PRESS RELEASE

Allianz Trade - Outlook 23-24

Keep calm and carry on

**UK TO MIRROR GLOBAL RECESSION in 2023**

02 January, 2023

London

* Increased corporate risk to surface in 1H 2023
* UK economy to experience deepest recession amongst large economies
* UK business insolvencies to increase by +51% in 2022, and by +15% in 2023
* Global growth: still headed towards a recession next year
* Global trade to decline in 2023, recover in 2024

Global growth is heading towards a recession, and global trade will continue to slow in 2023, according to leading trade credit insurer Allianz Trade. Meanwhile the UK will muddle through this year’s headwinds of high inflation, labour shortages, increased corporate risk, and an increase in business insolvencies.

**Global corporate risk**

The confluence of slower growth, higher inflation, wage bills and interest rates has increased corporate risks, mainly in the construction, transportation, telecom, machinery and equipment, retail, household equipment, electronics, automotive and textiles sectors.

The energy crisis creates a massive profitability shock for European firms, which governments can only partially offset. The fiscal packages that have been put on the table for corporates are enough to avoid a strong wave of insolvencies due to profitability losses in most impacted sectors (metals, paper, machinery and equipment, wood, mining) but they will not offset fully the estimated extra energy bill of over EUR150bn for French, German, Italian, Spanish and British corporates.

**UK muddling through recession 2023-24**

The UK economy is forecast to fall into a recession in 2023, driven by tighter financing conditions, further increases in energy bills and weak consumer confidence, before finding a weak recovery in 2024, according to Allianz Trade.

In 2023, the UK economy will shrink by -0.9%, compared to just -0.3% for the USA, and the -0.4% across the Eurozone. By contrast, global GDP will grow +1.9% next year, driven mainly by the emerging market regions such Asia-Pacific, Middle East, Africa.

As well as a reduction in grants to households and a loosening of the tariff shield on retail energy prices, the UK will also feel the negative effects of a sharp interest rate shock by the middle of 2023. Household bank loan rates are expected to rise nearly 300bp, hitting household purchasing power at a level similar to the energy price rises pre-state aid.

Business investment is forecast to drop next year due to lower confidence and lack of fiscal support, although cash buffers, up 36% since 2019, will provide corporates with significant support during the downturn and the hit to margins from interest rate rises.

Along with Spain, the UK is leading the rebound in business insolvencies in Europe. In the UK, insolvencies are up +66% year to date compared to 2021, and up +22% versus 2019. The trade credit insurance underwriter forecasts insolvencies will increase to 24,700 cases in 2022 (+51%) and more than 27,100 in 2023 (+15%).

“The climb in insolvencies is driven by a sharp increase in liquidations, suggesting that businesses which were struggling either before or during pandemic lockdowns have simply chosen to close rather than attempt to restructure or sell,” *said* ***Maxime Darmet, senior economist, France the US and UK, Allianz Trade***.

Insolvency rates are still increasing in the hotels and restaurants sectors, while construction, training companies, transport and storage, and finical and real estate businesses have also been hit hard.

“We give firms trust to trade by insuring global business transactions representing €1 trillion in exposure globally,” *said* ***Sarah Murrow, chief executive, Allianz Trade in the UK and Ireland***. “The increase in UK insolvencies reflects two things. First, the all too evident current trends of inflationary pressures, monetary tightening, energy costs, interest rate hikes and supply chain disruptions. Second, the reversion to and move beyond historic trends of the artificially low levels seen during the pandemic. More than ever businesses should take care to protect their sales ledgers and cashflow from the risks of late or non-payment.”

**Global GDP**

In its [Economic Outlook 23-24: Keep calm and carry on](https://www.allianz-trade.com/en_global/news-insights/economic-insights/holiday-2022-economic-outlook.html), Allianz Trade anticipates global GDP growth will slow to +1.4% in 2023 (+2.9% in 2022) and recover modestly to +2.8% in 2024, with significant divergence across countries. Advanced economies will register a shallow recession of -0.1% in 2023 (after growth of +2.5% in 2022), followed by a rebound to below-potential growth of +1.5% in 2024.

Emerging markets growth is expected to remain stable in 2023 at +3.3% – mainly supported by the cautious reopening of China, while most other emerging countries are likely to slow down due to both external and domestic headwinds. A rebound to +4.3% is expected in 2024.

**Global trade**

***Maxime Darmet added****: “*We believe global trade will continue to slow next year as industrial activity recedes. The manufacturing sector is likely to remain in recession in 2023 due to lower demand, mainly for consumer-driven industries, and a more pronounced destocking process from corporates in sectors where oversupply is highest. The largest cliff-edge is expected in cyclical sectors such as construction, consumer goods, and retail.”

Supply chains should continue to normalize next year, supported by slowing demand and China’s progressive reopening. Allianz expects global trade in goods and services to grow by only +0.7% in volume terms in 2023 and to contract by -1.3% in value terms (to USD29.5tn). A mild recovery should be possible in 2024, with global trade in goods and services growing by +3.6% in volume terms.

Beyond the cyclical developments, trade and industrial policies will remain topical over the coming years. Policymakers across the world seem focused on taking action to secure supply chains. Not all trade participants will be hindered by such protectionist measures, but global trade may be heading towards lower growth rates in the coming years compared to the pre-pandemic long-term average.

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