Press Release

Euler Hermes Economic Insight: "A Breeze of Growth"

Global growth accelerating but not all economic engines are in sync

PARIS – 24 August 2017 – While global GDP growth accelerated to its highest level in two years in the first half of 2017, some of the world's economic engines are out of sync, according Euler Hermes, the world's leading trade credit insurer.

In its latest Economic Insight report, titled "A breeze of growth", the company's economic research department found good overall global growth momentum against a backdrop of a disappointing U.S. picture, a reassuring European outlook and stabilizing emerging markets. Global GDP growth forecasts remain +2.9% for 2017 and for 2018 as the 7th consecutive year below 3%.Upward revisions have been made for the eurozone (+0.2pp to +1.9%), China (+0.4pp to 6.7%) and Japan (+0.1pp to 1.3%). These are counterbalanced by downside revisions for the U.S. (-0.1pp to 2.2%), Latin America (-0.2pp to +1.2%), the Middle East (-0.2pp to +2.1%) and South Africa (-0.4pp to +0.6%).

"Global GDP growth is accelerating with good, rather than great, momentum finally building at its fastest pace in two years. However, behind this positive picture lies a marked divergence in economic fortunes from country to country," said Ludovic Subran, chief economist at Euler Hermes.

"While GDP growth has been lackluster in the U.S., it's been conversely strong in China thanks to previous stimuli, and firm in the Eurozone mainly due to export growth. Business confidence has also significantly improved as companies are finally feeling the boost from stronger demand and improved pricing power, after several years of sluggish growth. Strong business confidence also heralds continued growth in investment and progressively improving labor markets. This combination should spur private spending looking forward," added Subran.

Euler Hermes identified five key drivers behind the acceleration of global growth as well as five threats to growth quality.

Five global growth "boosters"

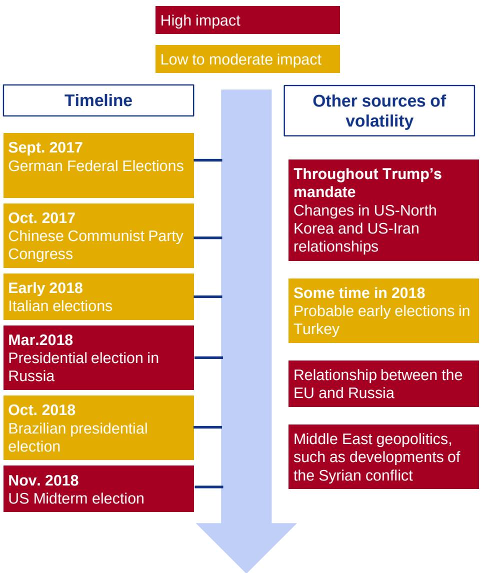
- **Inflation** - Creating a nominal boost to confidence and investment, inflation is partially back with price recovery in 2017 essentially driven by commodity prices. Euler Hermes expects a moderate tempo to the reflationary trend.
- **Increased consumption and investment -** Retail sales have accelerated globally, notably in the U.S. and China, while keeping a good pace in the eurozone where confidence levels are unprecedented. The investment cycle is also picking up.
- **Exports Trade accelerator** - Global exports continued to recover in H1 2017 in both volume and value terms, after 2 years of contraction in value. Global goods exports increased by +2.3% year-on-year in April 2017.
- **Supportive policies -** As global liquidity reached record high levels (above USD19 trillion) monetary policy should remain broadly accommodative and abundant despite balance sheet adjustments.
- **Political risk** – Perceived political risk has generally softened, except for the U.S. Political "nudges" have arguably been underestimated in boosting growth.

Five global risks to growth quality

- **Reflation could create a jaw effect** - While reflation is currently positive for companies' turnover and household consumption, there is a risk that margins and purchasing power react negatively.
- **The investment cycle is largely debt financed** - The return to normal business cycles brings risks in reaching peak growth sooner rather than later. In the U.S., for example, record new orders and jobs combined with higher private debt levels could result in deceleration by the end of 2017 without a sizeable fiscal stimulus. Higher debt levels are also a concern in Europe (public debt) and in major emerging markets (private debt). Higher interest rates could jeopardize the investment cycle, particularly where debt levels are high already. Latin American and Asian countries are particularly at stake.

- **Protectionism -** Protectionism is not receding although the number of new protectionist measures is stabilizing, including the Argentina, India, Russia and the U.S., Russia, India and Argentina. The trend towards shorter supply-chains is, however, reinforced by financial balkanization as the global scale of total cross-border/local bank credit continues to fall despite increased import content in production.
- **A flat tire from a new crisis -** Policy-makers are focused on risks arising from not having sufficiently-recovered maneuvering room before the next crisis. Additionally, a policy failure could create significant financial stress in Europe, particularly Italy, as well as the U.S.
- **Political risk and markets could reconnect soon -** After record political risk in Europe, the U.S. has now taken center stage. In Europe, no major political or financial crisis is expected although political uncertainty in the UK will continue to amplify financial volatility as Brexit negotiations continue. Euler Hermes expects UK GDP growth to continue to soften (+1.4% in 2017; +1.0% in 2018) as consumers increasingly feel the loss of real purchasing power.

Political Nudges to watch in H2 2017 and through 2018



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