Economic Update

Atradius Economic Research – February 2024

Summary

1. **Global** – The global economy is continuing to lose steam as past monetary tightening are increasingly felt. But with inflation in most markets past its peak, the outlook is stronger than previously expected. Geopolitical tensions pose increasing downside risks.

2. **Eurozone** – Recent GDP figures show that economic activity remains weak across the domestic and external sectors. Despite some upticks in inflation in recent months, the underlying disinflationary process remains in place. The ECB is not expected to increase the interest rate above current levels but will be hesitant to start easing too soon.

3. **US and UK** – The US economy exceeded expectations in 2023 and we expect a gradual shift down in growth in 2024. The UK on the other hand nearly stagnated in 2023 and is facing another year of sluggish growth. On the bright side, inflation has sharply declined in both markets, increasing the likelihood that interest rates will be cut before the summer in both the US and UK.

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

5. **Credit and insolvencies** – For 2024 we still predict an increase in the global insolvency level, but at a lower rate than last year. As the insolvency in many markets approaches the pre-pandemic level, the insolvency increases in 2024 are relatively contained.

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Global

Slowing global growth but recession to be avoided

Real GDP growth forecasts

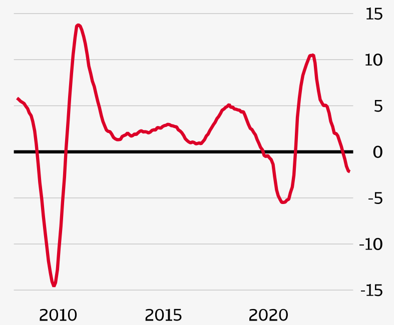
	2023	2024f	2025f
World	2.7	2.4	2.6

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

Global economic growth is losing steam but we do not expect a recession in 2024. After 2.7% in 2023, the world economy is expected to expand 2.4% in 2024 as past monetary tightening weighs on demand. Geopolitical risks, especially related to the Israel-Hamas war, as well as Russia's war in Ukraine and the US-China rivalry, are weighing on the outlook. Tighter financing conditions, lower demand and smoother supply chains are contributing to lower inflation across advanced economies, raising the prospects for monetary policy normalisation in the second half of 2024. As such, the global economy appears to be on course for a soft landing but the path forward will be difficult given the withdrawal of fiscal support and high debt levels weighing on economic activity.

Easing global demand and economic growth have led to a decline in international trade too. World trade fell 2.5% year-on-year as of November 2023, as weak demand from China contributes to a manufacturing recession in Europe. On top of this, weaker demand for Chinese goods in Europe and the US further hits Chinese manufacturers. But momentum is already turning positive and we expect 2.5% global trade growth in 2024. Trade growth this year will be helped by further disinflation and the pivot in monetary tightening, which will help boost consumer purchasing power and allow easier access to finance and credit. The supply chain stress spurred by the pandemic has largely been resolved, but the recent uptick in shipping costs as a result of Houthi rebel attacks in the Red Sea will linger in the coming months and poses a downside risk to the trade outlook.

Geopolitical uncertainty is a major risk for energy markets and could contribute to oil price volatility through 2024. The price of oil has stayed around USD 80 per barrel Brent so far this year. This is despite lower OPEC+ production quotas, further voluntary cuts from Saudi Arabia and Russia, and the disruption to Red Sea shipping routes. Higher US production has helped offset this loss in supply and prices will likely remain contained around this level given lower global demand for oil amid the economic slowdown. This should help keep prices relatively stable on average just above USD 80 per barrel, but the risk of an upward shock due to an escalation of the Middle East conflict or further disruption to energy supply chains persists.

Eurozone

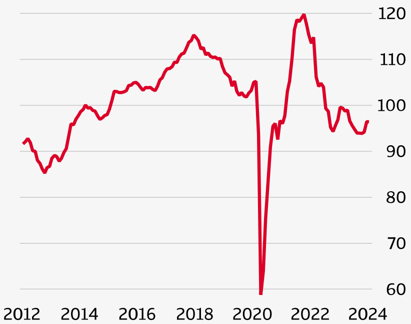
Eurozone recovery to start from low base

Real GDP growth forecasts

	2023	2024f	2025f
Austria	-0.7	0.4	2.1
Belgium	1.5	1.3	1.3
France	0.9	0.5	2.1
Germany	-0.1	-0.1	1.4
Greece	2.1	1.4	2.5
Ireland	-2.2	1.9	4.5
Italy	0.7	0.6	1.2
Netherlands	0.0	0.7	2.6
Portugal	2.3	1.5	1.8
Spain	2.5	1.8	1.7
Eurozone	**0.5**	**0.6**	**1.8**

Sources: Oxford Economics, Atradius

Economic Sentiment Indicator - eurozone
Seasonally-adjusted



Sources: EC, Macrobond

According to the flash estimate published by Eurostat, eurozone GDP remained flat in Q4 of 2023, after a -0.1% decline in Q3. While a GDP breakdown of the fourth quarter is not yet available, it is likely that weakness is still broad-based across the domestic and external sectors. In the eurozone's largest member state Germany, GDP declined by 0.3% in Q4 of 2023. Recent surveys signal that the expected recovery this year will start from a low base and the recovery has not yet gained pace. However, there are initial signs that the worst might be over and that momentum stabilised rather than deteriorated. In December the Economic Sentiment Indicator (ESI) improved for the third consecutive month, reaching a value of 96.2. This was still below the neutral level of 100. The purchasing managers index (PMI) also improved slightly in recent months, to 47.9 in December, but remains below the neutral level of 50. We expect a meagre 0.6% GDP growth in 2024, followed by somewhat better growth in 2025 (1.8%).

The declining trend in inflation suddenly stopped in December 2023, when CPI inflation rose from 2.4% in November to 2.9%. In January 2024, it was slightly lower at 2.8%. We believe that the inflation increase was temporary as it was mainly driven by energy base effects in Germany. The underlying measures of inflation suggest that the disinflationary process remains in place. Core inflation (excluding energy and food) continued to decline in recent months, to 3.3% in January. The eurozone inflation rate projected by Oxford Economics is 1.6% in 2024, but this seems a bit on the optimistic side. The ECB has not introduced any additional interest rate hikes after September 2023. It believes that interest rates have reached levels that, if maintained long enough, are sufficient to return inflation to target. Recent data show monetary tightening is having an effect on credit availability. The ECB's Q1 2024 bank lending survey again pointed to a tightening of credit standards on business and consumer loans.

The labour market remains tight, despite some recent cooling. The latest unemployment figure (6.5% in October) is still very low. Wages are picking up sharply in the past year as employees are trying to make up for lost purchasing power. Wage growth picked up in 2023 as employees were trying to make up for lost purchasing power. Negotiated wage growth increased through 2023 to 4.7% in Q3, which is considerably higher compared to Q4 2022 (3.1%). As inflation continued to decline in the final quarter of 2023, 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.

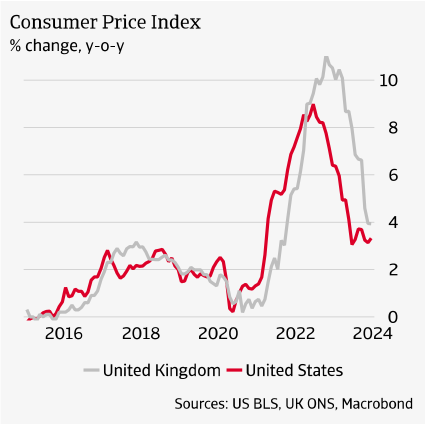
The US and the UK

US and UK monetary policy pivot comes into view

Real GDP growth forecasts

	2023	2024f	2025f
United States	2.5	2.3	1.4
United Kingdom	0.3	0.6	1.6

Sources: Oxford Economics, Atradius



The US economy entered the new year on relatively strong footing. After a whopping 4.9% annualised growth recorded in Q3, US GDP grew a further 3.3% in Q4. This preliminary reading shows the US economy remains resilient and continues to exceed forecasters' expectations, bringing estimated full-year growth to 2.5%. The cumulative impact of past monetary tightening, less accommodative lending conditions, tighter fiscal policy and heightened political uncertainty are all weighing on the 2024 outlook. But the slowdown will be gradual, brining 2024 growth to 2.3%. Cooling inflation is central to the increasingly benign outlook: the core personal consumption expenditures index rose 2.9% year-on-year in December. While still elevated, inflation continues its downward path towards the Fed's 2% target. This offers relief for consumers, further aided by a still tight labour market with nominal wage growth standing at 4.8% in the same period. It also offers Fed policymakers more flexibility to cut interest rates sooner than later, reducing the likelihood of a recession. We expect the Fed to cut rates from the current target range of 5.25% to 5.5% for the first time in May.

The UK on the other hand is on much weaker economic footing. GDP growth estimates for Q2 and Q3 2023 have been revised downwards, showing flat growth quarter-on-quarter in Q2 and contraction in Q3. The Q4 performance is likely to have also been stagnant, bringing full-year growth to only 0.3%. Annual inflation has declined to 4.2% in November and December, from 4.7% in October. Disinflation is driven by large falls in oil and wholesale gas prices as well as softer-than-expected services inflation. This offers relief for British consumers from the cost-of-living crisis and will also cause an earlier-than-expected pivot in monetary policy. We expect the Bank of England to begin cutting the Bank Rate in May as well. The positive impact of monetary loosening will only be felt in 2025 though as debt interest payments rise this year from previous tightening. Growth will be further strained by restrictive fiscal policy and weak exports as new border controls between the UK and EU come into force. We project only 0.6% growth in UK real GDP in 2024.

Emerging markets

Real GDP growth forecasts

	2023	2024f	2025f
Emerging Asia	5.4	4.6	4.5
Latin America	1.9	0.7	2.5
Eastern Europe	2.0	2.7	2.3
Emerging Markets	**4.2**	**3.6**	**3.8**

Sources: Oxford Economics, Atradius

EMEs' outlooks diverge

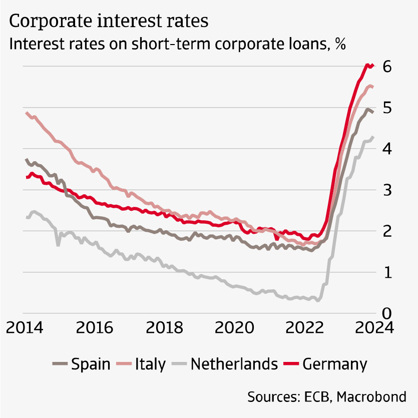
The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards. We expect GDP growth to stay in a lower gear at 3.6% this year and 3.8% in 2025, due to weak external demand and tightening global financing conditions. Under the headline figure lies substantial heterogeneity. Under the headline figures lies substantial heterogeneity. Emerging Asia is set to lead other regions again in terms of GDP, though growth is subdued in a historical perspective. Latin America, struggling with structural weaknesses and political uncertainty, will lag other regions, especially in 2024.

Growth in Emerging Asia is forecast to slow to 4.6% in 2024 and remain muted at 4.5% in 2025. China's 2023 Q4 GDP figures suggest that the cyclical trough is likely behind us, even if sentiment indicators, such as consumer confidence, continued to hover at record low levels. The 2024 growth rate is forecast to be 4.5%. Both the government and central bank implement targeted stimulus. The property sector remains the biggest risk to the Chinese economy and property investments are still in decline. In India, the weakening trade environment and a delayed effect of earlier monetary policy tightening will bring growth down to 5.7% in 2024.

We expect already-weak GDP growth in Latin America to slow to 0.7% in 2024, before rebounding to 2.5% in 2025. Whereas the region continues to lag behind other EME regions in terms of GDP growth, its shock resistance has improved substantially. This is largely thanks to improvements in policymaking, visible in the region's proactive approach in monetary policy tightening. Brazil's GDP outlook is very weak with only 0.4% growth forecast in 2024. The economic slowdown is mostly due to the lagged impact of restrictive monetary policy. But there is considerable upside potential for growth if the central bank interest rate cuts have an effect on the economy faster than expected. Mexico outperformed regional peers last year, but growth is expected to slow to 1.9% in 2024 owing to weaker external demand and fading support from government infrastructure projects. While the labour market is tight, supporting domestic consumption, the retail and tourism sectors are cooling.

The economic outlook for Eastern Europe remains clouded by the Russia-Ukraine war. Despite massive Western sanctions, Russia managed to keep a positive GDP growth in 2023. For 2024 some slowdown in GDP growth is expected, to 2.3%, but Russia still continues to export large amounts of oil, which underpins growth. The central bank continues a very tight monetary policy to prevent a weakening of the rouble. In Turkey, policymaking has shifted to a more orthodox stance following the re-election of President Erdogan. Resurgent inflation and ongoing interest rate hikes are weighing on confidence and domestic demand. We expect a limited GDP growth of 1.0% in 2024.

Credit and insolvencies



Insolvencies still increase in 2024, but at a lower rate

Insolvencies continued to increase in 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.

The majority of countries experienced rising insolvencies in 2023. The highest insolvency growth rates could be found in South Korea (65%), the Netherlands (48%), Australia (42%), Canada (41%) and the United States (40%). There were 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 that experienced a decline in insolvencies in 2023 were South Africa (-13%), Czech Republic (-6%) and Switzerland (-1%). Moreover, there were several countries with a stable insolvency situation, including Denmark, Germany, Brazil and Romania (stability is defined as having an insolvency change between -10% and +10%). Data over 2023 is still incomplete for Spain, Italy and Portugal.

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 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]
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	
Western markets													
Austria	-0.7	0.4	2.1	-2.8	-2.8	-2.0	2.6	2.5	2.1	1.7	0.8	2.1	2 POSITIVE
Belgium	1.5	1.3	1.3	-3.8	-3.3	-2.8	-0.6	1.9	1.9	-3.5	-1.6	4.8	2 NEGATIVE
Finland	-0.4	0.4	1.7	-2.2	-2.4	-1.5	-1.7	-0.1	-0.1	-0.8	1.7	3.2	2 POSITIVE
France	0.9	0.5	2.1	-4.6	-4.5	-4.5	-1.1	-2.1	-1.9	1.5	1.9	4.1	2 STABLE
Germany	-0.1	-0.1	1.4	-1.8	-1.5	-0.7	6.6	6.6	6.1	-1.5	0.7	2.8	1
Greece	2.1	1.4	2.5	-1.4	-1.4	-1.0	-5.6	-3.5	-3.6	2.4	3.1	4.0	5 POSITIVE
Ireland	-2.2	1.9	4.5	2.3	1.5	0.8	13.1	11.7	11.3	-4.4	0.9	5.2	2 NEGATIVE
Italy	0.7	0.6	1.2	-5.3	-4.5	-3.7	0.5	1.7	1.8	0.1	3.0	3.8	4 STABLE
Netherlands	0.0	0.7	2.6	0.1	-1.4	-2.0	10.2	8.5	8.8	-1.3	0.7	5.3	1
Portugal	2.3	1.5	1.8	1.9	0.4	0.0	1.4	0.9	0.9	4.1	0.4	1.8	4 POSITIVE
Spain	2.5	1.8	1.7	-4.1	-3.8	-3.0	2.7	3.7	3.8	2.4	1.0	3.4	3 STABLE
Eurozone	0.5	0.6	1.8	-2.9	-2.7	-2.3	1.9	2.7	2.6	-0.9	1.1	3.8	-
Australia	2.0	1.3	2.7	0.7	-1.7	-0.9	1.1	1.1	-0.8	7.0	4.4	4.1	1
Canada	1.0	-0.5	2.2	0.1	-2.3	-2.3	-0.8	-1.5	-1.8	4.5	-0.1	2.6	1
Denmark	0.8	1.4	3.8	2.8	1.2	0.8	10.7	11.4	11.0	9.8	-0.3	1.4	1
Norway	0.6	0.4	1.9	15.8	7.1	4.7	16.2	11.6	10.0	1.1	1.4	3.4	1
Sweden	-0.3	0.0	1.8	-0.5	-0.9	-0.7	6.1	4.4	4.4	2.7	1.0	2.3	1
Switzerland	0.7	1.2	1.5	0.0	0.0	0.0	8.0	8.1	8.5	4.5	2.4	3.3	1
United Kingdom	0.3	0.6	1.6	-6.1	-3.7	-3.3	-2.6	-2.5	-2.6	-0.3	0.1	2.8	2 NEGATIVE
United States	2.5	2.3	1.4	-7.7	-7.3	-7.3	-3.1	-3.1	-3.3	2.7	2.2	3.4	2 POSITIVE
Central and Eastern Europe													
Czech Republic	-0.4	1.0	3.1	-3.9	-2.6	-1.7	1.2	1.0	0.2	2.6	1.5	3.4	2 NEGATIVE
Hungary	-0.7	2.7	2.9	-6.2	-4.1	-3.0	-0.1	1.7	0.0	0.0	1.8	5.6	4 NEGATIVE
Poland	0.4	3.2	3.2	-5.1	-5.6	-4.2	1.4	-0.9	-1.5	-4.8	3.3	6.4	3 NEGATIVE
Russia	3.2	2.4	0.2	-1.0	-2.1	-2.6	2.6	4.1	3.8	2.7	1.5	1.5	10
Slovakia	1.1	1.5	2.4	-5.1	-5.0	-3.9	-0.7	-0.2	0.0	-2.4	3.0	4.2	3 STABLE
Turkey	4.0	1.0	1.9	-5.1	-4.4	-2.3	-4.5	-2.0	-2.1	-2.0	1.7	1.8	6 STABLE
Asia													
China	5.2	4.4	4.0	-7.7	-7.7	-6.8	1.6	1.4	1.9	3.9	5.1	3.2	3 STABLE
India	7.0	5.8	6.8	-5.9	-6.1	-4.7	-0.9	-1.6	-1.7	2.2	3.7	9.6	4 NEGATIVE
Japan	2.0	0.6	0.8	-5.1	-4.3	-3.2	3.5	3.3	2.8	2.7	1.7	0.9	3 POSITIVE
Latin America													
Brazil	2.9	0.4	2.3	-8.8	-8.7	-7.2	-1.1	-1.6	-2.3	8.6	-2.6	-0.1	5 STABLE
Mexico	3.2	1.9	2.1	-3.3	-4.4	-2.7	-0.8	-0.5	-0.7	-5.6	7.4	5.3	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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