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Coface Barometer Q2 2020

From a massive shock to a diversified recovery

A few weeks after the first containment easing measures, economic activity seems to be picking up in most European countries. However, about two months after China, this gradual and partial recovery will not erase the effects of containment on global growth.

In this context, Coface forecasts that the recession in 2020 (a 4.4% drop in world GDP) will be stronger than that of 2009. Despite the recovery expected in 2021 (+5.1%) – assuming there is no second wave of the coronavirus pandemic – GDP would remain 2 to 5 points lower in the United States, the eurozone, Japan, and the United Kingdom, when compared to 2019 levels.

The lack of a rapid catch-up is mainly due to two issues: persistent uncertainty about the evolution of the pandemic leading to an expected rise in household precautionary savings and cancellation of business investment, and the irrecoverable nature of production losses in some sectors (particularly service activities and raw materials used as fuel). Measures taken by central banks have helped to stabilize financial markets since April, especially those of countries (particularly in Western Europe) that have, so far, contributed to maintaining some companies' production capacities, mainly by increasing debt. Nevertheless, they are also postponing adjustments in employment and corporate cash flow problems.

Corporate insolvencies set to increase by one third worldwide between now and 2021, compared to 2019

Despite the public support measures, the rise in business failures already highlighted in the previous Coface barometer (Q1 2020) will likely affect all of the main mature economies: United States (+43%), United Kingdom (+37%), Japan (+24%), France (+21%), and Germany (+12%). However, many emerging economies (+44% in Brazil, +50% in Turkey) will also be affected by the economic consequences of lockdown measures, as well as the fall in tourism revenues, expatriate workers' remittances, and revenues linked to the exploitation of commodities, of which prices have fallen.

In addition to transport, the pandemic further weakens sectors that were already vulnerable last year: automotive, metals, retail, and textile-clothing

This sharp rise in insolvencies reflects an increase of short-term corporate credit risk (6 to 12 months). This rise in country risk, as assessed by Coface (using macroeconomic, financial and microeconomic data), is reflected by 71 Country Risk Assessment downgrades, i.e. slightly more than 40% of the economies covered worldwide. In terms of Sector Risk Assessments, around 40% of the 13 business sectors in 28 countries assessed by Coface (representing 88% of global GDP) have been downgraded. Unsurprisingly, transport is the most affected sector in the current context, followed by automotive and retail, which were already in a weak position last year. At the other end of the spectrum, pharmaceuticals and, to lesser extent, agri-food and ICT are the most resilient.



P R E S S R E L E A S E

MEDIA CONTACTS

Karen YIK – T. +852 2585 9121 karen.yik@coface.com

Leo CHAK – T. +852 2585 9132 leo.chak@coface.com

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