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By the Economic Research team

Beyond the peak of global growth

Positive economic signs continued to accumulate in 2018 during the first quarter. There was sustained growth in investment and a situation of almost full employment in more and more countries, which encouraged households to consume more. Companies are taking full advantage of this virtuous circle and the number of insolvencies in the Eurozone and the United States is expected to fall again this year, by 7% and 5% respectively. According to Coface's forecasts, Portugal will be the best "pupil" in the monetary union and the country has been reclassified from A3 to A2. The only downside is that signs indicating the end of this cycle are appearing. While business confidence remains buoyant in most advanced and emerging economies, it has somewhat declined. More and more companies are becoming concerned about supply constraints, such as insufficient equipment and manpower ; as well as protectionism risk.

Paradoxically, this period of sustained growth has been running in parallel with a continuingly high level of political risk. This is a sign that social discontent is still present, despite a situation of close to full employment and (albeit timid) wage growth in many countries. The elections in Italy and the various announcements of protectionist measures by Donald Trump illustrate this. At this stage, these American decisions are insufficient in scale to call into question the positive dynamics of world trade, and Coface estimate world trade growth at +3.7% this year.

Within this context of increased global demand, the prices of main raw materials are on an upward trend. Coface anticipates that the price of a barrel of Brent oil will reach an average of 65 dollars in 2018. This leads us to positively re-evaluate countries that are heavy exporters of oil, such as Nigeria (up from D to C). The credit risk of companies in the energy sector also appears to be lower in several Latin American countries, such as Brazil, Argentina and Chile. South Africa's upgrade, from C to B, is also partly a result of this logic (in addition to the political lull). Conversely, the prices of more expensive raw materials are beginning to penalize the countries that import them (Tunisia is downgraded from B to C). Also on the negative side is the fact that Costa Rica's country assessment has fallen from A4 to B, and Sweden's from A1 to A2.

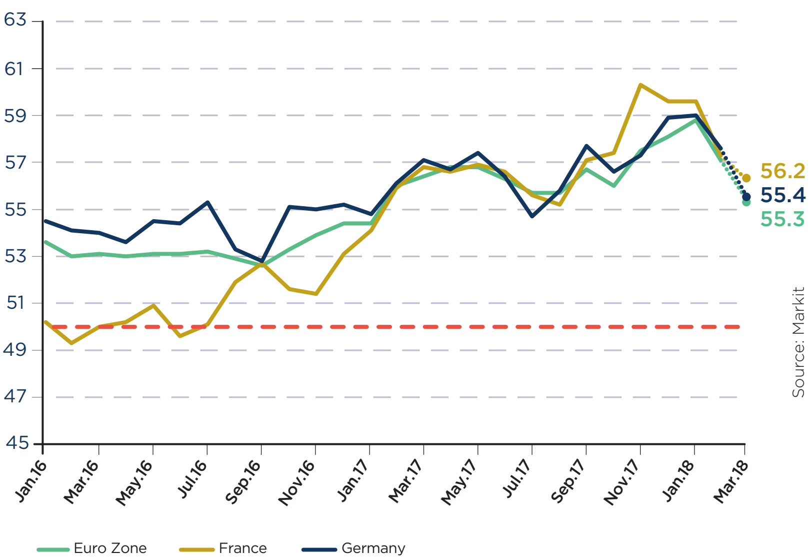
1 Trends remain positive for leading Western economies

The leading Western economies continued to perform well during the first quarter of 2018. The United States (US) economy is expected to remain robust this year, with a GDP growth forecast of 2.3%. This is due to an acceleration in investments by companies, motivated by the significant cut in corporation tax (down from 35% to 21%) which was implemented by the American administration in autumn 2017. The recent measures taken by President Trump to impose import tariffs of 25% on steel and 10% on aluminium emanating from selected countries worldwide *(see Insert on Protectionism)*, could have an impact on some of their client sectors in the United States. These could include the automobile and construction sectors in the medium term. With this evolving situation, where negotiations are still ongoing and some exemptions are granted (it is the case for the European Union, Mexico, and Canada, for example – *see Insert on Protectionism*), we do not currently expect President Trump's aforementioned measures to impact the positive economic trend anticipated for the US. For this first quarter Barometer exercise (Q1), we have confirmed the sectorial risk assessments for the construction and automotive sectors in the US as both being at medium risk. The current weak US dollar is likely to support American exports in the short term, although in the long run it could have negative knock on effects on the US economy and potentially fuel a global trade and currency wars *(see Insert on Protectionism)*.

The Eurozone is continuing to benefit from a low interest rate environment, as well as buoyant economic activity. The economic indicators of the leading monetary union are positive, with sustained quarterly GDP growth of between 0.7% and 0.6% recorded since the beginning of 2017 (along with several record highs for the companies confidence index PMI Manufacturers[1]). However, the situation changes rapidly; looking at the latest PMI 2018 Index evolution from March, Coface believes that the climax in economic activity that the monetary union has been experiencing over the last year is behind at this point in time. The March PMI figures *(see chart 1)* show a strong decrease in the Eurozone Flash PMI, even though the index remains high. Output growth therefore eased to a fourteen month low, due to weaker increases in both services and manufacturing.

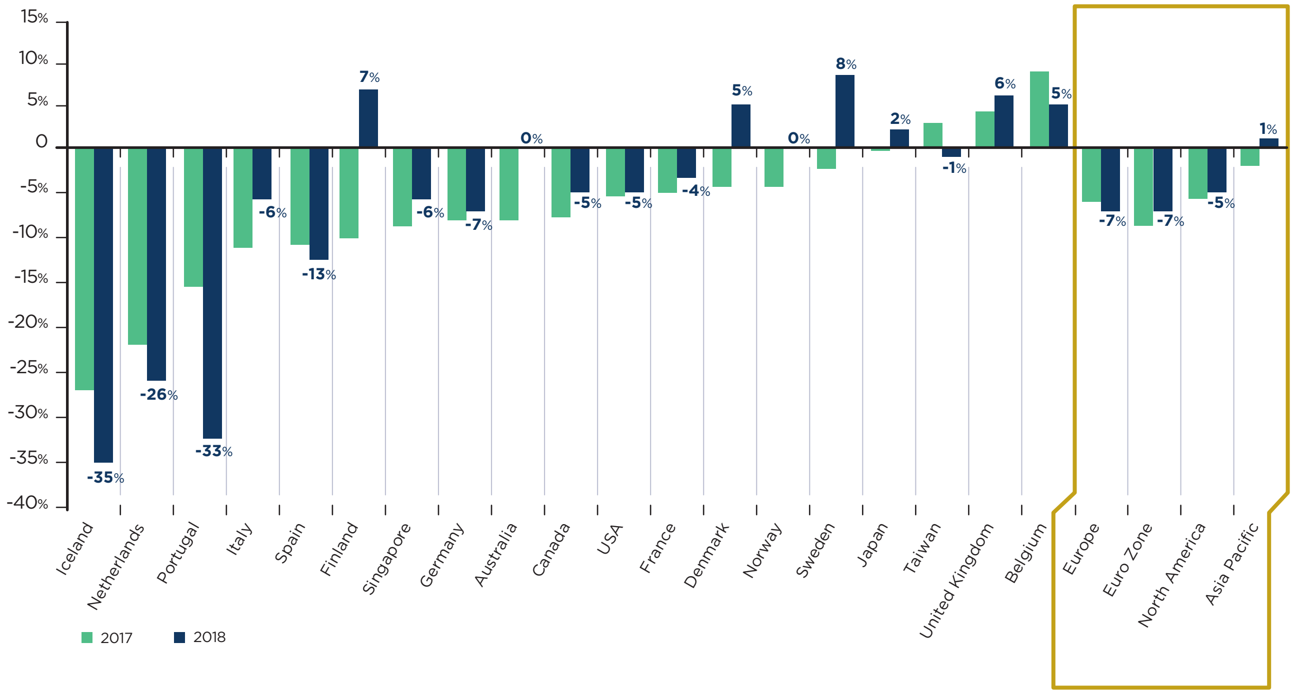
Insolvencies trend *(see Chart 2)* are key indicators that we monitor and analyse closely. The evolution of insolvency rates, on Chart 2, shows that that advanced economies experienced unprecedented falls in company insolvencies in 2017. We anticipate that this trend will continue in 2018, although at a slower pace. Company insolvencies in the Eurozone are expected to continue to contract, with a 7% decrease in 2018, following a spectacular decrease of 9% last year. The Portugal is among the best performer in the Eurozone, which has contributed to the upgrade to A3 from A2 *(see second part of the article with countries and sectors assessments)*.

Chart n° 1
PMI Evolution in the Eurozone



1/ The Purchasing Manufacturer Index (PMI) is an indicator of the economic health and performance of the manufacturing sector, which covers several sectors mainly linked to industrial production. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The purpose of the PMI is to provide information on current business conditions within several industrial sectors, based on purchasing managers' confidence and plans.

Chart n° 2
Corporate insolvencies in advanced economies: Coface growth forecasts



Source: Coface, national sources

2 Upward trends continue for major emerging economies as well

The positive economic context benefit to emerging economies as well. The Central and Eastern Europe region (CEE) is still booming, with a GDP growth rate that soared to its highest level in eight years in 2017 (4.5%). Coface's forecasts indicate that this rate will remain solid in 2018 (3.9%), supported by a strong rebound in investments and sound confidence among private economic actors.The CEE's labour market is very favourable but, at the same time, becoming tenser. The region's unemployment rate has fallen spectacularly in recent years, as shown on chart n°3. As an example, the unemployment rate in Romania dropped to 4.6% in January 2018, compared to 5.3% a year earlier as is the rate of job vacancies. As a consequence, wages are increasing throughout the region as is the rate of job vacancies. In the Czech Republic, where this situation is particularly acute, the job vacancy rate increased to 4.5% in Q4 2017, compared to 3.1% the previous year.

A decline in insolvencies has also been noted in the region. We estimate that company insolvencies in the CEE region are likely to have decreased by 4% in 2017[2] .

We expect this trend to remain at similar pace in 2018. The high level of confidence among private agents was reported during our last payment survey in Poland[3] (the largest economy in the region), where 51% of the company representatives interviewed foresaw a rise in their profits over the next six months.

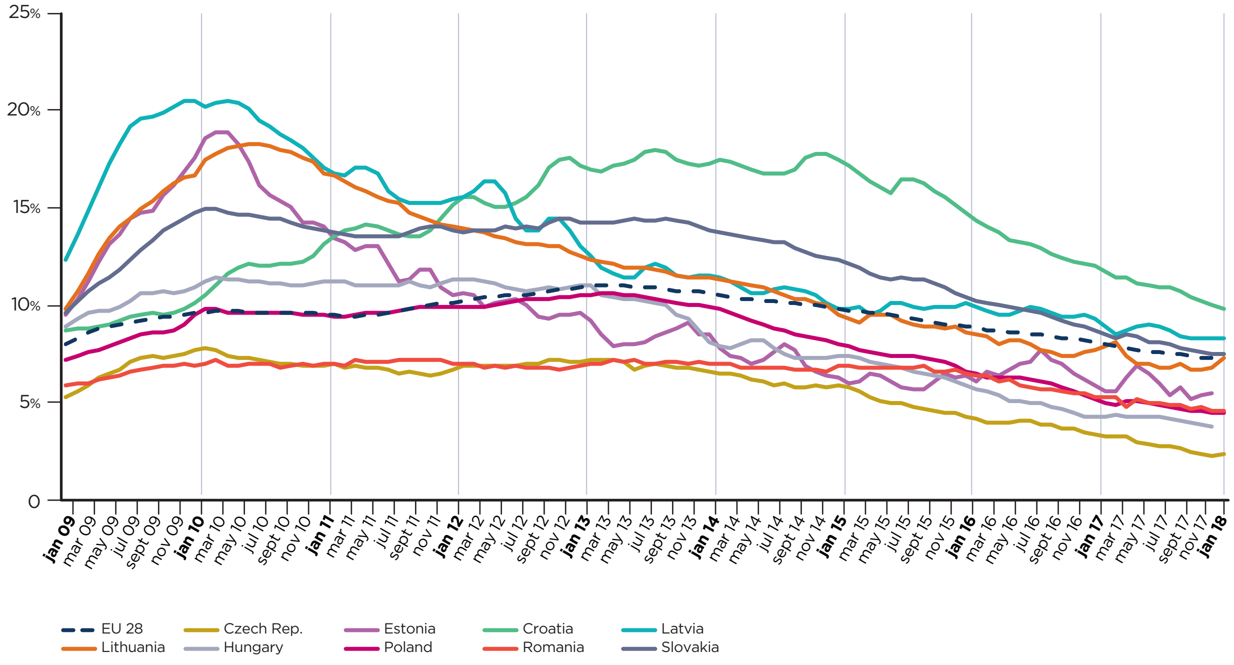
In terms of monetary policy in the region, there are two "camps" at this point in time. There are central banks which have started to increase interest rates (such as the Czech Republic and Romania) and the others (such as Poland and Hungary). The Czech Republic became Europe's first nation to raise interest rates in 2017, while Romania followed soon after. Both may continue to push borrowing costs higher this year or in 2019.

2/ See Coface article: *"Central and Eastern Europe: Less business insolvencies despite temporary headwinds in the construction sector"* September 2017 Grzegorz Sielewicz
3/ See Coface article: *"Poland Payment Survey 2018: Payment delays mounting amid robust economic growth"*, Grzegorz Sielewicz, March, 2018

Russia has returned to economic growth, despite Western sanctions. The overall economic picture for Russia remains favourable, as the fall in oil prices (the main contributor to the 2015-2016 recession), has been partially reversed. Moreover, household consumption (likely to be the main engine of economic growth in 2018), is benefitting from the authorities' relative relaxation in policies and the return of confidence – as is, to a lesser extent, corporate investment. Coface forecasts a GDP rate of 1.8% for the Russian Federation in 2018. The country's brighter macroeconomic picture is also reflected in our sector risk assessment this quarter, with the upgrade of three sectors: the Chemical, Paper and Construction sectors *(see second part of the article for the rationales explaining evolutions in sector assessments)*.

Overall, Latin American countries, including Brazil (the region's leading economy) escaped from the recession in 2017. Brazil has experienced continued quarterly GDP growth for the last three quarters and is expected to strengthen further this year. Coface forecasts that Brazil's GDP growth will rise to 2.8% this year, up from 1% in 2017. This upwards trend is being driven by a stronger recovery in household consumption and by export growth. Foreign trade is expected to continue to benefit from solid global activity (particularly the recovery in Argentina). Bankruptcies in Brazil decreased by a spectacular 24% YOY in 2017, in contrast to two previous years of sharp increases (+45% in 2016 and +55% in 2015). The first two months of 2018 showed a continued decline in insolvencies; albeit at a slower pace (195 new cases were registered in the period between January-February 2018, versus 197 in the same period in 2017). Coface anticipates further improvements in this respect for the remainder of 2018, due to the positive economic prospects mentioned earlier, as well as monetary policy. Since October 2016, the central bank of Brazil has cut interest rates by 7.75 percentage points. The Selic[4] policy rate currently stands at a historic low of 6.5% a year. It is expected to reach 6.25% at the next Copom[5] central bank review meeting in May 2018.

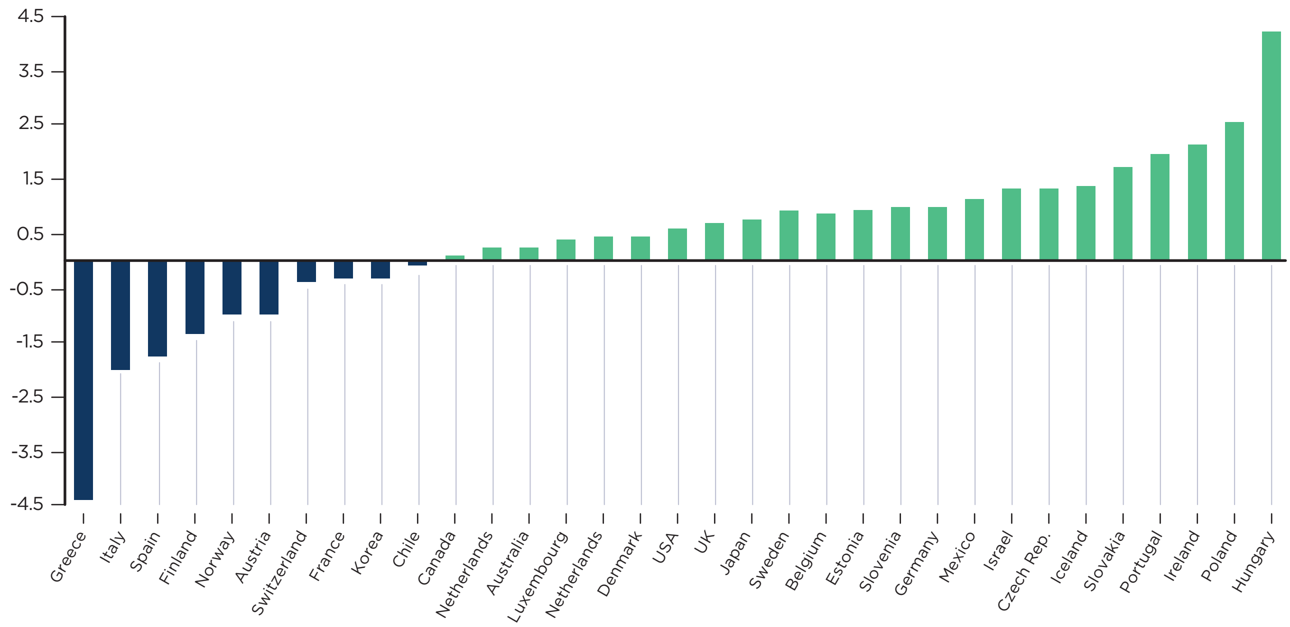
Chart n° 3
Unemployment rate in CEE (%)



Source: Eurostat

4/ The Sistema Especial de Liquidação e Custodia (SELIC) is the Brazilian Central Bank's system for performing open market operations in execution of monetary policy. Selic is the interest rate tax for loans between banks for operations lasting only one day (also known as "overnight" operations). These operations have Brazilian government securities as guarantees.
5/ The Copom ,Comitê de Política Monetária, is the central bank of Brazil's Committee of Monetary Policy

Chart n° 4
Gap between the Non-Accelerating Inflation Rate of Unemployment (NAIRU) and the actual rate of unemployment (in percentage)



Source: OCDE

Despite more positive perspectives for Brazil generally, investments are likely to remain undermined by uncertainties over the upcoming presidential elections scheduled for October this year. It is difficult to give an early forecast on the Brazilian presidential campaign (as the official campaign will begin in August 2018). Moreover, at this point in time, former President Luiz Ignacio Lula da Silva (2003–2011) – who was considered until recently as a front runner for the upcoming presidential elections – is unlikely to be able to be candidate, having been sentenced to jail for corruption by the Supreme Court. According to early opinion polls available at this time, if Lula is unable to run for election, the other front runner would be Jair Bolsonaro[6]. Bolsonaro's provocative statements and attitude; although he softens his ton, if elected he could worsen the already tense and divided social climate in Brazil.

Last but not least, China's economy has recorded a strong performance, boosted by both exports and strong domestic consumption (supported by a low inflation). Chinese growth is expected to moderate slightly to 6.5% in 2018 (compared to 6.7% in 2017). This moderation will be affected by more restrictive governmental policies aiming to curb financial vulnerabilities and risks related to asset bubbles.

Chinese companies are expected to continue to dominate (and/or play a key role in) numerous sectors for which Coface produces risk assessments. These will include the Metals and the maritime transport.

In the short term, Coface does not expect China to be drastically affected by the protectionist measures imposed by President Trump's decision on aluminium and steel tariffs *(see Insert on protectionism)* concerning imports to the USA. Chinese metal producers have already started to refocus their production more towards domestic consumption, following measures by the USA and the EU in the summer of 2017 against Chinese steel. The USA's imports of Chinese steel and aluminium only represent 3.2% of their total imports of these metals. Nevertheless, there is potentially a severe trade war looming between China and the USA *(see Insert on protectionism)*, as the US Administration has decided to impose tariffs of up to USD 50 billion on Chinese imports.

> **The positive economic context benefits to emerging economies as well.**

6/ Member of the Chamber of Deputies since 1991.

INSET

Protectionism risk – more to come

Context

The protectionist rhetoric has gained renewed popular support in many countries following the last severe 2007-2010 global economic and financial crisis. According to Global Trade Alert[1], measures that have hampered global trade since 2008 – estimated at 9,626 measures – have largely outnumbered those designed to facilitate global trade (estimated at 3,604).

This protectionist *"movement"* started with what could be qualified as *"South - South"* protectionism, with large emerging economies such as Russia, Argentina, and India implementing measures ...already against China[2].

Then, a wave of protectionism swept the world, advanced economies included. The biggest illustration of this is the election of Donald Trump as President of the United States (US). However, the US administration is not the only one that has taken protectionist measures among leading economies, including on steel. For example, in summer 2017, the European Commission implemented anti-dumping duties of up to 28.5% on Chinese steel, following an investigation which found that Chinese products had been sold at artificially low prices. In their official statement announcing the duties, the EU stated that this will reduce the pressure on European industry and help to ensure a level playing field for EU steel.

What's new?

The US administration has not expressed protectionist willingness and measures so directly in recent history, taking the risk of both diplomatic incidents (including with traditional economic partners and political allies) plus fuelling an escalation toward a global trade war. However, President Trump's February 2018 announcement on metal import tariff (25% on steel, 10% on aluminium) suggest this stance is changing. While at this point in time, the scope of countries impacted is reducing and traditional allies such as the EU are likely to be exempted *(see Table A)*, President Trump's administration appears unhesitant to challenge traditional alliances as part of its *"America First"* policy.

The magnitude of these measures is also a major development. A US Trade Representative investigation into Chinese business policies found the country's willingness to force technology transfers from American firms to their Chinese Joint-Venture (JV) Partners. Rather than seeking to punish China for *"dumping"* cheap products onto the US – recall that previous iterations targeted solar panels, steel and aluminium *(see Table A)* – earlier in April, D. Trump's administration announced a 25% duty on a list of approximately 1,300 Chinese products (worth USD 50 billion). This duty targets China's dominance in cutting edge technologies, such as semiconductors, electric vehicles, and medical products *(Table B)*.

Table A
US: Imports of steel and aluminum (as a % of total,2017)

	Countries		Statuts*
1	Canada	19.90%	Temporarily exempt**
2	Brazil	11.30%	Temporarily exempt
3	Russia	9%	
4	South Korea	8.8%	Temporarily exempt
5	Mexico	7.9%	Temporarily exempt
6	Turkey	5.4%	
7	Japan	4.4%	
8	Germany	3.4%	Temporarily exempt as part of the EU deal
9	China	3.2%	
10	Taiwan	3%	
11	India	2.4%	
12	UAE	2.1%	
13	Vietnam	1.7%	
14	Netherlands	1.4%	Temporarily exempt as part of the EU deal
15	Italy	1.2%	Temporarily exempt as part of the EU deal

Sources: ComTrade, Coface, US government official web site

* Following President Trump's measure to set up tariffs of 25% on steel and 10% on aluminium imports.
** All exemptions at this point in time will be until May, 2018. Negotiations are under way. When nothing is mentioned, the country will be impacted by the measure at this point in time.

1/ Global Trade Alert (GTA) is an online platform that pays particular attention to the policy choices of G20 governments ever since their leaders made a *"no protectionism"* pledge in Washington DC in November 2008. It is an initiative supported by the UK-registered Centre for Economic Policy Research (CEPR), an online think-tank of economists.
2/ See Coface Panorama publication *"World Trade : A sluggish spell?"* October, 2014.

Table B
Main protectionist measures announced by President Trump's Administration in the first quarter of 2018 – potential risks & impacts*

Date	Protectionist Measures Announced	Risks	Retaliation Measures Potential Impact
Jan. 2018	• US administration promoting a weak dollar. • US Treasury Secretary Steven Mnuchin stated that *"a weak dollar is good for the United States as it relates to trade and opportunities on a short term basis"* at last the World Economic Forum.	• Rising risk of currency war.	• Incentive for other central banks / governments to strive to depreciate their currencies as well and/or limit their currency appreciation against the dollar. • Impact on US households' purchasing power.
	• Plans of trade barrier settlements with washing machines and solar panels: for washing machines, safeguard tariffs of 30% during the first year, then decreasing by 5% each year; for solar panels, up to 50% on selected products and then regressive tax.	• Potential impact on US consumers' purchasing power and different states' renewable energy plans for solar panels.	• Selected US companies in white goods businesses were relieved that competitors could be in difficulty, reinforcing part of the US President's electoral base.
Mar. 2018	• President Trump's executive order to block Singapore-headquartered Broadcom's takeover of US company Qualcomm for USD 117 billion.	• Investors' doubts on the US administration's commitment to free trade, which could create turmoil on capital markets.	• Other governments might find incentives to oppose future large mergers without restraint.
Mar. Apr. 2018	• President Trump announced that he will implement tariffs of 25% on steel and 10% on aluminium on imports from selected countries to the United States (Table C).	• Risk of rising fixed costs for US companies in the construction nd automotive sectors in the medium-term. • Escalation toward a global trade war. • Increase of legal recourses from the WTO**.	• Many countries have threatened retaliation measures, which creates a climate of escalating protectionist measures on all sides. • Uncertainty on global trade activities: Coface currently forecasts world GDP growth at 3.7% in 2018.
	• US administration announcement of 25% duties, worth USD 50 billion, on industrial- (transport, medical goods) and ICT-specific Chinese products such as semi-conductors, electric vehicles (1300 different products in total)***.	• Prolonged and intense commercial war between USA and China. • Difficulties for selected Chinese exporters, particularly those in the ICT sector. • The Chinese construction and banking sectors, which highly rely on overseas revenues, could suffer. • This measure could hamper the China Manufacturing 2025 Plan.	• China retaliated by implementing symmetrical measures (25% tariffs on imports worth USD 50 billion per year). The list comprised 106 US products, including soybean, automobiles, chemicals, and aircraft. • Chinese imports will likely be substituted by other countries, which would provide cheaper equivalents in the region. • In the longer term, China has more to lose as its exports to the US account for 5% of its GDP in 2016 (versus 0.5% for the US). • A huge potential indirect impact of these measures is their negative impact on company leaders' confidence (we have seen a deterioration of many relevant indices, such as the PMI in the eurozone, see p. 2, but also in Asia and in the United States in March) as well as investor's confidence on equity markets.

*The table indicates measures announced by the US administration at the time of printing. **WTO: World Trade Organisation. ***American businesses can provide feedback to the Trump administration on the products choices until 22nd May 2018. Negotiations remain open until then.

How do we decrypt the US administration's strategy behind protectionist measures?

There are political reasons. Since the beginning of the year, it seems that President Trump is trying to reply to critics that *"he speaks a lot but do not act much"*. This first quarter has indeed been marked by a multitude of protectionist measures announcement, which – when reviewed chronologically – appear to outline what seems to be the US administration's two main targets *(see Table B)*. The first of these targets is addressing the US-China trade relationship, which the US administration perceives as unbalanced. As of 2017, the US possesses a large trade deficit of USD 350 billion with China (i.e. around two thirds of the US total trade deficit) - *See table C*.

The Trump administration's rhetoric that China is a thief of US intellectual property hints at their second target: the China 2025 Manufacturing Plan[3], which

3/ Also known as *"Made in China 2025 Strategy"*.

is perceived as a threat by many nations. Under this plan, China aims to become the leader across ten critical economic areas, including New Energy Vehicles, Rail Transport Equipment, Automated Machine Tools and Robotics, and Power Equipment (which includes Solar and Wind Technologies).

What's next? What are the potential consequences in the near future?

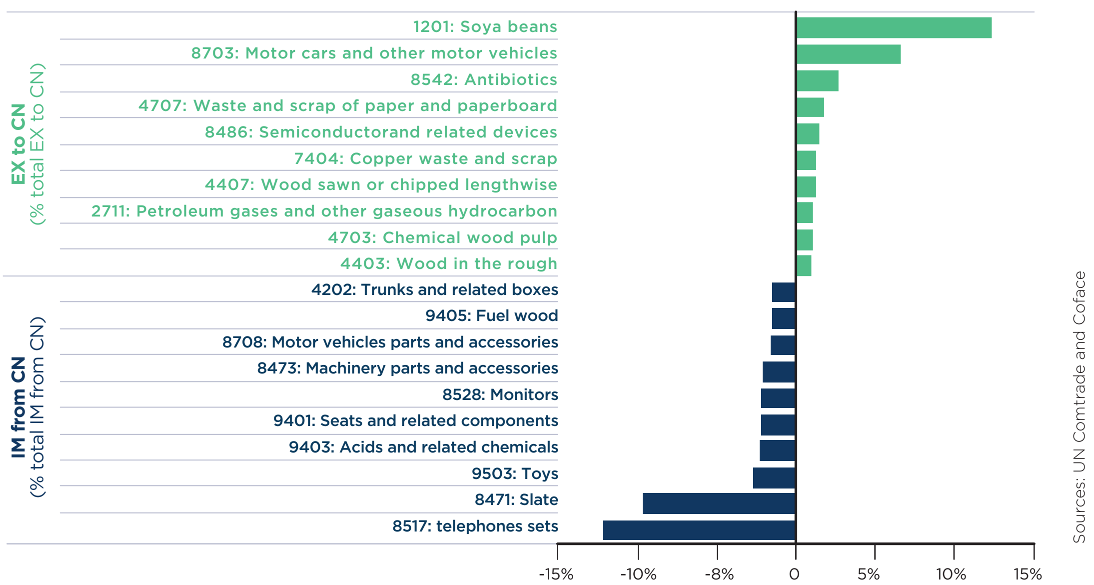
It is likely that President Trump will announce further protectionist measures on the run up to the November 2018 mid-term elections. This raises uncertainties; both on the potential impact on global trade, as well as on selected companies' performances *(see Table B)*.

In the short-term, the recently announced measure, specifically targeting China (if effectively implemented) will not have a significant impact on the real economy, as it roughly account for no more than 2% of China's total exports. But if tensions continue between the two superpowers, China has more to lose than the United States. US exports indeed account for 5% of China's GDP, while US exports to China represent only 0.5% of US GDP. Moreover, Chinese companies are increasingly reliant on overseas revenues due to overcapacity issues, heightened domestic competition, and weaker local demand from decelerating investment. Companies' overseas revenues represented 8% of their total revenues in 2016 (compared to 6.6% in 2012). Currently, the aforementioned tensions between the two superpowers increasingly focus on ICT products, as per the last measure announced by President Trump *(see Table B)*. Moreover, both the construction and banking sectors in China, which benefit from overseas revenues and take a sizeable part in the Chinese economy, could be impacted as well.

Overall, it raises the question on the longer term to global households' consumption trends, as some academic neo-classic (liberal) economic studies demonstrate that protectionist measures aimed at trade restrictions can lead to a redistribution of income from consumers to protected firms[4]. Therefore, a trade war could indeed have negative knock on effects on global economic activity.
Beyond the US administration's protectionist economic policy, protectionist measures currently tend to generate popular support, and not only among President Trump's electoral base. People in advanced economies are eager to feel protected from the on-going technological revolution and a multipolarised world with the emergence of a new economic order – particularly the rising importance of the Chinese economy, which could explain why the US protectionist measures seem to turn into a *"one on one"* between the US and China.

4/ *« The Impact of Protectionism on Firm Wealth: The Experience of the Steel Industry »* Journal Article, Stefanie Lenway, Kathleen Rehbein and Laura Starks, Southern Economic Journal, Vol. 56, No. 4 (Apr., 1990), pp. 1079-1093.

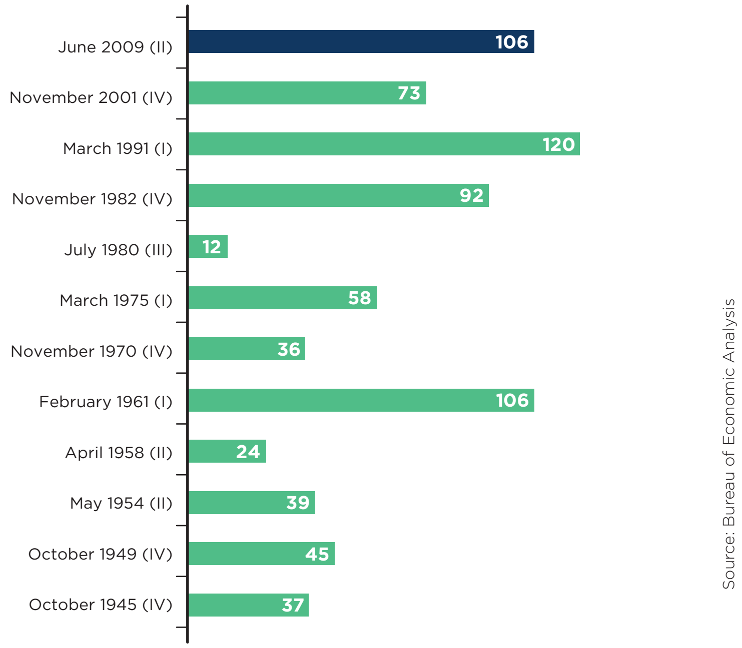
Table C
Products with the largest surplus/deficit with China (Top-10)



3 But increasingly more overheating signals

Within this favourable environment, the question which remains to be answered is how long this phase of economic expansion will last. Usually, the American economy is the one that sets the tempo in this regard. During the last 3 cycles (early 1990s, early 2000s and then 2008), the growth peak in the United States was reached at least one year before that of the Eurozone and emerging countries (the latter being taken as a whole). The current expansion cycle which the United States is currently benefitting from is already one of the longest since the end of the World War 2 *(see Graph 5)*. It will surpass the record level of the 1990s if it manages to last until the summer of 2019. Yet, the production capacity utilization rate remains lower than the peaks observed during the previous economic downturns (over 80% in 2008 and 2000, compared to just 77% today) and corporate profits - usually an early sign of a phase change in the cycle - fell at the end of last year. They were down by -10.3% year-on-year for domestic profits (excluding the financial sector), after temporarily benefitting from the renewed health of the energy sector through until the 3rd quarter of 2017. Aside from the oil sector, which is enjoying the rebound in world prices, profit growth is at its lowest level since the third quarter of 2011.

Chart n° 5
Duration of expansion cycles in the United States
(in number of months from the indicated month)



More and more signs of overheating on the labour market...

The US labour market is showing signs of overheating and this usually occurs when the unemployment rate is close to its structural level. The unemployment rate can effectively be split into cyclical and structural elements. As its name suggests, the cyclical aspect varies according to the vicissitudes of the economic environment - and therefore demand. Conversely, the structural element does not fluctuate according to changes in economic activity, but depends on supply factors which are essentially demographic (population of working age), as well as technological and institutional factors (including the educational level of the workforce and minimum wages in operation). When the unemployment rate is significantly lower than its structural level, it generates inflationary pressures that penalise the purchasing power of households and thus their consumption. These inflationary pressures also encourage central banks to tighten their monetary policies. Business activity also becomes constrained by a lack of available workforce.

The structural unemployment rate is therefore not a directly observable variable and must be estimated. To achieve this, the European Commission has been using both business cycle and labour market structural indicators since October 2017[7]. The Commission has concluded that the unemployment rate which does not accelerate wage growth (Non Accelerating Wage Rate of Unemployment, NAWRU) currently lies between 9 and 9.5% in the euro area. The actual unemployment rate has been below this threshold since September 2017 (8.6% in January 2018). The United States is in the same situation, according to the OECD *(see Graph 5)*. Beyond these two cases, the unemployment rate is now lower than the rate that does not accelerate inflation in 23 of the 33 OECD countries.

This estimate, which is essential for assessing the position of an economy in the cycle, is already difficult to make for advanced economies – and even more so in emerging economies. The level of the unemployment rate recorded in 2007 can be considered a rough approximation of this structural or equilibrium unemployment rate, as it corresponds to the peak growth of the world economy before the 2008-2009 credit crisis. According to figures from the International Labour Organisation, the global unemployment rate averaged 5.8% in 2017, only 0.2 percentage points higher than in 2007. At the end of last year, it was thus lower than or equal to 2007 levels in 103 out of 179 countries. This is a signal that many countries are now close to their peak growth.

7/ https://ec.europa.eu/info/sites/info/files/dp069_en.pdf

In this context, more and more companies are experiencing recruitment difficulties that may constrain their ability to produce more over the coming quarters. This is particularly the case in Europe. According to European Commission surveys, an increasing number of companies surveyed in the European Union are reporting that they are suffering from supply constraints. In the first quarter of 2018, only 24% of these surveyed companies stated that insufficient demand was limiting their production (the lowest since the survey was launched in 1985, see Graph 6). More companies (34%) are now concerned about supply constraints, such as shortages of available manpower or equipment (20% and 14% of the total, respectively). This is a historical high in both cases.

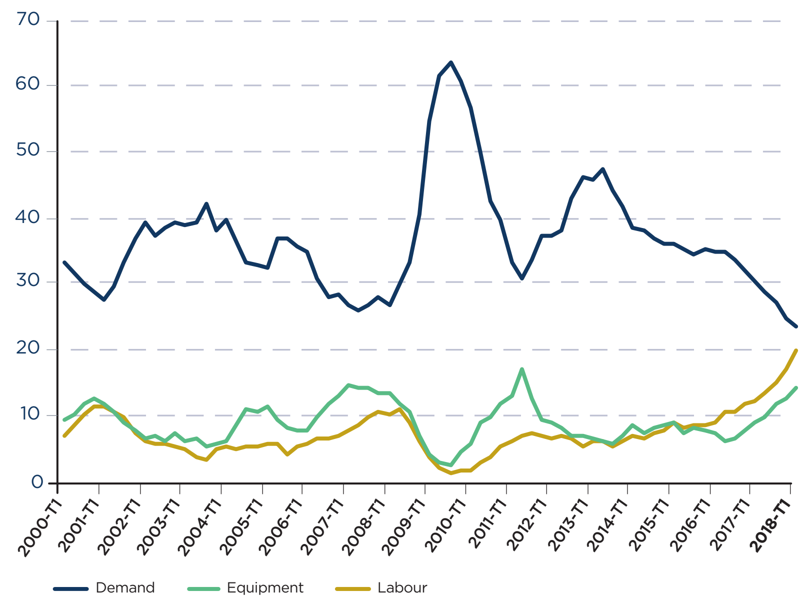
In the United States, the US Federal Reserve's Beige Book, published last January, brings together all of the observations made by the Regional Federal Reserves on the ground. It is increasingly reporting a shortfall in the workforce in many American states. Seven out of the 12 states analysed have highlighted this as a growing problem for local businesses[9].

In Japan, where the unemployment rate is at its lowest since 1993 (2.8% in January), there were on average 150 job advertisements per 100 applicants in 2017. This is the highest level since 1973!

... finally resulting in higher wages and rising inflation

In this context of synchronized acceleration in global growth since 2017 (and thus an improvement in the labour market), inflationary pressures are finally materialising. In the United States, the latest employment reports have shown stronger-than-before growth in wages and unit labour costs. Core inflation (i.e. excluding energy) for consumer goods reached a six-year high in February. In the Eurozone, average wages per employee rose by 1.8% year-on-year in the last quarter of 2017 (compared to 1.1% in the second quarter of 2016). This trend is likely to continue, as the unemployment rate continues to fall and the effects of wage bargaining in Germany are not yet visible in the Eurozone inflation figures. Even in Japan, inflation stood at just 1.5% in February (1.0% excluding the most volatile components), within a context of modest wage growth. This is the highest level observed since March 2015.

Chart n° 6
Factors constraining production in the European Union
(in percentage of the surveyed companies)



Source: Commission Européenne

9/ https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20180117.pdf

Country risk Assessment Changes

COUNTRY	Country risk previous		Country risk new
SOUTH AFRICA	C	↗	B
NIGERIA	D	↗	C
PORTUGAL	A3	↗	A2
COSTA RICA	A4	↘	B
SWEDEN	A1	↘	A2
TUNISIA	B	↘	C

South Africa ↗
(upgrade from C to B)
- Since output contracted in the first quarter of 2017, GDP growth has recovered. The recovery is expected to strengthen in 2018.
- Short-term economic and financial indicators reflect a more optimistic perception of companies, which should encourage investment.

Nigeria ↗
(upgrade from D to C)
- After a long recession, Nigeria emerged from recession thanks to higher oil output and prices, as well as a strong performance from agriculture.
- The Nigerian currency (naira) has stabilised since the introduction of a new foreign exchange window for investors and exporters.
- Foreign exchange reserves have steadily increased in the past quarters and hit a four-year high in early March.

Portugal ↗
(upgrade from A3 to A2)
- Portugal is enjoying extremely dynamic growth. The net contribution of exports is positive. In addition, the labour market is beginning to recover.

Costa Rica ↘
(downgrade from A4 to B)
- The fiscal deficit is forecast to reach 6.5% in 2018. According to the IMF, public debt is expected to reach 48.8% in 2018, up from 29.8% in 2011.
- Real improvement will depend on the adoption of tax reforms, but these are subject to the outcome of presidential elections (second round of voting on the 1st April) and the difficulties in obtaining political consensus.

Tunisia ↘
(downgrade from B to C)
- A difficult macroeconomic situation. Inflation reaches 7% and will impact household consumption. Both the public finances situation and the external position of the country are worrying.

Sweden ↘
(downgrade from A1 to A2)
- Deteriorating real estate market; increased risks due to high household debt.

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Upgrade
- ↘ Downgrade

Sector risk
Assessment Changes

REGIONAL SECTOR RISK ASSESSMENTS

	Central & Eastern Europe	Emerging Asia	Latin America	Middle East & Turkey	North America	Western Europe
Agri-food	Medium risk	Medium risk	High risk	High risk	Medium risk	Medium risk
Automotive	Low risk	High risk	Medium risk	High risk	Medium risk	Low risk
Chemical	Medium risk	High risk	High risk	High risk	Low risk	Medium risk
Construction	High risk	Very High risk	High risk	Very High risk	Medium risk	Medium risk
Energy	Medium risk	High risk	High risk	High risk	Medium risk	High risk
ICT*	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Low risk ↘ Medium risk
Metals	Medium risk	High risk	High risk	High risk	High risk	High risk
Paper	Medium risk	High risk	Medium risk	Medium risk	Medium risk	High risk
Pharmaceutical	Low risk	Low risk	Medium risk	Medium risk	Low risk	Low risk
Retail	Medium risk	Low risk	Medium risk	High risk	High risk	Medium risk
Textile-Clothing	Medium risk	High risk	High risk	High risk	High risk ↘ Very High risk	High risk
Transport	High risk	Medium risk	High risk	Medium risk	Low risk	Medium risk
Wood	Medium risk	High risk	High risk	High risk	Medium risk	Medium risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

- Low risk
- Medium risk
- High risk
- Very High risk
- ↗ Upgrade
- ↘ Downgrade

NORTH AMERICA

	North America	Canada	United States
Agri-food	Medium risk	Medium risk	Medium risk
Automotive	Medium risk	Medium risk	Medium risk
Chemical	Low risk	Low risk	Low risk
Construction	Medium risk	High risk	Medium risk
Energy	Medium risk	High risk	Medium risk
ICT*	Medium risk	Medium risk	Medium risk
Metals	High risk	High risk	High risk
Paper	Medium risk	High risk	Medium risk
Pharmaceutical	Low risk	Low risk	Low risk
Retail	High risk	High risk	High risk
Textile-Clothing	High risk ↘ Very High risk	High risk	High risk ↘ Very High risk
Transport	Low risk	Low risk	Low risk
Wood	Medium risk	High risk	Medium risk

* Information and Communication Technologies
Source: Coface

UNITED STATES

Textile-Clothing ↘
(High risk to Very High risk)

- Although textile products confirmed a slight rebound in January, clothing production has continued to fall overall sharply. Very negative trend for clothing production, which decreased by nearly 10% in 2017 (after -6.4% in 2016).

LATIN AMERICA

	Latin America	Argentina	Brazil	Chile	Mexico
Agri-food	High risk	High risk	High risk	High risk	High risk
Automotive	Medium risk	Medium risk	Medium risk	Low risk	High risk
Chemical	High risk	Medium risk	High risk	High risk	High risk
Construction	High risk	Medium risk	High risk	High risk	High risk ↘ Very High risk
Energy	High risk	High risk ↗ Medium risk	High risk ↗ Medium risk	Medium risk ↗ Low risk	Very High risk
ICT*	Medium risk	High risk	Medium risk	High risk	Medium risk
Metals	High risk	Medium risk	High risk	Medium risk ↗ Low risk	High risk
Paper	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Pharmaceutical	Medium risk	Medium risk	Medium risk	Low risk	Low risk
Retail	Medium risk	High risk	Medium risk	Medium risk	Medium risk
Textile-Clothing	High risk	High risk	High risk	Medium risk	High risk
Transport	High risk	Medium risk	High risk	Medium risk	High risk
Wood	High risk	Medium risk	High risk	High risk	High risk

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ARGENTINA

Energy ↗
(High risk to Medium risk)

- Reform efforts in the Argentine hydrocarbon sector continue to progress. Credit risk improved after the tariff readjustment in the first quarter of 2017, which improved the profitability of companies in the sector.

BRAZIL

Energy ↗
(High risk to Medium risk)

- Brazil's large non-hydro renewables sector will continue to expand rapidly in 2018 on the back of a large pipeline of projects.
- Demand prospects are more optimistic (in line with economic recovery) and oil prices are relatively higher than in the previous years.
- Petrobras' average oil output in Brazil grew by 0.4% in 2017 and reached a new record for the fourth consecutive year, at 2.15 million barrels per day (bpd).

CHILE

Energy ↗
(Medium risk to Low risk)

- The country has worked to develop its electricity capacity, attracting significant investment in renewable energies (mainly solar and wind). This should help stimulate activity in the coming years and enable companies to reduce their energy costs in the long term.

Metals ↗
(Medium risk to Low risk)

- Mining will remain the principal driver of growth in Q1 2018, as it encounters a low base of comparison following the extensive labour strike at the largest copper mine early last year.

MEXICO

Construction ↘
(High risk to Very High risk)

- The sector had a weak 2017 and the risks for activity will continue. Construction of civil engineering works dropped in all months of 2017, thanks to tight public budget.
- In 2018 there will be more public spending, but higher prices of inputs and rising interest rates will continue to pressure builders.

BUSINESS DEFAULT RISK

- Low risk
- Medium risk
- High risk
- Very High risk
- ↗ Upgrade
- ↘ Downgrade

EMERGING ASIA

	Emerging Asia	China	India
Agri-food	Medium risk	Medium risk	Medium risk
Automotive	High risk	High risk	Medium risk
Chemical	High risk	High risk	High risk
Construction	Very High risk	Very High risk	High risk
Energy	High risk	High risk	High risk
ICT*	Medium risk	Medium risk	Medium risk
Metals	High risk	High risk	High risk
Paper	High risk	High risk	Medium risk
Pharmaceutical	Low risk	Low risk	Low risk
Retail	Low risk	Low risk	High risk
Textile-Clothing	High risk	High risk	High risk
Transport	Medium risk	Medium risk	Medium risk
Wood	High risk	High risk	Medium risk

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BUSINESS DEFAULT RISK

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- Upgrade
- Downgrade

CENTRAL AND EASTERN EUROPE

	Central & Eastern Europe	Czech Republic	Poland	Romania
Agri-food	Medium risk	Medium risk	Medium risk	Medium risk
Automotive	Low risk	Low risk	Low risk	Low risk
Chemical	Medium risk	Medium risk	Medium risk	Medium risk
Construction	High risk	Medium risk	High risk	High risk
Energy	Medium risk	Medium risk	Medium risk	Medium risk
ICT*	Medium risk	Medium risk	Medium risk	Medium risk
Metals	Medium risk	High risk	Medium risk	High risk
Paper	Medium risk	Medium risk	Medium risk	Medium risk
Pharmaceutical	Low risk	Low risk	Low risk	Low risk
Retail	Medium risk	Medium risk	Medium risk	Medium risk
Textile-Clothing	Medium risk	Medium risk	Medium risk	Medium risk
Transport	High risk	Medium risk	High risk	Medium risk
Wood	Medium risk	Medium risk	Medium risk	Medium risk

** Information and Communication Technologies*
Source: Coface

WESTERN EUROPE

	Western Europe	Austria	France	Germany	Italy	Netherlands	Spain	Switzerland	United Kingdom
Agri-food	Medium risk	Low risk	Medium risk	High risk	Medium risk	Medium risk	Low risk	Medium risk	Medium risk
Automotive	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk	High risk
Chemical	Medium risk	Low risk	Medium risk	Low risk	Medium risk	Low risk	Medium risk	Low risk	Medium risk
Construction	Medium risk	Medium risk	Low risk	Low risk	Very High risk	Medium risk	Medium risk	Medium risk	High risk ↘ Very High risk
Energy	High risk	Medium risk	High risk	Medium risk	High risk	High risk	High risk	Medium risk	High risk
ICT*	Low risk ↘ Medium risk	Medium risk	Low risk	Low risk	Medium risk ↘ High risk	Medium risk	Medium risk	Low risk	Medium risk
Metals	High risk	Medium risk	High risk	Medium risk	High risk	Medium risk	Medium risk	High risk	Very High risk
Paper	High risk	Low risk	High risk	High risk	High risk	High risk	Medium risk	High risk	High risk
Pharmaceutical	Low risk	Low risk	Low risk	Low risk	Low risk	Medium risk	Medium risk	Low risk	Medium risk
Retail	Medium risk	Medium risk	Low risk	Medium risk	Medium risk	Medium risk	Low risk	Medium risk	High risk
Textile-Clothing	High risk	High risk	High risk	High risk	High risk	High risk	Medium risk	High risk ↗ Medium risk	High risk
Transport	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Low risk	Medium risk	Medium risk
Wood	Medium risk	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk	High risk	High risk

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ITALY
ICT ↘
(Low risk to Medium risk)
- The electronic segment is in difficulty with a drastic fall in sales 2017 last quarter and several significant bankruptcies in the beginning of the year, which have led to several dedicated sales shops closing.

SWITZERLAND
Textile-Clothing ↗
(High risk to Medium risk)
- Specialization in high value added products has supported some manufacturers.
- Manufacturers will benefit from higher domestic and European demand.

UNITED KINGDOM
Construction ↘
(High risk to Very High risk)
Construction indicators are deteriorating further: output fell by almost 4% in January 2018 (the largest fall since March 2013) and new orders fell by 1.3% year-on-year in the fourth quarter of 2017.

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MIDDLE EAST & TURKEY

	Middle East & Turkey	Saudi Arabia	Turkey	UAE
Agri-food	High risk	High risk	High risk	High risk
Automotive	High risk	High risk	Medium risk	High risk
Chemical	High risk	High risk	High risk	High risk
Construction	Very High risk	Very High risk	Very High risk	High risk
Energy	High risk	High risk	High risk	High risk
ICT*	High risk	High risk	High risk	High risk
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TURKEY

Pharmaceutical ↘

(Low risk to Medium risk)

Government pharmaceutical pricing and reimbursement policies continue to pose challenges for drugmakers, particularly foreign firms. Competition is high, putting pressures on profit margins.

The multi-partnership structure of drug cooperatives makes financial management difficult for these companies.

OTHER COUNTRIES

	Japan	Russia	South Africa
Agri-food	Medium risk	Low risk	Low risk
Automotive	Medium risk	Medium risk	High risk
Chemical	Medium risk	Medium risk ↗ Low risk	High risk ↗ Medium risk
Construction	Medium risk	Very High risk ↗ High risk	Very High risk
Energy	High risk	Medium risk	High risk
ICT*	Medium risk	Medium risk	Medium risk
Metals	High risk	High risk	High risk
Paper	High risk	High risk ↗ Medium risk	High risk ↗ Medium risk
Pharmaceutical	Low risk	Medium risk	Medium risk
Retail	Medium risk	Medium risk	High risk ↗ Medium risk
Textile-Clothing	High risk	High risk	Medium risk
Transport	Medium risk	High risk	High risk
Wood	Medium risk	High risk	High risk

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RUSSIA

Chemical ↗
(Medium risk to Low risk)
- Production is increasing, especially for industry and agriculture commodities, for which demand is strong.

Construction ↗
(Very High risk to High risk)
- In the Moscow region, construction of housing, parks, roads, and transport is expanding.
- Construction linked to e-commerce is doing well.
- The introduction of state aid to households for the purchase or construction of dwelling should lead to an improvement together the construction of the first high speed rail line.

Paper ↗
(High risk to Medium risk)
Packaging is profiting from the recovery in consumption and investment.

SOUTH AFRICA

Chemical ↗
(High risk to Medium risk)
- Turnover and production in the sector increased steadily over the second half of 2017.
- As production increase, profitability and debt outlook is improving for 2018.

Paper ↗
(High risk to Medium risk)
- Paper and packaging products recorded one of its strongest growth output in recent months.
- Despite rising output costs, healthy demand in Europe supports comfortable margins for companies.

Retail ↗
(High risk to Medium risk)
- Trade activities were one of the main contributors to the strong GDP growth registered in Q4 2017 and retail trade sales improved markedly over the past few months. We expect the sector to benefit from the country improving economic prospects.
- Lower inflation improving (which fell to 4.4% YOY, its lowest level since March 2015), improved household confidence on the outlook for the domestic economy, and decreasing household debt should continue to support an improved outlook.

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RESERVATION

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