

## BAROMETER COUNTRY AND SECTOR RISKS BAROMETER - Q4 2021



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## The global recovery continues in 2022, but a bumpy road lies ahead

**T**wo years after the onset of the pandemic, the global economy continues to recover, but still faces significant challenges. After the relative lull of the third quarter, the emergence of the Omicron variant and its rapid spread to every region of the world has highlighted the unpredictability of the pandemic, despite the progress in vaccination. Consequently, the health situation has once again required the implementation of new restrictions this winter in a majority of countries. However, while some European countries have introduced partial lockdowns, the measures overall have been much less drastic in most countries than during previous waves. As a result, the direct effects on economies are becoming less significant with each additional wave, although the consequences remain particularly negative for directly affected sectors such as air transport, tourism, hotels and restaurants. In other words, the world has learnt to live with the pandemic.

Nevertheless, this new wave has exacerbated one of the main factors affecting the global recovery: supply-chain disruptions. After initially affecting the automotive industry, supply difficulties have spread to most of the manufacturing and construction sectors, remaining particularly

acute in early 2022. While the time of return to normality remains hard to predict, it seems that the consensus – which we shared until very recently – of a progressive easing starting in H1 might be too optimistic: supply-chain disruptions are unlikely to be solved by next summer, even if pressures from the pandemic will certainly ease with the return of sunny days. Therefore, the other major risk highlighted in our previous Barometer<sup>1</sup>, namely a lasting inflation slippage, is also becoming increasingly significant, especially as the commodity price rally, fuelled by the short-term inertia of supply and geopolitical tensions, is going the extra mile. Still sustained by energy prices, inflation is now firmly rooted in manufacturing prices in many (advanced) economies, as companies pass on increases in production costs to consumer prices. However, it should be noted that inflation dynamics are not uniform across countries: while core inflation is very high in the United States and the United Kingdom, it remains subdued in most Eurozone countries, where underlying inflationary pressures remain on average quite muted. Such heterogeneity obviously results in diverging monetary policies between both sides of the Atlantic (and the Channel!), which is already having a substantial impact on financial markets and will, in all likelihood, further affect international capital flows. Indeed, while the ECB remains in a

<sup>1</sup> Coface Country & Sector Risk Barometer – Q3 2021: Supply chain and inflation headwinds hamper the recovery. October 21, 2021. URL: <https://www.coface.com/News-Publications/Publications/Country-Sector-Risk-Barometer-Q3-2021-Quarterly-Update>