0.1	3.2	2 POSITIVE
France	0.9	0.9	2.1	-5.5	-4.1	-4.0	-0.8	-0.4	-0.7	1.8	2.1	3.7	2 STABLE
Germany	0.0	0.0	1.3	-2.1	-1.7	-0.8	6.1	6.0	5.8	-1.7	0.3	2.9	1
Greece	2.0	1.7	2.3	-1.6	-1.4	-1.0	-6.4	-5.2	-3.7	2.8	3.9	2.9	5 POSITIVE
Ireland	-3.3	-0.8	4.4	1.7	1.1	0.4	9.8	9.6	11.6	-4.9	1.1	6.0	2 NEGATIVE
Italy	1.0	0.8	1.1	-7.2	-4.5	-3.8	0.5	1.8	1.2	0.5	2.5	3.6	4 STABLE
Netherlands	0.2	1.0	2.0	-0.3	-1.3	-2.0	10.1	8.6	8.6	-1.4	0.8	4.9	1
Portugal	2.3	1.8	1.9	1.2	0.1	-0.4	1.3	1.4	0.9	4.1	2.5	1.8	4 POSITIVE
Spain	2.5	2.4	1.8	-3.6	-3.0	-2.8	2.6	3.4	3.6	2.3	3.0	2.4	3 STABLE
Eurozone	0.5	0.8	1.8	-3.6	-2.8	-2.4	1.6	1.8	1.8	-1.0	1.2	3.7	-
Australia	2.1	1.3	2.7	0.7	-0.5	-1.3	1.2	1.6	-0.9	6.8	4.0	4.3	1
Canada	1.1	0.1	2.0	0.0	-2.2	-2.4	-0.6	-0.5	-0.9	5.7	2.8	2.7	1
Denmark	1.9	2.4	2.6	3.2	2.0	1.0	10.9	12.8	12.3	13.4	6.2	-0.1	1
Norway	0.8	1.3	1.1	16.2	10.6	6.8	17.6	14.4	12.7	1.7	2.2	1.2	1
Sweden	0.0	0.0	1.8	-0.6	-1.0	-0.7	6.8	5.6	4.3	3.7	1.3	1.8	1
Switzerland	0.8	1.4	1.5	0.0	0.0	0.0	7.1	7.8	8.2	4.0	3.3	3.3	1
United Kingdom	0.1	0.9	2.0	-5.9	-4.3	-3.8	-3.3	-2.9	-3.0	-0.5	-0.8	2.8	2 NEGATIVE
United States	2.5	2.6	1.9	-7.9	-7.2	-7.2	-3.0	-2.9	-3.0	2.6	2.4	3.9	2 POSITIVE
Central and Eastern Europe													
Czech Republic	-0.2	1.3	2.8	-3.9	-2.5	-1.5	0.4	0.5	0.1	3.1	2.0	2.9	2 NEGATIVE
Hungary	-0.8	2.3	3.3	-6.9	-4.8	-4.1	0.3	1.2	-0.3	0.9	-1.9	5.2	4 NEGATIVE
Poland	0.1	2.8	3.9	-5.0	-5.4	-4.4	1.6	-0.3	-1.7	3.4	0.6	3.6	3 NEGATIVE
Russia	3.6	3.6	1.6	-2.3	-2.0	-2.4	2.5	5.0	6.3	2.7	1.2	1.2	10
Slovakia	1.1	1.5	2.8	-5.6	-5.5	-4.4	-1.6	-2.4	-0.9	-0.3	4.7	3.8	3 STABLE
Turkey	4.5	2.5	1.9	-5.1	-4.5	-2.1	-4.4	-2.1	-2.2	-2.7	2.0	2.3	6 STABLE
Asia													
China	5.2	4.7	4.1	-7.7	-8.5	-6.8	1.4	1.6	2.1	4.0	6.0	2.8	3 STABLE
India	7.7	6.3	7.4	-6.0	-5.9	-4.6	-0.9	-1.2	-1.4	3.6	4.4	6.8	4 NEGATIVE
Japan	1.9	0.5	0.9	-5.1	-4.3	-3.8	3.7	3.7	2.8	3.0	0.9	1.4	3 POSITIVE
Latin America													
Brazil	2.9	1.2	1.6	-8.2	-8.2	-6.6	-1.3	-1.2	-1.6	9.1	0.0	-1.6	5 STABLE
Mexico	3.2	1.9	2.1	-3.4	-4.4	-2.7	-0.4	-0.4	-0.2	-6.9	7.1	7.0	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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