



Analysis

Recovery in Sight After Pandemic Disrupts Global Trade

James Burgess



James Burgess
Head of UK
Commercial
Atradius

Biography

James Burgess is Head of UK Commercial at global trade credit insurer Atradius and part of the UK & Ireland Senior Management Team. His experience in trade credit insurance dates back nearly two decades, working in commercial roles including managing strategic accounts and sales at both regional and national levels.

As a trade credit insurer, Atradius (<https://www.atradius.co.uk>) protects businesses from the risk of trading both domestically and overseas by paying out claims in the event of non-payment, for instance due to insolvency, default, late payment or political risk. However, Atradius' offering extends to much more than paying claims. As a business partner, Atradius supports customers to develop robust trade strategies from the very beginning of their trade journey: identifying new opportunities, mitigating risk and providing expert insights into markets and individual buyers. With this intelligence and protection, customers are well placed to seize potential opportunities, trade safely and manage economic uncertainty.

Keywords Economic outlook, Global trade, Economic forecast, Advanced economies, Emerging markets, Trade credit insurance, Export advice, Pandemic impact

Paper type Research

Abstract

The pandemic hasn't changed trade forever but it has accelerated trends that would have taken up to two decades to emerge. It has also rocked the global economic climate and trading environment to its core. In this article, the author discusses the forecast global rebound in growth and trade and what this means for businesses post pandemic.

Introduction

At the onset of the global coronavirus pandemic, there was trepidation about what the future would hold. On one hand the world's leading economists were forecasting economic deterioration of titanic proportions, amidst a shock reaction of denial that the pandemic would grip the world for so long. But here we are, 18 months on and still standing.

COVID-19: Where do we stand now?

Vaccination campaigns are steadily underway, and the world economy is fully recovering from the major downturn caused by the pandemic. While there remains a risk from new, more transmissible variants of COVID-19, we cautiously embrace



Analysis

the footsteps of rebound. Globally, 1.4 billion people have received at least one dose of a vaccine and 1.2 billion are fully vaccinated. However, this is still a relatively low share of the global population with substantial differences between advanced and emerging nations.

While case numbers suggest vaccination does not prevent the spread of the Delta variant, there is a clear negative relationship between vaccination and hospitalization. Therefore, vaccination remains the best way out of the pandemic. In this sense, advanced economies will have a head start. That said, low vaccination rates in some emerging economies are not only a local issue but it may cause other variants to develop and spread across the globe. From both a public health and economic perspective, the future is still uncertain. The pandemic is still among us and can be expected to stay around for some time.

Consumers drive global growth recovery

With activity restricted by lockdowns, consumer spending was constrained on services including restaurants, hotels, travel, cultural activities, and events. Consequently, spending on goods such as cars, furniture, household appliances and sporting gear increased. This has resulted in geared-up demand for manufactured products, supporting sentiment indicators and prospects for growth. Indeed, the manufacturing Purchasing Managers Indices (PMIs) for the US, Europe and China gradually increased since summer 2020 with a marked acceleration since early 2021, creating a foundation for growth.

Now, consumers are ready to take the second step, unleashing excess savings and gearing up spending on services, made possible by the easing of restrictions. It is this boost which will fuel strong global recovery at a higher rate than was expected earlier this year. As a result, Atradius' latest Economic Outlook sees the forecast for global economic growth in 2021 upgraded by 0.8 percentage points to 6.2%.

Figure 1: Real GDP growth (%) – global regions

	2020	2021f	2022f
Eurozone	-6.7	5.0	4.6
United States	-3.5	7.0	4.3
Emerging Asia	-0.1	7.7	6.0
Latin America	-6.8	6.5	2.9
Eastern Europe	-2.2	5.1	3.8
World	-3.6	6.2	4.7

Sources: Oxford Economics, Atradius

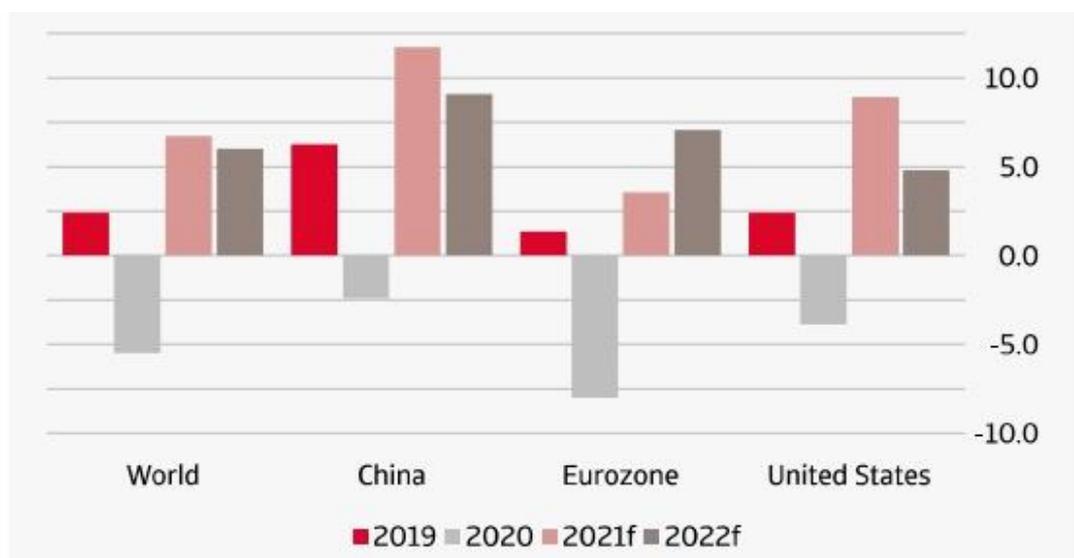


Figure 2: Sentiment riding high – Composite PMI, seasonally adjusted



Source: Macrobond

Figure 3: Consumption drives recovery – private consumption year-on-year % change



Source: Macrobond

The alternative path

Of course, recovery is not guaranteed. Should the grips which governments are currently getting on the pandemic fail to turn into control, consumption would deteriorate, and the vicious cycle would drag the global economy downward. In this case, global GDP growth would be predicted to reach just 4.5%, falling to 1.8% in 2022.



Analysis

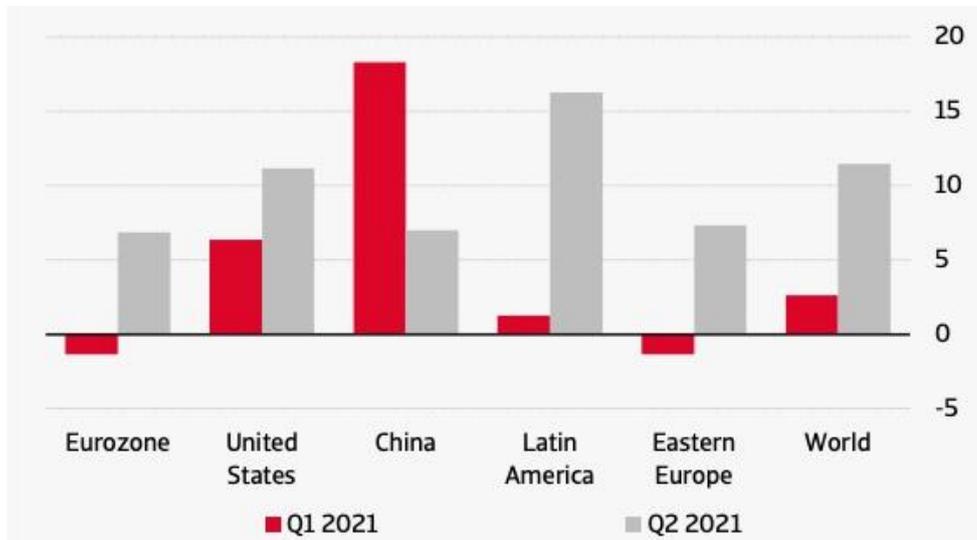
Alternatively, the consumer-led recovery envisaged could turn into a consumer boom with more of the involuntary savings accumulated during lockdown spent, triggering a virtuous cycle of higher consumption, investment, and sentiment – improving the outlook. We must wait and see.

Figure 4: Real GDP growth (%) – two scenarios

	Baseline			Limited vaccine effectiveness		
	2020	2021	2022	2020	2021	2022
Eurozone	-6.7	5.0	4.6	-6.7	3.0	1.2
United States	-3.5	7.0	4.3	-3.5	4.7	0.4
Emerging Asia	-0.1	7.7	6.0	-0.1	5.2	2.9
Latin America	-6.8	6.5	2.9	-6.8	5.7	1.2
Eastern Europe	-2.2	5.1	3.8	-2.2	3.0	1.6
World	-3.6	6.2	4.7	-3.6	4.5	1.8

Sources: Oxford Economics, Atradius

Figure 5: Across the board recovery in Q2 – GDP growth per quarter annualized (% change year-on-year)



Sources: Oxford Economics, Atradius

The leaders in economic recovery

Atradius’ Economic Outlook heralds Emerging Asia, led by China and India, with the strongest growth in 2021, forecast to rise 7.7%, followed by the United States at 7%. Other global regions are also expected to perform better, although to a far more limited extent.



Latin America's recovery, helped by much higher commodity prices, is expected to be just above the global average at 6.5%. Eastern Europe's GDP is forecast to rebound 5.1% with growth in the Eurozone up 5%. Meanwhile, growth of 3.9% and 3.8% is forecast in the MENA and Sub-Saharan Africa regions respectively. The forecast envisages the global economy will widely recover from the pandemic by the end of 2021. Both Emerging Asia and the US have already passed this point while Emerging Europe's and the Sub-Saharan Africa economy will reach fully recovery before the end of the year. For Latin America, the Eurozone and MENA, it will be in the course of 2022.

The story of advanced economies

During 2021, there have been several game changers which have made the difference to global economic markets. First and foremost, has been the rollout of mass vaccinations, bringing hope for a return to normality. Another major change has been the inauguration of Joe Biden as US president, reducing major uncertainty over US policies on global trade and international relations along with the substantial fiscal stimulus bill agreed by the administration.

Figure 6: Real GDP growth (%) – advanced markets

	2020	2021f	2022f
Eurozone	-6.7	5.0	4.6
United States	-3.5	7.0	4.3
United Kingdom	-9.8	7.3	6.7
Japan	-4.7	2.6	2.8
Advanced economies	-4.6	5.8	4.2

Sources: Oxford Economics, Atradius

In Europe, the EU took steps towards further integration though its NextGenerationEU fund for post-pandemic recovery while a post-Brexit trade deal was finally agreed with the UK. These factors have combined to play their part in a better-than-expected economic rebound.

With some of the uncertainty that hung over the market disappearing, Atradius economists forecast advanced economies will grow 5.8% this year and 4.2% in 2022. The outlook in the US has strengthened markedly, up 3.5 percentage points than earlier forecast. Despite a slow start this year, rebound is expected to accelerate in the Eurozone reaching growth of 5% this year and 4.6% in 2022 as vaccinations continue and containment measures lift.

The speed of recovery is reliant on each market's sectoral composition with Southern Europe more vulnerable due to a stronger reliance on tourism. For



Analysis

instance, Germany and the Netherlands are expected to recover to pre-pandemic growth levels by Q3 2021 while Spain and Italy will only do so a full year later.

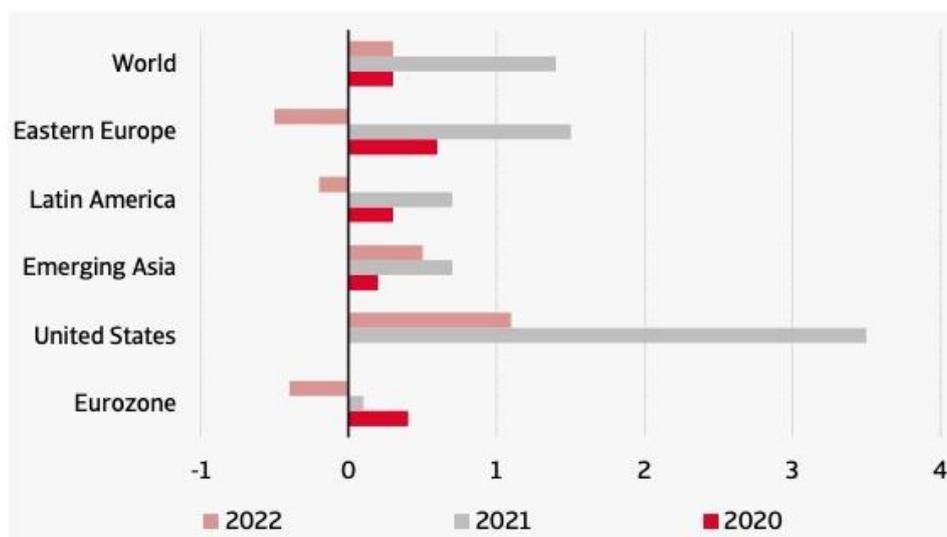
The UK outlook is brighter than at the beginning of 2020 with more resilience than expected. Despite a delay to lockdown easing due to the Delta variant, the outlook remains robust. GDP is forecast to increase 7.3% this year and 6.7% in 2022.

Figure 7: Real GDP growth (%) – eurozone

	2020	2021f	2022f
Austria	-6.4	3.6	4.7
Belgium	-6.3	5.4	3.7
France	-8.0	6.0	4.8
Germany	-5.1	3.6	4.6
Greece	-7.8	5.7	5.9
Ireland	5.9	7.1	2.4
Italy	-8.9	5.5	4.8
Netherlands	-3.8	3.0	3.4
Portugal	-7.6	4.3	5.4
Spain	-10.8	6.6	6.1
Eurozone	-6.7	5.0	4.6

Source: Oxford Economics, Atradius

Figure 8: US drives forecast revisions – changes since February 2021 Outlook (% point changes)



Source: Atradius



The path of emerging economies

Many emerging market economies are still struggling with COVID-19 outbreaks with a slower vaccine rollout while the scope for fiscal expansion has been more limited, offering less support to offset the negative economic impacts of containment measures. That said, a stronger rebound is likely in the second half of 2021 with the gradual easing of domestic restrictions. Economic growth across EMEs is forecast to recover by 6.9% in 2021 and 5.3% in 2022.

Figure 9: Real GDP growth (%) – emerging markets

	2020	2021f	2022f
Emerging Asia	-0.1	7.7	6.0
Latin America	-6.8	6.5	2.9
Eastern Europe	-2.2	5.1	3.8
MENA	-4.8	3.9	4.1
Sub-Saharan Africa	-2.7	3.8	3.8
Emerging Markets	-1.6	6.9	5.3

Sources: Oxford Economics, Atradius

Figure 10: Real GDP growth (%) – major emerging markets

	2020	2021ff	2022ff
Mexico	-8.5	6.2	3.2
Brazil	-4.4	5.7	2.1
China	2.3	8.4	6.1
India	-7.0	9.1	7.1
Russia	-3.0	3.4	2.5
South Africa	-7.0	4.3	2.3
Turkey	1.8	7.0	2.3

Sources: Oxford Economics, Atradius

In China, the economy continues its fast recovery helped by strong containment efforts and swift policy actions, with Atradius forecasting 8.4% GDP growth this year. However, China remains vulnerable to the sporadic emergence of COVID clusters. In 2021, household spending and corporate investment is expected to overtake real estate and infrastructure as growth drivers. While shipping bottlenecks in Guangdong and a rotation of global demand away from goods to services will impact China's export growth, recovery is expected as supply chain issues and shipment delays will be resolved.



Analysis

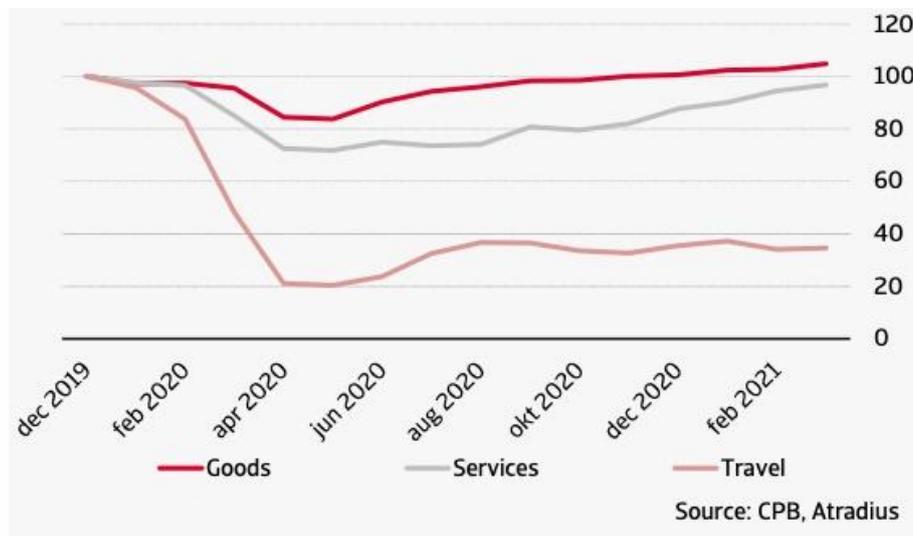
Economic growth in India is projected to bounce back to 9.1% in 2021 albeit an upsurge of COVID-19 infections is weakening recovery. In Latin America, Brazil's more diversified economy softened the economic blow compared to some of its neighbours – despite its battle against three waves of infections.

Amid recovering global demand, exporters benefit from the depreciation of the Brazilian Real, giving them a competitive edge. GDP growth of 5.7% is forecast this year. Meanwhile, Mexico will benefit from the strong US recovery, fuelling demand for exports and tourism expenditure while private consumption will strengthen gradually. Atradius expects a GDP rebound of 6.2% this year.

A rebound for global trade growth

The global trade deterioration in 2020 – down 16% in Q2 – was followed by a faster than expected rebound. Despite trade impediments, reflected in high trade costs, and still sluggish services, Atradius forecasts that trade recovery will continue and increase more than global GDP growth, rising between 8% and 10% in 2021 and 6% in 2022.

Figure 11: Services trade picks up gradually – World trade, index, 2019=100



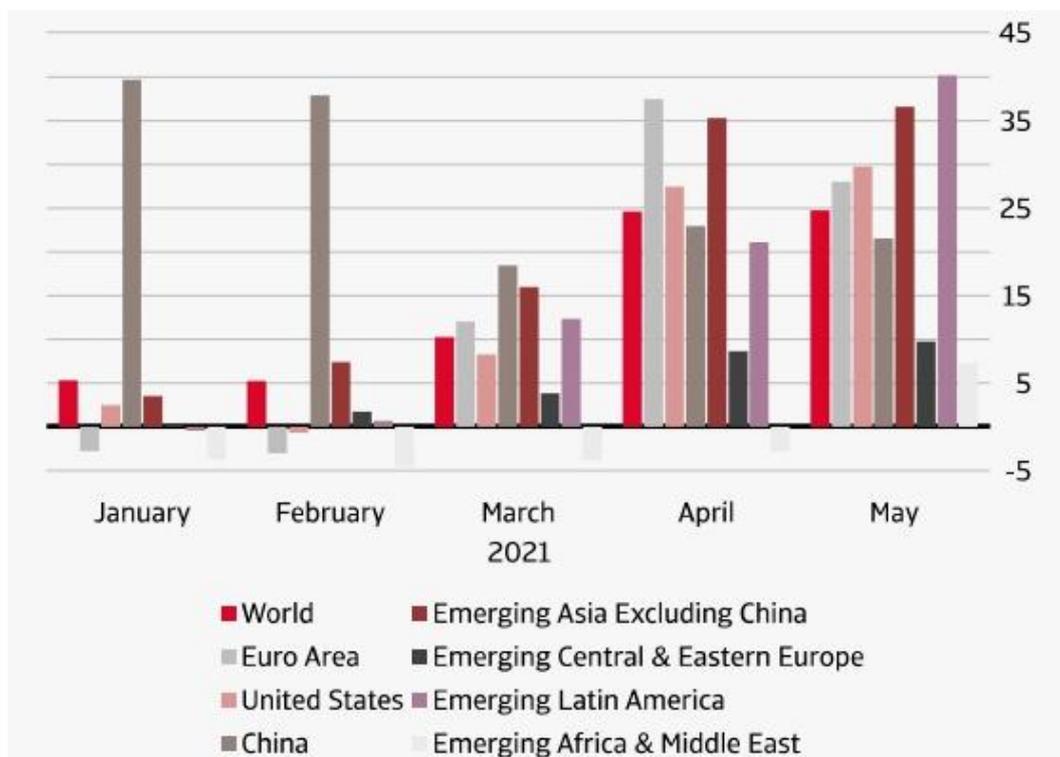
Source: CPB, Atradius

Positively, the pre-pandemic goods trade level recovered within just six months of its collapse but the rebound in services is slower and more divergent. While telecommunications and financial services were back at pre-pandemic levels in Spring 2021, travel services remained at 65% of pre-pandemic levels. While services trade in the East Asia and Pacific region was stronger, other regions lag behind most prominently due to restrictions on international travel.



Recovery in trade is expected to gain momentum in the coming months. Current strains in global supply chains are expected to dissipate during the coming 18 months. Supply bottlenecks will abate as trade growth slows, container capacity is expanded, and COVID-19 related extensions of customs and other logistical processes are relaxed.

Figure 12: Promising trade growth in 2021 – Trade volume, monthly, year-on-year %



Source: CPB, Macrobond

The trends emerging from the pandemic

Rebound does not mean the trade picture will return to what it once was. Trade patterns have been disrupted and trends that would have taken up to 20 years have developed into a condensed period. The world's centre of economic gravity is shifting eastwards towards Asia, due to its economic resilience. The adoption of new technology has experienced a boom, changing the way we trade, work, shop, socialize and access entertainment. As a result, a surge has been seen in online payments, cloud computing, retail, and home entertainment which, for many, will be permanent with businesses already taking advantage of the new global trade opportunities this brings.

Furthermore, the pandemic has prompted businesses to address global supply chains to increase resilience and mitigate logistical issues while diversification measures should lead to smoother future trade.



Analysis

Meanwhile, the pandemic has exasperated existing trends such as in the UK. As a result of Brexit uncertainty, Atradius estimates UK-EU trade has decreased just 15% since end-2018 compared to a 7% drop between the UK and the rest of the world. Non-tariff barriers in the form of increased paperwork and higher regulatory uncertainty are straining trade. Rising tensions surrounding the controversial Northern Ireland protocol have increased uncertainty further, leading expectations for UK-EU trade to recover more slowly and on a bumpier path.

In conclusion – Future proofing your business

Uncertainty has become one of the most used words in the economic vocabulary and, when it comes to trade risk, uncertainty has become the norm. But with a protracted impact of the pandemic, businesses must go on. Positively, the global economy is host to as many opportunities as there are vulnerabilities. To seize these, businesses must be armed with the right tools. Information is the bedrock of sound trade; information on your buyer, their payment practices, and the wider market and how they will respond to any future risk is crucial.

Trade credit insurance is an indispensable tool, providing access to reliable, real-time insights and analysis as well as protection from non-payment. Atradius enjoys a world-wide presence with experts on the ground in more than 50 countries, our vast data source enables businesses to trade with confidence. The forecast for the trading landscape may be unsettled, but with the right protection, businesses can thrive.

Reference

- ¹ *From Crisis to Opportunity: What's the future of Trade? How Covid-19 changed global trade forever (2021)*, Atradius. Available at: <https://group.atradius.com/virtual-event-series/crisis-to-opportunity/how-covid-19-changed-global-trade-forever.html>