

# THE BIG SWITCH: REWIRING THE WORLD?

**Euler Hermes Global Economic Outlook**

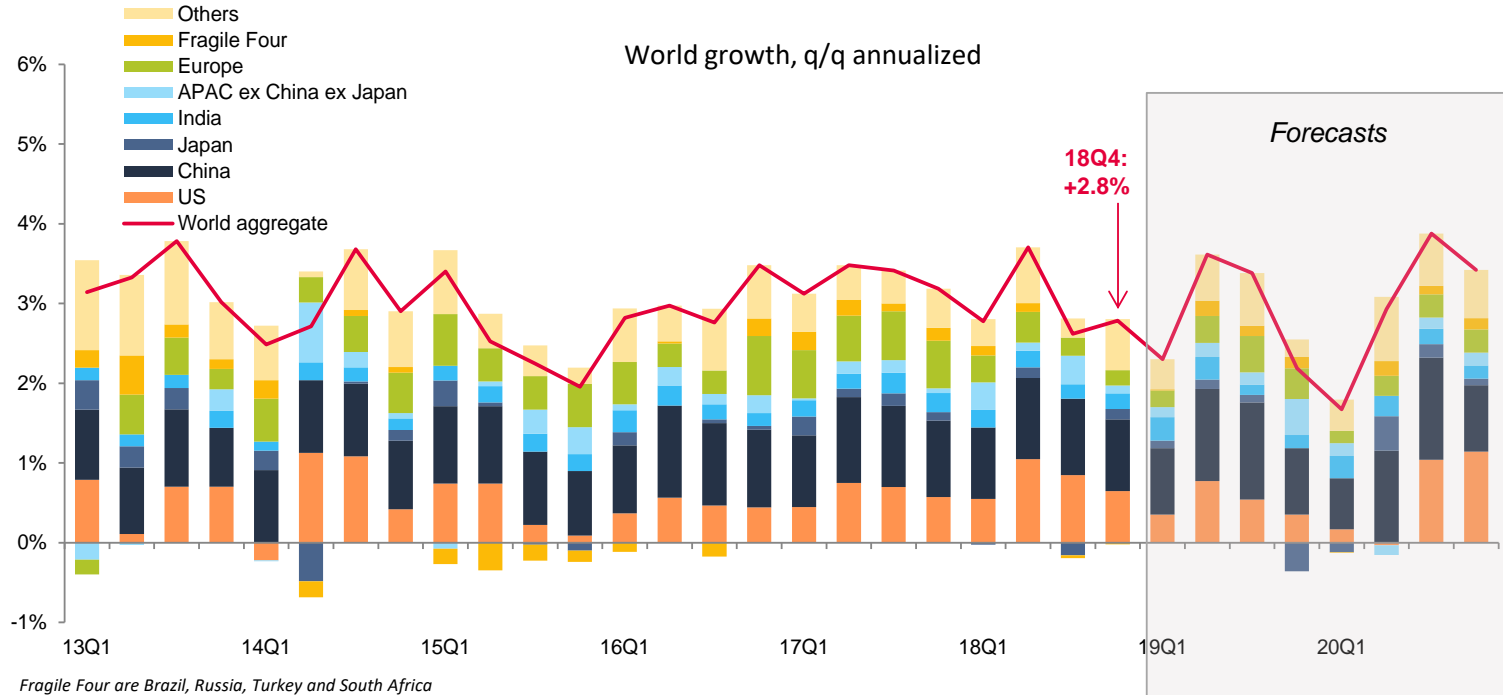
Economic Research Department

Q1 2019

Mark Schulz, 11 April 2019



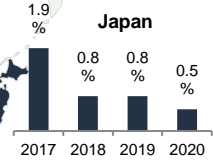
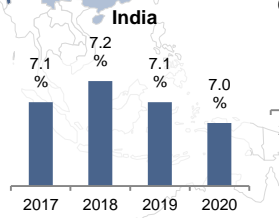
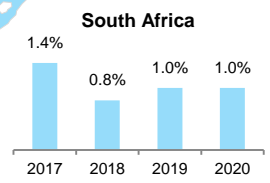
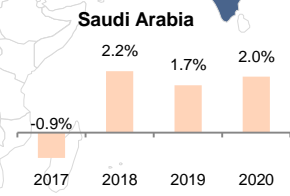
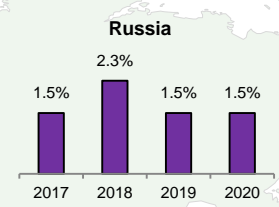
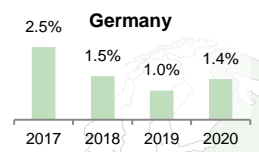
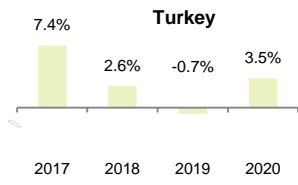
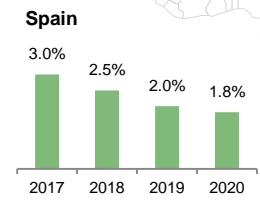
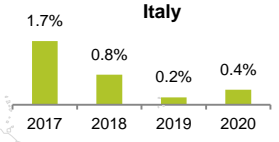
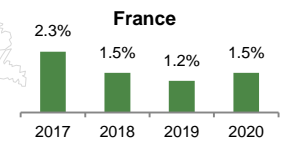
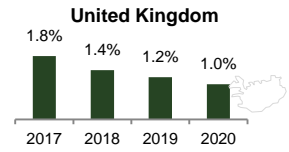
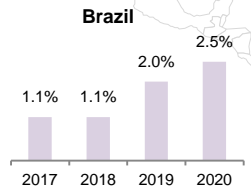
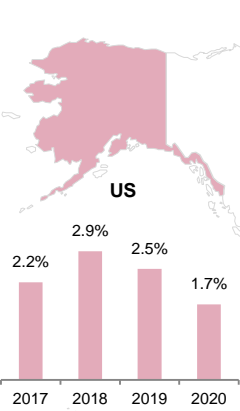
# GLOBAL GROWTH: BUMPY ROAD AHEAD



Fragile Four are Brazil, Russia, Turkey and South Africa  
 Sources: Bloomberg, Euler Hermes, Allianz Research

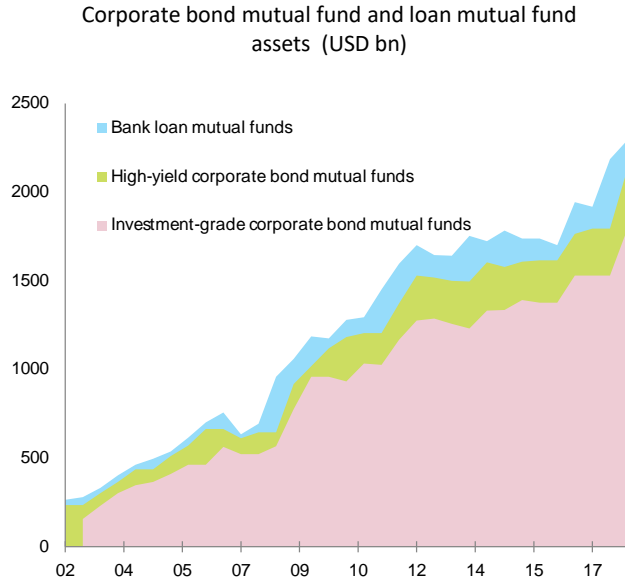
China's and the US fiscal stimulus will allow escaping the soft patch of Q3 18 – Q1 19. The recovery should be short-lived because of a negative shock occurring in the US with a maximum impact to be felt in Q1 20. The recovery of H2 20 will embody a normalization of growth in the US, the succession of stop and go maintaining developed economies below potential

# GROWTH: COUNTRY FORECASTS



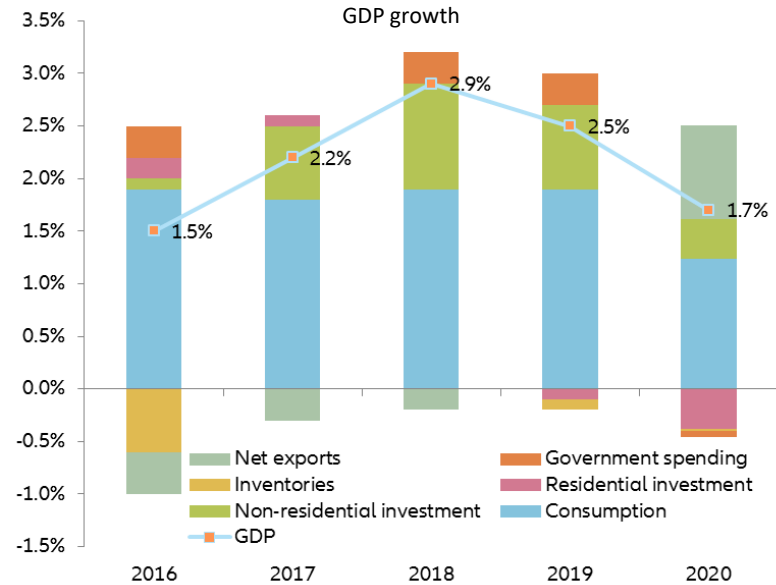
	2017	2018	2019	2020
World	3.2%	3.1%	2.9%	2.7%
Latin America	1.2%	0.7%	1.8%	2.4%
Eurozone	2.5%	1.8%	1.2%	1.3%
Asia	5.3%	5.0%	4.8%	4.6%
Africa	3.1%	2.3%	2.8%	2.8%
Middle East	1.2%	1.8%	1.7%	2.1%

# US SCENARIO: A MORE ABRUPT ADJUSTMENT IN 2020



Sources: Fed, Allianz Research

A rush to redeem shares of mutual funds could exacerbate losses of relatively illiquid types of assets. Negative wealth effects will hurt consumption prospects

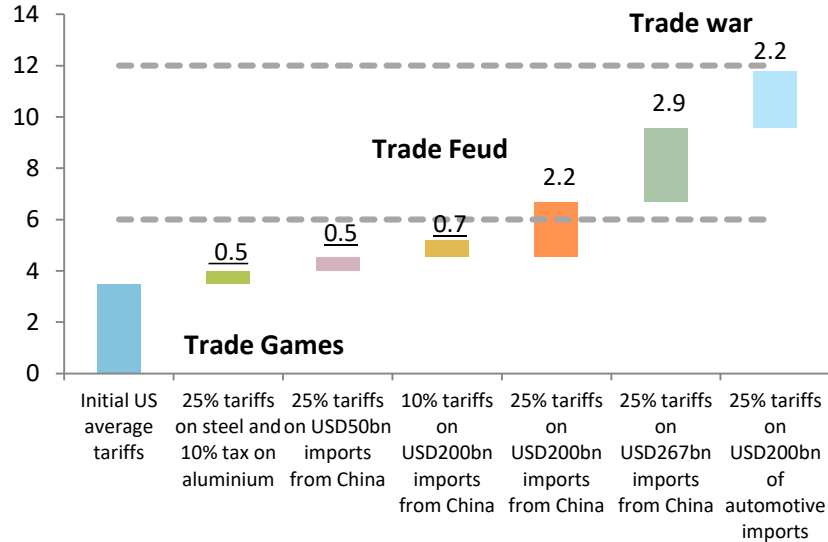


Sources: Fed, Allianz Research

A technical recession is possible as early as 1H20. US growth slowdown will start in 2019 amid diluting impact of the fiscal stimulus and tightening credit conditions

# PROTECTIONISM: UNSTABLE EQUILIBRIUM

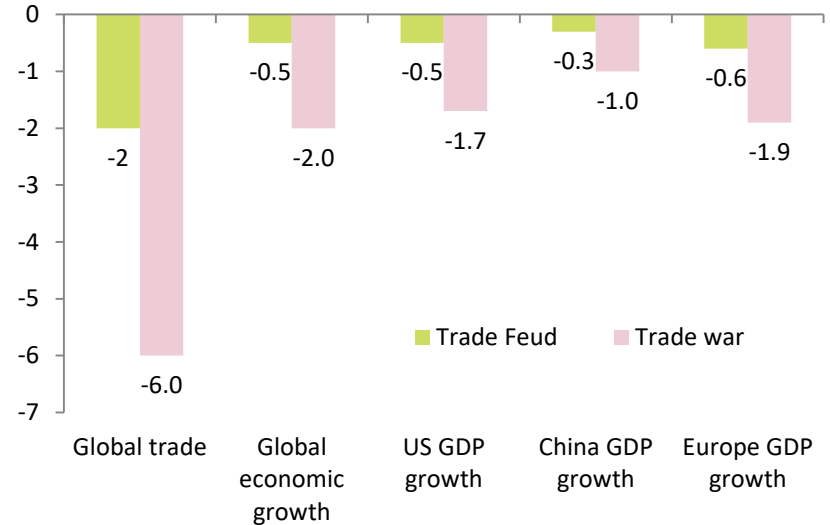
US average tariffs – shock simulations  
Underlined figures are those that have been implemented



Sources: IHS Global Insight. Allianz Research

US average tariff rose to 5.2% in 2017, it could cross the 6% trade feud threshold in 2018 if the US implements 25% tariffs on USD200bn imports from China

What does that mean for the global economy? 2-year impact (pp)

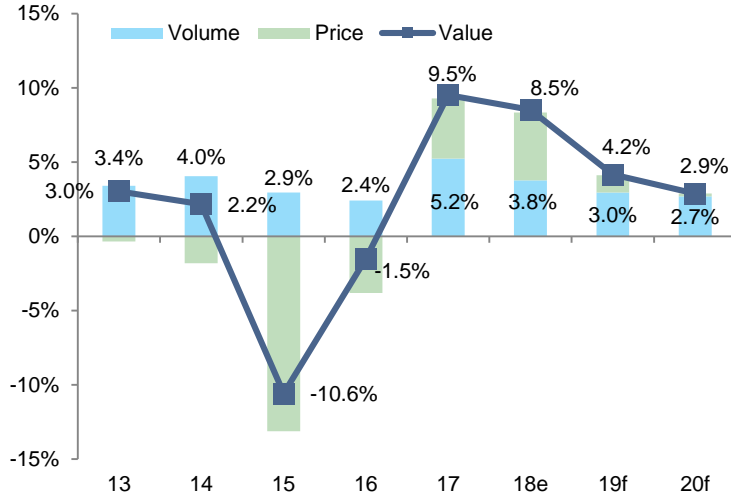


Sources: IHS Global Insight. Allianz Research

Further escalation to a trade feud scenario could cost half a percentage point of GDP growth; a trade war would cost two percentage points of GDP and a global recession

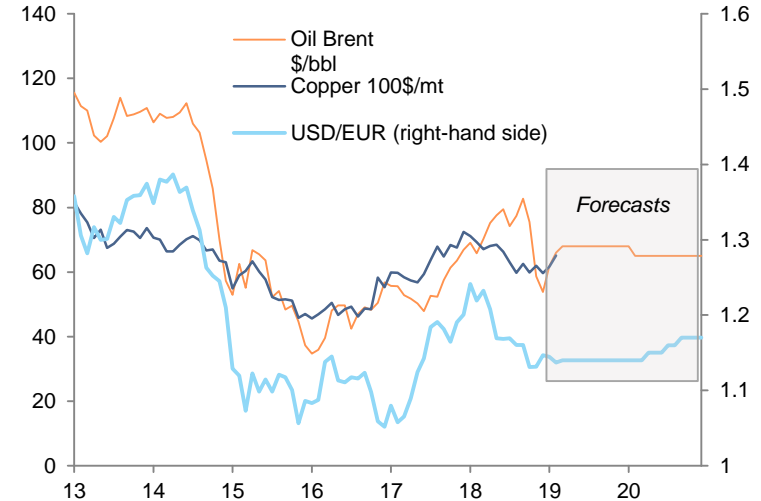
# GLOBAL TRADE: A VALUE ADJUSTMENT

Global Trade of goods and services



Sources: Euler Hermes, Allianz Research

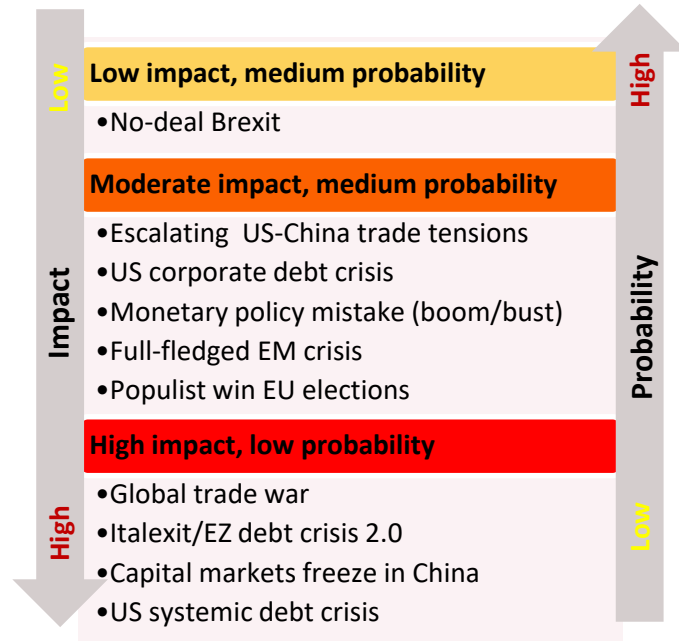
Commodity prices and USD/EUR exchange rate



Sources: IHS, Euler Hermes Estimates

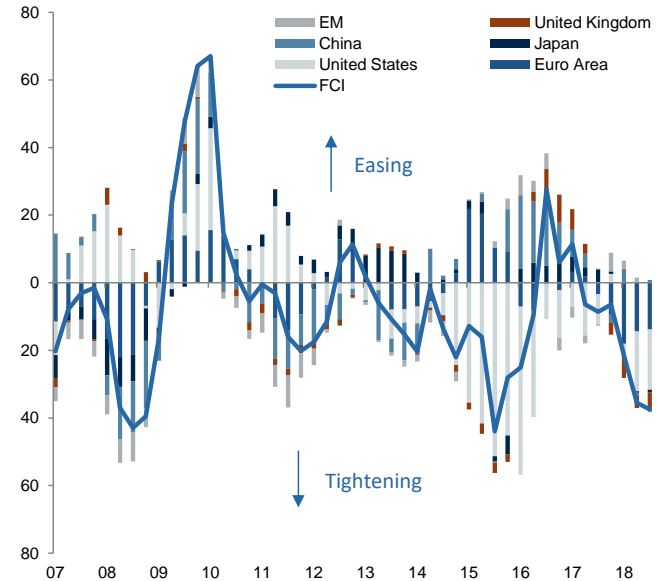
Global trade is expected to pick up in H2 19 as trade tensions should diminish while, China's economic stimulus, coupled with the residual impact of the US stimulus, is expected to start producing positive effects. The recovery of commodity prices and global activity should not be strong and rapid enough to avoid a global trade deceleration at +3.0% in 2019 compared with 3.8% in 2018. Indeed, a rapid deceleration of economic activity in the US as early as Q4 19 is expected to pursue the decelerating trend of global trade in 2020 being expected at 2.7% y/y.

# GLOBAL RISKS: MULTIPLE PERTURBATIONS IN 2019-20



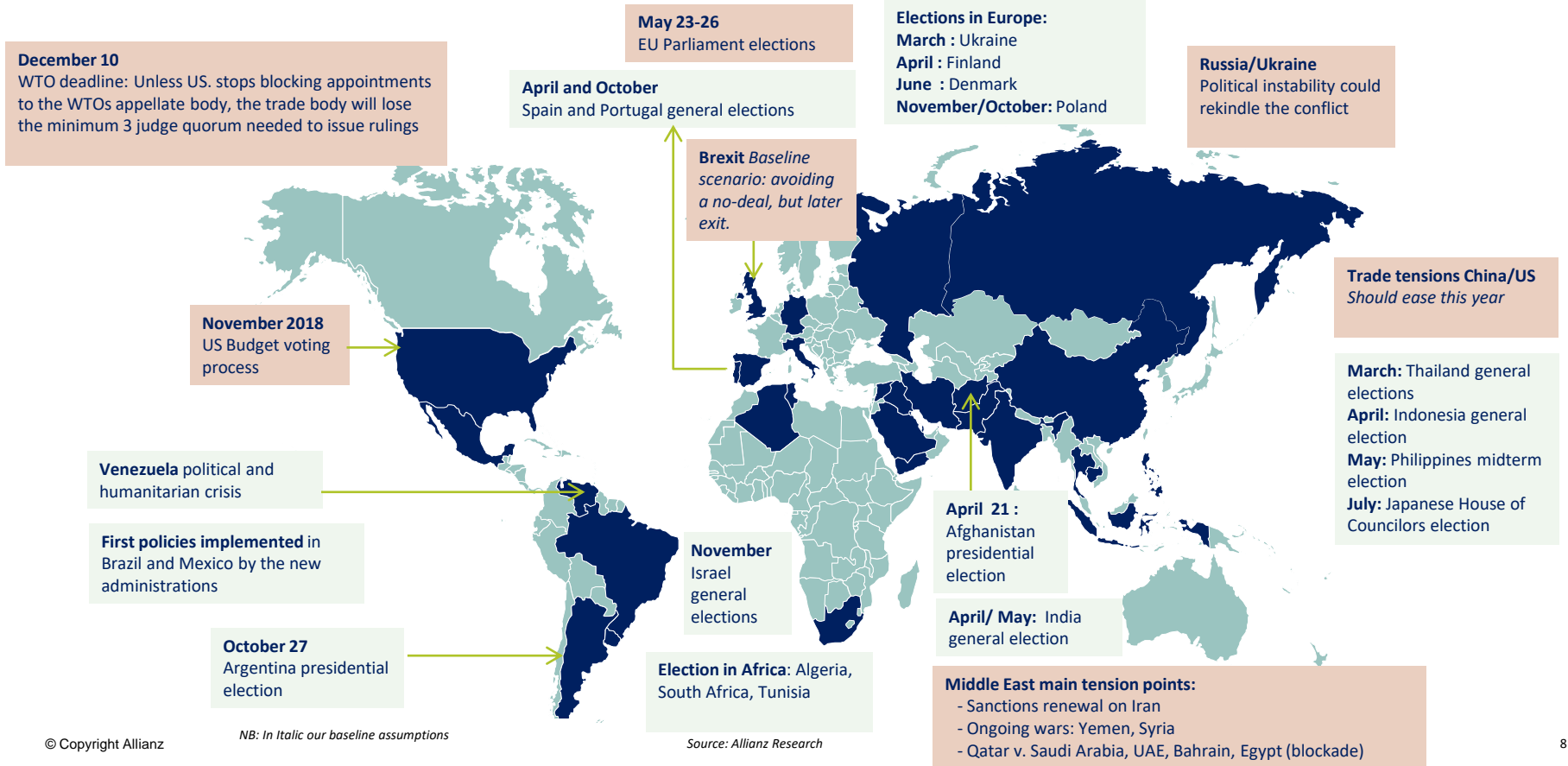
The political and economic risk landscape remains crowded with potential recession triggers. Uncertainty is unlikely to escalate further, but expect it to linger. Visible impact could still increase as the negative effect kicks in with a lag

World monetary and financial conditions (level)



The multiplication of uncertainty sources has contributed, beside the normalization of monetary policies in developed markets, to a significant tightening of world credit conditions, pointing toward a deceleration of growth

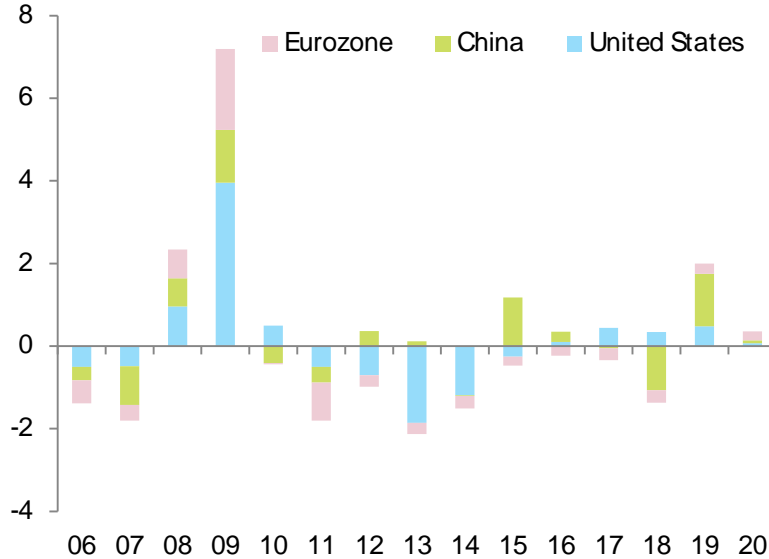
# POLITICAL RISK AND HURDLES





# POLICY SUPPORT: EASING OF THE GLOBAL POLICY MIX

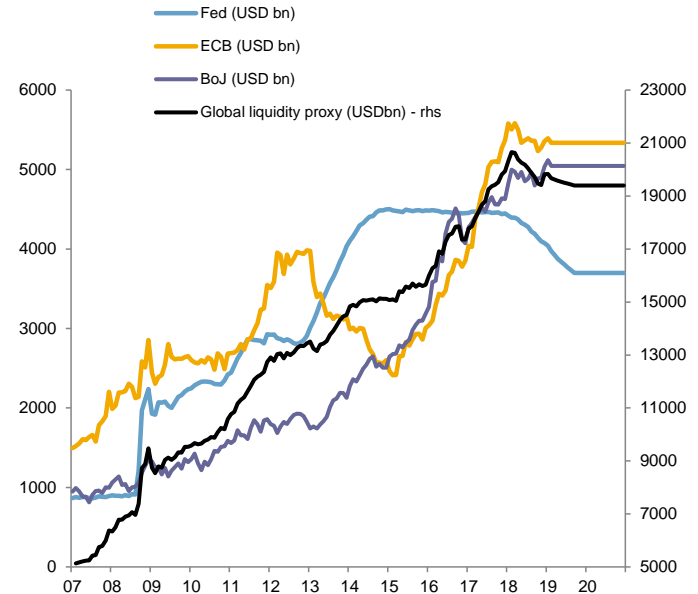
Impact of fiscal stimulus on world growth (pp)



Sources: Euler Hermes, Allianz Research

In 2019, all three regions are aligning their fiscal support but the US is passing the baton to China

Central banks' balance sheet policy

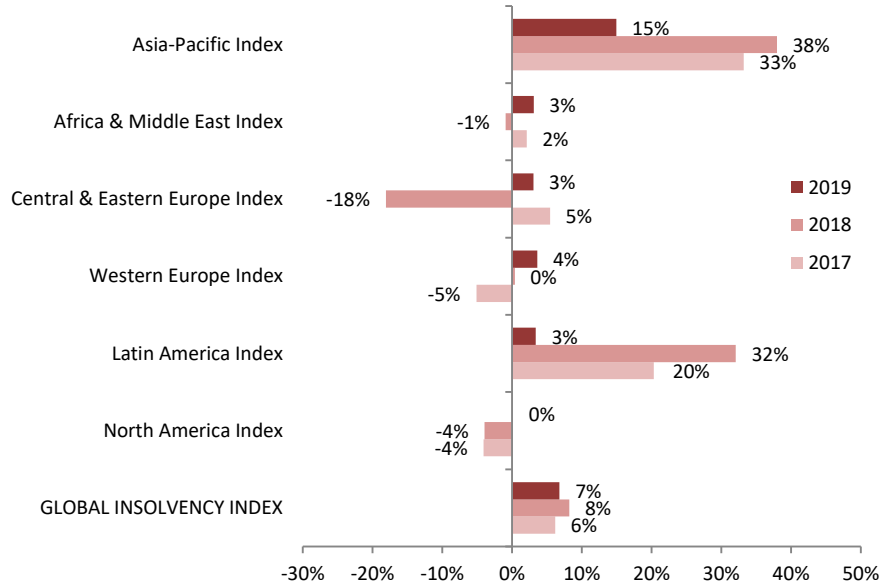


Sources: Euler Hermes, Allianz Research

Major central banks have decided to be patient in normalizing their monetary policy to ensure that world growth will be on a stronger footing

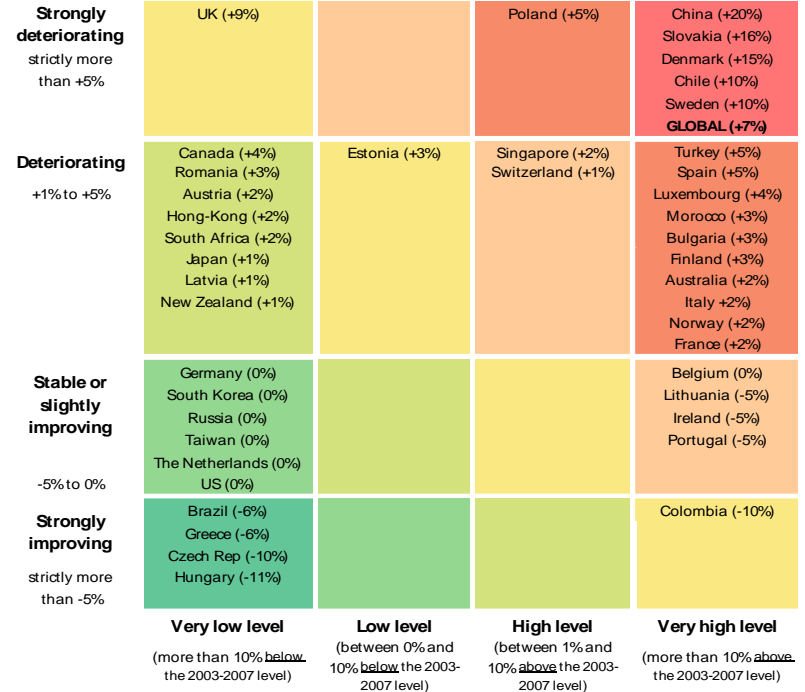
# GLOBAL INSOLVENCIES: ON THE UPSIDE, AS EXPECTED

EH Global and Regional Insolvency Indices (yearly changes in %)



Sources: National statistics, Euler Hermes, Allianz Research

Insolvency Heat Map 2019

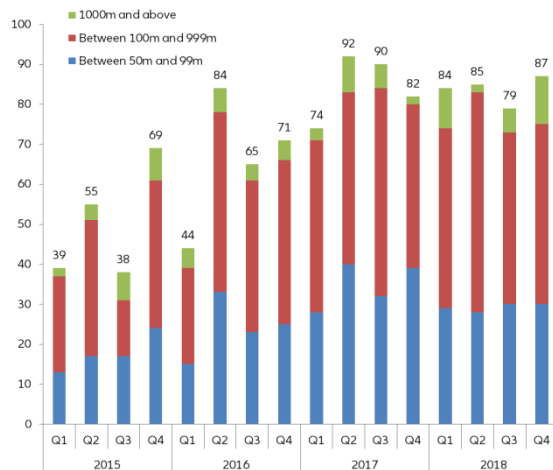


We expect our Global Insolvency Index to keep on increasing in 2019 (+7% after +8% in 2018), with a deceleration in Asia, a stabilization in the US and a rebound in Europe. We expect 2 out of 3 countries to post an increase in insolvencies, and 1 out of 2 countries to register in 2019 more insolvencies than over the 2003-2007 period

# MAJOR INSOLVENCIES: RETAIL AND CONSTRUCTION



Number of major insolvencies\*  
(by size of turnover in million of EUR)



(\*) Companies with a turnover exceeding EUR50m  
Source: Euler Hermes

Major insolvencies\* by sector and by region (number of insolvencies)

	Africa/Middle East and Latin America	North America	Central & Eastern Europe	Asia Pacific	Western Europe	TOTAL
Pharmaceuticals	-	-	-	-	1	1
Transport equipment	-	-	-	-	3	3
Electronics	-	-	-	2	3	5
Paper	-	-	-	1	4	5
Commodities	-	-	1	3	3	7
Chemicals	-	1	1	4	2	8
Computers & Telecom	1	-	-	6	1	8
Textile	1	1	1	3	3	9
Automotive	-	-	4	1	7	12
Household equipment	-	3	2	3	9	17
Transportation	-	3	4	1	9	17
Machinery/Equipment	-	-	6	4	11	21
Metals	-	1	-	10	10	21
Energy	-	8	7	7	2	24
Services	-	3	5	6	18	32
Agrifood	-	-	7	12	15	34
Retail	3	15	4	5	24	51
Construction	-	3	17	23	17	60
<b>Total</b>	<b>5</b>	<b>38</b>	<b>59</b>	<b>91</b>	<b>142</b>	<b>335</b>

(\*) Companies with a turnover exceeding EUR50m  
Source: Euler Hermes

**2018 posted 335 major insolvencies (-3 cases), with a cumulative turnover of EUR158bn (+40%).** This rise in severity comes from the biggest top failures with a turnover exceeding EUR100m : +10 cases in number (30), with a cumulative turnover increasing by 87% to EUR100bn). **Hot spots** continued to be **Construction** (60 major insolvencies), notably in Asia (+11 cases to 23), and **Retail** (51 cases), notably in Western Europe (24) – which remains the region with the highest number of major insolvencies. **Asia** is in second place with a noticeable rebound in Agrifood (+7 cases) as well as in Energy and Computer/Telecom (both +6). Retail in the US registered 15 new major insolvencies despite the already impressive list of 34 cases over 2015-2017.

# THANK YOU!

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