



Economic Update

Atradius Economic Research – October 2021

Summary

1. **Global** – Global GDP and trade are losing momentum due to supply-chain challenges, rising inflation and higher energy prices.
2. **Eurozone** – While sentiment indicators continue to point to robust activity, the recovery may come under pressure by supply-chain headwinds. The services sector will become more important in sustaining growth.
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 as many support schemes are continued well into this year. However, as fiscal support is being gradually phased out, we expect insolvencies to increase in 2022.

Economists

Dana Bodnar, Economist
dana.bodnar@atradius.com
+31 20 553 3165

Theo Smid, Senior Economist
theo.smid@atradius.com
+31 20 553 2169

Global

Global recovery losing momentum

Real GDP growth forecasts

	2020	2021f	2022f
World	-3.5	5.7	4.5

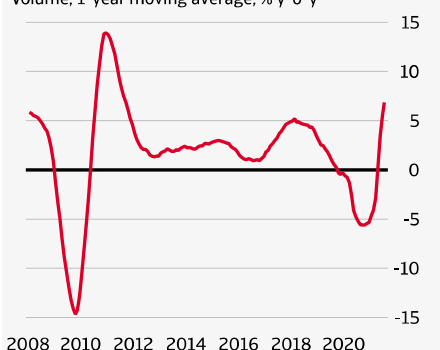
Sources: Oxford Economics, Atradius

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

The global economic recovery from the pandemic is continuing but losing momentum. Challenges are growing as the northern hemisphere enters colder months, price pressures increase and energy shortages intensify. The weekly average of new cases of Covid-19 has declined to around 400,000 from above 600,000 at the peak of the third wave. With the pace of vaccination rollout slowing though, risks stemming from the pandemic hang over the outlook. Lower vaccination rates in low income countries is straining their economic recoveries. As economic activity resumes in advanced economies though, supply chain issues and transportation bottlenecks are increasingly straining manufacturing and distribution, putting upward pressure on prices. This motivates a 0.5 percentage points downward revision in our 2021 GDP forecast to 5.8%. These challenges are likely to persist into 2022, keeping global economic growth capped at 4.5%.

The energy shortage is further fuelling price pressures. Depleted reserves, supply chain issues, and higher demand in Asia have sent gas prices in particular sky high. The price of oil is also increasing, surpassing USD 80 per barrel Brent for the first time since October 2018. With gas prices rising, demand for oil is expected to be higher to meet heating needs this winter while supply remains constrained by OPEC+'s gradual increase in oil output. This could continue to put upward pressure on oil prices but there is also risk of downward pressure through higher output from non-OPEC+ members and US shale producers. The US EIA forecasts the price of oil to average USD 72 per barrel in 2022.

World trade continues to grow in year-on-year terms, but the momentum (q-o-q change) is declining. In the 12 months up to and including July, global trade grew 6.9% y-o-y, while the momentum in July turned negative (-0.4% q-o-q). Trade growth in all major regions remains broad-based, spanning capital and consumer goods. Strong trade growth should continue over the remainder of the year as the purchasing managers' index is also solidly in growth territory. The global manufacturing PMI stood at 54.1 in September but this is down from 56.0 in May. New export orders are also down to 51.0, just barely in positive territory and trade momentum has crossed into the red at -0.4% in July.

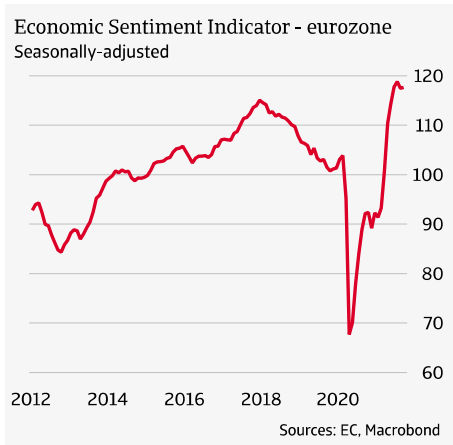
Recovery is slowed by supply-chain headwinds

Real GDP growth forecasts

	2020	2021f	2022f
Austria	-6.8	4.0	4.5
Belgium	-6.3	5.8	3.5
France	-8.0	6.2	4.2
Germany	-4.9	2.5	4.5
Greece	-7.8	8.2	3.7
Ireland	5.8	14.7	4.1
Italy	-9.0	6.2	4.8
Netherlands	-3.8	4.2	3.5
Portugal	-8.4	4.2	5.2
Spain	-10.8	5.2	6.4
Eurozone	-6.5	5.0	4.5

Sources: Oxford Economics, Atradius

The eurozone economy rebounded 2.2% q-o-q in Q2 of 2021 and is on track for strong growth in the third quarter. The recovery builds on the success of the vaccination campaigns in Europe, which have allowed a significant reopening of the economy. Sentiment indicators are pointing to a solid growth momentum. The European Sentiment Indicator (ESI) dropped a bit in August and September, but remains very high at 117.6 in September, which is well above the neutral level of 100. The composite Purchasing Managers Index (PMI) moved down from 59.0 in August to 56.2 in September. As it remains above 50 (the neutral level), the PMI still points to an expansion of business activity. Inflationary pressures and supply-side disruptions weigh on the outlook. 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.



Sources: EC, Macrobond

High inflation has reached the eurozone, with the headline rate at 3.4% year-on-year in September and core inflation (excluding energy, food and tobacco) at 1.9%. Mainly driven by a stronger energy component, inflation in the eurozone is seen getting closer to 4% over the next few months and is expected to remain above 2% in H1 2022. Despite the recent increase in inflation, the European Central Bank (ECB) is expected to continue a very loose monetary policy. At its September meeting, the ECB did decide to reduce its monthly purchases under the Pandemic Emergency Purchase Programme (PEPP) – it will be announced at a later moment by how much exactly. Other than the announced scaling back of the PEPP, the monetary policy stance is broadly unchanged. The PEPP is planned to last until at least the end of March 2022, for a total of EUR 1.85 trillion. The key policy rate should remain at the present level (0%) for the years to come.

The labour market continues to improve, with the unemployment rate declining to 7.5% in August, from 7.6% in July. The number of workers in job retention schemes continues to decline as well. The labour market is expected to strengthen further over the coming months, as there is a substantial increase of disposable incomes and consumers remain optimistic.

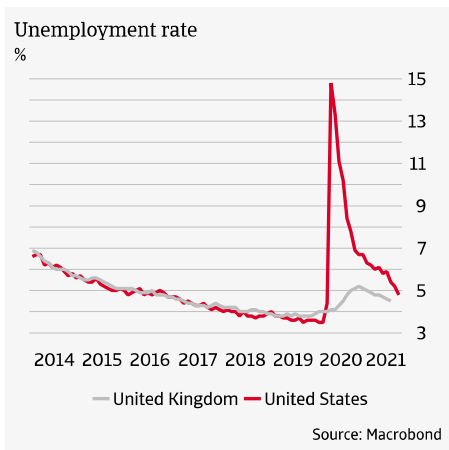
The US and the UK

Price pressures weigh on US and UK outlooks

Real GDP growth forecasts

	2020	2021f	2022f
United States	-3.4	5.4	4.3
United Kingdom	-9.7	7.3	5.8

Sources: Oxford Economics, Atradius



The outlook for the US economy has waned slightly over the past couple months. Output is now forecast to increase 5.4%, a solid recovery, but much weaker than the 7.0% forecast only a couple months ago. While the health situation has been improving in recent weeks, the third wave and lower fiscal impulse has strained economic activity in Q3 more than previously expected. Supply chain issues are also a key driver of the poorer outlook. Limited supply and resilient demand has contributed to higher prices with core inflation up to 3.6% y-o-y over the summer. Higher energy prices are pushing headline inflation, which rose to 4.3% in August, even higher. Even with rising prices, US consumers are proving resilient. Accelerating wage growth and large excess savings from the lockdown period are forecast to fuel 7.9% growth in consumer spending this year and 4.1% next year. The labour market recovery is bumpy due to labour supply constraints but demand remains high and pre-pandemic employment is expected to be reached in H2 of 2022. The Federal Reserve is increasingly cautious in response to increasingly persistent inflation and may decide to hike the monetary policy rate at the end of 2022.

The UK economy is also facing increasing price pressures but is still forecast to expand 7.3% in 2021, led by consumer spending. Strong fiscal stimulus has supported UK households but this month, the furlough scheme and temporary uplift to universal credit expire. While the labour market has continued its strong recovery, supporting the outlook for consumer spending, the expiration of fiscal support is coinciding with strong inflation. There is an increasing risk that real wages in the UK could decline with price pressures surpassing wage increases straining household finances in the winter. Soaring gas prices stemming from depleted inventories, supply issues, and surging demand going into the winter are further fuelling price levels. Inflation is expected to reach 4% by the end of the year and remain elevated above 3% in 2022. We still expect monetary policy to remain supportive, with interest rates flat at 0.1% and a slow tapering of the asset purchasing programme. 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.

Emerging markets

Emerging economies growth momentum wanes

Real GDP growth forecasts

	2020	2021f	2022f
Emerging Asia	-0.1	7.1	5.6
Latin America	-7.2	6.5	2.7
Eastern Europe	-3.0	4.8	4.0
Markets	-1.6	6.6	5.0

Sources: Oxford Economics, Atradius

The growth momentum for emerging market economies (EMEs) is easing, with GDP growth being revised down to 6.6%, from 6.9% two months ago. As economies are gradually reopening, economic activity is likely to keep expanding at a reasonable rate in H2 of 2021. Supply-chain bottlenecks and slower vaccination rates, however, put a brake on the pace of recovery. Moreover, fiscal policy space to stimulate the economy is limited among EMEs, and many have begun to wind down support programmes.

The strong recovery of China's economy in H1 of 2021 is likely to taper off somewhat in the second half of the year. China's GDP returned to its pre-Covid-19 levels already last year, and is forecast to grow 8.0% in 2021. China is the only major emerging market with a relatively high vaccination rate (73% have been fully vaccinated). 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 7.9% this year, which is somewhat lower than previously expected. Disappointing Q2 GDP data and risks of new Covid-19 outbreaks led to a growth markdown.

After a sharp 7.2% contraction in 2020, Latin America's GDP is forecast to increase 6.5% 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, GDP growth is forecast to expand 5.2%. Despite strong economic performance in H1 of 2021, international supply-chain disruptions and a tightening of policy rates are expected to weigh on growth going forward. Argentina's economy is forecast to bounce back 7.6% from a 9.9% contraction last year. The country achieved a deal to delay debt payments to March 2022, but debt remains a downside risk.

Eastern Europe's aggregate GDP is forecast to grow 4.8% in 2021, after a 3.0% contraction in 2020. We expect Russia's economy to expand 4.5% this year, following a 3.0% contraction in 2020. Current oil and gas prices are very supportive for public finances. The break-even oil price is around USD 45 per barrel, compared to a market price that is above USD 80. In Turkey, GDP is expected to post robust growth of 9.0% in 2021, as restrictions have been lifted since mid-May. However, there are risks from high inflation and rising infections.

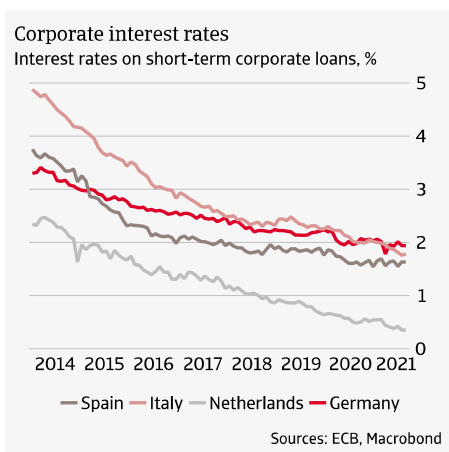
Rising insolvencies expected in 2022

Global insolvencies declined 14% in 2020, despite deep recession triggered by the Covid-19 pandemic. In 2021, insolvencies are expected decline 1% on a global level. 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 will be phased out in most markets in H2 of 2021, triggering an increase in bankruptcies towards the end of this year and in 2022. For 2022, we forecast a 33% increase in global insolvencies vis-à-vis 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 Australia the increase occurs mainly in 2022 due to the expiry of fiscal support towards the end of 2021. In Italy and the United Kingdom, the increase is distributed over both 2021 and 2022, but the highest increase takes place in 2022. In the Netherlands, the insolvency level in 2022 is also relatively high (+26%) compared to pre-pandemic levels. The increase in the case of the Netherlands is forecast to only take place in 2022, as fiscal support keeps the level low in 2021. Other major economies such as Spain (+26%), France (+23%) and the United States (+6%), can also expect elevated insolvency levels in 2022.

Some countries show a relatively stable insolvency development up to and including 2022. Examples are Germany (+2%), and to a lesser extent Sweden (+3%) and Japan (+4%). Brazil (-35%), South Korea (-15%) and Ireland (-10%) are the only markets with substantially lower insolvencies in 2022 compared to 2019. The reasons why differ per country. Ireland has seen a relatively stable development of insolvencies through the pandemic and fiscal support is extended until Q4 of 2021. Fiscal support is extended into 2022 for South Korea, keeping insolvencies low there as well. In Brazil, the economic recovery is sufficiently strong keeping insolvencies at the current low level over the coming two years.



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	4.0	4.5	-8.8	-7.5	-4.6	1.8	-0.3	1.8	-11.5	12.5	3.1	2 POSITIVE
Belgium	-6.3	5.8	3.5	-9.3	-6.5	-4.4	0.9	1.9	-1.5	-4.6	7.9	5.3	2 NEGATIVE
Finland	-2.9	3.5	2.3	-5.5	-3.6	-2.8	0.8	-0.2	-0.6	-6.8	2.2	6.2	2 POSITIVE
France	-8.0	6.2	4.2	-9.2	-8.8	-6.3	-2.0	-2.0	-2.3	-16.1	8.4	9.8	2 STABLE
Germany	-4.9	2.5	4.5	-4.4	-4.5	-1.7	6.8	6.1	5.5	-10.1	7.9	5.4	1
Greece	-7.8	8.2	3.7	-9.8	-9.7	-3.3	-5.7	-6.3	-2.5	-18.0	10.4	11.9	5 NEGATIVE
Ireland	5.8	14.7	4.1	-5.0	-4.9	-3.2	-2.8	19.8	24.0	9.5	14.9	2.4	3 POSITIVE
Italy	-9.0	6.2	4.8	-9.6	-9.4	-5.6	3.7	2.6	1.5	-14.7	13.4	8.1	4 NEGATIVE
Netherlands	-3.8	4.2	3.5	-4.2	-5.3	-2.8	7.0	11.0	10.9	-4.8	7.2	4.9	1
Portugal	-8.4	4.2	5.2	-5.9	-4.1	-3.1	-1.2	-1.4	-1.0	-18.6	8.9	12.0	4 STABLE
Spain	-10.8	5.2	6.4	-11.3	-7.6	-5.8	0.8	1.0	1.5	-20.2	9.8	8.4	3 STABLE
Eurozone	-6.5	5.0	4.5	-7.4	-6.5	-3.8	1.8	2.4	2.3	-9.3	9.1	6.1	-
Australia	-2.4	2.9	3.8	-10.0	-5.3	-3.9	2.7	4.8	0.6	-10.1	-1.3	5.6	1
Canada	-5.3	5.2	4.7	-10.5	-5.8	-2.7	-1.8	0.6	-0.6	-10.0	2.7	9.7	1
Denmark	-2.1	4.5	3.2	-0.8	-0.1	-0.1	8.2	7.7	7.5	-7.0	5.5	7.8	1
Norway	-1.3	3.6	3.5	-1.0	1.8	0.0	1.9	7.3	3.9	-0.8	4.3	4.5	1
Sweden	-2.9	4.1	3.2	-2.9	-1.8	-0.9	5.7	5.7	5.0	-5.0	7.0	3.4	1
Switzerland	-2.5	3.5	3.5	-2.8	-2.6	-0.4	4.4	7.2	8.9	-6.0	6.7	9.2	1
United Kingdom	-9.7	7.3	5.8	-13.2	-9.3	-4.2	-2.6	-1.9	-3.1	-14.7	-0.4	9.5	2 NEGATIVE
United States	-3.4	5.4	4.3	-15.6	-12.0	-6.1	-3.0	-3.5	-3.3	-13.6	4.3	8.6	1
Central and Eastern Europe													
Czech Republic	-5.8	3.1	4.7	-6.5	-6.7	-5.0	3.5	2.8	1.8	-7.0	9.2	5.0	2 NEGATIVE
Hungary	-4.8	7.0	5.2	-7.9	-6.4	-5.7	-1.6	-2.9	-0.9	-5.9	11.1	6.4	4 NEGATIVE
Poland	-2.6	4.9	4.7	-7.0	-2.4	-2.1	3.0	0.4	0.1	-0.2	11.2	6.2	3 NEGATIVE
Russia	-3.0	4.5	2.7	-3.8	-0.2	-1.3	2.4	3.7	2.8	-4.3	0.7	3.1	4 NEGATIVE
Slovakia	-5.1	4.2	4.5	-8.6	-5.3	-4.0	-0.4	-0.2	-0.4	-6.9	10.6	2.9	3 STABLE
Turkey	1.8	9.0	2.7	-3.7	-1.6	-2.1	-5.4	-3.3	-3.2	-14.8	17.7	5.7	6 POSITIVE
Asia													
China	2.3	8.0	5.4	-8.3	-6.8	-6.7	1.6	1.6	1.5	2.1	16.3	5.2	3 STABLE
India	-7.0	7.9	7.8	-6.7	-8.9	-6.0	1.5	-0.9	-1.8	-9.0	21.1	8.5	4 NEGATIVE
Japan	-4.7	2.4	2.8	-11.2	-10.3	-6.0	3.2	3.6	3.4	-11.8	12.7	7.1	3 POSITIVE
Latin America													
Brazil	-4.4	5.2	1.7	-14.0	-5.1	-6.2	-1.5	-0.4	-1.6	-2.3	10.0	2.3	5 STABLE
Mexico	-8.5	6.5	3.0	-3.0	-3.1	-3.1	2.4	0.3	-0.1	-7.1	9.5	6.9	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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Atradius N.V.

David Ricardostraat 1 - 1066 JS Amsterdam
Postbus 8982 - 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com