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Paris, October 17, 2019

Coface Barometer: general slowdown in the global economy despite central banks' actions

With business morale being affected by a summer marked by a multiplication of areas of political uncertainty around the world, it seems likely that 2020 will be a year of economic decline.

The Argentine currency crisis, major demonstrations in Hong Kong and Russia, Brexit, the attack on oil installations in Saudi Arabia – these are just some of the many events that marked the third quarter of 2019. Increasing political uncertainty, combined with the decline in the volume of world trade, the high volatility of oil prices, and the decline in automobile sales in Europe and China, has continued to affect corporate morale.

Will manufacturing companies' pessimism of spread to the rest of the economy?

Today, in addition to European and Asian companies, American companies are also openly concerned about President Trump's protectionist rhetoric. Although the Sino-American trade war seems to be moving towards a trade agreement between the two major global powers, the US President's actions in the context of a campaign for re-election and an impeachment procedure remain difficult to predict.

In addition, there are ongoing structural changes in the automotive sector, including emission standards in Europe and changes in consumer behavior in China. In this context, European economies are currently evolving at two speeds: some are particularly dependent on global industry and trade (Germany) and/or penalized by internal political uncertainties (Italy, United Kingdom), whereas the French, Spanish and Dutch economies seem more resilient.

Central banks swing into action

Central banks in the United States, the eurozone, and many emerging countries have taken stock of the situation. Indeed, as a result of the sharp slowdown in growth, many central banks have announced monetary easing measures.

The effects of monetary policies that set negative nominal interest rates are uncertain. Negative policy rates can stimulate the economy with a boost to households and businesses, but they can also erode bank profitability. However, in theory, the positive effect on activity prevails. The expected impact of recent monetary easing measures, particularly in the eurozone, should therefore be real, even if these ultra-expansionist monetary policies have not allowed inflation to approach the target set recently by the countries that have taken this approach.

Overall, due to this widespread political instability, Coface anticipates that 2020 will be marked by an economic slowdown, while continuing to detect many positive signals indicating that a wake-up call is happening, and that governments and central banks are mobilized to face it.

In this context, two changes in country evaluations have taken place this quarter: Hong Kong (downgraded from A2 to A3) and Mauritania (upgraded from D to C). On a sector basis, after the



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series of downgrades in the automotive sector in June, there were fewer changes this quarter – but risks have still increased (13 downgrades but no upgrade), notably in the automotive sector (downgraded in three new countries) and in sectors depending on it (e.g. chemicals in Germany). Corporate credit risks are also on the rise in the paper sector in North America. Finally, there are new victims of the rise of trade protectionism (ICT sector in Korea).

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