Global Economic Outlook - November 2015

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Global economic growth is expected to be sluggish in 2016. Bankruptcies remain high in the eurozone and are rising in key emerging markets.

Traversing turbulent water

Editorial

If there had been any doubts before, they will have been removed by now. China dominates the global economic scene and the rest of the world must accept it. The events of this past summer are proof.

There was a storm from China. In July, stock exchanges declined all over the world when the Shanghai Stock Exchange plummeted. Investor confidence was hardly restored when the Chinese authorities intervened by buying stocks. In early August, there was a comparable picture in the foreign currency markets. Exchange rates, especially those of Asian countries, faced volatility when the Chinese authorities decided to let the renminbi depreciate. It led to further downward pressure on the renminbi and it cost China 15% of its foreign exchange reserves to stabilise the currency. In September, even the US Federal Reserve (Fed) admitted the impact of the storm. The decision to not raise interest rates was partially based on this impact, as mentioned through a noteworthy sentence in the press release: '…but is monitoring the developments abroad.'

It will come as no surprise that this Economic Outlook acknowledges China's dominance on the global economic stage. China's share in global GDP has raced up six percentage points since 2008 to 18%. No wonder Asian GDP growth has peaked now that China's economic growth is slowing. No wonder global trade growth has been on a slower track since China is producing more, and higher value-added products for its home market. No wonder China's transition to consumption- and services-led growth has caused a fall in commodity prices and volumes, and pressure on growth for commodity exporters. No wonder capital flows to emerging economies have plummeted during 2015 as Chinese firms, anticipating further renminbi depreciation, massively repaid foreign loans. And, indeed, no wonder we have placed a hard landing of the Chinese economy at the top of our list of concerns for global growth, replacing the much-anticipated Fed interest rate hike.

The deceleration of the Chinese economy is expected to continue over the coming years, but a hard landing may be avoided. The government has room for further stimulus and has plenty of reserves to plug any gap in the financial sector or its state-owned enterprises.

Yet, as developments over the past year have shown, even a steady deceleration is enough to cause significant trouble in countries across the globe. The global economy may be expected to pick up slightly in 2016 compared to 2015, but that picture is surrounded with a lot of downside-tilted risks, especially for the emerging economies. With China's increasing global economic weight, it is no wonder, it will play a dominant role in determining the health of the global economy over the coming decades.

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Executive summary

The global economy has entered turbulent water. Global growth has been sluggish in 2015 and risks abound for the 2016 outlook. Troubled emerging markets are the main source of weakness and concern.

Key points:

- The global economy is expected to grow just 2.5% in 2015, less than in 2014. Economic growth is currently foreseen to accelerate to 2.9% in 2016.
- The economic recovery in advanced markets has taken further hold. The euro area is forecast to grow 1.5% in 2015 and 1.7% in 2016. The United States is projected to expand 2.5% in 2015 and 2.6% in 2016.
- Latin America and Eastern Europe are both projected to see modest economic growth of 0.8% and 1.9% respectively in 2016 after contraction in 2015. Economic growth in Asia, excluding Japan, is stable and forecast at 5.7% in 2016.
- Atradius forecasts that insolvencies will fall in most advanced markets in 2015 and 2016, but the level of insolvencies will remain relatively high, especially in the eurozone. Insolvency conditions in many emerging markets have, however, deteriorated notably.

Global economic growth has been disappointing in 2015, being dragged down by turbulence across emerging markets. Chapter 1 shows that as most pressure is expected to remain on emerging markets in 2016, the global economy is forecast to show only a modest increase in growth. As a result, global growth will be well below average historical rates. Global trade is also weak. Atradius forecasts that global trade will grow by only 1% in 2015 and pick up modestly in 2016.

The two top risks to the 2016 outlook are a further slowdown in China and turbulence in emerging markets in response to rising US interest rates. The Chinese slowdown impacts trade partners' capital flows and financial returns. The change in US monetary policy may lead to capital outflows, currency volatility and trouble with corporate debt denominated in foreign currency.

The advanced economies are doing relatively well – as discussed in Chapter 2. The eurozone economy has left the euro crisis behind while the recovery is strengthening. All member states are growing and conditions are expected to improve further in 2016. The expansion is based on solid domestic demand. Nonetheless unemployment remains high and economic growth slow. The United States and United Kingdom have done much better over the past years growing 2% to 3% per annum, and are expected to continue doing so in 2016.

Conditions in many emerging markets have deteriorated significantly. Chapter 3 shows there are three main drivers. The fall in commodity prices, including oil, is hurting commodity exporters. The economic slowdown in China is adversely affecting trade partners and capital flows. Moreover, the expected change in official US interest rates has made investors less likely to invest in emerging markets. The adverse developments have hit emerging markets across the globe and are likely to last into 2016. A number of countries are, however, doing well. Commodity importers are enjoying the lower prices, Central America is benefiting from the economic growth in the US, while Eastern Europe is benefiting from the recovery in the eurozone.

Insolvency conditions are deteriorating in many emerging markets while they are generally improving across advanced markets – as argued in Chapter 4. Insolvencies in the eurozone are forecast to fall 7.0% in 2015 and 5.4% in 2016, but the level remains 66% higher in 2016 compared to 2007. Despite better economic conditions, insolvencies are forecast to rise in Portugal, France and Greece in 2015. Insolvencies in New Zealand, Australia and Canada are also up in 2015 as a result of the lower oil price and the slowdown in China. China itself is forecast to see a strong increase in insolvencies in both 2015 and 2016. Among the BRICs, insolvencies are projected to fall only in India. As long as global economic growth remains sluggish, business conditions will remain difficult.