Economic Update

Atradius Economic Research – December 2021

Summary

1. **Global** – Global GDP and trade are losing momentum due to supply-chain challenges, rising inflation and new Covid-19 containment measures.

2. **Eurozone** – Sentiment remains positive but continues to decline in the eurozone as the fourth wave weighs on the economic recovery.

3. **US and UK** – The consumer-led recoveries in the US and UK are facing increasing challenges as support schemes fade and prices increase sharply.

4. **Emerging markets** – Growth momentum for emerging market economies is waning as they struggle with low vaccination rates and supply bottlenecks.

5. **Credit and insolvencies** – The level of insolvencies is expected to remain very low in 2021, but increase sharply in 2022 as fiscal support schemes are gradually phased out.

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Global

Real GDP growth forecasts

	2020	2021f	2022f
World	-3.5	5.7	4.3

Sources: Oxford Economics, Atradius

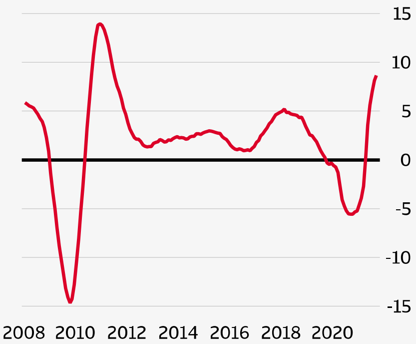
Oil price

Spot price, USD per barrel Brent

Sources: US EIA, Macrobond

World trade growth

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



Sources: CPB, Macrobond

Ending the year on more uncertain footing

The emergence of new, more transmissible variants of Covid-19 and the rapid re-imposition of restrictions by governments in response continues to challenge the bumpy global economic recovery. Supply chain issues and transportation bottlenecks are increasingly straining manufacturing and distribution. The global manufacturing purchasing managers' index (PMI) stood at 54.2 in October, well above the neutral line of 50. This generally bodes well for global economic output, but industrial production is unable to meet demand in the current environment. Price pressures have increased as a result and inflation is proving stickier than expected. Purchasing power is being eroded, weighing on confidence and economic growth. Central banks are responding more aggressively and monetary support will be phased out more quickly than expected in 2022. Altogether these challenges have motivated a 0.2 percentage point downward revision to our 2022 forecast, bringing it to 4.3%.

Sharp increases in global commodity prices pose another challenge to the world economy. Depleted reserves, supply chain issues, and higher demand in Asia have caused sharp increases in gas prices. This has driven oil prices above USD 80 per barrel for the first time in years but since late November they have fallen back to about USD 75 per barrel. The decline in prices is driven by the more uncertain demand outlook due to the Omicron variant, the drawdown of reserves by the US and allies and output hikes by OPEC+. In 2022, the US Energy Information Administration forecasts the price of oil to average USD 70 per barrel Brent.

World trade expanded 8.7% annually in the 12 months up to and including September. Trade growth is broad-based across all major regions, spanning capital and consumer goods. While the strong PMIs point to robust trade growth going into 2022, trade is increasingly losing steam. Trade momentum (three-month q-o-q growth) fell to -1.12% in September, the third consecutive month in the red. The same metric for new export orders also presents the fourth consecutive month in negative territory.

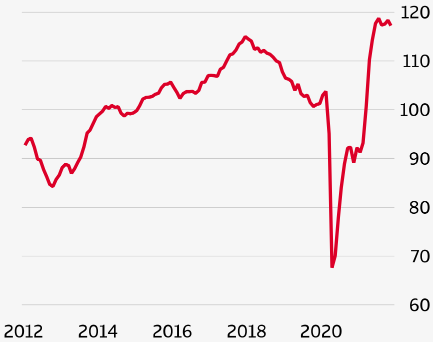
Eurozone

Real GDP growth forecasts

	2020	2021f	2022f
Austria	-6.8	4.9	3.3
Belgium	-5.7	6.2	2.9
France	-8.0	6.7	3.7
Germany	-4.9	2.5	4.0
Greece	-8.8	8.6	3.8
Ireland	5.8	15.1	3.8
Italy	-9.0	6.3	4.5
Netherlands	-3.8	4.5	3.5
Portugal	-8.4	4.4	4.6
Spain	-10.8	4.4	5.4
Eurozone	**-6.5**	**5.0**	**4.0**

Sources: Oxford Economics, Atradius

Economic Sentiment Indicator - eurozone
Seasonally-adjusted



Sources: EC, Macrobond

Fourth wave weighs on European sentiment

Following a solid 2.1% expansion in Q2, the eurozone economy grew another 2.2% in Q3. This keeps the trade bloc on track to reach 5.0% growth overall in 2021. The recovery builds on the success of the vaccination campaigns in Europe, which have allowed a significant reopening of the economy, especially in the summer and autumn months. But Covid-19 infections are rising rapidly again across Europe, forcing governments to take new measures. The European Sentiment Indicator (ESI) dipped in November to its lowest level since May but at 117.3, it remains well above the neutral level of 100. The composite PMI also remains in positive territory (above 50) but has moved down a bit in recent months, to 53.4 in December. The manufacturing sector reports a lengthening of delivery times, input shortages, and higher inflationary pressures. As these challenges are expected to subside slowly, the services sector will be left to do the heavy lifting in terms of economic support. The labour market continues to improve with the unemployment rate declining slightly to 7.3% in October, from 7.4% the month before.

Price pressures are increasingly straining the economic outlook. The headline inflation rate reached 4.9% in November, the highest rate since the euro was introduced. Excluding volatile items like energy, food and tobacco, core inflation shot to 2.6%. Headline inflation is expected to remain close to 4% over the next few months, mainly driven by a stronger energy component.

High inflation puts the European Central Bank in an increasingly uncomfortable position. Monetary policy is still very accommodative. At its December 2021 meeting, the ECB decided to end net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) at the end of March 2022. Under the current PEPP, the ECB buys up EUR 60 billion of government assets each month. It is also making EUR 20 billion of monthly purchases under the more long-standing asset purchase programme (APP). To smooth the transition out of the PEPP, the ECB will temporarily increase asset purchases under the APP. On balance, this implies that monetary policy will slightly tighten in 2022. However, the key policy rate is forecast to remain at the present level (0%) at least until end-2023.

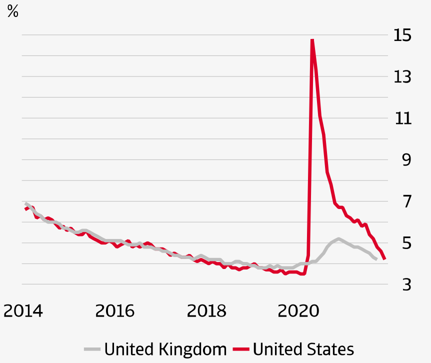
The US and the UK

Real GDP growth forecasts

	2020	2021f	2022f
United States	-3.4	5.7	4.4
United Kingdom	-9.7	6.9	4.9

Sources: Oxford Economics, Atradius

Unemployment rate



Source: Macrobond

Policy support in US and UK to be steadily withdrawn in 2022

US economic output is expected to grow 5.7% in 2021 – a solid recovery, but much weaker than the 7.0% forecast only a couple months ago. The latest wave of the coronavirus, supply chain issues and lower fiscal impulse have strained economic activity more than previously anticipated. The US economy expanded only 2.1% y-o-y in Q3 as the resurgence of Covid infections weighed on activity and final sales. Supply chain issues have also fed into soaring inflation in the US. Headline inflation surged to 6.8% in November, the highest rate since 1982. Rising demand, higher energy prices, wage pressures and supply chain disruptions are all contributing to higher price. The labour market on the other hand shows increasing robustness with the unemployment rate down to 4.2% in November, near its pre-crisis rate. As such, the Federal Reserve has pivoted in its communications to prioritise its inflation target. We expect the Fed to finish its asset purchasing programme in March, paving the way for a first rate hike in September 2022.

The UK economy is forecast to expand 6.9% in 2021, led by consumer spending. Growth has lost momentum though, expanding only 1.1% in Q3. While the labour market has continued its strong recovery, the expiration of fiscal support coincides with strong inflation. Labour market data has continued to show resilience but there is the ongoing fear that wage growth will not keep up with price growth, squeezing real incomes. Headline inflation is expected to reach 4.7% by the end of the year and remain above 3% though 2022. Persistent inflation is increasing the pressure on the Bank of England to tighten monetary policy, but interest rate hikes would also damage household finances and the fragile recovery, especially as uncertainty has increased sharply in response to the Omicron variant of Covid-19. We expect policymakers to move cautiously, keeping interest rates flat for now at 0.1% and making a first hike in February. Rate hikes will likely be gradual, ending 2022 at 0.5%.

Emerging markets

EMEs losing momentum entering 2022

Real GDP growth forecasts

	2020	2021f	2022f
Emerging Asia	-0.1	7.1	5.3
Latin America	-7.1	6.7	2.1
Eastern Europe	-3.0	4.5	3.9
Emerging Markets	**-1.6**	**6.7**	**4.7**

Sources: Oxford Economics, Atradius

Emerging market economies (EMEs) as a whole are estimated to grow 6.7% in 2021, following a 1.6% contraction in 2020. Economic activity across EMEs is expected to continue at a reasonable rate of 4.7% in 2022 but challenges are rising. Global supply chain bottlenecks and slower vaccination rates relative to advanced economies are constraining growth potential. Fiscal support has also already been withdrawn and central banks in many major markets have already been hiking monetary policy rates in response to higher inflation.

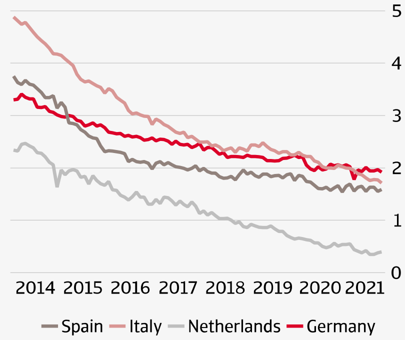
China's GDP returned to its pre-Covid-19 levels already last year, and is forecast to grow 8.0% in 2021. The outlook for China has been clouded recently by the property developer Evergrande. We expect the government to conduct a managed restructuring of the firm's debt to prevent a disorderly default. India's economy is expected to grow 8.2% this year and 7.9% in 2022 as more of the population gets vaccinated.

After a sharp contraction of 7.1% in 2020, Latin America's GDP is forecast to increase 6.7% in 2021 and 4.7% in 2022. The vaccine rollout there 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, GDP growth is forecast to expand 4.6% in 2021 but nearly flat-line at 0.1% next year, squeezed by aggressive monetary tightening. Argentina's economy is forecast to rebound 9.8% from a 9.9% contraction last year. The country achieved a deal to delay debt payments to March 2022, but high policy uncertainty in the face of potential default in 2022 is undermining confidence and poses a downside risk to the 3.0% growth forecast next year.

Eastern Europe's aggregate GDP is forecast to grow 4.5% in 2021 and 3.9% in 2022. We expect Russia's economy to expand 4.1% this year, following a 3.0% contraction in 2020, with oil and gas prices very supportive for its economy. In Turkey, GDP is expected to post robust growth of 10.3% in 2021, but we expect the growth rate to fall to only 2.6% in 2022 due to the lira collapse.

Credit and insolvencies

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



Sources: ECB, Macrobond

Rising insolvencies expected in 2022

Global insolvencies are expected to decline 1% in 2021, following a 14% decline in 2020. This is much lower than what we previously expected. The still low level of business failures this year is owing to the extension of fiscal measures in many countries, and in some cases also due to the continuation of insolvency law amendments such as bankruptcy moratoriums. Fiscal support is increasingly fading out and we expect this to trigger an increase in bankruptcies in 2022. For 2022, we forecast a 33% increase in global insolvencies relative to 2021. The increase is expected in all major regions, with the highest rise expected in Asia-Pacific, and somewhat lower increases in Europe and North America. The combination of delayed insolvencies from 2020, the return of insolvencies to 'normal' levels as fiscal support is phased out, and the effect of GDP growth on insolvencies, is expected to lead to higher bankruptcies in most observed markets.

When we look at the level of insolvencies in 2022 compared to the pre-pandemic (2019) level, we expect the largest increases to occur in Italy (+34%), the United Kingdom (+33%) and Australia (+33%). In the Netherlands, the insolvency level in 2022 is also expected to be relatively high (+26%) compared to pre-pandemic levels. Other major economies such as Spain (+26%) and France (+23%) can also expect elevated insolvency levels in 2022.

However, there are also markets for which our forecast is a relatively stable development of insolvencies up to and including 2022, such as Germany (+2% compared to 2019), and to a lesser extent Sweden (+3%) and Japan (+4%). A decline in insolvencies is expected for Brazil (-35%), South Korea (-15%) and Ireland (-10%).

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	-6.8	4.9	3.3	-8.3	-6.2	-3.6	1.8	-0.1	0.9	-11.5	9.1	2.7	2 POSITIVE
Belgium	-5.7	6.2	2.9	-9.1	-5.4	-6.1	0.9	2.1	-1.2	-5.5	9.4	4.3	2 NEGATIVE
Finland	-2.9	3.5	2.3	-5.5	-3.5	-2.8	0.8	0.7	-1.1	-6.8	3.1	5.4	2 POSITIVE
France	-8.0	6.7	3.7	-9.2	-7.6	-6.3	-2.0	-1.2	-1.8	-16.1	8.4	8.4	2 STABLE
Germany	-4.9	2.5	4.0	-4.4	-3.9	-1.7	6.8	6.5	5.7	-10.1	7.3	5.7	1
Greece	-7.8	8.1	3.4	-10.0	-8.4	-3.7	-5.6	-5.6	-2.5	-18.0	10.4	11.9	5 STABLE
Ireland	5.8	14.7	4.0	-4.9	-4.9	-3.2	-2.8	19.7	24.0	9.5	14.9	2.4	3 POSITIVE
Italy	-9.0	6.3	4.5	-9.6	-9.4	-5.6	3.7	3.0	1.8	-14.7	12.5	7.4	4 NEGATIVE
Netherlands	-3.8	4.5	3.5	-4.2	-3.7	-2.4	7.0	10.8	10.8	-4.8	6.9	4.5	1
Portugal	-8.4	4.4	4.6	-6.0	-4.2	-3.2	-1.2	-2.2	-1.6	-18.6	9.5	11.6	4 STABLE
Spain	-10.8	4.4	5.4	-11.3	-7.3	-5.3	0.8	1.0	1.5	-20.2	11.1	7.3	3 STABLE
Eurozone	-6.5	5.0	4.0	-7.3	-6.0	-3.8	1.8	2.5	2.2	-9.4	9.3	5.7	-
Australia	-2.2	4.1	3.6	-10.0	-2.5	-2.9	2.6	4.6	0.0	-9.8	-0.8	6.1	1
Canada	-5.2	4.5	4.3	-11.1	-4.7	-2.2	-1.8	0.0	-1.5	-9.7	1.0	6.9	1
Denmark	-2.1	3.8	3.1	-0.5	0.3	-0.1	8.2	7.6	7.0	-7.0	4.0	7.4	1
Norway	-1.3	4.3	2.9	-1.0	1.7	0.1	1.9	14.3	10.7	-1.5	5.6	3.8	1
Sweden	-3.1	4.7	3.2	-2.8	-1.3	-0.8	5.7	5.2	4.5	-5.0	6.8	3.6	1
Switzerland	-2.5	3.5	3.1	-2.8	-2.4	0.0	4.5	6.2	9.3	-6.0	8.4	6.0	1
United Kingdom	-9.7	6.8	5.0	-13.2	-9.0	-4.1	-2.6	-2.4	-3.1	-14.7	-2.3	10.1	2 NEGATIVE
United States	-3.4	5.7	4.4	-15.6	-12.0	-5.7	-3.0	-3.4	-3.2	-13.6	4.2	7.8	1
Central and Eastern Europe													
Czech Republic	-5.8	2.4	4.2	-6.5	-6.8	-5.3	3.5	2.9	1.9	-7.0	8.3	4.0	2 NEGATIVE
Hungary	-4.8	6.9	4.3	-7.9	-6.4	-5.7	-1.6	-2.3	-1.0	-5.9	11.1	6.4	4 NEGATIVE
Poland	-2.4	5.1	4.5	-7.2	-1.9	-1.5	3.0	-0.3	0.1	0.1	11.1	5.1	3 NEGATIVE
Russia	-3.0	4.1	2.8	-3.8	-0.2	-2.7	2.4	6.3	7.4	-4.3	0.7	3.1	4 NEGATIVE
Slovakia	-5.1	3.5	3.8	-8.6	-5.7	-4.7	0.0	-2.1	-2.0	-6.9	10.0	2.3	3 STABLE
Turkey	1.8	10.3	2.6	-3.7	-1.4	-2.0	-5.0	-2.6	-3.1	-14.8	20.2	5.8	6 POSITIVE
Asia													
China	2.3	8.0	5.0	-8.3	-6.5	-6.9	1.6	1.9	1.7	2.1	17.3	5.0	3 STABLE
India	-7.0	8.2	7.9	-6.7	-6.8	-7.0	1.5	-1.3	-2.2	-9.0	21.0	6.4	4 NEGATIVE
Japan	-4.7	1.8	3.2	-9.4	-8.5	-6.5	2.9	2.9	3.0	-11.8	11.0	8.1	3 POSITIVE
Latin America													
Brazil	-4.2	4.8	0.6	-14.0	-4.5	-6.5	-1.4	-0.5	-2.1	-2.2	7.5	1.5	5 STABLE
Mexico	-8.4	5.5	2.7	-2.9	-3.1	-3.0	2.3	-0.5	-0.2	-7.1	8.8	7.4	4 NEGATIVE

[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 p

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