

# Country Report

North American countries –  
January 2018



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# Canada

## Main import sources (2016, % of total)

USA:	52.2 %
China:	12.1 %
Mexico:	6.2 %
Germany:	3.2 %
Japan:	3.0 %

## Main export markets (2016, % of total)

USA:	76.2 %
China:	4.1 %
United Kingdom:	3.3 %
Japan:	2.1 %
Mexico:	1.5 %

## Key indicators

	2014	2015	2016	2017*	2018**
Real GDP growth (y-on-y, % change)	2.6	0.9	1.5	3.0	1.9
Inflation (y-on-y, % change)	1.9	1.1	1.4	1.5	1.8
Real private consumption (y-on-y, % change)	2.7	1.9	2.3	3.7	2.2
Real government consumption (y-on-y, % change)	0.8	1.5	2.0	1.7	1.5
Industrial production (y-on-y, % change)	2.6	1.1	1.5	2.8	2.0
Unemployment rate (%)	6.9	6.9	7.0	6.4	6.1
Real fixed investment (y-on-y, % change)	0.9	-4.6	-3.1	2.1	1.8
Real exports of goods and services (y-on-y, % change)	5.8	3.4	1.0	3.4	2.5
Fiscal balance (% of GDP)	0.0	-1.1	-1.9	-1.7	-1.9

\* estimate \*\*forecast Source: Macrobond

## Canadian industries performance forecast

January 2018



**Excellent:**  
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.



**Good:**  
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**Fair:**  
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**Poor:**  
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**Bleak:**  
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Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles

## The insolvency environment

### Canadian corporate insolvency development

The pace of insolvency decline slowed down in 2017. No further decrease expected in 2018.

### Canadian business insolvencies

(Calendar year: % change on previous year)

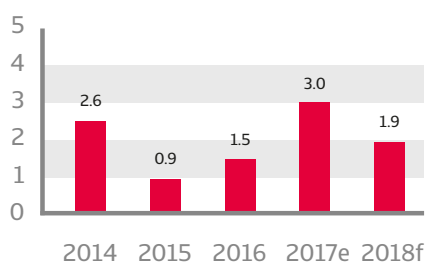


\*forecast

Sources: Office of the Superintendent of Bankruptcy Canada; Economic Research

## Main economic developments

### Real GDP growth (y-on-y, % change)

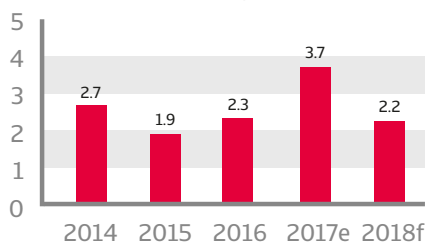


Source: Macrobond

### Economic growth accelerated to 3% in 2017

Mainly due to decreased oil prices, Canada's GDP growth slowed down to below 2% in 2015 and 2016 as investment in mining, quarrying, oil and gas extraction contracted. However the economy rebounded in 2017 growing 3%, mainly due to robust household consumption growth, a recovery in investments (especially in the energy sector) and increased exports. The economic expansion has eased somewhat in H2 of 2017, and GDP growth is forecast to slow down to about 2% in 2018, due to a slowdown in private consumption and government spending.

### Real private consumption (y-on-y, % change)

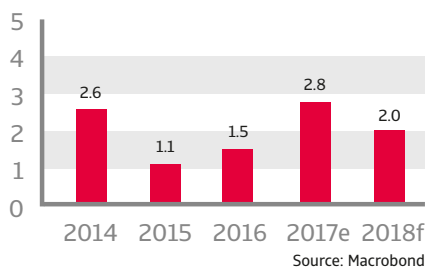


Source: Macrobond

### Private consumption drives growth, but high household indebtedness could pose a risk to the economy

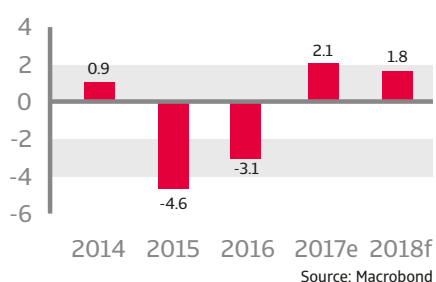
After growing 2.3% in 2016, private consumption growth accelerated to 3.7% in 2017, underpinned by continued solid employment and income growth (wage growth and house price appreciation). In 2018 household consumption growth is expected to decrease somewhat due to lower wage growth and additional interest rate increases, but to remain above 2% year-on-year. Inflation is expected to increase modestly in 2018, but to remain below 2%.

### Industrial production (y-on-y, % change)



Household debt expanded in recent years, with most consumer borrowing going into buying homes, as property values have gone up and interest rates are low. However, it is estimated that housing is currently overvalued, and household indebtedness (mainly mortgages) has increased to almost 170% of post-tax income, while the ratio of household debt to GDP has risen above 100%. Any potential economic downturn (especially rising unemployment) could turn the consumer debt issue into a real problem, even threatening the stability of the financial sector. Recently changes in tax and housing finance policies and two moderate increases of the benchmark overnight lending rate by the Central Bank since July 2017 (up to 1%) have helped to cool down the property market somewhat.

### Real fixed investment (y-on-y, % change)



### Downside risks in foreign trade have increased

The short-term economic outlook could be negatively affected by an adverse outcome of the ongoing NAFTA renegotiations and/or an escalation of ongoing trade disputes with the US (Canada's Southern neighbour accounts for more than 75% of its exports), leading to increases in specific trade barriers. US President Trump has repeatedly complained about the US trade deficit with Canada, and Washington is set to maintain additional tariffs on certain Canadian lumber exports, while it has already imposed a 300% import tax on a certain jet plane made by Canadian aerospace firm Bombardier over allegations of below-cost selling by a major US competitor.

# Costa Rica

## Main import sources (2016, % of total)

USA:	37.3 %
China:	13.6 %
Mexico:	7.0 %
Guatemala:	2.7 %
Japan:	2.7 %

## Main export markets (2016, % of total)

USA:	41.0 %
The Netherlands:	5.8 %
Panama:	5.7 %
Belgium:	5.4 %
Nicaragua:	5.2 %

## Key indicators

	2014	2015	2016	2017*	2018**
Real GDP growth (y-on-y, % change)	3.5	3.6	4.5	3.9	4.3
Inflation (y-on-y, % change)	4.5	0.8	0.0	1.6	3.1
Real private consumption (y-on-y, % change)	4.2	4.6	4.5	4.1	3.7
Real government consumption (y-on-y, % change)	2.9	2.4	2.9	2.8	2.6
Industrial production (y-on-y, % change)	1.4	0.3	2.6	2.4	4.8
Unemployment rate (%)	9.7	9.6	9.5	8.7	8.4
Real fixed investment (y-on-y, % change)	3.3	3.0	0.2	0.8	3.1
Exports of goods and non-factor services (y-on-y, % change)	5.0	2.5	9.8	6.3	5.8
Current account (% of GDP)	-4.9	-3.5	-3.0	-3.7	-4.0
Fiscal balance (% of GDP)	-5.6	-5.7	-5.2	-5.7	-5.2
Public debt (% of GDP)	55.6	57.9	63.0	67.4	70.8

\* estimate \*\*forecast Source: Macrobond

## Costa Rican industries performance forecast

January 2018



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Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles
	N/A			

## Political situation

### Head of state/government:

President Luis Guillermo Solís Rivera  
(since May 2014)

### Population:

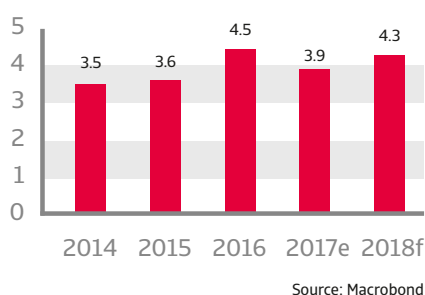
4.9 million

### Political stability, but problems with legislative gridlock

Since 2014, Costa Rica has been ruled by President Rivera and the centre-left Partido Accion Ciudadana (PAC). The country remains politically stable, despite the increase in political polarisation in recent years. Legislative gridlock has impeded fiscal and structural reforms – a problem likely to last after the general elections scheduled for February 2018.

## Main economic developments

### Real GDP growth (y-on-y, % change)



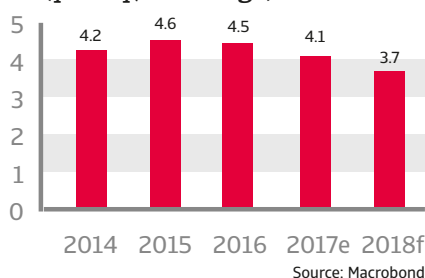
### Economic growth to accelerate in 2018

Costa Rica's economy benefits from a business friendly environment, a skilled workforce and strong institutions with a low level of corruption. This, coupled with solid private investment, growing public consumption and robust export performance led to solid GDP growth of 3.9% in 2017.

The economic expansion is expected to accelerate to 4.3% in 2018, due to ongoing private consumption growth (up 3.7%, supported by decreasing unemployment), robust private, public and foreign investment, and further export growth (up almost 6%). Inflation is expected to pick up somewhat, but to remain within the target band of 2%-4%.

Costa Rica's economy is heavily dependent on the US (41% of exports, 67% of remittances and 25% of foreign direct investment). So far no major disruption is expected, as, in contrast to other countries, the Trump administration has not targeted Costa Rica in its efforts to revise trade relationships. In order to diversify its economy Costa Rica is also nurturing a partnership with China.

### Real private consumption (y-on-y, % change)

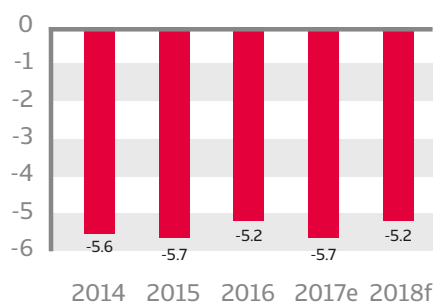


### Challenges due to high fiscal deficit and rising public debt

Government finances have deteriorated in recent years, mainly due to high social spending (government debt increased from 56% of GDP in 2014 to 68% of GDP in 2017). Political gridlock in Congress has diminished chances for the passing of crucial VAT and income tax reforms, and the fiscal deficit is expected to remain above 5% of GDP in 2018. That said, debt composition remains favourable (75% financed domestically, largely by pension funds and banks, with a fixed interest rate and average duration of ten years). External debt is sustainable and liquidity sufficient, while Costa Rica's payment reputation is good, as the country has not defaulted on its external debt since 1983.

The Costa Rican banking sector is quite stable and well capitalized. However, banks are exposed to sovereign risk and a relatively high rate of dollarization of deposits and credits, which means some vulnerability to exchange rate risk.

### Fiscal balance (% of GDP)



Source: Macrobond

### Key sector performance

Despite economic diversification agriculture remains a key sector (accounting for 6.5% of GDP and 13% of the labour force). The main export products are tropical fruits, coffee, sugar, beef, and dairy products.

Tourism is a growth sector with arrivals increasing 7.3% in 2017 and contributing 5.8% to GDP. The surge in tourism and foreign investment have boosted the expansion of the infrastructure sector. However, downside risks in this segment are delays caused by bureaucracy and the reliance on public spending in times of high government debt.

Costa Rica's pharmaceutical sector is one of the largest in the region and expected to grow further. The country benefits from one of the best healthcare systems in the region, increasing arrivals of 'medical tourists' from the US, and is a major manufacturer and exporter of medical instruments.



# Mexico

## Main import sources (2016, % of total)

USA:	46.5 %
China:	18.0 %
Japan:	4.6 %
Germany:	3.6 %
South Korea:	3.5 %

## Main export markets (2016, % of total)

USA:	81.0 %
Canada:	2.8 %
China:	1.4 %
Germany:	1.1 %
Japan:	1.0 %

## Key indicators

	2014	2015	2016	2017*	2018**
Real GDP growth (y-on-y, % change)	2.3	2.7	2.3	2.1	2.1
Inflation (y-on-y, % change)	4.0	2.7	2.8	5.9	3.8
Real private consumption (y-on-y, % change)	1.8	2.3	2.7	2.3	2.1
Industrial production (y-on-y, % change)	2.7	1.0	-0.1	0.3	0.6
Real fixed investment (y-on-y, % change)	3.0	4.3	0.1	-0.4	0.5
Unemployment rate (%)	4.8	4.4	3.9	3.8	4.1
Real export of goods and services (y-on-y, % change)	7.0	10.4	1.2	3.7	3.3
Fiscal balance (% of GDP)	-3.2	-3.4	-2.6	-1.9	-2.3
Public debt (% of GDP)	41.9	46.2	50.9	49.1	52.0
Current account (% of GDP)	-1.8	-2.5	-2.2	-1.8	-2.3

\* estimate \*\*forecast Source: Macrobond

## Mexican industries performance forecast

January 2018



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Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles

## Political situation

### Head of state/government:

President Enrique Peña Nieto  
(since December 2012)

### Population:

124.5 million

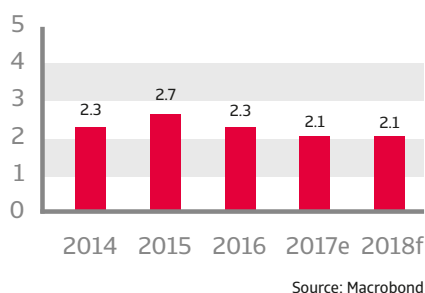
### Presidential and general elections due in 2018

Under the presidency of Enrique Peña Nieto of the Partido Revolucionario Institucional (PRI), landmark structural reform laws (on energy, banking, telecom, fiscal and education) were passed in 2013-2014, despite the lack of a PRI majority in parliament. However, both President Nieto's popularity and the credibility of the political establishment have severely suffered from public discontent over institutional defects, several major corruption and security scandals and the persistently high crime rate. It appears that Nieto's political leverage will remain weakened until the end of his term in October 2018.

Presidential and general elections are due to be held in July 2018, and the candidate of the leftist opposition, Andrés Manuel López Obrador, has benefited so far from growing anti-US sentiment.

## Main economic developments

### Real GDP growth (y-on-y, % change)

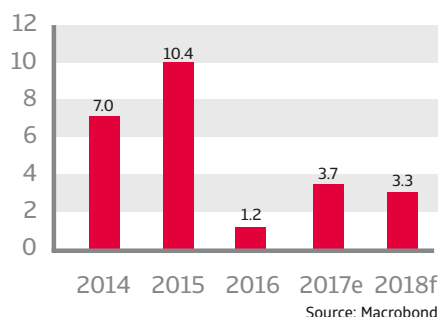


### Economic performance in 2017 better than previously expected

Developments since the November 2016 US presidential elections have confirmed that, due to its high economic dependence on the United States, Mexico is very susceptible to uncertainties about trade and investments with its Northern neighbor (esp. the future of NAFTA), and, to a lesser extent, remittances and immigration.

However, despite increased insecurity over US policies, decreased oil production and tight fiscal and monetary policies, Mexico's economy performed better than previously expected, with GDP growth slightly above 2% in 2017. While the outcome of the NAFTA renegotiations still remains uncertain, Mexico seems to be quite resilient in dealing with this uncertainty due to strong economic fundamentals, underpinned by a sound policy framework, a healthy banking system, solid external balances and a flexible exchange rate.

### Real exports of goods and services (y-on-y, % change)

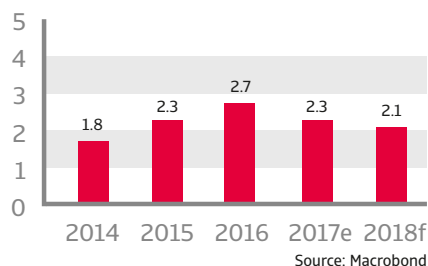


### The NAFTA issue

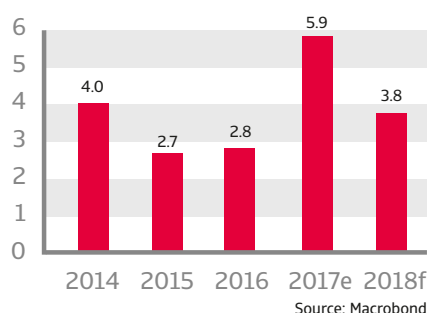
During the fifth round of talks in November 2017 progress in NAFTA renegotiations remained limited, as the US, Canada and Mexico remained deeply divided over substantial issues. The general expectation is still that Washington will moderate its most radical proposals and that negotiations will end with a revised NAFTA framework in the course of 2018.

However, should NAFTA collapse, trade between the US, Canada and Mexico would revert to WTO rules (these rules set bands within which trade tariffs for different goods can be set). The economic repercussions on Mexico of such a scenario are expected to be manageable at least, given that the WTO tariffs on Mexico's main export goods to the US would be rather low (e.g. on passenger cars it would be just 2.5%). Mexico's twelve Free-Trade-Agreements with 46 countries would also contribute to risk mitigation.

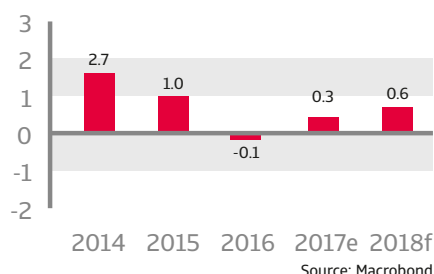
### Real private consumption (y-on-y, % change)



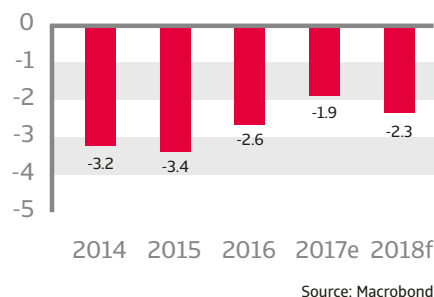
### Inflation (y-on-y, % change)



### Industrial production (y-on-y, % change)



### Fiscal balance (% of GDP)



## No growth acceleration expected in 2018

While the Mexican peso depreciated sharply in late 2016 and early 2017, it has largely recovered since February, only being interrupted by another short-term depreciation in the run-up to and following the fourth round of NAFTA talks in October 2017. Exchange rate fluctuations serve as a shock absorber for the economy, helped by the fact that Mexico's foreign currency debt held by the public and private sector remains limited.

Depreciation, however, pushed consumer prices up to nearly 7% in 2017, beyond the Central Bank's target band of 2%-4%. In order to protect the currency and to stem inflationary pressures, the Bank of Mexico has increased the benchmark interest rate several times – from 4.25% in July 2016 to 7.0% in June 2017.

While rising consumer prices and monetary tightening impacted domestic demand somewhat, private consumption still grew above 2% year-on-year in 2017. At the same time export growth climbed more than 3.5% as, due to the exchange rate depreciation, Mexican exports have become less expensive in USD terms. Inflationary pressures are forecast to decrease in 2018, while economic growth is forecast to remain static at around 2%, as both fiscal and monetary policies are expected to remain relatively tight and domestic confidence could be affected by uncertainty about NAFTA and political developments in the run-up to the July 2018 presidential and general elections.

## A rather resilient economy

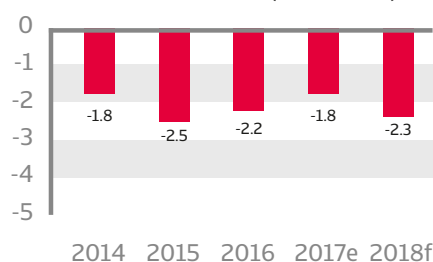
The short-term economic outlook remains afflicted with some uncertainty due to the elections ahead, the unpredictability of future US policies and the fact that the peso remains vulnerable to shifts in market sentiment (due to a high stock of inward portfolio investments and being the most traded emerging market currency). However, any steep deterioration of the economy seems to be rather unlikely.

The solvency situation is quite good, and the government debt ratio is set to stabilise at around 50% of GDP in the medium-term, helped by improvements in the fiscal framework (higher tax revenues following a tax reform, and fiscal consolidation). The fiscal dependency on oil sales has decreased (the share of oil in government revenues declined from more than 30% to less than 20%) and the vulnerability to oil price declines is mitigated by fiscal reform and an oil price hedges.

Moreover, Mexico's resilience is underpinned by a flexible exchange rate and solid external balances, with limited external refinancing needs and abundant official reserves (more than four months of imports, abundant to cover 2018 external refinancing needs). There is additional liquidity potential from a pre-cautionary IMF credit line of USD 88 billion, recently extended until November 2019, on which Mexico can draw in times of adverse global credit conditions. This reduces transfer and convertibility risks.

Foreign debt ratios are under control, despite an increase since 2016 due to the peso depreciation and rising corporate debt. Authorities have pre-emptively covered external borrowing needs and are replacing existing bonds by new bonds on more favourable terms, while a new currency hedging programme means that the Bank of Mexico does not need to lift interest rates further in order to reduce pressure on the peso. This shows that Mexican policymaking is robust and should take some pressure off consumers and businesses alike. At the same time businesses are substituting foreign currency debt with local currency debt to reduce exposure to currency fluctuations.

### Current account (% of GDP)



Source: Macrobond

A well-developed financial sector and competitive advantages for manufacturing on non-US export markets should keep foreign investment up in the medium- to long-term. In the medium-term we also expect trade dependence on the US to ease as Mexico has renewed its focus on strengthening ties with the Pacific Alliance, Mercosur, and the EU, on top of the already existing free trade agreements.

### Internal security and law enforcement remain issues

More needs to be done to tackle the poor domestic security linked to drug-related violence and rampant corruption, which severely affect the business climate and hamper economic performance by discouraging investment. At the same time, the profitability of many businesses has suffered from threats and violence against business owners, including the kidnapping of their family members. For a solid recovery of the country's medium-term earnings capacity, Mexico would need to improve its law enforcement, the independence of the judiciary system and to overhaul police institutions.

A comprehensive implementation of the reforms would increase investment and significantly improve the economy's productivity and competitiveness, raising Mexico's potential annual GDP growth rate from around 3.0% to 4%-5% in the long term. However, public protests and political struggles between the main parties could still derail proper implementation.

# Panama

## Main import sources (2016, % of total)

China:	31.3 %
Singapore:	18.9 %
USA:	9.5 %
Mexico:	5.2 %
Vietnam:	3.4 %

## Main export markets (2016, % of total)

USA:	20.6 %
Colombia:	9.6 %
Costa Rica:	6.7 %
Venezuela:	5.4 %
Dominican Republic:	4.8 %

## Key indicators

	2014	2015	2016	2017*	2018**
Real GDP growth (y-on-y, % change)	6.1	5.8	4.9	5.5	5.4
Inflation (y-on-y, % change)	2.6	0.1	0.7	1.0	1.5
Real private consumption (y-on-y, % change)	4.6	2.3	3.0	3.4	3.6
Real government consumption (y-on-y, % change)	3.9	7.0	4.0	4.5	5.0
Industrial production (y-on-y, % change)	9.6	5.9	6.3	4.7	4.5
Unemployment rate (%)	4.5	4.5	4.8	5.0	4.9
Real fixed investment (y-on-y, % change)	9.8	3.6	5.4	6.0	6.3
Exports of goods and non-factor services (y-on-y, % change)	3.3	3.2	2.2	3.1	3.0
Current account (% of GDP)	-13.7	-7.3	-5.6	-4.3	-4.6
Fiscal balance (% of GDP)	-3.2	-2.0	-0.9	-0.6	-0.2

\* estimate \*\*forecast Source: Macrobond

## Panamanian industries performance forecast

January 2018



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Metals	Paper	Services	Steel	Textiles

## Political situation

### Head of state/government:

President Juan Carlos Varela  
(since July 2014)

### Population:

4.1 million

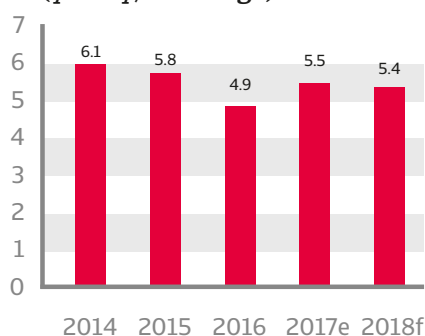
### A bribery scandal casts its shadow

The political situation is generally stable, however policy effectiveness is hampered by the fact that President Varela's centre-right Partido Panameñista (PP) lacks a majority in Congress. At the same time an official investigation has been opened into allegations of President Varela's involvement in a bribery scandal around the Brazilian conglomerate Odebrecht.

Following the Panama Papers scandal, the government is working on raising standards of financial transparency and compliance. In June 2017 the Global Forum of the OECD declared Panama 'largely compliant' on a provisional basis with international tax transparency standards.

## Main economic developments

### Real GDP growth (y-on-y, % change)



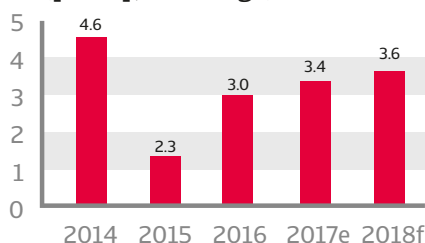
Source: Macrobond

### GDP growth around 5% expected in 2018 and 2019

Panama's economy is small, very open, highly diversified, fully dollarized and highly competitive by regional standards. However, the country faces challenges in terms of improving the functionality of its institutions, fighting corruption and crime as well as improving the independence of the judiciary system. In order to safeguard its position as a pivotal logistics hub and financial centre the general level of education needs to be improved.

GDP grew 5.5% in 2017, and is expected to grow around 5% annually in 2018 and 2019, driven by canal expansion and public work (infrastructure) projects. Inflation is expected to remain low in 2018, reflecting the comprehensive dollarization. Government debt is set to stabilise at a rather moderate level (about 39% of GDP), financed at long maturities (ten years on average) and being sustainable (low debt service). However, efforts to further strengthen the fiscal framework should continue, as, despite some improvements, tax revenues remain among the lowest in the region.

### Real private consumption (y-on-y, % change)

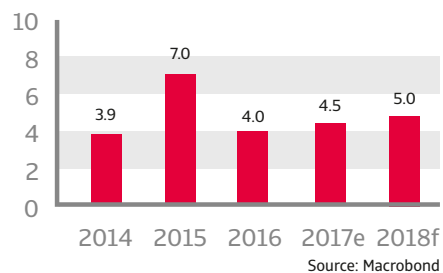


Source: Macrobond

While the annual current account deficits remain relatively high at more than 4% of GDP, they are fully covered by foreign direct investment. External debt is sustainable, with over 50% of it accounted for by the banking system. A sovereign wealth fund and the external assets of banks mitigate liquidity risks.

Panama's financial sector is stable with a relatively high and rising capitalization (capital adequacy ratio above 15%) and a low level of non-performing loans. However, the IMF has advised to strengthen supervision and crisis management frameworks and to build a systemic liquidity facility for banks, as a lender of last resort is absent due to the complete dollarization of the economy.

### Real government consumption (y-on-y, % change)



### Sector performance

The construction segment benefits from major infrastructure projects and provides opportunities for international builders, especially after the market withdrawal of Odebrecht. In the transport segment the short- and medium-term growth outlook is benign, as the freight subsector (road, rail, air, and sea) is expected to record robust expansion in the coming years on the back of further economic growth and infrastructure investment. Tourism is also providing the potential to further boost economic activity.

Despite a rather small population, Panama will continue to provide business opportunities for foreign pharmaceutical companies due to sustained economic growth, rising demand for chronic disease treatment, the expansion of the healthcare infrastructure and limited local pharmaceuticals manufacturing capacity. That said, the market share of generic drugs will remain high, despite growing per capita spending for healthcare.

# USA

## Main import sources (2016, % of total)

China:	21.4 %
Mexico:	13.2 %
Canada:	12.6 %
Japan:	6.0 %
Germany:	5.2 %

## Main export markets (2016, % of total)

Canada:	18.3 %
Mexico:	15.9 %
China:	8.0 %
Japan:	4.4 %
United Kingdom:	3.8 %

## Key indicators

	2014	2015	2016	2017*	2018**
Real GDP growth (y-on-y, % change)	2.6	2.9	1.5	2.2	2.5
Inflation (y-on-y, % change)	1.6	0.1	1.3	2.1	2.2
Real private consumption (y-on-y, % change)	2.9	3.6	2.7	2.7	2.5
Real government consumption (y-on-y, % change)	-0.6	1.4	0.8	-0.2	0.5
Industrial production (y-on-y, % change)	3.1	-0.7	-1.2	1.5	2.6
Real fixed investment (y-on-y, % change)	6.2	3.9	0.7	3.7	2.6
Unemployment rate (%)	6.2	5.3	4.9	4.4	3.9
Real exports of goods and services (y-on-y, % change)	4.3	0.4	-0.3	3.2	3.0
Fiscal balance (% of GDP)	-2.8	-2.4	-3.2	-3.5	-3.7
Public debt (% of GDP)	74.1	72.9	76.5	77.6	77.9

\* estimate \*\*forecast Source: Macrobond

## US industries performance forecast

January 2018



**Excellent:**  
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.



**Good:**  
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.



**Fair:**  
The credit risk credit situation in the sector is average / business performance in the sector is stable.



**Poor:**  
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.



**Bleak:**  
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles



## The insolvency environment

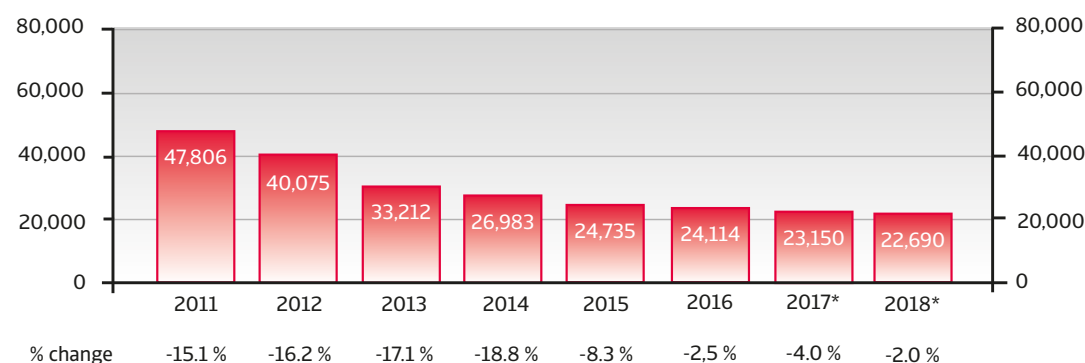
### Further insolvency decrease expected, but downside risks remain

After sharp year-on-year increases in 2008 and 2009, the number of corporate insolvencies has steadily decreased every year since. According to figures provided by the US Courts, the number of business bankruptcies filed in Federal Courts declined 2.5% year-on-year in 2016, to 24,114 cases, and preliminary numbers indicate a 4% decrease in 2017, due to the robust economic environment.

In 2018 a more modest 2% decrease in failures is forecast, but uncertainty weighs on this insolvency outlook. NAFTA renegotiations for example could have severe implications for the US business outlook through lower investment in case of heightened uncertainty or business impediments. At the same time a faster-than-expected monetary tightening path could also strain businesses' balance sheets.

### US business insolvencies

(Calendar year: % change on previous year)

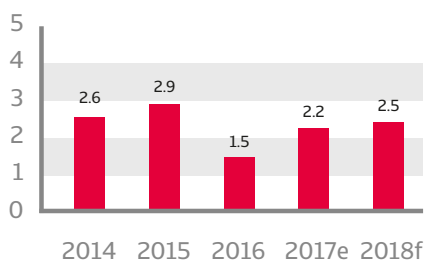


\*forecast

Sources: Administrative Office of the U.S. Courts; Economic Research

## Main economic developments

### Real GDP growth (y-on-y, % change)



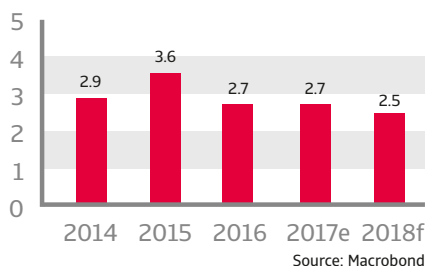
Source: Macrobond

### Economic growth is gaining momentum

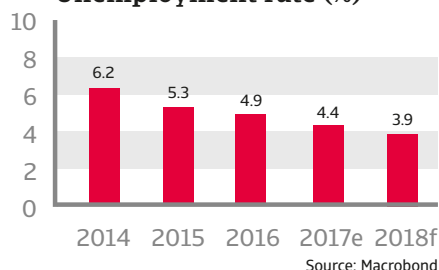
After expanding just 1.5% in 2016 economic growth increased 2.2% in 2017, mainly driven by buoyant private consumption, but also by a recovery in exports thanks to stronger external demand, while investments rose again due to the modest recovery in energy prices. The rebound in exports and investments resulted in a more broad-based economic expansion than in 2016.

Exports, investment and private consumption are forecast to continue to grow in 2018, supported by a recently approved comprehensive tax reform. Therefore economic growth is forecast to accelerate to 2.5% or even higher in 2018.

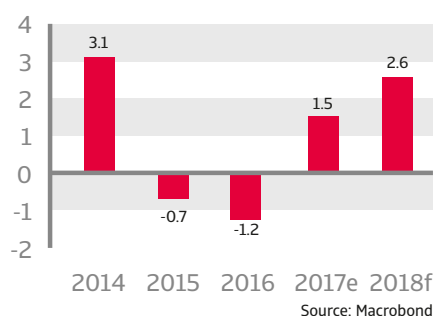
### Real private consumption (y-on-y, % change)



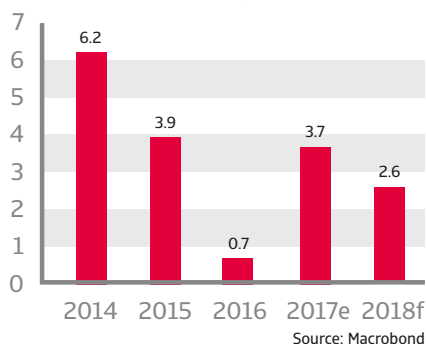
### Unemployment rate (%)



### Industrial production (y-on-y, % change)



### Real fixed investment (y-on-y, % change)



## Private consumption growth expected to remain robust

Household consumption accounts for almost 70% of US GDP and has been the most important engine of growth since 2014, fuelled by a decreasing jobless rate, higher home prices a buoyant stock market and lower household saving. Private consumption, forecast to increase 2.5% in 2018, is expected to support US economic growth, aided by moderate real wage growth, further decreasing unemployment, access to cheap consumer credit and tax cuts. As most mortgages have fixed interest rates homeowners are shielded from higher interest rates.

Unemployment has decreased from 7.4% in 2013 to 4.4% in 2017, and is expected to decline below 4% in 2018, which provides an important factor for rising consumer confidence and spending. Job security has increased further and real wages are expected to increase, albeit modestly.

## Rising exports have helped the manufacturing sector

As the USD exchange rate has weakened in 2017 compared to 2016, mainly due to increased political uncertainty and a stronger euro, exports have recovered again after a contraction in 2016, and are expected to grow further in 2018 (up 3.0%). After cheaper imports due to a strong USD exchange rate crowded out some domestic producers in 2015 and 2016 and led to decreasing business profits in some industries, the manufacturing sector has seen some rebound last year, with industrial production growing 1.5%. In 2018 this growth is forecast to accelerate to 2.6%.

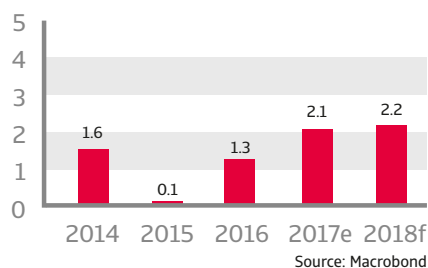
## Investment has picked up again

In 2016 business investment remained subdued as the US energy sector adjusted to low oil prices, while government spending and private inventories were also low. That said, due to higher prices for oil and gas, energy sector investments have rebounded as rigs were re-opened, while investments in other sectors have also recovered. Capital expenditure by businesses is expected to increase further in 2018, helped by the recently approved tax reforms.

## Comprehensive tax reforms provide additional stimulus

In December 2017 a comprehensive tax overhaul that had been initiated by the current US administration was approved by Congress. The bill includes a decrease in the corporate tax rate from 35% to 21% and an array of temporary tax breaks for businesses and for individuals. It is expected that corporate earnings will increase in 2018, and that US businesses with relatively high tax rates and mainly US-based revenues will gain the most from the bill. The tax relief is expected to amount to about USD 1.5 trillion over the coming 10 years, however details on how it will be financed without straining public finances have not yet been provided.

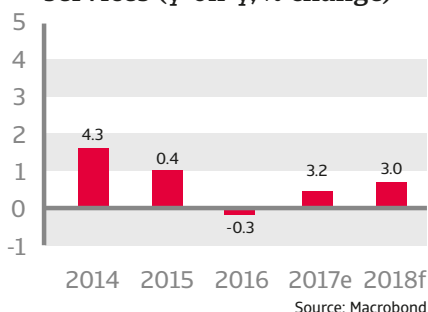
### Inflation (y-on-y, % change)



### Gradual interest rate increases expected to continue

The US Federal Reserve has cautiously increased the interest rate since the end of 2016, with the latest target range for the federal funds rate rising 0.25% to 1.25%-1.5% during its December 2017 meeting. This increase was justified with the ongoing robust development of the US labour market and solid economic expansion expected in 2018. The Federal Reserve is expected to continue its gradual monetary tightening process in 2018 (three additional rate hikes in 2018 were announced), not posing a significant drag on economic growth. Inflation is expected to increase moderately in 2018, by 2.2%, leaving the US Federal Reserve with some leeway in its monetary policy. Further gradual tightening in 2018 and beyond is important to create the monetary tools necessary to stabilise the US economy in case of future economic downturns.

### Real exports of goods and services (y-on-y, % change)



### Trade policy remains a downside risk

Concerns about a surge in US-initiated protectionism have receded somewhat. Thus far, policymaking has not been too radical, as stepping out of the planned TPP and scrapping TTIP negotiations were largely expected and do not change current trade regimes. However, the US administration's trade policy remains a downside risk, not just for trading partners, but also for the US economy itself. Given the dependence of some large segments of US businesses on supply chains with Mexico a failure of the ongoing NAFTA renegotiations and a US pull-out from NAFTA could severely affect certain industries (e.g. automotive).

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