

Insolvency Forecasts

Atradius Economic Research – August 2016

Summary

- The general outlook has worsened now that GDP forecasts have been revised downwards in the wake of the Brexit referendum and subdued global demand.
- Atradius forecasts 0% overall improvement in insolvencies in advanced markets in both 2016 and 2017, the weakest performance since 2009.

Insolvencies in most advanced markets are expected to show little to no improvement in 2016 and 2017

According to the Atradius insolvency forecast model, little to no improvement is expected in business insolvencies in the majority of advanced markets this year. The overall outlook for insolvencies has worsened through 2016 in line with downward revisions to GDP forecasts. Brexit is likely to weigh on confidence in many advanced markets and has created financial market volatility. Global demand is expected to remain subdued, as low commodity prices negatively affect economic growth in emerging markets. In 2017 insolvencies are also anticipated to show little or no improvement, which fits into the picture of a weakening business cycle. Figure 2 and 3 summarize the results by giving the percentage change in insolvencies forecast per country for both this year and the next.

Figure 1 Insolvency developments matrix 2016

Vertical axis indicates trend, horizontal axis indicates level

Trend	Deteriorating	Austria, Canada, Finland, New Zealand	Australia, Switzerland, United States	Denmark, Greece
	Stable		United Kingdom	France, Italy, Luxembourg, Portugal
	Improving	Netherlands	Germany, Japan, Norway, Sweden	Belgium, Ireland, Spain
		Low	Average	High

Source: Atradius Economic Research

Commodity-rich countries like Australia and Norway will continue to face headwinds in 2016 and 2017 following the decline in commodity prices. While both countries are making an effort to diversify their economies, and are aided by depreciating currencies and loosening monetary policies, bankruptcies for 2016 are forecast to increase by 8% in Australia and 2% in Norway.

The United States is projected to see a 3% rise in insolvencies in 2016, which is a disruption of the downward trend visible since 2011. Firms in the energy sector are driving up aggregate insolvencies and weighing on overall corporate profits. The Federal Reserve's tightening cycle could also make the business environment more challenging by making commercial loans more expensive.

Eurozone sees business failures improving from high levels

Eurozone countries are forecast to see very modest improvements in their business environments in 2016, while most countries are still facing high annual levels of corporate bankruptcies compared to 2007. Portugal and Italy are expected to see a 2% decline in insolvencies this year. However, this slight improvement is from levels more than twice (Italy) or even four times (Portugal) as high as before the crisis. Vulnerabilities to external developments will put the brakes on improvements in 2017 in both economies, while systemic banking sector problems may even reverse the trend.

Spain, on the other hand, followed by the Netherlands is the best performer of the eurozone facing a 10% fall in bankruptcies in 2016 (6% decline in the Netherlands) and both countries can expect a further decline in 2017. Spain is showing robust growth, though the economy is recovering from a very low level. Business credit

conditions are improving and the drag on domestic demand from deleveraging is expected to fade out. Netherlands has faced economic difficulty as well in the wake of the 2009 recession, but is going through a period of catch-up growth mainly driven by higher domestic demand. Another front runner is Ireland, which has seen a strong improvement in insolvencies in earlier years, but this is expected to face stagnation in 2017.

Bucking the trend is Greece, which is expected to face a 6% increase in business failures in 2016 followed by a further moderate rise next year. While Greece's economic growth forecasts are slowly improving, the economy is recovering from a very low level and the business environment remains restricted by capital controls, proving a difficult operating environment for small- and medium- sized enterprises in particular. The insolvency rate for 2016 is still a factor five of what it was in 2007.

Brexit results in worsening of the outlook

The decision of the UK to leave the European Union has sparked a downward revision of GDP forecasts, which has led to a worsening of bankruptcy projections in a number of advanced markets. Insolvencies in the UK are projected to rise by 2% in 2016 and by 3% in 2017. Brexit is already weighing on confidence. UK's PMI crashed into contraction zone in July, falling to a level of 47.7 compared to 52.4 in June, the lowest since April 2009. It seems likely that Brexit will also impact confidence in many other eurozone countries, particularly those with high exposure to the UK. This is part of the reason why insolvency forecasts for Ireland and Netherlands have been revised upwards. The Brexit fallout is likely to extend to other European countries as well, like Sweden, Finland and Denmark. These countries will be struggling indirectly with the economic slowdowns and loss of demand in other European markets.

Figure 2 Projected insolvencies 2016 (% change year ago)

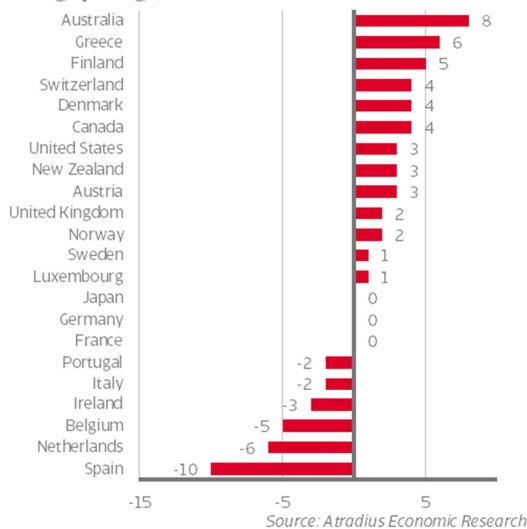


Figure 3 Projected insolvencies 2017 (% change year ago)



Table 1 Insolvency growth, percent change per annum

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Australia	-4	18	3	-1	5	1	4	-22	10	8	5
Austria	-6	0	9	-8	-8	3	-10	-1	-5	3	0
Belgium	1	10	11	2	7	4	11	-9	-9	-5	-2
Canada	-7	-2	-12	-20	-11	-12	-2	-2	-1	4	-1
Denmark	21	54	54	13	-15	0	-10	-20	1	4	-1
Finland	-1	16	25	-13	3	0	11	-11	-22	5	-1
France	7	8	14	-5	-1	3	2	0	0	0	2
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	0	0
Greece	0	30	40	30	33	30	10	3	10	6	3
Ireland	19	100	50	10	7	3	-19	-15	-10	-3	0
Italy	-35	18	29	21	8	14	16	10	-6	-2	0
Japan	6	11	-1	-14	-4	-5	-11	-10	-9	0	2
Luxembourg	5	-13	17	33	5	8	2	-20	6	1	0
Netherlands	-23	1	73	-10	-1	21	10	-19	-24	-6	-4
New Zealand	-5	-35	45	-6	-12	-8	-13	-7	4	3	2
Norway	-6	28	38	-12	-2	-12	20	-5	-7	2	0
Portugal	-12	54	36	16	18	42	8	-9	12	-2	0
Spain	10	100	50	-2	14	38	13	-30	-25	-10	-4
Sweden	-5	7	20	-4	-4	7	5	-7	-9	1	-1
Switzerland	-5	-2	24	20	7	3	-5	-7	7	4	2
United Kingdom	-5	24	23	-16	5	-4	-7	-6	-9	2	3
United States	2	52	41	-7	-15	-16	-17	-19	-8	3	-1

Sources: National bureaus, Atradius Economic Research. f=forecast

Table 2 Insolvency level, index

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Australia	100	118	121	120	126	127	133	104	115	124	130
Austria	100	100	110	101	93	96	87	86	82	84	84
Belgium	100	110	123	125	133	138	153	140	127	121	118
Canada	100	98	86	69	62	54	54	52	52	54	53
Denmark	100	154	238	269	228	227	204	163	165	172	170
Finland	100	116	145	127	131	131	145	129	101	106	105
France	100	108	123	118	116	119	122	122	122	122	124
Germany	100	100	112	110	103	97	89	83	79	79	79
Greece	100	130	182	237	315	409	450	463	510	540	557
Ireland	100	200	300	330	354	365	296	252	228	221	221
Italy	100	118	151	183	197	223	259	285	268	262	262
Japan	100	111	110	95	90	86	77	69	63	63	64
Luxembourg	100	87	102	135	141	152	155	124	130	132	132
Netherlands	100	101	175	158	156	189	207	167	127	119	115
New Zealand	100	65	94	89	78	72	63	58	61	62	64
Norway	100	128	176	156	153	134	161	152	142	144	144
Portugal	100	154	210	242	286	405	438	398	446	437	437
Spain	100	200	300	293	335	463	523	366	274	247	237
Sweden	100	107	128	123	117	126	133	123	112	113	112
Switzerland	100	98	121	145	154	159	150	140	149	155	158
United Kingdom	100	124	153	128	135	129	120	112	102	104	107
United States	100	152	215	199	169	142	117	95	88	90	89

Sources: National bureaus, Atradius Economic Research. f=forecast, index 2007 = 100

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