PRESS RELEASE

Paris, October 21st 2019

Coface introduces CRAFT, a new forecasting tool to estimate growth in the Eurozone

Recession or slight decline, CRAFT provides the keys to the slowdown in the major economies of the Eurozone.

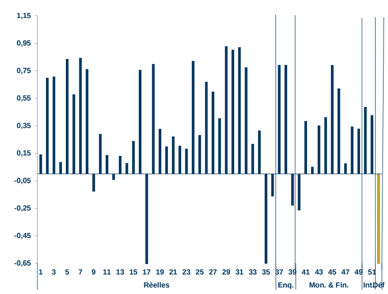
Since the beginning of 2019, there have been increasing signs of a slowdown in global growth. While all economists agree on this downward trend, after reaching the peak of the cycle in 2017, the question mark now lies in the extent of this slowdown, particularly in the Eurozone. While some people mention a recession in 2020, most economists predict "only" a slight slowdown.

To have more clarity, it is therefore important to have reliable and innovative forecasting tools to take advantage of existing indicators. This is why Coface has decided to develop its own forecasting tool: CRAFT (Coface Research Activity Forecasting Tool).

CRAFT: a valuable tool for detecting major trends

The activity indicator is based on the statistical method of Principal Component Analysis (PCA). The use of *machine learning* models allows around hundred variables to be analyzed and only the most relevant variables to model GDP growth are kept. The variables retained - between thirty and fifty for each country – are included in the PCA and can be grouped into five distinct categories:

- hard data;
- survey data;
- monetary and financial variables;
- international indicators;
- the default rate of companies on their trade receivables insured by Coface.



While the first four types of variables are commonly used in the construction of activity indicators, the fifth is specific to Coface. CRAFT is strongly correlated with the quarterly GDP growth rate and makes it possible to predict it correctly for the current quarter (*nowcasting*) and the following quarter (*forecasting*).

Resilience of the French and Spanish economies, while Germany is expected to enter a recession and Italy to stagnate

According to the results of this model, Germany would enter recession in the 3rd quarter (-0.1% after already -0.1% in the previous quarter), before stagnating in the last three months of the year. The German economy, which is particularly dependent on its industry, itself exposed to external turbulence due to the weight of exports, has suffered particularly from the deterioration of the international economic environment since the beginning of 2018. Since the United States, China and the United Kingdom are among Germany's top five export markets, developments in these areas will be crucial to guiding activity growth.

The French economy is also expected to slow in the third quarter (+0.2%) before rebounding at the end of the year (+0.3%), showing resilience in this difficult environment. GDP would thus increase by 1.3% over the year. Although activity has been slowing down since 2017 (+2.4% and then +1.7% in 2018), French growth has remained positive and consistently above 0.2% in quarterly terms, far from the ups and downs of most of its neighbors, as France is less dependent on external demand.

According to the results of CRAFT, growth in Italy would rebound slightly in the third quarter to 0.1% before stagnating again in the last quarter of the year. However, the Italian economy recorded the worst performance of any Eurozone area country in 2019, for the second year in a row.

At the same time, GDP growth is also expected to pick up in Spain in the third quarter (+0.6%) before slowing slightly in the last three months of the year (+0.5%). While activity is less dynamic than in 2017, when it reached between 0.8% and 0.9% each quarter, it remains solid and is slowing very gradually. Despite a still very high unemployment rate (14% of the working population at the end of June) and political instability, the Spanish economy has shown remarkable regularity since the recovery began at the end of 2013.

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