

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

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Supply chain and inflation headwinds hamper the global recovery

More than 18 months after the global recession triggered by the COVID-19 pandemic started, the economic recovery continues. This trend owes much to progress in the vaccine rollout over the summer, particularly in advanced economies, allowing for the easing of mobility restrictions. In turn, this is spurring a rebound in consumption of high-contact services, such as brick-and-mortar retail, food services, accommodation and recreation. High household savings accumulated last year - as consumer spending plummeted during the strict lockdowns, and income increased, bolstered by massive government support - are a key factor behind the rebound in household spending in advanced economies. The situation remains heterogeneous in emerging economies: this rebound is benefitting export-oriented countries, while service-dependent economies continue lagging.

Despite the positive outlook - our 2021 and 2022 global GDP growth forecasts remaining unchanged (see **Chart 1**) - signs that the global recovery is losing momentum are accumulating. In the context of rebounding demand, pandemic outbreaks in critical links of the supply chain have resulted in supply disruptions, feeding, in turn, price pressures. Supply chains disruptions due to port congestions, lack of containers and ships, as well as overstretched production capacities have

entailed shortages and price hikes, are starting to affect manufacturers' production and sales across the globe. The mismatch between supply and demand prompted a rise in commodity and input materials prices, which is feeding higher inflation in many countries, as they are passed down to consumers. Headwinds represented by supply concerns, labour shortages, and inflation, alongside the lingering threat of COVID-19, add to the list of risks and uncertainties. Meanwhile, an economic slowdown in China is also contributing to a less favourable recovery momentum.

In Q3 2021, in light of the continued recovery, Coface upgraded its risk assessments for 26 countries, including Germany (A2), France (A2), Italy (A4), Spain (A2), and Portugal (A2). Strong exports of manufactured goods to advanced markets are prompting upgrades for export-oriented economies in Central and Eastern Europe (Poland, Hungary, Czechia, etc.), in Asia (South Korea, Singapore, Hong Kong) and in Turkey (B). After downgrading 78 country risk assessments in the wake of the pandemic last year, these 26 upgrades are in addition to the 16 already implemented in the first half of the year. This quarter, they are accompanied by 30 sectoral assessment upgrades, also reflecting improvements after widespread downgrades in the first half of 2020.

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