Atradius
Managing risk, enabling trade

Economic Update

Atradius Economic Research – November 2024

Summary

1. **Global** – The global monetary easing cycle is underway which should help keep growth steady, but rising geopolitical pressures could knock the landing off course.

2. **Eurozone** – GDP growth in 2024 Q3 unexpectedly rose by 0.4%, largely driven by strong performances in France and Spain. However, sentiment indicators still suggest a fragile growth momentum.

3. **US and UK** – With Trump re-elected in the US, looser fiscal policy may boost 2025 GDP growth but policy uncertainty poses downside risks. The UK's Labour Party is boosting investment to fuel stronger growth.

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** – Most countries experienced an increase in insolvencies in 2024 due to the significant reduction in government support and a weak economic environment. For 2025 we project a stabilisation in insolvencies.

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Global

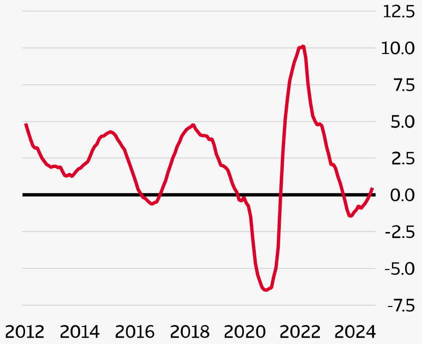
Risks on the rise as world economy lands softly

Real GDP growth forecasts

	2023	2024f	2025f
World	2.8	2.7	2.8

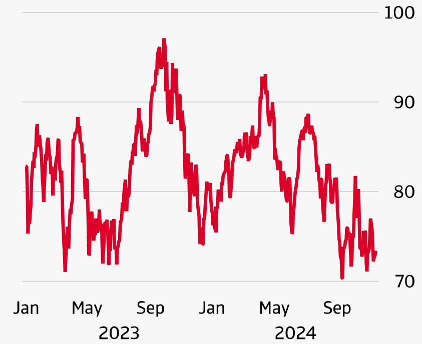
Sources: Oxford Economics, Atradius

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

Global economic output is expected to rise 2.7% this year, more or less flat with the moderate expansion recorded last year. While this growth is underwhelming by historical standards, it is remarkable that it has been sustained while central banks have fought to get inflation under control. Inflation in advanced markets is at or approaching target rates and central banks have started their monetary policy easing cycles. This should begin offering some relief to businesses and households in 2025, helping keep growth steady at 2.8%. The path forward to a soft landing – bringing inflation sustainably to target levels while avoiding a recession – remains on track. But downside risks, especially geopolitical risks, continue to rise. The re-election of Donald Trump in the US brings back policy uncertainty from the world's largest economy. The possible escalation of conflicts in the Middle East, Asia and Ukraine all cloud the 2025 outlook.

Elevated geopolitical uncertainty and global economic fragmentation have been weighing on trade as well and these effects will intensify in the coming years. World trade has returned to growth for the first time since July 2023, expanding 0.5% year-on-year in August 2024. Forward-looking indicators point to continued weak growth: trade momentum (three-month quarterly growth rate) is steady at 1.2%. But global purchasing managers' indices are slightly below neutral and new export orders have decreased for five straight months. With Trump in the White House and a Republican Congress, the US will adopt a more nationalist approach to trade. We currently expect new tariffs to start phasing in by the end of 2025 so the impact next year should be limited. This could boost 2025 trade growth as companies try to trade goods before they become more expensive.

Crude oil prices have continued trading within a USD 70 to USD 80 per barrel range since the summer. With higher geopolitical pressures, particularly in the Middle East, oil markets are subject to high volatility. This will continue in the coming year and we expect oil prices to average USD 78 per barrel in 2025, from USD 81 per barrel on average for all 2024. Disappointing demand from China has motivated OPEC+ to postpone their gradual unwinding of production cuts. Tight supply, robust demand beyond China and geopolitical pressures should keep a floor of USD 70 for oil prices. Upward shocks resulting from potential supply disruptions are significant risks for the outlook period.

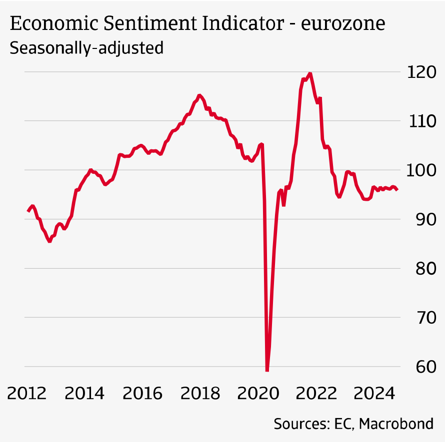
Eurozone

Eurozone: more monetary easing on the way

Real GDP growth forecasts

	2023	2024f	2025f
Austria	-0.8	-0.5	1.1
Belgium	1.3	0.9	1.2
France	1.1	1.1	0.8
Germany	-0.1	-0.1	0.6
Greece	2.0	2.0	2.0
Ireland	-5.7	-1.5	4.0
Italy	0.8	0.4	0.9
Netherlands	0.1	0.6	1.3
Portugal	2.5	1.6	1.9
Spain	2.7	3.1	2.4
Eurozone	**0.5**	**0.8**	**1.2**

Sources: Oxford Economics, Atradius



According to Eurostat's flash estimate, GDP growth in Q3 2024 unexpectedly rose by 0.4%. Among the largest member states, France experienced strong growth of 0.4% thanks to the Olympic Games, while Spain saw a 0.8% increase driven by a recovery in tourism. Germany's economy unexpectedly grew by 0.2%, while Italy's economy fell short of expectations, stagnating rather than growing. Germany continues to struggle with declining industrial output. Weak factory orders and low confidence suggest no imminent turnaround in the industry. Sentiment data indicate that growth momentum is fragile and possibly deteriorating. The October composite Purchasing Managers Index (PMI) is slightly higher than in September but remains in contractionary territory at 47.7, below the neutral level of 50. The manufacturing index is still in recessionary territory (45.9), while the services sector is expanding (51.2). The Economic Sentiment Indicator (ESI) of the European Commission was 95.6 in October, a slight decline compared to September, and below the neutral level of 100.

There was an uptick in inflation to 2.0% in October, from 1.7% in September. The uptick in inflation was driven by a less negative contribution of energy and slightly higher food prices. Core inflation (CPI excluding food and energy) remained unchanged and is equal to 1.7%. In the coming months, we expect to see some increases as the previous sharp declines in energy prices fall out of the annual rates. However, inflation is expected to continue decreasing in 2025 to 1.6% on average compared to 2.3% this year, aided by easing labour cost pressures and past monetary policy tightening that keeps interest rates at relatively high level. The ECB cut its main policy rates by 25 basis points at the October meeting. We expect one more rate cut in 2024, at the December meeting, and several more in 2025 to address the undershooting inflation. The ECB's Q3 2024 bank lending survey pointed to a net easing of credit standards on mortgage lending (net percentage of -3%), whereas standards on consumer loans were tightened. Credit standards on business loans were unchanged according to the Q3 bank lending survey.

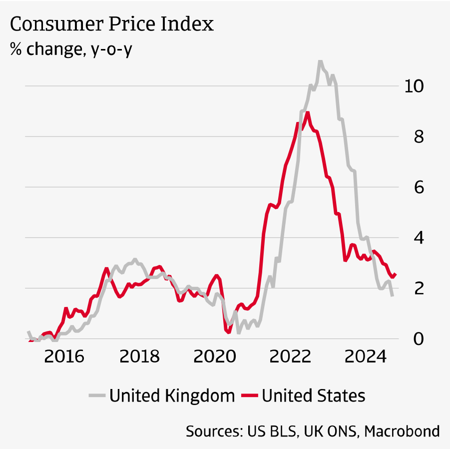
The labour market remains tight. The unemployment rate has remained low at 6.3% in September, unchanged from August, marking the lowest level since the euro was introduced. Hiring intentions are easing in most eurozone countries, indicating a potential slowdown in job creation. However, we still think unemployment will remain low in 2025 at 6.5%. Wage growth is gradually adjusting to the reality of lower inflation and is likely to moderate in 2025. With inflation that is below wage growth, there is a positive growth in consumers' purchasing power, which is likely to continue in 2025. This allows for a somewhat higher private consumption growth in 2025 (1.5%) compared to this year (0.8%).

The US and the UK

Real GDP growth forecasts

	2023	2024f	2025f
United States	2.9	2.8	2.6
United Kingdom	0.3	1.0	1.5

xford Economics, Atradius



US and UK: changing leadership, steady growth

The US economy continues to post solid economic growth driven by robust consumer spending. Output rose 2.8% in Q3 compared to a year before. This marks a slight disappointment compared to the 3.0% expansion in Q2 but is still a solid expansion. Personal consumption expenditures had their strongest quarter since Q1 2023, contributing 2.5 percentage points to Q3 growth. Government spending also surged, especially driven by higher defence spending. While growth remains strong, there's also been good news on the inflation front. The Fed's preferred inflation measure, the personal consumption expenditures price index, rose 1.5% in Q3, compared to 2.5% in Q2. While core inflation still is 2.2%, it allowed the central bank to cut its benchmark interest rate by a quarter point to a range of 4.5% to 4.75%. Another quarter-point rate cut is still likely in December as the Fed but the forward guidance has moved to a more flexible stance, to emphasise incoming data.

The decisive victory of Donald Trump in the presidential elections earlier this month – with a Republican majority in the Senate and possibly also the House of Representatives giving a strong mandate to pursue his populist agenda – has increased uncertainty for policymakers. Expected fiscal loosening in particular should give some boost to GDP growth in 2025 and 2026 but also begin pushing up inflation by 2026. Prices in the medium term will also be stoked higher by restrictions on trade and immigration. Since these policies are still unknown and the inflationary impacts will come with some lag, the Fed will continue loosening monetary policy in 2025.

The UK had a change of political leadership earlier this year when the Labour Party secured a significant majority in the July 2024 general election. The first Labour budget in 14 years announced late last month marked a shift towards higher spending and higher taxes. The budget aims to boost public investment, especially for public services, green energy and infrastructure. This should provide some boost to growth momentum in 2025: 1.5% compared to 1.0% in 2024. The Bank of England's Monetary Policy Committee (MPC) moved forward with another 25bps interest rate cut in its November meeting, bringing its policy rate to 4.75%. UK government forecasts project inflation to still reach its 2% target in the medium-term despite stronger demand spurred by the Budget. This will underpin the continued normalisation of monetary policy, bringing the Bank Rate down by 100 bps to 3.75% by the end of next year.

Emerging markets

Real GDP growth forecasts

	2023	2024f	2025f
Emerging Asia	5.5	5.1	4.8
Latin America	1.9	1.7	2.3
Eastern Europe	2.4	3.0	2.8
Emerging Markets	**4.3**	**4.1**	**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 4.1% in 2024 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.

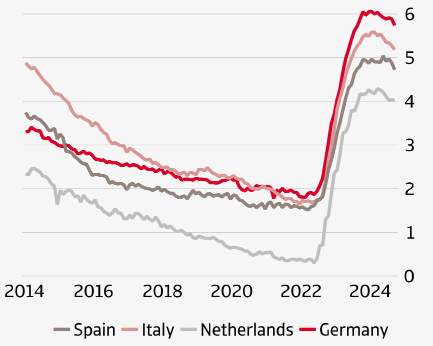
Growth in Emerging Asia is forecast to slow to 5.1% in 2024 and remain muted at 4.8% in 2025. China's GDP growth rate edged down to 4.6% in Q3 2024, from 4.7% in Q2. Since late September, a series of stimulus measures have been introduced, such as monetary easing, cash subsidies for underprivileged populations, financial support for the property sector, and a multi-year fiscal expansion plan. These measures are aimed at reflating a deflationary economy, propping up growth and bolstering market confidence. In India, growth is projected to remain steady at 6.8% in 2025. Private consumption remains resilient thanks to higher agricultural output, and falling inflation is boosting real incomes.

Latin America faces the weakest growth prospects among EME regions, but this masks the remarkable resilience the region has demonstrated through recent global volatility. We expect GDP growth in Latin America to increase from 1.7% in 2024 to 2.3% in 2025. In Brazil, GDP growth is anticipated to slow from 3.2% in 2024 to 1.9% in 2025, due to a new monetary-tightening cycle that started in September and will continue into early 2025. Additional growth constraints include reduced government spending and policy uncertainty in the US, the region's biggest trade and investment partner. In Mexico, President Claudia Sheinbaum assumed office in October. She faces the need to address private sector and foreign investor concerns about ongoing institutional decline and increased policy uncertainty. Relations with the US may become strained following Trump's election victory, as he is likely to enforce stricter border controls and propose a flat tariff on US imports. We project Mexico's GDP to grow by 1.3% this year and 1.7% in 2025.

The economic outlook for Eastern Europe remains clouded by the Russia-Ukraine war. In 2024, the Russian economy showed resilience with a GDP growth of 3.5%. However, a slowdown to 1.7% is anticipated in 2025, driven by high interest rates, labour shortages, and sanctions. The labour market remains tight due to reduced net inward migration and increased demand from the military sector. The central bank maintains a very tight monetary policy to prevent the rouble from weakening. In Turkey, growth is estimated to have slowed to 2.7% in 2024 due to the shift towards more orthodox economic policies, which has dampened domestic demand. Inflation continued to ease in October, reaching 48.6% year-on-year, although the pace of easing has slowed in recent months. We expect monetary policy to remain tight well into 2025, limiting GDP growth to 1.9% next year.

Credit and insolvencies

Corporate interest rates
Interest rates on short-term corporate loans, %



Sources: ECB, Macrobond

Stabilisation of insolvencies expected in 2025

Global insolvencies are expected to increase by 23% in 2024, followed by a minor decline (-3%) in 2025. For the majority of countries, insolvencies are increasing this year. This is partly a post-pandemic adjustment driven by the loss of large-scale government support. Another reason, however, is the weak economic environment in combination with tightened credit conditions. Firms' cash reserves, accumulated post-pandemic, are strained by decreasing profit margins and stricter funding conditions. Moreover, the pandemic-induced debt burden is becoming more challenging to manage amid higher interest rates and slower economic growth.

The trend in insolvencies in 2024 is still upwards for most countries. Countries where we expect a relatively strong increase in insolvencies this year are Australia (34%), New Zealand (34%), Sweden (33%), Canada (31%), the Netherlands (31%), and the United States (29%). All experienced a sharp rise in the first half of the year, pushing insolvency levels above pre-pandemic figures. In Australia, New Zealand, Canada, and Sweden, insolvencies have risen well above pre-pandemic levels. This increase is driven by factors beyond just returning to normal, such as worsening economic conditions, high interest rates, inflation, and the need to repay Covid-related loans and deferred taxes.

At the other side of the spectrum, we expect a significant decline in insolvencies in Denmark (-18%) as insolvencies, which rose above pre-pandemic levels in 2023, are now returning to more normal levels. In countries like the Czech Republic, United Kingdom, Finland, and Portugal, the insolvency development is expected to remain stable.

Our insolvency forecast for 2025 is mostly associated with a normalised environment in which insolvencies are driven by the dynamics in GDP. Globally, we expect a minor decline in 2025. Some of the sharpest declines are forecasted in countries that experienced a spike in 2024, including Canada, Austria, South Korea, Sweden, and Australia. Absent another economic shock, we expect insolvencies in these countries to normalize to lower levels. For many markets, however, the insolvency trend is broadly stable in 2025. In these markets insolvencies have settled on the normality level, which is often close to the pre-pandemic level. Examples are Belgium, Czech Republic, Hong Kong, Romania, Spain and Norway.

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	-0.8	-0.5	1.1	-2.6	-3.6	-3.2	1.3	3.1	1.8	-0.6	-2.1	2.3	2 POSITIVE
Belgium	1.3	0.9	1.2	-4.2	-4.4	-3.1	-0.7	0.5	2.9	-7.1	-2.6	3.3	2 NEGATIVE
Finland	-1.2	-0.5	1.5	-3.0	-4.5	-3.2	-0.4	-0.4	-0.4	0.2	-2.0	2.6	2 POSITIVE
France	1.1	1.1	0.8	-5.5	-6.1	-5.6	-1.0	-0.3	0.4	2.5	1.6	0.9	2 STABLE
Germany	-0.1	-0.1	0.6	-2.6	-2.3	-1.5	5.9	6.9	6.1	0.2	0.1	1.3	1
Greece	2.0	2.0	2.0	-1.4	0.2	-1.3	-6.5	-6.0	-5.1	3.7	0.5	2.6	5 POSITIVE
Ireland	-5.7	-1.5	4.0	1.5	4.6	1.4	8.1	13.3	7.1	-6.0	9.2	-0.8	2 STABLE
Italy	0.8	0.4	0.9	-7.2	-3.9	-3.5	-0.1	1.1	0.8	1.1	-0.6	0.8	4 STABLE
Netherlands	0.1	0.6	1.3	-0.4	-0.4	-1.8	9.8	9.9	9.5	-0.4	-0.1	2.5	1
Portugal	2.5	1.6	1.9	1.2	1.7	0.8	0.5	2.0	1.2	3.5	4.0	1.9	3 NEGATIVE
Spain	2.7	3.1	2.4	-3.5	-3.2	-3.2	2.7	3.4	3.6	2.8	3.3	2.5	3 STABLE
Eurozone	0.5	0.8	1.2	-3.6	-3.0	-2.9	1.7	2.8	2.4	-0.5	1.1	1.6	-
Australia	2.0	1.1	2.0	0.7	0.1	-1.3	0.3	-0.7	-1.7	6.7	2.4	4.9	1
Canada	1.2	1.0	1.3	0.0	-2.2	-2.5	-0.7	-1.0	-1.0	5.4	1.0	2.8	1
Denmark	2.5	2.4	1.8	3.4	3.3	2.6	9.8	12.1	11.3	10.4	5.9	1.9	1
Norway	0.7	2.0	1.0	16.4	12.4	6.6	17.8	16.2	13.2	1.7	3.9	1.7	1
Sweden	-0.1	0.7	2.3	-0.6	-1.1	-1.2	6.5	7.1	4.7	3.5	1.8	1.8	1
Switzerland	0.7	1.4	1.2	0.1	0.0	0.0	5.2	6.4	7.5	1.2	4.2	2.7	1
United Kingdom	0.3	1.0	1.5	-5.7	-5.5	-3.5	-2.0	-2.9	-2.7	-2.2	-0.8	3.0	2 NEGATIVE
United States	2.9	2.8	2.6	-7.8	-7.4	-7.2	-3.3	-3.6	-3.6	2.8	3.4	3.9	2 POSITIVE
Central and Eastern Europe													
Czech Republic	0.0	1.0	3.0	-3.8	-2.5	-2.3	0.3	1.4	0.4	3.0	1.0	2.5	2 NEGATIVE
Hungary	-0.7	0.7	2.3	-6.8	-4.6	-3.8	0.8	1.3	0.3	1.5	-2.5	3.0	4 NEGATIVE
Poland	0.1	3.0	3.4	-5.1	-5.6	-5.7	1.8	-0.1	-1.2	3.4	1.5	3.0	3 NEGATIVE
Russia	3.6	3.5	1.7	-2.3	-1.9	-1.6	2.5	3.2	3.3	2.8	1.5	1.2	10
Slovakia	1.6	2.0	1.7	-4.9	-5.1	-4.6	-1.6	-0.2	0.1	-1.0	2.1	4.2	3 STABLE
Turkey	5.1	2.7	1.9	-5.1	-3.9	-2.7	-3.9	-1.5	-2.0	-2.8	1.8	3.4	6 STABLE
Asia													
China	5.2	4.8	4.4	-6.9	-8.2	-7.4	1.4	2.1	1.6	2.3	12.7	1.0	3 STABLE
India	7.7	6.8	6.8	-6.0	-5.4	-5.1	-0.9	-1.0	-1.3	3.5	3.8	6.3	4 NEGATIVE
Japan	1.7	-0.1	1.2	-4.0	-3.7	-3.5	3.6	4.4	4.2	3.0	0.7	2.2	3 POSITIVE
Latin America													
Brazil	2.9	3.2	1.9	-8.2	-7.2	-7.6	-1.0	-1.8	-1.9	9.1	4.7	-0.5	5 STABLE
Mexico	3.2	1.3	1.7	-3.4	-4.6	-3.0	-0.4	-0.7	0.3	-7.3	2.2	10.3	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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