



Economic Update

Atradius Economic Research – August 2021

Summary

1. **Global** – The economic recovery is diverging in part due to disparities in the rollout of vaccines. World trade continues to recover.
2. **Eurozone** – Sentiment indicators continue to point to robust recovery in H1 of 2021. Easing virus restrictions and further vaccination progress boost demand in the services sector.
3. **US and UK** – Accommodative fiscal and monetary policy is underpinning strong consumer-led recoveries in both the US and UK.
4. **Emerging markets** – Many emerging markets are still struggling with Covid-19 outbreaks and vaccination rollout. Asia leads the recovery in 2021, but rising infections have led to several growth forecast markdowns.
5. **Credit and insolvencies** – We still expect global business failures to rise in 2021, as many temporary measures that suppressed insolvency growth are gradually unwound. However, the rise in insolvencies is lower than previously expected, as many measures were still in place in H1 2021.

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Global

Global economic recovery getting patchier

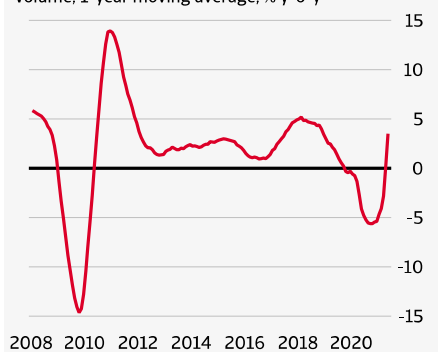
Real GDP growth forecasts

	2020	2021f
World	-3.6	6.2

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 Covid-19 cases have been rapidly rising through the summer as more transmissible variants spread, lockdown restrictions eased, and the vaccination rollout slowed. The weekly average of daily new cases has increased two-thirds since June, now stabilising above 600,000, with the growth in cases concentrated in the United States, Europe, and Asia. Despite this increase, sentiment is improving and we estimate that global GDP recovered its pandemic losses already in Q2. We expect a 6.2% expansion of the global economy in 2021 with the Delta variant remaining the primary downside risk and with disparities in global vaccination rates likely causing patchy growth.

Delta variant risks have largely overshadowed the risk of rising inflation the past month, but they persist. In advanced economies, our expectation of transitory inflation seems to be playing out as long-term inflation expectations ease. In emerging market economies, however, with central banks that lack the anti-inflation credibility of central banks like the US Federal Reserve, inflation is picking up sharply. In Africa and the Middle East, for instance, inflation is averaging 12% and in Latin America, 6%. This forces central banks, like the one in Brazil, to tighten monetary policy, slowing the economic recovery and posing a risk to global economic growth.

World trade in goods has also surpassed its pre-pandemic levels, with the 12-month rolling average growing 3.5% y-o-y in May 2021. The recovery is broad-based across capital and consumer goods and amongst all global regions. We expect this recovery in trade to continue, but to lose some momentum as leading indicators like the new export orders and global PMI (53.2 and 55.5 respectively) decrease slightly m-o-m in June but remain in strongly expansionary territory.

Brent crude oil prices have dipped slightly to just above USD 70 per barrel after reaching nearly USD 80 in early July. The downward movement comes from a stronger US dollar and rising concerns surrounding the impact of rising coronavirus risks – especially their effect on China’s fuel demand. OPEC+ also committed to increasing production by 400,000 barrels per day each month beginning in August to reverse the curbs to production implemented in the pandemic. Rising supply will put further downward pressure on oil prices. The US Energy Information Administration now forecasts Brent crude to average USD 68.78 per barrel in 2021.

Eurozone

Sentiment remains high amid recovery expectations

Real GDP growth forecasts

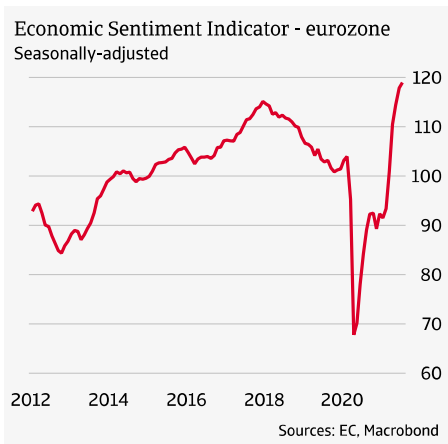
	2020	2021f
Austria	-6.4	3.6
Belgium	-6.3	5.4
France	-8.0	6.0
Germany	-5.1	3.6
Greece	-7.8	5.7
Ireland	5.9	7.1
Italy	-8.9	5.5
Netherlands	-3.8	3.0
Portugal	-7.6	4.3
Spain	-10.8	6.6
Eurozone	-6.7	5.0

Sources: Oxford Economics, Atradius

GDP went up by 2.0% q-o-q in Q2 of 2021, following on a 0.3% contraction in Q1. As the vaccination rollout continues, more containment measures are likely to be lifted in the coming months. Sentiment indicators point to a robust recovery in H2, with the European Sentiment Indicator (ESI) improving to 118.9 in July, which is well above the neutral level of 100. The composite Purchasing Managers Index (PMI) is broadly confirming this picture, recording 60.2 in July, up from 59.5 in June. Sentiment is above the neutral level both in sub-indicators for manufacturing and services. Manufacturing PMI declined slightly in July, to 62.8, from its highest ever recorded level in the month before (63.4). The manufacturing industry is experiencing some supply-side challenges, however, as input lead times lengthened to one of the greatest degrees ever recorded in July. The services PMI keeps improving and increased to 59.8 in July. The services sector is benefitting from easing virus restrictions and further vaccination progress, which are boosting demand for a wide variety of activities, especially in the tourism, travel and hospitality sector.

The eurozone inflation rate rose to 2% y-o-y in May, the highest since late 2018, and remained high in June (1.9%). Energy inflation (12.5%) is the main inflationary component, with the other components (non-energy industrial goods, services and food) making only a small contribution. In line with results from the manufacturing PMI survey, higher inflation is also visible in producer prices in the industrial sector, particularly for intermediate goods. This could lead to a slightly higher pass-through of rising production costs to consumer prices in some sectors. For the full-year 2021 we expect an average inflation rate of 2.1%, compared to 0.3% last year.

Despite the recent increase in inflation, the European Central Bank (ECB) is expected to continue its ultra-loose monetary policy. It recently conducted a strategic review that resulted in a “symmetric” inflation target of 2%, rather than a target of “close to, but below 2%”. We do not expect the ECB to raise interest rates before mid-2024. Furthermore, the central bank continues to purchase assets under the Pandemic Asset Purchase Programme (PEPP). The ECB will purchase up to EUR 1.85 trillion of bonds until March 2022 and will also reinvest principal payments until the end of 2023, which allows countries to issue debt at more favourable financing conditions.



The US and the UK

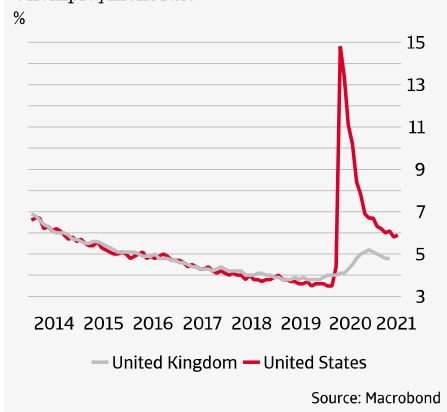
Consumers lead US and UK recoveries

Real GDP growth forecasts

	2020	2021f
United States	-3.5	7.0
United Kingdom	-9.8	7.3

Sources: Oxford Economics, Atradius

Unemployment rate



The US economy surpassed its pre-pandemic size in Q2 with a 6.5% y-o-y expansion. Growth was limited by supply chain issues which limited the capacity for inventories to restock in order to meet strong domestic demand. Higher investment and consumption also contributed to stronger growth in imports than exports, exerting a drag on overall GDP growth. The US economy is forecast to expand 7.0% in 2021, led by strong domestic demand. Significant fiscal stimulus and the prospects for more, on top of a rapidly recovering labour market are boosting consumer spending in the face of the bumpy recovery path of the health crisis. Consumer spending is further supported by the reopening of sectors and large excess savings that have been accumulated over the pandemic. Inflation expectations remain well-anchored, underpinned by Fed policy credibility. The fiscal impulse from the American Rescue Plan will fade quickly in 2022, and any additional stimulus from the American Jobs Plan will be disbursed more slowly. This should ease upward pressure on prices, and we expect core PCE inflation to average 3.2% this year – above target (2%), but contained. As such, the Federal Reserve is not expected to begin hiking interest rates until 2023, but likely to begin tapering quantitative easing in early 2022.

The UK economy is forecast to grow 7.3% in 2021 but is not expected to reach its pre-pandemic size before 2022. Consumers are driving the recovery in the UK, with strong growth particularly in the hospitality sectors. This momentum is expected to continue, as the last remaining restrictions have been lifted. The decline in Covid-19 cases since end-July bodes well for consumer confidence. Government-sponsored loan schemes have helped to keep corporate insolvencies low, and job retention schemes prevented a major rise in unemployment. These programmes are currently set to expire in autumn, providing the economy with just a few months to adjust. With stronger household balance sheets and rapidly recovering demand for labour, a large uptick in unemployment or a major consumption slump is not expected. Monetary policy will also continue to be supportive, with interest rates flat at 0.1%, and the asset purchasing programme tapering slowly.

Emerging markets

Emerging economies struggle with vaccine rollout

Real GDP growth forecasts

	2020	2021f
Emerging Asia	-0.1	7.7
Latin America	-7.2	6.4
Eastern Europe	-3.1	4.3
Emerging Markets	-1.6	6.9

Sources: Oxford Economics, Atradius

While the global economic recovery gains momentum, the outlooks for individual countries diverge significantly, especially across emerging market economies (EMEs). Many EMEs are still struggling with Covid-19 outbreaks and vaccination rollout has been progressing more slowly than among advanced markets. Emerging Asia has been the most successful in keeping the pandemic under control, with Latin America being the worst off. Additionally, the scope for fiscal expansions among EMEs has been more limited, offering less support to offset the negative economic impacts of Covid-19 containment measures. A stronger rebound is expected in H2 of 2021 when domestic restrictions will gradually ease, in line with improving global conditions. Economic growth across EMEs is forecast to recover to 6.9% this year.

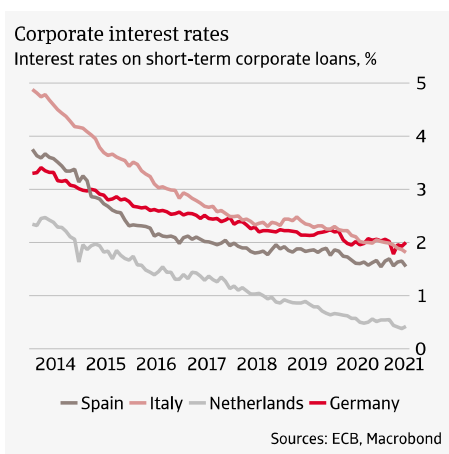
China's economy expanded by 7.9% y-o-y in Q2 of 2021, down from 18.3% in Q1. The lower Q2 growth reflects somewhat less favourable base effects compared to Q1. China's GDP recouped its pre-Covid-19 levels already last year, and is forecast to grow 8.4% in 2021. India's economic growth is expected to surpass this rate, with a 9.1% increase forecast in 2021. However, this figure is lower than previously expected, as an earlier rise of infections and lockdowns are weighing on the recovery.

After a sharp 7.2% contraction in 2020, Latin America's GDP is forecast to increase 6.4% in 2021. The vaccine rollout has been slower than in most other regions in the world, with political uncertainty and structural issues in national healthcare systems making matters worse. In Brazil, the economy performed well in H1 2021, thanks to a positive spill-over effect from last year and strong domestic demand. In 2021, GDP growth is forecast to expand 5.7%. Argentina's economy is forecast to bounce back 7.4% from a 9.9% contraction last year. The country achieved a deal to delay debt payments to March 2022, but they remain a downside risk.

Eastern Europe's aggregate GDP is forecast to grow 4.3% in 2021, after a 3.1% contraction in 2020. We expect Russia's economy to expand 2.5% this year, supported by the strong rebound in global demand and a domestic V-shaped recovery. Current oil prices are supportive as well, given the relatively low (USD 45 per barrel) fiscal break-even price. In Turkey, the lifting of restrictions since mid-May has led to a strong rebound in economic activity, with the economy expected to grow by 7.0% in 2021.

Rising insolvencies expected in 2021

The widely anticipated surge in insolvencies that we also expected at the start of the pandemic did not occur in 2020. In most markets, business failures declined in 2020, with a global insolvency decrease of 14%. The decline in insolvencies was particularly strong in Europe and Asia, and somewhat smaller in North America. Two types of policies are responsible for this decline. First, governments have provided fiscal support to companies whose revenues came under pressure as a result of the crisis. Second, many countries have amended their insolvency regimes to protect companies from going bankrupt. This includes temporary suspensions of insolvency applications in bankruptcy courts.



Australia, France, Austria and Belgium have recorded the strongest insolvency decreases. Countries with less sharp declines often made lesser or no changes to insolvency laws, such as Sweden, Denmark, the Netherlands, Ireland, Japan, and the United States. Since December 2020, the Netherlands has a temporary law in place under which companies in distress can apply for a temporary suspension of insolvency proceedings and a payments moratorium.

In 2021, we expect the picture to turn around and we forecast a 12% increase in global insolvencies. This is lower than previously expected as many fiscal measures and insolvency law amendments have been continued in H1 2021. The ongoing vaccination campaign and relaxation of containment measures is leading to a gradual return to normal for the economy. Starting in most countries from Q3, this is likely to result in a phasing out of fiscal support and a lifting of bankruptcy moratoriums. Most markets will see an increase of business failures this year, with the exception of Australia, Japan and Sweden, which have relatively long fiscal support and still low realised insolvencies.

Insolvency growth in 2021 will be high in a number of European countries, such as Austria (+51%), Belgium (+39%) and Spain (+26%), which made in-depth adjustments to insolvency procedures in 2020 and provided generous fiscal support packages. Insolvency growth will also be high the United Kingdom (+26%), though the increase is lower than previously expected. Government-sponsored loan schemes help to keep the growth in check, but they are expected to expire in the autumn, pushing up corporate bankruptcies. The UK experienced a particularly deep recession in 2020, and there is only a partial recovery expected in 2021. The trade deal signed with the EU in December 2020 will increase trade barriers, although much less so than under a no-deal scenario.

Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% GDP)			Current account balance (% GDP)			Export growth (%)			Political risk Rating ¹
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	
Western markets													
Austria	-6.4	3.6	4.7	-8.8	-8.8	-4.5	2.4	0.8	3.0	-10.6	4.7	9.0	2 POSITIVE
Belgium	-6.3	5.4	3.7	-9.3	-6.5	-4.5	-0.1	0.4	-1.7	-4.6	8.1	5.4	2 NEGATIVE
Finland	-2.7	2.5	2.1	-5.5	-4.0	-2.8	0.3	-0.7	-0.5	-6.6	4.5	7.8	2 POSITIVE
France	-8.0	6.0	4.8	-9.4	-9.8	-7.3	-2.0	-2.0	-2.2	-16.1	9.4	9.6	2 STABLE
Germany	-5.1	3.6	4.6	-4.6	-4.2	-1.6	6.8	6.8	5.7	-10.2	9.4	5.2	1
Greece	-7.8	5.7	5.9	-9.8	-7.6	-3.3	-5.5	-3.2	-1.7	-18.3	8.5	14.5	5 NEGATIVE
Ireland	5.9	7.1	2.4	-4.9	-5.0	-3.3	-2.6	18.7	18.4	9.5	7.9	1.8	3 POSITIVE
Italy	-8.9	5.5	4.8	-9.5	-11.0	-5.7	3.4	2.7	2.2	-14.5	12.4	6.6	4 NEGATIVE
Netherlands	-3.8	3.0	3.4	-4.3	-5.8	-3.6	7.0	10.4	10.5	-4.8	5.2	4.5	1
Portugal	-7.6	4.3	5.4	-5.8	-4.4	-3.3	-1.2	-0.2	1.2	-18.6	12.2	9.4	4 STABLE
Spain	-10.8	6.6	6.1	-11.3	-8.1	-5.8	0.7	0.9	1.5	-20.2	10.1	10.3	3 STABLE
Eurozone	-6.7	5.0	4.6	-7.4	-6.9	-4.1	2.1	2.6	2.3	-9.6	9.1	6.1	-
Australia	-2.4	5.1	3.3	-10.0	-3.4	-4.6	2.6	3.3	0.8	-10.0	2.0	8.1	1
Canada	-5.3	6.8	3.9	-10.5	-6.2	-2.3	-1.8	0.0	-0.3	-10.0	5.6	8.6	1
Denmark	-2.1	3.1	3.3	-1.2	-1.4	-0.5	8.3	7.0	7.0	-7.0	7.4	5.5	1
Norway	-1.3	3.9	3.0	-1.0	0.4	-0.1	1.9	6.3	3.7	-0.8	3.4	5.1	1
Sweden	-2.9	4.4	2.7	-3.0	-2.5	-1.4	5.7	4.7	4.4	-5.0	9.6	2.7	1
Switzerland	-2.7	3.9	3.2	-2.0	-2.3	-0.4	5.0	7.4	9.0	-5.6	6.9	7.5	1
United Kingdom	-9.8	7.3	6.7	-12.7	-11.0	-4.8	-3.5	-2.9	-3.3	-16.4	3.0	8.1	2 NEGATIVE
United States	-3.5	7.0	4.3	-15.9	-12.3	-6.0	-2.9	-3.4	-3.0	-12.9	5.8	9.4	1
Central and Eastern Europe													
Czech Republic	-5.8	3.6	4.6	-6.5	-7.9	-3.8	3.5	5.3	3.7	-7.0	10.6	3.0	2 NEGATIVE
Hungary	-5.1	7.0	4.8	-8.1	-7.4	-5.6	-0.2	0.7	0.4	-6.8	12.2	5.1	4 NEGATIVE
Poland	-2.7	4.9	5.7	-7.1	-3.7	-2.2	3.5	2.7	2.3	-0.2	11.9	6.7	3 NEGATIVE
Russia	-3.0	3.4	2.5	-3.8	-0.6	-1.3	2.4	2.6	2.0	-4.3	3.4	2.5	4 NEGATIVE
Slovakia	-5.1	4.0	5.3	-8.6	-6.5	-4.5	-0.4	0.5	0.3	-6.9	14.2	3.7	3 STABLE
Turkey	1.8	7.0	2.3	-3.7	-2.1	-2.4	-5.4	-3.4	-3.3	-15.4	16.5	5.1	6 POSITIVE
Asia													
China	2.3	8.4	6.1	-8.3	-7.0	-6.9	1.6	1.8	1.3	2.1	19.0	6.5	3 STABLE
India	-7.0	9.1	7.1	-6.7	-7.9	-5.7	1.5	-1.3	-1.8	-9.0	16.4	7.4	4 NEGATIVE
Japan	-4.7	2.6	2.8	-12.3	-10.3	-6.0	3.2	3.4	3.5	-11.8	14.0	6.6	3 POSITIVE
Latin America													
Brazil	-4.4	5.7	2.1	-14.0	-6.8	-6.5	-1.4	-1.5	-2.0	-2.1	5.6	6.0	5 STABLE
Mexico	-8.5	6.2	3.2	-3.0	-3.0	-2.7	2.4	0.5	-0.3	-7.2	11.0	5.5	4 NEGATIVE

¹Note: 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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