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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?

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