

Euler Hermes macroeconomic scenario 2018-2019: It's all about the US

PARIS –September 20th, 2018 – Each quarter, Euler Hermes, the world's leading credit insurer, reviews its international macroeconomic scenario and updates its regional growth forecasts per region. As of Q3 2018, our economists point out that world GDP growth should be resilient in 2018 and 2019, despite US sources of instability including mid-term elections and uncooperative policies.

Global growth: adjusting to the US

Global economic growth should be resilient in 2018 and 2019 at + 3.2% and 3.1% respectively, versus + 3.2% in 2017: the momentum remains positive despite US sources of instability. A lot will now depend on the capacity of countries to withstand global liquidity and uncertainty shocks originating from the US.

The US economy is a high pressure economy: all indicators confirm a cyclical acceleration embodied by growingly tight job market conditions. Risks of overheating and policy mistakes are contained for now but a rapid deterioration of the public deficit coupled with a tighter monetary policy are draining global liquidities, while protectionist temptations nurture global uncertainty.

- **A first set of countries is able to absorb the negative shocks of liquidity** and (trade) uncertainty, albeit registering slower growth: China, the Eurozone and Japan. We believe these regions will remain stable.
- **A second set of countries is becoming instable because of the US' actions**, especially those combining structural vulnerabilities and economic policy mistakes, such as Argentina and Turkey. The tightrope walkers such as South Africa, Brazil and Russia could also be under market pressure in case of further deterioration of their macroeconomic conditions, which could notably be triggered by policy mistakes.
- **A third set of countries is considered to be resilient**: some are on the watch list (India, Indonesia, Philippines, Hungary, Romania) and the others will remain safe (emerging Asia & European countries with current account surpluses) should the trade environment stay immune from violent protectionist attacks.

Global trade: a soft landing triggered by protectionism and uncertainty

Threats of protectionism already have an impact as advanced indicators are confirming a global trade deceleration. New export orders in the US, EU and China have slowed down and are now converging toward their 2012 – 2016 average.

Hence we expect global trade to decelerate, while remaining resilient at +3.8% in volume in 2018 to +3.6% in 2019 (after +4.8% in 2017). Indeed, global demand is likely to stay strong despite protectionist headwinds: global unemployment rate has reached a record low in 2018.

Protectionism: between trade games and trade feud

President Trump just imposed 10% tariffs on USD200bn of Chinese imports (effective from September 24th), tariffs which are set to rise to 25% by the year-end if no deal is reached. This follows a 25% tariff imposed on USD50bn of Chinese imports. The US administration announced that it could go further with tariffs on USD267bn of additional imports from China. In return, China's response has already been announced: a 5 to 10% tariffs increase on USD60bn imports from the US.

What does that mean for global trade?

Further US tariffs put global trade growth on a dangerous path. With 10% tariff on USD200bn of imports from China, we are getting close to our Trade Feud scenario (whose milestone is 25% tariff on USD200bn of imports).

- If the US were to implement 25% tariff on USD200bn, it could cost 2pp to global trade growth over the next two years. China and the US could respectively lose 0.3pp and 0.5pp of GDP growth.
- If the US were to implement tariffs on USD267bn of additional imports from China, this would cut global trade growth by 6pp. China's and US' economic growth would be cut by -1pp and -1.7pp respectively.

Ludovic Subran, Chief Economist at Euler Hermes, said: *"While the phrase 'trade war' has been used, we see the current situation as more of a 'trade feud'. Encouragingly, global trade is actually doing well after rising by around five per cent last year. For the moment, it is outweighing the dampening effects of new protectionism measures by the world's largest economies. But we may see an increase in payment risk across the globe if further tariff increases are imposed."*

Want to know more?

Euler Hermes Group

Jean-Baptiste Mounier +33 (0)1 84 11 51 14
jean-baptiste.mounier@eulerhermes.com

Footprint Consultants

Cécile Jacquet +33 (0)1 80 48 14 80
cjacquet@footprintconsultants.fr
Quentin Giudicelli +33 (0)1 80 48 14 80
qgiudicelli@footprintconsultants.fr

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in 52 countries with 5,800+ employees. Euler Hermes is a subsidiary of Allianz, rated AA by Standard & Poor's. The company posted a consolidated turnover of €2.6 billion in 2017 and insured global business transactions for €894 billion in exposure at the end of 2017.

Further information: www.eulerhermes.com, [LinkedIn](#) or Twitter [@eulerhermes](#).

Cautionary note regarding forward-looking statements: The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements. Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.