Economic Update

Atradius Economic Research – November 2023

Summary

1. **Global** – The global economy is continuing to lose steam as past monetary tightening increasingly drags on consumer and business confidence. Geopolitical tensions pose increasing downside risks.

2. **Eurozone** – Based on sentiment indicators, we expect eurozone growth to remain stagnant at best in the near term, growing only 0.5% in 2024. Inflation is declining rapidly, making the ECB to pause its rate hikes.

3. **US and UK** – The US economy should avoid a recession but will stagnate in H1 2024 as tight monetary and fiscal policy drags on demand. The UK also faces a very sluggish growth outlook.

4. **Emerging markets** – We expect EME growth to stay in lower gear in 2023 and 2024, with Emerging Asia leading the other regions, while Latin America is lagging.

5. **Credit and insolvencies** – For 2023 and 2024 we predict increases in the global level of insolvencies as the adjustment to normal insolvency levels continues. In 2024, the picture across markets is more mixed than in 2023, as more markets approach the normality level in insolvencies.

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Global

Real GDP growth forecasts

	2022	2023f	2024f
World	3.1	2.6	2.0

Sources: Oxford Economics, Atradius

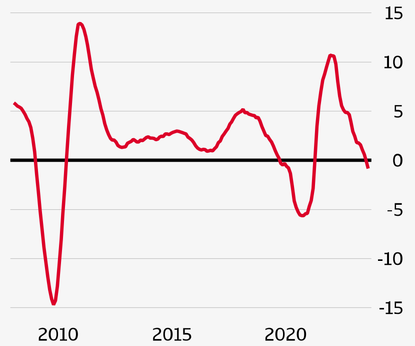
Oil price

Spot price, USD per barrel Brent

Sources: US EIA, Macrobond

World trade growth

Volume, 1-year moving average, % y-o-y



Sources: CPB, Macrobond

Economic outlook grows dimmer

Global economic growth continues to lose steam as a result of past monetary tightening while geopolitical risks increasingly weigh on the outlook. Consumer resilience in major economies in Europe and North America has motivated another 0.2 percentage-point upward revision to our 2023 forecast to 2.6%. The global composite PMI has continued its downward trend though, falling below the neutral 50 level in October, suggesting that the resilience sustained in Q3 is finally set to falter. We expect growth to stay restrained at 2.0% in 2024, depressed by the slowdown in the US economy amid tight fiscal and monetary policies. A global recession is not in the cards as softening demand eases inflationary pressures allowing central banks to bring an end to their tightening cycles. Geopolitical tensions, stoked by the Israel-Hamas war, Russia's ongoing war in Ukraine, and the US-China rivalry will continue to exert a downside risk to the outlook and continue the gradual trend towards greater economic fragmentation.

Volatility in energy markets is one of the main potential risks to the global outlook in the case of escalation of geopolitical conflicts. Global oil prices rose by nearly 30% in Q3 as global demand grew strongly and OPEC+ implemented further production reductions. The price of Brent crude oil has eased back to about USD 80 per barrel as markets worry about the sustainability of longer-term demand. The outbreak of war between Israel and Hamas has had limited impact on the oil price so far but any regional escalation of the conflict or disruption to energy supply chains could have major upward impacts on prices. For now though, we expect prices to stay relatively stable around USD 86 per barrel in 2024.

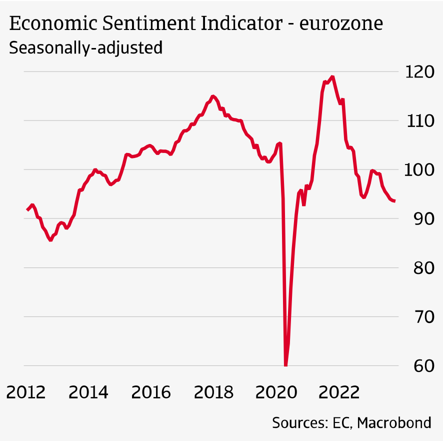
Annual world trade growth has fallen to -0.8% in August, below zero for the first time since March 2021. The global manufacturing PMI has been contractionary for 14 consecutive months, the longest duration since the bursting of the dot-com bubble in 2000. New export order momentum has crossed back into positive territory though and with base effects coming into play from a very weak H2 of 2022, we expect world trade to grow 1.1% in total in 2023. With high global interest rates and fragile investor sentiment, we don't expect world trade to recover to its pandemic era highs in 2024. But the normalisation of inventories after supply chain disruptions and exceptional pandemic-era purchasing trends should contribute to a return to positive trade growth in 2024.

Eurozone

Real GDP growth forecasts

	2022	2023f	2024f
Austria	4.8	-0.5	0.3
Belgium	3.0	1.5	0.8
France	2.5	0.9	0.6
Germany	1.9	-0.2	0.1
Greece	5.9	2.1	1.1
Ireland	9.5	-2.1	2.6
Italy	3.9	0.7	0.6
Netherlands	4.4	0.4	0.9
Portugal	6.9	2.2	1.2
Spain	5.8	2.4	1.2
Eurozone	**3.4**	**0.5**	**0.6**

Sources: Oxford Economics, Atradius



Eurozone: ECB pauses rate hikes as inflation decline continues

According to the flash estimate published by Eurostat, eurozone GDP decreased by 0.1% in Q3 of 2023, given broad-based weakness across the domestic and external sectors. Across the individual member states, there was reasonable growth in Latvia, Belgium and Spain. In the eurozone's largest member state Germany, however, GDP declined in Q3 of 2023. Based on sentiment indicators, we expect the eurozone to remain stagnant at best in the near term. The European Sentiment Indicator (ESI) declined to 93.3 in October, the sixteenth consecutive month that it was below the neutral level of 100. The purchasing managers index (PMI) declined to 46.5 in October, the fifth consecutive month below the neutral level of 50. Both services and manufacturing sentiment have been trending downwards. We expect a meagre 0.5% GDP growth in 2023, followed by only slightly higher growth in 2024 (0.6%).

Inflation eased to 2.9% year-on-year in September, primarily driven by falling energy and food inflation. The energy and food components of inflation are declining rapidly due to favourable base effects, as the large price increases from last year are starting to drop out of annual inflation rates. But also the components of core inflation – non-energy industrial goods and services – started to decline in recent months. Total (CPI) inflation is projected to continue trending down. The average inflation rate in 2023 is projected to be 5.6%, followed by 2.0% in 2024. The ECB council raised its interest rates by 25 bps in September, bringing the deposit rate to 4.0%. It also signalled that it believes that interest rates have reached levels that, if maintained long enough, are sufficient to return inflation to target. It is becoming clear that monetary tightening is increasingly limiting credit availability. The ECB's Q4 bank lending survey pointed to a tightening of credit standards on business and consumer loans.

The pace of employment growth slowed to 0.1% on a quarterly basis in Q2 of 2023, compared to a 0.5% increase in Q1 2023. The latest unemployment figure (6.4% in August) shows that the labour market is still tight for European standards. Wages are picking up sharply in the past year as employees are trying to make up for lost purchasing power. Negotiated wage growth jumped to 4.4% in Q1 of 2023 and remained at this level in Q2, which is an acceleration compared to Q4 2022 (3.1%). Wages are still declining when adjusted for inflation (-1.8% in Q2 of 2023), but given the ongoing decline in inflation, real wage growth may very well turn positive in Q4 2023. This leads us to believe that consumers' purchasing power will improve slightly in 2024.

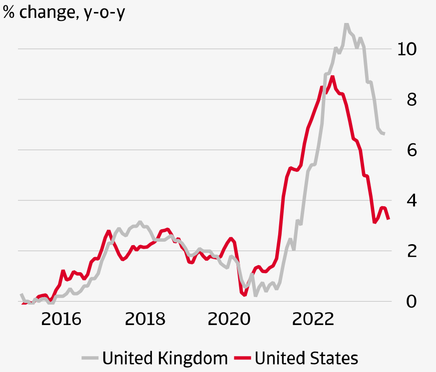
The US and the UK

Real GDP growth forecasts

	2022	2023f	2024f
United States	1.9	2.4	1.0
United Kingdom	4.3	0.6	0.4

Sources: Oxford Economics, Atradius

Consumer Price Index
% change, y-o-y



Sources: US BLS, UK ONS, Macrobond

US and UK economies to stagnate in H1 2024

The US economy far exceeded expectations in Q3 with 4.9% annual growth in Q3, driven by continued consumer resilience. Consumer spending continued to rise through Q3, up 4.0% from Q3 2022. This brings some momentum into Q4 but cracks are beginning to show. Dwindling excess savings, higher interest rates and the resumption of student loan payments will put a strain on US consumer spending in the first quarters of 2024. The labour market is showing signs of cooling in October with unemployment ticking up to 3.9% and average hourly earnings growth easing to 4.1%. CPI inflation decreased for the first time in four months to 3.2% y-o-y in October. Oil price volatility is a risk to the downward trend in inflation but we expect inflation to continue moderating over the coming months as signs of a cooling labour market should relieve pressure on sticky core services inflation. The Federal Reserve kept its target policy rate on hold between 5.25% and 5.0% in its November meeting. Amid persistent inflation but signs of cooling in the economy, the Fed maintained its hawkish tone and will be cautious with pivoting. We expect the Fed to keep rates on hold now until beginning to cut rates in September 2024. GDP will likely stagnate in H1 of 2024 due to tight monetary and fiscal policies before picking back up in H2, bringing full-year growth to 1.0%, down from 2.4% in 2023.

The UK's economy flat-lined in Q3 2023 compared to Q2, continuing the trend of sluggish economic growth over the past two years. Household consumption fell 0.4% q-o-q while investment contracted 2%, signalling that the gradual pass-through of higher interest rates, the cost-of-living crisis and the cooling labour market are taking their toll on domestic demand. This allows the Bank of England to stop raising its policy interest rate – which it left unchanged at 5.25% in its November meeting. However, a pivot in BoE policy is unlikely anytime soon as UK inflation proves stickier than in the eurozone and the US. Headline inflation eased to 4.6% y-o-y in October thanks to lower energy prices but upward pressure on core inflation remains due to the persisting passthrough of strong services wage inflation. GDP will likely remain weak in 2024 amid sustained high interest rates and little policy support ahead of the 2024 election. We expect only 0.4% growth next year, following a meagre 0.6% in 2023.

Emerging markets

Real GDP growth forecasts

	2022	2023f	2024f
Emerging Asia	3.8	5.3	4.5
Latin America	3.9	2.0	0.7
Eastern Europe	1.2	1.7	2.6
Emerging Markets	**3.7**	**4.1**	**3.6**

Sources: Oxford Economics, Atradius

EMEs staying in lower gear

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 4.1% this year and 3.6% in 2024, 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 to 5.3% in 2023, before slowing to 4.5% in 2024. We forecast Chinese GDP growth to equal 5.2% in 2023. This is higher than last year, as the end of Covid containment measures gave a boost to consumption in the first quarter. In the rest of the year, however, consumption growth disappointed, and spending remains below the pre-pandemic trend. Furthermore, the Chinese real estate sector remained a weak spot, with poor housing activity indicators, and a steady stream of negative headlines about distressed property developers. In India, the weakening trade environment and a delayed effect of earlier monetary policy tightening weigh on growth. While growth is slowing in India, to 6.7% in 2023 and 5.7% in 2024, it remains high when compared to other EMEs.

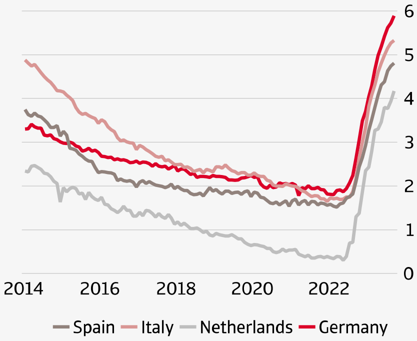
The economic recovery in Latin America is losing steam, but slowing GDP and lower price pressures is allowing inflation expectations to also decline. Several of the region's major central banks – including Brazil, Chile and the Dominican Republic – have already begun loosening their monetary policy in 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. But the lagged effects of high domestic interest rates will keep short term growth muted. Brazil's economy is likely to see 3.0% growth in 2023, flat with its performance in 2022, followed by much lower growth in 2024 (0.2%). In Mexico, economic activity is expected to slow to 3.3% in 2023 (from 3.9% in 2022) and 1.7% in 2024. Its economy is exposed to the US and global slowdown, curtailing exports. Furthermore, domestic policy uncertainty and still elevated inflation are constraining domestic consumer demand and investment.

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. However, the rouble came under pressure again in early October, forcing the central bank to hike the interest rate and the government to reinstate some capital controls. GDP growth is forecast to be 2.3% in 2023 and 2.2% in 2024. In Turkey, policymaking has shifted to a more orthodox stance the re-election of President Erdogan. The central bank is rapidly tightened monetary policy in response to rampant inflation, with the interest rate rising to levels not seen in over 20 years. Further weighing on growth is the slowing of exports as the global backdrop is worsening. Our forecast for GDP growth in Turkey is 3.5% in 2023 and 0.5% in 2024.

Credit and insolvencies

Corporate interest rates

Interest rates on short-term corporate loans, %



Sources: ECB, Macrobond

Insolvencies: normalisation continues in 2023

Insolvencies continued to increase in the first half of 2023, driven by normalisation after the pandemic and the bankruptcy of zombie firms. The phasing out of fiscal support measures and the lifting of temporary changes to insolvency legislation pushed the insolvency level higher in most markets. The mean insolvency level across countries is already above 2019, but countries are at different stages of the adjustment process. Some are overshooting the pre-pandemic level, while others are still in the process of adjustment.

For 2023, we predict an increase of 34% in the global level of insolvencies. We expect to see a rise in all regions, 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 Hong Kong (68%), the Netherlands (52%), the United States (51%), South Korea (45%) and Italy (45%). There are also markets with a more stable or even negative insolvency growth in 2023. In these countries, the insolvency level has already increased in 2022, sometimes even to above the normality level (of 2019). Countries for which we expect a decline in insolvencies in 2023 are Spain (-8%), Switzerland (-6%) and Czech Republic (-3%). Moreover, there are several countries with a stable insolvency situation, including Belgium, Austria, Spain, the United Kingdom, Switzerland and Denmark (stability is defined as having an insolvency change between -10% and +10%).

For 2024 we are still predicting insolvency increases for the majority of markets, but the percentage increase is generally lower than in 2023. On a global level, we predict that insolvencies rise by 19% compared to 2023. The picture across markets, however, is more mixed in 2024 as the insolvency in many markets approaches the normality level. Several markets are still likely to see a substantial rise in insolvencies, including Singapore, Poland, Italy, the Netherlands and the United States. In Singapore, Poland, Italy, the Netherlands and the United States the normalisation started in late 2022 or early 2023 and we expect that this will continue well into 2024. For Poland and Italy we did not see yet the normalization starting, but we think it will occur in the final part of 2023 and in 2024. But there will also be markets with a negative expected insolvency growth in 2024 or relatively contained increases, such as Finland, Austria, Belgium and the United Kingdom.

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	4.8	-0.5	0.3	-3.5	-2.3	-2.1	-0.3	2.8	2.3	11.8	1.8	1.5	2 POSITIVE
Belgium	3.0	1.5	0.8	-3.5	-3.8	-3.3	-1.0	-0.5	0.0	4.9	-0.2	0.7	2 NEGATIVE
Finland	1.6	0.3	0.9	-0.8	-3.4	-2.8	-2.6	-2.4	-1.3	3.7	0.2	1.9	2 POSITIVE
France	2.5	0.9	0.6	-4.8	-4.6	-4.5	-2.0	-1.1	-2.1	7.4	1.6	1.8	2 STABLE
Germany	1.9	-0.2	0.1	-2.5	-2.6	-2.0	4.2	5.9	5.5	3.5	-0.4	1.8	1
Greece	5.9	2.1	1.1	-2.5	-1.3	-1.0	-9.8	-3.9	-3.4	4.9	5.1	2.4	5 POSITIVE
Ireland	9.5	-2.1	2.6	1.7	2.2	1.4	10.8	8.3	6.9	14.2	-2.5	2.9	3 POSITIVE
Italy	3.9	0.7	0.6	-8.0	-5.3	-4.5	-1.5	0.2	0.7	10.7	0.4	2.7	4 STABLE
Netherlands	4.4	0.4	0.9	-0.1	-1.2	-2.5	9.3	9.4	8.6	4.6	0.7	2.1	1
Portugal	6.9	2.2	1.2	-0.3	1.5	0.4	-1.2	1.4	0.9	17.4	5.1	1.0	4 POSITIVE
Spain	5.8	2.4	1.2	-4.7	-4.1	-4.0	0.6	2.6	2.7	15.2	1.1	2.4	3 STABLE
Eurozone	3.4	0.5	0.6	-3.6	-3.3	-2.9	-0.7	1.5	1.7	7.4	0.1	2.0	-
Australia	3.7	1.9	1.3	-0.7	0.9	-2.4	1.1	1.7	1.5	3.4	9.4	5.8	1
Canada	3.4	0.8	-0.4	-0.3	-0.8	-3.4	-0.3	-1.0	-1.6	2.8	4.7	0.1	1
Denmark	2.7	1.2	1.8	3.3	2.4	0.9	13.4	11.3	11.3	10.8	7.2	1.3	1
Norway	3.2	1.3	0.3	27.3	17.3	7.9	30.1	14.4	16.3	5.5	4.1	1.0	1
Sweden	2.9	-0.5	0.1	1.1	-1.0	-0.9	4.8	4.4	3.4	7.1	2.0	1.8	1
Switzerland	2.7	0.6	1.0	0.9	0.0	0.0	8.8	7.4	9.0	4.6	3.3	2.1	1
United Kingdom	4.3	0.6	0.4	-4.6	-5.7	-3.7	-3.2	-2.9	-2.8	8.6	-0.9	1.2	2 NEGATIVE
United States	1.9	2.4	1.0	-4.5	-7.4	-7.1	-3.8	-3.1	-3.1	7.0	2.5	1.0	1
Central and Eastern Europe													
Czech Republic	2.4	-0.5	0.8	-5.3	-3.5	-2.6	-6.0	-0.9	0.1	7.2	2.4	1.3	2 NEGATIVE
Hungary	4.6	-0.9	2.4	-6.0	-5.5	-3.3	-8.2	-0.3	0.3	12.6	-0.3	2.2	4 NEGATIVE
Poland	5.6	0.3	2.6	-3.5	-5.5	-4.8	-2.5	1.1	-0.5	6.8	-1.9	2.3	3 NEGATIVE
Russia	-2.1	2.5	2.3	-1.1	-1.7	-3.0	11.1	2.8	5.4	-13.9	3.0	3.0	10
Slovakia	1.7	0.9	1.1	-2.1	-5.6	-5.4	-7.9	-0.4	0.0	2.4	-2.0	3.6	3 STABLE
Turkey	5.5	3.5	0.5	-0.5	-3.1	-3.1	-5.8	-5.0	-3.0	9.9	-4.1	2.1	6 STABLE
Asia													
China	3.0	5.2	4.4	-7.3	-7.6	-6.8	2.2	1.5	1.1	-0.3	3.3	1.9	3 STABLE
India	6.7	6.7	5.7	-6.9	-6.4	-5.6	-2.4	-1.0	-1.3	16.1	-2.4	2.4	4 NEGATIVE
Japan	1.0	1.7	0.7	-5.7	-5.1	-4.3	1.9	3.5	2.6	5.1	1.3	0.9	3 POSITIVE
Latin America													
Brazil	3.0	3.0	0.2	-4.5	-8.0	-8.7	-2.8	-1.2	-2.5	5.9	6.5	-2.9	5 STABLE
Mexico	3.9	3.3	1.7	-3.2	-3.5	-4.6	-1.3	-0.3	-0.2	9.1	-3.4	4.7	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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